

THE IMPACT OF THE PANDEMIC ON THE BANKING SYSTEM OF UKRAINE

*Khoroshylova I.O., Cand. Sc. (Economics), Associate Professor
Kharkiv National Automobile and Highway University*

*Baidala V.V., Cand. Sc. (Pedagogy), Associate Professor
H.S. Scovoroda Kharkiv National Pedagogical University*

Today, the banking system of Ukraine, as well as the banking systems of other countries, is going through a rather difficult period associated with the global pandemic – the spread of coronavirus disease, which has led to new challenges and problems that banks have not faced before.

The quarantine measures introduced due to the pandemic significantly affected the work of the banking sector, in particular, the dynamics of attracting deposits, lending and profitability of market participants. Although the National Bank has significantly relaxed the requirements for banks and expanded the capacity to maintain liquidity, their working conditions remain difficult during quarantine restrictions, due to deteriorating portfolio quality, increased risks and reduced demand for services. But it should be noted that the reform of the banking sector has significantly strengthened the resilience of banks, so most institutions will be able to avoid the need to increase capital and quite well to survive the difficult times. However, after leaving the national quarantine, the main task of banks will be to support the economic recovery of the country, which will require significant efforts.

Given that the financial sector is successfully undergoing a coronary crisis and is properly performing its functions, banks have entered a pandemic period without significant imbalances, sufficiently capitalized and highly liquid. For the first time in history, we see that during the crisis, our banks did not become a factor in increasing economic instability, but on the

contrary, they supported business all the time, and we hope that they will help restore economic growth in the future.

Since the crisis unfolded, most banks have quickly shifted to working online. To some extent, there has been a structural change in the format of the banking sector. Despite the temporary reduction in the number of operating branches, the availability of banking services has not decreased. Almost all the tools available to the central bank were used to help overcome the crisis. The steps of the National Bank of Ukraine (NBU) were close to those of regulators in other countries. In particular, to give banks more area for action, the NBU postponed the introduction of capital conservation buffers and systemic importance.

The NBU also encouraged banks to restructure loans to borrowers who were experiencing temporary financial difficulties due to pandemic restrictions. At the same time, such restructurings must be viable – they must not hide the fundamental financial problems of borrowers, which are unlikely to be overcome in the coming years. These measures have mitigated the effects of the crisis at its peak. Unlike previous crises, this time the instability of the foreign exchange market was avoided, the level of NBU reserves guarantees the ability of the central bank to respond in a timely manner to possible challenges in the future.

The traditional risk for the economy and the fiscal sphere is slow progress in cooperation with international financial organizations. Without such cooperation, it will be difficult to maintain continuous access to global debt capital markets and attract foreign direct investment. Therefore, cooperation with international financial organizations must be resumed in full.

The real sector is also recovering from the effects of the pandemic. Although the dynamics of industries is unreal, the corporate segment as a whole proved to be stable, the quality of banks' portfolios did not deteriorate significantly. Conservative lending standards have contributed to the sustainability of bor-

rowers. Timely restructuring and a small share of loans to susceptible industries ensured the crisis. New lending was suspended only for a short period, but very quickly the financial system resumed the function of financial intermediation and increased the loan portfolio. Loans to enterprises began to grow. The best dynamics is shown by small business lending, but it is unlikely that in the near future the growth rate of lending will return to pre-crisis levels, unless the state will further reduce lending rates for the development of lending.

According to our observations, inflation remained low during the year, and monetary policy stimulated. Today, rates on deposits and assets are the lowest in the history of the Ukrainian banking sector. While maintaining macroeconomic stability, lending rates will continue to decline, although the scope for reducing deposit rates is very limited.

A major challenge for banks is to reduce the use of foreign currency funds, due to lower demand for foreign currency loans, and lower interest rates on foreign currency government securities.

In order to implement certain reforms, in the next two years the NBU will need to implement a number of innovations related to the capital requirements of banks. All of them are designed to close certain regulatory gaps and harmonize Ukrainian rules with the recommendations of the Basel Committee. The Net Stable Fund Ratio (NSFR) will take effect, prompting banks to reduce maturities in assets and liabilities. During 2021, banks must prepare for the introduction of capital requirements to cover operational and market risks – this will complete the implementation of the full first basis (Pillar 1) of the Basel Recommendations in the Ukrainian regulatory framework. Additionally, starting next year, the risk weights for foreign currency securities issued by the Ukrainian government will gradually increase, eliminating the mismatch between banks' capitalizations and the amount of credit risk they have taken on

their balance sheets. Banks will begin to gradually adjust the amount of fixed capital to the value of non-core assets.

This rule will encourage them to get rid of non-core assets in a timely manner, the maintenance of which significantly impairs the financial stability of financial institutions, often making their financial statements unreliable.

We know that the NBU has updated the Macroprudential Policy Strategy, which lays the groundwork for macroprudential regulation of the financial sector to prevent the accumulation of systemic risks. The strategy was supplemented in connection with the acquisition of additional powers by the NBU – the NBU became the regulator of insurance companies, credit unions and microfinance credit institutions.

The economy and world trade are recovering from the COVID crisis, but the risks of a new downturn due to the pandemic are high. Governments and central banks of many countries and IFIs, which continue to stimulate recovery by fiscal and monetary means, are currently contributing significantly to economic growth. Geoeconomic risks have declined since the advent of COVID vaccines, which has also helped economic recovery.