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### Specific features of the financial system of Ukraine in the conditions of war

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**Abstract.** The impact of a range of factors on the country's financial system, primarily related to the war, determines the relevance and importance of conducting this study. In modern conditions, the sphere of finance is transformed and adapted, therefore the purpose of this study was to investigate the current state of the country's financial system in the context of the functioning of its main structural elements. The methodological basis of this study included the use of both general scientific methods, such as analysis, synthesis, comparison, comparison, and specific methods. To detect existing trends and processes in the financial system of Ukraine, statistical methods of dynamic and structural analysis were used. The study used a complex approach to the investigation of the financial system, specifically, the budget sphere, the banking system, the securities market, and the currency sphere were analysed. The main processes that affect the formation and implementation of the revenue and expenditure part of the state budget have been identified. The volume of tax revenues and their share in the formation of state budget revenues in the pre-war and wartime periods were compared. The main reasons for the growth of the budget deficit have been identified. The key sources used to cover the deficit were highlighted. The state of the national securities market was described based on the analysis of the structure of trade transactions in terms of financial instruments. The study found that the main share of trade transactions takes place with government debt securities. The banking sector, the financial system of the country, based on indicators of liquidity and profitability, was studied. Using the stability rating of banking institutions, it was found that leading positions in it are occupied by financial institutions that have foreign sources of financing, as well as state banks. The dynamics of devaluation of the hryvnia with the dynamics of inflationary processes were investigated. The results of the study allow for a comprehensive assessment of the current state of the country's financial system and will be useful both to actors in the country's financial sector and to managers who determine the basis of its functioning

**Keywords:** state budget; banking sector; securities market; currency stability; debt obligations; devaluation

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## Introduction

The structure of the national financial system of any country is dynamic, i.e., in its development and adaptation to new conditions, it may be supplemented, or some of its elements may disappear. In general, the financial system is a structure in the economy that mobilizes capital from various surplus sectors to distribute it among various areas that need it (Buckle & Thompson, 2020). The Swiss scientist S. Evenett (2019) fairly emphasizes that financial crises, which threatened the viability of financial systems, necessitated the implementation of significant intervention in the financial system by the governments of many countries. The exclusive role of the state in the functioning of the financial system is also discussed in the study of American scientists F. Allen & D. Gale (2001), who note that the state acts as the main borrower, especially during war, recession, or when significant infrastructural projects are implemented. Apart from the role of the borrower, the state certainly plays other important roles. It is the state that has the exclusive right to issue money, which underlies the financial system and acts as a means of payment. As US scientists J. Begeau & T. Landvoigt (2022) note, central banks and other regulatory institutions exert their influence on the structural elements of the financial system. That is, direct intervention means that the system formed by state authorities determines the appropriate financial and economic policy and determines the parameters of the country's financial system.

Wartime conditions determine the need for effective state regulation to ensure resilience and stability of the financial system of Ukraine. The governments of other countries are also forced to respond accordingly to challenges related to the war in Ukraine, to stabilize their economies and financial processes. According to the French scientist G.-D. Lo *et al.* (2022), which was based on an analysis of the financial and economic systems of 73 countries, the world financial markets reacted to the war with a shock, reducing the return on assets and increasing volatility, which shook the stability of the financial systems of these countries.

N. Tataryn & R. Chornyj (2022), researching the financial system of Ukraine during the war, focus on the banking sector. The authors, based on the results of the analysis, conclude that the national banking system, even in the current conditions of martial law, has demonstrated its stability, thanks to the coordinated actions and regulatory activities of the National Bank of Ukraine and has successfully performed intermediary functions regarding credit support of the economy. Undoubtedly, the source of resources for such support was state funds received from various sources.

Ukrainian scientist M. Trofimchuk (2022) assessed the impact of the war on financial and economic processes in the country. Trofimchuk substantiated the specific features of budgetary policy during the war period, specifically, it was established that in the first 6 months of the war, the main sources of financing of state budget expenditures were the funds of the National Bank of Ukraine. The relationship between gross domestic product and tax revenues was investigated. In addition, analysing currency transactions,

it was emphasized that the devaluation of the hryvnia is caused by a substantial drop in exports and an increase in imports. All this, according to the author, conditions the development of inflationary processes and the stability of the country's financial system. In the study, an attempt was made to investigate the processes in the financial and economic system of the country at the beginning of the war from several angles.

Despite existing achievements, considering the time factor and the intensity of changes, there is a need for a comprehensive study of the state of the main structural elements that ensure the functioning of the country's financial system in modern, complex conditions. The dynamism of the development of financial and economic processes, a decrease in business activity, a drop in the profitability of the budget system, currency devaluation and other factors determine the relevance of the study. Therefore, the purpose of this study was to assess the current state of the financial system of Ukraine in terms of the functioning of the key areas that form it.

## Materials and Methods

The methodological framework of this study included the use of a systemic approach to understanding the essence of the financial system, which is based on a clear definition of the spheres that form it and condition the specific features of its functioning. The comprehensive approach helped single out the key components of the modern financial system of Ukraine, such as the sphere of public finance (state budget), the securities market, the banking sector and the sphere of currency regulation. The state budget was investigated in terms of key indicators that characterize it, namely, revenues, expenditures, and deficit.

To ensure the relevance of the analysis, the statistical data of the state budget of Ukraine is taken as a basis because it is the financing of the country's defence needs, which have increased substantially due to military aggression. Based on dynamic analysis, the main trends in the implementation of the expenditure and revenue part of the budget and instruments for financing the deficit of the state budget of Ukraine in the conditions of war were revealed. The cause-and-effect analysis helped identify the main factor that influenced the underperformance of the revenue part of the budget. Based on the juxtaposition and comparative analysis, the role of tax revenues in the formation of the revenue part of the state budget is determined. Based on structural analysis, the main sources that were used to finance the deficit of the state budget and allowed to balance the budget policy to ensure socio-economic stability and smooth functioning of the country's financial system were identified and classified.

To determine the current state of the securities market, which is an integral element of the country's financial system, a structural analysis of trade transactions with market instruments was used. This provided an opportunity to determine the share participation of each instrument and

revealed that the securities market does not fully perform its functions, but is used exclusively for the preservation of capital, effectually through investing and trading only in government securities, which in conditions of instability are the safest financial instrument.

The assessment of the state of the banking system was based on two key indicators: liquidity and profitability. The analysis of the conducted study in this area suggested that despite the difficult conditions, as a result of the correct national policy, the liquidity of the banking sector was preserved, and profitability was gradually restored. Furthermore, the research used the results of the rating of banking institutions by the level of stability in 2022, according to a methodology based on the use of key indicators of bank activity. Such indicators include the quality of funding, dependence on individual deposits, profitability, liquidity, scale of operations, capital adequacy, the bank's share in the market of retail deposits, payment reputation. The assessment of the rating list revealed the tendency that leading positions are occupied by banks with foreign capital and state banks. Furthermore, the causal analysis helped establish the importance of the development and use of information technologies to develop competitive advantages of a financial credit institution in the market.

The study of currency stability was carried out based on a dynamic analysis of the exchange rate of the hryvnia against the US dollar and a comparison of the level of volatility of the exchange rate with the data of 2014-2015. A comparison of the dynamics of changes in the hryvnia

exchange rate and the consumer price index revealed the relationship between these indicators. The analysis of the available scientific developments in this area strongly suggested that the devaluation of the hryvnia has a substantial impact on inflationary processes, the effect of transfer in periods of instability can reach 60%. The use of critical analysis helped form a general conclusion regarding the current state of the country's financial system.

### Results

The financial sector can be considered as a part or sphere of the economy that offers and provides financial services to various branches of the national economy, the key elements of which are the central bank of the country, a set of banks, financial institutions of a non-banking nature, organized capital markets and institutions and organizations that carry out supervision and regulation (Krahnen & Schmid, 2004). Accordingly, the interaction between these elements ensures the formation of supply and demand for capital and other finance-related services, and this, in turn, is the country's financial system.

The effectiveness of the country's financial system mainly depends on the use of various financial instruments that help implement financial policy at all hierarchical levels of the economy, which, through the synergy of financial interactions, markets, institutions, levers, tools, affects the distribution and redistribution of financial resources and their impact on the social-economic development of the country (Fig. 1).

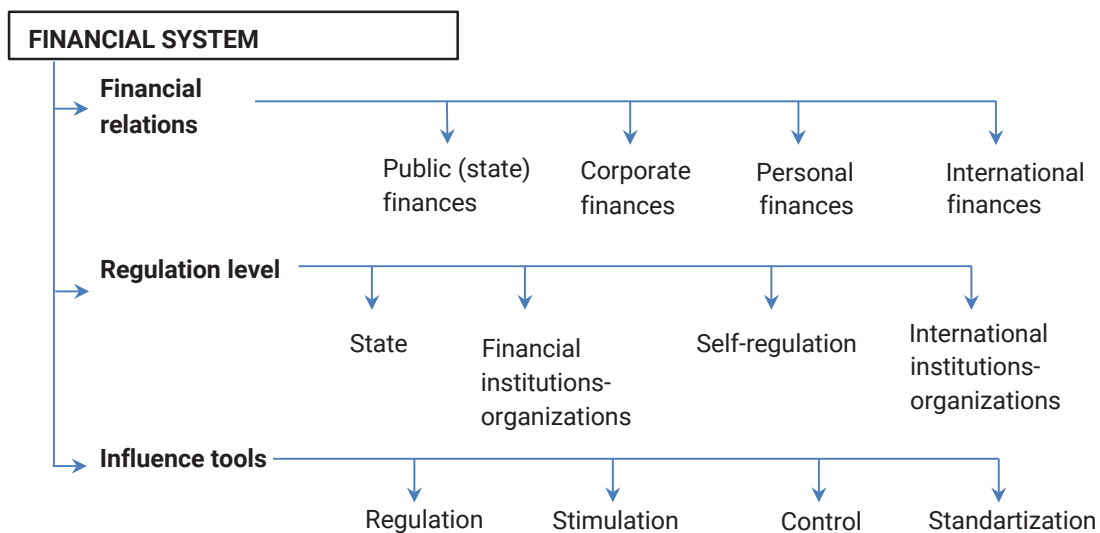


Figure 1. National financial system

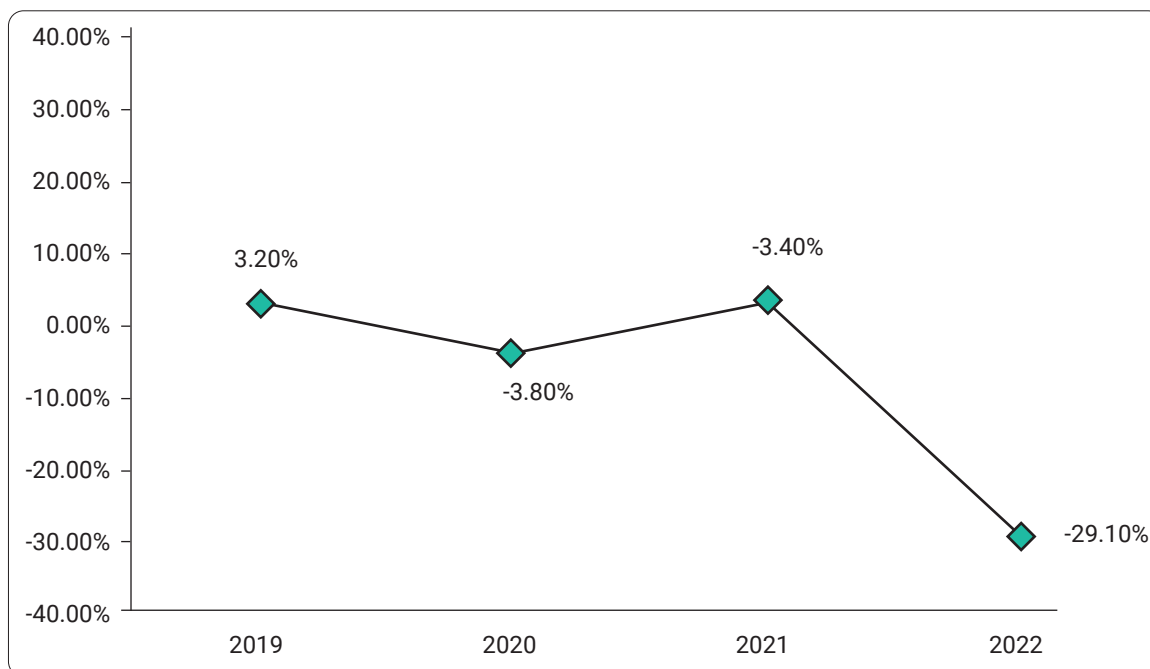
Source: compiled by the author based on I.A. Lomachynska (2020), R.G. Hubbard (2001)

Public finance is one of the basic components that ensure the stability of the country's financial system (Tresch, 2023). The current issues with ensuring a balanced budget in Ukraine, as a result of a decrease in business activity, which is expressed in a 30% drop in the country's GDP

(Fig. 2) and significant costs for the country's defence against an aggressor, have a substantial destabilizing effect on the financial system, the resources of which are directed towards the levelling of budgetary imbalances using various levers. Notably, this refers not only to the ability of the

economy to form a suitable fiscal (budget-supplementing) resource, but to the real possibility of the fiscal system to accumulate this resource and create a balance between the socio-economic provision of the country with necessary goods and energy resources and fiscal policy. Such a

situation with GDP indicates a decrease in economic activity, a drop in production volumes, a decrease in trade turnover and, as a result, a decrease in the tax base, which negatively affects budget revenues and its ability to finance necessary expenditure items (Table 1).



**Figure 2.** Change in the volume of the gross domestic product of Ukraine at constant prices, %

**Source:** compiled by the author based on data from the State Statistics Service of Ukraine (2023)

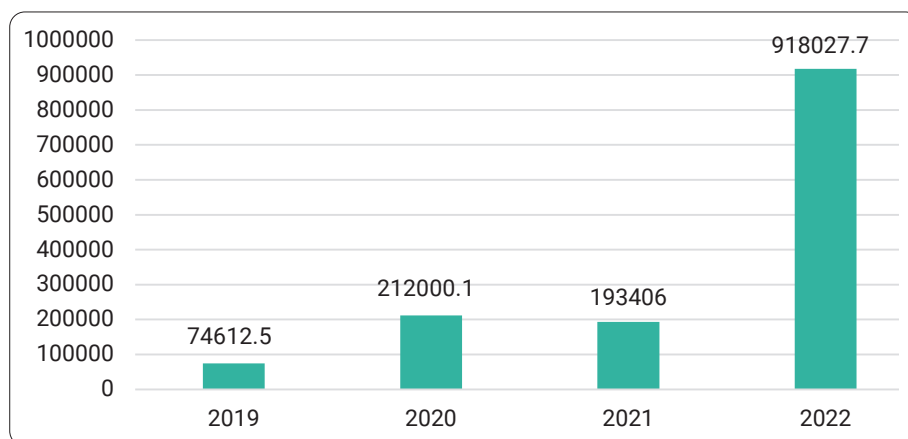
**Table 1.** Individual indicators of the state budget of Ukraine for 2019-2022

Indicators (fulfilled), mln UAH	2019	2020	2021	2022
Revenues	998,278.90	1,076,016.60	1,296,852.90	1,787,395.60
Tax revenues	799,776.00	851,115.60	1,107,090.80	949,764.30
Income from the European Union, foreign governments, international organizations, donor institutions	-	-	1,289.80	481,313.9
Expenditures	1,072,891.40	1,288,016.70	1,490,258.90	2,705,423.30
Expenditures for the Ministry of Defence of Ukraine	-	-	125,956.50	1,113,343.40

**Source:** compiled by the author based on data from the State Budget web portal for citizens (2023)

As Table 1 suggests, the revenue part of the state budget during the war in 2022 increased substantially, by more than 37%, compared to the previous year. However, tax revenues in the structure of revenues in 2022 amounted to only about 53%, while in the previous, pre-war years, they accounted for over 80%, and in 2021, in general, 85.3% of all state budget revenues. Substantial help in balancing the budget sector is provided by partner countries, including

the USA, European Union countries, Japan, and others. Thus, revenues from these countries in 2022 increased more than 400 times compared to 2021 and accounted for about 27% of all state budget revenues in 2022. The imbalance in the revenue and expenditure parts, caused by the war and, accordingly, the need to finance the country's defence (defence expenditures increased almost 9 times in 2022), led to the emergence of a substantial budget deficit (Fig. 3).



**Figure 3.** Dynamics of the state budget deficit of Ukraine

**Source:** compiled by the author based on data from the State budget web portal for citizens (2023)

As Fig. 3 suggests, in 2022 there was a significant increase in the deficit of budget funds for financing state expenditures. Accordingly, such a situation required the search for sources of funding for such a gap between income and expenses. In 2022, the dominant source of attracting financial resources used to finance state budget expenditure items was state borrowing, which was carried out in two forms – internal and external. In general, for 2022, it was possible to ensure the receipt of funds in the form of state loans in the amount of UAH 1,309.1 billion. Within the internal financial market, the Ministry of Finance of Ukraine quite often organized auctions for placement of various types of debt instruments. The main ones were bonds issued in national and foreign currency. In general, as a result of state borrowing on the internal market, it was possible to get UAH 666.9 billion to the general fund of the state budget, of which UAH 266.9 billion was raised using the Domestic Government Bonds of Ukraine (DGB) through auctions, of which UAH 197.2 billion were military bonds. It was military bonds that became an effective investment tool that helped support the state budget and were sold at affordable prices, both for individuals and legal

entities, including non-residents of Ukraine. Notably, UAH 400 billion was brought into the budget by the National Bank of Ukraine (NBU), which purchased military bonds for its portfolio. State budget borrowing on foreign markets in 2022 amounted to UAH 612.2 billion, of which UAH 48.0 billion was involved in a special budget fund from various partner countries and international investment and financial and credit institutions, with the purpose of implementing joint projects (Ministry of Finance of Ukraine. National budget, 2023).

Another, but less substantial, source of financing the state budget deficit was income from the privatization of state-owned property. In general, in 2022, under this article, it was possible to attract funds in the amount of UAH 1.7 billion, which more than doubled the planned figure (the plan was to receive UAH 0.8 billion). In general, despite the demanding situation in the country's economy, Ukraine fully performed its debt servicing and repayment obligations to its creditors. This situation with the emission of government debt instruments, in general, formed the trends of activity on the securities market, which is an integral part of the country's financial system (Table 2).

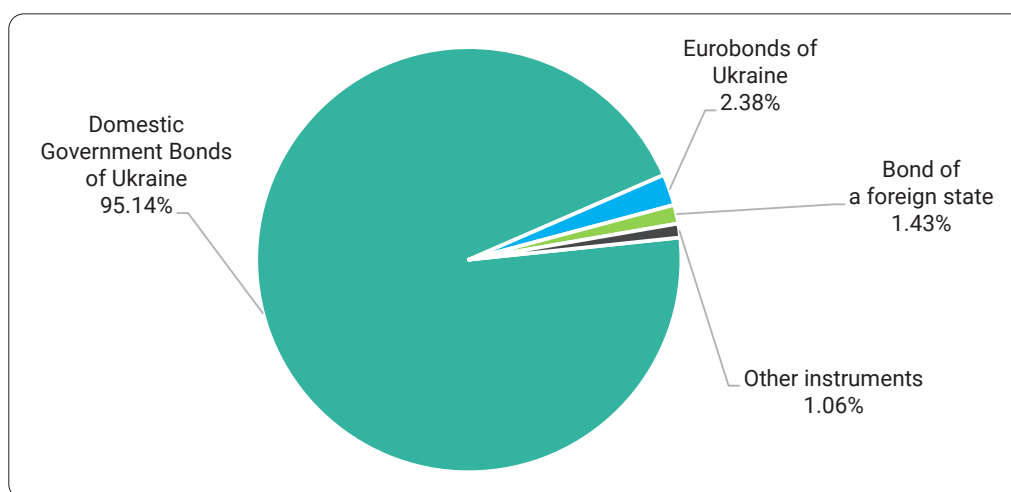
**Table 2.** The volume of completed transactions with financial instruments in 2022 on the organized market, by type of instrument, UAH million

Type of financial instrument on the securities market	Trading volume in UAH million
Share	91.75
Share of a foreign issuer	936.60
Share of a foreign state	2.89
Investment certificate	1.49
Corporate bond	197.88
Domestic Government Bonds of Ukraine (DGB)	152,825.19
Domestic Local Bond (DLB)	61.53
Eurobonds of Ukraine	3,819.30
Bond of a foreign issuer	88.28
Bond of a foreign state	229,608
Enterprise bond	309.19
Futures contract	5.87
Total for all instruments	160,636.02

**Source:** compiled by the author based on O. Sokolova & S. Diachenko (2023)

As Table 2 suggests, the dominant instrument of trade on the Ukrainian securities market was bonds issued by the government, the share of their trade (DGB) in the general

structure of trades on the market is dominant. Other securities had insignificant shares in the total volume of trading activity of the national securities market in 2022 (Fig. 4).



**Figure 4.** The structure of trading in financial instruments on the securities market of Ukraine, in 2022

**Source:** compiled by the author based on O. Sokolova & S. Diachenko (2023)

As for the banking system, the modern trend in its functioning is digitalization. The digital transformation processes, which are currently taking place in the financial sphere, and the banking sector specifically, have a substantial impact on the external and internal environment of the functioning of a banking institution. The banking system of the country, as a result of military aggression, for a certain period did not have the opportunity to provide the appropriate level of service to its customers and to work properly, which led to a decrease in opportunities for income generation. However, institutions with developed digital services had more opportunities to ensure the profitability of their activities (Levandivskiy *et al.*, 2023).

Since the national banking system is in conditions of uncertainty, as well as the financial system in general, because there are increased risks caused by military actions, the key task of banking and other financial and credit institutions is to guarantee stable work for their customers and performing all their obligations to them.

According to U. Grudzevuch & N. Drebot (2023), in 2022 the liquidity of banks stayed at a prominent level and

all key indicators showed an upward trend, both for the banking system as a whole and for the group of savings banks separately. If, on average, the all-currency LCR (liquidity coverage ratio for all currencies) increased over 3 times in the banking system as a whole, it increased by 1.38 times in savings banks.

During the war year, the profitability of the banking system decreased by three times to UAH 24.7 billion. The number of unprofitable depository corporations increased from 5 to 21 – out of 67 active in 2022. Along with the decrease in profitability in absolute terms, indicators of profitability of assets and profitability of capital showed a decrease, so compared to the data of the beginning of the year, profitability of capital and assets in the banking system decreased more than 3 times. According to the data of the analytical portal “Minfin”, which carries out an integral assessment of the stability of banking institutions and forms the corresponding rating, the leading positions in the rating of institutions in 2022 were occupied by banks with foreign capital and state banks (Table 3).

**Table 3.** TOP-15 most stable banking institutions of Ukraine, in 2022

Ranking	Name of the financial institution	Overall rating (maximum – 5 points)	Stress resistance	Loyalty of depositors	Analysts' assessment	Ranking in terms of deposits of individuals
1	JSC “Ukrsibbank”	4.39	4.3	4.6	4.22	7
2	JSC “RAIFFEISEN BANK AVAL”	4.34	4.1	4.9	3.89	3
3	JSC “Crédit Agricole Bank”	4.16	3.8	4.5	4.33	11
4	JSC “Kredobank”	4.15	3.9	4.5	4.11	12

Table 3, Continued

Ranking	Name of the financial institution	Overall rating (maximum – 5 points)	Stress resistance	Loyalty of depositors	Analysts' assessment	Ranking in terms of deposits of individuals
5	JSC "OTP Bank"	4.12	4	4.3	4.11	10
6	JSC CB "PrivatBank"	4.04	3.5	4.5	4.33	1
7	JSC CB "UniversalBank"	3.84	3.1	4.9	3.56	4
8	JSC "PUMB"	3.73	3.2	4.5	3.56	6
9	JSC "OSCHADBANK"	3.61	2.9	4.2	4.11	2
10	JSC "Ukreximbank"	3.60	3	4.5	3.33	8
11	JSC "ProCredit Bank"	3.54	3.2	4	3.56	16
12	JSC "Ukrgasbank"	3.51	2.9	4.2	3.67	9
13	JSC "A-Bank"	3.49	3.1	4.6	2.33	13
14	JSC "Pivdenny"	3.46	3.3	4.1	2.67	14
15	JSC "Accord Bank"	3.38	2.9	4.1	3.22	21

Source: compiled by the author based on Ministry of Finance of Ukraine. Stability rating of banks (2023)

The banking sector, and the NBU specifically, play a significant role in ensuring the stability of the national currency, which is the basis of the financial system of any country. The devaluation of the national currency intro-

duces an imbalance not only into the financial system of Ukraine, but also, considering the structure of export-import trade operations, has a momentous relationship with inflationary processes in Ukraine (Fig. 5).

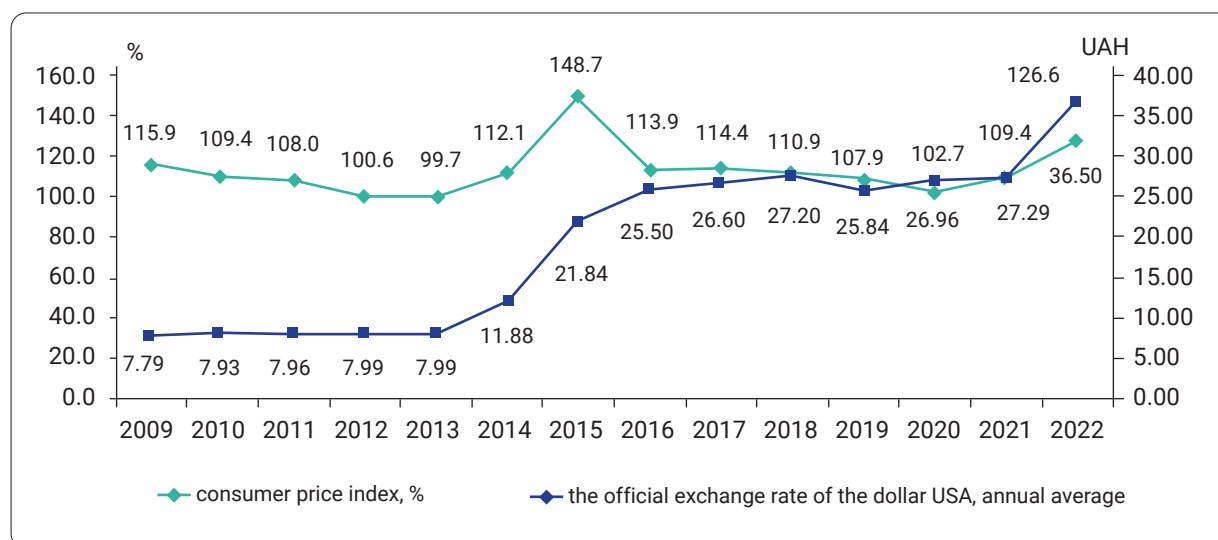


Figure 5. Dynamics of inflationary processes and the average annual exchange rate of the hryvnia and the US dollar in Ukraine

Source: compiled by the author based on State Statistics Service of Ukraine (2022), National Bank of Ukraine (2022)

As Figure 5 shows, there is a relationship between the hryvnia exchange rate and the consumer price index. The degree of influence of devaluation on inflation in the country (scientists call it the transfer effect) was studied in detail in the works of foreign scientists E. Beckmann and J. Fidrmuc (2013), I. Korhonen and P. Wachtel (2006), as well as Ukrainian scientist O. Faryna (2016). Analytical studies by the above-mentioned authors suggest that the effect of transfer of devaluation (the calculation was made relative to

the US dollar) on consumer prices in Ukraine ranges from 0.4 to 0.45. However, in periods of instability, it can reach the level of 0.65. That is, a devaluation of the hryvnia by 1% can contribute to an increase in inflation by 0.6%. Such results must be considered when forming the monetary policy of the NBU and the general financial and economic policy of the government for the stabilization of the financial system and the economy of the country in the conditions of the war and its further development in the post-war period.

## Discussion

As noted by L.K. Chu (2020) and R. Barradas (2020), the financial system, or rather its structure, is closely related to economic growth. Therefore, understanding the relationship between the financial structure and economic growth under different financial and economic conditions is critical to ensure the effective role of the financial sector in stimulating economic activity. Based on this, it is advisable to investigate the financial system by analysing its key structural elements, such as the budget system (the main indicators of the state budget, income and expenditure, deficit, financing, public debt), the banking system (and, accordingly, the currency system), the capital market (securities market).

Sharing the conceptual approaches of J. Krahnen & H. Schmid (2004) to the study of the country's financial sector and its financial system, it is also necessary to consider the role of the state, specifically the sphere of public finance, as an integral part of the country's financial environment. Therefore, one can agree with M. Kyere & M. Ausloos (2020) that finance without public administration would hardly be possible. Management of the financial sector forms an integral part of the financial system of any country. This also includes the sphere of public finance, the budgetary sphere, debt financing.

The sphere of public finances (namely, the state budget) in Ukraine, in modern conditions, is under unprecedented pressure from both external and internal factors that have a negative impact on it, thereby unbalancing it. A substantial increase in the expenditure part of the budget in 2022 (by almost 40%) is conditioned upon the need to finance expenses related to defence measures due to the war waged against Ukraine. Therewith, the fall in GDP volumes, as a basic indicator of production activity and business activity, against the background of military actions, means a curtailment of economic activity, as a result of which the revenue part of the budget is not executed as it was in the pre-war period. The colossal shortfall in tax revenues, which in 2022 accounted for only 53% of the country's state budget revenues (in 2021, this indicator was almost 90%), requires the search for new sources of financing of state expenditure items, on which the existence of not only the financial system depends, but also the state in general.

A vital role in the financial system and macroeconomic stabilization process of the country was played by government borrowing in the form of bonds. The results of the study by J. Boukhatem *et al.* (2021) are fully confirmed by the example of Ukraine, showing that the interaction between the bond market and macroeconomic variables is very pronounced in developing countries compared to countries with advanced economies. The relationship between the bond market and macroeconomic indicators varies over time and is most pronounced during periods of instability, which Ukraine is currently experiencing. In fact, it was only thanks to the bonds of the domestic government bonds that it was possible to attract funds that accounted for 72.6% of the state budget deficit in 2022. External

borrowing in the form of Eurobonds and other debt instruments also played an influential role in ensuring the stability of both the budget system and the financial sector of the country in general.

According to French scientists W. Bounou & A. Yatié (2022), the conditions of war create an elevated level of uncertainty of further development. That is why government debt securities were the main instrument traded on the Ukrainian securities market. That is, the Ukrainian securities market does not perform all its key functions, it is not a source of transformation of savings into capital to ensure the development of national enterprises, but it plays the role of securing capital and obtaining income when investing funds exclusively in the safest instruments, which are government debt securities.

Transactions with government bonds of Ukraine, both domestic and foreign loans, in 2022 accounted for more than 97.5% of all trade agreements executed on the national securities market. Banks, which act as primary dealers in Ukraine, played a leading role, particularly in terms of initial placement (O. Sokolova & S. Diachenko (2023)). The banking system, thanks to the correct and coordinated actions of the NBU and participants in the banking sector, managed to demonstrate flexibility and relative stability despite the substantial challenges associated with the war. The National Bank of Ukraine concentrated its efforts on the stable operation of banking institutions in exceedingly difficult wartime conditions. In general, it is possible to single out several key principles that helped ensure, as much as possible, the mitigation of the negative impact of military actions and other factors related to them. All depositors and users of banking services were provided with the possibility of using their own, and initially partially, and later with fewer restrictions, credit funds, making payments and transfers, i.e., customer protection was provided to prevent total panic and withdrawal of funds from the banking system. Thanks to special refinancing, the liquidity of banking institutions was supported, which helped stabilize the activities of individual banks that suffered the most as a result of military aggression, and not to declare them insolvent and provide opportunities for recovery. Moreover, the established requirement to reflect the state of affairs in the activities of banking structures helped observe the real processes and state of affairs to further implement an effective mechanism for restoring the banking system in the following periods.

The above is confirmed by the results of a study by U. Grudzevuch & N. Drebot (2023), which show that even though the main indicators of liquidity and profitability of banks showed a decrease at the beginning of the war, the relatively high level of short-term liquidity provided by the NBU became the exact factor that enabled the banking system to function as stably as possible without considerable losses. Furthermore, bank liquidity increased thanks to issue financing of the state budget and receipt of international financial support. The growth of profits in absolute terms and relative profitability at the end of 2022 and the

beginning of 2023 is the basis on which it can be argued that the banking system managed to cover the losses that were received in the first months of the war; furthermore, it now has a substantial margin of financial stability, which creates opportunities for expanding the lending portfolio, and in accordance with the gradual recovery of economic activity.

Evaluating the banking sector in terms of the stability of specific financial and credit institutions, a trend is observed that the most stable organizations (take the first places in the rating) are banks with foreign capital, which is not surprising because parent companies can recapitalize these institutions, as well as state banks, through which debt instruments of the state are realized. In general, the relevance of the obtained results of the rating of financial institutions is confirmed by the methodology of its implementation. Thus, the assessment of stress resistance includes indicators of the quality of financing, dependence on individual deposits, profitability, liquidity, scale of operations, and capital adequacy. To calculate the loyalty index, the bank's share in the retail deposit market, the absolute growth of the retail portfolio of deposits for the period, the relative growth of the retail portfolio of deposits for the period, experience in the market, and payment reputation of the bank are considered. Apart from these indicators, an adjustment factor is also used, which is an average assessment of the bank's reliability according to a pool of experts.

Notably, despite the financial instability caused by the war, banks with advanced IT services, such as PrivatBank and UniversalBank ("Monobank" service), are the best capable of dealing with activities related to the attraction of funds from individuals. Therefore, we can agree with O. Levandivskiy *et al.* (2023) that an effective strategy of information and technological restructuring of the banking sector is a critical component for successful activity in modern conditions. Banking organizations must adapt both to external changes caused by the popularity of digital services and to internal changes, using the potential of digital technologies as a competitive advantage to increase profitability.

Despite the more devastating consequences of the military conflict in Ukraine, which began in 2022, compared to 2014-2015, the state authorities managed to ensure the stability of the national currency and prevent its colossal devaluation. As a result of relevant effective precautionary measures, as well as considerable international financial support, the hryvnia devalued in 2022, relative to 2021 (in relation to the US dollar) by approximately 35%, while in 2014-2015, the devaluation amounted to more than 200% (National Bank of Ukraine, 2022). This achievement is crucial because the devaluation of the hryvnia in Ukraine has a high transfer effect on inflationary processes, which significantly slows down the possibilities for the recovery of economic activity, which does not contribute to the strengthening of the country's financial system.

In general, the coordinated, quick and correct actions of the National Bank of Ukraine, the Cabinet of Ministers of Ukraine, the Ministry of Finance of Ukraine in close cooperation with international financial donors, who provided

an unprecedented level of support, played a critical role in stabilizing the financial system of Ukraine, which continues to function in extremely difficult conditions.

## Conclusions

The study helped establish that the financial system, as an integral element of the national economy, should contribute to the development of the economy, providing it with the necessary financial resources and guaranteeing the stability of the national currency, especially under the negative influence of external factors, one of which, in today's conditions, is war. It was proved that the state must act as a guarantor of the functioning of the financial system in periods of instability. It is expedient to investigate the financial system of Ukraine based on the key structural elements that ensure its formation and determine the parameters of its functioning. Such components include the sphere of public finance, specifically the state budget, the banking system, the securities market and the currency system. Based on the results of the analysis, it was established that the current trends in the budgetary sphere are characterized by a significant deficit of the state budget, as a result of a decrease in tax revenues due to the devastating consequences of the war and a considerable increase in the country's defence expenditures. It was revealed that the main sources of covering such a deficit are state debt instruments, namely DGB, Eurobonds, and loans from the international community. Furthermore, a significant role in financing the deficit is played by irrevocable financial aid from the countries of the European Union, the United States, and other partners.

The results of the study strongly suggest that the conditions of uncertainty determine the monodirectional nature of trade on the securities market. Government bonds, as the safest investment tool in times of instability, are a key asset of trading activity on the Ukrainian securities market. It was established that transactions with shares and other corporate instruments are practically absent at Ukrainian trade organizers.

It was established that the banking sector, as a result of effective decisions of the authorities and national support, managed to ensure liquidity, stability of functioning, and performed all the functions assigned to it. However, increasing liquidity through refinancing opportunities reduces profitability, which may affect the solvency of individual financial institutions in the future. It was discovered that despite the fall in GDP and the increase in imports, thanks to the coordinated and timely actions of the National Bank of Ukraine, the Cabinet of Ministers of Ukraine, and the Ministry of Finance, it was possible to stabilize the exchange rate of the hryvnia against the leading world currencies, as a result of which the devaluation of the national currency was substantially less than in 2014-2015. In Ukrainian realities, this is critical because the devaluation of the hryvnia is significantly reflected in inflationary processes, which inhibit economic development and limit the possibilities of using the potential of the country's financial system. It is advisable to direct further research to

the development of practical actions aimed at ensuring the stable functioning of each structural element of the financial system, which will make it possible to create the basis for the post-war recovery and development of the country's national economy.

None.

None.

## Acknowledgements

## Conflict of Interest

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## Особливості функціонування фінансової системи України в умовах війни

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**Анотація.** Вплив різноманітних чинників на фінансову систему країни, в першу чергу пов'язаних з війною, обумовлює актуальність та важливість проведення цього дослідження. В сучасних умовах, сфера фінансів трансформується та адаптується, тому метою статті є дослідження сучасного стану фінансової системи країни в контексті функціонування її основних структурних елементів. Методологічною базою проведення дослідження стало використання, як загальнонаукових, таких як аналіз, синтез, зіставлення, порівняння, так і специфічних методів. Для виявлення існуючих тенденцій та процесів у фінансовій системі України, використовувались статистичні методи динамічного та структурного аналізу. В роботі застосовано комплексний підхід дослідження фінансової системи, зокрема проаналізовано бюджетну сферу, банківську систему, ринок цінних паперів, та валютну сферу. Виявлено основні процеси, які впливають на формування і виконання дохідної та видаткової частини державного бюджету. Проведено порівняння обсягів податкових надходжень та їх частки в формуванні доходів державного бюджету у довоєнний та воєнний період. Виявлено основні причини зростання бюджетного дефіциту. Виділено ключові джерела, які використовуються для покриття дефіциту. Охарактеризовано стан національного ринку цінних паперів на основі аналізу структури торговельних операцій в розрізі фінансових інструментів. Виявлено, що основна частка операцій з торгівлі відбувається з державними борговими цінними паперами. Досліджено банківський сектор, фінансової системи країни, на основі показників ліквідності та прибутковості. Використовуючи рейтинг стабільності банківських установ, виявлено, що провідні позиції в ньому займають фінансові установи, які мають іноземні джерела фінансування, а також державні банки. Досліджено динаміку девальвації гривні в поєднанні з динамікою інфляційних процесів. Результати дослідження дозволяють комплексно оцінити сучасний стан фінансової системи країни, та будуть корисними як учасникам фінансового сектору країни, так і управлінцям, що визначають засади її функціонування

**Ключові слова:** державний бюджет; банківський сектор; ринок цінних паперів; валютна стабільність; боргові зобов'язання; девальвація

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