BANKS’ CREDITING ACTIVITY DIAGNOSIS AND CREDIT COMPRESSION OF NATIONAL ECONOMY OF UKRAINE

Abstract. The article discusses: banks’ loan portfolio risk exposure problem as a result of which there is a growing dynamics of bad loans; finance sectors disparities problem of the national economy; stresses the importance of poor quality bank assets redemption and using the instrument of "long money" to deal with the situation "a pawnshop economy".

Keywords: banking, diagnostics, bad loans, credit contraction.

JEL Classification: G11, G21, G24, G31

Introduction. In a situation where the national economy is in recession, questions of economy lending by banks are actualized. Throughout economic history, banks were the institute, which significantly affects the national economy. It is known that by the strength of the national banking system the degree of economic development is determined.

Literature review and the problem statement. Banking system, which is established today in Ukraine, enhances economic imbalances in the national economy and is not able to meet the challenges of economic growth due to the uneven distribution of banking services in the country, underdeveloped banking infrastructure that lags behind the needs of the economy. Therefore, it is important to diagnosis efficiency of the domestic banking system lending in the direction of the national economy, which can promote the reform of state regulation of the banking sector.

Modern economists are active in developing of the banking sector issues impact on economic growth [Baranovskii 2009, Samorodov 2013]. Intensive researches on the subject by experts of international economic and financial institutions, especially the World Bank, the International Monetary Fund, are conducted [Mizhnarodnii valiutnii fond, Svitovii bank].

The purpose of research is the credit activities of Ukrainian banks; determine its impact on state and level of development of the national economy.

Research objectives may be formulated as follows: to study the structure of the national economy lending by Ukrainian banks; determine the dynamics of arrears; investigate loan shrink the economy.

Research results. In 2014 the volume of banks’ credit investments decreased, due to both demand factors (reduction in the number of reliable borrowers in the face of declining economic activity) and supply (due to the reduction in banks' resource base). In 2015 the total volume of bank loans in national currency decreased by 8.4% - to 546.5 billion UAH, foreign currency by 11.9% - to 34.0 billion USD (equivalent), respectively [Osnovni tendentsii hroshovo-kreditnoho rinku Ukraini].

Analysis of lending of the national economy shows the presence of deep disparities: more than 57% of the loans are directed in two sectors - real estate
and wholesale and retail trade (Fig. 1).

![Figure 1](image_url)

**Figure 1** – Loans to banks in terms of economic activity (September 2015)

Source: compiled according to the NBU data [8]

At the same time, most industries are not enough credited. This is especially true of high-tech industries such as the manufacture of computers, electronic and optical products (0.8%), manufacture of electrical equipment (1.3%), and telecommunications (1.3%), computer programming, consultancy and related activities (0.4%) [Natsionalniu bank Ukraini].

Analysis of bank lending of the national economy indicates that banks use loans to finance their own business or business-related entities. Simultaneously, small and medium business is reduced (by 2010-2015 the number of small businesses decreased by almost half a loss of more than 2 million jobs). In our view, expanding the availability of credit will be possible only after the settlement of the institutional problems of the national economy (corruption, lack of transparency of the government, etc.), the problem of the protection of creditors' rights [Hoihman 2014].

However, household loans national economy is characterized by a strong territorial disparity: 64% of loans accounted for 4 regions (Fig. 2). The same disparity is observed in the distribution of household deposits 60% deposits accounted for Kyiv, Dnipropetrovsk, Donetsk and Odessa regions (Fig. 2).

This situation is the result of unbalanced income distribution among the population of Ukraine on the territorial principle. In Ukraine, only 5 areas of wages exceed the national average - in Donetsk, Dnipropetrovsk, Kyiv and Luhansk regions.

The lowest wages consistently observed in Ternopil, Volyn, Chernihiv and Kherson regions and does not exceed 76.1% of the average in the national economy [Derzhavni komitet statistiki Ukraini]. Low income levels leads to inability to repay loans, resulting in rising bad debts of the banking system.

According to the NBU in 2015 the volume of overdue loans amounted to 27% of the total loan portfolio (Fig. 3).
During the first 9 months of 2014 the volume of overdue debt increased by 58.97% (42.77 billion) and as of 01.10.2016 totaled 112945 million UAH which corresponds to 11.5% of the client loan portfolio [Natsionalnii bank Ukraini]. The largest growth of bad debts was observed in the sphere of trade and processing.
industry (Fig. 3). The high volume of troubled loans significantly impair the financial condition of banks, since there is a loss of assets and income. The accumulation of problem loans is seriously impeding the Bank credit market, which continues to "labordispute", focusing on short-term loans and high interest rates, and its capacity is growing rather slowly compared to the Deposit segment of the business.

![Graph showing the share of overdue loans in total]

**a) Dynamics of overdue debts**

![Table showing overdue loans by economic activity as at 31.03.2016]

**Figure 3** – Dynamics of outstanding debt and its classification by economic activity

*Source: compiled according to the NBU data [Natsionalniy bank Ukraini]*
It also shows the problems of the real sector of the economy which fails to give credit. The largest number of overdue loans is in Kyiv, Donetsk and Dnipropetrovsk regions (Fig. 4), which, in turn, increases the disparity of regional development of the national economy (Fig. 4).

As a result of reduction of crediting of national economy in Ukraine there is a threat of credit contraction, which at one time had a negative impact on the US economy during the Great Depression and now threatens Europe and the United States.

**Figure 4** – Overdue loans granted by banks to enterprises by Region (as of 31.03.2016)
Source: compiled according to the NBU data [Natsionalni bank Ukraini]

The essence of the credit squeeze is that the first banks gradually reduce lending volumes, as the situation in the national economy worsens and the risks of defaults on loans are rising. Because of this, the economy created shortage of money, the market situation is again deteriorating, becoming stricter lending rules and so the whole financial system begins to shrink.

The main features that indicate a problem of squeezing credit:
- Increasing of credit risks (present in Ukraine);
- The growth of banks overdue debts (present in Ukraine);
- Reducing the liquidity of the financial markets (present in Ukraine);
- Reducing the rate of banks loan portfolios growth (present in Ukraine).
Thus, all the main features of the credit squeeze are present in Ukraine, indicating a need to reform of the banking sector and especially the mechanism of its regulation.

One of the problem solutions could be the increase of lending to the national economy by increasing the supply of "long money"; in our opinion it is possible by means of targeted regulation of lending to legal entities and individuals (reducing interest rates, soft loans to the most important sectors of the national economy, mortgage lending program, etc.). It should also expand the opportunities for investing pension funds, insurance companies and other non-banking organizations that have access to "long money".

Conclusions. The main factor that hinders the recovery of Ukrainian banking system is the problem of a large number of risky loans on the balance sheets of Ukrainian banks. During 2013 - 2015 International rating agencies lowered the ratings of many Ukrainian banks and Ukraine as a whole. One of the biggest risks of the banking system is problematic loans. As a result, most industries are not credited, especially in high-tech industries. This situation demonstrates the preservation of material production as the foundation of the national economy.

It should be noted that throughout the world the basis of post-industrial society is the production of services and information. Today, in developed countries in this area is concentrated to 70-80% of GDP and the total number of employed persons over 2/3 of investment and capital.

Thus, an urgent problem for Ukraine is the diversification of industrial production. This economic crisis provides an opportunity to restructure the national economy and create the conditions for a new quality of economic growth through intensive factors, primarily through the implementation of innovative models of development. Unfortunately, this feature is not used either by public authorities or directly big business.

These problems lead to compression of credit of the domestic economy, and in this situation - it is extremely important to use international experience of combating credit compression. Central banks use this lower interest rates and direct support liquidity. The latter may be due to lower reserve requirements, expanding the number and amount of credit lines. The government also has to maintain financial market by recapitalizing companies by providing additional safeguards for all or only for new commitments to provide direct loans to a particular financial institution, buy "low-quality" assets, loans to banks with a significant share of "bad" assets of transfer to another financial institution, etc. However, these instruments become effective only with the full transparency of their use.

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