

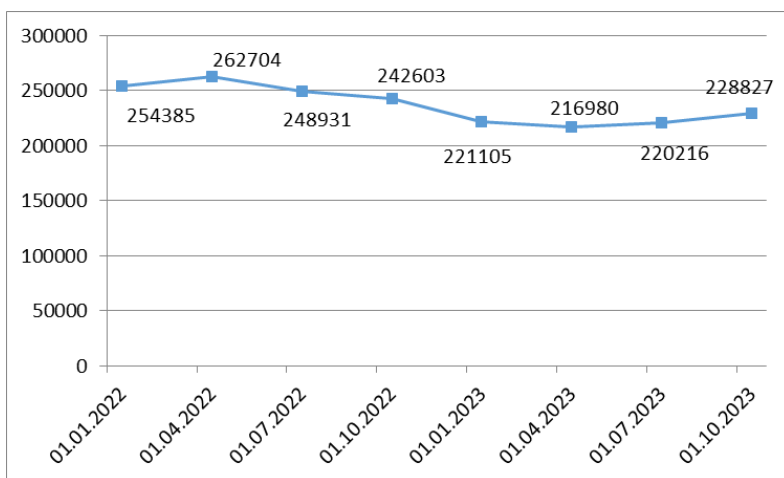
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**BANK LENDING TO HOUSEHOLDS  
UNDER MARTIAL LAW  
IN UKRAINE**

In the situation of the ongoing war, the Ukrainian banking system continues to work effectively, keeping trust of depositors and increasing the amount of lending even beyond the government support programs. It was possible to ensure its stability even during blackouts and constant missile attacks due to the early development of Business Continuity Plans and implementation of the PowerBanking project together with the National Bank of Ukraine (NBU). At the same time, one cannot fail to observe the significant influence of the martial law on the processes that are taking in the banking sphere and determining the specifics of providing banking services, one of which is lending to households.

Wartime conditions lead to the changes in the structure and amount of lending. After the start of hostilities, we observed a gradual decrease in the amount of loans granted to domestic households, which continued throughout the year. Banks have become more cautious when granting loans, as the risks of insolvency and the threat of payments' suspension increase, including due to the loss of assets from military actions. It is also worth noting the decrease in demand for loans, because wartime is accompanied by economic instability, which leads to diminishing trust within the civil sector. As a consequence, at such a time households usually avoid taking loans, treating them as a risky financial decision. Finally, a change in lending priorities should be highlighted, because in wartime it becomes important for banks to maintain financial stability and to provide for the needs of the government. To this end, banks are more likely to lend to the manufacturing sector rather than to households. However, starting from the second quarter of 2023, the positive dynamics of consumer lending is being restored, and at present it has reached 90% of its pre-war amounts (Figure 1).

One can see that the structure of loans granted to households by their types was almost unchanged during the period of martial law. Although it is worth noting a slight decrease in the share of consumer loans due to the increase in the share of their other types (Table 1).



**Figure 1. The amounts of bank lending to households in 2022–2023, UAH millions**

*Source: developed by the author based on the National Bank of Ukraine data [1]*

Table 1

**Dynamics and structure of lending to households by types of loans (outstanding amounts, in millions UAH)**

	Total	Consumer credits	%	Lending for house purchase	%	Other lending	%	Mortgage credits. From sum total	%
01.01.2022	254 385	214 134	84,2	28 560	11,2	11 691	4,6	28 693	11,3
01.07.2022	248 931	212 026	85,2	24 619	9,9	12 286	4,9	24 053	9,7
01.01.2023	221105	188 656	85,3	21 337	9,7	11 112	5,0	23 520	10,6
01.07.2023	220216	187 060	84,9	21 344	9,6	11 811	5,4	24 423	11,1
01.10.2023	228827	192 092	83,9	23 474	10,3	13 260	5,8	26 820	11,7

*Source: developed by the author based on the National Bank of Ukraine data [1]*

But unsecured consumer loans continue to form the basis of the retail loan portfolio with a share of 83%. Over the past six months, this portfolio has grown by 21%, which is higher than the pace of 2021. The growth of the portfolio is not only due to the attraction of new customers, but also due to the fact that banks are also increasing the limits for borrowers. The increase in limits is proportional to the growth of nominal incomes, so it does not enlarge the risks of the portfolio.

It should be noted the rapid growth of the amount and share of mortgage loans, which is related to the implementation of the government mortgage program “eOselia” (eDwelling) in October 2022 [2]. Military servants, medical and teaching staff, university teachers, internally displaced persons and some other categories of people can take part in this program. The maximum term of crediting is 20 years; the minimum down payment is 20%. The opportunity to purchase a dwelling with a mortgage at 3% or 7% interest rate, while banks offer rates of up to 30% per annum, is the main advantage of this program. The banking institutions will receive the compensation from the government for the reduced interest rate. Now it is possible to get a home loan under the “eOselia” program in PrivatBank, Oschadbank, Ukrgasbank, Globus Bank, Sky Bank; the list of such banks will be expanded in the future.

As for the interest rates on household loans, with the beginning of the war they, of course, increased somewhat along with a significant growth in the NBU's discount rate (up to 25%). Banks are usually raising interest rates as market volatility and risk increase. This is done to compensate for possible losses and provide additional liquidity. The highest rates for new consumer and mortgage loans were observed in October 2022 and they were, respectively, 33% and 13.7% [1]. Later on, the cost of loans for households gradually decreased, which was influenced by both the reduction of the discount rate and the implementation of the “eOselia” program.

Currently, the large share of non-performing loans (NPL) is one of the biggest problems in the lending sector. The consequences of the war – the destruction of assets and collateral, the deterioration of borrowers' solvency, reduce their ability to service loans, bring down the quality of banks' loan portfolios, and lead to an increase provisioning.

At the beginning of the war, the share of non-performing loans of individuals was the lowest during the recent years – 16.86%. Later, for objective reasons, it began to grow and reached 32.4% at the beginning of February 2023. During 2022, more than 20% of retail loans became non-performing. This was mainly due to a sharp reduction in the incomes of the population, although the losses of loans to debtors, which were registered at the beginning of the full-scale invasion in the currently occupied territories and the ones in the war zone, were also significant. However, from this moment on, the share of NPLs, thanks to the comprehensive efforts of banks, showed a downward trend and decreased to 26.76% at the beginning of the 3rd quarter of 2023 [3].

The analysis of modern trends in the lending to households in Ukraine is important for the adaptation of bank lending strategies during the military conflict. Strategies should be developed taking into account war risks, ensuring stability of the banking sector and protection of the credit portfolio.

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