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e-mail: nataliia.v.moroz@lpnu.ua

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ORCID-ідентифікатор: <https://orcid.org/0000-0002-8594-8014>ORCID-ідентифікатор: <https://orcid.org/0000-0003-2595-1470>**Nataliia Moroz,***Candidate of Economic Sciences, Associate Professor,
Associate Professor at the Department of Finance,
Lviv Polytechnic National University, Lviv, Ukraine***Yelyzaveta Moroz,***higher education graduate, bachelor's degree in "Management",
Lviv Polytechnic National University, Lviv, Ukraine***FINANCIAL SECTOR OF UKRAINE: FUNCTIONING IN THE CONDITIONS OF WAR**

The article examines the trends in the functioning of the financial sector of Ukraine in wartime conditions. A full-scale war has led to a deep crisis, the consequences of which will be long-lasting and significant for the financial sector. The activity of banking institutions maintains continuity, liquidity and continues lending, although it has become unprofitable. A major role in this was played by the National Bank of Ukraine, which has been reforming the banking system since 2015, and made a timely response to changing circumstances. Non-bank financial institutions turned out to be significantly more vulnerable to operational risk and a significant number of them were forced to cease their activities. The NBU introduced regulatory relaxations to facilitate the operation of banks and non-bank financial institutions under martial law. The regulator has taken the necessary measures to support the financial sector; then each market participant must ensure the support and recovery of their activities. Further recommendations regarding the support of the financial sector by the state (increasing the volume of state concessional lending to businesses; increasing the volume of lending to the government; legislative settlement of issues related to loss, damage to property of borrowers of funds as a result of military operations; legislative settlement of issues regarding the possibility of suspending the activities of credit unions that have financial problems for the period of martial law), by the regulator (strengthening financial monitoring of financial market participants; prompt and flexible response to changes in market conditions) and financial institutions (improvement of credit risk assessment approaches to make them commensurate with the depth of the current crisis; adaptation of business models to current operating conditions; improvement of cyber protection systems; timely preparation and submission of reports to the NBU, informing the regulator about the risks of violating the requirements for financial indicators) are outlined.

Keywords: *finance, financial sector; bank, financial institution, regulator.*

Мороз Наталія Володимирівна,*кандидат економічних наук, доцент, доцент кафедри фінансів,
Національний університет «Львівська політехніка»***Мороз Єлизавета Тарасівна,***здобувач вищої освіти, бакалавр спеціальності «Менеджмент»,
Національний університет «Львівська політехніка»***ФІНАНСОВИЙ СЕКТОР УКРАЇНИ: ФУНКЦІОНУВАННЯ В УМОВАХ ВІЙНИ**

У статті досліджено тенденції функціонування фінансового сектору України в умовах війни. Повномасштабна війна призвела до глибокої кризи, наслідки якої будуть довготривалими та значними для фінансового сектору. Діяльність банківських установ зберігає безперервність, ліквідність та продовжує кредитування, хоча і стала збитковою. Велику роль у цьому відіграв Національний банк України, що проводить реформування банківської системи із 2015 р., а також здійснив своєчасне реагування на зміну обставин. Небанківські фінансові установи виявилися значно вразливішими до операційного ризику та значна їх кількість була вимушена припинити свою діяльність. НБУ запровадив регуляторні послаблення із метою сприяння роботи банків і небанківських фінансових установ в умовах воєнного стану. Регулятор вжив необхідних заходів для підтримки фінансового сектору, далі кожен учасник ринку має забезпечити підтримку та відновлення своєї діяльності. Окреслено подальші рекомендації щодо підтримки фінансового сектору з боку держави (збільшення обсягів державного пільгового кредитування бізнесу; збільшення обсягів кредитування уряду; законодавче врегулювання питань, пов'язаних із втратою, пошкодженням майна позичальників коштів внаслідок військових дій; законодавче врегулювання питань щодо можливості призупинення діяльності кредитних спілок, які мають фінансові проблеми, на період дії воєнного стану), з боку регулятора (посилення фінансового моніторингу за учасниками фінансового ринку; оперативне та гнучке реагування на зміни

ринкових умов) та фінансових установ (удосконалення підходів до оцінки кредитних ризиків для співмірності їх із глибиною поточної кризи; адаптація бізнес-моделей до поточних умов функціонування; удосконалення систем кіберзахисту; своєчасне складання та надання звітності до НБУ, інформування регулятора щодо ризиків порушення вимог до фінансових показників).

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

Formulation of the problem. The intensification of Russia's aggression on the territory of our country has complicated the conditions for the functioning of financial market entities, as well as submission of information about their activities to the NBU. A significant number of financial institutions were forced to cease their activities due to the war. The non-banking sector was vulnerable to operational risk.

In many regions of the country, it became dangerous to carry out activities, so financial institutions were forced to leave these locations, often accompanied by the loss of documents and access to information. However, not everyone managed to move their offices to safer regions. There was a problem with the lack of personnel due to the forced relocation of its employees. A significant proportion of companies could not switch to remote customer service. However, there are still strong players on the market who fully function and provide quality services.

The NBU introduced regulatory relaxations for financial market participants in connection with the change in circumstances. In addition, the central bank fixed the exchange rate, introduced restrictions on the purchase of currency, cross-border currency transactions and withdrawals from currency accounts.

Analysis of research and publications. The peculiarities of the development of the financial sector of Ukraine were studied in their scientific works by many scientists, in particular Bodnar O., Sirenko N., Shyshpanova N. [1], Gaponiuk O. [2], Zakharchenko N., Orlova N., [3], Chernyshova O., Chornovol A. [4].

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

The purpose and tasks of the research. The purpose of the article is to study modern trends in the functioning of participants in the financial sector of Ukraine and to develop recommendations for their support. Tasks: identification of problems and conditions for the activities of participants in the financial sector.

Presentation of the main material. The number of banking institutions at the end of 2017 was 82 units, subsequently the number of banks decreased by two units every year (fig. 1). As of 30.06.2022, there are 69 banks operating in Ukraine [5]. After 24.02.2022, the gradual decline in lending volumes, bank assets and profitability began, and since March 2022, the banking system has become unprofitable [6].

The number of credit unions has decreased almost twice since the end of 2017, the rate of decrease increased significantly with the beginning of active military operations on the territory of Ukraine. The activity of credit unions gradually decreased throughout 2021: the volume of the loan portfolio decreased, operating income decreased. However, credit unions ended 2021 with a small profit and maintained moderate profitability in the 1st quarter of 2022 (table 1).

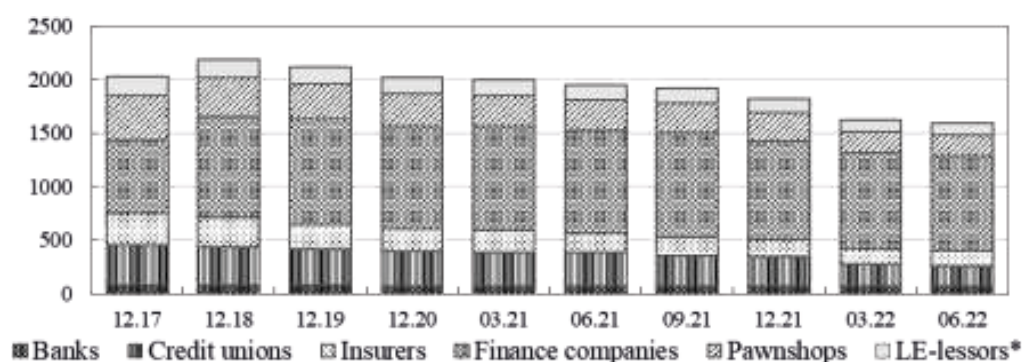


Fig. 1. Dynamics of financial market participants, 12.2017 – 06.2022

Source: Compiled according to the sources [5-10]

At the end of 2017, 294 insurers were working, but their number gradually decreased with each investigated period and as of 06.30.2022 amounted to 142 units.

Table 1

Dynamics of assets of the financial sector, billion UAH

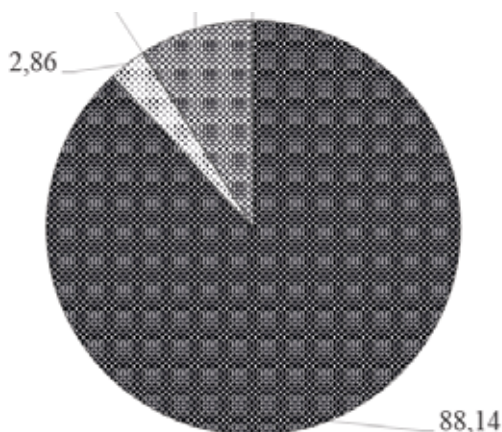
Financial institution	31.12.2018	31.12.2019	31.12.2020	31.12.2021	31.03.2022
Banks	1 359,7	1 493,3	1 822,8	2 053,9	1 970,2
Insurers	63,5	63,9	64,9	64,8	63,9
Finance companies	125,3	162,2	186,5	209,4	196,3
Credit unions	2,2	2,5	2,3	2,3	1,7
Pawnshops	3,7	4,3	3,9	4,0	3,3

Source: Compiled according to the sources [7-8]

New financial companies actively appeared on the market during 2018, and currently they exceed all other financial market participants combined in number. Financial companies significantly increased their assets and lending volumes for 2018-2021. As a result of the 1st quarter of 2022, their activity was unprofitable.

The number of pawnshops decreased from 415 units as of 12.31.2017 to 195 units as of 06.30.2022. Accordingly, the amount of assets decreased, and the loan portfolio decreased. According to the results of the 1st quarter of 2022, pawnshops were unprofitable.

88,14% of financial sector assets belong to banks, although banks are the least numerous participant in the financial market in terms of number. The largest participant – financial companies – owns 8,78% of the assets of the financial sector. Insurers have a share of 2,86%, credit unions and pawnshops – 0,1% each. The structure of assets did not undergo significant changes from the end of 2021 to March 31, 2022 (fig. 2).

**Fig. 2. Structure of financial sector assets by participants, 03.31.2022**

Source: Compiled according to the source [8]

The war caused a significant decrease in the demand for insurance, policyholders lost their income and economic activity.

In the fourth quarter of 2021, the volume of life insurance assets and insurance premiums increased moderately. The largest volume of premiums was obtained from personal insurance and auto insurance. Life insurers actively invested, mainly in government securities, and received profits. However, the volume of assets and insurance premiums of risk insurers decreased in the last quarter of 2021, the loss ratio of operations also decreased due to the reduction of reserves and operational efficiency ratios improved. In the first quarter of 2022, gross insurance premiums decreased by 14%, and payments – by 22% compared to the first quarter of 2021. However, the activity of insurers was profitable according to the results of the first quarter of 2022 (fig. 3).

81% of insurers, with a market share of 98% in terms of assets, provided full information about their activities for the fourth quarter of 2021. Among non-bank financial institutions, insurers provided the NBU with the largest amount of information. The worst situation in this regard is with financial companies [6].

The intensification of Russia's aggression against Ukraine led to the decision to revoke the banking license and liquidate PJSC "Joint Commercial Industrial Investment Bank" and JSC "International Reserve Bank". Currently, the procedure for liquidation of these banks is ongoing in accordance with the procedure established by law.

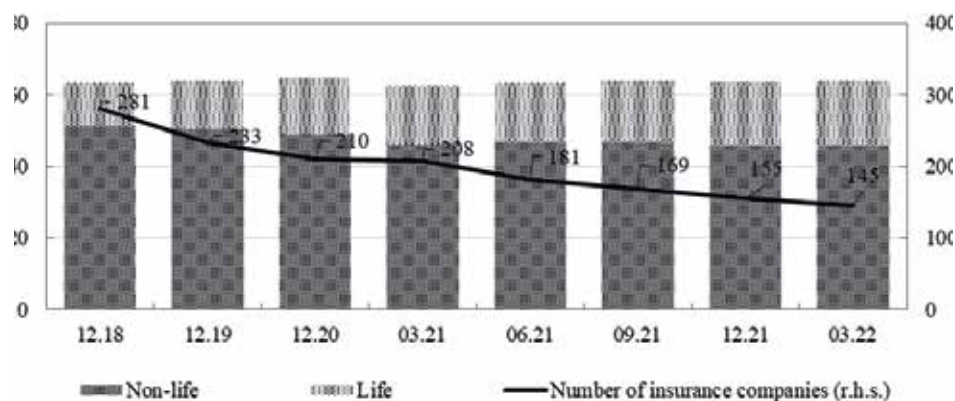


Fig. 3. Dynamics of insurers and their assets, 12.2018-03.2022

Source: Compiled according to the source [8]

In February 2022, 48 financial companies left the financial market, and in March 70 credit unions and 62 pawnshops. In total, 165 participants left the non-bank financial services market in March (table 2).

Table 2

Dynamics of financial market participants, 12.2021 – 06.2022

Financial institution	12.2021	01.2022	02.2022	03.2022	04.2022	05.2022	06.2022
Banks	71	71	69	69	69	69	69
Insurers	155	146	145	145	145	142	142
Finance companies	935	949	901	894	894	893	892
Credit unions	278	275	205	187	187	187	187
Pawnshops	259	259	259	197	197	197	195

Source: Compiled according to the source [10]

In 2021, several laws were adopted that bring Ukrainian legislation closer to EU legislation [11]. This should lead to changes in the following directions:

- banking sector – in the sphere of regulation and corporate management;
- payment sector – modernization of the payment market of Ukraine, integration with the EU payment system;
- insurance sector – introduction of effective regulation for the formation of a reliable, competitive, sustainable and solvent insurance market.

In order to facilitate the work of banks in the conditions of martial law, the NBU introduced regulatory relaxations [6-7]:

1. Field inspections for financial monitoring are not carried out.
2. Submission of financial statements has been postponed.
3. Suspended regular update of recovery plans.
4. Bank stability is not assessed.
5. Impact measures are not applied due to violations of regulations.
6. The introduction of capital buffers and the increase of the NSFR have been postponed.
7. It is forbidden to pay dividends.
8. Inspection and revaluation of pledges has been postponed.
9. Tariffs for NBU BankID services have been temporarily cancelled.
10. The use of cloud services by banks is allowed.

In order to facilitate the operation of non-banking financial institutions in the conditions of martial law, the NBU introduced regulatory relaxations [6-7; 12]:

1. Inspection checks are not carried out.
2. The deadlines for submitting information and a plan of measures for the implementation of the NBU's recommendations based on the results of inspections carried out in 2022 have been extended.
3. Extension of deadlines for submitting annual financial statements.
4. Impact measures shall not be applied in the event of violations arising from war, in particular non-compliance with regulations.
5. The deadlines for bringing the activities of financial institutions in line with the regulator's requirements have been extended.



6. It is forbidden to participate in the management of financial institutions of Russian residents in order to limit their influence on the Ukrainian financial market.

Problems arising in the activity of financial service providers in 2022:

1. Impossibility to work in regions where active hostilities are taking place.
2. The need to move individual offices to safer places.
3. Decrease in the solvency of clients.
4. Loss of access to individual documents.
5. Reduction of personnel.

To solve these problems and maintain their activities, financial market participants need to mobilize their own resources as much as possible.

Recommendations regarding the support of the financial sector by the state:

– Increasing the volume of state concessional lending to businesses by expanding existing state programs and developing new ones.

– Increasing the volume of lending to the government by increasing the rates for domestic state loan bonds to the market level.

– Legislative settlement of issues related to loss, damage to property of borrowers of funds as a result of military operations.

– Legislative settlement of issues regarding the possibility of suspending the activities of credit unions that have financial problems for the period of martial law.

Recommendations regarding the support of the financial sector by the NBU:

– Strengthening financial monitoring of financial market participants.

– Prompt and flexible response to changes in market conditions.

Financial sector support recommendations for financial institutions:

– Improvement of credit risk assessment approaches to make them commensurate with the depth of the current crisis.

– Adaptation of business models to current operating conditions.

– Improvement of cyber protection systems.

– Timely preparation and submission of reports to the NBU, informing the regulator about the risks of violating the requirements for financial indicators.

Conclusions. The intensification of military activities on the territory of Ukraine has led to a deep crisis, the consequences of which will be long-term and significant for the financial sector. The activity of banking institutions maintains continuity, liquidity and continues lending, although it has become unprofitable. Non-bank financial institutions turned out to be significantly more vulnerable to operational risk and a significant number of them were forced to cease their activities. The National Bank of Ukraine has taken the necessary measures to support the financial sector, then each market participant must mobilize their own resources as much as possible, ensure support and recovery of their activities.

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