

IJPSC

International Journal of Psychology and Strategic Communication

ISSN: 2941-5691 (Online) 2941-5705 (Print) [10]

DOI: 10.61030/IJPSC.25.v01a10



UKRAINIAN BANKING SYSTEM OVERVIEW: CURRENT STATE AND DEVELOPMENT PROSPECTS

Shvedenko Tetiana¹, Liliia Zherdetska²

¹*student of Odesa National Economic University, Odesa, e-mail: shvedenkotania@gmail.com, phone number: +380681361460*

²*Head of the Banking Department, Doctor of Science in Finance, Banking and Insurance, Odesa National Economic University*

Abstract

The article examines the structure of the banking system of Ukraine. The dynamics of the number of banks and branches were analyzed. A reduction in the number of banks and the number of their operating divisions has been revealed for the period from the beginning of 2015 to the present.

The main reason for the reduction in the number of operating banks was the process of reforming the banking sector of the Ukrainian economy. The result of the introduced reforms was the «cleansing» of the sector from insolvent and captive banks and an increase in the level of its financial stability. The increased stability of the banking system as a result of the National Bank of Ukraine's reforms is evidenced by its resilience and ability to perform its functions during martial law.

According to the results of the study, the following reasons for the reduction in the number of bank divisions in Ukraine are substantiated: reduction in the number of banks, reduction of costs in the post-crisis period, and an increase in the level of digitalization. Pandemic restrictions and martial law also influenced the growth of digitalization.

According to the results of the analysis of the structure of the banking system of Ukraine, a significant share of state banks was established. This situation is to some extent a result of the reforms, but it distorts the competitive environment in the industry.

Keywords

bank, banking system, specialized banks, savings banks, trust management banks, systemically important banks.

Problem definition

The banking system is a complex infrastructure that includes a clearly structured and legally defined set of financial institutions, banks and regulatory authorities operating in a particular country or region and ensuring the sustainable functioning of the monetary system of that territory.

Relevance of the chosen topic

The banking system plays a key role in the functioning of the economy, providing mechanisms for the circulation of money and the investment process. It is also responsible for compliance with currency regulations, legislation

on money circulation, and provides a variety of financial services, including money storage, lending, payments, currency exchange, investment and other financial services to customers, such as individuals, businesses and the government.

Analysis of recent research and publications

The development of the banking system of Ukraine is the subject of works by such scientists as L. Fedevych, M. Livdar, Y. Mezhyrytska, and O. Ruda. Krukhmal and V. Sukhonos consider the development of banking business in the digital economy, while I. Pravdykovska and N. Doroshenko studied the specifics of the sector's operation under martial law. At the same time, the current rapidly changing situation requires updating research on the structure of the banking system of Ukraine.

Purpose of the study

The purpose of the study is to assess the current state of the banking system of Ukraine and identify priority areas for improvement based on the analysis of the dynamics of its structure.

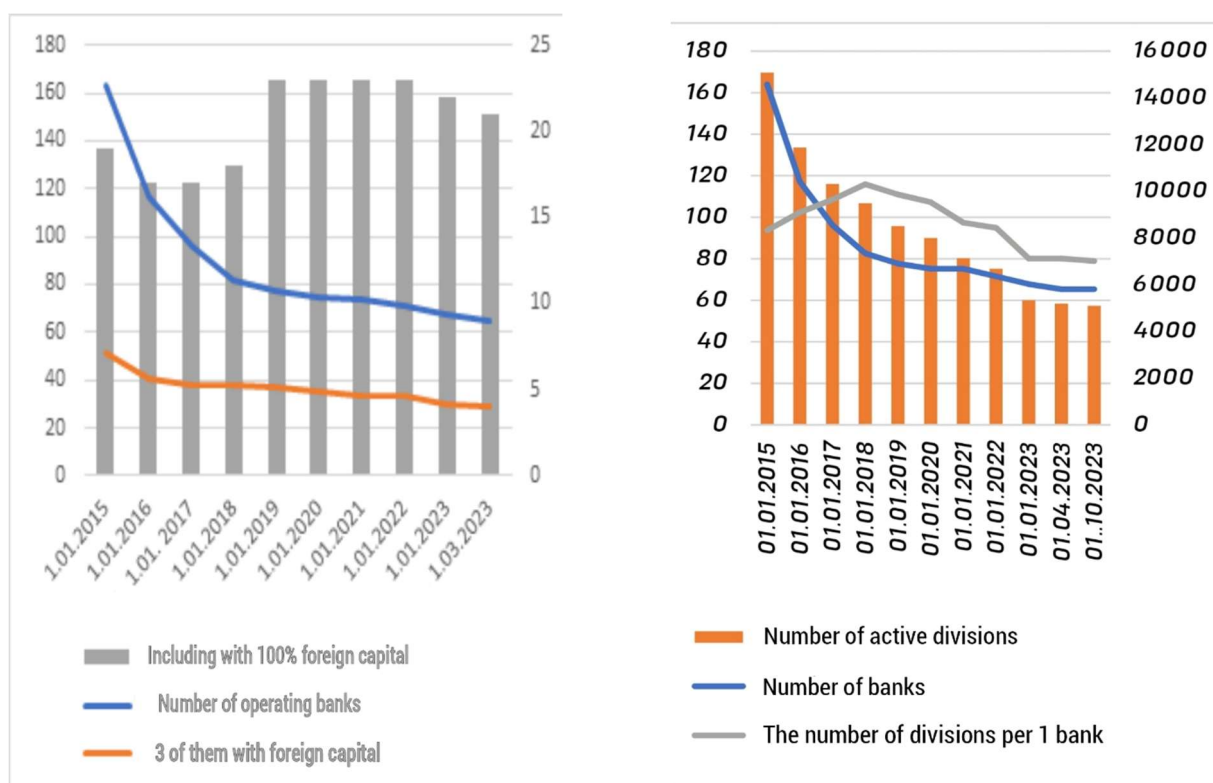
The main role of the banking system is to serve the financial needs of society and maintain the financial stability of the economy. This role is fulfilled through a number of key mechanisms, such as depositing money and maintaining personal accounts, lending, financial intermediation, monitoring risks and financial stability, etc. [1, p. 16].

The current banking system of Ukraine operates on two levels. The first level is the central bank, which in Ukraine is the National Bank of Ukraine (NBU), responsible for conducting a unified state monetary policy that ensures the stability of the national currency. The NBU's main role is to maintain the stability of the national currency, promote economic growth and ensure financial stability.

The second level includes commercial banks, which play an equally important role in the functioning of the banking system, as they accumulate the majority of credit resources and provide customers with a full range of financial services, including lending, deposit taking, settlements, purchase and sale and storage of securities, foreign currency, etc. [1, p. 22].

In our opinion, it is most appropriate to review the banking system by studying the dynamics of the number of commercial banks in Ukraine over certain periods. After all, this data demonstrates the influence of the National Bank of Ukraine on the regulation of commercial banks by providing or withdrawing banking licences, as well as the results of commercial banks' independent activities, which may also lead to an increase or decrease in the number of banks in the system.

Therefore, we will consider the dynamics of the number of commercial banks in Ukraine from 2015 to the present, as well as their distribution by the presence of full or partial foreign capital in them (Figure 1).



1.1. Dynamics in the number of banks

1.2. Dynamics in the number of branches

Figure 1. Dynamics of the number of commercial banks in Ukraine from 01.01.2015 to 01.10.2023

Based on data from: [3].

According to the general results (Figure 1), we observe a significant decrease in the number of banks over the years, as there were 163 banks in Ukraine in 2015, and their number dropped to 67 in early 2023. This may indicate a trend towards consolidation of the banking sector in Ukraine. We observe that the number of banks with partial foreign capital also tends to decrease, as the number of such banks decreased from 51 to 30 during 2015-2023, while the number of banks with pure foreign capital increased from 19 to 22, but it is worth taking a closer look at these changes and their possible causes.

For example, we consider the rapid decline in the total number of banks from 2015 to 2018 to be a result of the reforms of the Ukrainian banking system after the crisis and the public's distrust and uncertainty about the future of banks, which led to capital outflows from the banking market [2, p. 17].

In addition, since 2019, there has been a significant increase in the number of banks in Ukraine with 100% foreign capital, which we believe may indicate a growing interest of foreign investors in the Ukrainian banking sector at this time.

Currently, from 2020 to 2023, the number of banks continues to gradually decrease, so we propose to consider this dynamics of the number of operating bank divisions in more detail (Figure 1.2).

Analysing the data provided by the National Bank of Ukraine, we see that during the period of the beginning of military operations in Ukraine, the number of structural units of private and foreign banks, as well as state-owned banks and PrivatBank, has significantly decreased, which, in our opinion, is a consequence of the occupation of certain territories of Ukraine and physical destruction of the facilities. At the same time, the decrease in the number of structural units is also possible due to the current trend towards digitalisation of the banking system, which, in our opinion, is a forward-looking prospect for the development of the Ukrainian banking system.

As we can see from the data (Figure 1.2), the changes that have happened over this period of time are not critical and indicate the relative stability of the Ukrainian banking sector during these months. This could be due to a variety of factors, including a stable economic situation, continued interest of foreign investors, and effective supervision and regulation by the NBU [4]. However, in our opinion, it is difficult to assess the stability of Ukraine's economy at the moment due to the ongoing military operations on its territory, so the not too negative performance of the banking sector is probably a merit of the National Bank of Ukraine, which maintains the financial stability of banks and facilitates their work in such a difficult time for the country. It is thanks to the successful regulation by the NBU that we can take a closer look at the loss of two banks in the period from 2022 to the first quarter of 2023 (Table 1).

Table 1: Number of banks and structure of the banking sector from 2019 to the first quarter of 2023.

Banks	2019	2020	2021	2022	I.23
Solvent	75	73	71	67	65
Change	-2	-2	-2	-4	-2
State-owned, including PrivatBank	5	5	4	4	4
Change	0	0	-1	0	0
Foreign	20	20	20	16	15
Change	-1	0	0	-4	-1
Private	50	48	47	47	46
Change	-1	-2	-1	0	-1

Based on data from: [5].

Table 1 shows the change in the structure of the banking sector from 2019 to the first quarter of 2023, but we will look at 2022 and the first quarter of 2023 in more detail, as we are interested in an overview of the current banking system in Ukraine. In 2022, the number of foreign banks decreased by four, but it is important to note that the decrease actually concerns only two banks. This is because the National Bank of Ukraine included two other banks with foreign capital in the category of private banks this year. Consequently, in 2022, two private banks were liquidated, namely «Forward Bank», which was declared insolvent and liquidation proceedings were initiated due to violations of Ukrainian banking legislation, and «Ayboks Bank», which was deprived of its banking licence and liquidated due to violations of banking legislation.

Overall, the table shows that the banking system of Ukraine will not suffer significant losses due to the loss of two private banks, as they together accounted for 0.2% of the sector's net assets, the loss of which is not a major impact on the banking system of Ukraine.

Considering the concept of the structure of the banking system, it is necessary to highlight the transformation of approaches to the allocation of specialised banks (Table 2).

In different periods of the Ukrainian banking system's operation, the NBU classified banks in different ways in its reporting. We will analyse the structure of the banking system of Ukraine in accordance with the approaches established by the NBU to the division of banks into groups and the legislatively established approaches to the allocation of specialised and systemic banks (before 2015 - systemically forming banks, after - systemically important banks (SIB)).

Table 2: Development of approaches to legal identification and regulation of specialised and systemically important banks in Ukraine

Law of Ukraine «On Banks and Banking Activities»			Instruction on the procedure for regulating the activities of banks in Ukraine		
version of 19.10.2001	version of 16.06.2011	version of 05.08.2021	version of 13.02.2002	version of 13.02.2012	version of 01.07.2021
«Systemically forming bank» means a bank whose liabilities amount to at least 10 per cent of the total liabilities of the banking system.		«systemically important bank (SIB) is a bank that meets the criteria established by the National Bank of Ukraine and whose activities affect the stability of the banking system»	-	-	«systemically important bank»
«Banks in Ukraine can function as	«The National Bank of Ukraine defines the types of specialised banks and the procedure for		«The NBU shall regulate the activities of specialised banks through economic standards and establish special requirements for certain types of bank activities»		

universal or specialised banks»	obtaining the status of a specialised bank»				
«By specialisation, banks can be savings, investment, credit, mortgage, and settlement (clearing) banks»	«savings bank» «investment bank»	«savings bank»	«interregional bank» «central cooperative bank» «savings bank» «investment bank» «clearing bank» «mortgage bank»	«savings bank» «trust management bank» «mortgage bank»	«savings bank» «trust management bank»

Based on data from: [11, 12].

Based on the analysis of approaches and financial statements of banks, the periods of change in the division of banks into groups were determined, which allowed the following stages to be substantiated 1) post-crisis, for which the year 2010 (01.01.2011) was chosen; 2) the beginning of the banking sector reform is 2015 (01.01.2016); 3) the current stage is the latest available information as of 01.09.2021 and 01.09.2023.

It has also been established (based on the results of preliminary calculations) that only savings banks were and are actually specialised banks.

Table 3: Structure of the banking system of Ukraine according to the groups established by the NBU and legally established as of 01.01.2011

Groups of banks	Indicators					
	Quantity, units			Share by assets, %.		
	Total	Systemically forming banks	Specialised	Total	Systemically forming banks	Specialised
Group 1	17	1	-	66,74	12,63	-
Group 2	22	-	-	18,08	-	-
Group 3	21	-	-	6,35	-	-
Group 4	115	-	-	8,83	-	-
Total	175	1	-	100,00	12,63	-

Based on data from: [13].

As shown in Table 3, there were a significant number of banks in Ukraine - 175. The largest number of banks was in Group 4 (groups were distinguished by asset size) - 115 banks. At the same time, the largest share of the banking system was in Groups 1 and 2 by value of assets. There were no specialised banks according to the statutory criteria, as banks avoided obtaining the status of a "savings bank" because it imposed additional regulatory requirements on economic standards. Only PJSC Privatbank met the systemic criteria with a market share of 12.63% in the liabilities segment. All other banks had a share in the liabilities of the Ukrainian banking system of less than 10%.

Therefore, in this period of development, banks avoid becoming specialised banks and there are a significant number of small banks, which are mostly so-called captive banks.

As a result of the reform of the banking sector of Ukraine's economy that began in 2014, as of 01.01.2016, the following results were obtained regarding the structure of the banking system of Ukraine (Table 4).

Table 4: The structure of the banking system of Ukraine according to the groups established by the NBU and established by law as of 01.01.2016

Groups of banks	Indicators					
	Quantity, units			Share by assets, %.		
	Total	SIB	Specialised (savings)	Total	SIB	Specialised (savings)
State-owned banks	6	2	-	28,09	24,64	-
Banks of foreign banking groups	31	4	1	35,67	12,05	0,23
Banks with private capital	78	2	5	36,24	24,79	22,71
including						
Group 1	9	3	2	30,09	24,79	22,29
Group 2	69	-	3	6,15	-	0,42
Total	115	8	6	100,00	61,48	22,94

Based on data from: [13].

As shown in Table 4, the number of banks has been declining since the beginning of the banking system reform. At the same time, approaches to identifying systemically important banks are changing. This fact, together with the reduction in the number of small banks and the growing market share of small and medium-sized banks, is leading to an increase in the number of systemically important financial institutions in the Ukrainian banking system. The number of savings banks is also growing, as household savings become a priority source of funding in a crisis.

The current structure of the Ukrainian banking system is shown in Table 5.

As shown in Table 5, the structure of the Ukrainian banking system is generally levelling out, with individual groups becoming more balanced in terms of number and market shares, as well as the number of SIBs. At the same time, the negative specifics of the Ukrainian banking system at the current stage include a significant share of the state in the sector and the share of SIBs among state-owned banks. There is also a growing trend towards an increase in the number and size of assets of specialised savings banks.

Table 5: Structure of the banking system of Ukraine according to the groups established by the NBU and legally established as of 01.10.2021 and 01.09.2023

Groups of banks	Indicators					
	Quantity, units			Share by assets, %.		
	Total	SIB	Specialised (savings)	Total	SIB	Specialised (savings)
01.09.2021						
State-owned banks	4	4	2	49,1	38,2	30,1
Banks of foreign banking groups	20	4	1	30,4	25,6	11,1
Banks with private capital	49	5	4	20,5	15,1	9,0
Total	73	13	7	100,0	78,9	50,2
01.09.2023						
State-owned banks	5	5	3	53,13	53,13	37,74
Banks of foreign banking groups	14	5	-	27,14	21,09	-
Banks with private capital	44	5	4	19,73	12,88	4,71
Total	63	15	7	100	87,10	42,45

Based on data from: [13].

In the second quarter of 2021, 73 banks operated in Ukraine, a number that remained unchanged over the year. The share of private banks in net assets increased by 1.2 pp over the quarter, which in particular reduced the sector's concentration. The share of state-owned banks declined by 1.5 pp in Q2, but they still held more than half of net assets. According to Table 5, as of 01.09.2023, out of 63 total banks, 5 are state-owned, 14 are part of foreign banking groups, and 44 are privately owned. State-owned banks have the largest share of assets among the various categories, with 53.13% of total assets. Banks of foreign banking groups have 27.14% of total assets. Banks with private capital hold 19.73% of total assets.

Consequently, state-owned banks hold a significant share of the market in terms of assets. Foreign-owned banks also make a significant contribution to the financial market. Banks with private capital, although smaller in number, are still an important player with significant assets.

The crisis in the Ukrainian banking system in 2014-2016 confirmed the impact of banks' internal business models on their financial stability. For example, among the insolvent and fraudulent banks withdrawn from the market, local private financial institutions associated with industrial business groups and pursuing a risky policy of lending to related parties at the expense of individuals, as well as various kinds of captive banks with an opaque ownership structure, were totally dominant. It has been established that the configuration of the banking system in terms of key parameters such as ownership structure, asset size, or business strategy affects its risk profile. Further monitoring of the business models of Ukrainian banks remains extremely important to develop an understanding of this concept of market structuring, to measure the impact of external shocks on different types of banks, and, finally, to proactively identify and assess the extent of systemic risk associated with internally unstable banking strategies that may be inherent in a significant number of market participants.

Despite the relatively stable situation at present due to the regulation of the banking sector, according to the National Bank of Ukraine's research, there are a number of monitored systemic risks to the banking system, such as asset shifting, a significant level of dollarisation, a high share of state capital in the banking sector, etc.

However, at present, the main risk to all socio-economic systems in the country is war. Therefore, in our opinion, for a full review of the Ukrainian banking system, it is worth considering the situation also taking into account the ongoing military operations in Ukraine.

On 24 February 2022, after the introduction of martial law in Ukraine, the National Bank of Ukraine introduced certain restrictions on the banking system, such as restrictions on cross-border capital flows and fixing the exchange rate, and a ban on banks paying dividends [7, p.151]. The NBU also simplified a number of requirements for banks' operating activities and did not apply penalties for violations of reporting requirements if such violations occurred after 24 February, and such easing, in our opinion, partially helped some banks to survive in such a difficult period and was reflected in the charts by the loss of only minor banks in Ukraine with a small percentage of the sector's net assets.

At the moment, the Ukrainian banking system is holding the financial front, of course, there is no capital increase, but there is no capital outflow either, and the capitalisation of the Ukrainian banking system is still high.

As a result of Russia's invasion of Ukraine, banks are expected to revise their lending policies and improve their risk assessment in granting loans. This is due to the fact that the military conflict has suspended the downward trend in the number of non-performing loans in the country's banks [8, p.55]. The National Bank of Ukraine also plans to monitor asset quality in 2023 to clarify the ways banks can actually assess the risk of lending.

Of course, the banking system of Ukraine has many prospects for development, such as the development of international cooperation, further consolidation of banking institutions through mergers and acquisitions, improvement of the legislative framework, increasing the responsibility of commercial bank owners, etc. [8, p. 26], however, we are sure that one of the most important areas of improvement is currently digitalisation, because in the modern world, in the era of rapid technological development, digitalisation opens up new opportunities and challenges for banks that contribute to improving financial services, increasing efficiency and convenience of customer service, and also contribute to strengthening financial stability.

In recent years, this process has become particularly relevant in the banking sector. Digitalisation is becoming not just a trend, but a key factor in the development of various sectors of the economy. Ukraine's banking system is not left out of this process, and digital transformation is now becoming very promising for the development of this sector of the economy. This process not only facilitates access to financial services, but also increases their quality and security.

Digital banking in Ukraine has only recently begun to develop, with the COVID 19 pandemic providing a powerful impetus for the country's banks to go online, which has led to many negative consequences, but has also prompted an accelerated transition of Ukrainian banks to a new digitalised system.

While only a few banks started implementing digitalisation before 2020, almost all financial institutions did so under the influence of COVID 19 to remain competitive in the market. According to surveys of more than

11,000 respondents from around the world, 45% of respondents said that after the pandemic began, they preferred online banking and continued to use it after the end of the pandemic [9, p.7]. These results demonstrate that many people consider new digital bank services to be more convenient and acceptable, and therefore create demand for digitalised financial services.

The success of domestic banks in the digitalisation process is also worth noting. For example, Ukrainian online banking Privat24 has been the best digital bank application in Ukraine for the past 5 years. This digitalised bank has also received numerous awards, and thanks to its good reputation and experience in digitalisation, the online bank receives many new users every year [9, p.7].

Another great example of the success of the digitalisation of Ukrainian banks is Monobank, a bank without branches that uses the Universal Bank licence to operate, which shows a significant increase in its customer base every year. Thus, in 2021, Monobank's customer base grew from 3,244,116 people to 5,000,000 people, and in May 2022, it increased by another 800,000 people [10].

The experience of Privat24 and Monobank clearly demonstrates the possible huge success of domestic banks in the process of digitalisation, but it is still a development prospect, as not all banks in the country, unfortunately, have the ability and desire to improve their services in the online sphere. In our opinion, the main challenge for banks in the course of digital transformation is to ensure a high level of cybersecurity, protection of private data and compliance with regulatory requirements.

Overall, despite all the challenges, the digital transformation of Ukraine's banking system is paving the way for a new era of financial sector development and should therefore become a top priority for the Ukrainian banking system.

Conclusion

To summarise, the banking system of Ukraine is an infrastructure that plays a key role in the functioning of the economy, comprises a set of financial institutions and regulatory bodies, and ensures the sustainable development of the Ukrainian monetary system.

After reviewing the dynamics of changes in the number and structure of commercial banks in Ukraine during 2015-2023, we can conclude that the banking sector in Ukraine is currently relatively stable, which is ensured during the martial law in the country by the support of commercial banks by the National Bank of Ukraine. Given the military operations, we are seeing a significant reduction in bank branches across the country and significant economic challenges, but we expect new strategic actions from the regulators to help the banking system. We also attribute the reduction of bank branches to a new perspective for the development of the Ukrainian banking sector - digitalisation, which is already successfully operating in the banking system and should show significant results in the future as an integral part of the modern functioning of the economy as a whole.

References

1. Fedevych L., Livdar M., Mezhyrytska Y. (2020) The banking system of Ukraine: current state and prospects for development. *Economy and Society*. 21. 21-27. doi: <https://www.economyandsociety.in.ua/index.php/journal/article/view/25/24>
2. Ruda O. (2022). Banking supervision and its impact on the banking system of Ukraine. *Agrosvit*. 5(6).15-23. doi: <http://www.agrosvit.info/?op=1&z=3588&i=2>
3. Number of banks in Ukraine (2008-2023) (2023, November 7). Rates, indices, tariffs. doi: <https://index.minfin.com.ua/ua/banks/stat/count/>
4. Ruda O. (2019). The current state of the banking system of Ukraine and its competitiveness. *Effective Economy*. 4. doi: <http://socrates.vsau.org/repository/getfile.php/20493.pdf>
5. The National Bank of Ukraine. (2023, May). doi: https://bank.gov.ua/admin_uploads/article/Banking_Sector_Review_2023-05.pdf?v=4
6. Kovalenko V., Radova N. (2019). Monitoring the financial stability of the banking system of Ukraine. *Eastern Europe: Economics, Business and Management*. 2(19). 321-330. doi: <http://srd.pgasa.dp.ua:8080/bitstream/123456789/5987/1/Kovalenko.pdf>
7. Pravdykivska I., Doroshenko N. (2022). The impact of war on the banking system of Ukraine. *Young scientist*. 9(109). 150-153. doi: <https://molodyivchenyi.ua/index.php/journal/article/view/5583/5466>
8. Gudz T., Gerchikov M. (2023). The banking system of Ukraine in the conditions of war. *Scientific Bulletin of Odesa National Economic University. Finance, banking and insurance*. 1-2(302-303). 53-58. doi: http://dspace.puet.edu.ua/bitstream/123456789/12822/1/Гудзь,%20Герчіков%20НВ%201-2_2023.pdf
9. Zaverbnyi A., Sokulskyi N. (2021). Pandemic as a catalyst for the digitalisation of the banking system in Ukraine. *Economic science. Investments: practice and experience*. 2. 5-9. doi: http://www.investplan.com.ua/pdf/2_2021/3.pdf
10. Krukhmal O., Sukhonos V. (2020). Development of banking business in the digital economy. *Effective Economy*. 11. doi: https://essuir.sumdu.edu.ua/bitstream-download/123456789/83574/1/Krukhmal_neobank.pdf
11. The Law of Ukraine "On Banks and Banking Activities". (2023, July 29). doi: <https://zakon.rada.gov.ua/laws/main/2121-14#Text>
12. Instruction on the procedure for regulating the activities of banks in Ukraine. (2001, August 28). doi: <https://zakon.rada.gov.ua/laws/show/z0841-01#Text>
13. Supervisory statistics data. (2019, September 12). doi: <https://bank.gov.ua/ua/statistic/supervision-statist/data-supervision#4>

