

# FINANCE AND MONEY TURNOVER

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## STRATEGY OF DEVELOPMENT OF THE FINANCIAL MARKET OF UKRAINE IN THE REALITIES OF TODAY

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With the development of the world economy, constant monitoring of the functional structure of the financial market becomes very important due to its significant impact on other sectors of the Ukrainian economy. The current state of the functional structure of the financial market is considered in the article, the strategic goals of further development of the constituent elements of the financial market are offered. The main significance of the existence of the financial market in the economic space of Ukraine is noted. The shortcomings of the financial market sectors that slow down their development are analyzed and clarified. Practical recommendations have been developed to improve the infrastructure of the financial market, which will lead to future growth of investment income in the economy and will be a prerequisite for further development of the infrastructure of the financial sectors of Ukraine.

## СТРАТЕГІЯ РОЗВИТКУ ФІНАНСОВОГО РИНКУ УКРАЇНИ В РЕАЛІЯХ СЬОГОДЕННЯ

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валютний ринок, кредитний  
ринок, ринок капіталів,  
стратегічні цілі

Із розвитком світової економіки дуже важливого значення набуває постійний моніторинг та функціональної структури фінансового ринку через його вагомий вплив на інші сектори економіки України. У статті розглянуто сучасний стан функціональної структури фінансового ринку, запропоновано стратегічні цілі подальшого розвитку складових елементів фінансового ринку. Відмічено головну значимість існування фінансового ринку в економічному просторі України. Проаналізовано та з'ясовано недоліки секторів фінансового ринку, які пригальмовують їх розвиток. Розроблено практичні рекомендації щодо удосконалення інфраструктури фінансового ринку, що зумовить у майбутньому зростання інвестиційних надходжень в економіку та стануть передумовою подальшого розвитку інфраструктури фінансових секторів України.

**Problem statement**

The development of the financial market plays an important role in shaping the infrastructure of the financial sectors in the economy of Ukraine. It is an indicator of the presence of shortcomings in the economy, its level of development, the introduction of possible promising areas for its further functioning. The financial market is the main determining factor influencing the formation of features and characteristics of their own sectors. In addition, it combines existing sources of free financial resources and entities that need them or feel a significant lack of them.

**Analysis of recent research and publications**

Problems of financial market infrastructure expansion and introduction of strategic goals of its development became the subject of research of such domestic scientists as: Shishpanova N.O., Ivanov A.O., Kovalchuk L.T., Mishchenko V., Bazylevych V., Vasilchenko Z., Savluk M., Gavrilyuk O., Galchynsky A., but this problem is very relevant and requires new research by the scientific community.

**Forming the goals of the article**

The purpose of the article is to study the features of the functional structure of the financial market, identify the

shortcomings of financial sectors that support the financial market of Ukraine, analyze the state of financial sectors, consider the strategic goals of the National Bank of Ukraine until 2025 and develop practical recommendations for financial market infrastructure. Due to the constant global economic development, the infrastructure of the financial market needs constant analysis and introduction of the latest technologies.

### Presentation of the main research material

The most important component of Ukraine's financial system is the financial market. It plays an important role in ensuring the effective development of economic stability of the country, especially during the reign of the crown of viral infection in the world. This factor has suspended the development of Ukraine's financial infrastructure and exacerbated the problems associated with the functioning of financial markets.

The financial market is designed to constantly serve commodity markets and services markets, ensuring commodity-money relations in many aspects of their manifestation. [1, p. 8]. Therefore, the financial market is a sphere of specific economic relations, in the process of which the demand and supply for financial resources are formed and with the help of financial intermediaries their purchase – sale is carried out [2, p. 252–253].

The essence of the financial market was considered by a large number of foreign and domestic scientists from different points of view (Table 1).

Therefore, from the given options for defining the concept of «financial market», we can conclude that the

financial infrastructure is a very important mechanism of the financial market, without which it is impossible to imagine its existence.

Scholars Borisova I.S. and Krasnikova O.M. interpret the concept of «financial system» as «a set of different types of funds of financial resources, concentrated at the disposal of the state, economic entities, individual financial institutions and the population to perform their functions, and also to meet economic and social needs» [7, p. 35]. The localization of migration and free capital transformation operations is the main indicator of determining the level of development of the financial system in countries with developed economies. Nevertheless, the availability of a developed institutional infrastructure is the key to successful implementation of the functional purpose of the financial system and financial market, because the system of financial intermediation, which is a subsystem of the financial market affects the transformation of savings into investment and participates in the organization of capital accumulation.

All components of the financial market are closely interconnected. The financial market achieves the greatest efficiency if all its components are involved: the money market and the foreign exchange market, the credit market, the securities market and the financial services market [2, pp. 252–253].

According to A.I Shchetinin, the money market is the part of the financial market where short-term credit operations are carried out. Almost all financial market instruments are presented here, but mostly it is money (cash, non-cash, foreign currency) [8].

Table 1 – The essence of the concept of “financial market”

Scientist	The essence of the concept
Komarinsky J., Yaremchuk I. [3, p. 19]	The financial market is a market of loan capital, or a system of economic relations that ensures the accumulation of free money, their transformation into loan capital and its redistribution among the participants in the process of reproduction.
Blank I.O. [3, p. 19]	The financial market is a market in which the object of purchase and sale are various financial instruments and services.
Borisova I.S., Krasnikova O.M. [2, p. 198]	The financial market is a mechanism for the redistribution of capital between creditors and borrowers through intermediaries based on supply and demand.
Khodakivska P. and Belyaev V.V. [3, p. 19]	The financial market is a self-regulating system of markets where the supply and demand of various financial assets and services related to the acquisition of assets is concentrated; it is a sphere of economic relations between market participants in the process of formation and realization of demand and supply of financial assets.
Smolyanska O.Y. [3, p. 19]	Financial market – a mechanism for accumulation and redistribution of financial resources of the country; organized or informal system of trading in financial instruments, the main role in which is played by financial institutions that direct cash flows from owners to borrowers.
Tatarin N.B., Chop T.I. [4]	The financial market is a mechanism of redistribution of financial resources between business entities, the state and the population, between participants in the budget process, some international financial institutions.
Mikhailchynets G.T. [5, p. 28–34]	The financial market is a set of coordinated, complementary and regulated processes and mechanisms of creation, accumulation, transformation and movement of cash flows between all actors of the world economic space, as well as determines their properties for the transformation of economic processes in globalization.
Androsova O.F.	The financial market is a powerful segment of the financial infrastructure that concentrates financial resources and buys and sells them, relying on credit and financial institutions, taking into account the demand for supply.
Mnyuchin S.T., Phillips K.S. [6, p. 220]	The financial market is a financial system covering a wide variety of institutions and services (depository system covering banks, credit unions, savings associations; capital market; non-bank financial institutions, financial technologies and financial innovations).

In the money market is the formation of the price of short-term financial resources. In this market there are operations due to which the National Bank has an influence on the cost of such resources. This is important to ensure the effective functioning of the monetary transmission mechanism.

The influence of the NBU plays an important role in regulating the functional state of the money market. To do this, he pursues a monetary policy. Its instruments are required reserves, repo transactions, purchase and sale of government securities, swap transactions. The discount rate acts as the main key instrument of monetary policy. The NBU constantly carries out operations at the discount rate. In turn, they have a significant impact on the formation of the value of funds in the interbank market. This makes it possible to keep market rates close to the discount rate, thus fulfilling the operational goal of the National Bank of Ukraine. Figure 1 shows the monetary operations of the NBU with banks.

In November and December 2020, the discount rate was 5.0%, credit overnight – 6.0%, DS overnight – 7.0%. In early 2021, the figures did not change, but in early March there was an increase in annual interest rates by 0.5 units, so as of March-April the discount rate was 5.5%, credit overnight – 6.5%, DS overnight – 7.5%. And already on April 17 the interest rate increased by 1.0%. So, from the middle of April the discount rate was 6.5%, credit overnight – 7.5%, DS overnight – 8.5%. This level of interest rates lasted until the end of July. And as of July 23, the indicators increased by 0.5%: the discount rate was 7.0%, credit overnight – 8.0%, DS overnight – 9.0%. In September-October, there was an increase again and the discount rate was 7.5%, credit overnight – 8.5%, DS overnight – 9.5%. Therefore, analyzing the chart, we can conclude that for the period from 2020 to early 2021, the level of interest rates remained unchanged, and at the beginning of March 2021 there was a steady increase. As a result, in the autumn of 2021, interest rates increased by 2.5% compared to 2020.

The cost of loans provided by the NBU to commercial banks depends on the level of the discount rate. It determines the interest rate at which commercial banks receive money from the central bank. And this, of course, affects the interest rate at which commercial banks provide loans to citizens and businesses. The lower it is, the cheaper refinancing loans and bank loans for borrowers are for banks [9] In our case, the NBU increased the discount rate by 2.5%, which means an increase in interest rates on deposits and loans. And the availability of loans for citizens and businesses depends on the cost of loans.

Currently in the corporate sector, the recipients of new bank loans are solvent companies. Hryvnia loans are issued to companies that have not had solvency problems since the beginning of the crisis and their profits are growing by more than 25% year on year. There is also an increase in the level of consumer lending. Due to the decrease in the number of supervised entities in the non-banking financial services markets and the improvement of the Natskomfinposlug regulatory environment over the past two years, the following key development indicators have been growing: [10]

- 1) factoring (+ 184.8%);
- 2) loans (+ 88.6%);
- 3) assets (+ 22.7%);
- 4) the cost of leasing agreements (+ 126%);
- 5) insurance payments (+ 40.4%).

However, the role of lending in supporting economic growth is insignificant. An important prerequisite for accelerating Ukraine’s economic growth is the revitalization of credit financial institutions.

In recent years, there has been an active use of measures to strengthen the protection of creditors’ rights, namely:

1. Strengthening the protection of creditors’ rights in civil relations.
2. Amendments to the tax legislation regarding the exemption from taxation of banks and individuals-borrowers for restructuring operations and forgiveness of foreign currency loans.

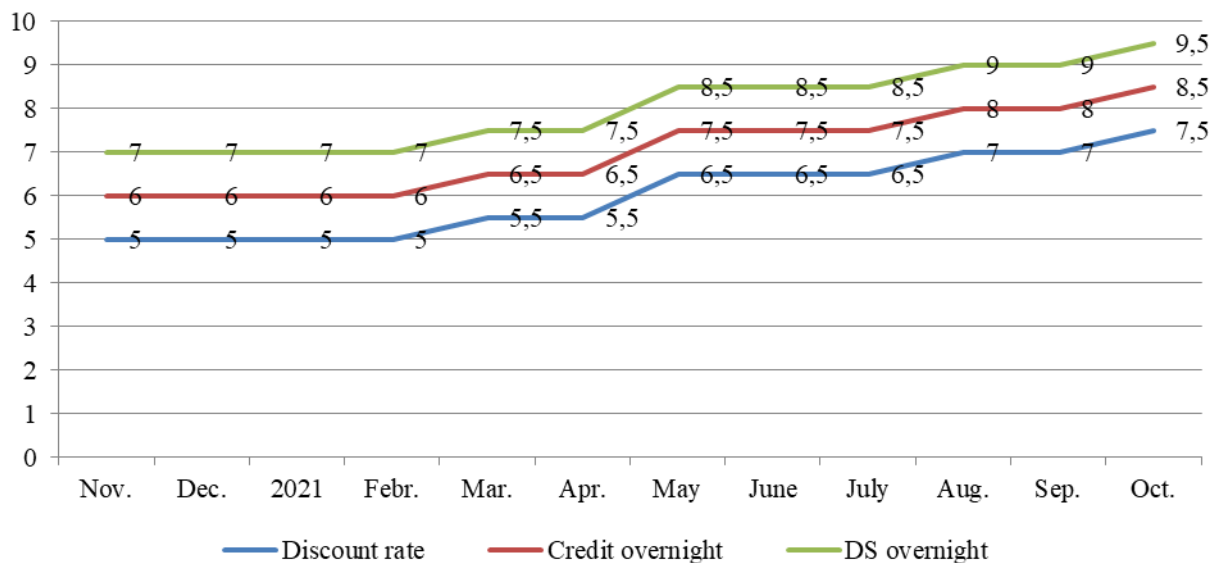


Fig. 1 – NBU monetary transactions with banks: interest rates as of 2020–2021

3. Creating a mechanism for voluntary financial restructuring of corporate debt at the legislative level.

4. Introduction of the institution of bankruptcy of individuals, establishment of the mechanism and conditions of restructuring of debts of individuals on loans in foreign currency.

But first and foremost, we believe that the institution of enforcement needs to be further strengthened. In addition, at the legislative and institutional levels, the creditor's protection in relations with debtors is not fully ensured, and the complication of the recovery process is influenced by such factors as: ambiguity and inefficiency of law enforcement. about half of the total is occupied by the share of NPL in the banking system of Ukraine.

Therefore, the credit market has certain disadvantages such as: rising interest rates on loans and deposits for individuals and small and medium-sized businesses, which makes them less accessible to the public. To overcome the shortcomings that slow down the development of the money market and contribute to its development in the future, the NBU has set strategic goals to be achieved by 2025, to improve the credit market can be called the following goals.

5. Reduce the amount of non-performing loans in the banking system. Today, as a percentage of total credit, they are 52.9%. By 2025, it is planned to reduce them to 10% of total loans.

6. Currently, the volume of net bank loans to GDP (businesses and individuals) is 16.5%, in 2025 it is planned to increase their volume to 22%.

7. As of 2021, the penetration of SME lending is 1.4% of GDP, in 2025 it is planned to increase to 3% of GDP.

8. Currently, the penetration rate of non-bank lending is less than 1.9% of GDP, and in 2025 it is planned to increase them by 3% of GDP.

9. Currently, the level of effective lending using instruments of trade and structural financing is less than 3% of the assets of the banking system, and in 2025 it is planned to increase their share by at least 10% of the assets of the banking system.

10. At present, the ratio of cash (M0) to GDP is 12.01%. In 2025, the goal is to reduce the ratio of cash (M0) to GDP and not more than 7.5%.

The next segment of the financial market – the capital market – attracts a lot of attention.

According to the Financial and Economic Dictionary, the capital market is the part of the financial market where demand and supply for medium-term and long-term borrowed capital are formed [11].

According to Article 4 of the Law of Ukraine «On Capital Markets and Organized Commodity Markets», the money market is a set of money market participants and legal relations between them that arise during transactions on money market instruments and currency values [12].

A significant share of the capital market in Ukraine remains underdeveloped. Therefore, to improve the situation on the capital market, the NBU plans to launch the institution of a nominal holder. However, to ensure the further economic development of the country, it is necessary to consolidate, modernize and expand the capabilities of

clearing, exchange and settlement infrastructure of capital markets in accordance with the requirements of European acts and international standards. In order to ensure the improvement of capital market infrastructure, the Concept of Capital Market Infrastructure Reform in Ukraine was formed and approved in Ukraine in accordance with international standards with the support of the EBRD. As part of the implementation of the concept, work began on the development of a target model for reforming the settlement, depository and clearing infrastructure of capital markets [10].

According to the «Financial and Economic Dictionary», the foreign exchange market is a market that serves domestic and international payment turnover by exchanging one currency for another in the form of purchase and sale [11]. The foreign exchange market of Ukraine carries out transactions for the purchase and sale of non-cash and cash foreign currency, as well as bank metals. Participants in the foreign exchange market of Ukraine are banks and non-banking institutions, bank customers, as well as the National Bank. The regulator conducts operations in the foreign exchange market in order to smooth out excessive fluctuations and the accumulation of international reserves. The National Bank calculates the official exchange rate of hryvnia to foreign currencies and the exchange rate of bank metals [13].

Characteristic of the modern foreign exchange market is the presence of a wide range of regulatory institutions, which include: relevant government agencies; system of international financial organizations, groups and agreements operating on an interstate basis, as well as the system of currency risk insurance. However, in modern conditions, the role of the state in currency regulation is growing, but government regulation should not mimic market self-regulators. It only needs to be adjusted and supplemented accordingly [14].

In figure 2 analyzes the level of purchasing power of the national currency of Ukraine in comparison with the US dollar and the euro.

So, you can see that at the end of 2020 the US dollar was at UAH 33. for \$1. At the beginning of 2021, the dollar rose, its value reached 34 hryvnias. per unit. However, after the jump there was a decrease at the level of 32–33 UAH. per dollar during the period from February to July. In the autumn of September-October, the dollar fell sharply. As of October 25, the dollar exchange rate remains at UAH 30. for a dollar. From the end of 2020 to May 2021, there are fluctuations in the euro at the level of 28 and 27 UAH. per unit. And since June, the euro exchange rate has fallen slightly and fluctuates between 27 and 26 hryvnias. per unit. In autumn, the euro exchange rate finally settled at UAH 26. Therefore, analyzing the level of the euro and the US dollar, we can conclude that from the period to 2020–2021 there was a decline in foreign currency and the strengthening of the national currency of Ukraine.

To resolve the situation in the foreign exchange market, the NBU intends to introduce a new system of currency regulation by 2025. It aims to simplify cross-border transactions with currency values and expand the list of available currency transactions. The ultimate goal of this

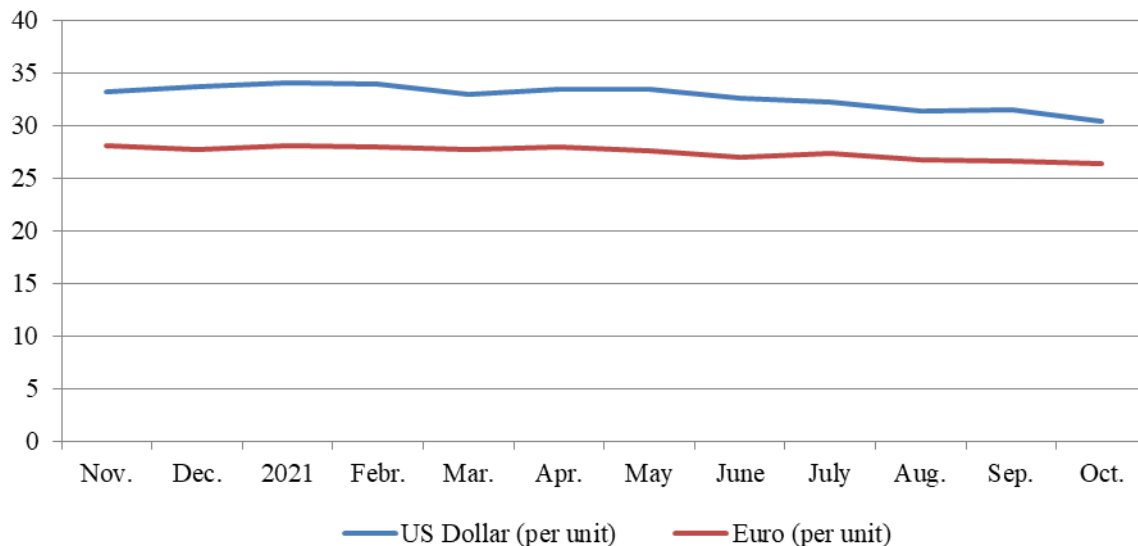


Fig. 2 – Official exchange rate of hryvnia against foreign currencies 2020–2021

innovation will be to remove all existing restrictions and make the transition to a regime of free movement of capital. The result is a decrease in the share of dollarization of loans and deposits of the banking system and borrowings in foreign currency [10].

In general, the strategic goals for overcoming the shortcomings and improving the functioning of the foreign exchange market are as follows. Firstly, the reduction of the percentage of net loans from the total volume of loans on a net basis, today their share – 41.4%, in 2025 it is planned – no more than 30%. Secondly, a decrease in the share of foreign currency deposits in total deposits. Currently, they account for 41.7% of total deposits, planned in 2025 – no more than 30%. Thirdly, to establish the level of the share of public debt in the national currency not less than 50%, as of today its share – 36.64%. Fourth, the NBU plans to fully implement the points of the roadmap related to currency liberalization. To date, only the roadmap for the liberalization of currency regulation has been approved.

### Conclusion

Therefore, from the above material, it can be noted that the constant stimulation of the development of the structure of the financial market is an important factor for further expansion of the infrastructure of the Ukrainian market. In turn, each of its sectors (credit market, foreign exchange market, securities market and financial services market) is able to attract financial resources, various methodological and organizational principles of operation in the implementation of modernization and regulation of their activities. Strategic goals are indicators of the development of the country's economic system.

Therefore, the «Strategy for the Development of Ukraine until 2025» should focus on the development of the financial market in general and its sectors (credit market, foreign exchange market, securities market and financial services market) for economic growth of Ukraine's economy in the future.

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