



Opening Address to the Ukraine Financial Forum of the Vienna Initiative

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Brussels, Ukraine Financial Forum Vienna 2 Initiative

Ladies and gentlemen,

We are meeting at a challenging time in Ukrainian history. This year has seen the country shaken both by its sudden change of leadership and by the illegal annexation of Crimea. The military conflict has already claimed almost 4,000 lives, and illegal and foreign forces remain in the east of the country.

At the same time, Ukrainian citizens have made some decisive choices about their future. They have shown extraordinary courage and determination to defend their vision of the future for their nation, putting it firmly on the European path. We want to support Ukraine to become a more democratic, prosperous and rules-governed country. This has been reflected in the signature on 27 June of this year of an Association Agreement between Ukraine and the European Union. On 16 September the Verkhovna Rada ratified the association Agreement and the European Parliament simultaneously gave its consent. This is further evidence of the commitment of both Ukraine and the European Union to move forward together.

EU Ukraine Association Agreement: an investment in the future

Allow me to remind you that the Association Agreement is a pioneering document. It is unprecedented in its breadth and depth. It covers a wide range of areas such as justice, trade and sectoral cooperation including energy, transport and environment. It includes detailed commitments and timelines that are demanding for both parties. The 27th June 2014 also saw Ukraine and the EU agree to the future establishment of a Deep and Comprehensive Free Trade Area. This will boost bilateral trade in goods and services and gradually bring Ukraine's trade-related rules and standards in line with those of the EU.

The Association Agreement entails enormous transformative benefits through legal approximation, regulatory convergence, and market liberalisation. It will also provide the basis for developing and modernising Ukraine and stabilising the country economically, something which is of the utmost urgency. Through the DCFTA, exports to the EU could double over time, leading to an increase in GDP. Pending ratification by EU Member States, important parts of the Association Agreement are being provisionally applied as of 1 November. The trade and investment related parts in the DCFTA will provisionally apply as of 1 January 2016.

Ukrainian citizens clearly voted in favour of stabilisation and a European path for their country in the parliamentary elections of 26 October. This reinforced the results of the presidential elections in May and gave a strong majority to political parties in the Rada that are committed to reforms. Hopefully, this result will provide the new Government with the necessary parliamentary support and stability to put much needed political reforms and economic modernisation in place.

Implementation of political and economic reforms: key for EU support

The Ukrainian government will not be alone in implementing these reforms. The EU remains fully committed to supporting Ukraine through these difficult circumstances, and is already providing substantial financial assistance to the country. This is in line with the comprehensive financial support package that was announced in March this year, which included macro-financial assistance loans of up to EUR 1.6 billion, grants of up to EUR 1.4 billion, and additional loans by the European Investment Bank.

On top of this substantial financial support, the EU is also providing significant technical assistance to support Ukraine's economic transformation. In addition, the introduction of autonomous trade preferences gives Ukrainian exporters preferential access to the European market. And last but not least, the EU also made a decisive contribution to the successful conclusion of negotiations between Ukraine and Russia on the provision of gas.

This EU support is unprecedented but not unconditional. To give you an example, the payment of macro financial assistance funds is dependent on the implementation of precise policy measures.

Progress with the implementation of these economic reforms is important not only to enable a timely distribution of funds under the existing macro-financial assistance programmes, but also in view of the recent request by the Ukrainian authorities for a new macro-financial assistance programme. More importantly, these reforms are essential to create the conditions for sustainable economic growth as well as improved economic governance and public finance management

One key area of reform is the banking sector, which is the focus of our discussions today.

Structural and long-term weaknesses in banking sector need to be addressed

The problems in the banking sector are numerous. Current challenges include strong deposit outflows in the context of a sharply deteriorated macroeconomic situation, liquidity issues for some banks and the inheritance of large stocks of non-performing loans. Many banks have large open foreign exchange positions. Since the start of 2014, the quality of banking assets has further deteriorated. This is because of the depreciation of the hryvnia, the political events in the Crimean peninsula and Eastern Ukraine, and, last but not least, the overall deterioration of the macroeconomic situation. The 2014 recession is now expected to result in a 7-8% fall in GDP. Some of these short-term challenges, which risk threatening financial stability in the country, are being addressed by bold actions taken by the Ukrainian authorities with the support of the international donor community. I salute these efforts and urge you to persevere with them.

But I also want to underline the need to address the structural, long-term weaknesses of the banking sector. Here, I am in particular referring to the poor governance of some banks and to the lack of transparency. The sector is fragmented, there are loopholes in the protection of creditors' rights and weaknesses in banking supervision remain. There are also various factors constraining the resolution of non-performing loans, including a court system that isn't functioning properly. And there is ample scope to further develop domestic security markets denominated in local currency.

Dear ladies and gentlemen,

This Vienna Initiative Financial Forum on Ukraine is the perfect platform for all the main players of the banking system in Ukraine to have a frank discussion about how to address these challenges. As we all know, every economy needs a strong financial sector to prosper, and this is why the quality and depth of your discussions today are so important for the future of Ukraine.

I wish you fruitful discussions and a good day.

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