

УДК 336.71.003.13

ENSURING THE EFFICIENCY OF BANKING ACTIVITIES IN A CRISIS PERIOD AND ITS IMPACT ON THE BANKING SECTOR OF UKRAINE

TAMILA A. ORYSHECHKO-BARTOKHA

PhD in Linguistics, Senior Lecturer of Social Sciences and Humanities Department, Cherkasy Institute of Banking of the University of Banking of the National Bank of Ukraine (Kyiv)

Summary. The paper dwells on the essence of the concept of banking activities efficiency and the major factors influencing it in the crisis period. Analyzed are the principal trends of banking activities before and during the financial crisis in Ukraine. Emphasis is placed on the role of foreign capital in the banking

system of Ukraine, its impact on ensuring the effective banking activities as well as the development of the national banking sector on the whole. The main directions of efficiency improvement of banking activities for the purpose of the counteraction to the crisis phenomena of the economy are suggested.

Key words: *efficiency of banking activities, credit activities, resource base, foreign capital, financial crisis, financial result, profitability.*

The Problem Statement. The prospects for the post-crisis renewal of the economy of Ukraine are closely related to the «recovery» of the national banking system which greatly suffered during the crisis of 2008–2009. Because of this, a number of big banks went bankrupt, while others were saved owing to multibillion refinancing. The banking crisis has “exposed” all the holes in the Ukrainian banks activities, the profits of the banks turned into losses, and the rate of their growth gave a sharp reverse. The way out of the national banking system of the crisis is significantly complicated by the unfavorable macroeconomic situation, the underdeveloped banking infrastructure, and the increase of «shadow» processes in the banking sector, as well as by the inability of the domestic banks to be «worthy» competitors on the international markets. Moreover, the financial globalization and integration of Ukraine into the international space contribute to a further growth of the influence of the foreign capital in the real and banking sectors of Ukraine, especially in the crisis period, which may lead to the emergence of new threats to the economic security and destabilization of the national banking sector. This suggests that the problems of the banking crises have not found their full explanation. So, the study of banking efficiency factors in the crisis period and during relative economic stability have remained topical and need further theoretical and practical research. That is why the efficiency increase of banking activities is one of the priorities of the state policy in the financial and credit sectors of Ukraine, and the main targets of the state institutions for the regulation of the economic security are monitoring banks’ activities, the impact of reforms on the state of the banking sector in Ukraine, and the state of risks specific to it.

Analysis of recent studies and publications. A number of domestic (O. A. Kravchenko, A. O. Yepifanov, O. Baranovski and others) and foreign researchers (A. N. Berger, D. B. Humphrey, S. A. Berg, S. Moiseev and others) have devoted their works to the analysis of the efficiency of banking institutions and their economic potential. Still, some aspects of economic security associated with the performance of commercial banks, including factors differentiation and their influence in the certain periods of business cycle development of the country, are of great scientific interest.

Grounds of the received scientific results. Under the conditions of the rapid development of the financial services market during the last decades, special importance is attached to the problem of identity evaluation of the financial and credit institutions, especially if they are considered on a transnational scale.

To begin with, we will specify the notion of «efficiency» in terms of banks’ activities as there are various approaches to its definition. Taking into account all the aspects of the activities of a bank and its role in economic development, the most acceptable definition of the category of «efficiency of banking» is as follows: « ... the efficiency of banking is achieving by a commercial bank and all its subdivisions profitability level, liabilities and assets quality, information openness, stability, by which their compliance with the requirements of real economy, the ability to resist various forms of crisis, the criminalization of the financial sector and other threats that hinder sustainable development of the banking sector are fully ensured» [1].

The question that naturally arises in the context of efficiency analysis is which factors are the main deter-

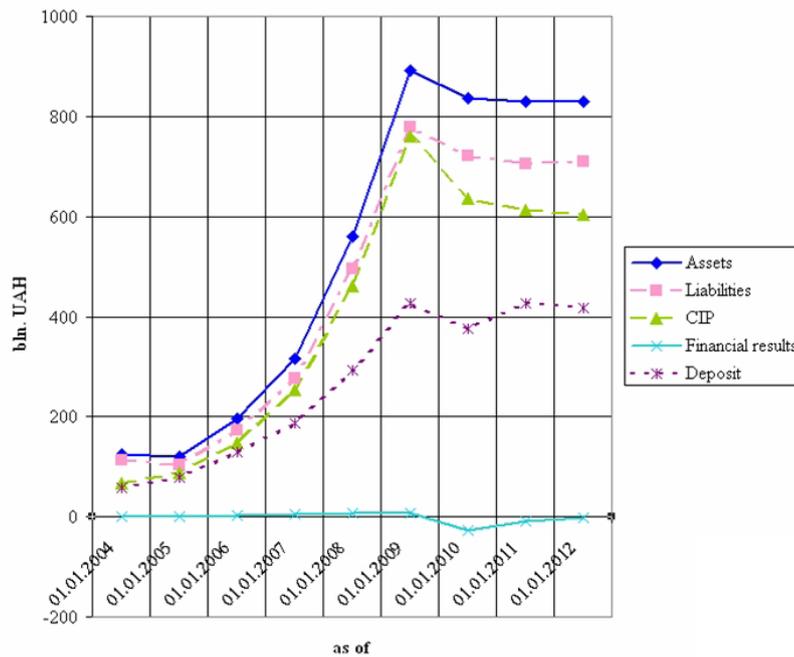


Figure 1 – Major indicators of the activities of the banks of Ukraine during 2004–2011, [5]

minants of the effectiveness of the bank. In considering this we should take into account:

- the external aspect: the impact of specific features of individual countries on the activities of their banks, such as economic structure, the nature of macroeconomic policy, the specific character of structural and institutional reforms; the development of the banking sector of the country; the existence of potential threats determined by the negative processes associated with the transformation of economic, political and social spheres, institutional problems and an unfavorable market situation, the violation of banking disciplines and others [1]; the structure of ownership in the banking system, major changes in operating activities, the share of banks on the deposit market, the capitalization of banks, etc.;

- the internal aspect: the size of a bank, the extent of loan and deposit activities, loan portfolio quality, the scope and structure of revenues and expenses of a bank, the policy of bank management and others. Thus, according to the calculations made by international organizations, aggregated performance indicator makes the maximum impact on the value of: the volume of deposits (0,14), the amount of loans (0.59), the share of deposits in total capital (0.49) and the ratio of the sums of loans to capital (0.76) [2].

Interesting are empirical studies showing a clear distinction between big and small banks in terms of their cost effectiveness and efficiency of revenue. This distinction may indicate the presence of monopoly power in Ukraine’s financial sector, when big banks are able to obtain larger profits, having a higher level of expenses at the same time [3, p. 22]. Furthermore, for large and small banks there is a difference in scale

which arises in the case of cost reduction at the expense of increased activities. In the studies devoted to banking effectiveness, two types of effect are generally distinguished [4, p. 483]:

- scale efficiency is a situation in which the increase by 1% in activities requires the increase in expenses less than 1%;

- scope efficiency is a situation in which the production of several banking products requires less expenses than producing them separately.

The results of these empirical studies demonstrate the absence of the scale efficiency of big banks (which are large in scale in Ukraine, but relatively small in terms of international comparisons), while for small banks such efficiency can exist. Even more interesting is the fact that small banks, in contrast to large ones, show significant economy on the combination of different activities [3, p. 21].

Thus, in the economic literature there are many approaches to identifying key factors of banking performance. But we would like to focus on the factors determining the formation of financial results of a bank in the stable economic situation and in the financial crisis.

2008 became a watershed year for the banking system of Ukraine. Since 2000, Ukrainian commercial banks have actively increased their resource bases, which was supported by moderate inflation, the stability of the national currency, and the economic growth of the country. There were 184 operating banks before the crisis. For eight years, the assets of the banks at the expense of the equity and borrowed funds have increased by 43.9 times, from UAH 20.3 bln in 2000 to UAH 892.5 bln at the end of 2008 [5], only dur-

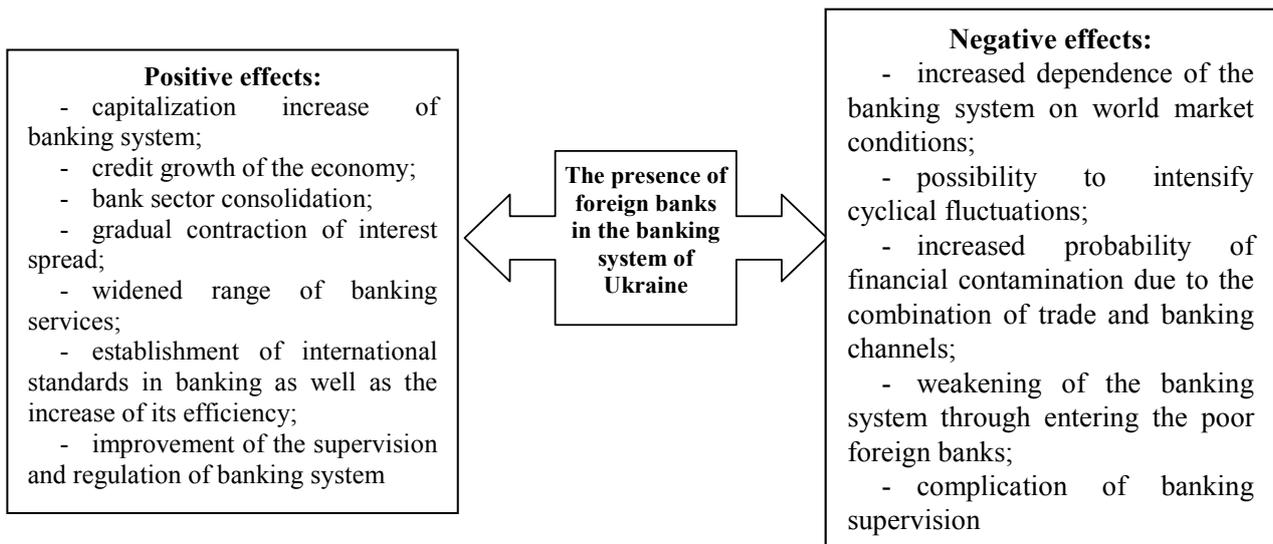


Figure 2 – Positive and negative effects of foreign bank in the banking system of the country [8, 9, 10]

ing 2008 the assets of the banks increased from UAH 603.3 UAH bln to UAH 926.1 bln (55%) [6]. The financial results of the banks have increased by UAH 7.5 bln (see Figure 1).

However, there was also a tendency to the rapid expansion in lending, the liberalization of access to credit. As a result of this, the absolute rates increased from UAH 492 bln to UAH 792.4 bln. The size of the deposit portfolio also showed a positive trend, rising by almost 30%.

At the same time, there was an active expansion of foreign capital in the banking sector of the country. The share of foreign banks in the structure of assets achieved almost 50%. It was the banking sector that had 43% of foreign investment into Ukraine's economy in 2008. Foreign capital in the banking system was represented by 20 countries: Austria, 28.4% of foreign capital, France, 15.6, Cyprus, 10.7, Russia, 9.2, the Netherlands, 8.4, Hungary, 7.1, Poland, 6 % [7]. Given the global practice, the input of foreign capital into the national banking system has a number of positive and negative effects (Fig. 2).

The presence of banks with foreign capital in the banking system of Ukraine is in the interests of the national financial system, contributes to attracting foreign investment and expanding the resource base of economic and social development. In addition, foreign investor participation in the activities and corporate management of small and medium-sized banks reduces their expenses, confirming the hypothesis of higher efficiency of banks with foreign capital [11, 12, 13]. However, there are serious financial and economic risks of the rapid increase in the share of foreign banking capital associated with the possible loss of sovereignty in monetary policy, possible instability increase, unexpected fluctuations in bank liquidity, speculative demand and supply changes in the monetary market,

and a possible outflow of financial resources [8]. To exemplify, Poland, Argentina, the Czech Republic and other countries which at the early stages of their economic development allowed foreign capital into their banking systems, have lost their economic independence [14].

Another positive consequence of using foreign capital, which is conducive to the increase in the efficiency of banking, is building a strong resource base of the domestic banking system through the banks with foreign capital whose 30.5 to 50% of obligations consist of time deposits of other, first of all parent, banks, and credits of friendly banks – a resource which in the situation of crisis supports the endurance of a bank when the credits given to the customers are not repaid or delayed. The guarantors of sustainability are strong owners, the largest financial groups in the world. To exemplify, the obligations without the costs of Raiffeisen Bank Aval (Austrian capital) customers at the end of 2008 was UAH 29 bln (44% of all the assets), Ukrsybbank (French capital), UAH 33 bln (60% of all the assets), Ukrsoysbank (Austrian and indirectly Italian and German capital), UAH 29 bln (60% of all the assets), VTB Bank (Russian capital), UAH 20 bln (72% of all the assets) [15].

In the fourth quarter of 2008, Ukraine was in the grip of a deep economic crisis caused as a result of the influence of both global development trends (the mortgage crisis in the USA, the bankruptcy of world banks etc.) and structural drawbacks of the Ukrainian economy (the development of export-oriented industries, the prevalence of consumer loans and so on).

In 2008, the GDP grew only by 2.1%, while the industrial production fell by 3.1%. There was a decline in domestic and external demand. The catastrophic deterioration of the economic situation was intensified by a sharp hryvnia devaluation, which in the last months

Table 1

Financial results of the banks which suffered great losses in 2009-2010, in bln. hryvnias [5]

BANK	01.01.2009	01.01.2010	01.01.2011
UKRGAZBANK	0.204	-4.42	0.1
SWEDBANK	0.039	-4.34	0.086
RODOVID BANK	0.035	-4.22	-4.26
KYIV	0.035	-2.99	-0.22
RAIFFEISEN BANK AVAL	0.53	-2.02	-
NADRA BANK	0.026	-1.36	0.0047
UKRSIBBANK	0,43	-1,24	-
FUIB	0.018	-0.8	0.24
PRAVEX BANK	0.00044	-0.71	-0.19
FORUM	0.0103	-0.66	-3.28
SKB DNISTER	0.015	-0.64	-
KREDOBANK	0	-0.53	-0.39
FINANCE AND CREDIT BANK	0.14	-0.45	-0.19
DONGORBANK	0.024	-0.445	0.0051
OTP BANK	0.08	-0.44	0.61

of 2008 dropped by 60% [16].

Consequently, the confidence in the banking system was shattered, provoking panic among the population due to the hryvnia collapse, and an upsurge in demand for foreign currency led to the increase of exchange rate. Under such conditions, one can talk about a currency crisis which caused capital outflow from the banking system, the problems with repayment of loans in foreign currency, and, in the long run, the banking crisis in the country. In economic literature this phenomenon is called «double crisis», i.e. the emergence of difficulties in the banking sector precedes a currency crisis, and these complications, in turn, deepen the banking crisis [17]. The phenomenon of «double crises» is quite typical of countries with a weak banking sector where credit boom in the local market is funded from external sources which is conducive to problems with external debt service.

In October-December 2008, the volume of deposits in the national currency decreased by 15%, and the amount of currency ones, by 9%. However, in value indicators, the volume deposits of individuals increased

from UAH 135.5 bln to UAH 203.3 bln, and the deposits of legal entities, from UAH 193.3 bln to UAH 222.8 bln, the reason for this being exchange rate indexation [16].

At the same time, there was a decline in bank liquidity as a result of the reduced access to foreign-exchange reserves. Before the crisis, the majority of loans were issued in foreign currency, so due to the hryvnia devaluation the solvency of borrowers to make refunds went down dramatically. A number of banks faced the threat of default.

In that situation, the owners of the largest banking institutions made great efforts to ensure the financial stability of their banks by increasing the capitalization level and providing additional loan funds from the parent and friendly financing institutions. In addition, one could observe the increased tendencies to change the ownership structure and the active intervention of the National Bank of Ukraine in financial policy.

The financial crisis hit its peak in 2009, when Ukraine's GDP declined by 15.1%, and its industrial production, by 21.9% [18], and in the banking sector

Table 2

Indicators of profitability of banks in Ukraine [6]

Indicator	01.01.2007	01.01.2008	01.01.2009	01.01.2010	01.01.2011	01.01.2012
Return on total assets, %	1.61	1.5	1.03	-4.38	-1.45	-0,76
Return on equity, %	13.52	12.67	8.51	-32.52	-10.19	-5,27
Net interest margin, %	5.3	5.03	5.3	6.21	5.79	5,32
Net spread, %	5.76	5.31	5.18	5.29	4.84	4.51

heavy withdrawals of deposits occurred. Moreover, problems of credit defaults, especially currency ones, led to the use of reserve funds and incurred losses of many banks and the banking system as a whole. While as of 10.01.2008 the financial results of the country's banks amounted to UAH 6.233 bln, as of 01.01.2009, UAH 7.454 bln, and early in 2009 many profitable banks became unprofitable (see Table 1), so as of 01.01.2010, the size of the losses totalled UAH 26.34 bln [5].

It is interesting to note that when calculating the losses of banking system, the share of major banks decreased on a large scale, for they suffered great losses primarily due to substantial amounts of problem consumer loans as compared with small and medium-sized banking institutions.

By the end of December, 2009, 182 banks operated in Ukraine, including 51 banks with the participation of foreign capital, and 18 banks with 100% foreign investment. 14 banks were at the stage of liquidation [6].

In 2010-2011, despite signs of recovery, the situation in Ukraine's banking system remained difficult. The evidence of this poor condition was the losses as of 01.01.2012 in the amount of UAH 2.78 bln [18].

The confirmation of this is the dynamics of relative indicators of profitability, namely, return on total assets, return on equity, net interest margin and net spread (Table 2).

Thus, banks' profitability is greatly influenced by the factors directly related to the major types of banking activities, i.e. providing loans and attracting deposits. Empirical studies conducted on the basis of 27 leading banks in Ukraine with strong financial results showed that in the relatively stable economic period the value of financial results of banks in Ukraine was directly influenced by the following factors: the size of assets (0,91)¹; total liabilities (0, 91), the value of capital (0.8), the deposits of individuals (time deposits (0.8), demand deposits (0.74)), the deposits of legal entities (demand deposits (0.87)), credit and investment portfolio (loans to legal entities (0.84), loans to individuals (0.79), securities (0,8)) [15]. In addition, under stable conditions «economies of scale» is especially appreciable, i.e. the larger the bank, the stronger its financial results, so it is necessary to increase the efficiency of banking activities by mergers and acquisitions of small banks by larger banks and associations of banks.

In the crisis period, the situation on the banking services market changed dramatically, the correlation dependence among the abovementioned indicators reversed, and what had been effective under stable

conditions turned into the ineffective in the crisis situation, in particular:

- big banks with large capitals were the first to meet great losses and find themselves at the bottom of the banks rating with regard to financial results;
- deposits of individuals and the loans to corporate customers became an «Achilles' heel» for major banks;
- profitability mostly decreased in the banks giving priority to the work with clients-individuals, when long-term loans were not repaid on time and long-term deposits were withdrawn on a large scale.

A particular emphasis should be made on the capital structure, for it is the capital that fulfills the following basic functions: an obligatory resource buffer which absorbs the accumulated bank losses; encouragement to a balanced risk management because of the risk of losing funds [19]. The share of external obligations in bank liabilities in 2011 was 22.3%, mainly due to obtaining short-term loans from parent structures to subsidiary banks to finance operating activities. Hence, foreign capital is a stabilizing factor of domestic banking system effectiveness owing to additional financial resources which in a stable economy provide additional investments in the national economy and under the conditions of the crisis restrain risk factors of bankruptcy and prevent the collapse of major financial institutions.

Conclusion. Having taken into account all the abovementioned factors that ensure the effectiveness of the activities of commercial banks, the following conclusions can be drawn: firstly, their impact varies under the conditions of stability and crisis; secondly, the priority task of banks is to optimize the structure of assets and liabilities; thirdly, pursuing an effective risk management policy ensures the formation of a well-balanced resource base; fourthly, the increase of commercial banks efficiency should be supported by the consistent policy of monetary and credit authorities. Only a complex of measures to increase the efficiency of every single bank and the formation of an adequate regulatory framework of the National Bank of Ukraine will help the Ukrainian banks find the way out of the protracted crisis and bring them to the pre-crisis levels.

Perspectives. The aspect we consider promising for further scientific studies is a more detailed research into the factors and trends of increasing the efficiency of the activities of banks with foreign capital.

1. In the brackets, the indicator of correlation coefficient between variables is shown.

References

1. Козловский А. А. Эффективность банковской деятельности в системе обеспечения экономической безопасности России : автореф. дис. на здобуття наук, ступеня канд. екон. наук : спец. 08.00.10 «Финансы, денежное обращение и кредит» / А. А. Козловский. — Москва, 2011. — 28 с.
2. Ершов М. В. Эффективность банковской системы: актуальные аспекты. / М. В. Ершов, В. М. Зубов. // Деньги и кредит. — 2005. — №10. — С. 3–10.
3. Мертенс О. Дослідження ефективності банківської системи України / О. Мертенс, Дж. Урга. — Режим доступу : http://mertens.com.ua/articles/files/article_bankeff_ukr.pdf
4. Heffernan, S. Modern Banking [Text] / S. Heffernan // John Wiley & Sons Ltd. — 2005. — 716 p.
5. Асоціація українських банків. Показники діяльності банків [Електронний ресурс]. — Режим доступу : <http://www.aub.org.ua>
6. Національний банк України. Основні показники діяльності банків України. [Електронний ресурс]. — Режим доступу : <http://www.bank.gov.ua>
7. Коваленко В. В. Банківська криза та інструменти антикризового управління / В. В. Коваленко, О. Г. Коренева, О. В. Крохмаль // Актуальні проблеми економіки. — 2009. — № 2 (92). — С. 144–150.
8. Геєць В. Іноземний капітал у банківській системі України / В. Геєць // Дзеркало тижня. — 2009. — № 26 (605). — С. 4–6.
9. Івасів І. Вплив іноземних банків на банківську систему України. / І. Івасів, Р. Корнилюк. // Вісник НБУ. — 2011. — №10. — С.84–91.
10. Шаповалов А. Присутність іноземного капіталу в банківському секторі України. / А. Шаповалов. // Вісник НБУ. — 2008. — №4. — С. 3–7.
11. Bonin J., Hasan I., Wachtel P. Bank Performance Efficiency and Ownership in Transition Countries // Journal of Banking and Finance. — 2005. — № 29 (1). — P. 31–53.
12. Karas A., Schoors K., Weill L. Are private banks more efficient than public banks? // Economics of Transition. — 2010. — Vol. 18. — Issue 1. — P. 209–244.
13. Yildirim H. S., Philippatos G. C. Efficiency of Banks: Evidence from Transition Economies in Europe // The European Journal of Finance. — 2007. — Vol. 13. — Issue 2. — P. 123–143.
14. Иванов Е. Либерализация банковского дела: трансграничные операции. / Е. Иванов // Банковское дело в Москве. — 2003. — № 5 (101). — С. 30–32.
15. Кравченко О. А. Трансформація чинників ефективності діяльності банківських установ України в кризових умовах. / О. А. Кравченко. // Труды Одесского политехнического университета. — 2009. — №2. — С. 248–253.
16. Бюлетень НБУ. [Електронний ресурс]. / Національний банк України. — 2008. — №12(189). — Режим доступу : <http://www.bank.gov.ua>
17. Kaminsky G., Reinhart C. The Twin Crises: The Causes of Banking and Balance-of-Payment Problems // American Economic Review. — 1999. — Vol.89 (June). — pp. 473-500.
18. Бюлетень НБУ. [Електронний ресурс]. / Національний банк України. — 2009. — №12 (201). — Режим доступу : <http://www.bank.gov.ua>
19. Богдан Т. П. Макропруденційне регулювання та контроль руху капіталу в системі антикризового управління. / Т. П. Богдан, І. В. Богдан. // Фінанси України. — 2011. — №7. — С. 14–32.