

UDC 336.717

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## **IMPROVING UKRAINIAN BANKING SYSTEM USING EXPERIENCE OF OTP BANK ROMANIA**

**Abstract.** *The OTP Bank Romania is Hungarian bank which influences stability and liquidity of macroeconomic area of the country. Analysis of a bank performance has revealed a modern tendency of using electronic banking, minimization of bank workers, creating wide range of bank products to satisfy all customer's needs. The article is dedicated to analyzing of banking credit and deposit policies and researching features and new tendencies of banking business in Romania under the conditions of joining euro area and participation of the European System of Central Bank and International Monetary Bank. Ways of improving Ukrainian banking system are described based on Romanian banking experience.*

**Keywords:** *banking system, OTP Bank Romania, deposit, loan, financing factoring, electronic banking.*

**Анотація.** *OTP банк Румунія – угорський банк, який впливає на стабільність та ліквідність макросередовища країни. Аналіз банківської діяльності виявив сучасні тенденції використання електронного банку, мінімізації банківських працівників, створення широкого спектру банківських послуг, щоб задовольнити всі потреби споживачів. Стаття присвячена аналізу банківських кредитних та депозитних політик і дослідженню особливостей та нових тенденцій ведення банківського бізнесу в Румунії за умов приєднання до євро зони та участі в Європейській системі центральних банків та Міжнародному монетарному банку. Описано шляхи покращення української банківської системи на основі румунського досвіду банківської справи.*

**Ключові слова:** *банківська система, OTP банк Румунія, депозит, кредит, фінансовий факторинг, електронний банк.*

**Introduction.** Romania's macroeconomic and financial environment had been improving for whole 2018 according to Financial Stability Report of the National Bank of Romania. It is evidenced by basic macroeconomic indicators. Gross Domestic Product (GDP) rose by 6,9 % in 2017 based [1, 11]. First 6 months of Gross Domestic Product (GDP) advancing 4,1 % in 2018. Inflation target (2.5 percent  $\pm$ 1 percentage point) at the end of 2018 and running in the upper half of the band during 2019. The European Commission estimates the structural deficit at –

3,3 percent of GDP at end-2018 and – 3,4 percent of GDP at end-2019.

Features of Romanian banking system are researched in articles and reports of Liviu Volnea [4], Gergely Tardos [8] and others. Ivanov Y. N., Romanenko A. Y. Gaydarzhiyska O.M., Shchepina T.G., Otroshko V.P. made an analysis of commercial banks in Ukraine. At the same time, question about improving Ukrainian banking system based on Romanian experience has not reviled yet.

**Results of the research.** Macroeconomic situation of the country depends on monetary policy of the National Bank of Romania which was founded in 1880. The board of directors consists of 9 members appointed by Parliament. The NBR became a part of the European System of Central Bank (ESCB) and International Monetary Fund (IMF).

A sustainable entry into a close cooperation with the European Central Bank is the most important step for banking sector ahead of Romania's joining the euro area. Achieving the measures set forth in the 2017-2018 Financial Sector Assessment Program for Romania conducted by the International Monetary Fund and the World Bank (FSAP 2018) will help to keep a robust banking sector in place over the medium term [5]. Authorities try to avoid legislative initiatives affecting the further clean-up of credit institutions' balance sheets; to avoid measures that would lead to an unsustainable expansion of the banking sector either by increasing exposure of credit institutions to the government sector or by promoting highly risky initiatives in the medium and long term; to ensure adequate capitalization of state-owned banks, to list them on the Bucharest Stock Exchange.

Another package of measures that should be implemented for the Romanian banking sector to make a sustainable contribution to the process of joining the euro area envisages to fulfil the recommendations relative to the “Basel Core Principles for Effective Banking Supervision” in 2017-2018 Financial Sector Assessment Program jointly undertaken by the IMF and World Bank to ensure consistency and objectivity in the Supervisory Review and Evaluation Process – SREP; to enhance supervisory tools by incorporating forward-looking views and conducting thematic reviews; to address the remaining gaps in the preventive framework governing money

laundering and terrorism financing and to strengthen the framework for crisis management and bank resolution and provisions forex liquidity support; to make the bank resolution framework compliant with the changes brought about by joining the Banking Union [6].

Companies in the private sector account for approximately 80 percent of the borrowing potential in 2018 [9]. The high growth rate of leu-denominated loans to the private sector (13,3 %) and retail loans. Foreign currency denominated household deposits is noticed to be on an upward trend (reaching 40 percent of total household deposits [9]). Hence, bank system of Romania has been developing in favorable conditions for business.

OTP Bank of Romania has been represented on local market since 2004 year. First profitable year in bank history was 2008. Bank had created new products: the deposits for retirees, inter-banking Direct Debit service at the next year. Financial institution has launched to use Electronic RM and OTP direct since 2012. The bank acquired Millennium Bank of RO in 2014. As a result, its assets grew to 2 % and 25 new units have appeared. The Bank has signed agreement on purchasing a 99,3 % shareholding in the Romanian Banca Romaneaca S.A. by National Bank of Greece S.A [7]. It is working on improving digital services and banking products nowadays.

OTP Bank has wide external network. It exists in different countries, namely, Russia, Ukraine, Bulgaria, Serbia, Montenegro, Croatia, Hungary and Slovakia. There are 95 territorial units in OTP Bank Romania Local Network. There is one main branch of OTP Bank and 7 ATM in Suceava. Share capital of the bank is RON 1.509.252.960. OTP Bank Nyrt. owns a controlling stake.

OTP Bank Romania has strong external security policy. For instance, business relationships, including current account opening, acceptance and carrying out any transactions for individuals or legal entities and for authorized representatives with residence of countries such as Russian Federation, Ukraine, Serbia, Iran, Iraq, North Korea, etc. won't be initiated. As a result, this policy protects bank from unreliable bank correspondents, prevents financing acts of terrorism and saving OTP Bank Romania's solvency and solid on the market.

The bank's corporate culture includes the mission, vision and values of the bank. It is providing a wide range of highest quality financial services by operation in transparent manner and cultivating innovation. OTP Bank shares its clients on four categories: individual, individual business, SMB and Corporate and offer them special bank products. Products are shared: current and saving accounts, deposits, loans, debit/credit cards, cash management. There are diverse kinds of loan: on-line, mortgage, personal loan, loan for refinancing, overdraft for individuals as well as loan, real estate loan and overdraft for individual business.

Individuals with current account have access to overdraft and OTPdirekt. Current account interests were available at the 7<sup>th</sup> of January (table 1).

*Table 1*

**Current account interests for individuals**

| Amount     | Concluded at/through | 7 Months | 4 Months |
|------------|----------------------|----------|----------|
| =>2000 RON | counter              | 3.5%     | 2.5%     |
| =>2000 RON | OTPdirekt            | 3.7%     | 2.7%     |

Resource: [7]

It's known from the table OTP Bank Romania follows world wide tendency of e-banking and try to involve more clients in it. For instance, interests on current account for 4 months is on 0,2 % higher in OTPdirekt than in counter.

The bank offers standard deposits and deposits for retirees which is on 0,1 % in foreign currency and 0,2 % in RON higher than usual one. There is opportunity to diversify investments with OTP SINCRON Saving Package. OTP Bank RO's partners are OTP Obligațiuni, OTP ComodisRO, OTP EuroBond, or OTP Dollar Bond [8].

*Table 2*

**The state of stock market on 15/01/2019**

|                 | OTP ComodisRO | OTP Euro Bond | OTP Dollar Bond | OTP Premium Return | OTP Global Mix | OTP AvantisRo | OTP Real Estate |
|-----------------|---------------|---------------|-----------------|--------------------|----------------|---------------|-----------------|
| Percentage rate | 2,71 %        | -1,01 %       | 0,43 %          | - 5,59 %           | - 16,21 %      | - 8,99 %      | n/a             |
| VUAN, RON       | 17,80         | 12,70         | 11,07           | 11,25              | 10,76          | 10,19         | 483,08          |

Resource: [3, 7]

There is OTP Asset Management – high accomplishments in investing in

shares (table 2). There are down and up of stock rates but diversification guarantee a profit for clients.

There is Guarantee Fund for Banking Deposits (FGDB) that covers limit established by the law EUR 100000 (RON equivalent) for each account holder. The cover limit in Ukraine is EUR 6320. It is 6,3 % of sum in Romania. It means that depositors are more protected in Romanian banks.

*Table 3*

**Interest rates of saving account and term deposit for individual business**

| Authorized physical persons & Legal entities |                |          |              |        |         |        |
|--|----------------|----------|--------------|--------|---------|--------|
| Currency                                     | SAVING ACCOUNT |          | TERM DEPOSIT |        |         |        |
| RON  | Amount         | Interest | Amount       | 1 year | Amount  | 2 year |
|  | 1000–19999     | 0,35 %   | <25 000      | 1,35 % | <25 000 | 1,45 % |
|  | 20000–99000    | 0,45 %   | >25 000      | 1,45 % | >25 000 | 1,50   |
|  | ≥ 100000       | 0,55 %   |              |        |         |        |

Resource: [7]

It is noticed from the table 3 to increase the sum of passive operation the percentage dividend will increase too. If the sum of deposit is to 25000 RON than after deposit agreement maturity the client will earn 1,35 % from an initial deposit amount. If the sum is more 25000 RON the percentage rate is 1,45 %. It builds economic incentive for depositors or clients with valid saving accounts.

Term deposit rates for companies with a turnover higher than 2 million EUR are the same as for physical persons and legal entities (table 4). At the same time there are established limits for opening overnights accounts 50000 RON and 15000 EUR. Overnight percentage rate is renewed ever year by the Treasury Department.

*Table 4*

**Deposits for corporations**

| Companies with a turnover higher than 2 million EUR |                   |  |              |        |         |         |
|---|-------------------|--|--------------|--------|---------|---------|
| Currency  | OVERNIGHT ACCOUNT |  | TERM DEPOSIT |        |         |         |
| RON   | Min 500000        | Interests set by the Treasury Department | Amounts      | 1 year | Amounts | 2 years |
|   |                   |  | < 25000      | 1,35 % | < 25000 | 1,45 %  |
|   |                   |  | > 25000      | 1,45 % | > 25000 | 1,50 %  |
| EUR   | Min 15000         |  | < 5000       | 0,15 % | < 5000  | 0,15 %  |
|   |                   |  | > 5000       | 0,20 % | > 5000  | 0,20 %  |

Resource: [3, 7-8]

In addition, the bank offers cash management for Small and medium-sized (SME) enterprise concludes: the cash concentration service, the SWIFT MT940

Statement of Account service, The SWIFT MT101 request for transfer, Direct Debit and collection management, payment agent, OTP Trezor, value transportation, assets security deposit, escrow account. There is quick loan for working capital, credit line for companies, short-term cash loan, multi – currency, borrower, use loan limit, non-cash account limit for letters of credit, cash account limit, investment loan for SME.

There are tools for deducing foreign exchange risk, a volatility and more efficient planning. Namely, FX SPOT Transaction – using of real-time foreign exchange rate quoted through OTP Trader. FX Forward Transaction - freezing FER for a later date. FX Swap Transaction – setting pre-specified rate in the future. Call option – a right to buy foreign currency at a strike price at an expiry date, client has to pay a premium on a transaction day. Put option – a right to sell foreign currency. FX Tunnel foreign exchange rate strategies – guaranteeing a min and max foreign exchange rate tunnel. Derivative and investment products: dual currency deposit is short-term deposit that guarantees higher interest rate due to a conversion risk. Government securities are represented certificates – short-term investment, a yield set between a purchasing price and nominal value and obligations – middle-term investments, holder gets the nominal value and interest called ‘coupon’.

There is option for a receivables financing: commercial factoring. OTP Bank of Romania is a participant of FCI (Factors Chain international) what expertise creditworthiness for partners outside of Romania and do fast collection of receivables due to specialized person from country of business partner. The OTP Bank Romania uses payment documents such as payment order, payment order in foreign currency and declaration of external payment.

The bank makes special credit offers for an agro sector because it’s profitable and developed business filed in Romania. Many individual business, SME and corporations are involved in an agro business and get from state organizations a support such as payments from APIA (Agriculture payment and intervention agency), subsidies for beneficiaries of SAPS (Single Area Payment Scheme).

OTP Bank issues Balance sheet, Profit and Loss account, Loan Quality, Performance indicators, FX rates from OTP Bank Romania Annual report 2017. The

bank posted HUF 3.0 billion net profit in 2017 (+83% y-o-y) [9]. It happened because of increasing of operating profit (+9%), total income (+ 2%), other non-interest profit (+39%) and reducing of operation expenses (- 2%). Net interest income and net fees and commissions decreased to (-3% and -5%). It may have happened due to a minor growth, only +5% of Gross customer loans (FX-adjusted). In 4Q accounting corrections occurred influencing several P&L lines; the total negative impact of these corrections was HUF 0.8 billion, thus the after tax profit declined by 22% q-o-q. The annual operating profit advanced by 9% y-o-y as a result of 2% higher total income and 2% lower operating expenses. Total risk costs moderated by 16% y-o-y. The performing FX-adjusted loan portfolio grew by 10% y-o-y supported by strong lending activity in the consumer and corporate segment [10].

**Conclusions.** To sum up, macroeconomic indicators confirm stability of Romanian economy. Economic stability stimulates a growth of banking. Financial Sector Assessment Program based on «Basel Core Principles for Effective Banking Supervision» set strategic goals and direction of development Romanian banking system. The most perspective banking customers are private sector because it shows high borrowing potential. OTP bank of Romania takes robust position on a finance market. The bank has a lot of units in Romania. It pays a lot of attention to business reputation of its counterparty to protect own liquidity. The OTP Bank tries to respond on market demand and offer wide range of bank products. The financial institution tries to involve more clients to internet banking, charging higher percentage rates for deposits there. Depositors are protected because the bank forms a fund under deposits to cover risks. There are options for protecting from foreign exchange risk. Legal entities have access to financing receivables through commercial factoring. The bank has chosen agribusiness as priority direction because it's efficient economy field in Romania. As a result, clients of OTP bank can use subsidies of Agriculture payment and intervention agency for getting loans. The OTP Annual Report has shown that bank is profitable and liquid.

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УДК 336.77.067.22

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## **РОЛЬ ТА ЗНАЧЕННЯ КРЕДИТНОЇ ПОЛІТИКИ В РОБОТІ КОМЕРЦІЙНОГО БАНКУ**

**Анотація.** У статті наукові підходи до визначення сутності економічної категорії «кредитна політика комерційного банку». Встановлено, що кредитування є ключовою сферою діяльності кожної банківської структури. Досліджено роль кредитної політики в ефективній роботі комерційного банку. Визначено принципи, на яких повинна базуватися ефективна кредитна політика

**Abstract.** The article deals with the scientific approaches to the definition of the essence of the economic catep of the "credit policy of the Composite Bank". It is established that lending is a key area of activity of each banking structure. The role of credit policy in effective work of a commercial bank is explored. The principles on which the effective credit policy of the bank should be



банку. Окреслено структурні елементи кредитної політики. Підтверджено, що кредитна політика розробляється з урахуванням потреб населення в банківському обслуговуванні, стану економіки країни, рівня інфляції, темпів зростання ВВП, втручання державних органів влади, рівня доходів населення тощо. Доведено, що забезпечувати управління кредитною діяльністю банку та формування оптимального для нього кредитного портфеля дає можливість кредитна політика.

**Ключові слова:** банківська установа; банківські послуги; комерційний банк; банківська система; кредит, кредитування, кредитний ринок, кредитний портфель, кредитна політика.

based are determined. Structural elements of credit policy are outlined. It has been confirmed that a good policy will come with the safeguarding of consumer confidence in banking, the state of the economy, the level of inflation, the timing of GDP growth, the training of dagggers of power, the level of income of the population, and others like that. It is proved that providing credit management activities of the bank and forming an optimal loan portfolio for it provides an opportunity for credit policy.

**Keywords:** banking institution; banking services; a commercial bank; banking system; credit, lending, credit market, loan portfolio, credit policy.

**Вступ.** В умовах ринкової економіки, коли розвиток банківського сектора відбувається під впливом жорсткої конкуренції, банки для забезпечення свого розвитку не тільки здійснюють традиційні банківські операції, як відкриття депозитів, проведення розрахунків, але і суттєво розширяють лінійку банківських послуг як для корпоративних клієнтів, так і для населення. Нині кредитні організації являються одними з провідних учасників ринку валюти та фондового ринку, пропонують клієнтам різноманітні види абсолютно нових банківських продуктів, які постійно розширюються в зв'язку з розвитком інноваційних технологій. Для обґрунтованого, раціонального та ефективного використання всіх елементів кредитного механізму банками має розроблятися відповідна кредитна політика, оскільки від неї залежить успішна діяльність банку у довгостроковій перспективі [1, с. 587].

Наразі, кредитний ринок України є ключовим елементом фінансового ринку, метою якого є активна мобілізація фінансових ресурсів реального сектору економіки. Як свідчить банківська статистика, кредити становлять близько 60 % всіх активів банку і забезпечують 2/3 усіх доходів [2]. Вони є найбільш прибутковою, але й найбільш ризиковою частиною банківських активів. Управління кредитною діяльністю банку є одним із основних напрямків досліджень у банківських установах, адже кредитування завжди було й залишається пріоритетною функцією банків. Основою фінансової