

JEL Classification: G21

Murshudli Fakhri

*PhD in Economics, Researcher of the UNEC Center for Islamic Finance
Azerbaijan State University of Economics
Baku, Azerbaijan*

STATE BANKS IN THE INFORMATION-INCLUSIVE MODEL OF DEVELOPMENT OF TRANSITIVE ECONOMIES

Thesis is established the place and role of the state as an owner in the banking sector. Possible ways of development of the sector of state-owned banks in countries with transitive economies are determined. The measures aimed at achieving a balance of interests in the political, economic and social components of the activities of state banks are substantiated.

Keywords: *state-owned banks, transitive economies, banking institutions, government securities, banking activity.*

1. In a number of transitive countries, the state not only retained its presence as an owner, which existed at the very beginning of the reforms, but also increased it. First of all, we are talking about the banking sector. At the same time, the motivation for this process is extremely diverse – from an attempt to diversify the tools of the state's indirect impact on the economy to ensuring tasks in the field of national security. Multidirectional trends give rise to an extremely large number of questions, incl. and on the effectiveness of the state – the owner of financial institutions. These questions often determine the difficult choice between the political and social tasks of the state and its purely economic functions. Indeed, in most transitive countries, the challenges for state-owned banks today often remain unanswered, which determines the expediency of further research in this area.

The problems of the activities of banks with state participation are widely represented in modern scientific economic literature. As a rule, most studies focus on the role of such financial institutions in maintaining the required level of banking activity in transitional economies, and on the specifics of corporate strategies of such banking institutions. The increase in the share of state-owned banks in some countries of the post-socialist camp determined the conduct of relevant studies [1-5]. In general, the analysis of scientific works shows that it is extremely difficult to identify uniform quantitative criteria for the activity of the state as an owner in the banking sector. Rather, it should be about the application of uniform principles and uniform qualitative characteristics that have been effective in most economies.

2. The existence and functioning of banks with state participation is not the exclusive prerogative of transitive economies. Many countries with developed economies also have experience in the operation of state-owned banks. At the same time, the issues of such financial institutions are of particular importance for

transformational economies. In our opinion, we can assume that this is due to the following factors:

- firstly, quite often at the time of the beginning of economic reforms in such countries there are banking institutions that belong to the state;
- secondly, at the expense of banks with state participation, governments are trying to strengthen control over processes not only in the banking sector, but also in the economy as a whole;
- thirdly, state-owned banks are considered as certain “stabilizers” that ensure the sustainable development of the banking sector;
- fourthly, the activities of state banks (and not unreasonably) are considered in the context of the implementation of various “shadow” and “corruption” schemes with the active “growth” of government and business;
- fifthly, we recognize that it is precisely in countries with transitional economies that banks with state participation can occupy dominant positions, “crowding out” private banking institutions in certain sectors. Last but not least, this is due to the fact that state-owned banks receive various direct and indirect preferences that distort competitive banking mechanisms.

3. The history of state-owned banks in the post-Soviet countries is replete with examples that confirm our assumptions. For example, let's turn to the analysis of the experience of Azerbaijan and its banking system. At the beginning of 2023, there were two banking institutions with state participation in Azerbaijan – International Bank of Azerbaijan (IBA) and Azer-Turk Bank (ATB). Each banking institution with state participation has its own history of development. IBA was established in the early 90s of the last century precisely as a state-owned bank, while ATB had a mixed capital structure (50% owned by the state and Turkish investors) at the time of its foundation in 1995. However, the activities of both banks also have something in common, in particular For example, in order to improve IBA, the state was forced to develop a special program that provides for both reducing the volume of “toxic” assets (their maximum value was about 70%) and measures aimed at reducing the debt burden on the bank's activities (debt restructuring, placement of bank deposits by state institutions, etc.). In turn, the unsatisfactory performance of ATB determined the exit of foreign investors from the bank's capital and the need to increase the state's share from 50% to 75%. In this regard, a number of questions arise related to the mutual influence of the processes taking place in the banking system and the economy of Azerbaijan as a whole, and the trends and results of the development of banks with state participation.

The raising of this issue is also due to the fact that over the past decade the share of banks with state participation has fluctuated within 25-40% of the entire banking system of Azerbaijan. Last but not least, disruption at the level of state-owned banks was one of the root causes of a significant deterioration in the performance of the banking sector as a whole in Azerbaijan after 2015.

4. An analysis of the activities of state-owned banks in Azerbaijan allows us

to draw certain conclusions, the key of which, in our opinion, are the following:

- such banking institutions occupy an intermediate position in the banking services market: on the one hand, their activities are determined by the norms of banking legislation, on the other hand, state-owned banks enjoy various preferences, primarily in terms of access to resources, etc. compared to private banks;

- the activities of state banks in terms of active operations are largely synchronized with the financial policy of the state. This synchronization occurs through the instruments of the government securities market, thanks to lending to large state-owned enterprises, and the like. Ultimately, this violates competitive mechanisms in the state banking services market;

- the objectives of the privatization of state-owned banks are mostly declarative, since there is practically no experience of selling large banking institutions. The strategic uncertainty of state-owned banks makes it much more difficult to set tactical targets for such financial institutions. Setting a goal in the form of profit maximization for state-owned banks often contradicts the principles of their activities, which provide for active operations with a minimum level of profitability, taking into account political and social expediency.

The further functioning of state banks in countries with “transitive” economies should be based on the application of an information-inclusive approach. Its basic elements should be: ensuring maximum transparency of the activities of state-owned banks; preventing the influence of political and social factors; identification by the state of the goals and objectives of state banks in the economy; formation of corporate strategies of state-owned banks, taking into account the interests of the state-shareholder, consumers of banking services and the banking environment as a whole.

References:

1. Panizza U. State-owned commercial banks. *Journal of Economic Policy Reform*. 2023. Vol. 26. No. 1. P. 44-66.
2. Adams M.A., Aydin H.Y., Chon H.K., Morozova A., Iskender E.S. *Regulating, Supervising, and Handling Distress in Public Banks*. Washington, DC: International Monetary Fund, 2022. vi, 36 p.
3. Bosshardt J., Cerutti E. 2020. Why Did Public Banks Lend More During the Global Financial Crisis? *IMF Working Paper WP/20/84*. Washington, DC: International Monetary Fund, 2020. 35 p.
4. Andrianova S., Demetriades P., Shortland A. Government ownership of banks, institutions and economic growth. *Economica*. 2012. Vol. 79. Issue 315. P. 449-469.
5. La Porta R., Lopez-de-Silanes F., Shleifer A. Government ownership of banks *The Journal of Finance*. 2002. Vol. 57. Issue 1. P. 265-301.