UDK 336(477)

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# THE IMPACT OF THE WAR ON THE STABILITY OF THE BANKING SYSTEM IN UKRAINE: ANALYSIS OF DEPOSIT DYNAMICS

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***Abstract:*** *The key trends in deposit attraction to Ukraine's banking system were examined, with particular emphasis on the stability of the banking system amid the ongoing full-scale war.*

**Keywords:** banking system; deposits; structure; national currency; foreign currency

The full-scale invasion of Ukraine by russian federation in February 2022 has presented a profound challenge to all sectors of the national economy, including the depositors of commercial banks. Bank deposits play a pivotal role in the effective functioning of the capital market, contributing significantly to the stability of the national currency and ensuring the uninterrupted flow of liquidity. The ongoing war has created adverse conditions for the development and stability of Ukraine's banking system. Given this fact, it is essential to examine the major trends in the development of bank deposits amidst the full-scale war, specifically during the period from February 2022 to November 2024.

Scientifically and methodologically, this analysis represents a logical extension of previous research into economic and social conditions influencing the development of the bank deposit market in Ukraine. Specifically, econometric modelling was employed to identify factors that shaped the dynamics the bank deposit market between 2000 and 2018, as well as to outline policy initiatives aimed at attracting deposits to Ukraine's banking system [1]. Additionally, key trends in the development of the bank deposit market by region – focusing on deposits in both national and foreign currencies – were assessed for the period 2014-2020 [2]. Structural changes in the bank deposit market during this period were also examined, with an emphasis on the timing of deposit placements [3; 4]. In light of the imperative to maintain the stability of Ukraine's banking system amid the ongoing full-scale war, it is crucial to analyse the specific dynamics of bank deposits from February 2022 to November 2024.

As illustrated in Figure 1, the structure of deposits by term of placement exhibited significant fluctuations, reflecting changes in depositor behaviour under the stress of the war in Ukraine, assessments of the prevailing macroeconomic situation, and varying levels of confidence in commercial banks. Notably, demand deposits maintained their dominant position throughout the period from January 2022 to November 2024. In January 2022, the share of demand deposits was 66.53%, and by June 2022, this figure had risen to 73.19%. However, from July 2022 onwards, there was a gradual decline in this share, with the lowest point – 63.32% – occurring in August 2023. This marked the lowest value throughout the entire analysed period. Since the end of 2023, the share of demand deposits began to rise again, reaching 68.33% in November 2024. This trend suggests that, amid the war, depositors exhibited cautious behaviour, prioritizing the ability to quickly convert savings into cash. Furthermore, the preference for demand deposits indicates a broader lack of trust in the stability of commercial banks in Ukraine.

Between January 2022 and November 2024, the share of deposits with a term of up to 1 year fluctuated between 18% and 31% (Figure 1). At the beginning of 2022, this share was 23.37%, followed by a gradual decline to 18.11% by June of the same year. However, in 2023, this share of such deposits began to rise, reaching a peak of 31.08% in August 2023. By the end of 2024, this share has decreased again to 25.52%. This pattern of depositor behaviour may reflect their adaptation to the wartime environment with an increased desire to earn higher returns while simultaneously safeguarding their savings from inflation. Additionally, it suggests that depositors were attempting to balance risks within the context of the ongoing war in Ukraine.

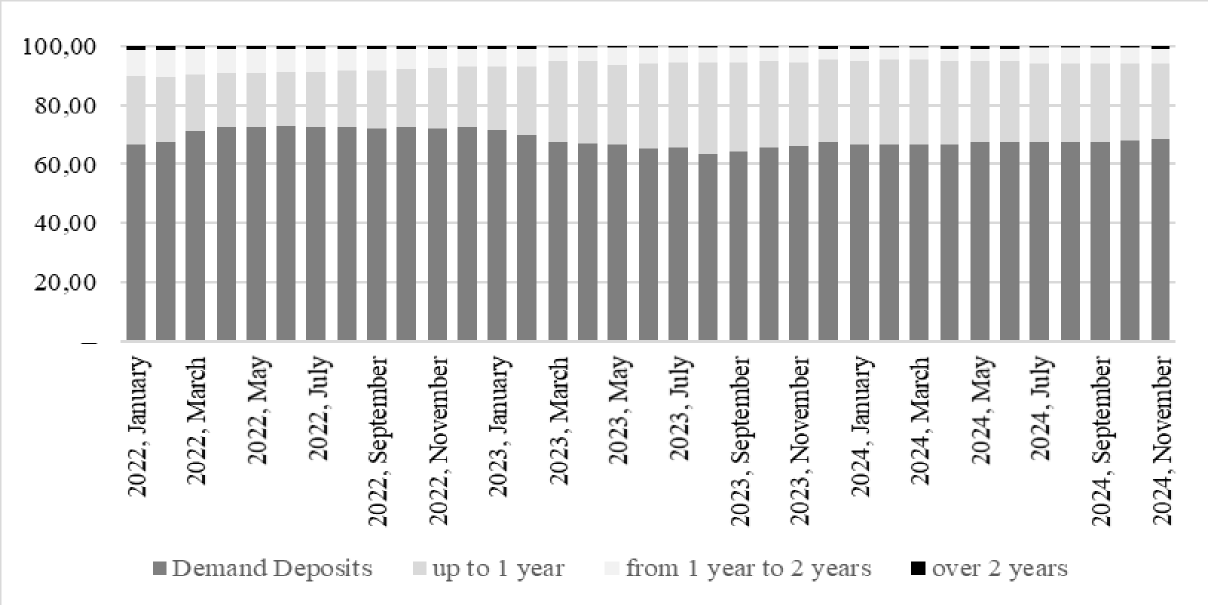


Figure 1. Structure of Deposits in Ukraine by Terms, January 2022 – November 2024, %.
Source: Calculated based on [5].

An analysis of the dynamics of deposits with terms ranging from 1 to 2 years reveals a downward trend over the reporting period. In January 2022, the share of such deposits stood at 8.88%, and by November 2024, it had decreased to 5.36%. Particularly noteworthy is the sharp decline in this category in 2023, when the share plummeted to 4.26% in March. This decrease may reflect depositor's reluctance to allocate their savings to the Ukrainian banking system for the medium term, driven by uncertainty surrounding the duration and course of the war, an unpredictable macroeconomic environment, and concerns about potential restrictions on access to their funds. The share of deposits with terms exceeding 2 years was the smallest among all deposits types and remained relatively stable throughout the period. In January 2022, it was 1.22%, and by November 2024, it had declined slightly to 0.80%. This trend indicates depositors' reluctance to keep their money in commercial banks for the long-term, likely due to a lack of confidence in the banking system, scepticism regarding the National Bank of Ukraine's policy initiatives, and the continued uncertainty about the war's duration.

Thus, the war has had a profound impact on depositor behaviour, which is reflected in the structure of deposits. An analysis of the deposits structure in Ukraine from 2022 to 2024 reveals the following key trends: a significant share of demand deposits indicates that depositors prioritize maintaining liquidity; deposits with terms up to 1 year exhibit notable fluctuations, likely influenced by interest rates and assessments of the prevailing macroeconomic situation; medium- and long-term deposits show the lowest demand, signalling depositor caution regarding long-term commitments with commercial banks. While the Ukrainian banking system has demonstrated resilience, its stability remains fragile due to the dominance of short-term deposits and a lack of confidence in long-term financial engagements.

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