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FINANCIAL SERVICES INDUSTRY WEEKLY

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FOLLOW UP ON THE NEWS

KSE: As of January 23, 177 foreign companies - 6% of the total number - completely withdrew from the Russian market. Another 1,156 businesses (38%) have closed operations and are exiting the market. 489 businesses with foreign capital have reduced current operations and/or suspended new investments. 1,203 foreign enterprises operate in Russia without any restrictions.

MACRO INDICATORS

- On January 24, the Ministry of Finance raised UAH 13.2 B at war bonds auctions. Investors bought only UAH-denominated bonds.
- On January 26, the NBU decided to keep the interest rate at 25%.
- NBU: The new requirements for mandatory bank reserves will become effective on February 11. Reserves in national currency will increase from 5% to 10%, in foreign currency - from 15% to 20%.
- The National Bank improved its forecast for inflation in Ukraine in 2023 from 21% to 18.7%.
- The National Bank expects real GDP to grow by 0.3% this year.

TOP EVENTS

- Bloomberg:** The IMF is considering the possibility of providing Ukraine with a multi-year aid package worth up to 16 billion dollars. Agreement of the program depends on several conditions, including the support of the G7 countries, as well as donors and creditors of Ukraine, who guarantee the stability of the country's debt. The plan would also require changes to the IMF's lending rules to allow the fund to lend to a war-torn country. If approved, the three- to four-year program, with a total cost of USD 14 B to USD 16 B, would allocate USD 5 B to USD 7 B in the first year. The IMF has scheduled consultations with GOU financial officials in Poland in mid-February. If the plan is agreed upon by the end of March, the first tranche of funds could arrive in April.
- KSE Institute:** Russia has caused damage to the Ukrainian infrastructure in the amount of USD 138 B. Damage to the housing stock is estimated at almost USD 55 B. During the ten months of war, a total of 149,000 residential buildings were damaged or destroyed (131,000 were private houses).
- The DGF put up for sale the assets of 5 banks in liquidation (MR Bank (former Sberbank Ukraine), Prominvestbank, Megabank, Land Bank, Zlatobank) - real estate (ROEs), land plots, and other fixed assets.
- In 2022, the EBRD invested EUR 1.7 B in Ukraine and mobilized another EURO 200 M through partner banks (10% of the total volume of the bank's activities).
- The Cabinet of Ministers increased by 1.5 times the amount of financing of the program for compensating employers for employment of IDPs.
- The Ministry of Agrarian Policy: Through January 2023, the number of ship departures from Ukrainian ports averaged



2.7, or 2-3 ships per day. This is one of the lowest monthly indicators during the "Grain Initiative".

- The NSSMC admitted bonds (Ukraine Sovereignty Bond) issued by the Canadian Government (AAA rating) to circulation on the territory of Ukraine. The bond offers Canadians an opportunity to directly support Ukraine. The Canadian Government has issued 5-year bonds worth CAD 500 M.
- As part of the tax reform, which is currently being developed in the Office of the President, the full transfer of payments for excise goods (fuel, alcohol, tobacco, etc.) to a cashless format is being discussed.
- NBU: The network of Power Banking bank branches, which provide banking services even in the event of a possible blackout, has increased over the past month by more than 1.5 times. Now about 40% of the total number of bank branches in the country participate in the program. 14 systemically important banks, whose branches currently make up about 70% of the countrywide network, are the leaders of the NBU's project..
- The National Bank has sufficient international reserves and does not see any reason for re-pegging the official dollar exchange rate in Ukraine.

TOP TRENDS

- Charles Michel, President of the European Council: The EU wants to transfer to Ukraine the profits from managing frozen assets of the Russian Central Bank. Currently, the European Commission is trying to facilitate the confiscation of the assets of Russian oligarchs who are under sanctions. Approximately USD 300 B of assets of the Central Bank of the Russian Federation are blocked.
- Almost a billion dollars were donated by Ukrainians and foreigners to the accounts of the NBU, United24 (47%), Return Home Alive, and Prytula funds. During 8 months of operation, from May to December, United24 distributed UAH8.6 B:
 - 81% (UAH 7 B) to the Armed Forces;
 - 13% (>UAH 1.1 B) to medical care institutions;
 - 6% (UAH 0.5) to reconstruction purposes.



- NBU: In 2022, the electronic payment system of the National Bank, despite the war and missile attacks, worked without interruption - 363 million payments worth >UAH 133 trillion

were made through SEP. On average, about 1.4 million payments in the amount of UAH 515 billion were processed in one banking day. Potentially, the system is able to process almost 10 times more payments in one banking day. Starting in April 2023, the transition to the new generation of SEP will take place (based on ISO 20022) - the system will work 24/7 (now it works 23/7). The transition to the new generation of the system together with the introduction of IBAN creates a technological basis for joining the Single Euro Payments Area (SEPA) and implementing the functionality of instant payments in Ukraine.

- Polish Economic Institute: In Q1-Q3 2022, more than 10,000 Ukrainian companies started operations in Poland. According to data from the Central Register and Information on Economic Activity in Poland, 25,000 companies have at least one Ukrainian shareholder. Many companies have announced their intentions to launch operations in Poland, among which are
 - Monobank, Dia.business, Document, Ukrainian Catholic Institute, GastroFamily Network (Biliy Nalyv, BPSH, Mushlya)
 - Restaurants: Chornomorka , Galya Baluvana, Drunk Cherry, Gaga
 - Food producers: Three Bears, Limo, Spell Chocolat, construction company Eurodim/Nova, etc.
- Privatbank: Ukrainians paid cashless for purchases worth half a trillion hryvnias through its terminals in 2022. Ukrainians spent the most on food (48% of the total amount of expenses). In particular, the volume of non-cash payments in supermarkets and grocery stores increased by 20%.
- During 2022, Ukrainians made almost a billion transfers to personal cards through Privatbank. The number of hryvnia transfers to cards through Privat24 and the self-service network increased by 9.2% over the year.
- The National Bank expects that the total grain harvest in Ukraine this year will be 15% lower than in 2022. For other crops, the expectations are better, sometimes even higher than for 2022. Due to the war, it is currently impossible to use 25% of fertile lands.
- Ukrzaliznytsia (state railroad company) posted a net loss of UAH 10.8 B. in 2022. It expects a loss of >UAH 20 B in 2023.

CLOSER LOOK

Stress-testing of Banks: Whoever Passes the Test Will Receive Everything After the Victory

- In 2022, the NBU decided not to conduct stress testing of banks for obvious reasons. Moreover, it understandably eased several regulatory requirements. In addition, bank inspections were suspended and reporting was simplified. Now the NBU is conducting an assessment of the current state of the Ukrainian banking system. Selecting the appropriate criteria for stress

testing is important. Too strict criteria means many failures, too lenient means the exercise is useless.

- Some banks will find the assessment process difficult. Accumulated capital buffers have been eaten away, and not every bank had a sufficient 'safety cushion' at the outset of the war. The situation with NPLs is concerning, and operating costs are increasing.
- Banks' shareholders should be ready for capital increases. From interim reports, many banks, including some state-owned ones, may be recommended to increase capital after stress testing in 2023. Some banks will be able to increase capital thanks to retained earnings (the regulator strongly recommended not to pay dividends in 2022).
- In June 2022, the NBU estimated the potential loss of the loan portfolio for the entire banking sector due to the war at a level of >20%. Based on the December 1 reporting data, this would amount to UAH 174.1 B. The NPLs in the total loan portfolio of the Ukrainian banking system reached 36.75% in early December, up from 29.54% before the full-scale invasion. The share of corporate loans that turned into NPLs is 40.51%, while those of individuals was 32.04% of NPLs.



- The Ukrainian banking system will have to deal with the NPLs for a long time. Moreover, it will be necessary to come up with new strategies now to cope with NPLs in post-war Ukraine. Many banks will bet on the development of state credit programs. Some may continue to bet on transactional business revenues as in 2022.

- Those who pass all the tests and remain on the Ukrainian financial market after victory will be well-positioned. Ukraine will have to be rebuilt economically, and it will be the center of attention of investors not only from the EU, but also from the entire world.

Sources: *Ekonomichna Pravda*

FSR PROJECT NEWS

- DAI/FSR joined the American Chamber of Commerce as a member. The Chamber is one of the most important business associations in Ukraine. FSR will participate in ACC efforts to promote investment, reform the financial sector, and expand access to finance and working capital for small and medium-sized enterprises.



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