

**BANKING SYSTEM OF UKRAINE DURING WAR: RISKS AND SECURITY
ASSESSMENT
(БАНКІВСЬКА СИСТЕМА УКРАЇНИ В УМОВАХ ВІЙНИ:РИЗИКИ ТА
ОЦІНКА БЕЗПЕКИ)**

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В статті розглянуто стан банківської системи України в умовах війни. Проаналізовано зміну кількості діючих банків в Україні за 2018–2022 роки. Досліджено динаміку активів комерційних банків України у 2018–2022 роках. Проаналізовано динаміку індикаторів рівня фінансової безпеки банківської системи України у 2018 – 3 кв. 2022 рр. Виокремлено основні загрози для фінансової безпеки банківського сектору. Наведено ключові ризики з якими стикнулася банківська система України під час війни.

Ключові слова: банківська система, НБУ, загрози, банківська установа, криза.

The article examines the state of the banking system of Ukraine in wartime conditions. The change in the number of operating banks in Ukraine for 2018–2022 was analyzed. The dynamics of the assets of commercial banks of Ukraine in 2018–2022 were studied. The dynamics of indicators of the level of financial security of the banking system of Ukraine in 2018 - 3rd quarter were analyzed. 2022. The main threats to the financial security of the banking sector are highlighted. The key risks faced by the banking system of Ukraine during the war are presented.

Key words: banking system, NBU, threats, banking institution, crisis.

With the onset of the armed conflict, Ukraine's banking system experienced significant upheaval, leading to the transformation of its infrastructure and impacting bank security. However, banks managed to adapt to the new stressful working conditions. Despite the challenges, banking institutions continue their operations, striving to fulfill all obligations and adhere to the economic norms set by the National Bank of Ukraine. Therefore, assessing the Ukrainian banking system and identifying its key risks for functioning during wartime remains a relevant research topic.

In times of war, Ukraine's banking system has become more vulnerable, yet the National Bank of Ukraine (NBU) itself maintains the economy and population in a balanced state, preventing panic. The NBU's primary task is to ensure the stability of the national currency—the hryvnia—and despite all challenges, the central bank strives to uphold it through every available means.

At the beginning of January, about 63% of commercial banks operated in Ukraine. In 2022, this figure was 67%, indicating a decrease in the number of active banks. This is due to the liquidation of Russian banking institutions: the International Reserve Bank and Prominvestbank.

The monetary policy of the National Bank during peaceful times aimed at gradually reducing inflation rates to the level of the medium-term inflation target—5% with an acceptable deviation range of ± 1 percentage point. As of the end of 2023, the annual inflation rate in Ukraine stands at 5,1%, which is the lowest level since December 2020. This indicates that the increase in prices for goods and services in the country is slowing down [1].

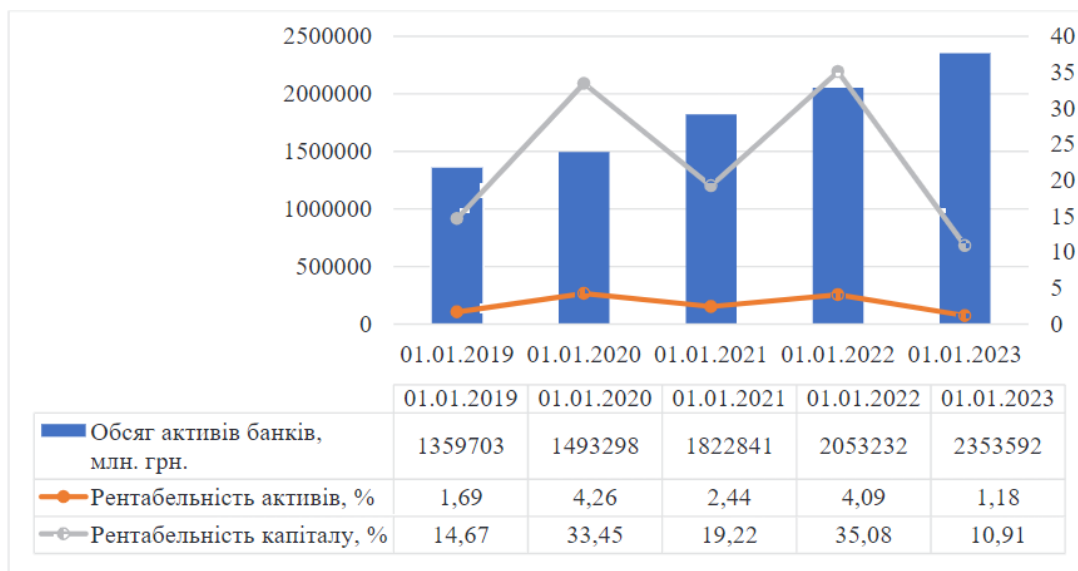


Fig 1 Dynamics of assets of commercial banks of Ukraine in 2018-2022

Source: compiled from [2]

According to the data from Figure 1, the volume of assets is increasing, but their profitability shows fluctuations. As of January 1, 2019, their volume grew from UAH 1,359,703 million to UAH 2,353,592 million as of January 1, 2023, which corresponds to a growth rate of 1,7 times. This growth can be attributed to the increased activity of banking institutions in lending to clients, investments in NBU deposit certificates, and government bonds. We can observe that asset profitability was low in 2020 and 2022, likely due to the impact of the COVID-19 pandemic and the onset of military actions in Ukraine. As for capital profitability, the highest indicator was in 2021, reaching 35,08% [2].

Let's assess the security of the banking system of Ukraine. Analyzing the data from Table 1, we observe that the share of overdue debt for loans in the total volume of loans provided by resident banks is decreasing over time.

However, this indicator still remains at a high level, and its value is critical for the safety of the banking system. The large volume of non-performing loans poses a significant threat to the banking system and requires immediate resolution. A high value of this indicator indicates a correspondingly high risk of banks participating in illegal schemes and money laundering.

The ratio of foreign currency-denominated bank loans to deposits falls into the mixed type «A» category. Up to a certain threshold, this ratio acts as a stimulator, but beyond that, it becomes a deterrent. Specifically, the optimal value for this indicator should be within the 100% range. Deviations in either direction are considered somewhat negative trends.

The safety level based on this indicator varied over the years and in 2022, it acted as a deterrent. The optimal value for the long-term (over 1 year) credit-to-deposit ratio is 3 times. However, in the third quarter of 2022, this indicator reached 16,74 times, indicating a low level of safety.

Overall, the safety level of Ukraine's banking system fluctuates during the analyzed period and remains at low values [3].

Table 1

The dynamics of indicators related to the level of financial security in the Ukrainian banking system from 2018 Q3 to 2022

| Показник | Оптимальне значення | 2018 | 2019 | 2020 | 2021 | 3 кв. 2022 |
|---|---------------------|--------|-------|--------|--------|------------|
| Частка простроченої заборгованості за кредитами в загальному обсязі кредитів, наданих банками резидентам України, % | 3 | 53,10 | 46,36 | 41,00 | 30,02 | 33,63 |
| Співвідношення банківських кредитів та депозитів в іноземній валюті, % | 100 | 117,04 | 83,50 | 167,18 | 151,28 | 118,28 |
| Частка іноземного капіталу у статутному капіталі банків, % | 20-25 | 41,45 | 37,02 | 37,41 | 36,37 | 35,12 |
| Співвідношення довгострокових (понад 1 рік) кредитів та депозитів, разів | 3 | 3,90 | 1,80 | 2,15 | 2,78 | 16,74 |
| Рентабельність активів, % | 1-1,15 | 1,69 | 4,25 | 2,44 | 4,09 | 1,02 |
| Співвідношення ліквідних активів до короткострокових зобов'язань, % | 90 | 93,52 | 94,35 | 89,13 | 89,36 | 88,80 |
| Частка активів п'яти найбільших банків у сукупних активах банківської системи, % | 50 | 64,08 | 61,45 | 61,01 | 55,41 | 59,85 |

Source: compiled from [3]

Research on Ukraine's banking system from 2018 to 2022 has identified key threats to the financial security of the banking sector. These include:

1. Prolonged military actions within Ukraine's territory;
 2. economic downturn in the country;
 3. fluctuations in the national exchange rate;
 4. decreased liquidity levels of banking institutions' assets;
 5. inflation;
 6. capital outflow from the country;
 7. cyberattacks and terrorism from state-sponsored actors.

The war in Ukraine has a profound impact on all aspects of life, including the banking system. Despite these enormous challenges, the National Bank of Ukraine (NBU) has effectively adapted to the current situation and continues to function stably despite the war, terrorism, and cyberattacks.

In the post-war period, restoring Ukraine's banking system is crucial. This involves implementing efficient operational and investment activities. The NBU's role is pivotal in creating optimal conditions for banks to serve the population while mitigating the adverse effects of military aggression. Throughout the Russian military conflict, the Ukrainian banking system faces numerous risks, emphasizing the need for strategic measures and resilience.

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