IMF Staff and Ukrainian Authorities Reach Staff Level Agreement on the review of Program Monitoring with Board Involvement (PMB)

FOR IMMEDIATE RELEASE

* *IMF staff and the Ukrainian authorities have reached a staff-level agreement on the first and final review under the Program Monitoring with Board Involvement (PMB). This agreement, which is subject to IMF Management approval, paves the way to initiate discussions on a fully-fledged Fund-supported program.*
* *The authorities’ performance under the PMB has been strong. All quantitative and indicative targets have been met, as well as all the structural benchmarks spanning fiscal policy, governance, and financial sector issues.*
* *Discussions also covered the medium-term macroeconomic framework, fiscal policy, the financing mix, financial sector policies, and governance.*

**Warsaw, Poland – February 17, 2023:** An International Monetary Fund (IMF) mission, led by Mr. Gavin Gray, met with the Ukrainian authorities in Warsaw, Poland, during February 13-17 to assess Ukraine’s performance under the Program Monitoring with Board Involvement (PMB), and to advance technical and policy discussions on medium-term macroeconomic and structural policies.

At the conclusion of the discussions, Mr. Gray made the following statement:

“The IMF staff and the Ukrainian authorities have reached staff-level agreement on the review of the Program Monitoring with Board Involvement (PMB). Completion of the first and final review, which is subject to approval by IMF Management, paves the way to initiate discussions on a fully-fledged IMF-supported program.

“Performance under the PMB has been strong. Due to the joint efforts of the Government of Ukraine and the National bank of Ukraine, all end-December quantitative and indicative targets have been met, as have all five end-January structural benchmarks. These included the Government submitting to Parliament a package of draft tax laws aimed to increase revenues, taking steps by the Ministry of Finance to address arrears, developing a concept note for a social safety net, establishing Naftogaz’s supervisory Board, and agreeing on the key elements of banking sector diagnostics.

“In 2022, the economy contracted by 30 percent, a less severe contraction than previously expected, and inflation has begun to decelerate. At the same time, the near-term outlook has deteriorated since the PMB was approved in December, including in view of attacks on critical infrastructure. However, the economy is adjusting, and a gradual economic recovery is expected through the course of the year.

“Fiscal policy in 2023 needs to accommodate higher expenditure needs. Shoring up tax revenues, including through improved revenue administration and restoration of tax policies to their pre-war settings, remains a priority. Furthermore, Ukraine faces a formidable task of creating fiscal space for war-related repairs and stronger social safety net, leaving no room for measures that erode tax revenues.

“Timely disbursement of sizable external support has been critical for macroeconomic stability, and large-scale disbursements will remain essential in 2023 and beyond to cover financing needs and help ensure stability. Efforts to expand issuance in the domestic bond market should continue to help ensure a stable financing mix and eliminate reliance on monetary financing.

“The National Bank of Ukraine (NBU) is responding prudently to excess liquidity in the banking system, including by raising reserve requirements, and to increase the attractiveness of assets in local currency with the aim of safeguarding price and external stability. Since the outbreak of the war, far-reaching emergency measures introduced under martial law have helped preserve financial stability. Preparations are now underway to gradually unwind emergency measures, with the aim of realigning local norms with international standards. The NBU is updating its financial sector strategy as a priority, of which a key pillar will be an independent valuation of banks’ assets when conditions allow.

“A fully-fledged IMF program would be supportive of the Ukrainian government’s efforts toward EU accession. In particular, reform initiatives to enhance productivity and competitiveness of the private sector need to be advanced to help lay the foundation for a robust post-war growth against a backdrop of progress toward EU accession. The authorities are making progress in reforms to strengthen governance, anti-corruption and rule of law, and lay the foundations for post-war growth, although the agenda of reforms in these areas remains significant. The public sector will play an important role in the reconstruction process, and measures to increase the efficiency and transparency of public finances and governance will be critical. The private sector is also expected to contribute to the reconstruction efforts.

“The mission met with NBU Governor Pyshnyy and Finance Minister Marchenko, and other senior public officials, and would like to thank the authorities for the open and constructive discussions. IMF staff look forward to continuing close cooperation in the weeks ahead.”