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### BANKS PARTICIPATION IN THE FIXED CAPITAL REPRODUCTION IN THE CHECHEN REPUBLIC ENTERPRISES

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#### *Abstract*

This work reflects the existing scientific backlog on the study of the effectiveness of the banking system, its ability to accumulate and transform them into investments, problems of increasing the efficiency of interaction between the financial and real sectors of the economy, the main directions of studying the relationship between monetary policy, the scale of lending and the growth of industrial production and technological innovation. Based on the analysis of indicators of unliquidated obligations of enterprises of the Chechen Republic, the structure of volumes of loans by the economy as a whole and small and medium-sized enterprises, volumes of investments in fixed assets, low activity of banks in ensuring the current liquidity of enterprises and financing of investments in fixed assets was established. The pair correlation coefficients are defined and interpreted between the volumes of lending by banks to the economy as a whole and investments in fixed assets in the economy. The results obtained are confirmed by the assessment of the relationship between the volume of investments in fixed assets made through bank loans and the gross regional product. It is concluded that the achieved level of economic development of the republic is not the result of the use of bank loans in financing investments in fixed assets and measures have been outlined to improve the use of the credit potential of the Chechen Republic.

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**Keywords:** Working capital, industrial enterprise, bank, credit, fixed capital, paired correlation coefficient.



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## 1. Introduction

The need to develop Russian regions at a qualitatively new level attaches particular importance to addressing the issues of enhancing the role of the banking system in investment processes that contribute to the creation of favorable conditions for the activities of business entities and have a stabilizing effect on the economic situation as a whole. Realizing its functions, the banking system affects the economy of any region, while mediating the processes of formation of working capital of enterprises and organizations, the processes of their expansion, modernization of production and innovative development.

## 2. Problem Statement

A characteristic feature of modern economic research is their focus on "... developing such an economic policy that would contribute to economic stabilization..." (Shtulberg, 2007, p. 108). The opinion of both Russian and foreign authors agrees that "the condition for achieving economic growth is the implementation of the investment process" (Stolbov, 2006, p. 38). Undoubtedly, the modernization of the economy of a particular region and of the country as a whole, its structural restructuring, and the expansion of innovative processes "objectively require intensification of the development of the financial sector", which is defined in the long-term scenario forecast for the development of Russia. In the Strategy for the Socio-Economic Development of the Chechen Republic until 2025, "... the creation of favorable conditions for the participation of financial institutions in financial intermediation ..." is identified as a priority for the development of the banking system, which is directly related to stimulating the participation of banks in short-term and long-term lending economic entities of various sectors of the economy of the republic, and above all, the real sector of the economy.

## 3. Research Questions

A large number of works by Russian and foreign scientists are devoted to studying the degree of interaction between the financial and real sectors of the economy. This topic does not cease to be the subject of scientific discussions and therefore is widely covered in the economic literature. The focus of the studies is on determining the effectiveness of the banking system, its ability to accumulate and transform them into investments, the problems of increasing the efficiency of interaction between the financial and real sectors of the economy (Aganbegyan, 2011; Ageeva & Mishura, 2017; Lavrushin, 2011, 2013, 2016; Beloglazova, 2011; Maslenikov & Maslenikov, 2015), ensuring the availability of credit resources for small and medium-sized enterprises (Kremin, 2017; Nasonov, 2015). Many researchers turn to the analysis of the credit market by federal districts, industrial complexes and sectors of the economy (Gostev, 2017; Zike, 2015).

To assess the role of banks in the development of the real sector of the economy, various criteria and standards are selected, with the help of which the influence is studied:

- monetary policy on the growth of industrial production (Severe, 2016);
- the state of the banking system on the processes of attracting credit resources by industrial enterprises (Kim & Park, 2017; Kremin, 2017; Sofronova, 2018);

- long-term and short-term lending for the quality and quantity of innovations in large, small and problem firms (Gu et al., 2017; Nikulina, 2016; Pellegrina et al., 2017).

#### **4. Purpose of the Study**

In continuation of the study of the revealed indirect correlation between the investments of credit organizations in securities and the volumes of lending by them to the corporate sector of the country (Demilkhanova, 2016), it seems necessary:

- 1) to analyze the relationships between the lending processes by banks of industrial enterprises (including small and medium-sized enterprises) and their current financial condition, on the one hand, and investment activity, on the other, based on an assessment of the participation of banks in the formation of working capital of enterprises and financing investments in fixed assets in the context of the leading sectors of the economy of the Chechen Republic;
- 2) to determine the main directions of development of lending processes in the light of the Strategy for the socio-economic development of the Chechen Republic for the period until 2025.

#### **5. Research Methods**

The analysis of data on accounts payable and receivable between enterprises and organizations shows that their volumes for the analyzed period are growing. In the structure of the total debt of enterprises and organizations, a significant share is occupied by accounts payable. In 2016, the share of accounts payable in the funds attracted by enterprises and organizations is 85.0 %, in 2017 the indicator grew and reached 87.7 %. The observed trend towards an increase in the share of accounts payable, which means, in fact, the replacement of bank loans by enterprises with debt to suppliers, will inevitably lead to a deterioration in the financial condition of economic entities, and this will further aggravate the inaccessibility of a bank loan for them.

Increasing amounts of excess of accounts payable over accounts receivable are noted, which indicates a payment crisis and insufficient participation of banks in short-term lending to enterprises for the formation of working capital, which would help maintain short-term liquidity and their solvency.

The official statistics of the Central Bank of Russia, the Territorial Authority of the Federal State Statistics Service for the Chechen Republic, as well as data reflected from Russian statistical collections show that for the period 2010–2017 the volume of loans to the economy as a whole increased by 2988 million rubles (6881–3893). The share of loans to small and medium-sized enterprises (SMEs) increased over the period by 27.1 % (66.7–39.6). Over the years, the entire volume of loans in foreign currency has been provided to SMEs.

In 2015-2017 loans in foreign currency were not attracted by SMEs, but the high proportion of ruble loans for them in the total volume of loans to legal entities and individual entrepreneurs remains (2015 – 73.9 %, 2016 – 90.6 %, 2017 – 66.7 %), in the provision of which, mainly, the largest banks of Russia participate. They accounted for 99.3 % in 2016, 90.3 % in 2017 of the total loans for SMEs.

Despite the fact that loans to SMEs occupy a significant share in the total volume of loans to the economy, for a number of years they were not used for investments in fixed assets, since investments were not made. Since 2013, the long-term investment activity of SMEs has been gradually increasing, and by the end of 2017, part of the investment in fixed assets in the economy was provided by SMEs.

The data in Table 1 indicate that these investments were also made at the expense of the own funds of small and medium-sized enterprises, since the volume of loans for them in 2017 decreased from 5431 million rubles to 3401 million rubles, and their specific share from 82.2 to 49.4 %.

**Table 01.** Comparative analysis of investments in fixed assets and loan volumes for the economy as a whole, and for small and medium-sized enterprises for 2010-2017.

	<i>In the economy as a whole, [million rubles]</i>		<i>For SMEs</i>			
	<b>Investments in fixed assets</b>	<b>Bank loans</b>	<b>Investments in fixed assets</b>	<b>Specific share gr. 4/gr. 2 [%]</b>	<b>Bank loans</b>	<b>Specific share gr. 6/gr. 3 [%]</b>
2010	50369	3893	0.0	0.0	1540	39.6
2011	51632	7660	0.0	0.0	4330	56.5
2012	54400	2522	0.0	0.0	2009	79.3
2013	47632	3899	3000	6.3	3303	84.7
2014	70048	7647	12600	18.0	3742	48.9
2015	71144	5606	12300	17.3	4144	73.9
2016	78843	6610	18300	23.2	5431	82.2
2017	87403	6881	22000	25.2	3401	49.4

*Note:* Compiled by the author based on: Official website of the Central Bank of Russia. <https://www.cbr.ru>; Small and medium enterprises in Russia. 2017: Stat.sbs./ Rosstat, 2017. <http://www.gks.ru>; Official site of the Territorial Authority of the Federal State Statistics Service for the Chechen Republic. <http://chechenstat.gks.ru>.

The participation of banks in investment (long-term) processes was considered for such industries as “Mining and quarrying” and manufacturing (Table 2).

**Table 02.** Indicators of investment in fixed assets and lending to sectors of the economy of the Chechen Republic in 2010–2017, million rubles

	<b>Economy as a whole</b>		<b>Mining industry</b>			<b>Processing enterprises</b>		
	<b>Investments in fixed assets</b>	<b>Bank loans</b>	<b>Investments in fixed assets</b>	<b>Bank loans</b>	<b>Specific share gr. 5/gr. 3 [%]</b>	<b>Investments in fixed assets</b>	<b>Bank loans</b>	<b>Specific share gr. 8/gr. 3 [%]</b>
2010	50369	3893	1125.7	0	0	837.8	244	6.3
2011	51632	7660	1335.6	10	0.13	817.7	624	8.15
2012	54400	2522	2546.1	0	0	1921.8	223	8.8
2013	47632	3899	899.9	5	0.13	1400.8	295	7.6
2014	70048	7647	1303.6	0	0	1548.1	1013	14.5
2015	71144	5606	2638.7	223	4.0	1265.7	970	17.3
2016	78843	6610	701.1	165	2.5	2116.1	187	2.8
2017	87403	6881	496.2	0	0	2605.3	869	12.6

*Note:* Compiled by the author based on: Regions of Russia. Socio-economic indicators. 2018: Stat. Sat / Rosstat, 2018. <http://www.gks.ru>; Official site of the Central Bank of Russia. <https://www.cbr.ru>.

An analysis of the data in Table 2 shows that the sectors of the economy under consideration are insufficiently credited by banks; this is evidenced by the low share of loans provided to them in the total volume of loans in all sectors and sectors of the economy. Indeed, in the Mining industry for a number of

years, bank loans were not attracted. This means that investments in fixed assets were made at the expense of own funds of enterprises in this industry and funds from budgets of different levels.

In advanced economies, more than half of investment projects are financed using bank capital. According to expert estimates, if the share of bank capital market resources is only 10–12 %, this means a lag in institutional and economic development (Kuznetsova, 2012).

Processing industries are also characterized by low rates of loans in the total volume of loans granted by banks to industries: up to 10 % in 2010–2013 and 2016. 2014 had a higher specific share of credit resources in financing investments in fixed assets, when it amounted to 12.2 % in the economy as a whole and 14.5 % in processing. This situation is primarily due to the tightening of the conditions for issuing long-term loans and the growth of overdue debts on previously granted loans.

In order to establish the degree of dependence of investments in fixed assets on changes in lending volumes, the correlation relationships were studied (Table 3) between:

- the volume of lending by banks to the economy as a whole and investments in fixed assets in the economy (0.6), the Mining sector (−0.4), Processing (0.1) and SMEs (0.6);
- the volume of lending by banks to the Mining industry and the volume of investment in fixed assets in this industry (0.3);
- volumes of lending by banks to processing industries and investments in fixed assets in these industries (0.1);
- the volume of lending to banks of SMEs and the volume of investments by SMEs in fixed assets (0.6).

**Table 03.** Paired correlation coefficients between bank lending and investment in fixed assets in the sectors of the economy of the Chechen Republic

Factor indicators		Correlation coefficient	Effective indicators	
Bank loans to the economy		0.6 <i>Noticeable</i>	Fixed investment	Economy as a whole
		-0.4 <i>moderate neg.</i>		Mining industry
		0.1 <i>weak</i>		Processing
		0.6 <i>noticeable</i>		SMEs
Bank loans	Mining industry	0.3 <i>weak</i>	Fixed investment	Mining industry
	Processing	0.1 <i>weak</i>		Processing
	SMEs	0.6 <i>noticeable</i>		SMEs

Note: Compiled by the author according to the results of the study.

## 6. Findings

The results of the analysis of factor relationships show that loans from banks located in the Chechen Republic are not a decisive factor for long-term investments in fixed assets and, accordingly, updating of fixed assets of enterprises in the Mineral Extraction and processing sectors. This is evidenced

by the values of the correlation coefficients characterizing moderate or weak tightness of the relationship between the considered indicators or its absence.

The presence of a noticeable factorial relationship between the volume of lending by banks to SMEs and their investments in fixed assets indicates that lending has affected the growth of investments. But, given the lack of data on loans to SMEs by industry sectors, as well as the low relative rates of investment in fixed assets by SMEs, we note that this nature of the relationship cannot be unambiguously assessed. Since data on all SMEs were used in studying the nature of factor relationships, regardless of the sector of the economy, a noticeable relationship between the factors under consideration also holds for the economy as a whole.

The role of credit resources of the regional banking system in the reproduction of fixed assets is also revealed on the basis of assessing the relationship between the volume of investments in fixed assets in the economy as a whole, carried out at the expense of bank loans, and the volume of GRP (Table 4). Evaluation of this relationship confirms the presence of a weak connection between the considered indicators.

**Table 04.** Analysis of the relationship between investment bank lending and GRP

	<i>Factor indicator, Bank loans for the economy as a whole</i>		<i>Effective indicator, GRP</i>	<i>Tightness of correlation</i>	
	million rubles	% to GRP		value	interpretation
2010	0	0	70695	0.1749	weak
2011	428	0.5	86623		
2012	0	0	102289		
2013	7086	5.8	122403		
2014	479	0.3	148942		
2015	194	0.1	154402		
2016	2756	1.7	166711		
2017	1245	0.7	178912		

*Note:* Compiled by the author according to the results of the study.

This means that the achieved level of economic development of the republic is not the result of the use of bank loans in financing investments in fixed assets. Further development of sectors of the economy should be based on the achievement of positive financial results of enterprises, contributing to the increase of their own financial resources, which can be directed to the implementation of investment projects.

## 7. Conclusion

Thus, the insufficient participation of banks in short-term lending to enterprises for the formation of working capital, as well as in the process of updating fixed assets, indicates the underutilization of the potential of credit relations in the region, which is an obstacle to the economic development of the real sector of the economy of the republic.

The following measures will contribute to the development of credit relations at the regional level:

- the formation of a competitive environment in the banking services market in the regions using the system of incentives and prohibitions on certain banking operations, the formation of

- interest rates, replenishment of the resources of small banks through the refinancing system in order to stimulate the implementation of the socio-economic tasks of the region;
- increasing the efficiency of differentiated regulation of credit organizations in the regions, which creates the conditions for the formation and sustainable long-term functioning of regional banks, transforming the funds of the population into investments (mortgage loans to poor citizens at an acceptable interest rate, loans to working capital of state (municipal) organizations, etc.);
  - development and offer of credit organizations a license with a different set of operations and the range of clients served (only individuals, only small and medium businesses, individuals and small and medium businesses, etc.). This will contribute to the creation of specialized credit organizations with a unique set of competencies and banking technologies. In the regions, such banks will occupy their niche in a competitive environment in the banking services market.

The implementation of these measures is advisable, since they correspond to the current state of the credit system of Russia and meet the current conditions for the functioning of Russian credit organizations, which should create conditions for economic growth in the regions.

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