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Anatoliy Drobiazko¹

MARKET TRANSFORMATIONS IN THE BANKING SECTOR OF UKRAINE: A VIEW THROUGH THE PRISM OF "NON-ECONOMIC" POLICY

The author analyzes the processes occurring in the banking sector of Ukraine from the standpoint of "non-economic" policy, the theory of which is currently being discussed in modern economics. According to the author, the impact of such a policy does not allow Ukraine to find the optimal strategy for its development, in particular regarding the regulation in the banking sector. One of the reasons for this is the shortage of public administration, which is generally characteristic of countries with economies in transition.

It is proved that the NBU's "settlement" of the banking market after 2014 was extremely unsuccessful from an economic point of view. Quantitative estimates of losses suffered by the Ukrainian economy as a result of the campaign to clean up the banking sector during 2014-2016 are presented and analyzed. Through the prism of the typology of "non-economic" policy, the author considers the processes of demonetization of Ukraine's economy and current problems of the national stock market.

It is determined that during the reforms in the banking sector, the adoption by the ruling elite, as well as the by the judiciary, of a series of uncalculated and unconsidered decisions poorly consistent with Ukraine's specific features led to destructive consequences, which affect the long-term development of the country's economy. In addition to economic losses (more than 10 billion USD) and the planting of a ticking bomb under the future lending, the "bankfall" brought about social damage, which is the loss, by the most active segment of the population, of the confidence in the economic strategy proposed by government officials.

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In recent years, after the crisis of 2014, no banking institutions have been registered, while the number of banks' separate branches is rapidly declining, along with the corresponding number of jobs.

The author concludes that the current practice of selling liquidation assets of bankrupt banks will have a long-term negative effect, because it benefited bad creditors who bought their overdue debt at a discount through third parties, while the most active part of the population (depositors "200+" and small and medium businesses) suffered losses and lost confidence in banks.

It is noted that the main reason for Ukraine to choose the "non-economic" policy is the separation of the management decisions from real socio-economic needs. As a result, the economic decisions initiated in this area not only cause material damage, but also hinder this country's civilizational advancement².

Keywords: *economy, economic policy, neoliberal model of economy, "non-economic" policy, international financial institutions, economic reforms*

In recent years, one of the most controversial theories of "non-economic" policy in modern economic science has developed (it was founded in "Economic Policy: Theory and Practice" [1]). In particular, V. Papava [2] classifies "non-economic" policy through the following features: 1) when economic policy makers do not rely on the knowledge offered by economic science; 2) when economic policy makers tend to apply knowledge created by economic science, but this knowledge or theory is flawed; 3) when some important economic phenomena have not yet been sufficiently investigated by economists and therefore economic policy makers, regardless of their economic preferences, cannot rely on such knowledge that lacks final formulation.

According to Ludwig von Mises: "... the best economic policy is to confine government to creating conditions that will enable people to achieve their own ends and live peacefully with their neighbors. The obligation of government is simply to protect life and property, and to allow people the freedom and opportunity to cooperate and trade with each other"[3].

Changes in approaches to economic policy occur due to objective factors along with changes in processes in the real economy, when new productive technologies are used, replacing obsolete ones, and forming new rules, standards and laws. According to the classics of Marxism, "politics is the concentrated expression of economics".

The introduction of institutions that would guarantee democracy, the development of national statehood, and the functioning of the market system in Ukraine were just experiments after the collapse of the USSR. The Georgian scholar V. Papava, explaining the difficulties of institutional transformations and directions

² The publication is prepared within the research project on "Ensuring the effectiveness of monetary policy in Ukraine in the conditions of global economic destabilization" (state registration No 0121U000024).



of economic development faced by post-socialist societies in the post-Soviet countries, characterizes the state of the economies in the former Soviet Union as feudal in his work [4]. In order to ensure that the institutional structure, and legal and economic rules of doing business meet the standards of developed economies, Ukraine cooperates with international organizations³ that act as drivers of systemic change.

At the moment, the influence of the "non-economic" policy does not allow Ukraine to develop an optimal strategy for this country's development and determine a model for enhancing the wellbeing of its citizens. One of such events of "non-economic" policy, which is accompanied by significant social and economic destructiveness, is the reform in the banking sector.

The purpose of the article is to identify systemic flaws in the reforms implemented in Ukraine's banking sector from a "non-economic" policy perspective.

One of the main problems of transitional economies is the lack of personnel in state administration, who promote progressive developmental ideas. In Ukraine the developers of economic policy were very often not professional economists, and consequently the first type of "non-economic" policy lapses occurred [5]. It is especially dangerous for the development of society when state institutions are used for personal enrichment. Frequent changes in the ruling elites in Ukraine led to the destruction of the middle management branch in many state institutions. Even though the developers of economic policy have special training, when making decisions they often rely not so much on their economic knowledge as on their political competence. This phenomenon is explained by the well-known "public choice theory" [6]. The reforms in the banking sector (the so-called "bankfall" of 2014-2016) took place.

The example of the 2014-2016 "bankfall" can be seen as a classic manifestation of "uneconomic" policies. After the political crisis of 2013-2014, Russia's annexation of Crimea and the outbreak of war in Donbass, the banking system found itself in a difficult situation due to mass "defaults" of borrowers. The problem of "zombie borrowers" became a problem of "zombie banks". Consequently, many banks had a liquidity problem. The political crisis superimposed itself on the results

³ These organizations offer the borrowing countries a concept of economic reforms that from a neoliberal perspective are capable of bringing them to the modern level of development. The actions of the IMF and the World Bank are coordinated and based on monetarist methods of financial management of the borrowing countries. Together with the IMF and the World Bank, the World Trade Organization (WTO) is the agent of neoliberal policy in international relations. Its central task is to liberalize world trade by progressively reducing the level of import duties and removing non-tariff barriers. The main objectives of the goal of neo-liberal economic globalization were formulated in the so-called Washington Consensus. The essence of the Washington Consensus reforms was that the borrowing countries should reduce the degree of state interference into the economy, implement programs of wide privatization of state property, carry out reforms of tax system to ensure fair redistribution of funds, liberalize markets to achieve openness in the world trade, and reduce the share of social spending [7]. According to the philosophy of modern economic relations, the IMF is responsible for supporting the developing countries, in terms of systematization of economic knowledge and structural adjustment of institutions that conduct economic policy. Cooperation with the IMF signals to global private investors that the standards of doing business in the country meet generally accepted criteria and that it is possible to work with this country on market principles.



of the previous banking crisis of 2008-2009, in which many banks had not recovered their solvency. A large number of economic disputes between banks and borrowers were pending before the courts during this period, stemming from the misconduct of both parties during the devaluation of the hryvnia in the previous period.

The NBU's actions in 2014-2017 fully coincide with the definition of a "non-economic" policy. When banks lose solvency and liquidity, two fundamentally different approaches are used around the world to solve the problem. The European model is all about bank survival, and offers a range of possibilities for mergers, acquisitions and refinancing. The regulator's task is to find an investor, who will buy a bank with debts for 1 euro or 1 pound. The American model aims at immediate closure of the bank that lost its solvency due to defaults of borrowers, then follows a quick sale of the bank's assets. With a stable legal system, the revenues of such sales makes up 90% of the initial asset value. Attempts to legally and institutionally reform the Ukrainian banking market according to the American model in 2014-2017 turned into significant fiscal losses for Ukraine.

The table "Key balance sheet data of banks under liquidation procedure as of monthly reporting date" provides information on the main items of assets and liabilities of banks that have been declared insolvent and from which the regulator has revoked the license. It is now possible to assess the consequences of the NBU's policy, which Western partners consider as almost the greatest achievement of reforms in Ukraine [8].

Let us consider the structure of the data given in the table. This is the information that the interim bank administrators provided to the regulator and counterparties in the interbank market as of the first day (reporting date) of each month. The first column in the table fixes the date of transition from the temporary administration, when the shareholders and the bank's previous management had the opportunity to rectify the situation and return the banking license before the liquidation procedure, when the bank's assets are fully transferred to the jurisdiction of the Deposit Guarantee Fund (DGF) officials. After this date, it is impossible to return the bank to the market and the only activity under way at this stage is the selling of property held on the bank's balance sheet. As a rule, before this date, efforts in the case of European banking regulators, are aimed at finding investors who, together with liabilities, buy out the bank's assets, inject funds, and return liquidity to the institution. Thus, in 1995, after it became clear that Barings lost liquidity after the risky operations performed by the bank's Singapore branch dealer, the Bank of England introduced provisional administration at the one of the oldest banks in the country and sold it to ING, a Dutch banking group, for one pound sterling. In 2008, Fortis, which was an insurance and banking business and one of the global top 10 financial services companies operating in the Benelux countries, was sold to French financial group BNP Paribas after losing its liquidity. In other words, European regulators create conditions, above all to ensure that depositors' interests are protected.

During the 2014-2015 crisis, Ukrainian society had a demand for immediate justice, so the decisions made by the NBU and the DGF were not always economically calculated. Thus, after the introduction of liquidation commissions, a number of banks appealed in court the NBU's actions. The table shows the figure



UAH 460.5 billion in assets, which the liquidation commissions accepted in terms of banks (column "Total assets"). These assets, in addition to the loan and investment portfolio, include the bank's fixed assets, liquid funds in cash and correspondent accounts (which are usually small), and receivables.

The table is arranged according to the dates of establishment of the liquidation commissions. The following four columns reveal the funds (by client category) of clients whose funds were frozen or lost due to irrational agreement with the liquidation estate. Column Interbank Payments shows how much of their balance sheet funds were lost by other banks that went into liquidation. The total amount of such losses amounted to UAH 22.3 billion. This is the loss of the banks' "live" liquidity which created a "clot" of non-payments in the system during the crisis, deepening the crisis.

The Budget column shows UAH 1.1 billion of funds lost by budget organizations. As a rule, these are extra-budgetary funds raised by budget organizations for their investment programs. In the case of universities, for example, these are funds which were contributed as tuition fees. The next column Business Entities shows the loss of funds by business entities - UAH 60.2 billion. The last three columns show the losses of the bank's creditors, which under the liquidation procedure belong to the seventh priority of satisfaction. Taking into account that the DGF sold the bank's assets with a 90-99% discount of, the demands these categories of customers were not satisfied.

The blocked funds of physical persons as shown in the corresponding column, amount to UAH 117.5 billion. Part of these funds was paid by DGF to depositors who had deposits of up to UAH 200 thousand thanks to obtaining credit facilities from the Ministry of Finance of Ukraine and the NBU for this operation. And those deposits exceeding the amount of UAH 200 thousand ("200+") were classified as the fourth priority of creditors' satisfaction, together with deposits that other banks placed on the bank's certificates of deposit. Investments in certificates of deposit were more profitable in terms of interest rate, as they were considered as investments in securities and allowed the banks to circumvent restrictions on the share of household deposits in bank's liabilities. The figures show that clients of such banks as Brokbusinessbank, Forum, Pivdenkombank, Zlatobank, Nadra, Kyivska Rus, Delta Bank, Finance and Credit, VBR bank, Khreschatyk, Diamantbank, and VTB bank lost the most.

The following three columns, collectively titled as "Loans at latest date" reveal the structure of the bank's borrowers who were to fill the liquidation estate with their regular repayments. Interbank Payments column shows the interbank payments issued but not repaid, in the amount of UAH 16.3 billion. We can also observe a "domino effect" here, with payments stopped in the interim administration procedure at one bank leading to a liquidity crisis at another one. Moreover, after the introduction of bans on counter-payments for swap credits, the regulator destroyed the interbank market by depriving the small banks of the possibility of maintaining their liquidity in different currencies through interbank loans. The banks that had excess liquidity in dollars or euros began to use these funds to borrow free hryvnia funds from other banks in a very risky way.



Temporary administrations were introduced chaotically during this period. The amount of the corporate loan portfolio of business entities is UAH 257.1 billion. The transition to the stage of liquidation of the bank for a borrower, especially one with strong legal services, in our environment is the "you need not pay!" signal. Judicial institutions are overwhelmed with counterclaims regarding the legality/illegality of the collection of pledges, sureties and other property. Without the help of bank managers, it is completely impossible to recover credit resources in a bankruptcy. However, the Fund took a different route and initiated criminal and economic proceedings against bank managers rather than against borrowers and the actual managers of the borrowed resources.

The Physical Person column shows the structure of the retail loan portfolio in the amount of UAH 88.0 billion. Although individuals better service their liabilities to banks, the loan amounts of this category of borrowers are much smaller, yet the number of loans is much higher. And judicial administration of these funds is more expensive. According to foreign consultants who supported the idea of "bankfall", if out of UAH 460 billion of assets, UAH 245.0 billion are credit funds of legal entities and physical persons, it will be possible to collect UAH 177.6 from the borrowers in the courts to cover the expenses of the banks' creditors. This did not happen. But as of 01.01.2021, DGF could not even repay its loans to the Ministry of Finance of Ukraine.

In addition to the economic losses caused by ill-conceived economic actions, the "bankfall" had political consequences. The loss of funds by the most active stratum during the "bankfall" led to a loss of confidence in the economic strategy proposed by government officials, and led to catastrophic consequences for the ruling party in the subsequent election campaigns.

The essence of the non-economic policy in this matter is that the government not only destroyed almost 100 high-tech companies in 2014, left some 100 thousand highly qualified workers unemployed, and initiated thousands (if not tens of thousands) of criminal and economic cases that yielded no financial results, but also left the banks' creditors of the fourth and seventh priorities of claim satisfaction even without their deposit funds depreciated by inflation.

Did the officials understand the perniciousness of this strategy? They had to, as they seemingly already had the experience: after the previous crisis in 2009-2012, almost three dozen banks with similar final results came under the liquidation procedure. The budget lost money because of the reduction of tax revenues and payments on the obligatory insurance of deposits. Funds were also lost by the depositors "200+", and legal entities (especially small businesses). The country destroyed one of its own drivers of market transformation in the economy.

The total amount payable to depositors under the Deposit Guarantee Fund was UAH 94.8 billion, which the Fund borrowed from the Ministry of Finance of Ukraine and the NBU. The liquidation estate of DGF that it took over was UAH 460 billion (see Table). As a result, depositors who had more than UAH 200 thousand and USD 8 thousand lost their savings, and so did small and medium-sized businesses. At the end of 2020, "200+" depositors could receive only UAH 3.6 billion out of UAH 38.8 billion. DGF repaid the debts to the NBU's (UAH 25.6 billion) and to the Ministry



of Finance (UAH 43 billion). Thus, UAH 48.1 billion of the principal debt in promissory notes and UAH 65.7 billion in interest remained outstanding.

Table 1

Key balance sheet data of banks under liquidation procedure as of monthly reporting date, UAH million

Bank	Date of liquidation	Total assets	Final closing funds				Loans at latest date		
			Interbank Payments	Budget	Business Entities	Physical persons + certificate	Interbank Payments	Business Entities	Physical persons
Daniel	15.04.2014	1125	108	0	72	291	1	538	166
Real Bank	21.05.2014	5025	913	4	185	487	20	4868	12
Brokbus inessbank	10.06.2014	15678	1406	275	5708	3696	065	12504	810
Mercury	10.06.2014	1859	10	0	369	662	13	882	230
"Forum"	13.06.2014	13730	326	9	2898	5163	44	8006	2964
Interbank	22.07.2014	632	168	0	136	107	34	336	10
Zakhidin-kombank	22.07.2014	860	0	11	28	294	0	541	151
AKB Bank	28.08.2014	1362	35	0	202	541	29	1168	26
Promekonombank	05.09.2014	1091	26	0	55	73	88	0	4
"Starokyivskiyi"	11.09.2014	533	57	0	78	295	59	144	167
Pivdenkombank	24.09.2014	6412	248	9	1448	3037	815	4494	89
Finrostbank	16.10.2014	1 519	280	0	77	642	435	925	39
UFS	10.11.2014	1461	102	0	184	907	8	1167	227
Eurogasbank	17.11.2014	3126	0	4	196	1375	8	2369	38
"Zoloti Vorota"	04.12.2014	902	0	0	106	249	1	638	178
Terra	23.12.2014	4 455	90	0	881	948	67	2281	154
Bank	23.12.2014	3946	115	0	734	1364	0	2306	1223
ActyvBank	13.01.2015	349	0	0	176	13	1	210	8
Prime-Bank	15.01.2015	1645	0	0	169	396	45	451	137
Acta-Bank	16.01.2015	255	0	0	95	1	0	244	0
Expobank	22.01.2015	3098	489	0	595	514	927	671	493
GreenBank	22.01.2015	417	0	0	102	28	35	286	2

*Table 1 (continued)*

Expobank	22.01.2015	3098	489	0	595	514	927	671	493
Green-Bank	22.01.2015	417	0	0	102	28	35	286	2
"Porto-Franco"	30.01.2015	1100	0	0	89	355	1	897	100
"Demark"	30.01.2015	1665	0	0	40	870	0	1542	75
"Axiom"	30.01.2015	637	0	0	34	104	0	606	4
Melior Bank	10.02.2015	363	0	0	58	37	0	366	1
Leg-bank	26.02.2015	648	0	0	63	549	17	588	40
BG Bank	26.02.2015	1935	0	533	267	991	28	1475	104
Bank Cambio	27.02.2015	1666	0	0	263	867	26	1425	63
VAB Bank	19.03.2015	20260	35	0	550	8491	254	11937	1801
City commercial bank	19.03.2015	5278	349	0	506	1413	1575	2788	21
Profin-Bank	15.04.2015	571	3	0	188	242	99	316	32
"Ukoop-spilka"	22.04.2015	570	7	0	69	41	5	157	16
Ukrbiznesbank	23.04.2015	3393	0	0	1278	527	15	2462	289
Zlato-bank	12.05.2015	9183	662	0	1604	3020	527	8090	215
Imeks-bank	21.05.2015	13975	0	17	488	3913	26	12457	535
Kreditrombank	02.06.2015	1323	353	0	488	16	274	145	4
"Nadra"	04.06.2015	41236	1302	54	535	3854	1011	9661	27105
Energo-bank	11.06.2015	2476	0	0	706	784	348	1085	123
"Standart"	18.06.2015	871	0	0	92	251	2	832	10
"Kyiv"	24.06.2015	2962	0	0	3	0	0	0	110
Omega Bank	06.07.2015	825	0	0	0	0	0	0	0
"Kyivska Rus"	16.07.2015	6836	0	35	1690	2745	1015	4277	414
PJSC "UPB"	28.08.2015	2226	247	0	433	558	214	3 069	124
Bank National credit	28.08.2015	1758	0	1	795	504	554	907	120
"Morskyi"	02.09.2015	1362	125	0	309	555	393	472	82



Table 1 (continued)

BSTDB	02.09.2015	1801	102	28	980	256	524	219	89
East Industrial Commercial Bank	09.09.2015	0	0	0	20	8	10	54	11
Ukrkomunbank	14.09.2015	462	0	0	56	138	2	235	90
Ukrgazrombank	14.09.2015	1014	0	0	217	498	1	699	68
"Stolychnyi"	17.09.2015	640	150	0	133	65	0	627	1
Delta-Bank	02.10.2015	80605	6494	2	11574	20075	526	32961	26281
"Capital"	29.10.2015	1145	23	0	31	699	0	491	240
"Radykal"	09.11.2015	673	0	0	507	232	6	462	54
Integral-bank	25.11.2015	960	78	0	138	375	338	494	18
"National Investment"	01.12.2015	2113	0	0	423	828	0	1 872	50
Unicom-bank	03.12.2015	1253	1	0	564	37	0	695	24
"Contract"	10.12.2015	427	0	0	178	189	4	159	31
"Veles"	10.12.2015	288	0	0	58	13	47	240	0
"Finance and Credit"	17.12.2015	41883	2502	75	4232	13 707	206	27370	9034
VBR	21.12.2015	7917	0	5	3419	2 905	2486	3404	496
USB Bank	24.12.2015	840	0	0	190	234	12	745	9
"Premium"	10.02.2016	1796	0	0	352	691	99	1194	74
Avant-Bank	25.02.2016	1786	5	0	291	1 010	4	1343	12
Ukrin-bank	22.03.2016	5588	0	54	684	1923	210	4167	206
"TK Credit"	07.04.2016	1858	0	0	1678	17	817	772	17
Bank Petrocom-Merce Ukraine	21.04.2016	712	1	0	175	38	5	546	26
"Sofiyskiy"	22.04.2016	795	0	0	223	331	5	723	3
"Soyuz"	28.04.2016	943	0	0	166	29	44	839	16
Finance Bank	31.05.2016	259	0	0	10	0	5	191	2



Table 1 (continued)

Investmenttrust Bank	31.05.2016	137	0	0	0	0	0	128	0
"Khreshchatyk"	02.06.2016	7121	325	19	1835	3336	154	3006	294
"Mykhailivskiy"	12.07.2016	3304	0	0	163	2644	34	1387	712
PYAT "Fidobank"	18.07.2016	7620	0	0	806	2209	95	2182	2217
Smartbank	21.07.2016	395	0	0	59	0	3	366	0
Classicbank	11.08.2016	364	0	0	18	0	0	311	51
Eurobank	16.08.2016	981	0	0	333	453	4	338	98
KSG Bank	30.08.2016	455	0	0	118	70	26	363	11
Derzhzembank	27.09.2016	139	0	0	0	0	133	0	0
Fineks-Bank	18.11.2016	147	0	0	3	1	9	83	1
Artem-Bank	15.12.2016	493	0	0	42	236	1	401	35
"Trast"	29.12.2016	758	2	0	7	557	14	8	552
Investbank	11.01.2017	407	0	0	8	113	3	303	6
Fortunabank	21.02.2017	2186	410	0	258	371	1	1949	10
Platinum Bank	23.02.2017	8289	87	0	720	5874	87	2802	3835
NK Bank	07.03.2017	292	0	0	37	6	1	248	1
Vector Bank	21.03.2017	206	0	0	2	79	1	186	12
Fin-Bank	27.04.2017	885	55	0	80	0	9	843	4
Diamantbank	23.06.2017	7561	1730	6	2096	2161	249	3535	133
"Novyi"	01.09.2017	689	0	0	205	0	89	14	1
"Gefest"	29.09.2017	136	0	0	0	0	0	119	0
"Finansovyi partner"	30.11.2017	144	0	0	0	0	0	34	0
"Boguslav"	01.12.2017	589	0	0	71	235	7	475	5
"Rodo-vid"	19.12.2017	19019	426	0	106	8	0	3465	3588
"Unison"	18.06.2018	646	0	0	52	25	12	444	33
DV Bank	14.08.2018	235	0	0	0	0	0	134	77



Table 1 (end)

BM Bank	06.11.2018	1227	0	0	0	0	0	952	229
VTB Bank	18.12.2018	25477	2344	0	1334	1718	2	20416	736
"Vernym"	14.05.2019	260	0	0	0	0	0	131	0
"Financial initiative"	21.05.2019	21970	144	0	468	1336	13	21 374	3
Total		460490	22339	1140	60162	117499	16383	257077	88015

Source: compiled by the author based on news reports from the DGF, and NBU in 2014-2017 and balance sheet statistical reports, available at www.bank.gov.ua.

The asset quality of the liquidation estate was poor. The average repayment rate was 8-9%, but some loan claims were auctioned off at 99.2%. The Fund filed more than 6,000 claims to law enforcement agencies worth UAH 400 billion. Despite the legal prohibitions, many borrowers were able to redeem their debts through third parties, which is a potential time bomb for future lending. On the one hand, the unscrupulous borrowers got a bonus. On the other hand, now the management of the banks remaining in the market would rather refuse a borrower than take minimal responsibility. Experts estimate the total losses from this financial policy to be more than UAH 300 million, or \$10 billion.

The developments around the nationalization of Privatbank deserve separate consideration. The losses incurred by Ukraine's budget were not covered by the credit resources attracted by the government from the IMF under this period's programs. "Non-economic" (political) interference in market processes in this case not only economically harmed creditors of the banking system, but also negatively affected future market development, causing a number of corruption scandals during this period. The foreign advisers who consulted Ukrainian officials did not realize that the destruction of the banks, which, in their opinion, served as instruments of national corruption, they destroyed one of the main drivers of market reforms in the country.

Another example of "non-economic" policy is the monetary policy gap. In the initial stage of independence, the banking sector was completely liberalized. The commercial banks established during that period not only performed their inherent banking functions, but also provided legal protection for the property rights of the financial-industrial groups (FIGs) that owned them.

On the example of demonetization of the economy (Figure), the functioning of the mechanism of government's "non-economic" monetary policy measures is shown: they led to deep devaluation crises or caused their significant deterioration in 1998-2000; 2008-2009; and 2014-2017. The graph shows periods of depreciation of national money and assets, which occurred when the monetary aggregates M0, M1, M3 were below the "zero" mark of the abscissa axis. The above dynamics of annual changes in the monetary aggregates changes in US dollar terms suggest that monetary policy failed, when the level of changes in aggregates was negative on a year-to-year basis. Each of these periods demonstrates the results of the first type of "non-economic" policy solutions implemented by Ukraine's governments, which led

to a deep demonetization of this country's economy, a slowdown of GDP⁴ growth, and, as a consequence, a deterioration of people's welfare.

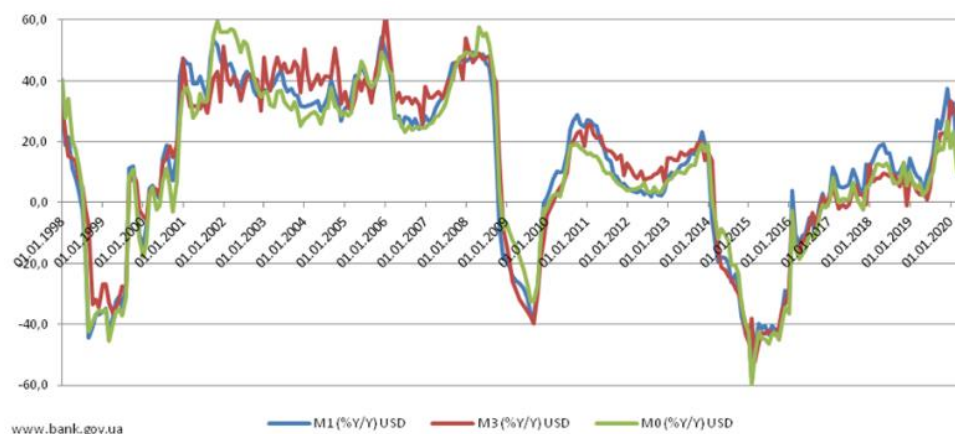


Figure. The calculation of annual change in M3 (money supply), M0 (cash outside banks), M1 (cash plus current funds in banks), USD, in 1998-2020, % Y/Y

Source: calculated and compiled according to data from the National Bank of Ukraine (<https://bank.gov.ua/>).

The current state of the "non-marketability" stock market in Ukraine is also an example of the "non-economic" policy of the first type [9]. Despite the efforts of international financial institutions, particularly the IMF, the Ukrainian stock market did not become a competitor to the bank deposit market. At the end of the 1990s, the stock market was successfully used by financial and industrial groups (FIGs) to accumulate assets. Along with stocks of operating companies, "junk" securities were traded on the market in order to redistribute financial flows and assets, and to flush out banking resources. But the stock market failed and today almost all of its activities are reduced to trading government bonds.

⁴ For example, without capital controls, the currently "fashionable" Western policy of "quantitative easing" by refinancing banks in Ukraine led to increased demand for foreign currency on the domestic market and, in the absence of sufficient forex reserves, to a profound devaluation of the exchange rate. Deep financial crises came from outside the small, open and commodity based Ukraine's economy. For example, the crisis of 1998-2000 was connected with the Russian economy, which accounted for over 50% of Ukraine's foreign trade in that period. The crisis of 2008-2009 is related to the global financial crisis, a sharp fall in prices for Ukraine's export items, and increased energy prices. The processes of 2014-2017 related to Ukraine's political crisis, the start of Russian aggression, and the loss of 20% of industry that used to bring foreign exchange earnings. Nevertheless, there were specific managerial mistakes, which are characterized by the first type of "non-economic" policy. It should be noted that throughout the period, in parallel with the IMF-led market reforms, property and creditor rights were systematically violated by the judiciary. The ruling elite, that changed after every political cycle, forced businessmen to give up part of their business. This was especially true for businesses that supported political rivals of new political favorites. And the judicial system could make unpredictable decisions. So, the reforms looked like market-oriented, but in fact they were rather "neo-Bolshevik" style. Unfortunately, even today not only law enforcement agencies and but also tax authorities are putting pressure on business, while during the recent crisis they were joined in doing so by the banking regulator (not without changes in legislation initiated by international financial organizations).

Ukraine has virtually eliminated its stock market⁵. In terms of financial market development and stock exchange regulation, Ukraine ranks among the lowest in the world in terms of the Global Competitiveness Index. The ratio of asset value of Collective Investment Institutions (CIIs) and non-state pension funds (NPFs) to GDP fluctuates at the margin of statistical error.

Conclusions

The main reason behind Ukraine's "non-economic" policy regarding the banking market is that management decisions are far removed from real social and economic needs. As a consequence, the initiated economic decisions in this sphere not only cause material damage, but also impede this country's civilizational advancement.

In Ukraine, the banking sector, which was a driver of market transformation since the early 1990s, effectively fell under the control of the state and international financial groups since the 2008-2009 and 2014-2016 crises. In recent years, no banking institutions have been registered since the 2014 crisis, and the number of stand-alone bank branches has been rapidly declining together with the number of jobs. There is evidence of regulators preventing minority investors from accessing the market. Thus, regulations of the National Bank of Ukraine, for example, the prohibition to pay dividends to shareholders until the bank will form a reserve capital in the amount of 25% of its authorized capital from its profits, effectively discouraged the purchase of bank shares, which was observed in the early 1990s. As a result, when banks' majority shareholders were tasked of finding sources for capital funding, they had few instruments to do this.

The NBU's "deregulation" of the banking market after 2014 was extremely unsuccessful from an economic point of view. Not counting the costs of the nationalization of Privatbank, the economy lost more than USD 10 billion on the "bankfall". Despite the acute political situation and the war in the east of the country, the attitude towards both bank shareholders, who lost revenues, and bank creditors (households and corporate businesses) should have been more pragmatic.

The current practice of selling the liquidation assets of failed banks will have an additional long-term negative effect. On the one hand, it benefits the unscrupulous borrowers, who bought their overdue debts at a discount through third parties. On the other hand, the worse off party includes the most active part of the population, in particular, depositors 200+ and small and medium-sized businesses who suffered losses and, in their negative sentiments joined the borrowers of the hard-currency mortgage who suffered during the devaluation.

⁵ The amount of share trading in 2018 is 20 times lower than in 2014 and is one of the lowest in the world. The amount of registered share issues decreased 6.5 times during this period. In December 2019, the Institute for Economics and Forecasting of the National Academy of Sciences of Ukraine hosted a roundtable meeting entitled "Non-marketability of the Ukrainian stock market: economic and legal components". Then the participants stated that the targets for the stock market development in 2015, which were fixed in the Comprehensive Program of Ukrainian Financial Sector Development until 2020, remain unfulfilled. Thus, obtaining Advanced Emerging status for the Ukrainian market is absolutely unattainable. Ukraine is not even represented in the letter of expectation for the worst level of FTSE country classification - Frontier Market.



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РИНКОВІ ТРАНСФОРМАЦІЇ У БАНКІВСЬКОМУ СЕКТОРІ УКРАЇНИ: ПОГЛЯД КРІЗЬ ПРИЗМУ "НЕЕКОНОМІЧНОЇ" ПОЛІТИКИ

Процеси у банківському секторі України аналізуються у статті з позицій "неекономічної" політики, теорія якої нині дискутується у сучасній економічній науці. На думку автора, вплив такої політики не дозволяє Україні віднайти оптимальну стратегію розвитку

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країни, зокрема стосовно регулювання у банківській сфері. Одна із причин цього – дефіцит кадрів державного управління, що назагал властива країнам із перехідною економікою.

Доведено, що проведене НБУ "врегулювання" банківського ринку після 2014 р. було вкрай невдалим з економічної точки зору. Наводяться та аналізуються кількісні оцінки втрат, яких зазнала економіка України унаслідок кампанії з очищення банківського сектора упродовж 2014–2016 рр. Кризь призму типології "неекономічної" політики розглянуто також процеси демонетизації економіки України та поточні проблеми національного фондового ринку.

Визначено, що під час проведення реформ у банківському секторі прийняття правлячою елітою, а також судовою системою неврахованих і незважених на особливості саме України рішень призвело до деструктивних наслідків, які позначаються у довгостроковій перспективі розвитку економіки країни. Крім економічних збитків – втрати економікою понад 10 млрд дол. США та закладення міни уповільненої дії під майбутнє кредитування, "банкопад" призвів і до соціальних – втрати найбільш активним прошарком населення довіри до економічної стратегії, що пропонували урядовці.

За останні роки після кризи 2014 р. не зареєстровано жодної банківської установи, кількість відокремлених філій банків стрімко зменшується разом із кількістю робочих місць.

Зроблено висновок, що поточна практика реалізації ліквідаційних активів збанкрутілих банків матиме довгостроковий негативний ефект – адже від цього виграли недобросовісні позичальники, які через треті руки викупили свою прострочену заборгованість з дисконтом, а найактивніша частина населення – вкладники депозитів "200+" та малий і середній бізнес – понесла збитки і втратила довіру до банків.

Зауважено, що головною причиною звернення в Україні до "неекономічної" політики є відірваність управлінських рішень від реальних суспільно-економічних потреб. Як наслідок, ініційовані економічні рішення у цій сфері не лише завдають матеріальної шкоди, а й перешкоджають цивілізаційному просуванню країни⁷.

Ключові слова: економіка, економічна політика, неоліберальна модель економіки, "неекономічна" політика, міжнародні фінансові інститути, економічні реформи

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