

PECULIARITIES OF THE CURRENT SITUATION OF THE BANKING IPO MARKET

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ABSTRACT: This article discusses the characteristics of the current state of the Bank IPO market. Starting from 2017, we could observe a general decrease in the volume of placement of shares of banks, despite the fact that the high rate of transactions remained. This decline is mainly determined by geopolitical factors such as BREXIT and investors' concerns about the future growth prospects of the EU economy.

KEYWORDS: Banking IPO market, stock indices, financial resources, financial sector liberalization, credit institutions.

INTRODUCTION

Chinese banks continued to occupy a dominant position in the banking IPO market - in total, during this period, 21 deals were made to place shares of Chinese banks for a total of \$12.8 billion. During this period, the US banking sector activated the IPO market, the number of placements in which amounted to 29, but the average deal size also remained relatively low at \$123 million.

The aggravation of the epidemiological situation due to the spread of COVID 19 around the world and the introduction of widespread quarantine measures led to a decrease in IPO transactions. Despite the difficult situation in the world, in the second half of 2020, against the backdrop of increased liquidity in the stock market as a result of significant injections from regulators, there was a recovery in stock indices.

With the recovery of the economy and the acceleration of inflation around the world, the central banks of countries began to curtail monetary stimulus programs for the economy by raising refinancing rates, which, in turn, will have a positive impact on bank profits.

It is worth noting that most of the largest banks from developing countries have also carried out initial public offerings of their shares on the stock exchange over the past 20 years, but there is still a lot of potential for the placement of shares of banks from the Asian region. In addition, financial technologies are currently actively developing, and start-ups from this sector, which are direct competitors to classical banks, as they often have banking licenses. The placement of shares of companies from this sector may be the next stage in the development of the IPO market for credit institutions.

THE MAIN FINDINGS AND RESULTS

Banks from emerging markets raised the largest amount of funds during the period during the initial public offerings — \$156 billion. Emerging markets showed high economic growth rates, which caused the high need of credit institutions for additional financial resources. In addition, the leadership in raising capital of banks from emerging markets is also due to the fact that the main largest banks from the United States and Europe conducted initial public offerings of their shares on the stock exchange even before 2000.

The largest amount of funds raised fell on the Chinese banking sector - local banks raised a total of \$ 106 billion. During this period, an active process of liberalization of the Chinese financial sector was taking place, and China used the IPO mechanism as an effective way to increase the efficiency and transparency of the country's banking system, as well as reduce the share of participation states in the economy. Despite the fact that China's largest banks have already completed IPOs, this market still has potential due to the rapid growth of the financial sector and the presence of a large number of large regional banks. Even during times of crisis, Chinese banks dominated the banking IPO market.

The yield of placements of credit institutions from emerging markets also turned out to be higher than that of banks from developed countries - the median yield of the first day of placement for emerging markets was 10% versus 5.5% for developed countries. The highest return on the first day of IPO trading was also shown by Chinese banks - the median value of the return on the first day of trading was 14.7% for this period.

During this period, three waves of IPOs took place in the market of public placements of shares of credit institutions, which were characterized by higher volumes of placement of shares, as well as higher profitability on the first day of placement. It should be noted that these waves of IPOs were typical not only for the banking sector, but for the entire market of initial public offerings as a whole. Banking IPOs are highly correlated with general sentiment in the IPO market, and there was no clustering of IPOs in certain periods in the banking sector alone during the study period. Raising funds through IPO transactions is one of the most attractive sources of financing for lending institutions in the face of increasingly stringent capital adequacy requirements and the need for additional funds to increase the loan portfolio.

The placement of bank shares during the period of the “hot” market is more promising in terms of successful completion of the transaction, given the fact that the yield and volume of placements in these periods increases significantly. The issuing company receives the most income from the sale of shares in the period following the period of low profitability in the market, i.e. during the hot market period. The median return for the banking sector during the “hot” market is 8.3%, compared to 4.5% during the “cold” market, and the median amount of funds raised is \$ 175 million, which also significantly exceeds the median volume during the “cold” market, equal to 112 million dollars.

Over the past 22 years, most of the largest banks from the Asian region have placed their shares on the stock exchange, but there is still great potential for IPOs of credit institutions from the CIS, India, as well as a number of fast-growing countries in the Asian region. Fintech companies, which often become direct competitors of banks, can also become a growth point for the IPO market of credit institutions.

With the introduction of Basel III standards, the requirements of banks' capital adequacy standards have increased. Raising additional funds through a public offering of shares has become one of the most attractive sources of additional funds to increase the loan portfolio. Most of the largest banks in developing countries have made IPOs since 2000. Despite this, there remains a large potential for the placement of shares of Asian banks. Emerging market banks raise more cash through public offerings than developed country banks. The leadership in raising capital through an IPO belongs to the Chinese banking system. This is due to the fact that the largest banks in the US and Europe held IPOs back in the 20th century.

CONCLUSION

Summarizing the analysis of the IPO market cyclicality, we can come to the following conclusions:

- The growth of activity in the IPO market is determined not only by economic, but also by geopolitical factors;
- The stability of the economic and geopolitical situation encourages investors to take more risks, increasing the profitability of companies that place their shares at a given time;
- After the global financial crisis in 2008, the growth in IPO volumes in the banking sector is proportionately lower than the growth in IPO volumes as a whole;
- Developing country banks tend to raise more capital than developed country banks. This is due to the fact that the largest banks in developed countries conducted public offerings of their shares back in the 20th century, and the number of banks that conduct IPOs after 2000 in developed countries is much larger than banks in developing countries.

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