

Theoretical Aspects and Basic Tendencies of the Investment Activities of Ukrainian Banks

Tetiana Savchenko

Finance and Banking Department, Poltava National Technical
Yurii Kondratyuk University, UKRAINE, Poltava,
Pershotravneviy Ave. 24, E-mail: sovenyatko@rambler.ru

Abstract – The theoretical aspects of investment of domestic banks are considered, foreign experience schemes investigated investment activity is investigate, the current activities of banks in the securities market and the amount of investment lending, their impact on the banking system as a whole are defined.

Key words – investment, the investment policy of the bank, bank investment activity, investment by bank, investment portfolio, securities, investment lending.

I. Introduction

The need for investment banking institutions due to the interdependence of the banking system and the economy as a whole. On the one hand, the bank is interested in a stable economic environment, which is a necessary condition of their activities on the other – the stability of economic development depends on the stability and resilience of the banking system and its effective functioning.

II. Theoretical Aspects of Investment of Banks

In the economic literature, the investment bank's activities addressed in two ways. At the microeconomic: the bank – is an investor who invests its resources for a specified period in order to derive direct and indirect income; at the macroeconomic: the investment bank's activities – is an activity that aims to satisfaction of the investment needs of the economy.

That is, investment activity, considered from the point of view of the economic entity (the bank), aims to increase the income of the bank. The effect of investment activities in the macroeconomic aspect is to achieve growth of social capital.

The investment policy of banking institutions has a number of specific features. So as a priority goal of the investment activities is income, the bank develops its investment policy on the principles of differentiation of the rate of profit by categories. The following types of investments: increasing reliability of the bank, maintaining a position in the market (profit margin of 5-7%), increasing of income (profit margin 20%), risk (rate of return 25% and above).

Today, for the domestic banking system is urgent diversification of active operations, which is reflected in the growth of the investment portfolio of banks. In developing the investment policy of Ukrainian banks on the one hand seeking to maximize profits, but on the other – to provide an acceptable level of safety and liquidity of investment operations. To achieve this goal, banks should adhere to the following principles [2]:

1. The investment policy must be consistent with the overall strategy of economic development bank. Investment policy should be seen as one of the key elements of the overall strategy of the bank and it should be consistent with its deposit and credit policy and the policy of management of banking risks.

2. The investment policy of the bank to comply with the state investment policy of the country and its development in this period.

3. In developing the investment policy special attention should be given to forecasting the financial markets. In determining the bank's strategic goals of its investment activities, forms of investment should be included in the changes during this period are expected in the financial market in general and in those market segments in which the bank plans to carry out its investment activities.

The analysis of foreign experience schemes of financial investment banking institutions has shown that in the world there are two main models of building banking systems: a segmented (USA) and universal (German). The main differences of these models are the degree of universality and specialization of banks, forms and sources of financing of the real sector, the level of diversification of investment portfolios. In the American model the risks are divided into commercial and investment.

Abroad parallel development processes universality and specialization of banks led to the formation of a new type of investment banks, the features of which are: the global of the activity, the presence of significant free capital, a full set of diversified and integrated services, create their own asset management business, retail operations with small and average customers through the development of brokerage network, the merger with the insurance business. The major characteristics of the market investment services are the concentration of capital in the investment banking industry [1].

In the Ukrainian economy, investment banking model has some similarities with the German model. The universal character of domestic banks is forced due to the underdeveloped nature of the securities market and a network of non-bank institutions. Universal model is associated with an increased riskiness of the bank, increasing sharply during the crisis, as the risks of the bank's investment flows are not separated from the risks of deposit / credit and settlement operations. At the same time, the bank depends on the financial condition of major customers, the turnover of which involved considerable resources (through equity participation and bond loans).

III. Analysis of Investment Activities of Banks in Ukraine

In general, the term "investment by bank" can be characterized as investments in movable and real property, intellectual values and securities that are made universal and specialized banks as institutional investors for profit or distribution of corporate influence.

Although, among scientists, there is no consensus that same bank transactions is related to investment all the same there are two main areas: medium- and long-term loans and securities transactions.

Feature investment loan is that it is not aimed at satisfying current requirements or for purchase already created value, and the subsequent increase in value due to construction, reconstruction and modernization. Thus creating new capacity the production and circulation.

TABLE 1
LOANS IN INVESTMENT ACTIVITIES OF UKRAINE

million UAH	2008	2009	2010	2011	2012
Total, including terms	66263	70786	71643	80985	81638
- to 1 year	4096	5461	7421	6993	7446
- from 1 year to 5 years	41409	40687	34403	38948	42187
- over 5 years	20757	24638	29819	35043	32005

Table I shows that the supply of loans for investment activities of Ukraine in recent years was characterized by considerable uncertainty and uneven distribution [2]. The greatest demand is for medium loans. In turn, short-term loans are not popular among customers, which is not surprising, because usually receive income from the investment project over the period of one year. But in the last five years there, though small, the tendency to an increase in lending to investment activities.

Also feature investment loans in Ukraine are that about 50% are medium-term loans, while the world is dominated by long-term loans. Those Ukrainian entrepreneurs aren't developing a mixed use development and capital-intensive investment projects that would have increased the producing capacity of the economy of Ukraine.

Analysis of bank deposits in securities during the last five years shows that in recent years banks have significantly increased their activities in the securities market [2]. Thus, the largest increase in investments in securities held in 2010, their share in the assets almost doubled (growth rate of 112.43%) and at the same time seeing a downward trend rate of growth in lending. This situation is explained by the fact that investments in securities (mostly government) are a low risk compared with risky credit transactions in the crisis years. In 2011, the growth rate of investment operations diminished, but this is due to a decrease in the liquidity of Ukrainian banks. In 2012, there has been a significant decline in the share of loans in the assets; in fact there was a decline in lending to 9993 million UAH.

During the period under review banks chose weighted active investment policy, as evidenced by the dynamics and structure of the portfolio of investments of the banking system.

The largest share in the structure of the securities portfolio of the banking sector in Ukraine is available for sale, that most of the securities portfolio of the bank formed by tools that banks do not intend to hold to maturity (passive policy of "buy and hold") or to sell for profit from their short-term fluctuations in price or dealer margin (aggressive active policy). In the banking investment portfolio is dominated by securities that banks are willing to sell due to changes in market interest rates

(when banking institutions are needed to improve liquidity) and equity securities whose fair value cannot be reliably determined [1].

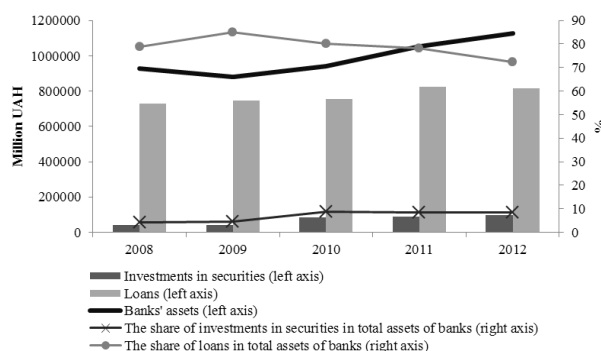


Fig.1 Loan and investment portfolio of the banking system of Ukraine

However, some Ukrainian banks use in their activities aggressive investment policy and focus on investments in securities at a higher level than the average market rates [3]. Thus, in 2012, 22.8% of banks (40 banks) securities portfolio in total assets is more than 10 %; by comparison, this indicator in 2011 was 18.8 % (33 banks).

However, along with the activation of most banks investment policy increases the number of banks that do not conduct transactions with securities. Thus, in 2012 the share of banks in total amounted to 20.5 % (36 banks), for comparison in 2011 – 14.3 % (25 banks).

Conclusion

Thus, summarizing the above, it should be noted that to date Ukrainian banks have found an alternative to risky credit transactions and thus significantly increased their investment activity. However, the investment portfolio of domestic banks is not sufficiently diversified and consists primarily of portfolio for sale. This situation makes it difficult to effectively manage portfolio risk, so forming an effective investment portfolio based on the types of securities that carry circulation in Ukraine; there are further areas of research of Ukrainian banks in the securities market.

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