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USAID FINANCIAL SECTOR REFORM ACTIVITY

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FOLLOW UP ON THE NEWS

- The head of the NBU, Andriy Pishnyi, called on the European Central Bank to facilitate the withdrawal of European banks from the Russian market. Public data on European banks in Russia shows that they are in no hurry to leave Russia, and the NBU believes this to be a sign of their actual financing of the war. The NBU has prepared specific proposals on how it is possible at the level of the European regulator to stimulate European banks to finally say goodbye to the Russian market.
- Reuters: The Office of Foreign Assets Control of the US Treasury has opened an investigation into Raiffeisen Bank International in view of its banking activities in the Russian Federation.

MACRO INDICATORS

- Denys Shmyhal, Prime Minister: In January 2023, the EU and the US provided Ukraine with USD 4.2 B in financial aid.
- The NBU may return to a floating exchange rate before the end of the war, if the prerequisites for this are met.
- The EBRD significantly worsened the forecast for the growth of Ukraine's GDP in 2023 from 8% forecast in September 2022 to 1%. The EBRD believes that in 2024 the Ukrainian economy will grow by 3%.

TOP EVENTS

- The NBU and the IMF are discussing a full-fledged IMF program that would support the Ukrainian government's efforts to join the EU. The reform initiatives are to improve business productivity and competitiveness as the foundation for strong post-war growth amid progress towards EU accession. The public sector will play an important role in post-war recovery, and measures to improve the efficiency and transparency of public finances and governance will be critical.



- NBU: On February 15, 2023, the Grand Chamber of the Supreme Court upheld the decision of the court of first instance, according to which the former owners of PrivatBank will not be able to recover any of the bank's shares that were nationalized by the Government of Ukraine. Thus, the Supreme Court put an end to

the case that has been going on for several years. This means that, in addition to the Dubilet Case¹, >40 similar court cases will be closed. They were initiated by the former owners to regain PrivatBank, after the state spent >UAH 155 B to save the bank from financial collapse caused by the actions of the former owners.

- The NBU relaxed currency restrictions for insurance companies that relate to insurance payments under reinsurance contracts concluded with non-resident reinsurers. Starting February 14, insurers, insurance and reinsurance brokers will be able to make foreign currency-denominated payments.
- At the auction on February 14, 2023, the Ministry of Finance raised UAH 11.4 B from the sale of war bonds.
- Sky News: The US is preparing a USD 10 B economic aid package for Ukraine.
- Ministry of Infrastructure: Ukraine calls on the UN and Turkey to demand that the Russian Federation cease delays in the operation of the Black Sea Grain Corridor and the use of food as a weapon. Due to the delay in inspections by Russia, a queue of more than 140 ships has already formed in the Bosphorus, the vast majority of which have been waiting there for more than a month.
- Since the beginning of 2023, the state budget received UAH 645 M from the privatization of state property (vs. UAH 1.7 B that was received from small-scale privatization in 2022).

TOP TRENDS

- Bloomberg: Naftogaz Ukraine's latest debt restructuring proposal is facing opposition from the creditors, which rejected earlier plans to delay principal and interest payments on USD 835 M of debt that is already in default. A group of creditors advised by Cleary Gottlieb Steen & Hamilton LLP does not agree with the company's proposal for restructuring, as it believes that Naftogaz is able to make payments. This group has enough influence to prevent Naftogaz from getting the 75% creditor support needed to approve the restructuring.
- DGF: The total volume of deposits of individuals in banks that participate in the DGF as of January 1 amounted to UAH 1.05 trillion (up by UAH 58.4 B in December 2022). In 2022 (as in 2021 and 2020) an increase in deposits of individuals in banks participating in the DGF was recorded (the annual increase in 2022 was UAH 375.9 B, or 55.6%). There are several factors that led to this growth. First, on April 13, 2022, "OschadBank" became a participant of the Fund, and this added UAH 129.7 B

¹ The former PrivatBank Board Chairman, Oleksandr Dubilet, in a lawsuit against Privatbank, MoF, DGF, NBU and the Cabinet of Ministers, asked to declare invalid the transactions concluded in the procedure of the nationalization of the bank in 2016.

to the amount. The second factor is the revaluation of the hryvnia equivalent of foreign currency deposits. But the most important factor is an increase in the account balances of individuals and business owners (+ UAH 150.7 B). As of January 1, 2022, the register of participants of the Guarantee Fund included 67 banks.

- PrivatBank: Clients of the state-owned Privatbank make almost 97% of payments through digital channels and only 3% in branches. Last year, 70% of customers made payments via Privat24 smartphone application, and another 18.5% of customers via the Privat24 web version.
- Opendatobot: In 2022, the State Tax Service refunded only 69% of VAT refund requests from businesses (vs. 91% in 2021).
- NBU: In 2022, banks of Ukraine issued 2,009 mortgage loans for a total amount of UAH 1.96 B. Compared to 2021, new mortgage lending decreased by 5.3 times in the number of contracts and by 4.3 times in volume. Most mortgage loans in 2022 - two-thirds by number of contracts - were granted in January-February before the start of the war. In March-May, mortgage loans were not granted at all, while during the summer there were isolated cases. Since September, the mortgage market began to gradually recover, primarily thanks to the state lending support programs "Affordable Mortgage" and "eOselya". Under these programs, certain borrowers can obtain mortgage loans at reduced interest rates of 7% and 3% per annum, respectively.
- As of mid-February, Ukraine has nationalized the factories of the sanctioned Russian oligarch Oleg Deripaska worth UAH 10 B.



Mykolaiv Alumina Plant

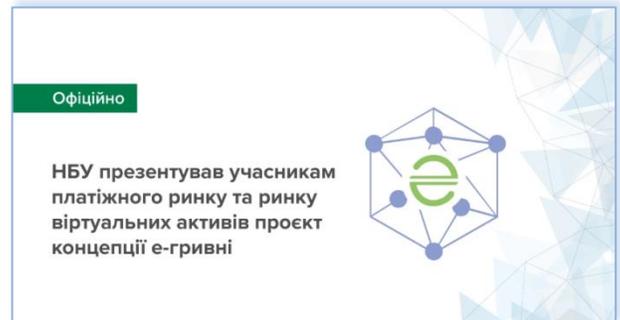
- Denys Shmyhal, Prime Minister: During 2022, IDPs received UAH 53.5 B in aid from the government. Payments are automatically extended this year.

CLOSER LOOK

Ministry of Digital Transformation (MDT) Asked the NBU to Speed up the Development of the E-hryvnia

- The Ministry of Digital Transformation appealed to the NBU to speed up the process of developing the electronic hryvnia.
- The first e-hryvnia transactions have already taken place on the blockchain which allows for tracing the movement of e-hryvnia funds.
- According to the legislation, the NBU should launch e-hryvnia pilots in 2024, but the MDT wants to launch this project immediately.

- In November 2022, the National Bank presented the project of the digital hryvnia concept, which is designed to perform all the functions of money and complement the cash and non-cash forms of the hryvnia. The MDT is considering an experiment via paying salaries to its employees in e-hryvnia.



FSR PROJECT NEWS

- FSR signed a Memorandum with the Deposit Guarantee Fund (DGF). FSR will work collaboratively with the DGF on risk management, operations processes, financial modeling, information security, accession to the EU, and financial literacy to boost confidence in the financial system during these unprecedented times.



- USAID/FSR, the World Bank and the Swedish government are co-hosting a Coordination Meeting of international financial institutions on February 28, 2023, in Vienna. The meeting will bring together representatives of USAID, World Bank, Swedish Development Agency, IMF, IFC, US Treasury, EU, EBRD, the US Embassy/ Ukraine, MIGA, and the US DFC. The agenda includes discussion of Ukraine's economic situation and recovery, IFI access to finance programs, and political risk insurance.

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