Q1: You have been in charge of the Fund's mission to Ukraine for over a month now. What are your first impressions?

A1: I must admit that this has been a very challenging time to take on a new country assignment, while Ukraine and the rest of the world are dealing with COVID-19 pandemic challenges. Usually, under normal circumstances, I would have visited Ukraine already – to form those very important impressions, meet people, and establish relationships -- that is very difficult to do over virtual meetings. I do know that everyone worked incredibly hard under extraordinary circumstances to reach an agreement, including on difficult and complex legislation, which I hope is a signal of a commitment to see these reforms through.

Q2: Which of PAs were of the most importance for the LOI to get signed and for the first disbursement under the new program? And the most complicated?

Q2: Let me start by saying that it is not the case that one Prior Action is more important than another. If we have agreed on a set of prior actions, it is because we, the IMF and the Ukrainian authorities, jointly, believe these actions are critical, from the beginning, to ensure stability, recovery, and growth. Please indulge me while I give you a brief bit of background. A country's government and the IMF must agree on a program of economic policies (described in the MEFP) before the IMF lends to the country. A country's commitments to undertake certain policy actions, known as policy conditionality, take the form of prior actions and structural benchmarks. The difference between these is timing – prior actions are commitments to be taken before the IMF disbursement occurs, whereas structural benchmarks mark future commitments. However, prior actions and structural benchmarks have two things in common. One, they must be of critical importance to a country's macroeconomic success. Two, there has to be an agreement between the IMF and the country authorities that these measures are included in the program.

Back to the specific question about the Prior Actions for Ukraine. These actions were jointly considered critical to ensuring the continued stability of the financial system, to reducing risks to public finances, to improving the governance in tax and customs administrations, and to strengthening the anti-corruption and anti-money laundering frameworks.

Q3: There are risks that the new law which Ukrainian media labelled "anti-K" would be disputed in the Constitutional Court. On your scales, how weighty is this risk? If this happens, which impact will this scenario have on Ukraine's engagement with the Fund?

A3: I'm assuming that you are referring to Law 590, which aims to strengthens the bank resolution framework. The law is very technical but let me try to explain why we think it is important for Ukraine. Banks—and other licensed financial institutions—have a special responsibility to keep people's savings safe. A person depositing money into a bank account must be confident that this money will be returned. Because of that obligation to depositors and because of the need to maintain trust in banks, all countries regulate and supervise banks to ensure that they don't take excessive risks or misuse depositor money. If excessive risks are taken or, worse, if there is fraudulent activity, the supervisor of banks (in this case, the NBU) must be able to intervene, to take the steps necessary to prevent depositor losses and repair the bank. This is one thing that this law accomplishes. It gives the supervisor the right legal tools to step in timely and address banks' problems. The second thing the law does is to give legal certainty to decisions made by supervisors on insolvent banks in the interest of protecting depositors. These resolution decisions can be challenged before courts. A resolution decision involves many angles, some of them are legal issues, but they also contain many technical assessments of the supervisor. The law ensures that courts examine the legal issues and give deference to supervisor's technical assessments. More importantly, in line with good practices, these types of decisions shouldn't be unwound as a result of judicial actions. Resolution measures generate so many consequences for so many parties, including depositors, creditors, investors, other banks and financial institutions, and also taxpayers as government ultimately steps in and uses public money to preserve financial stability during resolution. As such, there is a need to balance public interests and private interests. International good practices found this way: in case that courts find, with sufficient evidence, that a supervisory decision was unlawful, instead of unwinding the resolution measures, the law then allows parties to the dispute to be entitled to monetary compensation, determined on the basis of clearly calculated losses. And this is the third thing the law does – prescribes how those losses should be determined.

It should be very clear that while the law is very technical and very complex, the importance of Law 590 isn't hypothetical: Ukrainian taxpayers have spent more than 15 percent of GDP in rescuing depositors in failed banks. Law 590 tries to minimize any loss of taxpayer money by making bank interventions less costly and by providing a clear framework for determining if any compensation can reasonably be granted to owners of failed banks.

Q4: In order to get disbursed USD 5 bln worth of funds from the IMF Ukraine, in line with the new MEFP, is expected to deliver certain commitments. As far as we know, they are concentrated in the realms of tax policy and administration, corporate governance, judiciary, anti-corruption and gas market reform. Which of those would you outline more specifically?

A4: As we discussed above, the prior actions already taken by the government have allowed for the disbursement of about US$ 2.1 billion under the new SBA. For the remainder of the Fund financing to be disbursed, you are right - that is a correct description of the specific structural reform areas where the government intends to make progress under the IMF-supported program. Let me give you one example: revenue administration. One of the prior actions was the enactment of legislation that allows the elimination of regional tax and customs offices as separate legal entities. The objective is to modernize and harmonize revenue collection and reduce the room for discretion and corruption at the regional level. The goal is to improve the business climate, while unlocking more resources to the state budget that could be used for health, education, building infrastructure, or social programs. Of course, these types of big changes don't happen overnight. There are two structural benchmarks – one for end-September and one for end-December -- that mark concrete milestones along the way to making this new structure operational and in line with best practices. To help the authorities meet those benchmarks, the IMF is also providing capacity development – technical assistance – from experts who have much experience in these areas.

Q5: What are Ukraine's financing needs for the next three years to meet its budget deficit target and service its debts?

A5: Ukraine's fiscal financing needs – what is needed to finance the deficit as well as service debts – have clearly risen this year, as the deficit has widened from about 2 percent of GDP in the original 2020 budget to almost 8 percent of GDP in the supplementary budget. This has increased this year's fiscal financing needs to an estimated at 15.5 percent of GDP. In recognition of the higher financing needs, IMF disbursements are being made available to the budget. Financing needs next year will also remain elevated, but should come down to under 10 percent of GDP over the medium term, as Ukraine returns to the fiscal discipline it had shown in the last few years prior to the crisis. The large fiscal financing needs over the coming years also highlights the importance of sound macroeconomic policies that instill market confidence and reduce borrowing costs.

Q6: IMF's this April forecast for Ukraine's economy. Has it been revisited? Why is the Fund so gloomy regarding Ukraine's economy rebounding in 2021?

A6: I think it is worth recognizing that we are making forecasts and setting policies under a great deal of uncertainty – uncertainty about the length of the crisis and about the impact that it will have globally and on Ukraine. In the words of our Chief Economist, “this is a crisis like no other”, inflicting a global recession much worse than that during the financial crisis of 2008-09, and with extreme uncertainty about the nature of the recovery. We do expect a recovery in 2021, but we are cautiously not forecasting a strong rebound. We worry about structural damage to the economy, particularly in those sectors most affected by the crisis, jobs may be destroyed as bankruptcies force firms to close down. As the size of that damage becomes clearer, and as we understand better the effects that the government’s policies have had on helping to support firms and households, we should have a better sense of the capacity of the economy to bounce back.

Q7: Ukraine’s policymakers claim the country’s aims is to no longer need the IMF’s help. What is your take in these statements? Under which conditions this would be realistic

A7: The objective of all IMF-supported programs is a country’s return to economic and financial Health. The goal is to reduce distortions, imbalances and vulnerabilities that depress confidence and investment and hold back growth. Once the country returns to economic and financial health, the reliance on IMF resources goes down. Achieving macroeconomic stability – low and stable inflation, sustainable public finances, strong foreign currency reserves, a healthy financial sector – is one precondition for attracting private investment and accelerating growth. Ukraine has had a good track record in establishing stability, notably so over the last 5 years. But another precondition for an acceleration in investment and growth is a good investment climate, where firms face open, transparent, and competitive markets, where the rules of the game are stable and clear, property rights are enforceable, and the judicial process is fair and efficient. Supporting Ukraine in building such a dynamic and competitive economy has been the goal of a number of IMF-supported programs, but reform has been slow, and therefore Ukraine has not been able to mobilize large-scale private financing to accelerate growth.