FINANCE, MONEY AND CREDIT IN UKRAINE

Classification of revenues and expenditures in historical formations

Social order	Income	Expenses
In precapitalist formations		
Primitive community	There was no state. That`s why there is no talk about finance.	
Slave and feudal	Domains (proceeds from state property); regalia (monopoly right of the monarch to certain trades and trade in certain goods); military booty, tribute from the conquered peoples; inkind and monetary fees and duties; toll; loans.	For wars; for the maintenance of the monarchical court; for the maintenance of the state apparatus; For construction public buildings (temples, canals, irrigation systems, roads, water mains, etc.).
In capitalist formations		
In the end of XIX century	The main source were taxes, mostly indirect.	For military needs; repayment of public debt and interest thereon; maintenance of the state apparatus (parliament, ministry, police, etc.); education, health care.
The first half of the XX century	Taxes, fees, charges.	For the country's defense capabilities; for the protection of private property; freedom of enterprise; law and order.
After World War II	The share of taxes as the main tool for the redistribution of national income is increasing.	Social spending (education, health, social security) has increased. Expenditures on state intervention in the economy (capital investments in electricity, coal, gas and other industries). Expenditures on STP, support of enterprises in the struggle on the world market (export premiums). There are new costs for: environmental protection, overcoming the economic backwardness of certain areas, providing subsidies and loans to developing countries.

Functions of finance

FUNCTIONS OF FINANCE

Distributive

Manifests itself in the distribution of national income, in the form of the formation of funds and their use for its intended purpose.

Control

Manifests in the control over the distribution of gross domestic product by the relevant funds and their use for intended purpose.

Stages of realization of the distributive function of finance

Stages of implementation the distribution function of finance:

1. Primary distribution

Primary distribution the distribution of value added and the formation of primary incomes of entities involved in the creation of GDP. The primary income at this stage are:

- ✓ for individuals wages,
- ✓ for legal entities profit.

The primary distribution of business entities (legal entities) begins with the distribution of revenue received by the company for products, works and services. The funds are used to cover material costs, wages, the formation of a depreciation fund. After that the company settles with the state in the form of taxes to the budget, contributions to state trust funds of social insurance.

2. Secondary distribution (redistribution)

Redistribution is the creation and use of centralized funds, which are the state budget, local budgets, state trust funds. Redistribution is the final stage of the distribution function of finance and involves the use of centralized funds to develop the state's performance of its functions:

- ✓ administrative (maintenance of the President, the Verkhovna Rada, the Cabinet of Ministers, other central executive bodies),
- ✓ defense (ensuring the defense capability and protection of state borders),
- ✓ economic (support for priority sectors of the economy; maintenance of general purpose roads, public investment projects, etc.),
- ✓ social (education, science, health, social protection, development of physical culture and sports, sociocultural activities, etc.).

The end result of the redistributive cycle is that one part of the redistributed monetary resources through the budget financing mechanism again enters the sphere of material production to start a new cycle of primary distribution with further redistribution, and the other part in the sphere of consumption (education, science, culture, health , public administration, defense, etc.).

Sources of formation and directions of using financial resources

Macroeconomic level	Mesoeconomic level	Microeconomic level
Formation sources of financial resources		
✓ tax revenues (national and local taxes and fees); ✓ nontax revenues (fees for permits, licenses, administrative services of public authorities, etc.); ✓ income from capital transactions (privatization of state property, sale of land, etc.); ✓ revenues of state and municipal enterprises; ✓ income from foreign economic activity of the state; ✓ issue of money; ✓ income from the issue of securities.	✓ profit; ✓ depreciation deductions; ✓ loans; ✓ dividends on securities.	✓ salaries of individuals, other payments and rewards, pensions, scholarships; ✓ income from the sale of property and nonproperty rights, from the lease of property; ✓ passive income (interest on deposits, dividends); ✓ income in the form of state and social material assistance (state assistance in the form of targeted payments and the provision of social and rehabilitation services, housing and other subsidies, maternity benefits, etc.); ✓ income in the form of winnings, prizes.
Areas of use of financial resources		
✓ financing of the nonproductive sphere; ✓ foreign economic activity; ✓ creation of reserves; ✓ environmental protection; ✓ defense and government; ✓ development of the national economy.	✓ development of the business entity; ✓ solving social issues; ✓ material incentives for employees; ✓ creation of a reserve fund.	✓ livelihood (clothing, food, housing, etc.); ✓ professional development (education); ✓ improving living conditions (furniture, cars, cottages); ✓ protection against risks (insurance, technical protection, etc.).

Methods of forming financial resources

Methods of forming financial resources:

Required:

- taxes
- capitation
- mandatory payments

Voluntary:

- government issue of domestic government bonds (IGLBs)
- issuance of other securities by the state
- conducting state lotteries
- voluntary donations of individuals and legal entities, etc.

Methods of distribution of state monetary resources

Distribution method	Characteristic
Budget financing	Maintenance of budgetary institutions (non-refundable, gratuitous, targeted, planned release of funds from the budget carried out on the basis of approved financial plans of the budgetary institution).
Budget subsidy	Gratuitous, non-refundable assistance from one budget to another budget, which is not targeted and is provided in case of excess of expenditures over revenues.
Subsidy to the enterprise	Assistance provided to enterprises to cover losses due to reasons beyond their control.
Subventions	Transfers from a higher-level budget to a lower-level budget for a specific purpose in the manner determined by the authority that decided to grant the subvention.
Subsidies	Targeted financial assistance to legal entities and individuals provided by the state at the expense of the budget.
Public credit	Allocation of funds on the basis of purpose, payment, timeliness and return.

The essence of the financial system

FINANCIAL SYSTEM

According to the internal structure	By organizational structure
a set of relatively separate and interconnected areas and links that reflect the specific forms and methods of financial relations.	a set of financial bodies and institutions that manage cash flows in the economy and characterize the financial management system in the country.

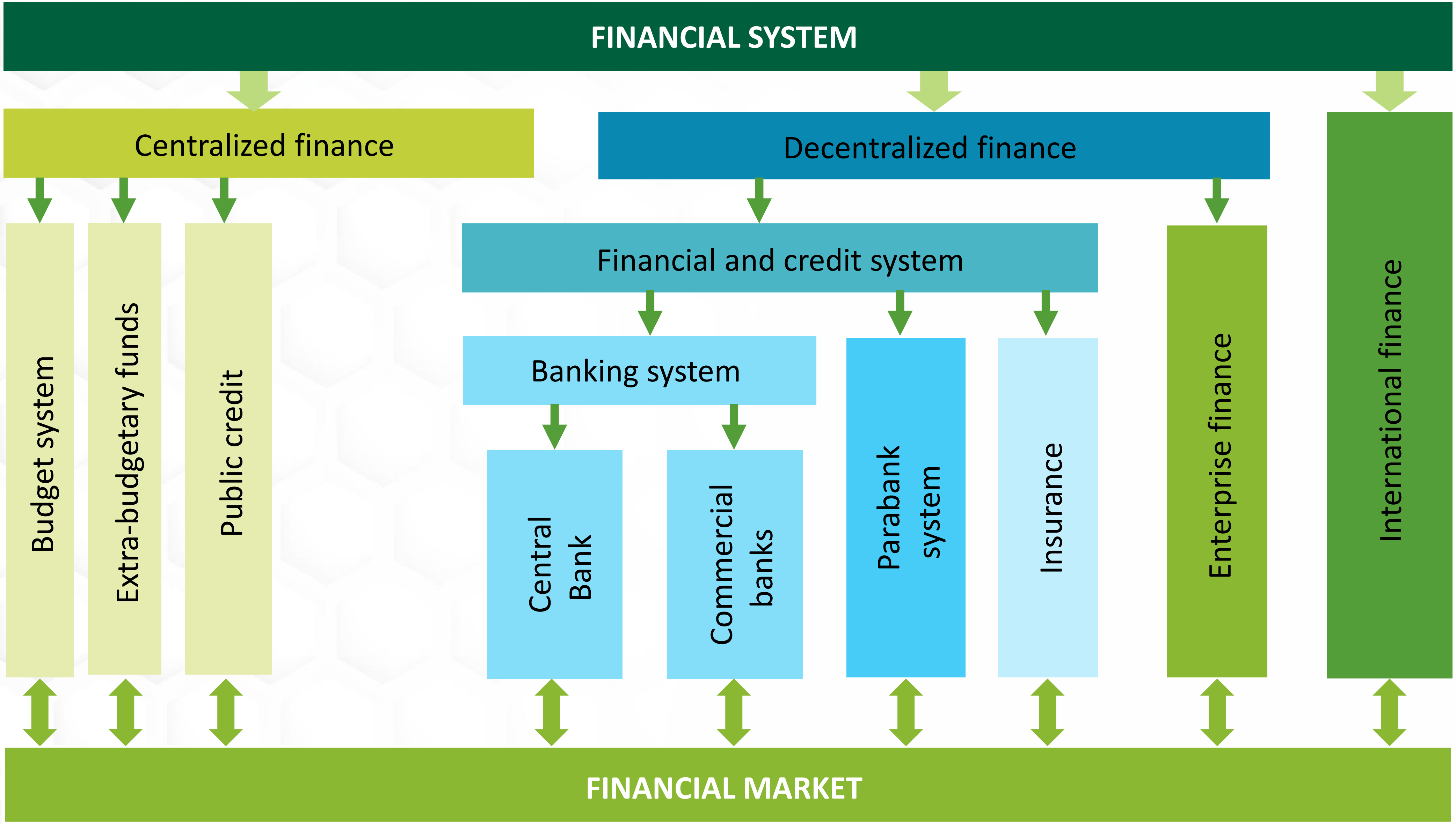
Areas of the financial system depending on the level of the economic system

	Areas of the financial system
Level of macroeconomics	State (public) finance
Level of microeconomics	Finance of business entities
Level of mesoeconomics	Population finance
World economy level	International finance

Areas and links of the financial system

Spheres	Links
State (public) finances	✓ state budget system; ✓ extra-budgetary funds; ✓ public credit; ✓ public sector finance.
Finance of business entities	✓ finances of enterprises operating on a commercial basis; ✓ finances of institutions and organizations engaged in non-profit activities.
International finance	✓ finance of international organizations; ✓ finance of international institutions; ✓ international financial relations.
Financial market	✓ money market; ✓ capital market;
Insurance	✓ social insurance; ✓ property insurance; ✓ personal insurance; ✓ liability insurance; ✓ financial risk insurance.

The structure of the financial system



The structure of the financial mechanism

THE FINANCIAL MECHANISM

Financial methods	Financial levers	Legal support	Regulatory support	Information support
Planning Prognostication Financing Investment Lending Taxation Insurance Rent Leasing Factoring Trust transactions Material stimulation Mortgage transactions Transfer operations Fund formation	Profit Income Depreciation deductions Discount Price Rent charge Dividends Interest rates Financial sanctions Trust economic funds Deposits Share contributions Investments Preferences Types of loans Franchise Exchange rates	Constitution of Ukraine Laws Resolutions of the Verkhovna Rada Presidential decrees Government decrees Orders and instructions of ministries and departments Charter of a legal entity	Instructions Standards Norms Methodical instructions Other regulatory documentation	Statistical Economic Financially Commercial Other information

Forms of entrepreneurial activity in Ukraine

Entrepreneurial activity in Ukraine can be carried out as:

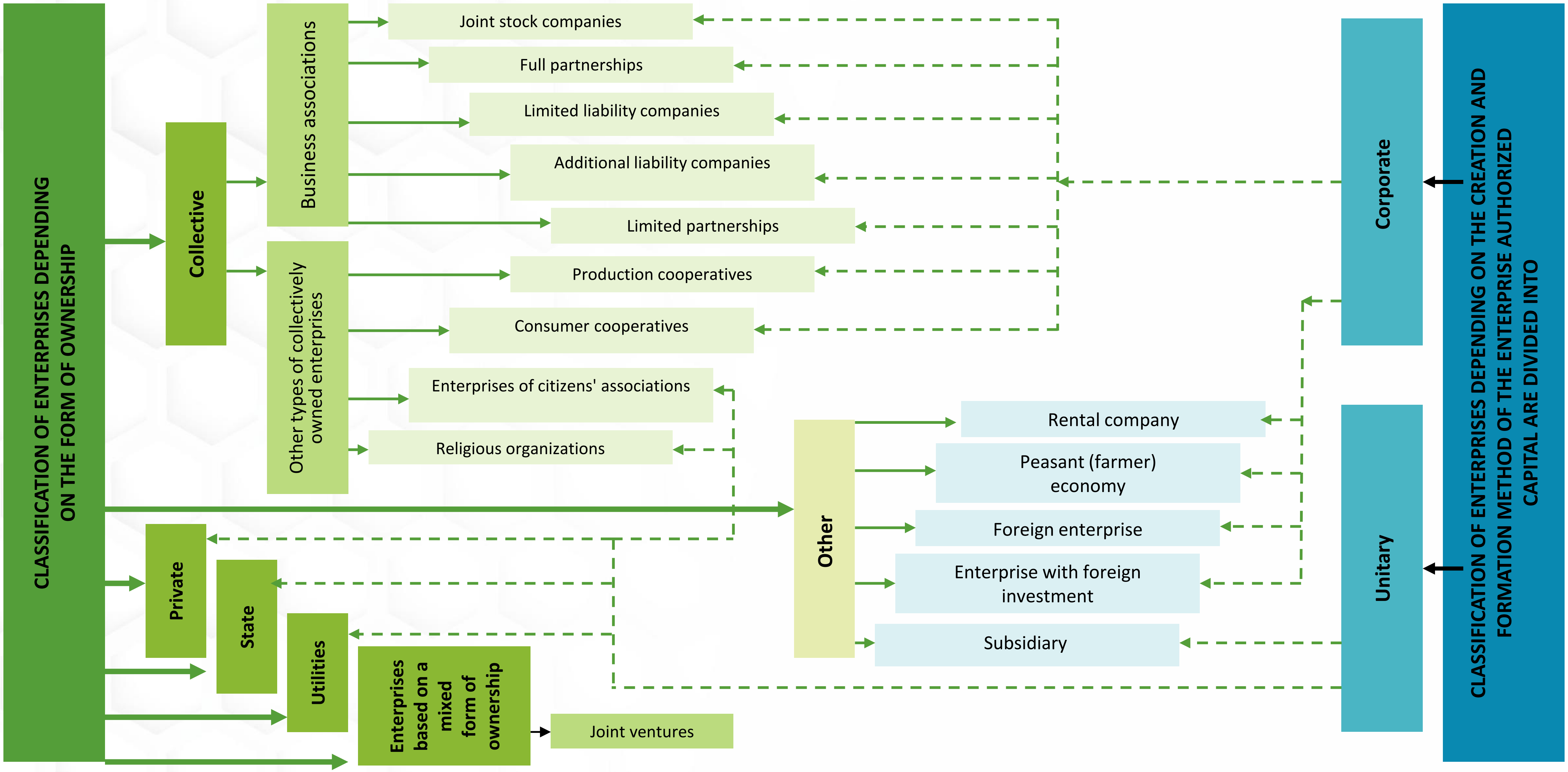
Individual — private entrepreneur (FOP)

citizen in case of business activity subject to state registration as an entrepreneur without the status of a legal entity.

A legal entity

an organization that has separate property may acquire property and personal non-property rights on its own behalf and bear the obligation, be a plaintiff and defendant in cour.

Classifications of enterprises according to the Economic Code of Ukraine



Distributive function of enterprise finance

DISTRIBUTION FUNCTION

CONTENT

Formation and use of monetary funds, maintaining an effective capital structure of the enterprise and commercial organization.

MANIFESTATION

Manifested in:

- ✓ distribution of sales revenue (primary distribution);
- ✓ distribution of the wage and profit fund (secondary distribution).

DIRECTION

- ✓ creation of funds that provide funding for programs adopted for implementation;
- ✓ maintaining the optimal capital structure;
- ✓ minimizing the risk of bankruptcy.

Control function of enterprise finances

CONTROL FUNCTION

CONTENT

Control over real money circulation (production, distribution and use of the created product).

MANIFESTATION

Manifested in:

- ✓ the form of control over changes in financial indicators, the state of payments and settlements;
- ✓ the form of control over the implementation of the financing strategy by identifying the compliance degree of the received income, the structure of cash funds to the planned task of expanding production and sales.

DIRECTION

Promoting the efficiency of funds in enterprises by mobilizing internal resources and their targeted use.

The procedure for calculating net income

Net income from sales of products

- cost of production

↓

Gross profit (loss)

+ other operating income	- administrative expenses	- selling expenses, other operating expenses

↓

Financial result from operating activities (profit / loss)

+ income from equity participation, (other financial income,other income).	- financial losses from equity participation,(other expenses).

↓

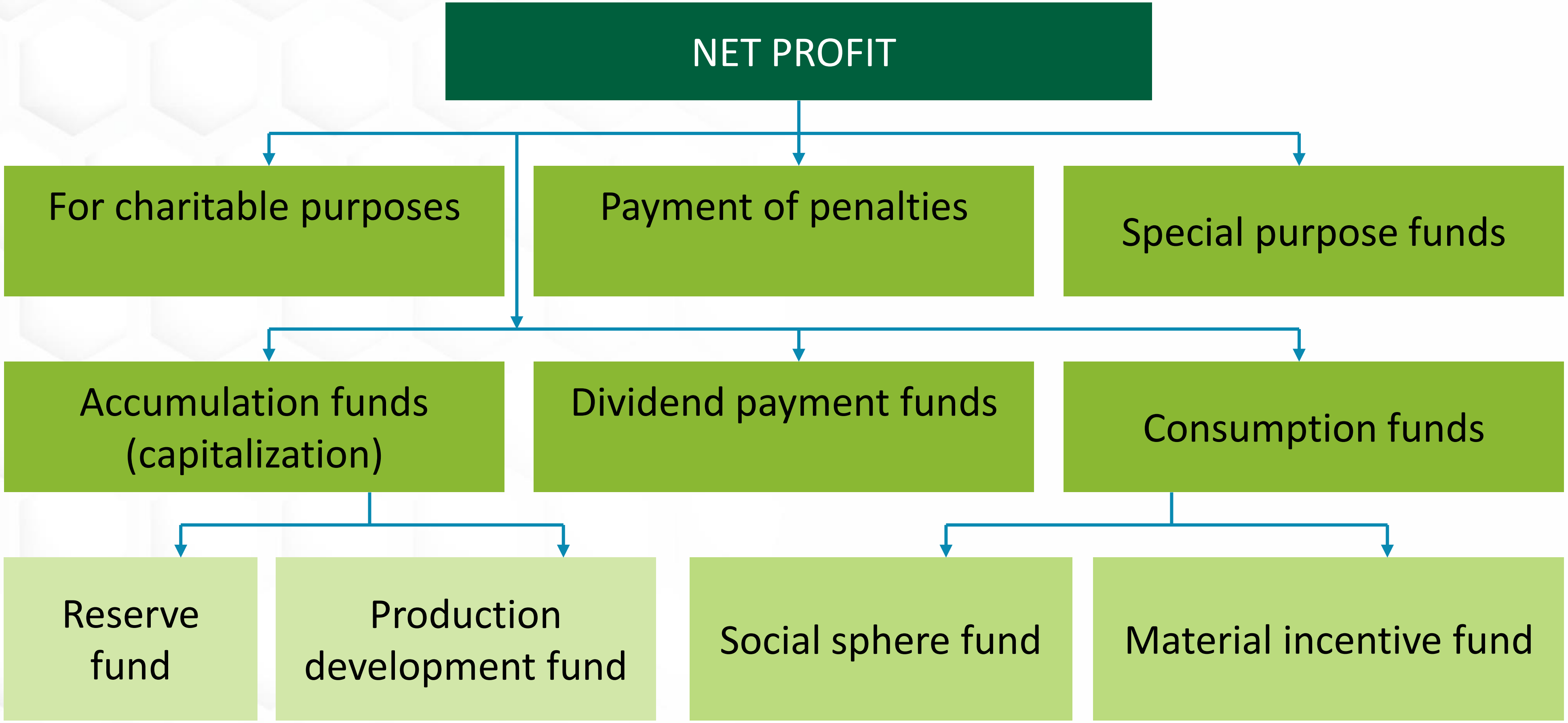
Pre-tax financial result (profit / loss)

- income tax

↓

Net financial result (profit / loss)

Distribution of net profit of the enterprise



Sources of income generation

Formation sources of population income:	Wages, allowances, financial assistance
	financial assistance from relatives and other persons
	income from entrepreneurial activity and self-employment
	income from the sale of real estate, personal and household property, livestock, personal subsidiary products and products obtained by self-procurement
	income from the lease of property
	interest on capital invested in bank deposits, securities
	social transfers (pensions, scholarships)

The composition of the employee's salary

WAGES

are remuneration calculated, as a rule, in monetary terms, which under the employment contract the owner or his authorized body pays to the employee for the work performed by him

BASIC

Remuneration for work performed in accordance with established labor standards (standards of time, production, maintenance, job responsibilities). The basic salary is set in the form of tariff rates (salaries) and piece rates for workers and salaries for employees.

ADDITIONAL

Remuneration for work above the established norms, for labor success and ingenuity, for special working conditions. It includes surcharges, allowances, guarantee and compensation payments provided by law; bonuses related to the performance of production tasks and functions, bonuses for anniversaries, inventions and innovation proposals, etc.

OTHER INCENTIVE AND COMPENSATION PAYMENTS

Remuneration based on the work results for the year, bonuses under special systems and regulations, compensation and other monetary and material payments that are not provided by acts of current legislation or are carried out in excess of the norms established by these acts.

Motives for savings

MOTIVES FOR HOUSEHOLD SAVINGS:

transactional motive

purchase of expensive goods and services, the payment of which exceeds the currently available amount of funds (purchase of real estate, cars, travels).

the motive of prudence

unforeseen expenses (expenses for treatment, funeral, illness, accident, loss of job), expenses for future periods (wedding, education, retirement).

motive of capitalization of income

savings for profit (example: purchasing securities to make a profit in the future by increasing their face value).

the habit of saving money

tendency to accumulate as an end in itself.

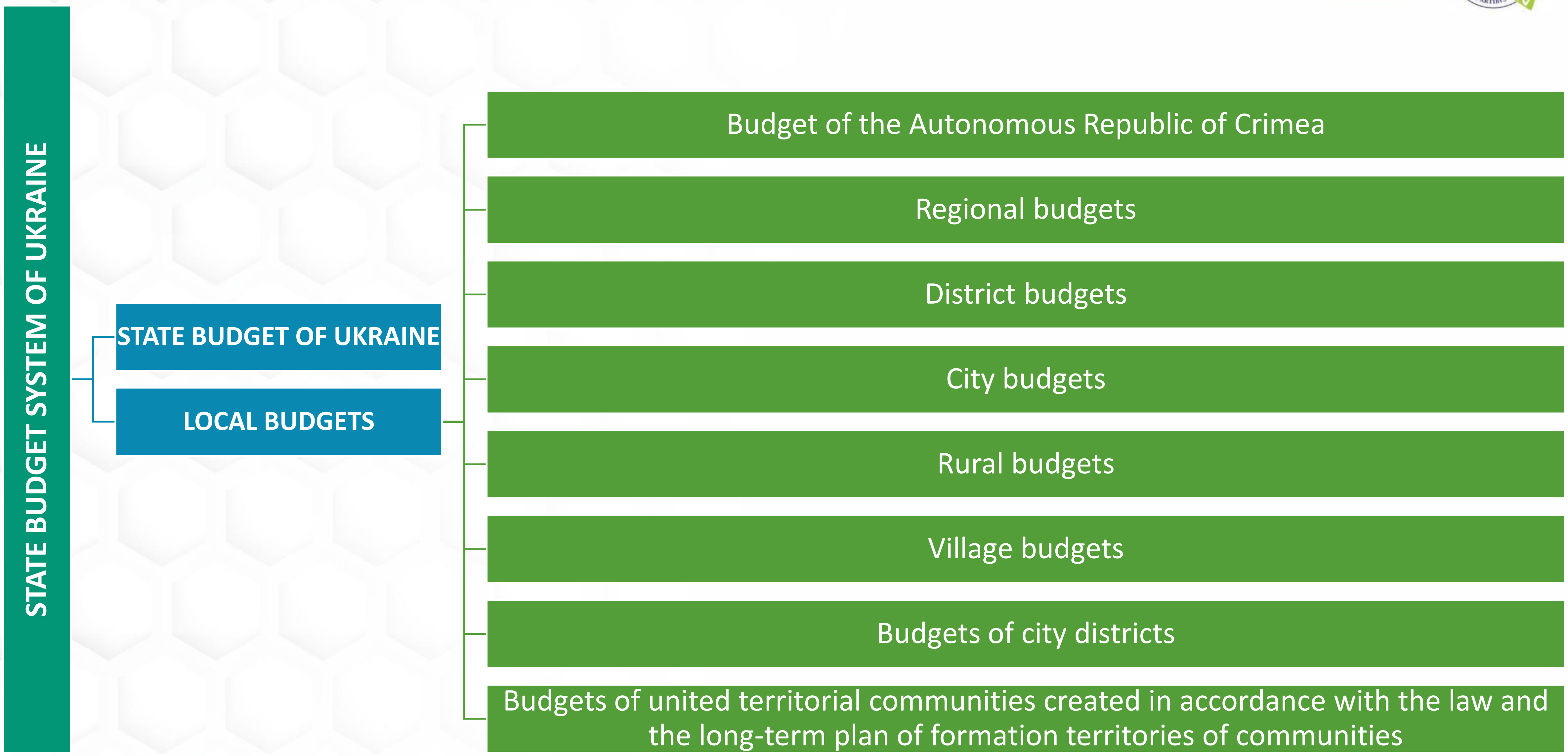
Advantages and disadvantages of forms of savings

Form	Advantages	Disadvantages
Cash in national currency	High level of liquidity	The real value of savings of the national currency in cash tends to decrease under the influence of inflationary price increases.
Cash in foreign currency	High level of liquidity	Foreign currency is also an unstable financial asset. For example: the euro exchange rate significantly depends on the financial problems of individual EU countries; the exchange rate of the US dollar depends on US policy on the dollar mass outside the country.
Deposits	Return on deposits	May bring a loss, as the result on deposits in national currency depends on the dynamics of inflationary growth of prices; on deposits in foreign currency - on the dynamics of the exchange rate.
Bank metals	There is a tendency to increase their value	Low liquidity, bank metals are sold only in the form of ingots, which not every citizen can afford to buy.

Definition of the state budget

In essence of the economic category	these are monetary relations which are shown between the state and the enterprises, establishments, the organizations, physical persons concerning formation of fund of money resources and its use on the expanded reproduction.
By the material content	it is a centralized fund of state funds that are in constant motion.
By form of manifestation	this is the main financial plan of the state.
By organizational structure	it is the central link of the state financial system, which determines the distribution and redistribution of GDP.
By nature	it is a mandatory document in the form of law.

The composition of the budget system of Ukraine



Principles of building a budget system

Principle	Characteristic
Unity	provided by a single legal framework, a single monetary system, a single regulation of budgetary relations, a single budget classification, the unity of the order of budget execution and accounting and reporting.
Independence (autonomy)	each budget is assigned the appropriate sources of revenue, the relevant state authorities, the ARC authorities and local governments have the right to determine the use of the relevant budget. The state is not responsible for the obligations of the ARC authorities and local governments with the state budget. The authorities of the Autonomous Republic of Crimea and local self-government are not responsible for the obligations of each other and the state.
Balance	the authority to implement budget expenditures should correspond to the amount of budget revenues for the relevant budget period.
Validity	the budget should be formed on realistic macro indicators of economic and social development on the basis of calculations of receipts and expenses carried out according to the approved methods and rules.
Efficiency and effectiveness	all participants in the budget process should strive to achieve the planned goals by ensuring the quality of state-guaranteed services, attracting the minimum amount of budget funds and achieving the maximum result when using the amount of budget funds.

Principles of building a budget system

Principle	Characteristic
Subsidiarity	the distribution of expenditures between the budgets of different levels should be based on the maximum possible approximation of the provision of guaranteed public services to their direct consumer.
Targeted use of budget funds	budget funds should be used exclusively for the purposes specified in the budget allocation.
Justice and impartiality	Ukraine's budget system is based on the principles of justice and impartial distribution of social wealth between citizens and territorial communities. The possibility of obtaining education or access to social protection and health care should not depend on the region of residence of the citizen and the tax capacity of this region.
Publicity and transparency	informing the public on the preparation, consideration, approval, implementation of the state budget and local budgets, as well as control over the implementation of the state budget and local budgets. Approved State Budget of Ukraine and local budgets as well as reports on their implementation shall be published in the media.

Stages of the budget process

STAGES OF THE BUDGET PROCESS IN UKRAINE

1
- Drafting budgets

2
- Consideration and adoption of the law on the state budget and decisions on local budgets

3
- Execution of budgets

4
- Preparation and consideration of the report on budget execution

Control is exercised at all stages of the budget process

The role of participants in the budget process in drafting the budget

Validity	The role of participants
Until March 1	The Ministry of Economic Development and Trade submits to the Ministry of Finance of Ukraine indicative main forecast macro indicators of economic and social development of Ukraine; The High Council of Justice submits to the Cabinet of Ministers of Ukraine proposals on the priority tasks of financial support of the judiciary and its independence.
Until March 15	The National Bank of Ukraine (NBU) submits to the Verkhovna Rada, the Cabinet of Ministers of Ukraine and the President forecast monetary and exchange rate indicators for the next year and the next two budget periods, including the hryvnia exchange rate. The Ministry of Finance of Ukraine determines the overall level of revenues, expenditures and lending to the budget and estimates the amount of budget funding for the draft budget.
Until March 20	The Ministry of Finance of Ukraine together with other central executive bodies develops a draft of the Main Directions of Budget Policy for the next budget period and submits it to the Cabinet of Ministers of Ukraine.
Until April 1	The Cabinet of Ministers of Ukraine considers, approves and submits (within three days) to the Verkhovna Rada of Ukraine: 1) the draft Main Directions of Budget Policy for the next budget period; 2) forecast of the State Budget of Ukraine for the next two planned budget periods.
Until June 1	The Verkhovna Rada holds parliamentary hearings on budget policy for the next budget period, at which the Prime Minister or the Minister of Finance, on his behalf, reports. Following the parliamentary hearings, the Verkhovna Rada adopts a Resolution on approval or taking note of the Main Directions of Budget Policy.
Until September 15	The Cabinet of Ministers of Ukraine adopts a resolution approving the draft law on the State Budget of Ukraine and submits it together with the relevant materials (explanatory note to the draft law on the State Budget of Ukraine) to the Verkhovna Rada of Ukraine and the President of Ukraine.

The role of participants in the budget process in the consideration and adoption of the law on the State Budget

Validity	The role of participants
Until October 1	The Verkhovna Rada committees formulate their proposals on the draft law on the state budget for the next budget period and submit them to the Budget Committee.
Until October 15	The Budget Committee prepares Conclusions and proposals on the draft law, which the Verkhovna Rada staff informs MPs.
Until October 20	The Verkhovna Rada must adopt the Law in the first reading.
Until November 3	The Cabinet of Ministers is finalizing the draft Law taking into account the Budget Conclusions and submitting it to the Verkhovna Rada in the 2nd reading.
Until November 20	The Verkhovna Rada must adopt the Law in the 2nd reading.
Until November 25	The Budget Committee is finalizing the draft law and submitting it for the 3rd reading.
Until December 1	The Verkhovna Rada must adopt the Law in the 3rd reading.

The role of participants in the third stage of the budget proce

Stage III of the budget process

BUDGET EXECUTION

LAW OF UKRAINE "ON THE STATE BUDGET OF UKRAINE"

Ministry of Finance of Ukraine

Budget painting

State Fiscal Service

Control over the correctness of accrual and payment of taxes and fees to the budget by individuals and legal entities.

State Treasury Service of Ukraine

Execution of the budget by revenues:

- checking the correctness of crediting revenues to the accounts of the Treasury;
- accounting for budget revenues.

Execution of the budget by expenditures:

- issuance of payment orders to banking institutions for the transfer of funds from the accounts of the Treasury to the accounts of fund managers or business entities;
- accounting for budget expenditures.

State Audit Office

Control over the use of budget funds.

Payers of taxes and fees

Payment of taxes and fees to the budget to the accounts of the Treasury.

Managers, recipients of budget

Receipt of budget funds in accordance with the approved budget and allocation plan.

The essence of taxes

TAXES

- **On the economic essence** → Financial relations between the state and taxpayers for the forced alienation of part of the newly created value in order to form centralized funds of monetary resources necessary for the state to perform its functions.
- **By form of manifestation** → The actual amount of money mobilized by the state. Forms of manifestation are the type of tax, fee, deductions, collection.
- **By organizational and legal properties** → Obligatory payments paid by legal entities and individuals to the state or local budget in the manner and within the time limits provided by applicable law.

Classification of taxes

Sign of classification	Types	Characteristic
On the economic basis of the object of taxation	Income and profit taxes	Are levied on the income of individuals and legal entities.
	Consumption taxes	Are paid not when receiving income, but when using it.
	Property taxes	Are charged due to the presence of movable or immovable property.
On the form of taxation	Direct	Are set directly on the payer, and their amounts depend on the size of the object of taxation.
	Indirect	Are set in the prices of goods and services and are paid at the expense of a price surcharge, which means that end consumers of goods and services are taxed.
On the basis of public authorities	National	Are mandatory for payment throughout the territory.
	Local	Established by decisions of local self-government bodies (village, city councils and councils of associations of territorial communities), from the list and within the limits of the rates established by the tax code, and are obligatory for payment in the territory of relevant territorial communities.

Division of taxes national and local, direct and indirect

On the basis of public authorities	Type of tax	By form of taxation
National taxes and fees	Vat	Indirect Taxes
	Excise tax	
	Toll	
	Corporate income tax	Direct Taxes And fees
	Income tax	
	Environmental tax	
	Rent	
	Military tax	
Local taxes and fees	Property tax	
	Single tax	
	Fee for parking spaces for vehicles	
	Tourist tax	

Classifications of the budget deficit

Feature	Types	Characteristic
Form of manifestation	Open	Officially recognized in the budget law
	Hidden	Not officially recognized, manifested in the overestimation of planned revenues, the inclusion in the income of sources of budget deficit.
Causes of occurrence	Forced	As a consequence of lack of financial resources in the state, low level of GDP production.
	Conscious	As a consequence of the financial policy of the state, a conscious reduction in taxation to stimulate the economy.
Areas of deficit financing	Active	Through the allocation of funds to economic development for further GDP growth.
	Passive	To cover current expenses.

Causes of budget deficit

The main reason for the budget deficit is the lag in the growth rate of budget revenues compared to the growth of budget expenditures.
The specific reasons for this lag are due to:

- excessive growth of social spending
- growth of domestic and external public debt
- extraordinary circumstances (wars, epidemics, large-scale natural disasters)
- excessive spending on public administration
- inefficient mechanism of taxation of business entities
- the need for significant public investment in economic development in order to restructure it
- weak financial control by the state over the targeted and efficient use of budget funds
- crisis phenomena in the economy, accompanied by a decline in production, reduced efficiency of certain industries, inflation

Methods of public debt management

Methods	Characteristics
Conversion	Unilateral change in the yield on loans, when the state declares a reduction in creditors' yield on loans received by the state. It can be caused by a change in the situation on the financial market, when the NBU discount rate changes.
Consolidation	Changing the terms of the loan in terms of maturity, transferring obligations under the previously obtained loan to a new loan in order to extend the term of the loan.
Deferment of repayment	Postponement of the payment date of the debt to a later date.
Unification	Combining several loans into one. Bonds and certificates of previously issued loans are exchanged for bonds and certificates of new loans.
Exchange of bonds by regression ratio	Several bonds of the previous issue are equated to one new bond in order to reduce public debt.
Debt cancellation	Waiver of the state of its obligations.

Principles of public debt management

PRINCIPLES OF PUBLIC DEBT MANAGEMENT

Debt structure optimization involves optimization in terms of turnover and repayment.

Minimizing risks involves diversifying source and reducing the impact of market conditions.

Transparency requires openness and full transparency in determining the appropriateness of borrowing, access to reliable information, maintaining a high credit reputation and credit rating.

Unconditionality involves ensuring the unconditional fulfillment by the state of all obligations to investors and creditors.

Maintaining financial independence involves ensuring the optimal structure of debt — internal and external.

Minimizing the value of public debt involves minimizing the cost of servicing and repaying it.

The essence of the financial market

FINANCIAL MARKET

On the economic essence.	It is a set of economic relations associated with the allocation of financial resources, purchase and sale of temporarily free cash and securities required for production and financial activities.
In organizational terms.	It is a set of market financial institutions that accompany the flow of funds from owners of financial resources to borrowers.

Financial market participants

Participants	Role
Individuals	Perform the role of an investor in the market when purchasing securities (savings that can be transformed into investments which is a source of economic growth of the state) or borrowing money in the credit market.
Entities	The main source of financing for them are bank loans, other types of loans, bonds and stocks.
The state as public authorities	Performs the function of regulating the financial market and also acts as a borrower in the financial market (regularly placing its debt obligations on foreign and domestic markets) and as an investor. The state regulates the financial market by the national commission on securities and stock market and the national commission for regulation of financial services markets.
Financial institutions	Represented by investment funds, commercial banks, credit unions, pension funds, insurance and investment companies, stock exchanges, etc.

Functions of the financial market

Mobilization of temporarily free financial resources

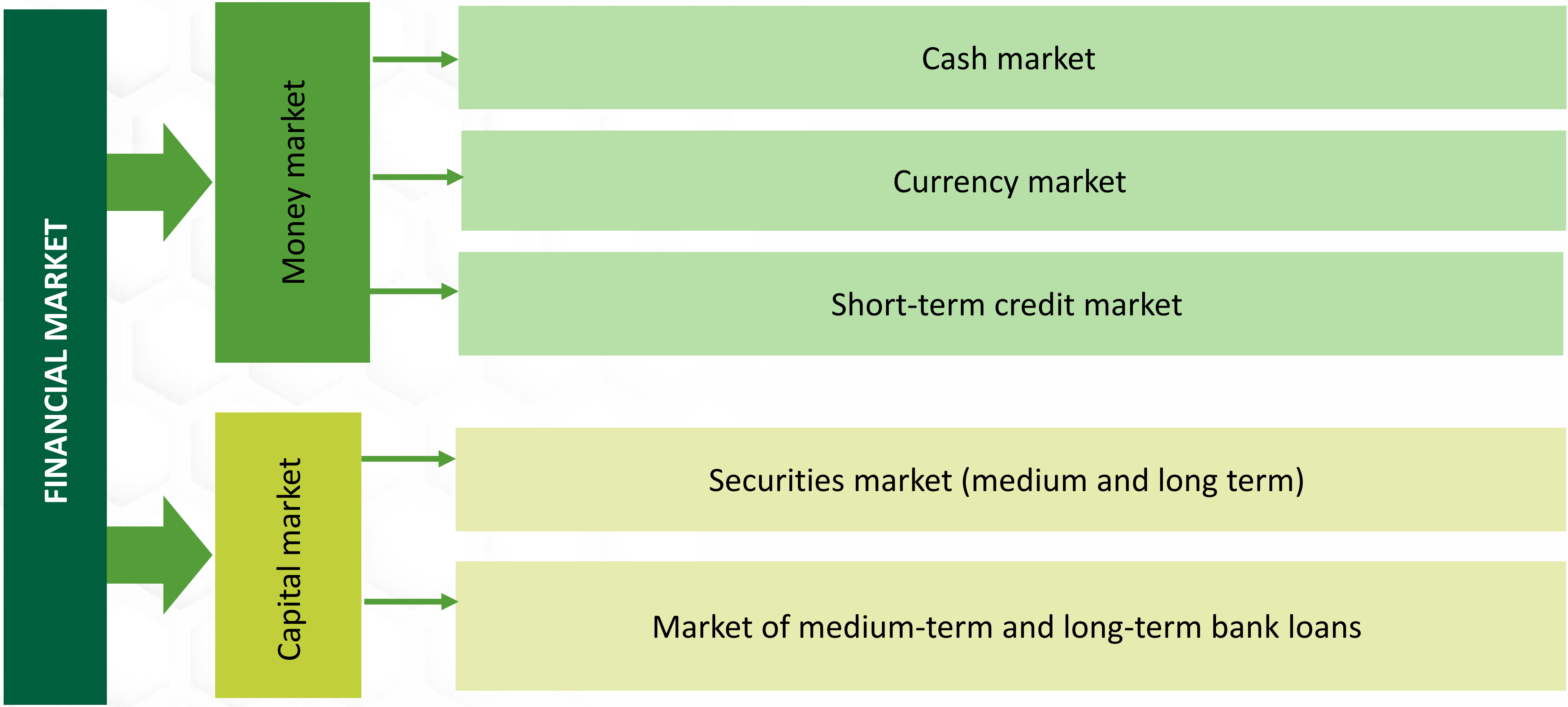
Distribution of accumulated free funds among consumers

FUNCTIONS:

Providing conditions for minimizing financial risks

Acceleration of capital turnover, which contributes to the intensification of economic processes

The composition of the financial market



Basic principles of building an effective financial market

BASIC PRINCIPLES OF BUILDING AN EFFECTIVE FINANCIAL MARKET

- Social justice — creating equal opportunities and simplifying conditions for access to the market of financial resources.
- Reliability of investor protection — the formation of socio-political, economic, legal conditions for the realization of the interests of financial market participants and ensuring the protection of their property right.
- Regulatory — the creation of a flexible and efficient system of financial market regulation.
- Controllability - providing a mechanism of accounting and control that would prevent abuse.
- Efficiency — the maximum realization of the opportunities of the financial market to mobilize and place financial resources in promising areas of the economy, which would contribute to its development.
- Legal order — the formation of the necessary legal infrastructure that would clearly regulate the activities of entities.
- Transparency and openness — providing investors with complete information on the terms of issue and circulation of securities.
- Competitiveness — creating conditions for competition for the favorable allocation of financial resources, the formation of non-monopoly prices for services.

Classification of the stock market

Sign of classification	Types of stock market	Characteristic
The nature of the movement of financial instruments	Primary	The initial placement of securities among investors is carried out on the basis of the announcement of the issue.
	Secondary	Characterized by resale operations of previously issued securities.
Place of trading in securities	Stock	The organizers of trade are stock exchanges, where securities agreements are concluded.
	Over-the-counter	Agreements are concluded directly between counterparties without the participation of the exchange.
Issuers of securities	Corporate securities market	Securities are issued by enterprises.
	Municipal securities market	Securities are issued by local governments.
	Government securities market	Securities are issued by the state.

International financial and credit organizations

INTERNATIONAL FINANCIAL AND CREDIT ORGANIZATIONS

WORLD

- United Nations
- European Union
- The International Monetary Fund
- The World Bank
- Bank for International Settlements

REGIONAL

- European Bank for Reconstruction and Development
- European Investment Bank
- Asian Development Bank
- African Development Bank
- Inter-American Bank розвитку
- London Creditors Club
- Paris Club of creditors

Concepts of the origin of money

CONCEPTS OF THE ORIGIN OF MONEY

Rationalist	Evolution
Money arose as a result of certain rational agreement between people due to the necessity of allocation selection of special instrument for service the sphere of commodity circulation.	Money was allocated from the general mass of commodities, as they are most suitable for the functional role of the monetary goods. This or that product becomes money only within a certain special social form, commodity production and circulation.
Representatives	
Aristotle, David Hume, P. Samuelson	A. Smith, D. Ricardo, K. Marx

Basic definitions of the economic category “money”

MONEY IS

- Goods directly exchanged for all other products.
- Generic equivalent for all other goods, which serves as the means of expressing the value of goods.
- Specific product that serves as a general equivalent.

Prerequisites of formation and benefits of monetary relations

PREREQUISITES OF THE FORMATION OF MONETARY RELATIONS

- Deepening of the social division of labor and specialization of production.
- Property separations individual of commodity producers.
- Necessity of measuring the value of goods for equivalent commodity exchange .

Advantages of money exchange of goods and services over barter

- Ensuring versatility of exchange.
- Reducing transactional (operating) costs.
- Reducing commercial risk.
- Creating conditions for a synchronizing exchange transactions in time.

Approaches to determining the essence of money

APPROACHES TO DETERMINING THE ESSENCE OF MONEY

Portfolio approach

is a method of analyzing the use of money, that is, money becomes the general embodiment of wealth, and wealth is considered not only as money, but also as other objects of ownership, called asset.

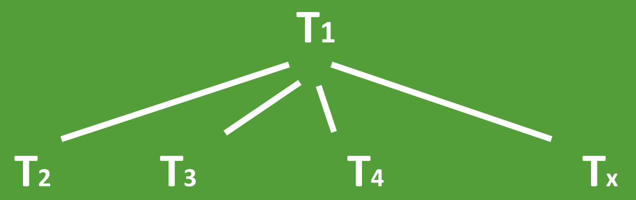
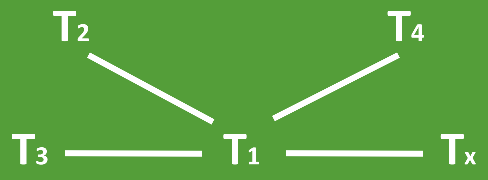
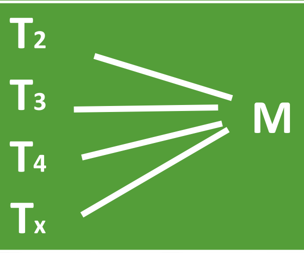
Money as money

Money is actually money, first of all, while spending it for the purchase of goods and benefits for personal consumption .

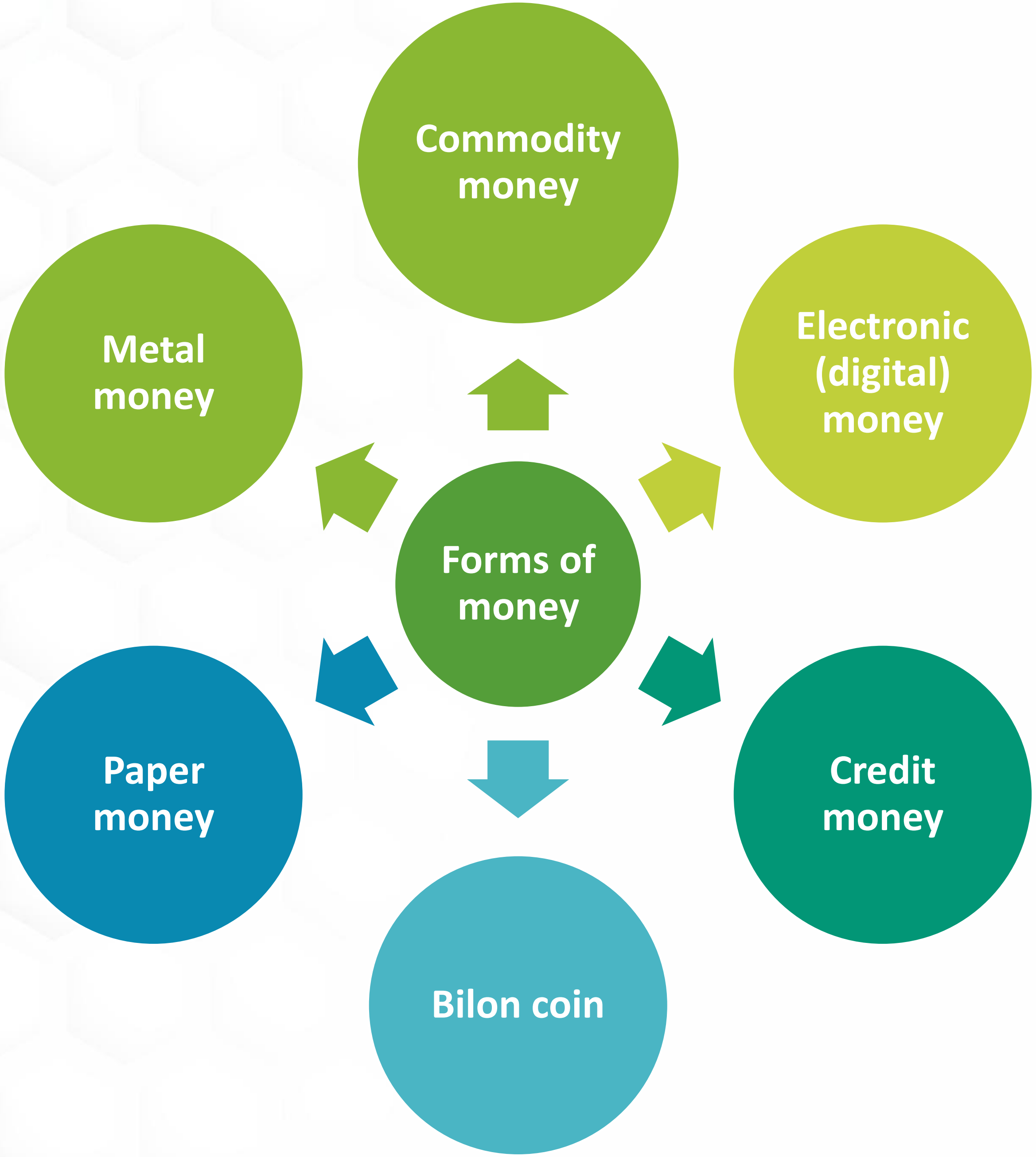
Money as capital

Money as a carrier of capital temporarily leaves the sphere of turnover and are converted into a means of capital accumulation, which by investing is productively used in the process of extended reproduction with the purpose of self-growth. Money becomes capital mainly with its accumulation and sale in the financial market, as it brings its owner an additional income in the form of interest or dividends.

Development of money value forms

Formula	Name of value forms	Characteristic
$T_1 - T_2$; $T_2 - T_3$ $T_3 - T_4$; $T_x - T_y$.	Simple or accidental	Products were manufactured for self use and exchanged for each other accidentally.
	Full or deployed	Growth of the amount of goods on the market turns exchange into regular process.
	Total or equivalent	Celection one product, from a total mass which performed the role of the total equivalent.
	Monetary	Expansion of commodity production and exchange and inability to meet market demands with equivalent commodity in physical form lead to the emergence of a money commodity equivalent.

Forms of money



Characteristics of full and defective money

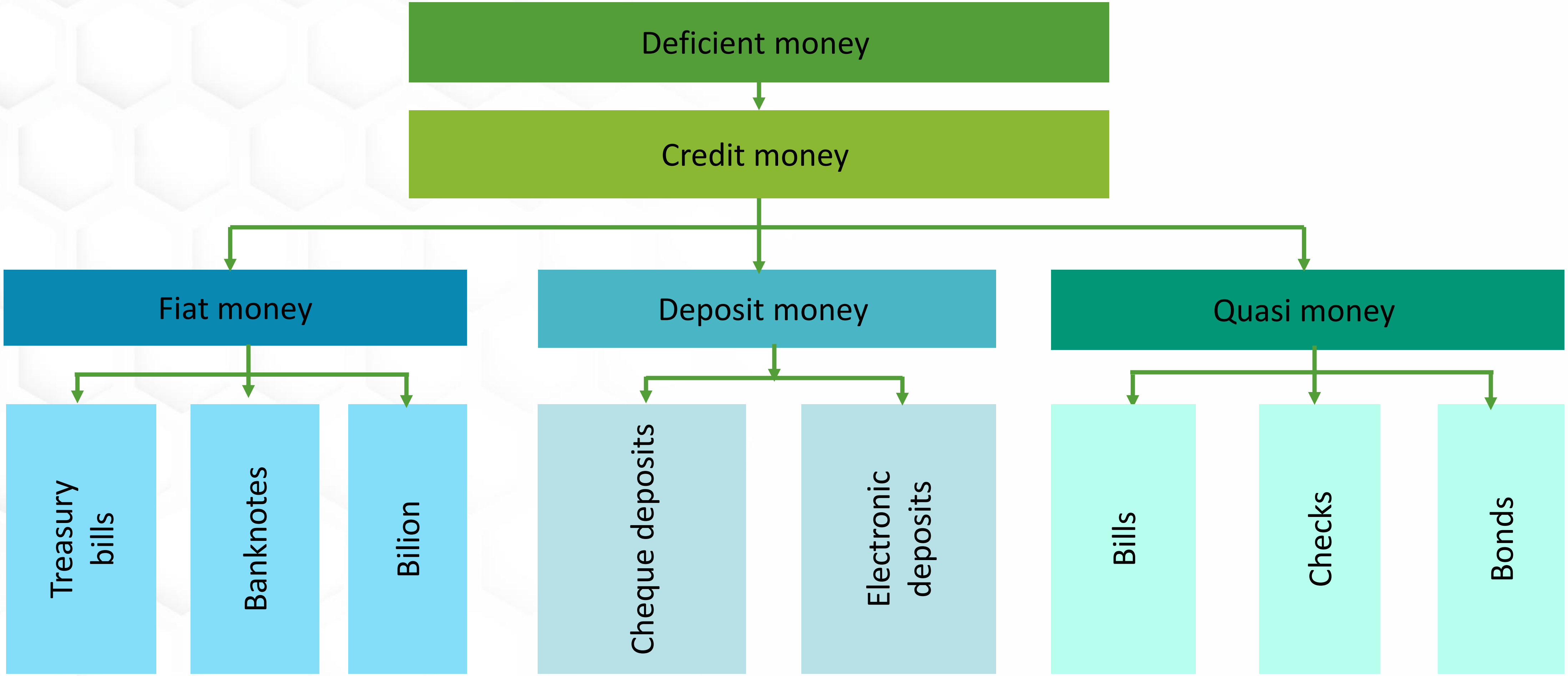
FULL MONEY	DEFICIENT MONEY
Full money was money which had internall / real value, adequate to the value of the goods, which performed the functions of money, or the cost of the material from which the money was manufactured, for example gold or silver coins.	Money is inadequate when it acquires its value exclusively in circulation. At the same time, it can significantly deviate from the cost of the material from which it is made (banknotes, the bilon coins, deposit and electronic deposits).

Between periods of the usage of full and deficient money there is the era of using mixed forms. During this period some countries used full money, others-the incomplete (paper).

Forms of money at the beginning of its development

- FULL MONEY
  - Commodity money
    - Essentials
      - Grain
      - Salt
      - Cattle
    - Luxuries
      - Necklaces
      - Pearls
      - Fur
  - Metal money
    - Metal ingots
      - Gold
      - Silver
    - Coins
      - Copper
      - Silver
      - Gold

Modern forms of money



Characteristics of forms of money

Initial ascending form of full money was **commodity money,** that is real material goods, the cost of which created the basis of the formation of the value of money. Commodity money emerged as a commodity exchange product, when the market spontaneously put forward from the commodity world one product-the most suitable due to its natural properties to fulfill the role of the total equivalent.

Further stage in the development of money was mintage of **metal coins.** For a long time, full coins were used in circulation, the real weight content of which corresponded to the nominal value. First, ordinary metals such as iron, copper, bronze, etc., which were mostly used by people. Subsequently, silver and gold began to perform this function.With the appearance of metal money coins in the form of simple ingots or pieces of metal were used. Such money had enormous advantages over commodity money. However, the form of ingots caused some inconvenience, which soon began to restrain the development of monetary relations.

The new stage in the development of the coin as a form of real money is connected with the emergence of a **bilion coin**, that is, measured divisible, with a small value. It is designed to ensure the normal perfomance of monetary functions of the main (currency) coin. The main difference is that it is mintaged not from precious metal, therefore it is inadequate.

Characteristics of forms of money

Paper money is not the result of will or the desire of the state, but an objective product of historical development of commodity-money relations in the society. Paper money is notes in convertible into metal signs, issued by a state to cover its (budget) expenditures and given by it he forced exchange rate, are legislatively recognized as obligatory for acceptance in all types of payments. This completed form of the value sign, which broke out not only from the substantial value of money, but also from the real needs of turnover. The measure of their emission is not the need for a turnover in payment funds, but the state's need to finance the budget deficit.

Credit money is also a inadequate signs of value, which are emitted by banks on the basis of crediting real economy, due to which their emition is closely connected with the needs of turnover, providing their withdrawal from turnover while repaying loans and maintaining their stable value.

Electronic money is a kind of deposit money, when money transfer from banks is carried out automatically with the help of computer systems on direct orders of the current account holders.

Functions of money

FUNCTIONS OF MONEY

Measure of value

Money provides expression and measurement of value of goods, giving it a shape of price.

Medium of exchange

Money act as intermediary exchange of goods and ensure their turnover.

Medium of payment

Money serves to repay various debt obligations between subjects of economic relations.

Medium of accumulation

Money serves accumulation of value in its general abstract form.

Global money

Money serves the movement of value in international economic relations and ensure the implementation of relationship between countries.

The role of money in the development of economics

THE ROLE OF MONEY IN THE DEVELOPMENT OF ECONOMICS

Qualitative aspect

It turns out that it is their presence, the monetary environment in which economic agents operate, positively influences the development of social production:

- ✓ the physical boundaries of production, determined by the personal needs of the producers themselves, are removed;
- ✓ the sale of manufactured products for money, instead of barter, greatly simplifies, accelerates and cheapens their supply to consumers;
- ✓ thanks to the money the market acquires a common character, its mechanism becomes a powerful lever of economic progress, especially due to competition, stimulation of efficient production and economical consumption-industrial, public, personal.

Quantitative aspect

It is that due to the change in the amount of money in circulation it is possible to affect actively the economic processes, in particular the results of economics agents as activity producers and as consumers. By increasing or decreasing the mass of money in circulation, central banks that act on behalf of their countries, ensure the change of such economic instruments as solvent demand, prices, percentage, exchange rate, securities exchange rates, etc. This ensures the impact on such decisive economic processes as investment, production growth, employment, export and import development and their balancing, etc.

Money market entities

The subjects of money turnover are all legal entities and individuals involved in the creation, distribution, exchange and consumption of the gross national product.

FIRMS	HOUSEHOLDS	STATE STRUCTURES	FINANCIAL MEDIATORS
Ensure the creation and implementation of gross national product (GNP).	Provide GNP production with the main factors (labor force, production means, etc.) And its final consumers.	Provide distribution and redistribution of the value of generated national income.	Direct flow of funds from their owners to borrowers.

Main markets in the model of cash turnovers

MAIN MARKETS			
Food market	Resources market	Money market	Foreign exchange market
Ensures the implementation of the national product created by firms.	Through purchase and sale carries out the redistribution of resources that are necessary for production.	Provides the acumulation of free monetary funds of entitles of economic activity.	Implements connection between the internal economic system with the "external" world (through export-import operations and inflow-outflow of capital).

Forms of monetary circulation

FORMS OF MONEY TURNOVER

CASH

Money is moving outside banks, directly serving the relations of economic entitles.

NON-CASH

Money is moved without going beyond the banking system.

DIFFERENCES

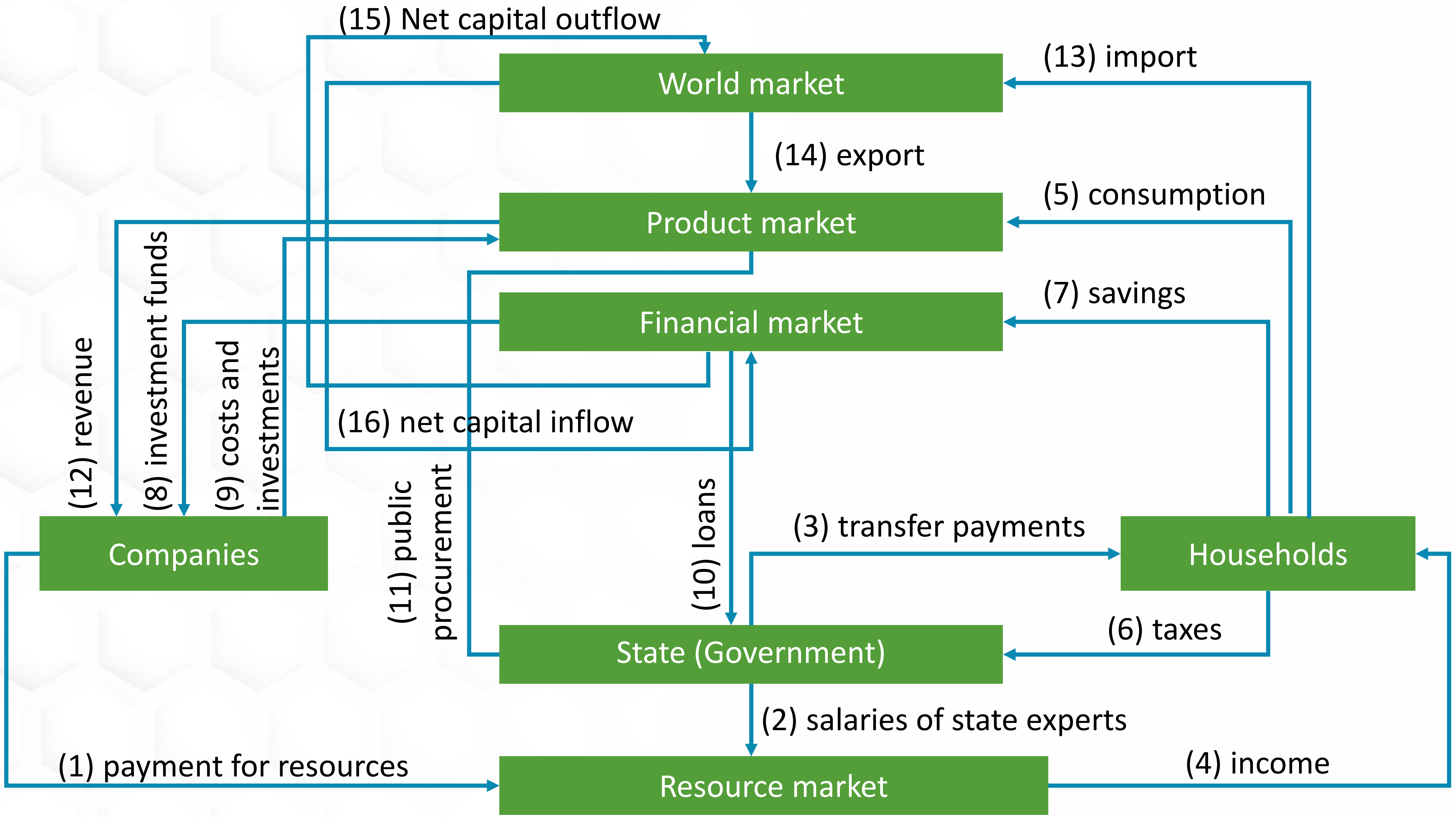
Cash:

Carried out throught payment for purchased goods, services or debt liabilities by legal payment means- bank notes and exchangable coins.
It serves mainly relationships associated with the area of personal consumption.

Non-cash:

Carried out throught payment for purchased goods, services or repayment of debts by money transfer to the accounts opened by the participants of monetary turnover in banks without the use of money in cash form.
It serves mainly enterprises and organizations.

Cash turnover scheme



Components of monetary aggregates in Ukraine

MONETARY AGGREGATES

- M_0 → cash outside of deposit corporations
- M_1 → M_0 and transferable deposits in national currency
- M_2 → M_1 and foreign currency deposits and other deposits
- M_3 → M_2 and securities, except shares

The essence and components of the monetary base

Monetary base (M_b) is an independent component of the monetary mass, which characterizes the mass of money, which is concentrated in banks.

The amount of cash that is outside the banks.

The amount of cash at bank cash offices.

Amount of cash (reserves) that is on the correspondent accounts of banks in the central bank.

$$M_0 + M_c + M_{res} = M_b$$

Speed of money circulation

Fisher equation
$MV = PQ$

$$V = \frac{PQ}{M}$$

V – speed of money circulation

M – mass of money in circulation

P — market prices level

Q – physical amount of goods and services

The essence of the law of monetary circulation

The law of money circulation is that there should be no more money in circulation for a certain period of time than it is required for the payment of goods and services at current market prices.

$M_a = M_n$

An important condition for ensuring money sustainability.

$M_a > M_n$

Devaluation of money, reduction of the purchasing power of the currency.

$M_a < M_n$

Lack of money to realize this commodity mass .

M_a – actual mass of money in circulation.
M_n – money mass objectively necessary for turnover.

Means of payment, which serve money turnover

MONEY TURNOVER IS SERVED BY

- **CASH**
  - Banknotes
  - Coins
- **MONEY IN NON-CASH PAYMENTS ACCOUNTS**
  - Deposit money
  - Check
  - Bill
  - Payment orders
  - Request payment orders
  - Letter of credit

Characteristics of payment methods

Banknotes — are the banknotes issued in circulation by the central bank of the country. Banknotes have a forced official rate and are accepted during payment. Now it is the main type of paper money.

Coins — are banknotes used as a means of exange of small amounts in circulation.

Deposit money — is inferior signs of value that have no material expression and exist only as certain amounts on bank accounts.

Cheque – is a written order of the holder of the bank's current account for payment the sum of money to a certain person, specified in this document.

Characteristics of payment methods

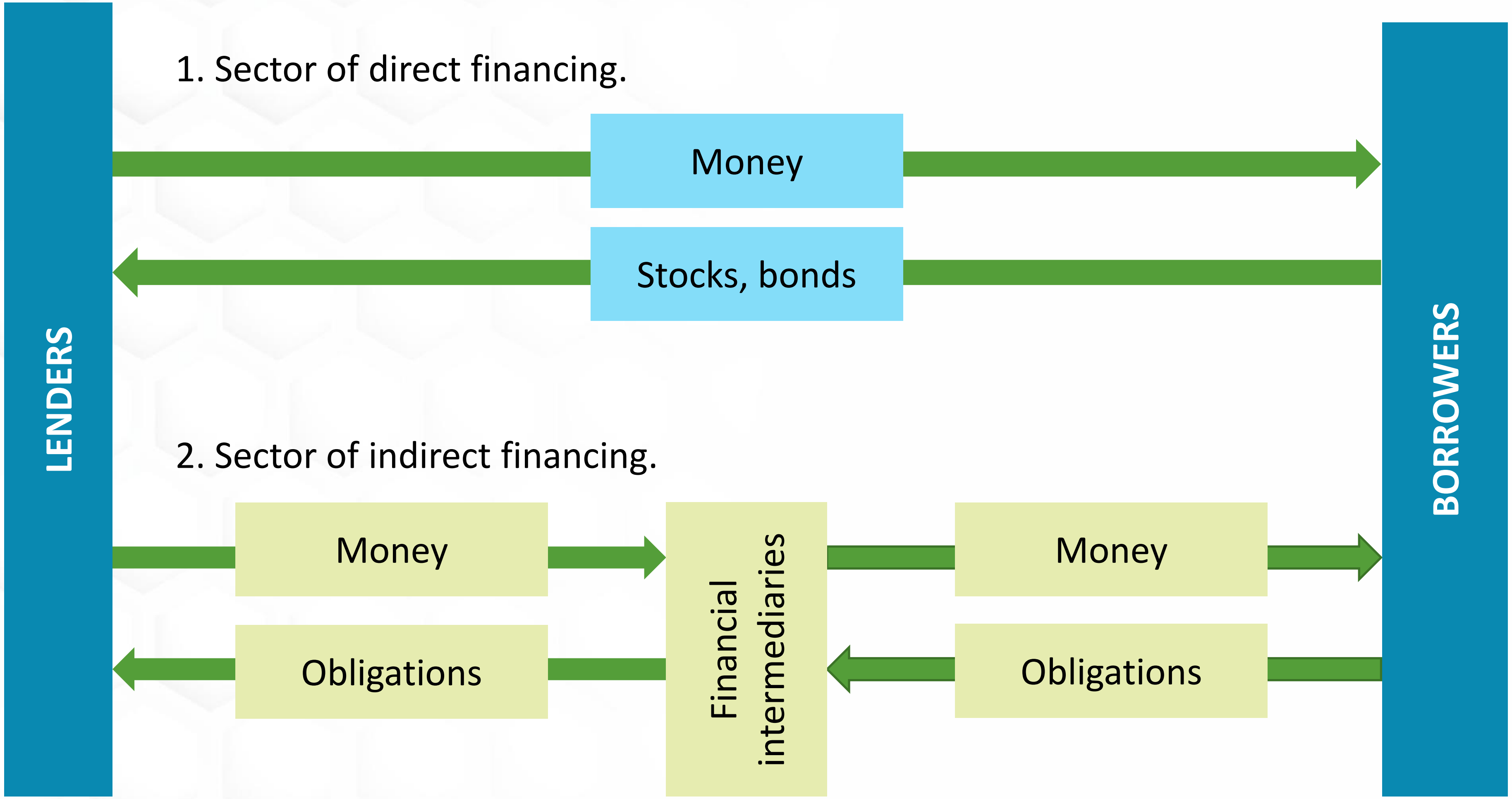
Bill – is a written debt obligation, which gives its owner the undeniable right to demand from the debtor the amount of the payment after the expiration of the specified term.

Payment order – is a written order of the account holder to list the corresponding amount from his account to the beneficiary's account.

Request payment order – is a document consisting authorization of two parts: the requirements to pay the price of the goods and the buyer's to transfer the amount of funds from his account to the seller's account.

Letter of credit-settlement – is a document with the autorization of one credit institution to another to carry out payment of commodity-transport documents for shipped goods at the expense of specially deposited funds.

Money market institutional model



Goals and reasons for saving money

Reasons of money accumulation

- Demand for the current supply of payment funds.
- Demand for permanent reserve of money as a form of wealth, intended to give additional income to its owner.
- Demand for long-term money supply for future payments.

Motives of demand for money

Transactional	Forethought	Speculative
Economic subjects constantly feel the need for a certain stock of money to implement current payments (money is in the form of cash or deposits to the question).	Economic subjects want to have money reserve as purchasing power resource for unpredictable needs.	Economic subjects want to have some stock of money at their disposal in order to turn them into highly profitable financial instruments.

Classification of demand for money

DEMAND FOR MONEY

Nominal

It characterizes the nominal amount of money necessery in the economy, which varies according changes of prices.

Real

Reflects the amount of money required to ensure a real level of production, taking into account inflation and dependence of real production on the value of the monetary mass in the long term.

Mechanism of influencing the factors on the money supply

MONEY SUPPLY

Factors influencing the money supply	Mechanism of influence on money offer
Mandatory reservation norm	↓ the lower the norm of mandatory redundancy, ↑ the higher multiplier factor, and therefore higher the total amount of monetary proposal.
Discount rate	at ↑ discount rate ↓ the demand for loans, and thus ↓ balances on accounts in the CB, that is monetary base ↓, and therefore ↓ the volume of monetary offer.
Typical market interest rate	↑ at the interest rate on loans commercial banks expanding the possibility of receiving loans of refinancing, and hence ↑ monetary base, ↑ bank reserves, ↑ multiplier factor, which ↑ money supply.
Wealth of economic entities	at ↑ wealth, the deposit amounts of monetary mass, ↓ multiplier factor , and hence ↓ the supply of money.
Activization of entrepreneurial activity	determines the change in the structure of cash stocks in favour of cash that ↓ multiplier factor, and therefore ↓ supply of money.
The state of trust in banks	low level of trust in banks contributes to the extraction of deposits that ↓ multiplier level, and therefore the total amount of money supply ↓ in proportion to declining trust in banks.

Characteristics of the elements of monetary system

Elements	Characteristic	Example
Currency	A monetary sign established in the legislative order, which serves as a means of measurement of value, expression of prices of goods and servicy.	The official currency of Ukraine is hryvnia.
Scale of prices	The value of the monetary unit of the country, the technical function of money.	In Ukraine, the scale of prices carries 1 UAH, which is equal to 100 coins.
Emission system	Institutions that issue money and securities, and define the procedure for emission universal.	Emission transactions are carried out by the NBU.
Types of monetary unit	Materialized in a certain type of the total equivalent of the value, which is a stable legal tender in the cash circulation.	In circulation in Ukraine there are banknotes of nominal 1, 2, 5, 10, 20, 50, 100, 200, 500 and coins-1, 2, 5, 10, 25, 50 .
Exchange rate	The ratio between currencies of different countries which is used to exchange during currency transactions and other economic transactions.	100 usd = 2752,1756 uah 100 eur = 2671,1526 uah 10 rub = 3,0860 uah 100 gbp = 3460,8492 uah
Regulation of cash and non-cash turnover	Is carried out by the state through the mechanism of central bank activity by determing a fich of cash and non-cash payments, the mode of use of money in bank, accounts payment types and payment procedure.	The maximum of cash transactions between two enterprises in one day can not exceed UAH 10000 in accordance with the NBU regulation.

Classification of monetary systems

Classification sign	Types of monetary systems
As an element of economic mechanism	Market monetary system
	Non-market monetary system
According to the mechanism Of regulation of monetary relation	Open monetary system
	Closed monetary system
The form in which money function	Monetary system of metallic circulation
	Monetary system of paper and credit circulation

Differences between market and non-market monetary system

Market monetary system	Non-market monetary system
Predominance of economic methods and instruments for regulating money circulation.	Predominance of administrative methods for regulating monetary turnover, in particular planning and rationing cash withdrawal from bank accounts, planning and limiting of loans, direct bank control over the targeted use of funds.
Inherent to countries with market economy.	Inherent to non-market, command-administrative economic systems that existed in the countries of the former socialist camp.
Money reflects real economic ties and ensures balancing of the monetary system, which stimulates effective use of material and labor resources of society.	These systems contradict the specific nature of the money itself as the phenomenon of a market economy in connection with the delineation of monetary turnover on cash and non-cash spheres, denial of its internal unity, ignoration of existence of the money market.

Differences between open and closed monetary systems

Open monetary system	Closed monetary system
It is characterized by minimal limitation on currency transactions by legal persons, full conversion of national currency, high foreign currency market.	Characterized by high level of currency restrictions in the country, by inconvertibility of currency, and artificial of formation exchange rate .
Inherent organization of countries with market economy .	Closed monetary system of the former USSR and other socialist countries in 40-80-90s.
Promote the mutually advantageous development of economic relations between the countries and integration of the national economy in the world economy.	Have a unilateral orientation, protect only the domestic market, even by the price of its isolation from the foreing market, as well as out back the development of foreign economic relations, integration of national economy of the countries in the world economy.

The essence and forms of metallic circulation

The system of metallic circulation — is a system, in which the role of the total quivalent is performed by precious metals

Forms of metallic circulation

Bimetalalism Bimetalalism

The role of the total equivalent is legally allocated to two metals – gold and silver

Monometalalism

The role of the total equivalent is legally allocated to one metal

Characteristics of paper-credit system of money

CHARACTERISTIC FEATURES OF A PAPER-CREDIT SYSTEM OF MONEY

- loss of connection with gold, abolition of the gold standard and changing banknotes for gold;
- the issue of money in circulation is carried out on the basis of crediting economic entities;
- evolution of payments – spreading of non-cash forms of payment, electronic money and corresponding reduction of cash turnover;
- the formation of the exchange rate takes place by market methods on the parity of their purchasing power;
- tendency to depreciation of modern money due to inflation and liquidity loss;
- state management and regulation of money circulation;
- development of integration processes and innovations in the field of monetary and credit relations.

Methods of regulating money circulation

METHODS OF REGULATING MONEY CIRCULATION

Direct regulation of the amount and structure of monetary turnover.

- Mechanism of cash emission.
- Establishing a credit limit given by central bank to government and banks.
- Direct regulation of loan transactions of banks, determination of margin, limits of value of credit resources, limitation of consumer credit.

Indirect measures of influence on the money circulation system.

- Conducting of operations in the open market.
- Regulation of bank provisioning.
- Regulation of interest rate on loans provided by the central bank.

Formation of the monetary system of Ukraine

THE NEED FOR A MONETARY SYSTEM IN UKRAINE

- Disintegration of the USSR in 1991
- Ukraine's withdrawal from the ruble zone
- Introducing own monetary unit
- Ensuring dynamic economic growth and social progress

Stages of introduction of national currency in Ukraine

- January 10, 1992 Temporary currency entered into cash circulation – Ukrainian coupon-karbovanets (coupon).
- In November, 1992 The implementation of Ukrainian ruble in non-cash turnover was completed.
- In September, 1996 A monetary reform was held for the introduction of a new currency – UAH.

The purpose of introduction of coupon-karbovanets in cash turnover of Ukraine

The introduction of coupon-karbovanets in the structure of money circulation was intended:

- to use the system of parallel circulation of ruble and coupon-karbovanets, where the share of payment of all incomes of the population in the new currency had to expand gradually according to the filling of commodity market;
- to introduce gradually the coupon-karbovanets in order to ensure it not only sufficient purchasing power, but also some competitive advantages compared to Russian ruble;
- to use of coupon-karbovanets in the circulation as temporary transitional currency;
- to introduce eventually the full-fledged national bill-hryvnia.

Types of inflation depending on the rate of inflation process

TYPE OF INFLATION

Creeping inflation	it is characterized by excessive emission of money without a noticeable increase in prices, has a stimulating effect on the economic development of the country;	prices increase up to 5% per year
Moderate inflation	such inflation begins, gradually, to spread to all sectors of the economy (entrepreneurs raise prices of their goods, government spending on financing social guarantees increases), the balance of the entire market is disturbed;	prices increase to 5-20% per year
Galloping inflation	the rapid rise in prices leads to the outstripping of aggregate demand in comparison with the supply of goods, there is a decline in production and a reduction in trade;	prices growth from 20-50% and sometimes 100% a year
Hyperinflation	price instability dominates in all sectors of the economy, chaos in the market begins, the financial and credit mechanism is disturbed;	prices increase more than 100% per year
Superinflation	money begins to lose its ability to perform its functions, a payment crisis develops and barter agreements spread.	prices grow up to 1000% or more per year

Types of inflation by factors that cause the inflation process

INFLATION TYPES

- **Inflation of costs** → It is caused by pressure on prices from the growth of production costs.
- **Demand inflation** → Occurs due to excessive growth of commodity demand in comparison with supply.
- **Import inflation** → Occurs in case of increase in the prices of imported goods under terms of a firm exchange rate.
- **Fiscal inflation** → It is related to the budget deficit.

The mechanism for the implementation of deflationary policy

DEFLATIONARY POLICY

METHODS OF LIMITING EFFECTIVE DEMAND

FINANCIAL

reduction of state budget expenditures, primarily subsidies to enterprises, for social needs, infrastructure, and the needs of the military-industrial complex.

aggravation of tax pressure on income.

withdrawal of the part of extra money from circulation

GOAL

MONETARY

increase in the discount rate of the Central Bank.

regulation of interest rates on passive and active operations of commercial banks.

increase in compulsony reserve ratio.

reduction of bank lending of the economy

The implementation of the policy is connected with certain difficulties, as it increases social tension in society, threatens with an economic crisis, bankruptcy of enterprises, reduction of employment.

The mechanism of realization of incomes policy

REVENUE POLICY

Provides for state control over wages and prices.

It comes down to fixing wages and prices at a certain level ("freeze").

Or setting their growth rates within certain limits.

Leads to the emergence of commodity shortages and the development of the "black market", the emergence of the plight of workers, their dissatisfaction with government policies, increase of social tension.

Classification of monetary reforms

Reforms depending on the purpose of carrying out and depth of reorganization by the state of the available monetary system.

- Formation of a new monetary system-the reforms which provide not only for the introduction of a new monetary unit into circulation, but also for the functional structural conversion of the entire system of monetary and credit relations.
- Partial change of monetary system when its separate elements are reformed: the name and value of monetary unit, types of banknotes, the order of their issue and ways of provision.
- Implementation of special stabilization measures in order to slow down inflation or overcome its consequences.

Methods of currency stabilization

Method	Essena
Deflation	The process of suspending or restraining the growth of the money supply in circulation.
Denomination	Exchange of all old banknotes for new ones in a certain proportion with simultaneous recalculation of prices, tariffs, wages, pensions, scholarships, book value of funds, payment obligations, etc according to this proportion.
Nullification	State declaration of depreciated banknotes as invalid.
Devaluation	Depreciation of the national currency in comparison with foreign currency or international units of account.
Revaluation	Increase of the rate of the national currency against foreign or international currencies.

Types of monetary reforms

MONETARY REFORM IN THE WAY OF CARRYING OUT

Type	Essence	Goal
Reform of the formal type	Are reduced to introduction of a new sample of the banknote with simultaneous or gradual withdrawal of the functioning one.	The need to improve the physical properties of banknotes and change their appearance, Strengthening of the fight against counterfeiting of national currency.
Confiscation-type reforms	Form a differentiated ratio of the exchange of money depending on the amount of the old money submitted to exchange.	The necessity of the retrieval of illegal income, the restoration of social justice.
Reforms of parallel (conservative) type	They consist in the fact that the new monetary unit, expanding the scope of its functional application, gradually displaces the old money.	Ensuring the stability of the new currency.

Monetary reform in Ukraine

In Ukraine, during September 2-16, 1996, a monetary reform was carried out, which provided for a set of measures:

- the denomination of Ukrainian karbovanets was held;
- a new permanent national currency-hryvnia was introduced in to monetary circulation;
- the current price scale was changed: 100,000 Ukrainian rubles for 1 hryvnia;
- throughout the period of exchange of the old monetary unit for the hryvnia, there was a single exchange procedure without any restrictions, that is, all stocks of money (cash and non-cash) and all current income for all categories of individuals and legal entities, regardless of the amount of money presented to the exchange and the size of current income;
- the prices of all goods and services, the rates of tariffs, wages, pensions, scholarships, payment obligations were replaced.

Since September 17, 1996 functioning of rubles in cash circulation was stopped, and the hryvnia and its subunit coin-kopiyka became the only means of payment in the territory of Ukraine.

The monetary reform provided:

- ✓ strengthening of the stability of the economy, finance and money circulation;
- ✓ attracting excess cash to the banking system;
- ✓ ensuring the stability of the national currency exchange rate against foreign currencies;
- ✓ creating the necessary conditions for positive changes in production and consumption.

Classification of currency depending on the Issuer of currency

CURRENCY

National

Means of payment of a certain state issued by the national banking system.

In Ukraine—the hryvnia.

Foreign

Monetary unit issued by the banking system of other countries.

For Ukraine — dollar, pound sterling, etc.

Collective

International monetary unit issued by international financial and credit organizations.

SDR is the currency unit of the IMF, the euro.

Currency classification depending on the mode of use

CURRENCY

Convertible

Currency, which is exchanged for currencies of other countries, at the rate, which is formed in accordance with the established procedure, and is freely exported and imported across the border.

Non-convertible

A currency that operates only within one country and is not exchanged for other foreign currencies, and its import and export is severely restricted.

The North korean won, cuban peso

Fully convertible

Currency which is freely exchangeable for other foreign currencies for all categories of owners and all types of operations.

US dollar, Euro, Japanese yen, British pound sterling, Swiss franc.

Partially (in-line) convertible

Currency of the countries in which currency restrictions for residents and for certain types of exchange operations are applied (according to current – account financing).

Indian rupee, Ukrainian hryvnia.

Exchange rate models

Types of exchange rates	The method of fixing the exchange rate
1. Fixed rate	System, assuming the existence of the official exchange parities.
1. Fixed rate according to the classical scheme	Official rates based on gold parity (possible under gold standard conditions).
1. Contractual fixed rates	Rates are based on a contractual basis.
1. Fixed adjustable rate	Fixing rates of relatively stable currencies or international currencies at the level actually prevailing in the foreign exchange market. Fixing involves regular viewing or setting the limit of possible deviations.
1. Variable-fixed rate	A rate that changes according to some predetermined pattern, for example, taking into account the expected change in the inflation index. Requires state intervention.
2. Floating rate	System in which currencies have no official parities.
2.1. Free-floating exchange rate	Rates that are independently formed on the market under the influence of supply and demand.
2.2. Managed floating rate	Exchange rates that are linked directly or through the” currency baskets " of leading currencies. They are adjusted by currency interventions of Central banks in order to avoid too large fluctuations.

Currency quotation methods

Currency quotation-setting the exchange rate based on market mechanisms

Methods

Straight

the calculation is carried out by the expression of foreign currency through a certain number of units of national one.

1 us dollar = 24.5217 hryvnia

Indirect

the national currency is equated to a certain amount of foreign currency.

1 hryvnia = 4 cents

Currency market participants

Subjects	Functions
Commercial banks	Carry out the main amount of currency transactions. Accumulate (through operations with clients) the total market needs in currency conversions, as well as in attracting (placing) funds and go with them to other banks. In addition to meeting customer requests, banks can conduct operations independently at their own expense.
Central banks	Manage foreign exchange reserves, conduct foreign exchange interventions that affect the level of the exchange rate, regulate the level of interest rates on investments in world currency markets. Most influential: the U.S. Federal reserve, Bundesbank (Germany), the Bank of England.
Large international bank	They are the leading consumers of the foreign exchange market and exercise the greatest influence (Deutsche Bank, Barclays Bank, Switcerland, Citi Bank, Manhattan Bank, etc.)
Firms engaged in foreign trade operations	Have stable demand for foreign currency (importers) and supply of foreign currency (exporters), as well as place and attract free currency balances in short-term deposits. They do not have direct access to the market.
International investment funds	Implement a policy of diversified asset portfolio management, investing in securities of the state and corporations of any country.
Currency exchange	In some countries with transitional economies, currency exchanges perform currency exchange for entities and individuals and form the market exchange rate. The state, as a rule, actively regulates the level of the exchange rate, taking advantage of the compactness of the exchange market.
Currency brokerage houses	Bring together buyers and sellers of foreign currency and carry out conversion or deposit and credit operations. Between them a brokerage commission is charged for mediation as a percentage of the transaction amount.

Classification of currency transactions

Classification criterion	Types of currency transactions
By date of payment	cash
	string
By implementation mechanism	swap
	forward
	future
	option
	arbitral
By intended purpose	in order to obtain currency for international payments
	for the purpose of insurance against currency risks
	with a goal to profit
By the form of implementation	non-cash
	cash
By range	wholesale
	retail

Forms of currency regulation

Forms of the mechanism of currency regulation

Devaluation	Decrease in the exchange rate of the national currency against foreign currencies.
Revaluation	Increase of the rate og the national currency against foreign currencies.
Currency intervention	Transactions on purchase and sale of national or foreign currency.

Essence and types of balance of payments

The balance of payments is the ratio between payments made by economic entities of a given country (residents) in other countries and receipts received by them from other countries for a certain period (year, quarter, month).

Active	Passive
If receipts from abroad exceed payments.	If payments abroad exceed receipts.
Increase in foreign exchange flow to the country.	Outflow of foreign currency from the country.
Growth of foreign exchange reserves of the country.	Decrease in foreign exchange reserves of the country.

Goals of accumulation of gold and foreign exchange reserves

The main goals of accumulation of gold and foreign exchange reserves

Providing the country with a sufficient supply of international means of payment.

Enabling the state to pay off in the foreign exchange market on time.

Enabling the state to intervene in the foreign exchange market.

Allowing the state to maintain the necessary level of supply and demand and the exchange rate of the national currency.

Business cycle

Peak

The point at which the economic growth reaches the maximum level.

Recession

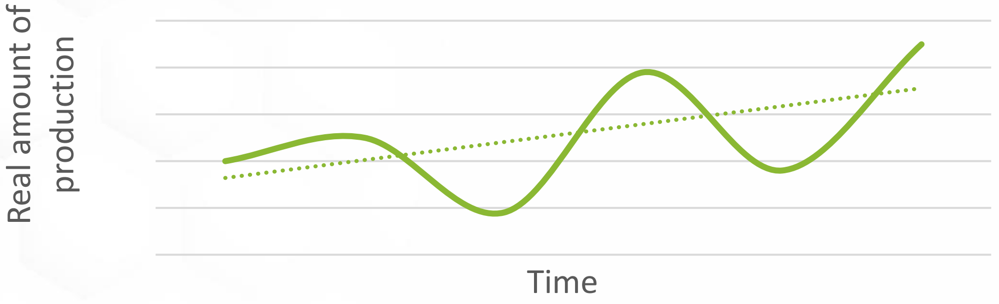
Is accompanied by a fall in output. The recession that lasts for more than 6 months is called a depression.

Trough

The point of the business cycle at which output reaches a minimum level.

Expansion

Stage at which the actual output relatively to the bottom of the trough increases on the cycle.



Reasons for the loan

REASONS FOR THE LOAN

- The need for organization of production.
- The need to sell the produced goods in the buyer’s absence of funds for their purchase.
- Temporary release of funds in one area of the economy as a result of unequal circulation of individual capital and the presence of their needs in another area of the economy.
- The presence of unpredictable circumstances (climatic, economic), which cause the need for additional funds.

Characteristic features of loan in market economy

Borrowers	Business entities that temporarily require additional resources. They do not become the owners of borrowed funds, but only temporary managers.
Lenders	Mainly banking institutions as well as financial and credit institutions, business entities, state having temporarily free resources.
Credit Resources	The money granted to the loan, which is used by the borrower as capital, as well as tangible assets.
Credit relations	Are voluntary (arising on a contractual basis), costly (arising from the movement of costs-money or material assets) and non-equivalent (borrower returns to the owner more than he receives from it).
The source of the loan interest	Profit received from the use of borrowed funds.
Purpose of using credit	Mechanism of effective redistribution of capital in the social production.

Role of credit in economic development

The role of credit in economy	The characteristics of functional role of credit
Actively influences the principles of social reproduction	Money capital is promptly moved from one branch of economy to another, from one region to another.
Plays a significant role in the organization of cash payments	Helps business entities to increase the output, ensures continuity of fixed and current assets, satisfies temporary needs for funds.
Promotes restructuring of the economy	Provides for the reduction of the share of enterprises of the military-industrial complex and increase of enterprises focused on consumer goods production.
Promotes the development of agriculture	Ensures the production of quality products for the population and raw materials for enterprises, contributes to the transformation of the country into exporter of agricultural products.
Helps save turnover costs	Helps reduce costs for manufacturing, issue in circulation, transfer, accounting and storage of cash, accelerates the turnover of money.

Objects and forms of loan

	OBJECTS OF CREDIT RELATIONS	
	Money	Tangible assets
Loan Forms	Monetary	Material
Content	Credit relationships arise between borrowers and lenders when a loan is granted and repaid by money.	credit relationships arise between selles and buyers, when the latter receive goods or services on the conditions of determent of payment.
Example	Commercial credit, sale of goods and provision of services in credit, etc.	Loans from banks, international financial and credit institutions, governments of the countries.

Functions of credit

	Redistributive	Emission (substitution of money in circulation)	Control
Essence	With the help of credit means are redistributed on the basis of return on the one hand, and accumulation of monetary capital is realized due to the preservation of economic agents, and on the other-hand-their placement among other agents of the market.	Money is issued on the basis of credit as payment means; methods of credit expansion (credit enlargement) and credit restriction (narrowing down the loan) regulate the amount of money in circulation.	In the lending process, control over compliance with the terms and principles of loan granting by credit agreement subjects is ensured; at the same time, the bank performs both previous and current control over the borrower's activities.
Role	Enables to concentrate capital in the most priority areas of economic activity, conduct reorientation of production and stabilize the economy.	Helps to save money turnover costs; allows to speed up money circulation, introduce progressive payment systems.	Allows to minimize credit risk, to realize credit target nature: stimulates the borrower to use borrowed funds rationally and effectively.

Differences between credit and finances

Feature	Finances	Credit
Mechanism of forming.	Are formed during the GDP allocation.	Is formed during GDP redistribution.
Nature of cost movement.	Linked to property change, non-reverse and chargeable.	The cost is transmitted on the terms of urgency, return and payment.

Differences between credit and money

Feature	Money	Credit
Subjects of economic relations	Seller and buyer	Lender and borrower.
Nature of cost movement	A counter, equivalent moving of two different forms of value: commodity and monetary.	To satisfy the needs of the additional funds of some entities and to facilitate the advantageous placement of free.
Scope of use	Serves the implementation of GDP (except barter).	Funds of others serves the cashflow of GDP in the process of reproduction.
Purpose in the social reproduction process	Ensures the sale of the consumer value and its bringing to the consumer.	To satisfy consumer's needs in additional funds of some subjects and to promote favourable free assets placement for others.
Owner of the cost	Ownership of the money passes from the payer to the recipient.	A lender always remains the owner.

Types of credit depending on credit relation subjects

Types	Content	Purpose
Commercial	It is provided by one commodity producer for another in the form of sale of goods with defevred payment and, as a rule, is quaranteed by the receipts.	Accelerating the sale of goods and services, as well as obtaining additional profits in the form of a loan interest included in the price of sold goods .
Personal	To the population for the purchase of durable goods, as well as to pay for long-term services.	Satisfaction of consumer needs of broad strata of population.
Bank	Provided by banks, as a rule, in monetary form.	Organization and service of capital movement.
Government	Provided by legal and entitie individuals to the state (in the person of state and local authorities).	Mobilization of funds for financing public expenditures, especially when the state budget is deficit.
International	Movement of loan capital from one country to another.	Replenishment of Internal Market resources.

Principles of credit lending

Principles of credit lending

Purpose

The economic entities should clearly define, for what purpose, borrowed funds will be used.

Timing

The lender's funds are transferred to the borrower for a clearly defined period, which the parties negotiate while entering into credit relations.

Profitability

The borrower returns to the creditor not only the principal amount of debt, but also pays additional funds in the form of a interest.

Security

Aims to protect the interests of the creditor and prevent losses due to failure to return the debt; the borrower's property is the guarantee.

Repayment

The borrower must return the creditor the entire amount of the borrowed value.

Classification features of bank credit

Classification features of bank credit

1. By purpose

- ✓ commercial (to legal entities on the basic of mortgages and negotiable assets);
- ✓ personal (to individuals).

2. By terms of use

- ✓ short-term (to 1 year);
- ✓ medium term (to 3 years);
- ✓ long-term (more than 3 years).

3. By providing

- ✓ secured (by assets, property rights, securities);
- ✓ guaranteed (by banks, finances or property of the third party) with other collateral (sureties, insurance certificate);
- ✓ unsecured (blank).

4. By the degree of risk

- ✓ standard (provided to the borrowers, who previously paid off the bank on time);
- ✓ with increased risk (loans given to customers with precarious financial situation or who have assumed overdue payments to the bank in the past).

5. By the methods of providing

- ✓ one-time (provided on the basis of a loan agreement);
- ✓ according to on open credit line;
- ✓ guarantee (with a predetermined date or if as needed).

6. By repayment methods

- ✓ gradual repayment;
- ✓ simultaneous inpayment after completion of the term;
- ✓ in accordance with the terms stipulated by the credit agreement.

Influence of factors on interest rate

Factors	Consequences of influence
Demand and supply of credit resources on the credit market	Demand increase raises the interest rate. But interbank competition eliminates the interest rate in the country.
Inflation rate	The increase of inflation rate causes an increase in payment for credit, as the risks of loss of creditor are increasing.
Level of National Bank discount rate	The basis of the interest rate of each bank is the amount of National Bank discount rate.
Loan amount	For large loans, the interest rate should be lower because the proportion of the bank's expenditures on such loans is relatively lower than on small ones.
Loan term	The longer the term, the higher the loan interest rate as the risk factor is growing and the cost of long-term lender resources is higher.
Risk level	Higher risk loans are granted under higher interest to compensate for the lender's premium for risk.

Accrual procedure

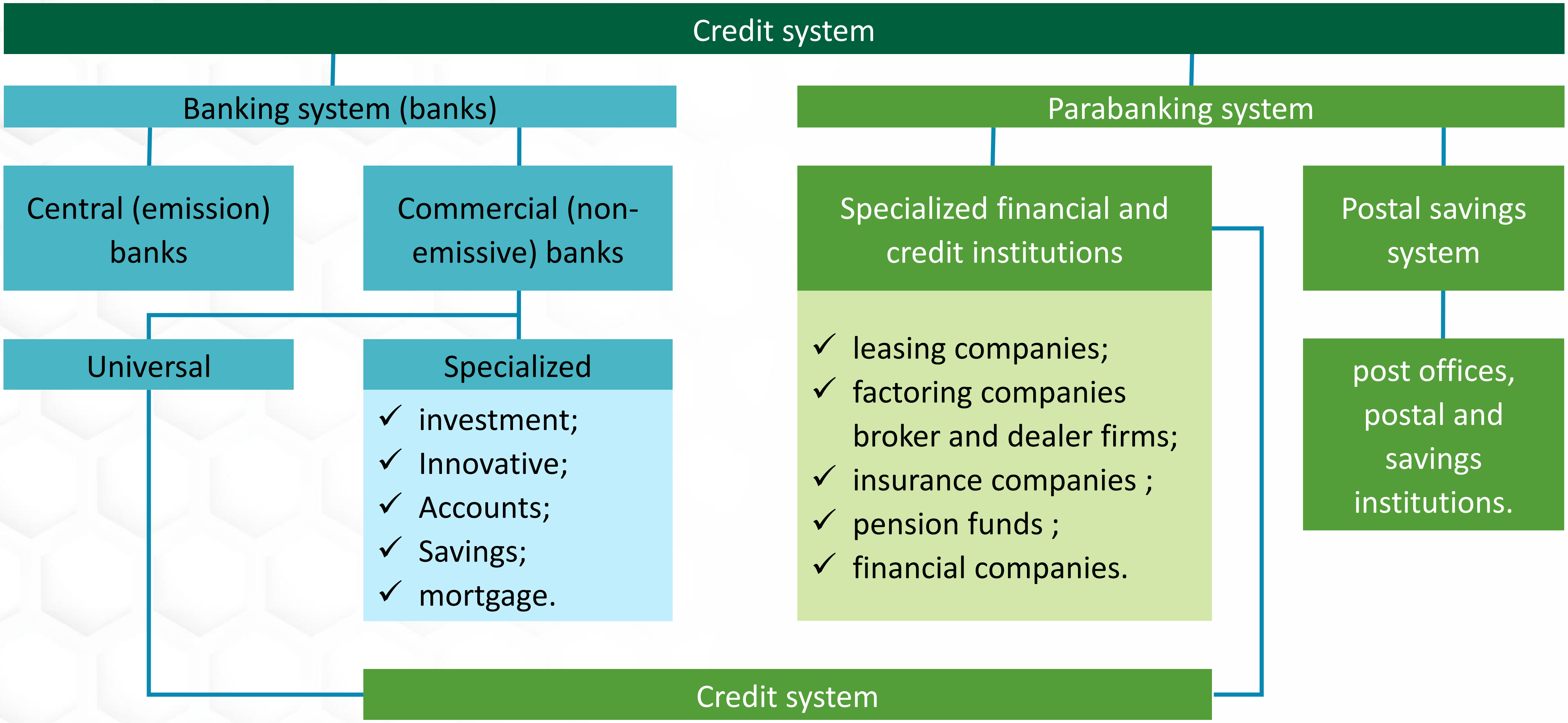
FORMULAS FOR CALCULATING THE PERCENTAGE

Simple	Complicated
$S = P(1 + n \cdot i)$	$S = P(1 + i)^n$

$$I = S - P$$

S - repayment amount (accrued amount); P – initial amount of dept; N – term of using money (years); i – interest rate; I – the income of the lender.

The credit system structure
of the countries with developed market economies



Common features of specialized financial and credit institutions and banks

Function in the sector of the indirect financing of the money market.

Activity on creation of obligations and requirements is based on the same principles.

Common features of specialized financial and credit institutions and banks.

Forming their resources they inssue, debt obligations, which may be marketed as an additional financial instrument.

Placing their resources in income-earning assets, they buy CDOs, creating their own requirements for other economic entities.

Types of banking system construction

Types of banking system construction

One-level

Provides horizontal links between banks, universalalization of their operations and functions. All banks are on one hierarchical level, perform similar functions of credit and settlement service.

Two-level

It consists of two levels:

- ✓ the upper-central (emissive) banks, whose clients are banking institutions and government structures;
- ✓ lower-commercial banks, whose clients are enterprises, organizations, population.

Principles of building the banking system of Ukraine

Principles, which lay the foundation of the development banking system in Ukraine:

- Two-level construction
- Clear distinction between first-and second-level banks
- Functioning of the second-level banks on a commercial basis and on contractual relationships with clients
- Liquidation of the State monopoly on banking, possibility of creating commercial banks of diferent forms of ownership, liberalization of banking activity

Banking system functions

Functions of the banking system

Transformational

is caused by intermediary mission of the banks. Mobilizing free funds and transferring them to various subjects, banks have the opportunity to transform them (to change) for different terms, amount, which reduces financial risks.

Stabilizing

the function of providing stability of banks and money market, which is manifested in the adoption of a number of laws and other normative acts regulating the activities of all parts of the banking system-from the central bank to specific commercial banks; in the creation of an effective mechanism of state control and supervision of compliance with these laws and of banks activities in general.

Emission

the function of the money creation and regulation of the money supply, which is that the banking system promptly changes money in circulation, i.e. manages money supply.

The central bank function as banker's bank

CENTRAL BANK (CB) AS BANK OF BANKS

- **Cash servicing of commercial banks**
  - Commercial banks retain the share of their reserves on the accounts of CB
  - CB accepts cash from commercial banks
- **Settlement servicing of commercial banks**
  - Centralized payment system
    - Interbank settlements through commercial banks that are opened in the CB
  - Decentralized payment system
    - Provides transactions through private settlement and clearing centers with final settlements through the CB
    - Involves payments through accounts that commercial banks open in each other
- **Credit servicing of commercial banks**
  - Granting of pawnshop loans
    - Direct method
    - Tender method (auction)
      - Quantitative tender
      - Price tender
  - REPO transactions
  - Rediscounting of bills

Central Bank as a body of bank regulation

Central Bank as a body of bank regulation

The use of monetary instruments to influence the volume and structure of bank reserves, as well as the level of interest rates.

Adopting the principles which regulate the activities of banks in the form of normative acts, instruction, directives.

Application of preventive and protective measures aimed at ensuring stable functioning of the banking system and effective monetary policy.

Preventive measures

- ✓ Requirements for the amount and structure of capital.
- ✓ Liquidity Requirements.
- ✓ Requirements for diversification of banking risks.

Protection measures

- ✓ Refinancing of commercial banks.
- ✓ Creation of bank deposit guarantee system .
- ✓ Formation of bank reserves for the comoensation of possible losses from active transactions.

CB as a body of bank supervision

CENTRAL BANK AS A BODY OF BANK SUPERVISION

- Identifying requirements and conditions that are obligtory for obtaining a license and supervising compliance with these requirements and conditions;
- Ensuring regulation of banking activities in order to minimize banking risks;
- Obtaining reports from banks to monitor and supervise their activities; Inspections in banks;
- Application of measures of forced influence against troubled banks;
- Suspension of the insolvent banks activities, conducting their reorganization or liquidation.

Central Bank as the banker and financial agent of the government

CENTRAL BANK AS THE BANKER AND FINANCIAL AGENT OF THE GOVERNMENT

- Carries out cash execution of the state budget;
- Operates government accounts;
- Issues state debt liabilities and their allocation on the secondary market;
- Takes measures to maintain a government securities course;
- Serves government debt, using the following methods:
  - ✓ Tax financing;
  - ✓ Debt financing;
  - ✓ Financing through the issuance of money.

Essence of the Central bank monetary policy

The leader of monetary policy- is the most important function that is native to all central banks without exception. It lies in the regulation of money supply by developing the strategy and tactics of monetary (monetary-credit) policy in the country.

Central bank's main strategic task as a body of State regulation. → Ensuring stability and purchasing power of the national currency.

Tactics of monetary policy. → Choice of tools for the goal.

Relationship between goals and tools of monetary credit policy

GOALS

Strategic
- ✓ Production growth.
- ✓ Employment increase.
- ✓ Price stabilization.

Intermediate
- ✓ Economic recovery
- ✓ Deterrence of Conjuncture

Tactical
- ✓ Monetary expansion.
- ✓ Reduction of percent age point.
- ✓ Decrease in money supply.
- ✓ Increase of interest rate.

TOOLS

Open market policy
- ✓ Purchase of securities.
- ✓ Sale of securities.

Compulsary reserve policy
- ✓ Reduction of mandatory redundancy.
- ✓ Increase of mandatory redundancy.

Accounting policy
- ✓ Lowering the discount rate.
- ✓ Increase of the discount rate.

Types of monetary policy

TYPES OF MONETARY POLICY

Monetary-credit restriction (policy of "expensive money")	Monetary-credit expansionary ("cheap money" policy)
Aimed at limiting the amount of credit operations, raising interest rates and reducing the rate of the growth of the monetary supply.	Accompanied by expansion of lending operations, decline in interest rates and total increase in money supply.
is used to smoothen fluctuations of the economic cycle and to fight inflation and to stabilize the monetary system.	is used to overcome the decline in production and to revitalize business activity by stimulating inflationary processes and increasing effective demand for goods and services.

Central Bank Open Market Operations

CENTRAL BANK OPEN MARKET OPERATIONS

Restriction policy

- ✓ Sales of securities to commercial banks;
- ✓ Reducing of banking resources;
- ✓ Reduction of loan investments into the economy.

Expansionary policy

- ✓ Purchase of securities from commercial banks;
- ✓ Increase of banking resources;
- ✓ Increasing the amount of loans given to market subjects.

Implementation of the Central Bank's interest rate policy

Change in central bank discount rate

“Expensive Money” Policy	“Cheap Money” Policy
Increasing rates	Decreasing rates
Reducing the amount of commercial bank lending	Increasing demand for loans from commercial banks
Increase in interest rates on loans from commercial banks	Reduction of interest rates on loans from commercial banks
Decrease of credit investments in economy	Increase of credit investments in economy

Principles of the NBU functioning

Principles	Characteristic
The principle of bank independence	Executive and legislative branches have no right to interfere in the process of performing the functions of the bank established for at the legislative level. The NBU has the right to support the economic policy of the government as long as it does not contradict the stability of the national currency. The NBU is forbidden to provide direct loans to the government to finance state budget expenditures.
The principle of presidential and parliamentary control over the activities of the bank	The NBU reports to the President and the Verkhovna Rada of Ukraine, which are empowered to appoint and dismiss the Chairman of the Bank and form the Bank's Board. The NBU Chairman informs the President and the Verkhovna Rada about the activities of the bank and the state of the money market in the country.
The principle of centralization of the bank system	The NBU system is organized in such a way as to ensure the implementation of a unified state monetary policy in all regions of Ukraine under a unified centralized leadership. Territorial Departments are structural units of the NBU without the status of a legal entity and carry out functions in a certain territory on their behalf.
The principle of unity of the bank system	All structural units and institutions are united by a common set of goals and objectives for the NBU. All of them are guided by the same legal standart established in the laws of Ukraine, presidential decrees, and the NBU regulations.
The principle of vertical structure of bank management	Appointment of officials and their subordination are carried out only vertically.

Classification of commercial banks

CLASSIFICATION OF COMMERCIAL BANKS

1. By ownership
- ✓ Unitary;
- ✓ Collective.

2. Depending on the range of operations
- ✓ Universal ;
- ✓ Specialized.

3. By legal form
- ✓ Private share holders of the company;
- ✓ Public joint-stock company.

4. By area of destination
- ✓ Regional;
- ✓ Interregional ;
- ✓ Nationwide ;
- ✓ International.

5. By national allegiances
- ✓ National;
- ✓ Foreign;
- ✓ Shared.

6. By the size of assets
- ✓ Small;
- ✓ Average;
- ✓ Great.

7. By financial position
- ✓ Stable (secure);
- ✓ Problematical;
- ✓ Crisis;
- ✓ Bankrupt.

Formation of commercial bank resource base

COMMERCIAL BANK RESOURCES

Own

The main capital

- ✓ Share capital;
- ✓ Reserve capital;
- ✓ Undistributed profit of previous years;
- ✓ Profit-based special funds.

Additional capital

- ✓ Banking risk insurance reserves;
- ✓ Undistributed profit.

Involved

- ✓ Demand deposits;
- ✓ Term deposits;
- ✓ Certificates of deposit;
- ✓ Savings Certificates.

Borrowed

- ✓ Interbank loans;
- ✓ Central bank loans;
- ✓ Bond loans.

Equity capital functions

Bank’s equity functions

Protective

Realizations of the interests of depositors and creditors, as well as cover are of current losses from banking activities.

Operational

Creation of the financial basis of the bank's activities, that is, adequate increase of its active operations.

Regulatory

Setting of certain standards for commercial banks by the central bank in respect of the size of their own capital in order to ensure the proper functioning of banks.

Leading active operations of banks

LEADING ACTIVE OPERATIONS OF BANKS

Credit operations

Consist of a set of actions related to the granting bank loans in accordance with the principles of urgency, earmarking security and payment.

Loan portfolio

A set of all loans provided by the bank for profit.

Investment operations

Mean investing in securities of enterprises of all forms of ownership in order to generate additional income.

Investment portfolio

A set of banking resources invested in securities.

Classification of banking services

Classification features	Types
Depending on the movement of material product	services related to the movement of a material product (for example, cash and settlement services);
	only services (eg. consulting);
Depending on consumers	services to legal entities;
	services to individuals;
Depending on the service display in the balance	Balance;
	off-balance (transactions that are not reflected in the balance sheet for some time until they are reflected in the bank's profits or losses of the bank);
Depending on the service fee	paid;
	free of charge;
Depending on the ability to account for paid services and the ability to determine the amount of payment	services to be accounted for (cash and settlement, currency);
	services, analogues of which are in the appropriate tariff (consulting);
	services that cannot be objectively priced (typically provided by banks in a packeg with paid services);
Depending on the tradition	traditional;
	not-traditional.

Types of traditional and non-traditional banking services

BANKING SERVICES

TRADITIONAL

- cash and settlement services;
- currency transactions.

NOT-TRADITIONAL

- guarantee;
- mediation;
- trust;
- consulting;
- factoring.

Classification of specialized financial and credit institutions

SPECIALIZED FINANCIAL AND CREDIT INSTITUTIONS

Contracting

- Insurance companies
- Pension funds
- Pawnshops
- Leasing companies
- Factoring companies

Attract funds on the basis of a contract with the lender.

Investment

- Investment funds
- Financial companies
- Credit unions

Attract funds by selling their securities to creditors.

Characteristics of specialized financial and credit institutions

Name	Function	Features of formation of financial resources
Insurance companies	are formed to compensate for possible losses as a result of unforeseen economic and financial risks, natural disasters, and other adverse conditions.	mobilize funds by obtaining insurance contributions from legal entities and individuals on the basis of the conclusion of indemnitication agreements with them, selling insurance policies. The mobilized sums of the company's assets are placed in revenue assets (stocks, bonds of private corporations, public debt, long-term loans to enterprises of different industries), at the expense of which they cover their operating expenses, earn profits, and create reserves for payment of indemnities upon the occurrence of insurance cases.
Pension funds	act to provide the population with money in the post-retirement period.	accumulate funds of legal entities and individuals. They place free funds in long-term income assets (corporate bonds, equities, government securities, long-term loans). At the expense of additional income, funds not only cover their operating expenses, but also pay pensions in excess of the amount of pension contributions.
Pawnshops	provide loans secured by movable property.	give the borrowers small sums for relatively short terms (mostly up to three months), take things (mainly jewelry and antiques) for storage for a fee, sell on a commission basis the value of non-repayable clients, they can borrow from banks.
Leasing companies	specialize in long-term leasing of long-life items.	purchase durable items (machinery, equipment, vehicles, etc.) and lease them out to those who pay the value of the leased property through their productive use.

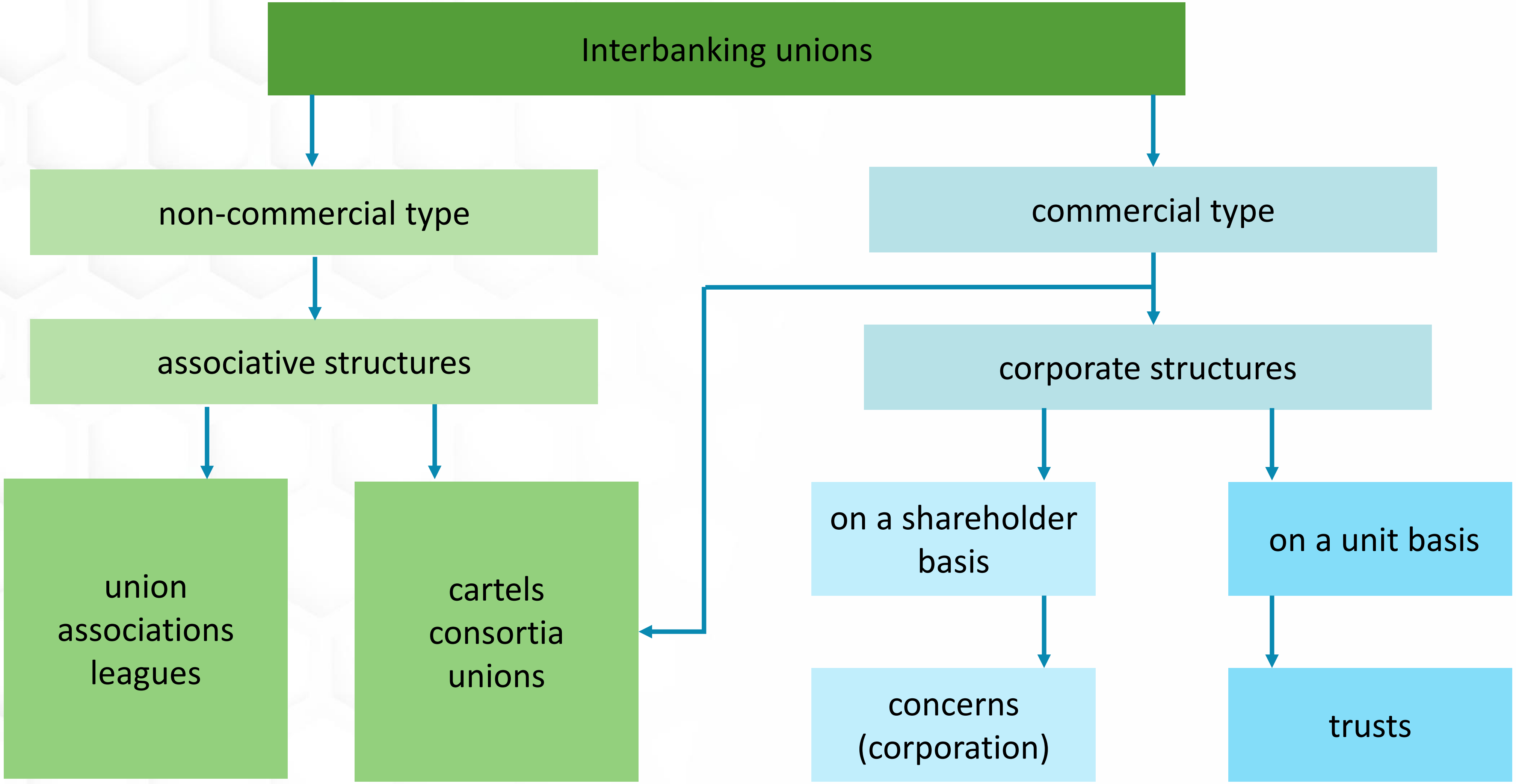
Characteristics of specialized financial and credit institutions

Name	Function	Features of formation of financial resources
Factoring companies	Specialize in the purchasing open invoices of customers.	Collect the receivables of the buyer, for which they receive interest for using the loan (above the market rate for loans of corresponding maturity by 2-3%) and the service fee.
Investment funds	Specialize in the management of free investment funds.	They accumulate small private investors' money by issuing their own securities, and then place them in shares of other corporations and in government securities.
Financial companies	Provide loans to individuals and legal entities for the purchase of industrial or consumer goods.	Mobilize funds by issuing debt (bonds or bills) and obtaining short-term loans from banks. They provide loans to small and medium-sized enterprises, consumer loans (as a rule, the buyer pays part (20%) of the value of the goods, and takes the trade credit for the rest of the amount).
Credit unions	Specialize in meeting the credit needs of their members, mainly small and medium-sized businesses of any form of ownership, farmers and households, individuals.	Form resources by selling units to their members, collecting special contributions from them, obtaining loans from banks, and obtaining income from current activities. The mobilized funds are primarily placed in short- and medium-term loans to their members (at interest rates lower than bank loans). Non-borrowed funds may be deposited with banks on income-earning deposits or invested in short-term high-liquidity securities.

Classification of interbanking associations

Classification	Type
Depending on the participants	Purely banking associations.
	Mixed-type associations, which include both businesses, organizations, and one or more banks.
Depending on the goals	Business type unions focused on getting and maximization of profit.
	A non-profit type association whose primary purpose is to provide different types of services to its members.
Depending on the time of activity	Perpetual unions, acting permanently.
	Unions created for a definite period.
Depending on the degree of dependency and subordination of individual structures	Associative voluntary associations, members of which are equal in status independent banks, which voluntarily delegate the performance of certain functions to created association and its apparatus.
	Corporate, property-based and merger-based entities that have a rigid hierarchical structure and are dependent on the parent bank that holds the controlling interest.

Classification and types of interbank unions



Classification of commercial-type interbank unions

Interbank unions

consortium

temporary association of several banks on a contractual basis for joint credit, guarantee or other banking transactions.

cartel

a large banks association based on an agreement on the division of activities (coordination and implementation a common policy in setting interest rates and dividend, payment credit terms, etc.).

syndicate

the guarantee agreement of a group of banks for carrying out any profitable operation, the scale of which is so large that one bank cannot carry it out.

concern

monopoly unions joint-stock banks, where a large bank (the major joint-stock company) owns a controlling interest in a legally independent banks (subsidiary corporation), thereby effectively establishing financial control over their activities.

trust

a monopoly bank merger, that formed association by banks that are part of it. At the same time, the latter lose legal, commercial independence and are subject to a single governing body.