Sushytska Y. O.
Senior Lecturer of the Department of Law
and Law Enforcement Activities
Sak N. A.
Zhytomyr Polytechnic State University

LENDING IN WARTIME CONDITIONS AND THE SPECIFICS OF ITS POST-WAR RECOVERY

Under the conditions of full-scale military aggression against Ukraine, the financial and banking system has faced severe challenges. Bank lending traditionally serves as a key mechanism for supporting the economy, both for businesses and for the population. However, the war has created new risks, including declining incomes, destruction of assets, and increased uncertainty, which has led to significant changes in the credit market. The war resulted in a sharp increase in credit risks for banks, negatively affecting the quality of loan portfolios. According to the Organisation for Economic Co-operation and Development, the ratio of non-performing loans to total loans increased by 12.6 percentage points, reaching a peak of 39.3% in May 2023, before declining to 30.3% as of January 2025. Most of these loans were issued before the war or during periods of economic crisis, rather than exclusively during active hostilities. At the same time, it has been noted that during the period of martial law there has been a decrease in restructuring activity and the resolution of non-performing loans, as many banks were restricted or faced difficulties in applying standard procedures due to wartime legislation [1].

An analysis of the evolution of Ukraine's banking system during 2019–2024 revealed a number of key trends. A reduction in the total number of financial institutions was observed, particularly those operating with foreign capital. At the same time, the sector demonstrated successful adaptation to functioning under martial law. A positive dynamic in asset volumes was recorded, while indicators of return on equity and return on assets point to a restoration of the banking system's resilience. The structure of banks' income shows that almost seventy per cent of revenues are generated from interest income, a significant share of which comes from lending operations. Simultaneously, an increase in liabilities has been observed, particularly in the obligations of financial institutions. Despite the positive trend in the growth of lending volumes to business entities and individuals, one third of issued loans are classified as non-performing. Notably, nearly 60% of the total loan portfolio is held by banks with a dominant state ownership share, and approximately three quarters of all loans are directed to business entities. The expansion of the loan portfolio, especially since the beginning of the full-scale aggression, has been driven by corporate lending, primarily implemented by state-owned banks within the framework of government programmes to support small and medium-sized enterprises [2, p. 182].

In 2025, the leading role in stimulating lending activity in Ukraine is expected to remain with the state. However, financial institutions in the non-state sector have the potential to strengthen their positions by developing new financing directions and offering more attractive terms. A key factor of competitive advantage for commercial banks may be the flexibility of loan provision. Accordingly, the main strategy of the banking sector in the context of lending to entrepreneurship under martial law should focus on creating a favourable environment for business development. Provided that the economic and security situation improves in 2025 compared to the current year, there is a likelihood that lending volumes to small and medium-sized enterprises will increase by at least 30% [3, pp. 5–6].

According to the strategic concept for lending development elaborated by the National Bank of Ukraine (hereinafter – the NBU), state policy in this area should employ such instruments as the provision of state and international guarantees, insurance against military and political risks, the implementation of partial compensation programmes in the form of interest rate subsidies, the use of project financing instruments, and the involvement of state financial institutions [4].

The strategic development vectors of each individual bank should integrate critically important elements, including the improvement of corporate governance, which предусматриває the establishment of supervisory boards with a majority of independent professionals, since corporate governance reform is a key prerequisite for strategy implementation, as well as ensuring a stable operational platform, an adequate level of capitalisation, and a reliable information and technological infrastructure.

Thus, lending under martial law in Ukraine has faced serious difficulties: credit risks have increased, a significant share of portfolios consists of non-performing loans, and lending activity has declined, particularly in the consumer segment. At the same time, business lending and the corporate segment have demonstrated that, under certain conditions, growth is possible even during a crisis.

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