СЕКЦІЯ 1

ФІНАНСОВІ ІНСТРУМЕНТИ РЕГУЛЮВАННЯ РОЗВИТКУ ЕКОНОМІКИ

Gudz Olena,
Dcs in Economics, Professor,
Head of the Department of Financial Markets and Technologies;
State Tax University

FINANCIAL INSTRUMENTS FOR STIMULATING MORTGAGE MARKET DEVELOPMENT UNDER MARTIAL LAW AND POST-WAR RECOVERY CONDITIONS

The exploration of new prospects and financial mechanisms aimed at revitalizing Ukraine's mortgage market under wartime conditions and during subsequent recovery is of critical importance for shaping effective public policy. Mortgage lending has the potential to become one of the key drivers of growth in the construction sector, stimulate investment activity, and generate additional employment opportunities.

Moreover, due to widespread housing loss and the growing need to improve living conditions caused by destructive military actions, the implementation of modern financial instruments to ensure housing affordability is essential for maintaining social stability. Providing access to homeownership through mortgage programs can help alleviate social tensions associated with homelessness or inadequate living conditions.

The challenges and opportunities for accelerating the development of the mortgage market have been actively discussed at numerous academic and public forums. Noteworthy contributions and well-founded proposals have been made by researchers such as N. Avadani, T. Andreykiv, A. Butov, A. Vynnyk, O. Vovchak, O. Zaslavska, I. Klyots, V. Kostetskyi, M. Lapishko, S. Reznychenko, V. Pavlyshyn, D. Schwartz, O. Shulyak, B. Yazliuk, among others.

Against the backdrop of military aggression against Ukraine, the national economy has entered a state of profound instability, significantly affecting the functioning of the mortgage market. In 2021, prior to the full-scale invasion, notaries certified over 33,600 mortgage agreements. However, by 2022, this number had dropped nearly fourfold to just 5,400. According to banking sector data, only 2,009 mortgage loans were issued in 2022, totaling UAH 1.96 billion, representing a 5.3-fold decline in the number of transactions and a 4.3-fold decrease in total financing compared to the previous year [2].

Despite the crisis, the mortgage segment has begun to show signs of gradual recovery, largely due to the launch of state programs such as "Affordable Mortgage" and "YeOselya." These initiatives offer housing loans at preferential interest rates of

7% and 3% per annum, respectively. It is noteworthy that under wartime conditions, banks have almost entirely focused on financing the purchase of housing on the secondary market, accounting for 99% of all mortgage transactions [2].

The "YeOselya" program, implemented by the state-owned company Ukrfinzhytlo, enables mortgage arrangements for up to 20 years with a minimum down payment of 20% of the property's value [1]. This program serves not only an economic function but also a vital social role – providing housing for citizens affected by the war and supporting economic activity in the construction sector.

In Ukraine, as in many other countries, mortgage lending plays a strategic role in fostering socio-economic stability, extending beyond purely financial mechanisms. It contributes to investment mobilization, alleviates social tensions, and supports macroeconomic equilibrium [3, p. 36].

At the same time, Ukraine's mortgage market exhibits a range of specific characteristics shaped by both the overall economic environment and the peculiarities of the real estate and banking sectors [3, p. 37]. Even before the war, mortgage lending in Ukraine was marked by stringent borrower requirements, high interest rates, and short loan terms – factors that posed significant barriers to broad access to housing [1].

In the process of Ukraine's post-war economic reconstruction, particular attention should be devoted to the implementation of innovative financial instruments capable of stimulating the development of the mortgage market as one of the key segments of socio-economic stabilization. In particular, the anticipated restoration of critical infrastructure is expected to enhance the investment attractiveness of specific regions, which, in turn, will intensify demand for residential real estate.

As the population returns to permanent places of residence and new housing needs emerge, a significant increase in demand for mortgage lending is projected. In this context, the state must implement comprehensive support programs, including subsidy mechanisms, preferential interest rates, and government guarantees that can ensure access to financing, especially for vulnerable population groups such as persons with disabilities and internally displaced persons.

A crucial step toward stimulating the market involves adjusting the monetary policy of the National Bank of Ukraine, particularly through lowering the key interest rate, which would reduce the cost of mortgage products and invigorate lending activity.

The attraction of direct foreign investment into the housing sector opens up prospects for the implementation of new development projects, modernization of the housing stock, and improvement of its qualitative characteristics. Simultaneously, the digitalization of mortgage transaction processes, the development of online platforms for real estate transactions, and the integration of fintech solutions will facilitate easier access to financial resources.

Shifts in social priorities following the war – particularly the growing interest in environmentally friendly and energy-efficient housing – will shape a new demand structure, necessitating the adaptation of mortgage products to the evolving needs of the population. Moreover, improving citizens' financial literacy will foster a more

responsible approach to borrowing, positively influencing the long-term stability and development of the mortgage market.

To ensure the effective and secure functioning of the mortgage market during the post-war reconstruction period, it is critically important that all financial mechanisms be introduced against the backdrop of macroeconomic stability and political equilibrium. Only under such conditions can long-term activation of mortgage lending as a tool for socio-economic development be achieved.

At the same time, the development and implementation of financial instruments must take into account a range of systemic risks and threats that could significantly constrain the potential of the mortgage market:

***macroeconomic instability**:* the post-war recovery process may be accompanied by high inflation rates, rising unemployment, and currency fluctuations, all of which could adversely affect household solvency and suppress demand for mortgage loans;

***housing stock deficit**:* extensive destruction of infrastructure and residential buildings will likely result in a shortage of real estate, leading to price increases and reduced accessibility of mortgage financing for broad segments of the population;

***credit risks**:* financial institutions, facing elevated default probabilities, may restrict the volume of mortgage lending, thereby diminishing the availability of housing credit;

***legal uncertainty**:* during the transitional period following the cessation of hostilities, regulatory challenges in the real estate market may complicate the legal processing of mortgage transactions;

***political and social risks**:* potential political instability or social unrest could negatively impact the investment climate, hindering the development of the housing sector;

***behavioral shifts**:* in the context of deformation and uncertainty, the population may exhibit caution in making real estate purchase decisions due to fears of renewed military conflict or economic crisis;

***limited budgetary resources**:* significant expenditures on the restoration of critical infrastructure may constrain the state's capacity to finance social programs, including mortgage subsidies;

***demographic transformations**:* war-induced migration processes are reshaping the structure of housing demand across different regions of the country, necessitating the adaptation of mortgage products to new demographic realities.

Thus, the identified set of risks and threats will have a substantial impact on the trajectory of mortgage market development. It is therefore imperative to incorporate these factors into the design of financial mechanisms, the formulation of strategic approaches to mortgage lending, and the determination of priority state interventions aimed at stimulating this segment.

To effectively stimulate the mortgage market, the state must implement a set of targeted financial instruments, including:

- **implementation of state support programs** that provide partial interest rate compensation and targeted subsidies for socially vulnerable groups such as internally displaced persons, young families, and military personnel;
- **introduction of government guarantees mechanisms** through the establishment of specialized funds that cover credit default risks, thereby reducing lending risks for banking institutions;
- **optimization of mortgage processing procedures**, including deregulation, simplification of property valuation processes, reduction of administrative burdens, and digitalization of document workflows;
- **infrastructure investment in heavily affected regions**, aimed at enhancing the investment appeal of residential projects and stimulating construction activity;
- **creation of a favorable investment climate** to attract foreign capital into the mortgage and housing sectors, particularly through tax incentives and guarantees of investor rights;
- **enhancement of financial literacy among the population** through educational campaigns that inform citizens about mortgage lending opportunities, financial planning, and debt management;
- **modernization of the legislative framework** to protect borrower rights, including the introduction of debt restructuring mechanisms in cases of financial hardship;
- **encouragement of the banking sector** to develop innovative mortgage products tailored to population needs – such as low down payments, flexible repayment schedules, and adaptive lending conditions;
- **support for the construction of social housing and affordable residential complexes**, thereby expanding the range of housing options available to diverse population groups.

The implementation of these instruments will not only revitalize the mortgage market but also broaden access to housing, stimulate the construction industry, foster economic growth, and contribute to social stabilization in the post-war period. This will generate a synergistic effect for the state, financial institutions, and civil society.

Finally, it is essential to consider the multi-dimensional effects that mortgage market development may generate in the context of Ukraine's post-war recovery. The activation of mortgage lending during the post-crisis period has the potential to produce significant positive outcomes for key stakeholders within the national economic system, namely the state, financial institutions, and households.

For the state, the expansion of the mortgage segment will contribute to the intensification of the construction industry, which, in turn, will create additional employment opportunities, stimulate related sectors of the economy, and foster growth in gross domestic product. Providing housing – particularly for internally displaced persons – through mortgage mechanisms will serve as a vital factor in promoting social stabilization. Moreover, the revitalization of the mortgage market will open new

avenues for attracting both domestic and foreign investment into the real estate and construction sectors.

For the banking sector, the growth of mortgage lending implies an increase in the volume of high-quality assets within credit portfolios, positively impacting the financial resilience of institutions. Mortgage loans typically carry low risk and have a long-term nature, allowing banks to diversify credit risks and reduce dependence on volatile sectors. Additionally, long-term credit relationships with borrowers help establish a stable stream of interest income and strengthen the client base.

For households, mortgage financing provides access to housing without the need for an upfront payment of the full property value, significantly expanding opportunities for homeownership. Property ownership not only satisfies basic needs but also serves as a form of capital accumulation that can be leveraged in the future. Furthermore, mortgage financing enables investment in improved living conditions, which positively affects household welfare and quality of life.

References

1. Klots, I. (2024). The mortgage lending during the time of martial law. *Sustainable Development of Economy*, 1 (48), 105–111. DOI: 10.32782/2308-1988/2024-48-14 [in Ukrainian].

2. National Bank of Ukraine. URL: https://bank.gov.ua/ua/news/all/ ipotechne-kredituvannya-postupovo-vidnovlyuyetsya-zavdyaki-derjavnim-programam--rezultati-opituvannya [in Ukrainian].

3. Yazlyuk B. O., Kostetskyi V. V., Butov A. M. (2024). Social and economic effects of the development of the mortgage lending market under the conditions of the legal regime of martial law. *Ukrainian Journal of Applied Economics and Technology*, 9 (3), 36–40. DOI: 10.36887/2415-8453-2024-3-6 [in Ukrainian].