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## **DEVELOPMENT OF FINANCIAL MARKET AS FACTOR OF ECONOMIC SECURITY OF UKRAINE**

The financial market is the most important component of the economy of the country, and the economic efficiency of the country depends on the efficiency of its development.

In modern domestic and foreign literature there is a large number of definitions of the concept of "financial market". Blank I. A. believes that the financial market is a market in which various financial instruments and financial services serve as the object of sale [1, p. 128]. Vasilik O. D. provides such a definition of the financial

market - a mechanism for redistribution of financial re-assets between individual subjects of entrepreneurial activity, the state and the population, between the participants in the budget process, some international financial institutions [2, p. 29]. According to V. M. Oparin, "Financial Market" is a collection of exchange-redistributive relations associated with the processes of purchase and sale of financial resources, which are necessary for the implementation of production and financial activities [3, p. 63]. Komarinsky Y., Yaremchik I. [4] characterize the financial market as a market for loan capital, and they define it as a system of economic relations that provide: the accumulation of free money; conversion of funds into loan capital; redistribution of capital between participants in the reproduction process.

We believe that the financial market is the most important component of the financial system of the state, which can successfully develop and operate only in market conditions. The development of the financial market reflects the flexibility of the financial system of the country and the speed with which it can adapt to changes in the economic and political life of the state, as well as to the various processes that take place outside its borders. The financial market provides the free movement of capital and other financial subjects on a global scale.

In the modern world, the risks associated with the stability of financial markets are among the most important indicators for the economic security of the state. It is clear that the violation of stability under the influence of interfering factors threatens the collapse of the entire financial system as a whole. In this regard, the concept of financial market security from a methodological point of view, requires methodological study of the relevant indicators of its sectors.

The financial market arose, as a result, from the emergence of the need for an additional form of mobilization of funds for financial support for the development of the economy of the state. So we can argue that the financial market should reflect the supply and demand of financial resources at the least cost, then it will be perfect and promising for the country. [2, p. 60]. The objects of relations in the financial market are: securities, financial services and monetary resources.

The most active institutional players in the financial services market of Ukraine are commercial banks, insurance companies and stock exchanges, since they accumulate the largest share of financial resources and directly influence the development of production in the country, the investment climate and the welfare of the population.

The banking system plays a dominant role in the financial market of Ukraine. The dynamics of the number of Ukrainian banks for 2018 is shown in Table 1.

**Table 1**

**The number of commercial banks in Ukraine in 2018 \*.**

Date	Number of the operating banks	with foreign capital	including 100% foreign capital
1.01.2018	82	38	18
1.02.2018	82	39	18
1.03.2018	82	39	18
1.04.2018	82	39	20
1.05.2018	82	39	20
1.06.2018	82	39	20
1.07.2018	82	40	23
1.08.2018	82	40	23
1.09.2018	81	40	23
1.10.2018	81	41	24
1.11.2018	79	39	22

\* **Source:** <https://index.minfin.com.ua/ua/banks/stat/count/2018>

Today, the financial system of Ukraine is experiencing one of the most massive crises during the years of independence, which is reflected in the financial markets of the country. The number of banking institutions tends to decrease. Over the past six years, the number of banks has more than doubled, by 53.4%. One of the important reasons for reducing the number of banks is their recognition as insolvent - in addition to the violation of the legislation regulating the prevention and counteraction of the legalization of proceeds from crime, there was insufficient level of their capitalization and the inability of shareholders to provide the appropriate level financial support. The number of banks with foreign capital also declined significantly - by 26.4%.

Thus, an analysis of the current state of the banking sector of the Ukrainian economy provides an opportunity to identify several problems in the banking sector:

- political and financial instability in the country;
- low quality of bank assets;
- decrease of liquidity of banking assets;
- low confidence in the banking system among the population;
- imperfect and unstable legal base in the state;
- high degree of vulnerability of the banking system to the currency and exchange rate policy in the country, conducted by the NBU.

In order to strengthen the banking institutions' own positions in the financial market, they need at first improve the liquidity indicators that can be done through interaction with other financial intermediaries, in particular, with insurance companies, securities traders, through the use of non-standard schemes of work with others players in the market of banking services and the search for informal approaches in relations with clients, raising standards for the provision of traditional banking services, the development of fundamentally new banking products and services, creating a positive image of the bank, etc.

An equally important segment of the financial services market in Ukraine is the insurance market, the full existence of which is an important condition not only for the welfare of the population, but also for the sustainable economic development of the country. The growth rates of the main indicators characterizing the current state of the development of the insurance services market are primarily due to an increase in the volume of voluntary property insurance amounting to 80-85% of all insurance premiums.

The insurance market is an extremely complex multi-level system, which consists of a number of interconnected and interdependent subsystems such as: insurance products, tariffs, sales organization and demand formation, infrastructure, etc.

Insurance market is a special area of monetary relations, where the object of sale is a specific service - insurance protection, it is formed the supply and demand for it [8].

The insurance market is the second in terms of capitalization among other non-bank financial markets. The total number of

insurance companies as at 30.06.2018 amounted to 291, including «life» insurance companies - 31 companies, «non-life» insurance companies - 260 companies (as at 30.06.2017 - 300 companies, including insurance companies "life" - 36 companies, insurance companies "non-life" - 264 companies). The number of insurance companies tends to decrease, as of 30.06.2018 compared to the same date in 2017, the number of companies decreased by 9 insurance companies [8].

The dynamics of the main indicators of the insurance market is shown in Table 2.

**Table 2**  
**Basic indicators of the insurance market and its dynamics \***

	first half of 2017	first half of 2018	Growth rates	
			first half of 2018/ first half of 2017	
Number of insurance contracts entered into during the reporting period, thousand units				
Number of contracts, except for contracts on compulsory insurance against accidents in transport, including:				
	35 847,8	38 956,5		8,7
- with insurers - individuals	33 839,9	36 611,5	-	8,2
The number of contracts on compulsory personal insurance against transport accidents	54 147,6	65 498,5		12,8
Insurance activity, mln. UAH				
Gross insurance premiums	21 222,8	23 425,3	2 202,5	10,4
Gross insurance payments	4 783,9	6 070,2	1 286,3	26,9
Gross Payments,%	22,5	25,9	-	-
Net insurance premiums	13 509,5	16 746,8	3 237,3	24,0
Net insurance payments	4 614,9	5 862,9	1 248,0	27,0
Level of net payments,%	34,2	35,0	-	-

\* **Source:** <https://forinsurer.com/files/file00642.pdf>

The number of concluded insurance contracts with individuals on the results of the first half of 2018 has undergone, in particular, the following changes:

- the number of concluded insurance contracts for transport accidents increased by 9 159,7 thousand units (up to 56 834,9 thousand units) compared to the corresponding indicator by the end of the first half of 2017;

- the number of concluded accident insurance contracts increased by 3,255.5 thousand units (up to 19,051.4 thousand units) compared to the corresponding indicator at the end of the first half of 2017;

- the number of concluded financial risk insurance contracts decreased by 1 304,0 thousand units (up to 3 035,6 thousand units) compared to the corresponding indicator at the end of the first half of 2017;

- the number of concluded health insurance contracts in case of illness decreased by 49.5 thousand units (up to 2 902.9 thousand units) compared to the corresponding indicator by the end of the first half of 2017;

- the number of concluded property insurance contracts decreased by 360.5 thousand units (up to 1 207.6 thousand units) compared to the corresponding indicator by the end of the first half of 2017. Thus, today the insurance market of Ukraine is at the development stage and has certain advantages and significant number of shortcomings: the growth rate of the insurance market lags behind the growth rate of the economy, and its share in the GDP of the country is insignificant. But the Ukrainian insurance market has a strong potential for development.

The insurance services market involves the independent activity of its participants, which are in a competitive environment, and build their relations on fluctuations in demand and supply. The insurance services market is an effective means of redistributing funds that were previously accumulated to further invest in the country's economy. An analysis of integration processes in the Ukrainian insurance market suggests insufficient degree of its development and the need for further liberalization, which is intended to promote integration into the world insurance industry. In Ukraine, as in the world insurance market, there is a process of increasing the capitalization of national insurers, merging insurance, banking and

industrial capital. The liberalization of trade in insurance services contributed to the exit of Ukrainian insurers into foreign markets, but the presence of national insurance capital on them was insignificant.

Ukraine is lagging behind in the process of bringing regulation of insurance activity in line with world standards. The development of the insurance market as an integral part of the financial market of Ukraine, its further dynamic development, volumes and directions of financing of economic entities will depend on expanding the range of insurance services, increasing their competitiveness, improving the regulatory and legal framework in terms of taxation and increase of requirements to the order of creation of insurance companies, ensuring the optimal structure of the relationship between compulsory and voluntary insurance, involvement of the insurance market before the decision the role of social insurance, further integration of the country into international structures, involvement of the insurance market in solving the most important issues of economic development of the country.

The third strongest segment of the financial services market in Ukraine is the stock market.

In the stock market, there is a relationship of purchase and sale of securities. In turn, securities have a certain value and affirm certain relations between issuers and investors regarding the ownership of securities. In general, the securities market moves capital from the investor to production.

Banks, joint-stock companies, commodity producers, intermediary offices and owners of free cash cover their interests in the stock market. Usually their interests can coincide, and may also enter into contradictions. The main indicator that influences the development of the securities market is the volume of issuance of securities.

The issuance of securities is considered the main means of combating budget deficits. Authorized bodies of the state may issue securities to repay certain expenditures. At the same time, the state, being the issuer, becomes a subject in the stock market.

At the current stage of development, the Ukrainian securities market has low capitalization and liquidity, insufficient protection of investors' rights and lack of transparency. In the recent years there is a different dynamics of securities issues.

The stock market in one or another country is characterized, first of all, by the volume of exchange trading in securities, the number of securities traded on stock exchanges.

The total volume of issues of securities issued by the National Securities and Stock Market Commission in January 2018 amounted to UAH 3.8 billion, which is an increase of UAH 757 million as compared to the corresponding period of 2017 (UAH 3,02 billion).

The largest volume of trades on financial instruments at trade organizers during the specified period was fixed with government bonds of Ukraine - UAH 20.1 billion (93.6% of the total volume of exchange contracts at trade organizers during January-December of the current year).

In January-2018, the consolidated trading of securities in the two stock exchanges Perspektiva and PFTS was observed at the organizationally-formed market, which was 81.8% of the value of exchange contracts (Table 3).

**Table 3**

**Volume of exchange contracts on trade organizers with distribution by type of financial instrument (in the context of organizers of trade) during January 2018, mln. UAH**

Trade Organizer	Shares	Bonds of enterprises	Government bonds of Ukraine	Investment Certificates	Derivatives	Total
PFTS	8,00	117,49	6257,24	0,00	0,00	<b>6382,73</b>
Perspektiva	0,00	20,61	11135,69	16,01	20,28	<b>11192,60</b>
UB (Ukrainian exchange)	198,32	569,98	2713,38	0,46	429,19	<b>3911,33</b>
Ukrainian Interbank Currency Exchange	3,02	0,00	0,00	0,00	0,00	<b>3,02</b>
<b>Total</b>	<b>209,34</b>	<b>708,08</b>	<b>20106,31</b>	<b>16,48</b>	<b>449,47</b>	<b>21489,67</b>

\* **Source:** <https://www.nssmc.gov.ua/2018/01/19/byuleteny-shtodostanu-rinku-tsnnih-paperv-grudeny-2017>



A prerequisite for the development of the securities market is the determination of a strategy for further development that will ensure and balance the budget, stabilize the economy and financial system. In order to improve the efficiency of the participants' work on the securities market, improvement of the information disclosure system for market participants and issuers is a prerequisite. By guaranteeing and insurance of investments you can provide protection for small investors. By introducing measures, it is possible to improve the activities of market participants, which in turn will improve the dynamic development of the securities market in Ukraine.

Taking into account foreign experience, it can be argued that, despite the problems of the Ukrainian securities market, it develops and becomes an integral part of Ukraine's market system. Commercial banks play an important role here, because they are actively involved in stock transactions, contributing to the formation and development of the secondary market. But not all Ukrainian banks are ready to change the way of making profits and switch to the stock market.

One of the most important goals of the current stage of development of the country's economy is the implementation of sound and systematic reforms in the financial sector to provide additional sources of financing for economic growth. This, in turn, requires the development and consistent implementation of a long-term comprehensive strategy for the development of the financial sector of Ukraine, taking into account the existing economic realities and strategic priorities of Ukraine in the conditions of globalization of world financial markets.

### **CONCLUSIONS**

The development of the economy is impossible without a developed, stable, reliable and efficient financial market of our state. The current processes taking place in the financial market have negative trends and point to the need for the immediate development and implementation of measures to stabilize and improve the financial market. However, it is precisely this period that is most conducive to introducing innovative, and sometimes radical measures to reform the entire financial market. It is clear that financial markets need to introduce radically new financial instruments and management methods.

Thus, in Ukraine, the banking system is dominant among other segments of the financial sector, and any unstable phenomenon in the economy is primarily reflected on it. The instability of the domestic financial system is primarily due to the detachment of financial market participants from stimulating the development of economics, their orientation towards quick earnings, and due to the lack of confidence of the population in financial and credit institutions.

The financial market should become one of the main mechanisms for the mobilization of free resources for economic development and the formation of reliable savings instruments for the population. This can be achieved by stabilizing the foreign exchange market, reducing and maintaining the level of inflation at acceptable levels for the development of the economy, stabilizing the work of the financial sector, restoring public confidence in the institutions of the financial market.

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