INTERNATIONAL MONETARY FUND

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UKRAINE

March 2024

THIRD REVIEW OF THE EXTENDED ARRANGEMENT UNDER THE EXTENDED FUND FACILITY, REQUESTS FOR A WAIVER OF NONOBSERVANCE OF A PERFORMANCE CRITERION, AND MODIFICATIONS OF PERFORMANCE CRITERIA —PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR UKRAINE

In the context of the Third Review of the Extended Arrangement Under the Extended Fund Facility, Requests for a Waiver of Nonobservance of a Performance Criterion, and Modifications of Performance Criteria, 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 21, 2024, following discussions that ended on February 22, 2024, with the officials of Ukraine on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on March 12, 2024.
- 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.

PRESS RELEASE

PR24/96

IMF Executive Board Completes the Third Review of the Extended Fund Facility Arrangement for Ukraine

FOR IMMEDIATE RELEASE

- The IMF Board today completed the Third Review of the extended arrangement under the Extended Fund Facility (EFF) for Ukraine, allowing the authorities to draw the equivalent of about US$880 million (SDR 663.9 million), which will be channeled for budget support.
- The authorities continue to perform strongly under the EFF under challenging conditions, meeting all but one quantitative performance criteria for end-December, all structural benchmarks through end-February, and all indicative targets.
- The Ukrainian economy continued to show remarkable resilience in 2023, although war-related headwinds are re-emerging, and the outlook remains subject to exceptionally high uncertainty. Sustained reform momentum is necessary to safeguard macroeconomic stability, restore fiscal and debt sustainability, enhance institutional reforms, and lay the groundwork for reconstruction efforts and the path to European Union (EU) accession.

Washington, DC – March 21, 2024: The Executive Board of the International Monetary Fund (IMF) today completed the third Review of the EFF arrangement for Ukraine. The completion of the third review enables the authorities to immediately draw US$880 million (SDR 663.9 million), which will be channeled for budget support.

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

The EFF continues to provide a strong anchor for the authorities' economic program, which has remained on track despite extremely challenging circumstances due to Russia's ongoing war in Ukraine. All but one quantitative performance criteria and all indicative targets for end-December were met. The authorities also met all structural benchmarks through end-February, underscoring their continuing commitment to an ambitious reform agenda. The Board approved the authorities' request for a waiver for non-observance of the December performance criterion on tax revenues, which was missed by a minor amount.

The economy was more resilient than expected in 2023, with robust growth outturns, continued sharp disinflation, and the maintenance of adequate reserves. However, headwinds are re-emerging in 2024, with growth expected to soften to 3–4 percent due to uncertainty about the ongoing war and as supply constraints become more binding. The outlook remains subject to exceptionally high downside risks arising from war-related factors, potential shortfalls in external financing and the socio-economic impact of policies that may be required if shocks materialize.

Following the Executive Board discussion on Ukraine, Ms. Kristalina Georgieva, Managing Director of the IMF, issued the following statement[1]:

“Russia’s invasion of Ukraine continues to bring enormous social and economic costs to Ukraine. However, macroeconomic and financial stability has been preserved, reflecting skillful policymaking by the Ukrainian authorities as well as substantial external support. The economy has been resilient, with stronger-than-expected macroeconomic outturns in 2023. Ukraine’s performance and commitment under the program has continued to be strong.

“Looking ahead, the recovery is expected to slow somewhat, given the exceedingly high risks to the outlook stemming mainly from the exceptionally high war-related uncertainty as well as potential delays in external financing. The authorities should be vigilant against these risks. It is also critical that the external financing committed to Ukraine by all donors is disbursed in a timely and predictable manner to safeguard Ukraine’s hard-won macroeconomic stability.

“The ongoing war continues to strain Ukraine’s public finances. External disbursements on appropriate concessional terms, together with strong domestic resource mobilization are necessary for Ukraine to meet its financing needs and secure fiscal and debt sustainability. Stronger revenue mobilization, underpinned by the recently approved National Revenue Strategy, while avoiding measures that erode the tax base, will be critical to secure fiscal sustainability. Reforms to further strengthen the frameworks for medium-term budget preparation, fiscal risks and transparency, and public investment management should advance in support of these goals. An external commercial debt treatment in line with program parameters will also help create the needed space for critical spending and restore debt sustainability.

“The recent shift to a managed exchange rate regime has been an important step toward normalizing monetary and exchange rate policies, and increased exchange rate flexibility will help strengthen the resilience of the economy to external shocks. Moreover, continued disinflation and well-anchored inflation expectations and FX cash market stability support further easing in monetary policy. A gradual approach to the easing of FX controls, consistent with the National Bank of Ukraine’s strategy, will be essential to safeguard FX reserves. The authorities’ efforts to avoid monetary financing should continue.

“The financial sector remains stable, and efforts should continue to enhance preparedness for strengthening financial safety nets, supervision, governance, and contingency planning.

“Steadfast reform momentum to enhance anti-corruption and governance frameworks, including ensuring the effectiveness of anticorruption institutions, will be essential to help contain fiscal risks, enhance growth and support the path to EU accession.”

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

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

	2021	2022	2023	2024	2025	2026	2027
	Act.	Act.	Proj.	Proj.	Proj.	Proj.	Proj.
Real economy (percent change, unless otherwise indicated)							
Nominal GDP (billions of Ukrainian hryvnias) 1/	5,451	5,191	6,495	7,748	8,865	9,841	10,798
Real GDP 1/	3.4	-29.1	5.0	[3 to 4]	6.5	5.0	4.5
Contributions:							
Domestic demand	12.9	-23.7	8.6	3.3	5.3	3.8	3.4
Private consumption	4.7	-16.6	2.7	2.6	3.0	2.8	2.8
Public consumption	0.1	6.9	2.8	-1.1	-1.8	-0.6	-0.1
Investment	8.1	-14.0	3.1	1.8	4.1	1.6	0.6
Net exports	-9.5	-5.4	-3.6	-0.1	1.1	1.2	1.1
GDP deflator	24.8	34.3	19.2	15.6	7.5	5.7	5.0
Unemployment rate (ILO definition; period average, percent)	9.8	24.5	19.1	14.5	13.8	11.6	10.4
Consumer prices (period average)	9.4	20.2	12.9	6.4	7.6	6.2	5.2
Consumer prices (end of period)	10.0	26.6	5.1	8.5	7.0	5.5	5.0
Nominal wages (average)	20.8	1.0	20.1	16.9	15.9	13.3	10.5
Real wages (average)	10.5	-16.0	6.4	9.8	7.8	6.7	5.0
Savings (percent of GDP)	12.5	17.6	10.8	11.9	10.8	13.5	16.2
Private	12.7	30.8	25.8	23.4	13.7	13.8	14.8
Public	-0.2	-13.2	-14.9	-11.5	-2.9	-0.2	1.4
Investment (percent of GDP)	14.5	12.6	16.3	17.6	19.0	20.5	21.3
Private	10.7	10.1	11.5	15.4	14.5	16.0	16.4
Public	3.8	2.5	4.8	2.3	4.5	4.5	4.9
General Government (percent of GDP)							
Fiscal balance 2/	-4.0	-15.7	-19.7	-13.7	-7.3	-4.7	-3.5
Fiscal balance, excl. grants 2/	-4.0	-25.0	-26.3	-20.2	-10.3	-6.0	-4.7
External financing (net)	2.4	10.8	16.6	11.8	6.5	3.5	0.4
Domestic financing (net), of which:	1.6	5.1	3.1	2.0	0.9	1.2	3.1
NBU	-0.3	7.4	-0.2	-0.2	-0.1	-0.1	-0.1
Commercial banks	1.5	-1.5	2.6	2.0	0.6	1.2	2.4
Public and publicly-guaranteed debt	50.5	78.4	82.9	94.0	96.7	95.9	93.8
Money and credit (end of period, percent change)							
Base money	11.2	19.6	23.3	18.5	15.5	11.8	9.0
Broad money	12.0	20.8	23.0	18.7	13.5	11.9	10.6
Credit to nongovernment	8.4	-3.1	-0.5	8.5	17.7	18.2	13.4
Balance of payments (percent of GDP)							
Current account balance	-1.9	5.0	-5.5	-5.7	-8.2	-7.0	-5.1
Foreign direct investment	3.8	0.1	2.4	2.2	2.6	4.9	5.0
Gross reserves (end of period, billions of U.S. dollars)	30.9	28.5	40.5	42.1	41.6	45.1	45.0
Months of next year's imports of goods and services	4.5	3.9	5.3	5.4	5.2	5.4	5.1
Percent of short-term debt (remaining maturity)	67.5	64.5	87.3	98.7	91.0	102.5	97.8
Percent of the IMF composite metric (float)	98.9	92.9	113.2	104.9	98.5	100.1	97.6
External debt (percent of GDP)	67.5	87.4	92.5	87.9	0.0	0.0	0.0
Goods exports (annual volume change in percent)	35.0	-43.8	-16.1	18.5	2.6	15.8	7.0
Goods imports (annual volume change in percent)	17.0	-24.7	21.1	11.0	9.2	9.3	10.0
Goods terms of trade (percent change)	-8.4	-11.6	3.6	0.9	-1.0	0.7	0.7
Exchange rate							
Hryvnia per U.S. dollar (end of period)	27.3	36.6	38.0	…	…	…	…
Hryvnia per U.S. dollar (period average)	27.3	32.3	36.7	…	…	…	…
Real effective rate (deflator-based, percent change)	10.3	27.6	-0.3	…	…	…	…
Memorandum items:							
Per capita GDP / Population (2017): US$2,640 / 44.8 million							
Literacy / Poverty rate (2022 est 3/): 100 percent / 25 percent							

Sources: Ukrainian authorities; World Bank, World Development Indicators; and IMF staff estimates.
1/ GDP is compiled as per SNA 2008 and excludes territories that are or were in direct combat zones and temporarily occupied by Russia (consistent with the TMU).
2/ The general government includes the central and local governments and the social funds.
3/ Based on World Bank estimates.

INTERNATIONAL MONETARY FUND

UKRAINE

March 12, 2024

THIRD REVIEW OF THE EXTENDED ARRANGEMENT UNDER THE EXTENDED FUND FACILITY, REQUESTS FOR A WAIVER OF NONOBSERVANCE OF A PERFORMANCE CRITERION, AND MODIFICATIONS OF PERFORMANCE CRITERIA

EXECUTIVE SUMMARY

Context: Two years of Russia's war in Ukraine have taken an enormous humanitarian and economic toll. Skillful policymaking supported by external financing has helped maintain macroeconomic stability, and the authorities have advanced important structural reforms. Households and business have continued adjusting to wartime conditions, leading to growth and inflation outturns in 2023 that were better than expected at the Second Review. The decision to open EU accession negotiations and approval of the €50 billion Ukraine Facility are positive developments. However, headwinds include discussions on a new round of mobilization and delayed approval of committed external support, which are both weighing down sentiment.

Outlook and risks: The recovery is expected to continue at a slower pace in 2024 due to liquidity strains and weaker sentiment. A temporary pick-up in inflation is expected; while the fiscal deficit will remain large, stable FX reserves are projected provided that committed external financing is disbursed in full. The headwinds to growth this year are expected to be temporary assuming that the war winds down by end-2024, while the medium-term macroeconomic framework is little changed on the back of the EU accession path. Downside risks remain exceptionally high due to war-related uncertainties, potential shortfalls in external financing, and the socio-economic impact of policies that may be required if shocks materialize.

Focus of the review: Discussions centered on policies to bolster resilience and maintain macroeconomic and financial stability:

- *Fiscal policy*: The 2024 Budget remains the appropriate short-term policy anchor, and careful liquidity management will need to continue for the next several months. The authorities also need to stand ready to respond to potential shocks throughout the year. Preparations for the 2025 Budget should involve measures to gradually transition to greater self-reliance despite still high defense needs and advance reforms in medium-term budgeting, domestic revenue mobilization, and public investment management.

- *Financing*: Prompt disbursement of committed official support remains crucial for Ukraine's macroeconomic and financial stability. External donor financing remains the main source of budget funding this year, complemented by significant net financing from the domestic market. Plans for an external commercial debt treatment are advancing, which should be completed on terms consistent with program parameters.

- *Monetary and exchange rate policy*: Given still high real interest rates, monetary policy easing can continue, in line with recent disinflation and well-anchored inflation expectations, global market conditions, and consistent with achieving the medium-term inflation target. The transition to the managed float has proceeded smoothly, and greater flexibility in the exchange rate would be an important step towards ensuring its role as a shock absorber and would also help safeguard external stability. A judicious and staged approach to liberalizing FX controls in line with the National Bank of Ukraine's (NBU) Strategy should continue.

- *Financial regulation and supervision*: The NBU's recent Resilience Assessment and prompt action to close capital shortfalls are welcome steps to preserve stability. However, continued vigilance remains important given the high uncertainty. Medium-term priorities should focus on strengthening supervision and financial safety nets, completing an independent asset quality review when conditions allow, and unwinding crisis measures.

- *Governance*: The passage of a landmark law reforming SOE corporate governance paves the way for the adoption of an SOE State Ownership Policy. On anticorruption, further reforms on the Criminal Procedural Code by the authorities would enhance the effectiveness of anti-corruption investigations.

Program issues: Performance under the program has remained strong. All but one of the end-December quantitative performance criteria (QPCs) were met. The authorities are requesting a waiver of non-observance of the floor on tax revenues, which was minor. They are also requesting modifications of: (i) the end-March QPC on the non-defense primary cash balance of the general government (excluding budget support grants) as the authorities adjusted near-term budget implementation due to volatility in external financing, and (ii) the end-March 2024 QPC on net international reserves (NIR) to lock in better-than-expected performance. Progress on the reform agenda has been robust, with all four structural benchmarks (SBs) due by end-February met, including: (i) adopting the National Revenue Strategy (NRS); (ii) reviewing public investment management procedures and generating a roadmap of future measures; (iii) adopting legislation to enhance the institutional autonomy and effectiveness of SAPO; and (iv) identifying short-term revenue measures based on the proposals of a working group. The authorities are requesting to: (i) modify the continuous SB on the treatment of banks with majority state ownership; (ii) reset the SB on the supervisory risk assessment methodology (from end-June to end-December 2024); (iii) reset the SB on the SOE strategy (from end-August to end-October 2024); and (iv) reset the SB on anti-corruption (from end-March to end-April 2024).

Staff supports the completion of the Third Review under the Extended Arrangement, enabling a purchase of SDR 663.9 million (33 percent of quota).

Approved By
Uma Ramakrishnan (EUR) and Jay Peiris (SPR)

Discussions were held in Kyiv (February 12–14, 2024) and Warsaw (February 17–22, 2024) with Finance Minister Serhii Marchenko, National Bank of Ukraine Governor Andriy Pyshnyy and other senior government officials. The staff team comprised Gavin Gray (mission chief), Natan Epstein and Sanaa Nadeem (deputy mission chiefs), Heiko Hesse, Geoffrey Keim, Armine Khachatryan and Sidra Rehman (all EUR); Martha Woldemichael (SPR); Shiva Enchill and Dermot Monaghan (MCM); Jonathan Pampolina (LEG); and Vahram Stepanyan (Resident Representative), Ihor Shpak and Mariia Sydorovych (local office). Uma Ramakrishnan (EUR) joined the Kyiv mission. Ender Emre (LEG) participated in some meetings. Vladyslav Rashkovan (OED) participated in policy discussions. Ritzy Dumo and Luis Omar Herrera Prada (EUR) provided support from headquarters.

CONTENTS

BOX

FIGURES

TABLES

ANNEXES

APPENDIX

FOCUS OF THE REVIEW

1. Russia's war in Ukraine continues to have a devastating social and economic impact after two full years (Figure 1). Thousands of people have been killed or injured and millions have been displaced, both internally and as refugees. The fallout on the economy and infrastructure has been severe, with output still 25 percent below pre-war levels, and production capacity in agriculture and key industries severely compromised. Energy infrastructure suffered heavy damage in winter 2022, but has been more resilient in recent months. The latest Rapid Damage and Needs Assessment estimates reconstruction costs at US$486 billion (230 percent of pre-war GDP) over the next decade.

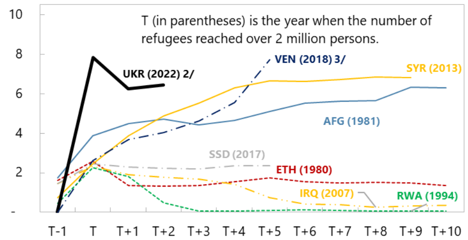
2. Against this backdrop, the authorities have maintained economic stability with skillful policymaking and strong external support, although challenges are mounting. External budget support (including the IMF) amounted to US$42½ billion in 2023, enabling the authorities to implement fiscal, monetary, and exchange rate policies consistent with improved stability. As a result, macroeconomic outturns were generally better than expected, despite the significant stress from the ongoing war. Recently, however, whereas high-level economic and military support for Ukraine remains resolute among key allies, protracted budgetary discussions in several key partners have resulted in shortfalls and delays in aid flows through February. The European Council's agreement on the €50 billion Ukraine Facility on February 1st is a significant positive development, with flows expected to resume in March. However, the protracted approval process of budget support from the United States poses liquidity challenges. In addition, blockades on the Western border caused by protests in neighboring countries disrupted trade flows and tax collections late last year.

3. The review therefore focused on policies to navigate the current war and financing uncertainties and set the stage for transitioning to greater self-reliance. The Ukrainian authorities' commitment to, and implementation of, appropriate economic policies and important structural reforms under the program have been major achievements. To safeguard progress, discussions centered on adapting near-term fiscal policies to manage liquidity, identifying strategies to respond to potential shocks, and calibrating monetary and exchange rate policies to maintain stability. Additionally, to improve economic prospects, contain risks, and anticipate a gradual winding down of external assistance, the review covered critical structural reforms in the fiscal, financial sector, and anti-corruption and governance areas.

Figure 1. Ukraine: Impact of Russia's Invasion on Ukraine

The invasion caused millions to flee, and millions of refugees remain outside of Ukraine…

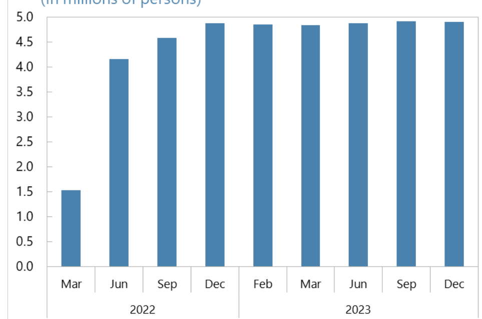
Evolution of International Refugees by Origin 1/
(In millions of persons. T in years)



1/ Only showing countries with more than 2 million refugees.
2/ Up to Jan/2024. In June 2023, UNHCR changed the methodology of estimating the number of migrants.
3/ Other people in need of international protection considered refugees.
Source: UNHCR. Rav4. IMF staff estimates.

… and internally displaced persons also remain at very high levels…

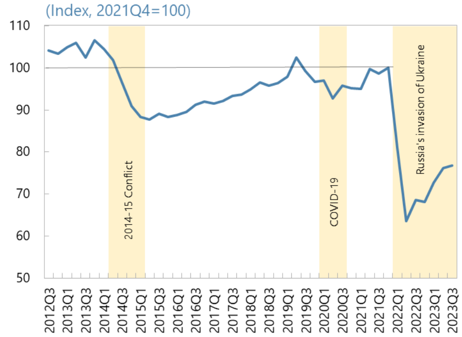
Registered Internally Displaced Persons
(In millions of persons)



Source: Ministry of Social Policy of Ukraine and World Bank, *RDNA-3*.

… The damage to the economy was sizable, and real GDP remains 25 percent below its pre-war level…

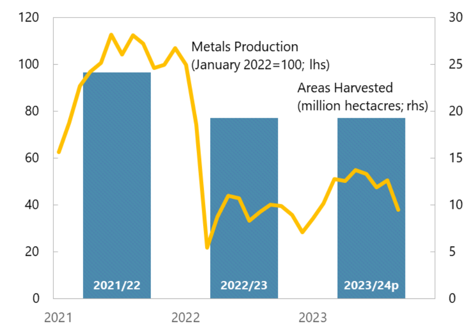
Real GDP
(Index, 2021Q4=100)



Source: State Statistics Service of Ukraine and IMF staff estimations.

… with the productive capacity of key industries severely compromised…

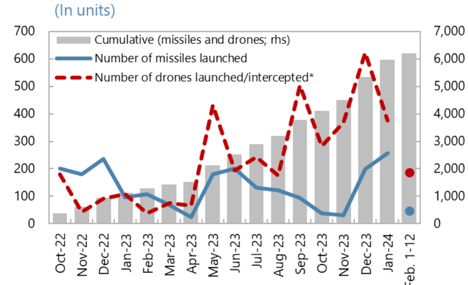
Agricultural Area Harvested and Metal Production



Sources: State Statistics Service of Ukraine and Kernel.

… The war continues, with little movement in front lines and continued aerial attacks…

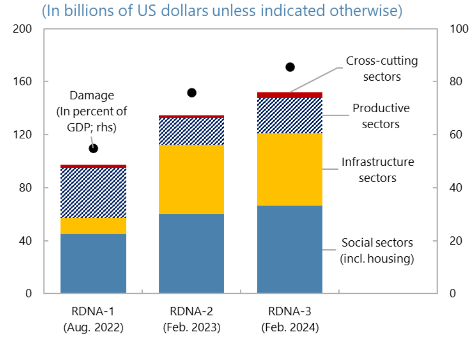
Major Russian Missile and Drone Attacks
(In units)



Sources: Ukrainian Air Force Command, Dragon Capital and IMF staff calculations.
*Data for Oct 2022-Jan 2023 show numbers of intercepted Russian drones (launches were not reported); short-range air- and ground-launched missiles as well as combat/reconnaissance drones shot down over front lines are not included.

… and damages continue accumulating.

Damages
(In billions of US dollars unless indicated otherwise)



Sources: World Bank, *Rapid Damage and Needs Assessments*.

RECENT DEVELOPMENTS AND PROGRAM PERFORMANCE

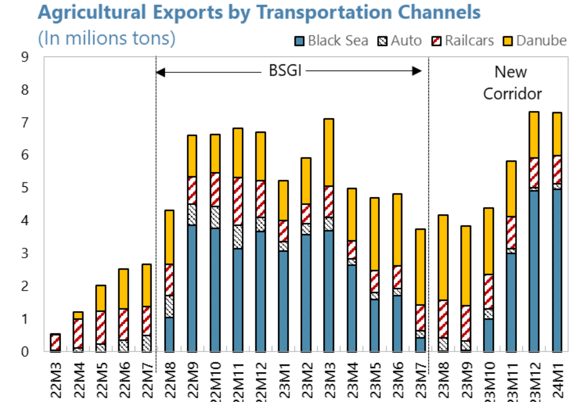
4. Robust growth and decelerating inflation continued through late 2023, but headwinds are rising in 2024:

- *Continued recovery in economic activity:* A strong harvest supported robust growth in Q3, and high-frequency indicators (including energy supply and consumer demand) point to continued expansion in Q4. Accordingly, staff estimates that 2023 real GDP growth reached 5 percent, 0.5 pp above the Second Review projection, and sees further upside risks. The sequential recovery is expected to continue in early 2024, albeit at a slower pace. Business sentiment dampened in December and January with border blockades, higher fuel prices, a resumption of missile attacks, and external financing uncertainty, but sentiment recovered in February.

- *Faster than expected disinflation*: The December outturn was 5.1 percent y/y, a substantial improvement from 26.6 percent in end-2022, reflecting better fuel and food supply (including from the strong harvest), improved inflation expectations, and supportive exchange rate dynamics. Inflation fell further to 4.3 percent y/y in February as food price inflation slowed.

- *Weaker external current account, but ample reserves*: The current account balance swung into a deficit of US$9.8 billion (5.5 percent of GDP) in 2023, from a surplus of US$8 billion (5 percent of GDP) in 2022. This mainly reflected a doubling of the trade deficit, to US$28.8 billion (16.3 percent of GDP). Imports increased on account of strengthening domestic demand, while exports dropped owing to war-induced loss of production capacity and logistical bottlenecks; the latter has been tempered by the use of alternative Black Sea trade routes late in the year. Large external financing together with stronger net FDI inflows supported gross international reserves, which stood at US$38.5 billion (5 months of prospective imports) at end-January 2024.

Agricultural Exports by Transportation Channels
(In milions tons)

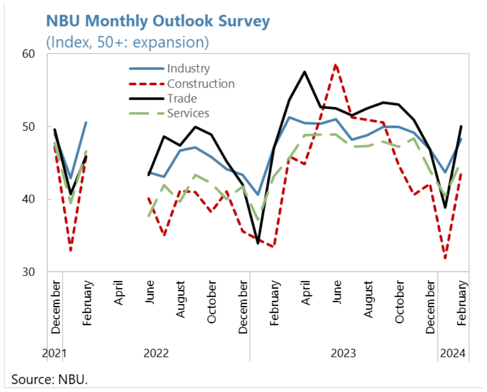


Source: IMF staff, based on Ministry of Agrarian Policy and Food of Ukraine, and Kernel.

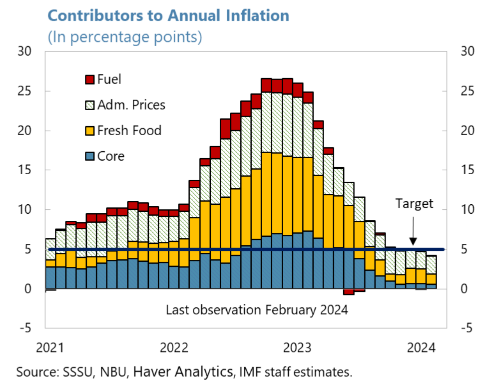
- *Early signs of stabilization in bank lending*: As of December 2023, banks' claims on the private sector remain below pre-war levels, but the annual pace of contraction has been declining. This less negative trend is largely attributable to government-backed subsidized lending initiatives (including the 5-7-9 program for SMEs and eOselya for mortgages). The reported non-performing loan ratio fell to 36.7 percent in January 2024. Deposits increased by 28 percent in 2023, supported by public wages.

Figure 2. Ukraine: High-Frequency Economic Indicators

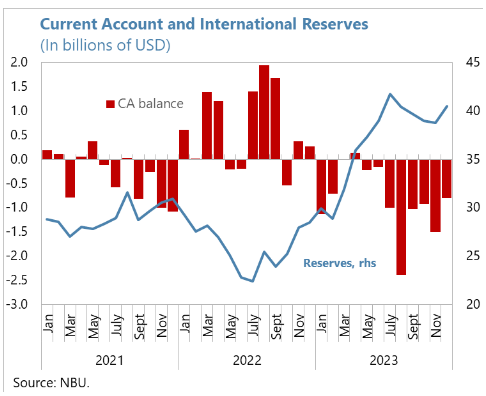
Despite being fairly buoyant through most of 2023, sentiment had weakened recently…



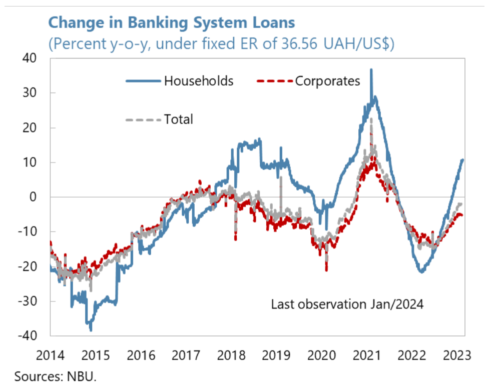
… although inflation has declined, reaching its target in recent months ….



… the current account swung into a deficit, but reserves remained at ample levels …



… and there were some signs of stabilization in credit growth ….



5. Fiscal and monetary policy management have helped contain risks and maintain stability:

- *Prudent budget execution*: Lower-than-expected grants, import tax losses from border blockades, and high defense-related expenditures posed budget challenges in late 2023. However, tight control over other expenditure categories was nearly offsetting and contained the excess of the overall deficit relative to the Second Review's baseline. A ramp up in domestic market issuance in Q4 also helped accumulate a modest cash buffer going into 2024.

- *Balanced monetary policy stance:* Real rates in the economy remain positive, which has helped sustain hryvnia term deposit growth and FX market stability. At the same time, with inflation undershooting expectations, the NBU cut the Key Policy Rate (KPR) by a cumulative 1,000 bps in 2023, of which 400 bps is attributable to the transition to a floor system in October 2023.[1] The

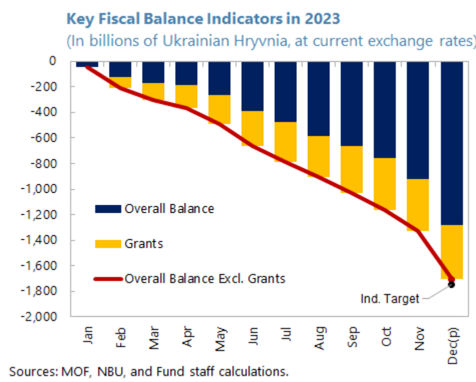
[1] See press release.

overall easing in the monetary policy stance has also supported the primary market for government bonds and, more nascently, private lending.

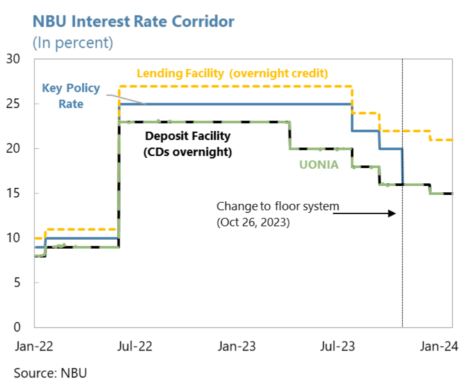
- *Smooth transition to the new exchange rate regime*: Since transitioning to a managed float on October 3, FX market conditions have remained broadly stable. The exchange rate has shown two-way movements and has depreciated by a cumulative 4.5 percent since the transition through end-February, though the NBU's FX sales remain sizable. The spread between the cash and official exchange rates remains compressed below 5 percent.

Figure 3. Ukraine: Recent Economic Policy Developments

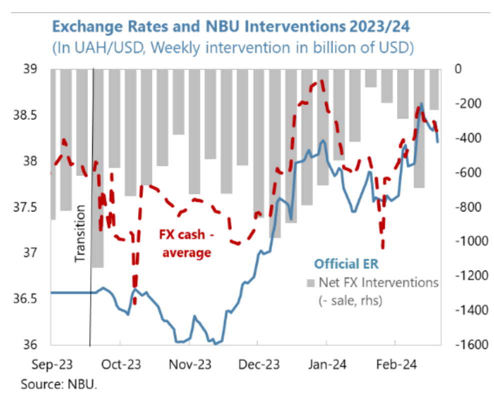
Tight control on non-defense expenditures contributed to a slight overperformance on the deficit…



…The NBU left rates on hold at the last monetary policy committee meeting, …



…The exchange rate has shown two-way movement since the transition to the new regime amid still sizeable interventions…



6. Despite the challenging environment, the authorities met all but one of the QPCs for end-December 2023. Net international reserves exceeded the floor by a comfortable margin. Both fiscal deficit targets were also met, thanks to tight control over non-defense expenditures: the non-defense primary balance was strongly above the floor and this restraint contributed to overperformance on the indicative target (IT) for the overall deficit excluding grants. However, owing to the border blockades, the QPC on tax revenues (excluding social security contributions) was missed by a minor amount (UAH 3.6 billion, or less than 0.1 percent of GDP). Government guarantees were within the ceiling and the continuous performance criterion on non-accumulation of external arrears was also respected. Other ITs were also met, including the floor on social spending and ceilings on budgetary arrears and government borrowing from the NBU.

Table 1. Ukraine: Quantitative Performance Criteria for End-December 2023

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

	end-December 2023				
	QPC	Adjustor	Adjusted QPC	Actual	Status
I. Quantitative Performance Criteria 1/ 2/					
Floor on the non-defense cash primary balance of the general government, excluding budget support grants (- implies a deficit) 2/ 3/ 5/	105,000	0	105,000	380,542	Met
Floor on tax revenues (excluding Social Security Contributions)	1,653,992	…	1,653,992	1,650,424	Not Met
Ceiling on publicly guaranteed debt 4/ 5/	37,000	20,538	57,538	40,258	Met
Floor on net international reserves (in millions of U.S. dollars) 5/	24,900	-3,211	21,689	28,244	Met
II. Indicative Targets 1/ 2/					
Floor on the cash balance of the general government, excluding budget support grants (- implies a deficit) 5/	-1,744,668	0	-1,744,668	-1,717,172	Met
Ceiling on general government arrears	2,000	…	2,000	1,556	Met
Floor on social spending	499,600	…	499,600	551,083	Met
Ceiling on general government borrowing from the NBU 6/ 7/	-704	49,296	48,592	-731	Met
III. Continuous performance criterion 1/ 2/					
Ceiling on non-accumulation of new external debt payments arrears by the general government	0	…	0	0	Met

Sources: Ukranian authorities and IMF staff estimates and projections.
1/ Definitions and adjustors are specificied in the Technical Memorandum of Understanding (TMU).
2/ Targets and projections for 2023 are cumulative flows from January 1, 2023.
3/ Starting with June 2023, the floor on the non-defense cash balance of the general government excluding grants is redefined to include general fund defense expenditures only.
4/ Starting with June 2023, the ceiling on government guarantees was converted into a periodic quantitative performance criterion.
5/ Calculated using program accounting exchange rates as specified in the TMU.
6/ From end of previous quarter.
7/ Calculated using the projected redemption of government bonds as of February 21, 2024.

7. **The authorities have continued to advance wide-ranging structural reforms and met all four SBs through end-February.** This included three fiscal structural reforms: (i) a review of public investment management procedures and a roadmap of measures; (ii) adoption of the National Revenue Strategy; and (iii) identification of potential short-term revenue measures from the revenue working group. The fourth structural benchmark was the adoption of legislation to enhance

the institutional autonomy and effectiveness of the Specialized Anti-corruption Prosecutor's Office (SAPO), which has been critical in strengthening the anti-corruption infrastructure.

OUTLOOK AND RISKS

8. The outlook for 2024 has moderated somewhat relative to the Second Review. Delays and uncertainties on external financing coupled with the evolution of the war are the main drivers for the outlook, which remains highly uncertain:

- *Growth restrained by weaker sentiment*: The sequential recovery is expected to continue, albeit at a slower pace, in 2024, as households and firms continue adapting to the war economy amid a stable energy situation. Staff projects 2024 growth at the lower end of the 3-4 percent range reflecting weakening sentiment due to security developments and delayed external financing in early 2024. Specifically, labor supply constraints, including from the anticipated mobilization, are likely to hamper growth and exert upward wage pressure.

- *Higher inflation*: Inflation is forecast to rise in 2024 to 8.5 percent. It is expected to be driven by the war-related pass-through of higher business costs, generalized wage inflation, and higher food costs if, as expected, the 2024 harvest falls short of 2023 levels.

- *A large fiscal deficit, but with constrained non-defense expenditures*: As in the Second Review, the baseline reflects the 2024 Budget, with an overall deficit excluding grants of UAH 1,562 billion (20.2 percent of GDP); the overall fiscal balance reflects updated information on grants. Planned expenditures reflect the authorities' key priorities, including maintaining defense operations on a full-year basis, while tightly constraining other categories. The baseline also reflects revenue measures that the authorities have already adopted (¶3).

- *A wider current account deficit and stable reserves*: The current account deficit is expected to widen slightly to 5.7 percent of GDP in 2024, from 5.5 percent of GDP in 2023 (+1.3 pp of GDP since the Second Review), as moderating current transfers and lower net primary income are projected to dominate the effect of returning Ukrainian migrants on travel imports. Despite risks to trade from renewed border disruptions, exports of goods—notably agricultural products—are expected to continue to benefit from increased reorientation to trade through the Black Sea ports; the trade balance is expected to improve (+1 pp of GDP) relative to 2023. Gross international reserves are projected to reach US$42.1 billion (5.4 months of prospective imports) at end-2024, assuming gross external budget financing of US$38.1 billion (including support from the Fund).

- *Credit decline bottoming out*: A moderate expansion of credit is expected in 2024 thanks to subsidized lending (the 5-7-9, and eOselya programs), credit guarantee schemes, and a revival in loan demand as the economic expansion continues.

9. The medium-term outlook is broadly unchanged. With the near-term drag on growth expected to be temporary, medium-term prospects are maintained vis-à-vis the Second Review. The medium-term is supported by an end to the war assumption by end-2024, and an expansive structural reform agenda, including under the Ukraine Plan and the path to EU accession, propelling growth in the post-war period.

Ukraine: Selected Economic Indicators Under the Baseline Scenario

	Current Forecast			Change from Previous		
	2023	2024	2025	2023	2024	2025
Baseline						
Real GDP growth (%)	5.0	[3 to 4]	6.5	0.5	...	0.0
Inflation, eop (%)	5.1	8.5	7.0	-0.9	-1.0	0.5
Current account (% GDP)	-5.5	-5.7	-8.2	-0.9	1.3	0.8
Current account (US$ billion)	-9.8	-10.8	-15.9	-1.7	2.3	1.9
Trade balance (US$ billion)	-28.8	-28.7	-34.8	-0.5	-0.4	0.8
FX reserves (US$ billion)	40.5	42.1	41.6	1.0	1.2	0.5
Overall fiscal balance (% GDP)	-19.7	-13.7	-7.3	-1.2	2.0	0.8
Overall fiscal balance, excl. grants (% GDP)	-26.3	-20.2	-10.3	0.8	0.3	-0.1
Public debt (% GDP) 1/	82.9	94.0	96.7	-4.2	-2.7	-1.8

Source: IMF staff estimates.

1/ See Annex III, ¶12 for revisions to debt coverage.

10. **Consistent with the requirements of Fund policy on lending under Exceptionally High Uncertainty (EHU), a downside scenario continues to illustrate the impact of a longer, more intense war** (Annex II). The updated downside scenario maintains the assumption of a more intense war running into 2025. With the shock assumed to start in 2024Q2, the output contraction reaches 4 percent in 2024 compared with baseline growth of 3–4 percent. The more protracted and intense war is expected to significantly weigh on economic sentiment, the pace of migrant return, fiscal spending needs, and export capacity. The 2024 GDP decline also reflects the impact of policy adjustments in line with expected fiscal multipliers. Inflation would be higher in 2024 in part due to higher assumed depreciation and supply side shocks. However, given reserve buffers, some intervention is assumed to prevent excessive FX volatility and inflation passthrough. Unlike in the baseline, it will take longer for inflation to return to target in the downside. As before, the downside scenario anticipates added donor financing relative to the baseline for the duration of the war commensurate with that at program approval.

Ukraine: Selected Economic Indicators Under the Downside Scenario

	Current Forecast			Change from Previous		
	2023	**2024**	**2025**	**2023**	**2024**	**2025**
Downside						
Real GDP growth (%)	5.0	-4.0	0.0	0.5	1.0	0.0
Inflation, eop (%)	5.1	10.0	8.5	-0.9	-1.0	0.0
Current account (% GDP)	-5.5	-7.9	-1.3	-0.9	3.0	0.7
Current account (US$ billion)	-9.8	-13.6	-2.2	-1.7	4.3	1.0
Trade balance (US$ billion)	-28.8	-33.1	-25.4	1.1	5.8	1.8
FX reserves (US$ billion)	40.5	34.4	40.0	1.0	2.0	0.2
Overall fiscal balance (% GDP)	-19.7	-17.6	-17.9	-1.2	1.4	-0.1
Overall fiscal balance, excl. grants (% GDP)	-26.3	-28.4	-24.8	0.8	0.5	-0.8
Public debt (% GDP) 1/	82.9	105.9	123.2	-4.2	-5.5	-3.5

Source: IMF staff estimates.

1/ See Annex III, ¶2 for revisions to debt coverage.

11. Risks to the outlook (both baseline and downside) remain exceptionally large and continue to evolve amid prevailing uncertainties (Annex I). Key risks ahead include those arising from major shortfalls in external financing and/or the impact of a more intense and longer war:

- *External financing shortfalls*: Shortfalls or prolonged delays in donor financing could require the authorities to take prompt countermeasures to cope with liquidity pressures, which could weaken confidence and further dampen growth, and be potentially destabilizing if the uncertainties last too long.
- *Intensification of the war*: As active war continues, defense spending needs could be sizably larger from mobilization and heightened war intensity, which could have adverse confidence effects and open up financing gaps. A longer and more intense war beyond end-2024 remains a major risk to the baseline.
- *Sub-optimal policies and risk of social unrest*: In case of severe downside shocks, the authorities may resort to sub-optimal measures (e.g., accumulation of budgetary arrears and social spending cuts). The negative sentiment that would likely ensue may generate social unrest.

Enterprise Risks

12. Staff assesses overall enterprise risks to continue to be elevated as at the Second Review. In the view of the risks described above, the Fund continues to face significant enterprise risks, which are somewhat mitigated, including due to the additional safeguards put in place at program approval, as required by the Fund's lending policy under Exceptionally High Uncertainty (EHU). In particular:

- *On financial risks:* Among the largest donors to the budget, the approval in February of the €50 billion Ukraine Facility by the EU Council is a significant positive development, but there is lingering uncertainty on the timing of the approval by the U.S. Congress of the budget proposal. Nevertheless, financial risks continue to be at least partially mitigated by Ukraine's adequate FX reserves position, and the additional safeguards arising from the capacity to repay assurance received from a group of significant Fund shareholders as required by the EHU policy.

- On *business risks*, risks from the war—including from a longer duration—and recent uncertainties around external financing are somewhat mitigated by the strong implementation of UCT-standard conditionality since the start of the program, and an economy more resilient to the impact of the war than previously anticipated. Quarterly reviews during 2024 and close stakeholder engagement will enable close monitoring and provide opportunities to adapt program design as needed to new developments.

- On *reputational risks*, the Fund could face considerable risks if it does not continue assisting a member with large BoP needs that has shown strong commitment toward implementing policies under its UCT quality-program despite exceptionally high uncertainty; proceeding with the review would also help anchor macroeconomic policies and reforms and catalyze large donor financing, both of which should enhance Ukraine's capacity to repay the Fund.

POLICY DISCUSSIONS

A. Macro-Fiscal Policies

Policies for 2024

13. The 2024 Budget, as adopted last November, remains the fiscal anchor. Budgeted expenditures (57 percent of GDP) reflect the authorities' core priorities, including maintaining defense operations for a full-year and appropriate social protection, including for veterans and IDPs; other expenditure categories are being tightly constrained. Planned revenues excluding grants (37 percent of GDP) reflect several revenue measures, including the one-time bank profit tax on last year's extraordinary bank earnings. Consequently, the overall deficit excluding grants is expected to narrow only a little from last year.[2]

14. Volatility in the disbursement of committed external financing has been a major challenge to budget execution. Sizable external financing, including from the EU's Ukraine Facility is expected to arrive in March, which will help substantially improve the liquidity situation. However,

[2] See CR/23/399 for a fuller description of the measures that the authorities have taken, which in addition to the bank profit tax include a measure to reallocate personal income taxation among state and local government levels, both of which come on top of earlier measures to restore pre-war taxation on fuel and tobacco. The tight non-defense expenditures include a reduction in capital investment outlays relative to 2023.

meanwhile, the authorities have needed to take the following measures to execute the budget in line with available resources:

- *SOE dividends*: The authorities brought forward several planned payments of SOE dividends to February.

- *Domestic market issuance and deposit utilization*: The authorities were able to raise US$0.4 billion on net from the domestic bond market (a 200 percent rollover rate) in January, and mobilized additional net financing through mid-February, despite higher rollovers. The government's available deposit buffers will also continue to be deployed as needed to meet financing needs.

- *Expenditure postponements and tax pre-payments*: Closing the remaining financing needs has required postponing expenditures and requesting advance tax payments, including those related to the bank profit tax (the latter estimated at about UAH 24 billion).

Several of these measures, while necessary under the circumstances, involve tradeoffs as they can cause unpredictable budget implementation, diminish tax transparency, and entail economic disruption. Further delays in external financing would likely require resort to suboptimal measures, underscoring the criticality of external donors providing their committed financing in a timely manner.

15. Any deviations from the 2024 Budget will likely require an offsetting domestic effort. Given the limits to further external financing, the authorities will need to respond to shocks by either further mobilizing domestic financing or identifying new adjustment measures. Adjustment would help with the authorities' efforts to restore fiscal and debt sustainability. Given high defense needs and already tight non-defense expenditures, adjustment policies will likely have to be revenue-focused. To this end, the authorities formed a working group that has identified short-term revenue measures amounting to at least ½ percent of GDP that could be quickly implemented if needed (¶23).

Fiscal Policies over the Medium Term

16. The 2025 Budget will need to internalize continuing risks and involve greater self-reliance to meet expenditure priorities (MEFP ¶14). Although the war is expected to wind down at the end of 2024 in the baseline, there will likely continue to be substantial needs for defense, reconstruction, social protection, and economic development. At the same time, external budget support, while still sizable, is expected to scale down sharply. Thus, additional efforts to raise revenues will be necessary. Continuing to adhere to the budget processes and timelines will enable the authorities to have the budget ready on time and help ensure stability.

17. Over the medium-term, continued fiscal adjustment and a prudent financing mix will help restore fiscal and debt sustainability. Public debt and gross financing needs will need to be reduced to more manageable levels over the medium term, while also creating the necessary space for priority spending. Doing so would require progress on several interrelated and mutually reinforcing fronts: (i) securing debt treatments (¶50), (ii) achieving a prudent borrowing mix, and (iii) undertaking substantive medium-term fiscal adjustment.

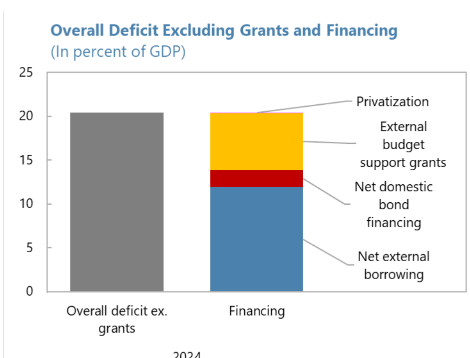
18. The medium-term and multi-year fiscal adjustment should focus primarily on the revenue side. The massive damage to infrastructure, persistence of social protection needs—including for war veterans and survivors—and medium-term economic and social development goals will entail elevated expenditure needs for some time, although a medium-term primary surplus is needed to deliver fiscal and debt sustainability. Revenues must therefore gradually rise, especially through tax policy measures. There are several potential measures, including those in the National Revenue Strategy, namely aligning VAT and excise taxes with the EU acquis, and undertaking reforms to other tax categories like taxation of the extractive sector and environmental taxes. The authorities warned that measures to introduce progressivity in income taxation at this time could run into enforcement problems, especially prior to reforms to improve integrity and build trust in the tax authorities (¶24).

B. Financing Strategy

19. For 2024, sustained efforts to mobilize financing on the domestic market will be needed to complement the expected donor financing. External budget support (including the IMF) is expected to be the main source of financing, amounting to US$38.1 billion (Figure 4). This financing, which is principally on concessional terms, remains helpful both with funding budgetary operations and restoring debt sustainability. However, positive net domestic financing will still need to be sourced even beyond the amounts issued to manage liquidity pressures in Q1. Overall, given the risks facing Ukraine, the authorities should end the year with a net zero use of deposits to rebuild buffers used earlier in the year, which would entail net total domestic bond issuance of US$3.6 billion. Obtaining flow relief from the external commercial debt restructuring could also help lower interest financing pressures, provide resilience to shocks, and support burden sharing.

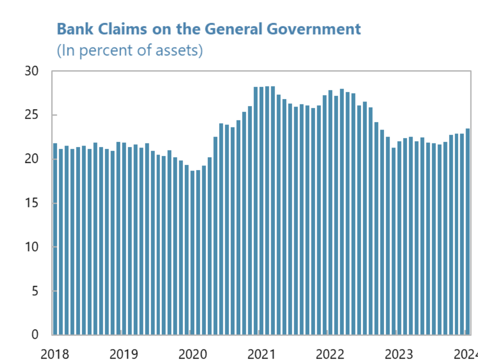
Figure 4. Ukraine: Deficit Financing and Banks' Claims on the Government

External loans and grants will largely finance the deficit, but alongside a contribution from the domestic market…



Sources: IMF staff estimates.

… Banks' exposures to the government are below the recent peak, suggesting some capacity to purchase debt.



Sources: International Financial Statistics and IMF staff calculations

20. **Domestic instruments will need to remain attractive to maintain the appetite of local market participants.** Banks are the main holders of debt issued on the domestic market, and they have ample liquidity amid still expanding balance sheets, limited alternative investments, and their government exposures are below recent peaks. Thus, additional near-term financing appears achievable, despite limited space under the reserve requirement mechanism, which supported the authorities' efforts last year. The authorities will need to monitor developments, conduct outreach with major market participants, and adapt issuance plans to match the types of instruments (e.g., maturity, currency) with market demand.

21. **Efforts to strengthen capacity on treasury cash and liquidity management as well as debt management should continue.** On the former, given the volatility in external financing, the authorities are improving their liquidity forecasting and cash management, supported by IMF TA (MEFP ¶21). Efforts should also include improving coordination and information flows across the Ministry of Finance, the Liquidity Management Department, the State Treasury, NBU, and the Debt Management Agency (DMA). Regarding debt management, efforts should continue to strengthen the training and staffing of the DMA and to update the Medium-Term Debt Strategy promptly after the external commercial debt restructuring.

22. **To safeguard stability, monetary financing of the budget should remain a last resort and governed by a robust framework.** The avoidance of monetary financing during the program has been an important factor supporting macroeconomic stability. Going forward, no monetary financing is envisaged under the baseline (***Indicative Target***), although limited amounts could be obtained if there were a shortfall in external financing, which cannot be addressed through alternative options. In this respect, and given the volatility in external disbursements, finalizing the framework governing the use of such financing in line with the program and the IMF's Safeguards Assessment is a priority. Discussions between the MOF and NBU should continue to reach a prompt resolution of remaining issues to finalize the framework.

C. Fiscal Structural Reforms

Short-Term Revenue Measures

23. **The authorities have positioned themselves to respond promptly to potential shocks to the 2024 budget.** A working group, established in December 2023, has identified a menu of measures yielding at least ½ percent of GDP ***(end-February 2024 Structural Benchmark)***. Given the prevailing high uncertainty and the need for stable budget execution, the working group will continue its efforts beyond its initial mandate. The authorities are exploring both temporary and permanent revenue measures, while acknowledging that permanent measures should be consistent with revenue goals outlined in the National Revenue Strategy (NRS).

National Revenue Strategy

24. **The authorities will anchor tax policy and administration reforms on the National Revenue Strategy (NRS).** Adopted in December 2023 (***end-December 2023 Structural***

Benchmark), with IMF support, the NRS is the master plan for achieving a fair and competitive tax framework in Ukraine, with the overall objective of generating revenues sufficient to support post-war development goals while maintaining fiscal and debt sustainability. Timely implementation of these ambitious reforms will be essential to expand the tax base, support fiscal redistribution functions, and address longstanding and critical structural impediments to revenue mobilization. Its key principles include the following:

- *Strengthening buy-in*. Realizing that successful reform hinges upon communication with key stakeholders, the MOF will revamp outreach to strengthen buy-in for the tax base expansion needed to finance post-war spending priorities. Accordingly, the NRS covers guidance for coordination on tax policies and administration led by the MOF with government agencies, donors, the private sector, and civil society.

- *Sequencing (bolstering integrity and improving trust)*. Reforms will need to start with strengthening integrity, reducing administrative and political discretion, and improving trust in the relevant institutions. Thus, frontloading efforts to build trust in controlling authorities (e.g., the State Tax Service (STS) and State Customs Service (SCS)) is critical to generate buy-in for the ambitious reforms envisioned (see also ¶25). Thus, the NRS focuses on the following areas to help strengthen taxation culture as well as generate revenue gains: (i) reform of overly broad and generous simplified regimes, (ii) equity-focused reforms (e.g., more progressive personal income tax), (iii) revenue-enhancing alignment with EU directives (e.g., VAT and excise taxes), and (iv) extractive industries' rent payments.

- *Broad assessment of tax privileges*. The authorities are on track to prepare an assessment of tax privileges to arrive at a unified reform approach that considers the importance of phasing out existing incentives and reflect on others for post-war reconstruction (***Structural Benchmark, end-July 2024***).

- *Reforms to meet post-war needs*. The authorities are developing a package of post-war tax policy measures to reform taxation of carbon emissions, assess options for extractive industries' taxation, and define the principles for the taxation of virtual assets to align with EU rules in view of EU accession (MEFP ¶25). This work will be supported by technical assistance from the IMF and other partners.

25. Swift and decisive steps are required to enhance the operational effectiveness, trustworthiness, and integrity of both the STS and SCS (MEFP ¶24, ¶26). The authorities face a challenging environment for implementing reforms envisioned under the NRS, including limited capacity in the tax and customs administrations (which will require extensive capacity development support to address) and complexities in operationalizing reform initiatives.

- For the STS, work will involve enhancing data confidentiality and protection to prepare the ground for enhancing trustworthiness and integrity. By end-2024, the authorities will prepare a long-term Digital Development Plan including measures to enhance the confidentiality of tax data in the STS. Other actions include progressing on an organizational restructuring to facilitate the implementation of compliance risk management (CRM) practices; enhancing electronic data submission; revamping e-audit; and strengthening information exchange with foreign partners.

- For the SCS, the authorities intend to adopt legislation to reinstate post-clearance customs audit by end-April 2024, an important piece of legislation that will complement the reinstatement of tax audits and close potential loopholes in managing compliance processes. The criminalization of large-scale customs fraud and smuggling of all goods is expected to be considered in conjunction with the progress on ESBU (Economic Security Bureau of Ukraine, see below). Work on the HR front continues, though slower than expected with the war taking a toll on already limited capacity.

Both the STS and SCS will develop a set of criteria for assessing the impact of their Anti-Corruption Programs. The authorities are also developing legislative changes to implement rules combating tax evasion and strengthening international collaboration.

Economic Security Bureau of Ukraine (ESBU)

26. Legislation has been prepared to reform the Economic Security Bureau of Ukraine (*Structural Benchmark*, end-June 2024). Clarifying the ESBU's mandate including its investigative powers, and how its role differs from other public bodies, is critical to ensure that the ESBU contributes to strengthening fiscal governance. This would also help address recurrent concerns of businesses that enforcement agencies have poorly defined powers. Accordingly, the authorities have committed to clarify in the legislation that the ESBU would focus on major economic crimes. Staff emphasized the importance of maintaining coordination with the MOF, given ESBU's focus on major economic crimes, and the need to enhance its analytical capacity. The existing delineation between the investigative powers of the ESBU and the National Anti-corruption Bureau of Ukraine (NABU) will be maintained. The law will aim to establish a legal basis for the operation of the ESBU through clear procedures for selecting management, enhancing the role of experts with international experience in selection committees, establishing a disciplinary committee, and developing mechanisms for the re-attestation of managers within a reasonable period after the appointment of the new head of the ESBU.

Restoring the Medium-term Budget Framework

27. The authorities are determined to enhance expenditure planning and the medium-term budget framework (MTBF). The MOF is making progress towards a diagnostic review of pre-war MTBF policies and practices relative to best practices (***Structural Benchmark,* end-October 2024**). With the help of IMF TA, a first gap analysis has been finalized, identifying gaps in: (i) expenditure baseline estimates; (ii) costing of new policies; (iii) computing budget space and updating expenditure limits; (iv) subnational governments and social funds; (v) multi-year commitments, and (vi) alignment with the EU fiscal governance framework, in light of EU accession. While the full outcomes of the work are expected to feed into preparation of 2026-2028 Budget declaration and 2026 Budget, the MOF will start piloting some of the key findings for the 2025-2027 budget declaration. Specifically, key spending units have been asked to identify the main factors feeding into the estimation of baseline costs of public services. The outcome of this pilot will help enhance costing of new policies, which will improve the credibility of fiscal forecasts, and strengthen bottom-up PFM processes by capturing more detailed spending needs, enabling the authorities to gain more control over the costing of existing public services (MEFP ¶28).

Fiscal Transparency and Risks

28. Significant progress has been made to enhance fiscal risks assessment and fiscal transparency:

- A strengthened fiscal risk statement was attached to the 2024 Budget, and steps are being taken to undertake more rigorous fiscal risk analysis in future budgets to better integrate fiscal risks into all stages of the budget cycle. As part of the preparations for the 2025–2027 budget declaration, the MOF has requested line ministers and key spending units to identify the main fiscal risks for inclusion in the medium-term budget.

- The authorities also expect to include in future statements a consolidated view of financial performance analysis and stress testing across major SOEs, which is being strengthened on the basis of recent IMF TA.

- Further, the authorities are working to identify major public companies severely affected by the war and prepare an assessment of their potential fiscal and quasi-fiscal costs (***Structural Benchmark,*** **end-September 2024**). This work will be supported by IMF TA, which is also relevant for the recently adopted SOE corporate governance law which underscores the importance of fiscal risk analysis in the corporate governance framework of SOEs.

- To strengthen the link between fiscal risks assessments and the predictability of government spending, the authorities are developing methodological guidance for assessing fiscal risks in key spending areas and contingent liabilities, including PPPs, guarantees, and SOEs. In this process, coordination with the Ministry of Economy (MOE) and other line ministries is essential. By integrating these assessments more robustly into the early stages of the budget cycle, fiscal risk analyses can better inform budgetary and fiscal decisions.

- With the help of ongoing IMF TA, the MOF will finalize the development of risk-based fees for guarantees and prepare amendments to the existing decree. An IMF TA mission is expected in April–May 2024.

- Regarding the transparency and usage of special funds, the Fund for the Liquidation of the consequences of the Armed Aggression will continue supporting the restoration of restored and damaged property as stipulated in the 2024 Budget. Additionally, since July 2023, the MOF has continued publishing information about the sources and usage of funds on special accounts donated by private individuals and legal entities.

Business Development Fund (BDF) and 5-7-9 Program

29. Further progress is needed to strengthen the business model of the BDF and related 5-7-9 program (MEFP ¶31, ¶32). The authorities have made some progress in establishing the contours of a future agenda to strengthen these programs, specifically, by adopting a draft concept note on the governance of BDF and a proposal to strengthen the design of 5-7-9 program, which includes the phasing out of large company eligibility and commissioning an independent assessment of the BDF and its support programs. Looking ahead, the authorities are determined to further strengthen the concept note before its final approval by end-March 2024 (***Structural Benchmark,* end-March 2024**). Specifically, while the BDF will continue to be subordinated to the MOF, the authorities will take measures to strengthen its governance and financial self-sustainability of the BDF, to keep the lending programs run by BDF targeted and time bound, and to eliminate the risk of political interference in decision-making processes. A legal framework for establishing an independent supervisory board will be enacted by end-September 2024, providing for an operational budget for BDF to fulfil its mandate.

30. Immediate measures should be taken to ringfence the potential fiscal and financial sector risks related to the 5-7-9 loan program. While the cost to the budget from subsidized lending is still less than 0.3 percent of GDP, this may change swiftly given that the underlying portfolio has expanded rapidly. Several issues warrant attention:

- A backlog of bank compensations has accumulated, including due to delays in program budget submissions from the MOE, which is expected to clear starting end-March 2024. Staff emphasized that delays in compensation should be avoided, given the potential impact on banks' trust in government commitments and the 5-7-9 program.

- There have been frequent revisions to program terms and conditions, in the direction of expanding program eligibility amid a constrained budget envelope. To mitigate the risk of overspending, it is critical to strengthen the criteria for targeting the program to micro- and SMEs. Moreover, the authorities should refrain from making the program a flagship post-reconstruction lending facility, as this may impede the resumption of market-based lending.

- Further clarification on the roles of MOE and MOF is important for managing program risks. The MOE should maintain responsibility for identifying priorities sectors for SMEs, and the MOF should be responsible for controlling and monitoring spending under the program.

- To avoid risks of overspending, the medium-term and annual budget declarations should continue to establish the spending envelope for subsidized interest.

Public Investment Management

31. The authorities are committed to developing an action plan for public investment management (PIM, *Structural Benchmark,* end-December 2024). It will build on the recently finalized roadmap (***Structural Benchmark,* end-December 2023**) and include a government decree with a specific action plan and a timeline that provides clear linkages between the MTBF and national reconstruction priorities. The action plan will:

- Establish clear institutional links between the MTBF, PIM and reconstruction priorities, thus bolstering the MOF's gatekeeper role (Box 1) at all relevant stages of the public investment cycle (verifying that projects proposed for budget funding have indeed passed the necessary screening and approval processes) in order to mitigate fiscal and debt sustainability risks.

- Help strengthen coordination between the MOF, MOE and Ministry of Infrastructure and other line ministries responsible for project execution.

- Provide clear guidance on strengthening public investment management policies in line with best practices for capital budgeting and the inclusion of PIM in multi-annual budget planning and the MTBF (MEFP ¶34), following the principles of budget unity, coherence, and predictability.

- Confirm the MOF's role as 'gatekeeper' to the budget, verifying that projects proposed for budget funding have passed through the necessary screening and approval processes.

Box 1. The Importance of the "Gatekeeper Role" in Managing Fiscal Sustainability Risks

The "gatekeeper" concept, a term frequently used by in public finance, is relevant for the challenges facing policymakers in economies such as Ukraine. In general, a gatekeeper is an institution with legal and administrative powers to identify and prevent risks at each stage of their occurrence. In public finance, the MOF usually is assigned this role through legal and executive powers to identify and ringfence risks to debt and fiscal sustainability that may arise from weaknesses in core policy functions.

	MOF Policy Functions	Regulatory and Implementation Powers to Meet Policy Functions
1.	Fiscal policy analysis/ policy formulation and fiscal rules	Monitor compliance with rules, spending ceilings and performance targets
2.	Formulation of the medium-term (MT) budget framework and annual budget	Coordinate the budget cycle. A strong framework for budget unity and predictability is critical, including to minimize the risks of inconsistency between line-ministry plans, infrastructure priorities and the annual and MT budget
3.	Debt management strategy	Regulate markets, and coordinate with the central bank
4.	Tax and other revenues policy	Elaborate tax policies and enforcing tax laws
5.	Public investment strategy, planning, policies, and regulations/guidelines	Check for risks through the different stages of the public investment cycle. Cover all stages from initiation, feasibility study to execution, including for traditional instruments, and contingent liabilities (e.g., guarantees, PPPs).
6.	Policies on public procurement and PPPs	Focus on value for money at the feasibility stage, procurement policies, and monitoring implementation, often with another line ministry
7.	Budget execution	Design and issue policies, guidelines, instructions for commitments control and keep track of expenditure execution. Monitoring/oversight of budget execution, compliance with regulations.
8.	Fiscal risks, guarantees, ringfencing risks from SOEs	Elaborate policies on SOE financial management, monitor implementation of risk management policies, undertake stress tests and analysis to identify risks before they materialize
9.	Cash forecasting, liquidity management	Transform and align budget execution and debt management policies with cash and liquidity management in coordination with the central bank to enhance the efficiency of commitment control, smoothen budget execution and optimize cost of borrowing.

Box 1. The Importance of the "Gatekeeper Role" in Managing Fiscal Sustainability Risk (Concluded)

In OECD countries,[1] the MOF's core policy functions primarily include categories 1–4, 7–9. As regards public investment management and policies for PPPs, around half of OECD countries have systems with MOF in the lead in terms of public investment strategy, planning, policies, and regulations, while the other half limit the MOF's role in these areas to annual and medium-term (MT) budgets, budget unity and predictability. This implies that the MOF has powers to coordinate the budget cycle, and seek to achieve consistency of spending priorities with annual and MT budget, while the design of projects and their prioritization may be allocated to another ministry. In the case of PPPs, while most countries have PPP units, only about half of them have assigned this function entirely to the MOF, while empowering the MOF to identify risks at the stages of feasibility, procurement and execution, management of fiscal risks and broader debt sustainability (item 8).

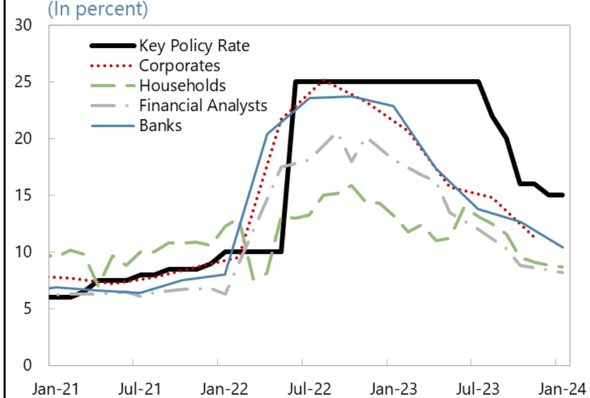
Overall, checks and balances should be established within government, with one institution—normally the MOF—entrusted with powers to safeguard fiscal and debt sustainability. The broader model of public administration, institutional relationship between the finance ministry, the legislature and the supreme audit may also have an impact on individual country choices. However, making sure that the safeguarding functions are well defined and implemented is critical for fiscal and debt sustainability.

[1] R. Allen, Y. Hurcan, P. Murphy, M. Queyranne, and S. Yläoutinen, 2015, "The Evolving Functions and Organization of Finance Ministries", IMF Working Paper, WP/15/232 (Washington: International Monetary Fund)

D. Monetary and Exchange Rate Policies

32. High real interest rates and well anchored inflation expectations suggest scope for further policy rate cuts. In January, the NBU opted to maintain the KPR at its current level, citing elevated risks to the outlook and the need to maintain moderate inflation and support FX market stability. However, the still-elevated real interest rates, well-anchored inflation expectations, the somewhat weaker economic outlook, and ongoing easing of global financial conditions suggest that the easing cycle can continue, and without undermining the attractiveness of hryvnia deposits and the FX market more generally. Staff analysis using a quarterly projections model (QPM) supports a conclusion that reducing interest rates, while maintaining an overall tight monetary stance with rates approaching the real neutral rate of around 3 percent over the medium term, would support inflation converging towards the NBU's target of 5±1 percent over the NBU's forecast horizon (2– 3 years).

Key Policy Rate and 12M Ahead Inflation Expectations
(In percent)



Source: NBU, GfK Ukraine, Info Sapiens.

33. The floor-based monetary policy operational framework is appropriate given high liquidity. In October 2023 the NBU moved to a floor-based framework from a corridor system, aligning the de jure KPR with the de facto main instrument (the overnight CD). This reinstated the role of the KPR in the operational structure and improved the effectiveness of monetary policy communication. In the near term, the NBU should continue to ensure that the parameters on its standing facilities are consistent with the appropriate monetary policy stance, while assessing the potential impact of such instruments on the demand for government bonds (for which overnight CDs have been an alternative). To further enhance monetary policy transmission and the effectiveness of sterilization operations, and consistent with the evolution of liquidity conditions, the NBU may consider in due course a longer maturity for the main liquidity absorption instruments.

34. Under the managed exchange rate regime, greater flexibility would help towards having the exchange rate serve as a shock absorber. The transition from a peg to managed ER flexibility in line with the NBU Strategy has been broadly smooth. However, greater flexibility of the exchange rate, including with appropriately calibrated FX interventions to avoid excessive volatility, would increase its role as shock absorber while safeguarding reserves. Such an approach should preserve confidence in hryvnia assets and further help steer inflation toward the target over the NBU's forecast horizon.

35. The easing of FX controls should continue to be approved on a gradual, staged basis in line with the FX liberalization roadmap under the NBU's Strategy to safeguard external stability. Over the past year, and in line with their Strategy, the NBU has eased FX controls judiciously in line with macroeconomic conditions, including the servicing of some new loans, while tightening some measures to limit circumvention.[3] The NBU should continue to use the Strategy, together with assessments on macroeconomic conditions, outlook and risks, as the basis for the rollout of the next stage of adjusting FX controls. Legislative amendments are planned to reinstate the discretionary right of the NBU to approve or deny exceptions to cross-border FX transactions. This should strengthen the application of a consistent, staged approach to FX liberalization as envisioned in the Strategy.

36. The three previously approved multiple currency practices (MCPs) are considered eliminated as of February 1st, when the Fund's new policy on MCPs came into effect. The authorities have committed to continue monitoring this area carefully in close consultation with staff as the exchange rate transition unfolds to help ensure that new MCPs do not arise.

37. The NBU intends to bring forward profit transfers to the budget, with appropriate safeguards in place. In consultation with Fund staff, legislation is planned, which upon adoption will grant the NBU rights both to increase the annual profit transfer to the budget and to make an early distribution before the completion of the annual external audit of the NBU's accounts, on a one-time basis for 2024. The legislation aims to include a cap on distributable profits, which should

[3] On February 20, 2024, the NBU implemented measures mandating businesses to utilize existing foreign currency, including FX swap transactions when customers sell FX spot, before further purchases, and refining currency supervision for export transactions to prioritize the repatriation of foreign currency earnings.

help safeguard the NBU's financial autonomy and no negative NBU balance sheet implications are expected given adequate general reserves.

38. The NBU has a broadly sound safeguards framework in place, which is adapted well to wartime conditions. The authorities are taking steps to implement the recommendations of the 2023 safeguards assessment to strengthen governance practices. This includes, *inter alia,* establishing a framework for monetary financing of the government (¶22) and exploring best practices for appointment processes for members of the NBU Council and the Board. The NBU is engaging with Fund staff on these issues.

E. Financial Sector

39. An NBU Resilience Assessment identified capital shortfalls in five banks, which have already been mostly addressed. The assessment was applied to the 20 largest banks accounting for 91 percent of system assets and was completed in December 2023. It involved reviewing the classification and adequacy of provisions for a sample of loans, and a 3-year capital evolution scenario based on expected macroeconomic conditions and applied existing rules under Martial Law. The loan review, which allows for credit forbearance under Martial Law, identified an aggregate capital shortfall of about US$130 million for three banks, of which US$127 million for two state-owned banks has already been addressed (Ukreximbank and Sense). The forward-looking scenario identified US$428 million of further potential capital vulnerabilities for five banks. The NBU has required these banks to prepare capital management plans to address potential negative equity gaps by September 2024 and fully return to regulatory compliance by March 2026. The NBU has already committed under the program to undertake a more detailed and independent asset quality review (AQR) once conditions allow. In preparation, the NBU will align the definition of non-performing exposures with EU's standards by end-April 2024, to strengthen monitoring by banks and supervisors by end-December 2024 (MEFP ¶53).

40. Preparations for privatizing SOBs are advancing and the scope of the *Continuous Structural Benchmark* on banks nationalized under Martial Law has been further clarified. In preparation for SOB privatization, the MOF, in consultation with the NBU and IFIs, is reviewing and updating the 2012 draft law on SOB privatization and will submit it to Parliament by end-March 2024. The MOF will appoint an internationally recognized financial advisor by end-May 2024 to prepare two systemic SOBs for sale, i.e., Sense Bank and Ukrgasbank (4 percent and 6 percent of system assets respectively). The authorities have also committed that all systemic banks with majority state ownership will fall under the responsibility of the MOF and any non-systemic banks that come under state ownership will not be recapitalized using fiscal resources and will be transferred to the Deposit Guarantee Fund (DGF) for resolution upon breach of prudential requirements (***proposed modified Continuous Structural Benchmark***).

41. Progress has been made towards strengthening financial safety nets (*Structural Benchmark,* end-December 2024) and capital standards. The DGF and NBU in consultation with IFIs have assessed current bank intervention and resolution infrastructure and proposed recommendations to close gaps relative to good practice. A roadmap will be prepared by end-April 2024, setting out the reform agenda to close key outstanding gaps in bank intervention, financial backstop mechanisms, and resolution capacity by end-December 2024. The NBU aligned banks' regulatory capital structure with EU norms and increased capital requirements for financial companies in December 2023.

42. The authorities have initiated wide-ranging activities to deepen financial markets infrastructure and oversight. These efforts aim to (i) manage challenges caused by the war and set the stage for a resumption in credit growth; (ii) align regulations and accounting standards with international norms; (iii) facilitate the development of financial markets and other segments of the non-bank financial system (Text Table 1). These reforms will help ensure that the financial system is prepared to support economic recovery.

Text Table 1. NBU Activities to Strengthen and Deepen Financial and Capital Markets
Close gaps with international valuation standards and propose an implementation roadmap to strengthen the valuation infrastructure and profession by end-March 2024
Propose how a publicly accessible database of real estate transaction prices as well as residential and commercial property price indexes will be implemented by March-2024
Propose priority actions for enhancing the capital market infrastructure to facilitate direct access by foreign investors to marketable debt instruments by end-April 2024
Prepare a comprehensive strategy to support resumption of lending, with due regard to financial stability and fiscal risks by end-May 2024
Prepare a draft law to establish a fully functional war insurance system by end-June 2024
Propose amendments to the Law on Banks and Banking by to include consideration of supervisory observations in the recognition of related parties end-June 2024
To hedge foreign exchange and interest rate risks and improve monetary transmission, prepare a concept note by that will set out the steps, conditions and timing needed to introduce and develop derivative financial instruments (including forwards) market by end-July 2024
Prepare a concept note on regulatory requirements for person to person (p2p) and other such electronic payments with the aim of identifying and restricting unusual behavior by end-July 2024
Propose a supervisory framework that will incorporate the specific risks of Banking-as-a-Service by end-July 2024
Prepare a concept note for a supervisory risk assessment methodology for payment service providers by end-August 2024 and implement the methodology by end-December 2024
Propose ways to strengthen the requirements for audit companies and audit reports, and prepare an implementation road map by end-September 2024
Develop strategies for the Ukrainian Financial Housing Company and Export Credit Agency by end-November 2024
Implement a supervisory risk assessment methodology to inform supervisory engagement priorities by end-December 2024 (***Structural Benchmark*, proposed to be reset**)

F. Governance and Growth-Enhancing Policies

43. Sustained progress on anti-corruption reforms is critical to public and donor confidence, and the goal of EU membership. Complementing the reform on strengthening the Specialized Anti-Corruption Prosecutor's Office (SAPO), the authorities are planning further amendments to the criminal procedural code to enhance the effectiveness of corruption investigations, including on mutual legal assistance and reasonableness of time limits of pre-trial investigations. Asset declarations of public officials, which were made publicly accessible again in end-January, are now undergoing risk-based verification by the National Agency for Corruption Prevention (NACP) to detect illicit enrichment. A new head of the NACP was appointed in February, and competitions for new anti-corruption judges are under way, both with participation of independent experts with international experience. The authorities have requested a short (one-month) extension on the structural benchmark for rationalizing the adjudication framework of the High Anti-Corruption Court (***Structural Benchmark*****, proposed to be reset from end-March to end-April 2024**) in light of the heavy legislative agenda in Parliament. Staff also encouraged the authorities to advance work on the creation of a new administrative court, completion of the external audit of the NABU, and enhancing effectiveness of supreme audit institutions. The authorities remain committed to an IMF staff-led governance diagnostic assessment after the lifting of Martial Law.

44. In February, Parliament adopted a landmark SOE corporate governance law (5593-D) that broadens the powers of SOE supervisory boards, while respecting critical PFM principles to mitigate SOE fiscal risks (MEFP ¶65)**.** The law, close to 10 years in the making and reflecting OECD guidelines, is a significant step toward enshrining modern SOE corporate governance principles. In particular, the law establishes a competitive and transparent selection process for SOE supervisory board members, sets up regular independent evaluations of SOE supervisory boards, gives SOE boards ultimate powers to appoint and dismiss CEOs and approve the financial and strategic plans. In order to limit quasi-fiscal risks and safeguard public finances, the MOF will maintain a gatekeeper role, including through the approval of key financial metrics in the financial plans of natural monopolies and strategic SOEs. The authorities now intend to develop comprehensive and robust secondary legislation to implement the law such as operationalizing the procedures, reporting templates, roles, and responsibilities for the financial planning of SOEs. Moreover, the ownership entity should avoid exerting undue control on SOEs, including in the absence of a SOE board, and provide justification for the dismissals of board representatives. Given the war realities, minimum dividends have been established in the primary law with a sunset clause for the duration of Martial Law, after which SOE dividends should be guided by an overarching dividend policy.

45. The authorities will prepare a comprehensive SOE state ownership policy (SOP). The adoption of Law #5593-D gives the CMU the powers to approve a SOP, dividend policy and privatization strategy, planned for end-October 2024 (***Structural Benchmark*****, proposed to be reset from end-August to end-October 2024**), which will serve as a critical input and pre-condition into the triage and privatization strategy of SOEs. The SOP will cover the long-term priorities of SOE state ownership, its public policy objectives and rationales, how the state views its role, and implementation in the SOE governance, including roles and responsibilities of the involved government agencies. Importantly and consistent with the critical gatekeeper role of the MOF to mitigate fiscal risks, the MOF will set the financial viability criteria of SOEs and conduct a financial assessment of SOEs, which will be also done as an interim step by end-May 2024 as an input to the SOP. The above steps, including implementing Law #5593-D are essential preconditions for exploring options to strengthen SOE management, which should not be rushed.

46. The authorities are focusing on stabilizing the energy sector and remain committed to energy market reforms, including those relating to corporate governance.

- With the energy sector still vulnerable to missile attacks, the authorities are firmly focused on taking all necessary measures to ensure energy security, including swift repairs, boosting domestic gas production, and securing electricity imports from neighboring countries. It will be important to ensure the stability of the system and reduce quasi-fiscal liabilities will eventually require a gradual increase in gas and electricity tariffs towards cost recovery (especially once the war winds down), while allocating adequate and well-targeted resources to protect vulnerable households. The lifting on December 29, 2023, of a moratorium (Resolution #1405) on disconnecting consumers in arrears will contribute to higher payment discipline. Moreover, the CMU will adopt a roadmap for the gradual liberalization of gas and electricity markets, with a time-bound implementation plan for the post-Martial Law period. Staff highlighted the importance of establishing adequate safeguards to protect vulnerable groups as reforms proceed.

- Progress has also been made on energy corporate governance with the seating of the 7th board member of Naftogaz, while the planned adoption of Law #6133 would pave the way for GTSO to rightsize its operations ahead of the expiry of the transit contract with Gazprom at end-2024. Work is expected to start soon on a review of the arrears and financial conditions of the District Heating Companies (DHCs) (***Structural Benchmark,* end-June 2024)**.

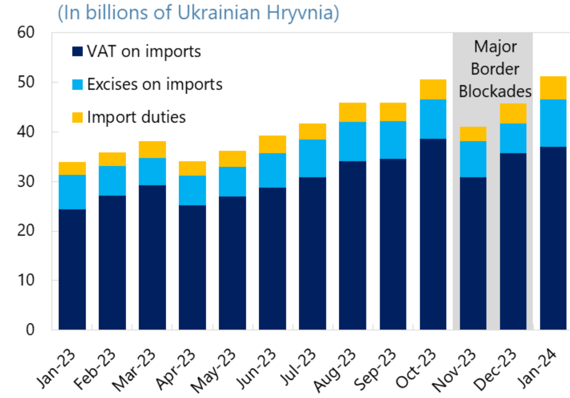
PROGRAM MODALITIES, FINANCING ASSURANCES, AND OTHER ISSUES

A. Program Issues

47. The attached Letter of Intent and Memorandum of Economic and Financial Policies describe the authorities' progress in implementing their economic program and set out their commitments. The authorities are requesting the following waiver and modifications to program conditionality:

- *Quantitative Performance Criteria (Table 13)*: On the basis of its minor size (UAH 3.6 billion, or less than 0.1 percent of GDP), the authorities are requesting a waiver of non-observance of the QPC on the floor on tax revenues excluding social security contributions. They are also requesting a modification of the floor on the non-defense cash primary balance of the general government excluding grants for end-March 2024. The recent volatility around the timing of disbursements of committed external financing has affected budget implementation and prompted this request; on a full-year basis the expectation on this indicator is unchanged. Additionally, in light of the better-than-expected FX reserve levels in recent months and commitment to external sustainability, the authorities are requesting to increase the floor on net international reserves for end-March 2024.

Major Import-Related Tax Collections
(In billions of Ukrainian Hryvnia)



Sources: Ministry of Finance and Fund staff calculations.

- *Structural Benchmarks (Table 5)*: The authorities are requesting a modification to the continuous SB stipulating that all banks with majority public ownership remain under the shareholder management of the MOF and any nationalized non-systemic banks will be transferred to the DGF for resolution. The basis for this request arises from the NBU's restricted bank intervention powers under Martial Law, which do not permit licenses of non-systemic banks to be revoked on governance or business model grounds. This modification will reflect the NBU’s current powers and ensure that non-systemic banks that come under state ownership due to seizure or nationalization will not be recapitalized using fiscal resources. The authorities also need more time for three SBs and request to reset: (i) implementing a supervisory risk assessment methodology to inform supervisory engagement priorities from end-June 2024 to end-December 2024; (ii) producing a SOE state ownership policy, dividend policy and privatization strategy from end-August 2024 to end-October 2024; and (iii) enacting amendments to the procedural code to rationalize matters or issues to be heard at the first instance by one anti-corruption judge or by a panel of three anti-corruption judges from end-March 2024 to end-April 2024.

B. Debt Sustainability

48. Based on the authorities’ plans, the criteria for assessing debt as sustainable on a forward-looking basis continue to be met. This judgment is based on the following considerations: First, the authorities have committed under the program to a substantial revenues-based fiscal adjustment over the next few years. Second, official sector creditors and donors have provided assurances of exceptional financing on highly concessional terms over the program period. And third, the authorities’ plans include proceeding with debt operations to restructure external claims in line with the program's parameters. Debt treatments will need to be sufficiently robust to help restore debt sustainability under both the baseline and downside scenarios.

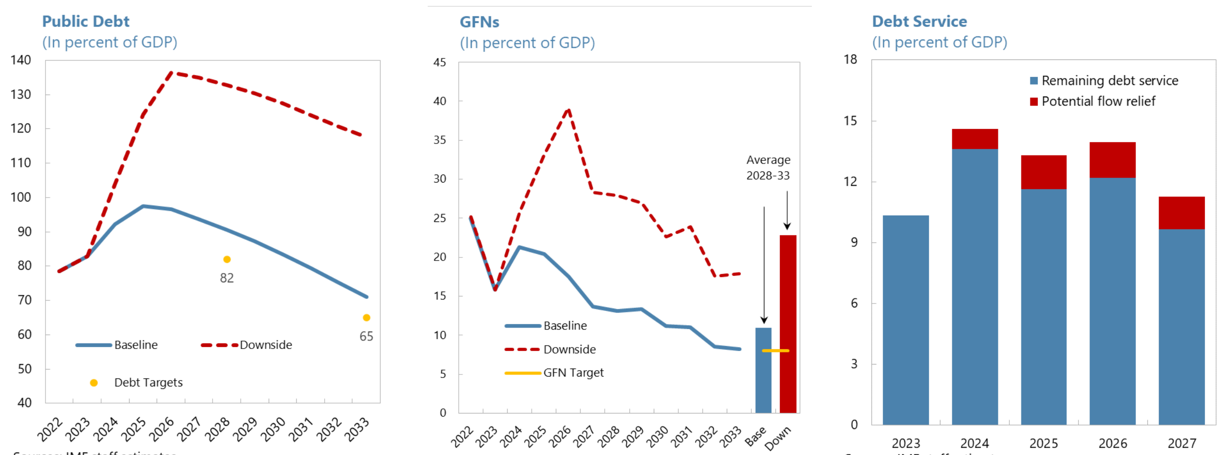
49. In the absence of a restructuring, debt is assessed as unsustainable (Annex III). Since the Second Review, changes to paths for public debt and gross financing needs are limited under both the baseline and downside scenarios, and even with fiscal adjustment and official support, these indicators continue to be past manageable levels. Sufficiently deep debt treatments would be needed to decisively restore debt sustainability and support adequate levels of international reserves. Updated indicative modeling shows that the targets for the debt restructuring remain appropriate (Figure 5).

Figure 5. Ukraine: Public Debt Indicators

To achieve debt sustainability, debt should be 65 percent of GDP by 2033 and aim to reach 82 percent of GDP by 2028…

…Gross financing needs (GFNs) should average 8 percent of GDP in the post-program period (2028–33)…

…Debt service flow relief on external obligations should aim to be 1–1.7 percent of GDP per year.



Sources: IMF staff estimates.

Sources: IMF staff estimates.

Sources: IMF staff estimates.

50. The authorities' strategy for restructuring public debt in line with the program's parameters entails securing debt treatments on the following claims:

- *External commercial debt*: A credible process continues to be underway for restructuring these claims. The authorities and their debt advisors are finalizing technical work with a view toward designing a debt operation aligned with the program's debt sustainability targets. They expect to present initial proposals to creditors shortly, in line with their intention to conclude the restructuring by mid-year and ahead of the expiry of the debt standstill in August 2024.

- *Official bilateral debt*: The Group of Creditors of Ukraine remain committed to a 2-stage process to deliver the level of relief necessary in the baseline. The first step, which entails extending the debt standstill until 2027, was formally agreed in December. A definitive restructuring of official bilateral claims constitutes the second stage, and is expected to be finalized before the final review of the program. The Group has further committed to providing additional relief if necessary to restore sustainability if the downside scenario emerges.

- Ukraine does not have any external arrears.

C. Financing Assurances

51. The cumulative baseline financing gap over the program period is estimated at US$121.8 billion, broadly unchanged from the Second Review. It accounts for (i) updates to EU financing consistent with the recently approved budget support under the EU facility over 2024–27, (ii) revisions to financing from Canada, Japan, Norway, and the United States, and (iii) updated exchange rate assumptions. Similarly, the cumulative downside financing gap is projected to remain broadly unchanged at US$140.6 billion. Firm commitments are in place for the next 12-month period (i.e., April 2024 through March 2025), including on the basis of the Biden administration's budget proposal and the approval of the EC facility, and there are good prospects on financing for the remainder of the program period.

D. Capacity to Repay the Fund

52. The capacity-to-repay (CtR) assurance provided by a significant group of creditors/donors at program approval remains valid. The assurance is required in view of the continuing exceptionally high uncertainty surrounding the scale, intensity, and duration of the war. Consequently, the economic outlook, which poses tail risks beyond the downside, and the program itself cannot fully establish a safeguard on capacity to repay, as in normal UCT-program contexts. As such, in line with the Fund's EHU policy, at the time of the program request, a significant group of creditors/donors comprising countries in the G7 plus Belgium, Lithuania, the Netherlands, Poland, Slovakia, and Spain extended an assurance that management and staff understood to (i) reaffirm their recognition of the Fund's preferred creditor status in respect of the amounts currently outstanding to Ukraine, plus any purchases under the proposed extended arrangement; and (ii) further undertake to provide adequate financial support to secure Ukraine's ability to service all of its obligations to the Fund, in accordance with the Fund's preferred creditor status and complementing the Fund's multilayered risk management framework.[4] Staff will continue to undertake outreach with members that indicate an interest in joining the CtR assurance.

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

Table 2. Ukraine: Baseline Financing Gap and Sources

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

	2023	2024	2025	2026	2027Q1	Cumulative (prog. period) 1/
A. Financing gap	**42.5**	**42.7**	**26.2**	**17.2**	**2.4**	**121.8**
Underlying BoP Gap 2/	31.1	41.1	26.7	13.7	2.5	109.0
Gross international reserves (+ = accumulation)	11.4	1.6	-0.5	3.6	0.0	12.8
B. Official financing (excl. IMF) 3/ 4/	**38.0**	**32.7**	**21.1**	**11.1**	**0.7**	**94.4**
EU	19.5	0.0	0.0	0.0	0.0	14.7
US 5/	10.9	7.8	0.0	0.0	0.0	15.3
Japan 6/ 7/	3.6	4.3	0.0	0.0	0.0	7.9
Canada 8/	1.8	1.8	0.0	0.0	0.0	3.5
UK 6/	1.0	1.0	0.0	0.0	0.0	1.5
Norway	0.2	0.3	0.0	0.0	0.0	0.5
World Bank	0.7	0.0	0.0	0.0	0.0	0.5
Other 9/	0.2	17.5	21.1	11.1	0.7	50.4
C. IMF (prospective)	**4.5**	**5.4**	**1.8**	**2.6**	**1.3**	**15.6**
D. Potential flow relief from debt operations 10/	**0.0**	**4.6**	**3.2**	**3.6**	**0.5**	**11.8**
E. Residual financing gap (A-B-C-D)	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Memorandum items:						
Capital market access	0.0	0.0	0.0	0.0	0.0	0.0
IMF (net disbursements)	1.9	3.0	-0.5	0.6	1.0	4.0
Gross international reserves	40.5	42.1	41.6	45.1	45.1	…
% of composite metric	113.2	104.9	98.5	100.1	…	…

1/ Cumulative program period calculations begin from 2023Q2 through 2027Q1.

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

3/ Based on available information as of March 1, 2024. Staff assessments are consistent with technical discussions with creditors and donors and their track record and terms of financing.

4/ Official financing estimates from 2025Q2 assume creditor and donor flows for which there are good prospects.

5/ The US supplemental budget request for FY2024 (Oct. 1, 2023 - Sep. 30, 2024) included US$11.8 billion in direct budget support for Ukraine. On February 11, 2024, the US Senate passed a security supplemental budget bill allocating US$7.849 billion in budget support to Ukraine, subject to Congressional approval.

6/ Japan and UK support in 2024 is channeled via the World Bank in the form of credit enhancements (Japan) and guarantees (UK), as well as grants (Japan).

7/ Part of Japan's support for 2024 is subject to Diet approval. In addition to budget financing shown in the table, Japan has been providing interest capitalization—estimated at US$388 million over 2023-24—which supports interest payment relief to Ukraine for a maximum period of up to March 2027.

8/ Part of Canada's support for 2024 is subject to Parliamentary approval.

9/ For 2023, "Other" comprises grants channeled via the World Bank PEACE project from a range of bilateral official donors. For 2024-2027Q1, "Other" comprises financing assurances from donors, subject to domestic procedures, including parliamentary approval, where relevant. For 2024, it also includes US$6 million in loan financing channelled via the World Bank and guaranteed by Spain, as part of the €100 million IBRD loan approved in December 2022 under the Health Enhancement and Lifesaving (HEAL) project.

10/ For 2024, potential flow relief from debt operations comprises US$1.9 billion in debt service and US$2.7 billion in deferred payments arising from the initial stages of the standstill. For 2027, the flow relief was revised to reflect the projection for the program period only. Potential flow relief does not include GDP warrants.

Table 3. Ukraine: Baseline Financing Gap and Sources, 12-Month Basis

(Billions of U.S. dollars)

	24Q2 thru 25Q1
A. Financing gap	**39.2**
Underlying BoP Gap 1/	38.5
Gross international reserves (+ = accumulation)	0.7
B. Official financing (excl. IMF) 2/	**28.6**
US 3/	7.8
Japan 4/	2.2
Canada 5/	0.3
UK 4/	0.5
Other 6/	17.8
C. IMF (prospective)	**5.4**
D. Potential flow relief from debt operations	**5.2**
E. Residual financing gap (A-B-C-D)	**0.0**

1/ Underlying BOP gap indicates the decrease in reserves absent official financing and IMF support.
2/ Based on available information as of March 1, 2024. Prospective disbursements incorporate those for which there are firm commitments, and the USD equivalent is based on the January 2024 WEO exchange rate forecasts (where applicable).
3/ US commitment for 2024 (US$7.8 billion) is considered firm on the basis of the February 2024 security supplemental budget bill submitted by the US senate and subject to Congressional approval.
4/ Japan and UK support is channeled via the World Bank in the form of credit enhancements and guarantees, respectively.
5/ Subject to Parliamentary approval.
6/ "Other" comprises financing assurances from donors, including the EU and the US, subject to domestic procedures, including parliamentary approval, where relevant.

53. **Indicators of capacity to repay the Fund remain within similar ranges as at the Second Review.** Under the baseline scenario, the stock of total Fund credit is expected to peak at 8 percent of GDP and 35.8 percent of gross reserves in 2024. Debt service to the Fund would peak at 1.8 percent of GDP and 8.6 percent of gross reserves in 2025. A materialization of downside risks would increase these ratios: outstanding credit to the Fund would peak at 9.1 percent of GDP in 2026 and 43.8 percent of gross reserves in 2024, and debt service to the Fund at 2.2 percent of GDP in 2025 and 9 percent of gross reserves in 2024.

Table 4. Ukraine: Downside Financing Gap and Sources

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

	2023	2024	2025	2026	2027		2028	2029	2030	2031	2032	2033	Cumulative (prog. period) 1/
					Q1	Q2-Q4							
A. Financing gap	**42.5**	**49.2**	**31.9**	**22.1**	**4.1**	**8.1**	**15.2**	**12.8**	**12.3**	**10.0**	**9.7**	**9.3**	**140.6**
Underlying BOP Gap 2/	31.1	55.3	26.3	17.9	3.9	7.7	16.9	10.3	8.1	6.7	6.7	5.5	128.5
Gross international reserves (+ = accumulation)	11.4	-6.1	5.6	4.2	0.1	0.4	-1.7	2.5	4.2	3.4	3.1	3.8	12.1
B. Official financing (excl. IMF) 3/ 4/	**38.0**	**39.2**	**26.9**	**15.9**	**2.3**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**113.2**
C. IMF (prospective)	**4.5**	**5.4**	**1.8**	**2.6**	**1.3**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**15.6**
D. Potential flow relief from debt operations 5/	**0.0**	**4.6**	**3.2**	**3.6**	**0.5**	**2.8**	**8.0**	**5.7**	**5.1**	**2.9**	**2.6**	**2.1**	**11.8**
E. Adjusted financing gap (A-B-C-D)	**...**	**...**	**...**	**...**	**...**	**5.3**	**7.1**	**7.1**	**7.1**	**7.1**	**7.1**	**7.1**	**...**
F. Exceptional financing 6/	**...**	**...**	**...**	**...**	**...**	**5.3**	**7.1**	**7.1**	**7.1**	**7.1**	**7.1**	**7.1**	**...**
G. Residual financing gap (E-F)	**...**	**...**	**...**	**...**	**...**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Memorandum items:													
Capital market access	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.0	2.0	2.0	2.0	2.0	0.0
IMF (net disbursements)	1.9	3.0	-0.5	0.6	1.0	-0.9	-1.0	-1.7	-2.1	-2.5	-2.6	-2.3	4.0
Gross international reserves	40.5	34.4	40.0	44.2	44.3	44.8	43.1	45.6	49.8	53.2	56.2	60.0	...
% of composite metric	113.2	87.3	96.9	100.4	...	100.1	94.8	96.3	103.5	107.4	111.8	116.9	...

1/ Cumulative program period calculations begin from 2023Q2 through 2027Q1.
2/ Underlying BOP gap indicates the decrease in reserves absent official financing and IMF support.
3/ Based on available information as of March 1, 2024. Staff assessments are consistent with technical discussions with creditors and donors and their track record and terms of financing.
4/ Includes exceptional support from donors (approximately 80 percent in concessional loans, 20 percent in grants) under financing assurances required to restore debt sustainability.
5/ For 2024, potential flow relief from debt operations comprises US$1.9 billion in debt service and US$2.7 billion in deferred payments arising from the initial stages of the standstill. For 2027, the flow relief is broken down across the program and post-program period. Potential flow relief does not include GDP warrants.
6/ Exceptional financing would include a mix of higher program period grants (which reduces debt service subsequently), a larger second-stage restructuring, and additional financing (consistent with assurances received). For 2027, exceptional financing of US$5.3 billion is assumed over the post-program period 2027Q2-Q4.

E. Capacity Development

54. The Ukraine Capacity Development Fund (UCDF) has been formally launched, enabling the scaling up of IMF CD in support of the authorities' reform agenda.[5] The UCDF was officially launched at the inaugural Steering Committee meeting held in Kyiv on February 13, 2024. The UCDF's multiyear workplan focuses on core areas of the authorities' economic and financial reform agenda, and is well aligned with reforms under the EFF. These include implementing reforms in fiscal, monetary, and financial sector policies; strengthening financial integrity and tackling corruption; improving data compilation and dissemination; as well as country-tailored training and technical assistance on macroeconomic frameworks. The initial CD workplan funding amounts to US$27.5 million, with expectations that the target of US$65 million will be reached. Current resources supported by bilateral contributions totaling US$16.5 million are being provided by the Netherlands, Slovakia, Latvia, Japan, and Lithuania. Additional resources totaling US$17 million have been pledged by other donor partners agreements on which are being finalized. These resources will help cover IMF CD operations over five years (2024–28).

[5] See Box 3. Ukraine — Scaling up CD: Financing, Prioritization, and Coordination in Ukraine: 2023 Article IV Consultation, Second Review Under the Extended Arrangement Under the Extended Fund Facility.

STAFF APPRAISAL

55. Ukraine's economy has remained resilient to the various war-related shocks, but there are challenging headwinds ahead. Activity was more vigorous than expected and inflation fell steeply last year. This performance occurred despite the staggering challenges from massive and growing damages arising from the Russian invasion, volatility around external financing, and disruption from blockades along the Western border. However, the continuing uncertainty regarding the war and external budget support are exerting more significant headwinds and will likely temper the pace of recovery this year.

56. Despite the difficult circumstances, the authorities were able to deliver a strong performance under the Extended Arrangement's Third Review. They achieved all but one of the end-December 2023 QPCs. The miss on the tax collections QPC was minor, including as the end-March 2024 target appears on track. Critical structural fiscal and governance reforms were also completed.

57. Timely disbursement of committed external financing is critical to maintain macroeconomic stability. While the approval of the EU's Ukraine Facility is very welcome, the delays from protracted budgetary discussions in several key partner countries has compelled the authorities to take temporary but difficult measures to reconcile budget execution with available resources. Prolonged external financing delays would create significant challenges for budget execution and macroeconomic stability.

58. The approved budget remains an appropriate anchor for fiscal policies in 2024, but the authorities should be prepared to respond to shocks. If liquidity strains continue or adverse shocks materialize, decisive actions would be needed including through domestic efforts on revenues and market financing. With less abundant external financing in 2025, the next budget will require major efforts to mobilize revenues to meet still substantial expenditure requirements and contribute to restoring fiscal and debt sustainability.

59. Continued momentum on fiscal structural reforms will help mobilize revenue, contain fiscal risks, and support development goals and reconstruction. The adoption of the NRS last December was a major step forward to mobilize revenues. Efforts to implement the NRS, particularly to strengthen tax and customs administration, should continue. Further controlling fiscal risks should include improvements to the Business Development Fund's governance and ringfencing risks from the 5-7-9 lending program as well as moving ahead with reforms to public investment management.

60. The debt restructuring should proceed consistent with program parameters to deliver debt sustainability in both the baseline and the downside scenarios. The authorities' intention to begin discussions with external commercial creditors soon is welcome, and sufficient debt relief, along with fiscal adjustment and an appropriately concessional financing mix in the future should help bring public debt and financing needs to sustainable levels.

61. Monetary policy can be further eased and increased flexibility can help the exchange rate fulfill its shock-absorbing function. The recent disinflation and well anchored inflation expectations suggest scope for further cuts to the key policy rate while maintaining positive real rates. Greater exchange rate flexibility, with well-calibrated FX intervention, will increase economic resilience, prevent external imbalances, and safeguard FX reserves. Maintaining the NBU's staged approach to relaxing FX controls in line with the Strategy is appropriate.

62. Continued careful surveillance of the financial system will help contain risks to stability. The system remains stable and liquid, and most capital needs identified by the NBU's December 2023 Resilience Assessment have already been addressed. Efforts to strengthen financial sector safety nets and to deepen financial market infrastructure and oversight should continue.

63. Strengthening governance, anti-corruption, and management of SOEs are essential to making progress on important development objectives. Achieving robust and sustained growth over the medium term and pursuing EU accession will need determined actions on deep reforms that tackle longstanding corruption. Reforms to strengthen SOE management and governance issues will be essential to improving performance and containing fiscal risks.

64. Staff supports the authorities' requests for a waiver of non-observance of a QPC, modifications of two QPCs and one SB, the resetting of three SBs, and the completion of the Third Review under the Extended Arrangement. The authorities' strong performance under the program, their enduring commitment to maintaining appropriate policies as well as commitments from donors provide confidence that the program remains on track to meet its objectives.

Table 5. Ukraine: Structural Benchmarks (modified SBs in bold text; purple indicates new timing)

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

Table 5. Ukraine: Structural Benchmarks (continued)				
	Structural Benchmark	**Sector**	**Timing**	**Status**
13	Strengthen bank governance and oversight by: (i) separating the related-parties-unit from banking supervision; (ii) implementing "supervisory panels" as a consulting body to the Supervisory Committee; and (iii) resume scheduled inspections for both banking and non-banking institutions, while ensuring NBU discretion on matters related to staff safety	Financial Sector	End-September 2023	Met
14	MOF, with STS and SCS, to prepare an action plan, including short-term and medium-term measures covering key reform areas identified by the upcoming diagnostic, that would feed into broader NRS.	Fiscal	End-October 2023	Met
15	Update and publish the Medium-Term Debt Management Strategy to align it with the program objectives	Fiscal	End-October 2023	Met
16	Simplify the asset declaration system through linking with other databases and registers consistent with the public officials' legal obligations to make truthful and timely submissions	Governance/ Anti-Corruption	End-October 2023	Met
17	Select and appoint a supervisory board for the GTSO	Energy/ Corporate Governance	End-October 2023	Met
18	Review the current PIM procedures and develop a roadmap of measures so that: (i) all public investment projects follow unified PIM approaches, including PPPs; (ii) investment projects are selected on a competitive basis, with transparent selection criteria, and consistent with the medium-term budget framework; (iii) stronger powers are provided to MOF, including a clear gatekeeping role during the different stages of the investment project cycle.	Fiscal	End-December 2023	Met

Table 5. Ukraine: Table of Structural Benchmarks (continued)

	Structural Benchmark	Sector	Timing	Status
19	Adopt the National Revenue Strategy	Fiscal	End-December 2023	**Met**
20	Adopt legislation to enhance the institutional autonomy and effectiveness of the SAPO by being designated as a separate legal entity, and specifically, on the selection procedures, capacity to regulate organizational activities, mechanisms for discipline and accountability, and autonomy under the criminal procedural code	Governance/ Anti-Corruption	End-December 2023	**Met**
21	Based on findings of the revenue working group, prepare short-term revenue measures (tax and non-tax) with yields of at least 0.5 percent of GDP ready to be included in budget 2024	Fiscal	End-February 2024	**Met**
22	Develop a concept note on the 5-7-9 program with proposals to target small and medium enterprises by phasing out the eligibility of large companies, enhance monitoring, and maintain adequate safeguards.	Fiscal	End-March 2024	
23	Adopt a new law (consistent with ¶27 of the MEFP) on the ESBU that has a clear mandate and scope for investigative powers consistent with good practice by focusing on major economic crimes; establishing legal basis for operation of the ESBU in terms of the selection of management and staff. The law will respect the existing delineation between the investigative powers of the ESBU and the National Anti-corruption Bureau of Ukraine (NABU).	Fiscal	End-June 2024	
24	Prepare an assessment of the effectiveness of tax privileges, including their cost to the budget, in order to have a unified reform approach	Fiscal	End-July 2024	
25	Identify major public companies severely affected by the war and prepare a review of potential fiscal and quasi-fiscal costs	Fiscal	End-September 2024	
26	With the help of IMF TA, produce a diagnostic review of pre-war MTBF policies and practices relative to best practices.	Fiscal	End-October 2024	
27	Based on the outcomes of a roadmap on development of PIM procedures, adopt a government decree with an action plan and timeline that provides clear linkages between MTBF and capital expenditures, including reconstruction priorities, and specifying the gatekeeper role of the MOF.	Fiscal	End-December 2024	
28	**All systemic banks with majority state ownership will fall under the responsibility of the MOF, and any non-systemic banks that come under state ownership will not be recapitalized using fiscal resources and will be transferred to the DGF for resolution upon breach of prudential requirements.**	Financial Sector	Continuous	***Modify***

Table 5. Ukraine: Table of Structural Benchmarks (concluded)				
	Structural Benchmark	**Sector**	**Timing**	**Status**
29	Prepare a bank rehabilitation framework in consultation with the DGF and IMF staff	Financial Sector	End-December 2024	
30	**Implement a supervisory risk assessment methodology to inform supervisory engagement priorities**	Financial Sector	***End-December 2024***	***Reset (from end-June)***
31	Determine the stock of arrears and assess financial conditions of District Heating Companies (DHCs) through a desk review by a reputable audit firm, including by separating arrears until and after February 2022.	Energy	End-June 2024	
32	**Enact amendments to the procedural code to rationalize matters or issues to be heard at the first instance by one anti-corruption judge or by a panel of three anti-corruption judges.**	Governance/ Anti-Corruption	***End-April 2024***	***Reset (from end-March)***
33	Enact a law to establish a new court that will hear administrative cases against national state agencies (e.g., NBU, NABU, NACP) by judges who have been properly vetted for professional competence and integrity.	Governance/ Anti-Corruption	End-July 2024	
34	Complete an external audit of the National Anti-Corruption Bureau of Ukraine's effectiveness with participation of three independent experts with international experience and publish its report.	Governance/ Anti-Corruption	End-September 2024	
35	**Produce a SOE state ownership policy, dividend policy and privatization strategy**	SOE Corporate Governance	***End-October 2024***	***Reset (from end-August)***

Table 6. Ukraine: Selected Economic and Social Indicators (Baseline Scenario), 2021–2033

	2021	2022	2023		2024		2025	2026	2027	2028	2029	2030	2031	2032	2033
	Act.	Act.	EFF 2nd Review	Proj.	EFF 2nd Review	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Real economy (percent change, unless otherwise indicated)															
Nominal GDP (billions of Ukrainian hryvnias) 1/	5,451	5,191	6,434	6,495	7,640	7,748	8,865	9,841	10,798	11,825	12,938	14,142	15,443	16,864	18,416
Real GDP 1/	3.4	-29.1	4.5	5.0	[3 to 4]	[3 to 4]	6.5	5.0	4.5	4.3	4.2	4.1	4.0	4.0	4.0
Contributions:															
Domestic demand	12.9	-23.7	8.3	8.6	4.1	3.3	5.3	3.8	3.4	3.4	3.1	3.0	2.6	2.5	2.4
Private consumption	4.7	-16.6	2.7	2.7	2.9	2.6	3.0	2.8	2.8	2.5	2.2	2.0	1.7	1.7	1.6
Public consumption	0.1	6.9	2.6	2.8	-1.1	-1.1	-1.8	-0.6	-0.1	0.0	0.0	0.0	0.0	0.0	0.0
Investment	8.1	-14.0	3.0	3.1	2.3	1.8	4.1	1.6	0.6	1.0	0.8	0.9	0.8	0.8	0.8
Net exports	-9.5	-5.4	-3.8	-3.6	-0.6	-0.1	1.1	1.2	1.1	0.9	1.1	1.1	1.4	1.5	1.6
GDP deflator	24.8	34.3	18.6	19.2	14.7	15.6	7.5	5.7	5.0	5.0	5.0	5.0	5.0	5.0	5.0
Unemployment rate (ILO definition; period average, percent)	9.8	24.5	19.1	19.1	13.9	14.5	13.8	11.6	10.4	9.2	8.8	8.6	8.5	8.5	8.5
Consumer prices (period average)	9.4	20.2	13.0	12.9	7.7	6.4	7.6	6.2	5.2	5.0	5.0	5.0	5.0	5.0	5.0
Consumer prices (end of period)	10.0	26.6	6.0	5.1	9.5	8.5	7.0	5.5	5.0	5.0	5.0	5.0	5.0	5.0	5.0
Nominal wages (average)	20.8	1.0	20.1	20.1	16.8	16.9	15.9	13.3	10.5	9.7	9.2	9.2	9.2	9.2	9.2
Real wages (average)	10.5	-16.0	6.3	6.4	8.5	9.8	7.8	6.7	5.0	4.5	4.0	4.0	4.0	4.0	4.0
Savings (percent of GDP)	12.5	17.6	11.9	10.8	11.0	11.9	10.8	13.5	16.2	16.9	18.0	18.8	19.4	20.1	20.7
Private	12.7	30.8	27.3	25.8	24.4	23.4	13.7	13.8	14.8	14.6	15.0	15.1	15.2	15.6	16.2
Public	-0.2	-13.2	-15.4	-14.9	-13.4	-11.5	-2.9	-0.2	1.4	2.3	3.0	3.7	4.2	4.5	4.5
Investment (percent of GDP)	14.5	12.6	16.5	16.3	18.0	17.6	19.0	20.5	21.3	21.9	22.5	22.9	23.3	23.7	24.1
Private	10.7	10.1	13.4	11.5	15.7	15.4	14.5	16.0	16.4	17.0	17.1	17.5	17.8	18.2	18.7
Public	3.8	2.5	3.1	4.8	2.3	2.3	4.5	4.5	4.9	4.9	5.3	5.5	5.5	5.5	5.5
General Government (percent of GDP)															
Fiscal balance 2/	-4.0	-15.7	-18.6	-19.7	-15.7	-13.7	-7.3	-4.7	-3.5	-2.6	-2.3	-1.8	-1.3	-1.1	-0.9
Fiscal balance, excl. grants 2/	-4.0	-25.0	-27.1	-26.3	-20.4	-20.2	-10.3	-6.0	-4.7	-3.5	-3.0	-2.5	-1.9	-1.7	-1.5
External financing (net)	2.4	10.8	17.0	16.4	13.7	11.8	6.5	3.5	0.4	-0.9	0.9	1.4	0.8	0.6	0.9
Domestic financing (net), of which:	1.6	5.1	1.5	3.1	2.1	2.0	0.9	1.2	3.1	3.6	1.4	0.3	0.5	0.5	0.0
NBU	-0.3	7.4	-0.2	-0.2	-0.2	-0.2	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.3
Commercial banks	1.5	-1.5	2.0	2.6	2.2	2.0	0.6	1.2	2.4	3.2	1.2	0.2	0.4	0.4	0.1
Public and publicly-guaranteed debt	50.5	78.4	87.1	82.9	96.7	94.0	96.7	95.9	93.8	91.2	88.2	84.5	80.6	76.6	72.5
Money and credit (end of period, percent change)															
Base money	11.2	19.6	22.6	23.3	39.9	18.5	15.5	11.8	9.0	8.0	6.8	6.5	6.0	5.5	4.9
Broad money	12.0	20.8	22.8	23.0	17.7	18.7	13.5	11.9	10.6	9.5	9.4	9.3	9.2	9.2	9.2
Credit to nongovernment	8.4	-3.1	-7.5	-0.5	-15.8	8.5	17.7	18.2	13.4	12.9	12.9	15.5	15.5	17.6	17.6
Balance of payments (percent of GDP)															
Current account balance	-1.9	5.0	-4.6	-5.5	-7.1	-5.7	-8.2	-7.0	-5.1	-5.0	-4.5	-4.1	-3.9	-3.7	-3.4
Foreign direct investment	3.8	0.1	1.9	2.4	1.2	2.2	2.6	4.9	5.0	5.6	5.3	5.1	4.7	4.6	4.4
Gross reserves (end of period, billions of U.S. dollars)	30.9	28.5	39.5	40.5	40.9	42.1	41.6	45.1	45.0	43.1	45.7	49.9	53.2	56.4	60.1
Months of next year's imports of goods and services	4.5	3.9	5.1	5.3	5.3	5.4	5.2	5.4	5.1	4.7	4.8	5.0	5.1	5.1	5.3
Percent of short-term debt (remaining maturity)	67.5	64.5	85.4	87.3	94.1	98.7	91.0	102.5	97.8	83.0	92.5	95.6	104.0	109.4	105.5
Percent of the IMF composite metric (float)	98.9	92.9	109.7	113.2	99.0	104.9	98.5	100.1	97.6	92.0	93.4	100.1	103.4	107.5	111.9
Goods exports (annual volume change in percent)	35.0	-43.8	-15.3	-16.1	17.9	18.5	2.6	15.8	7.0	9.8	7.8	9.0	8.5	8.2	8.0
Goods imports (annual volume change in percent)	17.0	-24.7	21.2	21.1	8.3	11.0	9.2	9.3	10.0	4.3	3.0	4.6	4.9	4.7	4.9
Goods terms of trade (percent change)	-8.4	-11.6	4.3	3.6	-0.5	0.9	-1.0	0.7	0.7	0.3	0.0	0.0	0.0	0.0	0.0
Exchange rate															
Hryvnia per U.S. dollar (end of period)	27.3	36.6	39.3	38.0	...	...	...	...	...	...	...	...	...	...	...
Hryvnia per U.S. dollar (period average)	27.3	32.3	36.9	36.7	...	...	...	...	...	...	...	...	...	...	...
Real effective rate (deflator-based, percent change)	10.3	27.6	-0.6	-0.3	...	...	...	...	...	...	...	...	...	...	...

Memorandum items:
Per capita GDP / Population (2017): US$2,640 / 44.8 million
Literacy / Poverty rate (2022 est 3/): 100 percent / 25 percent

Sources: Ukrainian authorities; World Bank, World Development Indicators; and IMF staff estimates.
1/ GDP is compiled as per SNA 2008 and excludes territories that are or were in direct combat zones and temporarily occupied by Russia (consistent with the TMU).
2/ The general government includes the central and local governments and the social funds.
3/ Based on World Bank estimates.

Table 7a. Ukraine: General Government Finances (Baseline Scenario), 2021–2033 1/

(Billions of Ukrainian Hryvnia)

	2021	2022	2023		2024		2025	2026	2027	2028	2029	2030	2031	2032	2033
	Act.	Act.	EFF 2nd Review	Proj.	EFF 2nd Review	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Revenue	1,990	2,609	2,935	3,583	3,220	3,376	3,682	4,006	4,447	4,849	5,272	5,744	6,231	6,782	7,415
Tax revenue	1,825	1,782	2,144	2,139	2,651	2,651	3,185	3,621	4,041	4,441	4,849	5,292	5,748	6,267	6,863
Tax on income, profits, and capital gains	514	551	647	656	803	803	908	1,038	1,155	1,281	1,415	1,555	1,693	1,854	2,045
Personal income tax	350	421	490	496	582	582	665	753	837	924	1,023	1,127	1,226	1,344	1,478
Corporate profit tax	164	131	156	159	221	221	243	285	318	358	391	428	467	510	567
Social security contributions	358	430	485	489	592	592	674	734	756	826	898	996	1,047	1,132	1,241
Property tax	43	37	44	44	46	46	51	50	55	50	56	51	51	52	52
Tax on goods and services	731	592	803	784	1,022	1,022	1,309	1,502	1,729	1,905	2,067	2,260	2,507	2,758	3,013
VAT	536	467	599	581	788	788	1,006	1,123	1,269	1,397	1,515	1,658	1,848	2,040	2,221
Excise	180	115	189	190	219	219	287	362	442	489	531	581	637	695	767
Other	14	10	15	14	15	15	16	17	18	19	20	22	23	24	25
Tax on international trade	38	26	42	41	49	49	71	81	102	110	127	138	149	161	179
Other tax	140	145	124	126	139	139	173	216	243	268	287	291	300	310	334
Nontax revenue	166	827	791	1,444	569	725	497	384	406	408	422	451	482	516	552
Grants	1	481	551	425	360	498	258	124	125	105	95	98	102	105	108
Expenditure	2,207	3,426	4,129	4,865	4,423	4,440	4,333	4,471	4,830	5,161	5,568	5,995	6,427	6,960	7,588
Current	1,995	3,298	3,912	4,562	4,155	4,155	3,766	3,967	4,227	4,500	4,795	5,111	5,456	5,899	6,435
Compensation of employees	516	1,240	1,641	1,479	1,504	1,504	833	867	940	967	1,031	1,082	1,182	1,287	1,406
Goods and services	483	848	864	1,674	918	918	958	944	930	950	1,052	1,115	1,222	1,332	1,423
Interest	155	162	260	254	430	430	400	395	399	406	430	437	424	428	436
Subsidies to corporations and enterprises	116	131	144	158	165	165	147	154	162	171	149	157	164	173	181
Social benefits	724	917	1,003	996	1,136	1,136	1,426	1,605	1,793	2,004	2,130	2,317	2,460	2,677	2,985
Social programs (on budget)	154	285	246	241	209	209	460	603	699	785	846	926	979	1,091	1,260
Pensions	519	583	747	746	899	899	937	971	1,061	1,185	1,249	1,354	1,442	1,545	1,682
Unemployment, disability, and accident insurance	52	48	9	9	27	27	29	31	32	34	35	37	39	41	43
Other current expenditures	1	1	1	1	2	2	2	2	2	3	3	3	3	3	3
Capital	207	130	202	312	177	177	397	441	534	585	690	774	850	928	1,009
Net lending	5	-2	0	-9	31	31	130	19	21	23	25	47	52	57	62
Contingency reserve 2/	0	0	15	0	60	78	40	44	48	53	58	63	69	76	82
General government overall balance	-216	-817	-1,194	-1,282	-1,203	-1,064	-651	-465	-383	-312	-296	-252	-196	-177	-173
General government overall balance, excluding grants	-218	-1,299	-1,745	-1,707	-1,562	-1,562	-909	-589	-508	-416	-391	-350	-297	-282	-281
General government financing	216	817	1,194	1,282	1,203	1,064	651	465	383	312	296	252	196	177	173
External	132	560	1,097	1,078	1,043	911	573	348	44	-109	115	205	124	100	174
Disbursements	239	615	1,170	1,151	1,231	1,126	844	655	397	268	588	666	686	707	728
Amortizations and other external payments	-108	-55	-73	-74	-188	-215	-271	-307	-352	-377	-473	-461	-563	-607	-554
Domestic (net)	85	263	97	204	159	152	78	117	338	421	181	47	72	77	-1
Bond financing 3/	66	295	89	183	155	148	72	111	332	415	175	41	66	71	-7
o/w NBU	-14	383	-15	-15	-12	-12	-13	-12	-12	-11	-12	-12	-12	-12	-47
o/w Commercial banks	80	-77	128	167	168	152	53	120	263	382	158	28	55	63	22
Direct bank borrowing	30	-2	0	-7	0	0	0	0	0	0	0	0	0	0	0
Deposit finance	-19	-37	0	-59	0	0	0	0	0	0	0	0	0	0	0
Privatization and other items	7	20	8	87	4	4	6	6	6	6	6	6	6	6	6
Financing Gap/unindentified measures (-gap/+surplus)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Memorandum items:															
Primary balance	-62	-655	-934	-1,028	-773	-634	-250	-71	16	94	134	185	228	250	263
Public and publicly-guaranteed debt	2,754	4,003	5,602	5,383	7,392	7,287	8,574	9,440	10,130	10,783	11,410	11,954	12,447	12,923	13,354
Nominal GDP (billions of Ukrainian hryvnia)	5,451	5,191	6,434	6,495	7,640	7,748	8,865	9,841	10,798	11,825	12,938	14,142	15,443	16,864	18,416

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

1/ National methodology, cash basis.

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

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

Table 7b. Ukraine: General Government Finances (Baseline Scenario), 2021–2033 [1/]

(Percent of GDP)

	2021	2022	2023		2024		2025	2026	2027	2028	2029	2030	2031	2032	2033
	Act.	Act.	EFF 2nd Review	Proj.	EFF 2nd Review	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Revenue	36.5	50.3	45.6	55.2	42.1	43.6	41.5	40.7	41.2	41.0	40.7	40.6	40.3	40.2	40.3
Tax revenue	33.5	34.3	33.3	32.9	34.7	34.2	35.9	36.8	37.4	37.6	37.5	37.4	37.2	37.2	37.3
Tax on income, profits, and capital gains	9.4	10.6	10.0	10.1	10.5	10.4	10.2	10.5	10.7	10.8	10.9	11.0	11.0	11.0	11.1
Personal income tax	6.4	8.1	7.6	7.6	7.6	7.5	7.5	7.7	7.8	7.8	7.9	8.0	7.9	8.0	8.0
Corporate profit tax	3.0	2.5	2.4	2.5	2.9	2.8	2.7	2.9	2.9	3.0	3.0	3.0	3.0	3.0	3.1
Social security contributions	6.6	8.3	7.5	7.5	7.7	7.6	7.6	7.5	7.0	7.0	6.9	7.0	6.8	6.7	6.7
Property tax	0.8	0.7	0.7	0.7	0.6	0.6	0.6	0.5	0.5	0.4	0.4	0.4	0.3	0.3	0.3
Tax on goods and services	13.4	11.4	12.5	12.1	13.4	13.2	14.8	15.3	16.0	16.1	16.0	16.0	16.2	16.4	16.4
VAT	9.8	9.0	9.3	8.9	10.3	10.2	11.3	11.4	11.8	11.8	11.7	11.7	12.0	12.1	12.1
Excise	3.3	2.2	2.9	2.9	2.9	2.8	3.2	3.7	4.1	4.1	4.1	4.1	4.1	4.1	4.2
Other	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.1	0.1	0.1
Tax on international trade	0.7	0.5	0.6	0.6	0.6	0.6	0.8	0.8	0.9	0.9	1.0	1.0	1.0	1.0	1.0
Other tax	2.6	2.8	1.9	1.9	1.8	1.8	1.9	2.2	2.3	2.3	2.2	2.1	1.9	1.8	1.8
Nontax revenue	3.0	15.9	12.3	22.2	7.4	9.4	5.6	3.9	3.8	3.4	3.3	3.2	3.1	3.1	3.0
Grants	0.0	9.3	8.6	6.6	4.7	6.4	2.9	1.3	1.2	0.9	0.7	0.7	0.7	0.6	0.6
Expenditure	40.5	66.0	64.2	74.9	57.9	57.3	48.9	45.4	44.7	43.6	43.0	42.4	41.6	41.3	41.2
Current	36.6	63.5	60.8	70.2	54.4	53.6	42.5	40.3	39.1	38.1	37.1	36.1	35.3	35.0	34.9
Compensation of employees	9.5	23.9	25.5	22.8	19.7	19.4	9.4	8.8	8.7	8.2	8.0	7.7	7.7	7.6	7.6
Goods and services	8.9	16.3	13.4	25.8	12.0	11.9	10.8	9.6	8.6	8.0	8.1	7.9	7.9	7.9	7.7
Interest	2.8	3.1	4.0	3.9	5.6	5.5	4.5	4.0	3.7	3.4	3.3	3.1	2.7	2.5	2.4
Subsidies to corporations and enterprises	2.1	2.5	2.2	2.4	2.2	2.1	1.7	1.6	1.5	1.4	1.2	1.1	1.1	1.0	1.0
Social benefits	13.3	17.7	15.6	15.3	14.9	14.7	16.1	16.3	16.6	16.9	16.5	16.4	15.9	15.9	16.2
Social programs (on budget)	2.8	5.5	3.8	3.7	2.7	2.7	5.2	6.1	6.5	6.6	6.5	6.5	6.3	6.5	6.8
Pensions	9.5	11.2	11.6	11.5	11.8	11.6	10.6	9.9	9.8	10.0	9.7	9.6	9.3	9.2	9.1
Unemployment, disability, and accident insurance	1.0	0.9	0.1	0.1	0.4	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.2	0.2
Other current expenditures	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Capital	3.8	2.5	3.1	4.8	2.3	2.3	4.5	4.5	4.9	4.9	5.3	5.5	5.5	5.5	5.5
Net lending	0.1	0.0	0.0	-0.1	0.4	0.4	1.5	0.2	0.2	0.2	0.2	0.3	0.3	0.3	0.3
Contingency reserve 2/	0.0	0.0	0.2	0.0	0.8	1.0	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4
General government overall balance	-4.0	-15.7	-18.6	-19.7	-15.7	-13.7	-7.3	-4.7	-3.5	-2.6	-2.3	-1.8	-1.3	-1.1	-0.9
General government overall balance, excluding grants	-4.0	-25.0	-27.1	-26.3	-20.4	-20.2	-10.3	-6.0	-4.7	-3.5	-3.0	-2.5	-1.9	-1.7	-1.5
General government financing	4.0	15.7	18.6	19.7	15.7	13.7	7.3	4.7	3.5	2.6	2.3	1.8	1.3	1.1	0.9
External	2.4	10.8	17.0	16.6	13.7	11.8	6.5	3.5	0.4	-0.9	0.9	1.4	0.8	0.6	0.9
Disbursements	4.4	11.8	18.2	17.7	16.1	14.5	9.5	6.7	3.7	2.3	4.5	4.7	4.4	4.2	4.0
Amortizations and other external payments	-2.0	-1.1	-1.1	-1.1	-2.5	-2.8	-3.1	-3.1	-3.3	-3.2	-3.7	-3.3	-3.6	-3.6	-3.0
Domestic (net)	1.6	5.1	1.5	3.1	2.1	2.0	0.9	1.2	3.1	3.6	1.4	0.3	0.5	0.5	0.0
Bond financing 3/	1.2	5.7	1.4	2.8	2.0	1.9	0.8	1.1	3.1	3.5	1.4	0.3	0.4	0.4	0.0
o/w NBU	-0.3	7.4	-0.2	-0.2	-0.2	-0.2	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.3
o/w Commercial banks	1.5	-1.5	2.0	2.6	2.2	2.0	0.6	1.2	2.4	3.2	1.2	0.2	0.4	0.4	0.1
Direct bank borrowing	0.6	0.0	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Deposit finance	-0.3	-0.7	0.0	-0.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Privatization and other items	0.1	0.4	0.1	1.3	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0
Financing Gap/undidentified measures (-gap/+surplus)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:															
Primary balance	-1.1	-12.6	-14.5	-15.8	-10.1	-8.2	-2.8	-0.7	0.2	0.8	1.0	1.3	1.5	1.5	1.4
Public and publicly-guaranteed debt	48.9	78.4	87.1	82.9	96.7	94.0	96.7	95.9	93.8	91.2	88.2	84.5	80.6	76.6	72.5
Nominal GDP (billions of Ukrainian hryvnia)	5,451	5,191	6,434	6,495	7,640	7,748	8,865	9,841	10,798	11,825	12,938	14,142	15,443	16,864	18,416

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

1/ National methodology, cash basis.

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

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

Table 8a. Ukraine: Balance of Payments (Baseline Scenario), 2021–2033 [1/ 2/]

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

	2021	2022	2023		2024		2025	2026	2027	2028	2029	2030	2031	2032	2033
	Act.	Act.	EFF 2nd Review	Proj.	EFF 2nd Review	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Current account balance	-3.9	8.0	-8.1	-9.8	-13.1	-10.8	-15.9	-14.1	-11.0	-11.3	-10.7	-10.4	-10.5	-10.4	-10.3
Goods (net)	-6.6	-14.7	-29.9	-28.8	-29.4	-28.7	-34.8	-34.8	-39.1	-37.7	-36.0	-35.0	-34.2	-33.3	-32.4
Exports	63.1	40.9	34.7	34.5	40.9	40.8	41.9	48.5	51.9	57.0	61.4	67.0	72.7	78.6	84.9
Imports	-69.8	-55.6	-64.6	-63.3	-70.3	-69.6	-76.8	-83.4	-91.0	-94.7	-97.5	-101.9	-106.9	-111.9	-117.4
Services (net)	4.0	-11.1	-9.6	-8.9	-5.0	-4.6	2.9	9.1	16.0	16.6	17.1	17.6	18.0	18.5	18.9
Receipts	18.4	16.6	16.3	16.4	17.0	16.9	19.0	22.3	25.9	27.5	29.1	30.3	31.5	32.8	34.1
Payments	-14.4	-27.7	-25.9	-25.3	-22.0	-21.5	-16.1	-13.2	-9.9	-10.9	-12.0	-12.7	-13.5	-14.3	-15.1
Primary income (net)	-5.8	8.5	7.0	5.5	6.0	2.6	3.7	3.3	3.6	2.9	2.3	1.9	1.5	1.2	1.0
Secondary income (net)	4.6	25.2	24.5	22.5	15.2	19.9	12.4	8.3	8.4	6.9	5.9	5.0	4.1	3.2	2.2
Capital account balance	0.0	0.2	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial account balance	-5.8	8.5	-18.9	-20.7	-15.7	-13.4	-15.2	-16.7	-10.3	-9.5	-13.2	-15.7	-15.1	-14.8	-15.2
Direct investment (net)	-7.5	-0.2	-3.3	-4.2	-2.2	-4.2	-5.0	-10.0	-10.7	-12.6	-12.6	-12.8	-12.7	-12.9	-13.1
Portfolio investment (net)	-1.1	2.0	1.5	2.7	0.8	1.5	2.2	2.4	2.8	3.2	1.1	0.3	0.4	-0.1	0.0
Portfolio investment: assets	-0.1	0.6	0.9	2.3	0.0	0.2	0.7	0.1	1.6	0.8	0.5	0.4	0.4	0.4	0.3
Portfolio investment: liabilities	1.0	-1.4	-0.6	-0.5	-0.8	-1.3	-1.5	-2.3	-1.2	-2.4	-0.5	0.1	0.0	0.5	0.3
Financial derivatives (net)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other investment (net)	2.9	6.7	-17.1	-19.2	-14.2	-10.7	-12.4	-9.1	-2.3	-0.1	-1.7	-3.2	-2.8	-1.8	-2.1
Other investment: assets	7.7	21.0	15.2	11.3	14.8	14.8	4.1	3.2	3.0	2.3	2.2	1.3	0.3	0.4	0.6
Other investment: liabilities	4.9	14.3	32.3	30.5	29.0	25.5	16.5	12.3	5.4	2.4	3.9	4.6	3.2	2.2	2.7
Net use of IMF resources for budget support	0.2	2.3	3.6	3.6	4.0	4.0	-0.6	-0.4	-0.5	-1.0	-1.7	-1.0	-1.3	-1.3	-1.2
Central Bank	2.7	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
General government	1.5	14.7	26.8	25.9	23.0	20.5	16.1	10.8	4.8	2.8	5.0	5.0	3.8	2.9	3.2
Banks 3/	0.4	-0.4	-0.2	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other sectors	0.0	-2.2	2.2	1.1	1.9	0.9	0.9	1.8	1.0	0.6	0.6	0.6	0.6	0.6	0.6
Errors and omissions	1.8	-0.3	1.6	1.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Unidentified financing need	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	3.7	-0.6	12.6	13.0	2.5	2.6	-0.7	2.6	-0.7	-1.8	2.5	5.3	4.6	4.4	4.9
Financing	-3.7	0.6	-12.6	-13.0	-2.5	-2.6	0.7	-2.6	0.7	1.8	-2.5	-5.3	-4.6	-4.4	-4.9
Gross official reserves (increase: -)	-2.8	2.2	-11.0	-11.4	-1.5	-1.6	0.5	-3.6	0.2	1.8	-2.5	-4.2	-3.3	-3.1	-3.8
Net use of IMF resources for BOP support	-0.9	-1.6	-1.6	-1.6	-1.0	-1.0	0.1	1.0	0.6	0.0	0.0	-1.0	-1.3	-1.3	-1.2
Memorandum items:															
Current account balance excluding grants	-3.9	-6.0	-23.0	-21.4	-21.9	-23.0	-21.5	-16.7	-13.5	-13.3	-12.4	-12.2	-12.3	-12.1	-12.0
Current account balance (percent of GDP)	-1.9	5.0	-4.6	-5.5	-7.1	-5.7	-8.2	-7.0	-5.1	-5.0	-4.5	-4.1	-3.9	-3.7	-3.4
Goods and services trade balance (percent of GDP)	-1.3	-16.0	-22.7	-21.3	-18.5	-17.7	-16.5	-12.7	-10.8	-9.3	-7.9	-6.9	-6.1	-5.2	-4.5
Gross international reserves	30.9	28.5	39.5	40.5	40.9	42.1	41.6	45.1	45.0	43.1	45.7	49.9	53.2	56.4	60.1
Months of next year's imports of goods and services	4.5	3.9	5.1	5.3	5.3	5.4	5.2	5.4	5.1	4.7	4.8	5.0	5.1	5.1	5.3
Percent of the IMF composite metric (float)	98.9	92.9	109.7	113.2	99.0	104.9	98.5	100.1	97.6	92.0	93.4	100.1	103.4	107.5	111.9

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

1/ Based on BPM6.

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

3/ Includes banks' debt for equity operations.

Table 8b. Ukraine: Balance of Payments (Baseline Scenario), 2021–2033 1/ 2/

(Percent of GDP, unless otherwise indicated)

	2021	2022	2023		2024		2025	2026	2027	2028	2029	2030	2031	2032	2033
	Act.	Act.	EFF 2nd Review	Proj.	EFF 2nd Review	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Current account balance	-1.9	5.0	-4.6	-5.5	-7.1	-5.7	-8.2	-7.0	-5.1	-5.0	-4.5	-4.1	-3.9	-3.7	-3.4
Goods (net)	-3.3	-9.1	-17.2	-16.3	-15.8	-15.2	-18.0	-17.2	-18.2	-16.6	-15.1	-13.9	-12.8	-11.8	-10.8
Exports	31.6	25.5	19.9	19.4	21.9	21.6	21.6	24.0	24.2	25.1	25.7	26.5	27.2	27.8	28.3
Imports	-34.9	-34.6	-37.1	-35.7	-37.7	-36.8	-39.6	-41.2	-42.5	-41.7	-40.7	-40.4	-40.0	-39.5	-39.1
Services (net)	2.0	-6.9	-5.5	-5.0	-2.7	-2.4	1.5	4.5	7.5	7.3	7.2	7.0	6.8	6.5	6.3
Receipts	9.2	10.4	9.4	9.3	9.1	8.9	9.8	11.0	12.1	12.1	12.2	12.0	11.8	11.6	11.3
Payments	-7.2	-17.3	-14.9	-14.3	-11.8	-11.4	-8.3	-6.5	-4.6	-4.8	-5.0	-5.0	-5.0	-5.0	-5.0
Primary income (net)	-2.9	5.3	4.0	3.1	3.2	1.4	1.9	1.6	1.7	1.3	1.0	0.8	0.6	0.4	0.3
Secondary income (net)	2.3	15.7	14.0	12.7	8.2	10.6	6.4	4.1	3.9	3.0	2.5	2.0	1.5	1.1	0.7
Capital account balance	0.0	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial account balance	-2.9	5.3	-10.9	-11.7	-8.4	-7.1	-7.9	-8.3	-4.8	-4.2	-5.5	-6.2	-5.7	-5.2	-5.1
Direct investment (net)	-3.8	-0.1	-1.9	-2.4	-1.2	-2.2	-2.6	-4.9	-5.0	-5.6	-5.3	-5.1	-4.7	-4.6	-4.4
Portfolio investment (net)	-0.6	1.3	0.9	1.5	0.4	0.8	1.1	1.2	1.3	1.4	0.5	0.1	0.2	0.0	0.0
Portfolio investment: assets	0.0	0.4	0.5	1.3	0.0	0.1	0.4	0.0	0.8	0.4	0.2	0.2	0.2	0.1	0.1
Portfolio investment: liabilities	0.5	-0.9	-0.3	-0.3	-0.4	-0.7	-0.8	-1.1	-0.5	-1.0	-0.2	0.1	0.0	0.2	0.1
Financial derivatives (net)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other investment (net)	1.4	4.2	-9.8	-10.9	-7.6	-5.7	-6.4	-4.5	-1.1	0.0	-0.7	-1.3	-1.1	-0.6	-0.7
Other investment: assets	3.9	13.1	8.7	6.4	7.9	7.8	2.1	1.6	1.4	1.0	0.9	0.5	0.1	0.1	0.2
Other investment: liabilities	2.4	8.9	18.6	17.2	15.5	13.5	8.5	6.1	2.5	1.0	1.6	1.8	1.2	0.8	0.9
Net use of IMF resources for budget support	0.1	1.4	2.0	2.0	2.2	2.1	-0.3	-0.2	-0.2	-0.4	-0.7	-0.4	-0.5	-0.5	-0.4
Central Bank	1.4	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
General government	0.8	9.2	15.4	14.6	12.3	10.9	8.3	5.3	2.2	1.2	2.1	2.0	1.4	1.0	1.1
Banks 3/	0.2	-0.3	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other sectors	0.0	-1.4	1.3	0.6	1.0	0.5	0.5	0.9	0.5	0.3	0.3	0.2	0.2	0.2	0.2
Errors and omissions	0.9	-0.2	0.9	1.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Unidentified financing need	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	1.9	-0.4	7.2	7.3	1.3	1.4	-0.3	1.3	-0.3	-0.8	1.1	2.1	1.7	1.6	1.6
Financing	-1.9	0.4	-7.2	-7.3	-1.3	-1.4	0.3	-1.3	0.3	0.8	-1.1	-2.1	-1.7	-1.6	-1.6
Gross official reserves (increase: -)	-1.4	1.4	-6.3	-6.4	-0.8	-0.8	0.3	-1.8	0.1	0.8	-1.1	-1.7	-1.2	-1.1	-1.3
Net use of IMF resources for BOP support	-0.5	-1.0	-0.9	-0.9	-0.6	-0.5	0.1	0.5	0.3	0.0	0.0	-0.4	-0.5	-0.5	-0.4
Memorandum items:															
Current account balance excluding grants	-1.9	-3.8	-14.3	-12.1	-13.7	-12.2	-11.1	-8.2	-6.3	-5.9	-5.2	-4.8	-4.6	-4.3	-4.0
Gross international reserves (USD billions)	30.9	28.5	39.5	40.5	40.9	42.1	41.6	45.1	45.0	43.1	45.7	49.9	53.2	56.4	60.1
Months of next year's imports of goods and services	4.5	3.9	5.1	5.3	5.3	5.4	5.2	5.4	5.1	4.7	4.8	5.0	5.1	5.1	5.3
Percent of the IMF composite metric (float)	98.9	92.9	109.7	113.2	99.0	104.9	98.5	100.1	97.6	92.0	93.4	100.1	103.4	107.5	111.9

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

1/ Based on BPM6.

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

3/ Includes banks' debt for equity operations.

Table 9. Ukraine: Gross External Financing Requirement (Baseline Scenario), 2021–2033

(Billions of U.S. dollars)

	2021	2022	2023		2024		2025	2026	2027	2028	2029	2030	2031	2032	2033
	Act.	Act.	EFF 2nd Review	Proj.	EFF 2nd Review	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
A. Total financing requirements	**37.5**	**54.7**	**65.6**	**57.7**	**68.3**	**70.4**	**58.6**	**55.2**	**53.1**	**52.7**	**55.4**	**53.2**	**55.1**	**54.8**	**54.8**
Current account deficit (excluding grants)	3.9	6.0	23.0	21.4	21.9	23.0	21.5	16.7	13.5	13.3	12.4	12.2	12.3	12.1	12.0
Portfolio investment	4.9	2.7	3.3	4.9	3.8	4.5	3.2	4.7	3.3	3.7	5.1	3.3	4.7	2.4	2.5
Private	0.6	0.9	1.4	2.5	2.7	2.9	1.3	1.9	1.6	0.8	3.5	1.4	2.7	0.9	0.8
General government	4.3	1.8	1.9	2.4	1.0	1.6	1.9	2.8	1.7	2.9	1.5	1.9	2.0	1.5	1.7
Medium and long-term debt	3.6	2.2	1.9	2.2	3.0	3.1	2.9	2.8	3.8	3.8	6.3	6.3	7.5	8.4	8.1
Private	2.7	1.1	1.4	1.3	1.3	1.5	1.5	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4
Banks	0.2	0.3	0.5	0.2	0.4	0.4	0.4	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Corporates	2.5	0.9	0.9	1.1	0.9	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1
General government	0.9	1.0	0.5	0.9	1.7	1.6	1.4	1.4	2.4	2.4	4.9	4.9	6.1	7.0	6.7
Short-term debt (including deposits)	0.8	4.2	5.8	1.5	5.8	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0
Other net capital outflows 1/	8.6	21.0	13.4	9.5	13.7	13.7	4.1	3.2	3.0	1.4	2.2	1.3	0.3	0.4	0.6
Trade credit	15.7	18.6	18.3	18.3	20.1	20.1	20.9	21.7	23.5	24.5	23.4	24.1	24.2	25.5	25.6
B. Total financing sources	**39.6**	**27.7**	**32.5**	**31.0**	**35.9**	**36.1**	**36.4**	**43.9**	**43.2**	**45.6**	**49.6**	**48.7**	**50.2**	**49.2**	**50.1**
Capital transfers	0.0	0.2	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Direct investment, net	7.5	0.2	3.3	4.2	2.2	4.2	5.0	10.0	10.7	12.6	12.6	12.8	12.7	12.9	13.1
Portfolio investment	6.0	0.5	1.9	2.2	3.0	3.0	1.0	2.3	0.5	0.5	4.0	3.0	4.3	2.5	2.5
Private	1.8	0.0	0.0	0.0	3.0	3.0	1.0	2.3	0.5	0.5	3.0	1.0	2.3	0.5	0.5
General government	4.2	0.5	1.9	2.2	0.0	0.0	0.0	0.0	0.0	0.0	1.0	2.0	2.0	2.0	2.0
Of which: Market financing	1.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.0	2.0	2.0	2.0	2.0
Medium and long-term debt	8.1	4.1	1.3	3.0	2.9	2.0	2.6	2.1	1.5	1.5	1.5	1.5	1.5	1.5	1.5
Private	4.9	4.5	1.4	3.1	1.4	1.7	1.6	1.6	1.5	1.5	1.5	1.5	1.5	1.5	1.5
Banks	0.2	0.0	0.5	0.1	0.5	0.5	0.4	0.4	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Corporates	4.7	4.5	0.9	3.0	1.0	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2
General government	3.1	-0.4	-0.1	-0.1	1.5	0.3	1.0	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Short-term debt (including deposits)	0.9	4.4	5.8	1.4	5.8	6.0	6.3	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0
Trade credit	17.2	18.3	20.1	20.1	21.9	20.9	21.4	23.5	24.4	24.9	25.5	25.4	25.7	26.3	26.9
C. Financing needs (A - B)	**-2.2**	**27.0**	**33.1**	**26.6**	**32.4**	**34.3**	**22.2**	**11.3**	**9.9**	**7.2**	**5.8**	**4.6**	**4.9**	**5.6**	**4.8**
Unidentified fiscal financing need	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
D. Total exceptional financing needs	**-2.2**	**27.0**	**33.1**	**26.6**	**32.4**	**34.3**	**22.2**	**11.3**	**9.9**	**7.2**	**5.8**	**4.6**	**4.9**	**5.6**	**4.8**
E. Official financing	**1.7**	**30.6**	**44.0**	**40.5**	**34.9**	**35.4**	**21.7**	**14.8**	**9.8**	**6.1**	**9.9**	**9.6**	**9.1**	**9.0**	**9.3**
IMF	-0.7	0.7	1.9	1.9	3.0	3.0	-0.5	0.6	0.1	-1.0	-1.7	-2.1	-2.5	-2.6	-2.3
Purchases	0.7	2.7	4.5	4.5	5.4	5.4	1.8	2.6	1.3	0.0	0.0	0.0	0.0	0.0	0.0
Repurchases	1.4	2.1	2.6	2.5	2.4	2.4	2.3	2.0	1.2	1.0	1.7	2.1	2.5	2.6	2.3
Official grants	0.0	14.0	14.9	11.6	8.8	12.1	5.6	2.5	2.5	2.0	1.7	1.7	1.7	1.7	1.7
Official creditors	2.3	15.9	27.2	26.9	23.2	20.3	16.5	11.7	7.2	5.1	9.9	9.9	9.9	9.9	9.9
F. Increase in reserves	**2.8**	**-2.2**	**11.0**	**11.4**	**1.5**	**1.6**	**-0.5**	**3.6**	**-0.2**	**-1.8**	**2.5**	**4.2**	**3.3**	**3.1**	**3.8**
G. Errors and omissions	**1.8**	**-0.3**	**1.6**	**1.9**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Memorandum items:															
Gross international reserves	30.9	28.5	39.5	40.5	40.9	42.1	41.6	45.1	45.0	43.1	45.7	49.9	53.2	56.4	60.1
Months of next year's imports of goods and services	4.5	3.9	5.1	5.3	5.3	5.4	5.2	5.4	5.1	4.7	4.8	5.0	5.1	5.1	5.3
Percent of short-term debt (remaining maturity)	67.5	64.5	85.4	87.3	94.1	98.7	91.0	102.5	97.8	83.0	92.5	95.6	104.0	109.4	105.5
Percent of the IMF composite (float) 2/	98.9	92.9	109.7	113.2	99.0	104.9	98.5	100.1	97.6	92.0	93.4	100.1	103.4	107.5	111.9
Loan rollover rate (percent)															
Banks	97.2	96.7	100.0	88.2	100.4	100.3	100.3	100.5	100.2	100.0	100.0	100.0	100.0	100.0	100.0
Corporates	89.3	105.2	100.0	95.6	109.8	109.7	109.7	109.7	109.7	109.7	109.7	109.7	109.7	109.7	109.7
Total	91.4	98.2	100.0	91.2	101.5	101.7	101.7	101.9	101.7	101.5	101.5	101.5	101.5	101.5	101.5

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

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

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

Table 10. Ukraine: Monetary Accounts (Baseline Scenario), 2021–2033

(Billions of Ukrainian Hryvnia)

	2021	2022	2023		2024		2025	2026	2027	2028	2029	2030	2031	2032	2033
	Act.	Act.	EFF 2nd Review	Act.	EFF 2nd Review	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Monetary survey															
Net foreign assets	850	1,252	1,854	1,926	2,037	2,179	2,307	2,539	2,564	2,590	2,919	3,365	3,806	4,263	4,741
Net domestic assets	1,221	1,249	1,218	1,151	1,593	1,474	1,837	2,097	2,564	3,026	3,226	3,351	3,528	3,746	4,004
Domestic credit	1,925	2,212	2,251	2,248	2,483	2,469	2,842	3,180	3,710	4,341	4,760	5,135	5,584	6,159	6,778
Net claims on government	898	1,218	1,330	1,259	1,474	1,395	1,578	1,688	2,018	2,431	2,604	2,645	2,709	2,778	2,803
Credit to the economy	1,023	991	917	986	1,004	1,070	1,259	1,488	1,688	1,905	2,150	2,483	2,868	3,373	3,966
Domestic currency	731	725	688	733	760	799	983	1,210	1,411	1,632	1,881	2,219	2,608	3,117	3,715
Foreign currency	292	266	229	253	243	271	276	278	277	273	269	265	260	255	251
Other claims on the economy	5	4	4	3	5	4	4	5	5	5	6	6	7	8	8
Other items, net	-704	-963	-1,034	-1,097	-890	-995	-1,005	-1,083	-1,146	-1,315	-1,535	-1,784	-2,056	-2,413	-2,774
Broad money	2,071	2,501	3,072	3,077	3,630	3,652	4,144	4,636	5,128	5,616	6,144	6,716	7,334	8,009	8,746
Currency in circulation	581	666	640	716	752	764	1,046	1,172	1,272	1,364	1,630	1,728	1,823	1,911	1,991
Total deposits	1,489	1,834	2,431	2,360	2,876	2,887	3,097	3,463	3,855	4,250	4,513	4,986	5,510	6,096	6,753
Domestic currency deposits	1,014	1,204	1,786	1,628	2,169	2,163	2,304	2,627	2,950	3,235	3,421	3,813	4,250	4,745	5,303
Foreign currency deposits	474	630	645	732	707	724	793	836	906	1,015	1,092	1,174	1,260	1,351	1,450
Accounts of the NBU															
Net foreign assets	701	907	1,412	1,456	1,479	1,693	1,816	2,054	2,095	2,133	2,448	2,883	3,314	3,759	4,230
Net international reserves	566	670	1,077	1,076	1,114	1,188	1,273	1,483	1,509	1,525	1,817	2,232	2,642	3,068	3,521
(In billions of U.S. dollars)	20.8	18.3	…	28.3	…	…	…	…	…	…	…	…	…	…	…
Reserve assets	844	1,042	…	1,539	…	…	…	…	…	…	…	…	…	…	…
Other net foreign assets	134	237	334	380	365	505	543	570	585	608	631	651	672	692	709
Net domestic assets	-38	-115	-440	-479	-335	-535	-479	-558	-465	-372	-568	-882	-1,193	-1,523	-1,882
Net domestic credit	175	312	1	6	-109	-216	-208	-274	-190	-11	-80	-233	-368	-449	-567
Net claims on government	270	704	689	591	665	567	550	537	523	509	496	483	469	455	440
Claims on government	325	758	744	729	731	717	704	691	680	669	658	647	636	625	614
Net claims on banks	-95	-392	-688	-585	-774	-782	-758	-810	-713	-520	-575	-716	-837	-903	-1,007
Other items, net	-213	-427	-441	-485	-226	-320	-271	-285	-274	-362	-488	-649	-825	-1,074	-1,315
Base money	662	793	972	977	1,144	1,158	1,337	1,495	1,630	1,760	1,880	2,002	2,121	2,237	2,347
Currency in circulation	581	666	640	716	752	764	1,046	1,172	1,272	1,364	1,630	1,728	1,823	1,911	1,991
Banks' reserves	81	126	332	261	392	394	291	323	359	396	250	273	298	326	356
Cash in vault	47	49	76	48	90	90	97	108	121	133	141	156	172	191	211
Correspondent accounts	35	77	256	213	302	303	195	215	238	263	109	117	126	135	145
Deposit money banks															
Net foreign assets	149	345	443	470	558	485	491	485	469	457	471	482	493	504	512
Foreign assets	254	427	541	550	678	621	658	688	703	727	751	771	791	810	826
Foreign liabilities	105	82	98	80	120	136	168	202	234	270	280	289	298	307	314
Net domestic assets	1,339	1,489	1,988	1,890	2,318	2,402	2,606	2,977	3,386	3,793	4,042	4,504	5,016	5,592	6,240
Domestic credit	1,875	2,064	2,619	2,540	3,021	3,116	3,379	3,815	4,297	4,786	5,128	5,678	6,288	6,970	7,739
Net claims on government 1/	628	513	641	668	809	829	1,028	1,151	1,495	1,921	2,109	2,162	2,239	2,323	2,363
Credit to the economy	1,023	991	916	986	1,004	1,070	1,259	1,488	1,687	1,905	2,150	2,483	2,868	3,372	3,966
Other claims on the economy	5	3	4	3	5	4	4	5	5	5	6	6	7	8	8
Net claims on NBU	220	594	1,057	883	1,203	1,214	1,088	1,172	1,109	954	864	1,027	1,173	1,267	1,402
Other items, net	-536	-574	-631	-650	-703	-714	-773	-837	-911	-993	-1,086	-1,174	-1,271	-1,378	-1,499
Banks' liabilities	1,488	1,834	2,431	2,360	2,876	2,887	3,097	3,463	3,855	4,250	4,513	4,986	5,509	6,096	6,752
Memorandum items:															
Base money	11.2	19.6	22.6	23.3	39.9	18.5	15.5	11.8	9.0	8.0	6.8	6.5	6.0	5.5	4.9
Currency in circulation	12.6	14.6	-4.0	7.5	7.8	6.7	36.8	12.1	4.8	5.8	6.8	7.8	8.8	9.8	10.8
Broad money	12.0	20.8	22.8	23.0	17.7	18.7	13.5	11.9	10.6	9.5	9.4	9.3	9.2	9.2	9.2
Credit to the economy	8.4	-3.1	-7.5	-0.5	-15.8	8.5	17.7	18.2	13.4	12.9	12.9	15.5	15.5	17.6	17.6
Real credit to the economy 2/	-1.5	-23.5	-12.7	-5.3	0.0	0.0	10.0	12.0	8.0	7.5	7.5	10.0	10.0	12.0	12.0
Credit-to-GDP ratio, in percent	18.8	19.1	14.2	15.2	13.1	13.8	14.2	15.1	15.6	16.1	16.6	17.6	18.6	20.0	21.5
Velocity of broad money, ratio	2.6	2.1	2.1	2.1	2.1	2.1	2.1	2.1	2.1	2.1	2.1	2.1	2.1	2.1	2.1
Money multiplier, ratio	3.1	3.2	3.2	3.1	3.2	3.2	3.1	3.1	3.1	3.2	3.3	3.4	3.5	3.6	3.7
Hryvnia per U.S. dollar (end of period)	27.3	36.6	39.3	38.0	…	…	…	…	…	…	…	…	…	…	…

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 11. Ukraine: Indicators of Fund Credit (Baseline Scenario), 2024–2033

(In millions of SDR)

	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
	Projections									
Existing Fund credit										
Stock 1/	7,264	5,527	4,029	3,117	2,560	2,003	1,447	890	334	0
Obligations	2,194	2,288	1,923	1,237	841	813	785	756	728	477
Principal (repurchases)	1,681	1,736	1,498	913	557	557	557	557	557	334
Interest charges	513	552	426	324	285	256	228	199	171	143
Prospective purchases										
Disbursements	4,003	1,368	1,931	966	0	0	0	0	0	0
Stock 1/	4,003	5,372	7,303	8,269	8,074	7,350	6,374	5,077	3,698	2,320
Obligations 2/	116	373	511	643	841	1,324	1,493	1,708	1,649	1,546
Principal (repurchases)	0	0	0	0	194	724	976	1,298	1,378	1,378
Interest charges	116	373	511	643	647	600	517	410	271	168
Stock of existing and prospective Fund credit 1/	11,267	10,899	11,332	11,385	10,634	9,353	7,821	5,967	4,032	2,320
In percent of quota 2/	560	542	563	566	529	465	389	297	200	115
In percent of GDP	8.0	7.6	7.5	7.2	6.3	5.3	4.2	3.0	1.9	1.0
In percent of exports of goods and nonfactor services	26.1	24.0	21.5	19.7	17.0	13.9	10.9	7.7	4.9	2.6
In percent of gross reserves	35.8	35.2	33.8	34.2	33.3	27.7	21.2	15.1	9.7	5.2
In percent of public external debt	15.5	13.2	12.7	12.5	11.7	10.1	8.2	6.2	4.2	2.4
Obligations to the Fund from existing and prospective Fund credit	2,309	2,661	2,435	1,880	1,682	2,137	2,277	2,464	2,377	2,023
In percent of quota	114.8	132.3	121.0	93.5	83.6	106.2	113.2	122.5	118.1	100.6
In percent of GDP	1.6	1.8	1.6	1.2	1.0	1.2	1.2	1.2	1.1	0.9
In percent of exports of goods and nonfactor services	5.4	5.9	4.6	3.3	2.7	3.2	3.2	3.2	2.9	2.3
In percent of gross reserves	7.3	8.6	7.3	5.6	5.3	6.3	6.2	6.3	5.7	4.5
In percent of public external debt service	43.5	63.6	63.9	40.5	37.3	34.0	36.6	35.5	31.2	27.5

Source: Fund staff estimates and projections.

1/ End of period.

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

Table 12. Ukraine: EFF Schedule of Reviews and Available Purchases

Availability Date	Millions of SDR	Millions of USD 1/	Percent of quota	12-month access	Cumulative access	Conditions
March 31, 2023	2,011.83	2,690.11	100.0	150.0	449.0	Board approval of the EFF
June 15, 2023	663.90	887.73	33.0	183.0	473.0	First review and continuous and end-April 2023 performance criteria
October 13, 2023	663.90	887.73	33.0	166.0	465.0	Second review and continuous and end-June 2023 performance criteria
February 29, 2024	663.90	887.73	33.0	199.0	478.0	Third review and continuous and end-December 2023 performance criteria
June 15, 2024	1,669.82	2,232.80	83.0	149.0	521.0	Fourth review and continuous and end-March 2024 performance criteria
September 1, 2024	834.88	1,116.36	41.5	190.5	531.0	Fifth review and continuous and end-June 2024 performance criteria
December 1, 2024	834.88	1,116.36	41.5	199.0	560.0	Sixth review and continuous and end-September 2024 performance criteria
March 1, 2025	684.02	917.82	34.0	200.0	559.0	Seventh review and continuous and end-December 2024 performance criteria
August 31, 2025	684.02	917.82	34.0	151.0	563.0	Eighth review and continuous and end-June 2025 performance criteria
March 1, 2026	965.68	1,298.66	48.0	82.0	571.0	Ninth review and continuous and end-December 2025 performance criteria
August 31, 2026	965.68	1,298.66	48.0	96.0	591.0	Tenth review and continuous and end-June 2026 performance criteria
March 10, 2027	965.74	1,300.96	48.0	96.0	599.0	Eleventh review and continuous and end-December 2026 performance criteria
Total	11,608.25	15,552.74	577.0			
Memorandum item:						
Quota	2,011.8					

Source: IMF staff calculations.

1/ Based on WEO January 2024 forecasts for annual average USD/SDR exchange rates.

Table 13. Ukraine: Quantitative Performance Criteria and Indicative Targets

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

	Dec 2023					Mar 2024		Jun 2024		Sep 2024		Dec 2024		Mar 2025
	QPC	Adjustor	Adjusted QPC	Actual	Status	QPC	Proposed Rev. QPC	IT	Proposed QPC	IT	Proposed Rev. IT	IT	Proposed Rev. IT	Proposed IT
I. Quantitative Performance Criteria 1/ 2/														
Floor on the non-defense cash primary balance of the general government, excluding budget support grants (- implies a deficit) 2/ 3/	105,000	0	105,000	380,542	Met	140,715	135,000	257,184	250,000	368,313	368,313	415,410	415,410	330,000
Floor on tax revenues (excluding Social Security Contributions)	1,653,992	...	1,653,992	1,650,424	Not Met	426,300	426,300	880,400	880,400	1,398,600	1,398,600	2,042,250	2,042,250	485,000
Ceiling on publicly guaranteed debt 4/	37,000	20,538	57,538	40,258	Met	47,900	47,900	47,900	47,900	47,900	47,900	47,900	47,900	53,626
Floor on net international reserves (in millions of U.S. dollars) 5/	24,900	-3,211	21,689	28,244	Met	25,400	28,400	25,300	26,800	25,400	27,900	23,000	24,900	26,000
II. Indicative Targets 1/ 2/														
Floor on the cash balance of the general government, excluding budget support grants (- implies a deficit)	-1,744,668	0	-1,744,668	-1,717,172	Met	-344,485	-344,485	-725,996	-725,996	-1,123,107	-1,123,107	-1,557,208	-1,557,208	-215,000
Ceiling on general government arrears	2,000	...	2,000	1,556	Met	2,000	2,000	2,000	2,000	1,800	1,800	1,600	1,600	1,600
Floor on social spending	499,600	...	499,600	551,083	Met	130,000	130,000	262,500	262,500	390,000	390,000	537,800	537,800	135,000
Ceiling on general government borrowing from the NBU 6/ 7/	-704	49,296	48,592	-731	Met	-9,500	-9,500	-2,884	-2,884	-1,153	0	-704	0	-984
III. Continuous performance criterion 1/ 2/														
Ceiling on non-accumulation of new external debt payments arrears by the general government	0	...	0	0	Met	0	0	0	0	0	0	0	0	0
IV. Memorandum items														
External project financing (in millions of U.S. dollars)	894	...	...	548	...	127	476	413	861	832	1,200	1,496	1,497	326
External budget financing (in millions of U.S. dollars) 8/	40,956	...	...	37,745	...	8,521	9,267	17,367	16,825	26,548	25,654	31,565	32,414	5,183
Budget support grants (in millions of U.S. dollars)	14,909	...	...	11,620	...	3,103	1,017	5,937	4,942	8,770	10,474	8,770	12,082	1,735
Budget support loans (in millions of U.S. dollars) 8/	26,048	...	...	26,125	...	5,417	8,250	11,430	11,883	17,778	15,180	22,795	20,332	3,447
Interest payments	260,218	...	...	253,914	...	49,500	49,500	161,780	161,780	284,320	284,320	429,820	429,820	117,831
NBU profit transfers to the government	71,868	...	...	71,868	...	0	30,000	17,700	38,000	17,700	38,000	17,700	38,000	0
Government bonds for the purposes of bank recapitalization and DGF financing	0	...	...	0	...	0	0	0	0	0	0	0	0	0
Spending from receipts resulting from sales of confiscated Russian assets and transfers of bank accounts	25,800	...	...	15,330	...	0	0	0	0	0	0	2,370	23,743	0
Spending on gas purchases, PSO compensation and transfer to GTSO	60,000	...	...	0	...	0	0	0	0	60,000	60,000	60,000	60,000	0
Cash balance of the general government, excluding budget support grants, treasury report at current exchange rates (- implies a deficit; in billions of Ukrainian hryvnia)	...	...	...	-1,706.7	...	...	-262.4	...	-671.7	...	-1,046.6	...	-1,562.1	-212.2

Sources: Ukranian authorities and IMF staff estimates and projections.

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

2/ Targets and projections for 2023, 2024, and 2025 are cumulative flows from January 1, 2023, 2024, and 2025, respectively.

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

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

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

6/ From end of previous quarter.

7/ Calculated using the projected redemption of government bonds as of February 21, 2024.

8/ Excludes prospective IMF disbursements under the EFF.

Annex I. Risk Assessment Matrix[1]

Risks and Risk Likelihood		Expected Impact	Policy Response
External Risks			
Intensification of regional conflicts. Escalation of Russia's war in Ukraine, and/or other regional conflicts or terrorism disrupt trade (e.g., energy, food, tourism, supply chains), remittances, FDI and financial flows, payment systems, and increase refugee flows.	**High**	**High.** In addition to increased loss of life, a longer and more intensive war would lead to further destruction of the capital stock, outward migration, and internal displacement. The nascent recovery would stall, and growth would fall sharply amid lack of confidence and high uncertainty. Further restrictions on seaport access and logistical challenges would curtail the recovery of exports, while import needs would rise (for defense, energy, and infrastructure repair), widening fiscal and external financing needs. Financing constraints may force the authorities to resort to monetary financing, raising pressures on prices and the exchange rate. High inflation would further erode purchasing power and increase poverty. Weak activity could weigh on bank and SOE balance sheets.	Maintain appropriate macroeconomic policies to safeguard macroeconomic and financial stability and prepare contingency plans for the materialization of downside risks. Mobilize domestic financing to help meet fiscal financing needs and seek additional external financing that is grant-based or on highly- concessional terms. Enhance and update contingency plans, including for the financial sector.
Abrupt global slowdown. Global and idiosyncratic risk factors cause a synchronized sharp growth downturn, with recessions in some countries, adverse spillovers through trade and financial channels, and market fragmentation triggering sudden stops in EMDEs.	**Medium**	**High.** Recessions in key donor countries could reduce or delay disbursement of committed external financing and shift the financing mix toward less advantageous and more expensive sources (monetary financing, other borrowing on non-concessional terms).	Prioritize spending and seek additional revenue measures. Mobilize domestic financing to plug financing gaps. Diversify external financing sources and obtain financing that is grant-based or on highly concessional terms.

Risks and Risk Likelihood		Expected Impact	Policy Response
Commodity price volatility. A succession of supply disruptions (e.g., due to conflicts, export restrictions, and OPEC+ decisions) and demand fluctuations causes recurrent commodity price volatility, external and fiscal pressures in EMDEs, cross-border spillovers, and social and economic instability.	High	**Medium.** Notwithstanding progress at expanding domestic gas consumption, high energy prices could further strain consumption and business activity and widen fiscal and external financing needs. Low and/or volatile prices for agriculture products amid logistical costs could alter sowing decisions for future agriculture seasons.	Continue rationing access to energy to priority areas. Limit electricity exports. Continue to expand gas production. Secure alternative sources and storage for gas through the heating season. Targeted transfers to most vulnerable groups within the existing budget envelope. Build on and deepen alternative export routes.
Shortfalls in availability of external financing as well as domestic financing	High	**High.** A shortfall or delay in external and/ or domestic financing could result in larger financing gaps, necessitating financial repression, monetary financing and a sharp compression in spending, thus intensifying macro-financial risks and reverse the ongoing economic recovery.	Prioritize spending and seek additional revenue measures. Mobilize domestic financing to plug financing gaps. Diversify external financing sources and obtain financing that is grant-based or on highly concessional terms.
Domestic Risks			
Social unrest.	Medium	**High.** Declining real incomes, and worsening inequality could amplify social unrest and undermine national unity, resulting in counterproductive populist policies that widen fiscal and external imbalances, delay adjustment, and stall reform momentum.	Maintain appropriate macroeconomic policies to safeguard stability. Targeted transfers to most vulnerable groups within the existing budget envelope.
Loss of reform momentum.	Medium	**High.** Poor governance, corruption, retrenchment of oligarchic interests, and lack of oversight on the use of external funding could decrease incentives for reform. Lack of progress on reforms exacerbates financing gaps, reduces future external financing inflows, and could lead to donor fatigue.	Adhere to governance reforms while maintaining recent progress made in strengthening anti-corruption and judicial institutions. Mobilize domestic financing and prioritize spending.

Risks and Risk Likelihood		Expected Impact	Policy Response
Loss of export and transit corridors and EU restrictions for agricultural produce.	High	**Medium.** Any loss of the temporary Black Sea corridor will have a severe impact on Ukraine's balance of payments, potentially exacerbating financing gaps and FX markets and could undermine the nascent recovery. In that context, a prolonged closure of other transit routes through Eastern Europe would pose an additional burden, curtailing exports and weighing on future farming decisions.	Urge partners for a quick resolution to minimize disruption to transit routes. Diversify supply chains. Accelerate the reconstruction of Danube Deep Sea shipping lanes, repair of railroads with external financing and further expansion of the temporary Black Sea corridor.
Structural Risks			
Deepening geoeconomic fragmentation. Broader conflicts, inward-oriented policies, and weakened international cooperation result in a less efficient configuration of trade and FDI, supply disruptions, protectionism, policy uncertainty, technological and payments systems fragmentation, rising shipping and input costs, financial instability, a fracturing of international monetary system, and lower growth.	High	**High.** Ukraine remains at the fault line of ongoing geopolitical tensions and being a trade dependent economy is exposed to supply chain disruptions.	Maintain appropriate macroeconomic policies to safeguard stability and ensure adequate resources for core functions of the state. Diversify trade products, supply chains, and partners. Continue with reforms to support competitiveness and increase productivity.

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

Annex II. Downside Scenario

1. In line with the Fund's policy on lending under exceptionally high uncertainty, staff has updated the downside scenario with the underlying assumption maintained of a more intense war running into 2025. With the shock assumed to start in 2024Q2, the downside scenario still assumes a longer and more intense war compared with the current baseline scenario (war assumed to wind down by end-2025 versus end-2024 in the baseline), strongly weighing on firm and household sentiment, pace of migrant return, and causing further infrastructure damage from attacks. This would result in a sharp real GDP decline of 4 percent in 2024 (versus 3–4 percent growth in the baseline) and zero growth in 2025, both in line with fiscal multipliers that reflect the impact of policy adjustments. In view of continuing high defense needs and lower economic activity, the fiscal deficit would further increase in 2024–25 and improve only gradually thereafter. Imbalances in the FX market would resurface and then be expected to persist for longer, given worse export performance, leading to higher nominal depreciation in the coming years before converging to the baseline trend. At the same time, staff assumes some FXI for 2024 in the downside given the ample buffers accumulated by the authorities in recent months, which results in a lower path of reserves compared to the baseline. The subsequent recovery would be more subdued than in the baseline scenario, given the even greater damage to the capital stock and weakened balance sheets, with the result that output would remain well-below pre-war levels.

2. The updated cumulative financing gap in the downside scenario is estimated at around US$140.6 billion, about a US$19 billion increase compared with the baseline forecast for 2023–27 (US$121.8 billion), requiring additional steps to ensure debt sustainability. The entirety of the additional financing in this downside scenario would need to be in the form of highly concessional loans (close to grant terms). Given the presence of exceptional financing in the five-year post-program period (up to the US$7.1 billion per year described in the program request), this scenario would also require some mix of additional grants in the program period, highly concessional financing consistent with assurances received, and a further debt treatment to ensure debt sustainability. This would bring total public debt and gross financing needs to the targets consistent with sustainable debt, thus underpinning debt sustainability on a forward-looking basis.

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

4. Building on this track record of effective economic management, the authorities continue to stand ready to react decisively to a potential downside scenario through a prompt

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

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

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

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

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
	Act.	Act.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Real economy (percent change, unless otherwise indicated)													
Nominal GDP (billions of Ukrainian hryvnias) 1/	5,451	5,191	6,495	7,238	7,946	8,598	9,400	10,245	11,166	12,170	13,264	14,457	15,757
Real GDP 1/	3.4	-29.1	5.0	-4.0	0.0	2.0	4.0	3.8	3.8	3.8	3.8	3.8	3.8
Contributions:													
Domestic demand	12.9	-23.7	8.6	-3.7	-0.1	2.1	2.7	3.0	2.8	2.6	2.2	2.0	2.0
Private consumption	4.7	-16.6	2.7	-1.4	0.3	2.2	2.8	2.4	2.2	2.0	1.7	1.6	1.6
Public consumption	0.1	6.9	2.8	-0.4	0.4	0.3	0.3	0.3	0.3	0.1	0.1	0.0	0.0
Investment	8.1	-14.0	3.1	-1.9	-0.7	-0.4	-0.3	0.3	0.2	0.4	0.4	0.3	0.4
Net exports	-9.5	-5.4	-3.6	-0.3	0.1	-0.1	1.3	0.8	1.0	1.2	1.6	1.8	1.8
GDP deflator	24.8	34.3	19.2	16.1	9.8	6.1	5.1	5.0	5.0	5.0	5.0	5.0	5.0
Unemployment rate (ILO definition; period average, percent	9.8	24.5	19.1	17.4	17.1	14.0	13.1	11.6	11.2	10.6	9.6	9.1	8.7
Consumer prices (period average)	9.4	20.2	12.9	7.2	9.1	7.4	6.0	5.2	5.0	5.0	5.0	5.0	5.0
Consumer prices (end of period)	10.0	26.6	5.1	10.0	8.5	6.5	5.5	5.0	5.0	5.0	5.0	5.0	5.0
Nominal wages (average)	20.8	1.0	20.1	8.7	11.1	14.2	11.2	9.7	9.2	9.2	9.1	9.0	9.0
Real wages (average)	10.5	-16.0	6.4	1.4	1.8	6.4	4.9	4.2	4.0	4.0	3.9	3.8	3.8
Savings (percent of GDP)	12.5	17.6	10.8	7.6	14.4	13.3	13.5	14.3	15.0	14.8	15.0	15.6	16.1
Private	12.7	31.0	25.8	20.0	27.3	23.2	13.7	13.6	14.1	13.1	12.7	13.0	13.5
Public	-0.2	-13.4	-14.9	-12.3	-12.9	-9.9	-0.2	0.6	0.9	1.7	2.3	2.5	2.6
Investment (percent of GDP)	14.5	12.6	16.3	15.6	15.8	16.9	17.7	18.1	18.4	18.7	19.0	19.3	19.6
Private	10.7	10.1	11.5	10.3	10.7	11.4	11.8	12.1	12.4	12.8	13.1	13.3	13.6
Public	3.8	2.5	4.8	5.2	5.1	5.6	5.8	6.0	6.0	5.9	5.9	5.9	5.9
General Government (percent of GDP)													
Fiscal balance 2/	-4.0	-15.9	-19.7	-17.6	-17.9	-15.4	-6.0	-5.4	-5.1	-4.2	-3.6	-3.4	-3.3
Fiscal balance, excl. grants 2/	-4.0	-25.2	-26.3	-28.4	-24.8	-19.9	-8.4	-6.5	-6.0	-5.1	-4.5	-4.2	-4.1
External financing (net)	2.4	10.8	16.6	12.9	7.5	4.3	1.4	-0.7	2.1	2.0	1.2	0.9	1.0
Domestic financing (net), of which:	1.6	5.1	3.1	4.6	10.4	11.1	4.5	6.1	3.0	2.2	2.4	2.5	2.4
NBU	-0.3	7.4	-0.2	-0.2	-0.2	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.3
Commercial banks	1.5	-2.8	2.6	4.6	10.1	11.2	4.3	5.8	2.7	2.0	2.3	2.3	2.5
Public and publicly-guaranteed debt	48.9	78.4	82.9	105.9	123.2	135.7	134.3	132.4	130.3	127.6	124.5	121.3	118.3
Money and credit (end of period, percent change)													
Base money	11.2	19.6	23.3	13.1	12.2	9.5	7.6	7.6	7.2	6.3	5.9	5.4	4.9
Broad money	12.0	20.8	23.0	11.5	10.0	9.5	9.0	9.0	9.0	9.0	9.0	9.0	9.0
Credit to nongovernment	8.4	-3.1	-0.5	1.7	0.4	1.2	5.5	8.1	12.9	12.9	15.5	15.5	15.5
Balance of payments (percent of GDP)													
Current account balance	-1.9	5.0	-5.5	-7.9	-1.3	-3.6	-4.2	-3.8	-3.4	-3.9	-4.0	-3.7	-3.5
Foreign direct investment	3.8	0.1	2.4	1.9	1.5	2.2	3.9	4.7	4.7	4.7	5.0	4.8	4.7
Gross reserves (end of period, billions of U.S. dollars)	30.9	28.5	40.5	34.4	40.0	44.2	44.8	43.1	45.6	49.8	53.2	56.2	60.0
Months of next year's imports of goods and services	4.5	3.9	4.9	4.8	5.2	5.5	5.4	5.0	5.0	5.2	5.3	5.3	5.4
Percent of short-term debt (remaining maturity)	67.5	64.5	87.3	80.5	87.6	100.4	97.3	82.9	92.3	95.4	103.9	109.1	105.5
Percent of the IMF composite metric (float)	98.9	92.9	113.2	87.3	96.9	100.4	100.1	94.8	96.3	103.5	107.4	111.8	116.9
Goods exports (annual volume change in percent)	35.0	-43.8	-16.1	7.9	4.0	12.9	3.7	10.9	7.5	7.7	9.1	8.9	8.8
Goods imports (annual volume change in percent)	17.0	-24.7	21.1	12.1	-9.9	18.9	10.7	2.5	3.7	4.9	5.1	4.9	5.2
Goods terms of trade (percent change)	-8.4	-11.6	0.8	0.9	-1.1	0.8	0.8	0.3	0.0	0.0	0.0	0.0	0.0
Exchange rate													
Hryvnia per U.S. dollar (end of period)	27.3	36.6	38.0	…	…	…	…	…	…	…	…	…	…
Hryvnia per U.S. dollar (period average)	27.3	32.3	36.7	…	…	…	…	…	…	…	…	…	…
Real effective rate (deflator-based, percent change)	10.3	27.6	-0.3	…	…	…	…	…	…	…	…	…	…
Memorandum items:													
Per capita GDP / Population (2017): US$2,640 / 44.8 million													
Literacy / Poverty rate (2022 est 3/): 100 percent / 25 percent													

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

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

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

3/ Based on World Bank estimates.

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

(Billions of Ukrainian Hryvnia)

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
	Act.	Act.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Revenue	1,990	2,609	3,583	3,461	3,499	3,701	3,926	4,159	4,533	4,935	5,382	5,853	6,356
Tax revenue	1,825	1,782	2,139	2,428	2,693	3,043	3,404	3,724	4,073	4,443	4,856	5,290	5,753
Tax on income, profits, and capital gains	514	551	656	637	725	789	849	948	1,035	1,139	1,247	1,359	1,481
Personal income tax	350	421	496	494	569	615	659	740	808	882	962	1,049	1,143
Corporate profit tax	164	131	159	143	156	174	191	208	226	257	285	310	338
Social security contributions	358	430	489	577	570	601	662	717	772	823	896	975	1,068
Property tax	43	37	44	47	51	48	49	49	49	49	50	50	50
Tax on goods and services	731	592	784	970	1,107	1,314	1,518	1,665	1,840	2,026	2,217	2,422	2,625
VAT	536	467	581	703	787	923	1,058	1,144	1,281	1,424	1,558	1,712	1,860
Excise	180	115	190	252	303	373	441	501	538	580	636	685	739
Other	14	10	14	15	16	18	19	20	21	22	23	25	26
Tax on international trade	38	26	41	62	54	69	79	85	92	102	112	123	136
Other tax	140	145	126	136	186	222	247	260	285	304	334	361	393
Nontax revenue	166	827	1,444	1,033	806	659	522	435	460	492	526	563	604
Grants	1	481	425	785	547	381	223	114	104	110	115	121	127
Expenditure	2,207	3,426	4,865	4,732	4,925	5,029	4,488	4,712	5,102	5,450	5,862	6,345	6,880
Current	1,995	3,298	4,562	4,276	4,405	4,287	3,842	4,018	4,321	4,599	4,934	5,333	5,777
Compensation of employees	516	1,240	1,479	1,409	1,364	1,136	723	739	756	788	862	950	1,042
Goods and services	483	848	1,674	1,047	1,052	991	756	671	717	733	793	833	874
Interest	155	162	254	435	464	571	647	659	711	748	753	781	818
Subsidies to corporations and enterprises	116	131	158	157	171	183	194	175	183	182	192	201	211
Social benefits	724	917	996	1,228	1,353	1,405	1,521	1,774	1,952	2,147	2,333	2,567	2,830
Social programs (on budget)	154	285	241	377	438	473	506	551	718	842	941	1,022	1,232
Pensions	519	583	746	828	890	905	958	1,135	1,113	1,148	1,198	1,314	1,326
Unemployment, disability, and accident insurance	52	48	9	24	25	27	56	88	122	157	194	232	271
Other current expenditures	1	1	1	1	1	1	1	1	1	1	1	1	1
Capital	207	130	312	378	405	478	547	616	672	722	787	858	935
Net lending	5	-2	-9	27	60	204	33	6	56	127	138	151	164
Contingency reserve 2/	0	0	0	51	56	61	66	72	54	3	3	3	3
General government overall balance	-216	-817	-1,282	-1,271	-1,426	-1,327	-563	-553	-569	-515	-480	-492	-524
General government overall balance, excluding grants	-218	-1,299	-1,707	-2,056	-1,973	-1,708	-786	-667	-673	-625	-595	-612	-650
General government financing	216	817	1,282	1,271	1,426	1,327	563	553	569	515	480	492	524
External	132	560	1,078	936	599	372	135	-71	234	245	155	127	152
Disbursements	239	615	1,151	1,156	886	694	426	292	648	742	778	816	856
Amortizations and other external payments	-108	-55	-74	-220	-287	-322	-290	-364	-414	-496	-623	-689	-704
Domestic (net)	85	263	204	335	828	955	427	624	335	270	325	365	371
Bond financing 3/	66	295	183	329	822	949	391	588	299	244	299	339	355
o/w NBU	-14	383	-15	-12	-13	-12	-12	-11	-12	-12	-12	-12	-47
o/w Commercial banks	80	-77	167	332	799	961	403	599	300	246	299	339	389
Direct bank borrowing	30	-2	-7	0	0	0	0	0	0	0	0	0	0
Deposit finance	-19	-37	-59	0	0	0	30	30	30	20	20	20	10
Privatization and other items	7	20	87	6	6	6	6	6	6	6	6	6	6
Financing Gap/unindentified measures (-gap/+surplus)	0	0	0	0	0	0	0	0	0	0	0	0	0
Memorandum items:													
Primary balance	-62	-655	-1,028	-835	-963	-756	85	106	142	232	273	289	295
Public and publicly-guaranteed debt	2,666	4,072	5,383	7,668	9,792	11,670	12,627	13,564	14,554	15,532	16,510	17,535	18,637
Nominal GDP (billions of Ukrainian hryvnia)	5,451	5,191	6,495	7,238	7,946	8,598	9,400	10,245	11,166	12,170	13,264	14,457	15,757

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

1/ National methodology, cash basis.

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

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

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

(Percent of GDP)

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
	Act.	Act.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Revenue	36.5	50.3	55.2	47.8	44.0	43.0	41.8	40.6	40.6	40.5	40.6	40.5	40.3
Tax revenue	33.5	34.3	32.9	33.5	33.9	35.4	36.2	36.3	36.5	36.5	36.6	36.6	36.5
Tax on income, profits, and capital gains	9.4	10.6	10.1	8.8	9.1	9.2	9.0	9.3	9.3	9.4	9.4	9.4	9.4
Personal income tax	6.4	8.1	7.6	6.8	7.2	7.2	7.0	7.2	7.2	7.3	7.3	7.3	7.3
Corporate profit tax	3.0	2.5	2.5	2.0	2.0	2.0	2.0	2.0	2.0	2.1	2.1	2.1	2.1
Social security contributions	6.6	8.3	7.5	8.0	7.2	7.0	7.0	7.0	6.9	6.8	6.8	6.7	6.8
Property tax	0.8	0.7	0.7	0.6	0.6	0.6	0.5	0.5	0.4	0.4	0.4	0.3	0.3
Tax on goods and services	13.4	11.4	12.1	13.4	13.9	15.3	16.1	16.2	16.5	16.6	16.7	16.8	16.7
VAT	9.8	9.0	8.9	9.7	9.9	10.7	11.3	11.2	11.5	11.7	11.7	11.8	11.8
Excise	3.3	2.2	2.9	3.5	3.8	4.3	4.7	4.9	4.8	4.8	4.8	4.7	4.7
Other	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Tax on international trade	0.7	0.5	0.6	0.9	0.7	0.8	0.8	0.8	0.8	0.8	0.8	0.9	0.9
Other tax	2.6	2.8	1.9	1.9	2.3	2.6	2.6	2.5	2.6	2.5	2.5	2.5	2.5
Nontax revenue	3.0	15.9	22.2	14.3	10.1	7.7	5.6	4.2	4.1	4.0	4.0	3.9	3.8
Grants	0.0	9.3	6.6	10.8	6.9	4.4	2.4	1.1	0.9	0.9	0.9	0.8	0.8
Expenditure	40.5	66.0	74.9	65.4	62.0	58.5	47.7	46.0	45.7	44.8	44.2	43.9	43.7
Current	36.6	63.5	70.2	59.1	55.4	49.9	40.9	39.2	38.7	37.8	37.2	36.9	36.7
Compensation of employees	9.5	23.9	22.8	19.5	17.2	13.2	7.7	7.2	6.8	6.5	6.5	6.6	6.6
Goods and services	8.9	16.3	25.8	14.5	13.2	11.5	8.0	6.6	6.4	6.0	6.0	5.8	5.5
Interest	2.8	3.1	3.9	6.0	5.8	6.6	6.9	6.4	6.4	6.1	5.7	5.4	5.2
Subsidies to corporations and enterprises	2.1	2.5	2.4	2.2	2.2	2.1	2.1	1.7	1.6	1.5	1.4	1.4	1.3
Social benefits	13.3	17.7	15.3	17.0	17.0	16.3	16.2	17.3	17.5	17.6	17.6	17.8	18.0
Social programs (on budget)	2.8	5.5	3.7	5.2	5.5	5.5	5.4	5.4	6.4	6.9	7.1	7.1	7.8
Pensions	9.5	11.2	11.5	11.4	11.2	10.5	10.2	11.1	10.0	9.4	9.0	9.1	8.4
Unemployment, disability, and accident insurance	1.0	0.9	0.1	0.3	0.3	0.3	0.6	0.9	1.1	1.3	1.5	1.6	1.7
Other current expenditures	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Capital	3.8	2.5	4.8	5.2	5.1	5.6	5.8	6.0	6.0	5.9	5.9	5.9	5.9
Net lending	0.1	0.0	-0.1	0.4	0.8	2.4	0.3	0.1	0.5	1.0	1.0	1.0	1.0
Contingency reserve 2/	0.0	0.0	0.0	0.7	0.7	0.7	0.7	0.7	0.5	0.0	0.0	0.0	0.0
General government overall balance	-4.0	-15.7	-19.7	-17.6	-17.9	-15.4	-6.0	-5.4	-5.1	-4.2	-3.6	-3.4	-3.3
General government overall balance, excluding grants	-4.0	-25.0	-26.3	-28.4	-24.8	-19.9	-8.4	-6.5	-6.0	-5.1	-4.5	-4.2	-4.1
General government financing	4.0	15.7	19.7	17.6	17.9	15.4	6.0	5.4	5.1	4.2	3.6	3.4	3.3
External	2.4	10.8	16.6	12.9	7.5	4.3	1.4	-0.7	2.1	2.0	1.2	0.9	1.0
Disbursements	4.4	11.8	17.7	16.0	11.1	8.1	4.5	2.9	5.8	6.1	5.9	5.6	5.4
Amortizations and other external payments	-2.0	-1.1	-1.1	-3.0	-3.6	-3.7	-3.1	-3.5	-3.7	-4.1	-4.7	-4.8	-4.5
Domestic (net)	1.6	5.1	3.1	4.6	10.4	11.1	4.5	6.1	3.0	2.2	2.4	2.5	2.4
Bond financing 3/	1.2	5.7	2.8	4.5	10.3	11.0	4.2	5.7	2.7	2.0	2.3	2.3	2.3
o/w NBU	-0.3	7.4	-0.2	-0.2	-0.2	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.3
o/w Commercial banks	1.5	-1.5	2.6	4.6	10.1	11.2	4.3	5.8	2.7	2.0	2.3	2.3	2.5
Direct bank borrowing	0.6	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Deposit finance	-0.3	-0.7	-0.9	0.0	0.0	0.0	0.3	0.3	0.3	0.2	0.2	0.1	0.1
Privatization and other items	0.1	0.4	1.3	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0
Financing Gap/undidentified measures (-gap/+surplus)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:													
Primary balance	-1.1	-12.6	-15.8	-11.5	-12.1	-8.8	0.9	1.0	1.3	1.9	2.1	2.0	1.9
Public and publicly-guaranteed debt	48.9	78.4	82.9	105.9	123.2	135.7	134.3	132.4	130.3	127.6	124.5	121.3	118.3
Nominal GDP (billions of Ukrainian hryvnia)	5,451	5,191	6,495	7,238	7,946	8,598	9,400	10,245	11,166	12,170	13,264	14,457	15,757

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

1/ National methodology, cash basis.

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

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

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

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

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
	Act.	Act.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Current account balance	-3.9	8.0	-9.8	-13.6	-2.2	-6.0	-7.2	-6.9	-6.3	-7.6	-8.1	-7.8	-7.6
Goods (net)	-6.6	-14.7	-28.8	-33.1	-25.4	-31.9	-37.8	-34.6	-34.0	-34.1	-33.5	-32.6	-31.7
Exports	63.1	40.9	34.5	37.2	38.7	43.7	45.3	50.2	54.0	58.2	63.5	69.2	75.3
Imports	-69.8	-55.6	-63.3	-70.3	-64.0	-75.6	-83.1	-84.9	-88.0	-92.3	-97.0	-101.7	-107.0
Services (net)	4.0	-11.1	-8.9	-14.0	-4.7	3.9	11.9	13.1	14.5	15.4	15.7	16.1	16.4
Receipts	18.4	16.6	16.4	14.6	16.8	20.6	24.4	26.9	29.6	31.5	32.8	34.1	35.5
Payments	-14.4	-27.7	-25.3	-28.7	-21.5	-16.7	-12.5	-13.8	-15.1	-16.1	-17.0	-18.0	-19.1
Primary income (net)	-5.8	8.5	5.5	4.4	6.8	6.8	6.0	5.2	4.5	3.0	2.495	2.1	2.1
Secondary income (net)	4.6	25.2	22.5	29.1	21.0	15.1	12.7	9.4	8.7	8.1	7.2	6.6	5.8
Capital account balance	0.0	0.2	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial account balance	-5.8	8.5	-20.7	-8.6	-7.7	-9.2	-7.2	-5.2	-8.8	-12.8	-12.7	-12.2	-12.5
Direct investment (net)	-7.5	-0.2	-4.2	-3.2	-2.5	-3.6	-6.7	-8.5	-8.8	-9.2	-10.1	-10.2	-10.3
Portfolio investment (net)	-1.1	2.0	2.7	1.5	2.3	2.3	2.0	3.0	1.5	0.3	0.4	0.1	0.1
Portfolio investment: assets	-0.1	0.6	2.3	0.2	0.7	0.0	0.8	0.6	1.0	0.5	0.4	0.6	0.4
Portfolio investment: liabilities	1.0	-1.4	-0.5	-1.3	-1.5	-2.3	-1.2	-2.4	-0.5	0.1	0.0	0.5	0.3
Financial derivatives (net)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other investment (net)	2.9	6.7	-19.2	-6.9	-7.4	-7.9	-2.5	0.3	-1.5	-3.9	-3.0	-2.1	-2.3
Other investment: assets	7.7	21.0	11.3	18.6	9.1	4.4	2.9	2.7	2.4	0.7	0.2	0.1	0.4
Other investment: liabilities	4.9	14.3	30.5	25.5	16.5	12.3	5.4	2.4	3.9	4.6	3.2	2.2	2.7
Net use of IMF resources for budget support	0.2	2.3	3.6	4.0	-0.6	-0.4	-0.5	-1.0	-1.7	-1.0	-1.3	-1.3	-1.2
Central Bank	2.7	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
General government	1.5	14.7	25.9	20.5	16.1	10.8	4.8	2.8	5.0	5.0	3.8	2.9	3.2
Banks 3/	0.4	-0.4	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other sectors	0.0	-2.2	1.1	0.9	0.9	1.8	1.0	0.6	0.6	0.6	0.6	0.6	0.6
Errors and omissions	1.8	-0.3	1.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Unidentified financing need	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	3.7	-0.6	13.0	-5.1	5.5	3.2	0.0	-1.7	2.5	5.2	4.6	4.4	5.0
Financing	-3.7	0.6	-13.0	5.1	-5.5	-3.2	0.0	1.7	-2.5	-5.2	-4.6	-4.4	-5.0
Gross official reserves (increase: -)	-2.8	2.2	-11.4	6.1	-5.6	-4.2	-0.6	1.7	-2.5	-4.2	-3.4	-3.1	-3.8
Net use of IMF resources for BOP support	-0.9	-1.6	-1.6	-1.0	0.1	1.0	0.6	0.0	0.0	-1.0	-1.3	-1.3	-1.2
Memorandum items:													
Current account balance (percent of GDP)	-1.9	5.0	-5.5	-7.9	-1.3	-3.6	-4.2	-3.8	-3.4	-3.9	-4.0	-3.7	-3.5
Goods and services trade balance (percent of GDP)	-1.3	-16.0	-21.3	-27.4	-18.2	-16.7	-14.9	-11.9	-10.4	-9.6	-8.8	-7.9	-7.0
Gross international reserves	30.9	28.5	40.5	34.4	40.0	44.2	44.8	43.1	45.6	49.8	53.2	56.2	60.0
Months of next year's imports of goods and services	4.5	3.9	4.9	4.8	5.2	5.5	5.4	5.0	5.0	5.2	5.3	5.3	5.4
Percent of the IMF composite metric (float)	98.9	92.9	113.2	87.3	96.9	100.4	100.1	94.8	96.3	103.5	107.4	111.8	116.9

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

1/ Based on BPM6.

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

3/ Includes banks' debt for equity operations.

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

(Percent of GDP, unless otherwise indicated)

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
	Act.	Act.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Current account balance	-1.9	5.0	-5.5	-7.9	-1.3	-3.6	-4.2	-3.8	-3.4	-3.9	-4.0	-3.7	-3.5
Goods (net)	-3.3	-9.1	-16.3	-19.3	-15.3	-19.1	-21.7	-19.2	-18.1	-17.5	-16.5	-15.5	-14.5
Exports	31.6	25.5	19.4	21.6	23.4	26.2	26.1	27.8	28.8	29.9	31.4	32.9	34.4
Imports	-34.9	-34.6	-35.7	-40.9	-38.7	-45.3	-47.8	-47.0	-46.9	-47.4	-47.9	-48.4	-49.0
Services (net)	2.0	-6.9	-5.0	-8.2	-2.8	2.4	6.8	7.3	7.7	7.9	7.8	7.6	7.5
Receipts	9.2	10.4	9.3	8.5	10.2	12.4	14.0	14.9	15.8	16.2	16.2	16.2	16.2
Payments	-7.2	-17.3	-14.3	-16.7	-13.0	-10.0	-7.2	-7.6	-8.1	-8.2	-8.4	-8.6	-8.7
Primary income (net)	-2.9	5.3	3.1	2.5	4.1	4.1	3.5	2.9	2.4	1.6	1.2	1.0	0.9
Secondary income (net)	2.3	15.7	12.7	16.9	12.7	9.0	7.3	5.2	4.6	4.2	3.5	3.1	2.6
Capital account balance	0.0	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial account balance	-2.9	5.3	-11.7	-5.0	-4.6	-5.5	-4.2	-2.9	-4.7	-6.6	-6.3	-5.8	-5.7
Direct investment (net)	-3.8	-0.1	-2.4	-1.9	-1.5	-2.2	-3.9	-4.7	-4.7	-4.7	-5.0	-4.8	-4.7
Portfolio investment (net)	-0.6	1.3	1.5	0.9	1.4	1.4	1.1	1.7	0.8	0.2	0.2	0.1	0.1
Portfolio investment: assets	0.0	0.4	1.3	0.1	0.4	0.0	0.5	0.3	0.5	0.2	0.2	0.3	0.2
Portfolio investment: liabilities	0.5	-0.9	-0.3	-0.8	-0.9	-1.4	-0.7	-1.3	-0.3	0.1	0.0	0.2	0.1
Financial derivatives (net)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other investment (net)	1.4	4.2	-10.9	-4.0	-4.5	-4.7	-1.4	0.2	-0.8	-2.0	-1.5	-1.0	-1.0
Other investment: assets	3.9	13.1	6.4	10.8	5.5	2.6	1.7	1.5	1.3	0.3	0.1	0.0	0.2
Other investment: liabilities	2.4	8.9	17.2	14.8	10.0	7.4	3.1	1.3	2.1	2.3	1.6	1.1	1.2
Net use of IMF resources for budget support	0.1	1.4	2.0	2.3	-0.4	-0.2	-0.3	-0.6	-0.9	-0.5	-0.6	-0.6	-0.5
Central Bank	1.4	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
General government	0.8	9.2	14.6	12.0	9.8	6.5	2.8	1.5	2.7	2.6	1.9	1.4	1.5
Banks 3/	0.2	-0.3	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other sectors	0.0	-1.4	0.6	0.5	0.6	1.1	0.6	0.3	0.3	0.3	0.3	0.3	0.3
Errors and omissions	0.9	-0.2	1.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Unidentified financing need	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	1.9	-0.4	7.3	-2.9	3.3	1.9	0.0	-0.9	1.3	2.7	2.3	2.1	2.3
Financing	-1.9	0.4	-7.3	2.9	-3.3	-1.9	0.0	0.9	-1.3	-2.7	-2.3	-2.1	-2.3
Gross official reserves (increase: -)	-1.4	1.4	-6.4	3.5	-3.4	-2.5	-0.3	0.9	-1.3	-2.2	-1.7	-1.5	-1.7
Net use of IMF resources for BOP support	-0.5	-1.0	-0.9	-0.6	0.1	0.6	0.3	0.0	0.0	-0.5	-0.6	-0.6	-0.5
Memorandum items:													
Gross international reserves (USD billions)	30.9	28.5	40.5	34.4	40.0	44.2	44.8	43.1	45.6	49.8	53.2	56.2	60.0
Months of next year's imports of goods and services	4.5	3.9	4.9	4.8	5.2	5.5	5.4	5.0	5.0	5.2	5.3	5.3	5.4
Percent of the IMF composite metric (float)	98.9	92.9	113.2	87.3	96.9	100.4	100.1	94.8	96.3	103.5	107.4	111.8	116.9

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

1/ Based on BPM6.

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

3/ Includes banks' debt for equity operations.

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

(Billions of U.S. dollars)

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
	Act.	Act.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
A. Total financing requirements	**37.5**	**54.7**	**57.7**	**83.6**	**55.7**	**53.0**	**50.0**	**48.5**	**51.6**	**49.7**	**52.4**	**52.1**	**52.0**
Current account deficit (excluding grants)	3.9	6.0	21.4	32.3	13.6	13.4	11.3	8.9	8.0	9.3	9.8	9.5	9.3
Portfolio investment	4.9	2.7	4.9	4.5	3.3	4.6	2.5	3.5	5.5	3.3	4.7	2.6	2.6
Private	0.6	0.9	2.5	2.9	1.3	1.8	0.8	0.6	4.0	1.5	2.7	1.1	0.9
General government	4.3	1.8	2.4	1.6	1.9	2.8	1.7	2.9	1.5	1.9	2.0	1.5	1.7
Medium and long-term debt	3.6	2.2	2.2	3.1	2.9	2.8	3.8	3.8	6.3	6.3	7.5	8.4	8.1
Private	2.7	1.1	1.3	1.5	1.5	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4
Banks	0.2	0.3	0.2	0.4	0.4	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Corporates	2.5	0.9	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1
General government	0.9	1.0	0.9	1.6	1.4	1.4	2.4	2.4	4.9	4.9	6.1	7.0	6.7
Short-term debt (including deposits)	0.8	4.2	1.5	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0
Other net capital outflows 1/	8.6	21.0	9.5	17.6	9.1	4.4	2.9	1.9	2.4	0.7	0.2	0.1	0.4
Trade credit	15.7	18.6	18.3	20.1	20.9	21.7	23.5	24.5	23.4	24.1	24.2	25.5	25.6
B. Total financing sources	**39.6**	**27.7**	**31.0**	**35.1**	**33.9**	**37.5**	**39.2**	**41.5**	**45.8**	**45.1**	**47.6**	**46.5**	**47.3**
Capital transfers	0.0	0.2	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Direct investment, net	7.5	0.2	4.2	3.2	2.5	3.6	6.7	8.5	8.8	9.2	10.1	10.2	10.3
Portfolio investment	6.0	0.5	2.2	3.0	1.0	2.3	0.5	0.5	4.0	3.0	4.3	2.5	2.5
Private	1.8	0.0	0.0	3.0	1.0	2.3	0.5	0.5	3.0	1.0	2.3	0.5	0.5
General government	4.2	0.5	2.2	0.0	0.0	0.0	0.0	0.0	1.0	2.0	2.0	2.0	2.0
Of which: Market financing	1.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.0	2.0	2.0	2.0	2.0
Medium and long-term debt	8.1	4.1	3.0	2.0	2.6	2.1	1.5	1.5	1.5	1.5	1.5	1.5	1.5
Private	4.9	4.5	3.1	1.7	1.6	1.6	1.5	1.5	1.5	1.5	1.5	1.5	1.5
Banks	0.2	0.0	0.1	0.5	0.4	0.4	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Corporates	4.7	4.5	3.0	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2
General government	3.1	-0.4	-0.1	0.3	1.0	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Short-term debt (including deposits)	0.9	4.4	1.4	6.0	6.3	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0
Trade credit	17.2	18.3	20.1	20.9	21.4	23.5	24.4	24.9	25.5	25.4	25.7	26.3	26.9
C. Financing needs (A - B)	**-2.2**	**27.0**	**26.6**	**48.5**	**21.8**	**15.5**	**10.8**	**7.0**	**5.8**	**4.6**	**4.8**	**5.7**	**4.7**
Unidentified fiscal financing need	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
D. Total exceptional financing needs	**-2.2**	**27.0**	**26.6**	**48.5**	**21.8**	**15.5**	**10.8**	**7.0**	**5.8**	**4.6**	**4.8**	**5.7**	**4.7**
E. Official financing	**1.7**	**30.6**	**40.5**	**41.9**	**27.4**	**19.7**	**11.4**	**6.1**	**9.9**	**9.6**	**9.1**	**9.0**	**9.3**
IMF	-0.7	0.7	1.9	3.0	-0.5	0.6	0.1	-1.0	-1.7	-2.1	-2.5	-2.6	-2.3
Purchases	0.7	2.7	4.5	5.4	1.8	2.6	1.3	0.0	0.0	0.0	0.0	0.0	0.0
Repurchases	1.4	2.1	2.5	2.4	2.3	2.0	1.2	1.0	1.7	2.1	2.5	2.6	2.3
Official grants	0.0	14.0	11.6	18.6	11.4	7.4	4.1	2.0	1.7	1.7	1.7	1.7	1.7
Official creditors	2.3	15.9	26.9	20.3	16.5	11.7	7.2	5.1	9.9	9.9	9.9	9.9	9.9
F. Increase in reserves	**2.8**	**-2.2**	**11.4**	**-6.1**	**5.6**	**4.2**	**0.6**	**-1.7**	**2.5**	**4.2**	**3.4**	**3.1**	**3.8**
G. Errors and omissions	**1.8**	**-0.3**	**1.9**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Memorandum items:													
Gross international reserves	30.9	28.5	40.5	34.4	40.0	44.2	44.8	43.1	45.6	49.8	53.2	56.2	60.0
Months of next year's imports of goods and services	4.5	3.9	4.9	4.8	5.2	5.5	5.4	5.0	5.0	5.2	5.3	5.3	5.4
Percent of short-term debt (remaining maturity)	67.5	64.5	87.3	80.5	87.6	100.4	97.3	82.9	92.3	95.4	103.9	109.1	105.5
Percent of the IMF composite (float) 2/	98.9	92.9	113.2	87.3	96.9	100.4	100.1	94.8	96.3	103.5	107.4	111.8	116.9
Loan rollover rate (percent)													
Banks	97.2	96.7	88.2	100.3	100.3	100.5	100.2	100.0	100.0	100.0	100.0	100.0	100.0
Corporates	89.3	105.2	95.6	109.7	109.7	109.7	109.7	109.7	109.7	109.7	109.7	109.7	109.7
Total	91.4	98.2	91.2	101.7	101.7	101.9	101.7	101.5	101.5	101.5	101.5	101.5	101.5

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

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

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

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

(Billions of Ukrainian Hryvnia)

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
	Act.	Act.	Act.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Monetary survey													
Net foreign assets	850	1,252	1,926	1,907	2,368	2,642	2,768	2,833	3,228	3,787	4,368	4,982	5,678
Net domestic assets	1,221	1,249	1,151	1,523	1,406	1,490	1,737	2,076	2,122	2,044	1,988	1,946	1,872
Domestic credit	1,925	2,212	2,248	2,583	3,406	4,495	4,972	5,676	6,155	6,595	7,150	7,780	8,500
Net claims on government	898	1,218	1,259	1,576	2,395	3,473	3,892	4,509	4,837	5,108	5,433	5,798	6,211
Credit to the economy	1,023	991	986	1,003	1,007	1,019	1,075	1,163	1,312	1,481	1,711	1,976	2,282
Domestic currency	731	725	733	749	755	771	832	924	1,078	1,252	1,486	1,755	2,065
Foreign currency	292	266	253	254	252	248	243	239	234	230	225	221	217
Other claims on the economy	5	4	3	3	4	4	4	5	5	6	6	7	7
Other items, net	-704	-963	-1,097	-1,059	-2,000	-3,005	-3,235	-3,600	-4,033	-4,551	-5,162	-5,834	-6,628
Broad money	2,071	2,501	3,077	3,431	3,774	4,132	4,504	4,909	5,351	5,832	6,356	6,927	7,550
Currency in circulation	581	666	716	736	971	1,064	1,139	1,217	1,444	1,528	1,611	1,687	1,758
Total deposits	1,489	1,834	2,360	2,693	2,802	3,067	3,364	3,691	3,905	4,302	4,744	5,238	5,791
Domestic currency deposits	1,014	1,204	1,628	1,944	1,961	2,181	2,383	2,585	2,716	3,023	3,369	3,761	4,203
Foreign currency deposits	474	630	732	750	841	886	982	1,106	1,189	1,279	1,375	1,478	1,588
Accounts of the NBU													
Net foreign assets	701	907	1,456	1,405	1,848	2,128	2,260	2,332	2,707	3,244	3,802	4,392	5,064
Net international reserves	566	670	1,076	881	1,273	1,524	1,625	1,666	2,007	2,510	3,031	3,582	4,214
(In billions of U.S. dollars)	20.8	18.3	28.3	…	…	…	…	…	…	…	…	…	…
Reserve assets	844	1,042	1,539	…	…	…	…	…	…	…	…	…	…
Other net foreign assets	134	237	380	523	576	604	635	666	700	735	771	810	850
Net domestic assets	-38	-115	-479	-299	-608	-770	-798	-760	-1,022	-1,453	-1,905	-2,393	-2,967
Net domestic credit	175	312	6	93	678	1,466	1,610	1,941	2,032	2,055	2,144	2,254	2,392
Net claims on government	270	704	591	567	552	539	533	527	522	514	506	497	486
Claims on government	325	758	729	717	704	691	680	669	658	647	636	625	614
Net claims on banks	-95	-392	-585	-473	126	927	1,077	1,414	1,510	1,541	1,638	1,757	1,907
Other items, net	-213	-427	-485	-393	-1,285	-2,236	-2,408	-2,701	-3,054	-3,508	-4,050	-4,647	-5,359
Base money	662	793	977	1,105	1,240	1,358	1,462	1,572	1,685	1,791	1,896	1,999	2,098
Currency in circulation	581	666	716	736	971	1,064	1,139	1,217	1,444	1,528	1,611	1,687	1,758
Banks' reserves	81	126	261	369	270	294	323	355	241	263	286	312	340
Cash in vault	47	49	48	84	88	96	105	116	122	135	148	164	181
Correspondent accounts	35	77	213	284	182	198	217	240	119	128	137	148	159
Deposit money banks													
Net foreign assets	149	345	470	503	520	514	508	501	521	543	566	590	614
Foreign assets	254	427	550	643	698	729	762	796	832	869	908	949	991
Foreign liabilities	105	82	80	141	178	215	254	295	310	326	342	359	377
Net domestic assets	1,339	1,489	1,890	2,190	2,282	2,552	2,856	3,190	3,383	3,758	4,177	4,648	5,176
Domestic credit	1,875	2,064	2,540	2,896	3,036	3,361	3,722	4,128	4,401	4,840	5,329	5,875	6,485
Net claims on government 1/	628	513	668	1,009	1,844	2,934	3,360	3,981	4,315	4,594	4,927	5,300	5,725
Credit to the economy	1,023	991	986	1,003	1,007	1,019	1,075	1,162	1,312	1,481	1,710	1,975	2,282
Other claims on the economy	5	3	3	3	4	4	4	5	5	6	6	7	7
Net claims on NBU	220	594	883	880	182	-596	-717	-1,021	-1,231	-1,240	-1,314	-1,407	-1,529
Other items, net	-536	-574	-650	-705	-754	-809	-866	-937	-1,018	-1,082	-1,152	-1,227	-1,309
Banks' liabilities	1,488	1,834	2,360	2,693	2,802	3,067	3,364	3,691	3,905	4,301	4,743	5,238	5,790
Memorandum items:	(End of period, percent change unless otherwise noted)												
Base money	11.2	19.6	23.3	13.1	12.2	9.5	7.6	7.6	7.2	6.3	5.9	5.4	4.9
Currency in circulation	12.6	14.6	7.5	2.8	31.8	9.7	4.8	5.8	6.8	7.8	8.8	9.8	10.8
Broad money	12.0	20.8	23.0	11.5	10.0	9.5	9.0	9.0	9.0	9.0	9.0	9.0	9.0
Credit to the economy	8.4	-3.1	-0.5	1.7	0.4	1.2	5.5	8.1	12.9	12.9	15.5	15.5	15.5
Real credit to the economy 2/	-1.5	-23.5	-5.3	-7.5	-7.5	-5.0	0.0	3.0	7.5	7.5	10.0	10.0	10.0
Credit-to-GDP ratio, in percent	18.8	19.1	15.2	13.9	12.7	11.9	11.4	11.3	11.8	12.2	12.9	13.7	14.5
Velocity of broad money, ratio	2.6	2.1	2.1	2.1	2.1	2.1	2.1	2.1	2.1	2.1	2.1	2.1	2.1
Money multiplier, ratio	3.1	3.2	3.1	3.1	3.0	3.0	3.1	3.1	3.2	3.3	3.4	3.5	3.6
Hryvnia per U.S. dollar (end of period)	27.3	36.6	38.0	…	…	…	…	…	…	…	…	…	…

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

1/ Includes claims for recapitalization of banks.

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

Annex II. Table 6. Ukraine: Indicators of Fund Credit (Downside Scenario), 2024–2033

(In millions of SDR)

	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
	Projections									
Existing Fund credit										
Stock 1/	7,264	5,527	4,029	3,117	2,560	2,003	1,447	890	334	0
Obligations	2,194	2,288	1,923	1,237	841	813	785	756	728	477
Principal (repurchases)	1,681	1,736	1,498	913	557	557	557	557	557	334
Interest charges	513	552	426	324	285	256	228	199	171	143
Prospective purchases										
Disbursements	4,003	1,368	1,931	966	0	0	0	0	0	0
Stock 1/	4,003	5,372	7,303	8,269	8,074	7,350	6,374	5,077	3,698	2,320
Obligations 2/	116	373	511	643	841	1,324	1,493	1,708	1,649	1,546
Principal (repurchases)	0	0	0	0	194	724	976	1,298	1,378	1,378
Interest charges	116	373	511	643	647	600	517	410	271	168
Stock of existing and prospective Fund credit 1/	11,267	10,899	11,332	11,385	10,634	9,353	7,821	5,967	4,032	2,320
In percent of quota 2/	560	542	563	566	529	465	389	297	200	115
In percent of GDP	8.8	8.9	9.1	8.8	8.0	6.7	5.4	4.0	2.6	1.4
In percent of exports of goods and nonfactor services	29.1	26.4	23.7	22.0	18.6	15.1	11.8	8.4	5.3	2.8
In percent of gross reserves	43.8	36.6	34.5	34.3	33.3	27.7	21.2	15.2	9.7	5.2
In percent of public external debt	15.5	13.2	12.7	12.5	11.7	10.1	8.2	6.2	4.2	2.4
Obligations to the Fund from existing and prospective Fund credit	2,309	2,661	2,435	1,880	1,682	2,137	2,277	2,464	2,377	2,023
In percent of quota	114.8	132.3	121.0	93.5	83.6	106.2	113.2	122.5	118.1	100.6
In percent of GDP	1.8	2.2	2.0	1.5	1.3	1.5	1.6	1.6	1.5	1.3
In percent of exports of goods and nonfactor services	6.0	6.4	5.1	3.6	2.9	3.4	3.4	3.5	3.1	2.5
In percent of gross reserves	9.0	8.9	7.4	5.7	5.3	6.3	6.2	6.3	5.7	4.6
In percent of public external debt service	43.5	63.6	63.9	40.5	37.3	34.0	36.6	35.5	31.2	27.5

Source: Fund staff estimates and projections.

1/ End of period.

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

Annex III. Sovereign Risk and Debt Sustainability Analysis

Maintaining the convention followed thus far under the program, the Sovereign Risk and Debt Sustainability Analysis (SRDSA) is based on a pre-restructuring baseline, complemented with a pre-restructuring downside scenario. These analyses continue showing that debt is unsustainable without: (i) sufficiently deep debt treatments, (ii) fiscal adjustment, and (iii) financing on sufficiently concessional terms during and after the program. The program incorporates progress on these three fronts. The authorities plan to undertake a revenue-based fiscal adjustment. Official donors have provided commitments for exceptional financial support and assurances of a debt restructuring before the final review of the program. And a credible process is underway on the external commercial debt restructuring. Thus, staff continues assessing public debt as sustainable on a forward-looking basis.

1. **This annex updates the SRDSAs performed for the 2023 Article IV Consultation and 2nd Review of Ukraine's arrangement under the Extended Fund Facility**. The updated SRDSA continues to find an overall assessment of high risks, based on determinations of high risks in both the medium- and long-term horizons. These judgments were aligned with the results of the mechanical tools and reinforced by high uncertainty. Debt was also assessed as unsustainable in a pre-restructuring scenario. In addition to a deep debt operation, restoring sustainability would also require substantial fiscal adjustment and exceptional financing from donors. However, the commitments under the program, assurances from official creditors, and a credible process for a private external debt restructuring provided a basis for staff to assess debt as sustainable on a forward-looking basis.

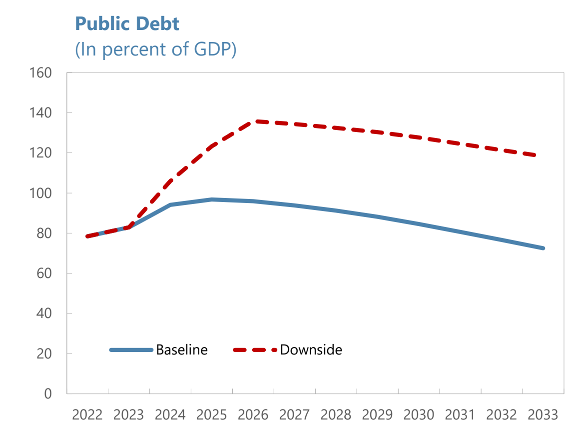
2. **In line with the Fund's policies for lending under exceptionally high uncertainty, the SRDSA continues to consider both baseline and downside scenarios**:

- *Revisions to the macroeconomic outlook*: The baseline scenario is little changed relative to the Second Review. Real GDP growth in 2023 appears to have been somewhat stronger than anticipated. Going forward, the 2024 projection at the lower end of the 3–4 percent range remains around the 3–4 percent range of the last SRDSA. Subsequent years are little changed, and remain consistent with a measured reconstruction, with real GDP returning to its pre-war level in 2030. Inflation has surprised on the downside, and is now expected to be a bit lower in the early years of the horizon than before; the medium-term inflation outlook is little changed. In the downside, the shock is expected to materialize in the second quarter of 2024, and the contraction is somewhat smaller than in the 2nd review. The revisions to inflation are mixed, but converge to the same rate in the medium-term.

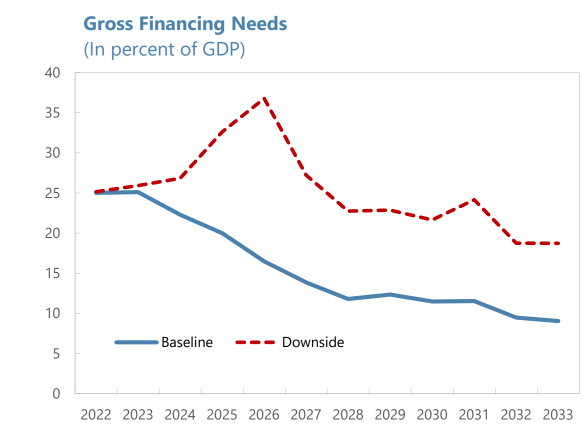
- *Financing assumptions*: Changes to the baseline scenario regarding financing under the program are limited relative to the last SRDSA. The 2023 outturn reflects the absence of about $3.3 billion of expected U.S. grants and slightly higher disbursements from the World Bank. In the projection horizon, U.S. grants are expected in 2024, consistent with the U.S. administration's budget proposal, in addition to some newly announced grants from other partners. Regarding lending, financing from the European Commission under the Ukraine Facility has been fully included, and the assumed profile of EC disbursements has been brought forward a bit. Other disbursements are little changed, with total official external financing assumed under the baseline amounting to $94.4 billion (excluding the IMF) over the program period. After the program, there are no commitments from external donors, and budget support disbursements from these partners are expected to be lower, around US$4.5–12 billion per year. Reflecting the exceptional uncertainty and upcoming debt restructuring, the baseline continues to envisage a return to market access only in 2029.

- *Coverage*: The Ukrainian authorities are representing a dispute on three debts with Russia. These claims include a series of 2013 Eurobonds (amounting to US$3 billion) is currently subject to an ongoing legal proceeding in the United Kingdom. The disputed debts also include two bilateral loans with Russia amounting to about US$0.6 billion. Following the Fund's procedures for disputed claims, these debts have been excluded from the debt stock in this update to the DSA. However, these claims entail contingent liability risks, particularly in case of an adverse judgment on the Eurobonds.[1] Additionally, each of the pre-restructuring SRDSAs now incorporates projected payments on Ukraine's GDP warrants consistent with their respective projected growth paths over 2024–33, under a passive policy assumption around the warrants.

- *Debt and GFN trajectories*: The current estimate for end-2023 debt outturn is a little below 85 percent of GDP and is a bit lower than projected in the last SRDSA. In both the baseline and downside scenarios, the paths of the debt-to-GDP ratios follow a similar pattern as in the last SRDSA—rising at first, before resuming a somewhat downward trend over the medium run. Gross financing needs are also a bit lower than in the 2nd Review in both the baseline and downside scenarios.



Sources: IMF staff estimates.



Sources: IMF staff estimates.

[1] The exclusion of the disputed debts does not change the mechanical results of the medium-term SRDSF tools, which would both be consistent with high risk even if the claims were included. It also does not change the overall finding that debt is unsustainable in the absence of restructuring, nor does it change the debt and GFN targets that are consistent with debt sustainability.

3. Staff concurs with the results from the mechanical tools that debt remains unsustainable in the pre-restructuring baseline and downside scenarios, and that risks are high.

- Debt sustainability and medium-term risk signals: Both the medium-term tools continue indicating risks at high levels, with mixed movements among the various components. The overall risk metrics from both tools are very high, and thus consistent with a finding of unsustainable debt in the absence of debt restructuring.

- Long-term scenarios: Given a successful debt restructuring that delivers targets consistent with a return to debt sustainability (next paragraph), debt would remain in sustainable ranges. However, given the extremely high uncertainty and relevant long-term risks, including those arising from refinancing the concessional debt extended under the program on less favorable terms, staff continues to assess long-term risks as high.

4. The debt restructuring targets arising from indicative modeling remain appropriate, and consist of the following:

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

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

- As complementary targets, the authorities should aim to bring public debt to 82 percent of GDP by 2028 and achieve debt service flow relief on external obligations of 1–1.8 percent of GDP per year (table). Realizing these savings would lower the demands on local financial institutions to absorb government paper through the domestic market. Containing local financial intermediaries' government debt holdings would create space for lending to support economic activity. It would also build an adequate liquidity buffer in case macro-fiscal or contingent liability shocks materialize and thereby promote resilience.

Ukraine: Deficit Financing After Exceptional Financing from Debt Restructuring

(percent of GDP)

	2023	2024	2025	2026	2027
Overall deficit	-19.7	-13.7	-7.3	-4.7	-3.5
Financing	19.7	13.7	7.3	4.7	3.5
Of which:					
External financing, net	16.6	11.9	6.8	3.6	1.2
Domestic bonds, net	2.8	0.9	1.7	-1.7	1.5
Deposit financing, net (-=accumulation)	-0.9	0.0	-1.2	1.1	0.0
Exceptional financing	0.0	1.0	1.6	1.8	1.6
Memo:					
Exceptional financing in billion US dollars	0.0	1.9	3.2	3.6	3.5

Source: Fund staff calculations.

5. Staff continues to assess debt as sustainable in a forward-looking sense. As before, the restoration of debt sustainability depends on three ingredients: (i) fiscal adjustment; (ii) substantial concessional financing; and (iii) debt restructuring. With the implementation of the policies and commitments under the program, all three conditions would be met. First, the authorities' plans under the program incorporate a meaningful revenues-based fiscal adjustment, with measures to be implemented over the duration of the program. Official bilateral donors have provided commitments of substantial financing on concessional terms, agreed to a debt standstill during the program, and provided assurances to restructure their claims before the final review of the program. Last, staff assesses that there is a credible process in place to restructure external commercial debt in line with the targets developed by Fund staff and which are consistent with a return to sustainability.

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

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

DSA Summary Assessment

Ukraine's debt continues to be assessed to be unsustainable in a pre-restructuring scenario. Debt sustainability on a forward-looking basis is contingent on strong policy commitments and financing assurances and specific and credible assurances of debt relief that achieves GFNs that average of 8 percent of GDP over 2028-33 and public debt of 65 percent of GDP by 2033 (in a post-restructuring scenario). These debt targets are judged to be consistent with a manageable level of gross financing needs and strong prospects that debt stabilizes at a sustainable level. Complementary targets have also been set for 2028 debt levels and for flow relief over 2024-27. With such commitments and assurances, the pre-restructuring baseline scenario underlines the impact of high projected primary deficits and an anticipated slow recovery from the war. The medium-term modules signal high sovereign stress risks, notably a wide fanchart that points to the very high uncertainty around the forecast, and the GFN stress test that find persistently high financing needs, especially in the near term.

Source: Fund staff.
Note: The risk of sovereign stress is a broader concept than debt sustainability. Unsustainable debt can only be resolved through exceptional measures (such as debt restructuring). In contrast, a sovereign can face stress without its debt necessarily being unsustainable, and there can be various measures—that do not involve a debt restructuring—to remedy such a situation, such as fiscal adjustment and new financing.
1/ The near-term assessment is not applicable in cases where there is a disbursing IMF arrangement. In surveillance-only cases or in cases with precautionary IMF arrangements, the near-term assessment is performed but not published.
2/ A debt sustainability assessment is optional for surveillance-only cases and mandatory in cases where there is a Fund arrangement. The mechanical signal of the debt sustainability assessment is deleted before publication. In surveillance-only cases or cases with IMF arrangements with normal access, the qualifier indicating probability of sustainable debt ("with high probability" or "but not with high probability") is deleted before publication.

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

						Comments
1. Debt coverage in the DSA: 1/	CG	GG	NFPS	CPS	Other	
1a. If central government, are non-central government entities insignificant?					n.a.	
2. Subsectors included in the chosen coverage in (1) above:						

					#	Subsectors captured in the baseline	Inclusion	Comments
CPS	NFPS	GG: expected	CG		1	Budgetary central government	Yes	
					2	Extra budgetary funds (EBFs)	No	Not applicable
					3	Social security funds (SSFs)	Yes	
					4	State governments	Yes	
					5	Local governments	Yes	
					6	Public nonfinancial corporations	Yes	
					7	Central bank	Yes	Inc. projected IMF BOP support
					8	Other public financial corporations	Yes	

3. Instrument coverage:	Currency & deposits	Loans	Debt securities	Oth acct. payable 2/	IPSGSs 3/

4. Accounting principles:	Basis of recording		Valuation of debt stock		
	Non-cash basis 4/	Cash basis	Nominal value 5/	Face value 6/	Market value 7/

			Comments
5. Debt consolidation across sectors:	Consolidated	Non-consolidated	Data unavailable

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

Reporting on Intra-Government Debt Holdings

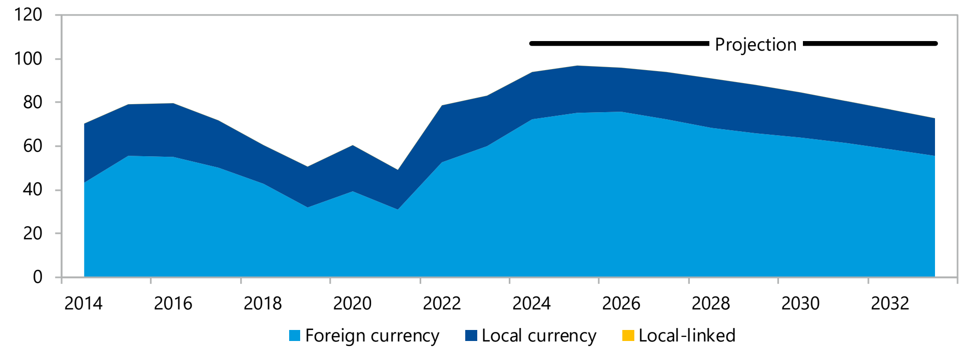
			Issuer \ Holder	Budget. central govt	Extra-budget. funds	Social security funds	State govt.	Local govt.	Nonfin. pub. corp.	Central bank	Oth. pub. fin corp	Total
CPS	NFPS	GG: expected	CG	1 Budget. central govt								0
				2 Extra-budget. funds								0
				3 Social security funds								0
				4 State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

1/ CG=Central government; GG=General government; NFPS=Nonfinancial public sector; PS=Public sector.
2/ Stock of arrears could be used as a proxy in the absence of accrual data on other accounts payable.
3/ Insurance, Pension, and Standardized Guarantee Schemes, typically including government employee pension liabilities.
4/ Includes accrual recording, commitment basis, due for payment, etc.
5/ Nominal value at any moment in time is the amount the debtor owes to the creditor. It reflects the value of the instrument at creation and subsequent economic flows (such as transactions, exchange rate, and other valuation changes other than market price changes, and other volume changes).
6/ The face value of a debt instrument is the undiscounted amount of principal to be paid at (or before) maturity.
7/ Market value of debt instruments is the value as if they were acquired in market transactions on the balance sheet reporting date (reference date). Only traded debt securities have observed market values.

The coverage of the DSA 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 or disputed debts. Data concerning debt consolidation across sectors are not available.

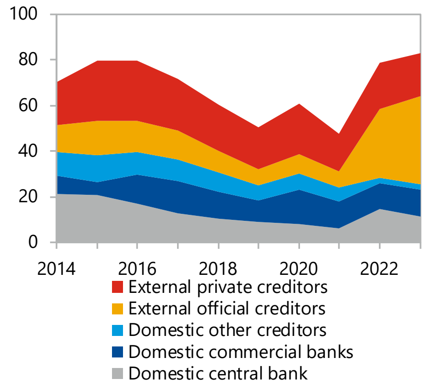
Annex III. Figure 3. Ukraine: Public Debt Structure Indicators (Baseline Scenario)

Debt by Currency (Percent of GDP)



Note: The perimeter shown is general government.

Public Debt by Holder (Percent of GDP)

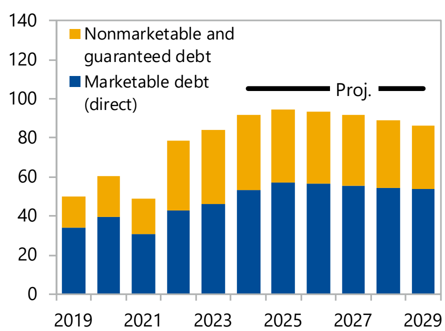


Note: The perimeter shown is general government.

Public Debt by Governing Law, 2022 (Percent)

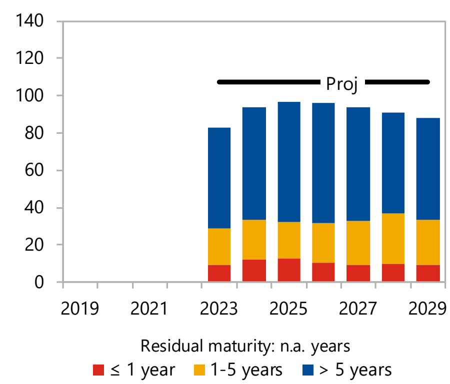
Note: The perimeter shown is general government.

Debt by Instruments (Percent of GDP)



Note: The perimeter shown is general government.

Public Debt by Maturity (Percent of GDP)



Note: The perimeter shown is general government.

At end-2023, debt held by external official creditors rose further, reflecting the substantial amounts of bilateral and multilateral financing disbursed last year. Domestic debt is mostly held by residents and denominated in hryvnia. The share of FX debt in total debt is expected to continue to rise based on the expected official financing during the program. However, the high share of FX debt entails currency risk.

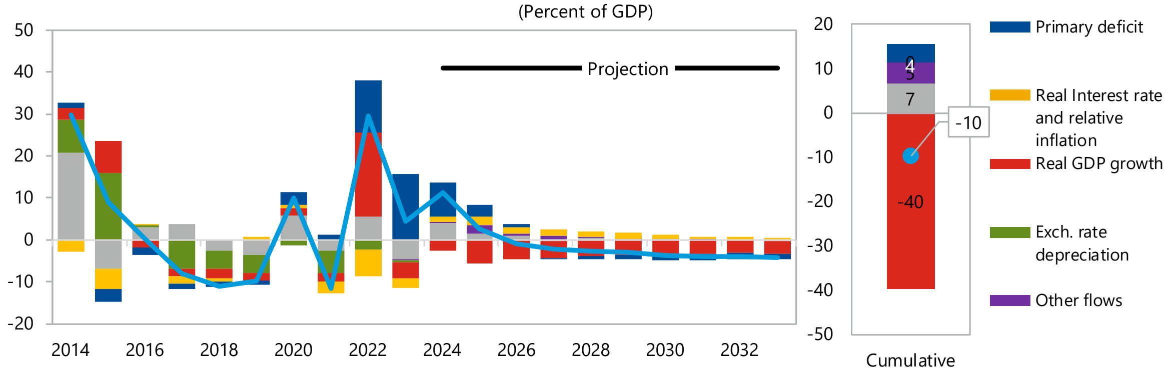
Annex III. Figure 4. Ukraine: Pre-Restructuring Baseline Scenario

(Percent of GDP Unless Indicated Otherwise)

	Actual	Medium-term projection						Extended projection			
	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Public debt	82.9	94.0	96.7	95.9	93.8	91.2	88.2	84.5	80.6	76.6	72.5
Change in public debt	4.4	11.2	2.7	-0.8	-2.1	-2.6	-3.0	-3.7	-3.9	-4.0	-4.1
Contribution of identified flows	9.1	7.2	1.1	-1.7	-1.8	-3.1	-3.1	-3.8	-4.0	-4.0	-3.8
Primary deficit	15.8	8.2	2.8	0.7	-0.2	-0.8	-1.0	-1.3	-1.5	-1.5	-1.4
Noninterest revenues	55.2	43.6	41.5	40.7	41.2	41.0	40.7	40.6	40.3	40.2	40.3
Noninterest expenditures	71.0	51.8	44.4	41.4	41.0	40.2	39.7	39.3	38.9	38.7	38.8
Automatic debt dynamics	-6.6	-1.3	-3.8	-3.1	-2.7	-2.7	-2.2	-2.6	-2.6	-2.6	-2.5
Real interest rate and relative inflation	-2.2	1.3	1.9	1.5	1.5	1.2	1.4	0.9	0.6	0.5	0.5
Real interest rate	-8.4	-5.2	-1.4	-1.0	-0.7	-0.8	-0.8	-0.9	-1.1	-1.2	-1.1
Relative inflation	6.3	6.5	3.4	2.5	2.2	2.0	2.3	1.8	1.8	1.7	1.6
Real growth rate	-3.7	-2.6	-5.7	-4.6	-4.1	-3.9	-3.7	-3.5	-3.3	-3.1	-2.9
Real exchange rate	-0.7	...	...	...	...	...	...	...	...	...	...
Other identified flows	-0.2	0.3	2.1	0.6	1.0	0.3	0.2	0.1	0.1	0.1	0.1
Contingent liabilities and other transactions	0.0	0.4	1.6	0.0	0.8	0.4	0.2	0.2	0.2	0.1	0.1
(minus) Interest Revenues	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other transactions	-0.2	-0.1	0.4	0.6	0.2	-0.1	0.0	0.0	0.0	0.0	0.0
Contribution of residual	-4.6	3.9	1.6	0.9	-0.3	0.5	0.1	0.1	0.1	0.0	-0.3
Gross financing needs	25.1	22.3	20.0	16.5	13.9	11.8	12.3	11.5	11.5	9.5	9.1
of which: debt service	9.3	13.7	15.5	15.7	13.3	12.2	13.1	12.6	12.9	10.8	10.4
Local currency	7.0	6.8	9.2	9.5	8.2	6.7	7.4	7.3	7.4	5.6	5.6
Foreign currency	2.3	6.9	6.3	6.2	5.1	5.5	5.8	5.3	5.4	5.2	4.8
Memo:											
Real GDP growth (percent)	5.0	3.2	6.5	5.0	4.5	4.3	4.2	4.1	4.0	4.0	4.0
Inflation (GDP deflator; percent)	19.2	15.6	7.5	5.7	5.0	5.0	5.0	5.0	5.0	5.0	5.0
Nominal GDP growth (percent)	25.1	19.3	14.4	11.0	9.7	9.5	9.4	9.3	9.2	9.2	9.2
Effective interest rate (percent)	5.7	8.1	5.7	4.6	4.2	4.0	4.0	3.8	3.5	3.4	3.4

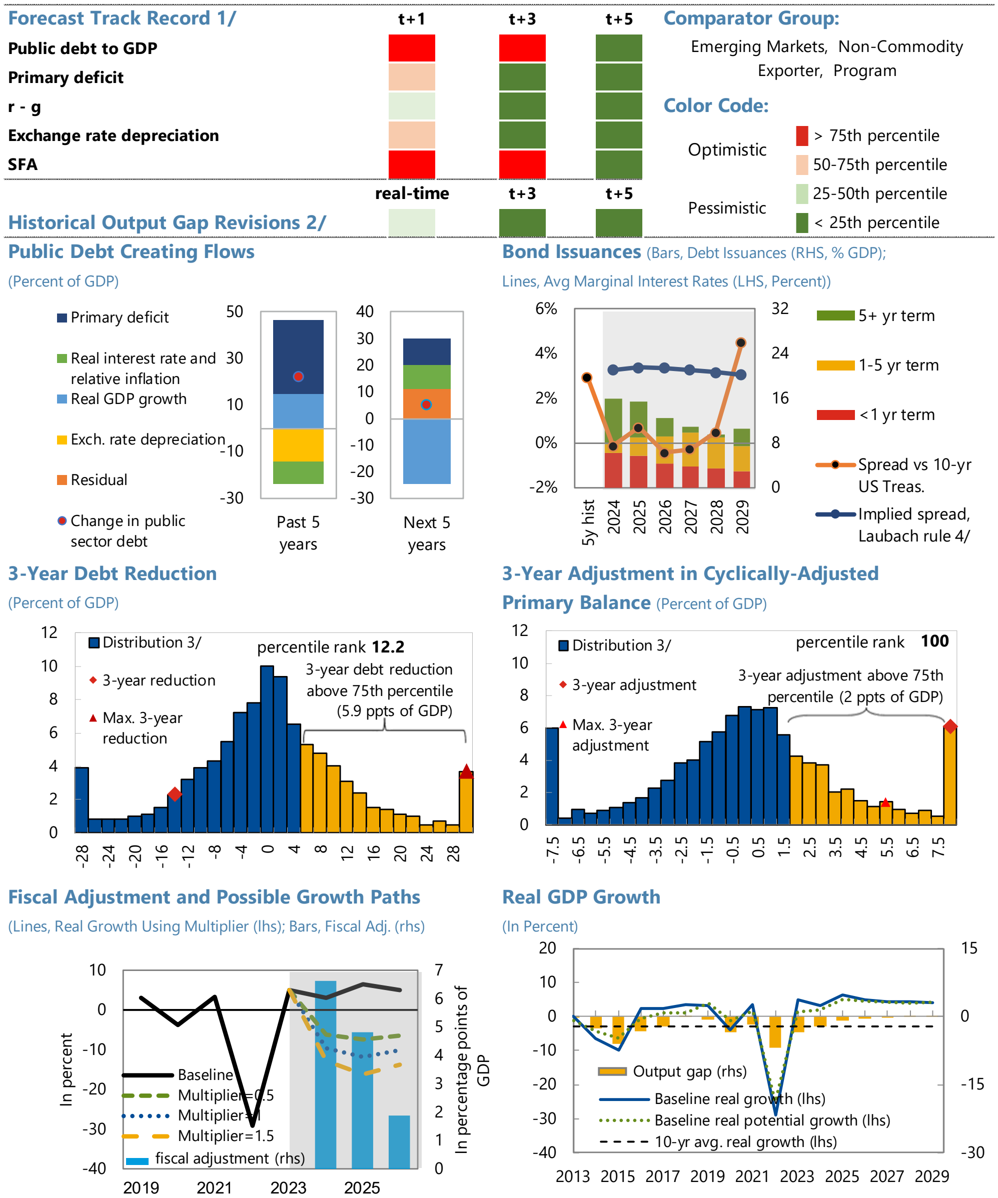
Contribution to Change in Public Debt

(Percent of GDP)



Ukraine's public debt rose further in 2023 after experiencing a step-rise in 2022. The projected contour of the debt-to-GDP ratio is broadly in line with the second review, with debt projected to rise further in 2024-25, largely reflecting the primary deficit. A recovery that is expected to take hold in 2025 as macroeconomic conditions and confidence improves will lead to a downward trajectory over the rest of the forecast horizon. The downtrend reflects contributions from both the real interest rate-growth differential and a better primary balance, including through fiscal adjustment. Debt service assumptions incorporate the terms of the 2022 debt service standstill agreed with private bondholders and warrant holders, as well as the standstill with a group of official bilateral creditors. Medium-term gross financing needs are in somewhat similar ranges as the Second Review.

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



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

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

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

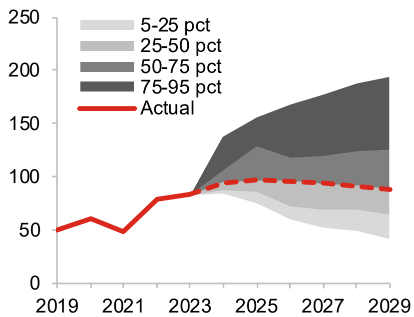
3/ Data cover annual observations over 1990-2019 for MAC advanced and emerging economies. Pct. of sample on vertical axis.

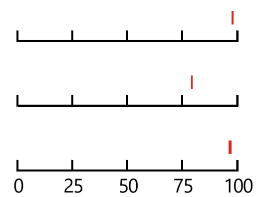
4/ The Laubach (2009) rule is a linear rule assuming bond spreads increase by about 4 bps in response to a 1 ppt increase in the projected debt-to-GDP ratio.

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

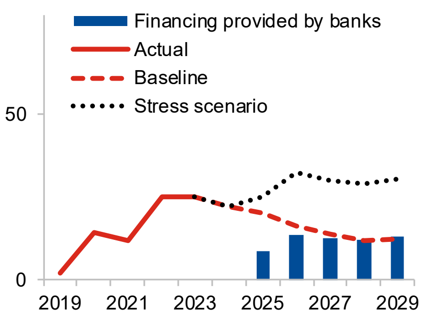
	Value	Contrib [1/]	Percentile in peer group [2/]
Debt fanchart module			
Fanchart width *(percent of GDP)*	152.4	2.2	
Probability of debt non-stabilization *(percent)*	18.7	0.2	
Terminal debt-to-GDP x institutions index	60.5	1.3	
Debt fanchart index (DFI)		3.7	
Risk signal: [3/]		**High**	
Gross financing needs (GFN) module			
Average baseline GFN *(percent of GDP)*	16.1	5.5	
Banks' claims on the ge govt *(pct bank assets)*	22.9	7.4	
Chg. In banks' claims in stress *(pct banks' assets)*	68.1	22.8	
GFN financeability index (GFI)		35.7	
Risk signal: [4/]		**High**	

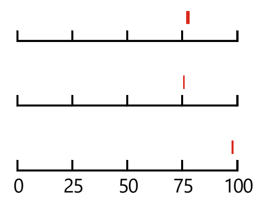
Final Fanchart (Pct of GDP)





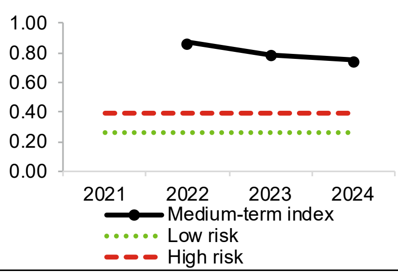
Gross Financing Needs (Pct of GDP)





Banking crisis Commodity prices Exchange rate Contingent liab. Natural disaster

Medium-Term Index (Index Number)



Medium-term risk analysis

	Value	Norm. Value	Weight	Contrib-ution
Debt fanchart index	3.7	0.82	0.50	0.41
GFN financeability index	35.7	0.69	0.50	0.34
Medium-term index		0.8		
Risk signal: 5/	**High**			
Final assessment:	**High**			

Prob. of missed crisis, 2024-2029, if stress not predicted: 81.8 pct.
Prob. of false alarms, 2024-2029, if stress predicted: 0.0 pct.

Both medium-term modules signal high sovereign stress risks in the baseline scenario, as in the previous DSA for the Second Review and 2023 Article IV Consultation. The DFI is little changed from the last DSA due and remains deeply in high-risk territory. The GFI also still indicates high liquidity-related risks, reflecting projections of still-elevated average GFN-to-GDP ratios and large changes in bank claims on the government in a stress scenario, which are very high and would be difficult to manage if these shocks materialized. The current level of bank exposures to the government is 22.9 percent. Overall, the medium-term index continues being consistent with high risk in line with the mechanical signals from both tools.

Source: IMF staff estimates and projections.

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

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

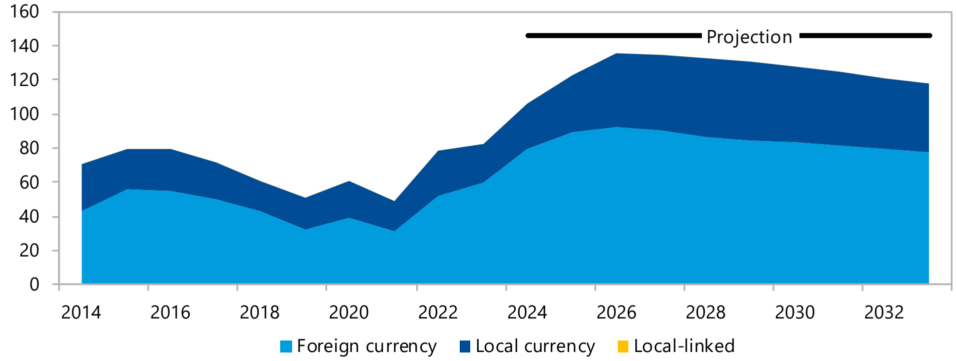
3/ The signal is low risk if the DFI is below 1.13; high risk if the DFI is above 2.08; and otherwise, it is moderate risk.

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

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

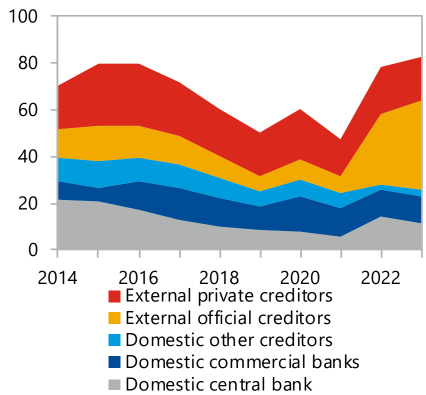
Annex III. Figure 7. Ukraine: Public Debt Structure Indicators (Downside Scenario)

Debt by Currency (Percent of GDP)



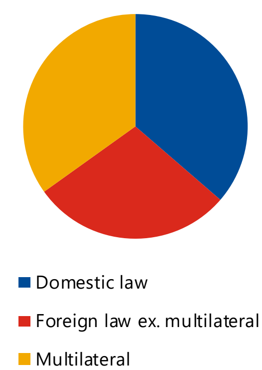
Note: The perimeter shown is general government.

Public Debt by Holder (Percent of GDP)



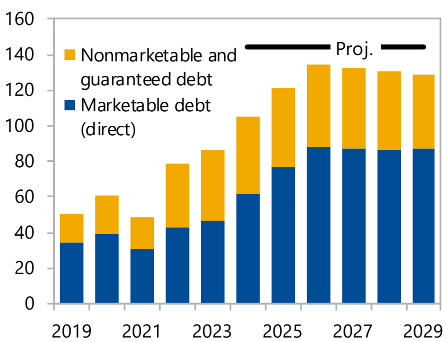
Note: The perimeter shown is general government.

Public Debt by Governing Law, 2022 (Percent)



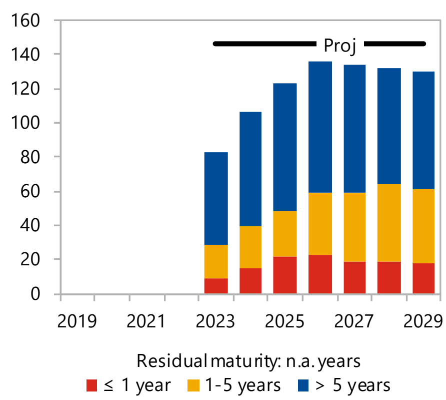
Note: The perimeter shown is general government.

Debt by Instruments (Percent of GDP)



Note: The perimeter shown is general government.

Public Debt by Maturity (Percent of GDP)



Note: The perimeter shown is general government.

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

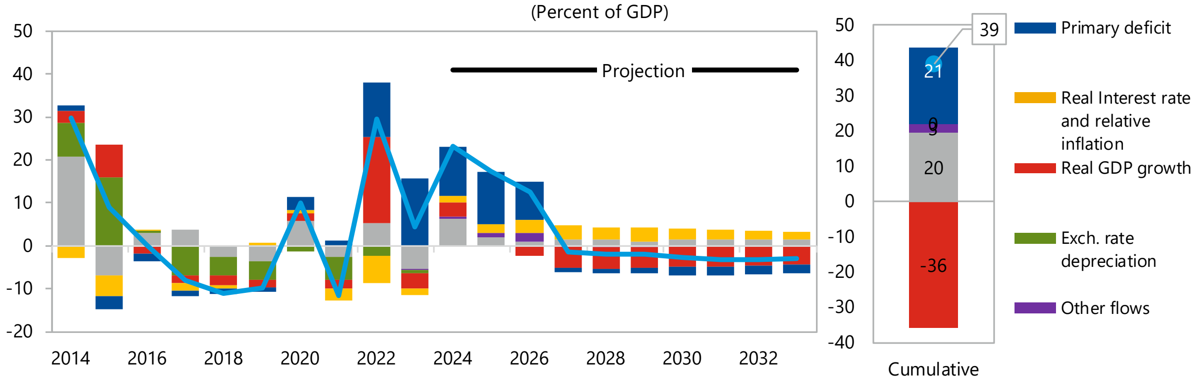
Annex III. Figure 8. Ukraine: Pre-Restructuring Downside Scenario

(Percent of GDP Unless Indicated Otherwise)

	Actual	Medium-term projection						Extended projection			
	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Public debt	82.9	105.9	123.2	135.7	134.3	132.4	130.3	127.6	124.5	121.3	118.3
Change in public debt	4.4	23.1	17.3	12.5	-1.4	-1.9	-2.1	-2.7	-3.2	-3.2	-3.0
Contribution of identified flows	9.9	16.7	15.2	11.6	-2.9	-3.5	-3.2	-4.3	-4.7	-4.7	-4.5
Primary deficit	15.8	11.5	12.1	8.8	-0.9	-1.0	-1.3	-1.9	-2.1	-2.0	-1.9
Noninterest revenues	55.2	47.8	44.0	43.0	41.8	40.6	40.6	40.5	40.6	40.5	40.3
Noninterest expenditures	71.0	59.4	56.1	51.8	40.9	39.6	39.3	38.6	38.5	38.5	38.5
Automatic debt dynamics	-5.7	4.8	2.1	0.6	-2.0	-2.1	-1.7	-2.3	-2.5	-2.6	-2.6
Real interest rate and relative inflation	-1.3	1.4	2.1	3.1	3.2	2.8	3.2	2.5	2.1	1.9	1.8
Real interest rate	-7.6	-5.9	-3.4	-0.3	0.5	0.3	0.3	0.2	-0.2	-0.3	-0.4
Relative inflation	6.3	7.2	5.6	3.3	2.7	2.6	2.9	2.3	2.3	2.3	2.2
Real growth rate	-3.7	3.5	0.0	-2.4	-5.2	-4.9	-4.8	-4.8	-4.7	-4.6	-4.4
Real exchange rate	-0.7	…	…	…	…	…	…	…	…	…	…
Other identified flows	-0.2	0.3	0.9	2.2	0.0	-0.4	-0.2	-0.1	-0.1	-0.1	0.0
Contingent liabilities and other transactions	0.0	0.4	0.4	1.5	0.0	0.0	0.1	0.1	0.1	0.1	0.1
(minus) Interest Revenues	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other transactions	-0.2	-0.1	0.5	0.7	0.0	-0.4	-0.3	-0.2	-0.2	-0.2	-0.1
Contribution of residual	-5.5	6.4	2.1	0.9	1.5	1.5	1.1	1.6	1.6	1.5	1.5
Gross financing needs	25.9	26.8	32.6	36.8	27.2	22.7	22.9	21.6	24.2	18.8	18.7
of which: debt service	10.1	14.9	20.1	26.5	28.1	23.8	24.0	23.5	26.1	20.7	20.5
Local currency	7.0	7.3	12.7	18.9	21.9	16.9	16.7	16.6	19.0	13.6	13.9
Foreign currency	3.1	7.6	7.4	7.6	6.2	6.9	7.4	6.9	7.2	7.1	6.6
Memo:											
Real GDP growth (percent)	5.0	-4.0	0.0	2.0	4.0	3.8	3.8	3.8	3.8	3.8	3.8
Inflation (GDP deflator; percent)	19.2	16.1	9.8	6.1	5.1	5.0	5.0	5.0	5.0	5.0	5.0
Nominal GDP growth (percent)	25.1	11.4	9.8	8.2	9.3	9.0	9.0	9.0	9.0	9.0	9.0
Effective interest rate (percent)	7.0	8.2	6.3	5.8	5.5	5.2	5.2	5.1	4.8	4.7	4.7

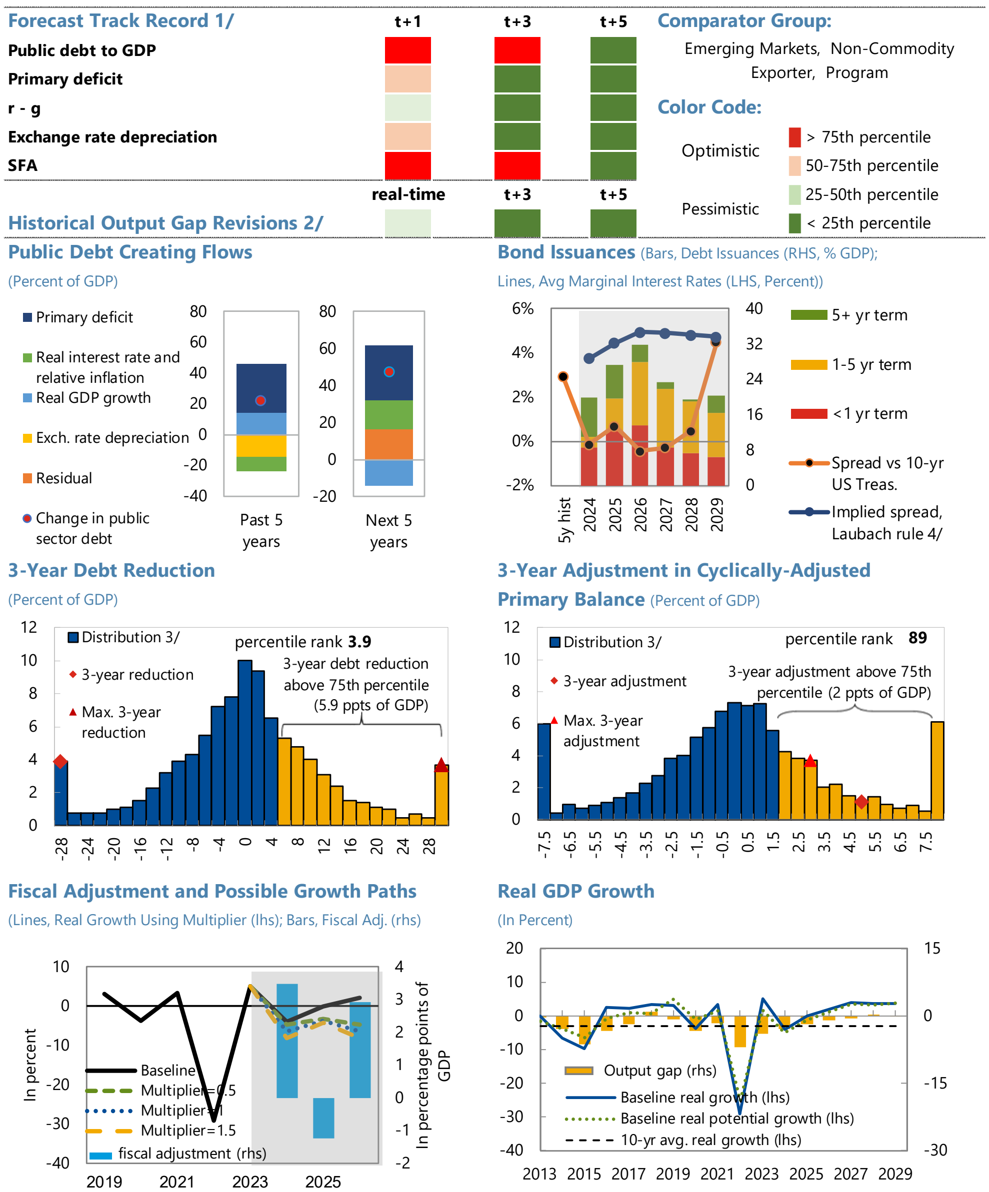
Contribution to Change in Public Debt

(Percent of GDP)



While the debt-to-GDP trajectory has moved up from the Second Review's downside path, it remains below levels envisaged at the EFF request. The contour of the debt trajectory in the downside scenario continues being sharply upward over the next several years before decreasing to still-high levels. Likewise, the financing needs are substantially higher in the adverse scenario, particularly in the next 5 years.

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



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

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

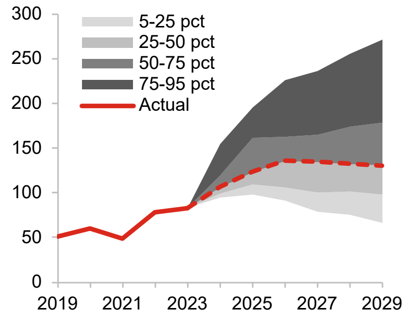
2/ Calculated as the percentile rank of the country's output gap revisions (defined as the difference between real time/period ahead estimates and final estimates in the latest October WEO) in the total distribution of revisions across the data sample.

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

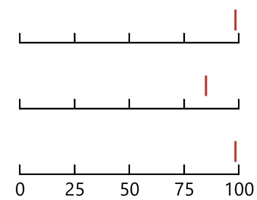
4/ The Laubach (2009) rule is a linear rule assuming bond spreads increase by about 4 bps in response to a 1 ppt increase in the projected debt-to-GDP ratio.

Annex III. Figure 10. Ukraine: Medium-Term Risk Analysis (Downside Scenario)

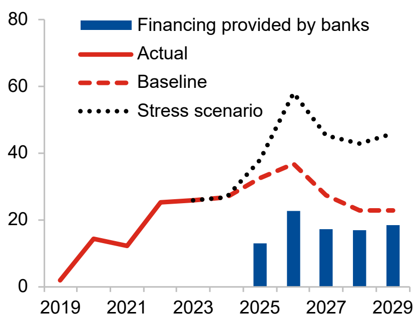
Final Fanchart (Pct of GDP)



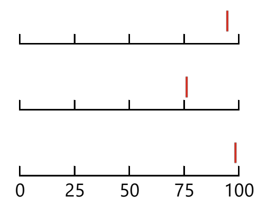
	Value	Contrib [1/]	Percentile in peer group [2/]
Debt fanchart module			
Fanchart width *(percent of GDP)*	204.8	3.0	
Probability of debt non-stabilization *(percent)*	29.1	0.2	
Terminal debt-to-GDP x institutions index	89.4	1.9	
Debt fanchart index (DFI)		5.2	
Risk signal: [3/]		**High**	



Gross Financing Needs (Pct of GDP)

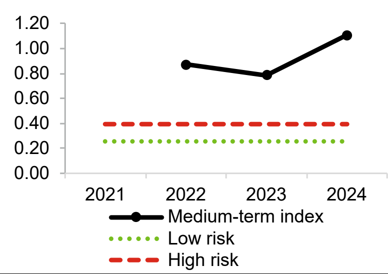


	Value	Contrib [1/]	Percentile in peer group [2/]
Gross financing needs (GFN) module			
Average baseline GFN *(percent of GDP)*	28.2	9.6	
Banks' claims on the gen govt *(pct bank assets)*	22.9	7.4	
Chg. In banks' claims in stress *(pct banks' assets)*	115.4	38.6	
GFN financeability index (GFI)		55.6	
Risk signal: [4/]		**High**	



Banking crisis Commodity prices Exchange rate Contingent liab. Natural disaster

Medium-Term Index (Index Number)



Medium-term risk analysis

	Value	Norm. Value	Weight	Contrib-ution
Debt fanchart index	5.2	1.15	0.50	0.57
GFN financeability index	55.6	1.07	0.50	0.53
Medium-term index		1.1		
Risk signal: 5/	**High**			
Final assessment:	**High**			

Prob. of missed crisis, 2024-2029, if stress not predicted: 100.0 pct.

Prob. of false alarms, 2024-2029, if stress predicted: 0.0 pct.

As in the baseline, both medium-term modules signal hgih risks of sovereign stress. The signals are also the same as the Second Review's SRDSA. In the Debt Fanchart Index (DFI), all three components are worse than in the baseline. The GFN Financeability Index also remains very high and well above the baseline, reflecting higher levels of average GFNs and change in bank claims in the stress scenario (the initial bank claims on the government is a data outturn and is common across both scenarios).

Source: IMF staff estimates and projections.

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

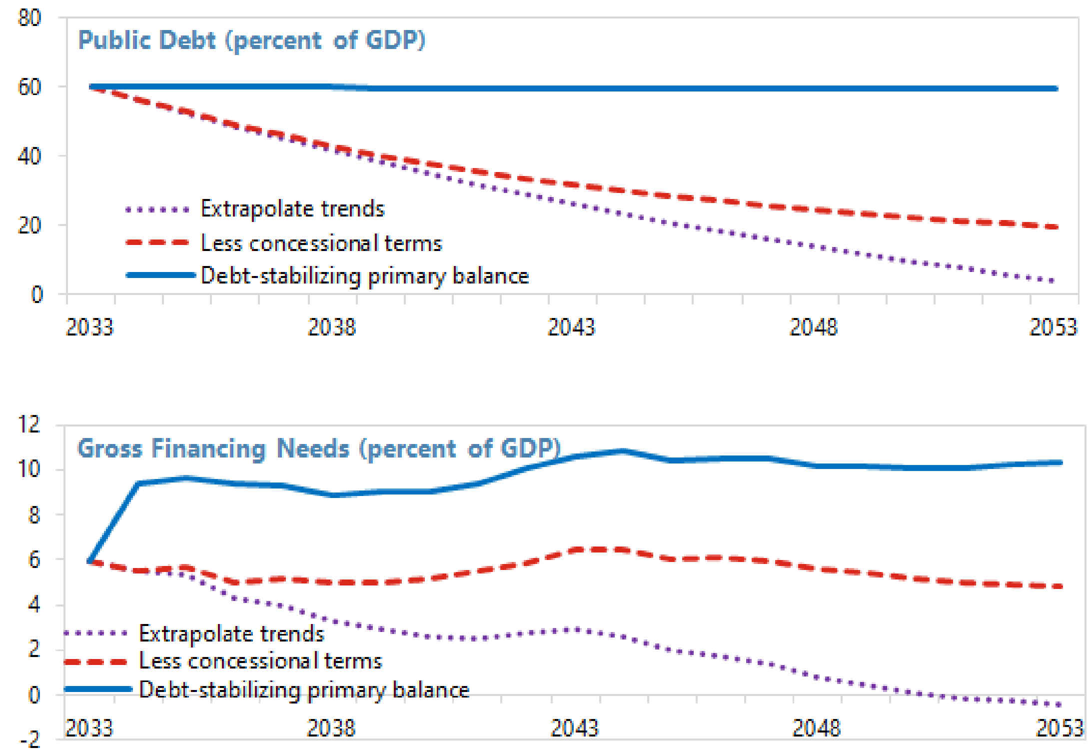
2/ The comparison group is emerging markets, non-commodity exporter, program.

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

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

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

Annex III. Figure 11. Ukraine: Long-Term Debt Trajectories



Commentary: The long-term debt and GFN trajectories, which assume that the debt restructuring targets are delivered by 2033, are similar to the 2nd Review and 2023 Article IV consultation. Under a scenario where the primary deficit is relaxed to its debt-stabilizing level, debt would reside around 60–65 percent of GDP and GFNs would rise, but stay at moderate levels. Debt would be on a downward trajectory and GFNs would stabilize or decrease under the harder borrowing terms and extrapolating trend scenarios. However, there is substantial uncertainty over the long-term, and thus the long-term assessment is high risk.

Appendix I. Letter of Intent

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

March 11, 2024

Dear Ms. Georgieva:

1. Russia's illegal and unjustified invasion of our country continues to bring enormous human, social, and economic costs. As attacks persist, civilian casualties are large, over a quarter of the population has been displaced, and infrastructure damage is massive and increasing, with serious long-lasting consequences for our people. The latest Rapid Damage and Needs Assessment (RDNA-3) estimates reconstruction needs at US$486 billion over the next decade, and these needs increase with every day of the war. Through this hardship, our people continue to show courage, determination, and resilience while macroeconomic, financial, and external stability has been preserved with skillful policymaking and external support. Our strong performance thus far under the Extended Fund Facility (EFF) has clearly demonstrated our capacity to implement sound economic policies despite these challenging circumstances. The IMF-supported arrangement, together with significant official financing assurances, provides a crucial financing envelope of US$121.8 billion over the program period. In this regard, we welcome the EU's Ukraine Facility as a major step forward to reinforce long-term growth and stability. Nevertheless, we continue to face major risks amid the exceptionally high uncertainty due to the war.

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

3. Given the exceptionally high uncertainty, the program continues to envisage a two-phased approach. In the first phase, our primary objective remains to preserve macroeconomic and financial stability within the context of the ongoing war while preparing the ground for a strong post-war recovery, including undertaking critical recovery and repair. Despite the war, we are implementing wide-ranging structural reforms covering public finances, the financial sector, monetary and exchange rate policies, governance, anti-corruption, and the energy sector. These ongoing efforts

should set the stage for stronger prospects after the war ends, and after which in the second phase, we will further deepen our structural reforms and implement additional macroeconomic policy reforms. These will help restore medium-term external viability, support reconstruction, and promote strong long-term growth, and accelerate our progress toward EU accession. To help lay the foundation for post-war growth, we will advance reform initiatives to enhance productivity and competitiveness, including in the energy sector.

4. For this third review under the EFF, we met all but one of the end-December 2023 quantitative performance criteria (QPCs) and also met all indicative targets (ITs). Despite the strong program performance, the floor on tax revenues (QPC) was missed by UAH 3.6 billion (0.05 percent of GDP) due to shortfalls in customs revenues caused by recent blockages along western border crossings. For this reason, we are requesting a waiver of non-observance of the floor on tax revenues on the basis of the minor and temporary nature of the shortfall. Recent volatility around external financing has affected our budget implementation in the first quarter. Therefore, we are requesting modifications to the end-March QPC for the non-defense cash primary balance excluding grants, even though we continue to expect the same full-year result for this indicator. While recognizing that forecast confidence is subject to exceptionally high uncertainty, in view of better-than-expected FX reserve levels thus far this year and our continued commitment to external sustainability, we are requesting modification to increase the floor on the NIR QPC for end-March.

5. Against the very difficult backdrop, implementation of key reforms under the program has been robust. Specifically, we have met all four structural benchmarks for December 2023–February 2024 (as shown in Table 2 of the MEFP). In particular, we adopted the National Revenue Strategy to boost medium-term revenue mobilization; reviewed public investment management procedures and generated a roadmap of future measures; adopted legislation to enhance the institutional autonomy and effectiveness of the SAPO; and prepared short-term revenue measures that could be included in the 2024 Budget. We are requesting to modify the continuous structural benchmark so that all systemic banks with majority state ownership will fall under the responsibility of the MoF, and any non-systemic banks that come under state ownership will not be recapitalized using fiscal resources and will be transferred to the Deposit Guarantee Fund for resolution upon breach of prudential requirements. We request to reset, from end-June 2024 to end-December 2024, the structural benchmark on implementing a supervisory risk assessment methodology to inform supervisory engagement priorities, as more time is needed for implementation. We also request to reset, from end-August 2024 to end-October 2024, the structural benchmark on producing a SOE state ownership policy, dividend policy and privatization strategy to allow for more time after the recent adoption of law 5593-D. Finally, we request to reset from end-March 2024 to end-April 2024, the structural benchmark to enact amendments to the procedural code to rationalize matters or issues to be heard at the first instance by one anti-corruption judge or by a panel of three anti-corruption judges to allow more time for the legislative process.

6. Our international partners have assured us of their continued support to help ensure that debt sustainability is restored, and the program is fully financed. We publicly announced on March 24, 2023, our intention to undertake a debt treatment of our external public debt with the purpose

of restoring public debt sustainability on a forward-looking basis. Our plan remains to start negotiations with bond holders soon with the objective of completing the needed operations no later than mid-2024. A group of official creditors have committed to a two-step process for a debt treatment and last December formally extended their debt moratorium until 2027.

7. Under IMF's new policy on multiple currency practices (MCPs), the three previously approved MCPs are now considered eliminated. As we continue the transition in our exchange rate regime laid out in the NBU's Strategy, we will continue to monitor these issues carefully in close collaboration with the IMF to help ensure that MCPs do not arise.

8. Based on our successful implementation of the program targets for end-December 2023, our implementation of structural benchmarks over December 2023–February 2024, as well as our strong policy commitments for the period ahead, we request completion of the third review, and a disbursement in the amount of SDR 663.90 million (33 percent of quota), which will be channeled for budget support. A memorandum of understanding between the National Bank of Ukraine (NBU) and the Ministry of Finance (MOF) has been established to govern the mechanism of servicing of the government's obligations to the Fund by the NBU on behalf of the MOF.

9. We believe that the policies set forth in the attached MEFP are adequate to achieve the objectives of the program, both in the baseline as well as in a downside scenario. Acknowledging that these scenarios are subject to exceptionally high uncertainty, we are committed to continue adapting our policies as conditions evolve. We will consult with the IMF on the adoption of these measures, and in advance of any revisions to the policies contained in the MEFP, in line with the IMF's policies on consultation. We will refrain from any policies that would be inconsistent with the program's objectives and our commitments presented in the MEFP.

10. We will provide IMF staff with the data and information needed to monitor program implementation, including by adhering to the data provision requirements described in the attached Technical Memorandum of Understanding (TMU).

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

Sincerely yours,

/s/	/s/
Volodymyr Zelenskyy President of Ukraine	Denys Shmyhal Prime Minister of Ukraine

/s/	/s/
Sergii Marchenko Minister of Finance of Ukraine	Andriy Pyshnyy Governor, National Bank of Ukraine

Attachment I. Memorandum of Economic and Financial Policies

I. Background, Recent Economic Developments, and Outlook

Context

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

2. The Extended Fund Facility (EFF) arrangement provides a strong anchor for our economic policies, and we continue to sustain strong performance under the program. The approval of the EFF arrangement in March 2023 helped mobilize an external financing package from our international partners that now totals US$121.8 billion over the program period (2023Q2–27Q1). In these very difficult times, the program has helped infuse greater predictability into our macroeconomic management and remains a strong anchor for our economic policies. We remain highly committed to our program objectives; our robust implementation of major components of the program thus far is a testament to this.

3. The approval of the EU's Ukraine Facility is a major step forward, which coupled with efforts to achieve our strategic goal of EU accession will reinforce long-term growth and stability. The €50 billion Ukraine Facility for 2024–27, approved in February 2024 by the EU Council, will be critical to support our budgetary needs, recovery, reconstruction, and modernization. Reforms to achieve EU accession will strengthen our economy and institutions, as they are essential to creating conditions for increased investment and growth going forward. The candidate status of Ukraine implies that the choice of the regulatory regime defined by the EU acquis will frame our recovery and reconstruction process. Progressive integration into the European internal market, already underway within the Association Agreement and Deep and Comprehensive Free Trade Agreement, should increase trade and stimulate revenue and technology transfer to the Ukrainian economy, thereby helping sustain the recovery.

Economic Outlook

4. The economic recovery in 2023 was stronger than projected, and we expect the recovery to be sustained in 2024 albeit at a more moderate rate.

- Despite continuous attacks on infrastructure, economic activity in 2023 was more resilient than expected with estimated growth of 5 to 6 percent. The sequential economic recovery has been strong as households and firms have continued to adapt to the war circumstances, and the disinflationary trend has continued. Moreover, the labor market has seen signs of stabilization amid lower net migrant outflows.

- Despite some headwinds over the winter, activity is expected to remain solid in 2024 supported by growth in non-combat areas, under the assumption of no further escalation of the war. Given the continuing high uncertainty, we project 3 to 4 percent growth for 2024, lower than in 2023 due to an expected decrease in harvests and greater war-related labor market mismatches. The pace of the sequential recovery will be determined by the degree to which the prevailing high uncertainty weighs on private investment, the pace of return of migrants and broader labor market dynamics, the strength of consumption given the erosion in purchasing power, as well as the availability of export supply routes. The economy has become more resilient to the war, and assuming no significant worsening of the security situation and no protracted energy shortages, we do not expect a longer war through end-2024 to materially impact economic performance.

- Inflation has decelerated significantly and faster than expected from its peak of 26.6 percent y/y in end-2022 to 5.1 percent y/y at end-December 2023, reflecting the rapid recovery of the energy system after attacks on critical energy infrastructure, favorable FX market conditions, improved supply of food (e.g., a strong harvest) and fuel, the tight monetary policy as well as improving inflation expectations. Inflation is expected to edge up in 2024 to around 8.5 percent, driven by temporary factors (e.g., pass-through of higher business costs) and as lower price effects from the 2023 harvests wane in the second half of 2024.

- The current account balance deteriorated to a deficit of US$9.8 billion in 2023, following a surplus of US$8 billion in 2022. This reflected a widening trade deficit, on account of increased imports from stronger growth but still subdued exports due to the loss of production capacity and logistical bottlenecks induced by the war. The termination of the grain corridor, and trade restrictions from neighboring countries have been significant contributors to this trend. Higher reinvested earnings by firms that have adapted to the war context also contributed to the current account deterioration. Going forward, the current account is projected to remain in deficit, although exports could be supported by increased transportation capacity through the new Black Sea corridor and Danube ports, and efforts to develop export licenses with EU neighbors. Continued strong external financing inflows are expected to strengthen gross international reserves, estimated to reach US$42.1 billion by end-2024 under the baseline scenario, equivalent to 5.4 months of prospective imports, which will provide a strong cushion for shocks.

- Conditions in the FX market have remained stable, including through the transition to managed flexibility of the exchange rate. The exchange rate has depreciated through end-February 2024 by a cumulative 4.5 percent since the transition supported by FX interventions aimed both at fulfilling the somewhat compressed FX demand and limiting volatility. The spread between the official and cash rates has remained low in the 1–5 percent range, including as the lifting of FX controls increased competition in the cash market amid increased confidence.

- Credit growth, while still contracting overall, is showing signs of stabilization due to government-backed subsidized lending initiatives (including the 5-7-9 program for SMEs and eOselya for mortgages), credit guarantee schemes and improved business activity. The official non-performing loan ratio fell to 37 percent in January 2024 due to growth of the loan portfolio amid a high provisioning ratio (83 percent). Deposits increased by 27 percent in 2023.

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

6. In spite of the improved near-term indicators, risks to the outlook remain tilted to the downside, amid exceptionally high uncertainty. Security risks could persist for longer than expected, leading to the emergence of additional budget needs. A prolonged war would adversely weigh on firm and household sentiment, as well as exchange rate and inflation expectations and dampen the pace of return by migrants. Export transit routes could be significantly interrupted, there could be further damage to energy infrastructure, or past supply chain disruptions could resurface again, weighing on production costs and firm profitability. Insufficient or delayed donor support could also exacerbate financing constraints, requiring difficult policy trade-offs. Moreover, the needed higher domestic financing may become difficult to mobilize. A prolonged war would continue to put pressures on our fiscal position, and financing gaps could widen substantially.

II. Macroeconomic and Structural Policies for 2024–27

A. Overview

7. The ultimate goals of the Ukrainian government's economic program—supported by the IMF—is to restore fiscal and debt sustainability, maintain external and financial stability while promoting long-term growth in the context of post-war reconstruction and our path to EU accession. Given the large uncertainty, our economic program involves a two-phased approach.

- In the first phase, our primary focus will be on maintaining macroeconomic, external, and financial stability, in order to strengthen Ukraine's capacity on its way to victory. Our program involves policies to ensure a robust budget implementation in 2024 coupled with a strong medium-term fiscal framework that would anchor fiscal policy and the assessment of financing gaps. The move to a managed flexibility of the exchange rate strengthens the resilience of the Ukrainian economy and FX market, promotes better adaptation to domestic and external shocks, and reduces the risks of accumulating FX imbalances. At the same time, we will implement measures across all key policy areas to prepare the ground for Ukraine's post-war growth, while social spending will be safeguarded to the extent possible.

- In the second phase, once the war has tapered off, we will build on the progress so far and shift our focus to more expansive reforms to entrench macroeconomic stability, support recovery and early reconstruction, promote economic growth, and thereby restore medium-term external viability. As conditions allow, Ukraine will revert to pre-war policy frameworks. Progress toward EU accession will be a major anchor for our policies.

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

- Since the start of the war, we have repeatedly and decisively taken measures to respond to shocks as they have materialized, carefully balancing the need for a prompt and effective response with social considerations. Building on this track record, we would respond decisively to a potential downside scenario, to ensure that public institutions function effectively while taking measures as needed to preserve economic and financial stability, and also maintain debt sustainability on a forward-looking basis. Under the updated downside scenario, as illustrated in IMF staff analysis, we stand ready to take additional feasible fiscal measures, including identifying tax policy measures that can be implemented swiftly and effectively or spending measures building on efficiency gains. In particular, we would be guided by the National Revenue Strategy (NRS), a cornerstone of our efforts to strengthen revenue mobilization. In parallel, we will also identify additional domestic financing as needed to ensure that financing gaps are swiftly closed, without compromising economic and financial stability or debt sustainability. We also stand ready to deploy our foreign reserves to maintain FX market stability in case of need. These are very difficult balancing acts, and we welcome the fact that our partners stand ready to provide additional financial resources sufficient to close financing gaps and preserve debt sustainability; we are committed to play our part to ensure the burden of adjustment is shared.

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

B. Fiscal Policy

Fiscal Outturns in 2023

9. We exercised caution in implementing fiscal policies in late-2023 amid substantial uncertainty on several fronts. In the last quarter of the year, we faced continued high defense-related needs, a shortfall in expected grant financing, and a loss of tax revenue due to blockades on the Western border. To manage these pressures, we exercised tight control over non-defense expenditures. As a result, the overall deficit was capped at UAH 1,282 billion, or 19.7 percent of GDP in 2023, close to projections in the Second Review's baseline.

10. Despite the challenging environment, we achieved all but one of the end-December 2023 fiscal targets, as follows:

- Given the prudence on non-defense expenditure execution, the non-defense cash primary balance excluding grants was UAH 380.5 billion at end-December, substantially exceeding the program's floor of UAH 105.0 billion (***Quantitative Performance Criterion***). However, recent volatility around external financing has affected our budget implementation, and we are requesting modifications of the end-March QPC from UAH 140.7 billion to UAH 135.0 billion. However, we continue to expect the same full-year result for this indicator.

- Relatedly, the end-December Indicative Target on the overall balance excluding grants was UAH -1,717 billion, comfortably above the floor of UAH -1,744.7 billion.

- However, the impact of the border blockades had larger effects on import-related tax collections than we anticipated. Despite our best efforts we missed the floor on tax revenues (excluding social security contributions) by a small amount. In the event, end-December tax collections were UAH 1,650.4 billion, against the target of UAH 1,654.0 billion (***Quantitative Performance Criterion***).

- The indicative target on the accumulation of overdue accounts payable (domestic arrears) was UAH 1.6 billion in December, below the ceiling of UAH 2.0 billion.

- Guarantees issued by the state government in 2023 amounted to UAH 40.3 billion, well below the adjusted end-December 2023 ceiling of UAH 57.5 billion (***Quantitative Performance Criterion***).

- Social spending was UAH 551.1 billion at end-June, UAH 51.5 billion above the Indicative Target of UAH 499.6 billion. This level of social expenditures corresponds to the need to provide adequate protection for vulnerable layers of the population, including people affected by the consequences of the war.

Fiscal Policies for 2024 and Beyond

11. The budget for 2024 remains the anchor for fiscal policy this year. The budget recognizes the need to give priority to national defense and contains an allocation consistent with a full-year of war operations. Expenditures elsewhere are being contained, although we will maintain adequate resources for the social safety net to address the needs of war veterans and vulnerable layers of the population. The 2024 budget also reflects important revenue-mobilization policies that we have taken. Building on the measures that we have already taken, we have introduced an extraordinary one-time tax on bank profits for this year. Going forward, banks will be taxed at a permanently higher corporate income tax rate. The budget also contains a provision to reallocate personal income taxes between the state and local budgets to provide adequate resources for key programs, while avoiding interference with the independence of local authorities.

12. Under our projections, the overall balance excluding grants for 2024 will continue to be elevated at UAH -1,562 billion, or -20.2 percent of GDP. The annual pension indexation will be carried out in line with the legislation and amount to 7.9 percent, which is within the expenditure envelope consistent with this deficit projection. Our progress in budget implementation will continue to be monitored by the floor on the non-defense cash primary balance of the general government excluding grants (Quantitative Performance Criterion) and the floor on the overall cash primary balance of the general government excluding grants (Indicative Target). Moreover, the floor on state budget spending on social programs will help safeguard social spending (Indicative Target). As in 2023, the deficit will continue to be primarily financed through budget support from international donors. However, we will also seek an important contribution from the government domestic bond market (¶19). Given this financing mix, this deficit, while large, is consistent with fiscal sustainability.

13. With external financing becoming increasingly subject to risks, we are prepared to take additional fiscal measures as needed to ensure stability. We have created a working group to identify potential temporary revenue measures for 2024. The working group met on February 9, 2024, and on the basis of their recommendations, we have identified potential measures yielding at least ½ percent of GDP (***end-February structural benchmark***). However, given the still-high uncertainties and need to maintain stability, the working group will continue its efforts. We continue to stand ready to take feasible measures to respond to shocks, including if a downside scenario materializes. Reflecting the likely substantial demands on resources for defense and social protection activities, the actions that we would take are predominantly focused on increasing revenues and mobilizing domestic financing.

14. The budget for 2025 will reflect our efforts to return to sustainability and be prepared according to the standard timeline. The MOF has launched the preparation of the Budget Declaration for 2025-2027, which will be a basis for the preparation of the 2025 Budget. We expect next year to remain challenging, with substantial expenditure pressures that correspond to our key defense, reconstruction, and development priorities. At the same time, we recognize that while external partners will continue to be an important source of financing, there will be a need for greater self-reliance in generating tax and non-tax revenues to cover our expenditures, which will also need to be carefully prioritized. These efforts will help us to ensure that the budget is financeable. As regards the process, just as last year, we will adhere to the standard schedule, to ensure careful preparation and timely adoption.

15. We will carefully implement fiscal policies and remain committed to taking all necessary measures to ringfence additional pressures and risks to the budget 2024 and beyond. On the revenues side, we will continue to refrain from introducing tax amnesties for the duration of the program, and from any tax policy and administrative measures that may erode the tax revenue base. Furthermore, any tax-related measures that are needed to support imports related to national defense and security will be targeted, timebound, controlled, and subject to oversight. As regards expenditures, we will resist pressures on non-core spending categories, recognizing the already high contributions from international donors and partners and priority given to the conduct of the war. Further, we will only revise spending categories in consultation with IMF staff and after identifying either new financing sources or compensating fiscal measures. We will continue to exercise strong commitment controls and maintain strict oversight of budget execution by key spending units.

16. Over the medium term, we remain committed to policies that are consistent with fiscal and debt sustainability. The return to sustainability involves three components. First, we will continue implementing fiscal adjustment over the coming years to deliver a medium-term primary surplus. Post-war priorities for recovery and reconstruction, social protection, and maintaining defense readiness require reform efforts to principally focus on tax policy and administration. We aim on mobilizing 3-4 percent of GDP in additional revenues during 2024-27, as prescribed by the National Revenue Strategy (NRS). Second, we will carefully evaluate the financing mix and seek highly concessional terms wherever possible. And third, we will complete a treatment of external public debt that brings public debt and gross financing needs back down to manageable levels (¶35).

17. The third Rapid Damage and Needs Assessment (RDNA-3), published on February 15, 2024, estimated reconstruction needs of US$486 billion over the next 10 years. Addressing the largest needs in housing, transport, and commerce and industry will be vital to delivering essential public services, restoring the economy's productive capacity, and providing adequate social protection. Repair and recovery on these fronts will also help promote the return of those who were forced to flee the country. In considering initiatives in this area, we will ensure that these activities are consistent with a return to fiscal and debt sustainability. To this end, we will carefully evaluate the financing mix, and will seek financing on highly concessional terms. Additionally, we will make sure that the mechanisms used for reconstruction financing are consistent with the principles of integrated public investment management to ensure that critical reconstruction projects fit into the medium-term budget framework (see ¶28).

C. Financing Strategy

18. Timely external financing on appropriately concessional terms is an essential pillar of our financing strategy. In 2023, we received gross external budget support disbursements of US$42.5 billion (including the IMF). In 2024, continued support from the EU, IFIs, and bilateral donors in the amounts, composition, and timing envisaged are vital to maintain economic and financial stability. Over the next 12 months of the IMF-supported program (April 2024–March 2025), firm financing assurances are in place thanks to large official, multilateral, and bilateral commitments. Looking beyond March 2025, key partners have assured us of their continued support, which provides good prospects for ensuring the program will remain fully financed over the program period.

19. To this end, we will further strengthen our efforts to increase net domestic bond financing over the program period. Our strategy will involve maximizing the issuance of domestic government securities in the primary market with an objective of obtaining net positive financing in 2024.

- In 2023, our net debt issuance on the domestic market amounted to UAH 183 billion, or US$5 billion, bringing the implied rollover rate to 149 percent. About 57 percent of gross hryvnia issuance was in the form of designated benchmark bonds that banks may use to meet reserve requirements. We continued to make progress in matching issuance yields and maturities to market demand, and in lengthening the maturity of our issuances last year.

- We intend to continue issuing government securities with an objective of obtaining a meaningful contribution in 2024, given our commitment to mobilize domestic resources to help meet our financing needs. Given the substantial liquidity available and expected in the banking system, we are committed to identifying and implementing ways to increase bank financing, including studying the flow of liquidity into the banking system, including on a bank-by-bank basis, to develop targeted strategies to encourage increased uptake of government bonds, supported by the joint Working Group under the auspices of the Financial Stability Council (FSC), established in April 2023. With an appropriate mix of approaches, such measures could contribute to positive net domestic financing over the course of the program.

Successful placement of domestic securities coupled with timely external financing on appropriately concessional terms will enable us to execute the budget as planned, avoid arrears, and continue to avoid monetary financing. It will also ensure that the budget is financed in a manner consistent with safeguarding macroeconomic and financial stability and consistent with attaining debt sustainability.

20. We will ensure our debt management strategy is consistent with our objectives under the program. Under the external commercial debt treatment that we plan to conclude by mid-2024, we will seek to obtain adequate flow relief from debt operations, including from the external commercial debt restructuring, in 2024 and beyond consistent with program parameters. This debt treatment will also have important impacts on the overall public debt burden and its structure. To reflect these developments, we plan to update the Medium-Term Debt Strategy (MTDS) with a view towards publishing it by end-2024. To support the implementation of the MTDS and our upcoming debt operation, we are also committed to strengthening the capacity of the Debt Management Agency, including by increasing staffing and training. We will continue to support the development of the domestic debt market, including benchmark securities outside the reserve requirement mechanism, and will undertake further efforts to expand and diversify the set of investors, including encouraging the return of non-residents to domestic bond markets over the medium term and the cautious restoration of international capital market access, thereby enabling the bond market to play an active role in the reconstruction phase.

21. We are determined to strengthen treasury cash and liquidity management. The ongoing war and recent uncertainty around the timing of external disbursements has brought about increased volatility with respect to our budget execution. These events, along with our continuous efforts to strengthen budget execution and commitment control, have prompted us to enhance our cash and liquidity management. Strengthened liquidity forecasting and cash management will help lower the volatility and transaction costs of treasury resource management. To this end with the help of FAD TA, we have conducted a diagnostic assessment of treasury cash and liquidity management based on an examination of international best practices with regard to the roles of finance ministries, treasuries, central banks, and debt management agencies. We will work to incorporate these findings in improving the predictability of cash and liquidity management and seek further TA.

D. Fiscal Structural Reforms

22. Despite the uncertainty and risks, we are moving forward with our structural reform agenda to support EU accession and achievement of development goals. In the area of public finance we will focus on: (i) raising adequate revenues to help meet reconstruction and social spending needs through measures that enhance the efficiency, fairness and simplicity of the tax system, including through a home-grown multi-year National Revenue Strategy (NRS); (ii) preparing our public investment and public financial management for the post-war era by strengthening public investment processes, the project management cycle, and commitment controls; (iii) reforming and strengthening the pension system and social safety net, (iv) enhancing fiscal transparency and management of fiscal risks; and (v) ensuring fiscal sustainability and the predictability of budget policy by further strengthening the interlinkages between medium-term budget frameworks (MTBF), reconstruction priorities, and public investment management, while keeping fiscal risks arising from state-owned companies under control. To support these structural reforms, we will continue to abstain from any tax policy and administrative measures that may adversely affect the tax revenue base, and as such we will refrain from introducing new categories of taxpayers in the existing preferential regimes.

National Revenue Strategy

23. The National Revenue Strategy (NRS) will remain the anchor for our tax policy and administration reforms. The NRS will allow us to achieve a fair and competitive tax framework that would generate revenues sufficient to safeguard our post-war development goals while maintaining fiscal and debt sustainability. We adopted the NRS in December 2023 **(*Structural Benchmark*, end-December 2023)**. We will invigorate efforts for outreach to key stakeholders and taxpayers to strengthen the buy-in for expansion of the tax base much needed for financing the post-war spending priorities. To enhance the efficiency of NRS implementation, and prepare the groundwork for efficient tax policy reforms, we will take a sequenced approach by focusing first on reforms in tax and customs administration, with emphasis on integrity, reducing administrative and political discretion, and improving the trustworthiness of administrative processes. By increasing the trust in the controlling authorities through measures in the NRS, we will pave the way for the implementation of specific measures to address long-standing structural impediments to revenue mobilization (e.g., the overly broad and generous simplified regimes), equity-focused reforms (e.g., a more progressive personal income tax (PIT)), and revenue-enhancing alignment with EU directives (e.g., on VAT and excise taxes), environmental taxation and extractive industries' rent payments. Following IMF FAD TA, the NRS covers guidance for coordination among government agencies, donors, the private sector and civil society on tax policies and administration led by the MOF.

24. To start with, the implementation of NRS will focus on the following key areas of reforms. Specifically.

- We are preparing an assessment of the effectiveness of tax privileges, including their cost to the budget, in order to have a unified reform approach. We remain on track to finalize the draft by end-July, 2024 **(*Structural Benchmark,* end-July 2024*)*.**

- We will approve a long-term Digital Development Plan for the STS in accordance with the NRS's implementation plan (by the end of 2024). It will include measures for the gradual consolidation of IT platforms and information resources, and their administration by an independent administrator.

- We will also define strategic measures to ensure the confidentiality and protection of data in the STS systems (including information received from taxpayers and tax agents). To enhance the confidentiality of tax data held by STS, we will develop the concept of using anonymized data (data masking) on taxpayers by tax authorities (see NRS section 4.2.3), until the risk of tax non-compliance is detected.

- We will also develop legislative amendments to implement rules to combat tax evasion practices that take into account the requirements of the EU Anti-Tax Avoidance Directive (EU ATAD) and the best international practices for preventing tax evasion and ensure effective protection of the tax base from erosion and profit shifting.

25. Over the next few years, we will undertake important tax policy reforms guided by the NRS to meet post-war needs. We will also strengthen the revenue mobilization in the following areas by: (i) developing a comprehensive package of measures for the post-war period to reform the taxation of carbon emissions, based on a concept of environmental protection; (ii) analyzing and assessing the taxation of extractive industries; (iii) defining the principles of taxation of virtual assets, aligned with EU rules, in particular with regard to information exchange and initiatives of the OECD Global Forum. This work will be supported by TA from the IMF FAD and other international development partners.

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

- ***State Tax Service (STS)*. We will continue to take measures aimed at increasing public trust and creating a positive image of the STS**,
  - As an input into this important process, we will use the taxpayer independent perception survey (Global Taxpayer Survey) as a source for identifying key problems. We will continue running it systematically at least once every two years. Currently we are working on eliminating problems identified in the 2023 taxpayer perception survey and will complete a similar survey for 2024 by end-year.
  - We will develop a methodology to operationalize the tax risk management system. For this purpose, we will adopt a comprehensive compliance improvement plan on the identification, assessment, analysis, and mitigation of risks by major types of tax risks.
  - We are also working on: (i) organizational restructuring that will reflect the results of the functional review (by end-2024) to better align the STS's organizational structure with the principle of functionally organized tax administration and support modern Compliance Risk Management practices of functional principle; (ii) determining the criteria for assessing the impact and efficiency of the STS Anti-Corruption Program; (iii) implementing IT solutions for SAF-T UA (electronic format for large taxpayer data submission, one of the EU integration obligations); (iv) improving the efficiency of information exchange with foreign competent authorities (including obtaining positive assessment from the OECD Global Forum on Information Security Management Maturity).

- ***State Customs Service (SCS*)**.** We will continue focusing on key reform areas critical for reducing corruption risks within customs administration. Specifically, we will adopt legislation that reinstates post-clearance customs audit effective end-April 2024, to complement the reinstatement of tax audits and close potential loopholes in managing compliance processes. We will also adopt and implement legislation to criminalize large-scale customs fraud and smuggling of all goods that should also help with stronger tax and customs compliance. Similar to STS, we will launch an initiative to determine the criteria for assessing the impact of the SCS Anti-Corruption Program. Moreover, we are working on: (i) reforms of HR and compensation policies; (ii) improving operational management of customs from its headquarters, including the development of centers of excellence for different functional tasks; and (iii) moving the verification/checking of customs documents from border crossings to inland offices.

27. Economic Security Bureau of Ukraine (ESBU). The importance of strengthening compliance controls and detecting major financial and economic crimes implies a need to bolster analytical support for identifying tax evasion on an arm's length basis. We will adopt a new law on the ESBU that has a clear mandate and scope for investigative powers consistent with good practice by focusing on major economic crimes and strengthening its analytical capacity, while ensuring the capacity of the STS and SCS to effectively address violations in the tax and customs spheres**.** The ESBU's activities will be directed and coordinated by the CMU, while noting the ESBU's focus on major economic crimes. The existing delineation between the investigative powers of the ESBU and the National Anti-corruption Bureau of Ukraine (NABU) will be maintained. In addition, the law will aim to establish a legal basis for the operation of the ESBU in order to (i) develop an open, transparent and competitive process for selection of management and staff; (ii) strengthen requirements for the selection commission for the ESBU head, including a decisive and crucial vote for independent experts with international experience ; (iii) set up of a disciplinary committee; (iv) introduce a contract system for employees; and (v) develop a mechanism of attestation based on high-level principles in the law and procedures approved by the CMU; the attestation of managers will be prioritized and completed within a reasonable period after the appointment of the new ESBU head **(*Structural Benchmark,* end-June 2024).**

Restoring the Medium-term Budget Framework

28. **We will continue enhancing expenditure planning and the medium-term budget framework (MTBF)**. With the help of IMF TA, we will undertake a diagnostic review of pre-war MTBF policies and practices relative to best practices **(*Structural Benchmark*, end-October 2024)**. To this end, we have undertaken the first set of gap analysis, which have identified key areas of focus in our work. In this context, as a first step, we have started with preparation of the budget declaration for 2025-2027 and have sent a letter to key spending units requesting them to share with MOF key factors feeding into the estimation of baseline costs of public services for this period. This is an essential input into enhancing the credibility of fiscal forecasts and assessing the affordability of existing policies. Based on this diagnostic review, we will take a sequenced approach to strengthening the medium-term budget planning, and expanding the coverage of the MTBF to include budgets of the local governments and social funds. Key steps towards aligning the MTBF with international practices and EU requirements are also among the priorities. Looking ahead, we expect to have continuous IMF TA support to enhance the estimation of the baseline expenditures in the instructions for the formulation of the 2026-2028 Budget declaration and 2026 Budget.

Pensions and Social Spending

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

- **Pensions.** We plan to work on a comprehensive conceptual framework to improve the pension system and are reviewing the possibility of introducing a second pillar of the pension scheme, when conditions are in place. We reiterate that any proposed legal amendments that would increase pension expenditures need to be accompanied by a medium-term fiscal and debt sustainability analysis, and a clear identification of the necessary resources in the amendments to the Pension Fund of Ukraine budget. We will refrain from: (i) introducing new special pensions or privileges; (ii) providing further discretionary benefit increases; and (iii) modifications that would lead to a lowering of the legally defined retirement age.

- **Mechanisms to support vulnerable groups.** We are working on further enhancement of targeting and means testing of benefits to vulnerable groups of population. With the support of the World Bank, including through a programmatic loan, we are working on draft legislation to consolidate different types of social entitlements. More specifically, we are exploring the options for integrating various social assistance programs under a single unified package based on individual needs regardless of a recipient's status (e.g., IDP or non-IDP). In this context, we also have increased the income threshold for eligibility under the Guaranteed Minimum Income (GMI) program by 10 percent.

Fiscal Transparency and Risks

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

- We have made significant progress in strengthening the fiscal risk statement report that is attached to the budget 2024. Going forward we will include a consolidated view of financial performance analysis and stress testing across major SOEs. We are taking steps to strengthen the policies and practices for feeding the Fiscal Risk Statement (FRS) analysis into the annual budget preparation, strengthening the integration of fiscal risks at all stages of the budget cycle. As a first step, we have issued a letter to line ministers and key spending units requesting them to start identifying key fiscal risks to be included in the medium-term budget 2025-2027 declaration.

- Based on recent IMF TA on risk assessment and SOE stress testing, we will continue strengthening SOE stress testing under different scenarios. We will identify major public companies severely affected by the war and prepare an assessment of their potential fiscal and quasi-fiscal costs **(*Structural Benchmark,* end-September 2024**). We have already requested IMF TA to support our work, and are working on defining the scope and the timeline of the assessment.

- To strengthen the link between the fiscal risks assessment and the predictability of government spending, we will develop methodological guidance for assessing fiscal risks in key spending areas and contingent liabilities, including PPPs, guarantees, and SOEs. By integrating these assessments more robustly into the early stages of the budget cycle, fiscal risk analyses can better inform budgetary and fiscal decisions. In this process, we will reach out to MOE and other line ministries to develop methodological guidance and establish stronger links between the fiscal risks assessment and government spending predictability.

- With the help of ongoing IMF TA, the MOF will finalize the development of risk-based fees for guarantees and prepare amendments to the existing decree. The upcoming IMF TA mission is expected in April-May 2024.
- In collaboration with MOE, the MOF will publish a list of PPPs and prepare a review of the associated risks and potential impact on the 2025 Budget and onwards by end-September 2024**.**

31. We are reinvigorating efforts to strengthen the governance of BDF and take measures to ringfence the increasing fiscal and financial sector risks from the 5-7-9 program.

- A draft **concept note** was approved by the Cabinet of Ministers at end-2023, discussing options to strengthen the governance of BDF and a proposal to strengthen the design of 5-7-9 program to focus on targeting small and medium enterprises by phasing out the eligibility of large companies, enhancing monitoring, and maintaining adequate safeguards.
- In January 2024, the CMU approved the **phasing out of large company eligibility**.
- In February 2024, the MOF, in collaboration with international partners, commissioned an **independent assessment of the BDF and its support programs** (to be implemented by a reputable consulting company), with the goal of refining their operational design to effectively serve only those SMEs that encounter substantial barriers to funding.

32. We are now working on strengthening the concept note to incorporate the following amendments:

- **BDF:** We will incorporate measures to strengthen the governance and financial self-sustainability of the BDF, to keep the lending programs run by BDF targeted and time bound and to eliminate the risk of political interference in decision-making processes. While the BDF will continue to be subordinated to the MOF, we will establish a majority independent supervisory board by end-September 2024, while also including representatives of minority shareholders and international agencies (KfW, JICA, etc.) as observers during the selection of independent members. The independent members will be hired via an independent recruitment firm and the supervisory board will be chaired by an independent member. To ensure legal certainty and attract wide range of qualified candidates, we will approve a law (by end-May 2024), to allow for foreign independent supervisory board members of the BDF to have similar asset declaration obligations as foreign independent members of supervisory boards of SOBs. The BDF will be given an adequate operational budget to fulfil its mandate, including from an allocation of resources from the program budget for the 5-7-9 lending subsidy and/ or 0.5 percent of the amount compensated to the banks. The MOF will develop a draft law on the BDF by end-December 2024 to support the independence and responsibility of the supervisory board including: (i) undertaking analysis and recommending to the CMU on how lending programs should be targeted, implemented and phased-out, and once the BDF law is enacted, for overall design of the lending programs based on the key performance indicators suggested by the CMU; (ii) setting policies, processes and controls so lending programs remain within medium-term and annual budgets, enabling MOF's control over the spending for subsidized interests; (iii) setting detailed and clear guidance on eligibility criteria and annual reviews of continued eligibility for borrowers; (iv) establishing rules for participating banks; and, (v) preparing regular detailed reports on lending program performance and recommendations for adjustment including a semi-annual report on activities, detailed publishing of costs including operational costs related to administering the Fund, and detailed operational statistics (including number of applications, approvals/rejections, early loan termination, NPLs, number of fraudulent incidents).

- **5-7-9 loan program:** We will take immediate measures to ringfence the increasing fiscal and financial sector risks related to the 5-7-9 loan program. The MOF has approved the *budgetary passport* for the program submitted by the MOE, which will enable compensation of amounts due to participating banks starting from end-March 2024.
    - *Strengthening the criteria for targeting the program to small and medium enterprises*. In addition to phasing out the eligibility of large companies, we will also reconsider the lending limits, enhance monitoring, and maintain adequate safeguards.
    - *Clarifying the roles of MOE and MOF*. The MOE will maintain the identification of priorities for sectors of SMEs, and the MOF will be responsible for controlling and monitoring the spending under the program to avoid risks of overspending and accumulation of spending arrears. Moreover, the declaration for medium-term and annual budgets will continue establishing the direction and spending envelop on subsidized interest. To ensure the envelope is respected, the MOF and MOE will develop clear coordination mechanisms so that the established directions and bank lending limits are respected and consistent with budgeted interest subsidy envelope.

With these amendments, the MOF, in consultation with MOE will finalize this concept note by end-March 2024 (***Structural Benchmark* end-March 2024**) and prepare all necessary amendments to the regulatory framework to operationalize the concept note.

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

- ***Fund for the Liquidation of the Consequences of the Armed Aggression.*** The Fund served its purpose well in the context of Budget 2023, supporting the restoration of destroyed and damaged property in the amount of UAH 38.1 billion. In 2024, the Fund will continue serving its purpose as stated in the Article 28 of the 2024 State Budget Law. The sources for the Fund's operations are expected to comprise the unspent balance of about UAH 24 billion as of end-2023.

- ***Special accounts.*** In April 2023 we amended the Budget Code to ensure transparency of sources, usage and reporting of funds on special accounts. Starting mid-2023, the MOF publishes information about sources and usage of funds on special accounts, donated by private individuals and legal entities. We are committed to further transparency and accountability of these accounts.

Strengthening Public Investment Management

34. We have developed a roadmap of measures to reform our public investment management (PIM) which covers ambitious reform agenda **(Structural *Benchmark*, end-December 2023).** With the help of IMF TA and/or other partners, we will work to operationalize the roadmap, complementing it with a government decree with a specific action plan and a timeline that provides clear linkages between the MTBF and national reconstruction priorities, specifying a gatekeeper role for the MOF, which implies a central role for MOF in all stages of public investment management **(*Structural Benchmark,* end-December 2024*)*.** We will amend the Budget Code (by end-2024) to establish clear institutional links between the MTBF, PIM and reconstruction priorities, thus bolstering the MOF's institutional role as a gatekeeper of public investment and mitigating risks to debt sustainability. Coordination will be strengthened between the MOF, MOE and Ministry of Infrastructure and other line ministries, who remain responsible for project execution. Meanwhile, we will continue working on strengthening public investment management policies consistent with best practices of MTBF and PIM (¶28), following the principles of budget unity, coherence, and predictability.

E. External Debt Strategy

35. To help restore debt sustainability on a forward-looking basis, we publicly announced our intention to proceed with a debt treatment of our external public debt on March 24, 2023. Our strategy seeks to help close financing gaps during the program period, reduce gross financing needs to manageable levels, including after the program, and to place public debt on a sustainable path. Our strategy is also designed to help create the necessary conditions for private sector participation in the post-war reconstruction of Ukraine and takes into account the importance of preserving financial stability. To this end, we hired external financial advisors and are committed to a credible process with transparency for information and communication. We continue to discuss our strategy with private creditors and seek their feedback. Our goal remains to restore public debt sustainability and ensure that our program is fully financed throughout its duration, including in a downside scenario.

36. The debt treatment comprises the following elements:

- *Official bilateral debt.* Paris Club creditors have committed to a two-step process involving an extension of the debt standstill, coupled with a separate assurance to deliver a final debt treatment sufficient to restore debt sustainability before the final review of the IMF-supported program. The first stage—an extension of the standstill until 2027—was formally concluded in December 2023. We will seek treatments on comparable terms with other official creditors.

- *External commercial debt*. In August 2022, we reached an agreement with our international bondholders that included, amongst other things, a voluntary 24-month deferral of debt service on Ukraine's direct and state-guaranteed Eurobonds; similar deferrals were agreed on some non-guaranteed external commercial debt. We are advancing technical work to prepare for the launch of discussions with commercial creditors, which we expect to begin shortly after the completion of this review. Our goal remains to complete the needed debt treatment no later than mid-2024. We are committed to achieving a treatment on terms consistent with the most up-to-date IMF macroframework and the parameters of the debt sustainability assessment.

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

F. Monetary and Exchange Rate Policies

38. Our monetary and exchange rate policies aim to safeguard price and external stability and ensure an adequate level of international reserves. Following the start of the full-scale war, we undertook several emergency measures to safeguard price and external stability, including the introduction of a fixed exchange rate regime and FX controls solely for reasons of national security. Now, as conditions evolve and the economy adjusts to the war, we too have adapted our policies to ensure we continue to meet these objectives guided by our Strategy.

Monetary Policy

39. We will maintain an appropriate monetary policy stance to support price stability, anchor inflation expectations, and foster FX market sustainability. In view of rapid disinflation combined with a favorable inflation trajectory, we cut the key policy rate (KPR) by a cumulative 1,000 bps to 15 percent in 2023. In line with our Strategy, we will gradually strengthen the role of inflation as the nominal anchor of monetary policy. To this end, we plan to steer monetary policy towards sustaining moderate inflation throughout 2024, followed by its return toward the target of 5 percent over the NBU's forecast horizon. With inflation expected to remain in control over the policy horizon under the baseline, we envisage the easing cycle to continue, albeit more gradually in 2024, supported by the recent shift to a symmetric forward guidance, subject to the balance of risks to the inflation and economic outlook on the NBU's forecast horizon. Overall, in line with our Strategy, we intend to maintain sufficiently positive real interest rates to support price and external stability.

40. To ensure proper attractiveness of hryvnia-denominated instruments and strengthen monetary transmission, we will continue to adjust the operational design of our monetary

policy framework as well as take steps to manage the banking system's structural liquidity position.

- Our October 2023 shift from a corridor to a floor system for our monetary policy operational framework has aligned the de jure KPR with the de facto main overnight CD instrument. This has helped restore the role of the KPR in our operational design and increased the effectiveness of our communications around the KPR. In the near term, we will continue to ensure that the parameters on standing facilities are consistent with the appropriate monetary policy stance. Over time, as we further enhance the role of the KPR in the transmission of monetary policy and consistent with the evolution of liquidity conditions, we may consider the introduction of instruments beyond an overnight maturity to achieve, among other objectives, an increase in the average maturity of our sterilization operations, while considering the implications for the primary government bond market.

- The introduction of the 3-month CD linked to hryvnia term deposit growth in April 2023 is continuing to support an increase in the real rate of return (notwithstanding the easing cycle) as well as the total volume of hryvnia term deposits in the banking system. This has allowed individuals to preserve the value of their hryvnia savings and support FX market stability, while also serving as a more stable bank funding base. We continue to study the associated impact amid the easing cycle and fine tune the parameters as needed to support bank competition and sustain a positive real return on hryvnia assets.

Exchange Rate Policies

41. The transition from an exchange rate peg to a regime of managed flexibility has been smooth, and enables the exchange rate to act as a shock absorber. The transition away from the exchange rate peg, initiated from a position of strength, has been smooth, with the exchange rate fluctuating in response to market conditions while being supported by FX intervention. We continue to monitor the FX market closely to ensure external stability, including calibrating the parameters of the intervention framework in order to align with the program's objectives, and ensure FX interventions are consistent with the program NIR targets. Avoiding excessive exchange rate volatility under the managed flexibility framework will further help keep inflation and exchange rate expectations under control, thereby preserving confidence in the hryvnia and helping steer inflation toward the target over the NBU's forecast horizon. We are confident that the new regime will strengthen the resilience of the Ukrainian economy and FX market by gradually allowing the exchange rate to adjust to domestic and external shocks. We will also continue to facilitate the functioning of the FX cash market to ensure a low and stable spread, in line with our Strategy, including by easing access to noncash FX and increasing cash FX supply depending on market conditions.

42. We intend to maintain adequate FX reserves through the course of the program to safeguard external stability. Thanks to strong external financing flows, stronger than expected net exports and lower private outflows, FX reserves reached record levels in 2023, allowing us to comfortably meet our end-December ***Quantitative Performance Criterion*** on net international reserves. While recognizing that forecast confidence is subject to exceptionally high uncertainty, in view of better-than-expected FX reserve levels thus far and our continued commitment to external sustainability, we are requesting an increase of the floor on the NIR QPC for end-March 2024.

43. We plan to carefully adjust FX controls to support the economic recovery, while maintaining FX market stability and addressing national and international security considerations. Over the past year, we have in line with our Strategy eased FX controls on a case-by-case basis, in particular, to support humanitarian aid, energy infrastructure and economic activity. We will continue to remain vigilant and adjust these controls in line with the FX liberalization roadmap under our Strategy to safeguard macroeconomic stability.

- *FX Transactions under Martial Law*. Our FX Strategy will continue to guide our decisions to gradually relax FX restrictions, as conditions allow. The NBU plans to amend the necessary legislations in order to ensure the discretionary right of the NBU to approve permits for exemptions to the general rules on cross-border transactions set by Resolution #18. Our decisions to approve such permits will be consistent with the FX Strategy and the goal of safeguarding macroeconomic, financial and external stability.

- *MCPs*. Under IMF's new multiple currency practice (MCP) policy, the three previously approved MCPs are now considered eliminated. As we continue with our exchange rate transition, we will continue to monitor this area carefully to ensure multiple currency practices do not arise.

NBU Independence and Governance

44. We remain committed to avoiding monetary financing. We successfully avoided monetary financing in 2023, and our commitment to this objective will continue to be monitored by a ceiling on general government borrowing from the NBU ***(Indicative Target)***. If unexpected critical needs arise or external disbursements are delayed, we will first explore additional measures, such as drawing down excess government deposits or tapping the government debt market; we will request monetary financing from the NBU only as a last resort and in strictly limited amounts, underpinned by a mutually agreed framework between the MOF and NBU being developed in consultation with the IMF. We will also avoid indirect forms of monetary financing that are outside the core functions of the NBU, such as through the directed provision of liquidity to banks for the purchase of government securities on the primary market. Direct financing of off-budget programs by the NBU will be avoided altogether.

45. We remain fully committed to upholding the independence and institutional effectiveness of the NBU. A strong and independent NBU remains critical to achieving macroeconomic stability and will support the eventual transition back to an inflation targeting framework.

- *Governance arrangements*. We will ensure strong governance arrangements within the NBU. We have further enhanced the MoU between the NBU and the MOF for servicing the government's obligations to the Fund by the NBU through the introduction of additional agreements and necessary contracts, as well as rigorous monitoring of the status of settlements between the MOF and the NBU.

- *Financial autonomy.* We will continue adhering to our profit retention rules and ensure that the distribution of NBU profits to the state budget takes place in line with procedures established by the NBU Law. In this regard, to help alleviate financing pressures, a provision is envisaged to be introduced in the NBU law aimed at granting NBU the right to advance profit transfers in 2024, while capping the amount of distributable profits to safeguard financial autonomy. We commit to refrain from using NBU profit for earmarked spending in 2024 and will direct this revenue category to the General Fund of the State Budget. Finally, we acknowledge that costs incurred from monetary policy implementation via liquidity absorption (interest expenses on NBU CDs) are both necessary and justified to support macroeconomic stability.

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

47. Over the medium term, we intend to carefully unwind the unconventional measures undertaken to support price and external stability in wartime. Urgent wartime challenges have necessitated the use of several nonstandard measures by the NBU to support macroeconomic stability. We will strive to ensure that such measures are well-targeted, clearly communicated and time bound. For example, as the structural liquidity surplus unwinds, we will adjust the design of our monetary policy operational framework to better align with economic conditions, including assessing the merits of reverting to a corridor system. When conditions permit, we are committed to phasing out war-time measures. This will strengthen our monetary policy toolkit, safeguard NBU credibility and independence, and thereby support our goals to eventually return to an inflation targeting framework.

G. Financial Sector

48. Our wide-ranging emergency measures have preserved financial stability. We will continue to closely monitor developments in the financial sector and make adjustments as necessary. Despite the severe impact of the war, the majority of bank branches remain operational, online banking services are fully available to all clients with internet connectivity, the non-cash payment system is functioning normally, and liquidity is robust for most banks. To ensure the continuity of the banking network, we introduced "Power Banking" in late 2022, a network of over 2,000 bank branches across the country that are capable of providing banking services to clients even during prolonged blackouts. The licenses of eight small banks (around 4 percent of system net assets as of December-2023) have been revoked under Martial Law and one bank (also around 4 percent of system assets) was nationalized.

49. Recognizing the importance of a well-informed approach to supervision, the NBU continues to undertake detailed bank diagnostics. These are critical to ensure prudent and consistent valuation of banks' assets, informing triage and the modalities of eventual balance sheet cleanup.

- To better understand current banking system conditions and to inform supervisory priorities, the NBU with technical support of the World Bank completed a resilience assessment in 2023 that included an asset valuation and solvency assessment of banks comprising 90 percent of banking system assets. It found that banks generally adequately assess credit risk with only minor additional capital requirements identified in five banks (mostly due to their lower operating efficiency). Most of the capital needs were in two banks and have already been addressed. The other three banks are required to submit capital management plans to the NBU to close the approximately UAH 10 billion (US$260 million) gap as of end-2023 in two stages by March 2026. In 2025, the NBU plans to resume annual resilience assessments, which will include asset quality reviews and stress testing under baseline and adverse scenarios. We will prepare a prioritized interagency NPL resolution action plan by end-June 2024, which will be informed by the NBU resilience assessment.

- In line with the Terms of Reference adopted by the NBU in January 2023, we will: (i) complete an independent asset quality review (AQR) once conditions have stabilized; and (ii) carry out a subsequent bank viability assessment. The current prohibition on bank capital distributions will remain in place until after the independent AQR findings have been fully reflected in banks' regulatory ratios and financial statements.

50. We are determined to take the necessary steps to continue to preserve financial stability and limit the potential fiscal cost of any interventions. Our priorities will focus on continued preservation of financial stability whilst ensuring financial and operational readiness to respond adeptly to shocks. The NBU and Deposit Guarantee Fund (DGF) have prepared contingency plans to respond to further potential high-impact events in their respective areas, in consultation with key stakeholders and IMF staff. The Financial Stability Council has approved those plans related to preparation for potential adverse rulings from the constitutional challenges against the DGF Law and an updated contingency plan to prepare for litigation risks concerning past bank resolution decisions. We will continue to monitor developments and update these plans as needed. We shall also continue working on our longstanding priorities including timely recovery of value from historical non-performing loans (NPLs) and assets of resolved banks whilst maximizing the recovery of economic value.

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

52. Our decisions will be consistent with our overall strategy to reduce state ownership in the banking sector. Any decision that has the potential to increase state ownership in the banking sector will be taken in consultation with IMF staff and be strictly limited to matters related to preserving financial stability and national security decisions during the Martial Law period. All systemic banks with majority state ownership will fall under the responsibility of the MOF, and any non-systemic banks that come under state ownership will not be recapitalized using fiscal resources and will be transferred to the DGF for resolution upon breach of prudential requirements. **(*Modified Continuous Structural Benchmark*)**. We are considering how to include our vision for state-owned banks and financial institutions in our Financial Sector Strategy. In the immediate future, the key steps are as follows:

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

- We will continue to undertake analysis on the state of the banking system and wartime developments and needs. Drawing on this and the NBU's resilience exercise, we will consider whether the general SOB strategy under Martial Law and those for individual majority state-owned banks should be updated prior to the independent AQR. Should any banks fall below regulatory capital requirements as a result of either (i) NBU resilience assessment and/or (ii) new regulatory capital rules (¶53 herein), they will be subject to capital management plans and adjustments to business plans, that will return them to compliance before the independent AQR. Once the independent AQR is concluded, we will use its results to update the general SOB strategy and subsequently, strategies for individual banks with majority public ownership, including with respect to privatization (in line with our Financial Sector Strategy).

- In preparation for privatization of banks with majority public ownership, we will review and update the 2012 draft law on SOB privatization in consultation with IFIs and for submission to Parliament by end-March 2024. We will also prepare two systemic state-owned banks for sale, Sense Bank and Ukrgasbank by selecting and appointing an internationally recognized financial advisor using a transparent procedure by end-May 2024 and with IFIs as observers. The main considerations for selection will include an international track record in the sale of financial institutions, the advisor will propose a comprehensive sale action plan, and the advisory fee shall not be the key determining criterion.

- Develop strategies for the Ukrainian Financial Housing Company and Export Credit Agency, by end-November 2024 to align with the general targets of financial sector development.

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

- *Financial reporting*. We will restore the legislative obligations to submit financial statements and audit reports for financial institutions for the 2023 financial year and for business entities located outside the occupied territories for the 2024 financial year. In anticipation of this change, the NBU has fully restored prudential reporting requirements for NBFIs. To improve the quality of financial reporting in the non-banking financial services market, we will restore by end-September 2024 the requirements for mandatory quality control of services provided by audit companies, including the verification of audit reports prepared to comply with the requirements of the law (draft #9662).

- *Bank capital rules.* In recognition of the importance of preparing for EU accession, the NBU issued a regulation to align banks' regulatory capital structure with the EU Capital Requirements Directive and Regulation in December 2023. With the continued support of the World Bank, we will close other gaps by end-December 2024.

- *Property valuations law*. In recognition of the need for prudent (fair) valuation of real estate and bank collateral for all economic entities and public authorities, the State Property Fund (SPF) will consult with key stakeholders, including the NBU, NSSMC and IFIs, and by end-March 2024: (i) in coordination with the World Bank, develop provisions that will improve the draft amendments to the law registered in Parliament "On Valuation of Property, Property Rights and Professional Valuation Activities in Ukraine" (#7386) that closes the gaps with international valuation standards, and (ii) propose an implementation roadmap that includes transitional arrangements, details of supportive regulation and/or guidance, steps to strengthen the valuers profession including additional training requirements for valuation of financial assets (banking assets, /insurance assets and collateral), and creation of a register of valuations for financial assets.

- *Immovable property databases and indices*. The NBU and Ministry of Justice will prepare a detailed proposal in consultation with key stakeholders by end-March 2024 to increase the transparency of the real estate market for participants (including international investors), strengthen systemic risk analysis and mitigation, and bank collateral valuations. This proposal will include details and timelines for introducing: (i) a publicly accessible database of real estate transaction prices with detailed metadata including structural parameters of primary and secondary market; and (ii) residential and commercial property price indexes. Based on this proposal, the NBU will prepare a framework for the development and annual publication of property price index forecasts.

- *Bank remuneration*. The NBU has strengthened the framework for remuneration policies of banks, including to introduce requirements to limit variable compensation and payment mechanisms for senior bank management, and staff whose professional activities have a material impact on the institution's risk profile, while aligning it with EU standards.

- *Virtual assets*. The current legal framework for virtual assets could pose risks to price stability and the effectiveness of monetary transmission. The NBU and NSSMC will prepare an update of the legislation with input from IMF technical assistance and in consultation with IMF staff by end-December 2024 to align with international best practice while considering economic development goals and mitigating price and financial stability risks.

- *Non-performing exposures*. By end-April 2024, the NBU in consultation with IFIs will align the definition of non-performing exposures with Article 47a (non-performing exposures) and Article 178 (Default of an obligor) of Regulation EU 575/2013 of the European Parliament and the EU Council of 26 June 2013. The amendments will come into force from January 1st, 2025, and will strengthen monitoring by supervisors and banks.

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

- *Recent developments*. We took the following actions in 2023: (i) separated the related-parties unit from banking supervision; and (ii) strengthened Supervisory Committee decision-making by implementing "supervisory panels" as a consulting body to the Committee that provides additional independent review by relevant subject matter experts. The goal is to foster challenge of the recommendations of supervisory teams, promote horizontal communications among teams involved in financial supervision as well as consistency in decision making, and highlight issues that need special attention; and (iii) in recognition of the critical importance of onsite inspections, we have resumed scheduled inspections for both banking and non-banking institutions, while ensuring NBU discretion on matters related to staff safety. We will undertake a survey of the effectiveness of the new supervisory panels by end-September 2024 in consultation with IMF staff.

- *Transition to risk-based supervision*. The NBU will prepare and implement a supervisory risk assessment methodology to inform supervisory engagement priorities (***Structural Benchmark*, end-June, proposed to be reset to end-December 2024**). We will apply this methodology to all banks and prepare a supervisory action plan by end-December 2024. We will also adjust the organizational structure for bank supervision to leverage efficiencies as we transition to a risk-based approach; continue to develop expertise for effective supervision, in particular, for supervision of information and communications technology risks as part of operational risk; and further improve the professional capacity of bank supervision, which will include the development of professional profiles needed and a multi-year training program for new hires.

- *AML and Banking Supervision*. The NBU will continue strengthening risk-based AML/CFT supervision of banks, payment service providers and non-bank financial institutions, particularly in relation to tax crimes and illegal gambling. By end-December 2024, we will amend Article 32 of the AML/CFT law and corresponding amendments to Article 73 of the Banking Law to ensure that the penalties for AML/CFT violations by entities regulated and supervised by the NBU are effective, dissuasive and proportionate, in line with international AML/CFT standards. The financial sanctions applied to such entities will be established by the laws of Ukraine and the regulatory legal acts of the National Bank of Ukraine.

- *Supervision of banking hybrid business models*. We recognize the growing importance of banks' hybrid business models, specifically Banking-as-a-Service, a model in which banks integrate their digital banking services directly into the products of other non-bank businesses. The NBU in consultation with the IMF will propose a supervisory framework that will incorporate the specific risks of such business models based on international best practices by end-July 2024.

- *Transfer of bank ownership*. We commit to ensuring that any future transfers of bank ownership, including following seizures during Martial Law, can only take place with due regard to the Law of Ukraine on Banks and Banking and following formal notification, review and approval of the process by the NBU.

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

- *Beneficial ownership*. The NBU has required all NBFIs (except credit unions) to disclose their owners and remedy any opaque ownership structures since October 2021. We will continue to monitor and take supervisory actions against those NBFIs that do not meet this requirement.

- *Legal framework*. In December 2021–July 2023 we passed legislation on Financial Services and Financial Companies (#1953), Insurance (#1909) and Credit Unions (#3254). Most provisions of these laws came into force in January 2024 and the NBU has prepared implementing regulations. Rules for insurance intermediaries apply from January 2025, and Solvency II will apply from January 2027. The NBU and DGF plan to initiate the development of a deposit insurance framework for credit unions and a guarantee framework for life insurance companies after Martial Law is lifted, and once the regulations required for enforcing the new laws are put into effect. In order to strengthen the governance of the Motor (Transport) Insurance Bureau of Ukraine (MTIBU), we have submitted amendments to the Law of Ukraine "On Compulsory Civil Liability Insurance of Land Vehicles Owners" (#8300) to Parliament. We will also take the necessary steps to facilitate adoption of the law by Parliament by end-May 2024. In addition to improving governance, once passed, the law will help improve the state supervision of the MTIBU's activities and align with the European Motor Insurance Directive (2009/103/EC).

- *Capital and reporting requirements*. To further strengthen the NBFI market, the NBU increased capital requirements for financial companies in December 2023 and has provided a six-month transition period for existing entities to align their operations with the new requirements. The

NBU will increase capital requirements for payment market participants aligned with the EU payment services directive (PSD2, 2015/2366) and international good practice by end-June 2024. The NBU will also prepare a supervisory risk assessment methodology by end-September 2024 that distinguishes between the types of NBFIs with the aim to transition to a risk-based supervision approach for NBFIs. The NSSMC will prepare draft regulation for financial intermediaries by end-December 2024, which will bring their capital requirements in line with the EU acquis.

- *Payments market*. We submitted draft legislation to Parliament in December 2023 that will strengthen regulatory requirements for market participants; we will aim to adopt the law by end-May 2024. To prioritize supervisory activities of payment service providers we will in consultation with IFIs: (i) prepare a concept note for a supervisory risk assessment methodology by end-August 2024 and implement the methodology by end-December 2024; (ii) develop the reporting system; (iii) strengthen supervision capacity through hiring specialists and building analytical competence; and (iv) prepare a concept note by end-July 2024 on regulatory requirements for person to person (p2p) and other such electronic payments with the aim of identifying and restricting abnormal behavior. We will implement supporting regulation by end-October 2024.

- *Capital market regulation and harmonization with IOSCO principles*. We remain committed to enacting legislation that amends the Law (#5865) on the National Securities and Stock Market Commission (NSSMC) to enhance the NSSMC's powers, independence and institutional capacity, and its cross-border and domestic cooperation mandate. We will ensure that the law: considers the mandate of other regulators, and we will move swiftly to align with IOSCO principles to allow Ukraine to become a signatory of IOSCO's multilateral MoU by end-December 2024 with full implementation of the other provisions of the law by end-December 2025. The NSSMC will take steps to enhance the operational efficiency of NBU's capital controls in consultation with the NBU, including through regulatory harmonization and aligning capital flow restrictions for securities accounts with those applied to bank accounts by end-July 2024.

- *Related parties*. The NBU will extend the powers of its related-parties supervision unit to NBFIs by end-August 2024. This will include increasing the resources of the unit, and designing a new internal database and tools for effective related-parties identification. The NBU, in consultation with IFIs, will propose draft amendments to the Law on Banks and Banking by end-June 2024 to take into account supervisory observations in the recognition of related parties.

- *Insurance transparency*. We have adopted a regulation in February 2024 that requires auditors to confirm that insurers have acceptable assets and to assess their value for the 2023 financial year. We will also update the disclosure requirements for insurance and reinsurance brokers by end-December 2025.

56. In recognition of its important catalytic role in post-war economic recovery, we will take steps to enhance credit and financial market infrastructure:

- *Capital market infrastructure.* Mechanisms are needed for foreign investors to directly access marketable debt instruments beyond government securities. The NBU, NSSMC and MOF in consultation with IMF and other IFIs will propose priority actions for enhancing the capital market infrastructure by end-April 2024.

- *War risk insurance system*. The NBU, together with the Ministry of Economy and Ministry of Finance, will prepare an initial draft law establishing a fully functional war insurance system by end-June 2024.

- *Credit conditions*. The NBU in consultation with key stakeholders will prepare a comprehensive strategy to support development of lending, that will incorporate the 5-7-9 program amendments approved by the government (according to the concept note as envisaged in ¶31 herein) with due regard to financial stability and fiscal risks, by end-May 2024.

- *Responsible consumer lending*. To strengthen borrowers' rights, improve information exchange, and encourage responsible lending, we submitted to parliament in February a draft law on improving state regulation and the functioning of credit bureaus. We will take the necessary steps to facilitate the adoption of the law by Parliament by end-September 2024. We will also enhance the supervision of credit bureaus by establishing requirements for ownership and internal controls within six months of the law being adopted by the parliament and signed by the President.

- *Monetary derivative instruments*. To hedge foreign exchange and interest rate risks and improve monetary transmission, the NBU in consultation with IFIs will prepare a concept note by end-July 2024 that will set out the steps, conditions and timing needed to introduce and develop the derivative financial instruments (including forwards) market.

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

H. Governance and Anti-Corruption

Governance of Reconstruction

58. Our strategy for post-war reconstruction will meet the highest standards of transparency and accountability. In coordination with international partners, we plan to take full advantage of digital technologies in implementation of the full cycle of public investment projects, providing timely information to transparently track and analyze related projects throughout the whole project cycle from planning to implementation, including procurement processes and expenditures. We will achieve this through developing a single digital ecosystem for PIM based on the updated Ministry of Economy's Prozorro digital procurement system, the Ministry of Finance's IT systems for planning and execution monitoring of state and local budgets and IFI projects, the

Ministry of Infrastructure's Digital Restoration EcoSystem for Accountable Management (DREAM) and other relevant systems and registries. Comprehensive audits of the use of reconstruction funds, performance audits of selected individual projects (including project costs, deliverables and outputs), and timely publication of audit reports will also be key features of the reconstruction strategy. Our strategy will integrate and implement mechanisms to prevent and identify corruption risks, and cases will be referred, as appropriate, for follow-up by the anti-corruption institutions. In line with their memorandum of understanding, the NABU and the State Agency for Restoration and Development will continue cooperation efforts and exchange of information to prevent and detect corruption. We will undertake efforts to enhance the institutional independence and effectiveness of key audit institutions, the Accounting Chamber and State Audit Service, to ensure that public funds, particularly for reconstruction and recovery, are used for their intended purposes and any misappropriation is prevented or detected.

Anti-Corruption and Rule of Law

59. Our reform agenda on anti-corruption aims at effectively combatting corruption, sustaining public confidence in the rule of law, and advancing towards our goal of EU membership. We remain firmly committed to preserving independent, competent and trustworthy institutions to combat high-level corruption. We will preserve the hard-won advances on building an independent and effective anti-corruption infrastructure and prevent any backtracking from progress made.

60. To support transparency and accountability during the war and afterwards, we have restored public access to asset declarations of key public officials. The National Agency for Corruption Prevention (NACP) made publicly accessible previous asset declarations in January 2024.
61. [1] Efforts by the NACP to effectively monitor and verify the completeness and accuracy of these declarations (particularly, those that were acquired during the war and beneficially owned by them and their family members) are ongoing. Following the expiration of the term of the head, the open and competitive selection for the new NACP Head was completed in February 2024.

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

- On December 8, legislation was enacted that: a) improves the selection procedures of the SAPO head and key officials with a crucial role and decisive vote of independent experts with international experience; (b) strengthens its capacity to regulate its organizational activities including its designation as a separate legal entity within the Prosecutor General's Office; (c) establishes mechanisms for discipline and accountability of SAPO leadership, including performance evaluation and a periodic external audit conducted by independent experts with international experience in anti-corruption law enforcement; and (d) enhances its procedural autonomy in prosecuting corruption cases via amendments to the criminal procedural code such

[1] Publicly accessible here: https://public.nazk.gov.ua.

as extending periods for investigations, and settling disputes of investigative jurisdiction involving the NABU as well as carrying out joint investigations (*Structural Benchmark met*). To strengthen effective procedures for corruption investigations, further amendments to the Criminal Procedural Code will be enacted by end-June 2024, including to enable the Prosecutor General to delegate to the SAPO the management of extraditions and mutual legal assistance requests in relation to corruption investigations, and enhance the reasonableness and effectiveness of the time limits of pre-trial investigation after notice of suspicion.

- As provided for in the law, the external audit of the NABU's effectiveness with participation of three independent experts with international experience will be completed and its report published **(*Structural Benchmark,* end-September 2024)**. The Cabinet of Ministers is preparing to issue the decision to initiate the selection and nomination of independent experts. To effectively implement the law empowering the NABU to intercept communications (wiretapping), we will develop a plan for implementation in the post-Martial Law period to provide resources, equipment, and technological solutions for the NABU to independently intercept communications of landlines and mobile devices. Discussions between the NABU and law enforcement agencies are ongoing on the development of the implementation plan. Consistent with our broader reform plans for the forensic expert system for criminal law enforcement, we will ensure that the NABU by end-October 2024 has access to independent and competent forensic experts, to enable it to effectively conduct its investigative mandate, including investigating complex corruption schemes.

- We initiated the process for nominating and appointing new members of the Public Council of International Experts, which will vet candidates to the 24 new vacancies to the High Anti-Corruption Court (HACC) both at the first instance (15 vacancies) and appellate (9 vacancies) levels. We will ensure the open and competitive selection for these new vacancies and adequately provision for their staffing and office needs. Final appointments to the HACC will be completed by end-July. To enhance its efficiency and facilitate hearings, amendments to the procedural code will be enacted to rationalize matters or issues to be heard at the first instance by one HACC judge or by a panel of three HACC judges **(*Structural Benchmark,* end-March, proposed to be reset to end-April 2024)**.

63. The NBU is ensuring that risk-based implementation of AML tools helps prevent, detect, and deter the laundering of proceeds of corruption. Following the legal amendments to the definition of politically exposed persons (PEPs), the NBU is proceeding to conduct a thematic inspection of the selected financial institutions' compliance with enhanced customer due diligence on PEPs by end-June 2024. By end-August 2024, the NBU with IMF capacity development support will issue guidance for financial institutions and other covered non-bank institutions, consistent with the FATF standards, on the application of a risk-based approach regarding PEPs, which will include relevant case examples. In this regard, we are committed to invest in building the capacity of new and existing NBU staff to improve organizational performance, remain flexible and respond rapidly to changes and challenges in the AML/CFT framework. We will also improve the effectiveness of the beneficial ownership regime to enhance transparency in public procurement, detect conflicts of interest through transparent ownership structures, and prevent the misuse of companies.

64. We are committed to advancing the rule of law and judicial reforms. The Advisory Group of Experts has been constituted and is proceeding with the open competition for the vacancies for the Constitutional Court judges. Following the dissolution of the Kyiv District Administrative Court in December 2022, we will enact a law to establish the High Administrative Court of Ukraine (with first instance and appellate chambers) that will hear administrative cases against national state agencies (e.g., NBU, NABU, NACP) by judges who have been properly vetted for professional competence and integrity with decisive and crucial vote of independent experts with international experience in the Public Council of International Experts **(*Structural Benchmark,* end-July 2024)**.

Corporate Governance in SOBs and SOEs

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

66. We are committed to strengthen corporate governance in SOEs.

- A draft law (#5593-D) bringing the SOE corporate governance framework broadly into line with OECD Guidelines on Corporate Governance of SOEs and to mitigate fiscal risks, was adopted on February 22. This reform, inter alia, aims to establish a regular independent evaluation procedure of SOE supervisory boards and clear criteria for early supervisory board dismissal. Overall, it will strengthen the accountability and broaden the powers of supervisory boards, so they have the ultimate authority to appoint and dismiss CEOs and set CEO remuneration (based on the state's remuneration policy). From a budget financing and PFM perspective to limit quasi-fiscal risks and safeguard debt sustainability, we will ensure a strong gatekeeper role of the MOF in its relationship with SOEs on financial predictability, reporting, transparency, and accountability, including approving the key financial metrics in the financial plans for natural monopolies and strategic SOEs, while the supervisory boards will be responsible to approve the financial plans. During Martial Law and 12 months thereafter—but not for a period of more than 3 years—a minimum level of SOE dividends will be set in #5593-D. Once the draft Law #5593-D has been adopted, we will follow up with new secondary legislation that will implement this law such as the operationalization of SOEs' financial planning process, including financial indicators that are consistent with the gatekeeper role of the MOF. This will also include a revamped nomination process and effective independent evaluation procedure for SOE supervisory boards, consistent with OECD standards. The legal framework established by #5593-D shall not be applicable to state-owned banks.

- We remain strongly committed to energy corporate governance reforms, including to ensure an independent evaluation of the GTSO supervisory board one year after its appointment. We also commit to launch an independent evaluation of the supervisory boards of Naftogaz and Ukrenergo in early 2024 and to conclude it by end-October 2024.

67. We are exploring options, in close consultation with international partners, to strengthen SOE management through the existing SOE corporate governance reform agenda. Drawing on best practices and putting it into the context of the ongoing SOE corporate governance reforms, we will clearly define the scope and mandate of options for strengthening SOE management, such as centralized modes, including defining the roles and mandates of key government institutions engaged in management of SOEs, such as the MOF, MOE, CMU, and the State Property Fund (SPFU). To start with, we will adhere to the following SOE reform agenda (as discussed in ¶65) and policy sequencing in close consultation with international partners, which are all essential preconditions for strengthening SOE management, including: (i) passing the SOE corporate governance law; (ii) implementing related secondary legislation, including establishing a methodology for and subsequently conducting regular independent evaluations of SOE supervisory boards; (iii) as an interim step, assessing the financial conditions and fiscal risks of the SOEs in the state ownership policy by end-May 2024; and (iv) producing a comprehensive state ownership, dividend policy and privatization strategy ***(Structural Benchmark,*** **end-August, proposed to be reset to end-October 2024*)***. More broadly, we will also assess the financial viability of key SOEs as an input to developing a framework to deal with quasi-fiscal costs, including legacy Public Service Obligations (PSOs).

68. The SOE state ownership policy, which will serve as a critical input and pre-condition into the triage and privatization strategy of SOEs, will include the following important elements:

- Long-term priorities of SOE state ownership; SOE public policy objectives and rationales for SOEs in state ownership (subject to regular reviews); the state's role in the governance of SOEs and its implementation (including roles and responsibilities of involved government agencies); relationship between government agencies, the supervisory board and management.

- Criteria of financial viability of SOEs, financial assessment of SOEs (including contingent liabilities, debts and risks to public finances); critical gatekeeper role of Ministry of Finance to safeguard public finances and debt sustainability (via tracking financial viability of SOEs and fiscal risk analysis).

- Dividend policy (e.g., rationale, sectoral policy, impact on public finances, and post-war strategy) and remuneration policy for Board members and managers.

Energy Sector Reforms

69. Our immediate priority is to contain the adverse impact of the war on the energy sector. We remain strongly committed to implementing, once conditions allow, a timely and ambitious energy reform agenda to address long-standing structural problems in the energy sector that have been exacerbated by the war.

- We have been well prepared for the winter attacks, with no material impact on the energy supply. Overall, potential reform measures include gradual tariff increases (subject to a new tariff methodology and social considerations during the war), securing external financing, and providing transparent and exceptional direct budget support to energy SOEs pending available budgetary resources. Once the war winds down, the reform agenda in the energy sector will, inter alia, require restoring and enhancing competition in wholesale and retail gas markets. Furthermore, ensuring the sustainability of the system and reducing quasi-fiscal liabilities will necessitate a gradual increase in gas and electricity tariffs towards cost recovery while allocating adequate and well-targeted resources to protect vulnerable households. The CMU will adopt a Roadmap for the gradual liberalization of gas and electricity markets, with a time-bound implementation plan for the post Martial Law period. The Roadmap will be based on technical analysis of the financial condition of the sector.

- Restrained domestic consumption and growing domestic production limited the need for gas imports during the past heating season. For the next heating season in 2024/25, the authorities do not plan additional gas imports for domestic consumption, including due to Naftogaz's expanded production capacity, but up to 3 bcm of additional gas for storing by non-residents for EU country needs could occur under the baseline. Naftogaz has secured additional financing for gas imports through the EBRD and bilateral donors. If Naftogaz faces a liquidity shortfall, we will assess the amount of PSO compensation in 2024 based on actual documentary proven expenditures of Naftogaz verified by the State Audit Service and other stakeholders. The relevant calculations will be finalized by end-August 2024. The potential spending pressure from gas imports and PSO compensation will be accommodated through an adjustor on fiscal balance targets, subject to the above assessment, the findings of the stock of arrears of District Heating Companies (DHCs) based on a desk audit (see below), available financing, and capped at UAH 60 billion (about 1 percent of GDP).

- The updated strategies of the GTSO and transmission industry appropriately reflect the new operating environment by seeking to rightsize the system and identifying alternative sources of gas supply. This will be critical for the GTSO to prepare financially and operationally for the zero transit scenario when the transit contract expires at end-2024. In particular, we will adopt draft law #6133 that allows for a special regime of operations for GTSO to reduce its operational expenditures and maintenance for non-critical gas transmission purposes.

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

I. Program Monitoring

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

Table 1. Ukraine: Quantitative Performance Criteria and Indicative Targets
(end of period; billions of Ukrainian hryvnia, unless indicated otherwise)

	Dec 2023					Mar 2024		Jun 2024		Sep 2024		Dec 2024		Mar 2025
	QPC	Adjustor	Adjusted QPC	Actual	Status	QPC	Proposed Rev. QPC	IT	Proposed QPC	IT	Proposed Rev. IT	IT	Proposed Rev. IT	Proposed IT
I. Quantitative Performance Criteria 1/ 2/														
Floor on the non-defense cash primary balance of the general government, excluding budget support grants (- implies a deficit) 2/ 3/	105,000	0	105,000	380,542	Met	140,715	135,000	257,184	250,000	368,313	368,313	415,410	415,410	330,000
Floor on tax revenues (excluding Social Security Contributions)	1,653,992	...	1,653,992	1,650,424	Not Met	426,300	426,300	880,400	880,400	1,398,600	1,398,600	2,042,250	2,042,250	485,000
Ceiling on publicly guaranteed debt 4/	37,000	20,538	57,538	40,258	Met	47,900	47,900	47,900	47,900	47,900	47,900	47,900	47,900	53,626
Floor on net international reserves (in millions of U.S. dollars) 5/	24,900	-3,211	21,689	28,244	Met	25,400	28,400	25,300	26,800	25,400	27,900	23,000	24,900	26,000
II. Indicative Targets 1/ 2/														
Floor on the cash balance of the general government, excluding budget support grants (- implies a deficit)	-1,744,668	0	-1,744,668	-1,717,172	Met	-344,485	-344,485	-725,996	-725,996	-1,123,107	-1,123,107	-1,557,208	-1,557,208	-215,000
Ceiling on general government arrears	2,000	...	2,000	1,556	Met	2,000	2,000	2,000	2,000	1,800	1,800	1,600	1,600	1,600
Floor on social spending	499,600	...	499,600	551,083	Met	130,000	130,000	262,500	262,500	390,000	390,000	537,800	537,800	135,000
Ceiling on general government borrowing from the NBU 6/ 7/	-704	49,296	48,592	-731	Met	-9,500	-9,500	-2,884	-2,884	-1,153	0	-704	0	-984
III. Continuous performance criterion 1/ 2/														
Ceiling on non-accumulation of new external debt payments arrears by the general government	0	...	0	0	Met	0	0	0	0	0	0	0	0	0
IV. Memorandum items														
External project financing (in millions of U.S. dollars)	894	...	...	548	...	127	476	413	861	832	1,200	1,496	1,497	326
External budget financing (in millions of U.S. dollars) 8/	40,956	...	...	37,745	...	8,521	9,267	17,367	16,825	26,548	25,654	31,565	32,414	5,183
Budget support grants (in millions of U.S. dollars)	14,909	...	...	11,620	...	3,103	1,017	5,937	4,942	8,770	10,474	8,770	12,082	1,735
Budget support loans (in millions of U.S. dollars) 8/	26,048	...	...	26,125	...	5,417	8,250	11,430	11,883	17,778	15,180	22,795	20,332	3,447
Interest payments	260,218	...	...	253,914	...	49,500	49,500	161,780	161,780	284,320	284,320	429,820	429,820	117,831
NBU profit transfers to the government	71,868	...	...	71,868	...	0	30,000	17,700	38,000	17,700	38,000	17,700	38,000	0
Government bonds for the purposes of bank recapitalization and DGF financing	0	...	...	0	...	0	0	0	0	0	0	0	0	0
Spending from receipts resulting from sales of confiscated Russian assets and transfers of bank accounts	25,800	...	...	15,330	...	0	0	0	0	0	0	2,370	23,743	0
Spending on gas purchases, PSO compensation and transfer to GTSO	60,000	...	...	0	...	0	0	0	0	60,000	60,000	60,000	60,000	0
Cash balance of the general government, excluding budget support grants, treasury report at current exchange rates (- implies a deficit; in billions of Ukrainian hryvnia)	...	...	...	-1,706.7	...	...	-262.4	...	-671.7	...	-1,046.6	...	-1,562.1	-212.2

Sources: Ukranian authorities and IMF staff estimates and projections.
1/ Definitions and adjustors are specificied in the Technical Memorandum of Understanding (TMU).
2/ Targets and projections for 2023, 2024, and 2025 are cumulative flows from January 1, 2023, 2024, and 2025, respectively.
3/ Starting with June 2023, the floor on the non-defense cash balance of the general government excluding grants is redefined to include general fund defense expenditures only.
4/ Starting in June 2023, the ceiling on government guarantees was converted into a periodic quantitative performance criterion.
5/ Calculated using program accounting exchange rates as specified in the TMU.
6/ From end of previous quarter.
7/ Calculated using the projected redemption of government bonds as of February 21, 2024.
8/ Excludes prospective IMF disbursements under the EFF.

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

Table 2. Ukraine: Structural Benchmarks (continued)

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

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

	Structural Benchmark	Sector	Timing	Status
19	Adopt the National Revenue Strategy	Fiscal	End-December 2023	**Met**
20	Adopt legislation to enhance the institutional autonomy and effectiveness of the SAPO by being designated as a separate legal entity, and specifically, on the selection procedures, capacity to regulate organizational activities, mechanisms for discipline and accountability, and autonomy under the criminal procedural code	Governance/ Anti-Corruption	End-December 2023	**Met**
21	Based on findings of the revenue working group, prepare short-term revenue measures (tax and non-tax) with yields of at least 0.5 percent of GDP ready to be included in budget 2024	Fiscal	End-February 2024	**Met**
22	Develop a concept note on the 5-7-9 program with proposals to target small and medium enterprises by phasing out the eligibility of large companies, enhance monitoring, and maintain adequate safeguards.	Fiscal	End-March 2024	
23	Adopt a new law (consistent with ¶27 of the MEFP) on the ESBU that has a clear mandate and scope for investigative powers consistent with good practice by focusing on major economic crimes; establishing legal basis for operation of the ESBU in terms of the selection of management and staff. The law will respect the existing delineation between the investigative powers of the ESBU and the National Anti-corruption Bureau of Ukraine (NABU).	Fiscal	End-June 2024	
24	Prepare an assessment of the effectiveness of tax privileges, including their cost to the budget, in order to have a unified reform approach	Fiscal	End-July 2024	
25	Identify major public companies severely affected by the war and prepare a review of potential fiscal and quasi-fiscal costs	Fiscal	End-September 2024	
26	With the help of IMF TA, produce a diagnostic review of pre-war MTBF policies and practices relative to best practices.	Fiscal	End-October 2024	
27	Based on the outcomes of a roadmap on development of PIM procedures, adopt a government decree with an action plan and timeline that provides clear linkages between MTBF and capital expenditures, including reconstruction priorities, and specifying the gatekeeper role of the MOF.	Fiscal	End-December 2024	
28	**All systemic banks with majority state ownership will fall under the responsibility of the MOF, and any non-systemic banks that come under state ownership will not be recapitalized using fiscal resources and will be transferred to the DGF for resolution upon breach of prudential requirements.**	Financial Sector	Continuous	***Modify***

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

	Structural Benchmark	Sector	Timing	Status
29	Prepare a bank rehabilitation framework in consultation with the DGF and IMF staff	Financial Sector	End-December 2024	
30	**Implement a supervisory risk assessment methodology to inform supervisory engagement priorities**	Financial Sector	***End-December 2024***	***Reset (from end-June)***
31	Determine the stock of arrears and assess financial conditions of District Heating Companies (DHCs) through a desk review by a reputable audit firm, including by separating arrears until and after February 2022.	Energy	End-June 2024	
32	**Enact amendments to the procedural code to rationalize matters or issues to be heard at the first instance by one anti-corruption judge or by a panel of three anti-corruption judges.**	Governance/ Anti-Corruption	***End-April 2024***	***Reset (from end-March)***
33	Enact a law to establish a new court that will hear administrative cases against national state agencies (e.g., NBU, NABU, NACP) by judges who have been properly vetted for professional competence and integrity.	Governance/ Anti-Corruption	End-July 2024	
34	Complete an external audit of the National Anti-Corruption Bureau of Ukraine's effectiveness with participation of three independent experts with international experience and publish its report.	Governance/ Anti-Corruption	End-September 2024	
35	**Produce a SOE state ownership policy, dividend policy and privatization strategy**	SOE Corporate Governance	***End-October 2024***	***Reset (from end-August)***

Attachment II. Technical Memorandum of Understanding

March 11, 2024

1. This Technical Memorandum of Understanding (TMU) sets out the understandings between the Ukrainian authorities and staff of the International Monetary Fund (IMF) regarding the definitions of the variables subject to targets—both quantitative performance criteria and indicative targets—for the Extended Arrangement under the Extended Fund Facility (EFF), as described in the authorities' Letter of Intent (LOI) dated March 11, 2024 and the attached Memorandum of Economic and Financial Policies (MEFP). It also describes the methods to be used in assessing program performance and the information requirements to ensure adequate monitoring of the targets.

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

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

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

5. For program purposes, the definition of debt is consistent with paragraph 8(a) of the Guidelines on Public Debt Conditionality in Fund Arrangements attached to IMF Executive Board Decision No.16919-(20/103), adopted October 28, 2020, as below.

a. The term "debt" will be understood to mean a current, i.e., not contingent, liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debts can take a number of forms, the primary ones being as follows:

i. loans, i.e., advances of money to the obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans and buyers' credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements);

ii. suppliers' credits, i.e., contracts where the supplier permits the obligor to defer payments until some time after the date on which the goods are delivered or services are provided; and,

iii. leases, i.e., arrangements under which property is provided which the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the lessor retains the title to the property. For the purpose of these guidelines, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement excluding those payments that cover the operation, repair, or maintenance of the property.

b. Under the definition of debt set out in this paragraph, arrears, penalties, and judicially awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt are debt. Failure to make payment on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt.

6. For program purposes, Gross Domestic Product is compiled as per the System of National Accounts 2008 and excludes territories that are or were in direct combat zones and temporarily occupied by Russia.

7. For program purposes, external financing is defined as (Table B):

a. Budget support loans and grants are unearmarked financial support provided to the government of Ukraine for general government financing. These include financing from official multilateral creditors (e.g., World Bank, European Commission) and official bilateral creditors.

b. Project support loans and grants are earmarked financial support provided to the government of Ukraine for financing specific projects and appear as part of government financing. These include financing from official multilateral creditors (e.g., European Investment Bank, World Bank Group and European Bank for Reconstruction and Development) and official bilateral creditors.

8. For program purposes, defense expenditures include expenditures of the defense and security sector pursuant to the articles of the Law of Ukraine "On National Security of Ukraine". Such expenditures shall include total amounts of all current (including goods and services, wage bill, social payments, etc.) and capital expenditures. It includes the expenditures through the state budget general fund.

9. The own revenues of budgetary institutions are defined in Item 15, Part 1, Article 2 of the Budget Code. Own revenues of budgetary institutions are revenues received in accordance with the established procedure by budgetary institutions as payment for the provision of services, performance of works, and targeted activities, grants, gifts, and charitable contributions, as well as proceeds from the sale of products or property and other activities in the prescribed manner.

10. For program purposes the proceeds of sales of confiscated Russian assets or bank accounts balances including those directed toward the Fund for the Liquidation of the Consequences of the Armed Aggression are recorded below the line as deficit financing sources with counter-entry into deposits of the Treasury Single Account.

11. Overdue accounts payables (domestic arrears) are specified in the Order of the Ministry of Finance No. 372 dated April 2, 2014, On the Approval of the Accounting Procedures for Specific Assets and Budget Institutions' Liabilities and On Amending Certain By-Laws on the Accounting for Budgetary Institutions. Accordingly, arrears are defined as the amount of payments due on the 30th day after the deadline for mandatory payment, in line with the legal contract in effect. In instances where the payment deadline is not specified, it counts as the 30th day after the confirmation of goods received, works done, and/or services rendered had been provided.

a. Budgetary arrears on social payments and wages comprise all arrears of the consolidated budget on wages, pensions, and social benefits of the central or local governments. The timeframe for wage arrears is based on the same timeframe as the general definition above. Considering the specifics of Martial Law, information on arrears in the security and defense sector can be presented in an aggregated form.

b. Wages are defined to comprise all forms of remuneration for work performed for standard and overtime work in all subcategories, including defense and security service.

c. Arrears of social funds (Pension and Unemployment Fund of Ukraine) comprise arrears with regard to all insurance benefits of these funds. The arrears on the Pension and Unemployment Funds refers to payments that have not been executed at the 30th day after the deadline for payment. Other social payment arrears are covered by bullet (a) of this paragraph. This definition excludes unpaid pensions to individuals who continue to reside in territories that are or were in direct combat zones and temporarily occupied by Russia.

I. QUANTITATIVE PERFORMANCE CRITERIA AND INDICATIVE TARGETS

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

Definition

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

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

a. any assets denominated in foreign currencies held at, or which are claims on, domestic institutions (i.e., institutions headquartered domestically, but located either domestically or abroad, or institutions headquartered abroad, but located domestically). Also excluded are all foreign currency claims of the NBU on domestic banks, and NBU deposits held at the Interbank Foreign Currency Exchange Market and domestic banks for trading purposes;

b. any precious metals or metal deposits, other than monetary gold and gold deposits, held by the NBU;

c. any assets that correspond to claims of commercial banks in foreign currency on the NBU and any reserve assets that are (i) encumbered; or (ii) pledged as collateral (in so far as not already included in foreign liabilities, or excluded from reserve assets); or (iii) frozen; and,

d. any reserve assets that are not readily available for intervention in the foreign exchange market, *inter alia*, because they are not fully under the control of the NBU or because of lack of quality or lack of liquidity that limits marketability at the book price.

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

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

- the stock of IMF credit outstanding;

- the nominal value of all derivative positions[1] (including swaps, options, forwards, and futures) of the NBU and general government, implying the sale of foreign currency or other reserve assets; and,

- all foreign exchange liabilities of the NBU to resident entities (e.g., claims in foreign exchange of domestic banks, and NBU credits in foreign exchange from domestic market), which are not already excluded from reserve assets, but excluding foreign exchange liabilities to the general government, or related to deposit guarantees.

Table A. Ukraine: Components of Net International Reserves

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

1/ The definitions used in this technical memorandum will be adjusted to reflect any changes in accounting classifications introduced during the period of the program. The definitions of the foreign accounts here correspond to the system of accounts in existence on October 31, 2022. The authorities will inform the staff before introducing any change to the Charts of Accounts of the NBU and the Commercial Banks, and changes in the reporting forms.
2/ Before receiving the monthly data from the IMF's Finance Department, these components will be calculated on the basis of preliminary data from the NBU and memorandum accounts.

Adjustors

- The NIR targets will be adjusted downward by the full amount of the cumulative shortfall in external budget support financing disbursements (defined in paragraph 7) relative to the baseline projection (Table B).

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

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

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

- In case the NBU requests use (draws) any reserve currency provided under a central bank swap agreement with another central bank and with a maturity of over 1 year, a symmetric adjuster will be applied to NIR targets. NIR targets will be adjusted upward by the amount used with maturity over 1 year. NIR targets will be adjusted downward when the NBU repays these amounts.

Table B. Ukraine: Gross Disbursements from IFIs and Official Sources [1/ 2/]

(Cumulative in USD millions, at program exchange rates)

	2024				2025
	end-Mar.	end-Jun.	end-Sep.	end-Dec.	end-Mar.
Total official support	9,743	17,686	26,855	33,911	5,509
Budget support	9,267	16,825	25,654	32,414	5,183
Loans	8,250	11,883	15,180	20,332	3,447
Grants	1,017	4,942	10,474	12,082	1,735
Project support 2/	476	861	1,200	1,497	326

1/ Flows in USD million, cumulative from January 1, 2024 for 2024 and from January 1, 2025 for 2025, calculated at program exchange rates. Prospective IMF disbursements under the EFF are excluded. Totals differ from Ukrainian authorities' projections under the budget due to different exchange rate assumptions.

2/ Project support is in the form of loans.

Table C. Ukraine: Issuance of Central Government Domestic FX Securities[1/]

(Cumulative in USD millions, at program exchange rates)

	2024				2025
	end-Mar.	end-Jun.	end-Sep.	end-Dec.	end-Mar.
Net issuance of central government domestic FX securities	0	0	0	0	0
Gross issuance	1,372	1,972	2,387	3,342	402
Redemption	1,372	1,972	2,387	3,342	402

1/ Flows in USD million, cumulative from January 1, 2024 for 2024 and from January 1, 2025 for 2025, calculated at program exchange rates.

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

Definition

15. General government direct borrowing from the NBU, net of redemptions and repayments, is defined as the cumulative change in the stock of outstanding claims on the general government (as defined in ¶4) held by the NBU, including general government securities, direct loans and credits, other accounts receivable, and overdraft transfers from the NBU in accounts of the general government. The stock of general government securities held by the NBU will be measured at the face value as reported on the NBU's balance sheet. The change in the stock of general government securities held by the NBU will exclude the securities acquired as collateral under loans provided by the NBU during the measurement period, and loans will exclude those to the Deposit Guarantee Fund. The change in the stock of such claims will be measured relative to the stock as of end September 2023 and adjusted for exchange rate valuation effects using program exchange rates. The detailed breakdown of the accounts will be provided in a format agreed with IMF staff.

16. An additional precondition for activating monetary financing is the drawing down of government deposits (consistent with ¶44 of MEFP), with the criteria being set out in a discussion between the NBU and the Ministry of Finance.

Adjustors

17. In general, should there be a shortfall in external financing defined as any shortfall of the financing listed in Table B, and primary issuances on government bonds (measured at face value, excluding short-term issuances with primary maturities less than 3 months) during the 3-month period prior to the request for monetary financing exceed 132 percent of actual redemptions over the same period, then the ceiling on general government borrowing from the NBU, net of redemptions and repayments, will be adjusted upward by the smaller of: the amount of the shortfall in external financing adjusted for additional primary issuances of government bonds, or a cap on general government borrowing from the NBU, equivalent to gross borrowing of UAH50 billion every quarter. The ceiling on general government borrowing from the NBU resets every quarter (i.e., March 31, 2024, June 30, 2024, September 30, 2024, and December 31, 2024 for the 2024 targets

and March 31, 2025 for the 2025 target) and is not carried over between quarters. The amount of the shortfall in external financing is assessed as the total cumulative shortfall from end-March 31, 2023, for 2023 targets, end-December 2023 for 2024 targets, and March 31, 2024 for the June 30, 2024 target, and is measured on the last day of the previous month. Projected redemptions are shown in table D.

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

(in UAH billion)

	For the test date of:				
	2024				2025
	Mar 31	Jun 30	Sep 30	Dec 31	Mar 31
Actual rollover rate on three month period prior to requesting monetary financing	132	132	132	132	132
Adjustment to ceiling on general government borrowing from the NBU, net of redemptions is the smaller of external financing as defined in Table B (if any) **or** this amount (in UAH billion) as of February 21, 2024	40.500	47.116	50	50	49
Memo: Projected redemptions (in UAH billions), as of February 21, 2024	89.0	107.0	81.0	168.0	150.2

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

Definition

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

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

- Total net treasury bill sales[2] (in hryvnias and foreign currency) as measured by the information kept in the NBU registry of treasury bill sales (net treasury bill sales are defined as the

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

cumulative total funds realized from the sales of treasury bills at the primary auction and government securities issued for recapitalization of banks and state-owned enterprises (SOE), less the cumulative total redemption of principal on treasury bills). Treasury bill issuances and redemptions for the purposes of calculating the overall cash balance of the general government exclude bonds issued to recapitalize Naftogaz[3] and other SOEs (including State Housing Financial Corporation); plus,

- Other net domestic banking system credit to general government (as defined above) as measured by the monetary statistics provided by the NBU (this consists of all non-treasury bill financing in either domestic or foreign currency extended to the general government by banks less the change in all government deposits in the banking system) as well as any other financing extended by entities not reflected by the monetary statistics provided by the NBU; plus,

- Total receipts from privatization (including the change in the stock of refundable participation deposits and the sale of nonfinancial assets) and the proceeds from uncompensated seizures; plus,

- Total proceeds from sales of confiscated Russian assets and bank account balances; plus,

- The change in sub-accounts 3551 and 3559 for pre-payments ahead of the delivery of goods and services; plus,

- The difference between disbursements and amortizations on any bond issued by the general government or the NBU to nonresidents for purposes of financing the general government; plus,

- The difference between disbursements of foreign loans attracted by the State (including budget support, project support, including on lent to public enterprises) and the amortization of foreign credits by the general government (including on lent project loans, e.g., budgeted payments on behalf of the Agency for the Restoration and Development of the Infrastructure of Ukraine per paragraph 95 of this TMU); plus,

- The net sales of SDR holdings in the IMF's SDR department; plus,

    - the net change in general government deposits in nonresident banks, or other nonresident institutions; plus,

    - net proceeds from any promissory note or other financial instruments issued by the general government.

20. For the purposes of measuring the balance of the general government, all flows to/from the budget in foreign currency (including from the issuance of foreign currency denominated domestic financial instruments) will be accounted for based on paragraph 3 of this TMU. Financing changes

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

resulting from exchange rate valuation of foreign currency deposits are excluded from the computation of balance. The government deposits in the banking system exclude VAT accounts used for electronic administration and escrow accounts of taxpayers used for customs clearance.

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

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

Adjustors for Balances in Parts C and D

- The floor on the overall cash balance excluding grants and on the non-Defense Cash Primary Balance of the general government will be adjusted upward by the full amount of any increase above the projected stock of budgetary arrears (overdue account payables) in state budget and social funds (as defined above in this TMU). This definition excludes domestic arrears in the territories that are or were in direct combat zones and temporarily occupied by Russia.

- The floor on the overall cash balance excluding grants and on the non-Defense Cash Primary Balance of the general government is subject to an automatic adjustor based on deviations of external budget support loans defined in paragraph 7 (Table B). Specifically, if the cumulative proceeds from external budget support loans (in hryvnia evaluated at program exchange rates), fall short of program projections, the floor on the consolidated general government balance will be adjusted downward by the full amount of the shortfall in external financing, consistent with the adjustors in section B above.

- The floor on the overall cash balance excluding grants and on the non-Defense Cash Primary Balance of the general government is subject to an automatic adjustor downwards corresponding to the full amount of government bonds issued for the purposes of bank recapitalization and DGF financing, up to a cumulative maximum amount to be set in future reviews. The amount included in the targets is zero.

- The floor on the overall cash balance excluding grants and on the non-Defense Cash primary Balance of the general government is subject to an automatic upward adjustment corresponding to the full amount of profits transferred by the NBU in excess of UAH 71.6 billion in 2023 and UAH 30 billion in end-March 2024 and UAH 38 billion for the remaining test dates in 2024.

- The floor on the overall cash balance excluding grants and on the non-Defense Cash primary Balance of the general government is subject to an automatic downward adjustment to accommodate gas purchases, PSO compensation and transfer to GTSO up to a cumulative maximum amount of UAH 60 billion in 2023 and UAH 60 billion in 2024, conditional upon availability of financing.

- For test dates in 2023, the floor on the overall cash balance excluding grants and on the non-Defense Cash primary Balance of the general government is subject to an automatic downward adjustor up to a cumulative maximum amount of UAH 25.8 billion corresponding to the full amount of receipts from sales of confiscated Russian assets and transfers of bank accounts; for test dates in 2024 the cumulative maximum downward adjustment is UAH 23.7 billion. This amount reflects the balance of the Fund for the Liquidation of the Consequences of the Armed Aggression, which stood at UAH 24 billion as of December 31, 2023. For the period of the Martial law, the data from territories that are or were in direct combat zones and temporarily occupied by Russia are excluded from the adjustor.

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

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

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

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

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

24. The ceiling of general government arrears is derived based on the definition provided in paragraph 11 of this TMU (excluding arrears of local governments) and reporting format set in paragraph 79 of this TMU. The target is cumulative starting January 1st of each calendar year, as described in the table of paragraph 79 and covers arrears of the state budget (general and special funds) and social funds (as defined in paragraph 11). The stock of arrears measured in that way will not exceed the stock of arrears at end December 2022. The arrears computation does not cover arrears accrued in territories that are or were in direct combat zones and temporarily occupied by Russia as of the applicable test date.

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

Definition

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

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

Definition

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

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

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

- For test dates in 2024: (i) loan to UGV to purchase equipment for gas extraction; (ii) loan to Naftogaz for additional procurement of natural gas; (iii) loan to Ukrhydroenergo for emergency restoration of hydropower plants; (iv) working capital loan to Ukrenergo; and (v) loan for Boryspil International Airport for reconstruction of flight zone 2. Consistent with debt sustainability objectives, this adjustor will be capped at UAH 38.7 billion in 2024 and discussed in program reviews.

J. Other Continuous Performance Criteria

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

II. OFFICIAL EXCHANGE RATE

A. Determination of the Official Exchange Rate

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

III. REPORTING REQUIREMENTS

A. National Bank of Ukraine

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

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

flows affecting net international reserves, and no later than the 25th of the following month, the NBU will provide data on the currency composition of reserve assets and liabilities.

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

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

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

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

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

37. The NBU will continue to provide to the IMF ***daily and monthly data*** on the NBU financing operations (including swaps or refinancing) of the banks of Ukraine, and on the operations of mopping up (absorption) of the liquidity from the banking system (including through the CDs issuance) in the formats and timeliness agreed with the IMF staff. ***On a monthly basis***, the NBU will

provide information on the collateral that has been pledged to the NBU for loans (by bank and loan type as well as by collateral type, haircut, and currency). ***On a monthly basis***, the NBU will also provide bank-by-bank information on NBU refinancing, broken down by operations (with indications of their settlement and maturity dates), and collateral pools, broken down by asset types and securities (with their values before and after haircuts). ***The monthly reporting*** of NBU loans and collateral will separately identify which banks are under temporary administration or liquidation.

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

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

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

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

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

by reasons, and ***on a monthly basis*** data on certain transfers of non-cash FX from Ukraine to the benefit of non-residents. The NBU ***on a monthly basis*** will provide to the IMF aggregated data on the number and amounts of e-limits granted to legal entities and physical individuals and on the transfer and purpose of foreign exchange outside Ukraine within the e-limits.

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

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

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

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

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

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

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

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

foreign currencies); related-party loans (by households, legal entities, and banks); counterparty names and amounts of the largest 20 loans to related parties; collateral for loans and claims on related parties (by type of collateral, legal entities, households, and banks in domestic and foreign currencies, as well as by borrower classification categories); provisions on loans and claims on related parties (by households, legal entities, and banks in domestic and foreign currencies, as well as by borrower classification categories.

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

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

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

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

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

56. The NBU will report to the IMF ***on a monthly basis*** data for the entire banking sector as well as on a bank-by-bank basis by bank groups for State Participation Group, Foreign Banking Group and Private Capital Group data on liquid assets in local currency and all currencies, including holdings of cash, correspondent accounts with banks, government bonds, benchmark government

bonds, funds held at the NBU in correspondent accounts, NBU instruments held, and details of free liquidity.

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

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

59. The NBU will inform IMF staff if the Treasury does not pay interest or principal on domestic government bonds due to the NBU, banks, or nonbank entities and individuals. In such case, the NBU will provide information on outstanding interest and principal payments.

60. The NBU will inform IMF staff of any changes to reserve requirements for other depository corporations.

61. The NBU will communicate (electronically) to the IMF staff any changes in the accounting and valuation principles applicable to the balance sheet data and will notify the staff before introducing any changes to the Charts of Accounts and reporting forms of both the NBU and the commercial banks.

62. The NBU Internal Audit Department will continue to provide an assurance report to the Fund, no later than six weeks after each test date, confirming that (i) the monetary data are in accordance with program definitions and have been verified and reconciled to accounting records; and (ii) that there have been no changes to the chart of accounts or valuation methods that would impact the data reporting.

63. The NBU will continue to provide the IMF with a copy of the annual management letter from the external auditor within six weeks of completion of each audit. As required under the Fund's safeguard policy, this will remain in effect for the duration of the arrangement and for as long as credit remains outstanding.

64. Monthly, the NBU will provide to the IMF and the Ministry of Finance data on the monthly coupons and principal to be paid for the period till the end of current and next year (in hryvnia and foreign currency, separately) on the outstanding stock of government securities held by NBU and the public (broken down by resident banks, resident non-bank; and non-resident investors). The data on resident banks will be further broken down by bank group (State Participation, Foreign Banking, and Private Capital) and include ISIN-level. Annually, the NBU will provide information on hryvnia-denominated securities that are indexed (i.e., to inflation; USD), broken down by the type of the owner.

B. Deposit Guarantee Fund

65. The DGF will provide, ***on a monthly basis***, data on the total number and volume of household deposits broken down in groups by deposit size. The data will be reported bank-by-bank for the largest 35 banks and on aggregate for the remaining banks.

66. The DGF will report to the IMF ***on a monthly basis*** and bank-by-bank for all banks in the banking system the amount of insured deposits and total household deposits. The data will be reported according to an agreed format, by domestic and foreign currency.

67. The DGF will report to the IMF ***on a monthly basis*** and bank-by-bank the total insured deposits and remaining insured deposits to be paid by the DGF for the banks under liquidation and under provisional administration. The data will be reported according to an agreed format, by domestic and foreign currency.

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

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

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

C. Ministry of Finance

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

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

budget from placing Treasury or any other liabilities to households in foreign and domestic currency and their redemption.

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

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

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

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

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

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

79. The Ministry of Finance will provide data on the stock of all budgetary arrears on a monthly basis, no later than on the 1st day of the second subsequent month, including separate line items for wages, pensions, social benefits accrued by social funds, energy, communal services, and all other arrears on goods and services and capital expenditures. The Treasury will report monthly data

on accounts payable for state and local budgets (economic classification of expenditures). The Pension Fund will provide monthly reports on net unpaid pensions to the individuals who resided or continue to reside in the territories that are or were in direct combat zones and temporarily occupied by Russia. The provided information will include defense and law-enforcement.

Overdue account payables general government	March 30, 2024	June 30, 2024	September 30, 2024	December 31, 2024	March 30, 2025
Wages					
Other budgetary spending					
Social spending, including					
Pension and Social Insurance					
Unemployment					
Local governments					

80. The Ministry of Finance will provide a decomposition of own revenues of budgetary institutions (budget treasury code 25000000) into proceeds from fees for services provided by budget institutions in accordance with the law (budget treasury code 25010000) and other sources of own revenues of budgetary institutions (budget treasury code 25020000) no later than 25 days after the end of the quarter.

81. The Ministry of Finance will provide monthly information, no later than 25 days after the end of each month, on the amounts and terms of all external debt contracted or guaranteed by the central government, including external and domestic credit to key budgetary spending units as well as nongovernment units that is guaranteed by the government (amount of sovereign guarantees extended by executive resolutions and actually effectuated; total amount of outstanding guarantees and list of their recipients).

82. The Ministry of Finance will provide monthly information, no later than 25 days after the end of each month, on the balances of sub-accounts 3551 and 3559.

83. The Ministry of Finance will provide to the IMF in electronic form on a quarterly basis, no later than 25 days after the end of the quarter, (a) data on the outstanding stock of domestic and external debt of the state and local budgets (including general and special funds); (b) the monthly forecasts of planned and actual external debt disbursement, amortization, and interest payments (including general and special funds), broken down in detail by creditor categories and currency as agreed with Fund staff. The Ministry of Finance will also report the accumulation of any budgetary arrears on external and domestic debt service.

84. The Ministry of Finance will provide to the IMF in electronic form on a semi-annual basis, no later than 25 days after the end of Q2 and Q4, disaggregated bond-by-bond (loan-by-loan) data regarding the debt stock, associated payments, and disbursements.

85. The Ministry of Finance will provide data on external and domestic credit to key budgetary spending units as well as nongovernment units that is guaranteed by the government (amount of sovereign guarantees extended by executive resolutions and actually effectuated; total amount of

outstanding guarantees and list of their recipients) on a monthly basis no later than 25 days after the end of the month.

86. The Ministry of Finance will provide data on the approved budgets and quarterly operational data (daily for the Pension Fund only) on the revenue, expenditures, and arrears, and balance sheets of the Pension Fund (detailed data on the breakdown of revenues and expenditure by main categories are expected for this Fund), Employment Fund (detailed data on the breakdown of revenues and expenditure by main categories are expected for this Fund), and any other extra budgetary funds managed at the state level no later than 50 days after the end of each quarter (each month in case of the Pension Fund). Any within-year amendments to the budgets of these funds will be reported within a week after their approval. The Ministry of Finance will also report the annual financial statement including the final fiscal accounts of those funds at the end of each fiscal year, no later than April of the following year.

87. The Ministry of Finance will provide, no later than 15 days after the end of each month, monthly data on the budgetary costs associated with the recapitalization of banks and SOEs. This cost includes the upfront impact on the cash balance of the general government of the recapitalization of banks and SOEs as well as the costs associated with the payment of interests, including the respective changes as a result of supplementary budgets. The Ministry of Finance will provide quarterly performance reports for the Fund for Entrepreneurship Development. The registry of fiscal risks would become available to the IMF staff on semi-annually or, if available, on a sooner basis.

88. The STS and State Customs Service (SCS) will continue to provide on a quarterly basis, no later than two months after the end of the quarter, a listing of all tax exemptions granted, specifying the beneficiary to whom the exemption was provided, the duration, and the estimated subsequent revenue loss for the current fiscal year. Revenues foregone include losses from the simplified tax regime by groups of beneficiaries.

89. The STS will continue to provide monthly information, no later than 25 days after the end of the month, on VAT refunds in the following format: (i) beginning stock of refund requests; (ii) refund requests paid in cash; (iii) refunds netted out against obligations of the taxpayer; (iv) denied requests; (v) new refund requests; (vi) end-of-period stock of requests; and (vii) stock of VAT refund arrears (unsettled VAT refund claims submitted to the STS more than 74 days before the end of period.

90. The STS will continue to provide monthly reports 1.P0 on actual tax revenue and 1.P6 on tax arrears, inclusive of deferred payments, interest and penalties outstanding no later than 25 days after the end of each month.

Tax Arrears by Codes	Total stock, o/w	Principal	Interest	Penalties	Tax Arrears of Taxpayers Undergoing Bankruptcy	Total Tax Arrears net of Taxpayers in Bankruptcy Procedures
Taxes from Code 11010000 to 31020000						

91. The STS will provide ***on a quarterly basis*** but no later than 25 days after the end of each quarter information on the number of tax appeals and the associated disputed amounts received by the STS in each reporting period, the number of internally resolved appeals indicating the number of appeals resolved in favor of the controlling body, in favor of taxpayer and partial satisfaction.

92. The Ministry of Finance will provide ***on a monthly basis*** information about the number and amount of loans under the 5-7-9 program as well as a breakdown by sectors of loans.

D. Ministry of Economy, National Commission in Charge of State Regulation in Energy and Utilities (NEURC), GTSO, Naftogaz and Ministry of Development of Communities Territories and Infrastructure

93. For each month, no later than the 25th of the following month, Naftogaz Group and the GTSO will each provide IMF staff with information in electronic form (in an agreed format) on their cash flows. The report from Naftogaz Group will also provide information on volumes and prices of gas purchases and sales (purchase of domestic and imported gas, sales to households, heating utilities, budget institutions, and industries), and the main revenue, expenditure, and financing items. On a monthly basis, Naftogaz will provide to IMF staff updated information on the company's financial liabilities, with a schedule of loan-by-loan interest and principal payments.

94. The Ministry of Economy will provide ***on a quarterly basis***, but no later than 80 days after the end of each quarter consolidated information from the financial statements of the 10 largest SOEs. Specifically, the information will include data on (a) gross profit/losses; (b) net financial results; (c) subsidies received from the budget; (d) guarantees granted from the budget; (e) stock of debt, broken down by domestic and foreign; (f) taxes and dividends paid; (g) wage arrears; and (h) other payment arrears.

95. The Agency for the Restoration and Development of the Infrastructure of Ukraine will provide monthly reports on the execution of budgetary programs associated with the road construction and maintenance, including borrowing (disbursements, interests, and amortization) in line with the format agreed with IMF staff.

E. State Statistics Service

96. In case of any revisions of gross domestic products, the State Statistics Service will provide to the IMF revised quarterly data on gross domestic product (nominal, real, deflator) and their components (economic activities, expenditure, income), no later than 10 days after any revisions have been made.

F. Ministry of Social Policy

97. The Ministry of Social Policy will collect and submit to IMF staff ***<u>on a quarterly basis</u>*** data on social assistance programs, including those existing before the war and newly emerging categories. The data, which will be presented in an agreed excel format, will show for each program, including IDPs (a) the number of households receiving help under HUS and other support categories; and privileges in the reporting month; (b) total value of transfers; (c) total value of outstanding HUS debt (d) income per capita of participants, both for HUS and privileges.

Statement by Mr. Vladyslav Rashkovan, Alternate Executive Director for Ukraine

March 21, 2024

On behalf of the Ukrainian authorities, I would like to thank staff for the in-depth report and ERM assessment, the constructive engagement during the recent mission and staff visit to Kyiv and Warsaw, and continuous virtual engagement with the authorities.

The authorities are in broad agreement with the staff assessment of the severe impact of Russia's brutal, unjustified invasion and the ongoing war on human and physical capital. The authorities are grateful for the Fund's Management and Executive Board's continuous support of Ukraine throughout these challenging times. They are thankful to all international donors and partners who help Ukraine brave these harsh times for our nation.

The comments below are provided to explain the context in which the authorities have operated during the last quarter.

Macroeconomic outlook during a wartime

Russia's war against Ukraine continues to exert a heavy toll on Ukraine as many people remain displaced, infrastructure is damaged, and a large portion of the potential GDP has been lost. The recent Rapid Damage and Needs Assessment estimates reconstruction costs at US $486 billion (230 percent of pre-war GDP) over the next decade.

Despite the war, real GDP returned to growth in annual terms in Q2 2023, reaching 5.7 percent for the whole of 2023, according to the National Bank of Ukraine's (NBU) estimates. The resilience of the Ukrainian economy, the further adaptation of businesses and households to wartime conditions, the substantial budget support, the stable energy situation, the rebound in domestic demand, high crops, and the faster expansion of alternative export routes were the main drivers of economic recovery in 2023.

Due to the high crop yields, Ukraine collected about 60 million tons of grains, an increase of about 11 percent compared to 2022 and higher than expected at the beginning of 2023. The expansion of alternative trade routes, including through the Danube ports and the new sea corridor (after Russia's unilateral withdrawal from the Black Sea Grain Initiative and Russia's trade disputes with some neighboring EU countries), supported exports and allowed Ukraine's grains to continue to contribute to global food security efforts. However, blockades of some borders with EU countries restrained the activity of some sectors and adversely affected budget revenues, mainly due to lower imports.

Consumer inflation continued to decelerate (to 5.1 percent y/y in December 2023 and further to 4.3 percent y/y in February 2024), faster than expected. Disinflation was achieved thanks to more ample food supply due to high harvests and a warm winter, the sustainable situation in the FX market, and improved expectations gained as a result of the NBU's consistent monetary policy. However, the western border blockades and pressure from a gradual increase in wages amid a significant shortage of qualified staff in the labor market restrained further easing of underlying inflation. As the war continues, the NBU remains fully committed to maintaining an appropriate monetary policy stance aiming to keep inflation moderate, manage inflation expectations, safeguard exchange rate sustainability, and maintain international reserves at comfortable levels.

In 2023, the current account ran a deficit of US $9.6 billion compared to a surplus of US $8 billion in 2022. The key factor behind this deterioration was the widening of the goods trade deficit (to US $29 billion from US $14.7 billion in 2022). The reduced export of ores and metallurgical products due to logistics problems, the destruction of production facilities, and weaker demand in the European market led to a decrease in the exports of goods (by 15.6 percent y/y). Meanwhile, the import of goods kept growing (by 14.3 percent y/y) due to the further revival of domestic demand, including emergency power supply equipment, vehicles, and significant defense sector needs. Significant amounts of international aid restrained further widening of the current account deficit.

As of mid-February 2024, there are almost 6.5 million Ukrainian migrants. About 3.6 million are registered as internally displaced (IDPs) since the full-scale invasion, and their adaptation to the war reality is increasing. According to an UNHCR survey (January-February 2024), 65 percent of migrants abroad will return to Ukraine, once economic factors, security, and housing improve. However, this share has declined (compared to 77 percent a year ago), reflecting further adaptation of migrants in host countries, which bestows risks for post-war recovery.

Fiscal policies

A significant budget deficit in 2023 was financed through international aid and domestic debt borrowing. The authorities exercised prudent budget discipline and tight control over non-defense expenditures. As a result, the overall deficit in 2023 was capped at UAH 1,282 billion, or 19.7 percent of GDP in 2023, close to the Second Review's baseline projections. The expenditure policies in 2023 aimed to accommodate core priorities, which contained additional spending pressures and provided some room for recovery and reconstruction. To anchor fiscal sustainability and budget predictability the authorities repealed some provisions of the Martial Law, namely, the relaunching of the mid-term budget framework starting from 2024, reinstating a fiscal rule that ringfences risks from state guarantees, and limiting the list of reasons for budget amendments. In 2024, the authorities will work on enhancing expenditure planning and the medium-term budget framework, as well as SOEs stress-testing and a fiscal risks assessment with technical assistance (TA) from the IMF.

The avoidance of monetary financing during the program has been an important factor supporting macroeconomic stability in 2023 and the beginning of 2024. The authorities stay committed to avoiding monetary financing in 2024 subject to rhythmic international support. The Ministry of Finance and the NBU are continuously working on the development of the domestic debt market and the increase of net domestic bonds' financing. In 2023, net debt issuance on the domestic market amounted to UAH 183 billion, or US $5 billion, bringing the implied rollover rate to 149 percent. About 57 percent of gross hryvnia issuance was in the form of designated benchmark bonds that banks may use to meet reserve requirements, established by the NBU.

The authorities remain committed to internal revenue mobilization to help meet budget financing needs. The Ministry of Finance, with TA from the IMF, has developed a National Revenues Strategy (NRS), which was approved by the Cabinet of Ministers at the end of 2023. The NRS will allow achieving a fair and competitive tax framework that generates revenues sufficient to safeguard post-war development goals while maintaining fiscal and debt sustainability and will form an anchor for tax policy and administration reforms in the medium-term.

A working group, established in December 2023, has identified various measures to accumulate additional revenues of 0.5 percent of GDP. Revenue mobilization measures among others include an extraordinary one-time tax on bank profits (50 percent) introduced for 2024, which will generate about 0.3 percent of GDP to help meet financing needs during 2024. Going forward, banks will be taxed at a permanently higher corporate income tax rate (25 percent). The budget also contains a provision to reallocate personal income taxes between state and local budgets to provide adequate resources for key programs.

In December 2023, the **government approved the roadmap for reforming the public investment management system**. This framework has been developed taking into account the recommendations of the World Bank, the IMF, and leading European practices, and includes rapid recovery and post-war reconstruction needs.

Financing strategy

The budget deficit for 2024 is expected to remain on the same level as in 2023 and the government is working with partners on conditionality and timing for disbursements in 2024.

Volatility in the disbursement of committed external financing has been a major challenge for budget execution. Delays in external financing caused the liquidity gap at the start of 2024, forcing the government to frontload some of the revenues (e.g., dividends' payments from SOEs, taxes from corporations) and postpone some spending for later periods. Uncertainty about foreign financing has recently decreased given the approval of the EU program "Ukraine Facility" of €50 billion. The current IMF Review together with the EU bridge financing will provide the necessary resources for the budget to finance social spending in nearby months.

Further rhythmic external support is an essential part of the budget financing. Most international partners have assured Ukraine of their continued support to ensuring that debt sustainability is restored, and the program is fully financed. The envisioned catalytic effect of the IMF program fulfilled expectations and in 2023 Ukraine received more than US $42.5 billion in grants and loans.

With the help of external support and NBU's consistent policy, Ukraine's international reserves increased by 42 percent, to US $40.5 billion by the end of 2023. Delays in some international aid disbursements at the beginning of 2024 led to a decline of reserves to US $37.1 billion, but nevertheless net international reserves exceeded the floor by a comfortable margin. Timely foreign financing will enable the NBU to maintain international reserves at a high level and ensure exchange rate sustainability.

Exchange rate policies

The transition from a peg to managed ER flexibility in line with the NBU's strategy has been broadly smooth. As a result, since transitioning to a managed float in October 2023, FX market conditions have remained broadly stable. The exchange rate has shown two-way movements and has depreciated by a cumulative 4.5 percent since the transition through end-February. The spread between the cash and official exchange rates remains compressed to below 5 percent.

The further easing of FX controls will continue to be approved on a gradual, staged basis in line with the FX liberalization roadmap under the NBU's strategy to safeguard external stability.

The three previously approved multiple currency practices (MCPs) are considered eliminated as of February 1st, when the Fund's new policy on MCPs came into effect. The authorities are committed, in close consultation with staff, to continue careful monitoring as the exchange rate transition unfolds to ensure new MCPs do not arise.

Financial sector policies

The Ukrainian business and financial sectors further adjust to working in a war-affected environment. Thus, despite the challenges, banks enjoyed further inflows of client deposits, both retail and corporate. Moreover, the share of term retail deposits increased on the back of NBU measures, thus mitigating potential risks for banks' liquidity.

Bank lending is also picking up: retail lending has been on the rise since Q2 2023, and the increase in the hryvnia retail portfolio in 2023 was over 20 percent. Corporate lending in the hryvnia has been gradually recovering since last June, mostly driven by government support programs like "5-7-9". Additionally, lending outside these programs is also picking up. As a result, banks retained their high operational efficiency and kept their provisioning costs at a minimum. The above factors allowed the sector to generate higher profits – over UAH 86 billion in 2023.

As a part of the current program supported by the Fund, the NBU completed a bank resilience assessment, which revealed sufficient capital and a substantial safety margin in the system as a whole. Based on the results of the resilience assessment, the NBU set higher required capital adequacy ratios for only five of the twenty largest banks, and two of those banks already managed ratios above the required level in December 2023. This sets the preconditions for further restoring and tightening capital requirements. This year, banks will have to restart updating their business recovery plans to the NBU.

Governance policies

The authorities remain committed to advancing a structural reform agenda that will lay the foundations for robust post-war growth and pave the path for EU accession. Anticorruption and good governance remain high on their agenda. Reforms in anti-corruption and the rule of law areas aim at effectively combatting corruption, sustaining public confidence, and advancing toward the goal of EU membership.

A new head of the National Agency for Corruption Prevention (NACP) was appointed in February, and selections for new anti-corruption judges are underway, both with the participation of independent, international experienced experts. Asset declarations of public officials, which were made publicly accessible again in end-January, are now undergoing risk-based verification by NACP to detect illicit enrichment.

Complementing the reform on strengthening the Specialized Anti-Corruption Prosecutor's Office (SAPO), **the authorities are planning further amendments to the criminal procedural code to enhance the effectiveness of corruption investigations**, including mutual legal assistance and reasonableness of time limits of pre-trial investigations.

Reflecting OECD guidelines, **the Parliament adopted a landmark SOE corporate governance law** that broadens the power of SOEs supervisory boards, while respecting critical PFM principles to mitigate SOEs' fiscal risks. The authorities also remain committed to energy market reforms, including those relating to corporate governance.

Concluding remarks

Amid the ongoing Russian invasion, the authorities have maintained economic stability with skillful policymaking and strong external support. The authorities met all four structural benchmarks for end-February in time and advanced important structural reforms. All but one quantitative performance criteria were also met. The modification requests for some future indicators are technical.

The authorities believe that the policies outlined in the MEFP are adequate to achieve the objectives of the program in the baseline and downside scenarios. While acknowledging that these scenarios are subject to exceptionally high uncertainty, the authorities are very grateful for the cooperation and support from the Fund, as well as from other IFIs and the international community, and remain strongly committed to the full and timely implementation of the policies under the EFF, which should pave the way toward EU accession. They believe that efforts to achieve Ukraine's strategic goal of EU accession will reinforce the drivers of long-term growth and stability.

Based on the successful program implementation, as well as the commitments for the period ahead, the authorities request the completion of the Third Review and reiterate their commitment to maintaining a close policy dialogue with the Fund towards the EU accession path to propel growth in the post-war period.