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## USAID FINANCIAL SECTOR REFORM ACTIVITY

### FINANCIAL SERVICES INDUSTRY WEEKLY

**ISSUE 10: Week of December 25 - December 31, 2022**

#### MACRO INDICATORS

- The Ministry of Economy has preliminarily estimated the fall in the GDP of Ukraine in 2022 at 30.4%.
- Ukraine's 2023 state budget does not foresee a minimum salary increase: it will remain at the level of UAH 6,700 per month throughout the year.
- NBU: The net loan portfolio of banks is shrinking slowly for commercial loans and is diminishing rapidly in the retail segment. About 20% of the loan portfolio has already been recognized as non-performing. The share of NPLs may soon increase to 30%.
- Ukraine 2023 inflation forecasts range from 18% (Dragon Capital) to 28% (MoE). The IMF's inflation figure is 22.5% for Ukraine, while the NBU's is 20.8%.
- Concorde Capital: UAH/USD exchange rate will remain at UAH 36.56 per USD until the end of 2023. The Cabinet of Ministers believes it may grow to UAH 45.8 per USD by the end of 2023..

#### TOP EVENTS

- The NBU clarified the procedure for canceling licenses and specified the list of the 'signs of risky activities' for NBFIs for the period of martial law.
- The Cabinet of Ministers merged the Social Security Fund with the Pension Fund of Ukraine. From now on, social security benefits will be allocated through the Pension Fund.
- The volume of sales of government war bonds since the start of the full-scale war has exceeded UAH 200 B, Another UAH 12.6 B was raised at the auction on December 27, 2022.
- As of December 27, banks kept UAH 443.73 B in NBU CDs.
- To reduce the amount of excess liquidity in the banking system, the National Bank increased the reserve requirements for hryvnia and foreign currency accounts from January 1, 2023.
- During November 2022, banks liquidated by the DGF transferred UAH 396.9 M to repay their creditors' claims.

- Office of the President: Ukraine is considering the possibility of introducing a new tax that will go to finance the Army.
- The Ministry of Finance currently does not plan to recapitalize state-owned banks next year, but such a need may arise after conducting bank stress tests.
- Japan has provided USD 1.1 B in financial, humanitarian, and military aid to Ukraine, and intends to allocate another USD 500 M.
- The NSSMC decided to admit 412 securities that are part of the S&P 500 stock index to circulation in Ukraine (previously, a total of 96 securities of foreign issuers were admitted to circulation in Ukraine).

#### TOP TRENDS

- The updated concept of the "10-10-10" tax reform provides for a significant restriction of cash transactions by introducing an additional tax on cash withdrawals. The goal is to fight the shadow economy and tax evasion schemes.
- The Guardian: In 2023, Britain will allocate GBP 2.3 B to support Ukraine.
- Ukrenergo will receive a EUR 70 M grant from the EBRD and the Netherlands.
- Power outages have become a new challenge for the smooth operation of banks - due to power outages, additional operating losses may exceed UAH 300 M.
- NBU: In October 2022, the number of transactions with payment cards issued by Ukrainian banks increased by 3.4% compared to October 2021. Retail transactions carried out using payment cards on the territory of Ukraine are mainly served by three payment systems: MasterCard, Visa and PROSTIR.
- In the 2nd quarter of 2023, the NBU will begin stress testing of Ukrainian banks and the assessment of bank assets.
- NBU: The real estate market in Ukraine is in imbalance: rental prices have decreased, while hryvnia sales prices are increasing. Demand is very weak and highly unstable.

- NBU: From March to September 2022, new mortgage lending was almost non-existent. In September-October a little more than a hundred mortgage loans were issued with an average of ~ UAH 1 M each. Creation of new housing supply has slowed down significantly.
- Forbes: The twenty wealthiest Ukrainians lost over USD 20 B in 2022. The total wealth of the TOP 20 Ukrainians is ~USD 22.5 B. A review of the top twenty shows that the days of "old school" businessmen are passing: six entrepreneurs in the top 20 made their fortunes in the "knowledge economy" almost without intersecting with the Ukrainian state. Despite significant losses (-\$9.3 billion), Rinat Akhmetov (Metinvest, DTEK) tops the list with an estimated fortune of USD 4.4 B. He was followed by the founders of IT company Grammarly, Maksym Lytvyn and Oleksiy Shevchenko, with USD 2.3 B each. Viktor Pinchuk (Interpipe) with a fortune of USD 2.2 B is in fourth place, and Kostyantyn Zhevago (Ferrexpo) is in fifth place with an estimate of \$1.4 billion. Rounding out the top ten are: Oleksandr and Halyna Geregy (Epicenter) with a fortune of \$1.2 billion; Revolut co-founder Vlad Yatsenko with a fortune of \$1.1 billion; Vadym Novinsky (Smart-Holding) and Gennadiy Bogolyubov (Privat group) have fortunes of 1 billion dollars each. Two other prominent political figures are in the top 20: Serhii Tihipko (TAS Group, Universal Bank) with an estimate of \$870 M. and Petro Poroshenko (\$730 M).
- Starting from January 1, 2023, in Ukraine, statistical and financial reporting will be submitted only in electronic format.
- Ukrinform: 2023 will be the year of catastrophic decline in the birth rate in Ukraine, and by 2030 the population of the country will drop to 35 million.
- The share of state banks in the profits of the banking industry is traditionally the largest and it increased from 51% to 62.4% over the year, primarily due to the performance of Privatbank. The share of profits of banks with foreign capital decreased from 31% to 26.1%, and the share of profits of banks with private capital went down from 18% to 11.6% in 2022.
- Privatbank earned the most with a profit of UAH 17.8 B, which is 33% less compared to the corresponding period in 2021.
- Three banks had large losses - Ukrgazbank (-3.65 billion UAH), Alfa Bank (-4.22 billion UAH), Ukreximbank (-8.38 billion UAH).
- Some banks managed to improve their performance compared to 2021. Ukrsibbank's profit for 10 months of the year more than doubled the total for 2021 and amounted to UAH 2.62 B.
- Out of 16 banks with foreign capital, 9 recorded a profit. The total 10-mo profit of this group of financial institutions is UAH 7.9 B, including Ukrsibbank (UAH 2.6 B), Raiffeisen (UAH 2.5 B) and Citibank (UAH 1.9 B).
- The total 10-mo profit of privately owned banks amounted to UAH 3.46 B, of which 36% (=UAH 1.26 B) was earned by Universal Bank.

Source: *Ekonomichna Pravda*

## CLOSER LOOK

### NBU: Profits of Banks in Ukraine declined significantly January-October

- Between January and October 2022, profits of Ukrainian banks decreased by more than five times - to UAH 11 B.
- Of the 67 banks in Ukraine, 21 banks ended the period with a total loss of UAH 19 B. Since August, the percentage of unprofitable banks has decreased from 38% to 31%.

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