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## **INFLUENCE OF EUROPEAN EXPERIENCE ON THE FORMATION OF THE STRATEGY OF INNOVATIVE RENEWAL OF THE UKRAINIAN ECONOMY**

The introduction of financial innovations has always been focused on effective management of financial resources and risks in order to ensure development, competitiveness, and financial stability in conditions of economic instability. Thus, before considering the possibilities of practical applications of innovations in the field of finance in Ukraine, it is necessary to outline the main problem areas of the domestic financial system.

It is worth noting that since Ukraine is characterized by a continental model of the economy, the development of the banking sector took place at a significantly higher pace compared to the stock market. Today, the Ukrainian stock market is not a full-fledged financial mechanism that would effectively perform the functions of capital redistribution and contribute to its attraction.

Considering the problems in the banking sector of Ukraine, we can observe the following trend. During 2014–2016, the activity of banks in Ukraine significantly decreased, and only in 2017 it began to recover slightly and increase its pace. Currently, there are 88 solvent banks in the country, while 92 are in liquidation and 4 are declared insolvent. In the third quarter of 2019, net corporate loans increased by 4.7%, primarily due to state – owned banks (except PrivatBank) and foreign banks. Some large default loans are fully reserved; they have been written off or restructured for a total amount of more than 10 billion. At the same time, the share of non – performing loans to business entities during 2016–2019 increased by more than 20%, amounting to 55.2%, and to households – by 57.7%. The share of such loans in banks’ portfolios has been steadily growing over the same period of time: in state – owned banks – by 59.3%, foreign – by 45.9%, private – by 28.6%. At the same time, the average total coverage of non – performing assets in 2016–2019 is 76.6% [1].

Among the main reasons for the general deterioration of banks’ performance indicators are: the unstable macroeconomic situation in the country, the devaluation of the national currency, low solvency of the population, as well as the need to form huge reserve funds to cover insolvent assets, which negatively affects the profitability of other banks.

One of the acute problems of Ukrainian banks is the growth of problem loans. As practice has shown, after the introduction of new rules for assessing credit risks (IFRS 9 standard) in 2017, it was revealed how much banks underestimate or hide the

threat associated with their debtors. Thus, the country's largest banks hold the largest number of overdue loans in their portfolio.

In this case, it is the technology of decentralized registers that would be the solution. It would allow you to create a single database, but distributed over many nodes (computers) connected by the network, which would be accessible (in whole or in part) to all direct participants in the process. It would be characterized by full transparency, reliability and direct cooperation of all banks and credit bureaus in Ukraine.

In addition, this will be the first attempt in Ukraine to create a full-fledged digital «token» for the population. This means that after collecting all the necessary information, the client, with the help of the bank, will transfer it to the appropriate blockchain database. In the future, not only banks or credit regulatory authorities will have access to this database or its individual elements, but also other institutions that require certain information about the population for their activities. Further, such a database will only be supplemented and quickly adapted to general changes at the state level. All this will once again lead to lower costs in general and increase the efficiency of both state structures and private organizations.

Describing the overall effect of implementing such a technology, we can come to the following conclusions. Reducing operating expenses will lead to an obvious increase in banks' profits. As a result, one of the main activities of the NBU today, namely, the recapitalization of Ukrainian banks, will reduce its need. An open and simple system will stimulate the growth of public confidence, which in response will start using the services of banks with greater activity. This will attract a flow of deposits, as well as allow banks to resume lending activities and start financing the real sector of the economy again.

The main conclusion that can be reached by analyzing the European experience in implementing financial innovations is that any initiative aimed at improving the well-being of business entities or the population is actively supported by the governments of EU countries. In Ukraine, on the contrary, any initiative faces obstacles from the government and the legislative framework in particular. The conditions created at the moment do not allow any of the components of the financial system of Ukraine to develop and modernize. At the same time, the entire potential of Ukrainian innovators is redirected abroad.

### ***References***

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