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## USAID FINANCIAL SECTOR REFORM ACTIVITY

### FINANCIAL SERVICES INDUSTRY WEEKLY

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#### FOLLOW UP ON THE NEWS

- Ukraine's National Agency for the Prevention of Corruption added Raiffeisen Bank International (RBI) to the list of international war sponsors. RBI is one of the largest Austrian banking groups, operates in 14 countries of Central and Eastern Europe and serves 17.2 million customers. The bank has been operating in the Russian Federation since 1996 and is included in the list of systemically important Russian banks.
- Reuters: ECB pressures RBI to quit Russia. While the ECB is not asking Raiffeisen to leave the country immediately, it wants a plan of action for unwinding the business. Such a plan could include the sale or closure of its Russian bank.
- Bloomberg: Russians established more than 1,300 firms in Turkey in 2022, a 670% increase from 2021.

#### MACRO INDICATORS

- March 20-24, 2023, the NBU sold USD 495.45 M on the interbank foreign exchange market, but did not buy anything for reserves. Since the beginning of the year, the NBU has sold USD 6.9 B and bought only USD 61.3 M.
- NBU: Solvent banks received UAH 21.5 B of net profit in January-February 2023, which is 2.2 times more than UAH 9.9 B in the same period last year.



- MoF: The volume of preferential loans under the 'Affordable Loans 5-7-9% Program has exceeded UAH 94 B since the beginning of the war.
- DGF: Insolvent banks managed by the DGF in February 2023 paid UAH 171.8 M against the claims of their creditors.
- Opendatobot: In 2022, the micro loan debt of Ukrainians decreased by UAH 5 B to UAH 8.05 B. The amount of loans issued was three times lower than in 2021.

#### TOP EVENTS

- Ukraine and the IMF have reached a staff-level agreement on a new Program of USD 15.6 B over 4 years. The goals of the Program are to support economic and financial stability, restore sustainability, and support Ukraine's recovery on the way to joining the EU in the post-war period. The Fund's program will help the government attract tens of billions of dollars from other partners
- The Ministry of Economy, Finance, Industry and Digital Sovereignty of France: Following a meeting with representatives of the IMF and the WB, the Group of Creditors of Ukraine (GCU) provided financial guarantees for the new Program and a moratorium on debt obligations until 2027. The GCU also called on all other official bilateral creditors to reach an agreement with Ukraine as soon as possible on providing at least the same favorable debt regime.
- The NBU received another international Central Banking Awards award for the development of the BankID System (the state system of remote identification). The NBU's BankID system provides Ukrainian citizens with stable and uninterrupted access to important state and financial services.
- DGF: Depositors of 'Forward Bank', whose liquidation is being carried out by the DGF, have already received about UAH 1 B in guaranteed compensation (67% of the total amount guaranteed).
- The NBU and the National Bank of Poland won the international Central Banking Awards in the Currency Manager category. The judging panel of the Central Banking Awards lauded the joint efforts of the Ukrainian and Polish central banks to develop a mechanism for the emergency exchange of hryvnia into local currency for Ukrainian refugees in Poland.
- On March 21, 2023, the MoF sold UAH 5.6 B worth of war bonds (mostly at 19.7% for 2.3 years).
- The NBU allowed foreign investors to withdraw interest on domestic government bonds (OVDP) received after April 1, 2023.
- PrivatBank started accepting applications for the exporter support program with the Ukrainian Export Credit Agency (ECA). At the first stage of the partnership with ECA, PrivatBank will finance Ukrainian SMEs. Under the terms of the program, ECA will insure the bank's risks for loans issued in relation to export contracts (loan size - up to UAH 5 M for up to 1 year).

- The DGF started making compensation payments to the depositors of 'Ibox Bank', whose license was revoked on March 7, 2023 due to systematic violation of the financial monitoring requirements.
- Grupa Polsat Plus owned by Zygmunt Soloj, one of the richest businessmen in Poland, is considering the possibility of buying the Ukrainian "Sense Bank" (formerly Alfa-Bank). If the sale is approved, the Russian shareholders of 'Sense' will not receive any money for the bank, since all of it will go to recapitalize the bank.
- The NBU imposed a fine on debt collection company Ukrborg LLC in the amount of UAH 51,000 for violating ethical behavior requirements.
- According to the Rapid Damage and Needs Assessment (RDNA2)<sup>1</sup>, Ukraine will need USD 14 B of investments for critical and priority reconstruction and recovery in 2023, which will require USD 11 B in financing beyond what the government has already addressed in its 2023 budget.



## TOP TRENDS

- On October 1, 2022, eOselya Affordable Mortgage Lending Program was launched. Since then, >40,000 applications have been submitted through the Diya web portal and Diya mobile application. 'Ukrfinzhytlo' provides funds in tranches to Program partner banks that, in turn, lend to eligible borrowers. 939 Ukrainian families have already received preferential mortgage loans.
- DTEK: Direct losses from Russian attacks on power plants are approaching UAH 6 B. Over the past six months, DTEK Energo thermal power plants were attacked by the enemy 29 times.
- 'Ukrhydroenergo' suffered losses of UAH 40 B due to the attacks of the Russian Federation. In total, there were >30 hits on hydropower facilities since the beginning of massive shelling of the power system.
- Forbes: In 2022, Ukrainians who worked abroad transferred almost USD 13 B to Ukraine, which is USD 1 B or 7% less than in 2021. The main reason for the reduction in transfers is that with the start of the war with Russia, part of the male migrant workers returned to Ukraine.
- The highest estimated needs are in transport (22 percent), housing (17 percent), energy (11 percent), social protection and livelihoods (10 percent), explosive hazard management (9 percent), and agriculture (7 percent). The largest increase in damages was in energy, which was more than five times greater than in June 2022. The geographic areas with the greatest increase in damage are frontline regions of the war: Donetska, Kharkivska, Luhanska, and Khersonska.
- The RDNA2 also focuses on the human impact of the war and how the loss of lives, livelihoods, incomes, and assets has pushed 7.1 million people into poverty and reversed 15 years of development progress.

Source: WB website.

## FSR PROJECT NEWS

- On April 6, 2023, FSR will hold a roundtable on political risk insurance (PRI) for Ukraine. The purpose is to start a discussion of a Trust Fund for Ukraine to guarantee domestic and foreign investment in productive sectors. The International Development Finance Corporation (DFC), the Multilateral Investment Guarantee Agency MIGA, the Ministry of Economy, the Ministry of Agrarian Policy and Food, the National Bank of Ukraine, the American Chamber of Commerce, the European Business Association, and other stakeholders are invited to participate. and share their views on PRI implementation in Ukraine.

## CLOSER LOOK

### **New Study by the World Bank: USD 411 B Needed to Restore Ukraine's Economy**

- The recovery of the Ukrainian economy after the Russian invasion will cost USD 411 B, which is 2.6 times the expected GDP of Ukraine in 2022. The estimate covers the one-year period between February 24, 2022, and February 24, 2023.
- The amount has risen sharply from the US 349 B estimate released in September 2022.
- According to the WB, losses did not increase as much as expected: the greatest intensity of hostilities remains limited to areas that have already suffered significant destruction; some of the country's needs have already been met by the government with international support; and the government's ability to maintain uninterrupted delivery of essential services.

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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.*

*The contents of this publication are the sole responsibility of the USAID Financial Sector Reform Activity being implemented by DAI Global LLC. The opinions expressed do not necessarily reflect the views of USAID or the United States Government.*

<sup>1</sup> This second Rapid Damage and Needs Assessment (RDNA2) provides a comprehensive evaluation of war impacts across twenty different sectors. It quantifies the direct physical damage to infrastructure and buildings and describes the impact on people's lives and livelihoods. The RDNA2 also includes the amounts needed for recovery and reconstruction. The amount of damage and recovery needs currently does not include data on the loss of infrastructure, housing, and businesses in the occupied territories.