

Russia's large-scale attack on Ukraine has led to a significant deterioration in survey participants' assessments of the current state of Ukraine's financial sector¹. Financial sector conditions have worsened markedly over the past six months, respondents said. The majority of respondents said they expected an aggravation of negative trends over the next six months, whereas only one in ten expected an improvement. Assessments of the overall level of risk were at an all-time high. Nevertheless, respondents noted that the sector's resilience to high-impact adverse events had not changed, remaining at a medium level. At the same time, the risk appetite of financial institutions has greatly diminished.

In the survey, top managers of financial institutions named the war against Russia as the main source of risk. The overall level of corruption, the performance of law enforcement authorities, and the judiciary, which had been overall leaders since the survey was launched, were not even among the top ten major risk factors. In May, inflation, exchange rate dynamics, changes in inflows of foreign capital (investment), asset value, and collateral quality added to the major sources of risk. Fraud and cyber attacks remained among the major threats. Economic activity risks and risks of financial institutions' bankruptcy increased the most. The risks stemming from quarantine restrictions and climate change were assessed as the least important.

The leadership of Ukraine's largest banks and nonbank financial institutions significantly downgraded their estimates of the condition of the financial sector in May 2022. As expected, this survey showed the lowest balance of responses² since 2018, when these polls began. Although more than half of respondents rated the financial sector's current standing as satisfactory, almost a third saw it as bad or very bad.

As many as 88% of respondents reported a deterioration in financial sector conditions. The balance of responses was more than two times worse than before the onset of the coronavirus crisis. This trend will continue in the next six months: 83% of financial institutions expected a deterioration, and only 9% of respondents were optimistic in their assessments. The balance of responses was the lowest over the surveyed period.

Under such conditions, it was natural that the absolute majority of respondents estimated the overall level of financial sector risk as high or very high. Only 6% of respondents said it was moderate. The balance of responses was the lowest since the survey was launched.

Despite the high level of risk and the gloomy outlook, the percentage of respondents who said that the financial sector's resilience to high-impact adverse events was high or

very high rose by 2 pp in May, reaching 26%. Almost half of all financial institutions assessed the financial sector's resilience as at a medium level. The overall assessment remained almost unchanged compared to the end of 2021.

The war brought major shifts to the lineup of the main risks to the financial sector. Respondents were unanimous that the war against Russia was the main source of risk. Corruption, the activities of law enforcement bodies, and the judiciary, which had been absolute leaders in all previous survey rounds, were not even among the top ten major risk factors.

In May, respondents mainly referred to macroeconomic factors as being the main sources of risk: inflation, exchange rate, changes in inflows of foreign capital (investment), asset value, and collateral quality. These were rated much higher than in the previous survey. Fraud and cyber attacks also remained among the major threats. The risk related to quarantine anti-epidemic measures, which took the eighth spot six months ago, along with the climate change risks, were assessed in May as the least important.

The overall rise in risks is making Ukrainian financial institutions more cautious: respondents noted that the risk appetite of their financial institutions had declined considerably and was the lowest since H2 2020.

¹ See page 5 for [information about the survey](#).

² Hereinafter, the balances of responses are aggregate indicators calculated as the sum of the quantities of each response to a question that 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

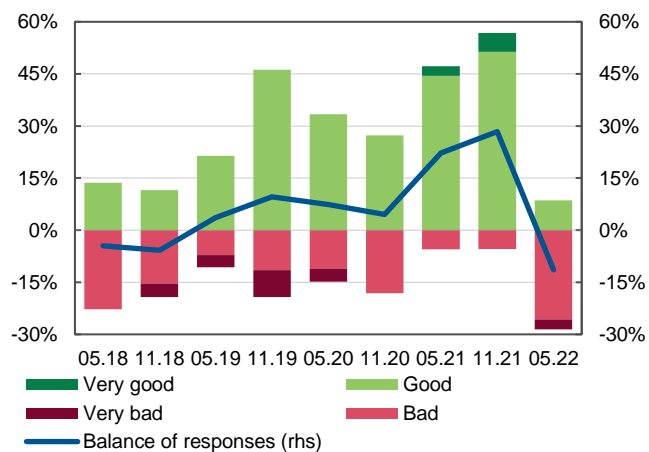


Figure 2. How respondents think the state of the Ukrainian financial sector has changed over the last six months

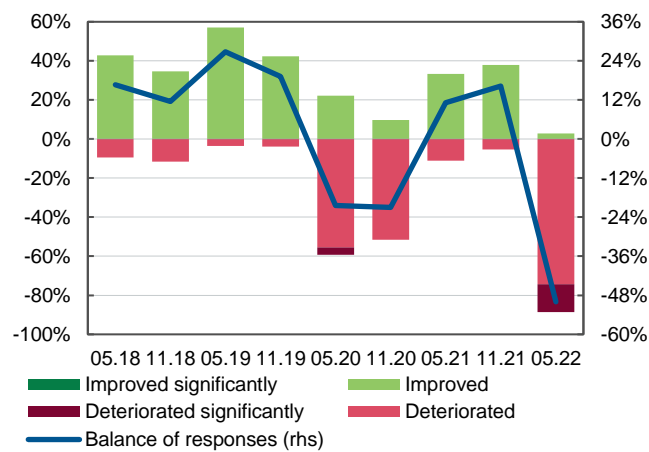


Figure 3. How respondents expect the state of the Ukrainian financial sector to change over the next six months

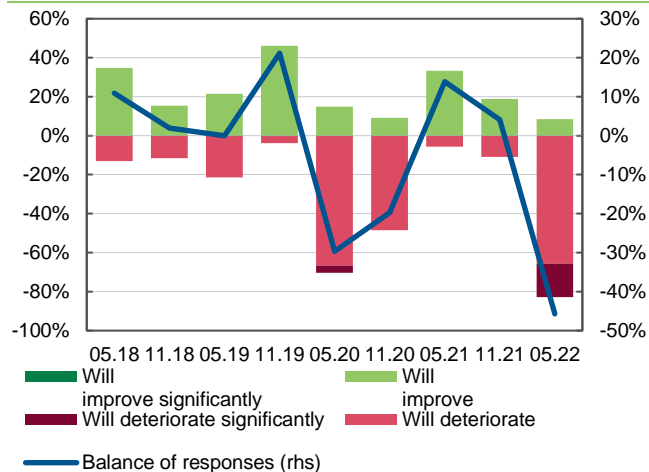


Figure 4. Perceptions of the total risk level in the Ukrainian financial sector

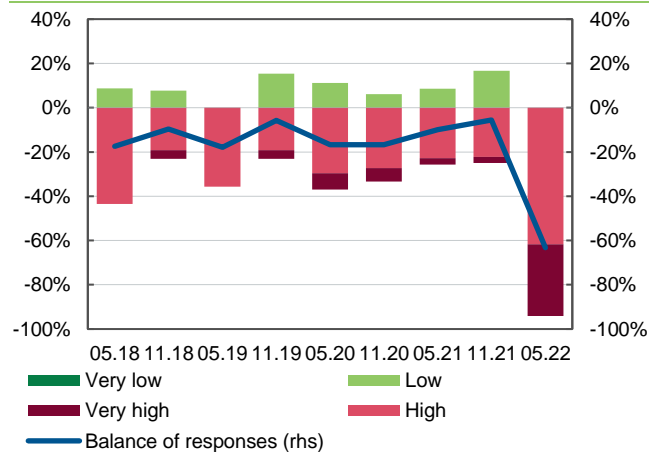


Figure 5. Perceptions of the resilience of the Ukrainian financial sector to high-impact negative events

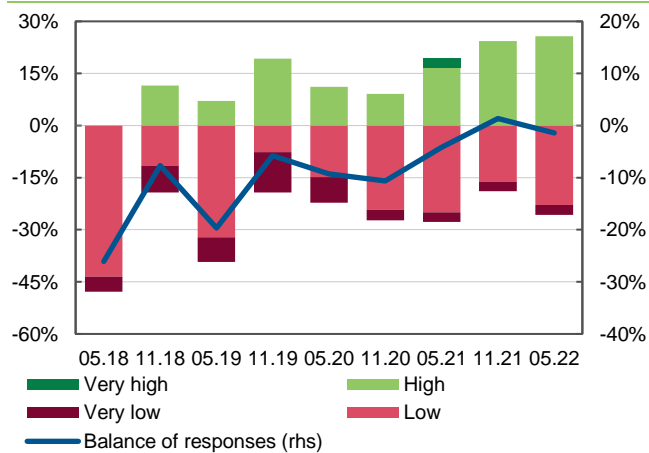
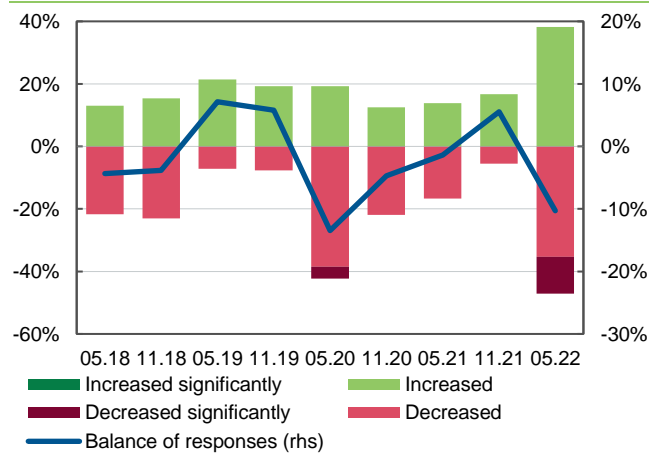
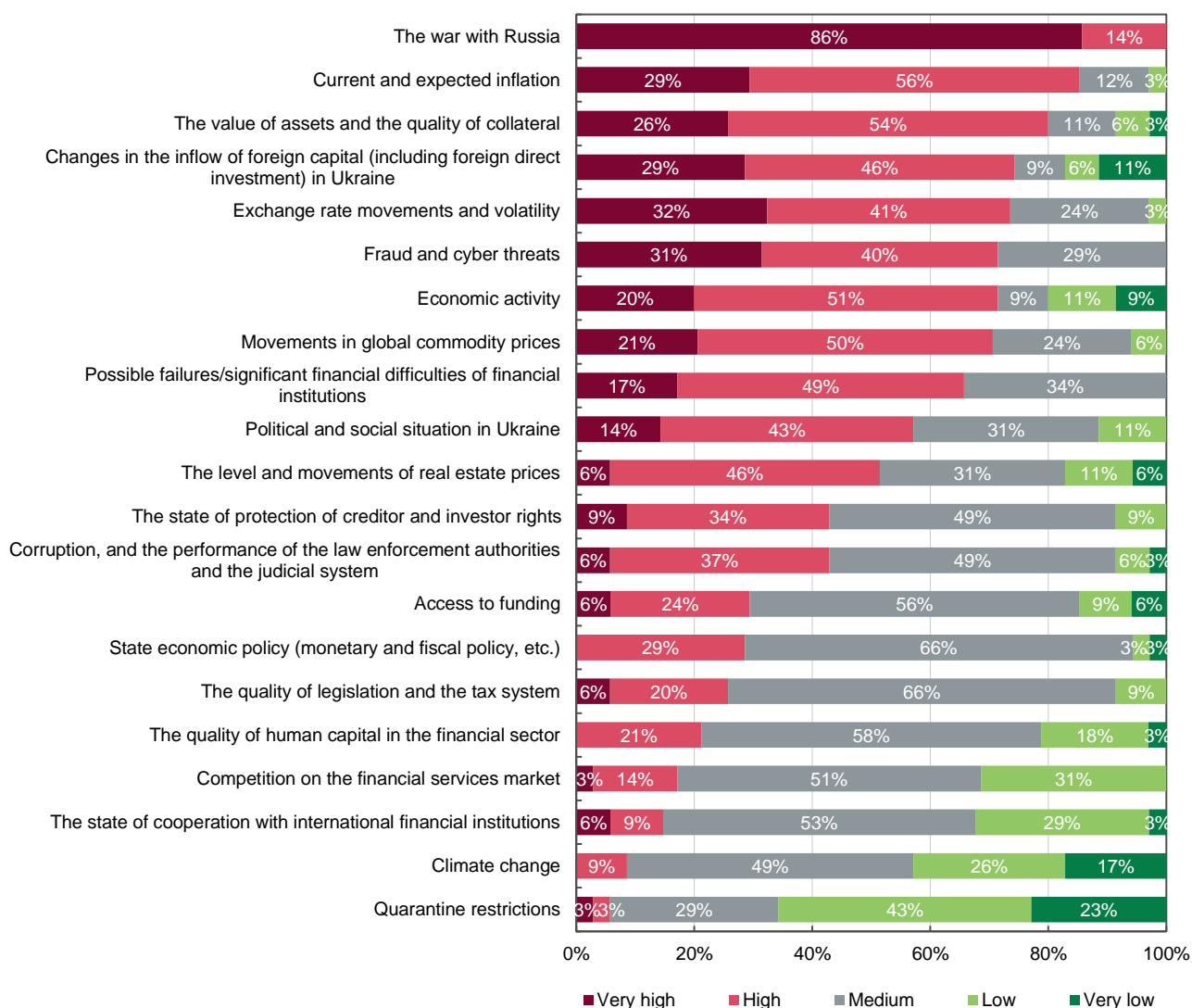


Figure 6. How respondents' risk appetite has changed over the last six months



The sum of responses may differ from 100% due to response options "has not changed" or "moderate". These responses were not reflected on graphs as they do not affect the balance of responses.

Figure 7. The risk level in the financial sector, as determined by specific factors, May 2022*



* 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 2022	Rank, November 2021	Difference, +/-
The war with Russia	1	3	2
Current and expected inflation	2	7	5
The value of assets and the quality of collateral	3	13	10
Changes in the inflow of foreign capital (including foreign direct investment) in Ukraine	4	15	11
Exchange rate movements and volatility	5	14	9
Fraud and cyber threats	6	2	-4
Economic activity	7	20	13
Movements in global commodity prices	8	5	-3
Possible failures/significant financial difficulties of financial institutions	9	17	8
Political and social situation in Ukraine	10	6	-4
The level and movements of real estate prices	11	16	5
Corruption, and the performance of the law enforcement authorities and the judicial	12	1	-11
The state of protection of creditor and investor rights	12	4	-8
Access to funding	14	19	5
State economic policy (monetary and fiscal policy, etc.)	15	21	6
The quality of legislation and the tax system	16	12	-4
The quality of human capital in the financial sector	17	9	-8
Competition on the financial services market	18	10	-8
The state of cooperation with international financial institutions	19	11	-8
Climate change	20	17	-3
Quarantine restrictions	21	8	-13

Annex. Survey findings

Balance of responses	2018		2019		2020		2021		2022
	May	November	May	November	May	November	May	November	May
1. What is your perception of state of the Ukrainian financial sector today?	-5%	-6%	4%	10%	7%	5%	22%	28%	-11%
2. How do you think the state of the Ukrainian financial sector has changed over the last six months?	17%	12%	27%	19%	-20%	-21%	11%	16%	-50%
3. How do you think the state of the financial sector will change over the next six months?	11%	2%	0%	21%	-30%	-20%	14%	4%	-46%
4. What is your perception of the total risk level in the financial sector?	-17%	-10%	-18%	-6%	-17%	-17%	-10%	-6%	-63%
5. What is your assessment of the financial sector's resilience to high-impact negative events?	-26%	-8%	-20%	-6%	-9%	-11%	-4%	1%	-1%
6. What are your perceptions of the financial sector's risks stemming from the following factors									
6.1. Political and social situation in Ukraine	-46%	-37%	-57%	-29%	-35%	-44%	-21%	-24%	-30%
6.2. The war with Russia	-15%	-17%	-18%	-12%	0%	-8%	-24%	-31%	-93%
6.3. Corruption, and the performance of the law enforcement authorities and the judicial system	-54%	-52%	-57%	-58%	-57%	-65%	-51%	-46%	-19%
6.4. The quality of legislation and the tax system	-20%	-29%	-14%	-23%	-15%	-17%	-21%	-9%	-11%
6.5. The state of protection of creditor and investor rights	-33%	-42%	-36%	-31%	-22%	-26%	-25%	-32%	-21%
6.6. Economic activity	7%	-8%	7%	4%	-30%	-12%	-7%	8%	-31%
6.7. Current and expected inflation	-4%	-4%	16%	31%	17%	17%	-3%	-15%	-56%
6.8. State economic policy (monetary and fiscal policy, etc.)	2%	-6%	0%	2%	-6%	-5%	3%	8%	-10%
6.9. Exchange rate movements and volatility	-20%	-20%	-9%	6%	-6%	-2%	4%	6%	-51%
6.10. Changes in the inflow of foreign capital (including foreign direct investment) in Ukraine	4%	2%	-10%	2%	-19%	-12%	-13%	5%	-37%
6.11. Movements in global commodity prices	-15%	-27%	-24%	-13%	-30%	-6%	-6%	-24%	-43%
6.12. The state of cooperation with international financial institutions	-35%	-44%	-54%	-21%	-22%	-41%	-29%	-5%	7%
6.13. Possible failures/significant financial difficulties of financial institutions	11%	25%	18%	20%	13%	8%	6%	14%	-41%
6.14. Competition on the financial services market	13%	-10%	5%	-4%	2%	-3%	3%	-5%	6%
6.15. Access to funding	9%	-21%	-18%	10%	6%	21%	19%	14%	-7%
6.16. The quality of human capital in the financial sector	-4%	-10%	-13%	-2%	-4%	9%	-1%	-10%	2%
6.17. The value of assets and the quality of collateral	-13%	0%	-7%	-12%	-9%	-9%	0%	0%	-47%
6.18. The level and movements of real estate prices	17%	17%	18%	15%	4%	12%	8%	6%	-17%
6.19. Fraud and cyber threats	-37%	-37%	-25%	-35%	-33%	-27%	-31%	-35%	-51%
6.20. Climate change	x	x	x	x	x	x	x	13%	26%
6.21. Quarantine restrictions	x	x	x	x	x	x	x	-15%	40%
7. How has the risk appetite of your institution changed over the last six months?	-4%	-4%	7%	6%	-13%	-5%	-1%	6%	-10%

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 2022. Executives from 22 banks, 12 insurance companies, and one investment firm took part in this survey. The Survey did not cover sanctioned financial institutions. 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 2022.