FINANCE, BANKING AND INSURANCE

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PRINCIPLES AND FEATURES OF FUNCTIONING OF FINANCIAL SYSTEM MODELS

The effectiveness of public policy largely depends on the perfection of the financial system, which is an integral part of the national economy. The financial system of a state performs a number of important tasks, among which the main ones are the accumulation of financial resources and their distribution for the implementation of state functions and economic development. The choice of the financial system model affects the efficiency of the entire economic system, as well as the stability and economic growth of the country [1; 2].

The financial system is a structurally organized set of institutions, markets, financial relations and instruments that ensure the formation, distribution and redistribution of financial resources for the purpose of effective management of public goods, national wealth and gross domestic product of the state. It covers the activities of entities at both the national and international levels, focusing on ensuring economic stability, regulating financial processes and effectively managing financial flows [3].

The financial system is the structural basis for the implementation of public policy, as it ensures the accumulation and distribution of financial resources necessary for the state to perform its functions. State institutions, through the mechanisms of fiscal, monetary and credit policy, regulate financial flows, contributing to economic stability. Depending on the chosen model of the financial system, the state forms certain institutional mechanisms that determine the use of resources and set priorities for economic development.

One of the features of the financial system is its ability to respond effectively to changes in market conditions and new economic realities. It is important to keep in mind that the financial system is not universal for all countries – its structure depends on the level of economic development

of the country, market relations, political situation, etc. A properly designed financial system model can serve as a foundation for economic growth and minimize the risks of financial crises.

With the development of the global market and the intensification of globalization processes, several basic models of financial systems have emerged. Each of them has its own characteristics, advantages and disadvantages that make it more or less suitable for different economic conditions.

The banking (bank-centered) model prevails in Central and Eastern Europe, particularly in Germany, France, Italy, and Japan. This model is based on the dominant role of banks in the financial system. Banks act as the main financial intermediaries, accumulating savings and investing them in various sectors of the economy. They also control the issuance of securities and other financial transactions. This model is effective for countries where the economy is still at the stage of industrialization, as banks provide long-term investments in capital-intensive industries [4].

The stock (market-oriented) model is most common in the United States, the United Kingdom, Canada, and Australia. Its essence lies in the leading role of stock markets in financing the economy. The main intermediaries are not banks, but institutional investors, such as pension funds, investment and insurance companies, which raise funds through securities markets. The advantage of this model is the ability to respond quickly to changes in market conditions. However, it may be more prone to financial crises due to risky speculative transactions.

The mixed model of the financial system is the result of the convergence of bank-centered and stock market systems in the context of the global economy. Classical bank-centered systems, such as those in Germany and Japan, began to introduce elements of the stock market system due to the need to expand the capacity of the financial sector and provide wider access to capital. One of the reasons for this was the rapid aging of the population, which puts an additional burden on pension systems and requires the introduction of new financial mechanisms, including pension funds, as in the United States.

The development of securities markets in these countries was driven not only by the need to raise funds for the private sector, but also by the increase in public spending, which required new sources of financing. Governments encouraged the participation of foreign investors in national capital markets, which contributed to the growth of the role of stock markets in financial systems that had previously relied mainly on bank lending [5].

The Islamic model of the financial system has attracted considerable attention due to its unique features and effectiveness during the global financial crises, in particular the crisis of 2008–2010. This system is based on the religious principles of Shariah, which prohibits interest rates, shares risks between participants, invests money only in the real economy, and strictly adheres to the terms of contracts. This approach helps to avoid financial speculation and ensures fair financial relations. Islamic banks and other financial institutions are actively developing not only in Muslim countries, such as Iran, Saudi Arabia, and Malaysia, but also in Europe, the United States, and Australia. This indicates a growing interest in Islamic financial products that offer an alternative to traditional banking systems based on ethical principles and social responsibility [6; 7].

Each model of the financial system contains several interconnected links, such as the banking system, stock markets, public finance and other financial institutions. For the financial system to function efficiently, it is necessary for all its parts to operate in harmony. Regardless of the model, it is important to ensure legislative regulation and transparency in the activities of each component of the system, as the successful operation of one link is impossible without the perfection of the entire system.

The financial system of Ukraine is close to a bank-centered model by its characteristics. In Ukraine, banks accumulate most of their financial resources through deposits from individuals and legal entities and other financial instruments. Bank loans are the main source of capital for enterprises, especially in industry and other capital-intensive sectors of the economy. However, it is worth noting that, unlike the classic bank-centered models typical for countries such as Germany or Japan, Ukrainian banks rarely participate in equity transactions and have limited interaction with the capital market. This limits the ability to diversify funding sources and increases the economy's dependence on bank lending. As a result, the Ukrainian banking system is vulnerable to economic shocks, and enterprises have limited opportunities to attract investment through other financial channels.

Thus, the financial system is an important element in ensuring the economic development of any country. To ensure its effective functioning, it is necessary to ensure harmonious interaction between all its parts and to create a transparent legislative environment. Regardless of the model, the financial system should contribute to economic growth and stability of the country's economy.

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