

RISKS OF RESOURCE PROVISION OF THE BANKS IN CONDITIONS OF INSTABILITY

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Aim of the article is a characterization of the risks of resource provision of the banking and factors that affect them, as well as analysis and assessment of the Ukrainian banks' activity in conditions of economical, social and political crisis. In the article there was researched the essence of resource banking risks. A definition of «risks of resource provision of a bank» was suggested. There was presented author's classification of the risks of resource provision of a bank and were established causal connections between them. System risks faced by the banking system of Ukraine, in the context of its resource base, were analyzed. There were analyzed and investigated the causes of the outflow of deposits from the banking sector in Ukraine during the crisis. In the article were presented the dynamics of the hryvna devaluation in 2014-2015 and there were also revealed the key factors that led to its emergence and development. There was presented financial assessment of the impact of major bank risks on the economy of Ukraine, and was calculated the cumulative effect of the impact on the overall socio-economical situation of the state.

Key words: bank resources, resource risks, deposit risk, currency risk, devaluation, liquidity

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Заславська О. І. Ризики ресурсного забезпечення банків в умовах нестабільності

Целью статьи является характеристика рисков ресурсного обеспечения банковской деятельности и факторов, влияющих на них, а также анализ и оценка деятельности украинских банков в условиях экономического и социально-политического кризиса. В статье исследована сущность ресурсных рисков банковской деятельности. Предложено определение понятия «риски ресурсного обеспечения банка». Представлена авторская классификация рисков ресурсного обеспечения банковской деятельности и установлены причинно-следственные связи между ними. Осуществлен анализ системных рисков, которым подвергается банковская система Украины в контексте формирования ресурсной базы. Осуществлен анализ и исследованы причины оттока депозитных средств из банковского сектора Украины в период кризиса. В статье представлена динамика девальвации гривны в 2014 – 2015 гг., а также выяснены ключевые факторы, которые вызвали ее появление и развитие. Представлена финансовая оценка влияния основных банковских рисков на экономику Украины, а также рассчитан кумулятивный эффект такого влияния на общее социально-экономическое состояние государства.

Ключевые слова: банковские ресурсы, ресурсные риски, депозитный риск, валютный риск, девальвация, ликвидность

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Заславська О. І. Ризики ресурсного забезпечення банків в умовах нестабільності

Метою статті є характеристика ризиків ресурсного забезпечення банківської діяльності та факторів, що на них впливають, а також аналіз та оцінка діяльності українських банків в умовах економічної та соціально-політичної кризи. У статті досліджено сутність ресурсних ризиків банківської діяльності. Запропоновано визначення поняття «ризики ресурсного забезпечення банку». Подано авторську класифікацію ризиків ресурсного забезпечення банківської діяльності та встановлено причинно-наслідкові зв'язки між ними. Здійснено аналіз системних ризиків, на які наражається банківська система України, у контексті формування її ресурсної бази. Здійснено аналіз і досліджено причини відтоку депозитних коштів із банківського сектору України в період кризи. У статті представлено динаміку девальвації гривні у 2014 – 2015 рр., а також з'ясовано ключові фактори, які спричинили її появу та розвиток. Представлено фінансову оцінку впливу основних банківських ризиків на економіку України, а також розраховано кумулятивний ефект такого впливу на загальний соціально-економічний стан держави.

Ключові слова: банківські ресурси, ресурсні ризики, депозитний ризик, валютний ризик, девальвація, ліквідність

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Introduction. The principal purpose of banking is to achieve a high level of profitability at low risk. Most banks face risks during the realization of active operations: provision of loans, purchase of securities, financing investment projects and others. However, the specificity of banking causes the possibility of appearance of the risks not only in course of active

operations, but also during passive operations. In this aspect it should be noted that in the scientific literature resource risks in the banking rarely considered as a separate category. They are explored indirectly through their manifestations in the risk of active operations. In our opinion, risk management of resource provision in the system of bank risk management should occupy

a special place because of their significant impact on the credit potential of the banks.

Topicality of the research of banking resource provision risks is confirmed by the significant number of scientific works of domestic and foreign scientists as I. Blank, O. Vasyurenko, V. Vitlinsky, O. Vozhzhov, A. Gerasimov, G. Dovgan, A. Yepifanov, I. Ivchenko, S. Kozmenko, E. Korotkov, O. Lavrushin, B. Lutsiv, F. Knight, L. Prymostka, K. Redhead, S. Hughes and others.

Aim of the article is a characterization of the risks of resource provision of the banking and factors that affect them, as well as analysis and assessment of the Ukrainian banks' activity in conditions of economical, social and political crisis.

The main material of the article. Among the scientific works, in which were investigated the risks of bank resource provision should be highlighted works of O. Vozhzhov and A. Yepifanov. In particular, exploring resource risks in banking, O. Vozhzhov emphasizes that the resource risk is determined

by probability, that the volume of resources that are at the disposal of banks will be lower, than calculated or predicted level [2, p. 256]. In the works of A. Yepifanov special attention is given to the risks related to deposit operations as the main source of bank resources. The scientist defines deposit risk as the risk of unexpected reduction of the resource base of the bank caused by partial or complete withdrawals from deposit and current accounts [3, p. 194].

On the basis of theoretical approaches to determining the nature and content of the resource risks we suggest to understand under the term «risks of resource provision of a bank» those risks that relate to the formation of bank resources that are assigned for active operations and support of liquidity and financial stability of the bank. For effective management of the risks of banking resource provision we offer a classification of risks from the perspective of the sources of bank resources: deposit risk, the risk of default and lack of equity risk (Fig. 1).

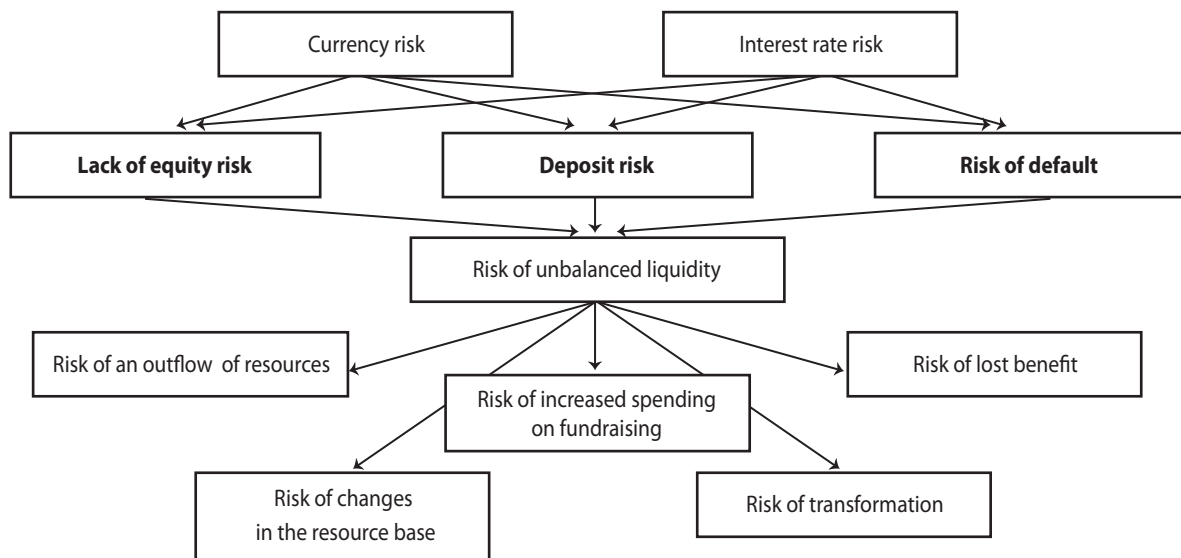


Fig. 1. Classification of risks of banking resource provision and causal connections between them*

* Source: built by author

Considering the fact that the main source of bank resources is deposit money, the most important risks are associated with the realization of deposit operations. In a broad sense the deposit risk is unpredictable reduce of the amount of borrowed resources. It manifests itself in the possibility of a shortfall in the expected level of deposits due to the negative impact of external or internal factors that provoke adverse situations during the formation of the deposit base of the bank.

The risk of default means that the bank can not meet its obligations to contractors (other banks and the central bank) due to lack of funds. It is the result of late receipt of funds for payments. The main factor for this type of risk is the inability of the bank to raise funds in necessary volumes for performance of obligations and maintenance activity.

Equally important is the lack of equity risk, which is manifested in the probability of inadequacy of bank equity. It is known, that the equity adequacy is a key factor of financial stability and competitiveness of the bank. Lack of equity may occur due to problems with the subscription for

shares, using reserves, returning borrowed subordinated funds and losses.

Significant influences on the formation of bank resources provide interest rate risk and currency risk of banks. In terms of bank resource provision interest rate risk manifests itself in increasing costs to pay interest to depositors of the bank and its creditors. It occurs due to rising cost of raised or borrowed funds of the bank. Currency risk affects the bank's resources in case of realization of passive operations in foreign currency and manifests itself in a change of the value and volume of resources through changing exchange rate.

In the case of development of resource risks disrupts a balance in the structure of the resource base of the bank, which in turn can lead to liquidity problems. This means that risks of bank's resource provision may lead to unbalanced liquidity risk, which is defined by the inability of the bank to fulfill its obligations on time. As can be seen from the schema in Fig. 1 risk of unbalanced liquidity is manifested through risk of an outflow of resources, risk of changes in the resource base structure, risk of increased spending on fundraising, risk of lost benefit and risk of transformation.

The emergence of the bank's liquidity problem requires urgent replenishment of its resources, which leads to additional costs. It means that the risk of increased costs reflected in the need to find new resources. If the shortage of the resource base of the bank can not cover, appear problems with obligations repayment. In this context, there is a probability of outflow risk. In the current socio-economical and political conditions this type of risk of domestic banks is extremely topical.

The risk of lost benefit determined by the losses of bank revenue because of the need to keep a portion of funds in cash to implement cash management services for clients. For the bank it is assets that do not generate income.

The risk of bank's unbalanced liquidity is also reflected in the restructuring of its resource base. For example, long-term deposits can be transferred into the category of short-term. As a result, the total amount of the resource base remains, but significantly reduced the bank's credit capacity to conduct long-term banking. In this case, there is also the risk of revenue shortfall through partial use of raised resources.

Transformation of resources is a conversion of funds mobilized by the bank, which differ in structure and composition that meet the requirements of placement in assets. Determining the direction of resource allocation, banks take on the risk of a situation where the level of resources may be insufficient in comparison with the level of assets. Therefore,

the effective formation of the resource base of the bank forecasts diversification of the accumulated funds, balance of their stability, price and terms [2, p. 268].

Theoretical research and practice of bank's resource risk management indicate that for generating sufficient resources banks need to create an effective risk management system that provides identification, analysis, evaluation and methods of resource risk management.

Analyzing the current state of the domestic banking system, it should be noted that the existing economical, social and political challenges caused significant risks and uncertainty regarding its future development. Major system risks of banking activity are currently concentrated in the area of resource provision. Among them should be highlighted the following:

- outflow of deposits of the customers;
- devaluation of the national currency;
- worsening liquidity problems;
- decline of the financial results of the banks;
- increase in the value of the resource base [11].

In 2014 was recorded the greatest in the history of the banking system of Ukraine outflow of deposits, which amounted to 126 bln. UAH that is 30% of all deposits. Table 1 contains information of the most massive outflows of deposits in national and foreign currencies from domestic banks.

Table 1

The outflow of deposits of individuals from banks in Ukraine in 2014*

№	Name of a bank	At 01.01.2014	At 01.01.2015	Dynamics of changes	
				absolute	relative
The outflow of deposits of individuals in national currency (mln. UAH)					
1.	VTB Bank	3 694,2	1 549,1	- 2 145,1	- 58,1 %
2.	Sberbank Rosii	3 581,1	1 560,5	- 2 020,6	- 56,4 %
3.	Nadra Bank	2 563,7	1 732,3	- 831,4	- 32,4 %
4.	Delta Bank	15 197,1	10 981,6	- 4 215,5	- 27,7 %
5.	Prominvestbank	4 895,3	3 645,4	- 1 249,9	- 25,5 %
6.	Raiffeisen Bank Aval	10 128,2	8 141,2	- 1 987,0	- 19,6 %
7.	UkrSibbank	4 812,0	3 911,3	- 900,7	- 18,7 %
8.	Privatbank	60 798,3	51 147,5	- 9 650,8	- 15,9 %
9.	UniCredit Bank	6 706,6	5 665,2	- 1 041,4	- 15,5 %
10.	Oschadbank	28 736,9	26 124,5	- 2 612,4	- 9,1 %
The outflow of deposits of individuals in foreign currency (mln. USD)					
1.	VTB Bank	421,6	149,8	- 271,2	- 64,5 %
2.	Sberbank Rosii	1 298,7	576,6	- 722,1	- 55,6 %
3.	Nadra Bank	497,6	255,9	- 241,7	- 48,6 %
4.	UkrSibbank	544,5	321,2	- 223,3	- 41,0 %
5.	Delta Bank	1 369,0	824,4	- 544,6	- 39,8 %
6.	Privatbank	5 746,4	3 589,0	- 2 157,4	- 37,5 %
7.	UniCredit Bank	656,2	421,4	- 234,8	- 35,8 %
8.	PUMB	739,8	492,9	- 246,9	- 33,4 %
9.	Oschadbank	899,9	664,1	- 235,8	- 26,2 %
10.	Ukreximbank	1 178,2	882,1	- 296,1	- 25,1 %

* Source: compiled from [4; 7].

It should be noted that all the aforementioned banks are part of the group I of banks according to the size of assets. Together they own about 70% of the assets of the domestic banking sector.

Reduction of the deposit portfolio is an indicator of distrust of depositors in the banks' ability to meet its obligations on time. In addition, the socio-political situation in Ukraine caused a problem of disloyalty to a number of subsidiaries of Russian banks. As can be seen from Table 1, the percentage they lost the largest amount of individuals' deposits in national currency (PJSC «VTB Bank» — 58,1%; PJSC «Sberbank Rosii» — 56,4%) and in foreign currency (PJSC «VTB Bank» — 64,5%; PJSC «Sberbank Rosii» — 55,6%). It should be noted that the volume of individuals' deposits of the subsidiaries of Western financial groups also declined. Among them — PJSC «Raiffeisen Bank Aval», PJSC «UniCredit Bank» and PJSC «UkrSibbank». However, the state Ukrainian banks PJSC «Ukreximbank» and PJSC «Oschadbank», also find themselves among the leaders of the outflow of deposits. In general, according to the National Bank of Ukraine the volume of individuals' deposits in foreign currency in 2014 decreased by 40%, in the national — by 23%.

The outflow of deposits was ultraheavy challenge for the banking system of Ukraine. In particular, during the years 2014–2015 in 44 banks was implemented a temporary administration. In addition, many banks delay customer payments, do not make extradition of deposits within term and fully. It is significant that by 01.07.2015 number of domestic banks with a banking license, compared with the beginning of 2014 decreased by 51 institution — from 180 to 129 [7; 12]. In our opinion, this is a positive fact, because on the financial

market remain the most stable and reliable banks that are able to survive in times of crisis.

In this context it is worth noting that the Law of Ukraine «On amendments to some legislative acts of Ukraine to prevent negative impact on stability of the banking system» from 07.04.2014, № 1586 defined such concept as «systemically important banks», which is interpreted as a bank that comply with the criteria established by the National Bank of Ukraine, whose activity affect the stability of the banking system. The list of such banks is determined annually using a mathematical model based on the criteria of systemic importance (total amount of assets, liabilities, legal entities and individuals, the volume of interbank lending, lending the most important sectors of the economy) [9].

In the global economic theory and practice for such institutions is widely used technical concept «too big to fail». Thus, in 2015 as systemically important banks were assigned PJSC «PrivatBank», PJSC «Oschadbank», PJSC «Ukreximbank», PJSC «Delta Bank», PJSC «Raiffeisen Bank Aval», PJSC «UniCredit Bank», PJSC «Prominvestbank» and PJSC «Sberbank Rosii» [5]. According to the fact that all of these banks are leaders on the outflow of deposits, the recognition of them as systemically important can generate new financial shocks.

One of the most powerful factors of system risk for the economy of Ukraine in general and the banking sector in particular was the devaluation risk. It led to inflation, a sharp drop in the purchasing power of the hryvna, rising debt burden and deepening problems in the credit portfolios of Ukrainian banks. Figure 2 reflects the dynamics of change of the exchange rate of hryvna to the US dollar during the period from January 1, 2014 to April 1, 2015.

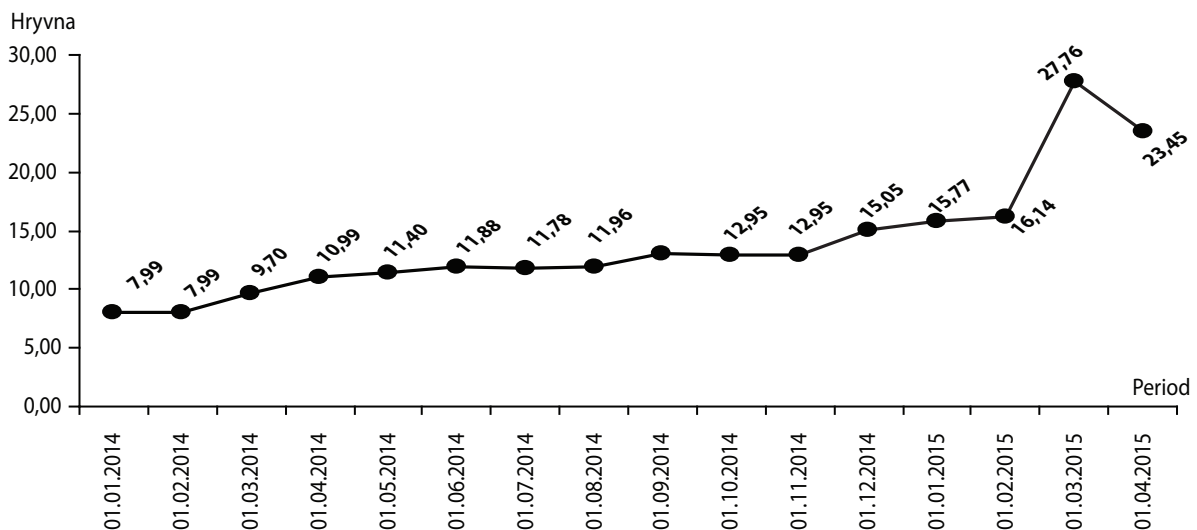


Fig. 2. Dynamics of changes in the exchange of hryvna rate to the USD*

* Source: compiled from [6]

According to the diagram, during February 2015 the average rate of the hryvna on the interbank market exceeded the value of 1 to 27, which is more than 340% devaluation. On the financial market still dominate a devaluation expectation that on the background of distrust in the national currency and banking system in general pushes people to convert savings and deposits in foreign currency. The exchange rate stability of the

hryvna at the beginning of 2015 was also negatively affected with the supply reduction of foreign currency in the interbank market [1].

From the beginning of the deployment of the economic crisis in Ukraine experts increasingly emphasize the appearance of so-called devaluation spiral. Its starting point is the fall of the national currency, accompanied by growing expectations of

further devaluation. In turn it leads to an increase of demand of the foreign currency, which results in a further depreciation of the national currency. If devaluation spiral emerged and gained momentum, it is non-linear structure, which has no point of equilibrium. This spiral will progress until market participants will have financial incentives for the purchase of foreign currency, and there will be available resources of the national currency. Just free money and motives define the boundaries of promotion of the devaluation spiral. To reduce the speed of momentum of this process can achieve only by creating deficit of hryvna resources in the exchange market participants and building their sustainable motivation for the sale of foreign currency and purchase of hryvna [10].

One of the most influential factors of the devaluation risk is considered the National Bank of Ukraine refinancing of commercial banks to maintain their current liquidity. During 2014 the volume of refinancing amounted to 222,3 billion UAH, which exceeds the same indicator of previous year by 3 times. By the way, the volume of refinancing of banks during the crisis of 2008 was 169,5 billion UAH [7]. It should be noted that currently there are only two ways of replacing an outflow of resources in the banks such as refinancing and own funds of shareholders. However, in practice, most banks prefer financial support from the central bank when the second way was implemented by a few banks.

An additional negative factor that had an influence on the value of the currency was the increase of excessive demand for cash currency from individuals and small businesses in order to preserve the purchasing power of incomes. Over the last year were formed such conditions in which high and steady devaluation expectations increased demand for the currency. Thus, according to the National Bank of Ukraine Ukrainians' demand for cash foreign currency during 2014 amounted to 2,4 billion USD that exceeds this indicator of 2013 by four times.

Table 2 shows the research regarding the assessment of negative financial impact of banking risks on the economy of Ukraine in 2015.

Table 2

Assessment the impact of the major banking risks on the economy of Ukraine in 2015 *

Risk	Impact, % of GDP	Need for financing, billion UAH
Additional capitalization of banks	10	170
Support of the Deposit Guarantee Fund	2,4	40
Loss of deposits out of warranty	1,7	30
Devaluation	6	100

* Source: compiled from [8].

Stress testing of the 35 largest Ukrainian banks, which own almost 75% of the total assets of the banking sector, revealed the need for additional capitalization in the total amount of 170 billion UAH. In addition, there is a problem of growing financial burden on Deposit Guarantee Fund. The source of its financing is loans of NBU on bail of government bonds. Finan-

cial evaluation of this factor in 2015 is 40 billion UAH. This means that according to the forecasts and calculations this is the exact amount of money that will be necessary to cover payments of guaranteed funds to individuals.

In this aspect problematic point is the loss of individuals' deposits that exceed the level of government guarantee of deposits, namely 200 thousand UAH. The amount of non-guaranteed deposits of individuals is now estimated at 30 billion UAH. According to the realities of the domestic banking system the risk of their loss is very high. Moreover, it may negatively affect public confidence in banks in general.

Thus, the cumulative effect of purely banking risks, excluding devaluation, which has a significant impact on the overall socio-economical situation of the state, during 2015 could reach 240 billion UAH or 14% of GDP. The consequences of further devaluation of the hryvna will require an additional 100 billion UAH [8].

Conclusion. Analysis of the situation in the domestic banking sector, shows that the problem of forming lending capacity of banks and a high level of resource risks caused by both economical and socio-psychological factors. Among them should be highlighted the fall in real incomes, the forced of contributions for current consumption needs, lack of confidence in the national currency, social tension, distrust in banks, the fear of no return of deposits. The problems that currently exist in the domestic banking sector can not be solved at the level of a bank but also at the level of National Bank using the tools of monetary policy. To restore the lost confidence in the domestic banking sector and a return of confidence in banks, according to experts, must take place two key events: firstly, the stabilization of the political situation in the country, involving primarily the peaceful resolution of the military conflict in eastern Ukraine; and, secondly, the stabilization of the economical situation, reforms in the socio-economical sphere. The financial stabilization in Ukraine is currently one of the tasks of the national security that requires extraordinary anticrisis measures to reduce the impact of negative external and internal factors.

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