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INTERNATIONAL BANKING BUSINESS' EXPANSION IN DEVELOPING MARKETS: PRE AND POST-CRISIS FRAMEWORKS

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ABSTRACT

The paper is devoted to the substantiation of foreign banks' role in the financial systems' development of emerging markets. It is proved that an expansion of the international banking business can bring negative consequences, but in general it provides the decisive influence on credit systems' strengthening. Banking services markets of developing countries usually are small. This is due to the low level of growth, high inflation, financial restrictions, and administrative or corruption interference in banks' credit policies. As a result, in mentioned countries occurs the vicious circle of financial insolvency: undeveloped financial systems generate high margins, which slows down economic growth – and thus prevents financial systems' development. The possible way out of this disaster is in financial globalization and integration processes. Forenamed manifested in banking through the foreign credit institutions' diffusion into local markets. It is shown that the detrimental effect of aggressive credit policies of foreign banks caused the dramatic implementation of the crisis in Ukraine. The consequences could be lesser if the central bank pursued a more prudent policy for currency restrictions and risks supervision. Withal, the influence of foreign banks in Azerbaijani financial system was more restrained because of the export-oriented economics, which ensures stable currency inflow.

Keywords: *International banking, Banking convergence, Credit expansion, Foreign bank, Foreign exchange regulation*

1. INTRODUCTION

Modern international economic relations' researchers designate the global economy a young category of economic science, origins of which barely reach the end of the 19th century, and its flourishing falls at the beginning of the 21st century. Such interpretations are often transferred to international finance, including international banking. Nevertheless, the desire to achieve an international, cross-border, widespread range of activities was already inherent in ancient banking institutions – the genesis of the banking business is indisputable evidence of its international nature primacy over mono-national banking. One of the most important changes in international financial relations in the current decade has been the growing importance of developing countries as sources and directions for private capital flows. The processes of deregulation and liberalization of domestic financial markets in these countries and the reduction of barriers for foreign capitals have led to deeper financial integration between them and developed countries. In the structure of foreign capitals flowing into developing countries over the past few years, loans given to enterprises and banks from these countries by international banks are playing an increasingly important role. At the same time, cash flow directions are gradually reorienting, turning unilateral donor relations between developing and leading economies into more balanced partnerships based on equality and mutual benefit.

The role of foreign banks' capital in the development of financial markets in developing countries has repeatedly been the subject of research. Among the international publications of greatest interest in the context of this paper, it should be mentioned (Naaborg, Scholtens, de Haan, Bol, de Haas, 2004; Cull, Peria, 2010, 2013; Hassan, Sanchez, Ngene, Ashraf, 2012; Lee, Hsieh, Dai, 2012; Claessens, van Horen, 2014; Delis, Kokas, Ongena, 2016; Cull, Peria, Verrier, 2017). This is mainly research with a wide geographical coverage, which does not allow paying enough attention to regional characteristics of individual countries – namely, developing countries of the post-communist region. A more special approach is noted in the monograph (Iwanicz-Drozdowska, Bongini, Smaga, Witkowski, 2018), as well as in the publiccations of scientists from Ukraine and Azerbaijan, in particular (Vladichin, 2011; Kornyliuk, Ivasiv, Dyba, 2012; Dzyublyuk, Vladymyr, 2014; Kovalenko, 2016; Mamedov, 2007, 2008; Nabiyev, Musayev, Yusifzada, 2016; Murshudli, Kornyliuk, Dilbazi, 2019a, 2019b). Nevertheless, the problem of transformation in form and scale of international banking business (hereinafter – IBB) expansion in developing countries under the influence of the global financial crisis of 2008 (hereinafter – GFC) has still not received appropriate reflection in the specialized literature. This determines the purpose and relevance of present paper. To achieve this goal, both scientific-theoretical and econometric analysis of the international banks' activities in the financial markets of developing countries was realized.

2. INTERNATIONAL BANKING BEFORE GLOBAL CRISIS OF 2008

The decisive factor in expanding IBB's expansion in emerging markets is the removal of legislative restrictions on the admission of foreign capital to national banking systems. Along with this, there is a cardinal change in international economic relations, and above all, the key structure that ensures the growth of globalization itself – the global banking system. A qualitative transformation of the development's nature and structure of international banks, the formation of their new strategic paradigm in the context of financial globalization and the convergence of national economies is accompanied by an increase in international capital's inflow into potentially large-scale developing economies, primarily in the countries of the post-communist region. At the dawn of our century, financial systems of countries, which had been undergoing a political and economic transformation, were relatively small, while their domestic capital markets were underdeveloped. In most of these states, banks with foreign capital dominated a banking system, which was the result of large-scale privatization processes in the early 1990s with the participation of foreign investors. Studies confirm that the financial system in this configuration weakly contributes to economic growth (Petkovski, Kjosevski, 2014; Iwanicz-Drozdowska et al., 2018). In our opinion, this was due more to the general weakness of state regulation and supervision, as well as to a certain degree of corruption in the monetary authorities at that time, than due to the unsatisfactory level of development of post-communist economies. Alternative views on this problem indicate that countries with poorly developed financial systems generally suffered much less as a result of GFC. As a rule, in developing economies, it is banks that occupy a dominant position in the financial system; therefore, their stability largely determine the situation in money and capital markets.

2.1. Institutional Features of International Banking in Developing Countries

Studies show the isolation of the institutional model of international banks in developing economies (Naaborg et al., 2004; Hassan et al., 2012; Cull, Peria, 2013). To ensure its presence in such countries, IBB forms and contains various types of divisions that make up its general and local structure. Local regulators for legislative and supervisory purposes consider such units in two legal forms – a foreign bank and a bank with foreign capital. According to the definition of the International Working Group on External Debt Statistics of, a foreign bank is a credit institution whose strategic decision-making center is located outside the country in which it operates. Thus, the geographical remoteness of supreme management is a key feature of such a unit, but not the only one: its owners are foreign citizens, such a bank operates under the special permission (license) of the local central bank for this kind of institutions and is in a double legal field as a non-resident legal entity (in the form of a foreign branch or overseas office). Closely related to the previous one is the concept of a bank with foreign capital, the main feature of which is the presence of a share of at least one foreign investor in the authorized capital. The minimum size of such a share is set normatively – as a rule, it is about 10% or more. Unlike the first, this type of bank is a resident legal entity, the sum of the rights and obligations of which correspond to those of local-own banks. These institutions are commonly referred to as subsidiary banks. In our opinion, the main differences between a foreign bank and a bank with foreign capital are in their operating activities. Since first ones are more closely bound by legislative restrictions, the list of their possible services is much smaller. In turn, subsidiary banks have to comply with local general standards, which make it difficult to place large volumes of foreign resources. In modern practice, the choice of a model for the presence of IBB in a particular country depends on the expected type of activity: if it is necessary to accompany investments or work in the securities market, the establishment of a foreign bank is rational. The implementation of retail services or provision of a universal activity requires functioning in the form of a bank with foreign capital. Considered the features of the legal form of IBB's presence, it is possible to determine the organizational characteristics that distinguish it from classical domestic banks (table 1). It is worth to note, that foreign banks are constantly evolving, so the list of characteristics presented below is not exhaustive. In addition, due to subjective differences in the philosophy of carrying out activities by various banks, driven by historical or cultural reasons, there are grounds for a remark: in order to be considered as an international one, it is enough for the banking business to own most of the listed features.

Features		**International Banks**	**Domestic Banks**
1. Strategic goal		Dominance in the global / macro-regional market	Dominance in the domestic market
2. Nature of equity		Multinational, often "patchwork"	Mono-national, resident
3. Regulatory jurisdiction		Parent bank's regulator + countries of presence regulators	Local regulator
4. Legal personality	general	Parent bank's local law + International private law	Local national law
	special	Countries of presence law	
5. Outlet network architecture		Complex, branch-type	Simple, branchless, may be regionally limited
6. Correspondent network		Wide (by country)	Narrow (by currency)
7. Corporate culture		Globalized, national characteristics assimilated	Based on the principles of national culture

Table 1: Main features of international banks in comparison with the domestic banks of developing countries
(Source: Developed by authors)

The strategic goal of an international bank is to dominate, if not on the global market, then at least on a continental or macro-regional scale. This feature is generic for IBB: precisely at the moment when a domestic bank (even if it already contains foreign branches or representative offices) aims to occupy a certain share of the banking services market in an adjacent country or group of countries, and takes steps to achieve this goal, he gets an international character. The equity of such a bank has a multinational nature, the geography of its shareholders can be so complicated that it is almost impossible to determine the dominant country of origin (at the same time, the capital of the parent bank can be homogeneous). The cross-border nature of its activity creates regulatory complications for IBB's functioning.

While an institution operating in one banking services market falls under the jurisdiction of only the local regulator, multinational banks must take into account the restrictions of both the supervisor at the location of the parent office and the local central banks in the countries of presence of such business. This double jurisdiction also takes place in the legal regime of their activities, which is determined separately: the general legal personality – by the national legislation of the parent bank taking into account international law, and the special legal personality – by local regulations of the countries where the subsidiaries are operating. The difference between national and international banking business lies in the way the outlet network is organized – the second type is characterized by certain autonomy, since the territorial divisions in the countries of presence are grouped around regional branches or subsidiary banks. This method of operating requires the use of complex accounting and analytical procedures as well as the consolidation of the balance sheets of regional units. The architecture features of IBB are also determined by fairly clear differences in the construction of the correspondent network. Due to the regional coverage, such structures have subsidiary banks in each country that is important to them, and it makes relatively cheap to maintain a large number of regular correspondents. This advantage forms competitiveness in the market of international transfers and settlements. A sufficiently indicative feature of international banks (especially in post-communist countries) is their corporate culture and the philosophy of such a business in general. While national credit institutions are trying to distinguish themselves on the domestic market by their traditional nature and local cultural identity, the global banking business is inherently forced to go through the unification and assimilation of national characteristics.

2.2. Foreign Banks' Rise in Post-Communist Countries

The first cautious steps of international banks in the financial systems of post-communist countries quickly grew into the active conquering of new markets, which coincided in time with the dynamic political and economic transformations of the late 1990s and early 2000s. According to some studies (Claessens, van Horen, 2014), this atypical trend for the world as a whole was the result of a wave of reforms – primarily related to the rapid and spontaneous deregulation and globalization of banking systems, which continued until GFC (Figure 1).

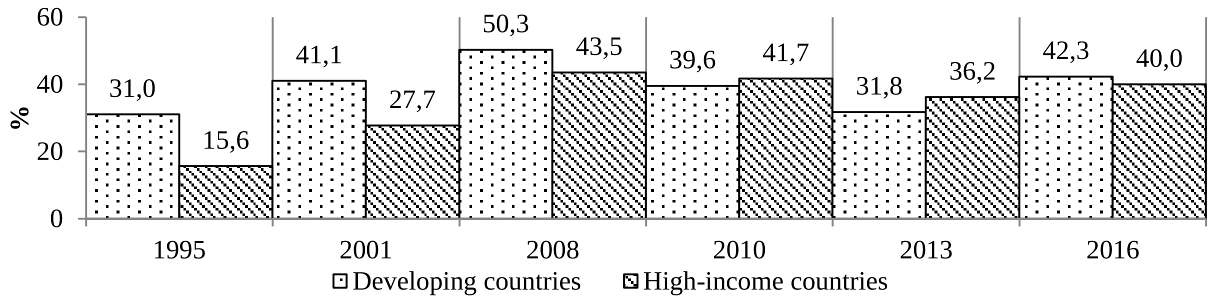

Figure 1: Share of foreign-owned banks, 1995-2016
(Source: Calculated based on Cull, Peria, Verrier, 2017)

Fig. 1 demonstrates the fundamental expansion of IBB in emerging economies, right up to the onset of GFC. However, even more rapidly foreign banks increased their presence in developed countries, although they still did not reach 50% of the market share. Before the crisis, a high proportion of banks with foreign capital was usually considered as a stabilizing factor that contributes to the solidity of banking systems in developing countries. However, as a result of an unbiased analysis of the influence of parent banks on the credit policy of subsidiaries in the process of crisis unfolding, unambiguously positive views on the role of IBB has been replaced by a more skeptical approach. The ambiguity of the consequences of foreign expansion is also underlined by conflicting global trends (Figure 2).

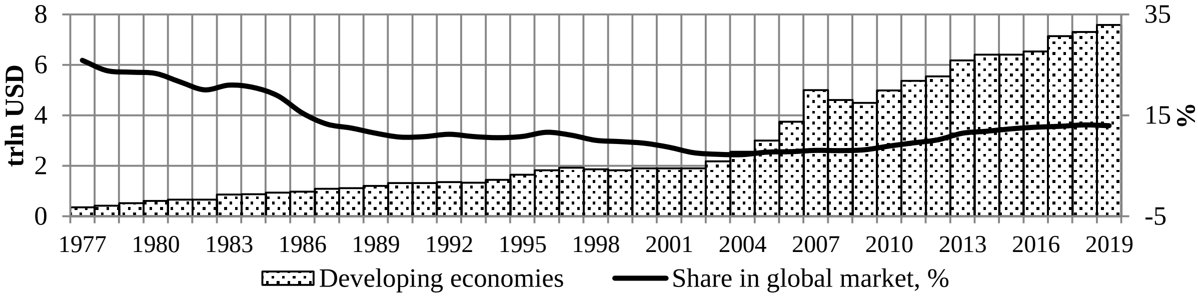

Figure 2: Global dynamics of IBB in developing countries, 1977-2019
(Source: Calculated based on Bank for International Settlements data)

According to Fig. 2, during the entire observed period, the absolute size of international banks' operations with residents of developing countries grew continuously, with the exception of brief drops in 1993, 1998-2000, 2008-2010 (which corresponds, in particular, to Asian, Russian and Argentine defaults). At the same time, the share of this business on a global scale was rapidly declining, reaching 7.2% in 2004. In our opinion, this trend can be attributed to the consequences of financial globalization, when import payments were redirected to the benefit of local subsidiary banks, in fact, find themself closed inside the country in the conditions of a lack of resources against the backdrop of aggressive lending. Under such conditions, the main threat was the pronounced pro-cyclical reaction of subsidiary banks to local conditions, since the expected diversification of the domestic banking markets of developing countries could not ensure the proper independence of branches from capital and liquidity of parent banks. The foregoing is also true for banking systems of post-communist countries. In the early 1990s, banks in these countries were state-owned and actually operated under autarky conditions. Nevertheless, universal liberalization and the removal of legislative restrictions on the internationalization of financial markets in a short time led to the formation of significant competition from the newly created subsidiaries of international banking groups (Figure 3).

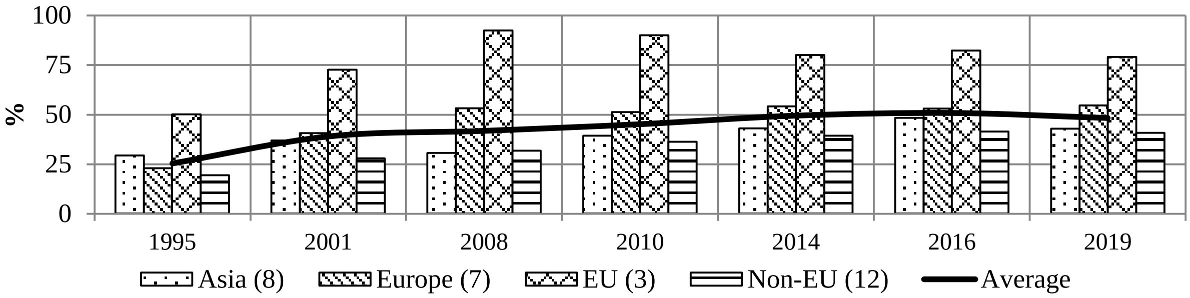

Figure 3: Share of foreign-owned banks in post-communist countries, 1995-2019
(Source: Calculated based on national central banks' data)

Scientists (Iwanicz-Drozdowska et al., 2018) connect the peculiarity of the countries under consideration at that time with the extremely low quality of potential borrowers, especially among firms, caused by shock reforms, which led to numerous bankruptcies of state enterprises. Since such a debt burden fell on local banks, depriving them of growth opportunities, the expansion of foreign banking capital remained the only measure for developing post-communist financial systems. As Fig. 3 describes, the largest share of IBB falls on the three Baltic countries, which joined the EU in 1995 – on the eve of GFC it amounted to more than 90%, while in other countries such banks occupied on average no more than a third of the market. At that time, the banking systems of Asian countries were characterized by relatively high foreign participation, initially even exceeding the average European indicator. Despite the dire consequences of GFC, it is worth to note, that a permanent increase in the average value of the share of international banks in all considerate countries – it is suggested that in 2019 every second bank in post-communist countries was characterized by foreign participation. The diffusion processes of IBB into the markets in transition originate in the mid-1990s, and the results of empirical studies (Naaborg et al., 2004) suggest a positive impact on the institutional development of local financial systems.

3. INTERNATIONAL BANKS' ACTIVITIES IN TERMS OF GLOBAL INSTABILITY

GFC has caused structural changes in the banking systems of almost all countries, defining for decades ahead the development of both banking business strategies and instrumental support for regulation and supervision, in particular the macroprudential policy. After 2008, the banking services markets of developing countries became to be characterized by much lower profitability and lending rates, but the shock experience ensured an unprecedented development of risk management systems, both at the macro and micro levels, which can compete with similar instruments of developed countries.

3.1. Evidence from Foreign Currency Loans Market

The rapid and dramatic development of GFC caused a widespread decline in the real and, as a consequence, in the financial sectors of developing economies. This served as the basis for rethinking the strategy and tactics of international banking in terms of the expansion of foreign banks into post-communist markets. Regulatory restrictions initiated by the crisis in early 2009 put an end to the galloping financial globalization. At the same time, majority of developing countries remained under the significant influence of import cash flows, since over the previous decade foreign currency savings and lending had firmly taken leading positions in underdeveloped domestic markets amid high exchange rate volatility (Figure 4).

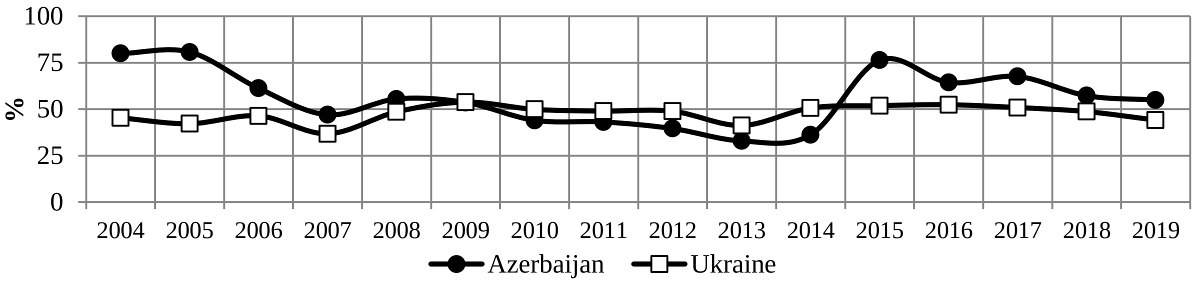

Figure 4: Share of currency deposits in Azerbaijan and Ukraine, 2004-2019
(Source: Calculated based on national central banks' data)

Fig. 4 convincingly testifies a difference of speculative motives of economics' subjects in the countries with antagonistic models of foreign trade. While export-oriented Azerbaijan experienced a sharp decrease in the share of foreign currency savings in favor of a stronger manat during the crisis period of 2008–2013, residents of Ukraine gave stable preference to foreign currency as a deposit instrument (with the exception of 2013, when political upheavals caused devastating damage to economic development). The scenarios of foreign currency lending also differ in the countries (Figure 5). The calculation of Loans-to-Deposits Ratio presented in Fig. 5 (which is also an indicator of foreign currency liquidity of banks) shows that in both countries currency credit expansion was boosted up to 2008. However, while in Azerbaijan, as a result of a more cautious approach to Eurodollar-loans during the crisis years, the indicator did not exceed 2.0, in Ukraine in 2008-2009 there was a strongly marked credit boom, where at the peak the volume of loans in foreign currency was almost four times exceeded the volume of similar deposits. It is worth to note that the credit boom, as the process of expanding lending (in this case, in foreign currency), in its essence and consequences differs significantly from credit expansion, which has strategic competitive goals, while the purpose of the credit boom is to maximize the possible profit using the existing short run situation (Sheludko, 2017).

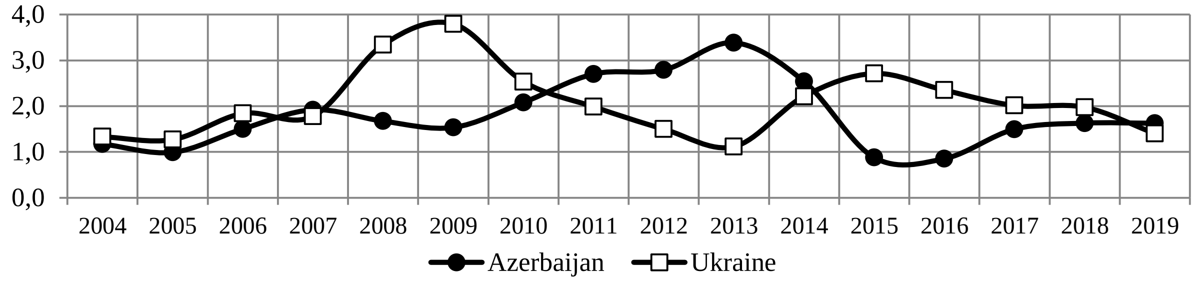

Figure 5: Currency loans-to-deposits ratio in Azerbaijan and Ukraine, 2001-2019 (Source: Calculated based on national central banks' data)

It is deserves of particular note that Ukrainian banks – primarily subsidiaries of international ones – in addition to providing them currency loans within the borrowed funds, also create credits from imported resources, which negatively affected liquidity. As the study convincingly proves (Anginer et al., 2017), subsidiary banks in developing countries are strongly exposed to the transfer of default risk from parent banks – however, this dependence is significantly weakened if mostly (or only) local deposit resources are used as a basis for lending. The revealed trends are also observed in the dynamics of the actual banking multiplier (Figure 6).

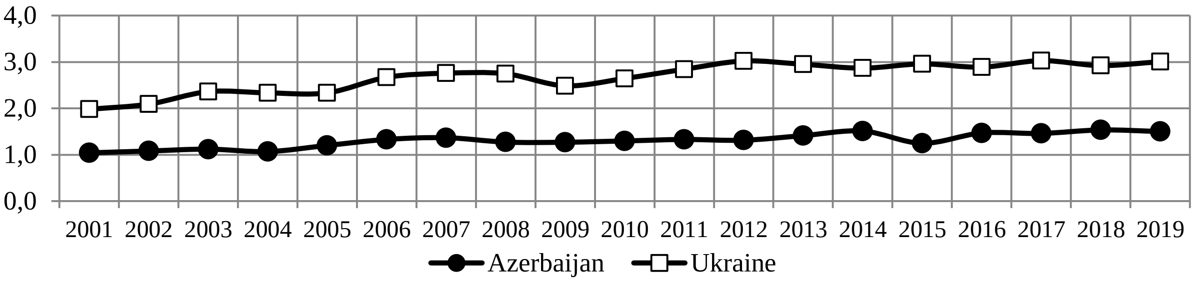

Figure 6: Banking multiplier in Azerbaijan and Ukraine, 2001-2019 (Source: Calculated based on national central banks' data)

As shown in Fig. 6, while Azerbaijani banks adhered to a very conservative credit policy, which is indicated by multiplier values not exceeding 1.5, in Ukraine during the analyzed period there is a large-scale lending (except for the crisis year of 2008). So, if in 2001–2005 there was a little more than 2UAH of loans per 1UAH cash, then on the eve of the crisis and after overcoming its first wave it was about 3UAH, which indicates that banks actively use their credit potential.

3.2. Estimation of the Impact of International Banking on Developing Banking Systems

In order to justify the range of expansion of IBB's impact on the banking services markets of developing countries, the relationship between the relevant indicators was analyzed. To illustrate the degree of diffusion of foreign banks in the economies of Azerbaijan and Ukraine, it is advisable to use the indicator of the cross-border net position of international banks for residents of these countries according to the Bank for International Settlements (X1). The main indicators of the state of banking systems were following: capitalization (the share of banks' equity in the system assets) for X2, Loans-to-Deposits Ratio for X3, the share of deposits in bank passives for X4, and the actual multiplier for X5.

Since the observed trends are very different before and after GFC, the econometric analysis was carried out in two stages – for the period 2001–2008 and 2009–2019. Variables are presented quarterly in the form of coefficients.

	2001Q1-2008Q4					**2009Q1-2019Q4**				
	X_1	X_2	X_3	X_4	X_5	X_1	X_2	X_3	X_4	X_5
X_1 (-1)	0.77	0.02	-0.84	0.21	-0.01	0.39	0.01	-0.13	0.03	0.12
	(0.28)	(0.02)	(0.30)	(0.29)	(0.09)	(0.17)	(0.02)	(0.16)	(0.05)	(0.08)
	[2.74]	[1.30]	[-2.76]	[0.72]	[-0.09]	[2.25]	[0.17]	[-0.86]	[0.59]	[1.46]
X_2 (-1)	2.99	0.36	5.15	-0.23	-1.07	-1.35	0.88	0.40	0.46	-0.31
	(2.80)	(0.19)	(3.00)	(2.88)	(0.89)	(0.91)	(0.11)	(0.83)	(0.26)	(0.44)
	[1.07]	[1.91]	[1.72]	[-0.08]	[-1.21]	[-1.49]	[8.28]	[0.49]	[1.75]	[-0.70]
X_3 (-1)	-0.12	0.02	0.42	0.03	0.01	-0.13	0.01	0.98	-0.10	0.08
	(0.15)	(0.01)	(0.16)	(0.16)	(0.05)	(0.14)	(0.02)	(0.13)	(0.04)	(0.07)
	[-0.76]	[2.33]	[2.57]	[0.21]	[0.23]	[-0.96]	[0.66]	[7.66]	[-2.54]	[1.20]
X_4 (-1)	0.03	0.01	-0.35	0.68	-0.03	0.46	0.08	0.53	0.24	0.80
	(0.17)	(0.01)	(0.19)	(0.18)	(0.06)	(0.71)	(0.08)	(0.64)	(0.21)	(0.34)
	[0.16]	[0.53]	[-1.91]	[3.82]	[-0.47]	[0.65]	[0.99]	[0.83]	[1.15]	[2.32]
X_5 (-1)	-0.18	-0.05	0.45	0.27	0.82	0.30	-0.01	0.01	0.06	0.39
	(0.37)	(0.032)	(0.40)	(0.38)	(0.12)	(0.28)	(0.03)	(0.26)	(0.08)	(0.14)
	[-0.50]	[-2.04]	[1.13]	[0.71]	[7.02]	[1.07]	[-0.18]	[0.03]	[0.78]	[2.85]
C	-0.13	0.13	-0.26	-0.26	0.41	-0.30	-0.03	-0.31	0.34	0.44
	(0.62)	(0.04)	(0.66)	(0.64)	(0.20)	(0.47)	(0.05)	(0.42)	(0.14)	(0.23)
	[-0.21]	[3.11]	[-0.39]	[-0.40]	[2.07]	[-0.65]	[-0.51]	[-0.74]	[2.53]	[1.93]
R-squared	0.81	0.80	0.83	0.44	0.91	0.81	0.87	0.95	0.80	0.72
F-statistic	21.456	20.29	23.96	3.96	50.42	33.01	50.20	145.88	30.29	19.80
AkaikeAIC	-1.16	-6.55	-1.02	-1.10	-3.45	-1.35	-5.63	-1.53	-3.81	-2.79
SchwarzSC	-0.88	-6.27	-0.74	-0.82	-3.17	-1.10	-5.38	-1.29	-3.57	-2.54
Observ.adj.	31	31	31	31	31	44	44	44	44	44

Table 2: VAR modeling results for Azerbaijan, 2001Q1-2019Q4
(Source: Calculated based on Bank for International Settlements and Central Bank of the Republic of Azerbaijan data)

The results of a fairly high-quality econometric assessment (Table 2) indicate that in the pre-crisis period, the influence of IBB on the domestic market of Azerbaijan was significant for the level of banking system capitalization and for further growth of foreign presence (with a lag of 1, determined by both Akaike and Schwarz criteria). After GFC, the trend changed, and import banking operations began to significantly affect the multiplier. All this points to the transformation of IBB's role in Azerbaijan: if until 2008 they acted as an important factor in maintaining financial stability, nowadays their role is reduced to ensuring credit activity, thereby positively influencing development without being a lever of an external impact. The similar analysis of IBB's impact on the Ukrainian banking system (Table 3) demonstrates less optimistic prospects. Until 2008, subsidiaries of foreign banking groups played a systemically important role as accumulators of savings for the population and enterprises (as indicated by t-statistics with the coefficient of the equation X3 with a reliability of 94%). In the post-crisis period, IBB in Ukraine not only retained this influence, but expanded it to crediting, providing a significant expansion of lending (as shown in Fig. 5). This contradictory position is also confirmed by other studies (Petkovski, Kjosevski, 2014), (Iwanicz-Drozdowska et al., 2018).

	2001Q1-2008Q4					**2009Q1-2019Q4**				
	X_1	X_2	X_3	X_4	X_5	X_1	X_2	X_3	X_4	X_5
X_1(-1)	0.93	-0.01	-0.67	0.16	-0.40	0.66	-0.01	-0.23	0.032	0.31
	(0.14)	(0.01)	(0.22)	(0.05)	(0.15)	(0.13)	(0.02)	(0.10)	(0.02)	(0.13)
	[6.81]	[-0.34]	[-3.09]	[3.04]	[-2.66]	[4.93]	[-0.19]	[-2.42]	[1.71]	[2.33]
X_2(-1)	1.60	0.48	2.50	-1.23	1.39	-0.30	0.89	-0.25	0.15	1.05
	(3.09)	(0.19)	(4.91)	(1.22)	(3.42)	(0.61)	(0.08)	(0.43)	(0.09)	(0.61)
	[0.52]	[2.49]	[0.51]	[-1.01]	[0.41]	[-0.50]	[11.00]	[-0.57]	[1.79]	[1.72]
X_3(-1)	0.23	-0.03	-0.01	0.15	0.47	-0.15	0.01	1.11	-0.07	-0.30
	(0.23)	(0.01)	(0.37)	(0.09)	(0.26)	(0.19)	(0.03)	(0.14)	(0.03)	(0.19)
	[1.01]	[-1.77]	[-0.01]	[1.70]	[1.83]	[-0.76]	[0.15]	[8.09]	[-2.60]	[-1.57]
X_4(-1)	0.72	-0.12	-2.25	1.17	2.44	-0.69	-0.01	1.17	0.55	-0.21
	(1.06)	(0.07)	(1.69)	(0.42)	(1.18)	(1.18)	(0.16)	(0.84)	(0.17)	(1.19)
	[0.68]	[-1.78]	[-1.33]	[2.80]	[2.07]	[-0.58]	[-0.03]	[1.39]	[3.31]	[-0.18]
X_5(-1)	-0.10	-0.01	-0.13	0.01	0.56	-0.06	-0.01	0.01	0.01	0.47
	(0.12)	(0.01)	(0.20)	(0.05)	(0.14)	(0.13)	(0.02)	(0.09	(0.02)	(0.13)
	[-0.84]	[-0.51]	[-0.66]	[0.30]	[4.09]	[-0.51]	[-0.16]	[0.04]	[0.03]	[3.64]
C	-0.67	0.18	2.69	-0.20	-1.00	0.76	0.02	-0.70	0.30	1.92
	(1.22)	(0.08)	(1.93)	(0.48)	(1.35)	(0.78)	(0.10)	(0.56)	(0.11)	(0.79)
	[-0.55]	[2.34]	[1.39]	[-0.41]	[-0.74]	[0.97]	[0.17]	[-1.26]	[2.69]	[2.43]
R-squared	0.93	0.90	0.91	0.94	0.94	0.60	0.87	0.96	0.94	0.82
F-statistic	66.37	44.14	49.72	73.87	76.17	11.37	50.80	195.90	113.21	34.21
AkaikeAIC	-2.18	-7.72	-1.25	-4.04	-1.97	-2.10	-6.11	-2.77	-6.02	-2.08
SchwarzSC	-1.90	-7.44	-0.98	-3.77	-1.70	-1.86	-5.87	-2.53	-5.78	-1.84
Observ.adj.	31	31	31	31	31	44	44	44	44	44

Table 3: VAR modeling results for Ukraine, 2001Q1–2019Q4
(Source: Calculated based on Bank for International Settlements and National Bank of Ukraine data)

4. CONCLUSION

The results of the study indicate a causal relationship between the transformation of the international banking role in the development of banking systems in emerging markets and the characteristics of these countries' economies, in particular, the type of international trade. The growing importance of developing countries as sources and directions for private capital flows is accompanied by deeper financial integration. As a result, the role of cross-border flows of bank capital in the development of financial markets is increasing, making them integral elements of the banking systems' vitality. The degree of importance of such resources directly depends not only on the solidity of the local financial infrastructure, but also on the insightful and balanced central banks' policy. The distinctive position of IBB in post-communist countries is determined by both institutional differences and the specifics of GFC layering on their economies' transition. The results of the econometric analysis demonstrate the difference between the supporting role of international banks in export-oriented Azerbaijan and the core influence in import-dependent Ukraine. Thus, the pre- and post-crisis frameworks of the foreign banks' expansion in developing countries are of a dual nature, and can serve both as a booster and as a brake of the domestic financial market's development.

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