

CHAPTER 7
THE INTEGRATION OF INTERNATIONAL FINANCIAL FLOWS
INTO UKRAINE'S BANKING SYSTEM AND STOCK MARKET:
INSTITUTIONAL MECHANISMS AND RISKS

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INTRODUCTION

Ukraine's financial system is undergoing constant transformation, driven by both domestic reforms and external challenges. In the context of globalisation and geopolitical instability, the integration of international financial flows into the banking system and the stock market takes on particular significance. It is these institutions that act as the main channels for transforming external resources into domestic investment, ensuring macroeconomic stability and business development.

The relevance of this study stems from the fact that international financial flows – loans, grants and investments – have become a key source of support for Ukraine's economy during periods of crisis (2008, 2014, 2022). At the same time, they give rise to a number of risks: dependence on external creditors, vulnerability to global financial crises, and the need for constant reform of the domestic financial infrastructure. A telling example is the temporary suspension of EU financial aid, which poses the threat of a budget crisis and highlights Ukraine's high level of dependence on external resources. According to the National Bank of Ukraine, in 2025 international reserves exceeded \$40 billion – a record figure in the entire history of independence. This testifies to the decisive role of external financial flows in supporting macroeconomic stability and the development of the national economy.

The integration of international financial flows into Ukraine's banking system is two-sided. On the one hand, it provides access to cheap resources, helps offset the domestic savings deficit, stimulates investment activity and promotes business development. On the other hand, such integration makes the banking system sensitive to global interest rates, shifts in investor sentiment and international liquidity crises. This is precisely why the National Bank of Ukraine plays a key role, acting as a stabiliser of the financial system by using instruments such as foreign exchange interventions, regulating the discount rate and supporting bank liquidity.

Ukraine's stock market is also an important channel for integration into the global financial system. Despite low liquidity and a limited range of instruments, it is gradually developing thanks to Ukrainian companies listing on international exchanges, the inclusion of government bonds in the Clearstream and Euroclear systems, and the placement of Eurobonds. These processes open up access to global capital, enhance the transparency of corporate governance and build investor confidence. At the same time, the stock market remains vulnerable to fluctuations in foreign investment, which requires the strengthening of institutional mechanisms for investor protection and the harmonisation of legislation with EU directives.

Thus, integration opens up new opportunities, but at the same time requires effective regulation.

7.1. Theoretical and Methodological Foundations for the Integration of International Financial Flows into Ukraine's Banking System and Stock Market

The theory of financial intermediation sets out the fundamental principles governing the integration of international financial flows into the national financial system and explains why attracting external resources is essential for Ukraine's economic development. It emphasises the role of banks and other financial institutions, which act as intermediaries between international investors and the domestic capital market. It is through them that external funds are transformed into domestic investment, thereby ensuring economic growth and business development.

According to the classical approaches of Diamond and Dybvig¹, banks perform the function of transforming maturities and risks. They convert short-term external resources into long-term loans for businesses and households, which helps sustain investment activity even when domestic savings are limited. At the same time, such transformation makes the banking system vulnerable to liquidity crises and mass deposit withdrawals, necessitating state mechanisms for protection and regulation.

In the Ukrainian context, financial intermediation is of particular importance. Access to international financial flows helps to compensate for the shortage of domestic resources, stimulate investment and maintain economic stability. However, at the same time, it makes the banking system sensitive to

¹ Diamond, D., Dybvig, P. Bank Runs, Deposit Insurance, and Liquidity. *Journal of Political Economy*. 1983. Vol. 91(3). P. 401-419.

global interest rates and shifts in investor sentiment. This means that any fluctuations in global markets can directly affect the liquidity of Ukrainian banks and their ability to lend to the economy ².

Research by Claessens and Forbes shows that international financial contagion is one of the key channels for risk transmission. It makes the Ukrainian banking system particularly vulnerable to global financial crises and fluctuations. In such conditions, the National Bank of Ukraine plays a decisive role as the main stabiliser of the financial system. Its tools – foreign exchange interventions, regulation of the discount rate and support for bank liquidity – enable it to minimise the negative impact of external shocks and ensure macroeconomic stability.

Thus, the theory of financial intermediation explains not only the benefits of attracting international financial flows, but also the potential risks to the stability of Ukraine's banking system. For a deeper understanding of these processes, it is important to consider the specific channels through which external factors exert their influence. It is the concept of the transmission mechanism that allows us to trace how global financial changes are transformed into domestic business processes, investment activity and macroeconomic stability.

The concept of the 'transmission mechanism' in macroeconomics explains how external financial flows influence domestic economic processes and the country's stability. It encompasses various channels of interaction between international markets and the national economy, demonstrating that any changes in the global financial system can have direct or indirect consequences for business, investment and public welfare.

One of the key elements is the credit channel. When a country gains access to cheap external resources, this stimulates bank lending to both businesses and households. Consequently, investment activity increases, production expands, and consumer demand supports economic growth. However, in the event of capital outflows or restrictions on access to external borrowing, the credit channel can become a source of financial instability.

The price channel is linked to changes in the cost of capital and interest rates. When foreign investors are actively investing, this can lower borrowing costs and stimulate investment in productive and innovative projects. Conversely, rising interest rates or an increase in the cost of capital curb investment activity, which has a negative impact on economic development.

² Claessens, S., Forbes, K. *International Financial Contagion*. Boston: Springer, 2001. 350 p.

The currency channel is of particular importance for countries with a high level of dependence on external flows. An inflow of foreign currency strengthens the national currency, whilst an outflow can lead to devaluation and heighten inflationary expectations. For Ukraine, this channel proved to be critically important: in 2014-2015, significant fluctuations in the hryvnia exchange rate were caused not only by domestic economic problems but also by a massive outflow of foreign capital. This confirmed the high level of integration of the Ukrainian economy into global financial processes.

The equity channel reflects the influence of foreign investors on the liquidity and volatility of exchange-traded instruments. When international players actively buy Ukrainian shares or bonds, the market becomes more dynamic and attractive to other participants. At the same time, a sharp pullback in investment can lead to falling prices and a decline in confidence in the financial system.

Thus, the transmission mechanism is a complex system of interlinked channels through which external financial flows shape domestic economic dynamics. For Ukraine, it is of particular importance, as it demonstrates the national economy's vulnerability to global fluctuations whilst simultaneously opening up opportunities for development, provided these processes are effectively managed.

Recent studies by international organisations confirm the relevance of classical theories of financial integration, whilst also introducing new aspects that reflect current trends in the global economy. They show that the role of financial institutions and international programmes is expanding significantly, and that the impact of technological change is becoming decisive for countries with economies in transition, such as Ukraine.

The Organisation for Economic Co-operation and Development emphasises the importance of institutional investors in the development of stock markets³. For Ukraine, this means that pension funds and insurance companies must become active participants in the corporate bond market. Their participation not only provides additional sources of funding for businesses but also contributes to the formation of long-term investment resources, which is critical for the stability of the financial system.

Studies presented in the IMF Working Papers series (2019-2024) analyse the impact of International Monetary Fund programmes on the financial stability of developing countries. In the case of Ukraine, these studies demonstrate that IMF loans serve a dual purpose: on the one hand, they support

³ OECD. *Business Insights on Emerging Markets 2024*. Paris: OECD Publishing, 2024. 120 p.

foreign exchange reserves and ensure macroeconomic stability, and on the other, they stimulate structural reforms in the banking sector. This includes strengthening regulatory mechanisms, increasing transparency and bolstering confidence in financial institutions⁴.

World Bank reports highlight the importance of digitising banking processes and developing stock market infrastructure⁵. This is particularly relevant for Ukraine, as the adoption of FinTech solutions is becoming a key factor in its integration into global financial processes⁶. Digital technologies make it possible to improve the efficiency of banking operations, expand public access to financial services and create a more competitive environment in the capital market.

Thus, contemporary international research not only confirms classical theoretical approaches but also expands upon them, taking into account new challenges and opportunities. For Ukraine, this means the need to actively engage institutional investors, utilise support from international programmes, and introduce digital technologies into the financial sector. All of this forms a comprehensive strategy for integration into the global economy and ensures the stability of the financial system in the face of constant change.

7.2. International Financial Flows and Ukraine's Banking System

International financial organisations, in particular the International Monetary Fund and the World Bank, play a key role in supporting Ukraine's financial stability. Their lending programmes serve two main functions:

- provide direct financing to cover the budget deficit and support foreign exchange reserves;
- send a positive signal to foreign investors, thereby boosting confidence in the country.

The Stand-by Arrangement, which Ukraine implemented in 2020-2021, provided access to \$5 billion in credit resources. This was a key factor in maintaining banking liquidity during the COVID-19 pandemic, when the economy suffered significant losses. The Extended Fund Facility (EFF), introduced in 2015, was aimed at long-term stabilisation and structural reforms, including the removal of non-performing assets from bank balance sheets.

⁴ IMF Working Paper No. 21/45. *Ukraine: Financial Sector Reform and IMF Support*. Washington: International Monetary Fund, 2021. DOI: <https://doi.org/10.5089/9781513570742.001>

⁵ World Bank. *Ukraine First and Second Programmatic Financial Sector Development Policy Loan*. Washington: World Bank, 2019. 65 p.

⁶ World Bank. *Ukraine Economic Update. Fall 2023*. Washington: World Bank, 2023. 40 p.

The World Bank implements financial sector development programmes aimed at modernising banking processes, introducing digital technologies and expanding access to finance for small and medium-sized enterprises. For example, the Financial Sector Development Programme (2019-2023) included technical assistance for Ukrainian banks in the areas of risk management and corporate governance.

Table 1

Main programs of the IMF and the World Bank for Ukraine (2014-2023)

Year	Program	Amount of Financing	Main Objectives
2014	Stand-by	\$17 billion	Stabilization of the foreign exchange market, budget support ⁷
2015	EFF	\$17.5 billion	Structural reforms, cleaning up the banking system ⁸
2020	Stand-by	\$5 billion	Overcoming the consequences of COVID-19, liquidity support ⁹
2022	World Bank (Development Policy Loan)	\$350 million	Financial sector reform, digitalization of banks ¹⁰

Practical approaches to integrating international financial flows into Ukraine’s banking system and stock market involve a range of measures aimed at expanding access to foreign capital and enhancing the resilience of the financial system. In the banking sector, the key task is to attract international credit lines, which enables long-term financing of the real economy and supports liquidity in times of crisis. An important area is the development of

⁷ IMF. *Ukraine: Request for Stand-By Arrangement*. Washington: International Monetary Fund, 2014. URL: <https://www.imf.org/en/Publications/CR/Issues/2016/12/31/Ukraine-Request-for-Stand-By-Arrangement-41693>

⁸ IMF. *Ukraine: Request for Extended Arrangement Under the Extended Fund Facility*. Washington: International Monetary Fund, 2015. URL: <https://www.imf.org/en/Publications/CR/Issues/2016/12/31/Ukraine-Request-for-Extended-Arrangement-Under-the-Extended-Fund-Facility-42666>

⁹ IMF. *Ukraine: Request for Stand-By Arrangement*. Washington: International Monetary Fund, 2020. URL: <https://www.imf.org/en/Publications/CR/Issues/2020/06/10/Ukraine-Request-for-Stand-By-Arrangement-49452>

¹⁰ World Bank. *Ukraine – First and Second Programmatic Financial Sector Development Policy Loan*. Washington: World Bank, 2019. 65 p. URL: <https://documents1.worldbank.org/curated/en/477561579113645942/pdf/Ukraine-First-and-Second-Programmatic-Financial-Sector-Development-Policy-Loan.pdf>

correspondent banking relationships with foreign banks, which facilitates the integration of Ukrainian financial institutions into the global payment system and boosts the confidence of international partners. Equally significant is the implementation of the Basel III standards, which set modern requirements for capital, risk management and transparency in banking operations, ensuring their compliance with international practices.

Table 2

**Comparison of the impact of the IMF and the EBRD
on Ukraine's financial system**

Aspect	IMF	EBRD
Main Objective	Macroeconomic stability, support of the balance of payments	Investments in the development of economic sectors and financial institutions
Financial Support	Loan programs to cover budget deficits and reserves	Direct investments in banks and companies, credit lines for SMEs
Impact on the Banking System	Reform of regulatory supervision, cleaning up bank balance sheets	Increasing bank capitalization, access to long-term resources
Impact on the Stock Market	Building trust among foreign investors	Investments in corporate bonds and shares, transparency in governance
Institutional Mechanisms	Requirements for fiscal discipline and monetary policy	Technical assistance in developing market infrastructure
Risks	High sensitivity to external financing	Limited investments during crisis periods

The theoretical and methodological foundations for integrating international financial flows into Ukraine's banking system and stock market are based on a combination of the concepts of financial intermediation and the transmission mechanism. Practical experience of cooperation with the IMF and the EBRD confirms that external financial flows through institutional channels influence domestic business processes, stimulate the development of the banking system and the stock market, but at the same time increase the economy's sensitivity to global economic conditions.

In the stock market sector, practical integration involves the listing of Ukrainian companies on international exchanges¹¹, which opens up access to a wider range of investors and enhances competitiveness at the global level. An important step is integration with European clearing systems^{12,13}, which ensures the efficiency and reliability of settlements for securities transactions. Furthermore, the development of Eurobond¹⁴ and derivatives instruments allows for the diversification of funding sources and creates additional opportunities for risk management. Taken together, these areas form the practical basis for Ukraine's integration into the global financial system, helping to attract investment, increase liquidity and strengthen the country's financial security.

An example of such integration is the listing of Ukrainian companies, notably Ferrexpo and MHP, on the London Stock Exchange, which has provided them with access to global capital and enhanced corporate transparency. The inclusion of Ukrainian government bonds in the international clearing systems Clearstream and Euroclear was an important step in increasing their liquidity and accessibility to foreign investors. The placement of Ukraine's Eurobonds in 2021-2023 confirmed the country's readiness to adhere to international standards of financial discipline and contributed to the formation of a yield curve, which is a key indicator for assessing risks and the cost of capital^{15,16}.

The integration of international financial flows into Ukraine's banking system and stock market is a complex, multi-layered process that combines theoretical foundations, methodological approaches and practical tools. The theory of financial intermediation explains the role of banks as key intermediaries in transforming external resources into domestic investment, whilst emphasising the risks of dependence on global markets. The concept of the transmission mechanism details the channels through which international

¹¹ Ferrexpo plc. Annual Report 2023. London Stock Exchange. URL: <https://www.londonstockexchange.com>; MHP SE. Investor Relations. Лондонська фондова біржа. URL: <https://www.londonstockexchange.com>

¹² Clearstream Banking. Inclusion of Ukrainian government bonds into Clearstream system. Frankfurt, 2019. URL: <https://www.clearstream.com>

¹³ Euroclear. Ukrainian government securities available for settlement. Brussels, 2020. URL: <https://www.euroclear.com>

¹⁴ Clearstream Banking. Inclusion of Ukrainian government bonds into Clearstream system. Frankfurt, 2019. URL: <https://www.clearstream.com>

¹⁵ Ferrexpo plc. Annual Report 2023. London Stock Exchange. URL: <https://www.londonstockexchange.com>

¹⁶ MHP SE. Investor Relations. Лондонська фондова біржа. URL: <https://www.londonstockexchange.com>

flows influence Ukraine's economy, with the foreign exchange and stock markets being of particular importance. The methodological foundations of integration are based on systemic, institutional, regulatory, risk-oriented and innovative approaches, ensuring a comprehensive analysis and consideration of key challenges.

Practical areas of integration include the attraction of international credit lines, the implementation of Basel III standards, the listing of Ukrainian companies on international stock exchanges, integration with European clearing systems, and the development of modern financial instruments. Taken together, these measures contribute to increased liquidity, expanded access to capital and the strengthening of the state's financial security. Thus, the integration of international financial flows is not only a necessary condition for Ukraine's economic development, but also a strategic factor in its stability within the global financial system.

The National Bank of Ukraine actively uses foreign exchange interventions as a tool to stabilise the hryvnia exchange rate. Attracting international financial flows through loans, investments and grants allows the formation of reserves, which are used to smooth out fluctuations in the foreign exchange market¹⁷.

During times of crisis, foreign exchange interventions have become one of the key instruments for maintaining macroeconomic stability in Ukraine. They have enabled the National Bank of Ukraine to respond swiftly to external shocks and internal imbalances, thereby curbing currency depreciation and preventing panic among the population. It was precisely through the use of international reserves that the worst-case scenarios, such as hyperinflation or the complete collapse of the financial system, were avoided.

In 2014-2015, when the country faced a massive capital outflow and the beginning of the war, reserves fell to a critical level of about USD 7.5 billion. During this period, foreign exchange interventions became the only effective mechanism for maintaining the hryvnia exchange rate. The use of reserves made it possible to avoid uncontrolled inflation and preserve a minimum level of confidence in the financial system. Although this was accompanied by significant losses, such measures became the foundation for subsequent stabilization.

In 2022, with the outbreak of full-scale war, reserves again declined – to approximately USD 27 billion. During this period, foreign exchange interventions performed not only an economic but also a psychological

¹⁷ Національний банк України. Звіт про фінансову стабільність. Київ : НБУ, грудень 2025. 120 с.

function: they restrained panic in the market, prevented sharp exchange rate fluctuations, and maintained basic stability under extremely difficult conditions.

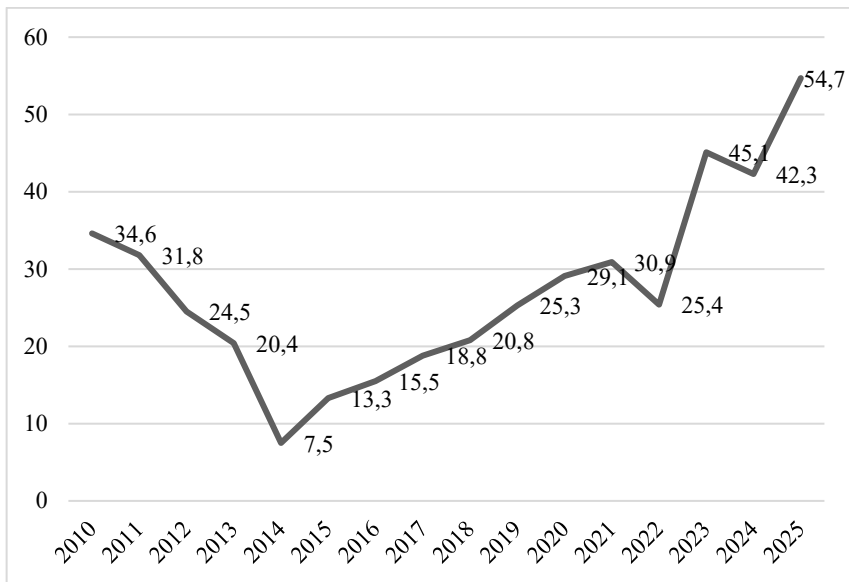


Figure 1. Dynamics of Ukraine's international reserves, USD billion (2010-2025)

The period of 2023-2025 became exceptional in Ukraine's modern history. Thanks to large-scale international financial assistance from the EU, G7 countries, and the IMF, reserves increased to record levels – about USD 46-47 billion, reaching an all-time high of USD 54.7 billion in December 2025. This reflects the unprecedented support of Ukraine by the international community and the key role of external resources in ensuring macroeconomic stability during war and crisis challenges.

Thus, the dynamics of Ukraine's international reserves in 2010-2025 illustrate a complex path from a critical minimum to a historic maximum. They confirm that foreign exchange interventions and international financial support are decisive factors for the survival and development of the economy in times of deep crises. This experience shows that integration into

global financial processes and cooperation with international institutions are not merely desirable but vital for the resilience of Ukraine’s economy.

Ukrainian banks perform an extremely important function as transmitters of external financial resources into domestic investments. They act as conduits of international capital, which, through various mechanisms, is transformed into loans, investment programs, and financing for businesses and households. This makes it possible to compensate for the shortage of domestic savings and ensure the development of key sectors of the economy.

One of these mechanisms is syndicated loans, which Ukrainian banks attract from groups of international financial institutions. This provides access to significant volumes of resources directed toward financing large infrastructure and corporate projects. Partnership programs with the EBRD and IFC also play an important role, as they are focused on supporting small businesses and developing infrastructure. Through these programs, banks gain the ability to lend to enterprises on more favorable terms, stimulating economic activity in the regions.

Refinancing through international credit lines is another channel for transmitting external resources. It allows banks to maintain liquidity and provide long-term financing for businesses. For example, the EBRD’s energy efficiency program enabled dozens of Ukrainian enterprises to modernize production processes and reduce energy consumption by 20-30%. In turn, IFC actively invests in agricultural sector projects, providing farms with access to long-term loans, which is critically important for the development of agriculture.

Table 3

Examples of international programs for Ukrainian banks

Organization	Program	Sector	Results
EBRD	Energy Efficiency Program	Industry	Reduction of energy consumption by 20-30%
IFC	Agrifinance	Agriculture	Access to long-term loans
World Bank	SME Finance	Small Business	Expansion of SME lending

International financial organizations play a systemic role in supporting Ukraine’s financial stability. Programs of the IMF, World Bank, EBRD, and IFC not only provide access to external resources but also create framework conditions for reforming the financial sector. IMF programs such as Stand-by (2014, 2020), EFF (2015-2019), and Extended Arrangement (2022-2025) were

aimed at stabilizing the foreign exchange market, cleaning bank balance sheets of non-performing assets, and supporting the financial system during wartime. The World Bank implemented Development Policy Loan and Financial Sector Development Program initiatives, which emphasized the digitalization of banking processes, corporate governance reform, and expanded access to credit for small businesses. The EBRD focused on energy efficiency and enterprise support, while IFC provided long-term resources for the agricultural sector and infrastructure.

Table 4

Main programs of international financial organizations for Ukraine

Institution	Programs	Period / Amount	Main Objectives	Impact on Banks
IMF	Stand-by	2014, 2020	Stabilization of the foreign exchange market, budget support	Ensuring liquidity, stimulating banking supervision reforms
	EFF	2015-2019	Structural reforms, cleaning balance sheets of non-performing assets	Strengthening resilience of the banking system
	Extended Arrangement	2022-2025	Support of the financial system during wartime	Strengthening macro-financial stability
World Bank	Development Policy Loan	2022, \$350 million	Financial sector reform, digitalization of banks	Modernization of processes, implementation of FinTech
	Financial Sector Development Program	2019-2023	Technical assistance in risk management and corporate governance	Expansion of SME lending
EBRD	Credit lines, investments	ongoing	Support of small business, energy efficiency	Reduction of enterprise energy consumption by 20–30%
IFC	Investments in agriculture and infrastructure	ongoing	Long-term resources for development	Farmers' access to long-term loans

An important stabilization instrument remains the foreign exchange interventions of the National Bank of Ukraine. They allow smoothing fluctuations in the hryvnia exchange rate and restraining inflationary expectations. In crisis periods – 2008, 2014, and 2022 – the use of international reserves became the key mechanism for maintaining macroeconomic stability. In 2014-2015, interventions helped avoid hyperinflation, while in 2022 they restrained panic in the foreign exchange market.

Thus, Ukrainian banks, in cooperation with international financial organizations, form the foundation for integrating external flows into the national economy. They not only ensure the stability and liquidity of the financial system but also contribute to its modernization, infrastructure development, and adaptation to global challenges. This confirms that the role of banks as transmitters of external resources is strategic for Ukraine's economic development.

7.3. The Stock Market as a Channel for International Financial Integration

The stock market is one of the key channels of the transmission mechanism through which international financial flows influence the national economy. Unlike the banking system, which transforms external resources into loans, the stock market serves to mobilise capital through securities, shaping investment sentiment and determining the country's level of integration into global financial processes. For Ukraine, its development has dual significance: on the one hand, it offers the opportunity to attract foreign investment and increase liquidity; on the other, it necessitates the creation of transparent and reliable institutional mechanisms capable of ensuring financial stability.

An analysis of the current state of Ukraine's stock market, its challenges and prospects for transformation allows us to assess not only the level of integration into the global economy, but also the strategic opportunities for ensuring the state's financial security. This is precisely why research into the stock market serves as a logical extension of the examination of the theoretical and methodological foundations of the integration of international financial flows. Research shows that the effective functioning of the stock market is critically important for economic growth, as it is precisely this market that ensures the mobilisation of capital and promotes entrepreneurial activity¹⁸.

¹⁸ Morck R., Shleifer A., Vishny R. The Stock Market and Investment: Is the Market a Sideshow? *Brookings Papers on Economic Activity*. URL: https://www.brookings.edu/wp-content/uploads/1990/06/1990b_bpca_morck_shleifer_vishny_shapiro_poterba.pdf

Eurobonds have become one of the key instruments for raising external financing. In 2021, Ukraine successfully issued Eurobonds worth \$1.25 billion, maturing in 2029 and carrying a coupon rate of 6.875%, which signalled the stability of its macro-financial policy. Despite the war, in 2022-2023 the Ministry of Finance continued to operate in external markets, refinancing debt and issuing new Eurobonds, which helped avoid peak budgetary pressures ¹⁹. This demonstrates that international investors' confidence has been maintained even in crisis conditions. The key parameters of Ukraine's Eurobonds for 2017-2025 are set out in Table 5.

Table 5

Main parameters of Ukraine's Eurobonds (2017-2025)

Year	Issue Volume	Coupon Rate	Maturity	Currency	Features
2017	\$3.0 billion	7.375%	2032	USD	First major issuance after the 2015 restructuring
2018	\$2.0 billion	8.25%	2033	USD	High rate due to global Fed interest rate hikes
2019	\$1.25 billion	7.25%	2032	EUR/USD	Diversification of currency structure
2020	\$2.0 billion	7.75%	2033	USD	Used to cover budget deficit during COVID-19
2021	\$1.25 billion	6.875%	2029	USD	Signal of macro-financial policy stability
2022	\$0.5 billion (refinancing)	7.75%	2030	USD	Wartime issuance, supported by international partners
2023	\$1.0 billion	7.375%	2033	USD	Despite war, access to external markets preserved
2024	\$1.5 billion	7.50%	2034	USD	Partially guaranteed by the EU and G7
2025	\$2.0 billion	7.00%	2035	USD	Record investor demand, oversubscribed threefold

The dynamics of Ukraine's Eurobond issuance in 2017-2025 demonstrate the gradual restoration of international investor confidence and the growing role of external capital markets in ensuring the country's macro-financial stability.

¹⁹ Ministry of Finance of Ukraine. Ukraine completes the restructuring of USD 20.5 billion sovereign and sovereign-guaranteed Eurobonds. URL: <https://mof.gov.ua/en/news/ukraine-completes-the-restructuring-of-usd-205-billion-sovereign-and-sovereign-guaranteed-eurobonds>

After the debt restructuring of 2015, Ukraine returned to borrowing markets in 2017 with a large \$3 billion issuance, which became an important signal for investors. In subsequent years, the volumes and conditions of issuance varied depending on global financial trends, domestic economic circumstances, and geopolitical challenges.

The period of 2022-2023 is particularly illustrative: despite the war, Ukraine maintained access to external markets, refinancing debt and attracting new resources. In 2024-2025, Eurobond issuances were accompanied by strong demand from institutional investors, with some partially guaranteed by international partners (EU, G7), which reflects strategic support for Ukraine within the global financial system.

Thus, Eurobonds serve not only as a tool for raising funds but also as an indicator of Ukraine's level of integration into international financial flows, forming the basis for long-term financial resilience and economic adaptation.

An important factor of integration is the participation of foreign investors in corporate securities of Ukrainian companies. According to KSE Institute, in 2023 more than 40 global companies invested in Ukraine, and another 12 announced new projects. Institutional investors – including pension funds, insurance companies, and investment banks – actively participate in purchasing corporate bonds of Ukrainian issuers. This contributes to raising standards of corporate governance, implementing international reporting standards (IFRS), and increasing transparency and trust in Ukrainian companies ²⁰.

The composition of foreign investors in the Ukrainian stock market is characterised by the dominance of institutional players (banks, investment funds, insurance companies), who are primarily concentrated in the government securities and corporate bonds segments. The share of foreign investors in the market's total capitalisation remains relatively low – around 10-15% – but is trending upwards due to integration with the EU and the implementation of ESG standards ²¹.

The main groups of foreign investors in Ukraine form a multi-component structure comprising banking institutions, investment funds, insurance companies and private investors. Each of these groups has its own interests, strategies and instruments, which determine the nature of their participation in Ukraine's financial market. At the same time, their activities reflect general

²⁰ NV Бізнес. Після російського вторгнення понад 50 іноземних компаній вирішили вкласти гроші в Україну – що будують. URL: <https://biz.nv.ua/ukr/economics/43-globalni-kompaniji-investovali-v-ukrajinu-pid-chas-povnomasshtabnogo-vtrognennya-50402963.html>

²¹ Національний банк України. Звіт про фінансову стабільність. Київ: НБУ, грудень 2025. URL: https://bank.gov.ua/admin_uploads/article/FSR_2025-H2.pdf

trends in global financial processes and Ukraine's integration into the world economy.

Banking institutions, in particular branches of international banks such as Raiffeisen Bank, Citi and OTP, focus primarily on investments in government bonds (OVDP) and foreign exchange transactions. This is because government securities offer a high level of reliability, whilst foreign exchange transactions allow banks to manage risks effectively and ensure liquidity. Their presence in the Ukrainian market creates additional opportunities for budget financing and supporting the stability of the foreign exchange market.

Investment funds and asset management companies, mainly from the EU and the US, are showing interest in corporate bonds, shares of large Ukrainian companies and venture capital investments. They focus on riskier but potentially profitable instruments, which allows them to diversify their portfolios and benefit from the development of the Ukrainian corporate sector. Their contribution to venture capital investments, which stimulate the development of innovative projects and technology start-ups, is particularly important.

Insurance companies and pension funds are attracted through long-term investment programmes. Their strategy focuses on stable, low-risk instruments, which is consistent with their nature as institutional investors tasked with ensuring long-term financial stability. For Ukraine, this means the opportunity to attract resources to projects with predictable returns, which contributes to the formation of a more balanced financial system.

Private investors, so-called high-net-worth individuals, account for a relatively small share, but their role is gradually growing thanks to the development of digital platforms and access to exchange-traded instruments. This opens up new opportunities for expanding the investment base and fostering a culture of private investment in Ukraine.

The structure of foreign investors shows that the largest share is accounted for by government bonds – around 60% of all foreign investment. The main countries of origin for capital are the US and EU countries, notably Austria, Poland and Germany. Corporate bonds account for approximately 20%, shares in public companies for around 10%, and venture capital and private equity investments for a further 10%. This distribution indicates the dominance of government securities as the most attractive instrument for foreign investors.

Table 6

Structure of foreign investors (indicative distribution)

Market Segment	Share of Foreign Investors	Main Countries of Origin
Government Bonds (OVDP)	~60% of all foreign investments	USA, EU (Austria, Poland, Germany)
Corporate Bonds	~20%	EU, United Kingdom
Shares of Public Companies	~10%	USA, Czech Republic, Poland
Venture and Private Investments	~10%	USA, Israel, Baltic States

Current trends confirm changes in the structure of investment. The role of ESG strategies is growing: foreign funds are increasingly investing in companies that implement sustainable development standards. Government bonds remain the most attractive instrument thanks to state guarantees, whilst the low liquidity of shares limits foreign investors' interest in Ukrainian stock exchanges. At the same time, the process of European integration, in particular the harmonisation of regulations with EU directives (UCITS, MiFID II), is gradually opening up the market to a greater number of foreign participants^{22, 23, 24}.

Consequently, foreign investors in Ukraine are concentrated primarily in the government securities segment, whilst the corporate sector and equities remain less attractive due to low liquidity and regulatory barriers. However, integration with the EU and the implementation of ESG standards are creating conditions for a gradual expansion of their participation. The link between bank lending and the issuance of securities is significant; whilst still developing, it is already showing a trend towards diversification of funding sources. In 2024, the National Securities and Stock Market Commission approved new regulations on the procedure for issuing corporate bonds, which simplify registration procedures and lower barriers for businesses. This creates a transparent and predictable environment for investors and brings Ukraine closer to the modern requirements of international financial markets²⁵.

²² НКЦПФР. Звіт про виконання Угоди про асоціацію між Україною та ЄС у сфері ринків капіталу. Київ: НКЦПФР, 2023.

²³ European Commission. Association Implementation Report on Ukraine. Brussels: European Commission, 2023.

²⁴ World Bank. Ukraine – Financial Sector Reform Program. Washington: World Bank, 2022.

²⁵ Національна комісія з цінних паперів та фондового ринку. Ще один крок вперед у розвитку фінансових інструментів: NSSMC розробила новий документ про корпоративні облигації. URL: <https://www.nssmc.gov.ua/en/cherhoviyi-krok-dlia-rozvytku-finansovykh-instrumentiv-komisiia-rozrobyla-novyj-dokument-shchodo-emisii-korporatyvnykh-oblihatsii>

Thus, foreign investors play a key role in the development of Ukraine’s financial market, not only providing access to capital but also stimulating the modernisation of the regulatory framework and integration into global financial processes.

The relationship between bank lending and corporate bond issuance in Ukraine is still in its infancy, yet a clear trend towards the diversification of business financing sources is already evident. Traditionally, Ukrainian companies have relied on bank loans as their primary means of raising capital. However, stringent lending conditions, high dependence on the monetary policy of the National Bank of Ukraine and limited financing terms are forcing businesses to seek alternative mechanisms. This is precisely why corporate bonds are gradually becoming an important complement to bank loans, opening up new opportunities for long-term financing.

In 2024, the National Securities and Stock Market Commission adopted new regulations on the procedure for issuing corporate bonds. This document has significantly simplified registration procedures and lowered barriers for businesses, creating a transparent and predictable environment for investors. Importantly, the new rules are harmonised with international standards, bringing Ukraine closer to the practices of developed financial markets and boosting the confidence of foreign investors ²⁶. For clarity, a comparison of the terms of bank lending and corporate bond issuance is provided in Table 7.

Table 7

Comparison of bank loan conditions and corporate bond issuance

Parameter	Bank Loan	Corporate Bond Issuance
Financing Term	Short- or medium-term	Medium- or long-term
Cost of Capital	Depends on NBU interest rate	Depends on market yield
Flexibility of Conditions	Limited	High (issuance terms can be adjusted)
Transparency	Internal	Public reporting, audit
Control over Business	Retained	Retained (unlike shares)

A comparison of the terms and conditions of bank lending and corporate bond issuance reveals significant differences. Bank loans are primarily geared towards short- and medium-term financing; their cost depends on the NBU’s

²⁶ Ibid.

discount rate, and the flexibility of the terms is limited. In contrast, corporate bonds allow companies to raise medium- and long-term funds, establish more flexible issuance terms and ensure transparency through public reporting and auditing. At the same time, control over the business is retained, as unlike shares, bonds do not involve the transfer of ownership rights.

This indicates the gradual emergence in Ukraine of alternative sources of financing that complement traditional bank lending. The development of the corporate debt segment helps to boost investor confidence, expand access to external financial flows, and integrate Ukrainian issuers into global capital markets. Importantly, this process creates a more diversified and resilient financial system capable of responding effectively to the challenges of economic instability.

Thus, Ukraine's stock market is gradually integrating into the global financial system. Eurobonds, the participation of foreign investors and the development of the corporate debt segment are creating the conditions for diversifying funding sources, increasing transparency and strengthening the financial system. At the same time, the effectiveness of this process depends to a large extent on improving the legal framework and harmonising regulatory standards with international standards, which will ensure Ukraine's long-term stability and investment attractiveness.

7.4. Risks and Challenges of Integration

Integration into global financial flows creates significant currency risks for Ukraine. Dependence on external creditors means that any changes in global monetary policy (for example, increases in interest rates by the U.S. Federal Reserve or the European Central Bank) can lead to capital outflows, hryvnia devaluation, and rising debt burdens.

In 2014, Ukraine experienced a sharp decline in reserves to about USD 7.5 billion, which caused the hryvnia to depreciate more than twofold. A similar situation occurred in 2022, when war and the outflow of foreign capital reduced reserves to approximately USD 27 billion.

The Ukrainian stock market has shown a persistent trend of low liquidity over the past decade, which significantly limits its functionality as a source of capital for the national economy. Despite certain positive developments, trading volumes remain insignificant compared to neighboring countries' markets, indicating structural problems and insufficient integration into global financial flows.

According to official data from the National Securities and Stock Market Commission, in 2024 the total trading volume on organized platforms

(“Perspektiva,” PFTS, Ukrainian Exchange) amounted to about UAH 560 billion, equivalent to approximately USD 15 billion. This was slightly higher than in 2023 (UAH 506 billion), but the figure remains very low compared to Central and Eastern European countries. For example, trading volume on the Warsaw Stock Exchange exceeded USD 300 billion, while on the Prague Stock Exchange it was about USD 150 billion. Such a disparity demonstrates Ukraine’s lag and confirms the weak integration of its capital market into the international financial system ²⁷.

Table 8

**Examples of currency crises in Ukraine
and the role of international flows**

Year	Cause	Consequences	Role of International Flows
2008	Global financial crisis	Hryvnia depreciation by 40%	IMF loans stabilized reserves
2014	Geopolitical crisis	Reserves fell to USD 7.5 billion	IMF EFF program
2022	Full-scale war	Reserves declined to USD 27 billion	International assistance from G7, EU

An important direction for the development of the stock market is corporate bonds and IPOs of Ukrainian companies. Energy companies, such as DTEK and Naftogaz, actively use bonds to raise funds for infrastructure modernization. The agricultural sector (Kernel, MHP) enters external capital markets through Eurobonds, ensuring diversification of financing sources. Although IPOs in the domestic market remain rare, examples of Kernel and Astarta listing on the Warsaw Stock Exchange demonstrate integration into the European financial space and increased transparency of corporate governance.

The reasons for low liquidity are complex. First, the Ukrainian market is characterized by a limited number of financial instruments: the main trading volume is concentrated in government bonds, while corporate bonds and shares account for a minimal share. Second, institutional investor participation remains weak due to the underdevelopment of pension funds, insurance companies, and investment funds, which in most countries are key players. Third, the low level of financial literacy among the population limits domestic demand for stock instruments, reducing overall market activity. Finally,

²⁷ Національна комісія з цінних паперів та фондового ринку. Підсумки діяльності фондових бірж у 2024 році. Київ: НКЦПФР, 2025. URL: <https://www.nssmc.gov.ua>

political and economic instability generates high risks that deter foreign investors.

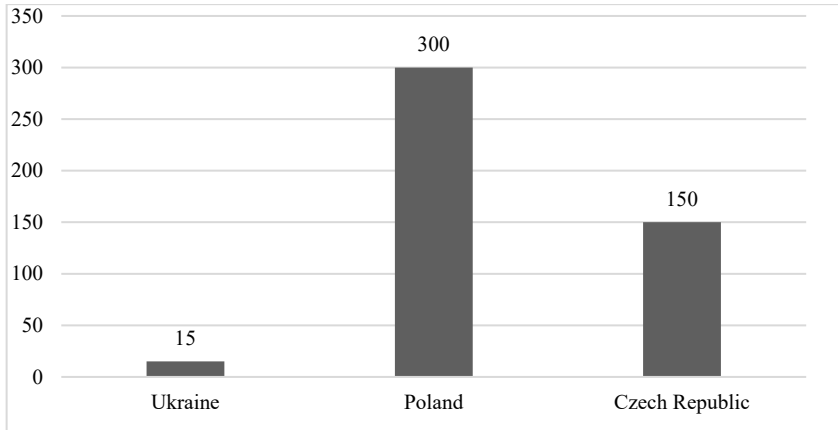


Figure 2. Comparison of stock market liquidity, USD billion (2024)

The development of the corporate debt segment, the activation of institutional investors, the introduction of modern regulatory standards, and harmonization with EU legislation may become key factors in increasing its efficiency. Only under conditions of comprehensive changes will the Ukrainian capital market be able to fulfill its main function – providing businesses with long-term resources and integrating into global financial processes.

Such a difference is explained not only by the scale of the economy but also by the quality of the institutional framework, the level of investor confidence, and the effectiveness of the regulatory environment. In conditions of low liquidity, Ukrainian companies are forced to rely mainly on bank lending, which limits the diversification of financing sources and increases the cost of capital.

The dynamics of trading volumes on Ukraine’s stock market during 2015-2025 demonstrate instability, with a particularly sharp decline in 2022 caused by the full-scale war. At the same time, after 2023 a gradual recovery can be observed, made possible by international financial support, the activation of EBRD programs and other international financial institutions, as well as the introduction of new instruments, including Eurobonds. This indicates the market’s potential, provided that appropriate institutional support and regulatory modernization are ensured.

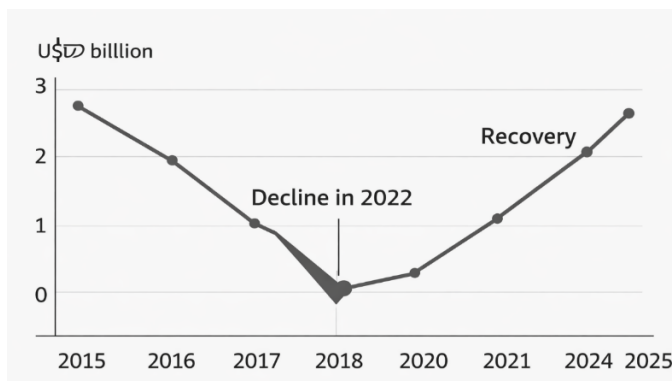


Figure 3. Dynamics of trading volumes on Ukraine’s stock market (2015-2025)

Recent regulatory changes create new opportunities for Ukraine’s integration into global financial processes. In 2024, the National Securities and Stock Market Commission adopted a new regulation on the procedure for issuing corporate bonds, which significantly simplified registration procedures and lowered barriers for businesses. An important step is also the implementation of the EU Directive CSRD 2022/2464 on corporate sustainability reporting, which establishes new requirements for transparency and ESG standards. This brings the Ukrainian market closer to European practices and enhances the confidence of foreign investors ²⁸.

Ukraine’s stock market remains illiquid and requires systemic reforms. The development of the corporate debt segment, the activation of institutional investors, the implementation of modern regulatory standards, and harmonization with EU legislation may become key factors in improving its efficiency. Only through comprehensive changes will the Ukrainian capital market be able to fulfill its main function – providing businesses with long-term resources and integrating into global financial processes.

As an emerging market, Ukraine is extremely sensitive to global financial crises. Its economy and stock market are closely integrated into international financial flows, so any external shocks are quickly reflected in the domestic situation.

²⁸ Національна комісія з цінних паперів та фондового ринку. Підсумки діяльності фондових бірж у 2024 році. Київ: НКЦПФР, 2025. URL: <https://www.nssmc.gov.ua>

In 2008, the global financial crisis caused a sharp decline in investment activity. According to expert estimates, investment inflows to Ukraine decreased by almost 60%. This was due to the general collapse of global markets, reduced confidence in transition economies, and capital outflows to more stable jurisdictions.

In 2014, the geopolitical crisis caused by the annexation of Crimea and the outbreak of war in eastern Ukraine led to a massive capital outflow. The stock market fell by nearly 70%, marking one of the deepest declines in its history. This period demonstrated how strongly political risks can affect a country's financial stability.

In 2020, the COVID-19 pandemic again reduced investment activity – by approximately 40%. Global uncertainty, restrictions on economic activity, and the decline of world markets led to a contraction of investment flows into Ukraine.

These examples demonstrate that integration into global financial processes has a dual effect: on the one hand, it provides access to resources and opens new opportunities for development, while on the other hand, it makes the economy extremely vulnerable to external shocks.

For Ukraine's successful integration into global financial markets, deep reform of the financial infrastructure is required. This concerns both technical aspects and institutional mechanisms that ensure transparency and investor confidence.

First, modernization of depository systems is critically important. The introduction of modern technologies for the safekeeping and accounting of securities will ensure the reliability of operations and reduce fraud risks.

Second, the development of electronic trading platforms should become a priority. Online exchange systems provide transparency, accessibility, and speed of operations, which are standard for developed markets.

Third, investor protection requires improvements in legislation. Guarantees of fair treatment of investors and effective dispute resolution mechanisms will increase confidence in the Ukrainian market.

Fourth, transparency of corporate governance must be based on international standards such as OECD and IFRS. This will allow Ukrainian companies to meet the requirements of global investors and attract long-term capital.

Fifth, financial literacy of the population is a key factor in the development of the domestic market. Educational programs and the promotion of an investment culture will enable broad segments of the population to engage in investment activities, thereby increasing domestic demand for capital market instruments.

Ukraine remains sensitive to global crises, as confirmed by the events of 2008, 2014, and 2020. At the same time, these challenges highlight the necessity of systemic reforms in financial infrastructure. Modernization of depository systems, development of electronic platforms, protection of investor rights, transparency of corporate governance, and improvement of financial literacy among the population are key directions that can ensure market resilience and its integration into global financial processes.

Thus, only comprehensive reform will allow Ukraine’s capital market to fulfill its main function – serving as an effective source of capital for business and the economy, while becoming competitive in the international financial environment.

Table 9

Directions of reforming Ukraine’s financial infrastructure

Direction	Current State	Required Changes
Depository Systems	Fragmented	Centralization and digitalization
Exchange Platforms	Limited access	Online trading, integration with international systems
Investor Protection	Insufficient	New legislation, regulatory mechanisms
Corporate Governance	Low transparency	Implementation of international standards
Financial Literacy	Limited	Educational programs, promotion of investment culture

Integration into international financial flows creates both opportunities and risks for Ukraine. Currency instability, low stock market liquidity, and sensitivity to global crises demand comprehensive reforms. Only modernization of financial infrastructure and increased transparency can ensure long-term investor confidence.

Corporate governance in Ukraine remains one of the most problematic areas, restraining the development of the capital market and its integration into global financial processes. One of the key issues is insufficient transparency of financial reporting. Many Ukrainian companies do not comply with international corporate governance standards, such as IFRS (International Financial Reporting Standards) or Basel III requirements in the banking sector. This creates information gaps for investors and reduces trust in Ukrainian issuers.

A low level of transparency directly affects foreign investors. The absence of clear reporting standards and weak protection of shareholder rights limit their

participation in Ukraine’s capital market. Investors seek stability and predictability, while the opacity of corporate structures and financial flows forces them to avoid risks, leading to capital outflows.

A telling example was the corporate scandals in the banking sector during 2014–2016, which resulted in massive capital flight and the need to nationalize the country’s largest bank – PrivatBank. This situation demonstrated that the lack of proper corporate control and transparency can have systemic consequences for the entire financial system.

Table 10

Main problems of corporate governance in Ukraine

Problem	Consequences	International Recommendations
Lack of transparency in financial reporting	Decline in investor confidence	Implementation of IFRS
Insufficient protection of shareholder rights	Capital outflow	Corporate law reform
Ownership concentration	Market monopolization	Antitrust measures

Problems of corporate governance and transparency remain a serious barrier to the development of Ukraine’s capital market. They reduce foreign investor confidence, limit companies’ access to external financial flows, and create risks for the stability of the financial system.

To overcome these challenges, it is necessary to implement international financial reporting standards, reform corporate law, ensure the protection of shareholder rights, and pursue antitrust policies. Only comprehensive changes in the sphere of corporate governance will allow Ukraine to create a transparent and competitive environment capable of attracting foreign capital and ensuring sustainable economic development.

Another unprecedented challenge for Ukraine’s financial system was the full-scale war that began in 2022. It caused deep structural changes in the banking sector, the stock market, and mechanisms of international financial support. The war not only reduced investment activity but also cast doubt on the ability of the financial system to perform its basic functions – ensuring stability, lending, and integration into global markets.

The banking system suffered significant losses. Lending volumes decreased as banks were forced to limit risks and focus on maintaining liquidity. The share of non-performing assets increased, creating additional pressure on bank

balance sheets. Under these conditions, the National Bank of Ukraine had to actively use foreign exchange interventions to curb devaluation processes and stabilize the hryvnia. This helped avoid hyperinflation and preserve basic confidence in the financial system.

The stock market effectively came to a halt. Liquidity dropped sharply, initial public offerings (IPOs) were frozen, and foreign investors massively withdrew capital. As a result, the market ceased to function as a source of long-term investment for businesses. At the same time, this segment requires recovery after the war, as it can become a key channel for attracting resources to rebuild the economy.

International assistance became the decisive factor in stabilization. Loans and grants from the EU, G7 countries, and the IMF supported foreign exchange reserves and helped maintain hryvnia stability. Without this assistance, Ukraine's financial system could have faced a critical collapse. International partners not only provided financial resources but also created conditions for structural reforms aimed at strengthening the resilience of the banking sector and increasing transparency of financial operations.

Post-war prospects are linked to the revival of the stock market and the involvement of institutional investors. Active development of corporate bonds is expected as an alternative to bank lending, in line with global trends of financing diversification. Another important direction will be integration into the European financial space, harmonization of regulatory norms, and implementation of international corporate governance standards.

The full-scale war of 2022 demonstrated that Ukraine's financial system is extremely vulnerable to external shocks, yet capable of maintaining basic stability thanks to NBU currency interventions and large-scale international support. Future development will depend on the successful implementation of reforms, the revival of the stock market, and the involvement of institutional investors. Only comprehensive changes will transform the financial system into an effective instrument for reconstruction and integration of Ukraine into global economic processes.

Integration into international financial flows creates both opportunities and risks for Ukraine. On the one hand, it provides access to resources, supports foreign exchange reserves, and stimulates the development of the corporate segment. On the other hand, it makes the economy extremely sensitive to global crises, currency instability, and problems of corporate governance.

The events of 2008, 2014, 2020, and 2022 showed that external shocks quickly transform into internal financial crises. Therefore, the key task is modernization of financial infrastructure (depository systems, electronic

trading platforms), protection of investor rights, implementation of international corporate governance standards (IFRS, OECD), as well as the development of institutional investors and improvement of financial literacy among the population.

Only comprehensive reforms will allow Ukraine's capital market to fulfill its main function – being an effective source of long-term capital for business and integrating into global financial processes.

CONCLUSIONS

The integration of international financial flows into Ukraine's banking system and capital market is a strategic direction that defines the country's financial security and development prospects. It has a dual nature: on the one hand, it provides access to resources, stimulates investment activity, and supports macroeconomic stability; on the other hand, it creates dependence on external creditors and makes the economy vulnerable to global crises.

Ukraine's banking system serves as the main channel for transforming external resources into domestic investments. Programs of the IMF, World Bank, and EBRD provide liquidity support, infrastructure development, and stimulate structural reforms. At the same time, dependence on international loans means that any changes in global monetary policy can directly affect the stability of the hryvnia and the ability of banks to lend to the economy.

Ukraine's capital market is gradually integrating into the global financial system. The listing of companies on international exchanges, the inclusion of government bonds in Clearstream and Euroclear systems, and the development of Eurobonds and corporate bonds open access to a wider circle of investors. However, low liquidity, a limited number of instruments, and weak participation of institutional investors remain serious challenges. Comparisons with the markets of Poland and Romania demonstrate Ukraine's significant lag, which requires systemic reforms.

Integration is accompanied by risks: currency (exchange rate fluctuations of the hryvnia), credit (dependence on external creditors), investment (volatility of global markets), and institutional (corporate governance problems, low transparency of reporting). The events of 2008, 2014, 2020, and 2022 showed that external shocks quickly transform into internal financial crises. At the same time, international support (EU, G7, IMF) was a decisive factor in stabilization and maintaining confidence in the financial system.

Further development of Ukraine's financial system depends on the ability to implement comprehensive reforms. Key directions include modernization of financial infrastructure (depository systems, electronic trading platforms),

harmonization of legislation with European standards (CSRD, Basel III), development of the corporate debt segment, activation of institutional investors, and improvement of financial literacy among the population.

Thus, the integration of international financial flows is not only an economic necessity but also a strategic task that determines Ukraine's long-term resilience and competitiveness in the global financial system. Only through comprehensive changes will the banking system and capital market be able to fulfill their main function – providing businesses with long-term resources and contributing to sustainable economic development.

SUMMARY

The article examines the structure of foreign investors in Ukraine's capital market and their role in shaping market capitalization. It is determined that institutional investors – banks, investment funds, and insurance companies – remain the dominant participants, primarily concentrated in the segment of government securities and corporate bonds. The share of foreign investors in the overall market capitalization remains relatively low (10-15%), yet shows a tendency to increase. This growth is driven by European integration processes and regulatory harmonization with EU directives (UCITS, MiFID II). An additional factor is the implementation of ESG standards, which enhance the investment attractiveness of Ukrainian issuers.

The study analyzes key barriers for foreign investors, including low market liquidity and regulatory risks. It demonstrates that the gradual opening of the market and integration with European financial institutions create conditions for expanding the participation of foreign players. The results of the research may be used to develop strategies for attracting foreign capital and improving regulatory policy.

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