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DEVELOPMENT TRENDS OF THE FINANCIAL SECTOR OF UKRAINE

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ТЕНДЕНЦІЇ РОЗВИТКУ ФІНАНСОВОГО СЕКТОРУ УКРАЇНИ

In the conditions of military aggression against Ukraine, the financial sector increases its assets, functions efficiently and smoothly, and earns profits. Over the past few years, the number of non-bank financial institutions on the market has significantly decreased. In the structure of the financial market, financial companies predominate in number, but banks significantly predominate in terms of assets. Banks are actively increasing the volume of their assets, capital, customer funds and lending. Banks have the trust of customers and receive high profits. Starting from the middle of 2023, the NBU discount rate gradually decreased and continues to maintain the attractiveness of hryvnia financial products. The reduction of the rate is justified by the slowdown of inflation, the recovery of the economy, the growth of GDP, and the growth of Ukraine's international reserves.

New laws on financial services and financial companies, insurance, and credit unions have recently come into force. This will have a positive impact for financial institutions through the simplification of market entry and licensing processes, as well as for the NBU through the introduction of risk-oriented regulation and supervision of institutions. As a result of the introduction of new requirements for financial indicators, corporate governance, ownership structures, and other qualitative indicators of financial institutions, the stability and quality of the financial sector will improve. The following recommendations have been determined for the National Bank of Ukraine regarding the stability and further development of the financial sector: harmonization of prudential requirements with European standards and approaches; adaptation of requirements to financial institutions with possible changes in conditions. Recommendations for financial institutions: bringing the activities of non-banking financial institutions into compliance with the new requirements of the regulator; compliance with regulations and requirements of the NBU; developing development strategies and plans and following them; carrying out a balanced, effective credit policy by banks; risk management; improving technologies and strengthening their security.

В умовах військової агресії щодо України фінансовий сектор нарощує свої активи, функціонує ефективно та безперебійно, одержує прибутки. За останні декілька років значно скоротилася кількість небанківських фінансових установ на ринку. У структурі фінансового ринку за кількістю переважають фінансові компанії, проте за обсягом активів значно переважають банки. Банки активно нарощують обсяги своїх активів, капіталу, коштів клієнтів і кредитування. Також вони мають довіру від клієнтів і отримують високі прибутки. Облікова ставка НБУ починаючи із середини 2023 року поступово знижувалася і продовжує утримувати привабливість гривневих фінансових продуктів. Зниження ставки обґрунтоване сповільненням інфляції, відновленням економіки, зростанням ВВП, зростанням міжнародних резервів України. Нещодавно запрацювали нові закони про фінансові послуги і фінансові компанії,

страхування, кредитні спілки. Це матиме позитивний вплив для фінансових установ через спрощення процесів виходу на ринок і ліцензування, а також для НБУ через упровадження ризик-орієнтованого регулювання та нагляду за установами. У результаті запровадження нових вимог до фінансових показників, корпоративного управління, структур власності, інших якісних показників фінансових установ відбудеться покращення стійкості та якості фінансового сектору. Визначено такі рекомендації для Національного банку України щодо стабільності та подальшого розвитку фінансового сектору: гармонізація пруденційних вимог із європейськими стандартами і підходами; адаптація вимог до фінансових установ із можливими змінами умов. Рекомендації для фінансових установ: приведення діяльності небанківських фінансових установ у відповідність до нових вимог регулятора; дотримання нормативів та вимог Національного банку України; розроблення стратегій і планів розвитку та дотримання їх; проведення виваженої, ефективної кредитної політики банками; управління ризиками; удосконалення технологій та посилення їх безпеки.

Keywords: *financial sector, financial institution, financial service, financial market, bank.*

Ключові слова: *фінансовий сектор, фінансова установа, фінансова послуга, фінансовий ринок, банк.*

Problem setting. Security threats caused by a full-scale war are the main systemic risk of the financial sector of Ukraine. The state's economy is highly dependent on international financial aid, which is significantly decreasing in volume and frequency of receipts, creating threats to macrostability. At the same time, the financial sector works harmoniously, receives profits, and its role in the economy is growing.

Analysis of recent research and publications. Modern challenges facing the Ukrainian financial market and innovative directions of its development were

studied by N. B. Tataryn, D. M. Polovko. [1], S. Teslyuk, B. Mikhalchuk [2]. Assessment of the systemic risk of the financial sector as an important element of macroprudential regulation was carried out by O.V. Batrak. [3]. Sunduk T.F., Babenko-Levada V.G., Skorba O.A., Chornovol A.O. [4] devoted their research to the development of digital technologies in the financial sector. Features of digitization in the market of financial services are described in the article Danylyshyn V., Sinytsia S. [5]. Cyber threats to the financial sector in the conditions of war were investigated in the scientific work of I. Honcharenko [6].

The purpose of the article is to study trends in the development of the financial sector of Ukraine in wartime conditions.

Presenting main material. The number of financial service providers is decreasing every year (Fig. 1), but the amount of their assets is increasing (Table 1). During 2019-2022, the number of banks decreased by two units every year, and in 2023 another four banks left the market. Bank assets grew with each listed in the table 1 period, the highest growth rate – 22.1% was observed in 2020.

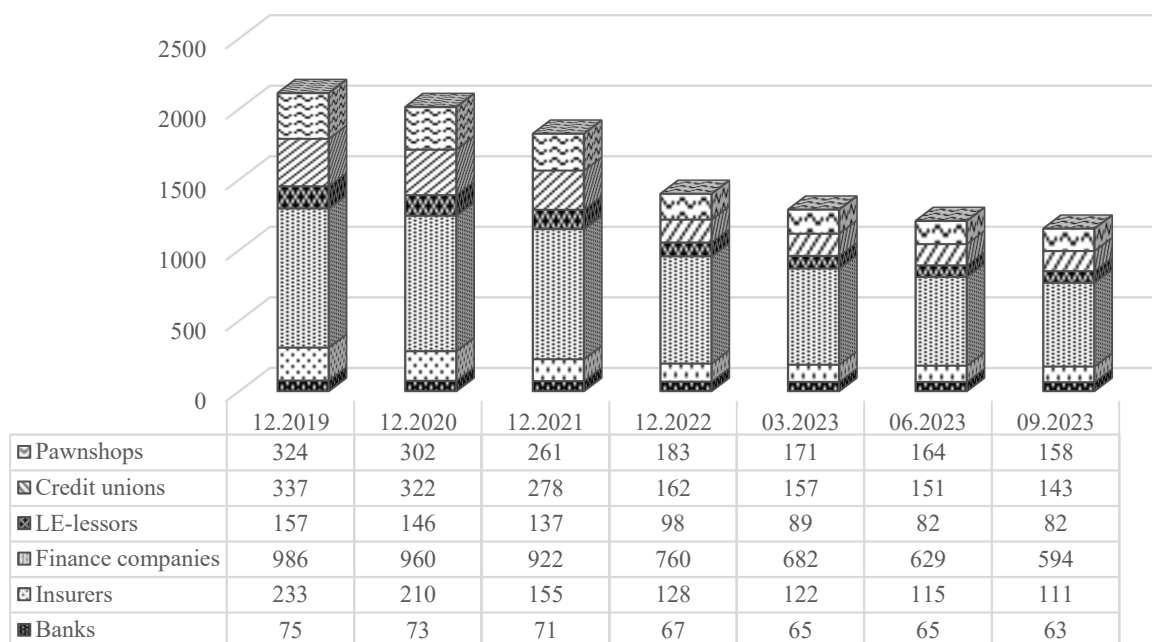


Fig. 1. Number of financial service providers, 12.2019-09.2023, units

Source: Compiled by the author based on NBU data [7]

The number of insurers has halved since the beginning of 2020, during 2021, the rate of decline reached 26.2%, and in the same year there was a decrease in assets of insurers by UAH 300 million, the remaining periods are characterized by an increase in their assets. Financial companies decreased in number from 986 units as of 12/31/2019 to 594 units as of 09/30/2023, in particular, 162 companies left the financial market during 2022, despite the fact that their assets grew every year. The number of credit unions has more than halved since the end of 2019, from 337 units to 143 units as of the end of the third quarter of 2023, in 2022, 116 unions and 78 pawnshops have left the financial market.

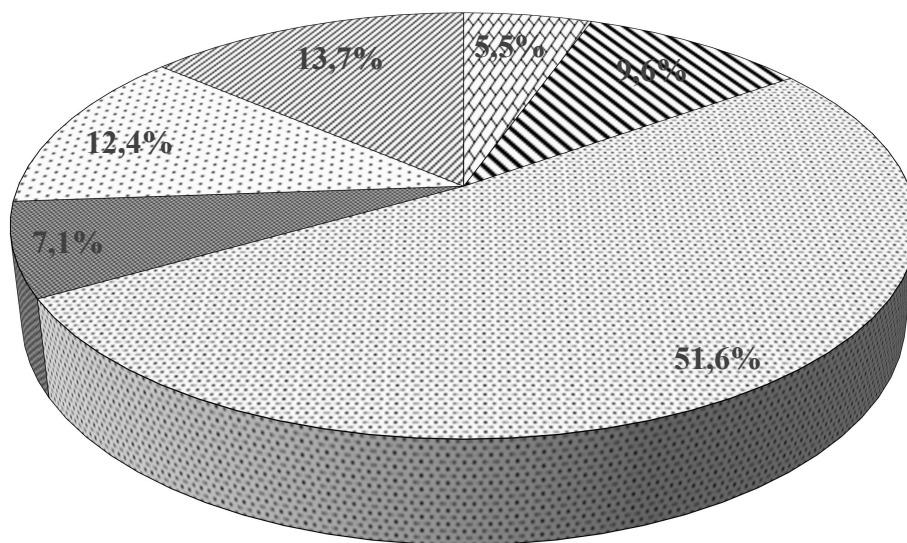
Table 1. Dynamics of financial sector assets, UAH billion

Institutions	12.2019	12.2020	12.2021	12.2022	03.2023	06.2023	09.2023
Banks	1 493,3	1 822,8	2 053,2	2 353,9	2 427,2	2 562,1	2 647,6
Insurers	63,9	64,9	64,7	70,3	70,5	70,8	73,4
Credit unions	2,5	2,3	2,3	1,4	1,4	1,4	1,4
Finance companies	162,2	186,5	216,4	244,0	259,3	237,4	251,3
Pawnshops	4,3	3,9	4,3	4,1	4,3	4,5	4,6

Source: Compiled by the author based on NBU data [7]

The smallest participants in the financial market - banks, occupy only 5.5% of the market, but their share in the structure of assets is the largest and as of 09/30/2023 is 88.9%. Financial companies dominate the structure of financial market participants by number - 51.6% as of 09/30/2023, but their share of assets is 8.44%. The share of pawnshops by number is 13.7%, by assets – 0.15%; credit unions by number – 12.4%, by assets – 0.05%; of insurers by number – 9.6%, by assets – 2.46% as of September 30, 2023 (Fig. 2-3).

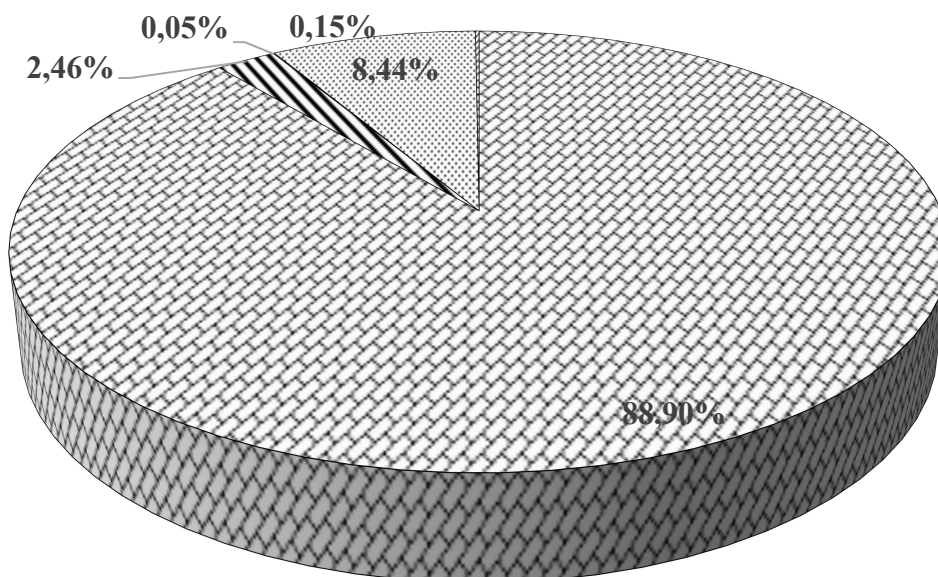
Insurers for January-September 2023 received UAH 2,459 million in net profit, which is 29% less than in the same period of the previous year. The structure of insurance premiums was dominated by types of auto insurance, which were stimulants of market recovery.



Banks
 Insurers
 Finance companies
 LE-lessors
 Credit unions
 Pawnshops

Fig. 2. Structure of the financial sector by its participants, as of September 30, 2023, %

Source: Compiled by the author based on NBU data [7]



Banks
 Insurers
 Credit unions
 Finance companies
 Pawnshops

Fig. 3. Structure of assets of the financial sector, as of September 30, 2023, UAH million

Source: Compiled by the author based on NBU data [7]

The profitability of credit unions for the three quarters of 2022 amounted to UAH 21 million and UAH 20 million for the three quarters of 2023, the increase in profit made it possible to increase the amount of capital.

Financial companies, despite the decrease in number, earned UAH 7,405 million in profit for January-September 2023, which is 244% more than in the previous same period, when the net financial result was UAH 2,152 million.

The activity of pawnshops in the first 9 months of 2022 was unprofitable in the amount of 172 million UAH, but in 9 months of 2023, they received 151 million UAH in net profit (Fig. 4).

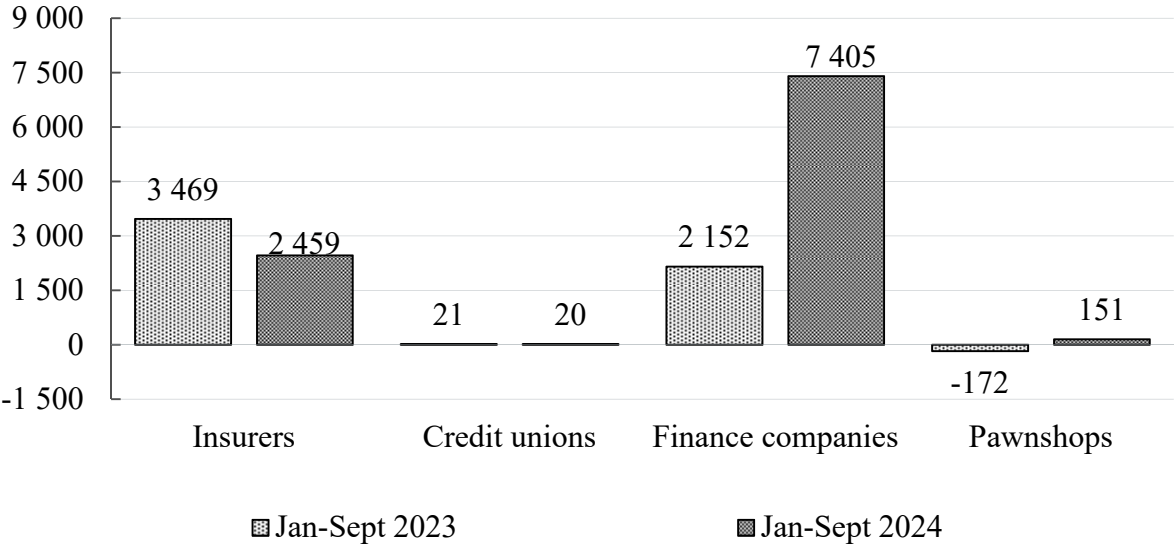


Fig. 4. Net financial result of providers of non-banking financial services, UAH million

Source: Compiled by the author based on NBU data [7]

Since the beginning of 2019, a gradual increase in bank assets and customer funds has been observed (Table 2). The capital of the banking sector decreased only during 2022 by 15.5%, but during 2023 it increased by 56.3% compared to the previous year.

Clients' funds are the main source of funding for banks; their share is growing in the liabilities of the banking sector, as of September 2023, the funds of business entities make up 49.4%, and the funds of individuals - 43% of liabilities.

Table 2. Indicators of the banking sector, UAH million

Indicator	01.01.2019	01.01.2020	01.01.2021	01.01.2022	01.01.2023	01.12.2023
Assets	1 359 703	1 493 298	1 822 814	2 053 232	2 351 678	2 748 813
Capital	154 960	199 921	210 640	255 514	215 840	337 407
Funds of business entities	406 367	498 157	646 491	758 434	889 526	1 142 474
Funds of individuals	508 457	552 115	682 029	726 898	933 240	1 034 224

Source: Compiled by the author based on NBU data [8]

More than half of all assets of the banking system belong to state banks - 53.3% as of 09.2023 (801 billion UAH) and 65% of public funds, while Privatbank owns 36.2% of deposits of individuals. In the structure of assets, loans dominate - 24%, the share of domestic government loan bonds is 23.4% as of September 2023 [8].

Lending volumes decreased by 7.6% in 2019 and by 7.1% in 2020, bank loans increased by 10.9% in 2021 and by 9.1% in 2023 (Table 3).

Table 3. Dynamics of bank loans, January 2019-December 2023, UAH million

Indicator	01.01.2019	01.01.2020	01.01.2021	01.01.2022	01.01.2023	01.01.2024
Loans are provided to customers	1 118 860	1 033 430	960 597	1 065 347	1 036 213	1 130 774
state authorities	2 865	4 724	11 641	26 973	24 809	18 361
business entities	919 071	821 936	749 335	795 513	801 413	828 444
natural persons	196 859	206 737	199 561	242 633	209 943	240 825
non-bank financial institutions	66	33	60	228	48	2

Source: Compiled by the author based on NBU data [8]

The largest amounts of loans were issued to legal entities, the changes of which affected the general lending trends. In 2023, as a result of the increase in business activity, there was an increase in the demand for loans in hryvnia. Not only preferential loans are in demand, as loan portfolios have grown at many banks, regardless of their participation in government programs. In order to support lending, it is necessary to activate mechanisms for the distribution of credit

risks using the tools of international financial organizations or the state guarantee program.

Lending to individuals is growing largely thanks to the «YeOselia» state mortgage program, but the program is implemented by only five banks. The volume of unsecured consumer loans is also growing, especially actively at the level of two banks, which have already restored the size of their portfolios to the volumes they had before the start of a full-scale war [9].

The share of non-performing loans decreased from 52.9% at the beginning of 2019 to 30.0% at the beginning of 2022, during 2022 it increased to 38.1% and as of 01.01.2024 was 37.4% (Fig. 5).

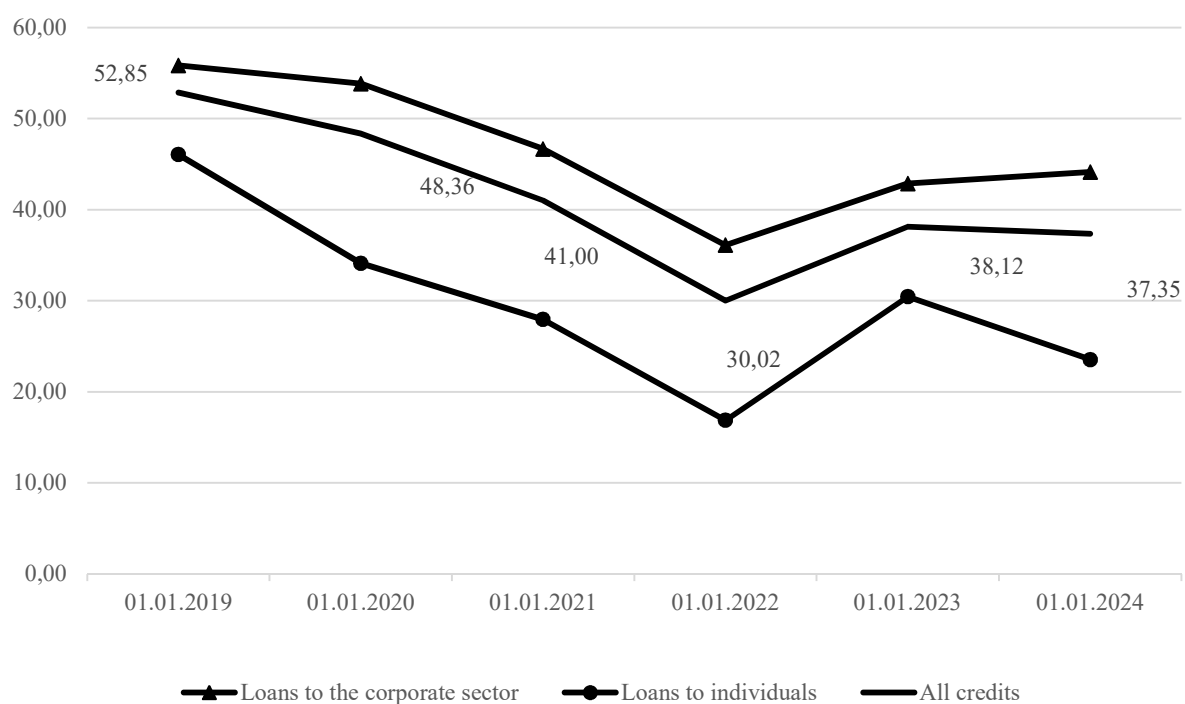


Fig. 5. Dynamics of the share of non-performing loans in the banking sector of Ukraine, 01.19-01.24, %

Source: Compiled by the author based on NBU data [8]

Loans to the corporate sector have the largest share of non-performing loans - 44.4%. Banks with a state share have the largest share of non-performing loans - 50.87% as of 01.01.2024, banks of foreign groups have the smallest share of NPL - 15.86% [8].

The activity of the banking sector was profitable from the beginning of 2019 to the end of 2023, the highest rate of return on assets was 5.6%, return on capital was 52.8% as of December 1, 2023 (Fig. 6).

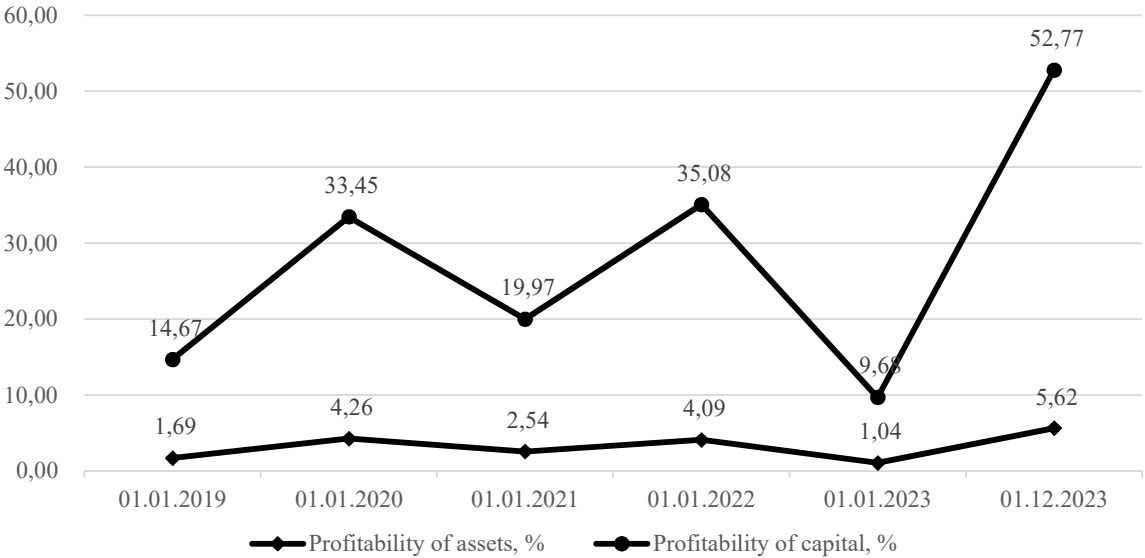


Fig. 6. Dynamics of profitability indicators of the banking sector, 01.01.2019-01.12.2023, %

Source: Compiled by the author based on NBU data [8]

Starting from the middle of 2023, the NBU discount rate gradually decreased to 15% (Fig. 7) and continues to maintain the attractiveness of hryvnia financial products. The reduction of the rate is justified by the slowdown of inflation in 2023, the recovery of the economy, the growth of GDP, and the growth of Ukraine's international reserves.

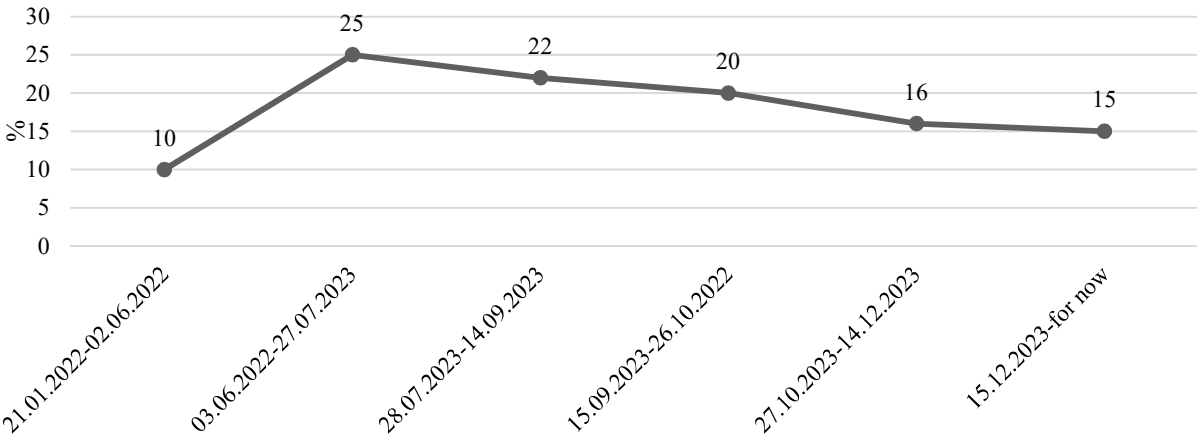


Fig. 7. Dynamics of the NBU discount rate, %

Source: Compiled by the author based on NBU data [10]

The reduction of the discount rate had the greatest impact on rates on deposit certificates, the share of which decreased in banks' interest income. On the other hand, the share of income from lending is increasing, although the rates for business loans are decreasing. The yield of the OVDP portfolio has also been growing in recent months, the terms of their placement are quite attractive due to the fact that banks receive a premium for the maturity of investments [9].

From the beginning of 2024, new laws on financial services and financial companies, insurance, credit unions have been put into effect. This will have a positive impact on:

- financial institutions through the simplification of market entry and licensing processes;
- stability and quality of the financial sector through the introduction of requirements for financial indicators, corporate governance, ownership structures, and other quality indicators;
- NBU through the implementation of risk-oriented regulation and supervision of institutions.

In order to ensure, in the conditions of martial law, the stability of the financial sector and the economy, state authorities need to focus their efforts on introducing European standards and approaches into Ukrainian legislation and state economic policy. Given the importance of international financial aid, state authorities should continue to promote the timely receipt of these funds.

Tasks for the National Bank of Ukraine regarding the stability and further development of the financial sector:

- harmonization of prudential requirements with European standards and approaches;
- adaptation of requirements to financial institutions with possible changes in conditions.

Tasks for financial institutions regarding stability and further development:

- bringing the activities of non-banking financial institutions into compliance with the new requirements of the regulator;

- compliance with regulations and requirements of the NBU;
- development of development strategies and plans and compliance with them;
- carrying out a balanced, effective credit policy by banks;
- risk management;
- improving technologies and strengthening their security.

Conclusions. The banking sector is characterized by high public confidence, growth in assets, customer funds, lending volumes, and a high level of profitability. The non-banking financial sector is characterized by a decrease in participants due to non-compliance with the regulator's requirements, which positively affects the stability of this sector. The introduction of new laws will encourage the transformation of the non-banking financial sector.

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