COVID response measures: the unwinding.
The NBU’s experience
Outline

1. Ukrainian specifics – the background
2. How we responded to the crisis
3. Why and how the NBU is phasing out the measures
4. What is next?
Ukraine just recovered from 2014-2015 crisis

Public costs related to the resolution of the banking crisis in Ukraine in 2014-2017 (fiscal costs), % GDP

- Ukraine has experienced three deep banking (financial) crises in roughly two decades. Fiscal costs of 2014-16 crisis resolution amounted to almost 16% GDP. Roughly half of banks left the market.

- The 2014-2015 crisis encouraged a large-scale banking sector reform. They included sector clean-up, bank recapitalization, NPL resolution, real UBO disclosure and enhanced AML, capital and liquidity requirements in line with the EU acquis, risk-based banking supervision approach consistent with SREP, and implementing IFRS 9.

- Banks were to comply with systemic importance buffer requirements and initial capital conservation buffer requirements in early 2020.

Sources: NBU, DGF, IMF
In H1 2020, the NBU was fast to introduce measures to mitigate COVID impact in line with the best international practices.

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- Interest rate swaps for banks for offered in July 2020.

* Non-key policy rate cut; ** Government compensations for interest and/or fee and commission costs and/or recommendation introduce loan holidays and regulatory relaxations for revised/restructured loans.

### NBU measures taken to mitigate the fallout from the crisis

#### The National Bank of Ukraine:
- Relaxed requirements on credit risk assessment – loans restructured due to quarantine-related restrictions did not have a negative impact on banks’ capital
- Temporarily suspended:
  - Requirements on building up capital buffers
  - Requirements on the assessment of property collateral
  - Inspections of banks
- Extended deadlines for submitting reports and financial statements
- Postponed certain requirements for banks, including:
  - SREP assessment
  - Cancelled stress testing in 2020
- Recommended banks refrain from dividend distribution in order to help banks maintain the capital needed for lending recovery

#### The National Bank of Ukraine and banks:
- Arranged cash delivery and met demand for FX cash. The NBU intervened on FX market.

#### With the NBU support, banks:
- Offered “loan payment holidays” and launched restructuring of loans to crisis-hit borrowers
- Reduced commission on cashless transactions and promoted cashless payments
For banks, the crisis was not nearly as bad as past ones

- During the COVID crisis, the Financial Stress Index never went as high as during the crises of 2008-2009 or 2014-2015. Stress of the banking sector subindex is around historical lows now.
- In crisis-hit 2020, bank provisioning for loan losses doubled. However, provisioning remained moderate on general.
- Liquidity crisis has never materialized. In fact, the NBU never had to employ some of the support measures it was ready to at the beginning of the COVID crisis.

Source: NBU.
Currently, the NBU is unwinding extraordinary measures

**Measures that expired**
- Cancelation of stress-testing in 2020
- Extended time for clearing balance sheets from non-core assets (mid-January 2021)
- Postponed submission of recovery plans (March)
- Waiver on negative reclassification and recognizing a default on restructured loans (end March – end April)
- Postponed introduction of higher risk weights for government debt securities in FX (1 April 2021)

**Measures being phase out**
- Gradual reduction of NBU’s long-term financing (July – October 2021)
- Reductions of frequency of interest rate swap transactions (July – October 2021)
- Returning to pre-crisis maturity of NBU deposit certificates (1 July)

**Measures still in effect**
- Recommendations to refrain from dividend payouts (reintroduced)
- Waiver on building up capital buffers (systemic importance buffer and capital conservation buffer)
- Waiver on sanctions on banks for breaches caused by quarantine restrictions (if banks have not distributed profits as dividends) (until 31 December 2021)
As COVID crisis subsides, the NBU continues reforms

- **NBU plans** - Further harmonization of bank regulations with the EU acquis – returning to previously announced schedule. These includes
  - requirement to build up capital buffers
  - leverage requirement
  - new capital structure
  - implementation of ILAAP and ICAAP in 2022
  - Test estimates show that banks are ready for new requirements

- Some changes are likely to stay
- Change in approach to on-site inspections – in mid-May, the NBU adopted a regulation on remote inspection approach

Share of 2020 profits, distributed as dividends, and core capital adequacy ratio less declared dividends

The size of the circle corresponds to the return on equity (ROE). Source: NBU.
Thank you for your attention!

Andriy Danylenko
Principal expert
Financial Stability Department
Andrii.Danylenko@bank.gov.ua