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International Banking in Ukraine: Determination, Genesis and European Vector

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ANNOTATION. The Covid-19 pandemic and the war in Ukraine have contributed to a slowdown in banking internationalisation, but the growing trend of emerging markets towards international capital movements, technological innovations in the financial sector, and sustainable trade relations is increasing the relevance of international banking research in Ukraine. Based on an analysis of the historical overview of views on global banking in the last decades of the twentieth and first decades of the twenty-first century, the article defines the definitional features of international banking. The article emphasises the importance of foreign competition for the domestic banking sector. In this sense, a retrospective analysis of the entry of foreign banking capital into the domestic market of Ukraine is carried out and the strategies of foreign banks' penetration and forms of their presence are identified from the point of view of the evolution of the banking system development and transformation of the regulatory environment in Ukraine. The author notes the impact of the European integration vector on the intervention capabilities of international banks in the domestic market and the entry of domestic participants into the European market, and outlines the reaction of the financial system to the resulting internal and external shocks. As part of the overall transformations aimed at bringing Ukraine's accession to the EU closer, the author notes that the entry of foreign banks results in the introduction of new financial products and instruments, with a special focus on the convergence of the regulatory regime based on a harmonised set of prudential requirements and the concept of equivalence. It is noted that the domestic banking sector today, given all external and internal challenges and threats, has significant reserves in terms of capitalisation, and foreign banks are its support, and the author substantiates the need to continue an effective policy of foreign capital attraction in compliance with EU requirements and standards.

Key words: international banking, banks, foreign banks, European integration, foreign capital, sustainable development, competition of the domestic banking sector, economic development, stages of development of the banking system

Introduction

The penetration of foreign banks into emerging markets has been active in the early third decade of the 21st century, as developed and developing countries increasingly seek to liberalise their financial systems to achieve

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growth outcomes for their economies[3]. Although the Covid-19 pandemic and the war in Ukraine have contributed to a sustained retreat from global banking[4], emerging markets' growing appetite for international capital flows, technological innovation in the financial sector and sustainable trade links means that banks remain committed to generating higher returns than their domestic markets can offer. Regulatory restrictions on access to the domestic market affect the state of the banking system in European countries and Ukraine, and it is those countries that apply lower restrictions to foreign entrants that increase their market advantage. Therefore, the purpose of the article is to investigate the impact of global events, such as the Covid-19 pandemic and the military conflict in Ukraine, on international banking, and to outline the importance of studying this area in the context of increasing capital flows and technological progress. Based on a historical analysis, the paper explores the entry of foreign banks into the Ukrainian market, emphasising the importance of regulatory convergence and supporting efforts to attract foreign capital in line with European Union standards.

Status and vectors of research on the problem

Many global studies of the late 20th and first two decades of the 21st century examined the effects of banking globalisation at the macro level[5]. Some foreign scholars have investigated the role played by banks in the international transmission of shocks and related business cycle movements[6], how foreign direct investment in the financial sector affects key macroeconomic indicators in host countries[7] or institutional development[8]. Some papers have examined how banks go abroad (foreign

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[8] Mishkin F. Is financial globalisation beneficial? J. Money Credit Bank, 39 (2007), pp. 259–294

branch or subsidiary)[9], the role played by foreign banks in developing countries[10] and developed countries and regional unions[11]. Most authors conclude that the liberalisation of financial systems in most developing countries has completely changed the structure of banking industries worldwide and led to the intensive development of transnational banks[12]. Banking markets, which were previously well protected and regulated, especially in developing countries, have undergone significant changes due to the increased presence of foreign banks[13]. The globalisation of the banking system has been studied in a number of scientific publications by domestic scholars. During the first decade of the XXI century, our researchers focused on globalisation processes in the banking sector, the motives for foreign banks to enter the markets of Eastern Europe and the consequences for domestic banks[14], the search for a strategy for the development of the Ukrainian banking system in the context of globalisation of financial markets[15], the peculiarities of taxation of banking activities in Ukraine[16], the impact of foreign capital on the national financial system and financial security of the Ukrainian banking system[17],

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regulatory aspects of establishment and operation of branches of foreign banks in Ukraine, anti-crisis policy, restrictions and limits of foreign capital presence in the domestic banking system[18], research of transnational banks, role of foreign capital in the development of interbank competition in Ukraine[19].

In the second decade of the twenty-first century, the national scientific thought was focused on the study of the impact of foreign capital on the competitiveness of domestic banks[20], the issues of state regulation of foreign banks[21], the prospects for the development of banks of foreign banking groups in Ukraine[22], the European vector of foreign banking[23].

During the pandemic and military aggression, the main focus of domestic scholars was on the impact of foreign capital on the stability of the Ukrainian banking system[24], competitive advantages, current trends and problems of attracting foreign banking investment in the Ukrainian economy[25].

Systematising and analysing the areas of research and the issues covered in the works of domestic scholars on foreign banks, we conclude that most studies focus on the effects of the presence of foreign banks in the domestic economy, but the emphasis on a number of other important issues related to this process has been significantly lost. First of all, understanding the

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22 Girchenko, T. D., Storozhenko, O. O., Sheiko, O. P., Girchenko, T. D., Storozhenko, O. A., Sheiko, E. P. (2017). Analysis of the current state and prospects for the development of banks of foreign banking groups in Ukraine; *Minenko, L. M.* (2017) Activities of foreign banking groups in Ukraine: key trends and risks. Scientific Bulletin of Uzhhorod National University: Series: International economic relations and world economy. Issue 13. vol. 2. P. 26–30. [In Ukrainian]

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[25] Goy, Y., Terebukh, M. (2021). Activities of banks with foreign capital in Ukraine. In Comprehensive Approach to the Modernisation of Science: Methods, Models and Multidisciplinarity: Proceedings of the First International Scientific Conference, Vinnytsia (Vol. 19, pp. 42–44); Onishchenko, Y. I., Yavorsky, V. V. (2022). State-owned banks in the structure of the banking system of Ukraine. BBC 65.9 (4Ukr) 26, p. 116; Gordienko L A, Sarana L A (2021). Scenarios for the functioning of the banking system of Ukraine in the context of the COVID-19 pandemic. *Modern Economics*. No. 29(2021). C. 75–81. DOI: https://doi.org/10.31521/modecon.V29(2021)-12. [In Ukrainian]

multidimensional nature of the phenomenon under study, it is advisable to define the interpretation of the basic concepts of international banking and to investigate why the Ukrainian economy opened its financial systems to foreign competition. In this sense, it is also extremely interesting to examine the strategies of foreign banks' penetration and the forms of their presence from the perspective of the evolution of the banking system and the transformation of the regulatory environment. A related issue is the impact of the European integration vector on the intervention capabilities of international banks and the entry of domestic players into the European market, as well as the reaction of the financial system to internal and external shocks. We cannot ignore such consequences of the entry of foreign banks as new financial products and instruments and their impact on the level of systemic risks in the domestic financial system.

Essential parameters of a foreign bank and international banking activities

In order to confidently answer these questions, it is necessary, first of all, to define the essential content of a "foreign bank", clearly outline its boundaries and vectors of activity, business models and specifics of their financial strategies, peculiarities and differences in countries of the world, as well as the role of foreign banks in the global and domestic banking systems. First, let us try to establish the definitional features and the relationship between the following related concepts: international banking (international banking), internationalisation of a bank, transnational bank (global and regional), foreign bank, bank with foreign capital (Fig. 1).

Based on the conceptual theoretical and methodological framework, banks perform many important functions that facilitate economic activity: allocating resources, diversifying risks, mobilising and pooling savings, exercising corporate governance, and facilitating the exchange of goods and services. Banks are expanding their operations in other countries to further diversify risks, earn higher profit margins and achieve economies of scale[26]. International banking flows interact with other types of flows (e.g. foreign direct investment, deepening of local capital markets).

[26] Cull, R. and Peria, M., Soledad, M. (2010). Foreign Bank Participation in Developing Countries: What Do We Know About the Drivers and Consequences of this Phenomenon? World Bank Policy Research Working Paper No. 5398. https://ssrn.com/abstract=1656219.

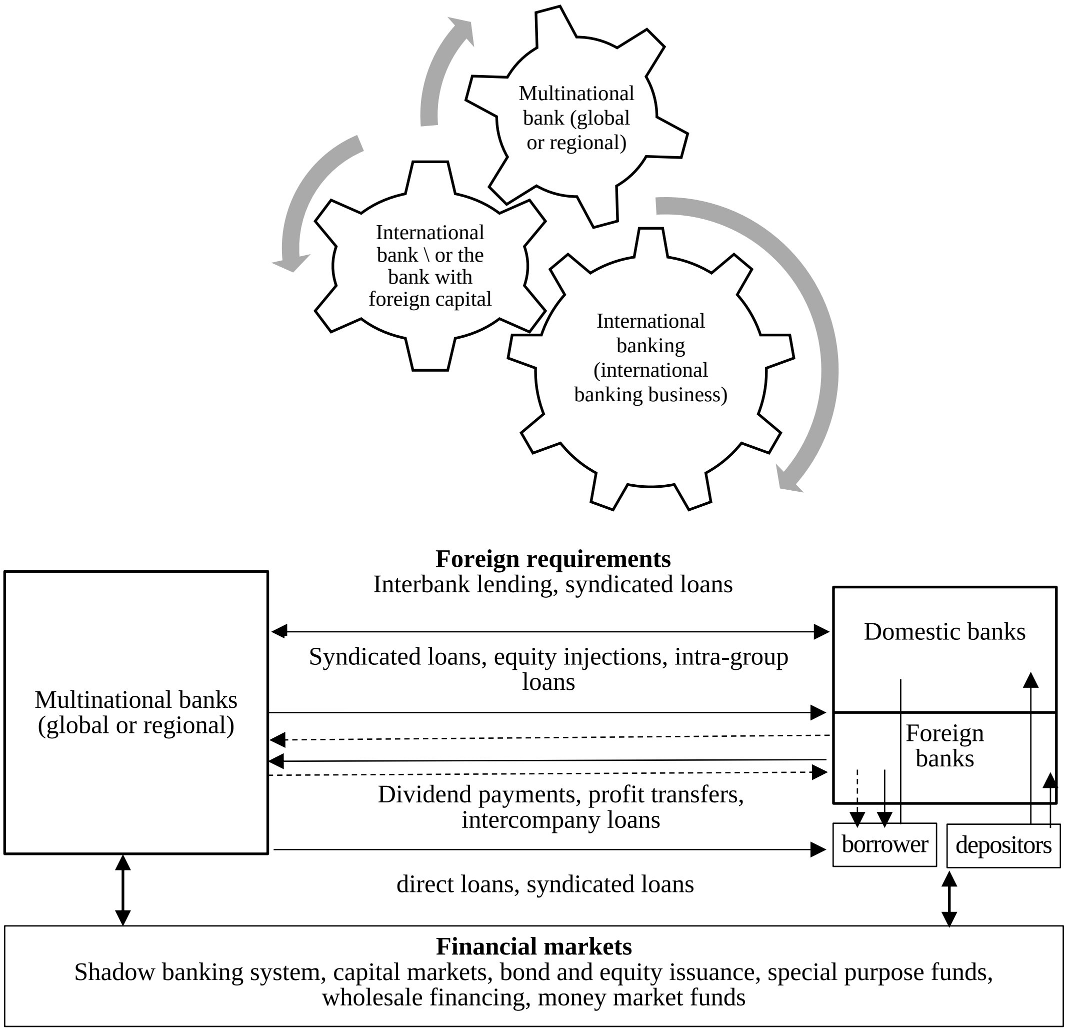

Figure 1. Taxonomic relationship between definitions of international banking

Source: developed by the authors

International banking (international banking business) refers to the provision of financial (banking) services to clients in different (legal and banking) jurisdictions[27]. In today's world of highly integrated financial architecture, deregulated banking, market openness, fast and secure flow of

[27] Role of foreign banks in emerging markets. International Monetary Fund publication. Chapter 4. https://www.elibrary.imf.org.

information and transfer of values, banks are not limited to the domestic market. Instead, a whole range of financial services in different geographical markets is available even for small domestic banks as well as for large multinationals. In addition, advances in communication and payment technologies, coupled with the widespread adoption of mobile internet devices, are enabling financial technology (or FinTech) start-ups to challenge traditional financial institutions in domestic and potentially international intermediation activities.

International banks are also called transnational banks. Although the two terms "international" and "transnational" are sometimes used interchangeably, there is a subtle difference. A transnational bank refers to banks that own and operate physical banking institutions (e.g. branches and subsidiaries) in different countries. For example, HSBC[28] has a presence (branches and subsidiaries) in 35 countries (as of July 2022), providing both domestic and international banking services.

Thus, a multinational corporation refers more to organisational forms than to the types of services provided. On the other hand, the term "international banking" refers to the traditional cross-border and cross-currency activities of foreign banking and Eurobanking[29]. This refers more to the types of banking services provided, not necessarily the location of the services or customers.

From these definitions, it is clear that international banking services can be provided by both transnational and domestic banks. The initial impetus for the growth of cross-border and cross-currency foreign banking activities in the mid-1980s coincided with the deregulation of the financial system of major economies. The rapid growth from the early 2000s continued to its peak of USD 35 trillion in the first quarter of 2008 before beginning to reverse. The global financial crisis that began in mid-2007 triggered a halt in international banking activity that lasted until the fourth quarter of 2016, when it reached USD 27 trillion, before beginning to recover, reaching USD 36 trillion by the first quarter of 2022[30].

International banking activity refers to the functions performed by banks rather than to the organisational aspects of banking operations: international trade finance, interbank foreign exchange market activities, participation in the euro currency market, sovereign lending, and international investment banking. Banks engage in international banking, i.e. internationalise their

[28] Established in Hong Kong in 1865 to finance trade between Europe and Asia, HSBC is one of the world's largest banking and financial institutions. Today, it serves around 39 million personal, private and corporate customers worldwide in 62 countries and territories. https://www.hsbc.com/

[29] Eurobanking refers to international banking activities involving financial services denominated in currencies other than those of the market where the transactions take place (e.g. an Australian bank extending a USD-denominated loan to a Japanese multinational borrower in London).

[30] McCauley, R. N., McGuire P. and Wooldridge P. (2021). Seven decades of international banking. BIS Quarterly Review. https://www.bis.org/publ/qtrpdf/r_qt2109e.htm .

activities, for several main reasons, including defensive expansion, when banks are forced to follow their customers abroad; access to foreign markets to expand and diversify their balance sheets; participation in the euro currency market and benefit from regulatory arbitrage. The degree of a bank's internationalisation is measured in two alternative ways: by the share of total assets owned by its foreign subsidiaries or by the number of foreign host countries where the bank has at least one subsidiary[31].

Different organisational forms of international banking (representative offices, agencies and branches) allow for different types of international banking activities[32]. The organisational forms vary from the relevant banking agreement, and some forms of banking are investment joint ventures, while others are set up to compete with local banks in the host market. A subsidiary is incorporated in the host country and is a separate legal entity from the parent company. A representative office can carry out communications, process customer requests and collect information, while an agency can only serve corporate clients and receive foreign deposits. A branch and a subsidiary can carry out banking activities that are permitted by the home and host countries.

National legislation has its own specifics for defining and classifying a bank as a foreign bank. Thus, according to the decision of the Committee on Supervision and Regulation of Banks, Supervision (Oversight) of Payment Systems of the National Bank of Ukraine, in order to ensure a comprehensive analysis of banks' activities and distribution of supervisory functions, banks are classified into the following groups: state-owned, privately owned and foreign banking groups[33] . The criteria for assigning banks to different groups are:

- ✓ direct or indirect state ownership of a share in the bank's authorised capital exceeding 75 %;
- ✓ more than 50 % of the bank's share capital is owned directly or indirectly by one or more private investors;
- ✓ a controlling stake is held by foreign banks or foreign financial and banking groups.

The Law of Ukraine "On Banks and Banking Activities"[34] defines the term "bank with foreign capital" as a bank in which the share of capital owned by at least one foreign investor is at least 10 %. It also states that

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[31] Bertay, A. C., Demirgüç-Kunt, A., Huizinga, H. (2022). Are International Banks Different? Evidence on Bank Performance and Strategy. J Financ Serv Res. https://doi.org/10.1007/s10693-022-00390-3

[32] International Banking: A Functional Approach. International Banking: Functions, Theories, and Types. worldscientific.com.

[33] On the division of banks into groups: Decision of the Committee on Supervision and Regulation of Banks, Supervision (Oversight) of Payment Systems of the National Bank of Ukraine No. 40 dated 05 February 2021. URL: https://bank.gov.ua/ua/legislation/Decision_05022021_40_CCRB_PS .

[34] On Banks and Banking Activities: Law of Ukraine of 07.12.2000. No. 2121-III. Bulletin of the Verkhovna Rada of Ukraine. 2001. No. 5–6. Art. 30. URL: https://zakon.rada.gov.ua/laws/show/2121-14#Text [In Ukrainian]

foreign banks have the right to open branches and representative offices in Ukraine. According to domestic scholars, the legislative interpretation is not exhaustive and gives rise to other related concepts: "pseudo-foreign banks", where the owners are foreign companies owned by domestic investors, and "quasi-foreign banks" with minimal participation of foreign investors, which in fact cannot influence strategic decisions in the company's management[35]. That is why, based on foreign approaches, the national literature defines a foreign bank as an institution in which the centre that makes important strategic decisions and is controlled by foreign owners is located abroad, i.e. the main feature of a foreign bank is the location of the actual centre of strategic decision-making abroad, as well as majority control by foreign investors.

Systematising the views of domestic research over the past two decades[36], we note that the evolutionary development of transnational banks' entry into the Ukrainian market was necessarily linked to the process of formation and development of the Ukrainian banking system. In addition, an important determinant of the variability of the share of foreign banking capital is the economic and political preconditions, the quality of reforms and transformations in financial policy.

The genesis of the development of the Ukrainian banking system in the context of foreign banking capital entry

The study of the genesis of the banking system development allows us to form our own view of the retrospective section of the entry of foreign banking capital into the domestic market of Ukraine and to identify, based on the state of the domestic banking system, the regulatory framework for foreign banks and the conditions of entry, general economic, political and global challenges, 7 main stages of the entry process:

— the initial stage of extensive development – 1991–1994,

— the first stage of stimulating consolidation processes –1995–1998,

— the second stage of modernisation and gradual liberalisation of conditions – 1999–2004,

— the third stage of active expansion of foreign capital – 2005–2008,

[35] Ivasiv I. B., Kornyliuk R. V. (2011). Strategic aspects of regulation of foreign banks in Ukraine. Finance, Accounting and Audit: a collection of scientific papers. 17. P. 82–101 [In Ukrainian]

[36] Vovchak O. (2008) Banking: Textbook.Lviv: Novyi Svit-2000, 560 p.; Dziublyuk O. (2000) Organisation of monetary relations of society in the conditions of market reform of the economy. Polygraph book, 512 p.; Lutsiv B. (2004) Money, banks and credit: in schemes in comments: a textbook. 3rd edition, stereotyped. Ternopil: Carte Blanche, 214 p; Liutii I. (2000) Monetary policy in a transition economy. *Economy and State*. No. 6; Foreign banks in Ukraine: influence and regulation: Monograph. (2012) R. V. Kornyliuk, I. B. Ivasiv, O. M. Dyba. KNEU. 234 p.; Kornyliuk R. (2010) Retrospective analysis of foreign banks in Ukraine. Ekonomika i region No. 3 (26). PoltNTU. P. 146–152; Onishchenko Y., Borysevych V. (2016) Stages of transformation of the banking system of Ukraine. Economy and society. Issue # 7 / 2016 pp. 805–812; Dyatlova Y. (2021) International aspect of the banking sector development: current trends, factors and problems. *International Relations: Theoretical and Practical Aspects.* Issue 7. ISSN (print) 2616-745X [In Ukrainian]

—the fourth stage of the M&A wind-down – 2008–2013,
—the fifth stage of significant fluctuations in the presence of foreign capital – 2014–2021,
—the sixth stage of wartime resilience – 2022 to the present.

In the midst of geopolitical challenges and economic events of the last decade, the European integration dimension visualises the near future of transformations in domestic politics. Based on modern domestic research[37], we note that even the pre-war level of competitiveness of domestic banking institutions is quite low compared to EU countries, and their efficiency is in line with the countries that were the last to join the Union (Croatia, Czech Republic and Slovenia). However, the existing weaknesses, such as low capitalisation, high risk and low reliability of small banks against the background of significant concentration of assets, have a destructive impact on the development of the country's financial system, and, secondly, impede the harmoniousness of the European integration process.

Table 1

STRUCTURAL BREAKDOWN OF BANKS IN EU MEMBER STATES AND UKRAINE BY RESIDENCE OF BENEFICIARIES OF BANK CAPITAL (2020)

	Number of banks	% of local banks	% of foreign banks with ultimate ownership in EU countries	% of foreign banks whose ultimate owners are from other countries
Austria	540	95.19	3.52	1.30
Belgium	463	92.87	4.54	2.59
Bulgaria	20	40.00	40.00	20.00
Cyprus	34	73.53	14.71	11.76
Czech Republic	25	36.00	56.00	8.00
Germany	1368	97.51	1.02	1.46
Denmark	69	97.10	1.45	1.45
Estonia	22	86.36	13.64	0.00
Spain	177	85.88	7.91	6.21
Finland	53	98.11	1.89	0.00
France	294	89.80	2.38	7.82
Greece	8	87.50	12.50	0.00

[37] Koverza V. S., Neizvestna O. V., Shendryhorenko M. T., Ivanova N. S. (2020). Ways to increase the competitiveness of banks in the context of integration into the eu. Effective Economy. No. 11. URL: http://www.economy.nayka.com.ua/?op=1&z=8351 DOI: 10.32702/2307-2105-2020.11.75 [In Ukrainian]

Completion of the table 1

	Number of banks	% of local banks	% of foreign banks with ultimate ownership in EU countries	% of foreign banks whose ultimate owners are from other countries
Croatia	31	54.84	35.48	9.68
Hungary	29	55.17	34.48	10.34
Ireland	433	78.98	10.16	10.85
Italy	399	96.49	3.26	0.25
Lithuania	5	40.00	40.00	20.00
Luxembourg	76	26.32	46.05	27.63
Latvia	38	65.79	10.53	23.68
Malta	18	50.00	22.22	27.78
Netherlands	112	83.04	7.14	9.82
Poland	141	87.94	10.64	1.42
Portugal	112	89.29	5.36	5.36
Romania	30	50.00	40.00	10.00
Sweden	93	96.77	2.15	1.08
Slovakia	18	66.67	16.67	16.67
Slovenia	10	0.00	100.00	0.00
Ukraine	74	55.41	36.49	8.1

Source: developed by the authors based on [38]

Emphasising the important role of foreign banking capital in developing countries and agreeing with the conclusions of global studies[39], we confirm that a significant presence of foreign banks is typical for Eastern European EU member states such as Slovakia, Lithuania, Hungary, Croatia, the Czech Republic and Bulgaria. The domestic banking system also tends to follow the same structure in terms of the residency of banking institutions' ownership. Luxembourg has historically had the largest presence of foreign

[38] Lucia Gibilaro and Gianluca Mattarocci (2021) Cross-border banking and foreign branch regulation in Europe. *Journal of Financial Regulation and Compliance* Vol. 29 No. 3, pp. 280–296 Emerald Publishing Limited.1358-1988 DOI 10.1108/JFRC-08-2020-0072; The official portal of the NBU. Title from the screen. URL: https://bank.gov.ua/ua/statistic

[39] Cerutti, E., Correa, R., Fiorentino, F. and Segalla, E. (2017), Changes in prudential policy instruments – a new cross-country database, International Journal of Central Banking, Vol. 13 No. S1, pp. 447–503; Claessens, S. and Van Horen, N. (2012), Being a foreigner among domestic banks: asset or liability?, *Journal of Banking and Finance*, Vol. 36 No. 5, pp. 1276–1290.

banks in Europe, as noted by international studies. Nevertheless, a comparison of the role of foreign presence of EU and non-EU banking institutions shows that the markets with a larger number of foreign banks from non-EU countries are Germany, Denmark, France, Germany, Ireland, Latvia, Malta, the Netherlands, Portugal, and the UK, although their advantage is insignificant.

As part of the overall reforms in banking legislation aimed at bringing Ukraine's accession to the EU closer to meet European requirements, including the provisions that were initially envisaged in the Comprehensive Programme for the Development of the Financial Sector of Ukraine until 2020[40], and then expanded in the Strategy for the Development of the Financial Sector of Ukraine until 2025[41] (which was terminated in 2023) and the Strategy for the Development of the Financial Sector of Ukraine[42], the issue of, on the one hand, increasing the presence of domestic banks Understanding that in Europe, the convergence of the regulatory regime for foreign banks is based on the passport concept, which gives Eurozone banks the right to provide banking services throughout the European Union based on a harmonised set of prudential requirements, the concept of equivalence continues to apply to the presence of banks from third countries in national markets[43].

European vector of development of the banking system of Ukraine

In general, the process of European transformation, according to the research of domestic experts[44], is quite painful for the banking system of Ukraine and has led to the withdrawal from the banking market of almost half of commercial banks (Figure 2) (mostly small and medium-sized), of course, the implementation of measures to bring banking legislation closer to EU requirements has contributed to improving the quality of the Ukrainian banking system and brought banking mechanisms closer to international and European standards. Thus, since 2017 (after the signing of the Association Agreement with the EU), there has been a downward trend in the number of banking institutions operating in Ukraine, and the banking system has been hit hard not only quantitatively but also, unfortunately, qualitatively in the last 2 years in the harsh conditions of the war.

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[40] Resolution of the Board of the National Bank of Ukraine "On Approval of the Comprehensive Programme for the Development of the Financial Sector of Ukraine until 2020" of 18 June 2015 No. 391 [In Ukrainian]

[41] Decision of the Board of the National Bank of Ukraine "On Approval of the Strategy for the Development of the Financial Sector of Ukraine until 2025" of 26 December 2019, No. 1010-рш. [In Ukrainian]

[42] Strategy for the Development of the Financial Sector of Ukraine. Title from the screen. URL: https://bank.gov.ua/admin_uploads/article/Strategy_finsector_NBU.pdf?v=6 [In Ukrainian]

[43] Margerit, A., Magnus, M. and Mesnard, B. (2017), Third – country equivalence under EU banking legislation, URL: www.europarl.europa.eu.

[44] Ukraine's Sectoral Integration into the EU: Preconditions, Prospects, Challenges. Analytical Report, Razumkov Centre. 2020. c. 40–42. URL: https://razumkov.org.ua/uploads/article/2021_sektor_eu_ukr.pdf [In Ukrainian]

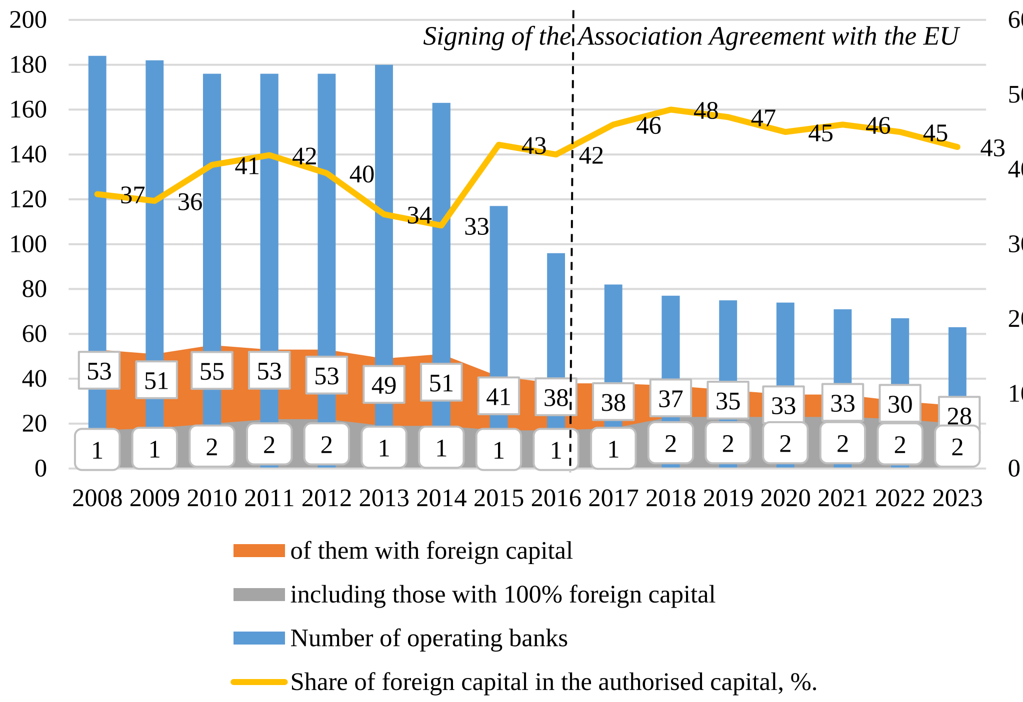

Figure 2. Foreign banks in the banking system of Ukraine (2008–2023)

Source: compiled by the authors on the basis of[45]

However, despite this, the issue of adapting the legislation governing the banking sector to EU standards continues to be a key driver of changes in the reform of Ukraine's banking sector, especially in view of the EU's internal reforms. In particular, in October 2021, the European Commission adopted a revision of the EU banking rules (Capital Requirements Regulation (CRR) and Capital Requirements Directive (CRD IV)), which ensure that EU banks become more resilient to potential future economic shocks, while contributing to Europe's recovery from the COVID-19 pandemic and transition to climate neutrality[46]. The new rules will require European banks to systematically identify, disclose and manage sustainability risks (environmental, social and governance risks), ensure robust banking supervision and better protect financial stability, and, crucially, expand the range of enforcement tools for EU supervisors.

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[45] Banking package. Directorate-General for Financial Stability, Financial Services and Capital Markets Union. 26 October 2021 URL: https://finance.ec.europa.eu/publications/banking-package_en

[46] The official portal of the NBU. Title from the screen. URL: https://bank.gov.ua/ua/statistic [In Ukrainian].

In addition, the EU is introducing a new minimum harmonisation regime for access to the EU internal market for branches of credit institutions domiciled in third countries[47]. New supervisory tools for the prudential assessment of significant changes in credit institutions, financial holding companies and mixed financial holding companies (mergers and acquisitions) will also be introduced, which will contribute to the harmonisation of prudential assessment procedures in the EU. Technological transformations will be subject to special supervision, requiring ongoing monitoring, and new businesses that support the provision of financial services should be properly covered by prudential consolidation. The reintegration of the banking sector is an important building block for future development prospects in the European Union, with the European Banking Union being an important model, and it is definitely the vector in which the domestic banking system is heading.

Conclusions

In the light of these results, we conclude that, first, the determination of the concept of "international banking" (international banking business) is a complex but important task for the study of transnational activities in the banking sector, which, in our opinion, should be considered as the process of providing financial (banking) services to customers in different (legal and banking) jurisdictions. Moreover, the reason for the internationalisation of the banking process is either defensive expansion, expansion and diversification of own balance sheets or benefit from regulatory arbitrage.

And second, while the current changes in the European banking sector are affecting its overall strengths, the crises have also highlighted the need for a consistent transformation of the supervision and regulation of globally active banks. This is because creating inappropriate competitive advantages for non-Eurozone banks could increase the role of foreign banks in local European financial markets, and local banking institutions would be forced to compete with foreign players that de facto have significantly lower regulatory costs. Given that the Ukrainian banking system today, despite all external and internal challenges and threats, has significant reserves in terms of capitalisation and foreign banks are its backbone, it is important to continue an effective policy of foreign capital attraction, but in compliance with EU requirements and standards, and improving supervision and regulation of banks with foreign capital in Ukraine is an important component of increasing the stability of the domestic banking system and reducing the destructive impact on the security of the financial system as a whole.

**This article was translated from its original in Ukrainian.*

[47] EBA Roadmap on Strengthening the Prudential Framework for Credit Institutions. European Banking Authority. 2023 URL: https://www.eba.europa.eu/sites/default/files/2023-12/9dc534e8-8a3d-438f-88e3-bc86e623d99e/EBA %20Roadmap %20on %20strengthening %20the %20prudential %20framework_1.pdfc.14

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