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INTERVIEW WITH DMYTRO SOLOGUB,

BC Project Leader Deputy Governor, National Bank of Ukraine (NBU)

"A part of Europe, our country is guided by the economic development model used in European countries. We are applying European approaches to modernize the economy and carry out reforms"

- says Dmytro Sologub

On 1 October 2020, the NBU started to implement the European Union's Twinning project, which is aimed at further strengthening of the NBU's institutional and regulatory capacity as required under the EU-Ukraine Association Agreement. What do you think of the project and what does the NBU expect from its implementation?

Support of such a partner as the European Union is especially important for the NBU. A part of Europe, our country is guided by the economic development model used in European countries. We are applying European approaches to modernize the economy and carry out reforms.

The EU-Ukraine Association Agreement serves as a beacon for introducing reforms in Ukraine, and the Twinning instrument is meant to support our country on its way toward the EU and the Association Agreement implementation.

For the NBU this is the second Twinning project realized with financial support from the EU. In order to get closer to the EU standards, we successfully implemented the first project ten years ago in cooperation with our EU partners, in particular the Deutsche Bundesbank and Narodowy Bank Polski. That was our first experience of direct communication with experts of EU central banks under the new Twinning instrument, and it showed us that such cooperation is very effective and productive.

Today we continue using the Twinning instrument and are implementing a new project, the main aim of which is to support our efforts to transform the financial sector of Ukraine in line with the EU-Ukraine Association Agreement.

I would like to emphasize that the NBU, as the financial market regulator, is actively and consistently implementing the EU-Ukraine Association Agreement and the EU's financial law acts. Under the project we expect to get support to improve approaches to banking supervision, develop the instant payments system, improve strategic planning and process management, step up implementation of the European integration policy in the central bank, and broaden international cooperation.

Without exaggeration, the cooperation with EU central banks under the Twinning project is a unique opportunity for us to get familiar with best practices realized in EU countries and implement them in Ukraine. I believe that together with experts from Narodowy Bank Polski and Lietuvos bankas, which are our partners in the project, and five other participating EU central banks, we will successfully implement the project and achieve all targeted results.

I am strongly convinced that implementing European experience at the NBU will help develop its institutional potential, strengthen the banking system of Ukraine, and introduce innovative financial technology.

How would you assess the progress made since the start of the Twinning project?
Do you see any difficulties in the project implementation?

In general, I am satisfied with how the Twining project is being implemented. We took a good start and are going to continue the same way.



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A distinctive feature of the Twinning instrument, and its highest value, lies in the direct exchange of experience in a certain area of public administration so as to implement EU norms and standards and in sharing best practices by EU public authorities with beneficiary countries. I am glad that such exchange continues even amid the restrictions caused by the COVID-19 pandemic. All missions and working meetings are held online, using videoconference solutions. As of May 1, 2021, this format has been used to hold the kick-off meeting and two meetings of the Twinning Project Steering Committee, more than 20 online missions, and numerous working meetings to solve projectrelated issues.

I would like to pay special attention to the high level of expertise and qualification of EU central bankers engaged in the project. Some of the experts already have the experience of participating in Twinning projects, which I think is extremely valuable. Colleagues from the NBU, in their turn, are open to new knowledge, ideas, and new solutions. They fully realize the need to implement the best European practices in our central bank's activities.

Even in such difficult conditions related to COVID-19 restrictions, we have no problems in implementing the project. I even see a bright side in facing difficulties. Overcoming challenges makes us stronger. This is true not only for individuals, but also for institutions and states. Now, at this very moment, we have a chance to realize the value of in-person communication. Indeed, we are all lacking that type of communication. So let's be optimistic and wait for the time when we can meet our partners at the NBU office at Instytutska Street in Kyiv, greet them with a handshake, and have a face-to-face discussion of important issues of Twinning project implementation.











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INTERVIEW WITH PAWEŁ SAMECKI, MS Project Leader,

Narodowy Bank Polski

"Integration into the EU a Powerful Driver of Development" – says Paweł Samecki

The twinning project in support of the NBU aims to help it in performing some tasks assigned to the Bank from the EU-Ukraine Association Agreement. In what way will this project be beneficial for the NBU and Ukraine?

In Poland we know well how powerful driver European integration is. In the late 1990s and early 2000s we made significant economic and institutional adjustments necessary to fulfil requirements of Poland's accession to the European Union. They were sometimes difficult and costly; but at the end of the day they paid off. They were very efficient drivers of institution building in public administration. This paved the way for a rise in confidence among foreign investors who did notice enormous opportunities in the stable and secure business environment. Their investments helped modernize Poland's economy.

Even if Ukraine has not been promised membership in the EU, still the full implementation of the Association Agreement would bring Ukraine far closer to united Europe and should contribute to the development of its economy. That is why it is essential that Ukraine makes every step towards full association. And that is why it is critical to the NBU to fulfil its obligations stemming from the Agreement, and to us - partners of the NBU - to support these efforts as much as possible. But let's be honest and humble: the twinning project alone is not a remedy for all challenges the NBU faces. Nevertheless, the project offers a sort of narrow, but concrete interventions that may help better perform certain tasks related to the Association.

We are close to complete the first half-year period of implementation of the project. What are your initial impressions?

I have been closely monitoring the first months of project implementation and personally took part in many activities already carried out. My observations give me a ground to claim that this project is indeed a two-way dialogue. On the NBU side there are receptive but demanding experts; on the other side we have experts that are really ready to share their knowledge and experience. That is why I am confident that the project will go smoothly. And I believe that its implementation will not only be in line with the objectives put on paper, but also will give great satisfaction to the people involved on both sides that they have had a hand in its successful completion.

The pandemic is of course a negative factor affecting the project and the economy. But putting it aside, are you optimistic about the future implementation of the project? And going far beyond the project, do you believe that the current economic reforms in Ukraine will succeed?

I am positive about the project. The NBU is a well-organized institution. It does not need a revolution. It needs some fine-tuning and this twinning projects is to deliver some of necessary adjustments.

As to the country in general, Ukraine has made progress in restoring macroeconomic stability over the last five years. The authorities' commitment to structural reforms, particularly on the governance front, is also commendable. Regarding reforms and tasks stemming from integration with the EU, even though for Ukraine membership in the EU is today beyond the horizon, it's worthwhile to go in this direction. The distance from the border crossing in Dorohusk to Brussels is one thousand miles. As the Chinese proverb goes, "A journey of a thousand miles begins with a single step". This project is one of many, many steps Ukraine needs to make. I am very glad that this particular step we can make together.











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INTERVIEW WITH VILĖ URBONIENĖ, _ MS Junior Project Leader

The National Bank of Ukraine (NBU) is one of the key institutions in Ukraine's public administration that are responsible for the implementation of the EU-Ukraine Association Agreement. This Twinning project aims to help the NBU develop its capacity to perform certain tasks related to the Association. In your view, how important is the Association Agreement for Ukraine?

Lietuvos bankas

Ukrainian people have clearly expressed their aspiration for closer alignment with the European Union. The Association Agreement is the main instrument that provides a framework to achieve deeper political and economic ties with the EU. More importantly, the Association Agreement sets a reform agenda that can guide Ukraine on its convergence path with the EU. In recent years, Ukraine has implemented many important reforms that brought the country closer to the EU. A substantial progress has been made in strengthening the independence and governance of the NBU, undertaking banking sector reform, and bringing macroeconomic stability. In about five years prior to the COVID-19 crisis, sound fiscal and monetary policies resulted in a substantial reduction in Ukraine's external and internal imbalances. Public debt was put on a downward path from the peak of 85 percent of GDP in 2014 to 50 percent of GDP by end-2019. Inflation declined to within the NBU's target range, and international reserves recovered. These achievements have helped Ukraine display resilience in the face of the current pandemic shock.

However, we must understand that structural transformation takes time and there is still much work to be done, especially in the area

of business environment, governance and the rule of law. In this regard, continued cooperation with the main international partners is essential to keep up the reform pace – and, as a result, to unlock more of the much-needed investment for the country.

In my view, undertaking true structural reform is like running a marathon. One may get tired on the way, but it is important to catch the second wind and keep running until the finish line. The Twinning projects, like the one with the NBU, can help run this marathon a little bit faster. Our own experience shows that the alignment process with the EU is lengthy and requires a lot of effort from the authorities to implement the necessary reforms. But in the end, these efforts pay off through a better quality of institutions, more effective governance and, most importantly, higher economic growth.

It would be interest to hear, what is the motivation of the Bank of Lithuania to participate in the Twinning project? As we know, the Twinning project for Ukraine is already the second project of this kind where the Bank of Lithuania participates as a junior partner.

I consider the EU Twinning projects to be an effective method to promote cooperation between public institutions in the EU and Eastern Partnership countries. These projects bring tangible results in specific area of governance that can contribute substantially towards the broader objective of implementing the Association Agreement and taking a step closer to the EU.













Beneficiary Institution



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It is also important that a Twinning project is a reciprocal exercise. It is a process of exchanging of knowledge and experience that can broaden the perspective of all parties involved. In this regard, I believe the Twinning project will bring as much value for the experts at NBU as for the experts coming to share their knowledge.

What is your impression about the National bank of Ukraine since the start of the project?

NBU and the Bank of Lithuania have been engaged in quite intense bilateral cooperation even before the beginning of the project. I already had the impression that the NBU is a very professional institution with people dedicated to their mission. In my view, the NBU managed to gaining credibility in the eyes of the international community though its exceptional efforts to bring about price stability and strengthen the financial system.

During the first months of the project we have engaged with many highly qualified experts from the NBU and this experience just proved to me once again that my impression, the one I carried over from before, was absolutely correct.











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The Kick-off Meeting to officially launch the Project .

A high-level meeting to mark the start of the Project was held on 9 March 2021. The Kick-off Meeting was organized in on-line format and attended by more than 100 Ukrainian and international participants including high-level officials of the National Bank of Ukraine, the EU Delegation to Ukraine, Narodowy Bank Polski, Lietuvos bankas, Ambassadors of Poland and Lithuania to Ukraine, representatives of Ukrainian public administration bodies, other public and financial institutions, representatives of business associations and academic circles of Ukraine, international financial organizations and journalists.

Participants were presented with extensive information about the Project, its objective, components and the results to be achieved. It was highlighted by the speakers that the successful implementation of the Project would be an important step towards further integration of the National Bank of Ukraine into the European community of central banks and foster the implementation of the EU-Ukraine Association Agreement in selected areas.

The event was well received and widely covered by mass media, internet-based news agencies, official EU and NBU web sites as well as social media.



The Steering Committee Meeting N° 2

The Steering Committee Meeting N° 2 was held in on-line format on 19 April 2021.

During the Meeting, the first Semi-Annual Report of the Project which covered the period of 1 October 2020 - 31 March 2021 was presented. The presentation contained a general description of the activities held during the reporting period and relevant statistics, progress review by every component as well as conclusions and recommendations. It also comprised the information about the financial part and Communication and Visibility activities of the Project during the reporting period.

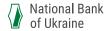
The draft Rolling Work Plan for the period of 1 May – 31 October 2021 was also presented to the Meeting participants. The presentation contained the description of horizontal activities planned, statistic figures by every component as well as qualitative aspects. It was also complemented with financial figures, the distribution of funds between the components, and estimated costs for the planned period.

Having discussed the documents, the Steering Committee decided to approve the Initial Work Plan updated, the Semi-Annual Report for the period of 1 October 2020 – 31 March 2021 and the Rolling Work Plan for the period of 1 May – 31 October 2021.











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Component 1 A

Three expert missions were conducted in subcomponent 1.3 during February-April 2021.

The first one of them took place on 25 and 26 February 2021.

The purpose of the mission was to get the NBU acquainted with the supervisory practices in the Euro area and Lithuania, in particular, and to work on the draft Regulation on ICAAP and its connection with the NBU's Resolution N° 64. STEs presented information about Lithuanian banking sector, financial market supervision, cooperation among ECB and LB, IT systems used in ECB. In addition, the SREP process (RAS, evaluation of ICAAP/ILAAP) and SREP decision making and implementation were widely discussed during the meeting.

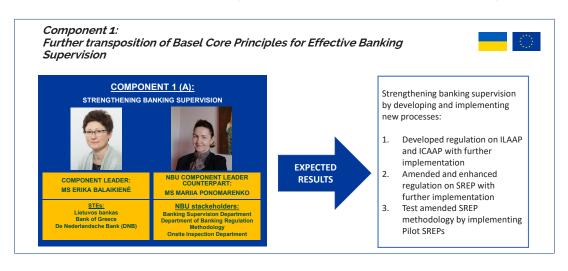
The mission also addressed the methodological aspects of SREP framework, including its components, information to be collected for SREP, 3 phase SREP methodology for risk assessment (RAS/ICAAP/stressed ICAAP).

The next expert mission took place on March 23-24, 2021. STEs and their counterparts from the NBU continued discussions of SREP process and relevant issues. They also considered the remaining issues related to the Regulation N $^{\circ}$ 64 on Risk Management Systems, stress test implementation and the draft NBU Regulation on

ICAAP in order to enable STEs to finalize their recommendations on the possible improvement of the mentioned document, building up the logical coherence of two regulatory documents and incorporating them into a comprehensive risk management framework in line with European legislation and best practice of central banks of the Euro area. STEs also presented their experience and practice in treating issues related to corporate governance and credit risk modules of SREP.

In the course of the expert mission which was carried out on 20-21 April 2021, STEs reviewed the practices of ICAAP process implemented in the Euro area, presented and commented an example of the ICAAP Report: they gave an extended overview of the content and scope of the ICAAP Report and discussed in detail the types of information that should be disclosed in each section. They also emphasized the importance of the ICAAP process as one of the bank's internal management processes that should be well understood both by bank's specialists and the management.

STEs reviewed adjusted NBU regulations and made suggestions regarding further enchancement of the draft Regulation on ICAAP and some expansion of the Regulation N° 64 on Risk Management Systems in order to better interconnect these two regulations.













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Component 2 B

During the reporting period, two missions and an Expert Forum were conducted.

A three-day fact finding mission was carried out on 9 -11 February 2021.

In the course of the mission, the NBU representatives delivered presentations on the Ukrainian payment landscape, the role of the NBU in payment system and the Ukrainian domestic card schemes. In addition, STEs obtained a comprehensive understanding of the current Ukrainian legal and regulatory framework in the area of payment systems and payment services. The session was followed by discussions, exchange of views and Q&A session.

STEs provided an overview of the Polish, Lithuanian and Hungarian payment systems with particular emphasis on instant payments issues. They also made the presentations on the role of the central bank and other institutions in payment system as well as payment landscape in the Euro-area.

The next expert mission took place on 16-18 March 2021.

STEs presented the information about instant payment system definition, examples of instant payments systems models in terms of clearing and settlement methods, roles of central banks in instant payments systems and worldwide landscape of instant payments as well as the difference between clearing and settlement of instant payments.

Participants were also provided with comprehensive information about the instant payments systems infrastructure in Poland the operational model of the Hungarian instant payment system including additional services built on the central infrastructure. Presentations were followed by discussions, exchange of views, questions and answers.

Presentations also covered Eurosystem roles in the field of payment services, presented the framework of 4 instant payments layers and the crucial role of the European Payments Council in developing and administrating the SEPA payment schemes.







MR ROBERT KLEPACZ

STEs: Magyar Nemzeti Bank Narodowy Bank Polski European Central Bank NBU COMPONENT LEADER COUNTERPARTS: MR ANDRIY PODDYEROGIN

NBU stakeholders **Payment Systems and Innovations** Information Technologies Department Security Department



Model is developed for the instant payments architecture in Ukraine and a road map to implement it:

- Optimum model selected
- High level architecture 2. developed
- 3. Road map for implementation drafted













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The Expert Forum on Instant Payment Systems was held in on-line format on 28-29 April 2021.

Over 100 representatives from the key participants of the financial ecosystem of Ukraine - banks, non-banking financial institutions, fintech companies and public agencies - attended that international on-line event

During the two day Forum, speakers from the Member States presented a comprehensive overview of instant payment systems operating in Poland, Lithuania and Hungary, their architecture as well as key specific features. The representatives of the National Bank of Ukraine presented their own view on the instant payment system as a complex system, underlying that such systems appeared as a response to the new clients' needs and demands and they present a new reality in payments nowadays.

During the discussion panel, the participants of the Forum exchanged with their views, had series of questions and answers and were suggested to complete the questionnaire with regard to their vision of the future of the instant payment system in Ukraine."

The Expert Forum proved to be a successful platform for sharing information about the international partners' experience in the area of instant payments with Ukrainian payment market participants, and accumulating the additional knowledge necessary for the selection of the best instant payment system model to be introduced in Ukraine.



Component 3 C

Three expert missions were carried during March-April 2021 and covered subcomponent 3.2.

The first one of them took place on 1 and 2 March 2021 and was dedicated to internal communication and meetings with the NBU top-management on strategic planning issues. STEs had a set of interviews with the NBU top-management planned in advance by the NBU, which were based on a questionnaire prepared in order to receive a feedback form the NBU's top managers on the strategy process and strategy functions aimed at indicating the space for improvement or changes to be implemented in the process.

The NBU experts presented to STEs the Strategy monitoring process in the context of overall 2018-2020 Strategy implementation as well as ideas regarding the next Strategy monitoring, which was followed by the presentation of the annual appraisal procedures and KPI structure.

In the course of the next expert mission which was carried out on 29 and 30 March 2021, the NBU presented the draft Strategy 2025 and the composition of its elements. Participant discussed the logic of different steps and interconnections between 7 strategic documents.

The NBU also presented the main idea for operational planning at the NBU departments level.















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STE, in their turn, shared their experience and presented methodologies of breaking down the mid-term Strategy into short-term required actions as well as the practice of organizing operational plans in their respective central banks, the examples of templates, explanation of the process, that was followed with a lively discussion and clarifications of related issues.

During the expert mission which was conducted on 22 April 2021, the NBU made several presentations: on the draft external communication plan for the NBU strategy 2021-2025 and on internal communication tools for the Strategy communication as well as on clarification of certain issues based on March mission discussions. The feedback of employees and their engagement into the Strategy was also discussed. STEs recommended to start collecting feedback and measuring the impact of internal communication means to reach the audience. Participants also had discussions of issues related to the prioritization of the projects in the portfolio and establishing the framework of selection of the most important projects to be executed. After the discussions, some action points and additional issues for discussion during June mission were agreed. STEs also discussed the progress of work with the NBU Component Leader and agreed on the final milestones aimed at delivering the best practice document.

Component 3.

Institutional strengthening through the establishment of an integrated system of strategic planning, execution and monitoring, processbased model of planning and management









Process-based planning and management model including a performance management system is introduced in the NBU:

- Strategic planning processes established and systematized
- Internal methodology amended
- Options of automation 3. discussed
- 4. Sharing the components' achievements













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Component 4 D

Three expert missions in different subcomponents took place during February-March 2021.

In the course of the two-day expert mission in subcomponent 4.2 which took place on 18 and 19 February 2021, STEs from NBP and LB shared their institutions' experience and provided technical advice to the NBU with regard to the cooperation with the IMF, WB, EBRD and the BIS. Evaluation methods of international representation and cooperation were also thoroughly discussed.

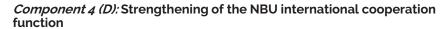
The expert mission in subcomponent 4.1 was held on 23 and 24 February 2021.

During this mission, STEs from NBP and LB shared their institutions' experience in the following areas: evolution of the European Integration function and organizational structures, coordination of the European Integration processes within central banks, IT solutions for effective electronic document management and effective transposition of the EU law with the use of Tables of Concordance.

As an outcome of the mission STEs committed to a few short-term deliverables for the NBU, including: the translation into English of the Resolution no 64/2008 of the Management board of NBP on the procedures for the development of the NBP's position on documents handled by the EU institutions, and provision of links to Regular Reports from the Commission on Lithuania's progress towards accession.

The expert mission in subcomponent 4.5 which took place on 2 February 2021 was aimed at presenting to the NBU proposals concerning the translation and terminology management issues necessary.

Experts from LB and NBP provided practical guidance in terminological work and presented some of the translation and terminology management issues necessary when working with international institutions and the EU bodies. The meeting concluded with a Q&A session and exchange of views, which constituted a good basis for formulating practical guidelines for the NBU in the subject matter.









TOMASZ CISZAK

STEs: Narodowy Bank Polski LIUDMYLA LABUR

Stakeholders: **Structural Departments** External – International\Foreign
Partners, Ukrainian Public Authorities **EXPECTED RESULTS**

The NBU international cooperation function is strengthened, in particular with regard to the implementation of the Association Agreement:

- 1. Support in establishing a centralized terminology management system
- 2. Tables of concordance and relevant reports enhanced
- 3. International cooperation and TA improved
- 4. Components' achievements shared internationally



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