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USAID FINANCIAL SECTOR REFORM ACTIVITY

Roundtable

**BANKS, NBFIS AND INTERNATIONAL FINANCIAL  
SUPPORT PROGRAMS IN UKRAINE**

December 16, 2022

# **SURVEY FINDINGS ON BANK NEEDS FOR IFIS' SUPPORT PROGRAMS**

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# BRIEF OVERVIEW OF THE BANKING SYSTEM – QIII 2022

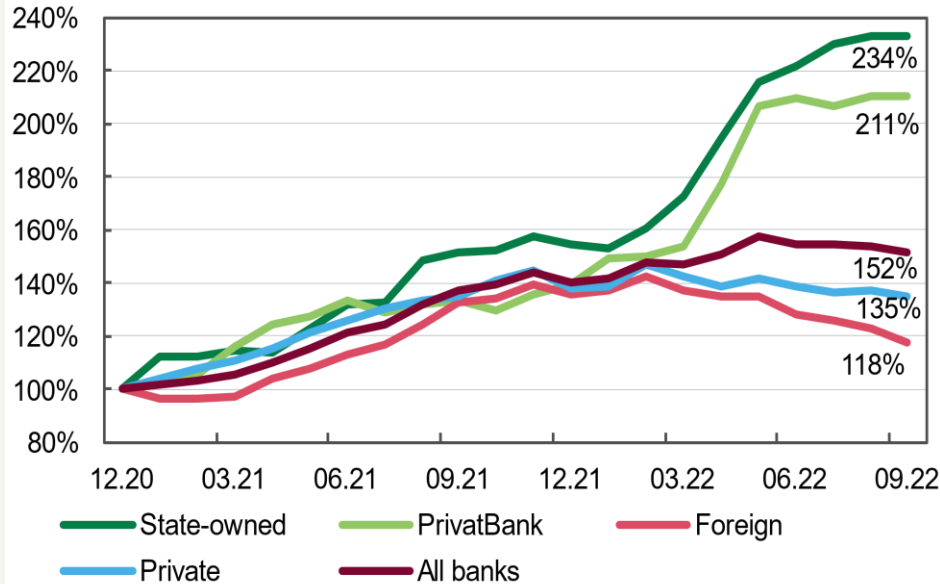
- ◇ As of October 2022, there were **67** banks in Ukraine.
- ◇ Liquidity growth continues – deposits in the national currency started growing for the first time after February 24.
- ◇ Net assets have grown by **7.5%** and exceeded the pre-war level



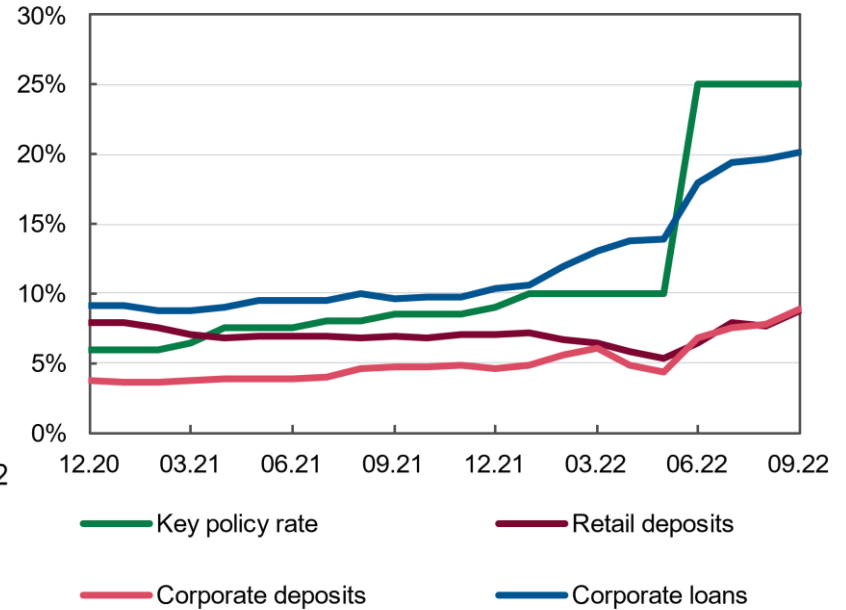
- ◇ Net credit portfolio was decreasing in corporate segment and in retail. Only state banks increased lending in UAH – by **4.3%** during the quarter.
- ◇ The activity within state programs of lending was decreasing in QIII. Loans under these programs make **29%** of the UAH loan portfolio of banks on the gross basis.

Source: National Bank of Ukraine.  
Banking Sector Review, QIII 2022

# DYNAMICS OF LENDING



Net loans to enterprises, 2020 = 100% in solvent banks as of 01.10.2022  
 Source: National Bank of Ukraine. Banking Sector Review, QIII 2022



NBU discount rate, cost of new deposits and loans in UAH, % per annum.  
 Source: National Bank of Ukraine. Banking Sector Review, QIII 2022

# EXPECTATIONS



- ◇ It is expected that within the next 12 months loans to corporates will increase but insignificantly
- ◇ Banks foresee increase in funding, mainly from the population
- ◇ Credit standards for all clients are becoming more stringent
- ◇ The level of loans approval decreased: higher interest rates, lower amounts, shorter maturity
- ◇ All risks are expected to increase, except for the liquidity risk

Source: National Bank of Ukraine. Survey regarding the terms of bank lending, QIV 2022

# SURVEY PARAMETERS

◇ Express survey

◇ **17** banks and **1** NBFIs have completed the survey questionnaires:  
3 state-owned banks + 15 private ones

◇ They account for **75%** of the banking system assets



The lending focus of the surveyed banks was corporate lending and SMEs

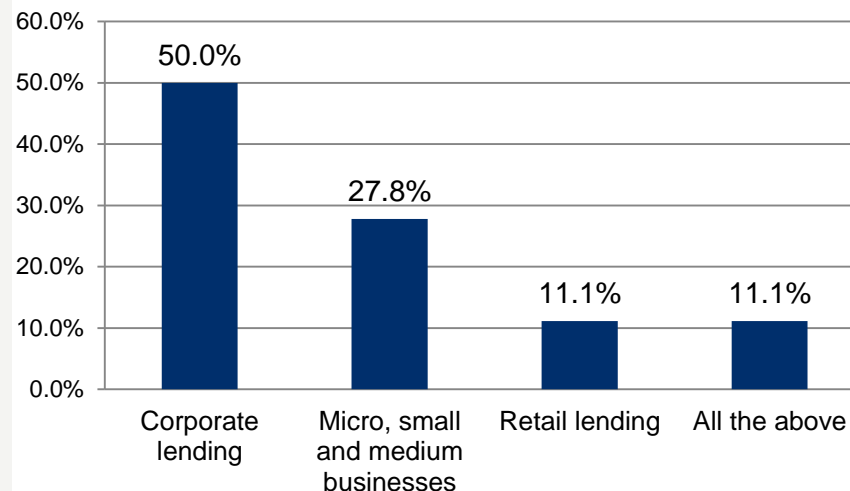


Figure 1. Segment of the market, in which there is more than 30% of the total loan portfolio, % of the total number of respondents

# LENDING TRENDS DURING THE WAR



Half of the banks reported a decrease in loan portfolio during the war, **22.2%** banks - an increase



The main reason for the decrease is an increase in the credit risk exposure



Second reason is the lack of funding and its cost



Least important reason is the decline in client business activity



The majority reported that the past due loan portfolio (at least 90 days overdue) has grown slightly since the war onset, while 1/3 reported the significant growth of the past due portfolio

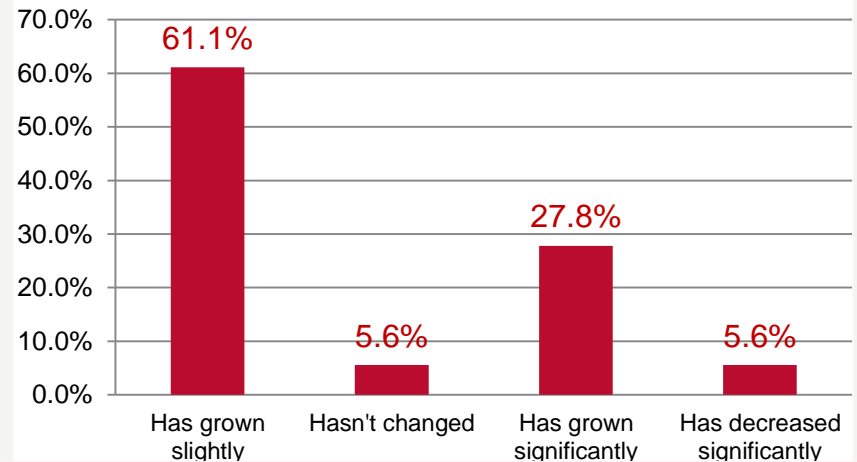


Figure 2. Change in the level of the past due loan portfolio (over 90 days overdue) during the war, % of the total number of respondents

# CREDIT PRODUCTS AVAILABLE FOR SME CLIENTS

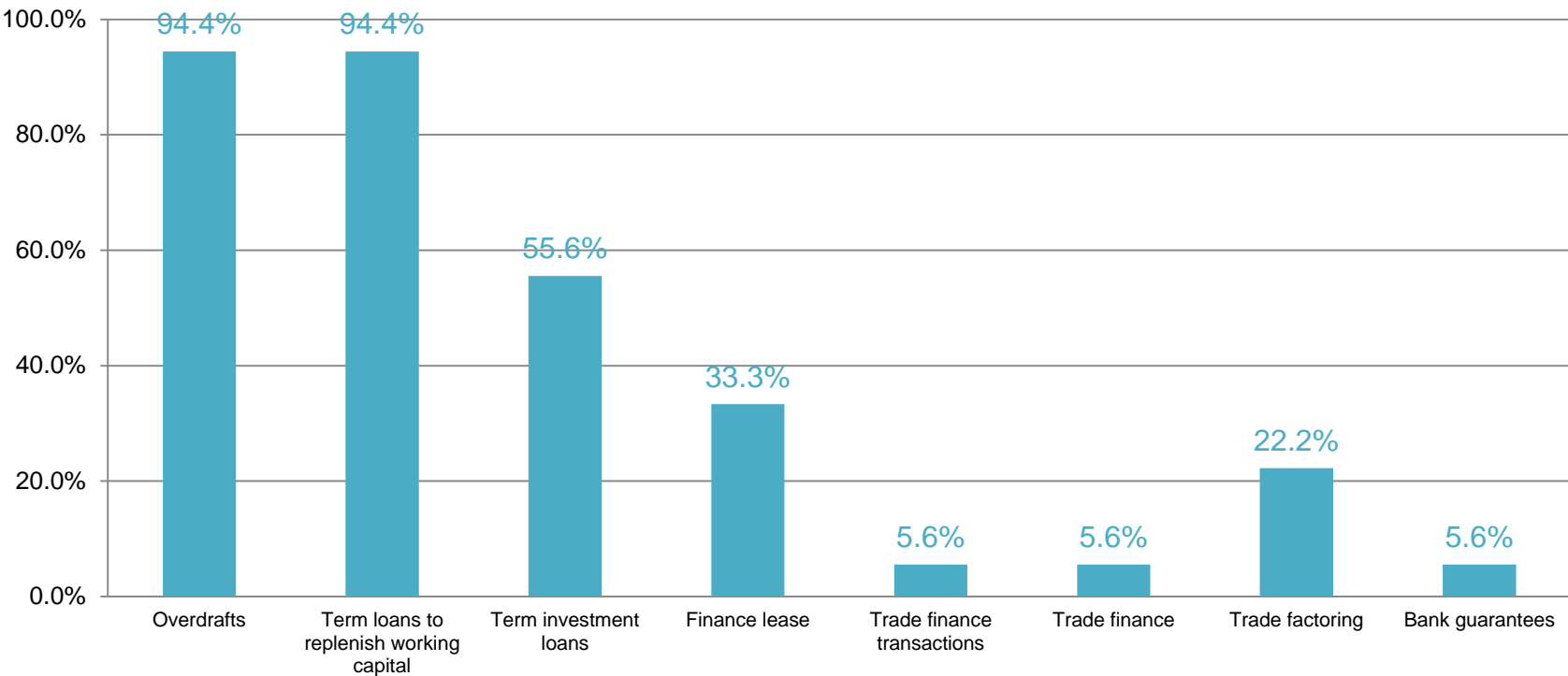


Figure 3. Loan products available for SMEs, % of the total number of respondents

# EXPERIENCE IN USING PUBLIC PROGRAMS



**80%** of the surveyed banks use public programs



The main thing that requires improvement is to pay the compensation on time; the program expansion is also mentioned.



In state-owned banks, a share of 5-7-9 program amounts to more than **50%** of the loan portfolio



In the majority of private banks, this share amounts to **< 25%**



Almost all respondents report positive or conditionally positive experience with such programs (10% - negative)

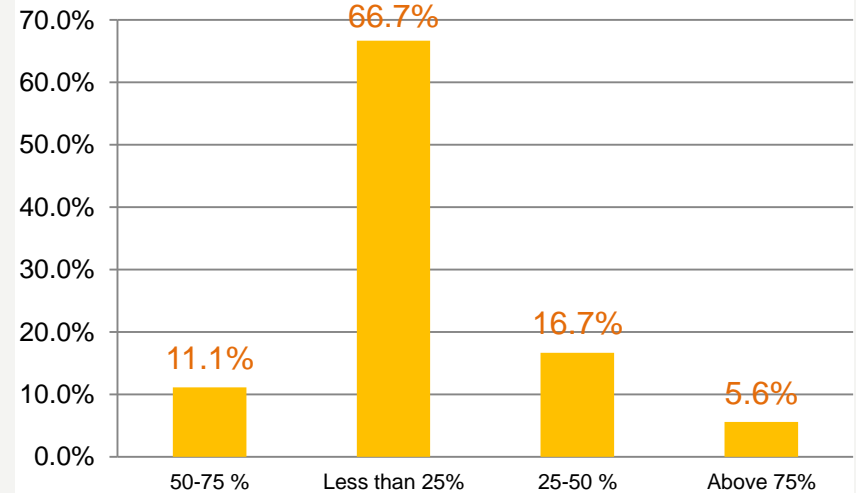


Figure 4. A share of loan portfolio financed by 5-7-9 program, % of the total number of respondents



# AWARENESS OF INTERNATIONAL PROGRAMS



In general, the level of awareness of international programs is sufficient. The highest awareness is of the loan programs

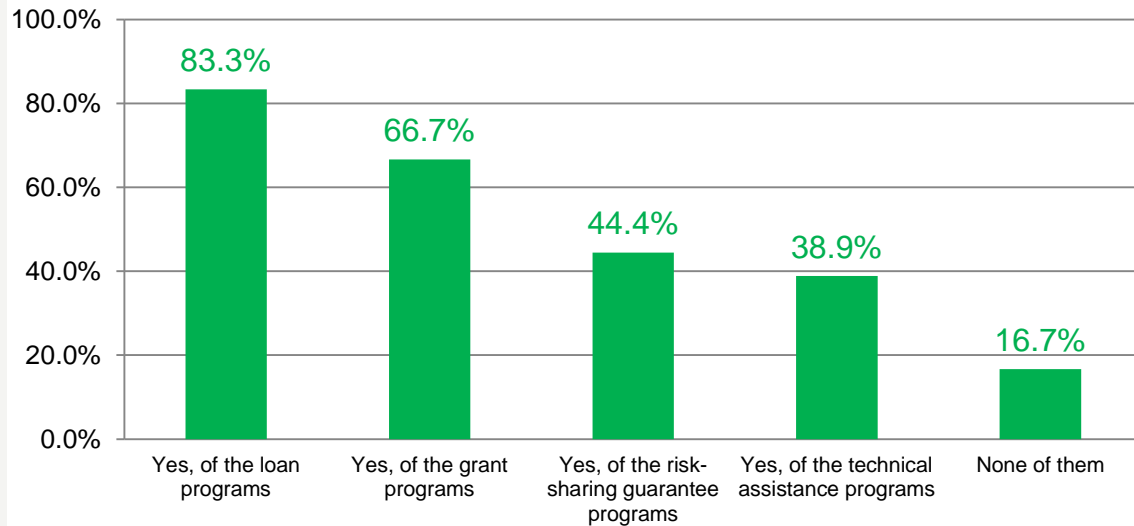


Figure 5. Awareness of international programs, % of the total number of respondents



The lowest level of awareness is among NBFIs and banks without foreign capital.

# EXPERIENCE IN USING INTERNATIONAL LOAN AND GUARANTEE PROGRAMS

◇ The IFI's loan programs for loan portfolio financing

▀ Used by **1/3** of banks: one is state-owned and the rest are private ones, <15% of portfolio on average

◇ The IFI's guarantee programs to mitigate credit risk

▀ Used by **1/3** of banks: only private ones and only to the extent <10% of portfolio

◇ The need for such programs

▀ **90%** of respondents answered "Yes"

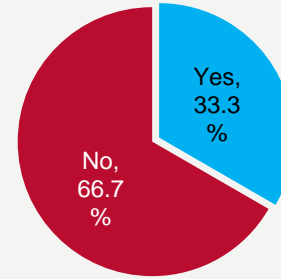


Diagram 1.  
Use of the IFI's loan programs for SMB financing (yes/no), % of the total number of respondents

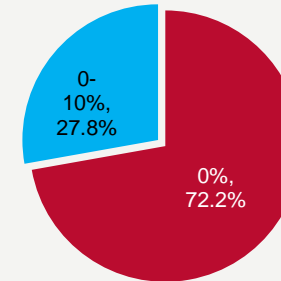


Diagram 2.  
A share of loan portfolio guaranteed by the IFI's guarantee programs, % of the total number of respondents

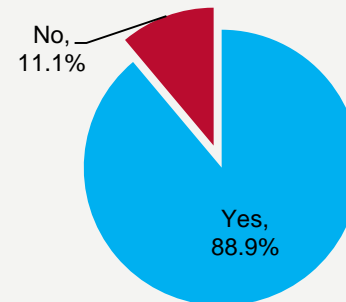


Diagram 3.  
Need for international programs, % of the total number of respondents

# EXPERIENCE IN USING INTERNATIONAL LOAN PROGRAMS



In general, the **EFFECTIVE USE** of credit lines is reported



**TOP 3** shortcomings:

- (1) Too extensive reporting requirements
- (2) Too many restrictions and conditions
- (3) Too high fees and interest rates



One thing to change - forms and paperwork need to be reduced and simplified.



Additionally:

- High interest rates
- Origination fees
- Restrictions on size of borrower

# EXPERIENCE IN USING PUBLIC OR INTERNATIONAL INTEREST RATE COMPENSATION PROGRAMS

◇ More than **70%** use compensation programs

◇ These are only public and local programs, none of the international programs has been specified:

- 5-7-9
- Agrosector
- Municipal programs

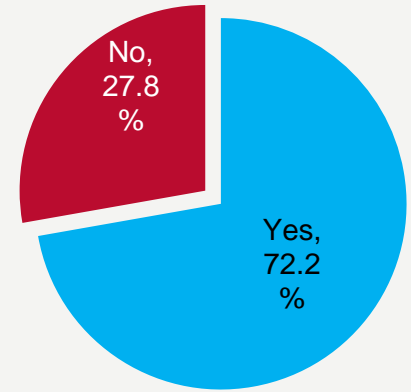


Diagram 4.

Use (Yes/No) of the public or international interest rate compensation programs, % of the total number of respondents

# EXPERIENCE IN USING PUBLIC OR INTERNATIONAL GRANT PROGRAMS

## GRANT PROGRAMS

- ◇ Used by **1/3** of banks:  
2 of them are state-owned
- ◇ Listed programs include public, local and those by the EBRD
- ◇ The experience of using is positive in most cases – as a supplement to credit lines and help to borrowers with business processes



- Top 3 proposals on what should be changed in grant programs include providing the grant funds to:
- (1) Develop new products and instruments (factoring and lease)
  - (2) Subsidize credit
  - (3) Administer loans to clients

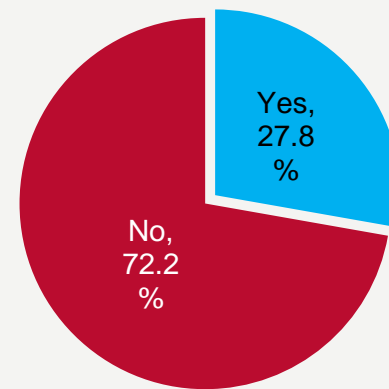


Diagram 5.  
Use (Yes/No) of the public or international grant programs, % of the total number of respondents

# INTEREST IN GRANT PROGRAMS



## MOST INTERESTED IN THE PROGRAMS OF:

- Partial compensation of the loan cost
- Loan co-financing using grants



## LEAST INTERESTED IN:

- Technical assistance and consultancy

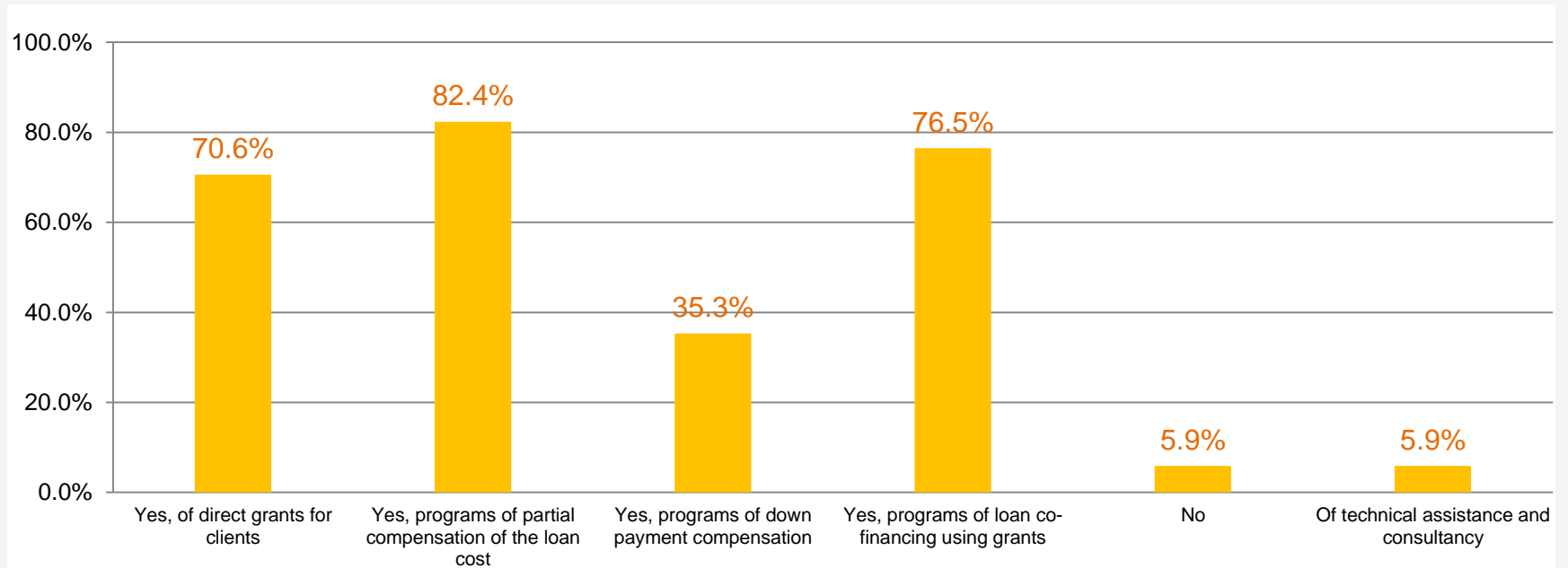


Figure 6. Interest in grant programs, % of the total number of respondents

# PRIORITY SECTORS FOR GRANT PROGRAMS

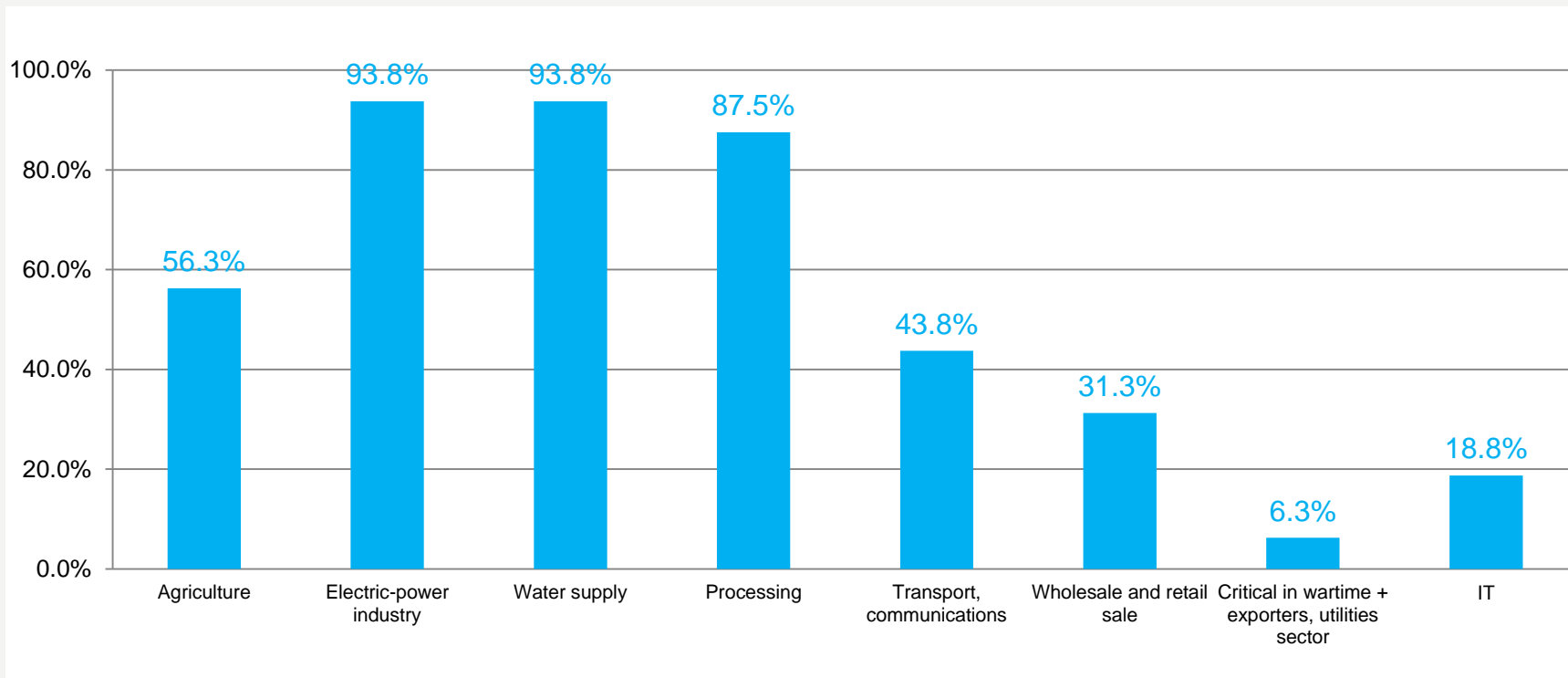


Figure 7. Sectors which are considered priority ones for grant programs, % of the total number of respondents

# SUGGESTIONS REGARDING INTERNATIONAL PROGRAM CONDITIONS



## GUARANTEE AND INSURANCE MECHANISMS:

Guarantees with 50-80% risk coverage

Collateral insurance against military action



## FINANCING:

Medium- and long-term funding

Low interest rate at 5-7-9%

Financing in the national currency or currency risk insurance



## PROGRAMS FOR BUSINESSES:

Concessional investment lending for SMEs (for example, at no more than Libor+5%/interest rate compensation/grants)

Support programs for major corporate clients

Easier access to programs



# CONCLUSIONS



Lending to business continues during the wartime and even tends to grow in certain banks



Less than **1/3** of banks use international programs despite higher awareness, needs and interest (90% of the respondents)



Banks are interested in guarantees and long-term financing, grants for loan cost compensation and loan co-financing



All those who used international programs had a relatively positive experience and spoke in favor of expanding such programs



Public programs undoubtedly prevail, banks are in search of international programs to supplement the public ones



IFIs should attend to the conditions of access to international programs and excessive bureaucratization of processes



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