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Vienna Initiative



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Financial industry and international organisations take stock of banking sector stabilisation in Ukraine

NBU Governor highlights that a stronger financial sector has emerged

The Ukrainian authorities, commercial banks, international financial institutions and advisors met in Kiev on Wednesday, 15 March, to take stock of key reforms in the country's banking sector.

This was the third Ukraine Financial Forum hosted under the umbrella of the Vienna Initiative, utilizing the Initiative's well-tested capacity to foster a regulatory environment conducive to bank stabilisation in key countries.

Opening the meeting National Bank of Ukraine (NBU) Governor Valeria Gontareva said: "The National Bank has achieved a lot, but a lot still needs to be implemented. The NBU's main mandate is price stability, that's why we've committed to bring inflation down: our inflation goal for the end of 2016 is 12 per cent, and we aim to bring inflation down to 5 per cent within a horizon of 3 years.

"With regard to financial sector stability, Ukraine needs to develop mechanisms to resolve non-performing loans (NPLs) generated in 2008-2015. To restart bank lending, Ukraine also needs creditor rights enforcement as well as implementation of judicial reforms. We are committed to continuing with financial sector reform. What we can also promise to the banking sector is that there will be a level playing field for all banks."

The Ambassador of the EU delegation to Ukraine, Jan Tombinski, stated: "The European Union hopes that the comprehensive programme of financial sector reform until 2020 outlined by the National Bank of Ukraine with other Ukrainian authorities will continue on track in 2016. We are already giving technical assistance through a project that supports this programme, and we are looking at the possibilities for enhancing assistance to Ukraine. The Vienna Initiative is a perfect platform for discussing and addressing numerous challenges such as the high NPL level, related party lending and banking sector effectiveness. The banking sector needs confidence, and confidence requires information and trust. The National Bank is on the right track".

Industry representatives reviewed progress with reforms in three crucial areas:

- The resolution of non-performing loans was given a major impetus with the submission of the Law on Financial Restructuring, which will go into a first reading in parliament this week. Coupled with amendments to the Tax Code that will give favourable treatment to write offs, this will move forward debt restructuring and

rehabilitation of key large companies. Participants agreed that a national action plan for NPL resolution is to be developed with the potential support of the Vienna Initiative institutions and International Financial Institutions (IFIs).

- Following substantial deposit outflows in 2014-15, restoring confidence and creating conditions for restarting lending activity are key priorities for the NBU. The NBU's own lending survey already detects an easing of banks' risk aversion. Individual segments of lending, such as agribusiness and energy efficiency, also show some new activity, often with support from IFI facilities. Shortage of long term Ukrainian Hryvnia funds, inflation and the resulting high local lending rates have been a reflection of past macroeconomic instability and are expected to ease with the continued implementation of sound economic policies. Going forward, creditor rights protection and efficiency of the judicial system will need to be strengthened.
- The exit of some 70 banks from the market since 2014 was a major step in the much-needed clean-up and consolidation of Ukraine's fragmented banking sector. Recently adopted additional capital requirements for smaller banks should give further incentives for consolidation. The NBU is in the process of preparing additional regulations to facilitate market-driven mergers, and supports the recently approved government strategy for state-owned banks that will underpin upgraded corporate governance practices and commercialisation. Participants of the Vienna Initiative institutions agreed that there is scope for further consolidation and they are ready to support further measures in this area.

All participants welcomed the opportunity to engage in constructive dialogue and noted the importance of regular consultations between the authorities, regulators, banks and IFIs participants to ensure effective design and implementation of reform measures.

There is a common interest to design a regulatory environment conducive to bank stabilisation and consolidation in order to underpin lending and create conditions for future sustainable economic growth.

The fourth meeting of the Ukrainian Financial forum is planned for the autumn.

The European Bank Coordination "Vienna" Initiative is a framework for safeguarding the financial stability of emerging Europe. It was launched at the height of the first wave of the global financial crisis in January 2009. It brought together all the relevant public and private sector stakeholders of EU-based cross-border banks active in emerging Europe.

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