INTERNATIONAL MONETARY FUND

IMF Country Report No. 24/199

UKRAINE

June 2024

FOURTH REVIEW OF THE EXTENDED ARRANGEMENT UNDER THE EXTENDED FUND FACILITY, REQUEST FOR MODIFICATION OF A PERFORMANCE CRITERION, AND FINANCING ASSURANCES REVIEW—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR UKRAINE

In the context of the Fourth Review of the Extended Arrangement Under the Extended Fund Facility, Request for Modification of Performance Criterion, and Financing Assurances Review, 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 June 28, 2024, following discussions that ended on May 31, 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 June 18, 2024.
- A **Staff Statement** updating information on recent developments.
- 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
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PRESS RELEASE

PR24/252

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

FOR IMMEDIATE RELEASE

- The IMF Board today completed the Fourth Review of the extended arrangement under the Extended Fund Facility (EFF) for Ukraine, enabling a disbursement of about US$2.2 billion (SDR 1.66 billion) to Ukraine, which will be channeled for budget support.
- Ukraine's performance remains strong under the EFF despite challenging conditions. All quantitative performance criteria for end-March were met, and all structural benchmarks through end-June were implemented on time or with a short delay.
- The Ukrainian economy continues to be resilient although the outlook remains subject to exceptionally high uncertainty. Sustained reform momentum and timely disbursement of external support are necessary to safeguard macroeconomic stability, restore fiscal and debt sustainability, and enhance institutional reforms to lay the path to European Union accession.

Washington, DC – June 28, 2024: The Executive Board of the International Monetary Fund (IMF) today completed the Fourth Review of the EFF arrangement for Ukraine, enabling the authorities to immediately draw US$2.2 billion (SDR 1.66 billion), which will be channeled for budget support. This will bring the total disbursements under the IMF-supported program to about $7.6 billion.

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 uncertainty, supports the economic recovery, enhances governance and strengthens institutions to promote long-term growth in the context of reconstruction and Ukraine's path to EU accession.

All quantitative performance criteria and all but one indicative targets for end-March were met; the one indicative target was missed by a small margin. Structural benchmarks through end-June were implemented on time or with a short delay, underscoring the authorities' continuing commitment to an ambitious reform agenda.

The economy was more resilient than expected in the first quarter of 2024, with robust growth outturns, continued disinflation, and the maintenance of adequate reserves. However, the outlook for the remainder of the year and into 2025 has worsened since the Third Review, largely due to devastating attacks on Ukrainian energy infrastructure and uncertainty about the length of Russia's war against Ukraine; overall, the outlook remains subject to exceptionally high uncertainty.

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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 have a devastating social and economic impact on Ukraine. Despite the war, macroeconomic and financial stability has been preserved through skillful policymaking by the Ukrainian authorities as well as substantial external support. The economy remains resilient, reflecting the continued adaptability of households and firms.

Ukraine's performance and commitment under the program continues to be strong. All quantitative performance criteria and all structural benchmarks for end-June met on time or implemented with a short delay. The program remains fully financed with an external financing envelope of US$122 billion in the baseline and US$141 billion in the downside over the 4-year program period.

Looking ahead, the recovery is expected to slow particularly given the attacks on Ukraine's energy infrastructure, and the outlook is subject to high risks from the exceptionally high war-related uncertainty. Vigilance against these risks is necessary to enable timely responses if shocks materialize.

Timely and predictable external disbursements together with strong domestic resource mobilization and careful liquidity management are necessary for Ukraine to meet its financing needs. Fiscal policies for the remainder of 2024, together with preparation for the 2025 budget, should be underpinned by steadfast revenue mobilization efforts aligned with the National Revenue Strategy. In this regard, measures that erode the tax base should be avoided and tax and customs administration together with the Economic Security Bureau of Ukraine (ESBU) strengthened. Further strengthening medium-term budgeting, fiscal risks and transparency, and public investment management should advance in support of these goals. An external commercial debt treatment in line with the debt sustainability objectives under the program will be necessary to create the needed space for critical spending and restore debt sustainability in line with the authorities' strategy.

Continued exchange rate flexibility under the managed exchange rate regime will help strengthen the resilience of the economy to external shocks. Moreover, continued disinflation combined with well-anchored inflation expectations and FX cash market stability suggest scope for further monetary policy easing. A state-dependent and gradual approach to the easing of FX controls remains essential to safeguard FX reserves. The authorities' efforts to avoid monetary financing should continue.

The financial sector remains stable, and efforts should continue to strengthen bank resolution and supervision, governance, and contingency planning.

Steadfast reforms to enhance anti-corruption and governance frameworks, including ensuring the effectiveness of anticorruption institutions, remain essential to contain fiscal risks, secure donor confidence, 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.	Act.	Proj.	Proj.	Proj.	Proj.
Real economy (percent change, unless otherwise indicated)							
Nominal GDP (billions of Ukrainian hryvnias) 1/	5,451	5,239	6,538	7,485	8,744	9,718	10,664
Real GDP 1/	3.4	-28.8	5.3	2.5-3.5	5.5	5.3	4.5
Contributions:							
Domestic demand	12.9	-22.9	13.9	5.8	6.1	7.4	7.1
Private consumption	4.7	-16.8	5.5	3.7	4.1	4.9	4.7
Public consumption	0.1	12.5	2.6	-0.9	-1.8	-0.6	-0.1
Investment	8.1	-18.6	5.8	3.0	3.8	3.0	2.5
Net exports	-9.5	-5.9	-8.6	-3.3	-0.6	-2.0	-2.6
GDP deflator	24.8	34.9	18.5	11.7	10.7	5.5	5.0
Unemployment rate (ILO definition; period average, percent)	9.8	24.5	19.1	14.8	14.3	11.7	10.4
Consumer prices (period average)	9.4	20.2	12.9	5.2	8.3	6.2	5.2
Consumer prices (end of period)	10.0	26.6	5.1	8.0	7.0	5.5	5.0
Nominal wages (average)	20.8	1.0	20.1	14.3	15.7	14.5	10.5
Real wages (average)	10.5	-16.0	6.4	8.6	6.8	7.8	5.0
Savings (percent of GDP)	12.5	17.0	10.0	10.9	9.2	13.4	16.0
Private	12.7	30.2	24.8	22.8	14.4	13.8	14.7
Public	-0.2	-13.1	-14.8	-11.9	-5.2	-0.4	1.3
Investment (percent of GDP)	14.5	12.1	15.1	16.7	16.1	19.9	21.0
Private	10.7	9.6	10.4	14.3	13.8	15.5	16.0
Public	3.8	2.5	4.8	2.4	2.3	4.5	4.9
General Government (percent of GDP)							
Fiscal balance 2/	-4.0	-15.6	-19.6	-14.2	-7.5	-4.9	-3.6
Fiscal balance, excl. grants 2/	-4.0	-24.8	-26.1	-20.9	-10.4	-6.2	-4.8
External financing (net)	2.4	10.7	16.5	12.1	6.5	3.8	-0.1
Domestic financing (net), of which:	1.6	5.0	3.1	2.1	0.9	1.1	3.7
NBU	-0.3	7.3	-0.2	-0.2	-0.1	-0.1	-0.1
Commercial banks	1.5	-1.5	2.5	2.1	0.5	1.1	3.2
Public and publicly-guaranteed debt	50.5	77.7	82.3	97.3	97.7	96.8	94.5
Money and credit (end of period, percent change)							
Base money	11.2	19.6	23.3	13.8	17.9	11.9	9.0
Broad money	12.0	20.8	23.0	13.9	15.8	12.0	10.6
Credit to nongovernment	8.4	-3.1	-0.5	8.0	17.7	18.2	13.4
Balance of payments (percent of GDP)							
Current account balance	-1.9	4.9	-5.2	-5.8	-6.9	-6.6	-4.9
Foreign direct investment	3.8	0.1	2.4	2.1	2.6	5.0	5.1
Gross reserves (end of period, billions of U.S. dollars)	30.9	28.5	40.5	41.8	43.0	48.0	47.4
Months of next year's imports of goods and services	4.5	3.9	5.3	5.5	5.4	5.7	5.4
Percent of short-term debt (remaining maturity)	67.5	64.3	87.3	97.9	94.2	109.2	103.1
Percent of the IMF composite metric (float)	104.4	103.6	124.2	113.7	110.3	114.7	111.2
Goods exports (annual volume change in percent)	35.0	-44.4	-15.6	18.5	4.6	12.7	7.0
Goods imports (annual volume change in percent)	17.0	-23.9	21.6	8.9	7.5	10.9	10.8
Goods terms of trade (percent change)	-8.4	-11.6	3.6	0.3	-1.4	1.2	0.9
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	28.2	-1.5	…	…	…	…
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

June 18, 2024

FOURTH REVIEW OF THE EXTENDED ARRANGEMENT UNDER THE EXTENDED FUND FACILITY, REQUEST FOR MODIFICATION OF A PERFORMANCE CRITERION, AND FINANCING ASSURANCES REVIEW

EXECUTIVE SUMMARY

Context: Russia's war in Ukraine continues to have a devastating economic and social impact. Skillful policymaking supported by external financing has helped maintain macroeconomic and financial stability despite challenging circumstances, and the authorities continue to advance important structural reforms. Better-than-expected growth outturns in 2023 and in 2024Q1 demonstrate the resilience of the economy. Approval by the United States of the US$61 billion financial and military support package, and by the European Council of the €50 billion Ukraine Facility and its underlying Ukraine Plan are positive developments following a challenging period of liquidity strains in early 2024. However, headwinds include the rising risks of a prolonged war and the economic impact of the attacks on energy infrastructure and mobilization.

Outlook and risks: The recovery is expected to decelerate in 2024 due to recent attacks on energy infrastructure and weakening sentiment. Inflation is projected to pick up moderately in the second half of the year, including due to depreciation and base effects; the fiscal deficit will remain large, but stable FX reserves are projected. The medium-term macroeconomic framework is broadly unchanged. Downside risks remain exceptionally high due to war-related uncertainties, potential spending and financing shocks, and the social impact of policies that may be required if shocks materialize.

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

- *Fiscal policy*: The 2024 Budget remains the short-term policy anchor, despite the risks. In this context, the authorities need to stand ready to respond to potential shocks in the second half of the year. While large external disbursements in March have eased the government's liquidity situation, careful liquidity management will need to continue. The 2025 Budget will require implementing measures to mobilize domestic revenue to help meet still high expenditure needs, strengthen tax administration, including on customs and compliance, and advance reforms on medium-term budgeting and public investment management.

- *Financing*: Committed external budget support needs to be disbursed promptly in 2024 to maintain Ukraine's macroeconomic and financial stability. While external donor financing remains the main source of budget funding this year, net financing from the domestic market is making an important contribution. The external commercial debt restructuring should be completed on terms consistent with program parameters.

- *Monetary and exchange rate policy*: Given still high real interest rates there is scope for further monetary policy easing, in line with well-anchored inflation expectations and global market conditions. Allowing the exchange rate to adjust to absorb domestic and external shocks will help support external stability. A judicious and staged approach to liberalizing FX controls in line with the National Bank of Ukraine's (NBU) Strategy should continue, while ensuring consistency with the overall policy mix.

- *Financial regulation and supervision*: Continued careful surveillance of the financial system will help contain risks to stability. The financial sector remains stable and liquid, with reforms continuing despite challenges under Martial Law. Priorities ahead include strengthening bank resolution and supervision, enhancing credit and capital markets infrastructure, undertaking an independent asset quality review when conditions allow, and unwinding crisis measures.

- *Governance*: The authorities are making progress in implementing the SOE corporate governance reform. On anticorruption, they commit to advance critical reforms such as strengthening the criminal procedural code, creating a new high administrative court, and completing the first ever external audit of the National Anti-corruption Bureau (NABU).

Program issues: All end-March and continuous quantitative performance criteria (QPCs) were met. The authorities are requesting modifications of the end-June QPC on net international reserves (NIR) primarily due to revised assumptions on the timing of US external financing. Progress on the reform agenda has been robust, with the authorities meeting the end-March structural benchmark (SB) on a concept note on the 5-7-9 Affordable Loan program. The continuous SB related to the banking system also continues to be met. The authorities also successfully enacted amendments related to the High Anti-Corruption Court, though the end-April SB was missed due to a short legislative delay. The authorities are requesting to: (i) reset and modify the SB on tax privileges (from end-July to end-September 2024); (ii) reset and modify the SB on the District Heating Companies (from end-June to end-October 2024); and (iii) reset the SB on the new administrative court (from end-July to end-December). The authorities' continued strong program commitment is also demonstrated in new proposed SBs related to the Customs Code and Criminal Procedure Code. Financing assurances are in place, and a credible process is underway with respect to the external commercial debt restructuring.

Staff supports the completion of the Fourth Review under the Extended Arrangement, enabling a purchase of SDR 1,669.82 million (83 percent of quota).

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

Discussions were held in Kyiv (May 23–24, 2024) and Warsaw (May 27–31, 2024) with Finance Minister Sergii Marchenko, National Bank of Ukraine Governor Andriy Pyshnyy and other senior government officials. The staff team comprised Gavin Gray (mission chief), Sanaa Nadeem and Trevor Lessard (deputy mission chiefs), Klaus Hellwig, Heiko Hesse, Geoffrey Keim, Andrea Manera, 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). Alfred Kammer (EUR) joined the Kyiv visit. 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.

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BACKGROUND AND FOCUS OF THE REVIEW

1. **Russia's war in Ukraine, now in its third year, continues to have a devastating social and economic impact.** Thousands of people have been killed or injured since the start of the war and millions have been displaced, both internally and as refugees. Output remains 25 percent below pre-war levels with all economic sectors severely impacted, and the poverty rate has risen to nearly 30 percent. The conflict on the battlefield has recently escalated, including in the Kharkiv region, amid large-scale missile and drone attacks across the country; recent targeting of energy infrastructure has damaged or destroyed around a half of generation capacity. To bolster military recruitment, Ukraine recently enacted a mobilization law in April, lowering the draft age and strengthening registration requirements and enforcement.

2. **Against this challenging backdrop, the authorities have skillfully maintained economic stability, while disbursements of donor funding have eased near-term liquidity strains.** The economy remained resilient in early 2024, though headwinds are expected, especially from the impact of the large-scale energy attacks. External financing needs for 2024 are large (US$43 billion) and will require significant official donor support (US$33 billion) as well as strong domestic effort. The European Council has approved the four-year €50 billion Ukraine Facility and the underlying Ukraine Plan, and €6 billion in bridge financing under the Facility had been disbursed as of end-April. The United States also approved in April a long-awaited US$61 billion package of military and financial support (including US$7.8 billion in budget support). In May the European Council agreed to channel extraordinary returns arising from holdings of Russian frozen assets in Europe (€3 billion in 2024) to Ukraine. Meanwhile, political commitment remains strong in the EU to advance Ukraine's EU accession path.

3. **Fourth Review discussions focused on policies to maintain stability, foster growth, and preserve the strong reform momentum amid exceptionally high uncertainty and rising risks.** Performance under the IMF-supported program remains strong, and the authorities have advanced structural reforms, including in the Fourth Review. To safeguard this progress in view of risks, the review focused on ensuring fiscal policies remain anchored by the 2024 Budget, given financing and debt sustainability constraints, and monetary and exchange rate policies preserve overall macroeconomic stability. To boost growth prospects and mitigate risks, the review covered critical structural reforms in the fiscal, financial sector, and anti-corruption and governance areas, including related to the Economic Security Bureau (ESBU) and customs laws, the Criminal Procedure Code, as well as the financial safety net.

RECENT ECONOMIC AND PROGRAM DEVELOPMENTS

4. **Solid, albeit slowing, growth and decelerating inflation continued in Q1, amid large scale attacks on the energy infrastructure (Figure 1 and Box 1):**

- *Resilient activity in early 2024, building on better-than-expected 2023 outturn:* Real GDP grew by 5.3 percent in 2023, 0.3pp above Third Review projections, although sequential growth slowed in 2023Q4 to 4.7 percent y/y. The 2023 outturn was driven by robust domestic demand amid strong private sector wage growth and improving sentiment, offsetting a larger than expected drag from net exports, damaged infrastructure, and trade disruptions. Staff estimates 2024Q1 GDP growth at 3.8 percent y/y, with some upside potential suggested by business and consumer confidence indicators. Massive attacks on energy infrastructure, with around a half of generating capacity severely damaged or destroyed, have dampened business confidence, which dropped below the neutral level in May; energy shortages are affecting households and industries, as repairs take time amid scheduled maintenance of nuclear power stations. The adverse impact from the reduced energy supply will carry into 2025 and constrain growth.

- *Continued disinflation:* Consumer prices rose by 3.3 percent y/y in May, well below the NBU's target range (of 5+/-1 percent) and following a multi-month streak of disinflation. This has been driven by declining raw food prices from last year's strong harvests, compressed prices for processed food and some services, easing external inflationary pressures, and incomplete pass-through from the currency depreciation.

- *Deteriorated current account balance*: Following a swing to a deficit of US$9.2 billion in 2023, the current account balance further deteriorated in 2024Q1 y/y, driven by a moderation of external budget grants and humanitarian aid, partly offset by a drop in travel services imports as cash withdrawals and spending by Ukrainians abroad fell. The trade balance improved somewhat in 2024Q1 y/y, thanks to increased exports of iron ore and metals through the Black Sea corridor, although the value of agricultural exports tempered as grain prices declined. Despite higher defense-related needs, imports declined due to a large drop in energy imports as power shortages abated and domestic gas production picked up relative to 2023Q1. Imports also declined as a result of trade disruptions linked to border blockades: the NBU estimates cumulative forgone imports of up to US$1.1 billion in 2024Q1, but no significant impact on exports thanks to re-routing through the Black Sea corridor. Moreover, container shipping resumed via Odesa ports in April. As of end-April, international reserves reached US$42.4 billion, supported by large external disbursements in March. The updated external sector assessment concludes that Ukraine's external position in 2023 was substantially weaker than the level implied by fundamentals and desirable policies (Annex I).

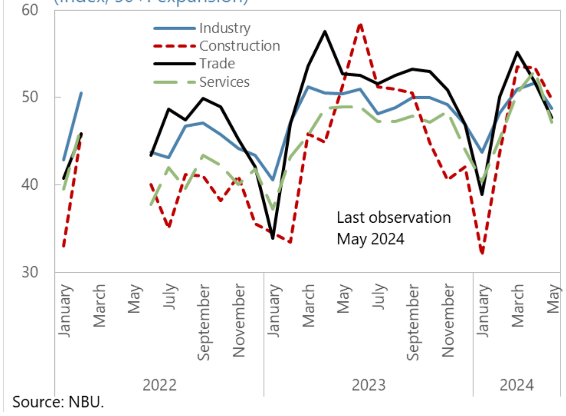
- *Credit bottoming out*: The contraction in private credit slowed in late 2023 and recently turned to an expansion (6.6 percent y/y in April), driven by guarantee programs such as 5-7-9 and e-Oselya and concentrated in sectors such as construction. Deposits continue to grow at a robust rate (23.4 percent, y/y in April); NPLs remain elevated at 36.1 percent as of April 1.

Figure 1. Ukraine: Recent Economic Indicators

Contribution to GDP Growth in 2023
(In percentage points)

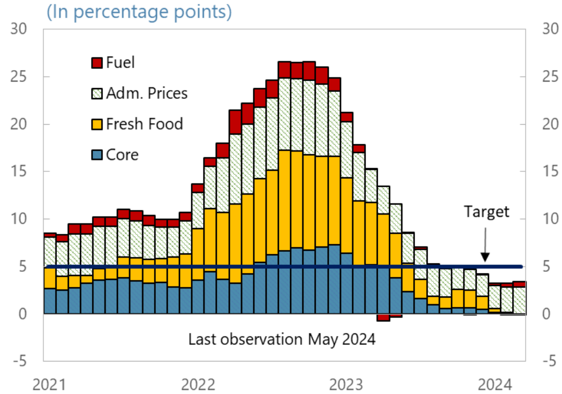
Source: IMF staff estimations.

NBU Monthly Outlook Survey
(Index, 50+: expansion)



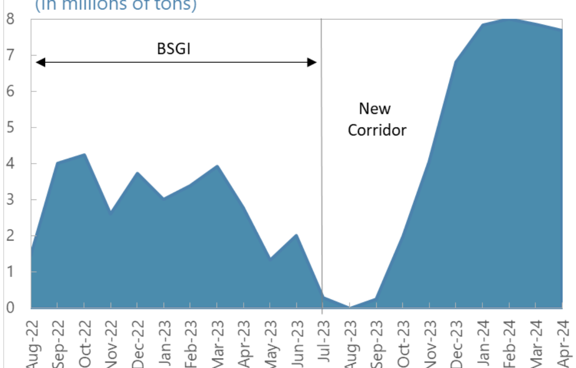
Source: NBU.

Contributors to Annual Inflation
(In percentage points)



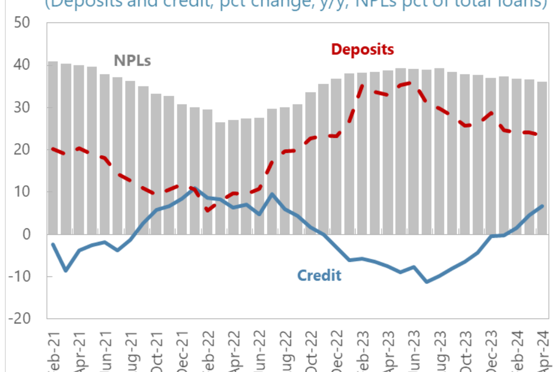
Sources: SSSU, NBU, Haver Analytics, IMF staff estimates.

Exports via the Sea Corridor
(In millions of tons)



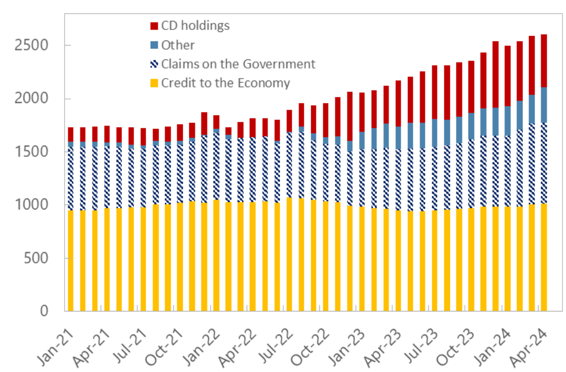
Sources: IMF staff, based on NBU estimations and Ministry of Communities, Territories, and Infrastructure Development of Ukraine.

Deposit and Credit Growth, and NPLs
(Deposits and credit, pct change, y/y; NPLs pct of total loans)



Source: NBU.

Domestic Credit
(In billions of UAH)



Source: NBU.

Box 1. Ukraine: Recent Russian Attacks on Ukraine's Energy Infrastructure

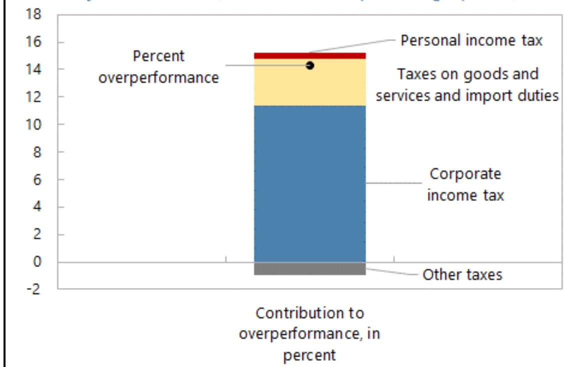
Large-scale attacks on the Ukrainian energy sector in late March to May have severely damaged or destroyed around a half of generating capacity (over 9 GW). Several thermal (TPP) and hydroelectric power plants (HPP) in the oblasts of Kyiv, Kharkiv, and Zaporizhzhia were completely destroyed, with other TPPs and HPPs damaged to varying degrees. Overall, the amount of destroyed capacity has been estimated at over 80 percent for TPPs and more than 40 percent for HPPs. Electricity production was initially less severely affected, dropping by around 11 percent y/y for April as the system usually operates below full capacity in this period, demand remained seasonally low, and nuclear power generation (over 50 percent share of total) remained intact. Immediately following the attacks, daily hourly limits to industrial energy consumption (load shedding) were imposed in the Kryvyi Rih oblast, a center for the metallurgical industry, which helped to smooth out possible peak consumption deficits, helping cushion household consumption initially. Energy deficits had remained mostly geographically localized, but blackouts subsequently moved nationwide. The authorities estimate that the total damage to the energy system at over US$1 billion from the spring attacks, likely to be covered by the affected companies (DTEK, the largest private producer, and SOEs) through working capital and potential donor support (e.g., equipment). While these estimates likely imply a limited direct impact on the state budget in 2024, the costs could depress energy SOE dividend payments to the budget in 2025.

Energy deficits are expected to persist throughout 2024 and 2025, although their scale will be limited by the resilient energy system. Imports of energy from the European ENTSO-E grid are currently capped at 1.7 GW in normal times, with an additional 0.3 GW to cover emergency shortfalls, and thus cannot fully cover the lost capacity. Whereas there could be some scope for increasing electricity imports to cover energy deficits during peak consumption, significant near-term increases in EU electricity imports are unlikely due to infrastructure constraints in neighboring countries. Recent market estimates, including by staff, put the average energy deficit for 2024 around 10 percent, gradually decreasing over 2025, and eliminated by early 2026. In addition, the critical energy provision of nuclear power plants (NPPs), will also help close energy deficits. Energy deficit estimates incorporate repairs of salvageable capacity (including by DTEK of some TPPs), some increases of European imports, the installation of smaller (gas) generators (up to 1 GW in 2024), but also shortfalls arising from the necessary planned maintenance of NPPs in 2024 Q2 to Q4. Moreover, household tariff increases of 60 percent on average as of June 1 should also incentivize changes in consumption patterns and provide further revenue to energy companies. Overall, data on energy capacity remains strictly controlled in the context of Martial Law, but based on previous consumption and import patterns, severe deficits (up to 30 percent) are likely to arise only in peak hours. In this scenario, and if current load-shedding practices persist, industrial consumers will need to operate below capacity, and household consumption will be restricted through planned outages, including in the winter. Additional attacks would further destabilize the energy system.

Looking ahead to the winter gas heating season and beyond, the country is expected to meet gas consumption solely through domestic gas production according to Naftogaz, resembling the 2023 heating season when no gas imports were needed. Gas underground storage facilities (up to 3km deep) remain safe, although above ground facilities could be targeted. The deployment of additional gas turbines to produce electricity, which may take up to 12–15 months between planning, delivery, and installation, is seen as a more medium-term solution, similar to the authorities' and the market's push to decentralize power generation through biofuels, solar or wind.

5. Fiscal liquidity pressures eased substantially in mid-March following large external disbursements (Figure 2). Budget implementation in Q1 was challenging with a temporary drying up of external financing inflows. The authorities relied on expenditure under-execution, tax and SOE dividend advances, net domestic financing (amounting to US$0.7 bn in Q1), and drawdowns of deposits. Strong corporate tax collections, largely reflecting a higher-than-expected yield from the one-time bank profit tax, provided additional support. Starting from mid-March, official loan and grant budget support disbursements amounting to US$8.9 billion enabled a rebuilding of buffers.

State Budget General Fund Tax Revenues vs. Planned Implementation (Contributions in percentage points)

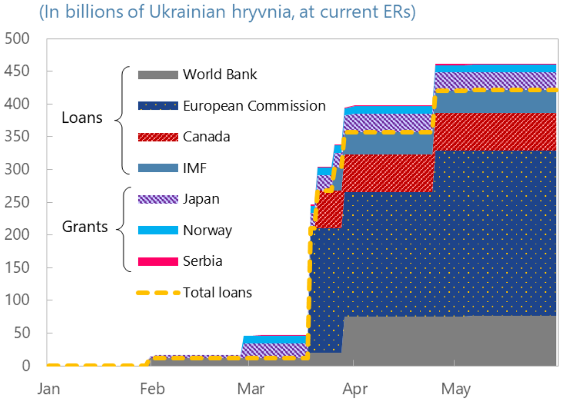


Sources: MOF and IMF staff estimates.

6. The National Bank of Ukraine (NBU) has continued with monetary easing, while allowing the exchange rate to adjust (Figure 3). Citing faster-than-expected disinflation, well-anchored expectations, stable FX market conditions, and positive external financing developments, the NBU has cut the key policy rate (KPR) by 200 bps cumulatively since March. Its forward guidance indicated that easing could continue if inflation and exchange rate risks remain contained. At the same time, the NBU is continuing to refine the operational design of monetary policy to enhance transmission (see ¶24). The exchange rate has shown increasing flexibility to external shocks, though interventions remain sizable given the structural supply deficit in the FX market (see also Annex II).

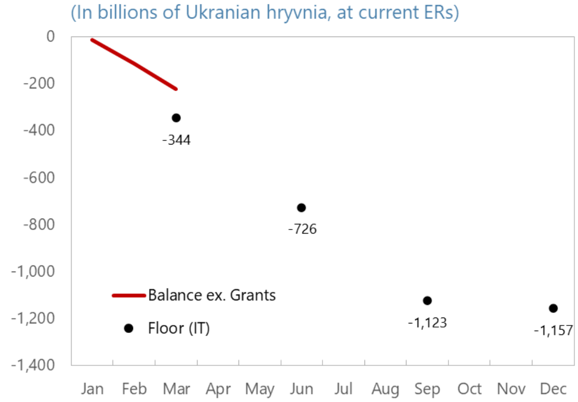
Figure 2. Ukraine: Recent Fiscal Policy Implementation

Cumulative External Budget Support Disbursements in 2024
(In billions of Ukrainian hryvnia, at current ERs)



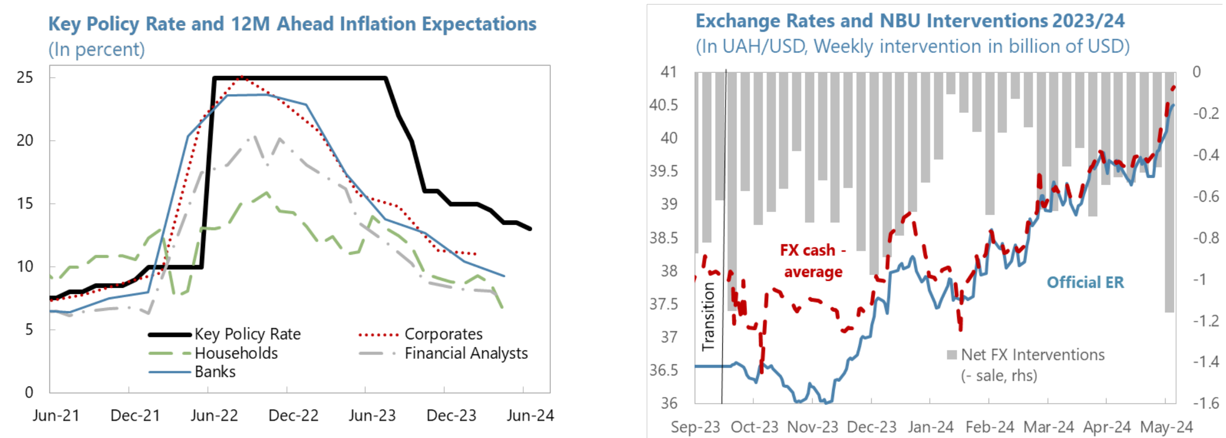
Sources: MOF, NBU, Haver Analytics, and IMF staff estimates.

General Government Cash Balance Excluding Grants
(In billions of Ukranian hryvnia, at current ERs)



Sources: MOF, NBU, and IMF staff calculations.

Figure 3. Ukraine: Recent Monetary and Exchange Rate Policy Implementation



Sources: NBU, GfK Ukraine, Info Sapiens.

Source: NBU.

7. The authorities' performance under the program has remained strong despite the challenging conditions.

- *Quantitative performance*: All end-March 2024 and continuous QPCs were met and all but one of the end-March 2024 ITs were met (Table 1). Due to technical reasons, a temporary fluctuation in accounts payable unrelated to budget execution led to a minor and temporary miss of the IT on the ceiling on general government direct borrowing from the NBU.

- *Structural conditionality (Table 5)*: The authorities met the end-March 2024 SB to develop a concept note on the 5-7-9 Affordable Loan program; they also enacted amendments to the procedural code on adjudication by the High Anti-Corruption Court (HACC), though the end-April SB deadline was missed by two weeks due to legislative delays. The continuous SB related to the banking system also continued to be met.

Table 1. Ukraine: Quantitative Performance Criteria for End-March 2024

	end-March 2024				
	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) 3/	135,000	0	135,000	241,901	Met
Floor on tax revenues (excluding Social Security Contributions)	426,300	…	426,300	507,992	Met
Ceiling on publicly guaranteed debt 3/	47,900	5,879	53,779	5,879	Met
Floor on net international reserves (in millions of U.S. dollars) 3/	28,400	-134	28,266	31,408	Met
II. Indicative Targets 1/ 2/					
Floor on the cash balance of the general government, excluding budget support grants (- implies a deficit) 3/	-344,485	0	-344,485	-211,020	Met
Ceiling on general government arrears	2,000	…	2,000	1,514	Met
Floor on social spending	130,000	…	130,000	142,139	Met
Ceiling on general government borrowing from the NBU 4/ 5/	-9,500	0	-9,500	-9,392	Not 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 2024 are cumulative flows from January 1, 2024.
3/ Calculated using program accounting exchange rates as specified in the TMU.
4/ From end of previous quarter.
5/ Calculated using the projected redemptions of government bonds as of February 21, 2024.

OUTLOOK AND RISKS

8. **Projections for GDP growth in 2024 and 2025 have been lowered to reflect recent war-related developments.** The baseline scenario continues to assume that the war will wind down by end-2024, although the evolution of the war remains subject to exceptionally high uncertainty.

- *Downgraded real GDP growth*: Despite a strong Q1, the projection for 2024 has been downgraded to the lower end of the 2.5–3.5 percent range from 3–4 percent at the Third Review. This reflects disruption from the attacks on energy infrastructure; confidence effects from war developments, including on conscription, and dimmer net return migration prospects for 2024 and 2025 that will also exert a drag through weaker consumption and investment. Staff has also lowered 2025 growth by 1ppt to 5.5 percent as the structural energy deficit will likely persist. At the same time, GDP growth in 2026 has been revised up slightly by 0.3ppt due to the expected elimination of energy deficits by 2026Q1, a revised migration path, as well as base effects.

- *Smaller inflation pickup*: The baseline still envisages upward pressures from exchange rate pass-through in 2024H2, wage inflation from intensifying labor shortages, increased energy costs from higher electricity tariffs (from June), and base effects from food prices (as the strong 2023 harvest is not expected to be repeated in 2024). However, reflecting lower outturns so far in 2024, the end-year inflation projection is now at 8 percent (½ppt below the Third Review).

- *A deteriorated current account but stable reserves*: The current account deficit is expected at US$10.6 billion in 2024 (5.8 percent of GDP), broadly unchanged from the Third Review. With a stronger merchandise trade balance, lower travel imports but higher FX outflows due to the easing of some FX controls (¶25 and MEFP ¶46), on balance, reserves are expected to end the year at US$41.8 billion (5.5 months of imports, 113.7 percent of the ARA metric).

- *Fiscal policies calibrated to the 2024 budget*: Although risks have risen from the impact of the war, expenditures are still authorized in line with the approved budget and revenue collections have overperformed so far this year. Consequently, revisions to nominal revenues and expenditures are small and expected to be offsetting, leaving the projection for the deficit excluding grants unchanged. Debt and GFNs show modest changes since the Third Review (see also ¶41 and the updated DSA (Annex III)).

Ukraine: Selected Economic Indicators Under the Baseline Scenario

	Current Forecast			Change from Third Review		
	2023	2024	2025	2023	2024	2025
Baseline						
Real GDP growth (%)	5.3	2.5-3.5	5.5	0.3	...	-1.0
Inflation, eop (%)	5.1	8.0	7.0	0.0	-0.5	0.0
Current account (% GDP)	-5.2	-5.8	-6.9	0.3	-0.1	1.3
Current account (US$ billion)	-9.2	-10.6	-13.2	0.5	0.3	2.7
Trade balance (US$ billion)	-28.8	-27.8	-32.2	0.0	1.0	2.7
FX reserves (US$ billion)	40.5	41.8	43.0	0.0	-0.3	1.5
Overall fiscal balance (% GDP)	-19.6	-14.2	-7.5	0.1	-0.5	-0.1
Overall fiscal balance, excl. grants (% GDP)	-26.1	-20.9	-10.4	0.2	-0.7	-0.1
Public debt (% GDP)	82.3	97.3	97.7	-0.5	3.3	0.9

Source: IMF staff estimates.

9. **The medium-term baseline scenario is broadly unchanged since the Third Review.** The growth path beyond 2026 continues to envisage a gradual recovery. The medium-term outlook continues to be supported by a strong structural reform agenda, including under the Ukraine Plan and the EU accession path. The medium-term inflation outlook is also unrevised. Medium-term current account balances have been revised up, reflecting marginally higher foreign demand and real depreciation. The medium-term path of the fiscal deficit excluding grants is little changed, as the impact of the revised macro parameters on revenues and expenditures were broadly offsetting.

10. Consistent with the requirements of Fund policy on lending under Exceptionally High Uncertainty (EHU), the updated downside scenario continues to factor in a more intense war shock (see also Annex IV). The revised downside scenario maintains the assumption of a more intense war running into 2025, with the shock now assumed to start in 2024Q3 compared to 2024Q2 in the Third Review. The output contraction reaches 1.7 percent in 2024 compared with baseline growth of 2.5–3.5 percent. Persistent energy deficits are forecast to depress output in 2025, causing a further contraction of 1 percent of GDP in 2025 compared to the Third Review. A more protracted war is expected to weigh on economic sentiment, energy availability, the pace of migrant return, fiscal spending needs, and export capacity. Inflation would be higher in 2024 compared to the baseline in part due to higher assumed depreciation and supply side shocks. Compared with the downside scenario in the Third Review, the inflation outlook is unchanged, as increased energy costs for households and businesses offset the more favorable outturns observed so far in 2024. In response, given the reserve buffers, some FXI is assumed to prevent excessive FX volatility and inflation pass-through. The downside scenario continues to anticipate 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 Third Review		
	2023	2024	2025	2023	2024	2025
Downside						
Real GDP growth (%)	5.3	-1.7	-1.0	0.3	2.3	-1.0
Inflation, eop (%)	5.1	10.0	8.5	0.0	0.0	0.0
Current account (% GDP)	-5.2	-8.6	-1.7	0.3	-0.7	-0.3
Current account (US$ billion)	-9.2	-15.0	-2.8	0.5	-1.4	-0.6
Trade balance (US$ billion)	-28.8	-34.4	-26.0	0.0	-1.3	-0.7
FX reserves (US$ billion)	40.5	32.5	36.6	0.0	-1.9	-3.4
Overall fiscal balance (% GDP)	-19.6	-16.7	-17.1	0.1	0.8	0.9
Overall fiscal balance, excl. grants (% GDP)	-26.1	-27.4	-23.9	0.2	1.0	0.9
Public debt (% GDP)	82.3	104.7	121.5	-0.5	-1.2	-1.7

Source: IMF staff estimates.

11. Risks to the outlook (both baseline and downside) remain exceptionally high, and the risk of a prolonged war has risen since the Third Review (Annex I). Near-term external financing risks have diminished following US approval of the budget and military support package, although shortfalls or delays could materialize if the authorities struggle to implement conditionality required to unlock disbursements from the US and/or the EC. War-related risks—both on duration and intensity—pose the biggest risk to the baseline. The war could necessitate further spending needs to conduct military operations in the baseline, including from the planned mobilization. A prolonged and more intense war, absent additional external support, may require resorting to sub-optimal measures (e.g., cuts to public assistance or accumulation of expenditure arrears) that could entail socio-economic disruption and a weaker outlook.

12. Staff assesses that the Fund faces significant and rising enterprise risks arising from Ukraine's Extended Arrangement under the Extended Fund Facility. Despite strong program ownership and implementation of reforms under challenging circumstances, enterprise risks have risen, primarily due to the uncertainty around the duration and intensity of the war and its impact on financing assurances and debt sustainability. Staff has assessed the implications for business, financial, strategic, and reputational risks to the Fund, and compared the risks associated with proceeding with this Fourth Review at this juncture with those arising from a delay until uncertainties around war-related developments have subsided. On balance, staff concludes that enterprise risks of proceeding with the Fourth Review are lower than the enterprise risks of delaying. Moreover, staff assesses that all legal and policy requirements to proceed with the review are met at this stage.

POLICY DISCUSSIONS

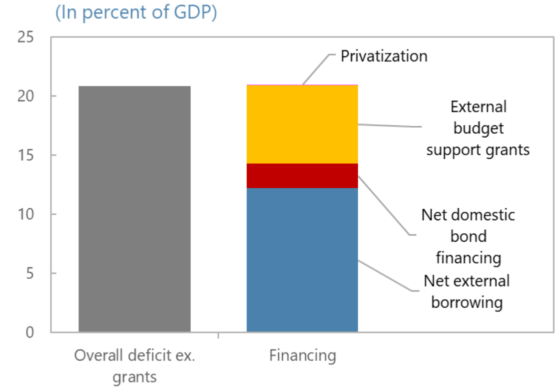
A. Macro-Fiscal Policies and Financing

13. Despite higher risks, the 2024 Budget still anchors the authorities' fiscal policies (MEFP ¶11)**.**

- *Key policy intentions*: The budget provides an allocation for a full year of defense operations while prioritizing other essential expenditure categories. It also reflects the revenue measures that the authorities identified at budget approval, including the extraordinary one-off tax on bank profits. Consistent with these policies, the budget envisages an overall deficit excluding grants of UAH 1,562 billion, or around 21 percent of GDP. Budget execution has been challenging as delays in external financial and military support early in 2024 compelled the authorities to bring forward defense-related spending.

- *Financing*: The 2024 deficit excluding grants is large, but confirmation of previously committed official disbursements since the last review ensures that it is financeable. As envisaged in the budget, the deficit will be principally financed through external budget support from donors, amounting to US$38 billion (including the Fund). However, domestic financing will also make an important contribution; the authorities have already mobilized about US$1.2 billion in net domestic bond issuance through end-May (an effective rollover rate of 132 percent). Buoyant liquidity conditions and expectations of more rate cuts

Overall Deficit Excluding Grants and Financing in 2024
(In percent of GDP)



Source: IMF staff estimates.

have enabled the authorities to extend maturities out to two and three years, thereby lowering refinancing risks.

- *Risks*. In view of risks to budget execution, the authorities should be prepared to seek offsetting savings, where possible, and continue to tap the domestic bond market. To this end, the authorities have been appropriately identifying additional near-term revenue options building on the findings of the working group that met last February (MEFP ¶13).

14. The authorities are also taking action to align tax policy with EU requirements—an important step for EU accession and NRS implementation. Laws to raise tobacco and fuel product excise tax rates to the EU minimums over 2024H2–2028 have recently been registered in parliament (MEFP ¶13). If adopted, additional revenues would begin accruing beginning in 2024H2, with yields rising further over the transition period. For these tax policy changes to improve revenues it is important that they are coupled with improved tax administration—especially for tobacco products (Box 2). Effective enforcement helps to ensure equity among taxpayers, improves tax and economic efficiency, and avoids revenue leakages. To this end, promptly completing arrangements to introduce track and trace systems, which are also needed to align with EU regulations, will be important.

15. The Budget Declaration (2025–27) will be an important starting point for framing discussions on the 2025 budget which, given risks, will need to accelerate domestic resource mobilization and contain expenditures within a tight envelope. The budget declaration is expected to be approved by the Cabinet of Ministers in late-June and then submitted to Parliament (MEFP ¶14). Thereafter, preparations will further advance on the 2025 Budget, whose development will be complicated by expenditure pressures. Consequently, the budget will need to maintain tight expenditure prioritization. On revenues, it will be important to identify tax measures to ensure that the deficit is at a financeable level. Additionally, revenue policies next year should continue the process towards aligning tax policies with EU requirements, including by phasing out preferential VAT rates and moving ahead with reforms to environmental taxation. On the latter, prompt attention and interaction with the EU is needed to avoid adverse impacts of the EU's Carbon Border Adjustment Mechanism, which enters its definitive regime starting in 2026.

16. Over the medium-term, revenues-based fiscal adjustment, concessional financing, and debt restructuring are critical to restoring fiscal and debt sustainability. On the latter, the authorities' external commercial debt restructuring strategy is moving forward (¶42), but this alone will be insufficient to restore sustainability; primary surpluses will be needed over the medium-term. Considering that expenditures are likely to remain elevated due to objectives relating to recovery and reconstruction and maintaining adequate social protection, the adjustment will need to largely rely more on revenue measures. To this end, the targeted increase in the tax-to-GDP ratio of 3– 4 percent of GDP during 2024–27 is appropriate (MEFP ¶15). Finally, to the degree that post-war spending priorities require debt financing, the authorities' borrowing strategies in the years ahead will need to emphasize concessional financing, and a cautious approach to returning to international capital markets.

Box 2. Ukraine: Issues in the Enforcement of Excise Taxation of Tobacco Products

Strengthening enforcement of excise taxes on tobacco products will help the authorities advance a number of policy priorities, including through important demonstration effects:

- *Maintaining stability and raising revenue for priority expenditures*: There is evidence of substantial illicit cigarette production in Ukraine. A survey by a consultancy, Kantar Ukraine, estimated that illegal products accounted for around 22 percent of the tobacco market. Similarly, indicative calculations using publicly available data on imports of key inputs to cigarette production (acetate tow and cigarette filters) also suggest a wide discrepancy between production reported for tax purposes and the level of production implied by these imports. The presence of large-scale shadow cigarette production, which escapes excise taxation, implies a large revenue loss, with an estimated excise tax gap of UAH 17–31 billion. The overall tax gap could be larger, if noncompliance with other taxes, especially VAT, were considered.

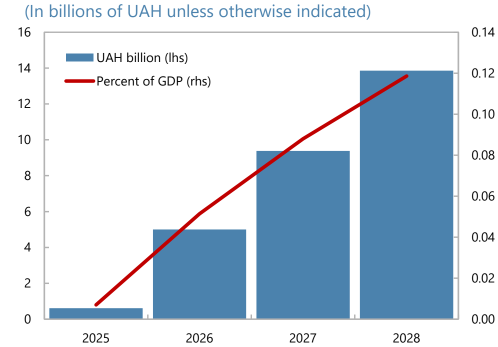
Estimates of Tobacco Excise Tax Gap

	Actual 2023	Kantar Ukraine Survey	Analysis w/ Inputs to Production
Total cigarette consumption (billion)	31.5	37.0	43.2
Of which: illicit cigarettes			
Number of cigarettes (billions)	…	8.1	14.8
Percent of total consumption	…	21.9	34.3
Excise tax per 1,000 cigarettes, 2023	2,097.1	2,097.1	2,097.1
Estimated excise tax gap (UAH bn)	…	17.0	31.1

Sources: MOF, Kantar Ukraine; Trade Data Pro; and IMF staff estimates.

- *Promoting equity, economic efficiency, and taxpayer buy-in for tax reforms*: There is a need to restore fiscal and debt sustainability through sustained revenues-based fiscal adjustment. Additionally, the National Revenue Strategy envisages policies to mobilize domestic revenues in general, and specifically to align tobacco excises with minimum levels specified by EU directives. Draft legislation, which promises to achieve this objective, has been recently registered in Parliament (Law #11090). If passed, excise tax rates on tobacco products would increase on taxpayers' compliant with the law. Enforcement efforts need to move in parallel to build support and attain full revenue potential.

Tax Yield from Aligning Tobacco Excises with EU Directives
(In billions of UAH unless otherwise indicated)



Sources: MoF and IMF staff estimates.

- *EU accession imperatives*: In addition to aligning excise rates, the authorities need to introduce track and trace systems to be compliant with EU norms, which they expect to achieve in early 2026 (MEFP ¶13). In June 2023, they adopted Law #3173-IX, and have been working to develop IT solutions to implement these systems and draft by-laws. Prompt completion of preparatory work will enable a rollout of this system.

- *Promote the rule of law and build capacity of enforcement agencies*: The authorities recognize the scale of the illicit tobacco problem, with a Prime Ministerial order in September 2023 directing the government to intensify efforts at combatting the illegal trade in excisable goods (e.g., alcohol, tobacco). To this end, the authorities constituted a working group chaired by the Economic Security Bureau of Ukraine, the State Tax Service, State Customs Service, State Audit Service, and other law enforcement agencies. Enforcement activities, inter-agency cooperation, and clear roles should continue going forward.

B. Fiscal Structural Reforms

17. The authorities are advancing implementation of the national revenue strategy (NRS). They have put in place NRS implementation plans for tax administration, customs administration, and tax policy. Key actions taken so far in 2024 include (i) submitting legislation to increase excise rates, (ii) launching the 2024 taxpayer survey, (iii) reinstating post-clearance customs audits, and (iv) criminalizing large-scale customs fraud and smuggling. Staff encouraged the authorities to consider mechanisms for reform oversight and recommended public outreach to seek buy-in for the reforms.

18. Rationalizing tax exemptions and improving their targeting remains a near-term reform priority (MEFP ¶24)**.** Staff supports the authorities' proposal to take a more phased approach to assessing the effectiveness of existing tax privileges, and therefore to reset and revise the ***end-July SB***. The reset helps address capacity constraints, while the proposed phased approach will allow for greater depth and continuity in the analysis by initially developing a formal assessment methodology for tax privileges and guidelines ***(SB, proposed to be modified and reset from end-July to end-September 2024)*** and subsequently applying this new methodology to all relevant instruments, targeting the most significant tax expenditures first. Supported by IMF TA, the authorities are also evaluating options to reform the hydrocarbon tax regime.

19. Administrative reforms in 2024 aim to improve the performance of the State Customs Service (SCS) and State Tax Service (STS) and build public trust (MEFP ¶26–27)**.**

- Efforts at STS include (i) restructuring to better align the organizational structure of STS with the principle of functional organization, and to facilitate modern compliance risk management (CRM) practices; (ii) a prompt launch of STS's CRM pilot; (iii) a long-term Digital Development Plan for STS, and (iv) measures to ensure the confidentiality and protection of taxpayer data to address integrity issues and also advance EU alignment and major tax policy objectives.

- On SCS, the authorities are preparing legal amendments to modernize the customs code in line with best practice, to be enacted by end-October 2024 ***(proposed SB)***. Important considerations include alignment with EU legislation, continued subordination of SCS to the Ministry of Finance, strengthening personnel integrity, and a merit-based and transparent process for leadership selection with integrity checks and with meaningful participation of experts with international experience. Other reforms in 2024 include (i) modernizing the framework to address administrative liability for violations of customs regulations and (ii) developing criteria to assess the impact of the SCS Anti-Corruption Program.

20. The authorities remain committed to a timely adoption of legislation to reform the Economic Security Bureau of Ukraine (ESBU) (***end-June SB,*** MEFP ¶28). The ESBU's focus will be on major economic crimes, and its activities will be directed and coordinated by the CMU. In April, Parliament passed the ESBU draft law in the first reading. Since then, the draft law has further strengthened following input from international partners and other key stakeholders. Key elements of the draft law include a strong open, transparent, and competitive selection of management and staff, including a decisive and crucial vote of independent experts with international experience, who will also play an important role in the re-attestation process of existing staff. The new ESBU Head will approve the procedures for the re-attestation mechanism. The existing delineation between the investigative powers of the ESBU and the National Anti-corruption Bureau of Ukraine (NABU) will be maintained. The full relaunch of the ESBU would be a significant step forward to detect major financial and economic crimes and enhance the analytical capacity to identify tax evasion (such as excise on tobacco, Box 2). Staff will initiate discussions on implementation plans following the adoption of the law.

21. Efforts to develop and implement the reform agenda for public financial management (PFM) are progressing (MEFP ¶29, ¶37)**.** Key PFM reforms are needed to enhance the management of scarce fiscal resources during the war, to lay the groundwork for successful post-war reconstruction, and to further Ukraine's EU accession process. Reforms to the medium-term budget framework (MTBF) will be based on the ongoing work to identify gaps in the pre-war MTBF. The authorities' action plan to implement the 2023 public investment management (PIM) road map is at an advanced stage. Near-term PIM and MTBF reforms—especially the required changes to the Budget Code—should be implemented swiftly in order to guide the 2026 budget cycle. Staff welcomed the establishment of the government's Strategic Investment Council, a centerpiece of the future PIM framework, which is already playing a key role in defining the government's project pipeline for the 2025 Budget.

22. The authorities are implementing reforms to monitor and contain fiscal risks (MEFP ¶31–35)**.** Building upon the inclusion of a Fiscal Risk Statement, beginning with the 2024 Budget, the authorities have expanded the integration of risk analysis into the budget cycle by compiling information on key risks, which will be included in the 2025–27 Budget Declaration. To reduce risks from the 5-7-9 program, the authorities have prepared a concept note (***end-March SB***), from which several steps have already been implemented.[1] In line with the 5-7-9 concept note, the authorities are now working on reforms to strengthen the BDF's governance framework, including by creating a supervisory board (by end-September 2024) and through legislation to clarify the board's mandate and ensure its independence (by end-2024).

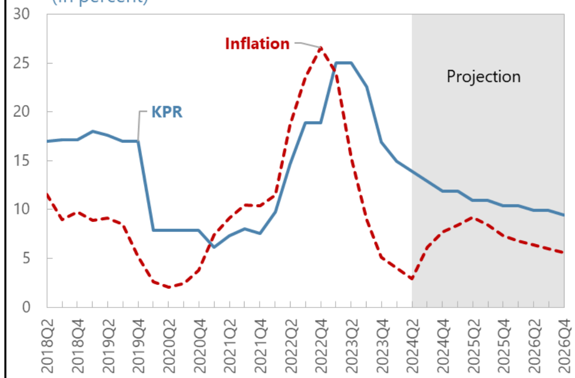
C. Monetary and Exchange Rate Policies

23. The NBU should continue its easing cycle while maintaining appropriately positive real interest rates. With inflation falling further below the target range and stable inflation expectations, there is scope for further easing of monetary policy beyond the 200 bps of cumulative cuts at the March, April, and June MPCs, while still maintaining positive real rates. Staff's analysis suggests that further easing in 2024 would remain consistent with reaching the NBU's inflation target by 2026, within its policy horizon, and maintaining positive real rates. Global financial conditions also remain

[1] Near-term measures in the concept note to contain losses from the 5-7-9 program include (i) reducing bank margins under the program (implemented); (ii) reducing the size of working capital loans (implemented); (iii) reinstating state-aid rules (envisaged by end-June 2024); (iv) further targeting the lower end of medium-sized enterprises (envisaged by end-June 2024).

favorable, supporting the continuation of the easing cycle, and the ongoing disinflation supports positive real interest rates and helps maintain the attractiveness of hryvnia deposits.

Key Policy Rate and Inflation
(In percent)



Sources: NBU; IMF staff QPM-based estimates.

24. The floor-based monetary policy operational framework remains appropriate given the structural liquidity (MEFP ¶43)**.** In October 2023, the NBU shifted from a corridor to a floor system, aligning the KPR with the main overnight CD instrument, and thus enhancing the KPR’s role. The NBU has also maintained the 3-month CD, linked to hryvnia term deposit growth, which has supported real returns and deposit volumes, enhancing FX stability and bank funding. Recent adjustments to the operational design to better align with the monetary stance and enhance transmission include changing the limits for investment in 3-month CDs, reducing the spread between rates on 3-month CDs and overnight CDs, and reducing the spread between the KPR and the refinancing rate. The NBU should continue to monitor the impact on banks' behavior and the transmission of monetary policy, ensuring changes are carefully calibrated to preserve the attractiveness of hryvnia assets and monetary stability. Over time, consistent with the evolution of liquidity conditions, the NBU should consider introducing instruments beyond overnight maturity to increase the average maturity of sterilization operations, while considering implications for the primary government bond market; the authorities have requested IMF TA on this issue.

25. The NBU should maintain its cautious approach to FX liberalization balancing considerations of risks to the outlook as well as the need to support the recovery (MEFP ¶46)**.** The NBU eased a large bloc of FX controls in May against a backdrop of higher FX reserves. These measures aimed at easing constraints to businesses and improving conditions to attract new capital to Ukraine, while reducing the risk of default by easing servicing of external loans. Transactions that are now allowed include the imports of services, repatriation of new dividends, and repayment of interest payments on old loans. Continuing cautious liberalization will be instrumental in supporting the economic recovery. At the same time, to preserve FX buffers, given still exceptionally high uncertainty, further FX liberalization should continue to be anchored on the principles-based Strategy. To ensure the effectiveness of liberalization efforts, continued close monitoring (including via bank-level data) could help identify and address potential circumvention. Existing FX controls which restrict the making of payments and transfers for current international transactions remain approved by the Fund under Decision No. 144 due to Ukraine’s notification of these measures as having been adopted for reasons of national or international security.

26. The exchange rate should continue to serve its role as a shock absorber while adjusting in response to both external and domestic conditions. The exchange rate should adjust flexibly in response to the external and domestic economic landscape, including the expected increase in net FX demand arising from FX liberalization. It will also be important to ensure consistency of FX liberalization with the overall policy mix, so as to safeguard FX reserves. With finite reserves and to align with program objectives, including adherence to the NIR target, it is important that FX interventions are appropriately calibrated.

27. The authorities continue to take steps to implement the recommendations of the 2023 safeguards assessment (MEFP ¶49–52)**.** The NBU was assessed to have a broadly sound safeguards framework in place that is well-adapted to wartime conditions. In consultation with Fund staff, progress is underway on formalizing a framework between the NBU and MOF in case of need for monetary financing, improving the payment discipline of the MOF to the NBU, and strengthening the integrity of the NBU's framework for lending to banks. Further progress is needed on aligning the appointment processes for members of the NBU Council and the Board with best practices. Staff is continuing to engage with the authorities on the outstanding recommendations.

D. Financial Sector

28. Financial safety net capacity and governance is being strengthened. The Deposit Guarantee Fund (DGF) plays an important role in Ukraine's financial safety net. A diagnostic study prepared in consultation with IFI's identified material gaps in operational arrangements, which will be closed by end-December 2024 as part of the bank rehabilitation framework (***SB,*** MEFP ¶56). A subcommittee of the Financial Stability Council in consultation with IFIs will review DGF governance arrangements, including of the Administrative Board, internal controls, and the procedures for the appointment of the Managing Director, and prepare legislative proposals to close gaps relative to good practice by end-March 2025.

29. Steps are being taken to ensure the continued smooth functioning of secondary market trading of government bonds. PFTS, the largest and oldest stock exchange in Ukraine, accounting for 68 percent of trade volumes, is undercapitalized, and the owner has confirmed they will not infuse fresh capital. To safeguard the functioning of the secondary market in government bonds and other instruments, the authorities are considering establishing a new exchange. Capital of around US$0.5 million will be partly provided by state owned banks (30 percent) and the remainder from private sources, including IFIs.

30. The NBU has updated its fit and proper framework with new criteria to reflect wartime developments and sanctions imposed by the State of Ukraine. A regulation issued in May expands the list of criteria considered unsuitable for roles in the financial system to include (i) direct employment by Russian or Belarussian owned entities or holding a position in the managing body of a parent company that owns shares in Russian or Belarusian entities; and (ii) any increases in ownership of entities in those countries, excluding assets acquired as part of non-performing loan resolutions and other 'unintentional' acquisitions. Managers or significant shareholders in a Ukrainian bank that fail to meet the criteria would result in non-compliance of the parent company itself and suspension of voting rights until compliance is restored.

31. The authorities have approved a national lending development strategy in June 2024 to support credit growth (MEFP ¶62)**.** The strategy focuses on (i) measures aimed at intensifying credit support via the banking sector to help restore priority sectors (defense, energy) and to frontline territories, including through subsidized lending, loan guarantee and war risk insurance schemes; and (ii) further developing credit infrastructure, including improvements to lending tools and products (mortgages, factoring, securitization, and sustainable finance), information exchange (state registers, credit registers and bureaus), strengthening legal tools (enforcement, insolvency and creditors rights, financial restructuring and write-offs), aligning valuation standards with the EU, and developing the non-performing loans market. The authorities emphasized that any new development finance initiatives will adhere to best practices to limit fiscal risks (MEFP ¶35).

32. Staff and the authorities discussed the scope for policy measures to address low levels of financial inclusion, particularly in conflict-impacted areas (MEFP ¶62)**.** To quickly deploy targeted support, the authorities have committed to: (i) updating financial inclusion diagnostics on a best efforts basis with World Bank input by end-July 2024; (ii) encouraging financial institutions to do more to meet the needs of vulnerable clients and to reintegrate de-occupied territories, and (iii) preparing by end-July 2024 a legislative draft proposal for a new specialized and restricted banking license which aims to quickly tackle growing financial inclusion challenges by leveraging on existing infrastructure such as the postal network. These specialized banks will be subject to the law on Banks and Banking, they will participate in the Ukraine deposit insurance scheme, and will have strict limits imposed on lending and funding operations.

33. Capital markets infrastructure is being developed to enable direct foreign investor access to marketable debt instruments beyond government securities (MEFP ¶62)**.** In a first phase, the NBU will extend its existing link to an external Central Securities Depository (CSD) by July 2024 to facilitate access of foreign capital to municipal bonds and other Ukraine reconstruction-related debt instruments. In a second phase, the National Securities and Stock Market Commission will establish a direct link between the CSD and foreign CSDs by end-July 2025 to expand foreign investors' access to a broader range of instruments and markets.

E. Governance

34. Staying the course on critical anticorruption reforms and advancing on new areas will help safeguard public funds (including for reconstruction and recovery), convince foreign investors that there is a level playing field in Ukraine, and move the country closer to its goal of EU accession:

- A law was enacted in May to enhance the efficiency of the High Anti-Corruption Court (HACC) by allowing adjudication of corruption cases by a single or panel of judges depending on the severity of the penalty (***end-April SB—not met; implemented with short delay***). However, a list of high-level public officials was added in the law as a new criterion for adjudication by a panel, which may have potential negative impact on judicial efficiency. The authorities will monitor the situation and implement corrective measures, as warranted. Legislative amendments to create a new high administrative court to hear cases against national state agencies require further consultation with stakeholders (***SB proposed to be reset from end-July to end-December 2024***). Independent auditors based on nominations of international partners should be swiftly selected to conduct the first ever external audit of the NABU (***end-September SB***), which should assess, among others, internal control mechanisms and safeguards against information leakages and negative influence by vested interests. Urgently advancing on other key reforms (including on NABU's access to forensic experts, selection, and training of additional NABU staff, appointment and resourcing for new anti-corruption judges, and legislative amendments on corporate criminal liability) will enhance Ukraine's anti-corruption infrastructure. (MEFP ¶67)

- Additional critical governance reforms include: (a) strengthening the criminal procedural code to rationalize processes and consequences after the expiry of time limits for pre-trial investigations (including for corruption cases) with the aim of balancing prompt and comprehensive investigations of criminal offenses with the protection of rights of parties in criminal proceedings (**proposed *end-October SB,*** (MEFP ¶67)); and (b) enacting legislation to enhance the independence, mandate and effectiveness of the supreme audit institution (Accounting Chamber of Ukraine) for auditing all public spending in line with the standards of the International Organization of Supreme Audit Institutions (MEFP ¶65). With IMF AML/CFT capacity development support, the NBU is on track to issue guidance on risk-based approaches to customer due diligence for politically exposed persons (MEFP ¶68).

35. The authorities are advancing the implementation of the recently adopted SOE governance law (#3587-IX). IMF staff is closely coordinating with international partners on the preparation of the state-ownership strategy (***end-October SB***), which will include the dividend policy and privatization strategy (MEFP ¶71). Moreover, IMF staff has recently provided technical assistance to the authorities on the key SOE financial indicators as input for the planned bylaws to operationalize the SOE law. The MOF has committed to prepare an assessment of the financial conditions and fiscal risks of the largest SOEs by end-July, a critical ingredient for the ownership strategy. To further enhance SOE corporate governance, a framework for supervisory board assessment is being developed, which will be applied to an independent evaluation of the supervisory boards of the critical energy SOEs Naftogaz and Ukrenergo (to be launched in October). Overall, IMF staff emphasized the criticality of decisively implementing the SOE law, and the importance of the MOF maintaining a gatekeeper role in managing fiscal and debt sustainability risks (See Box 1, EFF Third Review Staff report).

F. Energy

36. The authorities are taking steps to address the recent large-scale energy attacks. The severe damage and destruction of around a half of electricity generation capacity during March-May (over 9 GW) has complicated an already challenging environment to stabilize the sector and advance structural energy market reforms. The authorities plan a multipronged approach to bridge the current and prospective energy deficit:

- Given the estimated US$1bn in damages, urgent repairs of the salvageable energy infrastructure are being undertaken by the affected energy companies. Support from international donors is being sought to provide needed equipment and financial resources, including for decentralized electricity generation.

- At the same time, several initiatives are being and have been enacted to adjust price incentives for electricity usage and procurement for households and firms: In late May, the energy regulator NEURC substantially raised the price caps to allow more energy imports by businesses at night, thus far a constraining factor. The authorities have also increased the electricity tariffs for households by up to 64 percent as of June 1, 2024, bringing tariffs closer to cost recovery levels and adjusting incentives for electricity usage during the heating season.

- Discussions are also underway to increase energy import caps from the EU within technical limits, while SOEs are planning to procure gas and diesel turbines to boost power generation over the medium-term (with e.g., plans for up to 1 GW of gas-fired energy generation in 2024 and 4 GW in the coming years).

- Meanwhile, and especially during peak energy consumption, scheduled and needed power outages for firms and households would help balance the energy system.

- Furthermore, preparations for the next gas heating season are underway, with the authorities expecting that domestic gas production will satisfy estimated consumption amid large and safe gas storage deeply underground.

37. The authorities are committed to the program's energy-related conditionality (MEFP ¶74)**.** This includes the desk review of the debts (arrears) and financial conditions of District Heating Companies (DHCs), with the authorities needing more time to complete the DHC review given its complexity (***SB, proposed to be modified and reset from end-June to end-October 2024***). The GTSO is making progress to prepare financially and operationally a scenario where the Gazprom transit contract expires at end-2024 (including a timely adoption of draft law #6133 by end-June). Finally, and consistent with the authorities' commitments to the EU and other partners, the authorities are committed to ensure the functional independence of the National Energy and Utilities Regulatory Commission (NEURC). The energy regulator plays an important role in efforts to integrate the Ukrainian energy market with the EU, to attract needed FDI and to decentralize power generation, which would help make the energy system more resilient to missile attacks.

PROGRAM ISSUES

A. Program Conditionality

38. The attached Letter of Intent (LOI) and Memorandum of Economic and Financial Policies (MEFP) describe the authorities' progress in implementing their economic program and also set out their commitments through mid-2025.

- *Quantitative performance criteria (Table 13)*: The authorities have requested lowering the floor on NIR for end-June 2024 primarily due to revised assumptions on the timing of disbursements from the US. At the same time, end-September, and end-December 2024 NIR QPCs are established at a higher level than IT projections under the previous review to reflect the revised assumption on disbursements from the US, improvements in external sector performance, and the authorities' continued commitment to safeguarding reserves and maintaining external sustainability.

- *Structural conditionality*: The authorities have requested resetting three SBs, including modification of two SBs, primarily to allow more time to undertake complex reforms: (i) resetting the assessment of the effectiveness of tax privileges from end-July to end-September 2024, with modifications in the scope of the SB, (ii) resetting and modifying the desk review of the debts of district heating companies from end-June to end-October 2024, as more time is needed and the SB language is clarified; and (iii) resetting the enactment of the law to establish a new administrative court from end-July to end-December 2024, to allow more time for stakeholder consultation. The authorities propose two new SBs that underpin their reform momentum in the fiscal and governance areas, as follows: (i) adopt amendments to the Customs Code in line with best practice (*end-October 2024*), and (ii) amending the criminal procedure code to, among others, rationalize the consequences for the expiration of time limits for pre-trial investigations (including corruption cases) (*end-October 2024*).

39. No Multiple Currency Practices (MCPs) have been identified since the Third Review.

B. Debt Sustainability and Financing Assurances Review

40. The authorities announced their strategy to restore debt sustainability on March 24, 2023, which entails restructuring official bilateral and external commercial claims. This announcement acknowledged that the dislocation caused by Russia's invasion had pushed debt and financing needs well past sustainable levels. Consequently, the authorities indicated plans to pursue debt treatments in order to: (i) restore sustainability; (ii) preserve liquidity and reduce the financing gap during the program; and (iii) create conditions for private participation in post-war reconstruction. Their announcement also contained a timeline, as described below.

41. Updated indicative modeling for this review affirms that the existing targets for key debt and financing indicators remain appropriate (under both baseline and downside scenarios, as required under Fund policy for lending under the exceptionally high uncertainty). As before, the program envisages both principal targets on debt and gross financing needs (GFNs), and complementary targets, as follows:

- *Principal targets*: Public debt should reach 65 percent of GDP by 2033 and GFNs should average 8 percent of GDP over 2028–33.

- *Complementary targets*: Public debt should reach 82 percent of GDP by 2028. Additionally, given the very high financing needs in the program period, Ukraine should aim to achieve flow relief from debt restructuring over 2024–27 of between 1–1.8 percent of GDP per year. Attaining these targets and respecting comparability-of-treatment principles with official creditors implies that any debt service payments on restructured instruments during the program period must be restricted and kept at token levels.

42. Recent developments, including as regards debtor-creditor relations, suggest that the strategy is broadly proceeding according to the authorities' plan.

- *Official bilateral debt*: The Group of Creditors of Ukraine (GCU) remains committed to a 2-stage process to deliver the level of relief necessary in the baseline. The first step, which entailed extending the debt standstill until 2027, was formally agreed in December 2023. The GCU will complete a second-stage definitive treatment consistent with restoring sustainability before the final review of the EFF. Discussions between the authorities, their advisors, and the GCU are continuing to ensure that the strategy is implemented fully and consistent with comparability of treatment requirements. Additionally, the GCU has further committed to providing additional relief to restore sustainability if the downside scenario emerges.

- *External commercial claims*: The authorities have prepared initial proposals to achieve the debt restructuring targets under the baseline and are in discussions with their creditors for their feedback. A first set of discussions—based on the authorities' proposals that were preliminarily assessed by Fund staff as consistent with program parameters—did not yield agreement in principle; however, both sides have indicated their intentions to continue discussions. The authorities continue to envisage an ambitious timeline (given the complexity of discussions) of reaching agreement by the time the standstill on these claims expires this August. Nevertheless, they remain committed to a collaborative process on restructuring these claims as part of a credible process. Further, the authorities recognize when the current exceptionally high uncertainty resolves, the prevailing scenario at that time could be worse than the current baseline. In such an event, the authorities have committed to undertake a second debt treatment of these claims, as needed (MEFP ¶39). This commitment and ongoing good-faith engagement with creditors are essential to staff's assessment that sustainability will be restored across the range of outcomes, including macroeconomic outturns between the baseline and downside scenarios.

- *Ukraine does not have external arrears*.

43. Staff assesses that debt is sustainable on a forward-looking basis and that sufficient safeguards are in place for the Fund to proceed with financing. The debt sustainability assessment reflects staff's judgment that: (i) a credible process is in train with respect to restructuring debt in line with program parameters and (ii) along with debt treatments, commitments under the program on adjustment policies and financing are compatible with restoring sustainability (including exceptional financing if the downside scenario materializes). As regards the safeguards required under the recently reformed polices on Financing Assurance Reviews, staff assesses that the authorities' progress on implementing their external debt strategy, and recent developments in debtor-creditor relations is consistent with restoring Ukraine's medium-term viability and assuring capacity to repay the Fund under both scenarios (which is reinforced by the capacity-to-repay assurance provided by a significant group of creditors/donors as required by the EHU policy ¶45).

C. Financing Assurances

44. The program remains fully financed. The cumulative baseline financing gap over the program period is estimated at US$121.9 billion, broadly unchanged from the Third Review. This reflects (i) increased EC disbursements during the program period (€0.6 billion) to reflect the recently approved disbursement profile; (ii) fresh grant and loan financing from Serbia (€32 million) and the World Bank (US$20 million), respectively; and (iii) revised exchange rate assumptions. Similarly, the cumulative downside financing gap is projected to remain broadly unchanged at US$140.7 billion. Staff has engaged with Ukraine's creditors and donors to establish firm commitments through 2025Q2. It has also reconfirmed good prospects on financing for the remaining program period, consistent with restoring debt sustainability on a forward-looking basis under both the baseline and downside scenarios.

45. 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 around 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.[2] Staff will continue to undertake outreach with members that indicate an interest in joining the CtR assurance.

[2] 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 Scenario Financing Gap and Sources over 2023Q2–2027Q1

(In billions of U.S. dollars)

	2023	2024	2025	2026	2027Q1	Cumulative (prog. period) 1/
A. Financing gap	**42.5**	**42.6**	**25.9**	**17.9**	**2.3**	**121.9**
Underlying BoP Gap 2/	31.1	41.3	24.7	12.9	2.4	106.3
Gross international reserves (+ = accumulation)	11.4	1.3	1.2	5.0	-0.2	15.6
B. Official financing (excl. IMF) 3/ 4/	**38.0**	**32.7**	**20.9**	**11.7**	**0.5**	**94.6**
EU	19.5	17.4	13.4	7.7	0.5	53.7
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/	0.3	0.0	7.5	4.0	0.0	11.7
C. IMF (prospective)	**4.5**	**5.3**	**1.8**	**2.6**	**1.3**	**15.5**
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	2.9	-0.5	0.6	1.0	4.0
Gross international reserves	40.5	41.8	43.0	48.0	47.9	…
% of composite metric	124.2	113.7	110.3	114.7	…	…

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 May 31, 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 2025Q3 assume creditor and donor flows for which there are good prospects.

5/ In April 2024, the United States Congress passed the Ukraine Security Supplemental Appropriations Act, 2024 (USSAA), which provides US$7.849 billion for budget support.

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/ 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 under the Health Enhancement and Lifesaving (HEAL) project approved in December 2022.

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. Potential flow relief does not include GDP warrants.

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

(In billions of U.S. dollars)

	24Q3 thru 25Q2
A. Financing gap	**39.2**
Underlying BoP Gap 1/	39.3
Gross international reserves (+ = accumulation)	-0.1
B. Official financing (excl. IMF) 2/	**30.5**
EU	17.4
US 3/	7.8
Japan 4/	2.2
Canada 5/	0.3
UK 4/	0.5
Other 6/	2.3
C. IMF (prospective)	**3.1**
D. Potential flow relief from debt operations	**5.6**
E. Residual financing gap (A-B-C-D)	**0.0**

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

2/ Based on available information as of May 31, 2024. Prospective disbursements incorporate those for which there are firm commitments, and the USD equivalent is based on the April 2024 WEO exchange rate forecasts (where applicable).

3/ In April 2024, the United States Congress passed the Ukraine Security Supplemental Appropriations Act, 2024 (USSAA), which provides US$7.849 billion for budget support.

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 subject to domestic procedures, including parliamentary approval, where relevant.

46. Indicators of capacity to repay the Fund remain within similar ranges as at the Third Review. Under the baseline scenario, the stock of total Fund credit is expected to peak at 8.2 percent of GDP and 35.7 percent of gross reserves in 2024. Debt service to the Fund would peak at 1.9 percent of GDP and 8.1 percent of gross reserves in 2024. 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 46 percent of gross reserves in 2024; debt service to the Fund would peak at 2.1 percent of GDP in 2025 and 10.4 percent of gross reserves in 2024.

Table 4. Ukraine: Downside Scenario Financing Gap and Sources

(In billions of U.S. dollars)

	2023	2024	2025	2026	2027		2028	2029	2030	2031	2032	2033	Cumulative (prog. period) 1/
					Q1	Q2-Q4							
A. Financing gap	**42.5**	**49.1**	**31.7**	**22.7**	**3.9**	**8.1**	**15.2**	**12.8**	**12.3**	**10.0**	**9.7**	**9.3**	**140.7**
Underlying BOP Gap 2/	31.1	57.1	27.5	18.0	4.1	8.7	16.3	10.6	8.1	6.7	6.7	5.4	131.8
Gross international reserves (+ = accumulation)	11.4	-8.0	4.1	4.7	-0.2	-0.6	-1.1	2.2	4.1	3.3	3.1	3.9	8.8
B. Official financing (excl. IMF) 3/ 4/	**38.0**	**39.2**	**26.6**	**16.6**	**2.2**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**113.4**
C. IMF (prospective)	**4.5**	**5.3**	**1.8**	**2.6**	**1.3**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**15.5**
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	2.9	-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	32.5	36.6	41.3	41.1	40.5	39.3	41.6	45.7	49.1	52.1	56.0	...
% of composite metric	124.2	89.7	96.1	101.1	...	98.0	93.4	94.7	102.3	106.5	111.3	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 May 31, 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.

STAFF APPRAISAL

47. The authorities have skillfully maintained macroeconomic stability, although risks are high and rising and the authorities need to prepare for major headwinds ahead. Economic activity remained resilient through 2024Q1, disinflation has continued, and FX reserves remain adequate. The adaptability of households and firms, including as evidenced by the renewed Black Sea Corridor, as well as adept policymaking, have helped navigate recent volatility, including from delayed external financing and trade blockades. However, significant headwinds, including from energy attacks and the impact of mobilization, are expected to slow growth, amid rising risks of a longer war.

48. Despite the challenging circumstances the authorities managed to deliver a strong performance in the Fourth Review. All end-March and continuous QPCs were met. Progress on the reform agenda has been robust, as the SB for the concept note related to the 5-7-9 Affordable Loan program was met, and the SB on legal amendments related to the High Anti-corruption Court also successfully implemented (though with a short delay). The authorities remain committed to the wide-ranging reform agenda, with other critical structural fiscal and governance reforms in train.

49. Timely disbursement of committed external financing remains critical to close financing gaps, maintain core functions of state, and preserve stability. Approval of US and EC financial support are positive developments, and disbursements of €6 billion of EC bridge financing is welcome. Nevertheless, any prolonged delays in disbursements could create significant challenges for budget execution, and recourse to suboptimal measures to meet resultant financing gaps could unwind Ukraine's hard-won macroeconomic stability.

50. The 2024 Budget remains the appropriate anchor for fiscal policies in 2024; the authorities should start preparing a robust framework for the 2025 Budget while also preparing to respond to shocks. Fiscal financing needs remain very high in 2024, and the budget needs to be executed consistent with financing constraints and the need to restore fiscal and debt sustainability. If liquidity strains resume or adverse shocks materialize, decisive actions would be needed including through domestic resource mobilization. Given still high spending needs and in view of risks, the 2025 Budget will require impactful measures to mobilize domestic revenue and expenditure prioritization, and be supported by critical fiscal reforms.

51. The authorities need to sustain the momentum of fiscal structural reforms to help mobilize revenue and contain fiscal risks. To ensure fiscal sustainability, tax policy and revenue administration reforms should be advanced, anchored by the National Revenue Strategy. A near-term priority is strengthening tax and customs administration, and progress at addressing enforcement issues, notably in tobacco excise, would have a powerful demonstration effect. Efforts to ringfence fiscal risks should continue, and recent reforms to the 5-7-9 lending program and ongoing governance improvements to the Business Development Fund are welcome. The law to relaunch the ESBU to effectively address major economic crimes should be swiftly adopted, while adopting amendments to the Customs Code in line with best practice would be also critical in the coming months.

52. The external commercial debt treatment should be completed on terms consistent with program parameters to deliver debt sustainability in both the baseline and the downside scenarios. Such a treatment, along with fiscal adjustment and an appropriately concessional financing mix in the future, will be essential to create room for critical spending, and to bring debt and gross financing burdens to sustainable levels.

53. Monetary policy easing should continue, and the exchange rate should adjust to domestic and external shocks. Recent disinflation and well-anchored inflation expectations provide scope for further rate cuts. Enhancing exchange rate flexibility to absorb shocks and limiting excessive FX intervention will support resilience and safeguard FX reserves. A careful approach to FX liberalization, in line with the NBU's Strategy, will ensure consistency with the overall policy mix and macro stability while supporting the economic recovery.

54. **Careful surveillance of the financial system should continue.** The financial sector remains stable and liquid; reforms continue apace despite challenges under Martial Law. However, uncertainties exist, and priorities ahead include strengthening bank resolution, supervision, as well as credit and capital market infrastructure. Diagnostic work should begin soon to develop an appropriate policy response to the low level of financial inclusion.

55. **The authorities should continue their urgent and comprehensive efforts to manage the impact from the recent devastating energy attacks.** The recent electricity tariff increase for households can raise resources to help make the energy system more resilient, with the most vulnerable households protected to the extent possible, buying time for longer-term plans. Contingency planning should continue. Efforts by all stakeholders, including international partners, will be critical to support stable electricity to Ukraine’s households and firms.

56. **Further strengthening governance and tackling longstanding corruption will maintain public confidence in the rule of law and the EU accession path.** Achieving sustained medium-term growth and pursuing EU accession will need determined actions on deep governance reforms. Ensuring robust implementation will also preserve hard-won advances on building an independent and effective anti-corruption infrastructure and prevent any reform backtracking or interference by vested interests. In this regard, governance and anti-corruption reform priorities include strengthening the criminal procedural code, and creating a new high administrative court. The external audit of NABU should be completed promptly, and its results leveraged to enhance the bureau’s accountability and operational effectiveness. Sustained implementation of reforms to SOE governance remain essential to help contain fiscal risks.

57. **Staff supports the authorities' requests for modification of one QPC, resetting of one SB, modification and resetting of two SBs, and the completion of the Fourth Review under the Extended Arrangement.** Staff also recommends the completion of the financing assurances review. 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/new 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
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**

	Table 5. Ukraine: Structural Benchmarks (continued)			
	Structural Benchmark	**Sector**	**Timing**	**Status**
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	**Met**
23	Adopt a new law (consistent with ¶28 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	**Develop a methodology to assess the effectiveness of tax privileges, including their cost to the budget, in order to have a unified reform approach**	Fiscal	***End-September 2024***	***Modify and reset from 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	**Adopt amendments to the Customs Code (consistent with ¶27 of the MEFP), in line with international best practice.**	Fiscal	**End-October 2024**	
28	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	
29	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	
30	Prepare a bank rehabilitation framework in consultation with the DGF and IMF staff	Financial Sector	End-December 2024	
31	Implement a supervisory risk assessment methodology to inform supervisory engagement priorities	Financial Sector	End-December 2024	
32	**Analyze the debts 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-October 2024***	***Modify and reset from end-June 2024***

Table 5. Ukraine: Structural Benchmarks (concluded)

	Structural Benchmark	Sector	Timing	Status
33	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	**Not Met (implemented with delay)**
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	**Amend the Criminal Procedural Code to enable the Specialized Anti-Corruption Prosecutor's Office to manage extradition and mutual legal assistance request and rationalize consequences from expiration of time limits for pre-trial investigations (including for corruption cases) in line with MEFP, ¶67, 1st bullet.**	**Governance/ Anti-Corruption**	**End-October 2024**	
36	**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-December 2024***	***Reset from end-July 2024***
37	Produce a SOE state ownership policy, dividend policy and privatization strategy	SOE Corporate Governance	End-October 2024	

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 3rd Review	Act.	EFF 3rd 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	5,239	6,495	6,538	7,748	7,485	8,744	9,718	10,664	11,678	12,777	13,966	15,251	16,654	18,186
Real GDP 1/	3.4	-28.8	5.0	5.3	3-4	2.5-3.5	5.5	5.3	4.5	4.3	4.2	4.1	4.0	4.0	4.0
Contributions:															
Domestic demand	12.9	-22.9	8.6	13.9	3.3	5.8	6.1	7.4	7.1	6.5	6.2	5.9	5.3	5.3	5.3
Private consumption	4.7	-16.8	2.7	5.5	2.6	3.7	4.1	4.9	4.7	4.2	3.8	3.7	3.2	3.2	3.2
Public consumption	0.1	12.5	2.8	2.6	-1.1	-0.9	-1.8	-0.6	-0.1	0.0	0.0	0.0	0.0	0.0	0.0
Investment	8.1	-18.6	3.1	5.8	1.8	3.0	3.8	3.0	2.5	2.4	2.3	2.2	2.1	2.1	2.1
Net exports	-9.5	-5.9	-3.6	-8.6	-0.1	-3.3	-0.6	-2.0	-2.6	-2.2	-2.0	-1.8	-1.3	-1.3	-1.3
GDP deflator	24.8	34.9	19.2	18.5	15.6	11.7	10.7	5.5	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	14.5	14.8	14.3	11.7	10.4	9.2	8.8	8.6	8.5	8.5	8.5
Consumer prices (period average)	9.4	20.2	12.9	12.9	6.4	5.2	8.3	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	5.1	5.1	8.5	8.0	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	16.9	14.3	15.7	14.5	10.5	9.7	9.2	9.2	9.2	9.2	9.2
Real wages (average)	10.5	-16.0	6.4	6.4	9.8	8.6	6.8	7.8	5.0	4.5	4.0	4.0	4.0	4.0	4.0
Savings (percent of GDP)	12.5	17.0	10.8	10.0	11.9	10.9	9.2	13.4	16.0	16.8	17.9	18.9	19.6	20.4	21.2
Private	12.7	30.2	25.8	24.8	23.4	22.8	14.4	13.8	14.7	14.7	15.0	15.3	15.4	16.0	16.7
Public	-0.2	-13.1	-14.9	-14.8	-11.5	-11.9	-5.2	-0.4	1.3	2.2	3.0	3.6	4.1	4.4	4.5
Investment (percent of GDP)	14.5	12.1	16.3	15.1	17.6	16.7	16.1	19.9	21.0	21.7	22.4	23.0	23.5	24.0	24.5
Private	10.7	9.6	11.5	10.4	15.4	14.3	13.8	15.5	16.0	16.8	17.1	17.5	18.0	18.5	19.1
Public	3.8	2.5	4.8	4.8	2.3	2.4	2.3	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	-15.6	-19.7	-19.6	-13.7	-14.2	-7.5	-4.9	-3.6	-2.8	-2.3	-1.9	-1.4	-1.1	-1.0
Fiscal balance, excl. grants 2/	-4.0	-24.8	-26.3	-26.1	-20.2	-20.9	-10.4	-6.2	-4.8	-3.7	-3.1	-2.6	-2.0	-1.8	-1.6
External financing (net)	2.4	10.7	16.6	16.5	11.8	12.1	6.5	3.8	-0.1	-0.9	0.8	1.4	0.7	0.5	0.9
Domestic financing (net), of which:	1.6	5.0	3.1	3.1	2.0	2.1	0.9	1.1	3.7	3.7	1.6	0.5	0.6	0.6	0.1
NBU	-0.3	7.3	-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	2.6	2.5	2.0	2.1	0.5	1.1	3.2	3.2	1.4	0.4	0.5	0.5	0.2
Public and publicly-guaranteed debt	50.5	77.7	82.9	82.3	94.0	97.3	97.7	96.8	94.5	92.0	89.0	85.4	81.5	77.6	73.5
Money and credit (end of period, percent change)															
Base money	11.2	19.6	23.3	23.3	18.5	13.8	17.9	11.9	9.0	8.0	6.9	6.5	6.0	5.5	5.0
Broad money	12.0	20.8	23.0	23.0	18.7	13.9	15.8	12.0	10.6	9.5	9.4	9.3	9.2	9.2	9.2
Credit to nongovernment	8.4	-3.1	-0.5	-0.5	8.5	8.0	17.7	18.2	13.4	12.9	12.9	15.5	15.5	17.5	17.6
Balance of payments (percent of GDP)															
Current account balance	-1.9	4.9	-5.5	-5.2	-5.7	-5.8	-6.9	-6.6	-4.9	-4.9	-4.5	-4.1	-3.9	-3.6	-3.4
Foreign direct investment	3.8	0.1	2.4	2.4	2.2	2.1	2.6	5.0	5.1	5.6	5.4	5.1	4.8	4.6	4.4
Gross reserves (end of period, billions of U.S. dollars)	30.9	28.5	40.5	40.5	42.1	41.8	43.0	48.0	47.4	46.1	48.5	52.7	56.0	59.2	63.1
Months of next year's imports of goods and services	4.5	3.9	5.3	5.3	5.4	5.5	5.4	5.7	5.4	5.1	5.1	5.3	5.3	5.4	5.6
Percent of short-term debt (remaining maturity)	67.5	64.3	87.3	87.3	98.7	97.9	94.2	109.2	103.1	88.7	98.4	101.2	109.8	115.2	111.0
Percent of the IMF composite metric (float)	104.4	103.6	113.2	124.2	104.9	113.7	110.3	114.7	111.2	105.9	106.7	113.6	116.9	121.1	125.7
Goods exports (annual volume change in percent)	35.0	-44.4	-16.1	-15.6	18.5	18.5	4.6	12.7	7.0	9.8	7.9	9.0	8.6	8.2	8.0
Goods imports (annual volume change in percent)	17.0	-23.9	21.1	21.6	11.0	8.9	7.5	10.9	10.8	4.8	3.3	4.6	4.9	4.7	4.9
Goods terms of trade (percent change)	-8.4	-11.6	3.6	3.6	0.9	0.3	-1.4	1.2	0.9	0.5	0.2	0.0	0.0	0.0	0.0
Exchange rate															
Hryvnia per U.S. dollar (end of period)	27.3	36.6	38.0	38.0	…	…	…	…	…	…	…	…	…	…	…
Hryvnia per U.S. dollar (period average)	27.3	32.3	36.7	36.7	…	…	…	…	…	…	…	…	…	…	…
Real effective rate (deflator-based, percent change)	10.3	28.2	-0.3	-1.5	…	…	…	…	…	…	…	…	…	…	…
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 3rd Review	Act.	EFF 3rd Review	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Revenue	1,990	2,609	3,583	3,583	3,376	3,415	3,655	3,998	4,436	4,838	5,271	5,745	6,233	6,782	7,413
Tax revenue	1,825	1,782	2,139	2,139	2,651	2,679	3,155	3,609	4,026	4,424	4,842	5,287	5,743	6,259	6,853
Tax on income, profits, and capital gains	514	551	656	656	803	831	906	1,044	1,162	1,289	1,423	1,564	1,703	1,865	2,056
Personal income tax	350	421	496	496	582	582	663	759	844	931	1,032	1,136	1,236	1,354	1,489
Corporate profit tax	164	131	159	159	221	249	243	285	318	358	392	428	468	511	568
Social security contributions	358	430	489	489	592	592	674	734	756	826	898	996	1,053	1,138	1,248
Property tax	43	37	44	44	46	46	51	50	55	50	56	51	51	52	52
Tax on goods and services	731	592	784	784	1,022	1,022	1,278	1,483	1,706	1,880	2,052	2,248	2,487	2,734	2,985
VAT	536	467	581	581	788	788	981	1,108	1,248	1,373	1,498	1,641	1,820	2,004	2,177
Excise	180	115	190	190	219	219	281	357	439	488	533	584	644	706	783
Other	14	10	14	14	15	15	16	17	18	19	21	22	23	24	26
Tax on international trade	38	26	41	41	49	49	70	81	103	111	129	139	150	162	180
Other tax	140	145	126	126	139	139	175	218	244	268	285	289	298	308	332
Nontax revenue	166	827	1,444	1,444	725	736	500	389	411	413	428	458	489	524	560
Grants	1	481	425	425	498	498	257	124	125	105	95	98	101	104	107
Expenditure	2,207	3,426	4,865	4,865	4,440	4,479	4,307	4,475	4,821	5,163	5,570	6,009	6,440	6,972	7,598
Current	1,995	3,298	4,562	4,562	4,155	4,154	3,734	3,963	4,210	4,494	4,788	5,114	5,458	5,899	6,432
Compensation of employees	516	1,240	1,479	1,479	1,504	1,504	857	893	968	997	1,062	1,120	1,221	1,323	1,440
Goods and services	483	848	1,674	1,674	918	918	927	902	892	911	1,011	1,077	1,182	1,290	1,379
Interest	155	162	254	254	430	430	377	412	400	405	429	436	422	428	438
Subsidies to corporations and enterprises	116	131	158	158	165	165	148	156	164	172	151	158	166	174	183
Social benefits	724	917	996	996	1,136	1,136	1,422	1,598	1,783	2,007	2,133	2,321	2,463	2,681	2,989
Social programs (on budget)	154	285	241	241	209	209	461	604	701	787	848	928	981	1,094	1,263
Pensions	519	583	746	746	899	899	931	962	1,049	1,185	1,249	1,354	1,442	1,545	1,682
Unemployment, disability, and accident	52	48	9	9	27	27	30	32	33	35	37	38	40	42	44
Other current expenditures	1	1	1	1	2	2	2	2	3	3	3	3	3	3	3
Capital	207	130	312	312	177	177	200	434	527	577	681	765	840	917	997
Net lending	5	-2	-9	-9	31	31	131	20	22	24	26	49	53	58	64
Contingency reserve 2/	0	0	0	0	78	117	242	57	62	68	75	82	89	97	106
General government overall balance	-216	-817	-1,282	-1,282	-1,064	-1,064	-652	-477	-385	-325	-300	-264	-207	-190	-185
General government overall balance, excluding grants	-218	-1,299	-1,707	-1,707	-1,562	-1,562	-909	-600	-509	-430	-395	-362	-309	-295	-292
General government financing	216	817	1,282	1,282	1,064	1,064	652	477	385	325	300	264	207	190	185
External	132	560	1,078	1,078	911	909	570	373	-8	-101	101	193	114	91	162
Disbursements	239	615	1,151	1,151	1,126	1,122	849	675	315	284	571	647	667	687	706
Amortizations and other external payments	-108	-55	-74	-74	-215	-213	-279	-302	-323	-385	-471	-454	-554	-596	-544
Domestic (net)	85	263	204	204	152	155	81	104	393	426	199	71	94	99	23
Bond financing 3/	66	295	183	183	148	151	75	98	387	420	193	65	88	93	17
o/w NBU	-14	383	-15	-15	-12	-12	-13	-12	-12	-11	-12	-12	-12	-12	-47
o/w Commercial banks	80	-77	167	167	152	155	47	110	344	377	175	51	75	83	45
Direct bank borrowing	30	-2	-7	-7	0	0	0	0	0	0	0	0	0	0	0
Deposit finance	-19	-37	-59	-59	0	0	0	0	0	0	0	0	0	0	0
Privatization and other items	7	20	87	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	-1,028	-1,028	-634	-635	-274	-65	15	79	129	172	214	238	253
Public and publicly-guaranteed debt	2,754	4,003	5,383	5,383	7,287	7,284	8,538	9,410	10,075	10,750	11,378	11,932	12,435	12,921	13,362
Nominal GDP (billions of Ukrainian hryvnia)	5,451	5,239	6,495	6,538	7,748	7,485	8,744	9,718	10,664	11,678	12,777	13,966	15,251	16,654	18,186

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 3rd Review	Act.	EFF 3rd Review	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Revenue	36.5	49.8	55.2	54.8	43.6	45.6	41.8	41.1	41.6	41.4	41.3	41.1	40.9	40.7	40.8
Tax revenue	33.5	34.0	32.9	32.7	34.2	35.8	36.1	37.1	37.8	37.9	37.9	37.9	37.7	37.6	37.7
Tax on income, profits, and capital gains	9.4	10.5	10.1	10.0	10.4	11.1	10.4	10.7	10.9	11.0	11.1	11.2	11.2	11.2	11.3
Personal income tax	6.4	8.0	7.6	7.6	7.5	7.8	7.6	7.8	7.9	8.0	8.1	8.1	8.1	8.1	8.2
Corporate profit tax	3.0	2.5	2.5	2.4	2.8	3.3	2.8	2.9	3.0	3.1	3.1	3.1	3.1	3.1	3.1
Social security contributions	6.6	8.2	7.5	7.5	7.6	7.9	7.7	7.5	7.1	7.1	7.0	7.1	6.9	6.8	6.9
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	11.3	12.1	12.0	13.2	13.7	14.6	15.3	16.0	16.1	16.1	16.1	16.3	16.4	16.4
VAT	9.8	8.9	8.9	8.9	10.2	10.5	11.2	11.4	11.7	11.8	11.7	11.8	11.9	12.0	12.0
Excise	3.3	2.2	2.9	2.9	2.8	2.9	3.2	3.7	4.1	4.2	4.2	4.2	4.2	4.2	4.3
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	0.1	0.1
Tax on international trade	0.7	0.5	0.6	0.6	0.6	0.7	0.8	0.8	1.0	0.9	1.0	1.0	1.0	1.0	1.0
Other tax	2.6	2.8	1.9	1.9	1.8	1.9	2.0	2.2	2.3	2.3	2.2	2.1	2.0	1.8	1.8
Nontax revenue	3.0	15.8	22.2	22.1	9.4	9.8	5.7	4.0	3.9	3.5	3.4	3.3	3.2	3.1	3.1
Grants	0.0	9.2	6.6	6.5	6.4	6.7	2.9	1.3	1.2	0.9	0.7	0.7	0.7	0.6	0.6
Expenditure	40.5	65.4	74.9	74.4	57.3	59.8	49.3	46.0	45.2	44.2	43.6	43.0	42.2	41.9	41.8
Current	36.6	63.0	70.2	69.8	53.6	55.5	42.7	40.8	39.5	38.5	37.5	36.6	35.8	35.4	35.4
Compensation of employees	9.5	23.7	22.8	22.6	19.4	20.1	9.8	9.2	9.1	8.5	8.3	8.0	8.0	7.9	7.9
Goods and services	8.9	16.2	25.8	25.6	11.9	12.3	10.6	9.3	8.4	7.8	7.9	7.7	7.8	7.7	7.6
Interest	2.8	3.1	3.9	3.9	5.5	5.7	4.3	4.2	3.8	3.5	3.4	3.1	2.8	2.6	2.4
Subsidies to corporations and enterprises	2.1	2.5	2.4	2.4	2.1	2.2	1.7	1.6	1.5	1.5	1.2	1.1	1.1	1.0	1.0
Social benefits	13.3	17.5	15.3	15.2	14.7	15.2	16.3	16.4	16.7	17.2	16.7	16.6	16.1	16.1	16.4
Social programs (on budget)	2.8	5.4	3.7	3.7	2.7	2.8	5.3	6.2	6.6	6.7	6.6	6.6	6.4	6.6	6.9
Pensions	9.5	11.1	11.5	11.4	11.6	12.0	10.6	9.9	9.8	10.2	9.8	9.7	9.5	9.3	9.2
Unemployment, disability, and accident	1.0	0.9	0.1	0.1	0.3	0.4	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.2
Other current expenditures	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Capital	3.8	2.5	4.8	4.8	2.3	2.4	2.3	4.5	4.9	4.9	5.3	5.5	5.5	5.5	5.5
Net lending	0.1	0.0	-0.1	-0.1	0.4	0.4	1.5	0.2	0.2	0.2	0.2	0.4	0.4	0.4	0.4
Contingency reserve 2/	0.0	0.0	0.0	0.0	1.0	1.6	2.8	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6
General government overall balance	-4.0	-15.6	-19.7	-19.6	-13.7	-14.2	-7.5	-4.9	-3.6	-2.8	-2.3	-1.9	-1.4	-1.1	-1.0
General government overall balance, excluding grants	-4.0	-24.8	-26.3	-26.1	-20.2	-20.9	-10.4	-6.2	-4.8	-3.7	-3.1	-2.6	-2.0	-1.8	-1.6
General government financing	4.0	15.6	19.7	19.6	13.7	14.2	7.5	4.9	3.6	2.8	2.3	1.9	1.4	1.1	1.0
External	2.4	10.7	16.6	16.5	11.8	12.1	6.5	3.8	-0.1	-0.9	0.8	1.4	0.7	0.5	0.9
Disbursements	4.4	11.7	17.7	17.6	14.5	15.0	9.7	6.9	3.0	2.4	4.5	4.6	4.4	4.1	3.9
Amortizations and other external payments	-2.0	-1.1	-1.1	-1.1	-2.8	-2.9	-3.2	-3.1	-3.0	-3.3	-3.7	-3.3	-3.6	-3.6	-3.0
Domestic (net)	1.6	5.0	3.1	3.1	2.0	2.1	0.9	1.1	3.7	3.7	1.6	0.5	0.6	0.6	0.1
Bond financing 3/	1.2	5.6	2.8	2.8	1.9	2.0	0.9	1.0	3.6	3.6	1.5	0.5	0.6	0.6	0.1
o/w NBU	-0.3	7.3	-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	2.6	2.5	2.0	2.1	0.5	1.1	3.2	3.2	1.4	0.4	0.5	0.5	0.2
Direct bank borrowing	0.6	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	0.0
Deposit finance	-0.3	-0.7	-0.9	-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	1.3	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	-12.5	-15.8	-15.7	-8.2	-8.5	-3.1	-0.7	0.1	0.7	1.0	1.2	1.4	1.4	1.4
Public and publicly-guaranteed debt	48.9	77.7	82.9	82.3	94.0	97.3	97.7	96.8	94.5	92.0	89.0	85.4	81.5	77.6	73.5
Nominal GDP (billions of Ukrainian hryvnia)	5,451	5,239	6,495	6,538	7,748	7,485	8,744	9,718	10,664	11,678	12,777	13,966	15,251	16,654	18,186

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 3rd Review	Act.	EFF 3rd Review	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Current account balance	-3.9	8.0	-9.8	-9.2	-10.8	-10.6	-13.2	-13.2	-10.4	-11.0	-10.5	-10.3	-10.3	-10.2	-10.1
Goods (net)	-6.6	-14.7	-28.8	-28.8	-28.7	-27.8	-32.2	-34.0	-38.6	-37.5	-35.9	-34.9	-34.1	-33.2	-32.3
Exports	63.1	40.9	34.5	34.7	40.8	41.1	43.0	48.5	51.9	56.9	61.4	66.9	72.7	78.6	84.9
Imports	-69.8	-55.6	-63.3	-63.5	-69.6	-68.9	-75.2	-82.4	-90.5	-94.4	-97.4	-101.8	-106.8	-111.8	-117.3
Services (net)	4.0	-11.1	-8.9	-8.6	-4.6	-6.2	2.9	9.1	16.0	16.6	17.1	17.6	18.0	18.5	18.9
Receipts	18.4	16.6	16.4	16.4	16.9	16.7	19.0	22.3	25.9	27.5	29.1	30.3	31.5	32.8	34.1
Payments	-14.4	-27.7	-25.3	-25.0	-21.5	-22.9	-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	5.5	5.3	2.6	3.5	3.7	3.4	3.7	3.0	2.4	2.0	1.6	1.3	1.1
Secondary income (net)	4.6	25.2	22.5	22.9	19.9	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	-5.5	8.5	-20.7	-20.4	-13.4	-12.9	-15.2	-17.2	-9.2	-9.6	-13.0	-15.5	-14.9	-14.7	-15.1
Direct investment (net)	-7.5	-0.2	-4.2	-4.2	-4.2	-3.8	-5.0	-10.0	-10.7	-12.6	-12.6	-12.8	-12.7	-12.9	-13.1
Portfolio investment (net)	-1.0	2.0	2.7	2.7	1.5	1.5	2.4	2.3	2.3	3.4	1.1	0.3	0.4	-0.1	0.0
Financial derivatives (net)	0.2	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	-19.2	-18.9	-10.7	-10.6	-12.5	-9.5	-0.8	-0.4	-1.4	-3.1	-2.7	-1.7	-2.0
Other investment: assets	7.7	21.0	11.3	11.6	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	30.5	30.5	25.5	25.4	16.6	12.8	3.8	2.7	3.6	4.4	3.0	2.1	2.5
Net use of IMF resources for budget support	0.2	2.3	3.6	3.6	4.0	4.0	0.3	-0.4	-0.5	-1.0	-1.7	-1.0	-1.2	-1.3	-1.1
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	25.9	26.0	20.5	20.5	15.4	11.3	3.2	3.1	4.7	4.8	3.6	2.7	3.0
Banks 3/	0.4	-0.4	-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	-2.2	1.1	1.0	0.9	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	1.9	1.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	3.5	-0.6	13.0	13.0	2.6	2.3	2.0	4.0	-1.2	-1.3	2.4	5.2	4.6	4.5	5.0
Financing	-3.5	0.6	-13.0	-13.0	-2.6	-2.3	-2.0	-4.0	1.2	1.3	-2.4	-5.2	-4.6	-4.5	-5.0
Gross official reserves (increase: -)	-2.5	2.3	-11.4	-11.4	-1.6	-1.3	-1.2	-5.0	0.6	1.3	-2.4	-4.2	-3.3	-3.2	-3.9
Net use of IMF resources for BOP support	-0.9	-1.6	-1.6	-1.6	-1.0	-1.0	-0.8	1.0	0.6	0.0	0.0	-1.0	-1.2	-1.3	-1.1
Memorandum items:															
Current account balance excluding grants	-3.9	-6.0	-21.4	-20.8	-23.0	-22.7	-18.8	-15.7	-12.9	-13.0	-12.3	-12.0	-12.1	-12.0	-11.8
Current account balance (percent of GDP)	-1.9	4.9	-5.5	-5.2	-5.7	-5.8	-6.9	-6.6	-4.9	-4.9	-4.5	-4.1	-3.9	-3.6	-3.4
Goods and services trade balance (percent of GDP)	-1.3	-15.9	-21.3	-21.0	-17.7	-18.6	-15.4	-12.4	-10.7	-9.3	-8.0	-6.9	-6.1	-5.2	-4.5
Gross international reserves	30.9	28.5	40.5	40.5	42.1	41.8	43.0	48.0	47.4	46.1	48.5	52.7	56.0	59.2	63.1
Months of next year's imports of goods and services	4.5	3.9	5.3	5.3	5.4	5.5	5.4	5.7	5.4	5.1	5.1	5.3	5.3	5.4	5.6
Percent of the IMF composite metric (float)	104.4	103.6	113.2	124.2	104.9	113.7	110.3	114.7	111.2	105.9	106.7	113.6	116.9	121.1	125.7

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 BOP. 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 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 3rd Review	Act.	EFF 3rd Review	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Current account balance	-1.9	4.9	-5.5	-5.2	-5.7	-5.8	-6.9	-6.6	-4.9	-4.9	-4.5	-4.1	-3.9	-3.6	-3.4
Goods (net)	-3.3	-9.0	-16.3	-16.1	-15.2	-15.2	-16.8	-17.0	-18.3	-16.7	-15.2	-14.0	-12.9	-11.8	-10.9
Exports	31.6	25.2	19.4	19.4	21.6	22.5	22.5	24.2	24.5	25.4	26.0	26.8	27.5	28.1	28.5
Imports	-34.9	-34.3	-35.7	-35.6	-36.8	-37.8	-39.4	-41.2	-42.8	-42.1	-41.2	-40.8	-40.4	-39.9	-39.4
Services (net)	2.0	-6.8	-5.0	-4.8	-2.4	-3.4	1.5	4.6	7.6	7.4	7.3	7.0	6.8	6.6	6.4
Receipts	9.2	10.3	9.3	9.2	8.9	9.2	9.9	11.2	12.2	12.3	12.3	12.1	11.9	11.7	11.4
Payments	-7.2	-17.1	-14.3	-14.0	-11.4	-12.6	-8.5	-6.6	-4.7	-4.9	-5.1	-5.1	-5.1	-5.1	-5.1
Primary income (net)	-2.9	5.2	3.1	3.0	1.4	1.9	2.0	1.7	1.8	1.3	1.0	0.8	0.6	0.5	0.4
Secondary income (net)	2.3	15.6	12.7	12.9	10.6	10.9	6.5	4.1	4.0	3.1	2.5	2.0	1.6	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	-2.8	5.3	-11.7	-11.4	-7.1	-7.1	-7.9	-8.6	-4.4	-4.3	-5.5	-6.2	-5.7	-5.3	-5.1
Direct investment (net)	-3.8	-0.1	-2.4	-2.4	-2.2	-2.1	-2.6	-5.0	-5.1	-5.6	-5.4	-5.1	-4.8	-4.6	-4.4
Portfolio investment (net)	-0.5	1.3	1.5	1.5	0.8	0.8	1.3	1.2	1.1	1.5	0.5	0.1	0.2	0.0	0.0
Financial derivatives (net)	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	0.0
Other investment (net)	1.4	4.1	-10.9	-10.6	-5.7	-5.8	-6.6	-4.8	-0.4	-0.2	-0.6	-1.2	-1.0	-0.6	-0.7
Other investment: assets	3.9	12.9	6.4	6.5	7.8	8.1	2.1	1.6	1.4	1.0	0.9	0.5	0.1	0.1	0.2
Other investment: liabilities	2.4	8.8	17.2	17.1	13.5	13.9	8.7	6.4	1.8	1.2	1.5	1.8	1.1	0.7	0.9
Net use of IMF resources for budget support	0.1	1.4	2.0	2.0	2.1	2.2	0.1	-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	9.1	14.6	14.6	10.9	11.2	8.0	5.6	1.5	1.4	2.0	1.9	1.4	1.0	1.0
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	-1.3	0.6	0.6	0.5	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	1.1	0.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	1.7	-0.4	7.3	7.3	1.4	1.3	1.0	2.0	-0.6	-0.6	1.0	2.1	1.7	1.6	1.7
Financing	-1.7	0.4	-7.3	-7.3	-1.4	-1.3	-1.0	-2.0	0.6	0.6	-1.0	-2.1	-1.7	-1.6	-1.7
Gross official reserves (increase: -)	-1.3	1.4	-6.4	-6.4	-0.8	-0.7	-0.6	-2.5	0.3	0.6	-1.0	-1.7	-1.3	-1.1	-1.3
Net use of IMF resources for BOP support	-0.5	-1.0	-0.9	-0.9	-0.5	-0.6	-0.4	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	-3.7	-12.1	-11.7	-12.2	-12.4	-9.8	-7.9	-6.1	-5.8	-5.2	-4.8	-4.6	-4.3	-4.0
Gross international reserves (USD billions)	30.9	28.5	40.5	40.5	42.1	41.8	43.0	48.0	47.4	46.1	48.5	52.7	56.0	59.2	63.1
Months of next year's imports of goods and services	4.5	3.9	5.3	5.3	5.4	5.5	5.4	5.7	5.4	5.1	5.1	5.3	5.3	5.4	5.6
Percent of the IMF composite metric (float)	104.4	103.6	113.2	124.2	104.9	113.7	110.3	114.7	111.2	105.9	106.7	113.6	116.9	121.1	125.7

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 BOP. 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 Requirements and Sources (Baseline Scenario), 2021–2033

(Billions of U.S. dollars)

	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.
A. Total financing requirements	**20.3**	**31.9**	**39.6**	**45.1**	**29.1**	**26.4**	**22.5**	**22.9**	**25.8**	**22.8**	**24.5**	**23.0**	**22.8**
Current account deficit (excl. budget grants)	3.9	6.0	20.8	22.7	18.8	15.7	12.9	13.0	12.3	12.0	12.1	12.0	11.8
Portfolio investment	4.9	2.7	4.9	4.5	3.4	4.6	2.8	3.9	5.1	3.3	4.8	2.4	2.5
Private	0.6	0.9	2.5	2.9	1.5	1.8	1.1	1.0	3.6	1.5	2.7	0.9	0.8
Public	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	2.1	2.2	3.1	2.9	2.8	3.8	3.7	6.2	6.2	7.3	8.2	7.9
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	0.2	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
Public	0.9	1.0	0.9	1.5	1.4	1.4	2.4	2.4	4.8	4.8	5.9	6.8	6.5
Other net capital outflows 1/	7.9	21.0	11.6	14.8	4.1	3.2	3.0	2.3	2.2	1.3	0.3	0.4	0.6
B. Total financing sources	**20.0**	**0.7**	**9.3**	**10.7**	**9.9**	**19.1**	**16.1**	**17.5**	**20.3**	**19.5**	**20.7**	**19.1**	**19.4**
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	3.8	5.0	10.0	10.7	12.6	12.6	12.8	12.7	12.9	13.1
Portfolio investment	6.0	0.7	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	0.2	-0.1	3.0	1.0	2.3	0.5	0.5	3.0	1.0	2.3	0.5	0.5
Public	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
Medium and long-term debt	6.8	2.6	2.4	3.2	3.1	5.0	3.9	3.9	3.2	3.2	3.2	3.2	3.2
Private	3.0	1.5	1.8	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	2.8	1.4	1.7	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2
Public (incl. project financing)	3.8	1.1	0.6	1.5	1.4	3.4	2.4	2.4	1.7	1.7	1.7	1.7	1.7
Short-term debt (incl. deposits)	-0.3	-2.9	0.4	0.8	0.8	1.7	0.9	0.5	0.5	0.5	0.5	0.5	0.5
C. Financing needs (A - B)	**0.3**	**31.1**	**30.3**	**34.3**	**19.2**	**7.3**	**6.4**	**5.4**	**5.5**	**3.4**	**3.8**	**3.8**	**3.5**
D. Official financing	**1.0**	**29.2**	**39.9**	**35.6**	**20.4**	**12.3**	**5.7**	**4.0**	**7.9**	**7.6**	**7.2**	**7.0**	**7.3**
IMF	-0.7	0.6	1.9	2.9	-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	5.3	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 budget grants	0.0	14.0	11.6	12.1	5.6	2.5	2.5	2.0	1.7	1.7	1.7	1.7	1.7
Official budget loans	1.7	14.5	26.4	20.5	15.3	9.2	3.2	3.0	7.9	7.9	7.9	7.9	7.9
F. Increase in reserves	**2.5**	**-2.3**	**11.4**	**1.3**	**1.2**	**5.0**	**-0.6**	**-1.3**	**2.4**	**4.2**	**3.3**	**3.2**	**3.9**
F. Errors and omissions	**1.8**	**-0.3**	**1.7**	**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	41.8	43.0	48.0	47.4	46.1	48.5	52.7	56.0	59.2	63.1
Months of next year's imports of goods and services	4.5	3.9	5.3	5.5	5.4	5.7	5.4	5.1	5.1	5.3	5.3	5.4	5.6
Percent of the IMF composite (float) 2/	104.4	103.6	124.2	113.7	110.3	114.7	111.2	105.9	106.7	113.6	116.9	121.1	125.7

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

1/ Reflects, inter alia, 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 3rd Review	Act.	EFF 3rd Review	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Monetary survey															
Net foreign assets	850	1,252	1,926	1,926	2,179	2,105	2,311	2,616	2,618	2,671	2,994	3,441	3,884	4,346	4,830
Net domestic assets	1,221	1,249	1,151	1,151	1,474	1,400	1,750	1,932	2,413	2,838	3,034	3,148	3,311	3,512	3,750
Domestic credit	1,925	2,212	2,248	2,248	2,469	2,467	2,843	3,167	3,751	4,386	4,823	5,219	5,689	6,280	6,921
Net claims on government	898	1,218	1,259	1,259	1,395	1,398	1,585	1,681	2,066	2,484	2,677	2,741	2,827	2,917	2,966
Credit to the economy	1,023	991	986	986	1,070	1,065	1,254	1,481	1,680	1,896	2,140	2,472	2,855	3,356	3,946
Domestic currency	731	725	733	733	799	805	983	1,208	1,408	1,628	1,876	2,212	2,600	3,105	3,700
Foreign currency	292	266	253	253	271	260	271	273	272	268	264	260	255	251	246
Other claims on the economy	5	4	3	3	4	3	4	4	5	5	6	6	7	8	8
Other items, net	-704	-963	-1,097	-1,097	-995	-1,067	-1,093	-1,235	-1,338	-1,547	-1,789	-2,071	-2,377	-2,769	-3,171
Broad money	2,071	2,501	3,077	3,077	3,652	3,505	4,061	4,548	5,031	5,510	6,028	6,589	7,195	7,857	8,580
Currency in circulation	581	666	716	716	764	733	1,025	1,150	1,248	1,338	1,599	1,696	1,788	1,874	1,953
Total deposits	1,489	1,834	2,360	2,360	2,887	2,771	3,035	3,398	3,782	4,170	4,428	4,892	5,405	5,981	6,625
Domestic currency deposits	1,014	1,204	1,628	1,628	2,163	2,047	2,242	2,562	2,877	3,155	3,335	3,718	4,145	4,628	5,173
Foreign currency deposits	474	630	732	732	724	724	793	836	906	1,015	1,092	1,174	1,261	1,353	1,452
Accounts of the NBU															
Net foreign assets	701	907	1,456	1,456	1,693	1,620	1,820	2,130	2,149	2,214	2,523	2,958	3,391	3,842	4,317
Net international reserves	566	670	1,076	1,078	1,188	1,182	1,350	1,636	1,641	1,686	1,976	2,394	2,809	3,242	3,703
(In billions of U.S. dollars)	20.8	18.3	28.3	28.4	…	…	…	…	…	…	…	…	…	…	…
Reserve assets	844	1,042	1,538.8	1,539	…	…	…	…	…	…	…	…	…	…	…
Other net foreign assets	134	237	380	378	505	438	471	494	507	527	547	565	582	599	614
Net domestic assets	-38	-115	-479	-479	-535	-508	-509	-663	-548	-486	-677	-992	-1,307	-1,645	-2,012
Net domestic credit	175	312	6	6	-216	-113	-144	-219	-74	119	77	-42	-145	-195	-277
Net claims on government	270	704	591	591	567	567	551	537	523	510	496	484	470	456	441
Claims on government	325	758	729	729	717	717	704	691	680	669	658	647	636	625	614
Net claims on banks	-95	-392	-585	-585	-782	-680	-695	-756	-597	-391	-419	-526	-615	-650	-718
Other items, net	-213	-427	-485	-485	-320	-395	-365	-443	-475	-604	-754	-950	-1,162	-1,450	-1,734
Base money	662	793	977	977	1,158	1,112	1,311	1,468	1,600	1,728	1,847	1,966	2,083	2,197	2,306
Currency in circulation	581	666	716	716	764	733	1,025	1,150	1,248	1,338	1,599	1,696	1,788	1,874	1,953
Banks' reserves	81	126	261	261	394	378	286	318	353	390	248	271	295	323	353
Cash in vault	47	49	48	48	90	87	95	106	118	131	139	153	169	187	207
Correspondent accounts	35	77	213	213	303	292	191	212	234	259	109	117	126	135	145
Deposit money banks															
Net foreign assets	149	345	470	470	485	485	491	486	469	458	471	482	493	504	513
Foreign assets	254	427	550	550	621	621	659	688	703	727	751	771	791	811	827
Foreign liabilities	105	82	80	80	136	136	168	202	234	270	280	289	298	307	314
Net domestic assets	1,339	1,489	1,890	1,890	2,402	2,285	2,544	2,911	3,313	3,712	3,956	4,409	4,912	5,476	6,112
Domestic credit	1,875	2,064	2,540	2,540	3,116	2,996	3,311	3,742	4,215	4,695	5,030	5,569	6,166	6,835	7,588
Net claims on government 1/	628	513	668	668	829	832	1,034	1,144	1,543	1,975	2,180	2,257	2,357	2,462	2,525
Credit to the economy	1,023	991	986	986	1,070	1,065	1,253	1,481	1,679	1,896	2,140	2,471	2,854	3,355	3,946
Other claims on the economy	5	3	3	3	4	3	4	4	5	5	6	6	7	8	8
Net claims on NBU	220	594	883	883	1,214	1,096	1,019	1,112	987	819	704	834	948	1,011	1,108
Other items, net	-536	-574	-650	-650	-714	-711	-767	-831	-902	-983	-1,074	-1,160	-1,255	-1,359	-1,476
Banks' liabilities	1,488	1,834	2,360	2,360	2,887	2,770	3,035	3,397	3,782	4,170	4,427	4,891	5,405	5,980	6,624
Memorandum items:															
Base money	11.2	19.6	23.3	23.3	18.5	13.8	17.9	11.9	9.0	8.0	6.9	6.5	6.0	5.5	5.0
Currency in circulation	12.6	14.6	7.5	7.5	6.7	2.4	39.7	12.2	4.8	5.8	6.8	7.8	8.8	9.8	10.8
Broad money	12.0	20.8	23.0	23.0	18.7	13.9	15.8	12.0	10.6	9.5	9.4	9.3	9.2	9.2	9.2
Credit to the economy	8.4	-3.1	-0.5	-0.5	8.5	8.0	17.7	18.2	13.4	12.9	12.9	15.5	15.5	17.5	17.6
Real credit to the economy 2/	-1.5	-23.5	-5.3	-5.3	0.0	0.0	10.0	12.0	8.0	7.5	7.5	10.0	10.0	11.9	12.0
Credit-to-GDP ratio, in percent	18.8	18.9	15.2	15.1	13.8	14.2	14.3	15.2	15.8	16.2	16.7	17.7	18.7	20.1	21.7
Velocity of broad money, ratio	2.6	2.1	2.1	2.1	2.1	2.1	2.2	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	3.2	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	38.0	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/	7,927	6,191	4,693	3,781	3,169	2,501	1,834	1,167	500	55
Obligations	2,482	2,300	1,935	1,244	889	911	877	843	809	553
Principal (repurchases)	1,780	1,736	1,498	913	612	667	667	667	667	444
Interest charges	702	563	437	331	277	243	210	176	142	108
of which: Surcharges	150	104	57	18	0	0	0	0	0	0
Prospective purchases										
Disbursements	4,003	1,368	1,931	966	0	0	0	0	0	0
Stock 1/	3,340	4,708	6,639	7,605	7,466	6,852	5,987	4,800	3,532	2,265
Obligations 2/	74	318	456	593	750	1,184	1,359	1,579	1,526	1,429
Principal (repurchases)	0	0	0	0	139	614	865	1,187	1,267	1,267
of which: Surcharges	21	115	166	218	224	197	155	105	34	3
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	8.2	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	25.8	23.4	21.3	19.5	16.9	13.8	10.8	7.7	4.8	2.6
In percent of gross reserves	35.7	33.7	31.4	32.1	30.9	25.8	19.9	14.3	9.1	4.9
In percent of public external debt	15.5	13.2	12.7	12.6	11.8	10.2	8.3	6.3	4.2	2.4
Obligations to the Fund from existing and prospective Fund credit	2,556	2,618	2,391	1,837	1,639	2,095	2,235	2,422	2,335	1,982
In percent of quota	127.1	130.1	118.9	91.3	81.5	104.1	111.1	120.4	116.1	98.5
In percent of GDP	1.9	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	5.9	5.6	4.5	3.2	2.6	3.1	3.1	3.1	2.8	2.2
In percent of gross reserves	8.1	8.1	6.6	5.2	4.8	5.8	5.7	5.8	5.3	4.2
In percent of public external debt service	47.8	62.0	62.4	39.7	36.6	33.5	36.6	35.5	31.2	27.5

1/ End of period.

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

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	2,666.72	100.0	150.0	449.0	Board approval of the EFF
June 15, 2023	663.90	880.01	33.0	183.0	473.0	First review and continuous and end-April 2023 performance criteria
October 13, 2023	663.90	880.01	33.0	166.0	465.0	Second review and continuous and end-June 2023 performance criteria
February 29, 2024	663.90	880.01	33.0	199.0	478.0	Third review and continuous and end-December 2023 performance criteria
June 15, 2024	1,669.82	2,213.38	83.0	149.0	521.0	Fourth review and continuous and end-March 2024 performance criteria
September 1, 2024	834.88	1,106.65	41.5	190.5	531.0	Fifth review and continuous and end-June 2024 performance criteria
December 1, 2024	834.88	1,106.65	41.5	199.0	560.0	Sixth review and continuous and end-September 2024 performance criteria
March 1, 2025	684.02	908.16	34.0	200.0	559.0	Seventh review and continuous and end-December 2024 performance criteria
August 31, 2025	684.02	908.16	34.0	151.0	563.0	Eighth review and continuous and end-June 2025 performance criteria
March 1, 2026	965.68	1,285.47	48.0	82.0	571.0	Ninth review and continuous and end-December 2025 performance criteria
August 31, 2026	965.68	1,285.47	48.0	96.0	591.0	Tenth review and continuous and end-June 2026 performance criteria
March 10, 2027	965.74	1,287.83	48.0	96.0	599.0	Eleventh review and continuous and end-December 2026 performance criteria
Total	11,608.25	15,408.54	577.0			
Memorandum item:						
Quota	2,011.8					

Source: IMF staff calculations.

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

Table 13. Ukraine: Quantitative Performance Criteria and Indicative Targets

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

	Mar 2024					Jun 2024		Sep 2024		Dec 2024		Mar 2025		Jun 2025
	QPC	Adjustor	Adjusted QPC	Actual	Status	QPC	Proposed Rev. QPC	IT	Proposed QPC	IT	Proposed QPC	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/	135,000	0	135,000	241,901	Met	250,000	250,000	368,313	368,313	415,410	415,410	330,000	310,000	660,000
Floor on tax revenues (excluding Social Security Contributions)	426,300	...	426,300	507,992	Met	880,400	880,400	1,398,600	1,398,600	2,042,250	2,042,250	485,000	485,000	850,000
Ceiling on publicly guaranteed debt	47,900	5,879	53,779	5,879	Met	47,900	47,900	47,900	47,900	47,900	47,900	53,626	53,626	53,626
Floor on net international reserves (in millions of U.S. dollars) 3/	28,400	-134	28,266	31,408	Met	26,800	25,300	27,900	28,800	24,900	26,300	26,000	23,800	24,800
II. Indicative Targets 1/ 2/														
Floor on the cash balance of the general government, excluding budget support grants (- implies a deficit)	-344,485	0	-344,485	-211,020	Met	-725,996	-725,996	-1,123,107	-1,123,107	-1,557,208	-1,557,208	-215,000	-215,000	-370,000
Ceiling on general government arrears	2,000	...	2,000	1,514	Met	2,000	2,000	1,800	1,800	1,600	1,600	1,600	1,600	1,600
Floor on social spending	130,000	...	130,000	142,139	Met	262,500	262,500	390,000	390,000	537,800	537,800	135,000	130,000	250,000
Ceiling on general government borrowing from the NBU 4/ 5/	-9,500	0	-9,500	-9,392	Not met	-2,884	-2,884	0	0	0	0	-984	-984	-4,100
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)	476	...	...	186	...	861	251	1,200	605	1,497	1,496	326	142	426
External budget financing (in millions of U.S. dollars) 6/	9,267	...	...	9,210	...	16,825	12,936	25,654	25,745	32,414	32,565	5,183	4,236	10,794
Budget support grants (in millions of U.S. dollars)	1,017	...	...	980	...	4,942	1,050	10,474	10,506	12,082	12,114	1,735	429	965
Budget support loans (in millions of U.S. dollars) 6/	8,250	...	...	8,230	...	11,883	11,887	15,180	15,239	20,332	20,451	3,447	3,807	9,830
Interest payments	49,500	...	...	44,966	...	161,780	161,780	284,320	284,320	429,820	429,820	117,831	67,000	190,600
NBU profit transfers to the government	30,000	...	...	0	...	38,000	38,000	38,000	38,000	38,000	38,000	0	0	34,400
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	0	...	...	0	...	0	0	0	0	23,743	23,743	0	0	0
Spending on gas purchases, PSO compensation and transfer to GTSO	0	...	...	0	...	0	0	60,000	60,000	60,000	60,000	0	0	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)	-262.4	...	...	-221.2	...	-671.7	-671.7	-1,046.6	-1,046.6	-1,562.1	-1,562.1	-212.2	-181.8	-363.6

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 2024, and 2025 are cumulative flows from January 1, 2024, and 2025, respectively.

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

4/ From end of previous quarter.

5/ For June, 2024 onwards, calculated using the projected redemptions of government bonds as of May 15, 2024.

6/ 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 ongoing recovery would stall, and growth would fall sharply amid lack of confidence and high uncertainty. Further restrictions on port 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	**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.

[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.

Risks and Risk Likelihood		Expected Impact	Policy Response
triggering sudden stops in EMDEs.			
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, and expand gas production. Secure alternative sources and storage for gas through the heating season. Target 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 dampening the 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. Implement contingency plans.
		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. Consistently explain the rationale for policy measures 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	Adhere to governance reforms while maintaining recent progress made in strengthening anti-corruption

Risks and Risk Likelihood		Expected Impact	Policy Response
		reform. Lack of progress on reforms exacerbates financing gaps, reduces future external financing inflows, and could lead to donor fatigue.	and judicial institutions. Implement critical reforms in other policy areas to support competitiveness and increase productivity. Mobilize domestic financing and prioritize spending.
Loss of export and transit corridors and EU restrictions for agricultural produce.	High	**Medium.** Any loss of the Black Sea corridor would 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 central 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 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.

Annex II. External Sector Assessment

Overall Assessment: *The external position of Ukraine in 2023 was substantially weaker than the level implied by fundamentals and desirable policies. Ukraine's NIIP was marginally negative in 2023 and reserves were adequate, though donor financing remains critical for supporting the path of reserves and stabilizing the FX market. Public debt, of which 69 percent is external, continues to be assessed as unsustainable in the absence of a debt treatment, fiscal adjustment, and financing on sufficiently concessional terms. Exceptionally high uncertainty around the duration and impact of Russia's war in Ukraine continues to present a significant risk to the external position. Challenges in implementing the EBA-lite approach during wartime warrant caution in interpreting the model results.*

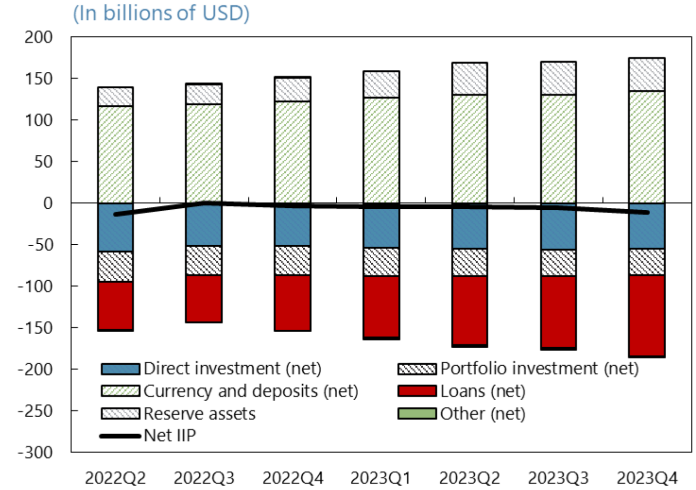
Potential Policy Responses*: Ukraine's successful transition to a managed flexibility exchange rate regime in early October 2023*[1] *and the gradual easing of FX restrictions consistent with macroeconomic conditions are important steps towards normalizing monetary and exchange rate policies. As external financing from donors eases over the medium term, allowing greater exchange rate flexibility as well as fiscal consolidation, supported by advancing the structural reform agenda (including on the path to EU accession), will contribute to mitigating external imbalances, boosting productivity and competitiveness, and safeguarding external sustainability.*

Foreign Assets and Liabilities: Position and Trajectory

Background. Ukraine's negative net international investment position (NIIP) widened from US$2.8 billion (1.7 percent of GDP) in 2022 to US$10.6 billion (6 percent of GDP) in 2023 owing to an increase in loan liabilities despite a build-up in reserve assets and net currency and deposits, reflecting strong donor support and higher private sector holdings of foreign currency cash amid war uncertainties. Gross assets stood at US$194 billion in 2023Q4, with currency and deposits accounting for the largest share (70 percent of gross assets). At US$205 billion in 2023Q4, gross liabilities primarily comprised loan and FDI liabilities (76 percent of gross liabilities). Gross external debt stood at US$161.5 billion at end-2023 (90.6 percent of GDP), of which US$98.3 billion was held by the public sector. Gross external debt rose by US$30.6 billion relative to end-2022, driven by an increase in general government external loan liabilities, mostly to official creditors, including the Fund. Almost half of Ukraine's gross external debt as of end-2023 was US$-denominated, while 38 percent was euro-denominated.

Net International Investment Position

(In billions of USD)



Sources: National Bank of Ukraine and IMF staff calculations.

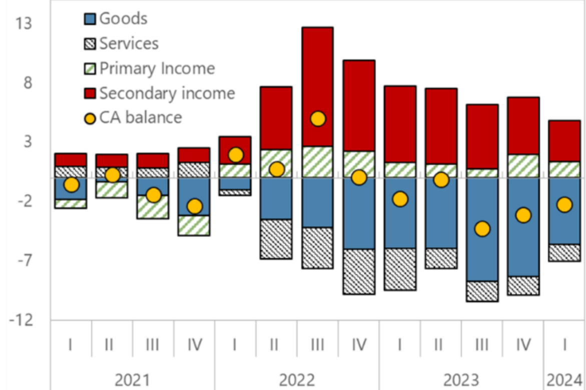
Assessment. Ukraine's negative NIIP widened in 2023, with the composition of gross liabilities shifting from FDI to debt liabilities. The currency composition of gross external debt also creates vulnerability to exchange rate risk. More importantly, public debt continues to be assessed as unsustainable in the absence of a debt treatment, fiscal adjustment, and financing on sufficiently concessional terms.

2023 (% GDP)	NIIP: -6.0	Gross Assets: 108.7	Loan Assets: 0	Gross Liabilities: 114.7	Loan Liabilities: 54.3

Current Account and Real Exchange Rate

Background. The current account balance (CAB) sharply deteriorated to a deficit of 5.2 percent of GDP in 2023, from a surplus of 4.9 percent of GDP in 2022, primarily driven by a widening trade deficit. Imports increased as domestic demand strengthened—including from defense-related needs—while exports were hampered by logistical bottlenecks, diminished production capacity from the destruction of facilities, and the termination of the Black Sea Grain initiative in July 2023, tempered by the use of Danube River ports and the gradual resumption of Black Sea shipments from September. Despite positive effects from reduced imports of travel services as bank account withdrawals by migrants abroad declined, the CAB in 2023 was also negatively impacted by a moderation of external budget grant financing and humanitarian aid relative to the surge observed at the onset of the war, and an increase in primary income outflows linked to higher reinvested earnings. The REER depreciated by 5.6 percent in 2023.

Current Account, by Component
(In billions of USD)



Source: NBU.

The CAB deteriorated in 2024Q1 y/y, owing to a sharp moderation of external budget grants and humanitarian aid, partly offset by a drop in travel services imports as cash withdrawals and spending by Ukrainians abroad reduced. The trade balance improved somewhat in 2024Q1 y/y, thanks to increased exports of iron ore and metals through the Black Sea corridor, although agricultural exports tempered owing to unfavorable grain price developments. Despite higher defense-related needs, imports declined due to a large drop in energy imports as power shortages abated and domestic gas production picked up relative to 2023Q1.

Assessment.

The ***CA approach*** finds that the cyclically-adjusted CA was -8.7 percent of GDP after accounting for the model's cyclical factors, disaster and conflict shocks, and the temporary increase in official budget grant financing due to the war. The cyclically-adjusted CA norm, which reflects the CA level that is in line with fundamentals and desirable policy levels, stood at -2 percent of GDP. This yields a negative CA gap of 6.7 percent of GDP, translating into a REER overvaluation of 22.3 percent. The contribution of policy gaps is estimated at -0.3 percent of GDP, primarily driven by the fiscal balance gap. These estimates should be treated with a high degree of caution due to significant uncertainty from the war. Additionally, some of the assumptions underpinning the EBA model may not fully reflect Ukraine's circumstances.[2]

Ukraine: EBA-lite Model Results, 2023

	CA model 1/	REER model	ES model
	(in percent of GDP)		
CA-Actual	**-5.2**		
Cyclical contributions (from model) (-)	1.0		
Additional temporary/statistical factors (-) 2/	1.8		
Natural disasters and conflicts (-)	0.7		
Adjusted CA	**-8.7**		
CA Norm (from model) 3/	**-2.0**		
Adjusted CA Norm	**-2.0**		
CA Gap	**-6.7**	**0.1**	**-4.5**
o/w Relative policy gap	-0.3		
Elasticity	-0.3		
REER Gap (in percent)	**22.3**	**-0.2**	**14.8**

1/ Based on the EBA-lite 3.0 methodology
2/ Additional adjustment to account for the temporary impact of Russia's war in Ukraine on official budget grants
3/ Cyclically adjusted, including multilateral consistency adjustments.

The ***external sustainability (ES) approach*** conveys a similar message: stabilizing Ukraine's NIIP at its 2023 level in the medium term would require a REER depreciation of 14.8 percent given the negative CA gap (-4.5 percent of GDP) from the model.

In contrast, the ***REER approach*** finds a small CA gap (0.1 percent of GDP), reflecting a slight REER undervaluation of 0.2 percent.

When the CA and REER models point to different conclusions, the CA model is generally more informative and reliable than the REER model as it takes full advantage of cross-country information.[3] As such, based on the preferred CA approach, Ukraine's external position in 2023 was substantially weaker than the level implied by fundamentals and desirable policies.

Capital and Financial Accounts: Flows and Policy Measures

Background. The financial account improved from a deficit of 5.2 percent of GDP in 2022 to a surplus of 11.4 percent of GDP in 2023, driven by an increase in government loan inflows, higher net FDI linked to reinvested earnings, and the normalization of trade credit outflows. The financial account surplus improved in 2024Q1 y/y, reflecting higher net portfolio investment and external loan financing.

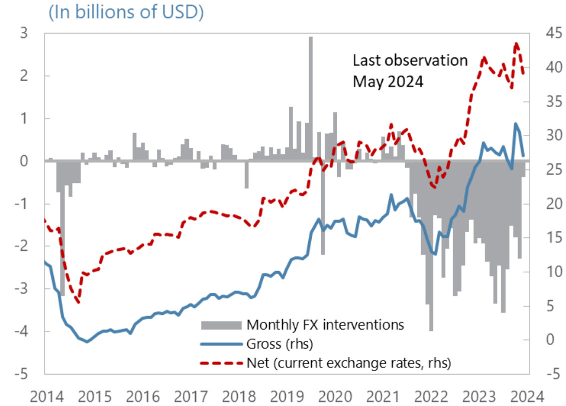
Following the outbreak of the war in February 2022, the National Bank of Ukraine deployed capital flow management (CFM) measures including restrictions on bank account withdrawals to help preserve financial stability. Restrictions on the repatriation of proceeds from nonresident government debt redemptions were introduced in April 2023 to contain FX reserve outflows. While the repatriation of interest payments on government bonds held by nonresidents (which are current transactions) was initially allowed, it was restricted in mid-May 2023 through requiring foreign investors to have a minimum continuous holding period of 90 days before the coupon payment is made. In June 2023, the NBU adopted a three-stage FX liberalization roadmap, which has been guiding a gradual easing of FX controls, in line with macroeconomic conditions. Several easing measures were introduced in May 2024.

Assessment. The financial account is projected to continue recording a surplus primarily on the back of net FDI, to support Ukraine's post-war recovery and reconstruction together with donor support, with the latter abating going forward. The gradual easing of FX controls is expected to continue, consistent with the authorities' FX strategy.

FX Intervention and Reserves Level

Background. Gross international reserves (GIR) reached US$40.5 billion at end-2023 or 5.3 months of prospective goods and services imports (124.2 percent of the ARA metric). GIR stood at US$42.4 billion at end-April 2024 (5.6 months of prospective imports), supported by strong external disbursements. The war necessitated net FX sales by the NBU given constraints to the economy's capacity to generate FX through exports, while the demand for FX for energy and defense imports and precautionary savings increased, resulting in NBU's net FX sales of US$25 billion in 2022 and US$ 28.6 billion in 2023. However, notwithstanding this large structural deficit, the FX market has remained broadly stable, supported by sizeable external financing inflows, gradually increasing exports, and measures to ease net FX demand, such as the increase in the limits for private individuals to buy non-cash FX. This has contributed to reducing and stabilizing the spread between the official and cash UAH/USD rates within 1 percent by May 2024. Ukraine's inflation targeting regime was replaced by a hard peg to the US dollar at the start of the war. On October 3, 2023, Ukraine transitioned to a managed flexibility exchange rate regime. Ukraine's de jure exchange rate arrangement is floating, and the de facto exchange rate arrangement has been reclassified from stabilized to floating, effective October 3, 2023.

International Reserves
(In billions of USD)



Source: NBU.

Assessment. While donor financing is projected to continue supporting Ukraine's GIR, uncertainty around the duration and impact of the war—including from the recent intensification of energy infrastructure attacks—constitutes a significant risk to the path of GIR. FX interventions are expected to support NBU's strategy of gradually increasing flexibility in the exchange rate, and moderate over time as FX market imbalances are addressed and the NBU eventually returns to the pre-war inflation targeting framework.

[1] The de facto exchange rate arrangement has been reclassified from stabilized to floating, effective October 3, 2023.

[2] For instance, the EBA model assumes a positive relationship between armed conflicts and the CA balance based on shrinking imports from lower domestic demand and higher external grant financing. Yet, the CA in Ukraine has deteriorated on the back of sustained defense-related imports, while exports dropped at the onset of the war from the destruction of production facilities.

[3] See details of the models in IMF: Methodological Note on EBA-Lite, 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. 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 Third Review of Ukraine's arrangement under the Extended Fund Facility completed in March 2024. 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, the restoration of 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 provide a basis for staff to assess debt as sustainable on a forward-looking basis.

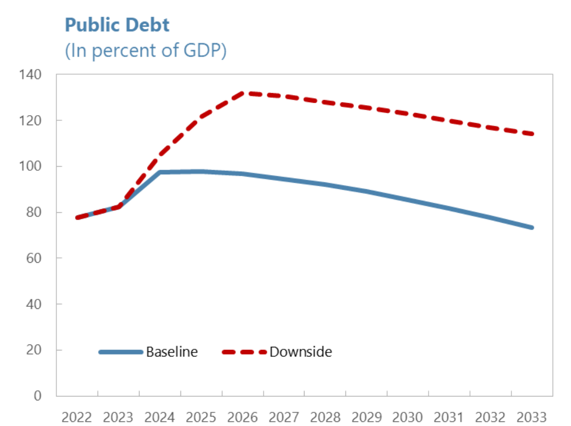
2. In line with the Fund's policies for lending under exceptionally high uncertainty, the SRDSA continues to consider both baseline and downside scenarios:

- *Revisions to the macroeconomic outlook*: The baseline scenario is modestly changed relative to the Third Review. Real GDP growth in 2023 has been released and was somewhat stronger than anticipated. Going forward, the 2024 projection has been revised down relative to the last SRDSA and is now expected at the lower end of the 2.5–3.5 percent range, mostly due to the impact of the attacks on energy infrastructure. Growth in 2025 has also been revised down a bit, but 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 continued to surprise on the downside recently, and the 2024 projection has been slightly lowered; the medium-term inflation outlook is unchanged. In the downside, the materialization of the shock has been shifted to the third quarter of 2024.

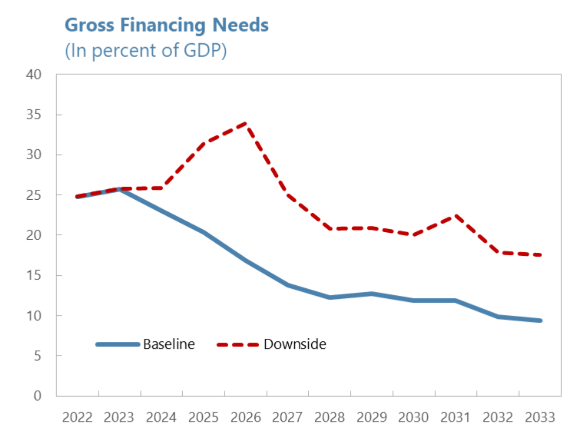
- *Financing assumptions*: Changes to the baseline scenario disbursements are little changed, with total official external financing assumed under the baseline amounting to US$94.6 billion (excluding the IMF) over the program period. In line with the provisions of the Ukraine Security Supplemental Appropriations Act, U.S. budget support for 2024 is being disbursed along with an arrangement specifying conditions where the amounts disbursed could be repaid in 40 years; staff is treating this transaction as a contingent liability risk (Box AIII.1). After the program, there are no commitments from external donors, and budget support disbursements from these partners are expected to be lower, around US$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 continue representing a dispute on three debts with Russia. These claims include a series of 2013 Eurobonds (amounting to US$3 billion) that 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 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 the end-2023 debt outturn reflects the revised GDP data and is 82 percent of GDP, slightly lower than in the last SRDSA. In both the baseline and downside scenarios, the paths of the debt-to-GDP ratios follow a similar trajectory as in the last SRDSA—rising at first, before resuming a downward trend over the medium run. Gross financing needs are little changed in the baseline and somewhat lower in the downside, mainly reflecting revisions to local currency debt service.



Source: IMF staff estimates.



Source: 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 risks: Given a successful debt restructuring that delivers targets consistent with a return to debt sustainability (see ¶4), 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 balance	-19.6	-14.2	-7.5	-4.9	-3.6
Financing	19.6	14.2	7.5	4.9	3.6
Of which:					
External financing, net	16.5	12.3	7.0	3.8	0.4
Domestic bonds, net	2.8	1.0	1.7	-1.8	2.0
Deposit financing, net (-=accumulation)	-0.9	0.0	-1.2	1.1	0.0
Exceptional financing	0.0	1.0	1.7	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 revenue-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.

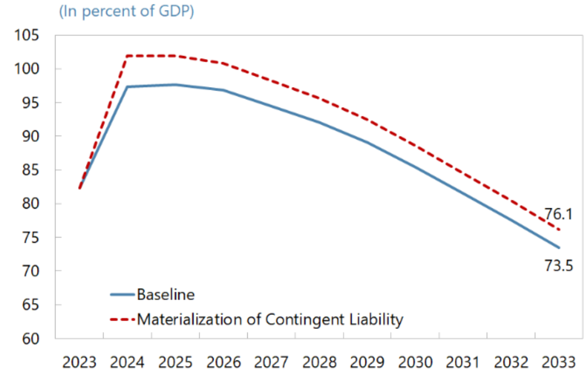
Annex III. Box 1. Ukraine: U.S. External Assistance in 2024

In April, the United States enacted the Ukraine Security Supplemental Appropriations Act (USSAA), confirming US$7.849 billion of budget support in line with the program, but also attaching repayment provisions. The legislation instructed the U.S. President to reach a repayment arrangement with the government of Ukraine for economic assistance to Ukraine under the USSAA at terms set by the President. While there are repayment provisions, the USSAA gives the U.S. President the power to cancel repayments. Specifically, up to one-half can be cancelled at any time after November 15, 2024, and any remaining amounts after January 15, 2026. The United States and Ukraine have operationalized this economic assistance as follows: the budget support will continue to be provided through the World Bank's PEACE project, which accepts funds in the form of grants. Consequently, the Ukrainian Ministry of Finance will record flows as grants in the fiscal accounts and will not register the assistance as debt.

Reflecting the specifics of this arrangement, potential repayments are modeled in the fiscal projections and SRDSA as a contingent liability that could materialize after 40 years. Staff has modeled the budget support that will be disbursed under this arrangement as a grant. Thus, it is not included in the debt stock and there are no flows that would impact GFNs. The possible need for Ukraine to repay the United States is a contingent liability, however, and any payments could increase debt and the GFN in the future. Staff will continue monitoring developments and update projections in case developments arise that would warrant a change in approach.

If the contingent liability were to materialize, there could be notable impacts on public debt. If developments were to be such to warrant converting U.S. support to a loan, then public debt would rise by that amount. In the most extreme situation, where the contingent liability would materialize this year, public debt-to-GDP would rise by about 5 percentage points in 2024, with the impact moderating to 3 percentage points by 2033. The targets for the debt restructuring, which are associated with restoring sustainability, are invariant to the treatment of this arrangement. Consequently, if this contingent liability were to become an actual liability at a point during the period until 2033, additional relief on Ukraine's debt stock might be necessary to deliver the debt level target; given that there are no payments envisaged for 40 years, GFN impacts would be contained.

Public and Publicly Guaranteed Debt
(In percent of GDP)



Sources: MOF and IMF staff projections.

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 module finds persistently high financing needs are a major vulnerability, 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:

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

3. Instrument coverage:

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

4. Accounting principles:

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

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

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

Reporting on Intra-Government Debt Holdings

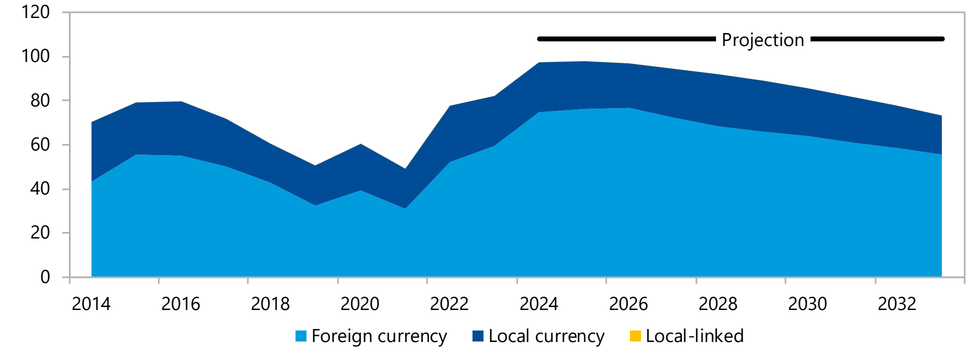
Issuer \ Holder		Budget. central govt	Extra-budget. funds	Social security funds	State govt.	Local govt.	Nonfin. pub. corp.	Central bank	Oth. pub. fin corp	Total
1	Budget. central govt									0
2	Extra-budget. funds									0
3	Social security funds									0
4	State govt.									0
5	Local govt.									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.

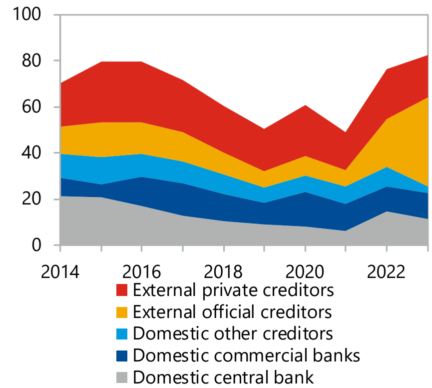
Annex III. Figure 3. Ukraine: Public Debt Structure Indicators (Baseline Scenario)

Debt by Currency (Percent of GDP)



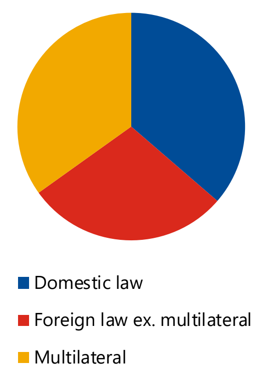
Note: The perimeter shown is general government.

Public Debt by Holder (Percent of GDP)



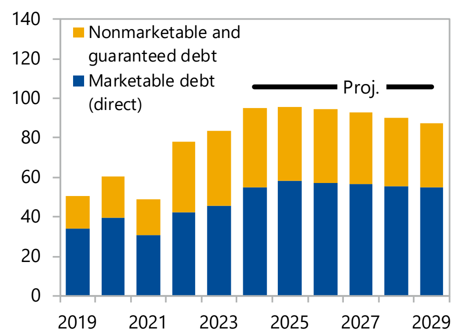
Note: The perimeter shown is general government.

Public Debt by Governing Law, 2022 (Percent)



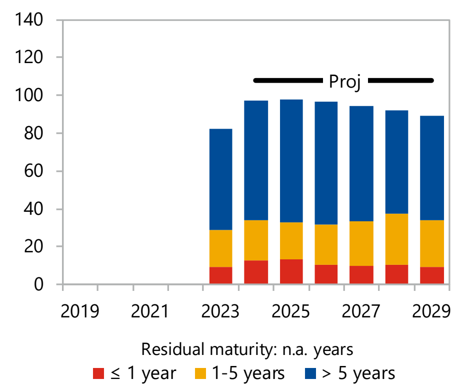
Note: The perimeter shown is general government.

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.

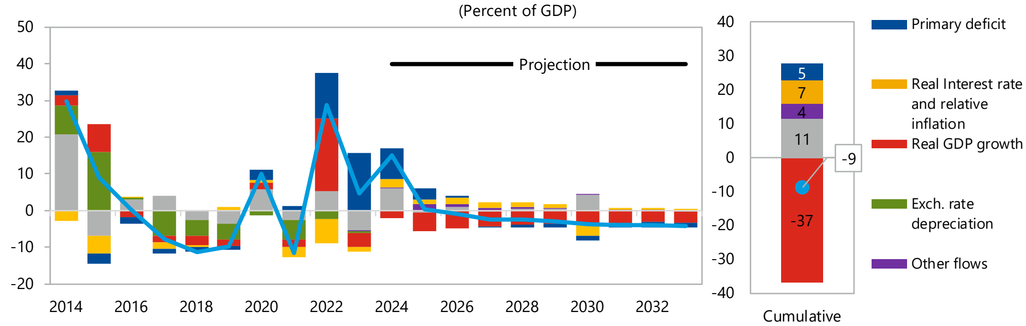
Annex III. Figure 4. Ukraine: Pre-Restructuring Baseline Scenario

(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	82.3	97.3	97.7	96.8	94.5	92.0	89.0	85.4	81.5	77.6	73.5
Change in public debt	4.6	15.0	0.3	-0.8	-2.4	-2.4	-3.0	-3.6	-3.9	-4.0	-4.1
Contribution of identified flows	10.0	8.9	1.0	-1.9	-2.1	-3.0	-3.5	-8.0	-4.0	-4.0	-3.8
Primary deficit	15.7	8.5	3.1	0.7	-0.1	-0.7	-1.0	-1.2	-1.4	-1.4	-1.4
Noninterest revenues	54.8	45.6	41.8	41.1	41.6	41.4	41.3	41.1	40.9	40.7	40.8
Noninterest expenditures	70.5	54.1	44.9	41.8	41.5	40.7	40.2	39.9	39.5	39.3	39.4
Automatic debt dynamics	-5.5	0.1	-3.9	-3.1	-2.7	-2.7	-2.7	-6.9	-2.7	-2.6	-2.5
Real interest rate and relative inflation	-1.2	2.1	1.2	1.8	1.5	1.2	1.0	-3.4	0.6	0.5	0.5
Real interest rate	-7.1	-2.6	-4.4	-0.6	-0.7	-0.8	-0.9	-1.0	-1.1	-1.2	-1.1
Relative inflation	6.0	4.7	5.6	2.4	2.1	2.0	1.9	-2.4	1.8	1.7	1.6
Real growth rate	-3.9	-2.0	-5.1	-4.9	-4.2	-3.9	-3.7 .	-3.5	-3.3	-3.1	-3.0
Real exchange rate	-0.4	...	...	...	...	...	... .	...	...	...	...
Other identified flows	-0.2	0.3	1.7	0.6	0.8	0.4	0.2	0.1	0.1	0.1	0.1
Contingent liabilities and other transactions	0.0	0.4	1.8	0.0	0.5	0.5	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	-0.1	0.6	0.2	-0.1	0.0	0.0	0.0	0.0	0.0
Contribution of residual	-5.4	6.1	-0.6	1.1	-0.3	0.6	0.5	4.3	0.1	0.0	-0.3
Gross financing needs	25.8	23.1	20.4	16.8	13.8	12.3	12.7	11.8	11.9	9.8	9.3
of which: debt service	10.0	14.2	15.5	16.1	13.4	12.5	13.5	12.9	13.1	11.1	10.6
Local currency	6.9	7.1	9.2	9.9	8.3	7.0	7.7	7.6	7.7	5.9	5.9
Foreign currency	3.1	7.1	6.3	6.3	5.0	5.5	5.8	5.3	5.4	5.2	4.7
Memo:											
Real GDP growth (percent)	5.3	2.5	5.5	5.3	4.5	4.3	4.2	4.1	4.0	4.0	4.0
Inflation (GDP deflator; percent)	18.5	11.7	10.7	5.5	5.0	5.0	5.0	5.0	5.0	5.0	5.0
Nominal GDP growth (percent)	24.8	14.5	16.8	11.1	9.7	9.5	9.4	9.3	9.2	9.2	9.2
Effective interest rate (percent)	7.0	8.1	5.4	4.8	4.3	4.0	4.0	3.8	3.5	3.4	3.4

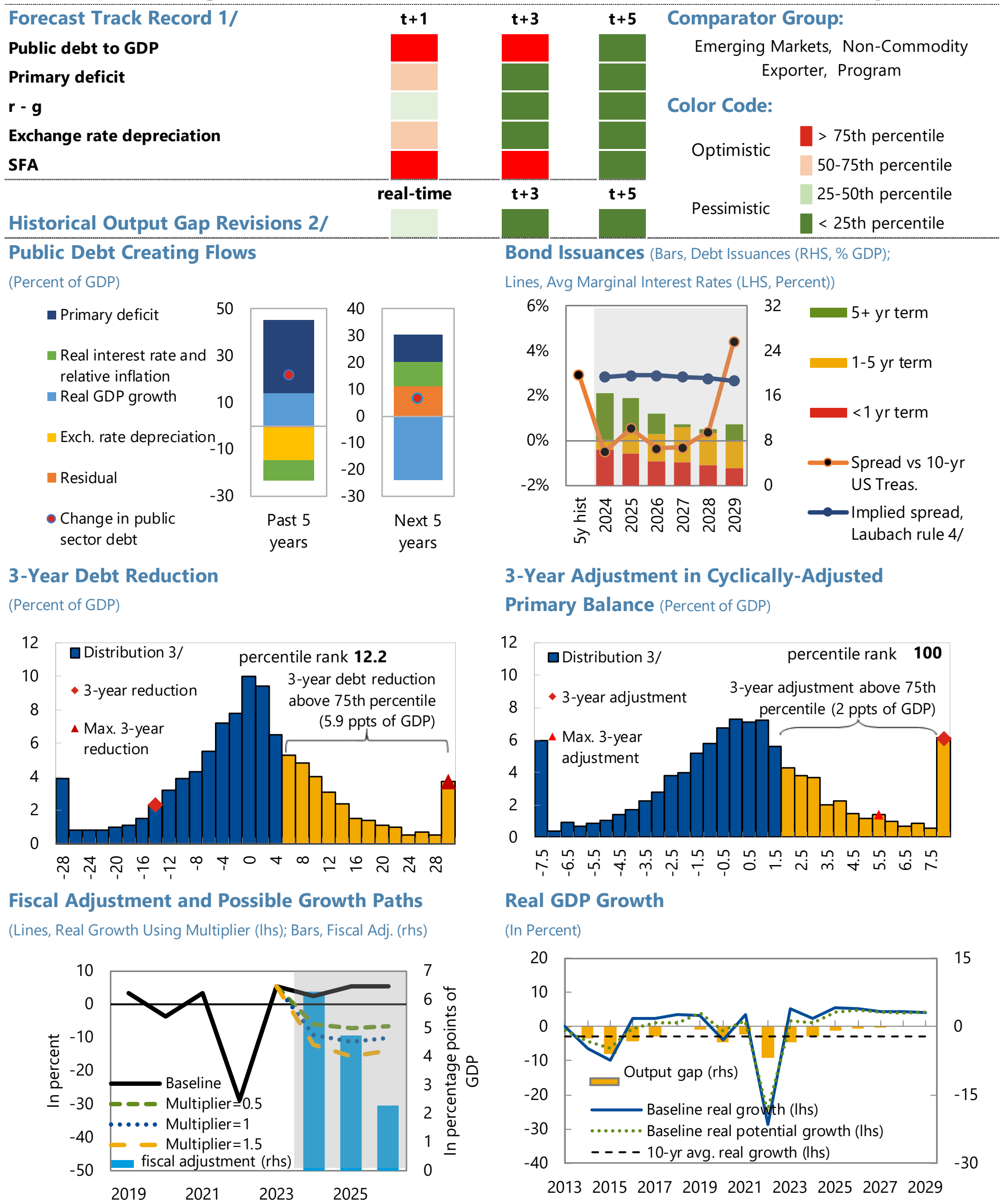
Contribution to Change in Public Debt

(Percent of GDP)



Ukraine's public debt rose further in 2023 after experiencing a step-rise in 2022. A recovery that is expected to take hold in 2025 as macroeconomic conditions and confidence improves will lead to a downward trajectory over the 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.

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.

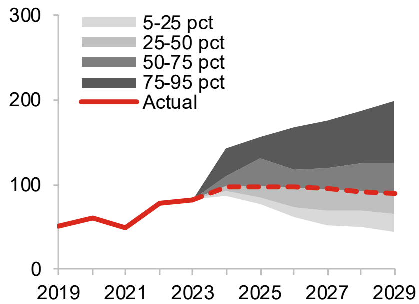
3/ Data cover annual observations over 1990-2019 for MAC advanced and emerging economies. Pct. of sample on vertical axis.

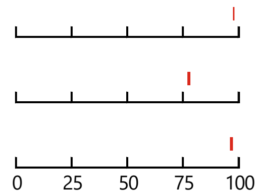
4/ The Laubach (2009) rule is a linear rule assuming bond spreads increase by about 4 bps in response to a 1 ppt increase in the projected debt-to-GDP ratio.

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)*	155.0	2.3	
Probability of debt non-stabilization *(percent)*	15.5	0.1	
Terminal debt-to-GDP x institutions index	62.7	1.4	
Debt fanchart index (DFI)		3.7	
Risk signal: [3/]		**High**	

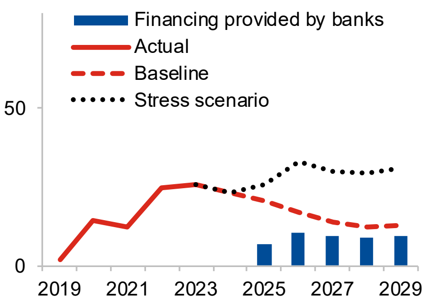
Final Fanchart (Pct of GDP)

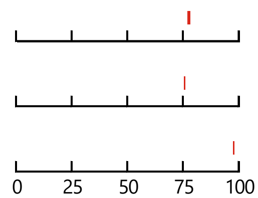




	Value	Contrib [1/]	Percentile in peer group [2/]
Gross financing needs (GFN) module			
Average baseline GFN *(percent of GDP)*	16.5	5.6	
Banks' claims on the ge govt *(pct bank assets)*	22.9	7.4	
Chg. In banks' claims in stress *(pct banks' assets)*	52.4	17.5	
GFN financeability index (GFI)		30.6	
Risk signal: [4/]		**High**	

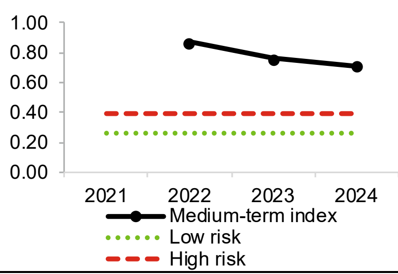
Gross Financing Needs (Pct of GDP)





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	0.83	0.50	0.42
GFN financeability index	30.6	0.59	0.50	0.29
Medium-term index		0.7		
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: 1.1 pct.

Both medium-term modules signal high sovereign stress risks in the baseline scenario, as in the previous DSA for the Third Review. The DFI is little changed from the last DSA due and remains deeply in high-risk territory. The GFI also still indicates high liquidity-related risks, reflecting 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.

Sources: 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.

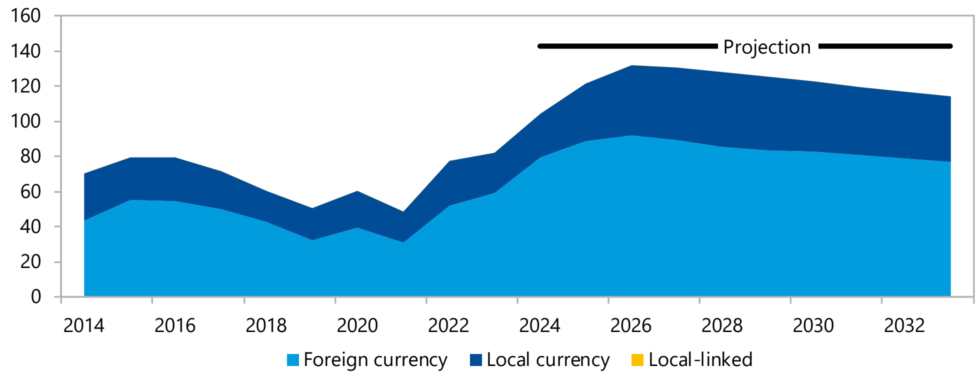
3/ The signal is low risk if the DFI is below 1.13; high risk if the DFI is above 2.08; and otherwise, it is moderate risk.

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.

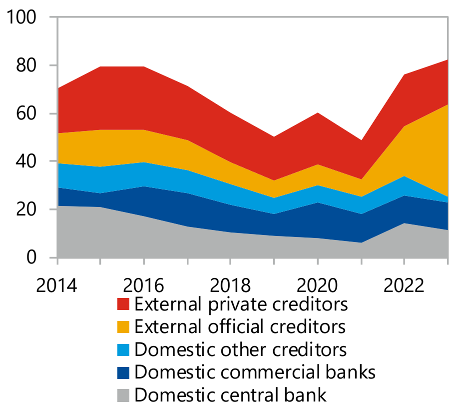
Annex III. Figure 7. Ukraine: Public Debt Structure Indicators (Downside Scenario)

Debt by Currency (Percent of GDP)



Note: The perimeter shown is general government.

Public Debt by Holder (Percent of GDP)

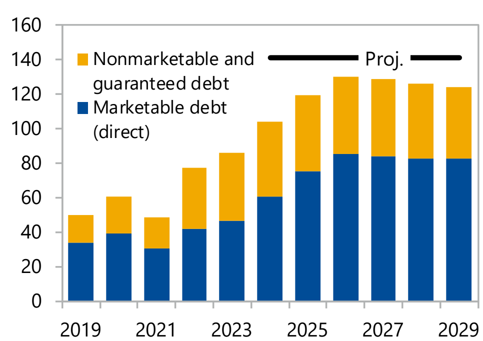


Note: The perimeter shown is general government.

Public Debt by Governing Law, 2022 (Percent)

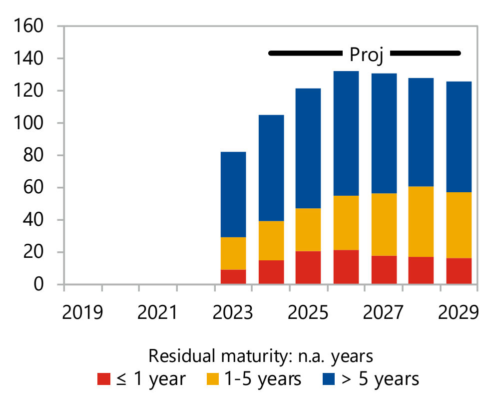
Note: The perimeter shown is general government.

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.

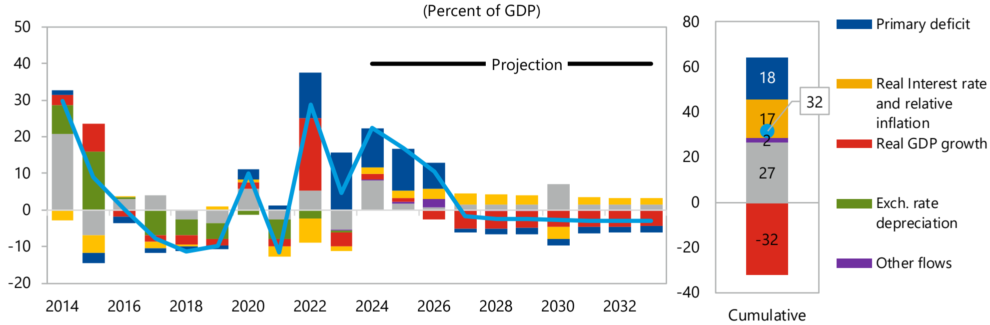
Annex III. Figure 8. Ukraine: Pre-Restructuring Downside Scenario

(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	82.3	104.7	121.5	132.0	130.4	127.9	125.4	122.8	119.9	116.9	114.1
Change in public debt	4.6	22.4	16.8	10.5	-1.6	-2.5	-2.6	-2.6	-2.9	-3.0	-2.9
Contribution of identified flows	10.0	14.3	15.1	9.7	-3.1	-4.1	-4.1	-9.6	-4.4	-4.5	-4.4
Primary deficit	15.7	10.8	11.5	7.2	-0.9	-1.6	-1.7	-1.7	-1.7	-1.7	-1.7
Noninterest revenues	54.8	48.0	44.8	43.9	41.9	40.8	40.7	40.7	40.7	40.6	40.5
Noninterest expenditures	70.5	58.8	56.3	51.1	41.0	39.2	39.0	38.9	38.9	38.9	38.7
Automatic debt dynamics	-5.5	3.2	3.1	0.3	-2.2	-2.2	-2.2	-7.7	-2.6	-2.6	-2.6
Real interest rate and relative inflation	-1.2	1.8	2.0	2.8	2.9	2.6	2.5	-3.1	1.9	1.8	1.7
Real interest rate	-7.1	-4.0	-3.9	-0.6	0.3	0.1	0.1	0.0	-0.4	-0.5	-0.5
Relative inflation	6.0	5.8	5.9	3.4	2.6	2.5	2.4	-3.1	2.3	2.2	2.2
Real growth rate	-3.9	1.4	1.1	-2.5	-5.1	-4.8	-4.7	-4.6	-4.5	-4.4	-4.3
Real exchange rate	-0.4	…	…	…	…	…	…	…	…	…	…
Other identified flows	-0.2	0.3	0.5	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	0.5	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	-0.1	0.7	0.0	-0.4	-0.3	-0.2	-0.2	-0.2	-0.1
Contribution of residual	-5.4	8.1	1.7	0.8	1.5	1.6	1.6	7.0	1.5	1.5	1.5
Gross financing needs	25.8	25.9	31.4	33.9	25.0	20.8	20.9	20.1	22.4	17.8	17.5
of which: debt service	10.0	14.7	19.4	25.2	25.9	22.4	22.5	21.7	24.1	19.5	19.2
Local currency	6.9	7.3	12.0	17.7	19.8	15.6	15.2	14.9	17.0	12.5	12.7
Foreign currency	3.1	7.4	7.3	7.5	6.2	6.8	7.3	6.8	7.1	7.0	6.5
Memo:											
Real GDP growth (percent)	5.3	-1.7	-1.0	2.1	4.0	3.8	3.8	3.8	3.8	3.8	3.8
Inflation (GDP deflator; percent)	18.5	13.6	10.0	6.1	5.1	5.0	5.0	5.0	5.0	5.0	5.0
Nominal GDP growth (percent)	24.8	11.7	8.9	8.3	9.3	9.0	9.0	9.0	9.0	9.0	9.0
Effective interest rate (percent)	7.0	8.2	5.9	5.5	5.3	5.1	5.1	5.0	4.7	4.6	4.5

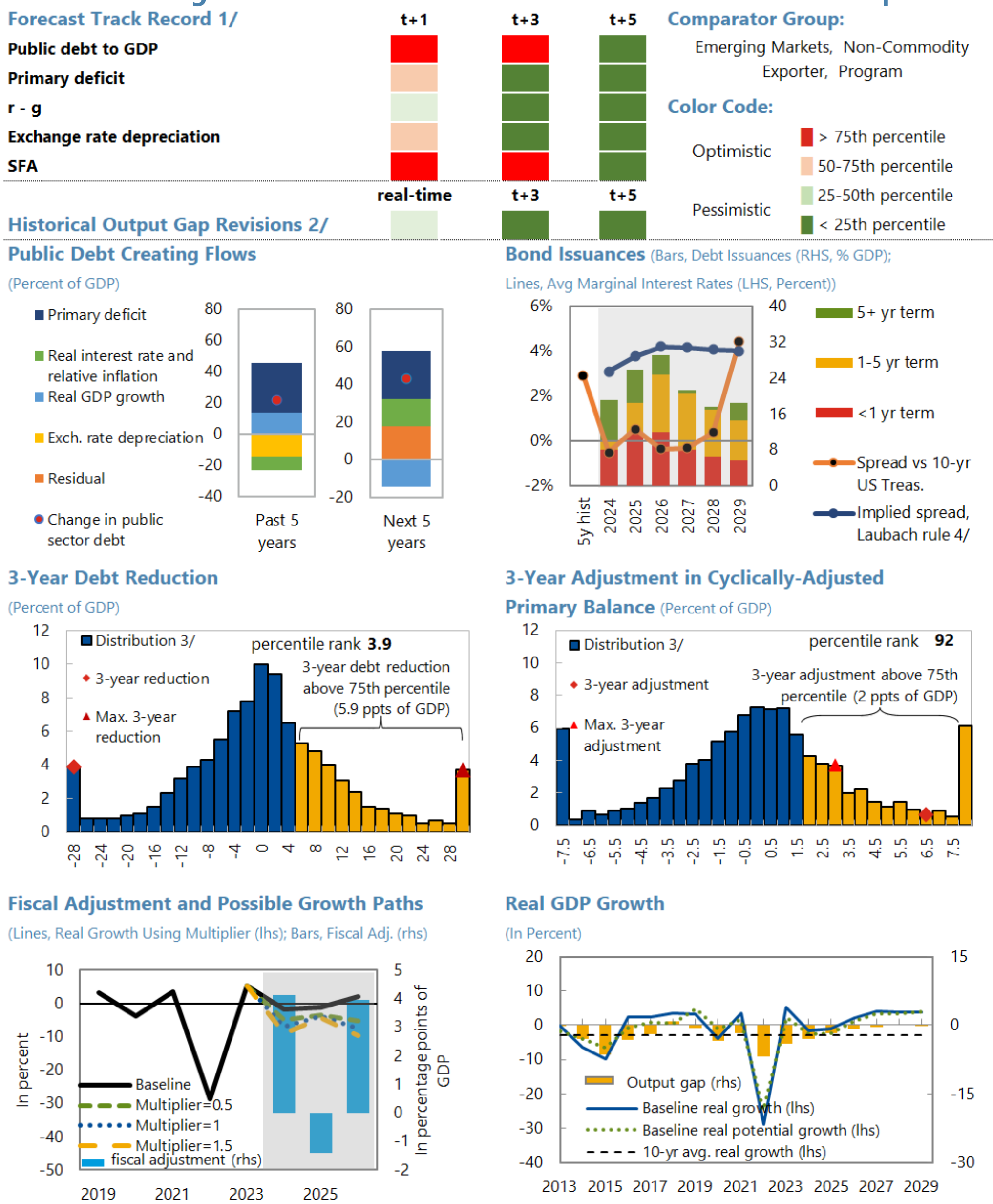
Contribution to Change in Public Debt

(Percent of GDP)



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) mixed results in the cross-country comparison of the debt reduction and fiscal adjustment; (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.

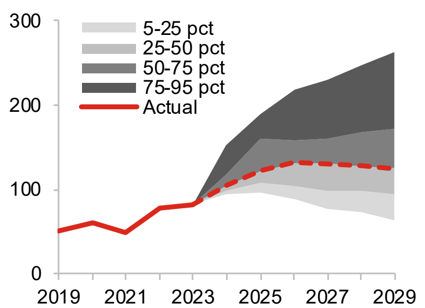
3/ Data cover annual observations over 1990-2019 for MAC advanced and emerging economies. Pct. of sample on vertical axis.

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)

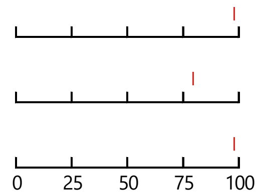
	Value	Contrib [1/]	Percentile in peer group [2/]

Final Fanchart (Pct of GDP)

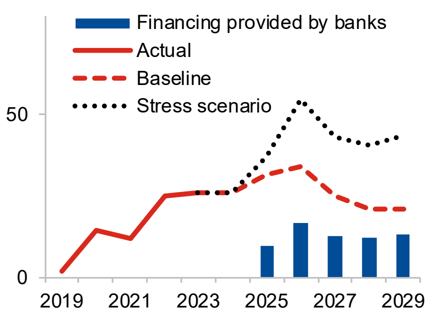


Debt fanchart module

	Value	Contrib
Fanchart width *(percent of GDP)*	200.0	2.9
Probability of debt non-stabilization *(percent)*	21.3	0.2
Terminal debt-to-GDP x institutions index	88.3	1.9
Debt fanchart index (DFI)		5.0
Risk signal: [3/]		**High**

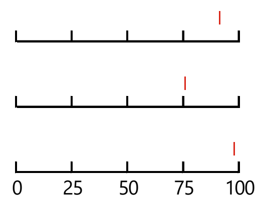


Gross Financing Needs (Pct of GDP)



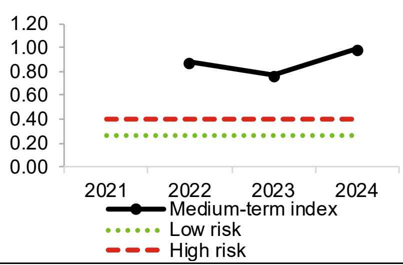
Gross financing needs (GFN) module

	Value	Contrib
Average baseline GFN *(percent of GDP)*	26.3	9.0
Banks' claims on the ge govt *(pct bank assets)*	22.9	7.4
Chg. In banks' claims in stress *(pct banks' assets)*	84.2	28.1
GFN financeability index (GFI)		44.5
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	5.0	1.11	0.50	0.56
GFN financeability index	44.5	0.86	0.50	0.43
Medium-term index		1.0		
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 Third 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).

Sources: 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. Table 1. Ukraine: Decomposition of Public Debt and Debt Service by Creditor, 2023–25

	Debt Stock (end of period)			Debt Service			
	2023			2024	2025	2024	2025
	(In US$)	*(Percent total debt)*	*(Percent GDP)*	*(In US$)*		*(Percent GDP)*	
Total 1/	141.7	100.0	82.3	26.8	19.2	15.6	11.2
External	98.1	69.2	57.0	11.2	9.2	6.5	5.4
Multilateral creditors 2/	67.9	47.9	39.4	5.2	4.8	3.0	2.8
IMF	16.5	11.6	9.6				
World Bank	13.7	9.7	8.0				
ADB/AfDB/IADB	0.0	0.0	0.0				
Other Multilaterals	37.7	26.6	21.9				
o/w: European Union	32.9	23.2	19.1				
EIB	3.1	2.2	1.8				
Bilateral Creditors 2/	6.3	4.5	3.7	0.2	0.5	0.1	0.3
Paris Club	6.3	4.4	3.6				
o/w: Canada	3.7	2.6	2.2				
Japan	0.9	0.7	0.5				
Non-Paris Club	0.1	0.1	0.1				
o/w: Poland	0.1	0.1	0.1				
Bonds, Commercial Loans, and Other	23.9	16.8	13.9	5.9	1.0	3.4	0.6
Bonds	21.3	15.0	12.4				
Commercial creditors	2.6	1.8	1.5				
Other international creditors	0.0	0.0	0.0				
Domestic	43.6	30.8	25.3	15.6	10.0	9.1	5.8
Held by residents, total	42.5	30.0	24.7				
Held by non-residents, total	1.1	0.8	0.7				
T-Bills	4.5	3.2	2.6				
Bonds	37.5	26.5	21.8				
Loans	1.6	1.2	1.0				
Memo items:							
Contingent liabilities	12.3	8.7	7.2				
o/w: Public guarantees	8.7	6.2	5.1				
o/w: Other explicit contingent liabilities 3/	3.6	2.5	2.1				
Nominal GDP	172.1	...					

1/As reported by Country authorities according to their classification of creditors, including by official and commercial. Debt coverage is the same as the DSA, and excludes disputed claims. Debt service projections do not include the potential capitalization of deferred interest arising from the standstill.

2/Multilateral creditors are simply institutions with more than one official shareholder and may not necessarily align with creditor classification under other IMF policies (e.g. Lending Into Arrears).

3/Includes other-one off guarantees not included in publicly guaranteed debt and other explicit contingent liabilities not elsewhere classified (e.g. disputed debts).

Annex IV. Downside Scenario

1. In line with the Fund's policy on lending under exceptionally high uncertainty, staff has updated the downside scenario with the underlying assumption maintained of a more intense war running into 2025. With the shock assumed to start in 2024Q3, 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 large-scale energy infrastructure damage from attacks. This would result in a sharp real GDP decline of 1.7 percent in 2024 (versus the lower end of 2.5–3.5 percent growth in the baseline) and -1 percent growth in 2025. High defense needs and lower economic activity would cause the fiscal deficit to further increase in 2024–25, despite the assumed implementation of some adjustment measures; the deficit would 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 over the past year, 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$140.7 billion, about a US$19 billion higher than the baseline forecast for 2023–27 (US$121.9 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 introducing revenue measures, 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 very strong track record by demonstrating their ability to take on additional reforms and measures 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 Third Review. The authorities are prepared to take appropriate policy measures as needed. Contingency plans from the Third Review are re-confirmed and would require a mix of increases in tax revenues, seeking further external financing on highly concessional terms, 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 in the 2024 Budget, the bulk of the adjustment would come from tax measures, including accelerating excise tax alignment with the EU, that could be effectively and rapidly implemented to boost revenues. Some spending should be made contingent on available financing, e.g., capital and social expenditures would be constrained to only the highest priority categories. 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 flexibility 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 while adjusting the monetary policy stance. 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 Fourth Review reconfirm that the program remains robust even in the case of such a downside scenario. The authorities' very strong 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 above, reconfirms that under this downside scenario, additional financial assurances provided by Ukraine's international partners would restore debt sustainability on a forward-looking basis.

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

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
	Act.	Act.	Act.	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	5,239	6,538	7,301	7,951	8,613	9,415	10,261	11,184	12,189	13,284	14,478	15,777
Real GDP 1/	3.4	-28.8	5.3	-1.7	-1.0	2.1	4.0	3.8	3.8	3.8	3.8	3.8	3.8
Contributions:													
Domestic demand	12.9	-22.9	13.9	-1.2	0.2	5.5	6.7	6.0	5.9	5.5	5.0	4.9	4.8
Private consumption	4.7	-16.8	5.5	-0.7	-0.2	3.7	4.6	4.2	4.0	3.7	3.3	3.2	3.2
Public consumption	0.1	12.5	2.6	-0.3	0.3	0.3	0.3	0.3	0.3	0.1	0.1	0.0	0.0
Investment	8.1	-18.6	5.8	-0.2	0.1	1.5	1.8	1.6	1.6	1.6	1.6	1.6	1.6
Net exports	-9.5	-5.9	-8.6	-0.5	-1.2	-3.4	-2.7	-2.2	-2.1	-1.7	-1.2	-1.1	-1.0
GDP deflator	24.8	34.9	18.5	13.6	10.0	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	17.0	16.8	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	6.0	10.4	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	8.9	10.1	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	2.8	-0.3	6.3	5.0	4.3	4.0	4.0	3.9	3.8	3.8
Savings (percent of GDP)	12.5	17.0	10.0	5.0	12.1	12.2	12.8	13.8	15.0	15.3	15.6	16.3	16.9
Private	12.7	30.1	24.8	18.0	25.4	20.7	13.0	12.7	13.2	13.0	12.8	13.2	13.7
Public	-0.2	-13.1	-14.8	-13.1	-13.4	-8.6	-0.1	1.1	1.7	2.4	2.8	3.0	3.2
Investment (percent of GDP)	14.5	12.1	15.1	13.6	13.8	15.7	16.9	17.5	18.3	19.2	19.6	19.9	20.3
Private	10.7	9.6	10.4	9.9	10.1	10.9	11.5	11.9	12.3	12.8	13.2	13.6	14.0
Public	3.8	2.5	4.8	3.7	3.7	4.8	5.4	5.6	6.0	6.3	6.3	6.3	6.3
General Government (percent of GDP)													
Fiscal balance 2/	-4.0	-15.6	-19.6	-16.7	-17.1	-13.4	-5.5	-4.5	-4.3	-4.0	-3.5	-3.3	-3.1
Fiscal balance, excl. grants 2/	-4.0	-24.8	-26.1	-27.4	-23.9	-17.8	-7.9	-5.6	-5.2	-4.9	-4.4	-4.1	-3.9
External financing (net)	2.4	10.7	16.5	12.7	7.6	4.6	0.5	-0.5	2.0	1.9	1.1	0.8	0.9
Domestic financing (net), of which:	1.6	5.0	3.1	4.1	9.5	8.8	5.0	5.0	2.3	2.0	2.4	2.5	2.2
NBU	-0.3	7.3	-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	-1.5	2.5	3.3	8.1	8.2	4.5	4.6	1.8	1.7	2.1	2.2	2.2
Public and publicly-guaranteed debt	48.9	77.7	82.3	104.7	121.5	132.0	130.4	127.9	125.4	122.8	119.9	116.9	114.1
Money and credit (end of period, percent change)													
Base money	11.2	19.6	23.3	11.5	10.9	9.2	8.7	7.5	7.2	6.2	5.8	5.3	4.8
Broad money	12.0	20.8	23.0	11.5	8.5	9.2	10.2	9.0	9.0	9.0	9.0	9.0	9.0
Credit to nongovernment	8.4	-3.1	-0.5	1.8	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	4.9	-5.2	-8.6	-1.7	-3.6	-4.0	-3.7	-3.4	-3.9	-4.0	-3.7	-3.4
Foreign direct investment	3.8	0.1	2.4	1.6	1.5	2.2	3.9	4.7	4.7	4.8	5.0	4.9	4.8
Gross reserves (end of period, billions of U.S. dollars)	30.9	28.5	40.5	32.5	36.6	41.3	40.5	39.3	41.6	45.7	49.1	52.1	56.0
Months of next year's imports of goods and services	4.5	3.9	4.8	4.5	4.8	5.2	4.9	4.6	4.6	4.8	4.9	5.0	5.0
Percent of short-term debt (remaining maturity)	67.5	64.3	87.3	75.8	80.0	93.7	87.9	75.7	84.3	87.8	96.1	101.3	98.6
Percent of the IMF composite metric (float)	104.4	103.6	124.2	89.7	96.1	101.1	98.0	93.4	94.7	102.3	106.5	111.3	116.9
Goods exports (annual volume change in percent)	35.1	-44.4	-15.5	7.4	4.3	12.7	3.8	10.9	7.3	7.8	9.2	8.8	9.0
Goods imports (annual volume change in percent)	17.0	-23.9	21.5	13.3	-10.8	18.4	10.8	2.7	4.0	4.8	5.1	4.8	5.2
Goods terms of trade (percent change)	-8.4	-11.6	3.6	0.3	-1.4	1.3	1.0	0.5	0.2	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	28.2	-1.8	...	...	...	...	...	...	...	...	...	...
Memorandum items:													
Per capita GDP / Population (2017): US$2,640 / 44.8 million													
Literacy / Poverty rate (2022 est 3/): 100 percent / 25 percent													

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

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

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

3/ Based on World Bank estimates.

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

(Billions of Ukrainian Hryvnia)

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
	Act.	Act.	Act.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Revenue	1,990	2,609	3,583	3,505	3,560	3,785	3,945	4,187	4,557	4,956	5,403	5,881	6,384
Tax revenue	1,825	1,782	2,139	2,473	2,751	3,124	3,421	3,749	4,095	4,462	4,874	5,315	5,777
Tax on income, profits, and capital gains	514	551	656	662	754	821	860	960	1,048	1,154	1,263	1,377	1,501
Personal income tax	350	421	496	497	588	636	657	739	807	881	962	1,048	1,143
Corporate profit tax	164	131	159	165	167	185	203	221	241	272	302	329	358
Social security contributions	358	430	489	577	570	601	662	717	772	823	895	979	1,073
Property tax	43	37	44	47	51	48	49	49	49	49	50	50	50
Tax on goods and services	731	592	784	970	1,115	1,337	1,493	1,644	1,811	1,990	2,176	2,376	2,571
VAT	536	467	581	680	771	921	1,030	1,118	1,245	1,378	1,504	1,651	1,788
Excise	180	115	190	275	327	398	445	506	545	590	648	700	757
Other	14	10	14	15	16	18	19	20	21	22	23	25	26
Tax on international trade	38	26	41	62	55	69	79	85	93	102	113	124	137
Other tax	140	145	126	154	207	248	277	294	322	344	378	409	445
Nontax revenue	166	827	1,444	1,033	808	661	524	437	462	494	529	566	607
Grants	1	481	425	779	548	382	224	114	105	110	116	122	128
Expenditure	2,207	3,426	4,865	4,728	4,916	4,940	4,461	4,650	5,034	5,441	5,873	6,359	6,876
Current	1,995	3,298	4,562	4,382	4,508	4,260	3,858	3,998	4,253	4,540	4,891	5,289	5,710
Compensation of employees	516	1,240	1,479	1,521	1,456	1,138	725	751	768	801	876	965	1,057
Goods and services	483	848	1,674	1,043	1,191	1,055	804	671	655	667	741	773	786
Interest	155	162	254	434	438	536	605	623	666	695	700	728	765
Subsidies to corporations and enterprises	116	131	158	155	171	183	194	174	183	182	191	201	211
Social benefits	724	917	996	1,228	1,252	1,347	1,529	1,777	1,979	2,193	2,382	2,621	2,889
Social programs (on budget)	154	285	241	377	358	411	513	596	740	894	998	1,085	1,301
Pensions	519	583	746	827	875	916	967	1,100	1,125	1,150	1,198	1,314	1,326
Unemployment, disability, and accident insurance	52	48	9	24	19	20	50	81	114	149	185	223	262
Other current expenditures	1	1	1	1	1	1	1	1	1	1	1	1	1
Capital	207	130	312	268	292	416	504	575	671	772	841	917	999
Net lending	5	-2	-9	27	59	204	33	6	56	127	139	151	165
Contingency reserve 2/	0	0	0	51	56	60	66	72	53	2	2	2	2
General government overall balance	-216	-817	-1,282	-1,223	-1,356	-1,155	-516	-463	-477	-485	-470	-477	-492
General government overall balance, excluding grants	-218	-1,299	-1,707	-2,002	-1,904	-1,537	-740	-578	-582	-595	-586	-599	-620
General government financing	216	817	1,282	1,223	1,356	1,155	516	463	477	485	470	477	492
External	132	560	1,078	926	601	397	50	-51	219	235	146	119	144
Disbursements	239	615	1,151	1,144	895	719	339	311	632	727	763	801	841
Amortizations and other external payments	-108	-55	-74	-217	-294	-322	-289	-362	-413	-491	-617	-682	-697
Domestic (net)	85	263	204	297	755	758	466	515	257	250	324	358	348
Bond financing 3/	66	295	183	291	749	752	430	479	221	224	298	332	332
o/w NBU	-14	383	-15	-12	-13	-12	-12	-11	-12	-12	-12	-12	-47
o/w Commercial banks	80	-77	167	244	648	702	422	475	205	208	281	315	347
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	-789	-918	-619	89	160	190	210	230	250	273
Public and publicly-guaranteed debt	2,666	4,072	5,383	7,648	9,664	11,370	12,280	13,126	14,020	14,964	15,926	16,930	17,995
Nominal GDP (billions of Ukrainian hryvnia)	5,451	5,239	6,538	7,301	7,951	8,613	9,415	10,261	11,184	12,189	13,284	14,478	15,777

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

1/ National methodology, cash basis.

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

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

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

(Percent of GDP)

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
	Act.	Act.	Act.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Revenue	36.5	49.8	54.8	48.0	44.8	43.9	41.9	40.8	40.7	40.7	40.7	40.6	40.5
Tax revenue	33.5	34.0	32.7	33.9	34.6	36.3	36.3	36.5	36.6	36.6	36.7	36.7	36.6
Tax on income, profits, and capital gains	9.4	10.5	10.0	9.1	9.5	9.5	9.1	9.4	9.4	9.5	9.5	9.5	9.5
Personal income tax	6.4	8.0	7.6	6.8	7.4	7.4	7.0	7.2	7.2	7.2	7.2	7.2	7.2
Corporate profit tax	3.0	2.5	2.4	2.3	2.1	2.2	2.2	2.2	2.2	2.2	2.3	2.3	2.3
Social security contributions	6.6	8.2	7.5	7.9	7.2	7.0	7.0	7.0	6.9	6.7	6.7	6.8	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	11.3	12.0	13.3	14.0	15.5	15.9	16.0	16.2	16.3	16.4	16.4	16.3
VAT	9.8	8.9	8.9	9.3	9.7	10.7	10.9	10.9	11.1	11.3	11.3	11.4	11.3
Excise	3.3	2.2	2.9	3.8	4.1	4.6	4.7	4.9	4.9	4.8	4.9	4.8	4.8
Other	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Tax on international trade	0.7	0.5	0.6	0.9	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	2.1	2.6	2.9	2.9	2.9	2.9	2.8	2.8	2.8	2.8
Nontax revenue	3.0	15.8	22.1	14.1	10.2	7.7	5.6	4.3	4.1	4.1	4.0	3.9	3.8
Grants	0.0	9.2	6.5	10.7	6.9	4.4	2.4	1.1	0.9	0.9	0.9	0.8	0.8
Expenditure	40.5	65.4	74.4	64.8	61.8	57.4	47.4	45.3	45.0	44.6	44.2	43.9	43.6
Current	36.6	63.0	69.8	60.0	56.7	49.5	41.0	39.0	38.0	37.3	36.8	36.5	36.2
Compensation of employees	9.5	23.7	22.6	20.8	18.3	13.2	7.7	7.3	6.9	6.6	6.6	6.7	6.7
Goods and services	8.9	16.2	25.6	14.3	15.0	12.3	8.5	6.5	5.9	5.5	5.6	5.3	5.0
Interest	2.8	3.1	3.9	5.9	5.5	6.2	6.4	6.1	6.0	5.7	5.3	5.0	4.8
Subsidies to corporations and enterprises	2.1	2.5	2.4	2.1	2.1	2.1	2.1	1.7	1.6	1.5	1.4	1.4	1.3
Social benefits	13.3	17.5	15.2	16.8	15.7	15.6	16.2	17.3	17.7	18.0	17.9	18.1	18.3
Social programs (on budget)	2.8	5.4	3.7	5.2	4.5	4.8	5.5	5.8	6.6	7.3	7.5	7.5	8.2
Pensions	9.5	11.1	11.4	11.3	11.0	10.6	10.3	10.7	10.1	9.4	9.0	9.1	8.4
Unemployment, disability, and accident insurance	1.0	0.9	0.1	0.3	0.2	0.2	0.5	0.8	1.0	1.2	1.4	1.5	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	3.7	3.7	4.8	5.4	5.6	6.0	6.3	6.3	6.3	6.3
Net lending	0.1	0.0	-0.1	0.4	0.7	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	-15.6	-19.6	-16.7	-17.1	-13.4	-5.5	-4.5	-4.3	-4.0	-3.5	-3.3	-3.1
General government overall balance, excluding grants	-4.0	-24.8	-26.1	-27.4	-23.9	-17.8	-7.9	-5.6	-5.2	-4.9	-4.4	-4.1	-3.9
General government financing	4.0	15.6	19.6	16.7	17.1	13.4	5.5	4.5	4.3	4.0	3.5	3.3	3.1
External	2.4	10.7	16.5	12.7	7.6	4.6	0.5	-0.5	2.0	1.9	1.1	0.8	0.9
Disbursements	4.4	11.7	17.6	15.7	11.3	8.3	3.6	3.0	5.7	6.0	5.7	5.5	5.3
Amortizations and other external payments	-2.0	-1.1	-1.1	-3.0	-3.7	-3.7	-3.1	-3.5	-3.7	-4.0	-4.6	-4.7	-4.4
Domestic (net)	1.6	5.0	3.1	4.1	9.5	8.8	5.0	5.0	2.3	2.0	2.4	2.5	2.2
Bond financing 3/	1.2	5.6	2.8	4.0	9.4	8.7	4.6	4.7	2.0	1.8	2.2	2.3	2.1
o/w NBU	-0.3	7.3	-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	2.5	3.3	8.1	8.2	4.5	4.6	1.8	1.7	2.1	2.2	2.2
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	-12.5	-15.7	-10.8	-11.5	-7.2	0.9	1.6	1.7	1.7	1.7	1.7	1.7
Public and publicly-guaranteed debt	48.9	77.7	82.3	104.7	121.5	132.0	130.4	127.9	125.4	122.8	119.9	116.9	114.1
Nominal GDP (billions of Ukrainian hryvnia)	5,451	5,239	6,538	7,301	7,951	8,613	9,415	10,261	11,184	12,189	13,284	14,478	15,777

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

1/ National methodology, cash basis.

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

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

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

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

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
	Act.	Act.	Act.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Current account balance	-3.9	8.0	-9.2	-15.0	-2.8	-6.0	-7.0	-6.7	-6.3	-7.5	-8.0	-7.7	-7.4
Goods (net)	-6.6	-14.7	-28.8	-34.4	-26.0	-32.0	-37.7	-34.6	-34.2	-34.2	-33.6	-32.7	-31.8
Exports	63.1	40.9	34.7	37.2	38.8	43.8	45.4	50.4	54.1	58.3	63.6	69.2	75.4
Imports	-69.8	-55.6	-63.5	-71.7	-64.9	-75.8	-83.2	-85.0	-88.2	-92.5	-97.2	-101.9	-107.2
Services (net)	4.0	-11.1	-8.6	-14.8	-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	14.5	16.8	20.6	24.4	26.9	29.6	31.5	32.8	34.1	35.5
Payments	-14.4	-27.7	-25.0	-29.3	-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	5.3	5.0	6.9	7.0	6.2	5.3	4.7	3.2	2.643	2.3	2.2
Secondary income (net)	4.6	25.2	22.9	29.2	21.0	15.1	12.7	9.4	8.7	8.2	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	-5.5	8.5	-20.4	-8.0	-7.7	-9.7	-5.7	-5.6	-8.5	-12.6	-12.6	-12.0	-12.4
Direct investment (net)	-7.5	-0.2	-4.2	-2.8	-2.5	-3.6	-6.7	-8.5	-8.8	-9.2	-10.1	-10.2	-10.3
Portfolio investment (net)	-1.0	2.0	2.7	1.5	2.4	2.3	2.0	3.0	1.5	0.3	0.4	0.1	0.1
Financial derivatives (net)	0.2	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	-18.9	-6.8	-7.5	-8.4	-0.9	0.0	-1.2	-3.7	-2.9	-2.0	-2.2
Other investment: assets	7.7	21.0	11.6	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	25.4	16.6	12.8	3.8	2.7	3.6	4.4	3.0	2.1	2.5
Net use of IMF resources for budget support	0.2	2.3	3.6	4.0	0.3	-0.4	-0.5	-1.0	-1.7	-1.0	-1.2	-1.3	-1.1
Central Bank	2.7	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
General government	1.5	14.7	26.0	20.5	15.4	11.3	3.2	3.1	4.7	4.8	3.6	2.7	3.0
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	1.0	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	1.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	3.5	-0.6	13.0	-7.0	4.9	3.7	-1.4	-1.1	2.2	5.2	4.6	4.4	5.0
Financing	-3.5	0.6	-13.0	7.0	-4.9	-3.7	1.4	1.1	-2.2	-5.2	-4.6	-4.4	-5.0
Gross official reserves (increase: -)	-2.5	2.3	-11.4	8.0	-4.1	-4.7	0.8	1.1	-2.2	-4.1	-3.3	-3.1	-3.9
Net use of IMF resources for BOP support	-0.9	-1.6	-1.6	-1.0	-0.8	1.0	0.6	0.0	0.0	-1.0	-1.2	-1.3	-1.1
Memorandum items:													
Current account balance (percent of GDP)	-1.9	4.9	-5.2	-8.6	-1.7	-3.6	-4.0	-3.7	-3.4	-3.9	-4.0	-3.7	-3.4
Goods and services trade balance (percent of GDP)	-1.3	-15.9	-21.0	-28.2	-18.6	-16.8	-14.9	-11.9	-10.5	-9.7	-8.9	-8.0	-7.1
Gross international reserves	30.9	28.5	40.5	32.5	36.6	41.3	40.5	39.3	41.6	45.7	49.1	52.1	56.0
Months of next year's imports of goods and services	4.5	3.9	4.8	4.5	4.8	5.2	4.9	4.6	4.6	4.8	4.9	5.0	5.0
Percent of the IMF composite metric (float)	104.4	103.6	124.2	89.7	96.1	101.1	98.0	93.4	94.7	102.3	106.5	111.3	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

3/ Includes banks' debt for equity operations.

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

(Percent of GDP, unless otherwise indicated)

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
	Act.	Act.	Act.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Current account balance	-1.9	4.9	-5.2	-8.6	-1.7	-3.6	-4.0	-3.7	-3.4	-3.9	-4.0	-3.7	-3.4
Goods (net)	-3.3	-9.0	-16.1	-19.7	-15.8	-19.2	-21.7	-19.2	-18.3	-17.6	-16.7	-15.6	-14.7
Exports	31.6	25.2	19.4	21.3	23.6	26.3	26.2	28.0	28.9	30.0	31.6	33.1	34.8
Imports	-34.9	-34.3	-35.6	-41.0	-39.4	-45.5	-47.9	-47.2	-47.2	-47.7	-48.3	-48.8	-49.4
Services (net)	2.0	-6.8	-4.8	-8.5	-2.8	2.4	6.8	7.3	7.8	7.9	7.8	7.7	7.6
Receipts	9.2	10.3	9.2	8.3	10.2	12.4	14.1	14.9	15.9	16.2	16.3	16.3	16.4
Payments	-7.2	-17.1	-14.0	-16.8	-13.0	-10.0	-7.2	-7.6	-8.1	-8.3	-8.5	-8.6	-8.8
Primary income (net)	-2.9	5.2	3.0	2.9	4.2	4.2	3.5	3.0	2.5	1.6	1.3	1.1	1.0
Secondary income (net)	2.3	15.6	12.9	16.7	12.7	9.1	7.3	5.2	4.7	4.2	3.6	3.2	2.7
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	-2.8	5.3	-11.4	-4.6	-4.7	-5.8	-3.3	-3.1	-4.6	-6.5	-6.2	-5.8	-5.7
Direct investment (net)	-3.8	-0.1	-2.4	-1.6	-1.5	-2.2	-3.9	-4.7	-4.7	-4.8	-5.0	-4.9	-4.8
Portfolio investment (net)	-0.5	1.3	1.5	0.9	1.5	1.4	1.1	1.6	0.8	0.2	0.2	0.1	0.1
Financial derivatives (net)	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
Other investment (net)	1.4	4.1	-10.6	-3.9	-4.6	-5.0	-0.5	0.0	-0.7	-1.9	-1.4	-0.9	-1.0
Other investment: assets	3.9	12.9	6.5	10.7	5.5	2.6	1.7	1.5	1.3	0.3	0.1	0.0	0.2
Other investment: liabilities	2.4	8.8	17.1	14.5	10.1	7.7	2.2	1.5	1.9	2.3	1.5	1.0	1.2
Net use of IMF resources for budget support	0.1	1.4	2.0	2.3	0.2	-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	9.1	14.6	11.7	9.3	6.8	1.9	1.7	2.5	2.5	1.8	1.3	1.4
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	-1.3	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	0.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	1.7	-0.4	7.3	-4.0	3.0	2.2	-0.8	-0.6	1.2	2.7	2.3	2.1	2.3
Financing	-1.7	0.4	-7.3	4.0	-3.0	-2.2	0.8	0.6	-1.2	-2.7	-2.3	-2.1	-2.3
Gross official reserves (increase: -)	-1.3	1.4	-6.4	4.6	-2.5	-2.8	0.5	0.6	-1.2	-2.1	-1.7	-1.5	-1.8
Net use of IMF resources for BOP support	-0.5	-1.0	-0.9	-0.6	-0.5	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	32.5	36.6	41.3	40.5	39.3	41.6	45.7	49.1	52.1	56.0
Months of next year's imports of goods and services	4.5	3.9	4.8	4.5	4.8	5.2	4.9	4.6	4.6	4.8	4.9	5.0	5.0
Percent of the IMF composite metric (float)	104.4	103.6	124.2	89.7	96.1	101.1	98.0	93.4	94.7	102.3	106.5	111.3	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 IV. Table 4. Ukraine: Gross External Financing Requirements and Sources (Downside Scenario), 2021–2033

(Billions of U.S. dollars)

	2021 Act.	2022 Act.	2023 Act.	2024 Proj.	2025 Proj.	2026 Proj.	2027 Proj.	2028 Proj.	2029 Proj.	2030 Proj.	2031 Proj.	2032 Proj.	2033 Proj.
A. Total financing requirements	**20.3**	**31.9**	**39.6**	**59.9**	**29.5**	**25.2**	**20.3**	**18.6**	**22.2**	**19.4**	**21.9**	**20.4**	**20.0**
Current account deficit (excl. budget grants)	3.9	6.0	20.8	33.7	14.1	13.3	11.1	8.7	8.0	9.2	9.7	9.4	9.1
Portfolio investment	4.9	2.7	4.9	4.5	3.4	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	1.5	1.8	0.8	0.6	4.0	1.5	2.7	1.1	0.9
Public	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	2.1	2.2	3.1	2.9	2.8	3.8	3.7	6.2	6.2	7.3	8.2	7.9
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	0.2	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
Public	0.9	1.0	0.9	1.5	1.4	1.4	2.4	2.4	4.8	4.8	5.9	6.8	6.5
Other net capital outflows 1/	7.9	21.0	11.6	18.6	9.1	4.4	2.9	2.7	2.4	0.7	0.2	0.1	0.4
B. Total financing sources	**20.0**	**0.7**	**9.3**	**9.7**	**7.4**	**12.7**	**12.1**	**13.4**	**16.5**	**15.9**	**18.1**	**16.4**	**16.6**
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	2.8	2.5	3.6	6.7	8.5	8.8	9.2	10.1	10.2	10.3
Portfolio investment	6.0	0.7	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	0.2	-0.1	3.0	1.0	2.3	0.5	0.5	3.0	1.0	2.3	0.5	0.5
Public	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
Medium and long-term debt	6.8	2.6	2.4	3.2	3.1	5.0	3.9	3.9	3.2	3.2	3.2	3.2	3.2
Private	3.0	1.5	1.8	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	2.8	1.4	1.7	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2
Public (incl. project financing)	3.8	1.1	0.6	1.5	1.4	3.4	2.4	2.4	1.7	1.7	1.7	1.7	1.7
Short-term debt (incl. deposits)	-0.3	-2.9	0.4	0.8	0.8	1.7	0.9	0.5	0.5	0.5	0.5	0.5	0.5
C. Financing needs (A - B)	**0.3**	**31.1**	**30.3**	**50.1**	**22.0**	**12.5**	**8.2**	**5.2**	**5.7**	**3.5**	**3.8**	**4.0**	**3.5**
D. Official financing	**1.0**	**29.2**	**39.9**	**42.1**	**26.2**	**17.2**	**7.4**	**4.0**	**7.9**	**7.6**	**7.2**	**7.0**	**7.3**
IMF	-0.7	0.6	1.9	2.9	-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	5.3	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 budget 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 budget loans	1.7	14.5	26.4	20.5	15.3	9.2	3.2	3.0	7.9	7.9	7.9	7.9	7.9
F. Increase in reserves	**2.5**	**-2.3**	**11.4**	**-8.0**	**4.1**	**4.7**	**-0.8**	**-1.1**	**2.2**	**4.1**	**3.3**	**3.1**	**3.9**
F. Errors and omissions	**1.8**	**-0.3**	**1.7**	**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	32.5	36.6	41.3	40.5	39.3	41.6	45.7	49.1	52.1	56.0
Months of next year's imports of goods and services	4.5	3.9	4.8	4.5	4.8	5.2	4.9	4.6	4.6	4.8	4.9	5.0	5.0
Percent of the IMF composite (float) 2/	104.4	103.6	124.2	89.7	96.1	101.1	98.0	93.4	94.7	102.3	106.5	111.3	116.9

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

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

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

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

(Billions of Ukrainian Hryvnia)

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
	Act.	Act.	Act.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Monetary survey													
Net foreign assets	850	1,252	1,926	1,763	2,136	2,426	2,464	2,543	2,906	3,444	4,004	4,598	5,280
Net domestic assets	1,221	1,249	1,151	1,668	1,586	1,637	2,014	2,338	2,413	2,353	2,314	2,288	2,223
Domestic credit	1,925	2,212	2,248	2,495	3,174	4,005	4,500	5,080	5,464	5,867	6,403	7,010	7,688
Net claims on government	898	1,218	1,259	1,488	2,163	2,982	3,421	3,913	4,147	4,381	4,687	5,027	5,398
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	759	775	833	925	1,080	1,253	1,487	1,756	2,067
Foreign currency	292	266	253	254	248	244	242	237	233	228	224	220	215
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	-827	-1,588	-2,368	-2,487	-2,742	-3,051	-3,514	-4,089	-4,722	-5,464
Broad money	2,071	2,501	3,077	3,431	3,722	4,064	4,478	4,880	5,319	5,797	6,318	6,886	7,503
Currency in circulation	581	666	716	718	939	1,027	1,110	1,185	1,411	1,492	1,570	1,643	1,708
Total deposits	1,489	1,834	2,360	2,712	2,782	3,035	3,366	3,694	3,907	4,304	4,746	5,241	5,794
Domestic currency deposits	1,014	1,204	1,628	1,959	1,938	2,146	2,381	2,583	2,713	3,020	3,366	3,757	4,199
Foreign currency deposits	474	630	732	753	844	889	985	1,110	1,194	1,284	1,381	1,484	1,595
Accounts of the NBU													
Net foreign assets	701	907	1,456	1,258	1,614	1,909	1,953	2,039	2,382	2,898	3,435	4,005	4,663
Net international reserves	566	670	1,078	803	1,114	1,385	1,403	1,463	1,777	2,264	2,770	3,309	3,932
(In billions of U.S. dollars)	20.8	18.3	28.4	…	…	…	…	…	…	…	…	…	…
Reserve assets	844	1,042	1,539	…	…	…	…	…	…	…	…	…	…
Other net foreign assets	134	237	378	455	500	525	550	576	604	634	665	696	731
Net domestic assets	-38	-115	-479	-169	-406	-591	-520	-498	-729	-1,143	-1,578	-2,050	-2,614
Net domestic credit	175	312	6	-9	467	1,008	1,140	1,347	1,343	1,328	1,398	1,484	1,579
Net claims on government	270	704	591	567	551	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	-576	-84	470	608	820	822	814	893	987	1,094
Other items, net	-213	-427	-485	-160	-873	-1,599	-1,661	-1,845	-2,073	-2,471	-2,977	-3,534	-4,193
Base money	662	793	977	1,089	1,208	1,318	1,433	1,541	1,652	1,755	1,857	1,955	2,049
Currency in circulation	581	666	716	718	939	1,027	1,110	1,185	1,411	1,492	1,570	1,643	1,708
Banks' reserves	81	126	261	371	268	291	323	356	242	263	287	312	341
Cash in vault	47	49	48	85	87	95	105	116	122	135	149	164	181
Correspondent accounts	35	77	213	286	181	196	218	240	119	128	138	148	159
Deposit money banks													
Net foreign assets	149	345	470	505	522	517	511	503	524	546	569	593	617
Foreign assets	254	427	550	646	701	732	765	800	836	873	912	953	996
Foreign liabilities	105	82	80	141	179	215	255	297	311	327	343	361	379
Net domestic assets	1,339	1,489	1,890	2,207	2,260	2,518	2,855	3,190	3,382	3,757	4,177	4,648	5,176
Domestic credit	1,875	2,064	2,540	2,913	3,013	3,326	3,720	4,126	4,400	4,840	5,329	5,876	6,486
Net claims on government 1/	628	513	668	921	1,612	2,444	2,888	3,385	3,625	3,866	4,181	4,530	4,913
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	985	391	-140	-247	-426	-542	-513	-568	-636	-715
Other items, net	-536	-574	-650	-706	-754	-808	-865	-936	-1,018	-1,082	-1,152	-1,228	-1,311
Banks' liabilities	1,488	1,834	2,360	2,712	2,782	3,035	3,366	3,693	3,907	4,303	4,746	5,241	5,793
Memorandum items:	(End of period, percent change unless otherwise noted)												
Base money	11.2	19.6	23.3	11.5	10.9	9.2	8.7	7.5	7.2	6.2	5.8	5.3	4.8
Currency in circulation	12.6	14.6	7.5	0.2	30.8	9.3	4.8	5.8	6.8	7.8	8.8	9.8	10.8
Broad money	12.0	20.8	23.0	11.5	8.5	9.2	10.2	9.0	9.0	9.0	9.0	9.0	9.0
Credit to the economy	8.4	-3.1	-0.5	1.8	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	18.9	15.1	13.7	12.7	11.8	11.4	11.3	11.7	12.2	12.9	13.6	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	3.2	3.1	3.1	3.1	3.2	3.2	3.3	3.4	3.5	3.7
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 IV. 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/	7,927	6,191	4,693	3,781	3,169	2,501	1,834	1,167	500	55
Obligations	2,482	2,300	1,935	1,244	889	911	877	843	809	553
Principal (repurchases)	1,780	1,736	1,498	913	612	667	667	667	667	444
Interest charges	702	563	437	331	277	243	210	176	142	108
of which: Surcharges	150	104	57	18	0	0	0	0	0	0
Prospective purchases										
Disbursements	4,003	1,368	1,931	966	0	0	0	0	0	0
Stock 1/	3,340	4,708	6,639	7,605	7,466	6,852	5,987	4,800	3,532	2,265
Obligations 2/	74	318	456	593	750	1,184	1,359	1,579	1,526	1,429
Principal (repurchases)	0	0	0	0	139	614	865	1,187	1,267	1,267
Interest charges	74	318	456	593	611	571	493	392	258	162
of which: Surcharges	21	115	166	218	224	197	155	105	34	3
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	8.6	8.8	9.1	8.8	7.9	6.7	5.4	4.0	2.6	1.4
In percent of exports of goods and nonfactor services	28.9	26.0	23.4	21.8	18.4	15.0	11.7	8.3	5.2	2.8
In percent of gross reserves	46.0	39.6	36.6	37.6	36.2	30.1	22.9	16.3	10.4	5.5
In percent of public external debt	15.5	13.2	12.7	12.6	11.8	10.2	8.3	6.3	4.2	2.4
Obligations to the Fund from existing and prospective Fund credit	2,556	2,618	2,391	1,837	1,639	2,095	2,235	2,422	2,335	1,982
In percent of quota	127.1	130.1	118.9	91.3	81.5	104.1	111.1	120.4	116.1	98.5
In percent of GDP	1.9	2.1	1.9	1.4	1.2	1.5	1.5	1.6	1.5	1.2
In percent of exports of goods and nonfactor services	6.6	6.3	4.9	3.5	2.8	3.3	3.3	3.4	3.0	2.4
In percent of gross reserves	10.4	9.5	7.7	6.1	5.6	6.7	6.5	6.6	6.0	4.7
In percent of public external debt service	47.8	62.0	62.4	39.7	36.6	33.5	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.

Appendix I. Letter of Intent

Ms. Kristalina Georgieva June 17, 2024
Managing Director
International Monetary Fund
Washington, D.C., 20431
U.S.A.

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 sustained 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 program, together with significant official financing assurances, provides a crucial financing envelope of US$121.9 billion over the program period. In this regard, we welcome the approval of US aid and the adoption of the EU's €50 billion Ukraine Facility as major steps forward to support long-term growth and stability. We also welcome the decision of the European Council, which will allow the extraordinary returns from Russian frozen assets (€3 billion in 2024) immobilized under sanctions following Russia's war in Ukraine, to be used for our benefit. Disbursements of additional flows arising from returns on Russian frozen assets would better position us to address still significant social and development challenges. Overall, 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 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, our objectives under the program remain to first preserve macroeconomic and financial stability within the context of the ongoing war while preparing the ground for a strong post-war recovery. We remain focused on restoring stability and undertaking repairs to essential infrastructure, such as in the energy sector that has suffered from repeated attacks. Despite the war, we continue to press forward with 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. After the war, we will further deepen our structural reforms and implement additional macroeconomic policy reforms. These will help restore medium-term external viability, support reconstruction, promote strong long-term growth, and accelerate our progress toward EU accession. To help lay the foundations for post-war growth, we will advance reforms to enhance productivity and competitiveness.

4. For this Fourth Review under the EFF, we met all of the end-March 2024 and continuous quantitative performance criteria (QPCs) and also met all but one of the indicative targets (ITs), where due to technical reasons, a temporary fluctuation in the accounts payable led to a minor miss in the IT on the ceiling on general government direct borrowing from the NBU. We are requesting a modification to adjust the end-June 2024 floor on net international reserves primarily to reflect the shifted timing of US external financing.

5. Against this very challenging backdrop, we continue to implement key structural reforms under the program as highlighted in Table 2 of the MEFP. In particular, as part of our continuous efforts to improve public financial management, we developed a concept note related to the 5-7-9 Affordable Loan program (end-March 2024 structural benchmark) to help ringfence fiscal and financial sector risks. Aligned with our commitment to strengthen governance and anticorruption frameworks, we also successfully enacted amendments to the procedural code on adjudication by the High Anti-Corruption Court, though due to legislative delays we were unable to complete this structural benchmark before the end-April deadline. Additionally, we respected the continuous structural benchmark on the banking system. Looking ahead, we are requesting to reset three structural benchmarks, primarily to allow more time to undertake the reforms in view of their complexity: (i) an analysis on the stock of debts and assessment of financial conditions of District Heating Companies (DHCs), from end-June 2024 to end-October 2024; (ii) the assessment of the effectiveness of tax privileges, from end-July to end-September 2024; and (iii) the enactment of a law to establish a new court to hear administrative cases against national state agencies, from end-July to end-December 2024.

6. Going forward, we will continue implementing wide-ranging reforms, and as a demonstration of this commitment we propose two new structural benchmarks: (i) to amend the criminal procedural code to balance the objectives of comprehensive investigations of criminal offenses and protection of rights of parties in criminal proceedings; and (ii) to adopt a Customs Code, in line with best practices (both by end-October 2024).

7. Our international partners have assured us of their continued support to help ensure that debt sustainability is restored, and the program is fully financed. As part of our efforts to restore debt sustainability we announced on March 24, 2023, the intention to undertake a restructuring of our external public debt, in line with program parameters, and our plan remains to reach agreement with commercial creditors before the end of August 2024. Should the case arise where the macroeconomic and debt outlook worsen, we also commit to undertaking a further external commercial debt treatment as needed to restore debt sustainability in line with program parameters (Memorandum of Economic and Financial Policies, ¶39). In light of these steps, we request the completion of the financing assurances review.

8. Under IMF's policy on multiple currency practices (MCPs), no MCPs have been identified since the Third Review. As we continue the transition of our exchange rate regime laid out in the NBU's Strategy, we will monitor these issues carefully in close collaboration with the IMF to help ensure that MCPs do not arise.

9. Based on our successful implementation of the program targets for end-March 2024, our implementation of structural benchmarks over April 2024–May 2024, as well as our strong policy commitments for the period ahead, we request completion of the Fourth Review, and a disbursement in the amount of SDR 1,669.82 million (83 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.

10. 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.

11. We will continue to 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).

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

Sincerely yours,

/s/

Volodymyr Zelenskyy
President of Ukraine

/s/

Denys Shmyhal
Prime Minister of Ukraine

/s/

Sergii Marchenko
Minister of Finance of Ukraine

/s/

Andriy Pyshnyy
Governor, National Bank of Ukraine

Attachment I. Memorandum of Economic and Financial Policies

I. Background, Recent Economic Developments, and Outlook

Context

1. **Russia's unprovoked, illegal, and unjustified invasion of our country continues to bring enormous human, social, and economic costs.** Civilian casualties keep rising, around a quarter of the population has been displaced, and missile strikes countrywide continue including devastating attacks on our infrastructure, in particular electricity generation capacity. Despite all the destruction, 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 tight financing constraints 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 extended arrangement in March 2023 helped mobilize an external financing package from our international partners that now totals US$121.9 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. The welcome approval of external financing by the European Union (see ¶3) and the United States (comprising US$61 billion of supplemental appropriations for military and financial support), has eased concerns about near-term liquidity strains and signals the commitment of our international partners to our stability, reform, and recovery.

3. **The approval of the EU's Ukraine Facility has been a major step forward, which, coupled with efforts to achieve our strategic goal of EU accession, will reinforce long-term growth and stability.** In May 2024, the European Council approved the €50 billion Ukraine Plan for 2024–27, which will be critical to support our budgetary needs, recovery, reconstruction, and modernization efforts. 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. Our candidate status 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 enhance 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 expected, with resilient growth continuing into 2024Q1.

- Economic activity in 2023 was robust with growth of 5.3 percent, as households and firms continued to adapt to the war circumstances, FX market stability was maintained, including after the transition to the managed flexibility of the exchange rate, and the disinflationary trend continued. The resilience of the energy sector in 2023 was a key factor, although the sector faces renewed pressure from large-scale Russian attacks that started in late March 2024. The labor market has shown signs of stabilization amid lower net migrant outflows though strains from labor shortages remain considerable.

- Growth is expected to remain resilient between 2.5 and 3.5 percent in 2024; the recovery has slowed due to the impact of the energy attacks and an expected decrease in harvests, offsetting the expected strengthening in exports from the new Black Sea corridor and robust consumption growth. Inflation has continued to decelerate faster than expected from its peak of 26.6 percent y/y in end-2022 to 3.3 percent y/y in May, below the target range, driven by declining raw food prices from last year's strong harvests, compressed prices for processed food and some services, and easing external inflationary pressures. Inflation is expected to edge up in 2024 to around 8 percent due to pressures from business labor costs, further recovery in consumer demand, pass-through from the past currency depreciation and the fading impact of temporary factors (such as last year's large harvests and this year's mild winter) that helped contain inflation at the beginning of the year.

- For 2024, the current account deficit is expected to rise to US$10.6 billion (from US$9.2 billion in 2023) and remain broadly stable, reflecting (i) an improved trade balance, thanks to increased use of the Black Sea corridor; (ii) lower travel services imports (as cash withdrawals and spending by Ukrainians abroad declined), and (iii) higher FX outflows due to the recent easing of some FX controls. On balance, reserves are expected to end the year at US$41.8 billion (113.7 percent of the ARA metric).

- Under the managed flexibility exchange rate regime, the exchange rate is increasingly adjusting to market conditions, supported by FX interventions given the structural deficit, against a backdrop of a deepening FX market. The exchange rate has depreciated through end-April 2024 by a cumulative 8.4 percent since the transition. The spread between the official and cash rates has remained low, including following the easing of some FX controls amid increased confidence.

- Credit growth is recovering, broadly supported by government-backed subsidized lending initiatives (including the 5-7-9 program for SMEs and eOselya for mortgages), credit guarantee schemes, improved business activity and declining interest rates. The official non-performing loan ratio remains elevated at 36.1 percent amid a high provisioning ratio for NPLs (83.6 percent) in March 2024. Deposits continue to grow at a robust rate (23 percent, y/y in March).

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, including in the energy sector, would also support stronger growth. From a medium-term perspective, our economic growth could be accelerated by forceful implementation of structural reforms, including 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 recent strong growth, risks to the outlook remain tilted to the downside, amid exceptionally high uncertainty. Security risks could persist for longer than expected, putting pressures on our fiscal position, and leading to the emergence of additional budget needs. A prolonged or more intense war would weigh on firm and household sentiment, as well as exchange rate and inflation expectations and dampen the pace of return by migrants, worsening labor market mismatches. Export transit routes could be significantly interrupted, there could be further damage to energy infrastructure, or past supply chain disruptions could resurface, weighing on production costs and firm profitability. While near-term external financing risks have diminished following the approval of US aid and the EU Ukraine Facility, the risk of shortfalls or delays could materialize, exacerbating financing constraints and requiring difficult policy trade-offs. Moreover, in the event of such risks materializing, the needed higher domestic financing may become difficult to mobilize.

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 and maintain external and financial stability, while promoting long-term growth in the context of post-war reconstruction and our path to EU accession. Our economic program continues to focus on a two-phased approach which includes both restoring stability while advancing necessary structural reforms in parallel, with the intention of broadening and deepening reforms once the war tapers off.

- Our current primary focus is to maintain macroeconomic, external, and financial stability, in order to strengthen Ukraine's capacity on its way to victory. Our program involves policies to ensure a robust budget implementation in 2024 coupled with a strong medium-term fiscal framework that would anchor fiscal policy and the assessment of financing gaps. The 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 and despite the war, we are implementing well-targeted structural measures covering public finances, the financial sector, monetary and exchange rate policies, governance, anti-corruption, and the energy sector to prepare the ground for Ukraine's post-war growth. Importantly, social spending is being safeguarded to the extent possible.

- Once the war has tapered off, we will build on the significant progress so far and shift our focus to more expansive structural 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; we have committed to undertake a wide range of measures in support of this under the Ukraine Facility.

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, adjust our monetary policy stance, and recalibrate FX controls, to maintain stability as needed. 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 under the downside scenario; we are strongly 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 and reforms will require our steadfast commitment for an extended period.

B. Fiscal Policy

9. Financing constraints necessitated a prudent approach to budget execution in the first quarter of 2024. Until significant external disbursements began arriving in mid-March, we needed to rely on policy measures and domestic resources to keep expenditures within the available envelope. Our efforts included restraining expenditures, front-loading revenues (including reaping the benefit of the extraordinary one-time tax on 2023 bank profits), mobilizing domestic financing, and drawing down our buffers. While our liquidity situation has improved substantially in recent months thanks to donor support, we have continued with our strategy of prudent budget execution.

10. As a result of these efforts, we achieved all the end-March 2024 fiscal targets, as follows:

- Reflecting tight control over budget implementation, the end-March non-defense cash primary balance of the general government excluding grants was UAH 241.9 billion (at program exchange rates), exceeding the program's floor of UAH 135.0 billion (***Quantitative Performance Criterion***).
- Likewise, the overall balance excluding grants was UAH -211.0 billion (at program exchange rates), exceeding the floor of UAH -344.5 billion (***Indicative Target***).
- Our tax revenues (excluding social security contributions) were UAH 508.0 billion through end-March, comfortably exceeding the floor of UAH 426.3 billion (***Quantitative Performance Criterion***), despite the impact of the blockades along the western border.
- The issuance of government guarantees was UAH 5.9 billion, and well below the ceiling of UAH 49.9 billion (***Quantitative Performance Criterion***).
- The accumulation of overdue accounts payable (domestic arrears) was UAH 1.5 billion as of end-March, below the ceiling of UAH 2.0 billion (***Indicative Target***).
- Social spending outlays amounted to UAH 142.1 billion at end-March, exceeding the floor of UAH 130.0 billion (***Indicative Target***).

11. The 2024 budget remains the anchor for our fiscal policy intentions this year, capturing our major policy intentions and initiatives, as follows:

- *Expenditures*: The budget prioritizes national defense and contains an allocation consistent with a full year of war operations, while other expenditures will continue to be prioritized. We are continuing to provide adequate resources for the social safety net, including to address the needs of war veterans and vulnerable layers of the population. The floor on spending on social programs ***(Indicative Target)*** represents our commitment to safeguard this spending. The annual pension indexation from March 1, 2024 of 7.96 percent has been carried out in line with the legislation, and is consistent with the deficit projection.

- *Revenues*: In addition to the extraordinary one-time bank profit tax, we are also implementing revenue policies set out in the budget, including the revised allocation of personal income taxes between the state and local budgets.

- *Balance*: We continue to target an overall balance excluding grants of UAH -1,562 billion or around -21 percent of GDP. This deficit is financed primarily through budget support from international donors, and is consistent with our efforts to return to fiscal and debt sustainability. Our progress in budget implementation will continue to be monitored by the floor on the non-defense primary balance of the general government excluding grants ***(Quantitative Performance Criterion)*** and the floor on the overall cash balance of the general government excluding grants ***(Indicative Target)***.

12. We recognize that risks are exceptionally high and rising and will therefore resist additional budgetary pressures that could jeopardize our hard-won stability. 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 prioritize national defense. 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.

13. We are prepared to take fiscal measures as needed to ensure stability, contain risks, and advance EU accession objectives. On the latter, following CMU approval, draft legislation has been registered in Parliament to gradually align tobacco and fuel product excise taxes with EU requirements (over 2024H2–2028). Draft legislation to introduce excises on sugary drinks has also been submitted. We aim to secure swift adoption of these laws. Work is also underway to develop legislation on medical cannabis taxation and introduce advance payments on CIT for fuel stations. We also recognize that improving enforcement is essential, including to avoid leakages and ensure equity, and will strive to improve excise tax administration, including for tobacco. Specifically, as envisaged in the NRS, we are developing a track and trace system, in cooperation with the Ministry of Digital Transformation, and plan to make it operational by January 1, 2026. Given the balance of risks, we will stand ready to take feasible measures to respond to potential shocks. To this end, the working group, which first met last February to identify potential temporary revenue measures for 2024, is continuing its work. We also intend to mobilize additional domestic financing if necessary.

14. The budget for 2025 will reflect our efforts to secure sustainability and will be prepared according to the standard timeline. We expect next year to remain challenging, with substantial expenditure pressures that correspond to our defense, reconstruction, and development priorities. We recognize that while external partners will continue to be an important source of financing, we will need to step up our efforts to generate revenues, while expenditures will need to be carefully prioritized. These efforts will help ensure that the budget is financeable and consistent with sustainability. As regards the process, consistent with the Budget Code, the Cabinet of Ministers of Ukraine will approve the Budget Declaration for 2025–2027 in June, which will then be submitted to Parliament. This document, our first medium-term budget declaration since restoring the Budget Code, is an important milestone in strengthening our medium-term budget framework (see ¶29) and will form the basis for the preparation of the 2025 Budget. We remain committed to adhering to the standard schedule, to ensure careful preparation and timely adoption.

15. 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 focus on tax policy and administration. We aim to mobilize 3-4 percent of GDP in additional revenues during 2024–27. Second, we will carefully evaluate the financing mix and for external financial support will continue to seek highly concessional terms where possible. Third, we will work to complete a treatment of external public debt that brings public debt and gross financing needs back down to manageable levels and in line with program parameters (see ¶38).

16. Relentless attacks on our energy infrastructure have pushed our reconstruction needs beyond those estimated in the third Rapid Damage and Needs Assessment (RDNA-3). This report, 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 ¶29).

C. Financing Strategy

17. Timely and predictable external financing on appropriately concessional terms is an essential pillar of our financing strategy. We remain very grateful for the substantial budget support from our donors, which has risen to US$45.1 billion since the start of the program, of which US$11.8 billion was disbursed over January-May 2024; for the rest of the year, we expect an additional US$26.1 billion of external budget support. Over the next 12 months of the IMF-supported program (July 2024–June 2025), firm financing assurances are in place thanks to large official sector multilateral and bilateral commitments. Continued support from the EU, IFIs, and bilateral donors in the amounts, terms, and timing envisaged are vital to maintain economic and financial stability. Consistent with this requirement, looking beyond June 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.

18. **We recognize the need to further strengthen our efforts to sustain net domestic financing over the program period, contributing to efforts to maintain stability.** Our strategy will involve increasing the issuance of domestic government securities in the primary market with an objective of obtaining net positive financing in 2024.

- As of end-May 2024, we have mobilized net domestic bond financing of UAH 46.1 billion or almost US$1.2 billion, resulting in an implied rollover rate of 132 percent so far this year. We have continued with the progress we began last year in matching issuance yields and maturities to market demand, and in lengthening the maturity of our issuances. About UAH 3.3 billion were issued in the form of designated benchmark bonds that banks may use to meet reserve requirements.

- Given the substantial liquidity available and expected in the banking system, we remain 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 and bank-group basis, in order to develop targeted strategies that 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. In this regard, the smooth functioning of secondary market trading of government bonds on stock exchanges is important, and we aim to ensure the continuation of such trading on the respective stock exchanges to support efficient price discovery and liquidity of the government bond market. Additionally, discussions are proceeding between the MOF and NBU to agree on ways to achieve savings on other domestic debt.

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.

19. **In addition to seeking an external debt restructuring (¶39), we will ensure our debt management strategy is consistent with our objectives under the program.** Following the debt treatment on external commercial claims, which is moving forward, there will be important impacts on the overall public debt burden and its structure. To reflect these developments, we plan to publish an update to the Medium-Term Debt Strategy (MTDS) by end-2024. 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 through medium-term efforts to maintain the attractiveness of locally-issued instruments, diversify

the set of investors (including encouraging the participation of non-residents), and cautiously restore international capital market access, thereby enabling the bond market to play an active role in reconstruction.

20. We are determined to strengthen treasury cash and liquidity management. The ongoing war and recent uncertainty around the timing of external disbursements has led to volatility in our budget execution. These developments, along with our continuous efforts to strengthen budget execution and commitment control, have prompted us to strengthen liquidity forecasting and cash management to 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 are reviewing the findings of the diagnostic assessment to improve the predictability of cash and liquidity management and may 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, guided by the objective of enhancing the efficiency, fairness and simplicity of the tax system, including through the 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 restoring the role of the medium-term budget framework (MTBF).

Revenue Mobilization

23. Our efforts to increase revenues through tax policy and administrative reforms are guided by the NRS. The NRS, adopted in December 2023, aims to establish a fair and competitive tax framework to generate revenues sufficient to safeguard our post-war development goals while maintaining fiscal and debt sustainability. Informed by IMF FAD TA, the NRS provides guidance for coordination among government agencies, donors, the private sector and civil society on tax policies and administration, led by the MOF. As our focus now shifts to NRS implementation, we have developed detailed implementation plans with specific timetables for tax administration, customs, and tax policy reforms. Importantly, 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.

24. Near-term tax policy measures focus on raising revenues from excises, further alignment with the EU acquis, and streamlining tax privileges. We recently submitted legislation to increase excise rates, a first step in a gradual increase to EU minimum levels over the medium term (see also ¶13). In line with the NRS, we are also planning to better target and rationalize tax exemptions, minimize revenue losses, and avoid compromising equity and economic efficiency. To this end, we had initially committed to conducting an assessment of the effectiveness of tax privileges, including their cost to the budget. After further consultations, we are now considering a phased approach, which will allow for greater depth and continuity in the analysis. Accordingly, in consultation with IMF FAD TA, we will first develop and adopt a formal assessment methodology for tax privileges and guidelines specifying (i) the number of topics on tax privileges to be evaluated in an annual cycle, (ii) a standardized evaluation template, and (iii) the publication process of underlying assessments **(*Structural Benchmark,* end-July 2024, proposed to be modified and reset to end-September 2024*).*** Subsequently, this methodology will be phased in and gradually applied to all relevant topics, targeting the most significant tax expenditures first, and leading to a regular evaluation cycle covering all topics over a number of years.

25. Over the next few years, we will undertake important tax policy reforms, guided by the NRS, to meet post-war needs. In addition to streamlining tax exemptions, we will strengthen revenue mobilization 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; and (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. Work in several of these areas has already begun and will be supported by TA from the IMF FAD and other international development partners.

- In the future, when conditions are ready, we will also consider reforms to make the tax system more equitable (e.g., through a more progressive personal income tax (PIT)). However, as outlined in the NRS, such PIT reforms require administrative reforms, including to safeguard the confidentiality of tax data in the STS systems.

- We are also developing 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.

26. Near-term reform efforts at the State Tax Service (STS) focus on building public trust in the STS and developing modern compliance risk management practices:

- Taxpayer survey results from 2022 have underscored the need to improve public perceptions of the STS through improved taxpayer services and anticorruption reforms. Currently we are working on eliminating problems identified in the survey. With support from the World Bank, a similar survey, by an independent company, has started in April 2024, with results to be published within two weeks after receipt by the STS, no later than August 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 take 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, by end-2024 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. These changes to our systems will be operational by end-2026.

- To improve our risk-based approach to tax administration, we will develop a methodology to operationalize the tax risk management system. For this purpose, we will adopt a comprehensive compliance improvement plan (Overall Compliance Improvement Plan) on the identification, analysis, assessment, and mitigation of risks by major types of tax risks. By end-June 2024, we will launch a pilot of the new compliance risk management system, which requires a resolution by CMU.

- 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 , an NRS envisaged measure that is being implemented within the EU support framework); (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).

27. Near-term reform efforts at the State Customs Service (SCS) focus on areas critical for reducing corruption risks:

- We have adopted legislation that reinstates post-clearance customs audits, effective end-May 2024, to complement the reinstatement of tax audits and close potential loopholes in managing compliance processes.

- We have adopted legislation to criminalize large-scale customs fraud and smuggling, effective January 1st, 2024, for excisable goods and July 1st, 2024, for all other goods. We have also submitted legislation to modernize the framework to address administrative liability for violations of customs regulations, to be adopted by end-2024.

- We have submitted to Parliament significant revisions to the Customs Code to align the legislation with international best practice. The reform will (i) simplify procedures, (ii) clarify the treatment of customs debt, (iii) establish the legal basis for dismissing customs officers, including the role of integrity checks in a framework for periodic re-attestation (verification of their qualifications and integrity), (iv) set up a disciplinary committee, (v) introduce the hiring of customs personnel on contractual basis, (vi) ensure alignment with EU legislation and regulations, and (vii) ensure that, given its central role in government finances, the SCS remains subordinated to and accountable to the MOF. We intend to establish a merit-based and transparent process for leadership selection, with integrity checks and with meaningful participation of experts with international experience, which is consistent with the relevant legislation. The law will also continue to prevent the re-hiring of personnel previously dismissed from the civil service for ethics violations. We are currently considering amendments to the initial proposal and will continue to consult with the IMF and other international partners. We aim to adopt amendments to the Customs Code, in line with best practice, by end-October 2024 (***proposed Structural Benchmark,*** **end-October 2024**).

- We will launch an initiative to determine the criteria for assessing the impact of the SCS Anti-Corruption Program, by end-September 2024. This assessment will be supported by regular (biannual) independent surveys of traders on the perception of integrity level in customs. 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.

28. Economic Security Bureau of Ukraine (ESBU). Given the importance of strengthening compliance controls and detecting major financial and economic crimes, there is a need to bolster analytical support for identifying tax evasion. To this end, we will adopt a new ESBU law (***end-June Structural Benchmark***) that establishes a clear mandate and scope for investigative powers for the ESBU consistent with good practice by focusing on major economic crimes and strengthening its analytical capacity (complemented by efforts to ensure 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 establishes 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 new ESBU head; the attestation of managers will be prioritized and completed within a reasonable period after the appointment of the new ESBU head.

Restoring the Medium-Term Budget Framework

29. 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 analyses, 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. In this regard, we recently submitted to the Parliament legislation (draft law No. 11131) to restore medium-term budget planning for local budgets. 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

30. 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

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

- By including a Fiscal Risk Statement (FRS) in the 2024 budget, we achieved significant progress in strengthening our risk analysis. Going forward we will include a consolidated view of financial performance analysis and stress testing across major SOEs. We are also taking steps to strengthen the policies and practices for feeding the 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 ministries and key spending units requesting them to start identifying key fiscal risks. The information received on key fiscal risks will be included in the medium-term budget declaration for 2025–2027.

- 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 in their respective areas of responsibility and establish stronger links between the fiscal risks assessment and government spending predictability.

- With the help of ongoing IMF TA, the MOF will continue the development of risk-based fees for guarantees and prepare amendments to the existing decree. The upcoming IMF TA mission is expected in July-August 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**.**

32. We are implementing reforms to reduce the deficit and limit fiscal risks from the BDF's 5-7-9 loan program. In line with the BDF concept note developed by MOF in consultation with MOE (***Structural Benchmark,* end-March 2024, met**), we have reduced bank margins by 300-500 basis points and lowered the maximum size of working capital loans to non-priority sectors from UAH150 million to UAH5 million. An earlier backlog of bank compensations has been resolved. We are now working on the remaining measures to limit the program's deficit in 2024 and eliminate it in 2025, including (i) reinstating state aid rules and (ii) further targeting the lower end of medium-sized enterprises by end-June 2024. Meanwhile, implementing ESG criteria (to the extent possible by end-2024) will improve the quality of the program and further limit its size.

33. The MOF remains responsible for overseeing the BDF. We have developed a coordination mechanism with clearly defined roles for the MOE and the MOF. While the MOE will maintain its role of identifying priority sectors for SME support, the MOF will control and monitor spending under the program. This adequately balances SME support objectives against fiscal risks and ensures that the established directions and bank lending limits are respected. The appropriations for the 5-7-9 program in the 2025 Budget will be consistent with the parameters of the program. We will also ensure that the 5-7-9 program remains solely within the BDF, preventing its delegation to (or replication by) other entities.

34. Our reforms of the 5-7-9 program are accompanied by measures to strengthen the BDF's effectiveness and sustainability. The MOF, in collaboration with international partners, has commissioned an independent assessment of the BDF (to be completed by end-2024) and its support programs, with the goal of refining their operational design to effectively serve only those SMEs that encounter substantial barriers to funding and of informing the future role of the BDF. Moreover, the World Bank will carry out a policy effectiveness review of the 5-7-9 program in 2024. To ensure legal certainty and attract a wide range of qualified candidates for the BDF supervisory board, we recently passed a law to align the asset declaration obligations of the BDF's foreign independent supervisory board members with those of SOBs. To further strengthen the governance and financial self-sustainability of the BDF, we are committed to:

- Increasing BDF's fees from 0.15 percent to 0.5 percent and shifting responsibility for paying such fees from the government to banks participating in the 5-7-9 program (by end-September 2024).
- Establishing a BDF supervisory board with majority of independent candidates (by end-September 2024).
- Preparing a draft law to clarify the mandate and ensure the independence of the supervisory board, as outlined in our BDF concept note (by end-year 2024).

35. To limit fiscal risks, any government lending facilities or development finance institutions will strictly adhere to international best practice. We will ensure that any legislation along these lines conforms to international best practice. Specifically, we will ensure that any proposal internalizes the need for appropriate oversight (including by the competent authorities), a business model that ensures long-term financial sustainability to mitigate fiscal risks, and incorporates sound risk management frameworks and corporate governance standards, to provide insulation from political interference. We will consult with IMF staff and other international partners before launching any such programs.

36. 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 in special accounts donated by private individuals and legal entities. We are committed to continuing transparency and accountability of these accounts.

Strengthening Public Investment Management

37. We have begun to implement the roadmap, developed in 2023, to reform our public investment management (PIM) which lays out an ambitious agenda. The roadmap will gradually address identified weaknesses in the areas of (i) strategic planning, (ii) integrating public investment into the MTBF, (iii) procedures for preparing, appraising, selecting, and implementing projects, (iv) institutional capacity, and (v) monitoring and evaluating implementation. As a first step to implement the roadmap, we recently established the Strategic Investment Council (SIC), which will play a central role in defining the project pipeline. By end-September 2024, the SIC will consider the list of public investment projects for the 2025 budget. With the help of IMF TA and/or other partners, we will further operationalize the roadmap, including through 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, 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 (¶29), following the principles of budget unity, coherence, and predictability.

E. External Debt Strategy

38. 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.

39. The debt treatment comprises the following elements:

- *Official bilateral debt*. Creditors in the Group of Creditors of Ukraine 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*. Our goal remains to reach agreement on a debt restructuring with our international bondholders and other participating commercial creditors by the time the current standstill ends in August 2024. To this end, and to ensure compatibility with relevant Fund policies:

  (i) We are currently working with our legal and financial advisors, in discussions with bondholders, to reach an agreement consistent with the program's debt sustainability targets under the latest baseline scenario;

- We are committed to undertake a further treatment of external commercial claims as needed to restore debt sustainability, in line with program parameters. We note that the exceptionally high uncertainty now prevailing means that it is difficult to pin down a future scenario. If the scenario prevailing at the penultimate review of the program (or once conditions of exceptionally high uncertainty abate if that occurs earlier) is worse than that on which the present restructuring is based, then a further treatment will be necessary. The further treatment would be expected to take place once conditions of exceptionally high uncertainty abate, or at the latest by the penultimate review of the program. We continue to retain legal and financial advisors to assist us in this process and are undertaking consultations with creditors about an eventual further treatment, including sharing information about the potential range of outcomes. Given the time it could take to get to the point where an offer could be launched, we are committed to continuing regular consultations with creditors, including sharing of updated information as it becomes available.

40. 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

41. Our monetary and exchange rate policies aim to safeguard price and external stability and ensure an adequate level of international reserves. Guided by our Strategy we are adapting our monetary and exchange rate policies in view of evolving macroeconomic conditions and outlook, including cautiously continuing with FX liberalization.

Monetary Policy

42. We will maintain an appropriate monetary policy stance to support price stability, anchor inflation expectations, and enhance FX market stability. In view of rapid disinflation combined with a favorable inflation trajectory, we continued the easing cycle by cutting the key policy rate (KPR) by 150 bps this year, at a faster pace than envisaged at the beginning of the year. Inflation remaining close to the target, improved inflation expectations, and the successful transition to greater exchange rate flexibility have strengthened the role of inflation as the nominal anchor of monetary policy. Moreover, inflation control has been enhanced by the gradual restoration of monetary transmission channels, including by the KPR regaining its effectiveness in fulfilling its role as a monetary instrument, due to the impact of measures undertaken by the NBU. Overall, consistent with our Strategy and subject to its conditions, we will continue a gradual transition toward a full-fledged inflation targeting regime. Our strong commitment to achieving and supporting price stability in the medium term is crucial in guiding inflation expectations. Our interim regime deviates from the pre-war due to the managed flexibility of the exchange rate, a vital policy instrument due to a high uncertainty. The flexibility inherent in our inflation targeting regime, which accommodates short-term deviations from the inflation target in response to shocks, should facilitate the adjustment of the Ukrainian economy to shocks while maintaining control over expectations. 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 see further scope for the easing cycle to continue, albeit more gradually than in the previous quarters, and subject to the balance of risks to the inflation and economic outlook on the NBU's forecast horizon. The NBU intends to adapt its monetary policy if the balance of risks to inflation and the economic outlook changes significantly over the forecast horizon. Overall, in line with our Strategy, we intend to maintain sufficiently positive real interest rates to support price and external stability.

43. To ensure appropriate 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. In October 2023, we shifted from a corridor to a floor system, aligning the KPR with the main overnight CD instrument, thereby enhancing the KPR's role. We have also maintained the 3-month CD (access to which is linked to hryvnia term deposit growth), which has supported real returns and volumes of such deposits, enhancing FX stability and bank funding. We continue to make technical adjustments to the operational design to better enable alignment with the appropriate stance and enhance monetary policy transmission, and supporting external stability and reserves. Recently, this has included adjusting the eligibility for 3-month CDs, reducing the spread between the rates on 3-month CDs and overnight CDs, and reducing the spread between the KPR and the refinancing rate. We will continue to monitor the impact on banks' behavior and the transmission of monetary policy as further changes are introduced, ensuring these are carefully calibrated while preserving hryvnia assets' attractiveness and monetary stability. Over time, 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.

Exchange Rate Policies

44. Effective operationalization of the managed flexibility exchange rate regime has enhanced the FX market's capacity for self-balancing, and strengthens the exchange rate's role as a shock absorber while safeguarding reserves. The exchange rate, while supported by FX interventions, fluctuates in both directions in response to market conditions, reflecting the effects of domestic and external shocks. Trading activity in the FX market has increased significantly, accompanied by a notable increase in its depth: since the transition to managed flexibility, transactions excluding the NBU's participation have more than tripled, and their share more than doubled. The spread between exchange rates on the cash and official exchange rates remained compressed within 2 percent in February-April 2024, thus aligning different FX market segments. In general, these developments help to reduce the FX market's sensitivity to short-term volatility and strengthen its ability to self-balance. Allowing the exchange rate to adjust to domestic and external shocks will enhance the resilience of the Ukrainian economy and FX market. We continue to monitor the FX market closely and to calibrate our FX intervention policy in order to ensure fulfilment of the program's objective of price and external stability, including consistency 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 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.

45. We intend to maintain adequate FX reserves through the course of the program to safeguard external stability. FX reserves remained robust in 2024Q1, given weaker than expected net FX demand in the early part of the year due to fiscal restraint, stronger than expected net exports, and lower private outflows, allowing us to comfortably meet our end-March ***Quantitative Performance Criterion*** on net international reserves. Notwithstanding these positive developments, we are requesting an adjustment of the floor on the NIR QPC for end-June 2024, primarily due to shifted timing of expected financing from the US. On the other hand, the new end-September and end-December 2024 PCs are set at a higher level than IT projections under the previous review to reflect improvements in external sector performance and the shifted timing of external financing, as well as our continued commitment to external sustainability.

46. We continue to carefully adjust FX controls to support the economic recovery, while maintaining FX market stability and addressing national and international security considerations. In line with our Strategy, we have cautiously eased FX controls, including most recently by easing restrictions on service imports, dividend repatriation, and external loan repayments, alongside facilitating international leasing and increasing fund transfer limits for specific entities. These reforms are aimed at improving the investment environment, facilitating debt management, and promoting capital inflows into Ukraine, while considering assessments on macroeconomic conditions and outlook, and also ensuring consistency with the overall policy mix. We will continue to remain vigilant, proceeding with the FX liberalization roadmap under our Strategy to safeguard macroeconomic stability. To ensure the effectiveness of our liberalization efforts, we will continue to closely monitor the situation, including via bank-level data, to identify and address potential circumvention.

47. Our FX Strategy will continue to guide our decisions to gradually relax FX restrictions, as conditions allow. In March 2024, the NBU amended the necessary legislations in order to ensure the discretionary right of the NBU to approve FX permits for exemptions to the general rules on cross-border transactions set by Resolution #18. Our decisions to approve such individual permits will be consistent with the FX Strategy and the goal of safeguarding macroeconomic, financial, and external stability, and will be made in cases of exceptional importance to the state in wartime. On the issue of adjusting settlement periods for export and import transactions, we will work with relevant stakeholders to devise suitable solutions that balance facilitating business activity while ensuring the steady flow of export earnings, a vital element for the smooth functioning of the FX market, which is in turn crucial for successfully implementing currency liberalization measures.

48. No multiple currency practices (MCPs) have been identified since the Third Review. We commit to ensuring that that as we continue with our exchange rate transition and FX liberalization, multiple currency practices do not arise inadvertently.

NBU Independence and Governance

49. We remain committed to avoiding monetary financing. 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 framework that has been mutually agreed between the MOF and NBU in consultation with the IMF, and for which a draft NBU resolution is underway. 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. We have avoided, and remain committed to, avoiding monetary financing. Due to technical reasons, a fluctuation in accounts payable unrelated to budget execution caused a minor miss of the indicative target on the ceiling on general government direct borrowing from the NBU. The issue has since been resolved.

50. 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 with a floating exchange rate.

- *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. We commit to refrain from using NBU profit for earmarked spending and will direct this revenue category to the General Fund of the State Budget. Finally, we recognize that costs incurred from monetary policy implementation via liquidity absorption (interest expenses on NBU CDs) are both necessary and justified to support macroeconomic stability in line with our mandate. These costs have now decreased in line with the recent monetary easing.

51. 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.

52. 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 a full-fledged inflation targeting framework with a floating exchange rate regime.

G. Financial Sector

53. 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.

54. 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.

- The NBU completed a resilience assessment of banks comprising 90 percent of system assets in December 2023. This asset valuation and solvency assessment found minor capital needs in five banks which have mostly been addressed. Four banks submitted capital management plans to close the approximately UAH 10 billion (US$260 million) gap as of end-2023 in two stages by March 2026. The findings of the NBU's 2023 banking system resilience assessment have been fully reflected in banks' regulatory ratios and financial statements. Starting in 2025, the NBU plans to resume annual resilience assessments, which will include asset quality reviews and stress testing under baseline and adverse scenarios and involve external auditors. 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.

55. 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.

56. 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) measures to strengthen operational readiness, including regularly updated bank recovery and contingency plans; (ii) improving procedures to apply resolution tools for insolvent banks and early intervention measures, including temporary administration for anti-crisis management to close key outstanding gaps by end-December 2024; (iii) revive the work of the NBU-DGF coordination committee to improve information sharing between the NBU and DGF to foster cooperation and functioning of the two institutions; and (iv) review of financial backstop mechanisms and any improvements needed to the DGF's financial position. In addition, the NBU will align its frameworks for counterparty eligibility in monetary policy operations with international best practice and their coordination with lender-of-last-resort operations with international best practice. The framework preserves the progress under past reforms and takes into account the longer-term goals related to EU accession.

57. We will refrain from making any changes to the allocation of roles and responsibilities of financial safety net stakeholders during Martial Law. The current financial safety net design is heavily shaped by reforms undertaken under past Fund-supported programs and has served Ukraine well during crisis times. The DGF plays an important role in Ukraine's financial safety net by safeguarding deposits and addressing insolvent banks. We recognize that maintaining its current role in the financial safety net is therefore essential. In consultation with IFIs, (i) we will appoint a new Managing Director when the position becomes vacant in July 2024; and (ii) a subcommittee of the Financial Stability Council will review DGF governance arrangements, including of the Administrative Board, internal controls, and the procedures for the appointment of the Managing Director, and prepare legislative proposals to close gaps relative to good practice by end-March 2025. The new appointment procedures will include the engagement of an independent HR firm to assist with the selection process and introduce a nomination committee comprised of voting representatives and IFIs as observers.

58. 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 **(*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. Informed by the NBU resilience assessment, we developed capital management plans and adjusted the business plans of SOBs needing capital increase to meet the requirements. 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 prepared a draft law on SOB privatization in consultation with IFIs and will submit it to Parliament by end-September 2024. We are also preparing two systemic state-owned banks for sale, Sense Bank and Ukrgasbank. We are planning to appoint an internationally recognized financial advisor by end-September 2024 using a transparent procedure and in consultation with IFIs.

- The Ministry of Economy will develop strategies for the Ukrainian Financial Housing Company and Export Credit Agency in consultation with the Ministry of Finance by end-November 2024 to align with the general targets of financial sector development.

59. 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.

- *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 key gaps in minimum capital requirements by end-June 2025 and other gaps thereafter. The implementation of the new requirements will be phased to facilitate banks integrating them into their business plans. The NBU will continue monitoring prevailing economic conditions and relax controls and reinstate pre-war regulations when it is safe to do so and based on banks' adherence to the new capital requirements aligned with EU standards.

- *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 close the gaps with international standards in consultation with the NBU, NSSMC and IFIs, and: (i) by end-August 2024, in coordination with the World Bank, will 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) by end-December 2024, 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*. In March 2024, the NBU and Ministry of Justice prepared a detailed proposal in consultation with key stakeholders 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 includes conditions, 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 Ministry of Justice and the NBU will continue to implement reforms within the timeframe planned in the proposal to launch databases and publish the indices in 2025.

- *Virtual assets*. Virtual assets pose risks to price stability, the effectiveness of monetary transmission, and tax revenue in the absence of a strong legal framework. 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*. The NBU, in consultation with IFIs, aligned 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.

- *NBU's status as a secured creditor*. We will strengthen the NBU's status as a secured creditor in line with the IMF's Safeguards Assessment Report. We will submit to Parliament by end-December 2024, law amendments that reflect the NBU and the DGF's coordinated position and that aim at strengthening the NBU's status as a secured creditor of banks by improving the mechanisms for extraordinary satisfaction of the NBU's claims through collateral, management, and sale of collateral.

60. 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; 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-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 corruption, 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 the FATF 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-August 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.

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

- *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.

- *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 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*. Draft law (#11043) that will strengthen regulatory requirements for market participants has passed the Parliamentary committee stage and is ready for the first reading. It aims to align with the EU payment services directive (PSD2, 2015/2366) and international good practice. We will aim to adopt the law by end-September 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; (iv) prepare a concept note by end-June 2024 on regulatory requirements for person to person (p2p) and other such electronic payments with the aim of identifying and restricting abnormal behavior and implement the reforms as quickly as possible; and (v) develop a concept note by end-August 2024 on the establishment of a public register to record card holder and merchant violations, and its potential use by market participants and government agencies such as cyber police, SSU, ESBU, and SFSU. We will implement supporting regulation by end-December 2024.

- *Capital market regulation and harmonization with IOSCO principles*. Law (#3585) on the National Securities and Stock Market Commission (NSSMC) which enhances the NSSMC's powers, independence and institutional capacity, and its cross-border and domestic cooperation mandate was enacted in April 2024. The law considers the mandate of other regulators, and we will move swiftly to align with IOSCO principles by conducting the screening process 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-December 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-July 2024 to take into account supervisory observations in the recognition of related parties.

- *Insurance transparency*. We 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 assess the feasibility of updating the disclosure requirements for insurance and reinsurance brokers by end-December 2025.

62. 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 have proposed priority actions for enhancing the capital market infrastructure. In a first phase, the NSSMC will approve the NBU regulation allowing the NBU to extend the NBU Clearstream link by end-July 2024 to facilitate access of foreign capital to municipal bonds and other Ukraine reconstruction-related debt instruments. In a second phase, the NSSMC, National Depositary (NDU), and NBU with IMF technical assistance will target establishment of a direct link between the Central Securities Depository (CSD) and foreign CSDs by end-July 2025 to expand foreign investors' access to a broader range of instruments and markets. The NBU, NSSMC, and MOF will by end-August 2024 propose further measures aimed at enhancing capital market infrastructure.

- *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.

- *Financial inclusion.* The ongoing war is adversely impacting access to financial services for both households and enterprises in the areas close to the armed conflict zone, in the liberated territories, as well as for certain groups of the population. The war is also restricting IFIs' ability to comprehensively assess financial inclusion developments and priorities. We will collate fresh data using a best efforts approach and update our financial inclusion strategy in consultation with IFIs by end-July 2024. We will encourage financial institutions to do more to meet the needs of vulnerable clients and to reintegrate de-occupied territories. The NBU will prepare by end-July 2024 a legislative draft proposal for a specialized and restricted banking license which aims to quickly tackle growing financial inclusion challenges by leveraging on existing infrastructure. These specialized banks will: (i) be subject to the full extent of the Law of Ukraine on Banks and Banking; (ii) participate in the Ukraine deposit insurance scheme; (iii) have limits imposed on lending and funding operations. The proposal will be prepared in consultation with key stakeholders and IFIs, and with due regard to international good practice.

- *Lending development strategy*. We have prepared a strategy to support bank lending in consultation with IFIs that aims to provide a unified policy approach to support fresh credit. It is focused on targeting subsidized lending instruments to key priority sectors during the war and further developing credit infrastructure to support banks' risk management and lending decisions. We aim to submit to the FSC for approval in June 2024. NBU regulation and supervision will continue to apply to institutions that provide financial services to a large volume of clients and any authorities or agencies mandated with improving the lending infrastructure will adhere to the approved strategy.

- *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, including via technical assistance, will prepare a concept note by end-October 2024 that will set out the steps, conditions and timing needed to introduce and develop the derivative financial instruments (including forwards) market.

63. 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

64. 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. We will also explore the scope to publish the breakdown of costs for public construction projects to ensure transparency following the public procurement process. 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.

65. We will undertake efforts to enhance the institutional independence and effectiveness of key audit institutions to ensure that public funds, particularly for reconstruction and recovery, are used for their intended purposes and any misuse is prevented or detected. In this respect, a law will be enacted by end-December 2024 to enhance the independence (organizational, functional and financial), mandate and effectiveness of the Accounting Chamber of Ukraine (ACU) to fulfill its constitutional oversight function over public expenditures in line with standards of the

International Organization of Supreme Audit Institutions, and audit all public funds (including budgets of local government agencies, SOEs and off-budget funding). In particular, the law will: (i) enhance its independence including strengthening the selection process for ACU members for an open, transparent, credible and competitive procedure; (ii) enable the ACU to select the scope of the audit free from any direction or interference and to have full and timely access to all relevant information and databases to perform its audit functions; (iii) empower the ACU to exercise external audit function on all public funds (including funds or budgets of local government agencies, SOEs and off-budget funding); and (iv) establish formal procedures in the legislature for reviewing and monitoring external audit reports and following up on audit recommendations with commensurate financial and technical resources. More broadly, we will continue to safeguard the financial independence of the ACU, consistent with its role and constitutional independence.

Anti-Corruption and Rule of Law

66. 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.

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

- To strengthen effective procedures for corruption investigations, further amendments to the Criminal Procedural Code will be enacted, including (i) to enable the Prosecutor General to delegate to the SAPO the management of extraditions and mutual legal assistance requests in relation to corruption investigations, (ii) remove the mandatory dismissal of pre-trial investigations due to the lapse of time limits of pre-trial investigation after notice of suspicion, and (iii) upon expiration of the time limits and motion of the defendant or affected parties, give the investigating judge authority to compel in a timely manner the prosecutors to decide on the pre-trial investigation (either close the proceeding or complete the pre-trial investigation), or reject the motion, with the aim of appropriately balancing the objectives of prompt and comprehensive investigations of criminal offenses and protection of rights of parties in criminal proceedings **(*Proposed Structural Benchmark,* end-October 2024).**

- 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 have engaged with international partners on the nomination of independent experts for the planned NABU's external audit, and will, as necessary, provide further support to this external audit commission, once the external auditors are nominated and appointed. To effectively implement the law empowering the NABU to intercept communications (wiretapping), we will develop an implementation plan 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 will also enact by end-November a law to enhance corporate criminal liability (applicable to private and public legal entities either resident or non-resident in Ukraine) with international standards to support the country's efforts towards accession to the OECD Anti-Bribery Convention.

- We have initiated the process for nominating and appointing new members of the Public Council of International Experts (PCIE), 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 prolong the mandate of the PCIE by another year, given its expiry in October 2024, as more time is needed to finish the ongoing selection process of new HACC judges. 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-September. To enhance its efficiency and facilitate hearings, amendments to the procedural code were enacted in May 2024 (shortly after the end-April target date) to rationalize matters or issues to be heard at the first instance by one HACC judge or by a panel of three HACC judges based on the severity of the penalty **(*Structural Benchmark,* end-April 2024, not met, implemented with delay)**. In this regard, we will also assess the potential impact on judicial efficiencies and resources to all criminal courts by the inclusion of a list of high-level public officials, whose cases would automatically be heard by a panel of judges (regardless of the penalty), and implement corrective measures, as warranted.

68. 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. In this regard, the Ministry of Justice will further simplify procedures and update software by end-September to facilitate submission by companies of their beneficial ownership information, which continues to be publicly available in the Unified State Register of Legal Entities, Entrepreneurs and Public Associations. By end-December 2024, we will also enhance processes for obtaining adequate, accurate and up-to-date beneficial ownership information and designate a competent authority to conduct risk-based verification of the information.

69. We are committed to advancing the rule of law and judicial reforms. 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 PCIE **(*Structural Benchmark,* end-July 2024, proposed to be reset to end-December 2024)**. In particular, the new court will have authority over cases belonging to the competence of the liquidated Kyiv District Administrative Court in relation to the appeal of acts of national state agencies the power of which extend to the entire territory of Ukraine, in addition to the administrative cases against procedures of selection commissions and external audit commission that include participation of independent experts (such as NACP, NABU, and SAPO).

Corporate Governance in SOBs and SOEs

70. 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 and the NBU applied 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.

71. We will continue to strengthen SOE corporate governance.

- We are working on implementing law #3587-IX (formerly draft law #5593-D), which entered into force in March 2024 to bring the SOE corporate governance framework broadly into line with OECD Guidelines on Corporate Governance of SOEs, while also mitigating fiscal risks. This includes, in particular, secondary legislation to operationalize SOEs’ financial planning process, including financial indicators designed with the help of IMF TA that are consistent with the gatekeeper role of the MOF from a budget financing and PFM perspective to limit quasi-fiscal risks and safeguard debt sustainability. The implementation of #3587-IX will also include a revamped nomination process and effective independent evaluation procedure for SOE supervisory boards, consistent with OECD standards.

- 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 are currently developing a framework procedure for supervisory board assessment and commit to launch an independent evaluation of the supervisory boards of Naftogaz and Ukrenergo in October 2024 and to conclude it by end-December 2024.

72. 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 continue to adhere to the following SOE reform agenda after adoption of #3587-IX (as discussed in ¶71) and policy sequencing in close consultation with international partners, which are all essential preconditions for strengthening SOE management, including: (i) implementing related secondary legislation for #3587-IX, including establishing a methodology for and subsequently conducting regular independent evaluations of SOE supervisory boards; (ii) as an interim step, assessing the financial conditions and fiscal risks of the SOEs in the state ownership policy by end-July 2024; and (iii) producing a comprehensive state ownership, dividend policy and privatization strategy ***(Structural Benchmark,* 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).

73. 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 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).

- 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

74. 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.

- Recent large-scale attacks on our energy infrastructure and electricity generation have destroyed around a half of our generating capacity, especially thermal and hydroelectric power, with damage exceeding US$1 billion during the spring. We are working swiftly to repair the damage and to ensure sufficient electricity provision to households and firms across the country. We will also aim to make our energy system more resilient to future attacks, including through decentralized energy generation in a conducive market and regulatory environment. Affected companies will mostly rely on their working capital to conduct the repairs, while we are grateful for donor support, including on equipment. We may need additional financial assistance by donors to support decentralized electricity generation support programs. Meanwhile, we have increased the electricity tariffs for households by up to 64 percent as of June 1, 2024, bringing tariffs closer to cost recovery levels and adjusting incentives for electricity usage during the heating season.

- Potential reform measures, once conditions allow, include additional 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, in coordination with the European Commission.

- 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, we 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 by end-June that allows for a special regime of operations for GTSO to reduce its operational expenditures and maintenance for non-critical gas transmission purposes.

- Consistent with our commitments to the EU and other international partners, we will ensure the independence of the National Energy and Utilities Regulatory Commission (NEURC), which plays an important role in efforts to integrate the Ukrainian energy market with the EU, to attract needed FDI and advance the envisaged decentralization of power generation, and thus help make the energy system more resilient to missile attacks. Specifically, in order to align the Law of Ukraine 'On the NEURC' with European legislation to ensure NEURC's functional independence, we will adopt amendments to the law #3354-IX by end-December 2024 to exempt regulatory decisions by NEURC from the state registration procedure and also to implement Article 5 of the Law of Ukraine 'On the NEURC' prohibiting state bodies from interfering with NEURC's activities. We will ensure the appointment of NEURC's Commissioners by end-September 2024 based on the results of the competition carried out in line with the norms of the Law of Ukraine 'On the NEURC.'

- District Heating Companies (DHCs) have accumulated a significant stock of arrears to Naftogaz before and since the start of the war, as 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 analyze the debts and financial conditions of DHCs through a desk review, by a reputable audit firm, which will analyze the debts before and after February 2022 *(**Structural Benchmark,*** **end-June 2024, proposed to be modified and reset to October 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 2024/25 heating season.

I. Program Monitoring

75. 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 Fifth, Sixth, and Seventh reviews are expected to take place on or after September 1, 2024, December 1, 2024, and March 1, 2025, respectively, based on quantitative performance criteria for end-June 2024, end-September 2024, and end-December 2024, respectively, and corresponding structural benchmarks.

Table 1. Ukraine: Quantitative Performance Criteria and Indicative Targets

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

	Mar 2024					Jun 2024		Sep 2024		Dec 2024		Mar 2025		Jun 2025
	QPC	Adjustor	Adjusted QPC	Actual	Status	QPC	Proposed Rev. QPC	IT	Proposed QPC	IT	Proposed QPC	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/	135,000	0	135,000	241,901	Met	250,000	250,000	368,313	368,313	415,410	415,410	330,000	310,000	660,000
Floor on tax revenues (excluding Social Security Contributions)	426,300	...	426,300	507,992	Met	880,400	880,400	1,398,600	1,398,600	2,042,250	2,042,250	485,000	485,000	850,000
Ceiling on publicly guaranteed debt	47,900	5,879	53,779	5,879	Met	47,900	47,900	47,900	47,900	47,900	47,900	53,626	53,626	53,626
Floor on net international reserves (in millions of U.S. dollars) 3/	28,400	-134	28,266	31,408	Met	26,800	25,300	27,900	28,800	24,900	26,300	26,000	23,800	24,800
II. Indicative Targets 1/ 2/														
Floor on the cash balance of the general government, excluding budget support grants (- implies a deficit)	-344,485	0	-344,485	-211,020	Met	-725,996	-725,996	-1,123,107	-1,123,107	-1,557,208	-1,557,208	-215,000	-215,000	-370,000
Ceiling on general government arrears	2,000	...	2,000	1,514	Met	2,000	2,000	1,800	1,800	1,600	1,600	1,600	1,600	1,600
Floor on social spending	130,000	...	130,000	142,139	Met	262,500	262,500	390,000	390,000	537,800	537,800	135,000	130,000	250,000
Ceiling on general government borrowing from the NBU 4/ 5/	-9,500	0	-9,500	-9,392	Not met	-2,884	-2,884	0	0	0	0	-984	-984	-4,100
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)	476	...	...	186	...	861	251	1,200	605	1,497	1,496	326	142	426
External budget financing (in millions of U.S. dollars) 6/	9,267	...	...	9,210	...	16,825	12,936	25,654	25,745	32,414	32,565	5,183	4,236	10,794
Budget support grants (in millions of U.S. dollars)	1,017	...	...	980	...	4,942	1,050	10,474	10,506	12,082	12,114	1,735	429	965
Budget support loans (in millions of U.S. dollars) 6/	8,250	...	...	8,230	...	11,883	11,887	15,180	15,239	20,332	20,451	3,447	3,807	9,830
Interest payments	49,500	...	...	44,966	...	161,780	161,780	284,320	284,320	429,820	429,820	117,831	67,000	190,600
NBU profit transfers to the government	30,000	...	...	0	...	38,000	38,000	38,000	38,000	38,000	38,000	0	0	34,400
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	0	...	...	0	...	0	0	0	0	23,743	23,743	0	0	0
Spending on gas purchases, PSO compensation and transfer to GTSO	0	...	...	0	...	0	0	60,000	60,000	60,000	60,000	0	0	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)	-262.4	...	...	-221.2	...	-671.7	-671.7	-1,046.6	-1,046.6	-1,562.1	-1,562.1	-212.2	-181.8	-363.6

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 2024, and 2025 are cumulative flows from January 1, 2024, and 2025, respectively.

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

4/ From end of previous quarter.

5/ For June, 2024 onwards, calculated using the projected redemptions of government bonds as of May 15, 2024.

6/ Excludes prospective IMF disbursements under the EFF.

Table 2. Ukraine: Structural Benchmarks (modified/new 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
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**

Table 2. Ukraine: Structural Benchmarks (continued)

	Structural Benchmark	Sector	Timing	Status
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	**Met**
23	Adopt a new law (consistent with ¶28 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	**Develop a methodology to assess the effectiveness of tax privileges, including their cost to the budget, in order to have a unified reform approach**	Fiscal	***End-September 2024***	***Modify and reset from 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	**Adopt amendments to the Customs Code (consistent with ¶27 of the MEFP), in line with international best practice.**	Fiscal	**End-October 2024**	
28	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	
29	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	
30	Prepare a bank rehabilitation framework in consultation with the DGF and IMF staff	Financial Sector	End-December 2024	
31	Implement a supervisory risk assessment methodology to inform supervisory engagement priorities	Financial Sector	End-December 2024	
32	**Analyze the debts 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-October 2024***	***Modify and reset from end-June 2024***

Table 2. Ukraine: Structural Benchmarks (concluded)				
	Structural Benchmark	**Sector**	**Timing**	**Status**
33	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	**Not Met (implemented with delay)**
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	**Amend the Criminal Procedural Code to enable the Specialized Anti-Corruption Prosecutor's Office to manage extradition and mutual legal assistance request and rationalize consequences from expiration of time limits for pre-trial investigations (including for corruption cases) in line with MEFP, ¶67, 1st bullet.**	**Governance/ Anti-Corruption**	**End-October 2024**	
36	**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-December 2024***	***Reset from end-July 2024***
37	Produce a SOE state ownership policy, dividend policy and privatization strategy	SOE Corporate Governance	End-October 2024	

Attachment II. Technical Memorandum of Understanding

June 17, 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 June 17, 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:

1. 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);

2. 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,

3. 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-Jun.	end-Sep.	end-Dec.	end-Mar.	end-Jun.
Total official support	13,187	26,351	34,061	4,378	11,220
Budget support	12,936	25,745	32,565	4,236	10,794
Loans	11,887	15,239	20,451	3,807	9,830
Grants	1,050	10,506	12,114	429	965
Project support 2/	251	605	1,496	142	426

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-Jun.	end-Sep.	end-Dec.	end-Mar.	end-Jun.
Net issuance of central government domestic FX securities	-76	-76	-76	0	0
Gross issuance	1,896	2,311	3,266	1,014	1,341
Redemption	1,972	2,387	3,342	1,014	1,341

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 paragraph 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 the preceding quarter over the latest as of assessment, and is adjusted for exchange rate valuation effects using program exchange rates. For the Fourth Review, the preceding quarter is December 2023, and the latest as of assessment is March 2024. 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 paragraph 49 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 (June 30, 2024, September 30, 2024, and December 31, 2024 for the 2024 targets and March 31, 2025 and June 30, 2025 for the 2025 targets) and is not carried over between quarters. The amount of the shortfall in external financing is assessed as the total cumulative shortfall from end-December 2023 for 2024 targets, and end-December 2024 for 2025 targets, and is measured on the last day of the previous month. Projected redemptions are shown in Table D.

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

(in UAH billion)

	For the test date of:					
	2024				2025	
	Mar 31	Jun 30	Sep 30	Dec 31	Mar 31	Jun 30
Actual rollover rate on three month period prior to requesting monetary financing	132	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 May 15, 2024	40.500	47.116	50	50	49	46
Memo: Projected redemptions (in UAH billions), as per 2024 budget law	-88.5	-107.0	-81.0	-168.0	-128.0	-137.0

18. In cases where the 15-business-day interval for reaching agreement and making payments (including as stipulated in the Memorandum of Understanding between the Ministry of Finance of Ukraine and the National Bank of Ukraine on the Repayment and Servicing of Obligations of the Government of Ukraine to the International Monetary Fund) falls past the relevant test date, the ceiling on general government direct borrowing from the NBU will be subject to an automatic upward adjustor by the amount of the payment.

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

Definition

19. The overall cash balance of general government excluding budget support grants is defined as a balance measured in paragraph 20 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.

20. 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 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,

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

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

- 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 97 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.

21. 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. The exceptions include external disbursements and amortizations of municipal governments and commercial bank direct credit, which will be accounted for at current exchange rates. Financing changes resulting from exchange rate valuation of foreign currency deposits are excluded from the computation of balance. The government deposits in the banking system exclude VAT accounts used for electronic administration and escrow accounts of taxpayers used for customs clearance.

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

22. 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, consistent with budget treasury codes 2410 and 2420, respectively) 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 30 billion in end-March 2024, UAH 38 billion for the remaining test dates in 2024, UAH 0 billion for end-March 2025, and UAH 34.4 billion for end-June 2025.

- 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 2024 and UAH 0 billion in 2025, conditional upon availability of financing.

- For 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 adjustor up to a cumulative maximum amount of UAH 23.7 billion corresponding to the full amount of receipts from sales of confiscated Russian assets and transfers of bank accounts; for test dates in 2025 the cumulative maximum downward adjustment is UAH 0 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 March 31, 2024. 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)

23. 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)

24. 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)

25. 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 81 of this TMU. The target is cumulative starting January 1st of each calendar year, as described in the table of paragraph 81 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

26. 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

27. 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 in 2024 the ceiling will be set at UAH 47.9 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 2024

calendar year including guarantees to priority sectors. The program exchange rates will apply to all non-UAH denominated debt. This ceiling excludes guarantees for NBU borrowings from IMF.

28. 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 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; (vi) loan to Urkhydroenergo for recovery equipment (vii) loan to Urkhydroenergo for installation of energy storage.

- Consistent with debt sustainability objectives, this adjustor will be capped at UAH 38.7 billion in 2024 and discussed in program reviews. Projects subject to the adjustor in 2025 will be discussed in subsequent program reviews.

J. Other Continuous Performance Criteria

29. 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

30. 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 has transitioned to a regime of managed flexibility, whereby the official exchange rate against the USD is determined based on series of transactions in the interbank FX market. Ukraine's de jure exchange rate arrangement is floating. The de facto exchange rate arrangement has been reclassified from stabilized to floating, effective October 3, 2023. Starting from October 3, 2023, the NBU sets the official hryvnia/US dollar exchange rate on a daily basis at the weighted average rate determined based on interbank market transactions using a two-stage cut-off system for transactions with extreme parameters. To calculate the official exchange rate, the NBU uses information on all tod, tom, and spot (T+2) USD purchase/sale transactions with a volume of USD 100,000 to USD 5 million inclusive between banks and between banks and the NBU, which are reported to the NBU via trade information systems before 3 p.m. on the same day. 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. Also, there are foreign currencies for which the official exchange rate is set by the NBU on a monthly basis.

III. REPORTING REQUIREMENTS

A. National Bank of Ukraine

31. 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).

32. 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.

33. 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.

34. 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."

35. 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).

36. 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).

37. 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.

38. 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.

39. 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.

40. ***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 in a format agreed with IMF staff based on monthly reporting data.

41. 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.

42. 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.

43. 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.

44. 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.

45. 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.

46. 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.

47. 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.

48. 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).

49. 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.

50. 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).

51. 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.

52. 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).

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 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).

54. 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.

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

56. 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.)

57. 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, domestic government debt securities, including benchmark domestic government debt securities, funds held at the NBU in correspondent accounts, NBU's certificates of deposit, including NBU's limited three-month certificates of deposit, amount of reserve requirements (required reserve ratio), the average value of the liquidity coverage ratio LCRall currencies, LCRfc.

58. 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.

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

60. 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.

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

62. 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.

63. 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.

64. 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.

65. 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.

66. The NBU will provide ***<u>on a monthly basis</u>*** to the IMF detailed information on the government's deposits at the NBU and at commercial banks in the breakdown of currency consistent with paragraph 20 and in an agreed format.

B. Deposit Guarantee Fund

67. The DGF will provide, ***<u>on a monthly basis</u>***, 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.

68. The DGF will report to the IMF ***<u>on a monthly basis</u>*** 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.

69. The DGF will report to the IMF ***<u>on a monthly basis</u>*** 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.

70. The DGF will report to the IMF ***<u>on a monthly basis</u>*** 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.

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

72. 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

73. 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.

74. 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.

75. 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.

76. 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.

77. 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.

78. The Ministry of Finance, together with NBU, ***__on a monthly basis__***, will provide information about redemptions of domestic bonds and bills in favor of residents (banks, non-banks) and non-residents. The Ministry of Finance, together with NBU, ***__on a weekly basis__***, will provide information

on face value of government bonds redeemed and face value of government bonds placed during the week.

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

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

81. The Ministry of Finance will provide data on the stock of all budgetary arrears on a monthly basis, no later than 25 days after the end of the 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.

82. 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.

83. 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).

84. 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.

85. 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.

86. 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.

87. 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.

88. 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.

89. 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.

90. 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.

91. 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.

92. 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						

93. The STS will provide ***<u>on a quarterly basis</u>*** 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.

94. The Ministry of Finance will provide ***<u>on a monthly basis</u>*** 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

95. 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.

96. The Ministry of Economy will provide ***<u>on a quarterly basis</u>***, 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.

97. 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

98. 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

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

INTERNATIONAL MONETARY FUND

UKRAINE

FOURTH REVIEW OF THE EXTENDED ARRANGEMENT UNDER THE EXTENDED FUND FACILITY, REQUEST FOR MODIFICATION OF A PERFORMANCE CRITERION, AND FINANCING ASSURANCES REVIEW—SUPPLEMENTARY INFORMATION

June 26, 2024

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

Prepared By European Department

This supplement provides an update on recent developments since the issuance of the Staff Report (EBS/24/74). This update does not alter the thrust of the staff appraisal.

On June 20, the Parliament adopted a law to reform the Economic Security Bureau of Ukraine (ESBU), a Structural Benchmark (SB) for end-June, which staff assesses has been met. The ESBU's role involves investigating major economic and financial crimes, which will contribute to efforts under the program to mobilize domestic revenues. The ESBU has been held back by weak institutional safeguards and governance vulnerabilities. Revitalizing the ESBU to enhance its independence and effectiveness is also a key reform demand from the business community, civil society, and international partners (a reform indicator in the EU Ukraine Plan).

The new law sets out a clear mandate for the ESBU, and enshrines robust mechanisms for transparency, accountability, and integrity. The ESBU's investigative powers will focus on addressing major economic and financial crimes, which will involve strengthening its analytical capacities. Moreover, the law strengthens requirements for the selection commission for the ESBU head with decisive and crucial vote for independent experts with international experience. Independent experts will also play an important role in both the re-attestation (re-certification) process of existing staff to assess their integrity, as well as the HR commission to hire new staff. Looking ahead after the enactment of the law, timely and comprehensive implementation of the ESBU law will be important, including operationalizing an open, credible and competitive process to select the ESBU head, management and staff, as well as a swift re-attestation process after the new ESBU head has been selected. Staff will follow up on progress at strengthening ESBU's capacities in the context of future reviews.

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

June 28, 2024

On behalf of the Ukrainian authorities, I thank staff for the in-depth staff report and the second Enterprise Risk Assessment, the constructive engagement during the recent mission staff visit to Kyiv and Warsaw, continuous virtual engagement with the authorities, and well-crafted technical assistance (TA).

The authorities are in broad agreement with the staff assessment of the devastating economic and social 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, including the First Deputy Managing Director's recent visit to Kyiv. They are thankful to all international donors and partners for meeting their financial commitments which help Ukraine brave these harsh times for our nation.

The authorities continue demonstrating strong program ownership and implementation during the program and believe that completing the fourth review with the current baseline and downside assumptions remains consistent with previous reviews and the Fund's policies for lending under exceptionally high uncertainty. Having said that, the comments below explain the context in which the authorities have operated since the last review in March 2024.

Macroeconomic Outlook during a Wartime

Russia's war against Ukraine continues—infrastructure gets more destroyed, and the country continues to bear humanitarian and economic costs. According to the report of the Kyiv School of Economics, approximately 18 GW of the electricity generating capacity was occupied during the full-scale invasion, including Europe's largest nuclear power plant — the Zaporizhzhia Nuclear Power Plant. Additionally, the Kakhovska and Dniprovska hydroelectric power plants and the Zmiivska and Trypilska thermal power plants were destroyed. In as little as 3 months, throughout March-June, a series of Russian attacks on the Ukrainian energy system damaged or destroyed over 9 GW of the generating capacity, or around half of peak demand last winter. Overall, the capacity destroyed has been estimated at over 80 percent for thermal and over 40 percent for hydroelectric power plants. As a result of Russia's full-scale invasion, Ukraine's energy sector suffered damages and losses of US $56.5 billion.

More than 11 million people remain displaced with 4.9 million people internally displaced (IDPs) and 6.5 million recorded as forced refugees, mostly relocated to European countries (with 1.1 million refugees in Germany, 0.96 million in Poland, and 0.36 million in the Czech Republic). 68 percent of the refugees are of working age, of whom 65 percent are women. 28 percent of the refugees are children. According to various surveys, most migrants abroad still plan to return to Ukraine, once economic factors, security, and housing improve. However, their share has been declining, reflecting further adaptation of migrants in host countries, which bestows risks for post-war recovery.

Despite the ongoing war, lack of electricity, and labor force shortages real GDP demonstrates growth in 2023 and 2024, reaching 6.5 percent yoy in Q1 2024, according to the flash estimate released by the statistics committee – above the Fund's current projections. The resilience of the Ukrainian economy, the further adaptation of businesses and households to wartime conditions, the substantial budget support, the rebound in domestic demand, and the faster expansion of maritime export routes were the main drivers of economic recovery in recent months.

However, **output remains 25 percent below pre-war level** with all sectors severely impacted, and the poverty rate has risen to nearly 30 percent. Recovery is expected to decelerate in 2024 due to the recent attacks on the energy infrastructure, a deteriorated current account, a decline of the harvest, and weakening sentiment.

Monetary and Exchange Rate Policies

Consumer inflation has remained low: 3.3 percent yoy in May 2024 due to a decrease in raw food prices owing to favorable weather conditions last winter and early spring, further pass-through effects of last year's strong harvests, and some producers reorienting toward the domestic market due to the blockade of the western borders of Ukraine. Underlying inflationary pressure also remained subdued - core inflation stood at 4.4 percent yoy in May -, continuing within the target band for more than six months. A moderate increase in inflationary pressure is expected through the rest of this year given the anticipated vanishing effects from last year's strong harvests, continued recovery in consumption rate, and a rise in business costs amid the war. In the coming years, however, inflation will decrease and settle close to 5 percent.

Considering the still moderate rate of inflation, ongoing improvement in inflation expectations, and the balance of risks for further inflation dynamics, the National Bank of Ukraine (NBU) continued the cycle of interest rate policy easing at a faster pace than envisaged at the beginning of the year to support economic recovery without creating additional risks for monetary stability. The NBU has cut the key policy rate (KPR) by 200 bps cumulatively since March and continues to monitor the impact of monetary stance easing on banks' behavior and the transmission of its previous decisions on market interest rates, thus ensuring that hryvnia assets' attractiveness and monetary stability are being preserved.

Ensuring two-way exchange rate (ER) movements in response to market conditions, while avoiding excessive ER volatility under the managed flexibility framework, helped the NBU keep inflation and ER expectations under control during the last quarters. That in turn helped preserve confidence in the hryvnia and steer inflation toward the target over the NBU's forecast horizon. Moreover, allowing the exchange rate to adjust to domestic and external shocks strengthens the resilience of the Ukrainian economy and FX market while safeguarding reserves. The NBU intends to maintain adequate FX reserves through the course of the program to safeguard external stability.

The authorities appreciate the External Sector Assessment conducted by staff. However, contrary to staff's conclusions, they consider that the assessment of REER misalignment and Ukraine's external position has to put more weight on the outcome of REER index models, thus being in line with the general IMF methodology.

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 FX market stability while addressing national and international security considerations. Further cautious easing of FX controls is aimed at improving the investment environment, facilitating debt management, promoting capital inflows into Ukraine, while considering assessments on macroeconomic conditions and outlook, and ensuring consistency with the overall policy mix.

Therefore, amid exceptionally high uncertainty, the NBU's monetary and exchange rate policies will remain focused on safeguarding price and external stability. The NBU is committed to maintaining appropriately positive real rates and to adapting them accordingly to changes in the balance of risks to inflation and the economic outlook over the forecast horizon.

The avoidance of monetary financing during the program has been an important factor supporting macroeconomic stability in 2023 and the first half of 2024. The authorities stay committed to avoiding monetary financing in 2024 subject to rhythmic international support.

The three previously approved multiple currency practices (MCPs) are considered eliminated. No MCPs have been identified since the third review. 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.

Fiscal Policies and Financing Strategy

The 2024 deficit, excluding grants, is large, but confirmation of previously committed official financing from the European Union, the United States, and other partners since the third review ensures that it is financeable. As envisaged in the budget, the deficit will be principally financed through external budget support from donors, amounting to US $38 billion (including the Fund). However, domestic financing will also make an important contribution. As of end-May 2024, net domestic bond financing of UAH 46.1 billion (almost US $1.2 billion) was mobilized, resulting in an implied rollover rate of 132 percent so far this year. About UAH 3.3 billion were issued in the form of designated benchmark bonds that banks may use to meet reserve requirements.

The authorities are advancing the implementation of the National Revenue Strategy (NRS) to help meet budget financing needs. The NRS, approved by the Cabinet of Ministers at the end of 2023 and as a part of the current EFF program, forms an anchor for tax policy and administration reforms in the medium-term and allows for achieving a fair and competitive tax framework that generates revenues sufficient to safeguard post-war development goals while maintaining fiscal and debt sustainability. For its operationalization the authorities developed detailed implementation plans with specific timetables for tax administration, customs, and tax policy reforms.

To support revenue mobilization the authorities also plan to amend the Customs code in line with international best practices and adopt numerous tax policy initiatives. Specifically, draft legislations have been registered in Parliament to gradually align tobacco and fuel product excise taxes with EU requirements (over 2024–2028) and to introduce excises on sugary drinks. Work is also underway to develop legislation on medical cannabis taxation and on advance payments on CIT for fuel stations. Rationalizing tax exemptions and improving their targeting remains a near-term reform priority. The authorities also remain committed to a timely adoption of legislation to reform the Economic Security Bureau of Ukraine (ESBU) and continue working on the reforms to improve the performance of the State Customs Service (SCS) and State Tax Service (STS).

Within the public investment management system, developed by the Cabinet of Ministers with the support of the IMF, World Bank, and the European Commission, the Strategic Investment Council (SIC) has been launched. The SIC should play a central role in defining the reconstruction projects pipeline, and by end-September 2024, the SIC will consider the public investment projects for the 2025 budget. With the help of IMF TA and other partners, clear linkages between the MTBF and national reconstruction priorities, specifying a gatekeeper role for the Ministry of Finance, will be established.

Financing volatility in the disbursement of committed external financing has been a major challenge for budget execution. Nevertheless, the approval of external financing by the European Union (EUR 50 billion EU Facility and several tranches of the EU bridge financing) and the United States (comprising US $61 billion of supplemental appropriations for military and financial support), has eased concerns about near-term liquidity strains and signals the commitment of international partners to stability, reform, and recovery. As of mid-May 2024, a total amount of external financing reached US $11.8 billion. Further rhythmic external support is an essential factor for maintaining the macrofinancial stability.

As Ukraine's urgent financial needs are constantly growing, the G7 partners` confirmation of their willingness to grant Ukraine approximately USD $ 50 billion in additional funding under the Extraordinary Revenue Acceleration (ERA) program is of vital importance. However, work on ERA should not undercut or replace any of the existing support programs which are equally important to cover budgetary needs, defense needs, and recovery costs.

The G7 leaders' statement envisages the involvement of the Multilateral Coordination Platform of Donors (MDCP). The IMF already participates in the Coordinating Group of International Financial Organizations on the issues of recovery of Ukraine. The authorities consider that the IMF's involvement in the process of coordinating and prioritizing the allocation of funds will ensure the quick, effective and rhythmic distribution of funds to Ukraine.

Governance Policies

Staying the course on critical anticorruption reforms is a priority for the authorities – they 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. 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.

During the last quarter, **a law to enhance the efficiency of the High Anti-Corruption Court (HACC) was enacted** as one of the structural benchmarks (SB) for the current review (SB was implemented with a several days delay) by allowing adjudication of corruption cases by a single or panel of judges depending on the severity of the penalty.

Complementing the recent reforms on strengthening the Specialized Anti-Corruption Prosecutor's Office (SAPO), **the authorities are planning further amendments to the criminal procedural code** to strengthen the criminal procedural code to rationalize processes and consequences after the expiry of time limits for pre-trial investigations.

The authorities are also advancing the implementation of the recently adopted SOE governance law and work on preparing the state-ownership strategy, which will also include a dividend policy and privatization strategy.

Concluding Remarks

The authorities differ from the staff view stated in the Enterprise risk assessment that the risks to the Fund have risen since the third review. They believe that amid the ongoing Russian invasion, they have skillfully maintained economic stability, while continuous financial support of key donors and partners and the disbursements of the IMF program have eased near-term liquidity strains and reduced many underlying risks. Progress on the reform agenda has been robust on the Ukrainian side, with the authorities meeting the end-March SBs. The continuous SBs related to the banking system also continue to be met. All end-March and continuous quantitative performance criteria (QPCs) and all but one of the end-March 2024 indicative targets (ITs) were also met. Financing assurances are in place, and a credible process is underway regarding the external commercial debt restructuring. While they agree that exogenous environment remains exceptionally uncertainty, all the factors above don't support the view that the risks are elevating.

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.

The authorities also believe that all the mitigation factors, including financial assurances from the key donors, remain in place. These, together with the authorities' strong ownership and track record under the current EFF program, decrease the relevant business, financial, strategic, and reputational risks for the Fund, despite extraordinarily challenging circumstances.

On June 25, 2024, the day of this Buff statement**, the European Union opened the accession negotiations with Ukraine**. The authorities believe that the reforms under the current EFF program will pave the way toward Ukraine's 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. The path ahead will be challenging. But it will also be filled with immense opportunities for Ukraine – as well as for the entire European Union.

Based on the successful program implementation as well as the commitments for the period ahead, the authorities request the completion of the fourth 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.