



USAID
FROM THE AMERICAN PEOPLE

USAID FINANCIAL SECTOR REFORM ACTIVITY

FINANCIAL SERVICES INDUSTRY WEEKLY

2023: ISSUE 17 April 23 – April 29

FOLLOW UP ON THE NEWS

- Bloomberg: Russia took control of utilities owned by Finland's Fortum Oyj and Germany's Uniper SE, in retaliation for asset freezes by European countries over its invasion of Ukraine.
- Interfax Ukraine: Boeing is liquidating its subsidiary in Belarus called Boeing BLR LLC.
- Reuters: South Korea's Hyundai Motor plans to exit Russia and sell its manufacturing plants there to a Kazakh company.

MACRO INDICATORS

- NBU: The NBU's 2022 undistributed net profit amounted to UAH 91 B. UAH 71.87 B will be directed to the State Budget of Ukraine, and UAH 19.2 B to the general NBU reserves.



- The NBU has improved the forecast for the recovery of Ukraine's economy this year from 0.3% to 2% in view of the rapid recovery of the energy system.
- The NBU also revised the inflation forecast for 2023 from 18.7% to 14.8%. It is expected that in the following years it will return to a single-digit level - in 2024 to 9.6%, and in 2025 to 6%. The NBU decided to keep the discount rate at the level of 25%. Exchange rate stability is ensured by hard currency restrictions, but their effectiveness weakens over time.
- NBU: Considering the amount of financial assistance received from partner countries, the NBU expects that international reserves of Ukraine will grow to USD 35 B by the end of the year.

TOP EVENTS

- European Commission: On April 25, 2023, the European Union provided Ukraine with the third tranche of annual macro-financial assistance in the amount of EUR 1.5 B from a package of EUR 18 B.
- Fitch Ratings has affirmed the City of Kyiv's Long-Term Foreign-Currency Issuer Default Ratings (IDR) at 'CC' and Long-Term Local-Currency IDR at 'CCC-'. This reflects Fitch's view that Kyiv's ability to service its new debt and to support its indebted municipal companies remains questionable.

- MoF: The IDA is expanding the support package for Ukraine and creating a separate fund — SPURR (Special Program for Ukraine's Recovery and Crisis Response). Potentially, Ukraine can receive USD 6 B in aid.
- Minfin: The international money transfer system Wise has suspended the transfer of funds from hryvnia accounts for all its clients.
- MoF: On April 28, Ukraine received another grant from the USA in the amount of USD 1.25 B.
- MoF: The net annual profit of Privatbank in 2022 amounted to UAH 30.198 B (vs. UAH 35 B in 2021), of which the state budget will receive UAH 24.16 B as dividends.
- The NBU issued licenses to 8 companies to provide financial payment services, canceled the license of 1 insurance company and 8 financial companies, and suspended the licenses of 2 financial companies.
- The Committee on International Trade of the European Parliament agreed to extend for another year the cancellation of EU import duties on Ukrainian exports.
- Ekonomichna Pravda: 'Naftogaz' expects to receive UAH 327 B from the state budget this year. Most of this amount is compensation for preferential tariffs for the households (the so-called PSO mechanism, i.e. payment of the difference between market and preferential gas tariffs).

TOP TRENDS

- IT Ukraine: Ukrainian exports of IT services in Q1 2023 dropped by 16% compared to the same period last year and amounted to USD 1.68 B. According to the 2022 results, the IT industry provided foreign currency receipts to the Ukrainian economy in the amount of USD 7.35 B.
- NBU Quarterly Survey: Banks in Ukraine plan to raise deposit rates. Ukrainian bankers do not expect the quality of corporate loans to deteriorate over the next 12 months, but the quality of loans issued to households is expected to decrease.
- Growford Institute: In Ukraine, after the start of the war, a large part of loans to the corporate sector was provided within the framework of the state programs 'Affordable Loans 5-7-9%' and 'Portfolio Guarantees 80%'. The first program is implemented through compensation from the state budget of bank interest on loans, and the second program via providing partial guarantees of the loan principal by the state. Budget expenditures for financing credit programs supported by the state in 2022 amounted to UAH 9 B, and in the 2023 budget, UAH 16 B is provided for this purpose. During the period of martial law in Ukraine, more than 24,000 credit agreements for a total amount of UAH 97.19 B were concluded within the framework of the

state program 'Affordable Loans 5-7-9%' (in 2021, the amount was UAH 62 B). Since the beginning of the use of the instrument of state guarantees on a portfolio basis, during December 2020 - January 2023, 20,500 loans were issued to micro, small, and medium-sized businesses in Ukraine for a total amount of UAH 63.97 B.

- State Statistics Service: The total revenue of the top 100 Ukrainian companies in 2022 amounted to UAH 3.2 trillion, which is 6.5% less than in 2021.
- SPF: In Q1 2023, the SPF received UAH 902 M from privatization - a record figure for the past 10 years. In the first three months of the year, the SPF put logistics, trade, warehousing, and other assets up for auction. For the first time, a seaport in Ukraine was privatized - the sale of the 'Ust-Dunaisk' Port brought >UAH 200 M to the state budget.

CLOSER LOOK

NBU: The NBU Will Assess the Stability of the Largest Banks

- The National Bank is starting an assessment of the stability of banks and the banking system. The stability assessment will be carried out beginning April 1 in three stages.
- The first stage will include: an assessment of the quality of assets and the acceptability of collateral under credit operations; a review of the value of the assets received by the bank as collateral; and the calculation of capital adequacy standards.



- The second stage will involve the extrapolation of the results of the assessment of the quality of assets and the acceptability of collateral to the bank's credit operations, which were not included in the sample at the first stage.
- The third stage is an assessment of the banks' activity indicators according to the basic scenario and determination of the necessary levels of capital adequacy standards.
- In 2023, 20 banks will be evaluated. These are leaders in terms of aggregate indicators of the volume of risk-weighted assets, deposits and loans of individuals. The total amount of net assets of these banks is >90% of the assets of the banking system. The results of the assessment of the stability of banks and the banking system of Ukraine carried out in 2023 will be made public by March 31, 2024.

Forbes: Ukraine Will Update Its Regulation of Virtual Assets

- Revised legislation on the regulation of virtual assets is being prepared. The new legislation may be adopted by the end of the year and will directly affect the crypto market of Ukraine.

- A Working Group on the new draft law includes experts from the NSSMC, the Ministry of Digital Transformation, the NBU, the Finance Committee of the Verkhovna Rada, law enforcement officers, and crypto market players. Ernst & Young and USAID Financial Sector Reform are advising on the project.
- The authors of the draft law relied on approaches, structure and definitions from the MiCA (Markets in Crypto-assets) regulation recently adopted by the European Parliament.



- The new version of the law will be more thorough and detailed than the previous one (adopted at the end of 2021), and the regulation of the market will pass from the Ministry of Digital Transformation to the NSSMC.
- The draft law will probably tax crypto currencies after their conversion into fiat currencies, while transactions within crypto exchanges and capital gains after the sale of crypto assets will not be subject to taxation.

FSR PROJECT NEWS

- FSR is supporting the NBU's Fraudster Goodbye Campaign, a nationwide information campaign to educate Ukrainians of all generations on payment security rules. The activities started in late April with the digital campaign focused on fraud prevention for young Ukrainians and will run through the end of 2023.



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

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.