

In this year's survey, respondents¹ significantly improved their assessment of the Ukrainian financial sector's current standing. The balance of responses² came in at a positive 22%, the highest since May 2018, when the surveys began. One in three respondents noted improvements in the financial sector over the past six months. Most of the polled financial institutions said that they did not expect negative changes in the next six months, while one-third of respondents said that the financial sector's performance would continue to improve. Assessments of overall risk have also improved over the past half a year, although they have stood above average. Respondents also said that the financial sector had become somewhat more resilient to high-impact adverse events. At the same time, the risk appetite of financial institutions has not changed, most respondents said.

In May 2021, the heads of financial institutions once again named the general level of corruption and the activities of law enforcement authorities and the judiciary as the main risk. However, they said that this risk had subsided. In contrast, respondents pointed to the rapidly increasing risk of Russia escalating its aggression in the east of Ukraine. This is the second consecutive survey to highlight threats to cooperation with international financial institutions as a major risk. Threats to the country's political and social situation weakened markedly, while economic risks eased compared to a year ago, when they were dominant, CEOs of financial institutions said. But they also complained that inflation risks were now significantly higher. For the second time running, respondents said that access to funding was associated with the least risk.

In May 2021, top managers at Ukraine's largest banks and nonbank financial institutions significantly improved their estimates of the financial sector's current standing. The balance of responses (+22%) came in at its highest since polling began in May 2018. Almost half of respondents rated the financial sector's current standing as good, while only 6% of executives said it was below satisfactory.

Respondents' assessments of the sector's performance improved markedly, with the share of positive assessments at three times the level of six months ago. The percentage of respondents who noticed a worsening of performance shrank to one-fifth of its previous level. Accordingly, the balance of responses moved into positive territory (+11%), up from -21% half a year earlier.

The current poll captured an optimistic view of the financial sector's prospects for the next six months. The balance of responses became positive, almost reaching the pre-crisis level of November 2019.

This is the second time running that there has been a decline in the share of respondents estimating the overall level of financial sector risk as high or very high. Despite the general improvement in risk assessments for this component, they were still above average.

Over the past six months, the share of respondents believing that the financial sector's resilience to high-impact adverse events is high or very high has surged from 9% to 20%.

The current survey has shown that corruption and the performance of law enforcement and the judiciary remain the main threats to the financial sector. A positive aspect is that the share of respondents who said that this risk factor was high or very high is the lowest since May 2018.

Over the past six months, the assessment of the risk that the military conflict with Russia may escalate has increased significantly. This is the first time that this risk has been cited among the top five risks since these polls began. Fraud, cyber-attacks, and inadequate protection of creditors' and investors' rights re-emerged in the latest survey as major threats. Risks to cooperation with IFIs also remained in the top five. Risks of going bankrupt or running into significant financial problems intensified, according to nonbank financial institutions.

The improved projections, primarily related to economic risks, reflect the Ukrainian economy's gradual recovery. The risks decreased the most in the following categories: "public economic policy," "asset value and quality of collateral," "exchange rate dynamics and volatility." Threats to the country's political and socioeconomic conditions also eased, as did risks of competition in the financial services market. Respondents rated the risks of losing access to funding as the lowest.

Overall, the risk appetite of Ukraine's financial institutions has remained almost unchanged over the past six months.

¹ For information on the survey, see p 5.

² Hereinafter, the balances of responses are aggregate indicators calculated as the sum of the quantities of each response to a question, which are assigned weights ranging from -1 to 1. Specifically, 1 stands for "significantly improved", 0.5 for "improved", 0 for "unchanged", and so on. A balance of responses can have a value in the range of $\pm 100\%$. A positive balance of responses means that, overall, respondents believe that the indicator has improved or the risk has eased.

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

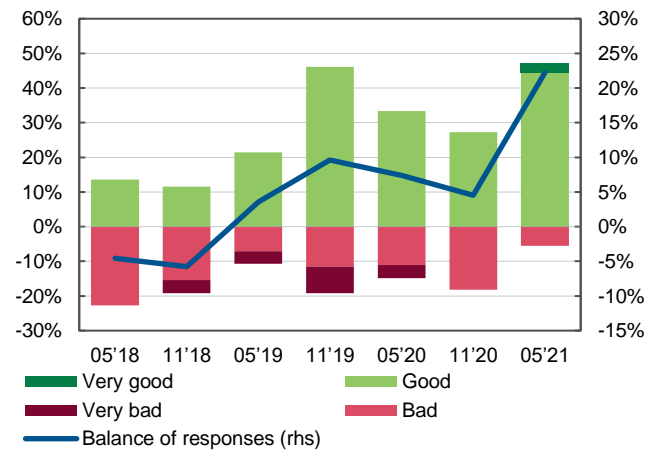


Figure 2. How respondents think the state of the Ukrainian financial sector has changed over the last six months

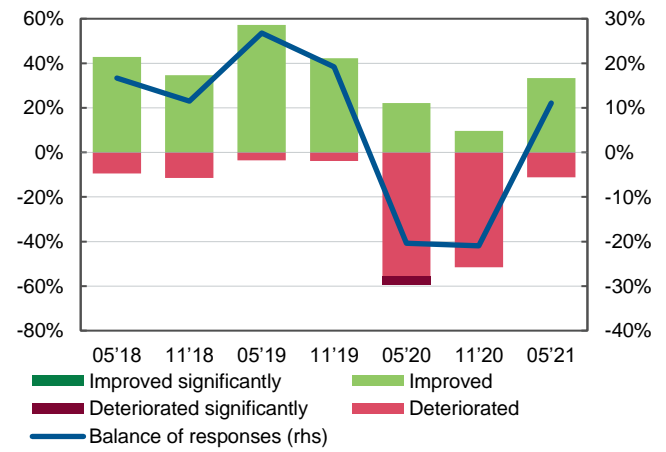


Figure 3. How respondents expect the state of the Ukrainian financial sector to change over the next six months

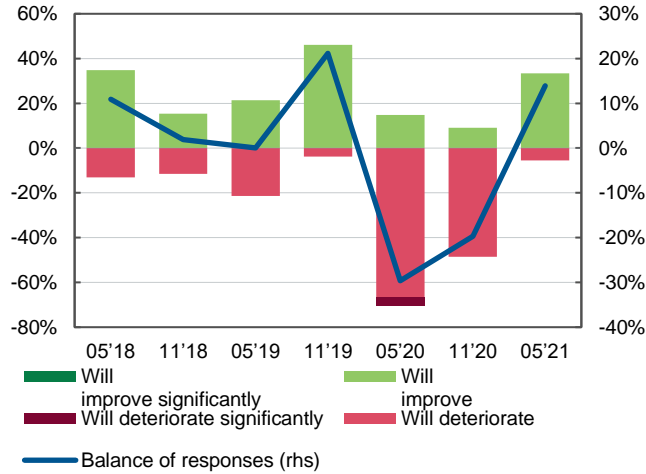


Figure 4. Perceptions of the total risk level in the Ukrainian financial sector

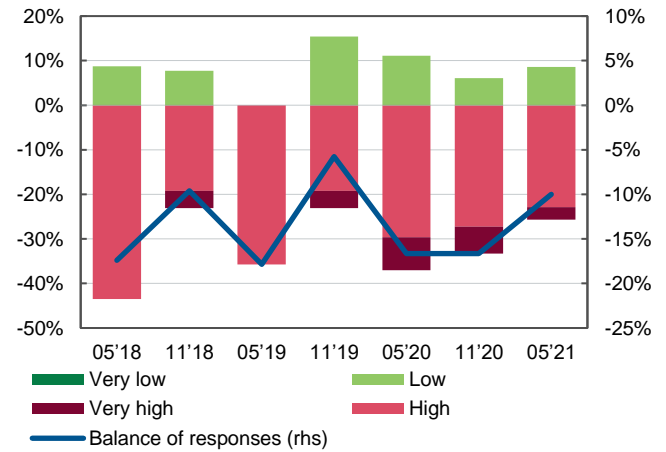


Figure 5. Perceptions of the resilience of the Ukrainian financial sector to high-impact negative events

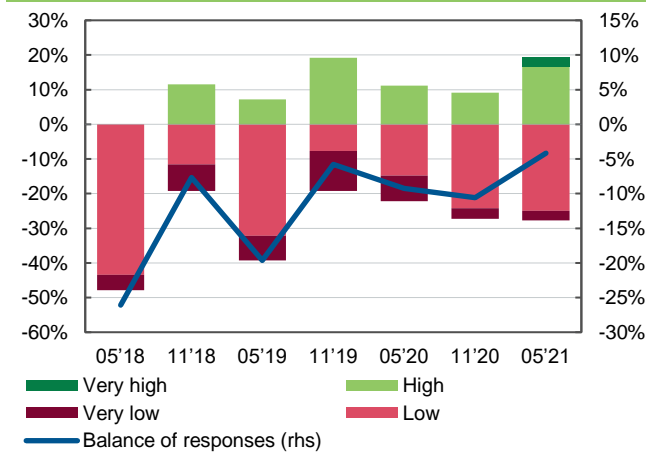


Figure 6. How respondents' risk appetite has changed over the last six months

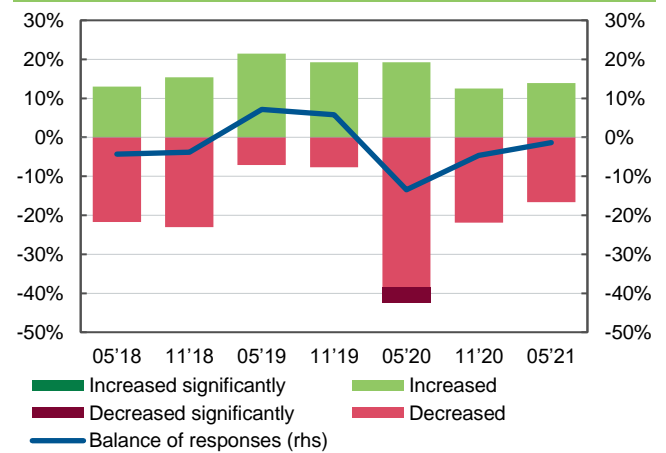
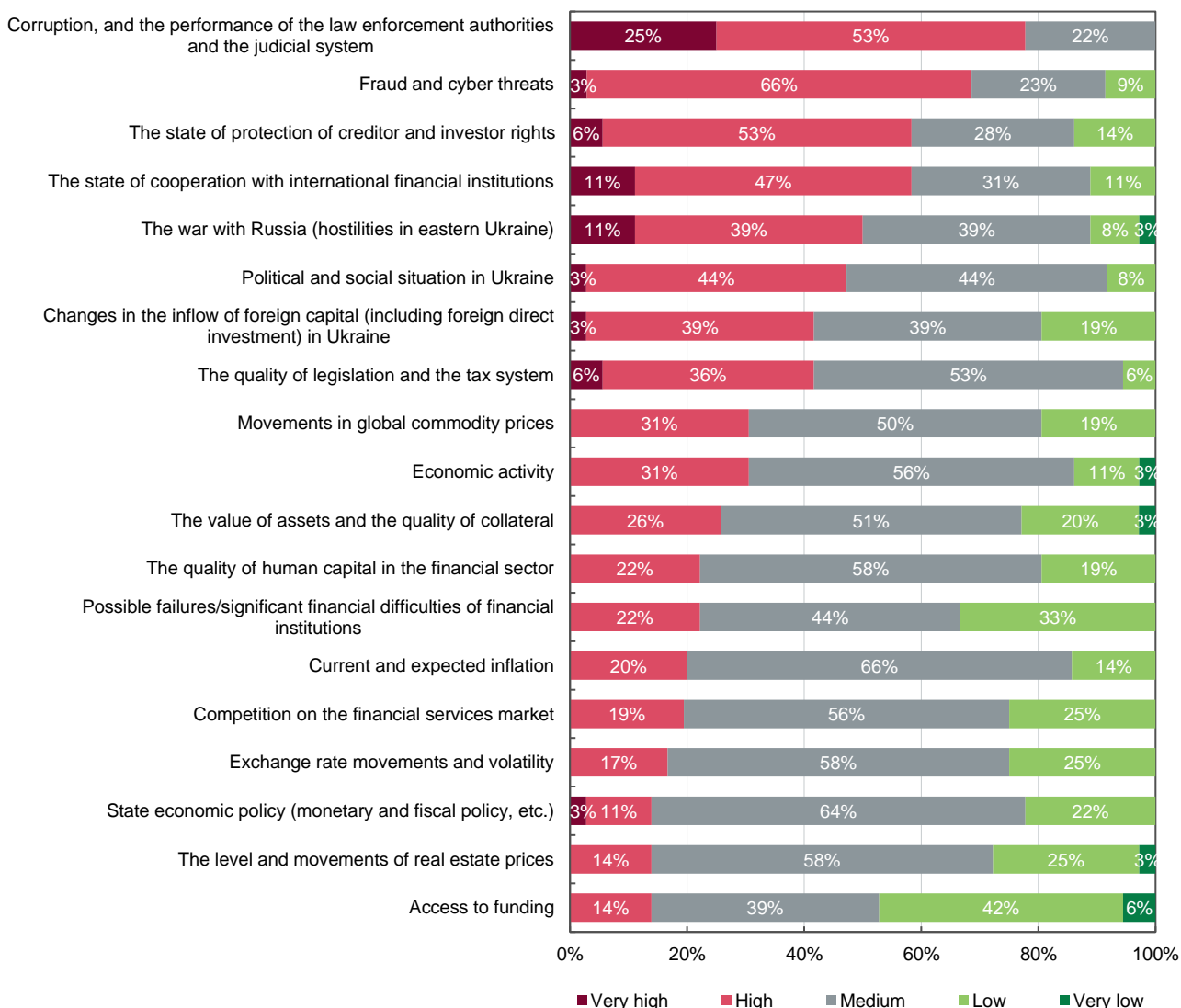


Figure 7. The risk level in the financial sector, as determined by specific factors, May 2021*



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

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

Risk factors	Rank, May 2021	Rank, November 2020	Difference, +/-
Corruption, and the performance of the law enforcement authorities and the judicial system	1	1	0
Fraud and cyber threats	2	4	2
The state of protection of creditor and investor rights	3	5	2
The state of cooperation with international financial institutions	4	3	-1
The war with Russia (hostilities in eastern Ukraine)	5	10	5
Political and social situation in Ukraine	6	2	-4
Changes in the inflow of foreign capital (including foreign direct investment) in Ukraine	7	6	-1
The quality of legislation and the tax system	8	9	1
Movements in global commodity prices	9	11	2
Economic activity	9	7	-2
The value of assets and the quality of collateral	11	7	-4
The quality of human capital in the financial sector	12	15	3
Possible failures/significant financial difficulties of financial institutions	12	18	6
Current and expected inflation	14	17	3
Competition on the financial services market	15	12	-3
Exchange rate movements and volatility	16	13	-3
State economic policy (monetary and fiscal policy, etc.)	17	13	-4
The level and movements of real estate prices	17	16	-1
Access to funding	17	19	2

Annex. Survey findings

	Balance of responses						Answer options, May 2021					N	
	05'18	11'18	05'19	11'19	05'20	11'20	05'21						
1. What is your perception of state of the Ukrainian financial sector today?								Very bad	Bad	Satisfactory	Good	Very good	
	-5%	-6%	4%	10%	7%	5%	22%	0%	6%	47%	44%	3%	36
2. How do you think the state of the Ukrainian financial sector has changed over the last six months?								Deteriorated significantly	Deteriorated as not changed	Improved	Improved significantly		
	17%	12%	27%	19%	-20%	-21%	11%	0%	11%	56%	33%	0%	36
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%	21%	-30%	-20%	14%	0%	6%	61%	33%	0%	36
4. What is your perception of the total risk level in the financial sector?								Very high	High	Medium	Low	Very low	
	-17%	-10%	-18%	-6%	-17%	-17%	-10%	3%	23%	66%	9%	0%	35
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%	-6%	-9%	-11%	-4%	3%	25%	53%	17%	3%	36
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%	-29%	-35%	-44%	-21%	3%	44%	44%	8%	0%	36
6.2. The war with Russia (hostilities in eastern Ukraine)	-15%	-17%	-18%	-12%	0%	-8%	-24%	11%	39%	39%	8%	3%	36
6.3. Corruption, and the performance of the law enforcement authorities and the judicial system	-54%	-52%	-57%	-58%	-57%	-65%	-51%	25%	53%	22%	0%	0%	36
6.4. The quality of legislation and the tax system	-20%	-29%	-14%	-23%	-15%	-17%	-21%	6%	36%	53%	6%	0%	36
6.5. The state of protection of creditor and investor rights	-33%	-42%	-36%	-31%	-22%	-26%	-25%	6%	53%	28%	14%	0%	36
6.6. Economic activity	7%	-8%	7%	4%	-30%	-12%	-7%	0%	31%	56%	11%	3%	36
6.7. Current and expected inflation	-4%	-4%	16%	31%	17%	17%	-3%	0%	20%	66%	14%	0%	35
6.8. State economic policy (monetary and fiscal policy, etc.)	2%	-6%	0%	2%	-6%	-5%	3%	3%	11%	64%	22%	0%	36
6.9. Exchange rate movements and volatility	-20%	-20%	-9%	6%	-6%	-2%	4%	0%	17%	58%	25%	0%	36
6.10. Changes in the inflow of foreign capital (including foreign direct investment) in Ukraine	4%	2%	-10%	2%	-19%	-12%	-13%	3%	39%	39%	19%	0%	36
6.11. Movements in global commodity prices	-15%	-27%	-24%	-13%	-30%	-6%	-6%	0%	31%	50%	19%	0%	36
6.12. The state of cooperation with international financial institutions	-35%	-44%	-54%	-21%	-22%	-41%	-29%	11%	47%	31%	11%	0%	36
6.13. Possible failures/significant financial difficulties of financial institutions	11%	25%	18%	20%	13%	8%	6%	0%	22%	44%	33%	0%	36
6.14. Competition on the financial services market	13%	-10%	5%	-4%	2%	-3%	3%	0%	19%	56%	25%	0%	36
6.15. Access to funding	9%	-21%	-18%	10%	6%	21%	19%	0%	14%	39%	42%	6%	36
6.16. The quality of human capital in the financial sector	-4%	-10%	-13%	-2%	-4%	9%	-1%	0%	22%	58%	19%	0%	36
6.17. The value of assets and the quality of collateral	-13%	0%	-7%	-12%	-9%	-9%	0%	0%	26%	51%	20%	3%	35
6.18. The level and movements of real estate prices	17%	17%	18%	15%	4%	12%	8%	0%	14%	58%	25%	3%	36
6.19. Fraud and cyber threats	-37%	-37%	-25%	-35%	-33%	-27%	-31%	3%	66%	23%	9%	0%	35
7. How has the risk appetite of your institution changed over the last six months?								Decreased significantly	Decreased as not changed	Increased	Increased significantly		
	-4%	-4%	7%	6%	-13%	-5%	-1%	0%	17%	69%	14%	0%	36

Survey Information

In May 2018, the National Bank of Ukraine introduced a survey of the financial sector's systemic risks. This survey of financial sector risks is completed twice a year by executives from the largest banks and nonbank financial institutions of Ukraine. Central banks use such surveys to monitor how market participants perceive such risks, so as to be able to respond in good time.

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. The survey was conducted from 12 through 25 May 2021. Executives from 22 banks, 12 insurance companies, and two investment firms took part in this survey. Financial institutions against which sanctions have been imposed were not surveyed. Summary 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 presented are based on the respondents' opinions and do not necessarily reflect the views of the National Bank of Ukraine.

The next report will be published in November 2021.