

INDUSTRIES AND SECTORS: ISSUES AND POLICIES

**CREDIT AND INVESTMENT ACTIVITIES
OF COMMERCIAL BANKS IN UKRAINE**

OLGA ZASLAVSKA

Faculty of Banking Business, Ternopil
National Economic University, Ukraine

JEL Classifications: G21

Keywords: Ukraine, commercial bank, investment banking, credit and investment activities, efficiency analysis, credit and investment portfolio, securities

Abstract: In the post-crisis period a development of the investment process in Ukraine largely depends on the effective activity of its bank system. The aim of the article is a research of the credit and investment activities of Ukrainian banks. For this purpose, there are evaluated an efficiency and analyzed a state of credit and investment portfolio of commercial banks. The article explores factors, which affect bank investment crediting of the real sector of the economy in Ukraine.

ISSN: 1804-0527 (online) 1804-0519 (print)

Vol.13 (1), PP.26-32

Introduction

Revitalization of the investment processes in Ukraine depends on the efficiency of its banking system. Experience of the developed countries shows that the growth of market economy involves the creation of financial and credit sector. In these conditions, the banking system should play a major role in the investment process and ensure economic growth of the country. The ability of banks to perform effective credit and investment activities is a defining component of providing the economy with investments. Thus, that process needs a creation of purposeful bank investment policy and mechanisms for its implementation.

Nowadays credit and investment activities of commercial banks in Ukraine are characterized with enormous capability to invest despite the extremely low level of its realization. Such situation is a result of many factors. Among them - the state of the national economy, the state of the world financial markets, legislative and regulatory support of bank credit and investment activities, the level of confidence in the banks, the availability of solvent demand on bank resources and more.

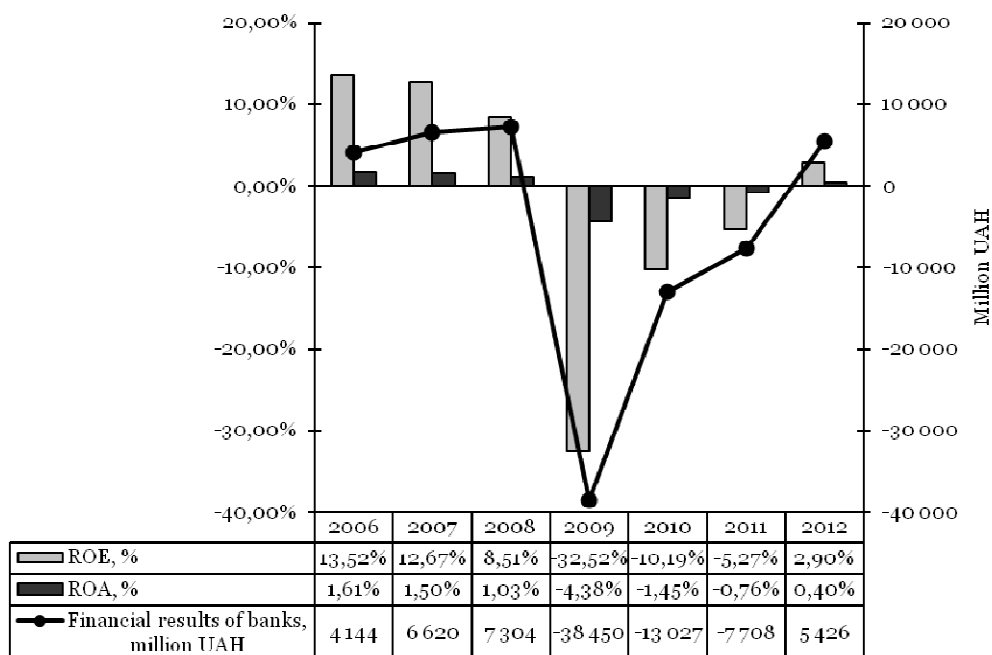
This situation requires analysis and evaluation of credit and investment activities of banking system in Ukraine, studying the influence of its internal and external factors, and creation of effective bank management system.

Efficiency of bank activities in Ukraine

Evaluation of bank activity is traditionally associated with calculation of the qualitative indicators, which include return on equity (ROE) and return on assets (ROA). The essence of the ROE is to determine the level of efficiency of bank resources that were directed into different bank activities. ROA allows us to estimate the efficiency of bank active operations: how much profit bank earns on every monetary unit invested in active operations. Return on assets and return on equity show the ability of banks to make money and determine their capacity for further growth. Calculation of these financial ratios allows us to estimate how effectively banks attract and place the resources. Low rates of these indicators may be related to inadequate resource base or inefficient investment policy. High rates of ROE and ROA prove the effective use of assets and bank capital, but also may indicate the high riskiness (Zarov, 2011).

An analysis of the Ukrainian banking system during the period between 2006 and 2012 showed that the indicators of its efficiency were fluctuating significantly (Figure 1).

FIGURE 1. INDICATORS OF EFFICIENCY OF THE UKRAINIAN BANKING SYSTEM



Source: data from Bulletin of the National Bank of Ukraine, 2013

The data shows, that during 2006-2012, financial results of Ukrainian banks activity changed abruptly from profitable to unprofitable. As ROA and ROE are based on financial results, this led to a corresponding changes in these

indicators. At the beginning of the period Ukrainian banks activity was characterized by annual growth of the financial results. If in 2006 banks earned profits of 4 144 million Ukrainian hryvnas (UAH), in 2008 its size was 7 304 million UAH. In contrast, despite profit growth, ROA and ROE in the same period decreased annually. Thus, the ROE decreased from 13.52% in 2006 to 8.51% in 2008, and ROA from 1.61% in 2006 decreased to 1.03% in 2008. This situation occurred due to the fact that the sizes of bank assets and equity increased faster than its profit. In our opinion, this is the evidence of inefficient use of resources and low level of bank management. In the following years, the situation has worsened: during 2009-2011 financial results of banks were negative. Thus, in 2009, which was the most critical for the Ukrainian banking sector, the volume of losses was 38 450 million UAH. In 2010-2011 there also were negative financial results, but the size of losses significantly reduced and at the end of 2012 was 7 708 million UAH. Same changes happened with the indicators of return on assets and return on equity. In the crisis year of 2009 these indicators showed the lowest results: -32.52% - ROE, -4.38% - ROA. In the following years, they began to increase as well as the financial results and by the end of 2012 were like this: 2.9% - ROE, 0.4% - ROA. Largely this situation was associated with external factors caused by the world financial crisis. They include: low demand for credit, insolvency of bank clients, abrupt currency fluctuations, the need to comply with mandatory economic ratios of National Bank of Ukraine, high levels of investment and credit risks etc.

Efficiency evaluation of credit and investment banking

Efficiency evaluation of credit and investment banking is based on the analysis of the structure of credit and investment portfolio, which is a collection of all loans, granted by banks, and purchased securities. The structure of credit and investment portfolio of Ukrainian banks is shown in Figure 2.

Obviously, the main components of the credit and investment portfolio of Ukrainian banks were credits to individuals and legal entities. In 2006, their volume was 216.7 billion UAH, and their part in the bank credit and investment portfolio was 85.8%. Despite the fact that in 2008 the amount of money, lent to individuals and legal entities, rose to 673.68 billion UAH, there weren't significant changes in the structure of the credit and investment portfolio: the part of loans was 88.7%. By the end of 2012, the volume of loans decreased to 510 billion UAH, which almost had no impact on its part in the credit and investment portfolio, which was 85.8%.

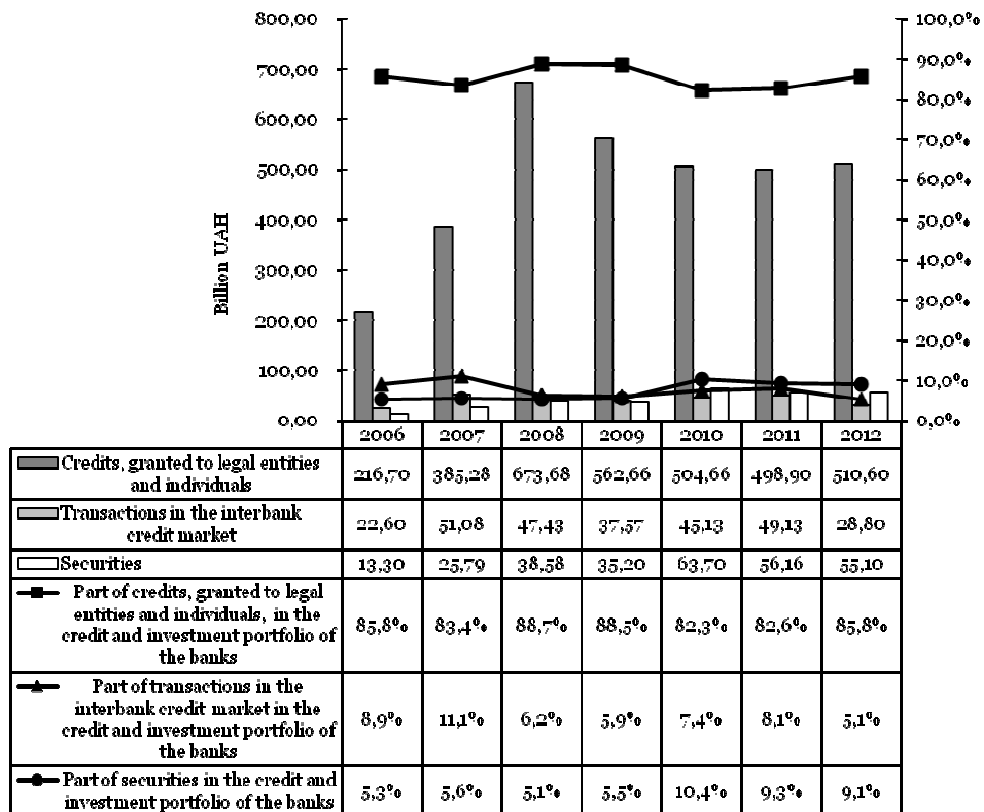
Transactions in the interbank credit market showed greater dynamism. Thus, during 2006-2007 their part in bank credit and investment portfolio fluctuated between 9% and 11%. In the end of 2008 it declined to 6.2%, despite the fact that the volume of interbank crediting in this period was 47.43 billion UAH, which was two times bigger than the same volume in 2006. At the end of 2012 interbank crediting had the smallest part in the credit portfolio of Ukrainian banks - 5.1%. Such changes associated with the growth of other components that influenced their percentage in the overall structure.

In 2006-2009 the part of securities in the credit and investment portfolio of Ukrainian banks was about 5-5.5%, while their real amount increased from

13.3 billion UAH to 35.2 billion UAH. In 2010 there were observed growth of the amount of securities to 63.7 billion UAH and increasing of their part in the credit and investment portfolio to 10.4%. At the end of 2012, the amount of securities decreased to 55.1 billion UAH, and their part was 9.1%. It should be noted that in the portfolios of banks dominated government securities. In addition, the placement of government securities was conducted mainly through refinancing by the National Bank of Ukraine. As for securities of legal entities, their part did not exceed 20% of total securities purchased by banks (Bulletin of the National Bank of Ukraine, 2013).

Analyzing credit and investment portfolio of commercial banks it should be noted that its size is not always objective measure to characterize the investment activities of banks. First of all, because the bank loans are largely used for consumption purposes of individuals and legal entities which are the most numerous bank borrowers. Based on the data of the National Bank of Ukraine there was constructed a chart that shows the situation of crediting individuals and legal entities depending on the purpose of using borrowed funds (Figure 3).

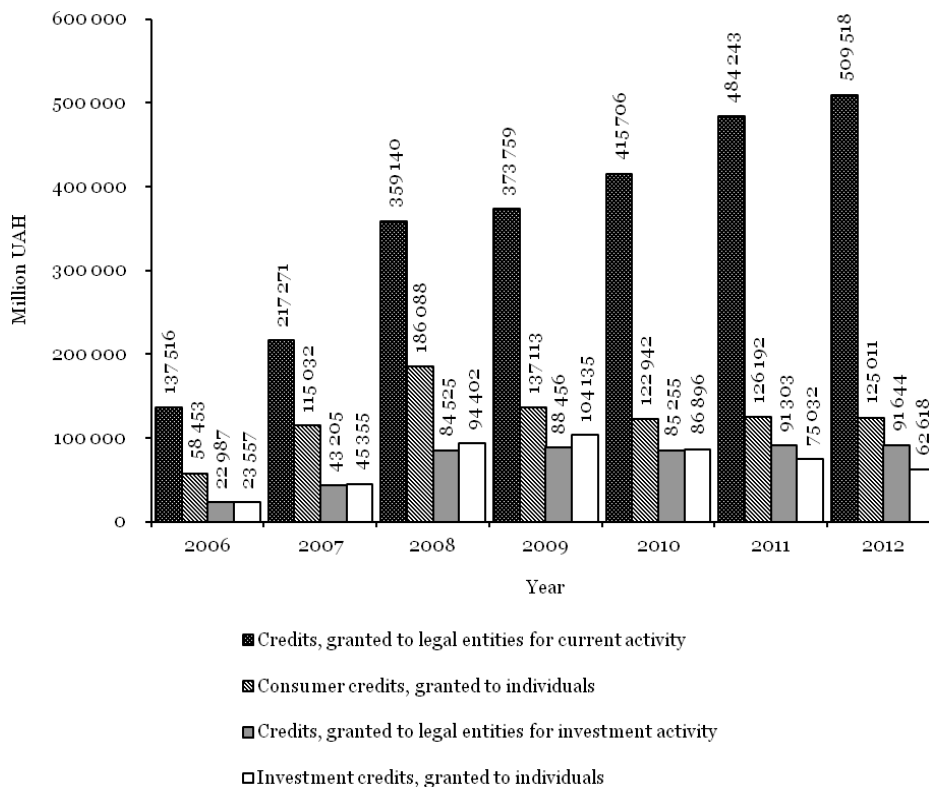
FIGURE 2. DYNAMICS OF CHANGES IN THE VOLUME AND STRUCTURE OF THE CREDIT AND INVESTMENT PORTFOLIO OF COMMERCIAL BANKS IN UKRAINE



Source: Data from Association of Ukrainian Banks, 2006-2013

Obviously, a great amount of the credit funds were spent by borrowers on consumption. Throughout the period the volume of credits granted for the needs of the current activity of legal entities steadily increased and at the end of 2012 was 509 518 million UAH. That exceeded the volume of credits granted in 2006 in more than three times. In the same time, crediting the current activities of legal entities exceeded crediting the investment purposes in five times annually. During the period from 2006 to 2008 the volume of investment crediting was increasing in two times each year. Since 2009 the pace slowed down. The devaluation of hryvna, the outflow of deposit resources and lack of liquidity in this period significantly affected the investment capability of the banking system in Ukraine. Moreover, much of the entities had to reduce their demand for credits and investments. So, at the end of 2012 the volume of credits for investment purposes was 91 644 million UAH. This amount was only 7% bigger than in 2008.

FIGURE 3. CREDITS, GRANTED TO LEGAL ENTITIES AND INDIVIDUALS



Source: Data from Bulletin of the National Bank of Ukraine, 2013.

In the total volume of credits granted to individuals, about 70% were used for consumption purposes. During the analyzed period, in the change in volume of consumer crediting weren't monitored any specific trends. Its peak came at the end of 2008, when the volume of credits was 186 088 million UAH. Since 2009 the volume of consumer crediting decreased annually and at the end of 2012 was 125 011 million UAH. During specified period the changes in their volume of credits for investment purposes were similar to the dynamics of consumer crediting. In general, from 2006 to 2012 their volume increased in three times and reached 62 618 million UAH.

It is known that the efficiency of credit and investment banking depends not only on amount but also on terms of investments. The analysis showed that among credits granted to legal entities for investment purposes were dominated mid-term loans (from 1 to 5 years). However, during 2006-2012, their part decreased from 62.7% in 2006 to 46.4% in 2012. In the same time, part of long-term loans (longer than 5 years) increased from 28.8% in 2006 to 44.3% in 2012. At first sight, this trend is positive, but it is worth noting that the volume of investment credits was only 17% of the total credits placed in the real economy during specified period (Bulletin of the National Bank of Ukraine, 2013).

As for investment crediting of individuals, the part of credits for investment purposes was two times higher than the corresponding indicator for legal entities - 35%. Thus, a significant part of these credits was granted for more than 5 years (86%) and was used mainly for real estate buying (92%).

Summarizing the results of the analysis of Ukrainian commercial bank crediting, it should be noted that despite the positive trend, which appeared in 2012, the volume and the pace of growth of investment crediting in the last few years were extremely low. Even if we take into account the influence of financial crisis.

It is known that bank crediting is just one of the possible sources of investments in the real economy sector. In the structure of the sources of investments the main are own funds of enterprises and organizations. Despite the dynamic growth of the total assets of Ukrainian banks in recent years, their investment activity was quite low. Thus, during the 2006-2012 years the part of bank credits in total investments in the economy of Ukraine was about 12-16%. Such an insignificant contribution of banks can be explained by the influence of many external and internal factors:

1. Low level of creditworthy demand of legal entities, which was associated with a decrease in borrowers' nominal income and high credit interest rates.
2. The risk of no return of the debt and the growth of problem credits that led to the need of formation major reserves on credit transactions. As a result, this caused the loss of the bank financial resources and declining profits.
3. Lack of long-term resource base, which was the result of loss of confidence in the banking system during the crisis. Due to financial instability and currency fluctuations clients preferred short-term deposits. In addition, reducing of required credit potential of banks resulted as worsening of access to international capital markets.

4. Focusing on investing in less risky operations. Among them were dominated crediting current activities of legal entities, consumer crediting, operations on the currency market and the government securities market.
5. Excessive compliance with mandatory economic ratios, which was caused by outflow of deposits in 2009-2010, and the risk of declining liquidity. In these conditions, banks reduced long-term crediting to maintain the required level of solvency and liquidity.

Conclusion

Analysis of the situation in the Ukrainian banking system showed that the main trend of credit and investment activities was crediting of individuals and legal entities. Due to the financial crisis the volume of crediting of the economy significantly reduced. Post-crisis period was mainly characterized with crediting of consumption needs of individuals and legal entities.

In modern conditions in order to reactivate bank investing in the real economy of Ukraine, should be provided the following measures:

- increasing incomes of individuals and legal entities
- increasing level of commercial banks' capitalization
- expansion of banks' resource base through debt capital
- increasing the liquidity of bank institutions
- reducing the cost of credit resources
- increasing investment attractiveness of the Ukrainian economy.

The key to stimulating the bank credit and investment activities is to improve the investment climate in Ukraine. An important role in this process should play government support of financing the real economy. Creating effective fiscal, market, legal, monetary, institutional, macroeconomic and other conditions for performing credit and investment activities is the key to social and economic development in Ukraine.

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