

## Сучасні макроекономічні тренди та тенденції Modern macroeconomic trends and tendencies

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### Influence of institutional and structural changes on the financial and economic development of Ukraine

**Abstract.** The article reveals the relevance and necessity of deep reforms in Ukraine to achieve economic revival and integration with European economic systems. The author analyzes significant institutional and structural reforms aimed at improving the economic environment, attracting investment, developing the private sector, and fighting corruption. These reforms cover important areas, including the banking system, public administration, the judiciary, antitrust regulation, and land relations, creating favorable conditions for financial and economic development and the economy's resilience to external shocks. The article emphasizes that the listed changes have both positive and negative aspects. On the one hand, the reforms contributed to increasing the transparency of management, improving the investment climate, and reducing corruption. On the other hand, the implementation process of some reforms proved to be difficult due to the lack of effective implementation and control mechanisms, as well as external challenges such as military conflict and global economic crises. The author also considers investment risk as an important indicator of institutional and structural changes in the country, pointing to systematic risk caused by country-wide institutional, political, and macro-financial factors, and individual risk determined by specific features of the company's financial condition. The increase in systematic risk due to hostilities has worsened financing conditions for all businesses, but the distribution of individual risk depends on many factors.

**Key words:** *macroeconomic indicators, financial and economic development, investment risk, macroeconomic imbalances, company finances, structural changes.*

**JEL Classification:** G10, H32

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**Introduction.** Today, Ukraine is in a period of significant economic, political and social changes, which requires an in-depth analysis of institutional and structural reforms. The understanding of these processes is critical to the development of effective evolution strategies. Ukraine's efforts to integrate into European and global economic partnerships require adaptation of national institutional and structural mechanisms. Analysis of these processes will help to identify key directions for further reforms. Ukraine, like many other countries, has faced global challenges - such as the COVID-19 pandemic, climate change, geopolitical tensions and military aggression of the Russian Federation. The study of the impact of these factors on the financial and economic development of Ukraine is extremely relevant.

Assessing the impact of institutional and structural changes on the financial and economic development of the country will help to formulate more effective domestic and external economic policies aimed directly at stimulating investments, supporting entrepreneurship and ensuring sustainable growth. Ukraine faces a number of socio-economic challenges, including high levels of poverty, unemployment, and inefficient public administration. A deep understanding of the impact of institutional change on these aspects is necessary to develop appropriate response strategies. The relevance of this research lies in the need to understand and evaluate the complex influence of institutional and structural changes on the financial and economic development of Ukraine. Such an analysis may reveal the potential for increasing economic stability, attracting investment and ensuring long-term growth, as well as identifying key problems and opportunities for further reforms and improvement of state governance.

**Analysis of recent research and publications.** The study of the impact of institutional and structural changes on the financial and economic development of the country is largely based on the scientific works of such scientists as S. Blaguna, B. Danylyshina, O. Zolotova, V. Ivanova, I. Lukyanenko, B. Samorodov, D. Simak, Yu. Kovalenko, O. Kudinov, O. Slavuta and M. Samoilk. Taking into account the contribution of these scientists and relying on their previous publications, the task to analyze the development trends of the Ukrainian macroeconomic system, to identify its key problems and risks, especially in the context of Russian aggression, becomes extremely important.

**Research results.** Ukraine, a country with a rich historical past and a complex modern period, continues its path to economic revival and stability. Implementation of institutional and structural changes in the country's economy is a key element of this process. Considering the need for integration with European economic system and the need to adapt to global challenges, the relevance of analyzing such changes and their impact on the financial and economic development of Ukraine is indisputable.

Ukraine has undergone significant institutional and structural reforms aimed at improving the economic environment, attracting investment, developing the private sector and fighting corruption. These reforms cover a wide range of areas, including the banking system, public administration, the judiciary, antitrust regulation and land relations. A key factor is their impact on creating favorable conditions for financial and economic development and ensuring the economy's resilience to external shocks.

Analyzing the impact of institutional and structural changes on the financial and economic development of Ukraine, it should be noted that they have both positive and negative aspects. On the one hand, the reforms contributed to increasing the transparency of management, improving the investment climate, and reducing corruption. On the other hand, the implementation process of some reforms proved to be difficult due to the lack of their effective realization and control mechanisms, as well as external challenges such as military conflict and global economic crises [1-3]

Investment risk, which serves as an important indicator of institutional and structural changes in the country, is measured as the probability of losing the capital invested by the investor and is divided into two main types: systematic risk, caused by country-wide institutional, political,

and macro-financial factors, and individual risk, which is determined by specific features of the financial state of the company, the location of its assets and relations with key partners.

An increase in systematic risk due to hostilities leads to the worsening of financing conditions for all enterprises. At the same time, the distribution of individual risk depends on many factors, including geographical location relative to the war zone, the risk of missile and air strikes, interactions with counterparties, and the currency stability of the company before the war. The war leads to financial imbalances that increase the possibility of systematic risk and limit access to capital in the domestic market [5]. In Ukraine, during 2022, the main factors of such imbalances were the destruction of productive assets, the cessation of production and a decrease in demand, which caused a drop in GDP by 29.1%, a reduction in state budget revenues and an increase in military spending and public debt. The rapid reaction of the National Bank of Ukraine at the beginning of the war and financial assistance from international partners made it possible to avoid the collapse of the country's financial system, which is characterized by certain structural changes (Table 1).

*Table 1. Macro-financial imbalances of the financial architecture of Ukraine in 2018–2022*

Indicator	2018	2019	2020	2021	2022
Level of state and state-guaranteed debt, % of GDP	60,9	50,2	60,4	49,0	78,5
Monetization of GDP, %	35,9	36,2	43,8	38,0	48,2
Displacement coefficient, %	42,8	36,8	37,6	34,8	38,3
Transformation coefficient, %	51,8	41,5	31,5	29,6	23,9
Loans of the banking sector, billion UAH	859,7	744,6	724,2	752,3	754,4
Liquid assets of banks, billion UAH	134,3	269,0	254,8	315,9	594,1

*Source: prepared by the authors on the basis of [6]*

Monetization of Ukraine's GDP increased from 38.0% to 48.2%, indicating a reduction in the speed of money circulation due to a decrease in nominal GDP by 4.8 percentage points. There is also an increase in the amount of state and state-guaranteed debt from 49.0% to 78.5% of GDP, as well as a slight increase in the displacement ratio from 34.8% to 38.3%, which demonstrates the share of bank resources used for purchase of government bonds, excluding them from market circulation. The debt of the sector of non-financial corporations to banks decreased by UAH 5 million from the beginning of the invasion till March 1, 2023, due to the suspension of lending against the background of increasing individual risks and instability caused by the war.

The transformation ratio diminished from 29.6% to 23.9%, and excess liquidity in the banking sector increased by UAH 278 billion, showing an increase in the potential for lending to the economy. The country risk premium (CRP) for Ukraine tripled in 2022 - from 6.4% to 17.3% (Table 2).

*Table 2. Separate financial indicators of the economy of Ukraine, in %*

Indicator	2018	2019	2020	2021	2022
Country risk premium (CRP)	10,4	7,4	6,3	6,4	17,3
Interest rates on NFC loans in hryvnia	18,1	18,0	11,1	9,7	16,5
Inflation rate, December to December (CPI)	9,8	4,1	5,0	10,0	26,6
Depreciation of the hryvnia against the US dollar, per year	1,0	-15,2	20,1	-4,2	47,7
OVDPs (domestic government bonds) risk-free rate	17,8	16,9	10,2	11,3	18,3
Share of non-performing loans to the corporate sector	55,8	53,8	46,7	36,1	42,9

*Source: prepared by the authors on the basis of [7]*

This means that at the beginning of 2023, the cost of raising capital in Ukraine was 17.3 percentage points higher than in the United States. The basis for analyzing business financing conditions on the market is the risk-free interest rate (usually the rate on government bonds). In 2022, the average rate on government bonds in hryvnia increased by 7.9 percentage points, which is not a direct indication of an increase in systematic risk, since the issuance of OVDPs was carried out in conditions of non-price competition (purchase by the NBU), which was a justified step under the martial law. In response to the increase in systematic risk, the average annual interest rates on new loans for enterprises almost doubled - from 9.7% to 16.5% per year.

However, such an increase did not have a decisive impact on the financial conditions of enterprises, since bank loans accounted for a relatively small share of their total debt at the beginning of 2022 - only 7.9%. The rise of interest rates due to the growth of systematic risk in 2022 had a limited impact on the financial position of enterprises, given the low involvement of the banking sector in financing their assets (only 5.6% at the beginning of 2022). This limited dependence made it possible to reduce the total costs of banks for the formation of reserves to cover problem loans, the share of which rose from 36.1% to 42.9% during the year.

In 2022, the intensification of the activities of the National Bank of Ukraine aimed at attracting additional funds and increasing interest rates on deposit certificates, caused a fourfold growth in interest payments compared to the previous year. Such an increase had a significant impact on the decrease of the NBU's earnings, which were supposed to finance the state budget. As a result, the NBU's interest expenses reached approximately UAH 41 billion, which is equivalent to almost 90% of the state budget expenditures for the performance of national duties and about one-third of defense expenditures for 2021, as shown in Table 3.

In the period from 2009 to 2018 and in 2022, the National Bank of Ukraine became the main recipient of profits from the Ministry of Finance's issuance of domestic state loan bonds, as can be seen from the share of the NBU's interest income from these securities in the total costs of servicing the national debt, which in 2022 was 75%. In addition, during the years 2015-2017 and from 2020 to 2022, the expenses of the state budget for the payment of interest on bonds belonging to the portfolio of the NBU exceeded the obligation of the NBU to transfer its profit to the state budget, effectively financing the activities of the NBU at the expense of the state (in 2022, it amounted to almost UAH 19 billion). Since 2014, interest income from government securities has become the main source of NBU income, and in 2022 it reached a record level of UAH 90.6 billion, which is UAH 53.8 billion higher than the previous year.

*Table 3. Analytical performance indicators of the National Bank of Ukraine, year-end, billion UAH*

<b>Indicators</b>	2014	2015	2016	2017	2018	2019	2020	2021	2022
1. Total interest income	37,6	61,6	60,1	53,7	47,9	36,7	31,2	44	109,8
including income from securities of Ukraine	26,5	46,4	49,6	46,2	43,0	32,5	28,5	36,9	90,6
2. Total interest expenses	1,3	10,5	13,3	11,6	13,5	16,4	15,9	15,2	46,6
including according to NBU deposit certificates	0,7	8,2	9,6	6,4	7,5	9,6	10,5	10,7	40,8
3. Net interest income (before deducting reserves)	36,3	51,1	46,7	42,1	34,4	20,3	15,3	28,8	63,2
including for securities of Ukraine and decertificates	25,8	38,2	40	39,8	35,5	22,9	18	26,2	49,8
4. Profit before distribution for the year	62,3	54,2	59,4	45,9	68,5	43,3	40,7	31,6	91

5. The percentage of retained earnings that must be transferred to the state budget of Ukraine	61,8	38,2	44,4	44,6	64,9	42,7	24,4	18,9	71,9
6. The difference between the total amount of profit that must be given to the state budget and the profits from bonds of the domestic state loan	35,3	-8,2	-5,2	-1,6	21,9	10,2	-4,1	-18,0	-18,8

Source: prepared by the authors on the basis of [8]

At the beginning of 2022, the portfolio of the NBU contained bonds of the domestic state loan in the amount of almost UAH 313 billion with yields ranging from 6.97% to 13.10% per year. The NBU's portfolio includes bonds with different maturities, more than 46% of which (UAH 146 billion) will be repaid between 2036 and 2047, with rates that change depending on inflation, having increased by 2.2 percentage points, providing the NBU with income from bonds until 2047 [9].

A significant rise in inflation in 2022 doubled the NBU's income from bonds, which accordingly increased the state budget's expenditure on servicing the national debt. However, a decisive role in this process was played by the interest rate policy of the National Bank of Ukraine and the strategy of the Government of Ukraine regarding the attraction of state loans on the domestic market.

**Conclusion.** Ukraine faces the important task of further improving its institutional and structural reforms in order to ensure sustainable economic growth. Further improvement of the regulatory environment, attraction of foreign investments, infrastructure development and innovation support are important directions. At the same time, it is necessary to pay attention to socio-economic challenges, such as reducing poverty, raising the standard of living of the population and ensuring social justice.

Institutional and structural changes in Ukraine have a significant impact on its financial and economic development. Effective implementation and monitoring of reforms are key to achieving sustainable growth and integration into the global economy. Further research and analysis is needed to assess the long-term impact of these changes and develop strategies to address the identified challenges. Ukraine needs to continue its path of reforms in order to secure its future in the context of stable economic development and the well-being of its citizens.

The reforms have both a positive and a negative impact on the financial and economic development of the country. On the one hand, they contributed to increasing the transparency of management, improving the investment climate, and reducing corruption. On the other hand, challenges in the implementation of some reforms and external problems - such as military conflict have created additional difficulties. The military conflict increased systematic investment risk, which led to worsening financing conditions for all enterprises. The risk is related to the destruction or damage of production assets, loss of control over enterprises and currency instability. The quick reaction of the National Bank of Ukraine and the financial support of international partners helped to avoid the collapse of the financial system, despite the difficult conditions. The war caused the destruction of productive assets and a decrease in demand, which led to a fall in GDP, a decrease in state budget revenues and an increase in public debt.

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**Вплив інституціональних та структурних змін на фінансово-економічний розвиток країни**

**Анотація.** Стаття розкриває актуальність та необхідність глибоких реформ в Україні для досягнення економічного відродження та інтеграції з європейськими економічними системами. Автор аналізує значні інституціональні та структурні реформи, які були спрямовані на покращення економічного середовища, залучення інвестицій, розвиток приватного сектору, та боротьбу з корупцією. Ці реформи охоплюють важливі сфери, включаючи банківську систему, державне управління, судову систему, антимонопольне регулювання, та земельні відносини, створюючи сприятливі умови для фінансово-економічного розвитку та стійкості економіки до зовнішніх шоків. У статті підкреслюється, що перелічені зміни мають як позитивні, так і негативні аспекти. З одного боку, реформи сприяли збільшенню прозорості управління, покращенню інвестиційного клімату та зменшенню корупції. З іншого боку, процес імплементації деяких реформ виявився складним через відсутність ефективних механізмів впровадження та контролю, а також через зовнішні виклики, такі як військовий конфлікт та глобальні економічні кризи. Автор також розглядає інвестиційний ризик як важливий показник інституціональних та структурних змін в країні, вказуючи на систематичний ризик, обумовлений загальноукраїнськими інституціональними, політичними, та макрофінансовими чинниками, та індивідуальний ризик, який визначається конкретними особливостями фінансового стану компанії. Підвищення систематичного ризику через військові дії призвело до погіршення умов фінансування для всіх підприємств, але розподіл індивідуального ризику залежить від багатьох факторів.

**Ключові слова:** макроекономічні показники, фінансово-економічний розвиток, інвестиційний ризик, макрофінансові дисбаланси, фінанси компаній, структурні зміни.

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