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MODERN STATUS AND DEVELOPMENT TRENDS OF THE FINANCIAL MARKET OF UKRAINE

The state of the financial market at the present stage is analysed and the prospects of its development in conditions of financial instability of the Ukrainian economy are considered. Some of its segments, namely, the banking sector, the insurance market, and stock exchanges, are described. The urgent problems of their functioning are identified, which hinder their further development and development of the financial market.

Keywords: financial market, banking sector, stock market, financial resources, insurance company.

Степанова Д.С., Степанова І.В. СУЧАСНИЙ СТАН ТА ТЕНДЕНЦІЇ РОЗВИТКУ ФІНАНСОВОГО РИНКУ УКРАЇНИ

В статті проаналізовано стан фінансового ринку на сучасному етапі та розглянуті перспективи його розвитку в умовах фінансової нестабільності економіки України. Охарактеризовано окремі його сегменти, а саме банківський сектор, страховий ринок та фондові біржі. Визначено нагальні проблеми їх функціонування, які заважають їх подальшому розвитку та розвитку фінансового ринку.

Ключові слова: фінансовий ринок, банківський сектор, фондовий ринок, фінансові ресурси, страхова компанія.

Степанова Д.С., Степанова І.В. СОВРЕМЕННОЕ СОСТОЯНИЕ И ТЕНДЕНЦИИ РАЗВИТИЯ ФИНАНСОВОГО РЫНКА УКРАИНЫ

В статье проанализировано состояние финансового рынка на современном этапе и рассмотрены перспективы его развития в условиях финансовой нестабильности экономики Украины. Охарактеризованы отдельные его сегменты, а именно банковский сектор, страховой рынок и фондовый рынок. Определены актуальные проблемы их функционирования, которые мешают их дальнейшему развитию и развития финансового рынка.

Ключевые слова: финансовый рынок, банковский сектор, фондовый рынок, финансовые ресурсы, страховая компания.

Introduction. Paying attention to the issue of stabilization of the national economy, a special attention should be paid to the development of the financial market, the state of which depends on the state administration, the political situation, distribution of financial resources, and general economic trends of the country's development. In order to determine the economic preconditions for the formation and development of the national financial space in Ukraine, it is

necessary to carry out a comprehensive modernization. During the design of programs for the development of the financial space of Ukraine, the economic impact of economic development should be preceded by economic development.

Analysis of recent research. Under current conditions of the social and economic transformation of the country, the control over the development of financial markets in a climate of the international integration is

studied in numerous works of local and foreign scientists as M.P. Agapova, Ya.I. Artymych, V.G. Bobyl, O.V. Dziubliuk, Ye. Glaz, O.L. Grynko, O. Gutovska, G. Goldstein, B. Lutsiv, P. Dickson, P. Dziuba, L.M. Diadechka, S. Yermasov, A. Zubets, S.V. Kuznetsov, O. Melnykov, H. Mintzberg, N.V. Narizhna, S. Oriekhov, M. Saienko, A. Ten, V. Trynchuk, L. Tsvietkova, E. Tsukatos, I.O. Shkolnyk, and others. But the crisis phenomena, which are specific for the world economics and directly influence the financial development of Ukraine, determine the necessity of further scientific research.

The aim and tasks. The aim of the article focuses on determining the key trends of the development of the financial market of Ukraine.

The main results. Nowadays, Ukraine has declared the European way for development, what significantly affected the general status of the country. The European trend of the state policy of Ukraine increases the importance of the problem of the national financial market development. The modern financial market of Ukraine functions in a climate of the economic insecurity. Various factors influence the market development causing changes in its infrastructure, activity, and sometimes endanger its economic reliance. Financial institutions working in this sphere shall adapt to external factors and requirements.

The European integration had influenced the financial market of Ukraine even before signing the Treaty between Ukraine and the European Union about the association but sweeping changes happened in the Ukrainian economics right after signing its political and economic parts. The present direction of Ukraine towards the European integration supported by the real effective measures, the opening of markets for the European products and funds enjoins upon introducing certain changes to the financial system operations. They have already been made in the change of approaches to the regulatory policy, bringing the legislation in conformity with the EU standards, the bigger openness of the Ukrainian financial market for foreign financial institutions.

For considering the current status and development prospects of the financial market of Ukraine, firstly, it is worth determining three global problems of the market: 1) a low level of the public confidence in financial institutions; 2) absence of an efficient borrowing entity and availability of "toxic" assets; 3) orientation of members of the market to get "quick" profits but not to stimulate the economic growth [1].

Studying the global problems accompanying the Ukrainian financial market growth, new tasks arise for the financial system of the country. One of the main present tasks is to create factors of competitiveness of the financial market for ensuring the state financial security. Nowadays, the most active institutional members of the financial market of Ukraine are stock exchanges, insurance companies, and commercial banks as they constitute the greatest part of financial resources and have a direct impact on the manufacturing development in the country, investment climate and wellness of the population. It should be specified that some components of the financial market of Ukraine are better developed and others are just in progress.

The banking sector is the biggest part of the Ukrainian financial market with the assets composing almost 90% of assets of all the financial parties. At the beginning of 2017, 96 banking institutions had a license of the National Bank of Ukraine (including 38 banks with overseas capital), i.e. the number of operating banking institutions had shortened by 21 for

2016 [2]. The state of the banking sector was affected by the financial crisis that significantly decreased the number of banks in 2014–2016. The financial crisis led to the fact that 82 banking institutions have implemented a temporary administration since 2014. A special attention was drawn by the PJSC CB "PRIVATBANK". The Deposit Guarantee Fund and the Ministry of Finance signed an agreement for selling 100% shares of the Bank. After transferring 100% shares, the bank owner is the Ministry of Finance of Ukraine. And, since 01.06.2016, the Board of the National Bank of Ukraine has made several decisions about the consent given for self-liquidation of banking institutions. The first cases of such self-liquidation were PJSC "Finance Bank" and PJSC "Investment Trust Bank". According to the official information, such decisions were made due to the owner's desire to reorient for other types of their principal activities. The liquidation of other banking institutions was caused by the difficult position in the market of financial and banking services and uncertainty concerning possible trends and sources of further bank capitalisation. Taking into account the adopted NBU schedule for increasing the minimum volume of the authorized stock capital (from 200 million hryvnias to 300 million hryvnias in 2018), one can expect then new instances of self-liquidation of commercial banks in Ukraine. Increasing the minimum volume of the authorized stock capital of banking institutions is to be annually up to 500 million hryvnias as of 11.07.2024. During a year, significant regroupings occurred in the ownership structures of the banking system of Ukraine. Due to the systemic transition of the PJSC CB "PRIVATBANK" to 100% state ownership, a portion of state banks in the capital structure of the banking system of Ukraine remarkably increased during IV quarter of 2016 and was equal to 52% on 01.01.2017. A portion of banks with the private Ukrainian capital was circa 13%, banks of offshore banking groups – 35%. And it is necessary to indicate that the reduction of a portion of banks of offshore banking groups is possible later on as a result of the exit of banking institutions with the Russian capital from the Ukrainian market. According to the results of 2016, the net assets of the banking system of Ukraine increased insubstantially. On 01.01.2017, their volume amounted to 1,256 billion hryvnias in comparison with 1,254 billion hryvnias at the beginning of the year. One of the key factors for swings in the volume of assets of the banking system in a studied period was the dynamics of the national currency rate with the exit of a portion of commercial banks from the market, flow of clients' funds, and decrease in loan portfolios. High influence of fluctuations of the national currency rate on the volume of assets of the banking system of Ukraine can be explained by a considerable share of assets in a foreign currency in the total volume (41.8% by 2017). During 2016, the size of the client loan portfolio reduced by 0.4% (3.85 billion hryvnias) and was equal to 1,005,92 billion hryvnias on 01.01.2017 comparing with 1,099,77 billion hryvnias at the beginning of 2016. The total liabilities of the Ukrainian banks declined by 1.6% up to 1,333 billion hryvnias during 2016 [3].

Considering the substantial scopes of decapitalization of the number of banking institutions and exclusion of banks acknowledged as insolvent from the procedure for calculating statistical indicators of the NBU, the volume of the personal capital of the banking system of Ukraine decreased in the course of 2016. It is worth mentioning that shareholders of all groups

increased the authorized capital mainly for the purpose of keeping up their personal businesses. According to the results of 2016, 31 of 93 functioning banks incurred losses. But there are banking institutions finished the reporting period with positive outcomes. Among the most profitable banks according to the results of the last year, there were exclusively offshore financial institutions – Raiffeisen Bank Aval, Citybank, and OTP Bank.

Insurance companies are also active members of the financial market; however, assets of non-banking financial institutions are still insignificant in comparison with assets of commercial banks. The market for insurance services according to a level of capitalization of financial markets.

The total number of insurance companies is 310 on 31.12.2016, including the “life” insurance companies – 39 entities, “non-life” insurance companies – 271 entities (on 31.12.2015 – 361 companies, including “life” insurance companies – 49 enterprises, “non-life” insurance companies – 312 entities). The number of insurance companies looks down as the number of companies decreased for 51 insurance companies in 2016 in comparison with 2014 when the number decreased by 72 insurance companies. In 2016, shares of gross insurance premiums and shares of insurance premiums with respect to GDP stayed at the level of 2015 and were 1.5% and 1.1% correspondingly. Comparing with 2015, the volume of gross insurance premiums income increased by 5,434,3 million hryvnias, and the volume of net insurance premiums increased by 4,109,0 million hryvnias. The increase of gross insurance premiums was almost for all the types of insurance.

A relative share of net insurance premiums in gross insurance premiums for 2016 is equal to 2015 (75.2%). During the analysed period, the number of concluded insurance agreements (policies) went down by 22,958.1 thousand (or by 11.3%), and the number of voluntary insurance agreements went down by 63,685.5 thousand (or by 63.9%). So, the insurance market of Ukraine is at the stage of formation, smoothly adapting to the requirements of the European and world markets. Therefore, the Ukrainian insurance market should be connected with foreign insurance knowledge and change its own functional models, cooperate with the EU countries in the field of insurance [4].

The securities market of Ukraine is a segment of the economics, which is an indicator of the development of not only the capital market but the whole financial system of the state. The modern status and structure of the inland securities market are a result of the transformation processes in the economic system happened in Ukraine under the influence of internal factors and crises in the world financial markets of last years. One of the most important indicators of the securities market development is the volumes of securities issue [5]. The total volume of stock issue, registered by the National Securities and Stock Market Commission in January-December 2016, was 232,14 billion hryvnias, what is higher by 83,91 billion hryvnias in comparison with the corresponding period in 2015 (148,50 billion hryvnias).

During January-December 2016, the Commission registered 128 issues of shares in an amount of 209,36 billion hryvnias. Comparing with the similar period in 2015, the volume of registered issues of shares became higher by 87,06 billion hryvnias [6].

The shares issues prominent in the volume that significantly affected the general structure of registered

issues of shares during the said period were registered for the following banking institutions for the purpose of increasing the authorised stock capital, i.e.: PJSC Commercial Bank “PrivatBank”, PJSC “VTB BANK”, PJSC “SAVINGS BANK” (SBERBANK), PJSC “Joint-Stock Commercial Industrial and Investment Bank” and PJSC “BM Bank”.

During January-December 2016, the Commission registered 118 issues of stocks of enterprises in an amount of 6,76 billion hryvnias (decreased by 4,66 billion hryvnias in comparison with 2015), 9 issues of option certificates totalling 198,88 million hryvnias (higher by 198,66 thousand hryvnias in comparison with 2015). Within 2016, the volume of issues of investment certificates registered by the Commission was 5,37 billion hryvnias, which is lower by 5,21 billion hryvnias in comparison with the data for the similar period in 2015 [6].

The further growth of the stock market depends on specific measures of the state in the field of extension of the financial system. To improve the situation in the stock market, it is necessary to take a number of measures.

First, the developed infrastructure of the stock market shall function, a great range of tools and effective mechanisms for the cooperation of the market members shall be offered in order to achieve the said aim.

Second, an integral part of the stock market development shall be its integration into the world financial markets. Therewith, the development of the stock market of Ukraine shall be closely related with the development of other segments of the financial market (bank, insurance, pension sectors, etc.).

Third, the main function to be performed by the securities market is to provide monetary capital for needs of the national economy by creating a mechanism of accumulation, allocation, and reallocation of funds from an entity having free investment resources to an entity requiring such resources for development.

Development trends in the state financial market are primarily focused on reformation and implemented by taking measures for its improvement. The economics of Ukraine keeps shrinking. In this context, the financial market has already reoriented itself to easier ways to gain profits – speculative ones. This raises a demand to immediately recover banks, improve the government control, and promote confidence in financial institutions. Stabilizing the financial market institutes can be performed by means of five main steps (Table 1).

The priority tasks for reforming the financial sector are as follows: currency liberalisation, consolidation of banks; non-cash economics; payment system “PROSTIR”; renewal of lending and crediting, and settlement of the issue of problematic loans; financial awareness; implementation of strategies of state banks [8].

The ground for the development, changes, and transformations is the Complex Program for Developing the Financial Sector of Ukraine till 2020. It was designed by the National Bank of Ukraine with the National Securities and Stock Market Commission, the National Commission for Regulation of Financial Services Markets, representatives of the Ministry of Finance of Ukraine, Deposit Guarantee Fund, professional associations, and financial market experts. The main aim of the program is to develop a full-fledged, operative, and effective financial market, to balance all its segments, to extend the infrastructure, and to boost the resistance to harms [8].

Table 1

The main steps towards the stabilization of financial market institutes

Step name	Step meaning
Constant monitoring of activities of financial institutions	Complex diagnostics of assets, primarily bank ones, is requisite for ensuring that problematic issues will be early detected in current operations.
Resolution or liquidation of insolvent financial institutions	Their number may become lower by 50-70%, according to some studies. On this path, it is necessary to settle matters of sales (deliver/transfer) of problematic assets, which will require forming laws for the institutions' activities, the main function of which will be the work with problematic assets. It is also necessary to settle the matter of loans restructuring.
Recovery of the financial system	It can be achieved with the government support and support by owners, by implementing the mechanisms of conversion of deposits into bank shares. The development of the corporate management system is also important.
Stabilization	It requires ensuring the operation of the system of effective supervision aimed at preventing harms, strengthening investors' and consumers' rights protection.
Effectiveness	Focus on increasing the population's awareness, diversifying risks by establishing financial institutions in order to enforce solidary sharing of great risks while performing particular types of activities, common financing of major projects, implementing risk management systems and securities to ensure guaranteed accounts settlement in the stock market, effective management operations.

Source: developed based on [7]

Thus, the basic premise for the stable development of the financial market of Ukraine is to develop an actual sector of the economy. All the measures focused on this shall be based on a single projection of a final aim by authorized bodies and on a raft of measures implemented for stabilising the financial sector by the National Bank of Ukraine and Government, and a real scenario of the economic recovery.

Conclusions and further research. Chosen by Ukraine way to the European integration prompts the state to create an effective financial space for all financial institutions. The financial market of Ukraine has a significant impact on the development of all sectors of the country's economy. The current stage of development of the financial market and its components is a complex, predicted with difficulty and dynamic process. But at the same time, this process induces the introduction of innovative processes. Today, the development of the financial system of Ukraine is determined by the Comprehensive Program for the Development of the Financial Sector of Ukraine until 2020, the Memorandum on Economic and Political Policy, and the Agreement on Cooperation between Ukraine and the EU. But the measures prescribed there are more technical in nature and do not allow opening a full potential of the financial system.

The current financial crisis raised a question on further ways of development of the world financial market and possibilities of creation of anti-crisis measures. The development of financial innovations and the desire to maximize profits leads to the creation of new financial instruments. The current stage of development of the financial market of Ukraine and its components requires creating such conditions that will ensure the investment of the private sector. And to solve this problem, it is necessary to build transparent state financial policy in the direction of regulating the financial market with clear and understandable instruments of regulation and providing an appropriate level of protection of the rights of investors and shareholders. Improvements should be considered individually for each financial market participant. For banking and non-banking institutions, it is necessary to increase the role and functions of supervisory boards, for insurance companies – to implement the accumulating pension insurance, and for the population – to improve the sys-

tem of guaranteeing deposits. The abovementioned processes will increase the toolkit on the financial market of Ukraine. In Ukraine, it is necessary to implement a long-term strategy for the development of the financial market, which includes: rehabilitation or liquidation of insolvent banking institutions, restructuring of problem loans, state support for the financial system, monitoring of activities of financial institutions aimed at preventing the occurrence of threats, strengthening the rights of investors through the implementation of the relevant legislative framework, and so on. The strategic development of the financial market of Ukraine will increase the liquidity of financial instruments of the market and will ensure the creation of favourable conditions for strengthening investment flows.

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