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FINANCIAL SECURITY OF COMMERCIAL BANKS IN MODERN CONDITIONS OF DEVELOPMENT OF GLOBAL ECONOMY

ABSTRACT: The objective of the presented study is to assess the impact of additional taxation on the financial security of commercial banks. The authors shall formulate suggestions on a stable development of a banking industry, on the basis of the conducted analysis of the development of the banking system in European countries. Hypothesis – Imposing supplemental taxes on commercial banks shall not stimulate lending, but shall reduce banking financial security in a crisis situation in the economy. Study methods - When studying the development of the economic situation in 2007-2010, a method of historical reflection and an observation method have been applied. When comparing options for the supplemental taxation of the commercial banks, by countries, a comparison method has been used. As a result of the conducted study, the authors of the work shall conclude that the introduction of the supplemental taxation on the banking sector shall be unacceptable, and most importantly – dangerous for the global economy. As a result of the conducted research, the authors of the article come to the conclusion that the “illusory” profits received by banks due to high interest rates may soon turn into significant losses in the financial sector. Shareholders of many banks will not be able to cope with these problems. The withdrawal of money from the bank profits shall not activate lending by the banks. At the same time, the high bank profits in 2022-2023 shall allow many financial institutions to overcome an arrival of a new wave of economic crisis which shall highly likely occur in 2024-2025.

KEYWORDS: commercial banks, taxation, economic crisis, bank excess profits, taxes

BEZPIECZEŃSTWO FINANSOWE BANKÓW KOMERCYJNYCH W WA- RUNKACH ROZWOJU GOSPODARKI GLOBALNEJ

ABSTRAKT: Celem prezentowanego badania jest ocena wpływu dodatkowego opodatkowania na bezpieczeństwo finansowe banków komercyjnych. Autorzy formułują sugestie dotyczące stabilnego rozwoju sektora bankowego na podstawie przeprowadzonej analizy rozwoju systemu bankowego w krajach europejskich. Hipoteza – nałożenie dodatkowych podatków na banki komercyjne nie będzie stymulować akcji kredytowej, ale zmniejszy bezpieczeństwo finansowe banków w sytuacji kryzysowej w gospodarce. Metody badań – w badaniu rozwoju sytuacji gospodarczej w latach 2007-2010 zastosowano metodę refleksji historycznej oraz metodę obserwacji. Zestawiając opcje dodatkowego opodatkowania banków komercyjnych według krajów, zastosowano metodę analizy porównawczej. W wyniku przeprowadzonych badań autorzy doszli do wniosku, że wprowadzenie dodatkowego opodatkowania sektora bankowego jest niedopuszczalne, a co najważniejsze – niebezpieczne dla gospodarki światowej. W wyniku przeprowadzonych badań autorzy doszli do wniosku, że „iluzoryczne” zyski uzyskiwane przez banki w związku z wysokimi stopami

procentowymi mogą wkrótce przerodzić się w znaczne straty w sektorze finansowym. Akcjonariusze wielu banków nie będą w stanie poradzić sobie z tymi problemami. Wycofanie pieniędzy z zysków banku nie uruchomi akcji kredytowej banków. Jednocześnie wysokie zyski banków w latach 2022-2023 pozwolą wielu instytucjom finansowym przezwyciężyć nadejście nowej fali kryzysu gospodarczego, który z dużym prawdopodobieństwem nastąpi w latach 2024-2025.

SŁOWA KLUCZOWE: banki komercyjne, opodatkowanie, kryzys gospodarczy, nadwyżki zysków, podatki

INTRODUCTION

More than fifteen years have passed since the global financial crisis of 2008. However, scientists from all over the world continue to study issues of the financial security and counteracting the crisis in the banking system. Thus, Piotr Lewandowski deals with issues of cybersecurity, Ryszard Wróblewski works on a concept of national security¹, Tetyana Vasylieva describes the problems of measuring the financial security of a country², Eray Arda Akartuna, Shane D. Johnson, Amy E. Thornton, Andrey Surmach, Inna Stecenko work over the risks of money laundering and terrorist financing³, Javaid Iqbal, Saira Hanif Soroya, Khalid Mahmood and Jebarajakirthy C., Shankar A. touch upon issues in the field of security of financial information in online banking⁴, Acquisti A., Grossklags J. deal with privacy issues in the banking environment⁵, Ali M, Khan MA, Kalwar MA analysed issues and problems in the field of online banking⁶, Alohali M, Clarke N, Li F dealt with issues of forecasting factors⁷ influencing the risky behaviour of users, Flores WR, Antonsen E., Ekstedt M. worked on information security issues⁸. And only scientists who have deeply studied this topic and the consequences which this crisis has had on the global economy, and the commercial banks, balance sheets of which still contain assets recovered from insolvent borrowers, remember these hard times of challenges for the financial system of the whole world⁹.

¹ R. Wróblewski, *Elements of the Concept of National Security Management*, “De Securitate et Defensione o Bezpieczeństwie i Obronności” 7(1) 2021, pp. 7-26.

² T. Vasylijev, *Problems of measuring country's financial security*, “Journal of International Studies” 13(2) 2020, pp. 329-346.

³ A. Surmach, I. Stecenko, *Economic security and prevention of money laundering in commercial banks of Latvia*, “De Securitate et Defensione. O Bezpieczeństwie i Obronności”, 6(2) 2020, pp. 59-67; E.A. Akartuna, S.D. Johnson, A.E. Thornton, *The money laundering and terrorist financing risks of new and disruptive technologies: a futures-oriented scoping review*, September 2022.

⁴ J. Iqbal, S.H. Soroya, K. Mahmood, *Financial information security behavior in online banking*, “Sage Journal” 1/2023; C. Jebarajakirthy, A. Shankar, *Impact of online convenience on mobile banking adoption intention: a moderated mediation approach*, “Journal of Retailing and Consumer Services” 58/2021.

⁵ A. Acquisti, J. Grossklags, *Privacy attitudes and privacy behavior*, In: *Economics of Information Security*, L.J. Camp, S. Lewis (eds.), Springer US, 2004, pp.165–178, https://doi.org/10.1007/1-4020-8090-5_13 (27.02.2024).

⁶ M. Ali, M.A. Khan, M.A. Kalwar, *Challenges for online banking in customers perspective: a review*, “International Journal of Business Education and Management Studies” 5(1) 2021, pp. 37-56.

⁷ M. Alohali, N. Clarke, F. Li, (et al.), *Identifying and predicting the factors affecting end-users' risk-taking behavior*, “Information & Computer Security” 3(26) 2018, pp. 306–326.

⁸ W.R. Flores, E. Antonsen, M. Ekstedt, *Information security knowledge sharing in organizations: Investigating the effect of behavioral information security governance and national culture*, “Computers & Security” 43/2014, pp. 90–110.

⁹ A. Surmačs, I. Stecenko, *Finanšu politikas attīstība Rīgā un Pierīgas reģionā*, BSA 2018, http://archive.lza.lv/index.php?option=com_content&task=view&id=4163&Itemid=47 (24.05.2024).

In 2009-2017, the authors of this study paid great attention to the study of the global financial crisis of 2008. Forecasts were made for the development of the world economy, financial sector and foreign policy of countries. Unfortunately, these predictions were destined to come true. Until 2022, the authors of the study still hoped that the events would not result in political crises, although all economic indicators showed that this could not be avoided.

On the basis of the previous experience in studying the financial crisis of 2008, it shall become obvious that the current development of the world economy and finance leads the world community to a new devastating financial crisis. The task of scientists, economists, financiers, governments, the commercial banks and Central Banks shall be prevention of the impending threat.

Global financial markets are highly interconnected. Even the sanctions imposed against single countries and banks are not able to mitigate the risks associated with the interconnectedness of the global financial markets. The commercial banks are always the first to take hits of the market volatility. The sector of the real economy starts to feel the consequences of the crises much later. That is why it shall be necessary to constantly study and research the processes occurring in the banking sector of the world economy in order to timely forecast possible consequences and developments for the real sector of the economy.

In the presented study, the authors have identified significant risks in the development of the modern global financial sector, have identified obvious errors in the economic policies of some countries which may provoke crisis phenomena in the global economy, and have developed a set of measures on stabilizing the banking sector and, as a result, on preventing the new global financial crisis.

BANK EXCESS PROFITS

In mid-2022, the period of low interest rates came to its natural end. Leading countries and groups of countries started a struggle against high inflation. One of the tools in this struggle was raising the interest rates.

Thus, let us consider a retrospective of some important indicators of the financial sector: from the beginning of 2022 to October 2023, LIBOR increased from 0% to almost 6%¹⁰, and EURIBOR from 0% to more than 4%¹¹. On the one hand, the widespread rise in interest rates began to have a positive impact on the inflation processes in the world, and, on the other hand, allowed the commercial banks to receive excess profits from the balances of client funds on accounts in the commercial banks. The financial statements of SEB bank, Swedbank and any other commercial banks showed impressive profit results in 2022-2023¹².

¹⁰ *LIBOR rates charts*, https://www.fedprimerate.com/libor/libor_rates_history-chart-graph.htm.

¹³ *EURIBOR rates charts*, <https://www.euribor-rates.eu/en/> (23.05.2024).

¹² *Top US banks reported higher than expected (Топ банки США отчитались выше прогнозов)*, 13.01.23, <https://quote.rbc.ru/news/article/63c149569a79476cc919f593>; *Global trends in the banking sector (Глобальные тенденции банковского сектора)*, 09.03.22. <https://www.finam.ru/publications/item/globalnye-tendencii-bankovskogo-sektora-20220309-145700/> (12.06.2024).

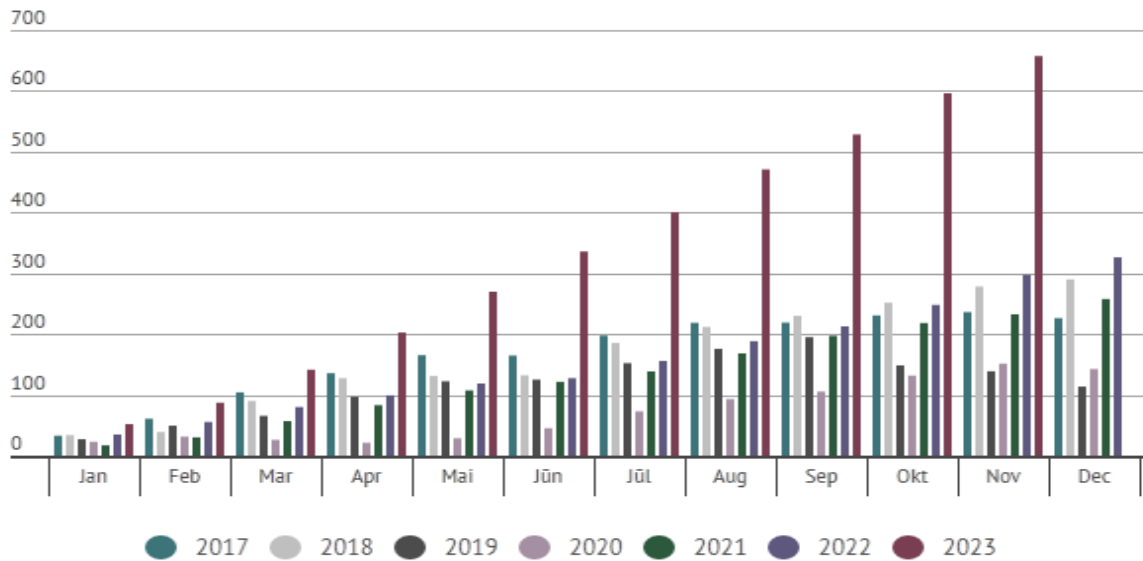


Figure 1. Retained Earnings of Banking Industry in Millions of EUR

Source: Latvijas finanšu iestāžu peļņa pagājušajā gadā sasniedusi 657,2 miljonus eiro, LA.LV, <https://www.la.lv/latvijas-finansu-iestazu-pelna-pagajusaja-gada-sasniedusi-6572-miljonus-eiro> (25.06.2024).

The governments of many countries, relying on the brilliant reporting of the commercial banks and because of population's demands regarding fair taxation of the banking sector, have started to introduce special supplemental taxation of the banking sector. Thus, in 2023, Lithuania introduced the bank excess profits tax¹³. “On 9th May, the Lithuanian Parliament approved a tax on windfall bank profits in 2023 and 2024. The country's authorities believe that banks receive "economic rent" after the European Central Bank's sharp rise of the interest rates to combat rising inflation. The tax will consist 60% of that part of the net profit of financial organizations which is by 50% higher than the average profit for the previous four years. It will replenish the Lithuanian budget by 410 million euros. The money will be used for defense-related expenses”¹⁴.

They have decided to impose a temporary tax on the bank excess profits in Ukraine¹⁵. “A bill on temporary taxation of the bank excess profits has been submitted to the Rada. If the model proposed by the bill is introduced, supplemental budget revenues for 2023 will amount to about 10 billion hryvnia,” affirms Chairman of the Verkhovna Rada Committee on Finance, Tax and Customs Policy. The bill proposes to tax net interest income of banks at a rate of 5% (in addition to payment of corporate income tax). It is assumed that the excess profit tax will be in force during 2024-2026. It is proposed to aim the money for the general fund of the budget

¹³ Lithuania introduced a tax on excess profits of banks (*Литва ввела налог на сверхприбыль банков*), Lira.net, 09.05.23, <https://finance.liga.net/bank/novosti/litva-vvela-nalog-na-sverhpribyl-bankov-dengi-napravyat-na-oboronu> (25.07.2024).

¹⁴ Ibidem.

¹⁵ The Rada decided to tax the excess profits of banks generated during the war. (*В Раде решили обложить налогом сверхприбыли банков, образовавшиеся во время войны*), Економічна правда, 28.08.23, <https://www.epravda.com.ua/rus/news/2023/08/28/703636/> (25.07.2024).

and use it for the defense of the country. This being said, deputies refer to a similar practice existing in some EU countries¹⁶.

In Latvia, within the frames of the upcoming tax reform, the government has also promised to impose the excess profits tax for Latvian banks. This should replenish the Latvian budget with about 140 million euros. Finance Minister has recommended the government to support a mandatory advance payment of the bank profits tax, in the amount of 20% of the previous year's profits¹⁷.

In Estonia, the chairman of the Social Democrats, has sent an appeal to coalition partners in which he proposes to take a total of 951 million euros from banks by means of a special tax, over three years.

“Estonia faces two problems. As a result of Euribor increase, banks’ interest income has risen to unprecedented levels, which reduces purchasing power of people and ability of companies to invest and expand, slowing down overall rates of economic growth,” the letter says¹⁸.

“The Italian government, for its part, intends to introduce the tax on the excess profits of the commercial banks in the amount of 40%. With this measure, the country's authorities intend to replenish the state treasury by several billion euros in order to ease the burden on citizens”¹⁹.

This is not the entire list of countries in which governments plan to introduce additional taxes on the banking sector or have already introduced them in the hope of receiving additional financial resources to the treasury.

At this, at present, the commercial banks have many defendants. These are representatives of the banks themselves, not wishing to pay the newly created taxes which will greatly affect their net profit, bonus payments to management and dividends to shareholders. These are the lobbyists they paid for. They give different arguments in defense of the commercial banks.

Economist of Latvian bank Citadele Martinsh Abolinsh has assessed the idea of taxing bankers' income as negative: in his opinion, it shall be counterproductive and shall result in slow economic growth and problems with the banking sector in the long term. He supposes it shall scare off investors²⁰.

Latvian financier Girts Rungainis shares the same opinion. He believes that the introduction of the excess profits tax shall not lead to anything good, and it shall become even more difficult to get a bank credit²¹.

¹⁶ Ibidem.

¹⁷ *All-in game: who will benefit from the fact that banks' excess profits will be taxed? (Игра ва-банк: кто выиграет от того, что сверхприбыль банков обложат налогом?)*, Grani, <https://www.grani.lv/latvia/138424-igra-va-bank-kto-vyigraet-ot-togo-cto-sverhpribyl-bankov-oblozhat-nalogom.html> (17.04.2024).

¹⁸ *Social Democrats want to take 951 million euros from banks using a special tax (Соцдемы хотят с помощью специального налога забрать у банков 951 млн евро)*, ERR.ee, <https://rus.err.ee/1609098938/socdemy-hotjat-s-pomozhu-specialnogo-naloga-zabrat-u-bankov-951-mln> (23.04.2024).

¹⁹ *Italy is about to introduce a tax on bank excess profits (Италия собирается ввести налог на сверхприбыль банков)*, EURO topics, 11.08.23, <https://www.eurotopics.net> (29.03.2024).

²⁰ *All-in game: who will benefit from the fact that banks' excess profits will be taxed? (Игра ва-банк: кто выиграет от того, что сверхприбыль банков обложат налогом?)*, Grani, <https://www.grani.lv/latvia/138424-igra-va-bank-kto-vyigraet-ot-togo-cto-sverhpribyl-bankov-oblozhat-nalogom.html> (01.05.2024).

²¹ Ibidem.

Banks have long been accused of insufficient lending. The government and representatives of the Central Banks of many countries believe that the banking sector insufficiently lends to EU enterprises. The head of the Latvian Central Bank, Martinsh Kazaks, affirms that the commercial banks should participate much more actively in development of Latvian and EU economies, and that insufficient lending against the background of the high bank profits may make politicians to wish to redistribute part of the bank profits to society²².

Former Prime Minister of Latvia Krishyanis Karinshs (2019-2023), and President of Latvia Edgars Rinkevichs, emphasized that “banks to the large extent shall bear their share of responsibility for the fact that the Latvian economy has developed serious structural problems”²³.

“At negotiations on Estonian state budget in Vihula, there turned to be fewer opponents of the special taxation of the bank profits,” asserts Estonian politician, Social Democrat Evgeniy Osinovsky, who participates in discussions on changing the basic law on the state budget of Estonia. 200 million euros must be found.

Prime Minister and leader of Reform Party Kaya Kallas believes that the offer on taxing the commercial banks is the populist one. She thinks it has much wider implications, which the government must of course take into account. “Because the banks also keep the economy circulating.” She esteems that the additional taxation of the banks might make residential loans and other credits even more expensive.

The head of Eesti 200, Lauri Hussar, shares the same opinion, in his turn judging that the additional taxation of the banks might make the lending more expensive and therefore, as a result, harm the the economy.

However, the chairman of Estonian EKRE Party, Martin Helme, argues that it has not been proven that taxing the bank profits shall affect the population's payments on mortgage loans, since they have already increased several times in any case. It is not clear to him how this might make lending more difficult or make loans more expensive?

The chairman of Center Party faction in Riigikogu, Tanel Kiik, believes that additional taxation of banks shall not be intended to punish anyone, but to build a fairer and more united society. He cites figures: 30% of the record profits of large banks would be sufficient to cancel both the increase in sales tax and the planned car tax in Estonia. Taking into consideration the already rapid rise in prices, as well as the economic recession that has been going on for a year and a half, it would be much fairer and more responsible than increasing taxes on workers,” says Kiik²⁴.

In its turn, the Association of Lithuanian Banks has already filed a complaint with the European Commission regarding the new tax of bank solidarity. In August, the Association addressed the EC, arguing that the bank taxation model distorts competition: exempting some

²² Ibidem.

²³ Ibidem.

²⁴ *The Social Democrats want to take 951 million euros from banks using a special tax. (Соцдемы хотят с помощью специального налога забрать у банков 951 млн евро)*, ERR.ee, <https://rus.err.ee/1609098938/socdem-hotjat-s-pomowju-specialnogo-naloga-zabrat-u-bankov-951-mln> (14.04.2024).

financial market participants and certain sectors from this tax is illegal state aid and might be in contradiction with the European Union law, such as the principle of non-discrimination²⁵.

SITUATIONAL ANALYSIS OF PROCESSES IN BANKING SECTOR IN MODERN GLOBAL ECONOMY

In the meantime, while the governments and central banks of many countries try to divide the profits of banks, certain processes have started to occur in the global economy which should cause reasonable apprehension.

In March 2023, many economists around the world began to discuss the risks of a new global crisis. This was preceded by the bankruptcy of American Silicon Valley Bank (SVB), the “bank of Silicon Valley”: it was one of the twenty largest banks in the United States and specialized in servicing technology companies. US regional banks faced serious problems in early March. After the bankruptcy of Silicon Valley Bank, another bank announced its closure – Signature. Panic started in the banking market, accompanied by an outflow of deposits and a collapse in stock-exchange quotations of credit institutions. At the peak of the spring banking panic, depositors withdrew half of their deposits early from American First Republic Bank²⁶.

The situation caused a lightning-fast reaction from a regulator. To slow down the growing panic, they took extraordinary measures which surprised many experts. In order to save large and medium-sized regional banks, the Federal Reserve System took extraordinary measures. The regulator simplified access to the “discount window” – a standard tool for supporting banks. Since the collapse of SVB, US banks have borrowed more than \$300 billion from the regulator. In fact, they have saved these banks. The American regulator did not do it in 2008 with a bank of Lehman Brothers. The result of this mistake was one of the most severe crises in the world economy. Obviously, having realized its mistake from 15 years ago, the Federal Reserve System decided not to repeat it. However, the risks for the banking system nevertheless remain. The American Central Bank now finds itself in a difficult situation, and it will have to make difficult decisions in its ongoing fight against inflation²⁷.

Confirmation that the banking sector has a clear cross-country influence in the global economy is the situation in the Swiss banking market. In March 2023, following the burst out banking crisis in the United States, the Swiss Central Bank was forced to support one of the world's oldest banks, Credit Suisse, with an unprecedented credit line in the amount of \$54

²⁵ Association of Lithuanian Banks: EK will ask Lithuania for clarification regarding the solidarity tax, Review (Ассоциация банков Литвы: EK попросит у Литвы разъяснений по поводу налога солидарности. ОБЗОР), 19.10.23, <https://obzor.lt/news/n95475.html> (23.05.2024).

²⁶ A large-scale banking crisis began in the United States (В США начался масштабный банковский кризис), LENTA.ru, 16.03.23, <https://lenta.ru/articles/2023/03/16/usabanki/>; First Republic's problems: which banks will be next (Проблемы у First Republic: какие банки будут следующими), Forbes, <https://forbes.ru/finansy/488346-problemy-u-first-republic-kakie-banki-budut-sleduusimi> (26.04.2023).

²⁷ A large-scale banking crisis began in the United States (В США начался масштабный банковский кризис), LENTA.ru, 16.03.23, <https://lenta.ru/articles/2023/03/16/usabanki/> (23.02.2024).

billion. However, the fate of the bank has not yet been decided, because its old problems with the loan portfolio have not gone away and they may not be solved quickly. It is because of them that clients have been fleeing Credit Suisse for months now. That is why the Swiss bank was one of the first to feel the wave of the American storm in the banking system.

If the panic continues to develop, it promises serious problems for the entire financial sector, where everything is interconnected and built on trust. And the financial crisis, in its turn, threatens the real economy²⁸.

Last year, the Nobel Prize in Economics was given to those who scientifically proved that banks played a vital role in the functioning of the modern economy, and a loss of trust to the banks might turn small problems into deep depression. “In 2022, the Nobel Prize in Economics was shared equally by three scientists – Americans Philip Dibvig, Douglas Diamond and former head of the US Federal Reserve System (FRS) Ben Bernanke. They received the award “for their research into banks and financial crises”²⁹. The laureates have significantly improved our understanding of the role of banks in the economy, especially during financial crises. An important conclusion of their research is that it is crucial for the financial system and the economy to avoid the collapse of commercial banks. Therefore, it is necessary to constantly strengthen the stability of the banking sector by increasing the equity of commercial banks, rather than extracting bank profits in the form of additional taxes.

PROBLEMS IN REAL SECTOR OF ECONOMY

Since March 2023, when the global banking sector faced the financial problem, six months have passed. During this time, banks suspended the lending, which forced members of EU governments and central banks to retort sharply to this. After the problems in the banking sector, the problems began in the real sector of the economy.

The Canadian banking sector experiences big problems. The number of defaulters grows. Since 2023, their number has been constantly increasing, and portfolios of bad loans, the amounts of debts for which recovery is impossible have been growing rapidly. The problems of Canadian banks shall be related to the poor macroeconomic situation. In Canada, as throughout the world, the inflation has been growing, the local regulator has been actively fighting it by raising the rates, and it leads to an increase in loan payments and an increasing number of borrowers who are not able to cope with interest charges³⁰.

²⁸ *Why did banks in the West start having problems and is the world facing a financial crisis? (Почему у банков на Западе начались проблемы и грозит ли миру финансовый кризис?)*, BBC News, 19.03.23. <https://www.bbc.com/russian/features-64995783> (05.03.2024).

²⁹ *The Nobel Prize in Economics was given to the former head of the Federal Reserve and two other Americans (Нобелевскую премию по экономике дали экс-главе ФРС и еще двум Американцам)*, RBC, 10.10.22. <https://www.rbc.ru/economics/10/10/2022/6343ebb49a79472ef7ed610b> (08.03.2024).

³⁰ *Why Canadian banks stopped issuing car loans and mortgages (Почему банки Канады перестали выдавать автокредиты и оформлять ипотеку?)*, PRO, 12.10.2023, <https://pro.rbc.ru/demo/65269d179a7947230ad4a139>.

There is another, already European problem, which became aggravated last fall – energy. In October, spot gas prices reached \$1,000 per a thousand cubic meters, and in December – \$1,500. Cost of electricity has also increased significantly³¹. This has an additional impact on the sector of the real economy. Energy-intensive industries, as well as European cafes and restaurants, have been particularly hard hit. In September 2023, three of the oldest and most famous restaurants in Latvia – Vincents, Charleston, Monterosso – announced their closure³².

Economists around the world look forward to 2024 with great wariness. “As you know, the effect of tightening monetary lending policy shall manifest itself in the economy with some delay, which may consist from two to four quarters. Tighter lending conditions will ‘cool’ global inflation, and as a by-product of this process we will see a slowdown in rates of real economic growth,” indicates Mikhail Denislamov, the Chief Analyst at Freedom Finance Global³³.

In fact, the processes currently taking place in the global economy are comparable to the pre-crisis situation in 2007. There was the similar sharp rise in the interest rates, the fading of the bank lending, the cooling of the real sector of the economy and, as a consequence, the global financial and banking crisis of 2008³⁴.

ANALYSIS OF INTERCONNECTION BETWEEN ACTIONS OF EU GOVERNMENTS AND REAL SITUATION IN GLOBAL ECONOMY, WITH USE OF EXAMPLE OF THE REPUBLIC OF LATVIA

In 2007-2008, Latvian commercial banks received their historically highest profits since the time of the second independence. This was facilitated by the high interest rates, by means of which the Central Bank and the government fought double-digit inflation of 14.1 percent³⁵. The commercial banks in Latvia, realizing that borrowers are not able to pay the increased interests on loans, sharply reduced the lending. The government and the Central Bank began to demand from the commercial banks to resume the lending to the real sector of the economy. The banks, in their turn, realizing that the loans would not be repaid, did not resume the lending.

The situation developed in a similar way in most countries of the world. The result and consequences were the severe global financial and economic crisis of 2008.

³¹ *Gas price chart in Europe. (График цен на газ в Европе)*, Profinance. <https://www.profinance.ru/charts/ttfusd1000/lc17> (05.05.2024).

³² *Rīgā durvis slēdz vēl viena populāra izklaides vieta*, NRA., 02.09.2023. <https://tautaruna.nra.lv/nebusanas/426378-riga-durvis-sledz-vel-viena-populara-izklaides-vieta/> (02.05.2024).

³³ *The analyst explained the difficult situation in the global economy in 2023 (Аналитик объяснил сложную обстановку в мировой экономике в 2023 году)*, <https://iz.ru/1453427/2023-01-11/analitik-obiasnila-ukhudshenie-ekonomicheskogo-prognoza-ot-vsemirnogo-banka>; IZ, 17.05.23, <https://iz.ru/1514348/2023-05-17/analitik-obiasnil-slozhnuiu-obstanovku-v-mirovoi-ekonomike-v-2023-godu> (26.05.2024).

³⁴ A. Surmačs, I. Stecenko, *Finanšu politikas attīstība Rīgā un Pierīgas reģionā*, BSA 2018, http://archive.lza.lv/index.php?option=com_content&task=view&id=4163&Itemid=47 (27.04.2024)

⁴⁰ *Annual inflation in Latvia (Годовая инфляция в Латвии)*, Delfi.lv, 12.01.2009, <https://www.delfi.lv/57860/latvia/22887877/godovaya-inflyaciya-v-latvii-10-5> (13.04.2024).

If we analyse the present economic situation and compare it with the situation in 2007, we will not see many differences. There may be not as big a bubble in the real estate market at the moment as there was in 2007. Perhaps the central banks and audit firms take a tougher look at mortgages (the underfunded securities which started the American banking crisis in 2008). Perhaps the world's central banks themselves are now ready to respond more quickly to the problems of the banking sector. However, today the banking sector has a number of additional problems which the banking sector did not have in 2007. One of them is a large number of the collected and unsold mortgages since the 2008 crisis. This cannot be seen from any of the commercial banks' financial statements, but credit specialists working in banks are aware of this problem. These assets are on balance sheets of the commercial banks and still cannot be realised at their estimated value.

In essence, the situation has a very little difference from the situation in 2008. Therefore, the authors of the study shall propose to use the experience of 2008-2011 and to remember how the events developed during the last global financial crisis. How have the consequences of this crisis affected the security of banks?

The authors of the study shall not set themselves a task of describing in details the banking crisis of 2008-2011. As patterns it should be noted that the consequences for the global banking crisis were catastrophic during this period: in America, Lehman Brothers went bankrupt, in order to stabilize the situation, assistance was provided to a huge number of banks, in Latvia - Parex banka, Latvijas Kraybanka, in Lithuania - Snoras banka, Ukio bankas became insolvent. Almost every country in the world found problem banks. In their turn, the large profits of the banking industry in previous years transformed into huge losses which exceeded these profits. Many EU financial institutions were unable to cope with these losses and went bankrupt; the survivors still deal with the problems of the past crisis.

The consequences, according to the authors' opinion, of government actions on introducing the taxes on the bank excess profits, shall be presented by the authors in the form of Diagram No. 1.

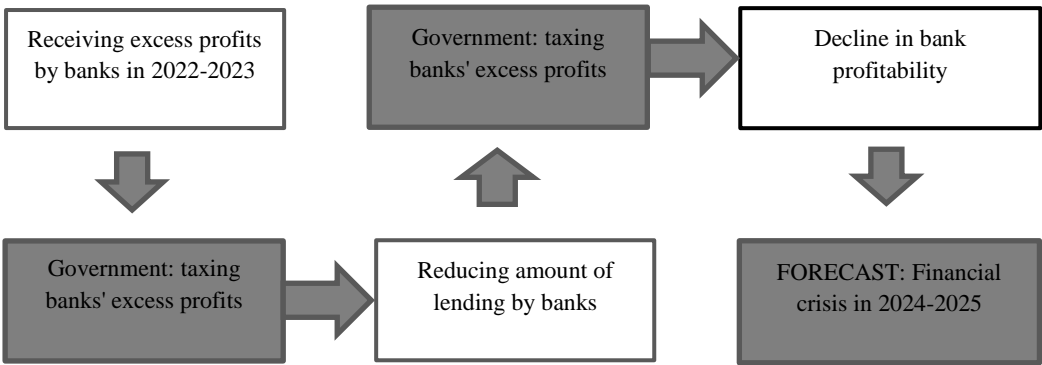


Diagram 1. Consequences of Introducing Taxes on Banks' Excess Profits
Source: developed by the authors.

Summarizing the results of the conducted study, the authors shall propose that the European governments and central banks shall not introduce the additional taxes on the banking sector and seize the excess profits from the commercial banks, but shall take a number of measures to strengthen the capital of the commercial banks, and namely:

Analysing all of the aforementioned, the authors shall come to an important conclusion that the introduction of the additional taxation on the banking sector shall be unacceptable, and most importantly dangerous for the global economy. The received “illusory” profits of the banks due to the high interest rates may very soon turn into large losses in the financial sector. Periods of high profitability driven by high interest rates are inevitably followed by periods of losses. Historical experience suggests that the shareholders and management of many banks will be unable to cope with these problems on their own and without government assistance. European governments are taking note of the banks' current windfall profits but are failing to anticipate the future losses of the banking sector. Shareholders do not need to cope with this. It is the bank's management that needs to do so. The withdrawal of money from the bank profits shall not activate the lending by the banks. Banks are conservative financial institutions; if a repayment of a loan is endangered by certain conditions: an issuance of the loans stops immediately.

In its turn, on the other hand, the high profits of the banks in 2022-2023 will allow many of them to overcome the arrival of the new wave of the economic crisis, which, in the authors' opinion, shall occur in the period from 2024-2025. Time will tell how devastating this crisis will be for the global economy and banks, but the banking system of countries must be prepared for it.

SUGGESTIONS

1. Until 2027, the payment of dividends to bank shareholders shall be prohibited;
2. Until 2027, payment of bonuses to management of the commercial banks shall be limited and maintained at the level of 2022;
3. All profits received by the banks should be used to strengthen the equity capital of the commercial banks.

Application of the aforementioned measures for the financial recovery of the banking industry shall:

1. encourage banks to write off the bad loans remaining on the banks' balance sheets since 2008;
2. encourage revaluation of collaterals remaining on the balance sheets of the banks since 2008 downward and bringing them to real market value;
3. allow the commercial banks to be more prepared to face the new financial crisis and, at the first opportunity, to resume the lending to the real sector of the economy.

Withdrawal of the excess profits from the banks shall not bring long-term positive effects to the economy. Understanding the unfair steps of the governments and central banks, the commercial banks will start to redistribute profits from the balance sheets of the commercial banks themselves, which are subject to a specific tax, to the balance sheets of companies controlled

by the bank, but not subject to this taxation. Thus, banks will find opportunities to reduce the tax base in the future, which in its turn will undermine trust between banks, central banks, governments and society as a whole.

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