SECTION 5. FINANCE, PENNILESS AND CREDIT

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5.1 Modern concept of the essence and structure of the financial market

The financial market is a crucial component of the modern economic system with its own philosophy, logic and development dynamics, which reflects the interaction of all economic entities and structural changes in the country's economy, allows mobilizing funds and directing them to meet the needs of economic entities for financial resources, and allows the state to promptly influence the dynamics of economic processes in the country. The role of the financial market as a regulator of economic development is constantly growing in view of periodic crises and the need to ensure macrofinancial stability in Ukraine. A modern sign of society's development is the financialization processes that determine geopolitical dominance and cause a dynamic transformation of the financial market and financial space, which takes place in the context of homeostatic development of economic systems and society, taking into account both the regulatory functions of the state and market mechanisms. A new financial space is being formed under the influence of financial algorithms that coordinate the interaction of financial market participants, startup investments, and the implementation of infrastructure solutions for service ecosystems and business processes, which has both great potential for accelerating economic development and significant financial risks and threats. Ensuring the sustainable development of the domestic financial market and increasing its resilience requires the development and coordination of macro-structural and macro-financial measures in the context of the implementation of the Strategy for the Development of the Financial Sector of Ukraine until 2025, using the active reformist financial policy of the state. In view of the above, special attention should be paid to the development of the theory and methodology of comprehensive research to determine the optimal combination of regulatory functions of the market and the state, the interaction of the financial market with reproductive processes in the economy in the context of its integration into the global financial space.

For a business entity, it is extremely important to obtain financial resources that will ensure the continuity of production and sales activities. Accordingly, at the level of the economy, it is necessary to ensure an effective mechanism for redistributing financial resources from those entities that do not use them to those entities that can use them in their practical activities. In this context, the relevance of studying the financial market as a place of intermediation between different parties to the economy is increasing.

There are several approaches to defining the essence of the financial market. From the organizational point of view, the financial market is considered as a set of financial institutions that issue, buy and sell financial instruments [104, p.18]. In the organizational context, the financial market should be considered a set of business entities, the population and financial infrastructure, which includes exchanges, commercial banks, financial control authorities and other participants in the process.

The financial market as an economic category is a mechanism, instruments and participants in the redistribution of free money capital, as well as a set of economic relations that are part of production relations related to the mobilization, accumulation and distribution of funds intended for expanded reproduction [106, p.26]. In this definition, attention should be paid to the last part of the sentence, i.e., the financial market is used to raise funds to ensure further reproduction. It is difficult to agree with such an unambiguous approach, because business entities enter the financial market not only to attract resources for investment and expansion of their core business. Individuals also actively participate in the financial market, for example, to accumulate their personal funds. Companies can also enter the financial markets to raise quick money to cover cash gaps or replenish working capital. That is, obtaining financial resources to ensure reproduction is just one of the reasons for entering the financial markets.

Thus, it is worth formulating the author's definition. Financial markets are a set of mechanisms, instruments, and participants involved in the process of redistribution of financial resources to achieve the goals of raising funds to cover cash gaps, replenish working capital, ensure expanded reproduction, efficiently allocate free funds to generate additional income, and achieve other goals within the framework of their financial activities.

There are many approaches to segmenting and defining the structure of the financial market. Most often, the period of use of borrowed funds and the type of financial instrument are used as a classification feature (Figure 1).

The capital market is a part of the financial market where financial resources are redistributed using instruments for a period of more than one year.

Enterprises and organizations enter the capital market to raise financial resources to finance long-term projects, expand their operations, acquire other enterprises, and achieve other goals that require "long money". It is worth noting that a large list of financial instruments can be used for long-term capital raising, such as shares, bonds, loans from commercial banks and other financial organizations, etc.

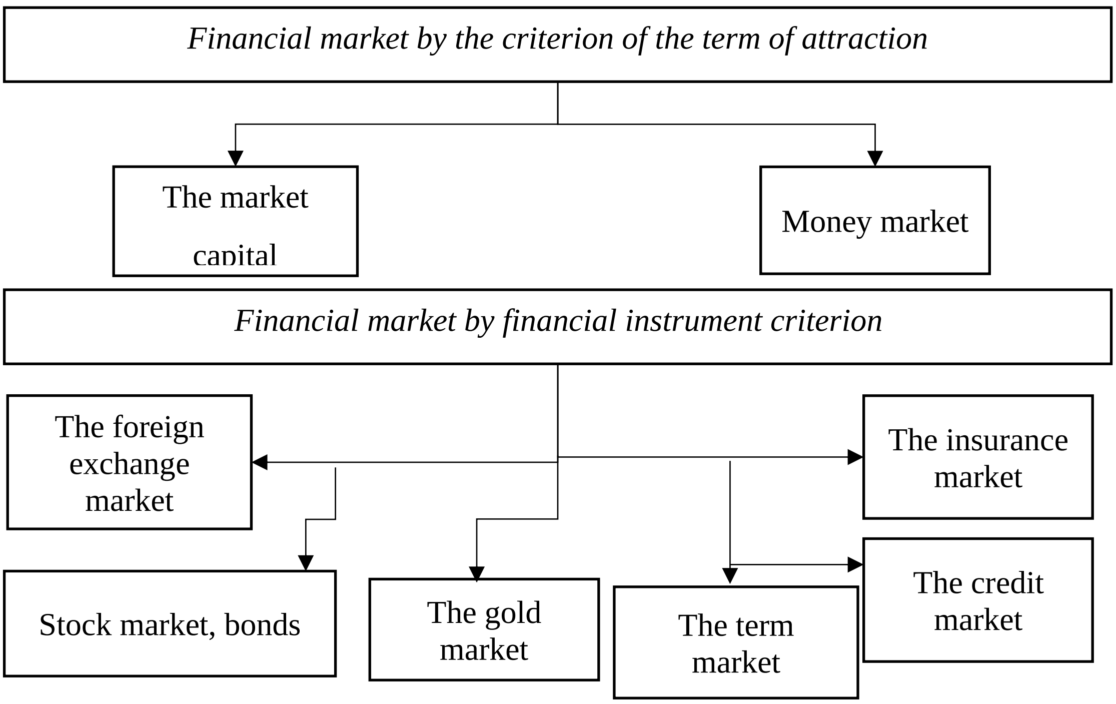

Figure 1. Structure of the financial market

The money market provides short-term financing (up to one year) to government agencies and large organizations. It also includes transactions that involve enterprises and other organizations receiving funds for a period of up to one year.

Short-term securities usually include short-term bonds, treasury (government) bills, commercial bills, etc. Financial resources from the money market are needed to cover cash gaps, i.e. to correct the situation when urgent liabilities exceed the most liquid assets of the company. Also, a short-term loan or credit can be raised to replenish working capital to secure a business transaction. In addition, the instruments of this market are used to finance various trading operations.

It is worth noting that the division of the market into money and capital markets is conditional. In practice, short-term and long-term financing takes place within the same institutions and organizations. For example, a company or organization can obtain a loan from a commercial bank for a period of up to one year or for a period longer than that.

Given that the banking sector is the most popular segment of the financial market among the population [102, p.202], it can be expected that most financial resources are concentrated here, and thus, enterprises and organizations can attract credit funds to finance their activities. Banks can provide loans for up to one year and long-term loans. In the process of lending, hryvnia is mainly used, but US dollars, euros and other currencies are often used to finance foreign economic activities.

Banking institutions, as the most important players in the lending market, offer a wide range of services aimed at both legal entities and the general public. Such credit market instruments as consumer lending, development lending, mortgage lending, working capital lending, credit lines, etc. are actively used.

It is also worth paying attention to the functions performed by the financial market. There are a large number of them:

1) pricing function - the pricing function in the financial market is the ability to set prices for financial instruments and regulate them in the course of transactions. These prices primarily reflect the relationship between supply and demand.

2) intermediary function - organization of the process of bringing financial assets to consumers (buyers, depositors). This function is externally manifested through the creation of a network of various institutions for the sale of financial assets (banks, exchanges, brokerage houses, investment funds, stock shops, etc.)

3) accumulative function - financial support of investment and consumption processes. The content of this function is to create conditions for the financial market

to accumulate by entrepreneurs the monetary resources necessary for the development of commercial activities, as well as to meet personal (social) needs.

4) stimulating function [113, p.262] - influence on money circulation. It means the creation by the financial market of conditions for the continuous flow of money in the process of making various payments and regulating the amount of money supply in circulation. This function is used to implement the state's monetary policy.

5) the information function of the financial market is related to the fact that all market participants, especially those who work professionally in the market, form and develop product offers in such a way as to attract as many counterparties to transactions as possible. Information on investment and fundraising opportunities is accumulated, systematized and disseminated.

6) investment function - the effective operation of the financial market ensures the intensification of investment activity in various sectors of the economy. Funds are redistributed from less efficient sectors to more efficient ones.

7) innovation function [101, p.61] - the financial market stimulates the development of innovations, especially when it comes to financial innovations.

8) speculative function - many financial market participants are professionally engaged in making profits from the sale and purchase of various securities and other financial instruments

9) risk management function - another extremely important function is to provide the financial market with the ability to manage various risks of enterprises and other economic agents.

The financial market plays an important role in a country's financial system. It is a platform where individuals, institutions, and governments can buy and sell financial securities such as stocks, bonds, currencies, commodities, and derivatives. The financial market also facilitates the transfer of risks between parties. For example, investors can transfer the risk of a particular asset to another party through derivatives such as options and futures. This can help investors manage their portfolios and reduce the likelihood of potential losses.

In addition to providing liquidity to investors and allocating capital, the financial market also plays an important macroeconomic role. It serves as a barometer of the economy, reflecting the state of economic activity, inflation expectations, and the health of the financial system. Therefore, policymakers and central banks closely monitor financial market developments as part of their efforts to manage the economy.

Considering the essence and functions of the financial market, it is necessary to pay attention to the mechanism in the context of the financial market functioning, which means organizational and legal support, financial planning techniques, a set of financial, leverage, methods, tools [109, p.56]. The mechanism of the financial market functioning, according to the authors, consists of the mechanism of the foreign exchange market, money market, credit market, stock market, precious metals market, digital financial assets market, and insurance market (Fig. 2).

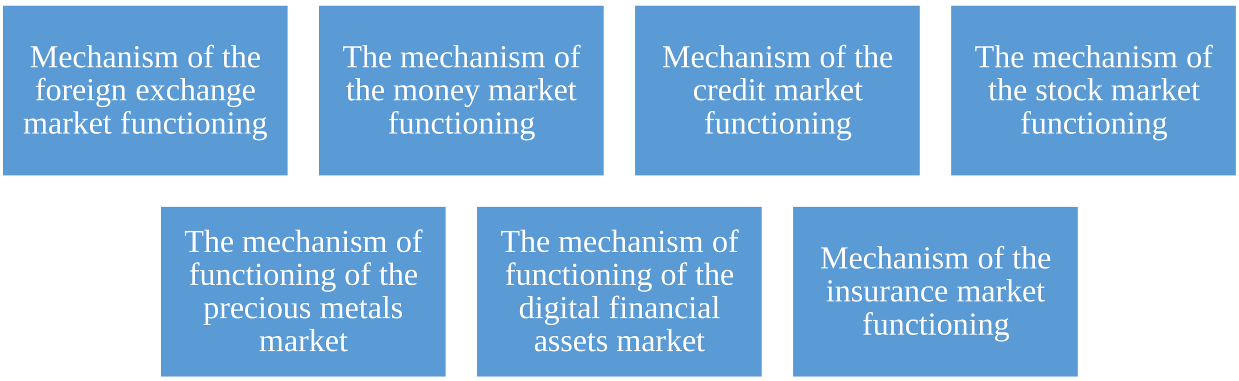

Figure 2. Model of the financial market functioning mechanism
Source: compiled by the authors on the basis of [109, p.57]

It is advisable to consider certain mechanisms. The structure of state regulatory authorities of the Ukrainian securities market is shown in Figure 3.

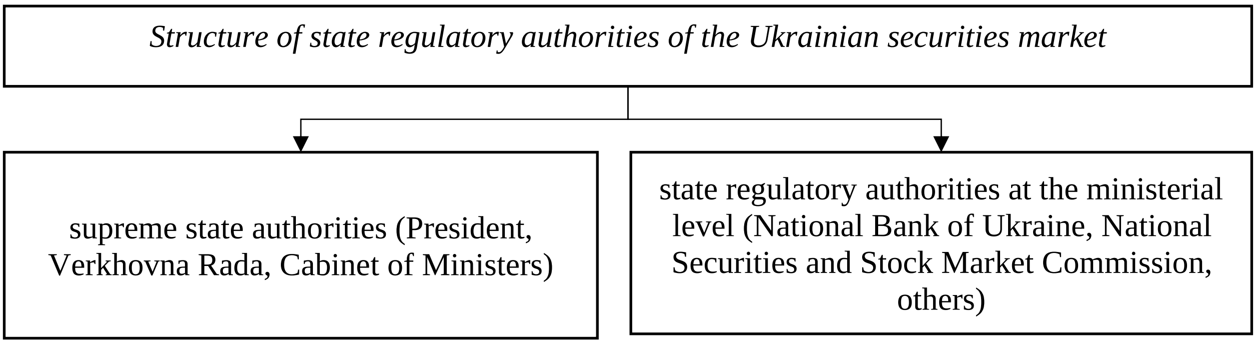

Figure 3. Structure of state regulatory authorities of the Ukrainian securities market
Source: compiled by the authors based on materials [110, 111, 112]

Legislative regulation is an important element of the mechanism. The government sets rules and standards that govern the securities market and the activities of market participants. These rules may include disclosure requirements, insider trading, and market manipulation.

Another important element of the mechanism is supervision by regulators. They exercise daily control and ensure compliance with the rules and standards set by the government. These authorities can monitor trading activities on the stock market, investigate potential violations and impose sanctions for non-compliance.

Another component is trading mechanisms. The securities market uses them to ensure a balance between supply and demand. Examples of such mechanisms include market making, price limits, and automatic transactions.

Monetary and credit policies also affect these processes. Governments can regulate the securities market, affecting the availability and cost of credit. This may include setting interest rates, controlling the money supply, and regulating the activities of central banks. As a result, the attractiveness of instruments on the stock market changes[109, p.55].

Tax policy can also influence this area by affecting the profitability of investing in securities. These may include capital gains taxes, dividend taxes, and other types of taxes that affect the profitability of investments. In general, the methods of securities market regulation can be divided into direct and indirect (Figure 4).

Methods of securities market regulation

Direct:
- regulation; licensing; formation of the regulatory framework;
maintaining law and order; setting certain requirements for participants; registration of securities issues; prohibition of illegal activities.

indirect:
- taxation; monetary policy; state participation in the market; creation of favorable economic conditions.

Figure 4. Methods of securities market regulation
Source: compiled by the authors based on [102, 105]

The mechanism of the foreign exchange market is extremely important. An important factor in exchange rate formation is the actions of the financial regulator and the state in general. In this context, it should be noted that Ukraine has established a floating exchange rate regime, but the situation is currently more complicated due to the intensification of the war. There are certain manifestations of a fixed exchange rate, for example, in the case of volunteer transactions. However, under normal conditions, a floating exchange rate is in place, which means that the price of the hryvnia is formed depending on the current international cash flows.

Of course, changing the regime is not the only tool at the government's disposal. Changes in the key policy rate, replenishment or release of gold and foreign exchange reserves, the impact on the required reserves, the central bank's participation in financial markets as a buyer or seller of assets, etc. are also important.

For example, as shown in Figure 5, an increase in the key policy rate leads to an increase in the overnight rate, which increases the value of the national currency, as its use and allocation in various instruments allows for higher yields. Conversely, a decrease in the key policy rate may lead to a shift of investors' capital to currencies that are more profitable in terms of profitability and risk. On the other hand, in the long run, a cut in the key policy rate will lead to an intensification of growth in the real sector, which in turn will strengthen the national currency due to increased export flows.

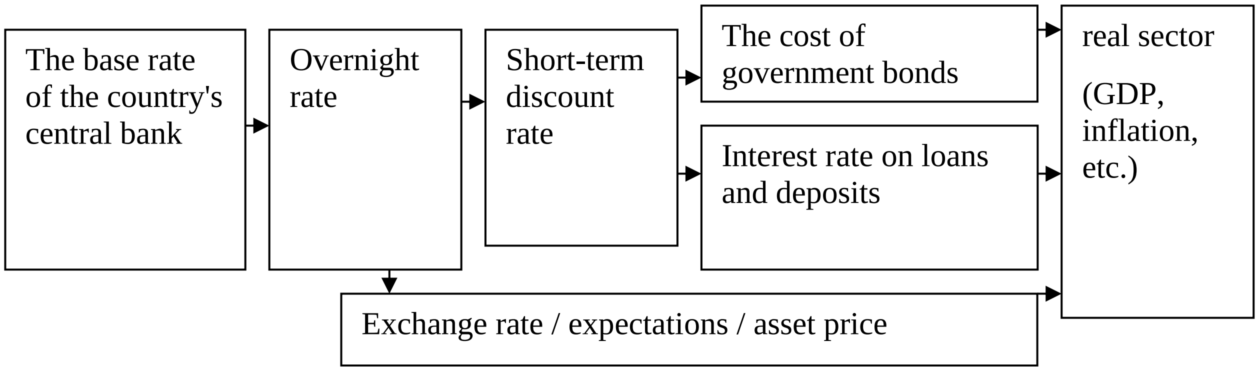

Figure 5. The mechanism of the NBU key policy rate influence on the exchange rate and the foreign exchange market
Source: compiled by the authors based on [107, p.72, 108]

Foreign economic activity is also a factor that has a significant impact on the current exchange rate. Foreign exchange flows determine the saturation of the national foreign exchange market with foreign currency and, therefore, its value against the hryvnia.

In this context, the development of export activities of Ukrainian business entities allows for the strengthening of the hryvnia, and vice versa, active imports of consumer goods, components, materials, raw materials, and fixed assets lead to an outflow of foreign currency and, consequently, a decrease in the value of the hryvnia.

The mechanism of functioning, including regulation of the banking sector, is important. The NBU determines the specifics of calculating credit risk, capital adequacy, foreign exchange transactions, and investment positions. With regard to Basel III, the NBU is moving towards harmonizing its decisions with the best practices that help ensure high financial stability of commercial banks globally. Currently, the NBU is actively implementing Basel III standards, including the introduction of a systemic buffer.

In addition to regulating the analytical process, the Central Bank also has a significant impact on the tools used by banking institutions. For example, this may include the formatting of loan portfolio provisions. If a bank engages in excessively risky activities, the amount of provisions formed will be significant, which will negatively affect the potential for further loan disbursement. That is why banks are interested in forming assets in such a way that financial stability is high.

Of course, this is only a part of the mechanisms that have been established in the financial market.

Thus, financial markets are a set of mechanisms, instruments, and participants involved in the process of redistributing financial resources to achieve the goals of raising funds to cover cash gaps, replenish working capital, ensure expanded reproduction, efficiently allocate free funds to generate additional income, and achieve other goals within the framework of their financial activities. Important functions include pricing, intermediary, accumulative, stimulating, informational, investment, innovative, speculative, and risk management functions.