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INFLUENCE OF FOREIGN BANK CAPITAL UPON INNOVATION SECURITY OF UKRAINE

The article studies the influence of foreign bank capital upon the innovation security of Ukraine. It considers the problems in internal stability provision of the banking system and the opportunities for formation of its efficient model which would enable the mobilization of financial resources and their concentration on the priority directions of the economy's restructuring. A range of concise propositions is given and a complex of measures is outlined for overcoming the factors hindering the provision of Ukraine's stable development.

Keywords: innovation security; banking system; foreign banks; national bank capital.

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ВПЛИВ ІНОЗЕМНОГО БАНКІВСЬКОГО КАПІТАЛУ НА ІННОВАЦІЙНУ БЕЗПЕКУ УКРАЇНИ

У статті досліджено вплив іноземного банківського капіталу на інноваційну безпеку України. Розглянуто проблеми забезпечення внутрішньої стабільності банківської системи та прискорення формування її ефективної моделі, здатної забезпечити мобілізацію фінансових ресурсів та їх концентрацію на пріоритетних напрямках структурної перебудови економіки. Надано низку конкретних пропозицій, окреслено комплекс заходів із подолання перешкод, що стають на заваді забезпечення сталого розвитку в Україні.

Ключеві слова: інноваційна безпека, банківська система, іноземні банки, національний банківський капітал.

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ВЛИЯНИЕ ИНОСТРАННОГО БАНКОВСКОГО КАПИТАЛА НА ИННОВАЦИОННУЮ БЕЗОПАСНОСТЬ УКРАИНЫ

В статье исследовано влияние иностранного банковского капитала на инновационную безопасность Украины. Рассмотрены проблемы обеспечения внутренней стабильности банковской системы и ускорения формирования ее эффективной модели, способной обеспечить мобилизацию финансовых ресурсов и их концентрацию на приоритетных направлениях структурной перестройки экономики. Дан ряд конкретных предложений, намечены меры по преодолению преград, препятствующих обеспечению устойчивого развития в Украине.

Ключевые слова: инновационная безопасность, банковская система, иностранный банк, национальный банковский капитал.

Problem setting. The key to sustainable and balanced economic development is to ensure a low and stable inflation rate, high level of employment and the real output growth. In the conditions of global financial instability, it is crucially important to reinforce the role of national banking capital in building up the innovative capacity of the economy (Agricultural Bank's IPO, 2010: 65; Acropolis now, 2010: 11). The above issues attain particular significance in the context of Ukraine's attempt to become an innovative nation and take a leading role among the top economically

developed countries. This suggests further links between the given research and critical contemporary scientific and applied issues.

Latest research and publications analysis. The basic accomplishments of Ukrainian science and practice in this research area are represented by the following academic papers: A. Baranovskiy (2009), O. Babanin (2009), O. Drugov (2005), E. Loginova (2012), V. Lukianova (2012), T. Smovzhenko (2005) and others.

Unresolved remain the issues of the effects of foreign banking capital on the investment processes in Ukraine.

Research objective is to study the effects of foreign banking capital on innovation security of Ukraine and build up an integrated concept of sustainable development of Ukrainian economy, which is to be based on national banking capital.

Key research findings. The financial crisis has become an indicator that enabled to identify the role of foreign banks for Ukrainian economy, in particular the real motives of their expansion, the impacts on the country's economic performance and the level of risks for innovation security. Thus, according to scientists (Marchenko et al., 2011: 274), a safe threshold value of the foreign capital share in the banking system, which causes no negative effects, could be the level of 30%. At the same time, the share of foreign capital in the banking system of Ukraine by the end of 2012 reached 42.9%, while in 2005 this index was 9.6% (the National Bank of Ukraine). Figure 1 demonstrates the cause-effect relationship measuring the impact of foreign banking capital on the economic development of Ukraine.

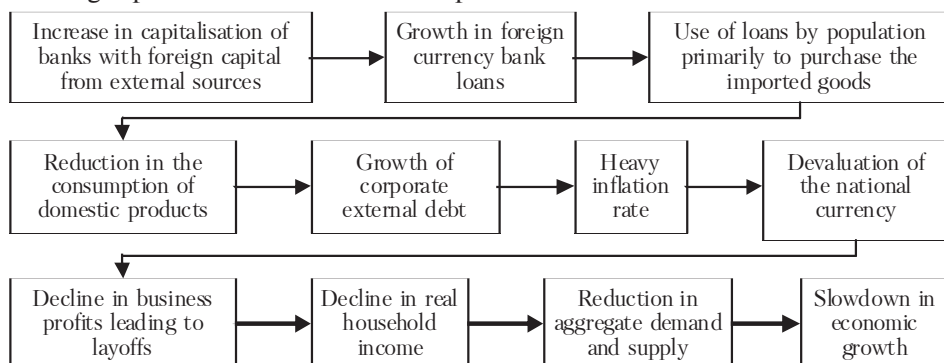


Figure 1. Cause-effect relationship measuring the impact of foreign banking capital on the economic development of Ukraine, designed by the author

The credit policy of foreign banks is focused on the development of mainly those sectors that have relatively high profits and do not create a competitive threat to foreign companies. According to the research findings, there is about a hundred of powerful transnational corporations (TNCs) currently operating in Ukraine, being served only by foreign capital banks, e.g., tobacco manufacturers ("British American Tobacco", "Philip Morris", "Reemtsma", "Gallagher"), alcoholic and non-alcoholic beverages ("Sun Interbrew", "Sandora", "Coca-Cola"), ferrous metals ("Mittal Steel"), consumer goods ("Henkel Bautechnik", "P&G"), food industry ("Kraft Foods") and others. Thus, the problem lies not in the fact that foreign banks finance merely the best customers. The threat is in total disregard of long-term innovation

projects by major financial groups. It should be noted that at present, the domestic industry is dominated by the third and fourth technological structure patterns with their share in the total industrial output being 95%. The share of the fifth and sixth technological structure patterns (based on software, telecommunications and biotechnology) does not exceed 5%. Such neglect of innovation security criteria threatens the loss of the economy competitiveness, lagging behind other countries due to technology and intellectual incompatibility, ousting the country from technological progress. According to the author, the key to stabilisation of the banking system under foreign capital circulation could be the establishment of a new type of banking institutions – specialised banks. In our opinion, emergence of specialised innovative banks might contribute to reduce costs for achieving the government strategic goals. Figure 2 represents an investment bank operation pattern.

The policy for Ukrainian Innovation Bank efficiency and financial sustainability is to be built considering the following factors:

- inadequacy between the project investments and their socioeconomic impact due to the wrong choice of sector and industry priorities with excessive concentration of resources in certain areas and underestimation of the importance of simultaneous development of related industries;
- politically motivated allocation of assets and corruption during loans distribution, neglect of the real solvency of borrowers, resources misuse.

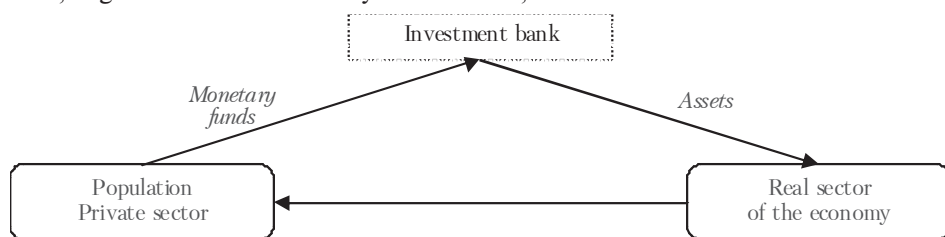


Figure 2. Investment bank operation pattern, designed by the author

Hence, the above circumstances, according to international experience, indicate the need for a thorough selection of innovative bank industry projects, trends and specific entities support. With this in mind, we identify the following promising areas for national banking capital investments:

- implementation of research and development projects in the field of bioelectronics, computer systems of artificial intelligence and machine translation, performing system and applied programming and virtual reality modelling;
- information systems in the fields of education, science, culture, medicine, ecology;
- replacement of physically and morally outdated vehicles for a new generation of technology with qualitatively new performance;
- modernisation of infrastructure of international transport corridors within the country borders, updating tourism infrastructure;
- development of precision engineering, high quality, heat resistant and high strength materials, use of thermal waters integrated systems and geothermal heating, which might partially solve the problem of energy supply (Filonova, 2010: 36);

- design and manufacture of radiopharmaceuticals and the development of nuclear medicine (the science of early diagnosis and treatment of cardiovascular diseases);

- creation and further development of a new industry - nanoindustry, which involves nanostructured systems, nanomaterials and nanotechnologies. Nanotechnology is represented by effective catalysts and alternative chemical current sources in chemical industry; in microelectronics – by sensors, protective coatings, operating items of computer equipment and electronic devices; in medicine – by bio-compatible implants and advanced drug delivery (Paton et al., 2009: 18).

This country, considering its significant domestic market, industrial and agricultural potential, rich and diverse natural resources and a favourable geopolitical location, can become a leader of innovative development in the world. It is evident that each state has to find its own approach to promote and facilitate innovative development compliant with its national goals and culture of economic relations. There exist universal methods to promote innovations, although there is no single formula for their application. Therefore, building up an innovative bank might be the first step on the way out of the economic crisis in Ukraine.

In the short-term perspective, the key direction to increase the competitiveness of domestic production should be its large-scale technical and technological renovation. This will enhance product quality, reduce manufacturing costs by replacing the outdated equipment, enable to introduce energy-saving technologies that would foster its competitiveness. Implementation of a number of important infrastructure projects would help to reduce imports. In particular, Ukraine has currently large idle capacities in shipbuilding. Application of resource-saving technologies and increase in performance efficiency would allow building high-quality ships in Ukraine. Significant potential also has the aerospace sector, in particular the development, production and promotion of the 'Antonov' aircraft at the world market. The government has to seek resources to finance strategic investments that would contribute to the country's further development.

The prospects for post-crisis recovery of the national economy are affected by innovative development of strategic industries, first of all, agriculture. Thus, the creation of the State Agricultural Bank would assist in supporting domestic manufacturers of agricultural products and promoting the effective implementation of rural development programmes. Below are the basic problems and perspectives of the creation of the State Agricultural Bank in Ukraine (Figure 3).

For agricultural bank activities to be effective there is a need to implement the following measures: provide priority funding subject to a well-defined procedure and the responsibility of particular officials; introduce tax holiday for domestic agricultural companies for the period of 5 years.

Effective implementation of the above instruments would enhance the development of agriculture in the short run, as well as contribute to the revival of processing industry, and then in the chain order other branches of the national economy. Currently the domestic wood processing and furniture production do not operate at full capacity, since wood is being exported without deep on-site processing. This clearly demonstrates the need to undertake a number of measures to encourage domestic producers to increase sales of high-quality, low-cost wood furniture and

household goods, thus creating an added value. Restricting imports from abroad and reducing tax burden will foster the emergence of competitive enterprises able to implement the integrated timber processing technology, creating new jobs and increasing budget payments respectively through extending their own production capacities. Hence, the effective development of the State Agricultural Bank challenges the following: clear understanding of the local agricultural business, focus of all services on customers' needs and efficient credit risks management.

Key factors contributing to the creation and development of the agricultural bank in Ukraine
<ul style="list-style-type: none"> - share of agricultural sector in exports of goods and services; - low level of competitiveness among foreign capital banks in this segment (the largest share of agricultural credit is held by big banks, in particular Public Joint Stock Company Raiffeisen Bank "Aval", Public Joint Stock Company "Prominvestbank"); - competitive advantage of specialised banks over universal ones in the quality of services and the level of credit risk management: focus on the needs of specific segments, better understanding of business profile and peculiarities of agricultural sector; - government support for agricultural development: a range of specialised programmes providing assistance opportunities for agricultural manufacturers: financial assistance through partial reimbursement of costs of new agricultural machinery purchased, interest rate on particular credit types, insurance costs etc.
Key factors hampering the development of the agricultural bank
<ul style="list-style-type: none"> - lack of infrastructure and transparent information database, shortage of operating credit bureaus and relevant client information; - low level of use of banking services in rural areas.

Figure 3. **Basic problems and perspectives of the creation of the State Agricultural Bank in Ukraine, designed by the author**

Although national banking capital alone is not able to accelerate the country's economic growth, its integral combination with science and technology is crucially needed. In particular, in the case when the gap exists between science and manufacturing, national industry makes use of outdated technology, which drives up the net cost, thus leading to low competitiveness of domestic goods, and as a result, to the loss of markets and other damages. Therefore, national banking capital investments in inefficient projects or funding non-competitive industries does not bring economic benefits.

Conclusions. Absence of an effective mechanism for the national banking capital raising and converting savings into investment do not promote technological renovation processes. An emphasis should be made that unrestricted use of imports to provide the economy with long-term and cheap financial resources may lead to a critical point beyond which negative socio-political effects and the threat to the country's innovative security might follow.

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КНИЖКОВИЙ СВІТ



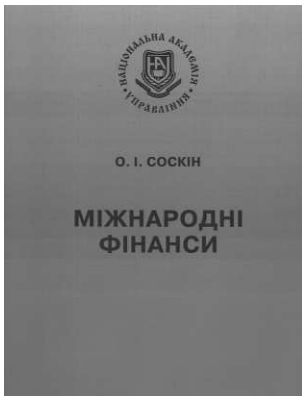
СУЧАСНА ЕКОНОМІЧНА ТА ЮРИДИЧНА ОСВІТА
ПРЕСТИЖНИЙ ВИЩИЙ НАВЧАЛЬНИЙ ЗАКЛАД

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У посібнику розкриті основні положення, сутність, механізми та функції міжнародних фінансів, розвиток та сучасний стан світової валютної системи та міжнародних фінансових ринків; проаналізовані сучасні тенденції у сфері міжнародних фінансів. Посібник сформовано відповідно до вимог Болонського процесу. Видання містить комплексні тестові завдання, питання для самоконтролю, глосарій. У посібнику знайшли відображення актуальні сучасні дослідження у сфері міжнародних фінансів, матеріали фахових періодичних видань «Актуальні проблеми економіки», «Економічний часопис – XXI» та інших.

Посібник призначено для студентів та аспірантів економічних спеціальностей, а також тих, кому цікаво сформулювати власне розуміння проблематики міжнародних фінансів.