

**INTERACTION OF REGULATORY REGIMES AND PRIVATE BUSINESS INTEREST**

The world experience shows, that the most important feature of market economy is small private business. Without the development of this sector it is impossible to improve the economics processes, to introduce innovations, to create new working places, that in its turn, contributes to the economic growth of the country.

The process of formation and development of private business in Ukraine is the evidence of the fact, that the problem of additional financial ensuring of private business activities is versatile. Its economic and legal foundations are still in the process of their development. That is why the research concerning the problems of influence and interconnections of regulatory regimes in the field of private business is urgent.

The analysis of latest investigations and publications shows that the problem attracts great attention of domestic and foreign specialists; among them J. A. Schumpeter [26], Z. S. Varnaliy [5], O. I. Baranoskiy [3], L. I. Vorotina [9], R. V. Rudik [20], A. V. Grinyuk [10], V. K. Zbarskiy [12], I. A. Maksimenko [14], V. I. Lyashenko [13], V. A. Rube [19], A. Hosking [25], P. Drucker [11] etc. Although the problem of developing private business and the ways of its stimulating in Ukraine and other countries has been paid great attention, some of its aspect still need further investigation.

The problems of development private business and banking service are investigated as separate independent fields. That fact leads to the lack of coordination in the methods of their further development. Due to it, it is necessary to carry out complex analysis of interaction of private business structures and banking services in the sphere of crediting, and consider them as the parts of one integral process.

The bank crediting plays one of the most important parts in stimulating renewing processes in the economy of our country. It is considered to be the main source of money resources for economic activities in the sphere of small business.

Financial support of small private business in Ukraine is accomplished by 176 banks and their 1369 branches; 1740 non-banking finance and credit institutions, including 1441 credit alliances [12, p. 50].

The main deterrent factor in the development of small private business in Ukraine is the crediting, which is difficult of access. It is the reason to analyse the essence of economic relations between business structures and banks in the process of crediting. For this purpose, we should use the notion of regulatory regime.

The term 'regime' origins from Latin word

'regimen'. In modern English language it means a government, a particular system of governing [15, p. 256]. The Dictionary of Ukrainian language explains the word 'regime' as a state system, the system of measures and rules, using for achieving a certain goal [22, p. 146]. The French sociologist R. Aron writes that any society has three kinds of secular power, and three different kinds of regimes, they are economic, political and military [2, p. 283]. F. Speer uses the notion of 'regime' in order to define a large group of interdependent people, who submit to a certain more or less significant extent to a certain social-economic order [24, p. 6].

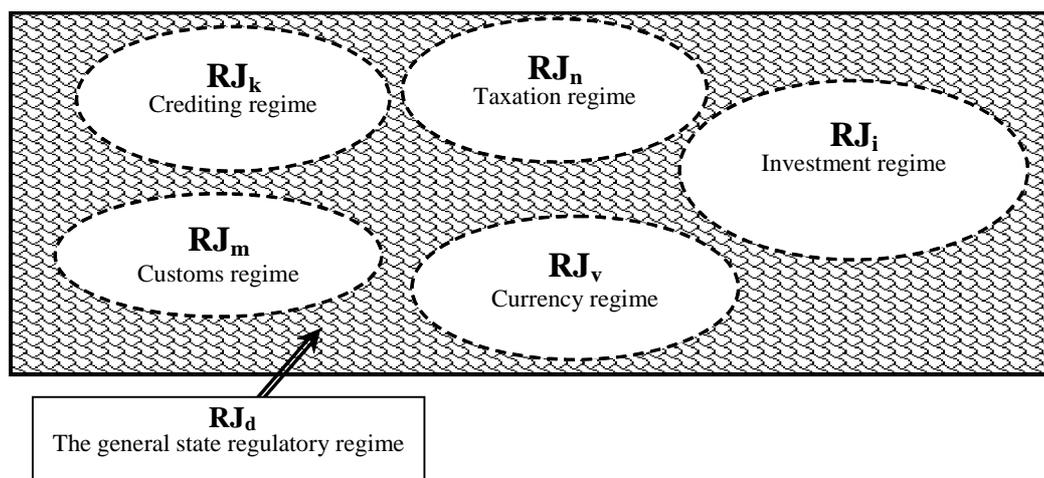
G. Soros considers that 'regime is a set of social conditions existing simultaneously, sufficient to exist in reality ... The regime could be considered as certain set of rules, dominating in a particular place for a certain period of time ... The regimes are connected with governing and regulations [23, p. 76].

Economic regime could be regarded as the specific kind of economic regulations, expresses in a certain complex of economic stimuli and limitation [1, p. 186].

V. I. Lyashenko in his research [13, p. 92] introduced a term 'regulatory economic regime', or regime of management which could be considered a certain system of management and described as the following equation:  $RG = \{G; S; I; R; P; T\}$ , where G is the infinite number of aims, planned to achieve through the introduction of this regime; S is the infinite number of subjects, subdued to this regime; I is the multiplicity of norms, rules, regulations and conditions, necessary to achieve the declared aims; R is the infinite number of resources used in the process of implementation of regime; P is the infinite number of policies and strategies, targeted at the achievement of the declared aims; T is the term of its operation.

The author draws an analogy with the scheme of metamorphosis of the commodity by K. Marx and offers systemic approach to regulatory regime in the following way:  $I \Rightarrow RG = \{G; S; I; R; P; T\} \Rightarrow I'$ , where I and I' mean the private business interest before and after the influence of economic regulatory regime.

Economic interests are the essential characteristic features of driving forces in the process of formation and development of economic subjects. Economic interests mean the deliberate striving of economic subjects to satisfy certain requirements, which are the objective motive of their business activities. The interaction of interests is the driving force of economic development. Under the influence of social-economic regulatory regime the interest of a businessman could have a neutral



**Fig.1. The scheme of interaction of general state regime and the aggregate of branch regulatory regimes in the economy of a state**

motivation, but it also could obtain both positive and negative direction.

The priority direction of the state policy should be to obtain positive value of  $I'$ .

All the structures, engaged in business activities on the territory of Ukraine, are influenced by the state regulatory regime, which could be represented as the aggregate  $RG_d = \{G_d; S_d; I_d; R_d; P_d; T_d\}$ , where:  $G_d$  is the number of social-economic objectives, ensuring necessary general social condition for the development of private business activities, and sustainable economic development of the state;  $S_d$  is the aggregate of state legislative and executive authorities, the subject of private business activities; financial institutions, which are also the subjects of this regime;  $I_d$  is the normative legal acts, representing the multiplicity of norms, rules and regulations necessary to reach the given aims;  $R_d$  is the aggregate of financial resources, accumulating in the process of formation, distribution and redistribution of state GDP;  $P_d$  is the state policy and the strategy of state development for the given period;  $T_d$  is the operation term of the regime.

Along with the general regime there are branch regulatory regimes, operating in the particular spheres (Fig. 1).

The interconnection and interaction of state and branch regimes take place at the macro- and micro-levels. The general state regulatory regime is synchronized with the state policy of development in all the spheres. At present the state policy of Ukraine is directed at driving the economy out of the crisis. At the micro-level, a particular set of rules and regulation is used for regulation of different economic spheres. This set represents regulatory regimes, viz. taxation regime, customs regime, currency regime, investment regime, etc.

In the economy it is necessary to distinguish as a separate branch the activities of financial institutions. They render the unique financial services to the subjects of

private business, that is why each kind of their activities could be regarded as the branch regime, viz. credit regime, deposit regime, currency regime etc.

Private business is another economic subject. The activities of private business could be defined as the interest of private business. When a business operator wants to take credit, he meets the regulatory regime of crediting in a bank or other financial institution. ]

Bank institutions give financing under the conditions of crediting regime  $RG_k = \{G_k; S_k; I_k; R_k; P_k; T_k\}$ , which includes the following elements of regulatory regime:

$G_k$  is the main goal of banking activities, i.e. to gain profit;

$S_k$  is the subject of branch crediting regime, which is a crediting institution / creditor, physical or juridical person, receiving credit resources (borrower), and institutions, which regulate crediting activities of financial institutions (the National Bank of Ukraine, etc.)'

$I_k$  means norms and rules of crediting (bank rate, security, warranty, guarantee, term of crediting) rules and algorithms of calculating the level of solvency and reliability of a borrower; the norms, defined by the authorities, controlling and regulating the credit activities of financial institutions (norms of reserving, discount rate of the National bank);

$R_k$  is the means of physical and juridical persons (deposits), bank credits, charter capital, stock capital;

$T_k$  is the main strategy of development of a financial institution;

$T_k$  is the term of crediting.

The interaction between the interest of private business and the crediting regime of a bank takes place at the market of financial services (Fig. 2).

During this interaction it is necessary to coordinate the interest of both parts. From one side it is a business operator striving to get a maximum profit, and from the other side it is a bank, also striving to get

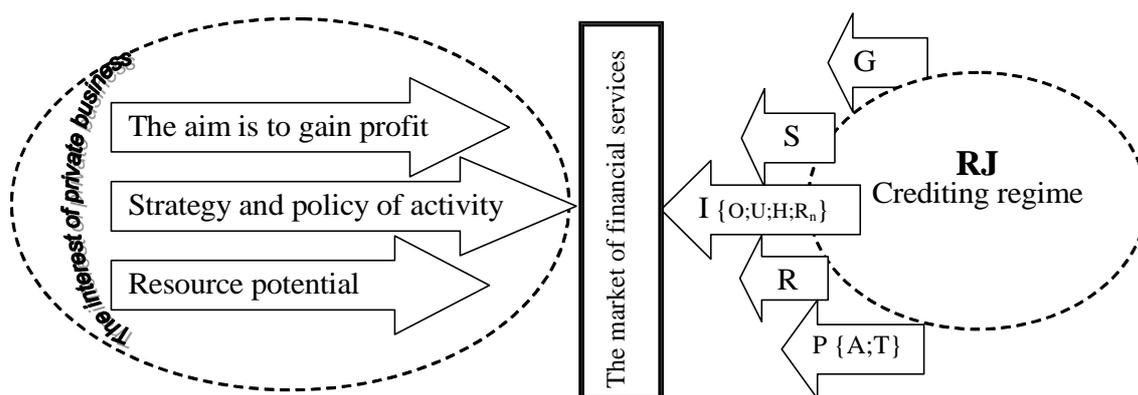


Fig. 2. Chart of interaction between the interest of private business and the crediting regime

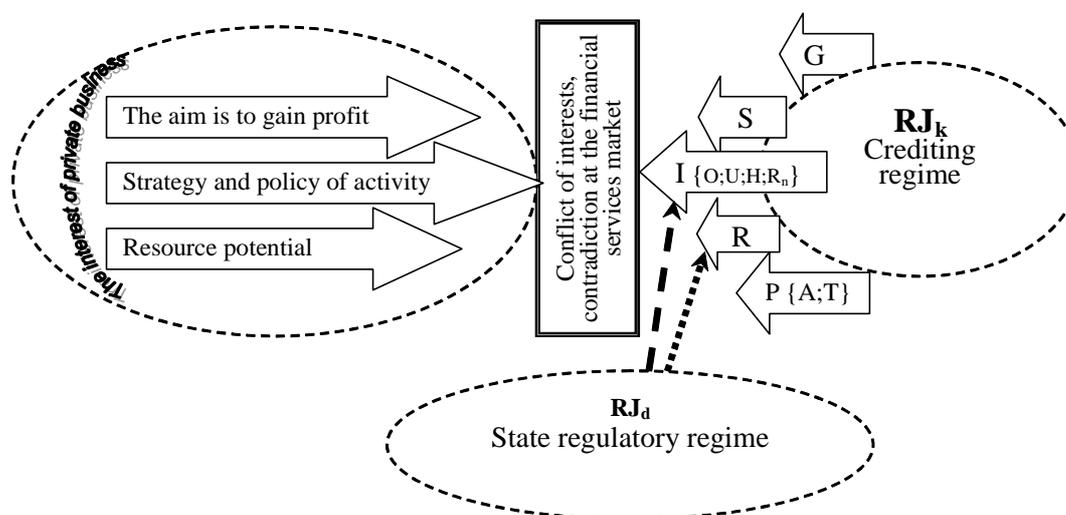


Fig. 3. The influence of state regulatory regime on credit regime

profit, and due to this reason it reduces credit rates and softens the conditions of crediting. Another factor, influencing on the bank policy, is its dependence upon the rules and regulations, defined by the state authorities, and control of the financial institutions (the National bank of Ukraine).

It is impossible for a state to have a sufficient level of developing private business structures, thus the state regulatory regime should be directed to the regulating of the conflict of interests and contradictions between the private business structures and financial institutions in the process of crediting. The state can influence on the interests of the participating parts providing special regulatory regimes in the crediting of private business structures (Fig. 3).

The main contradiction in the crediting of private business structures are the following: a high level of credit rate, the necessity of pledge, a warrantor or a guarantee, given by a third person. Credit payments include at least two components: credit rate and commission remuneration. Credit rates should ensure the discharge of expenses used for crediting operations and reserving,

and the income got from credit operation. Banking institutions decide credit rates and commission remuneration independently (Fig. 4).

So, the first two components (Sector A and B) are unchangeable. Components of credit rate, and a bank could not change their size. The third component, sector B, is the income, planned and corrected by a bank autonomously depending on credit policy. Thus, taking into account the average income of a bank, it is possible to determine 3 credit regimes: a general regime and two special ones; stimulating and limiting. When using a general regime, the bank could plan an average income from credit resources.

If the bank is highly interested in the increasing of crediting, it could reduce the average level of income. This credit regime is a special stimulating one. And vice versa, when the bank introduces more tough credit policy, it increases the average level of income, so this credit regime is special limiting one.

State regulatory regime could not influence directly on the process of credit rate formation. But the state could influence on the credit rate by providing additional resources at a favourable rate. The formation of credit

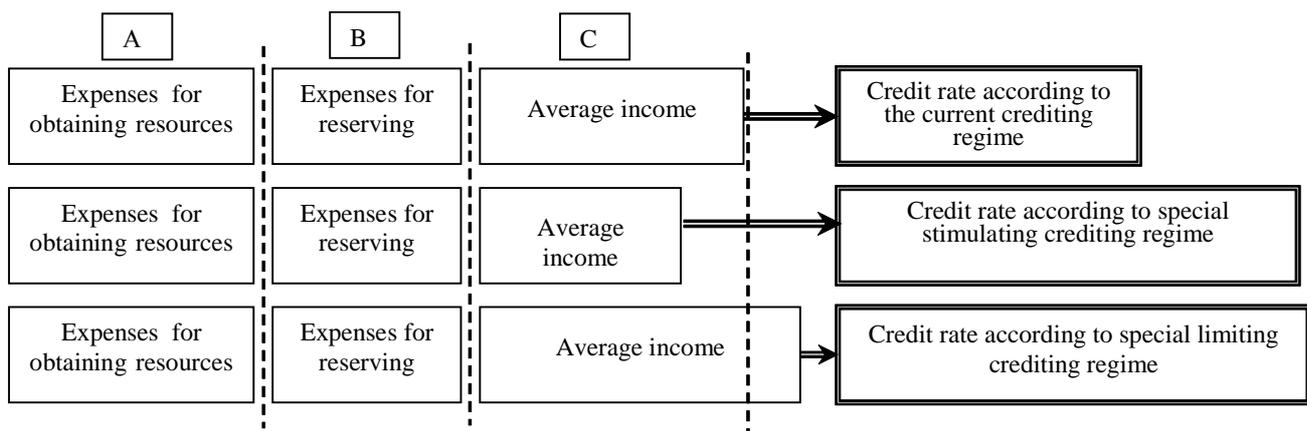


Fig. 4. The structure of credit rate depending upon crediting regime

resource costs has many stages and depends on various internal and external factors, which influence on the level of credit rates directly or indirectly.

One of the main external factors, influencing on the credit rate, is the discount rate of central Bank. The discount rate of central bank is the payment, using for refinancing bank institutions, taken in per cent [7, p. 338].

In Ukraine, the system of measures support small private business, and the state is constantly improving them. The first among these measures is the partial compensation of credit rate. This direction is being successfully realized in the programmes, supporting small private business. The mechanism of using local budget costs for partial compensation of credit rates in the short-term and medium-term credits, given to small and medium private business structures for the realization of investment projects, is carried out according to the algorithm, Defined by the order of the Ministry of Economy and State Committee for regulatory policy and private business of Ukraine, issued on March 6, 2006, №82/20 [18].

The second measure is the state guarantees which could partially replace the pledge. In Ukraine the state guarantees for small business crediting could be realized by the formation of the department for credit guarantees in the regional foundation for supporting private business. It does not require the formation of supporting foundation as separate juridical institutions in every region of Ukraine.

Thirdly, the state could offer to the banking and other financial institutions to use favourable regimes in the sphere of taxation, licensing, etc., for stimulating their activities in the field of crediting small private business.

Analysis of the interaction between private business structures and banking institutions in the process of crediting allows to conclude, that both business structures and banking institutions act due to the regulatory regimes, consisting of the combined elements.

In the process of interaction between banking (financial) institutions and private business for obtaining credit, we could evidence a number of contradictions,

i.e. the level of credit rate, the demands concerning and pledge and guarantee. These contradictions could have negative impact on the interest of a business operator (to work, develop, gain profit) and lead to their refuse from further development, and in some cases even to closing business activities. These contradiction are connected with the fact, that the prior aim of private business is to gain maximum profit. Using the equation of economic regulatory regime for more detailed analysis of crediting process allowed to understand and define the directions of state influence, namely:

1) Stimulation of commercial banks to give credits through releasing them from taxation on the costs, directed for crediting small private business, and state guarantees of paying credits back.

2) Reorientation of budget costs from direct financing to the formation of foundations, helping to stimulate small business crediting.

3) Active formation and operation of non-state guarantee and insurance institutions for small private business.

4) Efficient using of foreign investments [14, p. 18].

In order to overcome these contradiction, the state should indirectly use certain economic regulations and directly finance bank resources at favourable rates.

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### **Kolesnikova G. V. Interaction of Regulatory Regimes and Private Business Interest**

The article by using the concept of a regulatory regime deals with the nature of economic relations between business entities and banking institutions in the process of lending. It covers the features of the interaction of entrepreneurial interest and credit regime. There are contradictions that arise in the process of lending and factors affecting their resolution. The role of the state in resolving these conflicts.

*Key words:* small business, regulatory regime, credit regime, national regulatory regime, entrepreneurial interest, discount rate, the interest rate on the loan, mortgage, guarantee.

### **Колеснікова Г. В. Взаємодія регуляторних режимів та підприємницького інтересу**

У статті за допомогою використання поняття регуляторного режиму розглянуто сутність економічних відносин між підприємницькими структурами та банківськими установами в процесі кредитування. Висвітлено особливості взаємодії підприємницького інтересу та кредитного режиму. Виявлено протиріччя, що виникають у процесі кредитування, та фактори, які впливають на їх розв'язання. Також визначено роль держави у вирішенні цих протиріч.

*Ключові слова:* мале підприємництво, регуляторний режим, кредитний режим, загальнодержавний регуляторний режим, підприємницький інтерес, облікова ставка, відсоткова ставка за кредитом, застава, гарантія.

### **Kolesnikova A. V. Взаимодействие регуляторных режимов и предпринимательского интереса**

В статье с помощью использования понятия регуляторного режима рассматривается сущность экономических отношений между предпринимательскими структурами и банковскими учреждениями в процессе кредитования. Освещены особенности взаимодействия предпринимательского интереса и кредитного режима. Выведены противоречия, возникающие в процессе кредитования, и факторы, влияющие на их разрешение. Также определена роль государства в решении этих противоречий.

*Ключевые слова:* малое предпринимательство, регуляторный режим, кредитный режим, общегосударственный регуляторный режим, предпринимательский интерес, учетная ставка, процентная ставка по кредиту, залог, гарантия.

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