INSTITUTIONAL DETERMINANTS OF FINANCIAL MARKET DEVELOPMENT

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Abstract. *The article analyzes the main problems that hinder the development of the financial market. To determine the factors, an analysis of the prerequisites for the development of the financial market was used, which made it possible to distribute the factors into separate groups. As a result of the analysis, institutional factors were identified that can affect the level of development of the financial market. The work also identified indicators that can be used to assess these factors.*

Keywords: *financial institutions, financial intermediaries, financial market, influencing factors, infrastructure.*

JEL CLASIFICATION: G2

The rapid development of financial markets in recent decades has contributed to the growing interest of the scientific community in the role of the financial system in the economy, the mechanisms of its impact on economic growth, reasons for differences in the levels of development of financial systems and their structure in different countries.

A few decades ago, the financial systems of developed countries could be quite accurately divided into two types: ″banking″ (countries of continental Europe and Japan) and ″market″ (Great Britain, the USA and other Anglo-Saxon countries). During the 90s of the XX century changes have occurred in many European countries that make this division obsolete, because their financial systems have become much more ″market″. Nevertheless, differences still persist, which is why there is an extensive literature on the comparative advantages of one or another system.

The financial market is a special sector that has universal features, but also has specific features. The financial market has taken a special place in the general system of market relations and in the system of market regulation of the economy. Thanks to him, capital is distributed between various spheres of the economy, such as industry, science and technology, education and others.

The development of the financial market is seen as one of the tools to stimulate intensive economic growth, especially in the context of a shortage of resources or high prices for them on the world market. However, this sector of the economy is subject to the influence of factors, without the regulation of which financial and economic development is absent or limited.

The activities of financial institutions in the market are influenced by various factors, which can be divided into two main groups: factors of the external and internal environment, which must be taken into account in order to improve the efficiency of the financial markets.

Let us consider in more detail the elements of external and internal factors of the financial market.

External factors include the following: the state-political environment, the conjuncture of the world financial market, the technological environment, competition, financial literacy of the population.

Internal factors include the infrastructure of financial markets, the resources of financial institutions (financial, labor, material), financial products and services, the system of sales of financial products and services, the presence of specially trained personnel.

The infrastructure of financial markets is a servicing process of production of a service, the structure of financial organizations (planning and economic, structural, financial marketing, technical, expert)

Also, the infrastructure of the financial market can be divided into legal, informational (financial press, scorecards), depository registration network.

The state-political environment is a set of instruments of state influence on the functioning of the market, the "rules of the game" determined by the state in the financial market.

It should be noted that financial activity all over the world is considered as a socially oriented industry that contributes to the increase of the economic stability of society. In this regard, the financial market is subject to state regulation through the creation of special state control bodies, which is typical for almost all countries. The state-political environment also includes a set of regulatory documents and guidelines and recommendations that determine the behavior of its subjects in the financial market.

If we consider the conjuncture of the world financial market, it is necessary to understand the financial traditions and customs in different countries, world integration trends and the policies of individual countries in relation to the introduction of foreign companies into the domestic market. In recent years, the development of national financial relations has been influenced by the integration processes in the financial market [6]. The globalization of the economic space, the strengthening of the role of such political and economic interstate institutions as the World Trade Organization, have a direct impact on the world financial market. The globalization of the world financial market is a process of erasing legal and economic differences between national financial markets, with the aim of forming a global financial space.

The technological environment is associated with new financial technologies that encompass technical know-how as well as technological (new financial products and services).

Literacy is measured by the level of technology development in a particular country. Considering the foundations of the formation of financial literacy of the population in various sectors of the financial market, it should be emphasized that the level of the country's well-being is one of the main factors that determine the investment resources of society, and the level of financial literacy of the population is the efficiency and quality of the investment process [1]. Studies have shown that the main reasons for the lack of investment activity of the population are:

- underdevelopment of financial institutions;
- lack of investment products;
- lack of clear and accessible information;
- distrust of the population to financial institutions and the government;
- low income level of the main part of the population;
- financial (and not only financial) illiteracy and low culture.

Empirical research by M. D. Chinn and H. Ito showed that the level of development of the financial market is influenced by the openness of the economy, as well as legal and institutional development [2]. They used panel data from one hundred of countries to measure a range of indicators of financial development to find out if financial openness can lead to financial market development, taking into account legal and institutional development, and whether open consumer goods markets are a condition for financial openness [4]. The authors also set a goal to find out whether a well-developed banking sector can cause financial liberalization and lead to the development of the stock market, as well as complement or interchange the development of the banking sector and the stock market.

To identify the dependence of the development of the financial market on the openness of capital flows, M. D. Chinn and H. Ito used a model that also takes into account the level of legal development:

$$FD_{ti} - FD_t = \gamma_0 + \rho FD_{t-5i} + \gamma_1 KAOPEN_{t-5i} + \gamma_2 L_i + \gamma_3 (L_i * KAOPEN_{t-5i}) + X_{t-5i} + uti \qquad (1),$$

where FD – is the level of financial development;
$(t - 5i)$ – change in the level of financial development over 5 years;
$KAOPEN$ – the degree of openness of the capital account;
X – the vector of economic control variables;
L_i – the level of legal and institutional development.

Lending to the private sector, capitalization of the stock market, the total volume of shares traded on the market, and the stock market turnover ratio (a measure of market activity) were taken as indicators of the development of the financial market.

Legal and institutional development is characterized by such indicators as the level of corruption, the level of law and order, the quality of the bureaucratic system, the level of protection of creditors 'rights, the indicator of the effectiveness of the enforcement system when concluding contracts, the level of protection of shareholders' rights, and the indicator of the completeness of company reports [5].

As a result, the authors found that the development of the financial market depends on the openness of capital movement, both with and without legal development. At the same time, the development of specific financial institutions does not fulfill such a role. Thus, the general level of legal development is more important than the level of development of specific financial institutions. The hypothesis that the openness of the consumer goods market is a prerequisite for financial openness, and hence the development of the financial market, has been confirmed. It was revealed that the development of the banking sector is a necessary condition for the development of stock markets, while in less developed countries, the interaction of the banking and stock markets works in both directions.

Thus, based on the foregoing, the following factors can be distinguished that can affect the level of development of the financial market [3]:

- the degree of responsibility of the authorities;
- the degree of influence of large companies;
- business transparency;
- the role of personal connections in doing business;
- educational level of the population;
- the degree of household trust in financial institutions;
- openness of the economy;
- the level of elaboration of the regulatory framework;
- the presence of measures to combat fraud and other illegal actions.

The above factors are predominantly subjective and difficult to quantify them. Nevertheless, for research, scientists develop indices, use ratings of analytical and information agencies.

Thus, we have the opportunity to highlight the main problems hindering the development of the financial market:

1. Government passivity. To function, the market needs an infrastructure that is beneficial to

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every market participant. However, no company will bear the cost of developing such an infrastructure. Therefore, the state is most suitable for this purpose and should not be passive. However, the availability of the possibility of forming the infrastructure does not guarantee that the state will perform this function. Even if the state respects property rights, another obstacle to financial development may arise. Small groups can influence government policy for their own benefit and at the expense of society.

2. Threat to large industrial enterprises. Such companies with a stable position during a period of stability do not need a financially developed system. They can finance new projects from income from existing businesses without access to external capital markets. Even when the need for external financing arises, they can offer their reputation or the assets they hold as collateral or guarantees. In addition, the development of the financial market generates competition, and competition reduces the profits of large industrial market participants. It is important for financial companies to be able to monopolize the provision of the client with financial resources so that his threat to stop lending has weight. The development of the financial market also requires more transparency in doing business, which prevents the use of personal connections and contacts.

3. Significant role of personal connections in the implementation of financing. In the absence of full disclosure and proper execution of contracts, any non-secured funding is based on personal relationships. Therefore, the development of the financial market means not so much new opportunities for expanding its activities, but a threat to the sources of income obtained through doing business through various informal contacts.

4. Lack of education or passivity of the majority of the population in matters of finance and law. Because large industrial enterprises can influence policy, preventing them from setting barriers to financial development remains the prerogative of large populations. However, the majority of the population does not have enough strength or knowledge to get out of the state of calm satisfaction, and potential new players are few and unorganized.

The solution of these problems should occur with adherence to the basic rules, and solutions should contribute to the development of the institutional structure of the financial market, increase the efficiency of its functioning.

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