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## ASSETS AND LIABILITIES STRUCTURE PROBLEMS OF UKRAINIAN BANKS

It's widely known that Ukrainian economy especially the banking system is experiencing considerable stress nowadays caused by the global financial crisis. Ukraine's economy has grown very rapidly since 2005 expanding by more than 7 percent in average. Such progress was based on the utilization of large excess capacity and increasing productivity supported by a series of structural reforms. Economic growth started in 2005 has been provided by real domestic demand, namely a credit boom driven by strong capital inflows and income policy that redistributed large trade profits in favour of population. The number of operating banks increased considerably – from 160 in 2005 to 184 in 2009 among which 17 banks with foreign capital.

Real consequences of economic overheating have been already noticeable by mid-2008 in different fields. Credit growth exceeded 70 percent, CPI inflation exceeded 30 percent, wage growth settled in the 30-40 percent range, a buoyant demand on the property market pushed valuations to high levels. At the same time problems in banking system are determined by assets and liabilities structure problems among which the most essential are the following.

1. Reduction of the high liquid assets share. Comparing the ratios in 2005-2008 one can notice the substantial reduction of high liquid assets share in net assets (8,96 % drop) though absolute values grew almost 3,5 times and amounted 79 702 million hryvnias. Such situation is explained first of all by the worsening of assets quality.

2. Expanding credit portfolios. During the last 4 years the volume of loans granted increased from 97 191 million hryvnias in January 2005 to 792 384 in January 2009 that is 8 times growth. This structure change is determined by banks having money resources, lowering of loan interest rates and mitigation of credit procedures.

3. Increase of problem credits. Having analyzed the amounts of credit problems, it has become clear that the increase in this field has appeared recently (in January-April 2009). The period 2005-2009 was characterized by the reduction of credit problems (five times) though absolute values showed active growth and amounted 18 015 million hryvnias that is 14 870 million hryvnias more than in 2005.

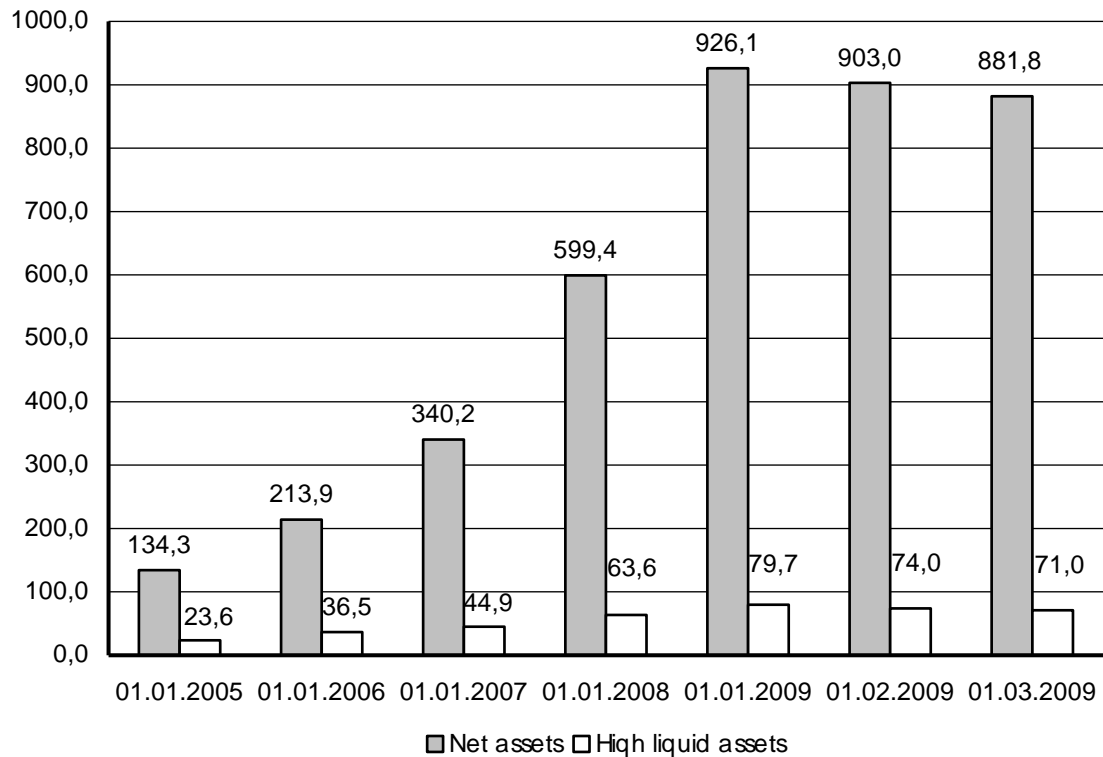


Figure 1. Dynamics of high liquid and net assets, 2005-2009 (mln. UAH, %)

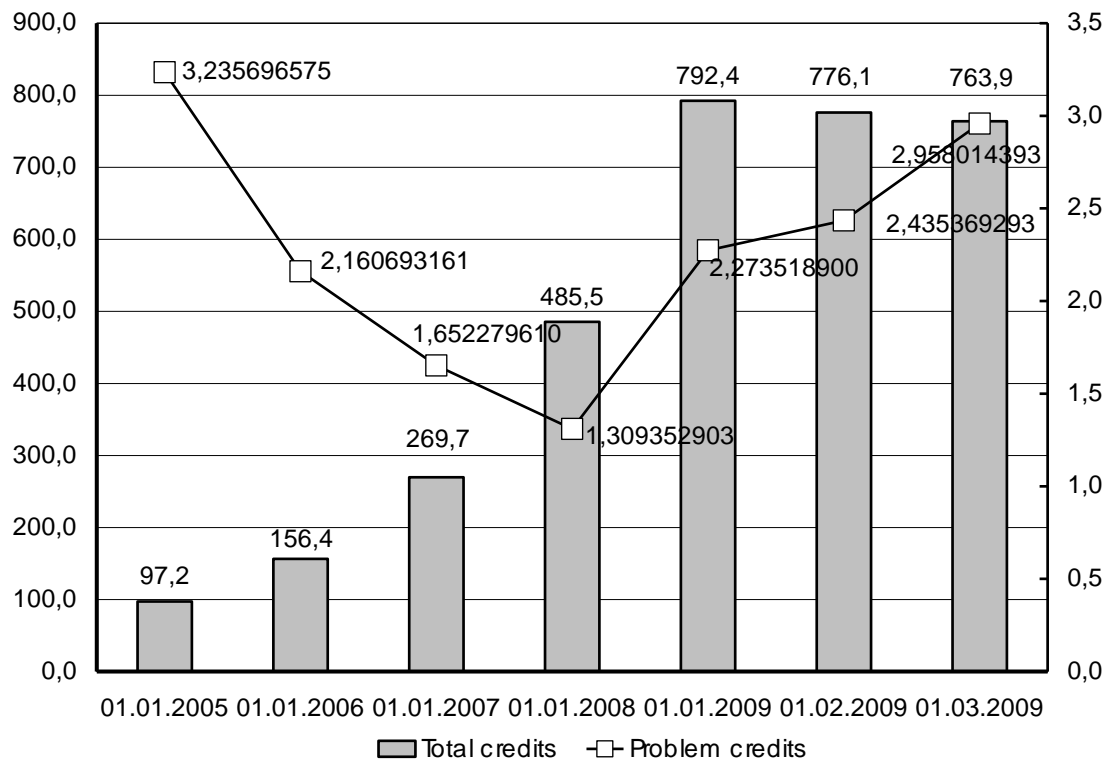


Figure 2. Dynamics of problem credits share in credit portfolios, 2005-2009 (mln. UAH, %)

4. Cutback of people deposits in total liabilities. Situation with private deposits have taken a tendency to slump at the beginning of 2006. In January 2006 people deposits accounted 72 542 million hryvnias (38,50 % of total bank liability) while in

January 2009 this figure was 213 219 million hryvnias (26,43 % of total liabilities). The main reason for this is the diminishing of private income and growing discredit of the banking system. People began to spend their savings on current consumption and payment for their earlier loans. At the same time the share of people deposits in total liabilities descended in relative measurement to the point of 17,84 % (of total banks liabilities) in 2009 while in 2005 this ratio was 34,61 %.

5. Decline in ROE ratio. During the period of 2002-2008 banks had a positive return on equity that grew intensively till the end of 2008 but began to decline in January 2009 and reached – 9,65 % in March 2009. Such situation is caused by the business activity diminishing and capital money outflow.