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ECONOMIC PREREQUISITES FOR DEVELOPMENT OF FINANCIAL AND CREDIT SYSTEM IN UKRAINE: SOCIO-HUMANITARIAN DISCOURSE IN CONTEXT OF SOCIAL TRANSFORMATION

Abstract. The topic of the present paper is a search for the functional methods of bank management in the period of political and social transformation of society. The objective of the research is substantiation of the necessity for the government to have its own banks in order to exercise its functions and provide guarantees of stability in the state under the unfavorable conditions of a conflict of interests when the state is both the ‘regulator of the financial services market’ and the ‘bank owner’.

The analysis conducted in the paper on the benefits and losses due to the state ownership of banks has shown: vulnerability of the Ukrainian banks to political pressure; lobbying for the interests of systemic commercial banks and their obtaining of preferences or special terms; excessive budget expenditures for capitalization of failing systemic banks.

The experience of developed economies has been researched with an analysis of shortcomings, mistakes and prospects of state-owned bank management in different countries; banking market regulation methods and tools have been systematized. The paper focuses on the measure of nationalization, which was applied by many advanced countries; the impact of nationalizing important systemic banks is grounded, with an emphasis on the decisive role of nationalization in the transition period. It has been determined that many of the factors leading to bank nationalization are closely related to the problems of government regulation of the banking sector.

A conclusion has been made that in many countries the mechanisms for corporate regulation of state- or community-owned property do not even exist or are underdeveloped, and therefore, the governments of these countries, having sufficient information and appropriately trained specialists, should be responsible for all the socio-economic processes in the state. These considerations should be translated into elaboration of a mechanism for corporate governance of strategic public property objects. A corporate governance reform involves creation of competent and independent

supervisory boards that would minimize a possible impact of politicians and public officials on the operating activities of banks.

Keywords: financial and credit system, nationalization, state-owned bank, banking system, corporate relations, instruments of public policy.

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ЕКОНОМІЧНІ ПЕРЕДУМОВИ РОЗВИТКУ ФІНАНСОВО-КРЕДИТНОЇ СИСТЕМИ В УКРАЇНІ: СОЦІАЛЬНО-ГУМАНІТАРНИЙ ДИСКУРС У КОНТЕКСТІ СУСПІЛЬНИХ ТРАНСФОРМАЦІЙ

Анотація. Проблематикою статті є пошук функціональних методів управління банками в період політичних і соціальних трансформацій суспільства. Мета дослідження — обґрунтування необхідності володінням державою власними банками для здійснення своїх функцій і гарантій стабільності в державі в таких несприятливих умовах, коли водночас виникає конфлікт інтересів держави як «регулятора ринку банківських послуг» і як «власника банку».

Проведено аналіз переваг і втрат від діяльності щодо володіння державними банками, який показав: уразливість українських банків до політичного тиску; лобізм інтересів системних комерційних банків, отримання ними преференцій або спеціальних умов; надвеликі бюджетні витрати на капіталізацію проблемного системного банку.

Досліджено досвід розвинутих країн, проаналізовано недоліки, помилки і перспективи управління державними банками в різних країнах; систематизовано методи та інструменти регулювання банківського ринку. Приділено увагу такому заходу, як «націоналізація», який мав місце в передових економіках багатьох провідних держав; обґрунтовано ефективність від націоналізації системно важливих банків, підкреслено її вирішальну роль у перехідний

період. Визначено, що багато причин, які призводять до націоналізації банку, — це проблеми, тісно пов'язані з політикою державного регулювання банківського сектору.

Дійшли до висновку, що в багатьох державах узагалі відсутні або неопрацьовані механізми корпоративного регулювання об'єктами державної або спільної власності, а тому уряди цих країн, маючи достатній рівень інформованості та належний рівень підготовки спеціалістів у цій галузі, повинні нести відповідальність за всі соціально-економічні процеси в державі. Ці міркування мають втілитись в розробку механізму корпоративного управління стратегічними об'єктами суспільної власності. Зазначена реформа корпоративного управління передбачає створення незалежних і компетентних наглядових рад, що мінімізують потенційний вплив на операційну діяльність банків з боку політиків і чиновників.

Ключові слова: націоналізація, державний банк, банківська система, корпоративні відносини, інструменти державної політики.

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ЭКОНОМИЧЕСКИЕ ПРЕДПОСЫЛКИ РАЗВИТИЯ ФИНАНСОВО-КРЕДИТНОЙ СИСТЕМЫ В УКРАИНЕ: СОЦИАЛЬНО-ГУМАНИТАРНЫЙ ДИСКУРС В КОНТЕКСТЕ ОБЩЕСТВЕННЫХ ТРАНСФОРМАЦИЙ

Аннотация. Проблематикой статьи является поиск функциональных методов управления банками в период политических и социальных трансформаций общества.

Целью исследования является обоснование необходимости владением государством собственными банками для осуществления функций, гарантируя стабильность в государстве. Проведен анализ преимуществ и недостатков государственого управления банками. Был исследован опыт развитых стран; проанализированы недостатки, основне ошибки и перспективы управления государственными банками в разных странах; систематизированы методы и инструменты регулирования банковского рынка.

Затронуты вопросы национализации, обоснованы ее эффективность и роль в переходный период. Пришли к выводу, что во многих государствах вообще отсутствуют или не разработаны механизмы корпоративного регулирования объектами государственной или общей собственности. Предполагается создание независимых и компетентных наблюдательных советов, чьей основной функцией должно быть исключение какого-либо влияния на операционную деятельность банков.

Ключевые слова: национализация, государственный банк, банковская система, корпоративные отношения, инструменты государственной политики.

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Introduction. The banking system of Ukraine and those of many advanced countries of the world are represented by commercial and state-owned banks. The state-owned banks are an important instrument of a country's economic development, regardless of the degree of development of its economy. In economically less advanced countries, state-owned banks perform a wide range of tasks, providing financial support for infrastructure projects, conducting export-import activities, supporting social projects etc.

The main feature of state-owned banks is their ability to stimulate economic growth through financing of particular sectors or regions, whose needs are not met by private banks. Public banks, unlike private ones, are able to remedy the fiasco of the market, e.g. by providing long-term loans for infrastructure projects, environmental and educational programs, and programs of financial inclusivity. However, along with the obvious advantages, the activities of state-owned banks are often associated with politicians and officials engaged in lobbying and gaining preferences or special terms for the business of their close groups. We believe that such a liaison causes the conflict of interests of the state as the financial services market regulator and the bank owner. It is this aspect that we regard as an insufficiently regulated and the least explored one.

In Ukraine, as well as in most of the European countries researched by us, there are systemically important banks whose activities, through poor bank management and issuance of loans that run counter to the banks' interests, can lead to an economic collapse. Banks are considered systemically important if their activities affect the stability of the banking system. During economic downturn, or when there is a real threat of bankruptcy, or for some other valid reasons, the state may resort to nationalization of banks.

Research analysis and problem statement. Scientific debate on the authority, functions, role and place of the state in developing socio-economic processes in today's market environment have always provoked strong reactions from scientists, government officials, entrepreneurs, and ordinary people. These issues were discussed in the works by M. Piatkowski, J. Gonzalez-Garcia, F. Grigoli, D. Detter, N. Framkin, S. Gorina, R. Hafer, G. Howe, S. Myers, E. Nikbakht, , P. Rose, J. Steinbrecher and others. A significant contribution to this process was made by domestic scientists, in particular V. Ivanov, V. Kovalenko, I. Liutyi, Yu. Lysenkov, P. Melnyk, I. Shamova, V.Yelagin, N. Luhovenko.

The subject of the present paper is searching for the functional methods of managing state-owned banks. The objective of the study is justification of the state's owning its banks, and identifying the factors that have led to bank nationalization. These problematic issues are closely related to the government policy on the state-owned banks' status, their functions and tasks.

To explore the issue, we studied the experience of advanced countries, their failures and success, and compared the tools for managing public property. In the course of the research, we found that the issues of commercial banks nationalization and the lack of state management experience are in the focus of research by economists from many countries of the world.

Research results. International ratings of the banking sector in Ukraine are quite unsatisfying, as evidenced by such assessments as that of S&P Banking Industry Country Risk Assessment (BICRA), stating (December 2015) that the Ukrainian banking industry ranks tenth — the most risky group in the world, close to Belarus, Egypt, Greece, Jamaica, Mongolia. The 2018

Global Competitiveness Report of the Davos World Economic Forum shows that the Ukrainian banking system ranks only 135th in terms of reliability [1].

The key argument in favor of state-owned banks is their ability to accelerate economic growth through financing of individual sectors or regions — a need that is not met by private banks — the so-called classic development perspective [2, 3]. In contrast to that view, there is a political perspective on state-owned banks, when politicians are interested in using them to achieve political goals i.e. ensuring employment levels, subsidizing, financing projects that can guarantee them voters' support. Such political goals outweigh the motivation for growth and development [4].

Managers of state-owned banks often have links to politicians and officials, which gives them greater opportunities for lobbying in order to obtain preferences or special business conditions for their banks. As a result, in our opinion, there is a conflict between the interests of the state as the banking market regulator and the owner of a banking institution. Granting preferential terms to certain participants violates the equality of rules and distorts the competitive situation in the market[5].

The development of the banking market due to state-owned banks' gaining preferences may be attractive to the state as a legislative body (policy maker), thereby this function could also potentially come into conflict with the function of the state as a regulator. The state, as a policy maker in the banking market, has its interest in building the banking sector in order to boost economic growth, since banks have to provide loans to the business environment, stimulating investment and increasing production, employment and, as a consequence, increasing the well-being of citizens [6].

We can see that in this context, the state and business have common interests. At the same time, there is a risk that political motives will outweigh development goals, which will lead to politically motivated incentives for crediting the private, and moreover, the public sector through state-owned banks, consequently reducing the quality of their loan portfolios. The result can be a conflict between the state as the owner and the state as the lawmaker. The owner state is interested in developing financial inclusivity — increasing the number of users of banking services. However, the development of financial inclusivity through state-owned banks means additional expenses for these banks that affect negatively their profitability, resulting in a potential conflict between the state as the lawmaker and the owner state.

There is ample evidence of how various transformational economies, including Ukraine, experienced crisis in 2008—2009, and how their economies were affected by the presence or absence of state-owned banks. Interesting examples are provided by countries with a significant share of state-owned banks in the market; those with no state-owned banks; countries with state development banks and universal banks; and countries that were forced to nationalize their private banks.

Latvia and its experience of managing troubled banks. The forced nationalization of the Latvian universal bank Parex Banka is similar to the situation with Privatbank in Ukraine. As a result of the 2008 financial crisis, Latvia was also forced to rescue Parex Banka, the second largest (13.8% as of 2008) universal bank. Following the onset of the crisis, the clients lost confidence in the financial strength of Parex Banka. Since the bank did not have an owner who could support it financially, the outflow of clients' funds began, in particular, the funds of non-residents who made up a considerable share of its depositors. The bank was facing bankruptcy, so in 2008 it was decided to nationalize the bank [7].

As a result of nationalization, all the shares of the two main owners with a stake of 84.8% were transferred to the state. Additionally, part of the shares owned by Svenska Handelsbanken AB was purchased, which increased the share of the state in the bank's capital to almost 85.2%. After two years of nationalization, the owner state decided to divide the bank into 'profitable' and 'unprofitable' parts. Thus, in 2010, Citadele Bank was established as a 'profitable' bank, to which all the depositors were transferred, and the 'unprofitable' bank focused its activity on restoring the lost resources and continued some of its core activities, leaving "bad" assets on its balance sheet. Thus, the nationalization of the bank carried out in that manner prevented the domino effect that could occur in the event of the bank's bankruptcy, which would lead to significant financial instability and potential bankruptcy of other banking institutions in Latvia. The state would have to pay the depositors under the remuneration program an amount of money that significantly exceeded the bank's liquid assets, i.e. the lack of funds would be compensated by taxpayers, as happened in Ukraine.

The next country under consideration is Slovenia. Slovenia is one of the countries in Europe having a large share of state-owned banks. Prior to the 2008 financial crisis, the three largest state-owned banks held 48% of market share in assets (Nova Kreditna banka Maribor, Nova Ljubljanska banka, Abanka). At the same time, Slovenia's banking sector, principally the government, was overburdened with large problematic loans. State-owned banks appeared to be more vulnerable to crises than the private ones: for example, in September 2012, the number of problematic loans of foreign banks was 11%, and that of state-owned banks amounted to 30% [8, 9].

Problems with servicing corporate debt and a limited access of banks to capital markets forced the country's government to repeatedly recapitalize major national banks. This eventually led to the second wave of recession and a significant increase in public debt in 2012—2013 — up to 60.6% and 79.5% of GDP respectively. The OECD and the European Commission impute the extremely unsatisfactory performance of the Slovenian state-owned banks to the weakness of their corporate governance systems, which resulted in risky operations and low lending standards.

On the verge of the global financial crisis, the Slovak Republic was one of the most successful economies in Central and Eastern Europe. The banks of Slovakia were quite effective in resisting the global crisis impact. A vast majority of banks were owned by foreign strategic investors or by local financial groups, while the state share was negligible — about 1% of all the banking system assets (according to the EBRD). In 2009, the state activated two development banks — Eximbanka and Slovenska zarucna a rozvojova banka — which, despite the crisis, allowed these banks to expand the credit portfolio of small and medium-sized companies, and to support exporters. Thus, the development banks of Slovakia assumed a counter-cyclical role. However, it should be noted that the financial support of corporations through state-owned banks was only one of twenty-two anti-crisis measures that allowed the country's economy to quickly emerge from the crisis [10].

Estonia: the absence of state-owned banks. Since joining the EU, Estonia has experienced relatively rapid economic growth, mainly due to lending to domestic demand concentrated in particular in the real estate market. Therefore, the Estonian economy experienced a sharp decline due to the global financial crisis of 2008—2009 which was aggravated by the "bubbles in the real estate market". The collapse of the global financial markets and trade exacerbated the recession even more. As a result, the real GDP fell in 2009 to 14.7%, showing one of the worst GDP dynamics in the world. The Estonian government had no banking assets. The country's banking system was mostly represented by the Scandinavian financial groups. It did not suffer significant losses from the financial crisis [11; 12].

Poland became perhaps the only EU country to avoid a recession during the 2008 global financial crisis. This result was largely achieved due to timely monetary and fiscal measures, significant devaluation of the national currency and the EU support. According to the EBRD, the share of state-owned banks in Poland's assets rose to 22.1% in 2009, compared to 18.3% in 2008. A major contribution to the increase of both the share of state-owned banks' assets and lending in general was made by the largest universal bank — PKO Bank Polski with a state-owned stake of 51.24%. The share of PKO Bank Polski in the total number of loans increased from 15.6% in the third quarter of 2008 to 17.2% at the end of 2010. However, despite a stable economic situation, foreign banks slightly reduced their presence [13].

The reasons for the success of PKO Bank Polski in the time of crisis were the active actions of private investors who closely monitored the bank's progress, the quality of its management and economic orientation, which helped avoid possible political pressure. This "program" approach with its general objectives of managing public property in the country is regularly reviewed and published. Within the framework of the public property management policy, long-term goals and tasks of individual companies are specified, with the tasks and powers revised and discussed with the bodies of corporate governance on a regular basis [14].

Given the above analysis, we can assume that one of the problems in the development of the Ukrainian banking sector is management, and more specifically, corporate governance. It is primarily because corporate governance is a concept that is relatively new for the domestic banking system. As practice shows, banks have poorly developed corporate ethics, and virtually no corporate traditions. They do not use long-term planning, and their employees do not perceive mentally the confidentiality of information. This leads to inefficient management and lack of attractiveness for potential investors. Interestingly, the monitoring of the corporate governance in Ukraine shows that there is no full-value state property policy either.

For a commercial, non-governmental banking institution, the main participants in corporate governance are: shareholders; managers (the board of directors, the supervisory board); stakeholders (bank clients, bank employees, creditors, the National Bank, the state, the general public, etc.). When interacting, these actors join different groups of social relations: contractual, proprietary, economic and legal, financial, employment, organizational, etc.

Along with that, each of the groups of corporate relations participants has its own interests regarding the bank activities. Similar processes occur in the state-owned bank, except for the fact that the property is not partially but fully owned by the state. Unfortunately, this situation is often overlooked by the governance system of the state bank, especially when a bank got the status of state-owned for one reason or another. Thus, within the corporate governance framework, it is envisaged to develop mechanisms that will allow taking into account and balancing the interests of all participants of corporate relations in a state-owned bank.

At the same time, it should be noted that, when creating an effective corporate governance system, state-owned banks do not have to resolve a variety of specific issues, unlike commercial banks which have to deal with joint-stock companies and operate in the real sector of the economy. Lobbying, anticompetitive environment are negative features of the market economy. Whereas commercial banks are characterized by increased government regulation, state-owned banks, by the same token, should be controlled by business representatives and external investors.

Another fundamental issue of non-compliance with the current European standards is the state's lacking relevant legislative authority regarding its ownership of assets as a public sector economic entity. In October 2018, the Cabinet of Ministers of Ukraine approved the Basic Principles of Implementing Property Policy for Public Sector Entities, developed by the Ministry of Economic Development. This document is designed to take into account the best practices of state-owned enterprises, including the OECD Guidelines on Corporate Governance of SOEs.

To develop an effective strategy for reforming state-owned banks, it is necessary to work out and approve, in collaboration with the National Bank of Ukraine, a national strategy for the development of the banking sector, which includes the system of management and regulation of state-owned banks. Having analyzed the experience of managing state-owned banks, we identified the most effective tools (*Table*).

Table

Tools for government interference in the banking sector of the economy

Management measures and tools	**Factors that have had profound effect**	**Measures that have proved most effective**
Latvia		
- timely nationalization; - division of a system bank; - minimal compensation payments from the budget.	- the highest level of crisis compared with other countries.	- prompt actions of the government; - aid of the EU.
Slovenia		
- separation of problematic assets from profitable assets.	- large share of state ownership in banks; - a large number of problematic loans; - increased debt obligations to external investors; - absence of external investors.	- government financing of the banking market.

Slovakia		
- major bank owners: foreign investors and owners of big businesses; - insignificant share of state ownership (1%); - national currency exchange rate aligned to GDP, and not to foreign currencies.	- decline in deposit rates; - increased compulsory reserves ratio; - increased interest rates on loans.	- counter-cyclical function of the banking sector; - insignificant government aid and budget funding; - enhancing financial reserves before the start of a financial crisis.
Estonia		
- banks are owned by external investors who take most of financial risks; - increase in export, and flow of foreign currencies to banks.	- main banking transactions are focused in the real estate market which is the last to recover.	- lack of the state share; - increase in buffer foreign exchange reserves; - stringent fiscal policy.
Poland		
- foreign investors' share equals 71% of bank capital; - planned devaluation; - a rise in the state-owned banks' share; - provision of credit resources to the market; - getting private investors, not the budget, to cover losses.	- strict fiscal and monetary measures; - low level of mortgage lending; - control on behalf of the state.	- EU assistance; - taking measures to support and strengthen the financial system of the state (regulatory package); - no risky methods of financing and conducting banking activities (derivatives).

Sources: [7—9; 11; 13].

The table shows that timely, adequate government actions, combined with the involvement of foreign investors, will produce the desired result.

The basic principles of ownership policies determine the main goals of the state ownership, management and administering of economic entities. Specifically, the ownership policy establishes that the state can own enterprises (banks) to improve their efficiency, preserve and increase the book value of their assets; to promote the economic interests of the Ukrainian people, and perform its entrusted social functions; and to ensure that state-owned enterprises receive profit from commercial activities. However, these activities require observance of rigorous principles underlying the system of managing business entities, i.e. private banks before they become public.

Analyzing the experience of different countries, we came to a conclusion that all types of state-owned banks can have commercial goals. Further, as regards public benefit, significant results can be achieved primarily through involvement of development banks (e.g., financing infrastructure projects) and postal banks (which means financial inclusivity). In terms of corporate governance, the experience of setting up a separate holding company to fulfill the functions of the owner seems very useful. Having a holding as a separate independent management tier can restrict a possible political impact on the operation of state-owned enterprises and banks.

Conclusions. By their nature, state-owned banks are an important tool of economic development. The management of state-owned banks should occur within the framework of a general enterprise management policy, using approaches similar to those applied in the sphere of state property management. State-owned banks should be development banks, as well as postal banks, and create a unique public benefit that is not created by private banks, which will ensure state-owned banks' successful existence. We believe that when the functions of the state as a management entity and a policy-maker are clearly separated, the state, represented by its authorized units, must provide management under the following conditions:

1) in the sphere of public property management, the state, represented by its authorized management body, acts as a founder in relation to the management entity, taking into account the powers granted to it by the legislation and the statute of the management entity; in other cases, the state acts within the powers and in the manner provided by the legislation of Ukraine;

2) prohibition of unlawful interference of public authorities, their officials in the financial activities of the bank;

3) formation of a competent and independent supervisory board and executive management board of the state-owned bank in compliance with the principles and requirements of the legislation of Ukraine;

4) consistent implementation of the best practices of corporate governance of the state-owned bank;

5) fixing in the bank statute of a clear division of powers between its units, observing the principle of avoiding duplication of powers;

6) creation of a supervisory board for protection of the rights of shareholders (founders).

These conditions do not affect the essence of the long-term strategic objective — to reduce the presence of the state in the banking sector, but may hinder the achievement of success. The ultimate long-term goal is to remove the state from direct ownership of the capital of banks and other financial institutions. As a result, the state will fulfill its functions of the legislator — stimulating the economy and ensuring financial inclusivity not in a direct way, but through state programs in which private banks and financial institutions can participate through tenders.

This approach minimizes the risk of government interference with the rules of the banking market. Refusal by the government to own banks' capital reduces the risks of using it to finance state budget deficit, to make politically motivated lending to state-owned companies, and politicians' using banks for their own good.

In this paper, we compared the benefits and cost of the state owning its banks in different countries. Our analysis showed that the Ukrainian state-owned banks have a high level of problematic loans; are vulnerable to political influence; are universal, so they do not create a unique public benefit; and should be privatized in the future.

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