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**SPECIAL ASPECTS OF BANKS INVESTMENT ACTIVITY IN UKRAINE***N.I. Vladymyrska, PhD in Economics, Associate Professor**Odessa National Economics University, Odessa, Ukraine**Владимирська Н.І. Особливості інвестиційної діяльності банків в Україні.*

У статті досліджено аспекти інвестиційної діяльності банків. Аналіз свідчить про недостатній рівень ресурсної бази, неефективне використання банками активів, незначну долю цінних паперів у портфелях банків, основну частину з яких складають ОВДП. Для відновлення та розвитку кредитно-інвестиційної діяльності банків України у статті пропонується впровадити на рівні держави міри до підвищення капіталізації, нарощування активів банків, формування довгострокових інвестиційних ресурсів, розвитку ринку капіталів України

*Ключові слова:* кредитно-інвестиційна діяльність банків, кредитно-інвестиційний портфель, інвестиційна діяльність комерційних банків, облигації внутрішньої державної позики (ОВДП)

*Владимирская Н.И. Особенности инвестиционной деятельности банков в Украине.*

В статье исследованы аспекты инвестиционной деятельности банков. Анализ свидетельствует о недостаточном уровне ресурсной базы, неэффективном использовании банками активов, незначительной доле ценных бумаг в портфелях банков, основную часть из которых составляют облигации внутреннего государственного долга. Для возобновления и развития кредитно-инвестиционной деятельности банков Украины в статье предлагается внедрить на уровне государства меры к повышению капитализации, наращиванию активов банков, формированию долгосрочных инвестиционных ресурсов, развитию рынка капиталов Украины

*Ключевые слова:* кредитно-инвестиционная деятельность банков, кредитно-инвестиционный портфель, инвестиционная деятельность коммерческих банков, облигации внутреннего государственного займа (ОВГЗ)

*Vladymyrska N.I. Features of the investment activity Ukrainian banks.*

In this article is investigated some aspects of investment banking. An analysis testifies to the insufficient level of resource base, the ineffective use of bank assets, insignificant fate of securities in the brief-cases of banks, basic part from that is folded by OVDPs. For renewal and development of credit-investment activity of banks of Ukraine in the article is suggested to inculcate at the level of the state measures to the increase of capitalization, increase of assets of banks, forming of long-term investment resources, market of capitals of Ukraine development.

*Keywords:* credit and investment activities of banks, loan and investment portfolio, investment activities of commercial banks, bonds of internal state loan (OVDP)

**A**t this stage of economy development there is a shortage of credit and investment resources necessary for the functioning and further development of the activities subjects and the economy as a whole.

Review of publications and research on problems of financial and credit support of the development of the national economy suggests that scholars and practitioners do not bypass the problem of low role Bank credit as an investment tool. The main negative aspects of functioning of commercial banks, which preceded the formation of the crisis phenomena in the Ukrainian economy, were associated with their credit activities. Such aspects of credit activity as excessive concentration of credit investments, irrational structure of the loan portfolio, the choice of priorities for lending in favour of the consumer segment of the credit market, insufficient qualitative assessment of credit risks, a significant share of foreign currency loans in the structure of credit investments, largely resulted in negative return for banks of Ukraine.

Consequently, banking institutions in Ukraine has been minimized interaction with the real sector of economy and investment activity in the sphere of lending.

The ability of the Ukrainian banking system to recover the investment and credit investments into the economy, will depend on the success of the country to overcome the production decline, stabilization of GDP and the achievement of macroeconomic stabilization.

Therefore, we believe it is necessary to consider aspects of investment activity of banks in Ukraine, identify acceptable areas for further development of the banking system.

**Analysis of recent researches and publications**

Separate aspects of investment activity of Ukrainian banks were investigated by such scientists-economists as it were: B Adamic, M. Alexeenko, A. Belous, I. Blank, I. Bratchenko, O. Vovchak, A. Vozhzhov, S. Glushchenko, B. Gubsky, A. Dziublyk, G. Levine, B. Lucv, T. Mayorova, A. Mescheryakov, A. Moroz, N. Olderogge, A. Peresada, N. Savluk, V. Shapiro and others.

Paying tribute to the research, relevant research remains the search for ways of development and improvement of credit and investment activity of banks in the investment market of Ukraine.

**Unsolved aspects of the problem**

So, not adequately reflected in the works of these scholars and further development of theoretical bases

and improvement mechanism of forming the credit - investment portfolio and growth conditions of investment activity commercial banks, including those not defined in the crisis conditions, the main areas that can create the conditions to recreate and expand the investment activities of the banking sector in Ukraine for the country's economic growth.

*The aim of the article is to explore the theoretical and methodological foundations of the essence Bank credit and investment portfolio, the study dynamics of the portfolio and the structure of its formation, including study of the structure and the types of securities in the credit – investment portfolio banks. To ensure the stable functioning of Ukrainian banks should identify the basic conditions needed to support lending and investment activities of banks and development Ukraine economy.*

### The main part

In considering issues banks investment activity is paramount importance to the elucidation essence of the indicated concepts. In modern scientific literature there is no uniform approach regarding the content this activity of domestic banks. It is also worth noting the existence scientists positions, some of which involve consideration of the credit and investment banks activity as holistic concepts, others share credit and investment banks as separate components.

Examining credit and investment activities of banks as a set of two related but independent trends, discussion is the question of the primacy and, consequently, the relevance of the concepts mentioned in the research N. Vlasenko [1].

In our opinion, the connection between the noted components close, but in the realities of Ukrainian economy, the investment activity of banks is not less important but is less developed in comparison with similar activities of the European and American banks.

Investment activity of banks is essential to the economy of the country as a whole and for the banking institutions. The value of investment activity of banks to the economy is that banks, accumulating financial resources of enterprises and population, involving foreign banks, channeled funds to the most efficient economic activities, stimulating the development of the real sector, ensuring the formation of the GDP growth of the country. From the position of individual banks, such activities are conducted for the purpose of obtaining income from transactions with securities from operations long-term funding for

key economic projects, to ensure the Bank's participation in authorized capital of other enterprises and strategic control over their property and activities.

Bank investments are made mainly in the form of loans and investments in securities, financial instruments investment professionals are divided into credit and stock investment tools.

To credit investment instruments owned long-term investment loans, lease financing, project financing, mortgage loans, etc.

In stock investment tools include investing in securities, including bonds of internal state loan, municipal bonds, securities funds, companies on assets management (AMC), equities, corporate bonds, savings certificates, etc.

It should be noted that such credit instrument for investment, as project financing has become for the economy of Ukraine, the decisive and the most sought after at this stage of economic development. Project financing allows you to Finance large amounts of investments, which amount to millions of dollars, and allocate risk between the project proponents (investors) and banks to an acceptable level and to implement the creation of new industrial and infrastructure projects in key sectors of the economy.

Stable functioning and further development of the Ukraine banking system largely depend on the formation volume of Bank resources, as this determines their ability to perform active banking operations, including lending and investment, and generate profits from the main activity.

Let us analyze the dynamics of the resource base of the banking system of Ukraine for the period 2010-2014 (table 1).

These data allow to conclude that during the analyzed period, the banking system of Ukraine have been increasing its resource base. The total increase in resources for 2010-2014 was 374 764 million UAH. Important in our view is that the growth of the resource base Ukrainian banks has largely been due to the increase in liabilities (in the amount of 364 466 million UAH). Own capital of the banks increased by 10 298 million UAH, which is a positive trend. The funds of natural persons grew at a faster pace (to 145 638 million UAH), than legal (to 117 334 million UAH).

Accumulation of resources is performed by banks for the purpose of investing these funds in assets that include the loan and investment activity of banking system of Ukraine.

Table 1. Composition and dynamics of resource base of Ukrainian banks, million UAH

Components of the resource base	2010	2011	2012	2013	2014	Variable
Equity capital, including	137 725	155 487	169 320	192 599	148 023	10 298
Authorised capital stock	145 857	171 865	175 204	185 239	180 150	34 293
Liabilities, including	804 363	898 793	957 872	1 085 496	1 168 829	364 466
— funds of individuals	270 733	306 205	364 003	433 726	416 371	145 638
— funds of economic entities	144 038	186 213	202 550	234 948	261 372	117 334
Interbank credits	389 592	406 375	391 319	416 822	491 086	101 494
Resources (total)	942 088	1 054 280	1 127 192	1 278 095	1 316 852	374 764

Table 2. Structure and dynamics of the credit and investment portfolio of Ukrainian banks for 2010-2014

Readings	2010		2011	2012	2013	2014	Change over the period 2010-2014		
	Sum	Part, %	Part, %	Part, %	Part, %	Part, %	million UAH	Rate of change, %	Change in KIP, %
Interbank credits	60 202	6,10	6,51	4,21	3,80	1,79	-35466	41,09	4,31
Loans granted, including:	694 828	70,37	70,55	73,22	73,38	71,12	286 794	141,28	0,75
— funds of economic entities	508 288	73,15	76,88	79,02	80,64	81,76	294294	157,90	8,61
— funds of individuals	186 540	26,85	23,12	20,98	19,36	18,24	-7500	95,98	-8,61
Investments in valuable security	83 559	8,46	8,19	9,15	11,71	12,24	85 369	202,17	3,78
Reserves for active operations	148 839	15,07	14,74	13,42	11,11	14,85	56092	137,69	-0,22
Total credit and investment portfolio	987 428	100,00	100	100	100	100	392 789	139,78	x

Analyze the structure and dynamics of the credit and investment portfolio of Ukrainian banks in 2010-2014, millions.

Analyzing the data for the period 2010-2014 can be argued that the credit-investment portfolio of banks grew by 271 825 million or 129,90%. It should be noted that a significant portion of the portfolio grew due to increase of loans volumes, which were previously provided in a currency that is associated with the growth of the hryvnya against the dollar. Characteristic is the reduction of interbank credits in 2014 at 4967 million UAH or 1,68%. Also in the structure of granted loans decreased credits that were granted to individuals at 54765 million UAH in absolute terms, and 12,54% in relative. This situation is caused by more stringent requirements that banks impose when lending due to the unstable economic situation and the non-paying capacity of the population. During the analyzed period there was an increase of loans on 169021 million UAH, however, their share in the loan portfolio decreased by 3,35%.

Constant growth of investments into valuable security that eventually led to their growth in the amount of 98952 million UAH or 7,38%. It demonstrates the diversification of investment activity of banks aimed at compensation for the loss of profitability from the operations of lending, the profitability on which had a tendency to decrease.

Reserves for active operations increased by 8819 million UAH, however, their share decreased by 2,36%.

To analyze the level of efficiency of use of assets analyze the profitability of assets of the Ukraine banking system.

These data allow to conclude that during 2010-2012, the use by banks of their assets was ineffective. The negative value of return on assets is explained by the fact that the activities of most banks were unprofitable character. In 2013, there was improvement and the return on assets amounted to 0,4%, however, the situation worsened again as of 2014 (decrease on 0,3%).

Table 3. The return on assets of the Ukraine banking system, % [3]

Year	Return on assets (ROA)
2010	-3,6%
2011	-1,4%
2012	-0,7%
2013	0,4%
2014	0,1%

If we consider the financial results of banks in the country, it can be argued that it was unprofitable, despite the diversification of credit and investment portfolio of the banks in the direction of placement of funds in valuable securities. For 2014 losses of the banking sector was 53,0 billion UAH (2013 profit of 1.4 billion UAH). A negative financial result of activity of banks was mainly formed by banks of the first group, which financed large-scale projects and has incurred significant losses from the occupation Autonomous Republic of Crimea and the situation in the East of Ukraine [2].

Limited lending opportunities (via the significant risks of the real sector) prompted banks to increase investment in valuable securities, the volume of which increased by 22,2% (to UAH 30,6 billion.) to 168,9 billion UAH. Amid the modest lending funds on correspondent accounts opened in other banks, increased during the year by 27,7% to 99,8 billion UAH [2].

Although investing in valuable securities in terms of importance and size ranks second among active Bank's operations after lending. Let us analyze the dynamics of the securities portfolio in the banking system of Ukraine (Fig. 1).

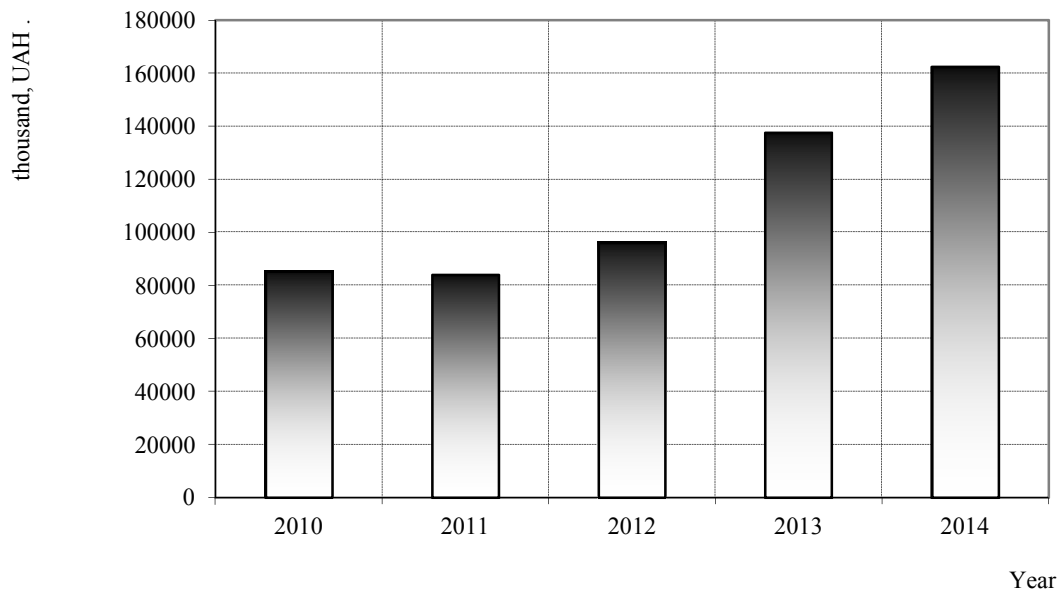


Fig. 1. Dynamics of securities portfolio Ukrainian banks in 2010-2014, thousand UAH (formed by the author based on the data source [2])

During the analyzed period, the banking system of Ukraine has steadily increased its portfolio of valuable securities. The total increase for 2010-2014 was 77 236 827 thousand UAH.

Analyzing the credit-investment portfolio of Ukrainian banks it is necessary to consider the dynamics of the relative share valuable security in the credit-investment portfolio of Ukrainian banks (Fig. 2).

Despite the fact that the relative share of valuable securities in the portfolio of Ukrainian banks is not significant (from 8% to 12%), definitely positive is the tendency towards a gradual increase in mainly due to the growth of the portfolio of securities for sale and trading portfolio.

During the analyzed period, the banking system of Ukraine has steadily increased its portfolio of securities. The total increase for 2010-2014 was 77 236 827 thousand UAH.

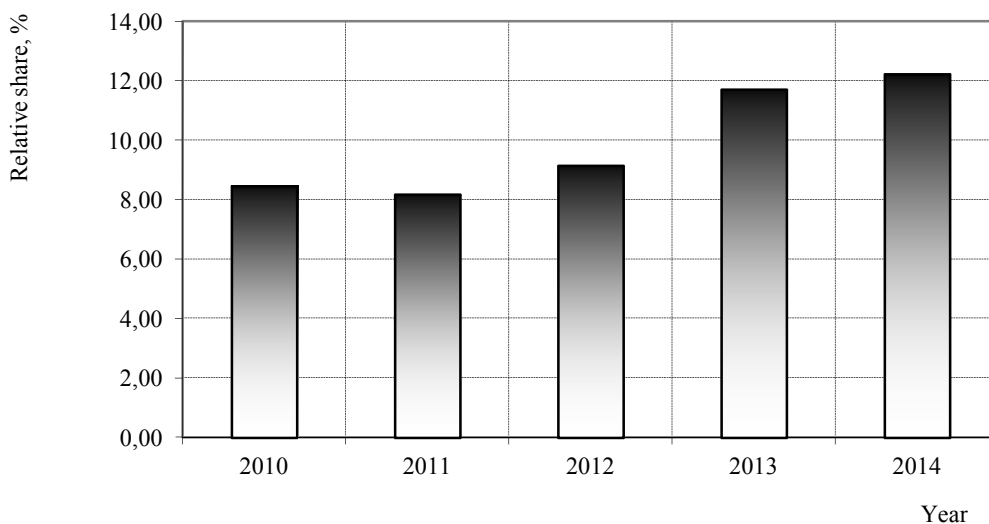


Fig. 2. The share of valuable securities in the credit-investment portfolio of Ukrainian banks, 2010-2014, % (formed by the author based on the source [2])

Analyzing the credit-investment portfolio of Ukrainian banks, it is necessary to consider the dynamics of the relative share of securities in the credit-investment portfolio of Ukrainian banks.

For analysis of the formation of the valuable securities in the credit-investment portfolio of banks, will consider the valuable structure and dynamics of

the securities portfolio of the banking system of Ukraine for the period 2010-2014 (table 4).

Trading securities, whose share in the securities portfolio of banks increased during the period 2010-2014 with 8.94% to 12.48% and in 2012 was the highest (18.13%), mostly represented by bonds of internal state loan (government bonds) of Ukraine.

Securities for sale are shares and bonds of companies. They have the largest share in the securities portfolio, which amounted in 2010 72,67%, increased gradually until 2013, the value of which was the largest in the analyzed period and amounted to 87,9%, and decreased slightly in 2014 to a level 82,48%.

The share of securities in the portfolio to maturity is of small proportion, which has varied from 16,45% in 2010 to 3,79% in 2014. That is, there have been significant changes the decrease in the share of Bank securities to maturity, which indicates the slow banks from the issue of such securities as bonds.

Investments in associates and subsidiaries hesitated from 1,27% to 2,41%, the lowest level

inherent 2014. This level indicator may indicate reduced activity of the banks when investing in associated company with the banks, that can serve as an indicator of investment activity and business expansion.

Government bonds by banks are contained in the portfolios of securities, as they are less risky compared to corporate securities. It can be argued about a significant increase in volumes of government bonds over the period (2010-2014), which was 3,3 times. Significant growth occurred in 2014 compared with 2013, the increase amounted to 209 949 million UAH [1]). Banks use government bonds to obtain financing from the NBU under the collateral.

Table 4. Dynamics and structure of the securities portfolio of the Ukrainian banking system for 2010-2014 (million UAH) (formed by the author based on the data source [2])

The securities portfolio	2010	2010 Part %	2011 Part %	2012 Part %	2013 Part %	2014	2014 Part %	Variable		
								million UAH	Rate of change, %	Зміна пит. ваги, %
Trading securities	7 624	8,94	13,90	18,13	7,14	20 286	12,48	12 662	266,08	3,54
Securities in Bank portfolio for sale	61 969	72,67	78,15	75,70	87,90	134 036	82,48	72 067	216,29	9,81
Securities in the Bank portfolio for redemption	14 109	16,54	5,65	3,75	2,95	6 125	3,79	-7 986	43,41	-12,75
Investments in associates and subsidiaries companies	1 576	1,85	2,30	2,41	2,01	2 070	1,27	494	131,26	-0,58
All securities	85 279	100,0	100,0	100,0	100,0	162 516	100,0	77 237	190,57	x

Another factor active investments in government bonds are unfavorable conditions for lending to reliable borrowers, the number of which in Ukraine is limited, so banks are forced to adjust their liquidity through government bonds.

Important in our view is that the vast majority of domestic government loan bonds – about 70% – is held by the NBU, and only 20% owned commercial banks.

Further, in the stabilization of the economy, a promising direction for commercial banks have become full-fledged investment activity on the securities market: direct activities of banks as investors and service activities of the investment process.

### Conclusions

Investment activity of banks in Ukraine includes first of all the Bank's activities as an investor, and secondly as a mediator, which invests according to customer orders.

It should be noted that the activities of the Bank as the investor is in the exercise of its own investment to achieve certain investment objectives. The funds mainly invested in the acquisition of securities for sale and to maturity, acquisition of subsidiaries and associates companies and acquisition of investment property. But this activity of banks in Ukraine is much inferior from the profitability compared to

lending point of view. The activities of banks which act as intermediaries in stock market securities includes underwriting, brokerage, dealer and trust business can make the largest banks in Ukraine, mainly with foreign capital.

Thus, to ensure further increase of investment activity of banks, it is expedient to create the conditions to support credit and investment activity of banks and development of economy of Ukraine, as follows:

- increase of banks capitalization
- asset growth of banks
- the growth of long-term investment resources
- development of the capital market.

Well as the necessary conditions at this stage of development of the banking system should be:

- application to banks that undertake long-term investment lending, concessional (reduced) of reserve requirements and preferential tax treatment of income from these transactions;
- introduction of state compensation (partially) interest rates on loans directed to priority sectors of the economy, and predictions of the amounts of reimbursement in the State budget;
- use of long-term refinancing by the National Bank of Ukraine banks, which realizes long term investment loans [4].

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