PROSPECTS FOR THE DEVELOPMENT OF FINANCE IN THE CONDITIONS OF EUROPEAN INTEGRATION OF UKRAINE

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The monograph is dedicated to the consideration of the problems of the development of the financial market of Ukraine that are relevant in the context of European integration. Very important issues of today, which are highlighted in the monograph, are the restoration of budgetary stability and debt security of Ukraine in the post-war period, improvement of monetary and budgetary policy aimed at macroeconomic stabilization in the country. The authors emphasize the tools that can ensure anti-crisis regulation of the banking system, financial business management. The monograph examines the issues of ensuring the economic security of the construction industry, directions for improving the accounting policy in the field of business as a whole, and improving the quality of audits.
These and other aspects of the current problems and priority directions of the development of the financial market are devoted to the monograph of the team of authors who carry out up to date researches within the scientific school of the National University "Yuri Kondratyuk Poltava Polytechnic".

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CONTENTS

STATE-OWNED BANKS IN THE BANKING SYSTEM OF UKRAINE: PROBLEMS AND PERSPECTIVES

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In today's challenging situation of military aggression, the maintaining the stable functioning of Ukraine's economy to ensure the viability of the state, as well as determining the ways of post-war recovery and further development of the economy in order to realize the European integration perspective and ensure national security, is becoming an actual issue. An extremely important role in the realization of these tasks should be played by the banking system, which is rightly considered one of the foundations of a stable and balanced functioning of the economy. By expanding the access of economic entities to credit funds, banks increase solvent demand and thus stimulate the development of production. Acting as financial intermediaries, banks ensure the rise of economic activity, the functioning of payment systems, the development of the financial market and, ultimately, the growth of the population's well-being.

Global experience shows that an important place in banking systems belongs to state banks (whose capital is fully owned by the state) and banks with a state share (in which the state directly or indirectly owns more than 75% of the authorized capital) [1]. Their role in the economic system is determined by their realization of important socio-economic functions related to the development of the economy and ensuring macro-financial stability. Such a role is determined by a whole set of factors: the level of development and structure of the national economy, the lines of the economic and political development of the state, historical, national traditions and mentality, etc. In particular, according to the authors [2], the structure of the financial system of any country depends both on the institutional system and on the implementation of democratic principles in the country, a fair judicial system, and the protection of the rights of creditors and investors.

At the same time, the predominance of state-owned banks in the banking system can cause certain problems. In this regard, the question arises about the effectiveness of such banks, their goals and objectives in modern situation and, in a broader sense, about the appropriate level of state participation in the banking sector.

This issue is certainly relevant for Ukraine as well. During the last decade, its banking system experienced a period of dynamic changes and profound transformation. As a result of the policy of "refinement" of the banking system, which was carried out by the National Bank of Ukraine (NBU) in 2014-2017, the number of banks decreased significantly, and due to the nationalization, that accompanied these processes, the share of state-owned banks became predominant in the structure of the capital and assets of the banking sector (Table 1).

It is worth noting that in the 20th century, for a long time, state-owned banks featured prominently in the economies of countries with emerging markets. At the end of the 1980s, their share in total bank assets and liabilities amounted to more than 50%, because it was believed that state-owned banks are important from the point of view of economic security of the country and are necessary in the situation of weak development of financial markets and financial infrastructure. At the same time, practice showed that the efficiency of their operation was lower than that of commercial banks, which was confirmed by further scientific research [5]. This situation was explained, in particular, by the imperfection of their business models, the low level of corporate governance, the insufficient level of commercial independence, which provoked increased risks and additional costs.

Table 1

Indicators of the banking system of Ukraine according to the criterion of capital ownership for the period 2013-2021 (at the end of the year)

Indicators	2013	2014	2015	2016	2017	2018	2019	2020	2021
Number of banks, units	180	163	117	96	82	77	75	73	71
Number of banks with foreign capital, units	49	51	41	38	38	37	35	33	33
The share of foreign capital in the share capital of banks, %	34,0	32,5	43,3	51,1	35,8	28,2	…	…	…
Number of banks with state participation, units	7	7	6	6	5	5	5	5	4
The share of state participation in the share capital of banks, %	31, 7	34,3	30,9	41,7	61,9	66,2	65,4	65,6	65,3
The share of state-owned banks in the assets of the banking system, %	19,0	21,7	27,4	50,6	54,4	59,7	55,2	52,6	46,7

Source: developed by the author on the base of [3; 4].

As a result, in the 1990s, large-scale privatization took place in the banking sector, due to which the situation changed radically. Immediately before the global financial crisis, the government controlled about 18% of bank assets in advanced economies and 30% of bank assets in emerging and developing economies (including the development banks) [6]. Only in a few countries in Southeast Asia, on the contrary, the sector of state-owned banks increased, which was caused by the need to overcome the financial crisis. The latter is further evidence for the conclusion that precisely in the situation of crisis, the state tries to strengthen its influence on the banking system, understanding its crucial importance for the stabilization of the national economy.

At the beginning of 2015, the public sector accounted for approximately 21% of all assets of national banking systems in the world. State banks dominated the economies of Turkmenistan (over 90%), Belarus (over 77%), Russia (about 55%) and China (about 60%). The group with an average level of state participation included such countries as Great Britain (20.0%), Poland (18.5%), Latvia (19.5%). In the Netherlands and Austria, this indicator was about 10.0%, in Hungary - 3.5%, the Czech Republic - 2.9%, Bulgaria - 2.0%, and in the banking systems of Armenia, Lithuania, Estonia and Georgia, the state segment is practically absent [7].

Domestic and foreign scholars have various views about what can explain the high share of state ownership in the banking systems of countries with emerging markets. Summarizing their opinions, we can say that state-owned banks perform the following tasks important for the government:

- stimulating the increase of the technological level by financing on reasonable terms the economic players of priority areas of the economy, and accelerating the development of infrastructure;
- financing of priority national projects and programs (in particular, regarding energy efficiency, road construction, regional development, informatization etc.);
- stimulating the increase in the export of goods with high added value and the import of technologies;

- stimulation of the development of small and medium-sized enterprises through the optimization of lending terms, organizational assistance and consulting support;

- ensuring the provision of banking services in areas that are unattractive from a commercial point of view for private banking business, etc.

Since the creation of the banking system of independent Ukraine, only two state-owned banks have operated in it for a long period: “State Savings Bank of Ukraine” (Oschadbank) and “State Export-Import Bank of Ukraine” (Ukreximbank). Each of these financial institutions, despite the universal character of their operation, performed certain specific tasks. Oschadbank, having the largest network of branches, including in rural areas, worked with individuals, primarily in terms of accumulating funds and making payments. Ukreximbank acted as the government’s financial agent for international lending and served the foreign economic activities of large and medium-sized enterprises.

In 2003, another state-owned bank – “Ukrainian Bank for Reconstruction and Development” (UBRD) was created aiming the promoting the development of innovative infrastructure in Ukraine. The share of all mentioned banks in the capital and assets of the banking system was insignificant (5-10%) and in 2008 it was equal to the share of state-owned enterprises’ output in GDP, which testified to the parity of the government’s participation in the real and financial sectors of the economy.

With the beginning of the global financial and economic crisis in 2007, the situation gradually began to change. Firstly, the government significantly recapitalized two *systemically* important state-owned banks. Secondly, in order to maintain the stability of the banking system, a decision was made on the state’s entry into the capital of three more banks - Ukrgasbank, Rodovid Bank and Bank “Kyiv”, which, together with UBRR, formed a group of so-called quasi-state banks, since the state’s share in their authorized capital was from 93% to 99.99% (the modern term is “banks with a state share”).

The choice of the above-mentioned banks for the recapitalization was explained by the fact that the first two institutions belonged to the top twenty banks of Ukraine in terms of assets, and they concentrated a considerable part of the financial resources of the entire banking system. Bank “Kyiv” specialized in servicing construction organizations and accumulated much of the funds of the construction industry, which could become a catalyst for exiting the crisis. During decision-making on the recapitalization of these banks, it was assumed that after the stabilization of the situation, the government equity stake would be sold, and the invested funds would be returned to the public budget.

Later, the experts concluded that the nationalization and state recapitalization of the problem banks were ineffective, since only one Ukrgasbank was able to stabilize operations and ensure profitability. As of 01.01.2012, the government’s expenses for entering the capital of three banks amounted to UAH 18.6 billion [8, p. 282-286]. In 2011, Rodovid Bank was granted the status of rehabilitation bank in order to work with problem assets of state and quasi-state banks. However, in the future, both this bank and the Bank “Kyiv” were declared by the National Bank of Ukraine as insolvent with the prospect of further liquidation. The inadequate level of government control over the operations of these banks and the targeted use of funds provided from the public budget were not least among the reasons for this result.

The years 2012-2013 were marked by the foundation of two more state-owned banks in Ukraine. It was assumed that the “State Land Bank” (with a charter capital of UAH 120 million) would be engaged in lending to companies in the agricultural sector, as well as implementing government programs in this area. However, it never started full-scale operations, as evidenced by its financial statements [3], and in 2016 the bank was liquidated. Currently, 83.5% of the capital of the bank “Settlement Centre for Servicing Contracts on Financial Markets”, which was established in 2013, is owned by the National Bank of Ukraine. Based on the license, it continues to carry out clearing operations as a central counterparty for securities transactions.

Therefore, the above-mentioned stages of strengthening the state presence in the banking system of Ukraine indicate, in general, the ineffectiveness of the actions of the government as an owner in the banking sector, the lack of clear mechanisms for solving tasks to support the development of the national economy. This is confirmed by the fact that the state-owned Oschadbank and Ukreximbank, having received UAH 63.5 billion in 2008-2016 to increase the authorized capital, reported aggregate net losses in the amount of UAH 48.7 billion in the financial statements for 2016 [3].

The sale to a foreign investor in 2017 of the “Ukrainian Bank for Reconstruction and Development”, which uncovered losses at that time amounted to more than half of the authorized capital, is a case in point too. This bank did not realize its public mission, primarily due to a low capital base: at the beginning of 2016, the authorized capital of the bank was equal to UAH 118 million with a total balance of UAH 122.6 million. The bank’s loan portfolio amounted to only UAH 394,000, and the most of funds was invested in securities, real estate and fixed assets [9].

It is worth noting that almost until 2022, the issue of restoring the operations of the development bank in Ukraine did not turn into the practical plane, although such a bank, along with the export-import bank, was considered as an integral part of the domestic banking system in the draft Strategy for the Development of the Banking System 2016- 2020 “Synergy of Bank Development and Industrialization of the Economy”, approved by the Committee of the Verkhovna Rada of Ukraine on Financial Policy and Banking [10].

A further substantial increase in state participation in the banking system of Ukraine took place at the end of 2016, when in order to prevent destabilization of the banking system together with the entire Ukrainian economy, the Cabinet of Ministers of Ukraine was forced to decide on the nationalization of PrivatBank, the largest domestic banking institution. At the time of recording serious problems with capital adequacy, credit portfolio quality, and liquidity, 22 million clients’ accounts were opened in it, including 20 million individuals, and 40% of the deposits of the entire banking sector were concentrated in this bank.

According to scholars and financial analysts, the bank was brought to a state of complete insolvency by the irresponsible and self-interested credit policy of its top management, when large amounts of loans were issued for a long time exclusively to companies related to the owners of this financial and industrial group, with subsequent withdrawal of funds to the accounts of offshore companies. And this was despite the fact that at the beginning of 2016, PrivatBank reported a rather small share of insider loans in the gross loan portfolio - about 20%, which is less than the normative indicator of 25%. Low-quality supervision by the National Bank of Ukraine, as well as formal audit control carried out by LLC PricewaterhouseCoopers (Audit), which was subsequently excluded from the register of bank auditors in Ukraine, contributed to bringing the bank to a deficit of regulatory capital in the amount of about UAH 150 billion.

To save the systemic important bank, the Ministry of Finance of Ukraine carried out an additional issue and added state bonds to its authorized capital in the amount of UAH 116 billion (thereby increasing the domestic public debt). The remaining capital deficit was covered by the bail-in operation, i.e., the conversion of liabilities to persons related to the bank into capital.

According to experts' calculations, 4.8% of Ukrainian GDP was spent on the nationalization of PrivatBank and its subsequent recapitalization in 2016-2017.

As a result, Ukraine got a unique situation from the point of view of its economic history. Three state-owned banks and one quasi-state bank (which since 2016, for the purposes of analysis and supervision, have been combined into the group "banks with a state share"), being the largest banks in the country controlled almost 60% of the assets of the banking system, owned more than 65% of its authorized capital, more than 40% of the loan portfolio, and 55% of all client deposits, including more than 60% of the funds of individuals [3]. At the same time, the share of the public sector in the economy, according to the Ministry of Economy of Ukraine, amounted to about 14% at the end of 2018 (by the end of 2021, this share decreased to 10.3%) [11] which indicates a serious imbalance regarding state participation in the real and financial sectors.

At the end of 2016, the government actually tried to strengthen the competitive position of state-owned banks, trying to provide them with a full state guarantee of the reimbursement of individuals' deposits. Such a step was explained by the need to stabilize the situation around PrivatBank. However, in the end, such a guarantee remained, as before, only in Oschadbank, since the law adopted by the Verkhovna Rada of Ukraine was not signed by the President. It is thought that since the real mechanism for compensating deposits at the expense of public budget was not defined anywhere by law, the aforementioned guarantee could act only as an element of creating the image of a reliable bank and would contribute to a certain deformation of the competitive situation in the banking market.

In the economic literature, both domestic and foreign, there is a wide range of opinions regarding the place and importance of state-owned banks in the banking systems of modern countries [6, p. 1-2; 12, p. 4-5]: from the statement about their positive stabilizing role in the national economy [13] to the justification of the negative impact on the growth rate of the economy and well-being [14] and considering them as a potential source of threats to the normal development of the banking sector (due to possible political influence and involvement, market oligopolization, low quality of corporate governance, etc.) [15, p. 52]. However, most scholars believe that it is not so much the size of the public sector in any sphere of the economy that matters, but how it is managed, how efficiently it operates and what risks it generates to financial stability [16].

The most balanced view, in our opinion, is that public financial institutions are an integral part of the banking system but should have clearly defined powers to respond to so-called "market failures". They should be involved in countercyclical lending when private banks lack funds, in providing financing for small and medium-sized businesses, which private banks consider too risky, in expanding access to financial services (financial inclusion), in particular, through strengthening the regional presence and expansion of digitalization.

Research in recent years also shows that state-owned banks play a significant role in overcoming serious problems of our time, such as the COVID-19 pandemic [17] and climate change [18].

Therefore, you need to understand that state-owned banks, as a rule, are less profitable than private ones. Proving the appropriateness of their existing should be carried out taking into account not only the financial results, but also the positive socio-economic consequences of their operations. At the same time, world experience shows that in the case of a significant worsening of the economic situation, the actions of governments mainly focus on providing additional liquidity to state-owned banks, which is directed to support certain programs defined by the state.

It can be argued that, until recently, domestic banks with state participation did not play an appropriate stimulating role. This was largely explained by the existing structure of their corporate governance, including the mechanism for appointing members of supervisory boards, which was determined by the Law of Ukraine "On Banks and Banking". Starting from 2006 until 2018, the supervisory boards of state-owned banks (100 percent of the authorized capital of which belongs to the government) consisted of fifteen members, who were appointed in equal numbers (5 people each) by the President of Ukraine, the Verkhovna Rada of Ukraine, and the Cabinet of Ministers of Ukraine. Their term of office was five years. This weakened the ability of state-owned banks to operate as market-based commercial institutions, did not allow ensuring an adequate level of transparency for potential investors and taxpayers, and did not contribute to the overall stability of these banks' operations.

Taking into account the above, the active operations of these banks, in particular, lending was often due to political influence, accompanied by a weakening of credit risk analysis, which led to deterioration in the quality of their loan portfolios. A large proportion of low-quality loans were granted, among other things:

- as part of the support of state-owned companies, which, due to their unprofitability, did not have the opportunity to raise funding on market terms;

- on non-market terms to companies owned or under the influence of politically exposed persons and their partners;

- contrary to the mission and tasks assigned to these banks, - to companies for ordinary commercial projects (in particular, in the field of real estate).

Thus, at the beginning of 2019, the level of non-performing loans in "old" state-owned banks (that is except PrivatBank, in which the disastrous state of the loan portfolio - 83.4% of non-performing loans - was explained by the decisions of the previous owners) amounted to 55.0%, while in private banks - 24.5%, and in the largest banks of foreign banking groups - only 13.9% [19]. It is revelatory that in Ukrgasbank, which, being a quasi-state bank, independently established the procedure for the formation of a supervisory board from among shareholders, their representatives and independent members, the level of problem loans was only about 17%.

It is worth noting that for a long period no strategic tasks were defined in the operation and development of state-owned banks in Ukraine, they functioned as ordinary commercial banks, focusing on the most profitable business segments. Thus, from 2017 to 2019, the amount of lending to legal entities, which was related to the development of the economy, increased by only 8% (from UAH 175.7 million to UAH 189.9 million), while loans to individuals, aimed, as a rule, the purchase of imported goods, increased almost twice [3].

At the same time, it is banks with state participation that were the main buyers of government bonds, thus financing the public budget deficit, rather than channelling funds to the real sector. Thus, at the beginning of 2019, the share of government bonds in the total assets of these banks was 29.7%, while of the banks of foreign banking groups – 3.4%, and of private banks – 8.7% [3].

Therefore, the analysis of the situation in the public sector of the banking system of Ukraine logically led to the conclusion that to ensure its sustainable development, it is necessary to implement a new mechanism of corporate governance in the state-owned banks. After a long discussion and finalization, the relevant decision was adopted by the Law of Ukraine "On Amendments to Certain Legislative Acts of Ukraine on Improving the Functioning of the Financial Sector in Ukraine" dated July 5, 2018 [20]. The latter amended Article 7 of the Law of Ukraine "On Banks and Banking" regarding the functioning of state-owned banks, and in particular, regarding the procedure for forming their supervisory boards. Now the supervisory boards must consist of nine members, six of whom are independent members elected through a competitive process, and three are representatives of the state (one - on the proposal of the President of Ukraine, one - on the proposal of the government and one - on the proposal of the committee of the Verkhovna Rada of Ukraine, dealing with banking issues). The term of office of such boards has been reduced to three years. Strengthening the supervisory boards' independence will contribute to the minimization of political influence on the banks and will make them more attractive for potential investors.

A directive style should not be allowed in the government's relationship with state-owned banks. As a shareholder, the government acts in the interests of the people of Ukraine, therefore the provision of credit funds (regardless of belonging to state programs) should be carried out taking into account all relevant bank policies regarding credit risk management. Article 7 of the Law of Ukraine "On Banks and Banking" clearly states that a state-owned bank shall not provide unreasonable benefits to individual customers or conduct transactions with customers under conditions that are not current market ones [21].

Also in 2018, the Cabinet of Ministers of Ukraine approved the Principles of strategic reform of the public banking sector, the main goal of which was to create and support a reliable and competitive banking system. A significant part of the latter was to become private in the medium term. Such a goal encompassed two key objectives:

- achieving such financial results of state-owned banks that would ensure their stability and long-term value maximization;
- reduction of the state's share and concentration in the banking system.

The suitability of keeping each bank as state-owned one should be economically justified with a simultaneous identifying of its role in the development of the national economy.

Two years later, in September 2020, these Principles were updated and supplemented [22]. It was planned to reduce the state's share in the banking system from 60% to 25% by 2025. In general, the Principles of strategic reform of the public banking sector includes four action areas.

First of all, for the further effective development of state-owned banks and their successful privatization, it is necessary to implement consistently the reform of their corporate governance with the majority of independent members in the supervisory boards, ensuring the necessary level of transparency and accountability while preventing political interference in the management and operational activities of banks. In addition, state-owned banks should develop codes of corporate ethics based on globally recognized principles and norms of business ethics, recommendations of the Basel Committee on Banking Supervision on corporate governance and risk management, recommendations of the Organization for Economic Cooperation and Development on combating corruption and introducing integrity in public entities management.

It should be noted that by the middle of 2022, three of the four banks with a state share – PrivatBank, Ukreximbank and Ukrgasbank – had a section on their websites entitled "Corporate governance", where complete information on the membership of the supervisory boards formed in accordance with the amendments to the law, regulations on the supervisory board, the code of corporate governance, the code of conduct (ethics), and other documents related to this area were posted. Oschadbank is characterized by less transparency, since on its website one can find only the supervisory board's membership and the code of ethics, there is no other information about corporate governance.

The next action area for reforming the public banking sector was to develop a strategy for each state-owned bank and to form an appropriate business model so that they can maximize their value by using their strategic assets (which are difficult or impossible for competitors to copy).

The strategies proposed for the banks in the Principles include such components as: corporate governance improving; a stable operating platform, including a reliable IT infrastructure; reduction of risks related to the state - decrease of the government bonds' share on the balance sheets of banks and the level of lending to state enterprises; settlement of legal issues regarding problem assets; ensuring a stable return on equity (ROE) at the level of 10-30% based on the operations' focusing.

Taking into account the last requirement, PrivatBank is proposed to transform into a bank that is focused on the retail segment, with a significant share of small and medium-sized business clients and a small presence in the corporate segment. At the same time, the bank should place special emphasis on the importance of returning the funds of the former owners.

Oschadbank will continue its operation as a universal bank that strengthens its position in the retail segment, increases its presence in the SME segment, reduces lending to state-owned enterprises and refocuses on customers of medium-sized corporate businesses. As a primarily corporate bank, Ukreximbank should focus on supporting export-import operations, including non-credit products (export guarantees). Ukrgasbank is focused on lending to corporate clients and SMEs with a simultaneous emphasis on the eco-bank concept, which involves financing projects to improve energy efficiency. This bank should also participate in the highly specialized retail segment, offering products to increase the efficient personal use of energy.

Some financial results of the implementation of the strategies offered to state-owned banks are presented in the Table 2.

Table 2

Key performance indicators of state-owned banks as of January 1, 2022

Indicators	PrivatBank	Oschadbank	Ukreximbank	Ukrgasbank
Authorized capital (UAH million)	206 060	49 472	45 570	13 319
Equity (UAH million)	66 614	21 870	12 447	11 630
Liabilities (UAH million)	340 642	215 018	179 640	111 641
Assets (UAH million)	407 257	236 888	192 087	123 272
Government domestic loan bonds (UAH million)	206 216	92 753	47 700	22 728
Loan portfolio (UAH million)	70 193	74 754	69 331	55 890
Deposits (UAH million)	321 705	188 933	121 473	96 717
Financial result (UAH million)	35 067	1 053	2 728	4 685
ROA (%)	8.6	0.4	1.4	3.8
ROE (%)	52.6	4.8	21.9	40.3
CIR (%)	38	62	37	46

Source: developed by the author on the base of [3].

First of all, the significantly smaller amount of banks' equity, compared to the authorized capital, draws attention, which is especially noticeable in PrivatBank. This is due to the substantial uncovered losses, which appeared as a result of the formation of provisions for credit losses. Therefore, the restoration of banks' equity is directly based not only on an increase in operational efficiency, but also on a reduction in the amount of problem assets on their balance sheets.

In recent years, PrivatBank demonstrated a growth trend and became the most profitable bank in Ukraine, which was result of the fulfillment of the key goals defined by the strategy. However, the highest ROE among the banks is partly due to its relatively low level of equity capital, as well as significant income from government bonds, which make up more than half of its assets. At the same time, PrivatBank is one of the most operationally efficient banks with a ratio of operating expenses to operating income of 38%, while the average indicator for the banking system is 54.8%.

Oschadbank, as a whole, implemented the goals of the proposed strategy, but achieved only moderate progress in increasing its share in the retail lending market. The bank centralized back-office functions and implemented a single IT platform, developed digital distribution channels, which made it possible to reduce the number of branches (from 2,400 at the beginning of 2020 to 1,600 at the beginning of 2022) and corresponding operating costs significantly. But despite the improvement, its ROE is well below the market level and its CIR is higher it.

Only in 2021, Ukreximbank got a positive financial result and significantly increased operational efficiency (from 103% in 2020 to 37% in 2021). In previous years, its operations were characterized by non-compliance with strategic guidelines and the inability to ensure sustainable financial performance [23, p. 191]. Therefore, for this bank, it is necessary to upgrade its development strategy, which will include a plan for its further transformation.

Ukrgasbank significantly improved its key indicators, focusing on the implementation of the concept of eco-banking, within the framework of which eco-products accounted for about 40% of its loan portfolio by the end of 2021. More than 90% of the bank’s loan portfolio is concentrated in the corporate segment and SMEs, which indicates the successful achievement of defined strategic goals. Ukrgasbank has high indicators of return on equity (40.3%) and operational efficiency (46%).

An important task of the Principles is the consistent implementation of plans for the government’s exit from the capital of state-owned banks. The goal of the state is to reduce the market share of state-owned banks to 25% by 2025, based on the fact that European countries with developed financial markets have a share of state-owned banks of less than 30% (Great Britain, France, Spain, Italy, Portugal, etc.). This will happen through the sale of majority stakes to strategic investors, including international financial organizations, as well as through an IPO. At the same time, the state will promote the transformation of state-owned banks into attractive property for private investors, including the creation of a favourable legislative, regulatory and management environment. However, it should be noted that currently only Ukrgasbank has made significant progress in negotiations with the International Finance Corporation regarding the finalization of the loan agreement with subsequent conversion of the loan into the bank’s capital.

A separate area of implementation of the Principles of strategic reform of the public banking sector is to reduce the share of non-performing assets on the balance sheets of state-owned banks. It is expected that during the implementation of the Principles, it will decrease to the level of less than 20% of the total amount of assets, while most of such assets are planned to be realized in a profitable way.

In 2017, non-performing loans in state-owned banks accounted for about UAH 340 billion, which was 57% of the total amount of non-performing loans in the banking system. Further dynamics of the share of non-performing loans in the portfolios of state-owned banks is shown in Figure 1.

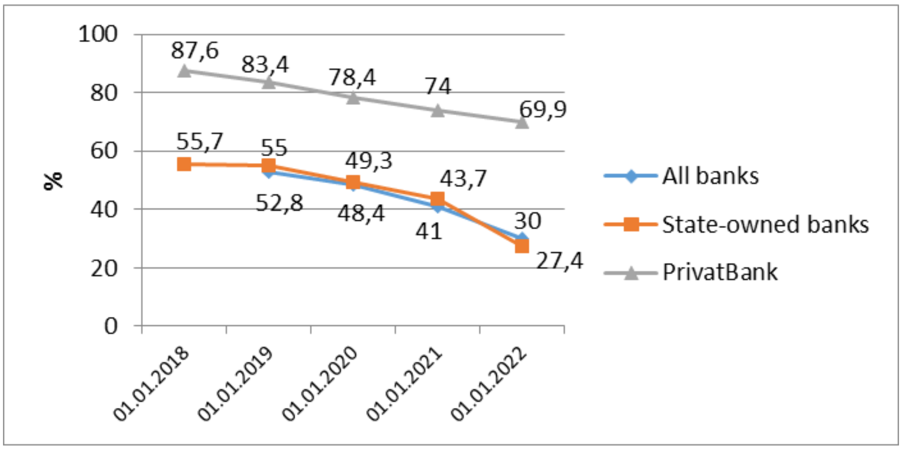

Fig. 1. Dynamics of non-performing loans' share in the loan portfolios of Ukrainian banks for the period 2017-2021 (%)

Source: developed by the author on the base of [19].

As we can see, state-owned banks, with the exception of PrivatBank, have reduced this share by two times in four years and have already approached the target. At PrivatBank, the reduction in the share of NPLs was only 20%. However, it is worth noting that during the period of martial law in Ukraine, the amount of problem loans of all banks will undoubtedly increase, despite the fact that banks can carry out balanced restructuring of loans, which will contribute to the normalization of the debt burden of borrowers and strengthen the stability of the banking sector.

Definitely, the full-scale military invasion, which began in February 2022 and became a huge external shock to the entire economy, presented new tasks to Ukrainian banks with state participation. In this situation, it has become irrelevant and impractical to achieve the goals and quantitative performance indicators that were defined by the development strategies of each bank. During the period of martial law, state-owned banks were identified as entities of the critical infrastructure of the banking system, which ensure its stability and the economic security of the state.

Financing of the following spheres was defined as the main priorities in the operation of state-owned banks:

- business entities that suffered as a result of armed aggression, in particular, with the aim of meeting the needs of the Armed Forces of Ukraine and the population;
- the agricultural sector of the economy for the purpose of food security of the country, including related industries that ensure the performance of agricultural enterprises;
- critical infrastructure enterprises;
- food industry, food retail and related industries aimed at food supply of the population;
- infrastructure projects aimed at restoring social, transport and critical infrastructure facilities;
- transport and logistics infrastructure of the country and projects related to the development of new logistics solutions;
- support for the relocation of enterprises located in places of active hostilities during martial law;
- production facilities for import substitution of products imported from the aggressor country.

During the period of martial law, in addition to standard sources of funding, in particular, accounts of individuals and legal entities, state-owned banks can use collateral and blank refinancing from the NBU to finance government programs and enterprises of critical infrastructure.

At the same time, the situation of martial law does not cancel, but on the contrary strengthens the need to ensure an adequate level of risk management. To guarantee the financial stability of state-owned banks, the following issues require constant monitoring:

- compliance with liquidity and capital standards, including the amount of the bank's highly liquid assets;
- quality deterioration of the bank's loan portfolio (deterioration of customers' solvency, loss of collateral, etc.);
- data loss, cyber-attacks;
- lack of possibility of uninterrupted provision of services due to destruction of infrastructure, inability of personnel to perform their functional duties.

At the same time, after the start of the military invasion, when the catastrophic scale of the destruction of production facilities, energy, transport, and social infrastructure by the aggressor became clear, the problem of the absence of a state development bank in Ukraine became especially urgent. The operation model of such a bank has shown its practicability and effectiveness in many countries, primarily in countries with emerging markets.

In international practice, several interpretations of development banks are used. In UN documents, they are defined as financial institutions set up to foster economic development, often taking into account objectives of social development and regional integration, mainly by providing long-term financing to, or facilitating the financing of, projects generating positive externalities [25, p. 10-11]. The World Bank suggests that development bank should be understood as a bank or financial institution with at least 30 percent state-owned equity that has been given an explicit legal mandate to reach socioeconomic goals in a region, sector or particular market segment [26, p. 4].

The operations of development banks are aimed at overcoming infrastructural limitations of economic growth, establishing and modernizing non-raw materials sectors of the economy, science-intensive industry, stimulating innovation, exporting high-tech products, supporting small and medium-sized enterprises, and comprehensive development of the country's territories. As a rule, development banks occupy an intermediate position in the banking system between the central bank as a refinancing centre and commercial banks. They do not compete with the latter but reduce the imperfection of the financial market in those areas that are left out of the attention of ordinary banks due to low profitability, high risk or a significant need for long-term financing. Development banks can either give appropriate financing to other banks, monitoring the implementation of investment projects, or autonomously lend to certain sectors of the national economy.

The state status of such banks allows creditors, primarily foreign ones, to consider these banks as borrowers with a sovereign level of risk. Performance evaluation of development banks includes not only standard indicators of banking operation, but also involves assessing their contribution to ensuring the sustainable development of the national economy, environmental safety, and solving social problems.

So, the plan for the recovery of the Ukrainian economy, which was presented at the Conference on the Recovery of Ukraine in Lugano, Switzerland, in July 2022 proposed the creation of a Bank for reconstruction and development in our country, most likely on the basis of one of the state-owned banks.

It is this bank, accumulating funds that will come from donors and investors, as well as reparations from the aggressor country, that will become a source of finance both for the immediate recovery and for the long-term transformation of the Ukrainian economy. It is proposed to create a Bank for reconstruction and development as an analogue of KfW - a credit institution for reconstruction, founded in 1948 in Germany as a component of the "Marshall Plan". It will not issue loans directly to businesses, it's funds will be channelled to commercial banks for specific projects. That is, they will bear the risks of non-repayment of loans by borrowers, while a Bank for reconstruction and development must jointly analyse what needs to be done to minimize such risks, what should be the priorities for financing, etc.

In our opinion, the success of the new attempt to ensure the full operation of the Bank for reconstruction and development will depend on many factors, the most important of which are: the designing of an effective economic development strategy, the correct identification of "growth points" and recovery driver industries; full control by the state, which will be reflected in a certain model of corporate governance; strict control by foreign partners (international financial organizations, foreign investors). World experience shows the possibility and effectiveness of the development banks of a mixed type, which are engaged in both export-import operations and crediting of projects for the development of the national economy. Therefore, it is possible that the foundation of a Bank for reconstruction and development in Ukraine will take place on the basis of Ukreximbank.

Summarizing, it should be noted that state-owned banks play an important role in the development of the economy, expanding the possibilities of financing innovative and investment projects, compensating for the shortcomings of the market mechanism, thereby creating conditions for long-term economic growth. In general, they are designed to contribute to the strengthening of the economic security of the state, which is especially relevant in the situation in Ukraine during martial law.

However, this does not mean that state-owned banks should dominate the banking market, even in countries with a transformational economy. The situation that has developed in Ukraine is the result of historical trends in the formation of the banking system, the ambiguous policy of the National Bank at a certain stage of its development, the government's efforts to ensure the stability of the banking system in a crisis by nationalizing a systemically important bank.

Currently, the banking system of Ukraine is asymmetric, although the level of this asymmetry is gradually decreasing (Table 1) thanks to the expansion of the operations of other banks, primarily banks with private capital (as classified by the NBU). This leads to a decrease in the concentration of the banking market, intensification of competition, and an increase in the quality of banking services. However, the existing dominance of state-owned banks gives grounds to assert that the financial performance of the banking system and the ability to ensure its stable operation in this difficult time for Ukraine depend on their functioning. Therefore, in the near future, the most urgent issues of their development, taking into account the current situation, are the provision of effective corporate management, optimization of business models and constant control over the quality of the loan portfolio to minimize the share of problem loans.

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