



Construction Industry in Ukraine Credit Analysis

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Abstract

Construction is one of the national economy key areas since its operating results are of prime importance for the economic and social development of the country. It is due to the fact that this branch is characterized by a long-term manufacturing cycle and significant materials requirements. Construction enhancement in Ukraine is the principal precondition for successful national development, as far as all the interrelated sectors grow proportionally.

Present day construction market conditions and construction crediting are analyzed in the work. Enterprises financial capacity sources are defined and the innovative importance is proved.

Key words: bank crediting, construction sector, investment attractiveness, innovation technologies, nature of business (economic activities types).

1 Introduction

Major construction is an important sector of the Ukrainian national economy, since it provides workplaces and uses products for many national economy branches. Economic benefit from this branch development provides multiplicative effect of the capital, invested in construction as long as its enhancement advances construction related fields, small and medium-size enterprises. Still effective construction sector activity requires necessary investment that ensures its development and risk minimization activity. Therefore, construction is directly related to and has an impact on national economy. Construction sector enhancement will facilitate the economic growth and solving many social problems. The industry competitiveness is impossible at the current stage of its development, as far as construction industry requires financial investment and organizational improvement.

Recent research and publications analysis. The issues of construction sector crediting are considered in the works of such scientists as Bibik N.V., Novak O.V.[1], Shcherbinin N.A., Sokha I.Yu., Protsak K.V., Sorokina L.V. [2], Kambur O.L. [3], Asaul A.M., V.O. and others. The scientists carried out fundamental investigations in this sphere, still the matter of implementation effective system for construction financing needs more detailed considering. That is the system that will be able to protect investors against capital loss risk..

2 Main Body

Within free market economy crediting function is predominantly revealed in social reproduction ratio optimization. Credit contribution is the result of its functions operations, that becomes apparent in meeting the loan debtors' requirements with extra-budgetary resources for adequate production carrying out and other operations, cash settlements, avoiding payment failures, introduction of new techniques and modern technologies in production, solving housing problems, etc [4].

One of the principal traditional banking operations is crediting. Profits gained from transaction conducting are an integral part of banking revenue structure. They form general enterprise development strategy.

It has to be noted, that bank crediting plays an important role in the national economy development and depends on the level of economic contacts. It is only under free market conditions that all the roles of bank crediting function properly and to the full extent [3].

Credit resources are main components in forming the enterprise financial capacity. On the whole, three types of enterprise financial capacity forming sources may be distinguished: financial, investment and credit resources (fig.1).

Bank crediting plays a significant role in the development of the country's economy and depends on the level of economic relations development. The positive role of bank loans is revealed in the following directions:

- manifesting in regulation, namely in optimizing the social reproduction proportions. Credit includes production and non-production spheres, various productive industries and various regions;
- being an instrument for the development of the national economy integration processes into the world economic system (credit assistance);
- facilitating capital concentration in priority areas;
- facilitating the industry reorientation [4].

Bank crediting rational organization, flexible and efficient credit management system development and the dynamic providing with reliable accounting information is the basis for ensuring commercial bank financial stability and sustainability. In order to organize effective work, banking institutions develop their own policy of customer financing and using practical mechanisms to implement it.

Since 2014 the National Bank of Ukraine has begun the tough dramatic reduction in the economy banking sector. In modern conditions, in Ukraine, the tendency to reduce the number of banking institutions continues to be observed. According to NBU official data [5], information on January 1, 2018 82 banking insti-

tutions were registered in Ukraine, that is 98 less than in 2014 (Figure 2).

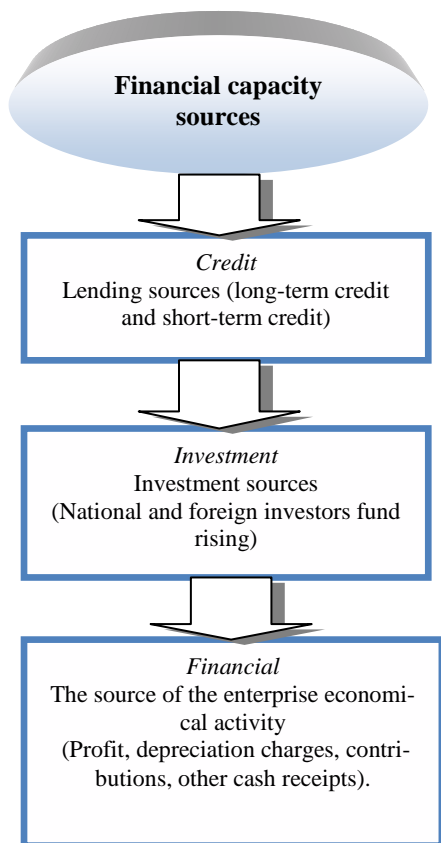


Fig. 1. Financial potential formation sources

The banking system reduction is of reforming nature. It reveals in

the fact that the number of insolvent banks and banks engaged in dubious operations is decreasing in the banking services market. However, as a result of the developing situation, the enterprises and households lending is suspended. It has negative effect because of strict lending requirements to borrowers, as a result of which they do not have enough time and resources to search for the lender. The search for the lender is also complicated by the lack of a credit history with another bank that provides information on the borrower's loans and their repayment nature. However, despite such a massive reduction of banking institutions, in Ukraine on January 1, 2018 there are 82 banks that continue to operate.

Let us analyze banking credit activity in 2017 considering economic activity types is analyzed (Table 1).

According to the National Bank of Ukraine, in 2017 loans amounting to 813,424 million UAH were granted. Resources provided in the construction industry are only 5.4% (43,970 million UAH) in percentage of all loans while wholesale and retail trade, motor vehicles and motorcycles repairing make 33, 7% (274 398 million UAH).

Construction industry low level lending to the in Ukraine can be explained by the fact that this industry has a rather risky activity and is not always able to cover its losses. This is confirmed by the data of overdue debts by economic activity types [5].

The factors restricting construction industry crediting development industry include complications in the loans issuing procedure, introduction of more tough system for assessing risks and a new method for valuation of mortgage assets. Also, the enterprises credit worthiness assessment is quite a problematic procedure which includes the following factors:

- subject financial condition estimation;
- its profitability determination;
- obligations verification existence to third parties;
- cash flow forecast;
- owners professionalism estimation, the client base structure and other factors [6].

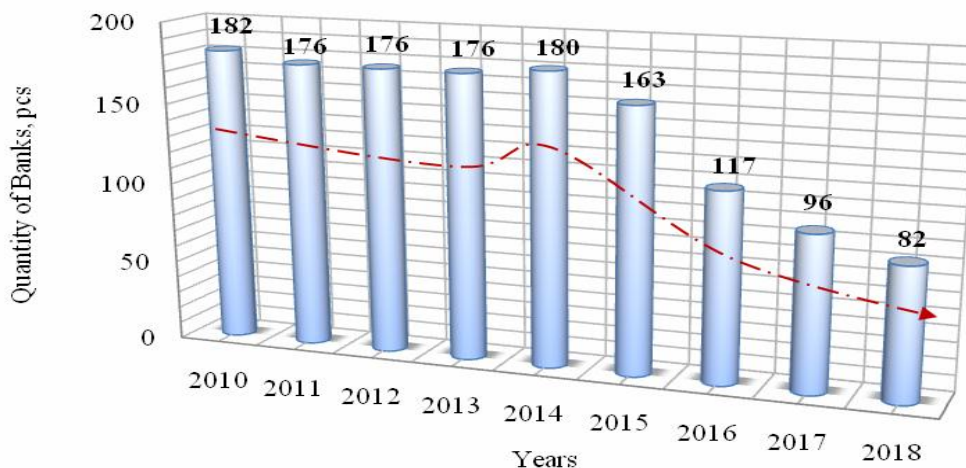


Fig. 2. Banks quantity dynamics in Ukraine in 2010-2017. *Compiled by the authors according to [6]

Table 1: Granted loans granted according to economic activity types [3]

Economic activity types	Total
Agriculture, forestry, and fishery	60 329
Extractive industry and mining development	7 664
Refining industry	196 961
Electricity, gas, steam and air conditioning supply	51 574
Water supply; sewage, waste management	2 348
Construction	43 970
Wholesale and retail trade; motor vehicles and motorcycles repair	274 398
Transport, warehousing, postal and courier activities	33 960

Temporary housing and catering arrangements	2 064
Information and telecommunications	7 202
Real estate operations	71 404
Professional, scientific and technical activities	49 990
Administrative and support field activities	9 246
Education	14
Health care and social assistance	1 074
Arts, sports, entertainment and recreation	819
Providing other types of services	409
Total (mln. hrn)	813 424

According to the NBU indicators, construction is among the top five sectors of the economy with a high risk of its activities development. Almost half (42.89%) of loans granted in this area are

overdue. The problem consist in the lack of a solvent client, every third part of the work is unpaid.

Currently, there are several possible ways to attract resources into construction and house purchase lending. These resources sources, in particular, can include:

- population that needs improvement in housing conditions;
- enterprises tending to solve their employees housing problems;
- state authorities and local administrations;
- financial investors.

One of the housing construction financial provision types can be long-term lending, or mortgage (mortgage land and real estate to obtain a bank long-term loan) [7].

In addition to the construction lending though system, it is possible to identify 5 sectors of influence on this economic branch, which have to be provided and continuously monitored by construction industry enterprises.

The mentioned above factors influence the financial and innovation enterprise standing, its reputation and investment attractiveness. Consequently, adhering and providing permanent monitoring contribute to involving into the construction sector not only foreign, but domestic investors and creditors as well [8].

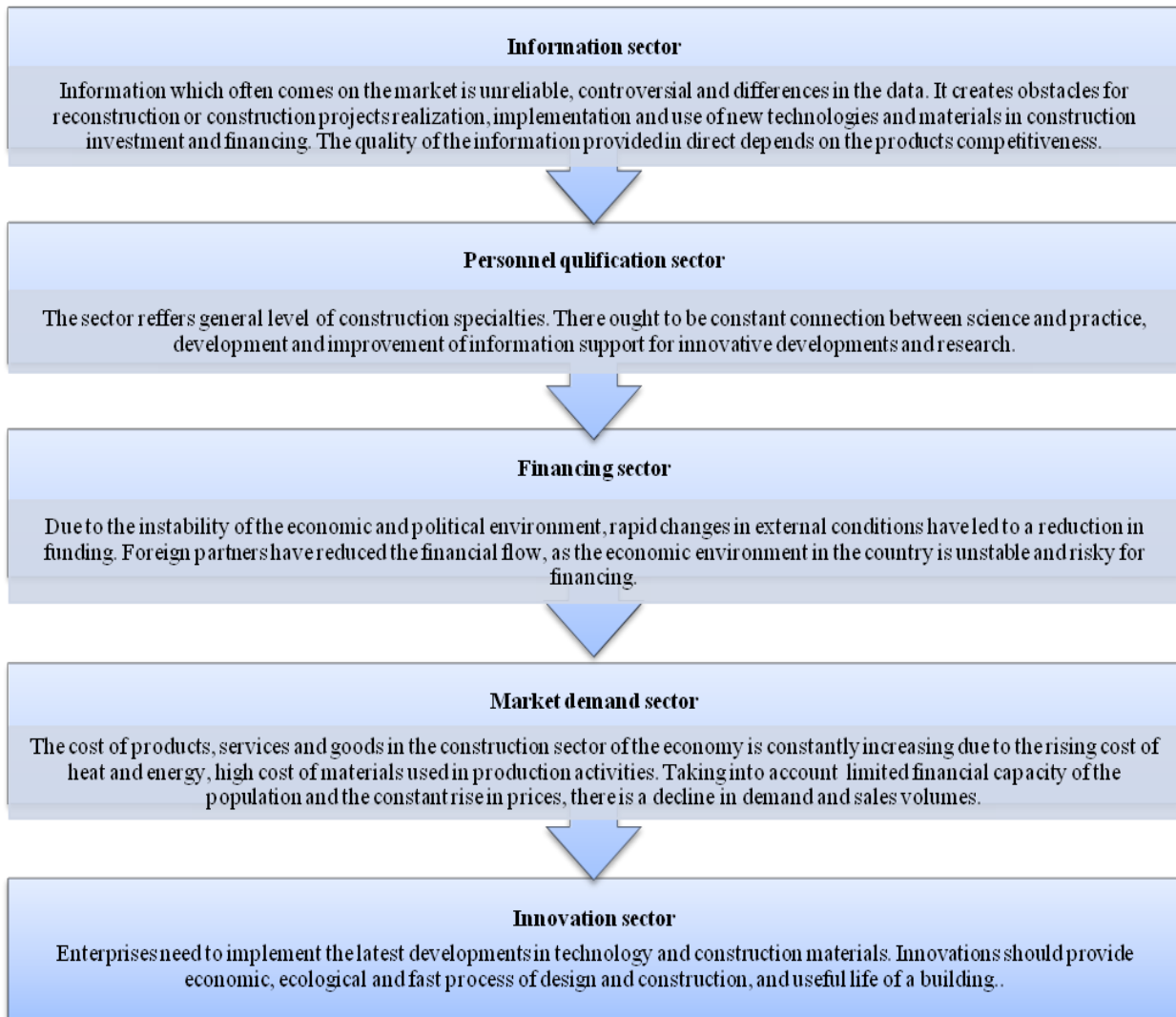


Fig. 3. Construction industry development influence sectors
*Compiled by the authors

High rate of overdue loans occurs in industries characterized by situational demand under considerable rival rivalry. Construction refers to such economic activity type having overdue debt rate level equal to 42,89 % in 2017. Banking institutions submit loans only to financially stable and reliable enterprises which perform financial obligations despite decline in real sector of economy. Under significant level of overdue debt rate, a creditor carries out enterprise financial performance assessment, finds out the reasons for credit debt existence and the rationale for further crediting. An important factor in analyzing the construction sector for crediting is the scope of work. In 2017 national enterprise accomplished civil work in the amount of 105682,2 billion hryvnas listed in Table 2. Positive trend to increasing the amount of work delivery has been traced 2014. It proves that after the decline, the construction sector has revived and continuous its active development.

Table 2: Accomplished civil work amount by construction products types in 2010-2017

Years	Including		Engineering structures	Total
	residential	nonresidential		
2010	6876,5	12782,6	23259	42918,1
2011	8137,1	18608,3	34926,3	61671,7
2012	8523	19581,8	34832,4	62937,2
2013	9953,1	18304,2	30328,9	58586,2
2014	11292,4	13564,1	26252,2	51108,7
2015	13908,8	14998,7	28607,5	57515
2016	18012,8	20093,6	35620,5	73726,9
2017	23730,0	29079,6	52873,2	105682,8

** Compiled by authors according to the data [9]

As for the construction types, engineering structures are prioritized in the national construction sector. According to the above data, regardless the significant decline of work amount in engineering construction sector in 2012-2015, it takes the significant

share in the ratio of the whole work amount (more then 50 %). Engineering structures construction includes the following manufacturing capacities:

- transport structures (rail facilities, highroads, airport runways, bridges, elevated roads, dams, channels, other hydrotechnical structures, etc.);
- pipelines, utilities systems and power lines;
- complex engineering structures (electric power plants, concentrating plants, etc) with no housing features;
- other engineering structures (sport and entertainment structures, military engineering structures, etc).

The only tendency to increase is the construction of residential buildings. It is such kind of construction products that performs an important social function, such as providing housing to the population. Therefore, given the positive trend towards growth, it is necessary to say that the demand for residential construction is growing. Accordingly, the financial capabilities of the population

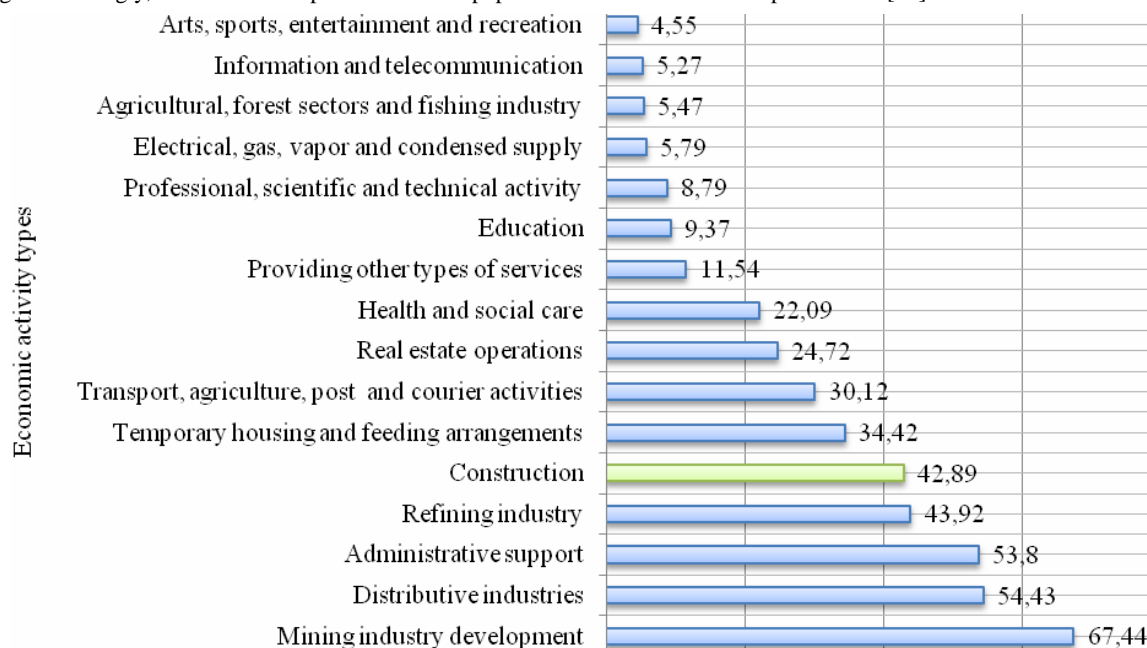


Fig. 4. Overdue debt rate level according to economic activity types in 2017
*Compiled by authors according to the data [5]

For efficient activity and development of the construction industry, enterprises need to react promptly to changes in the market, to define clearly goals and methods for their achievement, and to analyze continuously their activities. Equally important factor is the introduction of the latest technology into production. New technologies can be used to develop new construction materials and construction technologies. Innovations should provide a fast, economical and environmental construction process, long lifetime of buildings, low heat loss, cost efficiency, and a comfortable and safe environment.

Ensuring that the construction industry introduces innovations that will be cost-effective and energy-efficient, banking institutions will be interested in these projects lending. These factors include:

- economic feasibility;
- risk low level;
- setting into exploitation short term;
- mentioned objects high demand;
- use of new design methods and construction materials

that will become relevant in the future.

As for the construction product index in January-February 2018 compared to January-February 2017, it was 100.7, as shown in Table. 3. A further increase in the indices of construction products and the volume of construction works will stimulate an increase in volumes in the production of goods and services to business entities that are closely linked to construction, a decrease in unemployment and an increase in revenues to local budgets.

allow the purchase of residential products both independently and with the attraction of credit resources.

In 2017, construction works performed by all types of construction products increased significantly. It can be explained by the fact that in 2017 GDP grew by 2.1% and the country's economy as a whole continued to grow and develop, though at a slow pace. In order to increase the efficiency of a construction company, rational use of resources is required. The presence of intangible assets at the enterprise indicates the investment in patents, licenses and other intellectual property. Great influence on the financial position of the enterprise provides the availability of inventories. For the rational flow of production and sales of products, an optimal stocks quantity is required. A large number of stocks may indicate a decline in activity of the enterprise, a slowdown in the turnover of current assets. At the same time the lack of stocks can have a negative impact on the organization's activities, which results in the reduction of production. [10]

Table 3: Construction product indices from 2016 to 2018

Year	2016	2017	2018
January	96,5	146,5	99
January-February	105,8	127,6	100,7
January-March	108,3	125,4	
January-April	113,0	122,9	
January-May	112,9	126,0	
January-June	113,0	129,2	
January-July	114,4	129,1	
January-August	115,4	129,8	
January-September	117,3	128,3	
January-October	117,0	127,5	
January-November	117,2	126,5	
January-December	117,4	126,3	

The construction industry is one of the most important sectors of the national economy. Its contribution to the economy is due to the fact that capital construction creates a large number of jobs and consumes products from other sectors of the economy.

3 Conclusion

Today the development of lending in the country is reducing as well as the number of financial institutions and the number of granted credits. Interest rates on loans are rising. The main factor that affects the current credit activity of banks in Ukraine is political and social instability. Bank lending for development requires meeting macroeconomic stability conditions. Therefore, the stabi-

lization of economic, social and political conditions and state regulation will lead to improvement of the construction industry level in the country.

Lending is one of the most promising forms of social welfare financial support. Under conditions of intensifying economic transformation, the deficit of financial resources which the state directs for meeting society needs, lending can become an alternative to the increase of budget expenditures on the fulfillment of social government obligations. Lending advantages as a form of financing social welfare consist in the fact that it generates both economic and social positive impacts. Activation of lending is able to provide the growth of aggregate demand for economic benefits that will influence heavily the development of the national economy. At the same time, lending is an effective mechanism for solving the problem of inconsistency between the volume of available people's incomes and their needs for the purchase of goods and services to meet their own demands. In this form of financial implementation there is also a significant educational potential unlike providing transfers from budget funds, lending as a method of financial support for socially vulnerable population still involves a certain amount of the borrower liability, which motivates using effectively received funds.

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