

According to the May 2023 survey, respondents¹ positively assessed the financial sector's conditions and prospects. More than half of respondents noted an improvement in the financial sector's situation over the past six months, and about one-third expect further positive changes in the next six months. Estimates of the level of overall risk remained rather high, despite having gradually declined for two surveys running. Respondents continue to highlight the sector's increased resilience to high-impact adverse events. The balance of responses reached a record level since the survey began in May 2018. As a result, the risk appetite of financial institutions increased.

According to respondents, the war with Russia remains the source of the highest risk. After a one-year break, corruption and the activities of law enforcement authorities and courts are back among the top risks. The risk of fraud and cyber threats remained in the top five. The role of exchange-rate and inflation risks has significantly declined over the past six months.

In May 2023, respondents continued to improve their assessments of the financial sector's current standing. The balance of responses² (+11%) turned positive for the first time since the full-scale war broke out. Almost one-third of respondents rated the financial sector's current standing as good, while only 9% of executives said it was below satisfactory.

Most respondents reported an improvement in the financial sector's state over the last six months. This was mentioned by 57% of respondents, up from just 3% in November 2022. And only one in nine respondents said that financial sector conditions had deteriorated. Financial market participants' expectations also improved significantly. The share of respondents expecting worse financial sector conditions in the next six months shrank to 3% from 51% in November. Almost 70% of respondents anticipate no changes in the next half a year.

Over the past six months, assessments of the general level of risk in the financial sector have noticeably improved. The percentage of respondents who regarded this risk as high or very high decreased to 58% from 83%. Other managers of financial institutions made neutral assessments (believing the overall level of risk in the financial sector to be average).

For the second straight survey, respondents improved their assessments of the financial sector's resilience to high-impact adverse events. Specifically, the share of respondents who assessed the financial sector's resilience as low or very

low has significantly decreased over the past half a year. Conversely, more than half of the financial institutions rated the sector's resilience as average. The proportion of respondents who said that the financial sector's resilience was high or very high increased again. The aggregate balance of responses came in at an all-time high since the survey was launched in May 2018.

The current survey shows that the landscape of the financial sector's main sources of risk has shifted considerably. As before, respondents believe that the major risk – the war with Russia – continues to pose the biggest threats to the system. After barely making it to the top ten risks in the previous two surveys, the factor of corruption and the activities of law enforcement agencies and the judicial system has again placed second among the leading risks. Risks of fraud and cyber threats (traditionally in the top five), and risks of the level of economic activity, the value of assets, and the quality of collateral, also made the top five. Exchange-rate and inflation factors slid from the top to the bottom of the twenty biggest risks.

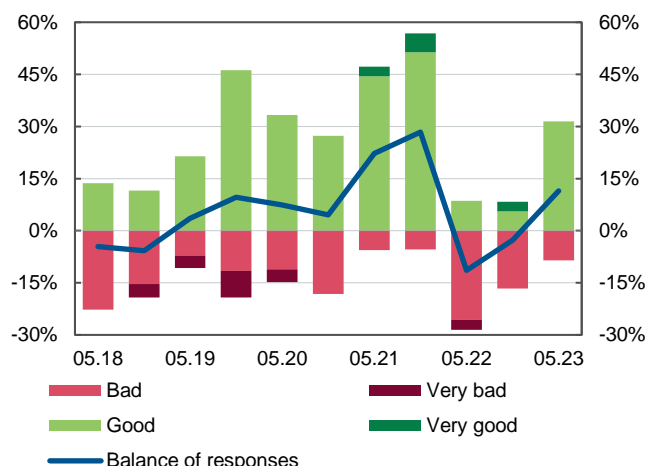
Respondents also pointed to the growth, in the last six months, in the risks of inadequate protection of creditors' and investors' rights, the quality of human capital in the financial sector, and the political and social situation in the country.

All in all, the financial institutions' appetite for risk has edged higher over the past six months. This was reported by one-third of respondents. None of them reported a reduction in risk appetite in the last six months.

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. The quantities 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



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

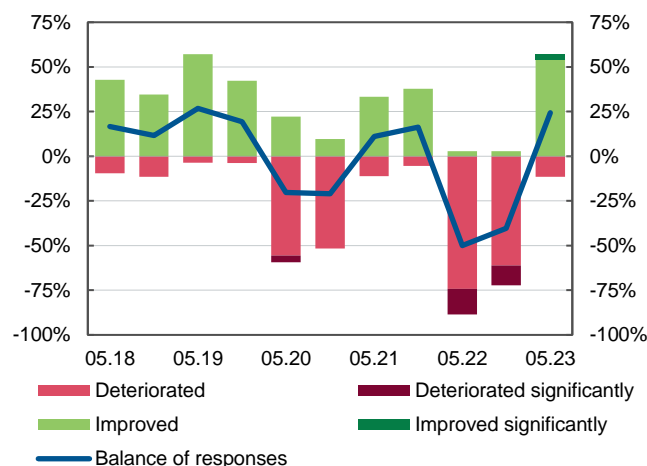


Figure 3. How respondents expect the state of the Ukrainian financial sector to change over the next six months

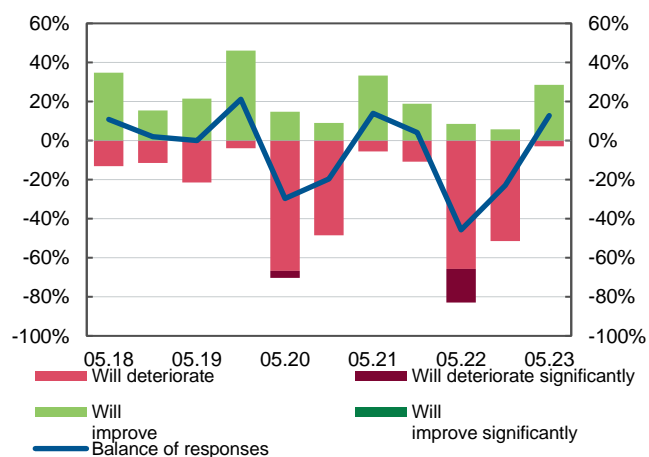
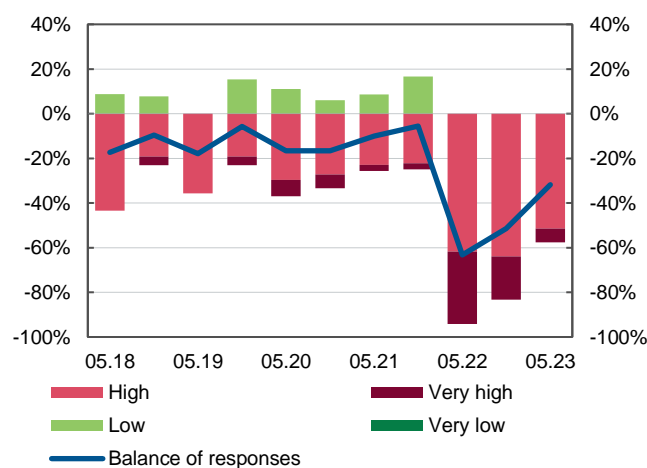


Figure 4. Perceptions of the total risk level in the Ukrainian financial sector



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

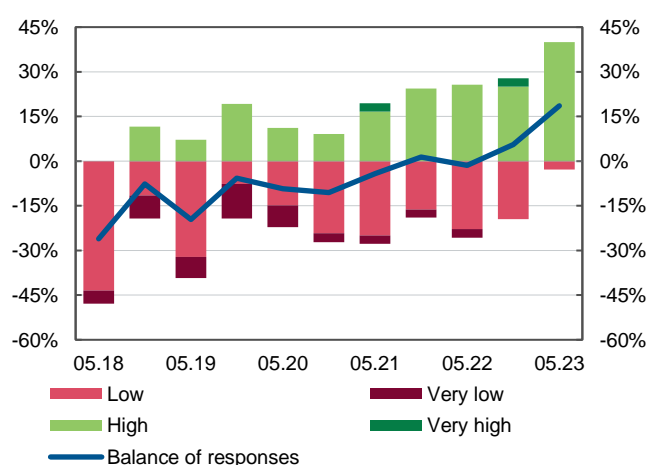
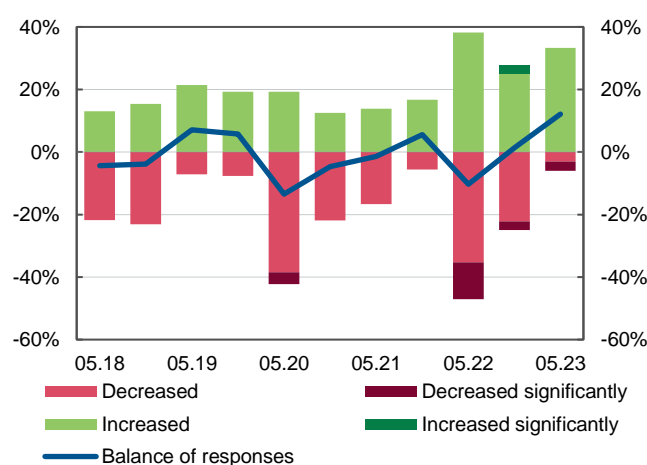
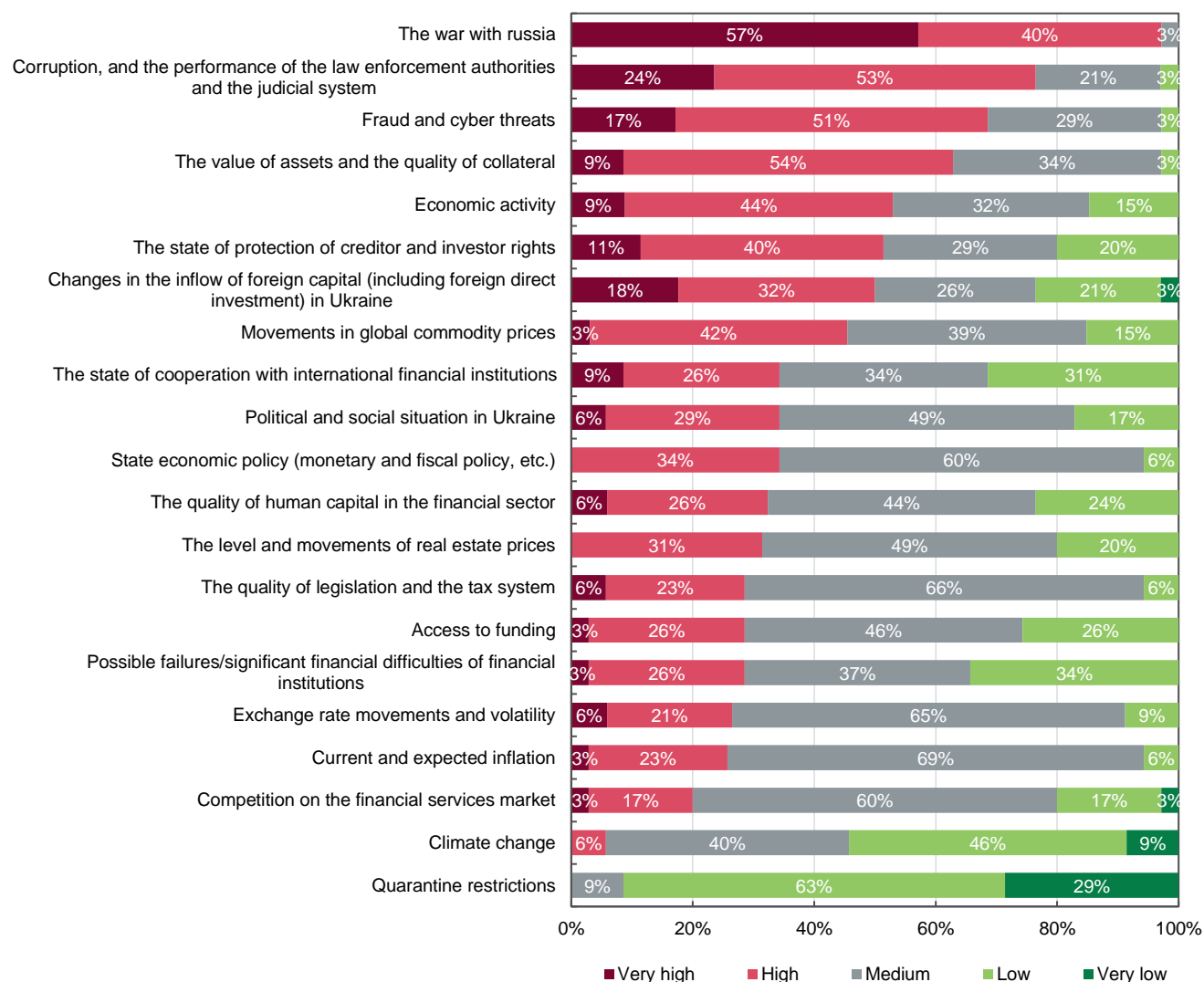


Figure 6. How respondents' risk appetite has changed over the last six months



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 2023*



* 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 2023	Rank, November 2022	Difference, +/-
The war with russia	1	1	0
Corruption, and the performance of the law enforcement authorities and the judicial	2	8	6
Fraud and cyber threats	3	4	1
The value of assets and the quality of collateral	4	6	2
Economic activity	5	3	-2
The state of protection of creditor and investor rights	6	11	5
Changes in the inflow of foreign capital (including foreign direct investment) in Ukraine	7	7	0
Movements in global commodity prices	8	9	1
Political and social situation in Ukraine	9	16	7
State economic policy (monetary and fiscal policy, etc.)	9	14	5
The state of cooperation with international financial institutions	9	13	4
The quality of human capital in the financial sector	12	18	6
The level and movements of real estate prices	13	11	-2
The quality of legislation and the tax system	14	17	3
Possible failures/significant financial difficulties of financial institutions	14	10	-4
Access to funding	14	15	1
Exchange rate movements and volatility	17	5	-12
Current and expected inflation	18	2	-16
Competition on the financial services market	19	19	0
Climate change	20	20	0
Quarantine restrictions	21	21	0

Annex. Survey findings

Balance of responses	2018		2019		2020		2021		2022		2023
	05'	11'	05'	11'	05'	11'	05'	11'	05'	11'	05'
1. What is your perception of state of the Ukrainian financial sector today?	-5%	-6%	4%	10%	7%	5%	22%	28%	-11%	-3%	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%	-40%	24%
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%	-23%	13%
4. What is your perception of the total risk level in the financial sector?	-17%	-10%	-18%	-6%	-17%	-17%	-10%	-6%	-63%	-51%	-32%
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%	19%
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%	-11%
6.2. The war with russia	-15%	-17%	-18%	-12%	0%	-8%	-24%	-31%	-93%	-89%	-77%
6.3. Corruption, and the performance of the law enforcement authorities and the judicial system	-54%	-52%	-57%	-58%	-57%	-65%	-51%	-46%	-19%	-35%	-49%
6.4. The quality of legislation and the tax system	-20%	-29%	-14%	-23%	-15%	-17%	-21%	-9%	-11%	-6%	-14%
6.5. The state of protection of creditor and investor rights	-33%	-42%	-36%	-31%	-22%	-26%	-25%	-32%	-21%	-14%	-21%
6.6. Economic activity	7%	-8%	7%	4%	-30%	-12%	-7%	8%	-31%	-38%	-24%
6.7. Current and expected inflation	-4%	-4%	16%	31%	17%	17%	-3%	-15%	-56%	-49%	-11%
6.8. State economic policy (monetary and fiscal policy, etc.)	2%	-6%	0%	2%	-6%	-5%	3%	8%	-10%	-14%	-14%
6.9. Exchange rate movements and volatility	-20%	-20%	-9%	6%	-6%	-2%	4%	6%	-51%	-41%	-12%
6.10. Changes in the inflow of foreign capital (including foreign direct investment) in Ukraine	4%	2%	-10%	2%	-19%	-12%	-13%	5%	-37%	-22%	-21%
6.11. Movements in global commodity prices	-15%	-27%	-24%	-13%	-30%	-6%	-6%	-24%	-43%	-19%	-17%
6.12. The state of cooperation with international financial institutions	-35%	-44%	-54%	-21%	-22%	-41%	-29%	-5%	7%	-16%	-6%
6.13. Possible failures/significant financial difficulties of financial institutions	11%	25%	18%	20%	13%	8%	6%	14%	-41%	-30%	1%
6.14. Competition on the financial services market	13%	-10%	5%	-4%	2%	-3%	3%	-5%	6%	10%	0%
6.15. Access to funding	9%	-21%	-18%	10%	6%	21%	19%	14%	-7%	-3%	-3%
6.16. The quality of human capital in the financial sector	-4%	-10%	-13%	-2%	-4%	9%	-1%	-10%	2%	1%	-7%
6.17. The value of assets and the quality of collateral	-13%	0%	-7%	-12%	-9%	-9%	0%	0%	-47%	-36%	-34%
6.18. The level and movements of real estate prices	17%	17%	18%	15%	4%	12%	8%	6%	-17%	-13%	-6%
6.19. Fraud and cyber threats	-37%	-37%	-25%	-35%	-33%	-27%	-31%	-35%	-51%	-40%	-41%
6.20. Climate change	x	x	x	x	x	x	x	13%	26%	26%	29%
6.21. Quarantine restrictions	x	x	x	x	x	x	x	-15%	40%	39%	60%
7. How has the risk appetite of your institution changed over the last six months?	-4%	-4%	7%	6%	-13%	-5%	-1%	6%	-10%	1%	12%

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 11 through 24 May 2023. Executives from 22 banks, ten insurance companies, and three 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 Survey will be published in November 2023.