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## **ANALYSIS OF THE CURRENT STATE OF INTERACTION BETWEEN BANKING AND REGIONAL SECTORS OF THE UKRAINIAN ECONOMY**

Banking sector is one of the main links of the state economy and acts as an important factor in promoting the socio-economic development of the state. The relationship between the banking and real sectors of the economy is realized through the interaction of financial investment and crediting processes, the provision of mutual consulting services, and service operations between enterprises.

Nowadays the interaction of the real and financial sectors of the economy is relevant. The efficiency of the banking system, its ability to provide the economy with a sufficient amount of money supply, significantly affects the development and functioning of the real sector of the economy. Crediting has a special role, it expands the investment opportunities of enterprises, encourages the development of innovative technologies, and allows the enterprise to maintain the level of solvency at a sufficient level. Businesses and households with excess monetary resources form the credit base of banks, which, accordingly, acts as a source of support for real sector entities experiencing pressing need for resources.

Studying the current state of the banking system of Ukraine, it is worth noting that the political and military instability, quarantine measures imposed due to the global

pandemic, inflation and general economic destabilization have negatively affected the banking sector and the performance indicators of banks operating on the territory of Ukraine. As a result of the spread of COVID-19 and the introduction of quarantine measures, banks' loan portfolio and profits have decreased. At the same time, unlike previous crises, the volume of household and business deposits have grown. Against the background of the COVID-19 pandemic, despite the further reduction in the cost of loans, the demand for loans from both businesses and households have decreased, which led to a decrease in the loan portfolio of banks.

Thus, the portfolio of net business loans (i.e., the portfolio excluding reserves) decreased in the quarter by 6.3% in Hryvnia and by 3.6% in foreign currency in dollar equivalent. The portfolio of net population loans has decreased by 5% in the quarter (-4.4% in April) for the first time since the beginning of 2017. The key factor of this reduction was the formation of reserves by banks, while the demand for loans decreased due to the worsening consumer sentiment [1].

Data for the first quarter of 2020 indicate a decline in real GDP by 1.3% in annual terms. The main reasons for the decline in the Ukrainian economy include the negative impact of quarantine restrictions in the service sector, a sharp drop in investment, and a slowdown in the growth of private consumption and exports caused by a weakening of external demand. This is evidenced by detailed GDP figures for the first quarter of 2020, published by the state statistics service of Ukraine [1].

The key condition for the effective functioning of enterprises is a sufficient level of financial security, including the availability of the necessary amount of both own and borrowed financial resources. The instruments used for financial support of the enterprise activities in the real sector of economy by banking institutions usually include bank loans.

Today, there is a decrease in the share of loans granted to businesses in the total volume of lending and a slight increase in the share of loans granted to individuals. The tendency to reduce the volume of lending to business entities is shown in Fig. 1.

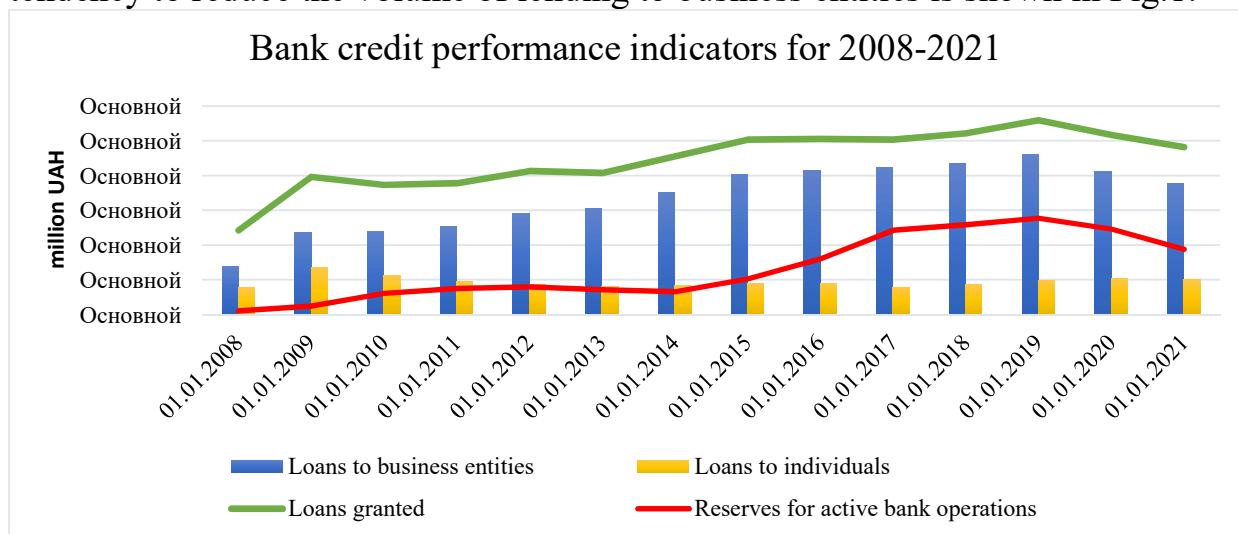


Fig. 1. Bank credit performance indicators for 2008-2021

Source: compiled by the author on the basis of data [2]

Thus, studying the current state of interaction between the financial and real sectors of the economy, it should be noted that despite the aggravation of the situation in the country, the banking sector of the economy tries to provide appropriate support and close interaction with businesses. The prospects for the development of the domestic industrial sector depend, to a certain extent, on the ability of banking institutions to act as financing sources for the domestic enterprise activities.

### *References*

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