



Havryliuk A.

INDICATORS OF EFFECTIVE BANK PERFORMANCE

Проведено дослідження сутності поняття «дохідності та рентабельності банку». Обґрунтовано теоретичні аспекти дослідження дохідності та рентабельності банку. Проаналізовані особливості формування доходів АТ «Райффайзен Банк Аваль» за 2016 р. Оцінено основні показники дохідності АТ «Райффайзен Банк Аваль». Виявлені напрями підвищення рівня доходів АТ «Райффайзен Банк Аваль» на перспективу.

Ключові слова: аналіз доходності, банківська система, рівень доходності, фінансові результати, рентабельність, ефективність.

1. Introduction

The priority of the national economy of Ukraine is its structural reorganization towards independent sustainable innovation development based on internal sources. Modernization of the economy requires large-scale investments, which, in turn, must be provided by appropriate sources of financing [1, 2]. However, the credit possibilities of the national banking system are limited by its weak capital base, since the volumes and quality of bank loans are normatively and functionally related to the size of banks' own capital. Therefore, a special place among the existing theoretical and practical problems of banking is the problem of managing banking profitability. Profitability is not only characteristic desirable for investors of the bank's activities, but also an indispensable condition for the long-term continuation of such activities [3, 4].

2. The object of research and its technological audit

The Ukrainian banking sector is going through difficult times [5], therefore it is advisable to determine the indicators of the banks' effective performance [6, 7] using the example of one of the leading Ukrainian banks – Raiffeisen Bank Aval JSC, belongs to the first group of banks. In its group in terms of assets in 2016, Raiffeisen Bank Aval JSC ranks second and second only to Privat-Bank. In the activities of Raiffeisen Bank Aval JSC, the important point is not only the formation of resources, but also their effective placement. Therefore, one of the main areas of analysis of the effectiveness of banking activities is the analysis of rate of return and profitability indicators. It should contribute to improving the efficiency of the bank in modern conditions.

3. The aim and objectives of research

The aim of research is indicators of the effective performance of the banks of Raiffeisen Bank Aval JSC.

To achieve this aim, the following tasks are defined:

1. To carry out a study of the essence of the concepts «rate of return and profitability of the bank».
2. To analyze the profitability and profitability of Raiffeisen Bank Aval JSC.

3. To give recommendations on raising the level of income of Raiffeisen Bank Aval JSC for the future.

4. Research of existing solutions of the problem

The study of the theoretical foundations for development and strengthening of profitability analysis of the bank is devoted to its scientific work by many economists.

The analysis of the profitability of commercial banks is reflected in a number of works.

The analysis of the profit of a commercial bank is an integral part of the analysis of the bank's financial stability. It is known that any technique for analyzing the financial performance of a bank begins with an analysis of incomes and costs, and ends with the study of the formation and use of profit by a commercial bank [8].

Profitability characterizes the bank in terms of sustainability. A special stage in the analysis of income is the evaluation of the profitability of certain types of banking transactions by comparing the volume of income received for a particular operation and the amount of funds under the relevant asset balance item [1].

An important factor affecting bank liquidity is the structure and stability of the bank's resource base [3].

In conditions of transformational changes in the country's economy and its stable, dynamic development on the principles of market relations, the role and importance of the bank's financial planning system is increasing [9].

Analysis of income and costs of the bank is one of the main areas of analytical work, as it allows on the basis of the analysis to monitor the profitability of banks, the level of costs of banking institutions, etc. [6].

For a complex analysis of the bank's profitability, it is not enough only to quantify the system of indicators, therefore it is necessary to use a system of qualitative estimates [7].

The management of assets and liabilities of banking institutions should be focused on creating an optimal system for redistribution of financial flows and resources, allows to obtain a planned level of profit and control risks arising in the management process [10].

So many questions related to the analysis of the rate of return and profitability of the bank, the solution of which has important scientific and practical significance,

is not sufficiently developed, since they fragmentarily cover the problems of the effectiveness of banking activity in each specific situation.

5. Methods of research

To solve the tasks, the following methods are used: analysis and synthesis, logical generalization, analogies, comparative comparison.

6. Research results

Under the current conditions of management, banks take a leading role, thanks to their specific activities. Being in close connection with all the links of the national economy, they significantly affect the development of society and the economy as a whole. Successful activity of any bank depends on the ability to make managerial decisions [2], which in turn enable the bank to provide liquidity, profit, protection from negative influence of banking risks and search for possible reserves to improve the bank's performance [10, 11]. At the present stage of development of banking activities, the priority task is finding the ways to minimize expenses and obtain income sufficient to preserve the funds of depositors and maintain the life of the bank at the proper level. The main goal of the bank's activity is obtaining profit as a necessary condition for its functioning and further development, and also, which the bank owners set themselves by investing their money in the banking business, that is why the analysis of the bank's profitability and efficient management of its profitability is one of the important tasks of the bank's management [7, 12].

Profitability, as a general economic category, characterizes the ability to generate income. Concerning financial investments, the general understanding of profitability is to be interpreted as a value that shows the ratio of the investment value at the beginning of the expected period to the value of the investment at the end of that period. So, the author considers the profitability as the profit earned by the investor on the capital, which he invested with the risk in the investment [13]. It looks like the definition of this concept was given by the author, the profitability is the ratio of how much was earned, before how much was at risk [4]. In economic science and practice there are different interpretations of the concept of «profitability».

The profitability of the bank is an indicator of the success of its work and serves as one of the important factors for attracting new shareholders and strengthening customer confidence. The bank's growth strategy assumes an orientation toward an aggressive competitive policy aimed at crowding out competitors using the most stringent, including not always legal, methods. The implementation of this strategy is usually associated with a priority focus on the most cost-effective, and therefore risky, financial transactions [2, 12].

Profitability is:

- the quantitative indicator expressing the effectiveness of the funds invested in the operation (investment). There is a characteristic that determines the interest in a particular project;
- the interest rate of the income paid on the share in the form of dividends, or the effective interest rate paid on bonds or bills of exchange;

- one of the main indicators of investments, on which it is possible to assess the profitability of investments, their feasibility and compare them among themselves on this indicator;
- the equivalent of the coupon is the real cost of interest, in the calculation of which 365 days a year are taken as a basis;
- cost effectiveness, measured by the ratio of annual income to costs;
- the ability of a business or a security to make a profit;
- the quantitative characteristics of the security. It determines its value for the investor;
- the ratio of the annual income on the security for the period of ownership of the security to the costs of its acquisition;
- a feature that is characteristic of any type of property, varies with time depending on external and internal changes in its own value;
- used in the economy relative indicator of the effectiveness of investments of certain assets, financial instruments, projects or business as a whole.

Summing up the above mentioned, profitability is a relative indicator reflecting the efficiency of resource use as a percentage and is defined as the ratio of the received income to the costs for a certain period. It gives an opportunity to evaluate how good a result is from investing without a thorough analysis of transactions.

The analysis allows to determine the indicators of the overall efficiency of the bank in order to assess the effectiveness of the bank's management in general, to identify sources of increasing the profitability of certain operations, to minimize bank expenses, and to determine the stability of the profit received by the bank, high-risk transactions that led or potentially lead to additional costs.

The need to maximize profit from own activities is dictated by a number of important aspects of the bank's work: the need to cover all costs associated with the non-return of bank assets; formation of dividends for payment to shareholders by creation of intra-bank sources of capital growth. In addition, the profitability of the bank is an indicator of the success of its work and is one of the important factors in attracting new shareholders to strengthen customer confidence.

Profit is the main indicator of the result of any bank's activity, which indicates the nature of the institution's activities. Increasing the effectiveness of the activity is the main goal set by the bank's owners, and profitability management is one of the most important tasks of the financial management of a banking institution.

Profit summarizes the performance and serves as an indicator of the effectiveness of the bank's activities, it indicates the nature, content, functional orientation and scope of activity of the banking institution. It ensures the formation of funds and reserves in the event of unforeseen losses, possible in banking; stimulates the activities of management personnel to improve the bank's work, ensures cost reduction and increased competitiveness, gives the right to replenish capital, forms the basis for vital activity and growth of the bank's weighty role, and ensures the necessary level of dividend payments to shareholders.

Many scientists believe that return on equity (ROE) and return on assets (ROA) are important for analyzing the profitability of a bank. Thus, according to J. Sinkey, «profit on assets is an exhaustive indicator of the bank's

performance in terms of accounting» [2]. It should be noted that these indicators significantly influence the market price of the bank's shares, and therefore they are given special attention in the process of analytical research. Since the return on assets indicator characterizes the efficiency of the bank's managers, and the return on capital indicator shows the level of profitability of the funds invested by shareholders and serves as a guide for choosing the most attractive direction of investment, so the higher the value of these indicators, the greater the profitability of the bank.

It is important that the approaches to determining the level of this indicator in Ukraine, CIS countries and Western countries vary significantly. The ROE value in Western countries is based on market indicators, hence its importance is constantly changing. It is based on the rate of the London banking market (LIBOR) plus the risk premium that the Western investor (in accordance with the existing methodology there) agrees to pay (by the definition of the western scientist J. Brickham). For domestic practice, this indicator has only a calculated value and is not based on market indicators that the securities market is not actually developed.

The profitability of a bank is the total positive result of its economic, financial and commercial activities. The bank's revenues cover all its operating expenses, the profit is formed, the volume of which determines the level of dividends, capital growth, the development of passive and active operations. The analysis should be carried out taking into account the impact on inflation indicators of inflationary processes [12, 14]. The change in the amount of revenues received by the bank during the reporting period under the impact of inflation on them can be determined by the use of annual inflation indices for purposes requiring more accurate calculations – semi-annual, quarterly and monthly indices.

It should be noted that absolute profitability indicators are considered effective indicators of the bank's activities, including a number of analytical indicators: interest margin, non-interest margin, profit before taxation, net profit.

Particular attention should be paid to the amount of interest margin.

Since the value of interest margin generally estimates the profitability of the bank and its dynamics gives the bank's management information on the need to change the interest rate, the volume and structure of income assets and liabilities.

One of the main methods of assessing the profitability level of the bank is the analysis of financial coefficients.

This analysis provides:

- comparison of the actual calculated value of the financial coefficient with its normative level;
- comparison of the coefficients of this bank with the coefficients of competing banks;
- evaluation of the dynamics of the coefficients. In banking practice, various indicators of the bank's profitability are used.

Widely used in Ukraine are:

- ROA – profitability of bank assets;
- ROE – profitability of the bank's share capital;
- NIM – net interest margin.

ROA is an indicator that characterizes the ratio of the bank's net profit after paying taxes to the bank's assets and shows how much net profit the unit of the bank's

assets gives. This indicator can be expressed by the following formula (1) (normative value is not less than 1 %):

$$ROA = \frac{NP}{A}, \quad (1)$$

where NP – the net profit of the bank; A – the assets of the bank.

ROA is an indicator of the effectiveness of the work of bank managers, it shows how they cope with the task of obtaining net profit on the assets of a banking institution.

- **Return on assets (ROA)** – shows the bank's internal policy and the effectiveness of the bank's managers.

ROE is an indicator characterizing the ratio of the net profit of the bank after paying taxes to the share capital of the bank and is expressed by the formula (2) (the normative value is not less than 15 %):

$$ROE = \frac{NP}{C_s}, \quad (2)$$

where PE – the net profit of the bank; C_s – the share capital of the bank.

- **Return on equity (ROE)** – an indicator that measures the profitability of the bank's share capital. Its importance is especially of interest to the shareholders of the bank, since it is approximately equal to the size of net profit, which to get shareholders from investing their capital, that is, the risk they are making by investing their funds in order to ensure an acceptable level of profit.

- **Net interest margin (NIM)** – characterizes the bank's ability to generate revenue, namely, differential interest income, as a percentage of net assets. It is calculated as the ratio of net interest income to bank assets (a normative value of at least 4.5 %):

$$NIM = \frac{\text{interest income} - \text{interest expense}}{\text{bank assets}}.$$

- **Net profit per share (NP_s):**

$$NP_s = \frac{\text{Net profit after tax}}{\text{Number of shares in circulation}}.$$

- **The adequacy of regulatory capital** – shows the ability of the bank to timely and fully pay off on its obligations arising from trade, credit or other transactions of a monetary nature. It is calculated as the ratio of regulatory capital to bank assets (a normative value of at least 10 %).

Important conditions for ensuring the profitability of the bank is optimization of the structure of revenues and expenditures, determination of the minimum allowable margin, identification of the profitability trends of lending operations, planning an optimal profit margin for forecasting an oriented level of interest on active and passive operations. The profitability of banking activities depends on the support of liquidity, management of bank risk and its minimization.

Along with studying the structure of incomes, their dynamics, determining the influence of factors on the deviation of the actual amount of income for each enlarged article, the established plan, as well as addressing other

traditional tasks of analysis, special attention must be paid to the specifics of the analysis of each income group.

In order to identify practical aspects of analyzing the rate of return and profitability of the bank on the materials of Raiffeisen Bank Aval JSC, let's conduct a study of the key performance indicators of the bank (Table 1).

Analyzing the main profitability indicators of Raiffeisen Bank Aval JSC, it is worth noting that the situation in the banking institution in 2016 compared to 2014, has improved. The positive factor in the activity of Raiffeisen Bank Aval JSC was the increase in profit before taxation by 9250347 thousand UAH compared to 2014 and profit in 2016 in the amount of 3717425 thousand UAH. An increase in net interest income after the provision for loan impairment for 9019310 thousand UAH is observed, which is the main share in the revenue structure of Raiffeisen Bank Aval JSC. There was an increase in net commission income by 432 146 thousand UAH. However, there was a decrease in non-interest income by 23575 thousand UAH, with an increase in non-interest expenses by 177534 thousand UAH. Concerning the capital adequacy indicators, a positive trend has been traced since 2014. An increase in the capital adequacy ratio in accordance with Basel II by 10.12 % and the regulatory capital adequacy ratio in accordance with NBU requirements by 13.77 % is observed.

Thus, these calculations show rate of return and profitability, the following measures should be taken: increase the interest rate for active services and reduce the interest rate for borrowed funds; increase the share of own funds in the total amount of financial resources; reduce the ratio of own and borrowed funds; to intensify the work on the diversification of services.

Such general level of profitability characterizes that this structure of the income provides a trend of growth

in profits and the effectiveness of the provision of services and banking operations. This trend continued in 2016. However, it should be noted that the net interest margin, which in 2014 was 8.81 %, in 2015 – 7.66 and – 8.44 % in 2016, respectively, indicates not only the complexity of market conditions in this period, but also characterizes the effectiveness of the bank's control over revenue assets and attracted resources.

Growth in ROA to 6.48 % and ROE to 40.69 % during 2014–2016 testifies to the effectiveness of asset management and share capital of the bank in difficult market conditions, which led to the minimization of losses and profit in 2016 despite the growth of allocations to reserves.

In the current conditions, obtaining profit and ensuring the profitability of the bank is an indispensable factor for the existence of any business entity. In particular, profit characterizes the stability of a credit institution. It is necessary to create adequate reserve funds, encourage staff and management to expand and improve operations, reduce costs and improve the quality of provided services, and, finally, for the success of subsequent emissions and, accordingly, an increase in capital that allows to expand and improve the quality of provided services.

In the process of forming the optimal resource base of the bank, first of all, it is necessary to determine the priorities of individual types of resources, for which a structural analysis of the bank's resource base is carried out. The effectiveness of optimization is ensured only if all available restrictions on resources are taken into account and the possibilities of attracting them. A productive indicator of the bank's activity is the amount of received profit. The rate of return of the profit of the authorized capital and total capital, assets (including income), as well as expenses of the bank, characterize their profitability.

Table 1

Analysis of the main indicators of the effectiveness of banking activities of Raiffeisen Bank Aval JSC for 2014-2016 [15] (thousand UAH)

Indicators	Years			Deviation		
	2014	2015	2016	2015/2014	2016/2015	2016/2014
Profit for the year, thousand UAH	-4245822	-1833266	3717425	2412556	5550691	7963247
Interest income	5925437	6489813	6711726	564376	221913	786289
Interest expense	1755956	2388536	1871733	632580	-516803	115777
Net commission income	1464578	1716103	1896724	251525	180621	432146
Non-interest income, thousand UAH	820203	358125	796628	-462078	438503	-23575
Non-interest expenses, thousand UAH	3297803	3053489	3475337	-244314	421848	177534
Total assets	47351693	53573225	57364637	6221532	3791412	10012944
Authorized capital	3002775	6154516	6154516	3151741	0	3151741
Share capital	3943480	5460497	9136738	1517017	3676241	5193258
Regulatory capital	6081858	7870757	9634759	1788899	1764002	3552901
ROA	-8.97	-3.42	6.48	5.54	9.90	15.45
ROE	-107.67	-33.57	40.69	74.09	74.26	148.35
Net interest margin	8.81	7.66	8.44	-1.15	0.78	-0.37
Net income per share	-0.14	-0.06	0.06	0.08	0.12	0.20
Net interest income after loan impairment provision	-4150802	-1037832	4868508	3112970	5906340	9019310
Adequacy of regulatory capital	12.84	14.69	16.80	1.85	2.11	3.96
Capital adequacy ratio in accordance with NBU requirements, %	13.05	18.91	26.82	5.86	7.91	13.77
Capital adequacy ratio in accordance with Basel II, %	14.07	19.12	24.19	5.05	5.07	10.12

In order to further effectively improve the efficiency of the bank's operations, it is possible to suggest the main directions of revenue growth: the general growth of a group of assets that generate interest income, for which the bank should, firstly, attract more borrowers and, at the same time, carefully analyze their financial condition, secondly, to increase its credit potential by increasing the volume of attracted resources. This is possible with a weighted marketing and interest rate policy; change in the share of income assets in total assets, for which it is necessary to reduce the «idle» assets to a minimum, but within the limits that ensure the liquidity of the bank; change in the general level of the interest rate on the bank's active operations.

The main areas for increasing the level of rate of return and profitability of Raiffeisen Bank Aval JSC at the present stage should be: development of plans for raising the level of profitability using additional sources of raising funds both on domestic and external financial and money markets; attraction of strategic investors, including foreign ones; improving the quality of capital and ensuring a sufficient level of capital coverage of risks, including improving the capital structure; stimulating profitability by improving taxation and dividend policy; improve the calculation and monitoring systems of banking risks.

7. SWOT analysis of research results

Strengths. The strength of research is the analysis of rate of return and profitability indicators of Raiffeisen Bank Aval JSC through 2016, justification of recommendations for increasing Raiffeisen Bank Aval's income level for the future.

Weaknesses. The weak point is that all rational methods for ensuring the development of Raiffeisen Bank Aval JSC have not been analyzed.

Opportunities. Opportunities for further research are borrowing the experience of foreign countries in improving the analysis of banks' profitability and identifying innovative ways to increase their profitability.

Threats. Threats to the results of the conducted researches are that the market for the provision of banking services is constantly changing, new types of banking operations appear that need to be taken into account and the methods of analysis to be changed. Influence of external factors, such as inflation, the economic situation in the country, social and economic instability in the country and the deepening of the global financial crisis, on which the decrease or increase in the bank's profitability indicators depend, influences on the market of provision of banking services.

8. Conclusions

1. The essence of the concept «rate of return and profitability of the bank» is investigated. The rate of return and profitability of the bank are indicators of the success of its work and serve as important factors for attracting new shareholders and strengthening customer confidence.

2. Analyzing the main profitability indicators of Raiffeisen Bank Aval JSC, it is worth noting that the situation in the banking institution in 2016 compared to 2014, has improved. The positive factor in the activity of Raiffeisen Bank Aval JSC was the increase in profit before taxation

by 9250347 thousand UAH compared to 2014 and profit in 2016 in the amount of 3717425 thousand UAH. An increase in net interest income after the provision for loan impairment for 9019310 thousand UAH is observed, which is the main share in the revenue structure of Raiffeisen Bank Aval JSC. There was an increase in net commission income by 432 146 thousand UAH. However, there was a decrease in non-interest income by 23575 thousand UAH, with an increase in non-interest expenses by 177534 thousand UAH. Concerning the capital adequacy indicators, a positive trend has been traced since 2014. An increase in the capital adequacy ratio in accordance with Basel II by 10.12 % and the regulatory capital adequacy ratio in accordance with NBU requirements by 13.77 % is observed.

3. Recommendations are given on raising the income level of Raiffeisen Bank Aval JSC for the future. The main areas for increasing the level of rate of return and profitability of Raiffeisen Bank Aval JSC at the present stage should be: development of plans for raising the level of profitability using additional sources of raising funds both on domestic and external financial and money markets; attraction of strategic investors, including foreign ones; improving the quality of capital and ensuring a sufficient level of capital coverage of risks, including improving the capital structure; stimulating profitability by improving taxation and dividend policy; improvement of the calculation and monitoring systems of banking risks.

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ИНДИКАТОРЫ ЭФФЕКТИВНОЙ ДЕЯТЕЛЬНОСТИ БАНКА

Проведено исследование сущности понятия «доходности и рентабельности банка». Обоснованы теоретические аспекты

исследования доходности и рентабельности банка. Проанализированы особенности формирования доходов АО «Райффайзен Банк Аваль» по 2016 г. Оценено основные показатели доходности АО «Райффайзен Банк Аваль». Выявлены направления повышения уровня доходов АО «Райффайзен Банк Аваль» на перспективу.

Ключевые слова: анализ доходности, банковская система, уровень доходности, финансовые результаты, рентабельность, эффективность.

Havryliuk Oleksandr, Postgraduate Student, Department of Informational Technologies, Kyiv State Maritime Academy named after hetman Petro Konashevich-Sahaydachniy, Ukraine, e-mail: gavryliukom@gmail.com, ORCID: <http://orcid.org/0000-0001-9098-4522>

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Hatska L.

INVESTIGATION OF ADVANTAGES OF OUTSOURCING OF INDEPENDENT FISCAL INSTITUTIONS IN THE COUNTRIES OF PERIPHERAL CAPITALISM

Показано, що периферійність розвитку України визначається недосконалістю державних, в тому числі – фіскальних, інституцій. Дефекти фіскальних інститутів пов'язані з тим, що процес інституційних перетворень в Україні перебуває під надмірним впливом олігархічної і політичної еліти. Висловлена гіпотеза, що в цих умовах аутсорсинг незалежних фіскальних інституцій може бути одним з інструментів посилення економічної обґрунтованості і прозорості фіскальної політики, її переорієнтації на інтереси суспільства.

Ключові слова: світ-системний аналіз, незалежні фіскальні інститути, аутсорсинг фінансових інститутів, фіскальна політика.

1. Introduction

The growth of financial losses and the public debt as a consequence of the financial crisis form the increased attention of scientists, politicians and practitioners to the problem of the stability of the financial system, the development of mechanisms, rules and institutions to ensure the effective management of public finances, including the introduction of strict fiscal rules and the creation of organs, that would monitor their compliance. Such in many countries have become independent fiscal institutions, whose role is control of the main financial indicators, to advise governments on fiscal policy. The effectiveness of such institutions in developed countries makes it interesting to study the possibilities of their implementation in the economy of peripheral countries.

2. The object of research and its technological audit

With the purpose of effective formation of the fiscal system in Ukraine, a study of the functioning of a system of independent fiscal institutions in different countries is

made. The database of such institutions includes more than 40 independent financial institutions that have their own specific goals and peculiarities of work in different EU countries. They carry out objective and public analysis and forecasting and increase the transparency of fiscal policy. Their experience is interesting for Ukraine for the development of its own fiscal system by introducing successful experience of foreign countries.

3. The aim and objectives of research

The aim of the article is summary of the world theory and practice regarding the functions of fiscal institutions, assessment of the possibilities of their application to Ukraine and studying the advantages of outsourcing in comparison with other methods of implementing independent fiscal institutions in the economy of peripheral countries.

To achieve this aim, the following tasks are defined:

1. To investigate the effectiveness of existing state institutions in developing countries.
2. To analyze the experience of developed countries in the creation of independent fiscal institutions.