



National Bank
of Ukraine

National Bank of Ukraine Strategy

Action Plan 2020



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Introduction

The year of 2019 proved it possible to ensure the long-lasting macroeconomic stability in Ukraine under a consistent and independent central bank policy.

The NBU's main achievement of last year was getting the inflation into the target range. Consumer price inflation slowed to 4.1% in 2019 from 9.8% in 2018. Thus, based on the last year results, the NBU achieved the midterm inflation target of $5\% \pm 1$ pp previously set in 2015.

At the same time, the Ukrainian economy saw its highest growth over last eight years. Considering the low inflation, real income of Ukrainians increased substantially.

Due to the macroeconomic stabilization investors increased their interest in hryvnia financial instruments while output of the Ukrainian economy grew considerably. This led to an increased inflow of foreign currency to Ukraine, while the regulator bought USD 8 billion from the market, as of the year-end, which was 5 times more compared with the previous year, and the international reserves exceeded the six-year maximum.

The banking sector reached a record-breaking profitability for the second time in six years. It became possible due to banks' resumption of lending, mainly the retail lending in hryvnia.

The NBU also got its mandate extended: the Ukrainian parliament adopted respective laws enabling the central bank to protect consumer rights in financial services, increase financial literacy, as well as regulate and supervise a large number of nonbank financial institutions.

Ukraine entered 2020 with good news from the IMF: a three-year extended fund facility program had been agreed upon at the technical level. The projected program is aimed at supporting reforms in Ukraine. This is a clear signal for investors and our partners about the actual implementation of the much needed structural reforms in Ukraine.

Additionally, the NBU for the first time received an international recognition by winning the prestigious international Central Banking Transparency Award.

One of the pillars of the NBU's transparency – the regulator's midterm Strategy – was presented in spring 2018. It was the Strategy that defined the NBU's policy all previous year. The Strategy introduced a practice of publicly revealing the NBU's plans for a year along with the expected outcomes with a breakdown into the following seven strategic goals:

1. Low and stable inflation.
2. Stable, transparent, and effective banking system.
3. Resumption of lending.
4. Effective regulation of the financial sector.
5. Free flow of capital.
6. Financial inclusion.
7. Modern, open, independent, and effective central bank.

Consequently, the NBU's actions have become easier to understand for its customers because the regulator's decisions and policies are predictable and consistent.

Before focusing on 2020 goals, the NBU offers a detailed review of its performance the previous year.

Strategic Goals of the National Bank of Ukraine: the Main Accomplishments in 2019

1. Low and Stable Inflation

Key Accomplishments

- The NBU has achieved the midterm inflation target of $5\% \pm 1$ pp previously set in 2015. It was particularly attributed to the consistent monetary policy.
- Due to the steady slowdown in inflation, the NBU was able to lower the key policy rate from 18% to 13.5% over one year, which contributed to economic growth.
- Publication of the NBU's key policy rate forecast has been introduced with the aim of increasing transparency and predictability of the monetary policy.
- Inflation expectations dropped. This could be attributed to the consistent monetary policy and proactive communications with stakeholders, explanations for the general public, openness to mass media and experts, dialogue with business particularly through meetings with managers of enterprises that participate in the NBU's surveys.
- Coordination of actions for achieving price stability between authorities has been strengthened through signing by the Government and the NBU of the Memorandum of Cooperation to Achieve Sustainable Economic Growth and Price Stability.
- Since January 2019, the NBU has conducted its monetary policy using a new operational design in order to be more flexible in responding to changes in the liquidity of Ukraine's banking system and effective in achieving its operational target under different liquidity conditions.
- Publication of the detailed technical report on characteristics of the main forecast model has been established, which increases transparency of the monetary policy.
- A new type of monthly surveys has been launched to generate the business activity outlook index. These data are an important flash estimate of the economic development.
- The NBU has become a member of the European Central Bank's Euro Area Cycle Network (EABCN), where leading scholars and experts from central banks share their experience and conduct joint research in macroeconomics and business cycles.
- A new type of swap interventions has been added to purchase/sale/exchange of foreign currencies expanding the possibilities for the NBU to regulate the foreign exchange market.
- Placing domestic government bonds by the Ministry of Finance of Ukraine has been transferred to the international trade systems (Bloomberg).

2. A Stable, Transparent, and Effective Banking System

Key Accomplishments

- The banking system is stable, transparent and generates record profits. No banks have been removed from the market due to insolvency over the year. The banks' profits have reached UAH 59 billion in 11 months of 2019, being 3 times higher than in the previous year. At that, 70 out of 75 banks in the market were profitable.

- 29 largest banks in Ukraine have been stress-tested. Under current macroeconomic conditions, the banking sector is sufficiently resilient. However, some large banks need to improve their resilience in order to be prepared to a major crisis.
 - Banks have been assessed under SREP based on single approaches used in the EU pursuant to CRD IV and CRR II requirements.
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- Measures have been implemented to bring the Ukrainian banking laws in line with the European requirements under the Association Agreement between EU and Ukraine. The key measures have been aimed at strengthening the banking system's solvency and liquidity.
 - New liquidity ratios have been introduced. The short term ratio (LCR) reached 100% in December. Banks comply with the ratio in foreign currencies and in all currencies. The long term ratio – Net Stable Funding Ratio (NSFR) – was introduced in end-December. Banks will have to comply with the ratio starting from beginning of 2021.
 - Capital requirements to banks have been increased and the list of risks to be covered with capital has been extended. Starting from 2020, banks are required to have a capital conservation buffer at the level 0.625%. The required amount of the buffer will reach 2.5% by 1 January 2023.
 - A new procedure for defining systemically important banks (SIBs) has been adopted. In June, the central bank identified 14 systemically important banks using its revised methodology; from 2021 onwards, these banks will be required to hold capital buffers.
 - Monthly process of compilation and dissemination of financial soundness indicators statistics has been established. Collecting indicators on loans by related party attributes of counterparties with business groups, maturity terms of financial instruments, types of interest rates setting under agreements.
 - The NBU has set requirements for banks and banking groups to prepare recovery plans, which are mandatory for systemically important banks and recommended for all banks. The requirements are aimed at implementing an effective process for developing recovery plans in banks/banking groups to ensure their prompt actions aimed at recovery of financial resilience in case of deterioration of the financial position of banks/banking groups and/or a stressful situation.
 - In compliance with European laws, the NBU has implemented a single approach to measuring credit risk on securities. This approach is based on securities issuer/country credit ratings provided by international rating agencies Standard & Poor's, Fitch Ratings and Moody's Investors Service. The NBU has also updated the parameters of the logistic model and the range of probability of default (PD) values used by banks to assess their credit risk based on the current market data.
 - The NBU has completed the third stage of establishing the Center for Cyber Defense and ensured operation of the Information and Analytical System CSIRT-NBU as well as software and hardware complexes for hybrid analysis of malicious codes. A new range of software and hardware complexes has been implemented for cyber defense of the NBU's information resources. Operation of the systems for storing and exchanging cyber threat indicators MISIP and CRITS has been ensured.
 - The NBU Center for Cyber Defense has established cooperation in cyber defense with the State Center of Cyber Defense (CERT-UA) and the Situation Center for Cybersecurity of the Security Service of Ukraine and has signed the respective Memorandums with them.
 - Requirements to the internal control system in the Ukrainian banks and banking groups have been updated. The NBU issued a special regulation that defines key objectives and operating principles for the comprehensive, adequate, and efficient internal control system, aimed at effective corporate governance in a bank and/or a banking group.

- The main focus of scheduled inspections has been shifted from mostly comprehensive on-site inspections aimed at bank assessment under CAMELSO to targeted inspections. This is a part of risk-based approach to banking supervision. Last year targeted inspections constituted 78% of the total scheduled inspections.
- The Ministry of Justice together with the State Financial Monitoring Service of Ukraine and the State Fiscal Service of Ukraine have launched the project "100% RELIABLE" for verification of a company's beneficial owners. This information resource provides households, businesses, and public authorities with reliable information about the ownership structure of any legal entity registered and operating in Ukraine.
- The educational event School of Independent Directors has been organized with the aim of increasing expertise of independent members of supervisory boards, including those of state-owned banks. The participants discussed the principles of corporate governance, its role in banks' operation, and operational framework for banks' supervisory boards and independent directors.

3. Resumption of Lending

Key Accomplishments

- Banks continue to increase lending to households. In November 2019, the hryvnia personal loan portfolio rose by 24.7% up to UAH 168 billion. Also, conditions have been created to revive business lending.
- The prolongation of the Financial Restructuring Law for three years has extended opportunities for business debt restructuring. In particular, the possibility of conducting a joint restructuring procedure has been envisaged for several debtors that are related parties, but that have different creditors.
- Conditions for obtaining loans by small and medium businesses (SME) have been facilitated by raising the limit for SME loan portfolio assessment from UAH 2 million to UAH 5 million. Thus, banks will apply a portfolio approach to loans as long as such loans are repaid in a timely manner. Banks will determine the minimum credit risk based on such loans. The facilitated approach to credit risk assessment for sole proprietors will also simplify formal credit administration procedures.
- The Bankruptcy Code of Ukraine has entered into force. It has introduced the possibility for private individuals to declare bankruptcy. Without increasing the efficiency of insolvency proceedings, it is impossible to achieve significant results in improving the investment attractiveness of the domestic market or to ensure ease of doing business in Ukraine.
- Requirements for managing problem assets in banks of Ukraine have been introduced. The Regulation defines the organizational framework for dealing with troubled assets, and sets requirements for banks on procedures for managing distressed assets throughout their lifetime cycle. Developing a systemic approach to managing problem assets will contribute to reducing the level of NPLs.
- Reserve requirements to bank has been changed. For hryvnia deposits a zero rate will be set for the reserve requirement, and 10% – for FX deposits. This will foster bank lending and dedolarization of the economy. New requirements will enter into effect in March 2020.
- Lighter Schedule for Increasing the Minimum Capital Requirement The NBU moved to 1 January 2021 the deadline for banks to bring their authorized and regulatory capital into line with the requirement of UAH 300 million, and initiated amendments to Ukrainian law to set the minimum required amount of authorized capital for banks at UAH 200 million.

4. An Effective Model for Regulating the Financial Sector

Key Accomplishments

- Segregation of the National Commission for the State Regulation of Financial Services Markets' functions between the NBU and the the National Securities and Stock Market Commission (known as SPLIT) has been approved. Starting from July 2020, the NBU will be responsible for regulating insurance, leasing, and financial companies, credit unions, pawnshops, and credit bureaus, while the National Securities and Stock Market Commission will be charged with regulating private pension funds and construction financing funds.
- The Concept for improving the legislation on payment services which implements the Revised Payment Service Directive (PSD2) has been approved. It is being implemented, in particular the draft Law of Ukraine On Payment Services is being finalized.
- Procedures for issuing licenses to non-banking institutions to conduct currency transactions and transfer funds in domestic currency have been significantly simplified.
- Postal service providers have been permitted to conduct currency transactions and transfer funds in domestic currency.
- The procedure has been established through which banks can send notifications on individuals entered in the Unified Register of Debtors and the form of notification sent by banks to a public or private enforcement services has been approved. The purpose was to ensure that the children's rights are properly protected at the legislative level within the mechanism of bringing to justice for failure to pay child support.
- The procedure has been simplified through which nonbank institutions shall obtain a license to make money transfers in the domestic currency without opening accounts. This has been achieved through cancelling the requirement for nonbank institutions to obtain the NBU's approval of their internal rules for money transfer.
- For the entire NBU depository, API-services have been introduced. This will allow to introduce financial products with simplified public access to operations with domestic government bonds.

5. Free Flow of Capital

Key Accomplishments

- The Law of Ukraine On Currency and Currency Operations, opening a green signal to currency liberalization, has entered into force.
- A simple, clear, and transparent new legal framework in the field of currency regulation has been developed. Seven major currency regulations have been introduced instead of 56 ones.
- Due to favorable macroeconomic conditions, around 40 restrictions on currency transactions for businesses, banks, foreign investors, and general public have been either mitigated or eliminated.
- The international securities depository Clearstream and the NBU have signed an agreement establishing a correspondent relationship. Thus, a securities account has been opened at the NBU's depository, which facilitates access of foreign investors to the Ukrainian securities market, namely to domestic government bonds.
- Risk-oriented currency supervision has been introduced instead of foreign exchange control, which has reduced the administrative burden on banks and improved the quality of control over currency transactions.

- The procedure has been established, through which nonresident legal entities, investment funds, and asset management companies acting on behalf of those investment funds can open accounts.
- The requirement to declare currency assets located outside Ukraine has been repealed.
- The deadline for settlements under goods import and export transactions has been increased to 365 days. At that, an exhaustive list of exempt transactions has been defined.
- Currency supervision of export/import transactions worth up to UAH 150,000 has been cancelled.
- Sanctions in the form of termination of international economic activity for failure to meet settlement deadlines have been lifted.
- Double control (when currency declaration is received by another bank) has been eliminated – currency supervision shall be carried out by the bank which has received a currency declaration.
- The limits on repatriation of investments and dividends (amounting to EUR 5 million and EUR 12 million monthly accordingly) have been abolished.
- The ban on early repayment of external obligations (loans, borrowings) has been lifted.
- Nonresident legal entities have been allowed to open accounts with Ukrainian banks for any activity, not just investment, as it was before.
- The requirement to register external borrowings has been canceled. A simplified notification system for attracting foreign financing from residents has been introduced.
- Banks have been allowed to sell FX-denominated government securities to their clients, both in hryvnia and in foreign currency. At the same time, banks may purchase such securities from clients (except banks) in hryvnia exclusively.
- For the purpose of hedging export and import transactions and debt operations (including foreign currency supply and settlements), forwards have been allowed.
- Transactions on loro accounts have been liberalized: the use of hryvnia-denominated loro accounts in nonresident banks have been allowed for investments and lending to residents.
- Nonresident banks have been allowed to use full amounts of balances on their hryvnia-denominated loro accounts to buy foreign currency.
- Investments in Ukraine have been allowed in currencies that belong to Group 1 and Group 2 of the Currency Classifier.
- Banks have been allowed to make currency swaps with residents and nonresidents.
- Individuals have been allowed to buy currency online.
- Individuals have been allowed to transfer foreign currency abroad without opening an account, unless the amount of transfer exceeds the equivalent of UAH 150,000 per day (earlier, the equivalent of UAH 15,000).
- The limit on purchases of investment metals by legal entities has been raised from an equivalent of UAH 150,000 per day from 3.21 troy ounces (100r grams) a week. The limit does not apply to transactions for the purchase of investment metals by legal entities engaged in business activities related to the use of investment metals.

- Legal entities have been permitted to bring fx cash and investment metals in/out of Ukraine (if their articles of association allow it).
- The procedure for cross-border movement of currency valuables has been unified: customs declaration is obligatory for all valuables worth at least EUR 10,000 (at the NBU rate).
- The requirement for mandatory sale of foreign-denominated revenues has been removed.
- Restrictions on foreign currency purchases with loan funds have been lifted.
- The amount limitation for FX and investment metals purchase by individuals has been removed. Also, the requirements have been lifted compelling an individual to submit documents to banks to attest grounds for purchasing non-cash foreign currency.
- Settlements and accounting of a new financial instrument have been ensured: fx repo transaction secured by nonresidents' securities. Also, settlements under nonstandard transactions of REPO/FIXED TERM REPO/ and bridge settlements (Two Message Cross-Border Settlement) have been established.
- The NBU Depository has enabled the integration with automated systems for conducting online transactions with domestic government bonds and settlements following domestic government bonds placement via electronic trading systems.

6. Financial Inclusion

Key Accomplishments

- The NBU has received mandate for advancing financial literacy of Ukrainians. The Verkhovna Rada of Ukraine by amending the Law of Ukraine On the National Bank of Ukraine has granted the NBU with the authority to take financial literacy actions.
- The second Finclusion.UA forum was held, where the vision of Ukraine's Financial Literacy Strategy was publicly presented. The forum became a platform for debate about the availability of financial services in Ukraine, for the exchange of ideas between state authorities, businesses and non-government institutions, and for agreeing further steps towards creating a financially inclusive Ukrainian society.
- With the adoption of the relevant law, the NBU has received mandate to protect consumer rights in financial services. To address the issue, a consumer rights protection unit has been set up.
- A pilot project on issuing the e-hryvnia, a central bank digital currency, has been conducted and the relevant executive summary has been published.
- The hryvnia banknote series has been optimized, making cash hryvnia settlements easier and more convenient. In particular, since 1 October 2019 the mintage of the 1, 2, and 5 kopiika coins was stopped and their withdrawal from cash circulation was commenced. Also, gradual withdrawal of 25-kopiika coins was initiated. On 25 October 2019, the banknote with 1000 hryvnias was put into circulation. On 20 December 2019 the 5 hryvnia coin and the 50 hryvnia banknote were put into circulation.
- The International Bank Account Number (IBAN) standard in Ukraine has been introduced. All Ukrainian banks have completed the transition to this standard for easy identification of bank accounts and conduct of settlements between them. IBAN application has been developed.
- The NBU has become a member of an International Organization for Financial Services Consumer Rights Protection (FinCoNet), which facilitates the exchange of consumer protection information in the

financial sector between supervisory authorities and other government agencies.

- Conditions have been created for the development of electronic trust services in the banking system of Ukraine harmonized with the EU regulations fostering paperless technologies and improving, quality, usability and expedience of bank services to customer.
- The First All-Ukrainian Student Competition Monetary Policy: NBU University Challenge has been held. The NBU efforts intended to engage students in operations of NBU Monetary Policy Committee and the process of setting the key policy rate, in order to apply the theoretical knowledge provided by the university.
- Pilot competition the Bank of the Future for university students has been held. As part of the competition, high school students were to analyze potential changes in the landscape of the Ukrainian banking and financial ecosystem and draft a relevant strategy and a business model of a hypothetical institution (a bank of the future), including its customers, channels, key products, resources, key operations, partners, and the expense and income structure.
- A range of Ukrainian-wide events has been held for improving financial literacy, including the Economic Express, the Global Money Week, as well as the World Savings Day.
- An Expert Advisory Board on communications with innovation companies, FinTech, has been established.
- Payment infrastructure bank terminals accepting PROSTIR NPS cards has expanded by 98%, including the Internet acquiring network – by 80%. Another six banks and PROCARD LLC as an independent processing center have joined PROSTIR NPS. Thus, PROSTIR NPS has 51 participants, whereof 31 acquire and/or issue NPS PROSTIR payment cards.
- The Ministry of Digital Transformation of Ukraine and another five banks have been connected to the NBU BankID System. Now the system has 11 banks and 15 subscribed service provides, and a range of institutions use the system in trial mode.
- Regular workshops have been introduced for the NBU system tellers, authorized banks, major retail networks on determining the validity and fitness for commerce of currency units. Generally, during the year 10 such workshops were held, including three on-sight events in Lviv, Odessa, and Dnipro.

7. Modern, Open, Independent, and Effective Central Bank

Key Accomplishments

- The National Bank of Ukraine (NBU) has for the first time in its history won the prestigious international Transparency Award, which is sponsored by the Central Banking Journal, a publication that covers issues concerning the operation of central banks and financial regulators. The official award ceremony was held on 13 March 2019 in London, the United Kingdom.
- Trustworthiness of the NBU gradually improves. According to Razumkov Center survey, if in February 2019 over 47.4% Ukrainian has no trust in the NBU, in November this indicator was 23.4%.
- A new NBU website has been launched that corresponds to the corporate style, has user-friendly navigation, responsive layout, and on-site search for convenient use. It is also integrated with internal information systems for transparent release to the broad target audience the banking system performance indicators (interactive chars, open data, guides and registers).
- The NBU has received the 2019 Business Choice Award of the American Chamber of Commerce in Ukraine.

- GlobalMarkets has named NBU Governor Yakiv Smolii the Central Bank Governor of the Year for Central & Eastern Europe for implementing consistent and effective monetary policy.
- New area of activity has been introduced for international technical and expert cooperation meaning the NBU will share its experience with other central banks. For the first time events for international technical and experts cooperation for 2020 have been scheduled and listed on the official NBU website.
- NBU Expert Platform has been created. It is a platform for sharing analytical and research papers of NBU employees on other topics than the central bank policies and encouraging discussions of such issues in the expert community of Ukraine.
- Over 11 months of 2019 major funds were saved due to public procurements, namely UAH 168,439.31 thousand (in 2017 – UAH 62,578.61 thousand, in 2018 – UAH 34,826.72 thousand).
- The Annual Research Conference Central Bank Communications: From Mystery to Transparency and 19 associated events has been held for communications professionals from central banks, the media, the expert community, high school educators and students. This international event has provided a platform where central bankers, central banks' stakeholders, communications specialists, and researchers from about 40 world countries to share knowledge and experience.

NBU Action Plan for 2020

Risks to Achieving the Goals

As in the previous year, before planning the actions for this year, the central has performed the adequate assessment of risks posed by the environment in which the NBU implements its mandate. For planning actions the regulator considers three aspects effecting the attainability of goals:

- probability of risks
- adequate risk management options
- the depth of risk impact on the central banks deviation from goals set out in the NBU Strategy

The NBU breaks down arising risks into external risks emerging outside our economy and internal risks caused by the factors within our country.

External Risks:

- *Intensified trade tensions and more turbulent global financial markets.* In 2019 the global trade has abruptly decreased under the geopolitical risk pressure and economic slowdown. At present, the World Trade Organization expects trade to pick up in 2020 by 2.7%, however there is a possibility of a worse forecast indicators. At the same time, Protests in Hong Kong have led to a new escalation in trade tensions between the United States and China. It is unclear whether Brexit will happen or not. This poses threats to the EU's financial sector and the UK's stability. Protectionist trends and geopolitical risks are a threat to economic recovery. The standoff between the US and Iran poses a new challenge. Expectations of economic recovery are tied to the easing in monetary policy seen in developed and several developing economies, while in China these expectations are also tied to fiscal stimulus.
- *An escalation of the military conflict and new trade restrictions introduced by Russia.* This risk has somewhat decreased in comparison

to the previous year, but remains relevant. This decline is evidenced by the large-scale exchange of prisoners of war, the withdrawal of troops, and the resumption of meetings of the so-called Normandy Four. A ruling made by the International Court of Justice that it has jurisdiction in a case brought by Ukraine against Russia makes it possible to put judicial pressure on the aggressor. Nevertheless, the risk of an escalation remains, due to non-government controlled areas (NGCAs) issuing passports, and new supplies of weapons by Russian troops arriving in the occupied territories. The issue of regaining control over the border and reintegrating the Donbas remains unresolved. Holding elections in NGCAs could be a challenge. Economic and political powers that advocate reaching agreement with Russia, even at the expense of Ukraine, have become more outspoken in Europe and the United States.

Domestic Risks:

- *Threats to the institutional independence of the National Bank of Ukraine.* At the end of last year, the NBU was under increasing pressure coming from different directions. These cover multiple paid (according to the media reports) protests outside the NBU that started in November 2019, sporadic protests outside homes of Yakiv Smolii, NBU Governor, and Kateryna Rozhkova, NBU First Deputy Governor, litigation marathon to defend the state interests against former owners of PrivatBank.
- *Peak external debt repayments.* This is one of the main mid-term challenges for the Ukrainian economy. At present, Ukraine actively repays its loans taken out in during the crisis period. The debt-to-GDP ratio is declining, but repayments on FX public debt remain concentrated and sufficient.

NBU actions in 2020

This year the actions on implementing of the NBU Strategy will not be divided into to actions and key activities. Such decision is meant to clarify the set of actions. And each action has its own quarterly deadline. The NBU goals for 2020 mentions the stakeholders from the NBU client base that the NBU will have to cooperate with in order to achieve the expected results.

Please note, that the NBU Strategy states that the value created by the regulator can grow and facilitate the creation of new values by other clients from the NBU client base. At the same time, Ukrainian citizens are ultimate direct or indirect recipients of the value created by the NBU, as well as the values created by other clients of the central bank.

The NBU implements the Strategy to create the end value for Ukrainian citizens through an uneven chain of mandate implementation: certain goals of the NBU cannot be achieved without the active engagement and support from other participants of the financial ecosystem.

Yet, the NBU remains an equal participant of the system and cannot involve stakeholders in a prescriptive manner to achieve its goals. However, the NBU believes that achieving its goals is required both for the implementation of the regulator's mandate provided for by the law and are required for the economic wealth of all participants of the Ukrainian financial ecosystem. That is why these goals are mutually beneficial and necessary for the state from a historical viewpoint. Thus, the NBU believes that the only possible way to meet the goals of the NBU Strategy is to reach understanding and synergy with the stakeholders.

List of stakeholders of the NBU customers:

- [N] – National Bank of Ukraine
- [X] – Expert community
- [P] – State as a policymaker
- [F] – Financial sector
- [E] – Business entities
- [S] – State as a service provider
- [H] – Households

NBU's Plans for 2020

1. Low and Stable Inflation

Actions		
Improvement of interactions with the government of Ukraine within the framework of the Memorandum between the Cabinet of Ministers of Ukraine and the National Bank of Ukraine on Cooperation to Achieve Sustainable Economic Growth and Price Stability	4Q	[P]
Transition to medium-term monetary policy goals by amending the Law of Ukraine <i>On the National Bank of Ukraine</i>	4Q	
Development of analytical tools and decision-making processes by increasing the number of respondents to monthly surveys of businesses Transition to a fully automated system for gathering information about business expectations	2Q	[E]
Development of the research function by conducting research conferences and publishing the NBU's working papers	4Q	[F] [E]
Creating the conditions ensuring that the financial market develops in order to improve the monetary policy transmission mechanism through <ul style="list-style-type: none"> ▪ higher average daily volume of the secondary market for domestic treasury bonds and bills ▪ ensuring a growing share of derivatives in the total volume of transactions by bank clients in Ukraine's FX market ▪ ensuring that the daily volume of government repo transactions with domestic treasury bonds and bills grows over the course of the year 	4Q	[P] [F]

Expected Effects

- Macroeconomic stability has been achieved.
- The NBU's monetary policy has become even more transparent for the central bank's clients. The monetary policy transmission mechanism has improved, allowing the inflation expectations to approach the inflation target value.
- In-depth analytics and process automation facilitate informed decision-making.

2. A stable, Transparent, and Effective Banking System

Actions		
Increasing the performance of banking sector regulation	4Q	[F]
Implementation of EU law in the banking sector under the Ukraine-EU Association Agreement	4Q	[P]
Developing a unified SREP assessment and drawing up reports for the top 20 banks	4Q	[F]
Improving the quality of bank management and evaluating management activities	4Q	[E]
Improving external audit requirements	3Q	[E]
Providing banks with viable business models	4Q	[E]
Establishment of requirements for the banks' internal regulations and reports on remuneration	2Q	[E]
Promoting the effective operation of state-owned banks. Updating state-owned banks' strategies in line with NBU proposals	4Q	[E]
Promoting the improvement and implementation of legislation on asset write-offs to form reserves for the financial and banking sectors	4Q	[P]

Expected Effects
<ul style="list-style-type: none"> ▪ The regulatory framework of the banking sector has been aligned with European standards. ▪ Supervisory tools of the central bank have been implemented, allowing for greater stability and crisis resilience of banks. ▪ State-owned banks have started to operate more efficiently.

3. Resumption of Lending

Actions		
Improving the accessibility, reliability, and transparency of information for making lending decisions and opening state registers for banks	4Q	[E]
Increasing the number of systemically important banks connected to the NBU's BankID system	4Q	[E]
Interaction with the DGF on providing information to the NBU credit register	4Q	[P]
Introducing legislative changes to simplify lending	3Q	[P]
Promoting the adoption and implementation of legislative changes concerning the development of the secondary market for NPLs	3Q	[P]
Securing the acceptance of land as collateral by banks without restriction, taking into account agricultural land circulation legislation	3Q	[P]
Creating new lending development tools Launching interest rate swaps	3Q	[P]

Expected Effects
<ul style="list-style-type: none"> ▪ Lending has become more accessible, with new tools being created and launched. ▪ The quality of borrower vetting has been improved, which can further prevent the accumulation of NPLs. ▪ A secondary market for NPLs has been launched.

4. Effective Model for Regulating the Financial Sector

Actions		
Streamlining the regulation of the payment services market through the development of the draft law <i>On Payment Services</i>	1-3Q	[F]
Developing the model for regulation of nonbanking financial services market by segments	1-2Q	
Consolidating the government regulation of the financial sector by implementing the law on "Split", including through drafting new laws <i>On Financial Services and Their Provision, On Insurance, and On Credit Unions</i>	2-3Q	
Developing and putting in place an effective system for regulating and supervising the nonbank financial sector, including by way of drafting new high-priority rules and regulations	4Q	[P]
Monitoring and assessment of the NBFIs market after the transfer of NFSC functions to the NBU	3Q 2020- 2Q 2021	
Conducting research to estimate the level of public confidence in nonbank financial institutions	4Q	[X] [H]

Expected Effects
<ul style="list-style-type: none"> ▪ The transfer of NFSC functions to the NBU has been successfully completed. Moving the functions from one regulator to another was mostly unnoticeable for market participants and ensured smooth and uninterrupted operation of the nonbank financial institutions. ▪ High-priority draft laws and NBU regulations governing the nonbank segment of the financial market have been developed. They will gradually align the standards for regulation and supervision of this market segment to those applied to the banking sector, thus strengthening the protection of financial services consumers. This also will form prerequisites for developing the market of nonbank financial institutions through higher volumes and penetration level of financial services in the financial system of Ukraine. ▪ The NBFIs market has been analysed and assessed. ▪ Research estimating the level of public confidence in nonbank financial institutions has been conducted.

5. Free Flow of Capital

Actions		
Implementing BEPS principles in Ukraine and providing advocacy for the adoption of a package of laws to counteract base erosion	4Q	[P]
Optimization and development of financial market infrastructure	4Q	[F]
Opening an NBU Depository account for EUROCLEAR ICSD	3Q	

Expected Effects
<ul style="list-style-type: none">BEPS principles have been implemented in Ukraine, and a full currency liberalization has thus been conducted.

6. Financial Inclusion

Actions		
Facilitating the development of payment infrastructure. Ensuring the development of payment infrastructure for electronic means of payment	4Q	[S] [E] [F]
Implementation of the new SEP version with IBAN and a 23/7 mode of operation	4Q	[E]
Communications with payment market participants concerning the central bank digital currency – e-hryvnia – and analysis of possible models of its issuance	2Q	[X] [P] [F]
Implementing measures to raise financial literacy	4Q	[P]
Improving regulation and requirements for market participants with regard to protecting the rights of financial services consumers	4Q	[F]
Promoting the easing of minors' access to payment instruments	4Q	[E] [H]
Issuing UnionPay – PROSTIR co-badged cards	2Q	[F]
Approving the rules for use of QR-code to perform credit transfers	1Q	

Expected Effects
<ul style="list-style-type: none"> ▪ The NBU's electronic payment system has become more up-to-date and capable of performing fast payments. ▪ Measures have been taken to implement the financial literacy program. ▪ Access to financial services has been increased.

7. Modern, Open, Independent, and Effective Central Bank

Actions		
Increasing the NBU's transparency for all external stakeholders	4Q	
Improving technology, information infrastructure, and ensure a high level of process digitalization	4Q	
Updating and implementing the NBU's stakeholder engagement policies	2Q	
Implementing of the NBU's new strategic frame. Creating the NBU's Strategy until 2025	3Q	
Implementing the best standards and practices through carrying out the international technical assistance	4Q	
Expanding the NBU's international presence and expertise in international events, presentations, and technical assistance to other central banks	4Q	[X]
Implementing the BPMS system. Increasing the maturity of processes and process management	4Q	
Development of the human potential, and improvement of working conditions at the NBU	4Q	

Expected Effects		
<ul style="list-style-type: none"> ▪ The NBU Strategy until 2025 has been created and agreed as the main document stipulating the central bank's plans for the medium term. ▪ The NBU's decisions and policies are transparent, and central bank customers are better able to learn about them and use this information to make financial decisions. 		

Conclusions

The NBU commits to implementing the 2020 Action Plan and reporting on progress in 2021. By promulgating this document, the central bank demonstrates unwavering loyalty to its values: patriotism, professionalism, transparency, honesty and partnership.

The Action Plan aims to pursue the seven goals of the current NBU Strategy approved in 2018. These include ensuring low and stable inflation, maintaining a stable, transparent, and effective banking system, resuming lending, introducing effective regulation of the financial sector, developing free flow of capital, financial inclusion, and further developing the central bank as a modern, open, and effective institution.

Implementing the 2020 Action Plan will help ensure favorable environment for all participants of the financial ecosystem.

This is particularly important given that 2020 is the last year of the current NBU Strategy, and in parallel with its implementation, the regulator will work to

create a new NBU Strategy with a planning horizon until 2025.

At the same time, the actions outlined in the Action Plan are fully in line with the new Strategy of Ukrainian Financial Sector Development until 2025, which the NBU, the Ministry of Finance, the Deposit Guarantee Fund, the National Securities and Stock Market Commission, and the National Commission for State Regulation in the Financial Services Markets have agreed to carry out systemically and consistently. Thus, thanks to the existence of the Action Plan, the NBU has ensured the synchronization of the implementation of two strategic documents: the central bank's and the overall financial sector's.

The NBU maintains constructive dialogue and interaction with all participants in the financial ecosystem and emphasizes that qualitative changes to the system are possible only if they cooperate. This has been proven more than once by the joint projects and actions of the NBU and its stakeholder clients.