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USAID FINANCIAL SECTOR REFORM ACTIVITY

FINANCIAL SERVICES INDUSTRY WEEKLY

2023: ISSUE 15 April 9 – April 15

FOLLOW UP ON THE NEWS

- The arbitration tribunal at the Permanent Chamber of the Arbitration Court in Hague ordered the Russian Federation to pay USD 5 B in compensation for losses and lost property of Naftogaz in Crimea, starting in 2014.
- Zelenskiy implemented the decision of the National Security and Defense Council of Ukraine to impose sanctions against 254 legal entities, including Yandex, VK Company, and Rambler, as well as other Russian IT companies and entrepreneurs.
- NBU: The Financial Stability Board (FSB) discussed the risks for some Ukrainian banks caused by the presence of their parent institutions in the Russian Federation. The NBU and the Ministry of Finance are aware that banks with foreign capital play an important role in ensuring financial stability in Ukraine, and that, they have extremely limited influence on the decisions of parent institutions. The members of the Board agreed to continue the search for ways to support these institutions in Ukraine.

MACRO INDICATORS

- State Statistics Service: Ukraine's real GDP in 2022 fell by 29.1%. The fall in GDP in Q1 2022 reached 14.9%, in Q2 - 36.9%, in Q3 - 30.6%, in Q4 - 31.4%. At the end of 2021, the Ukrainian economy grew by 3.4%.
- NBU: In March 2023, inflation in Ukraine slowed to 19.8% in annual terms.
- NBU: International reserves rose to of USD 31.88 B at the beginning of April.
- NBU: During the week of April 10-14, the National Bank sold USD 242.92 M from the reserves. In total, since the beginning of 2023, the NBU has sold USD 7.612 B and bought USD 62.3 M.
- State Statistics Service: In January-February 2023, exports from Ukraine decreased by 42.8% compared to the same period of 2022 and amounted to USD 6.45 B, while imports fell by 17.9% compared to 2022 to USD 10.17 B.
- PFU: In 2022, the total expenditures of the Pension Fund of Ukraine amounted to UAH 590B (vs. UAH 520.9 B in 2021), of which 97.3% went to pension payments. During the year, the average pension increased from UAH 3,991.53 on January 1, 2022, to UAH 4,622.59 on January 1, 2023. The average pension for Q1 2023 was UAH 5,238.25.



TOP EVENTS

- Zelenskiy signed Draft Law #9105, which provides for a record increase in state budget expenditures by UAH 537 B. Most of these funds will go to support military personnel.
- Reuters: The UK confirms an additional USD 500 M in loan guarantees for Ukraine, taking the total this year to USD 1 B. British loan guarantees had been important to underwrite a broader USD 15.6 B 4-year package of support for Ukraine from the IMF. Britain has now pledged a total of USD 8.1 B of support for Ukraine since Russia's invasion in February 2022, and the latest loan guarantees will help finance Ukrainian public services such as schools and hospitals.
- The Council of the European Union approved the allocation of EUR 1 B under the European Peace Fund (EPF) to support the Armed Forces of Ukraine.
- The Verkhovna Rada adopted Draft Law # 6490-d focused on customs administration reform.
- SCM Holding Company: Billionaire Rinat Akhmetov will initiate arbitration against the Russian Federation demanding compensation for all losses caused to him in 2014-2017 as a result of the seizure of assets by terrorist groups (the so-called "DPR" and "LPR") under the leadership and control of Russia. Such assets include dozens of enterprises in the mining, metallurgical, and energy, and real estate sectors.
- In the first reading, the Verkhovna Rada voted for Draft Law # 9107-1, which will allow the NBU to start the nationalization of "Sense Bank" (formerly "Alfa Bank").
- State Property Fund: The Verkhovna Rada adopted Draft Law # 8205 on the specifics of the liquidation of dormant state-owned enterprises. The SPF emphasized that there are >1,200 dormant enterprises in Ukraine that exist only on paper and yet generate millions of UAH in losses for the state. It is expected that it will be possible to identify and sell the assets of dormant state-owned enterprises for a total value of >UAH 140 M.
- On April 11, 2023, the MoF sold UAH 2.4 B worth of war bonds (mostly for 1.2 years at 19.5% and for 2 years at 19.6%).
- On April 12, 2023, World Bank Managing Director Anna Bjerde and Ukrainian Prime Minister Denys Shmyhal signed an agreement in Washington, D.C. to provide Ukraine with another USD 200 M to restore Ukraine's energy sector.



- Ministry of Economy: Ukraine and Canada announced the completion of negotiations on the conclusion of an updated Free Trade Agreement between the two countries. This document will replace the existing Agreement that has been in effect since 2017. Tariffs will now be canceled on those Ukrainian goods that have components originating from the EU, the European Free Trade Association, Great Britain, and Israel.
- Ukrnafta, which was expropriated last year in favor of the state, ended Q1 2023 with a net profit of UAH 4.3 B.

TOP TRENDS

- NBU: The NBU is working on a roadmap for the gradual lifting of temporary foreign exchange restrictions introduced from the start of martial law.
- Gremi Personal Survey: 38% of Ukrainian refugees will stay in Poland, 7% plan to move from Poland to another country, 55% will return to Ukraine. Of these, 82% plan to come back to Ukraine only after the victory.
- MoF: In 2023, Japan plans to provide Ukraine with financing in the amount of USD 3.5 B. Since the beginning of the full-scale war, Japan has provided Ukraine with USD 581 M in low-cost financing.
- MoF: Ukraine expects to receive 2 more tranches totaling USD 1.8 B from the IMF in 2023. The first tranche of USD 2.7 B went to the state budget of Ukraine immediately after the approval of the Program.
- The National Bank is considering the possibility of reducing the cost of micro loans for individual borrowers. One option is to introduce a cap on the interest rate.
- NSSMC: The updated Bill On Virtual Assets will be published shortly for discussion with the market community and representatives of relevant government agencies.
- EBA: The Ukrainian business community is asking the NBU to allow transfer of funds to foreign creditors. If companies are unable to fulfill their obligations to pay coupons on Eurobonds and loans, this will have a negative impact on the reputation of Ukraine and its business community.
- The State Property Fund will re-offer the 'Bilhorod-Dniester Sea Trade Port' for privatization as the previous auction winner did not close the transaction. Thus, the SPF is going to put the Bilhorod-Dniester Port up for a new auction – for the third time.

CLOSER LOOK

The NBU is Launching a Regulatory 'Sandbox' for Testing Innovative Products, Services, Technologies, and Tools

- The regulatory platform will allow authorized financial or payment service providers to test their innovative products in real market conditions under the supervision of the regulator.

- The main task of the regulatory 'sandbox' is to promote the development of fintech and innovative products in the financial and payment markets. At the same time, its launch should stimulate increased competition, improve the quality of financial and payment services, and deepen the dialogue between the regulator and market participants on the development of regulation of fintech.
- Only those market participants who are already authorized to provide financial or payment services in accordance with Ukrainian legislation will be able to take part in testing innovative products in the regulatory platform. Prior to testing, an innovative product must undergo a preliminary assessment by the regulator.
- The proposed product should be new to the market or significantly exceed the characteristics of existing ones. Introduction of the product should not lead to violations of the legislation on the protection of economic competition.
- The NBU will evaluate applications and decide whether the innovative product can participate in the sandbox. It will take into account the situation in the financial and payment markets, potential effectiveness, and risks of providing such services.

Source: NBU website

FSR PROJECT NEWS

- The Annual Factoring Forum will be held by Ukrainian Alliance for Trade Finance and Factoring on April 20, 2023 with the support of FSR. The Forum will focus on strategic steps for factoring market development and will bring together the key market stakeholders. More information is [here](#).



This publication is made possible by support of the American people through the United States Agency for International Development (USAID).

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