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Credit market of Ukraine: challenges and perspectives

Introduction

The credit market is an important component of any economy, which established the relationship between enterprises and citizens that need the financial resources and organizations and citizens who can provide the necessary funds to certain conditions. It should be noted that the credit market stimulates the growth of production, accumulation of financial resources and promotes the initiation and development of positive social change in society. Credit market allows accumulation, movement, distribution and redistribution of debt capital between sectors of the economy. At the same time, the credit market is a synthesis of different means of payment market.

The main entities of the credit market are the commercial banks activities of which affect its stability. The behavior of financial institutions in the credit market depends on many factors, including great influence regulatory policy.

The financial crisis scarcely destroyed the banking system of Ukraine and there is a fault most banking institutions as well as government who did not keep appetites Ukrainian bankers on time.

The main factor that caused the negative consequences of the impact of the global financial crisis was the rush of financial institutions for foreign credits. For five years (01.01.2004 – 01.10.2008) external liabilities of commercial banks in Ukraine have increased in 24 times to 42.1 billion US dollar. Foreign credits constituted the foundation of the resource base of banks – 31% of liabilities financial institutions (1 October 2008) [Kravchuk 2009, p. 4]. Unlike Ukraine Poland realized more farsighted policy. Before the crisis, foreign credits amounted only 15.7% liabilities of credit institutions in Poland.

The aim of the paper is to analyze credit market of Ukraine during 2000–2009, identify factors which caused of its development and define the perspectives of credit market future development.

Review the credit market in Ukraine

The functioning of the credit market primarily depends on the commercial banks that provide storage, movement, distribution and redistribution of loan capital between sectors of the economy. Therefore, indicators of its activity are the main indicators of the credit market.

The credit market in Ukraine developed rapidly since 2000 (Tab. 1). Thus, during 2000–2009 amount of credits increased in 36.7 times and the end of 2009 amounted 719 billion UAH. The exception was 2009 – the volumes of credit decreased to 2% (the reasons of reduction will be discussed below). The cause of such dynamic development of bank crediting during 2000–2008 was macro-economic stabilization in the country – low inflation, stable exchange rate of national currency, rising incomes, growth of GDP.

Feature of credit operations of commercial banks in Ukraine was that the major share (40–50%) in the structure occupied during the studied period credits in foreign currency (Tab. 1). In 2000, the high share of credits in foreign currency (46%) was determined by still high inflation (25.8%). Medium inflation (respectively, 6.1, –0.6, 8.2, 12.3%) and stabilization of the exchange rate during 2001–2004 provided the increase the share of credits in national currency – from 54% in 2000 to 58% in 2004. Further stability of exchange rates during 2005–2008 did not provide the same rates on credits in national and foreign cur-

Table 1

The credits gave by banks to the economy of Ukraine (by the types of currency), debt at end of period, million UAH

Year	Total		including					
			national currency			foreign currency		
	mIn UAH	in % to previous year	mIn UAH	%	in % to previous year	mIn UAH	%	in % to previous year
2000	19574	166	10568	54	185	9006	46	148
2001	28373	145	15845	56	150	12528	44	139
2002	42035	148	24463	58	154	17572	42	140
2003	67835	161	39563	58	162	28272	42	161
2004	88579	131	51207	58	129	37372	42	132
2005	143418	162	81274	57	159	62144	43	166
2006	245226	171	123783	50	152	121443	50	195
2007	427128	174	213915	50	173	213213	50	176
2008	734377	172	300421	41	140	433956	59	204
2009	719163	98	351223	49	117	367940	51	85

Source: Bulletin of NBU, No 2, 2010.

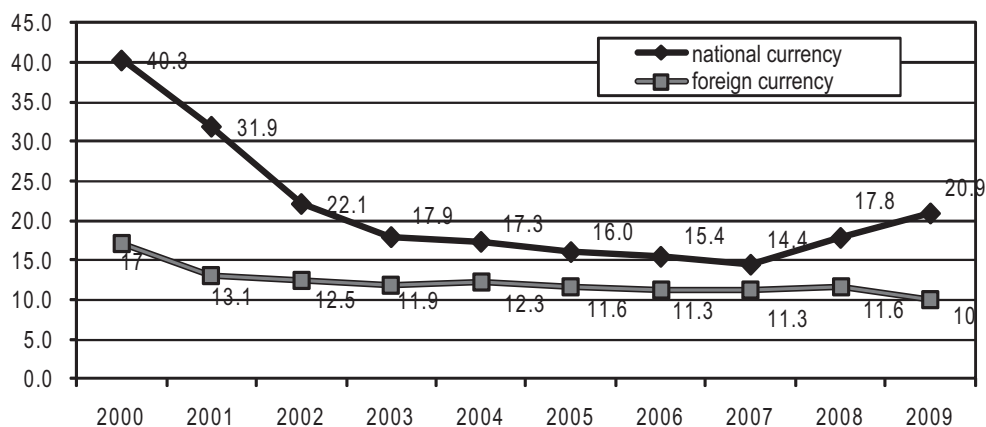


Figure 1
Interest rates on credits

Source: Bulletin of NBU, No 2, 2008, 2010.

rency (Fig. 1), so the attractiveness of foreign currency credits due to their more “cheapness” provided the growth of their share in the structure of credit portfolio of commercial banks in Ukraine from 42% in 2004 to 59% in 2008. For example, before crisis in Poland was granted only 27% credits in foreign currency.

The openness of Ukrainian economy also played role. Ukrainian banks were unable to attract “long” cheap money in UAH, and therefore had to enter the international capital market. The growth of economy and transparency of the banking sector led to lower cost of foreign borrowing for domestic financial institutions. Therefore, the credits in foreign currency for borrowers were more profitable. At the same time the share of foreign banks in the financial system has been rising steadily (almost a third of the market), and these banks had favorable conditions for access to cheap foreign resources and, importantly, enjoyed greater confidence of the population than domestic financial institutions.

Currency crediting boom led to an increase in dollarization of the economy. Dollarization is typical for many developing countries. Countries that are actively involved in international trade and take part in the flow of capital, are somehow dollarized.

Dollarization – the use of foreign currency – the dollar, on a par with the national currency in payments and savings. If the level of dollarization is high the foreign currency actually displaces local money. If the level of dollarization is low the foreign currency performs some functions of the national currency. First of all, dollarization hits the wallet population. Most Ukrainian receives income in UAH, but they took credits in foreign currency. While exchange rate stable – financial dollarization is not particularly dangerous. But if hryvna fell, the popula-

tion who receives salary in national currency, could not pay debts. Reverse side of rate fluctuations – outflow of funds from deposits. Then banks may receive liquidity problems [Bereslavska 2006].

The above forecasts have happened at the credit market in Ukraine, which were largely caused by the global financial crisis. At the end of 2008 national currency was devaluated to 52%, which led to mass outflow of individual funds from bank accounts, substantial growth of bad credit debt. The global financial crisis has led to deterioration in global capital markets, which in turn has limited the access of Ukrainian banks to foreign credit resources. As a result the foreign currency credits decreased to 15% in 2009 compared with the previous year and total credits – to 2%.

The sharp deterioration of the credit portfolio of commercial banks of Ukraine (the share of bad credits amounted to 11.74% in the credit portfolio of commercial banks in Ukraine early 2010 [Gerasymenko 2010, p. 17] was caused by both internal and external factors. Among them is to allocate a high percentage of credits in foreign currency (60%). Because of the rapid depreciation of the national currency in the autumn of 2008 the arrears of credits on foreign currency credits granted to individuals grew fastest.

Increasing the bad credits was also largely caused inadequate policy Ukrainian banks in the field of consumer credit. Most banks did not take into account macroeconomic indicators such as growth or decrease income of population. The data of Table 2 shows that over the last three years, growth in credits granted to individuals exceeded the growth in their incomes. Banks also often ignored the basic principles of crediting, giving credits without purpose, without requiring collateral or other security, hoping to compensate for their risk of high interest on such credits.

Table 2
Dynamics of credits and income of population

Indicators	2006 p.	2007 p.	2008 p.	2009 p.
1. Income of population: a) billion UAH	363.6	471.0	646.3	672.7
б) growth over the previous year, %	121.9	129.5	137.2	104.1
2. Credits to individuals: a) billion UAH	55.5	115.7	211.2	245.7
б) growth over the previous year, %	232.3	208.6	182.6	116.3
3. Exceeding growth the credits to individuals over the income of population growth, %	110.4	79.1	45.4	12.3
4. Long term credits to individuals: a) billion UAH	47.2	101.1	188.6	219.5
б) growth over the previous year, %	245.8	214.2	186.5	16.4

Source: Gerasymenko, 2010, p. 18.

Table 3

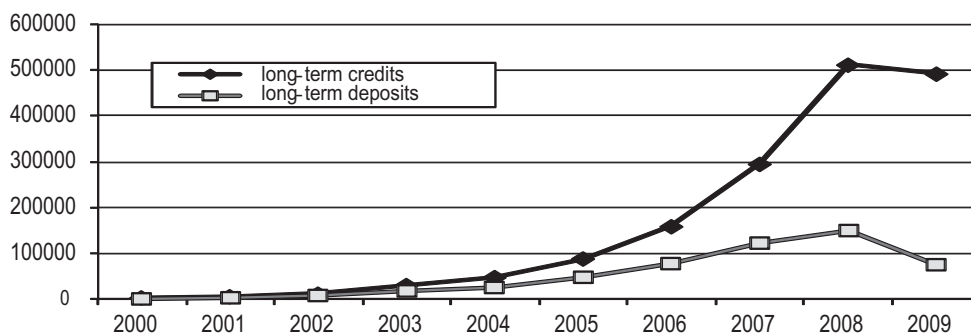
The credits gave by banks to the economy of Ukraine (by the terms), debt at end of period, million UAH

Year	Total	including					
		short-term credits			long-term credits		
		mIn UAH	%	in % to previous year	mIn UAH	%	in % to previous year
2000	19574	16060	82	176	3514	18	133
2001	28373	22218	78	138	6156	22	175
2002	42035	30185	72	136	11849	28	192
2003	67835	37282	55	124	30553	45	258
2004	88579	40575	46	109	48003	54	157
2005	143418	54819	38	135	88599	62	185
2006	245226	86193	35	157	159033	65	179
2007	427128	131505	31	153	295363	69	186
2008	734377	222033	30	169	511989	70	173
2009	719163	230974	32	104	492322	68	96

Source: Bulletin of NBU, No 2, 2010.

Analysis of the dynamics of crediting operations by the terms showed (Tab. 3).

Period to 2000 characterized in Ukraine as a period of significant inflation, so natural in such circumstances preference for short-term credits – in 2000 their share was 82%. From 2001 to 2008 in conditions of national currency stability and medium inflation long-term credits has been significantly developed (long-term crediting volumes increased in 140 times), which led to an increase in their share from 18% in 2000 to 70% in 2008. But this significant increase of long-term crediting was not accompanied by corresponding increase of long-term resources of commercial banks of Ukraine (Fig. 2).

**Figure 2**

Amount of long-term credits and long-term deposits, mln UAH

Source: Bulletin of NBU, No 2, 2008, 2010.

Long-term credits were financed mainly by short-term deposits, refunds of them were carried out by attracting new ones, and also by external borrowing. In a world financial crisis a significant discrepancy terms of raising funds and terms of investing nearly led to the collapse of the banking system of Ukraine in the end of 2008. In a sharp rise of exchange rate (exchange rate the dollar to hryvna increased to 52%) the outflow of funds from deposit accounts, which were basically in national currency, was happened (Fig. 3). As a result, the monetary liquidity of the banking system reduced. The crisis of liquidity of banks of Ukraine also strengthened the sharp decrease in foreign borrowings, which were, as noted above, 31% of the liabilities of banks of Ukraine.

During the escalation of tension in the financial market in October-November 2008, the National Bank of Ukraine has directed its efforts primarily on the timeliness of payments by banks, reducing the outflow of funds from the banking system and balance the situation on the forex. In particular, it should be noted that the NBU banned (resolution No 319) from the October 13 early termination of contracts on deposits of bank deposits, thanks to which, despite different views on the introduction of the moratorium, has managed to avoid default, not only banking but also in economy of Ukraine whole. Resolution No 319 also provided that from October 13, 2008 banks must arrange to limit the implementation of active operations in volumes that are achieved by each of them on that date.

Also the role of the NBU was crucial for further overcome the negative effects of the global financial crisis on the state of the banking system of Ukraine. In particular, the NBU has provided liquidity support of Ukrainian banks through the refinancing, and for three banks – “Ukrgazbank”, “Rodovidbank”, “Kyiv” was made of their recapitalization through which the state share in the authorized capital of these banks is respectively – 84.21% 99.97% 99.93%. Refinancing secured shares was introduced to expand the list of banks that can obtain credits from the NBU.

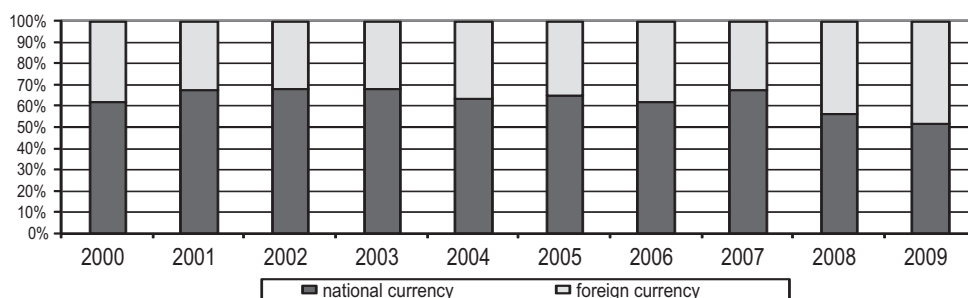


Figure 3
The structure of deposits, the types of currency

Source: Bulletin of NBU, No 2, 2008, 2010.

NBU issued resolutions (resolution No 319, No 328) that limit the amount of credits to corporate and individuals in foreign currency, prohibit refinancing of past-due loans by granting new credits, and unwarranted extension of credits and to make changes in credit agreement concerning the cost of credit, which do not correspond to changes in the NBU discount rate.

According to the resolution of NBU № 458 was implemented a new methodology for calculating bank capital adequacy in order to limit the liquidity risk.

To stabilize the foreign exchange market and exchange rate since mid-October 2008 National Bank of Ukraine has taken a number of measures: began to make regular currency intervention (for three weeks were spent almost \$ 5 billion gold reserves); banned the speculative transactions for banks (buying and selling currencies in the interbank market conducted only on behalf of a client for their rate), selling rate of currency on the cash exchange market limited to the official rate and bank margin from trading currencies must not exceed 1.5% [Stukalo 2010, p. 23].

National Bank of Ukraine due to the above measures reduced the possible negative consequences of the global financial crisis and ensure orderly exit of banks from the crisis.

In the beginning 21 century consumer crediting in Ukraine took a small percentage – 5% in 2000 (Tab. 4). The above factors (income growth, stabilizing hryvnia exchange rate, measurable inflation, GDP growth) led to a significant

Table 4

The credits gave by banks to the economy of Ukraine (the types of borrowers), debt at end of period, million UAH

Year	Total	including					
		credits to individuals			credits to corporations		
		mIn UAH	%	in % to previous year	mIn UAH	%	in % to previous year
2000	19574	18594	95	167	980	5	143
2001	28373	26955	95	145	1418	5	145
2002	42035	38721	92	144	3313	8	234
2003	67835	58849	87	152	8986	13	271
2004	88579	73785	83	125	14794	17	165
2005	143418	109895	77	149	33523	23	227
2006	245226	166683	68	152	78543	32	234
2007	426867	266412	62	160	160455	38	204
2008	734022	453466	62	170	280556	38	175
2009	723295	481984	67	106	241311	33	86

Source: Bulletin of NBU, No 2, 2008–2010.

increase of crediting of individuals – the volume grew in 246 times in 2009 compared with 2000. This led to a growing share of consumer credits from 5% in 2000 to 38% in 2008. The negative dynamics of consumer credits supervised only in 2009. It was the first time since 2000 when volumes of consumer credits decreased by 14% due to the factors listed above (sharp currency devaluation, reduce incomes, employment, rising interest rates, cutting of credit terms).

However, should investigate whether this positive phenomenon was the rapid growth of consumer crediting.

Lately no longer surprising statement – ‘Ukrainian accustomed to living in debt’. The word “credit” so locked in our consciousness that entered into uses not only according the mobile phones, but also according the apartments or cars. Banks crediting population so rapidly intensified inflation. The rapid growth of consumer crediting increases domestic consumption and raises prices for different markets of the country.

Credits for individuals are the most profitable through the high rates. This is especially true according the credits for household appliances and other goods – their cost often exceeds 50%. The price of this group of credits is high.

The most popular among the population used the credits to buy homes, cars, household appliances, furniture, credits for construction of new buildings and repairs.

The disadvantage of the Ukrainian economy, including consumer crediting, was the lack of goods, which produce in Ukraine, such as electronics, machinery, cars and so on, for buying of which people took the credits. Speaking about the purchase of new housing using credits, in most cases about 50% of materials for its construction were imported from abroad. In 2008, more than half a million cars were delivered in Ukraine. Half of them were bought using bank credits. It was just pumping money from the country. Increase in imports leads to an increase in deficits of balance of payments. So it would appear that banks granted credits not to the Ukrainian economy and gave credits to imports, thus not contributing to economic growth, as it happens in developed countries. Of course, in this situation, there is no fault of banks, not consumers, because the slogan “Buy only Ukrainian goods” does not work due to their absence.

Perspectives of credit market development in Ukraine

The development of credit market of Ukraine will be provided by overcoming the problems that were mentioned above, including: lack of stable monetary conditions, lack of long-term resources in ukrainian banks, a high share of problem credits, etc.

An important part of the credit market is to create the favorable monetary conditions: low inflation, stability of the national currency, trust in the banking system and the national currency, low level of dollarization and cash outside banks, moderate interest rates.

In providing a opportune monetary conditions the key role belongs to the National Bank of Ukraine. In order to create these conditions he chose the hard course to restore financial stability of the banking system and ensuring stability of the national currency. For this purpose the NBU developed and strictly implemented the „Plan for additional measures of the National Bank of Ukraine to ensure the stability of currency and banking system” [Somyk 2010, p. 34].

For the increasing long-term resources in banks of Ukraine to need implementation modern models of long-term replenishment of resources through the mechanism of securitization of assets. It is necessary to develop the secondary mortgage market, to improve the legal framework, to stimulate the increase of investors willing to invest in securitized assets (primarily mortgages).

In order to reduce the share of problem credits to active use of the restructuring of credits. For the effective conduct of this mechanism should take the following measures:

- restructure problem credits on uniform rules devised by the regulator under its control and for its support. It is important to take into account the specifics and priorities of each of the following credits: the borrower category (corporate, individual), by purpose (mortgage, auto credits, credits to entrepreneurs, consumer and corporate credits, interbank credits), by type of currency (national, foreign), the degree of problematical (standard, under control, substandard, doubtful, bad); of maturity and so on;
- implement control over the maximum size of payment procedures for restructuring and restrictions on establishing new requirements for the credit (re-evaluation of the mortgaged property, collateral requirements, etc.). Losses related to restructuring, must be shared among banks, borrowers and government;
- necessary that the assessment of problem credits according to methodology of NBU performed third independent personage [Stukalo, 2010, p. 24].

Conclusion

Thus, the main factors which enhanced the negative effect of the global financial crisis on the credit market of Ukraine were inconsistencies terms of raising funds and investing in banks of Ukraine, the dollarization of credits, using banks of Ukraine largely external funding (share of foreign credits

in bank liabilities was 31%), the maximum orientation of banks in crediting to individuals.

Further development of the credit market in Ukraine will be provided if a stable monetary conditions, economic growth, increasing incomes, growing numbers of middle class, creating favorable conditions for increasing long-term credit resources, by implementation modern models of long-term replenishment of resources through the mechanism of securitization of assets, reducing the share of problem credits through the mechanism of restructuring credits.

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Rynek kredytowy Ukrainy: wyzwania i perspektywy

Streszczenie

Do podstawowych czynników, które zwiększyły negatywny wpływ globalnego kryzysu finansowego na rynek kredytowy Ukrainy należały nieprzemyślane sposoby pozyskania środków oraz inwestowania w bankach na Ukrainie, dolaryzacja kredytów, wykorzystanie przez banki najczęściej zewnętrznego finansowania (udział zagranicznych kredytów w zobowiązaniach banków stanowił 31%), maksymalne nastawienie banków na kredytowanie osób fizycznych.

Rozwój rynku kredytowego Ukrainy wymaga stabilizacji sytuacji monetarnej, wzrostu gospodarczego, zwiększenia dochodów, wzrostu klasy średniej, stworzenia możliwości akumulacji długoterminowych zasobów kredytowych, wprowadzenia współczesnych modeli długoterminowego odnawiania zasobów przez mechanizm sekurytyzacji aktywów, ograniczenia udziału kredytów zagrożonych przez mechanizm ich restrukturyzacji.

