

In May 2019, survey participants¹ mostly described the current state of the financial sector as satisfactory or good. Although most respondents said the state of the financial sector had improved over the last six months, their expectations for the next six months were less optimistic than in November last year. The top managers of the financial institutions believed that total risk level in the financial sector was above average, while the sector's resilience to high-impact adverse events was somewhat below average. Some financial institutions reported an increase in their risk appetite.

Respondents continued to cite corruption and the performance of the law enforcement agencies and the judicial system as the main sources of risk. Political and social conditions in Ukraine and the state of cooperation with international financial institutions were most often referred to as very high risk factors. Some survey participants specified that cooperation with the IMF would be of critical importance.

Respondents reported better assessments of the current state of the financial sector compared to the previous survey, as their balance of responses² turned positive (+4%). Two thirds of respondents described the state of the sector as satisfactory, and 21% said it was good.

Most respondents said that the state of the financial sector had improved over the last six months, with only 4% reporting a deterioration. The balance of responses was the highest in the record.

That said, respondents mainly had a neutral outlook for the financial sector's prospects over the next six months. Most top managers expected no changes.

Despite there being high assessments of the current state of the financial sector, 36% of the surveyed financial institutions said that the total risk level was high. Assessments deteriorated, as the balance of responses moved down compared to the previous survey, to (-18%).

The assessment of the financial sector's resilience to high-impact adverse events also deteriorated compared to the previous survey. A total of 39% of respondents described the financial sector's resilience as low or very low (19% in November), 54% referred to it as average, while 7% said it was high.

For three reports running, respondents have cited corruption and the performance of the law enforcement agencies and the judicial system as the main sources of risk. Some 86% of respondents believed these factors to be a source of high or

very high risk. The top five sources of risk also included political and social conditions in Ukraine, the state of cooperation with international financial institutions, the current protection of creditor and investor rights, and fraud and cyber threats. These factors were named the top five sources of risk in all of the three survey rounds.

A majority of respondents in this survey cited political conditions and the state of cooperation with international financial institutions as sources of very high risk. The surveyed financial institutions also confirmed this in open questions, specifying that cooperation with the IMF would be critically important.

The largest increases were reported for risks arising from political and social conditions in Ukraine, and changes in the inflow of foreign capital (direct investment) into Ukraine. The risk arising from competition on the financial services market was reported to have declined most of all.

Overall, over the last six months, respondents have improved expectations for many factors, especially those related to the quality of legislation and the tax system, economic activity, current and expected inflation, and exchange rate movements and volatility. Those surveyed said that the risk of financial institutions going bankrupt remained steadily low.

The surveyed top managers reported an increase in the risk appetite of their financial institutions over the last six months. One out of five respondents reported a higher risk appetite, with the remaining respondents reporting no changes.

¹ See page 5 for information about the survey.

² Hereinafter the balance of responses is an aggregated indicator calculated as total responses to a question weighted for weights in the range from 1 to -1. For instance, 1 stands for 'significantly improved', 0.5 for 'improved', 0 for 'has not changed' and so on. The balance of responses may vary in the range of $\pm 100\%$. A positive balance of responses indicates that respondents believe an indicator has improved or a risk has diminished.

Figure 1. How respondents assess the current state of the Ukrainian financial sector

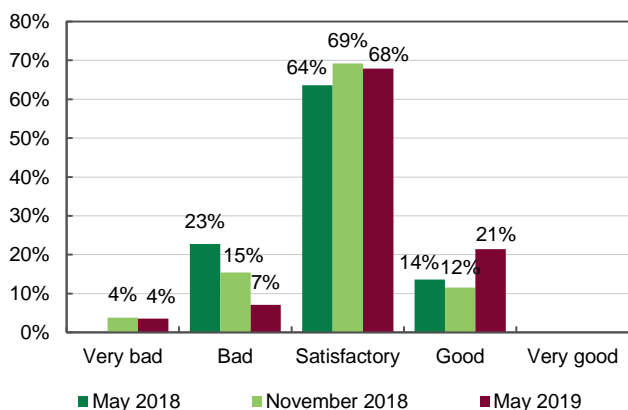


Figure 2. How respondents think the state of the Ukrainian financial sector has changed over the last six months

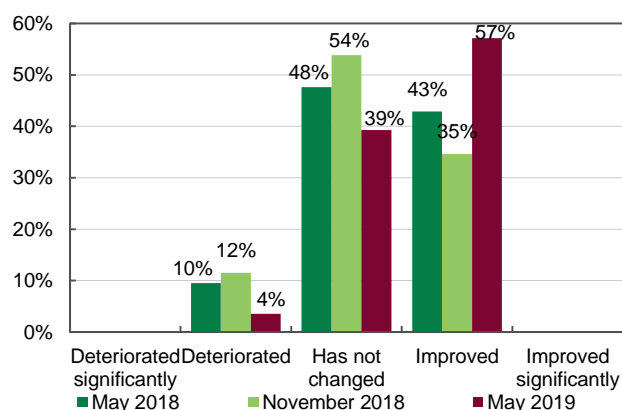


Figure 3. How respondents expect the state of the Ukrainian financial sector to change over the next six months

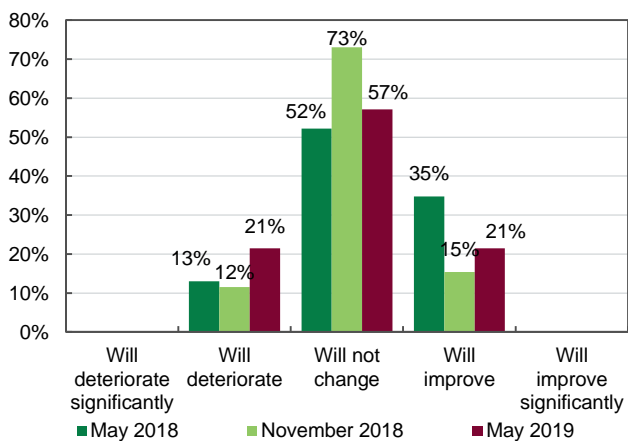


Figure 4. Perceptions of the total risk level in the Ukrainian financial sector

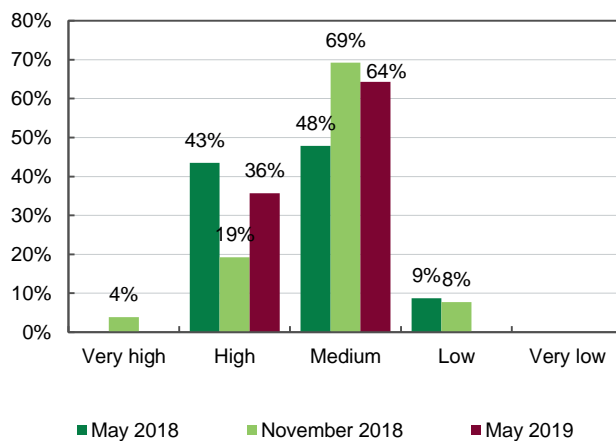


Figure 5. Perceptions of the resilience of the Ukrainian financial sector to high-impact negative events

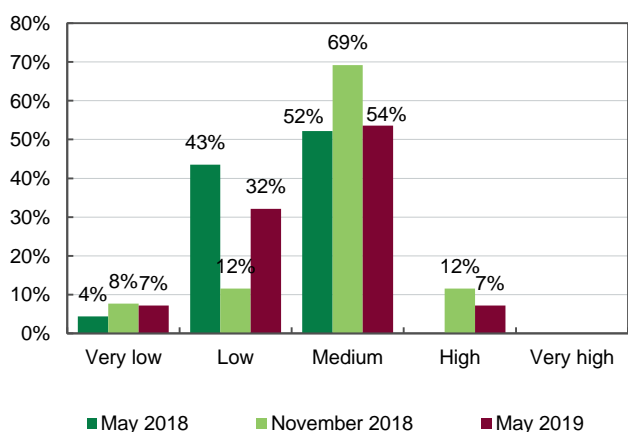


Figure 6. How respondents' risk appetite has changed over the last six months

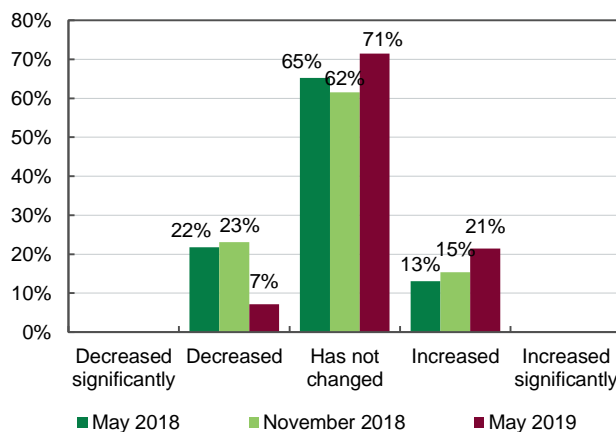
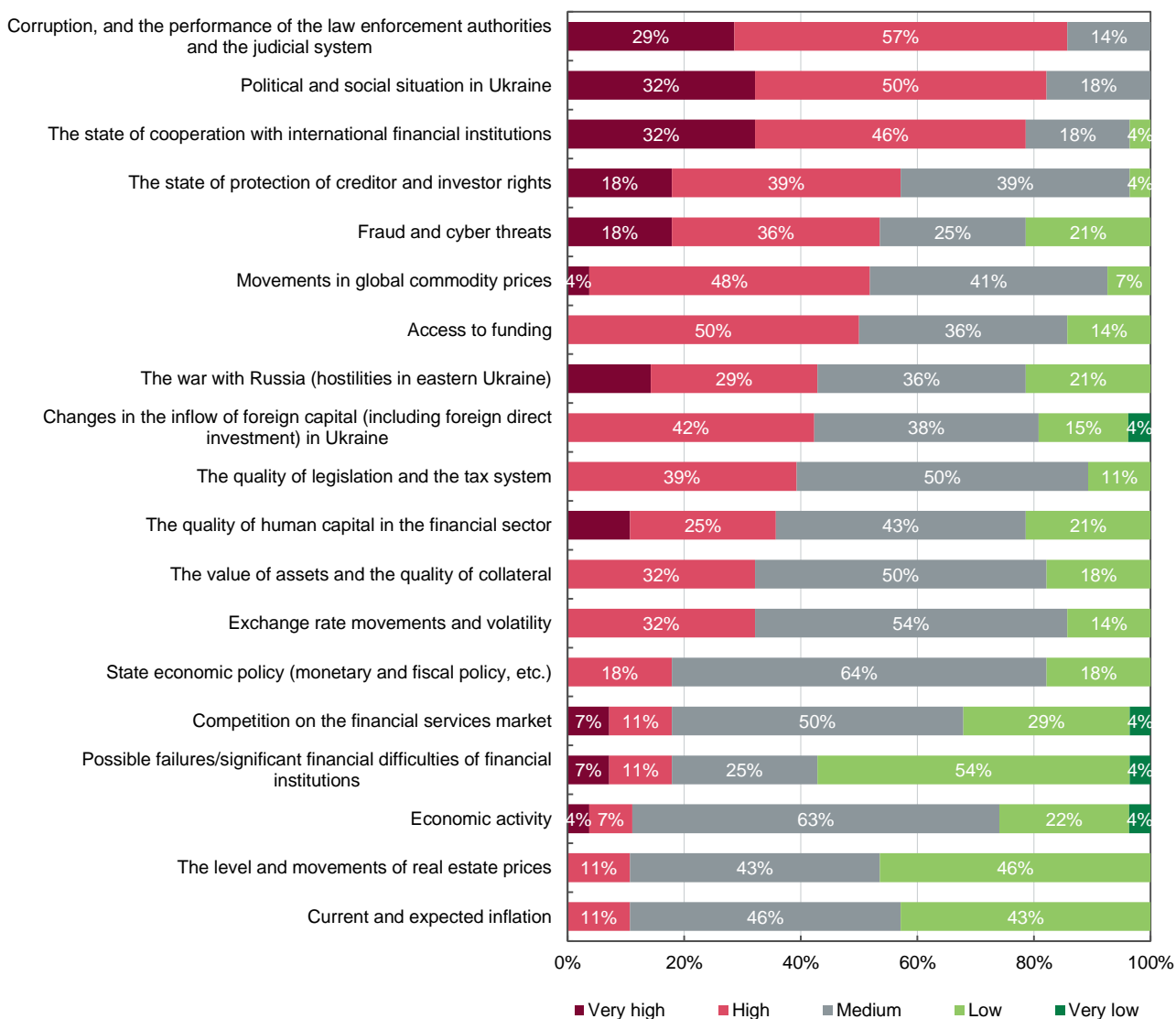


Figure 7. The risk level in the financial sector, as determined by specific factors, May 2019*



* The order in which the factors appears in this figure has been determined on the basis of “very high” and “high” responses.

Table 1. Ranks of risk factors (determined on the basis of “very high” and “high” responses)

Risk factors	Rank, May 2019	Rank, November 2018	Difference, +/-
Corruption, and the performance of the law enforcement authorities and the judicial system	1	1	0
Political and social situation in Ukraine	2	3	1
The state of cooperation with international financial institutions	3	2	-1
The state of protection of creditor and investor rights	4	3	-1
Fraud and cyber threats	5	5	0
Movements in global commodity prices	6	8	2
Access to funding	7	7	0
The war with Russia (hostilities in eastern Ukraine)	8	10	2
Changes in the inflow of foreign capital (including foreign direct investment) in Ukraine	9	12	3
The quality of legislation and the tax system	10	6	-4
The quality of human capital in the financial sector	11	14	3
Exchange rate movements and volatility	12	9	-3
The value of assets and the quality of collateral	12	12	0
State economic policy (monetary and fiscal policy, etc.)	14	15	3
Competition on the financial services market	15	11	-4
Possible failures/significant financial difficulties of financial institutions	15	18	3
Economic activity	17	16	-1
Current and expected inflation	18	17	-1
The level and movements of real estate prices	18	19	1

Annex: Survey findings

	Balance of responses, %			Answer options, May 2019, %					N
	May 2018	November 2018	May 2019						
1. What is your perception of state of the Ukrainian financial sector today?				Very bad	Bad	Satisfactory	Good	Very good	
	-5%	-6%	4%	4%	7%	68%	21%	0%	28
2. How do you think the state of the Ukrainian financial sector has changed over the last six months?				Deteriorated significantly	Deteriorated	Has not changed	Improved	Improved significantly	
	17%	12%	27%	0%	4%	39%	57%	0%	28
3. How do you think the state of the financial sector will change over the next six months?				Will deteriorate significantly	Will deteriorate	Will not change	Will improve	Will improve significantly	
	11%	2%	0%	0%	21%	57%	21%	0%	27
4. What is your perception of the total risk level in the financial sector?				Very high	High	Medium	Low	Very low	
	-17%	-10%	-18%	0%	36%	64%	0%	0%	28
5. What is your assessment of the financial sector's resilience to high-impact negative events?				Very low	Low	Medium	High	Very high	
	-26%	-8%	-20%	7%	32%	54%	7%	0%	28
6. What are your perceptions of the financial sector's risks stemming from the following factors				Very high	High	Medium	Low	Very low	
6.1. Political and social situation in Ukraine									
	-46%	-37%	-57%	32%	50%	18%	0%	0%	28
6.2. The war with Russia (hostilities in eastern Ukraine)									
	-15%	-17%	-18%	14%	29%	36%	21%	0%	28
6.3. Corruption, and the performance of the law enforcement authorities and the judicial system									
	-54%	-52%	-57%	29%	57%	14%	0%	0%	28
6.4. The quality of legislation and the tax system									
	-20%	-29%	-14%	0%	39%	50%	11%	0%	28
6.5. The state of protection of creditor and investor rights									
	-33%	-42%	-36%	18%	39%	39%	4%	0%	28
6.6. Economic activity									
	7%	-8%	7%	4%	7%	63%	22%	4%	27
6.7. Current and expected inflation									
	-4%	-4%	16%	0%	11%	46%	43%	0%	28
6.8. State economic policy (monetary and fiscal policy, etc.)									
	2%	-6%	0%	0%	18%	64%	18%	0%	28
6.9. Exchange rate movements and volatility									
	-20%	-20%	-9%	0%	32%	54%	14%	0%	28
6.10. Changes in the inflow of foreign capital (including foreign direct investment) in Ukraine									
	4%	2%	-10%	0%	42%	38%	15%	4%	26
6.11. Movements in global commodity prices									
	-15%	-27%	-24%	4%	48%	41%	7%	0%	27
6.12. The state of cooperation with international financial institutions									
	-35%	-44%	-54%	32%	46%	18%	4%	0%	28
6.13. Possible failures/significant financial difficulties of financial institutions									
	11%	25%	18%	7%	11%	25%	54%	4%	28
6.14. Competition on the financial services market									
	13%	-10%	5%	7%	11%	50%	29%	4%	28
6.15. Access to funding									
	9%	-21%	-18%	0%	50%	36%	14%	0%	28
6.16. The quality of human capital in the financial sector									
	-4%	-10%	-13%	11%	25%	43%	21%	0%	28
6.17. The value of assets and the quality of collateral									
	-13%	0%	-7%	0%	32%	50%	18%	0%	28
6.18. The level and movements of real estate prices									
	17%	17%	18%	0%	11%	43%	46%	0%	28
6.19. Fraud and cyber threats									
	-37%	-37%	-25%	18%	36%	25%	21%	0%	28
7. How has the risk appetite of your institution changed over the last six months?				Decreased significantly	Decreased	Has not changed	Increased	Increased significantly	
	4%	4%	-7%	0%	7%	71%	21%	0%	28

Information about the survey

In May 2018, the NBU introduced a survey of the financial sector's systemic risks. Twice a year, top managers from the largest Ukrainian banks and non-bank financial institutions respond to the questions of this survey of financial sector risks. Central banks use such surveys to monitor perception of such risks by market participants, and to respond to them in a timely manner.

This report shows how top managers of financial institutions assessed the state of the financial sector over the past six months, and what they expect for the following six months. This survey was carried out from 13 May through 27 May 2019. Executives from 20 banks, 4 insurance companies, and 4 investment firms took part in this survey. The survey did not cover financial institutions under sanctions. Final results were calculated by giving equal weight to each survey response, regardless of the size of the bank/company, or its market share.

The results are based on the respondents' opinions and do not necessarily reflect the NBU's views.

This survey and additional information about the survey are available on the NBU's website at:

https://bank.gov.ua/control/en/publish/category?cat_id=71662930

The next report will be published in November 2019.