Maintaining a Focus on Robust Financial Stability, Resilience, and Inclusion in Ukraine

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Ukraine

is facing immense financial needs, estimated at a minimum of US$524 billion over the next decade for repair and reconstruction, as the country navigates Russia's ongoing invasion of Ukraine and its economic aftermath (World Bank 2025).

Private sector investment is crucial for robust recovery and rebuilding efforts. Policy reforms and deeper integration with the European Union (EU) could enhance private sector participation in infrastructure sectors, paving the way for green and resilient reconstruction. Ukraine’s small and medium enterprises (SMEs), which constitute most of the private sector, require support to sustain the economy and maintain employment for Ukrainians.

In a continuously precarious environment, it is crucial to ensure financial inclusion for both individuals and businesses, underpinned by a stable and resilient financial sector.

Challenges in the Financial Sector Exacerbated by War

Resilience to shocks

Before Russia's invasion, Ukraine's financial sector was small, fragmented, and overly reliant on state-owned banks (SOBs), making it vulnerable to external shocks. Though the National Bank of Ukraine (NBU) has worked over the past decade to restructure and strengthen the sector, the war has increased financial stress and exposed weaknesses, including the high level of non-performing loans (NPLs). The war has also led to a sharp decline in foreign investment, rising inflation, and currency devaluation. Leveraging data-driven approaches for monitoring the liquidity, solvency, and capital adequacy of banks could provide regulators with deeper insights on how best to respond to current and potential crises. Integrating with the EU regulatory framework could attract much-needed foreign investment to support economic recovery and growth.

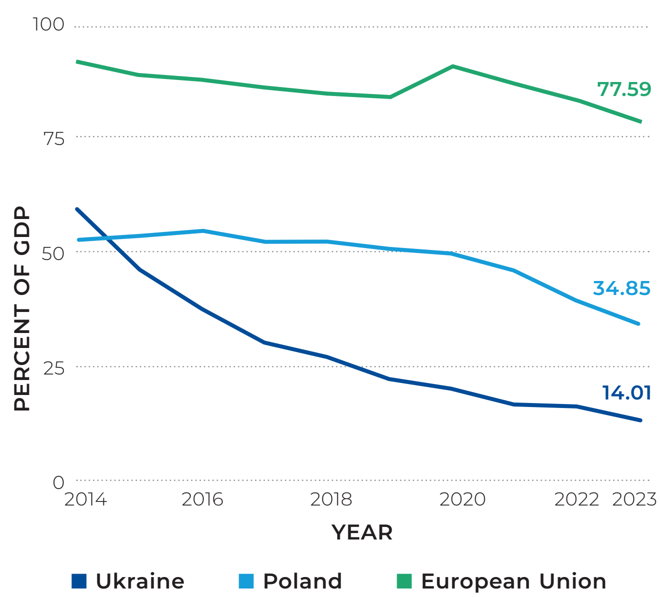
Access to finance

Access to finance remains challenging, particularly for underserved populations, including SMEs, rural residents, women, and the elderly. Before the war, most SMEs faced financing barriers due to high interest bank loans and strict collateral requirements. Russia's ongoing invasion has further exacerbated this issue, disrupting banking infrastructure, reducing access to branches, and disrupting payment systems. Credit provided to the private sector by banks in Ukraine stood at only 14 percent of GDP in 2023, significantly lower than in aspirational peers like Poland (35 percent of GDP) and the EU overall (78 percent of GDP) (Figure 1). Amid ongoing and future challenges, enhancing access to finance in Ukraine is more important than ever to support economic stability and stimulate entrepreneurship.

Financial inclusion and usage of digital financial services

Ukrainian authorities set the objective of a cashless economy as one of the main pillars for the country's future economic transformation. Despite the disruption due to the war, the country payment systems have exhibited significant resilience over the years. The use of payment cards in Ukraine has been on the rise, with over 94% of card transactions being cashless in 2024 (National Bank of Ukraine 2024). However, usage of digital financial services (DFS) in Ukraine remains somewhat limited, particularly among underserved populations. With about 128 cashless transactions per capita in 2020, Ukraine's cashless transactions per capita rate is lower than the regional average of 204 transactions per capita for Eastern Europe and Central Asia. Data hints at an urban/rural gap in access to financial services, including limited penetration of access points and merchant acceptance of digital payments in rural areas. Digital and financial literacy is low, in particular among the elderly and in rural areas.

FIGURE 1. DOMESTIC CREDIT TO PRIVATE SECTOR BY BANKS, PERCENT OF GDP



Source: World Development Indicators 2024.

The World Bank's support, complementary to other reforms, helped Ukrainian authorities impose strict rules of related party lending, conduct related party diagnostics, strengthen SOB governance, take measures to reduce NPLs, overhaul the non-bank financial institutions regulatory framework, and improve financial safety nets.

Prior World Bank Support to Boost Financial Sector Reform

During the past decade, the World Bank has taken a leading role in supporting the financial sector reform agenda to stabilize and deepen the sector in Ukraine, through technical assistance (TA) and lending operations. World Bank TA activities have been closely coordinated with the International Monetary Fund's ongoing program in the country, as well as with other stakeholders (EU, International Finance Corporation, U.S. Treasury) active in the financial stability and resilience agenda in Ukraine. The World Bank's support, complementary to other reforms, helped the authorities impose strict rules of related party lending, conduct related party diagnostics, strengthen SOB governance, take measures to reduce NPLs, overhaul the non-bank financial institutions regulatory framework, and improve financial safety nets.

Since 2013, the Financial Sector Advisory Center (FinSAC), supported by the Austrian Federal Ministry of Finance (BMF), has been the World Bank's prominent vehicle to support financial stability and resilience in Ukraine by deepening and expanding tailored TA. Significant progress has been made to address the handling of failing banks. The Ukrainian Deposit Insurance Agency was transformed into a bank resolution authority and its operational, financial, and regulatory capacity were strengthened to cope with bank failures. With help from FinSAC and other international financial institutions, Ukrainian authorities put in place a framework to resolve and recapitalize banks and strengthen the regulatory and supervisory framework during the banking crisis in 2014–2015. In addition, multiple institutional and regulatory reforms took place to enhance the country's financial stability.

In parallel, the World Bank supported Ukraine's efforts to develop a cashless economy. In 2021, under the NBU's leadership, a roadmap for a cashless economy was developed, and since then, the country has made strong progress in embracing DFS: 81 percent of adults made or received a digital payment in 2021, compared to 61 percent in 2017 (World Bank 2024a). The Ukraine Remittances and Payments Project (RPP), funded by the Swiss State Secretariat for Economic Affairs (SECO) and implemented 2018–22, assisted the NBU in policy and regulatory reforms aiming to increase the Ukrainian population's access to more efficient and less costly payment services. The project delivered a package of support that included a retail payment assessment, TA on Central Bank Digital Currency (CBDC), SupTech/RegTech[1] and fast payments implementation, and capacity building.

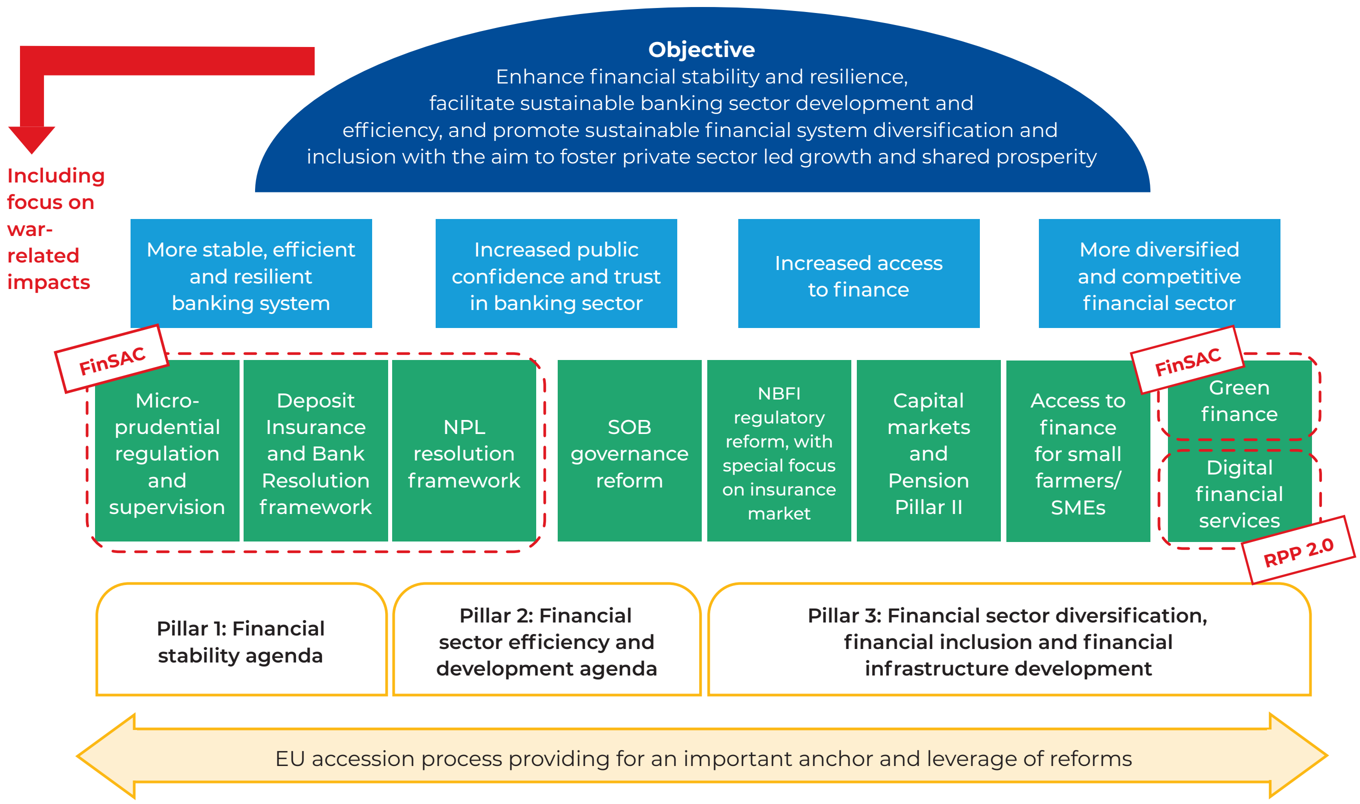
The Deposit Guarantee Fund (DGF), a recipient of multiple lines of TA from the World Bank, fully implemented an electronic system of insured deposit payouts through agent banks. Social payments and government transfers to citizens are now fully moved to an electronic format. In addition, a recently launched national cashback program fully relies on electronic payments infrastructure. In September 2024, the state made the first payments under the

Timeline

Supporting Ukraine's Journey Toward Financial Stability, Resilience, and Inclusion

2012	National Payment System Law enacted
2013	FinSAC cooperation starts to support financial stability, delivering 15 tailored TA over the next 10 years
2014	Ukraine begins rapid adoption of contactless payments and mobile wallets, increasing convenience and security for consumers Deposit Guarantee Law revised to enhance protection of depositors in case of a bank failure Banking Law gives NBU greater powers to supervise and regulate banking system Financial Stability Council established as part of a broader set of financial sector reforms
2015	NBU introduces series of reforms to digitize the financial sector and improve financial resilience
2017	Law on Financial Restructuring allows businesses, including banks, to reorganize their debts without resorting to bankruptcy
2018	Ukraine RPP starts to assist NBU in policy and regulatory reforms that increase access to payment services Ukraine begins testing its own CBDC New privatization legislation provides clearer and more transparent rules for state-owned enterprises, including banks Law on Corporate Governance introduces reforms to improve transparency and accountability
2021	New Payment Services Law aligns Ukraine's regulations with EU Payment Services Directive
2022	Virtual Asset Law creates a regulated environment for the growing sector
2023	FinSAC, funded by BMF through F4D, continues financial stability-related reform programs Ukraine RPP Phase 2, funded by SECO through F4D, supports transition to a cashless economy Strengthened DGF introduces reforms to enhance its bank resolution framework
2024	Progress made in adopting EU regulations concerning cross-border payments, digital assets, and fintech innovation Ukrainian banks signed a Memorandum on ensuring transparency in the payment services market

FIGURE 2. WORLD BANK FINANCIAL SECTOR ENGAGEMENT PROGRAM IN UKRAINE



cashback program—646,378 citizens received UAH 37.2 million—significantly boosting the adoption of cashless payments and supporting the country's digital economy (Ministry of Economy of Ukraine 2024).

Complementary Trust-Funded Programs Are Delving into Critical Areas

Despite the implementation challenges caused by the war, Ukrainian authorities remain steadfast in their commitment to continue financial sector reforms. Building on the progress made in the last decade, the World Bank's ongoing broad Ukraine program in the financial sector aims to enhance financial stability and resilience, facilitate sustainable banking sector development, and promote financial system diversification and inclusion for private sector led growth and shared prosperity (Figure 2).

Benefiting from long-standing and productive cooperation with the NBU and DGF, two complementary trust funded programs today contribute to the overall World Bank support through targeted deep dives in financial stability, resilience, and inclusion, anchored in the country's EU accession process.

FinSAC4, which continues to be funded by BMF, joined F4D in October 2023 to build on successful financial stability-related reform programs. Reflecting the country's evolving context, the program is designed to address the authorities' immediate needs—preserving financial stability, maintaining public confidence, and ensuring readiness for bank resolution—while supporting longer-term reforms to facilitate Ukraine's EU accession program. In one year, FinSAC4 has already made notable progress:

- *Micro prudential aspects of climate-related financial risk:* A survey of 30 large banks identified the current climate risk management practices of Ukrainian banks. Based on the results, a TA engagement will be designed with the NBU.

- *NPLs resolution:* TA and a series of workshops were delivered to enhance NPL regulations. The support provided a framework for conditional debt forgiveness by SOBs, where the stock of NPLs is very high and concentrated. Advancements in the mechanisms for the sale of seized property was also made. Support was provided to the NBU on the amendments to the NPL management regulation, including on the alignment of the NBU's NPL reporting framework with the EU Financial Reporting framework. The support also envisaged changes in the Valuation Law to be aligned with European Valuation Standards.

- *Adoption of several banking regulations:* Several regulations were enacted in 2024, supported by FinSAC4 as part of broader efforts to improve the financial stability and risk management of banks: consolidated capital requirements; amendments to the Net Stable Funding Ratio calculation related to new capital structure; leverage ratio by Ukrainian Banks (including Countercyclical Capital Buffer).

- *Support in updating the Sustainable Finance Development Policy:* TA is expected to facilitate sustainable economic development and promote environmental and social responsibility in the financial sector.

The Ukraine RPP Phase 2, now funded through F4D with SECO's contribution, is building on the first phase and boosting Ukraine's transition to a cashless economy and the Single Euro Payments Area (SEPA) alignment process. To facilitate the alignment process, the team drafted the country's application to the European Payment Council and coordinated knowledge exchange for the NBU to learn from peer countries going through the same process. In supporting Ukraine's transition to a cashless economy, the team delivered technical notes for input to the country's cashless strategy, and held bilateral knowledge exchanges with central banks in Norway and Sweden. Preparation has started to produce a report on the financial inclusion landscape. On fast payment systems, the team is providing TA on user experience requirements, overlay services, and QR code. The program is also providing TA to the NBU in developing a SupTech platform and a CBDC pilot.

Capturing lessons learned to inform future programming and beyond

Implementing financial sector policies in fragile states is a challenging endeavor that demands commitment from domestic authorities and sustained engagement from the international community. As Ukraine continues its unwavering commitment to engage with the World Bank and other partners to ensure financial stability, resilience, and inclusion, the lessons from the ongoing support could inform future programming in the country to maximize impact. Trust funds like F4D have a robust knowledge management and learning framework to capture and share lessons from country experiences and amplify impact.

Lessons from FinSAC in its effort to preserve financial stability and maintain public confidence in the financial sector will be crucial in developing solid foundations for sustainable access and usage of financial services in the country. As noted in the recently published primer on financial sector policy in fragile states (Calice 2024), a research agenda focused on the finance–fragility nexus is expected to help improve financial sector policymaking in fragile states. As the projects in Ukraine make further progress, early results and lessons will be collected and shared with the development community.

The lessons, tools, and frameworks developed in the Ukraine RPP Phase 2 could inform and inspire similar initiatives in Ukraine, particularly with regard to cross-border payments, financial inclusion, and payment infrastructure. Additionally, Ukraine's closer integration with European financial systems and standards will likely create opportunities to adopt and adapt payment innovations, leading to improved payment experiences for consumers and businesses. For instance, Ukrainian fintech companies and financial institutions could adopt similar payment systems for domestic and cross-border payments.

Endnotes

1. SupTech (Supervisory Technology) and RegTech (Regulatory Technology) refer to the use of technology by regulatory authorities (like central banks, financial regulators, or government agencies) that help with supervision and regulatory compliance of financial institutions.

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