



National Bank
of Ukraine

Recovery of Ukrainian Economy and Banking amid Uncertainty over Pandemic Spread

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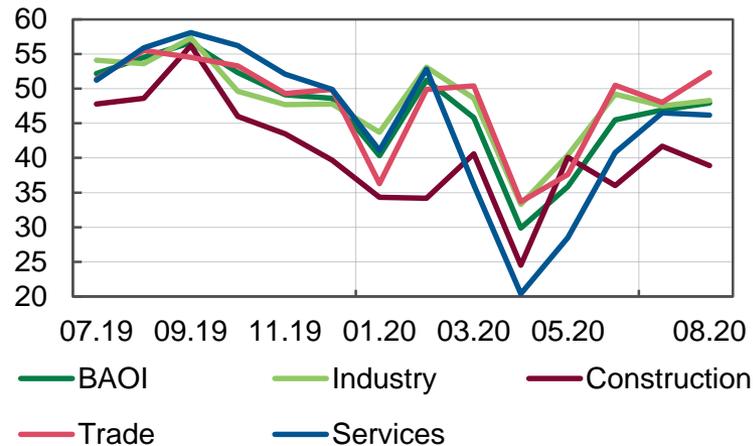
First Deputy Governor

September 2020



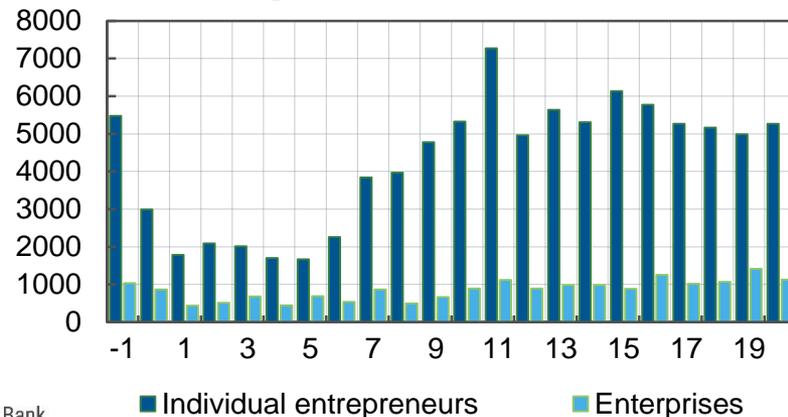
Quarantine restrictions hit the economy hard. With the relaxation of curbs, economic activity started to recover

NBU business activity outlook index*



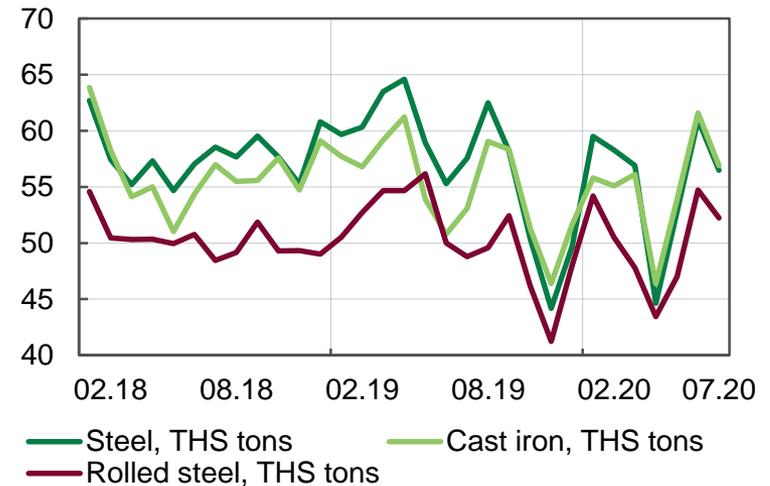
* Values above 50 indicate expansion or growth compared to the previous month; values below 50 represent a contraction; a level of 50 indicates no change.
Source: NBU.

New business registrations



* 0 (week from 9 to 15 March 2020). Source: opendatobot, NBU calculations.

Average daily production of steel, cast iron, rolled steel



Source: Ukrmetallurgprom.

Change in the number of operating cafés and restaurants and their sales, % of pre-quarantine level



Bank-targeted measures taken by global central banks and financial regulators in response to COVID-19 since 10 March 2020

Indicators	ECB / EBA	United Kingdom	Sweden	Poland	Czech Republic	Hungary	Romania	Russia	Serbia	Ukraine
Key policy rate cuts (pp)	-	0.65	- / 0.55*	1.0	1.5	-	0.5	0.5	0.75	5.0
Long-term refinancing	+	+				+		+		+
Market purchases of assets	+	+	+	+			+			
More frequent repo operations				+	+	+				+
Expansion of eligible collateral			+			+		+	+	+
FX swaps with central banks or IFIs	+		+	+	+	+		+		+
Promotion of loan holidays**	+	+	+					+		+
Release/reduction of capital buffers	+		+	+	+	+	+	+	+	+
Permission to operate with LCR below required threshold		+	+	+	+	+	+	+		+
Restrictions on dividend distributions			+					+		+
Extension of reporting deadlines	+	+	+	+	+	+	+	+		+
Deferral of inspections	+	+					+	+		+
Postponement/cancellation of stress tests	+		+***	+		+				+
Promotion of loan restructurings	+	+								+
Relaxation of other prudential requirements	+	+		+	+		+	+		+
Key policy rate cuts (pp)		+	+	+	+	+		+		+

* No longer in force; ** Non-key policy rate cut; *** Government compensations for interest and/or fee and commission costs and/or recommendation to introduce loan holidays and regulatory relaxations for revised/restructured loans.

Source: Financial Stability Report, NBU, June 2020.

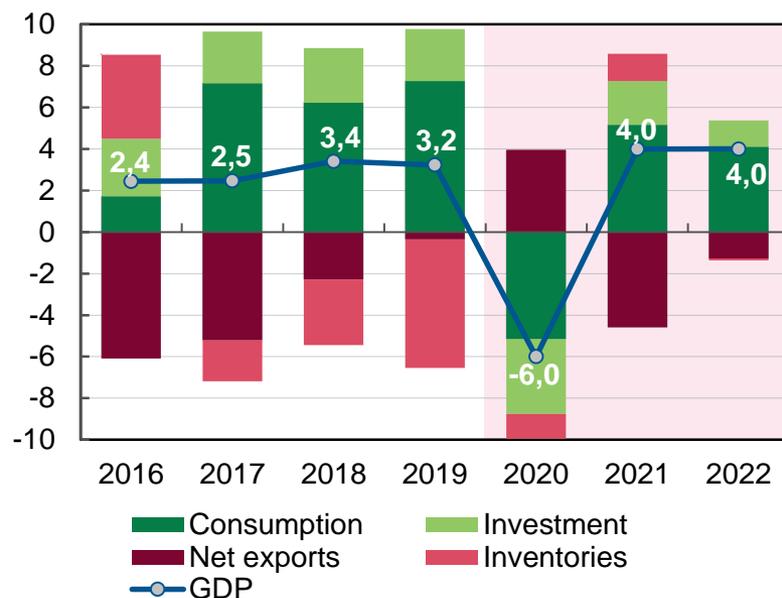
Macroeconomic forecast

	2019	2020 forecast	2021 forecast	2022 forecast
Real GDP, change, %	3.2	-6.0	4.0	4.0
CPI, yoy, %	4.1	4.7	5.5	5.0
Core CPI, yoy, %	3.9	4.0	4.2	3.9
Current account balance, USD bn	-4.2	6.5	-4.5	-7.9
<i>% GDP</i>	-2.7	4.4	-2.8	-4.5
Gross reserves, USD bn	25.3	29.8	32.7	32.7

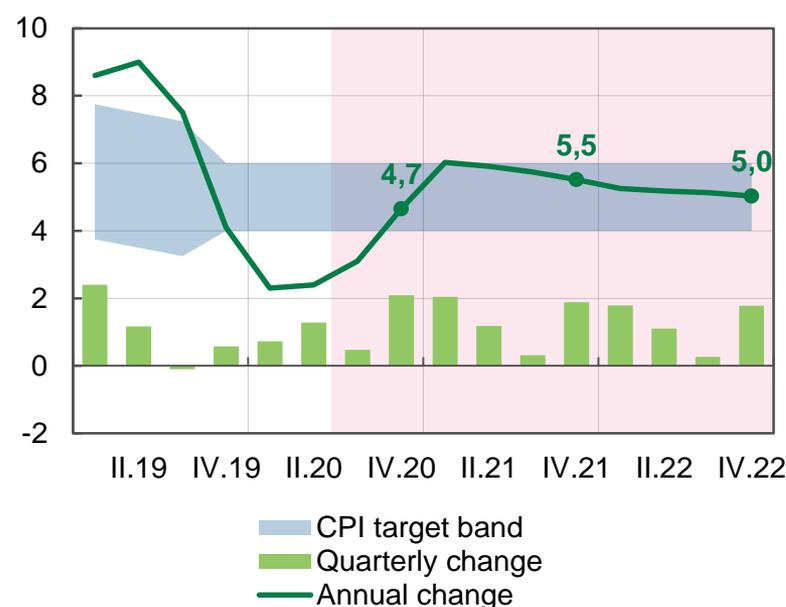
Source: SSSU, NBU, IR July 2020.

Expecting GDP recovery from 2021. Inflation will return to the target range by the end of the year

Growth in real GDP, %



Headline CPI, %

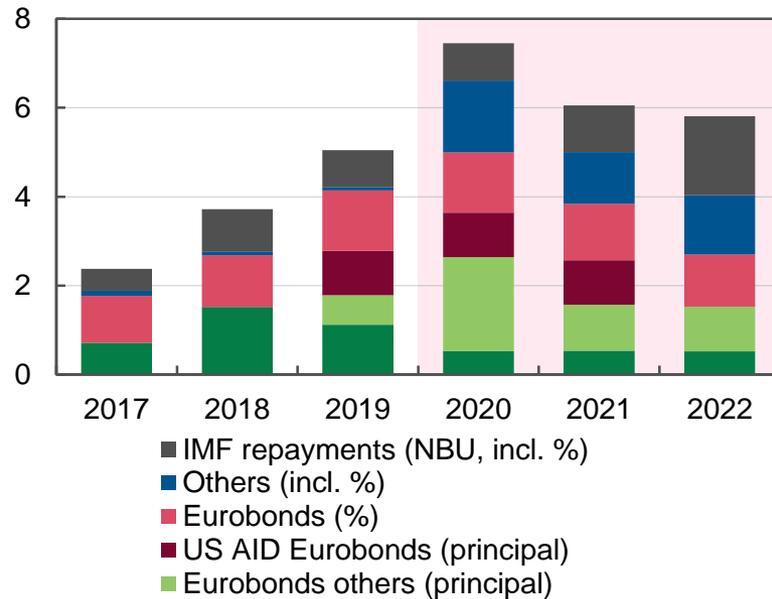


Source: SSSU, NBU staff calculations.

- Growth in GDP will be supported by loose monetary and fiscal policies and recovering external demand
- Inflation will accelerate on the back of demand recovery but remain within the target range

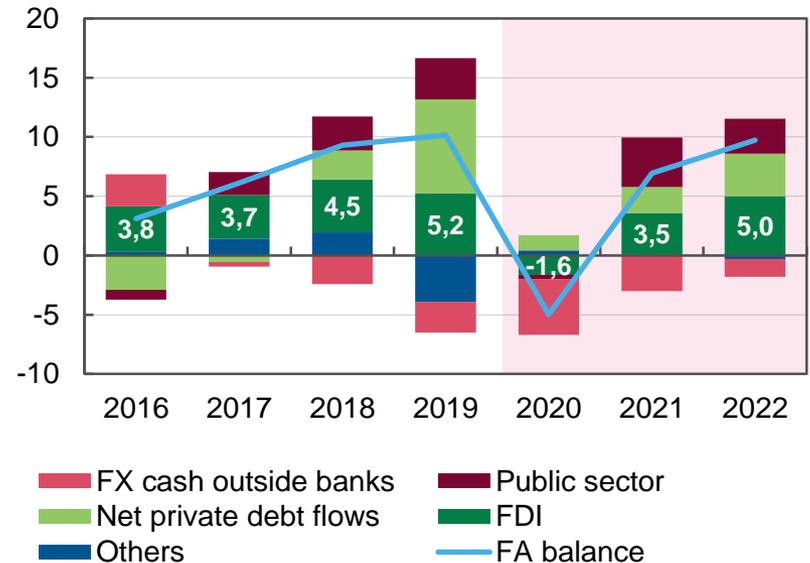
Ukraine is expected to go smoothly through peak debt repayments assuming further cooperation with the IMF

Public Sector External Debt Repayments, USD bn (as of July 30, 2020)



Source: NBU, MoF, Cbonds.

Financial Account (FA): Net Inflows, USD bn



Source: NBU, Inflation Report July 2020.

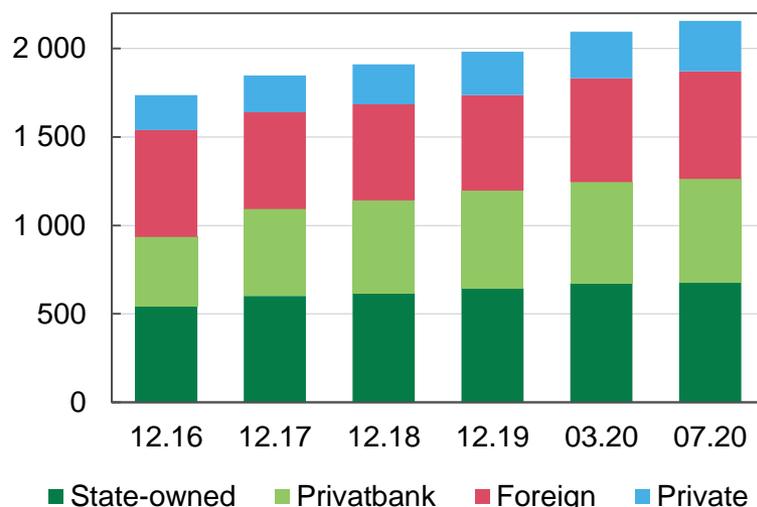
- In 2020-2022, repayments on sovereign FX debt are estimated to exceed USD 19 bn (external debt) and USD 8 bn (domestic FX debt).
- Cooperation with the IMF and other IFIs is vital for ensuring smooth passage through peak gov't debt repayments

Key risks

		Risk probability		
		Low <15%	Middle 15%–25%	High 25%–50%
Influence on baseline	Weak	Higher volatility of global food prices		
	Moderate	Lower harvest due to weather conditions		
	Strong	Escalation of military conflict in eastern Ukraine	Suspension of cooperation with IMF Judicial decisions on financial system	Prolonged coronavirus pandemic Deeper global economic recession Sharp increase in social standards

Banks operate stably, state-owned banks dominate

Distribution of gross assets by bank group, UAH bn



Number of banks

	2016	2017	2018	2019	08.20
Solvent	96	82	77	75	74
- change	-21	-14	-4	-2	-1
State-owned	6	5	5	5	5
- change	-1	-1	0	0	0
Foreign	25	23	21	20	20
- change	0	-2	-2	-1	0
Private	65	54	51	50	49
- change	-20	-11	-2	-1	-1
Insolvent	4	2	1	0	1
- change	1	-2	0	-1	+1

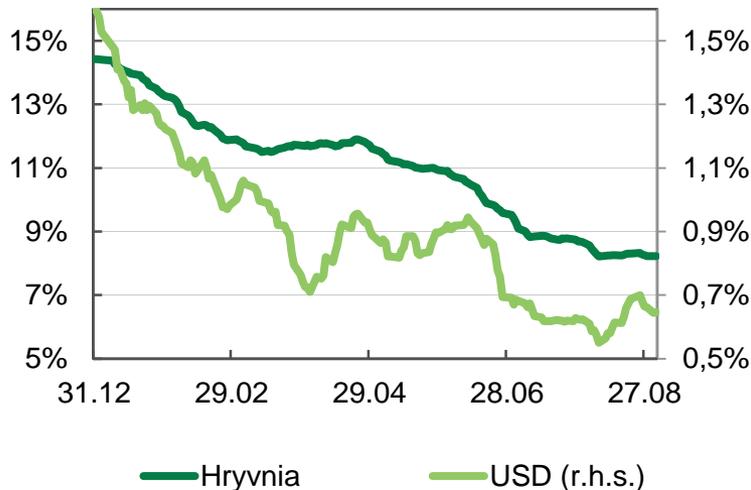
Source: NBU

Solvent banks were divided into groups according to the classification in the respective reporting period. In the figure above, the digits on the bars denote the number of banks in a group.

- In early September, there were 74 banks operating in the market.
- Only one bank was declared insolvent over the past year. A number of banks were merged with other banks or reorganized into financial institutions in 2018-19.
- The market is dominated by state-owned banks – an issue that Ukraine began to address in 2018. New supervisory boards with independent directors were appointed and corporate governance was improved.

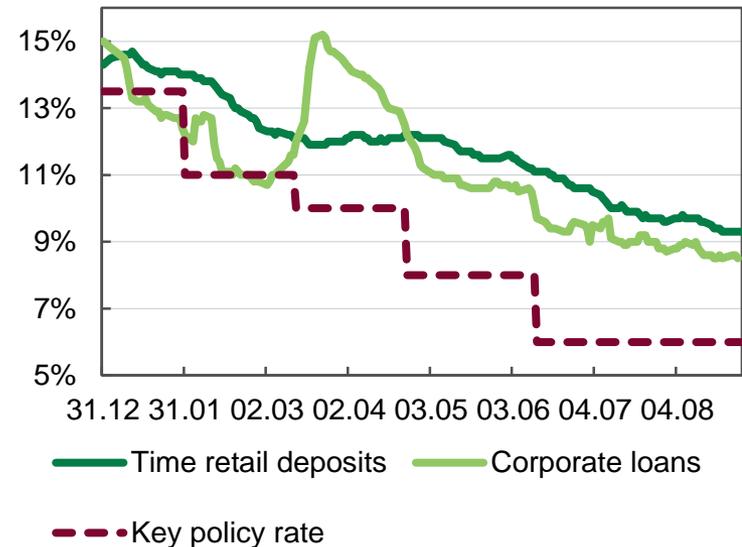
Key policy rate cuts facilitated a gradual decrease in retail deposits and corporate loan interest rates

Interest rates on new deposits, % per annum



Source: Thomson Reuters data, 5-day moving average

NBU key policy rate and interest rates on new hryvnia deposits and loans, % per annum

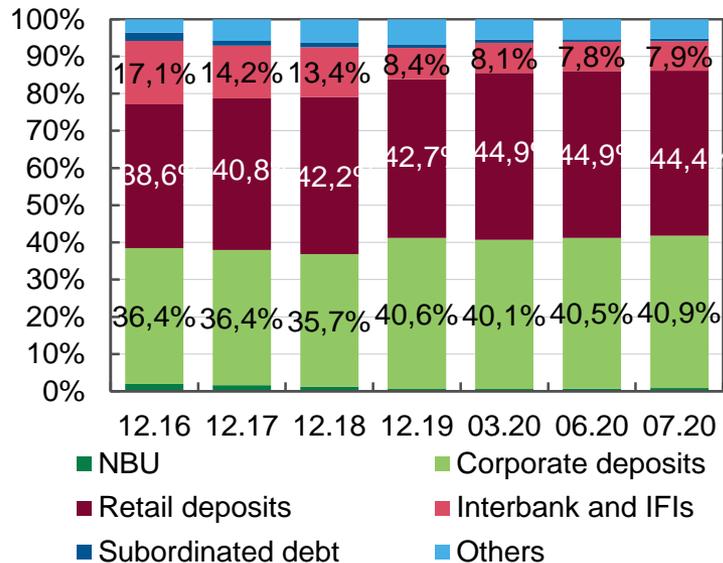


Source: NBU, 5-day moving average

- Since the beginning of 2020, the NBU has cut its key policy rate 4 times, to a historical low of 6% per annum.
- As a result, interest rates on retail and corporate deposits have been descending, as well as those on corporate loans.
- Strong demand for consumer loans did not reduce the cost of retail loans, it exceeded 30% per annum.

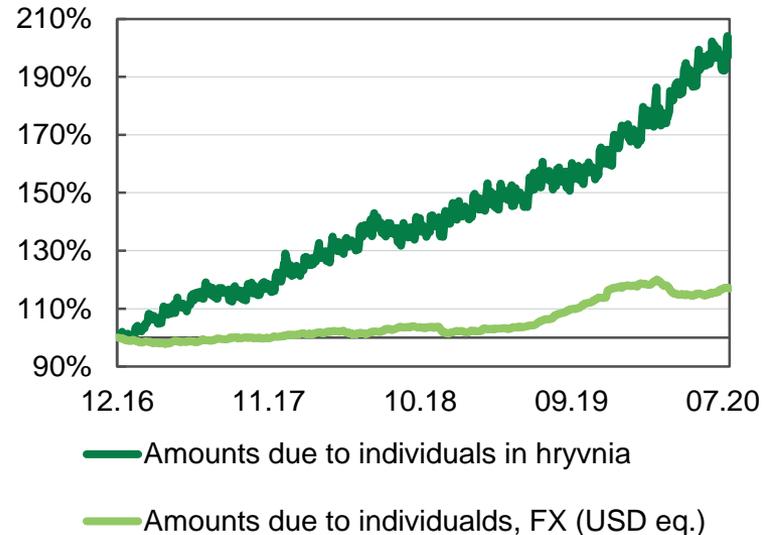
Retail deposits are growing

Bank liabilities by instrument



Source: NBU

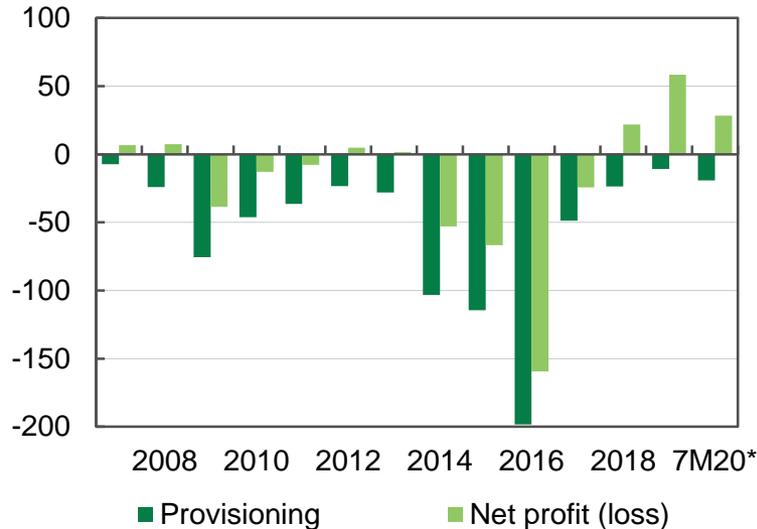
Retail deposits, December 2016 = 100%



- The share of retail and corporate deposits in banks' liabilities was 85.3% as of 1 August 2020 (up from 75% in 2016).
- As well as in other countries, household deposits increased during the crisis. The growth rate of hryvnia retail deposits as of 01.08.2020 was 27.5% (yoy), while FX deposits grew by 9.1% (yoy, in USD eq.)

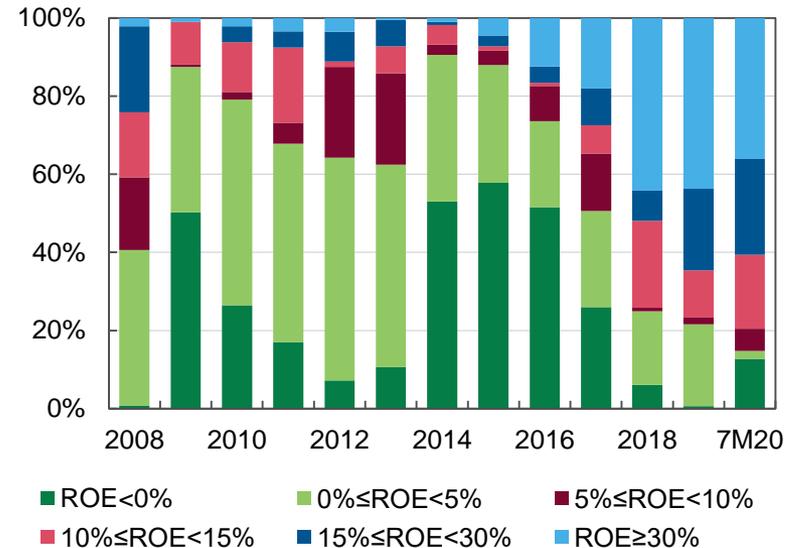
Sector net profit down yoy

Profit/loss of the banking sector, UAH bn



* Annualized data.
Source: NBU

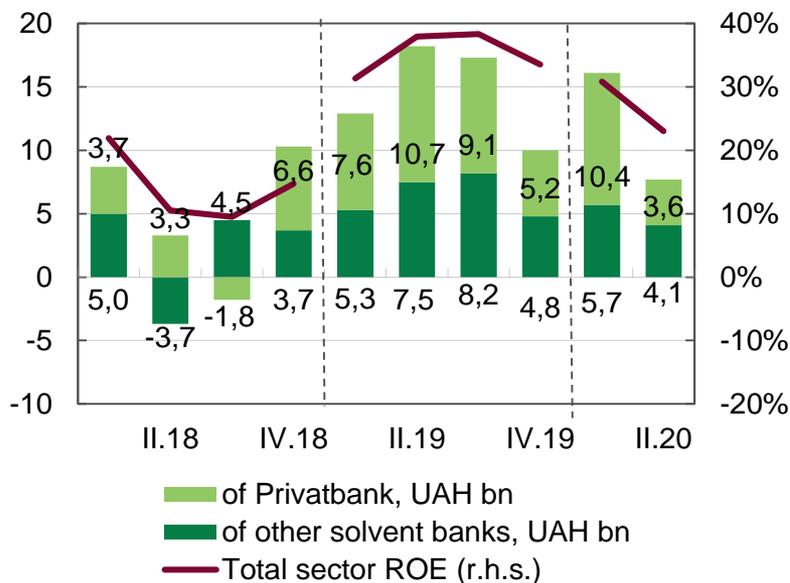
Breakdown of banks' ROE



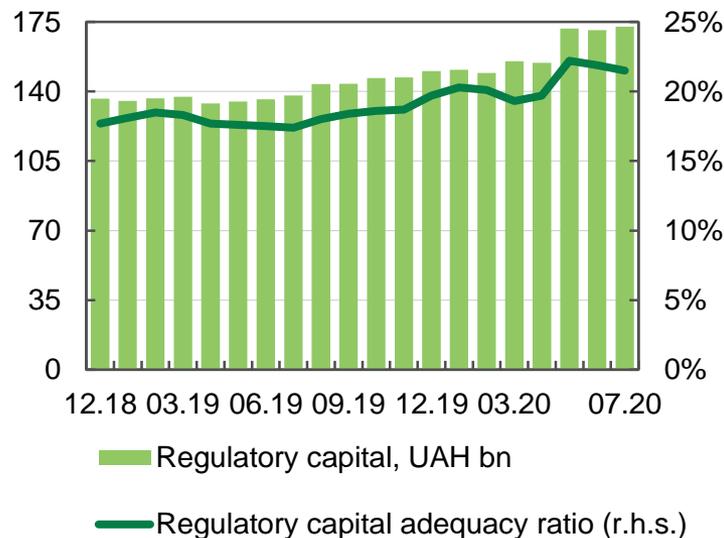
- In January-July 2020, the sector's net profit totaled UAH 28.4 billion (down 22.7% yoy). Operating profit before provisions increased by 9.3% yoy. Operating income grew by 11.0% yoy, CIR was 48.5%.
- Net interest income rose by 3.9% yoy, mainly due to the retail segment. Net fee and commission income dropped by 1.4% yoy; in particular, fee income from cashless payments fell during the quarantine period.

Net profit also fell due to provisioning

Profit/loss* and return on equity



Regulatory capital and regulatory capital adequacy (sufficiency) ratio



* For the quarter, adjusted data were used.
Source: NBU

- A large portion of the total profit came from PrivatBank.
- Regulatory capital increased by 10.3% in 2019 and by 14.9% in the first 7 months of 2020. The sector's capital adequacy ratio was 21.5%.
- For 7 months 2020, the sector's ROE was 23.6%.

Conclusions

- Over 2020 as a whole, real GDP is forecast to decrease by 6%. In 2020-2021, GDP will grow by about 4%, buoyed by monetary and fiscal stimulus and rebounding external demand
- Inflation will rise gradually in H2 2020 and return to its target range of $5\% \pm 1$ pp in Q4 2020, driven by the recovery of aggregate demand on the back of loose monetary and fiscal policies. Future NBU monetary policy will be directed at maintaining inflation within the target range
- Continued cooperation with the IMF remains the key assumption underlying the NBU macroeconomic forecast
- NBU efforts to clean up the banking sector and encourage banks to build resilience in good times yielded their results: banks are well-capitalized, efficient, liquid, and generate profits.
- The NBU employed the entire toolkit used by leading world regulators to assist banks in navigating through the crisis and maintain lending.



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