Prozorov Yuriy
Researcher Sector of Institutional Economics of the Department of Economic Theory,
Institute for Economics and Forecasting of National Academy of Science of Ukraine
ORCID: https://orcid.org/0000-0003-4749-432X

DOI: https://doi.org/10.36059/978-966-397-482-8-9

INSTITUTIONAL CONCENTRATION OF UKRAINE'S BANKING CAPITAL IN THE PROCESS OF EU ACCESSION AND POST-WAR ECONOMIC RECOVERY

The main institutional actors of the cyclical transformation of the banking system architectonics are the basic capital triad of mixed (monetary and fiscal) policy implementation: the state represented by state banks – local (banking and industrial) capital – global financial capital [1, p. 152]. The crisis Paradigm of modern global finance can be formulated as 'Privatisation of profits and nationalisation of losses'. It has already led to banking crises, nationalisation and forced recapitalisation of the largest banks at the expense of taxpayer's money in many countries. To avoid raiding banks when individuals and legal entities cannot access funds blocked in accounts at crisis banks, the state should take institutional measures to stabilise the banking sector. Any institutional crisis, whether at the banking and financial sector or at more wide the socio-political sphere, is preceded by a series of wrong decisions. As we have shown in our previous publications, there is a '3-D effect' include *Devaluation, Detrustization and Desovereignisation*.

Devaluation is a process in which the local currency loses its value against USD and other main world currencies, which is immediately reflected in the open currency position (usually risky Shortforex position), gap by currencies, asset quality and balance sheets of banks, above all the lack of capital to cover currency and credit risks. The risks of another deep devaluation of UAH in the post-war period are based on two main pillars: the wrong monetary regime of the National Bank of Ukraine – a return during the war to pre-war ineffective inflation targeting in 2023 instead of fixing the hryvnia exchange rate, which was correctly introduced in 2022, and the imbalance of military and post-war external financing of economy.

Banks cannot seriously influence the solvency of their customers in such an environment. The menace of default crisis, physical unavailability or destruction of collateral and deterioration in servicing of earlier loans hangs like a Damocle's sword over the bank's lending process to the real sector and its deposit financing. This is what is economically pushing banks to reorient to operations with Deposit Certificates of NBU and investing in OVDP (government bonds) instead of lending to economy of Ukraine. In the case of a possible outflow of household deposits (if the next devaluation of the Hryvnia is deep enough), the collapse of bank liquidity may gradually paralyze the settlement and payment functions of banks, leading to a destructive build-up of a double spiral of mistrust: a) between different banks within the system and b) between banks and customers and, as a consequence, into a comatose systemic status of *Detrustization.*

It is not even the NBU as the centrobank and the banking regulator that is responsible for prevention such an institutional trap, but external geopolitical forces – Ukraine's creditors and donors, in particular UN structures such as WB Group (IBRD, MIGA, IFC etc.), IMF and the EU, the US and the UK, also. To continue financing Ukraine, a number of 'supranational' decisions need to be made, including accelerating accession Ukraine to the EU and the participation of Multilateral&National development banks from EU and OECD countries at the time of afterwar economic recovery. The Ukrainian National Development Bank (UNDB) will be an effective way for the state to intervene in the financial system that aims to eliminate market failures in providing finance to address socio-economic objectives such as equality and poverty eradication. New state development bank 'must not compete with the private sector, but rather aim to develop it' [2, p. 30].

The number of banks in Ukraine has dramatically declined since the 2014–15 'Bankfall' [3], and the leading banks, including state-owned banks, held an excessive, much larger market share on the eve of the war than in 2013 [4]. This led to the our previously predicted increase it level of concentration of bank capital in Ukraine towards state-owned banks. The current institutional structure of private local, state and foreign banking capital in Ukraine will change significantly in the next stage of institutional transformation after the end of the war [5]. We forecast an increase in the share of foreign capital due to privatization of state-owned banks by international financial institutions and withdrawal of some banks with local capital from the market. From the analysis of external risks for the private-public-international architectonics of the Ukrainian banking system, we conclude that in 2025–26 the third component of the financial and economic crisis cycle will be most effective: *Desovereignisation.* Ukraine as a state will lose part of its Sovereignty as a formal institution, but at the same time it will have new opportunities in accordance with the dialectical Hegelian *law of negation-negation.* Will certain elements of external governance be useful for the restoration of reproductive dynamics of Ukraine’s economics?

These tasks will require additional specific researches on the optimal limits of the level of post-war bank capital concentration and the depth of Desovereignisation during the period of structural changes. Post-WWII experience of Japan has clearly shown that the destruction of pre-war non-effective governance model, including another 2-D: *Demonopolisation* and *Deoligarchisation* of the real sector of the economy, can play a crucial example for bringing about structural reforms, which Ukraine's sovereign governments have not carried out for more than 30 years.

The capital of state-owned banks can play a stabilizing, stimulating and developing role at different stages of the economic cycle. Provided the Ukrainian authorities overcome the risks of misappropriation of state functions by certain groups of influence within the agency problem and decisively fight corruption of the insufficiently secured loan’s process, state-owned banks will be able to realize the specialized tasks of long-term lending and project financing of expanded reproduction and structural redistribution to priority future-oriented industries with high added value and significant export potential, which are not performed and cannot be effectively accomplished by international and local private commercial banks.

References:

1. Koliada, T. A. & Prozorov, Yu. V. (2022). Localization of Global Mechanisms for Attracting Credit and Investment Resources to Strengthen the Financial Solvency of the Territorial Communities of Ukraine. *The Problems of Economy,* no. 3, pp. 149–155. DOI: https://doi.org/10.32983/2222-0712-2022-3-149-155 (in Ukrainian)
2. Thorne J. (2011). A framework for successful development banks. Development Bank of Southern Africa. *Development Planning Division. Working Paper Series.* no. 25. URL: https://www.dbsa.org/sites/default/files/media/documents/2022-11/A%20Framework%20for%20Successful%20Development%20Banks%20-%202011_0.pdf .
3. Prozorov Yu. (2023). Bankfalls as a modern financial and regulatory technology for redistribution and concentration of glocal banking capital. Conference. *Club of Bankers Meeting*, Kyiv. DOI: 10.13140/RG.2.2.20265.81769 (in Ukrainian)
4. Berezovyk, V., & Prozorov, Y. (2024). Limits of Concentration of State Bank Capital and Institutions for Coordination of of lending to the economy. *Economy and Society*, no. (63). DOI: https://doi.org/10.32782/2524-0072/2024-63-71 (in Ukrainian)
5. Grytsenko, A. A. (Ed.). (2022). Economic contradictions of globalization and localization in the conditions of hybrid war and post-war reconstruction. National Academy of Sciences of Ukraine, SI “Institute for Economics and Forecasting of the NAS of Ukraine". Available at: https://ief.org.ua/en/publication/monohrafii/2022/ekonomichni-superechnosti-hlobalizacii-ta-lokalizacii-v-umovakh-hibrydnoi-viyny-ta-pisljavoennoi-rekonstrukcii (in Ukrainian)