



UKRAINE

December 2023

2023 ARTICLE IV CONSULTATION, SECOND REVIEW UNDER THE EXTENDED ARRANGEMENT UNDER THE EXTENDED FUND FACILITY, AND REQUESTS FOR MODIFICATION OF PERFORMANCE CRITERIA AND A WAIVER OF NONOBSERVANCE OF PERFORMANCE CRITERION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR UKRAINE

In the context of the Staff Report for the 2023 Article IV Consultation, Second Review Under the Extended Arrangement Under the Extended Fund Facility, and Requests for Modification of Performance Criteria and A Waiver of Nonobservance of Performance Criterion, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on December 11, 2023, following discussions that ended on November 10, 2023, with the officials of Ukraine on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on December 4, 2023.
- An **Informational Annex** prepared by the IMF staff.
- A **Statement by the Executive Director** for Ukraine.

The documents listed below have been or will be separately released.

Selected Issues

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

Copies of this report are available to the public from

International Monetary Fund • Publication Services
PO Box 92780 • Washington, D.C. 20090
Telephone: (202) 623-7430 • Fax: (202) 623-7201
E-mail: publications@imf.org Web: <http://www.imf.org>

**International Monetary Fund
Washington, D.C.**



IMF Executive Board Concludes the 2023 Article IV Consultation and the Second Review under the Extended Fund Facility Arrangement for Ukraine

FOR IMMEDIATE RELEASE

- The IMF Board today concluded the 2023 Article IV consultation and completed the Second Review of the extended arrangement under the Extended Fund Facility (EFF) for Ukraine, allowing the authorities to draw the equivalent of about US\$900 million (SDR 663.9 million), which will be channeled for budget support.
- The authorities have made strong progress toward their EFF commitments under challenging conditions, meeting all applicable quantitative performance criteria through end-June and indicative targets through end-September and the majority of structural benchmarks through end-October.
- The Ukrainian economy continues to show remarkable resilience, although the outlook remains subject to exceptionally high war-related uncertainty. Continued strong ownership and reform momentum—including domestic revenue mobilization combined with timely and predictable external financing—are necessary to safeguard macroeconomic stability, enhance institutional reforms, and support reconstruction efforts, while facilitating a green recovery on the path to European Union (EU) accession.

Washington, DC – December 11, 2023: The Executive Board of the International Monetary Fund (IMF) today concluded the 2023 Article IV Consultation and completed the Second Review of the EFF arrangement for Ukraine. The completion of the second review enables the authorities to immediately draw an amount of about US\$900 million (SDR 663.9 million).

Ukraine's 48-month EFF arrangement, with access of SDR 11.6 billion (equivalent to US\$15.6 billion, or about 577 percent of quota), was approved on March 31, 2023, and forms part of a US\$122 billion support package for Ukraine. The authorities' IMF-supported program aims to anchor policies that sustain fiscal, external, price and financial stability at a time of exceptionally high war-related uncertainty, support the economic recovery, as well as enhance governance and strengthen institutions to promote long-term growth in the context of reconstruction and Ukraine's path to EU accession.

The EFF continues to provide a strong anchor for the authorities' economic program, and its implementation has been broadly on track despite the extremely challenging backdrop. All quantitative performance criteria for end-June and indicative targets for

end-September were met. The majority of structural benchmarks for end-October were also met, with the others completed with some delay; this progress underscores the authorities' continuing commitment to the overall reform agenda. In particular, the authorities have continued to advance their governance and anti-corruption agenda.

Despite Russia's war in Ukraine, macroeconomic indicators have been stronger than expected, contributing to upward revision in the growth outlook. Economic resilience has resulted in better growth outturns, continued sharp disinflation, and a stable FX market, including following the National Bank of Ukraine's exit from the exchange rate peg, backed by strong reserves. The baseline projection for real GDP growth in 2023 has been revised up to 4.5 percent. Growth is expected to somewhat soften in 2024 to 3–4 percent as the war continues. The outlook remains subject to significant risks related to the exceptionally high uncertainty stemming from the war, potential policy slippages, and delays or shortfalls in external financing.

Article IV discussions focused on foundational policies for strong, balanced, and green growth in the post-war era to support Ukraine's EU accession. The focus was on the appropriate macroeconomic policy frameworks, including the restoration of pre-war monetary and exchange rate policy frameworks, governance reforms, steps to revitalize the banking sector, to mitigate climate change, to help Ukraine achieve a high sustained growth path and raise living standards.

Following the Executive Board discussion on Ukraine, Ms. Kristalina Georgieva, Managing Director of the IMF, issued the following statement:

Executive Board Assessment¹

Executive Directors agreed with the thrust of the staff appraisal. They emphasized the enormous social and economic impact of Russia's invasion of Ukraine, including its global spillovers. Directors praised the Ukrainian authorities' skillful policymaking, which, together with substantial external support, has helped preserve macroeconomic and financial stability.

Directors welcomed Ukraine's economic resilience and better-than-expected economic performance. They noted the upgrade to real GDP growth, inflation deceleration, and the stable FX market supported by sizable external financing. Directors however agreed that the exceptionally high war-related uncertainty continues to pose significant risks, that external financing on concessional terms needs to continue to flow on a timely and predictable basis, and that policy slippages should be avoided.

Directors welcomed the strong program performance and commitment under the Second Review, with timely completion of most of the structural benchmarks through

¹ At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: <http://www.IMF.org/external/np/sec/misc/qualifiers.htm>.

end-October. They also emphasized the importance of parsimonious conditionality. While observing that the program remains fully financed, Directors took note of the higher external financing gaps in the baseline over the four-year program period.

Directors called for decisive policy actions to achieve the fiscal targets and lay the foundations for a robust medium-term fiscal path to preserve fiscal and debt sustainability. They stressed the need for mobilizing tax revenues and avoiding erosion of the tax base with a timely launch and implementation of the National Revenue Strategy (NRS) to support reconstruction and social spending, including examining further considerations related to the higher bank profit tax. Reforms to further strengthen the frameworks for medium-term budget preparation, budget credibility, fiscal risks and transparency, and public investment management also remain crucial.

Directors emphasized that the planned commercial debt operation consistent with program parameters will be essential to restoring debt sustainability and providing much needed flow relief. They noted that preserving debt sustainability will also require seeking new borrowing on highly concessional terms and delivering a revenue-based medium-term fiscal adjustment.

Directors welcomed the National Bank of Ukraine's successful transition from the exchange rate peg toward a managed exchange rate flexibility regime, which represents an important step in strengthening resilience to external shocks. They agreed that continued evidence of sustained disinflation and stability in the FX cash market could support further easing in monetary policy.

Directors observed that although financial stability has been skillfully preserved through comprehensive emergency measures since the onset of war, heightened vigilance and contingency planning are necessary. Key priorities include bank diagnostics and oversight and strengthening governance in state-owned banks.

Directors emphasized that steadfast implementation of structural reforms, including in governance, anti-corruption, and public investment management, will be crucial in laying the foundations for strong and sustained growth, and support Ukraine on its path to EU accession. They welcomed recent progress made to restore asset declarations and align the AML/CFT law with the FATF standards, and emphasized the importance of adopting legislation to strengthen the autonomy of the Specialized Anti-Corruption Prosecutor's Office (SAPO). Directors also noted that efforts to strengthen the governance of state-owned enterprises should continue, and highlighted the importance of ensuring that mechanisms for managing donor funding are integrated into budget processes.

Directors agreed that the extended arrangement for Ukraine continues to satisfy Fund policies governing the Fund's financing assurances for UCT-lending under exceptionally high uncertainty. They reiterated the need to apply this policy in an evenhanded manner. Ukraine's program has been designed to achieve its objectives across a range of assumptions about the large-scale war and under two scenarios. Directors noted that the authorities continue to demonstrate the capacity and commitment to implement the program.

Directors noted the credible process to restructure private external commercial claims, and the financing assurances on debt relief and concessional financing during and after the program received from official bilateral creditors and donors to support debt sustainability under both the baseline and a downside scenario. Directors also noted that the assurances provided by a significant group of Fund shareholders to the Fund about Ukraine's capacity to repay supports the needed safeguards for Fund lending.

Directors agreed that Ukraine has major upside potential once the war tapers off, depending on policy and reform choices and the availability of financing. Well-managed post-war reconstruction coupled with decisive reforms in the context of the path to EU accession could stimulate the return of migrants and investment flows needed for a sustained, resilient and green recovery, bolstering Ukraine's broader development goals.

It is expected that the next Article IV consultation with Ukraine will be held in accordance with the Executive Board decision on consultation cycles for members with Fund arrangements.

Table 1. Ukraine: Selected Economic and Social Indicators, 2021–27

	2021	2022	2023	2024	2025	2026	2027
	Act.	Act.	Proj.	Proj.	Proj.	Proj.	Proj.
Real economy (percent change, unless otherwise indicated)							
Nominal GDP (billions of Ukrainian hryvnias) 1/	5,451	5,191	6,434	7,640	8,858	9,818	10,773
Real GDP 1/	3.4	-29.1	4.5	[3 to 4]	6.5	5.0	4.5
Contributions:							
Domestic demand	12.9	-23.7	8.3	4.1	5.6	4.3	3.8
Private consumption	4.7	-16.6	2.7	2.9	3.1	2.9	3.0
Public consumption	0.1	6.9	2.6	-1.1	-1.9	-0.6	-0.1
Investment	8.1	-13.9	3.0	2.3	4.4	1.9	0.9
Net exports	-9.5	-5.4	-3.8	-0.6	0.9	0.7	0.7
GDP deflator	24.8	34.3	18.6	14.7	8.9	5.6	5.0
Unemployment rate (ILO definition; period average, percent)	9.8	24.5	19.1	13.9	13.1	11.4	10.4
Consumer prices (period average)	9.4	20.2	13.0	7.7	7.8	6.0	5.2
Consumer prices (end of period)	10.0	26.6	6.0	9.5	6.5	5.5	5.0
Nominal wages (average)	20.8	1.0	20.1	16.8	16.1	13.3	10.5
Real wages (average)	10.5	-16.0	6.3	8.5	7.7	7.0	5.0
Savings (percent of GDP)	12.5	17.6	11.9	11.0	10.4	13.9	16.5
Private	12.7	30.8	27.3	24.4	14.1	14.6	15.4
Public	-0.2	-13.2	-15.4	-13.4	-3.6	-0.6	1.2
Investment (percent of GDP)	14.5	12.6	16.5	18.0	19.4	20.9	21.8
Private	10.7	10.1	13.4	15.7	14.9	16.4	16.8
Public	3.8	2.5	3.1	2.3	4.5	4.5	5.0
General Government (percent of GDP)							
Fiscal balance 2/	-4.0	-15.7	-18.6	-15.7	-8.1	-5.1	-3.8
Fiscal balance, excl. grants 2/	-4.0	-25.0	-27.1	-20.4	-10.2	-6.1	-4.8
External financing (net)	2.4	10.8	17.0	13.7	7.6	2.3	2.8
Domestic financing (net), of which:	1.6	5.1	1.5	2.1	0.5	2.8	1.0
NBU	-0.3	7.4	-0.2	-0.2	-0.1	-0.1	-0.1
Commercial banks	1.5	-1.5	2.0	2.2	0.6	2.9	1.0
Public and publicly-guaranteed debt	50.5	78.5	87.1	96.7	98.5	98.2	97.0
Money and credit (end of period, percent change)							
Base money	11.2	19.6	22.6	17.7	12.9	9.5	9.1
Broad money	12.0	20.8	22.8	18.2	9.8	9.5	10.6
Credit to nongovernment	8.4	-3.1	-7.5	9.5	17.2	16.1	15.5
Balance of payments (percent of GDP)							
Current account balance	-1.9	5.0	-4.6	-7.1	-9.0	-7.0	-5.2
Foreign direct investment	3.8	0.1	1.9	1.2	2.5	4.8	5.0
Gross reserves (end of period, billions of U.S. dollars)	30.9	28.5	39.5	40.9	41.0	41.6	45.9
Months of next year's imports of goods and services	4.5	3.8	5.1	5.3	5.1	5.0	5.2
Percent of short-term debt (remaining maturity)	67.5	66.1	85.4	94.1	86.9	89.0	92.6
Percent of the IMF composite metric (float)	98.9	92.9	109.7	99.0	94.2	90.4	96.4
Goods terms of trade (percent change)	-8.4	-11.6	4.3	-0.5	1.4	1.9	1.4
Exchange rate							
Hryvnia per U.S. dollar (end of period)	27.3	36.6	...	...	...	...	...
Hryvnia per U.S. dollar (period average)	27.3	32.3	...	...	...	...	...
Real effective rate (deflator-based, percent change)	10.4	27.6	...	...	...	...	...
Memorandum items:							
Per capita GDP / Population (2017): US\$2,640 / 44.8 million							
Literacy / Poverty rate (2022 est 3/): 100 percent / 25 percent							

Sources: Ukrainian authorities; World Bank, World Development Indicators; and IMF staff estimates.

1/ GDP is compiled as per SNA 2008 and excludes territories that are or were in direct combat zones and temporarily occupied by Russia (consistent

2/ The general government includes the central and local governments and the social funds.

3/ Based on World Bank estimates.



UKRAINE

December 4, 2023

STAFF REPORT FOR THE 2023 ARTICLE IV CONSULTATION, SECOND REVIEW UNDER THE EXTENDED ARRANGEMENT UNDER THE EXTENDED FUND FACILITY, AND REQUESTS FOR MODIFICATION OF PERFORMANCE CRITERIA AND A WAIVER OF NONOBSERVANCE OF PERFORMANCE CRITERION

EXECUTIVE SUMMARY

Russia's war in Ukraine continues to have a devastating economic and humanitarian impact. The frontlines remain stalled as combat continues in eastern and southern Ukraine. Russia quit the Black Sea Grain Initiative (BSGI) in July and has stepped up attacks on Ukraine's port infrastructure. The war is severely impacting human and physical capital, with large-scale loss of life, drop in living standards, rise in poverty, and damage to infrastructure. Despite the resilience of the Ukrainian people and the authorities' skillful policymaking to maintain macroeconomic and financial stability, continuous external support is critical to help restore medium-term external viability, prepare the country for post-war recovery and reconstruction, and facilitate Ukraine's path to EU accession for which the European Commission (EC) has recommended opening accession negotiations.

Despite the ongoing war, macroeconomic indicators have been stronger than expected, contributing to upward revision in the growth outlook. Economic resilience has resulted in better growth outturns, sharp disinflation has continued, and the FX market has been stable, backed by strong reserves. Baseline real GDP growth in 2023 has been revised up to 4.5 percent. However, growth is expected to soften in 2024 to 3–4 percent as the war continues. The outlook remains subject to significant risks related to the exceptionally high uncertainty stemming from the war, potential policy slippages and delays or shortfalls in external financing. Sizeable reliance on external financing will continue in 2024 given war-related fiscal strains. The slight upgrade to the medium-term outlook reflects the structural reforms embedded in more structured donor support and EU accession. The downside scenario remains broadly unchanged.

Policy priorities:

- **Fiscal policy:** Near term fiscal policies will continue to focus on ensuring adequate resources for priority spending, maintaining a strong tax revenue base, including by refraining from measures that would erode the tax base, and preserving fiscal and debt sustainability. Efforts should focus on the timely adoption of the National Revenue Strategy (NRS) that would anchor much needed revenue mobilization to support reconstruction and social spending. Work should continue to enhance expenditure planning and the medium-term budget framework, combined with strengthening public investment management while ensuring budget unity, coherence, and predictability. Policies to enhance fiscal transparency and strengthen fiscal risks management remain essential.
- **Financing strategy and debt sustainability:** Substantial external support and domestic resources will provide fiscal financing in 2024. The authorities are taking steps to deliver debt sustainability on a forward-looking basis, with a credible process in place for restructuring external commercial debt by mid-2024 before the debt standstill expires. The standstill provided by the Group of Creditors for Ukraine (GCU) on official bilateral claims remains in effect through the end of the program, with a final debt treatment expected before the last review of the EFF. Definitively restoring sustainability also requires revenue-based fiscal adjustment over the medium term and obtaining financing on appropriately concessional terms.
- **Monetary and exchange rate policies:** Supporting price stability and external sustainability, including through maintaining an adequate level of FX reserves, while prudently managing the wartime liquidity surplus, remain essential. Restoring pre-war monetary and exchange rate policy frameworks, including the return to inflation targeting as conditions permit, will be key to bolstering economic resilience.
- **Financial sector:** The financial system remains stable and liquid thanks to extensive emergency measures; continued vigilance is needed as the health of the banking system is hard to assess. Diagnostics, reforms to banking oversight, governance of state-owned banks (SOBs) and contingency planning are high priorities. The central bank is finalizing the next iteration of its financial sector strategy, which provides a coordinated vision and roadmap for the future of the financial system.
- **Governance and growth:** Robust post-war growth and rigorous structural reforms, including on governance and anti-corruption, are needed to swiftly restore living standards and support EU accession. Key legislative measures on asset declaration and AML/CFT that have been adopted and additional upcoming reforms on anti-corruption and governance will help mitigate corruption risks during Martial Law and promote public trust and donor confidence in the post-war context. Pursuing an integrated strategy for critical spending during recovery and reconstruction, including on energy and procurement, are also important.

Staff supports the completion of the second review under the EFF, enabling a purchase of SDR 663.9 million (33 percent of quota). The authorities met all quantitative

performance criteria (QPC) and Indicative Targets (IT) for end-June as well as all ITs for end-September. Moreover, 7 of the 12 Structural Benchmarks (SB) for June-October 2023 were met on time; four SBs related to asset declaration, AML/ CFT and energy corporate governance were implemented with a delay under very difficult circumstances, while the missed SB on tax policy and administration was adopted through an additional legislation on restoring tax audits. The continuous PC against modification or introduction of multiple currency practices was not observed, given changes to the exchange rate regime.

Program modifications. The authorities are requesting a modification of the end-December QPC on tax revenues excluding social security contributions. Several macroeconomic variables used to project tax collections have deviated from their projections, leading to underperformance of certain tax categories, including at local government level. Blockages on the western border will also hamper tax collections. Modifications are also requested to tighten the end-December floor on the non-defense primary balance excluding grants and the end-December floor on net international reserves to lock in the better-than-expected outturns on these targets. The authorities are requesting modifications of one SB and resetting of two SBs: (i) revising one SB to include additional elements to strengthen the institutional autonomy of SAPO (end-December 2023); (ii) resetting the missed SB on the 5-7-9 program from end-September 2023 to end-March 2024; and, (iii) resetting the SB on the bank rehabilitation framework from March 2024 to December 2024. The authorities' continued strong program commitment is also demonstrated in the 11 new proposed SBs for 2024 on a spectrum of fiscal, financial, and governance reforms and one continuous SB. The authorities also request approval of the multiple currency practices (MCPs) under Article VIII Section 3 and a waiver of non-observance of the continuous PC against modification or introduction of MCPs.

Program risks. The ongoing war-related exceptionally high uncertainty implies enormous and unprecedented risks to the program. If the war situation worsens, the economic recovery could sharply reverse, and the fiscal position could deteriorate. Despite the authorities' skillful policymaking and strong commitment, the room to maneuver around such shocks is limited. Any shortfalls and/or delays in external financing would raise the risk of suboptimal policy choices and the program going off track. The program is designed to achieve its objectives—of resolving BOP gaps and restoring external viability—under both a baseline scenario and a downside scenario. The authorities' strong capacity and commitment to implement the program and continued sizable and timely donor support (backed by credible and specific financing assurances) help mitigate such risks. However, given the ongoing war, program risks cannot be fully mitigated through program design and/or contingency planning alone.

Article IV. Discussions focused on foundational policies for strong, balanced, and green growth in the post-war era to support Ukraine's EU accession. The focus was on the appropriate macroeconomic policy frameworks, including the restoration of pre-war monetary and exchange rate policy frameworks, governance reforms, steps to revitalize the banking sector, and policies to mitigate climate change, to help Ukraine achieve a high sustained growth path and raise living standards.

Approved By
Uma Ramakrishnan (EUR) and **Martin Čihák (SPR)**

Discussions were held in Warsaw (September 25–29), Kyiv (October 1–4) and Warsaw (November 5–10) with Finance Minister Serhii Marchenko, National Bank of Ukraine Governor Andriy Pyshnyy and other senior government officials. The staff team comprised Gavin Gray (mission chief), Natan Epstein and Sanaa Nadeem (deputy mission chiefs), Heiko Hesse, Geoffrey Keim, Armine Khachatryan (all EUR); Toomas Orav and Martha Woldemichael (SPR); Dermot Monaghan and Nikoletta Kleftouri (MCM); Jonathan Pampolina (LEG); and Vahram Stepanyan (Resident Representative), Ihor Shpak and Mariia Sydorovych (local office). Uma Ramakrishnan (EUR) joined the Kyiv mission. Ender Emre (LEG) participated in some meetings. Vladyslav Rashkovan (OED) participated in policy discussions. Ritzy Dumo and Luis Omar Herrera Prada (EUR) provided support from headquarters.

CONTENTS

CONTEXT	6
RECENT DEVELOPMENTS	6
PROGRAM PERFORMANCE	10
OUTLOOK AND RISKS	11
PROGRAM POLICY DISCUSSIONS	14
A. Macro-Fiscal Policies and Fiscal Financing	15
B. Fiscal Structural Policies	19
C. Monetary and Exchange Rate Policies	24
D. Financial Sector	26
E. SOE Corporate Governance and Energy Sector	29
F. Governance	31
PROGRAM MODALITIES AND FINANCING ASSURANCES	32
A. Program Issues	32
B. Debt Sustainability, Financing Assurances and Capacity to Repay the Fund	33
2023 ARTICLE IV CONSULTATION	40
CD IMPLEMENTATION	50

STAFF APPRAISAL 51**BOXES**

1. Strengthening Financial and Credit Market Infrastructure	28
2. EU Accession Negotiations and Ukraine Facility	40
3. Scaling up CD: Financing, Prioritization, and Coordination	50

FIGURES

1. Real Sector Developments	58
2. External Sector Developments	59
3. Monetary Developments	60
4. Fiscal Sector Indicators	61

TABLES

1. Baseline Financing Gap and Sources	36
2. Baseline Financing Gap and Sources, 12-Month Basis	37
3. Ukraine: Structural Benchmarks	54
4. Selected Economic and Social Indicators (Baseline Scenario), 2021–2033	62
5a. General Government Finances (Baseline Scenario), 2021–2033 (Billions of Ukrainian Hryvnia)	63
5b. General Government Finances (Baseline Scenario), 2021–2033 (Percent of GDP)	64
6a. Balance of Payments (Baseline Scenario), 2021–2033 (Billions of U.S. Dollars)	65
6b. Balance of Payments (Baseline Scenario), 2021–2033 (Percent of GDP)	66
7. Gross External Financing Requirement (Baseline Scenario), 2021–2033	67
8. Monetary Accounts (Baseline Scenario), 2021–2033	68
9. Indicators of Fund Credit (Baseline Scenario), 2023–2033	69
10. EFF Schedule of Reviews and Available Purchases	69
11. Quantitative Performance Criteria and Indicative Targets	70

ANNEXES

I. Risk Assessment Matrix	71
II. External Sector Assessment	73
III. Sovereign Risk and Debt Sustainability Analysis	77
IV. Downside Scenario	92
V. Banking Sector Developments	102
VI. Upside Scenarios	112

APPENDIX

I. Letter of Intent	115
Attachment I. Memorandum of Economic and Financial Policies	119
Attachment II. Technical Memorandum of Understanding	158

CONTEXT

1. The 21-month long war grinds on with an enormous toll on the population and the country. The frontlines remain largely stalled as combat continues in eastern and southern parts of Ukraine; Russia quit the Black Sea Grain Initiative (BSGI) in July, and has stepped up attacks on Ukraine's port infrastructure. Renewed attacks on Ukraine's energy infrastructure are widely expected in the winter. As Ukraine braces for a longer war, staff has moved the assumption about the war winding down from mid-2024 to the end of 2024. The uncertainty around near-term developments remains elevated, and continued support of international partners remains essential.

2. Despite the war, the country has benefitted from a stronger-than-expected recovery and steadfast reform momentum, but the outlook remains subject to exceptionally high uncertainty. Economic activity has been more resilient than expected, and sentiment among firms and households has rebounded; inflation has continued to decline sharply; and conditions in the FX market have been stable amid the recent successful transition to a managed exchange rate regime. The authorities have continued to progress on reforms, including in governance and anticorruption, despite the difficult environment. That said, risks remain exceptionally large with a more prolonged war, including to sustain domestic and external financing and the reform momentum.

3. The review focused on developing a macroeconomic framework and policies for 2024, together with Article IV discussions that explored opportunities and challenges in the post-war period. In particular, staff helped the authorities finalize the 2024 Budget, including contingency measures, consistent with program parameters, as well as updated the baseline and downside macroeconomic frameworks and debt sustainability assessments. Discussions also focused on the structural reform agenda in 2024, including in governance, anti-corruption, and public investment management. The Article IV discussions focused on foundational policies for strong, balanced and green growth in the post-war era to support Ukraine's EU accession. Finally, staff has developed an illustrative upside scenario to motivate reform priorities, while anchoring the scaling up of aid and reconstruction spending in a coherent macroeconomic policy framework.

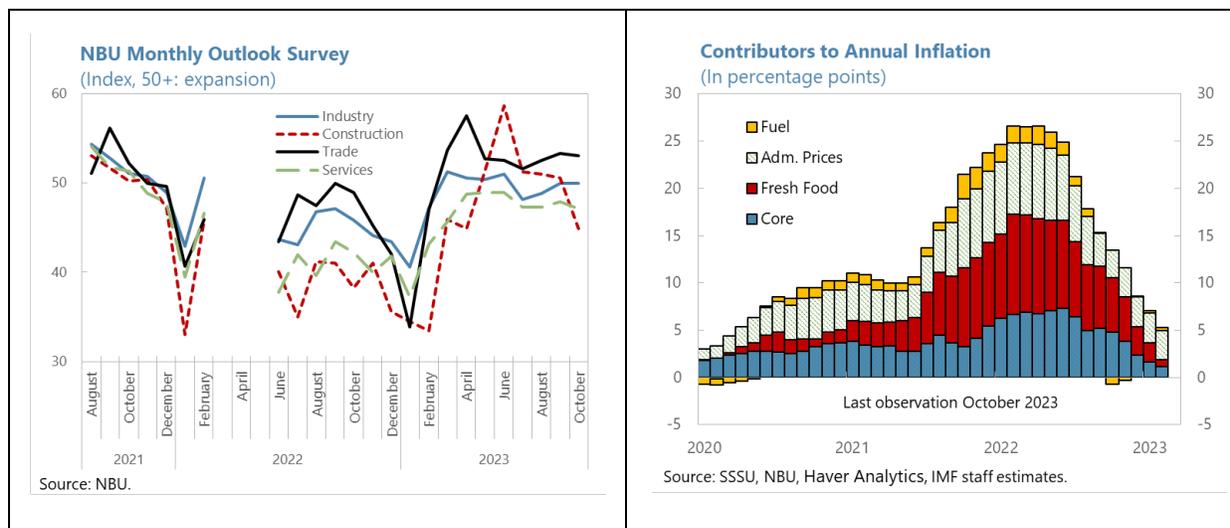
RECENT DEVELOPMENTS

4. Economic performance has been more resilient than forecast at the First Review.

- *Growth.* High-frequency data show a more resilient economy in 2023 despite the war, with robust output growth on a quarterly sequential basis. After a strong Q1, GDP in Q2 expanded by 19.5 percent y/y (a staff estimated 2.8 percent q/q seasonally adjusted) and is estimated to have grown by over 8 percent y/y in Q3 (2.3 percent q/q sa), due to a quicker recovery in domestic demand as firms and households have adapted to the war, a strong harvest, and expanding alternative export routes. The labor market continues to improve, while declining inflation and stable FX markets have contributed to lower inflation expectations and improved sentiment.

Business surveys confirm the improving sentiment, while consumer confidence has risen in recent months after a slight decline in early summer from the electricity tariff increase.

- Inflation.** The strong downward trend in inflation continued in October 2023, as headline inflation significantly declined to 5.3 percent y/y from 7.1 percent y/y in September (and 26.6 percent at end-2022). This reflects a larger supply of food (including from the closure of the grain corridor and the harvest) and fuel, and stable FX market conditions. While household electricity tariffs increased by 60 percent from June, the impact on annual inflation is small due to a low base.



5. The current account balance further deteriorated in 2023Q3 from a widening trade deficit. The 2023Q3 trade deficit reached US\$8.8 billion (US\$6 billion in 2023Q2) with sustained import needs and logistical bottlenecks weighing on exports. The NBU estimates forgone exports of US\$1.3 billion between May and September 2023 following neighboring EU countries' import bans on Ukrainian agricultural products and the termination of the BSGI. Nevertheless, export capacity is expanding through alternative routes, notably Danube River ports, and a partial resumption of Black Sea shipments since August through a temporary corridor. In this regard, the authorities agreed with a pool of insurance companies in November an insurance mechanism for ships along the temporary corridor. Ukraine continues to benefit from large gross external budget grant and loan financing, which totaled US\$35.4 billion as of end-October, contributing to gross international reserves reaching US\$39 billion (5.1 months of imports) at the same period.

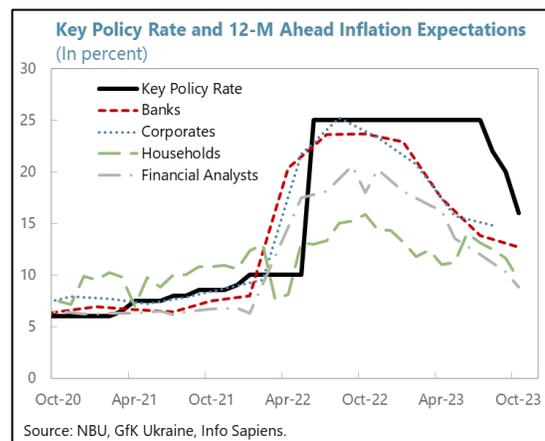
6. Amid a stable FX market supported by strong official financing, the NBU transitioned on [October 3](#) from its exchange rate peg toward a managed exchange rate regime in line with

its **Strategy**.^{1,2} The exchange rate has since remained broadly stable supported by NBU FX sales in a market still dominated by the NBU. This comes against a backdrop of a stable FX market due to robust external donor support, measures to ease demand on FX cash market and the stronger economic outlook. The spread between the cash and official exchange rate has averaged in the 3–5 percent range through the year.

7. The fiscal deficit widened over the first nine months of the year, compared with a year ago, as revenues continued growing but expenditures expanded even faster. At end-September the cumulative overall fiscal deficit (measured below the line) reached UAH 664.6 billion (10.3 percent of GDP), compared with UAH 406.6 billion (7.8 percent of GDP) in the same period of 2022. Tax collections (excluding social security) were up 23 percent, y/y over January-September, but with differences across categories. Non-tax revenues expanded robustly, reflecting both the disbursement of budget support grants and in-kind donations (which are largely budget-neutral). Expenditures expanded 57 percent y/y through September.

8. External support continues to be the predominant source of budget financing. Net budget financing through end-October 2023 comprised US\$22.9 billion in external (loan) financing and US\$3.3 billion through the domestic bond market, with a recent uptick in domestic issuance. Year-to-date rollover rates on local-market instruments reached 137 percent at end-October, supported by the reserve requirement mechanism (60 percent of primary issuances), and the Key Policy Rate (KPR) easing cycle (19). Issuance yields have declined slightly (less than 100 bps on average) since the July KPR cut, but remain positive in ex ante real terms, while the maturity on new instruments has averaged above one year. Meanwhile, government cash deposits have been built up by about US\$5.5 billion through end-October 2023. There continues to be no monetary financing this year.

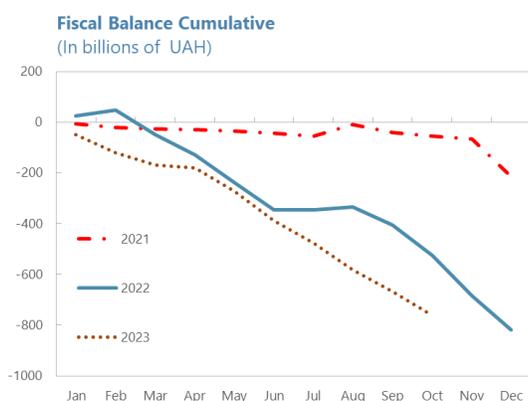
9. The NBU has embarked on an easing cycle, prompted by the sharp disinflation. The key policy rate (KPR) has been cut by a cumulative 900 bps to 16 percent since July, and the rate on the overnight CD, the main liquidity absorption instrument, has fallen by 700 bps since April 2023. Real rates remain high and positive amid the decline in both inflation and inflation expectations.



¹ On June 29, the NBU approved a Strategy for easing FX restrictions, transitioning to greater exchange rate flexibility, and returning to its inflation targeting regime (end-June 2023 Structural Benchmark).

² While the NBU is transitioning towards a managed exchange rate regime, the de facto exchange rate arrangement remains classified as stabilized as more observations are necessary to determine its new trend. Please see the Informational Annex for more information on the de jure and de facto exchange rate arrangements.

Ukraine: Selected Fiscal and Financing Indicators



Source: MoF, IMF staff estimates.

Key Revenue Indicators

	Jan-Sep 2023	
	UAH billion	percent change, y/y
Total revenue (ex. Social Sec. Contrib.)	2,346	52.6
Tax revenue	1,186	22.6
Personal income tax	351	20.1
Corporate profit tax	117	18.8
Tax on goods and services	559	31.1
Other tax revenues	159	5.8
Nontax revenue	1,159	103.6

Key Expenditure Indicators

	Jan-Sep 2023	
	UAH billion	percent change, y/y
Expenditures	3,057	57.4
Wages and salaries	1,064	30.9
Goods and services	1,180	120.7
Interest	177	60.3
Capital expenditures	150	228.9
Other expenditures	487	10.8

10. The banking system remains operational and liquid, while balance sheets continue to adjust under Martial Law (Annex V). Total banking system assets and client deposits have increased by 36 percent and 51 percent, respectively, from February 2022 to August 2023. The rise in assets has been allocated to higher investments in domestic government debt securities and NBU CDs. Loan portfolios continue to shrink slowly with total lending falling by 7 percent on aggregate since the start of the war. The decline in retail lending recently flattened due to an increase in credit card borrowing, while most new corporate lending continues to be through government support schemes (notably the 5-7-9 affordable loans scheme), which has grown to 13 percent of total lending. From January to August 2023, net profit of banks grew by more than 11-fold y/y to UAH 95 billion, mostly due to the high net interest income generated from sovereign and NBU securities. NPLs stood at nearly 40 percent at end-September 2023, an 11½ pp increase since February 2022, though with relatively high provisioning coverage. Short-term liquidity ratios were three times higher than minimum requirements on average at end-September 2023, and banks' core and total capital ratios have risen to 14.8 percent and 25.0 percent, respectively.

PROGRAM PERFORMANCE

11. The authorities' performance during the Second Review was broadly on track, demonstrating a strong commitment to reforms.

- **Quantitative performance criteria (QPCs).** All QPCs for end-June were met, as were the indicative targets (ITs). Specifically, the QPC on the floor on *the non-defense cash primary balance of the general government excluding budget support grants* was met with a comfortable margin, the QPC on *tax revenues* (excluding social security contributions) exceeded the floor, and the QPC on *government guarantees* was well below the ceiling. *Net international reserves (NIR)* comfortably exceeded the end-June QPC thanks to strong external support and weaker-than-expected impacts from the attacks on infrastructure. Building on the strong end-June program performance, all end-September ITs were also met.
- **Structural benchmarks.** The authorities met 7 of the 12 structural benchmarks for June-October 2023 on time, while four benchmarks were implemented with a delay under very difficult circumstances. Specifically: (i) the draft law on tax policy and administration prepared under the PMB, which contained major reforms to restore the pre-war framework for single tax and cash registers, was adopted but omitted the restoration of tax audits; this was subsequently legislated separately; (ii) the transfer of the GTSO shareholding directly to the Ministry of Energy and adoption of the new charter was delayed from end-July and was implemented in September-October 2023; (iii) adopting a law to restore the obligation of public officials to submit asset declarations, which was completed in September 2023, after the end-July due date; and (iv) amending the AML/CFT Law to re-establish enhanced due diligence measures on politically exposed persons was also met, albeit with a one month delay.

Ukraine: Quantitative Criteria and Indicative Targets

(End of period; millions of Ukrainian hryvnias, unless otherwise indicated)

	end-June 2023					end-September 2023				
	QPC	Adjustor	Adjusted QPC	Actual	Status	IT	Adjustor	Adjusted IT	Actual	Status
I. Quantitative Performance Criteria 1/ 2/										
Floor on the non-defense cash primary balance of the general government, excluding budget support grants (- implies a deficit) 2/ 3/	213,000		213,000	278,872	Met	242,900		242,900	404,895	Met
Floor on tax revenues (excluding Social Security Contributions)	696,400		696,400	747,986	Met	1,094,700		1,094,700	1,187,653	Met
Ceiling on publicly guaranteed debt 4/	37,000	11,917	48,917	17,731	Met	37,000	11,917	48,917	19,571	Met
Floor on net international reserves (in millions of U.S. dollars) 5/	16,500	-63	16,437	26,284	Met	16,500	-1,975	14,525	28,138	Met
II. Indicative Targets 1/ 2/										
Floor on the cash balance of the general government, excluding budget support grants (- implies a deficit)	-730,000		-730,000	-660,336	Met	-1,141,100		-1,141,100	-1,027,513	Met
Ceiling on general government arrears	4,500		4,500	1,620	Met	3,000		3,000	1,690	Met
Floor on social spending	249,000		249,000	276,051	Met	359,600		359,600	402,556	Met
Ceiling on general government borrowing from the NBU 6/ 7/	-2,573		-2,573	-2,573	Met	-1,153		-1,153	-1,153	Met
III. Continuous performance criterion 1/ 2/										
Ceiling on non-accumulation of new external debt payments arrears by the general government	0		0	0	Met	0		0	0	Met
IV. Memorandum items										
External project financing (in millions of U.S. dollars)	62	...	...	63	...	381	...	...	172	...
External budget financing (in millions of U.S. dollars) 8/	19,934	...	...	19,870	...	30,615	...	...	28,849	...
Budget support grants (in millions of U.S. dollars)	7,409	...	...	7,374	...	11,073	...	...	9,924	...
Budget support loans (in millions of U.S. dollars) 8/	12,525	...	...	12,496	...	19,542	...	...	18,925	...
Interest payments	124,000	...	...	120,038	...	183,600	...	...	176,913	...
NBU profit transfers to the government	71,868	...	...	71,868	...	71,868	...	...	71,868	...
Government bonds for the purposes of bank recapitalization and DGF financing	0	...	...	0	...	0	...	...	0	...
Spending from receipts resulting from sales of confiscated Russian assets and transfers of bank accounts	25,800	...	...	0	...	25,800	...	...	3,700	...
Spending on gas purchases, PSO compensation and transfer to GTSO	30,000	...	...	0	...	45,000	...	...	0	...

Sources: Ukrainian authorities and IMF staff estimates and projections.

1/ Definitions and adjustors are specified in the Technical Memorandum of Understanding (TMU).

2/ Targets and projections for 2023 are cumulative flows from January 1, 2023.

3/ Starting with June 2023, the floor on the non-defense cash balance of the general government excluding grants is redefined to include general fund defense expenditures only.

4/ Starting with June 2023, the ceiling on government guarantees was converted into a quantitative performance criteria.

5/ Calculated using program accounting exchange rates as specified in the TMU.

6/ For end-June, calculated cumulative from May 1.

7/ Calculated using the projected redemption of government bonds as of May 28, 2023.

8/ Excludes prospective IMF disbursements under the EFF.

OUTLOOK AND RISKS

12. Despite Ukraine's economic resilience, the outlook remains exceptionally uncertain with attendant risks. On the trajectory of the war, the counteroffensive has proceeded slowly, and the authorities have shifted their assumptions around the end of the war to end-2024. Accordingly, the baseline macroeconomic framework is now based on the assumption of the war winding down

by end-2024.³ The baseline, however, assumes no significant worsening in the intensity or scope of the war and no protracted energy shortages. Under these assumptions, economic activity is somewhat less sensitive to assumptions around a six-month longer war duration. The downside scenario entailing a longer and more intense war maintains the assumption of the war winding down by end-2025, and remains sufficiently distinct from the revised baseline.

13. Baseline growth has been upgraded for 2023 due to better-than-expected GDP outturns, but headwinds are expected going into the winter months.

- **Stronger sequential recovery in 2023.**

The growth forecast for 2023 has been upgraded to 4.5 percent from the 1–3 percent range in the First Review. The upgrade has been driven by higher-than-expected growth in Q2 and a strong estimate in Q3 (114). Staff sees elevated uncertainties in Q4 and the upcoming winter, principally risks around the resumption of attacks on Ukraine’s energy infrastructure, which would weigh on confidence and activity. Overall, for the year, domestic demand is expected to remain robust supported by stable investment, including construction activity, and government spending. Net exports continue to be weak, due to the closure of the grain corridor and binding logistical bottlenecks (despite encouraging developments on alternative routes).

Ukraine: Selected Economic Indicators, Baseline and Downside Scenarios, 2023-2025			
	2023	2024	2025
Baseline			
Real GDP growth (%)	4.5 [3 to 4]		6.5
Inflation, eop (%)	6.0	9.5	6.5
Current account (% GDP)	-4.6	-7.1	-9.0
Current account (US\$ billion)	-8.1	-13.1	-17.8
Trade balance (US\$ billion)	-29.9	-29.4	-35.3
FX reserves (US\$ billion)	39.5	40.9	41.0
Overall fiscal balance (% GDP)	-18.6	-15.7	-8.1
Overall fiscal balance, excl. grants (% GDP)	-27.1	-20.4	-10.2
Public debt (% GDP)	87.1	96.7	98.5
Downside			
Real GDP growth (%)	4.5	-5.0	0.0
Inflation, eop (%)	6.0	11.0	8.5
Current account (% GDP)	-4.6	-10.9	-2.0
Current account (US\$ billion)	-8.1	-17.9	-3.3
Trade balance (US\$ billion)	-29.9	-42.2	-31.5
FX reserves (US\$ billion)	39.5	32.4	39.8
Overall fiscal balance (% GDP)	-18.6	-19.0	-17.8
Overall fiscal balance, excl. grants (% GDP)	-27.1	-28.9	-24.1
Public debt (% GDP)	87.1	111.5	126.7

- **Softer growth in 2024.** Growth is expected to moderate to a range of 3–4 percent, with the sequential recovery continuing throughout the year. The main growth driver is expected to be domestic demand; net exports are forecast to remain a drag, albeit much less so than in 2023. Labor market dynamics (employment, wages) are likely to reflect the uneven recovery across regions and industries as well as the structural impact of the war on migration.
- **Steadying inflation.** Staff has significantly lowered the end-2023 headline inflation forecast to 6 percent y/y (15.5 percent in the First Review) based on much stronger than expected disinflation

³ Staff have held ongoing discussions with military experts to help inform the assessment of the war’s duration. While these discussions revealed no consensus on war scenarios, the baseline scenario pointed towards a likely longer war.

outturns since the spring. There are likely headwinds towards the end of 2023 from the elevated economic uncertainty in the winter. Headline inflation is expected to tick higher to around 9.5 percent y/y by end-2024, in part due to base effects (e.g., on food prices), wage inflation and war-related effects on business production costs.

- **Widening current account deficit amid strong international reserves.** In 2023, the current account deficit is expected to reach US\$8.1 billion (4.6 percent of GDP), following a surplus of US\$8 billion in 2022. While NBU estimates export revenue loss of US\$2 billion in Q4 2023 from the termination of BSGI and import bans by neighboring EU countries, total foregone export proceeds of US\$3.3 billion in 2023 are projected to be entirely recouped in 2024H1, thanks to increased transportation capacity through alternative routes. Efforts to develop export licenses and EU solidarity lanes are expected to help contain the trade deficit going forward, although the recent blockade of three key Polish border crossings with Ukraine is a potential downside risk to trade if sustained. In 2024, the current account deficit is expected to worsen to 7.1 percent of GDP, as imports are forecast to remain elevated and current transfers to moderate. The services balance is projected to remain negative in 2024 due to migrant-related outflows, but external financing should continue supporting gross international reserves, estimated at US\$ 40.9 billion at end-2024 or 5.3 months of prospective imports.

14. The baseline medium-term outlook has been upgraded due to a more expansive and structured reform agenda entailed by donor support and the EU accession path. Real GDP growth is expected to rebound strongly in 2025–26 (post-war), supported by investment and modest reconstruction (given relatively low absorptive capacity), as well as consumption as migrants steadily return. The fiscal deficit is assumed to narrow in 2025, as defense spending would substantially fall after the war. Inflation is expected to decline from 2025 after the temporary pick-up in 2024, but return to within the pre-war target of 5 ± 1 percent toward the end of the program period. FX reserves will continue to accumulate through the medium-term and be close to parity of the IMF's composite reserve adequacy metric at the end of the program. A key feature of the medium- and longer-run outlook is the wide-ranging structural reforms to be undertaken by Ukraine to prepare for EU accession, including as part of the €50 billion Ukraine Plan. As such, the medium-term growth path has been slightly upgraded.

15. The updated downside scenario maintains the assumption of a more intense war running into 2025, though the shock is now assumed to begin only in 2024. Downside forecasts for 2023 are aligned with the baseline as the year winds down. The output contraction reaches 5 percent in 2024, as the more protracted and intense war weighs on economic sentiment, the pace of migrant return, fiscal spending needs, and exports with further disruptions to export capacity. Inflation would be notably higher in 2024 in part due to depreciation. However, given the ample reserve buffers, some deployment of reserves is assumed to maintain macro-financial stability and address any FX imbalances. The downside scenario anticipates added donor financing relative to the baseline for the duration of the war. Annex IV includes details on the downside scenario, including contingency plans, which are largely in line with those outlined at the EFF request.

16. Risks to the outlook remain exceptionally large (Annex I). Near-term downside risks stem from a large-scale resumption of winter attacks on energy infrastructure and further attacks on the Danube ports and the temporary sea corridor. A key short-to medium-term risk is the war extending beyond end-2024. This could lead to a much wider fiscal deficit, reversal of the downward inflation trend, and an intensification of FX imbalances. Higher domestic financing may become difficult to mobilize, while sovereign-bank linkages may breed macro-financial risks; external financing may face unexpected shortfalls or delays. These outcomes could result in larger financing gaps, necessitating financial repression, monetary financing as the last resort and a sharp compression in spending. Moreover, reform reversals may derail the hard-won macroeconomic and financial stability, and would exacerbate fiscal and BoP gaps, weaken domestic and external confidence, and hamper public support for reforms.

17. Staff assesses enterprise risks to the Fund related to Ukraine's EFF to be unchanged from the program approval and the First Review. The Fund continues to face significant enterprise risks, which are being somewhat mitigated, including due to the continued presence of the additional safeguards required under the policies for financing assurances to lend under exceptionally high uncertainty. In particular, *financial risks* continue to be at least partially mitigated with the safeguards arising from an assurance over capacity to repay the Fund that continues to be received from a group of significant Fund shareholders (171). On *operational risks*, despite the war (including its longer duration) and recent uncertainties around external financing, such risks are being mitigated by a strong program implementation thus far, amid the economy being more resilient than previously anticipated. The planned high frequency reviews in the coming year (Table 10) will enable close monitoring, while providing opportunities to adapt program design to new information. On *reputational risks*, the Fund could face considerable risks if does not continue to assist a member with large BoP needs which has shown strong commitment toward implementing policies under its UCT quality-program despite the exceptionally high uncertainty; proceeding with the review would also help anchor macroeconomic policies and reforms and catalyze large donor financing, both of which could enhance Ukraine's capacity to repay the Fund.

PROGRAM POLICY DISCUSSIONS

18. The program goals remain sustaining macroeconomic and financial stability, restoring debt sustainability, and supporting Ukraine's recovery on the path toward EU accession. In view of the exceptionally high uncertainty, the two-phased approach set out at program approval remains broadly appropriate even if the authorities have already demonstrated significant capacity to implement reforms that might have been expected in the second phase. In light of the economic resilience and strong reform track record of the authorities during the war, the longer war assumption is not expected to adversely affect the pace of reforms. With external financing becoming more challenging, it will be critical for the authorities to continue reform efforts, as anchored in the EFF arrangement to further build economic resilience.

19. As required under the policy for Fund lending under exceptionally high uncertainty (EHU), the program is designed to achieve its objectives—of resolving BOP problems and restoring medium-term external viability—under both a baseline scenario and a downside scenario. The set of policies outlined in this section refer primarily to the baseline scenario, and the authorities are committed to take necessary measures to achieve the program objectives under the downside scenario. Specifically, the mix of additional policy measures envisaged by the authorities could include seeking further external financing and a larger mobilization of domestic financing, increasing revenues, making some spending contingent on available financing, monetary tightening, FXI, and potentially, adjusting FX policies and temporary CFMs (Annex IV). Monetary financing to close residual financing gaps would be a last resort. Additional contingency measures may need to be undertaken should shocks be more severe than in the downside scenario, and the authorities have commitment and the capacity to implement such measures. However, risks cannot be fully mitigated through program design and contingency planning alone given the war.

A. Macro-Fiscal Policies and Fiscal Financing

Policies for 2023

20. The objective of fiscal policies for the rest of 2023 is to keep expenditures within the available resource envelope. A supplementary budget was adopted on October 19, 2023, to accommodate higher expenditures, largely for defense operations and social protection priorities. Consequently, the 2023 overall deficit excluding grants is currently projected at UAH 1.74 trillion (-27.1 percent of GDP) (versus UAH 2.00 trillion in the supplementary budget and UAH 1.67 trillion in the First Review).

	UAH Billion			Percent of GDP 1/		
	First Review (Baseline)	Supplementary Budget	Second Review (Baseline)	First Review (Baseline)	Supplementary Budget	Second Review (Baseline)
Revenues excluding grants	2,421	2,416	2,385	37.2	37.6	37.1
Tax	2,190	2,198	2,144	33.7	34.2	33.3
Taxes excl. social security contributions	1,683	1,680	1,659	25.9	26.1	25.8
Social security contributions	507	518	485	7.8	8.0	7.5
Non-tax (excluding grants)	231	219	241	3.6	3.4	3.7
Expenditures	4,096	4,415	4,129	63.0	68.6	64.2
Wages, goods & services, and capital	2,577	2,821	2,707	39.7	43.9	42.1
Social	991	1,076	1,003	15.3	16.7	15.6
Other expenditures	527	518	420	8.1	8.1	6.5
Deficit excluding grants	-1,674	-1,999	-1,745	-25.8	-31.1	-27.1

1/ First Review uses the first review's GDP projection, Supplementary Budget and Second Review use the second review's GDP projection.

- *Revenues:* Despite stronger economic growth and important tax measures this year (e.g., reforms contained in Law #8401 and the full restoration of pre-war fuel taxes), wage growth, natural gas prices, and exchange rate depreciation have been lower than expected at the time of the

budget. Thus, end-year outturns for certain tax categories (e.g., personal income taxes, royalties, and import duties) are likely to underperform, offset in part by stronger-than-expected performance in other categories (e.g., corporate profit taxes and excises). Overall, the expected fourth-quarter uptick in tax revenues is projected to be smaller and full-year tax collections (excluding social security contributions) are projected at UAH 1,659 billion (UAH 24 billion less than expected in the First Review).

- *Expenditures:* Expenditures are expected to be at UAH 4,129 billion (64 percent of GDP), UAH 33 billion higher than in the First Review. However, with prudent commitment control in Q4 and slower-than-expected implementation of projects financed by project lending, the end-year outturn will be less than planned in the supplementary budget.
- *Financing:* Net external loan disbursements are expected to remain the largest contributor to deficit financing in 2023, amounting to around US\$31.7 billion, assuming full disbursements of programmed commitments and project loans. Deposits accumulated earlier in the year, including due to large and prompt external disbursements, are expected to be run down in Q4, although uncertainty around the timing of external disbursements may affect the pace of deposit utilization. Domestic debt issuances in Q4 will also need to accelerate, bringing the full-year net domestic financing to around US\$2½ billion. If external disbursements were to underperform in Q4, the authorities would need to implement additional deficit control measures and further utilize deposit buffers, which may result in a net reduction in deposits. If this strategy is implemented, it would require reconstituting this deposit buffer next year and entail near-term risks.

2024 Budget, Near-Term Policy Measures, and Financing Options

21. In 2024, sizable expenditure needs will continue to pose policy challenges. The 2024 Budget—passed by the Parliament on November 9—envisages a deficit excluding grants of UAH 1.56 trillion or 20.4 percent of GDP. Defense expenditures have been programmed consistent with a full-year of war operations. Reflecting the priority to the war effort, spending in other categories have been tightly constrained (e.g., lower capital investment outlays relative to 2023), which results in expenditures falling as a percent of GDP. The authorities' tight control and postponement of non-priority expenditures is appropriate. However, it also risks contributing to a buildup of pressures that could entail risks to the budget if they materialize.

22. Ensuring adequate revenues in 2024 will be an important part of meeting the high expenditures and mitigating shocks if they materialize. The authorities are already taking short-term measures for 2024 toward this objective. First, the 2024 budget contains a measure to reallocate personal income tax collections among various levels of the government in order to resource key programs at the state and local government levels, while avoiding interference with the independence of local authorities. Second, the authorities have introduced an extraordinary one-time tax on bank profits, which is expected to yield 0.3 percent of GDP (see ¶29). This—and the earlier measure to restore pre-war taxation on fuel and tobacco which could yield another 0.3

percent of GDP—are both in the baseline. In addition, the authorities are identifying measures of at least 0.5 percent of GDP that could generate additional revenue gains in 2024 (¶129).

23. Support from official donors will remain the principal source of deficit financing next year. Under the program, budget support disbursements (including grants) from international partners and the Fund amount to US\$37.3 billion next year. This financing is being provided on mainly concessional terms, not only providing resources for government operations but also helping with the restoration of debt sustainability. Net domestic bond financing, while smaller, will remain an important source of financing, amounting to US\$3.8 billion under the baseline. Net domestic market issuance and the use of unencumbered deposits also serves as a critical shock absorber and is easier to ramp up quickly relative to external financing. However, risks related to this financing plan are significant, and it will be important that committed external financing be provided on a timely basis. Additionally, potential relief from debt operations, including from external commercial debt restructuring expected next year, would be important to lower borrowing requirements, build buffers, and share the burden with other financing sources.

24. The authorities should continue to strengthen domestic bond financing. Banks—the main participants in the local debt market—are highly liquid and well provisioned, and their sovereign exposures also remain below their recent peak, given expanding assets. Given the government’s financing needs, it will be important to continue harnessing this market to mobilize financing. Moreover, going forward, developing greater self-reliance will be important as external support tapers off in the outer years of the program. Whereas efforts to tap further the local market to meet 2024 borrowing needs can be somewhat supported by favorable yield dynamics and continuing to adjust the types of instruments (e.g., maturity, currency), careful consideration of bank-specific characteristics will also be required, including liquidity and risk appetite. There is also little space remaining under the reserve requirement mechanism which greatly supported rollovers in 2023. Over the longer-term, the authorities’ strategy for tapping the domestic market should pay due regard to risks to credit growth as well as banking system health.

25. Avoiding monetary financing of the budget remains critical to maintaining stability. The elimination of monetary financing has been an important achievement under the program and no monetary financing is expected in the baseline (*Indicative Target*). However, in the event of adverse shocks, such as a shortfall in external financing, monetary financing may be a last resort in limited amounts after alternative options have been exhausted. In this respect, the NBU and MoF are developing a framework governing the conditions and terms of the use of such financing consistent with the program design and in line with recommendations of the IMF’s recently concluded Safeguards Assessment.

26. An important input toward a more efficient domestic borrowing strategy is strengthening treasury cash and liquidity management. With the high volatility in expenditures and financing sources, treasury cash and liquidity management would benefit from strengthened short-term analyses and coordination with NBU’s monetary policy operations. Strengthening the MoF’s liquidity forecasting and cash management would help lower the volatility and transaction

costs of treasury resource management and borrowing costs. The authorities have requested IMF TA for diagnosing and strengthening liquidity management in treasury single accounts.

27. Further enhancing debt management capacity is a priority. High and volatile financing requirements coupled with the need to sustain domestic financing to meet spending needs imply that efforts to strengthen debt management capacity should continue. Accordingly, the authorities have published their Medium-Term Debt Management Strategy (MTDS) (***Structural Benchmark, end-October 2023***), which recognizes the need for the debt market to help meet budget financing needs in an appropriate mix, as well as to implement debt management at the lowest possible cost while containing risks. It identifies three main objectives: (i) attracting long-term concessional funding and maximizing the share of grants in official sector support; (ii) maintaining strong investor relations and pursuing the development of local capital markets; and (iii) containing refinancing risks. Looking ahead, it will be important to update the MTDS promptly after the external commercial debt operation is completed. Capacity building at the Debt Management Agency should also continue, including through increased staffing and training.

Medium-Term Fiscal Policies

28. Over the medium-term, fiscal policies will have to balance spending needs arising from reconstruction and broader development goals with fiscal and debt sustainability considerations. Updated debt sustainability analyses (Annex III) and indicative modeling suggest that average gross financing needs of 8 percent of GDP over the post program period (2028–33) and lowering debt to 82 percent of GDP by 2028 and 65 percent of GDP by 2033 would be consistent with sustainable debt. Achieving these targets while simultaneously making progress on recovery and broader economic development rests on three connected components:

- *Fiscal adjustment:* To support debt sustainability, Ukraine will likely need to reach and maintain a primary surplus over the medium term. At the same time, there will be important needs related to recovery and reconstruction, social protection for vulnerable groups, and broader economic and social development goals (₴188 on aid scaling up). Thus, the adjustment will need to center on durable domestic revenue mobilization, including through the policies that will be identified in the authorities' National Revenue Strategy (NRS; ₴130).
- *Prudent financing mixes:* In the current shock prone world and geoeconomic fragmentation, Ukraine will require financing on relatively concessional terms (i.e., long maturities and low interest rates). Heavy reliance on market access in the immediate post-war phase could expose Ukraine to risks from larger debt service, investor appetite, and market conditions. Thus, a durable and successful return to markets will need to be carefully considered.
- *Debt restructuring:* The authorities have communicated their plans regarding debt operations on official bilateral claims and external commercial debt, with discussions on the latter expected to begin shortly (₴169). These debt treatments will need to be consistent with debt sustainability in line with the program macroframeworks.

B. Fiscal Structural Policies

Short-term Revenue Mobilization Policies

29. Recognizing the risk of wartime spending shocks, the authorities are committed to swift revenue mobilization efforts to meet financing needs. As a starting point, for the 2024 Budget, the authorities have introduced a one-time increase in bank profit tax (1122), from 18 to 50 percent in 2023, to boost tax revenues, as banks made large profits due to war-related circumstances. Further, to align bank corporate taxes with EU peers, the corporate profit tax on banks will be permanently set at 25 percent from 2024 (2025 Budget and beyond). Next, to help build buffers, the MoF will create a working group that, with the help of IMF TA, will formulate a proposal with a package of short-term tax and non-tax revenue measures that would yield additional revenues of at least 0.5 percent of GDP in 2024 (**Proposed Structural Benchmark, end-February 2024**). These measures could be activated in 2024 should additional spending pressures materialize (MEFP 1122). To ringfence the adverse impact on taxpayer behavior and enhance stability for the private sector, the NRS will discuss the principles of corporate excess profits taxation, including guidance on the extraordinary circumstances under which such taxes may apply.

National Revenue Strategy

30. The authorities remain committed to launching the NRS by end-December (Structural Benchmark). Following the gap analysis completed in June, they have prepared the NRS roadmap and formulated reform action plans for the State Tax Services (STS) and State Customs Service (SCS) (**Structural Benchmark, end-October 2023**). These plans are important inputs into the development of the NRS, which is expected to cover key policy priorities and reforms in the main revenue categories.

31. The authorities see the NRS as the anchor of tax policy and administration over the medium-to long-term, contributing to revenue mobilization of 3-4 percent of GDP over 2024-2027 (MEFP 1123). They envisage the NRS as a strategic document to guide their revenue mobilization policies, including medium-term, post-war reforms in the main revenue categories. The NRS covers guidance for coordination among various public and private stakeholders, led by the MoF. In staff's view, the NRS is critical to mobilizing revenues to help meet financing needs and restore fiscal and debt sustainability, and would lay the groundwork for greater budget coherence by emphasizing the need for domestic revenue mobilization to achieve Ukraine's development goals.

32. While the NRS will be a living document that is updated annually, its current draft covers good ground with several policy priorities: Specifically,

- **On tax policies, the NRS is expected to focus on:** (i) a revised simplified tax regime to address the erosion of labor taxes by moving the legal basis for labor relations to civil law; (ii) alignment of VAT and excise duties with the EU acquis; (iii) steps to enhance corporate income taxation, (iv)

tax reforms that balance the need to ensure an adequate revenue base with the vital tasks of supporting EU accession, environmental reforms, and post-war reconstruction and recovery including much needed investments and industrial development. To strengthen post-war tax reforms and ringfence the risks of taxbase erosion, the authorities will assess the effectiveness of tax privileges, including their cost to the budget, in order to have a unified reform approach (**Proposed Structural Benchmark, end-July 2024**).

- **On tax and customs administration, the NRS is expected to focus on (MEFP ¶24):** (i) measures to strengthen the state tax and customs services; (ii) strengthening anti-corruption measures and governance procedures, (iii) customs reforms of HR and compensation policies; (ii) improving customs operational management; and (iii) moving the verification/checking of customs documents from border crossings to inland offices. In tax administration, the STS will work on the implementation of compliance risk management, applying new digital solutions and improving its organizational structure and staffing. On an operational level, the STS will continue analysis of tax arrears and strengthen the existing action plan to remediate arrears among taxpayers that are not located in combat or near-combat zones. Following the reinstatement of tax audits, the authorities see a window of opportunity to restore customs post-clearance audits effective March 1, 2024, and close potential loopholes in managing compliance processes. They are also working on legislation that will criminalize large-scale customs fraud and smuggling of all goods that should also help with stronger tax and customs compliance.

33. Economic Security Bureau of Ukraine (ESBU). The authorities are working on bolstering the operations of ESBU, supported by several international partners. Recognizing the importance of strengthening compliance controls and detecting financial and economic crimes, the authorities will adopt a law (**Proposed Structural Benchmark, end-June 2024**) that establishes the legal basis for the operations of ESBU, in order to (i) develop an open, transparent and competitive process for selection of management and staff for the ESBU; (ii) strengthen requirements for the selection commission; (iii) introduce a contract system for employees; and (iv) develop a mechanism of attestation of staff (MEFP ¶25). To avoid reverting to weak pre-war investigative practices, the revised law on the ESBU will clarify its mandate and scope of investigative powers by focusing on major economic crimes and strengthening its analytical capacity. The law will also ensure that administrative capacity of the STS and SCS to effectively address violations in the tax and customs spheres remain intact. The existing delineation of investigations powers with National Anti-corruption Bureau of Ukraine (NABU) will be maintained and any potential overlap prevented.

Restoring the Medium-term Budget Framework

34. Strengthening the medium-term budget framework (MTBF) is a critical element to balance spending needs with fiscal and debt sustainability concerns. A successful MTBF should take into account revenue constraints (e.g., NRS) and depends on the strength and integrity of public investment management for the post-war era, along with fiscal transparency and management of fiscal risks. Combined, these policies need to be consistent with fiscal and debt sustainability, including through further strengthening the interlinkages between the MTBF,

reconstruction priorities, and public investment management, while keeping fiscal risks from state-owned enterprises under control.

35. To kickstart the MTBF, the authorities have reinstated provisions of the Budget Code suspended under Martial Law to help anchor fiscal sustainability and budget predictability.

These provisions included articles reinstating MTBF, MTDS, and a fiscal rule that ringfences risks from guarantees. They also reinstated and strengthened Article 52 of the Budget Code supporting budget credibility. Adoption of these measures allowed the inclusion of the contours of 2025-2026 projections in the 2024 budget declaration, and a fiscal risks statement with details on energy and critical infrastructure SOEs.

36. The authorities recognize the close interlinkages between the MTBF and the NRS and are determined to proceed with strengthening the full cycle of the MTBF (MEFP ¶127).

First, to strengthen the link between revenue mobilization and spending envelope, the NRS will reference development goals while justifying tax revenue mobilization goals. As a next step, with the help of IMF TA, the authorities will work on a diagnostic review of the pre-war MTBF policies while identifying gaps with MTBF best practices (*Proposed Structural Benchmark, end-October 2024*). The gap analysis would help identify key weaknesses to inform a plan to eliminate these and strengthen strategic budgeting, leveraging bottom-up PFM processes to capture more detailed spending needs, and gaining better control of the costing of existing and new public services. The recommendations stemming from these analyses will feed into the formulation of the 2026-2028 budget declaration and the 2026 Budget.

Pensions and Social Spending

37. The authorities have reaffirmed their commitment to maintain the stability of the pension system. The potential introduction of a second pillar fully funded pension scheme is being debated, although the authorities have committed to move in this direction only after Martial Law is lifted, and a careful review of all necessary preconditions is conducted (MEFP ¶128). In staff's view, it is appropriate to focus on enhancing the first pillar of the pension system, ensuring that it remains rules-based and financially viable, especially once the war is over. Moreover, the introduction of a second pillar should not translate into a deficit for the pay-as-you-go system. It will be important to ensure that any changes to pension system are accompanied by a medium-term fiscal and budgetary impact analysis, including the budget of the Pension Fund of Ukraine.

38. Mechanisms to support vulnerable groups. With the support of the World Bank, in August 2023, a government decree was enacted to strengthen the targeting and means testing of benefits for Internally Displaced Persons (IDPs). The decree determines the eligibility and procedures for those who are qualified for a living allowance. In staff's view, while this is welcome, further work is needed to sharpen the objective, calculation formula, target coverage, budgetary implications and exit conditions for such benefits. Greater clarity is needed on the timing for increasing the income threshold for eligibility under the Guaranteed Minimum Income (GMI) program.

Fiscal Transparency and Risks

39. The authorities continue to work on strengthening fiscal risk assessment and fiscal transparency:

- Work is well underway to strengthen SOE stress testing under different scenarios, with the support of IMF TA (MEFP ¶129). Martial Law reporting requirements limit the ability of the MoF to have a full understanding of SOE updated balance sheets, including asset quality, for those severely affected by war. An assessment of SOEs' impaired assets post-war may reveal additional risks. In staff's view, strong risk assessment and stress testing practices would help with the timely costing of quasi-fiscal risks arising from SOEs. To facilitate this process, the authorities will identify major public companies severely affected by the war and prepare an assessment of their potential fiscal and quasi-fiscal costs (**Structural Benchmark, end-September 2024**). Furthermore, the authorities are working on methodological guidance for assessing fiscal risks in key spending areas and contingent liabilities, including PPP and guarantees. In staff's view, this will facilitate integrating fiscal risk analysis into the budget preparation process at much earlier stages of the budget cycle. As a follow-up measure, by end-September 2024, the authorities will publish a list of PPPs and prepare a review of related risks and their impact on the 2025 Budget.
- Work on developing risk-based fees for guarantees has proved to be more challenging than expected. With the help of IMF TA, the authorities are working on unifying risk assessments across domestic portfolio and international guarantees. The elaboration of risk-based fees is expected to continue after the completion of the guarantee risk assessment process. In staff's view, organizational changes in MoF to strengthen risk assessment practices may be needed.

40. The 5-7-9 loan program and the Business Development Fund (BDF).

- In July the government adopted a decree transferring the 5-7-9 program to the Ministry of Economy (MoE) and expanding the operational portfolio of the program. To mitigate fiscal and financial sector risks, staff and the authorities agreed that the program should target micro, small and medium businesses who will otherwise face challenges accessing financing for working capital or investment. To advance the reshaping of the program, a government decree is being prepared to start phasing out large companies from the program. Following that a first draft of the concept note will be shared with IMF and other international partners by end-December 2023. Due to the comprehensive nature of the initiative, additional time has been allocated for finalizing the concept note (MEFP ¶130) (**Structural Benchmark, proposed to be reset to end-March 2024**).
- The stocktaking of governance risks of the Business Development Fund (BDF), of whose operations the 5-7-9 program represents a significant share, is also underway. The MoF, in collaboration with international partners, has commissioned an independent assessment of the BDF and its support programs, with the goal of strengthening its governance and operational design to effectively serve only the abovementioned SMEs with financing constraints. Following the assessment, staff recommends that the authorities bolster the MoF's powers over the BDF

and its programs to manage fiscal risks and strengthen overall the governance and financial self-sustainability of the BDF.

41. Transparency in the management and spending of budgetary funds and special accounts (MEFP ¶31):

- ***Fund for the Liquidation of the Consequences of the Armed Aggression.*** Designed for rapid recovery and reconstruction spending, this fund has served well its purpose in 2023; however, program implementation was slow given wartime priorities. Going forward, the authorities aim to continue using the fund for facilitating the government’s rapid response to urgent recovery needs. In staff’s view, to maintain budget unity and coherence, the authorities should aim to utilize this fund for the implementation of critical infrastructure projects during and after the end of the war.
- ***Special accounts and commitment controls.*** The authorities have finalized the integration of special accounts into the budget framework. They also commit to strengthening the transparency and accountability of these accounts, by aiming to further improve reporting on the sources and usage of these funds, as well as their opening and closing balances, and undertake periodic audits of transactions reflected in special accounts. The MoF is also working on strengthening commitment controls; it also has a well-established mechanism for reporting overdue payment obligations (which remain below 0.1 percent of GDP).

Strengthening Public Investment Management

42. The authorities have made good progress in preparing a roadmap of measures to strengthen public investment management (PIM). With the help of the World Bank and EU4PFM, they are on track to finalize the roadmap by end-December (***Structural Benchmark***). The roadmap will have clear views on selection criteria of investment projects, consistent with the MTBF, including stronger gatekeeper powers for MoF during the different stages of the investment project cycle. To further strengthen the efficiency and transparency of public investment and avoid multiple procurement platforms, the authorities have adapted the national e-procurement system to comply with international competitive bidding standards used by Multilateral Development Banks.

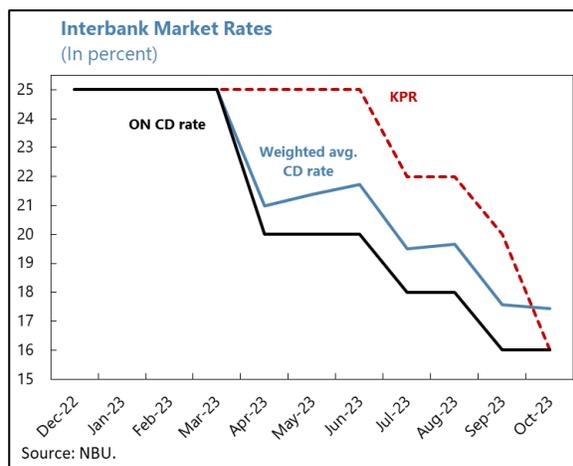
43. This PIM roadmap will be operationalized to link the MTBF with national reconstruction priorities, while specifying a gatekeeper role for the MoF (MEFP ¶33). Prepared with the help of IMF TA and together with other stakeholders, the government will adopt a decree with an action plan and timeline that provides clear linkages between the MTBF and capital expenditures, including reconstruction priorities, and specifies the gatekeeper role of the MoF (***Proposed Structural Benchmark, end-December 2024***). This will help bolster the MoF’s institutional role as a gatekeeper of public investment and thereby help mitigate fiscal risks. The decree would also strengthen budget unity, coherence, and predictability, including by clarifying the roles of the MoF and line ministries, who remain responsible for project execution.

C. Monetary and Exchange Rate Policies

44. There remains scope to continue the easing cycle. The October KPR cut of 400 bps resulted in no effective change in the monetary policy stance, given rates on the NBU's key liquidity absorption instruments remained unchanged.⁴ In view of the ongoing disinflation and staff's baseline forecast, the real policy rate (both ex ante and ex post) is expected to remain high and positive. Thus, staff views further room for continuing the easing cycle over the coming months, although the actual pace of easing will depend on inflation and exchange rate developments, and progress in maintaining transmission to rates of return on hryvnia assets (particularly term deposits).

45. Excessive liquidity persists. Large external budget financing (and monetary financing in 2022) has driven a surge in structural liquidity (the stock of overnight CDs amounted to nearly UAH 500 billion (US\$13.7 billion as of end-October), which can create distortions in the FX market and monetary transmission more generally. The NBU has attempted to manage such liquidity through sterilization (since the start of the war through end-August 2023) via net FX sales and CDs and raising reserve requirements (RR).⁵ Whereas the remuneration on CDs is linked to the KPR, reserve requirements (part of which can be met by government bonds) remain unremunerated, weakening transmission. The NBU should continue to monitor liquidity conditions and the relative use of these instruments to help manage liquidity, while being mindful of the goal to support budget financing during the wartime.

46. The NBU's move to a floor system is appropriate since high liquidity is likely to persist for the foreseeable future. The majority of liquidity operations are conducted via overnight CDs, which formed the floor of the NBU's interest rate corridor. Prior to the move to a floor system, the de jure KPR was set by an auxiliary instrument, based on the 3-month CD. At the same time, excessive liquidity conditions have pushed the most active instrument represented by the overnight interbank rates (UONIA) near the floor of the current corridor.



This disconnect between de jure and de facto policy rates weakened the signaling effect of the KPR relative to the actual monetary policy stance. Given expectations of high liquidity driven by the fiscal deficit, and the need to keep the 3-month CD to support hryvnia term deposits amid the exchange

⁴ The weighted average rate on the NBU's liquidity absorption instruments has declined by 650 bps since April 2023.

⁵ Base money growth increased to nearly 25.8 percent y/y in end-October supported by the increase in net foreign assets from official support, as the stock of NBU certificates of deposits (CDs) for sterilization rose to UAH 490 billion (US\$13.4 billion). Broad money growth remained stable at 22.9 percent y/y on continued hryvnia retail deposit growth.

rate transition,⁶ moving to a floor system simplified the operational design of the monetary policy framework by aligning the KPR with the most active instrument (the overnight CD). Looking ahead, this would help converge the KPR with the effective policy stance, reinforcing the role of the KPR and bridge the gap between the KPR and interbank rates.

47. As the liquidity surplus unwinds over time, the merits of returning to a two-sided corridor should be assessed. In due course, it will be important to reintroduce instruments longer than the overnight CD (e.g., the return of two-week CD as the main instrument) to strengthen the average maturity of the NBU's sterilization operations, while being mindful of any potential side effects on the primary government bond market. In the near term, the NBU does not see merit in reintroducing the 2-week instrument as the main liquidity absorbing instrument, given that the overnight interbank rate is likely to remain close to the floor, and that there is no material difference on the average maturity of sterilization between the two-week and overnight instruments. Whereas large liquidity conditions have impeded more active interbank activity, and as the liquidity surplus unwinds over time, the merits of reverting to a corridor system should be assessed.

48. The gradual introduction of exchange flexibility is an important step in strengthening Ukraine's monetary and exchange rate policy framework. In line with the NBU [Strategy](#), the preconditions for a move away from the exchange rate peg to a managed float were achieved; the early transition has been successful, supported by a comprehensive IMF TA-supported communication campaign by the NBU. The exchange rate has remained fairly stable since the transition started supported by continued FX sales by the NBU. Given the continuing structural deficit in the FX market, and under the assumption of continued official support underpinning reserves, the NBU will continue to play a dominant role in the FX market. More broadly, allowing gradual flexibility of the exchange rate will help strengthen the resilience of the economy toward external shocks and mitigate the risk of external imbalances arising from a prolonged exchange rate peg. The transition is also an important first step toward the return to inflation targeting regime. Supporting an appropriately tight monetary policy stance can help anchor inflation and inflation expectations, restoring its role as the nominal anchor over time.

49. The NBU is continuing to ease FX controls on a case-by-case basis. In line with the FX liberalization roadmap under its Strategy, the NBU is gradually easing FX controls, conditional on economic developments. Given strong reserves and stability in the FX market, and with the goal of supporting economic activity, in recent months, the NBU has eased restrictions on lending and factoring and the servicing of old and some new loans. At the same time, it has also adjusted measures as needed, including narrowing and enhanced enforcement of settlement period (180 to 90 days) in agriculture exports. In view of risks to the outlook, it remains important to carefully assess and monitor the effect of any potential and past measures undertaken.

⁶ The introduction in April 2023 of the 3-month CDs linked to hryvnia term deposit growth has proven effective in increasing the share of such deposits (up 5 pp to 38 percent since end-October) and thereby mitigating risks to the FX market.

50. Over time, credit growth will need to rise to support the recovery while safeguarding financial stability and fiscal risks. Credit to GDP was already very low prior to the war, and private credit has further declined since, amid high credit risks and the availability of alternative asset options for banks (NBU CDs, government bonds). Of the stock of credit to the private sector, about 13 percent is supported by concessional financing schemes. Mobilizing credit will be an important driver of private sector growth to help meet large investment needs as the post-war recovery sets in. In this regard, the NBU is preparing a comprehensive strategy to support the resumption of lending by end-May 2024 (¶157, Box 1). Over time, an exit strategy will be needed for the NBU's holdings of government bonds to enhance monetary policy effectiveness.

D. Financial Sector

51. The authorities have updated the Ukraine Financial Sector Strategy (MEFP ¶156). The strategy sets the objectives and priorities for financial system regulators and aims to coordinate policy reforms and safeguard the country's financial resilience and inclusion. The strategy has five goals: macroeconomic stability, financial stability, the financial system operates for the country's recovery, modern financial services, and the institutional capacity of regulators and the DGF. It was prepared by the NBU in collaboration with the DGF, MoF and NSSMC and was approved by the Financial Stability Council on July 19, 2023. The strategy has yet to include considerations specific to the SOBs, which comprised 56 percent of banking system assets as of August 2023.

52. The NBU has strengthened financial supervision, meeting the end-September 2023 Structural Benchmark. Scheduled on-site inspections, which were suspended under Martial Law, have resumed for bank and non-bank financial institutions (NBFIs); the Related Parties Unit was separated from Banking Supervision to promote independence and challenge; and supervisory challenge panels were introduced as a consultative body to Supervisory Committees. The NBU is preparing to implement further reforms including transitioning to a risk-based supervisory model (**Proposed Structural Benchmark, end-June 2024**), and the necessary organizational and capacity building related changes (MEFP ¶162). Ongoing improvements to oversight of gambling businesses has helped curb illegal tax evasion schemes and resulted in a ten-fold increase in tax collections from the gambling business in 2023 relative to 2022.

53. The NBU launched a resilience assessment of the banking sector in Q2 2023; findings will be published in March 2024. The diagnostic covers 20 banks, accounting for over 90 percent of banking system's assets. It is being conducted in three stages: a review of a sample of banks' assets (corporate and retail loans) to assess valuation prudence, extrapolating findings to lending operations, and estimating banks' performance indicators under a baseline scenario, along with setting the required capital adequacy ratios. The findings will inform strategic decisions for the sector until conditions allow for an independent asset quality review.⁷

⁷ The eventual independent asset quality review (AQR), will employ more granular sampling, apply international valuation standards while employing program macroeconomic parameters, it will assume all emergency forbearance measures have been lifted, and it will be conducted by independent experts.

54. Improvements to financial safety nets are planned for 2024, including to bank intervention capacity, financial backstop mechanisms, and resolution tools (*Structural Benchmark, proposed to be reset to end-December 2024*). The NBU and DGF in consultation with IFIs will diagnose financial and operational readiness by end-February 2024. This will involve, amongst others, assessing current bank resolution infrastructure, including analysis of current challenges with information sharing, coordination arrangements as well as the effectiveness of decision making and operations during pre-resolution, resolution and post-resolution based on past lessons learned and against international good practice. A roadmap will subsequently be prepared by end-April 2024 that sets out the reform agenda to further strengthen resolution and crisis-management capacity, and close key outstanding gaps by end-December 2024. This structural benchmark was moved from end-March to end-December based on the initial findings of the NBU's Resilience Assessment, which has not identified vulnerabilities that warrant immediate remediation.

55. As a contingency measure, the DGF has prepared law amendments to mitigate risks of potential adverse rulings from the constitutional challenges. Draft amendments to the DGF law have been prepared and submitted to Parliament. They envisage DGF's subordination under the Council of Ministers of Ukraine (CMU) in a narrowly defined manner, while seeking to protect the DGF's operational autonomy. The DGF has also prepared a methodology for determining the target level of its fund, based on a number of indicators for projecting risks in the banking system over a 12-month horizon.

56. Efforts to strengthen state-owned banks' (SOBs) management and oversight continue. Following the nationalization of Sense bank in July, SOBs now account for 56 percent of total system assets and 65 percent of household deposits. The MoF is further developing its framework to inform decisions on any additional banks that come under State control based on guiding principles to preserve value, ensure effective operational management, and reach timely decisions on the future of such banks. All banks with majority state ownership will remain under the responsibility of the MoF (MEFP 160) and any nationalized non-systemic banks will be transferred to the DGF for resolution (*new continuous Structural Benchmark*). In preparation for SOB privatization, including any banks that are nationalized under Martial Law, the 2012 draft SOB privatization law is being reviewed and will be submitted to Parliament by end-March 2024. The MoF is preparing to conduct performance assessments for SOBs, expected in 2025.

57. In preparation to support postwar economic recovery, the NBU is taking steps to enhance financial and credit market infrastructure. Measures are taken to ensure alignment with international best practice (Box 1).

Box 1. Strengthening Financial and Credit Market Infrastructure

The NBU is taking steps to align financial and credit market infrastructure with international best practice, including in the following areas:

- *Financial reporting.* Financial statements and audit report requirements will be reinstated for financial institutions for the 2023 financial year, and for all other business entities located outside the occupied territories for the 2024 financial year.
- *Bank regulatory capital framework.* Gaps in regulatory capital structure relative to EU rules will be closed by end-December 2023, and all other gaps by end-December 2024.
- *Property valuations law.* The law “On Valuation of Property, Property Rights and Professional Valuation Activities in Ukraine” (#7386) will be updated by end-March 2024 to close the gaps with international valuation standards. An implementation roadmap will be prepared that includes transitional arrangements, details of supportive regulation and/or guidance, and steps to strengthen the profession including additional requirements and specialized licensing for valuation of banking assets, insurance assets and collateral.
- *Immovable property registers and indices.* To improve real estate market transparency, the NBU and MoJ will prepare proposals by March 2024 to (i) develop a publicly accessible database of real estate transaction prices that includes detailed metadata; and (ii) residential and commercial property price indexes and a framework for the development and annual publication of property price index forecasts.
- *Bank remuneration policies.* Will be aligned with EU norms by end-December 2023, including limits on variable compensation and payment mechanisms for senior bank management.
- *Virtual assets.* The current legal framework for virtual assets could pose risks to price stability and the effectiveness of monetary transmission. The NBU and NSSMC will prepare an update of the legislation by end-June 2024 to align with international best practice while considering economic development goals and mitigating price and financial stability risks.
- *Capital market infrastructure.* Mechanisms are needed for foreign investors to directly access marketable debt instruments beyond government securities. The NBU will identify priority pathways for its development.
- *War risk insurance system.* The NBU, together with the Ministry of Economy and Ministry of Finance, will develop a concept note for the establishment of a fully functional War insurance system by end-January 2024.
- *Credit conditions.* The NBU will prepare a comprehensive strategy to support the resumption of lending, with due regard to financial stability, by end-May 2024.
- *Responsible consumer lending.* The Law “On Amendments to Certain Legislative Acts of Ukraine on Improving State Regulation in the Field of Consumer Lending” (#9422) is due to be adopted by Parliament by end-2023. It will facilitate alignment of NBFI consumer lending with international standards and promote development of responsible price setting for consumer loans.

58. The NBU is also taking steps to further strengthen NBFI regulation and supervision reforms. Priority areas include: (i) ensuring credit unions comply with updated rules by July 2024, which aims at making credit unions more resilient, by strengthening their capital, corporate governance, and internal control, among other measures; (ii) strengthening beneficial ownership by

requiring NBFIs (except credit unions) to disclose their owners and remedy any opaque ownership structures; and (iii) increasing capital and reporting requirements, starting in December 2023, with a six-month transition period for existing entities to align their operations with the new requirements, as well as capital requirements for payment market participants in line with EU rules by end-June 2024. The NBU will also prepare a supervisory risk assessment methodology by end-September 2024 that distinguishes between the types of NBFIs with the aim to transition to a risk-based supervision approach for NBFIs. Amendments to the law on National Securities and Stock Market Commission (NSSMC) remain outstanding.

59. The implementation of the Law on Administrative Procedures (#2073-20) will be postponed for the NBU, the DGF and NSSMC until end-December 2024. This is in recognition that wartime priorities have placed a significant burden on these institutions. The implementation of this law for these institutions will be preceded by an assessment of its implications for their decision-making and enforcement procedures by June 2024 (MEFP ¶165), followed by the adoption of appropriate measures, where needed, for a balance between good administration standards of this law and the effective delivery of their mandates.

E. SOE Corporate Governance and Energy Sector

60. Reforms on energy corporate governance are advancing well (MEFP ¶179). In September, the CMU transferred the shareholding of the Gas Transmission System Operator (GTSO) to the Ministry of Energy from the holding company MGU, and the GTSO charter was approved in October, albeit with some delay. Moreover, the CMU approved four new GTSO supervisory Board members after a competitive selection in end-October. To buttress the effectiveness of the GTSO corporate governance reform, an independent evaluation of its supervisory board is planned one year after its appointment. Looking forward, GTSO is preparing for a financial and operational rightsizing in a scenario where the Gazprom transit contract is not renewed at end-2024, depriving GTSO of the transit fees that represent the bulk of its revenues. The rightsizing would involve legislative and CMU approvals for GTSO to decommission non-critical compressor stations, and thereby lower its operational expenses. Regarding other critical energy SOEs, the authorities have committed to seat a seventh member on Naftogaz's and Ukrenergo's supervisory boards, and to launch an independent evaluation of their supervisory boards in early 2024, to be concluded by end-June 2024.

61. Plans to adopt a landmark SOE corporate governance law (5593-D), that respects critical PFM principles and helps mitigate fiscal risks, are progressing well (MEFP ¶177). Reflecting OECD guidelines and many years in the making, the law would enshrine a competitive and transparent selection process for SOE supervisory board members, establish annual independent evaluations of SOE supervisory boards, and give SOE boards ultimate powers to appoint and dismiss CEOs. The MoF's strong gatekeeper role will be retained in law #5593-D, including in approving the key financial metrics such as those related to liquidity, profitability and solvency in the financial plans or in the annual owner's letters for natural monopolies and strategic SOEs. A minimum SOE dividend will also be established in the law, subject to a sunset clause. After

the adoption of #5593-D, the authorities will develop secondary implementing legislation covering SOEs' financial planning process, including financial indicators that are consistent with the gatekeeper role of the MoF.

62. Staff views the envisaged SOE corporate governance as the best platform for strengthening SOE management (MEFP 178). The establishment of an SOE holding company is premature at this stage in view of the fiscal and potential governance risks. Instead, staff sees merit in exploring options to strengthen SOE management through the existing SOE corporate governance reform agenda. Drawing on best practices, the scope and mandate of SOE management should be clearly defined, including the roles and mandates of key government institutions. The following well-sequenced SOE reform agenda should be adhered to in close consultation with international partners, including: (i) passing the SOE corporate governance law #5593-D; (ii) implementing related secondary legislation; (iii) as an interim step, assessing the financial conditions and fiscal risks of the SOEs in the state ownership policy by end-March 2024; and (iv) producing a comprehensive state ownership as well as dividend policy and a privatization strategy (**Proposed Structural Benchmark, end-August 2024**). Importantly, the above-mentioned steps are essential preconditions for exploring options to strengthen SOE management.

63. The authorities, working with international partners, have taken steps to prepare for the winter heating season, given the likelihood of a resumption of missile attacks on critical energy infrastructure. The government's gas storage has been adequately filled ahead of the heating season, with Naftogaz able to import further gas (if needed) through financing from the EBRD and bilateral donors. The authorities have also recently adopted a number of emergency measures to stabilize the energy sector, including energy imports, extending the ban on gas exports, financial support to companies for energy equipment imports, as well as taking steps to promote energy production from alternative fuel and energy-saving measures.

64. To help prepare for the next heating season, the authorities plan to assess the financial health of District Heating Companies (DHCs). The DHCs, which distribute heat to private and public clients, are heavily indebted including major arrears to Naftogaz, reflecting accumulated tariff differentials and the impact of the war. Since significant tariff increases towards cost-recovery are unlikely in wartime due to budget pressures, a sharp drop in household incomes and emergence of newly vulnerable layers of society that raises the need to further strengthen the coverage and targeting of Housing Utility Subsidy (HUS), temporary measures to stabilize the energy market will be important. To quantify the scale of DHCs' indebtedness, the authorities will commission a desk review by a reputable audit firm (**Proposed Structural Benchmark, end-June 2024**) to establish the stock of arrears and financial condition of DHCs, distinguishing between pre- and post-war arrears (MEFP 181). This will be a crucial input for any potential measures to address the DHCs' financial conditions and repair needs before the 2024/25 heating season.

F. Governance

65. The authorities advanced critical yet challenging anti-corruption reforms despite the war context and difficult circumstances (MEFP, ¶170-75). Further advancement in this space will boost public and donor confidence, and contribute to the goal for EU membership.

- **Asset Declarations.** Despite initially strong political resistance, the law restoring the asset declaration obligations of public officials was enacted in October (albeit with some delay). It also reinstated public access to asset declarations, going beyond what was envisaged in the SB, following a public outcry and a presidential veto. Established linkages with other public registers of properties, income, shares and beneficial ownership will enhance the effectiveness of the asset declaration system. Monitoring of asset declaration submissions in Q1 2024 and risk-based verification using technology tools will help assess the implementation risks of shortcomings introduced in the law.⁸
- **AML/CFT.** In October, the definition of politically exposed persons (PEP) in the AML/CFT legal framework was re-aligned with the FATF standards, albeit also with some delay. The abandonment of an earlier proposal for a government-issued PEP register with actual names was welcome, since it would have been inconsistent with the FATF approach and could easily become outdated or be abused. The NBU's plans for a thematic inspection of banks' risk-based approach to PEPs by June 2024 will provide the basis for issuing future guidance (including relevant case examples). Moreover, the NBU plans to boost its operational capacity and performance on AML/ CFT matters.
- **SAPO.** Importantly, the authorities are also proposing modifications to the **end-December Structural Benchmark** to include additional elements to strengthen the institutional autonomy of the SAPO: (i) designating SAPO as a separate legal entity within the Prosecutor General's Office; and (ii) amending the criminal procedural code to strengthen the autonomy of SAPO in prosecuting corruption cases such as extending periods for investigations, and settling disputes of investigative jurisdiction involving the NABU as well as carrying out joint investigations. Looking further ahead, staff sees scope to reassess existing time limitations on pre-trial investigations prior to the notice of suspicion, and the SAPO Head's power to authorize NABU joint investigations with foreign law enforcement agencies.

66. Further progress on anti-corruption and judicial reforms in 2024 should contribute to strengthening institutions and providing a conducive environment for post-war reconstruction and private investment.

⁸ The law introduced new provisions such as limitations on verification prior to appointment and against repeated verification, which the government plans to repeal in separate legislation. A separate law adopted by the Rada, yet to be signed by the President, would, if enacted, change the administrative penalties for falsifying asset declarations of up to UAH1.3 million (US\$36,000) to just paying a fine of no more than 3 percent.

- Enacting a law to rationalize adjudication of the High Anti-Corruption Court between a single judge or panel of judges (**Proposed Structural Benchmark, end-March 2024**) will enhance its effectiveness and efficiency in adjudicating numerous and complex corruption cases (in addition to the 24 new vacancies announced in September).
- Enacting a law to establish a new administrative court (to replace the dissolved Kyiv District Administrative Court⁹) (**Proposed Structural Benchmark, end-July 2024**) will provide for independent, competent and objective adjudication of administrative cases filed against NBU, NABU, NACP, and other national state agencies by judges who are properly vetted for professional competence and integrity (following similar selection procedures for anti-corruption judges).
- The first ever external audit of the NABU by independent experts nominated by international partners (**Proposed Structural Benchmark, end-September 2024**) will provide an impartial and official assessment of the NABU's performance since its creation in 2015, may identify areas for improvement, and will help strengthen NABU's accountability, especially in light of a proposed draft law increasing its staffing from 700 to 1,000. The NACP's annual reporting of the implementation of Ukraine's 2022 Anti-Corruption Strategy will be useful inputs for the post-Martial Law Governance and Corruption Diagnostic to be supported with IMF TA.

PROGRAM MODALITIES AND FINANCING ASSURANCES

A. Program Issues

67. The attached Letter of Intent (LOI) and Memorandum of Economic and Financial Policies (MEFP) describe the authorities' progress in implementing their economic program and also set out their commitments through end-2024.

- **Quantitative targets:** New QPCs are proposed for end-March 2024, and the authorities are requesting modifications to three end-December 2023 QPCs: (i) lowering the floor on tax revenues by UAH 28.2 bn to UAH 1,654.0 bn to reflect the deviations of several macroeconomic variables used to project tax revenues from their projections, as well as the blocking of the western border for trade, both of which are causing some tax categories to underperform, including at local government level; (ii) tightening the floor on the non-defense primary balance excluding grants by UAH 8.3 bn to UAH 105.0 bn to reflect the revised budget projections, taking into account the Supplementary Budget, and to underscore the authorities' commitment to fiscal sustainability despite the relaxation of the tax QPC; and (iii) increasing the floor on net

⁹ This court issued decisions with significant economic impact, including the 2019 ruling against the NBU's nationalization of PrivatBank (which is currently on appeal). Tape recordings released by NABU led to the filing of corruption charges against its judges and contributed to the court's eventual dissolution by the legislature in 2022.

international reserves to US\$24.9 billion reflecting the expected overperformance. Two ITs will also be revised: (i) the floor on the overall cash balance excluding grants will be lowered from UAH -1,674.5 bn to UAH -1,744.7 bn to reflect the revised annual projection, which incorporates the Supplementary Budget; and (ii) the IT on domestic arrears will be raised slightly at end-December, end-March, and end-June, to reflect uncertainties about the speed of clearing arrears, particularly with uncertainties regarding the timely disbursement of external budget support grants.

- Structural Benchmarks:** The authorities have requested modifications of one structural benchmark and resetting of two others: (i) revising one to include additional elements to strengthen the institutional autonomy of SAPO (end-December 2023), (ii) resetting the missed structural benchmark on developing a concept note for the 5-7-9 program from end-September 2023 to end-March 2024, and (iii) resetting the structural benchmark on the bank rehabilitation framework from March 2024 to December 2024. In total, 12 new structural benchmarks are being proposed through end-2024 (4 reviews) that aim to buttress near-term macroeconomic and financial stability and underpin reform momentum covering a spectrum of fiscal, financial, and governance reforms, as follows: (i) SOBs to remain under MoF shareholder management and nationalized non-systemic banks to be transferred to the DGF for resolution (continuous); and 11 new structural benchmarks (ii) prepare short-term revenue measures (*end-February 2024*); (iii) adopt a new law on the ESBU (*end-June 2024*); (iv) assess the effectiveness of tax privileges (*end-July 2024*); (v) review potential fiscal and quasi-fiscal costs of major public companies (*end-September 2024*); (vi) develop an expenditure planning framework (*end-October 2024*); (vii) prepare a guidance note on MTBF, capital expenditures and reconstruction priorities (*end-December 2024*); (viii) enact amendments to the procedural code related to HACC (*end-March 2024*); (ix) enact a law for a new administrative court (*end-July 2024*); (x) complete an external audit of NABU (*end-September 2024*); (xi) determine the stock of arrears and assess financial conditions of DHCs (*end-June 2024*); and (xii) produce a SOE state ownership policy, dividend policy and privatization strategy (*end-August 2024*).
- Waiver of nonobservance** for the continuous PC related to the introduction or modification of MCPs (see ¶101).

B. Debt Sustainability, Financing Assurances and Capacity to Repay the Fund

68. Ukraine's public debt continues to be assessed as sustainable on a forward-looking basis. This assessment rests on the fiscal adjustment assumed under the program, receiving sufficiently concessional financing during and after the program period, and the expected implementation of a debt restructuring. Given the impact of the war, Ukraine's public debt is expected to rise further, peaking at 98.5 percent of GDP in 2025 under the baseline and 138.2 percent of GDP in 2026 under the downside. Moreover, gross financing needs would remain very high in both scenarios. Updated Sovereign Risk and Debt Sustainability Analyses of both the baseline and downside scenarios find debt would be unsustainable without a debt treatment (Annex III). Staff's indicative modeling yields debt sustainability targets of a debt level of 82 percent of GDP

in 2028 and 65 percent of GDP in 2033 and an average gross financing need of 8 percent of GDP over the post-program period (i.e., 2028–33). Additionally, it will be important for the authorities to seek meaningful flow relief from debt operations of 1.0–1.7 percent of GDP annually during the program period (2024–27). In the downside scenario, delivering the debt and GFN targets would require a deeper debt treatment and higher program-period grants (consistent with the assurances received). Nevertheless, further exceptional financing over 2028–2033 would still be needed in this scenario to attain the targets.

Ukraine: Quantitative Performance Criteria and Indicative Targets								
(End of period; millions of Ukrainian hryvnias, unless otherwise indicated)								
	end-Dec. 2023		end-Mar. 2024		end-Jun. 2024		end-Sep. 2024	end-Dec. 2024
	QPC	Proposed Rev. QPC	QPC	Proposed Rev. QPC	IT	Proposed Rev. IT	Proposed IT	Proposed IT
I. Quantitative Performance Criteria 1/ 2/								
Floor on the non-defense cash primary balance of the general government, excluding budget support grants (- implies a deficit) 2/ 3/	96,737	105,000	100,000	140,715	150,000	257,184	368,313	415,410
Floor on tax revenues (excluding Social Security Contributions)	1,679,170	1,653,992	420,000	426,300	835,000	880,400	1,398,600	2,042,250
Ceiling on publicly guaranteed debt 4/	37,000	37,000	46,000	47,900	46,000	47,900	47,900	47,900
Floor on net international reserves (in millions of U.S. dollars) 5/	16,500	24,900	16,500	25,400	16,500	25,300	25,400	23,000
II. Indicative Targets 1/ 2/								
Floor on the cash balance of the general government, excluding budget support grants (- implies a deficit)	-1,674,500	-1,744,668	-354,000	-344,485	-750,000	-725,996	-1,123,107	-1,557,208
Ceiling on general government arrears	1,600	2,000	1,600	2,000	1,600	2,000	1,800	1,600
Floor on social spending	499,600	499,600	172,000	130,000	270,000	262,500	390,000	537,800
Ceiling on general government borrowing from the NBU 6/ 7/	-704	-704	-9,500	-9,500	-2,884	-2,884	-1,153	-704
III. Continuous performance criterion 1/ 2/								
Ceiling on non-accumulation of new external debt payments arrears by the general government	0	0	0	0	0	0	0	0
IV. Memorandum items								
External project financing (in millions of U.S. dollars)	1,555	894	32,700	8,647	65,400	413	832	1,496
External budget financing (in millions of U.S. dollars) 8/	37,627	40,956	356,223	8,521	712,367	17,367	26,548	31,565
Budget support grants (in millions of U.S. dollars)	11,573	14,909	79,040	3,103	158,000	5,937	8,770	8,770
Budget support loans (in millions of U.S. dollars) 8/	26,054	26,048	277,183	5,417	554,367	11,430	17,778	22,795
Interest payments	283,000	260,218	57,910	49,500	215,000	161,780	284,320	429,820
NBU profit transfers to the government	71,868	71,868	0	0	20,000	17,700	17,700	17,700
Government bonds for the purposes of bank recapitalization and DGF financing	0	0	0	0	0	0	0	0
Spending from receipts resulting from sales of confiscated Russian assets and transfers of bank accounts	25,800	25,800	25,800	0	25,800	0	0	2,370
Spending on gas purchases, PSO compensation and transfer to GTSO	60,000	60,000	0	0	30,000	0	60,000	60,000
Sources: Ukrainian authorities and IMF staff estimates and projections.								
1/ Definitions and adjustors are specified in the Technical Memorandum of Understanding (TMU).								
2/ Targets and projections for 2023 are cumulative flows from January 1, 2023. Targets and projections for 2024 are cumulative flows from January 1, 2024.								
3/ Starting with June 2023, the floor on the non-defense cash balance of the general government excluding grants is redefined to include general fund defense expenditures only.								
4/ Starting with June 2023, the ceiling on government guarantees was converted into a quantitative performance criteria.								
5/ Calculated using program accounting exchange rates as specified in the TMU. Starting with December 2023, the adjustor for external financing shortfalls will account for budget support shortfalls only.								
6/ Cumulative from the end of the previous quarter.								
7/ Calculated using the projected redemption of government bonds as of May 28, 2023.								
8/ Excludes prospective IMF disbursements under the EFF.								

69. The authorities' strategy and efforts on restructuring private and official bilateral claims support the assessment of forward-looking debt sustainability.¹⁰ This process will include debt treatments on both official bilateral and external commercial debt:

- *Official bilateral debt:* As [announced](#) by the Group of Creditors for Ukraine on March 24, 2023, a debt service standstill is in effect during the period of the EFF (2023–27) along with a commitment to a final debt treatment before the final review of the program. The official creditors have committed to the level of relief necessary in the baseline and to provide additional relief as needed to restore sustainability if the downside scenario emerges.
- *External commercial debt:* Staff judges that a credible process to restructure these claims remains underway. Building off their March 24, 2023, [announcement](#) regarding debt restructuring, the authorities, with support from their advisors, are taking early steps to advance their strategy to implement a debt operation consistent with the parameters of the IMF's debt sustainability analysis and embedding comparability of treatment with other creditors. They have conducted early outreach with creditors and the restructuring process is expected to begin soon. The authorities aim to finalize the debt operation at the latest by mid-2024.

70. Even though Ukraine's underlying BOP needs in the baseline have risen since the First Review, the EFF-supported program remains fully financed, with firm financing commitments in place for the next 12 months, and good prospects of financing for the remainder of the EFF-supported program. The baseline financing gap estimate over the program period has increased from around US\$114 billion to US\$122 billion, reflecting an increased underlying BOP gap in light of revised fiscal projections, covered by additional financing. Staff has maintained the downside financing gap estimate of US\$140 billion. The additional baseline financing broadly offsets what would have been additionally required in 2023 under a downside. Donors and creditor support under the program so far has been broadly consistent with expectations for 2023, and forward-looking prospects for continued support appear good, notably given the EC proposal for €50 billion in concessional loan and grant support for 2024-27.¹¹ Staff have also reconfirmed good prospects on financing for the remaining program period consistent with restoring debt sustainability on a forward-looking basis under both the baseline and downside scenarios.

¹⁰ Ukraine does not have any external arrears.

¹¹ An important aspect will be the extent of EU frontloading its budget support for 2024.

Table 1. Baseline Financing Gap and Sources

(Billions of U.S. dollars, unless otherwise indicated)

	2023	2024	2025	2026	2027	Cumulative (prog. period) 1/
A. Financing gap	45.7	41.8	23.9	14.7	4.8	121.7
Underlying BoP Gap 2/	34.7	40.4	23.9	14.1	0.5	107.5
Gross international reserves (+ = accumulation)	11.0	1.5	0.1	0.6	4.2	14.3
B. Official financing (excl. IMF) 3/ 4/	41.2	31.9	18.9	8.5	0.0	91.3
EU	19.5	0.0	0.0	0.0	0.0	14.7
US 5/	14.2	8.5	0.0	0.0	0.0	19.3
Japan 6/	3.5	2.0	0.0	0.0	0.0	5.6
Canada	1.8	0.0	0.0	0.0	0.0	1.8
UK 6/	1.0	1.0	0.0	0.0	0.0	1.5
Norway	0.2	0.0	0.0	0.0	0.0	0.2
World Bank	0.6	0.0	0.0	0.0	0.0	0.5
Other 7/	0.3	20.4	18.9	8.5	0.0	47.9
C. IMF (prospective)	4.5	5.4	1.8	2.6	1.3	15.6
D. Potential flow relief from debt operations 8/	0.0	4.6	3.2	3.6	3.5	14.8
E. Residual financing gap (A-B-C-D)	0.0	0.0	0.0	0.0	0.0	0.0
<i>Memorandum items:</i>						
Capital market access	0.0	0.0	0.0	0.0	0.0	0.0
IMF (net disbursements)	1.9	3.0	-0.5	0.6	0.1	3.1
Gross international reserves	39.5	40.9	41.0	41.6	45.9	...
% of composite metric	109.7	99.0	94.2	90.4	96.4	...

1/ Cumulative program period calculations begin from 2023Q2, while the annual average is calculated on a calendar year basis.

2/ Underlying BOP gap indicates the decrease in reserves absent official financing and IMF support.

3/ Based on available information as of November 10, 2023. Staff assessments are consistent with technical discussions with creditors and donors and their track record and terms of financing.

4/ Official financing estimates from 2025 assume creditor and donor flows for which there are good prospects.

5/ Updated commitment for 2023Q4 (US\$3.3 billion) and 2024Q1 through 2024Q3 (US\$8.5 billion) is considered as firm on the basis of budget submission by the US in October 2023 and is subject to congressional approval.

6/ Japan and UK support in 2024 is channeled via the World Bank in the form of credit enhancements and guarantees, respectively. The US\$2 billion support from Japan for 2024 is considered a firm commitment on the basis of Diet approval in March 2023. Additional support from Japan is expected in 2024, subject to Diet approval (reflected in the "Other" category).

7/ For 2023, "Other" comprises grants channeled via the World Bank from a range of bilateral official donors. For 2024, "Other" comprises assumed financing assurances from the EU, Canada, and Japan, subject to domestic procedures, including parliamentary approval, where relevant.

8/ For 2024, potential flow relief from debt operations comprises US\$1.9 billion in debt service and US\$2.7 billion in deferred payments arising from the initial stages of the standstill.

Table 2. Baseline Financing Gap and Sources, 12-Month Basis

(Billions of U.S. dollars)

	24Q1 thru 24Q4
A. Financing gap	41.8
Underlying BoP Gap 1/	40.4
Gross international reserves (+ = accumulation)	1.5
B. Official financing (excl. IMF) 2/	31.9
US 3/	8.5
Japan 4/	2.0
UK 4/	1.0
Other 5/	20.4
C. IMF (prospective)	5.4
D. Potential flow relief from debt operations 6/	4.6
E. Residual financing gap (A-B-C-D)	0.0

1/ Underlying BOP gap indicates the decrease in reserves absent official financing and IMF support.

2/ Based on available information as of November 10, 2023.

Prospective disbursements incorporate those for which there are firm commitments, and the USD equivalent is based on Fall 2023 WEO exchange rate forecasts (where applicable).

3/ US commitment for 2024Q1 through 2024Q3 (US\$8.5 billion) is considered firm on the basis of budget submission by the US in October 2023 and is subject to congressional approval.

4/ Japan and UK support is channeled via the World Bank in the form of credit enhancements and guarantees, respectively. The US\$2 billion support from Japan is considered a firm commitment on the basis of Diet approval in March 2023. Additional support from Japan is expected in 2024, subject to Diet approval (reflected in the "Other"

5/ "Other" comprises assumed financing assurances from the EU, Canada, and Japan, subject to domestic procedures, including parliamentary approval, where relevant.

6/ Potential flow relief from debt operations comprises US\$1.9 billion in debt service and US\$2.7 billion in deferred payments arising from the initial stages of the standstill.

Text Table 1. Downside Financing Gap and Sources
(Billions of U.S. dollars, unless otherwise indicated)

	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	Cumulative (prog. period) 1/
A. Financing gap	45.7	48.3	29.7	19.5	6.4	15.2	12.8	12.3	10.0	9.7	9.3	140.5
Underlying BOP Gap 2/	34.7	55.4	22.3	17.7	2.2	14.1	11.5	10.1	8.7	7.8	6.9	126.2
Gross international reserves (+ = accumulation)	11.0	-7.0	7.4	1.8	4.2	1.1	1.4	2.2	1.3	1.9	2.4	14.3
B. Official financing (excl. IMF) 3/ 4/	41.2	38.4	24.6	13.3	1.6	0.0	0.0	0.0	0.0	0.0	0.0	110.1
C. IMF (prospective)	4.5	5.4	1.8	2.6	1.3	0.0	0.0	0.0	0.0	0.0	0.0	15.6
D. Potential flow relief from debt operations 5/	0.0	4.6	3.2	3.6	3.5	8.0	5.7	5.1	2.9	2.6	2.1	14.8
E. Adjusted financing gap (A-B-C-D)	...	...	...	...	...	7.1	7.1	7.1	7.1	7.1	7.1	...
F. Exceptional financing 6/	...	...	...	...	...	7.1	7.1	7.1	7.1	7.1	7.1	...
G. Residual financing gap (E-F)	...	...	...	...	...	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<i>Memorandum items:</i>												
Capital market access	0.0	0.0	0.0	0.0	0.0	0.0	1.0	2.0	2.0	2.0	2.0	0.0
IMF (net disbursements)	1.9	3.0	-0.5	0.6	0.1	-1.0	-1.7	-2.1	-2.5	-2.6	-2.3	3.1
Gross international reserves	39.5	32.4	39.8	41.6	45.9	46.9	48.3	50.5	51.8	53.7	56.0	...
% of composite metric	109.7	80.1	93.7	92.8	99.2	98.9	98.6	101.9	102.4	105.3	108.2	...

1/ Cumulative program period calculations begin from 2023Q2, while the annual average is calculated on a calendar year basis.

2/ Underlying BOP gap indicates the decrease in reserves absent official financing and IMF support.

3/ Based on available information as of November 10, 2023. Staff assessments are consistent with technical discussions with creditors and donors and their track record and terms of financing.

4/ Includes exceptional support from donors (approximately 80 percent in concessional loans, 20 percent in grants) under financing assurances required to restore debt sustainability.

5/ For 2024, potential flow relief from debt operations comprises US\$1.9 billion in debt service and US\$2.7 billion in deferred payments arising from the initial stages of the standstill.

6/ Exceptional financing would include a mix of higher program period grants (which reduces debt service subsequently), a larger second-stage restructuring, and additional financing (consistent with assurances received).

71. The capacity to repay (CtR) assurance provided by a significant group of creditors/donors at program approval remains valid. The assurance is required in view of the continuing exceptional high uncertainty surrounding the scale, intensity, and duration of the war, and consequently the economic outlook, which poses tail risks beyond the downside, and so the program itself cannot fully establish a safeguard on capacity to repay, as in normal UCT-program contexts. There has been no indication of any change in risks in terms of the assurances. As such, in line with the Fund's EHU policy, at the time of the EFF request, a significant group of creditors/donors comprising countries in the G7 plus Belgium, Lithuania, the Netherlands, Poland, Slovakia, and Spain extended an assurance that management and staff understood to (i) reaffirm their recognition of the Fund's preferred creditor status in respect of the amounts currently outstanding to Ukraine, plus any purchases under the proposed extended arrangement; and (ii) further undertake to provide adequate financial support to secure Ukraine's ability to service all of its obligations to the Fund, in accordance with the Fund's preferred creditor status and complementing the IMF's multilayered risk management framework.¹² Staff will continue to undertake outreach with members that indicate an interest in joining these CtR assurances. Under the baseline scenario, the stock of total Fund credit is expected to peak at 8.1 percent of GDP and

¹² The EHU policy also requires the assessment at each review that scenarios which would give rise to any overdue financial obligations are very unlikely, and adequate safeguards for Fund lending are in place as required under the Articles of Agreement.

36.7 percent of gross reserves in 2024. Debt service to the Fund would peak at 1.9 percent of GDP in 2024 and 8.7 percent of gross reserves in 2025. A materialization of downside risks would increase these ratios.

72. The NBU is taking steps on the implementation of recommendations from the 2023 Safeguards Assessment. The assessment found broadly strong safeguards at the NBU, but its autonomy and mandate were in 2022 significantly impacted by the monetary financing of the government. The authorities are in the process of establishing a more robust framework for such financing of last resort (MEFP ¶155), as recommended in the assessment. To further strengthen governance practices, the central bank has requested Fund assistance to study international experience to inform potential legal amendments on eligibility criteria and experience for appointments at the NBU Council and Executive Board. Staff is engaging with the authorities on progress on other recommendations.

73. The ongoing support from the European Commission (EC) recognizes progress made by Ukraine on governance reforms but highlights need for ramping up of efforts (see Box 2). In November, the EC recommended to open accession negotiations with Ukraine, following progress on the seven steps outlined in July 2022. Positive governance developments identified in the latest [Enlargement Report](#) include: restoring the asset declaration obligations of public officials; re-alignment of the definition of politically exposed persons with the international AML/CFT standards; and integrity vetting of candidates to the judicial self-governance body (High Council of Justice). Successful accession negotiations will require progress and strong performance by Ukrainian authorities in all clusters, including existence of a functioning market economy, fight against corruption, and functioning of the judiciary. A new Ukraine Facility proposed by the EC also preconditions budget support on progress in preventing, detecting, and correcting high-level corruption, among others. Near-term governance reforms on improving institutional independence of the anti-corruption prosecutor, and revisions to the criminal procedural code on corruption cases are important in this regard.

Box 2. EU Accession Negotiations and Ukraine Facility

On November 8, the European Commission (EC) recommended to the European Council to open accession negotiations with Ukraine. The EC also recommended that the Council adopts the negotiating framework once Ukraine fulfills the remaining elements; the EC will report on this in March 2024. At the same time, the EC stands ready to start the screening process (preparatory work ahead of the negotiations) immediately. In EC's assessment, Ukraine has made substantial [progress](#) on achieving the 7 steps: Ukraine has established a transparent pre-selection system for the Constitutional Court judges in line with Venice Commission recommendations and reformed the judicial governance bodies (Steps 1 and 2 completed). It has further developed its track record of high-level corruption investigations and convictions and strengthened its institutional framework. This includes the appointment of the NABU and SAPO heads as well as the asset declaration reform (Step 3). In the EC's assessment, the country also completed the measure to align the AML/ CFT legislation with FATF (Step 4 completed). Ukraine has taken positive steps in a wider and systemic effort to address the influence of oligarchs (Step 5). Furthermore, Ukraine's media law was aligned with the relevant EU directive (Step 6 completed). Finally, the country has made progress in reforming and implementing the legal framework for minorities (Step 7). More broadly in the EC's assessment, Ukraine has overall demonstrated its capacity to make progress in aligning with the EU acquis, even during the war.

The EC has proposed a new Ukraine Facility of €50 billion for 2024–27 to support Ukraine's recovery, reconstruction, and modernization. The Facility will include financial support to the government in the form of loans and grants (Pillar I) to support financing needs and reforms as well as investments that can pave the way for a resilient economic recovery, and not least facilitate EU accession; a specific Ukraine Investment Framework (Pillar II) with a de-risking mechanism for investors and to support the Ukrainian private sector; as well as technical assistance to the authorities such as on the EU acquis and reforms, and related measures (Pillar III). The Ukraine Facility will be steered and delivered through a Ukraine Plan, developed by the authorities. The Plan will present an evidence-based analysis to explain and motivate the investments, reforms and expected impact for Pillar I, as well as guide Pillar II and III. The EC plans to have the economic and fiscal framework covering the 2024–27 period, and consistent with the Fund's EFF. The EU Facility will be subject to quarterly disbursements. Staff has been in close coordination with the EC and the authorities to ensure the consistency of the framework and planned reforms.

2023 ARTICLE IV CONSULTATION

74. The Article IV discussions focused on policy considerations to lay the foundations for strong, balanced and green growth in the post-war era, and support Ukraine's path to EU accession. Medium-term policies to help Ukraine recover from the impact of the war and achieve a sustained high growth path formed the core of the discussions. The groundwork for these policies, many of which will anchor the second phase of the EFF, can be established now to set up a strong and durable recovery.

Context and Upside Scenarios

75. Despite the war's impact on Ukraine's productive capacity, decisive macroeconomic policies coupled with international support have stabilized the economy and sown the seeds of a nascent recovery. The war has brought large-scale destruction of the country's capital base

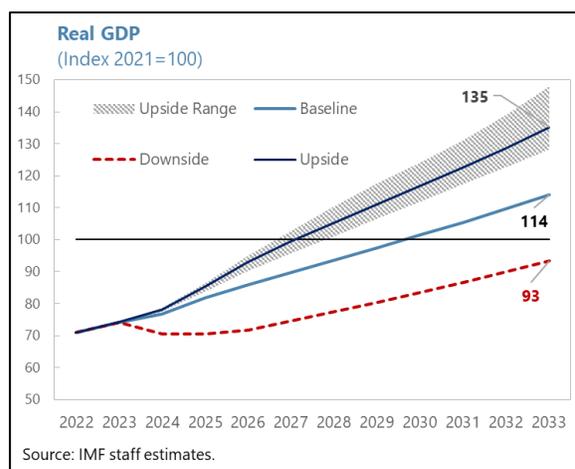
and considerable outward migration has eroded human capital levels, posing long-term risks to Ukraine's income levels and living standards. However, the authorities have taken decisive, skillful and often difficult steps to safeguard macroeconomic and financial stability, and the economy has proven more resilient than expected, setting the stage for a gradual recovery.

76. Ukraine has major upside potential once the war tapers off, depending on policy choices and the availability of financing. Well-managed post-war reconstruction coupled with decisive business environment, institutional and governance reforms in the context of EU accession could stimulate the return of migrants and investment flows needed to set the economy on a sustainably stronger growth footing. Rebuilding human capital will be critical to boost the productivity capacity in the post-war period. Notwithstanding the war-related scarring in traditional sectors (e.g., metals, agriculture), the (re-)emergence of industries where Ukraine has a comparative advantage (e.g., agriculture, green energy, critical metals, transport and logistics, IT, and military production), would allow Ukraine to move up the value chain and lift its growth potential.

77. In this regard, staff has prepared an illustrative upside scenario to motivate reform priorities (Annex VI). Given the exceptionally

high uncertainty, including longer-term growth, staff estimated a range of upside scenarios that factor varying assumptions on investment, absorption capacity, migration, and productivity. Results with large scale investment supported by appropriate macroeconomic and structural policies and continued donor support show that Ukraine could attain long-run real GDP growth of up to 4.5-6.5 percent in the upside scenarios compared to 4 percent in the baseline. This assumes conservative investment-growth elasticities as well as private investment as the main driver given the public absorptive capacity constraints. While staff does not make an assumption about the length of the EU accession process, the upside scenarios implicitly capture some growth anticipation effects in the outer years of the scenarios. The upside scenarios also assume that exports recover faster than in the baseline, whilst also building a larger import component to support the assumed investment surge. Overall, sustained high economic growth will help narrow the wide per capita income gap with EU peers.

78. However, such a positive scenario will be more likely to materialize if the authorities achieve and sustain effective institutional and governance reforms, and avoid boom-bust cycles. Growth prospects from reconstruction will be significantly strengthened should corruption abate and the role of connected parties/oligarchs diminish, appropriate structural reforms are implemented (efficient public spending, enabling business environment), and macroeconomic policy settings are well calibrated to prevent the risks associated with large scale aid flows (high inflation, excessive real exchange rate appreciation, and an accumulation of fiscal and external imbalances).



Authorities' Views

79. The authorities welcomed staff's scenario analysis and agreed on the importance to discuss post-war policies now, notwithstanding large uncertainty about the future. The authorities emphasized several challenges that Ukraine will face in boosting its economic potential: (i) attracting large volumes of foreign capital and directing it to most productive investments and (ii) addressing the demographic situation including by creating conditions for migrants to return and for a large number of war veterans to reintegrate into the job market.

External Sector Assessment

80. Ukraine's external position in 2022 is assessed to have been weaker than the level implied by fundamentals and desirable policies (Annex II). While acknowledging challenges in implementing EBA-lite in a war context, the exceptionally high uncertainty around the duration and effects of Russia's war in Ukraine continues to present a significant risk to the external position. Donor financing remains critical for supporting reserves and stabilizing the FX market. Steps towards normalizing monetary and exchange rate policy, securing financing from donors at sufficiently concessional terms, delivering on debt restructuring and fiscal consolidation, and advancing on the structural reform agenda, in the context of the path to EU accession, remain essential to safeguard external sustainability.

Authorities' Views

81. The authorities broadly acknowledged the external assessment while highlighting the limitations of the EBA-lite methodology in Ukraine's war context, as presented in Annex II. The authorities suggested revisiting the rationale for, and size of, the adjustor for grants at the next ESA iteration as the surge in grants at the onset of the war was also accompanied by an increase in import demand. They also thought the conflict adjustor should enter the calculation of the cyclically-adjusted current account balance with a positive sign given the role of war-related spending as well as production and logistics disruptions in widening the trade deficit. Additionally, they noted that the current account model does not capture the highly concessional terms of loans from donors.

Medium-term Policies to Deliver Strong, Balanced and Green Growth**Fiscal Policy**

82. Fiscal policies under the program are designed not only to preserve near-term macroeconomic stability, but also to create fiscal space for large post-war spending needs. As the war tapers off, the space opened by the gradual reduction in defense expenditures would likely be taken by capital and social spending, including for reconstruction and newly emerging vulnerable groups in the population (including internally displaced persons, veterans, and those with disabilities). In line with Ukraine's long-term aspirations for EU accession, significant expenditures will be required to converge to European standards in terms of infrastructure and social services.

83. At the same time, fiscal policy should be anchored on the restoration and maintenance of debt sustainability. Proceeding with the debt treatments will help ensure that Ukraine has adequate fiscal space for reconstruction and to withstand shocks.

84. Steadfast efforts to mobilize tax revenues will be key to balancing these considerations. A revenue mobilization package that builds an adequate and durable tax base, eliminates the potential for arbitrage and distortions in business decisions, while adhering to the principles of simplicity and fairness is crucial. In line with these goals, the authorities' NRS will serve as an overarching framework for anchoring medium-term revenue mobilization consistent with spending priorities. The authorities have already restored prewar tax policies, and key priorities ahead include revisions to the simplified tax regime to address the erosion of the labor tax base, and aligning excise duties and VAT with the EU acquis. The post-war era will also require enhancing corporate income taxation while creating a conducive framework for reconstruction investment that does not erode the tax base, as well as tax and customs administration. Efforts to combat corruption will support this agenda, including by addressing integrity risks and building public buy-in for these essential reforms.

85. Fiscal structural reforms are also geared toward achieving these goals especially in the context of managing large-scale reconstruction aid and investment spending. Developing a medium-term budget framework (MTBF) will help ensure efficient, productive, and well-prioritized public spending of taxpayer money. As aid inflows come to the country, it will be important to ringfence existing fiscal risks, while preventing or mitigating the occurrence of others, including by strengthening PFM practices and increasing transparency. The authorities should continue work on strengthening the link between the fiscal risks assessment and the predictability of government spending, integrate risk assessments in the early stages of the budget cycle, providing essential input into budgetary and fiscal decisions, and make competitive choices in procurement, helping to achieve the most value for money.

Authorities' Views

86. The authorities agreed on the need for stronger efforts to mobilize domestic revenues and implement fiscal structural reforms to support these efforts. At the same time, they acknowledged that it will be challenging to increase the tax burden post war given the hardships that the population and businesses have been experiencing in wartime. The authorities emphasized the difficulties in substantially reducing post-war defense spending given the need to further strengthen its military for deterrence of future aggression against the country. Furthermore, needs for de-mining and addressing environmental damage will create additional spending pressures.

Monetary and Exchange Rate Policy

87. The restoration of the pre-war monetary policy framework is essential to anchor inflation expectations and enable the exchange rate to act as a shock absorber, in line with the NBU's Strategy. Following the move to managed exchange rate flexibility, together with the gradual relaxation of FX controls, the NBU plans to eventually revert to its inflation targeting (IT)

policy framework. Before returning to IT, inflation should continue to remain under control and to progressively trend toward its 5 percent target, and the NBU should take further steps to optimize the operational design of monetary policy. Key steps include strengthening the role of the key policy rate and enhancing monetary transmission. Upholding central bank independence—including by continuing to abstain from monetary financing—is also a critical precondition to restoring IT. As the transition to IT continues, gradually allowing the exchange rate to act as a shock absorber will increase the resilience of the economy to external shocks. The NBU should proceed gradually with the relaxation of FX controls while assessing the impact of further FX liberalization measures and the full transition to a floating exchange rate regime.

Authorities' Views

88. The authorities concurred with staff's views on the approach to gradual relaxation of FX controls and transition to inflation targeting. They pointed to rapid disinflation as an indication of fast-changing conditions and the need for flexible and conditions-based approach for transitioning to inflation targeting.

Macroeconomic Policy Settings under the Scaling up of Aid

89. Macroeconomic policy settings need to be carefully managed given the prospects of large, sustained aid flows. Ukraine is already receiving sizeable foreign aid to support priority spending in its war-torn economy. Moreover, there will be a need for more scaling up of concessional and non-debt creating flows to support Ukraine's large-scale reconstruction and recovery spending. The experience of other countries that have received large-scale aid suggests that it could have strong positive effects on growth conditional on what the aid is used for, how efficiently it is invested, and the macroeconomic policy response. If not managed properly, aid can result in substantial risks of inflation; real exchange rate appreciation, with Dutch disease-type effects; heightened risks to debt sustainability; and volatile and imbalanced growth.

90. Staff discussed illustrative policy options based on analytical framework for macroeconomic management under scaling up of aid and investments to ensure balanced growth. This would require well-coordinated fiscal, monetary and structural policies, with the following considerations.

- Fiscal policies need to allow spending of aid in ways that boost growth potential and can help alleviate a potential loss of competitiveness due to real appreciation pressures. Aid spent on reconstruction can catalyze much-needed private investment, while ensuring such reconstruction spending achieves Ukraine's development goals (infrastructure, education, and health). However, the pace of fiscal spending in response to aid flows will need to account for the impact on debt sustainability and the strength of the institutional framework to manage investment. To avoid the risks associated with the rapid, large-scale spending of aid and to maximize the growth impact of reconstruction spending, it will be essential to balance the pace of the spending with measures to strengthen public investment management.

- At the same time, the scaling up of aid can generate price pressures, which risk de-anchoring inflation expectations as the NBU transitions toward IT. Moreover, the real exchange rate appreciation pressures and widening of the current account deficit stemming from the potential capital inflows will need to be considered in the NBU's FX reserve accumulation strategy. Structural policies may also help strengthen productivity growth alleviating real exchange rate appreciation pressures.

Authorities' Views

91. The authorities agreed on the importance of effective management of large-scale aid flows. They agreed that analyzing pre-war economic weaknesses and identifying policies that would lift the growth post war are important. They also expressed a view that FX reserve accumulation may be effective to stem real appreciation in the short term, but in the longer term the emphasis should be on appropriate fiscal and structural policies to boost the productivity and economic potential. They mentioned that the IMF's integrated policy framework (IPF) could be used as a tool and input for the country's post-war macroeconomic management. The authorities mentioned that reparation (compensation) should be an important part of post-war inflows to cover, at least partially, the enormous size of damages and to share reconstruction costs.

Financial Sector Policies

92. The financial sector will need to play an important role in supporting the reconstruction, although only after its health has been assessed and restored (Annex V). Prior to the war, having undergone substantial reform following the 2015-16 banking crisis, Ukraine's financial system was relatively shallow, and still dominated by state-owned banks. Banks have weathered the initial phase of the war well, being well-capitalized, liquid, and highly provisioned, though asset quality remains uncertain amid Martial Law forbearance. Assessing and restoring banks' health and reversing the deterioration in credit conditions following the war will be key to unlocking upside growth potential. Several actions are needed to prepare the financial sector for sustainable growth. As a first step, bank diagnostics are required to fully quantify non-performing loan and capital adequacy levels, followed by bank and non-bank balance sheet cleanup and the restoration of capital buffers. Any remaining wartime emergency measures will also need to be unwound.

93. At the same time, structural reforms will be needed to support credit. These include the implementation of international valuation standards, improvements to insolvency and creditor rights frameworks, and strengthening the quality and accessibility of public registers; targeted and timebound credit support schemes will also be needed to assist borrowers with the transition to a new normal (see also Box 1). The planned eventual privatization of state-owned banks will also promote corporate governance improvements.

Authorities' Views

94. The authorities concurred with the staff on the challenges that the financial sector is facing and of needed structural reforms to support financial intermediation. They emphasized the important role that banks will need to play in the restoration of the economy and mentioned among challenges that the regulator is facing the increasing role and use of virtual assets.

Governance

95. Independent and competent governance institutions are essential for strong post-war growth. They help sustain public and donor confidence, and help establish a level-playing field between foreign investors and local businesses. Good governance, a robust anti-corruption regime, and respect for rule of law are also fundamental building blocks for Ukraine's goal of EU membership. Despite the challenging circumstances of the war, the authorities should continue to build upon hard-won advances on governance reforms under the program. In particular, legislation to support the effectiveness of the anti-corruption agencies will be critical to the sustainability and success of the infrastructure to combat high-level corruption. Moreover, robust vetting of judges by the renewed judicial self-governance bodies and establishing a new Administrative Court to hear cases against national state agencies will advance judicial independence and the predictability of dispute resolution for businesses.

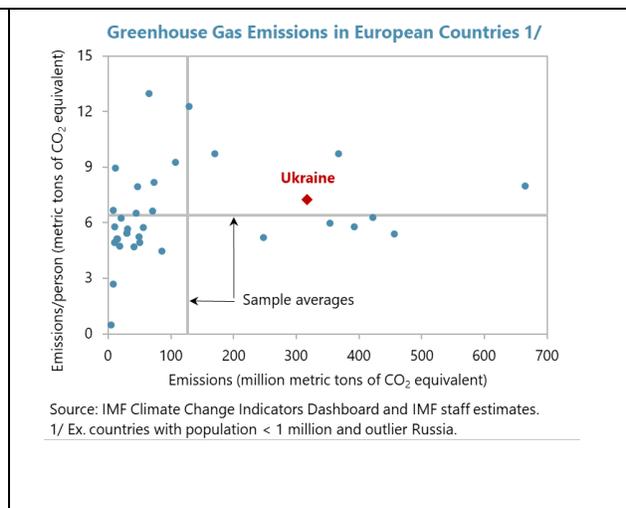
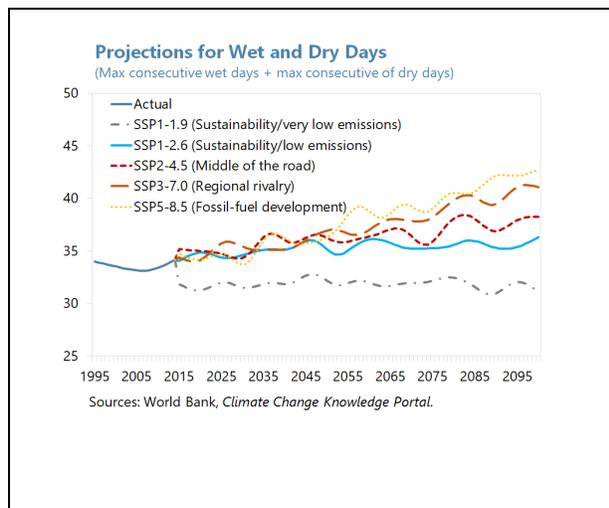
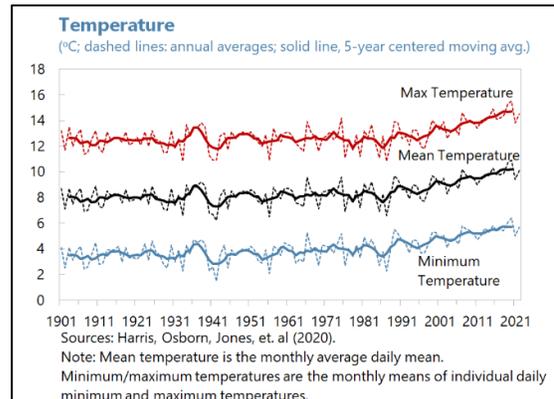
96. Transparency and accountability measures and further empowering governance institutions remain critical for post-war recovery and reconstruction. The post-war environment for private investment and market competition will be enhanced through institutional strengthening of key governance agencies such as the Anti-Monopoly Committee, Accounting Chamber, State Audit Service, and Asset Recovery and Management Agency. A new governance diagnostic would help assess corruption vulnerabilities and lay out future reform plans, potentially for 2024. Integrating the ProZorro digital procurement system with the broader reconstruction platform (Ministry of Economy's Digital Restoration EcoSystem for Accountable Management) will contribute to transparency and accountability of reconstruction procurement. Effective verification of beneficial ownership information in the registry under the Ministry of Justice will enhance public procurement transparency, detect conflicts of interest, and prevent misuse of companies.

Authorities' Views

97. The authorities agreed with staff on the importance of good governance and strong anti-corruption institutions, while highlighting the risks to public sector recruitment if public servants were stigmatized. Specifically, they highlighted that onerous asset declarations and the consequences of the recently adopted AML/CFT law could potentially deter high-quality candidates to join the public service. They also mentioned the need for adequate training of civil servants.

Green Transition

98. Over the longer-term, after the war ends, the implications of climate change may pose challenges for Ukraine (see Selected Issues Paper, SIP). Temperatures in Ukraine have already been rising since at least the 1990s, with an upward trend likely to continue. The effects of a warmer climate may be complex, but long-term climate projections suggest increasingly volatile rainfall patterns are likely, which could increase the likelihood of natural disaster events like droughts, floods, and wildfires. Considering the difficult outlook on demographics, poverty, and population concentrations—including as a legacy of the war—future disaster events may be more damaging when they arise. The large agriculture sector would also be vulnerable to these events. Ukraine also has a role to play in lowering greenhouse gas (GHG) emissions, which, despite a substantial reduction since the 1990s, are still above average compared to other European countries. Moreover, further climate change mitigation will be necessary to ensure delivery of international commitments like the updated nationally-determined contribution under the Paris Agreement and to attenuate the impact of the EU’s Carbon Border Adjustment Mechanism. The authorities’ broader development objective of EU accession will also require Ukraine to position itself with the EU’s “Fit for 55” and 2050 net zero emission targets.



99. Addressing the challenges posed by climate change will require determined policy action. The reform agenda will need to be wide-ranging, covering both resilience and emissions reduction. While the task is sizable, and the future is subject to exceptionally high uncertainty, implementing stronger climate-related policies appears to be feasible and consistent with the broader development agenda:

- *Adaptation:* The rising natural disaster risks described above will require public investments to help with resilience to climate change. Whereas estimates of Ukraine’s longer-run adaptation investment needs are moderate, they will need to consider the need to maintain fiscal and debt sustainability after it is decisively restored. Illustrative DSA modeling suggests that the authorities would be able to reconcile these competing objectives, supported by avoiding excessive fiscal relaxations after the program to preserve fiscal space and seeking financing on appropriate terms whenever possible.
- *Mitigation:* A comprehensive reform dealing with carbon taxation (currently low level and coverage) and an emissions trading system has substantial potential to mobilize revenues (including to provide targeted support for groups adversely affected by these policy changes) and lower emissions. Modeling based on the IMF-WB Climate Policy Assessment Tool suggests that gradually raising carbon prices from around the current \$1/ton up to \$50/ton by 2035 could yield around 4½ percent of GDP in revenues, which could be recycled in an equitable and growth-friendly way.
- *Green finance policies:* While the war has required the Ukrainian authorities to reprioritize the financial sector agenda toward financial stability, leading to the postponement of the implementation of the NBU’s Sustainable Financing Policy, its update is envisaged in the recently updated Strategy of the Financial Sector Development. Once there is more clarity on the high-level national environmental, social and governance (ESG) development goals, the NBU will update its Policy aiming at ensuring that financial sector institutions internalize climate risks, and exposure to climate risks. While remaining within its existing mandate, the NBU will develop policy tools including regulations, supervisory assessments, climate stress-testing, and monetary policies that strive toward meeting emerging international best practices in this area.

Authorities’ Views

100. The authorities concurred that environmental priorities would be an important medium and long-term priority, noting that mounting large-scale defense operations constrained their ability to implement major environmental reforms at present. They emphasized that Russia’s invasion was causing enormous ecological damage—including the destruction of the Kakhovka dam—and highlighted an expectation that large-scale de-mining of formerly occupied areas would be important. Despite the current challenges, the authorities noted their commitment to policies that would advance green priorities in the future. They viewed environmental taxation as playing an important role, while the NBU stands ready to move forward with the update to the sustainable finance policies once conditions allow and under the umbrella of a broader national ESG agenda that would be formed by the Government of Ukraine.

Other Issues

101. Data quality is broadly adequate for surveillance, albeit with some shortcomings (see Informational Annex). Data provision was hampered by the onset of Martial Law, with a suspension in some sectors and narrowing of data sampling, which led to some deterioration in data coverage and quality. While data availability has widened relative to a year ago, substantial delays in data provisioning still exist compared to pre-war. There is scope to already start addressing data gaps that would be critical for surveillance purposes by stakeholders and a better understanding of high-frequency dynamics of the economy. For instance, data availability and quality on agriculture, wholesale trade or transportation should be boosted alongside PPI, labor market metrics, and GDP deflator components. Finally, and given the importance of the energy sector for the recovery and reconstruction, it would be important to publish broad metrics. Despite the broadly adequate data quality for surveillance purposes, the Fund stands ready for TA to improve the data provision.

102. Exchange arrangement and jurisdictional issues. Staff identified that the exchange rate system gives rise to three multiple currency practices (MCPs), and recommend their temporary approval under Article VIII, Section 3.

- The *first* arises from a spread of more than 2 percent between the exchange rates that banks may freely set for certain non-cash FX transactions and the official exchange rate (including the official exchange rate which is set on the day of the transaction and will be effective the next business day) required to be used for the purchase/sale of FX for other non-cash transactions (including government transactions);
- The *second* arises from the potential for a spread of more than 2 percent between (i) the official exchange rate on the day of the FX transactions and (ii) the official exchange rate of the previous business day that is required to be used for certain FX transactions; and,
- The *third* arises from the use of multiple price foreign exchange auctions conducted by the NBU without a mechanism to prevent a deviation of more than 2 percent between the auction rates and the market exchange rate at the time of the auction.

Given the risks to the outlook, the role of the FX controls in preserving external stability in the near term, and the program's objective to maintain an adequate level of FX reserves, staff would recommend the approval of these three MCPs, which are maintained for BoP reasons, by the IMF Executive Board. In line with the authorities' clear intention under the program to ease FX controls when conditions permit (MEFP ¶150), such measures are expected to be temporary and unwound. The MCPs do not give Ukraine an unfair competitive advantage over other members or discriminate among members.

CD IMPLEMENTATION

103. Ukraine’s capacity development (CD) needs are large and well aligned with measures under the authorities’ program. The demand for IMF CD in a range of policy areas—e.g., fiscal analysis and risks, tax policy and revenue administration, monetary and FX policy operations and communications, financial sector supervision and governance—reflects the program’s objectives of strengthening policy frameworks and implementing comprehensive reforms, aligned with Ukraine’s EU accession goal. The extensive scope of CD needs calls for close coordination and prioritization with the authorities and other partners at an early stage of the program, along with substantial external financing for CD delivery to be funded through the newly established Ukraine CD Fund (UCDF). In this regard, the IMF has begun seeking external resources from donor partners in support of the UCDF (Box 3).

Box 3. Scaling up CD: Financing, Prioritization, and Coordination

Ukraine’s CD needs are significant and aligned with measures under the four-year EFF-supported program. The demand for IMF CD in a range of policy areas—e.g., PFM, tax policy and revenue administration, fiscal analysis and risks, monetary and FX policy operations and communications, financial sector supervision, and governance—reflects the program’s objectives of preserving macroeconomic stability, strengthening policy frameworks, and implementing comprehensive reforms, aligned with Ukraine’s EU accession goal. The extensive scope of CD needs calls for prioritization and close coordination with the authorities and other partners.

Substantial external financing for CD delivery is expected to be mobilized through the newly established Ukraine CD Fund (UCDF). Raising significant external financing from partners—up to US\$65 million over five years—will facilitate effective coordination with the authorities and other stakeholders, while ensuring additionality of partners’ contributions. This will also help avoid gaps in engagement with Ukraine, and that IMF-funded CD to other Fund member countries is not crowded out. IMF’s Institute for Capacity Development’s (ICD) Global Partnerships (ICDGP) has begun seeking external resources from donor partners in support of the UCDF. As of November 20, around \$25 million in donor contributions have been secured or nearly secured, including from Japan (\$2m), Lithuania (\$1.6m), the Netherlands (\$7.4m), and the Slovak Republic (\$3.2m). Additional donor contributions are forthcoming.

A steering committee (SC) for the UCDF is expected to be convened in early 2024. The SC— comprising donor partners, Ukrainian authorities, and the IMF—will provide strategic guidance on CD priorities and plans and will consider high-level CD work plans and annual reports for CD programs funded by the UCDF. Based on contributions to date, and in advance of the launch of the SC, IMF CD Departments will prepare detailed, costed work plans for the remainder of FY2024 and for FY2025-26. These work plans will match the medium-term CD work planning (MTW) process already underway.

The IMF’s CD work plan for Ukraine will be carefully prioritized and tailored, reflecting war-related constraints on absorptive capacity and program priorities. The authorities’ technical capacity is generally strong, but the war has placed pressure on their staff and institutions. They are constrained on their absorptive capacity and on their resources to travel. In the near term, this puts a premium on well-targeted CD activities with short, focused, in-person components. Furthermore, CD needs for Ukraine, underlying the IMF CD work plan, are expected to evolve in light of emerging issues and new policy priorities. In this regard, departments will need to be agile in their CD support for Ukraine, including in placing long-term experts (LTXs) to support CD needs in a range of policy areas.

Box 3. Scaling up CD: Financing, Prioritization, and Coordination (concluded)

Effective scaling up of CD delivery to Ukraine will require close coordination with other institutions.

Key among these will be the EU, given Ukraine's EU membership candidacy status agreed in June 2022 and EC recommendation in November to open accession negotiations ; the World Bank Group (i.e., IBRD, IFC, MIGA with their separate programs and multi-donor vehicles for Ukraine), given its substantial footprint and wide range of expertise in areas complementary to IMF work; the EBRD, given its mandate, focus, and resources; and the European Investment Bank (EIB), given substantial resources it has pledged for CD to Ukraine for public investment management. The Ukrainian authorities will continue to be challenged by the complexity of policymaking during the war, by war-affected capacity losses and constraints, by rebuilding needs and tasks, and by engagement with numerous external partners, public and private. Coordination will be helped by clear prioritization and careful division of labor, ex-ante understandings and agreements, transparency, and information sharing. Additionally, many donor partners have already expressed the need for better coordination between all IFIs with active programs in Ukraine.

STAFF APPRAISAL

104. The Ukrainian economy has demonstrated remarkable resilience in 2023, although risks to the outlook are exceedingly high as exceptional war-related uncertainty persists.

Economic activity has been stronger than expected this year, inflation has sharply decelerated, reserves have been buoyant, and the FX market has been stable. Nevertheless, the war continues to pose an enormous risk, significant external financing at concessional terms needs to flow on a timely basis, and policy slippages should be avoided. These risks are mitigated by the authorities' track record of decisive policymaking during the exceptionally difficult wartime, contingency plans (see Annex IV), and close program monitoring to allow timely adjustment to program design as needed.

105. The authorities have also implemented challenging reforms despite the war, with strong overall performance under the program at the Second Review. In recent months they have secured parliamentary support for two technically and politically challenging governance reforms—the restoration of asset declarations and reforms to AML/CFT legislation—while the NBU has successfully transitioned off its exchange rate peg. The authorities met most of the structural benchmarks through end-October, and other reforms have been completed with a delay, reflecting the authorities' continuing commitment to the program. All the quantitative performance criteria (QPC) and indicative targets (IT) for end-June 2023 were met, while, also achieving all ITs for end-September. Estimates of program external financing (the overall international support package for Ukraine) have increased to US\$122 billion compared with US\$114 billion in the First Review.

106. Firm actions are required to implement the budget for 2024 consistent with debt sustainability. The fiscal deficit remains very high, reflecting the economic and social cost of the war, entailing large financing needs. To help meet these spending needs while preserving debt sustainability, key priorities include: enacting the law to fully restore tax audits and launching the National Revenue Strategy (NRS) in December 2023 as planned. The authorities need to stand ready to take additional revenue measures and should continue their efforts to mobilize financing from

the domestic bond market. Timely disbursement of committed external support will be critical for budget financing and macroeconomic stability.

107. The authorities should proceed with the planned commercial debt operations in the timeline envisaged. The treatment should be consistent with the aim of restoring debt sustainability in line with program parameters, and provide much needed flow relief. Preserving sustainability will also require seeking new borrowing on the most concessional terms possible and delivering a revenue-based medium-term fiscal adjustment.

108. The NBU's recent move to managed exchange rate flexibility has proceeded successfully. The transition is a welcome step toward restoring the pre-war monetary policy framework and helps strengthen resilience to external shocks. If inflation and inflation expectations remain under control, there is scope for further monetary easing in December, and through 2024.

109. Financial stability risks warrant heightened vigilance. The financial system remains stable, liquid and highly provisioned thanks to extensive emergency measures, but continued vigilance is warranted given war-related uncertainty. Bank diagnostics, reforms to banking oversight, strengthening the governance of SOBs, and contingency planning remain high priorities.

110. Steadfast implementation of structural reforms, including in governance, anti-corruption and public investment management, will be crucial in laying the foundations for strong and sustained growth, and support Ukraine on its path to EU accession. The recent adoption of legislation to restore asset declarations and align the AML/CFT law with the FATF standards are important achievements. Momentum on the governance front should be sustained, and legislation to strengthen the autonomy of SAPO should be adopted in December as planned. Meanwhile, efforts to strengthen the governance of state-owned enterprises should continue. In addition, to support anticipated recovery and reconstruction spending, it will be important to ensure mechanisms for managing donor funding are integrated into budget processes.

111. Ukraine has major upside potential once the war tapers off. Well-managed post-war reconstruction coupled with decisive reforms (including on public investment management, governance, and business environment) could stimulate the return of migrants and investment flows needed to set the economy on a sustainably stronger growth footing and help achieve Ukraine's broader development goals. In this regard, staff welcomes the start of EU accession talks.

112. The EFF-supported program for Ukraine continues to satisfy Fund policies governing the Fund's financing assurances for UCT-financing under exceptionally high uncertainty. The authorities continue to exhibit the capacity and commitment to implement the program. Moreover, a credible process to restructure private external commercial claims is underway, and adequate financing assurances on debt relief and concessional financing during and after the program have been received from official bilateral creditors and donors to support debt sustainability both in the baseline and under a downside scenario. The assurance provided by a significant group of Fund shareholders to the Fund about Ukraine's capacity to repay completes the necessary safeguards.

113. Staff supports the authorities' request to complete the Second Review under the Extended Arrangement, as well as their requests to modify three QPCs, reset two structural benchmarks and modify another. The authorities' strong performance under the program, their strong commitment to maintaining appropriate policies as well as commitments from donors provide confidence that the program remains on track to meet its objectives. Staff supports the proposed modification of the end-December QPC on tax revenues, and to tighten floors on net international reserves and the non-defense cash primary balance of the general government (excluding budget support grants). Staff also supports the authorities' request for modification and resetting of structural benchmarks.

114. Staff supports the approval of the new and modified MCPs, which are all maintained for balance of payment reasons. The authorities have requested approval of these restrictions on the basis that they are temporary, expected to be gradually lifted over the program period, and do not give rise to an unfair competitive advantage over other members or discriminate among members. On the basis of their temporary nature, staff support the waiver of nonobservance of the PC on non-introduction/modification of MCPs.

115. It is recommended that the next Article IV consultation take place on a 24-month cycle.

Table 3. Ukraine: Structural Benchmarks (new SBs in blue text; purple indicates new timing)

	Structural Benchmark	Sector	Timing	Status
1	Enact the second supplementary Budget 2023	Fiscal	End-April 2023	Met
2	Submit to Parliament a draft law to restore and strengthen Article 52 of the Budget Code to minimize ad hoc amendments to the budget law	Fiscal	End-May 2023	Met
3	Prepare an action plan, including to address the weaknesses identified in taxpayers' perception survey, as an input into National Revenue Strategy roadmap	Fiscal	End-May 2023	Met
4	Submit to Parliament a draft law which will reinstate articles of Budget Code that establish limits on issuance of public guarantee with clear criteria for such provision (including for priority sectors)	Fiscal	End-May 2023	Met
5	Enact amendments to the Budget Code and related regulatory framework to enhance transparency and accountability of the special accounts and consolidate them within general government as a special fund of the State Budget	Fiscal	End-May 2023	Met
6	Prepare a conditions-based strategy to move to a more flexible exchange rate, ease FX controls and transition to inflation targeting	Monetary and Exchange Rate	End-June 2023	Met
7	Adopt the draft law on tax policy and administration prepared under the PMB	Fiscal	End-July 2023	Not Met (implemented with delay)
8	Transfer the GTSO shareholding directly to the Ministry of Energy and adopt the new charter	Energy/ Corporate Governance	End-July 2023	Not Met (implemented with delay)
9	Enact the law to restore asset declaration of public officials not directly involved in the mobilization and war efforts and reinstating the NACP's function to examine and verify them	Governance/ Anti-Corruption	End-July 2023	Not Met (implemented with delay)
10	Enact the articles of the Budget Code that allow preparation of the medium-term budget framework, elaboration of the debt strategy, and ringfencing risks from guarantees.	Fiscal	End-September 2023	Met
11	Present in the 2024 budget declaration projections for major revenue and spending categories and sources of deficit financing for 2025-2026, and a fiscal risks statement including details on energy and critical infrastructure SOEs	Fiscal	End-September 2023	Met
12	Develop a concept note on the 5-7-9 program with proposals to target small and medium enterprises by phasing out the eligibility of large companies, enhance monitoring, and maintain adequate safeguards.	Fiscal	Reset to End-March 2024	Not Met
13	Amend the AML/CFT Law to re-establish enhanced due diligence measures on politically exposed persons consistent with the risk-based approach consistent with the FATF standards.	Governance/ Anti-Corruption	End-September 2023	Not Met (implemented with delay)

Table 3. Ukraine: Table of Structural Benchmarks (continued)

	Structural Benchmark	Sector	Timing	Status
14	Strengthen bank governance and oversight by: (i) separating the related-parties-unit from banking supervision; (ii) implementing “supervisory panels” as a consulting body to the Supervisory Committee; and (iii) resume scheduled inspections for both banking and non-banking institutions, while ensuring NBU discretion on matters related to staff safety	Financial Sector	End-September 2023	Met
15	MoF, with STS and SCS, to prepare an action plan, including short-term and medium-term measures covering key reform areas identified by the upcoming diagnostic, that would feed into broader NRS.	Fiscal	End-October 2023	Met
16	Update and publish the Medium-Term Debt Management Strategy to align it with the program objectives	Fiscal	End-October 2023	Met
17	Simplify the asset declaration system through linking with other databases and registers consistent with the public officials’ legal obligations to make truthful and timely submissions	Governance/ Anti-Corruption	End-October 2023	Met
18	Select and appoint a supervisory board for the GTSO	Energy/ Corporate Governance	End-October 2023	Met
19	Review the current PIM procedures and develop a roadmap of measures so that: (i) all public investment projects follow unified PIM approaches, including PPPs; (ii) investment projects are selected on a competitive basis, with transparent selection criteria, and consistent with the medium-term budget framework; (iii) stronger powers are provided to MoF, including a clear gatekeeping role during the different stages of the investment project cycle.	Fiscal	End-December 2023	

Table 3. Ukraine: Table of Structural Benchmarks (continued)

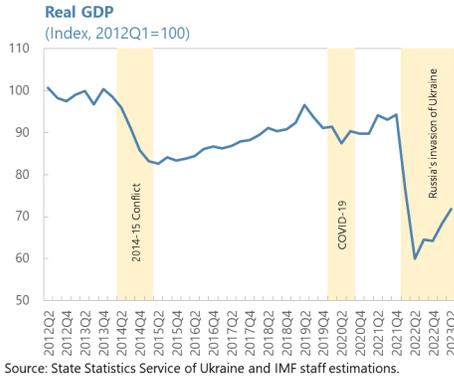
	Structural Benchmark	Sector	Timing	Status
20	Adopt the National Revenue Strategy	Fiscal	End-December 2023	
21	Adopt legislation to enhance the institutional autonomy and effectiveness of the SAPO by being designated as a separate legal entity, and specifically, on the selection procedures, capacity to regulate organizational activities, mechanisms for discipline and accountability, and autonomy under the criminal procedural code	Governance/ Anti-Corruption	End-December 2023	
22	<i>Based on findings of the revenue working group, prepare short-term revenue measures (tax and non-tax) with yields of at least 0.5 percent of GDP ready to be included in budget 2024</i>	<i>Fiscal</i>	<i>End-February 2024</i>	
23	<i>Adopt a new law (consistent with ¶25 of the MEFP) on the ESBU that has a clear mandate and scope for investigative powers consistent with good practice by focusing on major economic crimes; establishing legal basis for operation of the ESBU in terms of the selection of management and staff. The law will respect the existing delineation between the investigative powers of the ESBU and the National Anti-corruption Bureau of Ukraine (NABU).</i>	<i>Fiscal</i>	<i>End-June 2024</i>	
24	Prepare a bank rehabilitation framework in consultation with the DGF and IMF staff	Financial Sector	<i>End-December 2024</i>	<i>Reset</i>
25	<i>Prepare an assessment of the effectiveness of tax privileges, including their cost to the budget, in order to have a unified reform approach</i>	<i>Fiscal</i>	<i>End-July 2024</i>	
26	Implement a supervisory risk assessment methodology to inform supervisory engagement priorities	Financial Sector	End-June 2024	
27	<i>With the help of IMF TA, produce a diagnostic review of pre-war MTBF policies and practices relative to best practices to identify key weaknesses and work towards strengthening strategic budgeting, leveraging bottom-up PFM processes to capture more detailed spending needs and costing of new public services.</i>	<i>Fiscal</i>	<i>End-October 2024</i>	
28	<i>Identify major public companies severely affected by the war and prepare a review of potential fiscal and quasi-fiscal costs</i>	<i>Fiscal</i>	<i>End-September 2024</i>	
29	<i>Based on the outcomes of a roadmap on development of PIM procedures, adopt a government decree with an action plan and timeline that provides clear linkages between MTBF and capital expenditures, including reconstruction priorities, and specifying the gatekeeper role of the MoF.</i>	<i>Fiscal</i>	<i>End-December 2024</i>	

Table 3. Ukraine: Table of Structural Benchmarks (concluded)

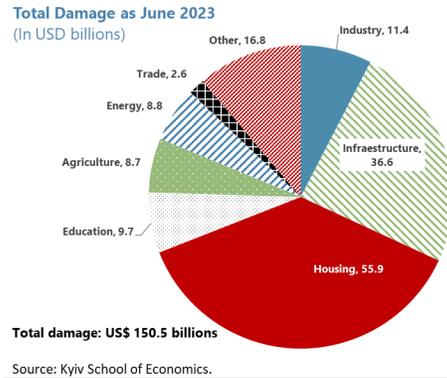
	Structural Benchmark	Sector	Timing	Status
30	<i>All banks with majority public ownership remain under the shareholder management at the MoF and any nationalized non-systemic banks will be transferred to the DGF for resolution.</i>	<i>Financial Sector</i>	<i>Continuous</i>	
31	<i>Determine the stock of arrears and assess financial conditions of District Heating Companies (DHCs) through a desk review by a reputable audit firm, including by separating arrears until and after February 2022.</i>	<i>Energy</i>	<i>End-June 2024</i>	
32	<i>Enact amendments to the procedural code to rationalize matters or issues to be heard at the first instance by one anti-corruption judge or by a panel of three anti-corruption judges.</i>	<i>Governance/ Anti-Corruption</i>	<i>End-March 2024</i>	
33	<i>Complete an external audit of the National Anti-Corruption Bureau of Ukraine's effectiveness with participation of three independent experts with international experience and publish its report.</i>	<i>Governance/ Anti-Corruption</i>	<i>End-September 2024</i>	
34	<i>Enact a law to establish a new court that will hear administrative cases against national state agencies (e.g., NBU, NABU, NACP) by judges who have been properly vetted for professional competence and integrity.</i>	<i>Governance/ Anti-Corruption</i>	<i>End-July 2024</i>	
35	<i>Produce a SOE state ownership policy, dividend policy and privatization strategy</i>	<i>SOE Corporate Governance</i>	<i>End-August 2024</i>	

Figure 1. Ukraine: Real Sector Developments

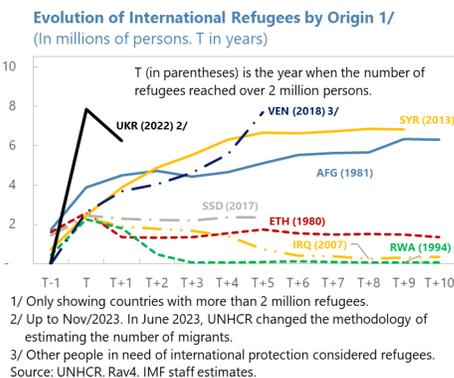
The war drove the sharpest contraction in output on record in 2022, with a rebound in 2023...



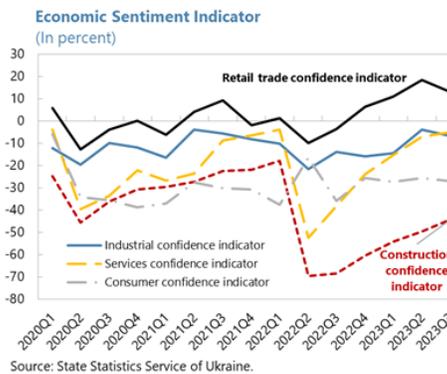
...as damage to physical infrastructure is unprecedented...



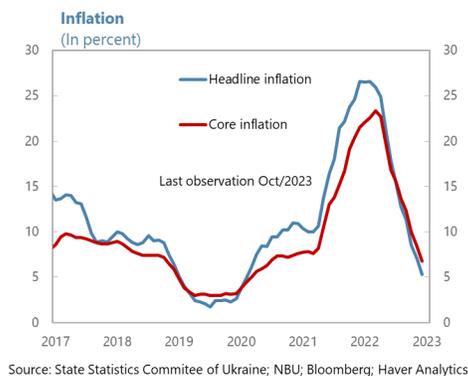
About 15-20 percent of the population has left Ukraine; a similar number are internally displaced.



Economic activity has recovered in noncombat zones amid a sequential recovery in 2023...



Inflation has continued to significantly decelerate...



... and dislocations in the labor market eased.

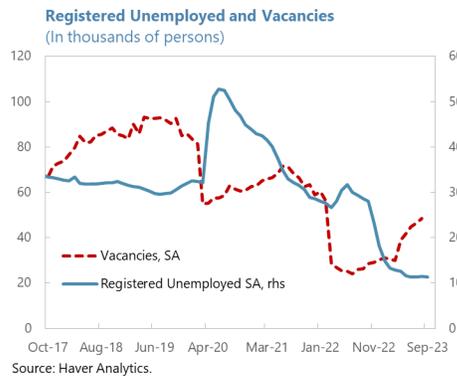
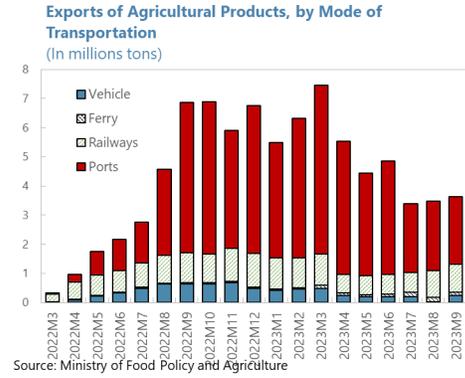


Figure 2. Ukraine: External Sector Developments

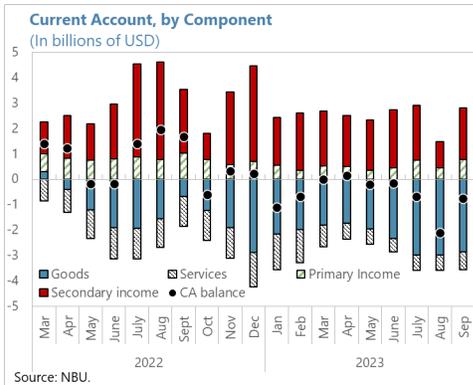
While imports have stabilized, in recent months war impacts have noticeably weighed on exports...



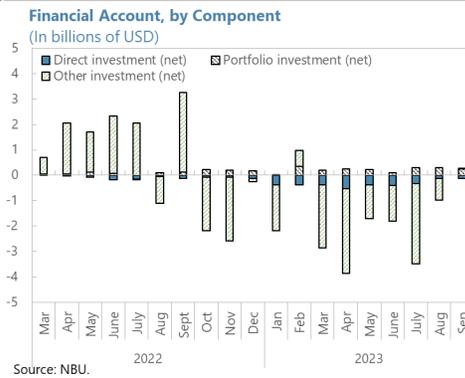
... a trend likely to continue as the termination of the grain corridor reduces export via seaports



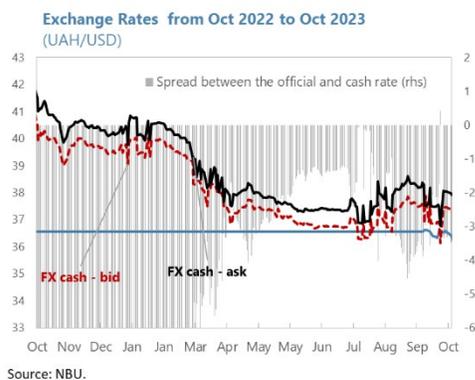
Large transfers have helped to hold the trade balance in check.



Amid capital controls, external financing has helped support reserves levels.



The gap between official and cash rates has been stable and low, notwithstanding seasonal pressures

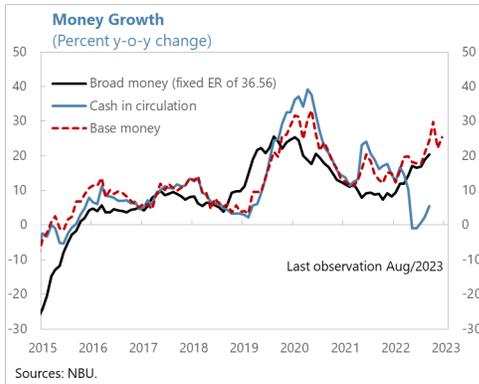


Reserves levels have continued to climb, despite continued NBU interventions

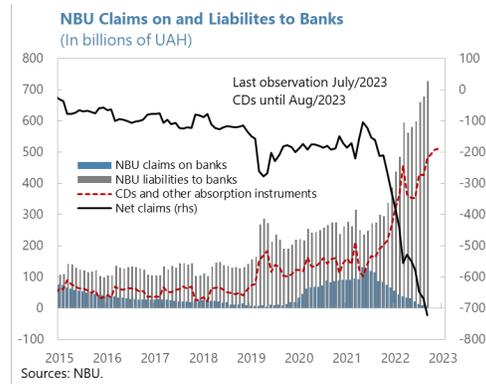


Figure 3. Ukraine: Monetary Developments

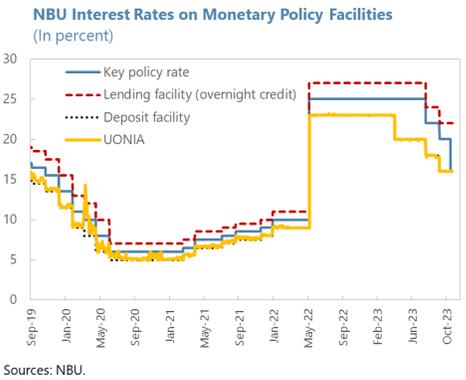
Base money growth has been driven by strong growth in net foreign assets...



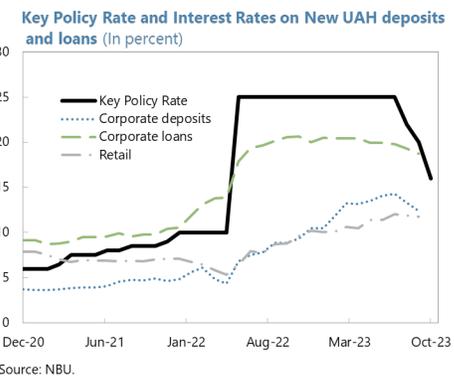
...sterilized by FX intervention and NBU CDs, whose stock has continued to increase.



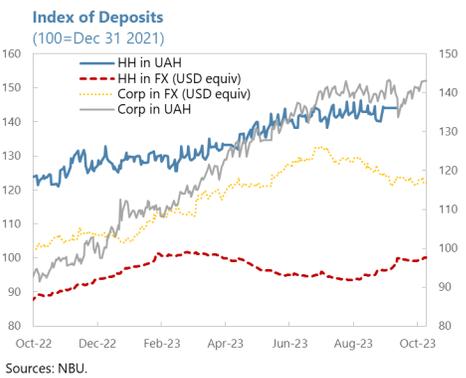
High liquidity has pushed interbank rates to the floor of the corridor...



...and transmission of the KPR cut to retail rates has been more gradual.



Hryvnia deposits remain robust amid withdrawal restrictions...



...while credit continues to contract.

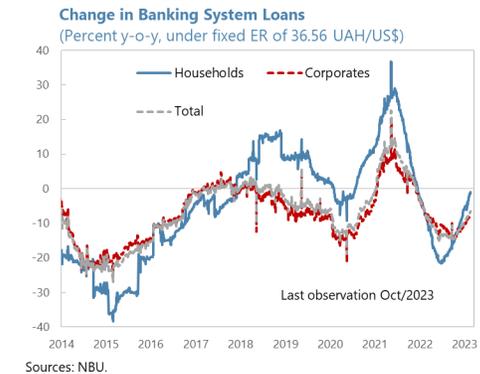
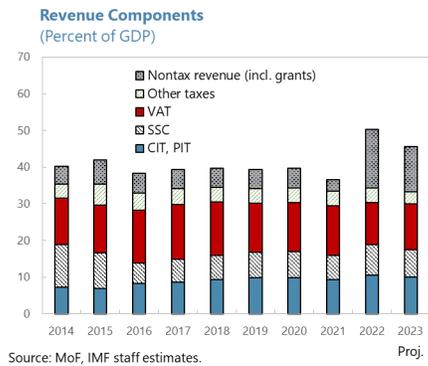
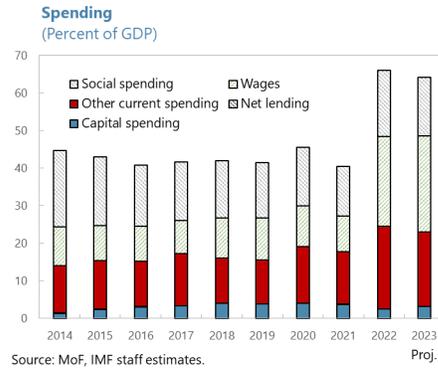


Figure 4. Ukraine: Fiscal Sector Indicators

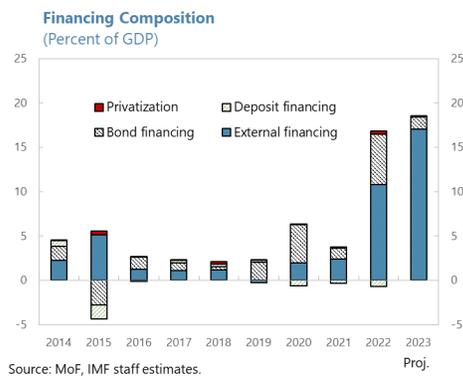
Revenues have been lifted by grants and other non-tax revenues, and tax revenues have been buoyant



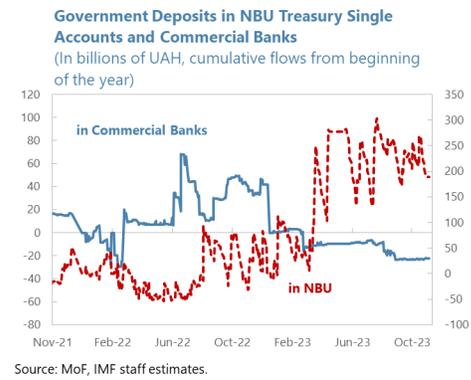
...while expenditures have been driven by defense and social payments



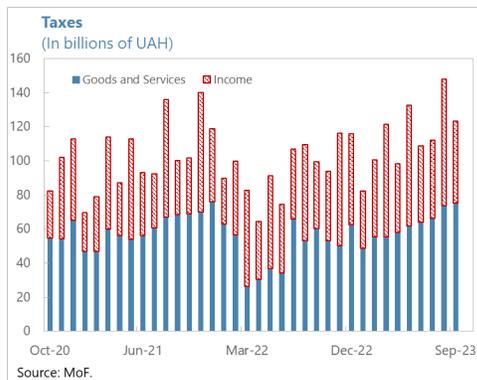
The large fiscal deficit has been financed by significant external support



... and has driven increasing fluctuations in the government's deposits.



Tax revenues are starting to recover, reflecting the ongoing economic expansion, and the reversal of some measures introduced by Martial Law.



Expenditures remain elevated to support the war effort, despite a compression in capital expenditure and non-priority spending.

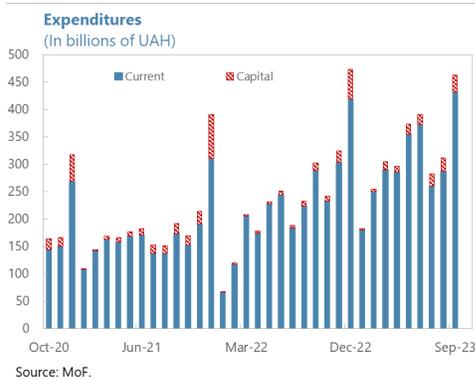


Table 4. Ukraine: Selected Economic and Social Indicators (Baseline Scenario), 2021–2033

	2021	2022	2023		2024		2025	2026	2027	2028	2029	2030	2031	2032	2033
	Act.	Act.	EFF 1st Review	Proj.	EFF 1st Review	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Real economy (percent change, unless otherwise indicated)															
Nominal GDP (billions of Ukrainian hryvnias) 1/	5,451	5,191	6,500	6,434	7,711	7,640	8,858	9,818	10,773	11,798	12,908	14,109	15,408	16,826	18,374
Real GDP 1/	3.4	-29.1	[1 to 3]	4.5	3.2	[3 to 4]	6.5	5.0	4.5	4.3	4.2	4.1	4.0	4.0	4.0
Contributions:															
Domestic demand	12.9	-23.7	6.1	8.3	2.9	4.1	5.6	4.3	3.8	3.8	3.4	3.3	2.9	2.8	2.7
Private consumption	4.7	-16.6	2.7	2.7	2.2	2.9	3.1	2.9	3.0	2.6	2.3	2.2	1.8	1.8	1.7
Public consumption	0.1	6.9	0.7	2.6	-0.5	-1.1	-1.9	-0.6	-0.1	0.0	0.0	0.0	0.0	0.0	0.0
Investment	8.1	-13.9	2.6	3.0	1.2	2.3	4.4	1.9	0.9	1.2	1.1	1.1	1.0	1.0	0.9
Net exports	-9.5	-5.4	-4.1	-3.8	0.3	-0.6	0.9	0.7	0.7	0.5	0.8	0.8	1.1	1.2	1.3
GDP deflator	24.8	34.3	22.8	18.6	15.0	14.7	8.9	5.6	5.0	5.0	5.0	5.0	5.0	5.0	5.0
Unemployment rate (ILO definition; period average, percent)	9.8	24.5	19.4	19.1	10.6	13.9	13.1	11.4	10.4	9.2	8.8	8.6	8.5	8.5	8.5
Consumer prices (period average)	9.4	20.2	17.7	13.0	13.0	7.7	7.8	6.0	5.2	5.0	5.0	5.0	5.0	5.0	5.0
Consumer prices (end of period)	10.0	26.6	15.5	6.0	10.0	9.5	6.5	5.5	5.0	5.0	5.0	5.0	5.0	5.0	5.0
Nominal wages (average)	20.8	1.0	18.8	20.1	15.7	16.8	16.1	13.3	10.5	9.7	9.2	9.2	9.2	9.2	9.2
Real wages (average)	10.5	-16.0	1.0	6.3	2.4	8.5	7.7	7.0	5.0	4.5	4.0	4.0	4.0	4.0	4.0
Savings (percent of GDP)	12.5	17.6	9.5	11.9	9.8	11.0	10.4	13.9	16.5	17.4	18.6	19.3	19.9	20.6	21.3
Private	12.7	30.8	25.6	27.3	23.7	24.4	14.1	14.6	15.4	14.9	15.2	15.3	15.4	15.9	16.5
Public	-0.2	-13.2	-16.1	-15.4	-13.9	-13.4	-3.6	-0.6	1.2	2.5	3.4	4.0	4.5	4.7	4.8
Investment (percent of GDP)	14.5	12.6	15.2	16.5	16.9	18.0	19.4	20.9	21.8	22.4	22.9	23.4	23.8	24.2	24.6
Private	10.7	10.1	12.2	13.4	13.0	15.7	14.9	16.4	16.8	17.4	17.6	17.9	18.3	18.8	19.2
Public	3.8	2.5	3.0	3.1	3.9	2.3	4.5	4.5	5.0	5.0	5.4	5.5	5.5	5.5	5.4
General Government (percent of GDP)															
Fiscal balance 2/	-4.0	-15.7	-19.1	-18.6	-17.8	-15.7	-8.1	-5.1	-3.8	-2.5	-2.0	-1.5	-1.0	-0.8	-0.7
Fiscal balance, excl. grants 2/	-4.0	-25.0	-25.8	-27.1	-21.1	-20.4	-10.2	-6.1	-4.8	-3.3	-2.7	-2.2	-1.6	-1.4	-1.3
External financing (net)	2.4	10.8	17.1	17.0	14.5	13.7	7.6	2.3	2.8	0.5	0.3	0.7	0.0	0.1	0.4
Domestic financing (net), of which:	1.6	5.1	2.0	1.5	3.3	2.1	0.5	2.8	1.0	2.0	1.7	0.8	1.0	0.7	0.3
NBU	-0.3	7.4	-0.2	-0.2	-0.2	-0.2	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Commercial banks	1.5	-1.5	2.5	2.0	3.4	2.2	0.6	2.9	1.0	2.0	1.7	0.9	1.0	0.7	0.3
Public and publicly-guaranteed debt	50.5	78.5	88.1	87.1	98.6	96.7	98.5	98.2	97.0	93.7	90.1	85.9	81.5	77.1	72.6
Money and credit (end of period, percent change)															
Base money	11.2	19.6	30.6	22.6	13.0	17.7	12.9	9.5	9.1	8.0	7.0	6.5	6.0	5.5	5.0
Broad money	12.0	20.8	29.7	22.8	15.5	18.2	9.8	9.5	10.6	9.5	9.4	9.3	9.2	9.2	9.2
Credit to nongovernment	8.4	-3.1	2.0	-7.5	13.3	9.5	17.2	16.1	15.5	10.2	12.9	12.9	15.5	18.1	18.1
Balance of payments (percent of GDP)															
Current account balance	-1.9	5.0	-5.7	-4.6	-7.2	-7.1	-9.0	-7.0	-5.2	-5.0	-4.3	-4.1	-3.9	-3.6	-3.4
Foreign direct investment	3.8	0.1	0.3	1.9	0.3	1.2	2.5	4.8	5.0	5.6	5.3	5.1	4.7	4.6	4.4
Gross reserves (end of period, billions of U.S. dollars)	30.9	28.5	30.5	39.5	33.2	40.9	41.0	41.6	45.9	46.9	48.3	50.5	51.8	53.7	56.0
Months of next year's imports of goods and services	4.5	3.8	4.1	5.1	4.4	5.3	5.1	5.0	5.2	5.2	5.1	5.0	4.9	4.9	5.0
Percent of short-term debt (remaining maturity)	67.5	66.1	63.2	85.4	74.5	94.1	86.9	89.0	92.6	85.3	91.0	90.3	95.6	98.1	93.8
Percent of the IMF composite metric (float)	98.9	92.9	82.3	109.7	78.3	99.0	94.2	90.4	96.4	96.0	95.6	98.5	98.7	101.1	103.5
Goods exports (annual volume change in percent)	35.0	-44.1	-13.7	-15.3	10.9	17.9	1.4	15.7	7.4	10.6	8.2	8.5	8.6	8.2	8.0
Goods imports (annual volume change in percent)	17.0	-24.7	15.4	21.2	9.6	8.3	10.8	10.9	9.9	5.4	2.7	4.6	4.9	4.6	4.9
Goods terms of trade (percent change)	-8.4	-11.6	3.7	4.3	0.5	-0.5	1.4	1.9	1.4	0.8	0.0	0.0	0.0	0.0	0.0
Exchange rate															
Hryvnia per U.S. dollar (end of period)	27.3	36.6	...	...	...	...	...	...	...	...	...	...	...	...	...
Hryvnia per U.S. dollar (period average)	27.3	32.3	...	...	...	...	...	...	...	...	...	...	...	...	...
Real effective rate (deflator-based, percent change)	10.4	27.6	...	...	...	...	...	...	...	...	...	...	...	...	...
Memorandum items:															
Per capita GDP / Population (2017): US\$2,640 / 44.8 million															
Literacy / Poverty rate (2022 est 3/): 100 percent / 25 percent															

Sources: Ukrainian authorities; World Bank, World Development Indicators; and IMF staff estimates.

1/ GDP is compiled as per SNA 2008 and excludes territories that are or were in direct combat zones and temporarily occupied by Russia (consistent with the TMU).

2/ The general government includes the central and local governments and the social funds.

3/ Based on World Bank estimates.

Table 5a. Ukraine: General Government Finances (Baseline Scenario), 2021–2033 ^{1/}

	(Billions of Ukrainian Hryvnia)														
	2021	2022	2023		2024		2025	2026	2027	2028	2029	2030	2031	2032	2033
	Act.	Act.	EFF 1st Review	Proj.	EFF 1st Review	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Revenue	1,990	2,609	2,855	2,935	3,199	3,220	3,594	3,961	4,416	4,854	5,277	5,752	6,243	6,797	7,432
Tax revenue	1,825	1,782	2,190	2,144	2,731	2,651	3,182	3,612	4,032	4,453	4,861	5,306	5,765	6,286	6,885
Tax on income, profits, and capital gains	514	551	655	647	832	803	912	1,042	1,159	1,286	1,420	1,561	1,700	1,861	2,052
Personal income tax	350	421	506	490	646	582	666	755	839	925	1,025	1,129	1,228	1,346	1,479
Corporate profit tax	164	131	149	156	186	221	246	288	321	361	395	432	472	515	573
Social security contributions	358	430	507	485	622	592	674	734	756	826	898	996	1,048	1,133	1,242
Property tax	43	37	46	44	47	46	51	50	55	50	56	51	51	52	52
Tax on goods and services	731	592	805	803	1,023	1,022	1,295	1,487	1,719	1,910	2,071	2,266	2,514	2,767	3,023
VAT	536	467	617	599	791	788	992	1,111	1,260	1,399	1,517	1,663	1,854	2,049	2,232
Excise	180	115	173	189	216	219	286	359	441	492	534	582	637	694	765
Other	14	10	14	15	17	15	16	17	18	19	21	22	23	24	26
Tax on international trade	38	26	37	42	45	49	69	79	100	116	134	145	157	169	187
Other tax	140	145	140	124	162	139	182	220	242	264	282	286	295	304	329
Nontax revenue	166	827	665	791	467	569	412	349	384	402	416	446	477	511	547
Grants	1	481	434	551	251	360	179	95	109	104	95	98	101	104	107
Expenditure	2,207	3,426	4,096	4,129	4,573	4,423	4,316	4,467	4,825	5,144	5,532	5,962	6,394	6,930	7,555
Current	1,995	3,298	3,796	3,912	4,157	4,155	3,748	3,962	4,222	4,483	4,760	5,077	5,428	5,880	6,413
Compensation of employees	516	1,240	1,454	1,641	1,360	1,504	848	882	956	984	1,048	1,100	1,200	1,306	1,427
Goods and services	483	848	926	864	925	918	961	945	931	954	1,057	1,120	1,227	1,337	1,429
Interest	155	162	283	260	429	430	359	368	370	368	373	380	373	383	388
Subsidies to corporations and enterprises	116	131	138	144	150	165	148	154	163	171	149	157	165	173	181
Social benefits	724	917	991	1,003	1,290	1,136	1,431	1,611	1,799	2,004	2,131	2,318	2,460	2,678	2,986
Social programs (on budget)	154	285	206	246	380	209	460	602	699	784	845	926	978	1,091	1,260
Pensions	519	583	769	747	891	899	941	977	1,068	1,185	1,249	1,354	1,442	1,545	1,682
Unemployment, disability, and accident	52	48	17	9	20	27	29	31	33	34	36	38	40	42	44
Other current expenditures	1	1	2	1	3	2	2	2	2	3	3	3	3	3	3
Capital	207	130	197	202	303	177	400	443	536	587	692	777	848	921	1,001
Net lending	5	-2	34	0	51	31	128	17	18	20	22	44	48	52	57
Contingency reserve 2/	0	0	69	15	62	60	40	45	49	54	59	64	70	77	84
General government overall balance	-216	-817	-1,240	-1,194	-1,375	-1,203	-722	-505	-409	-289	-255	-210	-152	-133	-123
General government overall balance, excluding gran	-218	-1,299	-1,674	-1,745	-1,626	-1,562	-901	-600	-517	-393	-350	-308	-253	-237	-230
General government financing	216	817	1,240	1,194	1,375	1,203	722	505	409	289	255	210	152	133	123
External	132	560	1,113	1,097	1,121	1,043	677	230	303	59	40	92	-2	17	71
Disbursements	239	615	1,200	1,170	1,299	1,231	882	520	607	479	562	639	659	679	698
Amortizations	-108	-55	-87	-73	-178	-188	-205	-290	-305	-420	-522	-547	-660	-662	-627
Domestic (net)	85	263	127	97	253	159	45	276	106	230	215	118	153	116	51
Bond financing 3/	66	295	121	89	247	155	39	270	100	224	209	112	147	110	45
o/w NBU	-14	383	-15	-15	-12	-12	-13	-12	-12	-12	-12	-12	-12	-12	-12
o/w Commercial banks	80	-77	160	128	260	168	52	282	112	236	221	123	159	122	57
Direct bank borrowing	30	-2	0	0	0	0	0	0	0	0	0	0	0	0	0
Deposit finance	-19	-37	0	0	0	0	0	0	0	0	0	0	0	0	0
Privatization	7	20	6	8	6	4	6	6	6	6	6	6	6	6	6
Financing Gap/unidentified measures (- gap/+surplus)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Memorandum items:															
Primary balance	-62	-655	-957	-934	-946	-773	-363	-137	-39	79	117	170	221	250	265
Public and publicly-guaranteed debt	2,754	4,003	5,730	5,602	7,600	7,392	8,726	9,637	10,453	11,049	11,626	12,119	12,554	12,972	13,337
Nominal GDP (billions of Ukrainian hryvnia)	5,451	5,191	6,500	6,434	7,711	7,640	8,858	9,818	10,773	11,798	12,908	14,109	15,408	16,826	18,374

Sources: Ministry of Finance; National Bank of Ukraine; and IMF staff estimates and projections.

1/ National methodology, cash basis.

2/ Includes the unallocated portion of expenditures from the COVID fund.

3/ Domestic bonds have been adjusted to reflect discrepancy between the above-the-line and the below-the-line deficits.

Table 5b. Ukraine: General Government Finances (Baseline Scenario), 2021–2033 ^{1/}

	(Percent of GDP)														
	2021	2022	2023		2024		2025	2026	2027	2028	2029	2030	2031	2032	2033
	Act.	Act.	EFF 1st Review	Proj.	EFF 1st Review	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Revenue	36.5	50.3	43.9	45.6	41.5	42.1	40.6	40.3	41.0	41.1	40.9	40.8	40.5	40.4	40.4
Tax revenue	33.5	34.3	33.7	33.3	35.4	34.7	35.9	36.8	37.4	37.7	37.7	37.6	37.4	37.4	37.5
Tax on income, profits, and capital gains	9.4	10.6	10.1	10.0	10.8	10.5	10.3	10.6	10.8	10.9	11.0	11.1	11.0	11.1	11.2
Personal income tax	6.4	8.1	7.8	7.6	8.4	7.6	7.5	7.7	7.8	7.8	7.9	8.0	8.0	8.0	8.1
Corporate profit tax	3.0	2.5	2.3	2.4	2.4	2.9	2.8	2.9	3.0	3.1	3.1	3.1	3.1	3.1	3.1
Social security contributions	6.6	8.3	7.8	7.5	8.1	7.7	7.6	7.5	7.0	7.0	7.0	7.1	6.8	6.7	6.8
Property tax	0.8	0.7	0.7	0.7	0.6	0.6	0.6	0.5	0.5	0.4	0.4	0.4	0.3	0.3	0.3
Tax on goods and services	13.4	11.4	12.4	12.5	13.3	13.4	14.6	15.1	16.0	16.2	16.0	16.1	16.3	16.4	16.5
VAT	9.8	9.0	9.5	9.3	10.3	10.3	11.2	11.3	11.7	11.9	11.7	11.8	12.0	12.2	12.1
Excise	3.3	2.2	2.7	2.9	2.8	2.9	3.2	3.7	4.1	4.2	4.1	4.1	4.1	4.1	4.2
Other	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.1	0.1	0.1
Tax on international trade	0.7	0.5	0.6	0.6	0.6	0.6	0.8	0.8	0.9	1.0	1.0	1.0	1.0	1.0	1.0
Other tax	2.6	2.8	2.2	1.9	2.1	1.8	2.1	2.2	2.2	2.2	2.2	2.0	1.9	1.8	1.8
Nontax revenue	3.0	15.9	10.2	12.3	6.1	7.4	4.6	3.6	3.6	3.4	3.2	3.2	3.1	3.0	3.0
Grants	0.0	9.3	6.7	8.6	3.3	4.7	2.0	1.0	1.0	0.9	0.7	0.7	0.7	0.6	0.6
Expenditure	40.5	66.0	63.0	64.2	59.3	57.9	48.7	45.5	44.8	43.6	42.9	42.3	41.5	41.2	41.1
Current	36.6	63.5	58.4	60.8	53.9	54.4	42.3	40.4	39.2	38.0	36.9	36.0	35.2	34.9	34.9
Compensation of employees	9.5	23.9	22.4	25.5	17.6	19.7	9.6	9.0	8.9	8.3	8.1	7.8	7.8	7.8	7.8
Goods and services	8.9	16.3	14.3	13.4	12.0	12.0	10.8	9.6	8.6	8.1	8.2	7.9	8.0	7.9	7.8
Interest	2.8	3.1	4.4	4.0	5.6	5.6	4.1	3.8	3.4	3.1	2.9	2.7	2.4	2.3	2.1
Subsidies to corporations and enterprises	2.1	2.5	2.1	2.2	2.0	2.2	1.7	1.6	1.5	1.4	1.2	1.1	1.1	1.0	1.0
Social benefits	13.3	17.7	15.3	15.6	16.7	14.9	16.2	16.4	16.7	17.0	16.5	16.4	16.0	15.9	16.2
Social programs (on budget)	2.8	5.5	3.2	3.8	4.9	2.7	5.2	6.1	6.5	6.6	6.5	6.6	6.3	6.5	6.9
Pensions	9.5	11.2	11.8	11.6	11.6	11.8	10.6	10.0	9.9	10.0	9.7	9.6	9.4	9.2	9.2
Unemployment, disability, and accident	1.0	0.9	0.3	0.1	0.3	0.4	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.2
Other current expenditures	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Capital	3.8	2.5	3.0	3.1	3.9	2.3	4.5	4.5	5.0	5.0	5.4	5.5	5.5	5.5	5.4
Net lending	0.1	0.0	0.5	0.0	0.7	0.4	1.4	0.2	0.2	0.2	0.2	0.3	0.3	0.3	0.3
Contingency reserve ^{2/}	0.0	0.0	1.1	0.2	0.8	0.8	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
General government overall balance	-4.0	-15.7	-19.1	-18.6	-17.8	-15.7	-8.1	-5.1	-3.8	-2.5	-2.0	-1.5	-1.0	-0.8	-0.7
General government overall balance, excluding grants	-4.0	-25.0	-25.8	-27.1	-21.1	-20.4	-10.2	-6.1	-4.8	-3.3	-2.7	-2.2	-1.6	-1.4	-1.3
General government financing	4.0	15.7	19.1	18.6	17.8	15.7	8.1	5.1	3.8	2.5	2.0	1.5	1.0	0.8	0.7
External	2.4	10.8	17.1	17.0	14.5	13.7	7.6	2.3	2.8	0.5	0.3	0.7	0.0	0.1	0.4
Disbursements	4.4	11.8	18.5	18.2	16.8	16.1	10.0	5.3	5.6	4.1	4.4	4.5	4.3	4.0	3.8
o/w IFIs	1.4	4.6	20.4	20.2	19.9	17.7	6.6	0.0	4.9	0.0	0.0	0.0	0.0	0.0	0.0
o/w IMF budget support	0.3	1.7	2.6	2.6	2.9	2.9	0.5	0.6	0.3	0.0	0.0	0.0	0.0	0.0	0.0
Amortizations	-2.0	-1.1	-1.3	-1.1	-2.3	-2.5	-2.3	-3.0	-2.8	-3.6	-4.0	-3.9	-4.3	-3.9	-3.4
Domestic (net)	1.6	5.1	2.0	1.5	3.3	2.1	0.5	2.8	1.0	2.0	1.7	0.8	1.0	0.7	0.3
Bond financing ^{3/}	1.2	5.7	1.9	1.4	3.2	2.0	0.4	2.7	0.9	1.9	1.6	0.8	1.0	0.7	0.2
o/w NBU	-0.3	7.4	-0.2	-0.2	-0.2	-0.2	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
o/w Commercial banks	1.5	-1.5	2.5	2.0	3.4	2.2	0.6	2.9	1.0	2.0	1.7	0.9	1.0	0.7	0.3
Direct bank borrowing	0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Deposit finance	-0.3	-0.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Privatization	0.1	0.4	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0
Financing Gap/undisclosed measures (-gap/+surplus)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:															
Primary balance	-1.1	-12.6	-14.7	-14.5	-12.3	-10.1	-4.1	-1.4	-0.4	0.7	0.9	1.2	1.4	1.5	1.4
Public and publicly-guaranteed debt	48.9	78.5	88.1	87.1	98.6	96.7	98.5	98.2	97.0	93.7	90.1	85.9	81.5	77.1	72.6
Nominal GDP (billions of Ukrainian hryvnia)	5,451	5,191	6,500	6,434	7,711	7,640	8,858	9,818	10,773	11,798	12,908	14,109	15,408	16,826	18,374

Sources: Ministry of Finance; National Bank of Ukraine; and IMF staff estimates and projections.

^{1/} National methodology, cash basis.^{2/} Includes the unallocated portion of expenditures from the COVID fund.^{3/} Domestic bonds have been adjusted to reflect discrepancy between the above-the-line and the below-the-line deficits.

Table 6a. Ukraine: Balance of Payments (Baseline Scenario), 2021–2033 ^{1/2/}

(Billions of U.S. dollars, unless otherwise indicated)

	2021	2022	2023		2024		2025	2026	2027	2028	2029	2030	2031	2032	2033
	Act.	Act.	EFF 1st Review	Proj.	EFF 1st Review	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Current account balance	-3.9	8.0	-9.9	-8.1	-13.3	-13.1	-17.8	-14.5	-11.3	-11.3	-10.3	-10.3	-10.4	-10.2	-10.1
Goods (net)	-6.6	-14.7	-27.2	-29.9	-29.0	-29.4	-35.3	-35.6	-39.1	-37.8	-35.8	-35.0	-34.3	-33.3	-32.4
Exports	63.1	40.9	35.3	34.7	39.2	40.9	41.5	47.9	51.5	56.9	61.6	66.8	72.5	78.4	84.7
Imports	-69.8	-55.6	-62.5	-64.6	-68.2	-70.3	-76.8	-83.6	-90.6	-94.8	-97.4	-101.8	-106.8	-111.7	-117.2
Services (net)	4.0	-11.1	-11.6	-9.6	-4.2	-5.0	2.6	9.1	16.0	16.6	17.1	17.6	18.0	18.5	18.9
Receipts	18.4	16.6	15.8	16.3	17.4	17.0	19.1	22.3	25.9	27.5	29.1	30.3	31.5	32.8	34.1
Payments	-14.4	-27.7	-27.4	-25.9	-21.6	-22.0	-16.5	-13.2	-9.9	-10.9	-12.0	-12.7	-13.5	-14.3	-15.1
Primary income (net)	-5.8	8.5	8.1	7.0	6.1	6.0	5.5	4.4	3.8	3.2	2.6	2.2	1.9	1.6	1.4
Secondary income (net)	4.6	25.2	20.8	24.5	13.8	15.2	9.4	7.6	8.0	6.8	5.7	4.9	4.0	3.0	2.0
Capital account balance	0.0	0.2	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial account balance	-5.7	8.4	-13.0	-18.9	-16.1	-15.7	-17.8	-14.1	-15.0	-12.4	-11.7	-13.5	-12.9	-13.4	-13.6
Direct investment (net)	-7.5	-0.2	-0.6	-3.3	-0.5	-2.2	-5.0	-10.0	-10.7	-12.6	-12.6	-12.7	-12.7	-12.9	-13.1
Portfolio investment (net)	-1.1	2.0	0.5	1.5	0.6	0.8	1.1	1.9	1.0	2.2	0.5	-0.2	0.0	-0.5	-0.3
Portfolio investment: assets	-0.1	0.6	0.0	0.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Portfolio investment: liabilities	1.0	-1.4	-0.5	-0.6	-0.6	-0.8	-1.1	-1.9	-1.0	-2.2	-0.5	0.2	0.0	0.5	0.3
Financial derivatives (net)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other investment (net)	2.9	6.6	-12.9	-17.1	-16.2	-14.2	-13.9	-6.0	-5.3	-2.0	0.5	-0.6	-0.3	0.0	-0.2
Other investment: assets	7.8	20.9	21.9	15.2	14.6	14.8	4.1	3.2	3.0	2.3	2.2	1.3	0.3	0.4	0.6
Other investment: liabilities	4.9	14.3	34.8	32.3	30.7	29.0	18.0	9.3	8.3	4.2	1.7	2.0	0.6	0.4	0.8
Net use of IMF resources for budget support	0.2	2.3	3.6	3.6	4.0	4.0	-0.6	-0.4	-0.5	-1.0	-1.7	-1.0	-1.3	-1.3	-1.2
Central Bank	2.7	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
General government	1.5	14.7	28.3	26.8	25.8	23.0	17.6	7.7	7.7	4.7	2.9	2.4	1.2	1.1	1.3
Banks ^{3/}	0.4	-0.4	0.0	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other sectors	0.0	-2.2	2.9	2.2	0.9	1.9	1.0	1.9	1.1	0.6	0.6	0.6	0.6	0.6	0.7
Errors and omissions	1.8	-0.3	0.5	1.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Unidentified financing need	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	3.7	-0.5	3.6	12.6	2.7	2.5	-0.1	-0.4	3.7	1.1	1.4	3.2	2.6	3.2	3.5
Financing	-3.7	0.5	-3.6	-12.6	-3.8	-2.5	0.1	0.4	-3.7	-1.1	-1.4	-3.2	-2.6	-3.2	-3.5
Gross official reserves (increase: -)	-2.8	2.1	-2.0	-11.0	-2.7	-1.5	-0.1	-0.6	-4.2	-1.1	-1.4	-2.2	-1.3	-1.9	-2.4
Net use of IMF resources for BOP support	-0.9	-1.6	-1.6	-1.6	-1.0	-1.0	0.1	1.0	0.6	0.0	0.0	-1.0	-1.3	-1.3	-1.2
Memorandum items:															
Current account balance (percent of GDP)	-1.9	5.0	-5.7	-4.6	-7.2	-7.1	-9.0	-7.0	-5.2	-5.0	-4.3	-4.1	-3.9	-3.6	-3.4
Goods and services trade balance (percent of GDP)	-1.3	-16.0	-22.3	-22.7	-17.8	-18.5	-16.5	-12.8	-10.7	-9.4	-7.8	-6.9	-6.1	-5.2	-4.5
Gross international reserves	30.9	28.5	30.5	39.5	33.2	40.9	41.0	41.6	45.9	46.9	48.3	50.5	51.8	53.7	56.0
Months of next year's imports of goods and services	4.5	3.8	4.1	5.1	4.4	5.3	5.1	5.0	5.2	5.2	5.1	5.0	4.9	4.9	5.0
Percent of the IMF composite metric (float)	98.9	92.9	82.3	109.7	78.3	99.0	94.2	90.4	96.4	96.0	95.6	98.5	98.7	101.1	103.5

Sources: National Bank of Ukraine; and IMF staff estimates and projections.

^{1/} Based on BPM6.^{2/} Shipments of military equipment are not reflected in the balance of payments. Staff's understanding is that the support is being provided in the form of unconditional aid and that it will not materially impact the balance of payments in^{3/} Includes banks' debt for equity operations.

Table 6b. Ukraine: Balance of Payments (Baseline Scenario), 2021–2033 ^{1/2/}

(Percent of GDP, unless otherwise indicated)

	2021	2022	2023		2024		2025	2026	2027	2028	2029	2030	2031	2032	2033
	Act.	Act.	EFF 1st Review	Proj.	EFF 1st Review	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Current account balance	-1.9	5.0	-5.7	-4.6	-7.2	-7.1	-9.0	-7.0	-5.2	-5.0	-4.3	-4.1	-3.9	-3.6	-3.4
Goods (net)	-3.3	-9.1	-15.7	-17.2	-15.6	-15.8	-17.8	-17.2	-18.1	-16.7	-15.0	-13.9	-12.9	-11.8	-10.8
Exports	31.6	25.5	20.4	19.9	21.0	21.9	20.9	23.2	23.8	25.1	25.8	26.5	27.2	27.8	28.3
Imports	-34.9	-34.6	-36.0	-37.1	-36.6	-37.7	-38.8	-40.4	-42.0	-41.8	-40.8	-40.5	-40.1	-39.6	-39.1
Services (net)	2.0	-6.9	-6.7	-5.5	-2.3	-2.7	1.3	4.4	7.4	7.3	7.2	7.0	6.8	6.5	6.3
Receipts	9.2	10.4	9.1	9.4	9.3	9.1	9.6	10.8	12.0	12.1	12.2	12.0	11.8	11.6	11.4
Payments	-7.2	-17.3	-15.8	-14.9	-11.6	-11.8	-8.3	-6.4	-4.6	-4.8	-5.0	-5.0	-5.1	-5.1	-5.0
Primary income (net)	-2.9	5.3	4.7	4.0	3.3	3.2	2.8	2.1	1.8	1.4	1.1	0.9	0.7	0.6	0.5
Secondary income (net)	2.3	15.7	12.0	14.0	7.4	8.2	4.8	3.7	3.0	2.4	1.9	1.5	1.1	0.7	0.7
Capital account balance	0.0	0.1	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial account balance	-2.9	5.2	-7.5	-10.9	-8.6	-8.4	-9.0	-6.8	-6.9	-5.5	-4.9	-5.4	-4.8	-4.8	-4.5
Direct investment (net)	-3.8	-0.1	-0.3	-1.9	-0.3	-1.2	-2.5	-4.8	-5.0	-5.6	-5.3	-5.1	-4.7	-4.6	-4.4
Portfolio investment (net)	-0.6	1.3	0.3	0.9	0.3	0.4	0.6	0.9	0.5	1.0	0.2	-0.1	0.0	-0.2	-0.1
Portfolio investment: assets	0.0	0.4	0.0	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Portfolio investment: liabilities	0.5	-0.9	-0.3	-0.3	-0.3	-0.4	-0.6	-0.9	-0.5	-1.0	-0.2	0.1	0.0	0.2	0.1
Financial derivatives (net)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other investment (net)	1.4	4.1	-7.4	-9.8	-8.7	-7.6	-7.0	-2.9	-2.4	-0.9	0.2	-0.3	-0.1	0.0	-0.1
Other investment: assets	3.9	13.0	12.6	8.7	7.8	7.9	2.1	1.6	1.4	1.0	0.9	0.5	0.1	0.1	0.2
Other investment: liabilities	2.4	8.9	20.1	18.6	16.5	15.5	9.1	4.5	3.9	1.9	0.7	0.8	0.2	0.1	0.3
Net use of IMF resources for budget support	0.1	1.4	2.0	2.0	2.2	2.2	-0.3	-0.2	-0.2	-0.5	-0.7	-0.4	-0.5	-0.5	-0.4
Central Bank	1.4	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
General government	0.8	9.2	16.3	15.4	13.9	12.3	8.9	3.7	3.6	2.1	1.2	0.9	0.5	0.4	0.4
Banks ^{3/}	0.2	-0.3	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other sectors	0.0	-1.4	1.7	1.3	0.5	1.0	0.5	0.9	0.5	0.3	0.3	0.2	0.2	0.2	0.2
Errors and omissions	0.9	-0.2	0.3	0.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Unidentified financing need	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	1.8	-0.3	2.1	7.2	1.5	1.3	0.0	-0.2	1.7	0.5	0.6	1.3	1.0	1.1	1.2
Financing	-1.8	0.3	-2.1	-7.2	-2.0	-1.3	0.0	0.2	-1.7	-0.5	-0.6	-1.3	-1.0	-1.1	-1.2
Gross official reserves (increase: -)	-1.4	1.3	-1.2	-6.3	-1.5	-0.8	0.0	-0.3	-2.0	-0.5	-0.6	-0.9	-0.5	-0.7	-0.8
Net use of IMF resources for BOP support	-0.5	-1.0	-0.9	-0.9	-0.6	-0.6	0.1	0.5	0.3	0.0	0.0	-0.4	-0.5	-0.5	-0.4
Memorandum items:															
Gross international reserves (USD billions)	30.9	28.5	30.5	39.5	33.2	40.9	41.0	41.6	45.9	46.9	48.3	50.5	51.8	53.7	56.0
Months of next year's imports of goods and services	4.5	3.8	4.1	5.1	4.4	5.3	5.1	5.0	5.2	5.2	5.1	5.0	4.9	4.9	5.0
Percent of the IMF composite metric (float)	98.9	92.9	82.3	109.7	78.3	99.0	94.2	90.4	96.4	96.0	95.6	98.5	98.7	101.1	103.5

Sources: National Bank of Ukraine; and IMF staff estimates and projections.

^{1/} Based on BPM6.^{2/} Shipments of military equipment are not reflected in the balance of payments. Staff's understanding is that the support is being provided in the form of unconditional aid and that it will not materially impact the balance of payments in the future.^{3/} Includes banks' debt for equity operations.

Table 7. Ukraine: Gross External Financing Requirement (Baseline Scenario), 2021–2033

	(Billions of U.S. dollars)															
	2021	2022	2023		2024		2025	2026	2027	2028	2029	2030	2031	2032	2033	
	Act.	Act.	EFF 1st Review	Proj.	EFF 1st Review	Proj.										
A. Total financing requirements	37.5	54.7	69.6	65.6	64.7	68.3	58.2	55.7	53.4	54.6	56.8	55.6	57.4	56.4	56.6	
Current account deficit (excluding grants)	3.9	6.0	21.4	23.0	19.0	21.9	21.8	16.5	13.5	13.3	12.1	12.1	12.1	12.0	11.8	
Portfolio investment	4.9	2.7	1.3	3.3	3.6	3.8	2.1	4.2	1.5	2.7	4.5	2.8	4.3	2.0	2.2	
Private	0.6	0.9	0.5	1.4	2.7	2.7	0.6	1.8	0.0	0.0	3.0	1.0	2.3	0.5	0.5	
General government	4.3	1.8	0.7	1.9	0.9	1.0	1.6	2.4	1.5	2.7	1.5	1.8	2.0	1.5	1.7	
Medium and long-term debt	3.6	2.2	2.2	1.9	2.8	3.0	2.5	3.2	5.0	5.7	7.7	8.2	9.3	9.5	9.3	
Private	2.7	1.1	1.4	1.4	1.3	1.3	1.3	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	
Banks	0.2	0.3	0.5	0.5	0.4	0.4	0.4	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	
Corporates	2.5	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	
General government	0.9	1.0	0.8	0.5	1.5	1.7	1.2	1.9	3.8	4.5	6.5	7.0	8.1	8.3	8.1	
Short-term debt (including deposits)	0.8	4.2	5.6	5.8	5.6	5.8	5.8	5.8	5.8	5.8	5.8	5.8	5.8	5.8	5.8	
Other net capital outflows 1/	8.6	21.0	20.9	13.4	13.5	13.7	4.1	3.2	3.0	1.4	2.2	1.3	0.3	0.4	0.6	
Trade credit	15.7	18.6	18.3	18.3	20.1	20.1	21.9	22.8	24.6	25.7	24.6	25.4	25.5	26.7	26.9	
B. Total financing sources	39.6	27.7	30.1	32.5	32.8	35.9	37.0	44.6	43.9	46.3	50.4	49.5	51.0	50.1	51.0	
Capital transfers	0.0	0.2	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Direct investment, net	7.5	0.2	0.6	3.3	0.5	2.2	5.0	10.0	10.7	12.6	12.6	12.7	12.7	12.9	13.1	
Portfolio investment	6.0	0.5	0.8	1.9	3.0	3.0	1.0	2.3	0.5	0.5	4.0	3.0	4.3	2.5	2.5	
Private	1.8	0.0	0.0	0.0	3.0	3.0	1.0	2.3	0.5	0.5	3.0	1.0	2.3	0.5	0.5	
General government	4.2	0.5	0.8	1.9	0.0	0.0	0.0	0.0	0.0	0.0	1.0	2.0	2.0	2.0	2.0	
Of which: Market financing	1.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.0	2.0	2.0	2.0	2.0	
Medium and long-term debt	8.1	4.1	3.0	1.3	2.8	2.9	2.4	1.9	1.3	1.3	1.3	1.3	1.3	1.3	1.3	
Private	4.9	4.5	1.4	1.4	1.4	1.4	1.4	1.4	1.3	1.3	1.3	1.3	1.3	1.3	1.3	
Banks	0.2	0.0	0.5	0.5	0.5	0.5	0.4	0.4	0.3	0.3	0.3	0.3	0.3	0.3	0.3	
Corporates	4.7	4.5	0.9	0.9	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	
General government	3.1	-0.4	1.6	-0.1	1.3	1.5	1.0	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Short-term debt (including deposits)	0.9	4.4	5.6	5.8	5.6	5.8	6.1	5.8	5.8	5.8	5.8	5.8	5.8	5.8	5.8	
Trade credit	17.2	18.3	20.1	20.1	20.9	21.9	22.5	24.6	25.6	26.1	26.7	26.6	27.0	27.6	28.3	
C. Financing needs (A - B)	-2.2	27.0	39.5	33.1	31.9	32.4	21.2	11.1	9.5	8.3	6.4	6.1	6.4	6.3	5.7	
Unidentified fiscal financing need	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
D. Total exceptional financing needs	-2.2	27.0	39.5	33.1	31.9	32.4	21.2	11.1	9.5	8.3	6.4	6.1	6.4	6.3	5.7	
E. Official financing	1.7	30.6	41.0	44.0	34.6	34.9	21.3	11.7	13.8	10.2	9.4	9.1	8.6	8.5	8.8	
IMF	-0.7	0.7	1.9	1.9	3.0	3.0	-0.5	0.6	0.1	-1.0	-1.7	-2.1	-2.5	-2.6	-2.3	
Purchases	0.7	2.7	4.5	4.5	5.4	5.4	1.8	2.6	1.3	0.0	0.0	0.0	0.0	0.0	0.0	
Repurchases	1.4	2.1	2.6	2.6	2.4	2.4	2.3	2.0	1.2	1.0	1.7	2.1	2.5	2.6	2.3	
Official grants	0.0	14.0	11.6	14.9	5.7	8.8	4.0	2.0	2.2	2.0	1.7	1.7	1.7	1.7	1.7	
Official creditors	2.3	15.9	27.5	27.2	26.0	23.2	17.8	9.1	11.5	9.2	9.4	9.4	9.4	9.4	9.4	
F. Increase in reserves	2.8	-2.1	2.0	11.0	2.7	1.5	0.1	0.6	4.2	1.1	1.4	2.2	1.3	1.9	2.4	
G. Errors and omissions	1.8	-0.3	0.5	1.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Memorandum items:																
Gross international reserves	30.9	28.5	30.5	39.5	33.2	40.9	41.0	41.6	45.9	46.9	48.3	50.5	51.8	53.7	56.0	
Months of next year's imports of goods and services	4.5	3.8	4.1	5.1	4.4	5.3	5.1	5.0	5.2	5.2	5.1	5.0	4.9	4.9	5.0	
Percent of short-term debt (remaining maturity)	67.5	66.1	63.2	85.4	74.5	94.1	86.9	89.0	92.6	85.3	91.0	90.3	95.6	98.1	93.8	
Percent of the IMF composite (float) 2/	98.9	92.9	82.3	109.7	78.3	99.0	94.2	90.4	96.4	96.0	95.6	98.5	98.7	101.1	103.5	
Loan rollover rate (percent)																
Banks	97.2	96.7	100.0	100.0	100.4	100.4	100.3	100.6	100.2	100.0	100.0	100.0	100.0	100.0	100.0	
Corporates	89.3	105.2	100.0	100.0	109.8	109.8	109.8	109.8	109.8	109.8	109.8	109.8	109.8	109.8	109.8	
Total	91.4	98.2	100.0	100.0	101.6	101.5	101.5	101.8	101.5	101.3	101.3	101.3	101.3	101.3	101.3	

Sources: National Bank of Ukraine; and IMF staff estimates and projections.

1/ Reflects changes in banks', corporates', and households' gross foreign assets as well as currency swap transactions.

2/ The IMF composite measure is calculated as a weighted sum of short-term debt, other portfolio and investment liabilities, broad money, and exports. Official reserves are recommended to be in the range of 100–150 percent of the appropriate measure.

Table 8. Ukraine: Monetary Accounts (Baseline Scenario), 2021–2033

(Billions of Ukrainian Hryvnia)															
	2021	2022	2023		2024		2025	2026	2027	2028	2029	2030	2031	2032	2033
	Act.	Act.	EFF 1st Review	Proj.	EFF 1st Review	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Monetary survey															
Net foreign assets	1,002	1,326	1,516	1,854	1,730	2,037	2,182	2,261	2,556	2,734	3,004	3,337	3,659	4,037	4,422
Net domestic assets	1,070	1,176	1,728	1,218	2,015	1,593	1,804	2,104	2,273	2,554	2,782	2,987	3,248	3,505	3,814
Domestic credit	1,925	2,212	2,377	2,251	2,749	2,483	2,804	3,262	3,573	3,957	4,388	4,752	5,240	5,812	6,402
Net claims on government	898	1,218	1,362	1,330	1,599	1,474	1,622	1,891	1,989	2,211	2,418	2,528	2,673	2,780	2,822
Credit to the economy	1,023	991	1,011	917	1,145	1,004	1,176	1,365	1,576	1,738	1,961	2,214	2,557	3,020	3,568
Domestic currency	731	725	769	688	894	760	935	1,128	1,340	1,505	1,732	1,989	2,336	2,803	3,354
Foreign currency	292	266	242	229	251	243	241	237	236	233	229	225	221	218	214
Other claims on the economy	5	4	4	4	5	5	6	7	7	8	9	9	10	11	12
Other items, net	-856	-1,036	-650	-1,034	-734	-890	-1,000	-1,158	-1,299	-1,402	-1,606	-1,764	-1,993	-2,306	-2,588
Broad money	2,071	2,501	3,244	3,072	3,746	3,630	3,986	4,366	4,829	5,288	5,786	6,325	6,907	7,542	8,237
Currency in circulation	581	666	886	640	1,001	752	1,011	1,109	1,204	1,292	1,542	1,635	1,725	1,809	1,886
Total deposits	1,489	1,834	2,356	2,431	2,743	2,876	2,974	3,255	3,624	3,995	4,243	4,687	5,179	5,730	6,347
Domestic currency deposits	1,014	1,204	1,696	1,786	2,015	2,169	2,198	2,439	2,718	2,980	3,149	3,511	3,916	4,373	4,890
Foreign currency deposits	474	630	660	645	728	707	775	817	906	1,015	1,093	1,176	1,263	1,357	1,457
Accounts of the NBU															
Net foreign assets	852	981	1,078	1,412	1,173	1,479	1,613	1,693	1,988	2,174	2,426	2,745	3,053	3,416	3,790
Net international reserves	838	978	1,074	1,408	1,169	1,475	1,609	1,688	1,983	2,169	2,421	2,740	3,047	3,411	3,785
(In billions of U.S. dollars)	30.7	26.7	...	...	...	...	...	...	...	...	...	...	...	...	...
Reserve assets	843	980	...	...	...	...	...	...	...	...	...	...	...	...	...
Other net foreign assets	14	3	4	4	4	4	4	4	5	5	5	5	5	5	6
Net domestic assets	-190	-188	-43	-440	-3	-335	-322	-278	-444	-507	-642	-845	-1,039	-1,292	-1,560
Net domestic credit	175	312	84	1	139	-109	-46	91	-2	-49	-72	-201	-258	-300	-400
Net claims on government	270	704	689	689	666	665	649	636	623	609	595	581	567	552	536
Claims on government	325	758	744	744	731	731	718	706	694	682	671	659	647	635	623
Net claims on banks	-95	-392	-605	-688	-526	-774	-695	-545	-625	-657	-666	-782	-825	-851	-937
Other items, net	-365	-501	-127	-441	-142	-226	-275	-369	-442	-458	-571	-644	-780	-992	-1,159
Base money	662	793	1,035	972	1,170	1,144	1,291	1,415	1,544	1,667	1,784	1,900	2,014	2,124	2,231
Currency in circulation	581	666	886	640	1,001	752	1,011	1,109	1,204	1,292	1,542	1,635	1,725	1,809	1,886
Banks' reserves	81	126	149	332	169	392	281	305	340	376	242	264	288	315	344
Cash in vault	47	49	74	76	86	90	93	102	113	125	133	147	162	179	199
Correspondent accounts	35	77	76	256	83	302	187	204	226	251	109	118	126	136	146
Deposit money banks															
Net foreign assets	149	345	438	443	557	558	569	568	560	578	592	607	621	632	
Foreign assets	254	427	554	541	697	678	719	752	787	814	841	864	887	909	928
Foreign liabilities	105	82	116	98	140	120	150	183	219	254	264	272	280	289	296
Net domestic assets	1,339	1,489	1,918	1,988	2,185	2,318	2,404	2,686	3,055	3,435	3,665	4,094	4,572	5,109	5,715
Domestic credit	1,875	2,064	2,480	2,619	2,816	3,021	3,168	3,514	3,952	4,418	4,739	5,254	5,824	6,463	7,183
Net claims on government 1/	628	513	673	641	933	809	973	1,255	1,367	1,603	1,824	1,947	2,106	2,228	2,285
Credit to the economy	1,023	991	1,011	916	1,145	1,004	1,176	1,364	1,576	1,737	1,961	2,214	2,557	3,020	3,567
Other claims on the economy	5	3	4	4	5	5	6	7	7	8	9	9	10	11	12
Net claims on NBU	220	594	792	1,057	733	1,203	1,013	888	1,002	1,070	946	1,084	1,151	1,204	1,319
Other items, net	-536	-574	-562	-631	-630	-703	-764	-828	-896	-984	-1,075	-1,159	-1,252	-1,354	-1,468
Banks' liabilities	1,488	1,834	2,356	2,431	2,743	2,876	2,973	3,255	3,623	3,995	4,242	4,687	5,179	5,730	6,347
Memorandum items:			(End of period, percent change unless otherwise noted)												
Base money	11.2	19.6	30.6	22.6	13.0	17.7	12.9	9.5	9.1	8.0	7.0	6.5	6.0	5.5	5.0
Currency in circulation	12.6	14.6	33.0	-4.0	13.0	17.6	34.4	9.7	4.8	5.8	6.8	7.8	8.8	9.8	10.8
Broad money	12.0	20.8	29.7	22.8	15.5	18.2	9.8	9.5	10.6	9.5	9.4	9.3	9.2	9.2	9.2
Credit to the economy	8.4	-3.1	2.0	-7.5	13.3	9.5	17.2	16.1	15.5	10.2	12.9	12.9	15.5	18.1	18.1
Real credit to the economy 2/	-1.5	-23.5	-11.7	-12.7	3.0	0.0	10.0	10.0	10.0	5.0	7.5	7.5	10.0	12.5	12.5
Credit-to-GDP ratio, in percent	18.8	14.6	15.6	14.2	14.9	13.1	13.3	13.9	14.6	14.7	15.2	15.7	16.6	18.0	19.4
Velocity of broad money, ratio	1.9	1.6	2.0	2.1	2.1	2.1	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2
Money multiplier, ratio	3.1	3.2	3.1	3.2	3.2	3.2	3.1	3.1	3.1	3.2	3.2	3.3	3.4	3.6	3.7
Hryvnia per U.S. dollar (end of period)	27.3	36.6	...	...	...	...	...	...	...	...	...	...	...	...	...

Sources: National Bank of Ukraine; and IMF staff estimates and projections.

1/ Includes claims for recapitalization of banks.

2/ Deflated by CPI (eop), at current exchange rates, year-on-year percent change.

Table 9. Ukraine: Indicators of Fund Credit (Baseline Scenario), 2023–2033

	(In millions of SDR)										
	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
	Projections										
Existing Fund credit											
Stock 1/	8,379	6,600	4,863	3,366	2,453	2,007	1,561	1,115	669	223	0
Obligations	313	2,432	2,234	1,868	1,197	694	670	647	624	601	356
Principal (repurchases)	313	1,780	1,736	1,498	913	446	446	446	446	446	223
Interest charges	0	652	497	370	285	248	225	201	178	155	133
Prospective purchases											
Disbursements	664	4,003	1,368	1,931	966	0	0	0	0	0	0
Stock 1/	664	4,667	6,035	7,967	8,933	8,627	7,793	6,706	5,298	3,809	2,320
Obligations 2/	3	168	431	571	687	992	1,469	1,631	1,840	1,774	1,664
Principal (repurchases)	0	0	0	0	0	305	835	1,086	1,408	1,489	1,489
Interest charges	3	168	431	571	687	687	634	545	431	285	176
Stock of existing and prospective Fund credit 1/	9,043	11,267	10,899	11,332	11,385	10,634	9,353	7,821	5,967	4,032	2,320
In percent of quota 2/	450	560	542	563	566	529	465	389	297	200	115
In percent of GDP	6.9	8.1	7.4	7.4	7.1	6.4	5.3	4.2	3.0	1.9	1.0
In percent of exports of goods and nonfactor services	23.7	26.0	24.1	21.7	19.9	17.1	14.0	10.9	7.8	4.9	2.6
In percent of gross reserves	30.5	36.7	35.6	36.6	33.6	30.7	26.2	21.0	15.6	10.2	5.6
In percent of public external debt	12.4	12.3	10.6	10.5	10.1	9.4	8.2	6.8	5.3	3.6	2.1
Obligations to the Fund from existing and prospective Fund credit	316	2,600	2,665	2,438	1,884	1,686	2,140	2,279	2,464	2,375	2,020
In percent of quota	15.7	129.3	132.5	121.2	93.7	83.8	106.4	113.3	122.5	118.0	100.4
In percent of GDP	0.2	1.9	1.8	1.6	1.2	1.0	1.2	1.2	1.3	1.1	0.9
In percent of exports of goods and nonfactor services	0.8	6.0	5.9	4.7	3.3	2.7	3.2	3.2	3.2	2.9	2.3
In percent of gross reserves	1.1	8.5	8.7	7.9	5.6	4.9	6.0	6.1	6.4	6.0	4.9
In percent of public external debt service	14.5	49.5	70.8	58.6	34.2	27.9	29.0	29.6	29.3	27.9	24.5

Source: Fund staff estimates and projections.

1/ End of period.

2/ Ukraine's quota is SDR 2011.8 million effective February 2016.

Table 10. Ukraine: EFF Schedule of Reviews and Available Purchases

Availability Date	Millions of SDR	Millions of USD 1/	Percent of quota	12-month access	Cumulative access	Conditions
March 31, 2023	2,011.83	2,696.77	100.0	150.0	449.0	Board approval of the EFF
June 15, 2023	663.90	889.93	33.0	183.0	473.0	First review and continuous and end-April 2023 performance criteria
October 13, 2023	663.90	889.93	33.0	166.0	465.0	Second review and continuous and end-June 2023 performance criteria
February 29, 2024	663.90	889.93	33.0	199.0	478.0	Third review and continuous and end-December 2023 performance criteria
June 15, 2024	1,669.82	2,238.32	83.0	149.0	521.0	Fourth review and continuous and end-March 2024 performance criteria
September 1, 2024	834.88	1,119.12	41.5	190.5	531.0	Fifth review and continuous and end-June 2024 performance criteria
December 11, 2024	834.88	1,119.12	41.5	199.0	560.0	Sixth review and continuous and end-September 2024 performance criteria
March 1, 2025	684.02	921.78	34.0	200.0	559.0	Seventh review and continuous and end-December 2024 performance criteria
August 31, 2025	684.02	921.78	34.0	151.0	563.0	Eighth review and continuous and end-June 2025 performance criteria
March 1, 2026	965.68	1,306.72	48.0	82.0	571.0	Ninth review and continuous and end-December 2025 performance criteria
August 31, 2026	965.68	1,306.72	48.0	96.0	591.0	Tenth review and continuous and end-June 2026 performance criteria
March 10, 2027	965.74	1,309.06	48.0	96.0	599.0	Eleventh review and continuous and end-December 2026 performance criteria
Total	11,608.25	15,609.17	577.0			
<i>Memorandum item:</i>						
Quota	2,011.8					

Source: IMF staff calculations.

1/ Based on WEO October 2023 forecasts for annual average USD/SDR exchange rates.

Table 11. Ukraine: Quantitative Performance Criteria and Indicative Targets

(end of period; billions of Ukrainian hryvnia, unless indicated otherwise)

	Jun 2023					Sep 2023					Dec 2023		Mar 2024		Jun 2024		Sep 2024	Dec 2024
	QPC	Adjustor	Adjusted QPC	Actual	Status	IT	Adjustor	Adjusted IT	Actual	Status	QPC	Proposed Rev. QPC	QPC	Proposed Rev. QPC	IT	Proposed Rev. IT	Proposed IT	Proposed IT
I. Quantitative Performance Criteria 1/ 2/																		
Floor on the non-defense cash primary balance of the general government, excluding budget support grants (- implies a deficit) 2/ 3/	213,000		213,000	278,872	Met	242,900		242,900	404,895	Met	96,737	105,000	100,000	140,715	150,000	257,184	368,313	415,410
Floor on tax revenues (excluding Social Security Contributions)	696,400		696,400	747,986	Met	1,094,700		1,094,700	1,187,653	Met	1,679,170	1,653,992	420,000	426,300	835,000	880,400	1,398,600	2,042,250
Ceiling on publicly guaranteed debt 4/	37,000	11,917	48,917	17,731	Met	37,000	11,917	48,917	19,571	Met	37,000	37,000	46,000	47,900	46,000	47,900	47,900	47,900
Floor on net international reserves (in millions of U.S. dollars) 5/	16,500	-63	16,437	26,284	Met	16,500	-1,975	14,525	28,138	Met	16,500	24,900	16,500	25,400	16,500	25,300	25,400	23,000
II. Indicative Targets 1/ 2/																		
Floor on the cash balance of the general government, excluding budget support grants (- implies a deficit)	-730,000		-730,000	-660,336	Met	-1,141,100		-1,141,100	-1,027,513	Met	-1,674,500	-1,744,668	-354,000	-344,485	-750,000	-725,996	-1,123,107	-1,557,208
Ceiling on general government arrears	4,500		4,500	1,620	Met	3,000		3,000	1,690	Met	1,600	2,000	1,600	2,000	1,600	2,000	1,800	1,600
Floor on social spending	249,000		249,000	276,051	Met	359,600		359,600	402,556	Met	499,600	499,600	172,000	130,000	270,000	262,500	390,000	537,800
Ceiling on general government borrowing from the NBU 6/ 7/	-2,573		-2,573	-2,573	Met	-1,153		-1,153	-1,153	Met	-704	-704	-9,500	-9,500	-2,884	-2,884	-1,153	-704
III. Continuous performance criterion 1/ 2/																		
Ceiling on non-accumulation of new external debt payments arrears by the general government	0		0	0	Met	0		0	0	Met	0	0	0	0	0	0	0	0
IV. Memorandum items																		
External project financing (in millions of U.S. dollars)	62	...	...	63	...	381	...	...	172	...	1,555	894	32,700	8,647	65,400	413	832	1,496
External budget financing (in millions of U.S. dollars) 8/	19,934	...	...	19,870	...	30,615	...	...	28,949	...	37,627	40,956	356,223	8,521	712,367	17,367	26,548	31,565
Budget support grants (in millions of U.S. dollars)	7,409	...	...	7,374	...	11,073	...	...	9,924	...	11,573	14,909	79,040	3,103	158,000	5,937	8,770	8,770
Budget support loans (in millions of U.S. dollars) 8/	12,525	...	...	12,496	...	19,542	...	...	18,925	...	26,054	26,048	277,183	5,417	554,367	11,430	17,778	22,795
Interest payments	124,000	...	...	120,038	...	183,600	...	...	176,913	...	283,000	260,218	57,910	49,500	215,000	161,780	284,320	429,820
NBU profit transfers to the government	71,868	...	...	71,868	...	71,868	...	...	71,868	...	71,868	71,868	0	0	20,000	17,700	17,700	17,700
Government bonds for the purposes of bank recapitalization and DGF financing	0	...	...	0	...	0	...	...	0	...	0	0	0	0	0	0	0	0
Spending from receipts resulting from sales of confiscated Russian assets and transfers of bank accounts	25,800	...	...	0	...	25,800	...	...	3,700	...	25,800	25,800	25,800	0	25,800	0	0	2,370
Spending on gas purchases, PSO compensation and transfer to GTSO	30,000	...	...	0	...	45,000	...	...	0	...	60,000	60,000	0	0	30,000	0	60,000	60,000

Sources: Ukrainian authorities and IMF staff estimates and projections.

1/ Definitions and adjustors are specified in the Technical Memorandum of Understanding (TMU).

2/ Targets and projections for 2023 are cumulative flows from January 1, 2023. Targets and projections for 2024 are cumulative flows from January 1, 2024.

3/ Starting with June 2023, the floor on the non-defense cash balance of the general government excluding grants is redefined to include general fund defense expenditures only.

4/ Starting in June 2023, the ceiling on government guarantees was converted into a quantitative performance criteria.

5/ Calculated using program accounting exchange rates as specified in the TMU.

6/ For end-April, calculated cumulative from April 1, for end-June from May 1, for remaining test dates, from end of previous quarter.

7/ Calculated using the projected redemption of government bonds as of May 28, 2023.

8/ Excludes prospective IMF disbursements under the EFF.

Annex I. Risk Assessment Matrix¹

Risks and Risk Likelihood	Expected Impact		Policy Response
External Risks			
<p>Intensification of regional conflict(s). Escalation of Russia's war in Ukraine or other regional conflicts and resulting economic sanctions disrupt trade (e.g., energy, food, tourism, and/or critical supply chain components), remittances, FDI and financial flows, and payment systems, and lead to refugee flows.</p>	High	<p>High. In addition to increased loss of life, a longer and more intensive war would lead to further destruction of the capital stock, outward migration, and internal displacement. The nascent recovery would stall, and growth would fall sharply amid lack of confidence and high uncertainty. Further restrictions on seaport access and logistical challenges would curtail the recovery of exports, while import needs would rise (for defense, energy, and infrastructure repair), widening fiscal and external financing needs. Financing constraints may force the authorities to resort to monetary financing, raising pressures on prices and the exchange rate. High inflation would further erode purchasing power and increase poverty. Weak activity could weigh on bank and SOE balance sheets.</p>	<p>Maintain appropriate macroeconomic policies to safeguard macroeconomic and financial stability and prepare contingency plans to prepare for the materialization of downside risks. Mobilize domestic financing to help meet fiscal financing needs and seek additional external financing that is grant-based or on highly-concessional terms. Enhance and update contingency plans, including for the financial sector.</p>
<p>Abrupt global slowdown or recession. Global and idiosyncratic risk factors combine to cause a synchronized sharp growth downturn, with recessions in some countries, adverse spillovers through trade and financial channels, and market fragmentation causing sudden stops in EMDEs.</p>	Medium	<p>High. Recessions in key donor countries could reduce or delay disbursement of committed external financing and shift the financing mix toward less advantageous and more expensive sources (monetary financing, other borrowing on non-concessional terms).</p>	<p>Prioritize spending and seek additional revenue measures. Mobilize domestic financing to plug financing gaps. Diversify external financing sources and obtain financing that is grant-based or on highly concessional terms.</p>
<p>Commodity price volatility. A succession of supply disruptions (e.g., due to conflicts, uncertainty, and export restrictions) and demand fluctuations causes recurrent commodity price volatility, external and fiscal pressures in EMDEs, contagion effects, and social and economic instability.</p>	High	<p>High. High energy prices could further strain consumption and business activity and widen fiscal and external financing needs. Low and/or volatile prices for agriculture products amid logistical costs and the collapse of the Black Sea Grain Initiative (BSGI) could alter sowing decisions for future agriculture seasons.</p>	<p>Continue rationing access to energy to priority areas. Limit electricity exports. Increase gas production. Secure alternative sources and storage for gas through the heating season. Targeted transfers to most vulnerable groups within the existing budget envelope. Build on and deepen alternative export routes.</p>
<p>Shortfalls in availability of external financing as well as domestic financing</p>	High	<p>High. An unexpected shortfall or delay in external and/ or domestic financing could result in larger financing gaps, necessitating financial repression, monetary financing and a sharp compression in spending, thus intensifying macro-financial risks and reverse the ongoing economic recovery.</p>	<p>Prioritize spending and seek additional revenue measures. Mobilize domestic financing to plug financing gaps. Diversify external financing sources and obtain financing that is grant-based or on highly concessional terms.</p>

Risks and Risk Likelihood	Expected Impact		Policy Response
Domestic Risks			
Social unrest.	Medium	High. High inflation, declining real incomes, and worsening inequality could amplify social unrest and undermine national unity, resulting in counterproductive populist policies that widen fiscal and external imbalances, delay adjustment, and stall reform momentum.	Maintain appropriate macroeconomic policies to safeguard stability. Targeted transfers to most vulnerable groups within the existing budget envelope.
Loss of reform momentum.	Medium	High. Poor governance, corruption, retrenchment of oligarchic interests, and lack of oversight on the use of external funding could decrease incentives for reform. Lack of progress on reforms exacerbates financing gaps, reduces future external financing inflows and could lead to donor fatigue.	Adhere to governance reforms while maintaining recent progress made in strengthening anti-corruption and judicial institutions. Mobilize domestic financing and prioritize spending.
Loss of transit corridors and EU restrictions for agricultural produce.	High	Medium. The termination of the BSGI will have a severe impact on Ukraine's balance of payments, potentially exacerbating financing gaps and FX markets and could risk undermining the nascent recovery. In that context, a prolonged closure of other transit routes through Eastern Europe would pose an additional burden, curtailing exports and weighing on future farming decisions.	Urge partners for a quick resolution to minimize disruption to transit routes. Diversify supply chains. Accelerate the reconstruction of Danube Deep Sea shipping lanes and repair of railroads with external financing.
Structural Risks			
Deepening geo-economic fragmentation. Broader and deeper conflict(s) and weakened international cooperation result in a more rapid reconfiguration of trade and FDI, supply disruptions, protectionism, technological and payments systems fragmentation, rising input costs, financial instability, a fracturing of international monetary and financial systems, and lower potential growth.	High	High. Ukraine remains at the fault line of ongoing geopolitical tensions and being a trade dependent economy is exposed to supply chain issues.	Maintain appropriate macroeconomic policies to safeguard stability and ensure adequate resources for core functions of the state. Diversify trade products, supply chains, and partners. Continue with reforms to support competitiveness and increase productivity.

1 The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path. The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly.

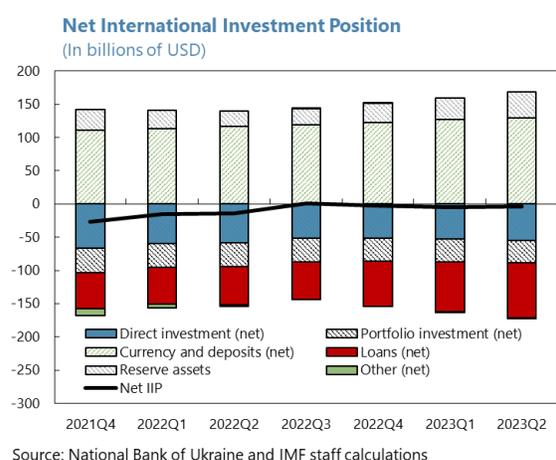
Annex II. External Sector Assessment

Overall Assessment: The external position of Ukraine in 2022 was weaker than the level implied by fundamentals and desirable policies. Donor financing remains critical for supporting reserves and stabilizing the FX market. Exceptionally high uncertainty around the duration and effects of Russia's war in Ukraine continues to present a significant risk to the external position. Challenges in implementing the EBA-lite approach in a war context warrant caution in interpreting the model results.

Potential Policy Responses: Ukraine's successful transition to a managed flexibility exchange rate regime in early October 2023 is an important step towards normalizing monetary and exchange rate policy. Securing continued financing from donors at sufficiently concessional terms, delivering on debt restructuring and fiscal consolidation, and advancing on the structural reform agenda, including on the path to EU accession, remain essential to help safeguard external sustainability.

Foreign Assets and Liabilities: Position and Trajectory

Background. Ukraine's negative net international investment position (NIIP) improved from US\$13.9 billion in 2022Q2 to US\$4 billion in 2023Q2 owing to a build-up in reserve assets and net currency and deposits, reflecting strong donor support, an increase in bank deposits abroad and the rise in private sector holdings of foreign currency cash amid war uncertainties. Gross assets stood at US\$187 billion in 2023Q2, with currency and deposits accounting for the largest share (70 percent of gross assets). At US\$191 billion in 2023Q2, gross liabilities were primarily composed of loan and FDI liabilities (74 percent of gross liabilities). Gross external debt stood at US\$148.6 billion at end-2023Q2, of which US\$84.5 billion held by the public sector. Gross external debt increased by US\$22.1 billion relative to end-2022Q2, driven by a doubling of general government external loan liabilities, mostly to official creditors, including the Fund. Half of Ukraine's gross external debt as of end-2023Q2 was US\$-denominated, while a third was euro-denominated.

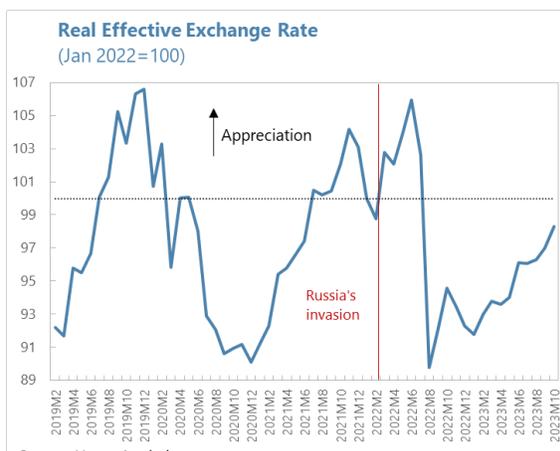
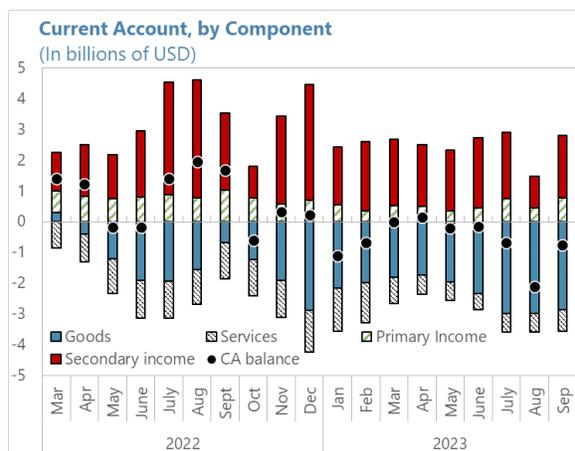


Assessment. While Ukraine's NIIP has significantly improved since the start of the war, the composition of gross liabilities has been shifting from FDI to loan liabilities. The currency composition of gross external debt also creates vulnerability to exchange rate risk. More importantly, public debt continues to be assessed as unsustainable in the absence of a debt treatment, fiscal adjustment, and financing on sufficiently concessional terms.

2022 (% GDP)	NIIP: -1.7	Gross Assets: 104.8	Debt Assets: 0.1	Gross Liabilities: 106.5	Debt Liabilities: 42.1

Current Account and Real Exchange Rate

Background. The current account balance (CAB) sharply improved to a surplus of 5 percent of GDP in 2022, from a deficit of 1.9 percent of GDP in 2021 driven by a surge in external budget grant financing and humanitarian support at the onset of the war. As a result, large current transfers more than offset the deterioration in the goods and services balance, which was triggered by a drop in exports on the back of logistical bottlenecks, diminished capacity from the destruction of facilities, electricity supply disruptions, and falling grain prices, notwithstanding the launch of the Black Sea Grain initiative in July 2022. At the same time, services imports rose owing to bank account withdrawals by migrants abroad. In September 2023, the CAB recorded a deficit of US\$0.8 billion against US\$2.2 billion the previous month, following an increase in current transfer receipts by the government, including US\$1.25 billion in budget grants from the US. The REER appreciated immediately after the start of the war, followed by a depreciation in the second half of the year.



Assessment. EBA-lite model results suggest that Ukraine’s external position in 2022 was weaker than the level implied by fundamentals and desirable policies.

- The **CA approach** finds that the cyclically-adjusted CA was -3.9 percent of GDP after accounting for the model's cyclical factors, disaster and conflict shocks, and the long-term increase in official budget grant financing, averaging 4.7 percent of GDP yearly between 2022 and the end of the EFF in 2027. The cyclically-adjusted CA norm, which reflects the CA level that is in line with fundamentals and desirable policy levels, stood at -0.5 percent of GDP. It incorporates an adjustment to the desirable policy level for the cyclically-adjusted fiscal balance, set at 0 percent of GDP in line with the assumption of entrenched recovery and fiscal and debt sustainability post-war. Assumptions on other desirable policy levels remain set at their benchmark values. This yields a negative CA gap of -3.4 percent of GDP, translating into a REER overvaluation of 11 percent. The contribution of policy gaps is estimated at -1.2 percent of GDP, primarily driven by the fiscal balance and public health spending gaps.

Ukraine: EBA-lite Model Results, 2022			
	CA model 1/	REER model	ES model
	(in percent of GDP)		
CA-Actual	5.0		
Cyclical contributions (from model) (-)	1.9		
Additional temporary/statistical factors (-) 2/	4.7		
Natural disasters and conflicts (-)	2.3		
Adjusted CA	-3.9		
CA Norm (from model) 3/	-0.5		
Adjustments to the norm (-)	0.0		
Adjusted CA Norm	-0.5		
CA Gap	-3.4	-3.2	-2.3
o/w Relative policy gap	-1.2		
Elasticity	-0.3		
REER Gap (in percent)	11.0	10.5	7.5

1/ Based on the EBA-lite 3.0 methodology.
2/ Average level of official grants relative to GDP over 2022-2027Q1.
3/ Cyclically adjusted, including multilateral consistency adjustments.

- The **REER approach** finds a similar level of CA gap (-3.2 percent of GDP), reflecting a REER overvaluation of 10.5 percent.
- The **external sustainability (ES) approach** conveys a similar message: stabilizing Ukraine's NIIP at its 2022 level in the medium term would require a REER depreciation of 7.5 percent given the negative CA gap (-2.3 percent of GDP) from the model.

The external position is expected to deteriorate in 2023 primarily driven by a growing trade deficit on the back of significant import needs, in part due to stronger domestic demand, and logistical constraints to exports amid the war, despite large support from donors.

Capital and Financial Accounts: Flows and Policy Measures

Background. The financial account deteriorated from a surplus of 3.6 percent of GDP in 2021 to a deficit of 6.9 percent of GDP in 2022 owing to the war, primarily driven by increased private sector holdings of foreign currency cash outside banks, despite higher government loan inflows. Net FDI also moderated. In September 2023, the financial account recorded a deficit of US\$0.1 billion against a deficit of US\$0.7 billion the previous month, owing to a decline in government loan liabilities.

Following the outbreak of the war, immediate measures by the National Bank of Ukraine to help preserve financial stability included capital flow management (CFM) measures and restrictions on bank account withdrawals. Restrictions on the repatriation of proceeds from nonresident government debt redemptions were introduced in April 2023 to contain FX reserve outflows. While the repatriation of interest payments was initially allowed, it was restricted in mid-May 2023

through requiring foreign investors to have a minimum continuous holding period of 90 days before the coupon payment is made.

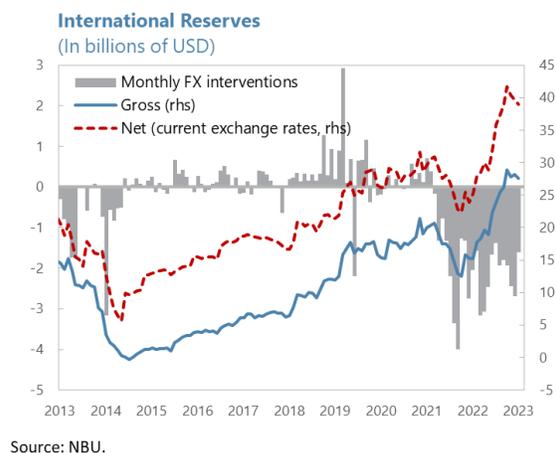
Assessment. The financial account is projected to continue recording a surplus to finance the large post-war recovery and reconstruction needs, primarily on the back of net FDI, to support Ukraine's post-war recovery together with donor support, although the latter could abate going forward. FX controls including CFMs are expected to be eased gradually and on a case-by-case basis, consistent with the authorities FX liberalization roadmap under their FX strategy.

FX Intervention and Reserves Level

Background. Gross international reserves (GIR) reached US\$28.5 billion at end-2022 or 3.8 months of prospective goods and services imports (93 percent of the ARA metric). GIR stood at US\$39 billion at end-October 2023. The war necessitated net FX sales by the NBU given constraints to the economy's capacity to generate FX through exports, while the demand for FX for energy and defense imports and precautionary savings has increased, resulting in NBU's net FX sales of US\$25 billion in 2022.

However, the FX market has remained broadly stable, supported by sizeable external financing inflows and measures to ease net FX demand, such as the increase in the limits for private individuals to buy non-cash FX. This has contributed to reducing and stabilizing the spread between the official and cash UAH/USD rates to around 5 percent or less. Ukraine's inflation targeting regime was replaced by a hard peg to the US dollar at the start of the war. On October 3, 2023, Ukraine formally transitioned to a managed flexibility exchange rate regime.

Assessment. While donor financing is projected to continue supporting Ukraine's GIR, uncertainty around the duration and effects of the war constitutes a significant risk to GIR developments going forward. FX interventions are expected to support NBU's strategy to gradually increase flexibility in the exchange rate, and moderate over time as FX market imbalances are addressed and the NBU eventually returns to the pre-war inflation targeting framework.



Annex III. Sovereign Risk and Debt Sustainability Analysis

This Sovereign Risk and Debt Sustainability Analysis (SRDSA) presents a pre-restructuring baseline scenario, which is complemented by a pre-restructuring downside scenario SRDSA. These analyses show that debt is unsustainable in the absence of a debt treatment, fiscal adjustment, and financing on sufficiently concessional terms during and after the program. Under the EFF, the authorities plan to undertake a revenue-based fiscal adjustment, donors have extended commitments for exceptional financial support, and a credible process is underway on both bilateral official claims and external commercial debt. Thus, staff continues to assess public debt as sustainable on a forward-looking basis.

1. This annex updates the SRDSA performed for the First Review of Ukraine’s arrangement under the Extended Fund Facility. That SRDSA (see IMF Country Report No. 23/248)

found high risks in the medium term, long term, and overall, reflecting risks from the mechanical tools and the high uncertainty. It also concluded that debt was unsustainable in a pre-restructuring scenario in the absence of debt restructuring, exceptional financing from donors, and a substantial fiscal adjustment. However, given the commitments under the program, assurances from official creditors, and a credible process toward private external restructuring, staff was able to assess debt as sustainable in a forward- looking basis.

2. As before, and in line with the Fund’s policies for lending under exceptionally high uncertainty, the analysis continues to be run on both baseline and downside medium-term scenarios:

- *Revisions to the Macroeconomic Outlook:* Recent data releases have suggested that the economy has remained fairly resilient. Thus, real GDP growth has been marked up for 2023 and in later years of the forecast horizon, while the inflation path has been lowered a bit and will contribute to lower domestic borrowing rates. Beyond the near-term, the medium-term outlook is still based on a measured reconstruction effort, and real GDP does not regain its pre-war (2021) level until 2030. Downside risks continue being extremely elevated and reflect potential spillovers from damage to infrastructure (especially energy infrastructure); prospects for agricultural activity, including after the termination of the Black Sea Grain Initiative; and longer-term growth drivers. Delays in the debt restructuring process are another key risk to the restoration of debt sustainability.
- *Financing Assumptions:* External financing assumptions have not changed much since the First Review. New budget support grant financing from the United States for 2023 (\$3.3 billion) has been incorporated, raising budget support grants for 2023 to \$14.9 billion. Other external financing for 2023 is broadly as expected at the First Review. As before, the pre- restructuring baseline assumes that the agreed debt service standstills with official bilateral and commercial external creditors (including Eurobonds) will expire. However, ample official sector grants and concessional loans are expected to be available over the medium-term (in total, about US\$91.3 bn in non-IMF financing over the program period). This level of support will be required to

buttress post-war macroeconomic stability. Although there are no commitments in place beyond end-2024, specific and credible assurances indicate that these financing needs will be filled as the EFF progresses. In the longer term, the scenario involves smaller flows of official budget support financing of US\$8–9 billion per year, with a return to external market financing in the extended projection (starting 2029, unchanged from the last SRDSA). Gross domestic financing will also make an important contribution to meeting the government's borrowing requirements over the forecast horizon. As conditions stabilize, maturities on domestic instruments are expected to lengthen somewhat.

- *Debt and GFN Trajectories:* In line with the additional financing needs arising from the Supplementary Budget for 2023, and the evolution of Budget 2024, the near-term debt and GFN trajectories are slightly weaker. Debt is now expected to peak at 98.5 percent of GDP in 2025 under the baseline (101 percent of GDP in 2025 in the First Review SRDSA). GFNs would now reach their maximum at 25.4 percent of GDP in 2023 (26.3 percent of GDP in 2024 under the First Review DSA). Moreover, financing risks could arise from: (i) the impact of exchange rate dynamics on external financing flows and debt service and (ii) the high near-term domestic borrowing requirement. Debt and GFNs remain on a downward trajectory over the medium term. By 2028, public debt would reach 93.7 percent of GDP and GFNs would decline to 12.6 percent of GDP. Debt and GFNs are also higher in this updated downside scenario, with debt peaking at 138.2 percent of GDP in 2026 and GFNs cresting at 34.4 percent of GDP in 2026.

3. Reflecting these considerations, the overall assessment remains that debt is unsustainable in the baseline and downside scenarios without debt restructuring, financing on appropriate terms, and fiscal adjustment. Based on the mechanical metrics from both medium-term modules (debt fanchart and GFNs), the results from both tools suggest that risks remain at high levels. For the debt fanchart, the somewhat higher debt trajectory has widened the fan and caused the corresponding risk metric to deteriorate. For GFNs, the higher near-term primary deficits have raised the average GFNs over the medium-term. These risks are exacerbated even further under the downside scenario, which incorporates further shocks.

4. With this review, staff has begun to examine longer-term debt and GFN paths. The longer-term trajectories are subject to substantial uncertainty, and need to account for several Ukraine-related characteristics. However, they suggest that with the fiscal adjustment, concessional financing, and restructuring described above, debt and gross financing needs could remain within sustainable ranges over the longer term. These conclusions would hold even under refinancing under less concessional terms and after reflecting needs in climate change adaptation. However, there is substantial uncertainty around these projections, and staff continues to assess longer-run risks as high.

5. Updated indicative modeling suggests that debt sustainability can be delivered by achieving the following targets:

- Public debt should reach 82 percent of GDP by 2028 and 65 percent of GDP by 2033.

- Gross financing needs that average 8 percent of GDP in the post-program period (2028–33).

Additionally, to complement these targets, the authorities should aim to achieve debt service flow relief on external obligations of around 1-1.7 percent of GDP per year (table). If realized, these savings could lower excessive demands on the domestic market, to avoid oversaturating local financial institutions with government debt and create space for lending, and to build an adequate liquidity buffer in case macro-fiscal or contingent liability shocks materialize, and thereby enable the envisaged economic recovery.

Ukraine: Deficit Financing After Exceptional Financing from Debt Restructuring					
(percent of GDP)					
	2023	2024	2025	2026	2027
Overall deficit	-18.6	-15.7	-8.1	-5.1	-3.8
Financing	18.6	15.7	8.1	5.1	3.8
External	17.0	13.7	7.6	2.3	2.8
Disbursements	18.2	16.1	10.0	5.3	5.6
Amortization	-1.1	-2.5	-2.3	-3.0	-2.8
Domestic	1.5	1.1	-1.1	1.1	-0.6
Domestic bonds, net	1.4	1.0	0.0	0.0	0.0
Deposit financing, net (=accumulation)	0.0	0.0	-1.2	1.0	-0.7
Privatization and other	0.1	0.1	0.1	0.1	0.1
Exceptional financing 1/	0.0	1.0	1.6	1.7	1.6
Memo:					
Exceptional financing in billion US dollars 1/	0.0	1.9	3.2	3.6	3.5

1/ Exceptional financing comprises estimates of flow relief from debt service. For 2024, this estimate excludes deferred payments arising from the initial stages of the standstill.

6. Debt can be assessed as sustainable on a forward-looking basis. This determination reflects: (i) official bilateral creditors' commitments to the level of relief necessary in the baseline and to provide additional relief needed to restore sustainability if the downside scenario emerges (based on updated data when the exceptionally high uncertainty subsides or before the last review of the EFF); (ii) the Ukrainian authorities' commitment to seek an agreement on comparable terms with private external commercial creditors and the credible process that is already underway to deliver this outcome; and (iii) the credible and specific assurances from donors about support on adequate financial terms in both the baseline and downside scenarios. Additionally, along with debt restructuring, the fiscal adjustment and commitments from donors on concessional financing should help deliver the targets described above, and bring debt and GFNs to sustainable levels.

Annex III. Figure 1. Ukraine: Risk of Sovereign Stress

Horizon	Mechanical signal	Final assessment	Comments
Overall	...	High	The overall risk of sovereign stress continues being high in the baseline scenario, and that vulnerability is amplified in the downside scenario, reflecting high vulnerabilities in the medium-term horizon.
Near term 1/	n.a.	n.a.	Not applicable
Medium term	High	High	Medium-term risks are assessed as high. The fanchart indicates very high uncertainty around the debt trajectory, and the financeability tool finds high liquidity risks compared with relevant comparators.
Fanchart	High	...	
GFN	High	...	
Stress test	...	...
Long term	...	High	Reflecting the exceptionally high uncertainty on the long-term outlook, risks are high. However, successfully restoring debt sustainability and implementing the fiscal adjustment assumed under the program would help mitigate risks associated with refinancing maturing public debt and investing in climate change adaptation.
Sustainability assessment 2/	Unsustainable in a pre-restructuring scenario		Restoring medium-term external viability requires policy commitments, as well as specific and credible safeguards commitments and exceptional financing from creditors and donors, including debt relief, consistent with achieving a manageable level of gross financing needs such that debt stabilizes at a sustainable level.
Debt stabilization in the baseline			Yes

DSA Summary Assessment

Ukraine's debt continues to be assessed to be unsustainable in a pre-restructuring scenario. Debt sustainability on a forward-looking basis is contingent on strong policy commitments and financing assurances and specific and credible assurances of debt relief that achieves GFNs that average of 8 percent of GDP over 2028-33 and public debt of 82 percent of GDP by 2028 and 65 percent of GDP by 2033 (in a post-restructuring scenario). These debt targets are judged to be consistent with a manageable level of gross financing needs and strong prospects that debt stabilizes at a sustainable level. With such commitments and assurances, the pre-restructuring baseline scenario underlines the impact of high projected primary deficits and an anticipated slow recovery from the war. The medium-term modules signal high sovereign stress risks, notably a wide fanchart that points to the very high uncertainty around the forecast, and the GFN stress tests that find persistently high financing needs, especially in the near term.

Source: Fund staff.

Note: The risk of sovereign stress is a broader concept than debt sustainability. Unsustainable debt can only be resolved through exceptional measures (such as debt restructuring). In contrast, a sovereign can face stress without its debt necessarily being unsustainable, and there can be various measures—that do not involve a debt restructuring—to remedy such a situation, such as fiscal adjustment and new financing.

1/ The near-term assessment is not applicable in cases where there is a disbursing IMF arrangement. In surveillance-only cases or in cases with precautionary IMF arrangements, the near-term assessment is performed but not published.

2/ A debt sustainability assessment is optional for surveillance-only cases and mandatory in cases where there is a Fund arrangement. The mechanical signal of the debt sustainability assessment is deleted before publication. In surveillance-only cases or cases with IMF arrangements with normal access, the qualifier indicating probability of sustainable debt ("with high probability" or "but not with high probability") is deleted before publication.

Annex III. Figure 2. Ukraine: Debt Coverage and Disclosures

						Comments		
1. Debt coverage in the DSA: 1/								
	CG	GG	NFPS	CPS	Other			
1a. If central government, are non-central government entities insignificant?						n.a.		
2. Subsectors included in the chosen coverage in (1) above:								
Subsectors captured in the baseline						Inclusion		
CPS	NFPs	GG: expected	CG	1	Budgetary central government	Yes	Not applicable	
				2	Extra budgetary funds (EBFs)	No		
				3	Social security funds (SSFs)	Yes		
				4	State governments	Yes		
				5	Local governments	Yes		
				6	Public nonfinancial corporations	Yes		
				7	Central bank	Yes		Inc. projected IMF BOP support
				8	Other public financial corporations	Yes		
3. Instrument coverage:								
	Currency & deposits	Loans	Debt securities	Oth acct. payable 2/	IPSGSs 3/			
4. Accounting principles:								
Basis of recording			Valuation of debt stock					
	Non-cash basis 4/	Cash basis	Nominal value 5/	Face value 6/	Market value 7/			
5. Debt consolidation across sectors:						Data unavailable		
	Consolidated		Non-consolidated					

Color code: ■ chosen coverage ■ Missing from recommended coverage ■ Not applicable

Reporting on Intra-Government Debt Holdings

Issuer	Holder	Budget.	Extra-	Social	State	Local	Nonfin.	Central	Oth.	Total		
		central govt	budget. funds	security funds	govt.	govt.	pub. corp.	bank	pub. fin corp			
CPS	NFPs	GG: expected	CG	1	Budget. central govt						0	
				2	Extra-budget. funds							0
				3	Social security funds							0
				4	State govt.							0
				5	Local govt.							0
				6	Nonfin pub. corp.							0
				7	Central bank							0
				8	Oth. pub. fin. corp							0
Total		0	0	0	0	0	0	0	0	0		

1/ CG=Central government; GG=General government; NFPS=Nonfinancial public sector; PS=Public sector.

2/ Stock of arrears could be used as a proxy in the absence of accrual data on other accounts payable.

3/ Insurance, Pension, and Standardized Guarantee Schemes, typically including government employee pension liabilities.

4/ Includes accrual recording, commitment basis, due for payment, etc.

5/ Nominal value at any moment in time is the amount the debtor owes to the creditor. It reflects the value of the instrument at creation and subsequent economic flows (such as transactions, exchange rate, and other valuation changes other than market price changes, and other volume changes).

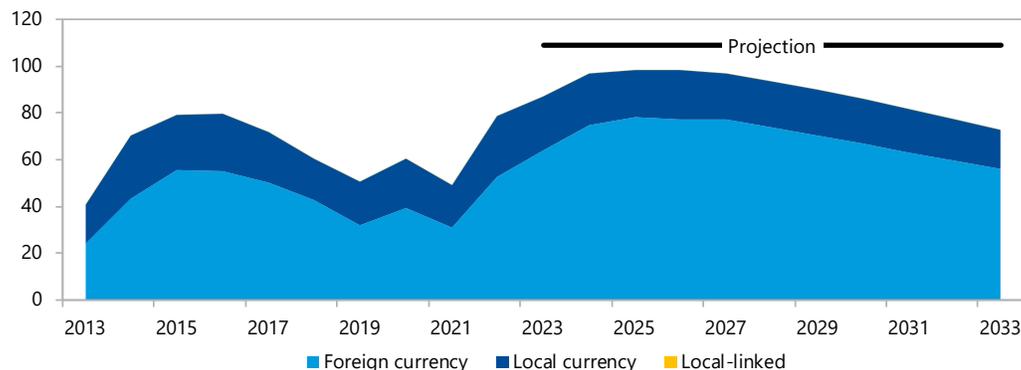
6/ The face value of a debt instrument is the undiscounted amount of principal to be paid at (or before) maturity.

7/ Market value of debt instruments is the value as if they were acquired in market transactions on the balance sheet reporting date (reference date). Only traded debt securities have observed market values.

The coverage of the DSA has not changed since the beginning of the EFF. It is based on end-2022 debt stock data. As previously, the coverage of public debt includes: (i) central government direct debt; (ii) domestic and external government-guaranteed debt (loans and bonds) extended to state-owned enterprises (SOEs); (iii) debt of local governments; and (iv) Ukraine's liabilities to the IMF that are not included in central government direct debt. It does not include non-guaranteed domestic and external liabilities of SOEs, nor does it include Ukraine's GDP warrants. Data concerning debt consolidation across sectors are not available.

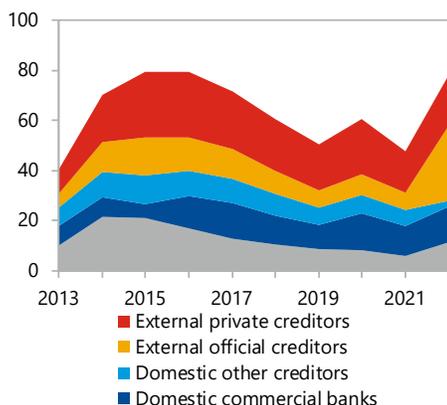
Annex III. Figure 3. Ukraine: Public Debt Structure Indicators

Debt by Currency (Percent of GDP)



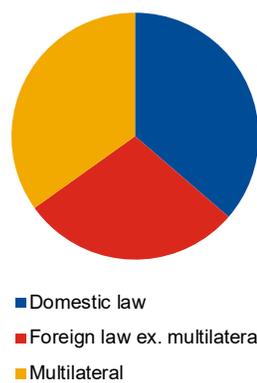
Note: The perimeter shown is general government.

Public Debt by Holder (Percent of GDP)



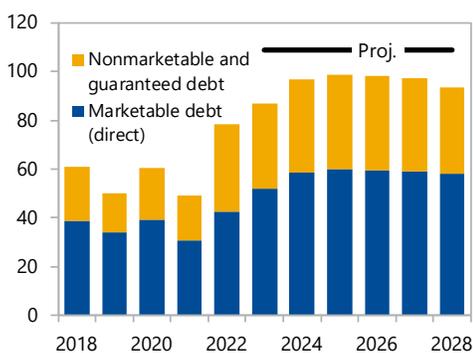
Note: The perimeter shown is general government.

Public Debt by Governing Law, 2022 (Percent)



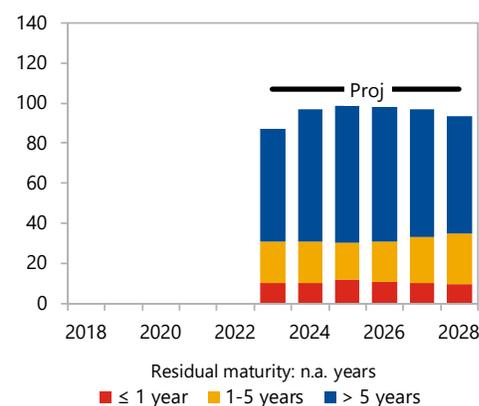
Note: The perimeter shown is general government.

Debt by Instruments (Percent of GDP)



Note: The perimeter shown is general government.

Public Debt by Maturity (Percent of GDP)



Note: The perimeter shown is general government.

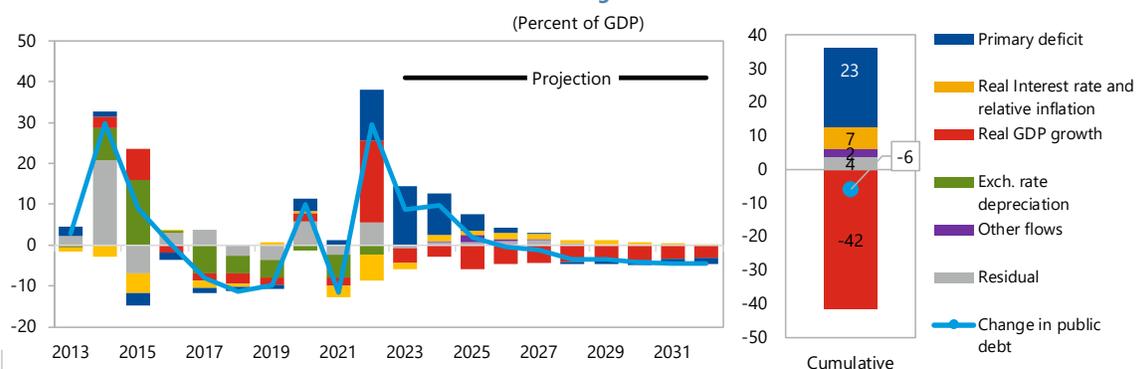
The end-2022 debt structure info indicates that externally held debt rose to 64 percent of total public and publicly guaranteed debt, with multilateral debt accounting for the largest share (35 percent). Domestic debt is mostly held by residents and denominated in hryvnia. The share of FX debt in total debt is expected to continue to rise based on the preponderance of expected official financing during the program, but the high share of FX debt entails currency risk.

Annex III. Figure 4. Ukraine: Pre-Restructuring Baseline Scenario

(Percent of GDP Unless Indicated Otherwise)

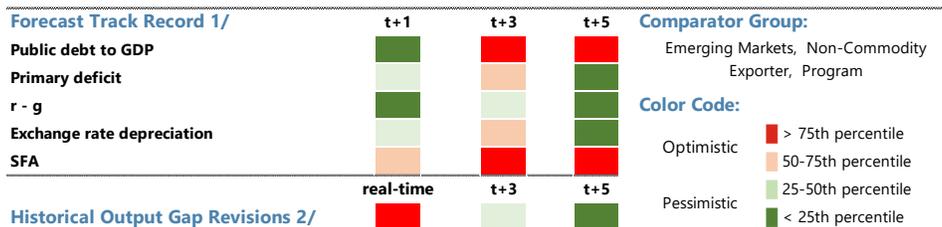
	Actual		Medium-term projection						Extended projection				
	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	
Public debt	78.5	87.1	96.7	98.5	98.2	97.0	93.7	90.1	85.9	81.5	77.1	72.6	
Change in public debt	29.5	8.6	9.7	1.8	-0.4	-1.1	-3.4	-3.6	-4.2	-4.4	-4.4	-4.5	
Contribution of identified flows	24.1	9.4	8.8	1.0	-1.4	-2.5	-3.9	-3.7	-4.3	-4.5	-4.4	-4.2	
Primary deficit	12.6	14.5	10.1	4.1	1.4	0.4	-0.7	-0.9	-1.2	-1.4	-1.5	-1.4	
Noninterest revenues	50.3	45.6	42.1	40.6	40.3	41.0	41.1	40.9	40.8	40.5	40.4	40.4	
Noninterest expenditures	62.9	60.1	52.3	44.7	41.7	41.4	40.5	40.0	39.6	39.1	38.9	39.0	
Automatic debt dynamics	11.5	-5.0	-1.5	-4.8	-3.3	-3.1	-3.2	-2.8	-3.0	-3.0	-2.9	-2.7	
Real interest rate and relative inflation	-6.4	-1.6	1.5	1.1	1.4	1.2	0.8	1.0	0.5	0.3	0.3	0.2	
Real interest rate	-14.6	-7.7	-5.1	-3.3	-1.2	-1.0	-1.3	-1.4	-1.4	-1.5	-1.5	-1.4	
Relative inflation	8.3	6.0	6.6	4.4	2.6	2.2	2.2	2.4	1.9	1.8	1.7	1.6	
Real growth rate	20.0	-3.4	-2.9	-5.9	-4.7	-4.2	-4.0	-3.8	-3.5	-3.3	-3.1	-3.0	
Real exchange rate	-2.2	...	...	...	...	...	...	...	...	...	...	...
Other identified flows	0.0	-0.1	0.2	1.7	0.6	0.2	-0.1	0.0	0.0	0.0	0.0	0.0	
Contingent liabilities	0.0	0.0	0.3	1.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
(minus) Interest Revenues	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Other transactions	0.0	-0.1	-0.1	0.4	0.6	0.2	-0.1	0.0	0.0	0.0	0.0	0.0	
Contribution of residual	5.4	-0.8	0.8	0.8	1.0	1.3	0.5	0.1	0.1	0.0	0.0	-0.3	
Gross financing needs	25.0	25.4	24.9	18.5	15.8	13.5	12.6	12.1	10.8	11.3	8.4	8.3	
of which: debt service	12.4	10.9	14.6	13.1	14.4	13.1	13.3	13.1	12.0	12.7	9.9	9.8	
Local currency	8.0	7.7	8.5	8.1	8.8	8.2	7.4	7.0	6.3	6.8	4.5	4.8	
Foreign currency	4.4	3.2	6.0	5.0	5.5	5.0	5.8	6.0	5.7	5.9	5.4	4.9	
Memo:													
Real GDP growth (percent)	-29.1	4.5	3.5	6.5	5.0	4.5	4.3	4.2	4.1	4.0	4.0	4.0	
Inflation (GDP deflator; percent)	34.3	18.6	14.7	8.9	5.6	5.0	5.0	5.0	5.0	5.0	5.0	5.0	
Nominal GDP growth (percent)	-4.8	23.9	18.8	15.9	10.8	9.7	9.5	9.4	9.3	9.2	9.2	9.2	
Effective interest rate (percent)	5.8	6.5	7.7	4.9	4.2	3.8	3.5	3.4	3.3	3.1	3.0	3.0	

Contribution to Change in Public Debt



The dynamics are similar to the First Review. Overall, key debt drivers, which were impacted heavily by the war, resulted in a step-rise in Ukraine's debt-to-GDP ratio in 2022. Debt is projected to rise further in 2023-25, largely reflecting the primary deficit. A recovery that is expected to take hold in 2025 as macroeconomic conditions and confidence improves will lead to a slight downward trajectory over the rest of the forecast horizon. The modestly downward trajectory reflects contributions from both the real interest rate-growth differential and a better primary balance, including through fiscal adjustment. Debt service assumptions incorporate the terms of the 2022 debt service standstill agreed with private bondholders and warrant holders, as well as the standstill with a group of official bilateral creditors. Medium-term gross financing needs are in a similar range to the First review.

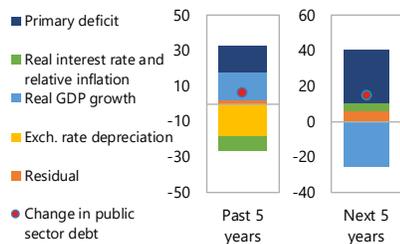
Annex III. Figure 5. Ukraine: Realism of Pre-Restructuring Baseline Scenario Assumptions



Historical Output Gap Revisions 2/

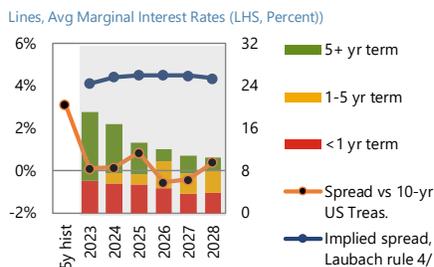
Public Debt Creating Flows

(Percent of GDP)



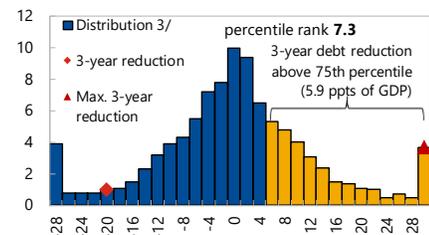
Bond Issuances

(Bars, Debt Issuances (RHS, % GDP); Lines, Avg Marginal Interest Rates (LHS, Percent))



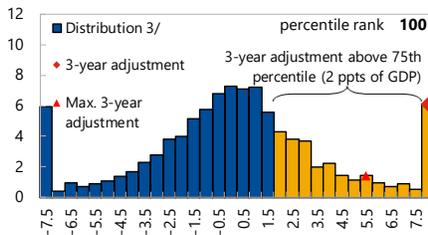
3-Year Debt Reduction

(Percent of GDP)



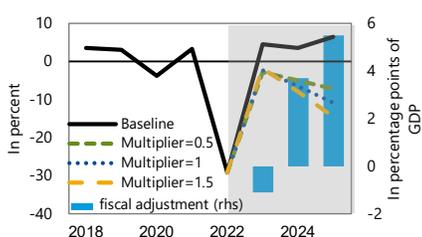
3-Year Adjustment in Cyclically-Adjusted Primary Balance

(Percent of GDP)



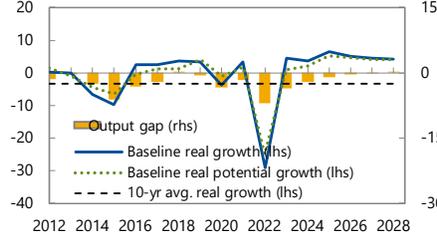
Fiscal Adjustment and Possible Growth Paths

(Lines, Real Growth Using Multiplier (lhs); Bars, Fiscal Adj. (rhs))



Real GDP Growth

(In Percent)



The forecast track record continues to point to persistent optimism for the debt-to-GDP, and stock-flow adjustment indicators flag upward surprises in the medium-term horizon. However, the scale of the war shock and uncertainties about its duration still suggest caution in assessing the realism of baseline forecast based on backward-looking tools. The key debt drivers will be the primary deficit and a weak recovery. Substantial long-term official financing drives the maturity structure and interest rate assumptions. The realism of the three-year fiscal adjustment critically depends on the duration of the war and the speed at which deficits can be reversed. Ukraine has previously achieved a relatively large fiscal adjustment, although this will face considerable headwinds from a slow recovery. The assumptions on multipliers are uncertain amid a deep structural break. The output gap is assumed to close gradually.

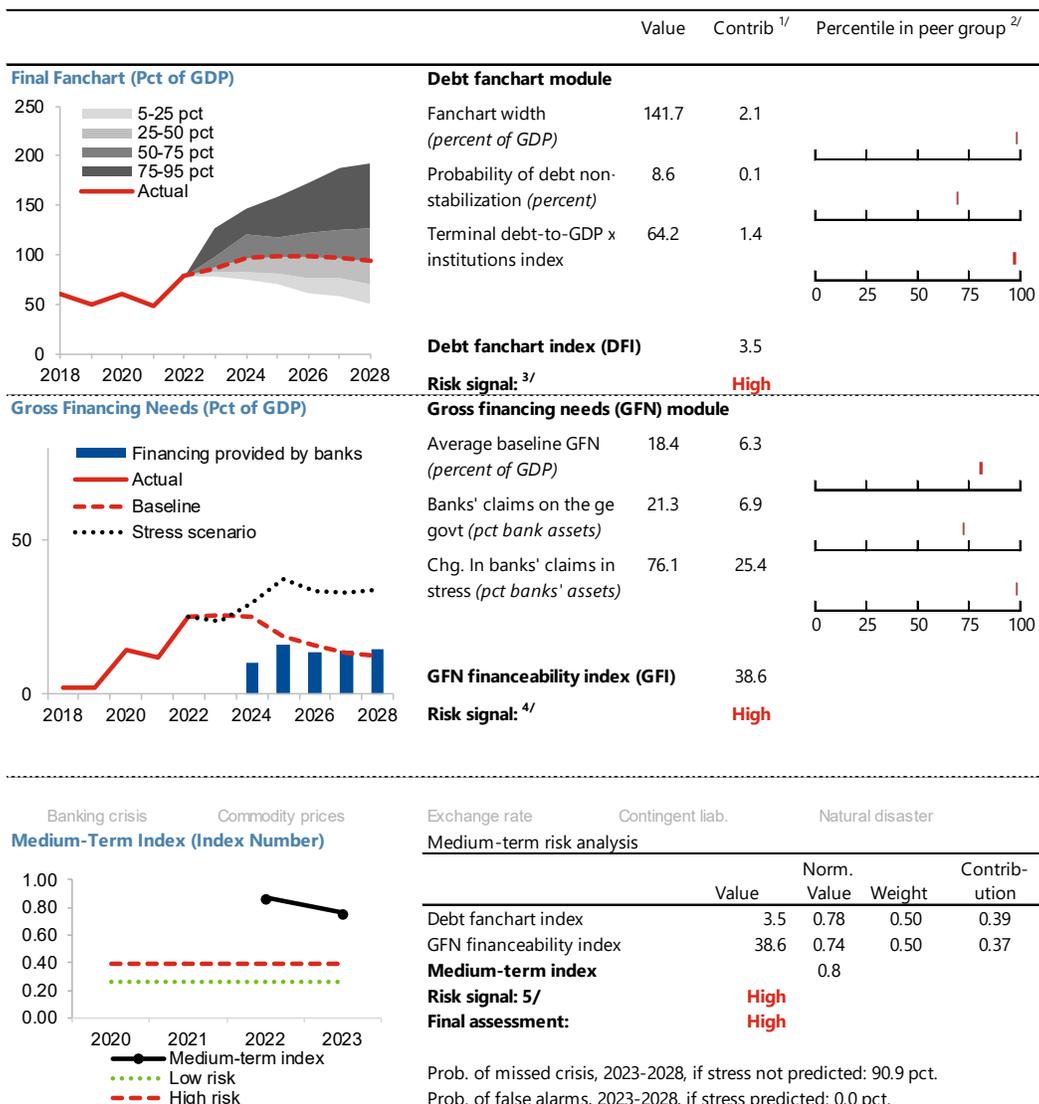
1/ Projections made in the October and April WEO vintage.

2/ Calculated as the percentile rank of the country's output gap revisions (defined as the difference between real time/period ahead estimates and final estimates in the latest October WEO) in the total distribution of revisions across the data sample.

3/ Data cover annual observations over 1990-2019 for MAC advanced and emerging economies. Pct. of sample on vertical axis.

4/ The Laubach (2009) rule is a linear rule assuming bond spreads increase by about 4 bps in response to a 1 ppt increase in the projected debt-to-GDP ratio.

Annex III. Figure 6. Ukraine: Medium-Term Risk Analysis (Pre-Restructuring Baseline Scenario)



Both medium-term modules signal high sovereign stress risks in the baseline scenario, as in the previous DSA for the First Review. The DFI is little changed from the last DSA due and remains deeply in high-risk territory. The GFI also still indicates high liquidity-related risks, reflecting high average GFN-to-GDP ratios in the baseline and large changes in bank claims on the government in a stress scenario, which are very high and would be difficult to manage if these shocks materialized. The current level of bank exposures to the government is 21.3 percent--unchanged from the last DSA. Overall, the medium-term index continues being consistent with high risk in line with the mechanical signals from both tools.

Source: IMF staff estimates and projections.

1/ See Annex IV of IMF, 2022, Staff Guidance Note on the Sovereign Risk and Debt Sustainability Framework for details on index calculation.

2/ The comparison group is emerging markets, non-commodity exporter, program.

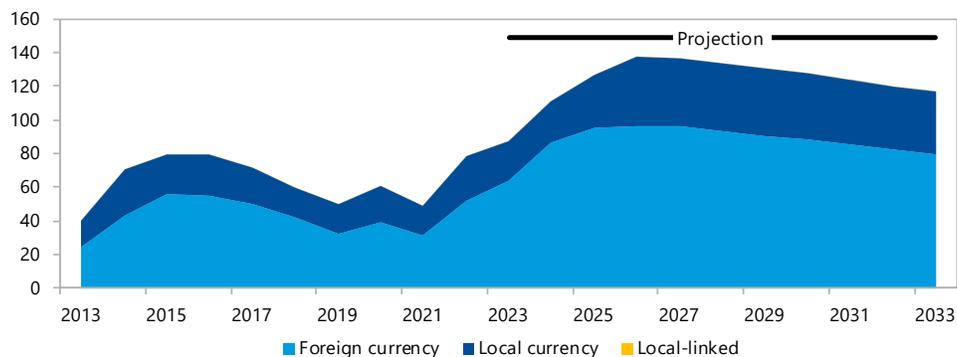
3/ The signal is low risk if the DFI is below 1.13; high risk if the DFI is above 2.08; and otherwise, it is moderate risk.

4/ The signal is low risk if the GFI is below 7.6; high risk if the DFI is above 17.9; and otherwise, it is moderate risk.

5/ The signal is low risk if the GFI is below 0.26; high risk if the DFI is above 0.40; and otherwise, it is moderate risk.

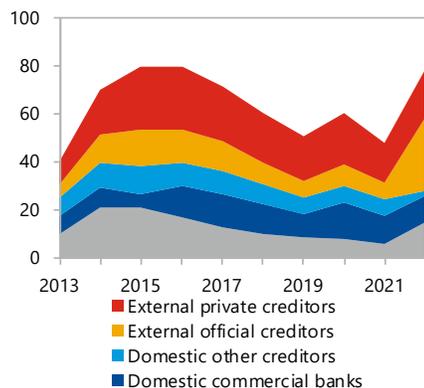
Annex III. Figure 7. Ukraine: Public Debt Structure Indicators Under the Pre-Restructuring Downside Scenario

Debt by Currency (Percent of GDP)



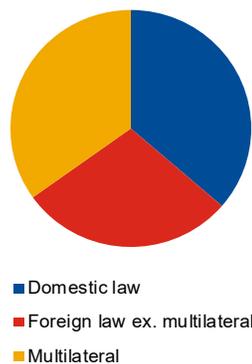
Note: The perimeter shown is general government.

Public Debt by Holder (Percent of GDP)



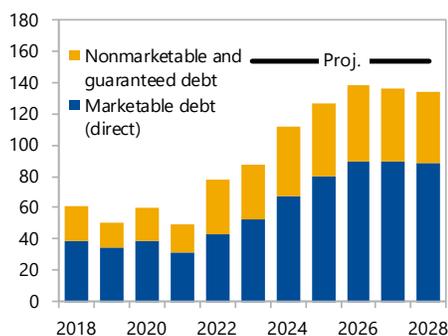
Note: The perimeter shown is general government.

Public Debt by Governing Law, 2022 (Percent)



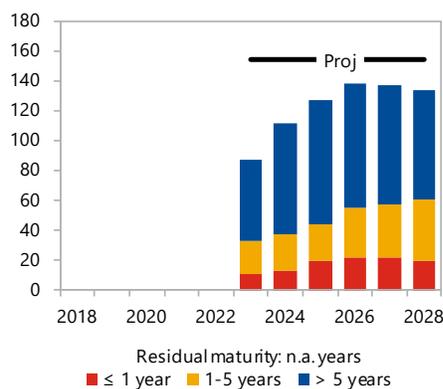
Note: The perimeter shown is general government.

Debt by Instruments (Percent of GDP)



Note: The perimeter shown is general government.

Public Debt by Maturity (Percent of GDP)



Note: The perimeter shown is general government.

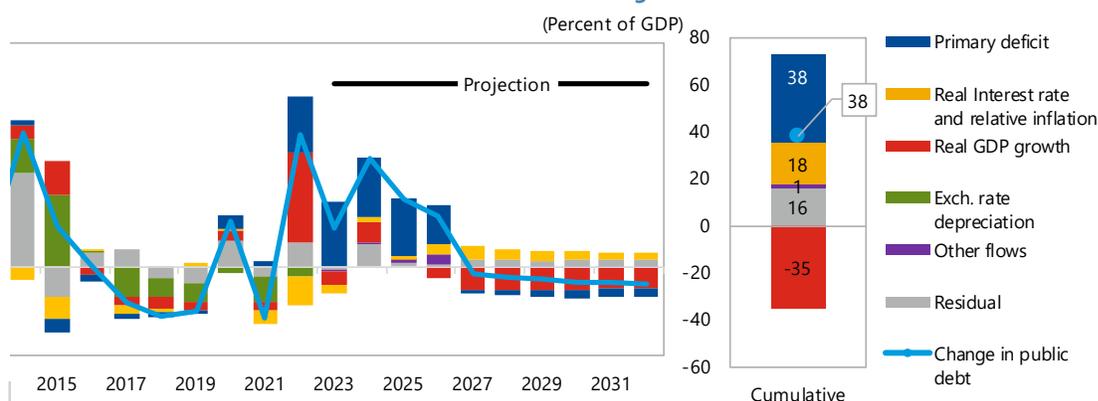
This downside scenario preserves two features of downside scenarios presented in previous SRDSAs: (i) elevated financing needs cause the share of local currency debt to grow notably above that of the baseline and (ii) the maturity structure is also more tilted toward the shorter-term relative to the baseline.

Annex III. Figure 8. Ukraine: Pre-Restructuring Downside Scenario

(Percent of GDP Unless Indicated Otherwise)

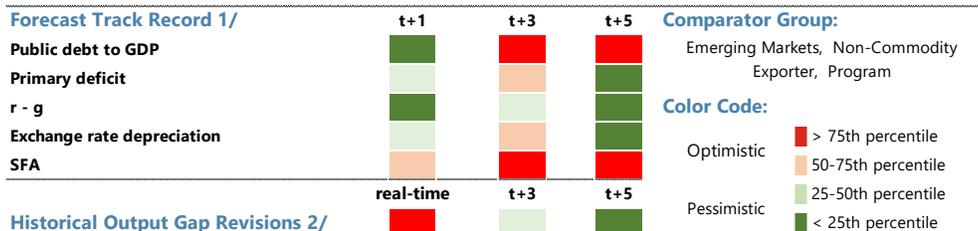
	Actual	Medium-term projection						Extended projection				
	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Public debt	78.5	87.1	111.5	126.7	138.2	136.5	134.0	131.1	127.5	123.9	120.1	116.6
Change in public debt	29.5	8.6	24.4	15.2	11.4	-1.6	-2.5	-2.9	-3.6	-3.7	-3.7	-3.5
Contribution of identified flows	24.1	9.4	19.4	14.2	11.1	-3.2	-4.1	-4.2	-5.2	-5.3	-5.3	-5.0
Primary deficit	12.8	14.5	13.1	12.7	8.9	-0.8	-1.0	-1.4	-2.0	-2.1	-2.1	-2.0
Noninterest revenues	50.3	45.6	46.7	43.3	42.6	41.5	40.5	40.5	40.5	40.3	40.3	40.2
Noninterest expenditures	63.0	60.1	59.8	56.0	51.5	40.6	39.5	39.1	38.5	38.2	38.2	38.2
Automatic debt dynamics	11.4	-5.0	6.1	1.0	0.0	-2.4	-2.7	-2.4	-2.9	-3.0	-3.0	-3.0
Real interest rate and relative inflat	-6.5	-1.6	1.5	1.0	2.5	2.9	2.3	2.5	1.9	1.7	1.5	1.4
Real interest rate	-14.7	-7.7	-5.3	-6.2	-1.7	0.1	-0.4	-0.6	-0.6	-0.8	-0.8	-0.8
Relative inflation	8.3	6.0	6.8	7.2	4.2	2.8	2.7	3.1	2.5	2.4	2.3	2.3
Real growth rate	20.0	-3.4	4.6	0.0	-2.5	-5.3	-5.0	-4.9	-4.8	-4.7	-4.5	-4.4
Real exchange rate	-2.2	...	...	...	...	...	...	...	...	...	...	...
Other identified flows	0.0	-0.1	0.2	0.5	2.2	0.0	-0.4	-0.3	-0.3	-0.2	-0.2	-0.1
Contingent liabilities	0.0	0.0	0.3	0.0	1.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
(minus) Interest Revenues	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other transactions	0.0	-0.1	-0.1	0.5	0.7	0.0	-0.4	-0.3	-0.3	-0.2	-0.2	-0.1
Contribution of residual	5.4	-0.8	5.0	1.0	0.4	1.6	1.6	1.2	1.7	1.6	1.6	1.5
Gross financing needs	25.1	25.4	29.2	29.2	34.4	25.9	25.3	23.4	20.4	22.5	16.3	16.8
of which: debt service	12.3	10.9	15.8	16.5	24.0	26.7	26.3	24.8	22.5	24.5	18.4	18.8
Local currency	8.0	7.7	9.0	10.4	17.1	20.5	18.9	17.1	15.0	16.7	11.1	12.0
Foreign currency	4.3	3.2	6.8	6.1	6.9	6.2	7.4	7.8	7.5	7.9	7.3	6.9
Memo:												
Real GDP growth (percent)	-29.1	4.5	-5.0	0.0	2.0	4.0	3.8	3.8	3.8	3.8	3.8	3.8
Inflation (GDP deflator; percent)	34.3	18.6	13.9	11.4	6.7	5.0	5.0	5.0	5.0	5.0	5.0	5.0
Nominal GDP growth (percent)	-4.8	23.9	8.2	11.4	8.8	9.3	9.0	9.0	9.0	9.0	9.0	9.0
Effective interest rate (percent)	5.6	6.5	7.4	5.2	5.2	5.2	4.7	4.5	4.5	4.3	4.3	4.3

Contribution to Change in Public Debt

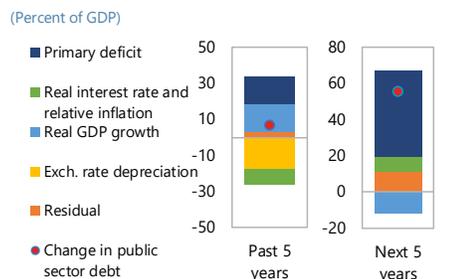


While the debt-to-GDP trajectory has moved up from the First Review's downside path, it remains a bit below levels observed at the time of the EFF request. The contour of the debt trajectory in the adverse scenario continues being sharply upward over the next several years before decreasing to still-high levels. Likewise, the financing needs are substantially higher in the adverse scenario, particularly in the next five years.

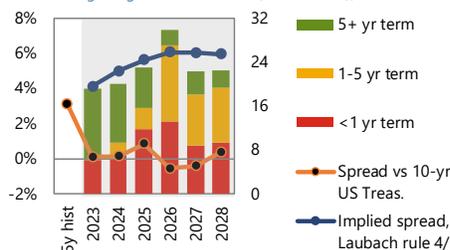
Annex III. Figure 9. Ukraine: Realism of Pre-Restructuring Downside Scenario Assumptions



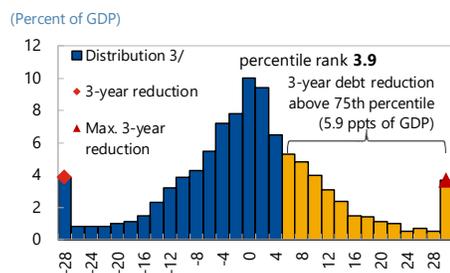
Historical Output Gap Revisions 2/
Public Debt Creating Flows



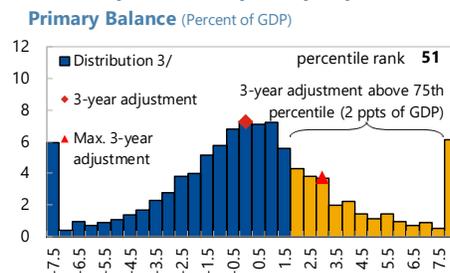
Bond Issuances (Bars, Debt Issuances (RHS, % GDP);
 Lines, Avg Marginal Interest Rates (LHS, Percent))



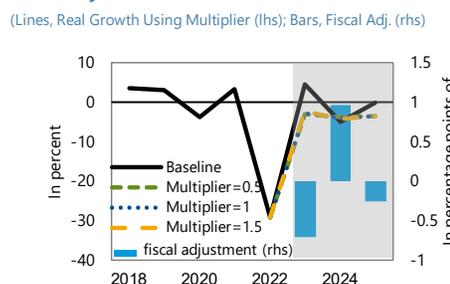
3-Year Debt Reduction



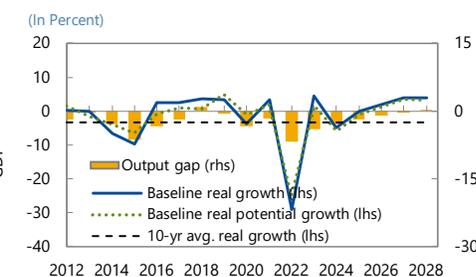
3-Year Adjustment in Cyclically-Adjusted Primary Balance



Fiscal Adjustment and Possible Growth Paths



Real GDP Growth



The forecast track record provides the same results as in the baseline as it is anchored by past outturns and continues to provide limited guidance given the severe structural break. The remaining tools are anchored on the downside scenario and they illustrate that: (i) the pattern of debt drivers would be substantially different than in the past five years; (ii) that borrowing costs could rise in line with the medium-term upward trend in debt-to-GDP; (iii) that neither the debt reduction nor the fiscal adjustment would be outsized in cross country comparison; (iv) that growth is broadly in line with the assumed fiscal adjustment. The real GDP growth comparisons are distorted by the very large downside shocks in Ukraine's recent history.

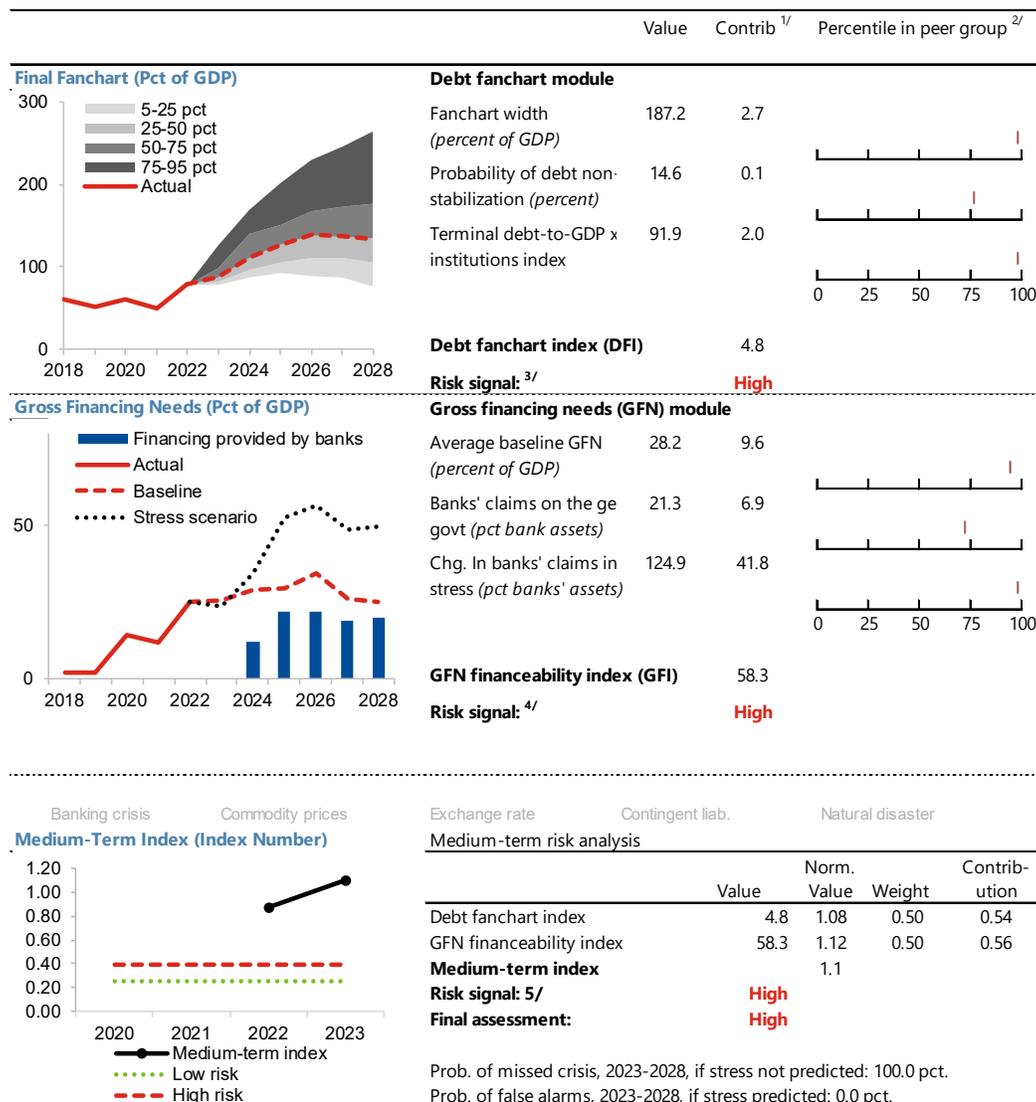
1/ Projections made in the October and April WEO vintage.

2/ Calculated as the percentile rank of the country's output gap revisions (defined as the difference between real time/period ahead estimates and final estimates in the latest October WEO) in the total distribution of revisions across the data sample.

3/ Data cover annual observations over 1990-2019 for MAC advanced and emerging economies. Pct. of sample on vertical axis.

4/ The Laubach (2009) rule is a linear rule assuming bond spreads increase by about 4 bps in response to a 1 ppt increase in the projected debt-to-GDP ratio.

Annex III. Figure 10. Ukraine: Medium-Term Risk Analysis Under the Pre-Restructuring Downside Scenario



As in the baseline, both medium-term modules signal high risks of sovereign stress. The signals are the same as the First Review SRDSA, and both the DFI and GFI are little changed. All three components of the DFI (width, probability of stabilization, and terminal debt level interacted with an institutions index) are worse than in the baseline. The GFI also remains very high and well-above the baseline, reflecting higher levels of average GFNs and the change on bank claims in the stress scenario (the initial bank claims on the government is a data outlier and is common across both scenarios).

Source: IMF staff estimates and projections.

1/ See Annex IV of IMF, 2022, Staff Guidance Note on the Sovereign Risk and Debt Sustainability Framework for details on index calculation.

2/ The comparison group is emerging markets, non-commodity exporter, program.

3/ The signal is low risk if the DFI is below 1.13; high risk if the DFI is above 2.08; and otherwise, it is moderate risk.

4/ The signal is low risk if the GFI is below 7.6; high risk if the DFI is above 17.9; and otherwise, it is moderate risk.

5/ The signal is low risk if the GFI is below 0.26; high risk if the DFI is above 0.40; and otherwise, it is moderate risk.

Annex III. Box 1. Ukraine: Long-Term Debt and GFN Trajectories

This box examines the trajectories for Ukraine’s long-term public debt-to-GDP and GFN-to-GDP ratios under various assumptions. The analysis presented here begins in 2033 and assumes full

implementation of the program. Thus, the authorities would have adopted revenue-based fiscal adjustment measures to deliver a primary surplus around 1½ percent of GDP over the medium term. Moreover, Ukraine would have successfully completed debt operations on official bilateral and external commercial claims, which would bring debt to 65 percent of GDP by 2033; GFNs would have averaged 8 percent of GDP over 2028–33. Because both the medium-term baseline and downside trajectories attain these metrics, and thus the same starting point, the long-term analysis focuses on the baseline only.

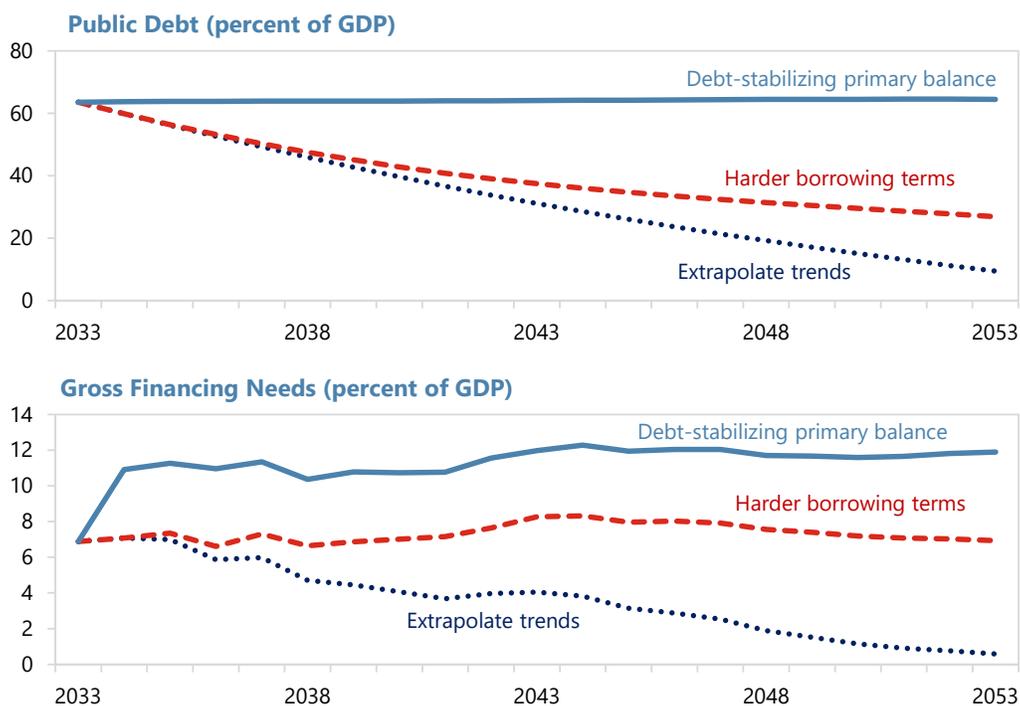
Three scenarios highlight a potential range for the paths of public debt and GFNs. The first two of these scenarios are inspired by the long-term modules of the Sovereign Risk and Debt Sustainability Framework (SRDSF).¹ A third scenario is included to illustrate a Ukraine-specific feature:

- *Extrapolating Trends:* This scenario assumes that key macro variables (e.g., real GDP growth, inflation, exchange rate depreciation), the primary balance-to-GDP ratio, and effective borrowing terms (e.g., currency composition, effective marginal interest rates, and effective maturities) remain constant at the settings in 2033.
- *Debt-Stabilizing Primary Balance:* Ukraine needs to maintain high primary surpluses until the debt targets are delivered in 2033. After this point, debt sustainability would be firmly established, leaving space for the authorities to relax the primary fiscal balance to stabilize debt around 65 percent of GDP. Thus, this scenario relaxes the primary balance, while leaving macro variables and borrowing terms as in the Extrapolating Trends scenario.
- *Harder Borrowing Terms:* Ukraine is still expected to have access to relatively concessional FX debt well past the end of the program. To illustrate the effects of tighter borrowing terms after 2033, this scenario incorporates shorter maturities on new FX issuances (amortized smoothly over 10 years). It also includes a hike in the effective marginal interest rate on FX debt to 7.5 percent (consistent with long-term risk-free rates of 2 percent and a spread of 550 bps, a bit above Ukraine’s average spreads of 520 bps over 2017–19). The other assumptions on macro variables and the primary balance are the same as the Extrapolating Trends scenario.

The results indicate that debt and GFNs would remain within ranges associated with sustainable debt over the longer term:

- *Extrapolating Trends:* Macroeconomic stabilization, favorable borrowing conditions, and a solid primary surplus would cause debt to fall to low levels over the long-term. By the end of the long-term horizon in 2053, debt would be around 5-10 percent of GDP. GFNs would also be very low at the end of the horizon.
- *Debt-Stabilizing Primary Balance:* Debt would stabilize in the 65 percent of GDP range in this scenario, and GFNs would remain around 8-11 percent of GDP over 2034–53. These metrics are consistent with sustainability, though additional actions to stick to these trajectories may be necessary if additional shocks materialize.
- *Harder Borrowing Terms:* Under this scenario, debt would still be on a downward trajectory, aided by the high primary balance. Public debt would reach around 20–25 percent of GDP by the end of the long-term horizon. GFNs would stabilize within manageable ranges.

Annex III. Box 1. Ukraine: Long-Term Debt and GFN Trajectories (concluded)



Nevertheless, staff still assesses long-term risks as high. This judgement reflects the exceptionally high uncertainty, especially on the longer-term outlook. Additional risks, including ones could arise from demographics and the sustainability of public pensions. These issues could be handled in future DSA updates.

¹ The third scenario, which builds off recent historical averages was not run, as it would assume levels of key debt drivers consistent with indefinite continuation of the war.

Annex IV. Downside Scenario

1. In line with the Fund’s policy on lending under exceptionally high uncertainty, staff has updated the downside scenario with the underlying assumptions broadly unchanged. With 2023 almost over, the downside scenario takes the 2023 baseline and is assumed to begin from 2024 onwards. The downside scenario still assumes a longer and more intense war compared to the current baseline scenario (war assumed to wind down by end-2025 versus end-2024 in the baseline), strongly weighing on firm and household sentiment, and causing further infrastructure damage from attacks. This would result in a sharp real GDP decline of 5 percent in 2024 (versus 3–4 percent growth in the baseline) and zero growth in 2025. In view of continuing high defense needs and lower economic activity, the fiscal deficit would further increase in 2024–25 and improve only gradually thereafter. Imbalances in the FX market would resurface and then be expected to persist for longer, given worse export performance, leading to higher nominal depreciation in the coming years before converging to the baseline trend. At the same time, staff assumes some FXI for 2024 in the downside given the ample buffers accumulated by the authorities in recent months, which results in a lower path of reserves compared to the baseline. The subsequent recovery would be more subdued than in the baseline scenario, given the even greater damage to the capital stock and weakened balance sheets, leaving output to remain well-below pre-war levels.

2. The updated cumulative financing gap in the downside scenario would remain around US\$140 billion at the EFF request, about a US\$18 billion increase compared with the baseline forecast for 2023–27 (US\$122 billion), requiring additional steps to ensure debt sustainability. The entirety of the additional financing in this downside scenario would need to be in the form of highly concessional loans (close to grant terms). In addition, given the presence of exceptional financing in the 5-year post-program period (up to the US\$7.1 billion per year described in the EFF request), this scenario would also require some mix of additional grants in the program period, highly concessional financing consistent with assurances received, and a further debt treatment to ensure debt sustainability. This would decrease total public debt to around 60 percent of GDP by the end of the 10-year projection, and a manageable level of gross financing needs of 8–9 percent of GDP per year in the post-program period, thus underpinning debt sustainability on a forward-looking basis.

3. Since the start of the war, the authorities have decisively taken measures to respond to shocks as they have materialized, carefully balancing the need for a prompt and effective response with material social considerations. As underscored at the EFF request and the First Review, these included a multitude of measures, including streamlining capital expenditure and other lower priority expenditure items, identifying additional financing, and implementing decisive measures to maintain financial stability and protect FX reserves, including through FX controls. The authorities have further enhanced their track record by demonstrating their ability to take on additional reforms and measures in the PMB and since the EFF approval to achieve economic and financial stability.

4. Building on this track record of effective economic management, the authorities continue to stand ready to react decisively to a potential downside scenario through a prompt policy response, which would be largely in line with those outlined at the First Review. The authorities are prepared to take appropriate policy measures as needed. Contingency plans from the First Review are re-confirmed and would require a mix of increases in tax revenues, seeking further external financing, monetary tightening, larger mobilization of domestic financing, and likely further adjusting FX policies and CFMs (to be justified and temporary). On the fiscal side, given the very tight expenditure envelope remains in the 2024 budget, the bulk of the adjustment would come from tax measures that could be effectively and rapidly implemented to boost revenues. Some spending should be made contingent on available financing. In parallel, the authorities would use and enhance necessary measures to continue to access additional domestic financing as needed (both in UAH and FX if required) to ensure that especially near-term fiscal financing gaps are closed (including if external financing falls short), without compromising economic, financial, and monetary stability. Temporary pressures on the managed floating exchange rate regime under the downside scenario may require the reintroduction of some FX controls used earlier in the war.

5. If the severity of shocks pushes the country beyond the downside scenario, additional measures may need to be undertaken, and the authorities have the commitment and capacity to implement such measures. Renewed shocks beyond the downside scenario may compel the authorities to take temporary unconventional measures. Depending on the size of the financing need, staff considers that there are contingency measures that could further boost revenues (e.g., a solidarity tax in the form of a supplement to the PIT, and/or an additional tax on luxury goods, or excise duties/fees) and mobilizing domestic bond financing on an even larger scale may be required. The latter could include, if necessary, administrative measures requiring banks to hold a stipulated amount in or a minimum holding period of government securities, possibly differentiating among banks based on individual liquidity conditions. Secondary purchases of government bonds by the NBU might also serve as a backstop for the primary market. Instruments such as inflation or exchange-rate linked bonds could be considered. Finally, in case of renewed high pressures on the exchange rate but a still adequate level of reserves, some combination of expanded FX controls, as well as proactive FX policies, could be considered. Moreover, while the scope for tightening the fiscal position remains highly constrained, ultimately spending under certain categories would be contingent on the flow of highly concessional/grant-based external financing.

6. Overall, wide-ranging discussions with the authorities on contingency plans during the Second Review reconfirm that the program remains robust even in the case of such a downside scenario. The authorities' policy commitments and track record, together with the renewed financing assurances from international partners and expected debt relief, give confidence that even in this updated downside scenario, the program objectives of maintaining macroeconomic and financial stability, restoring debt sustainability on a forward-looking basis, and ensuring medium-term external viability could be met. The debt sustainability analysis based on this downside scenario, presented below, reconfirms that under this downside scenario, additional financial assurances provided by Ukraine's international partners would restore debt sustainability on a forward-looking basis.

Annex IV. Table 1. Ukraine: Selected Economic and Social Indicators (Downside Scenario), 2021–2033

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
	Act.	Act.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Real economy (percent change, unless otherwise indicated)													
Nominal GDP (billions of Ukrainian hryvnias) 1/	5,451	5,191	6,434	6,964	7,760	8,446	9,227	10,057	10,961	11,947	13,021	14,192	15,468
Real GDP 1/	3.4	-29.1	4.5	-5.0	0.0	2.0	4.0	3.8	3.8	3.8	3.8	3.8	3.8
Contributions:													
Domestic demand	12.9	-23.7	8.3	-3.6	0.1	2.5	3.3	3.4	3.1	2.9	2.6	2.4	2.4
Private consumption	4.7	-16.6	2.7	-1.5	0.5	2.3	2.9	2.5	2.3	2.1	1.8	1.7	1.7
Public consumption	0.1	6.9	2.6	0.4	0.4	0.4	0.3	0.3	0.3	0.2	0.1	0.0	0.0
Investment	8.1	-13.9	3.0	-2.6	-0.7	-0.2	0.1	0.5	0.5	0.7	0.7	0.7	0.7
Net exports	-9.5	-5.4	-3.8	-1.4	-0.1	-0.5	0.7	0.4	0.7	0.9	1.2	1.4	1.4
GDP deflator	24.8	34.3	18.6	13.9	11.4	6.7	5.0	5.0	5.0	5.0	5.0	5.0	5.0
Unemployment rate (ILO definition; period average, percent)	9.8	24.5	19.1	17.1	16.6	13.5	12.6	11.0	10.6	10.0	9.0	8.6	8.5
Consumer prices (period average)	9.4	20.2	13.0	8.5	9.6	7.7	5.9	5.0	5.0	5.0	5.0	5.0	5.0
Consumer prices (end of period)	10.0	26.6	6.0	11.0	8.5	7.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
Nominal wages (average)	20.8	1.0	20.1	8.6	12.8	15.2	11.2	9.7	9.2	9.2	9.1	9.0	9.0
Real wages (average)	10.5	-16.0	6.3	0.1	2.9	7.0	5.0	4.5	4.0	4.0	3.9	3.8	3.8
Savings (percent of GDP)	12.5	17.6	11.9	5.0	14.1	13.5	13.6	14.4	15.2	15.0	15.2	15.8	16.3
Private	12.7	31.0	27.3	20.4	28.5	24.6	14.8	14.4	14.6	13.7	13.5	13.9	14.3
Public	-0.2	-13.4	-15.4	-15.4	-14.4	-11.1	-1.2	0.0	0.6	1.3	1.7	1.9	2.0
Investment (percent of GDP)	14.5	12.6	16.5	15.9	16.1	17.2	18.0	18.4	18.7	19.0	19.3	19.6	19.9
Private	10.7	10.1	13.4	12.4	12.7	13.3	13.5	13.6	13.9	14.3	14.6	14.9	15.2
Public	3.8	2.5	3.1	3.5	3.4	3.9	4.5	4.8	4.8	4.7	4.7	4.7	4.7
General Government (percent of GDP)													
Fiscal balance 2/	-4.0	-15.9	-18.6	-19.0	-17.8	-15.0	-5.7	-4.8	-4.2	-3.4	-3.0	-2.8	-2.7
Fiscal balance, excl. grants 2/	-4.0	-25.2	-27.1	-28.9	-24.1	-19.2	-8.0	-5.9	-5.1	-4.3	-3.9	-3.6	-3.5
External financing (net)	2.4	10.8	17.0	15.5	9.3	2.9	4.0	0.6	2.4	0.9	0.0	0.1	0.2
Domestic financing (net), of which:	1.6	5.1	1.5	3.4	8.6	12.0	1.7	4.2	1.8	2.5	3.0	2.6	2.5
NBU	-0.3	7.4	-0.2	-0.2	-0.2	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Commercial banks	1.5	-1.5	2.0	3.5	8.6	12.1	1.5	3.9	1.5	2.4	2.9	2.5	2.5
Public and publicly-guaranteed debt	48.9	78.5	87.1	111.5	126.7	138.2	136.5	134.0	131.1	127.5	123.9	120.1	116.6
Money and credit (end of period, percent change)													
Base money	11.2	19.6	22.6	7.5	9.0	7.6	8.7	8.0	7.0	6.5	6.0	5.5	5.0
Broad money	12.0	20.8	22.8	7.7	5.5	7.6	10.1	9.0	9.0	9.0	9.0	9.0	9.0
Credit to nongovernment	8.4	-3.1	-7.5	5.5	3.1	4.3	7.6	8.1	12.9	12.9	15.5	15.5	15.5
Balance of payments (percent of GDP)													
Current account balance	-1.9	5.0	-4.6	-10.9	-2.0	-3.6	-4.4	-4.0	-3.5	-4.0	-4.1	-3.8	-3.6
Foreign direct investment	3.8	0.1	1.9	1.4	1.5	2.2	3.9	4.8	4.8	4.8	5.0	4.9	4.8
Gross reserves (end of period, billions of U.S. dollars)	30.9	28.5	39.5	32.4	39.8	41.6	45.9	46.9	48.3	50.5	51.8	53.7	56.0
Months of next year's imports of goods and services	4.5	3.8	4.6	4.6	5.2	5.2	5.6	5.4	5.3	5.3	5.2	5.1	5.0
Percent of short-term debt (remaining maturity)	67.5	66.1	85.6	75.1	84.9	89.4	93.2	85.6	91.4	90.7	95.9	98.6	94.2
Percent of the IMF composite metric (float)	98.9	92.9	109.7	80.1	93.7	92.8	99.2	98.9	98.6	101.9	102.4	105.3	108.2
Goods exports (annual volume change in percent)	35.0	-44.1	-15.3	8.8	2.0	13.2	3.9	10.9	7.5	8.3	9.1	8.9	8.8
Goods imports (annual volume change in percent)	17.0	-24.7	21.2	15.3	-12.9	20.5	11.1	3.3	3.7	5.1	5.1	4.9	5.2
Goods terms of trade (percent change)	-8.4	-11.6	1.5	-0.5	1.3	2.2	1.5	0.8	0.0	0.0	0.0	0.0	0.0
Exchange rate													
Hryvnia per U.S. dollar (end of period)	27.3	36.6	...	...	...	...	...	...	...	...	...	...	...
Hryvnia per U.S. dollar (period average)	27.3	32.3	...	...	...	...	...	...	...	...	...	...	...
Real effective rate (deflator-based, percent change)	10.4	27.6	...	...	...	...	...	...	...	...	...	...	...
Memorandum items:													
Per capita GDP / Population (2017): US\$2,640 / 44.8 million													
Literacy / Poverty rate (2022 est 3/): 100 percent / 25 percent													

Sources: Ukrainian authorities; World Bank, World Development Indicators; and IMF staff estimates.

1/ DGDP is compiled as per SNA 2008 and excludes territories that are or were in direct combat zones and temporarily occupied by Russia (consistent with the TMU).

2/ The general government includes the central and local governments and the social funds.

3/ Based on World Bank estimates.

Annex IV. Table 2a. Ukraine: General Government Finances (Downside Scenario), 2021–2033 ^{1/}

(Billions of Ukrainian Hryvnia)

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
	Act.	Act.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Revenue	1,990	2,609	2,935	3,253	3,362	3,601	3,826	4,075	4,436	4,836	5,241	5,715	6,213
Tax revenue	1,825	1,782	2,144	2,364	2,649	2,999	3,353	3,676	4,016	4,388	4,762	5,202	5,665
Tax on income, profits, and capital gains	514	551	647	622	719	789	850	949	1,036	1,141	1,249	1,362	1,484
Personal income tax	350	421	490	488	570	622	666	749	818	894	975	1,063	1,158
Corporate profit tax	164	131	156	134	149	168	183	200	218	247	274	299	326
Social security contributions	358	430	485	577	570	601	662	717	772	823	854	933	1,018
Property tax	43	37	44	47	51	48	49	49	49	49	50	50	50
Tax on goods and services	731	592	803	921	1,078	1,285	1,482	1,617	1,782	1,969	2,163	2,372	2,582
VAT	536	467	599	661	761	895	1,023	1,103	1,230	1,372	1,507	1,664	1,816
Excise	180	115	189	243	299	371	439	492	529	572	629	680	736
Other	14	10	15	16	18	19	20	22	23	25	26	28	30
Tax on international trade	38	26	42	55	53	67	78	98	107	118	130	143	157
Other tax	140	145	124	142	179	207	232	246	270	288	317	343	373
Nontax revenue	166	827	791	889	713	603	473	399	420	449	479	512	548
Grants	1	481	551	690	485	357	210	115	106	111	116	122	128
Expenditure	2,207	3,434	4,129	4,574	4,746	4,866	4,350	4,556	4,891	5,238	5,633	6,108	6,634
Current	1,995	3,306	3,912	4,238	4,353	4,259	3,823	3,981	4,240	4,529	4,860	5,265	5,715
Compensation of employees	516	1,248	1,641	1,533	1,517	1,308	907	933	959	1,001	1,086	1,185	1,289
Goods and services	483	848	864	932	932	865	623	568	609	644	700	755	823
Interest	155	162	260	410	400	515	601	586	607	644	660	693	725
Subsidies to corporations and enterprises	116	131	144	143	157	169	179	158	166	165	173	182	191
Social benefits	724	917	1,003	1,219	1,347	1,401	1,512	1,735	1,898	2,074	2,239	2,450	2,686
Social programs (on budget)	154	285	246	367	427	460	482	511	662	767	845	903	1,086
Pensions	519	583	747	828	894	914	973	1,135	1,113	1,148	1,198	1,314	1,326
Unemployment, disability, and accident	52	48	9	25	25	27	56	88	123	159	196	234	274
Other current expenditures	1	1	1	1	0	1	1	1	1	1	1	1	1
Capital	207	130	202	246	264	327	413	480	523	560	610	665	725
Net lending	5	-2	0	37	72	216	46	20	72	144	157	171	186
Contingency reserve ^{2/}	0	0	15	52	58	63	69	75	57	6	7	8	8
General government overall balance	-216	-825	-1,194	-1,321	-1,384	-1,264	-524	-482	-456	-402	-392	-394	-420
General government overall balance, excluding grants	-218	-1,307	-1,745	-2,011	-1,869	-1,622	-734	-597	-561	-513	-509	-516	-549
General government financing	216	817	1,194	1,321	1,384	1,264	524	482	456	402	392	394	420
External	132	560	1,097	1,081	721	247	365	64	263	102	-2	19	30
Disbursements	239	615	1,170	1,276	939	559	653	518	614	706	740	777	815
Amortizations	-108	-55	-73	-195	-219	-312	-288	-454	-351	-604	-742	-757	-784
Domestic (net)	85	263	98	240	664	1,017	159	418	193	300	394	375	390
Bond financing ^{3/}	66	295	90	234	658	1,011	123	382	157	274	368	349	374
o/w NBU	-14	383	-15	-12	-13	-12	-12	-12	-12	-12	-12	-12	-12
o/w Commercial banks	80	-77	128	246	671	1,023	135	394	169	286	380	361	386
Direct bank borrowing	30	-2	0	0	0	0	0	0	0	0	0	0	0
Deposit finance	-19	-37	0	0	0	0	30	30	30	20	20	20	10
Privatization	7	20	8	6	6	6	6	6	6	6	6	6	6
Financing Gap/unidentified measures (- gap/+surplus)	0	-8	0	0	0	0	0	0	0	0	0	0	0
Memorandum items:													
Primary balance	-62	-663	-934	-911	-985	-749	77	105	152	242	268	299	305
Public and publicly-guaranteed debt	2,667	4,072	5,601	7,762	9,832	11,668	12,596	13,475	14,368	15,234	16,128	17,050	18,038
Nominal GDP (billions of Ukrainian hryvnia)	5,451	5,191	6,434	6,964	7,760	8,446	9,227	10,057	10,961	11,947	13,021	14,192	15,468

Sources: Ministry of Finance; National Bank of Ukraine; and IMF staff estimates and projections.

^{1/} National methodology, cash basis.

^{2/} Includes the unallocated portion of expenditures from the COVID fund.

^{3/} Domestic bonds have been adjusted to reflect discrepancy between the above-the-line and the below-the-line deficits.

Annex IV. Table 2b. Ukraine: General Government Finances (Downside Scenario), 2021–2033 ^{1/}

	(Percent of GDP)												
	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
	Act.	Act.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Revenue	36.5	50.3	45.6	46.7	43.3	42.6	41.5	40.5	40.5	40.5	40.3	40.3	40.2
Tax revenue	33.5	34.3	33.3	33.9	34.1	35.5	36.3	36.5	36.6	36.7	36.6	36.7	36.6
Tax on income, profits, and capital gains	9.4	10.6	10.0	8.9	9.3	9.3	9.2	9.4	9.4	9.5	9.6	9.6	9.6
Personal income tax	6.4	8.1	7.6	7.0	7.3	7.4	7.2	7.5	7.5	7.5	7.5	7.5	7.5
Corporate profit tax	3.0	2.5	2.4	1.9	1.9	2.0	2.0	2.0	2.0	2.1	2.1	2.1	2.1
Social security contributions	6.6	8.3	7.5	8.3	7.3	7.1	7.2	7.1	7.0	6.9	6.6	6.6	6.6
Property tax	0.8	0.7	0.7	0.7	0.7	0.6	0.5	0.5	0.4	0.4	0.4	0.4	0.3
Tax on goods and services	13.4	11.4	12.5	13.2	13.9	15.2	16.1	16.1	16.3	16.5	16.6	16.7	16.7
VAT	9.8	9.0	9.3	9.5	9.8	10.6	11.1	11.0	11.2	11.5	11.6	11.7	11.7
Excise	3.3	2.2	2.9	3.5	3.9	4.4	4.8	4.9	4.8	4.8	4.8	4.8	4.8
Other	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Tax on international trade	0.7	0.5	0.6	0.8	0.7	0.8	0.8	1.0	1.0	1.0	1.0	1.0	1.0
Other tax	2.6	2.8	1.9	2.0	2.3	2.5	2.5	2.4	2.5	2.4	2.4	2.4	2.4
Nontax revenue	3.0	15.9	12.3	12.8	9.2	7.1	5.1	4.0	3.8	3.8	3.7	3.6	3.5
Grants	0.0	9.3	8.6	9.9	6.2	4.2	2.3	1.1	1.0	0.9	0.9	0.9	0.8
Expenditure	40.5	66.2	64.2	65.7	61.2	57.6	47.1	45.3	44.6	43.8	43.3	43.0	42.9
Current	36.6	63.7	60.8	60.9	56.1	50.4	41.4	39.6	38.7	37.9	37.3	37.1	36.9
Compensation of employees	9.5	24.0	25.5	22.0	19.6	15.5	9.8	9.3	8.7	8.4	8.3	8.3	8.3
Goods and services	8.9	16.3	13.4	13.4	12.0	10.2	6.7	5.7	5.6	5.4	5.4	5.3	5.3
Interest	2.8	3.1	4.0	5.9	5.1	6.1	6.5	5.8	5.5	5.4	5.1	4.9	4.7
Subsidies to corporations and enterprises	2.1	2.5	2.2	2.1	2.0	2.0	1.9	1.6	1.5	1.4	1.3	1.3	1.2
Social benefits	13.3	17.7	15.6	17.5	17.4	16.6	16.4	17.3	17.3	17.4	17.2	17.3	17.4
Social programs (on budget)	2.8	5.5	3.8	5.3	5.5	5.4	5.2	5.1	6.0	6.4	6.5	6.4	7.0
Pensions	9.5	11.2	11.6	11.9	11.5	10.8	10.5	11.3	10.2	9.6	9.2	9.3	8.6
Unemployment, disability, and accident	1.0	0.9	0.1	0.4	0.3	0.3	0.6	0.9	1.1	1.3	1.5	1.6	1.8
Other current expenditures	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Capital	3.8	2.5	3.1	3.5	3.4	3.9	4.5	4.8	4.8	4.7	4.7	4.7	4.7
Net lending	0.1	0.0	0.0	0.5	0.9	2.6	0.5	0.2	0.7	1.2	1.2	1.2	1.2
Contingency reserve 2/	0.0	0.0	0.2	0.8	0.8	0.8	0.8	0.8	0.5	0.1	0.1	0.1	0.1
General government overall balance	-4.0	-15.9	-18.6	-19.0	-17.8	-15.0	-5.7	-4.8	-4.2	-3.4	-3.0	-2.8	-2.7
General government overall balance, excluding grants	-4.0	-25.2	-27.1	-28.9	-24.1	-19.2	-8.0	-5.9	-5.1	-4.3	-3.9	-3.6	-3.5
General government financing	4.0	15.7	18.6	19.0	17.8	15.0	5.7	4.8	4.2	3.4	3.0	2.8	2.7
External	2.4	10.8	17.0	15.5	9.3	2.9	4.0	0.6	2.4	0.9	0.0	0.1	0.2
Disbursements	4.4	11.8	18.2	18.3	12.1	6.6	7.1	5.1	5.6	5.9	5.7	5.5	5.3
o/w IFIs	1.4	4.6	20.9	20.9	8.1	0.0	5.9	0.0	0.0	0.0	0.0	0.0	0.0
o/w IMF budget support	0.3	1.7	2.6	3.3	0.6	0.8	0.4	0.0	0.0	0.0	0.0	0.0	0.0
Amortizations	-2.0	-1.1	-1.1	-2.8	-2.8	-3.7	-3.1	-4.5	-3.2	-5.1	-5.7	-5.3	-5.1
Domestic (net)	1.6	5.1	1.5	3.4	8.6	12.0	1.7	4.2	1.8	2.5	3.0	2.6	2.5
Bond financing 3/	1.2	5.7	1.4	3.4	8.5	12.0	1.3	3.8	1.4	2.3	2.8	2.5	2.4
o/w NBU	-0.3	7.4	-0.2	-0.2	-0.2	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
o/w Commercial banks	1.5	-1.5	2.0	3.5	8.6	12.1	1.5	3.9	1.5	2.4	2.9	2.5	2.5
Direct bank borrowing	0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Deposit finance	-0.3	-0.7	0.0	0.0	0.0	0.0	0.3	0.3	0.3	0.2	0.2	0.1	0.1
Privatization	0.1	0.4	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0
Financing Gap/undidentified measures (-gap/+surplus)	0.0	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:													
Primary balance	-1.1	-12.8	-14.5	-13.1	-12.7	-8.9	0.8	1.0	1.4	2.0	2.1	2.1	2.0
Public and publicly-guaranteed debt	48.9	78.5	87.1	111.5	126.7	138.2	136.5	134.0	131.1	127.5	123.9	120.1	116.6
Nominal GDP (billions of Ukrainian hryvnia)	5,451	5,191	6,434	6,964	7,760	8,446	9,227	10,057	10,961	11,947	13,021	14,192	15,468

Sources: Ministry of Finance; National Bank of Ukraine; and IMF staff estimates and projections.

1/ National methodology, cash basis.

2/ Includes the unallocated portion of expenditures from the COVID fund.

3/ Domestic bonds have been adjusted to reflect discrepancy between the above-the-line and the below-the-line deficits.

Annex IV. Table 3a. Ukraine: Balance of Payments (Downside Scenario), 2021–2033 ^{1/2/}

(Billions of U.S. dollars, unless otherwise indicated)

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
	Act.	Act.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Current account balance	-3.9	8.0	-8.1	-17.9	-3.3	-6.0	-7.6	-7.1	-6.5	-7.7	-8.2	-7.9	-7.7
Goods (net)	-6.6	-14.7	-29.9	-37.1	-25.9	-32.4	-37.9	-35.0	-34.4	-34.4	-33.8	-32.9	-32.1
Exports	63.1	40.9	34.7	37.7	38.4	43.5	45.2	50.1	53.9	58.4	63.7	69.3	75.4
Imports	-69.8	-55.6	-64.6	-74.8	-64.4	-75.9	-83.1	-85.1	-88.3	-92.8	-97.5	-102.2	-107.5
Services (net)	4.0	-11.1	-9.6	-12.8	-3.8	3.9	11.9	13.1	14.5	15.4	15.7	16.1	16.4
Receipts	18.4	16.6	16.3	15.0	17.1	20.6	24.4	26.9	29.6	31.5	32.8	34.1	35.5
Payments	-14.4	-27.7	-25.9	-27.8	-20.9	-16.7	-12.5	-13.8	-15.1	-16.1	-17.0	-18.0	-19.1
Primary income (net)	-5.8	8.5	7.0	7.5	8.5	8.0	6.2	5.4	4.8	3.3	2.834	2.5	2.4
Secondary income (net)	4.6	25.2	24.5	24.4	18.0	14.4	12.2	9.3	8.5	8.0	7.0	6.4	5.6
Capital account balance	0.0	0.2	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial account balance	-5.7	8.4	-18.9	-11.9	-10.5	-6.9	-11.3	-8.2	-7.9	-10.9	-10.8	-11.2	-11.2
Direct investment (net)	-7.5	-0.2	-3.3	-2.2	-2.5	-3.6	-6.7	-8.5	-8.8	-9.2	-10.1	-10.1	-10.3
Portfolio investment (net)	-1.1	2.0	1.5	0.6	0.9	1.6	0.8	1.8	0.3	-0.4	-0.3	-0.7	-0.5
Portfolio investment: assets	-0.1	0.6	0.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Portfolio investment: liabilities	1.0	-1.4	-0.6	-0.6	-0.9	-1.6	-0.8	-1.8	-0.3	0.4	0.3	0.7	0.5
Financial derivatives (net)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other investment (net)	2.9	6.6	-17.1	-10.3	-8.9	-4.9	-5.4	-1.6	0.6	-1.3	-0.4	-0.3	-0.4
Other investment: assets	7.8	20.9	15.2	18.6	9.1	4.4	2.9	2.7	2.4	0.7	0.2	0.1	0.4
Other investment: liabilities	4.9	14.3	32.3	29.0	18.0	9.3	8.3	4.2	1.7	2.0	0.6	0.4	0.8
Net use of IMF resources for budget support	0.2	2.3	3.6	4.0	-0.6	-0.4	-0.5	-1.0	-1.7	-1.0	-1.3	-1.3	-1.2
Central Bank	2.7	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
General government	1.5	14.7	26.8	23.0	17.6	7.7	7.7	4.7	2.9	2.4	1.2	1.1	1.3
Banks ^{3/}	0.4	-0.4	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other sectors	0.0	-2.2	2.2	1.9	1.0	1.9	1.1	0.6	0.6	0.6	0.6	0.6	0.7
Errors and omissions	1.8	-0.3	1.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Unidentified financing need	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	3.7	-0.5	12.6	-6.0	7.2	0.8	3.7	1.1	1.4	3.2	2.6	3.2	3.5
Financing	-3.7	0.5	-12.6	6.0	-7.2	-0.8	-3.7	-1.1	-1.4	-3.2	-2.6	-3.2	-3.5
Gross official reserves (increase: -)	-2.8	2.1	-11.0	7.0	-7.4	-1.8	-4.2	-1.1	-1.4	-2.2	-1.3	-1.9	-2.4
Net use of IMF resources for BOP support	-0.9	-1.6	-1.6	-1.0	0.1	1.0	0.6	0.0	0.0	-1.0	-1.3	-1.3	-1.2
Memorandum items:													
Current account balance (percent of GDP)	-1.9	5.0	-4.6	-10.9	-2.0	-3.6	-4.4	-4.0	-3.5	-4.0	-4.1	-3.8	-3.6
Goods and services trade balance (percent of GDP)	-1.3	-16.0	-22.7	-30.5	-18.3	-17.2	-15.1	-12.2	-10.7	-9.9	-9.0	-8.1	-7.3
Gross international reserves	30.9	28.5	39.5	32.4	39.8	41.6	45.9	46.9	48.3	50.5	51.8	53.7	56.0
Months of next year's imports of goods and services	4.5	3.8	4.6	4.6	5.2	5.2	5.6	5.4	5.3	5.3	5.2	5.1	5.0
Percent of the IMF composite metric (float)	98.9	92.9	109.7	80.1	93.7	92.8	99.2	98.9	98.6	101.9	102.4	105.3	108.2

Sources: National Bank of Ukraine; and IMF staff estimates and projections.

^{1/} Based on BPM6.^{2/} Shipments of military equipment are not reflected in the balance of payments. Staff's understanding is that the support is being provided in the form of unconditional aid and that it will not materially impact the^{3/} Includes banks' debt for equity operations.

Annex IV. Table 3b. Ukraine: Balance of Payments (Downside Scenario), 2021–2033^{1/2/}

	(Percent of GDP, unless otherwise indicated)												
	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
	Act.	Act.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Current account balance	-1.9	5.0	-4.6	-10.9	-2.0	-3.6	-4.4	-4.0	-3.5	-4.0	-4.1	-3.8	-3.6
Goods (net)	-3.3	-9.1	-17.2	-22.7	-15.9	-19.6	-22.0	-19.6	-18.5	-17.8	-16.9	-15.8	-14.8
Exports	31.6	25.5	19.9	23.0	23.6	26.3	26.3	28.1	29.0	30.3	31.8	33.3	34.9
Imports	-34.9	-34.6	-37.1	-45.7	-39.5	-45.9	-48.3	-47.6	-47.5	-48.1	-48.6	-49.1	-49.7
Services (net)	2.0	-6.9	-5.5	-7.8	-2.3	2.4	6.9	7.3	7.8	8.0	7.9	7.7	7.6
Receipts	9.2	10.4	9.4	9.2	10.5	12.5	14.2	15.0	16.0	16.3	16.3	16.4	16.4
Payments	-7.2	-17.3	-14.9	-17.0	-12.8	-10.1	-7.3	-7.7	-8.2	-8.3	-8.5	-8.7	-8.8
Primary income (net)	-2.9	5.3	4.0	4.6	5.2	4.8	3.6	3.0	2.6	1.7	1.4	1.2	1.1
Secondary income (net)	2.3	15.7	14.0	14.9	11.1	8.7	7.1	5.2	4.6	4.1	3.5	3.1	2.6
Capital account balance	0.0	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial account balance	-2.9	5.2	-10.9	-7.3	-6.4	-4.2	-6.6	-4.6	-4.3	-5.7	-5.4	-5.4	-5.2
Direct investment (net)	-3.8	-0.1	-1.9	-1.4	-1.5	-2.2	-3.9	-4.8	-4.8	-4.8	-5.0	-4.9	-4.8
Portfolio investment (net)	-0.6	1.3	0.9	0.4	0.6	1.0	0.5	1.0	0.2	-0.2	-0.1	-0.3	-0.2
Portfolio investment: assets	0.0	0.4	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Portfolio investment: liabilities	0.5	-0.9	-0.3	-0.4	-0.6	-1.0	-0.5	-1.0	-0.2	0.2	0.1	0.3	0.2
Financial derivatives (net)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other investment (net)	1.4	4.1	-9.8	-6.3	-5.5	-2.9	-3.2	-0.9	0.3	-0.7	-0.2	-0.1	-0.2
Other investment: assets	3.9	13.0	8.7	11.4	5.6	2.7	1.7	1.5	1.3	0.3	0.1	0.0	0.2
Other investment: liabilities	2.4	8.9	18.6	17.7	11.0	5.6	4.8	2.4	0.9	1.0	0.3	0.2	0.4
Net use of IMF resources for budget support	0.1	1.4	2.0	2.5	-0.4	-0.2	-0.3	-0.6	-0.9	-0.5	-0.6	-0.6	-0.5
Central Bank	1.4	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
General government	0.8	9.2	15.4	14.0	10.8	4.7	4.5	2.6	1.6	1.2	0.6	0.5	0.6
Banks 3/	0.2	-0.3	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other sectors	0.0	-1.4	1.3	1.2	0.6	1.2	0.6	0.3	0.3	0.3	0.3	0.3	0.3
Errors and omissions	0.9	-0.2	0.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Unidentified financing need	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	1.8	-0.3	7.2	-3.7	4.4	0.5	2.1	0.6	0.7	1.7	1.3	1.6	1.6
Financing	-1.8	0.3	-7.2	3.7	-4.4	-0.5	-2.1	-0.6	-0.7	-1.7	-1.3	-1.6	-1.6
Gross official reserves (increase: -)	-1.4	1.3	-6.3	4.3	-4.5	-1.1	-2.5	-0.6	-0.7	-1.1	-0.6	-0.9	-1.1
Net use of IMF resources for BOP support	-0.5	-1.0	-0.9	-0.6	0.1	0.6	0.3	0.0	0.0	-0.5	-0.6	-0.6	-0.5
Memorandum items:													
Gross international reserves (USD billions)	30.9	28.5	39.5	32.4	39.8	41.6	45.9	46.9	48.3	50.5	51.8	53.7	56.0
Months of next year's imports of goods and services	4.5	3.8	4.6	4.6	5.2	5.2	5.6	5.4	5.3	5.3	5.2	5.1	5.0
Percent of the IMF composite metric (float)	98.9	92.9	109.7	80.1	93.7	92.8	99.2	98.9	98.6	101.9	102.4	105.3	108.2

Sources: National Bank of Ukraine; and IMF staff estimates and projections.

1/ Based on BPM6.

2/ Shipments of military equipment are not reflected in the balance of payments. Staff's understanding is that the support is being provided in the form of unconditional aid and that it will not materially impact the balance of payments in the future.

3/ Includes banks' debt for equity operations.

Annex IV. Table 4. Ukraine: Gross External Financing Requirement (Downside Scenario), 2021–2033

	(Billions of U.S. dollars)												
	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
	Act.	Act.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
A. Total financing requirements	37.5	54.7	65.6	83.3	54.2	52.9	51.1	50.5	53.0	52.1	54.9	53.6	53.9
Current account deficit (excluding grants)	3.9	6.0	23.0	33.2	13.0	12.9	11.5	9.1	8.3	9.4	10.0	9.7	9.5
Portfolio investment	4.9	2.7	3.3	3.6	1.9	3.9	1.3	2.3	4.3	2.6	4.1	1.8	2.0
Private	0.6	0.9	1.4	2.7	0.6	1.8	0.0	0.0	3.0	1.0	2.3	0.5	0.5
General government	4.3	1.8	1.9	0.9	1.4	2.1	1.3	2.3	1.3	1.6	1.8	1.3	1.5
Medium and long-term debt	3.6	2.2	1.9	3.0	2.5	3.2	5.0	5.7	7.7	8.2	9.3	9.5	9.3
Private	2.7	1.1	1.4	1.3	1.3	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2
Banks	0.2	0.3	0.5	0.4	0.4	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Corporates	2.5	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9
General government	0.9	1.0	0.5	1.7	1.2	1.9	3.8	4.5	6.5	7.0	8.1	8.3	8.1
Short-term debt (including deposits)	0.8	4.2	5.8	5.8	5.8	5.8	5.8	5.8	5.8	5.8	5.8	5.8	5.8
Other net capital outflows 1/	8.6	21.0	13.4	17.6	9.1	4.4	2.9	1.9	2.4	0.7	0.2	0.1	0.4
Trade credit	15.7	18.6	18.3	20.1	21.9	22.8	24.6	25.7	24.6	25.4	25.5	26.7	26.9
B. Total financing sources	39.6	27.7	32.5	35.9	34.5	38.2	39.9	42.2	46.6	45.9	48.5	47.3	48.2
Capital transfers	0.0	0.2	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Direct investment, net	7.5	0.2	3.3	2.2	2.5	3.6	6.7	8.5	8.8	9.2	10.1	10.1	10.3
Portfolio investment	6.0	0.5	1.9	3.0	1.0	2.3	0.5	0.5	4.0	3.0	4.3	2.5	2.5
Private	1.8	0.0	0.0	3.0	1.0	2.3	0.5	0.5	3.0	1.0	2.3	0.5	0.5
General government	4.2	0.5	1.9	0.0	0.0	0.0	0.0	0.0	1.0	2.0	2.0	2.0	2.0
Of which: Market financing	1.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.0	2.0	2.0	2.0	2.0
Medium and long-term debt	8.1	4.1	1.3	2.9	2.4	1.9	1.3	1.3	1.3	1.3	1.3	1.3	1.3
Private	4.9	4.5	1.4	1.4	1.4	1.4	1.3	1.3	1.3	1.3	1.3	1.3	1.3
Banks	0.2	0.0	0.5	0.5	0.4	0.4	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Corporates	4.7	4.5	0.9	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
General government	3.1	-0.4	-0.1	1.5	1.0	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Short-term debt (including deposits)	0.9	4.4	5.8	5.8	6.1	5.8	5.8	5.8	5.8	5.8	5.8	5.8	5.8
Trade credit	17.2	18.3	20.1	21.9	22.5	24.6	25.6	26.1	26.7	26.6	27.0	27.6	28.3
C. Financing needs (A - B)	-2.2	27.0	33.1	47.4	19.7	14.8	11.2	8.3	6.4	6.2	6.4	6.3	5.7
Unidentified fiscal financing need	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
D. Total exceptional financing needs	-2.2	27.0	33.1	47.4	19.7	14.8	11.2	8.3	6.4	6.2	6.4	6.3	5.7
E. Official financing	1.7	30.6	44.0	41.4	27.0	16.6	15.4	10.2	9.4	9.1	8.6	8.5	8.8
IMF	-0.7	0.7	1.9	3.0	-0.5	0.6	0.1	-1.0	-1.7	-2.1	-2.5	-2.6	-2.3
Purchases	0.7	2.7	4.5	5.4	1.8	2.6	1.3	0.0	0.0	0.0	0.0	0.0	0.0
Repurchases	1.4	2.1	2.6	2.4	2.3	2.0	1.2	1.0	1.7	2.1	2.5	2.6	2.3
Official grants	0.0	14.0	14.9	15.3	9.7	6.8	3.8	2.0	1.7	1.7	1.7	1.7	1.7
Official creditors	2.3	15.9	27.2	23.2	17.8	9.1	11.5	9.2	9.4	9.4	9.4	9.4	9.4
F. Increase in reserves	2.8	-2.1	11.0	-7.0	7.4	1.8	4.2	1.1	1.4	2.2	1.3	1.9	2.4
G. Errors and omissions	1.8	-0.3	1.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:													
Gross international reserves	30.9	28.5	39.5	32.4	39.8	41.6	45.9	46.9	48.3	50.5	51.8	53.7	56.0
Months of next year's imports of goods and services	4.5	3.8	4.6	4.6	5.2	5.2	5.6	5.4	5.3	5.3	5.2	5.1	5.0
Percent of short-term debt (remaining maturity)	67.5	66.1	85.6	75.1	84.9	89.4	93.2	85.6	91.4	90.7	95.9	98.6	94.2
Percent of the IMF composite (float) 2/	98.9	92.9	109.7	80.1	93.7	92.8	99.2	98.9	98.6	101.9	102.4	105.3	108.2
Loan rollover rate (percent)													
Banks	97.2	96.7	100.0	100.4	100.3	100.6	100.2	100.0	100.0	100.0	100.0	100.0	100.0
Corporates	89.3	105.2	100.0	109.8	109.8	109.8	109.8	109.8	109.8	109.8	109.8	109.8	109.8
Total	91.4	98.2	100.0	101.5	101.5	101.8	101.5	101.3	101.3	101.3	101.3	101.3	101.3

Sources: National Bank of Ukraine; and IMF staff estimates and projections.

1/ Reflects changes in banks', corporates', and households' gross foreign assets as well as currency swap transactions.

2/ The IMF composite measure is calculated as a weighted sum of short-term debt, other portfolio and investment liabilities, broad money, and exports. Official reserves are recommended to be in the range of 100–150 percent of the appropriate measure.

Annex IV. Table 5. Ukraine: Monetary Accounts (Downside Scenario), 2021–2033

	(Billions of Ukrainian Hryvnia)												
	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
	Act.	Act.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Monetary survey													
Net foreign assets	1,002	1,326	1,854	1,757	2,287	2,432	2,746	2,969	3,301	3,731	4,166	4,688	5,261
Net domestic assets	1,070	1,176	1,218	1,552	1,205	1,324	1,390	1,539	1,613	1,625	1,671	1,674	1,673
Domestic credit	1,925	2,212	2,251	2,524	3,211	4,393	4,624	5,126	5,467	5,944	6,577	7,227	7,943
Net claims on government	898	1,218	1,331	1,553	2,209	3,348	3,500	3,909	4,094	4,395	4,788	5,162	5,558
Credit to the economy	1,023	991	917	967	996	1,039	1,119	1,210	1,366	1,542	1,780	2,056	2,375
Domestic currency	731	725	688	745	786	836	917	1,012	1,171	1,351	1,593	1,873	2,195
Foreign currency	292	266	229	222	211	204	202	198	195	191	187	184	180
Other claims on the economy	5	4	4	5	5	6	6	7	7	8	9	9	10
Other items, net	-856	-1,036	-1,034	-972	-2,006	-3,069	-3,235	-3,587	-3,854	-4,320	-4,907	-5,554	-6,271
Broad money	2,071	2,501	3,072	3,309	3,492	3,756	4,136	4,508	4,914	5,355	5,837	6,362	6,934
Currency in circulation	581	666	640	686	886	954	1,031	1,107	1,309	1,388	1,464	1,535	1,600
Total deposits	1,489	1,834	2,431	2,622	2,605	2,800	3,104	3,399	3,603	3,965	4,371	4,824	5,331
Domestic currency deposits	1,014	1,204	1,786	1,878	1,771	1,922	2,131	2,303	2,423	2,695	3,003	3,353	3,749
Foreign currency deposits	474	630	645	743	834	878	973	1,097	1,181	1,271	1,367	1,471	1,583
Accounts of the NBU													
Net foreign assets	852	981	1,412	1,170	1,674	1,820	2,136	2,361	2,666	3,069	3,476	3,968	4,509
Net international reserves	838	978	1,408	1,166	1,670	1,816	2,131	2,355	2,661	3,063	3,470	3,961	4,503
(In billions of U.S. dollars)	30.7	26.7	...	...	...	...	...	...	...	...	...	...	...
Reserve assets	843	980	...	...	...	...	...	...	...	...	...	...	...
Other net foreign assets	14	3	4	4	4	5	5	5	5	6	6	6	7
Net domestic assets	-190	-188	-440	-126	-535	-595	-804	-922	-1,127	-1,429	-1,738	-2,134	-2,584
Net domestic credit	175	312	2	191	764	1,716	1,616	1,779	1,762	1,864	2,075	2,254	2,443
Net claims on government	270	704	689	665	651	639	633	627	621	613	604	594	582
Claims on government	325	758	744	731	718	706	694	682	671	659	647	635	623
Net claims on banks	-95	-392	-687	-474	113	1,077	983	1,152	1,142	1,251	1,472	1,660	1,861
Other items, net	-365	-501	-441	-317	-1,299	-2,310	-2,420	-2,700	-2,889	-3,293	-3,813	-4,389	-5,027
Base money	662	793	972	1,045	1,139	1,226	1,332	1,439	1,539	1,639	1,738	1,833	1,925
Currency in circulation	581	666	640	686	886	954	1,031	1,107	1,309	1,388	1,464	1,535	1,600
Banks' reserves	81	126	332	359	253	272	301	331	231	251	274	298	325
Cash in vault	47	49	76	82	82	88	97	106	113	124	137	151	167
Correspondent accounts	35	77	256	277	172	184	204	225	118	127	137	147	158
Deposit money banks													
Net foreign assets	149	345	443	586	612	612	610	608	635	662	691	721	752
Foreign assets	254	427	541	712	774	809	846	884	924	966	1010	1056	1104
Foreign liabilities	105	82	98	126	161	197	235	276	290	304	319	335	352
Net domestic assets	1,339	1,489	1,988	2,035	1,992	2,188	2,493	2,791	2,968	3,303	3,679	4,103	4,579
Domestic credit	1,875	2,064	2,619	2,729	2,737	2,986	3,347	3,716	3,973	4,369	4,812	5,308	5,862
Net claims on government 1/	628	513	642	888	1,558	2,709	2,866	3,283	3,474	3,782	4,185	4,568	4,976
Credit to the economy	1,023	991	916	966	996	1,039	1,118	1,210	1,365	1,541	1,780	2,056	2,374
Other claims on the economy	5	3	4	5	5	6	6	7	7	8	9	9	10
Net claims on NBU	220	594	1,057	871	178	-768	-644	-783	-873	-962	-1,161	-1,325	-1,498
Other items, net	-536	-574	-631	-694	-745	-798	-854	-925	-1,005	-1,066	-1,133	-1,205	-1,283
Banks' liabilities	1,488	1,834	2,431	2,622	2,605	2,800	3,104	3,399	3,603	3,965	4,370	4,824	5,331
Memorandum items:													
	(End of period, percent change unless otherwise noted)												
Base money	11.2	19.6	22.6	7.5	9.0	7.6	8.7	8.0	7.0	6.5	6.0	5.5	5.0
Currency in circulation	12.6	14.6	-4.0	7.2	29.1	7.7	4.8	5.8	6.8	7.8	8.8	9.8	10.8
Broad money	12.0	20.8	22.8	7.7	5.5	7.6	10.1	9.0	9.0	9.0	9.0	9.0	9.0
Credit to the economy	8.4	-3.1	-7.5	5.5	3.1	4.3	7.6	8.1	12.9	12.9	15.5	15.5	15.5
Real credit to the economy 2/	-1.5	-23.5	-12.7	-5.0	-5.0	-2.5	2.5	3.0	7.5	7.5	10.0	10.0	10.0
Credit-to-GDP ratio, in percent	18.8	12.1	14.2	13.9	12.8	12.3	12.1	12.0	12.5	12.9	13.7	14.5	15.4
Velocity of broad money, ratio	1.9	1.6	2.1	2.1	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2
Money multiplier, ratio	3.1	3.2	3.2	3.2	3.1	3.1	3.1	3.1	3.2	3.3	3.4	3.5	3.6
Hryvnia per U.S. dollar (end of period)	27.3	36.6	...	...	...	...	...	...	...	...	...	...	...

Sources: National Bank of Ukraine; and IMF staff estimates and projections.

1/ Includes claims for recapitalization of banks.

2/ Deflated by CPI (eop), at current exchange rates, year-on-year percent change.

Annex IV. Table 6. Ukraine: Indicators of Fund Credit (Downside Scenario), 2023–2033

	(In millions of SDR)										
	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
	Projections										
Existing Fund credit											
Stock 1/	8,379	6,600	4,863	3,366	2,453	2,007	1,561	1,115	669	223	0
Obligations	313	2,432	2,234	1,868	1,197	694	670	647	624	601	356
Principal (repurchases)	313	1,780	1,736	1,498	913	446	446	446	446	446	223
Interest charges	0	652	497	370	285	248	225	201	178	155	133
Prospective purchases											
Disbursements	664	4,003	1,368	1,931	966	0	0	0	0	0	0
Stock 1/	664	4,667	6,035	7,967	8,933	8,627	7,793	6,706	5,298	3,809	2,320
Obligations 2/	3	168	431	571	687	992	1,469	1,631	1,840	1,774	1,664
Principal (repurchases)	0	0	0	0	0	305	835	1,086	1,408	1,489	1,489
Interest charges	3	168	431	571	687	687	634	545	431	285	176
Stock of existing and prospective Fund credit 1/											
	9,043	11,267	10,899	11,332	11,385	10,634	9,353	7,821	5,967	4,032	2,320
In percent of quota 2/	450	560	542	563	566	529	465	389	297	200	115
In percent of GDP	6.9	9.2	9.0	9.2	8.9	8.1	6.8	5.5	4.0	2.6	1.5
In percent of exports of goods and nonfactor services	23.7	28.5	26.3	23.8	22.1	18.7	15.2	11.8	8.4	5.3	2.8
In percent of gross reserves	30.5	46.4	36.7	36.6	33.6	30.7	26.2	21.0	15.6	10.2	5.6
In percent of public external debt	12.4	12.3	10.6	10.5	10.1	9.3	8.2	6.8	5.2	3.5	2.0
Obligations to the Fund from existing and prospective Fund credit											
	316	2,600	2,665	2,438	1,884	1,686	2,140	2,279	2,464	2,375	2,020
In percent of quota	15.7	129.3	132.5	121.2	93.7	83.8	106.4	113.3	122.5	118.0	100.4
In percent of GDP	0.2	2.1	2.2	2.0	1.5	1.3	1.6	1.6	1.7	1.5	1.3
In percent of exports of goods and nonfactor services	0.8	6.6	6.4	5.1	3.7	3.0	3.5	3.4	3.5	3.1	2.5
In percent of gross reserves	1.1	10.7	9.0	7.9	5.6	4.9	6.0	6.1	6.5	6.0	4.9
In percent of public external debt service	14.5	49.5	70.8	58.6	34.2	27.9	29.0	29.6	29.3	27.9	24.5

Source: Fund staff estimates and projections.

1/ End of period.

2/ Ukraine's quota is SDR 2011.8 million effective February 2016.

Annex V. Banking Sector Developments

The Ukrainian banking system has undergone substantial changes in two phases during the past decade. The first phase followed a severe banking crisis between 2014–16, which involved closing more than 100 banks and incurred direct fiscal cleanup costs of 15.7 percent of GDP. The second phase, during martial law (February 2022 –present) thus far has involved widespread use of emergency measures, regulatory forbearance, public lending support schemes, substantial changes to banks' operations, and multiple bank resolutions and nationalizations.

Reform Progress Before the War (2014–2022)

1. **Ukraine experienced a severe banking crisis between 2014–16, which revealed gaps in the financial sector oversight and resolution frameworks.** More than 100 banks were resolved (out of 180 in 2014), and PrivatBank (the largest financial institution) was nationalized and about UAH 90 billion paid out to depositors. The direct fiscal costs of public interventions are estimated at 15.7 percent of GDP by the National Bank of Ukraine (NBU).¹ This crisis also exposed deficiencies in the identification and monitoring of related-party exposures, assessment of credit risk, and appraisal of collateral. It also identified weak capital buffers as well as inadequacies in the early intervention and financial safety net frameworks. The crisis prompted the NBU to initiate a package of wide-ranging regulatory and supervisory reforms.
2. **Capital and liquidity requirements were strengthened.** The NBU increased the minimum capital adequacy ratio to 10 percent and introduced tighter rules for the calculation of credit risk provisions.² An annual capital assessment exercise was introduced consisting of asset quality reviews (AQRs) and stress testing. Liquidity coverage ratio (LCR) rules were introduced in 2019.
3. **Oversight framework for related-party exposures.** The methodology for identifying related-party transactions was updated by expanding the list of related-party attributes. Following the 2015–16 diagnostic study that revealed related-party lending was underreported, the NBU strengthened its capabilities to identify and monitor related parties by establishing a special unit (Related-Party Monitoring Office, RPMO). Some 44 banks with related-party exposures exceeding 25 percent of their regulatory capital were required to submit credible unwinding plans, subject to quarterly monitoring and sanctions in case of breaches. Finally, a regulation was adopted to deduct loan exposures to related parties above regulatory limits from regulatory capital. About 95 percent of related-party exposures were concentrated in domestic private banks. Tighter regulatory rules and stricter oversight resulted in related-party exposures falling from over UAH 30 billion at end-2016 to UAH 17 billion at end-2018.

¹ Macprudential Policy Strategy, NBU, 2019. These costs include PrivatBank nationalization and recapitalization, capital injection in other state-owned banks, repayment of depositors, NBU refinancing losses and government deposit losses in liquidated banks.

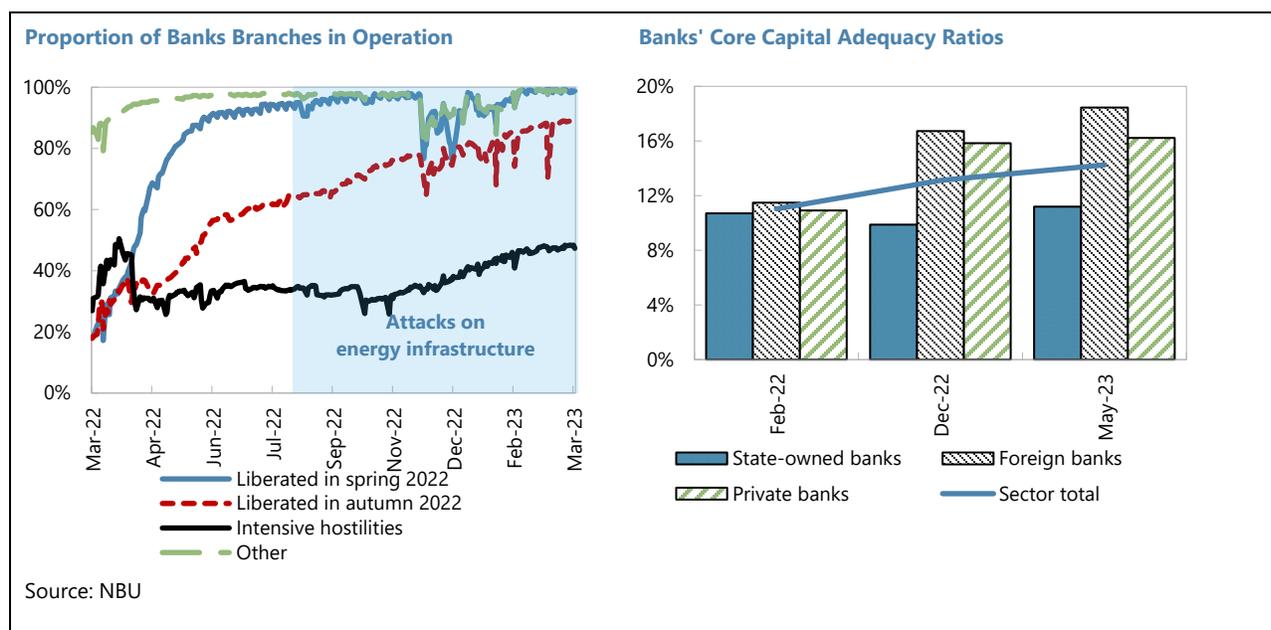
² Regulation 351 entered into force in 2017, and IFRS9 was introduced in 2018.

- 4. Banking supervision.** Many reforms were introduced, including to supervision and the annual supervisory review process (SREP, although not fully), assessment of collective suitability of banks' management, and a methodology for identifying domestic systemically important banks (D-SIBs).
- 5. Actions to strengthen the operating environment.** These include: (i) establishment of a centralized credit registry; (ii) enhanced disclosure requirements of banks' financial and prudential information to foster market discipline; (iii) strengthened AML/CFT framework; (iv) adoption of a new regulation for bank registration and licensing procedures, which empower the NBU to use professional judgement and tighten criteria when licensing banks; and (v) improved procedures for assessing bank ownership structure.
- 6. Increased capital buffers following capital injections and de-risking.** UAH 249 billion of public capital was infused between 2014 and 2018, of which UAH 155 billion was related to the nationalization of PrivatBank. International and local private banks strengthened their capital buffers by UAH 127 billion and UAH 19 billion respectively in the same period.
- 7. SOB governance reforms.** With a view to minimizing political interference in banks' operational decisions, a framework to select majority-independent supervisory boards was implemented, and memoranda of understanding were signed between the Ministry of Finance and each SOB to define the relationship.
- 8. Little progress has been made to reduce the large legacy stock of non-performing loans (NPLs), particularly in state-owned banks.** The 2016 asset quality review (AQR) revealed substantially under-reported NPL ratios, which reached a peak of 58 percent in July 2017. The NPLs were concentrated in the SOBs and Russian-owned banks, which had recorded over 90 percent provisioning coverage. The majority of these legacy NPLs are highly concentrated related party loans at PrivatBank, (almost 80 percent of total NPLs were to 20 private business groups).

Developments Since the Onset of War

- 9. The banking system entered the war moderately sized, well-capitalized, and liquid.** Total assets as of end-December 2021 were UAH 2,358 billion (US\$85 billion or 43 percent of 2021 GDP). SOBs, international banks, and local private banks accounted for 49 percent, 31 percent, and 20 percent of system assets, respectively. The core capital adequacy ratio was 11 percent on average and total outstanding credit stood at 20 percent of GDP. Non-performing loans were already relatively high at 10 percent for retail portfolios and 40 percent for corporate (25 percent when legacy related party NPLs at PrivatBank are excluded), although provisioning coverage was over 90 percent.
- 10. Wide-ranging emergency measures were introduced in the initial stages of the war to keep the banking system operational and maintain financial stability.** Administrative FX controls

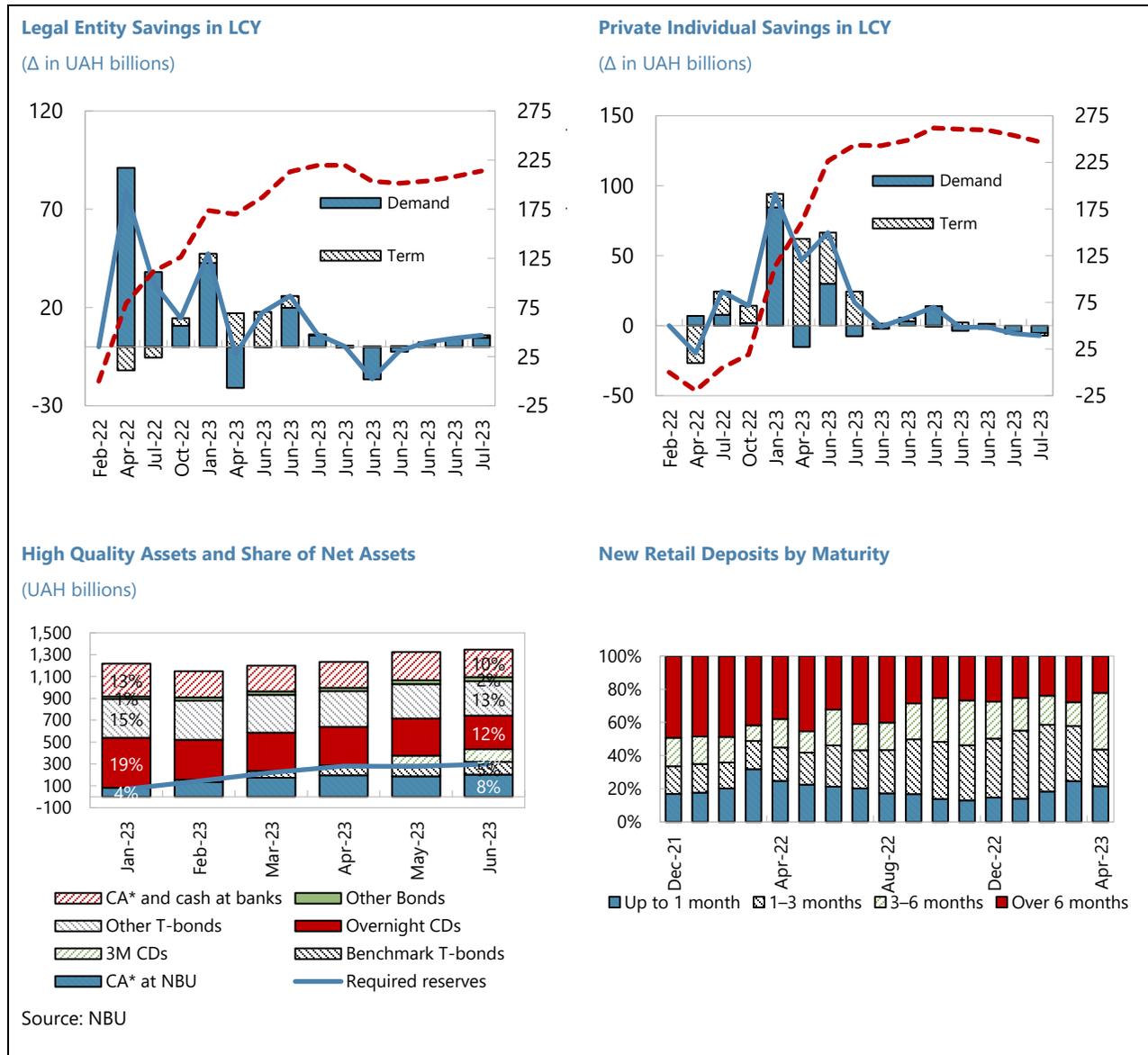
were introduced for security reasons,³ deposit withdrawal restrictions were imposed, and the banking system was subject to regulatory forbearance on capital, credit, and reporting standards. Banks announced payment holidays on retail and corporate loans for the duration of martial law, and cancelled fees and commissions on cashless payments as well as cash withdrawals. Restrictions are being gradually relaxed as conditions allow; for instance, the NBU resumed scheduled on-site banks inspections in July 2023. Bank branches and payments services remained mostly operational throughout the war. As a contingency measure following attacks on energy infrastructure, the NBU introduced “Power Banking” in December 2022, a network of bank branches across the country that could provide banking services to clients even during prolonged electricity blackouts. Banks’ core capital positions have grown to 14.3 percent on average at end-May 2023.



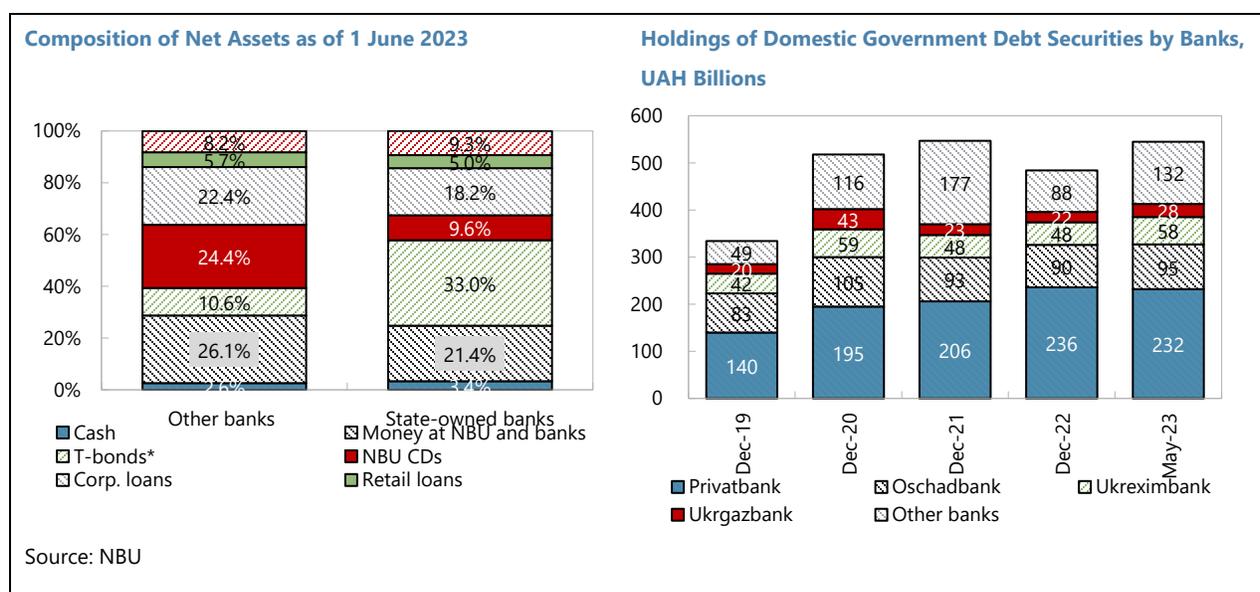
11. The emergency measures helped preserve banking system liquidity. Banks observed a 48 percent increase of customer savings since the start of the war. The majority of new corporate savings are in demand instruments, while the majority of new household savings are term instruments. The increased liquidity has led to a structural increase in highly liquid assets as banks invested significant amounts of funds in NBU certificates of deposit and benchmark government bonds. Short-term liquidity ratios were three times higher on average than the minimum requirements at end May 2023. The table below shows the emergency measures that are still in effect as of November 1st, 2023.

³ The authorities have represented that these measures were primarily introduced for reasons of national and international security and have notified them to the Fund under Decision No. 144-(52/51).

Emergency Measure	Description
Restrictions on deposit withdrawals	Restrictions on deposit withdrawals, such as limiting cash withdrawals from client accounts to UAH 100,000 per day (subject to exceptions).
Blanket guarantee on retail deposits	Retail depositors are 100 percent guaranteed by the government.
Moratorium on corrective actions by NBU	The NBU is not taking corrective action for bank breaches caused by the war (e.g., capital and liquidity breaches).
Suspension of certain regulatory requirements	<p>NBU has postponed the application of certain prudential requirements, including in relation to:</p> <ul style="list-style-type: none"> - Operational risk - Market risk - Internal Capital Adequacy Assessment Process (ICAAP) - Recovery plans
Suspension of certain reporting requirements	The NBU has postponed the application of certain reporting requirements for statistical and supervisory purposes.
Restrictions on capital distribution	Banks are not allowed to make capital distributions and dividend payments (except for state-owned banks, which are mandated by law to pay dividends support the state budget).
Credit forbearance	Measures include loan repayment holidays, freeze of credit ratings for the purposes of calculating credit risk, flexibility on collateral valuations in the territories where hostilities are taking place and postponement of annual reviews of the plans for managing troubled assets.
Suspension of external audits	The State Statistics Service of Ukraine has suspended the requirement for business entities to externally audit their financial statements on an annual basis.
Suspension of bank licensing related deadlines	The NBU has postponed the deadlines for submission and review of information and documents under the Bank Licensing Regulation, including those related to the fit and proper assessment of bank managers.



12. Banking system assets have grown by 32 percent during the war. Asset growth has been uneven with SOB assets increasing by about 30 percent while international banks and private local banks increasing by 37 percent and 22 percent, respectively. The majority of funding growth was used to increase liquid asset holdings by 71 percent. Total banking system assets stood at 58 percent of 2022 GDP as of end-June 2023.



13. Credit Developments. Credit conditions have changed substantially since the outbreak of war. While SOBs have increased their loan portfolios by 8 percent, foreign-owned and locally owned private banks have reduced total lending by 26 percent and 9 percent respectively.⁴ The majority of fresh lending has been for working capital loans and is heavily subsidized by the various state-run lending support programs, including the 5-7-9-percent scheme for MSMEs,⁵ the eOselia 3-percent scheme for mortgages, and state guarantee programs. A June 2023 bank lending survey identified a rise in demand for consumer loans and in corporate loan application approvals. NPLs have risen from 27 percent of outstanding loans at end-February 2022 to 38.9 percent at end-June 2023. Industry sectors most impacted include hospitality, real estate, and energy. Banks have recognized the loss of almost 15 percent of the credit portfolio originated before the war.

14. Bank profitability has remained resilient mostly due to the emergence of a strong carry trade. Growth in interest income from risk-free assets and continued profitability from business lending provided banks high net interest margins (of 8.7 percent in May 2023 and over 8 percent on average since the start of the war). In the first half of 2023, banks' operating income increased by 35 percent y/y and operating profits before deductions increased by 57 percent y/y. The return on capital of the sector for H1 2023 was 56 percent compared to minus 4 percent a year earlier. The growth is mostly attributed to a strong rise in interest income of highly liquid assets. Net interest income and net commission income increased by 41 percent and 22 percent y/y, respectively. The system average net interest margin has varied by 1.9 percentage points during the Martial Law period and by 3.1 percentage points since end-2020.

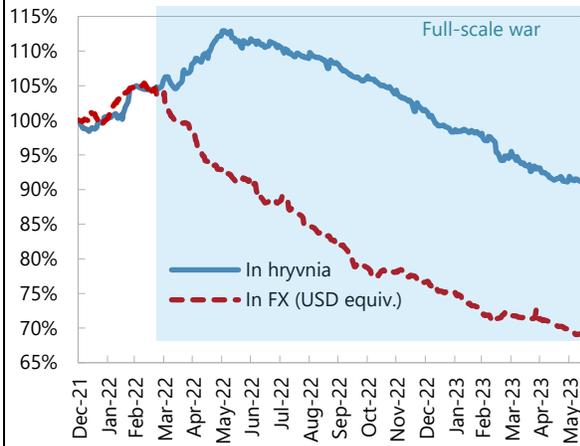
⁴ International banks have absorbed their 41 percent increase in customer savings during the war through increasing their holdings of liquid assets, including NBU CDs.

⁵ The 5-7-9 percent program lending accounted for 13 percent of total bank credit as of July 2023.

Annex V. Figure 1. Ukraine: Corporate and Household Loans

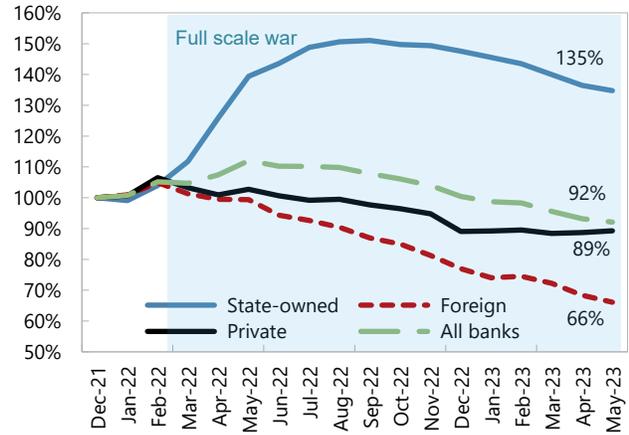
Net Corporate Loans

Dec. 2021 = 100 percent

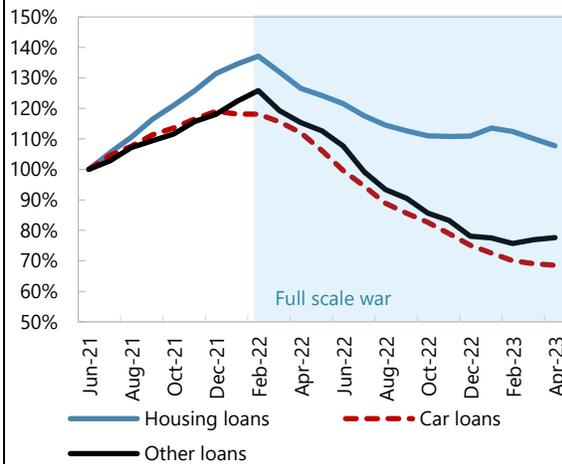


Net Corporate Loans in Hryvnia

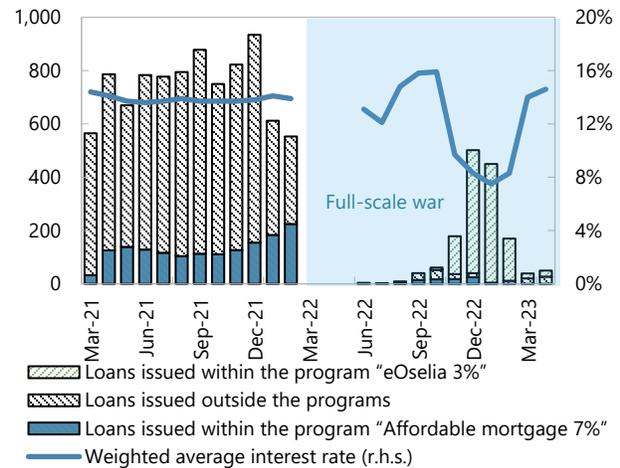
Dec 2021 = 100 percent



Net Retail Loans, Jun. 2021 = 100 percent

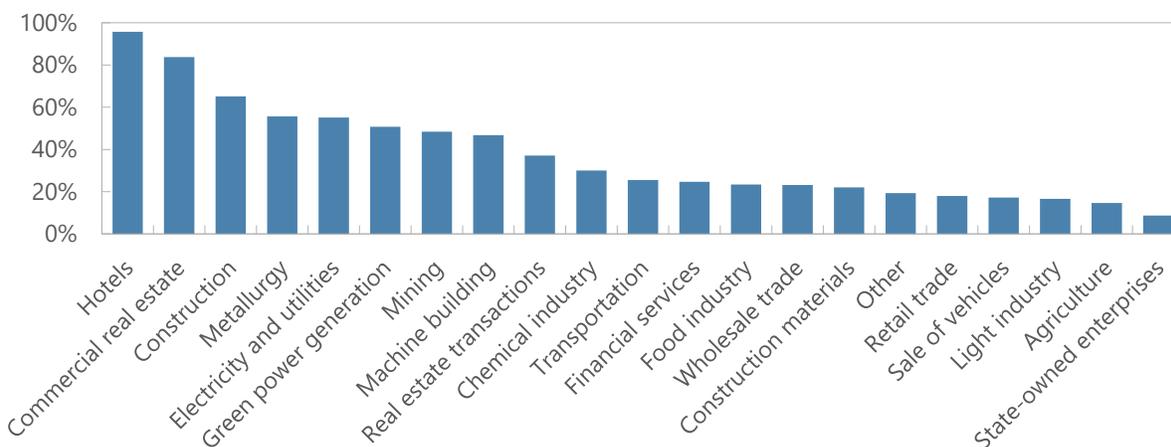


New Mortgage Lending, UAH millions

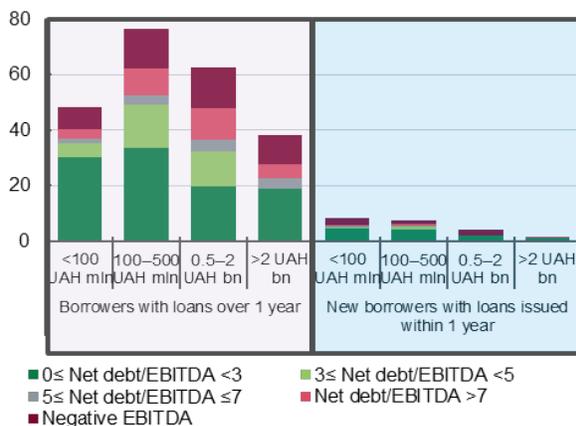


Source: NBU

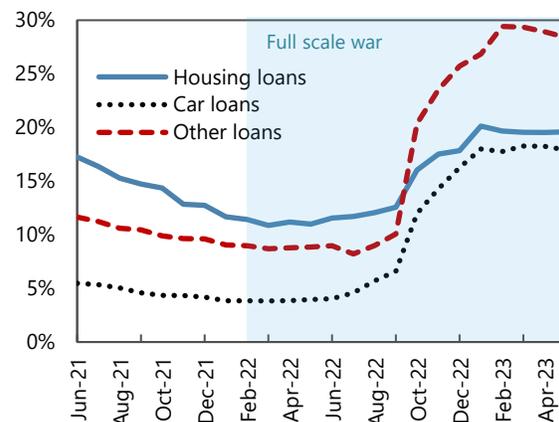
Annex V. Figure 2. Ukraine: Corporate NPL Ratios by Industry Sector, percent, as of June 1, 2023



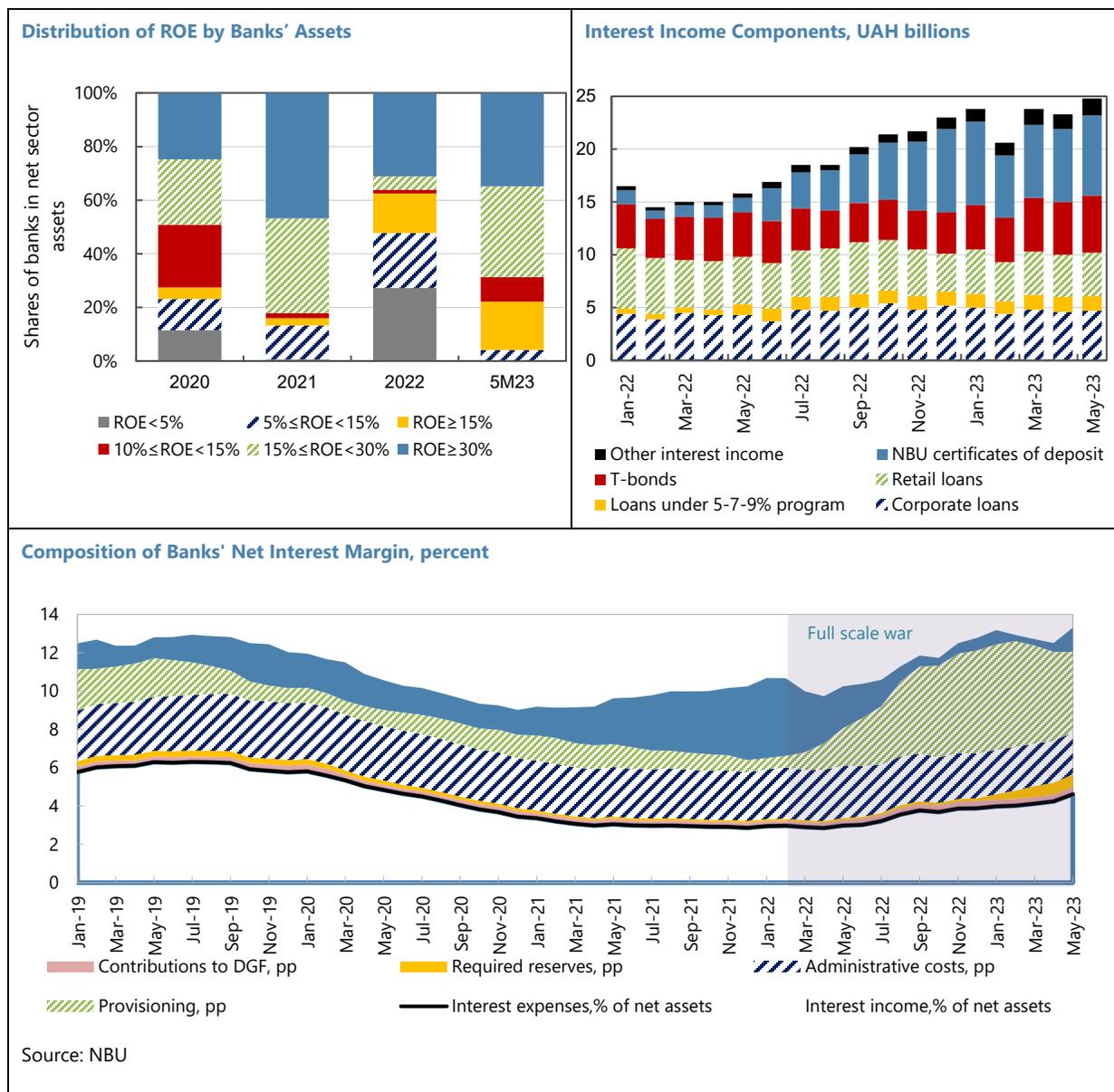
Corporate Borrowers by Debt Burden and Loan Amount, as of 1 June 2023, UAH billions



Retail NPL Ratios for Hryvnia Lending



Source: NBU



15. Several banks were intervened during the war. Sanctions were imposed on Russian shareholders of some banks during the martial law period due to their role in financing the war. Liquidity and/or viability pressures ensued, which led the NBU to revoke the licenses of several small banks. Two banks were nationalized in 2023, bringing the total number of banks in state ownership to six. SOBs accounted for 53.2 percent of total system assets and 65.1 percent of household deposits at end-July 2023. The number of licensed banks has fallen from 180 in 2014 to 64 as of August 2023.

Date	Bank Name	Percent of System Assets	Event
Feb-2022	International Reserve Bank (Sberbank)	2.6	Liquidation
Feb-2022	Prominvestbank	1.2	Liquidation
Jun-2022	Megabank	0.3	Liquidation
Aug-2022	Bank Sich	0.1	Liquidation
Feb-2023	Forward Bank	0.1	Liquidation
Feb-2023	PIN Bank	0.04	Court order to nationalize
Mar-2023	Ibox Bank	0.1	Liquidation
Jul-2023	Sense Bank (formerly Alfa)	3.2	Nationalization
Aug-2023	Concord Bank	0.2	Liquidation
Sep-2023	Ukrbudinvestbank	0.04	Liquidation

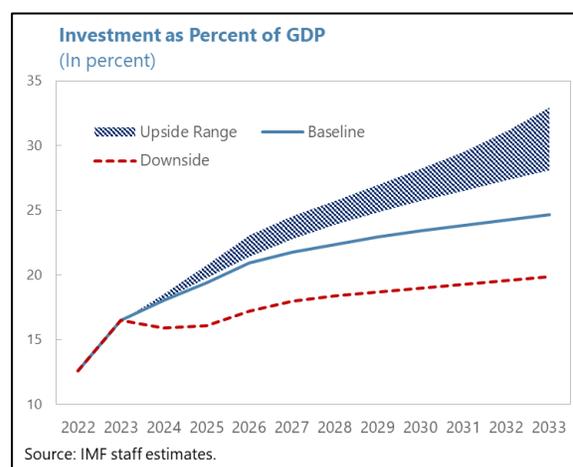
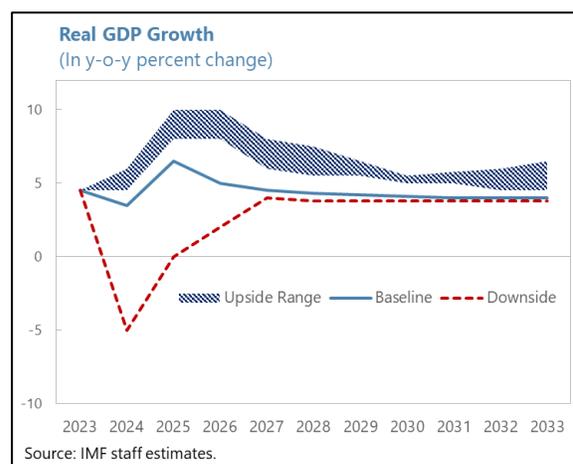
16. The authorities have developed a new financial sector strategy, focusing on dealing with the challenges of the war and supporting the recovery of the Ukrainian economy. The strategy was approved in July 2023 and sets out future priorities under five (short-term and medium-term) strategic objectives: promoting macroeconomic stability; financial stability; the reconstruction of the country; modern financial services and institutional capacity of the authorities. Key elements of the strategy include the gradual unwinding of extraordinary prudential measures, diagnostics to quantify bank asset values and NPL resolution priorities, the monitoring and tackling of non-performing loans, and the prioritized transposition of EU banking norms. The strategy provides a platform for the authorities (i.e., the NBU, Ministry of Finance, National Securities and Stock Market Commission and Deposit Guarantee Fund) to coordinate and take joint action under the various policies envisaged in it.

Annex VI. Upside Scenarios

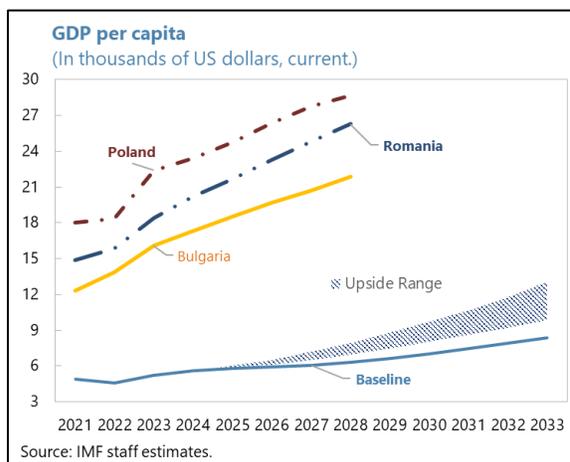
1. Ukraine's medium-and long-term growth post-war will crucially depend on catalyzing sustained high investment levels, inward migration, re-building human capital, and an enabling business environment, which would help pave the path for EU accession. Given the unprecedented level of destruction during the ongoing war, including of human capital, high and sustained levels of economic growth after the war will be essential to not only reconstruct the country but also recover the standards of living of the population as fast as possible. During the reconstruction phase, the public sector will inherently play an important role, as foreign aid is rapidly scaled up, for initial repairs and crowding in private investments, with public absorptive capacity, the strength of the public investment management framework and governance reforms all critical elements to drive high levels of public capex. Moreover, the pace of structural reform implementation in the EFF-supported program, the forthcoming EC Facility or the conditions for EU accession would help catalyze the much-needed private investment levels post-war to boost long-term productivity and growth.

2. Staff has prepared an illustrative upside scenario that will factor in higher investment levels, the extent of absorption capacity, migration and productivity. Given the extremely high uncertainty with regard to the medium- and long-term outlook, staff has estimated a range of upside scenarios where the above factors differ, including on the pace of reform implementation (see the below table on assumptions). Staff has also built in some real exchange rate appreciation in the upside scenarios given the assumed scale of capital and investment inflows for the recovery and reconstruction.

- The baseline assumes a medium-to long-term growth rate around 4 percent, which would lift the real GDP level to around 114 percent of the pre-war level by 2033. In the upside scenarios, real GDP growth could reach up to 4.5–6.5 percent depending on the extent of migration inflows, the investment level (a conservative elasticity of 0.2 to GDP is assumed consistent with the aid scale up scenarios), the absorption capacity, while even higher reform implementation together with TFP (productivity) growth in the outer years would yield the upper range of the upside scenarios.



- For such high investment levels to occur in the upside scenarios and given the public absorptive capacity constraints, staff assumes that the bulk of investment would need to come from private sources. While the baseline assumes additional investments of around US \$240 billion in the 10-year period to 2033 relative to the pre-war level in 2021, investment in the upside scenarios is forecast to be between US\$120–360 billion higher over the same period relative to the baseline, lifting the investment to GDP ratio to 33 percent by 2033 in the most favorable upside scenario with higher productivity and human capital dynamics.



- While staff does not make an assumption about the length of the EU accession process, staff has implicitly captured growth anticipation effects that would typically materialize toward the end of the accession period. The upside scenarios also assume that exports recover faster than in the baseline, whilst also building a larger import component to support the assumed investment surge. Overall, while the illustrative upside scenario shows a significant increase in per capita increase by 2033, Ukraine’s convergence to EU peers will require a steadfast implementation of reforms over a long period.

Selected Assumptions and Results			
	Baseline	Downside	Upside range
<i>GDP growth, end of projection period (2033)</i>	4 percent	3.8 percent	4.5-6.5 percent
<i>Investment to GDP, (2033)</i>	25 percent	20 percent	28- 33 percent
<i>Total investment 2024-33 (relative to baseline)</i>	US\$530 billion	US\$340 billion (-US\$190 billion)	US\$650-890 billion (+US\$120 - 360 billion)
<i>Net migration relative to end-2021</i>	-2.1 million persons	-3.2 million persons	-1.5 to 0 million persons

3. This analysis will help motivate the structural reform agenda to support medium-term growth. Understanding the role of the medium-term growth path of investment, human capital and productivity will help the case for prioritizing important structural reforms such as:

- *Public investment management.* Increasing the efficiency of public investment and enhancing the prioritization of projects can help increase returns to growth as well as positive externalities to crowd in private investment amid limited fiscal space.
- *Encouraging return migration and boosting human capital.* This includes accelerating basic infrastructure rehabilitation, strengthening institutions, and supporting employment opportunities to encourage the return of migrants as well as longer term policies to increase skills that match high productivity sectors over the medium term.
- *Enabling business environment.* Encouraging private investment, both FDI and domestic private capital, will be important to achieve the size of investment required to finance the reconstruction while mitigating risks to external stability, given declining external official support over time.
- *Advancing on a comprehensive anti-corruption agenda.* This will help maximize the use of donor funds toward public investment, encourage private investment, and facilitate the return of migrants by strengthening trust.

Appendix I. Letter of Intent

Ms. Kristalina Georgieva
Managing Director
International Monetary Fund
Washington, D.C., 20431
U.S.A.

December 1, 2023

Dear Ms. Georgieva:

1. Russia's illegal and unjustified invasion of our country continues to bring enormous human, social, and economic costs. As attacks persist, civilian casualties are large, over a quarter of the population has been displaced, and infrastructure damage is massive and increasing, with serious long-lasting consequences for our people, and essential services delivery. Through this hardship, our people continue to show courage, determination, and resilience while macroeconomic, financial, and external stability has been preserved. Our strong performance thus far under the Extended Fund Facility (EFF) has clearly demonstrated our capacity to implement sound economic policies despite these challenging circumstances. Approval of the IMF-supported arrangement, together with significant official financing assurances, provided a crucial financing envelope of US\$122 billion over the program period. Nevertheless, we continue to face major risks amid the exceptionally high uncertainty due to the war.

2. The goal of our IMF-supported program remains to restore fiscal and achieve debt sustainability on a forward-looking basis as well as medium-term external viability, while also promoting long-term growth in the context of post-war reconstruction and our process of accession to the European Union. The program is designed to resolve our balance of payments problems and restore medium-term external viability not only in the baseline scenario but also under a downside scenario. We remain committed to ambitious reforms and strong policy implementation with a view to maintaining macroeconomic stability and achieving stronger economic outcomes, even as the war continues. The attached updated Memorandum of Economic and Financial Policies (MEFP) lays out in detail the economic program that the authorities of Ukraine will undertake, supported by the IMF and other international partners.

3. Given the exceptional uncertainty, the program continues to envisage a two-phased approach. In the first phase, our primary objective remains to preserve macroeconomic and financial stability within the context of the ongoing war while preparing the ground for a strong post-war recovery, including undertaking critical recovery and repair. Additionally, despite the war we are implementing wide-ranging structural reforms covering public finances, the financial sector, monetary and exchange rate policies, governance, anti-corruption, and the energy sector. These ongoing efforts should set the stage for stronger prospects after the war ends. In the post-war second phase, we will further deepen our structural reform agenda and implement additional

macroeconomic policy reforms to restore medium-term external viability, support reconstruction and promote strong long-term growth, and accelerate our progress toward EU accession. To help lay the foundation for post-war growth, we will advance reform initiatives to enhance productivity and competitiveness, including in the energy sector.

4. In line with the NBU Strategy, we have begun the process of reverting to our pre-war monetary policy framework, including eventually inflation targeting as conditions allow. To that end, we recently transitioned smoothly to a managed exchange rate flexibility regime. We also plan, in line with the Strategy, to carefully adjust FX controls to support the economic recovery, while maintaining FX market stability and addressing national and international security considerations.

5. For this second review under the EFF, we met all end-June 2023 quantitative performance criteria (QPCs) and indicative targets (ITs). We also achieved all indicative targets for end-September 2023. Despite this positive performance, the outturns of several macroeconomic variables that we used to project taxes have diverged from our expectations, and actual tax collections at the local government level will rise by less than we had assumed. Recent blockages along western border crossings will also weigh on our tax collections. For these reasons, we are requesting a modification of the end-December QPC on tax revenues excluding social security contributions. We are also requesting modifications to tighten the end-December floor on the non-defense primary balance excluding grants and the end-December floor on net international reserves in order to lock in the better-than-expected outturns so far this year.

6. Against the highly difficult backdrop, we have implemented or are in the process of implementing key reforms under the program. Specifically, we met most structural benchmarks (7 of 12) for July–October 2023 on time (as shown in Table 2 of the MEFP). Despite our best efforts, implementation of four reform initiatives under the structural benchmarks has taken longer than we expected: (i) adopting the draft law on tax policy and administration prepared under the PMB, which contained major reforms to restore the pre-war framework for single tax and cash registers, but omitted the restoration of tax audits, which has also now been addressed through the recent adoption of additional legislation for this purpose; (ii) transferring the GTSO shareholding directly to the Ministry of Energy and adopting the new charter, which has since been implemented in September–October 2023; (iii) adopting a law to restore the obligation of public officials to submit asset declarations, which was completed in September 2023, after the end-July due date; and (iv) amending the AML/CFT Law to re-establish enhanced due diligence measures on politically exposed persons, which was also met with a delay. We request to reset, from end-September 2023 to end-March 2024, the structural benchmark on developing a concept note on the 5-7-9 program. Looking ahead, we also request to reset, from end-March 2024 to end-December 2024, the structural benchmark on preparing a bank rehabilitation framework due to the positive findings of the NBU's resilience assessment and to allow for a more comprehensive upgrade of financial safety nets. We also request to modify the structural benchmark on SAPO (end-December 2023) to include additional elements to strengthen its institutional autonomy.

7. Going forward, we will continue implementing wide-ranging reforms, and as a demonstration of this commitment we propose 1 continuous structural benchmark and 11 new structural benchmarks falling due between end-December 2023 and end-December 2024. We remain fully committed to mobilizing tax revenues, as will be laid out in the National Revenue Strategy, to meet our budget needs, reduce reliance on external financing, and help restore debt sustainability.
8. Our international partners have assured us of their continued support to help ensure that debt sustainability is restored, and the program is fully financed. We publicly announced on March 24, 2023, our intention to undertake a debt treatment of our external public debt with the purpose of restoring public debt sustainability on a forward-looking basis. Our plan remains to start negotiations with bond holders in early 2024 with the objective of completing the needed operations no later than mid-2024, while a group of official creditors have committed to a two-step process for a debt treatment.
9. We retain a number of measures that constitute exchange restrictions for reasons of national or international security. We have notified these measures to the Fund for approval under Decision 144. We also retain three multiple currency practices (MCPs) under Article VIII, Section 3 for which we are requesting approval, and we are also requesting a waiver of nonobservance of the continuous PC on not introducing or modifying multiple currency practices. We will gradually remove such measures as circumstances normalize, in consultation with IMF staff.
10. Based on our successful implementation of the program targets for end-June 2023 and end-September 2023, our implementation of structural benchmarks over July-October 2023, as well as our policy commitments for the period ahead, we request completion of the second review, and a disbursement in the amount of SDR 663.90 million (33 percent of quota). A memorandum of understanding between the National Bank of Ukraine (NBU) and the Ministry of Finance (MoF) has been established to govern the mechanism of servicing of the government's obligations to the Fund by the NBU on behalf of the MoF.
11. We believe that the policies set forth in the attached MEFP are adequate to achieve the objectives of the program, both in the baseline as well as in a downside scenario. Acknowledging that these scenarios are subject to exceptionally high uncertainty, we are committed to continue adapting our policies as conditions evolve. We will consult with the IMF on the adoption of these measures, and in advance of any revisions to the policies contained in the MEFP, in line with the IMF's policies on consultation. We will refrain from any policies that would be inconsistent with the program's objectives and our commitments presented in the MEFP.
12. We will provide IMF staff with the data and information needed to monitor program implementation, including by adhering to the data provision requirements described in the attached Technical Memorandum of Understanding (TMU).

13. In line with our commitment to transparency, we consent to the IMF's publication of this letter, the MEFP, the TMU, and the accompanying Executive Board documents.

Sincerely yours,

/s/

Volodymyr Zelenskyy
President of Ukraine

/s/

Denys Shmyhal
Prime Minister of Ukraine

/s/

Sergii Marchenko
Minister of Finance of Ukraine

/s/

Andriy Pyshnyy
Governor, National Bank of Ukraine

Attachment I. Memorandum of Economic and Financial Policies

I. Background, Recent Economic Developments, and Outlook

Context

1. Russia's unprovoked, illegal and unjustified invasion of our country continues to bring enormous human, social, and economic costs. Civilian casualties keep rising, around a quarter of the population has been displaced, and devastating attacks on infrastructure and missile strikes countrywide continue. The termination by Russia of the Black Sea Grain Initiative and continued assault on ports has cut off a critical lifeline for Ukrainian grains to reach global markets. Despite all the devastation, suffering and challenges, our people continue to show remarkable courage and resilience, while macroeconomic, financial, and external stability have been preserved. Nevertheless, we continue to face major challenges: the fiscal deficit remains very high, entailing large external and domestic financing needs. Protecting core functions of the state under existing financing constraints will force us to continue navigating difficult policy trade-offs.

2. The Extended Fund Facility (EFF) arrangement provides a strong anchor for our economic policies, and we have sustained strong performance under the program. The approval of the EFF arrangement in March helped mobilize an external financing package, now totaling US\$122 billion over the program period, from our international partners and donors. In these very difficult times, the program has helped infuse greater predictability into our macroeconomic management and remains an anchor for our economic policies. We remain highly committed to our program objectives; delivering on major components of the program thus far is a testament to this.

3. Even as the war continues, we are initiating priority recovery and reconstruction projects to meet the essential needs of our population. While updates for rapid damage needs assessment (RDNA) by the World Bank are expected around February 2024, the earlier estimate of the long-term reconstruction needs as of February 24, 2023, amount to a staggering US\$411 billion. Every day of the war raises these costs. Our population faces urgent reconstruction needs, including those related to the restoration of energy, housing, critical and social infrastructure, basic services for the most vulnerable, and private sector development. It is time to begin rebuilding to help meet the basic needs of our people, encourage the return of those who fled the country, and lay the foundations for a quick and robust recovery.

4. Efforts to achieve our strategic goal of EU accession will reinforce the drivers of long-term growth and stability. On November 8, 2023, the European Commission recommended to open accession negotiations. The €50 billion Ukraine Facility for 2024–27 will be critical to support Ukraine's budgetary needs, recovery, reconstruction, and modernization. Reforms to achieve accession will strengthen our economy and institutions, as they are essential to creating conditions for increased investment and growth going forward. The candidate status of Ukraine implies that the choice of the regulatory regime defined by the EU acquis will frame our recovery and reconstruction

process. This will facilitate reconstruction efforts, in line with the European green and digital agenda. Progressive integration into the European internal market, already underway within the Association Agreement and Deep and Comprehensive Free Trade Agreement, should increase trade and stimulate revenue and technology transfer to the Ukrainian economy, thereby helping sustain the recovery.

Economic Outlook

5. The economic recovery in 2023 has been stronger than projected, and we expect the recovery to be sustained in 2024 albeit at a somewhat slower rate.

- Following a decline in output of about 29 percent in 2022, and despite continuous attacks on infrastructure, economic activity in 2023 has been more resilient than expected. The sequential economic recovery has been strong as households and firms adapted to the war circumstances and high war-related expenditures have supported demand. In particular, economic activity in the first half of 2023 rebounded strongly, and 2023Q3 activity indicators point to a sustained expansion, as supply routes have improved, production and economic activity expanded (including from defense industry, construction and a strong harvest). FX markets remained stable, and the disinflationary trend continued. Moreover, the labor market has seen signs of stabilization amid lower net migrant outflows.
- Despite some potential headwinds in the winter, and through 2024, activity is expected to remain solid in 2024 given continued growth in non-combat areas, under the assumption of available supply routes for exports, as well as no further escalation of the war. A strong growth in 2023 could set the stage for a continuing recovery through 2024, though with growth somewhat tempered compared with 2023; given the uncertainty, we project annual growth for 2023 around 4 to 5 percent and 3 to 5 percent growth for 2024. The pace of the recovery will be determined by the degree to which the prevailing high uncertainty weighs on private investment, and the pace of return of migrants, the strength of consumption given the erosion in purchasing power, as well as the availability of export supply routes. The economy has become more resilient to the war, and assuming no significant worsening of the security situation and no protracted energy shortages, we do not expect a longer war through end-2024 to materially impact economic performance.
- Inflation has decelerated significantly and faster than expected from its peak of 26.6 percent y/y in end-2022 to 5.3 percent y/y in October, reflecting the rapid recovery of the energy system after attacks to the critical energy infrastructure, favorable FX market conditions, better supply of food (including from the closure of the grain corridor and the strong harvest) and fuel, the tight monetary policy as well as improving inflation expectations. While household electricity tariffs increased by 60 percent from June, the impact on inflation is minor due to a low base. In view of the continuing inflation trends, and the effects of the NBU's monetary policy, we expect inflation to reach around 6 percent y/y by end-2023 and slightly below 10 percent y/y by end-2024.

- The current account balance is expected to deteriorate and become negative in 2023, following a surplus of US\$8 billion in 2022. This reflects a widening trade deficit, on account of increased imports from the stronger growth outlook but still subdued recovery in exports due to the loss of production capacity and logistical bottlenecks induced by the war. The termination of the grain corridor, and trade restrictions from neighboring countries are significant contributors to this. Going forward, exports could be supported by increased transportation capacity through alternative routes, including via Danube ports and efforts to develop export licenses with EU neighbors, as well as the better-than-expected 2023/24 harvest. The services balance is expected to remain negative in 2023 on continuing withdrawals and card payments by Ukrainian migrants abroad, though the net outflow of migrants is expected to be close to zero. Continued strong external financing inflows are expected to strengthen gross international reserves, estimated to reach US\$39.5 billion by end-2023 under the baseline scenario, equivalent to 5.1 months of prospective imports, which will provide a strong cushion for shocks.
- Conditions in the FX market have remained stable, thanks to continued external inflows and efforts by the NBU to support the cash market. The spread between the official and cash rates remained low in the 3–5 percent for most of the year, including through the transition to managed flexibility of the exchange rate, and despite seasonal pressures toward the end of the year.

6. The economy could rebound more quickly, particularly if the security situation improves sooner than expected. Several factors could support a stronger recovery, primarily from a decline in security risks that enables a quicker return of migrants and faster recovery in sentiment, along with a revitalization in economic activity from a swifter resolution of war-related supply disruptions and improved access to seaports. Specifically, this may include the new corridor along the coasts of our neighboring countries in the Black Sea, and other supply routes. Our efforts to raise resources for critical recovery and repair projects would also support stronger growth. From a medium-term perspective, our economic growth could be accelerated by forceful implementation of structural reforms in the context of the EU integration, significant investments in reconstruction, including private investment inflows, as well as a faster return of migrants.

7. In spite of the improved near-term indicators, risks to the outlook remain tilted to the downside, amid exceptionally high uncertainty. Security risks could persist for longer than expected, weighing on firm and household sentiment, and dampening the pace of return by migrants. Export transit routes could be further interrupted, there could be further damage to energy infrastructure or continuing power outages, or supply chain disruptions (including due to the war or logistics disruption on the western border) could worsen, weighing on production costs and firm profitability. Insufficient or delayed donor support could also exacerbate financing constraints, requiring difficult policy trade-offs. Moreover, the need for much higher domestic financing may become difficult to mobilize. A prolonged war would continue to put pressures on our fiscal position, and fiscal and external financing gaps could widen substantially.

II. Macroeconomic and Structural Policies for 2023–27

A. Overview

8. The ultimate goal of the Ukrainian government’s economic program—supported by the IMF—is to restore fiscal and debt sustainability, while promoting long-term growth in the context of post-war reconstruction and our path to EU accession. Given the large uncertainty, our economic program entails a two-phased approach.

- In the first phase, our primary focus will be to maintain macroeconomic, external, and financial stability, in order to strengthen Ukraine’s capacity on its way to victory. Our program involves policies to ensure a robust budget over the remainder of this year and in 2024 coupled with a medium-term fiscal framework that would anchor fiscal policy and the assessment of financing gaps. The recent move to a managed flexibility of the exchange rate will strengthen the resilience of the Ukrainian economy and FX market, promote better adaptation to domestic and external shocks, and reduce the risks of accumulating FX imbalances that could be generated by prolonged maintenance of the exchange rate peg. At the same time, we will implement measures to prepare the ground for Ukraine’s post-war growth, including in fiscal structural areas, financial sector, monetary and exchange rate policies, governance, anti-corruption, and the energy sector; we have already made good progress in difficult reform areas. Social spending will be safeguarded to the extent possible, also recognizing the large-scale humanitarian support from UN agencies and NGOs. Given the resilience of the economy as well as accumulated buffers, we will build on our recent track record and implement further crucial reforms in 2024 prior to the end of the war, including in the fiscal structural, anti-corruption and energy/ corporate governance areas.
- In the second phase, once the war has tapered off, we will build on the progress so far and shift our focus to more expansive reforms to entrench macroeconomic stability, support recovery and early reconstruction, promote economic growth, and thereby restore medium-term external viability. As conditions allow, Ukraine will revert to pre-war policy frameworks, including completing the transition toward an inflation targeting regime. To help lay the foundations for post-war growth, we will advance reform initiatives to enhance productivity and competitiveness, including in the energy sector. Progress toward EU accession will be a major anchor for our policies.

9. We acknowledge IMF staff analysis on an updated downside scenario, and we are fully committed to taking all necessary measures to ensure program success and a stable economy.

- Since the start of the war, we have repeatedly and decisively taken measures to respond to shocks as they have materialized, carefully balancing the need for a prompt and effective response with material social considerations. In 2022, we systematically streamlined capital expenditure and other lower priority expenditure items, and also identified additional financing.

Building on this track record, we would respond decisively to a potential downside scenario, to ensure that public institutions function effectively while taking measures as needed to preserve economic and financial stability, and also maintain debt sustainability on a forward-looking basis. Under the downside scenario, as illustrated in IMF staff analysis, we stand ready to take feasible fiscal measures, including identifying tax policy measures that can be effectively and rapidly implemented or spending that could be deferred pending the receipt of additional external grants or concessional support. In parallel, we will also identify additional domestic financing as needed to ensure that financing gaps are closed, without compromising economic and financial stability or debt sustainability. We also stand ready to deploy our foreign reserves to maintain FX market stability in case of need. These are difficult balancing acts, and we welcome the fact that our partners stand ready to provide additional financial resources sufficient to close financing gaps and preserve debt sustainability; we are committed to play our part to ensure the burden of adjustment is shared.

- We are equally focused on identifying policies that can help us achieve high and sustained growth rates, including via illustrative upside scenarios that motivate reform priorities towards EU accession. Our medium- and long-term growth post-war will crucially depend on catalyzing high and sustained investment levels, supporting inward migration, rebuilding human capital, and fostering an enabling business environment that could propel total factor productivity (TFP) growth to help converge to European income levels. In this regard, establishing frameworks for post-war reconstruction, which would enable us to absorb substantial official resources and also catalyze private capital, including foreign direct investment, could have a decisive impact. Reforms required to achieve the strategic goal of EU accession coupled with progressive integration into the European internal market through the Association Agreement and Deep and Comprehensive Free Trade Agreement would be critical components of such a strategy. Implementing these wide-ranging policies will require our steadfast commitment for an extended period.

B. Fiscal Policy

Fiscal Policies for the Rest of 2023

10. Our fiscal policies in 2023 have focused on ensuring adequate resources for core spending priorities while safeguarding fiscal and debt sustainability. Given the war-related uncertainty, we remain committed to taking all necessary measures to ringfence additional pressures and risks related to the budget for the rest of 2023. We will also continue to refrain from any tax policy and administrative measures that may erode the tax revenue base in 2023 and beyond, while taking measures that support post-war reconstruction and EU accession. On the spending side, we will only revise spending categories in consultation with IMF staff and with identified financing sources.

11. Reflecting our steadfast commitment to the program, we have met the fiscal targets for June and September 2023. In particular:

- The non-defense cash primary balance excluding grants was UAH 278.9 billion at end-June, substantially exceeding the program's floor of UAH 213.0 billion (**Quantitative Performance Criterion**). As of September, this indicator was UAH 404.9 billion, comfortably exceeding the program's indicative target (UAH 242.9 billion). This result reflected prudent control over non-defense spending, and strong tax performance. To lock in the strong performance so far this year, we request a modification of the floor on the non-defense cash primary balance excluding grants for end-December to UAH 105.0 billion.
- Reflecting our determined actions, the end-June Indicative Target on the overall balance excluding grants was UAH -660.3 billion, well above the floor of UAH -730 billion. This strong performance continued through end-September, with the indicative target amounting to UAH -1,027.5 billion against the floor of UAH -1,141.1 billion.
- Tax revenues (excluding social security contributions) of UAH 748.0 billion comfortably exceeded the end-June target of UAH 696.4 billion (**Quantitative Performance Criterion**). Strong tax collections continued through end-September, with the indicative target amounting to UAH 1,187.7 billion against the floor of UAH 1,094.7 billion. In line with the resilient economy, there has been solid growth of receipts of personal income taxes, corporate profit taxes, and taxes on goods and services. While our resolute efforts helped us achieve the target for this review, certain macroeconomic parameters used to project tax revenues (e.g., wage growth, gas prices, and the exchange rate) have deviated from our projections. This has led to underperformance in several tax categories on the local government level, and tax revenues for the fourth quarter of 2023 will likely fall short of our expectations. Recent blockages at border crossings on the western border may also affect our import-related tax collections. We therefore request a modification of the end-December 2023 floor on tax revenues QPC to be set at UAH 1,654.0 billion.
- The indicative target on the accumulation of overdue accounts payable (domestic arrears) was UAH 1.62 billion in June, below the ceiling of UAH 4.5 billion, and UAH 1.69 billion in September, below the ceiling of UAH 3.0 billion.
- As regards the ceiling of publicly guaranteed debt (Quantitative Performance Criterion), issuance amounted to UAH 17.7 billion through June, consistent with the adjusted ceiling of UAH 48.9 billion. The end-September indicative target was UAH 19.6 billion, against the adjusted target of UAH 48.9 billion.
- Social spending was UAH 276.1 billion at end-June, UAH 27.1 billion above the Indicative Target of UAH 249 billion. Social spending at end-September continued to exceed the indicative target, with an outturn of UAH 402.6 billion against the floor of UAH 359.6 billion. The elevated levels of social expenditures correspond to the need to provide adequate protection for vulnerable layers of the population, including people affected by the consequences of the war.

12. Our expenditure policies for the remainder of 2023 aim to accommodate core priorities, contain additional spending pressures, and provide some room for recovery and

reconstruction. Recognizing the priority for the conduct of the war and already high contributions from international donors and partners, we will resist expenditure pressures on non-core categories of spending. Going forward, we are determined to identify full financing for any new initiatives that increase current expenditures through identified new resources or compensating fiscal measures. We will continue to operate strong commitment controls, and maintain strict oversight of budget execution by key spending units.

13. We remain committed to achieving much needed revenue mobilization. The adoption of Law No. 8401 in July 2023 was an important recent step. It reinstated the pre-war setup for taxpayers who moved from the universal tax regime (e.g., paying PIT, CIT, VAT) to the single tax, with effect from August 2023. It also reintroduced enforcement of the use of cash registers in retail outlets, including restoring liability for violations. The adopted law only canceled the moratoria on tax audits for a limited set of taxpayers. However, we are determined to fully reinstate tax audits, and legislation to this effect was adopted by parliament on November 8 (¶117). These reforms build on our earlier efforts to cancel deferrals on customs duties from March 1, 2023, and remaining deferrals on import duties as of June 1, 2023. Moreover, we will not extend the Tax Code provisions introduced during Martial Law that relaxed the administration of taxes and fees. We will also refrain from introducing tax amnesties for the duration of the program, or from introducing any tax measures which would jeopardize our tax base. Furthermore, any measures that are needed to support imports related to national defense and security will be targeted, timebound, controlled, and subject to oversight.

14. On October 6, 2023, we adopted a supplementary budget for 2023 reflecting the greater-than-expected expenditure needs triggered by the war. Specifically, the supplementary budget authorizes additional essential expenditures (UAH 311.1 billion) on national defense and social protection. Additionally, an increased envelope for social protection will enhance support to the still-large number of internally displaced persons, who remain highly vulnerable. We will mobilize new funding from the local bond market to cover a large part of these new spending needs.

15. With the supplementary budget, we now expect the 2023 general government fiscal deficit excluding external grants to reach UAH 1.88 trillion, or about 29.3 percent of GDP. While the supplementary budget's higher expenditures have caused the deficit excluding grants to widen by UAH 208 billion (3.2 percentage points of GDP) since the First Review, it remains consistent with fiscal sustainability given the overall funding mix. The floor on the non-defense cash primary balance of the general government excluding grants (**Quantitative Performance Criterion**) and the floor on the overall cash primary balance of the general government excluding grants (**Indicative Target**) will continue to monitor our progress in this area. Moreover, the floor on state budget spending on social programs will help safeguard social spending (**Indicative Target**).

Fiscal Policies for 2024 and Beyond

16. The budget for 2024 was approved by Parliament on November 9, 2023. Despite the challenges posed by the war, we adhered to the budget preparation calendar. Moreover, we

undertook preparatory work in consultation with Fund staff. The budget submitted for a second reading targets an overall deficit excluding external grants of UAH 1,562 billion. Within this deficit, the expenditure envelope envisages maintaining high defense-related expenditures to provide for national security. Expenditures in other areas are being contained, although we continue to allocate resources for an adequate social safety net to respond to the needs of war veterans and vulnerable layers of the population. Given the narrow non-defense expenditure envelope, we are determined to guard against spending pressures wherever possible. In this context, we will make sure that key spending units adhere to expenditure envelope limits consistent with the need for fiscal and debt sustainability. The deficit will continue to be largely financed by international donor support, but important contributions will come from the domestic market.

17. For 2024, we are committed to take additional action to increase revenues to help meet priority expenditures. To help ensure that fiscal needs can be met next year, we have taken several measures to increase revenues. We have reinstated the pre-war tax framework, including excises on fuel. We have also adopted a law to reinstate tax audits for all taxpayers from December 1st, 2023, except for taxpayers whose tax address is located in temporarily occupied territories and combat zones (¶13). The Budget for 2024 allocates personal income tax revenues between the state and local budgets to ensure adequate resources for critical expenditure programs implemented by different levels of the government, without jeopardizing the independence of local authorities. To address potential spending pressures, we stand ready to take additional domestic revenue measures to safeguard fiscal stability in extraordinary circumstances (¶22). Looking ahead, the National Revenue Strategy (NRS) will also be a critical input to identifying durable measures over the medium term.

18. We are committed to safeguarding fiscal and debt sustainability over the medium-term, while ensuring adequate resources for priority needs, and our macro-fiscal policy settings and financing strategy will be aligned with those goals. To this end, we plan to complete a treatment of external public debt that brings debt and gross financing needs back to manageable levels (¶40-42), implement a revenue-based fiscal adjustment over the coming years, and seek financing on concessional terms to the degree possible (¶19). We have already included budget projections with key revenue and expenditures categories for 2025-26 in Budget 2024. Our guiding principle was to keep the spending envelope within the available financing envelope, including tax revenue mobilization. To meet our post-war priority spending needs, the reform efforts in tax policy and administration measures will focus on mobilizing 3-4 percent of GDP in additional revenues during 2024-2027, as prescribed by National Revenue Strategy (NRS). A portion of this revenue mobilization, along with a reduction in defense expenditures, will be directed toward improving the fiscal balance as our contribution to restoring sustainability. We recognize that a substantial fiscal consolidation is needed, and will target a primary fiscal surplus consistent with debt sustainability. Conversely, some of the space opened up by the gradual reduction in defense expenditures and domestic revenue mobilization will be directed to capital and social spending, including for reconstruction and newly emerging vulnerable groups in the population. Anchoring this path to reforms in the governance of public resources, public finance and investment

management, and higher quality of public and social services would help maintain fiscal and debt sustainability while rebuilding the country and supporting growth and adequate social protection.

19. We are also laying the groundwork to undertake critical recovery and reconstruction activities in a sustainable manner. An update to the RDNA is expected to be published in February 2024. When published, this document will assess damages and identify priorities for recovery and reconstruction initiatives. To ensure that these activities are consistent with a return to fiscal and debt sustainability, we will carefully evaluate the financing mix and will need financing on highly concessional terms. We will make sure that the mechanisms used for reconstruction financing are consistent with the principles of integrated public investment management to ensure that critical reconstruction projects fit into the medium-term budget framework, while maintaining fiscal stability and debt sustainability (see ¶33).

C. Fiscal Structural Reforms

20. Our fiscal structural reforms will help anchor the medium-term fiscal path, maintain fiscal and debt sustainability, and lay the foundations for long-term growth. Post war, as defense spending winds down, we will aim to channel these resources to spending for recovery and reconstruction as well as to the social safety net to address the post-war needs of society and vulnerable layers of the population. To ensure efficient use of the emerging fiscal space and also maintain debt sustainability, we will undertake substantial changes to pension and social safety nets. These changes will encompass comprehensive reforms in social policies, including improved targeting and means-testing mechanisms for social assistance, in line with our ongoing work with the WB and social policy concept note.

21. To support our medium-term spending priorities, development goals, and EU accession, we are moving forward with our structural reform agenda, focusing on: (i) raising adequate revenues to help meet reconstruction and social spending needs through measures that enhance the efficiency, fairness and simplicity of the tax system, including through a home-grown multi-year National Revenue Strategy (NRS); (ii) preparing our public investment and public financial management for the post-war era by strengthening public investment processes, the project management cycle, and commitment controls; (iii) enhancing fiscal transparency and management of fiscal risks; and (iv) ensuring fiscal sustainability and the predictability of budget policy by further strengthening the interlinkages between medium-term budget frameworks (MTBF), reconstruction priorities, and public investment management, while keeping fiscal risks arising from state-owned companies under control.

Short-term Revenue Mobilization Policies

22. Recognizing the importance of financing the additional spending pressures through domestic revenue mobilization we are taking several steps that would complement the work on National Revenue Strategy (NRS) in the short-term and provide for adequate revenue sources should additional shocks occur. As an exceptional measure, we have adopted the law on taxation of banks' profits (temporary increase in corporate income tax on banks from 18 to 50

percent applied on net profit), which will generate about 0.3 percent of GDP to meet deficit financing needs during 2024. To align with international peers, we will increase banks' CIT from the current 18 to 25 percent for 2025 and subsequent fiscal years. The NRS will include a specific discussion on the principles of corporate excess profits taxation, including guidance on extraordinary circumstances when such taxes may apply. In addition, by December 11, we will establish a working group complementing NRS preparation to formulate a proposal with a package of short-term revenue measures (tax and non-tax) that would yield additional revenues of at least 0.5 percent of GDP in 2024 (**Proposed Structural Benchmark, end-February 2024**). These measures could be activated in 2024 should additional spending pressures materialize. We will request IMF TA in the preparation of this proposal.

National Revenue Strategy

23. The National Revenue Strategy (NRS) will remain the anchor for our tax policy and administration reforms allowing an increase in tax revenues by about 3.0-4.0 percent of GDP over the program period. We have already taken a number of steps on the road to adoption and execution of the NRS.

- In June, we finalized the NRS gap analysis with the help of IMF TA and identified priority reforms in specific tax categories which are being included in the NRS (2024-2030). Specifically, we are focusing on a set of tax categories where reforms will help to broaden the tax base starting with labor taxation/personal income taxation, corporate income taxation, and excise.
- We remain on track to adopt the NRS by end-2023 (**Structural Benchmark, end-December 2023**). It will include: (i) measures to strengthen the state tax and customs services; (ii) a revised simplified tax regime to address the erosion of labor taxes by moving the legal basis for labor relations to civil law; (iii) alignment of VAT and excise duties with the EU acquis; (iv) steps to enhance corporate income taxation, (v) strengthening anti-corruption measures and governance procedures to address integrity risks; (vi) tax reforms that balance the need to ensure an adequate revenue base with the vital tasks of supporting EU accession, environmental reforms, and post-war reconstruction and recovery including much needed investments and industrial development. To ensure that the NRS is consistent with the MTRS toolkit and to make the case for ambitious revenue mobilization targets, we will build into the document broad objectives of our development goals (e.g., social, infrastructure). In addition, the NRS will include revenue mobilization targets with specific revenue gains from reforms of core tax categories. It will also cover medium-term/post-war tax reforms (e.g., the single tax regime), as well as risks and contingencies. Specifically, we will prepare an assessment of the effectiveness of tax privileges, including their cost to the budget, in order to have a unified reform approach (**Proposed Structural Benchmark, end-July 2024**). Finally, the NRS will cover guidance for coordination among government agencies, donors, the private sector and civil society on tax policies and administration led by the MoF.

24. We are working to strengthen tax and customs administration as part of the NRS. We are committed to improving revenue mobilization through a well-functioning, transparent and taxpayer-friendly tax, and customs administration. Specifically:

- **State Tax Service (STS).** We have adopted an action plan to take on board the recommendations of the survey completed in November 2022. Moreover, in July 2023, the STS approved the list of measures to reduce tax arrears based on supporting analyses (overdue accounts payable) by distinguishing between arrears related to or caused by Russian military aggression and occupation of Ukrainian territories by Russia, and those that are not impacted directly or indirectly by the war. The STS will continue doing similar exercises periodically and will review the action plan to reduce tax arrears as we progress, and more analyses become available. As part of the NRS gap analysis, we have also identified critical areas of STS reform that feed into the NRS, including implementation of a compliance risk management framework, strengthening the integrity and trust in the STS, creating and implementing modern digital solutions in line with the IT Strategy of the MOF, as well as improving the organizational structure and staffing.
- **State Customs Service (SCS).** Following the SCS diagnostics with the support of IMF TA in June 2023, we will continue focusing on key three reform areas critical for reducing corruption risks within customs administration. Specifically, we will adopt legislation that reinstates customs post-clearance audit effective March 1st, 2024 to complement the reinstatement of tax audits and close potential loopholes in managing compliance processes. We will also adopt and implement legislation to criminalize large-scale customs fraud and smuggling of all goods that should also help with stronger tax and customs compliance. Moreover, we are working on: (i) reforms of HR and compensation policies; (ii) improving operational management of customs from its headquarters, including the development of centers of excellence for different functional tasks; and (iii) moving the verification/checking of customs documents from border crossings to inland offices.
- As part of the NRS, SCS and STS have prepared a comprehensive action plan that identifies short- and medium-term reform priorities (**Structural Benchmark, end-October 2023**), drawing on the earlier action plan developed to address findings from the tax perception survey for STS. These two action plans are being included in the overall NRS ahead of end-December SB deadline. We will continue strengthening these action plans as we progress with the implementation of NRS.

25. Economic Security Bureau of Ukraine (ESBU). The importance of strengthening compliance controls and detecting financial and economic crimes implies a need to bolster analytical support for identifying tax evasion on an arm's length basis. We will adopt a new law on the ESBU that has a clear mandate and scope for investigative powers consistent with good practice by focusing on major economic crimes and strengthening its analytical capacity, while ensuring the capacity of the STS and SCS to effectively address violations in the tax and customs spheres. The existing delineation between the investigative powers of the ESBU and the National Anti-corruption Bureau of Ukraine (NABU) will be maintained. In addition, the law will aim to establish a legal basis

for the operation of the ESBU in order to (i) develop an open, transparent and competitive process for selection of management and staff; (ii) strengthen requirements for the selection commission; (iii) introduce a contract system for employees; and (iv) develop a mechanism of attestation of staff (**Proposed Structural Benchmark, end-June 2024**).

Restoring the Medium-term Budget Framework

26. We have taken several steps towards repealing provisions under Martial Law impeding policies that help anchor fiscal sustainability and budget predictability. These steps have included: (i) reinstatement of the Medium-Term Budget Framework (MTBF), medium-term debt strategy (MTDS) and a fiscal rule that ringfences risks from guarantees, (ii) reinstatement and strengthening of Article 52 of the Budget Code supporting budget credibility, and (iii) including contours of the 2025–2026 budget projections in the 2024 draft budget, and a fiscal risks statement including details on energy and critical infrastructure SOEs.

27. We will continue enhancing expenditure planning and the medium-term budget framework (MTBF). We recognize the close interlinkages between the MTBF and the NRS. As a step towards our commitment to fiscal sustainability and budget unity we will include in NRS a brief reference to development goals while justifying tax revenue mobilization goals. Meanwhile, we will continue work on restoring and strengthening the MTBF. With the help of IMF TA, we will produce a diagnostic review of pre-war MTBF policies and practices relative to best practices (**Proposed Structural Benchmark, end-October 2024**). This exercise will help us identify key weaknesses and work towards strengthening strategic budgeting, leveraging bottom-up PFM processes to capture more detailed spending needs and costing of new public services. Based on this diagnostic review we will prepare proposals to strengthen medium-term budget planning, which will be reflected in the instructions for the formulation of the 2026–2028 Budget declaration and 2026 Budget.

Pensions and Social Spending

28. With the help of World Bank TA, we are preparing modifications to the pensions system and mechanisms to support vulnerable layers of the population:

- **Pensions.** We plan to work on a comprehensive conceptual framework to improve the pension system and are reviewing the possibility of introducing a second pillar of the pension scheme, when conditions are in place. We reiterate that any proposed legal amendments that would increase pension expenditures need to be accompanied by a medium-term fiscal and debt sustainability analysis, and a clear identification of the necessary resources in the amendments to the Pension Fund of Ukraine budget. We will refrain from: (i) introducing new special pensions or privileges; (ii) providing further discretionary benefit increases; and (iii) modifications that would lead to a lowering of the legally defined retirement age.
- **Mechanisms to support vulnerable groups.** In August 2023, we adopted a government decree that enhances the targeting and means testing of benefits for Internally Displaced Persons (IDPs). The decree determines the eligibility and procedures for those who are qualified for the

living allowance. We will work further to sharpen the objective, calculation formula, target coverage, budgetary implications and graduation conditions. Specifically, to improve targeting we plan to increase the income threshold for eligibility under the Guaranteed Minimum Income (GMI) program.

Fiscal Transparency and Risks

29. Measures to enhance fiscal transparency and address fiscal risks remain an important part of our program. Specifically:

- We have made significant progress in strengthening the fiscal risk statement report that is attached to the budget 2024. Going forward we will include a consolidated view of financial performance analysis and stress testing across major SOEs. We will also strengthen the policies and practices for feeding the Fiscal Risk Statement (FRS) analysis into the annual budget preparation, strengthening the integration of fiscal risks at all stages of the budget cycle.
- Based on recent IMF TA on risk assessment and SOE stress testing, we will continue strengthening SOE stress testing under different scenarios. We will identify major public companies severely affected by the war and prepare an assessment of their potential fiscal and quasi-fiscal costs (***Proposed Structural Benchmark, end-September 2024***). We will request further IMF TA to support our work on this assessment.
- To strengthen the link between the fiscal risks assessment and the predictability of government spending, we will develop methodological guidance for assessing fiscal risks in key spending areas and contingent liabilities, including PPPs, guarantees, and SOEs. By integrating these assessments more robustly into the early stages of the budget cycle, fiscal risk analyses can better inform budgetary and fiscal decisions.
- With the help of IMF TA, the MoF will finalize the development of risk-based fees for guarantees and amend the existing decree.
- We will publish a list of PPPs and prepare a review of the associated risks and potential impact on the 2025 Budget and onwards by end-September 2024.

30. Business Development Fund (BDF) and the 5-7-9 loan program. We will continue to monitor fiscal risks related to the 5-7-9 loan program. The concept note, currently under preparation, is designed to target the program on small and medium enterprises by phasing out the eligibility of large companies, and enhancing monitoring, and maintaining adequate safeguards. Due to the comprehensive nature of the initiative, additional time has been allocated for the concept note. Pending the concept note, the MOF has already initiated phasing out large company eligibility, with the draft regulation currently under approval by other governmental bodies. The MOF, in collaboration with international partners, has also commissioned an independent assessment of the Business Development Fund and its support programs, with the goal of refining their operational design to effectively serve only those SMEs that encounter substantial barriers to

funding. We have further clarified the roles of MOE and MOF, by assigning policy development and controlling and monitoring of spending to the MOF, which includes the return of the 5-7-9 loan program to MOF management. The MOF, in consultation with MOE, plans to release the draft by end-December 2023 and, in collaboration with the IMF, aims to complete this concept note by end-March 2024 (**Structural Benchmark, proposed to be reset for end-March 2024**). More generally, we will continue working on strengthening the governance and financial self-sustainability of the Business Development Fund.

31. We will continue to enhance transparency in the management and spending of budgetary funds and special accounts:

- **Fund for the Liquidation of the Consequences of the Armed Aggression.** The Fund served its purpose well in the context of Budget 2023 and available resources in the Fund are expected to be exhausted by end 2023. Consequently, we are determined to strengthen the Fund's operational framework in such a way which would allow facilitating the government's rapid response to urgent recovery needs. In addition to being integrated in the treasury reporting, we will continue reporting the operations from this special fund consistent with a regular consolidated report summarizing the sources of financing and expenditure (according to their economic classification) in one report. We will continue working on a legal framework that would enable the use of sanctioned and confiscated Russian assets for the purpose of reconstruction and recovery. Strengthening of the regulatory and operational framework of this Fund may facilitate implementation of critical infrastructure projects before the war ends and prepare the grounds for a stronger post-war institutional setup.
- **Special accounts.** We have operationalized the new legal framework governing the integration of special accounts into the budget framework and started receiving treasury reporting for use of funds through these accounts. We will continue strengthening the transparency and accountability of these accounts, and will improve further reporting on the sources and usage of these funds, as well as the opening and closing balances. Moreover, we will undertake periodic audits of transactions reflected in special accounts.

Strengthening Public Investment Management

32. We are continuing to strengthen public investment management ahead of post-war reconstruction, building on EU4PFM and the World Bank's Public Investment Management Diagnostic Assessment Report 2022. Our overarching goal is to enhance the efficiency of public investment consistent with medium term budget and debt sustainability objectives. This should help channel resources towards projects that provide the greatest value for money while supporting recovery and growth. The recent World Bank report identifies numerous areas for improvement, which if addressed in the short run can become critical inputs into achieving more transparent and efficient public investment management (PIM). To this end, with the support of World Bank TA, we are reviewing the current PIM procedures, and are on track to develop a roadmap of measures (**Structural Benchmark, end-December 2023**) so that: (i) all public investment projects follow unified PIM approaches, including PPPs; (ii) investment projects are selected on a competitive basis,

with transparent selection criteria, and consistent with the medium-term budget framework; (iii) stronger powers are provided to the MoF, including a clear gatekeeping role during the different stages of the investment project cycle. To further strengthen the efficiency and transparency of public investment and avoid multiple procurement platforms, we have adapted the national e-procurement system to comply with international competitive bidding standards used by Multilateral Development Banks.

33. We will work to operationalize the roadmap developed under the SB (132), complementing it with a government decree with a specific action plan and a timeline that provides clear linkages between the MTBF and national reconstruction priorities, specifying a gatekeeper role for the MoF (Proposed Structural Benchmark, end-December 2024). It would establish clear institutional links between the MTBF and reconstruction priorities, thus bolstering the MoF's institutional role as a gatekeeper of public investment and mitigating risks to debt sustainability. Coordination will be strengthened between the MoF and line ministries, who remain responsible for project execution. Meanwhile, we will continue working on strengthening public investment management policies consistent with best practices of MTBF and PIM 127, 132, following the principles of budget unity, coherence, and predictability.

D. Financing Strategy

34. Timely external financing on appropriately concessional terms is an essential pillar of our financing strategy. We remain grateful for the timely disbursement of external financing by our international partners and donors thus far; in 2023, as of end-October, we have received external budget support disbursements of US\$35.4 billion (including the IMF). In 2024, continued support from the EU, IFIs, and bilateral donors in the amounts, composition, and timing envisaged are vital to facilitate effective policy management and maintain economic and financial stability. Over the next 12 months of the IMF-supported program (December 2023–December 2024), firm financing assurances are in place thanks to large official, multilateral, and bilateral commitments. Looking beyond December 2024, key partners have assured us of their continued support, which provides good prospects for ensuring the program will remain fully financed over the program period.

35. We will also strengthen our efforts to further mobilize domestic financing to help meet our evolving fiscal financing needs, and in a mix that supports macroeconomic stability. Our fiscal financing needs during wartime continue to be large and volatile. We will continue mobilizing domestic savings to also help finance our budget, and in a manner consistent with safeguarding macroeconomic and financial stability and supporting debt sustainability. Our strategy will involve maximizing the issuance of domestic government securities in the primary market with an objective of obtaining net positive financing in the fourth quarter of 2023 and in 2024. Successful placement of bonds on the domestic market of the necessary magnitude, coupled with timely external financing on appropriately concessional terms will enable us to execute the budget as planned, avoid arrears, and continue to avoid monetary financing.

36. We will further strengthen our efforts to increase net domestic bond financing over the program period.

- As of October 31st, we have raised UAH 452 billion in the primary market in 2023, achieving a year-to-date rollover rate of 137 percent, thereby providing net financing to the budget of about UAH 123 billion or US\$3.4 billion. About 65 percent of gross hryvnia issuance has been raised through designated benchmark bonds that banks may use to meet reserve requirements. We continue to make progress in matching issuance yields and maturities to market demand, and in lengthening the maturity of our issuances this year.
- We intend to continue issuing government securities with an objective of financing a large part of the additional expenditures in the 2023 Supplementary Budget and through 2024, given our commitment to mobilize domestic resources to help meet our financing needs. The reserve requirement mechanism has contributed significantly to the improvement in rollover rates; given the substantial liquidity available and expected in the banking system, we are committed to identifying and implementing ways to increase bank financing in a more sustainable way. This includes studying the flow of liquidity into the banking system, including on a bank-by-bank basis, to develop targeted strategies to encourage increased uptake of government bonds, supported by the joint Working Group under the auspices of the Financial Stability Council (FSC), established in April 2023. With an appropriate mix of approaches, such measures could help contribute to positive net domestic financing over the course of the program period.

37. We continue to make progress to ensure our debt management strategy is consistent with our objectives under the program. We have updated and published our Medium-Term State Debt Management Strategy on October 27, 2023 (*Structural Benchmark, end-October 2023*). Our updated MTDS now takes into account developments since the start of the war and our future priorities, including budget financing needs, debt sustainability, and reconstruction and recovery. After the external commercial debt treatment is concluded in 2024, we plan to update the MTDS to reflect the outcomes of the debt operation by end-2024. To support the implementation of the MTDS and our upcoming debt operation, we are also committed to strengthening the capacity of the Debt Management Agency, including by increasing staffing and training. We will continue to support the development of the domestic debt market, including benchmark securities outside the reserve requirement mechanism, and will undertake further efforts to expand and diversify the set of investors, including encouraging the return of non-residents to domestic bond markets and the restoration of international capital market access, thereby enabling the bond market to play an active role in the reconstruction phase.

38. We remain committed to avoiding monetary financing. Given the considerable risks monetary financing presents for price and external stability, we have successfully avoided monetary financing thus far in 2023. Our commitment to this objective will continue to be monitored by a ceiling on general government borrowing from the NBU (*Indicative Target*). If there are unexpected critical financing needs or delays in external disbursements, we will first explore additional measures, such as drawing down of excess government deposits as well as borrowing additional funds from

the government debt market; we will request monetary financing from the NBU only as a last resort and in strictly limited amounts (see also ¶45, ¶51).

39. We are determined to strengthen treasury cash and liquidity management. The war has brought about increased volatility to our expenditures. Given large donor support and proceeds from domestic financing are expected to continue, and in line with our continuous efforts to strengthen budget execution and commitment control, we find it important to enhance our cash and liquidity management. Strengthened liquidity forecasting and cash management will help lower the volatility and transaction costs of treasury resource management. To this end, we have requested IMF TA to review and diagnose the main areas of improvement for treasury cash and liquidity management starting with liquidity in treasury single account.

E. External Debt Strategy

40. To help restore debt sustainability on a forward-looking basis, we publicly announced on March 24 our intention to proceed with a debt treatment of our external public debt. Our strategy seeks to help close financing gaps during the program period, reduce gross financing needs to manageable levels, including after the program, and to place public debt on a sustainable path. Our strategy is also designed to help create the necessary conditions for private sector participation in the post-war reconstruction of Ukraine and takes into account the importance of preserving financial stability. To this end, we hired external financial advisors and are committed to a credible process with transparency for information and communication. We continue to discuss our strategy with private creditors and seek their feedback. Our goal remains to restore public debt sustainability and ensure that our program is fully financed throughout its duration, including in a downside scenario.

41. The debt treatment comprises the following elements:

- *Official bilateral debt.* Paris Club creditors have committed to a two-step process involving an extension throughout the program period of the current debt standstill that expires at end-December 2023, coupled with a separate assurance to deliver a final debt treatment sufficient to restore debt sustainability before the final review of the IMF-supported program. We will seek treatments on comparable terms with other official creditors.
- *External commercial debt.* In August 2022, we reached an agreement with our international bondholders that included, amongst other things, a voluntary 24-month deferral of debt service on Ukraine's direct and state-guaranteed Eurobonds; similar deferrals were agreed on some non-guaranteed external commercial debt. We plan to begin discussions with commercial creditors shortly after the completion of this review, with a goal to complete the needed debt operation no later than mid-2024. We are committed to achieving a debt treatment on terms consistent with the most up-to-date IMF macroframework and the parameters of the debt sustainability assessment.

42. To support our goal of safeguarding debt sustainability, we will continue to strictly limit the issuance of guarantees (*Quantitative Performance Criterion*). This limit is consistent with reinstatement of the articles of the Budget Code. In line with (126, first item), adequate space will be provided to facilitate guarantees on loans from International Financial Institutions (IFIs) and foreign governments for projects, including those for recovery and reconstruction.

F. Monetary and Exchange Rate Policies

43. Our monetary and exchange rate policies aim to safeguard price and external stability and ensure adequate international reserves. Given the exceptionally high uncertainty driven by the war, our objective remains to safeguard overall macroeconomic and financial stability, while supporting households and firms to further strengthen the recovery. Following the start of the full-scale war, we undertook several emergency measures to safeguard price and external stability, including the introduction of a fixed exchange rate regime and FX controls solely for reasons of national security. Now, as conditions evolve and the economy adjusts to the war, we too have adapted our policies to ensure we continue to meet these objectives.

Monetary Policy

44. We will maintain an appropriate monetary policy stance to support price stability, manage inflation expectations, and foster FX market sustainability.

- Headline inflation has continued to decline much faster than expected (115), thanks to the easing of supply constraints, improvements in food prices, and a stable cash exchange rate. Core inflation has also fallen considerably, as have inflation expectations. In 2024, with the war continuing, some inflationary pressures will persist due to residual war-related supply shocks, though favorable harvest expectations, limited adjustments in tariffs, and a broader environment of lower global energy prices, should restrain inflation. Thus, on balance, we expect inflation at around 6 percent by end-2023 and around 10 percent by end-2024. Looking further ahead, we expect inflation to continue its trend toward the 5 percent medium-term target. Nevertheless, upside risks to inflation outlook, most notably from the security situation, remain.
- In view of these favorable macroeconomic trends, beginning from our July Monetary Policy Committee (MPC) meeting, we have cut the key policy rate (KPR) by a cumulative 900 bps to 16 percent. However, the de facto easing cycle started in April, with a reduction in the interest rate on overnight CDs by 700 bps cumulatively to 16 percent. With inflation expected to remain under control under the baseline, we envisage a further policy rate cut in December 2023. In 2024, the easing cycle will continue if risks to external sustainability and inflation subside. Overall, in line with our Strategy, we intend to maintain appropriate real interest rates to support price and external stability.

45. We will continue to make progress in liquidity management to facilitate monetary transmission. The structural surplus of liquidity remains high (the stock of overnight CDs amounted to UAH 490 billion as of end-October 2023). The tightening in reserve requirements (by a cumulative

20 percentage points since December 2022) and their adjustment for maturity and currency have helped to contain the growth in the structural liquidity surplus in the banking system. It also supported the primary market for government bonds, and induced banks to compete for term deposits by raising interest rates. Consequently, our strategy in this area remains to prudently manage liquidity, while preserving space for banks to participate in government bond auctions and thereby prevent monetary financing. At the same time, with liquidity sizable and expected to grow, we will continue to monitor carefully liquidity conditions in the banking system, including on the timing and size of flows, to determine the appropriate design of measures to manage liquidity, as needed.

46. We continue to adjust the operational design of our monetary policy framework to restore the effectiveness of the KPR and preserve the attractiveness of hryvnia assets.

- Effective April 7, we introduced three-month certificates of deposit at the KPR, where the volume of issuance was conditional on the stock and growth of banks' term-deposits with maturity longer than 3 months. This design is bearing fruit, with an increase in the real rate of return (notwithstanding the easing cycle), as well as the total volume of hryvnia term deposits in the banking system, thereby allowing individuals to preserve the value of their hryvnia savings and support FX market stability. We continue to study the effect of this instrument amid the easing cycle and fine tune the parameters as needed to support bank competition and sustain a positive real return on hryvnia assets.
- In view of the abundant liquidity in the banking system, on October 26, we adjusted our monetary policy operational framework to a floor system from a corridor. Currently, the majority of interbank operations are liquidity absorptions, and at the overnight CD (the standing facility). Shifting to a floor system has aligned the de jure KPR with the de facto main overnight CD instrument, thereby restoring the role of the KPR in our operational design and increasing the effectiveness of our communications around the KPR. In the near term, we will continue to ensure that the parameters on standing facilities are consistent with the appropriate monetary policy stance. Over time, and consistent with the evolution of liquidity conditions, we may consider the introduction of instruments beyond an overnight maturity to achieve, among other objectives, an increase in the average maturity of our sterilization operations as well as eventually reverting to a two-way corridor.

Exchange Rate Policies

47. Despite the imbalances brought about by the war, the FX market has been stable in recent months. The NBU continues to be a net seller of FX (US\$46.5 billion between February 24, 2022, and end-September 2023). Recalibration of FX controls including measures undertaken to balance the cash FX market and monetary policy actions aimed to improve the attractiveness of hryvnia assets allowed us to keep exchange rate expectations under control and ease the pressure on FX market. Moreover, supported by sizable official inflows FX reserves have reached record highs. In recent months, the spread between the official exchange rate and the exchange rate on the cash

segment of the FX market has stabilized around 3-5 percent, reflecting recent measures undertaken to ease pressure on the cash FX market.

48. In consideration of favorable macroeconomic developments, the NBU has embarked on a successful transition from the exchange rate peg to a regime of managed flexibility. The exchange rate peg, supported by FX controls introduced solely for reasons of national security, had served as an important nominal anchor during the war. However, in line with our conditions-based Strategy to normalize monetary and exchange rate policy frameworks, the prerequisites for moving the exchange rate peg were successfully met, including declining inflation and inflation expectations, high FX reserves and stability in the FX market. Thus far, the transition has been smooth, initiated from a position of strength, with the exchange rate moving in both directions in response to market conditions. We continue to monitor the FX market closely to ensure external stability and safeguard FX reserves. We are confident that the new regime will strengthen the resilience of the Ukrainian economy and FX market by gradually allowing the exchange rate to adjust to domestic and external shocks, and reduce the risks of accumulating FX imbalances that could arise from a prolonged exchange rate peg. We will also continue to facilitate the functioning of the FX cash market to ensure a low and stable spread, in line with our Strategy, including by easing access to noncash FX and increasing cash FX supply depending on market conditions.

49. We intend to maintain adequate FX reserves through the course of the program. Thanks to strong external financing flows, stronger than expected net exports and lower private outflows, FX reserves reached record levels as of September 2023, allowing us to comfortably meet our end-June **Quantitative Performance Criteria** and end-September **Indicative Target** on net international reserves. Reflecting this overperformance, and mindful of the need to support external stability amid the prevailing uncertainty, we will continue to keep adequate reserves, and keep them at a sufficient level over the medium term; we are requesting a modification to increase the QPC on the NIR floor for end-December 2023 and the IT for end-March 2024 by US\$8.4 billion to US\$24.9 billion.

50. We plan to carefully adjust FX controls to support the economic recovery, while maintaining FX market stability and addressing national and international security considerations. Although risks to the outlook remain exceedingly high, macro-financial stability has been maintained, and imbalances in the FX market have eased in recent months. Thus, while we will maintain generally the existing controls on FX transactions and continue to carefully monitor and enhance the effectiveness of these measures, as flagged in our Strategy, we intend to selectively ease FX controls to meet the needs of the economy. This will also ease pressure on the FX cash market and anchor exchange rate expectations. This should also help, over time, eliminate the three remaining multiple currency practices, and thereby reduce incentives for circumvention and support exchange rate stability.

NBU Independence and Governance

51. In line with our commitments, there has been no monetary financing of the budget deficit in 2023. To mitigate risks to price stability as well as safeguard central bank autonomy and

enhance transparency, and in line with our intention to use monetary financing only when other options have been exhausted, the NBU and the MoF have developed, in consultation with the IMF, a framework stipulating the preconditions and procedures for short-term advances to accommodate temporary liquidity shortfalls for the duration of Martial Law. We will also avoid indirect forms of monetary financing that are outside the core functions of the NBU, such as through the directed provision of liquidity to banks for the purchase of government securities on the primary market. We commit to refrain from using NBU profit for earmarked spending in 2024 and will direct this revenue category to the General Fund of the State Budget. Direct financing of off-budget programs by the NBU will be avoided altogether.

52. We remain fully committed to upholding the independence and institutional effectiveness of the NBU. A strong and independent NBU remains critical to achieving macroeconomic stability and will support the eventual transition back to an inflation targeting framework. In this regard, we will ensure strong governance arrangements within the NBU. We have introduced an MoU between the NBU and the MoF relating to the mechanism of servicing the government's obligations to the Fund by the NBU on behalf of the MoF, and will further strengthen the related safeguards to ensure timely fulfilment of the MoF's obligations to the NBU. Finally, we will continue adhering to our profit retention rules and ensure that the distribution of NBU profits to the state budget takes place in line with procedures established by the NBU Law. We acknowledge that costs on monetary policy implementation via liquidity absorption (interest expenses on NBU CDs) are necessary and justified to support macroeconomic stability.

53. As part of our efforts to achieve our strategic goal of EU accession, we will continue to improve the conceptual framework and content of the NBU's financial reporting. We aim to provide reliable and relevant presentation of information, taking into account the purpose and unique features of the central bank's operations. With the help of technical assistance from the IMF and other partners, we will study the experiences of European national central banks, the legal framework for accounting and financial reporting in the European System of Central Banks (ESCB), and assess the NBU's readiness to transition to financial reporting in line with ESCB standards.

54. Over the medium term, we intend to carefully unwind the unconventional measures undertaken to support price and external stability in wartime. Urgent wartime challenges have necessitated the use of several nonstandard measures by the NBU to support macroeconomic stability. We will strive to ensure that such measures are well-targeted, clearly communicated and time bound. When conditions permit, we are committed to phasing out war-time measures. This will strengthen our monetary policy toolkit, safeguard NBU credibility and independence, and thereby support our goals to eventually return to an inflation targeting framework.

G. Financial Sector

55. Our wide-ranging emergency measures have preserved financial stability. We will continue to closely monitor developments in the financial sector and make adjustments as necessary. Banks entered the war well-capitalized and liquid, thanks to the considerable progress

achieved in cleaning up the banking system since 2014. Despite the severe impact of the war, the majority of bank branches have remained operational, online banking services are fully available to all clients with internet connectivity, the non-cash payment system is functioning normally, and liquidity has recovered for most banks. To ensure the continuity of the banking network, we introduced “Power Banking” in late 2022, a network of over 2,000 bank branches across the country that are capable of providing banking services to clients even during prolonged blackouts. The licenses of eight small banks (around 4 percent of system net assets as of August-2023) have been revoked under Martial Law and one bank (also around 4 percent of system assets) was nationalized.

56. In preparation for a return to normalcy, we have updated our financial sector strategy to implement a safe, coordinated, and prompt unwinding of financial sector emergency measures, while restoring accounting and prudential norms. Our 2021 financial sector strategy was updated in consultation with IMF staff to serve as a living document requiring periodic review, modification, and action plans with implementation milestones. It describes the future priorities for the financial system. Key elements of the strategy include: (i) coordinated steps to safely unwind exceptional measures (we aim to unwind most emergency prudential measures by end-March 2024 if conditions allow); (ii) diagnostics to quantify bank asset values and NPL resolution priorities; (iii) a framework to safely address any potential vulnerabilities; (iv) a prioritized action plan to monitor and tackle high NPL levels; (v) well-developed contingency plans to respond to potential further shocks; (vi) prioritized transposition of EU banking norms; and (vii) coordination arrangements among key stakeholders, including to consider any new initiatives that relate to policies in the strategy. We published non-market sensitive parts of the strategy in August 2023.

57. Recognizing the importance of well-informed financial sector policies, the NBU is undertaking detailed bank diagnostics. These are critical to ensure prudent and consistent valuation of banks’ assets, informing triage and the modalities of eventual balance sheet cleanup. In line with the Terms of Reference adopted by the NBU in January 2023, we will: (i) complete an independent asset quality review (AQR) once conditions have stabilized; (ii) carry out a subsequent bank viability assessment, and (iii) prepare a prioritized interagency NPL resolution action plan by end-June 2024. The current prohibition on bank capital distributions will remain in place until after the independent AQR findings have been fully reflected in banks’ regulatory ratios and financial statements. To better understand current banking system conditions and to inform supervisory priorities, the NBU with technical support of the World Bank has initiated a resilience assessment that includes an asset valuation and solvency assessment of banks comprising 90 percent of banking system assets that will be completed by end-December 2023.

58. We are determined to take the necessary steps to continue to preserve financial stability and limit potential fiscal cost of any interventions. Our priorities will focus on continued preservation of financial stability whilst ensuring financial and operational readiness to respond adeptly to shocks. The additional temporary tax on banks’ profit effective for 2024 will be introduced in such a way that it will not distort income structures, nor create financial stability risks or monetary transmission imbalances. Further, the announcement of the permanent increase in CIT on banks profits, after the temporary measure expires, will provide banks with planning stability and help

them prepare their balance sheets to absorb a measure that brings banks' CIT closer to levels in many EU countries. To prevent any shocks to the banking sector, the NBU will take the impact of this tax into account in banks' capital management plans. The NBU and Deposit Guarantee Fund (DGF) have prepared contingency plans to respond to further potential high-impact events in their respective areas, in consultation with key stakeholders and IMF staff. The Financial Stability Council has approved those plans related to preparation for potential adverse rulings from the constitutional challenges against the DGF Law and the Bank Resolution Law (Law #590), and an updated contingency plan to prepare for litigation risks concerning past bank resolution decisions. We will continue to monitor developments and update these plans as needed. We shall also continue working on our longstanding priorities including timely recovery of value from historical non-performing loans (NPLs) and assets of resolved banks whilst maximizing the recovery of economic value.

59. The DGF, MoF and NBU will prepare a bank rehabilitation framework in consultation with IMF staff (*Structural Benchmark, proposed to be reset for end-December 2024*). It will include: (i) financial backstop mechanisms and improvements to the DGF's financial position; (ii) measures to strengthen operational readiness, including regularly updated bank recovery and contingency plans; and (iii) improving procedures to implement bank resolution tools and early intervention measures, including temporary administration for anti-crisis management; and (iv) alignment of the NBU's frameworks for counterparty eligibility in monetary policy operations and for lender-of-last-resort operations with international best practice. As interim steps, the DGF and NBU will prepare in consultation with IFI stakeholders (i) a diagnostic note by end-February 2024 to assess current bank resolution infrastructure, including analysis of current challenges with information sharing, coordination arrangements as well as the effectiveness of decision making and operations during pre-resolution, resolution and post-resolution based on past lessons learned and international good practice; and (ii) based on the diagnostic, a roadmap by end-April 2024 that sets out the reform agenda to further strengthen the authorities' resolution and crisis-management capacity, including to close key outstanding gaps by end-December 2024, building on the progress under past reforms and taking into account any relevant longer-term goals related to EU accession.

60. All our decisions will be consistent with our overall strategy to reduce state ownership in the banking sector. Any decision that has the potential to increase state ownership in the banking sector will be taken in consultation with IMF staff and be strictly limited to matters related to preserving financial stability and national security decisions during the Martial Law period. All banks with majority state ownership will remain under the responsibility of the MoF and any nationalized non-systemic banks will be immediately transferred to the DGF for resolution (***Proposed Continuous Structural Benchmark***). We are considering how to include our vision for state-owned banks and financial institutions in our Financial Sector Strategy. In the immediate future, the key steps are as follows:

- Preparing and implementing a framework to inform decisions on any additional banks that come under State control, which aims to preserve value, ensure effective operational management, and reach decisions on the future of such banks.

- We will continue to undertake analysis on the state of the banking system and wartime developments and needs. Drawing on this and the NBU's resilience exercise, we will consider whether the general SOB strategy under Martial Law and those for individual SOBs should be updated prior to the independent AQR. Once the independent AQR is concluded, we will use its results to update the general SOB strategy and subsequently, strategies for individual SOBs, including with respect to privatization (in line with our Financial Sector Strategy).
- In preparation for SOB privatization, we will review and update as necessary the 2012 draft law on SOB privatization in consultation with IFIs and submit it to Parliament by end-March 2024.
- Develop strategies for the Ukrainian Financial Housing Company and Export Credit Agency, by end-November 2024 to align with the general targets of financial sector development.

61. We will take further steps to align financial and credit market infrastructure with international good practice.

- *Financial reporting.* We will restore the legislative obligations to submit financial statements and audit reports for financial institutions for the 2023 financial year, and for business entities located outside the occupied territories for the 2024 financial year.
- *Bank capital rules.* In recognition of the importance of preparing for EU accession, we have undertaken a gap analysis relative to the EU Capital Requirements Directive and Regulation. We will close the identified gaps in the regulatory capital structure by end-December 2023, and will close other gaps by end-December 2024.
- *Property valuations law.* In recognition of the need for prudent (fair) valuation of real estate and bank collateral for all economic entities and public authorities, the State Property Fund (SPF) will consult with key stakeholders, including the NBU and IFIs, and by end-March 2024: (i) in coordination with the World Bank, develop provisions that will improve the draft amendments to the law registered in Parliament "On Valuation of Property, Property Rights and Professional Valuation Activities in Ukraine" (#7386) that closes the gaps with international valuation standards, and (ii) Propose an implementation roadmap that includes transitional arrangements, details of supportive regulation and/or guidance, and steps to strengthen the profession including additional requirements and specialized licensing for valuation of banking assets, insurance assets and collateral.
- *Immovable property databases and indices.* To increase the transparency of the real estate market for participants including international investors, strengthen systemic risk analysis and mitigation, and bank collateral valuations, the NBU and Ministry of Justice will consult with key stakeholders, and prepare a detailed proposal by end-March 2024. This proposal will include details and timelines for introducing: (i) a publicly accessible database of real estate transaction prices that includes detailed metadata including structural parameters of primary and secondary market; and (ii) residential and commercial property price indexes. Based on this proposal, the

NBU will prepare a framework for the development and annual publication of property price index forecasts.

- *Bank remuneration.* The NBU will strengthen the framework for remuneration policies of banks by end-December 2023, to introduce requirements to limit variable compensation and payment mechanisms for senior bank management, while aligning it with EU standards (Articles 92-96 of Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 and Commission Delegated Regulation (EU) No 2021/923 of 25 March 2021).
- *Virtual assets.* The current legal framework for virtual assets could pose risks to price stability and the effectiveness of monetary transmission. The NBU and NSSMC will prepare an update of the legislation with input from IMF technical assistance and in consultation with IMF staff by end-June 2024 to align with international best practice while considering economic development goals and mitigating price and financial stability risks.

62. We are fully committed to further strengthening banking supervision.

- *Governance and oversight.* We have taken the following actions in 2023: (i) separated the related-parties unit from banking supervision; and (ii) strengthened Supervisory Committee decision-making by implementing “supervisory panels” as a consulting body to the Committee that provides additional independent review by relevant subject matter experts. The goal is to foster challenge of the recommendations of supervisory teams, promote horizontal communications among stakeholders as well as consistency in decision making, and highlight issues that need special attention; and (iii) in recognition of the critical importance of onsite inspections, we have resumed scheduled inspections for both banking and non-banking institutions, while ensuring NBU discretion on matters related to staff safety. We will undertake a survey of the effectiveness of the new supervisory panels by end-September 2024 in consultation with IMF staff.
- *Transition to risk-based supervision.* We will prepare and implement a supervisory risk assessment methodology to inform supervisory engagement priorities (**Structural Benchmark, end-June 2024**). We will apply this methodology to all banks and prepare a supervisory action plan by end-December 2024. We will also adjust the organizational structure for bank supervision to leverage efficiencies as we transition to a risk-based approach; and further improve the professional capacity of bank supervision, which will include the development of professional profiles needed and a multi-year training program for new hires.
- *AML and Banking Supervision.* We will continue strengthening our oversight of banks and payment service providers. Most recently, improved oversight of gambling businesses has helped end illegal tax evasion schemes and has resulted in a ten-fold increase in tax collections from the gambling business in 2023 relative to 2022.

63. We will strengthen the legal, regulatory, and supervisory framework for non-bank financial institutions (NBFIs) and financial markets.

- *Beneficial ownership.* The NBU has required all NBFIs (except credit unions) to disclose their owners and remedy any opaque ownership structures since October 2021. We will continue to monitor and take supervisory actions against those NBFIs that do not meet this requirement.
- *Legal framework.* In December 2021–July 2023 we passed legislation on Financial Services and Financial Companies (#1953), Insurance (#1909) and Credit Unions (#3254). Most provisions of these laws will come into force in January 2024 and the NBU is preparing implementing regulations. Rules for insurance intermediaries apply from January 2025, and Solvency II will apply from January 2027. The NBU and DGF plan to initiate development of a deposit insurance framework for credit unions and a guarantee framework for life insurance companies after Martial Law is lifted and once the regulations required for enforcing the new laws are put into effect. In order to strengthen the governance of the Motor (Transport) Insurance Bureau of Ukraine (MTIBU), we have submitted amendments to the Law of Ukraine “On Compulsory Civil Liability Insurance of Land Vehicles Owners (#8300) to Parliament. We will also ensure that the law will be adopted by Parliament by end-May 2024. In addition to improving governance, once passed, the law will help improve the state supervision of the MTIBU’s activities and align with the European Motor Insurance Directive (2009/103/EC).
- *Capital and reporting requirements.* To further strengthen the NBFIs market, the NBU will increase capital requirements for financial companies by end-December 2023 and will provide a six-month transition period for existing entities to align their operations with the new requirements. To further strengthen the payments market, we will submit draft legislation to Parliament, that will strengthen regulatory requirements for market participants by end-December 2023; we will ensure the adoption of the law by end-May 2024. Moreover, the NBU will increase capital requirements for payment market participants aligned with the EU payment services directive (PSD2, 2015/2366) and international good practice by end-June 2024. The NBU will also prepare a supervisory risk assessment methodology by end-September 2024 that distinguishes between the types of NBFIs with the aim to transition to a risk-based supervision approach for NBFIs.
- *Market oversight.* We remain committed to enacting legislation that amends the Law (#5865) on the National Securities and Stock Market Commission (NSSMC) to enhance the NSSMC’s powers, independence and institutional capacity, and its cross-border and domestic cooperation mandate. We will ensure that the law: considers the mandate of other regulators, and we will move swiftly to align with IOSCO principles to allow Ukraine to become a signatory of IOSCO’s multilateral MoU by end-December 2024 with full implementation of the other provisions of the law by end-December 2025. The NSSMC will take steps to enhance the operational efficiency of NBU’s capital controls in consultation with the NBU.
- *Regulatory effectiveness.* We will exclude NBU regulations for NBFIs from the scope of Law of Ukraine “On principles of state regulatory policy in the field of economic activity”, which already exempts other NBU regulations from its scope. We commit that draft NBFIs regulations will be subject to a public consultation process that is consistent with EU norms.

64. In recognition of its important catalytic role in post-war economic recovery, we will prepare financial market infrastructure.

- *Capital market infrastructure.* Mechanisms are needed for foreign investors to directly access marketable debt instruments beyond government securities. The NBU in consultation with key stakeholders will analyze the current state of Ukraine’s capital market infrastructure and identify priority pathways for its development.
- *War risk insurance system.* The NBU, together with the Ministry of Economy and Ministry of Finance, will develop a concept note for the establishment of a fully functional war insurance system by end-January 2024.
- *Credit conditions.* The NBU in consultation with key stakeholders will prepare a comprehensive strategy to support resumption of lending, with due regard to financial stability, by end-May 2024.
- *Responsible consumer lending.* We remain committed to having the Law “On Amendments to Certain Legislative Acts of Ukraine on Improving State Regulation in the Field of Consumer Lending” (#9422) adopted by Parliament by end-2023. It will facilitate alignment of NBF consumer lending with international standards and promote development of responsible price setting for consumer loans.

65. We will postpone the implementation of the Law on Administrative Procedures (#2073–20) for the NBU, the DGF and the NSSMC until end-December 2024 recognizing that wartime priorities have placed a significant burden on these institutions. The implementation of this law for these institutions will be preceded by a comprehensive assessment of its implications on their activities and the adoption of appropriate measures, including where necessary any legislative changes, before the implementation date. This will help ensure a balance between due process requirements and the ability of these institutions to deliver their respective mandates effectively in accordance with their founding and special laws in the area of financial services. The assessment will be conducted by end-June 2024 by a specially established working group under the Financial Stability Council in consultation with IFIs.

66. Finally, we will continue our efforts to recover value from former shareholders of failed banks. We reconfirm our commitment to continue efforts to recover value from assets of failed banks and to abstain from any interference with the current asset recovery strategies of the largest bank nationalized in 2016 and of the DGF.

H. Governance and Growth

Promoting Medium- and Long-Term Growth

67. We remain committed to advancing a structural reform agenda that will lay the foundations for robust post-war growth and pave the path for EU accession. Ukraine will need

high and sustained rates of economic growth after the war, to restore its economy and recover standards of living for its population as swiftly as possible. This will require unprecedented amounts of investment, including from continued donor support, inward migration and rebuilding of human capital. The public sector will play an important role in the recovery process, and we fully acknowledge that measures to increase efficiency and transparency of public sector governance will be critical to facilitate much-needed donor financing. We also recognize that a large part of investment will have to come from private sources, and that reforms and measures aimed at ensuring the rule of law, independent and strong anti-corruption institutions and achieving a level playing field for businesses will be critical to attract the needed investments as well as to encourage the return of migrants. In the near term, our efforts will focus, inter alia, on strengthening the public procurement system with a view to align it with the EU acquis and implementing measures to deregulate economic activity and improve the business climate. Furthermore, we envision a strong, stable banking sector being an important pillar of the reconstruction phase. Market-based financial intermediation will help enable the private sector in mobilizing savings toward the recovery, which would help enhance productivity and support high and sustained growth.

68. Overall, we will follow an integrated strategy for critical spending for the recovery and reconstruction. Based on a joint analysis by the Government of Ukraine, World Bank, European Commission, and the United Nations, the second Rapid Damage and Needs Assessment (RDNA2) estimated US\$411 billion for the total cost of recovery and reconstruction. Our near-term sectoral priorities focus on housing, utilities, social infrastructure, demining, transport, energy infrastructure and the private sector. We are strongly committed to implementing an integrated strategy to include such reconstruction and recovery spending in the program design, while taking into account debt sustainability concerns, including assessing the availability of the appropriate financing mix (i.e., grants and concessional financing), absorption capacity, and the treatment of public guarantees (see ¶43). Overall, we commit to use budgetary processes for financing our reconstruction efforts in a transparent manner, which follows the principles of budget unity, coherence, and predictability with clear distribution of roles among the key stakeholders, and this will be reflected in the public investment management roadmap, including a strong gatekeeper role of the MOF (¶32, ¶33).

69. Our strategy for post-war reconstruction will meet the highest standards of transparency and accountability. In coordination with international partners we plan to take full advantage of digital technologies in implementation of the full cycle of public investment projects (¶33, 67). Comprehensive audits of the use of reconstruction funds, performance audits of selected individual projects (including project costs, deliverables and outputs), and timely publication of audit reports will also be key features of the reconstruction strategy. The strategy will integrate and implement mechanisms to prevent and identify corruption risks, and cases will be referred, as appropriate, for follow-up by the anti-corruption institutions. In line with their memorandum of understanding, the NABU and the State Agency for Restoration and Development will continue cooperation efforts and exchange of information to prevent and detect corruption.

70. We will take steps to reform and enhance the Anti-Monopoly Committee of Ukraine (AMCU). In September, we enacted amendments to strengthen the legal framework of the AMCU to

enable it to effectively implement its capacities to promote market competition and combatting monopolistic practices. We plan to continue improving AMCU's legal framework and institutional capacity to ensure AMCU's institutional independence, enhancing and strengthening its enforcement powers.

Anti-Corruption and Rule of Law

71. Our reform agenda on anti-corruption and rule of law aims at effectively combatting corruption, sustaining public confidence, and advancing towards our goal of EU membership.

We remain firmly committed to preserving independent, competent and trustworthy institutions to combat high-level corruption. We will preserve the hard-won advances on building an independent and effective anti-corruption infrastructure and prevent any backtracking from progress made.

72. Asset declaration obligations of public officials, including public access, has been restored. A law was enacted in October that restores the obligation of public officials (not directly involved in the mobilization and war efforts) to submit and disclose their asset declarations and reinstates the function of the National Agency for Corruption Prevention (NACP) to examine and verify the asset declarations. In addition, it brings back full public access to asset declarations of public officials (subject to prescribed exemptions on personal security), in response to public demand for transparency and a September presidential veto. To support the filing of public officials, the NACP also enhanced the asset declaration system to allow for automatic populating of information from other linked databases and registers (including for real estate, vehicles, income, shares, corporate rights, and beneficial ownership), while keeping with the public official's obligation for truthful and timely submission of asset declarations (**Structural Benchmark, end-October**). Moving forward, we will effectively implement the restored asset declaration system by ensuring submissions by end-January 2024 as per the enacted law, and by monitoring public officials' obligation to submit truthful, complete and accurate asset declarations (particularly, assets that are beneficially owned by them and their family members). In this regard, the NACP will maximize technological solutions to effectively analyze asset declarations and adopt a risk-based approach towards verification. Overall, having an effective asset declaration system will be critical for promoting public and donor trust while helping to safeguard public funds, especially for reconstruction and recovery.

73. We remain committed to strengthening the effectiveness of anti-corruption institutions.

- Building on the SAPO draft law submitted in September and to further strengthen the institutional autonomy and capacities of the SAPO within the constitutional framework, legislation will be adopted to: a) improve the selection procedures of the SAPO head and key officials with a crucial role and decisive vote of independent experts with international experience; (b) strengthen its capacity to regulate its organizational activities including its designation as a separate legal entity within the Prosecutor General's Office; (c) establish mechanisms for discipline and accountability of SAPO leadership (including performance evaluation and a periodic external audit conducted by independent experts with international

experience in anti-corruption law enforcement); and (d) enhance its procedural autonomy in prosecuting corruption cases via amendments to the criminal procedural code such as extending periods for investigations, and settling disputes of investigative jurisdiction involving the NABU as well as carrying out joint investigations (**Structural Benchmark, end-December 2023**).

- As provided for in the law, the external audit of the NABU's effectiveness with participation of three independent experts with international experience will be completed and its report published (**Proposed Structural Benchmark, end-September 2024**), following one year from the March 2023 appointment of its new head. To effectively implement the law empowering the NABU to intercept communications (wiretapping), we will develop a plan for implementation in the post-Martial Law period to provide resources, equipment and technological solutions for the NABU to independently intercept communications of landlines and mobile devices. Consistent with our broader reform plans for the forensic expert system for criminal law enforcement, we will ensure that the NABU has access to independent and competent forensic experts, to enable it to effectively conduct its investigative mandate, including investigating complex corruption schemes.
- Twenty-four new vacancies to the High Anti-Corruption Court (HACC) both at the first instance (15 vacancies) and appellate (9 vacancies) levels have been announced by the High Council of Justice in September. We will ensure the open and competitive selection for these new vacancies and adequately provision for their staffing and office needs. In this regard, the Public Council of International Experts will be reconstituted with nominations from the international and foreign organizations in line with the law, and the final appointments will be completed by end-July 2024. To enhance its efficiency and facilitate hearings, amendments to the procedural code will be enacted to rationalize matters or issues to be heard at the first instance by one HACC judge or by a panel of three HACC judges (**Proposed Structural Benchmark, end-March 2024**).

74. We are advancing work toward ensuring an effective risk-based AML regime. The key goal of the AML/CFT framework is to prevent, detect and deter the laundering of proceeds of corruption through effective risk-based AML/CFT supervision. In light of the November 2022 amendments to the AML/CFT framework, we have amended the AML/CFT law in October to re-establish the obligations of financial institutions to implement enhanced due diligence measures on politically exposed persons (PEPs) on a risk-based approach consistent with the Financial Action Task Force (FATF) standards. For the amendments to the AML/ CFT law, we have not included a government-issued PEP registry with names, as it would be otherwise inconsistent with the FATF standards. After resuming scheduled inspections and adopting amendments to the AML/CFT law regarding PEPs, the NBU will conduct a thematic inspection of the financial institutions' compliance with enhanced customer due diligence on PEPs by end-June 2024. By end-August 2024, the NBU will issue guidance for financial institutions and other covered non-bank institutions, consistent with the FATF standards, for using risk-based approach regarding PEPs, which will include relevant case examples. In this regard, we are committed to invest in building the capacity of new and existing NBU staff to improve organizational performance, remain flexible and respond rapidly to changes and challenges in the AML/CFT framework. We will also improve the effectiveness of the beneficial

ownership regime to enhance transparency in public procurement, detect conflicts of interest through transparent ownership structures, and prevent the misuse of companies.

75. We are committed to advancing the rule of law and judicial reforms. In line with our commitments toward EU membership, the law strengthening the vetting process for candidates to the Constitutional Court has been approved in August. We are currently establishing the six-member Advisory Group of Experts (with three members being nominated by international partners) and will proceed with the open competition for the vacancies for the Constitutional Court judges. We will complete the appointment for the remaining vacancies of the High Council of Justice by ensuring open and transparent proceedings by the Ethics Council. Following the dissolution of the Kyiv District Administrative Court in December 2022, we will enact a law to establish a new court that will hear administrative cases against national state agencies (e.g., NBU, NABU, NACP) by judges who have been properly vetted for professional competence and integrity with decisive and crucial vote of independent experts with international experience (*Proposed Structural Benchmark, end-July 2024*).

76. We intend to conduct a new Governance and Corruption Diagnostic with IMF technical assistance, after Martial Law has been lifted. The published report will assess corruption vulnerabilities and governance weaknesses linked to key state functions and lay out future reforms in a post-war scenario. In this regard and in light of the Anti-Corruption Strategy approved by the Rada in June 2022, the NACP will publish annually a report on its implementation.

Corporate Governance in SOBs and SOEs

77. We will continue to strengthen the governance of state-owned banks (SOBs). We remain committed to upholding the spirit of corporate governance reforms in SOBs and ensuring their operation on a professional and commercial basis, without political interference on operational matters. We appointed a fresh slate of independent supervisory board members to the SOBs in the first half of 2023. The NBU is currently applying its fit and proper assessment framework to selected candidates. Upon completion of the selection process in this cycle, we have assessed the effectiveness of the new procedures and will make some minor adjustments to procedures in consultation with IFI stakeholders. We will also implement a procedure for conducting performance assessments for all SOBs in 2024. The first such performance assessment will be conducted for each of the banks in early 2025 (based on 2024 performance). In August 2025, the MoF will publish the key findings of its first annual assessment, together with Cabinet's proposed actions to address the findings.

78. We are committed to strengthen corporate governance in SOEs. A draft law (#5593-D) bringing the SOE corporate governance framework broadly in line with OECD Guidelines on Corporate Governance of SOEs and to mitigate fiscal risks, will be adopted by early 2024. This reform, inter alia, aims to establish a regular independent evaluation procedure of SOE supervisory boards and clear criteria for early supervisory board dismissal. Overall, it will strengthen the accountability and broaden the powers of supervisory boards, so they have the ultimate authority to appoint and dismiss CEOs and set CEO remuneration (based on the state's remuneration policy).

From a budget funding and PFM perspective to limit quasi-fiscal risks and safeguard debt sustainability, we will ensure a strong gatekeeper role of the MoF in its relationship with SOEs on financial predictability, reporting, transparency, and accountability, including approving the key financial metrics through the financial plans or in the annual owner's letters for natural monopolies and strategic SOEs. During the time of Martial Law and 12 months thereafter, but not for a period of more than 3 years, a minimum level of SOE dividends will be set in #5593-D. Once the draft Law #5593-D is adopted, we will follow up with a new secondary legislation that will implement this law such as the operationalization of SOEs' financial planning process, including financial indicators that are consistent with the gatekeeper role of the MoF. This will also include a revamped nomination process and effective independent evaluation procedure for SOE supervisory boards, consistent with OECD standards. The legal framework established by #5593-D shall not be applicable to state-owned banks.

79. We are exploring options to strengthen SOE management through the existing SOE corporate governance reform agenda in close consultation with international partners.

Drawing on best practices and putting it into the context of the ongoing SOE corporate governance reforms, we will clearly define the scope and mandate of options for strengthening SOE management, such as centralized modes, including defining the roles and mandates of key government institutions engaged in management of SOEs, such as the MOF, MOE, CMU, and SPFU. To start with, we will follow the following SOE reform agenda (as discussed in ¶77) and policy sequencing in close consultation with international partners, including: (i) passing the SOE corporate governance law; (ii) implementing related secondary legislation, including establishing a methodology for and subsequently conducting regular independent evaluations of SOE supervisory boards; (iii) as an interim step, assessing the financial conditions and fiscal risks of the SOEs in the state ownership policy by end-March 2024; and (iv) producing a comprehensive state ownership, dividend policy and privatization strategy (**Proposed Structural Benchmark, end-August 2024**). The content of this strategy will be discussed and agreed upon in coming reviews. Importantly, the above-mentioned steps are essential preconditions for exploring options to strengthen SOE management. More broadly, we will also assess the financial viability of key SOEs as an input to developing a framework to deal with quasi-fiscal costs, including legacy Public Service Obligations (PSOs).

80. We remain strongly committed to energy corporate governance reforms. We are committed to implement the needed and critical corporate governance reform at the Gas Transmission System Operator (GTSO). To that end, we implemented all the following steps: (i) transferring the GTSO shareholding from MGU to the Ministry of Energy on September 22, and adopting the new charter on October 27, developed and agreed with the NEURC in consultation with the Secretariat of the Energy Community (**end-July 2023 Structural Benchmark, not met**); and (ii) selection and appointment of a supervisory board for the GTSO (**Structural Benchmark, end-October 2023**). We commit to ensure an independent evaluation of the GTSO supervisory board one year after its appointment. Regarding other critical energy SOEs, we will seat a seventh member on Naftogaz's and Ukrenergo's supervisory boards, and also commit to launch an independent evaluation of their supervisory boards in early 2024 and conclude it by end-June 2024.

Energy Sector Reforms

81. We are strongly committed to implementing, once conditions allow, a timely and ambitious reform agenda aimed at tackling the longstanding structural challenges in the energy sector that have been compounded by the war. Ukraine's critical energy infrastructure has been swiftly repaired following frequent attacks, the country resumed electricity exports to neighboring countries in April, and gas storage was swiftly refilled ahead of the 2023/24 heating season according to the government target. We have also increased household electricity prices as of June 1 to help restore the energy system's stability ahead of the 2023/24 heating season. We are well prepared for the winter season, including plans to repair critical energy infrastructure. Once the war winds down, the reform agenda in the energy sector will, inter alia, require restoring and enhancing competition in wholesale and retail gas markets. Furthermore, ensuring sustainability of the system and reducing quasi-fiscal liabilities will necessitate a gradual increase in gas and electricity tariffs to cost recovery while allocating adequate and well-targeted resources to protect vulnerable households.

82. Our immediate priority is to contain the adverse impact of the war on the sector. This implies ensuring sufficient resources can be channeled to key large SOEs. In the short term, the menu of options includes tariff increases, securing external financing, and providing transparent and exceptional direct budget support pending available budgetary resources.

- Restrained domestic consumption as well as resilient and expanding domestic production have limited the need for gas imports for this heating season. For the next heating season in 2024/25, up to 2 bcm of additional gas imports could be required under the baseline, but we expect the amount to be lower from the expanded production capacity by Naftogaz. Naftogaz has secured additional financing for gas imports through the EBRD and bilateral donors. In case Naftogaz faces a liquidity shortfall, we will assess the amount of PSO compensation in 2024 based on actual documentary proven expenditures of Naftogaz verified by the State Audit Service and other stakeholders. The relevant calculations will be finalized by end-August 2024. The potential spending pressure from gas imports and PSO compensation will be accommodated through an adjustor on fiscal balance targets, subject to the above assessment, available financing, and capped at UAH 60 billion (about 1 percent of GDP).
- The GTSO revenues have been impacted by many factors including low tariffs, large unauthorized gas offtakes, payments to Naftogaz, and a drop in transit revenues since May 2022, as a key entry point is located in occupied regions. The GTSO is reducing expenditures (including on investment) to maintain its liquidity, and once the critical corporate governance reforms are finalized (see ¶180), the company's strategy should be speedily adjusted to reflect its new operating environment by rightsizing the system and identifying alternative sources of supply. This will be critical for the GTSO to prepare financially and operationally for a possible zero transit scenario when the transit contract expires end-2024. In particular, we will adopt draft law #6133 that allows for a special regime of operations for GTSO to reduce its operational expenditures and maintenance for non-critical gas transmission purposes.

- District Heating Companies (DHCs) have accumulated a significant stock of arrears to Naftogaz before and since the start of the war, which are a result of accumulated tariff differentials and the impact of the war. We will tackle this issue comprehensively once war-related pressures on the budget subside by developing a new tariff methodology. In the interim, we will establish the stock of arrears and financial condition of DHCs through a desk review, by a reputable audit firm, which will distinguish arrears before and after February 2022 (**Proposed Structural Benchmark, end-June 2024**). This will help clarify the stock of arrears and the financial situation of DHCs, including the drivers of the arrears' accumulation, ahead of the heating season in 2024/25.

I. Program Monitoring

83. Program implementation in 2024 will be monitored through quarterly reviews via quantitative performance criteria, indicative targets, and structural benchmarks. We commit to provide to IMF staff all the data needed for adequate monitoring of the program, including the data and information detailed in the attached TMU. The complete schedule of reviews is presented in the companion staff report, and quantitative conditionality is detailed in Table 1. The program will also be monitored through the continuous performance criterion (PC) on the non-accumulation of external payments arrears and standard continuous PCs. Structural Benchmarks described in this MEFP are summarized in Table 2. The third and fourth reviews are expected to take place on or after February 29, 2024, and June 15, 2024, respectively, based on quantitative performance criteria for end-December 2023 and end-March 2024, respectively, and corresponding structural benchmarks.

Table 1. Ukraine: Quantitative Performance Criteria and Indicative Targets

(end of period; billions of Ukrainian hryvnia, unless indicated otherwise)

	Jun 2023					Sep 2023					Dec 2023		Mar 2024		Jun 2024		Sep 2024		Dec 2024
	QPC	Adjustor	Adjusted QPC	Actual	Status	IT	Adjustor	Adjusted IT	Actual	Status	QPC	Proposed Rev. QPC	QPC	Proposed Rev. QPC	IT	Proposed Rev. IT	Proposed IT	Proposed IT	
I. Quantitative Performance Criteria 1/ 2/																			
Floor on the non-defense cash primary balance of the general government, excluding budget support grants (- implies a deficit) 2/ 3/	213,000		213,000	278,872	Met	242,900		242,900	404,895	Met	96,737	105,000	100,000	140,715	150,000	257,184	368,313		415,410
Floor on tax revenues (excluding Social Security Contributions)	696,400		696,400	747,986	Met	1,094,700		1,094,700	1,187,653	Met	1,679,170	1,653,992	420,000	426,300	835,000	880,400	1,398,600		2,042,250
Ceiling on publicly guaranteed debt 4/	37,000	11,917	48,917	17,731	Met	37,000	11,917	48,917	19,571	Met	37,000	37,000	46,000	47,900	46,000	47,900	47,900		47,900
Floor on net international reserves (in millions of U.S. dollars) 5/	16,500	-63	16,437	26,284	Met	16,500	-1,975	14,525	28,138	Met	16,500	24,900	16,500	25,400	16,500	25,300	25,400		23,000
II. Indicative Targets 1/ 2/																			
Floor on the cash balance of the general government, excluding budget support grants (- implies a deficit)	-730,000		-730,000	-660,336	Met	-1,141,100		-1,141,100	-1,027,513	Met	-1,674,500	-1,744,668	-354,000	-344,485	-750,000	-725,996	-1,123,107		-1,557,208
Ceiling on general government arrears	4,500		4,500	1,620	Met	3,000		3,000	1,690	Met	1,600	2,000	1,600	2,000	1,600	2,000	1,800		1,600
Floor on social spending	249,000		249,000	276,051	Met	359,600		359,600	402,556	Met	499,600	499,600	172,000	130,000	270,000	262,500	390,000		537,800
Ceiling on general government borrowing from the NBU 6/ 7/	-2,573		-2,573	-2,573	Met	-1,153		-1,153	-1,153	Met	-704	-704	-9,500	-9,500	-2,884	-2,884	-1,153		-704
III. Continuous performance criterion 1/ 2/																			
Ceiling on non-accumulation of new external debt payments arrears by the general government	0		0	0	Met	0		0	0	Met	0	0	0	0	0	0	0		0
IV. Memorandum items																			
External project financing (in millions of U.S. dollars)	62	...	...	63	...	381	...	...	172	...	1,555	894	32,700	8,647	65,400	413	832		1,496
External budget financing (in millions of U.S. dollars) 8/	19,934	...	...	19,870	...	30,615	...	...	28,849	...	37,627	40,956	356,223	8,521	712,367	17,367	26,548		31,565
Budget support grants (in millions of U.S. dollars)	7,409	...	...	7,374	...	11,073	...	...	9,924	...	11,573	14,909	79,040	3,103	158,000	5,937	8,770		8,770
Budget support loans (in millions of U.S. dollars) 8/	12,525	...	...	12,496	...	19,542	...	...	18,925	...	26,054	26,048	277,183	5,417	554,367	11,430	17,778		22,795
Interest payments	124,000	...	...	120,038	...	183,600	...	...	176,913	...	283,000	260,218	57,910	49,500	215,000	161,780	284,320		429,820
NBU profit transfers to the government	71,868	...	...	71,868	...	71,868	...	...	71,868	...	71,868	71,868	0	0	20,000	17,700	17,700		17,700
Government bonds for the purposes of bank recapitalization and DGF financing	0	...	...	0	...	0	...	...	0	...	0	0	0	0	0	0	0		0
Spending from receipts resulting from sales of confiscated Russian assets and transfers of bank accounts	25,800	...	...	0	...	25,800	...	...	3,700	...	25,800	25,800	25,800	0	25,800	0	0		2,370
Spending on gas purchases, PSO compensation and transfer to GTSO	30,000	...	...	0	...	45,000	...	...	0	...	60,000	60,000	0	0	30,000	0	60,000		60,000

Sources: Ukrainian authorities and IMF staff estimates and projections.

1/ Definitions and adjustors are specified in the Technical Memorandum of Understanding (TMU).

2/ Targets and projections for 2023 are cumulative flows from January 1, 2023. Targets and projections for 2024 are cumulative flows from January 1, 2024.

3/ Starting with June 2023, the floor on the non-defense cash balance of the general government excluding grants is redefined to include general fund defense expenditures only.

4/ Starting in June 2023, the ceiling on government guarantees was converted into a quantitative performance criteria.

5/ Calculated using program accounting exchange rates as specified in the TMU.

6/ For end-April, calculated cumulative from April 1, for end-June from May 1; for remaining test dates, from end of previous quarter.

7/ Calculated using the projected redemption of government bonds as of May 28, 2023.

8/ Excludes prospective IMF disbursements under the EFF.

Table 2. Ukraine: Structural Benchmarks (new SBs in blue text; purple indicates new timing)

	Structural Benchmark	Sector	Timing	Status
1	Enact the second supplementary Budget 2023	Fiscal	End-April 2023	Met
2	Submit to Parliament a draft law to restore and strengthen Article 52 of the Budget Code to minimize ad hoc amendments to the budget law	Fiscal	End-May 2023	Met
3	Prepare an action plan, including to address the weaknesses identified in taxpayers' perception survey, as an input into National Revenue Strategy roadmap	Fiscal	End-May 2023	Met
4	Submit to Parliament a draft law which will reinstate articles of Budget Code that establish limits on issuance of public guarantee with clear criteria for such provision (including for priority sectors)	Fiscal	End-May 2023	Met
5	Enact amendments to the Budget Code and related regulatory framework to enhance transparency and accountability of the special accounts and consolidate them within general government as a special fund of the State Budget	Fiscal	End-May 2023	Met
6	Prepare a conditions-based strategy to move to a more flexible exchange rate, ease FX controls and transition to inflation targeting	Monetary and Exchange Rate	End-June 2023	Met
7	Adopt the draft law on tax policy and administration prepared under the PMB	Fiscal	End-July 2023	Not Met (implemented with delay)
8	Transfer the GTSO shareholding directly to the Ministry of Energy and adopt the new charter	Energy/ Corporate Governance	End-July 2023	Not Met (implemented with delay)
9	Enact the law to restore asset declaration of public officials not directly involved in the mobilization and war efforts and reinstating the NACP's function to examine and verify them	Governance/ Anti-Corruption	End-July 2023	Not Met (implemented with delay)
10	Enact the articles of the Budget Code that allow preparation of the medium-term budget framework, elaboration of the debt strategy, and ringfencing risks from guarantees.	Fiscal	End-September 2023	Met
11	Present in the 2024 budget declaration projections for major revenue and spending categories and sources of deficit financing for 2025-2026, and a fiscal risks statement including details on energy and critical infrastructure SOEs	Fiscal	End-September 2023	Met
12	Develop a concept note on the 5-7-9 program with proposals to target small and medium enterprises by phasing out the eligibility of large companies, enhance monitoring, and maintain adequate safeguards.	Fiscal	Reset to End-March 2024	Not Met
13	Amend the AML/CFT Law to re-establish enhanced due diligence measures on politically exposed persons consistent with the risk-based approach consistent with the FATF standards.	Governance/ Anti-Corruption	End-September 2023	Not Met (implemented with delay)

Table 2. Ukraine: Table of Structural Benchmarks (continued)

	Structural Benchmark	Sector	Timing	Status
14	Strengthen bank governance and oversight by: (i) separating the related-parties-unit from banking supervision; (ii) implementing “supervisory panels” as a consulting body to the Supervisory Committee; and (iii) resume scheduled inspections for both banking and non-banking institutions, while ensuring NBU discretion on matters related to staff safety	Financial Sector	End-September 2023	Met
15	MoF, with STS and SCS, to prepare an action plan, including short-term and medium-term measures covering key reform areas identified by the upcoming diagnostic, that would feed into broader NRS.	Fiscal	End-October 2023	Met
16	Update and publish the Medium-Term Debt Management Strategy to align it with the program objectives	Fiscal	End-October 2023	Met
17	Simplify the asset declaration system through linking with other databases and registers consistent with the public officials’ legal obligations to make truthful and timely submissions	Governance/ Anti-Corruption	End-October 2023	Met
18	Select and appoint a supervisory board for the GTSO	Energy/ Corporate Governance	End-October 2023	Met
19	Review the current PIM procedures and develop a roadmap of measures so that: (i) all public investment projects follow unified PIM approaches, including PPPs; (ii) investment projects are selected on a competitive basis, with transparent selection criteria, and consistent with the medium-term budget framework; (iii) stronger powers are provided to MoF, including a clear gatekeeping role during the different stages of the investment project cycle.	Fiscal	End-December 2023	

Table 2. Ukraine: Table of Structural Benchmarks (continued)

	Structural Benchmark	Sector	Timing	Status
20	Adopt the National Revenue Strategy	Fiscal	End-December 2023	
21	Adopt legislation to enhance the institutional autonomy and effectiveness of the SAPO by being designated as a separate legal entity, and specifically, on the selection procedures, capacity to regulate organizational activities, mechanisms for discipline and accountability, and autonomy under the criminal procedural code	Governance/ Anti-Corruption	End-December 2023	
22	<i>Based on findings of the revenue working group, prepare short-term revenue measures (tax and non-tax) with yields of at least 0.5 percent of GDP ready to be included in budget 2024</i>	<i>Fiscal</i>	<i>End-February 2024</i>	
23	<i>Adopt a new law (consistent with ¶25 of the MEFP) on the ESBU that has a clear mandate and scope for investigative powers consistent with good practice by focusing on major economic crimes; establishing legal basis for operation of the ESBU in terms of the selection of management and staff. The law will respect the existing delineation between the investigative powers of the ESBU and the National Anti-corruption Bureau of Ukraine (NABU).</i>	<i>Fiscal</i>	<i>End-June 2024</i>	
24	Prepare a bank rehabilitation framework in consultation with the DGF and IMF staff	Financial Sector	<i>End-December 2024</i>	<i>Reset</i>
25	<i>Prepare an assessment of the effectiveness of tax privileges, including their cost to the budget, in order to have a unified reform approach</i>	<i>Fiscal</i>	<i>End-July 2024</i>	
26	Implement a supervisory risk assessment methodology to inform supervisory engagement priorities	Financial Sector	End-June 2024	
27	<i>With the help of IMF TA, produce a diagnostic review of pre-war MTBF policies and practices relative to best practices to identify key weaknesses and work towards strengthening strategic budgeting, leveraging bottom-up PFM processes to capture more detailed spending needs and costing of new public services.</i>	<i>Fiscal</i>	<i>End-October 2024</i>	
28	<i>Identify major public companies severely affected by the war and prepare a review of potential fiscal and quasi-fiscal costs</i>	<i>Fiscal</i>	<i>End-September 2024</i>	
29	<i>Based on the outcomes of a roadmap on development of PIM procedures, adopt a government decree with an action plan and timeline that provides clear linkages between MTBF and capital expenditures, including reconstruction priorities, and specifying the gatekeeper role of the MoF.</i>	<i>Fiscal</i>	<i>End-December 2024</i>	

Table 2. Ukraine: Table of Structural Benchmarks (continued)

	Structural Benchmark	Sector	Timing	Status
30	<i>All banks with majority public ownership remain under the shareholder management at the MoF and any nationalized non-systemic banks will be transferred to the DGF for resolution.</i>	<i>Financial Sector</i>	<i>Continuous</i>	
31	<i>Determine the stock of arrears and assess financial conditions of District Heating Companies (DHCs) through a desk review by a reputable audit firm, including by separating arrears until and after February 2022.</i>	<i>Energy</i>	<i>End-June 2024</i>	
32	<i>Enact amendments to the procedural code to rationalize matters or issues to be heard at the first instance by one anti-corruption judge or by a panel of three anti-corruption judges.</i>	<i>Governance/ Anti-Corruption</i>	<i>End-March 2024</i>	
33	<i>Complete an external audit of the National Anti-Corruption Bureau of Ukraine's effectiveness with participation of three independent experts with international experience and publish its report.</i>	<i>Governance/ Anti-Corruption</i>	<i>End-September 2024</i>	
34	<i>Enact a law to establish a new court that will hear administrative cases against national state agencies (e.g., NBU, NABU, NACP) by judges who have been properly vetted for professional competence and integrity.</i>	<i>Governance/ Anti-Corruption</i>	<i>End-July 2024</i>	
35	<i>Produce a SOE state ownership policy, dividend policy and privatization strategy</i>	<i>SOE Corporate Governance</i>	<i>End-August 2024</i>	

Attachment II. Technical Memorandum of Understanding

1. This Technical Memorandum of Understanding (TMU) sets out the understandings between the Ukrainian authorities and staff of the International Monetary Fund (IMF) regarding the definitions of the variables subject to targets—both quantitative performance criteria and indicative targets—for the Extended Arrangement under the Extended Fund Facility (EFF), as described in the authorities' Letter of Intent (LOI) dated December 1, 2023 and the attached Memorandum of Economic and Financial Policies (MEFP). It also describes the methods to be used in assessing program performance and the information requirements to ensure adequate monitoring of the targets.

2. The quantitative performance criteria and indicative targets are shown in Table 1 of the MEFP. The definitions of these targets and the adjustors are described in Section I below. The official exchange rate is defined in Section II. Reporting requirements are specified in Section III.

3. For the purposes of the program, all exchange rates used to evaluate reserve levels and monetary aggregates are (i) the official exchange rate of the Ukrainian hryvnia to the U.S. dollar of 36.5686, set by NBU as of March 13, 2023; and (ii) reference exchange rates of foreign currencies as of March 13, 2023 as set out below. In particular, the Swiss Franc is valued at 0.9107 Swiss Franc per U.S. dollar, the Euro is valued at 0.933 euro per U.S. Dollar, the Pound Sterling is valued at 0.8226 pound per U.S. dollar, the Australian Dollar is valued at 1.5435 dollars per U.S. dollars, the Canadian Dollar is valued at 1.3715 dollars per U.S. dollar, the Chinese Renminbi is valued at 6.875 yuan per U.S. dollar, the Japanese Yen is valued at 133.960 yen per U.S. dollar, and the Norwegian Krone is valued at 10.565 per dollar. The accounting exchange rate for the SDR will be 0.748641 SDR per U.S. dollar. Official gold holdings were valued at 1,902.6 dollars per fine ounce. These accounting exchange rates are kept fixed over the program period. Therefore, the program's exchange rate may differ from the actual exchange rate, which is set in the foreign exchange market of Ukraine. Furthermore, setting a program exchange rate for the purpose of computing monetary aggregates does not imply that there is any target exchange rate for policy purposes.

4. The general government is defined as comprising the central (state) government, including the road fund, all local governments, all extra budgetary funds, including the Pension and Unemployment Funds of Ukraine, and special accounts which provide resources to key spending units. The budget of the general government comprises (i) the state budget; (ii) all local government budgets; and (iii) if not already included in (i), the budgets of the extra budgetary funds listed above, any other extra budgetary funds included in the monetary statistics compiled by the NBU, and special accounts. The government will inform IMF staff immediately of the creation or any pending reclassification of any new funds, programs, or entities.

5. For program purposes, the definition of debt is consistent with paragraph 8(a) of the Guidelines on Public Debt Conditionality in Fund Arrangements attached to IMF Executive Board Decision No.16919-(20/103), adopted October 28, 2020, as below.
 - a. The term “debt” will be understood to mean a current, i.e., not contingent, liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debts can take a number of forms, the primary ones being as follows:
 - i. loans, i.e., advances of money to the obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans and buyers’ credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements);
 - ii. suppliers’ credits, i.e., contracts where the supplier permits the obligor to defer payments until some time after the date on which the goods are delivered or services are provided; and,
 - iii. leases, i.e., arrangements under which property is provided which the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the lessor retains the title to the property. For the purpose of these guidelines, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement excluding those payments that cover the operation, repair, or maintenance of the property.
 - b. Under the definition of debt set out in this paragraph, arrears, penalties, and judicially awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt are debt. Failure to make payment on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt.
6. For program purposes, Gross Domestic Product is compiled as per the System of National Accounts 2008 and excludes territories that are or were in direct combat zones and temporarily occupied by Russia.
7. For program purposes, external financing is defined as (Table B):
 - a. Budget support loans and grants are unearmarked financial support provided to the government of Ukraine for general government financing. These include financing from official multilateral creditors (e.g, World Bank, European Commission) and official bilateral creditors.

- b. Project support loans and grants are earmarked financial support provided to the government of Ukraine for financing specific projects and appear as part of government financing. These include financing from official multilateral creditors (e.g., European Investment Bank, World Bank Group and European Bank for Reconstruction and Development) and official bilateral creditors.
8. For program purposes, defense expenditures include expenditures of the defense and security sector pursuant to the articles of the Law of Ukraine “On National Security of Ukraine”. Such expenditures shall include total amounts of all current (including goods and services, wage bill, social payments, etc.) and capital expenditures. It includes the expenditures through the state budget general fund.
9. The own revenues of budgetary institutions are defined in Item 15, Part 1, Article 2 of the Budget Code. Own revenues of budgetary institutions are revenues received in accordance with the established procedure by budgetary institutions as payment for the provision of services, performance of works, and targeted activities, grants, gifts, and charitable contributions, as well as proceeds from the sale of products or property and other activities in the prescribed manner.
10. For program purposes the proceeds of sales of confiscated Russian assets or bank accounts balances including those directed toward the Fund for the Liquidation of the Consequences of the Armed Aggression are recorded below the line as deficit financing sources with counter-entry into deposits of the Treasury Single Account.
11. Overdue accounts payables (domestic arrears) are specified in the Order of the Ministry of Finance No. 372 dated April 2, 2014, On the Approval of the Accounting Procedures for Specific Assets and Budget Institutions’ Liabilities and On Amending Certain By-Laws on the Accounting for Budgetary Institutions. Accordingly, arrears are defined as the amount of payments due on the 30th day after the deadline for mandatory payment, in line with the legal contract in effect. In instances where the payment deadline is not specified, it counts as the 30th day after the confirmation of goods received, works done, and/or services rendered had been provided.
 - a. Budgetary arrears on social payments and wages comprise all arrears of the consolidated budget on wages, pensions, and social benefits of the central or local governments. The timeframe for wage arrears is based on the same timeframe as the general definition above. Considering the specifics of Martial Law, information on arrears in the security and defense sector can be presented in an aggregated form.
 - b. Wages are defined to comprise all forms of remuneration for work performed for standard and overtime work in all subcategories, including defense and security service.
 - c. Arrears of social funds (Pension and Unemployment Fund of Ukraine) comprise arrears with regard to all insurance benefits of these funds. The arrears on the Pension and Unemployment Funds refers to payments that have not been executed at the 30th day after the deadline for payment. Other social payment arrears are covered by bullet (a) of this paragraph.

This definition excludes unpaid pensions to individuals who continue to reside in territories that are or were in direct combat zones and temporarily occupied by Russia.

II. QUANTITATIVE PERFORMANCE CRITERIA AND INDICATIVE TARGETS

A. Floor on Net International Reserves (Quantitative Performance Criterion)

Definition

12. Net international reserves (NIR) of the NBU are defined as the dollar value of the difference between usable gross international reserve assets and reserve-related liabilities to nonresidents, evaluated at program exchange rates (see Table A for a summary of the relevant components and the data sources).

13. Usable gross international reserves comprise all readily available claims on nonresidents denominated in convertible foreign currencies, consistent with the Balance of Payments Manual (Sixth Edition) and the Special Data Dissemination Standard (SDDS) (Table 6.1, item A). Excluded from usable reserves, *inter alia*, are:

- a. any assets denominated in foreign currencies held at, or which are claims on, domestic institutions (i.e., institutions headquartered domestically, but located either domestically or abroad, or institutions headquartered abroad, but located domestically). Also excluded are all foreign currency claims of the NBU on domestic banks, and NBU deposits held at the Interbank Foreign Currency Exchange Market and domestic banks for trading purposes;
- b. any precious metals or metal deposits, other than monetary gold and gold deposits, held by the NBU;
- c. any assets that correspond to claims of commercial banks in foreign currency on the NBU and any reserve assets that are (i) encumbered; or (ii) pledged as collateral (in so far as not already included in foreign liabilities, or excluded from reserve assets); or (iii) frozen; and,
- d. any reserve assets that are not readily available for intervention in the foreign exchange market, *inter alia*, because they are not fully under the control of the NBU or because of lack of quality or lack of liquidity that limits marketability at the book price.

14. For program purposes, reserve-related liabilities comprise the following non-residents and resident categories:

- all short-term liabilities of the NBU *vis-à-vis* nonresidents denominated in convertible foreign currencies with a remaining maturity of one year or less;

- the stock of IMF credit outstanding;
- the nominal value of all derivative positions¹ (including swaps, options, forwards, and futures) of the NBU and general government, implying the sale of foreign currency or other reserve assets; and,
- all foreign exchange liabilities of the NBU to resident entities (e.g., claims in foreign exchange of domestic banks, and NBU credits in foreign exchange from domestic market), which are not already excluded from reserve assets, but excluding foreign exchange liabilities to the general government, or related to deposit guarantees.

Table A. Ukraine: Components of Net International Reserves

Type of Foreign Reserve Asset or Liability ¹	NBU Balance Sheet and Memorandum Accounts
1. International reserves	
Monetary gold	1100, 1107
Foreign exchange in cash	1011, 1017
Demand deposits at foreign banks	1201, 1202, 2746, minus 4746
Short-term time deposits at foreign banks	1211
Long-term deposits at foreign banks	1212
SDR holdings and Reserve Position in the IMF	IMF, Finance Department ²
Securities issued by nonresidents	1300, 1305, 1307, 1308, minus 1306
2. Short-term liabilities to nonresidents (<i>in convertible currencies</i>)	
Correspondent accounts of nonresident banks	3201
Funds borrowed using repos	3210
Short-term deposits of banks	3211
Operations with nonresident customers	3401, 8805
Operations with resident banks	3230, 3232, 3233, 8815
Use of IMF credit	IMF, Finance Department

1/ The definitions used in this technical memorandum will be adjusted to reflect any changes in accounting classifications introduced during the period of the program. The definitions of the foreign accounts here correspond to the system of accounts in existence on October 31, 2022. The authorities will inform the staff before introducing any change to the Charts of Accounts of the NBU and the Commercial Banks, and changes in the reporting forms.

2/ Before receiving the monthly data from the IMF's Finance Department, these components will be calculated on the basis of preliminary data from the NBU and memorandum accounts.

Adjustors

- The NIR targets will be adjusted downward by the full amount of the cumulative shortfall in external budget support financing disbursements (defined in paragraph 7) relative to the baseline projection (Table B).
- The NIR targets will be adjusted downward by the full amount of the cumulative shortfall in net issuance (gross issuance minus redemption) of central government's domestic foreign exchange securities relative to the amounts expected under the baseline (Table C).

¹ This refers to the notional value of the commitments, not the market value.

- In case the NBU converts any non-reserve currency provided under a central bank swap agreement concluded by another central bank with the NBU into a reserve currency through an outright sale, a symmetric adjuster will be applied to NIR targets. NIR targets will be adjusted upward by the amount that will be converted into a reserve currency at the time of the conversion. NIR targets will be adjusted downward by the amount of a reserve currency (both the principal and interest due), when the NBU repays the non-reserve currency provided under a central bank swap agreement.
- In case the NBU requests use (draws) any reserve currency provided under a central bank swap agreement with another central bank and with a maturity of over 1 year, a symmetric adjuster will be applied to NIR targets. NIR targets will be adjusted upward by the amount used with maturity over 1 year. NIR targets will be adjusted downward when the NBU repays these amounts.

Table B. Ukraine: Gross Disbursements from IFIs and Official Sources ^{1/ 2/}
(Cumulative in USD millions, at program exchange rates)

	2023		2024		
	end-Dec.	end-Mar.	end-Jun.	end-Sep.	end-Dec.
	Proj.	Proj.	Proj.	Proj.	Proj.
Total official support	41,851	8,647	17,780	27,379	33,061
Budget support	40,956	8,521	17,367	26,548	31,565
Bilateral	16,652	3,103	7,432	10,266	10,266
Loans	1,744	0	1,496	1,496	1,496
Grants 2/	14,909	3,103	5,937	8,770	8,770
Multilateral	24,304	5,417	9,935	16,282	21,299
Loans	24,304	5,417	9,935	16,282	21,299
Grants	0	0	0	0	0
Project support 3/	894	127	413	832	1,496
Bilateral	183	88	164	258	399
Multilateral	712	39	249	573	1,097

1/ Flows in USD million, cumulative from January 1, 2023 for 2023 and from January 1, 2024 for 2024, calculated at program exchange rates. Prospective IMF disbursements under the EFF are excluded. Totals differ from Ukrainian authorities' projections under the budget due to different exchange rate assumptions.

2/ Bilateral grants include budget grant support from official sources under PEACE (Public Expenditure for Administrative Capacity Endurance) and URTF (Ukraine Relief, Recovery, Reconstruction, and Reform Trust Fund).

3/ Project support is in the form of loans.

Table C. Ukraine: Issuance of Central Government Domestic FX Securities^{1/}
(Cumulative in USD millions, at program exchange rates)

	2023		2024		
	end-Dec.	end-Mar.	end-Jun.	end-Sep.	end-Dec.
Net issuance of central government domestic FX securities	-1,787	-3,513	-3,865	-4,003	-2,937
Gross issuance	2,151	248	496	743	2,478
Redemption	3,938	3,760	4,360	4,747	5,415

1/ Flows in USD million, cumulative from January 1, 2023 for 2023 and from January 1, 2024 for 2024, calculated at program exchange rates.

B. Ceiling on General Government Direct Borrowing from the NBU (Indicative Target)

Definition

15. General government direct borrowing from the NBU, net of redemptions and repayments, is defined as the cumulative change in the stock of outstanding claims on the general government (as defined in ¶14) held by the NBU, including general government securities, direct loans and credits, other accounts receivable, and overdraft transfers from the NBU in accounts of the general government. The stock of general government securities held by the NBU will be measured at the face value as reported on the NBU's balance sheet. The change in the stock of general government securities held by the NBU will exclude the securities acquired as collateral under loans provided by the NBU during the measurement period, and loans will exclude those to the Deposit Guarantee Fund. The change in the stock of such claims will be measured relative to the stock as of end March 2023 and adjusted for exchange rate valuation effects using program exchange rates. The detailed breakdown of the accounts will be provided in a format agreed with IMF staff.

16. An additional precondition for activating monetary financing is the drawing down of government deposits (consistent with ¶38 of MEFP), with the criteria being set out in a discussion between the NBU and the Ministry of Finance.

Adjustors

17. In general, should there be a shortfall in external financing defined as any shortfall of the financing listed in Table B, and primary issuances on government bonds (measured at face value, excluding short-term issuances with primary maturities less than 3 months) during the 3-month period prior to the request for monetary financing exceed 132 percent of actual redemptions over the same period, then the ceiling on general government borrowing from the NBU, net of redemptions and repayments, will be adjusted upward by the smaller of: the amount of the shortfall in external financing adjusted for additional primary issuances of government bonds, or a cap on

general government borrowing from the NBU, equivalent to gross borrowing of UAH50 billion every quarter. The ceiling on general government borrowing from the NBU resets every quarter (i.e., September 30, 2023 for the December 31, 2023 target, and December 31, 2023, March 31, 2024, June 30, 2024, and September 30, 2024 for the 2024 targets) and is not carried over between quarters. The amount of the shortfall in external financing is assessed as the total cumulative shortfall from end-March 31, 2023, for 2023 targets and end-December 2023 for 2024 targets, and is measured on the last day of the previous month. Projected redemptions are shown in Table D.

Table D. Ukraine: Adjustors for the Ceiling on General Government Direct Borrowing from the NBU

(in UAH billion)

	For the test date of:				
	2023	2024			
	Dec 31	Mar 31	Jun 30	Sep 30	Dec 31
Actual rollover rate on three month period prior to requesting monetary financing	120	132	132	132	132
Adjustment to ceiling on general government borrowing from the NBU, net of redemptions is the smaller of external financing as defined in Table B (if any) or this amount (in UAH billion)	49.296	40.500	47.116	50	50
Memo: Projected redemptions (in UAH billions), as of November 10, 2023	84.7	95.04	109.92	75.41	164.41

C. Floor on Overall Cash Balance of the General Government excluding Budget Support Grants (Indicative Target)

Definition

18. The overall cash balance of general government excluding budget support grants is defined as a balance measured in paragraph 19 below, adjusted by the amount of budget support grants (Table B) recorded above the line in non-tax revenues. The balance is measured on a cumulative basis, starting from January 1st of a calendar year. For program target computational purposes, a positive number is a surplus and negative number is deficit.

19. The overall cash balance of the general government is measured by means of net financing flows excluding the impact of valuation changes as:

- Total net treasury bill sales² (in hryvnias and foreign currency) as measured by the information kept in the NBU registry of treasury bill sales (net treasury bill sales are defined as the cumulative total funds realized from the sales of treasury bills at the primary auction and government securities issued for recapitalization of banks and state-owned enterprises (SOE), less the cumulative total redemption of principal on treasury bills). Treasury bill issuances and redemptions for the purposes of calculating the overall cash balance of the general government exclude bonds issued to recapitalize Naftogaz³ and other SOEs (including State Housing Financial Corporation); plus,
- Other net domestic banking system credit to general government (as defined above) as measured by the monetary statistics provided by the NBU (this consists of all non-treasury bill financing in either domestic or foreign currency extended to the general government by banks less the change in all government deposits in the banking system) as well as any other financing extended by entities not reflected by the monetary statistics provided by the NBU; plus,
- Total receipts from privatization (including the change in the stock of refundable participation deposits and the sale of nonfinancial assets) and the proceeds from uncompensated seizures; plus,
- Total proceeds from sales of confiscated Russian assets and bank account balances,
- The difference between disbursements and amortizations on any bond issued by the general government or the NBU to nonresidents for purposes of financing the general government; plus,
- The difference between disbursements of foreign loans attracted by the State (including budget support, project support, including on lent to public enterprises) and the amortization of foreign credits by the general government (including on lent project loans, e.g., budgeted payments on behalf of the Agency for the Restoration and Development of the Infrastructure of Ukraine per paragraph 93 of this TMU); plus,
- The net sales of SDR holdings in the IMF's SDR department; plus,
- the net change in general government deposits in nonresident banks, or other nonresident institutions; plus,
- net proceeds from any promissory note or other financial instruments issued by the general government.

20. For the purposes of measuring the balance of the general government, all flows to/from the budget in foreign currency (including from the issuance of foreign currency denominated domestic

² From here on, treasury bills are defined as all treasury securities (including long-term instruments or treasury bonds).

³ These are included in the financing of Naftogaz's cash deficit when they are used (as collateral for a loan, or as an outright sale) by the latter to obtain financing.

financial instruments) will be accounted for based on paragraph 3 of this TMU. Financing changes resulting from exchange rate valuation of foreign currency deposits are excluded from the computation of balance. The government deposits in the banking system exclude VAT accounts used for electronic administration and escrow accounts of taxpayers used for customs clearance.

D. Floor on Non-Defense Cash Primary Balance of the General Government excluding Budget Support Grants (Quantitative Performance Criterion)

21. For the purposes of program monitoring, the non-Defense Cash Primary Balance of the General Government excluding budget support grants is defined as the Overall Balance of the General Government excluding budget grants (defined in section C) less interest payments (total interest paid on domestic and external debt) less defense spending of the state budget general fund as defined in paragraph 8 of this TMU. The balance is measured on a cumulative basis, starting from January 1st of each calendar year.

Adjustors for Balances in Parts C and D

- The floor on the overall cash balance excluding grants and on the non-Defense Cash Primary Balance of the general government will be adjusted upward by the full amount of any increase above the projected stock of budgetary arrears (overdue account payables) in state budget and social funds (as defined above in this TMU). This definition excludes domestic arrears in the territories that are or were in direct combat zones and temporarily occupied by Russia.
- The floor on the overall cash balance excluding grants and on the non-Defense Cash Primary Balance of the general government is subject to an automatic adjustor based on deviations of external budget support loans defined in paragraph 7 (Table B). Specifically, if the cumulative proceeds from external budget support loans (in hryvnia evaluated at program exchange rates), fall short of program projections, the floor on the consolidated general government balance will be adjusted downward by the full amount of the shortfall in external financing, consistent with the adjustors in section B above.
- The floor on the overall cash balance excluding grants and on the non-Defense Cash Primary Balance of the general government is subject to an automatic adjustor downwards corresponding to the full amount of government bonds issued for the purposes of bank recapitalization and DGF financing, up to a cumulative maximum amount to be set in future reviews. The amount included in the targets is zero.
- The floor on the overall cash balance excluding grants and on the non-Defense Cash primary Balance of the general government is subject to an automatic upward adjustment corresponding to the full amount of profits transferred by the NBU in excess of UAH 71.6 billion in 2023 and UAH 17.7 billion in 2024.

- The floor on the overall cash balance excluding grants and on the non-Defense Cash primary Balance of the general government is subject to an automatic downward adjustment to accommodate gas purchases, PSO compensation and transfer to GTSO up to a cumulative maximum amount of UAH 60 billion in 2023 and UAH 60 billion in 2024, conditional upon availability of financing.
- For test dates in 2023, the floor on the overall cash balance excluding grants and on the non-Defense Cash primary Balance of the general government is subject to an automatic downward adjustor up to a cumulative maximum amount of UAH 25.8 billion corresponding to the full amount of receipts from sales of confiscated Russian assets and transfers of bank accounts; for test dates in 2024 the cumulative maximum downward adjustment is UAH 10 billion. The balance of the Fund for the Liquidation of the Consequences of the Armed Aggression stood at UAH 25.2 billion as of November 1, 2023. For the period of the Martial law, the data from territories that are or were in direct combat zones and temporarily occupied by Russia are excluded from the adjustor.

E. Floor on Tax Revenues (excluding SSC) (Quantitative Performance Criterion)

22. The floor on tax revenues is measured on a cumulative basis starting from January 1st of each calendar year and includes total tax revenues and fees as defined by the national tax legislation, including pension fees imposed on certain transactions, excluding Social Security Contributions tax. The cumulative targets defined in this manner are set out in Table 1 of the MEFP.

F. Floor on the General Government Social Spending (Indicative Target)

23. Social spending of general government is defined as the spending on social programs through the General Fund and Special Funds and covers categories reflected in budget treasury code 2700. This includes social insurance and social assistance programs on budget (including but not limited to social assistance to low-income families, housing utility subsidies, child support, support to internally displaced persons, etc.), and transfers to the Pension Fund. The Indicative Target is set in hryvnias on a cumulative basis starting January 1st of each calendar year.

G. Ceiling on the General Government Domestic Arrears (Indicative Target)

24. The ceiling of general government arrears is derived based on the definition provided in paragraph 11 of this TMU (excluding arrears of local governments) and reporting format set in paragraph 78 of this TMU. The target is cumulative starting January 1st of each calendar year, as described in the table of paragraph 78 and covers arrears of the state budget (general and special funds) and social funds (as defined in paragraph 11). The stock of arrears measured in that way will not exceed the stock of arrears at end December 2022. The arrears computation does not cover arrears accrued in territories that are or were in direct combat zones and temporarily occupied by Russia as of the applicable test date.

H. Ceiling on Non-Accumulation of New External Debt Payments Arrears by the General Government (Continuous Performance Criterion)

Definition

25. For purposes of the continuous PC on the non-accumulation of new external payment arrears, arrears are defined as external debt obligations of the general government that have not been paid when due in accordance with the relevant contractual terms (taking into account any contractual grace periods). This PC excludes arrears on external financial obligations of the government subject to rescheduling. For purposes of this PC, "external" is defined as debt payments to non-residents.

I. Ceiling on Publicly Guaranteed Debt (Quantitative Performance Criterion)

Definition

26. For purposes of the QPC, the ceiling on publicly guaranteed debt will apply to the amount of guarantees issued by the central (state) government once the underlying debt is disbursed. For test dates between June 30, 2023, and December 31, 2023, the ceiling will be set at UAH 37 billion, consistent with 3 percent of current year revenues of the state budget general fund (as defined in the Budget Code) and apply to the cumulative amount of guarantees issued by the central (state) government from January 1st of 2023 calendar year including guarantees to priority sectors. For test dates in 2024, the ceiling will be set at UAH 47.9 billion. The program exchange rates will apply to all non-UAH denominated debt. This ceiling excludes guarantees for NBU borrowings from IMF.

27. The ceiling on publicly guaranteed debt will be subject to an automatic upward adjustor for guarantees signed for selected projects financed by the multilateral and bilateral donors (e.g. WB, EIB, EBRD, KfW). Namely:

- For test dates in 2023: (i) working capital loan to UkrEnergo; (ii) loan to UkrEnergo to modernize the electricity grid and substations; (iii) loan to Ukrainian Railways for emergency support; (iv) loan to Ukrhydroenergo for emergency restoration of hydropower plants; (v) loan to Ukrenergo for special capital structure support; (vi) loan to Naftogaz for additional procurement of natural gas; and (vii) loan to Ukrhydroenergo for installation of hybrid systems for electricity production. Consistent with debt sustainability objectives, the adjustor will be capped at UAH 44.82 billion in 2023 and discussed in program reviews.
- For test dates in 2024: (i) loan to UGV to purchase equipment for gas extraction; (ii) loan to Naftogaz for additional procurement of natural gas; (iii) loan to Ukrhydroenergo for emergency restoration of hydropower plants; (iv) working capital loan to Ukrenergo; (v) loan for Boryspil International Airport for reconstruction of flight zone 2; and (vi) loan to Ukrenergo for improving

the efficiency of electricity transmission. Consistent with debt sustainability objectives, this adjustor will be capped at UAH 40.03 billion in 2024 and discussed in program reviews.

J. Other Continuous Performance Criteria

28. During the period of the EFF, Ukraine will not (i) impose or intensify restrictions on the making of payments and transfers for current international transactions; (ii) introduce or modify multiple currency practices; (iii) conclude bilateral payments agreements that are inconsistent with Article VIII; and (iv) impose or intensify import restrictions for balance of payments reasons.

III. OFFICIAL EXCHANGE RATE

A. Determination of the Official Exchange Rate

29. The official exchange rate of the hryvnia against U.S. dollar was UAH/USD 36.5686 as set by the NBU, effective 9am on July 21, 2022, until October 3, 2023. Since October 3, 2023, the NBU is transitioning to a regime of managed . The official exchange rate against USD is determined based on series of transactions in the interbank FX market. While the NBU has allowed more flexibility in the exchange rate since October 2023, more observations are necessary to determine its new trend. Until then, the de facto exchange rate arrangement remains classified as stabilized. The official exchange rates for other foreign currencies are determined by the NBU on the basis of the official exchange rate against USD and cross rates of the relevant foreign currencies. The official exchange rates are published daily on the NBU's website no later than 3:30 pm of the day of the calculation and take effect the next business day. Ukraine's de jure exchange rate arrangement is floating.

IV. REPORTING REQUIREMENTS

A. National Bank of Ukraine

30. The NBU will provide to the IMF ***monthly*** sectoral balance sheets for the NBU and other depository corporations (banks) according to the standardized reporting forms (SRFs), no later than the 25th day of the following month (except for SRFs for the end of the reporting year, which should be provided no later than the 41st day after the reporting year).

31. The NBU will provide to the IMF, ***on a weekly basis***, daily operational data the stock of net and gross international reserves, at both actual and program exchange rates. In addition, it will provide the full breakdown of NBU accounts included in net international reserves (defined in Table A above) any additional information that is needed for the IMF staff to monitor developments in net and gross international reserves. ***On a monthly basis***, no later than 20th of the following month, the NBU will provide balance data on the stock of net and gross international reserves and flows affecting net international reserves, and no later than the 25th of the following month, the NBU will provide data on the currency composition of reserve assets and liabilities.

32. The NBU will provide to the IMF ***daily information*** on total foreign exchange sales (including total from nonresidents and sales by clients in the interbank market, as well as any obligatory sales, if any) and approved foreign exchange demand in the interbank market, including Naftogaz foreign exchange purchases. The NBU will provide the IMF ***daily information*** on official foreign exchange interventions and intervention quotations in the breakdown agreed with the IMF staff. In this context, it will also provide the results of any foreign exchange auctions. ***On a quarterly basis***, the NBU will provide to the IMF information on the indicators of FX interventions approved by the NBU Board (in case of any changes). The NBU will immediately notify the IMF of any updates to the FX interventions methodology documentation and any decisions that define these indicators of FX interventions.

33. The NBU will provide the IMF ***daily*** information on balances held in the analytical accounts 2900 “Accounts payable per transactions for the foreign exchange, banking and precious metals purchase and sale on behalf of banks’ clients.”

34. The NBU will continue to provide on its web site the ***daily*** holdings of domestic government securities as well as information on primary auctions and secondary market sales. The NBU will provide to the IMF information on ***daily*** holdings of government securities broken down by type of holders at primary market prices at the rate fixed on the day of auction; information on domestic government securities sales, from the beginning of the year at the official rate as of the date of placement, as well as the domestic government securities in circulation, by principal debt outstanding at the official exchange rate as of the date of placement; reports on each government securities auction; data on the purchase and redemption of domestic government bonds from the Ministry of Finance in the NBU’s portfolio; and ***monthly report*** on government securities holdings, in the format agreed with the IMF staff, i.e., broken down by currencies and by holders—non-resident investors, resident non-bank, and resident banks, the latter further broken down by bank group (State Participation, Foreign Banking, and Private Capital).

35. The NBU will provide information on ***daily*** transactions (volumes and yields) on the secondary market treasury bills (including over-the-counter transactions and with a breakout for any NBU transactions).

36. The NBU will provide to the IMF its financial statements (income and expenses, balances on the general reserves and the calculations of the profit distribution to the budget) for the current and, if available, projections for the following two years, as approved by the NBU’s Board. The IMF is to be notified immediately of any update.

37. The NBU will continue to provide to the IMF ***daily and monthly data*** on the NBU financing operations (including swaps or refinancing) of the banks of Ukraine, and on the operations of mopping up (absorption) of the liquidity from the banking system (including through the CDs issuance) in the formats and timeliness agreed with the IMF staff. ***On a monthly basis***, the NBU will provide information on the collateral that has been pledged to the NBU for loans (by bank and loan type as well as by collateral type, haircut, and currency). ***On a monthly basis***, the NBU will also provide bank-by-bank information on NBU refinancing, broken down by operations (with

indications of their settlement and maturity dates), and collateral pools, broken down by asset types and securities (with their values before and after haircuts). ***The monthly reporting*** of NBU loans and collateral will separately identify which banks are under temporary administration or liquidation.

38. The NBU will provide to the IMF, ***on a monthly basis*** but not later than 30 days after the expiration of the reporting month, (except for data as of the end of the reporting year, which are to be provided no later than on the 41st day after the reporting year ends), core FSIs, as defined in the IMF Compilation Guide, for individual banks in State Participation Group, Foreign Banking Group and Private Capital Group.

39. ***On a daily basis and on a monthly basis***, not later than on the 25th day after the termination of the report month (except report data as of the end of the report year, which should be submitted not later than the 41st day after the report year), the NBU will provide the IMF with the depository corporations surveys, including any additional information that is needed for the IMF staff to monitor monetary policy and developments in the banking sector, in particular: domestic claims, including NBU loans and liabilities with banks and detailed information on loans of the banking sector provided to the general government, with detailed breakdown of this information by indebtedness of the central (state) government and local budgets and the DGF, including in national and foreign currency, by loan and by security, as well as the information on the balances of the funds of the government held at the NBU, in particular, the balances of the Single Treasury Account denominated in the national currency (account 3240 L) and the funds of the Treasury denominated in foreign currency (account 3513 L) and DGF, and computation of Target on General Government Borrowing from the NBU based on monthly reporting data.

40. The NBU will provide to the IMF, ***on a monthly basis***, projections for external payments falling due in the next 12 months. The data on actual settlement of external obligations, reflecting separately principal and interest payments as well as actual outturns for both the public and private sectors, shall be provided on a quarterly basis, within 80 days following the end of the quarter.

41. The NBU will provide to the IMF, ***on a quarterly basis***, the stock of short- and long-term external debt for both public and private sectors. Information on the stock of external arrears will be reported on a continuous basis.

42. The NBU will provide to the IMF, on a ***daily*** basis, data on foreign exchange export proceeds and foreign exchange sales; data on import transactions for goods and services; data on amounts of foreign exchange transferred from abroad to the benefit of physical persons—residents and nonresidents—to be paid in cash without opening an account; data on foreign exchange wires from Ukraine abroad for current foreign exchange nontrade transactions on the basis of the orders of physical persons; data on sales and purchases of foreign exchange cash by individuals (incl. through banks, exchange offices, and UkrPoshta). The NBU will provide to the IMF ***weekly data*** on the volumes of noncash foreign exchange purchases on behalf of banks' clients and banks broken down by reasons, and ***on a monthly basis*** data on certain transfers of non-cash FX from Ukraine to the benefit of non-residents. The NBU ***on a monthly basis*** will provide to the IMF aggregated data on

the number and amounts of e-limits granted to legal entities and physical individuals and on the transfer and purpose of foreign exchange outside Ukraine within the e-limits.

43. The NBU will provide to the IMF, on a ***daily*** basis, data on foreign assets and liabilities of the overall banking system (excl. the NBU); data on banks' open foreign exchange positions by main groups of banks; data on deposits on the aggregated basis for the overall banking system (excl. the NBU) broken down by households and legal entities, maturity, as well as by national and foreign currency; data on loans on the aggregated basis for the overall banking system (excl. the NBU) broken down by households and legal entities as well as by national and foreign currency. In addition, the NBU will provide to the IMF, ***on a daily basis***, data on deposits and credits on the aggregated basis for the overall banking system (excl. the NBU) without deposits and credits of banks in liquidation starting from the beginning of 2014 and broken down by households and legal entities, as well as by national and foreign currency. ***On a weekly basis***, the NBU will provide the IMF with data on foreign assets and foreign liabilities (broken down by domestic and foreign currency) for the individual banks in State Participation Group, Foreign Banking Group and Private Capital Group. ***On a monthly basis***, foreign assets for the individual banks in State Participation Group, Foreign Banking Group and Private Capital Group will be broken down by type (i.e., cash and deposits, government securities, nongovernment securities, loans, other) and foreign liabilities by type, holder (i.e., banks, other financial institutions, nonfinancial corporate, and individuals) and remaining maturity (less than one month, one to three months, three to 12 months and over 12 months). For foreign credit lines from banks and for securities, the rollover rates will also be provided.

44. The NBU will provide, ***on a daily basis***, bank-by-bank data for the largest 35 banks on the liquidity ratio and amounts of cash and cash equivalents, available funds in NBU accounts (excl. reserve requirements), correspondent accounts with well-known international banks (excl. encumbered accounts), and deposits from customers. The NBU will also provide, ***on a daily basis***, bank-by-bank data for State Participation Group, Foreign Banking Group, and Private Capital Group banks, total assets and liabilities; loans and claims (by households, legal entities, and banks); and foreign exchange net open position. The data will be reported by domestic and foreign currency. The deposits data will be reported by households and legal entities and by maturity (current accounts, saving accounts, and time deposits). In addition, for the aggregate of the banking sector as well as groups of banks, the NBU will provide data on deposits and credits excluding those banks in liquidation since 2014. The NBU will provide, ***on a monthly basis***, bank-by-bank data on liquidity coverage ratio in all currencies and in foreign currency.

45. The NBU will provide to the IMF ***on a daily basis*** aggregated data on main currency flows, including government foreign receipts and payments by currencies as well as interbank market operations by currencies. The NBU will continue to provide daily information on exchange market transactions including the exchange rate.

46. The NBU will provide the IMF, ***on a monthly basis***, with information on reserve requirements at the individual bank level, including the breakdown between the reserve requirements fulfilled by reserves and that by government securities.

47. The NBU will provide the IMF, ***on a monthly basis***, bank-by-bank for State Participation Group, Foreign Banking Group and Private Capital Group banks the average interest rate on deposits to customers (by domestic and foreign currency, and non-financial corporations and households, and by maturity—demand and time accounts); and ***on a weekly basis (after Martial Law is cancelled)***, the average interest rate on interbank borrowings (by domestic and foreign currency, and by maturity—overnight, 1–7 days, and over one week).

48. The NBU will provide the IMF, on a ***monthly basis***, in an agreed format, data for the entire banking sector, and on an aggregated and bank-by-bank basis for State Participation Group, Foreign Banking Group and Private Capital Group banks—risk weighted assets and other risk exposures (for ratio H2 and H3 calculation), including for the excess of long-term asset to funding and foreign exchange open position; total regulatory (Tier 1 and Tier 2) and core (Tier 1) capital; capital adequacy ratio for total regulatory (H2) capital and core capital (H3); loans and claims by maturity buckets for households, legal entities, and banks in domestic and foreign currencies; deposits by maturity buckets for households, legal entities, and banks in domestic and foreign currencies; and foreign exchange net open position, split between total foreign exchange assets (long position) and foreign exchange liabilities (short position), and between on- and off-balance sheet.

49. The NBU will provide the IMF, ***on a monthly basis***, in an agreed format, data for the entire banking sector and on a bank-by-bank basis for State Participation Group, Foreign Banking Group and Private Capital Group banks the amount of loans and claims (by households in domestic and foreign currency, legal entities in domestic and foreign currency, banks in domestic and foreign currency, maturity, and by borrower classification categories); collateral for loans and claims (by type of collateral, legal entities in domestic and foreign currency, households in domestic and foreign currency, banks in domestic and foreign currency, and by borrower classification categories); provisions on loans and claims (by households in domestic and foreign currency, legal entities in domestic and foreign currency, banks in domestic and foreign currency, and by borrower classification categories); large exposures (loans equal to or greater than 10 percent of equity), refinanced loans, and restructured loans (by households, legal entities, and banks) (after Martial Law is cancelled); the average interest rate on new loans to customers (by non-financial corporations and households); accrued interest on loans (by domestic and foreign currency); securities and debt financial instruments, with government securities reported separately (by domestic and foreign currency).

50. The NBU will provide the IMF, ***on a monthly basis***, in an agreed format, bank-by-bank for the State Participation Group, Foreign Banking Group and Private Capital Group banks the amount of deposits of related parties (by domestic and foreign currencies, and households and legal entities); deposits of related parties pledged as (cash cover) collateral (by domestic and foreign currencies, and households and legal entities); other liabilities to related parties (by domestic and foreign currencies); related-party loans (by households, legal entities, and banks); counterparty names and amounts of the largest 20 loans to related parties; collateral for loans and claims on related parties (by type of collateral, legal entities, households, and banks in domestic and foreign

currencies, as well as by borrower classification categories); provisions on loans and claims on related parties (by households, legal entities, and banks in domestic and foreign currencies, as well as by borrower classification categories).

51. The NBU will provide to the IMF, ***on a monthly basis***, aggregate and bank-by-bank and by region data on loans and provisions (by households and legal entities, domestic and foreign currencies, and by debtor classification categories), and by asset class (e.g. corporate, and retail.); deposits (by households and legal entities, and domestic and foreign currencies); due from banks (by domestic and foreign currencies).

52. NBU will report to the IMF, ***on a monthly basis***, data for the entire banking sector as well as on a bank-by-bank basis for each of the banks in the State Participation Group, Foreign Banking Group and Private Capital Group showing nonperforming loans (NPLs), including migration from NPLs to performing loans (PLs); migration from PLs to NPLs; the form of NPL repayments (cash, loan sales, collateral sales, etc.); write-offs; and other factors (e.g., exchange differences and revaluations) (and compared with banks' respective timebound plans for reducing NPLs once these are approved).

53. The NBU will report to the IMF, ***on a monthly basis***, data for the entire banking sector as well as on a bank-by-bank basis by bank groups for State Participation Group, Foreign Banking Group and Private Capital Group data on cumulative income statements, including total revenues; interest revenues (from loans to households, loans to legal entities, interbank loans, placements with the NBU, securities); revenues from fees and commissions; total expenses; interest expenses (on deposits to legal entities, deposits to households, interbank borrowing, borrowing from NBU, securities issued); fees and commissions paid; salaries and other staff compensation; other operational expenses; net earnings before loan loss provisions; loan loss provisions; net earnings after loan loss provisions; taxes paid; and net earnings.

54. Upon request, the NBU will provide to the IMF banks' net expected outflow of cash for a 30-day period.

55. The NBU will report to the IMF ***on a monthly basis*** and bank-by-bank the amount by which the State Participation Group, Foreign Banking Group and identified Private Capital Group banks' regulatory capital has been increased. The report will disclose the instrument or transactions by which the regulatory capital has been increased (e.g., capital injection, conversion of subordinated debt to equity, etc.)

56. The NBU will, ***once a month***, inform the IMF of any regulatory and supervisory measures against banks violating the NBU regulations on capital adequacy, liquidity ratio, large exposures, and related or connected lending, as well as about decisions on declaring a bank as problem or insolvent, including banks whose license has been revoked without declaring the bank insolvent.

57. The NBU will continue to provide detailed quarterly balance of payments data in electronic format within 80 days after the end of the quarter.

58. The NBU will inform IMF staff if the Treasury does not pay interest or principal on domestic government bonds due to the NBU, banks, or nonbank entities and individuals. In such case, the NBU will provide information on outstanding interest and principal payments.
59. The NBU will inform IMF staff of any changes to reserve requirements for other depository corporations.
60. The NBU will communicate (electronically) to the IMF staff any changes in the accounting and valuation principles applicable to the balance sheet data and will notify the staff before introducing any changes to the Charts of Accounts and reporting forms of both the NBU and the commercial banks.
61. The NBU Internal Audit Department will continue to provide an assurance report to the Fund, no later than six weeks after each test date, confirming that (i) the monetary data are in accordance with program definitions and have been verified and reconciled to accounting records; and (ii) that there have been no changes to the chart of accounts or valuation methods that would impact the data reporting.
62. The NBU will continue to provide the IMF with a copy of the annual management letter from the external auditor within six weeks of completion of each audit. As required under the Fund's safeguard policy, this will remain in effect for the duration of the arrangement and for as long as credit remains outstanding.
63. Monthly, the NBU will provide to the IMF and the Ministry of Finance data on the monthly coupons and principal to be paid for the period till the end of current and next year (in hryvnia and foreign currency, separately) on the outstanding stock of government securities held by NBU and the public (broken down by resident banks, resident non-bank; and non-resident investors). The data on resident banks will be further broken down by bank group (State Participation, Foreign Banking, and Private Capital) and include ISIN-level. Annually, the NBU will provide information on hryvnia-denominated securities that are indexed (i.e., to inflation; USD), broken down by the type of the owner.

B. Deposit Guarantee Fund

64. The DGF will provide, ***on a monthly basis***, data on the total number and volume of household deposits broken down in groups by deposit size. The data will be reported bank-by-bank for the largest 35 banks and on aggregate for the remaining banks.
65. The DGF will report to the IMF ***on a monthly basis*** and bank-by-bank for all banks in the banking system the amount of insured deposits and total household deposits. The data will be reported according to an agreed format, by domestic and foreign currency.
66. The DGF will report to the IMF ***on a monthly basis*** and bank-by-bank the total insured deposits and remaining insured deposits to be paid by the DGF for the banks under liquidation and

under provisional administration. The data will be reported according to an agreed format, by domestic and foreign currency.

67. The DGF will report to the IMF ***on a monthly basis*** the financial position of the DGF, including information about the cash balance, bond holdings, credit lines, and loans. The data will be reported according to an agreed format.

68. The DGF will report to the IMF ***on a monthly basis*** the financing arrangements of the DGF, including information about contracted financing from MoF. The data will be reported according to an agreed format.

69. The DGF will report to the IMF ***on a monthly basis*** a one-year forecast of the amount and type of financial resources that the DGF expects to receive from MoF, NBU and other entities, the amount that DGF expects to pay out to insured depositors in banks in liquidation, and the amount of asset recoveries expected by DGF. The data will be reported according to an agreed format.

C. Ministry of Finance

70. The Ministry of Finance will provide the IMF with the monthly consolidated balances (end-month) of other non-general government entities, including SOEs, holding accounts at the Treasury no later than 25 days after the end of the month.

71. The Treasury will continue to provide to the IMF reports on daily operational budget execution indicators, daily inflow of borrowed funds (by currency of issuance) to the state budget and expenditures related to debt service (interest payments and principals) including data on government foreign exchange deposits, in a format agreed with IMF staff, 10-day and monthly basis data on the execution of the state, local, and consolidated budgets on the revenue side and data on revenues from the social security contributions, including by oblast breakdown, monthly data on funds, deposited with the Single Treasury Account, on the registration accounts of the entities which are not included in the state sector, information on balance of funds as of the 1st day of the month on the account #3712 "accounts of other clients of the Treasury of Ukraine," on inflow to the State budget from placing Treasury or any other liabilities to households in foreign and domestic currency and their redemption.

72. The Ministry of Finance will continue to provide to the IMF in electronic form monthly and quarterly treasury reports, including on accounts payable by budget institutions no later than 25 and 35 days after the end of the period, respectively. The Ministry of Finance will continue to provide to the IMF in electronic form the final fiscal accounts at the end of each fiscal year, no later than March of the following year. Inter alia, these reports will provide expenditure data by programs and key spending units, as well as based on standard functional and economic classifications. In addition, quarterly reports will contain standard information on budget expenses to cover called government guarantees.

73. The Ministry of Finance will report data on the public wage bill (excluding SOEs) in line with the template agreed with the IMF staff, including all payment categories, including defense wages. The Ministry of Finance will provide quarterly Treasury reports on expenditure under the medical guarantee program by economic classification.

74. The Ministry of Finance will report to the IMF on a quarterly information on municipal borrowing and amortization of debt in format agreed with IMF staff.

75. The Ministry of Finance, together with NBU, ***on a monthly basis***, will provide information about redemptions of domestic bonds and bills in favor of residents (banks, non-banks) and non-residents. The Ministry of Finance, together with NBU, ***on a weekly basis***, will provide information on face value of government bonds redeemed and face value of government bonds placed during the week.

76. The Ministry of Finance will report to the IMF ***on a monthly basis***, no later than 15 days after the end of the month, the cash balance of the general government, with details on budget execution data for privatization receipts of the state and local governments; disbursements of external credits (including budget support and project loans including on lending) to the consolidated budget and amortization of external debt by the consolidated budget; net domestic borrowing of the general government, including net T-bill issuance, issuance of other government debt instruments, and change in government deposits.

77. The Ministry of Finance will provide in electronic form ***on a quarterly basis***, no later than 25 days after the end of the quarter, an updated list of project financing credits (distinguishing grant and loan financing) to be disbursed to the special fund of the State Budget of Ukraine (project-by-project basis), as well aggregated cash expenditures for such projects through the most recent month.

78. The Ministry of Finance will provide data on the stock of all budgetary arrears on a monthly basis, no later than on the 1st day of the second subsequent month, including separate line items for wages, pensions, social benefits accrued by social funds, energy, communal services, and all other arrears on goods and services and capital expenditures. The Treasury will report monthly data on accounts payable for state and local budgets (economic classification of expenditures). The Pension Fund will provide monthly reports on net unpaid pensions to the individuals who resided or continue to reside in the territories that are or were in direct combat zones and temporarily occupied by Russia. The provided information will include defense and law-enforcement.

Overdue account payables general government	December 31, 2023	March 30, 2024	June 30, 2024	September 30, 2024	December 31, 2024
Wages					
Other budgetary spending					
Social spending, including					
Pension and Social Insurance					
Unemployment					
Local governments					

79. The Ministry of Finance will provide a decomposition of own revenues of budgetary institutions (budget treasury code 25000000) into proceeds from fees for services provided by budget institutions in accordance with the law (budget treasury code 25010000) and other sources of own revenues of budgetary institutions (budget treasury code 25020000) no later than 25 days after the end of the quarter.
80. The Ministry of Finance will provide monthly information, no later than 25 days after the end of each month, on the amounts and terms of all external debt contracted or guaranteed by the central government, including external and domestic credit to key budgetary spending units as well as nongovernment units that is guaranteed by the government (amount of sovereign guarantees extended by executive resolutions and actually effectuated; total amount of outstanding guarantees and list of their recipients).
81. The Ministry of Finance will provide to the IMF in electronic form on a quarterly basis, no later than 25 days after the end of the quarter, (a) data on the outstanding stock of domestic and external debt of the state and local budgets (including general and special funds); (b) the monthly forecasts of planned and actual external debt disbursement, amortization, and interest payments (including general and special funds), broken down in detail by creditor categories and currency as agreed with Fund staff. The Ministry of Finance will also report the accumulation of any budgetary arrears on external and domestic debt service.
82. The Ministry of Finance will provide to the IMF in electronic form on a semi-annual basis, no later than 25 days after the end of Q2 and Q4, disaggregated bond-by-bond (loan-by-loan) data regarding the debt stock, associated payments, and disbursements.
83. The Ministry of Finance will provide data on external and domestic credit to key budgetary spending units as well as nongovernment units that is guaranteed by the government (amount of sovereign guarantees extended by executive resolutions and actually effectuated; total amount of outstanding guarantees and list of their recipients) on a monthly basis no later than 25 days after the end of the month.
84. The Ministry of Finance will provide data on the approved budgets and quarterly operational data (daily for the Pension Fund only) on the revenue, expenditures, and arrears, and balance sheets of the Pension Fund (detailed data on the breakdown of revenues and expenditure by main categories are expected for this Fund), Employment Fund (detailed data on the breakdown of revenues and expenditure by main categories are expected for this Fund), and any other extra budgetary funds managed at the state level no later than 50 days after the end of each quarter (each month in case of the Pension Fund). Any within-year amendments to the budgets of these funds will be reported within a week after their approval. The Ministry of Finance will also report the annual financial statement including the final fiscal accounts of those funds at the end of each fiscal year, no later than April of the following year.
85. The Ministry of Finance will provide, no later than 15 days after the end of each month, monthly data on the budgetary costs associated with the recapitalization of banks and SOEs. This

cost includes the upfront impact on the cash balance of the general government of the recapitalization of banks and SOEs as well as the costs associated with the payment of interests, including the respective changes as a result of supplementary budgets. The Ministry of Finance will provide quarterly performance reports for the Fund for Entrepreneurship Development. The registry of fiscal risks would become available to the IMF staff on semi-annually or, if available, on a sooner basis.

86. The STS and State Customs Service (SCS) will continue to provide on a quarterly basis, no later than two months after the end of the quarter, a listing of all tax exemptions granted, specifying the beneficiary to whom the exemption was provided, the duration, and the estimated subsequent revenue loss for the current fiscal year. Revenues foregone include losses from the simplified tax regime by groups of beneficiaries.

87. The STS will continue to provide monthly information, no later than 25 days after the end of the month, on VAT refunds in the following format: (i) beginning stock of refund requests; (ii) refund requests paid in cash; (iii) refunds netted out against obligations of the taxpayer; (iv) denied requests; (v) new refund requests; (vi) end-of-period stock of requests; and (vii) stock of VAT refund arrears (unsettled VAT refund claims submitted to the STS more than 74 days before the end of period).

88. The STS will continue to provide monthly reports 1.P0 on actual tax revenue and 1.P6 on tax arrears, inclusive of deferred payments, interest and penalties outstanding no later than 25 days after the end of each month.

Tax Arrears by Codes	Total stock, o/w	Principal	Interest	Penalties	Tax Arrears of Taxpayers Undergoing Bankruptcy	Total Tax Arrears net of Taxpayers in Bankruptcy Procedures
Taxes from Code 11010000 to 31020000						

89. The STS will provide ***on a quarterly basis*** but no later than 25 days after the end of each quarter information on the number of tax appeals and the associated disputed amounts received by the STS in each reporting period, the number of internally resolved appeals indicating the number of appeals resolved in favor of the controlling body, in favor of taxpayer and partial satisfaction.

90. The Ministry of Finance will provide ***on a monthly basis*** information about the number and amount of loans under the 5-7-9 program as well as a breakdown by sectors of loans.

D. Ministry of Economy, National Commission in Charge of State Regulation in Energy and Utilities (NEURC), GTSO, Naftogaz and Ministry of Development of Communities Territories and Infrastructure

91. For each month, no later than the 25th of the following month, Naftogaz Group and the GTSO will each provide IMF staff with information in electronic form (in an agreed format) on their cash flows. The report from Naftogaz Group will also provide information on volumes and prices of gas purchases and sales (purchase of domestic and imported gas, sales to households, heating utilities, budget institutions, and industries), and the main revenue, expenditure, and financing items. On a monthly basis, Naftogaz will provide to IMF staff updated information on the company's financial liabilities, with a schedule of loan-by-loan interest and principal payments.

92. The Ministry of Economy will provide ***on a quarterly basis***, but no later than 80 days after the end of each quarter consolidated information from the financial statements of the 10 largest SOEs. Specifically, the information will include data on (a) gross profit/losses; (b) net financial results; (c) subsidies received from the budget; (d) guarantees granted from the budget; (e) stock of debt, broken down by domestic and foreign; (f) taxes and dividends paid; (g) wage arrears; and (h) other payment arrears.

93. The Agency for the Restoration and Development of the Infrastructure of Ukraine will provide monthly reports on the execution of budgetary programs associated with the road construction and maintenance, including borrowing (disbursements, interests, and amortization) in line with the format agreed with IMF staff.

E. State Statistics Service

94. In case of any revisions of gross domestic products, the State Statistics Service will provide to the IMF revised quarterly data on gross domestic product (nominal, real, deflator) and their components (economic activities, expenditure, income), no later than 10 days after any revisions have been made.

F. Ministry of Social Policy

95. The Ministry of Social Policy will collect and submit to IMF staff ***on a quarterly basis*** data on social assistance programs, including those existing before the war and newly emerging categories. The data, which will be presented in an agreed excel format, will show for each program, including IDPs (a) the number of households receiving help under HUS and other support categories; and privileges in the reporting month; (b) total value of transfers; (c) total value of outstanding HUS debt (d) income per capita of participants, both for HUS and privileges.



UKRAINE

STAFF REPORT FOR THE 2023 ARTICLE IV CONSULTATION, SECOND REVIEW UNDER THE EXTENDED ARRANGEMENT UNDER THE EXTENDED FUND FACILITY, AND REQUESTS FOR MODIFICATION OF PERFORMANCE CRITERIA AND A WAIVER OF NONOBSERVANCE OF PERFORMANCE CRITERION— INFORMATIONAL ANNEX

December 4, 2023

Prepared By

European Department in consultation with other
departments

CONTENTS

FUND RELATIONS	2
RELATIONS WITH OTHER INTERNATIONAL FINANCIAL INSTITUTIONS	6
STATISTICAL ISSUES	7

FUND RELATIONS

(As of November 2023)

Membership Status:

Joined: September 3, 1992

On September 24, 1996, Ukraine accepted the obligations of Article VIII, Sections 2, 3 and 4 of the Fund's Articles of Agreement.

SDR Department:	SDR Million	%Allocation
Net cumulative allocation	3,237.66	100.00
Holdings	218.03	6.73

Outstanding Purchases and Loans:	SDR Million	%Quota
Stand-by Arrangements	1,937.50	96.31
Emergency Assistance ¹	2,011.80	100.00
Extended Arrangements	4,803.69	238.78

Latest Financial Arrangements:

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR million)	Amount Drawn (SDR million)
EFF	03/31/23	03/30/27	11,608.25	2,675.73
Stand-By	06/09/20	03/02/22	3,600.00	2,000.00
Stand-By	12/18/18	02/17/20	2,800.00	1,000.00

Outright Loans:

Type	Date of Commitment	Date Drawn/Expired	Amount Approved (SDR million)	Amount Drawn (SDR million)
RFI	10/07/22	10/12/22	1,005.90	1,005.90
RFI	03/09/22	03/09/22	1,005.90	1,005.90

Projected Payments to Fund:²

(SDR Million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2023	2024	2025	2026	2027
Principal	373.67	1,779.71	1,736.42	1,497.59	912.84
Charges/Interest	183.96	644.82	491.23	365.22	280.37
Total	557.63	2,424.53	2,227.65	1,862.81	1,193.21

¹ Emergency Assistance may include ENDA, EPCA, and RFI.

² When a member has overdue financial obligations outstanding for more than three months, the amount of such arrears will be shown in this section.

Exchange Rate Arrangements:

On February 24, 2022, following Russia's invasion of Ukraine, Ukraine has stabilized its exchange rate. The official exchange rate of the hryvnia against the U.S. dollar (USD) was UAH/USD 36.5686 as set by the NBU, effective 9am on July 21, 2022, until October 3, 2023. Effective October 3, 2023, the NBU allowed more flexibility in the exchange rate. However, more observations are necessary to determine its new trend. Until then, the de facto exchange rate arrangement remains classified as stabilized. The official exchange rate against USD is determined based on a series of transactions in the interbank FX market. The official exchange rates for other foreign currencies are determined by the NBU on the basis of the official exchange rate against the USD and cross rates of the relevant foreign currencies. The official exchange rates are published daily on the NBU's website no later than 3.30pm of the day of the calculation, and take effect the next business day. Ukraine's de jure exchange rate arrangement is floating.

The FX control measures undertaken under Resolution No. 18 following the imposition of the Martial Law are assessed as exchange restrictions imposed consistent with Article VIII, Section 2(a). The Ukrainian authorities have notified to the IMF Executive Board that Resolution No. 18 (and amendments to Resolution No. 18) as being those taken solely for reasons of national or international security under the procedures provided for under Decision No. 144. Exchange restrictions under Resolution No. 18 include limitations on the making of the following payments and transfers for current international transactions, including the purchase of FX for such payments and transfers: (i) payments for certain imports of goods and services; (ii) transfers to non-residents on amortization and interest of domestic government bonds; (iii) payments by residents to non-residents of interest and amortization on foreign loans; (iv) normal short term banking and credit facilities; (v) payments due as net income from investments; (vi) other invisibles, as well as (vii) transfers by nonresidents abroad of amounts recently acquired from current international transactions.

Ukraine also maintains three multiple currency practices subject to Fund approval under Article VIII, Section 3, as follows: The first arises from a spread of more than 2 percent between the exchange rates that banks may freely set for certain non-cash FX transactions and the official exchange rate (including the official exchange rate which is set on the day of the transaction and will be effective the next business day) required to be used for the purchase/sale of FX for other non-cash transactions (including government transactions). The second arises from the potential for a spread of more than 2 percent between (i) the official exchange rate of the day of the FX transactions and (ii) the official exchange rate of the previous business day that is required to be used for certain FX transactions. The third arises from the potential deviation of more than 2 percent between the multiple price auction and the market exchange rates at the time of the FX auction.

Safeguards Assessments:

An update safeguards assessment of the NBU was completed in 2023. The assessment found that the NBU has adapted its operations well to the war, but its mandate has been significantly impacted with regard to monetary financing of the government. In addition, while the NBU has maintained a broadly strong safeguards framework, governance practices need to be strengthened further. Monetary financing poses a risk to the NBU's financial autonomy and will need to be curtailed through a well-defined framework and, over the medium-term, resolved through a comprehensive exit strategy. There also continues to be scope to further strengthen the governance practices at the NBU, including through legal amendments on eligibility criteria and experience for appointments at the Council and Executive Board. The financial reporting, external and internal audit mechanisms, and risk management all have sound practices. The NBU is taking steps to implement the recommendations of the 2023 safeguards assessment.

UFR/Article IV Consultation:

Ukraine is on a 24-month consultation cycle. The last Article IV consultation was concluded on April 4, 2017, and a report was published on our external website: www.imf.org.

IMF Technical Assistance:

IMF Technical Assistance 2022-2023
Fiscal Affairs Department

Area	Topic	Start Date
Tax Policy	FY24 Tax-Customs HQ Mission Vienna, October 2023 (hybrid)	Oct-23
	FY24 Tax STX DS work Review of CIPs	Sep-23
	HQ-led STX mission Ukraine risk-based fees guarantees- FY24 virtual	Sep-23
	NRS: Carbon tax, simplified reform proposal, VAT and Excise follow-up	Sep-23
	FY24 Tax HQ Mission Vienna July 2023	Jul-23
	FY24 Tax HQ DS work	Jul-23
	FY24 Tax HQ Mission Vienna, May 2023	May-23
	FY23 Tax STX, Vienna	Jan-23
	Simplified taxation and post-war strategy (joint with R1)	Jan-23
	FY23 Tax HQ DS Work	Jan-23
Revenue Administration	HQ-mission Medium-term budgetary framework	Dec-23
	FY24 Customs mission to advise on NRS Customs reform component.	Jul-23
	FY24 Customs mission to advise on NRS Customs reform component.	May-23
	Policy gap analysis and PIT/CIT NRS directions (joint with R1)	Mar-23
	FY23 Customs DS STX 1	Mar-23

IMF Technical Assistance 2022-2023
Fiscal Affairs Department

Area	Topic	Start Date
Risk	HQ-led STX mission Ukraine Methodology risk assessment and based fees guarantees FY24 virtual	Oct-23
	HQ-led STX mission Ukraine SOE fiscal risk management FY24 virtual	Jul-23
Other	HQ Fiscal Risk Management and Guarantees mission - FY24-1 - STX	May-23
	HQ Fiscal Risk Management and Guarantees mission - FY24-1 - HQ staff	May-23
	NRS draft review and new proposals (joint with R1)	Oct-23
	NRS: Action plan (joint with R1)	Jul-23
	National recovery and revenue strategy review	Mar-23
	Strengthening the Social Safety Net	Jan-23

Legal Department

Area	Topic	Start Date
Supervision	Ukraine FY23 Webinar on Virtual Assets Regulation and Supervision	Jun-22
Other	Virtual Mission (wrap-up banks & kick-off NBFi)	Mar-23

Monetary and Capital Markets

Area	Topic	Start Date
Monetary Policy Operations	Ukraine Jul FY24 Developing a Communication Framework for Exchange Rate Regime Transitions	Aug-23
Central Bank	Ukraine FY24 MCM Attendance at the NBU ARC 2023 Conference	Jun-23
Bank Supervision	Ukraine FY23 Webinar on Virtual Assets Regulation and Supervision	Jun-22
	Resident Advisor Banking Supervision FY23	May-22
Capital Markets	FY22 Resident Advisor State-Owned Banks Governance Yr 4 Extension	Jan-22
	UKR Private Sector Debt Restructuring LTX Extension FY22-23	Jan-22

RELATIONS WITH OTHER INTERNATIONAL FINANCIAL INSTITUTIONS

EBRD: <https://www.ebrd.com/ukraine.html>

EC: https://neighbourhood-enlargement.ec.europa.eu/european-neighbourhood-policy/countries-region/ukraine_en

EIB: <https://www.eib.org/en/projects/regions/eastern-neighbours/ukraine/index.htm>

OECD: <https://www.oecd.org/country/ukraine/>

World Bank: https://projects.worldbank.org/en/projects-operations/projects-summary?countrycode_exact=UA

STATISTICAL ISSUES

(November 2023)

I. Assessment of Data Adequacy for Surveillance

General. Overall, the data provision is broadly adequate for surveillance, albeit with some shortcomings. Such shortcomings are especially in national accounts, government finance statistics (GFS), and external sector statistics. Starting February 24, 2022, the State Statistics Service of Ukraine (SSSU) has allowed respondents to suspend data provision until three months after the expiration of Martial Law.³

National Accounts. The National Accounts (NA) are compiled in accordance with the 2008 SNA. Volume measures are annually chain linked and compiled using 2016 as the benchmark year. Quarterly GDP is compiled by Production, Expenditure and Income at current and previous years' prices. As a result of the limited reporting under the Martial Law, narrowed sampling has led to some deterioration in data coverage and quality. The SSSU releases data for only two sectors and one subsector out of the core six sectors of Ukraine's economy, namely industrial production, construction, and retail trade. Data on agriculture and transportation are available, though not of a sufficient quality to be published, while data on wholesale trade is missing.⁴ While data availability has improved relative to a year ago, substantial delays in data provisioning still exist compared to pre-war: the GDP flash estimates are reported with a one month delay, sectoral monthly data is published on a quarterly basis, implying five-month delay for the first data point.

Price statistics. The weights of the consumer price index (CPI) are updated annually, and the compilation methods are in line with international best practices. Starting in 2022, the CPI basket includes owner-occupied housing. The SSSU compiles a series of producer price indices (PPI), separately covering: mining and quarrying, manufacturing, utilities and selected services activities. Starting in 2016, the SSSU launched two quarterly price indexes for new and existing housing in multi-unit dwellings, and starting in 2019, it has been calculating the general housing price index (HPI). The indices are based on a survey of real estate developers and agents, rather than comprehensive administrative data, and therefore suffer from a number of deficiencies. In 2016-2019, Ukraine was one of the beneficiaries of the SECO2 RPPI project aimed to support the compilation and dissemination of RPPIs in line with the guidelines and best practices outlined in the Handbook on Residential Property Price Indices. As a result of the limited reporting under the Martial Law, only the CPI is available and is released in a timely manner; PPI data, as well as construction, agriculture, and transport price indices used as GDP deflators, are not published (the

³ Another shortcoming for the SSSU is that some respondents did not submit reports as per Martial Law provisions.

⁴ Only current data for 2023 has not been published, although estimates on agriculture have been made and used to calculate GDP. Data on the production and sale of agricultural products for 2022, including indexes of production and prices of sales of agricultural products by enterprises (for periods/months) are published.

former is calculated but the quality is poor).⁵ The SSSU is expecting TA on the compilation of housing price indices that require improvement using the hedonic regression method. Support has also been requested for an import price index.

Government finance statistics. Compilers are cognizant of the *GFSM 2001/2014* methodology and reference materials. The adoption of the Law "On Official Statistics" in 2022 improved the legal framework for the compilation of the GFS. The institutional coverage of the SFS is the resident units of Ukraine that are classified as general government (S13) according to the national Classification of Institutional Sectors of the Economy. At present, statistical information on the public sector as a whole is not compiled within the GFS. Ukraine has introduced the Unified Chart of Accounts for the Public Sector, which ensures the accumulation and disclosure of information for statistical purposes. Comprehensive annual GFS data are reported to STA for inclusion in the annual GFS database, though the breadth of data has been reduced in data submissions for the last two years.

Monetary and financial statistics (MFS). Monthly monetary and financial statistics are compiled by the NBU and reported to the Fund using the standardized report forms (SRF) for the central bank (SRF 1SR), other depository corporations (SRF 2SR) and other financial corporations (SRF 4SR). Until 2021, data for OFCs included several methodological departures from the IMF's MFS manual and compilation guide, concerning valuation and classification of financial assets. A multisector diagnostic mission that visited the NBU in September 2015, which set out a work plan to improve the MFS, documented these departures.

Starting from 2021 when supervision of non-banking financial institutions was established at the NBU, the SRF 4SR report includes the reporting data of non-banking financial services market participants, as well as data from the National Commission for Securities and the Stock Market (NCSCFR) regarding administrative data of investment funds, non-state pension funds and depository institutions. The NBU also reports to the Fund, annual data on some key series of the Financial Access Survey (FAS), including small and medium enterprises data, microfinance institutions information, and the two indicators (commercial bank branches per 100,000 adults and ATMs per 100,000 adults) adopted by the UN to monitor Target 8.10 of the Sustainable Development Goals (SDGs).

Financial sector surveillance. The NBU reports Financial Soundness Indicators (FSIs) to STA on a regular basis: 14 core and 11 additional FSIs for deposit takers monthly, following the methodology of the FSIs Guide 2019. FSIs for real estate markets and for other financial corporations are also reported. While the FSIs for real estate markets are on a monthly basis, the data for other financial corporations are on quarterly basis.

External Sector. Quarterly balance of payments (BOP), international investment position (IIP) and external debt statistics (EDS) are compiled by the NBU following the *Balance of Payments and*

⁵ Agricultural price indices for the current year 2023 have not been published, although their estimates have been made and used to calculate GDP. Data on the price indices of the sale of agricultural products by enterprises (for periods/months) for 2022 are published.

International Investment Position Manual, sixth edition (BPM6) methodology. BOP and IIP are reported to the Fund, while EDS to the World Bank. The reserve data template on International and Foreign Currency Liquidity is disseminated monthly, within five banking days. Export-Import data are available one month after the end of the reference month. Notably, trade data have undergone improvements, including seasonal adjustments for volumes and the introduction of a new form for collecting construction services data. Simultaneously, the SSSU is aligning with an EU regulation for compiling export-import data by economic entities, employing an annual calculation based on the number of employees.

Joint efforts by the NBU and the SSSU supported by IMF Technical Missions have progressively enhanced Direct Investment (DI) statistics, encompassing the inclusion of reinvested earnings and loans between fellow enterprises with data revisions since 2015. The responsibility for publishing DI has transitioned from the SSSU to the NBU. However, inconsistencies persist when comparing DI data published in the Coordinated Direct Investment Survey (CDIS) with IIP data for periods before 2015. Strengthening data collection through Enterprises Surveys is essential to improve data quality in the areas of DI, Services (especially travel and construction services), compensation of employees, personal transfers, and assets abroad.

II. Data Standards and Quality

Ukraine is a subscriber of the Special Data Dissemination Standard since January 10, 2003, and the Data ROSC was published on August 19, 2003.

**Ukraine: Table of Common Indicators Required for Surveillance
(November 2023)**

	Date of latest observation	Date received	Frequency of data ⁶	Frequency of reporting ⁶	Frequency of publication ⁶
Exchange Rates	10/31/2023	11/01/2023	D	D	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities ¹	10/31/2023	11/06/2023	D	W	W
Reserve/Base Money	10/31/2023	11/02/2023	D&M	D&M	M
Broad Money	10/31/2023	11/02/2023	D&M	D&M	M
Central Bank Sectoral Balance Sheet	9/30/2023	10/2023	M	M	M
Other Depository Corporations Sectoral Balance Sheet	9/30/2023	10/2023	M	M	M
Interest Rates ²	10/31/2023	10/31/2023	D	D	D
Consumer Price Index	10/31/2023	11/09/2023	M	M	M
Revenue, Expenditure, Balance and Composition of Financing ³ —General Government ⁴	9/2023	10/26/2023	M	M	M
Revenue, Expenditure, Balance and Composition of Financing ³ —Central Government	9/2023	10/26/2023	M	M	M
Stocks of Central Government and Central Government-Guaranteed Debt ⁵	10/31/2023	11/01/2023	D & M	D & M	D & M
External Current Account Balance	9/2023	10/2023	M	M	M
Exports and Imports of Goods and Services	9/2023	10/2023	M	M	M
GDP/GNP	Q4/2022	3/2023	Q	Q	Q
Gross External Debt	Q2/2023	09/2023	Q	Q	Q
International Investment Position	Q2/2023	10/31/2023	Q	Q	Q

¹ Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.

² Both market based and officially determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

³ Foreign, domestic bank, and domestic nonbank financing.

⁴ The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

⁵ Including currency and maturity composition.

⁶ Daily (D); Weekly (W); Monthly (M); Quarterly (Q); Annually (A); Irregular (I); or Not Available (NA).

Statement by Mr. Vladyslav Rashkovan, Alternate Executive Director for Ukraine

December 11, 2023

On behalf of the Ukrainian authorities, I would like to thank staff for the in-depth report, productive Article IV consultations, the constructive engagement during the recent mission and staff visits to Kyiv and Warsaw, and continuous virtual engagement with the authorities. The authorities are grateful for the Fund's Management and the Executive Board's continuous support of Ukraine throughout these challenging times. They are especially thankful for the recent re-opening of the Resident Representative office in Kyiv.

The authorities are in broad agreement with the staff assessment of the severe impact of Russia's brutal and unjustified invasion and the ongoing war on human and physical capital, a drop in living standards, and rising poverty in Ukraine.

The authorities took every measure to meet all quantitative performance criteria and indicative targets and have made every effort to fulfill the structural benchmarks, even if some with delay. They remain committed to the ambitious reform agenda and strong policy implementation to achieve much stronger economic outcomes in a two-phased approach.

Macroeconomic Outlook during a Wartime

It is visible that Russia's invasion caused extremely high population displacement, enormous infrastructural damages, and huge losses to the potential GDP of Ukraine. Despite the war, real GDP returned to growth in annual terms in Q2 2023, reaching 19.5 percent after declining by 10.5 percent in Q1 2023. According to the National Bank of Ukraine (NBU's) estimates, the economy is expected to grow by about 5 percent in 2023.

The resilience of the Ukrainian economy, the further adaptation of businesses and households to wartime conditions, substantial budget support, the stable energy situation, the rebound in domestic demand, high crops, and the faster expansion of alternative export routes are the main drivers of economic recovery in 2023. Due to the high crop yields, Ukraine is to collect 60 million tons of grains, an increase of about 6 percent compared to 2022 and higher than expected at the beginning of the year. The expansion of alternative trade routes, including through the Danube ports, followed after the unilateral withdrawal of Russia from the Black Sea Grain Initiative and Russia's trade disputes with some neighboring EU countries, supporting exports and allowing Ukraine's grains to continue contributing to global food security efforts.

Consumer inflation continued to decelerate (to 5.3 percent yoy in October), faster than the NBU expected in previous forecasts, given the ample supply of food due to higher harvests, the increased production of food products, the sustainable situation in the FX market, and improved expectations. The latter, together with the uneven consumer demand and reduced cost pressures also eased underlying inflationary pressures. As the war continues, the NBU remains fully committed to maintaining an appropriate monetary policy stance keeping inflation moderate, managing inflation expectations, safeguarding exchange rate stability, and maintaining international reserves at comfortable levels.

In January–October 2023, the current account ran a deficit of USD 6.3 billion compared to a surplus of USD 7.3 billion in the corresponding period last year. The key factor behind this deterioration was the widening of the goods trade deficit (to USD 23.6 billion from USD 9.9 billion in January–October 2022). The reduced export of ores and metallurgical products due to logistics problems, the destruction of production facilities, and weaker demand in the European market led to a decrease in exports of goods (by 16.4 percent y/y). Meanwhile, the import of goods kept growing (by 18.7 percent y/y) due to the further revival of domestic demand, including for emergency power supply equipment, vehicles, and significant defense sector needs. Significant amounts of international aid restrained further widening of the current account deficit.

Currently, there are 6.3 million Ukrainian migrants of which 4.2 million people have temporary protection status in the EU as of end-September 2023. About 3.7 million are registered as internally displaced (IDPs), and their adaptation to the war reality is increasing. According to research by Gradus, 63 percent of migrants abroad will return to Ukraine, once economic factors, security, and housing improve.

Fiscal Policies

A significant budget deficit in 2023 was financed through international aid and domestic debt borrowing. The expenditure policies in 2023 aimed to accommodate core priorities, which contained additional spending pressures and provided some room for recovery and reconstruction. Budget deficit expectations in 2023 and budgetary needs are broadly unchanged and remain consistent given the support from external donors.

The 2024 budget, also preliminary discussed with IMF staff, was approved on November 9th. The expenditure envelope maintains the high defense-related spending, although the authorities continue to allocate additional resources to respond to the needs of war veterans and vulnerable households for an adequate social safety net. The budget deficit will continue to be largely financed by international donor support, and important contributions from the domestic borrowing market and internal revenues mobilization.

The Ministry of Finance and the NBU are continuously working on the development of the domestic debt market and the increase of net domestic bonds' financing. Per the end of October, the year-to-date rollover rate of 137 percent provided a net financing to the budget of about US\$3.4 billion. About 65 percent of gross UAH issuance has been raised through benchmark bonds that banks may use to meet reserve requirements, established by the NBU.

The authorities remain committed to internal revenue mobilization to help meet budget financing needs. As a first step, the pre-war setup for taxpayers was reinstated in August 2023. The Ministry of Finance, with technical assistance (TA) from the IMF, has worked on developing a National Revenues Strategy (NRS), which will be approved by the cabinet later this year. The NRS will form an anchor for tax policy and administration reforms in the medium-term.

To anchor fiscal sustainability and budget predictability, the authorities repealed some provisions of the Martial Law, namely, the relaunching of the mid-term budget framework starting from 2024 and reinstating a fiscal rule that ringfences risks from state guarantees and limiting the list of reasons for

budget amendments. The Medium-Term State Debt Management Strategy was updated and published at the end of October. In 2024, the authorities will work on enhancing expenditure planning and the medium-term budget framework, as well as SOEs stress-testing and a fiscal risks assessment with TA from the IMF.

Financing

External support is an essential part of the budget financing and many international partners have assured Ukraine of their continued support to ensure that debt sustainability is restored, and the program is fully financed. The envisioned catalytic effect of the IMF program fulfilled expectations and Ukraine received USD 37.4 billion in grants and loans. While the amounts of official financing have declined since August, international financial aid has remained sufficient to support the country's FX balance and maintain FX reserves at comfortable levels. The budget deficit for 2024 is expected to remain on the same level as in 2023 and the government is working with partners on conditionality and timing for disbursements in 2024.

In line with the authorities' commitments, there has been no monetary financing of the budget deficit in 2023. At the end of October, the level of international reserves reached \$39 billion.

Financial Sector Policies

The Ukrainian business and financial sector further adjust to working in a war-affected environment. Thus, despite the challenges, banks enjoyed further inflows of client deposits, both retail and corporate. Moreover, the share of term retail deposits increased on the back of NBU measures, thus mitigating potential risks for banks' liquidity. Bank lending is also picking up: retail lending has been on the rise since Q2, and the cumulative increase in the hryvnia retail portfolio since the beginning of the year was 16.4 percent by the end of October. Corporate lending in the hryvnia has been gradually recovering since June, mostly driven by government support programs like "5-7-9". However, lending outside these programs is also picking up. Income from investments in government and NBU securities as well as from corporate loan portfolios drove significant sector's interest income.

The banks retained their high operational efficiency and kept their provisioning costs at a minimum. Thanks to the above factors, the sector generated higher profits – over UAH 120 billion in the first months of 2023. The government decided to tax this extra profit with a respective windfall tax. In November, the Parliament adopted the law on taxation of banks' profits with a temporary increase in CIT from 18 to 50 percent on the profit of banks, which will generate about 0.3 percent of GDP to help meet deficit financing needs during 2024. The rate is to be subsequently cut to 25 percent for the profits generated in 2024, still keeping it higher than for other economic sectors. At the same time, banking sector capital is increasing, paving the way for the implementation of postponed and new requirements in the sector.

In line with previous commitments, the NBU finalizes its banking sector resilience assessment. The preliminary results of this year's resilience assessment of the banks are optimistic: only a few institutions may face a moderate need for capital increase. Considering the current state of the sector, the NBU is restoring previously suspended and introducing new regulatory requirements. In September, the NBU reinstated a number of credit risk assessment requirements and improved

approaches for banks to assess the solvency of legal-entity debtors. Banks had to implement them by 1 November 2023. In addition, starting in 2024, banks will have to restart updating and submitting their business recovery plans to the NBU. Additionally, non-core assets will be deducted from banks' capital in full, and 100 percent of operational risk will be accounted for in capital adequacy ratios (vs current 50 percent). Next year, the NBU also plans to introduce a new capital structure, which will account for market risk while assessing capital adequacy. Most banks have sufficient capital to comfortably meet said regulatory requirements despite the expected imposition of an additional tax on bank profits.

Governance Policies

The authorities remain committed to advancing a structural reform agenda that will lay the foundations for robust post-war growth and pave the path for EU accession. Anticorruption and good governance remain high on their agenda. Reforms in anti-corruption and the rule of law areas aim at effectively combatting corruption, sustaining public confidence, and advancing toward the goal of EU membership.

The law on relaunching the asset declaration system was adopted by Parliament. It addresses the risks related to the war while at the same time ensuring maximum possible transparency and control over the integrity of public officials. Asset declarations by public servants and politicians for the years 2021 and 2022 will be submitted by the end of January 2024.

Framed by the current program, the authorities developed and registered a draft law enhancing the capacity and autonomy of the Special Anticorruption Prosecution Office (SAPO). The bill envisages the status of SAPO as a separate legal entity, improves the selection procedures of the SAPO Director and key officials with a crucial role and decisive vote ensuring independent experts with international experience, strengthens its capacity to regulate its organizational activities, and establishes mechanisms for discipline and accountability of the SAPO leadership. The draft law has already been adopted in the first reading and will be further strengthened with additional procedural guarantees for SAPO before the second reading by the end of the year.

The authorities also plan to increase the capacity of the National Anticorruption Bureau (NABU) by allowing the agency to hire 300 additional employees. The draft law increasing the maximum number of NABU's employees has been voted on by the Parliament in the first reading and is expected to be adopted by the end of the year.

Article IV Consultations

The authorities highly appreciated the Article IV discussions with the Fund. They welcomed staff's scenario analysis and agreed on the importance of discussing post-war policies now, notwithstanding the large uncertainty about the future. The authorities emphasized several challenges that Ukraine will face in boosting its economic potential: (i) attracting large volumes of foreign capital and directing it to most productive investments and (ii) addressing the demographic situation including by creating conditions for migrants to return and for a large number of war veterans to reintegrate into the job market. Even though the war is not over yet, the authorities believe in the need to allocate enough time to discuss the structural policy, which would lay the foundation for strong, balanced, and green growth in the post-war era, and support Ukraine's path to EU accession.

The authorities broadly acknowledged the external assessment, agreed on the importance of effective management of large-scale aid flows, concurred with staff's views on the approach to the gradual relaxation of FX controls and transition to inflation targeting, and agreed on the need for stronger efforts to mobilize domestic revenues and implement fiscal structural reforms to support these efforts. They also acknowledged that it would be challenging to increase the tax burden post war given the hardships the population and businesses have been experiencing in wartime. The authorities emphasized the difficulties in substantially reducing post-war defense spending given the need to further strengthen its military for deterrence of future aggression against the country. Furthermore, the needs for de-mining and addressing environmental damage will create additional spending pressures.

The authorities concurred with staff on the challenges that the financial sector is facing and on the needed structural reforms to support financial intermediation and restart lending, also to address the higher demand for housing financing in a post-war environment.

The authorities agreed with staff on the importance of good governance and strong anti-corruption institutions while highlighting the risks to public sector recruitment if public servants were stigmatized. Specifically, they highlighted that onerous asset declarations and the consequences of the recently adopted AML/CFT law could potentially deter high-quality candidates from joining the public service (both – conditionalities for the current review, implemented with a delay under very difficult circumstances). They also highlighted the need for adequate training and re-training of civil servants in a period of high “brain-drain” outflow from government agencies to foreign donor organizations working on the grounds in Ukraine.

Concluding Remarks

The authorities believe that the policies set forth in the MEFP are adequate to achieve the objectives of the program in the updated baseline and downside scenarios. While acknowledging that these scenarios are subject to exceptionally high uncertainty, the authorities are very grateful for the cooperation and support from the Fund, as well as from other IFIs and the international community, and remain strongly committed to the full and timely implementation of the policies under the EFF, which should pave the way toward EU accession. They believe that efforts to achieve Ukraine's strategic goal of EU accession will reinforce the drivers of long-term growth and stability.

Based on the successful program implementation, as well as the commitments for the period ahead, the authorities request the completion of the Second Review and commit to maintaining a close policy dialogue with the Fund.