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STATE-OWNED BANKS AND THEIR INFLUENCE ON THE FORMATION OF THREATS TO FINANCIAL STABILITY

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Abstract: *The functioning of banks with state participation is considered from the point of view of the impact of their activities on the formation of threats to financial stability. The research was carried out on the basis of a comparative approach, considering the impact of banks with state participation on financial stability in comparison with banks with private and foreign capital. It is substantiated that domestic banks with state participation are currently directly threatening financial stability, which is manifested in the following: the predominant share of the state in the banking sector; inefficient structure of assets from the point of view of the quality of performance of the intermediary function, which in the future can form the "removed" behavior of the banking sector in satisfying the financial interests of economic agents; the still unresolved problem of non-performing loans on the balance sheets of banks with state participation, the solution of which is obviously postponed until the recovery of the peacetime economy.*

Keywords: *banks, capital, asset structure, lending to the real sector of the economy, government bonds, financial stability, threats.*

The depth and significance of the consequences of economic shocks always directly depends on the ability of the financial sector to ensure continuous activity over the longest possible time horizons. In the case of the domestic financial sector, firstly it must ensure stable financing of the economic needs of business entities, and secondly it is important to prevent unreasonable financial decisions that could lead to the emergence of threats to financial stability. The market dominance of state-owned banks has long been a cause of concern in the expert and scientific communities, at the same time, under different economic conditions, there are different reasons for being cautious about the growth of the share of state-owned banks. Thus, during 2018-2021, a moderate and stable recovery of business activity and growth of macroeconomic indicators was observed. In these conditions, state-owned banks served as a restraining factor, including from the point of view of the inflow of foreign investments, since the dominance of state-owned banks in the banking sector is to some extent considered an anti-market feature. At the same time, starting from February 24, 2022, both the current ability and the potential of the bank to ensure continuous activity, that is, both their individual financial stability and their ability to cause systemic risks, will come to the fore.

The purpose of the study is to assess the influence of Ukrainian banks with state participation on the formation of threats to financial stability.

Based on empirical experience the share of the state in the banking sector mostly increases as a result of crises, when governments are forced to support troubled banks. Thus, the governments of a number of European countries "rescued" problem systemically important banks through the mechanism of nationalization in order to preserve the stability of the financial system. For example, following the crisis in Slovenia, after the crisis, the government directly or indirectly controlled about 50% of the banking sector as a result of participating in the rescue of systemically important banks. Another example of a sharp increase in state participation in the banking sector as a result of the crisis was Ireland. At the same time, in the process of sector's recovery and the return of investor demand, the share of the state has been decreasing for several years.

It is worth emphasizing that the Government of Ukraine in September 2020 supported the updated Principles of strategic reform of the state banking sector, which among the main goals determine the partial or complete exit of the state from all banks and the reduction of the share of state banks in the assets of the banking system to a level not higher than 25%. This document also defines the state's procedure for reducing the state's share in the banking sector. The latter was observed in the domestic banking sector at the beginning of 2022, but the full-scale invasion of the aggressor country will naturally postpone the process of full-fledged denationalization until the moment of post-war recovery of the economy.

As evidenced by the conducted research, state banks during 2019-2022 demonstrate less effective indicators compared to private bank and those with foreign capital. This is evidenced by the results of the credit policy of banking institutions, the volume of non-performing loans in the portfolio, as well as other operations in the structure of assets of banking institutions. That is why the privatization of state-owned banks is one of the most priority goals in the development of the banking sector. At the same time, they are deeply convinced that the privatization of state banks is necessary not only from the standpoint of their financial efficiency, but also financial stability. In this context, it is connected not only with current financial indicators, but with the formation of a special business behavior, the object of which has recently increasingly deviated from meeting the needs of economic agents of the real sector. If such behavior is "rooted" and taking into account the predominant share of state-owned banks in the banking sector of Ukraine, this may lead to the formation of system-forming threats to financial stability.

Let us emphasize that taxpayers’ expenses for supporting state-owned banks over the past 12 years have exceeded UAH 370 billion, or more than $21 billion at the historical exchange rate. These are the funds spent from the state budget to increase the authorized capital of banks that belonged to the state from the very beginning of their operations, as well as those banks that were nationalized during the financial crises. In the absence of these costs, banks would have been forced to cease market activity due to large accumulated losses, which were the result of questionable decisions of bank owners and managers. These funds should be returned through the operation of banks with a positive return on assets and capital, as well as privatization in the future.

In our opinion, the reduction of the market share of state-owned banks should be achieved through the sale of majority stakes to foreign and local strategic investors, international financial organizations, as well as through the initial placement of shares. Such a sale should take place at a fair market value, which will be maximized only if the corporate governance of public sector banks is brought to the level of the private sector, the operational efficiency, financial stability and reliability of the banks are improved, and a systematic privatization management process is implemented in accordance with international best practices. Undoubtedly, military aggression by the Russian Federation will have an impact on the specified terms regarding the privatization of the state share in the banking system of Ukraine. At the same time, we are convinced that the vision of the need to reduce the state share in the banking system to 25% in the medium and long term should remain unchanged.

Further scientific research will be directed to the justification of an effective business model of banks with state participation in order to form long-term prospects for ensuring and maintaining the target level of financial stability.

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