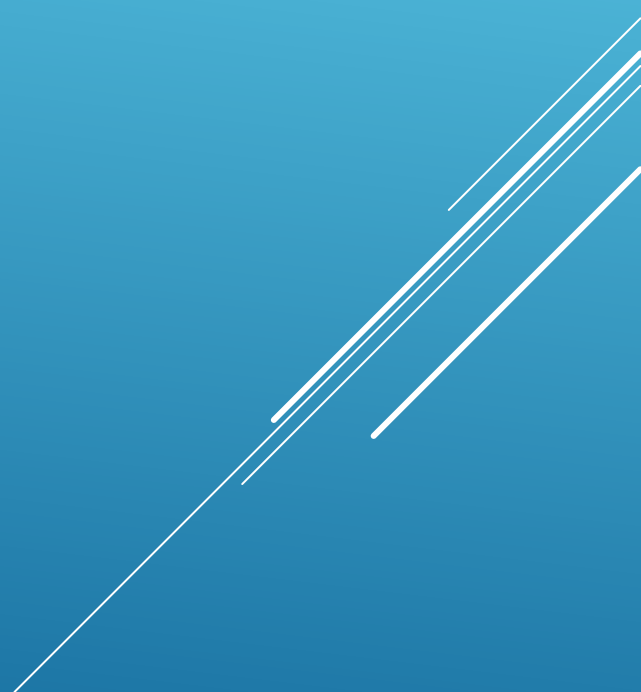
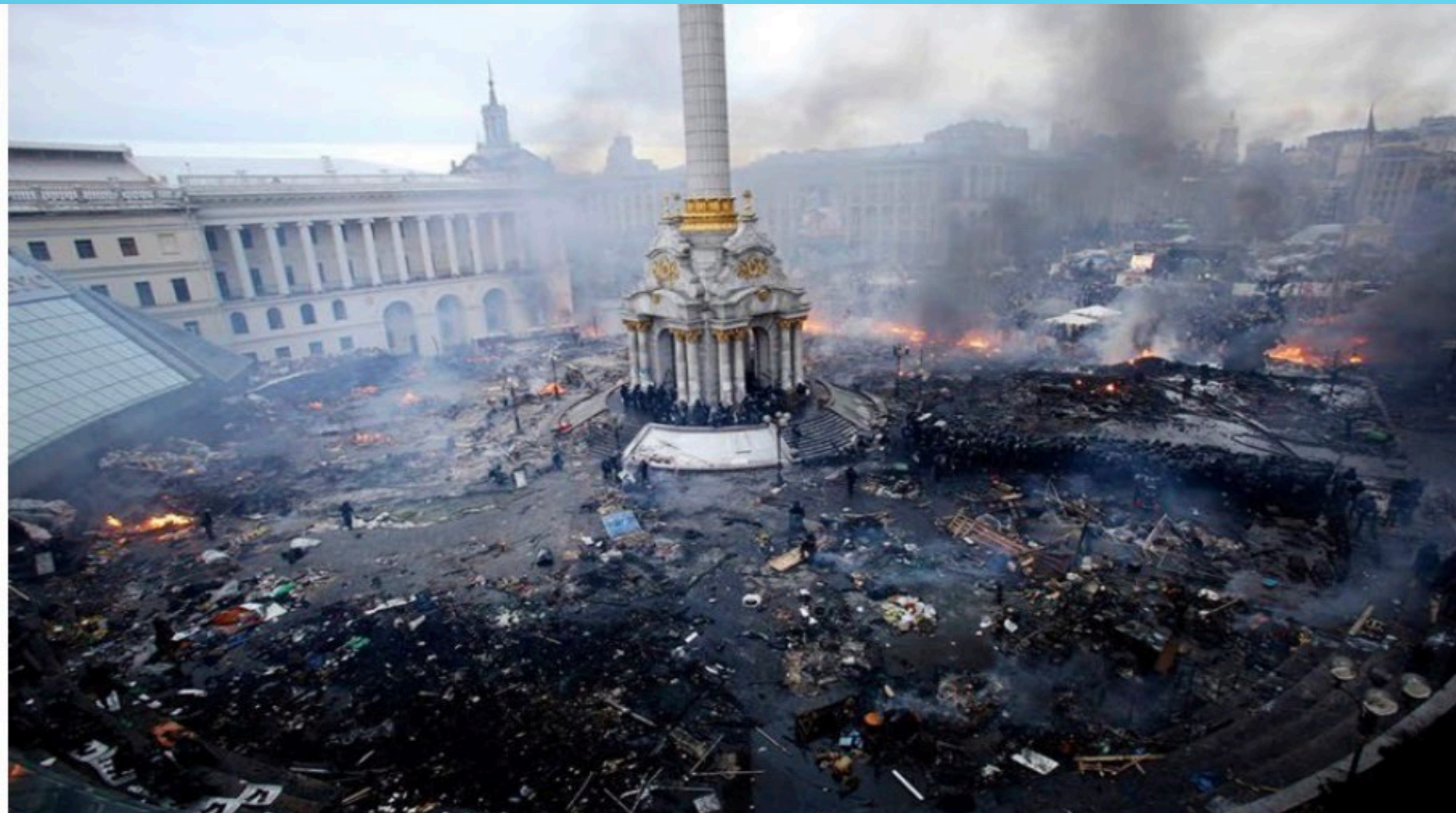


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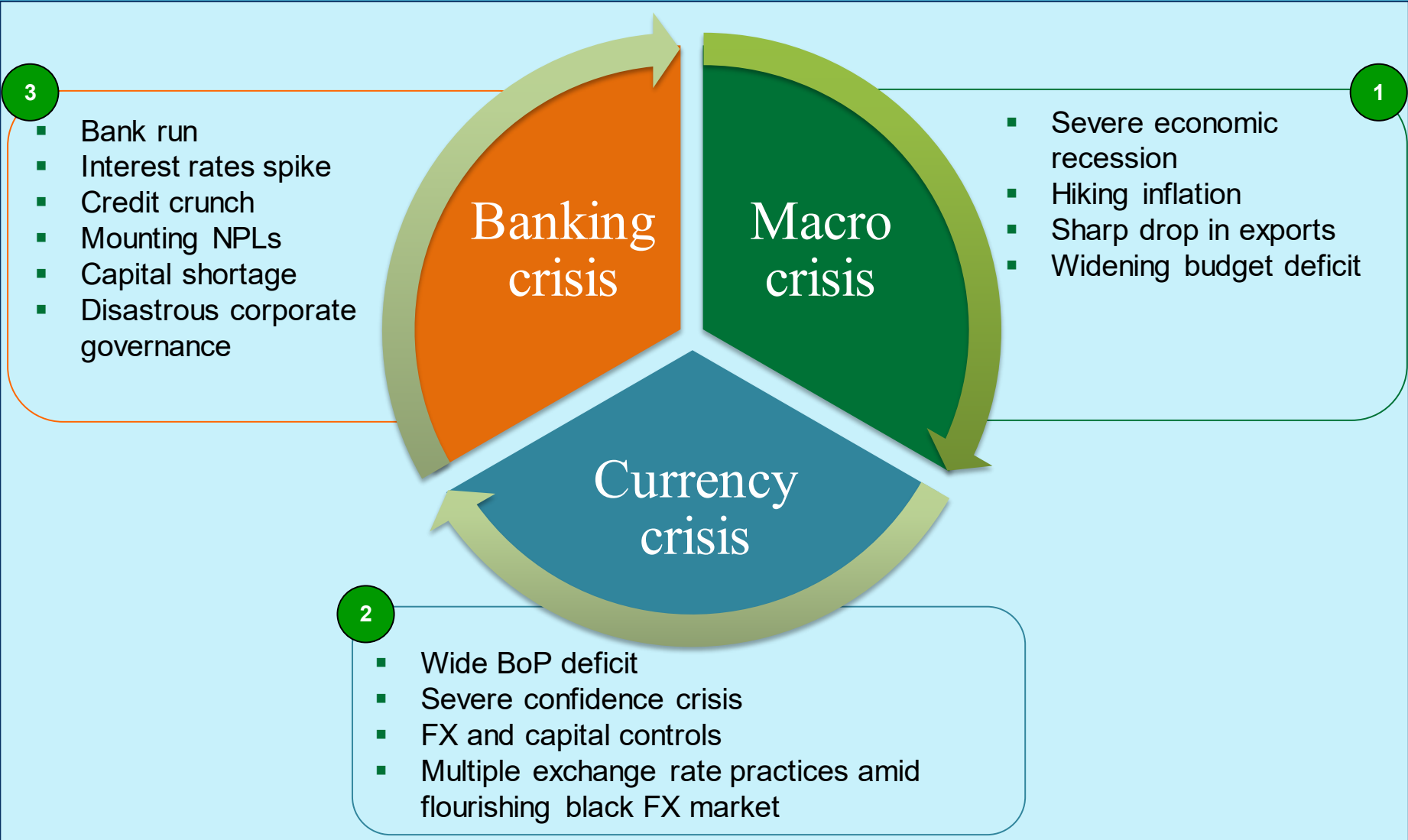
THE WARTIME ECONOMY AND FINANCIAL SYSTEM IN UKRAINE






KYIV 2014. WE LOST ABOUT 20% OF OUR GDP BECAUSE OF ANNEXATION OF CRIMEA AND WAR IN DONBASS. THE BALANCE OF PAYMENTS COLLAPSED. PLUS UNSUSTAINABLE IMBALANCES IN ALL SECTORS OF DOMESTIC ECONOMY AND THE BANKING SYSTEM ACCUMULATED OVER 20 YEARS.

Ukraine went through the perfect storm in 2014-2015...



MISSION IMPOSSIBLE?

We completed all major reforms of the financial and banking sectors in just 3 years:

- We moved to a flexible exchange rate regime and implemented the new monetary policy of inflation targeting;
 - We cleaned up the banking system from insolvent banks and enhanced its resilience.
 - We built a powerful, modern, independent Central Bank. We transformed the NBU completely: We rebuilt all internal processes and turned it into a completely reorganized institution.
- 




The results were that Ukraine had:

- A truly independent modern central bank
- A transparent and well capitalized banking system that generates the highest profit in history
- Sound monetary policy that contributes to sustainable economic growth
- International recognition as a role model for a modern and transparent central bank



24 FEBRUARY 2022. THE FULL-FLEDGED BLOODY WAR WITH BOMBS, MISSILES, TANKS AND MILITARY TROOPS STARTED. WE LOST ABOUT 50 % OF OUR GDP AND OUR INFRASTRUCTURE IS BEING COMPLETELY DESTROYED. 11 MLN REFUGEES INCLUDING 4,5 MLN PEOPLE ABROAD.

Thanks to our reforms Ukrainian banking system has been demonstrating a perfect resilience in a war time.

- All banks are working
 - NO bank run, deposits in local currency are growing
 - Banks are actively lending to Agricultural sector for sowing season
 - Banks are physically opening their branches in the liberated territories
 - Banks are liquid and help the economy get on a military footing
- 

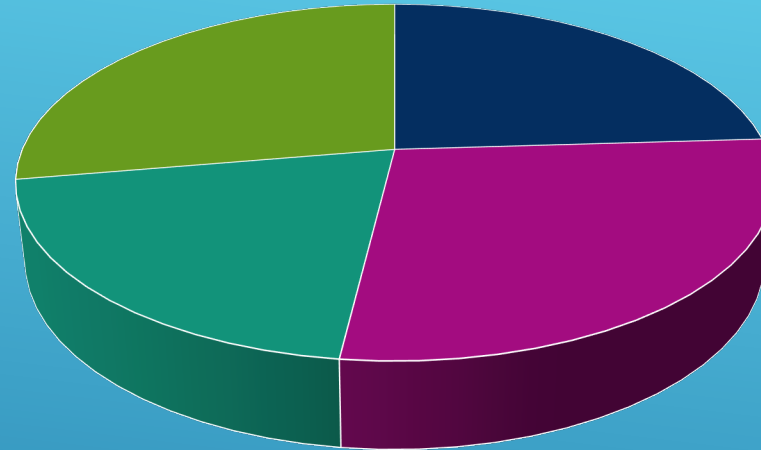
Thanks to the quick and effective NBU actions and COVID remote working experience, our banking system has immediately switched to a war time working mode

- In 2015, based on our war time experience, NBU developed a detailed **Contingency Plan** to prevent panic and further snowball effect
- NBU activated this back up plan on the very first day of the war, when martial law was announced in the country
- Firstly, NBU fixed exchange rate at 29,25 USD/UAH for a war time
- Secondly, NBU introduced **Temporary Administrative Measures** to prevent massive withdrawal of deposits, quick depletion of the international reserves as well as free-fall of the exchange rate and its adverse effect on the balance sheet of banks, corporations and households
- The measures included some restrictions on capital and some current transactions and transfers abroad.
- Thirdly, NBU provided banks with daily emergency liquidity support up to 1 year
- All of that helped to preserve financial stability of banking system and allowed banks to work efficiently even during war time

In 2022 Ukraine will have huge financial hole and we need to fill it in

- The budget revenues have collapsed because of GDP contraction and absence of tax payments
- Ukraine is running a monthly budget deficit of 4 bln USD (NBU projection) and 5-7 bln USD (MinFin projection)
- So, 2022 budget deficit will be near 30% of GDP
- Ukraine faces 19 bln USD debt redemption in 2022
- Export capacity destroyed
- The main ports are occupied – catastrophic loss for our agricultural sector in the years ahead.
- The total economic loss as of today is estimated at 564 bln USD including 270 bln of infrastructure and 48 bln USD of budget revenues. It is 3x annual GDP of Ukraine.

How to finance it in 2022?



■ IFIs ■ Local QE ■ EU and G7 ■ USA

IFI COMMITMENTS - 11,8 BLN USD (3,2 BLN USD RECEIVED)

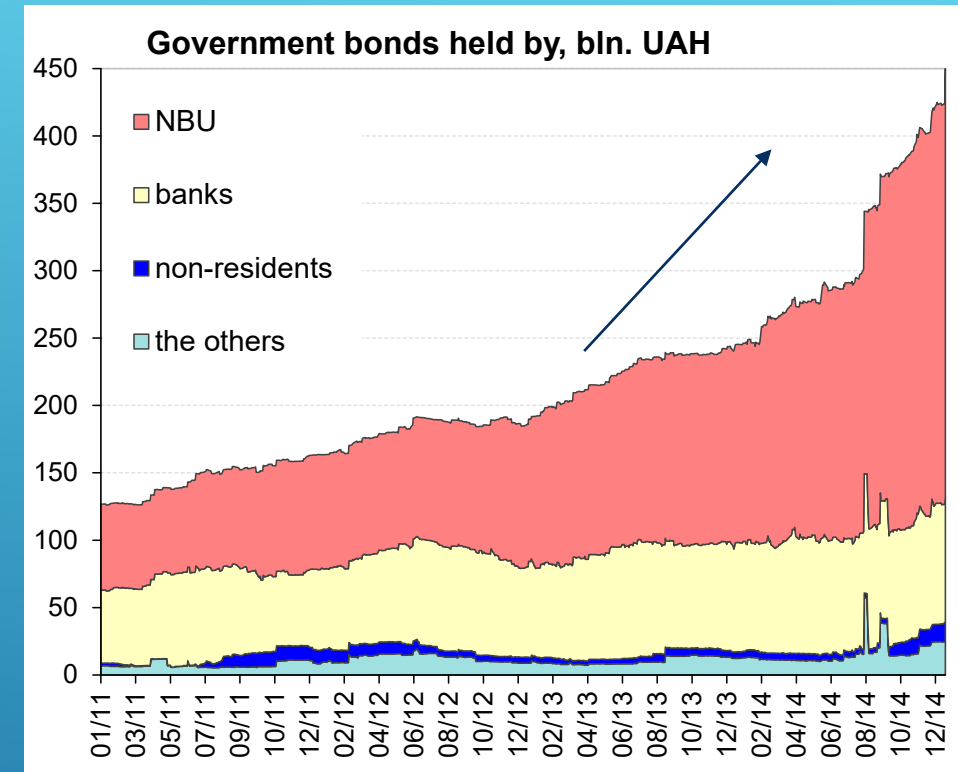
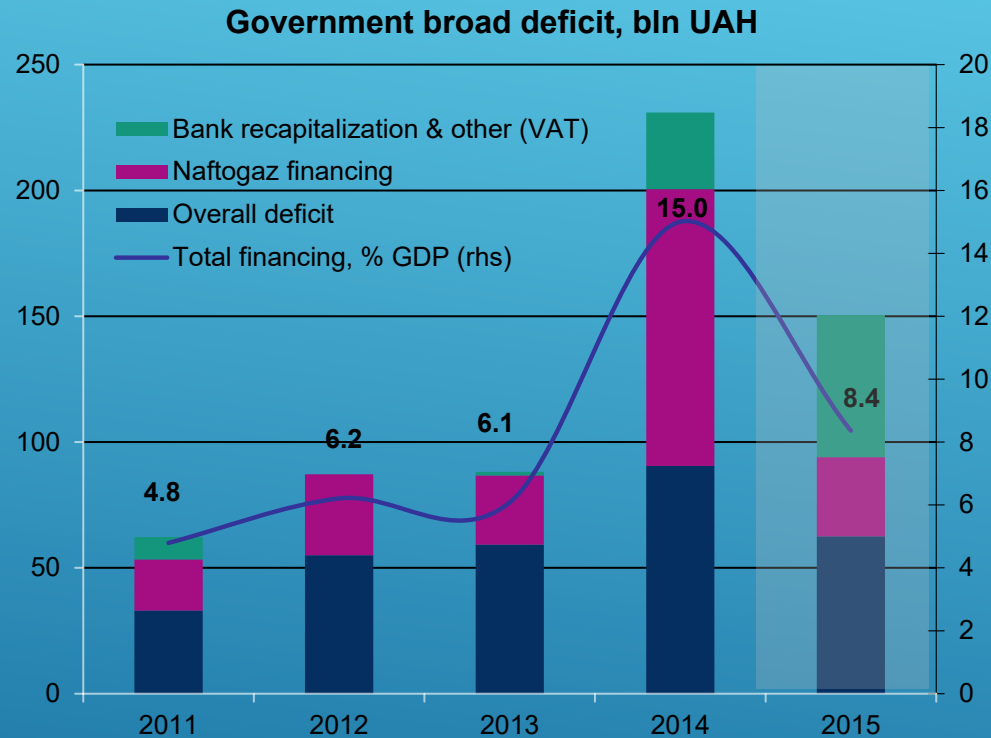
LOCAL QE - 400 BLN UAH + 40 BLN UAH AGRI SECTOR GUARANTIES (20 BLN UAH RECEIVED)

USA COMMITMENTS - 13,6 BLN USD INCLUDING 6,6 BLN USD FOR HUMANITARIAN ASSISTANCE AND THE REST FOR MILITARY SUPPORT

G7 AND EU NEED TO PROVIDE ABOUT 10 BLN USD

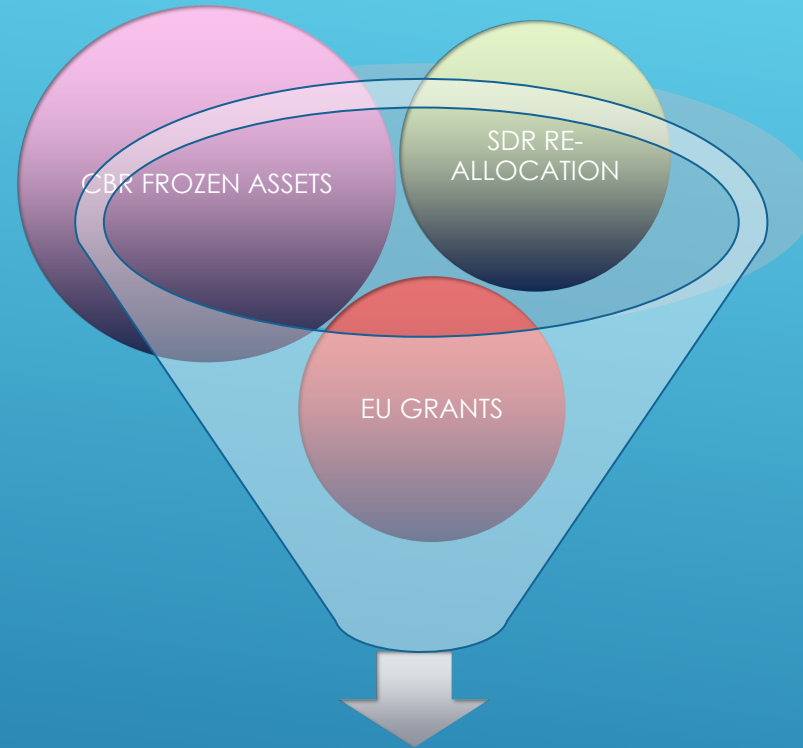
PUBLIC EXTERNAL DEBT RESTRUCTURING IS INEVITABLE. FOR SHORT TERM INSTRUMENTS

2014 DEFICIT WAS MOSTLY COVERED BY LOCAL QE



- In 2014 budget and quasi-budget deficit grew up to 15% of GDP mainly because of debt service expenditures growth (impact of hryvna devaluation) and increase of defense expenditures caused by military conflict
- The same factors will determine larger part of deficit in 2015.
- Budget consolidation is necessary, but general government deficit optimization requires reforms of sectors with large role of state regulation (energy, transportation etc.).
- By the end of 2014 total govt. bonds holdings were 457.6 bln. UAH with the majority of bonds owned by NBU (69.5%)

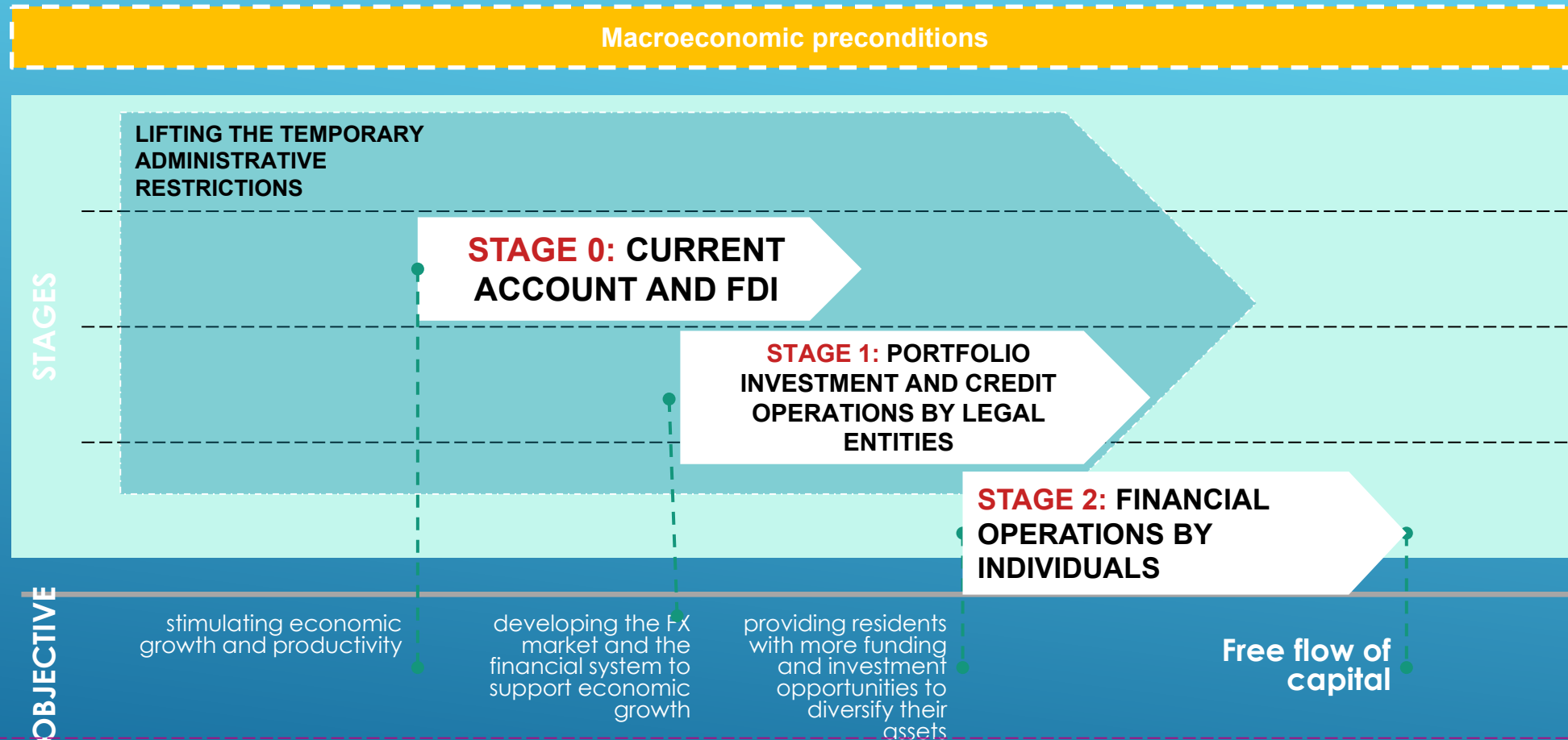
NEW MARSHALL PLAN FOR UKRAINE (5-10 YEARS)



RESTORATION OF UKRAINE

- 300 bln USD frozen assets of Russian Central Bank for war reparations to Ukraine. We need to start legal process like Hague Tribunal or new Nurnberg Process now!
- IMF SDR re-allocation from Western countries, 100 bln USD spare liquidity remains after last year COVID driven SDR allocation.
- EU grants in the amount of 100 bln USD as a support for candidate membership status of Ukraine, which could be covered by confiscation of frozen assets of Russian oligarchs in EU and G7 countries.

ROAD MAP OF CURRENCY LIBERALIZATION AFTER THE WAR



After the war we will need 3 years for gradual withdrawal of temporary currency restrictions, which will not be time-based but condition-based. Liberalization will be linked to certain conditions, including macroeconomic stability, fiscal consolidation, accumulation of sufficient international reserves, etc.

THE WAR HAS SEISMIC GLOBAL CONSEQUENCES FROM HUMAN SUFFERING TO ECONOMIC SHOCKS FOR ALL OF US

WE NEED TO STOP HYPOCRISY!

PUTIN'S WAR OF AGGRESSION RUNS ON THE MONEY RUSSIA GETS BY SELLING FOSSIL FUELS TO EUROPE - 700 MLN USD PER DAY

RUSSIA MAY COLLECT 321 BLN WINDFALL IF OIL AND GAS KEEP FLOWING. TOTAL EXPORT REVENUES WILL BE 600 BLN USD AND CURRENT ACCOUNT SURPLUS WILL REACH RECORD HIGH 240 BLN USD

SEVER SANCTIONS OR DEFAULT OF RUSSIAN OBLIGATIONS WILL NOT CRASH RUSSIAN MARKET AND ECONOMY

EVEN JOSEP BORREL SAID THAT EU PAID RUSSIA 35 BLN EUR FROM THE BEGINNING OF THE WAR WHEN UKRAINE GOT JUST 1 BLN EUR FOR WEAPONS.

SO, ALL OF US NEED TO STOP THE WAR TO PROTECT HUMANITY!

**The
Economist**

Chiplomacy and supply chains

Markets and the end of free money

Flying taxis race to the sky

TQ: The future of defence technology

JANUARY 29TH—FEBRUARY 4TH 2022

Russia's roulette

The stakes in Ukraine

