

Respondents¹ in the November 2023 survey positively assessed the financial sector's current standing and resilience. More than half of surveyed financiers noted an improvement in the sector's performance over the past six months. Respondents once again highlighted the increase in the sector's resilience to high-impact adverse events: the balance of responses has been standing at an all-time high for 12 months now. Respondents said the overall risk level in the financial sector remains rather high, but that it has been gradually declining for the third straight survey. Financial institutions' risk appetite has increased, respondents said. Yet there is also an adverse trend: one-third of institutions' managers expect that financial system conditions will deteriorate in the next six months. For the first time in a long while, respondents said the sector's top five risks include those related to foreign capital inflows and the quality of legislation and the tax system. At the same time, respondent said the war with Russia has been the source of the highest risk since the onset of the full-scale invasion.

In November 2023, respondents improved their assessments of the financial sector's current standing for the second straight time. The balance of responses² (+26%) increased significantly from the May survey (+11%). Over half of financial institutions' managers described the sector's current condition as good or very good, while only 6% of them characterized it as bad.

Half of respondents reported that the financial sector's standing has improved over the past six months. The other half said it hasn't changed. None said the financial sector's standing has deteriorated, although in May, 10% of respondents said it had. However, expectations of institutions' managers have noticeably worsened. The share of respondents who expect financial sector conditions to deteriorate in the next six months has increased to 32%, up from 3% in May, while the number of respondents who anticipate positive changes during that period has declined.

Assessments of the general level of risk in the financial sector have been gradually improving. The percentage of respondents who regard this risk as high or very high has decreased to 50% from 58%. About half of managers of financial institutions believe the overall level of risk in the sector to be average.

For the third time running, respondents improved their assessments of the financial sector's resilience to high-

impact adverse events. More than 90% of respondents assessed the financial sector's resilience as average or higher. The aggregate balance of responses came in at one of its highest levels since the survey began in May 2018.

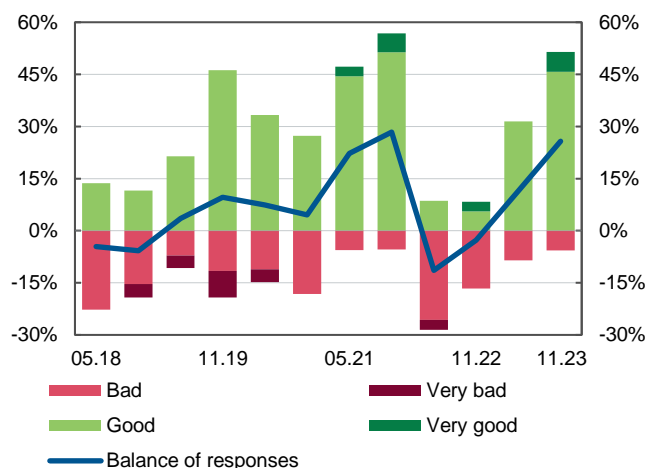
The current survey shows that the war with Russia continues to be the major source of risks in the financial sector. In addition, the risks that have made it to the top five include those of foreign capital inflows (for the first time since May 2022) and of the quality of legislation and the tax system (for the first time since November 2019). The latter risk factor has made the highest jump in the top threats rating: up nine levels from the 14th spot in May. Concerns about the quality of human capital in the financial sector have landed among the top ten risks after a long streak of staying muted. On the other hand, risks related to the level of economic activity, the value of assets, the quality of collateral, the change in global commodity prices, as well as the protection of creditor and investor rights, are playing a notably weaker role, respondents said.

Financial institutions' appetite for risk has notably risen over the past six months. This was reported by almost 40% of respondents, the largest share since the survey started. Only 6% of respondents mentioned a drop in risk appetite over the past six months.

¹ For information about the survey, see page 5.

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

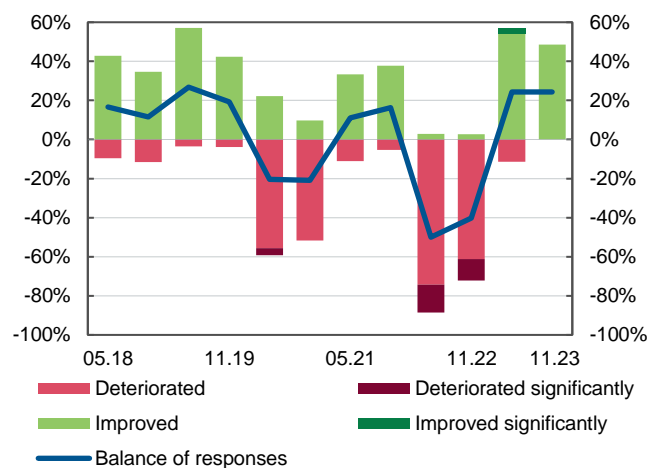


Figure 3. How respondents expect the state of the Ukrainian financial sector to change over the next six months

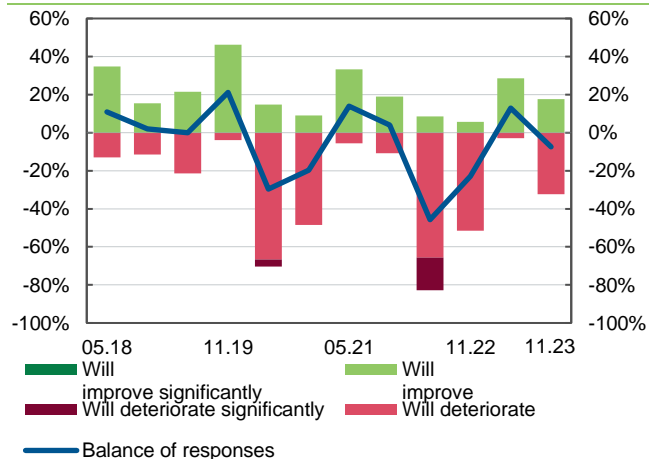
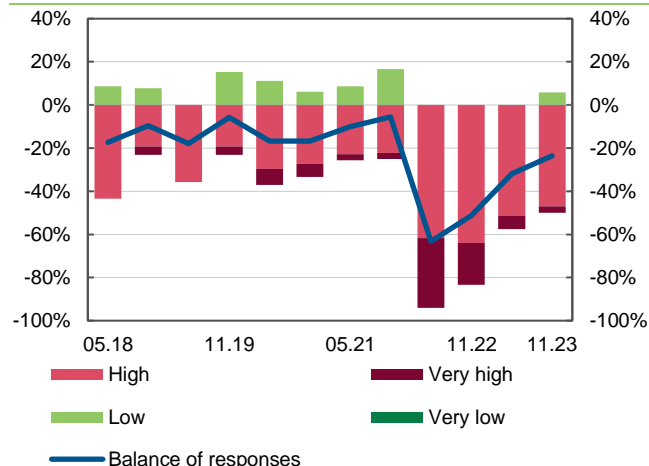


Figure 4. Perceptions of the total risk level in the Ukrainian financial sector



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

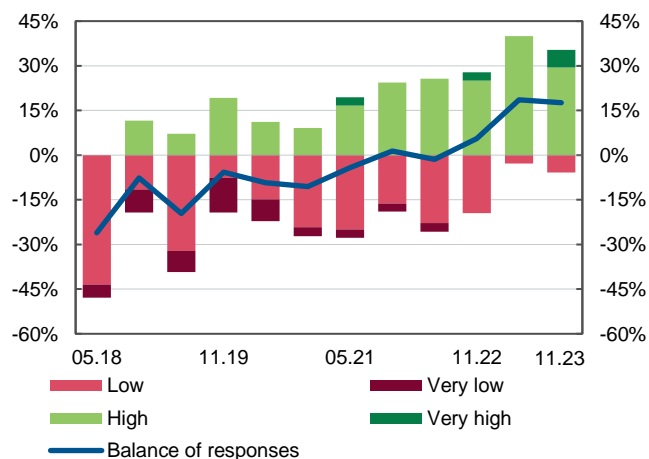
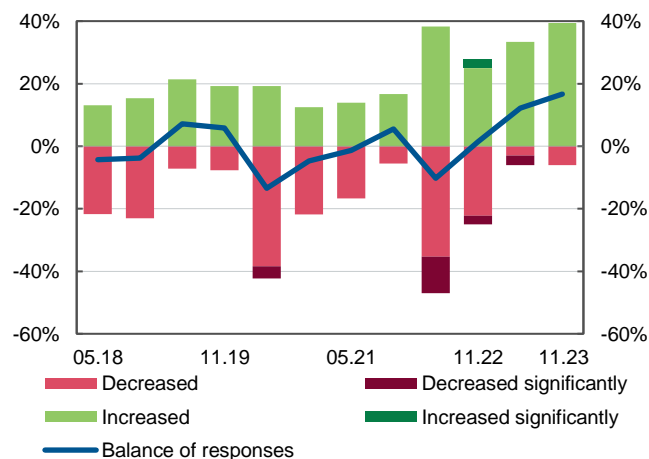
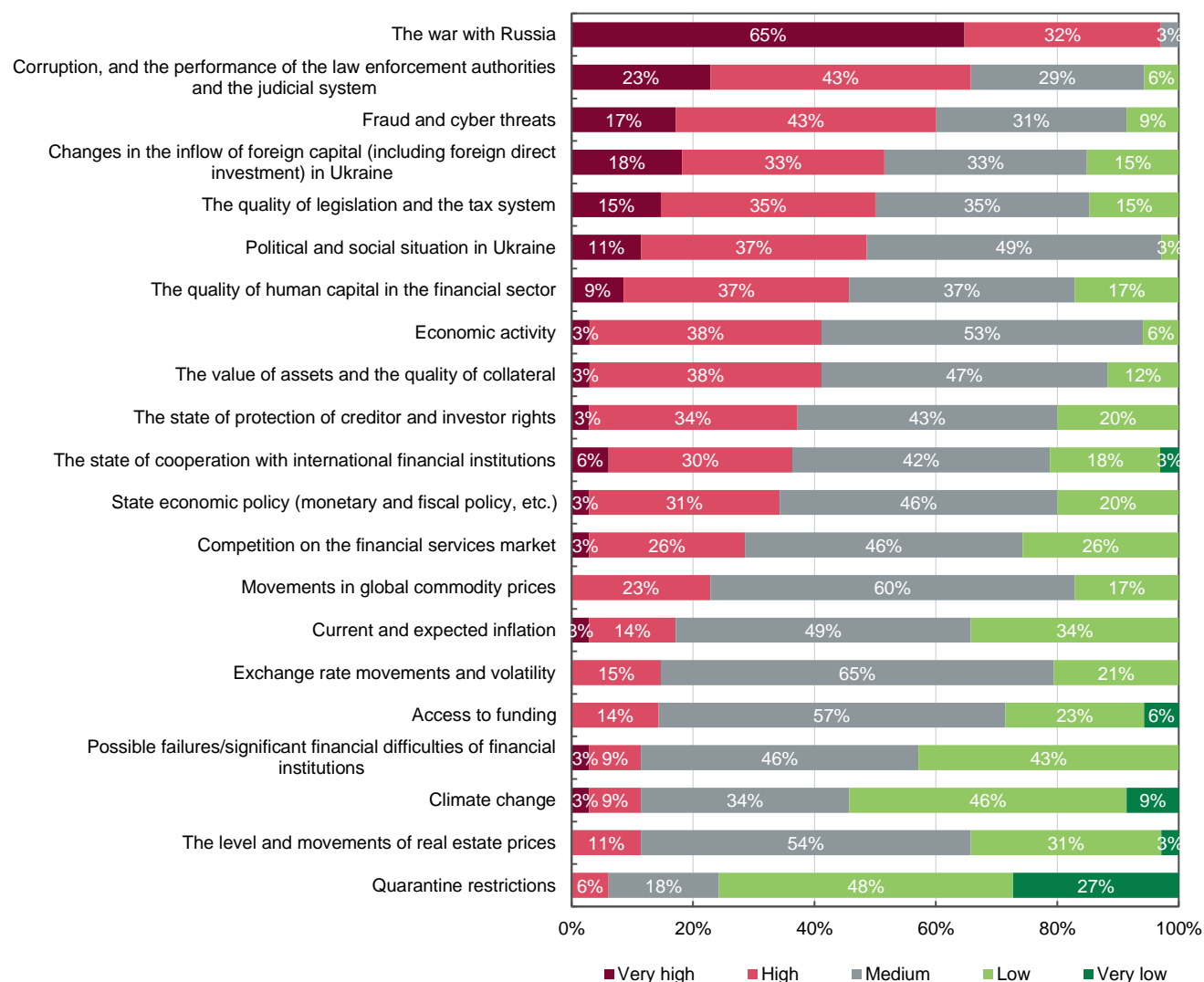


Figure 6. How respondents' risk appetite has changed over the last six months



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, November 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, November 2023	Rank, May 2023	Difference, +/-
The war with Russia	1	1	0
Corruption, and the performance of the law enforcement authorities and the judicial	2	2	0
Fraud and cyber threats	3	3	0
Changes in the inflow of foreign capital (including foreign direct investment) in Ukraine	4	7	+3
The quality of legislation and the tax system	5	14	+9
Political and social situation in Ukraine	6	9	+3
The quality of human capital in the financial sector	7	12	+5
Economic activity	8	5	-3
The value of assets and the quality of collateral	8	4	-4
The state of protection of creditor and investor rights	10	6	-4
The state of cooperation with international financial institutions	11	9	-2
State economic policy (monetary and fiscal policy, etc.)	12	9	-3
Competition on the financial services market	13	19	+6
Movements in global commodity prices	14	8	-6
Current and expected inflation	15	18	+3
Exchange rate movements and volatility	16	17	+1
Access to funding	17	14	-3
Possible failures/significant financial difficulties of financial institutions	18	14	-4
The level and movements of real estate prices	18	13	-5
Climate change	18	20	+2
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'	11'
1. What is your perception of state of the Ukrainian financial sector today?	-5%	-6%	4%	10%	7%	5%	22%	28%	-11%	-3%	11%	26%
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%	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%	-7%
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%	-24%
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%	18%
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%	-29%
6.2. The war with russia	-15%	-17%	-18%	-12%	0%	-8%	-24%	-31%	-93%	-89%	-77%	-81%
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%	-41%
6.4. The quality of legislation and the tax system	-20%	-29%	-14%	-23%	-15%	-17%	-21%	-9%	-11%	-6%	-14%	-25%
6.5. The state of protection of creditor and investor rights	-33%	-42%	-36%	-31%	-22%	-26%	-25%	-32%	-21%	-14%	-21%	-10%
6.6. Economic activity	7%	-8%	7%	4%	-30%	-12%	-7%	8%	-31%	-38%	-24%	-19%
6.7. Current and expected inflation	-4%	-4%	16%	31%	17%	17%	-3%	-15%	-56%	-49%	-11%	7%
6.8. State economic policy (monetary and fiscal policy, etc.)	2%	-6%	0%	2%	-6%	-5%	3%	8%	-10%	-14%	-14%	-9%
6.9. Exchange rate movements and volatility	-20%	-20%	-9%	6%	-6%	-2%	4%	6%	-51%	-41%	-12%	3%
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%	-27%
6.11. Movements in global commodity prices	-15%	-27%	-24%	-13%	-30%	-6%	-6%	-24%	-43%	-19%	-17%	-3%
6.12. The state of cooperation with international financial institutions	-35%	-44%	-54%	-21%	-22%	-41%	-29%	-5%	7%	-16%	-6%	-9%
6.13. Possible failures/significant financial difficulties of financial institutions	11%	25%	18%	20%	13%	8%	6%	14%	-41%	-30%	1%	14%
6.14. Competition on the financial services market	13%	-10%	5%	-4%	2%	-3%	3%	-5%	6%	10%	0%	-3%
6.15. Access to funding	9%	-21%	-18%	10%	6%	21%	19%	14%	-7%	-3%	-3%	10%
6.16. The quality of human capital in the financial sector	-4%	-10%	-13%	-2%	-4%	9%	-1%	-10%	2%	1%	-7%	-19%
6.17. The value of assets and the quality of collateral	-13%	0%	-7%	-12%	-9%	-9%	0%	0%	-47%	-36%	-34%	-16%
6.18. The level and movements of real estate prices	17%	17%	18%	15%	4%	12%	8%	6%	-17%	-13%	-6%	13%
6.19. Fraud and cyber threats	-37%	-37%	-25%	-35%	-33%	-27%	-31%	-35%	-51%	-40%	-41%	-34%
6.20. Climate change	x	x	x	x	x	x	x	13%	26%	26%	29%	24%
6.21. Quarantine restrictions	x	x	x	x	x	x	x	-15%	40%	39%	60%	48%
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%	17%

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 9 through 24 November 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 May 2024.