Рубрика 5 экономической тематики. Финансы, денежное обращение и кредит

Ways to stimulate banking activity on investment and credit markets

Tsyhanyuk D.L.

Ph.D, assistant professor, department of banking,

State Higher Education Institution "Ukrainian academy of banking of the National bank of Ukraine"

d.tsiganyuk@gmail.com

+380991200330

Introduction. The current situation of Ukrainian banks on credit and investment markets is very complicated. On the one hand, during 2009-2012 , the banking system was going through hard times, eliminating the effects of the financial crisis of 2008, that resulted in the strengthening of banks' claims on borrowers; active banks' work with non-performing loans, the volume of which rapidly was increasing due to the devaluation of the hryvnia, increased use of liquidity regulation tools of NBU because of decreasing of confidence in the banking system; increasing foreign exchange risk , which was caused by the contraction of foreign currency lending and rising interest of depositors in foreign currency deposits. On the other hand, at the end of 2012, Ukrainian banks have accumulated quite a large amount of resources to enhance lending, however, its active growth has occurred due to high inflation and credit risks reflected in the cost of credit. In view of this, the question for today is to search for the causes of ineffective realization of banks' credit and investment potential and the search for effective ways to improve banks' credit and investment activity in the short term.

Most of the problems of credit and investment activity of Ukrainian banks were discovered by V. Geets, I. Ivasiv, S. Leonov, B. Lutsiv, M. Savluk, I. Salo etc. As for foreign scientists which were interested in the same problem, we can mention work of A. Bailey, R. Levin, A. Marshall, F. Mishkin, P. Rose, I. Fisher and W. Sharpe.

At the same time, it should be noted that at present the practical application of the theoretical evaluation mechanisms of credit and investment potential of the banks, which are designed in theory, cause a number of difficulties due to the high dynamics of changes taking place in the monetary system of the world and Ukraine in particular.

Considering the above, the purpose of this paper is to search for practical problems that stand in the way of effective implementation of credit and investment potential of Ukraine's banking system and developing proposals to eliminate them.

Main results of research. Let’s consider the condition of the credit and investment activity of banks in Ukraine. In 2008 Ukrainian legislation was passed a number of changes that had a significant impact on the credit activity of banks. The most significant change was the prohibition of loans to individuals in foreign currency, which led to the closure of a very large number of credit programs of banks. This primarily affected the mortgage and car loans (fig. 1)

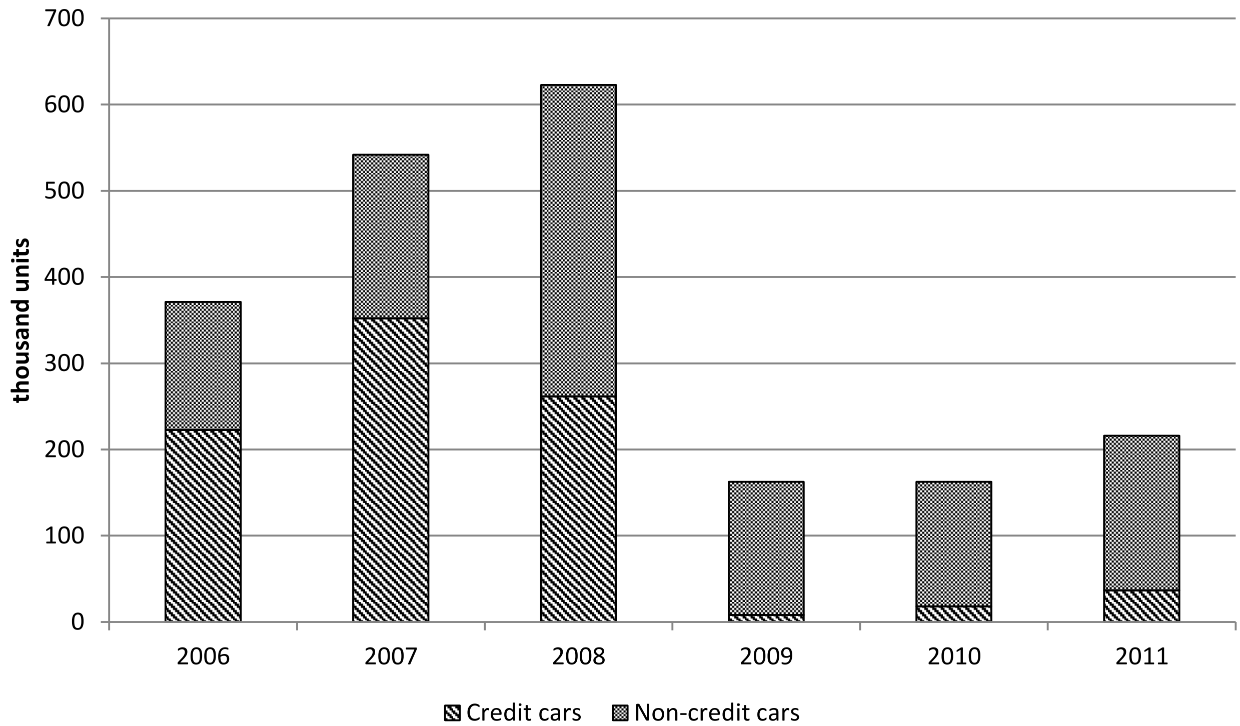

Figure 1. Sales value of cars in Ukraine in 2006-2011 [1]

As we can see from figure 1, the volume of car sales in Ukraine in 2009 decreased almost threefold, and the amount of car loans fell in 8 times. In addition to the actual closing all programs of foreign currency lending, the dynamics of cars sells with banking loans was also affected by stricter requirements for borrowers and increased the baselines for loans (down payment and interest rate), which aimed to reduce the risks of this type of lending.

However, it should be noted that the number of car sellers did not reduce, but the main problem was the lack of solvent market demand for cars . Although at the end of 2013 the share of cars bought on credit reached 20%, the restoration of indicators of 2006-2007 (50-60%) is far away. This demonstrates the untapped potential of banks in this area. We consider that the main problem of ineffective use of banks' potential are high credit risks, increased car prices due to the devaluation of the national currency, pending demand of individuals who expected political and economic stabilization in the country.

As for the mortgage market, there is a similar situation (fig. 2).

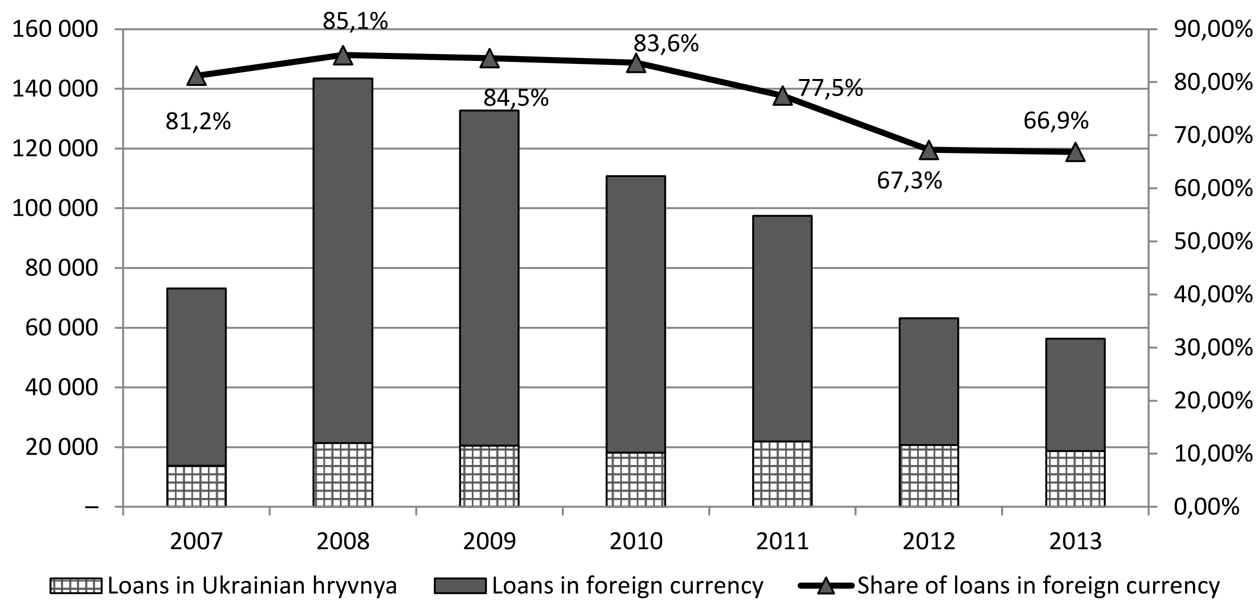

Figure 2. Mortgage loans in Ukraine by currency [2]

As in the case of car loans, mortgage loans began to decline since 2009. The reasons that led to such dynamics were the same factors, namely the reduction of foreign currency lending, higher costs of borrowing and increase the house prices. In this area the potential of the banking system to activate mortgage lending is inhibited by many macroeconomic factors that banks are not able to neutralize. However, one of the key problems in the banking system that caused the high cost of mortgages is the lack of long-term banking resources. Lets' analyze the duration of deposits and loans of Ukrainian banks (Fig. 3).

According to our estimates for the study period the average duration of deposits was 9 months and the duration of the loans – 27 months. The smallest difference in the duration of loans and deposits was at 13 months in 2006, the highest - in 2010 – 23 months.

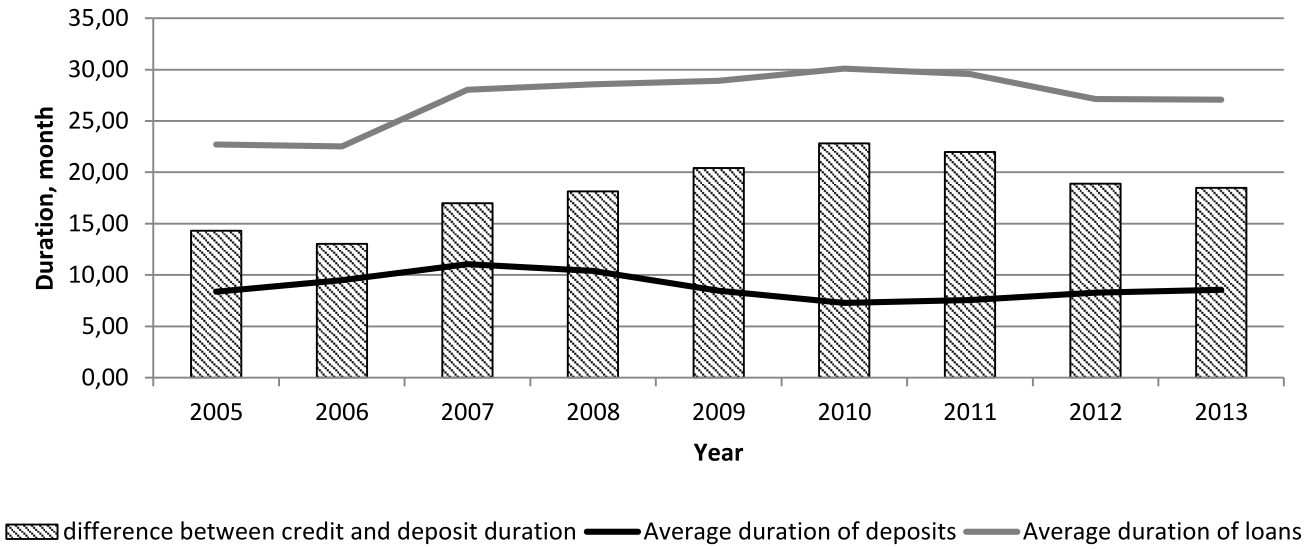

Figure 3. Difference in the duration of loans and deposits in banks of Ukraine in 2005-2013 [2]

Increase in gaps in the length of deposits and loans lasted from 2006 to 2010, including the period of financial crisis. This trend and the fact that the current difference in the duration of deposits and loans is 18 months allows us to say that in these conditions, domestic banks are not able to increase lending volumes, especially long-term (including mortgage and investment loans), as this would increase the difference in duration of loans and deposits and worsen the liquidity of the banking system of Ukraine.

Another factor that has a direct impact on the banks' ability to use its credit potential is credit and deposit interest rates. Figure 4 shows the dynamics of interest rates on loans and deposits in Ukraine.

As shown in Figure 4, in 2010, banks have exhausted the potential of decreasing of credit interest rates without a corresponding reduction in deposit rates.

So, we can say that today the pricing mechanisms for implementing the lending potential of banks of Ukraine will be ineffective, because it initiates further reduction in interest spread, which in turn will reduce the profitability of banking in general.

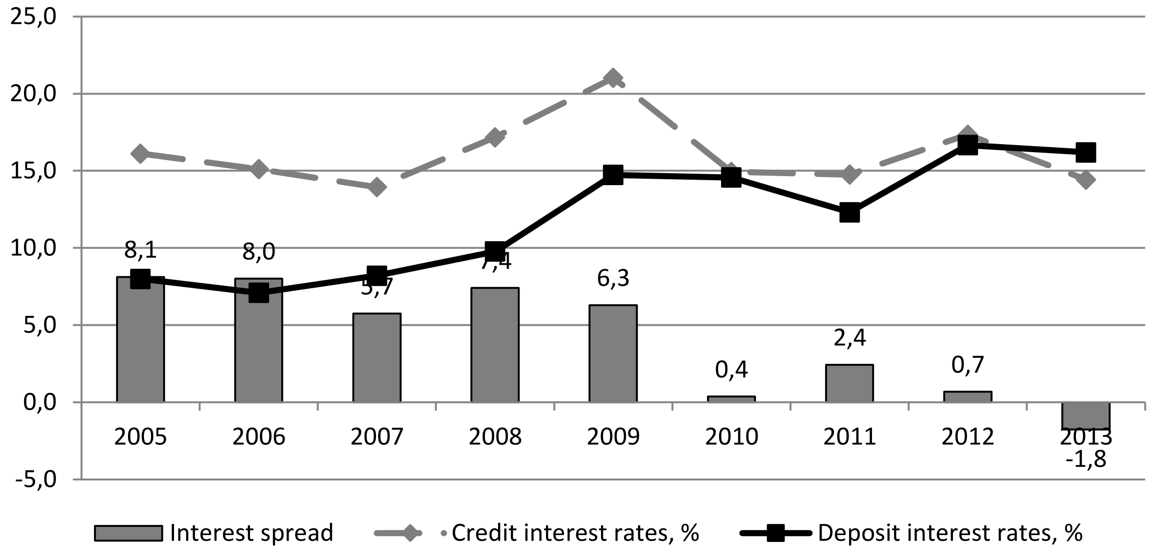

Figure 4. Credit and deposit interest rates and the interest spread of Ukrainian banks in 2005-2013 [2]

Further reduction in deposit rates at the moment is also undesirable, because in the conditions of not fully restored customer confidence in the banks, it could trigger an outflow of deposits from banks that in situation of political and economic instability creates an increased threat to the financial soundness of the banking system through high cost and inaccessibility of alternative sources of bank capital.

So, we can conclude that the resource potential of the banking system of Ukraine does not meet the existing demand for loan products, and therefore cannot be effectively implemented.

Let us consider activity of banks in the stock market of Ukraine (Fig. 5).

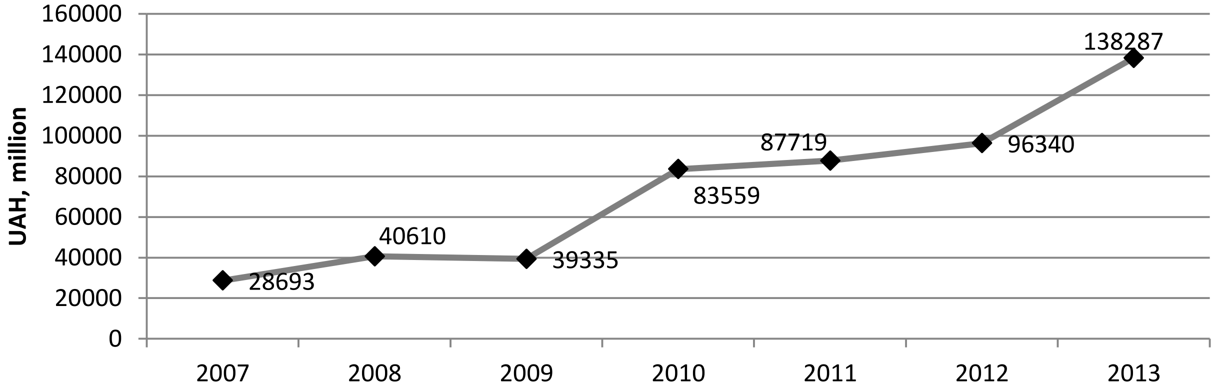

Figure 5. Securities portfolio of Ukrainian banks in 2007-2013 [3]

Unlike credit operations, bank operations with securities were made more active in the post-crisis period.

This can be explained by two factors – firstly, increasing riskiness of traditional lending operations of banks and search for more robust areas of their investment resources, and secondly - the stock market crash in 2008-2009 created the preconditions for further recovery and opportunities for fairly good speculative profit by operations with shares, besides, grown rates on debt financial instruments, including those on government bonds, has created opportunities for a relatively safe and effective investment.

Regarding the efficiency of banks operations in the stock market, it can be noted that profit from speculative trading in the stock market appears there since 2010 (Fig. 6).

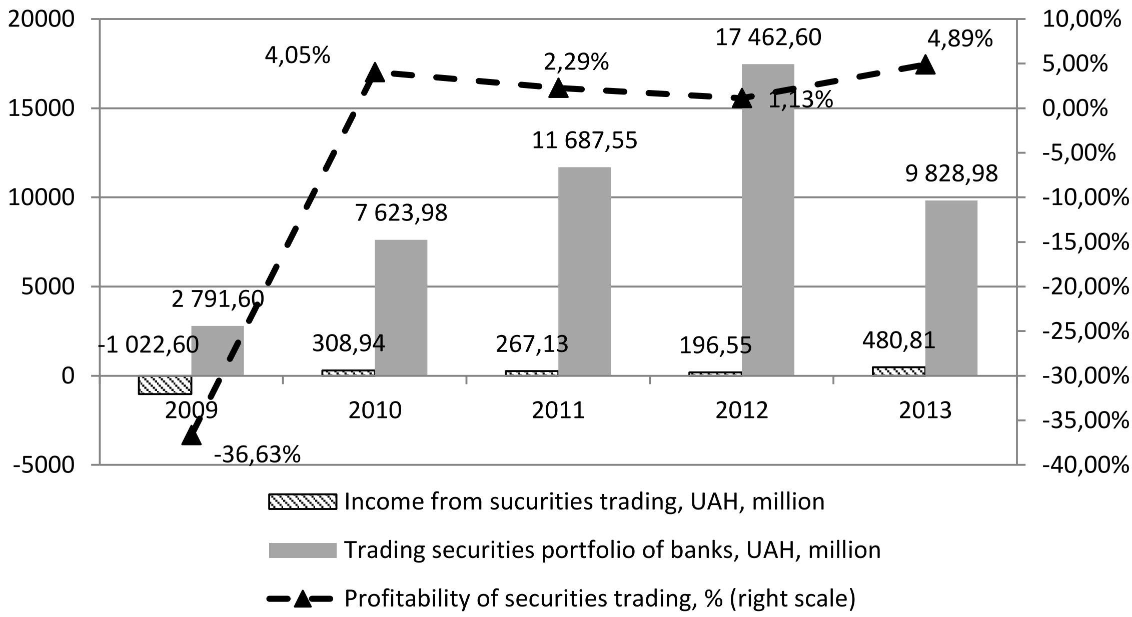

Figure 6. – Financial results of securities trading in 2009-2013 [2]

Comparing the volume of investments in trading securities and efficiency of this operations, we can conclude that in the period 2010-2012 despite the increase in speculative trading, profit from such operations reduced, so, it indicates an inefficient use of bank's investment potential, although in 2013 an increase in the profitability of banks from dealing in securities is almost 4.5 times higher than in previous period, that gives us reasons for optimism.

Conclusions. Thus, analyzing the activities of banks in Ukraine credit and investment market and examining the key factors determining the dynamics of the banking operations in the pre-crisis and post-crisis period, we can conclude that in Ukraine have formed a number of factors that brakes the implementation of credit and investment potential of the banking systems. This is confirmed by the trends in dynamics of credit and stock market operations of banks. In this case, the situation is critical, because there are constraints on the demand side (to comply with potential borrowers and issuers requirements for active operations riskiness of banks) and supply side (banks' resource base mismatch in duration and cost requirements of potential borrowers). This means that the problem of effective implementation of credit and investment potential of the banking system of Ukraine in the short term cannot be solved with only market-based instruments, that’s why the government must join this process. In our opinion, the government must make a number of legislative and regulatory steps to increase public confidence in banks (by increasing the capitalization of the Deposit insurance system and stabilizing the national currency), reduce riskiness of credit operations (by development of credit bureaus, adoption of the law about bankruptcy of individuals), increase the demand for automobiles and residential real estate (by reducing the cost of new vehicles and houses) and lower interest rates (by reducing actual inflation) to balance the demands and needs of all members of banking services.

Literature

1. Бережанський А. У світовому автопромі – криза, в Україні – автомобільний бум [Електронний ресурс] / А. Бережанський // Тиждень.UA. – 2012. – №9 (226). – Режим доступу : http://tyzhden.ua/Economics/43800

2. Statistic data of the National Bank of Ukraine [Electronic resource]. – Access : http://bank.gov.ua/control/uk/publish/category?cat_id=57897

3. Main results of banks’ activity / National bank of Ukraine [Electronic resource]. – Access : http://bank.gov.ua/control/uk/publish/article?art_id=36807&cat_id=36798

Tsyhanyuk, D. L. Ways to stimulate banking activity on investment and credit markets [Text] / D. L. Tsyhanyuk // The genesis of genius / Publishing Center of The international scientific association of economists "Consilium" - Genevå, Switzerland. – 2014. – 28 May. – P. 152-158