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TRUST IN THE FINANCIAL SYSTEM AS A KEY FACTOR IN ENSURING ECONOMIC SECURITY

ABSTRACT

This study examines the role of trust as an institutional factor shaping economic security and argues that the institutionalization of trust creates essential preconditions for the predictability of economic processes, the stability of the financial system, and the strengthening of state sovereignty. The analysis demonstrates that, under conditions of a prolonged hybrid war, a comprehensive understanding of the factors determining an adequate level of economic security is of particular importance, as it underpins the formulation of a coherent and consistent economic policy.

The paper proposes a structural–functional model of economic security that integrates trust as a systemic institutional component and provides conceptual evidence of a relationship between the level of trust and the overall level of economic security of the state. Special attention is paid to the role of public finance management, which is interpreted not merely as an administrative function but as an institutional source of trust that influences both domestic and international confidence.

The study further shows that banking capital is highly sensitive to changes in social expectations, psychological conditions, and trust, with the impact on capital arising not only from direct asset losses but also from expectation-driven behavioral responses. The findings suggest that prioritizing trust-building at the state level is a critical task of economic policy, as institutionalized trust contributes to monetary system stability and supports the restoration of social capital, an essential element of economic security.

Keywords: trust, financial stability, capital sensitivity, economic security, institutional stability, monetary policy, expectations, financial system resilience, economic sovereignty

JEL Classification: D11, D12, E44, G01, H56

INTRODUCTION

Trust constitutes a foundational prerequisite for sustainable socio-economic development and a core determinant of the state's economic security. Under conditions of armed aggression against Ukraine, the intensification of hybrid threats, financial market destabilization, cyberattacks, and information influence operations, the restoration and institutionalization of trust acquire critical significance. In this context, trust becomes essential not only for the stability and resilience of the financial system but also for the effective functioning of the national economy and state institutions. The complexity of the nature of trust necessitates its study not only as a psychological phenomenon but also as an economic category that affects the stability of the financial system, policy effectiveness, and economic growth dynamics. Despite numerous studies, the national economic science lacks a holistic model of institutionalization of trust that would combine macroeconomic, behavioral and informational factors with the needs of economic security, and therefore there is a need to study trust as a systemic factor of economic security of Ukraine, to determine the mechanisms of its institutionalization and key factors in the formation of a balanced and sustainable economic policy.

Ukraine is facing an urgent problem of ensuring the country's comprehensive security, and due to the ongoing hybrid war, this issue goes beyond ensuring military defense capability alone, but also puts forward requirements for the functioning of the economy

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and ensuring the country's economic security as a complex multifactorial factor, including protecting the country's economy from internal and external threats, ensuring long-term stability, sovereignty and well-being.

LITERATURE REVIEW

For a long time, the issue of trust has been considered mainly within the framework of sociology, psychology, and social capital theory, where trust was interpreted as a norm of social interaction and a prerequisite for cooperation between economic agents (Fukuyama, 1995; Coleman, 1988; Lysenko, 2018). Within these approaches, trust is seen as a factor in reducing uncertainty and forming sustainable behavioral patterns under conditions of limited information.

Modern economic science has developed an interdisciplinary approach to the analysis of trust that combines institutional economics, behavioral finance, and political economy. In this context, trust is viewed as a functional element of the institutional environment that affects transaction costs, the efficiency of contractual relations, and the stability of financial institutions. The theoretical foundations of this approach are laid down in the works of R. Coase (1937), O. Williamson (1985), F. Hayek (1960), J. Kornai (1992), and other researchers who substantiated the role of institutions and rules of the game in shaping predictable economic behavior and reducing the risks of economic interaction.

Ukrainian scholars have made a significant contribution to the development of the institutional approach to the analysis of trust. The works of Heiets, Hrytsenko, and Krychevska (Heiets et al., 2019; Hrytsenko, 2010; Krychevska, 2009, 2010, 2017) study the impact of the development of the institutional environment of the economy on the formation and use of trust, and substantiate its role as a factor in the stability of financial and banking institutions. Particular attention is paid to trust in the state, the currency, and monetary policy as a prerequisite for financial stability and predictability of economic processes.

The importance of institutional factors and trust for long-term economic development is also confirmed by modern theoretical and empirical studies in the field of political economy. In particular, the awarding of the Nobel Prize in Economic Sciences in 2024 to Daron Acemoglu, Simon Johnson, and James A. Robinson emphasized the key role of institutions in shaping long-term economic prosperity and explaining differences in the development of countries depending on the quality of their institutions (Acemoglu, Johnson, & Robinson, 2024).

The issues of economic security were paid attention to in the work of Muntiyan (1999), who conducted a systematic analysis of economic security as a key component of the national security of the state and considered economic security as a multidimensional category that includes financial, investment, production, social, and foreign economic components. His study paid special attention to threats to economic security in a transformational economy, including financial instability, degradation of production potential, growing external dependence, and institutional weakness of public administration.

Baranovsky (1999) carried out one of the first comprehensive studies of financial security in Ukraine as a systemic component of the economic and national security of the state and considered financial security as a multilevel category covering the budget, monetary, banking, currency, debt, and investment spheres, emphasizing their interdependence and impact on the sustainability of economic development. This paper also pays considerable attention to the identification of internal and external threats to financial security, analysis of financial imbalances, and the role of state institutions in preventing crises, and substantiates the need to strengthen the institutional capacity of the authorities.

Zhalilo (2001) carried out a comprehensive analysis of the national security of Ukraine through the prism of international experience in the formation and implementation of security strategies. The author considers national security as a multi-component system in which economic, financial, and institutional components play a key role in ensuring the sustainable development of the state.

Also, the works of Sunduk (2006), Shevchenko (Ed.), Hrytsenko, Makukha, et al. (2009), Tkachuk (2011), Tsvihun (2017) showed the existing asymmetry of economic threats and focused the focus of economic security research on the structural institutional analysis of this category and demonstrated a systemic vision of economic security as a function of state institutions and strategic management.

Although not all these works separate the concept of trust as an independent analytical category, by emphasizing the importance of the institutional capacity of the state, they prove that the category of trust can be at the center of the formation of the country's economic security.

AIMS AND OBJECTIVES

The aim of this study is to examine trust as an institutional determinant of economic security and to substantiate the proposition that the institutionalization of trust creates preconditions for the predictability of economic processes, the stability of the financial system, and the strengthening of state sovereignty.

To achieve this aim, the study pursues the following research objectives:

1. To identify the key components that determine the state of economic security under conditions of a prolonged hybrid war and to assess their role in shaping a coherent and balanced economic policy.
2. To analyze the relationship between institutionalized trust and the restoration of social capital as an integral element of economic security.
3. To formulate evidence-based recommendations regarding the priorities of a comprehensive and balanced economic policy aimed at enhancing economic resilience.
4. To develop a structural-functional model of economic security that integrates trust as a systemic institutional factor.

METHODS

The study employs a qualitative analytical framework combining institutional analysis, structural–functional modeling, and logical–deductive reasoning. The structural–functional method is used to identify the core components of economic security and their interconnections, while institutional analysis allows for examining trust as a rule-based and expectation-driven mechanism. Logical analysis is applied to trace causal relationships between trust, behavioral responses, and banking capital dynamics during shock events. This methodological approach enables the identification of non-material transmission channels affecting financial stability.

RESULTS

RESULTS

The recent events around Ukraine, both military and economic, provide an understanding of the importance of a wider range of components that affect the country's economic security. In addition to military capabilities, these important elements include:

1. **Energy, resource, and food security**, which should include a stable energy supply, access to raw materials, low dependence on unfavorable external sources, availability of domestic agricultural production, and strategic reserves.
2. **Sustainability of critical infrastructure**. Transportation, communication, and logistics systems must be protected from sabotage, cyberattacks, or natural disasters.
3. **Good governance** with the rule of law, transparent institutions, fight against corruption, and effective public finance management.
4. **Availability of human capital**, characterized by high employment with an effective social protection system.
5. **Innovative and technological sovereignty**, available domestic research and development capacity, and control over critical technologies, communication channels, and data.
6. **Effective international cooperation** with controlled external dependence: manageable external debt, diversified trade partnerships, and protection from economic coercion.
7. **Financial stability** and trust in financial institutions.

Of course, there is no such thing as perfect security: new threats always arise, and it is difficult to achieve perfect diversification of resources or maximum protection of the entire infrastructure. However, understanding all segments that ensure the state of economic security in the country is essential for a comprehensive and balanced economic policy.

Figure 1 presents the proposed structural–functional model of economic security, where trust evolves systemic institutional factors.

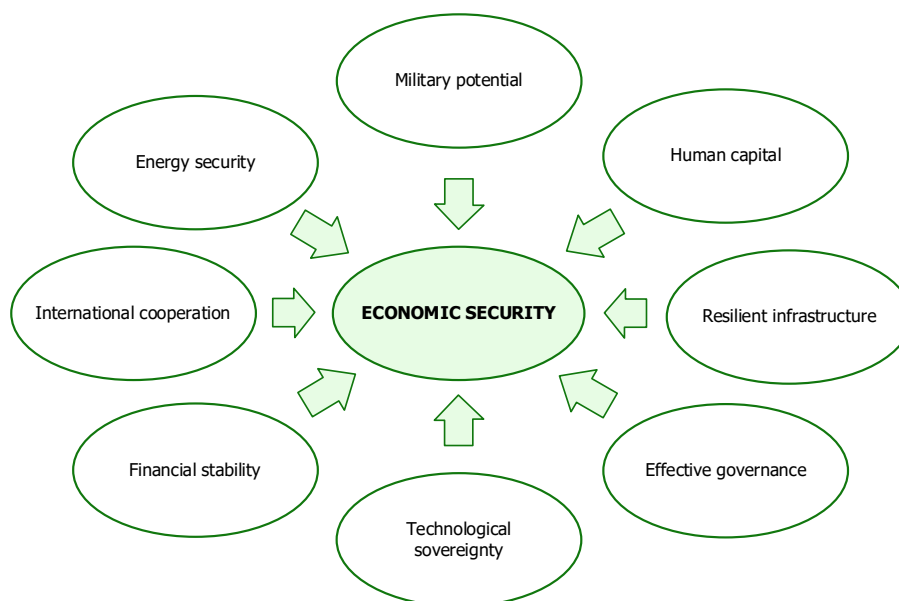


Figure 1. Components of economic security in the context of a prolonged hybrid war.

Energy independence

Recent events in the country leave no doubt about the critical importance of energy supply. Mobile communications, all digital technologies, partly transportation, and heat generation - everything requires power. An uninterrupted supply of electricity is essential for production, trade, and household functioning.

At the beginning of the rocket attacks on energy facilities in Ukraine, even cellular mobile networks did not work for some time, which affected the ability to pay for services with cards and receive other digital services.

An example of a contribution to energy independence was the National Bank's PowerBanking project (National Bank of Ukraine, 2022a). Thanks to this project, a network of bank branches was created in the banking sector, which provided an uninterrupted power supply. Similar projects are needed in many other key sectors of the economy. Gas, coal, and other components of the energy sector should also be the subject of economic security.

In order to develop a comprehensive plan to minimize the impact of power supply problems, it is necessary to assess the impact of power supply disruptions on all areas of government and commercial activity and develop appropriate BCP (business continuity) plans for their uninterrupted operation, diversification, and rapid recovery.

Threats to the energy supply arise where there are concentrations. Large suppliers, lack of markets, and alternative channels for service providers are all threats to economic security that require proper identification and diversification measures.

Energy stability directly determines production continuity and fiscal revenues. Industrial production traditionally forms more than 20% of GDP, meaning that even a temporary, relatively small 5% contraction of industrial output due to power disruptions may translate into multi-billion-dollar losses in national income and tax receipts. International experience confirms the economic magnitude of such shocks: a large-scale one-day blackout in a developed European economy resulted in estimated losses exceeding EUR 1.6 billion (Ekonomichna Pravda, 2025). Thus, energy resilience is not only a technical issue but a determinant of GDP dynamics, export capacity, and fiscal stability.

Resilience of critical infrastructure

Transportation, communication, and logistics systems must be protected from sabotage, cyberattacks, or natural disasters.

The resilience of critical infrastructure is one of the key factors of national security in times of war, as it ensures the continuity of the state's vital activity, the functioning of the economy and the ability of society to withstand crises. Transportation, communication, and logistics systems form the "circulatory system" of the country: they ensure the movement of people, delivery of military cargo and humanitarian aid, and the operation of almost all businesses. Their vulnerability to sabotage, cyberattacks, or natural disasters carries direct risks of destabilization, humanitarian disasters, or economic paralysis.

The security and continuity of critical infrastructure are directly related to the level of public trust in the state. When citizens see that transportation, communications, energy supply, banking and logistics systems are working even in times of war, they feel that the state is predictable, controlled and stable. This strengthens trust in institutions, reduces panic, and facilitates economic activity, social cohesion, and willingness to support government policies.

On the contrary, systemic failures or insecurity of infrastructure undermine trust, increase the sense of chaos and vulnerability, which negatively affects the morale of the population, the investment climate, and the country's international reputation.

Thus, the resilience of critical infrastructure in wartime is not only a technical or defense task, but also a strategic element of building public and economic trust, without which neither effective governance nor post-war recovery is possible.

In the context of infrastructure resilience, trust in digital technologies is a complex element.

Much of our lives has already migrated to apps: communication, payments, registration, transactions, certificates, permits, insurance, and much more.

But only recently, banks have experienced a large number of operational risk incidents related to:

- loss of access to state registers;
- power outages;
- malfunctioning of the mobile network (Kyivstar);
- an attack on the cloud provider's storage (De Novo).

Due to constant cyber threats and operational incidents, business continuity planning (BCP) in wartime is turning from "planning" to a daily activity. This necessitates effective counteraction at the level of the state and key institutions to cyberattacks and economic cyberespionage, as well as effective investigation of cybercrime. For example, there was a case when Biden's digital signature was compromised by hackers (Masnyi, 2021). And it was not enough for them to steal passwords - it was a systematic hacking of state protection elements to create a new signature of a non-existent person. This illustrates the significant vulnerability of existing cyber defense. Because of all this, cybersecurity is becoming another frontline.

High-quality technology platforms such as Diia, eHealth, and others play an important role in building trust in the government: Diia, eHealth, eCourt, E-data (OpenBudget), Prozorro, electronic offices of drivers, taxpayers, pension funds, etc.

But they are only trustworthy if all participants in the system use secure technological solutions, such as:

- digital signatures;
- encryption protocols;
- proper cyber defense systems.

Trust in digital technologies is particularly important in the context of the development of digital products by the state, financial institutions, e-commerce, and the widespread use of blockchain and cryptocurrency technologies.

Institutionalization of trust in IT technologies can take place through:

- formalizing the mandatory use of security and encryption protocols (SSL, TLS, HTTPS, AES, RSA);
- creation and widening of a culture of using qualified electronic signatures;
- application of two-factor verification in everyday digital culture.

Only by taking such measures does the country become less vulnerable. It is also important to ensure cybersecurity:

1. Attentive attitude to software developers; even if the developing company is not Russian, it may have Russian developers integrated into it, who will lay down malicious code that will be triggered in Ukraine or at some specific strategic facility.
2. Development of Ukraine's own expertise in software products.
3. Decentralization of software suppliers.
4. Cautious use of cloud services (no concentrations, availability of alternative suppliers, choice of country of location, verification of owners, duplication of information, and information exchange channels).

For example, as the management of one of the leading digital banks noted: “Monobank's server capacity is reserved in three locations: Kyiv, Warsaw, and Amazon” (Sobchenko, 2025).

In this context, the NBU Resolution “On the Use of Cloud Services by Ukrainian Banks under Martial Law” (National Bank of Ukraine, 2022b), which allows the provision of banking services and processing of transactions using cloud services located in the EU, UK, USA and Canada, needs to be extended, as it is currently stipulated that this provision will be valid only for the period of martial law and for two years after its lifting. In the context of European integration processes, it would make sense to provide for the gradual implementation of European norms on information processing and banking secrecy in such a way as to ensure the continuity of the transformation processes of storing and processing information immediately in accordance with the requirements of EU legislation.

Digitalization has significantly increased the financial sensitivity of infrastructure disruptions. Approximately 60–65% of retail transactions in Ukraine are conducted in non-cash form (National Bank of Ukraine, 2025c), while millions of citizens rely daily on electronic public services and banking applications. Consequently, interruptions of digital payment systems or data platforms generate immediate liquidity frictions, settlement delays, and short-term economic losses. In a highly digitalized financial environment, infrastructure stability becomes directly linked to transaction continuity and financial system liquidity.

Effective governance

In wartime, the state operates under extreme pressure: it needs to finance defense, provide social benefits, support the economy, and guarantee a fair distribution of resources. It is good governance that ensures the targeted use of funds, minimizes abuse, and increases the effectiveness of government decisions.

In wartime, the rule of law and social transparency of state institutions become the foundation of the government's legitimacy. Social transparency is a level of state accountability that does not create vulnerabilities for the functioning of state institutions during wartime but allows society to assess the social orientation of the efforts of state institutions.

Citizens are willing to endure restrictions, pay taxes, support mobilization activities, and make joint efforts to solve problems only if they are confident that the rules are fair and that the state acts in the interests of society rather than in the interests of individual groups.

Effective public financial management is directly linked to trust both within the country and from international partners. A transparent budget process, accountability, and control create confidence that resources are used fairly and efficiently, which in turn is a key condition for receiving international financial assistance, investment, and credit support.

Thus, good governance in wartime is not only an administrative function, but an institutional source of trust. It creates a sense of justice, predictability, and responsibility of the authorities, which strengthens social cohesion, moral resilience of the population, and the ability of the state to withstand long-term crisis loads.

The fiscal dimension of economic security is reflected in the scale of budgetary imbalances and dependence on external financing. Under conditions where the state budget deficit approaches 20–25% of GDP and public debt levels exceed 80% of GDP (International Monetary Fund, 2024), institutional credibility becomes a measurable financial factor affecting sovereign risk premiums and borrowing costs. International financial assistance, amounting to tens of billions of US dollars annually, functions as a stabilizing anchor for macroeconomic equilibrium. Therefore, trust in governance institutions influences not only political legitimacy but also debt sustainability and macro-financial stability.

Human capital

During a prolonged war, human capital turns into one of the key strategic resources of the state, on which both military capability and the preservation of the country's economy, production, and technological potential depend. A balanced mobilization that simultaneously maintains defense capabilities and does not destroy critical production and technological chains is the basis of economic resilience. It requires a clear state policy that considers both security and economic needs, as well as fair and transparent conscription procedures.

Long-term demographic and labor solutions are equally important: government programs to stimulate fertility, attracting labor migrants with skills needed by the state and businesses (like the US green card program), developing models of managed labor mobility (like the “labor Switzerland” project, which allows workers to move quickly and cheaply across the country within one working day), and systematic return of Ukrainians from abroad. These tools form the basis for economic recovery and fill the shortage of qualified personnel.

Programs for creating new jobs, retraining workers, professional adaptation, and affordable housing (e-Housing, program 5-7-9) play a dual role: they not only support employment but also create social stability and help people stay in the country.

All these mechanisms are directly related to the category of trust. When citizens see that the state ensures fair mobilization, creates conditions for employment, social protection, professional development, and a decent life, they develop faith in the future, willingness to work, stay in the country, and invest their own efforts in its reconstruction. Thus, human capital in wartime is not only an economic category but also the foundation of national trust. It is through systematic support of people that the state demonstrates its responsibility, strategic approach, and ability to defend itself and to recover economically.

Demographic and labor market shifts directly affect potential GDP. A reduction in the working-age population narrows the tax base and increases the fiscal burden on the social security system. From a macroeconomic perspective, human capital erosion lowers productive capacity and reduces long-term growth trajectories. Thus, investment in education, health, and workforce resilience represents not only social policy but a strategic component of economic security with quantifiable effects on fiscal revenues and GDP potential.

Innovation and technological sovereignty

In times of war, innovation and technological sovereignty are critical, as they determine the ability of the state to independently create, control, and protect key technologies and data without becoming dangerously dependent on external centers of influence.

High domestic research and development potential ensures rapid response to military challenges: development of defense technologies, cyber defense, control systems, analytics, and critical software. This allows the state to adapt to the dynamic nature of warfare and maintain operational stability even when traditional supply channels are destroyed or blocked.

Control over critical technologies and data is the basis of digital and security sovereignty. In wartime, dependence on foreign technological solutions creates risks of sabotage, information leakage, manipulation, and loss of control over strategic processes. Instead, in-house developments and national data management centers guarantee the security of government systems, financial infrastructure, and the defense sector.

Innovative sovereignty is also related to trust, as it gives citizens confidence that the state is able to ensure its own sovereignty by owning its own technological solutions, protecting critical systems, and controlling data circulation. This creates confidence in the security of services, the stability of institutions, and the reliability of the state. It also has a positive impact on the willingness to invest, use digital platforms, and accelerates economic transformation.

For international partners, technological autonomy is a signal of a state's maturity, responsibility, and ability to cooperate on an equal footing. It opens up access to strategic alliances, joint innovation projects, and defense cooperation.

Thus, innovative and technological sovereignty in wartime is not only a security tool, but also another foundation of trust - it is through control over technology and data that the state demonstrates its ability to protect, manage, and strategically develop even in war.

Technological sovereignty has a direct export and currency dimension. The IT sector generates approximately USD 6–8 billion in annual export revenues and accounts for around 4% of GDP (IT Ukraine Association, 2024). Given its contribution to foreign exchange earnings, technological disruptions or loss of competitiveness may affect the balance of payments and currency stability. Consequently, digital trust and technological sovereignty serve as measurable determinants of external economic security.

International cooperation

International cooperation in times of war becomes vital for Ukraine, as it provides access to financial resources, military assistance, technology, markets, and political support. At the same time, such cooperation inevitably creates a certain external dependence, which should not be chaotic but managed, strategic, and diversified. Only in this format does it work to strengthen sovereignty, not weaken it.

An important element of this model is the effective work of Ukraine's diplomatic missions and permanent missions to international organizations. Their activities should be aimed not only at political support, but also at actively promoting the economic interests of the state: expanding export opportunities, attracting investment,

and participating in international value chains. Diplomatic channels are used to build trust in Ukraine as a predictable trading partner and a state capable of fulfilling its obligations even in wartime.

Ukraine's active foreign media presence is equally important. Economic and political lobbying in the international arena allows for the formation of a positive narrative about the country and the expansion of the circle of partners, as political circles are highly dependent on public opinion and support during elections. This also directly affects the level of trust of the international community: trust in government decisions, in state institutions, in the prospects for investment, and in building long-term partnerships.

Consistent implementation of reforms and commitments under international memorandums plays a special role in building trust. For partners, this is not only a technical requirement but also an indicator of institutional maturity, responsibility, and the state's ability to fulfill its obligations. Cooperation with international financial institutions (IMF, World Bank, EBRD, EIB, etc.) is of particular importance. It not only ensures macro-financial stability but also serves as an institutional mechanism for building trust in Ukraine on the part of global markets. The very fact of cooperation with such structures increases the state's creditworthiness, improves the investment climate, and opens up opportunities for implementing technical and advisory assistance projects that promote EU integration and economic modernization.

Thus, managed and diversified international cooperation is not only a tool for survival in wartime, but also a system for building trust in Ukraine as a state, partner, and subject of international politics.

It demonstrates the country's ability to act predictably, responsibly, and strategically, which strengthens the confidence of international financial institutions, investors, partner countries' governments, and citizens.

Cooperation with international financial institutions performs not only a stabilizing but also a structurally determinant macro-financial function for Ukraine. Since the beginning of the full-scale war, external financial assistance has amounted to tens of billions of US dollars annually, covering a substantial share of state budget expenditures. In отдельных years, international support financed more than half of non-military budget spending, while the overall budget deficit fluctuated around 20–25% of GDP. Public debt levels have approached 80–90% of GDP, which makes debt sustainability critically dependent on concessional external financing (International Monetary Fund, 2024).

Under such conditions, international cooperation becomes a measurable macroeconomic stabilizer. Programs with the IMF and macro-financial assistance from the EU directly influence exchange rate expectations, sovereign risk premiums, and access to external capital markets. The dependence of fiscal balance on external funding implies that institutional credibility and policy predictability operate as financial variables affecting borrowing costs, debt servicing capacity, and overall macroeconomic resilience. Consequently, international partnerships function not merely as diplomatic instruments but as quantitative anchors of economic security.

Financial stability

Financial stability as a component of economic security is a state of the financial system in which it functions smoothly, is able to withstand shocks, and recovers quickly from them. The main elements of financial stability are:

1. A sound banking system: well-capitalized banks, low NPLs, effective regulation, and efficient supervision.
2. Efficient and resilient financial markets: liquid and deep capital markets (stocks, bonds, etc.), transparent pricing, and moderate volatility.
3. Stable currency and manageable low inflation: high confidence in monetary policy and the central bank.
4. Developed financial infrastructure: safe, sound, and efficient payment systems with proper supervision.
5. High public confidence in the financial system: no panic, massive deposit outflows, or systemic defaults.

At the same time, trust may be attacked in an attempt to undermine the authority or weaken the competencies of state institutions, and information and psychological operations may be conducted in various areas of state activity and in the public interest, for example:

- attempts to undermine the authority or credibility of government officials;
- attacks on trust in financial markets (in particular, cyberattacks or large-scale cryptocurrency fraud).

Thus, in the context of ensuring trust for the purposes of maintaining economic security, the following important measures to strengthen (institutionalize) trust can be identified through:

- active media policy of the state and its key institutions;
- building quality corporate governance;
- ensuring financial transparency and market discipline.

In this context, information hygiene becomes important to ensure financial stability: "a person is what he eats," - as Feuerbach said about food (Wikiquote, 2026), but this rule is fully consistent with "information consumption." The information that a person consumes not only shapes his or her worldview but also directly affects the decisions made by economic actors. At the same time, information can be "poisoned" or "spoiled" just like food, either intentionally or due to incompetence or criminal intent. The fact that information is one of the most influential factors in decision-making requires that its quality, independence, and sources should always be given attention at the level of institutions and the state.

The establishment of effective corporate governance in state-owned banks resulted in the formation of high-quality supervisory boards with a significant number of experienced foreign experts, which resulted in:

- the influence of internal corruption and external political factors has decreased;
- all large state-owned banks became profitable (with the previous supervisory boards, losses of state-owned banks reached UAH 300 billion): PrivatBank has UAH 40.1 billion of profit for 224, Oschadbank - UAH 14.8 billion, Ukreximbank - UAH 5.6 billion, total - UAH 60.5 billion (Forbes Ukraine, 2025).

Thanks to nationalization and good corporate governance, some large banks do not threaten to undermine the foreign exchange market, which would pose a threat to the financial stability of the entire country, but are becoming a reliable pillar of the country's financial stability.

These are elements of financial stability that the country has not had recently.

An important element of financial stability is confidence in the national currency, which is, in fact, confidence in the NBU's monetary policy. Modern research shows that trust in the national currency is transformed from trust in its gold parity, through trust in government policy, to trust in the central bank's monetary policy. Thus, trust in the currency is transformed into "trust in the commitment to low inflation undertaken by the central bank" (Krychevska, 2017). In this context, the NBU's independence is a key factor of trust and an important factor of financial stability.

In the context of ensuring investment attractiveness, investor confidence is key, which includes creating conditions for exchange rate predictability. Inflation targeting should be consistent with the goals of maintaining the exchange rate so that investors can assess aggregate risks (inflation and currency) in their value. Predictability and measurability of these risks are crucial for their inclusion in financial models and investor calculations.

From the perspective of the foreign exchange market, one of the main tasks of the central bank is to ensure long-term stability of the exchange rate or at least a predictable level of volatility, which is critical for investors' assessment of market risks.

Investors need to be able to accurately calculate currency risks, hedge them, and build the cost of such insurance into their investment business models. For them, risks are primarily a matter of calculations and mathematics, not politics, because this is what makes it possible to predict the payback period of investment projects.

From the point of view of investor confidence, it is also important to pursue a balanced policy of currency restrictions. Restrictions on capital flow should be a short-term measure only, because as soon as currency restrictions *are imposed*, foreign investors *disappear*.

Any restrictions on the return of investments abroad lead to the fact that the inflow of foreign currency from abroad also disappears, both in the form of direct investment and as a return of foreign exchange earnings by exporters.

Such restrictions can work only for a very short time interval, so they should be gradually abandoned, and other balancing mechanisms should be used.

The banking sector illustrates most clearly the quantitative transmission mechanism of trust. The capital adequacy ratio of the banking system generally equals 10%. Due to leverage effects, one monetary unit of capital supports roughly ten units of assets. Therefore, a 5% correction in asset values may theoretically absorb up to half of the capital buffer. Moreover, household deposits constitute nearly half of total banking liabilities, making depositor confidence a measurable stability

variable. In 2025, the banking sector generated profits exceeding UAH 126 billion (Opendatabot, 2026), reflecting the restoration of institutional resilience and reinforcing confidence in financial intermediation.

This quantitative sensitivity confirms that expectation-driven shocks and erosion of trust may generate disproportionate systemic consequences due to embedded financial leverage mechanisms. It should be borne in mind that **the sensitivity of bank capital** is so great that it is instantly affected by even a single missile strike that may not cause physical damage to people or objects. This connection is indirect and is based on changes in people's behavior, the psychological state of society, their expectations, and the level of trust. After the first arrival of a missile, if the level of trust is low, faith in a secure future can quickly be lost; people begin to assess the security situation more negatively, uncertainty about the future increases, and this changes their economic behavior. The chain of influence on capital is as follows:

1. A missile attack (or other shock event) leads to increased fear and uncertainty among the population, and the change in expectations and decrease in confidence leads to people postponing the purchase of housing or trying to change their place of residence, and businesses stop investing.
2. As a result, the demand for real estate and other assets falls, and the decline in demand leads to a decrease in market prices.
3. Falling prices depreciate the collateral that banks have accepted from borrowers for loans.
4. The decline in the value of collateral leads to an increase in uncovered credit risks and the need to form additional provisions, which in turn leads to a decrease in the bank's equity.

It's important to emphasize that financial instability is often driven not by fundamental asset losses but by shifts in expectations and beliefs. The concept of belief-driven crises highlights how changes in confidence amplify systemic vulnerability even in the absence of direct economic shocks (Gennaioli et al., 2018). Figure 2 illustrates the behavioral transmission mechanism through which psychological shocks translate into financial instability via changes in expectations, asset valuation, and bank capital adequacy.

Thus, the banking system begins to lose capital at the moment of the first psychological shock, even if no physical loss of property has occurred. The impact is not through destruction, but through changes in expectations, behavior, and trust.

This demonstrates how sensitive banks' capital is to intangible factors such as fear, panic, the information environment, and risk perception. That is why ensuring financial stability and trust is an extremely difficult task for the NBU: the regulator must consider not only economic indicators but also the psychology of economic agents' behavior.

In addition, the scale of this impact should be understood. Since the regulatory capital adequacy ratio is usually around 10%, assets can exceed capital by up to 10 times. Accordingly, the loss of only 5% of the value of assets leads to the loss of 50% of the banks' capital, the level after which the NBU must declare banks insolvent.

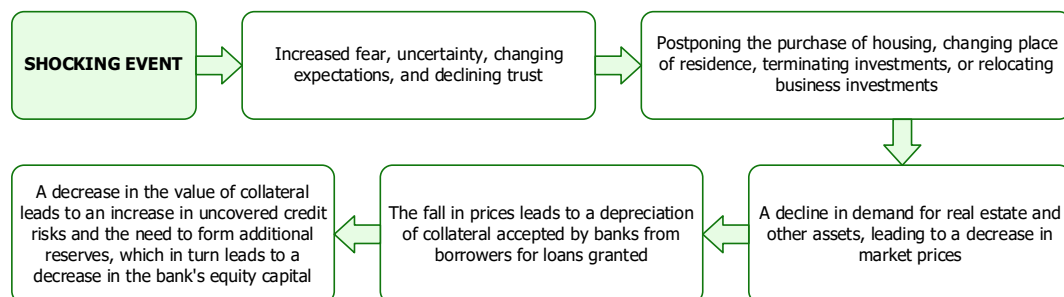


Figure 2. The chain of influence of a psychological shock on bank capital.

This calculation clearly shows that expectations and trust directly affect asset valuation, bank capital, and the overall financial stability of the state, making trust one of the key intangible factors of economic security.

DISCUSSION

The findings of this study confirm that trust functions as a systemic institutional factor shaping economic security through its influence on expectations, behavioral responses, and financial stability. The proposed structural–functional model demonstrates that trust affects economic security not only indirectly through quality of institutions but also directly through

expectation-driven transmission mechanisms that influence banking capital, financial resilience, and policy effectiveness. This result supports the conceptual assumption that economic security cannot be adequately explained solely by material indicators or regulatory frameworks, but must incorporate non-material institutional variables. Unlike a substantial share of existing research, which treats trust primarily as an accompanying condition or background variable of institutional quality (Acemoglu 2024; Lysenko, 2018), this article advances the argument that economic security is achieved through the formation of trust, rather than trust being a by-product of security-enhancing policies.

The results are consistent with earlier studies that conceptualize trust as a form of social capital with measurable macro-economic effects (Coleman, 1988). In particular, the identified relationship between trust and economic stability aligns with the conclusions made by Fukuyama (1995), who emphasized the role of trust in sustaining institutional performance and long-term development. At the same time, this study extends existing research by explicitly integrating trust into the analytical framework of economic security and by emphasizing its role under conditions of prolonged uncertainty and hybrid threats. In this regard, the article demonstrates that trust operates not only indirectly – through governance quality, regulatory credibility, or institutional performance – but also directly, via expectation-driven transmission mechanisms that shape behavioral responses, capital allocation, and financial resilience. These approaches to economic security that rely predominantly on material indicators, balance-sheet robustness, or formal regulatory arrangements implicitly assume trust to emerge automatically from stability or control.

The 2024 Nobel-related work by Acemoglu, D., Johnson, S., & Robinson, J. A. (2024, October 14) powerfully reaffirms that long-run prosperity is driven by the quality of institutions and the distribution of power, and Acemoglu further highlights the interaction between institutions in shaping development trajectories. However, while these approaches convincingly explain why institutional environments matter, they tend to treat trust implicitly – either as embedded in institutional quality or as a derivative of governance performance. The present study argues that this is analytically insufficient for economic security under hybrid threats: trust must be modeled explicitly as a mechanism, because in conditions of prolonged uncertainty, the decisive transmission channel is often not formal institutional design itself but the expectation-driven behavioral response that translates institutional signals into capital dynamics, stability, and resilience.

The revealed sensitivity of banking capital to changes in expectations and trust corroborates the belief-driven crisis framework proposed by Gennaioli, N., Shleifer, A., & Vishny, R. (2015), according to which financial instability often arises from shifts in confidence rather than from immediate asset losses. In this context, the findings of the present study contribute to the literature by highlighting that, during systemic shocks, psychological and informational factors may amplify financial vulnerability even when traditional balance-sheet indicators remain relatively stable. This observation is also consistent with studies on economic policy uncertainty, which show that heightened uncertainty alters risk perceptions, investment behavior, and capital allocation.

Such studies as Shevchenko, L. S. (Ed.), Hrytsenko, O. A., Makukha, S. M., et al. (2009) formally correctly identify the factors that influence security, but trust is not defined as an effective and vulnerable transmission mechanism for achieving specific economic goals. An important contribution of the study lies in reinterpreting public finance management as an institutional source of trust rather than a purely administrative function. The results suggest that transparent, predictable, and rule-based fiscal and monetary policies enhance both domestic and international confidence, thereby strengthening economic security. This finding complements institutional approaches that emphasize governance quality while adding a behavioral dimension that links policy credibility to trust formation.

Classical contributions by Muntian (1999) and Baranovsky (1999) provide valuable systemic classifications of economic and financial security, identifying key threats and directions of state policy; however, in these approaches, trust typically remains unarticulated as an independent mechanism. This article takes a different step by conceptualizing trust as a system-forming variable that integrates diverse security into a unified mechanism through expectations, behavior, and financial resilience.

At the same time, the study has several limitations that should be acknowledged. First, the analysis is primarily conceptual and qualitative in nature, which limits the ability to establish causal relationships between trust and economic security. Second, the absence of a unified quantitative indicator of institutionalized trust constrains empirical validation and cross-country comparability. Third, the focus on Ukraine, while analytically justified given the context of hybrid warfare and systemic shocks, may limit the generalizability of the results to other institutional and geopolitical environments.

Despite these limitations, the study provides a coherent analytical framework for understanding trust as an institutional determinant of economic security. The findings suggest that economic policy aimed at strengthening resilience should

prioritize trust-building mechanisms alongside traditional regulatory and financial instruments. In this sense, the institutionalization of trust emerges not only as a supportive condition but as a necessary component of sustainable economic security, particularly in environments characterized by persistent uncertainty and systemic risk.

CONCLUSIONS

1. Under conditions of a prolonged hybrid war, the degradation of any individual component of economic security constitutes a systemic risk to the state. Consequently, a comprehensive understanding of all interrelated components that collectively ensure an adequate level of economic security is essential for the formulation of a balanced and consistent economic policy. In this context, trust emerges as a cross-cutting systemic factor, as it permeates and influences all dimensions of economic security.
2. Effective public financial management should be interpreted not merely as an administrative function, but as an institutional source of trust that shapes the confidence of both domestic and international economic agents. Transparent budgetary procedures, accountability mechanisms, and effective oversight contribute to perceptions of fairness, predictability, and governmental responsibility, thereby reinforcing social cohesion, moral resilience, and the state's capacity to withstand prolonged systemic crises.
3. Banking capital exhibits a high degree of sensitivity to changes in social expectations, collective behavior, and the overall level of trust. The analysis indicates that the banking system may experience an immediate erosion of capital following psychological or informational shocks, even in the absence of direct physical asset losses. In such cases, capital deterioration is driven not by material destruction but by expectation-driven behavioral responses, implying that the stability of banking capital is closely linked to public confidence in the government's ability to ensure security and macro-financial stability.
4. The results demonstrate that trust functions as a key transmission channel between expectations and financial stability. Psychological shocks modify expectations, which in turn affect asset valuation, capital adequacy, and the resilience of the financial system. This mechanism provides an explanation for the emergence of financial instability in situations where no immediate physical or material losses have occurred.

The integrated assessment indicates that each component of economic security possesses a measurable financial expression: energy disruptions affect GDP and tax revenues; digital instability generates liquidity frictions; governance credibility influences borrowing costs and debt sustainability; human capital dynamics determine potential output; technological resilience impacts export revenues; and financial trust affects capital buffers through leverage effects. Consequently, trust operates as a cross-sectoral transmission mechanism linking institutional stability with macro-financial equilibrium.

Thus, economic security should be interpreted not merely as a qualitative institutional construct but as a system of financially measurable risk channels, where trust serves as the central stabilizing variable ensuring resilience of capital, liquidity, and fiscal sustainability.

From a theoretical perspective, the paper extends the economic security literature by introducing trust as an institutional variable with measurable systemic effects. From a policy perspective, the findings highlight the importance of trust-oriented governance mechanisms in maintaining financial stability under conditions of persistent uncertainty. These results may be relevant for other economies facing hybrid risks, systemic shocks, or prolonged crisis environments.

Further research should focus on the empirical operationalization and measurement of institutionalized trust as an economic variable, including the development of quantitative indicators that capture its transmission mechanisms within the financial system. Particular attention should be given to identifying causal relationships between trust, expectations, and financial stability through econometric and experimental approaches, as well as to cross-country comparative analyses that would allow for the assessment of institutional trust under different political, economic, and security conditions.

ADDITIONAL INFORMATION

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CONFLICT OF INTEREST

The Authors declare that there is no conflict of interest.

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ДОВІРА У ФІНАНСОВІЙ СИСТЕМІ ЯК КЛЮЧОВИЙ ФАКТОР ЗАБЕЗПЕЧЕННЯ ЕКОНОМІЧНОЇ БЕЗПЕКИ

У дослідженні обґрунтовано, що інституціоналізація довіри формує передумови для підвищення передбачуваності економічних процесів, забезпечення стабільності фінансової системи та зміцнення державного суверенітету. Доведено, що в умовах тривалої гібридної війни особливого значення набуває комплексне розуміння сукупності чинників, які забезпечують належний рівень економічної безпеки країни, що, своєю чергою, є необхідною умовою формування збалансованої та послідовної економічної політики. У зв'язку з цим у дослідженні запропоновано структурно-функціональну модель економічної безпеки та емпірично підтверджено наявність взаємозв'язку між рівнем довіри й рівнем економічної безпеки держави.

Наголошено, що ефективне управління державними фінансами є не лише адміністративною функцією, а й інституційним джерелом довіри, прямо пов'язаним із довірою й усередині країни, і з боку міжнародних партнерів.

Показано, що банківський капітал має велику чутливість до зміни поведінки людей, психологічного стану суспільства, їхніх очікувань і рівня довіри, коли вплив на капітал відбувається не безпосередньо через утрату активів, а через зміну очікувань, поведінки людей і рівня довіри.

Підкреслено, що формування довіри на державному рівні повинно стати пріоритетом економічної політики, оскільки інституціоналізована довіра забезпечує не лише стабільність грошово-кредитної системи, а й відновлення соціального капіталу, який є невід'ємним елементом економічної безпеки.

Ключові слова: довіра, фінансова стабільність, чутливість капіталу, економічна безпека, інституційна стійкість, монетарна політика, очікування, стійкість фінансової системи, економічний суверенітет

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