

Topic 2. Financial Sector Reform

The goal of the reform is to create a financial system capable of supporting sustainable economic development by effectively redistributing financial resources in economy by creating a genuine market competitive environment based on EU standards.

The reform of the financial sector includes a series of activities designed to achieve three key goals:

- financial stability;
- consumer and investor rights protection; and
- institutional capacity of regulators.

When carried out in full, this reform will bring about a financial system which:

- can support sustainable economic development;
- operates in a competitive market environment;
- is regulated in line with EU standards;
- is integrated in the European market of financial services.

The reform of the financial sector has clear and specific indicators to be ultimately achieved:

- Consumer Price Index (annualized, %) — $5\% \pm 1$ percentage point
- foreign exchange reserves (USD) — as required by the IMF program
- cash in economy (M0/GDP) — $\leq 9.5\%$
- cashless payments — 55%
- POS-terminals per 1 mln people — 11,000
- concentration in the banking sector (HHI index) — ≥ 800
- loans and deposits in US dollars — $\leq 40\%$
- loans to deposits (gross loans) — $\leq 110\%$
- nominal rates of new loans in the national currency — $\leq 12\%$
- insurance penetration rate — 0.75%

The financial sector evolved in fits and starts in 2009–2014.

The banking system grew preemptively compared with other segments of the financial sector, but the quality of banks' assets and their business models left much to be desired (though this became obvious a little later). The development of the non-bank financial sector was held back by lack of effective laws, systems of regulation and prudential supervision, spawning captive financial institutions and "financial pyramids".

All of this caused a crisis of trust in the financial sector in general. The 2014 events, especially the annexation of Crimea and the outbreak of the armed conflict in the east, heavily hit economic development by undermining the trust of consumers of financial services in the banking sector and by unbalancing financial markets.

Declining economic activity and the imbalances of foreign trade in 2014–2015 resulted in devaluation and increased inflation rates. All this ultimately

worsened the quality of banks' loan portfolios and created the need to clean up balance sheets in the banking system.

The situation with the banks' troubled balance sheets was aggravated by lack of effective protection systems for creditor and consumer rights, primarily guarantees of ownership and fair trial.

Sustainable economic development – сталий економічний розвиток
effectively redistributing financial resources- ефективного перерозподілу
фінансових ресурсів

genuine market competitive environment - розбудова повноцінного ринкового
конкурентоспроможного середовища

a series of activities - комплекс заходів

financial stability-фінансова стабільність

consumer and investor rights protection - захист прав споживачів та інвесторів

institutional capacity of regulators- інституційна спроможності регуляторів

a competitive market environment – ринкове, конкурентоспроможне
середовище.

Consumer Price Index - споживча інфляція

foreign exchange reserves (USD) - міжнародні резерви

cashless payments - рівень безготівкових розрахунків

nominal rates of new loans in the national currency - рівень номінальних ставок
за новими кредитами у національній валюті