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UKRAINE

March 2022

REQUEST FOR PURCHASE UNDER THE RAPID FINANCING INSTRUMENT AND CANCELLATION OF STAND-BY ARRANGEMENT—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR UKRAINE

In the context of the Request for Purchase under the Rapid Financing Instrument, 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 March 9, 2022, following discussions that ended in March 2022, with the officials of Ukraine on economic developments and policies underpinning the Rapid Financing Instrument. Based on information available at the time of these discussions, the staff report was completed on March 7, 2022.
- A **Statement by the Executive Director** for Ukraine.

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.

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International Monetary Fund
Washington, D.C.

IMF Executive Board Approves US$1.4 Billion in Emergency Financing Support to Ukraine

FOR IMMEDIATE RELEASE

Washington, DC – March 9, 2022: The Executive Board of the International Monetary Fund (IMF) today approved a disbursement of US$1.4 billion (SDR 1,005.9 million) under the Rapid Financing Instrument (RFI) to help meet urgent financing needs and mitigate the economic impact of the war.

The Executive Board expressed its strong support for the Ukrainian people.

The war in Ukraine is resulting in tragic loss of life and human suffering. While the outlook is subject to extraordinary uncertainty, the economic consequences are already very serious, with refugee flows of over 2 million persons in just 13 days and large-scale destruction of key infrastructure in Ukraine. This disbursement under the RFI, equivalent to 50 percent of Ukraine's quota in the IMF, will help meet urgent balance of payment needs arising from the impacts of the ongoing war and will provide critical support in the short term while playing a catalytic role for financing from other partners.

The Ukrainian authorities have canceled the Stand-by Arrangement and the authorities have expressed their intent to work with the IMF to design an appropriate economic program aimed at rehabilitation and growth, when conditions permit. The authorities intend to remain in close consultation with staff as they continue to design and implement effective crisis mitigation measures.

Following the Executive Board discussion, Ms. Kristalina Georgieva, Managing Director and Chair, made the following statement:

The Russian military invasion of Ukraine has been responsible for a massive humanitarian and economic crisis. The tragic loss of life, huge refugee flows, and immense destruction of infrastructure and productive capacity is causing severe human suffering and will lead to a deep recession this year. Financing needs are large, urgent, and could rise significantly as the war continues.

The emergency policy response of the Ukrainian authorities has been remarkable. Administrative and capital controls have been introduced to preserve the availability of foreign exchange reserves and reduce uncertainty regarding the exchange rate. To further support financial stability, the National Bank of Ukraine has established a new liquidity facility and introduced regulatory forbearance measures. While cash withdrawal limits have been imposed, cashless transactions have not been limited. Fiscal policy has focused on ensuring priority payments. Ukraine has stayed current on all debt obligations.

Against this extraordinary background, the IMF has approved critical financial support. This should be instrumental in catalyzing the large-scale mobilization of additional concessional financing that will be required to help fill the financing gap and mitigate the economic impacts of the war. Once the war is over and a proper damage assessment can be performed, additional large support is likely to be needed to support reconstruction efforts.

The Fund expresses its deepest sympathy to the Ukrainian people in these extraordinarily difficult times and will remain closely engaged with the Ukrainian authorities.

UKRAINE

March 7, 2022

REQUEST FOR PURCHASE UNDER THE RAPID FINANCING INSTRUMENT AND CANCELLATION OF STAND-BY ARRANGEMENT

EXECUTIVE SUMMARY

Context and policy response. While geopolitical tensions with Russia had already curtailed Ukraine's access to markets, the escalation to an invasion of Ukraine by Russia and full-blown war on February 24 has dramatically altered Ukraine's outlook. A deep recession and large reconstruction costs are to be expected, on the backdrop of a humanitarian crisis. With the war ongoing, the situation remains extremely fluid, and any forecast is at this stage subject to massive uncertainty. The authorities are rightly focusing on ensuring the continuity of critical government operations, preserving financial stability and protecting priority spending.

Request for Financial Assistance. In light of the urgent balance of payments needs, and the severe constraints that the war has imposed on their capacity to implement reforms and conditionality under the Stand-by Arrangement, the Ukrainian authorities are requesting financial assistance under the Rapid Financing Instrument (RFI). Access of SDR 1,005.9 million (about US$1.4 billion), equivalent to the maximum available amount of 50 percent of quota, is proposed. The authorities also notified the Fund of their intention to cancel the Stand-by Arrangement; the cancellation became effective on March 3.

Approved by
Philip Gerson (EUR) and Martin Čihák (SPR)

Discussions were held by teleconference on March 7, 2022. Finance Minister Marchenko, Governor Shevchenko, and other senior officials participated in the call. V. Rashkovan (OED) joined the discussions.

The staff team comprised I. Vladkova Hollar (head), A. Khachatryan, S. Nadeem, and J.G. Poulain (all EUR), T. Orav (SPR), E. Karlsdottir (MCM), V. Stepanyan (resident representative), and I. Shpak, M. Sydorovych, and M. Chebanova (local economists). L. Herrera Prada, R. Jarin, and C. Piatakovas (all EUR) assisted in the preparation of the report.

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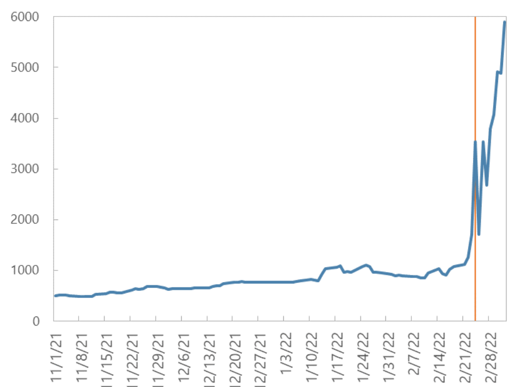
RECENT DEVELOPMENTS AND OUTLOOK

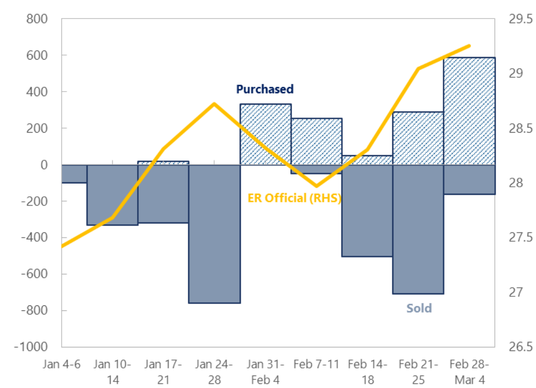
1. **Even before February 24, positive developments were increasingly eclipsed by the adverse impact of geopolitical tensions on market access and the economy.** In line with staff's forecast, real GDP grew by 3.2 percent in 2021 as a record grain harvest and strong consumer spending helped lift growth in the last quarter of the year. The external position at end-2021 was relatively robust, with gross reserves at US$30.9 billion. Revenue performance continued to be satisfactory in the first two months of 2022. The authorities had made progress on conditionality under the Stand-by Arrangement sufficient to launch the second review mission on February 23. However, forward-looking confidence indicators already reflected a change in momentum in January. Sovereign spreads, which started rising in late November 2021, hit distressed levels as markets priced in a deterioration of the security situation, putting significant pressure on Treasury liquidity amid disappointing domestic auctions. Since the start of the year through February 23, the hryvnia depreciated some 7 percent, while the NBU sold FX reserves. Low rollover of maturing local government debt by non-resident investors led to some US$500 million in outflows, bringing reserves down to US$28 billion.

Ukraine: Weighted Average Sovereign Spread
(Basis points)



Source: Bloomberg

FX Intervention and Average Exchange Rate, 2022
(Millions of U.S. dollars)



Source: NBU.

2. **Ukraine confronts a massive humanitarian and economic shock.** Early indications suggest widespread and rapidly increasing loss of life and significant infrastructure damage across the country. Air and seaports have been closed, and substantial damage has been incurred at Mariupol (through which 50 percent of total exports are shipped) and a majority of the airports. A large swathe of roads and bridges have been destroyed, further crippling transportation and logistics, as have many administrative and residential buildings in urban areas. At the same time, in just seven days, a million refugees have already fled to neighboring countries; the UN High Commissioner for Refugees expects this number to rise to 4 million in the coming months.

3. **The payment system remains operational, banks are open and mostly liquid, but the distribution of cash is impaired.** As of March 2, all banks were open, and non-cash

payments were mostly uninterrupted. The NBU has cash reserves stored in multiple locations, but the military conflict has disrupted their accessibility and distribution networks—reducing NBU's ability to secure cash to bank branches and ATMs, especially in the Eastern and some Northern regions. Approximately half of bank branches are closed to protect the safety of staff and customers. Supported by cash withdrawal limits (see next section), system wide retail deposits grew by 1.4 percent from February 23 to March 1, while corporate deposits declined by 3.5 percent (partly due to early tax payments). Applying market values as of February 23, High Quality Liquid Assets (HQLA) remained relatively high for a majority of banks. Banks have announced payment holidays on retail and corporate loans for the duration of the Martial Law and cancelled fees and commissions on cashless payments as well as cash withdrawals. Prospects for banking systems' profitability are significantly weakened. The licenses of two small Russian banks (0.4 percent of system deposits) have been revoked under Martial Law.

4. **The economy is set to experience a deep recession this year.** Domestic demand is expected to contract sharply as the war persists, with consumption limited to basic needs with the population displaced, supply disruptions, the destruction of infrastructure, and exceptional uncertainty. This will be associated with a significant contraction of imports. Exports are also projected to decline due to disrupted logistics and production capacity and the closure of sea and airports. This major shock happens against a background of already-high inflation (10 percent y/y in January) and high gas import prices, the spread of the Omicron variant, and the loss of financial market access. There is massive uncertainty around the baseline, but at a minimum, staff expects a deterioration in the growth outlook of at least 13.5 percentage points relative to a pre-war baseline, with output falling 10 percent this year assuming a prompt resolution of the war and substantial donor support. This compares to a decline of output of 6.6 percent in 2014, followed by a decline of just under 10 percent in 2015, in the context of the earlier Russia-Ukraine conflict in Eastern Ukraine, which resulted in the annexation of Crimea.

5. **However, the intensity of the ongoing conflict is causing widespread destruction to Ukraine's productive capacity and rapidly worsening the outlook.** Increasing loss of physical capital stock and mass migration would result in a significantly more pronounced output contraction, a collapse in trade flows, further diminished tax collection capacity, and a greater deterioration in the fiscal and external positions. Data on wartime real GDP contraction (Iraq, Lebanon, Syria, Yemen) suggest that annual output contraction could eventually be much higher, in the range of 25–35 percent. Accordingly, the financing gap estimates presented in the report should be seen as a bare minimum and a bridge toward the point in time when a comprehensive post-war damage assessment will allow for an adequate estimate of total financing needs, which would likely be significantly higher than the current estimate.

6. **Near-term financing needs are projected to increase sharply.** Loss of market access, lack of non-resident inflows, reluctance of domestic banks to increase their sovereign exposure given the risk of pressure on their deposit base and increase in military spending are opening large fiscal and external financing gaps. In the very short-term, deep import compression and

recently introduced capital controls (see next section) should mitigate the adverse impact on the external position, while frontloaded external budget support will help on the fiscal side.

7. **Downside risks are exceedingly high.** A prolonged conflict would further increase the loss of life and physical and human capital and further jeopardize access to basic needs such as food, water, and electricity. The conflict could further strain domestic and global energy and food prices, raising inflation and putting pressure on the fiscal and external positions. Disruptions to the spring agriculture season could also curtail exports and growth and imperil food security. Contingent liabilities from the financial sector—in case of deposit runs or a significant deterioration in asset quality—or from large state-owned enterprises[1] would add to the already large financing need, and, if sufficient (external) financing does not materialize, emergency spending could shift the financing mix to short-term domestic financing and a monetization of the deficit.

ECONOMIC POLICIES

8. **The authorities have implemented appropriate emergency measures to stabilize markets and the economy, as outlined in the attached Letter of Intent.** The immediate priority is to ensure there is sufficient liquidity for the continuity of key critical government operations, allow sufficient access to cash for the general population, and contain the impact of disorderly market conditions.

9. **The National Bank of Ukraine was ready for an emergency response.** The NBU had thought through, prepared, and tested key elements of good business continuity planning prior to the start of hostilities. The adopted measures appear appropriate in the very short term.

- ***Wide ranging administrative FX controls and capital controls were introduced to preserve the availability of FX, reduce uncertainty regarding its value, and channel FX to priority imports.*** This entails limiting the drain of FX (and UAH cash) from the banking system and safeguarding FX reserves. At the outset, the FX market, and most cross-border payments and transfers were largely suspended (with the exception of sovereign debt payments which continue to be made on time), the official exchange rate was fixed at the level prevailing on February 24, and withdrawals of FX deposits were banned, with limited exemptions. No restrictions were introduced on the use of payment cards abroad and the general repatriation requirement for export proceeds was left unchanged at 365 days. To facilitate the availability of FX for critical import purchases, limited interbank trading has since been allowed at the official rate ±1 percent. FX deposit cash withdrawals have also been allowed, capped at UAH 30,000 per day (US$1,000) but may be lower in areas under military threat. On March 1, the prevailing

[1] SOEs in the energy sector are facing major financial difficulties as the large increase in gas prices have compounded existing structural weaknesses. Amortization is limited this year, but the need to import gas for rebuilding stocks ahead of the next heating season—estimated at 6 billion cubic meters—could significantly add to financing needs if prices remain elevated throughout 2022.

exchange rate on the unofficial cash market was about 10 percent more depreciated than the official rate.

- ***To further support financial stability, the NBU has established a new liquidity facility, set UAH cash withdrawal restrictions, and introduced regulatory forbearance measures.*** UAH cash withdrawals are limited to UAH100,000 (US$3,300) per day but may be set lower in branches that have limited cash. Banks can access unsecured funding with a maturity of up to one year for an amount up to 30 percent of their retail deposits as of January 23. As of the morning of March 3, 29 banks had accessed the facility in amounts close to 3 percent of retail deposits. The NBU will not take enforcement actions for breaches of prudential requirements regarding capital, liquidity, credit risk, net open positions in FX and for failing to observe deadlines for submitting prudential reports to the NBU. Loans restructured during the martial law period have been made exempt from reclassification for credit risk, provided the net present value effect is below 10 percent. Safeguards include prohibition of dividend payments (except for SOBs and preferred shares), providing credit to related parties, purchases of own shares, and bonus payments.

10. Implementing an appropriate monetary policy in the current circumstances is very challenging. In January, the NBU raised the key policy rate by a 100 bps to 10 percent amid continued upside pressures to inflation, entrenched inflation expectations, and elevated risk premia. On March 3, following the outbreak of the conflict, the NBU suspended adjustments to the key policy rate, citing the impairment of the monetary policy transmission mechanism from the interest rate channel, and the limited effectiveness of the exchange rate channel following the suspension of the FX market. Though inflation will face upside risks from additional supply disruptions, rising risk premia, and high commodity prices, the conflict constitutes a significant supply and demand side shock that could temper inflation expectations. The NBU also announced a decline in the reserve requirement ratio, while measures announced earlier to absorb excess liquidity have been postponed.

11. In the very near term, fiscal policy is focused on ensuring priority payments are being made. Following the adoption of martial law on February 24, public wages, defense spending, social spending and other critical needs are being prioritized given immediate liquidity constraints. The authorities have remained current on all their external and domestic debt obligations.

12. More broadly, under the baseline, the fiscal deficit is estimated to rise significantly this year, by about 3 percentage points of GDP, subject to a great degree of uncertainty. The deep recession is projected to result in a drop in tax revenues of about 4 percent of GDP compared to last year. At the same time, staff projections suggest that overall current expenditures could increase by 0.5 percent of GDP despite cuts in non-priority spending. This assumes, on average, a doubling of expenditure on military wages for 2022. Depending on the scope of the announced military salary of UAH100,000 (a four-fold increase relative to budget), this could result in a significantly larger increase in the deficit even with some offsetting measures.

13. At the current juncture, estimates of the annual fiscal financing gap are subject to a high degree of uncertainty. Pre-war gross fiscal financing needs amounted to about US$19.5 billion, with significant reliance on domestic financing. Assuming the deficit widens by about 3 percent of GDP (under the baseline), and after accounting for the US$4.5 billion of new official financial support already committed, there is still a remaining fiscal financing gap of about US$7.4 billion (4 percent of GDP). This assumes that some domestic bank financing is made available, including through further issuance of war bonds. This gap would need to be financed by a large-scale mobilization of additional concessional financing from the official sector. In the very near-term, the recent declaration of martial law allows the NBU to provide direct financing to the budget.

Text Table. 2022 Fiscal Financing Needs 1/

(in billion)	UAH	USD
Total gross financing needs	**775.7**	**25.2**
(in percent of GDP)	*13.7*	
Fiscal deficit	378.4	12.3
Amortization	397.3	12.9
Domestic debt	321.0	10.4
External debt	76.3	2.5
Total financing	**545.0**	**17.8**
Domestic debt issuance	289.8	9.4
External financing	206.7	6.8
IFIs and Bilaterals 2/	121.6	4.5
Commercial	63.7	2.3
Other (one-offs)	0.4	0.0
Deposit drawdown (+) / Buildup (-)	48.1	1.6
Financing gap	230.7	7.4

1/ Available data as of february 28, 2022
2/ There is a US$ 0.3 bn difference with the official financing reported in the external table due to the different accounting treatment of grants

MODALITIES OF FUND FINANCIAL SUPPORT

14. Ukraine has an urgent balance of payments need arising from the effects of ongoing military conflict that, if left unaddressed, would cause severe economic disruptions. Furthermore, under the current circumstances, the authorities are unable to implement upper credit tranche conditionality and have cancelled the Stand-by Arrangement. At the same time, loss of Eurobond market access, a net outflow of non-residents from the domestic bond market, and a generalized drop in investment inflows are opening large external financing gaps, despite a likely severe import compression and the ban on most cross-border payments. Under the staff baseline, gross external financing needs would amount to US$4.8 billion and are expected to be covered by official financing from the Fund, as well as the

World Bank, the European Union, other IFIs, bilateral G7 partners, among several others. In light of the urgent balance of payments need and the inability to implement policies consistent with upper credit tranche conditionality, support to Ukraine could be provided under the Rapid Financing Instrument.

Ukraine: Official Financing
(US$ billion)

	2020	2021	2022
Financing Gap	3.4	2.7	4.8
Gross international reserves accumulation	3.8	1.8	-3.1
Underlying BOP gap 1/	-0.4	0.9	7.9
Official Financing	3.4	2.7	4.8
Bilateral and multilateral	3.4	2.7	4.8
IMF	2.1	0.7	1.4
Other multilateral/bilateral 2/	1.4	2.0	3.4
Multilateral	0.0	1.1	0.6
European Union	1.3	0.7	1.4
Other bilateral loans	0.0	0.0	1.0
Other bilateral grants	0.0	0.0	0.3
EIB, EBRD, and others	0.1	0.2	0.1
Unidentified Official Financing	0.0	0.0	0.0
Memorandum items:			
Capital market access	4.6	1.8	2.3
IMF (net)	1.0	-0.7	-0.7
Gross international reserves	29.1	30.9	27.8
% of composite metric	98.1	98.4	92.8

1/ Underlying BOP gap indicates the decrease in reserves absent official financing.
2/ Available data on multi- and bilateral commitments as of February 28, 2022.

15. Given the size of the shock, access at the maximum limit that can be provided under the RFI is appropriate. The SDR 1,005.9 million (about US$1.4 billion) disbursement under the RFI would provide critical support in the short term while playing a catalytic role for financing from other partners to close the financing gap. The purchase will be disbursed into Ukraine's SDR holdings account upon the Board's approval of the authorities' request.

16. Financing gap estimates are subject to exceptionally high uncertainty. Lower rollover rates, higher outflows from non-residents (although these are limited by capital controls), and a more severe GDP contraction in case of a protracted conflict are key risks to the baseline. Eurobond placements in 2022 may be difficult to execute without additional guarantees. In addition, the external position is facing specific risks such as the cost of reconstituting gas storage amid high import gas prices, the disruption to agriculture (which accounted for 44 percent of goods exports in 2021), and the potential further loss of gas transit fees (although gas shipments have not been disrupted nor impacted by international sanctions so far).

17. Official arrears to Russia have not been cleared but are no longer subject to the lending into official arrears (LIOA) policy, as Ukraine has now represented to the Fund a

dispute as to the validity of the Eurobond claim held by Russia. These claims are also subject to ongoing litigation before the Supreme Court of England and Wales.[2]

18. The DSA suggests that debt remains sustainable, conditional on a prompt resolution of the situation, sufficient financing from official sources, and a strong recovery and rebuilding in the medium term, with significant uncertainty and risks. Public debt is projected to spike to just over 60 percent in 2022 and then gradually decrease over the medium term, starting next year. In the short term, debt sustainability does not appear to be at risk given significant reserves and likely upfront and significant official financial support, but uncertainties and contingent risks are very large, and preserving debt sustainability will be contingent on emerging needs being met through highly concessional and grant financing (see Annex I).

19. Ukraine's capacity to repay the Fund is subject to exceptional risks. With the proposed purchase under the RFI, the stock of total Fund credit is expected to peak this year at 2.7 percent of GDP and 18 percent of gross reserves. Debt service would peak at 0.6 percent of GDP and 4.9 percent of gross reserves in 2023. A materialization of downside risks would increase these ratios significantly. However, forward-looking multilateral and bilateral official commitments for financial support improve burden sharing and provide important risk mitigation.

20. In line with IMF safeguards policy, the authorities have committed to undergoing a new safeguards assessment of the NBU. They will also continue providing staff with the NBU's audit reports and authorize its external auditors to hold discussions with staff. The assessment is to be completed before Board approval of any subsequent arrangement to which the safeguards policy applies. A previous safeguards assessment was conducted in 2019 following the 2018 request for an Extended Arrangement under the Extended Fund Facility (EFF).

STAFF APPRAISAL

21. In view of the urgent balance of payments need, staff support the authorities' request for a purchase under the RFI. Economic activity is expected to contract sharply due to the impact of the ongoing war. The authorities have taken emergency measures to protect core government functions and have continued to service their external debt obligations despite the extremely challenging environment. Nevertheless, financing needs are expected to widen sharply. The proposed purchase in the amount of SDR1,005.9 million, equivalent to the maximum available amount equivalent to 50 percent of quota, will provide critical and timely support and act as a catalyst to further official multilateral and bilateral financial assistance. Staff assess debt to remain

[2] In February 2016, the Trustee of the Eurobond held by Russia's National Wealth Fund brought summary proceedings in the U.K.'s High Court of Justice seeking full payment of principal and interest. On March 29, 2017, the High Court ruled in favor of Russia but stayed execution of the judgement pending consideration of Ukraine's appeal. On September 14, 2018, the U.K. Court of Appeal reversed the summary judgement and returned the case to the High Court for full trial. Russia appealed to the Supreme Court, which held hearings in December 2019. Parties held an additional one-day hearing before the Court in November 2021; the Supreme Court has reserved its judgement to a later date but has given no indication as to when that will be.

sustainable and capacity to repay the Fund adequate, conditional on a prompt resolution of the situation, sufficient financing from official sources, and a strong medium-term recovery; however this assessment is subject to significant uncertainty and exceptionally high risks.

22. The authorities remain committed to protecting macro-financial stability. They intend to remain in close consultation with staff as they design and implement effective crisis mitigation measures.

23. The authorities remain in control of key government functions. The authorities have preserved control over key state functions, including tax collection, debt repayment, social payments, ensuring sufficient access to cash for the general population, and containing the impact of disorderly market conditions.

Table 1. Ukraine: Selected Economic and Social Indicators, 2019–2022

	2019	2020	2021	2022
	Act.	Act.	Proj.	Proj.
Real economy (percent change, unless otherwise indicated)				
Nominal GDP (billions of Ukrainian hryvnias) 1/	3,977	4,192	5,288	5,667
Real GDP 1/	3.2	-4.0	3.2	-10.0
Contributions:				
Domestic demand	3.0	-5.7	3.6	-10.5
Private consumption	8.1	1.0	5.4	-3.7
Public consumption	-2.6	-0.6	0.0	1.6
Investment	-2.6	-6.2	-1.8	-8.4
Net exports	0.2	1.6	-0.4	0.5
GDP deflator	8.2	9.8	22.2	19.1
Output gap (percent of potential GDP)	0.4	-1.5	1.6	-3.9
Consumer prices (period average)	7.9	2.7	9.4	22.6
Consumer prices (end of period)	4.1	5.0	10.0	20.0
Gross fixed capital formation (percent of GDP)	17.6	13.0	15.7	5.5
Public finance (percent of GDP)				
General government balance 2/	-2.0	-6.0	-4.1	-6.7
Public and publicly-guaranteed debt	50.5	61.0	50.2	60.3
Money and credit (end of period, percent change)				
Base money	9.6	24.8	11.2	8.5
Broad money	12.6	28.6	12.0	5.0
Credit to nongovernment	-9.8	-3.1	8.4	-3.0
Interbank overnight rate (annual average, percent)	15.6	7.3	6.8	…
Balance of payments (percent of GDP)				
Current account balance	-2.7	3.3	-1.1	0.7
Foreign direct investment	3.4	-0.1	3.1	1.0
Gross reserves (end of period, billions of U.S. dollars)	25.3	29.1	30.9	27.8
Months of next year's imports of goods and services	4.8	4.1	5.0	3.7
Percent of short-term debt (remaining maturity)	53.3	58.4	64.8	58.9
Percent of the IMF composite metric (float)	88.9	98.1	98.4	92.8
Exchange rate				
Hryvnia per U.S. dollar (end of period)	23.7	28.3	27.3	…
Hryvnia per U.S. dollar (period average)	25.8	27.0	27.3	…
Real effective rate (deflator-based, percent change)	14.9	1.6	10.7	…
Memorandum items:				
Per capita GDP / Population (2017): US$2,640 / 44.8 million				
Literacy / Poverty rate (2016): 100 percent / 5.7 percent				

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

1/ Data based on SNA 2008, exclude Crimea and Sevastopol.

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

Table 2. Ukraine: General Government Finances, 2019–2022 1/

(Billions of Ukrainian Hryvnia)

	2019	2020	2021	2022
	Act.	Act.	Proj.	Proj.
Revenue	1,566.3	1,675.4	1,982.7	1,870.3
Tax revenue	1,358.6	1,446.4	1,816.8	1,707.7
Tax on income, profits, and capital gains	392.8	413.6	513.6	532.5
Social security contributions	279.1	300.2	350.7	361.0
Property tax	38.0	37.4	43.2	0.0
Tax on goods and services	526.6	565.4	730.8	653.2
Tax on international trade	30.1	30.5	38.2	32.8
Other tax	92.1	99.3	140.2	128.2
Nontax revenue	207.7	229.0	165.9	162.6
Expenditure	1,644.5	1,925.3	2,198.3	2,248.7
Current	1,486.8	1,750.9	1,986.7	2,158.6
Compensation of employees	442.5	503.0	507.4	729.2
Goods and services	250.7	333.7	482.7	353.1
Interest	120.8	122.2	155.0	202.2
Subsidies to corporations and enterprises	80.9	133.6	116.2	107.6
Social benefits	589.5	657.4	724.5	764.7
Other current expenditures	2.4	1.1	0.9	1.7
Capital	153.7	169.0	206.9	75.4
Net lending	4.0	5.3	4.8	13.3
Contingency reserve 2/	0.0	0.0	0.0	1.5
General government overall balance	-78.2	-249.9	-215.6	-378.4
General government financing	78.2	249.9	215.6	147.7
External	2.5	101.8	118.3	130.3
Disbursements	88.6	218.4	228.0	206.5
o/w IFIs	22.2	92.7	84.7	110.1
o/w IMF budget support	0.0	55.4	19.5	43.7
o/w Other (unidentified)	0.0	0.0	0.0	0.0
Amortizations	-86.1	-116.6	-109.8	-76.3
Domestic (net)	75.8	148.1	97.4	-42.6
Bond financing 3/	67.0	170.6	78.9	-91.1
Direct bank borrowing	0.0	0.0	30.0	0.0
Deposit finance	7.2	-26.2	-18.9	48.1
Privatization	1.6	3.7	7.4	0.4
Financing Gap/undidentified measures (-gap/+surplus)	0.0	0.0	0.0	-230.7
Bank and DGF recapitalization	5.0	6.8	0.0	0.0
Memorandum items:				
Primary balance	42.6	-127.7	-60.7	-176.2
Public and publicly-guaranteed debt	2,008	2,557	2,655	3,418
Nominal GDP (billions of Ukrainian hryvnia)	3,977	4,192	5,288	5,667

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.

4/ Advanced pension payments and part of the NBU profit transfer are considered one-off operations.

Table 2. Ukraine: General Government Finances, 2019–2022 (Concluded) 1/

(Percent of GDP)

	2019	2020	2021	2022
	Act.	Act.	Proj.	Proj.
Revenue	39.4	40.0	37.5	33.0
Tax revenue	34.2	34.5	34.4	30.1
Tax on income, profits, and capital gains	9.9	9.9	9.7	9.4
Social security contributions	7.0	7.2	6.6	6.4
Property tax	1.0	0.9	0.8	0.0
Tax on goods and services	13.2	13.5	13.8	11.5
Tax on international trade	0.8	0.7	0.7	0.6
Other tax	2.3	2.4	2.7	2.3
Nontax revenue	5.2	5.5	3.1	2.9
Expenditure	41.3	45.9	41.6	39.7
Current	37.4	41.8	37.6	38.1
Compensation of employees	11.1	12.0	9.6	12.9
Goods and services	6.3	8.0	9.1	6.2
Interest	3.0	2.9	2.9	3.6
Subsidies to corporations and enterprises	2.0	3.2	2.2	1.9
Social benefits	14.8	15.7	13.7	13.5
Other current expenditures	0.1	0.0	0.0	0.0
Capital	3.9	4.0	3.9	1.3
Net lending	0.1	0.1	0.1	0.2
Contingency reserve 3/	0.0	0.0	0.0	0.0
General government overall balance	-2.0	-6.0	-4.1	-6.7
General government financing	2.0	6.0	4.1	2.6
External	0.1	2.4	2.2	2.3
Disbursements	2.2	5.2	4.3	3.6
o/w IFIs	0.6	2.2	1.6	1.9
o/w IMF budget support	0.0	1.3	0.4	0.8
o/w Other (unidentified)	0.0	0.0	0.0	0.0
Amortizations	-2.2	-2.8	-2.1	-1.3
Domestic (net)	1.9	3.5	1.8	-0.8
Bond financing 4/	1.7	4.1	1.5	-1.6
Direct bank borrowing	0.0	0.0	0.6	0.0
Deposit finance	0.2	-0.6	-0.4	0.8
Privatization	0.0	0.1	0.1	0.0
Financing Gap/undidentified measures (-gap/+surplus)	0.0	0.0	0.0	-4.1
Bank and DGF recapitalization	0.1	0.2	0.0	0.0
Memorandum items:				
Primary balance	1.1	-3.0	-1.1	-3.1
Public and publicly-guaranteed debt	50.5	61.0	50.2	60.3
Nominal GDP (billions of Ukrainian hryvnia)	3,977	4,192	5,288	5,667

Sources: Ministry of Finance; National Bank of Ukraine; and IMF staff estimates and projections.
1/ National methodology, cash basis.
2/ Scaled as a percent of 2020 GDP.
3/ Includes the unallocated portion of expenditures from the COVID fund.
4/ Domestic bonds have been adjusted to reflect discrepancy between the above-the-line and the below-the-line deficits.

Table 3. Ukraine: Balance of Payments, 2019–2022 1/ 2/

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

	2019	2020	2021	2022
	Act.	Act.	Proj.	Proj.
Current account balance	-4.2	5.2	-2.1	1.3
Goods (net)	-14.3	-6.9	-6.7	-8.9
Exports	46.1	45.1	63.1	49.4
Imports	-60.4	-52.0	-69.8	-58.3
Of which : gas	-2.8	-1.2	-3.2	-6.3
Services (net)	1.8	4.4	3.7	0.7
Receipts	17.3	15.6	18.3	16.1
Payments	-15.6	-11.2	-14.7	-15.4
Primary income (net)	1.9	3.5	-3.8	3.5
Secondary income (net)	6.5	4.1	4.7	5.9
Capital account balance 3/	0.0	0.0	0.0	0.4
Financial account balance	-7.9	2.0	-4.0	3.4
Direct investment (net) 4/	-5.2	0.1	-6.0	-1.9
Portfolio investment (net)	-5.1	0.8	-1.1	-0.3
Portfolio investment: assets	0.4	0.2	-0.1	0.0
Portfolio investment: liabilities	5.5	-0.7	1.0	0.3
Financial derivatives (net)	0.0	0.0	0.0	0.0
Other investment (net)	2.5	1.0	3.1	5.7
Other investment: assets	5.9	6.3	8.1	6.5
Other investment: liabilities	3.4	5.2	5.0	0.8
Net use of IMF resources for budget support	-1.0	2.1	0.3	1.0
Central Bank	0.0	0.0	2.7	-0.2
General government	1.0	1.2	1.3	2.3
Banks 3/	-0.3	-0.2	0.4	-0.9
Other sectors	3.7	2.2	0.4	-1.4
Errors and omissions	1.2	0.8	1.7	0.0
Overall balance	4.9	3.9	3.6	-1.7
Memorandum items:				
Current account balance (percent of GDP)	-2.7	3.3	-1.1	0.7
Goods and services trade balance (percent of GDP)	-8.2	-1.6	-1.6	-4.5
Gross international reserves	25.3	29.1	30.9	27.8
Months of next year's imports of goods and services	4.8	4.1	5.0	3.7
Percent of the IMF composite metric	88.9	98.1	98.4	92.8

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

1/ Based on BPM6.

2/ Shipments of military equipment in early 2022 are not reflected in the balance of payments pending clarity on modalities. Staff’s preliminary understanding is that the support is being provided in the form of unconditional aid

3/ Official capital transfers are reported below the line.

4/ Includes banks' debt for equity operations.

Table 4. Ukraine: Gross External Financing Requirement, 2019–2022

(Billions of U.S. dollars)

	2019 Act.	2020 Act.	2021 Proj.	2022 Proj.
Total financing requirements	41.7	31.7	35.7	34.6
Current account deficit	4.2	-5.2	2.1	-1.3
Portfolio investment	5.6	7.2	4.9	1.7
Private	1.7	1.2	0.6	0.7
General government	3.9	6.0	4.3	1.0
Medium and long-term debt	4.9	5.6	3.9	4.2
Private	4.3	4.2	2.7	3.0
Banks	0.4	0.4	0.2	0.5
Corporates	3.9	3.8	2.5	2.5
General government	0.6	1.4	1.2	1.2
Short-term debt (including deposits)	7.8	3.2	1.0	6.6
Other net capital outflows 1/	5.9	6.3	8.1	6.5
Trade credit	13.3	14.6	15.7	16.9
Total financing sources	44.2	31.4	35.5	28.6
Capital transfers	0.0	0.0	0.0	0.4
Direct investment, net	5.2	-0.1	6.0	1.9
Portfolio investment	10.7	6.3	6.0	2.0
Private	2.6	0.7	1.8	0.3
General government	8.1	5.7	4.2	1.8
Of which: Market financing	2.4	4.6	1.8	2.3
Medium and long-term debt	5.1	5.4	5.5	2.6
Private	4.3	2.9	2.3	2.6
Banks	-1.4	0.3	0.3	0.4
Corporates	5.7	2.6	2.1	2.1
General government	0.8	2.6	3.1	0.0
Short-term debt (including deposits)	8.7	3.6	1.1	5.6
Trade credit	14.5	16.2	16.9	16.1
Increase in gross reserves	4.5	2.8	2.7	-3.1
Errors and omissions	1.2	0.8	1.7	0.0
Total financing needs	0.8	2.3	1.2	2.9
Official financing	-0.8	2.3	1.4	1.6
IMF	-1.6	1.0	-0.7	-0.7
Purchases	0.0	2.1	0.7	1.4
Repurchases	1.6	1.1	1.4	2.2
Official creditors	0.8	1.4	2.0	2.4
World Bank	0.2	0.0	1.1	0.6
EU	0.0	1.3	0.7	1.7
EBRD/EIB/Others	0.6	0.1	0.2	0.1
Unidentified official financing	0.0	0.0	0.0	0.0
Exceptional financing	0.0	0.0	0.0	0.0
Memorandum items:				
Gross international reserves	25.3	29.1	30.9	27.8
Months of next year's imports of goods and services	4.8	4.1	5.0	3.7
Percent of short-term debt (remaining maturity)	53.3	58.4	64.8	58.9
Percent of the IMF composite metric 2/	88.9	98.1	98.4	92.8

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

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 5. Ukraine: Monetary Accounts, 2019–2022

(Billions of Ukrainian hryvnia unless otherwise noted)

	2019 Act.	2020 Act.	2021 Proj.	2022 Proj.
Monetary survey				
Net foreign assets	714	977	1,005	1,145
Net domestic assets	724	873	1,066	1,030
Domestic credit	1,647	1,321	1,392	1,327
Net claims on government	664	368	364	330
Credit to the economy	974	944	1,023	992
Other claims on the economy	8	9	5	5
Other items, net	-923	-448	-326	-297
Broad money	1,438	1,850	2,071	2,175
Currency in circulation	384	516	581	632
Total deposits	1,051	1,331	1,489	1,541
Accounts of the NBU				
Net foreign assets	617	826	856	867
Net international reserves	599	821	838	847
(In billions of U.S. dollars)	25.3	29.0	30.7	…
Reserve assets	599	824	843	835
Other net foreign assets	18	4	18	20
Net domestic assets	-140	-230	-193	-148
Net domestic credit	183	197	175	168
Net claims on government	309	267	270	252
Claims on government	348	337	325	314
Net claims on banks	-126	-70	-96	-84
Other items, net	-323	-426	-368	-316
Base money	477	596	662	719
Currency in circulation	384	516	581	632
Banks' reserves	93	80	81	87
Deposit money banks				
Net foreign assets	96	151	149	278
Foreign assets	214	262	254	350
Foreign liabilities	117	111	105	72
Net domestic assets	954	1,180	1,339	1,262
Domestic credit	1,599	1,247	1,342	1,289
Net claims on government 1/	355	102	94	78
Credit to the economy	974	944	1,023	992
Other claims on the economy	8	9	5	5
Net claims on NBU	269	255	188	214
Other items, net	-644	-67	-3	-26
Banks' liabilities	1,051	1,331	1,488	1,541
Memorandum items:	(End of period, percent change unless			
Base money	9.6	24.8	11.2	8.5
Currency in circulation	5.7	34.3	12.6	8.8
Broad money	12.6	28.6	12.0	5.0
Credit to the economy	-9.8	-3.1	8.4	-3.0
Real credit to the economy 2/	-13.3	-7.7	-1.5	-19.2
Credit-to-GDP ratio, in percent	24.5	22.5	19.3	17.5
Velocity of broad money, ratio	2.8	2.1	2.6	2.6
Money multiplier, ratio	3.0	3.1	3.1	3.0
Hryvnia per U.S. dollar (end of period)	23.7	28.3	27.3	…

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 6. Ukraine: Structural and Financial Soundness Indicators for the Banking Sector, 2018–2021

(Percent, unless otherwise indicated)

	2018	2019	2020	2021
	Dec.	Dec.	Dec.	Dec.
Ownership				
Number of banks, *of which 1/*	78	75	74	71
Private	73	70	69	67
Domestic	36	35	36	34
Foreign	37	35	33	33
Of which: 100% foreign-owned	23	23	23	23
State-owned	2	3	3	3
State-controlled (inc. in sanction)	3	2	2	1
Foreign-owned banks' share in statutory capital	30.1	31.1	29.8	29.8
Concentration				
Share of assets of largest 10 banks	76.9	78.8	78.1	74.6
Share of assets of largest 25 banks	93.8	94.4	93.8	92.8
Number of bank with assets less than $150 million	47	46	41	29
Share of assets of state-owned banks	59	60	56	50
Capital Adequacy				
Regulatory capital to risk-weighted assets	16.2	19.7	22.0	21.7
Regulatory Tier 1 capital to risk-weighted assets	10.5	13.5	15.7	N.A.
Capital to total assets	10.8	13.5	11.7	12.2
Asset Quality				
NPLs to total loans (NBU definition) 2/	52.9	48.4	41.0	30.7
NPLs net of provisions to capital (NBU definition) 2/	60.2	25.3	21.9	14.1
Provisioning coverage ratio	86.0	90.4	89.3	90.1
Loan loss reserves to total (gross) loans	49.1	48.1	42.5	34.2
Foreign Exchange Rate Risk				
Loans in foreign currency to total loans	46.5	41.2	39.1	32.1
Deposits in foreign currency to total deposits	43.2	40.7	38.7	35.8
Foreign currency loans to foreign currency deposits	127.7	95.4	71.8	65.1
Net open FX position to capital 3/	47.0	47.4	32.9	29.7
Liquidity Risk				
Liquid assets to total assets	51.1	72.3	69.1	70.4
Customer deposits to total loans to the economy	81.8	103.1	139.0	134.6
Earnings and Profitability				
Return on assets (after tax; end-of-period) 4/	1.6	4.7	2.8	4.1
Return on equity (after tax; end-of-period) 4/	14.6	37.6	21.7	N.A.
Net interest margin to total assets	5.3	5.4	4.6	N.A.
Interest rate spreads (percentage points; end-of-period)				
Between loans and deposits in domestic currency	7.6	7.8	8.2	8.4
Between loans and deposits in foreign currency	3.1	2.6	4.0	3.5
Between loans in domestic and foreign currency	16.0	13.5	7.4	9.4
Between deposits in domestic and foreign currency	11.6	8.4	3.2	4.4
Number of banks not complying with banking regulations				
Not meeting capital adequacy requirements for Tier I capital	1	0	0	0
Not meeting prudential regulations	20	8	9	3
Not meeting reserve requirements	3	1	1	3

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

1/ Excludes banks under liquidation.

2/ NPLs include loans classified into the lowest class, in particular: class 10 - loans to corporate borrowers (excluding banks and state owned entities); class 5 - loans to other borrowers/counterparties accounted; total gross loans as debts arising from credit transactions, including loans to customers, interbank loans and deposits, excluded off-balance sheet obligations on guarantees and loans given to banks and customers, used for credit risk assessment.

3/ Calculated according to IMF STA guidelines, with net open position equal to the sum of the absolute

4/ Cumulative profits year-to-date, annualized.

Table 7. Ukraine: Indicators of Fund Credit, 2018–2027

(In millions of SDR)

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
	Actual	Actual	Actual	Actual	Projections					
Existing Fund credit										
Stock 1/	7,036	6,883	7,595	6,626	5,596	3,692	1,912	553	61	0
Obligations	1,728	1,408	994	1,152	1,597	2,011	1,825	1,382	504	63
Principal (repurchases)	1,486	1,153	788	969	1,431	1,905	1,780	1,359	492	61
Stock of existing and prospective Fund credit 2/	7,036	6,883	7,595	7,126	7,102	5,198	3,418	1,682	687	500
In percent of quota 3/	350	342	378	354	353	258	170	84	34	25
In percent of GDP	3.9	3.2	3.4	2.6	2.7	1.6	0.9	0.4	0.2	0.1
In percent of exports of goods and nonfactor services	8.6	7.9	8.7	6.3	7.6	5.0	3.0	1.5	0.6	0.4
In percent of gross reserves	24.4	19.7	18.1	16.5	18.0	12.5	9.0	4.4	1.8	1.3
In percent of public external debt	10.7	10.7	10.3	9.9	8.9	6.6	4.5	2.2	0.9	0.7
Obligations to the Fund from existing and prospective Fund credit	1728	1,408	994	1,152	1,629	2,054	1,850	1,771	1,012	189
In percent of quota	85.9	70.0	49.4	57.3	81.0	102.1	91.9	88.0	50.3	9.4
In percent of GDP	1.0	0.7	0.4	0.4	0.6	0.6	0.5	0.4	0.2	0.0
In percent of exports of goods and nonfactor services	2.1	1.6	1.1	1.0	1.8	2.0	1.6	1.6	0.9	0.2
In percent of gross reserves	6.0	4.0	2.4	2.7	4.1	4.9	4.9	4.7	2.7	0.5
In percent of public external debt service	39.4	22.8	12.8	16.8	18.4	23.1	18.0	17.3	9.9	1.8

Source: Fund staff estimates and projections.

1/ End of period.

2/ Repayment schedule based on repurchase obligations and GRA charges. Includes service charges.

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

Annex I. Public and External Debt Sustainability Analysis

Public debt is assessed to be sustainable on a forward-looking basis, conditional on the quick de-escalation of the conflict, adequate and upfront financing from multilateral and official bilateral financing, and strong policy implementation, but risks and vulnerabilities remain very high. Given the fluidity of developments, the assumptions about the impact of the conflict are preliminary and subject to unusually large uncertainty. The economic impact of the conflict will be upfront and severe, as reflected in the baseline assumptions for growth, the exchange rate, borrowing costs, and financing assumptions (the latter capturing potentially large domestic financing to close a projected budget shortfall). These revisions result in a large increase in debt-to-GDP ratio in the near term, but even recognizing the authorities' strong commitment to implement policies and structural reform consistent with the previous SBA, the downward trajectory of the debt path is subject to significant vulnerabilities if the shock to growth, the exchange rate, or interest rates prove larger or more protracted then currently assumed. While the DSA captures substantial official financing pledges made to Ukraine in recent weeks, additional financing is under consideration, and highly concessional and/or grant financing would be critical for addressing Ukraine's emerging needs, containing vulnerabilities to debt sustainability, and mitigating risks to capacity to repay.

A. Key Assumptions Underlying the DSA

1. Given the major impact of the war Ukraine, this DSA involves substantial revisions to baseline assumptions, and all forward-looking assumptions involve significant uncertainties given the fluid nature of developments:

- *The 2021 outturns were broadly consistent with the projections under the last DSA* (see IMF Country Report No. 2021/250). Real growth is estimated at 3.2 percent, with the base-effect from the COVID-induced drop helping to propel economic activity in 2021Q4 to some 6 percent higher than 2020Q4. The exchange rate depreciated early in the pandemic but was relatively stable for most of 2021 and gradually appreciated some 3.5 percent. Inflation (based upon the GDP deflator) was higher-than-projected in 2021 at 22 percent due to high global food, energy, and commodities prices, and supply side restrictions, which coincided with resurgent domestic consumer demand. The primary fiscal deficit declined from 3.1 percent of GDP in 2020 to 1.2 percent of GDP in 2021—a deficit higher than the previous forecast of 0.2 percent of GDP. Nonetheless, a large fiscal adjustment was achieved via a decrease in non-interest current spending of some 4½ percentage points of GDP.

- *The conflict is expected to decrease real GDP in 2022 by 10 percent*. Given the fluidity of developments in Ukraine, this near-term real growth projection should be considered preliminary and subject to unusually large uncertainty. The baseline assumes that the economic impact of the conflict will be upfront and severe, particularly impacting consumption, which has driven recent activity, and investment, and will only gradually unwind with a de-escalation over the course of the year. Net exports are expected to make a modest positive contribution to growth—although the negative effects on the logistics of production and trade will impact both exports and imports, import compression is expected to overwhelm given large-scale displacement, rising inflation, and continued uncertainty.[1] The economy is expected to start a recovery in 2023–24 on the back of reconstruction, but with serious economic scarring to livelihoods, businesses, and infrastructure, substantial efforts would be required to reacquire the pre-war growth potential (estimated at 4.0 percent) by the end of the projection horizon.

- *The exchange rate should depreciate in the near term in line with the negative shock to the economy, but stabilize over the medium term as a recovery sets in.* Amid escalating geopolitical tensions, the exchange rate depreciated some 7 percent since the start of the year to around UAH29.5/US$ (through February 23). The foreign exchange market has been suspended at the commencement of the war, the official exchange rate was fixed at the level prevailing on February 24, and withdrawals of FX deposits were banned, with limited exemptions. To facilitate the availability of hard currency for critical imports, limited interbank trading has been allowed within a narrow band. It is assumed that the exchange rate remains fixed for the duration of the conflict and some depreciation is expected as controls are gradually liberalized, and the economy stabilizes through the end of the year.

- *Elevated inflation is likely to persist for longer than previously expected.* Single digit levels are likely only in 2023 and the 5 percent target level in 2025 due to supply disruptions and spending pressures to address needs arising from the conflict.

- *The primary fiscal deficit will widen.* Revenues will shrink as the conflict weighs on incomes for both individuals and businesses, while expenditure needs are large, especially for military wages and supplies, which cannot be fully offset by reprioritizing budget allocations. As a result, the primary deficit is estimated to widen by two percentage points of GDP to 3.1 percent. The baseline considers that after the conflict there would be quick revenue rebound amidst reconstruction and an immediate unwinding of military spending, but these assumptions depend on the duration and depth of the conflict, which is highly uncertain. Ukraine has demonstrated a capacity to undertake relatively large fiscal adjustments. The post-conflict context could make an adjustment more difficult to achieve, although it does not look overly ambitious as compared to other countries. (Figure 2).

- *Nominal interest rates in 2022 are expected to be higher than seen in recent years.* The DSA assumes that access to international capital markets in the near term would be underpinned by a U.S. government US$1 billion sovereign debt guarantee. The DSA also assumes relatively large recourse to shorter-term domestic government securities (involving higher refinancing risk). The 2022 fiscal financing gap is captured by the DSA as a residual, which is filled through the issuance of short-term debt securities at elevated interest rates. The medium-term outlook foresees a Ukraine regaining pre-conflict borrowing costs by 2024–25.

[1] International fuel price assumptions are based on the January global assumptions and the impact on fuel import values is likely to be underestimated.

2. In addition, as in the previous DSA, further assumptions on debt-creating and other flows are unchanged:

- *Banking system support is expected to remain contained.* Capital levels (and NPL provisioning) were relatively sound prior to the crisis. Fiscal costs to the recognition of contingent liabilities are not currently expected to exceed 1 percent of GDP in the near term, but there are potential downside risks if significant contingent liabilities arise in the energy sector. It is not possible to offer preliminary estimates until the conflict subsides.

- *No privatization proceeds are expected in 2022.* The baseline includes very modest privatization receipts over the projection horizon at around 0.1 percent of GDP, and the 2023 assumption should be considered provisional.

3. The updated baseline assumes official financing from several sources, and upside risks appear substantial. For 2022, the DSA adds the recently approved emergency EU MFA—the first unconditional disbursement of EUR600 million is expected in March, with a same-sized disbursement expected by mid-2022—as well as a EUR120 million Grant for State-building and Resilience. The DSA also include an emergency World Bank budget support of about US$350 million development policy loan, also expected in 2022Q1. The G7 countries have recently announced budget support loans totaling about US$1 billion and budget support grants of GBP 140 million, which have either already disbursed or are expected to do so soon. Other countries have offered considerable humanitarian and technical support totaling around US$750 million as of March 1. Finally, the DSA assumes that the IMF's RFI disbursement is lent on the applicable terms. Several of Ukraine's international partners, notably among the G7 countries, have indicated support for increasing financial support in the near term, suggesting the current financing assumptions are conservative. Ukraine has converted and used all SDRs provided under the 2021 general SDR allocation to facilitate repayment of debt.

4. The macroeconomic framework assumes bond issuance only later in 2022 and no additional non-resident local bond market inflows this year. With spreads near distressed levels and the yield curve strongly inverted, the planned US$1 billion Eurobond bond issuances planned for Q2 will be underpinned by a US government guarantee. A bond issuance targeted for later in the year when the conflict ends would bring total 2022 issuance to US$2.25 billion, although uncertainties are high around the potential market conditional in the absence of a further guarantee. The DSA assumes that the capital controls that were imposed early in the conflict rule out any further non-resident portfolio outflows as in Q12022, and conservatively it does not anticipate further inflows. Notably, on March 1 Ukraine successfully auctioned one-year domestic war bonds for UAH8.122 billion (US$270 million) with a yield of 11 percent and reportedly strong demand from non-residents.

B. Public Sector DSA

5. This DSA is based on end-2020 debt stock estimates.[2] End-2021 debt data is not yet available. 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.[3]

6. Under the updated baseline, Ukraine's debt-to-GDP ratio increases 10 percentage points from 2021 to 2022 to 60 percent of GDP (Figure 3). The medium-term trajectory remains around 10 percentage points above the previous path, and its downward track depends on a quick rebound of real GDP growth and the realization of primary surpluses as projected. Continued geopolitical tensions and/or policy slippages would compromise this trajectory.

7. The risk assessment and stress testing point to very significant vulnerabilities, arguing for mobilizing highly concessional or grant financing. The recent rise in Eurobond spreads triggers the heightened market perception risk (Figure 1). All stress scenarios build from shocks akin to those experienced by Ukraine over the 2014–15 conflict. Ukraine's gross financing needs in the baseline are well above the 15 percent of GDP threshold in 2022 and remain above or near that threshold in the following years under the growth and fiscal shock scenarios. The risk assessment also points to high vulnerability from an exchange rate shock given that over 60 percent of Ukraine's debt is denominated in foreign currency. The stress tests bear this out as a nominal exchange rate shock of some 170 percent in 2022 would result in rapid level increase in debt-to-GDP and debt as a percent of revenue. However, risks of a large depreciation are lessened to the extent that controls are in place for the foreign exchange and capital markets which should contain immediate pressure, nor did the most recent External Sector Assessment point to an overvalued currency, although that assessment will need to be revisited as the conflict subsides and its impact on Ukraine's underlying fundamentals becomes clearer. Stress tests also indicate the risks inherent to a sharp increase in shorter-term maturities—a real interest rate shock of some 3000 basis points would send public gross financing needs and levels relative to the economy and revenues on an unsustainable path over time, which is mitigated to the extent that the abovementioned upside risks on near-term official financing materialize. The growth shock models a sustained real GDP growth at one standard deviation lower than the 10-year average (or about -1.2 percent over 2023–24). As previously, a combined macro-fiscal shock would have the most serious impact on debt sustainability. Given the high likelihood that such shocks may materialize, any emerging needs should be addressed through highly concessional or grant financing, buttressing medium-term debt sustainability.

[2] Staff has obtained preliminary data that suggests that end-2021 debt data is consistent with the baseline projection.

[3] Given that end-2021 debt stock data is not available, the debt holder profile table under the previous DSA remains the most up-to-date reference (see IMF Country Report No. 2021/250).

C. External Sector DSA

8. Baseline projections suggest that external debt still drops below 50 percent of GDP by 2026, although this is subject to heightened uncertainty and potentially higher external financing to risks from macroeconomic shocks (Figure 6). Import compression in the near term will help contain the increase in external debt to around 70 percent of GDP in 2022. Although the trade deficit is expected to weaken during reconstruction efforts, the medium-term trajectory anticipates relatively flat projections for net private sector inflows (corporate and bank) despite economic growth. Like the public DSA, external debt dynamics are highly vulnerable to an exchange rate shock.

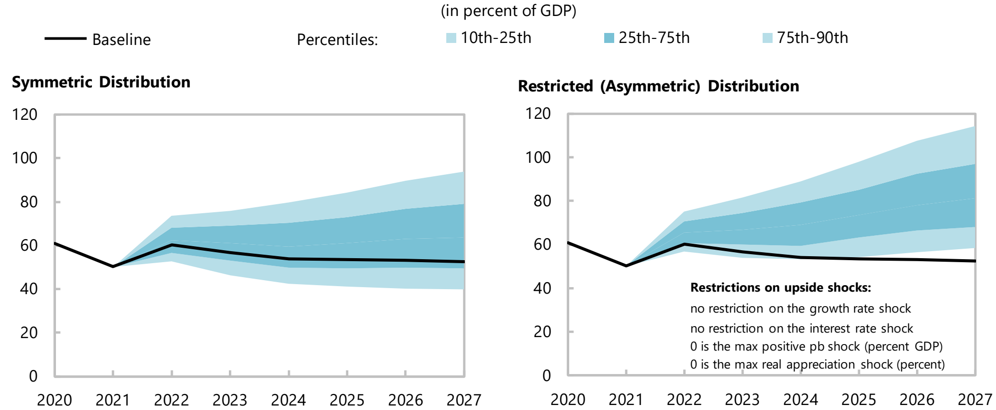
Figure 1. Ukraine: Public DSA–Risk Assessment

Heat Map

Debt level 1/	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability shock
Gross financing needs 2/	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability Shock
Debt profile 3/	Market Perception	External Financing Requirements	Change in the Share of Short-Term Debt	Public Debt Held by Non-Residents	Foreign Currency Debt

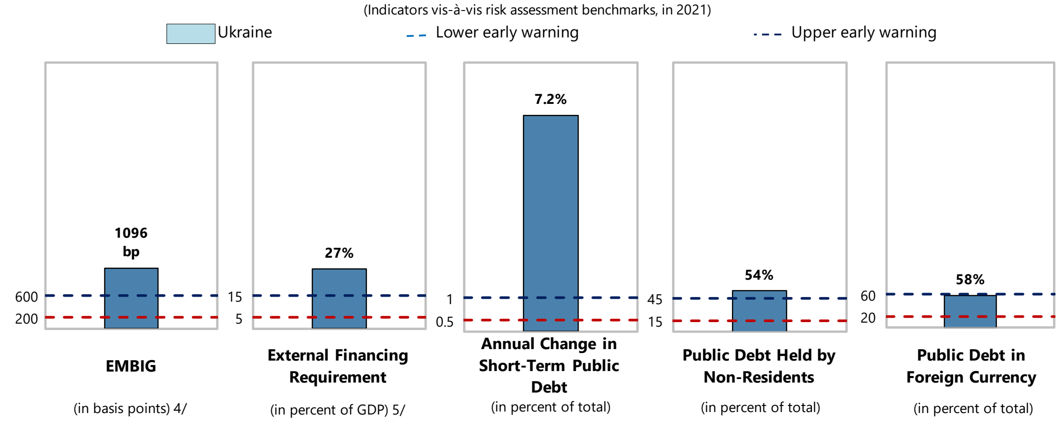
Evolution of Predictive Densities of Gross Nominal Public Debt

(in percent of GDP)



Debt Profile Vulnerabilities

(Indicators vis-à-vis risk assessment benchmarks, in 2021)



Source: IMF staff.

1/ The cell is highlighted in green if debt burden benchmark of 70% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

2/ The cell is highlighted in green if gross financing needs benchmark of 15% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

3/ The cell is highlighted in green if country value is less than the lower risk-assessment benchmark, red if country value exceeds the upper risk-assessment benchmark, yellow if country value is between the lower and upper risk-assessment benchmarks. If data are unavailable or indicator is not relevant, cell is white.

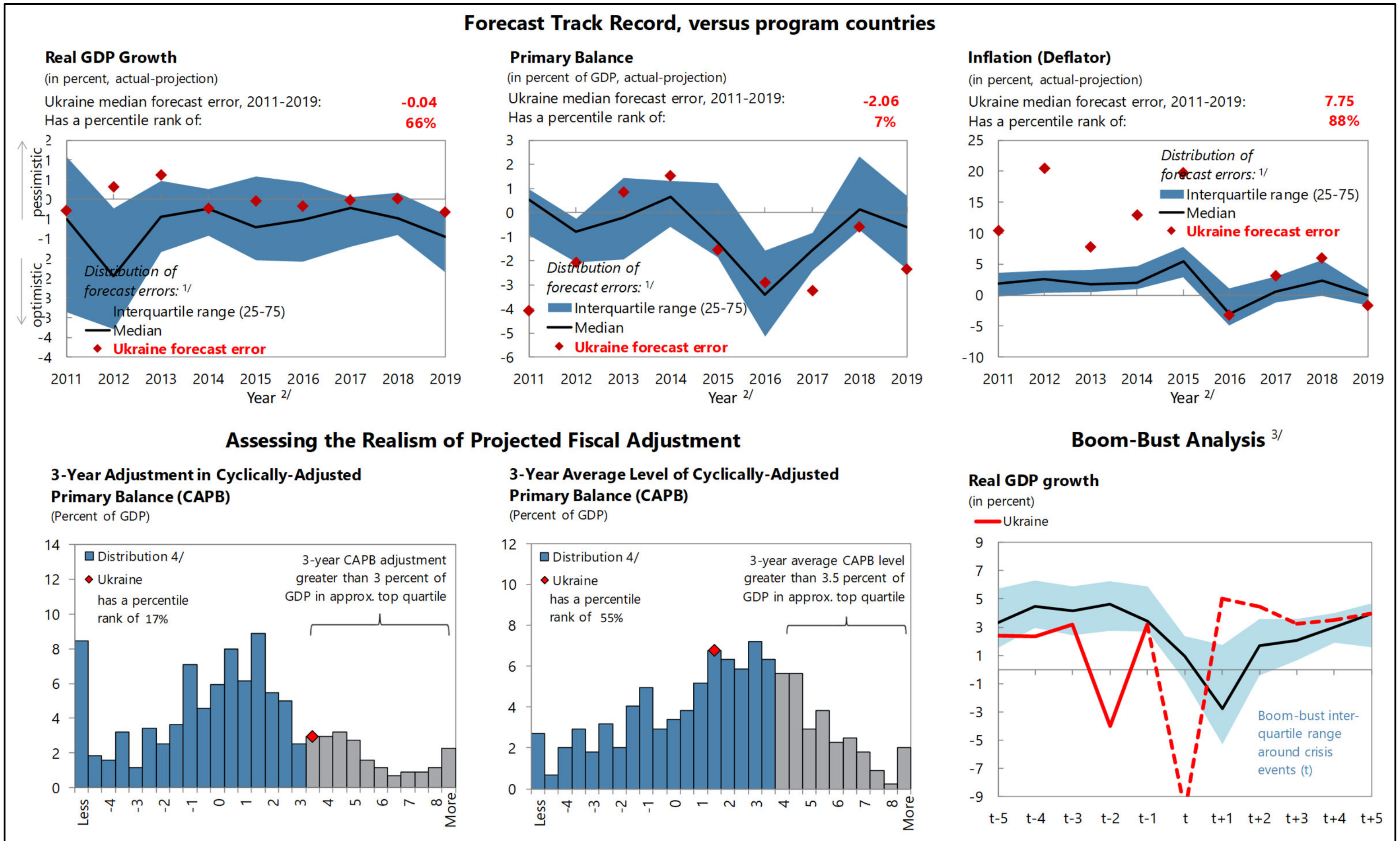
Lower and upper risk-assessment benchmarks are:

200 and 600 basis points for bond spreads; 5 and 15 percent of GDP for external financing requirement; 0.5 and 1 percent for change in the share of short-term debt; 15 and 45 percent for the public debt held by non-residents; and 20 and 60 percent for the share of foreign-currency denominated debt.

4/ EMBIG, an average over the last 3 months, 01-Dec-21 through 01-Mar-22.

5/ External financing requirement is defined as the sum of current account deficit, amortization of medium and long-term total external debt, and short-term total external debt at the end of previous period.

Figure 2. Ukraine: Public DSA–Realism of Baseline Assumptions



Source : IMF Staff.
1/ Plotted distribution includes program countries, percentile rank refers to all countries.
2/ Projections made in the spring WEO vintage of the preceding year.
3/ Ukraine has had a positive output gap for 3 consecutive years, 2019-2021. For Ukraine, t corresponds to 2022; for the distribution, t corresponds to the first year of the crisis.
4/ Data cover annual obervations from 1990 to 2011 for advanced and emerging economies with debt greater than 60 percent of GDP. Percent of sample on vertical axis.

Figure 3. Ukraine: Public DSA–Baseline Scenario

(in percent of GDP unless otherwise indicated)

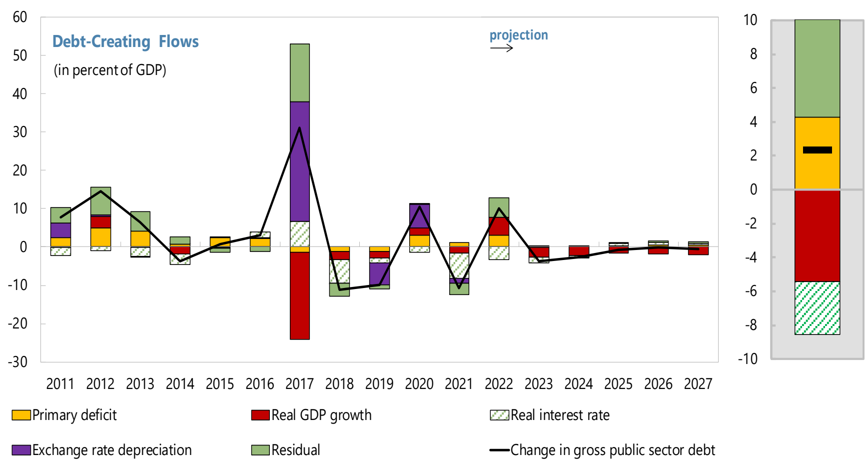
Debt, Economic and Market Indicators [1]

	Actual			Projections					
	2011-2019 [2]	2020	2021	2022	2023	2024	2025	2026	2027
Nominal gross public debt	43.5	61.0	50.2	60.3	56.7	54.0	53.3	53.1	52.5
Of which: guarantees	5.5	6.7	4.2	3.1	1.7	0.6	0.2	0.0	0.2
Public gross financing needs	10.1	15.0	14.5	18.5	16.6	10.9	11.3	11.1	9.6
Real GDP growth (in percent)	12.6	-4.0	3.2	-10.0	5.0	4.5	3.2	3.5	4.0
Inflation (GDP deflator, in percent)	11.2	9.8	22.2	19.1	9.8	7.9	5.7	5.0	5.0
Nominal GDP growth (in percent)	23.2	5.4	26.1	7.2	15.3	12.8	9.1	8.7	9.2
Effective interest rate (in percent) [4]	8.5	6.9	6.8	10.0	7.5	7.6	7.3	6.8	6.4

As of March 07, 2022		
Sovereign Spreads		
EMBIG (bp) 3/		5221
5Y CDS (bp)		741
Ratings	Foreign	Local
Moody's	Caa2	Caa2
S&Ps	B-	B-
Fitch	CCC	CCC

Contribution to Changes in Public Debt

	Actual			Projections							
	2011-2019	2020	2021	2022	2023	2024	2025	2026	2027	cumulative	debt-stabilizing primary balance [9]
Change in gross public sector debt	4.3	10.5	-10.8	10.1	-3.6	-2.7	-0.7	-0.2	-0.6	2.3	
Identified debt-creating flows	1.3	10.3	-7.7	5.1	-3.7	-2.6	-0.8	-0.5	-0.9	-3.5	
Primary deficit	1.5	3.0	1.1	3.1	-0.1	0.1	0.2	0.5	0.5	4.3	-0.2
Primary (noninterest) revenue and grants	41.7	40.0	37.5	33.0	34.8	34.0	33.9	33.8	33.8	203.2	
Primary (noninterest) expenditure	43.2	43.0	38.6	36.1	34.7	34.1	34.1	34.3	34.2	207.5	
Automatic debt dynamics [5]	-0.5	6.8	-9.4	1.3	-4.1	-2.6	-0.9	-0.9	-1.4	-8.5	
Interest rate/growth differential [6]	-3.7	0.6	-8.3	1.3	-4.1	-2.6	-0.9	-0.9	-1.4	-8.5	
Of which: real interest rate	-0.9	-1.3	-6.7	-3.3	-1.4	-0.4	0.7	0.8	0.6	-3.1	
Of which: real GDP growth	-2.8	1.9	-1.5	4.7	-2.6	-2.2	-1.6	-1.7	-1.9	-5.4	
Exchange rate depreciation [7]	3.3	6.2	-1.2	…	…	…	…	…	…	…	
Other identified debt-creating flows	0.3	0.5	0.6	0.6	0.5	-0.1	-0.1	-0.1	-0.1	0.8	
Net GG financing: Privatization (negative)	-0.4	-0.1	-0.1	0.0	-0.1	-0.1	-0.1	-0.1	-0.1	-0.4	
Bank and Naftogaz recapitalization	0.7	0.6	0.7	0.6	0.6	0.0	0.0	0.0	0.0	1.2	
Residual, including asset changes [8]	3.0	0.2	-3.1	5.0	0.1	-0.1	0.1	0.3	0.4	5.8	



Source: IMF staff.

1/ Public sector is defined as general government and includes public guarantees, defined as Domestic and external guarantees. .

2/ Based on available data.

3/ EMBIG.

4/ Defined as interest payments divided by debt stock (excluding guarantees) at the end of previous year.

5/ Derived as [(r - π(1+g) - g + ae(1+r)]/(1+g+π+gπ)) times previous period debt ratio, with r = interest rate; π = growth rate of GDP deflator; g = real GDP growth rate; a = share of foreign-currency denominated debt; and e = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).

6/ The real interest rate contribution is derived from the numerator in footnote 5 as r - π (1+g) and the real growth contribution as -g.

7/ The exchange rate contribution is derived from the numerator in footnote 5 as ae(1+r).

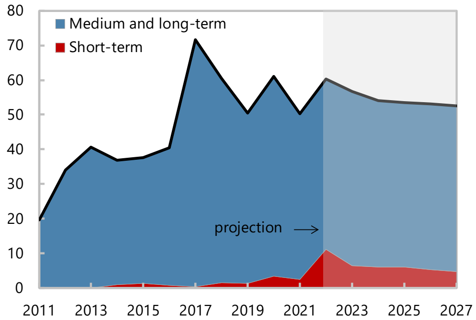
8/ Includes changes in the stock of guarantees (including IMF financing to NBU), and asset changes. For projections, includes exchange rate changes during the projection period.

9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

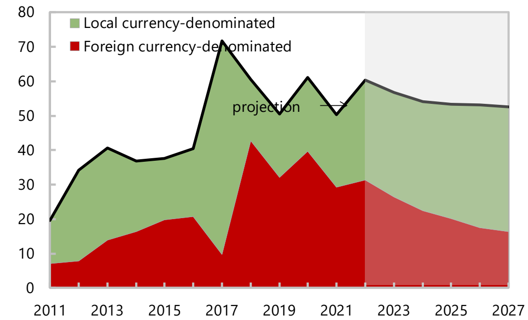
Figure 4. Ukraine: Public DSA–Composition of Public Debt and Alternative Scenarios

Composition of Public Debt

By Maturity
(in percent of GDP)



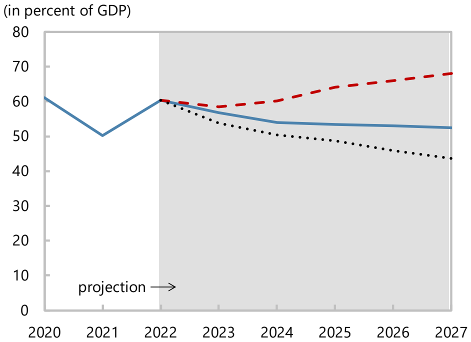
By Currency
(in percent of GDP)



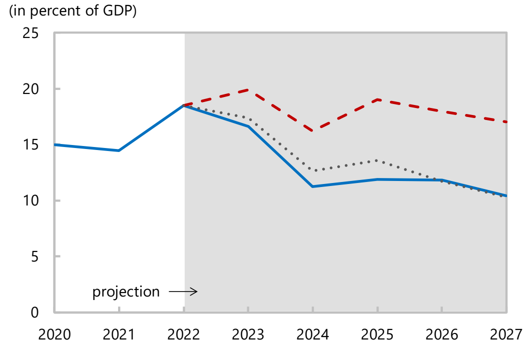
Alternative Scenarios

Baseline Historical Constant Primary Balance

Gross Nominal Public Debt
(in percent of GDP)



Public Gross Financing Needs
(in percent of GDP)



Underlying Assumptions
(in percent)

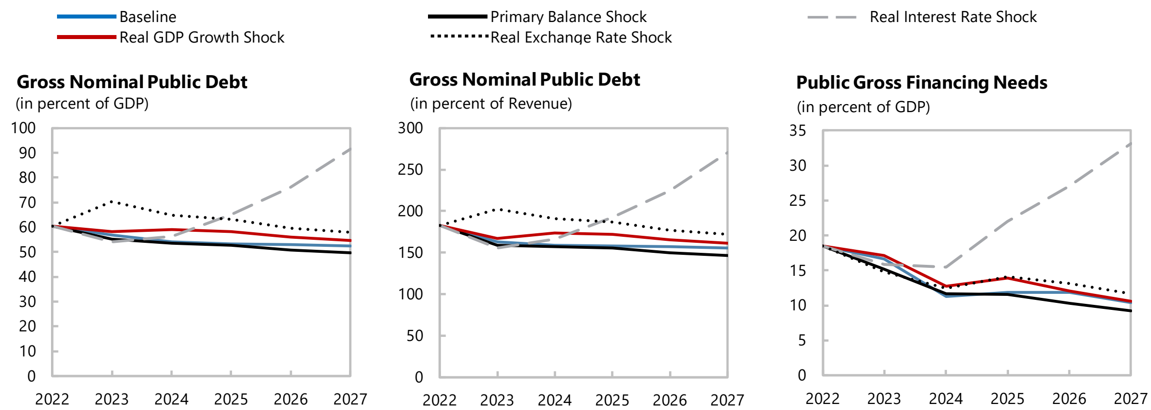
Baseline Scenario	2022	2023	2024	2025	2026	2027
Real GDP growth	-10.0	5.0	4.5	3.2	3.5	4.0
Inflation	19.1	9.8	7.9	5.7	5.0	5.0
Primary Balance	-3.1	0.1	-0.1	-0.2	-0.5	-0.5
Effective interest rate	10.0	7.5	7.6	7.4	6.9	6.6
Constant Primary Balance Scenario						
Real GDP growth	-10.0	5.0	4.5	3.2	3.5	4.0
Inflation	19.1	9.8	7.9	5.7	5.0	5.0
Primary Balance	-3.1	-3.1	-3.1	-3.1	-3.1	-3.1
Effective interest rate	10.0	7.0	7.1	7.1	6.9	6.9

Historical Scenario	2022	2023	2024	2025	2026	2027
Real GDP growth	-10.0	11.1	11.1	11.1	11.1	11.1
Inflation	19.1	9.8	7.9	5.7	5.0	5.0
Primary Balance	-3.1	-1.5	-1.5	-1.5	-1.5	-1.5
Effective interest rate	10.0	7.0	6.9	6.9	6.6	6.6

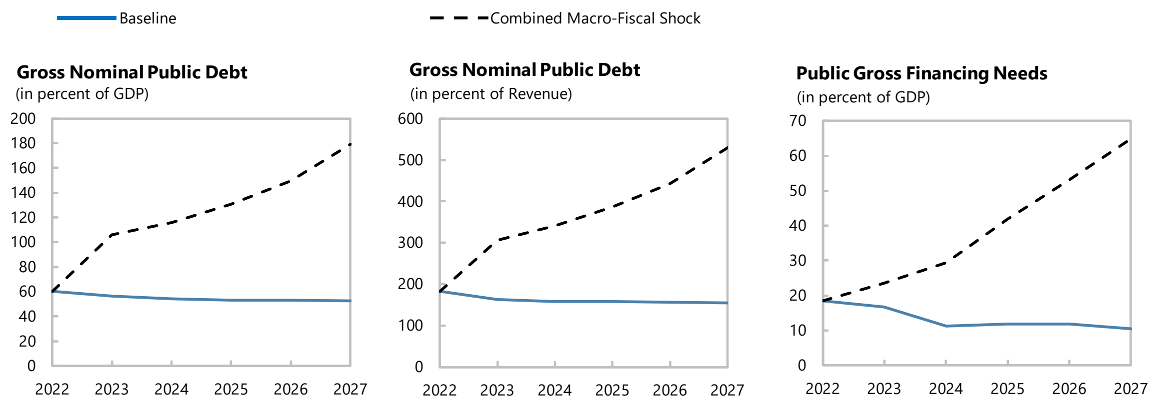
Source: IMF staff.

Figure 5. Ukraine: Public DSA–Stress Tests

Macro-Fiscal Stress Tests



Additional Stress Tests



Underlying Assumptions

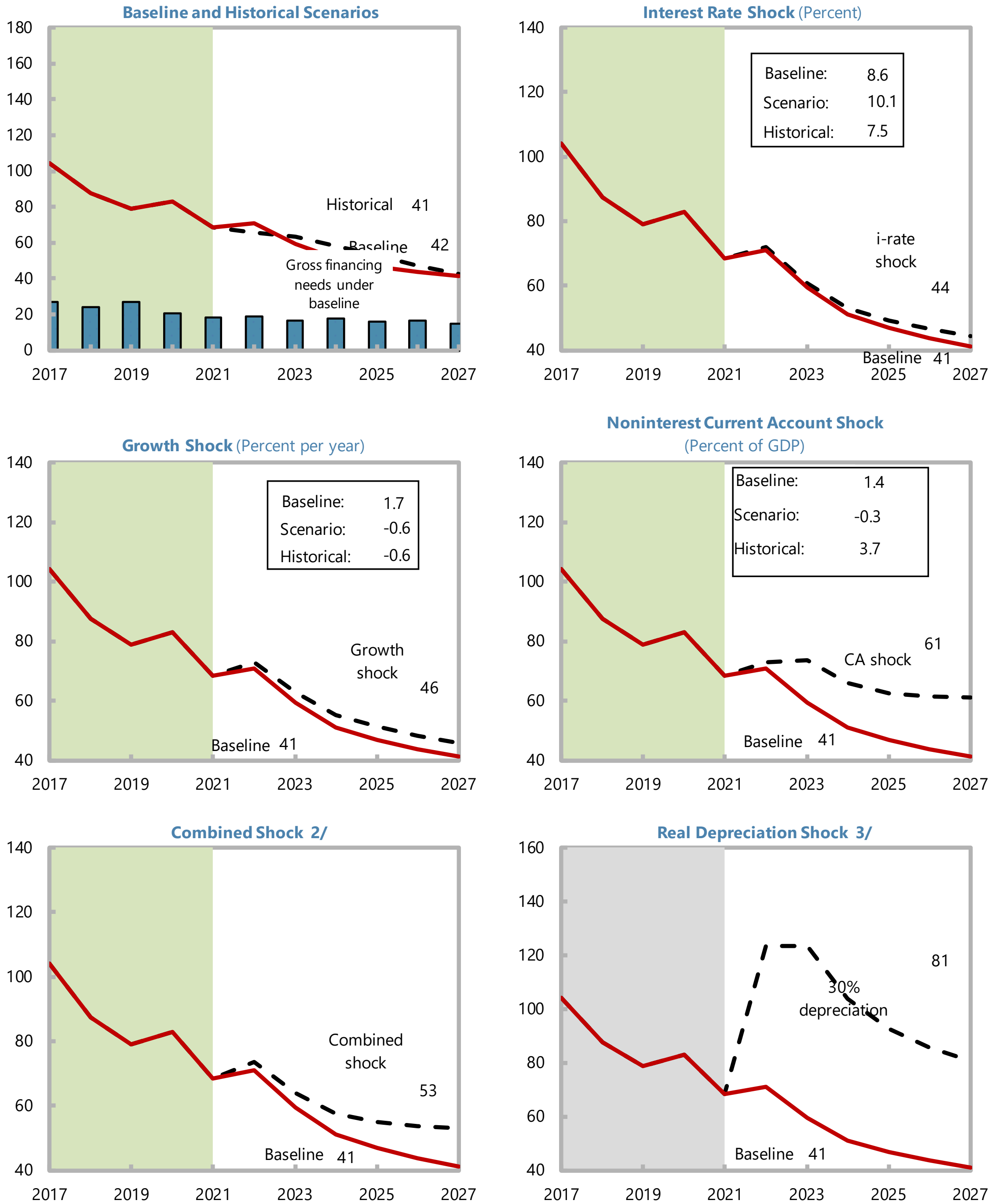
(in percent)

	2022	2023	2024	2025	2026	2027
Primary Balance Shock						
Real GDP growth	-10.0	5.0	4.5	3.2	3.5	4.0
Inflation	19.1	9.8	7.9	5.7	5.0	5.0
Primary balance	-3.1	-0.2	-0.3	0.7	0.5	0.4
Effective interest rate	10.0	7.0	7.2	7.2	7.0	7.0
Real Interest Rate Shock						
Real GDP growth	-10.0	5.0	4.5	3.2	3.5	4.0
Inflation	19.1	9.8	7.9	5.7	5.0	5.0
Primary balance	-3.1	0.9	0.8	0.7	0.5	0.4
Effective interest rate	10.0	7.0	16.7	23.0	27.2	30.5
Combined Shock						
Real GDP growth	-10.0	-0.9	-1.4	3.2	3.5	4.0
Inflation	19.1	8.3	6.5	5.7	5.0	5.0
Primary balance	-3.1	-0.2	-0.3	0.7	0.5	0.4
Effective interest rate	10.0	10.5	13.2	20.3	25.4	29.6

	2022	2023	2024	2025	2026	2027
Real GDP Growth Shock						
Real GDP growth	-10.0	-0.9	-1.4	3.2	3.5	4.0
Inflation	19.1	8.3	6.5	5.7	5.0	5.0
Primary balance	-3.1	0.9	0.8	0.7	0.5	0.4
Effective interest rate	10.0	7.0	6.9	6.8	6.6	6.7
Real Exchange Rate Shock						
Real GDP growth	-10.0	5.0	4.5	3.2	3.5	4.0
Inflation	19.1	51.7	7.9	5.7	5.0	5.0
Primary balance	-3.1	0.9	0.8	0.7	0.5	0.4
Effective interest rate	10.0	10.5	5.9	6.2	6.1	6.3

Source: IMF staff.

Figure 6. Ukraine: External Debt Sustainability: Bound Tests 1/



Source: IMF staff estimates.

1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.

2/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.

3/ In line with standard IMF stress tests, the shock simulates the impact of a one-time real depreciation of 30 percent in 2021.

Table 1. Ukraine: Program External Debt Sustainability Framework, 2017–2027

(Percent of GDP, unless otherwise indicated)

	Actual							Projections						Debt-stabilizing non-interest current account 6/
	2017	2018	2019	2020	2021			**2022**	**2023**	**2024**	**2025**	**2026**	**2027**	
Baseline: external debt	104.1	87.5	78.9	82.9	68.5			71.0	59.4	51.1	46.9	43.6	41.2	-2.5
Change in external debt	-16.0	-16.7	-8.5	3.9	-14.4			2.5	-11.5	-8.3	-4.3	-3.3	-2.4	
Identified external debt-creating flows (4+8+9)	-21.3	-15.1	-13.8	-4.0	-18.3			5.7	-2.5	-0.7	0.4	0.3	0.1	
Current account deficit, excluding interest payments	-3.8	-3.2	-4.6	-8.9	-8.8			-7.2	-2.4	-0.4	0.3	0.5	0.6	
Deficit in balance of goods and services	7.7	8.6	8.2	1.6	1.6			3.7	6.5	7.5	7.7	7.4	7.0	
Exports	48.0	45.2	41.2	39.1	42.1			29.3	27.8	27.2	27.4	27.3	27.1	
Imports	55.6	53.8	49.4	40.7	43.7			32.9	34.3	34.7	35.1	34.7	34.1	
Net non-debt creating capital inflows (negative)	-3.4	-3.4	-3.4	0.0	-3.1			-0.8	-2.1	-2.3	-2.3	-2.4	-2.4	
Automatic debt dynamics 1/	-14.1	-8.5	-5.7	4.9	-6.4			13.7	2.0	2.0	2.4	2.1	2.0	
Contribution from nominal interest rate	6.0	6.5	7.4	5.6	9.9			6.5	4.9	4.3	3.9	3.6	3.6	
Contribution from real GDP growth	-2.4	-3.1	-2.4	3.2	-2.1			7.2	-2.9	-2.3	-1.5	-1.5	-1.6	
Contribution from price and exchange rate changes 2/	-17.8	-11.8	-10.7	-3.8	-14.2			...	...	...	...	...	...	
Residual, including change in gross foreign assets (2-3) 3/	5.4	-1.6	5.3	8.0	3.9			-3.2	-9.1	-7.6	-4.6	-3.5	-2.6	
External debt-to-exports ratio (percent)	217.0	193.7	191.6	212.1	162.6			242.6	213.8	188.2	170.8	159.6	151.8	
Gross external financing need (billions of U.S. dollars) 4/	30.3	31.7	41.7	31.7	35.7			34.6	37.4	46.0	45.4	51.3	50.3	
Percent of GDP	27.0	24.2	27.1	20.4	18.4			18.8	16.7	17.6	15.8	16.4	14.7	
Scenario with key variables at their historical averages 5/						10-Year Historical Average	10-Year Standard Deviation	65.8	63.4	58.3	52.7	47.2	42.4	-0.5
Key macroeconomic assumptions underlying baseline														
Real GDP growth (percent)	2.4	3.5	3.2	-4.0	3.2	-0.6	4.7	-10.0	5.0	4.5	3.2	3.5	4.0	
GDP deflator in U.S. dollars (change in percent)	17.4	12.8	14.0	5.1	20.7	3.5	15.2	5.6	16.0	11.6	6.6	5.0	5.0	
Nominal external interest rate (percent)	6.0	7.3	9.9	7.1	14.9	7.5	3.1	9.1	8.5	8.4	8.4	8.4	8.9	
Growth of exports of goods and services (U.S. dollar terms, percent)	17.0	9.9	7.3	-4.3	34.2	0.5	17.8	-19.6	10.8	7.5	9.8	8.7	8.4	
Growth of imports of goods and services (U.S. dollar terms, percent)	18.9	12.8	8.0	-16.9	33.7	0.3	20.3	-12.8	21.5	11.4	10.0	8.0	7.2	
Current account balance, excluding interest payments	3.8	3.2	4.6	8.9	8.8	3.7	4.2	7.2	2.4	0.4	-0.3	-0.5	-0.6	
Net non-debt creating capital inflows	3.4	3.4	3.4	0.0	3.1	2.4	1.8	0.8	2.1	2.3	2.3	2.4	2.4	

1/ Derived as [r - g - r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock, with r = nominal effective interest rate on external debt; r = change in domestic GDP deflator in U.S. dollar terms, g = real GDP growth rate, e = nominal appreciation (increase in dollar value of domestic currency), and a = share of domestic-currency denominated debt in total external debt.

2/ The contribution from price and exchange rate changes is defined as [-r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock. r increases with an appreciating domestic currency (e > 0) and rising inflation (based on GDP deflator).

3/ For projection, line includes the impact of price and exchange rate changes.

4/ Defined as the sum of current account deficit, amortization on medium- and long-term debt, short-term debt at end of previous period, and other net capital outflows (mainly reflecting residents' conversion of hryvnia cash to foreign currency held outside the banking system). Excludes IMF transactions. Gross external financing includes corporate debt obligations in arrears (estimated at US$13 billion at end-2020).

5/ The key variables include real GDP growth; nominal interest rate; dollar deflator growth; and both non-interest current account and non-debt inflows in percent of GDP.

6/ Long-run, constant balance that stabilizes the debt ratio assuming that key variables (real GDP growth, nominal interest rate, dollar deflator growth, and non-debt inflows in percent of GDP) remain at their levels of the last projection year.

Appendix I. Letter of Intent

Ms. Kristalina Georgieva March 7, 2022

Managing Director

International Monetary Fund

Washington, D.C., 20431

U.S.A.

Dear Ms. Georgieva:

1. Ukraine's invasion by Russia represents a massive humanitarian and economic shock:

- Ahead of the February 24 invasion, the economy was emerging from the COVID-19 crisis. Real GDP grew by 3.2 percent in 2021, as a record grain harvest and strong consumer spending helped lift growth in the last quarter of the year. Gross international reserves stood at US$30.9 billion. In December 2021, alongside the approval of the 2022 budget, we had submitted a tax package intended to make space for priority expenditure while starting to reduce the deficit, in line with our commitment to medium-term fiscal sustainability. Revenue performance overperformed in the first two months of 2022. In response to strong global energy and food prices contributing to inflationary pressures, we had been tightening our monetary policy stance, and inflation had declined from its September 2021 peak. We had been making progress on structural commitments under the Stand-by Arrangement, and, on February 23, we had started negotiations with the intent to complete the second review.

- Since February 24, our country has already incurred widespread loss of life, large outward migration, and significant infrastructure damage, including to major airports, seaports, and transportation systems. At the same time, Eurobond markets remain closed. Against this background, the Ukrainian economy is set to experience a deep recession this year and large financing gaps.

2. To preserve macro-financial stability in the face of this unprecedented shock, we have immediately implemented emergency measures aimed at protecting core government operations and ensuring our people can continue to access cash and meet their most basic needs. Specifically:

- We have introduced administrative foreign exchange controls and capital controls to protect international reserves. We have temporarily fixed the official exchange rate at the level prevailing on February 24, while allowing limited interbank trading in a narrow band around the official rate to facilitate the availability of foreign exchange for critical import purchases. We have postponed changes to the key policy rate as these administrative restrictions are in place.

- During the initial phase of the shock, the monetary policy operations of the NBU with banks and the Government are aimed at supporting the smooth functioning of financial system.

- We have set limits on daily cash withdrawals and established a new liquidity facility to allow banks to access unsecured funding with a maturity of up to one year for an amount up to 30 percent of their retail deposits. The declaration of martial law allows the NBU to provide direct financing to the budget.

- In the very near term, our fiscal policy is focused on ensuring priority payments are being made. Following the adoption of martial law on February 24, public wages, defense spending, social spending and other critical needs are being prioritized given immediate liquidity constraints. We have strived to continue with regular treasury auctions, offering "war bonds" to mobilize financing. We have remained current on all our external and domestic debt obligations.

3. Against this background, we are requesting financial assistance from the IMF under the Rapid Financing Instrument (RFI) in the amount equivalent of SDR 1,005.9 million, corresponding to a purchase of 50 percent of Ukraine's quota. Furthermore, we request that the purchase be disbursed into Ukraine's SDR holdings account. This IMF assistance will help finance priority spending and meet urgent balance of payments needs arising from the ongoing military conflict, which, if not addressed, would result in immediate and severe economic disruption. Should we ultimately use RFI funds for budget support, we commit to put in place a memorandum of understanding between the National Bank of Ukraine (NBU) and the Ministry of Finance that clarifies the responsibilities for timely servicing of our financial obligations to the IMF. It is our expectation that the RFI support will have a significant catalytic effect in helping secure additional official financing to close our large fiscal and external financing gaps. Given the constraints the ongoing war has imposed on our capacity for policy design, implementation, and monitoring that would be consistent with our commitments under the Stand-by Arrangement (SBA), we have already requested cancellation of SBA, effective March 3. We intend to work with the IMF to design an appropriate economic program aimed at rehabilitation and growth when conditions permit.

4. We will continue to collaborate closely with the IMF when designing and implementing emergency measures in the short term. The exchange restrictions we imposed on February 24 were necessary from a national security perspective, including to ensure smooth operation of critical infrastructure. We do not intend to introduce or intensify exchange and trade restrictions and other measures or policies that would compound Ukraine's balance of payments difficulties. We will gradually remove restrictions as our situation eventually normalizes. Our track record speaks clearly to our commitment in that regard: following the 2014 security crisis, when such measures last became necessary, we have been following a liberalization roadmap to phase out exchange restrictions, in consultation with IMF staff.

5. We remain fully committed to our inflation targeting regime, and plan to return to our inflation targeting framework and a floating exchange rate as soon as the situation stabilizes. In this respect, all the NBU monetary financing operations with the Government will be ceased and the monetary operational framework with the banks will be gradually returned to standard practices.

6. In line with IMF safeguards policy, we commit to undergoing a new safeguards assessment of the National Bank of Ukraine and will continue providing IMF staff with the NBU's audit reports and authorize its external auditors to hold discussions with staff.

7. While extensive data provision to the IMF is not possible under the current circumstances, we will continue to provide high frequency data on central bank foreign exchange reserves and financial sector liquidity and operations. To assess sovereign liquidity needs, we recommit to providing regular data on a weekly basis on domestic bond auctions and treasury account balances in domestic and foreign currency, and on cash revenue and expenditures from the state budget on a monthly basis. We will strive to provide additional data, including government resolutions and decrees on new emergency spending, as necessary, that would support the determination of financing gaps, to allow for the formulation of a broad-based and comprehensive external financing package.

8. We authorize the IMF to publish this letter and the accompanying Executive Board documents immediately upon consideration by the IMF's Executive Board of our request for a purchase under the RFI.

Sincerely yours,

/s/

Sergii Marchenko
Minister of Finance

/s/

Kyrylo Shevchenko
Governor, National Bank of Ukraine

Statement by Vladyslav Rashkovan, Alternate Executive Director for Ukraine
March 9, 2022

On behalf of the Ukrainian authorities, I would like to thank staff for the speedy consideration of their request for financial assistance under the Rapid Financing Instrument (RFI). I also thank staff for the constructive engagement during the virtual mission organized in a, for my authorities, very challenging environment. The authorities also appreciate Management's and the Executive Board's continued support of Ukraine during this massive humanitarian and economic shock.

The Ukrainian authorities have all necessary legislative and operational power to govern the country during the recently adopted martial law. They are in broad agreement with staff's assessment of the economic situation and, in line with IMF safeguards policy, committed to all necessary safeguards measures.

The economic situation in Ukraine before February 24

Emerging from the COVID-19 crisis, Ukraine closed 2021 with 3.2 percent real GDP growth backed by a record grain harvest and strong consumer spending. Gross reserves stood at US$30.9 billion. Budget deficit was in line with the Stand-by Arrangement (SBA) objectives.

In December 2021, during the approval of the 2022 budget, the authorities submitted a tax package intended to create space for priority expenditures while reducing the budget deficit, in line with their commitment to medium-term fiscal sustainability. Revenue performance continued to be satisfactory and overperformed in the first two months of 2022.

In response to strong global energy and food prices contributing to inflationary pressures, they tightened the monetary policy stance, causing inflation to decline from its September 2021 peak. My authorities also made adequate progress on conditionality under the SBA, and started the second review mission on February 23, just one day before the war started.

Economic and humanitarian effect of the military invasion

Since February 24, the economy in Ukraine dramatically changed due to the unprovoked military aggression of Russia. The full-scale invasion transformed into Europe's largest and most intense war since WWII. As a result, the Ukrainian economy is set to experience a deep recession this year.

Early indications suggest widespread and rapidly increasing loss of life and significant infrastructure damage across the country. As of March 6, 202 schools, 34 hospitals, more than 1500 residential houses including multi-apartment houses, tens of kilometers of roads, and countless objects of critical infrastructures in several Ukrainian cities have been fully or partially destroyed by Russian troops.

Airports and seaports have been closed due to massive destruction. A large swathe of roads and bridges has been destroyed, further crippling transportation and logistics.

More than 1.7 million people fled Ukraine because of the Russian invasion, including more than a million people to Poland, according to the United Nations (UN).

Preserving macro stability

The Ukrainian authorities do their best to maintain macro stability and avoid a humanitarian catastrophe in the country while withstanding the massive military invasion from Russia and Belarus. After the start of the war on Ukraine on February 24, which brought an unprecedented shock, the authorities have immediately implemented emergency measures aimed at protecting core government operations and ensuring our people can continue to access cash and meet their most basic needs.

Since 24 February, the foreign exchange market has been operating in restricted mode. The official exchange rate has been fixed, and the National Bank of Ukraine (NBU) introduced restrictions on the currency market for the protection of the Ukrainian financial system and its robust and stable operations. The authorities have introduced administrative foreign exchange controls and capital controls to protect international reserves. They have temporarily fixed the official exchange rate at the level prevailing on February 24, while allowing limited interbank trading in a narrow band around the official rate to facilitate the availability of foreign exchange for critical import purchases.

Preliminary data showed that, as of 1 March 2022, Ukraine's international reserves stood at US$27,5 billion, covering 3.8 months of current imports, which is sufficient for Ukraine to meet its commitments, and for the government and the NBU to make their current transactions.

In February the international reserves decreased by 5.3 percent primarily driven by repayments on external debt last month and the NBU’s interventions required for smoothing out the excessive fluctuations on the currency market.

Maintaining adequate monetary policy

Despite the challenging conditions, the NBU is committed to pursuing the inflation-targeting regime. However, with the forced administrative restrictions in place, market-based monetary instruments such as the key policy rate no longer play a significant role in the operations on monetary and currency markets. Therefore, during the March Monetary policy committee meeting, the NBU decided to postpone its key policy rate decision, leaving it unchanged at 10 percent. The NBU will resume its regular meetings on monetary issues and continue to publish the Inflation Report when economic conditions return to normal.

Maintaining financial stability

The NBU is taking every step necessary to ensure uninterrupted cash and cashless payments and to support the continuous functioning of Ukraine's banking system under martial law. The banking system remains stable and liquid; the payment system remains operational, banks are open, working even during the weekends. While the distribution of cash is impaired, especially in the regions, the NBU supplies cash to banks without limitations, where it is possible.

Banks have a cushion of high-quality liquid assets that is sufficient to maintain all cashless payments and retail deposit repayments, even under current difficult conditions. To maintain confidence in the system, the NBU provides banks with refinancing lines with a term of up to one year. Deposits outflows are restrained by the accessibility of cashless transactions and the limited operations of banks in some regions, while retail clients' accounts balances with the largest banks increased versus at the start of the war.

Maintaining adequate budgetary and fiscal policy

All government payments are made without limitations following martial law. The liquidity buffers are sufficient for financing expenditures and repaying liabilities. Most Ukrainian companies continue to pay taxes to the state budget, with some paying taxes in advance to support the budget.

Despite the extremely challenging macro environment and imposed martial law, the Ukrainian government managed to remain current with all external and domestic debt obligations: the authorities spent an equivalent of US$1.4 billion on the servicing and repayment of FX public debt since the start of the war. This includes the US$781.9 million that went towards the servicing and repayment of domestic government debt securities and the US$428.4 million that was spent on the servicing and repayment of Eurobonds. The government also received US$65 million in FX inflows, including US$25 million from domestic government debt securities subscribed by domestic banks and households.

In the very near-term, fiscal policy is focused on ensuring priority payments are being made. Following the adoption of martial law public wages, defense spending, social spending, and other critical needs are prioritized given immediate liquidity constraints.

While the declaration of martial law allows the NBU to provide direct financing to the budget, the Ministry of Finance offered citizens, businesses, and foreign investors to support the budget of Ukraine by investing in war bonds. These proceeds will be used to ensure the uninterrupted provision of the state's financial needs under martial law. The first auction of military bonds took place on March 1, 2022, which attracted UAH 8.1 billion to the state budget.

International organizations and partner countries provided large amounts of bilateral and concessional financing to support the Ukrainian economy, and to address the humanitarian crisis. Nevertheless, near-term financing needs are projected to increase sharply in a situation of extreme sovereign spreads, de-facto loss of the market access for Ukraine, and the lack of non-resident inflows.

Concluding remarks

The prolongation of Russia’s aggression towards Ukraine, in addition to the humanitarian and economic losses, will also lead to significant spillover effects throughout the world: deterioration of food security, surging of energy and commodity process, rising inflationary pressures, disruption of supply chains, increasing social spending for refugees, and increasing poverty. The global economic damage of this war will be devastating.

The authorities believe that IMF assistance will help finance priority spending, and catalyze additional financing, to meet the urgent balance of payments needs arising from the ongoing war, which, if not addressed, would result in immediate and severe economic disruption. Countries that have very close economic links with Ukraine are at particular risk of scarcity and supply disruptions and will be affected by the increasing inflow of refugees. Ukraine will support further IMF assistance to neighboring countries to smooth the consequences of the war.

In this challenging context, the authorities are grateful for the cooperation and support from the Fund, as well as from other IFIs and the international community. No doubt, Ukraine will need more financial support to address this catastrophe.