PROSPECTS FOR PRIVATIZATION OF UKRAINIAN STATE-OWNED BANKS

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Over the past years, Ukrainian banking sector development saw cleansing from fraudulent and unscrupulous banking institutions, impact from external shocks (the COVID-19 crisis and the full-scale invasion), further implementation of EU acquis, and rising capitalization. These factors led to a gradual reduction in the number of banking institutions and an increase in the share of state ownership in the domestic banking system.

As of the start of 2025, Ukrainian banking system had seven banks with state ownership, adding of which five were systemically important. Three banks became state-owned since early 2022 as a result of sanctions against the aggressor state. Table 1 shows the main indicators describing the performance of state-owned banks in recent years.

As the table shows, after the onset of Russia's full-scale invasion of Ukraine, the role of state-owned banks in all key indicators of the banking system has increased significantly. At the beginning of 2025, state-owned banks accounted 53.2% of sector's net assets (including PrivatBank's 22.6% of assets). At the same time, the share of state-owned banks in the household deposits reached 63.3%, with PrivatBank owning 36.1% [1]. The enhanced role of state-owned banks in the banking system in environment of war risks is understandable, since they have the widest branch networks, service accounts for social payments, and continue to lend to state-owned enterprises [3].

The increase in state's share in the banking system is a typical phenomenon for many European countries during crises. According to National Bank of Ukraine (NBU) research, state-owned banks are perceived by customers as more reliable and secure during crisis periods, which encourages them to transfer their savings to those banks. In addition, governments often resort to bailing out private systemically important banks that were on the verge of bankruptcy during the crisis (for Ukraine, the privatization of PrivatBank, Ukrgasbank, and Sense Bank is an illustrative example). A striking example of the nationalization of private banks as a result of the 2007–2009 Global Financial Crisis are Slovenia and Latvia. As a rule, in the post-crisis period, the share of state-owned banks gradually diminishes under favorable market conditions. In a number of neighboring countries, including Moldova and the

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Baltic states, state-owned banks have been fully privatized. The exceptions in the region are Hungary, where the growth in the state-owned portion of the sector was driven by political motives, and Poland, where the growth was due to resolution of private banks [3].

Table 1

Indicators of Ukrainian state-owned banks' activity

Indicators	12.2020	12.2021	12.2022	12.2023	12.2024
Number of state-owned banks	4	4	5	7	7
Volume of the banks' net assets, %	52,6	46,7	50,5	53,5	53,2
incl. PrivatBank	21,2	19,8	23,4	23,3	22,6
Volume of retail deposits, %	60,2	55,5	60,7	64,5	63,3
incl. PrivatBank	33,1	31,2	35,9	36,2	36,1
Number of banking units, thousands	3,9	3,4	2,6	2,7	2,7
incl. PrivatBank	1,7	1,5	1,2	1,1	1,1
Number of banks' ATMs, thousands of units	27,3	26,3	23,0	24,0	23,9
incl. PrivatBank	19,7	19,0	16,9	17,3	17,3
Number of POS terminals, thousands of units	300,3	336,8	298,1	381,3	412,2
incl. PrivatBank	224	251	223	290	317
Number of active payment cards, million units	29,4	31,4	32,9	36,9	40,5
incl. PrivatBank	22,6	24,4	25,9	28,2	31,5

Source: calculated by the author based on [1].

However, in the long term, the dominance of state-owned banks in the banking system is associated with certain risks. First of all, they are can be exposed to a significant political influence, which may lead them to implement decisions aimed at lobbying the economic interests of certain political actors. State-owned banks are subject to the so-called implicit protection of the regulator, individual blunders in their activities do not have such negative consequences for them as for other banks. The dominance of state-owned banks distorts competition in the banking sector. Due to the scale of their operations, they can lower interest rates on deposits, receive priority rights to service accounts for social benefits and government support programs. All this underlines the need for privatization of state-owned banks in the future.

The Memorandum on Economic and Financial Policy between Ukraine and the International Monetary Fund (hereinafter the Memorandum) provides for a gradual reduction in the share of state ownership in the banking sector, which is consistent with the Strategy of Ukrainian Financial Sector Development. According to the Memorandum, any decision that could potentially lead to an increase in the share of state ownership in the banking sector will be made in the consultations with IMF experts and will be strictly limited to issues related to decisions to preserve financial stability and national security during martial law [2]. Any non-systemic banks that come under state ownership will not be recapitalized using fiscal resources and will be transferred to the Deposit Guarantee Fund for resolution upon breach of prudential requirements.

The NBU, together with the Ministry of Finance, as the main shareholder of state-owned banks, has taken certain steps to prepare for the future privatization of state-owned banks. In 2024, the parliament adopted the Law of Ukraine “On the Peculiarities of the Sale of State-Owned Shares in the Authorized Capital of Banks” No. 3983-IX. Based on the NBU’s sustainability assessment, capital management plans were developed and business plans of state-owned banks that needed to increase capital to meet requirements were adjusted. The Ministry of Finance instructed state-owned banks on following the best global practices regarding risk appetite [2]. According to the owner, privatization of two state-owned banks is expected in the near future – Ukrgasbank and Sense Bank.

Therefore, the gradual privatization of state-owned banks in Ukraine is expected and is in line with general European trends. This will contribute to increased competition in the banking sector, promote recovery of the Ukrainian stock market, and boost attractiveness of domestic investment. The privatization of state-owned banks will set conditions attracting large transnational financial institutions into the domestic banking system, thus increasing its capitalization and contributing to the spread of international banking innovations. However, for the privatization of state-owned banks to be effective, it is necessary to ensure the transparency of the competitive sale procedure and the protection of the interests of domestic investors.

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