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MODERN PROBLEMS OF THE INVESTMENT BANK LOANS

One of the most important functional forms of bank credits is an investment. Commercial banks, mortgage banks, development banks and some other credit and financial institutions provide investment to entrepreneurs for the implementation of various innovative projects. This form of bank credits plays a crucial role in the development of a market economy.

In developed countries, such as the United States of America, more than half of investment projects are financed by bank loans. On the other hand, Russian financial institutions are only providing 10-12 % of those loans. Obviously, today Russia is far behind in investment and economic development of the market in comparison with other developed countries.

The serious lag in economic development in Russia may be explained by the lack of favorable investment environment in the entire marketplace of the country, the inadequacy of the basic practices of risk assessment for projects, and enormously expensive bank loans. These factors result in a gap in interest rates on loans and the profitability of most businesses that are focusing on meeting domestic demand. Furthermore, in Russian Federation we observe the lacks of considerable tax incentives for banks that are working with entrepreneurs by lending to investment projects. As a result, unfavorable environment for entrepreneurs and bank loans with high interest rates together with lack of adequate risk assessment arise in the long payback period investments. The low level of intermediation of the investment sector of the Russian banks is affected by the extremely high credit risks. High credit risks are associated with financial instability in most sectors of Russian economy, lack of long-term borrowers with good credit history, reliable mortgage, and other secured loans. In addition, the lack of appropriate investment insurance along with legislative and judicial risks make investments even less attractive for banks.

As a result, in current economic situation investment lending is a high risk, complex and quite expensive activity. Risk factors adjusted to the investments prevent the dynamic development of these areas of banking activity. Integrated assessment of the investment projects performed by credit organizations will help to eliminate this barrier. Issues of quality of risk management and administration of credit process play the particular relevance in these circumstances.

The share of long-term resources in the resource pool of the banking system of Russia is growing during the last few years. However, the demand for investment resources is still relatively low, which does not allow the upgrade of the quality of Russian industry and the economy as a whole. The bulk of loans to real

sector is short-term in nature and primary aimed at the working capital of enterprises. Nowadays the national economy especially requires the long-term loans (over 3 years); however, the fraction of these long-term loans is just slightly more than 8 % in the advances portfolio of Russian banks. The portion of bank credit in financing investment has increased from 3-4 % in 2004 to 9-9,5 % in 2008 in Russian Federation. Consequently, the investment bank lending is playing an increasingly important role in the functioning of individual economic entities as well as the country's economy as a whole.

Most banks have stopped issuing long-term loans as a result of the Global Financial Crisis. Only leading members, such as the Savings Bank of the Russian Federation and VTB Bank, issue loans today. Despite of the difficult economic situation, the credit investment activities of banks are necessary and very important. Government of the Russia has a number of important challenges for the national banking sector: financing for sustainable long-term growth of the Russian economy and its development through innovation. A number of transformations and qualitative changes in the economy are required for these purposes. These transformations and changers include improving of the business environment and creating a favorable investment climate formation. Also these changes should include development of the national financial infrastructure, which focuses on effective long-term investment financing, launching mechanisms of innovative activity of companies, and active transformation of savings investment in the domestic economy.

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