

FINANCIAL MARKET OF UKRAINE: STRUCTURE AND DEVELOPMENT TRENDS

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Abstract. The *purpose* of this work is to study the current state and trends in the financial market of Ukraine. *Methodology.* The following methods of scientific research were used: analysis and synthesis; theoretical generalization; abstraction and comparison; systematic approach. *Results.* The article reports that the financial market of Ukraine is in the process of formation, which is due to the uneven spatial dynamics of financial capital in the course of market reforms; heterogeneity of economic and financial space of the country; fundamental asymmetry between regions in terms of financial capacity; localization of financial institutional infrastructure; level of investment attractiveness, etc. It was found that the main problem of the financial market of modern Ukraine is the inability to provide an effective redistribution of financial resources needed to meet the challenges of modernizing the domestic economy and create an innovative impetus to the reproductive processes. *Practical implications.* To improve Ukraine's financial sector and boost economic growth, it is necessary to create an effective mechanism for improving banks' lending policies. To develop bank lending and create financial stability in this period it is necessary to make banking services of higher quality to improve their competitiveness; to set maximum interest rates on loans within the framework of state acts and monitor their implementation; to encourage commercial banks to lend to innovative projects; to increase the size of main assets of state banks, increase their number and strengthen their role in the financial and credit market of Ukraine, etc. *Value/originality.* It has been researched that the structure of the financial market is dominated by the number of companies engaged in the provision of loans, loans, financial leasing, the provision of guarantees; carrying out factoring, currency exchange and money transfer operations. For the development of bank lending it is necessary to improve banking services to improve their competitiveness; set maximum interest rates on loans within state acts and monitor their implementation; stimulate lending by commercial banks to innovative projects; increase capital resources of state banks, increase their number and strengthen their role in the financial and credit market of Ukraine, etc. These measures will contribute to the recovery of the national economy and increase the level of financial efficiency of the domestic banking system.

Key words: financial market, financial companies, banks, financial capital.

JEL Classification: E44, G19, O16

1. Introduction

The financial market of modern Ukraine is still in the process of formation. Its main problem is the inability to provide effective redistribution of financial resources needed to solve the problems of modernization of the domestic economy and create an innovative impetus for reproduction processes. This is largely due to uneven spatial dynamics of financial capital in the course of market reforms; heterogeneity of economic and financial space of the country; fundamental asymmetry of regions by financial potential; localization of financial institutional infrastructure and the degree of investment attractiveness, etc.

Domestic financial market, its further integration into the world financial system in accordance with its requirements, the combination of interests of all economic subjects should be provided by effectively functioning modern infrastructure, a key component of which is the financial market infrastructure. Distrust of owners of financial resources to financial intermediaries, as well as other destructive economic, political and social factors against the background of increasing stagnation processes in the state, do not allow to realize the investment potential of each subject – the owner of financial resources.

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A significant contribution to the study of methodology and practice of various aspects of the financial market and its structural components have made Ukrainian and foreign scientists, in particular: A. Abakumenko, L. Alekseenko, D. Blackwell, J. Garbar, M. Krupka, S. Kruchok, I. February, S. Mishchenko, A. Moroz, S. Naumenkova, S. Onishko, Yu. Pasechnik, R. Peterson, N. Prikazyuk, V. Pryadko, L. Seliverstova, V. Smagin, N. Tkachenko, M. Tugan-Baranovsky, V. Sheludko, I. Shkolnik, S. Volfel and other scientists.

However, today among the scientific approaches and in practice there is no unambiguous and clear understanding of the classification, hierarchy of interdependence of infrastructure institutions, their elements in the economic system, quantitative

assessment of performance, which does not allow to fully realize the potential of the financial system of Ukraine. Despite the importance of the available developments of researchers, the current state of functioning of the financial market infrastructure in Ukraine, some of its theoretical and practical aspects still remain insufficiently studied.

2. Structure of the financial market

The analysis of the financial condition will begin with the dynamics of financial market companies (Figure 1). Analysis of the data of Figure 1 shows that in 2016–2020 the number of financial companies engaged in the provision of financial loans, credits, financial leasing, guarantees and securities prevailed. They carry out factoring operations, currency exchange

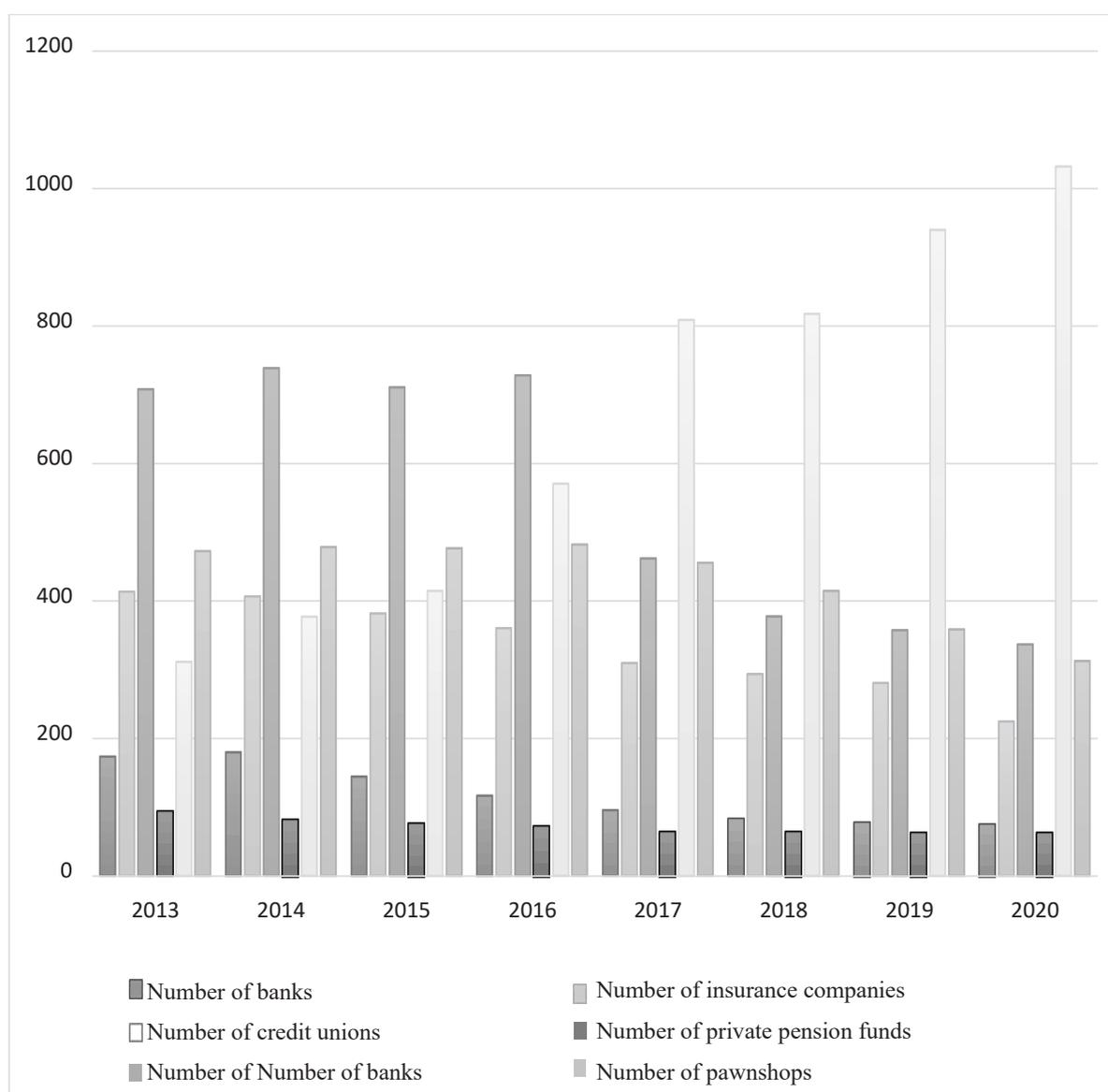


Figure 1. Dynamics of the number of companies in the financial sector of Ukraine in 2013–2020, pcs.

Source: developed according to the official NBU data

operations, and money transfers. Their total number in 2020 was 1,032 companies, 2.3 times more than in 2013.

The smallest number of companies is characteristic of banks and non-state pension funds. In 2020, the number of banks will be 75, which is 99 less than in 2013 (reduction by more than 2 times). The number of private pension funds in 2020 will be 63 companies. The number of non-state pension funds decreases throughout the study period.

Studying the dynamics of the number of companies, we came to the conclusion that the financial market of Ukraine is dominated by financial companies, pawnshops and credit unions. But this conclusion is incorrect, because the role of one or another type of company on the market is characterized not by the number, but by the volume of activity (volume of assets, capital) (Rekunenko, 2014).

Credit unions and pawnshops are in second and third place by the number of market participants. Moreover, the number of these companies in the financial sector has decreased significantly in recent years. The maximum number of credit unions was observed in 2014 – 739 companies, and pawnshops – in 2015 – 482 companies. After that we can observe a decrease in the number of both companies.

On the fourth place are insurance companies, the number of which in 2020 was 225 companies.

The maximum number of insurance companies in 2013 was 414.

Let us consider the dynamics of assets of insurance companies, banks, financial companies and credit institutions (Figure 2). The assets of non-state pension funds and pawnshops were not taken into consideration during the review, as their volume is insignificant comparing to other types of participants in the financial market of Ukraine.

The data in Figure 2 shows that the absolute leader in terms of assets in the financial sector of Ukraine are banking institutions, which indicates the bank-centric nature of the financial system of Ukraine. In general, the volume of assets of the banking sector in 2014–2020 increased, except for 2017–2018. This decrease is characterized by a decrease in the number of banks operating in the market. In 2014–2020, the amount of assets of banks increased by 20.7% and in 2020 amounted to 1,360,764 million UAH. As of 2020, the assets of banks were 21.4 times higher than the assets of insurance companies, assets of financial companies – 10.7 times, assets of credit institutions – 619.5 times.

Analyze the amount of capital of insurance companies, banks, financial companies and credit institutions (Figure 3).

The data of Figure 3 indicate a significant predominance of bank capital over the capital of other

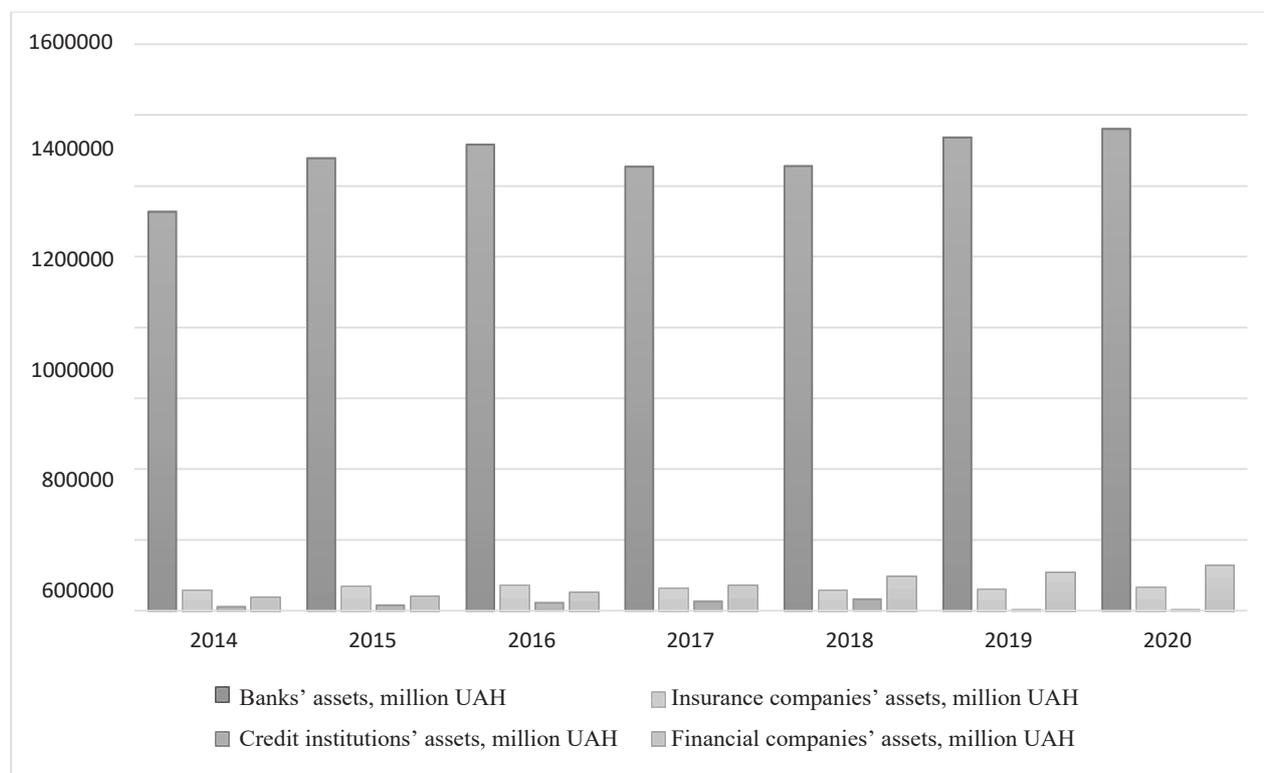


Figure 2. Asset Dynamics of Insurance Companies, Banks, Financial Companies and Credit Institutions for 2014–2020, UAH million

Source: developed according to the official NBU data

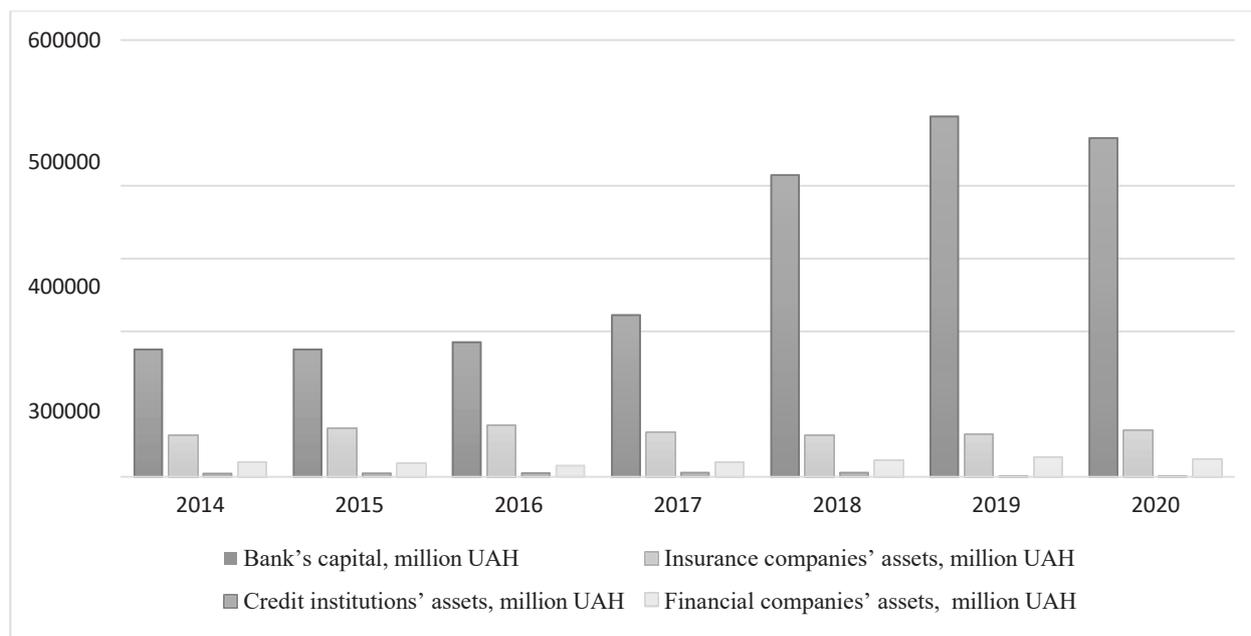


Figure 3. Capital Dynamics of Financial Companies, Insurance Companies, Banks and Credit Institutions in 2014–2020, UAH million

Source: developed according to the official NBU data

companies in the financial market of Ukraine. The increase in the capital of banking institutions began in 2017 as a result of the increased requirements of the National Bank of Ukraine to the amount of registered and regulatory capital of banks. In 2020, the capital of banks exceeded the capital of insurance companies by 7.3 times, the capital of credit institutions by 476.4 times, and the capital of financial companies by 19.5 times.

This predominance of assets and capital of banks over the assets and capital of other participants in the financial market of Ukraine allows us to conclude that banks are the most important participants in the financial market of Ukraine (Berzhanir, 2020).

The data in Table 1 show that the assets of banking institutions increased by 32.58% between 2013 and 2020, indicating the development of the banking

sector. This increase in assets is a particularly positive trend, given that the number of banks during the study period, on the contrary, decreased – by 56.9% (from 174 banks in 2013 to 75 banks at the end of 2020). In addition, the volume of loans increased by 26.35%, which also indicates the expansion of banking institutions and credit expansion of banks. This situation also indicates economic growth in the country.

3. Banking sector

Another positive trend is the growth of banks' deposits from individuals and legal entities. This growth in 2013–2020 was 78.4%. A decrease in funds on deposits with banks was observed only in 2015, when the banking crisis arose, which led to an outflow of funds from Ukrainian banks.

Table 1

Dynamics of key indicators of banking sector development in 2013–2020

Year	Banks' assets, million UAH	Banks' liabilities, million UAH	Number of operating banks	Loans provided to customers, million UAH	Customer funds, million UAH
2013	1127192	1127192	174	818000	589000
2014	1278095	1278095	180	916000	701000
2015	1316852	1316852	145	1028000	686000
2016	1254385	1254385	117	1007000	751000
2017	1256299	1256299	96	1004000	850000
2018	1336358	1336358	82	1041000	906000
2019	1360764	1360764	77	1118860	914824
2020	1494460	1494460	75	1033539	1050748
Deviation(+,-)	32,58	32,58	-56,90	26,35	78,40

Source: calculated according to the NBU data

4. Insurance market

Next proceed to the analysis of the key indicators of the insurance market of Ukraine, which are presented in Table 2.

The analysis of these data shows a fairly rapid development of the insurance market in Ukraine. On average the number of concluded contracts of obligatory insurance against accidents, including transport, increases almost by 8-9 million units per year. The dynamics of the number of concluded contracts other than compulsory insurance against accidents, including transport, is not so positive.

In 2016–2020 their number decreased by 26.43%. The minimum value of the number of concluded contracts was observed in 2017 – 61272,8 thousand units, which was a consequence of the crisis of 2015–2016, which reduced solvent demand for insurance services. Since 2018, the number of contracts began to grow, which indicates the recovery of the insurance market.

Volumes of reinsurance (premiums received by reinsurers) are also growing: by 68.63%. At the same time, reinsurers' payouts are growing faster than premiums – by 86.37% over the last 5 years. This situation indicates a decrease in profitability of reinsurers, which is a negative trend.

A positive trend is the growth of insurance reserves – by 60.85% over the last 5 years. Technical reserves significantly exceed mathematical reserves during 2015–2019, which is the result of the prevalence of insurance other than life insurance.

Assets of insurance companies also increased during this period, although insignificantly – only by 5% over 5 years. In 2017 there was a decrease in the volume of insurers' assets, which was connected with a decrease in the number of concluded contracts in that year.

Thus, the insurance market suffered from the consequences of the crisis of 2015–2016. Since 2018, the market began to resume its activity, which is reflected in its key indicators.

5. Stock market

Next, here is the Ukrainian stock market. The Ukrainian stock market in 2019 was represented by 6 exchanges: PFTS Stock Exchange PJSC, PERSPEKTIVA Stock Exchange PJSC, Ukrainian Stock Exchange PJSC, Ukrainian Interbank Currency Exchange PJSC, INNEX Stock Exchange PJSC and PJSC "Ukrainian Exchange".

In the author's opinion, the analysis should begin with the analysis of the main stock index of the country – PFTS. This index has been calculated in

Table 2

Dynamics of the main indicators of insurance market development of the insurance market in 2016–2020

Indicator	Year					Deviation from 2020 to 2016 (+;-)
	2016	2017	2018	2019	2020	
Number of insurance contracts concluded during the reporting period, thousand units						
Number of contracts, excluding contracts with OS from transport accidents	109106,8	61272,8	70658,2	77495	80271,1	- 26,43
Number of contracts with environmental protection from transport accidents	93322,5	118198,4	114824,7	123582,5	116652,6	25,00
Insurance activity, UAH million						
Gross insurance premiums, including:	29736	35170,3	43431,8	49367,5	53001,2	78,24
Life insurance	2186,6	2756,1	2913,7	3906,1	4624	111,47
Gross insurance payments, including:	8100,5	8839,5	10536,8	12863,4	14388,3	77,62
Life insurance	491,6	418,3	556,3	704,9	575,9	17,15
The level of gross payments, %	27,20	25,10	24,30	26,10	27,10	- 0,37
Net insurance premiums	22354,9	26463,8	28494,4	34424,3	39586	77,08
Net insurance payments	7602,8	8561	10256,8	12432,6	14040,5	84,68
The level of net payments, %	34,00	32,30	36,00	36,10	35,50	4,41
Reinsurance, UAH million						
Paid for reinsurance	9911,3	12668,7	18333,6	17940,7	16713,4	68,63
Payments reimbursed by reinsurers	1345,8	1233,2	1208,2	2459	2508,2	86,37
Insurance reserves, UAH million						
The amount formed insurance reserves:	18376,3	20936,7	22864,4	26975,6	29558,8	60,85
– insurance reserves life	6889,3	7828,2	8389,6	9335,1	10273,7	49,13
– technical reserves	11487	13108,5	14474,8	17640,5	19285,1	67,89
Insurers' assets and authorized capital, UAH million						
Total assets of insurers	60729,1	56075,6	57381	63493,3	63866,8	5,17
Assets defined in Art. 31 Of the Law of Ukraine "Insurance"	36418,8	35071,9	36084,6	40666,5	44609,9	22,49

Ukraine since October 1997. The PFTS index is a price index weighted by the volume of free-floating shares. The PFTS index basket includes shares of 20 issuers.

Based on the data in Figure 4 we can conclude that the greatest increase in trading was observed in 2019, when the value of the index was 562.91 points. The minimum value of the index in 2016 was 240.7 points, which was due to the economic and political crisis of 2015–2016.

In general, the value of the PFTS index indicates the weak development of the stock market and a rather large volume of transactions (the value of the index in 2020 is almost twice less than in 2007 before the 2008 crisis). Although since 2017 there has been some positive dynamics of the index (Aleksejenko, 2004).

In 2016–2018 the securities market decreased by UAH 1,863.25 billion (the most significant decrease was in 2017 – by UAH 1,658.86 billion or 71.14%). This decrease in transactions was due to the NSSMC's stock market clearing procedure and the increase in the transparency of transactions in the stock market segment (Berzhanir, 2021).

The procedure included the introduction of new listing requirements for securities on stock exchanges, based on European standards and allowing only high-quality securities to be listed. In addition to the reduction in the number of companies whose securities were listed under the new rules, the reduction in market transactions in 2018 was also affected by the fact that NBU deposit certificates were no longer taken into account in trade settlements.

In 2019, the market began to grow, up 26%, which is a result of the stabilization of the country's economy.

The ratio between the volume of GDP and the volume of transactions in the stock market is also important for the development of the country's stock

market. During 2013–2016, the volume of trading in the market exceeded the volume of GDP, i.e., was more than 100% of GDP. Since 2017, on the contrary, the volume of GDP began to prevail. In 2018–2019, there was a significant decrease in the volume of securities trading compared to GDP, which indicates a low level of stock market development. In countries with a high level of economic development, this indicator should always be more than 100%.

6. Conclusions

The most active participants of the financial market of Ukraine are commercial banks, insurance companies, stock exchanges, as they account for the largest share of financial resources of the state.

To improve the financial sector and increase economic growth in Ukraine, it is necessary to create an effective mechanism for improving the credit policy of banks. For the development of bank lending and creation of financial stability in this period it is necessary to improve banking services in order to increase their competitiveness; to set maximum interest rates on loans within the framework of state acts and control their implementation; to stimulate lending by commercial banks of innovative projects; to increase the capital resources of state banks, increase their number and strengthen their role in the financial and credit market of Ukraine, etc. These measures will contribute to the recovery of the national economy and improve the financial efficiency of the domestic banking system.

An important component of the financial market is the insurance market. Insurance companies act as financial intermediaries, and their role is to reduce transaction costs associated with the movement of funds from savers to borrowers by accumulating significant funds from thousands of premium payers.

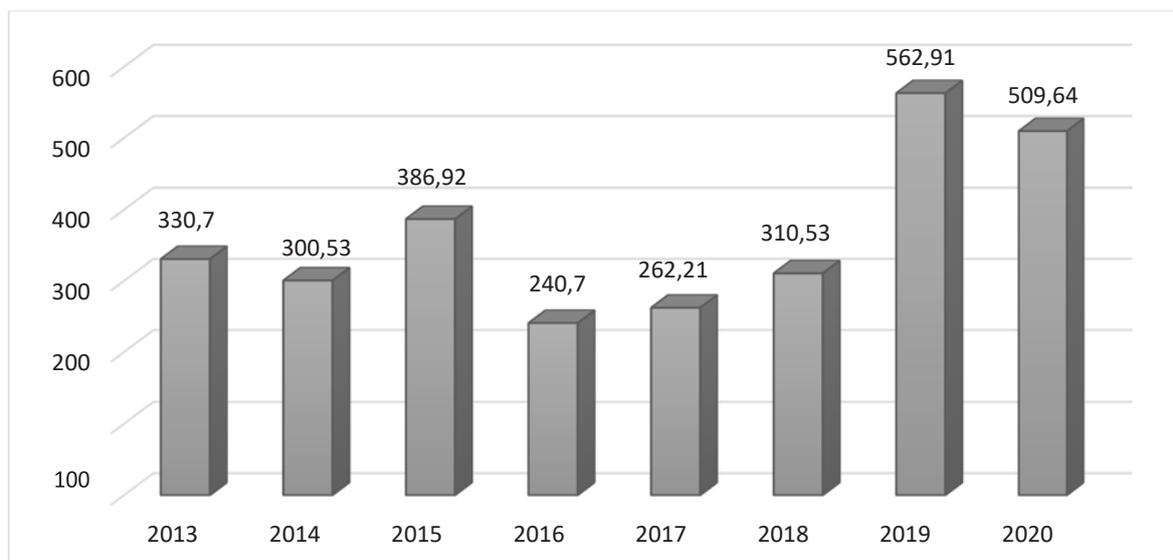


Figure 4. The dynamics of the PFTS index in 2013–2020

The insurance market is still underdeveloped, its financial potential is not able to meet the needs of customers at the expense of small insurance premiums. An important problem is the large market value of insurance companies. To the main officials how to streamline the development of the insurance market can be derived: the undeveloped infrastructure of the insurance market, poor development of mediation and reinsurance market, as well as a guaranteed legal framework. Holders should put their own priority on the reorganization of the insurance market of Ukraine on the requirement of stable insurance activity, reducing the volume

of insurance services and satisfaction of insurance customers.

An important element of the financial market of Ukraine is the stock market. The stock market is characterized primarily by the volume of exchange trading in securities. According to the results of trading in the organized market in January-December 2020, the volume of exchange-traded securities contracts amounted to 335.41 billion UAH.

To sum up, today the main task in Ukraine is to develop and implement a permanent mechanism for improvement and development of the financial market, taking into account global trends.

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