In cooperation with

CENTRE FOR ECONOMIC STRATEGY

GET German Economic Team

NO 05 | JUNE 2025

POLICY BRIEFING UKRAINE

Corporate lending in Ukraine

Iana Okhrimenko, Mariia Repko, Mariia Tomilina, Volodymyr Landa,
Yeleazar Levchenko, Robert Kirchner, Garry Poluschkin

Content

1. Introduction

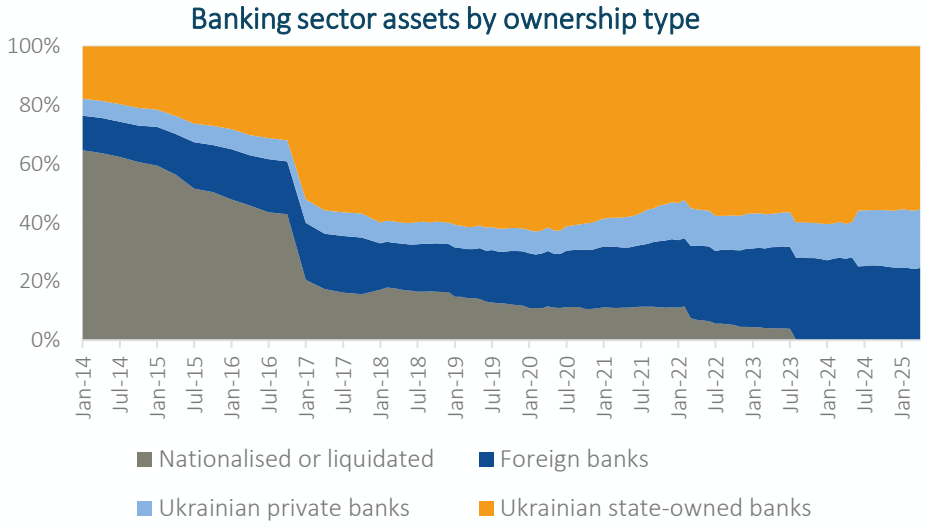
Motivation

- Ukraine's economy has faced severe disruption due to Russia's full-scale invasion, affecting the financial sector and private enterprise.
- Elevated risks, wartime uncertainty, and structural market barriers have suppressed both the demand and supply of credit in 2022.
- Private sector lending is critical to maintaining economic activity during the war and enabling future reconstruction.
- National and international stakeholders (e.g. NBU, IMF) have called for targeted efforts to restore and expand lending to viable businesses.

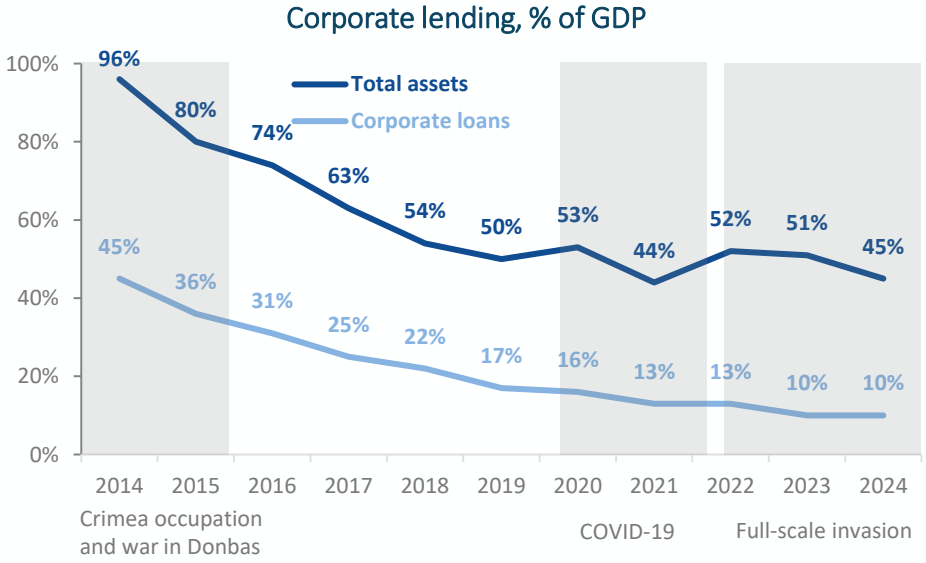
Purpose of this Policy Briefing

- Identify and analyse the corporate lending trends in Ukraine from three different angles: supply, demand, and cost of borrowing.
- Support the development of effective, evidence-based policies that expand access to finance for enterprises.
- Provide policy implications aligned with the NBU Lending Strategy and UKR-IMF priorities.
- Bridge empirical research with policy insights through analysis of data, surveys, and econometric models.

2. Background



Source: Own display based on NBU



Source: Own display based on NBU

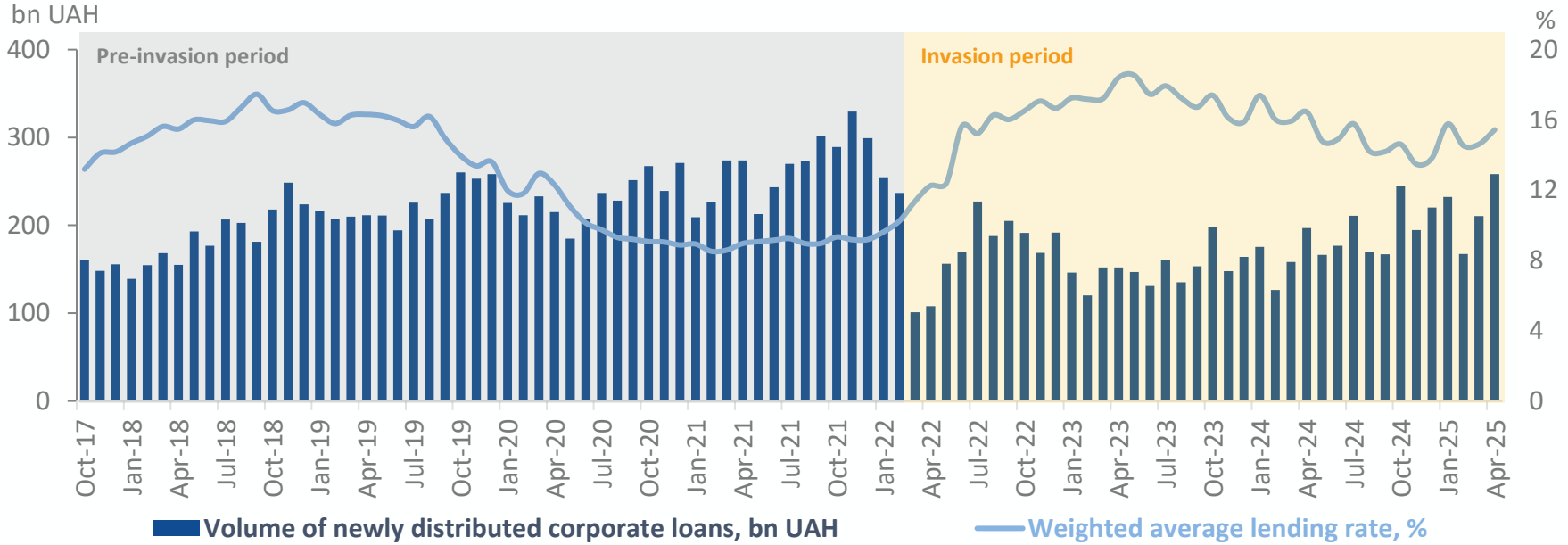
- State-owned banks hold over 50% of gross assets, spread across five institutions (a moderate level of concentration by regional standards) after two waves of nationalisation and liquidation of insolvent banks:
  - **First wave** (2015–2017): PrivatBank and several smaller banks were nationalized following the banking crisis, while many insolvent banks were liquidated.
  - **Second wave** (2022): Systemically important Sense Bank was nationalized due to sanctions on its Russian-linked owners.
- While the sector is not highly concentrated, enhancing competition remains important, with a short-term focus on major banks and long-term support for smaller players to foster a more dynamic lending environment.
- Outstanding loans as a share of GDP have been declining since 2014.
- It was driven by the war and a decline in lending activity, rather than the economic downturn alone.
- The trend continued during COVID-19 and the 2022 full-scale invasion. Key contributing factors: GDP contraction, reduced credit demand, tighter lending standards, and banks' shift toward safer assets.

3. Cost of borrowing: introduction

- This section looks at what influences borrowing costs for businesses in Ukraine.
- To explore this, we used econometric analysis to examine how corporate lending rates, government bond (OVDP) rates, and deposit certificate rates affect lending.
- Three ARDL models (estimated for Oct 2017–Apr 2025) helped identify which factor most impacts new loan volumes and what policy implications could be provided.

3. Cost of borrowing: corporate lending rate

Volume of the newly distributed corporate loans, bn UAH and weighted average lending rate, %



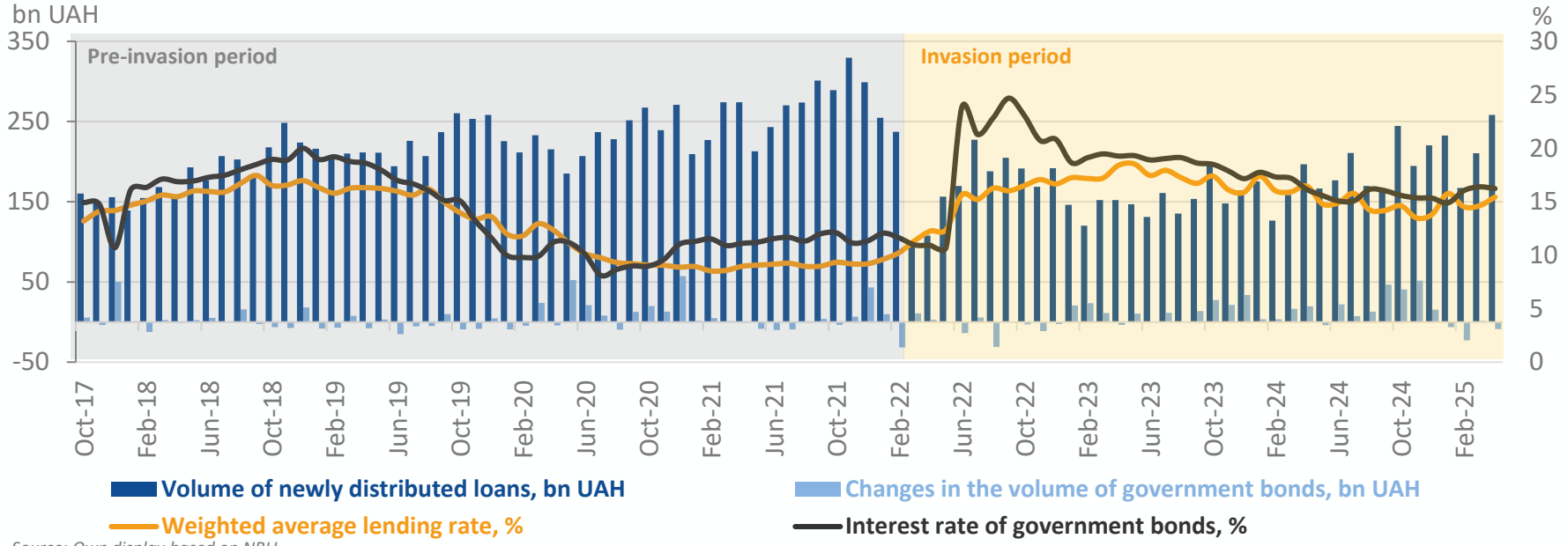
Source: Own display based on NBU

- Corporate lending dropped after the 2022 invasion due to high risk, uncertainty around market pricing, a disrupted transmission mechanism, and a sharp rate hike to 25% in June 2022. It began to recover in 2023 as borrowing costs declined.
- Lending kept growing in 2024–2025, supported by increased economic stability and earlier policy easing in 2023-2024. Market lending expanded despite a key rate increase from 13.5% to 15.5% in early 2025.

- The ARDL model shows that the war had a stronger impact on lending than interest rates.
- A 1% increase in the lending rate (with a 2-month lag) lowers new loan volumes by 0.04% per month for the full war period (March 2022 – April 2025), while the war leads to a 0.15% drop per month.
- Before the invasion, a 1% corporate lending rate hike reduced lending by 0.02%.
- After the invasion, the effect slightly increased, but the model's explanatory power fell from 87% to 55-66%, showing interest rates became less influential.

3. Cost of borrowing: government borrowing

Comparison of the interest rates and the volume of newly issued loans vs the changes in government bonds owned by banks



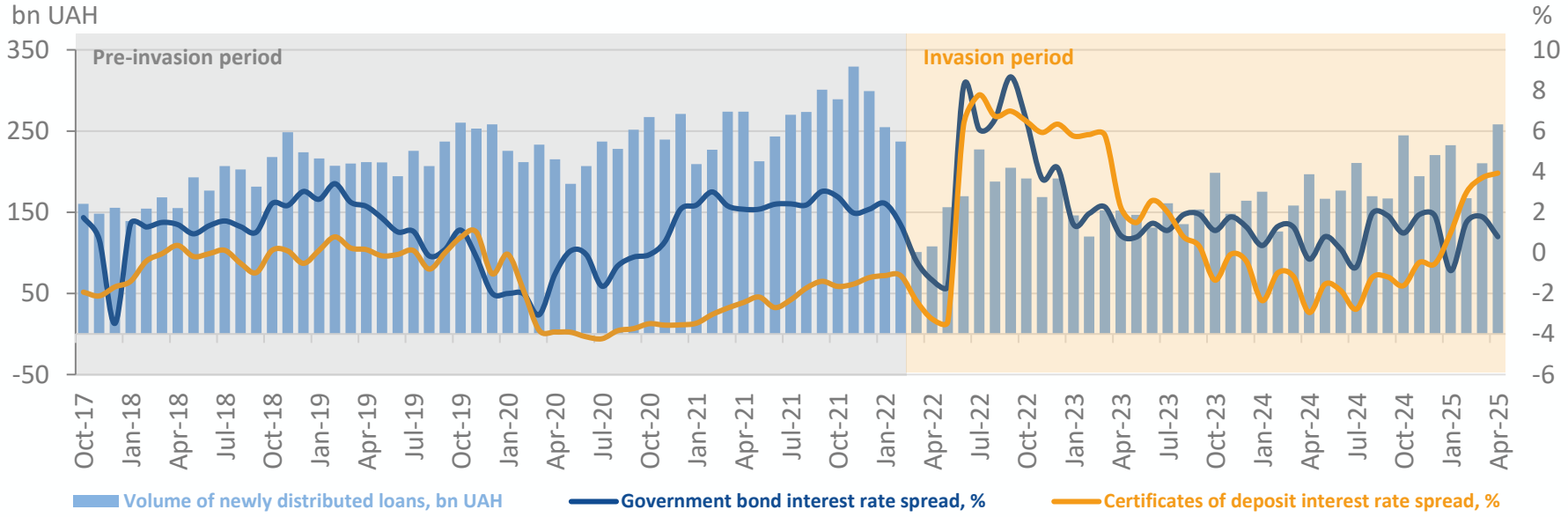
Source: Own display based on NBU

- Crowding-out occurs when banks lend less to businesses because they prefer to invest in safer instruments such as government bonds.
- After the full-scale invasion, bond yields and lending rates rose, while loan volumes fell — suggesting that crowding-out may have occurred.
- The ARDL model confirms a crowding-out effect from government bonds, but only during the 2022 wartime period, highlighting the market's sensitivity to war-related risks.
- Before the full-scale invasion, government bonds had no significant impact on lending.
- After the invasion, **a 1% increase in the spread between lending and government bond rates led to a 0.1% drop in new loans**.
- However, **this effect faded in 2023–2025, becoming insignificant again**.
- Still, the war has had a stronger impact — reducing loan volumes by 0.2% per month in the same model.

Newly distributed loans refer to the total volume of new loan agreements issued during a period. This reflects lending turnover, not the outstanding balance, and shows current credit activity.
Government bond rate spread is the difference between lending rates and government bond yields.

3. Cost of borrowing: certificates of deposit (CD)

Government bonds and CDs interest rate spread, % and volume of newly distributed loans, bn UAH



Source: Own display based on NBU

- From 2017 till 2021, CD interest rate spread was very close to the government bonds interest spread.
- The 2022 invasion caused a sharp rise in CD interest spread due to tighter monetary policy. In 2023–2025, both spreads fell as policies eased and stability improved, showing how risk and monetary policy influence banks' investment decisions.
- The ARDL model shows that CDs caused some crowding-out of loans since late 2017, but the effect was modest.
- Before the invasion, **a 1% rise in the CD interest rate spread led to a 0.05% drop in loan volumes per month.**
- After the invasion, **the effect remained similar at 0.04%, while the war had a stronger impact, lowering loan volumes by 0.12%.**
- **Since early 2023, the CD interest spread became statistically insignificant.**

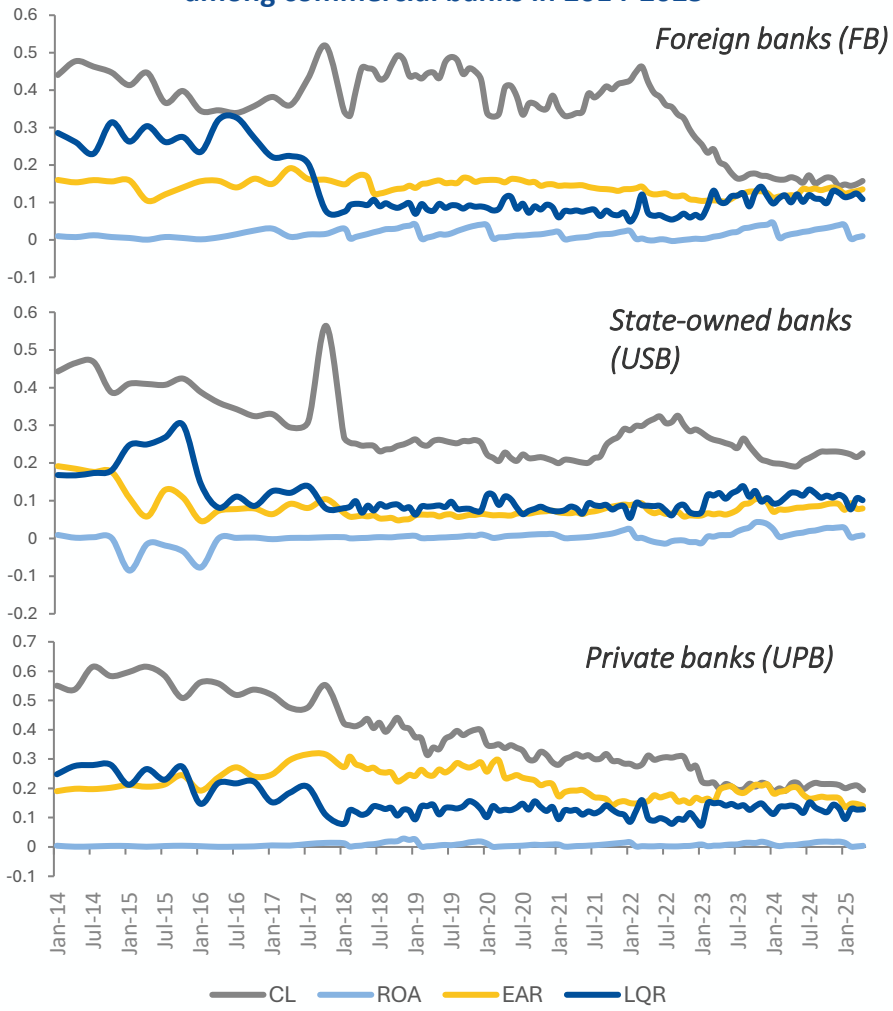
Certificates of deposit rate spread is the difference between lending rates and certificates of deposit yields.

3. Cost of borrowing: summary and policy implications

- **Lending rate still matters but its influence is smaller than war-related factors**
  - While higher lending rates reduce loan volumes (–0.04%), war-related risks have a much stronger impact (–0.12% to –0.21% monthly across models).
  - Reducing war-related risks will support lending more effectively than rate cuts alone.
- **Focus on reducing war-related risks**: War remains the strongest constraint on lending.
  - Policies such as government-backed loan insurance, war risk insurance, stronger borrower support, credit guarantees, and donor-funded risk-sharing tools could help restore confidence and ease credit access.
- **Certificates of Deposit (CDs) have limited impact**:
  - CD rate spread reduces lending by 0.04–0.06% monthly but became insignificant in 2025.
  - Their limited influence means they should not be a key focus for policy
- **Government bond (OVDP) rates showed a temporary crowding-out effect:**
  - From Mar-22 to Apr-25, a 1% increase in the OVDP–lending rate spread was associated with a 0.10% monthly decline in loan volumes.
  - However, this effect became statistically insignificant in the January 2023 – April 2025 period, suggesting that the crowding-out impact has eased and was present only in the first 9 months of the full-scale invasion.
- **While current data does not indicate a strong ongoing effect, important to monitor the interaction between government borrowing conditions and credit activity to ensure balanced financial market development.**

4. Supply side: dynamics of corporate lending

The median of the corporate lending propensity, profitability, financial soundness, and liquidity indicators **among commercial banks in 2014-2025**



Source: Own display based on NBU.

- On the supply side, banks exhibited divergent lending behaviours, largely shaped by their ownership structure.
- Between 2014 and 2017, **Ukrainian private banks** maintained the highest ratio of corporate loans to total assets, while state-owned banks lagged behind.
- By 2018-2019, **foreign banks** had taken the lead, reflecting renewed stability in the sector.
- This trend, however, reversed at the outset of the full-scale Russian invasion in early 2022.
- **Foreign banks** scaled back corporate lending, whereas **state-owned banks** expanded their corporate lending.
- **Private banks**, meanwhile, maintained a relatively steady corporate lending ratio, though a gradual decline has been observed since the third quarter of 2022.
- **Bank ownership shaped divergent lending responses, especially after 2022, with foreign banks retreating, state-owned banks expanding, and private banks gradually declining.**

4. Supply side: determinants of corporate lending

- We group banks by ownership (**state-owned, private, foreign**), as this classification best explains differences in corporate lending behaviour – especially after the 2022 invasion.
- We study how banks' internal finance (**liquidity, capital adequacy, and profitability**) affected their **propensity to corporate lending (change in the corporate lending-to-assets ratio)**.
- We divide the study period into three phases that reflect major policy shifts:
  - **2014–2018 (Early Period):** Prudential reforms and market cleansing.
  - **2019–2021 (Mid Period):** Stabilisation and institutional strengthening.
  - **2022–2025 (Late Period):** Wartime banking and emergency measures.
- We use **Bayesian linear models with weakly informative priors**; such strategy allows us to better estimate uncertainty over time (even with noisy data featuring outliers and structural breaks).
- We include **interaction terms** in the model to track how the impact of liquidity, capital, and profitability changed across the three periods.
- Data comes from **all Ukrainian commercial banks** (2014–2025), using harmonised quarterly data from official balance sheets and income statements. **Liquidated banks** are excluded from the analysis. **Nationalised banks** are classified as state-owned banks since the period of nationalisation.

4. Supply side: determinants of corporate lending

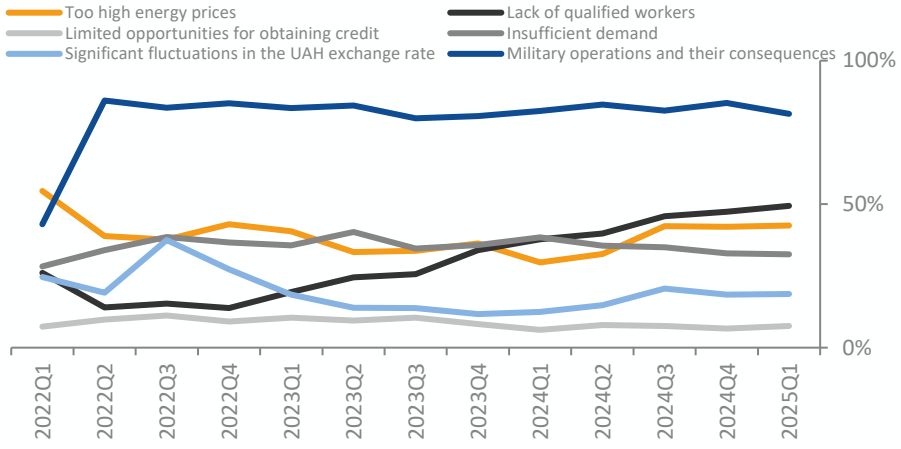
- Foreign Banks (FBs):
  - Liquidity shows no effect on corporate lending.
  - There is evidence of a weak negative effect of capital adequacy and profitability in the early period, which reverses modestly over time.
  - Foreign banks are predominantly shaped by external constraints, but they are not entirely immune to domestic financial conditions.
- State-Owned Banks (USBs):
  - Ukrainian state-owned banks increased their corporate lending propensity during the war.
  - During the war, state-owned banks with a higher capital adequacy ratio decreased corporate lending propensity compared to the early period.
  - Profitability influence remained weak and statistically inconsistent.
- Ukrainian Private Banks (UPBs):
  - Profitability is key: return on assets shows strong positive effect in the early period, which deteriorates in the late period. This shift may reflect increased wartime risk aversion or a strategic pivot toward safer asset classes.
  - During the early period, private banks with higher capital adequacy ratios tended to lend less to corporations (although the influence was rather modest in magnitude). This effect was weaker in the mid period but grew stronger during the war.
- Corporate lending of foreign banks is weakly affected by the domestic policies.
- State-owned banks tend to align their lending activity with government priorities, reflecting a policy-driven mandate rather than purely commercial incentives.
- Unlike foreign and state-owned banks, Ukrainian private banks are more sensitive to profitability in their corporate lending policies. This effect, however, weakened during the war.

4. Supply side: summary and policy implications

- **Foreign banks remain largely detached from domestic conditions**, with lending influenced by global regulations and group-level strategies; lending decreased substantially after the full-scale invasion.
- **Private banks response to profitability incentives in their corporate lending policies**. In the early period, profitability causes a positive effect on the corporate lending. However, during the war, such effect has weakened.
- **State-owned banks hold the greatest potential to scale up lending**, but their preference for government bonds over corporate loans must be addressed.
- **Corporate lending is shaped by distinct financial drivers across bank types.**

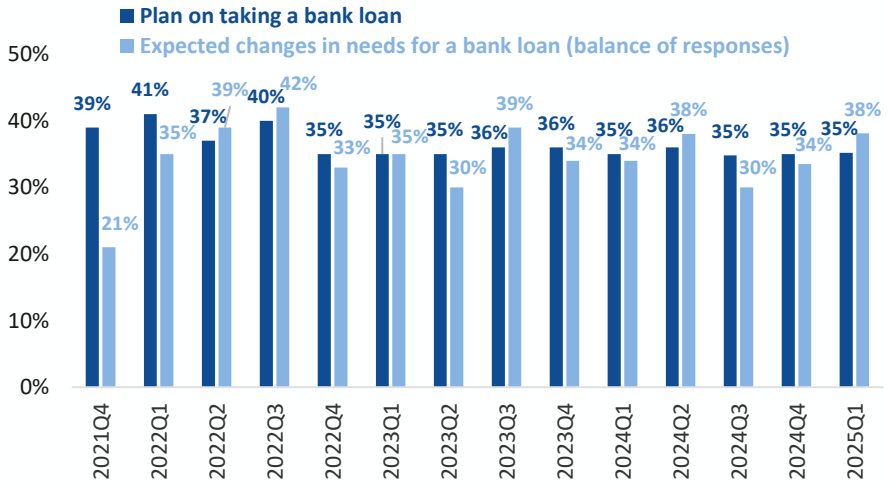
5. Demand side: corporate needs

Businesses' assessment of some of the most influential factors limiting the ability of their enterprises to increase production



Source: NBU

Business expectations regarding changes in the need for borrowed funds in near future (balance of responses) and plans for the next bank loan

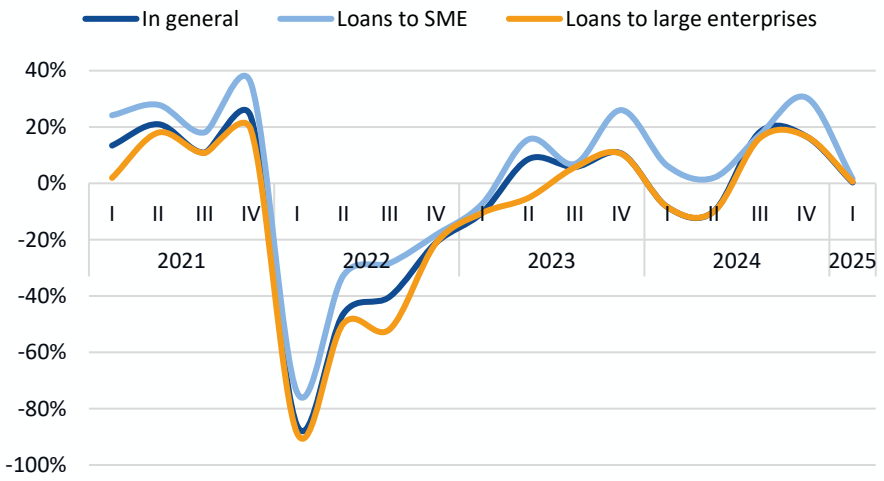


Source: NBU

- Business investment appetite is constrained by unmanageable risks such as massive shelling, power outages, labour shortages, and weak consumer demand.
- However, as shown in the upper figure, limited access to loans is not a top concern for businesses, indicating that credit availability is not seen as a major constraint.
- Companies are more concerned about their ability to repay loans and typically turn to bank credit only after using cheaper options like grants or own funds.
- In Q1 2025, more firms anticipated needing funds, but the share planning to take bank loans remained flat. Businesses preferred hryvnia loans but cited high rates, collateral, and better alternatives as key barriers.
- As war-related risks ease, loan demand may rise – highlighting the need for de-risking tools and policies to enable safer, more predictable investment.

5. Demand side: access

Change of loans' approval rate to the corporate sector



Source: NBU

- Credit access improved by mid-2023, with SMEs benefiting more due to smaller financing needs and lower perceived risks.
- Large firms faced stricter lending due to lower asset values and tighter bank policies, highlighting the need to balance access with financial stability.

Outstanding loans to non-financial corporations by type of economic activity, as of March 2025

Sector	Share of outstanding loans
Trade	38%
Processing industry	18%
Agriculture	13%
Real estate	10%
Electricity, gas, steam, conditioned air supply	7%
Transport, logistics, postal and courier services	6%
Construction	3%
Mining and quarrying	2%
Other industries	2%
All industries	**100%**

Source: National Bank of Ukraine, Centre for Economic Strategy

- Loan distribution in Ukraine remains uneven across industries and business sizes. Trade, processing, and agriculture account for the largest shares of outstanding loans — 38%, 18%, and 13% respectively.
- Loan distribution varies by size: medium firms lead in most sectors, large ones in mining and science. Microenterprise loans are heavily concentrated in trade, while large firms remain focused on trade and processing.

6. Policy implications

- Reduce war-related risks and strengthen target lending support : war remains the most significant drag on credit, reducing loan volumes by –0.12% to –0.21% monthly.
  - Policy measures such as government-back loan insurance, war risk insurance credit guarantees, and targeted support for borrowers can more effectively revive lending than rate cuts alone.
  - Special focus should be placed on de-risking tools to SMEs and innovative firms, targeting the "5-7-9" programme at frontline regions, and offering preferential loans in war-affected areas to support recovery.
- Improve enterprise bankability: provide SME training in finance and credit applications with donor support, address tax evasion to incentivise formalisation and credit access, and promote credit unions and non-bank lenders for small businesses.
- Mobilise state-owned and foreign banks: launch targeted loan schemes for state-owned banks, shift USBs from government bonds to productive lending and extend guarantee programs to foreign banks to restart corporate lending.
- Monitor financial market conditions: The crowding-out effect from OVDP rates was temporary, seen only in early 2022–2023 (–0.10% monthly) and became insignificant thereafter. CD rates had a modest and short-lived impact (–0.04% to –0.06%). While these are not currently major constraints, it is important to keep monitoring them to ensure balanced credit market development.
- **These efforts align with IMF recommendations to improve credit access for SMEs and diversify financial instruments to support recovery.**

7. Annex. Cost of borrowing: corporate lending rate

Results of econometric analysis on corporate lending

ENDOGENOUS VARIABLE: $\text{LOG}\ LV_t$				
PERIOD	Oct-17 – Apr-25	Oct-17 – Jan-22	Feb-22 – Apr-25	Jan-23 – Apr-25
COEFFICIENTS				
$LR_{t-2(1)}$	-0.04***	-0.02**	-0.04***	-0.10***
α	5.93***	5.93***	5.48***	6.71***
WAR_t	-0.15***	—	—	—
GOODNESS OF FIT				
R^2	0.72	0.87	0.55	0.66
N. OBS	87	39	38	28
DEGREES OF FREEDOM	84	37	36	26
F-STATISTIC	29.18***	11.36***	3.61***	8.59***
F-BOUND TEST	6.81***	16.07***	7.07***	5.25**
RESIDUAL DIAGNOSTICS				
BREUSCH-PAGAN°	0.78***	1.06***	1.15***	0.87***
BREUSCH-GODFREY°	0.93***	1.19***	2.65***	0.23***
JARQUE BERA	2.77***	1.48***	0.27***	0.60***
***<10%, **<5%, ***<1%				

- **Corporate lending rates negatively affect loan volumes with a two-month lag in all periods**, with the strongest impact seen in 2023–2025.
- **The war had a stronger and longer-lasting effect**: it reduces loan volumes by 0.15% per month over the full period.
- **Before the invasion**, corporate lending rate explained loan volumes well (**R^2 = 0.87**), but **after the invasion**, its influence dropped (**R^2 = 0.55**), suggesting war-related factors became more important.
- **All models are statistically valid**, with no major issues in residuals (heteroskedasticity, autocorrelation, or non-normality).
- Both high corporate lending rates and the war factor reduced lending, but the war had a stronger and more lasting impact.

7. Annex. Cost of borrowing: government borrowing

Results of econometric analysis on government borrowing

ENDOGENOUS VARIABLE: $\text{LOG}\, LV_t$				
PERIOD	Oct-17 – Apr-25	Oct-17 – Jan-22	Feb-22 – Apr-25	Jan-23 – Aprl-25
COEFFICIENTS				
$OVDP\ IR\ spread_{t-2(3}$	-0.02	0.03	-0.10***	0.21
WAR_t	-0.21***	—	—	—
α	5.45***	5.42***	5.35***	4.88***
GOODNESS OF FIT				
R²	0.65	0.65	0.53	0.88
N. OBS	89	50	38	28
DEGREES OF FREEDOM	86	48	36	26
F-STATISTIC	41.71***	46.58***	2.91***	8.93**
F-BOUND TEST	5.80***	2.75	7.17***	4.72**
RESIDUAL DIAGNOSTICS				
BREUSCH-PAGAN°	3.51	0.03***	0.42***	0.48***
BREUSCH-GODFREY°	4.74	1.51***	0.64***	1.16***
JARQUE BERA	0.96***	2.41***	3.54***	0.19***
***<10%, **<5%, ***<1%**				

- Before the invasion, the spread between government bond yields and corporate lending rates had no significant effect on loan volumes.
- After the invasion, **a 1% increase in the spread led to a 0.10% drop in loan volumes, confirming a crowding-out effect.** Since 2023, the impact has weakened and is no longer statistically significant.
- **The war had a stronger and more lasting impact, reducing loan volumes by 0.21% per month** in the full-period model.
- Model fit declined since the invasion (R^2 fell from 0.65 to 0.53), showing war-related factors played a growing role.
- All models passed residual checks (no major issues with heteroskedasticity, autocorrelation, or non-normality).
- Government bond competition reduced lending since the invasion, but war impact remained more powerful.

7. Annex. Cost of borrowing: certificates of deposit

Results of econometric analysis on CDs

ENDOGENOUS VARIABLE: $\mathbf{LOG}\ LV_t$				
PERIOD	Oct-17 – Apr-25	Oct-17 – Jan-22	Feb-22 – Apr-25	Jan-23 – Apr-25
COEFFICIENTS				
$CD\ IR\ spread_{t-2}$	-0.06***	-0.05***	-0.04***	-0.32
WAR_t	-0.12***	—	—	—
α	5.43***	5.48***	5.19***	5.61**
GOODNESS OF FIT				
R²	0.88	0.81	0.66	0.97
N. OBS	77	38	38	28
DEGREES OF FREEDOM	74	36	36	26
F-STATISTIC	15.82***	7.18***	3.86*	31.69**
F-BOUND TEST	6.78***	8.33***	10.83***	11.97***
RESIDUAL DIAGNOSTICS				
BREUSCH-PAGAN°	0.59***	0.88***	0.69***	0.25***
BREUSCH-GODFREY°	0.46***	0.30***	4.26***	178.98*
JARQUE BERA	8.65	0.31***	1.47***	0.57***
***<10%, **<5%, ***<1%				

- **Certificate of deposit (CD) rate spreads consistently reduced lending before and after the invasion.**
- A 1% increase in the spread led to a 0.04% drop in loan volumes, confirming a crowding-out effect. However, this effect became statistically insignificant since 2023.
- **The war had an additional significant impact, reducing lending by 0.12% per month in the full-period model.**
- **Model fit remained strong**, with R^2 ranging from 0.81 (pre-war) to 0.66 (post-war), showing CD rates remained a relevant factor after the invasion.
- **All models are statistically valid**, with no major residual issues (heteroskedasticity, autocorrelation, or non-normality).
- CD rates negatively impacted corporate lending before and right after the invasion, while war effects further amplified the decline.

7. Annex. Supply side: determinants of corporate lending

Posterior estimates from Bayesian Linear Models (dependent variable: change in corporate lending-to-assets ratio; only consistent credible intervals displayed)

Sample: FB (Foreign banks)		
Coefficient	Posterior mean	90% credible interval
EAR: early period	–0.1	[–0.1; 0.0]
Δ EAR effect (late vs. early)	0.0	[0.0; 0.1]
ROA: early period	–0.1	[–0.3; 0.0]
Δ ROA effect (late vs. early)	0.1	[0.0; 0.3]
Observations	783	
Sample: USB (State-owned banks)		
Coefficient	Posterior mean	90% credible interval
Late period	0.0	[0.0; 0.1]
Δ EAR effect (late vs. early)	–0.8	[–1.3; –0.2]
Observations	175	
Sample: UPB (Private banks)		
Coefficient	Posterior mean	90% credible interval
Δ LQR effect (middle vs. early)	0.0	[–0.1; 0.0]
EAR: early period	0.0	[–0.1; 0.0]
Δ EAR effect (middle vs. early)	0.0	[0.0; 0.1]
Δ EAR effect (late vs. early)	0.0	[–0.1; 0.0]
ROA: early period	0.3	[0.1; 0.6]
Δ ROA effect (late vs. early)	–0.3	[–0.5; 0.0]
Observations	1413	

- **Model estimates are robust**, with all parameters showing excellent convergence ($\hat{R} = 1.0$), high effective sample sizes (n_eff > 1,000), low residual variance ($\sigma = 0.1$), and minimal predictive error (mean_PPD ≈ 0.0).
- **For the sub-sample of foreign banks,** liquidity has no effect on corporate lending propensity.
- There is evidence of a negative capital adequacy effect (EAR) and a negative profitability effect (ROA) in the early period, both of which reverse modestly over time
- **Ukrainian state-owned banks** increased their corporate lending propensity during the war.
- During the war, state-owned banks with a higher capital adequacy ratio demonstrated a lower corporate lending propensity, *ceteris paribus*.
- **Ukrainian private banks'** propensity to corporate lending is weakly affected by the liquidity considerations.
- During the early period, private banks with higher capital adequacy ratios tended to lend less to corporations (although the influence was rather modest in magnitude). This effect was weaker in the middle period but grew stronger during the war.
- Profitability used to motivate corporate lending among Ukrainian private banks, but its effect weakened during the war.

About the German Economic Team

Financed by the Federal Ministry for Economic Affairs and Climate Action, the German Economic Team (GET) advises the governments of Ukraine, Belarus*, Moldova, Kosovo, Armenia, Georgia* and Uzbekistan on economic policy matters. Berlin Economics has been commissioned with the implementation of the consultancy.

**Within the framework of project activities in Georgia, we are in contact solely with reform-oriented partners for the time being; in Belarus advisory activities are suspended.*

CONTACT

Garry Poluschkin Project Manager Ukraine
poluschkin@berlin-economics.com

German Economic Team
c/o BE Berlin Economics GmbH
Schillerstraße 59 | 10627 Berlin
Tel: +49 30 / 20 61 34 64 0
info@german-economic-team.com
www.german-economic-team.com

Our publications are available under
https://www.german-economic-team.com/ukraine

Implemented by

Berlin Economics