

DEVELOPMENT OF THE FINANCIAL MARKET OF UKRAINE

РОЗВИТОК ФІНАНСОВОГО РИНКУ УКРАЇНИ

The article examines trends and prospects for the development of the financial market of Ukraine. Banks have a significant share of the assets of the entire market and play a significant role in it. State ownership in the banking sector prevails. Credit risk remains the determining factor among other types of risks; however, the recovery of the economy will gradually reduce credit risks. Over the past five years, the number of insurers, pawnbrokers and credit unions has more than doubled. The most numerous participants in the financial market are financial companies. The NBU softens the monetary policy, maintaining its ability to influence the behavior of economic agents, and strengthens the requirements for financial institutions, bringing them closer to European standards. Recommendations are given for financial institutions: compliance with prudential requirements of the regulator, timely reporting, revival of lending with improvement of credit risk management, improvement of compliance management, perfecting of cyber protection systems and improvement of business models.

Key words: finance, financial market, bank, financial institution, regulator.

У статті досліджено тенденції та перспективи розвитку фінансового ринку України. Банківські установи мають частку 89 % активів усього ринку та відіграють на ньому значну роль, власність держави у банківському секторі переважає. Активи банків і дохідність поступово зростають, проте знижується кредитування та якість кредитного портфелю. Кредитний ризик залишається визначальним серед інших видів ризиків, проте відновлення економіки поступово знижуватиме кредитні ризики. Упродовж останніх п'ять років кількість страховиків, ломбардів та кредитних спілок зменшилася більш як у двічі. Найчисельнішими учасниками фінансового ринку є фінансові компанії, які відзначаються повільними темпами зростання активів, кредитування і прибутковості. Попри зменшення кількості страховиків, діяльність їхня була високоприбутковою, особливо у 2022 році. Найбільшу величину премій 79% одержано із особистого страхування та автострахування. Кредитні спілки вирізняються спаданням ділової активності, хоча у другому кварталі 2023 року відбулося незначне зростання фінансових показників. Діяльність ломбардів характеризується зменшенням активів, кредитування та доходів у кінці 2021 року і у 2022 році та поступовим зростанням упродовж 2023 року. Національний банк України пом'якшує монетарну політику, зберігаючи свою здатність впливу на поведінку економічних агентів, а також посилює вимоги до фінансових установ, наближуючи їх до європейських стандартів. Наведено рекомендації для успішного розвитку фінансових установ: дотримання пруденційних вимог регулятора, своєчасне звітування, пошук нових форм кредитування із удосконаленням управління кредитними ризиками, удосконалення комплаєнс-менеджменту, покращення систем кіберзахисту, удосконалення бізнес-моделей. Для збереження стабільності фінансового сектору України необхідна скоординована та злагоджена діяльність усіх його учасників, а також органів державної влади. Зокрема, держава має забезпечувати виконання усіх своїх зобов'язань перед міжнародними партнерами, міжнародним валютним фондом, а також підтримку бізнесу та населення через програми пільгового кредитування.

Ключові слова: фінанси, фінансовий ринок, банк, фінансова установа, регулятор.

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Formulation of the problem. The development of the financial market has a significant impact on the economic development of the state and is a reflection of its level. Banks occupy a significant share of the financial sector and are highly dynamic and innovative elements of the financial system of Ukraine. Participants of the financial market function in difficult conditions caused by active military operations on the territory of our country, which leads to conditions of uncertainty and instability. The banking institutions proved to be the most resistant to today's risks due to the multi-year effective reform of the banking sector by the central bank. Non-bank financial institutions have had a harder time adapting to new shocks. An important role in the functioning of the financial market is played by the National Bank of Ukraine as a regulator. The effectiveness of its policy determines the direction of development of financial market participants.

Analysis of research and publications. The problems and prospects of the development of the financial market of Ukraine have been studied by

many scientists, including Gataullina E. [1], Ustinova I. [2], Kravchuk N., Lutsyshyn O. [3], Hryhorash O., Voloshyn I. [4] and other.

Taking into account the achievements of scientists, it is worth noting that the current trends in the development of the financial market in Ukraine require further research.

Formulation of the objectives of the article. The purpose of the article is to study trends and prospects for the development of the financial market of Ukraine, development of recommendations.

Presentation of the main material. In 2017, 82 banks operated on the Ukrainian financial market, their number decreased every year, and as of June 2023, it was 65 (Fig. 1). Of them, 29 banks have foreign capital. The assets of the banking sector are gradually growing, in particular during the second quarter of 2023 – by 4.7%, largely at the expense of banks with private capital. State banks occupy 50.2% in terms of net assets, 60.7% in terms of public funds. Since the beginning of the full-scale war, lending and the quality of the banks' credit portfolio have been declining [5].

Credit risk is the main risk of banks. The share of non-performing loans in the banking sector was 41% as of 12/2020 and decreased to 26.6% by 28/02/2022, but in connection with the start of a full-scale war, it increased to 38.9% (as of 06/2023). The largest share of NPLs in corporate loans is 44.7% as of June 2023, in loans to individuals – 30% (Fig. 2).

In the first two quarters of 2023, the banking sector earned UAH 34 billion in profit, of which about 40% was provided by Privatbank. The high profitability of banks is due to the growth of interest income, mainly from Domestic Government Loan Bonds and

certificates of deposit. Banks were unprofitable only in the I and II quarters of 2022 (Fig. 3).

At the end of 2017, there were 378 credit unions, their number decreased every year and as of June 2023, there were 151 units. Since 2019, the amount of assets, loan portfolio, and operating income of credit unions has been decreasing, but in the second quarter of 2023, there was a slight increase in these indicators (Table 1).

At the end of 2017, 294 insurers worked, but their number gradually decreased with each investigated period and as of 06.2023 was 115 units.

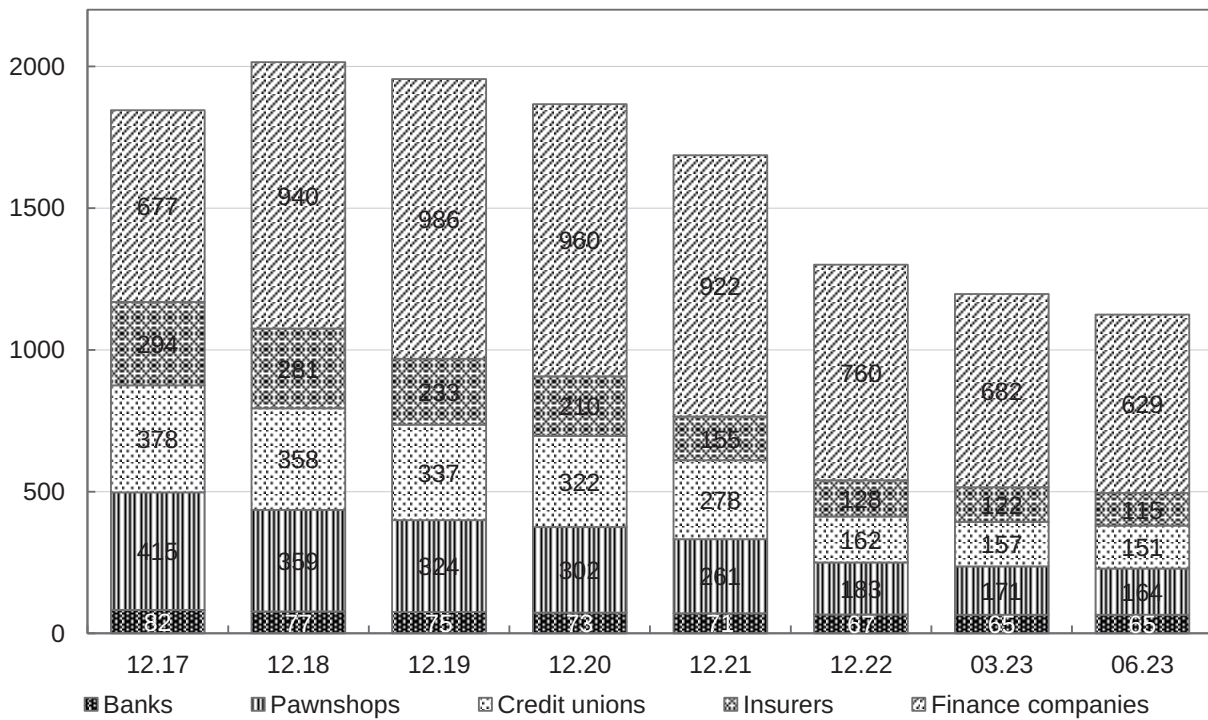


Figure 1. Dynamics of financial market participants, 12.2017 – 06.2023

Source: Compiled according to the sources [5–6]

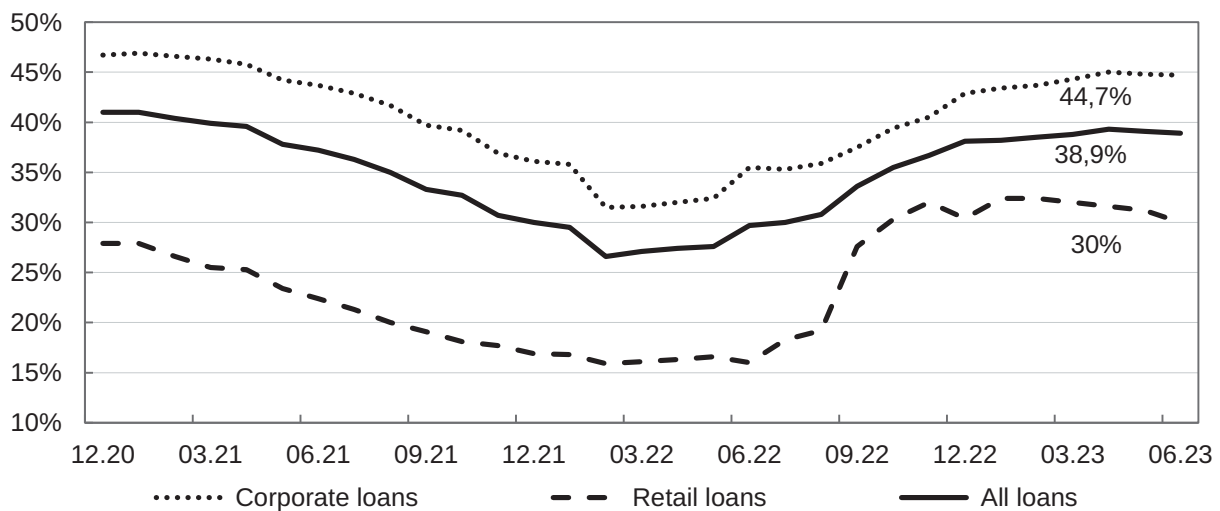


Figure 2. Dynamics of the share of non-performing bank loans, 12.2020 – 06.2023

Source: Compiled according to the sources [5]

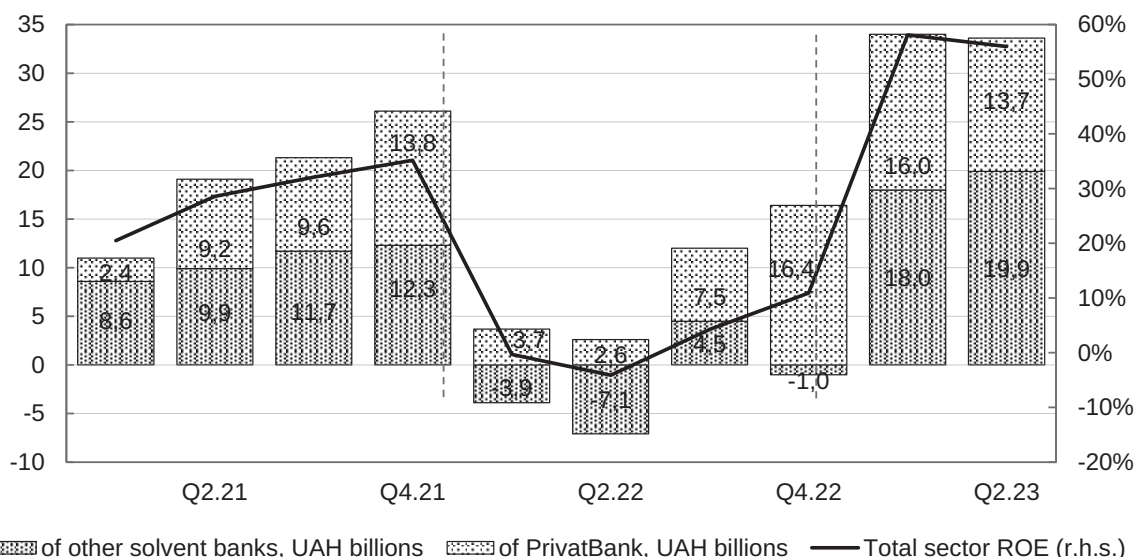


Figure 3. Dynamics of profit and ROE of banks, 03.2021 – 06.2023

Source: Compiled according to the sources [5]

Table 1

Dynamics of financial sector assets, billion hryvnias

Financial institution	31.12.2019	31.12.2020	31.12.2021	31.12.2022	31.03.2023	30.06.2023
Banks	1 493,3	1 822,8	2 053,2	2 353,9	2 427,2	2 562,1
Insurers	63,9	64,9	64,7	70,3	70,5	70,8
Credit unions	2,5	2,3	2,3	1,4	1,4	1,4
Finance companies	162,2	186,5	216,4	244,0	259,3	236,7
Pawnshops	4,3	3,9	4,3	4,1	4,3	4,5

Source: compiled according to the sources [5–6]

The number of pawnshops decreased from 415 units as of December 2017 to 164 units as of June 2023. The volume of their assets increased in the first half of 2023 to UAH 4.5 billion. Lending significantly decreased at the end of 2021 and 2022, and gradually increased during 2023. The financial result of pawn shops was negative in the I-II quarters of 2022, but for the II quarter of 2023 it amounted to UAH 52.3 million.

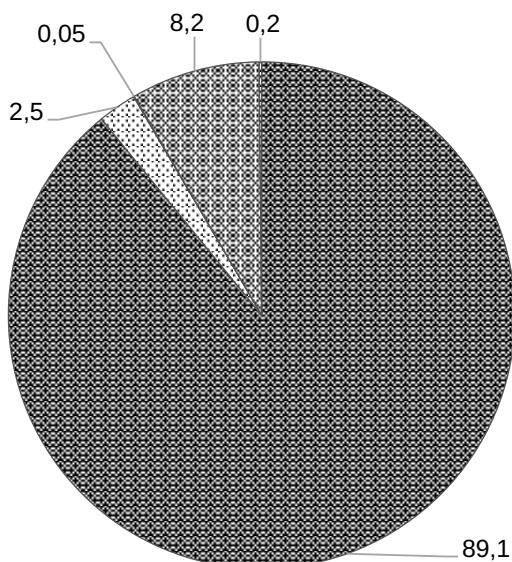
During 2018–2019, the number of financial companies increased, but further decreased and as of 06.2023 amounted to 629 units. The amount of assets of financial companies grew, except for the II quarter of 2023. The volume of lending decreased significantly in the first two quarters of 2022, then slowly grew. Net profit grew rapidly during the first half of 2023.

Despite the smallest number of banks, they occupy the largest share of the financial market by assets, namely 89.1%. Financial companies own 8.2% of assets, although they outnumber the rest of the participants. Insurers have a share of 2.5% of assets, pawnshops – 0.2% and credit unions – 0.05% (Fig. 4).

Since the end of 2019, the volumes of assets and insurance premiums from life insurance have been

growing. The largest amount of premiums, 79%, was obtained from personal insurance and auto insurance. The assets of risk insurers decreased in the first two quarters of 2023, the amount of gross premiums increased in the II quarter of 2023 to the value of the IV quarter of 2021 (Fig. 5). The activity of risk insurers was profitable, the highest values were in 2022. The profitability of life insurers was quite high, especially according to the results of the II quarter of 2023.

The NBU continues to soften its monetary policy by lowering the discount rate. As of October 27, 2023, the rate was reduced to 16% (as of June 3, 2022, it was 25%) to the level of the overnight NBU certificate of deposit rate. Keeping the short-term hryvnia interbank rates close to the discount rate by the regulator will increase the ability of the National Bank of Ukraine to influence the behavior of economic agents. Interest rates on the regulator's transactions with banks remain unchanged to maintain the attractiveness of hryvnia assets. In order to encourage banks to attract hryvnia time deposits of individuals, the regulator established the growth of these deposits with a term of more than 3 months as a single basis for calculating the limit of banks' investments in three-month certificates of deposit



■ Banks ■ Insurers ■ Credit unions ■ Finance companies ■ Pawnshops

Figure 4. Structure of financial sector assets by participants, 06/30/2023

Source: Compiled according to the source [5–6]

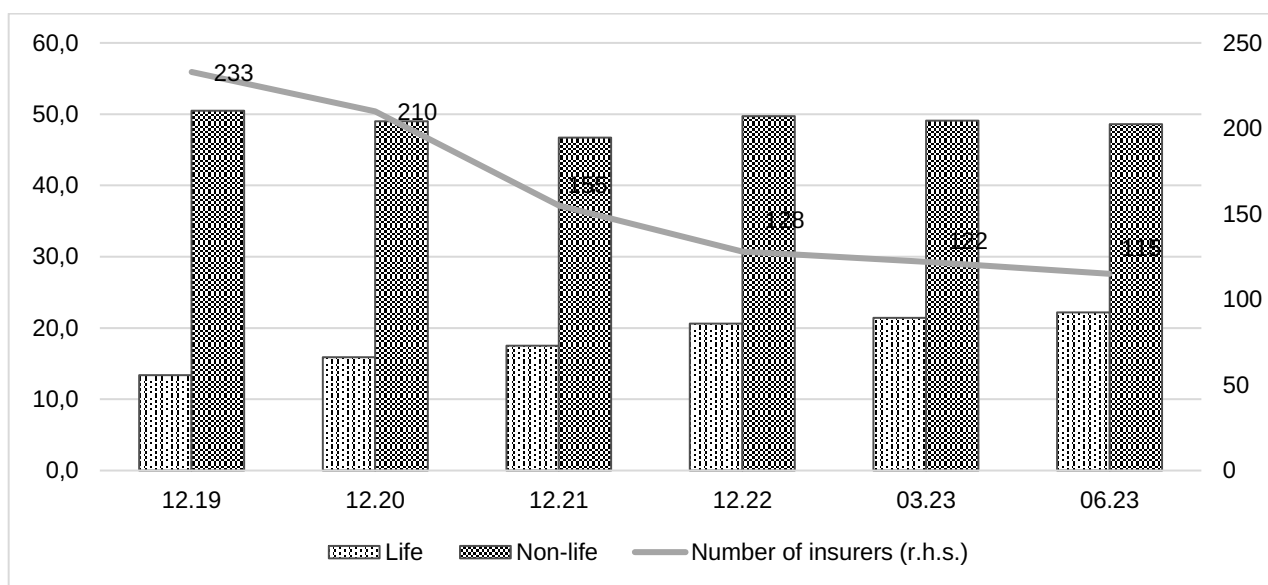


Figure 5. Dynamics of insurers and their assets, 12.2019 – 06.2023

Source: Compiled according to the source [6]

from December 2023. The regulator introduces a number of new requirements for non-bank financial institutions in accordance with European standards and renews its on-site inspections, which will improve the activities of financial service providers.

To maintain the stability of the financial sector of Ukraine, coordinated and conceptual activities of all its participants, as well as state authorities, are needed. In particular, the state must ensure the fulfillment of all its obligations to international partners, the IMF, as well as support for business and the population through soft credit programs.

Recommendations for the development of financial institutions:

- compliance with prudential requirements of the regulator, timely reporting;
- revitalization of lending with improvement of credit risk management;
- improvement of compliance management;
- perfecting of cyber protection systems;
- improvement of business models.

Conclusions. A gradual decrease in the NBU discount rate will lead to a decrease in rates on the financial market, however, the activity of banks in the

first half of 2023 was highly profitable and profitability risks will remain moderate. Economic recovery is gradually reducing credit risks. The share of state banks and their role is growing. From the beginning of 2023, there is a gradual recovery of business activity of financial market participants, their activity is profitable in the current year. The timely and coordinated policy of the National Bank of Ukraine contributes to the effective development of the financial market.

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