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IMPACT OF MARTIAL STATE ON THE PERFORMANCE OF THE UKRAINIAN BANKING SECTOR

ABSTRACT

Banks of Ukraine in the conditions of martial law demonstrated rather contradictory, but mostly positive results. Despite significant economic and infrastructural losses, the banking system has preserved its integrity and reliably fulfils existing obligations, conducts settlements, and continues to attract customer deposits, but has switched to a conservative (zero) growth of loan portfolios, except for programs supported by the state, has slowed down the issuance of new loans due to high credit risks, and also postponed the implementation of plans to reduce the share of the public sector.

The article presents a generalized description of the main components of the systemic risk of instability of the banking system based on a structural and functional analysis of its elements according to the official reports of the NBU for 2022 and previous years, as well as the prospects for its further development.

It was determined that by the end of 2022, the banking system of Ukraine maintains an acceptable level of operational stability, excessive liquidity and tries to minimize the factors of credit, operational and currency risks. In the second half of 2022, credit risks began to materialize, which was manifested in the growth of defaults. Based on this, it was concluded that one of the important directions of the regulatory policy of the NBU should be the development of incentives for the quantitative and qualitative improvement of the financial base of the banking system.

In particular, it is proposed to stimulate the growth of the funding, dominantly from the domestic market, and therefore to the levelling of currency and credit risk, as well as to the improvement of the effectiveness of the monetary policy. To ensure lending activity, it is advisable to develop lending support for ESG goals for diversification of energy production, housing and infrastructure construction.

Keywords: banking system, financial stability, the impact of war, systemic risk, the central bank

JEL Classification: G21, G28, G32

INTRODUCTION

In the conditions of full-scale aggression from Russia, the banking system of Ukraine demonstrated quite positive results of overall stability. Practically uninterrupted functioning of the payment and settlement infrastructure and relatively free access of clients to their own funds remotely within the regulatory measures of the NBU had an exceptionally positive effect on the stability of the Ukrainian economy. The military conflict continues and has entered the phase of the struggle for attrition, and there is also a long and difficult stage of post-war reconstruction of the Ukrainian economy ahead. In responding to these challenges, the banking system of Ukraine will play a key role, as it represents 85% of the country's financial sector.

This explains the increased attention to the analysis of the Ukrainian banking system and its possibilities for further support of the national economy. With proper institutional support, the banking system of Ukraine can contribute to increasing the effectiveness of the monetary policy, support the process of monetary non-inflationary financing of

the government and the implementation of state programs, attract foreign capital and implement international projects for the reconstruction of the Ukrainian economy.

In this context, in the field of scientific support, the key tasks are to highlight the risks that lead to the loss of financial stability of the Ukrainian banking system, measures and policy directions of the regulators to increase its stability and functionality. Based on these assumptions, the purpose of the study was formulated: to summarize the main components of systemic risk for the banking system of Ukraine in the conditions of martial law and to determine the prospects for its development.

LITERATURE REVIEW

The work of banks in the conditions of martial law was practically not given the attention of scientists but was only mentioned as a purely hypothetical situation in the process of planning measures in case of emergency operational risk events. Therefore, this topic was practically not studied, if you do not take into account the periodic reports of the National Bank on financial stability and the banking sector [15]. Some researchers have already addressed this issue, characterizing changes in the resource base and credit and investment policy of banks. Erkes, Kalyta, and Sunduk studied the situation in the banking sector and identified key trends in the banking market during the period of martial law [2]. In particular, they identified the digitalization of banks, financial support of banks by the central bank as crucial factors. In particular, Sheludko and Shyshkov emphasize that the consistent and predictable position of the NBU, balanced monetary and regulatory policy made it possible to ensure the stability of the financial system [6]. Kudryashov analyzed the impact of martial law on the change in the structure of external and internal borrowing in 2022 but did not single out the role of banks [3]. Bortnikov, Gladkykh, Lyubich concluded, that banks with state capital demonstrated financial stability, did not experience a significant withdrawal of funds by clients, but preferred lending to large corporations or financial support of SMEs only under state programs [1]. However, this review does not cover the banking sector as a whole. The situation in the Ukrainian economy and banking sector is so dynamic that new problems and trends are constantly emerging, which conditions further research of this topic.

AIMS AND OBJECTIVES

The purpose of the study is to assess changes in the state of the banking system, with an emphasis on the activities of the largest banks.

METHODS

The study was conducted on the basis of a comparative analysis of monthly and quarterly data on the financial statements of banks published on the official website of the National Bank of Ukraine for 2020-2022. The study used general scientific methods: generalization and abstraction to identify key factors of systemic risk, development of recommendations and special research methods: structural and functional analysis for assessing the dynamics of the state of the banking system of Ukraine, a method of comparative analysis for determining the state of the banking system of Ukraine against the background of pan-European trends.

RESULTS

With the beginning of the Russian invasion of the territory of Ukraine in February 2022, Ukrainian banks experienced severe stress, which became protracted and later transformed into systemic and longer turbulence. Martial law is regularly extended. There is also a difficulty in estimating expected losses due to the unpredictability of further developments, namely the duration, scale and outcome of the war.

It is quite difficult to predict the working conditions of Ukrainian banking institutions under martial law. By the end of 2022, it can be revealed, that the war is dragging on, and economic losses are increasing. However, the banking sector worked relatively reliably in 2022: payment and settlement operations were carried out practically without interruption, clients only lost access to their funds for a short time. At the same time, direct military actions limit the rate of growth of demand for banking services and cause additional credit and operational losses for banks. Below is a description of the negative effect of martial state by types of risks and by the duration of the impact on the structure and dynamics of assets, liabilities,

capital, income and expenses of banks (Table 1). All losses from martial law can be divided into operational, credit and other financial losses. Operational and credit risks were the most serious in terms of impact.

Table 1. The short-term and long-term impact of war on banks.

	Short-term	Long-term	Risk mitigation
Operational risk	Damage to fixed assets Blackout of electric supply	Additional costs of branch reallocation	Autonomic generation of electricity Additional guardian
	Decease, injury, death of staff Migration of staff abroad	Lower staff retention Demotivation of staff frustrated	Remote work of staff Reallocation of staff
Liquidity risk	Bank run Funding mismatch in LCY and FCY Closure of the interbank market	Lost access to new funding Depletion of households' savings	Central bank refinancing Access to concessional loans from international lenders and Government
Credit risk	Increase in defaults The materialisation of counterparty risk Pledged assets depreciated	Devaluation of collateral The downgrade of sovereign bonds rating Breach of covenants Lower capitalisation	Stricter eligibility criteria Drift to short-term financing Increase in loss provisions Issuance of waivers
FX risk	Depreciation of LCY Conversion of LCY deposits into FCY	Higher volatility of LCY Increased cost of the hedge Conversion of LCY deposits into FCY	Suspension of FX lending
Interest rate risk	Increased rates on deposits Low demand on loans at a higher rate	Narrowing interest margin	

Let us dwell in more detail on the quantitative assessment of each risk, taking as a basis the financial statements of banks, which are published by the National Bank of Ukraine on a monthly basis.

Until the very beginning of the military aggression, almost all Ukrainian banks actively closed unpromising branches or transformed them (Table 2). Banks reduced office space, centralised functions and staff by business process reengineering, merged branches, where it was technically possible. Often this has resulted in gaps in smaller towns along with a glut of branch offices in major cities.

Table 2. Dynamics of branch network by groups of largest Ukrainian banks. Note: Statistics on banks with foreign capital do not take into account the closure of the branch network of Sberbank russia (106 branches as of January 1, 2020), as well as Megabank (158 branches), in whose capital, along with a local investor, such organizations as KfW, IFC, EBRD participated. (Source: [22])

Bank	01.01.2020	01.01.2021	01.01.2022	01.10.2022	Growth since 2020, %	Growth in 2022, %
Ukreximbank	60	62	53	46	-23	-13
Oschadbank	2327	1837	1602	1237	-47	-23
PrivatBank	1928	1717	1497	1294	-33	-14
UkrGasbank	250	276	268	216	-14	-19
Sub-total state-owned banks	4565	3892	3420	2793	-39	-18
Raiffeisen Bank	496	396	392	357	-28	-9
Kredobank	86	82	82	64	-26	-22
Lviv	21	21	19	19	-10	0
Pravex	45	45	45	45	0	0
Credit Agricole	150	147	148	141	-6	-5
Piraeus MKB	17	15	15	15	-12	0
Alpha-Bank	257	218	201	145	-44	-28
ING Ukraine	0	0	0	0	-	-
OTP Bank	88	86	85	75	-15	-12
Citibank	0	0	0	0	-	-
ProCredit	9	6	6	4	-56	-33
Credit Europe	1	1	1	1	0	0
CreditWest	0	0	0	0	-	-
Deutsche Bank	0	0	0	0	-	-
SEB corporate bank	0	0	0	0	-	-
Sub-total foreign banks – operating	1170	1017	994	866	-26	-13
Sub-total domestic banks – operating	1949	1912	1970	1793	-8	-9
Liquidated banks	318	313	301	64	-80	-79
Total	8002	7134	6685	5516	-31	-17
Share of state-owned banks, %	57	55	51	51	-	-
Share of foreign banks, %	15	14	15	16	-	-

It is indicative that banks with the most extensive network (Oshchadbank, Privatbank, Raiffeisen, and Alpha-Bank, which recently rebranded as Sense bank) closed branches at the highest rates. This is fraught with deterioration in the access of consumers in a number of regions to financial services. At the same time, state-owned banks form a special group. Firstly, all four banks position themselves in the market as universal banks, working with both corporate clients and small businesses and households, having an extensive branch network. Secondly, the importance in terms of the share in assets and funds of clients only increased in 2022, largely due to the exploitation of the image of an institution with state capital and, accordingly, guaranteed support in case of stress. Thirdly, all banks, although at different speeds, had plans for privatization - full or partial, primarily with the expectation of attracting investments from international financial organizations. Finally, in these banks, the supervisory boards are mostly made up of independent directors, and government-appointed representatives are not always civil servants.

If we compare customer coverage in Ukraine with other European countries and globally, it turns out that the network of branches of Ukrainian banks is clearly underdeveloped (Table 3). We see the main reason for the significant stratification of the population into rich and poor, and a limited circle of attractive clients for banks. Another reason is the too high concentration of the branch network of state-owned banks.

Table 3. Commercial bank branches (per 100,000 adults). (Source: [25])

Region/ Country Name	2015	2016	2017	2018	2019	2020	2021
Central Europe and the Baltics	28.3	28.0	26.7	25.6	23.7	23.2	21.7
European Union	26.8	24.6	22.9	21.3	23.4	22.6	21.1
Low income	3.0	3.0	2.8	2.8	2.9	2.9	2.9
Lower middle income	7.2	7.3	7.8	8.0	8.3	7.8	8.6
Middle income	10.4	10.4	10.4	10.9	10.4	10.3	10.8
OECD members	22.1	21.6	20.7	20.3	19.8	18.5	17.1
World	11.5	12.3	11.7	11.4	11.0	10.7	11.2
By countries							
Spain	67.5	61.8	58.6	55.1	49.6	45.5	37.4
Luxembourg	76.8	76.7	71.7	68.4	64.7	59.5	56.5
Bulgaria	60.3	48.5	51.0	52.8	57.9	60.2	61.5
Italy	49.8	47.6	44.6	40.9	39.2	37.7	34.5
Switzerland	44.4	42.5	40.8	39.5	38.4	37.0	36.4
Denmark	24.7	24.1	20.7	20.8	20.0	18.7	17.5
France	37.6	37.2	36.0	34.8	34.2	33.6	33.3
Serbia	29.5	29.4	27.9	27.5	27.6	27.4	26.4
Slovenia	31.2	30.6	29.5	27.9	27.5	24.7	22.6
Romania	28.7	28.0	26.7	25.6	23.7	22.6	21.7
United States	32.7	32.1	31.2	30.9	30.5	29.5	28.3
Croatia	33.5	32.7	32.2	30.0	28.4	27.1	26.8
Poland	31.1	31.0	29.3	29.7	29.0	25.8	23.2
Netherlands	14.0	12.5	11.9	10.9	9.2	7.0	5.4
Slovakia	28.3	28.2	26.9	25.6	24.8	23.3	21.1
Estonia	11.1	10.4	10.1	9.7	8.9	7.9	7.5
Sweden	19.3	17.5	16.2	14.9	16.4	13.8	11.4
Czechia	23.7	22.4	21.3	21.3	20.6	18.3	17.3
Hungary	15.1	14.7	14.6	14.2	23.4	23.2	22.4
Germany	14.1	13.5	13.0	11.2	11.0	9.4	NA
Finland	8.5	7.3	6.5	4.8	4.5	4.0	6.2
Turkey	19.1	18.1	17.3	16.8	16.1	15.4	15.0
Ukraine	0.6	0.5	0.5	0.4	0.4	0.4	0.4

During 2022, the total number of banks decreased slightly - from 71 to 67, including banks with 100% foreign capital from 23 to 22. This means that the local market is still attractive to foreign investors, although it is possible due to the low sale price jar. The assets of 54 Ukrainian banks do not exceed 1 billion euros, and the largest bank (Privatbank) has assets of EUR 18 billion, while in Poland the largest bank has assets of over EUR 32 billion, in Hungary – EUR 22 billion, the Czech Republic - EUR 28 billion.

An economy of such magnitude as the Ukrainian one can be served by a much smaller number of banks. This statement is based on a comparison of the size of the gross domestic product and the number of banks (Table 4). The following statistics of the banking system in Europe show that a GDP of about 200 billion euros can serve from 23 to 54 banks. It may seem that there is competition between the 5 or 10 largest banks, but in reality, this is not the case. The assets of

state banks are burdened with significant investments in the public sector (loans, bonds, NBU certificates). In the corporate business segment, the main competition remains between 4 state-owned banks, 5 banks with foreign capital (Raiffeisen, Credit Agricole, Ukrsibbank, OTP, Kredobank) and 1 bank with private capital (FUIB, Tascombank). The remaining banks cannot take on large credit risks due to restrictions on the part of shareholders (foreign banks) or insufficient capital (banks with private domestic capital), and therefore compete with each other for tiny market niches: small and medium-sized businesses, and households.

At the end of the year, the banking system generally remained highly liquid even in the conditions of a full-scale war. According to some indicators, its liquidity reached record levels. In addition to maintaining depositors' trust in banks, this was facilitated by regular and significant receipts of government payments to the bank accounts of households. At the same time, the inflow of new funds to the sector is uneven: the main volumes are deposited in current accounts in state-owned banks.

During the second half of 2022, large-scale destruction of the Ukrainian economy and infrastructure became apparent. As a result of economic losses, the term structure of funding deteriorated by the dominance of shorter liabilities. This does not create immediate risks for the banking system but weakens the resilience of individual banks to possible sharp changes in the behaviour of depositors.

The National Bank of Ukraine kept a moderate key rate in the range of 6-10% for quite a long period of time. However, a stepwise increase in the rate began already at the beginning of 2021: initially from 6% to 6.5% with a gradual increase to 9% at the end of 2021 and 10% in January 2022. Despite geopolitical risks, the central bank waited and decided on a radical revision of the rate only in June 2022, raising it to 25%. First, the increase was overdue when the economy faced a jump in inflation. Secondly, there are no scientific justifications at the level of 25%, and not 15% or 20%. Thirdly, such a jump reinforced inflationary expectations and made it unprofitable for banks to attract refinancing. Ultimately, monetary instruments were not as effective in the face of imported inflation and falling production.

Ukraine places in the group of countries with a record key rate, along with Moldova. At the same time, the inflation rate (CPI), according to official statistics, is also high - 26.5%, although the consumer basket has risen in price much more seriously. We analyzed the growth of GDP, a ratio of annual inflation in 2022 and key rates in European countries (Table 4), and found that in Ukraine the central bank rate is the closest to the level of inflation (the ratio is close to 1), while in this region, on average, the ratio is at 4.65 times. That is, the key rate is clearly overpriced by the National Bank of Ukraine, which negatively affects the accessibility of loans.

Table 4. Comparison of key rates, inflation rate, and GDP growth in 2022 (estimations), %. (Source: composed by authors, based on *TradingEconomics* [24])

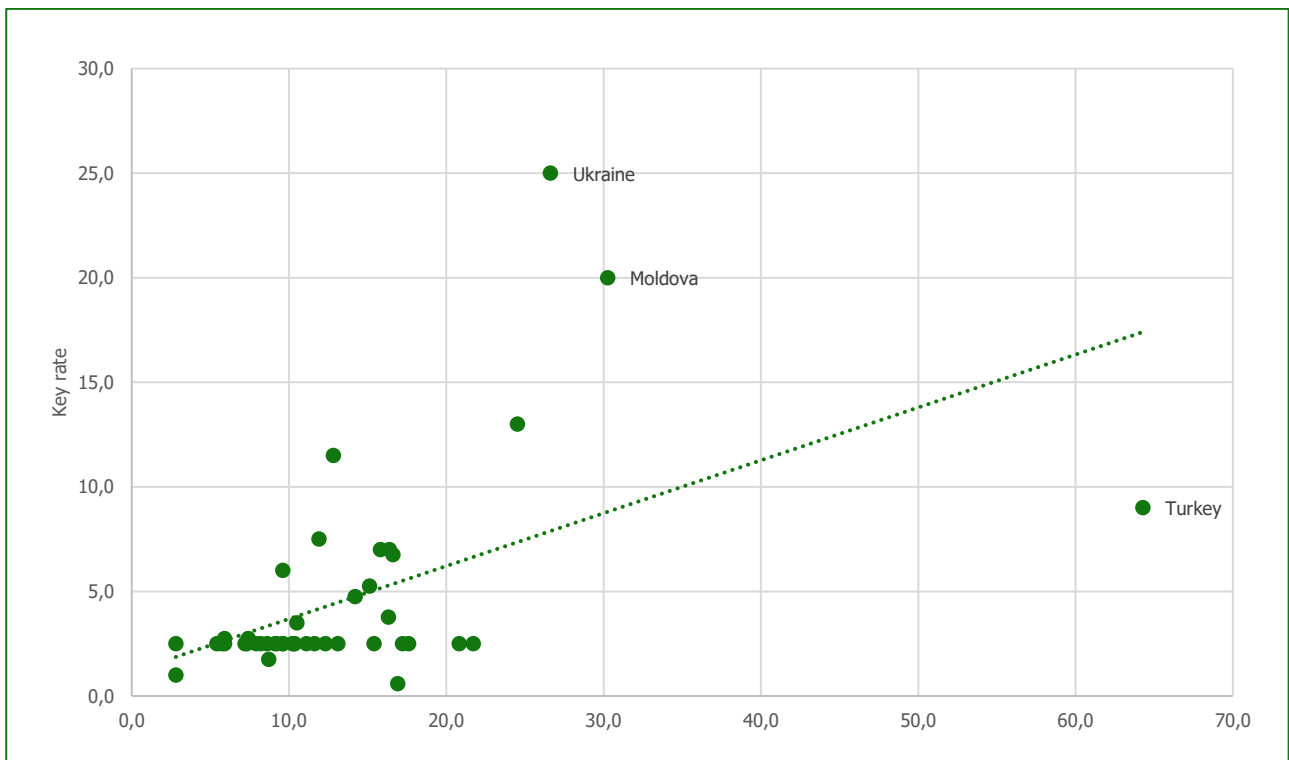
Country	GDP growth 2022	Inflation 2022	Key rate	Inflation/ Key rate
Ukraine	-30.8	26.6	25.0	1.1
Moldova	-10.3	30.2	20.0	1.5
Hungary	4.0	24.5	13.0	1.9
Belarus	-7.8	12.8	11.5	1.1
Turkey	3.9	64.3	9.0	7.1
Russia	-3.7	11.9	7.5	1.6
Czech Republic	1.5	15.8	7.0	2.3
Romania	3.8	16.4	7.0	2.3
Poland	3.6	16.6	6.8	2.5
Iceland	7.3	9.6	6.0	1.6
Serbia	1.0	15.1	5.3	2.9
Macedonia	2.0	14.2	4.8	3.0
Bosnia and Herzegovina	2.6	16.3	3.8	4.3
United Kingdom	1.9	10.5	3.5	3.0
Albania	4.0	7.4	2.8	2.7
Norway	2.5	5.9	2.8	2.1
Austria	1.7	10.2	2.5	4.1
Belgium	1.9	10.4	2.5	4.1
Croatia	5.2	13.1	2.5	5.2
Cyprus	5.5	7.9	2.5	3.2
Estonia	-2.4	17.6	2.5	7.0
Euro Area	2.3	9.2	2.5	3.7
European Union	2.5	11.1	2.5	4.4

(continued on next page)

Table 4. Continued

Country	GDP growth 2022	Inflation 2022	Key rate	Inflation/ Key rate
Finland	1.0	9.1	2.5	3.6
France	1.0	5.9	2.5	2.4
Germany	1.3	8.6	2.5	3.4
Greece	2.8	7.2	2.5	2.9
Ireland	10.9	8.2	2.5	3.3
Italy	2.6	11.6	2.5	4.6
Latvia	-0.6	20.8	2.5	8.3
Liechtenstein	-10.1	2.8	2.5	1.1
Lithuania	2.0	21.7	2.5	8.7
Luxembourg	3.0	5.4	2.5	2.2
Malta	5.2	7.3	2.5	2.9
Montenegro	3.2	17.2	2.5	6.9
Netherlands	3.1	9.6	2.5	3.8
Portugal	4.9	9.6	2.5	3.8
Slovakia	1.4	15.4	2.5	6.2
Slovenia	3.4	10.3	2.5	4.1
Spain	4.4	5.7	2.5	2.3
Sweden	2.5	12.3	2.5	4.9
Denmark	3.2	8.7	1.8	5.0
Switzerland	0.5	2.8	1.0	2.8

For peer groups of countries that include Moldova, Hungary, Czech Republic, Romania, Poland, Serbia, Macedonia, Albania, Croatia, Estonia, Latvia, Lithuania, Montenegro, Slovakia, Slovenia, Bulgaria, and Ukraine inflation rate on average exceeds the key rate by 4.3 times. Obviously, Ukraine is in the segment of an abnormally high key rate, and if it is based on the actual inflation and the proportion between these indicators established in the sample of countries (Figure 1), then the key rate could be significantly lower.


Figure 1. Distribution of European countries by the level of inflation and key rate in 2022. (Source: composed by authors, based on [24])

Central bank refinancing to support liquidity is unevenly distributed, with state-owned banks dominating (Table 5). Oschadbank fully repaid the debt before. The central bank, Ukreximbank, has significantly reduced its debt. Most foreign and private banks returned these funds in part or in full. The attractiveness of this type of resource fell after the increase in the discount rate to 25%, as the monetary policy body thus decided to tame inflation. For example, on June 7, 2022,

Oschadbank made an early repayment of loans received from the National Bank of Ukraine in the total amount of UAH 7.25 billion, with repayment terms in 2026. In 2022, Ukreximbank paid off the debt to the National Bank of UAH 1 billion. On the contrary, in 2022, Ukrgasbank attracted very expensive central bank resources at rates of 25-27% for a total of UAH 420 million, although in 2021 this bank attracted refinancing from the NBU at a rate of 9.8%.

This type of funding is provided, as a rule, against pledged government securities, which encourages banks to hold these instruments in portfolios. The Central Bank does not pursue a policy of bank refinancing to stimulate lending but considers support liquidity as a priority.

Table 5. Central bank refinancing in 2022, UAH million. (Source: [22])

Bank	Amounts due to the National Bank of Ukraine		
	01.01.2022	01.11.2022	Changes
Oschadbank	7 248.5	0.0	-7 248.5
Ukreximbank	21 367.2	19 366.9	-2 000.3
Ukrgasbank	4 700.0	6 199.1	1 499.2
Sub-total of state-owned banks	33 315.7	25 566.0	-7 749.7
Raiffeisen Bank	400.0	0.0	-400.0
Kredobank	3 000.0	0.0	-3 000.0
Piraeus Bank ICB	479.0	0.0	-479.0
Alfa-bank (Sense)	8 617.0	4 732.9	-3 884.0
Procredit bank	620.0	620.0	0.0
Creditwest bank	176.0	0.0	-176.0
BTA bank (sold tp domestic investors)	80.0	0.0	-80.0
Subtotal of banks owned by foreign groups	13 371.9	5 352.9	-8 019.0
FUIB	5 693.0	5 688.8	-4.2
Universal Bank	4 779.5	0.0	-4 779.5
Pivdennyi Bank	3 300.0	1 499.8	-1 800.2
Tascombank	3 234.1	0.0	-3 234.1
Bank Credit Dnipro	3 135.5	1 386.2	-1 749.3
Bank Vostok	0.0	300.0	300.0
Accordbank	5 360.2	2 809.9	-2 550.4
MTB Bank	1 730.0	1 230.0	-500.0
Bank Alliance	2 100.0	4 070.0	1 970.0
Bank Globus	688.2	0.0	-688.2
IIBank	707.8	620.0	-87.8
Lviv	352.0	332.2	-19.8
CIBank	3 350.0	1 250.0	-2 100.0
Bank Sich	2 600.0	0.0	-2 600.0
Industrialbank	1 907.0	1 437.1	-469.9
Radabank	855.1	0.0	-855.1
Poltava-bank	140.0	140.0	0.0
Crystalbank	1 111.0	589.0	-521.9
RWS Bank	2 266.4	362.0	-1 904.4
Concord	809.9	0.0	-809.9
Ukrconstinvestbank	584.6	0.0	-584.6
Sky Bank	449.9	0.0	-449.9
AP Bank	237.8	225.0	-12.8
Motor-bank	442.1	207.0	-235.1
Avangard	1 190.0	0.0	-1 190.0
Unex bank	166.0	0.0	-166.0
Ukrainian Capital	433.5	294.0	-139.5
Bank 3/4	427.0	747.0	320.0
MetaBank	418.0	418.0	0.0
First Investment Bank	0.0	504.0	504.0
Policombank	0.0	10.0	10.0
UBRD bank	445.2	17.0	-428.2
Sub-total of privately-owned banks	48 913.9	24 137.0	-24 776.9
Total banking system	95 601.5	55 056.0	-40 545.5

Therefore, there is a more attractive alternative for banks to borrow in international markets in foreign currency. First of all, banks with foreign capital can afford this (Table 5). For instance, Credit Agricole Bank attracted loans from the EBRD

to support small and medium-sized businesses by providing financial leasing, as well as a loan from the European Fund for South-Eastern Europe (EFSE) for servicing agricultural producers and farms. In August 2022, Lviv Bank attracted a loan from the EBRD bank and a syndicate of commercial banks in the amount of 10 million euros, including the EFSE fund and the Green for Growth Fund (GGF) [7]. ProCredit Bank also actively attracted the resources of foreign creditors until 2022. Among the bank's largest creditors are EIB, EBRD, GGF (in UAH), EFSE, Business Development Fund, and parent company - ProCredit Holding (Germany) [8]. However, in this group, the volume of borrowings increased partially due to the depreciation of the hryvnia, since the funds are attracted in foreign currency.

Table 6. Outstanding debt on other funds raised by banks, UAH million. (Source: [22])

Bank	Other funds raised		
	01.01.2022	01.11.2022	Changes
PrivatBank	328.3	440.2	111.8
Oschadbank	8 020.8	5 971.5	-2 049.2
Ukreximbank	27 237.7	27 986.0	748.3
UkrGasbank	2 505.7	2 354.3	-151.4
Sub-total of state-owned banks	38 092.5	36 752.0	-1 340.4
Ukrsibbank	2.3	1.8	-0.5
Credit agricole bank	484.1	726.2	242.2
Kredobank	101.1	100.7	-0.4
Procredit bank	5 765.5	5 426.4	-339.1
Pravex bank	344.0	438.9	94.9
Piraeus Bank icb	504.9	515.4	10.4
Creditwest bank	465.0	571.7	106.8
Sub-total of banks owned by foreign groups	7 666.8	7 781.2	114.4
Pivdennyi	1 667.6	2 110.7	443.1
Tascombank	248.0	341.9	93.9
Vostok	309.2	395.8	86.6
MTB bank	3.0	6.8	3.8
Bank Alliance	284.0	391.4	107.5
Lviv Bank	548.6	1 710.3	1 161.7
Avangard	1 645.1	36.4	-1 608.6
Ibox bank	5.3	4.6	-0.6
Unex bank	31.0	2.4	-28.6
A-bank	340.2	272.7	-67.4
Sub-total of privately-owned banks	5 085.4	5 275.0	189.6
TOTAL	53 587.8	49 808.4	-3 779.4

It is worth to comment Table 6, that in 2022 the Ukreximbank received USD 100 million from the World Bank to provide medium- and long-term financing to private Ukrainian enterprises under martial law [27]. By the end of September 2022, Ukreximbank reduced the balance of debt due to the partial redemption of bonds to UAH 3.8 billion from UAH 5.7 billion in Dec 2021. This bank forms the core of funding for the account of loans from international financial organizations.

In March 2022, Oschadbank repaid USD 50 million of the US Eurobonds issued in 2011 and 2013, while the balance of Eurobond debt remains substantial - UAH 4.6 billion equivalents. Already in the 1st quarter of 2022, the bank repaid the European Investment Bank (EIB) loan in US dollars in the amount of UAH 249 million. The bank also has significant loans from the EIB in euros at 3.9-4.4% p.a. (the outstanding balance is UAH 2.6 billion in equivalent with repayment starting from September 2022) [18].

Bank capitalization declined in 2022, although the capital adequacy buffer remains substantial (Table 7). The structure of capital has changed: the share of current profits has sharply decreased, and many banks have incurred losses due to the recognition of losses on credit risks. The rate of increase in authorized capital has also slowed down, and many banks have suspended the payment of dividends. For example, on January 28, 2022, the sole shareholder of Credit Agricole Bank approved the distribution of profit for 2020 as follows: dividends in the amount of UAH 528.5 million; the remaining profit for 2020 is aimed at replenishing general reserves in the amount of UAH 352.4 million. However, on July 13, 2022, the shareholder directed the profit for 2021 as follows: 5% of the profit in the amount of UAH 77.6 million to reserve fund; the remainder of the profit – to increase general reserves in the amount of UAH 1,475.1 million [15].

Table 7. Capitalisation of the largest Ukrainian banks in 2022, UAH million. (Source: [22])

Bank	Authorized capital		Total equity		Regulatory capital	
	01.11.2022	Change, %	01.11.2022	Change, %	01.11.2022	Change, %
PrivatBank	206 059.70	0.00	57 419.60	-13.80	56 131.50	37.40
Oschadbank	49 472.80	0.00	22 668.20	3.70	19 506.80	8.30
Ukreximbank	45 570.00	0.00	2 786.20	-77.60	6 997.70	-49.30
Alfa-bank (Sense)	28 726.20	0.00	8 748.40	-32.20	7 812.60	-31.70
Ukrgasbank	13 318.60	0.00	6 356.20	-45.40	8 076.50	-29.60
OTP bank	6 186.00	0.00	11 246.30	1.70	10 878.30	4.50
Raiffeisen Bank	6 154.50	0.00	18 004.60	15.60	13 903.10	11.90
Ukrsibbank	5 069.30	0.00	12 162.20	27.40	12 099.50	35.80
FUIB	4 780.60	0.00	12 135.10	-3.40	11 758.60	6.80
Universal bank	4 202.70	0.00	7 830.10	16.40	8 648.90	21.20
Bank Credit Dnipro	3 586.60	0.00	1 754.00	-2.20	1 564.60	3.80
Piraeus Bank ICB	2 531.30	0.00	581.8	-16.80	544.6	-5.60
Kredobank	2 249.00	0.00	4 033.20	2.20	3 761.00	16.00
Pivdennyi Bank	2 048.00	0.00	4 218.00	12.20	4 232.20	15.90
Tascombank	1 960.10	0.00	3 167.30	1.40	2 674.20	-5.00
Procredit Bank	1 572.00	0.00	2 554.50	-36.30	3 332.50	-14.20
BTA Bank	1 500.00	0.00	215	-3.70	180	-14.50
Credit Agricole	1 222.90	0.00	6 053.00	-9.60	6 711.40	1.80
Forward	1 152.90	0.00	466.6	-1.60	-16	-104.70
A - Bank	1 054.70	0.00	2 360.60	7.40	2 083.00	0.30
Total Banking sector	406 185.20	-15.60	216 569.70	-15.20	208 277.70	0.30

The above statistics (Table 8) shows that the paid-in capital of the largest banks did not change, but the total amount of capital in the system decreased due to the exit of Russian banks from the market. The amount of total capital does not differ too much from regulatory capital, except for those banks that raise subordinated loans. The situation is much more serious for those banks that have regulatory capital smaller than the authorized capital, due to current and accumulated losses. This difference is especially noticeable in state-owned banks (PrivatBank, Ukreximbank) and foreign banks (Alfa-Bank/Sense, Piraeus Bank ICB). The regulatory capital of the 8 largest banks was significantly reduced due to the recognition of losses on loans. This significantly weakened the growth potential of the loan portfolio. In general, the regulatory capital in the system has not changed much.

Table 8. Capital adequacy of systemically important banks. (Source: [22])

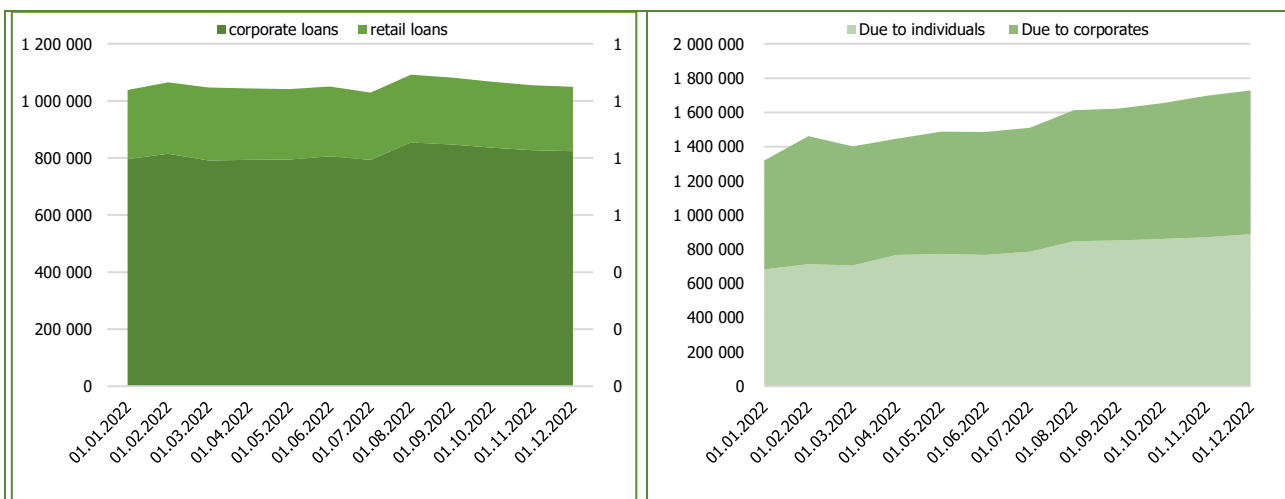
Bank	01.01.2022	01.11.2022
Privatbank	18.33	24.54
Oschadbank	15.48	15.10
Raiffeisen	13.71	15.62
Ukrsibbank	20.26	36.76
FUIB bank	13.91	17.18
OTP Bank	19.87	24.84
Universal bank	15.09	24.42
Ukrgasbank	19.67	11.04
Alfa-Bank	12.12	11.52
Ukreximbank	18.16	6.79
Tascombank	13.64	15.09

Capital adequacy fell below the critical level only in Ukreximbank, starting from October 2022. However, Ukrgasbank and Alfa-bank also have threshold values (Table 8).

Table 9. Current losses of Ukrainian banks for 10 months of 2022, UAH million. (Source: [22])

Bank	Allocations to provisions:	Losses
Ukreximbank	11 346.1	-8 378.4
UkrGasbank	6 312.4	-3 652.9
Alfa-bank (Sense)	10 284.9	-4 221.9
Procredit bank	2 574.0	-1 456.6
Pravex bank	294.2	-351.3
Piraeus Bank ICB	205.5	-115.7
Forward	155.1	-7.4
Creditwest	29.6	-9.3
Credit Europe bank	118.6	-87.5
Idea bank	2 084.2	-452.3
II bank	322.3	-3.8
Globus	187.1	-59.4
Industrialbank	233.0	-170.3
Grant	95.3	-21.8
Unex bank	17.5	-13.7
AP-bank	50.4	-55.1
Ukrainian Capital	5.9	-11.0
First investment bank	38.3	-94.0
UBRD	0.5	-20.8
BTA bank	1.2	-30.6
Alpari bank	0.1	-8.3

As can be seen in Figure 1, the banking system relatively quickly restored the client base, but actually froze the loan portfolio, which, taking into account the devaluation of the hryvnia, practically did not grow. During the same time, the total portfolio of investments in government securities decreased by 10%. Without structuring by groups of banks, it will be incorrect to draw any conclusions.


Figure 2. Dynamics of clientele base and loans to clients of Ukrainian banks in 2022, UAH million. (Source: [22])

Among the reasons for the decline in activity is the need to accrue provisions on loans, as well as collection of previously issued loans. Systematic power outages and depressed consumer demand will further reduce credit demand. During the war, government programs play a key role in supporting lending.

Banks have already suffered significant credit losses. About 20% of the loan portfolio has already been recognized as non-performing or in the risk zone. At the same time, problems with electricity supply will worsen the performance of even those enterprises that until today have serviced their loans on time. Therefore, there are currently reasons for the deterioration of the forecast of the quality of the credit portfolio - if the current problems in the energy sector persist for a long time, the share of its losses may reach 30%. In total, 21 banks recognized current losses (for 10 months of 2022), where two state-owned banks showed record losses, as well as an accrual of loss provisions (Table 9). In addition to that, 28 banks have secured profitability mainly through income from investments in government debt securities, if it may be measured by the share of securities portfolio income in total interest income above 50%. However, this share exceeded 90% in private banks - Avangard, Ibox, Bank 3/4, Familny, Ukrainian Bank for reconstruction and development, and BTA bank.

The loan portfolio statistics below show mixed trends by customer segments and bank size. It should be noted that banks are ranked by total assets, not loan portfolios (Table 10).

Table 10. Growth of loan portfolio and loss provisions, UAH million, for 10 months of 2022. Note: * the bank moved to the category of banks with local private capital. (Source: [22])

Bank	Loans to Enterprises, %	Loans to Households, %	Loss Provisions, %
Privatbank	8	3	13
Oschadbank	27	-1	88
Ukreximbank	29	16	71
Ukrgasbank	33	-7	100
Total state-owned banks	20	2	25
Raiffeisen Bank	7	-10	290
Alfa-Bank (Sense)	1	-7	113
Ukrsibbank	-22	-24	224
OTP Bank	0	-24	150
Credit Agricole Bank	3	-23	207
Kredobank	0	-17	195
Citibank	19	-10	909
Procredit Bank	2	-10	383
ING Bank Ukraine	15	-	16825
Idea Bank*	44	1	39
Pravex Bank	-12	-9	375
Piraeus Bank ICB	-4	-29	365
Deutsche Bank Ukraine	195	-	40
SEB Corporate Bank	14	-	14
Forward	-1	4	62
Creditwest Bank	-9	42	77
Credit Europe Bank	-11	-10	252
BTA Bank*	-	20	193
FUIB	15	-8	143
Universal Bank	49	-5	236
Pivdennyi Bank	2	-6	142
Tascombank	4	2	259
Credit Dnepr	-2	6	50
Vostok	1	10	280
A - Bank	12	-4	172
Accord bank	-3	-23	56

(continued on next page)

Table 10. Continued

Bank	Loans to Enterprises, %	Loans to Households, %	Loss Provisions, %
MTB Bank	13	-2	186
Alliance	20	-1	75
Globus	-1	-16	79
CIB Bank	26	2	483
Lviv	0	-5	100
IIB Bank	1	-43	6
Industrialbank	15	17	119
Radabank	-17	-19	59
RWS Bank	15	19	30
Crystalbank	11	-19	22
Clearing House	-3	-18	22
Investments & Savings Bank	0	-25	6
Concord	14	24	93
I-box Bank	60	0	-3
Poltava-bank	29	-14	157
First Investment Bank	-16	-32	179
Ukrconstinvestbank	-9	-28	44
Sky Bank	-12	10	257
Motor-bank	11	-27	891
Grant	12	5	226
Avangard	68	-21	63
AP Bank	-11	2676	199
Unex Bank	47	35	57
Ukrainian capital	-30	-52	17
Asvio bank	14	1	85
Bank 3/4	19	-70	76
MetaBank	-6	15	276
Altbank	22	-8	108
Cominvestbank	1	-30	61
EIB	14	15	23
Okci Bank	-18	-64	73
Policombank	28	-9	92
UBRD	5	-	47
Familny	0	-9	30
Trust-Capital	-37	-40	171
Portal	-2	-1	17
Alpari Bank	-18	-98	25
Total banking sector	4	-6	23

The vast majority of banks have reduced their loan portfolios in the household segment. In the segment of state-owned banks, Privatbank slightly increased its retail portfolio, and the increase in these loans at Ukreximbank clearly contradicts its strategy. In the segment of banks with foreign capital, the curtailment of household lending was very significant, although their share in the system's loan portfolio was small. Alfa-Bank has traditionally specialized in retail lending, and in 2022 its activity was heavily affected by reputational risk.

Only state-owned banks have significantly increased their loan portfolio in the segment of corporate clients. Among banks with foreign capital, it should be noted that the most active banks Raiffeisen (Austria), Credit Agricole (France), OTP-Bank (Hungary), Kredobank (PKO, Poland) and Procredit Bank (Germany) increased their portfolios to an insignificant extent, and Ukresibbank (BNP-Paribas Group), Pravex (Intesa San Paulo Group) even reduced their portfolios.

If state-owned banks increased reserves for credit risks by an average of 25%, then banks with foreign capital were more conservative and heavily formed reserves - increasing them 12 times. Banks with local private capital increased reserves by an average of 144%.

If we compare the growth dynamics of the central bank discount rate and interest rates on loans, we will not be able to trace a pronounced positive correlation. Business loans remain hard to come by in terms of interest rates. Since banks have not issued loans in foreign currency since February 2022, it is possible to track the dynamics of rates in hryvnia. Below are statistics on new loans to enterprises of various types.

Statistics show a prevailing upward trend in rates, but medium-sized enterprises receive loans at lower rates on average. This is due to a number of reasons among them - Ukrainian banks prefer to give preferential loans under state programs to medium-sized enterprises, while small businesses are treated as riskier. Higher rates on loans to large enterprises are due to the fact that there are few such solvent companies left. It should be noted that despite the increase in key rate by the central bank, banks offer loans to businesses below this benchmark since under the current conditions it is unprofitable for clients to take loans at higher rates, especially when profit margins fall.

An exception is a situation when some banks attract loans at preferential rates (concessional loans) from international lenders, which allows them to refinance loans to target borrowers with a sufficient margin.

Ukraine is successfully implementing preferential lending programs through the Entrepreneurship Development Fund, and there has also been moderate progress on lending programs for the agro-complex. Under wartime conditions, the most progress has been made in the seeding support and wartime support programs. Lending leaders are state banks and banks with foreign capital Raiffeisen, Procredit, Kredobank, Credit Agricole. The total loan portfolio of EDF partner banks under the three programs of the Fund (Investment purpose, Anti-crisis, and Refinancing) at the end of December 2022 amounted to UAH 100.98 billion, which is about 13% of the total portfolio of business loans in the banking sector. Since the start of the State program "Affordable loans 5-7-9%", businesses received 52,181 loans for the sum of UAH 161.86 billion, including UAH 65.04 billion - from state-owned banks (as of December 26, 2022) (Table 11).

Table 11. Concessional loans under programs of the State fund for the Promotion of Entrepreneurship, as of December 2022. (Source: [10])

Credit agreements, UAH mln	Investment loans	Support for business in the pandemic	Refinancing	Support solo entrepreneurs	Support for sowing campaign	Support for business during wartime
Total	10 264	60 360	30 356	23	25 718	35 140
Incl. since 24.02.2022	610	5 304	5 448	19	25 718	35 140

Investments in government securities have become an alternative to lending for many banks. In the group of state-owned banks that already have significant portfolios of government bonds as a result of capitalization with the participation of the state, the growth of investments occurred at the expense of Privatbank, while Oschadbank and Ukrgasbank, on the contrary, reduced their portfolios due to the repayment of part of the debt. Banks with foreign capital have significantly reduced investments in government bonds, including ING Bank, Deutsche Bank and Credit Europe Bank that have liquidated this position fully. Banks with local private capital have generally reduced investments, but a group of banks with a large share of government securities in assets stands out: these are primarily small banks that do not play a significant role in the market.

It should be taken into account that many banks periodically place free liquidity in NBU deposit certificates, these operations bring excess profits comparable to income from lending operations. For short periods, banks manage to place from several hundred million to billions of hryvnias. This possibility creates a threatening alternative to lending to the real sector since it neutralizes the meaning of financial intermediation.

It is surprising that Ukrainian banks survived the most dramatic period of the 1st quarter of 2022 without a significant outflow of depositors' funds if we compare corporate and individual clients' account balances (Table 12). During 11 months of 2022, the clientele base of most banks stabilized, however, it was restructured: part of the hryvnia deposits were

withdrawn and converted into foreign currency with subsequent placement in more reliable banks. In 2022, only two banks were declared insolvent by the regulator, and their collapse was the result of accumulated problems in lending and weak shareholders' support. In our opinion, the stability of the system was ensured thanks to two pillars - banks belonging to Western financial groups and state-owned banks. In both cases, the position of their shareholders played a decisive role.

Moreover, the well-established scheme of the Deposit Guarantee Fund for the payment of compensation to a certain extent levelled the differences between banks. Now the deposit rates are strongly influenced by the need of the banks themselves to place funds. If the demand for loans from attractive borrowers falls, then banks reduce the rate of attraction of resources.

Table 12. Dynamics of clientele deposits in Ukrainian banks, UAH Billion. (Source: composed by authors, based on [22])

Term deposits	01.01.2022	01.04.2022	01.07.2022	01.11.2022	YOY, %
State-owned banks	272.7	248.4	268.7	317.1	16.3
Foreign banks	90.6	72.9	79.4	98.5	8.6
Privately owned banks	119.0	96.9	88.0	99.6	-16.4
The banking system, total	482.4	418.3	436.1	515.1	6.8
Demand deposits	01.01.2022	01.04.2022	01.07.2022	01.11.2022	
State-owned banks	456.1	487.3	552.2	615.1	34.9
Foreign banks	391.1	398.8	402.5	440.0	12.5
Privately owned banks	209.9	198.8	206.4	235.5	12.2
The banking system, total	1 057.2	1 084.9	1 161.1	1 290.6	22.1
Total customers` deposits					
State-owned banks	728.8	735.7	820.9	932.2	27.9
Foreign banks	481.8	471.7	481.9	538.4	11.8
Privately owned banks	329.0	295.7	294.4	335.1	1.9
The banking system, total	1 539.6	1 503.2	1 597.2	1 805.7	17.3
Total deposits in UAH					
State-owned banks	484.5	510.2	566.8	598.5	23.5
Foreign banks	309.3	289.6	290.5	303.3	-1.9
Privately owned banks	230.5	201.4	196.5	208.2	-9.7
The banking system, total	1 024.3	1 001.2	1 053.7	1 110.0	8.4
Households deposits					
State-owned banks	402.3	428.4	465.5	522.0	29.7
Foreign banks	183.0	189.0	181.4	193.8	5.9
Privately owned banks	141.6	150.5	139.6	154.1	8.8
The banking system, total	726.9	767.9	786.6	869.9	19.7
Share in total deposits					
State-owned banks, %	47.3	48.9	51.4	51.6	-
Foreign banks, %	31.3	31.4	30.2	29.8	-
Privately owned banks, %	21.4	19.7	18.4	18.6	-
The banking system, total, %	100.0	100.0	100.0	100.0	-

The trend is more clearly shown in Figure 3. The clientele base has grown at the expense of households, one of the reasons is the increase in social benefits and allowances. Restoration of volumes was achieved in the 4th quarter, with the exception of privately-owned banks, where balances on term deposits fell especially sharply.

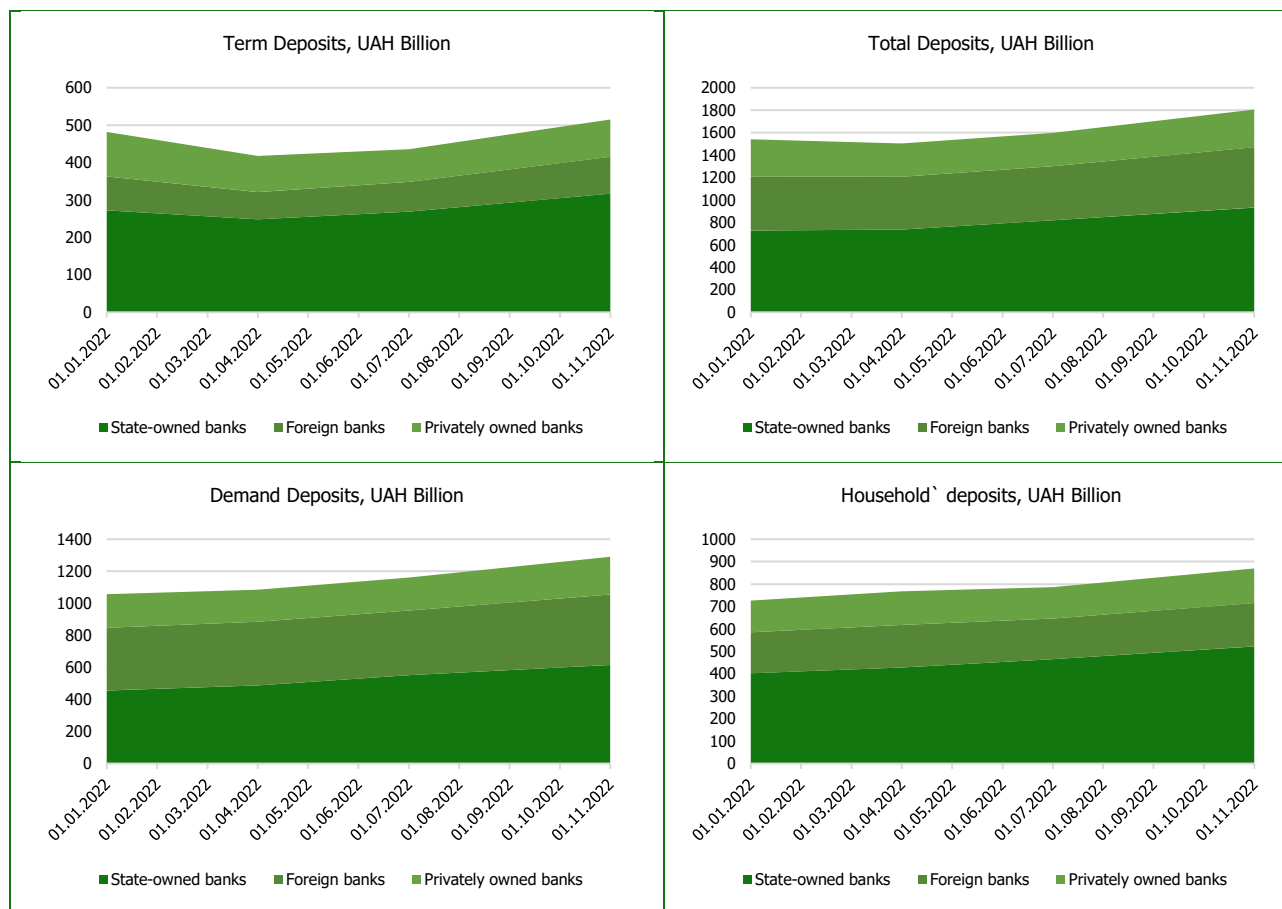


Figure 3. Dynamics of clientele base by groups of banks in 2022. (Source: composed by authors, based on [22])

Continuity of payments and the operation of the retail network, even in spite of interruptions in the supply of electricity, contributed to the preservation of trust in banks. Banks have already developed and are implementing measures that will make it possible to maintain the continuity of work even in conditions of long blackouts. Beside this, in December 2022, the National Bank of Ukraine announced the setting shared branch network [20]. The project named 'POWER BANKING' is designed for the continuation of servicing clients under the condition of blackout. The network consists of more than 1,000 branches, mainly belonging to 14 systemically important banks: state-owned banks (PrivatBank, Oschadbank, Ukreximbank, Ukgazbank), foreign banks (Raiffeisen, Ukrsibbank, OTP Bank, Kredobank) and banks with domestic capital (Sens Bank, FUJB, Universal Bank, Pivdenny, TAScombank, A-Bank). The banks have equipped these outlets with alternative energy generators (petrol and solar), and backup communication channels. The network is an open system, therefore other banks are invited to join. Actually, available services are limited to settlements and payments: cash collection in ATMs, and cash desks; payments, money transfer, usage of self-service terminals, and currency exchange. In particular, there is 'ATM national roaming', in order to withdraw cash in any network bank.

This measure is similar to an action announced recently in Great Britain. Leading UK banks have formed a separate non-profit company to form a network of banking hubs across the country and provide cash access to local UK communities. Currently more shared "banking hubs" are to be rolled out across the UK to help communities hit by branch and ATM closures to get continued access to cash. The consortium of 300 firms across the financial industry – UK Finance – has enabled the launch of Cash Access UK Ltd, a non-profit company made up of the nine largest high-street banking providers in the UK. Barclays, HSBC, Lloyds Banking Group, Nationwide Building Society, NatWest Group, Santander, Virgin Money, Danske Bank and TSB have incorporated a company to offer cash access, deposit and basic banking services in a brick-and-mortar environment without spending excessive costs. So far 29 new shared banking hubs have been announced by the newly-formed consortium of UK banks. A banking hub is a shared service that operates in a similar way to a standard branch, with a counter service run by UK Post Office staff where customers of almost any bank can withdraw and deposit cash, make bill payments and carry out regular transactions [9].

The main difference from the Ukrainian precedent is that such consolidation was a reaction to diminishing the wave of closing bank branches on the nationwide level by big banks, and the global trend in the banking community to the shift to

a cashless society, supported by governments. In UK local communities apply for opening such hubs. As mentioned by N. Ceeney, Chair of the Cash Action Group: "The community request scheme is a vital part of the process assessing the needs of communities, and I am delighted to see that it's leading to new services being set up" [17]. For instance, the well-known Lloyds Bank informs, that customers from many other banks can use its already three opened hubs [9]. Therefore, we observe a new condition of competition in the market. However, British banks many years collaborate with Post Office, where their clients may be serviced. The pilot project to improve access to cash also because banks closed branches for saving costs. Under the scheme, banks and building societies jointly provide staff on a rotating basis at hubs operated by postmasters. The UK government initiated the scheme to protect cash access in 2020, later supported by the Financial Conduct Authority, and finally by the parliament. With more than a quarter of people in the UK using cash more than once a week and almost 10 per cent, or around 5mn, using it daily, campaigners warn that upcoming legislation on cash access must be strengthened to protect them [9]. Card payments now account for 90 per cent of retail transactions in the UK, according to a survey by the British Retail Consortium (BRC) [25]. Thus, taking care of the remaining 10% of people who use cash is the focus of the British authorities.

During the era of the pandemic, demand for cash increased paradoxically. On the one hand, the pandemic and the resulting social isolation have stimulated the transition to a cashless society with digital payments. On the other hand, many segments of the population have increased the demand for cash for a number of reasons (higher confidence in cash, fear of technical failures, hoarding for a rainy day, and even the shadow economy). Rising inflation has increased the demand for cash.

DISCUSSION

Ukrainian researchers, in our opinion, focus on the reliability of banks in terms of making settlements. For example, Erkes et al. note that "Despite the war risks, banks have a sufficiently high level of liquidity, which makes it possible to ensure the continued non-cash payments and other obligations" [2]. In this interpretation, other important functions of banks are ignored, namely, in the conditions of martial law, the function of mobilizing temporarily free funds weakened and there was a "credit crunch" in financing enterprises and households.

Another point for discussion is the presentation of the Ukrainian banks' performance. The National Bank of Ukraine does not quite adequately describe the contemporary state of the banking system when it declares that "banks' asset volumes have exceeded the pre-war level, while the loan portfolio has decreased," acknowledging the deterioration of the loan portfolio [12]. It was the central bank that should have taken the initiative to introduce credit restructuring programs by borrower segments and types of credit products – from credit cards to mortgages.

It seems that the cancellation of the calculation of the short-term liquidity standard (at least 60%) by the National Bank of Ukraine on March 23, 2022, will not contribute to strengthening trust in banks. As historical experience shows, this indicator itself was one of the most adequate for the early detection of problems in banks. Currently, the regulator does not take into account the regulations and the impact measures are not applied.

A fundamentally new bank refinancing program is needed to support lending to the real sector of the economy. First, the cost of the resource should be reduced, and as the most desirable option, the final rate on loans to borrowers should be limited, provided that the loan portfolio is increased. Secondly, the program should be aimed at the financing priorities of certain industries and regions determined by the Government, so that soft loans complement the so-called "market failures". Thirdly, it is worth considering the successful implementation of the Financing for Growth (FGS) program in Hungary. One of the obstacles remains the limited ability of banks to provide acceptable assets as collateral, in particular corporate bonds with a high rating. Without solving the security problem, such a program will not work. Therefore, in modern conditions, it is advisable to give preference to state guarantees for loans. The priorities can be based on supporting industries that contribute to increasing the competitiveness of the national economy, import substitution, export potential, as well as overcoming the backlog of regions that, for various reasons, have fallen into decline.

CONCLUSIONS

The banking system as a whole has shown itself to be resilient to a prolonged unprecedented shock. The exit from the market of only one large bank did not have a noticeable effect, especially since the main reason for the collapse of Megabank was the problems accumulated over the years in lending to related parties. Also, two large banks with Russian capital (Sberbank and PIB) exited the market, but the curtailment of their activities began long before the military conflict. An unequivocal positive is the restoration of the client base to the pre-war level. At the same time, banks' lending activity

was frozen, and many institutions entered a phase of zero growth when the issuance of new loans did not exceed the amount of collection on previously issued loans.

In May-June 2022, loan repayment holidays for borrowers provided under martial law ended, and credit risks and credit risks immediately materialized, as many borrowers could not recover their solvency so quickly. Accordingly, banks' spending on creating reserves increased, which led to losses and a decrease in capital. The banking system of Ukraine is too heterogeneous to be able to talk about one leading trend in business development. It would be more correct to say that there are four blocks of players in the system - state-owned banks, large foreign banks, large banks with local capital and small private banks.

Monetary policy should move to more flexible inflation targeting from the classic one – focusing not only on the inflation target but to support financial stability, economic growth, employment and/or exchange rate volatility. That is, to achieve a compromise between rigid and flexible inflation targeting for the sake of economic growth, which is what monetary policy is for.

The key rate of the National Bank of Ukraine could be reduced to the level, that is pegged to inflation expectations, but also with preliminary analysis of consequences for lending, in order to not discourage lending. A bank refinancing program that would invest the proceeds into new loans would help revive the economy and boost demand from households and businesses.

The National bank of Ukraine should adopt measures capping the prices of financial products. It is worth reviewing the approaches to establishing a justified key rate by the central bank. The expected effect of the rate revision should be taken into account, not only for curbing inflation but also for economic growth. The very process of deciding on the rate level requires the involvement of a wider range of interested parties. In the central banks of many countries around the world, the Monetary Committee or Monetary Policy Committee is a collective decision-making body in which non-central bank officials also participate. For instance, the Monetary Policy Council is a body of the Polish central bank (NBP). In parallel with the budget project presented by the government, the Council sets the bases of monetary policy: including inter alia interest rate (key rate, discount rate), and reserve requirements. The MPC is governed by the President of the NBP, and nine other members, assigned in equal parts by the President of Poland, and two Chambers of the Parliament. In Hungary, the members of the Monetary Council are four top managers of the central bank (governor and deputy governors) and five experts in macroeconomic and monetary policy.

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УПЛИВ ВОЄННОГО СТАНУ НА ПРОДУКТИВНІСТЬ БАНКІВСЬКОГО СЕКТОРА УКРАЇНИ

Банки України в умовах воєнного стану продемонстрували досить суперечливі, але переважно позитивні результати. Незважаючи на значні економічні та інфраструктурні втрати, банківська система зберегла свою цілісність і надійно виконує існуючі зобов'язання, проводить розрахунки, продовжує залучати депозити клієнтів, але перейшла на консервативне (нульове) зростання кредитних портфелів, крім програм, підтримуваних державою, сповільнила видавання нових кредитів через високі кредитні ризики, а також відклала реалізацію планів щодо зменшення частки державного сектора.

У статті подано узагальнений опис основних складових системного ризику нестабільності банківської системи на основі структурно-функціонального аналізу її елементів за даними офіційних звітів НБУ за 2022 та попередні роки, а також перспективи її подальшого розвитку.

Визначено, що до кінця 2022 року банківська система України зберігає прийнятний рівень операційної стабільності, надмірної ліквідності та намагається мінімізувати фактори кредитного, операційного й валютного ризиків. У другій половині 2022 року почали матеріалізуватися кредитні ризики, що проявилось в зростанні дефолтів. Виходячи з цього, було зроблено висновок, що одним із важливих напрямів регуляторної політики НБУ має стати розробка стимулів для кількісного та якісного поліпшення фінансової бази банківської системи.

Зокрема пропонується стимулювати зростання фінансування переважно з внутрішнього ринку, а отже, і до нівелювання валютного та кредитного ризику, а також до підвищення ефективності грошово-кредитної політики. Для забезпечення кредитної діяльності доцільно розробити кредитну підтримку цілей ESG щодо диверсифікації виробництва енергії, будівництва житла та інфраструктури.

Ключові слова: банківська система, фінансова стабільність, вплив війни, системний ризик, центральний банк

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