



Economic Theory

Vitalina KURYLIAK

**CONFIDENCE MANAGEMENT
ON WORLD AND NATIONAL MARKETS**

Abstract

The present paper is concerned with conditions and methods of successful confidence management. Interrelation is shown between confidence in a political system and that in a leader. The aspects are substantiated which are connected with the factor of confidence in financial and banking institutions activity.

Key words:

Confidence, non-confidence, antirecession management, confidence management, political elite, economic will, crisis of confidence, bank panic, confidence in national currency unit, bank recapitalization, state monitoring system, government of national confidence.

JEL: F50.

© Vitalina Kuryliak, 2010.

Kuryliak Vitalina, Cand. of Economic Sciences, Associate Professor, Ternopil National Economic University, Ukraine.

1. Confidence Within the System of Antirecession Management

The depositors could be concerned with not only the problems of timely deposit payments, but also when they study the strategy of banking system improvement, which had been developed by the Ukrainian government jointly with the international financial institutions. The strategy calls for the Government to implement the measures aimed at providing a new capital to those banks who own a major part of people's and companies' deposits. The doubts primarily arise, whether the Government would be able to avoid corruption to reliably fulfill the function of the investor to the banks which have been admitted by the NBU as the system ones. Subsequently, it needs to restore the conflict in its capacity to ensure fairness in keeping the order of priority for meeting the clients' claims. Whereas the law calls for the order when the depositors go first, then secured creditors, unsecured creditors, and the last are available stock holders.

It is known that the confidence is easier to be earned than restored. Among the methods of meeting that task the most radical one is activation efficiency. It could be applied in the development processes when there is will to have a top quality leadership in innovation introduction. In this respect, the most illustrative are published by Prof. H. Huberna the comparative researches of different responds to crisis phenomena by Ukrainian and Russian governments. In one case this respond is priming, in other – restrictions. The velocity of respond is also different. Huberna writes, that in Russia businesses were allowed to pay income taxes according to actual against forecast indices, implying the payment performed «after» versus «before». We will not comment the absurd form of taxes payments, which have been set both, in Russia and in our country. It is the manifestation of the government's non-confidence in economic agents. And instead of economic partnership there occurs the complication of bureaucratic procedures. Thus, the crisis was instrumental in purification and remedy of the relationship between the government and the economy. The payment by installment of taxes on profit and GDP was also solved ambiguously. Thus, the tax on small business has been decreased, but at the same time the regions have been delegated vast rights to establish norms [within the frames set by the government making from 5 % to 10 % of its collection]. The term for GDP repayment was reduced up to one month. Great attention was paid to social issues [4, 214–215].

Consequently, the comparison of the antirecession management trends in Ukraine and Russia gives ground to detect extreme divergence between them. H. Huberna justly regards that «the difference consists in abrupt transition from enormous populism to mental (versus gradual) restrictions of social and financial liberties of people» [4, 215]. In our belief, the crisis management efficiency

should manifest itself in top quality leadership and consistency in the implementation of taken decisions.

The perfect example of the governmental efficiency is the USA President F. Roosevelt's actions aimed at getting over the world economic crises of 1929–1940, which acquired the form of «the Great Depression» in the United States of America. In this connection there exist many publications in foreign and national literature. It is worth mentioning some facts. October 29 – beginning of share price slump, primarily in New-York Stock Exchange. It is so called «Black Tuesday»; when for several hours the shares lost in price the earned for the previous year sum making 10 bln. dollars. Accordingly, the volume of credit money decreased in similar sum either. November 5, 1929 – the price slump expanded on the commodity market, specifically the season ones. For example, price for wheat fell almost to zero. The losses the USA suffered for a week of crises exceeded all losses for the years of the First World War, and made around 30 bln. dollars of that time, that is, the third part of national income. That chain reached the banks that had lost credit money. They stopped crediting and as a result lost confidence. In late 1930-s started mass early withdrawal of deposits, and a wave of bank bankruptcies occurred. The second bank panic occurred in spring 1931. Hoping for gradual spontaneous surmounting of the crisis, President H. Hoover's Government did nothing to succeed in it. In this case, there is a good ground to draw a parallel with the activity of Ukrainian officials throughout the present world economic and financial crisis.

Having won the President elections in 1932, Franklin Delano Roosevelt began to implement his program known as a «New Deal». Its basic components consisted in the following: gold embargo, dollar devaluation, consolidation of banking system, granting of state credits and subsidies to the banks, regulation of production and sales on the basis of so called Fair Competition Codes, regulation of price in agricultural products oriented at that of 1909–1914. The problem of unemployment was met by creation of «labor camps» for building and repair of roads, bridges, and airdromes. Those and other actions of F.D. Roosevelt's «New Deal» are differently estimated by the scientists. The advocates of free competition are negative, while those who practice the ideas of regulated capitalism, are positive. One of the most important conclusions, the experts of different times concentrate their attention at, with reference to Roosevelt's «New Deal», might be made beyond the area of macroeconomic theories. Its success is in the panel of management. Roosevelt was strong enough to implement the taken decisions. His actions restored the confidence in market and state institutions, and ensured creation of fundamentals of a new economic recovery in the USA.

The confidence management should be linked to the level of democratic relations in the country. The latter is used to call for availability of high confidence not as much as in the leader personally, as in power, be it a state or economic. The leader embodies the confidence and ensures its further consolidation. Gradually the confidence in the system should turn into the confidence in the leader. The optimal manifestation of correlation between the confidence in

the system and that in the leader is the situation when both are top high to be unambiguously accepted by people. The society should not have any doubts concerning the fact that the government would not allow itself to act against the interests of people.

Examining the influence of managers' will on creation of confidence in the system and in themselves, we should also take into account the probability of excess confidence specifically in the leader. In this case, the system becomes only appendage to the leader, while the leader himself or the management elite provides something like messiah. The role of the willpower in the system of confidence management was explained by the classics of political theory H. Almond and S. Verba in the monograph of «The Civic Culture» [23], which is based on the analysis of political cultures in the USA, Great Britain, Germany, Italy, and Mexico. In their research they prove that sometimes the power happens to be concentrated in the hands of the leaders practicing rigid authoritarian methods of management, who more in word than in deed are ardent democracy adherents and guarantors of rapid and effective restoration of justice and order. That kind of the situation development brings about the following trends: loss (or absence) of confidence in the elites who were not able to use the democratic methods of management for meeting the people's interests, also it clears the way for charismatic, authoritarian leaders.

Referring to the previous thesis, it is worth citing H. Almond and S. Verba's considerations. «It is impossible to revalue the meaning of social confidence and cooperation as components of civic culture. In a certain sense, they are that main reservoir that enables the democratic order to function. The constitution developers found formal structures of political life designed to encourage the behavior causing faith. Nevertheless, those institutions are likely to be worthless without faithful relations. Social confidence contributes to political cooperation among citizens in these countries, since democratic policy would be impossible without that cooperation. That confidence is likely to constitute certain relations between citizens and political elites. We used to find that the democracy needs the support of elite powers. Now we would like to add, that the confidence in political elite is a strong belief that the latter does not provide an alien or outside force, but constitutes an integral part of the political society, and it makes the citizens repose power in their hands. In addition, general social principles reduce menace that the emotional adherence to certain political subgroup will bring about political fragmentation» [23].

Thus, the leader within the system of management can and must have credibility. Nevertheless, it is not enough to mobilize the subordinates for reaching the goal. The leader's task is to create confidence in the whole system of management he is heading. The confidence in the leader himself usually implies non-confidence in power institutions. In this case all hopes are pinned on the leader; likewise he is blamed to all failures, though success is also believed to be his merit. The optimal variant of confidence in management systems is probably that when alongside with the confidence in the management system, the control-wise critical attitude towards leaders should be developed. While as-

sessing the Russian reality (and in this context the Ukrainian realities do not differ much), D. Volkov writes, that «the confidence in the leaders of the state is related not as much to their concrete deeds, as to the hopes the Russians pin on them». Most of the Russians view them as the final instance. It is because the institutions, people deal with daily, like militia, health care, education, either do not function properly, or do not function at all... Medvedyev is taken for Putin's sheer doublers. The majority considers that he «has been pursuing Putin-wise policy». Some people think that in Russia power belongs to both, and one third of the population regards Putin to be principal. Confidence in Putin is as strong as it was before. It is mainly related to the fact that people do not find the alternative. Moreover, the USA is so far blamed to be the main reason and originator of the crisis in the public area» [2].

Nevertheless, the confidence in the system of management is impossible to be independent from the confidence in its leader, since the latter embodies and represents it. Also we can not underestimate the leader's influence on the efficiency of management system in the aspects of the organization final results. In the conditions of the global crisis the paradigm is concerned that managers need promotion. The discussions on the issues of crisis surmounting, and the «Big Twenty» summit declaration give ground to view it as the accents transferred from current results to final outcomes of managers' actions which in temporal aspect are connected to economic cycles. That understanding implies the approximation to the proposals concerning the situation when major part of fixed benefits and ratio of income could be distributed by the managers who have right to do it for their own benefit for a long period «till the time other incomes come» [19, 36].

Fetisov is right in principal, and we can agree with his thesis only partially. The matter is that the term «long lasting» is not clearly determined either quantitatively or qualitatively. In case when we refer to the cyclicity of economic development, the management system will be oriented mainly at detecting the global risks and forecasting its strategy from the perspectives of temporal and spatial stages of economic development, and not only from the view of the «harvest yielding» period in boom conditions. It is just in that aspect the system should be altered for responsibility for risk estimation errors as well as for breach of confidence and violence of legislative rules.

The above mentioned enables to expand the research of management in the aspect of correlation between confidence and economic willpower in economic relations. Theoretically, the category of will is studied in synergy as the mechanism for self organization. That connection enables to assert that the will is a universal element of world development as a whole. It means that it is an important factor of economic progress. As for the category of «economic will», it arouses the interest specifically in recent years. It was profoundly examined in O. Bodrov's monograph «Theoretical and Methodological Aspects, and Regularities of Economic Will Development». Also, T. Oriekhova's monograph «Transnationalization of Economic Systems in the Conditions of Globalization» is worth mentioning too. Among foreign economists suffice it to mention the names of the

Nobel Prize Winners M. Friedman, F. Walker, H. Becker, and D. North who made a considerable contribution in the problem solution of quantitative dimension of economic will on micro level. At the moment, the index of economic will is applied for that purpose, which is calculated on the basis of seventeen criteria.

The practice of many top-managers in the area of state and corporate management proves that economic will in the system of management performs a very important function to join the efforts of the management decision makers, also it encourages them to fulfill the decisions, creates confidence both, in the taken decisions and in the actions of managers directed at reaching the set goal. In addition, as T. Oriekhova notes, referring to the practice of foreign TNCs activities, the economic will ensures «admission of the will of action as a necessary condition for originating the unusual projects. Great attention is paid to creation of more flexible organizational conditions to facilitate the expansion of authorities of qualified personnel in their decision taking in working places» [13, 78].

Successful confidence management in the system of economic relations is in direct dependence on the concrete conditions. Nevertheless, we can formulate the methods to be applied in all cases. It is worth putting in the first place the development of the systems, which bring about the desired results. Nevertheless, these systems could be fully assessed specifically by narrowly focused experts, and it could not always be done. The rest of the interested might evaluate the importance of the taken actions only after their completion. Our thesis consists in the fact, that the creation of favorable environment for implementing the decisions (meeting tasks, carrying out programs, etc.) it is necessary to develop the element of confidence in the action. It means that at the very beginning of the implementation of certain decisions the confidence in them should be established on the side of those who are either directly or intermediately related to them.

We shall try to explain that idea on the example of the activity of certain top managers. Li Yakoka, the top manager of Chrysler Corporation in his book «The Career of Manager» shares his practice of uniting people. He calls the latter «the equality of victims». The idea consists in the fact, that everybody makes a sacrifice for the sake of reaching success. In his case it implies that he, as the President sets his wage in amount of one dollar per year till the Company is overcoming the crisis. It was just due to that decision that he was able to implement the actions in restructuring the Company, redundancy of employees, and freezing of wages of those who were left. The similar actions were taken in late 2008 by the managers of the automobile giants like «Ford», «General Motors», «Chrysler», who when applying to the government for financial aid, declared on their readiness to set one dollar wage per year for themselves for the period of the crisis [4, 216].

The art of management on the ground of the creation of confidence in the taken decisions is an essential element of business culture for all civilizations. It pertains to all the management systems. Ensuring of mutual confidence between the subjects and objects of management is viewed as the term of suc-

cessful management. Under those conditions the Gegel principle of «mutual constraint» occurs on both sides of the system of management. In case when «failures» or inadequate actions occur on the upper level, the lower level signals via shattered credibility that the situation needs to be changed, and vice versa. Consequently, the objects of management could be the subjects of management at the same time, thus improving the potential of the economic system self-regulation.

The increase of the role of confidence to ensure the stable functioning of the world and national markets needs the system development of relevant market infrastructure. A certain guideline for meeting that task could be the Federal Deposit Insurance Corporation – FDIC. Its main task is to preserve and support the public confidence in the USA financial system through guaranteeing deposits in the banks and saving institutions [11, 12]. Moreover, the FDIC's responsibility is to pay the guaranteed deposits to all depositors of bankrupt banks (in the USA the repayments amidst the crisis make 250 thousand. dollars, while in other times – 100 thousand dollars).

The world financial crisis enabled for searching new organizational forms of market infrastructure development, that would create the atmosphere of credibility and peace for running business and making investments. The proposals of Great Britain made in economic press are worth paying attention. They refer to the guarantees provided to toxic assets, i.e. the financial trash basket, that should be financed by tax payers. The idea of «bad bank» has been discussed in Italy and Germany, implying the establishment of a state financial institution for buying and accumulating the bad credits of private banks [1, 9–13; 18].

It goes without saying, that that institution type will be interested in profound monitoring of the market behavior, and its participants, demanding of the depositors on risk rate, restricting of the effects produced by crises and bankruptcies on economy and financial system, realizing of deposits and credits to other banks, and in performing other functions ensuring the market stability resulted in the confidence in market institutions. In addition, the management of assets of the institutions which found themselves before threat of bankruptcy or have been bankrupt could stimulate the confidence support if not in the concrete enterprise, then in the financial system of the country as a whole, and that due to a certain market infrastructure of «emergency aid» will have an extensive and reliable mechanism of guarantees.

2. Confidence in the System of International Economic Relations

The processes on the monetary and financial market have been developing in similar scenarios irrespectively of the level of economic development of the country. But their velocity in the developed countries much exceeds that in the developing ones. In addition, these processes are characterized by higher figures of acceleration due to better provision with modern information and communication resources, and due to well developed Internet banking. Their study is important for Ukraine for two reasons. First, the practice in market transformations management, that the industrially developed countries accumulate, is worth transforming to be applied on national level. Second, in the conditions of the expansion of the country's integration into the world economic environment the Ukrainian business and the government have to act abroad according to international rules. It is critical to timely detect the world trends of the confidence availability in the market actors (primarily, in big ones, on whom the state of world or regional economy depends), also find out any deviations, and take actions to prevent the negative effects on national economy, either those to foster the trends favorable for the development of national economy.

From the view of the liquidity problems in real and financial sectors of Ukrainian enterprises it is worth analyzing the similar processes in the industrially developed countries. The events started on 13 September 2007 around the English bank «Northern Rock» could be considered typical. Those events pre-history consists in the following: the bank because of its liquidity problems applied to the Central Bank of Great Britain for extraordinary financing. It happened to be a bomb, since for the last one hundred years not a single English bank has found itself in such a tricky situation. Immediately the information flows reached the depositors, and they, in their turn, got on-line access to their deposits and began to withdraw them. The failures that were not lucky to withdraw their money at night, in the morning came to the offices of «Northern Rock». As a result, the bank crashed. The price of «Northern Rock» shares dropped more than three times.

That general description of those events shows that the pattern of the bank bankruptcy in case of the depositors' confidence collapse does not differ in principal from the processes observed on the Ukrainian market since the middle of 2008. Here should be added one more important element usually pertaining to any economy. Doubts in the bankrupting bank's reliability arise long before «H» hour. As the member of the Governing Council of the European Central Bank (ECB) Erkki Liikanen states [10, 41], the problems with the liquidity on the European bank market were yet observed on 9 August 2007. That day many commercial banks faced similar problems. At the same time, the ECB faced another problem when its base rate made 4 %, while the real interest rate on the market was much higher. If we observe the «overnight» rates for euro, dollar, and

pound sterling – they all raised. It means that the economic climate has changed not in any individual country or in Eurozone, but throughout the world. The conclusion that follows from the above consists in the fact, that the markets of money and capital are the phenomena of world scope, and the greater slump occurs in any single city, the more negative effects it produces on the economic situation in other parts of the world.

Confidence plays an important role for the development of relations among the participants of monetary and finance market, specifically for their inter-bank cooperation. It manifests itself in the trends of the behavior of «evrepo» rates (evrepo – for the collateral banks) and «euribor» rates (euribor – interest rates for unsecured currency). Under the condition of market stability and absence of crisis phenomena the difference between those rates is not significant. It shows that there exists «peace and consent» among banking institutions and they have no doubts for the standards making the basis of settlement. Nevertheless, if the ratio between evrepo and euribor rates abruptly change, the difference between them grows, and the greater difference is, the less confidence can be found among the banks.

So, the confidence among the banks can significantly change the conditions on inter-bank market of credit resources. One of the indicators of the confidence among them is the changes in evrepo and euribor rates. That trend mainly pertains to the European market, and is essential to home economies. They usually take credits in their national banks and settle the payments according to euibor rates. After 9 August 2007 the difference between the evrepo and euribor rates significantly grew in the European Union countries, which implied the collapse of confidence among the banks. Taking into account that people take out loans in the banks of their countries, and their interest rates are pegged to euribor rates, the ECB did not make alterations in its policy. But, as E. Liikanen justly notes, «since the euribor rate skyrocketed, the credit interest rates for the people also significantly grew. And the reason for that is the similar situation, i.e. absence or lack of confidence» [10, 43].

The problem of confidence within the system of economic relations can not be considered as autarky. Ukrainian economy is an open system, which since 2005 has been recognized as a market one. It encouraged significant capital inflow, though exacerbated the crisis, specifically via pressure on fixing the hryvnya exchange rate under deterioration of the balance of current account. In the conditions of keeping price compatibility the NBU had to maintain exchange rate of hryvnya to USA dollar on the stable level. It caused the abrupt growth of credit portfolio through attraction of capital on the international market, increase of currency imbalances, and the development of inflation processes [5, 5–6].

Consequently, the Ukrainian economy being an open market system assumed the faults of the world economy. Therefore, in case of great challenges we can and should count for the world community to have their assistance in the development and implementation of antirecession actions. However, that cooperation should be on equalitarian basis, and it should be oriented at ensuring the

sustained development. In this respect, Ukraine needs to act within the frames of International Monetary Fund Program, the mission of which is to determine both, the capacity of issuing credits, and the actions to ensure meeting the final goals of the development. At the same time, IMF does not «play» upon differences among the leaders of the country, but facilitates their unity.

What model could be like for international economic relations between Ukraine and probable partners on the international capital market?

a) Ukraine closely cooperates with the International Monetary Fund in the area of its initiatives support in the crisis surmounting and economic reformation.

b) Ukraine negotiates with the USA, the European Union, Japan, and World Bank on taking out a loan in case of lacking resources even after having been credited by the IMF. According to the expert estimations of the Brookings Institution, in addition to IMF funds in 2009 Ukraine will need about five bln. dollars. That institution's report «Involving Ukraine in 2009» contains the recommendations to President and Government of the USA on the assistance provided to Ukraine with respect to surmounting the effects of economic crisis concerning « its dealing with such partners as the European Union, IMF, World Bank, etc. That problem should be a priority with subsequent holding of donors' conference where additionally five bln. dollars would be assigned this year. That aid should be included to the granted IMF loan, and we need to design the criteria to make the additional financing dependent on the concrete reforms in energy sector. The USA Government should view the assigned funds as an integrated part of these reforms. Also, Washington should demand from Ukraine to get back to very important economic reforms to facilitate more efficient recovery of the economy, as well as to consider the reduction of trade barriers for Ukrainian goods»[17].

c) Ukraine holds negotiations on obtaining a credit in Russia, China, and other countries. At that, the mutual claims and challenges should be taken into consideration. With respect to Russia, the latter includes the rent charged for Chornomorskii Fleet in Sevastopol, gas transit price, gas price, borders in the Azov Sea, etc. Opposite to Russia, at the moment China has fewer problems unsettled with Ukraine. Probability of obtaining credit from China pegged specifically to economic (not political) problems is higher.

d) Ukraine holds negotiations with different countries on obtaining credit resources for crisis surmounting, and to diversify the probable debts, likewise to create competition among probable partners.

3. Confidence on Monetary Market of Ukraine

General situation on the Ukrainian monetary market for recent three years is tending to aggravate. The scopes of exacerbation in the economy and on the financial markets appeared to be much worse than were forecast. As the report of the National Bank of Ukraine says, «the situation was effected by the provoked non-confidence simulated among people in the financial state of certain banks and banking system, as a whole, and outflow of the resources» [12]. The banking system found itself before threat to loose sovereignty. Incorporation of foreign owners and foreign capital into the national banking system complicated forecast and control over efficiency of its functioning.

The world and national financial crisis have many reasons rooted in the country and beyond. We shall analyze only the aspects related to the factor of confidence in the functioning of financial and banking institutions, which is lately concerned against Ukrainian traditions on all the levels of management. Furthermore, the confidence on the Ukrainian market as against the markets in other countries with the developing markets and these in the industrial countries is getting to become a rather significant factor for the expansion of crisis phenomena. Ukraine is likely to become a traditional country of accumulating non-confidence in the whole banking system, including the NBU, state and commercial banks. Furthermore, that negative phenomenon is intensified with the acts of all state management, i.e. President Administration, government, the majority and opposition in the Verkhovna Rada (Supreme Council), and NBU. The banking institutions also do not do their best to keep or restore the confidence. The banks often refuse to pay back the expired deposits automatically prolonging agreements. Eventually, not only banking, but also all financial system plunged in the area of non-confidence.

The loss of confidence in the financial and banking system brought about the situation when the capital outflow rates have been rather high since the beginning of the crisis, and a number of those who would like to withdraw their deposits do not lessen. For the first quarter of 2009 the outflow of deposit accounts reached up to forty seven bln. UAH, while the inflow of money for the previous year similar period made fifteen bln. UAH [15]. At that, because of non-confidence in the entire system, money outflows not only from «problematic», but also from all banks. According to the survey of R&B Group Company, in March 2009 79.6 % of respondents did not trust any bank in the country [22]. Unlike in other countries, like Russia, for example, in Ukraine economic and political confidence has been lost in the system. A great many of bank depositors are eager to withdraw money from their accounts. It is true, that for the third quarter of 2009 the amount of natural persons' deposits slowly increased, but mainly in foreign currency [16]. It is the manifestation of non-confidence in national currency, the exchange rate of which towards hard currency has been

steadily decreasing. Inactivity in such conditions threatens to cause in due course of time numerous collapses, and shock for the economy as a whole. Eventually, the banking system functions, but specifically due to refinancing of the National Bank of Ukraine.

The loss of confidence in economy always corresponds to the loss of economic benefits. The way out needs active search for various reserves to restore the confidence. In other case the process is speeding up of the crisis exacerbation and economic disadvantages originated by that process. With respect to the Ukrainian banking system, as the Deputy Director of the IMF European Department Jeila Pazarbaziolu and the Director of the World Bank in Ukraine, Belarus and Moldova M. Reizer note, when the fall of confidence reaches the limit line the depositors regard no one bank to be credible, then the depositors instead of transferring their savings from one bank to another, will ignore the banking system. «If the system crisis is probable, – J. Pazarbaziolu and M. Reizer write, – the government is obliged to intervene. If the central bank provides liquidity to the financial system, the government uses the budget resources to grant capital, credits and/or guarantees to the system banks, the stockholders of which are not able to mobilize extra capital. In this situation the organs of power have the following three main goals: to restore confidence of people in national banking system, to protect the banking system with the least expenditures of tax payers, and to strengthen the banking system making it more resistant towards expected crises» [14].

Proceeding from the above, we can ascertain that the loss of confidence in a certain chain of economic system brings about the respective losses. It is a quantitative dimension of the confidence (non-confidence) in that chain. At that, it should be taken into account, that the confidence in the economic chain is a comprehensive index including the economic agents' estimation of the successful activity of both, the business entity, and those who facilitate or resist that activity. In this sense the role of the government is exclusively important, since it has great opportunities to ensure the required guarantees to the juridical and private persons. The state can succeed in its mission of the confidence restore when the decisions are taken to restore the conditions under which the capacities are regenerated to reach economic objectives.

We shall try to analyze the above thesis in details. According to the Law of Ukraine «On the Fund for Guaranteeing Deposits of Natural Persons» [6], each depositor is guaranteed to have his /her money compensated including interests in the amount of deposits on the day of occurrence of inaccessibility of deposits, but not more than UAH 150 000. That decision had to satisfy the depositors and assure them in their savings security. Nevertheless, the Law sets different restrictions, which complicate the money withdrawal in case of necessity. In particular, it is provided for the bank to compensate the deposits specifically in case of the bank liquidation, against the case when the client can not withdraw his money in the credit institution. Moreover, within the twenty working days the Fund should be provided with the complete list of the depositors who have right for the compensations, and the indicated sum of the compensation.

Under the noted conditions the deposit could be compensated at least in many months including the procedure of the bank bankruptcy. The latter starts from the moment of provisional administration imposing, which is imposed for six months. The Law does not exclude the prolongation of the terms for admitting the bank bankruptcy, as far as the provisional administration is not imposed by the court, but by the National Bank of Ukraine, which in most cases is a guilty party because of lack of control over the activity of the bankrupt bank. In other words, the fact that the Fund compensates the deposits not in case of the bank's not compensation of deposit, but in case of its bankruptcy, significantly reduces the confidence in the bank.

We mentioned above the principle of «victims' equality», that justified itself in the USA automobile industry to meet the problems of confidence restoration. At the moment, within the Ukrainian system of economic relations primarily the confidence in financial and banking activity needs to be restored, since that area happened to be badly squeezed, and deters the surmounting of crisis phenomena in other areas of national economy. That system not less than the USA automobile industry, should take the actions meeting the principle of «equality of victims». While analyzing the decisions of the crisis management taken in the country, we can see that even when the methods of «victims' equality» are applied, in reality the monetary and banking system victimizes the clients themselves. Take, for instance, the attachment of collateral banning. In this case, the unstudious client of the bank benefits, while that one who successfully works loses, because the financial challenges of the bank produce effects just on the latter. Those steps are counter efficient and can originate nothing but a chain of bankruptcies of the bank and its clients. With respect to the clients of weak banks, they would gladly agree with the try and persistence to merge with the strong ones, and to transfer their assets and liabilities to some other bank.

The experts give different appraisals of the Ukraine's entering the crisis. They name the reasons both, of domestic and foreign economic character. And most of those reasons are the unquestionable evidence. Unfortunately, at that it is not noted, that the crisis in Ukraine is mainly the crisis of confidence. Even though it started differently, at the moment it is like that. At the background of catastrophic confidence reduce in all and sundry, the banks have lost their assurance, that the clients would keep their deposits for long. In spite of the fact, that the National Bank has imposed the provisional administration in the problematic banks, the depositors do not refuse from their intentions to close their accounts, because they have no confidence in banks. Similar aura is among the firms, who do not trust each other.

More drastic method for the confidence restore in the banking system is a reformative one. We link it to the development of a new banking model, that among the tasks of the confidence restore there should be the mechanisms developed ensuring the functioning of the system under minimal risks. The banks with foreign capital as mother companies should be responsible for the clients' confidence. In addition, the National Bank should make public the list of the

commercial banks with high risk rates, and in spite of beneficial proposals of the bank product, could probably become bankrupt.

The reformation of the banking system is impossible without a qualitatively new organization of information work oriented at public. The information should be highly professional and understandable for non-professionals. It should be provided not only to the market participants, but also to the depositors. In addition to understanding the functions of the system, the latter should realize its reliability. To meet that task, the banks should develop the systems of financial PR to ensure the clients' deep understanding of the matter and probabilities of the offered services. In the nearest future the demand for the confidence will increase, since everybody will search for the answer to a question, who can be trusted in? It means that all the subjects of commodity-money relations will need high quality information concerning the credibility of the banks and other economic entities, and they would not cooperate with them incognito.

Search for innovative restoration forms and methods actively occur in the conditions of socio-economic and financial crises. The most exemplary in this respect is the recent world financial crisis. Specifically, it refers to the banking institutions which are unable to act without settling of social and psychological tension around the processes of money circulation, and «surmounting of total non-confidence» in the whole system. The search for the ways of the confidence restoration and financial stabilization increase involves the institutions representing the market infrastructure. In this respect, exemplary is the practice of the rating agency «Credit-Rating», who initiated the assessment for the bank deposits guarantee. The basis for granting the rating is made by the indices of the bank's liquidity, structure, concentration and sustainability of the resource base, diversification and quality of the assets, its efficiency, also the bank's sensitivity to unfavorable economic or political factors, availability of support and involvement of resources. The Agency is very careful in its approaches to making the ratings public, and does it on the wish of the banks themselves. It is natural, that not all of them are eager for openness in order to prevent the too previous panic. Therefore, only leaders agree for openness, while others prefer the internal use of the information [20, 16].

While creating the confidential attitude towards the banking system, the fact should be taken into account, that the task could not be completely met beyond the financial and legal environment. A specific place here belongs to insurance and governmental institutions. As for Ukraine, here the deficit of the confidence in the state exceeds that in the banks. And that is under conditions when the secured deposit payments grew from UAH 500 in 1998 to UAH 150 thousand since November 2008. The majority of the population is not sure that the «Fund for Guaranteeing Deposits of Natural Persons» will be really used for support of the banking system and in the interests of the depositors. Though the insurance of deposits is a significant step forward to increase the confidence rate, it is worth adding, that the guarantee mechanism should be constructed on the basis of the highest demands towards transparency and intelligibility. While orienting that mechanism towards establishment of confidence in the banks,

there should be taken into consideration the general level of culture in the country. And the latter is that that even the depositors with higher education are often not aware that their deposits amounting to UAH 150 thousand are guaranteed by the government. And they know even less about the terms for their deposit payments.

Confidence in the system of the financial relations is not only the product of the institutional policy of the state and the activities of these or those institutions. To a great extent it is determined by common human relations and their faults. Specifically, the situations are dangerous when panic is simulated. The conditions for the panic are induced by insufficiently grounded statements of analysts and experts, who provoke rumors and panic behavior, and are spread by mass media. Probably, it is time to have legal regulation of responsibility for dissemination of unchecked information on the state of financial market. In some cases that information should be regarded as the reverse side or one of methods to reveal the banking secrecy.

The pattern for creation of banking panic was scrupulously developed with the aim of shattering the confidence in Prominvestbank. It started in June 2008 with the negative material placed in the city light. Then the information was about the insolvency of the bank. Negative information came from and was concentrated mainly in one region, i.e. in Donetsk. The Donetsk citizens got sms information on feasibility to early withdraw their deposits from Prominvestbank. Eventually, on 26 September 2008 about from 100 to 150 people gathered near the Regional Bank Office who tried to close their accounts and withdraw their deposits in cash. The panic resulted the imposing of the provisional administration of the National Bank of Ukraine, which was the beginning of the end for a number of other Ukrainian banks.

Quite opposite situation could arise under condition when the methods are applied to facilitate keeping confidence among economic entities. In Poland, that is neighboring Ukraine, people did not panic and did not take the banks by storm. The National Bank of Poland enabled to find and implement more reliable means to keep a relative financial stability through controlling over the crisis due to regulation of accounting rates. It enabled to reduce the price of the credit resources and mitigate the effects produced by the exchange rate fluctuations. According to the NBP estimation, the people of the country have confidence in banking institutions, and experience the crisis mainly in the aspects of credit limiting. Moreover, Poland is much lesser dependent upon foreign borrowings, since Polish banks received most part of credit resources due to deposits of the people and businesses. And that is under the condition when 90 % of credit institutions are the property of foreign banks, though the latter were not financed from abroad in pre-crisis years [21].

Confidence as a human element of economic relations can change amid the crisis at least in two directions – loss and restore. While it is lost easily, and sometimes these processes occur instantaneously, to restore is not easy at all. The history of sovereign Ukraine passed through the period when it was neces-

sary to win confidence in national currency. The time is implied when hryvnya was adopted. The direct development of hryvnya as a currency unit of the Ukrainian state started in April 1991. In spite of the fact, that hryvnya was timely issued; its adoption required the adoption of transition money – coupon-karbovantsi which would assume the inflation pressure and non-payments threat. It enabled to mitigate negative effect produced by adoption of a new currency unit, and psychologically prepare people to accept the national currency. Gradually the confidence in hryvnya was established.

Over five years passed, when at last the President Decree on Currency Reform in Ukraine was issued (25 August 1996). The reform was carried out from 2 to 16 September 1996. Gradually the actions were taken directed at the establishment of confidence in hryvnya. In general, the set task was met, though for fourteen years of its existence it did not deserve the full confidence (saying nothing about the respective national pride). In particular, it is manifested by the fact that almost half of money supply circulates out of the banking sector, and people are tending to exceed the hryvnya exchange over foreign currency exchange. Moreover, non-confidence in hryvnya enhanced because of its gradual devaluation and not meeting the requirements of convertibility at that regime implementation.

The Foreign Exchange Market used to have the trends providing the grounds for the population to trust in national currency unit. Thus, the NBU 2009 report says that the population trusted in the banking system [5]. That conclusion proceeded from the fact that for the period from 2006 to 2008 the amount of funds of natural persons grew thrice as much. For nine months of 2008 those funds grew by 24 % and made UAH 202 bln. The money attracted from natural persons made one third of the banks' liabilities. Most of them (79 %) made the deposits withdrawable on demand, and 61 % – in national currency [5].

Unfortunately, though that statistics reflects positive trends, it is not sufficient to ascertain that people completely trusted in the banking system. The Ukrainian depositors continuously found themselves before dilemma: in what currency to open their accounts. The fact that 61 % of all deposits were in national currency mainly manifests that the interest rates in UAH deposits exceeded those in foreign exchange. It can not be viewed as people increased assure in improved system for currency risks aversion. The dynamics of official exchange rate of hryvnya to dollar since 1996 to 2008 was as follows (to US\$ 100): 182.95; 186.17; 244.95; 413.04; 544.02; 537.21; 532.66; 533.27; 531.92; 512.47; 505.00; 505.00 526.72 [3].

There should be understandable and convincing actions of competent organs to restore the people's confidence in the banking system. How efficient they are, could be concluded after the responsiveness of the clients who are losing their savings. For example, imposing a provisional administration in the banks by National Bank of Ukraine to ensure the security of the assets and capital under threat to solvency is the manifestation of non-confidence on the side of the government. Automatically it creates the clients' non-confidence in these

banks. Thus, under these conditions the clients would try to withdraw their deposits. In order to prevent it, the provisional administration should delegate all real authorities with respect to meeting the bank's liabilities. Exclusively on that basis it would be possible to keep the clients from panic, and to ensure the effective search for making the bank's functioning normal.

Among the factors of the confidence restore an important place belongs to the art of its loss minimization in the period of the peak situations. Financial institutions having not taken new liabilities should make maximum efforts to serve the available ones. In the crisis period not only the clients who did not sever relations with the bank should be concerned, but also those who under certain reasons closed their accounts. As H. Khorunzhii notes, «taught by bitter practice, the depositors are more attentive in their relations with banks. For example, they care less concerning deposit interest rate, popularity of financial institution's brand and development of its territorial net, and prefer the bank's reliability and high quality of its services» [20, 16]. In other words, loyalty to a client, guarantee to meet the liabilities despite financial challenges, dissemination of true and well substantiated information on gradual restore of the positions on the market is a reliable means to create a favorable environment for restoring the confidence in case the latter was not kept or even lost.

Among the effective methods of people's confidence restore in the banking system is recapitalization of banks. It was just that approach that enabled to keep the situation in banking sector under control in many countries under more complicated conditions than these in Ukraine. Nevertheless, each country had its own relations between the banks and the government, which determined the level of confidence of the latter in the banks. Accordingly, it was necessary to search for various methods to restore the clients' confidence in banks.

In Ukraine almost all sum of money issue was channeled in 2007–2008 for currency exchange. Only from 5 % to 10 % of issue was allocated for the bank refinancing. Monetary augmentation and currency inflow in crisis period significantly lessen. The National Bank of Ukraine seems to be unreliable in the refinancing process. The better decision is, when the government will mobilize money and channel it into economy by means of banks' refinancing through the bonds, thus providing an opportunity to distribute it by the banks themselves. At that, the government will ensure the recapitalization of reliable banks, which could finance the enterprises.

The confidence in banking sector should be built on the initial system that the banks' reliability will be guaranteed by the state system of monitoring. A specific place here belongs to the Central Bank, which from the institutional point of view is responsible for the liquidity of banking system in general, and individual banks, in particular. From that point of view, it is impossible to admit non-confidence in the Central Bank. The clients of commercial banks should believe, that the Central Bank has its own and governmental resources to meet the payment challenges of their institution. It implies the necessity to create the system under which any manifestation of weakness in the Central Bank activity should

be taken for its management failure, and the latter gives ground to timely setting the question on non-confidence or as a need in timely support provided by the state to the banking system. There is a strict rule in modern business culture, i. e. the client is always right. If to transfer that term to the financial and banking sector, then the system of management would provide for the client not to lose from failures of banking management, since he can not influence it. Moreover, people are not professionally prepared to take proper decisions concerning the right selection of the institution for depositing their currency. The decisions are taken specifically on the basis of the confidence. The latter is grounded on understanding that the regulation and control over the activity of the commercial bank is the prerogative of government institutions. Therefore, the state should not lay the blame of the banks on their clients.

The confidence in the system of economic relations is the most important commodity. Who will deposit his/her money to financial and banking institutions if he/she does not trust in them? Who is investing his capitals into the state, the government of which has no confidence in the country and beyond? Who will buy the state bonds issued by the bankrupt government? There is a single answer – no one. In Ukraine the problem of professional government has been often discussed in the circles of political establishment. Though that criterion is very important, it is worth stressing that more important factor of economic development is the availability of the government of national confidence. In its sense primarily it should be professional, since nobody will trust in non-professional public officials.

Nevertheless, knowledge and professional quality could be used for other purposes. As a rule, economic crimes need deep professional knowledge. They are various, highly intellectual, with applied innovative technologies in banking, taxing, monetary, and custom businesses. American scientist E. Sutherland introduced a notion of «white-collar crime», the principal description of which is fraudulent practices and confidence abuse [7]. Each crime in economy is made according to new methods, which account for the developed by juridical practice methods of revealing misdeeds. It is just because of these reasons that economic crimes are rarely detected, and the efforts to avert them are often of no effect.

The government of national confidence should build its management in such a way, on the one hand, to ensure highly professional taking and implementation of macroeconomic decisions, and on the other – to do away with economic crimes. The fact, that lately a number of economic crimes continuously grow (specifically in financial and credit system, in the entrepreneurial field, privatization, energy-saving, and in foreign economy [8, 39] manifests the inability of present state mechanism to oppose economic crimes. Accordingly, that government can not be trusted either on national or on international level.

A vivid example of rapidly established and lost confidence can be the management of the officials of orange political direction. In 2004 they took the upper hand under the slogan that «criminals should be kept in a jail». The major-

ity of the population believed that the leaders of orange parties would be able to close the channels for shadow sector, corruption, and other kinds of economic crimes. That task was not met, which brought about the loss of confidence in the governments that managed economy after 2004.

Nevertheless, while speaking about the confidence in government, the aspect which is considered to be regularity should be pointed out. Under general loss of confidence in the government when the latter is unable to meet its principal obligations, the nation can trust it in implementing certain objectives. Thus, the research of social scientists shows, that in the condition of a total deficit of confidence in entire banking system, the single source of confidence that the latter would meet its liabilities before its clients is the support of the state. So, after the social study of «Center» analytical group, the credit-and saving institutions' meeting their initial liabilities (refusal from increased credit interest rates and decreased deposit ones) could consolidate confidence in them by 17.5 % of the population. And preparedness of the banks to meet the clients' requirements (primarily, in case of early withdrawal of deposits, and restructuring of credit indebtedness) could add 15.6 % more people to trust in them. And the reputation criterion for 24.7 % of the population could be the government support provided to the banks [9].

Consequently, an important conclusion can be made with respect to the formulation of tactics and to some extent a strategy of state policy concerning the confidence restore in the financial and banking system based on transparent and clear actions of governmental institutions. Accordingly, similar basis should be used by international financial organizations, primarily by IMF and World Bank. Mainly the clients' interests and principles of recapitalization are implied. The requirements and concrete actions of international financial organizations should be positively taken with respect to recapitalization of Ukrainian banks, and using the latter for attraction of domestic investments into real economic sector through banking system.

While researching the problem of confidence within the system of economic relations, we can not view economy as an autarky. The Ukrainian economy is an open system, which since 2005 has been recognized as a market economy. It encouraged a significant capital inflow, though produced effects on exacerbation of crisis, specifically because of pressure on rising in hryvnya exchange rate because of worsening of current account balance. Under these conditions the NBU had to keep the exchange rate of hryvnya to US dollar on a stable level. Then a sharp growth of credit portfolio occurred via attraction of capital on international market, intensification of currency imbalances, and development of inflation processes [5].

Thus, the Ukrainian economy as an open market system mainly incurred the faults of the world economy. Accordingly, under great complications one should rely on assistance of world community in the development and implementation of antirecession actions. But that cooperation should be equitable and be oriented at ensuring of sustained development. From that view, Ukraine

should act and remain within the frames of International Monetary Fund Program, the mission of which determines both, crediting and measures to meet the final objectives of the development. At the same time, the IMF does not «play» in the contradictions among the leaders of the state, but consolidates their unity.

Bibliography

1. Барановський О. Антикризіві заходи урядів і центральних банків зарубіжних країн / Олександр Барановський. – Вісник Національного банку України. – 2009. – № 4 (158). – С. 8–19.
2. Волков Д. Чисто символическое доверие. Парадокс доверия. – 2009. – 23 марта / Режим доступа до ресурсу: <http://russ.ru/layout/set/print/Mirovaya-povestka/CHisto-simvolicheskoe-doverie>.
3. Грошова і банківська статистика // <http://www.bank.gov.ua/Statist/index.htm>.
4. Губерная Г. К. Природа современного кризиса / Галина Константиновна Губерная. – Економіка промисловості. Науково-практичний журнал. – 2009. – № 2 (45). – С. 209–218.
5. Дії Національного банку України в період загострення світової фінансової кризи. Аналітичний звіт. – К.: НБУ, 2009 // http://www.bank.gov.ua/Publication/Analytical/Report_fin_kr.pdf.
6. Закон України від 20.09.2001 р. № 2740-III «Про Фонд гарантування вкладів фізичних осіб».
7. Кайзер Г. Криминология. Введение в основы: Пер. с нем. – М.: Юридическая литература, 1979. – С. 286–288.
8. Кравченко Ю. Ф. Роль органів внутрішніх справ України у боротьбі зі злочинністю у сфері економіки // Проблеми боротьби зі злочинністю у сфері економічної діяльності. Матеріали міжнародної науково-практичної конференції 15–16 грудня 1998 р. – Х.: 1999.
9. Леонов В. Криза довіри, або чому потрібна рекапіталізація // Дзеркало тижня. – 2009. – 13–20 квітня.
10. Лииканен Э. Возмущение на денежных и финансовых рынках / Лииканен Э. – Вестник Московского университета. – 2009. – № 1. – С. 41–49.
11. Міщенко В. Інституційні засади державної підтримки банківського сектору в період кризи / Володимир Міщенко, Світлана Шульга. – Вісник Національного банку України. – 2009. – № 8 (162). – С. 12–21.
12. Основні засади грошово-кредитної політики на 2009 рік // http://www.bank.gov.ua/Rada_NBU/OsnovZasad-2009.pdf.

13. Орехова Т. В. Транснаціоналізація економічних систем в умовах глобалізації: Монографія / Під ред. проф. Ю. В. Макогона. – Донецьк: ДонНУ, 2007. – 394.
14. Пазарбазіолу Д., Райзер Д. Зміцнення українського банківського сектору: принципи участі держави // Дзеркало тижня. – 2009. – 30 травня – 5 червня.
15. Рейтинг банків, що втратили найбільше депозитів // Економічна правда. – 2009. – 30 квітня. – Режим доступу до ресурсу – <http://www.epravda.com.ua/publications/49f8894977fa0/>
16. Рейтинг надійності банківських вкладів / Економічна правда. – 2009. – 06 листопада. [Електронний ресурс]. – Режим доступу до ресурсу: <http://project.ukrinform.ua/news/13650/>.
17. Рекомендації новій адміністрації США стосовно України. Погляд провідних американських експертів». Обговорення доповіді Брукінгс Інституту «Залучаючи Україну у 2009-му». – 2009. – 27 квітня // Фонд Демократичні ініціативи – Режим доступу до ресурсу: <http://dif.org.ua/ua/press/xfnfxmny>.
18. Сумлённый С. Плохой и ещё хуже / Сумлённый С. – Эксперт Online. – 2009. – 26 января.
19. Фетисов Г. О мерах по преодолению мирового кризиса и формированию устойчивой финансово-экономической системы (предложения для «Группы двадцати» по финансовым рынкам и мировой экономике) / Фетисов Г. // Вопросы экономики. – 2009. – № 4. – С. 31–41.
20. Хоружий Г. Соціально-психологічні аспекти фінансової кризи / Григорій Хоружий. – Вісник НБУ. – 2009. – № 8. – С. 14–17
21. Чигир С. Чому поляки довіряють банкам, а українці – ні? // Економічна правда, 07.04.2009 // <http://www.epravda.com.ua/publications/49daffbcaff1f/>
22. Щукин Л. Як змусити людей довіряти банкам? // Економічна правда, 19.03.2009 // <http://www.epravda.com.ua/columns/49c21d6a32f5f/>
23. Almond G. A. The Civic culture. Political attitudes and democracy in five nations / Gabriel A. Almond, Sidney Verba. – New York: Princeton, 1963.