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Priorities for the Ukrainian banking sector: looking ahead to the recovery period

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Context: A successful and stable banking sector, yet incomparable in size to recovery needs

Ukraine's banking sector has demonstrated impressive resilience since 2023, as evidenced by its strong profitability. With a return on equity (ROE) of 52% in 2024, it significantly outpaces the European average. However, despite such robust financial performance, the sector's direct contribution to the broader economy has been declining, with loan penetration to GDP falling to 19% in 2024. Additionally, when compared to regional peers, the sector remains smaller in scale relative to the size of the economy. In 2024, Ukraine's loan-to-GDP ratio was 17 percentage points below the regional average, highlighting a significant gap in credit penetration. Deposit penetration is similarly underdeveloped, with the deposits-to-GDP ratio standing at 36% in 2024—16 percentage points lower than the average for comparable economies.

Ukraine's banking sector, once characterized by a private lending-to-GDP ratio of 70% pre-2014, has undergone a dramatic transformation since then. Post-2014 reforms by the National Bank of Ukraine (NBU) have significantly reduced systemic risks, primarily through enhanced regulatory oversight. In subsequent years, banks began increasingly investing in government bonds due to their attractive returns, diverting focus from private lending. This shift is evident in the declining lending-to-GDP ratio, which dropped to 19% in 2023—well below the global average of 60%. Moreover, as banks prioritized sovereign bonds, the share of net loans in total assets fell from 37% in 2021 to just 23% in 2024, despite a 67% growth in total banking assets during the same period. This indicates a substantial reallocation of assets, with a clear shift away from private sector lending.

As Ukraine looks ahead toward a post-war recovery period, revitalizing the financial sector's role in the economy will be critical. Addressing the structural imbalances in lending and deposit penetration, while preserving the stability achieved in recent years, will be essential to unlocking the sector's potential for long-term, sustainable growth.

Looking ahead, Ukraine's banking sector faces both challenges and opportunities. Specifically, banks will need to navigate two key questions:

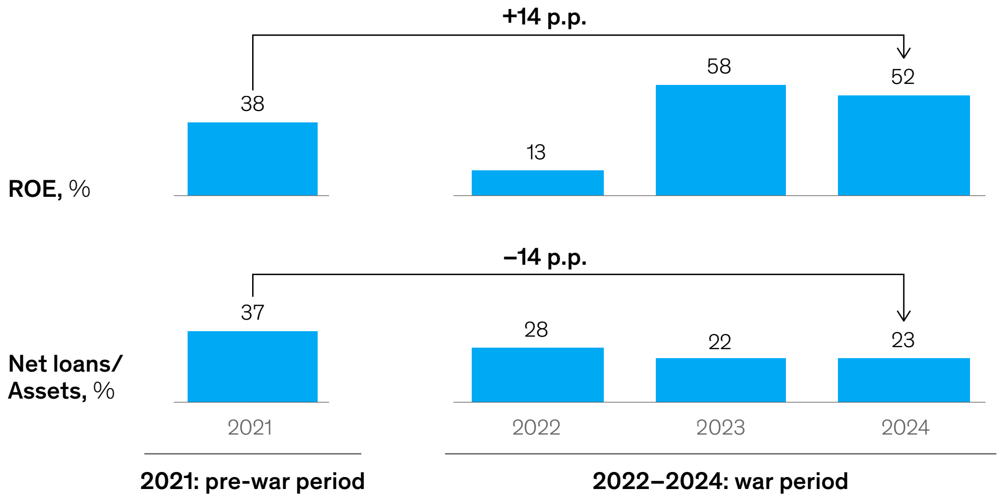
A

How can banks help mobilize private capital to support Ukraine's reconstruction needs—estimated at EUR 300–500 billion—while maintaining financial stability?

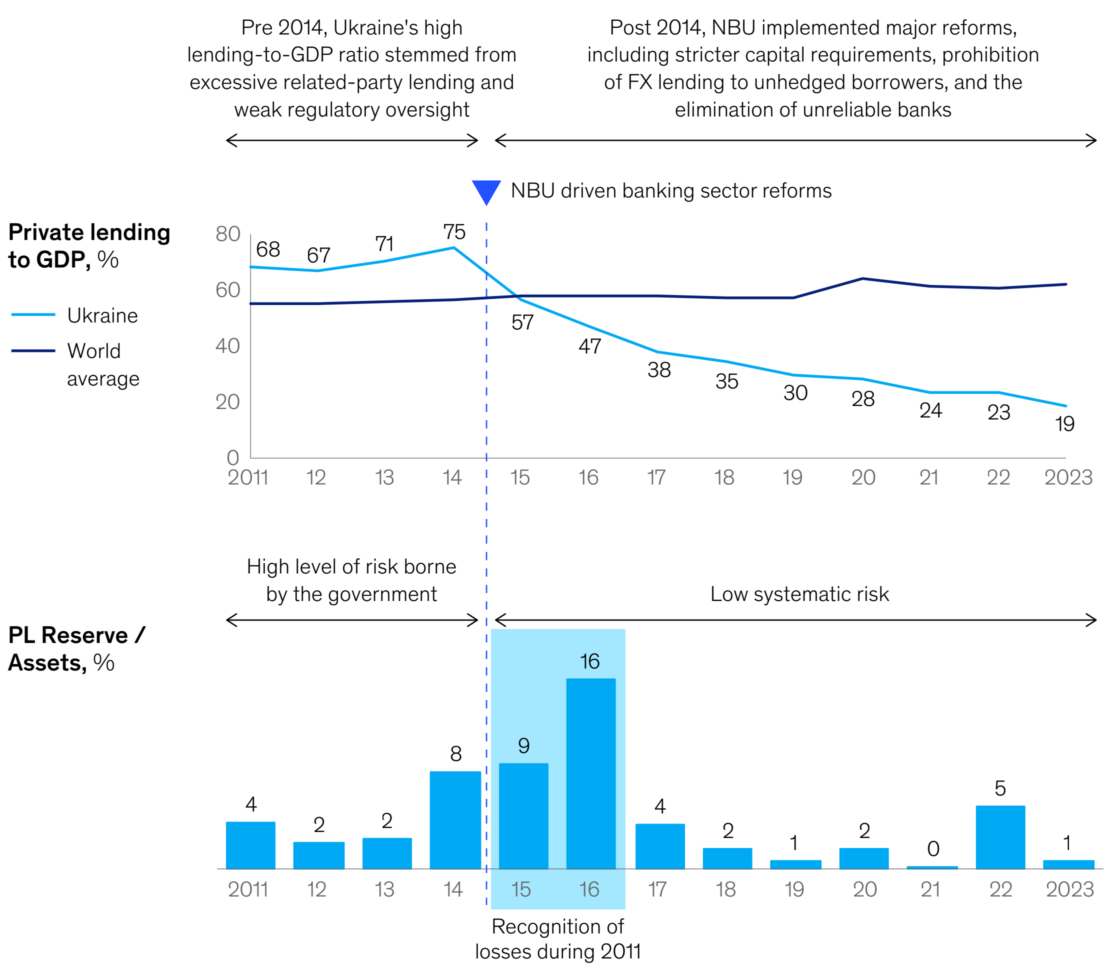
B

How can banks continue to thrive in a post-war "new normal," characterized by likely lower margins and persistent risks?

Despite wartime challenges, sector profitability has improved in recent years. However, banks have become less engaged in the real economy



Relatively 'small' banking sector has not always been the case—we couldreview the history in the light of current context



Source: NBU, IMF, McKinsey analysis

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A

Priorities for a successful recovery: facilitating foreign capital flows requires a portfolio of enablers from governments and donors

Ukraine's recovery needs are immense—estimated at approximately 500 billion[1], —far beyond the financial capacity of the public sector or domestic deposit base. Foreign capital, particularly debt, will inevitably play a central role in meeting this need.

However, attracting foreign capital is a significant challenge due to Ukraine's elevated country risk profile. This includes persistent security concerns, foreign exchange volatility, and a complex political and economic environment. These factors combined impose a steep risk premium of up to 10%, pushing the total cost of capital above 20% in many cases—an unsustainable burden for most recovery-related investments.

To explore how these intertwined challenges can be addressed, we convened a roundtable with senior executives from Ukrainian and international banks, the IMF, EBRD, World Bank, National Bank of Ukraine, and other key stakeholders. The aim was to identify practical strategies to reduce risks and define the role of private foreign capital in Ukraine's post-conflict reconstruction. Discussions coalesced around five critical priority areas, outlined below:

Theme 1: Advanced De-Risking Architecture (e.g., based on the Ukraine Facility)

A portfolio of de-risking products might include:

— Insurance products to cover risks related to security and political instability to provide investors with confidence to engage in Ukrainian projects (e.g., scaled-up capacity for PRI—Political Risk Insurance mechanisms)

— FX hedging instruments with a strong market maker to help investors manage currency fluctuation risks, making investments more predictable and secure

— A broader range of guarantees, such as first-loss guarantees, can protect investors from initial losses, thereby reducing the perceived risk and encouraging investment

— Scaling up the de-risking vehicle in partnership with donors and partners—and correspondingly—expanding the reach of the de-risking facility to include broader segments of clients and projects, including not only SMEs but also covering larger corporate entities

Theme 2: Strengthened Project Pipeline

— The launch of Public Investment Management infrastructure with strong governance and including the Single Project Pipeline that will consolidate and unify the project pool with an emphasis on developing a set of bankable projects for prioritized funding

— An expanded reach of technical assistance for priority projects via PPFs (e.g., World Bank, EIB)

Theme 3: Regulatory Changes to Strengthen the Financial Sector

— A standardized framework for complex syndicated and/or securitized lending to unify the processes and approaches (e.g., common practices regarding covenants, pricing, disbursement and split of pledged collateral between participants) across multiple participating banks and other financial institutions (including international market participants)

— Ensure convergence with EU standards in terms of banking sector and capital markets regulations, supervision

[1] Based on the assessment of World Bank, as of February 25, 2025 and McKinsey analysis

Theme 4: Matured Capital Markets

- Greater de-risking instruments to equity, e.g., through limited partner investments in selecting private equity funds
- Having a second-tier pension system to mobilize domestic savings and channel them into long-term investments, and introduce wealth management instruments and life insurance products to diversify financial offerings and encourage domestic capital accumulation
- A strengthened capital markets infrastructure, governance, and capabilities to ensure efficient operations, transparency, and investor confidence
- The development of other capital market products, incl. corporate and municipal bonds to provide alternative financing options for recovery projects

Theme 5: Focused Measures to Improve the Overall Business Environment and Financial Markets

- The importance of the rule of law in strengthening the legal framework, aligned with European standards, and independence of courts and law enforcement agencies
- A deregulated, liberalized economy that might include Government considering the privatization of state-owned enterprise, including banks, to reduce state ownership in the banking sector
- In this context, the evolving primary role of banks in supporting Ukraine's recovery can be to act as enablers of foreign capital flows through funding instruments and evaluating project risks, complementing their traditional role of mobilizing domestic funding.

B

Thriving in the "New Normal": Expanding Revenue and Productivity in the Recovery Ecosystem

As Ukraine transitions to a post-war recovery phase, banks are expected to face profitability headwinds. ROE could fall to 20–25%, and cost-to-income ratios may rise to 60–65% (from approximately 40%), highlighting the need for adaptability.

To thrive, banks could grow revenues by tapping into recovery ecosystem and boost productivity leveraging 10 priority levers detailed below.

To remain competitive, banks must tap into recovery-related growth and significantly enhance productivity.

On the revenue side, Ukrainian banks, already recognized for their modern and innovative mass-market products, have a significant opportunity to expand their role in a post-war recovery market. They could focus on key areas such as recovery funding—offering solutions like supply-chain financing for SMEs and syndicated loans for corporate clients. Additionally, banks can enhance their retail offerings by transitioning from basic daily banking and transactional products to more advanced services, including sophisticated credit options, investment products, and wealth management solutions, effectively addressing the evolving needs of their customers.

Simultaneously, banks could help boost productivity through targeted levers to navigate post-war challenges like talent shortages and wage normalization. These include shared banking infrastructure, large-scale automation leveraging advanced AI, and a fundamental rewiring of their operating models to ensure long-term sustainability in a transformed economic landscape.

As part of our roundtable, two priorities were identified:

1. Shared Infrastructure Utilities: Unlocking Cost Savings and Operational Efficiency

Shared infrastructure utilities—such as joint ATM networks, centralized KYC/AML platforms, and unified payment systems—present significant opportunities for Ukrainian banks to reduce costs by pooling resources on non-differentiating services. By consolidating these foundational functions, banks can free up capital and operational capacity to focus on areas that drive competitive advantage.

Real-world examples from Europe underscore the value of this approach. In the Netherlands, the *Geldmaat* ATM network and Sweden's *Bankomat* system have each delivered operational cost reductions of up to 40–50% through standardization and process optimization. Beyond cost efficiency, these shared utilities also improve compliance, increase system resilience, and enhance customer experience by offering broader service coverage and consistency.

For Ukraine's banking sector, adopting shared infrastructure is not just a cost-saving measure—it is a strategic lever for building long-term operational resilience and strengthening sector-wide efficiency.

2. Generative AI: A Productivity Game-Changer for Ukraine's Banks

Generative AI (Gen AI) is emerging as a transformative force in banking productivity. Ukraine is particularly well-positioned to lead in this space, supported by progressive regulatory frameworks and advanced cloud infrastructure—providing a potential edge over even some developed markets.

Banks can focus on three priority Gen AI use cases with high impact potential:

— **Software Development:** AI-driven code generation tools can significantly accelerate development timelines and reduce technical debt by 20–30%, improving the scalability and agility of bank technology teams.

- **Operational Automation:** Gen AI can streamline back-office processes such as KYC, compliance reporting, and document management—unlocking productivity gains of 10–40% and reducing manual workloads across functions.
- **Customer Service:** Virtual assistants powered by Gen AI can handle routine inquiries, reducing call center costs by up to 30% while simultaneously improving customer satisfaction and responsiveness.

To fully capitalize on these opportunities, banks will need clear regulatory guidance—particularly regarding the use of cloud-based infrastructure and data security. With the right governance in place, Gen AI can become a foundational component of the next-generation operating model for Ukrainian banks, enabling them to cut costs, boost service quality, and stay competitive in a fast-evolving financial landscape.

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Looking ahead

Ukraine's post-conflict recovery will demand unprecedented coordination between government, donors, and the private sector. Aligning recovery priorities is key to this effort, scaling up and optimizing the de-risking architecture to address private sector concerns, and fast-tracking critical regulatory reforms. By creating an environment that reduces risks, promotes transparency, and bolsters financial and capital market infrastructure, Ukraine can unlock the foreign investment required to close its significant funding gap, building a solid foundation for sustainable economic resilience and long-term growth.

In parallel, to prepare for post-war stabilization, banks need to act now, leveraging a unique set of circumstances. The high concentration of state ownership could facilitate easier coalition-building, while adopting shared infrastructure would offer a more equitable approach to complying with martial law requirements and ensuring supply security. On the revenue side, banks can look to identify opportunities within the recovery ecosystem and build the necessary capabilities to secure long-term growth. On the productivity side, developing a clear cost strategy and a thoughtfully designed AI adoption roadmap will be critical to maintain competitiveness in the new era. Collaboration across the sector will be essential to drive innovation, expand product offerings, and build resilience—ultimately supporting Ukraine's long-term growth and economic transformation.

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