

# **LENDING DEVELOPMENT STRATEGY**

## **Preface**

Lending is one of the key instruments to ensure sustainable economic development, maintain financial stability, and strengthen Ukraine's potential on its way to the Victory and during the post-war recovery. The Financial Stability Council recognizes the limited and uneven access to the lending market, which is the repercussion of the economic and financial crisis caused by the full-scale war Russia started in 2022.

In order to resume the development of lending, the Financial Stability Council has formed a comprehensive vision of the key principles of lending development in Ukraine and the actions necessary to implement these principles, taking into account the need to ensure consistency and adaptation to changes in both the banking system and in the activities of non-bank financial institutions, which will contribute to the resilient and sustainable development of our country's economy.

Returning to the sustainable functioning of the lending market in Ukraine is of strategic importance for ensuring the development of a strong economy, the military industry of Ukraine, and post-war recovery and reconstruction. Lending is one of the key mechanisms for financing the real sector and supporting entrepreneurship and innovation. Expanding access to credit resources will help promote entrepreneurship, attract investment, create new jobs, and bring Ukrainians back from abroad.

In this context, drafting and implementing the strategy for the development of lending in Ukraine becomes not only a priority, but also a necessity for the country's financial security. Successful implementation of this strategy strengthens our potential to transform Ukraine into a dynamic and competitive economy capable of achieving sustainable development and confidently standing on the path to European integration.

## Context

This strategy is created in the context of macro-financial stability, which is the result of the hard work of Ukraine's Armed Forces, unprecedented financial support from international partners, and the coordinated and successful policies of the government, the NBU, and other central government agencies.

As of 1 June 2024, the NBU key policy rate was 13.5%, i.e. at the level of 31 December 2019, while consumer inflation in April 2024 was 3.2% yoy (the level of January 2020). International reserves exceed the required level according to the IMF's component measure, which contributes to a stable and predictable situation in the FX market.

Macrofinancial and price stability is critical for stabilizing business and household expectations and for economic recovery. The loan portfolio of Ukrainian banks has been growing since mid-2023 in both the business and retail lending segments. Net hryvnia loans to businesses have returned to the level of December 2021. Loan rates are declining: the weighted average interest rate on corporate loans is 16.7% (the level of December 2019), while that in foreign-owned banks is 14.5%. Banks and businesses expect lending to pick up in the next six to 12 months.

At the same time, demand for loans is below prewar levels. As a result of the destruction of energy infrastructure, there is a risk that demand will be depressed further.

This goal of this strategy is to provide financial resources for the process of rebuilding energy infrastructure and to intensify the positive trends the NBU sees in the lending market through stimulating demand aimed at improving the country's defense capabilities.

The successful implementation of this strategy requires a number of additional critical steps, without which full implementation is impossible. These steps are:

### **On the part of the NBU:**

Continuing to safeguard macrofinancial stability

Balancing regulatory requirements to ensure financial stability against lending development in line with European standards:

- continuing to impose capital requirements for banks, taking into account the current state of the sector and the need to preserve the potential for lending
- adapting credit risk measurement mechanisms (in particular, for project financing) to martial law conditions to boost lending to priority industries.

### **On the part of the Ministry of Finance of Ukraine:**

Promoting an increase in the risk appetite of state-owned banks to lend to viable and economically sound projects in priority areas.

\*Focusing the instruments of state guarantees on lending to projects in resilience areas to cover only direct losses from war risks.

### **On the part of the Ministry of Economy of Ukraine**

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\*Areas according to the *List of Territories Where Hostilities Are (Were) Taking Place or Those Temporarily Occupied by the Russian Federation*, approved by Order of the Ministry of Reintegration of Temporarily Occupied Territories of Ukraine No. 309, dated 22 December 2022 (as amended; hereinafter, the List), except for the areas in which hostilities are being (were) taking place or temporarily occupied territories, for which no date of completion of hostilities or temporary occupation has been determined.

Further optimizing and improving government program mechanisms to focus on the identified priority sectors of the economy and companies operating in resilience areas.

This strategy prioritizes lending under martial law to:

- defense industry companies,
- critical energy infrastructure,
- manufacturing industry,
- agricultural sector,
- support for the recovery of businesses operating in resilience areas.

## Strategic goals:

1. **Crediting for victory.** Providing loans to the defense industry is an important component of the country's national security and defense capabilities. Supporting the financial sustainability of defense industry companies, their ability to invest in modern technologies and the development of production facilities, helps strengthen the country's economic base and reduce its vulnerability to external threats, such as Russia's military aggression.
2. **Ensuring the availability of credit:** Making lending by banks and financial companies more accessible to households and businesses by improving lending procedures, introducing responsible lending conditions, and minimizing legal risks in lending. Increasing the role of financial companies in lending by introducing prudential standards, risk management systems, and accounting requirements.
3. **Lowering credit risk:** Expanding the access of financial market participants to information from state electronic information resources. Improving the functions of the NBU's Credit Register. Setting up additional requirements for assessing consumers' creditworthiness.
4. **Enhancing the quality of the loan portfolio:** Implementing measures to reduce the share of non-performing loans in banks' portfolios.
5. **Environmental responsibility:** Developing and implementing regulatory approaches to green finance, in line with international best practices. Promoting environmental awareness and social responsibility in the Ukrainian financial sector. However, in order to win the war, lending to the defense industry and the energy sector needs adequate exemptions from sustainable finance practices.
6. **Developing infrastructure for small and medium enterprises (SMEs)** Expanding financing instruments through developing trade factoring and financial leasing. Introducing and developing supply chain financing products. Promoting the dissemination of credit information about the SME sector through the system of credit bureaus, which will help reduce credit risks in SME financing.
7. **Financial responsibility:** Raising the level of financial literacy and awareness among the population and entrepreneurs to ensure the responsible use of financial services.
8. **Innovations in financial services:** Introducing modern technologies and digital solutions to facilitate access to financial services and enhance the efficiency of customer service. Introducing changes in information transparency and technological data exchange.

## The strategy will be implemented with two focuses:

Focus 1: Measures to step up the credit support of the banking sector to help restore priority industries under martial law.

Focus 2: Developing a legislative framework to stimulate lending

## **FOCUS 1. LENDING DEVELOPMENT UNDER MARTIAL LAW**

The experience of countries that have gone through military conflicts and post-war economic recovery points to the need to focus public policy on supporting priority areas/sectors/industries of the economy. At this stage, the **priorities for lending to the economy** are the defense industry, critical energy infrastructure, manufacturing, agriculture, and support for the recovery of businesses operating in resilience areas.

The **state policy instruments used to develop lending** should be government and international guarantees, the insurance of military and political risks, programs to partially compensate (subsidize) loan rates, project financing instruments, and state financial institutions.

At the same time, the NBU's monetary policy objective remains to maintain macrofinancial stability as one of the key prerequisites for economic development.

The focus of macroprudential policy will be on striking a balance between safeguarding financial stability and preserving the financial sector's capacity to ramp up lending.

## ACTIONS

In order to more accurately apply state policy instruments and market mechanisms to increase lending to priority sectors, the following measures must be taken:

### Balancing regulatory requirements to ensure financial stability and lending development in line with European standards

Further introduction of capital requirements for banks, taking into account the current state of the sector and the need to maintain the lending capacity (the relevant transitional rules and deadlines were proposed)	NBU	Q2 2024
Adapting credit risk assessment mechanisms (in particular, for project financing) to martial law to increase lending to priority sectors	NBU	Q2 2024
Facilitating the implementation of consortium lending mechanisms on the basis of business applications within the working group	MoE, NBU	Q3–Q4 2024

### International guarantees and investment

Developing a mechanism to direct the guarantees provided under the Ukraine Facility (Pillar II) to the needs of the economy	MoE, NBU	Q3 2024
Expanding the participation of foreign financial institutions in partial coverage of risks to a wider range of Ukrainian banks and projects, including business recovery projects in the de-occupied territories and resilience areas	MoE, NBU	Q4 2024
Establishing, together with international donors/creditors, a transitional period for banks to temporarily (for the period of the war) exclude ESG standards for the defense industry and energy sector from financing conditions	MoF, MoE, NBU	Q4 2024
Encouraging foreign financial institutions to participate in providing financial support of SMEs and producers of dual-use goods	MoE, NBU	Q4 2024

### Insurance of war risks and critical infrastructure

Implementation of Stage I [launching “rapid” war risk insurance instruments: MIGA, DFC, Unity Facility, guarantees and grants from the EC and other donors (France, Taiwan, Norway, Sweden and Switzerland), ECA]	MoE, NBU	Q4 2024
Stage II is a long-term permanent model of a national multi-level war risk insurance system (which will include the coverage of risks for energy sector and critical infrastructure)	MoE, NBU	Starting from Q2 2025
- Adopting the law and bylaws on war risk insurance		Q1 2025

## Defense industry

Introducing special procedures for financial monitoring and FX controls for enterprises with the status of critical importance for the defense industry	NBU, Ministry of Strategic Industries	Q3 2024
Introducing a state program to subsidize loans, factoring and/or leasing financing to defense industry companies	Ministry of Strategic Industries, MoF	Q4 2024
Concluding long-term agreements (for the period of 3 years or more) with domestic manufacturers that meet defense needs in order to create a basis for banks to estimate future cash flows when granting loans (including the possibility of assignment/sale of the right of claim under such agreements without the borrower's consent)	Ministry of Strategic Industries, MoF, NBU	Q3 2024
Providing state guarantees in the amount of UAH 30 billion to finance programs related to improving the defense capability and security of the state	Ministry of Strategic Industries, MoF	Q4 2024

## Energy sector

Developing mechanisms to support lending to energy sector projects (provided that support for large enterprises will be offered through a surety or other mechanism for sharing risks with the holding company and/or affiliates of the respective large enterprises)	MoE, the Ministry of Energy	Q2–Q3 2024
Analyzing the financing needs of enterprises operating in the energy sector (including the list of potential borrowers/projects that have difficulty with the access to financing and the amount of financing required)	MoE	Q2 2024

## Resilience areas

Improving the technological efficiency of maintaining the List <sup>†</sup>	MoE, Ministry of Digital Transformation, Ministry of Reintegration, NBU	Q3 2024
Integration of the List into the sanctions screening procedures by foreign financial institutions and foreign financial regulators (to reduce the number of cases when businesses operating in the areas of resilience are denied the opportunity to establish and maintain business relations)	NBU, MoE, Ministry of Digital Transformation, Ministry of Reintegration	Q4 2024
Launching a one-stop-shop for analyzing business needs in resilience areas	MoE	Q3 2024
Focusing the Program of State Guarantees provided in accordance with CMU Resolution No. 723 dated 14 July 2021 on lending to viable projects in the resilience areas to cover only direct losses inflicted by hostilities, acts of terrorism, sabotage as a result of russia's military aggression.	MoF, MoE	Q4 2024

<sup>†</sup> *The List of Territories Where Hostilities Are (Were) Taking Place or Those Temporarily Occupied by the russian federation* approved by Order of the Ministry of Reintegration of Temporarily Occupied Territories of Ukraine No. 309 dated 22 December 2022 (as amended)



Analyzing the financing needs of enterprises operating in the resilience areas (including the list of potential borrowers/projects that have difficulty with the access to financing and the amount of financing required)	MoE	Q4 2024
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#### **State programs and guarantees, guarantees of the BDF**

Guarantees of state-owned institutions (including the BDF) are included in the list of acceptable collateral (NBU Resolution No. 351), with the weights reflecting their solvency	NBU, MoF, BDF	Q3 2024
A BDF program for providing guarantees to start-ups (newly established enterprises operating for up to 12 months) and capitalization of the BDF in the amount of UAH 500 million to implement this program	MoF, BDF	Q4 2024
Improving the process of processing primary information on loan applications through state programs	MoE, MoF, Ministry of Digital Transformation, NBU	Q4 2024

#### **Promoting an increase in the risk appetite of state-owned banks to lend to priority areas**

Promoting an increase in the risk appetite of state-owned banks to lend to viable and economically sound projects in priority areas.	MoF, NBU	2024–2026
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## FOCUS 2. DEVELOPING A LEGISLATIVE FRAMEWORK TO STIMULATE LENDING

We expect that in the future, direct state policy instruments will have a less important role in the development of lending, while financial sector institutions will become the drivers of such development.

Therefore, regulators and the state should create conditions for the smooth increase in market lending available to all economic agents, regardless of their type, form of ownership, or sector of the economy.

In particular, the following measures should be taken:

### Development of sustainable finance

Revising and implementing the NBU's Sustainable Finance Development Policy	NBU	Q4 2027
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### Development of mortgage lending

Implementation of Directive 2014/17/EU on credit agreements for consumers relating to residential immovable property into Ukrainian laws	NBU, MoJ, NSSMC	Q4 2026
Preparation of legislative proposals to ensure effective satisfaction of creditors' claims through mortgages	NBU, MoJ	Q4 2024
Promoting the tax break instrument for mortgage borrowers	NBU, SFSU	Q3 2024
Ensuring transparency of information in the real estate market	NBU, MoJ	Q4 2024

### Development of factoring

Expanding the range of financing instruments through the development of trade factoring (drafting and submitting to the parliament a new law on factoring, including the UNCITRAL Model Law)	NBU	Q4 2025
Separating factoring from the purchase of overdue financial debt	NBU	Q4 2025
Introducing registration of assignment of the right to monetary claims in the public register	NBU, Ministry of Digital Transformation, MoJ	Q4 2025
Implementation of EU Directive 2011/7/EU on combating late payment in commercial transactions	MoE, AMCU	Q4 2026
Implementation of EU Directive 2019/633 on unfair trading practices in business-to-business relationships in the agricultural and food supply chain	MoE, AMCU, Ministry of Agriculture	Q4 2026
Implementation of EU Directive 2014/55/EU on electronic invoicing in public procurement	MoE	Q4 2026

**Development of financial leasing**

Expanding the range financing instruments through the development of financial leasing (introduction of risk-oriented regulation for financial companies that have the right to provide financial leasing services)	NBU	Q4 2025
Expanding the possibilities for renewal of fixed assets through financial leasing (introduction of accelerated amortization of financial leasing items)	NBU	Q4 2025

**Securitization of financial assets**

Updating legislation in line with the concept of introducing a legal framework for covered bonds and securitization in Ukraine.	NSSMC, NBU	Q4 2027
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## CREATING CONDITIONS FOR DEVELOPMENT OF LENDING

Despite the current macroeconomic and security environment, there is an ongoing need to calibrate the effectiveness of credit regulation and simplify the related procedures followed by parties to lending to protect their interests and/or ensure regulatory compliance.

### TRANSPARENCY AND EXCHANGE OF INFORMATION

#### Expanding access of banks and other financial market participants to information from state electronic information resources (state registers)

Preparing proposals for the development of a technological model of information exchanges between financial institutions and the keepers of state registers.	NBU	Q3 2024
Expanding the sets of information available to financial market participants by means of information exchange with keepers of state registers through technological means (subject to the implementation of a technological model of information interaction)	NBU	Q4 2024
Preparing proposals for legislative changes to expand data sets available to banks and other financial market participants from state electronic information resources	NBU	Q2 2025
Ensuring the operation of database of real estate transaction prices with detailed metadata including structural parameters of primary and secondary market; and residential and commercial real estate price indices	NBU, Ministry of Justice	Q1 2024

#### Expanding the functionality of the NBU Credit Register

Reducing the debt threshold for reporting to the NBU Credit Register	NBU	Q3 2024
Expanding the use of the NBU Credit Register to non-bank financial institutions	NBU	Q3 2024
Strengthening control over the quality of information provided to and received from the NBU Credit Register	NBU	Q4 2024
Ensuring that the NBU Credit Register contains information in accordance with IFRS	NBU	Q3 2024
Identifying the needs of market participants regarding the expanded functionality of the NBU Credit Register	NBU	Q2 2025

#### Strengthening the role of the credit bureaus by developing value-added services

Expanding the use of information from credit bureaus	NBU	Q4 2025
Encouraging credit bureaus to develop more technologically advanced and value-added products	NBU	Q4 2026
Strengthening information coverage of the SME sector	NBU	Q4 2025
Increasing the relevance of the information contained in the credit bureaus	NBU	Q4 2025

### PROTECTION OF THE RIGHTS OF CREDITORS AND FINANCIAL SERVICE CONSUMERS

## Ensuring the rights of creditors and consumers in lending

Preparing legislative proposals to minimize legal risks in lending and reduce debt collection periods	NBU	Q4 2024
Preparing legislative proposals to counterbalance temporary moratoriums for creditors	NBU	Q4 2024
Preparing legislative proposals to expand loan repayment instruments	NBU	Q4 2024
Introduction of a simplified dispute resolution mechanism between financial market participants and consumers	NBU	Q2 2025

## Improving financial literacy of households and entrepreneurs

Ensuring that the framework of financial competencies of households and entrepreneurs is updated (in terms of the development of lending)	NBU	Q4 2027
Developing educational products to enhance the knowledge and skills of households and entrepreneurs in the field of lending	NBU	Q4 2028
Ensuring the coverage of various target groups by educational measures in the area of lending (first of all, the most vulnerable groups - IDPs, the population of liberated territories)	NBU	On a continuous basis
Developing and implementing educational programs for individuals on treatment of outstanding loans	NBU	Q4 2025

## REDUCING THE NPL LEVEL

### Strengthening and renewal of requirements for credit risk assessment and disclosure of data by banks

Improving the definition of NPL in accordance with European legislation: distinguishing between the categories of non-performing and defaulted assets, extending the term "non-performing" to assets that are not in default but are impaired.	NBU	Q4 2024
Reinstating the requirement for banks to update and submit plans and strategies for dealing with NPLs and providing recommendations based on the results of their analysis	NBU	TBD

## Improving legislation affecting the resolution of NPLs

### Improving the Code of Ukraine on Insolvency Proceedings

Preparing legislative proposals to improve the procedure for selecting a bankruptcy trustee and supervising their activities	NBU, Ministry of Justice	Q4 2024
Preparing legislative proposals to improve the procedure for conducting auctions for the sale of bankrupt property	NBU, MoJ	Q4 2024
Incorporating the requirements of EU Directive 2019/1023 on preventive restructuring into the Code of Ukraine on Insolvency Proceedings	NBU, MoJ	Q1 2026

Preparing legislative proposals to improve the procedure and access to bankruptcy and restructuring procedures for individuals, micro and small enterprises	NBU, MoJ	Q4 2024
Introducing safeguards in the Code of Ukraine on Insolvency Proceedings to prevent fraudulent actions of participants and limit the influence of related parties of the debtor on bankruptcy proceedings	NBU, MoJ	Q4 2024

***Improving the legislative regulation of financial restructuring and write-offs (tax aspects, rules for forgiveness and write-offs)***

Preparing legislative proposals to amend the Law of Ukraine “On financial restructuring” with criteria and rules for the use of partial debt relief and debt forgiveness	NBU	Q4 2024
Preparing legislative proposals to improve tax legislation affecting loan restructuring and debt write-offs and forgiveness	NBU	Q4 2024
Preparation of legislative proposals to amend the legislation and NBU regulations to expand the criteria for debt write-offs (for NPLs resulting from war, destruction and occupation)	NBU	Q4 2024

***Improve regulations on debt collection and collateral***

Preparing proposals for improving the legislation on debt collection to minimize the possibility of delays in the procedure	NBU, MoJ	Q4 2024
Updating the assessment of the feasibility of maintaining/changing the terms of moratoriums on foreclosures introduced during the war	NBU	Q4 2024
Drafting proposals for debt treatment, taking into account the risks associated with the location of the pledged property (in particular, occupied territories/territories of active hostilities, in accordance with the List)	NBU	Q4 2024

**Development of NPL market**

***Creating incentives for the development of the NPL market infrastructure***

Approval of the Concept for Establishing Asset Resolution Companies and drafting proposals for its practical implementation	NBU	Q4 2024
Preparing proposals to improve the exchange of information on the sale of NPLs and the rules for access to such information	NBU	Q4 2024
Conducting a study of digital trading platforms to improve existing platforms for trading NPLs, including Prozorro.Sales.	World Bank, NBU	TBD

**Collateral evaluation**

***Improvement of legislation on evaluation and evaluation activity***

Supporting legislative amendments to improve evaluation activities and implement the best international evaluation practices.	NBU, SPFU	Q4 2024
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Supplementing banks' credit risk assessment procedures with requirements to take into account collateral in accordance with legislative amendments (as necessary)	NBU	TBD (after adoption of draft law in par.1)
Preparing legislative proposals to optimize the procedures for establishing special requirements for the valuation of seized assets	NBU, SPFU	Q4 2024
Drafting proposals for the creation of system-wide sources for comparative analysis of cost estimation. Amendments to regulations, as necessary, to implement new legal requirements.	NBU, MoJ	Q4 2024