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## USAID FINANCIAL SECTOR REFORM ACTIVITY

### FINANCIAL SERVICES INDUSTRY WEEKLY

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#### FOLLOW UP ON THE NEWS

- MIGA issued a guarantee of 100 million euros (approximately \$106.76 million) to Raiffeisen Bank International AG (RBI) to cover equity investments in its subsidiary, Raiffeisen Bank Joint Stock Company (RBUA) in Ukraine, against the risk of expropriation of funds with respect to the mandatory cash reserves held at Ukraine's central bank - National Bank of Ukraine. The period of coverage is one year and one day.

#### MACRO INDICATORS

- NBU: As of February 1, 2023, Ukraine's international reserves amounted to USD 29.92 B, a 5% increase in January, primarily thanks to international aid. In particular, the government's foreign currency accounts at the NBU received USD 4.3 B (USD 3.3 B from the EU, USD 1 B from the US, USD 71.6 M from the sale of foreign currency-denominated government bonds).
- NBU: As of January 1, 2023, the share of NPLs in Ukraine's banking industry was 38% compared to 30% on January 1, 2022 (up by UAH 87 B to UAH 432 B). The NBU will conduct an asset quality assessment in 2023 to verify the correctness of banks' approaches to credit risk assessment.
- In January 2023, annual inflation slowed from 26.6% to 26%.
- Verkhovna Rada Tax Committee: In January, 2023, businesses paid almost 25% less in taxes than a year ago.

#### TOP EVENTS

- During the week of January 30 - February 3, the NBU sold USD 782.57 M and bought USD 5.05 M on the interbank foreign exchange market (vs USD 667.23 M and USD 3.2 M respectively the week before). The NBU uses the sale of foreign currency from reserves in particular to curb the pressure on the foreign exchange market caused by the hryvnia issue.
- Office of the President: Zelensky met with the top management team of JP Morgan and took part in an investment summit involving 200 of the largest corporations, investors, and financial companies. During the meeting, the parties discussed the creation of a platform for attracting private capital to the reconstruction of Ukraine. According to the President, the IT sector is a priority for the further development of Ukraine, as it plays an extremely important role during the war.
- On February 6, 2023, Zelensky signed a law canceling tax benefits for the gambling industry.
- Military aid from the Netherlands to Ukraine has exceeded EUR 1 B.

- The NBU Governor Andriy Pishnyi ordered amendments to the legislation that would allow the nationalization of Sense Bank (formerly Alfa Bank), whose nominal owners are Russian oligarchs Mikhail Fridman and Piotr Aven. On March 2, 2022, the regulator deprived Mikhail Fridman (32.86% of shares) and Piotr Aven (12.4%) of the rights to manage the bank due to "loss of impeccable business reputation".
- On February 7, 2023, the Ministry of Finance attracted almost UAH 12.5 B via war bonds.
- On March 3, the State Property Fund will hold a privatization auction on Prozorro. Sales for the sale of the Bilhorod-Dniester Seaport. The starting price is UAH 187.6 M. This is the second privatization of a seaport since 1991. In recent years, the Bilhorod-Dniester Seaport has shown significant losses: in 2019-2021, the losses ranged between UAH 23.5 M and UAH 28.5 M. The port also includes 9 ships, 4 diesel locomotives, 18 gantry cranes and 56 vehicles. Ust-Dunaisk Seaport was sold at an auction on January 17, 2023, for UAH 201 M.



- On February 2, 2023, the NBU revoked the licenses of 6 NBFIs and removed 29 NBFIs and 3 brokers from the state registers.
- CASE Ukraine Survey: 60% of Ukrainians are in favor of lowering taxes, so that entrepreneurs create jobs faster. They believe this would facilitate post-war recovery of Ukraine. At the same time, 28% of respondents are convinced that the Government should strengthen economic supervision so that entrepreneurs and workers pay more taxes to the state budget.
- Anthony Marino was elected as the Chairman of the Supervisory Board of Naftogaz of Ukraine at the meeting of the board on February 10. Currently, Anthony Marino is also the President and CEO of Tenaz Energy. He is a citizen of the USA and Canada.

## TOP TRENDS

- The NBU is expanding cooperation with the international central securities depository Clearstream<sup>1</sup>- the existing "link" will be expanded and additional types of assets will be included in the list of supported financial instruments. Thanks to the extension of the "link", foreign investors will have the opportunity to carry out transactions not only with the state securities of Ukraine, but also with other financial instruments of post-war reconstruction. The NBU expects that this step will contribute to the growth of cross-border investments, increase the liquidity of Ukrainian capital markets and support these markets primarily in terms of instruments for post-war reconstruction and restoration of the destroyed infrastructure and economy of Ukraine. Clearstream entered the Ukrainian capital markets and launched a "link" with the NBU depository in 2019. This made it possible to ensure the access of foreign investors to the hryvnia-denominated state securities market. In the first months after the announcement of the start of the project, foreign investments in hryvnia government bonds increased from almost zero to UAH 44 B, and according to the results of the first year of operation of the "link", the volume of foreign investments in the public debt of Ukraine reached a record UAH 129 B.
- MoE: In 2023, the Cabinet of Ministers plans to issue another 7,000 micro-grants (UAH 1.8 B) for business start-up and development via E-Robota Project.
- MoF: Thanks to the restructuring of the Eurobond debt, it was possible to save ~USD 6 B of state funds.
- Cabinet of Ministers: Confiscated Russian assets will be sold at auctions using the small privatization mechanism. Currently, the state budget has already received UAH 17 B confiscated from Russian banks.
- Mastercard Survey: 75% of Ukrainians say they are ready to completely abandon plastic payment cards in favor of digital ones within the next 2 years. The most frequent non-cash payments in 2022 were made in the following categories: utilities (75% of respondents), medicines (61%), train tickets, long-distance buses and planes (47%), clothes and shoes (46%), public transportation (26%).
- Demand for new trucks in Ukraine decreased by 26% in January 2023 vs. January 2022.
- Ministry of Digital Transformation: USAID will allocate 60 million dollars to strengthen Ukraine's cyber security.

## CLOSER LOOK

### Ministry of Digital Transformation: In 2022, Residents of Diya.City Paid >UAH 4 B in Taxes

- Within 1 year of operation of the Diya.City 'Tax Space' for IT Companies, >430 residents joined the 'Tax Space', and in 2022 they paid more than UAH 4 B in taxes. This is 6% of all taxes paid by the Ukrainian IT industry. More than 35,000 IT specialists work in resident companies.

- Over the course of 2022, the objectives of Diya.City have transformed. Now its main focus is the involvement and support of military tech companies - those that create drones, security systems, thermal imagers, optical devices.



- Diya.City offers a new ecosystem for doing business in Ukraine: the opportunity to build a transparent corporate structure, attract foreign investments, and protect intellectual property rights.
- The Ministry of Digital Transformation officials believe that Diya.City will become one of the important components of the post-war recovery of Ukraine.

## FSR PROJECT NEWS

- FSR signed a Memorandum with Business Development Fund (BDF), the state institution which provides affordable lending support and grants to SMEs in Ukraine. FSR will work together with the BDF to develop new financial instruments for business like trade factoring and leasing as well as help the Fund to improve IT processes and simplify lending procedures for SME-borrowers and banks.
- FSR expands its social media presence. Follow us on LinkedIn at <https://www.linkedin.com/company/fsr-project> and keep up-to-date on the latest news in English.

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*The information provided here is compiled from public sources, including the media, websites of the government, financial institutions, business associations, and economic think tanks.*

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<sup>1</sup> Clearstream is a financial services company that specializes in the settlement of securities transactions and is owned by Deutsche Börse AG. It provides settlement and custody as well as other related services for securities across all asset classes.