The share market is an objective economic mechanism which provides internal institutional and functional integrity of the equity sector and the market system of relations. Importance of the research is due to the fact that share market potentially can help to bring economic restructuring in Ukraine becoming a factor of economic growth, employment, integration of Ukraine into the world economy. The goal of the research is to identify main aspects of Ukrainian share market management as well as providing recommendations to improve its functioning. This paper lead to important conclusion – the main objective of the Ukrainian share market at the current stage of development should be the mobilization of temporarily free funds of individuals and businesses, the redistribution of resources in those sectors that require additional funding for further development. Research is based on comparative analysis and statistical data analysis of the current and past situations in Ukrainian share market. The study used the data of the National Securities and Stock Market Commission of Ukraine, PFTS Stock Exchange and Ukrainian Exchange data.

Key words: investors, problems of share market, securities, stock exchange, share market, stock market.

JEL codes: G14, G24.

1. Introduction

A stock market is a significant component of economy of any state, including Ukraine. The stock market comprised from mechanisms and regulations enabling to implement sale and purchase of securities. The stock market has its own infrastructure – a set of systems, organizations and technologies allowing the stock market participant to increase efficiency of his business and lower the risks due to the transactions at the market. One of the main segments of the stock market is share market, which is currently the most developed and attractive to investors. Share market has a special place in the stock market. Steady, stable functioning, share market is one of the factors that determine the investment climate in the country, helping to attract and distribute investment capital in promising sectors of the economy. Share market plays an important role in economic development as a financial tool for the activities of enterprises and mediation movement of equity and its overflow to the most profitable areas of economy. Research of share market efficiency and its fundamentals is an ongoing process, which requires systematic approach and deep analysis by both foreign and Ukrainian scientists. Works of numerous domestic economists deal with problems of share market from different sides, such as: the issue of share market as part of stock market was considered by L. Didyk (2008) and Y. Ulanova (2008), who indi-
cated that share market conditions can and should be examine from different sides, understanding and interpreting the communications system. H. Kalach (2009) studied the process of financial globalization impact on the stock market of Ukraine. O. Lyubkina (2000) gives theoretical generalization and a new solution to the problem of improving the mechanism of the Ukrainian stock market. L. Tymchyshyn (2009) considers that it is important to increase the reliability of the stock market and the level at which investors can be trusted, which is particularly significant for Ukraine. The establishment of the stock market is an important step towards the formation of an attractive investment market economy because its degree of development depends on the depth and effectiveness of market reforms in transition economies (Perepelytsya, 2006).

The purpose of a scientific paper is to disclose key aspects of Ukrainian share market management and provide recommendations to improve the functioning of the stock market.

The object of research is Ukrainian share market functioning process as part of the stock market.

Methodology of the research. Research is based on the comparative analysis and statistical data analysis of the current and past situation in Ukrainian share market. In order to derive problems which current Ukrainian share market is facing the paper examines trends how this problems evolved and were solved. The study used the data of the National Securities and Stock Market Commission of Ukraine and PFTS Stock Exchange and Ukrainian Exchange data. The methodology base of the research is a systematic approach to the formation of main problems of Ukrainian share market development.

2. Results of research

Ukrainian stock market has been growing steadily, but for its further capitalization in the world market is necessary to solve a number of problems. In Ukraine, as in the world, the stock market reflects the state of the economy as a whole, and it is characterized by unformed traditions and rules of operation that results is the emergence of negative tendencies that hinder the development of the market of shares in the country. The most important ones are:

1. A high proportion of foreign capital. Thus, inflows of speculative capital in the Ukrainian stock market significantly increased risks comparing to other similar markets. Start of systemic crisis, decline in demand for steel companies led to a massive outflow of speculative capital, so that, for example, the PFTS index for ten months of 2008 decreased by 4.6 times (Kalach, 2009).

Negative impact on the stock market gives uncontrollable amounts by foreign capital in the form of portfolio investment. Almost 90% of circulating free float is owned by foreign investors. For example, Ukrainian investment funds have enough money to invest in securities, pension funds still too weak. Moreover, most Ukrainian companies (not to mention ordinary citizens) do not understand how does this market
functioning and do not find it attractive, as opposed to deposits and investments in real estate. Non-resident market is very transparent and multifaceted, most of the transactions take place outside of an organized stock exchange. Foreign investors buy and sell securities through commercial banks, securities companies and collective investment institutions.

2. Organized stock market is narrowly segmented with high degree of fragmentation which reduces capitalization potential of organized securities. Particularly unfavorable situation occurs on a regulated market that must perform important functions in the process of investing and increase capitalization (Vatamanyuk, 2007).

The existence of 10 stock exchanges in Ukraine, each of which operates independently and carries out transactions in securities by their own rules, separates the stock market in Ukraine, which are very important problems in the functioning of the domestic stock market. The volume of transactions on the Ukrainian stock market is growing, but the lack of a running system Delivery Versus Payment (when the execution of the transaction in securities guaranteed by the fact that the delivery will take place only on payment terms) on the Ukrainian stock exchanges casts doubt on the value and volume of transactions. It is clear that the actual volume of transactions is lower which is caused by and artificial increases in the cost of security by agreement cancelations between two parties when neither of the two parties will incur any losses or face penalties for cancelation, this operation can be consider as fraud (The National Commission…, 2011).

In fact, the Ukrainian stock market has only three stable functioning stock exchanges – PFTS Stock Exchange, Ukrainian Exchange and Perspektiva Stock Exchange with a full time operating status (see Figure 1). Other stock exchanges are just entering the market, work out customer base or conduct operations from time to time (a few times a year), usually not often and in small amounts. As shown in Fig. 1 in 2012, approximately 98.25% exchange contracts with securities focused on three stock exchanges: Perspectiva (55.2%), PFTS (33.9%) and Ukrainian Exchange (9.1%) (The National…, 2012).

3. High competition between the stock market and banking sector. Developed stock market is generally regarded as a rival of the banking sector as they compete for the maintenance and investment opportunities. However, in today's financial system, complementary relationship can occur between the stock market and banks as they choose different segments of the financial markets and focus on different types of customers. For example, small companies are riskier and seeking new financing from banks, while large companies prefer to raise money in the stock market. In developed countries, both financial sectors and the banking sector are well developed and can be considered relatively large compared to Ukraine. In Ukraine, the banking sector is the most developed segment of the financial market (capitalization of the banking system is about 9.8% of GDP), while achievements of the stock market still leave considerable space for further development.

Despite the fact that stock market does not play a significant role in the economy of Ukraine, its development has phases of growth and fall. Condition of Ukraini-
an stock market is largely depends on investor sentiment in global markets. Decline in world stock markets in early 2008, which was due to panic at first in the stock market in China (February 27 Index SSE collapsed immediately to 9%), and then in the United States (March 13, Dow-Jones index fell by 2%, mostly cause by poor quality of mortgage loans that increased the threat of a recession in the USA economy) contributed to deterioration in Ukrainian stock market (since 2008 the PFTS index fell more than 4 times).

After national financial crisis of 2008–2009 in the domestic share market liquidity has worsened. The liquidity of the Ukrainian stock market in 2009 was significantly lower than in 2008. Official trading volume on the two largest Ukrainian exchanges (PFTS and Ukrainian Exchange) was about 8 billion. A decrease of 40% compared to 2008 levels (PFTS Stock Exchange, 2011; Ukrainian Exchange, 2011). Over-the-counter trading agreements reduction was even more significant, due to the departure of many foreign investors from our market since the financial crisis.

![Diagram of stock exchanges](image)

Fig. 1. Amount of exchange contracts with securities at Ukrainian stock exchanges in 2012 (monthly), mln. UAH

In recent years, the importance of shares for the national stock market has significantly decreased. The percentage of shares in total volume of securities trading had declined. During 2012 number of shares traded in the stock market didn't exceed 5% of GDP. The growth of the total value of shares of listed companies is a result of extensive growth stock registers (via the minimum listing requirements for the liquid-
ity of shares), but this does not lead to an equivalent increase in the attractive range of tools and increase market liquidity. In contrast to global trends associated with a significant increase in share prices in 2012, the Ukrainian stock index has once again recorded the failure dynamics. In terms of indices and exchange trading volumes leading Ukrainian stock exchanges, share market in Ukraine is almost lows of 2008–2009. Today we can identify the problems that hinder the development of domestic market of shares. This problems are shown in Fig. 2. We can say that the Ukrainian share market is a speculative market that requires state control over the implementation of operations and promoting the formation of professional ethics intermediaries.

![Diagram of Main problems of the Ukrainian share market]

**Fig. 2. Problems that hinder the development of the domestic share market**

Interest of national investors and issuers in shares as object of investing and as a mechanism for raising money Reduced (despite the introduction of Internet tech-
nology trading in Ukraine, which was to provide the market a new pulse for development) and can be associated with the following reasons (Perspektiva, 2012):

1) Ukrainian stock market is not enough liquid and regulated to adequately determine the fair price of the shares;
2) gaps in the legislation and the absence of enforcement allows price manipulation using insider information. Although the regulator is trying to solve this problem using system with disclosed information;
3) there are problems with stock prices usage as a benchmark by institutional investors. However in 2014 it is expected to more closely regulate this area. Primarily due to the entry into force of amendments in Ukrainian Tax Code, which are aimed to stimulate stock exchange trading through excise rates diversification and "over-the-counter" transactions;
4) poor corporate governance. This problem sometimes arises within companies with assets in Ukraine, but which were created in foreign jurisdictions in order to increase the opportunities for raising funds in the international capital markets;
5) there is a lack of interest in public national markets from Government side. In particular, privatization has been largely "over the counter". Shares which are owned by the government have unstable prices and there are no instruments of reducing price fluctuations;
6) lack of sufficient investment instruments with high performance, this is caused by concentration of the market primarily on the same type of shares from narrow group of companies, so-called "blue chips". Low number of shares outstanding worsens by existing listing requirements that do not allow to enter in the stock exchange some group of companies, e.g. liquid stocks with small and medium market capitalization. So that's why institutional investors (mainly banks) can not invest to this companies.

However, the are positive trends in the Ukrainian share market (Didyk, 2008):
1) large amount of companies awaiting privatization;
2) exit of Ukrainian companies to the foreign borrowing market through IPO;
3) reform of domestic corporate legislation, through the adoption of the new law on "Joint Stock Companies", which protects not only minority, but also translates all securities in book-entry form;
4) the interest of foreign investors: Ukraine's entrance in to WTO, which had positive impact on the of foreign investors attitude after the global financial crisis;
5) free trade area with the EU was considered.

Ukrainian share market, rebounding from its bottom point have possibility to grow 3–5 times bigger in the next three years. That's how much he has lost as a result of the financial crisis. Most private investors invest directly into the companies bypassing the funds. Crisis has undermined the credibility of both Ukrainian banking system and collective investment institutions.

The amount of money of private investors in the market increased significantly after online trading systems were launched. Boosted trading activity at the Ukrainian Exchange on March 27 2009 was caused increased investor activity, including indi-
viduals who can start trading virtually without any restrictions on start-up capital. For the first time in Ukrainian Stock Exchange internet trading was implemented and "market of proposals" was established. This technology was introduced in PFTS Stock Exchange on May 15, 2009. Thanks to these important innovations, the Ukrainian stock market moved to a new stage of development, leaving behind the Russian and Polish stock markets.

Stabilization of Ukrainian currency contributed to the stock market development. Since the hryvnia strengthened, shares became more interesting tool for investors because they can receive return on investment in securities and return on currency fluctuations as well.

Thus, the chance of successful integration of the Ukrainian stock market in the structure of international financial markets is determined on how successfully inner problems can be resolved. This increase market competitiveness by stimulating domestic demand for financial instruments, reducing the regulatory and operating costs, consolidation of market infrastructure, ensuring the objectivity, independence, integrity and fairness of pricing, reducing the risk of financial intermediaries and systemic risk attributable to the overall market (Lytovchenko, 2009).

3. Conclusions

1. The results of the study can highlight the following aspects of Ukrainian share market management. Despite some positive trends in the stock market, as evidenced by the increase in the ratio of capitalization to GDP and the volume of trading in securities, the stock market remains one of the weakest elements in the domestic financial system of Ukraine. Situation can be considered complex due to fact that stock market commenced growing stage. Thus policy developers confronted with two main problems of multi-directional nature: to form the stock market and to fulfill stock market objectives within the country scale. Since the stock is in the growing stage. Second unit problems are getting more complicated.

2. At the current stage of Ukrainian economic development share market should focus on tasks concerning investments in the overall economy. In earlier stages share market performed narrow and specific functions. For example, it was used as one of the technical tools during the privatization of state enterprises. This caused primary market to emerge, but with specific characteristics. Primary market was only used in the privatization process, both as IPO almost happened. Hence primary share market did not provide enterprises with real investment resources.

3. The main objective of the Ukrainian share market at the current stage of development should be the mobilization of temporarily free funds of individuals and businesses, the redistribution of resources in those sectors that require additional funding for further development. Share market must be redirected from the function of ownership rights redistribution to the function of accumulation and resources redistribution. In contrast to the accumulation and redistribution of funds through the banking system, the stock market is focused on long-term redistribution of financial
resources that can ensure the process of expanded reproduction. In addition, the resources gathered via the share market are cheaper than banking resources. Share market should be an alternative source of investments and compete with the banking sector, ensuring the economy is relatively cheap and long-term oriented in terms of financial resources.

4. In the long term perspective the development of a strong share market plays a crucial role in successful integration of Ukraine into a single financial market of the European Union (EU). Especially important is the development of share market regulators in compliance with international standards. So they can qualify for mutual recognition by of EU member which in turn is a part of integration process in the EU. Thus, taking into consideration the need in stable financial system in terms of transformation of the economy, it is necessary to organize institutional prevailing share market that in the future will be efficiently integrated into the structure of developed market economies.

5. Areas for future scientific developments in terms of crisis overcoming and ways to enhance the functioning of the Ukrainian share market are follows:
   - the focus of government regulations on cooperation with international organizations and cooperation regarding information exchange;
   - reforming the stock exchanges: increasing number of tools available on stock exchange, including the admission of derivatives trading;
   - attracting market-savings by equating interest income from bank deposits and income from securities transactions;
   - strengthening the role of local institutional investors.

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UKRAINOS AKCIJŲ RINKOS VALDYMO PAGRINDINIAI ASPEKTAI

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Santrauka


Reikšminiai žodžiai: investuotojai, vertybiniai popieriai, birža, akcijų rinka, fondų rinka.

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