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THE SITUATION OF BANK LENDING IN UKRAINE: CURRENT PROBLEMS AND PROSPECTS OF RECOVERY

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ABSTRACT

The article investigates the state of bank lending in Ukraine, identifies the source of the severe banking crisis, that broke out in Ukraine in 2014-2015. Additionally, it suggests recommendations for the enhancement of the role of bank lending in the process of expanded incentives for investments in order to facilitate the exit from the economy crisis towards the economic growth. Using the general scientific methods of empirical and theoretical research, the dynamics of bank lending in Ukraine in 2003-2014 was analysed and the following periods were distinguished: 2003-2007, which is the period of the rise of a strong banking system and the increase of bank lending; 2008-2009, when the crisis and post-crisis recovery processes have been attempted, and 2014-2015, which is the period of an unprecedented crisis and a wave of bank failures.

The analysis revealed the following main factors constraining the lending to the economy of Ukraine in today's conditions: a slowdown in the economic growth, increasing economic and political risks of inflation and devaluation expectations, rapid fluctuations of exchange rate, a high cost and the lack of credit because of insufficient domestic resources and the mismatch of terms and conditions of bank loans with the aim to attract resources, a significant credit risk and imperfect methods of management, the lack of clear mechanisms for loan repayment applicable to insolvent borrowers, and inadequate protection of the rights of lenders and borrowers.

The article substantiates that the stimulation of the lending process should be based on the following: the improvement of the investment climate in Ukraine, using stricter lending criteria, ensuring effective mechanisms for provisioning for credit risks, and the improvement of measures for the protection of rights of lenders and borrowers. The state should focus on new projects stimulating – international investments by introducing the European standards on domestic enterprises, including joint investment projects in strategic sectors; the promotion of investment projects in support of small and medium enterprises; and intensified efforts to stimulate foreign banks to open credit lines for small and medium-sized businesses to implement energy efficiency projects under the state guarantee.

KEY WORDS

bank lending, real sector of economy, banking crisis, investment process

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INTRODUCTION

The main condition for the economic development of any country is to ensure the stability of the banking system, which is the most important and integral part of a modern market economy. Transparency and predictable development of the banking system can facilitate the ability of investors to forecast its activities

and improve its attractiveness to other economic subjects.

Banks that own substantial share of financial, investment, industrial and other sectors of the economy are the backbone of the banking system. The redistribution of temporarily free funds,

funneling them into industries with a recurring need to mobilize additional capital can only be achieved by financially stable and reliable banks that are capable of withstanding the dynamic conditions of external and internal market environments. Banks must be reliable and ensure the safety of deposits held by legal entities and individuals as well as protect the interests of shareholders and provide timely customer service. Today, the banking system of Ukraine is in a severe recession that has already turned into a deep depression. In fact, one in three banks have been declared insolvent, no deposits are made, and lending has virtually stopped. A key precondition for overcoming an economic and the banking crisis is a qualitatively new model for the monetary regulation, based on incentives for the recovery of monetary sovereignty and the enhancement of economic development primarily through credit support businesses in Ukraine as the foundation of a competitive market environment.

However, the problem of assessing the effectiveness of bank credit allocation in terms of coordination of its goals with strategic objectives of the state does not have sufficient coverage in the scientific literature, particularly the assessment of the real impact bank lending on the economic development of Ukraine.

1. LITERATURE REVIEW

The issue of the formation and development of bank lending in Ukraine as well as the analysis of its impact on the economic development of the country have been explored in many scientific works, including those by (Dzyublyuk & Malakhov, 2008; Egorov, 2010; Lavrushina, 2013; Majewski & Zorin, 2011; Savluk, 2013; Semenoh, 2010; Shiyan, 2009) and others. Much attention in the works of foreign scholars (Werner, 2005; Lagarde, 2012 and others) has been given to lending and its role in the stimulation of the economy.

The particular features of bank lending have been studied by Lavrushin who focused on theoretical and methodological issues of planning and organising the process of lending. The researcher proved the need to strengthen the processes related to the lending role of the state, which should aim at ensuring the financial stability and the stability of domestic banks, in order to restore the confidence of people and businesses in the banking system. „The delay in economic reforms and the accumulation of macroeconomic imbalances in the real sector of the economy, mistakes in

monetary policy and banking supervision policy drastically weakened the bank sector. Restoration work requires significant government support” (Lavrushin, 2012).

In his works, Dzyablyuk examined the effectiveness of the monetary influence on credit incentives of the central bank. The researcher pointed out that to overcome the consequences of the financial crisis, Ukraine must find the way to stop the decline of domestic production and enhance the development of the real economy. „It is necessary for the monetary policy to combat stagflation; on the one hand, to take measures to reduce inflation, and on the other – to create monetary conditions for structural support and stimulate economic growth” (Dzyublyuk & Malakhov, 2008).

In their works, Majewski and Zorin examined the mechanism of credit for entrepreneurial activity as a set of practical measures of the central bank and commercial banks focused on temporarily available cash resources in production activities of undertakings (Maevsky & Zorin, 2011).

Savluk studied the influence of banks on the real economy, and noted that Ukrainian banks are „not aimed to meet the investment needs neither legally nor practically” (Savluk, 2013). The researcher believes that the state of bank lending in Ukraine is largely dependent on the economy, especially the poor balance of the real sector and public finance.

Analysing the specific functioning of the banking and real sectors of the economy of Ukraine, Semenoh substantiated that „bank lending in Ukraine is diverged from the needs of the real sector and mainly focused on the fast high income” (Semenoh, 2010). The reforms initiated in the real economy are hindered by a low proportion of loans for the capital investment industry, high interest rates, and the lack of other than short-term loans.

Considering the particular features of the credit activity of banks, Shiyan noted that for the further development and improvement of the system of bank lending in Ukraine, a system of credit cooperation, mortgage and leasing should be developed (Shiyan, 2009). The author believes that the resumption of lending to the economy should take place through an increase in the volume of local sources and long-term financial resources as well as the promotion of local and syndicated agreements.

The works mentioned above provide detailed analyses of the methodological foundations and practical aspects of lending. However the unprecedented depth of the crisis, which may be

observed currently in Ukraine, requires the application of theoretical principles to new realities. The role of bank lending in overcoming the economic crisis and stimulating economic growth processes remains an unresolved issue.

2. RESEARCH METHODS

The aim of this article is to study the state of bank lending in Ukraine and give recommendations on how to defuse the crisis and increase the role of bank lending in the process of economic development. To achieve this goal, general scientific methods of empirical and theoretical research were used, including: analysis and synthesis for detail bank lending in Ukraine and the study of its impact on the real economy; methods of statistical analysis, comparison and evaluation of bank lending in Ukraine; methods of comparison, grouping and the graphical method for building tables and charts, generalization for justification of the need to resume lending in the process of the economic growth in Ukraine. Data processing was carried out using a modern computer technology.

3. RESEARCH RESULTS

Nowadays, banks have a powerful influence on the economy that manifests at least in three ways. They accumulate temporarily free funds and allocate them to market participants that need them. While funding market economy, banks perform a number of other important functions related to the support of economic entities. Accordingly, they increase the dependence of market operators on the state of the real economy and impact on the way the current needs of investment and economic operators are met. The more effective is the lending of investment banks, the more powerful is their role in promoting the economic growth and structural modernization of the economy.

The origins of the severe Ukrainian banking crisis of 2014-2015 lay in the relationship between the banking and real sectors of the domestic economy. This statement can be supported by the examination of the dynamics of bank lending in the years 2003-2014 (Tab. 1).

During the period the following intervals may be distinguished: 2003-2007, which is rise of a strong

banking system and the increase in bank lending; 2008-2009, when the crisis and post-crisis recovery processes were attempted; and 2014-2015, which was the period of an unprecedented crisis and a wave of bank failures. Between 2003 and 2007, banks actively tried to lend money. Having the overall growth of the loan portfolio of 10.4 times the retail loans increased 47.7 times, and their share increased from 13.2 percent in 2003 to 24.3 in 2007. The exchange rate stability, as evinced by the lower interest rates on foreign currency loans, had made borrowing very attractive.

Thus, the structure of the share of retail loans in foreign currency loans increased from 40.7% in 2003 to 65% in 2007, and the share of consumer loans in the portfolio of private individuals was 71% in 2007 (The National...).

Priorities shifted towards retail lending, predominantly in foreign currency, during an active entry of foreign capital banks into the domestic financial market. Consumer-driven accelerated lending led to a decrease in shares of almost all key economic sectors in the overall loan portfolio: the processing industry from 25 to 15%, mining – from 2.6 to 1.3%, electricity – from 2.6 to 1.4%, agriculture – from 6.7 to 3.9%, and trade – from 36 to 24%. The construction industry was the only exception, which saw an increase from 4.3 to 7.2% (Tab. 2) during the period.

The lending in the trade sector increased almost 7 times, while in the mining industry – 4.5 times, manufacturing – by 5.5 times, and electricity – 4 times (The National...). Thus, one could argue that the Ukrainian crisis of 2008 in priority lending was driven by consumption. Therefore, the activity of the banking system did not have a sufficiently positive impact on the domestic production, but rather stimulated the influx of imports.

The crisis of 2008 had a negative impact on banking. After falling in 2009, positive dynamics of the credit indebtedness of residents (1.5%) had significantly lower rates compared to 2003 positive dynamics 2007. The total volume of loans for 2008-2013 increased to 24%. The structure of lending has changed. Falling incomes and problems with the servicing and repayment of foreign currency loans led to a sharp reduction in the demand for loans in the population. Therefore, loans to households for five years decreased by 31%, their share in the total portfolio of residents – from 38 to 21%, while loans to non-financial corporations' increased to 56% and their share – from 60.4 to 76% (The National...).

Tab. 1. Basic indicators of lending activity of Ukrainian banks in 2003-2015

MEASURE	YEARS												
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Number of operating banks with a banking license	158	160	165	170	175	184	182	176	176	176*	180*	163*	120*
With foreign capital	19	19	23	35	47	53	51	55	53	53	49	51	40
Bank assets UAH billion	100.2	134.3	213.9	340.2	518.8	926.1	880.3	942.1	1054.3	1127.2	1278.1	1316.9	1275.4
Loan portfolio, UAH billion	73.4	96.9	156.3	269.3	485.4	792.2	747.3	755.0	825.3	815.3	911.4	1006.4	954.0
Loans to economic entities, UAH billion	58.0	72.9	109.0	167.7	276.2	472.6	475.0	508.3	580.9	609.2	698.8	802.6	786.7
Loans to individuals, UAH billion	8.9	14.6	33.2	77.8	153.6	268.9	222.5	186.5	174.7	161.8	167.8	179.0	143.7
Total share of over-due loans, [%]	3.4	3.2	2.2	1.6	1.3	2.3	9.4	11.2	9.6	8.9	7.7	13.5	21.2
Provision for active operations of banks (including provisions for transactions that are accounted for off-balance sheet), UAH billion	4.6	7.3	9.4	13.3	20.2	48.4	122.4	148.9	157.9	141.3	131.3	204.9	294.4
Results, UAH billion	0.8	1.3	2.2	4.1	6.6	7.3	-38.5	-13.0	-7.7	4.9	1.4	-53.0	-57.3

* One of these banks has a valid bank license

Source: author's elaboration based on (The National...).

After the crisis, despite the drop in consumer credit, investment credit and loans showed a sluggish trend in the processing industry.

In Ukraine, a long-term investment loans (for the purchase, construction and reconstruction of real estate for more than one year) occupied a tiny part of the total volume of loans issued to non-financial corporations (1.9% at the end of 2014). This was influenced by the structure of bank lending and considerable structural imbalances in the national economy, which became the root of the reason for the loss of the industrial potential of Ukraine.

In 2014, Ukraine was hit by a serve structural socio-economic and political crisis. Under these conditions, the banking system has suffered from negative trends in the real economy, manifested in

forms of the mass bankruptcy of banks, deposit flight, and stagnant lending. Indeed, the deeper the crisis in the real economy, the fewer opportunities to develop a stable banking system and promote lending.

It is worth noting that the credit activity of banks remained low during 2015 (there was a reduction of the gross loan portfolio by 5.2 percentage points in 2015, primarily due to the decline in lending to individuals by 19.7 percentage points (to UAH 35.3 billion)), which was due to the reduction in the resources, deteriorating creditworthiness of borrowers, and a high level of uncertainty about the further economic development under the conditions of political instability. This, in turn, made banks situation of potential borrowers more carefully or indeed put lending on hold, choosing to invest in

Tab. 2. Structure of loans given to entities in terms of economic activity in 2003-2012 [%]

ECONOMIC ACTIVITY	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Agriculture, hunting and forestry	6.7	6.7	5.7	4.8	3.9	6.5	5.6	5.3	5.9	6.0
Fishing	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Mining industry	2.6	2.4	2.0	1.7	1.3	1.7	2.1	2.6	2.0	2.6
Manufacturing	25.2	26.3	21.3	18.1	15.1	23.9	22.7	24.3	21.6	20.8
Electricity, gas and water	2.6	1.6	1.7	1.3	1.4	1.9	2.0	2.5	3.3	3.5
Construction industry	4.3	3.0	8.1	7.9	7.2	8.9	9.0	8.6	7.7	6.1
Trade; repair of motor vehicles, household goods and personal consumption	36.3	34.5	30.6	25.9	23.6	35.1	35.8	34.8	36.3	36.4
Hotels and restaurants	0.9	0.4	0.5	0.4	0.9	0.9	1.0	1.0	0.8	0.7
Transport and communication	2.2	4.4	3.1	3.0	3.6	3.6	3.5	4.2	5.0	5.0
Real estate, renting and business activities	16.5	20.2	26.4	34.2	38.4	15.6	16.8	15.5	15.9	17.4
Education	6.4	5.1	4.5	5.4	6.5	0.1	0.05	0.03	0.02	0.02
Health care and social assistance	1.7	0.1	0.5	0.4	0.4	0.6	0.3	0.3	0.3	0.2
Provision of communal and individual services; culture and sport	1.2	1.3	1.2	0.8	1.5	1.0	1.0	0.9	1.1	1.1

Source: author's elaboration based on (The National...).

securities instead.

An important issue pointed out by many researchers is the need to reduce the volume and proportion of bad loans in the structure of banking assets. During 2014-2015, due to a systemic banking crisis, the share of bad loans in the total number of granted bank loans increased significantly and amounted to 21.2% (Tab. 1) as of 1 December 2015.

The current situation may be caused by the following:

- slower economic growth, increasing economic and political risks of inflation and devaluation expectations, rapid exchange rate fluctuations, hence the decline in profitability of business entities and reducing number of creditworthy borrowers, which, in turn, leads to cautious credit policies adopted by banks,
- the high cost and the lack of credit because of insufficient domestic resources and the mismatch of terms and conditions of bank loans aiming to attract resources. There is a tendency to steady the prevalence of short-term deposits: in absolute terms, at the end of the third quarter. In 2015, short-term deposits (on demand and up to one year) amounted to UAH 168.7 billion (68.11% of total deposits), the short-term loans (up to one year) amounted to UAH 376.2 billion. In the long-term, the number of loans exceeded deposits by UAH 102.0 billion,
- significant credit risk, inadequate management practices, and the lack of clear mechanisms for

insolvent borrowers for repayment of loans. This leads to reduced quality of existing assets and the increase in problematic loans,

- the lack of protection of the rights of lenders and borrowers. During 2003-2015, the structure of loans in terms of entities. Loans issued to legal entities dominated (Fig. 1).

In recent years, their share was 80%, reflecting the corresponding trend of 2003-2005. Figure 1 clearly shows that in the pre-crisis, period banks have stepped up lending to individuals, which led to predominant consumer loans and mortgages, rather than the stimulation of the manufacturing sector. In 2008-2015, the portion of funds paid to legal entities amounted to the ranged of 60-82% and accounted for 2/3 of bank loans. However, it should be noted that most loans issued to legal entities were short-term rather than investments (not to rush to purchase or upgrade production facilities, fixed assets, proceed with constructions, development of innovative products), and are the primary source used to answer pressing needs. As a result, this measure was not an effective lever that could have stimulated economic growth in the domestic economy. Thus, the role of banks in the investment process could be considered as minimal efforts that did not comply with the greatest potential of banking institutions or the needs of the economy. This situation indicates a reduction in cash flows and deteriorating terms of bank lending in the country.

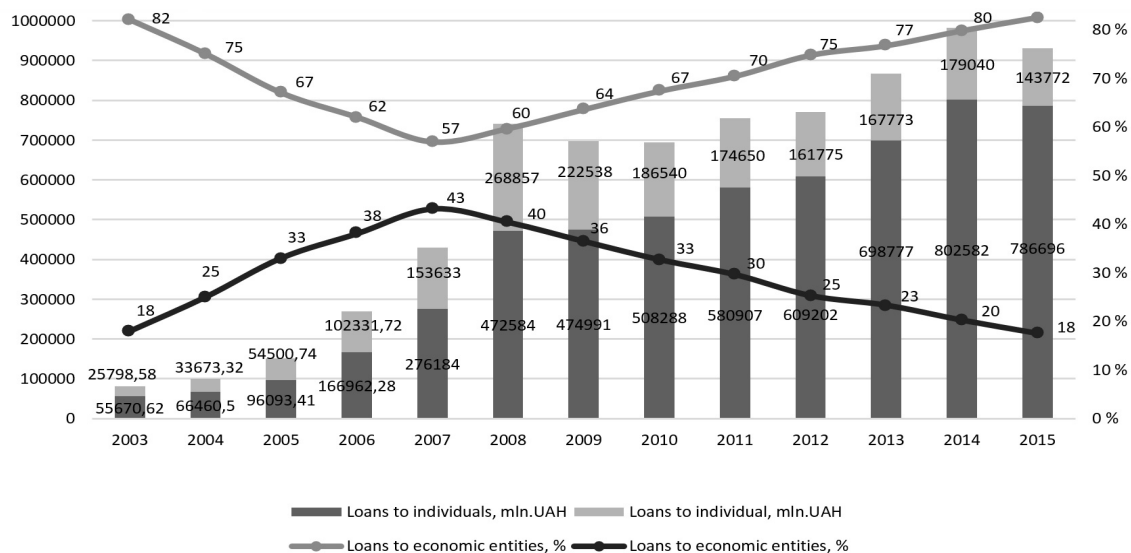


Fig. 1. Loans to depository corporations

Source: author's elaboration based on (The National...).

Analysis of the structure of bank loans in terms of economic activity (Tab. 3) shows that in 2008-2012, more than a half of all loans were used for trade, repair of motor vehicles, household goods, personal consumption and processing industry. In agriculture, construction, real estate, and energy sector, loans accounted for not more than 26%.

Since the introduction of the new Classification of Economic Activities in 2013, no major structural change in the distribution of credits was observed. For a more detailed analysis, the structure of loans was evaluated in terms of the most popular loans by economic activities in 2013-2015. Table 3 shows the domination of loans of up to one year in most industries of Ukraine, which confirms the consumer-driven, rather than, innovation- or investment-driven lending. The construction sector and the real estate

industry were the only exceptions with the share of loans with the maturity of over 5 years amounting approx. 30%, which is due to the specific characteristics of these types of economic activities.

Almost 40% of the portfolio is aimed at lending to wholesale and retail, of which more than a half (60%) is short-term loans (up to one year). In industry has a predominant number of small and medium businesses, more than 50% of which have operated in the informal segment of the market in 2010. The predominance of short-term loans provides no evidence regarding the effectiveness of bank lending.

In fact, in Ukraine banks perform the role of intermediaries in servicing shady flows, which brings relatively high returns in the short term with a minimum risk and discourages economic development.

Tab. 3. Loans given to non-financial corporation's (2013-2015), [%]

ECONOMIC ACTIVITY	IN 2013			IN 2014			INCLUDING TERMS 01.11.2015		
	Up to 1 year	From 1 to 5 years	More than 5 years	Up to 1 year	From 1 to 5 years	More than 5 years	Up to 1 year	From 1 to 5 years	More than 5 years
Agriculture, forestry and fishing	54.7	35.6	9.6	46.7	43.8	9.4	64.9	30.7	4.4
Manufacturing	45.3	40.4	14.3	38.4	49.3	12.3	39.6	39.1	21.3
Construction industry	39.2	35.0	25.8	35.2	35.1	29.6	52.7	32.4	14.8
Wholesale and retail trade; repair of vehicles and motorcycles	66.3	26.7	7.0	56.4	35.0	8.6	62.2	34.7	3.1
Real estate	32.5	35.9	31.6	30.0	38.1	31.9	27.1	40.2	32.8
Professional, scientific and technical activities	39.4	53.1	7.5	37.6	56.0	6.4	17.9	74.8	7.3

Source: author's elaboration based on: (The National...).

During the last ten years the preferred area of lending in Ukraine has been consumption, rather than production, which especially needs the banking support considering the total deficit of floating capital, not even to mention investments.

By all means, lending to the commercial sector and consumers is driven by the existing demand and seems to increase the gross domestic product. But the essential question in this process is weather to stimulate the consumption of own or imported goods? Following the seven-year period of positive net balance of the external accounts, the Ukrainian results of 2006 had a negative transformation. This trend data did not change in the last ten years. In 2008, 2011, 2012 and 2013 the value of the necessary net balance of the external accounts reached a dangerous amount (USD 12.8 billion, USD 10.2 billion, USD 14.3 billion, and USD 16.5 billion). The banking system had a role to play in the emergence of this trend, especially considering an intense growth of consumer-financed imports (Tab. 4).

The persistent and significant current account balance poses a threat to the economy of Ukraine. From the macroeconomic perspective, the negative value of this indicator arises from the following reasons:

- the country produces fewer goods and services compared to its consumption and investments,
- investments are not covered by domestic savings,
- the inflow of resources from abroad or a reduction in foreign holdings of Ukraine (confirmed by the significant reduction in international reserves) or growing responsibilities to non-residents, in other words, a foreign debt, which has a statistical confirmation.

The main factor of the significant reduction of the gross debt in 2014, was the decline in commercial loans amounting to USD 9.4 billion (because of the decline in imports) and bank debt of USD 3.8 billion (primarily due to the repayment of long-term loans by Ukrainian subsidiaries of parent banks).

Breaking trends particular to the current account balance and increasing foreign debt is one of the key challenges of the Ukrainian economy. Banks should understand that it is time to intensify the credit support to domestic exporters and import of replaceable industries, rather than just keep answering consumer needs.

The modern banking systems mainly adapt to the primary payment needs of economic subjects and the short-term floating capital needs. Needs of the real sector are not answered by Ukrainian banks either-structurally nor functionally, therefore, their impact on the material and technical fundament of the economy is extremely limited. Ukraine lacks specialized investment banks, yet opposes to the establishment of the National Bank for Reconstruction and Development with broader powers to finance of the investment needs of the economy, stimulate the growth of bank loans for manufacturing to reach the level of those for personal consumption and trade, and resolve the issue of small volumes of long-term deposits. Currently, all these factors hinder the development of long-term credit investment needs of manufacturing companies. In order to stimulate the economic growth, it is necessary to reform the structure of the modern banking system. Moreover, it is necessary to create conditions for the emergence of powerful regional banks, which would stimulate the economic development by their credit programs.

Tab. 4. Dynamics of the gross external debt, current account balance and international investment position at the end of the period [USD million]

INDEX	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
The gross external debt	30647	39619	54512	79955	101659	103396	117346	126236	134625	142079	126307
Including Government (no guarantees)	10068	10506	10924	11884	11959	17806	24982	25874	27333	29922	32884
National Bank of Ukraine	1690	1254	880	462	4725	6210	7509	7487	4853	1775	2176
Banks	2662	6112	14089	30949	39471	30861	28119	25198	21553	22555	18752
Other sectors	15678	20913	26676	33581	41255	43441	50843	59357	70441	76642	63252
Intercompany truss of direct investments	559	834	1943	3079	4249	5078	5893	8320	10445	11185	126307
International reserves of the National Bank of Ukraine	9715	19391	22358	32479	31543	26505	34576	31795	24546	20416	7533
The balance of current account (of the period)	6909	2531	-1617	-5272	-12763	-1732	-3018	-10245	-14315	-16478	-5273
The international investment position	-12119	-14158	-19919	-26699	-40199	-40247	-38785	-47948	-59447	-76848	-60016

Source: authors elaboration based on (The National...).

4. DISCUSSION OF RESULTS

Today, the overcoming of the credit crisis is one of the major preconditions for economic recovery and development of the real sector. In author's view, this process should be based on a system of measures for the monetary and fiscal policies, including the improvement of the regulation of the banking system, the strengthening the supervision and creating incentives for the development and sustainable operation of the private sector. In the area of fiscal policy, the key challenges for the banking sector in Ukraine are the reduction government deficits, domestic and foreign debt, and the expansion of incentives for the development of the real sector.

The greatest damage to the banking activity is caused by steep currency fluctuations resulting from the imbalances of payments. In terms of the current account deficit that is constantly growing – from USD 3.0 billion in 2010 to USD 16.5 billion in 2013 and USD 5.2 billion in 2014 (The National...) – the demand for currency always prevails over the apply that hampers currency interventions by the NBU. With the approach of the international reserves of the NBU to a critical level, interventions stop, leading to a sharp devaluation. This is the reason behind three episodes of devaluation. The first one took place in 1998-1999, the second – in 2008-2009 and the last one – in 2014-2015. Each of them had negative consequences for banks, but the latest one had the most negative outcomes of all.

The upsurge in inflation due to higher costs and the reduction in imports have a negative impact on the dynamics of savings and deposits of banks, on the one hand, and their confidence in the creditworthiness of customer borrowing on the other. Significantly complicated are the repayment of foreign currency loans and the servicing of foreign currency deposits. Rising unemployment and falling wages mean a sharp reduction of solvent borrowers and the high probability of default of already received loans. A significant portion of low-income households that do not own any savings and have no bank deposits can start their own business.

Among the negative factors that unfavourably affect the credit activity of banks are:

- shadow economy, which leads to the „loss” of substantial quantities of cash flow from the banking sector, the restriction of resources and revenues of banks, undermining the control of money circulation, and, ultimately, – weakens

- the stability of the national currency and banks,
- high level of monopolization of the economy due to the existence of large oligarchic structures that can influence the economic processes and also the banking sector, in their own interests, which is manifested through the withdrawal of capital abroad, massive speculation in the markets and also in the foreign exchange,
- chronic imbalances in public finances, leading to the financing budget, public debt growth, increasing inflation, rising market interest rates and other negative processes in the money and foreign exchange markets,
- war in Eastern Ukraine.

CONCLUSIONS

The analysis led to the conclusion that loans are largely dependent on problems, the solution of which is beyond the competence of the central bank. This is due to the general state of the economy, political situation, inflation and devaluation expectations, which lead to the emergence of certain economic and financial risks, and are ultimately reflected in a lower economic growth, the reduction in the number of solvent borrowers who fail to observe timely repayment conditions, as well as the increase in the share of problematic loans within bank portfolios.

Credit processes should be stimulated by improving the investment climate, the using more stringent lending criteria, ensuring effective mechanisms for provisioning for credit risks and the improvement of measures to protect the rights of lenders and borrowers. Also, it is necessary:

- focus state efforts on the implementation of new international investment projects on the introduction European standards for domestic enterprises, including joint investment projects in strategic sectors,
- promote investment projects in support of small and medium-sized businesses, especially implementation of new technologies, equipment, and advanced technological development, especially in the fields of energy and infrastructure development,
- intensify efforts to foreign banks to open credit lines for lending to small and medium-sized businesses to implement energy efficiency projects under the state guarantee.

The interdependence of the real and banking sectors requires the formation of such policy of the NBU and the regulation of the banking system, which

would consider the needs of the industry and would ensure its sustainable development. Small and medium businesses are the key sector able to provide the flexibility of the economy in the period of crisis and a source of income. Therefore, the support and development of such lending can increase the stability of the economy, which outlines our further scientific interests.

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