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# MEASURING AND TARGETING TRUST AS AN INSTITUTIONAL RESOURCE IN THE FINANCIAL SYSTEM

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## ABSTRACT

The article develops a conceptual and methodological approach to measuring and targeting trust as an institutional resource in the financial system. It proposes an integrated model that combines a composite trust index with a trust density coefficient, enabling a quantitative assessment of both the level of trust and the structural interconnectedness of economic agents.

It is substantiated that trust has a nonlinear impact on financial stability: insufficient trust leads to market fragmentation, higher transaction costs, and reduced lending, while excessive concentration of trust increases the risk of systemic contagion through network effects. In this regard, trust is treated not as a variable to be maximized, but as a resource that requires an optimal level and active regulation.

The study systematizes approaches to measuring trust across behavioral, market-based, institutional, and cognitive-expectational dimensions. It demonstrates that integrating these components within a composite index allows a shift from fragmented assessments to a comprehensive analysis of the financial system. The concept of trust density is introduced as a network-based characteristic reflecting the intensity and quality of financial relationships.

Based on the analysis of Ukraine's financial system over 2015–2025, the study shows that trust is procyclical and highly sensitive to exogenous shocks, indicating its incomplete institutionalization. The proposed approach enables trust to be used as an early warning indicator of systemic risk.

The practical significance of the study lies in establishing a methodological foundation for implementing trust targeting as a component of macro-institutional policy. The proposed model creates the basis for a transition toward integrated financial stability management, where trust serves as a key reference point alongside traditional macro-financial indicators.

**Keywords:** trust measurement, composite trust index, trust targeting, financial system stability, trust density, institutional trust, information asymmetry

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## INTRODUCTION

Trust has traditionally been treated in economic theory as an implicit precondition for market functioning rather than as an independent object of analysis and economic policy. Classical and neoclassical models largely assume rational behavior, enforceable contracts, and stable institutional frameworks, effectively embedding trust within their foundational assumptions. As a result, trust has long remained outside the scope of direct measurement and policy targeting, despite its critical role in shaping economic interactions.

However, the experience of financial crises – particularly the global financial crisis of 2008 and subsequent systemic shocks – has demonstrated that trust is not merely a background condition but a key determinant of financial stability. A decline in trust may lead to liquidity shortages, fragmentation of financial markets, and a contraction in

credit activity, while excessive trust may contribute to asset bubbles, risk underestimation, and systemic imbalances. These dynamics highlight the inherently nonlinear nature of trust and its dual role as both a stabilizing and a destabilizing factor in financial systems.

In recent decades, the development of institutional economics and information asymmetry theory has significantly advanced the understanding of trust as an economic phenomenon. Trust is increasingly interpreted as an institutional resource that reduces transaction costs, facilitates financial intermediation, and enhances the efficiency of resource allocation. At the same time, the growing availability of financial data and the digitalization of financial systems have created new opportunities for its empirical measurement through behavioral, market-based, and institutional indicators.

Despite these advancements, existing approaches to measuring trust remain fragmented. Most studies focus on individual dimensions – such as survey-based expectations, financial market indicators, or institutional quality – without integrating them into a unified analytical framework. Furthermore, traditional composite indices of trust, primarily used in public governance studies, do not adequately capture the specific features of the financial and banking system as a network of contractual and risk-based interactions.

This creates a significant methodological gap in the analysis of trust within financial systems, particularly in terms of its structural characteristics and its role in systemic risk formation. In addition, the absence of an integrated measurement framework limits the ability of policymakers to use trust as an operational indicator for early warning and macro-institutional regulation.

The purpose of this study is to develop a comprehensive approach to measuring and targeting trust as an institutional resource in the financial system. The paper proposes a composite trust index that integrates behavioral, market-based, institutional, and expectation-driven components, and introduces the concept of trust density as a network-based characteristic reflecting the interconnectedness of financial agents. On this basis, the study substantiates the feasibility of transitioning from the implicit use of trust in economic policy to an explicit trust-targeting framework as a component of macro-institutional regulation.

## LITERATURE REVIEW

The role of trust in economic systems has been extensively examined within the framework of institutional economics, where it is understood as a fundamental mechanism that reduces transaction costs and facilitates coordination among economic agents. Douglass North (1990) emphasized that institutions determine economic performance by shaping incentives and reducing uncertainty, while Oliver Williamson (1985) highlighted the role of governance structures in mitigating opportunism. Within this perspective, trust is embedded in institutional arrangements and enables long-term contractual relationships.

In financial systems, trust is closely linked to the problem of information asymmetry and the functioning of financial intermediation. Douglas Diamond (1984) demonstrated that intermediaries reduce monitoring costs through delegated monitoring, thereby strengthening confidence between lenders and borrowers. This framework was further developed by Bengt Holmström and Jean Tirole (1997), who showed that financial intermediation operates under conditions of incomplete information, where trust becomes a prerequisite for efficient capital allocation.

A related strand of literature interprets trust through financial market indicators, particularly liquidity and risk premium. Empirical studies by Yakov Amihud (2002) and Lubos Pastor and Robert Stambaugh (2003) demonstrate that liquidity risk is priced in financial markets, reflecting investors' confidence in market functioning. Similarly, Viral Acharya and Lasse Pedersen (2005) show that asset prices incorporate liquidity-related risks, which can be interpreted as a quantitative manifestation of trust. Evidence from Dirk Baur and Brian Lucey (2010) indicates that during periods of financial stress, investors shift toward more liquid assets, suggesting that liquidity functions as a transmission channel of trust under uncertainty.

At the macro-financial level, systemic stress indicators provide an indirect measurement of trust through the assessment of financial instability. The Composite Indicator of Systemic Stress (CISS), developed by the European Central Bank (2012), integrates multiple market signals to evaluate systemic risk conditions. Similarly, analytical tools provided by the International Monetary Fund (2025) and the World Bank (2025) enable comprehensive assessments of financial stability, although they primarily focus on risk rather than trust as an independent economic variable.

Methodologically, the construction of composite indicators has been systematized by the Organisation for Economic Co-operation and Development (2008), which provides standardized approaches to normalization, weighting, and aggregation


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of heterogeneous data. These methods have been widely applied in governance and socio-economic research, including studies of institutional trust. However, most existing indices do not adequately capture the specificity of financial systems, where trust is expressed through contractual, risk-based, and liquidity-driven interactions among agents.

An important theoretical advancement in the understanding of trust as an economic phenomenon is associated with the work of Andriy Hrytsenko (2019), who conceptualizes trust as a structural element of the institutional architectonics of economic space-time. Within this framework, trust is not merely a socio-psychological category but a systemic institutional resource that determines the intensity of economic interactions and the stability of financial systems. Hrytsenko further argues that trust has a nonlinear nature and should be treated as a variable that can be managed and targeted within economic policy, rather than simply maximized.

Recent empirical evidence, including surveys conducted by the National Bank of Ukraine (2015–2025) and consumer confidence data from Info Sapiens (2015–2025), highlights the importance of behavioral and expectation-based components of trust. At the same time, market-based indicators such as sovereign spreads, CDS premia (Bloomberg, 2025), and EMBI indices (J.P. Morgan, 2025) reflect trust through the pricing of risk in financial markets.

Despite the substantial body of literature, existing approaches remain fragmented and do not provide a unified framework for measuring trust in financial systems. Most studies focus on individual dimensions – behavioral, institutional, or market-based – without integrating them into a comprehensive analytical model. Furthermore, the network nature of financial systems, where trust emerges from the interconnectedness of agents, remains insufficiently explored.

Therefore, a significant research gap persists in developing an integrated methodology that combines multiple dimensions of trust while accounting for its structural and network characteristics. Addressing this gap requires a shift toward formalizing trust as a measurable and targetable institutional resource, which constitutes the main focus of this study.

## AIMS AND OBJECTIVES

The aim of this study is to conceptualize trust as a measurable and targetable institutional resource in the financial system and to develop an integrated framework for its quantitative assessment and policy application.

To achieve this aim, the study pursues four interrelated objectives:

1. To develop a composite trust index (CTI) that integrates perception-based, behavioral, market, and institutional dimensions into a single analytical construct, thereby enabling a consistent and operational measurement of trust within the financial system.
2. To introduce the concept of trust density as a network-based characteristic that captures the structural interconnectedness of financial agents and the intensity of trust-based interactions. This allows trust to be analyzed not only as a level variable but also as a systemic property of financial architecture.
3. To formalize the nonlinear relationship between trust and financial stability, and, on this basis, substantiate the concept of trust targeting. It argues that trust should not be maximized but maintained at an optimal level that balances transaction efficiency and systemic risk, thereby providing a new foundation for macro-institutional policy design.
4. To substantiate the concept of trust targeting, arguing for a shift from the traditional paradigm of maximizing trust toward maintaining its optimal level, consistent with the risk profile and structural characteristics of the financial system.

## METHODS

This study applies a mixed conceptual and empirical approach to operationalize trust as a measurable and policy-relevant variable in the financial system. The methodology is based on the integration of composite index construction and a structural interpretation of trust, allowing for the analysis of both its level and its systemic characteristics.

To measure trust, the study develops a Composite Trust Index (CTI), which aggregates indicators corresponding to the four dimensions into a unified framework. The index combines survey-based measures (reflecting expectations), behavioral indicators (capturing actual financial decisions), market-based variables (reflecting risk perception), and institutional indicators (reflecting governance quality).

All indicators are transformed into a comparable scale to ensure consistency across different types of data. The aggregation of components is based on their theoretical relevance, with a balanced structure that reflects the multidimensional nature of trust. To ensure robustness, alternative weighting assumptions are considered, and the sensitivity of results to these variations is evaluated.

In addition to measuring the level of trust, the study introduces the concept of trust density, which reflects the structural coherence of trust within the financial system. Trust density captures the degree to which different components of trust – perception, behavior, market signals, and institutional factors – are aligned with each other.

A high level of trust density indicates a well-integrated system in which expectations, financial behavior, and market signals are mutually consistent. In contrast, low trust density reflects fragmentation and inconsistency across these dimensions, which may signal underlying structural weaknesses and the accumulation of systemic risks.

The empirical analysis is based on macro-financial and survey data for Ukraine over the period 2015–2025. The dataset includes indicators derived from central bank statistics, financial market data, and surveys of business and consumer expectations. This period allows for the analysis of both post-crisis recovery and responses to major external shocks.

The study combines index-based measurement with comparative and dynamic analysis to track the evolution of trust over time. Particular attention is given to divergences between the components of the index, which are interpreted as early signals of imbalance and potential instability in the financial system.

The proposed methodology has several limitations:

1. The selection of indicators may influence the results.
2. The proxy-based nature of trust measurement implies a degree of approximation.

In addition, trust density is not directly observable and is inferred from the consistency of underlying indicators. Despite these limitations, the approach provides a coherent framework for integrating trust into financial system analysis.

## RESULTS

The measurement of trust in the financial system can be carried out through several complementary approaches, which can be structured across the following levels: behavioral, market, institutional, and systemic:

- **Subjective evaluative social methods** – direct measurement of expectations and assessments of economic agents through:
  - Consumer confidence indices;
  - Business expectations indices;
  - Consumer sentiment index (CSI);
  - Financial Services Customer Trust Index;
  - Bank Trust Index;
  - assessments of the level of trust in banks, the National Bank of Ukraine, and the exchange rate policy;
  - willingness to use financial products.

The advantages of such methods include early indication of changes in expectations, while their drawbacks are the inability to measure in real time, as well as subjectivity and emotional volatility.

The dynamics of the Consumer Sentiment Index (CSI), the Business Expectations Index (BEI), and the Business Activity Expectations Index (BAEI) over 2015–2025, shown in Figure 1, reveal clear and recurring patterns in how different groups form their economic expectations. Among these indicators, the Business Expectations Index stands out as the most sensitive to major macroeconomic and geopolitical shocks. Its sharp declines in 2020 and 2022 capture the effects of the COVID-19 pandemic and the full-scale war, respectively. At the same time, its recovery in 2023–2025 highlights the ability of businesses to adapt to changing conditions and signals a gradual return of institutional stability and predictability.


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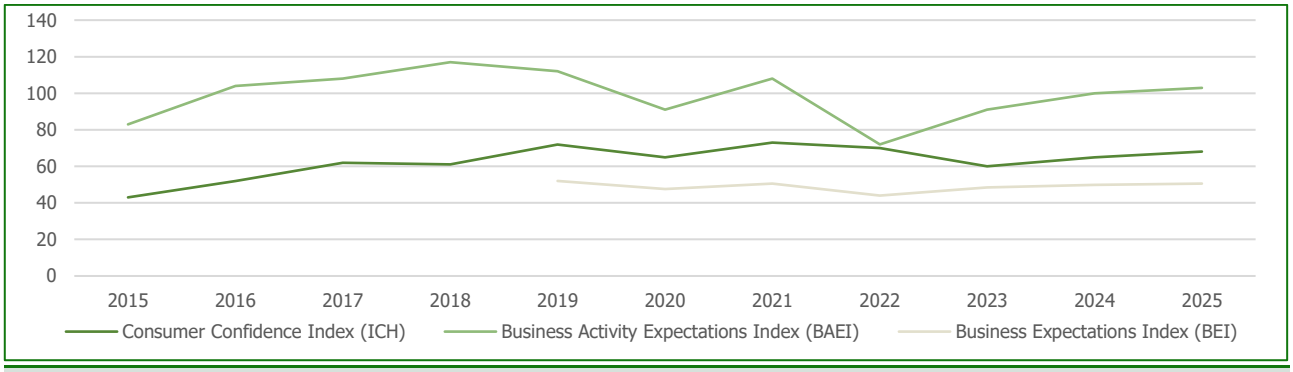


**Figure 1. Consumer confidence, business activity expectations, and business expectations indices in Ukraine, 2015–2025**. *(Source: compiled by the author based on the NBU (2015-2025a,b) and Info Sapiens (2015–2025))*

In contrast, the Consumer Confidence Index is characterized by a more inertial dynamic. Its changes occur more gradually and typically with a certain time lag relative to business expectations. This indicates that households respond to economic signals with a delay, following their initial formation in the business environment. Such asynchrony supports the hypothesis that business expectations may serve as a leading indicator of changes in consumer behavior.

The Business Activity Expectations Index, available since 2019, occupies an intermediate position between the two indicators. Its values fluctuate around a neutral level, reflecting a short-term assessment of the current state of the economy. During periods of crisis, this index declines rapidly but also recovers quickly, indicating the ability of businesses to adapt swiftly to changes in the environment.

In summary, the considered indices reflect different levels of trust manifestation in the economy:

- BEI reflects the strategic expectations of businesses (forward-looking trust);
- BAEI reflects short-term assessments of economic activity (operational trust);
- CCI reflects the behavioral response of households (behavioral trust).

Their interaction forms a multi-level mechanism of trust transmission, in which primary signals emerge within the business environment and are gradually transmitted to consumers. This has fundamental importance for understanding the role of trust as an institutional resource for economic development.

- **Behavioral indicators,** where trust is measured through actual behavior:
  - deposit dynamics (especially term deposits);
  - deposit balances within the banking system and outside it (M0/M2);
  - level of dollarization;
  - lending volumes;
  - share of cashless transactions;
  - depth of financial inclusion.

In such indicators, trust manifests itself as the willingness to transfer resources to banks, enter into long-term contracts, and actively use financial instruments.

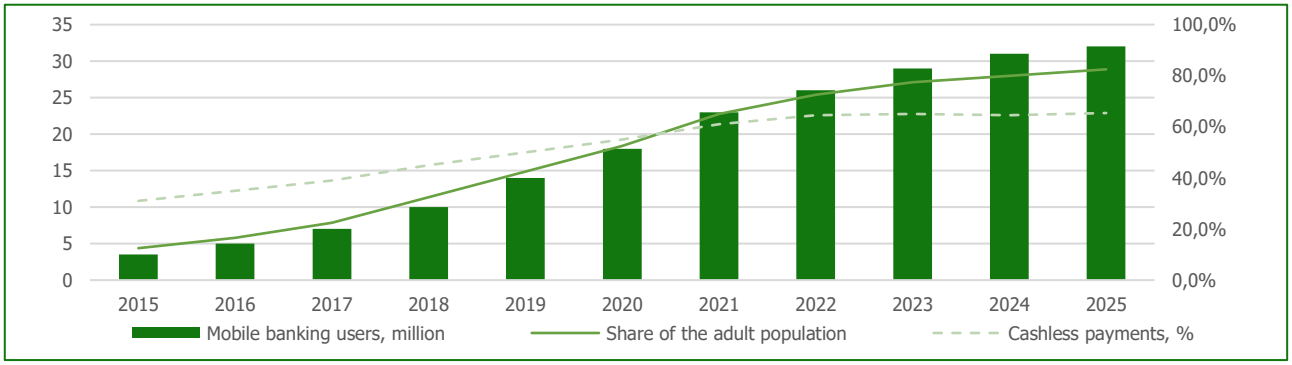


**Figure 2. Depth of financial inclusion.** *(Source: compiled by the author based on data from the NBU, payment systems, and banks)*

The level of financial inclusion has increased rapidly in recent years, largely driven by technological progress and the digitalization of the banking system – particularly the spread of mobile applications and remote identification. Over this period, its growth is not directly caused by rising trust, although the two clearly move together. In fact, such a масштабний shift toward digital financial services would hardly be possible without at least a basic level of trust. At the same time, digitalization itself influences deposit dynamics, as it naturally leads to higher balances within the banking system: people increasingly prefer using electronic money that remains in their bank accounts.

Looking ahead, once this process stabilizes, financial inclusion may become a more informative indicator of trust – especially if it is possible to capture not only how many people use financial services, but also how they use them and how they perceive them.

The data presented in Figure 3 point to a broader transformation in the behavior of economic agents within Ukraine's financial system over 2015–2025. This transformation can be interpreted as a gradual strengthening of institutionalized trust.

First, the steady increase in term deposits, together with the growing share of cashless transactions, suggests that households are becoming more willing to place their financial resources in the banking system and to rely on formal financial instruments. This reflects a shift from more passive or "forced" forms of trust toward a more conscious and experience-based trust, shaped by better information and ongoing interaction with financial institutions.

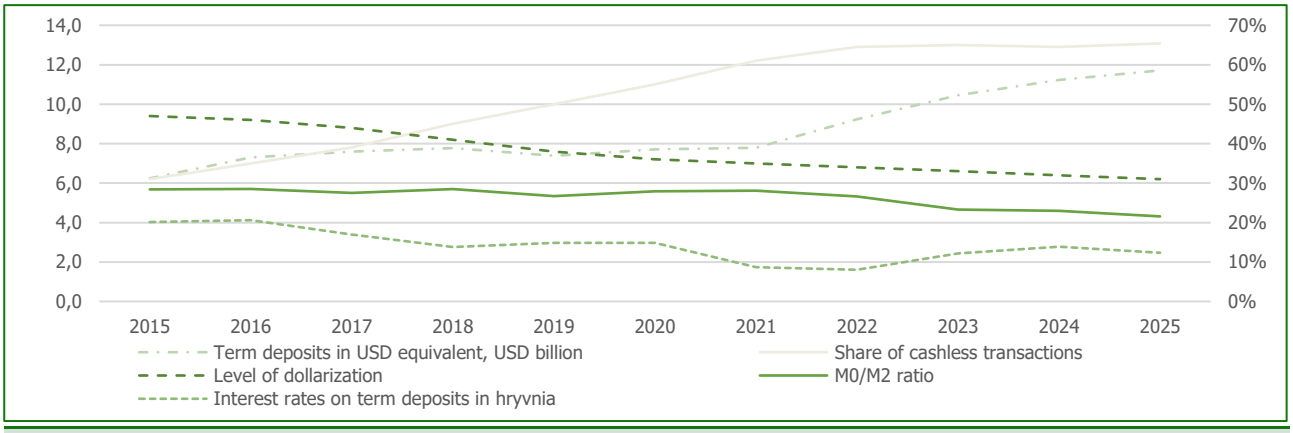


**Figure 3. Dynamics of behavioral indicators in Ukraine, 2015–2025.** *(Source: compiled by the author based on the NBU (2015-2025d))*

Second, the simultaneous decline in dollarization and in the M0/M2 ratio suggests that economic agents are becoming less inclined to hold value outside the formal financial system and are gradually moving their resources into the banking sector. This can be interpreted as growing confidence in the national currency and in the ability of monetary policy to deliver stability – something that is closely linked to the predictability of policy and its impact on investment decisions.

Third, the behavior of interest rates on term deposits points to a reduced role of rates as the main factor attracting funds. In other words, trust in the banking system is no longer driven primarily by "compensation for risk" through higher returns, but increasingly by institutional factors such as the quality of regulation, transparency, corporate governance, and the effectiveness of market discipline.

Taken together, these patterns suggest that trust in the financial system is not static but elastic – it evolves over time under the influence of both behavioral responses and institutional developments. In particular, mechanisms of market discipline and improvements in financial literacy appear to play an important role in shaping this dynamic.

- **Market-based price indicators**, in which trust is reflected in the cost of risk in Ukraine over 2015–2025:
  - spreads between government and risky bonds;
  - stock market volatility;
  - liquidity premiums;
  - interbank interest rates;
  - equity risk premiums;
  - the cost of credit risk insurance (CDS).


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Within such indicators, an increase in the risk premium implies a decline in trust, serving as a measure of systemic trust through market expectations.

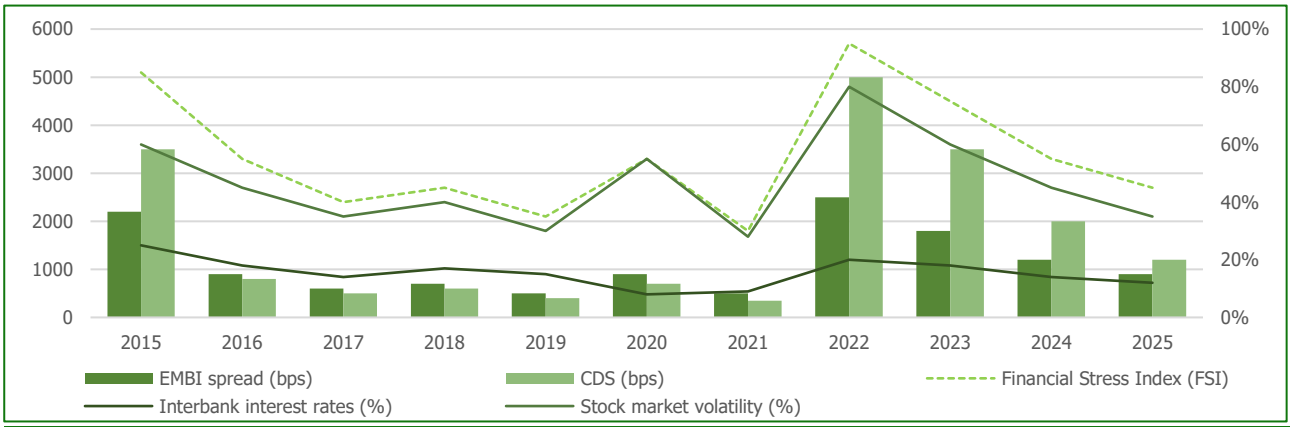


**Figure 4. Dynamics of market-based price indicators in Ukraine, 2015–2025**. *(Source: compiled by the author based on the NBU (2015-2025e), the IMF (2025b), and Bloomberg. (2025))*

The dynamics of Ukraine's sovereign credit spreads, measured based on the EMBI index for Ukraine, reflect the evolution of investors' risk perception over the period 2015–2025. In 2015, spreads were at elevated levels, driven by post-crisis instability and geopolitical risks. During 2016–2019, a significant narrowing of spreads was observed, indicating a recovery of macro-financial stability and growing confidence in sovereign debt.

In 2020, spreads widened again under the impact of the global shock associated with the COVID-19 pandemic. The most pronounced increase occurred in 2022, reflecting a sharp rise in the risk premium due to the full-scale war. The subsequent gradual narrowing in 2023–2025 indicates a partial normalization of expectations and a recovery of investor confidence.

CDS spreads are a classic market-based indicator of trust, as they directly reflect the probability of default as assessed by global investors. However, they operate primarily at the transnational level and are not sensitive to the internal dynamics of trust within a country.

The dynamics of these indicators demonstrate that trust has a measurable price, which changes depending on the information environment and the effectiveness of trust rationalizers.

- **Financial stress indices** – a quantitative measure of systemic trust deficits. These include indicators such as the Financial Stress Index (FSI), which typically aggregates banking risk, market volatility, exchange rate pressure, and credit spreads, as well as the Composite Indicator of Systemic Stress (CISS).

The dynamics of the Financial Stability Index clearly demonstrate its high sensitivity to systemic shocks of political, geopolitical, and macroeconomic nature, indicating that financial stability in Ukraine is strongly procyclical and significantly dependent on exogenous factors.

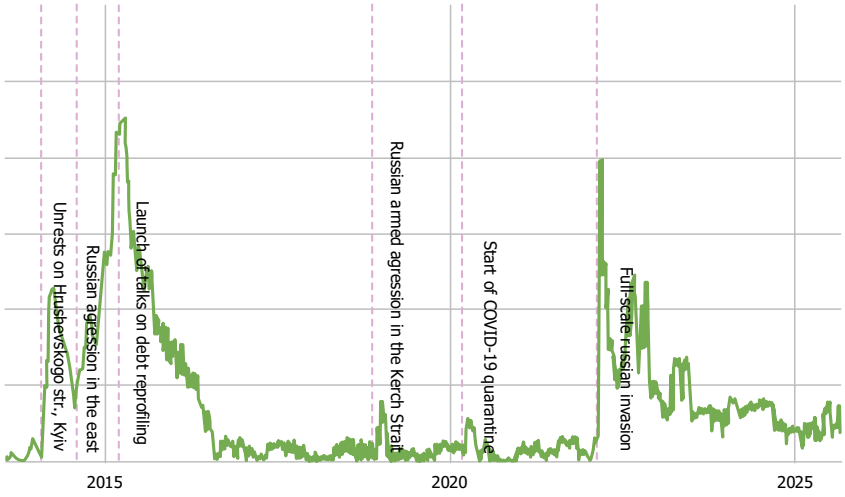


**Figure 5. Dynamics of the Financial Stability Index.** *(Source: the NBU (2025e))*

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Following each shock-driven increase in the index, a gradual decline is observed, reflecting the adaptive capacity of the financial system, particularly through institutional stabilization mechanisms, central bank policy, and the recovery of behavioral trust among economic agents. Such dynamics are consistent with the concept of the "elasticity of trust," according to which the reaction of financial market participants to shocks becomes smoother over time due to the accumulation of experience and improvements in the quality of the institutional environment.

- **Institutional indicators** – a qualitative (rather than quantitative) assessment of the infrastructure of trust, which can be measured through expert evaluation of:
  - central bank independence;
  - supervisory effectiveness;
  - transparency of information disclosure;
  - quality of the deposit insurance system;
  - protection of creditors' rights;
  - quality of the legal and judicial system;
  - quality of the performance of other trust rationalizers (auditors, credit bureaus, etc.).

- **Network approach and density of trust** – implies that the assessment focuses not on individual participants in isolation, but on the entire system of relationships among them. This approach involves constructing a "map" of interactions within the system and evaluating how densely interconnected the participants are, their willingness to interact, the overall connectivity of the system, and where risks may concentrate. Within this framework, trust is not merely a psychological perception but a structural characteristic of the system.

The network effect of trust can be illustrated by the example of the US dollar. The dominance of the US dollar is explained by the independence of the Federal Reserve System, the depth of the US government bond market, the rule of law, and the global payment infrastructure in which the US dollar has the highest number of connections, since:

- it is used for holding reserves;
- it is used in international contracts;
- it serves as a denomination currency for debt;
- more than 80% of all international transactions are conducted in this currency.

This means that many countries and banks trust the US dollar, and this trust is reinforced by the very fact of its widespread use.

This is a self-reinforcing network effect: the more participants trust the US dollar → the more beneficial it becomes for others to trust it → the stronger its status becomes.

The density of trust reflects the degree of interconnectedness among participants in the financial system and the intensity of trust-based relationships between them. At a low level, it signals market fragmentation, limited liquidity, and high transaction costs, which constrain financial inclusion and the effectiveness of monetary transmission. Conversely, an increase in the density of trust accelerates capital circulation, improves access to financial resources, and reduces information asymmetry, thereby creating an environment of predictable and stable transactions. In this dimension, trust acts as a catalyst for economic activity and institutional coordination.

At the same time, the density of trust ($DT_w$ – Density of trust) can be calculated by taking into account the weighted intensity of trust relationships between participants in the financial system, that is, as a weighted average of the amounts and maturities of funds placed between two entities.

$$w_{ij} = A_{ij} \cdot M_{ij} \cdot \frac{1}{1+\pi_{ij}},$$

*where $A_{ij}$ is the amount/volume (loan, deposit, investment), $M_{ij}$ is the maturity of funds placement, $\pi_{ij}$ is theisk premium (spread relative to the "risk-free" rate).*

In this formula, the weight increases with larger amounts and longer maturities, and decreases as the risk premium rises.

Accordingly, the density of trust is measured as:


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$DT_w = \frac{\sum t_{ij} w_{ij}}{\sum w_{ij}}$. Under this approach, the greatest weight is given to those relationships where trust is not just assumed, but actually realized in the form of credit and investment transactions, taking into account both their size and maturity.

Trust density, in turn, reflects how widely such trust-based relationships are spread across the system. A high level of trust density points to a well-connected financial system, while a low level indicates fragmentation and weak interaction between participants.

At the same time, too much interconnectedness can become a source of risk. When financial institutions interact intensively based on strong mutual trust, verification costs fall, liquidity circulates faster, and lending expands. However, this also makes the system more fragile: problems in one institution can quickly spread through the network of financial obligations. In such situations, even relatively small shocks can trigger chain reactions and escalate into systemic crises.

On the other hand, insufficient trust density is also problematic. When trust is low, financial institutions are forced to spend more resources on verification and risk control, which increases transaction costs and slows down financial flows. This leads to market fragmentation, reduced interbank activity, and more limited access to credit. As a result, liquidity weakens, financing becomes more expensive, and the efficiency of financial intermediation declines, ultimately constraining economic activity.

Taken together, this confirms that the relationship between trust density and financial system resilience is nonlinear. Both very low and very high levels of trust are undesirable. What matters is achieving a balanced, optimal level – one that supports efficient transactions without making the system overly vulnerable to shocks.

This shifts the perspective on trust quite fundamentally. Instead of treating it as something that should always be maximized, trust should be understood as a resource that needs to be carefully calibrated and managed. From this viewpoint, the idea of trust targeting naturally emerges as part of macro-institutional policy, aimed at maintaining a balanced level of integration in the financial system while limiting systemic risks.

Trust targeting, therefore, can be seen as an important policy tool. Trust is not just an abstract concept – it directly shapes how intensively economic agents interact, how quickly liquidity moves through the system, and how efficiently financial intermediation works.

This line of thinking is also reflected in broader discussions about the information-network economy. While technological progress opens up new opportunities, it also increases risks related to fragmentation, information asymmetry, and opportunistic behavior. In such an environment, trust in institutions, technologies, and economic actors becomes critically important. Long-term success increasingly depends on maintaining stable and reliable trust relationships.

Unlike traditional approaches that treat trust as something inherently positive, the concept of trust targeting emphasizes balance. Too little trust leads to fragmentation and inefficiency, while too much can foster excessive risk-taking and systemic fragility. In this sense, trust should be viewed as a manageable institutional parameter – one that needs to be maintained at a level consistent with both financial stability and economic efficiency.

The NBU Strategy (2025) indirectly supports the idea of trust targeting, as it assumes that the resilience of the financial system depends on maintaining a balanced level of trust among its participants. In practice, the Strategy focuses on such priorities as the stability of the deposit base, the reliability of payment infrastructure, the development of lending, and overall macro-financial stability. These areas reflect different dimensions of trust – behavioral, institutional, and market – suggesting that trust already functions as an implicit benchmark in financial policy. Importantly, the Strategy treats the ability of the financial system to operate under external shocks as a key indicator of resilience, which is closely linked to maintaining an adequate level of trust.

At the same time, the Strategy highlights that trust effectively forms part of the institutional infrastructure of the financial system. The expansion of digital financial services, payment systems, electronic identification, open banking, and consumer protection mechanisms is aimed at reducing transaction costs and making financial interactions more predictable. In this sense, strengthening institutions and infrastructure reinforces the integrative role of trust by deepening economic connections and improving the efficiency of financial intermediation.

However, the Strategy also clearly recognizes the need to contain systemic risks through prudential and macroprudential regulation, as well as through continuous assessment of financial institutions' resilience. This suggests that the regulator does not seek to maximize trust as such, but rather to maintain it at a level consistent with financial stability. Conceptually, this approach aligns with the idea of an optimal level of trust density, where both insufficient and excessive trust can weaken the system and increase its vulnerability to shocks.

The Financial Sector Development Strategy of Ukraine until 2025 (NBU, 2023) also sets a target level of public trust in the financial system at 60%, although it does not propose a methodology for its measurement.

Taken together, these strategies create a practical basis for moving toward a framework where trust is not only discussed, but systematically measured and targeted as a key benchmark of macro-institutional policy. In reality, the National Bank already relies on a range of indicators that indirectly capture trust and uses policy tools that influence its dynamics. However, these indicators remain fragmented and are not yet integrated into a single, coherent system. Introducing a composite trust index would make it possible to bring them together and establish a consistent mechanism for managing both the level and the density of trust, helping to balance financial integration with systemic resilience.

The practical value of trust targeting lies in its ability to provide a unifying framework for economic policy. Instruments such as monetary policy, prudential regulation, deposit guarantee systems, transparency requirements, and the development of financial infrastructure all shape trust – even if they are not traditionally seen as tools for regulating it directly. This perspective allows for a shift from fragmented risk management toward a more integrated model of financial stability policy.

At the same time, existing academic and practical approaches, when taken separately, do not offer a complete picture of how trust is formed and evolves. A more effective solution is to combine them within a composite trust index that integrates subjective expectations, observable behavior, market-based risk signals, and the quality of institutional architecture. It is precisely this combination that allows trust to move from an abstract concept to something measurable and actionable within economic policy. In this sense, such an index reflects the idea of trust as an allocated institutional resource.

In public administration, similar composite indices have already been used to assess overall trust by combining various socio-economic indicators, such as living standards, security, and confidence in institutions. These indices help evaluate the stability, inclusiveness, and adaptability of institutional systems, often drawing on measures like social cohesion or economic stability.

However, these approaches remain too general and do not capture the specific nature of the financial system. They reflect overall institutional trust, but overlook key features such as the depth of financial relationships, their maturity structure, risk premia, and the network of interactions between participants. This limitation highlights the need for a specialized composite trust index tailored specifically to the financial system, as presented in Table 1.

**Table 1. Construction of the Composite Trust Index.**

| **Composite Trust Index (CTI)** $Trust\ Index = f(Perception, Behavior, Market\ Risk, Institutional\ Quality) * DT_w$ | | | |
|---|---|---|---|
| **Cognitive-expectational level of trust** | **Behavioral component – actual economic behavior** | **Market risk component – objective financial signals, market-based assessment of systemic trust** | **Institutional component – quality of rules and infrastructure, fundamental level of trust** |
| P - Perception | B -Behavior | M - Market Risk | I - Institutional Quality |
| Indicator weight | | | |
| 0,25 | 0,30 | 0,25 | 0,20 |
| ▪ Assessment of banking system stability<br>▪ Expectations regarding inflation and the exchange rate<br>▪ Level of financial anxiety<br>▪ Trust in the regulator (NBU, Government, and others)<br>▪ Assessment of the transparency of financial institutions<br>▪ Expectations regarding the availability of financing | ▪ Volume and structure of deposits (by maturity)<br>▪ Dollarization of savings<br>▪ Share of cash held outside the banking system<br>▪ Demand for credit<br>▪ Investment activity<br>▪ Level of use of cashless payments | ▪ Sovereign bond spreads<br>▪ CDS premiums<br>▪ Exchange rate volatility<br>▪ Banking spreads<br>▪ Financial Stress Index<br>▪ Risk premium in the interbank market<br>▪ Stock market index dynamics | ▪ Independence of the central bank and transparency of monetary policy<br>▪ Quality of supervision<br>▪ Effectiveness of the legal and judicial system<br>▪ Reliability of the deposit guarantee system<br>▪ Quality of credit registries<br>▪ Level of financial digitalization<br>▪ Protection of investors' and creditors' rights<br>▪ Quality of the performance of other trust rationalizers |
| Trust density ratio among system participants ($DT_w$) | | | |


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The trust density coefficient should be applied to the entire core block (P, B, M, I), as the fundamental level of trust is formed first, and only then does the network effect scale institutional trust as an integrated system.

Thus, the general formula will take the following form:

$$CTI = (w_1 P + w_2 B + w_3(1 - MR) + w_4 IQ) \cdot (1 + \gamma(aDT - bDT^2)),$$

*where $w_i$ – is the weight of each component, $\gamma$ – is the coefficient of the index's sensitivity to the network effect (a scaling parameter of network influence): if $\gamma > 0$, the network amplifies the base level of trust, and the larger $\gamma$, the stronger the system's response to changes in DT. $a$ – is the strength of the positive integration effect (the extent to which trust reduces transaction costs), $b$ – is the strength of systemic risk (the extent to which interconnectedness amplifies contagion).*

If $a$ is large, the integration effect is strong, and the optimal density of trust is higher. If $b$ is large, the system is highly sensitive to shocks, and the optimal density of trust is lower.

From a theoretical standpoint, the structure of the Composite Trust Index can be seen as universal. However, the relative importance of its components is likely to vary across countries. Trust does not emerge in a vacuum – it is shaped by a country's history of financial crises, the depth and maturity of its capital markets, the quality of its legal environment, the level of financial inclusion, and even broader cultural and behavioral patterns. In some economies, trust is largely anchored in strong and stable institutions, while in others it is driven more by practical experience or by how markets react to risk. For this reason, the weighting of the index components should reflect country-specific institutional and cultural conditions rather than follow a fixed structure.

In countries with well-developed legal systems and stable macroeconomic environments, the institutional component tends to play a dominant role. Reliable contract enforcement, strong protection of property rights, and predictable regulatory frameworks form the foundation of long-term trust. By contrast, in economies characterized by higher volatility or a history of financial instability, trust is often more sensitive to expectations and market signals. In such contexts, perception-based indicators and market risk measures become more influential in shaping overall trust dynamics.

In transition economies, the behavioral component becomes particularly important. Here, trust is often built not on formal guarantees, but on actual experience with financial institutions. If individuals encounter changing conditions, delays, or a lack of transparency, even well-designed institutional frameworks may fail to generate stable trust. As a result, observed behavior – such as saving patterns, use of financial services, or willingness to engage with banks – can become the most informative indicator of trust.

These differences have clear methodological implications. The Composite Trust Index should not be treated as a rigid construct, but rather as an adaptive framework. Its weights need to be determined empirically – using tools such as principal component analysis (PCA), factor analysis, or regression models – and calibrated to reflect national specificities. In other words, the index should be flexible enough to capture the context in which trust is formed and evolves.

At the same time, it is important to recognize the limitations of purely data-driven measurement. If the index is constructed only from available quantitative indicators, without incorporating cognitive expectations and institutional quality – both of which require dedicated survey data and long-term historical observation – it may capture only part of the picture. In such cases, the resulting dynamics, as illustrated in Figure 6, should be interpreted as a partial approximation rather than a complete representation of trust in the financial system.

The dynamics of the trust index in Ukraine's financial system over 2015–2025 indicate significant fluctuations that reflect not so much the stable institutionalization of trust as its dependence on macroeconomic and political shocks. In 2015, a state of crisis-level distrust was observed, resulting from the banking crisis and the loss of a significant number of financial institutions. Already in 2016, the index rose sharply to the level of stable trust, driven by active stabilization measures by the regulator, the clean-up of the banking system, and the restoration of baseline trust in key institutions.

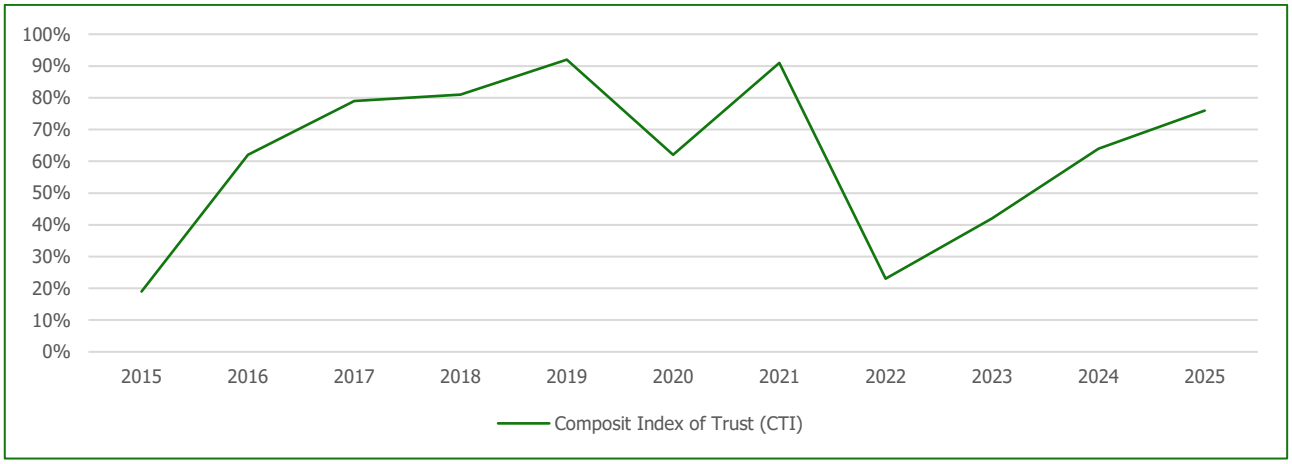


**Figure 6. Composite Trust Index**. *(Source: calculated by the author on a combined database)*

Between 2017 and 2019, the trust index moved into the range of high institutionalization, suggesting a clear improvement in the institutional environment. This period was marked by a stronger role of the National Bank, greater transparency in the banking sector, and more effective supervision. However, even at this stage, trust remained somewhat fragile, as it largely depended on favorable macroeconomic conditions and had not yet been tested by major systemic shocks.

The first real stress test came in 2020 during the COVID-19 pandemic, when the trust index declined to a more moderate level. This drop revealed that trust was not fully institutionalized, as it reacted quite quickly to external shocks. In 2021, trust rebounded to high levels again, demonstrating the system's ability to recover, but also highlighting its continued dependence on current economic conditions.

The most striking episode occurred in 2022, when the full-scale war caused a sharp collapse in trust to crisis levels. This dramatic decline pointed to the limited capacity of existing institutional mechanisms to sustain trust under extreme stress. Even with relatively strong regulatory institutions, weaknesses in the legal and enforcement environment made it difficult to stabilize trust during such a shock.

In the following years, from 2023 to 2025, trust gradually recovered – from fragile levels to more stable and eventually higher levels. However, this recovery was noticeably slower than in previous periods, reflecting both the severity of the shock and the time required to rebuild institutional relationships. Importantly, by 2025, trust had still not returned to its earlier peaks, suggesting a more cautious and structurally changed behavior among economic agents.

Overall, these dynamics point to a cyclical pattern of trust in Ukraine's financial system, with some capacity for recovery but without full institutionalization. While trust can reach relatively high levels, it remains highly sensitive to crises, indicating a gap between institutions that generate trust and those that ensure its long-term resilience.

The Composite Trust Index captures this reality by combining fundamental institutional factors with a nonlinear network component. From this perspective, trust should not be maximized, but managed within an optimal range – one that allows for efficient financial interactions while limiting systemic risk. This reinforces the idea of trust targeting as a distinct direction of institutional economic policy.

Historically, macroeconomic theory did not treat trust as a separate policy variable. Instead, it was implicitly embedded in assumptions about rational behavior, enforceable contracts, and stable institutions. Because trust was difficult to measure, it remained outside the focus of direct policy intervention. Only with the development of institutional economics, information asymmetry theory, and the experience of financial crises did it become clear that trust plays a direct and systemic role in shaping economic behavior, transaction costs, and financial stability.

Recent advances in data availability and financial system digitalization have made it possible to measure trust more concretely, using behavioral indicators such as deposit structures, dollarization levels, cash usage, and financial activity patterns. This has opened the way for constructing composite indices that capture trust as a measurable economic variable.

At the same time, modern economic theory increasingly recognizes trust as an institutional resource that influences the efficiency of financial intermediation and overall system stability. The global financial crisis of 2008 clearly demonstrated its nonlinear nature: excessive trust can fuel bubbles and risk accumulation, while its collapse can lead to panic, lending contraction, and market paralysis.


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An important additional insight comes from the work of Baur and Lucey (2010), which shows that during periods of financial stress, investors tend to shift not only toward safer assets but toward more liquid ones. This suggests that liquidity itself becomes a key dimension of trust, particularly in times of uncertainty.

In this sense, liquidity can be viewed as a channel through which trust is transmitted within the financial system. When trust declines, market participants prioritize flexibility and certainty, increasing demand for liquid assets. Rising liquidity premia thus signal a loss of trust, even if the fundamental quality of assets remains relatively stable.

This perspective highlights the latent nature of trust – it is not always directly observable, but reveals itself through changes in behavior and market structure. Ensuring sufficient liquidity, therefore, becomes not only a matter of financial stability policy but also a way of preserving trust. Disruptions in liquidity can quickly amplify local shocks into systemic crises, especially in highly interconnected systems.

For this reason, maintaining adequate liquidity is essential not only for stabilizing markets but also for preventing cumulative losses of trust that can have disproportionately large effects on economic activity.

## DISCUSSION

The results of this study provide empirical support for the conceptualization of trust as a nonlinear and structurally embedded institutional resource within the financial system. The observed dynamics of the Composite Trust Index (CTI) for Ukraine over 2015–2025 confirm that trust is neither stable nor monotonic, but instead exhibits pronounced cyclicality and sensitivity to exogenous shocks. This finding is consistent with the theoretical premise that trust operates simultaneously as a stabilizing and destabilizing force, depending on its level and structural configuration.

First, the identified procyclical nature of trust suggests that it is closely intertwined with macroeconomic conditions and geopolitical stability. Periods of economic recovery and institutional strengthening (2016–2019, 2021) are associated with rapid increases in trust, while systemic shocks (2020, 2022) trigger sharp contractions. However, the asymmetry between the speed of decline and recovery indicates that trust is path-dependent and subject to hysteresis effects. This implies that negative shocks have a more persistent impact on trust than positive developments, which is particularly relevant for economies exposed to repeated external disturbances.

Second, the integration of behavioral, market-based, and institutional indicators into a unified framework allows for a more nuanced interpretation of trust formation mechanisms. The results demonstrate that trust is not a homogeneous construct but emerges from the interaction of heterogeneous components. In particular, divergences between behavioral indicators (e.g., deposit dynamics) and market-based signals (e.g., risk premia) may reflect latent imbalances within the financial system. Such discrepancies can be interpreted as early warning signals, indicating that the observed level of trust may not be fully supported by underlying fundamentals.

Third, the introduction of the trust density concept provides an additional layer of interpretation by shifting the focus from the level of trust to its structural properties. The findings suggest that both low and excessively high levels of trust density are associated with systemic vulnerabilities. Low density corresponds to fragmentation, high transaction costs, and limited financial intermediation, while excessive density increases the risk of contagion through tightly interconnected financial networks. This supports the hypothesis of an optimal range of trust, within which the financial system achieves a balance between efficiency and resilience.

From a policy perspective, these results have important implications. The traditional approach, which implicitly assumes that higher trust is always desirable, appears insufficient. Instead, the findings substantiate the concept of trust targeting, where the objective of economic policy is to maintain trust within an optimal range rather than to maximize it. This approach aligns with macroprudential regulation frameworks, which aim to balance financial deepening with systemic risk containment.

The analysis also highlights the critical role of "trust rationalizers" – institutions that shape, verify, and transmit information within the financial system. Their effectiveness directly influences both the level and the stability of trust. Weaknesses in regulatory quality, transparency, or legal enforcement mechanisms may amplify volatility in trust dynamics, even when macroeconomic conditions are relatively stable. Conversely, strong institutional frameworks can dampen the transmission of shocks and enhance the resilience of trust.

At the same time, several limitations should be acknowledged. The construction of the Composite Trust Index relies on proxy indicators, which may not fully capture the multidimensional nature of trust. In particular, cognitive and expectation-based components require high-quality survey data, which may be subject to biases. Furthermore, the measurement of

trust density remains indirect and depends on the chosen specification of financial linkages. These limitations suggest that the proposed framework should be interpreted as an approximation rather than a definitive measure.

Future research may focus on refining the measurement of trust density through network analysis techniques, incorporating micro-level transaction data, and testing the predictive power of the Composite Trust Index as an early warning indicator of financial crises. Additionally, cross-country comparisons could provide further insights into how institutional and cultural factors shape the optimal configuration of trust in different financial systems.

In sum, the findings reinforce the argument that trust should be treated as a measurable and manageable institutional variable. By integrating multiple dimensions of trust and accounting for its structural characteristics, the proposed framework contributes to the development of a more comprehensive approach to financial stability analysis and macro-institutional policy design.

## CONCLUSIONS

This study shows that trust in the financial system should be viewed not just as a socio-psychological concept, but as a real economic resource embedded in institutions. It directly shapes how intensively financial actors interact, how capital circulates, and how stable the system as a whole remains.

The proposed framework brings together behavioral, market-based, institutional, and expectation-driven components into a single composite trust index. This is further enriched by the concept of trust density, which captures the structural dimension of trust within the system. The results clearly confirm that trust behaves in a nonlinear way: both too little and too much trust can increase systemic vulnerability.

These findings support a shift in perspective – from trying to maximize trust to managing it at an optimal level through trust targeting. In this sense, trust can be used not only as an analytical concept, but also as a practical tool: an operational indicator of financial stability and an early warning signal of emerging systemic risks.

From a policy standpoint, the key contribution of this study is the possibility of integrating trust measurement into macro-financial frameworks. This opens the way for more effective financial stability management and strengthens the ability of financial systems to withstand external shocks.

## ADDITIONAL INFORMATION

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### CONFLICT OF INTEREST

*The Author declares that there is no conflict of interest.*

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## ВИМІРЮВАННЯ ТА ТАРГЕТУВАННЯ ДОВІРИ ЯК ІНСТИТУЦІЙНОГО РЕСУРСУ У ФІНАНСОВІЙ СИСТЕМІ

У дослідженні розроблено концептуальний і методологічний підхід до вимірювання й таргетування довіри як інституційного ресурсу у фінансовій системі. Запропоновано інтегральну модель, що поєднує композитний індекс довіри та коефіцієнт щільності довіри, які дозволяють кількісно оцінити й рівень довіри, і структурну взаємопов'язаність економічних агентів.

Обґрунтовано, що довіра має нелінійний характер впливу на фінансову стабільність: її дефіцит призводить до фрагментації ринку, зростання трансакційних витрат і скорочення кредитування, водночас надмірна концентрація довіри підвищує ризик системного зараження через мережеві ефекти. У зв'язку з цим довіру слід розглядати не як величину, яку необхідно максимізувати, а як ресурс, що потребує оптимального рівня та регулювання.

У роботі систематизовано підходи до вимірювання довіри за поведінковим, ринковим, інституційним і когнітивно-очікувальним рівнями. Показано, що інтеграція цих компонентів у межах композитного індексу дозволяє перейти від фрагментарних оцінок до комплексного аналізу стану фінансової системи. Уведено поняття щільності довіри як мережевої характеристики, що відображає інтенсивність і якість фінансових взаємозв'язків.

На основі аналізу динаміки показників фінансової системи України у 2015–2025 роках доведено, що довіра має проциклічний характер і значною мірою залежить від екзогенних шоків, що свідчить про її недостатню інституціоналізацію. Запропонований підхід дозволяє використовувати довіру як індикатор раннього попередження системних ризиків.

Практичне значення дослідження полягає у формуванні методологічної основи для впровадження режиму таргетування довіри як складової макроінституційної політики. Запропонована модель створює передумови для переходу до інтегрованого управління фінансовою стабільністю, де довіра виступає ключовим орієнтиром поряд із традиційними макрофінансовими показниками.

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**Ключові слова:** вимірювання довіри, композитний індекс довіри, таргетування довіри, стабільність фінансової системи, щільність довіри, інституційна довіра, інформаційна асиметрія

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