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The Role of Banks in Implementing Ukraine's Investment Strategy

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Abstract: The post-war recovery of Ukraine will depend on the content of the investment strategy, an essential condition for the implementation of which is the active involvement of banks in these processes. As an important element of the economic system, the banking system has a significant impact on the processes of reproduction and growth, providing credit to the real sector of the economy. Investment lending is one of banks' most important functions; however, even before the war, the banking system did not have sufficient financial resources for this. The ability of banks to direct resources to investments depends on the action of many factors and requires an appropriate level of development stability. The process of banks attracting financial resources is complex, as is their further use. Investments are not a priority for banks, but they are of strategic importance for the development of the economy. The authors consider the banking system's stability as their ability to form and effectively use financial resources, and from the standpoint of the post-war recovery of Ukraine, the stability of banks acquires special importance as a condition for the implementation of the investment strategy. In the course of analyzing the impact of banks on the investment strategy, indicators that characterize investment processes were investigated, in particular the amount of investment, the share of investment in GDP; indicators that reveal trends in the development of the banking system (number of banks, size of their assets, size of loans and structure of the loan portfolio). The war significantly affected both the activities of banks and investment processes. The level of investment activity in Ukraine was and remains low, but it critically does not meet the needs of recovery and economic growth. The number of banks decreased during the war years, the loan portfolio decreased, and the resource base decreased, but in general, the banking system ensured the stabilization of macroeconomic processes. Thus, in Ukraine, the banking system has a low level of involvement in investment financing. Changing the situation depends on increasing the level of stability of the banking system and a clear justification of the content of the investment strategy. Among the priority areas for implementing the investment strategy, which will depend on the state of the banking system, are the restoration of infrastructure, modernization, and innovation of the economy - these are the areas that will require the involvement of powerful credit resources.

Keywords: banks, banking system, investments, investment processes, investment strategy, sustainability, post-war recovery, impact, functions, priority areas.

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1. Introduction. The post-war recovery of Ukraine's economy will largely depend on the level of investment resources, which banks should play a significant role in. The country's investment strategy envisages the development of a set of measures that will help to intensify the formation of investment resources, direct them to productive economic development, and create comprehensive conditions for increasing investment attractiveness.

Since the main form of investment is financial, the role of banks as the most important financial institutions in investment processes is also essential. Limited financial resources can suppress the formation of investment resources, and thus have a negative impact on the economic dynamics of the real sector of the economy.

The banking system in Ukraine was not fully involved in investment processes before the war, and now it needs to maintain stability, gradually increase the volume of credit resources, and generally implement an anti-crisis strategy.

Given the complexity of the tasks of activating investment processes, including lending, it is important to analyze the role of banks in implementing Ukraine's investment strategy in the context of strengthening the economic basis of post-war reconstruction.

2. Literature Review.

The issue of the influence of banks on investment processes in Ukraine has been investigated to some extent in scientific sources, both by Ukrainian and foreign scientists.

The importance of bank lending in ensuring economic growth and sustainable development, which has an investment basis of action, is emphasized by scientists in the article (Kremen et al., 2020). Among the key effects of credit growth, scientists call the growth of GDP, capital investments, production, and exports. That is, the banking system, if not directly, directly through the implementation of investment lending, then through other macroeconomic mechanisms and effects, has a positive impact on strengthening the country's investment potential.

S. Cerna calls banks "dual financial institutions": on the one hand, banks are "financial intermediaries", and from the other point of view, they are "centers of money creation" (Cerna, 2022). The influence of banks on the money supply is a mechanism of influence on production and economic growth.

G. Uddin, F. Ashogbon, B. Martins, O. Momoh, H. Agbonrofo note that the banking system, due to the fact that it provides financial intermediation, is a real mechanism for economic development (Uddin et al., 2021). However, the financial capabilities of banks largely depend on the sustainability of their development, and accordingly, their presentation in reporting is an important component of bank management, as discussed in the work (Amidjaya and Widagdo, 2019).

The issue of the role of banks in activating investment activity in Ukraine is directly addressed in the article by S. Ostash and N. Buletsa (Ostash and Buletsa, 2013). Scientists reveal the features of investment lending and provide clear recommendations on increasing the efficiency of investments made by banks. As an important tool, the authors propose the development of investment strategies for banks, the implementation of which would contribute to strengthening the positions of banks in the market.

Small businesses are of great importance for economic development. Still, the key obstacles to these processes are the low investment potential of these structures and low profitability at the initial stages. V. Kovalenko, N. Radova bank credit is considered when activating the investment mechanism for developing small and medium-sized enterprises. Scientists emphasize the importance of banks using special programs for lending to small businesses, the basis of which should be an appropriate state policy of support (Kovalenko and Radova, 2020).

Despite the sufficient level of coverage of the development of the banking system in scientific literature, the issue of its impact on investment processes, especially in crisis conditions, requires additional study.

3. Methodology and research methods (for research and theoretical papers).

The purpose of this study is to analyze the ability of the banking system to perform basic functions from the standpoint of strengthening the financial potential of the economic system and implementing investment lending.

The study is based on the theoretical provisions of the functioning of the banking system, in particular, the functions and processes of bank financial resources formation and their use for crediting investment processes in the economy. Understanding the mechanisms of influence of bank loans on the economic system becomes the basis for analytical research of trends in the development of the banking system, its credit activity, and investment processes. For this purpose, the following main indicators were used: the number of operating banks; loans granted to clients; capital investments made; loans given to business entities; the volume of capital investments at the expense of bank loans, etc.

Methods used in the article: review of scientific sources - to study the evolution of the role of banks; dynamic analysis of statistical information using absolute and relative indicators. Not all important indicators for this study are properly reflected on the official statistics websites.

4. Results. Banks in the economic system of the country are an important, if not central, element, respectively, banking operations should be considered through the prism of the tasks of financing economic development and activating investment processes.

For the economic growth of the country, it is important to increase financial resources directed to investments. Accordingly, the stability of the banking system, its ability to generate cash flows should be considered in the context of implementing the country's investment strategy.

The evolution of the role and functions of banks in the economic system from the perspective of the challenges of modernity was studied by A. Zhilinsky. He notes that the main functions of banks are "the functions of an intermediary, a settlement center, a guarantor, as well as trust and social functions" (Zhilinsky, 2024).

The banking system as a whole performs functions that should be considered from the standpoint of impact on economic development at the macro level. Traditionally, scientists distinguish three main functions:

- the function of money creation and regulation of the money supply, which significantly affects investment resources;
- the transformation function, which allows for effective reorientation of the system's free funds to those areas that are most productive in terms of economic growth;
- the stabilization function, which is aimed at minimizing risks and ensuring the stability of the system (Kyrylenko, 2010).

The integrated result of the action of these functions is the banking system's influence on ensuring national economic growth, as emphasized in the article (Barna and Ruschyshyn, 2020).

Scientists M. Barna and N. Ruschyshyn additionally distinguish such main functions as the formation and development of payment instruments and systems; regulation of the money supply; movement of financial resources; financial risk management; of combining and distributing financial resources (Barna, Ruschyshyn, 2020). In our opinion, the above functions are debatable, since they somewhat duplicate the functions of money creation, transformation, and stabilization.

When revealing the role of banks in the economic system, it is advisable to emphasize their importance in forming and redistributing financial resources (Figure 1).

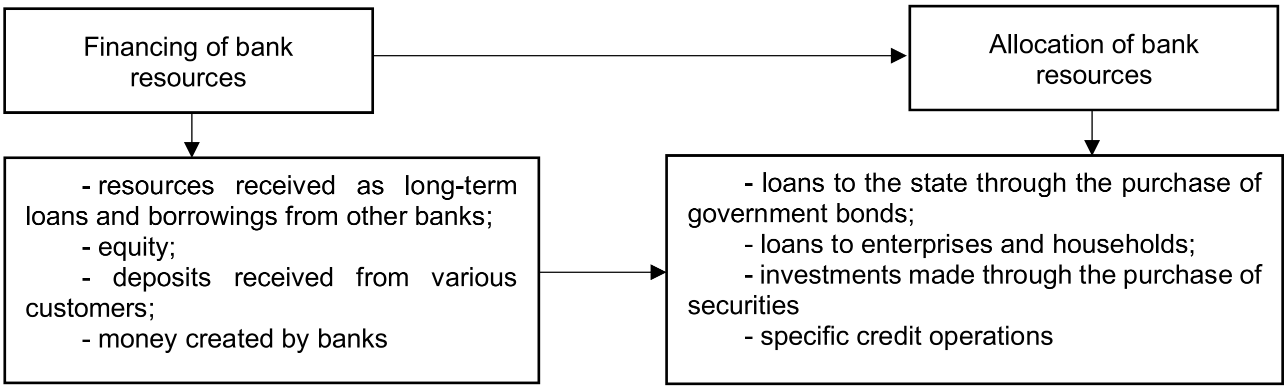

Figure 1. Directing banks' resources to investment processes
Sources: systematized by the authors based on (Cerna, 2022)

The presented scheme demonstrates the complex processes of involving banks in lending to the real sector of the economy. Accordingly, the banking system's stability allows it to attract financial resources and redirect them, including investments, which is most important from the point of view of sustainable economic development. The stability of the banking system is the basis of a high level of trust of various categories of bank clients, who form their resources, and therefore, for the banking system, a business policy that contributes to the growth of the credit potential of banks is important.

The stability of the banking system is proposed to be considered as its ability to attract a growing amount of financial resources from various sources, to form monetary resources through the emission of money, additionally, and to direct them to lending/investing in projects that contribute to economic development, job creation, and employment growth.

Active participation of banks in the formation of financial resources directed to investments is a sign of stability. In other words, the banking system's stability characterizes banks' ability to perform their primary functions. Taking as a basis the task of implementing the investment strategy of Ukraine, it should be noted that the banking system's importance lies in performing the lending function. The fact that banks in Ukraine did not become powerful creditors before the war indicates their low involvement in investment processes. The war only exacerbated the situation.

N. Zarichna noted that in the first months of the war, the banking sector of Ukraine faced the problem of loss of stability and reliability, which was accompanied by problems with loan repayment, untimely return of deposits, and this could not help but affect the role of banks in investing in the economy (Zarichna, 2024).

To analyze the role of banks in investment processes in Ukraine, we will use the indicators given in Table 1.

Table 1. Indicators characterizing the influence of the banking system on investment processes in Ukraine

Indicators	2017	2018	2019	2020	2021	2022	2023	2024
Number of operating banks	82	77	75	73	71	67	63	61
Assets	1333831	1359703	1493298	1822841	2053232	2351678	2945030	3422600
Loans granted to clients	1036745	1118860	1033430	960597	1065347	1036213	1024678	1138036
Investments in securities and long-term investments	425803	480615	539466	791373	829887	1022658	1466474	1692972
Volume of capital investments	448461.5	578726.4	623978.9	508217.0	673899,3	409659,9	627280,8	534417,1
Share of investments in GDP. %	15.04	16.25	15.69	12.04	12.36	7.82	9.46	6.98
Growth rate of capital investments. %	124.84	129.05	107.82	81.45	132.60	60.79	153.12	85.20
Loans granted to business entities	864412	919071	821936	749335	795513	801413	783690	850581
Share of loans granted to entities	*83.38*	*82.14*	*79.53*	*78.01*	*74.67*	*77.34*	*76.48*	*74.74*
Volume of capital investments at the expense of bank loans	29588.9	44825.4	67232.6	27894.5	26654.1	11822.1	11649.1	20473.8
Growth rate. %	109.16	151.49	149.99	41.49	95.55	44.35	98.54	175.75
Share of bank loans in capital investments. %	6.60	7.75	10.77	6.64	5.04	4.23	2.95	3.83

Sources: compiled by the authors based on (State Statistics Service of Ukraine, 2025).

Based on the indicators presented in the table, certain conclusions can be drawn.

1. Investment activity in Ukraine remained at a low level even before the war, as evidenced by the indicators of the volume of capital investments and their share in GDP. Before the pandemic, there was a gradual increase in the volume of capital investments, with a certain slowdown in 2019 and a drop of 19% in 2020. The war could not but affect the volume of investments, which significantly decreased in 2022 and 2024. An important indicator of the level of investment activity in the country is the share of capital investments in GDP. The value of this indicator during 2017-2019 was at the level of 15-16%, which did not meet the needs of economic growth. During 2022-2024, there was an even more significant decrease in this indicator to the level of 7-9%.

2. Considering the role of the banking system in financing capital investments, it should be noted that the number of banks in Ukraine has decreased by 25% in recent years, from 82 in 2017 to 61 in 2024, but the size of the banking system's assets, on the contrary, has grown (at an average annual rate of 113.6%). Despite the growth of the banking system's assets, the size of loans granted to clients was unstable. In general, during the war years, there was a significant decrease in the loan portfolio of the real sector of the economy. Structurally, large enterprises accounted for 23.44% of the loan portfolio, medium-sized enterprises - 31.5% of the loan portfolio, small businesses accounted for 9.76%, and microbusinesses - 20.01% (Business lending, 2024).

3. The main participants in investment activity in the country are business entities that, at the expense of their own or credit resources, can ensure the development of the real sector of the economy. Loans granted to business entities have had an unstable trend in recent years: there has been a decrease and a certain increase in some years. The share of loans granted by banks to businesses in recent years has been at 83% to 74.7%. By target direction, 40-45% of loans granted to entrepreneurs were granted for purchasing vehicles, and 25-27% of loans were granted for production equipment. Loans granted to small and medium-sized businesses were loans for up to one year, which does not contribute to activating investment processes [Loans for entrepreneurs].

This state of affairs indicates the unstable credit potential of the banking system and, therefore, its low involvement in the implementation of Ukraine's investment strategy. Accordingly, both the stabilization of the banking system and the implementation of the investment strategy should be considered in conjunction and are equally important for the post-war recovery of Ukraine.

The priority areas for implementing the investment strategy at the stage of post-war recovery in Ukraine will be:

First, the restoration of production, social, and transport infrastructure;

Second, large-scale modernization of production potential and the formation of modern industries in basic industries;

Third, stimulating investment in innovation and the development of the country's scientific and technical potential.

The indicated areas of investment will require long-term loans from banks at low interest rates, and this will largely depend on the strength of the banking system and its ability to attract significant financial resources from the economy.

5. Discussion

The development of the country's banking system should be considered in conjunction with the development of the country's economy. Accordingly, the criteria for assessing the efficiency and stability of the banking system should be considered from the perspective of the quantitative results of its direct functioning and through the prism of its impact on macroeconomic processes. Accordingly, the ability of the banking system to form a significant financial resource for the economy is the most important function, and the importance of this will increase at the stage of post-war recovery.

During the war years, there were: a reduction in business activity and a decrease in incomes of the population, which could not help but affect both deposits and bank loans; a deterioration in the quality of the loan portfolio and a significant outflow of financial resources due to large-scale migration of citizens. The banking system met the challenges of wartime with dignity: it maintained stability, contributed to macroeconomic stability, controlled inflationary processes, and counteracted destructive processes by lowering the discount rate. The priority areas of activity of the banking system, which contributed to its strengthening during the war years, are financing projects that increase the country's defense capability and providing loans to export-oriented enterprises.

6. Conclusions.

The implementation of Ukraine's investment strategy largely depends on the banking sector's stability. If banks fulfill their functions, they contribute to the formation and circulation of investment resources, which ensures accelerated economic reproduction. A stable banking system is an additional powerful argument for foreign investors. Accordingly, Ukraine's investment strategy at this stage should be aimed at:

first, creating conditions for filling the economy with financial resources from all possible sources;

secondly, increasing the level of investment attractiveness of the country, which is essential for foreign investors, without whose participation a dynamic post-war recovery will be impossible;

thirdly, strengthening the legal framework for business development and reducing the shadow economy will increase business confidence in the safety of investments made.

As for the banking system itself, its stability, and therefore its ability to play an ever-increasing role in financing investments in the post-war years, will depend on the macroeconomic situation in the country, state financial and monetary policy, integration into the EU banking market, the state of the shadow sector, and corruption in the country.

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Роль банків у реалізації інвестиційної стратегії України

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У статті досліджено вплив банківської системи на реалізацію інвестиційної стратегії України. Повоєнне відновлення України буде залежати від змісту інвестиційної стратегії, важливою умовою реалізації якої є активне долучення до цих процесі в банків. Банківська система як важливий елемент економічної системи має значний вплив на процеси відтворення та зростання, здійснюючи кредитування реального сектора економіки. Інвестиційне кредитування є однією з найважливіших функцій банків, однак і до війни банківська система не мала достатнього обсягу фінансових ресурсів для цього. Спроможність банків спрямовувати ресурси на інвестиції залежить від дії багатьох чинників та потребує відповідного рівня стійкості розвитку. Процес залучення банками фінансових ресурсів є складним, як і їх подальше використання. Інвестиції не є пріоритетом для банків, однак має стратегічне значення для розвитку економіки. Стійкість банківської системи автори розглядають як їх спроможність формувати та ефективно використовувати фінансові ресурси, а з позицій повоєнного відновлення України стійкість банків набуває особливого значення як умова реалізації інвестиційної стратегії. В ході аналізу впливу банків на інвестиційну стратегію досліджено показники, які характеризують інвестиційні процеси, зокрема величину інвестицій, частку інвестицій у ВВП; показники, які розкривають тенденції розвитку банківської системи (кількість банків, величина їх активів, величина кредитів та структура кредитного портфеля). Війна суттєво вплинула як на діяльність банків, так і на інвестиційні процеси. Рівень інвестиційної активності в Україні був і залишається не просто низьким, а таким, що критично не відповідає потребам відновлення та економічного зростання. Кількість банків за роки війни зменшилась, скоротився кредитний портфель, зменшилась ресурсна база, однак в цілому банківська система забезпечила стабілізацію макроекономічних процесів. Таким чином, в Україні банківська система має низький рівень залучення до фінансування інвестицій. Зміна ситуації залежить від підвищення рівня стійкості банківської системи та чіткого обґрунтування змісту інвестиційної стратегії. Серед пріоритетних напрямів реалізації інвестиційної стратегії, які будуть залежати від стану банківської системи, є відновлення інфраструктури, модернізація та інноватизація економіки – це ті напрями, які потребуватимуть залучення потужних кредитних ресурсів.

Ключові слова: банки, банківська система, інвестиції, інвестиційні процеси, інвестиційна стратегія, стійкість, повоєнне відновлення, вплив, функції, пріоритетні напрями