INTERNATIONAL MONETARY FUND

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UKRAINE

June 2020

REQUEST FOR STAND-BY ARRANGEMENT—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR UKRAINE

In the context of the Request for Stand-by Arrangement, 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 9, 2020, following discussions that ended in May 2020, with the officials of Ukraine on economic developments and policies underpinning the IMF arrangement under the Stand-By Arrangement. Based on information available at the time of these discussions, the staff report was completed on June 2, 2020.
- An **Informational Annex** prepared by the IMF staff.
- A **Statement by the Executive Director** for Ukraine.

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

Letter of Intent sent to the IMF by the authorities of Ukraine*
Memorandum of Economic and Financial Policies by the authorities of Ukraine*
Technical Memorandum of Understanding*
*Also included in Staff Report

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

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International Monetary Fund
Washington, D.C.

IMF Executive Board Approves 18-month US$5 Billion Stand-By Arrangement for Ukraine

FOR IMMEDIATE RELEASE

- *The COVID-19 pandemic will bear heavily on the Ukrainian economy in 2020.*
- *To address large balance-of-payments and fiscal financing needs, preserve achievements to date, and advance a small set of key structural reforms to ensure that Ukraine is well-poised to return to growth when the crisis ends, the IMF approved an 18-month Stand-by Arrangement (SBA), with total access of about US$5 billion.*
- *The approval of the SBA enables the immediate disbursement of about US$2.1 billion.*

WASHINGTON, DC – **June 9, 2020**. The Executive Board of the International Monetary Fund (IMF) approved today an 18-month Stand-by Arrangement for Ukraine, with access equivalent to SDR 3.6 billion (about US$5 billion or 179 percent of quota). The new program aims to help Ukraine to cope with COVID-19 pandemic challenges by providing balance of payments and budget support, while safeguarding achievements to date and advancing a small set of key structural reforms, to ensure that Ukraine is well-poised to return to growth when the crisis ends.

Ukraine's track record in stabilizing the economy over the last 5 years has been strong. However, more reforms efforts are needed to ensure robust and inclusive growth. The outbreak of the COVID-19 pandemic has significantly worsened the outlook and has refocused government policies on containment and stabilization. Uncertainty is large, and the economy is projected to contract sharply in 2020 as strict containment measures—in Ukraine and globally—led to sizable falls in domestic and external demand. The 2020 budget is expected to be hit hard, with a sharp decline in revenues and large emergency spending needs to address the crisis. This has created large balance-of-payments and fiscal financing needs.

The new arrangement succeeds the 14-month SBA that was approved in December 2018, which was focused on maintaining stability during the election year (see Press Release No 18/483). Policies under the new arrangement will focus on four priorities: (i) mitigating the economic impact of the crisis, including by supporting households and businesses; (ii) ensuring continued central bank independence and a flexible exchange rate; (iii) safeguarding financial stability while recovering the costs from bank resolutions; and (iv) moving forward with key governance and anti-corruption measures to preserve and deepen recent gains.

The approval of the SBA enables the immediate disbursement of the equivalent of SDR 1.5 billion (about US$2.1 billion). The remainder will be phased over four reviews.

The Executive Board also discussed the ex-post evaluation of exceptional access under Ukraine's 2015 extended arrangement under the Extended Fund Facility (EFF), which concluded that the extended arrangement helped restore macroeconomic stability and growth but did not fully address Ukraine's underlying balance of payments vulnerabilities.

Following the Executive Board’s discussion on Ukraine, Ms. Kristalina Georgieva, Managing Director and Chair, issued the following statement:

“Sound fiscal and monetary policies since the 2014–15 crisis have resulted in a sharp reduction in Ukraine’s external and internal imbalances. Public debt was put on a downward path, inflation has declined, and international reserves have recovered. As noted by the Ex-Post Evaluation of Exceptional Access under the 2015 Extended Facility, while growth resumed, reform implementation has been uneven and steadfast implementation of structural reforms will be needed to create a more dynamic and competitive economy. At present, the humanitarian and economic crisis stemming from the COVID-19 pandemic, has refocused policy priorities away from deep structural reforms.

“The new Stand-By Arrangement will provide an anchor for the authorities’ efforts to address the impact of the crisis, while ensuring macroeconomic stability and safeguarding achievements to date. Together with support from the World Bank and the European Union, it will help address large financing needs. The program will focus on safeguarding medium-term fiscal sustainability, preserving central bank independence and the flexible exchange rate, and enhancing financial stability while recovering the costs from bank resolutions. Concerted reform efforts aimed at tackling corruption and strengthening governance will be critical to ensure macroeconomic stability and achieve sustainable and inclusive growth.

“The risks to the new program are very large. The uncertainty about the severity and length of the global downturn is exceptionally high. On the domestic side, uncertainty about the direction of economic policies remains substantial.

“Public debt remains high and government financing needs are large. While fiscal policies under the program will initially be directed at addressing the impact of the crisis, fiscal policy will need to be tightened as the recovery sets in, to place public debt back on a downward path.

“The National Bank of Ukraine (NBU) has skillfully managed monetary policy during a very challenging period. Central Bank independence should be preserved, and monetary and exchange rate policies should continue to provide a stable anchor in the context of the inflation-targeting regime, while allowing orderly exchange rate adjustment and preventing liquidity stress. Financial policies should strike a balance between preserving financial stability and assisting the recovery.

“Full and timely implementation of policies under the Fund-supported program will be critical to mitigate economic risks and lay the ground for stabilization and recovery.”

More information

IMF Lending Tracker (emergency financing request approved by the IMF Executive Board)
https://www.imf.org/en/Topics/imf-and-covid19/COVID-Lending-Tracker

IMF Executive Board calendar
https://www.imf.org/external/NP/SEC/bc/eng/index.aspx

Ukraine: Selected Economic Indicators, 2018–2022					
		2019	2020	2021	
			Proj.	Proj.	Proj.
Real economy (percent change, unless otherwise indicated)					
Nominal GDP (billions of Ukrainian hryvnias)	3561	3975	3908	4277	4659
Real GDP 1/	3.4	3.2	-8.2	1.1	3.0
Contributions to real GDP growth					
Domestic demand	5.6	3.5	-8.6	2.7	4.3
Net exports	-2.2	-0.3	0.5	-1.6	-1.3
GDP deflator	15.4	8.1	7.1	8.2	5.8
Consumer prices (period average)	10.9	7.9	4.5	7.2	5.6
Nominal monthly wages (average)	24.8	18.5	3.6	11.4	9.3
Unemployment rate (ILO definition; percent)	9.0	8.5	12.6	12.0	11.5
Public finance (percent of GDP)					
General government balance 2/	0.0	-2.0	-7.7	-5.3	-3.5
Public and publicly guaranteed debt	60.6	50.4	65.4	62.7	60.5
Money and credit (end of period, percent change)					
Broad money	5.7	12.6	4.0	11.0	12.5
Credit to nongovernment	5.5	-9.8	-7.3	-12.4	8.4
Interbank o/n rate (annual average, percent)	16.5	15.6	…	…	…
Balance of payments (percent of GDP)					
Current account balance	-3.3	-0.7	-1.7	-2.0	-1.9
Foreign direct investment	1.8	1.6	0.8	2.1	2.4
Total external debt	87.8	78.8	93.0	84.6	77.9
Gross reserves (end of period, billions of US$)	20.8	25.3	19.3	23.4	26.5
Months of next year's imports of goods and services	3.3	4.8	3.1	3.4	3.6
Percent of IMF composite metric (float)	71.8	86.1	70.2	78.8	83.9
Exchange Rate					
Hryvnia per U.S. dollar (end of period)	27.7	23.7	…	…	…
Real effective rate (deflator-based, percent change)	8.8	14.7	…	…	…

Sources: Ukrainian authorities and IMF staff estimates.

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

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

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USA

INTERNATIONAL MONETARY FUND

UKRAINE

REQUEST FOR STAND-BY ARRANGEMENT

June 2, 2020

EXECUTIVE SUMMARY

Context. Ukraine's track record in macro-stabilization over the last 5 years and under successive Fund programs has been strong, but the goal of robust and inclusive growth remains elusive in the absence of sustained and comprehensive structural reform. Political circumstances were auspicious to address this long-standing challenge, with the President's anti-corruption platform supported by an unprecedented absolute majority in parliament. However, the outbreak of the COVID-19 pandemic has significantly worsened the outlook and has refocused government policies on containment and stabilization. Uncertainty is large, and the economy is projected to contract sharply as strict containment measures—in Ukraine and globally—led to sizable falls in domestic and external demand. The budget is expected to be hit hard, with a sharp decline in revenues and large emergency spending needs to address the crisis. This, together with the *de facto* closure of capital markets, has created an urgent balance of payments need.

Policy recommendations. The immediate focus needs to be on mitigating the economic and social impact of the crisis, while safeguarding achievements to date. Some fiscal space is available to absorb the shock and support an economic recovery, giving priority to transparent public spending to meet urgent healthcare needs, protect employment, and enhance social assistance. Monetary and exchange rate policies should continue to provide a stable anchor in the context of the inflation targeting regime, while allowing orderly exchange rate adjustment and preventing liquidity stress. Financial policies should strike a balance between preserving financial stability and assisting the recovery. The market stability observed to date depends crucially on maintaining hard-won improvements to institutional frameworks; preserving these gains is key to minimizing the economic costs of the crisis and laying the ground for stabilization and recovery.

Request for a new Stand-By Arrangement (SBA). In this context, the authorities are requesting a new 18-month SBA. This succeeds the 14-month SBA that was approved in December 2018, which was focused on maintaining stability during the election year. The new program aims to provide balance of payments and budget support, while safeguarding achievements to date, recognizing that the capacity to advance deep structural reforms is now constrained by the crisis. Access is proposed at SDR 3.6 billion (equivalent to about US$5 billion or 179 percent of quota), which would help cover

Ukraine's balance of payments needs, while balancing reserve draw down, catalyzing support from other official lenders, and helping Ukraine regain access to international capital markets when they re-open.

Policies under the new arrangement will focus on four priorities: (i) mitigating the economic impact of the crisis, including by supporting households and businesses, while safeguarding medium-term fiscal sustainability; (ii) ensuring continued central bank independence and a flexible exchange rate, with the central bank's inflation target as a nominal anchor; (iii) safeguarding financial stability while recovering the costs from past bank resolutions; and (iv) moving forward with key governance and anti-corruption measures to preserve and deepen recent gains.

Prior actions. The authorities have already taken a significant number of important steps toward achieving these objectives. A *supplementary budget* has accommodated the revenue shock and allocated fiscal space to urgent spending. In the area of *financial stability*, they have enacted legislation to enhance the bank resolution framework, while adopting a contingency plan to address potential risks that could result from adverse court rulings in cases related to past bank resolution decisions. In the area of *governance,* they have enacted legislation to strengthen the AML framework; and re-criminalize illicit enrichment. In the area of *safeguarding fiscal sustainability*, they have enacted legislation that eliminates regional tax and customs offices as independent legal entities. To avoid the re-emergence of quasi-fiscal deficits from the energy sector, the cap on heating tariffs has been eliminated.

Risks to a new program are very large, stemming from a possible deepening of the COVID-19 crisis and a further deterioration in global economic and financial conditions, as well as possible domestic policy slippages and reversals, as vested interests may continue to push back against reforms. The conflict in the eastern part of Ukraine continues to weigh on the outlook.

The Ex-Post Assessment and Ex-Post Evaluation reports show that sustaining ownership has been a challenge for Fund-supported programs in Ukraine. The window of opportunity for macro-critical structural reforms closes rather quickly, especially once macro-stability has been achieved. Consequently, the reports highlighted the importance of prior actions, focused on measures that break existing gridlocks and kickstart reforms, and of parsimonious structural benchmarks. The proposed SBA incorporates these lessons by prioritizing a focused set of reforms which are crucial to maintain macroeconomic stability and to preserve the achievements of past programs. The prior actions for the SBA consisted of legislative changes that staff consider necessary to sustain past gains and contain program risks.

Approved By
Philip Gerson (EUR) and Vikram Haksar (SPR)

Discussions were held in Kyiv during September 12–26, and November 14–22, 2019, and remotely from Washington DC during March–May 2020, by a staff team comprising Ron van Rooden (outgoing head), Ivanna Vladkova Hollar (incoming head), Pamela Madrid, Gabor Pula, Sergio Sola, Anil Ari (all EUR); Mesmin Koulet-Vickot (MCM); Csaba Feher (FAD); Tim Willems (SPR); Ender Emre, Emmanuel Mathias, Jonathan Pampolina (LEG); and Gösta Ljungman, Wim Fonteyne, Ihor Shpak, Maria Sydorovych, and Mariia Chebanova (Resident Representative office). Julie Kozack (ex-Deputy Director EUR) and Vladyslav Rashkovan (OED) participated in some discussions. Chasta Piatakovas and Samuel Romero Martinez (EUR) provided support from headquarters.

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INTRODUCTION

1. **Over the last five years, the Ukrainian authorities had been able to maintain macro-economic stability and restart growth.** Following the deep economic crisis of 2014–15, growth resumed in 2016 and gradually picked up pace. Sound fiscal and monetary policies resulted in a sharp reduction in Ukraine's external and internal imbalances. Public debt was put on a downward path and international reserves recovered. Macro-economic policies remained on track during the 2019 election year, anchored by the SBA approved in late 2018.

2. **Efforts to create a more dynamic and competitive economy fell short of expectations, however.** Despite some initial successes under recent IMF-supported programs, reforms increasingly faced resistance from vested interests, and court rulings undermined reform progress, especially in tackling corruption and financial sector reforms. As a result, investment, and notably foreign direct investment, continued to be held back by a difficult business environment, and growth was too low to noticeably close the income gap with Ukraine's peers.

3. **The political transition in 2019 provided the authorities with a mandate and opportunity to address the obstacles to growth and advance major economic reforms.** President Zelenskyi was swept into power on an anti-establishment and anti-corruption platform. The president's party, Servant of the People, obtained an unprecedented absolute majority in parliament.

4. **However, the humanitarian and economic crisis stemming from the COVID-19 pandemic, has created obstacles on Ukraine's road toward stronger inclusive growth.** Protecting lives and livelihoods has shifted to a first order policy priority. With global uncertainty running high and containment measures depressing global and domestic demand, and in the presence of severe market dislocations and sharp declines in investment and remittances, conditions were no longer favorable for pushing forward much-needed reforms in competition, market functioning, and particularly around the divestment of state interests in economic activity.

5. **In this context, the authorities are requesting a new 18-month SBA that aims at providing financial support and ensuring that the much weaker economic environment does not lead to an unwinding of recent gains.** This succeeds the 14-month SBA that was approved in December 2018, which focused on maintaining stability during the election year. The new program aims to provide balance of payments and budget support, consolidating achievements to date, and moving forward on a critical subset of macro-critical measures to reduce key vulnerabilities and ensure that Ukraine is well-poised to return to growth and resume broader reform efforts when the crisis ends (see ¶11).

6. **Risks are very large.** The program's baseline assumptions are conservative, and assume sizable shocks to growth and an erosion of buffers, followed by a very gradual recovery as the economy is re-opened later this year. The policy responses supported under the program are appropriate, with existing policy space augmented by a sizable (about US$8 billion in total)

increase in external financing. However, the uncertainty about the severity and length of the global downturn is exceptionally high, as are estimates about the magnitude of the cyclical and structural impact of the crisis, both globally and in Ukraine. Moreover, uncertainty over the degree of balance sheet damage and emergence of further macro-financial pressures pose added risks. In addition, in the current stressed political environment sound policy responses could lose out to populism, and, in the absence of a strong focus on sustaining an anti-corruption and judicial reform agenda, the power of the state to insulate resources from the control of vested interests may weaken. The conflict in the eastern part of Ukraine continues to weigh on the outlook.

ECONOMIC DEVELOPMENTS AND OUTLOOK

A. Impressive Gains in Macro-Stabilization Prior to the COVID-19 Crisis

7. **Growth had continued through early 2020.** Following a sharp contraction in 2014–15, growth resumed and gradually picked up pace from just over 2 percent in 2016 to 3¼ percent in 2019. The recovery was broad-based, with last year's acceleration driven by a record agricultural harvest and strong domestic consumption (Figure 1 and Tables 1–6).

8. **Fiscal consolidation had been impressive.** The overall fiscal deficit was limited to just above 2 percent of GDP in the last three years and the energy sector's quasi-fiscal deficit was eliminated—a major accomplishment. Following the pension reforms that were adopted in 2017, pension spending has broadly stabilized as a share of GDP. Public debt was reduced from its peak of 85 percent of GDP in 2014 to 50 percent of GDP by end 2019 (aided by the 2015 debt restructuring).

9. **Inflation was reduced to within the NBU's target range.** With tight monetary policies and aided by a strong exchange rate and lower energy prices, inflation has gradually come down again, to just over 4 percent by end-2019, within the NBU's target range of 5±1 percent, before declining further in the first quarter of 2020.

10. **The current account deficit narrowed, while strong foreign exchange inflows allowed the NBU to continue to build reserves while lifting exchange restrictions and easing capital controls.** Driven by a sharp decline in domestic activity in the aftermath of the 2014–15 crisis and improvements in the terms of trade, the current account deficit fell to below 3 percent of GDP in 2019 (excluding a one-off US$2.9 billion arbitration award), also on the back of strong agricultural exports and low energy prices. Thanks also to steady inflows of remittances and increasing non-resident inflows into the domestic bond market, international reserves recovered from less than US$6 billion in 2015 to over US$25 billion (86 percent of the ARA metric) by end-2019. The NBU has nearly eliminated all but one restriction on current transactions and lifted or eased capital flow measures (CFMs) as conditions allowed.

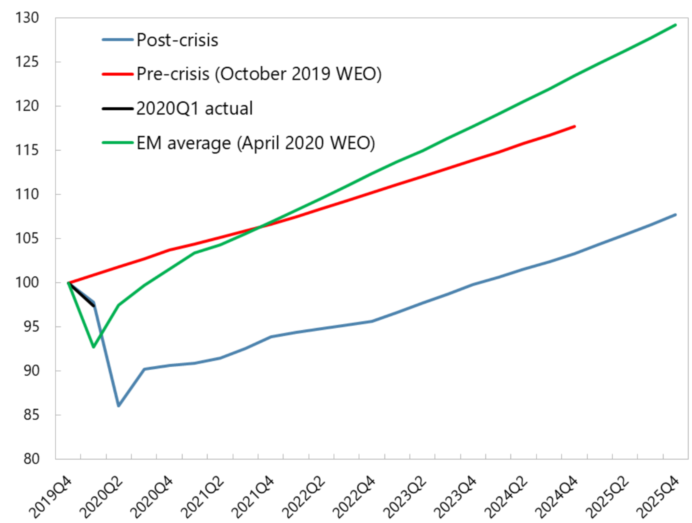
11. **Vulnerabilities remained, however.** While public debt has declined, government financing needs for the years ahead are large. Budgetary pressures linger, also due to the slow implementation of structural fiscal reforms. Overall, fiscal consolidation was achieved mainly through a reduction in the real value of wages and social benefits, and the tax burden on the economy was reduced, with a shift also from labor to indirect taxation. The banking system's health has greatly improved, but adverse court rulings regarding NBU resolution decisions—notably regarding PrivatBank which was nationalized and recapitalized at a cost to the budget of some 5 percent of GDP—create substantial risks to financial stability and government finances.

B. The Impact of the COVID-19 Shock

12. **The authorities undertook early and strong steps to contain the pandemic.** As of May 27, there were 21,905 verified cases, and 658 deaths, although these numbers are likely underestimated due to a lack of testing capabilities. Ukraine introduced stringent containment measures soon after the first cases were diagnosed. Extensive restrictions on movement, as well as limits on economic and social activity, were introduced. As the number of new cases levelled in May, the authorities began a gradual relaxation of these restrictions.

13. **The COVID-19 pandemic will bear heavily on the Ukrainian economy in 2020.** The economy contracted by 1½ percent y/y in the first quarter and is projected to contract by 8 percent over the year, versus a pre-crisis projection of 3 percent growth, against a very weak external environment, supply-side disruptions, and a slump in domestic demand. Containment measures will significantly affect the domestic economy, with the manufacturing, retail trade, and transportation sectors hit particularly hard. While a recovery is anticipated starting in late 2020, it will be tempered by the limited fiscal space and weakened balance sheets of households, businesses, and banks. As a result, output is expected to remain some 6 percent below its end-2019 level by the end-2021. Uncertainty is exceptionally large, however, and a possible secondary outbreak may further delay the recovery, while inflicting greater long-term damage to economic fundamentals. Under the baseline, the pace of economic growth is projected to pick up only gradually in the years ahead, to around 4 percent, as some further progress is made in implementing structural reforms. Nevertheless, output is not expected to reach its pre-crisis levels until 2023–24.

Growth Trajectories
(Index, 2019Q4=100)



Sources: IMF WEO and IMF staff calculations.

14. **Inflation is expected to increase during the year.** Adverse supply shocks due to disruptions in production, trade and transport systems, along with depreciation of the exchange rate, are expected to increase headline inflation to about 7½ percent by year-end. This mostly stems from higher import costs (except for energy). Weak demand pressures and a projected stabilization of the exchange rate are expected to return inflation to within the NBU's 5±1 percent target band over the course of 2021.

15. **The external position is projected to deteriorate.** The exchange rate has depreciated by almost 15 percent since the end of 2019, although it has recently stabilized. Both imports and exports are expected to fall significantly, although exports by somewhat less as they include food staples such as grains (whose production and demand are less affected). Remittances will also decline, by up to 25 percent, as Ukrainian workers abroad are laid-off. Against large gross external financing needs, and despite a successful 10-year US$1.4 billion Eurobond issuance in January this year, gross international reserves are projected to fall. Provided that additional external support can be mobilized (see ¶27), reserves could be maintained at about US$19 billion by end-2020, or 3 months of import coverage (70 percent of the ARA metric). As the economy recovers and capital inflows are likely to resume, reserves are expected to recover to close to pre-crisis levels by end-2021, or 3½ months of import coverage (about 80 percent of the ARA metric).

PROGRAM DISCUSSIONS: REQUEST FOR A NEW STAND-BY ARRANGEMENT

A. Program Objectives

16. **In the face of the COVID-19 pandemic, the authorities are requesting a new 18-month SBA.** A new SBA would support Ukraine's crisis-related balance of payments and fiscal financing needs and provide an anchor for a policy framework which will focus on addressing the impact of the crisis, ensuring macro-economic and financial stability and preserving and deepening key reforms**.** Fiscal, monetary, and financial policies will be temporarily loosened to absorb the shock, within available policy space—augmented by international support—and to support an economic recovery as containment measures are lifted.

17. **An Ex-Post Evaluation of the previous extended arrangement under the EFF has informed the modalities of the proposed program.** In particular, the EPE's recommendations regarding the use of prior actions, while taking advantage of a window of opportunity to advance reforms, have been taken on board, as well as the need to focus on a core set of reforms. Therefore, the SBA envisages moving forward on a streamlined set of critical structural reforms, some already delivered as prior actions, focusing on fiscal, financial, and energy sector policies to safeguard sustainability and reduce vulnerabilities, and on governance, given its criticality to achieving program objectives. These are consistent with the reform priorities identified by the Ex-Post Peer Reviewed Assessment (PRA) (Annex IV, ¶3).

B. Fiscal Policies: Addressing the Crisis, while Ensuring Medium-Term Fiscal Sustainability

18. **Fiscal policies will be directed at addressing the impact of the crisis, while ensuring medium-term fiscal sustainability.** Specifically:

a. **The widening of the general government deficit this year from 2¼ percent of GDP in the original budget to almost 8 percent of GDP in the approved revised budget strikes an appropriate balance** (MEFP ¶2c). The larger deficit largely reflects automatic stabilizers (estimated to contribute to about 70 percent of the increase), but also some tax relief to small and medium-sized businesses and additional social support spending. Indirect taxes are expected to hold up relatively well in line with consumption, while large expected losses in corporate income taxes from private enterprises will be partly offset by large payments by the state-owned gas company Naftogaz following last year's settlement paid by Russia's Gazprom. Similarly, non-tax revenues will be boosted by a mandated increase in the share of profits that SOEs must transfer to the budget, as well as a large profit transfer by the NBU. Higher spending of about 3 percent of GDP on health care and social support (including pensions) are in part offset by deferring spending elsewhere in the budget (particularly investment). As a result, public debt will be kept at manageable levels, although up considerably from 50 percent of GDP at end-2019, reflecting both numerator and denominator effects. The outturn of the first four months suggests that revenues are in line with the fiscal targets. While the revenues from import VAT, customs duties and royalties are lower due to a stronger than anticipated exchange rate and lower import and commodity prices, these shortfalls are offset by higher than expected PIT, SSC and domestic VAT.

Ukraine: Changes to the 2020 Budget
(In percent of GDP 1/)

Revenues	-4.6
Tax revenues	-5.2
Direct taxes	-2.3
Indirect taxes	-2.2
Other taxes	-0.7
Non-tax revenues	0.6
Expenditures	0.8
Current spending	2.3
Capital spending	-1.5
Balance	-5.3

Source: Ukrainian authorities, and IMF staff estimates.
1/ In percent of GDP as currently forecasted.

Fiscal Package
(Tentative allocation - Percent of GDP)

COVID Fund & Reserve Fund	1.7
Healthcare	1.1
Social protection	0.5
Transfers to PF (for loss of SSC revenue)	0.5
Social funds	0.1
Reserve fund	0.1
Other healthcare (explicit wages)	0.4
Other expenditures	1.0
Pension top-ups	0.8
Debt servicing	0.1
Other	0.1
TOTAL	**3.1**

b. **Any public procurement under expedited COVID-19 procedures will remain fully transparent and will include information on beneficial owners of participating bidding companies**. The authorities have committed to publish all procurement notices in a manner readily accessible to the general public and will make all tender documents electronically accessible to the public on the eProcurement site, and an ex-post procurement audit will be conducted by the State Audit Service of Ukraine, in consultation with external/third party auditors, at the time of closing the fund but no later than 12 months after its establishment (MEFP¶2e).

c. **As the recovery sets in, fiscal policy will need to be tightened to place public debt back on a downward path.** Revenues will be supported by the rebounding of economic activity and crisis-related expenditures can be phased out, reducing the budget deficit to about 4-5 percent of GDP in 2021. Further ahead, fiscal consolidation will need to be supported by broadening the tax base, strengthening revenue administration, and rationalizing current expenditures, to achieve primary surpluses of about 1–1½ percent of GDP—implying an overall deficit of around 2½ percent of GDP by 2023. This should gradually return public debt to close to 50 percent of GDP by 2025 and ensure medium-term fiscal sustainability.

d. **The authorities will develop proposals in the course of 2020, with assistance from Fund staff, to broaden the tax base** (MEFP¶2d). Legislation regarding base erosion and profit shifting (BEPS) has already been adopted.

e. **A renewed effort to strengthen revenue administration has been launched** (MEFP ¶8). Following the establishment of the State Tax Service (STS) and the State Customs Service (SCS), legislation to allow the elimination of regional tax and customs offices as separate legal entities has been enacted (a ***prior action***). New management of the STS and SCS were appointed, and dedicated reform offices and reform steering committees were established in each, and detailed and time-bound reform plans are under preparation. The goal is to develop a new organizational structure for both the STS and the SCS, with appropriate delegation of powers and responsibilities within two functionally organized single legal entities (an ***end-September 2020 structural benchmark***). After a testing period, both the STS and the SCS are expected to be fully operational as single legal entities by end-2020 (an ***end-December 2020 structural benchmark***), thus greatly reducing the room for discretion (and potential corruption) at the regional and district levels.

f. **Public financial management will be strengthened further** (MEFP ¶7). Due to the uncertainty of current circumstances, the 2020 supplementary budget law has suspended several provisions relative to the implementation of the medium-term budget framework (MTBF). The authorities have nonetheless renewed their commitment to sound public financial management, and as such will continue their efforts in improving the MTBF and fiscal risk assessments, and conduct spending reviews of the pension fund and other social funds. A new debt management office in the Ministry of Finance will be made operational. The efforts to expand the analysis of fiscal risks should be focused on improving the monitoring and reporting of contingent liabilities in addition to those associated with the SOEs sector.

g. **The targeting of social assistance will be further improved, to ensure that the most vulnerable segments of the population are properly supported** (MEFP ¶4). The government, with World Bank assistance, will start consolidating social programs into the existing guaranteed minimum income (GMI) program, and gradually increase the minimum subsistence level. Progress is also being made in linking databases to enhance the verification of beneficiaries of various social assistance programs.

C. Monetary and Exchange Rate Policies: Maintaining Stability and Providing a Liquidity Backstop

19. **The authorities remain committed to safeguarding central bank independence** (MEFP ¶9). Past reforms have strengthened NBU's autonomy and governance, which lend credibility to both monetary and financial policies. Ensuring the NBU Board's continued operational independence will allow it to effectively implement its inflation targeting policy, while maintaining a flexible exchange rate and a strong focus on financial stability.

20. **Monetary policy will remain focused on price stability and exchange rate flexibility will be maintained.** A credible, flexible IT regime will better anchor inflation expectations, allowing the NBU room to smooth economic cycles and mitigate liquidity stress. Specifically:

a. **The NBU has eased monetary policy to support the economy, while aiming to keep inflation within the target band over the policy horizon** (MEFP ¶10). With end-2019 inflation declining to 4.1 percent, the NBU successfully achieved its disinflation goal and medium-term inflation target of 5 percent +/- 1 pp. Since the end of 2019, the NBU has reduced its policy rate by 550 basis points to 8 percent, as inflation continued to decline to 2.1 percent by April 2020 and the economy was hit by the COVID-19 crisis. While inflation is expected to increase by year-end, inflationary pressures are likely to remain contained by weak domestic demand and slower depreciation, providing room for some further cautious easing. Nonetheless, the NBU will be ready to adjust its policy stance if inflation pressures were to emerge that could risk achieving its inflation target over the policy horizon. The program will include a monetary policy consultation clause to align conditionality with the NBU's inflation-targeting framework (MEFP ¶10); an indicative target on the NBU's net domestic assets is retained to safeguard against excessive expansion of its balance sheet.

b. **The NBU will continue to allow exchange rate flexibility, while aiming to maintain—and gradually rebuild—adequate reserve buffers** (MEFP ¶10). Foreign exchange intervention will be aimed at smoothing disorderly market conditions and at reserve accumulation. Gross reserves are targeted to remain above 3 months of import coverage, with a corresponding floor set under the level of reserves, and to reach almost 80 percent of the ARA metric by the end of the program period. Elimination of the remaining exchange restriction and liberalization of the CFMs and the capital account will only proceed as conditions permit, in line with conditions outlined in the roadmap previously agreed with the Fund.[1]

c. **The NBU will also ensure sufficient financial system liquidity, allowing banks to function normally and finance the private sector and government at market rates in line with fundamentals.** The banking system is currently highly liquid; nonetheless, as the crisis has tightened financial conditions, the NBU has moved to provide banks with greater liquidity management flexibility, including by extending maturities of liquidity provision operations and expanding eligible collateral (MEFP ¶10). The NBU will continue to closely monitor financial conditions to assess whether other liquidity measures may be needed, while also maintaining sound risk management practices.

D. Financial Sector Policies: Ensure Financial Stability and Limit Fiscal Costs

21. **The authorities have improved their resolution and crisis management arrangements** (MEFP ¶22–23). To that end, a legislative package was enacted (a ***prior action***) that enhances the early intervention framework and entry into resolution, ensures that courts defer to the technical expertise and discretion of the NBU, DGF, and Ministry of Finance in bank resolution matters, and that judicial actions cannot result in a reversal of resolution measures, and provides for redress by awarding monetary compensation in case of proven damages, based on a bank's market value at the time of resolution, taking into account all information that has become available in the resolution process, and as verified by an internationally reputable independent auditor. This package also addressed constraints to effective resolution with state involvement. This was complemented with enhanced operational readiness, thanks to the approval by the Financial Stability Council (FSC) of a robust contingency plan to address potential risks to financial stability and public finances that may arise from court rulings against past resolution decisions (a ***prior action***).

22. **Financial sector policies aim to preserve stability and ensure transparent and accurate asset quality recognition, while encouraging prudent and voluntary loan restructuring.** Looking further ahead, policies will be directed at improving the banking system's health and governance, and enhancing financial intermediation, while limiting the fiscal costs from bank failures. More specifically:

[1] As part of the 2015 EFF commitments, a roadmap was agreed in May 2015 and further elaborated in April 2017. The roadmap sets outs broad principles as well as specific conditions for the elimination of restrictions adopted during the 2014–15 crisis as well eventual full capital account liberalization.

a. **The NBU is utilizing the flexibility within the regulatory framework to enable banks to absorb the impact of the crisis** (MEFP ¶14). While noting variability across the system and across the risks to which the sector is exposed, the banking sector as a whole is capitalized at an average CAR of 20 percent and liquid (existing NPLs are largely provisioned for and the recent economic recovery had been relatively credit-less) banks will be able to absorb an increase in NPLs to some extent. Nonetheless, the NBU has postponed the introduction of additional capital buffers and the annual stress-testing exercise. It has also suspended on-site inspections and encouraged voluntary and prudent loan restructuring. The NBU will also use flexibility in triggering corrective measures, although it is not relaxing prudential and accounting requirements.

b. **Broader efforts to ensure the banks' financial health will resume as the crisis passes** (MEFP ¶15). Asset quality reviews (AQRs) will be conducted to assess banks' asset quality and the size of any capital shortfalls. Undercapitalized banks will be required to develop time-bound plans to restore capital adequacy ratios, and the NBU will take supervisory measures against banks that fail to implement their plans. Meanwhile, further improvements will be made to the banking law to improve corporate governance, grant the NBU legal powers to calibrate capital and liquidity requirements based on each individual bank's risk profile, and strengthen licensing and shareholder requirements (adoption is an ***end-November 2020 structural benchmark***; MEFP ¶21). Based on these amendments, the NBU will introduce capital conservation buffers in 2021.

c. **The authorities are stepping up efforts to recover assets from failed banks and hold former bank owners accountable** (MEFP ¶19). The coordination between the Prosecutor General's Office (PGO) and the NBU and DGF will be enhanced. The PGO and NABU have launched criminal investigations into several failed banks. Further legislative amendments to address gaps in the liquidation framework and enhance the DGF's legal capacity to claim damages from bank owners and related parties will be adopted (an ***end-October 2020 structural benchmark***). Additionally, former owners of failed banks will be declared unsuitable to be owners or senior managers of non-bank financial institutions. Finally, the authorities will transparently and regularly report on progress in asset recoveries.

d. **Further steps are needed to improve governance in state-owned banks and address balance sheet weaknesses** (MEFP ¶16-18). Following the establishment of majority-independent supervisory boards in these banks, Memoranda of Understanding (MoU) will delineate the boundaries of the relationship between each of them and the finance ministry, and an oversight unit in charge of shareholding management will be established in the finance ministry. The state-owned banks will develop time-bound NPL reduction strategies—aimed at addressing legacy NPLs—which should include *inter alia* resolution options that could realize final losses. The plans are to be endorsed by the shareholder (an ***end-June 2020 structural benchmark***).

E. Anti-Corruption Policies and Rule of Law: Completing Setting Up Anti-Corruption Institutions and Strengthening Judicial Independence

23. **Governance reforms will be aimed at achieving concrete results in tackling corruption.** Building on progress made so far in anti-corruption reforms, to strengthen governance and the rule of law:

a. **The authorities will ensure the independence, adequate resources, and effectiveness of the new anti-corruption institutions** (e.g., NABU, SAPO and the HACC) (MEFP ¶25). The enactment of legislation to recriminalize illicit enrichment (a ***prior action***) and amendments to anti-money laundering legislation (a ***prior action***) provided important tools needed to fight corruption. In addition, the effectiveness of NABU's investigations of high-level officials will be strengthened by full access to the asset declaration database and by the provision of resources to implement its new powers to independently intercept communications (under a 2019 law, effectively implementing a structural benchmark from the 2017 extended arrangement under the EFF). Strengthening the beneficial ownership register through enhanced verification of information and effective sanctioning will contribute to ensuring transparency of Ukrainian corporations.

b. **The authorities will strengthen the selection and disciplinary processes for the judiciary consistent with European judicial standards** (MEFP ¶26). They will ensure that the judicial governance officials that are responsible for and manage these processes are of high competence, trustworthiness and integrity. Recent legislation on judicial reforms included the participation of experts with international experience in the judicial selection and disciplinary processes but did not cover the selection process for the High Council of Justice (HCJ), the judicial governance body responsible for selecting and disciplining judges. Thus, the authorities plan to strengthen the pre-selection process for HCJ candidates to ensure that its members have impeccable reputation and integrity (an ***end-October 2020 structural benchmark***).

F. Energy Sector Policies: Avoiding the Re-Emergence of Quasi-Fiscal Deficits

24. **The energy sector's quasi-fiscal deficit has been eliminated and energy security has improved, although further reforms are needed to put the sector on a solid commercial footing and prevent the re-emergence of destabilizing losses.** Following several rounds of tariff increases and with the recent drop in international gas prices, household gas tariffs are now set consistent with import parity. The transit pipeline was unbundled from Naftogaz as an independent and commercially-oriented gas transmission operator, effective January 1, 2020, which helped in securing a new 5-year transit agreement with Gazprom. Nonetheless, revenues from gas transit are projected to fall once the Nord Stream 2 pipeline is completed, reducing

Naftogaz's ability to invest in maintaining, let alone increasing production. In addition, recent changes to Naftogaz's charter reversed corporate governance reforms. The authorities will adopt a new corporate charter for Naftogaz (***a structural benchmark, by end-September 2020***), to bring it in line with the OECD's corporate governance recommendations (MEFP ¶29).

25. **Energy policy aims to avoid the re-emergence of quasi-fiscal deficits, while continuing to provide utility subsidies to low-income and vulnerable households to help defray the impact of gas and heating tariffs on their incomes**. Taking advantage of low international gas prices, household gas tariffs became fully market-determined effective January 1, 2020 (MEFP ¶27a). In addition, to allow for the pass-through of gas prices to heating tariffs, the authorities eliminated the cap on household heating tariffs (a ***prior action***) (MEFP ¶27b). The obligation for Naftogaz to supply gas for household use will cease this summer, with a supplier of last resort being set-up as a temporary backstop. As of the next heating season, it will be possible for households to switch supplier more easily while heating tariffs will be revised to fully reflect changes in the gas and non-gas cost components of heat supply companies, an ***end-August 2020 structural benchmark*** (MEFP ¶27b). Legislation to bring the powers and responsibilities of the energy regulator (NEURC) in line with the EU Third Energy Package and Energy Community Treaty will be adopted by end-March 2021 (MEFP ¶27d).

PROGRAM MODALITIES AND RISKS

26. **Access is proposed at SDR 3.6 billion (about US$5 billion, 179 percent of quota).** With appropriate fiscal and monetary policies, and assuming the financing from other IFIs and bilateral creditors materializes as projected (see below), this would be adequate to help Ukraine meet its financing needs, while rebuilding reserve buffers to 3½ months of imports (nearly 80 percent of the ARA metric) by the end of the program. Access would be within but close to normal cumulative access limits, leaving no room for augmentation within the normal-access framework should downside risks materialize. Given the pressing fiscal needs, the authorities intend to use all Fund support for budget support, to help cover fiscal financing needs, stemming in large part from the government's external debt service obligations in an environment of severely restricted market access for all emerging economies. The authorities have committed to put in place a memorandum of understanding between the NBU and the MoF that clarifies the responsibilities for timely servicing of the financial obligations to the IMF. With the successful implementation of the program, post-program financing needs would be sizable but manageable. Public debt is assessed to be sustainable, although risks remain high (see attached DSA).

27. **Financing assurances for the duration of the arrangement are in place**. Assuming firm policy implementation, commitments for financial support have been provided by the World Bank (via a new US$0.7–1 billion Development Policy Loan) and the EU, with the release of the second €0.5 billion tranche under its existing Macro-Financial Assistance (MFA) operation and a new €1.2 billion MFA operation in response to the crisis. The baseline assumes, conservatively, only limited market access in the second half of the year, with a smaller placement than the US$1.4 billion issued in January, before the crisis hit. A swap line with the central bank of the People's Republic of China provides additional liquidity buffers.

Ukraine: Program Financing
(US$ billion)

	2020	2021
Financing Gap	5.8	2.1
Reserve accumulation	-6.0	4.1
Underlying BOP gap 1/	11.8	-2.0
Official Financing	5.8	2.1
Bilateral and multilateral	5.8	2.1
IMF	3.5	1.5
Other multilateral/bilateral	2.3	0.6
Multilateral	1.1	-0.1
European Union	1.2	0.7
Unidentified Official Financing	0.0	0.0
Memorandum items:		
Capital market access	2.4	3.0
IMF (net)	2.4	0.2
Gross international reserves	19.3	23.4
% of composite metric	70.4	78.5

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

The authorities are committed to continuing efforts to resolve the outstanding official arrears consistent with the requirements of the policy on lending into arrears to official bilateral creditors. A lawsuit filed by Russia in the UK courts is ongoing.[2] Staff's assessment is that the Ukrainian authorities have continued to pursue good-faith efforts. In terms of process, they have offered to meet with the Russian authorities in the context of a substantive dialogue to reach an out-of-court agreement on the restructuring of the US$3 billion bond. The terms offered by the Ukrainian authorities have been in line with the financing and debt objectives set at the time of the restructuring, which are an important assumption underpinning the present program. The terms offered to Russia have been proportionate to the contributions made by other official bilateral creditors at the time of the restructuring. Furthermore, for the reasons outlined in Box 4 of IMF Country Report No. 16/319, a decision to provide financing despite the arrears is not expected to have an undue negative effect on the Fund's ability to mobilize official financing packages in future cases. Moreover, prompt financial support from the Fund is considered essential for Ukraine to maintain an adequate level of reserves, while it pursues appropriate policies and undertakes reforms to support its economy and address balance of payments needs. Thus, in staff's view, the conditions have been met for the Fund to proceed with providing financial support to Ukraine.

28. **Ukraine's capacity to repay the Fund is assessed to remain adequate but is subject to significant risks.** External debt service obligations are sizable in the years to come, including

[2] In February 2016, the Trustee of the Eurobond held by Russia's National Wealth Fund brought summary proceedings in the UK's High Court of Justice seeking full payment of principal and interest. On March 29, 2017, the High Court ruled in favor of Russia but stayed execution of the judgement pending consideration of Ukraine's appeal. On September 14, 2018, the UK Court of Appeal reversed the summary judgement and returned the case to the High Court for full trial. Russia appealed to the Supreme Court, which held hearings in December 2019. A ruling is anticipated within the year.

to the Fund, but these are expected to be manageable if Ukraine's fiscal and monetary policies remain on track. The expectation is that Ukraine will regain market access following stabilization of global conditions, which should further support Ukraine's capacity to make projected repurchases (averaging about US$2.6 billion per year during 2022–25).

29. **Phasing under the program is proposed to be spread over 4 reviews.** A first purchase of SDR 1.5 billion (about US$2.1 billion) is proposed to be made available upon approval, as the impact of the crisis and financing needs are largest in the second and third quarters of 2020. This would be followed by two purchases of SDR 500 million each, following program reviews planned for 2020 based on end-June and end-September 2020 performance criteria—for a total of SDR 2.5 billion (about US$3.5 billion) in purchases in 2020—and two reviews in 2021, based on end-December 2020 and end-June 2021 performance criteria, disbursing another SDR 1.1 billion (about US$1.5 billion) during 2021. This schedule fits the member's policies, the likely timing of its balance of payments needs, and the external economic environment. The two reviews proposed for the remainder of 2020 mitigate the risk of policy slippages.

30. **A safeguards assessment (SA) update was completed in May 2019.** The update concluded that the NBU continues to maintain a broadly robust safeguards framework. The external and internal audit arrangements and financial reporting practices are well established, and the legal framework needs only some further refinements that could be undertaken at an opportune time. Nevertheless, there is scope to improve the governance arrangements established by the 2015 legal reform by operationalizing a clear delineation of roles among the NBU's decision-making bodies and to clarify the NBU's status as a secured creditor. Staff continues to monitor the status of outstanding recommendations from the SA and stands ready to assist the authorities in addressing these. In addition, a fiscal safeguards review will need to be conducted.

31. **Ukraine continues to maintain one exchange restriction and two Multiple Currency Practices (MCPs), but a roadmap is in place to gradually phase them out.** The exchange restriction arises from limits on the availability of foreign exchange for certain non-trade current international transactions (the limit on corporates' investments abroad may capture some current transactions). The MCPs arise from: (i) the use of multiple price foreign exchange auctions conducted by the NBU without a mechanism to prevent a spread deviation of more than 2 percent between the auction and market exchange rates; and (ii) the use of the official exchange rate for exchange transactions with the government without a mechanism to prevent a spread deviation of more than 2 percent between the official exchange rate and market exchange rates. These were approved under Article VIII, Section 2(a) and 3 in December 2018 for a period of one year (see Staff Report for Request of SBA (IMF Country Report No. 19/3)).

32. **Downside risks are very large**—as also presented in the attached Risk Assessment Matrix (Annex III). The program's baseline is built on four key assumptions: (i) a one-quarter period of strict containment measures followed by a gradual re-opening and slow recovery; (ii) the full and timely implementation of policies under the program; (iii) timely external financing from the official sector, sufficient domestic liquidity, and a re-opening of international

capital markets in late 2020; and (iv) the non-intensification of the conflict in the eastern part of Ukraine. These assumptions are incorporated in, and are critical for, the program. The uncertainty about the severity and length of the global downturn is especially large, as is uncertainty around the cyclical and structural impact of the containment measures on the economy, including with respect to balance sheet damage. The flexible exchange rate and buffers built up over the last years will provide some shock-absorbing capacity should downside risks materialize. More broadly, the authorities are committed to implementing appropriate measures, in consultation with staff, to close financing gaps. On the domestic side, uncertainty about the direction of economic policies remains substantial. Opposition from vested interests remains strong. Pending further reform of the judiciary, courts may continue to be perceived as being subject to undue influence in reversing key reforms. Particularly in the current stressed environment, sound policies could also lose out to populism.

STAFF APPRAISAL

33. **Ukraine has been successful in reducing external and internal imbalances over the last few years, including under difficult circumstances.** Ukraine's external position at end-2019 was broadly in line with fundamentals and desirable policy settings (see Annex I). As the conclusions from the EPE and ex-post PRA corroborate, successive programs with Ukraine were generally successful in achieving macroeconomic stabilization. Macro-structural reforms—strengthening the independence and governance of the central bank, adopting pension reforms, eliminating the quasi-fiscal energy deficit—have helped substantially reduce fiscal deficits, bring inflation down within its target range, and rebuild the central bank's international reserves. Such reforms have also allowed growth to resume, albeit at rates insufficient to start closing income gaps with peers.

34. **Despite promising conditions for reform in the fall of 2019, the impact of the COVID-19 pandemic has refocused policy priorities and precluded the implementation of a bold reform agenda**. Conditions are no longer propitious for undertaking a comprehensive tax reform agenda— broadening the tax base, further tightening exemptions, reducing scope for abuse of preferential regimes—particularly as the authorities are looking to provide relief to businesses under circumstances of wide-scale economic disruptions. Prospects are also unfavorable for pushing forward much-needed reforms regarding competition, market functioning, and particularly the near-term divestment of state interests in economic activity.

35. **Nonetheless, against the backdrop of large global shock, a critical set of macro-significant reforms and sound policies merit support under a new Fund arrangement**. The authorities' policy response to the current shock has been appropriate. The credibility of the NBU and the flexible IT regime has helped anchor inflation expectations, allowing the NBU room to lower rates and mitigate liquidity stress. Intervention has been limited, consisting of smoothing disorderly market conditions on the FX market. The authorities have already taken a number of prior actions which mitigate vulnerabilities in the financial sector, in the anti-corruption framework, in tax administration, and in energy policy. A small set of key and feasible structural

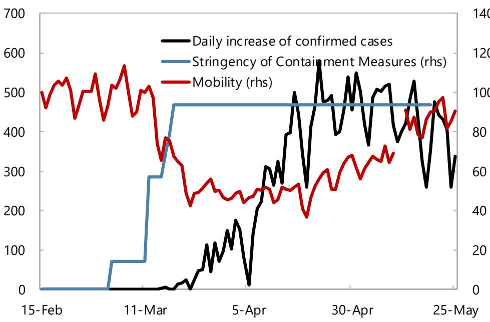
benchmarks under the program build on those prior actions, while broader commitments in the MEFP aim to protect the resources and independence of anti-corruption institutions and to safeguard progress made in corporate governance.

36. **Staff supports the authorities' request for a Stand-By Arrangement.** The new arrangement will provide an important anchor for the authorities' efforts to address the impact of the crisis, while ensuring macroeconomic stability. The risks to the new program and to Ukraine's capacity to repay are clearly large, but these risks are mitigated by the strong steps already taken by the authorities. Steadfast implementation, however, will be critical for the program's success. Firm financing assurances are in place, as the program is expected to catalyze additional official financial assistance—excluding project financing and swaps—equivalent to US$3 billion. The authorities continue to make good faith efforts at resolving the outstanding official arrears consistent with the requirements of the policy on lending into arrears to official bilateral creditors. Staff recommends the completion of the financing assurance review. Staff also supports the authorities' request for approval, for a period of 12 months, of the retention of the exchange restrictions and multiple currency practices on the grounds that these are non-discriminatory, imposed for balance of payments reasons, and are temporary.

Figure 1. Ukraine: Real Sector Indicators

While the spread of COVID-19 in Ukraine has remained limited as the authorities introduced containment measures at an early stage…

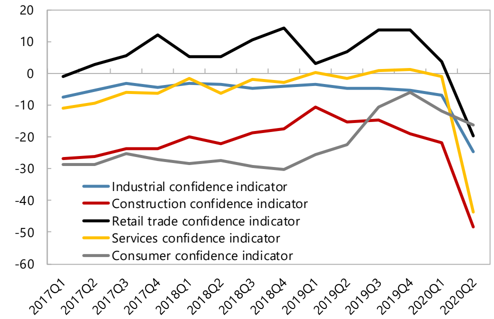
Covid-19 Measures



Sources: Oxford COVID-19 Government Response Tracker by Hale et al. (2020); Apple Mobility Trends Reports; John Hopkins University.

…the pandemic had a significant impact on business and consumer confidence.

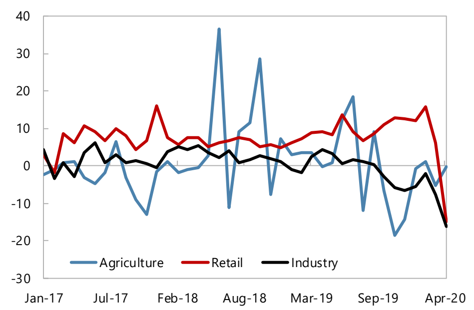
Economic Sentiment Indicators
(Percent)



Source: State Statistics Service of Ukraine.

Industry and retail sales contracted sharply in April, but agriculture was less affected

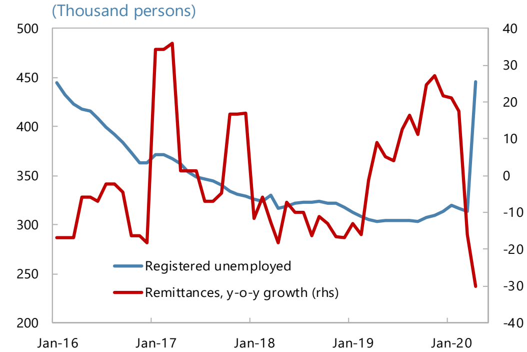
Agriculture, Industry, and Retail
(Y-o-Y percent change)



Sources: Haver Analytics and IMF staff estimates.

Domestic consumption is weakened by a drop in remittance inflows and an increase in joblessness

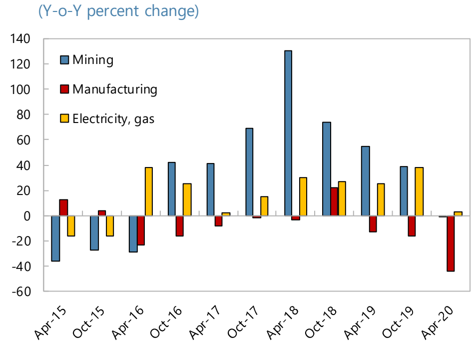
Number of Registered Unemployed and Remittances
(Thousand persons)



Source: Haver Analytics.

Demand side weakness and uncertainty weighs on firms' investment decisions…

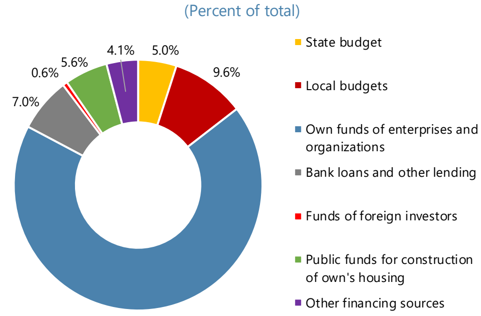
Expected Changes in Investment
(Y-o-Y percent change)



Source: State Statistics Service of Ukraine.

…but given the significant role of own-funds in financing capital expenditure, adverse macro-financial effects should be less detrimental to a subsequent recovery

Sources of Investment
(Percent of total)



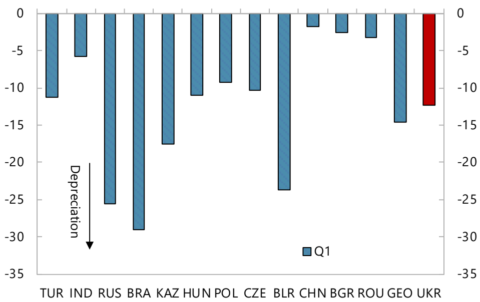
Source: State Statistics Service of Ukraine.

Figure 2. Ukraine: Inflation and Exchange Rate Developments

(Year-on-year percent change, unless otherwise indicated)

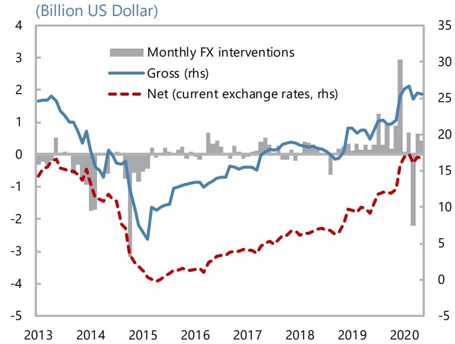
After strong depreciation pressures in March, the FX market has stabilized. The hryvnia has performed relatively well compared to regional peers.

Exchange Rates of Selected EM Currencies versus USD, 2020 (Q-o-Q percent change, end of period)



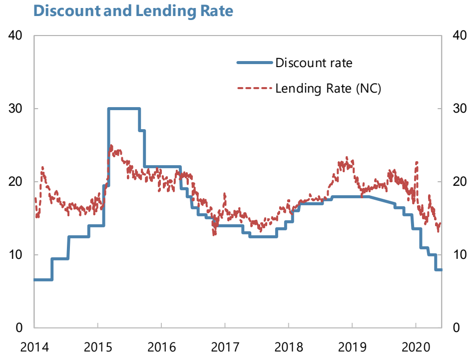
The hryvnia was supported by limited capital outflows and an improving trade balance. Foreign exchange intervention by the central bank helped to smooth disorderly market conditions in March.

International Reserves
(Billion US Dollar)



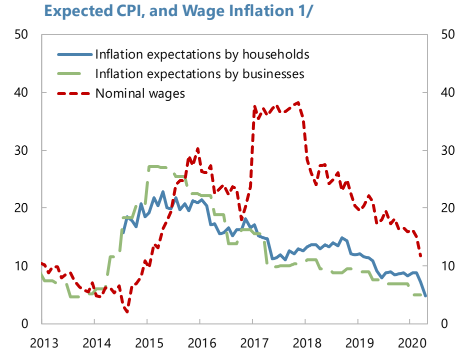
The NBU has cut the policy rate by 300 basis points since the outbreak of the crisis

Discount and Lending Rate



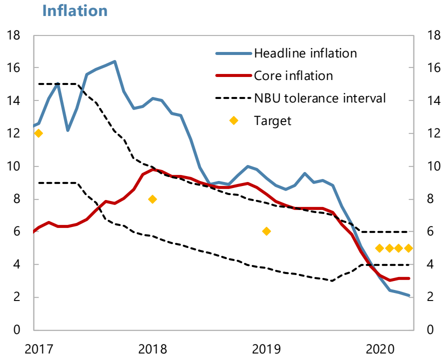
…as inflation expectations have declined (and are now in line with the NBU's inflation target)…

Expected CPI, and Wage Inflation 1/



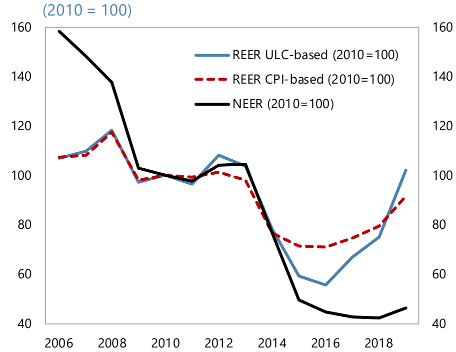
…and inflationary pressures continued to ease.

Inflation



The appreciation of the real-effective exchange rate has likely reversed in the beginning of 2020 improving the economy's competitiveness

Effective Exchange Rates
(2010 = 100)



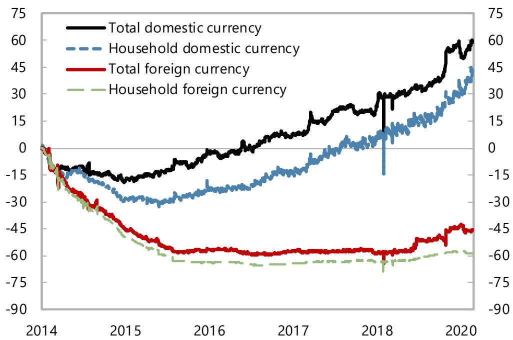
Sources: State Statistics Committee of Ukraine; International Centre for Policy Studies; National Bank of Ukraine; Bloomberg; Haver Analytics; http://fin.biz.ua; and IMF staff calculations.

1/ 12-months ahead inflation expectations. For businesses from Business Outlook Survey, conducted by the NBU. For households from GfK-Ukraine Consumer Confidence Survey.

Figure 3. Ukraine: Monetary Developments

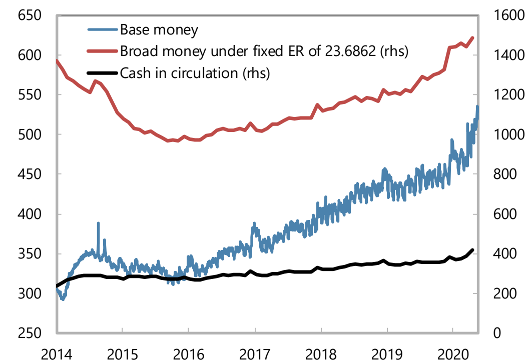
Deposits continued to grow, including more recently foreign currency deposits.

Change in Banking System Deposits
(Cumulative percent change, under fixed ER of 23.6862 UAH/US$)



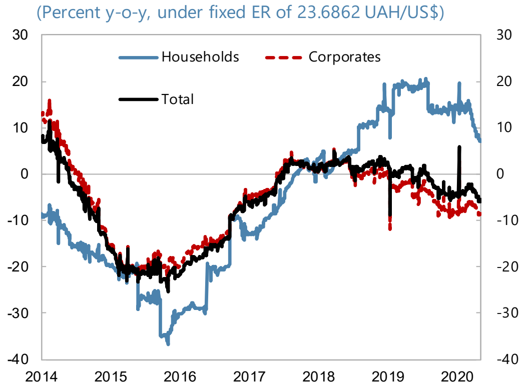
The lockdown, since mid-March, led to a spike in cash holdings despite incentives for non-cash payments.

Money Growth
(UAH billion)



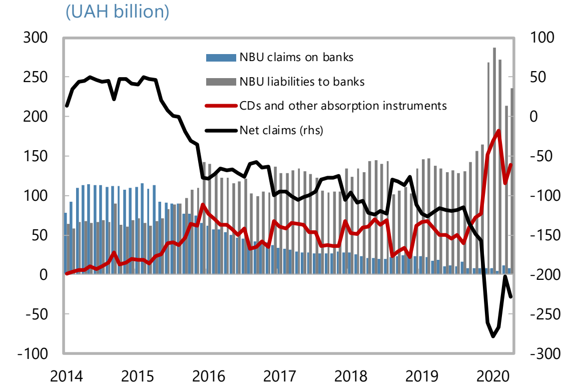
Bank credit is significantly lower than during past crises, implying less vulnerability from macro-financial linkages.

Change in Banking System Credit
(Percent y-o-y, under fixed ER of 23.6862 UAH/US$)



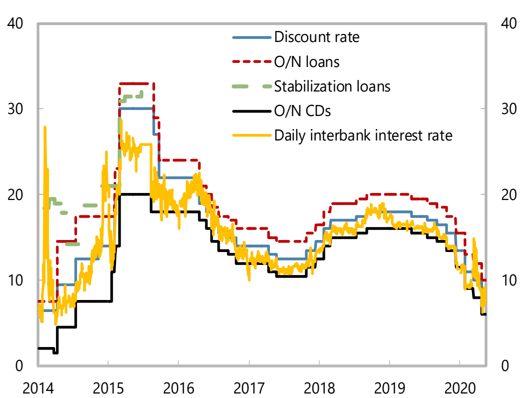
Banks are highly liquid, holding large stocks of NBU CDs and with limited reliance on NBU loans.

NBU Claims on and Liabilites to Banks
(UAH billion)



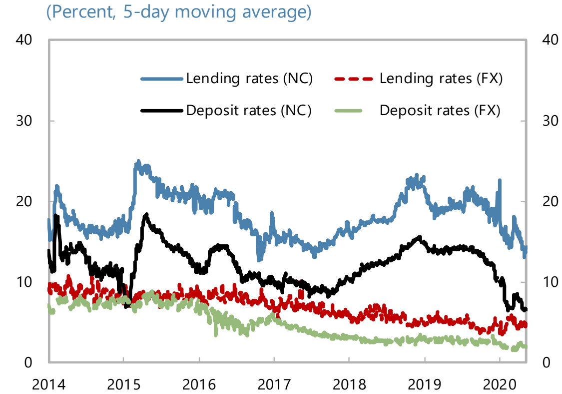
With inflation and the economy slowing the NBU has lowered its key policy rate…

NBU Interest Rates



…and bank interest rates have followed, although during March financial conditions tightened.

Deposit and Lending Rates
(Percent, 5-day moving average)

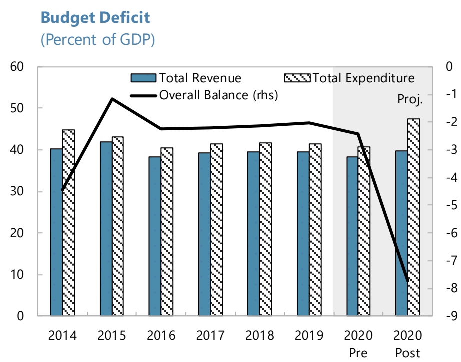


Sources: National authorities; and IMF staff calculations.

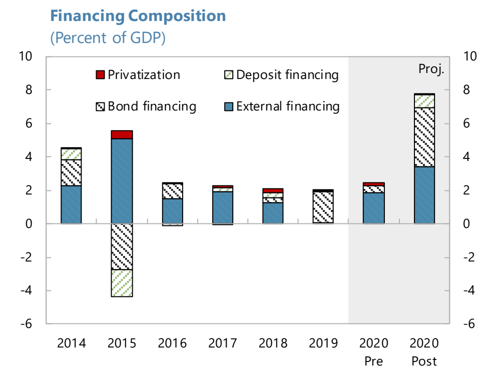
Figure 4. Ukraine: Fiscal Sector Indicators1/

(Percent of GDP)

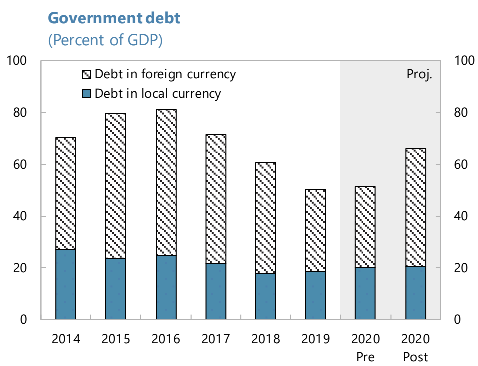
As a response to the crisis, the fiscal deficit will widen considerably....



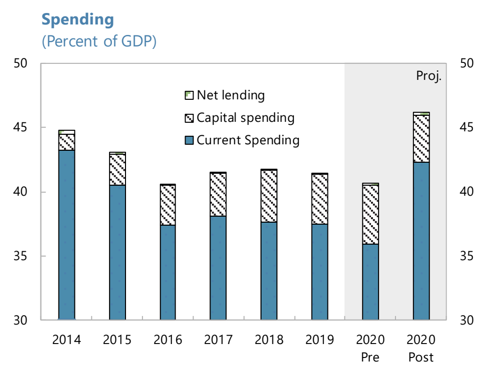
...and will be financed by large net issuance of external and especially domestic debt.



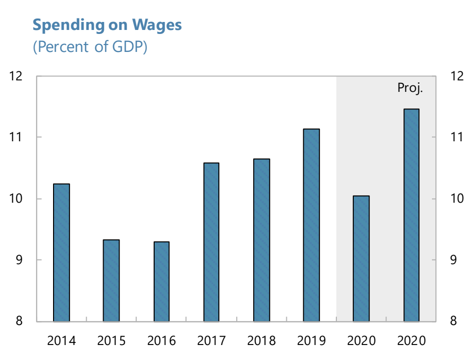
Higher deficit will drive the debt to GDP ratio above 60 percent of GDP in 2020.



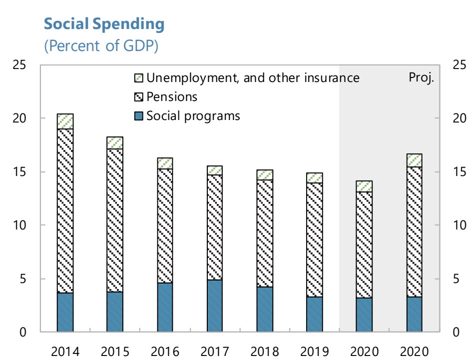
With respect to the pre-crisis plans current expenditure will increase and capital expenditure will decline.



The wage bill will increase to accommodate for higher salaries and bonuses to healthcare workers...



...while social protection will be ensured by increasing pension expenditure and preserving utility subsidies in an environment of lower commodity prices.

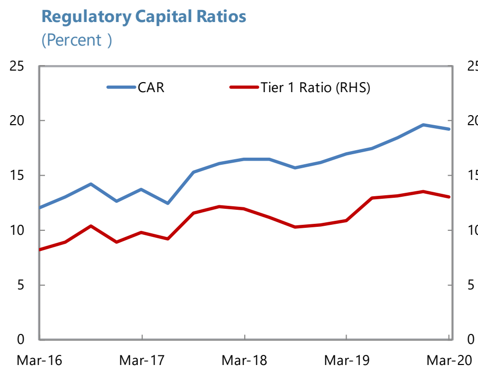


Sources: National authorities; and IMF staff calculations.

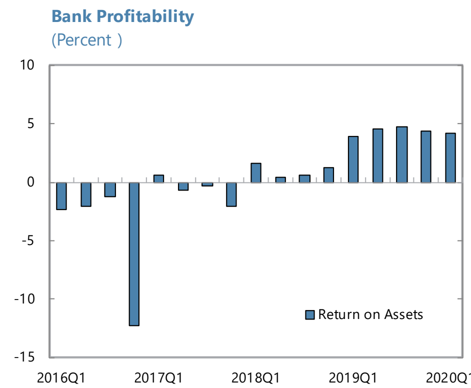
1/ 2020 Pre refers to estimate prior to the Covid-19 outbreak and 2020 Post is the latest rojection after the Covid-19 outbreak.

Figure 5. Ukraine: Bank Financial Soundness Indicators

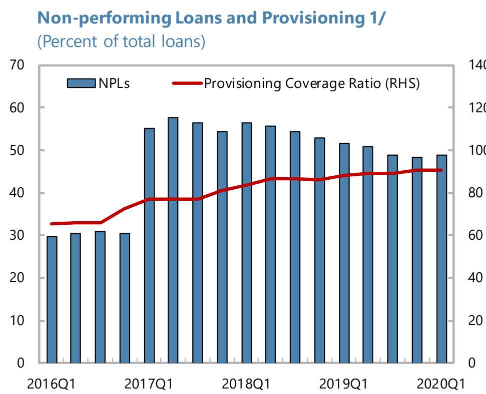
The banking system is well capitalized…



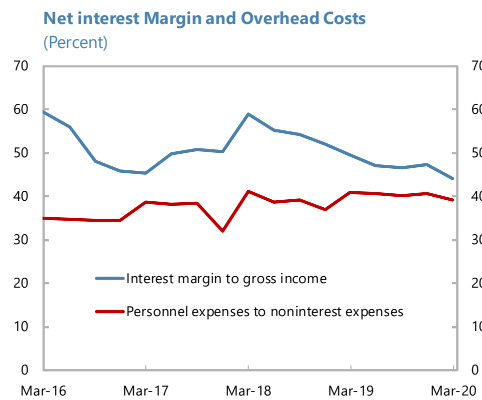
…and some banks, particularly Privat, are highly profitable now (after several years of elevated provisioning expenses).



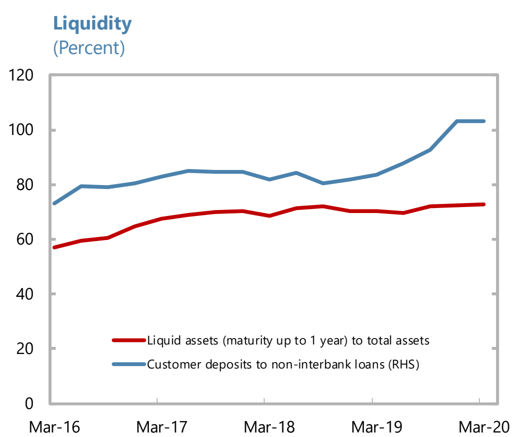
The high stock of NPLs (mostly legacy loans at state-owned banks) are almost fully provisioned



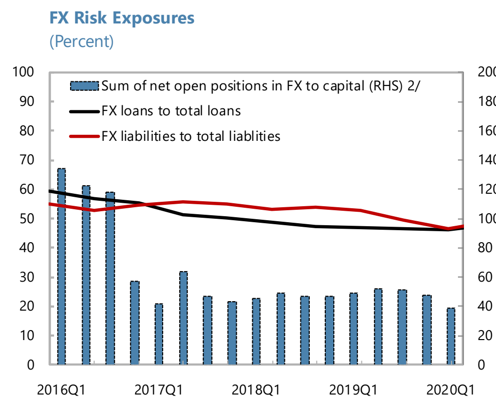
Operating costs have been relatively stable but are elevated at state-owned banks.



The banking system is highly liquid.



Banks' direct FX risk is lower, but indirect FX credit and FX liquidity risks remain relatively high.



Sources: National Bank of Ukraine; and IMF staff calculations.
1/ Consistent with the criteria "of 90 days". The loan classification was tightened at the beginning of 2017.
2/ Sum of net long positions and net short positions in foreign currencies as a percent of regulatory capital.

Table 1. Ukraine: Selected Economic and Social Indicators, 2018–2025

	2018	2019	2020	2021	2022	2023	2024	2025
	Act.	Act.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Real economy (percent change, unless otherwise indicated)								
Nominal GDP (billions of Ukrainian hryvnias) 1/	3,561	3,975	3,908	4,277	4,659	5,088	5,551	6,065
Real GDP 1/	3.4	3.2	-8.2	1.1	3.0	3.4	3.8	4.0
Contributions:								
Domestic demand	5.6	3.5	-8.6	2.7	4.3	4.5	5.1	5.3
Private consumption	6.5	9.0	-3.8	2.3	3.9	4.1	4.4	4.3
Public consumption	0.0	-1.0	-0.4	0.0	0.1	0.1	0.1	0.1
Investment	-0.8	-4.5	-4.5	0.4	0.4	0.3	0.6	0.9
Net exports	-2.2	-0.3	0.5	-1.6	-1.3	-1.1	-1.3	-1.3
GDP deflator	15.4	8.1	7.1	8.2	5.8	5.6	5.1	5.1
Output gap (percent of potential GDP)	0.0	-0.5	-7.3	-5.1	-2.0	-0.8	-0.4	0.0
Unemployment rate (ILO definition; percent)	9.0	8.5	12.6	12.0	11.5	10.7	9.9	9.4
Consumer prices (period average)	10.9	7.9	4.5	7.2	5.6	5.1	5.0	5.0
Consumer prices (end of period)	9.8	4.1	7.7	5.9	5.2	5.1	5.0	5.0
Nominal wages (average)	24.8	18.5	3.6	11.4	9.3	8.7	8.7	8.6
Real wages (average)	12.5	9.5	-0.9	3.9	3.5	3.4	3.5	3.5
Savings (percent of GDP)	15.3	11.9	6.4	7.8	14.1	15.4	15.7	15.9
Private	13.4	10.1	10.5	9.8	16.7	17.5	17.0	16.8
Public	1.9	1.8	-4.0	-2.1	-2.6	-2.1	-1.3	-0.8
Investment (percent of GDP)	18.6	12.6	8.1	9.8	16.0	17.2	17.5	17.9
Private	14.5	8.7	4.4	6.1	12.3	13.5	13.9	14.2
Public	4.0	3.9	3.7	3.7	3.7	3.7	3.7	3.7
Public finance (percent of GDP)								
General government balance 2/	0.0	-2.0	-7.7	-5.3	-3.5	-2.4	-2.4	-2.4
Public and publicly-guaranteed debt	60.6	50.4	65.4	62.7	60.5	57.0	54.2	51.8
Money and credit (end of period, percent change)								
Base money	9.2	9.6	4.4	6.0	6.0	6.0	6.0	6.0
Broad money	5.7	12.6	4.0	11.0	12.5	12.9	12.9	12.9
At program exchange rate	6.5	17.5	-2.9	12.9	12.8	13.3	13.3	13.2
Credit to nongovernment	5.5	-9.8	-7.3	-12.4	8.4	12.2	14.1	17.9
At program exchange rate	6.3	-3.9	-13.8	-9.1	8.9	12.9	14.9	18.9
Velocity	2.8	2.8	2.6	2.6	2.5	2.4	2.3	2.3
Interbank overnight rate (annual average, percent)	16.5	15.6	...	...	...	...	...	...
Balance of payments (percent of GDP)								
Current account balance	-3.3	-0.7	-1.7	-2.0	-1.9	-1.8	-1.8	-2.0
Foreign direct investment	1.8	1.6	0.8	2.1	2.4	2.6	2.8	2.7
Gross reserves (end of period, billions of U.S. dollars)	20.8	25.3	19.3	23.4	26.5	30.0	32.4	36.7
Months of next year's imports of goods and services	3.3	4.8	3.1	3.4	3.6	3.8	3.8	4.0
Percent of short-term debt (remaining maturity)	45.5	68.5	63.6	70.8	74.2	74.2	89.1	97.2
Percent of the IMF composite metric (float)	71.8	86.1	70.2	78.8	83.9	89.4	95.3	103.9
Goods exports (annual volume change in percent)	2.0	6.9	-7.2	8.3	8.5	7.2	7.3	7.3
Goods imports (annual volume change in percent)	8.3	7.2	-5.3	7.0	7.1	7.1	6.9	7.3
Goods terms of trade (percent change)	-1.5	2.1	4.4	-2.9	-0.3	-0.3	-0.2	-0.2
Exchange rate								
Hryvnia per U.S. dollar (end of period)	27.7	23.7	...	...	...	...	...	...
Hryvnia per U.S. dollar (period average)	27.2	25.7	...	...	...	...	...	...
Real effective rate (deflator-based, percent change)	8.8	14.7	...	...	...	...	...	...
Real effective rate (deflator-based, 2010=100)	104.9	120.3	...	...	...	...	...	...
Memorandum items:								
Per capita GDP / Population (2017): US$2,640 / 44.8 million								
Literacy / Poverty rate (2016): 100 percent / 5.7 percent								

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

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

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

Table 2. Ukraine: General Government Finances, 2018–2025 1/

(Billions of Ukrainian Hryvnia)

	2018	2019	2020		2021	2022	2023	2024	2025
	Act.	Act.	Nov. 2019 Budget	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Revenue	1,408.9	1,566.3	1,730.6	1,551.8	1,712.2	1,864.9	2,034.7	2,217.5	2,417.1
Tax revenue	1,226.9	1,358.6	1,548.6	1,346.2	1,491.2	1,628.0	1,779.9	1,943.4	2,121.5
Tax on income, profits, and capital gains	336.1	392.8	459.0	392.3	434.9	474.8	516.9	562.3	611.6
Personal income tax	229.9	275.5	328.4	285.2	317.7	347.1	377.4	410.1	445.4
Corporate profit tax	106.2	117.3	130.6	107.1	117.2	127.7	139.5	152.1	166.2
Social security contributions	233.3	279.1	313.6	292.1	306.3	340.1	374.0	411.0	450.0
Property tax	31.3	38.0	39.7	36.7	40.1	43.7	47.8	52.1	56.9
Tax on goods and services	516.1	526.6	605.3	519.5	594.9	645.7	707.0	772.8	845.5
VAT	374.5	378.7	446.3	372.7	433.1	466.5	509.1	553.9	603.6
Excise	132.6	137.1	147.9	136.1	150.2	166.4	184.0	203.7	225.4
Other	8.9	10.9	11.1	10.7	11.7	12.7	13.9	15.2	16.6
Tax on international trade	27.1	30.1	32.2	30.5	35.1	37.3	40.3	43.2	46.5
Other tax	83.0	92.1	98.9	75.2	79.9	86.3	94.0	102.0	110.9
Nontax revenue	182.0	207.7	182.0	205.6	221.0	236.9	254.8	274.1	295.6
Expenditure	1,485.4	1,647.4	1,824.3	1,854.0	1,954.2	2,150.5	2,320.8	2,487.0	2,684.9
Current	1,339.4	1,489.7	1,611.3	1,652.0	1,785.9	1,967.1	2,120.6	2,268.5	2,446.2
Compensation of employees	379.2	442.5	449.2	447.9	513.4	568.8	611.7	657.3	706.4
Goods and services	250.2	250.7	336.0	358.9	364.0	396.5	433.0	472.4	516.2
Interest	116.9	120.8	143.9	147.0	154.5	173.4	182.4	191.8	201.0
Subsidies to corporations and enterprises	50.6	80.9	50.0	46.7	50.1	52.9	55.6	58.4	61.3
Social benefits	540.1	592.5	631.0	650.4	702.8	774.4	836.6	887.3	959.9
Social programs (on budget)	150.6	130.1	144.4	130.4	142.8	155.5	169.8	185.3	202.4
Pensions	357.2	424.0	443.0	473.3	509.5	565.4	610.3	642.7	695.1
Unemployment, disability, and accident	32.3	38.4	43.5	46.7	50.6	53.5	56.5	59.4	62.4
Other current expenditures	2.3	2.4	1.2	1.1	1.1	1.2	1.3	1.3	1.4
Capital	144.2	153.7	203.4	144.2	157.9	172.0	187.8	204.9	223.9
Net lending	1.9	4.0	7.8	7.8	8.6	9.3	10.2	11.1	12.1
Contingency reserve 2/	0.0	0.0	1.7	49.9	1.9	2.1	2.3	2.5	2.7
Unidentified measures	0.0	0.0	0.0	0.0	17.4	122.5	164.0	136.3	122.3
General government overall balance	-76.5	-81.2	-93.7	-302.1	-224.6	-163.1	-122.1	-133.2	-145.6
General government financing	76.5	81.2	93.7	302.1	224.6	163.1	122.1	133.2	145.6
External	45.4	2.4	22.1	133.5	66.2	58.4	32.8	-39.5	3.2
Disbursements	116.5	88.1	143.9	246.5	169.2	136.9	129.2	143.5	143.5
o/w IFIs	60.7	22.2	112.7	173.9	61.1	-5.9	0.0	0.0	0.0
o/w IMF budget support			20.8	103.7	44.1	0.0	0.0	0.0	0.0
o/w Other (unidentified)			0.0	0.0	0.0	0.0	0.0	0.0	0.0
Amortizations	-71.0	-85.7	-121.8	-113.0	-103.0	-78.5	-96.3	-183.0	-140.3
Domestic (net)	31.1	78.7	71.6	168.6	158.4	104.6	89.3	172.7	142.4
Bond financing 3/	10.0	74.2	65.4	138.4	152.4	98.6	83.3	166.7	136.4
Direct bank borrowing	1.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Deposit finance	11.7	3.0	-0.8	30.0	0.0	0.0	0.0	0.0	0.0
Privatization	8.1	1.5	7.0	0.2	6.0	6.0	6.0	6.0	6.0
Bank and DGF recapitalization	0.0	5.0	48.0	20.0	20.0	0.0	0.0	0.0	0.0
Memorandum items:									
Primary balance	40.4	39.6	50.2	-155.1	-70.1	10.3	60.3	58.6	55.4
Cyclically-adjusted primary balance	40.2	46.8	48.4	-32.4	21.3	49.1	77.7	68.4	55.5
Structural primary balance 4/	30.1	46.8	38.3	-32.4	21.3	49.1	77.7	68.4	55.5
Public and publicly-guaranteed debt	2,156	2,005	2,583	2,580	2,719	2,855	2,940	3,047	3,179
Nominal GDP (billions of Ukrainian hryvnia)	3,561	3,975	4,435	3,908	4,277	4,659	5,088	5,551	6,065

Sources: Ministry of Finance; National Bank of Ukraine; and IMF staff estimates and projections.
1/ National methodology, cash basis.
2/ Includes the unallocated portion of expenditures from the COVID fund.
3/ Domestic bonds have been adjusted to reflect discrepancy between the above-the-line and the below-the-line deficits.
4/ Advanced pension payments and part of the NBU profit transfer are considered one-off operations.

Table 2. Ukraine: General Government Finances, 2018–2025 1/ (concluded)

(Percent of GDP)

	2018	2019	2020		2021	2022	2023	2024	2025
	Act.	Act.	Nov. 2019 Budget[2]	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Revenue	39.6	39.4	39.0	39.7	40.0	40.0	40.0	39.9	39.9
Tax revenue	34.5	34.2	34.9	34.5	34.9	34.9	35.0	35.0	35.0
Tax on income, profits, and capital gains	9.4	9.9	10.3	10.0	10.2	10.2	10.2	10.1	10.1
Personal income tax	6.5	6.9	7.4	7.3	7.4	7.5	7.4	7.4	7.3
Corporate profit tax	3.0	3.0	2.9	2.7	2.7	2.7	2.7	2.7	2.7
Social security contributions	6.6	7.0	7.1	7.5	7.2	7.3	7.4	7.4	7.4
Property tax	0.9	1.0	0.9	0.9	0.9	0.9	0.9	0.9	0.9
Tax on goods and services	14.5	13.2	13.6	13.3	13.9	13.9	13.9	13.9	13.9
VAT	10.5	9.5	10.1	9.5	10.1	10.0	10.0	10.0	10.0
Excise	3.7	3.4	3.3	3.5	3.5	3.6	3.6	3.7	3.7
Other	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Tax on international trade	0.8	0.8	0.7	0.8	0.8	0.8	0.8	0.8	0.8
Other tax	2.3	2.3	2.2	1.9	1.9	1.9	1.8	1.8	1.8
Nontax revenue	5.1	5.2	4.1	5.3	5.2	5.1	5.0	4.9	4.9
Expenditure	41.7	41.4	41.1	47.4	45.7	46.2	45.6	44.8	44.3
Current	37.6	37.5	36.3	42.3	41.8	42.2	41.7	40.9	40.3
Compensation of employees	10.6	11.1	10.1	11.5	12.0	12.2	12.0	11.8	11.6
Goods and services	7.0	6.3	7.6	9.2	8.5	8.5	8.5	8.5	8.5
Interest	3.3	3.0	3.2	3.8	3.6	3.7	3.6	3.5	3.3
Subsidies to corporations and enterprises	1.4	2.0	1.1	1.2	1.2	1.1	1.1	1.1	1.0
Social benefits	15.2	14.9	14.2	16.6	16.4	16.6	16.4	16.0	15.8
Social programs (on budget)	4.2	3.3	3.3	3.3	3.3	3.3	3.3	3.3	3.3
Pensions	10.0	10.7	10.0	12.1	11.9	12.1	12.0	11.6	11.5
Unemployment, disability, and accident	0.9	1.0	1.0	1.2	1.2	1.1	1.1	1.1	1.0
Other current expenditures	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Capital	4.0	3.9	4.6	3.7	3.7	3.7	3.7	3.7	3.7
Net lending	0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Contingency reserve[3]	0.0	0.0	0.0	1.3	0.0	0.0	0.0	0.0	0.0
Unidentified measures	0.0	0.0	0.0	0.0	0.4	2.6	3.2	2.5	2.0
General government overall balance	0.0	-2.0	-2.1	-7.7	-5.3	-3.5	-2.4	-2.4	-2.4
General government financing	0.0	2.0	2.1	7.7	5.3	3.5	2.4	2.4	2.4
External	1.3	0.1	0.5	3.4	1.5	1.3	0.6	-0.7	0.1
Disbursements	3.3	2.2	3.2	6.3	4.0	2.9	2.5	2.6	2.4
o/w IFIs	1.7	0.6	2.5	4.4	1.4	-0.1	0.0	0.0	0.0
o/w IMF budget support			0.5	2.7	1.0	0.0	0.0	0.0	0.0
o/w Other (unidentified)			0.0	0.0	0.0	0.0	0.0	0.0	0.0
Amortizations	-2.0	-2.2	-2.7	-2.9	-2.4	-1.7	-1.9	-3.3	-2.3
Domestic (net)	0.9	2.0	1.6	4.3	3.7	2.2	1.8	3.1	2.3
Bond financing[4]	0.3	1.9	1.5	3.5	3.6	2.1	1.6	3.0	2.2
Direct bank borrowing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Deposit finance	0.3	0.1	0.0	0.8	0.0	0.0	0.0	0.0	0.0
Privatization	0.2	0.0	0.2	0.0	0.1	0.1	0.1	0.1	0.1
Bank and DGF recapitalization	0.0	0.1	1.1	0.5	0.5	0.0	0.0	0.0	0.0
Memorandum items:									
Primary balance	1.1	1.0	1.1	-4.0	-1.6	0.2	1.2	1.1	0.9
Cyclically-adjusted primary balance	1.1	1.2	1.1	-0.8	0.5	1.1	1.5	1.2	0.9
Structural primary balance[5]	0.8	1.2	0.9	-0.8	0.5	1.1	1.5	1.2	0.9
Gross financing needs (in % of GDP)	8.7	11.7	10.5	15.7	14.5	9.4	9.4	11.0	9.4
Public and publicly-guaranteed debt	60.6	50.4	58.2	65.4	62.7	60.5	57.0	54.2	51.8
Nominal GDP (billions of Ukrainian hryvnia)	3,561	3,975	4,435	3,908	4,277	4,659	5,088	5,551	6,065

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

1/ National methodology, cash basis.

2/ Scaled as a percent of 2020 GDP.

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

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

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

Table 3. Ukraine: Balance of Payments, 2018–2025 1/

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

	2018	2019	2020	2021	2022	2023	2024	2025
	Act.	Act.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Current account balance	-4.3	-1.1	-2.2	-2.9	-3.1	-3.1	-3.5	-4.1
Goods (net)	-12.6	-13.9	-11.0	-13.8	-14.3	-15.5	-16.6	-18.0
Exports	43.3	46.1	40.3	46.8	50.8	54.4	58.4	62.6
Imports	-56.0	-60.1	-51.3	-60.6	-65.1	-69.9	-74.9	-80.6
Of which : gas	-3.5	-3.2	-3.0	-2.7	-2.6	-2.7	-2.7	0.0
Services (net)	1.3	1.8	3.4	0.9	0.5	0.4	0.2	0.1
Receipts	15.8	17.3	15.8	16.4	17.2	18.4	19.7	21.1
Payments	-14.4	-15.4	-12.3	-15.4	-16.7	-18.0	-19.4	-21.0
Primary income (net)	3.3	4.8	1.7	5.7	6.0	6.8	7.1	7.4
Secondary income (net)	3.6	6.3	3.6	4.2	4.7	5.2	5.7	6.3
Capital account balance 2/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial account balance	-4.8	-1.8	2.7	-7.9	-7.8	-8.4	-7.4	-9.4
Direct investment (net) 3/	-2.4	-2.5	-1.0	-3.1	-3.9	-4.7	-5.4	-5.8
Portfolio investment (net)	-2.1	-5.2	1.6	-2.0	-3.9	-3.3	-2.2	-3.9
Portfolio investment: assets	0.0	0.4	0.0	0.0	0.0	0.0	0.0	0.0
Portfolio investment: liabilities	2.1	5.6	-1.6	2.0	3.9	3.3	2.2	3.9
Financial derivatives (net)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other investment (net)	-0.3	5.8	2.1	-2.9	0.0	-0.4	0.2	0.3
Other investment: assets	2.1	7.5	3.6	2.1	1.5	0.8	0.0	0.0
Other investment: liabilities	2.4	1.7	1.5	5.0	1.5	1.2	-0.2	-0.3
Net use of IMF resources for budget support	-0.7	-1.0	3.5	1.1	-0.4	-1.0	-1.9	-2.0
Central Bank	0.0	0.0	0.0	-0.2	-0.1	0.0	0.0	0.0
General government	0.9	0.8	0.9	0.4	-0.6	-0.7	-1.4	-1.6
Banks 3/	-0.5	-0.3	-0.2	0.1	0.0	0.0	0.0	0.0
Other sectors	2.6	2.2	-2.7	3.5	2.6	2.9	3.1	3.2
Errors and omissions	1.7	0.9	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	2.2	1.7	-4.9	5.0	4.7	5.3	3.8	5.3
Financing	-2.7	-5.1	4.9	-5.0	-4.7	-5.3	-3.8	-5.3
Gross official reserves (increase: -)	-2.0	-4.5	6.0	-4.1	-3.0	-3.6	-2.4	-4.3
Net use of IMF resources for BOP support	-0.7	-0.6	-1.1	-0.9	-1.7	-1.7	-1.4	-1.0
Unidentified official financing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:								
Total external debt (percent of GDP)	87.8	78.8	93.0	84.6	77.9	72.2	65.7	60.8
Current account balance (percent of GDP)	-3.3	-0.7	-1.7	-2.0	-1.9	-1.8	-1.8	-2.0
Goods and services trade balance (percent of GDP)	-8.6	-7.8	-5.8	-8.7	-8.4	-8.5	-8.4	-8.5
Gross international reserves	20.8	25.3	19.3	23.4	26.5	30.0	32.4	36.7
Months of next year's imports of goods and services	3.3	4.8	3.1	3.4	3.6	3.8	3.8	4.0
Percent of the IMF composite metric	71.8	86.1	70.2	78.8	83.9	89.4	95.3	103.9
Gross domestic product (current prices)	130.9	154.7	130.3	148.0	163.1	177.3	193.4	211.3

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

1/ Based on BPM6.

2/ Official capital transfers are reported below the line.

3/ Includes banks' debt for equity operations.

Table 4. Ukraine: Gross External Financing Requirement, 2018–2025

(Billions of U.S. dollars)

	2018	2019	2020	2021	2022	2023	2024	2025
	Act.	Act.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Total financing requirements	31.7	37.8	37.1	32.4	32.8	33.9	39.3	38.4
Current account deficit	4.3	1.1	2.2	2.9	3.1	3.1	3.5	4.1
Portfolio investment	2.5	4.8	4.4	3.2	1.9	2.3	5.8	2.6
Private	0.7	0.9	2.0	0.7	0.5	0.9	2.7	1.2
General government	1.8	3.9	2.4	2.4	1.4	1.4	3.1	1.4
Medium and long-term debt	4.1	4.9	6.3	5.4	5.6	5.6	6.2	6.2
Private	3.7	4.3	4.9	4.5	4.6	4.6	4.5	4.5
Banks	0.3	0.4	1.0	0.6	0.7	0.7	0.6	0.6
Corporates	3.3	3.9	3.9	3.9	3.9	3.9	3.9	3.9
General government	0.4	0.6	1.4	0.9	1.0	1.0	1.7	1.8
Short-term debt (including deposits)	6.5	6.2	6.2	6.2	6.2	6.2	6.2	6.2
Other net capital outflows 1/	2.0	7.5	3.6	2.1	1.5	0.8	0.0	0.0
Trade credit	12.3	13.3	14.5	12.6	14.5	16.0	17.5	19.3
Total financing sources	33.9	42.1	26.5	35.7	38.1	40.2	45.0	45.7
Capital transfers	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Direct investment, net	2.4	2.5	1.0	3.1	3.9	4.7	5.4	5.8
Portfolio investment	4.6	10.8	2.8	5.2	5.8	5.6	8.0	6.5
Private	0.7	2.7	1.1	1.2	0.8	1.1	3.0	1.5
General government	3.8	8.1	1.7	4.0	5.0	4.5	5.0	5.0
Of which: Market financing	3.1	2.4	2.4	3.0	4.5	4.5	5.0	5.0
Medium and long-term debt	8.0	7.6	3.9	6.7	6.3	6.3	6.2	6.0
Private	7.6	7.1	3.9	6.2	5.8	5.9	5.8	5.8
Banks	0.4	0.2	0.8	0.7	0.7	0.7	0.6	0.6
Corporates	7.2	6.9	3.1	5.5	5.1	5.2	5.2	5.2
General government	0.4	0.6	0.0	0.5	0.5	0.3	0.3	0.2
Short-term debt (including deposits)	6.6	6.7	6.2	6.2	6.2	6.2	6.2	6.2
Trade credit	12.3	14.5	12.6	14.5	16.0	17.5	19.3	21.2
Increase in gross reserves	2.0	4.5	-6.0	4.1	3.0	3.6	2.4	4.3
Errors and omissions	1.7	0.9	0.0	0.0	0.0	0.0	0.0	0.0
Total financing needs	-1.9	-0.7	4.7	0.8	-2.3	-2.7	-3.3	-3.0
Official financing	0.2	-0.8	4.7	0.8	-2.3	-2.7	-3.3	-3.0
IMF	-0.7	-1.6	2.4	0.2	-2.1	-2.7	-3.3	-3.0
Purchases	1.4	0.0	3.5	1.5	0.0	0.0	0.0	0.0
Repurchases	2.1	1.6	1.1	1.3	2.1	2.7	3.3	3.0
Official creditors	0.9	0.8	2.3	0.6	-0.2	0.0	0.0	0.0
World Bank	0.2	0.2	1.0	-0.3	-0.3	0.0	0.0	0.0
EU	0.6	0.0	1.2	0.7	0.0	0.0	0.0	0.0
EBRD/EIB/Others	0.1	0.6	0.1	0.3	0.1	0.0	0.0	0.0
Unidentified official financing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Exceptional financing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:								
Gross international reserves	20.8	25.3	19.3	23.4	26.5	30.0	32.4	36.7
Months of next year's imports of goods and services	3.3	4.8	3.1	3.4	3.6	3.8	3.8	4.0
Percent of short-term debt (remaining maturity)	45.5	68.5	63.6	70.8	74.2	74.2	89.1	97.2
Percent of the IMF composite metric 2/	71.8	86.1	70.2	78.8	83.9	89.4	95.3	103.9
Loan rollover rate (percent)								
Banks	96.2	96.7	97.1	101.9	100.5	100.5	100.0	100.0
Corporates	212.4	176.7	81.6	136.8	126.8	129.9	129.9	129.9
Total	139.3	130.1	91.0	116.2	111.2	112.5	112.3	112.3

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

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

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

Table 5. Ukraine: Monetary Accounts, 2018–2025

(Billions of Ukrainian hryvnia unless otherwise noted)

	2018 Act.	2019 Act.	2020 Proj.	2021 Proj.	2022 Proj.	2023 Proj.	2024 Proj.	2025 Proj.
Monetary survey								
Net foreign assets	258	489	374	469	625	744	812	955
Net domestic assets	1,020	950	1,122	1,191	1,243	1,366	1,569	1,734
Domestic credit	1,802	1,647	1,796	1,811	1,932	2,069	2,296	2,557
Net claims on government	714	664	883	1,011	1,065	1,098	1,189	1,254
Credit to the economy	1,081	974	903	792	859	963	1,099	1,296
Domestic currency	621	616	578	423	485	584	713	904
Foreign currency	460	358	326	369	373	380	386	392
Other claims on the economy	7	8	10	8	8	8	8	8
Other items, net	-782	-697	-674	-620	-689	-704	-727	-823
Broad money	1,278	1,438	1,496	1,660	1,868	2,110	2,382	2,689
Currency in circulation	364	384	402	426	447	470	494	519
Total deposits	910	1,051	1,090	1,231	1,416	1,635	1,883	2,164
Domestic currency deposits	540	641	589	727	886	1,083	1,309	1,569
Foreign currency deposits	370	410	501	504	531	552	574	595
Accounts of the NBU								
Net foreign assets	262	392	242	343	493	618	694	846
Net international reserves	267	374	219	321	471	596	672	824
(In billions of U.S. dollars)	10	16	…	… .	…	…	…	…
Reserve assets	576	599	570	665	759	861	930	1,052
Other net foreign assets	-6	18	23	22	22	22	22	22
Net domestic assets	174	85	256	185	67	-24	-65	-180
Net domestic credit	315	183	265	140	60	-27	-51	-67
Net claims on government	319	309	323	309	297	283	269	255
Claims on government	366	348	336	322	311	298	286	273
Net claims on banks	-3	-126	-58	-169	-237	-311	-321	-322
Other items, net	-141	-98	-9	45	7	3	-14	-113
Base money	436	477	499	528	560	594	629	667
Currency in circulation	364	384	402	426	447	470	494	519
Banks' reserves	72	93	97	103	113	123	135	148
Cash in vault	36	41	46	52	60	68	78	89
Correspondent accounts	36	52	50	50	53	55	57	60
Deposit money banks								
Net foreign assets	-4	96	132	126	132	126	118	109
Foreign assets	159	214	260	259	270	270	270	270
Foreign liabilities	163	117	129	133	139	144	152	162
Net domestic assets	914	954	959	1,105	1,285	1,509	1,764	2,056
Domestic credit	1,594	1,599	1,666	1,815	2,027	2,262	2,524	2,814
Net claims on government 1/	395	355	560	702	768	815	920	999
Credit to the economy	1,080	974	903	792	859	963	1,099	1,295
Other claims on the economy	7	8	10	8	8	8	8	8
Net claims on NBU	134	269	193	313	392	476	497	512
Other items, net	-680	-644	-707	-710	-742	-753	-760	-758
Banks' liabilities	910	1,051	1,090	1,231	1,416	1,635	1,883	2,164
Memorandum items:	(End of period, percent change unless otherwise noted)							
Base money	9.2	9.6	4.4	6.0	6.0	6.0	6.0	6.0
Currency in circulation	9.3	5.7	4.6	5.9	5.1	5.1	5.1	5.0
Broad money	5.7	12.6	4.0	11.0	12.5	12.9	12.9	12.9
At program accounting exchange rate	6.5	17.5	-2.9	12.9	12.8	13.3	13.3	13.2
Credit to the economy	5.5	-9.8	-7.3	-12.4	8.4	12.2	14.1	17.9
At program accounting exchange rate	6.3	-3.9	-13.8	-9.1	8.9	12.9	14.9	18.9
Real credit to the economy 2/	-3.9	-13.3	-13.9	-17.2	3.0	6.8	8.7	12.3
Credit-to-GDP ratio, in percent	30.4	24.5	23.1	18.5	18.4	18.9	19.8	21.4
Velocity of broad money, ratio	2.8	2.8	2.6	2.6	2.5	2.4	2.3	2.3
Money multiplier, ratio	2.9	3.0	3.0	3.1	3.3	3.6	3.8	4.0
Hryvnia per U.S. dollar (end of period)	27.7	23.7	…	… .	…	…	…	…

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

1/ Includes claims for recapitalization of banks.

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

Table 6. Ukraine: Structural and Financial Soundness Indicators for the Banking Sector, 2014–19

(Percent, unless otherwise indicated)

	2014	2015	2016	2017	2018	2019			
	Dec.	Dec.	Dec.	Dec.	Dec.	Mar.	Jun.	Sep.	Dec.
Ownership									
Number of banks, *of which 1/*	163	120	100	84	78	78	76	76	75
Private	156	114	93	79	73	73	71	71	70
Domestic	105	73	52	40	36	37	35	35	35
Foreign	51	41	41	39	37	36	36	36	35
Of which: 100% foreign-owned	19	17	19	19	23	23	24	24	23
State-owned	3	3	2	2	2	2	3	3	3
State-controlled (inc. in sanation)	4	3	5	3	3	3	2	2	2
Foreign-owned banks' share in statutory capital	32.5	42.5	51.0	34.3	30.1	30.7	30.8	30.9	31.1
Concentration									
Share of assets of largest 10 banks	59.7	70.6	72.2	75.7	76.9	77.5	77.8	77.8	78.8
Share of assets of largest 25 banks	82.0	88.7	91.4	93.4	93.8	93.7	93.9	94.1	94.4
Number of bank with assets less than $150 million	103	85	68	54	47	47	47	47	46
Capital Adequacy									
Regulatory capital to risk-weighted assets 2/	15.6	12.3	12.7	16.1	16.2	17.0	17.5	18.4	19.7
Regulatory Tier 1 capital to risk-weighted assets	11.2	8.3	9.0	12.1	10.5	10.9	13.0	13.1	13.5
Capital to total assets	11.2	8.0	9.8	11.9	10.8	12.1	12.3	13.7	13.5
Asset Quality									
Change of credit to GDP ratio (year-over-year, percentage points)	2.4	-13.3	-8.9	-7.7	-4.0	-4.6	-4.7	-7.4	-5.9
NPLs to total loans (NBU definition) 3/	19.0	28.0	30.5	54.5	52.9	51.7	50.8	48.9	48.4
NPLs net of provisions to capital (NBU definition) 3/	61.1	129.0	89.4	70.2	60.2	44.1	38.3	31.5	25.3
Provisioning coverage ratio	64.0	64.6	72.7	81.1	86.0	88.3	89.0	89.3	90.4
Loan loss reserves to total (gross) loans	17.8	29.3	44.9	46.7	49.1	49.8	48.7	47.8	48.1
Foreign Exchange Rate Risk									
Loans in foreign currency to total loans	47.8	57.9	51.4	47.1	46.5	45.9	44.4	41.6	41.2
Deposits in foreign currency to total deposits	49.2	48.9	49.9	46.6	43.2	42.4	41.7	41.5	40.7
Foreign currency loans to foreign currency deposits	140.2	157.2	122.3	115.1	127.7	126.6	118.2	105.7	95.4
Net open FX position to capital 4/	35.5	36.2	57.1	43.3	47.0	48.8	51.7	51.2	47.4
Liquidity Risk									
Liquid assets to total assets	26.4	33.0	48.5	53.9	51.1	52.7	51.5	71.9	72.3
Customer deposits to total loans to the economy	64.5	71.2	80.5	84.6	81.8	83.4	87.7	92.5	103.1
Earnings and Profitability									
Return on assets (after tax; end-of-period) 5/	-4.1	-5.4	-12.3	-2.0	1.2	3.9	4.6	4.8	4.3
Return on equity (after tax; end-of-period) 5/	-30.5	-70.0	-115.0	-17.2	11.4	33.8	39.5	39.7	34.8
Net interest margin to total assets	4.0	3.2	3.6	3.9	5.3	1.5	2.9	4.3	5.4
Interest rate spreads (percentage points; end-of-period)									
Between loans and deposits in domestic currency	6.9	9.7	7.3	8.0	7.6	5.9	6.4	7.4	7.8
Between loans and deposits in foreign currency	1.9	3.2	3.0	3.9	3.1	3.9	3.0	2.5	2.6
Between loans in domestic and foreign currency	8.4	12.3	9.6	11.0	16.0	13.1	14.3	15.8	13.5
Between deposits in domestic and foreign currency	3.3	5.7	5.4	6.9	11.6	11.0	10.9	11.0	8.4
Number of banks not complying with banking regulations									
Not meeting capital adequacy requirements for Tier I capital	14	11	10	3	1	1	0	0	0
Not meeting prudential regulations	34	37	39	32	20	17	14	13	8
Not meeting reserve requirements	34	6	7	3	3	3	0	1	1

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

1/ Excludes banks under liquidation.

2/Prior to 2017, capital does not reflect the impact of June 2016 Credit Risk Regulation (No 351), which came into effect January 3, 2017.

3/ From 2012-2016, NPLs consisted of loans in categories IV and V as recorded on the balance sheet; total gross loans included off-balance sheet obligations on guarantees and loans used for credit assessments. Since 1th quarter of 2017 NPLs include loans classified into the lowest class, in particular: class 10 - loans to corporate borrowers (excluding banks and state owned entities); class 5 - loans to other borrowers/counterparties accounted; total gross loans as debts arising from credit transactions, including loans to customers, interbank loans and deposits, excluded off-balance sheet obligations on guarantees and loans given to banks and customers, used for credit risk assessment.

4/ Calculated according to IMF STA guidelines, with net open position equal to the sum of the absolute value of the net open position in individual foreign currencies.

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

Table 7. Ukraine: Schedule of Reviews and Available Purchases

Availability Date	Millions of SDR	Percent of Quota	Conditions
June 2020	1,500	74.6	Board approval of the Stand-by arrangement
September 1, 2020	500	24.9	First review and continuous and end-June 2020 performance criteria
December 1, 2020	500	24.9	Second review and continuous and end-September 2020 performance criteria
May 15, 2021	400	19.9	Third review and continuous and end-December 2020 performance criteria
October 15, 2021	700	34.8	Fourth review and continuous and end-June 2021 performance criteria
Total	3,600	178.9	
Memorandum item:			
Quota	2,011.8		

Source: IMF staff calculations.

Table 8. Ukraine: Indicators of Fund Credit, 2017–2026

(In millions of SDR)

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
	Actual	Actual	Actual	Projections						
Existing Fund credit										
Stock 1/	8,522	7,036	6,883	6,095	5,126	3,596	2,067	1,037	303	61
Obligations	853	1,728	1,408	960	1,088	1,603	1,563	1,048	742	245
Principal (repurchases)	629.0	1,486	1,153	788	969	1,530	1,530	1,030	734	242
Interest charges	224.0	242	255	172	119	73	33	18	8	3
Prospective purchases										
Disbursements	0.0	0	0	2,500	1,100	0	0	0	0	0
Stock 1/	0.0	0	0	2,500	3,600	3,600	3,163	1,812.5	450.0	0.0
Obligations 2/	0.0	0.0	0	41	114	146	561	1,402	1,375.8	452.6
Principal (repurchases)	0.0	0.0	0.0	0.0	0.0	0.0	437.5	1,350.0	1,362.5	450.0
Interest charges	0.0	0.0	0.0	40.6	113.9	145.7	123.4	52.2	13.3	2.6
Stock of existing and prospective Fund credit 1/	8,522	7,036	6,883	8,595	8,726	7,196	5,229	2,850	753	61
In percent of quota 3/	424	350	342	427	434	358	260	142	37.4	3.0
In percent of GDP	5.4	3.9	3.2	4.8	4.2	3.2	2.1	1.1	0.3	0.0
In percent of exports of goods and nonfactor services	11.2	8.6	7.9	11.1	9.9	7.6	5.1	2.6	0.7	0.1
In percent of gross reserves	32.0	24.4	19.7	32.1	26.8	19.5	12.5	6.3	1.7	0.1
In percent of public external debt	13.1	10.6	10.6	11.4	11.3	9.2	6.7	3.8	1.0	0.1
Obligations to the Fund from existing and prospective Fund credit	853	1728	1,408	1,001	1,202	1,748	2,123	2,450	2,118	697
In percent of quota	42.4	85.9	70.0	49.8	59.7	86.9	105.6	121.8	105.3	34.7
In percent of GDP	0.5	1.0	0.7	0.6	0.6	0.8	0.9	0.9	0.7	0.2
In percent of exports of goods and nonfactor services	1.1	2.1	1.6	1.3	1.4	1.8	2.1	2.2	1.9	0.6
In percent of gross reserves	3.2	6.0	4.0	3.7	3.7	4.7	5.1	5.4	4.7	1.5
In percent of public external debt service	20.4	39.4	34.4	18.2	25.2	35.4	42.6	40.8	35.3	11.6

Source: Fund staff estimates and projections.

1/ End of period.

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

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

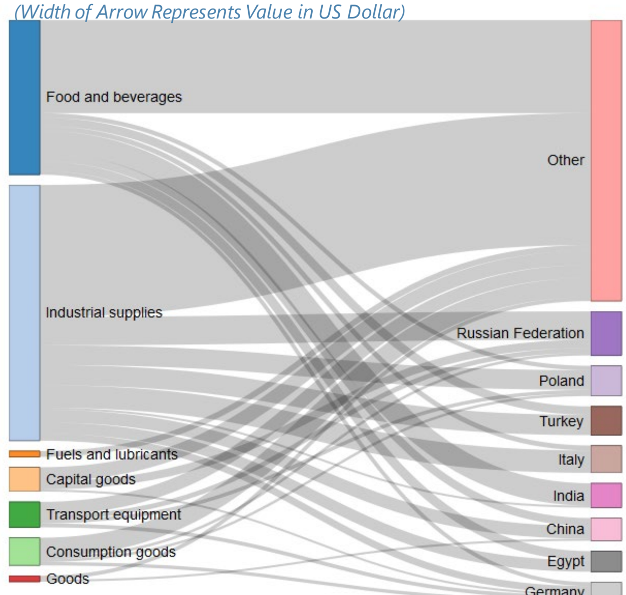
Annex I. External Sector Assessment

Staff's overall assessment is that Ukraine's external position at end-2019 is broadly in line with fundamentals and desirable policy settings. Following Ukraine's transition to a floating exchange rate regime, the hryvnia depreciated significantly vis-à-vis the US dollar and other currencies—thereby restoring external competitiveness. Over the last two years, Ukraine has been experiencing real appreciation pressures from a positive inflation differential relative to its trading partners, nominal appreciation, and domestic wage increases. Since the outbreak of the COVID-19 crisis, the hryvnia has depreciated by some 15 percent. In the short run, the outlook is mostly subject to risks from broad risk aversion in capital markets, ongoing tensions with Russia, and domestic policy uncertainty. In the medium run, implementation of structural reforms leaves room for upside potential.

Structure

Annex I. Figure 1. Ukraine: Exports by Product and Destination, 2017

(Width of Arrow Represents Value in US Dollar)



Sources: UN Comtrade; and IMF staff calculations.

1. **Ukraine's export structure is concentrated** (Figure 1)**.** It relies heavily upon exports of industrial supplies (mostly iron-related) and food (in particular corn, wheat, and soybeans). Remaining items account for around one quarter of Ukraine's export revenues. In terms of export destinations, Ukraine has become more diversified. Recent trade tensions notwithstanding, Russia remains Ukraine's main export destination (although it is less important than the sum of all EU countries, of which Poland and Italy take the biggest share). Concentration on the import-side is somewhat higher, with about 15 percent of imports coming from Russia, followed by Germany (11 percent) and Poland (8 percent).

2. **Ukraine's current account mostly responds to exchange rate movements via changes in imports.** Ukraine's exports and imports are predominantly invoiced in foreign currency.[1] As a result, an appreciation or depreciation of the hryvnia does not affect the prices that export-partners get to face, making export volumes relatively insensitive to the exchange rate. Ukrainian importers, on the other hand, do get to face a higher import bill when the hryvnia

[1] On the export side, 73 percent is invoiced in US dollars and 20 percent in euro; on the import side, 56 percent is invoiced in US dollars, and 39 percent in euros.

depreciates, as a result of which import volumes are more sensitive to exchange rate movements (as is profitability of the export sector).

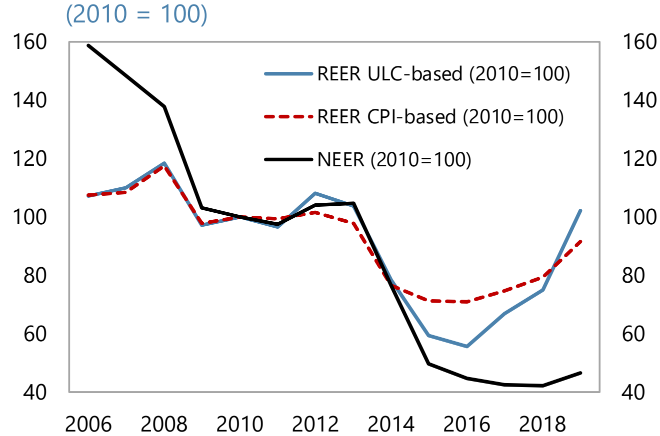
3. The external sector continues to be adversely affected by ongoing trade tensions. Russia decided on April 18, 2019 to: a) intensify the end-2018 ban on Ukrainian imports (mostly affecting metallurgical products); and b) introduce a requirement for "special permissions" from Russia's Economy Ministry to export coal and coke, gasoline/diesel fuel, and LNG to Ukraine. The impact of the "special permissions" requirement seems to have been mostly temporary, related to bureaucratic procedures in Russia. Tensions around the Sea of Azov have made transporters in especially the metallurgical sector deviate to other, less efficient routes—pushing up costs. Diversion possibilities to railways are limited as the sector suffers from a shortage of locomotives and ongoing repair works. The impact of recently imposed quota and tariffs on steel imports by, respectively, the EU and Turkey is thought to be limited.

Real Exchange Rate and Current Account

4. Since 2016, Ukraine's real effective exchange rate (REER) has appreciated significantly (Figure 2)**.** This mostly resulted from inflation in Ukraine outpacing that of its trading partners, which was not neutralized by hryvnia depreciation. This trend is even more discernible when using a unit labor cost (ULC) based measure of the real effective exchange rate (which compares wage- and productivity-developments in Ukraine with those in its trading partners). The reduction in competitiveness suggested by that metric seems driven by broad wage increases, caused by increases in the minimum wage (which has nearly tripled since late 2015), combined with negative labor supply shocks emanating from continued emigration.

Annex I. Figure 2. Effective Exchange Rates

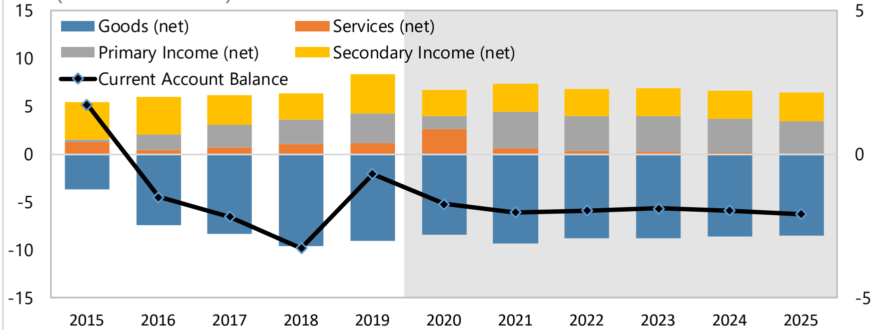
(2010 = 100)



Sources: Haver, National Bank of Ukraine, and IMF staff calculations.

5. In 2019, Ukraine's current account deficit tightened to 0.7 percent of GDP, down from 3.3 percent of GDP in 2018 (Figure 3)**.** This headline number is distorted by the secondary income balance, which contains a $2.9 billion arbitration awarded to Naftogaz. Excluding this one-off item puts the current account deficit at 2.6 percent of GDP, which forms a better indication of Ukraine's external position. The 2020 current account is expected to be affected heavily by the COVID-19 crisis, which is projected to depress both exports and imports. However, since Ukraine's exports are dominated by food items, the supply and demand of which are relatively little affected by ongoing disruptions, exports are expected to fall by less than imports. Starting from 2020, the anticipated completion of the Nord Stream 2 pipeline is projected to reduce gas transit fees for Ukraine (by about US$ 1.5 billion per year in the medium term), exerting a permanent drag on the current account balance.

Annex I. Figure 3. Ukraine: Current Account
(Percent of GDP)



Sources: Haver Analytics, NBU, and IMF stafff calculations.

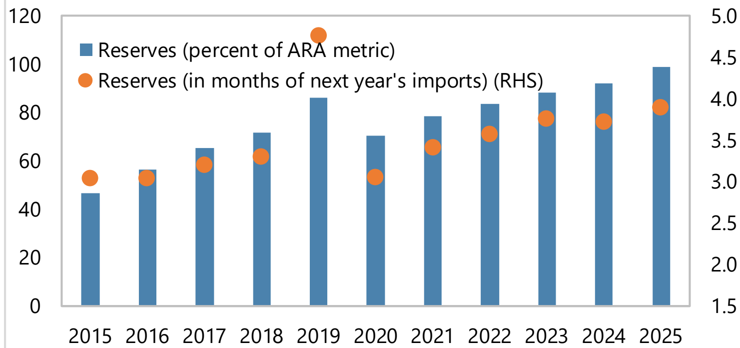
Capital and Financial Account

6. **Since the 2015 debt operation, Ukraine has maintained access to international capital markets.** Ukraine issued US$3.2 billion in Eurobonds in 2017, followed by US$2.7 billion in 2018, and US$ 1.5 billion in 2019. In January of 2020, they raised US$1.4 billion through a euro-denominated 10-year Eurobond (issued at a record-low interest rate of 4.375 percent). The recent adoption of Clearstream has generated a gradual increase in foreign participation in the domestic bond market: while non-residents held less than 5 percent of market-held government securities before the adoption of Clearstream, that share has grown to over 20 percent since. At the same time, Ukraine has continued to loosen its restrictions on dividend repatriation—with this limit being dropped in July of 2019. While this policy has increased capital outflows over the course of 2018 (dividend repatriation grew by 80 percent to US$3.3 billion in 2018 and US$3.4 billion in 2019), these liberalization efforts are expected to lead to a modest increase foreign direct investment in the medium run (deeper structural reforms are needed to provide a significant boost).

7. **Following the outbreak of the COVID-19 crisis, Ukraine (like many other EMs) was temporarily unable to tap international markets, while non-resident inflows in the domestic bond market dried up as well.** Significant inflows of official financing are expected to cover the resulting shortfall. Meanwhile, Ukraine faces limited risk of significant pressures arising from capital outflows since non-resident investors are primarily invested into longer-term bonds, with the secondary market being illiquid. Given this structure, Ukraine has experienced limited outflows year-to-date. At the same time, residents hoarding FX cash is expected to weigh on Ukraine's financial account, forming a drain on FX reserve levels.

8. Ukraine's FX reserve levels have significantly recovered relative to the lows seen around 2014, but they remain below the Fund's reserve adequacy metric (Figure 4)**.** End-2019, reserves stood at 4 months of 2019 imports (corresponding to about 86 percent of the Fund's reserve adequacy metric for Ukraine). Reserves are projected to fall to around 3 months of imports as the COVID-19 is weighing on Ukraine's BoP. Over the projection horizon, reserves are expected to grow to 100 percent of the Fund's metric, on the back of IMF support and a resumption of foreign inflows. This should enable Ukraine to deal with its increasing external public debt service burden, which is expected to average to about US$10 billion per year over the period 2020–25 (compared with less than US$6 billion per year over 2015–19).

Annex I. Figure 4. Ukraine: Gross International Reserves



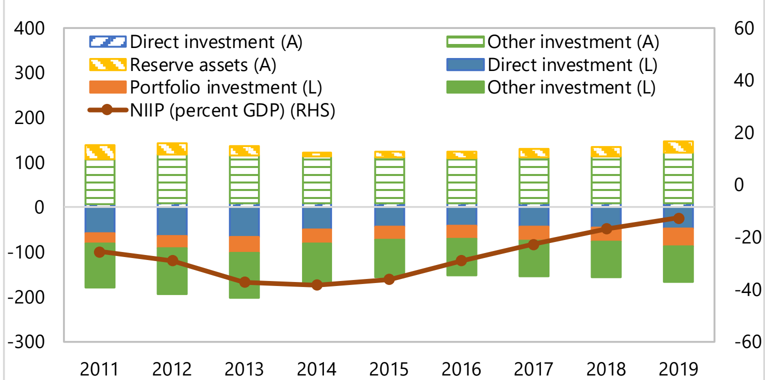
Sources: NBU and IMF staff calculations.

9. Despite liberalization, Ukraine continues to have an exchange restriction (ER) and capital flow measures (CFMs) in place. The Law "On Currency and Currency Transactions", which came into force on February 7, 2019, aims at liberalizing currency control regime in Ukraine, and the NBU has continued liberalizing restrictions as macroeconomic and financial stability conditions allowed. In particular, the exchange restriction arising from the limit on dividend repatriation was lifted in July of 2019 while the surrender requirement was canceled in May–June 2019. The remaining ER and CFMs mostly concern limits on capital outflows (which may constrain some current transactions) and include a limit on banks' long open positions and a ban on FX derivatives transactions other than for hedging purposes with non-banks. Further liberalization of the capital account should only proceed up to a degree to which reserve accumulation, as well as macroeconomic and financial stability, allow for it.

Net International Investment Position

10. Ukraine's net international investment position (NIIP) has come closer to balance over the last five years (Figure 5)**.** While Ukraine's NIIP stood at -38 percent of GDP back in 2014, it has since risen to -13 percent (end-2019). This development resulted from lower current account deficits and reduced financial flows into the country (in particular net FDI,

Annex I. Figure 5. Ukraine: Net International Investment Position



Sources: Haver Analytics, NBU, and IMF stafff calculations.

which fell to 1.6 percent of GDP—compared with an average of around 4 percent over the previous decade). Current projections suggest that the NIIP will fall to about -24 percent of GDP by 2025, on the back of increased capital inflows.

Overall Assessment

11. The Fund's current account-based EBA-lite methodology suggests that Ukraine's external position is broadly in line with fundamentals (Table 1, left column)**.** The underlying approach establishes the gap between a country's actual current account position and the level that would be consistent with the country's policies and fundamentals (the norm). The outcome of this exercise is then mapped back to the real exchange rate by applying the elasticity of the current account to real exchange rate movements. The current account gap (*CA gap*) is determined as follows:

Annex I. Table 1. Ukraine: Exchange Rate Assessment, end-2019

Current Account-Based Approach (EBA-lite)		**REER-based Approach (EBA-lite)**	
Adjusted CA/GDP (a) 1/	-2.6%	ln (Actual REER) (a)	4.54
Fitted CA/GDP (b)	-2.0%	ln (Fitted REER) (b)	4.54
Residual (a-b)	-0.6%	*Residual (a-b)*	0.00
Cyclical contributions (c)	0.0%	ln (REER Norm) (c)	4.53
Cyclically adjusted CA/GDP (d=a-c)	-2.6%	*Policy gap*	2.0%
Cyclically adjusted CA/GDP norm (e)	-2.9%		
CA/GDP gap (f=d-e)	-0.2%		
Policy gap	0.3%		
Assumed CA/REER Elasticity (g)	0.32		
REER gap (-f/g, positive is overvaluation)	**0.6%**	**REER gap** (a-c, positive is overvaluation)	**0.8%**

1/ CA adjusted to exclude the inflow from the one-off US$2.9 bln (1.9% of 2019 GDP) arbitration award to Naftogaz.

$$\text{CA norm} = \text{fitted CA} - \text{policy gap}$$
$$\text{CA gap} = \text{cyclically adjusted CA} - \text{CA norm}$$

Here, "*fitted CA*" is the level of the current account that is predicted by a panel-regression approach given Ukraine's current policies and fundamentals. The variable "*policy gap*" corrects the fitted value of the current account for any existing policies that cannot endure in the long run. Conducting a similar analysis on Ukraine's REER position (that is: comparing the actual REER with a fitted REER, stemming from a panel-regression approach) leads to a similar conclusion (Table 1, right column).[2]

12. Assessing Ukraine's real exchange rate by analyzing its external asset position, also suggests that Ukraine's external position is moderately weaker than warranted by

[2] Note that this assessment excludes the one-off US$2.9 billion compensatory payment to Naftogaz, which is not thought to be reflective of Ukraine's underlying external position.

fundamentals. The external sustainability approach compares the current account balance expected to prevail in the medium run, with that balance which would stabilize the net foreign asset ("NFA") position. This exercise points to moderate over-valuation at end-2019, of about 7.5 percent.

13. Since the eruption of the COVID-19 pandemic in 2020Q1, hryvnia has depreciated (trading almost 15 percent lower against the US$ since the beginning of the year)**.** If the shock turns out to be temporary for Ukraine, this depreciation might be (partly) reversed over the course of 2020. Going forward, increased productivity improvements are expected to lead to modest real appreciation in line with the Balassa-Samuelson effect.

Annex II. Public and External Debt Sustainability Analysis

Public debt is assessed to be sustainable, although risks remain very high—especially in case of further unexpected shocks to the exchange rate and/or GDP. During 2020, COVID-related pressures are expected to raise public debt by about 15 percentage points (to 65 percent of GDP). Following the 2020 increase, debt is expected to resume its pre-COVID downward trajectory, falling to just over 50 percent of GDP by 2025. Main risks are related to high near-term GFNs, contingent liabilities associated with banking system support, and a significant share of debt being denominated in foreign currency. The outlook remains conditional on strong policy implementation, with a significant worsening a possibility in case of policy slippages, lower growth, or non-materialization of productivity improvements (which would like lead to a weaker real exchange rate). Materialization of these downside risks could jeopardize future market access, which poses challenges given financing needs in the upcoming years.

A. Key Assumptions Underlying the DSA

1. The macroeconomic framework underling the DSA is built upon the following assumptions:

- *Real GDP growth*: real growth for 2020 is estimated to equal -8.2 percent, followed by a gradual U-shaped growth recovery in future years.

- *Exchange rate*: the exchange rate is currently trading at around UAH27/US$ (significantly more depreciated than levels seen last year).

- *Inflation*: inflation (based upon the GDP deflator) is expected to amount to 7.1 percent in 2020 (down from 8.1 percent in 2019), after which the baseline assumes a continued decline to 5 percent in the medium run.

- *Primary balance*: COVID-related pressures are expected to push the primary deficit to 4.0 percent of GDP in 2020. Going forward, Ukraine is projected to generate moderate surpluses. Comparing the envisioned 3-year adjustment with past cases, suggests that the current assumptions are not unrealistic (Figure 2, although past primary balance-projections have displayed over-optimism).

- *Interest rate*: going forward, nominal borrowing costs are projected to fluctuate around 7 percent (which is higher than rates at which Ukraine has been able to borrow during tranquil times in the past). Over the course of 2019, Ukraine's effective interest rate (and expectations regarding its future path) have come down on the back of benign borrowing conditions until February 2020, greater official support at more favorable rates, and lower projected payouts on the GDP warrants.

2. In addition, there are several other debt-creating flows:

- *Banking system support*: as progress has been made with banking sector recapitalization (and NPL provisioning) over the last years, projected fiscal costs related to bank recapitalization for 2020 and 2021 are expected to remain below 1 percent of GDP.

- *Government guaranteed debt*: at end-2019, Ukrainian government guaranteed debt equaled an amount of 6.2 percent of GDP. This stock is projected to decline gradually on the expectation of reduced demand following increased privatization and corporatization of SOEs.

- *Privatization proceeds*: the baseline assumes modest privatization receipts over the projection horizon, of about 0.1 percent of GDP.

3. The baseline assumes official financing from several sources. Over the course of 2020, the European Union is expected to disburse about US$1.2 billion under its Macro-Financial Assistance program. The World Bank is projected to provide around US$ 1 billion in budget support. IMF lending under the new program will be on SBA terms and is envisioned as fully going to budget support.

4. The macroframework assumes that Ukraine will return to markets in 2020Q4. The COVID-19 crisis has led to an increase in global risk aversion, which has momentarily closed markets for selected emerging economies. However, as Ukraine's sovereign spread has started coming down, the framework foresees US$1 billion in market access in 2020Q4. The framework does not assume non-resident inflows in the domestic bond market for the remainder of 2020. In January of this year, Ukraine already raised US$1.4 billion by issuing a euro-denominated 10-year Eurobond (priced at a 4.375 percent initial yield).

B. Public Sector DSA

5. This DSA captures public and publicly guaranteed debt. More specifically, the coverage of public debt in this DSA includes: (i) central government direct debt; (ii) domestic and external government-guaranteed debt (loans and bonds) extended to 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 SOEs domestic and external liabilities.

6. About 59 percent of total public and publicly guaranteed debt (equal to about 30 percent of GDP) is externally held (Table 1). Within this category, Eurobonds account for the biggest share, followed by multilateral support. Domestic debt is mostly denominated in hryvnia. Issued guarantees mostly concern external debt.

7. Under baseline projections, Ukraine will see its debt-to-GDP ratio decline to about 50 percent of GDP by 2025 (Figure 3). This reduction is mainly driven by (and thus conditional on) real GDP growth as projected (with primary surpluses projected to bring debt down from 2022 onwards). Policy slippages would therefore endanger this trajectory.

8. **Vulnerabilities are significant as signaled by the heat map, particularly in terms of financing needs** (Figure 1). For 2020, the elevated primary deficit contributes to the significant financing pressures, as does debt falling due. Ukraine is particularly vulnerable to a depreciation of the exchange rate, which would increase the external debt service burden as over 60 percent of Ukraine's debt is denominated in foreign currency. Given that the External Sector Assessment does not point to an overvalued currency, the risk of a sharp depreciation seems contained. The fact that almost half of Ukraine's external debt is owed to official creditors (implying greater stability and more favorable borrowing conditions), mitigates risks stemming from external debt as well.

Annex II. Table 1: Public and Publicly Guaranteed Debt, end-2019

	UAH (billion)	USD (billion)	percent of GDP	percent of total
Public and publicly guaranteed debt	2004.6	78.1	50.4	100.0
Domestic debt	834.1	32.5	20.9	41.5
Direct debt in UAH	737.4	28.7	18.5	36.7
Direct debt in FX	88.7	3.5	2.2	4.4
Guaranteed	8.0	0.3	0.2	0.4
External debt	1,170.6	45.6	29.5	58.5
Multilateral 1/	264.6	10.3	6.7	13.3
of which: IMF budget support	97.5	3.8	2.5	4.9
Bilateral 2/	126.7	4.9	3.2	6.3
Sovereign Eurobonds	549.2	21.4	13.8	27.4
Local government Eurobonds 3/	7.8	0.3	0.2	0.4
External guaranteed debt	222.3	8.7	5.6	11.1
of which: IMF loans to NBU	170.4	6.6	4.3	8.5

Sources: Ministry of Finance

1/ Includes IMF, WB, EBRD, EIB.

2/ Includes EU.

3/ Issued by the city of Kyiv.

9. **Fan chart analyses suggest that Ukraine's debt-to-GDP ratio is unlikely to return to the levels seen prior to the 2015 debt operation** (when public and publicly guaranteed debt were projected to amount to nearly 100 percent of GDP). Assuming a symmetric distribution of shocks, the analysis suggests that Ukraine's debt level will most likely remain below 80 percent of GDP; under an adverse scenario (in which Ukraine will not be able to realize positive primary balances, while its real exchange rate will only depreciate), debt is most likely to stay below

100 percent of GDP over the projection horizon. Yet, given the relatively low debt-to-GDP ratios at which debt has proved unsustainable in Ukraine's past, caution remains warranted—especially since the COVID-19 shock has heightened risks.

10. Stress tests signal that debt dynamics are particularly vulnerable to further shocks to the growth rate and the exchange rate. Both have just materialized, with the expected adverse impact on debt ratios, opening the possibility that Ukraine may get to benefit from some mean reversion in the near future. Non-materialization of anticipated productivity improvements poses a risk, as such a scenario would likely be accompanied by a weaker real exchange rate. The combined macro-fiscal shock (which looks at the joint impact of various stress scenarios), would have the most significant adverse impact on debt sustainability in Ukraine.

C. External Sector DSA

11. **External debt (private and public) has been steadily declining since 2015 as a share of GDP, but the COVID-19 shock is expected to increase the ratio by about 15 percentage points, to 93 percent of GDP** (Table 2). External debt peaked at 130.6 percent of GDP in 2015—mostly driven by sharp exchange rate depreciation at the time. Since then, the ratio has been falling continuously to 79 percent of GDP by end-2019, on the back of the non-interest current account being in surplus and benign automatic debt dynamics. Modest non-debt creating capital inflows (FDI) helped lowering the ratio as well. In 2020, exchange rate depreciation is expected to push the external debt-to-GDP ratio back up to pre-2018 levels. Going forward, external debt is expected to decline to 61 percent of GDP by 2025. Gross external financing needs have remained fairly stable (below 30 percent of GDP), and are expected to decline to about 20 percent of GDP over the years 2021–25.

12. External debt projections are most sensitive to a real depreciation shock (Figure 6), as most external debt is US$-denominated. While the baseline sees external debt fall to 61 percent of GDP by 2025, a one-time 30 percent real depreciation shock in 2020 would push this ratio up to 97 percent. The external sector assessment however does not point to major overvaluation of Ukraine's currency (although the aforementioned risk relating to non-materialization of anticipated productivity improvements remains).

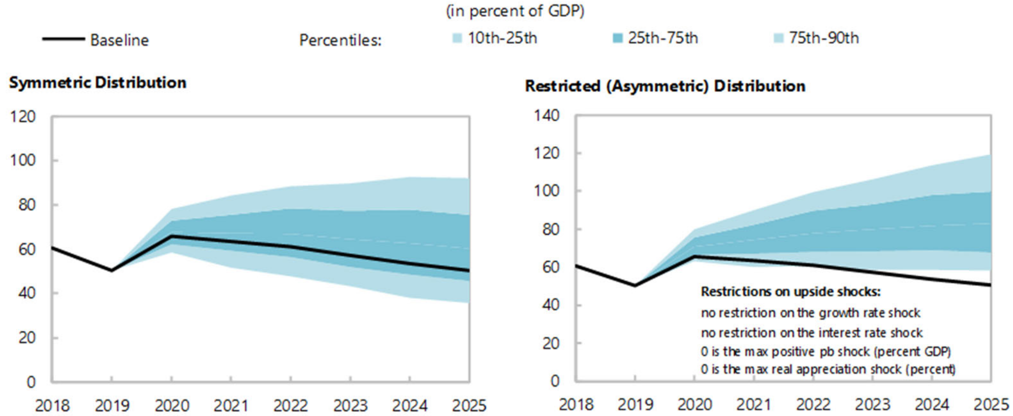
Annex I. Figure 1. Ukraine: Public DSA—Risk Assessment

Heat Map

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

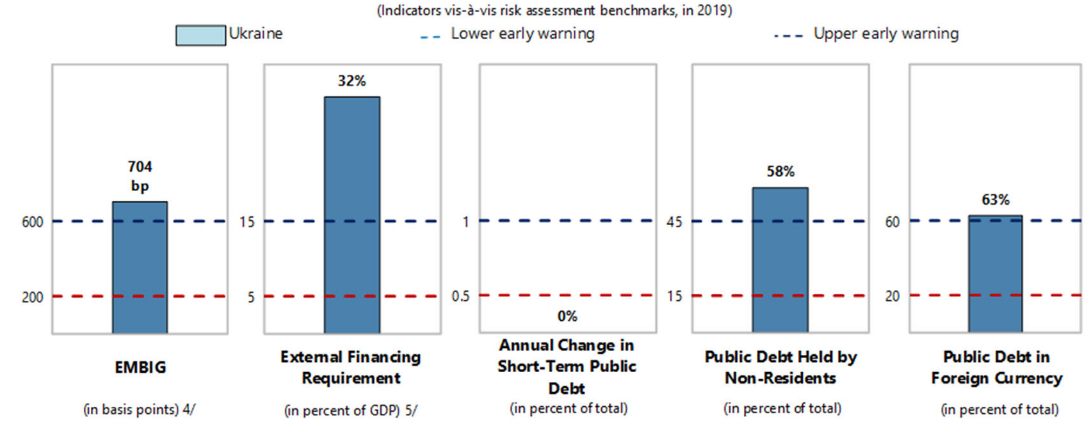
Evolution of Predictive Densities of Gross Nominal Public Debt

(in percent of GDP)



Debt Profile Vulnerabilities

(Indicators vis-à-vis risk assessment benchmarks, in 2019)



Source: IMF staff.

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

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

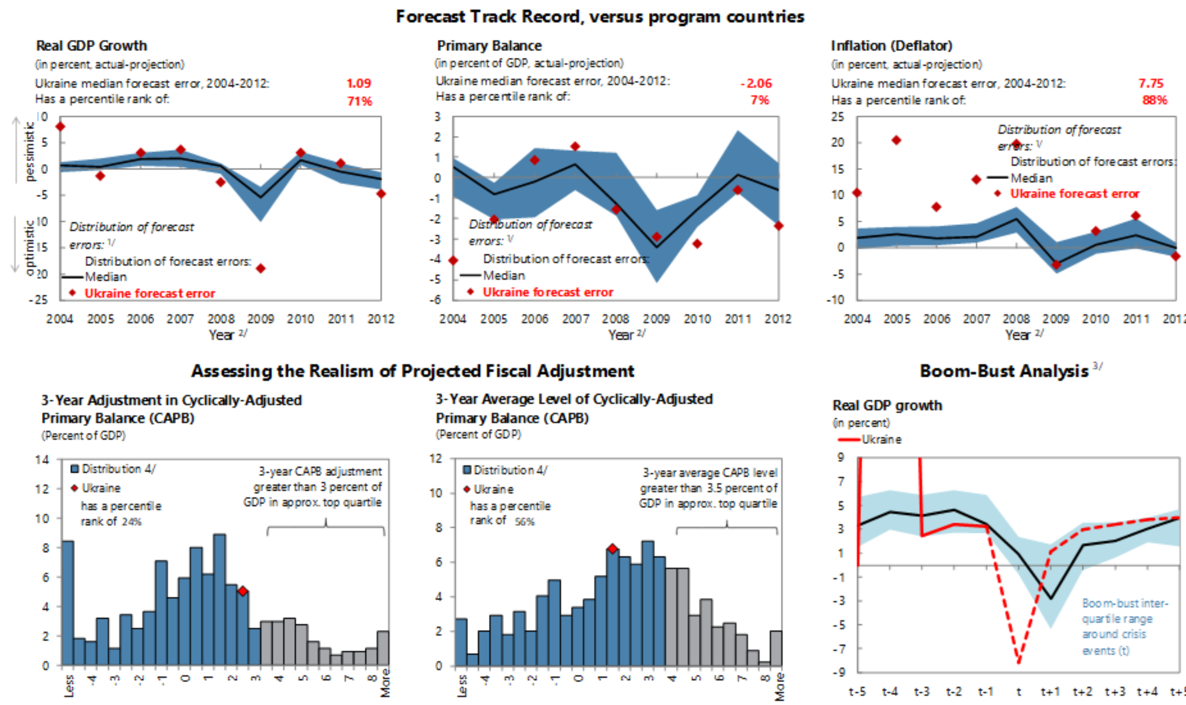
3/ The cell is highlighted in green if country value is less than the lower risk-assessment benchmark, red if country value exceeds the upper risk-assessment benchmark, yellow if country value is between the lower and upper risk-assessment benchmarks. If data are unavailable or indicator is not relevant,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

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

4/ EMBIG, an average over the last 3 months, 15-Jan-20 through 14-Apr-20.

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

Annex II. Figure 2. Ukraine Public DSA – Realism of Baseline Assumptions



Source : IMF Staff.

1/ Plotted distribution includes program countries, percentile rank refers to all countries.

2/ Projections made in the spring WEO vintage of the preceding year.

3/ Ukraine has had a positive output gap for 3 consecutive years, 2017-2019. For Ukraine, t corresponds to 2020; for the distribution, t corresponds to the first year of the crisis.

4/ Data cover annual obervations from 1990 to 2011 for advanced and emerging economies with debt greater than 60 percent of GDP. Percent of sample on vertical axis.

Annex II. Figure 3. Ukraine Public DSA – Baseline Scenario

(in percent of GDP unless otherwise indicated)

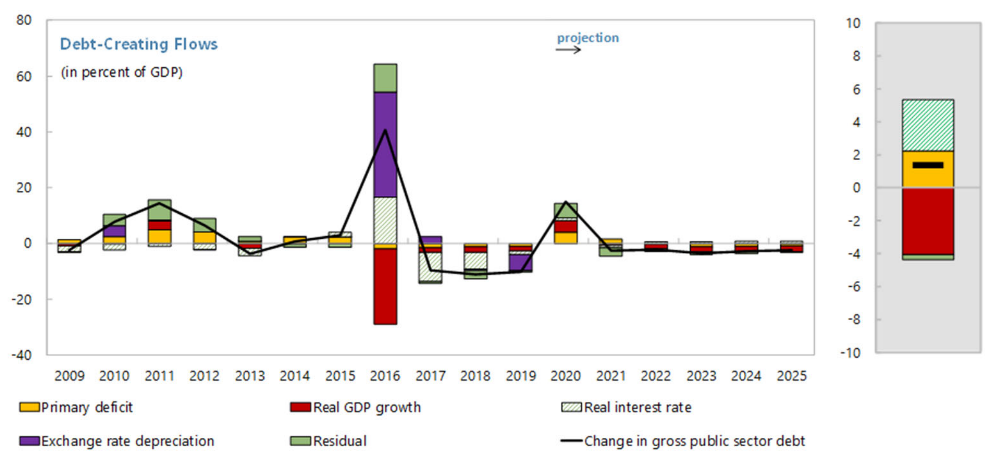
Debt, Economic and Market Indicators [1/]

	Actual			Projections					
	2009-2017 [2/]	2018	2019	2020	2021	2022	2023	2024	2025
Nominal gross public debt	41.6	60.6	50.4	65.4	62.7	60.5	57.0	54.2	51.8
Of which: guarantees	7.1	8.1	6.2	7.2	5.5	4.2	3.0	2.2	1.7
Public gross financing needs	9.9	10.7	11.7	15.8	14.7	9.5	9.5	11.1	9.5
Real GDP growth (in percent)	12.5	3.4	3.2	-8.2	1.1	3.0	3.4	3.8	4.0
Inflation (GDP deflator, in percent)	11.6	15.4	8.1	7.1	8.2	5.8	5.6	5.1	5.1
Nominal GDP growth (in percent)	21.7	19.4	11.6	-1.7	9.5	8.9	9.2	9.1	9.3
Effective interest rate (in percent) [4/]	8.4	6.3	6.5	8.4	6.8	7.1	7.0	7.0	7.0

As of May 21, 2020		
Sovereign Spreads		
EMBIG (bp) 3/		713
5Y CDS (bp)		694
Ratings	Foreign	Local
Moody's	Caa1	Caa1
S&Ps	B	B
Fitch	B	B

Contribution to Changes in Public Debt

	Actual			Projections							
	2009-2017	2018	2019	2020	2021	2022	2023	2024	2025	cumulative	debt-stabilizing primary balance [9/]
Change in gross public sector debt	6.4	-11.1	-10.1	14.9	-2.6	-2.2	-3.4	-2.8	-2.4	1.4	
Identified debt-creating flows	3.7	-8.1	-9.7	9.7	0.4	-1.4	-2.6	-2.3	-2.2	1.7	
Primary deficit	1.7	-1.1	-1.0	4.0	1.6	-0.2	-1.2	-1.1	-0.9	2.2	0.0
Primary (noninterest) revenue and grants	41.7	39.6	39.4	39.7	40.0	40.0	40.0	39.9	39.9	239.6	
Primary (noninterest) expenditure	43.4	38.4	38.4	43.7	41.7	39.8	38.8	38.9	38.9	241.8	
Automatic debt dynamics [5/]	1.5	-8.5	-8.7	5.2	-1.6	-1.1	-1.3	-1.1	-1.1	-1.0	
Interest rate/growth differential [6/]	-3.4	-7.9	-3.0	5.2	-1.6	-1.1	-1.3	-1.1	-1.1	-1.0	
Of which: real interest rate	-0.2	-5.9	-1.2	1.0	-0.9	0.7	0.6	0.9	0.8	3.1	
Of which: real GDP growth	-3.2	-2.0	-1.8	4.2	-0.7	-1.7	-1.9	-2.0	-2.0	-4.1	
Exchange rate depreciation [7/]	4.9	-0.5	-5.8	…	…	…	…	…	…	…	
Other identified debt-creating flows	0.5	1.6	0.1	0.5	0.3	-0.1	-0.1	-0.1	-0.1	0.4	
Net GG financing: Privatization (negative)	-0.5	-0.2	0.0	0.0	-0.1	-0.1	-0.1	-0.1	-0.1	-0.6	
Bank and Naftogaz recapitalization	1.0	1.8	0.1	0.5	0.5	0.0	0.0	0.0	0.0	1.0	
Residual, including asset changes [8/]	2.7	-3.0	-0.5	5.3	-3.0	-0.8	-0.9	-0.6	-0.3	-0.3	



Source: IMF staff.

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

2/ Based on available data.

3/ EMBIG.

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

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

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

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

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

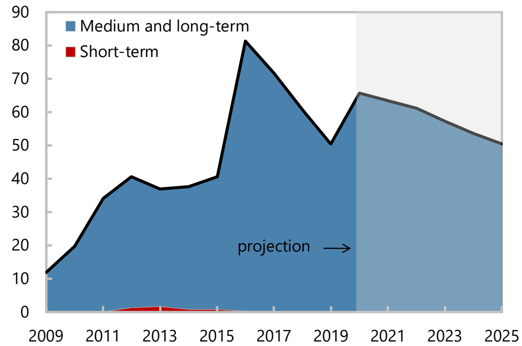
9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

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

Composition of Public Debt

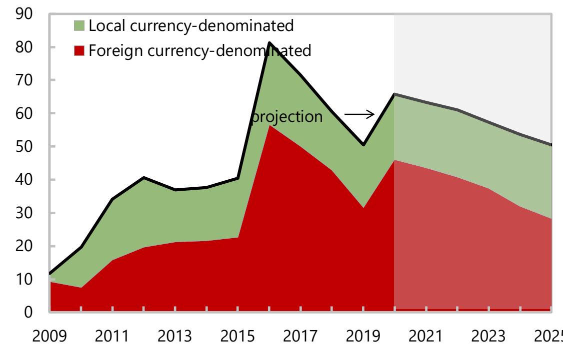
By Maturity

(in percent of GDP)



By Currency

(in percent of GDP)

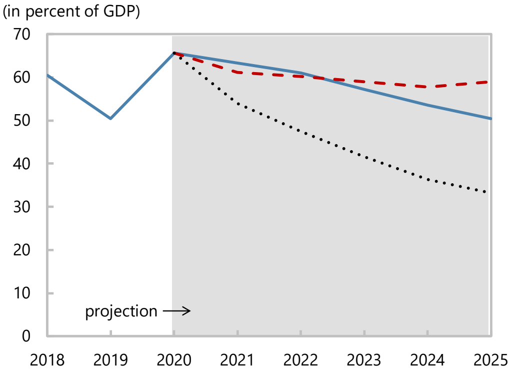


Alternative Scenarios

Baseline   Historical   Constant Primary Balance

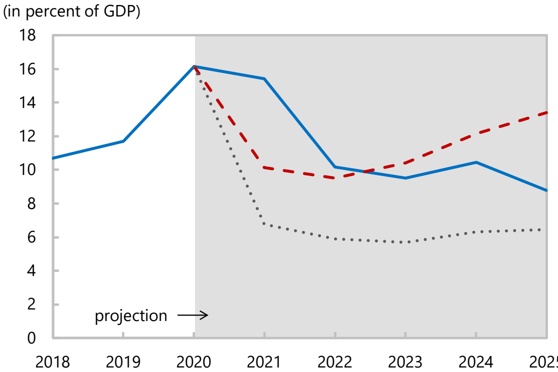
Gross Nominal Public Debt

(in percent of GDP)



Public Gross Financing Needs

(in percent of GDP)



Underlying Assumptions

(in percent)

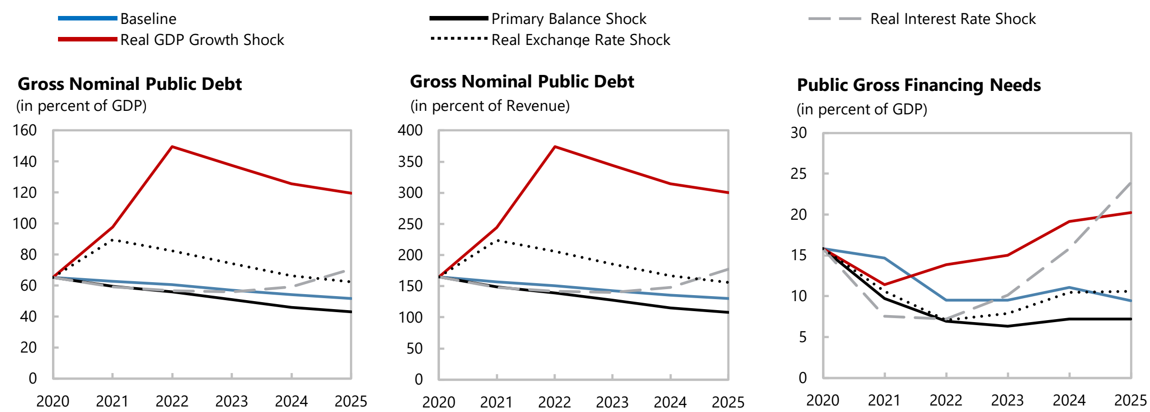
Baseline Scenario	2020	2021	2022	2023	2024	2025
Real GDP growth	-8.2	1.1	3.0	3.4	3.8	4.0
Inflation	7.1	8.2	5.8	5.6	5.1	5.1
Primary Balance	-4.0	-1.5	0.3	1.3	1.2	1.0
Effective interest rate	8.4	6.9	7.2	7.1	7.1	7.0
Constant Primary Balance Scenario						
Real GDP growth	-8.2	1.1	3.0	3.4	3.8	4.0
Inflation	7.1	8.2	5.8	5.6	5.1	5.1
Primary Balance	-4.0	-4.0	-4.0	-4.0	-4.0	-4.0
Effective interest rate	8.4	4.7	5.2	5.5	5.7	6.0

Historical Scenario	2020	2021	2022	2023	2024	2025
Real GDP growth	-8.2	11.1	11.1	11.1	11.1	11.1
Inflation	7.1	8.2	5.8	5.6	5.1	5.1
Primary Balance	-4.0	-1.2	-1.2	-1.2	-1.2	-1.2
Effective interest rate	8.4	4.7	5.0	5.1	5.2	5.4

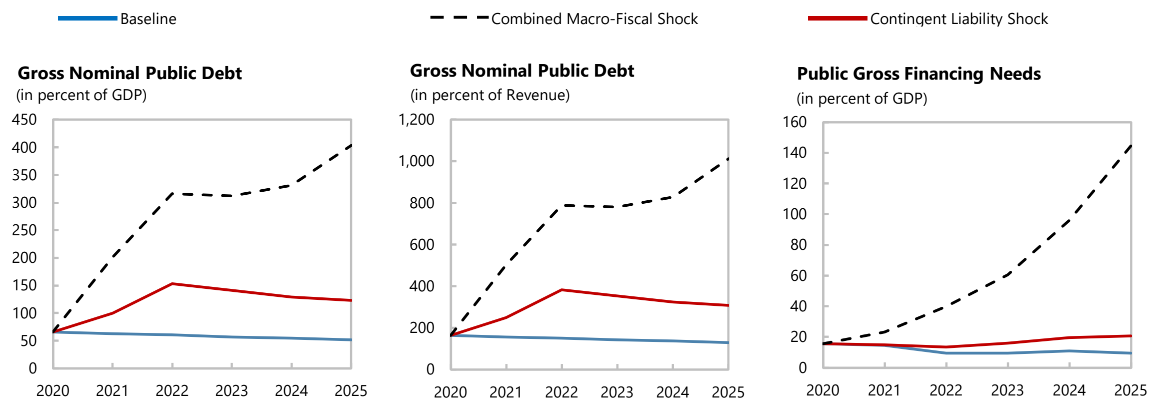
Source: IMF staff.

Annex II. Figure 5. Ukraine Public DSA – Stress Tests

Macro-Fiscal Stress Tests



Additional Stress Tests



Underlying Assumptions

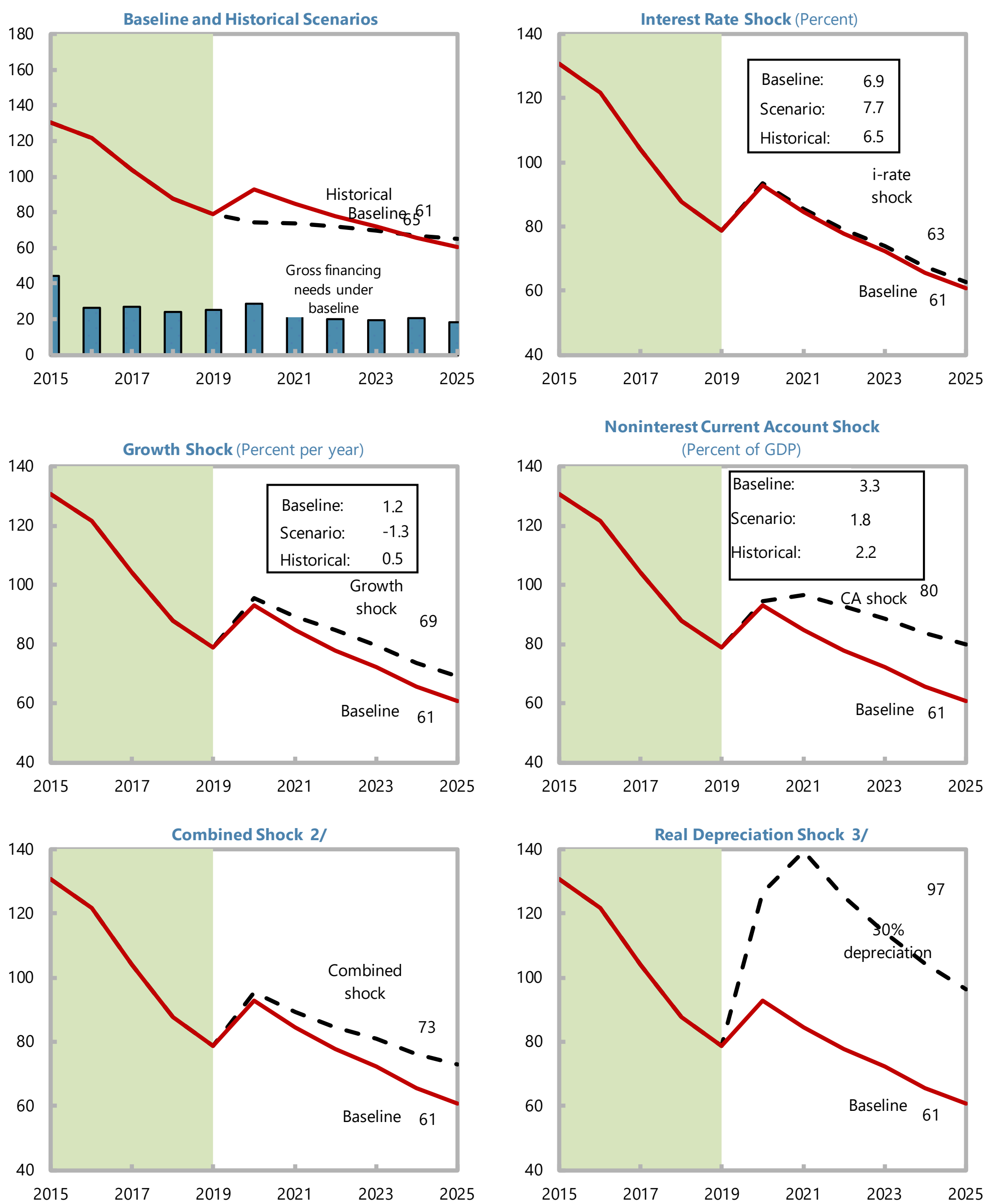
(in percent)

Primary Balance Shock	2020	2021	2022	2023	2024	2025
Real GDP growth	-8.2	1.1	3.0	3.4	3.8	4.0
Inflation	7.1	8.2	5.8	5.6	5.1	5.1
Primary balance	-4.0	-2.8	-0.7	0.7	1.1	0.9
Effective interest rate	8.4	4.7	5.0	5.2	5.3	5.7
Real Interest Rate Shock						
Real GDP growth	-8.2	1.1	3.0	3.4	3.8	4.0
Inflation	7.1	8.2	5.8	5.6	5.1	5.1
Primary balance	-4.0	-1.6	0.2	1.2	1.1	0.9
Effective interest rate	8.4	4.7	9.9	16.2	23.3	33.6
Combined Shock						
Real GDP growth	-8.2	-33.8	-31.9	3.4	3.8	4.0
Inflation	7.1	-0.5	-3.0	5.6	5.1	5.1
Primary balance	-4.0	-2.8	-0.7	0.7	1.1	0.9
Effective interest rate	8.4	8.5	8.3	14.6	22.7	34.2

Real GDP Growth Shock	2020	2021	2022	2023	2024	2025
Real GDP growth	-8.2	-33.8	-31.9	3.4	3.8	4.0
Inflation	7.1	-0.5	-3.0	5.6	5.1	5.1
Primary balance	-4.0	-1.6	0.2	1.2	1.1	0.9
Effective interest rate	8.4	4.7	5.1	5.2	5.4	5.8
Real Exchange Rate Shock						
Real GDP growth	-8.2	1.1	3.0	3.4	3.8	4.0
Inflation	7.1	47.1	5.8	5.6	5.1	5.1
Primary balance	-4.0	-1.6	0.2	1.2	1.1	0.9
Effective interest rate	8.4	8.5	4.4	4.6	4.8	5.4
Contingent Liability Shock						
Real GDP growth	-8.2	-33.8	-31.9	3.4	3.8	4.0
Inflation	7.1	-0.5	-3.0	5.6	5.1	5.1
Primary balance	-4.0	-4.6	0.2	1.2	1.1	0.9
Effective interest rate	8.4	5.1	5.1	5.3	5.4	5.8

Source: IMF staff.

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



Source: IMF staff estimates.

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

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

3/ In line with standard IMF stress tests, the shock simulates the impact of a one-time real depreciation of 30 percent in 2016.

Annex II. Table 2. Ukraine: Program External Debt Sustainability Framework, 2015–2025

(Percent of GDP, unless otherwise indicated)

	Actual							Projections						Debt-stabilizing non-interest current account 6/
	2015	2016	2017	2018	2019			**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	
Baseline: external debt	130.6	121.6	104.1	87.8	78.8			93.0	84.6	77.8	72.2	65.7	60.8	-3.9
Change in external debt	33.9	-9.0	-17.5	-16.3	-8.9			14.2	-8.4	-6.7	-5.7	-6.5	-4.9	
Identified external debt-creating flows (4+8+9)	37.6	-6.0	-20.6	-13.5	-14.5			8.7	-0.8	-2.5	-3.0	-3.1	-2.8	
Current account deficit, excluding interest payments	-7.8	-4.3	-3.8	-3.2	-4.9			-4.8	-3.9	-3.5	-2.9	-2.4	-1.9	
Deficit in balance of goods and services	2.4	7.0	7.7	8.6	7.8			5.1	7.9	7.8	7.8	7.7	7.8	
Exports	52.9	49.2	48.0	45.2	41.0			37.9	38.7	38.3	37.6	36.9	36.2	
Imports	55.4	56.2	55.6	53.8	48.8			43.0	46.6	46.1	45.5	44.7	44.0	
Net non-debt creating capital inflows (negative)	-3.5	-3.6	-2.4	-1.8	-1.7			-0.7	-1.9	-2.2	-2.4	-2.5	-2.5	
Automatic debt dynamics 1/	48.9	1.8	-14.4	-8.4	-7.9			14.2	5.0	3.2	2.4	1.9	1.6	
Contribution from nominal interest rate	6.1	5.8	6.0	6.5	5.6			6.5	5.9	5.5	4.8	4.4	4.0	
Contribution from real GDP growth	13.7	-3.1	-2.5	-3.0	-2.4			7.6	-0.9	-2.3	-2.4	-2.5	-2.4	
Contribution from price and exchange rate changes 2/	29.2	-0.9	-17.9	-11.9	-11.1			...	...	...	...	...	...	
Residual, including change in gross foreign assets (2-3) 3/	-3.7	-2.9	3.1	-2.9	5.5			5.5	-7.6	-4.2	-2.7	-3.4	-2.1	
External debt-to-exports ratio (percent)	246.9	247.0	217.0	194.4	192.4			245.3	218.4	203.1	191.6	177.8	167.7	
Gross external financing need (billions of U.S. dollars) 4/	40.3	24.6	30.3	31.7	38.6			37.2	32.4	32.9	34.1	39.5	38.7	
Percent of GDP	44.6	26.3	27.0	24.2	25.0			28.5	21.9	20.1	19.2	20.4	18.3	
Scenario with key variables at their historical averages 5/						10-Year Historical Average	10-Year Standard Deviation	74.5	73.8	72.0	70.0	66.9	64.8	-1.1
Key macroeconomic assumptions underlying baseline														
Real GDP growth (percent)	-9.8	2.4	2.5	3.4	3.2	0.5	4.9	-8.2	1.1	3.0	3.4	3.8	4.0	
GDP deflator in U.S. dollars (change in percent)	-23.2	0.7	17.3	12.9	14.5	3.1	14.9	-8.3	12.3	7.0	5.1	5.1	5.1	
Nominal external interest rate (percent)	4.3	4.6	5.9	7.3	7.5	6.5	1.5	7.0	7.2	7.1	6.8	6.7	6.7	
Growth of exports of goods and services (U.S. dollar terms, percent)	-26.8	-4.0	17.0	9.9	7.2	3.1	18.6	-11.5	12.7	7.6	7.1	7.2	7.2	
Growth of imports of goods and services (U.S. dollar terms, percent)	-29.0	4.7	18.9	12.8	7.3	5.1	21.5	-15.7	19.5	7.5	7.6	7.3	7.6	
Current account balance, excluding interest payments	7.8	4.3	3.8	3.2	4.9	2.2	3.4	4.8	3.9	3.5	2.9	2.4	1.9	
Net non-debt creating capital inflows	3.5	3.6	2.4	1.8	1.7	2.9	1.5	0.7	1.9	2.2	2.4	2.5	2.5	

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

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

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

4/ Defined as the sum of current account deficit, amortization on medium- and long-term debt, short-term debt at end of previous period, and other net capital outflows (mainly reflecting residents' conversion of hryvnia cash to foreign currency held outside the banking system). Excludes IMF transactions.

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

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

Annex III. Risk Assessment Matrix

Source of Risks	Relative Likelihood	Time Horizon	Expected Impact	Policy Response
DOMESTIC				
• **Widespread social discontent and political instability resulting in domestic political uncertainty, policy reversals and slow program implementation**. Social tensions erupt due to dissatisfaction with the policy response to the epidemic and the economic fallout, including massive unemployment, higher incidence of poverty and shortages of essentials. Beyond immediate economic disruption and adverse confidence effects, the resulting pollical instability complicates adjustment following Covid-19.	High	Short to Medium Term	High • Social tensions will increase the risk of implementing macroeconomic policies that would undermine macroeconomic stability and the rollback of already passed reforms including the new bank resolution law, the improvement of corporate governance of SOEs, strengthened anti-corruption tools, and gas tariff liberalization • As a consequence, the cost of both domestic and external financing would rise, weighing on investment and economic activity • Less prudent fiscal and monetary policy would deteriorate public finances and de-anchor inflation expectations	• Resist policy reversals that could undermine domestic and global investor confidence • Ensure prudent fiscal and monetary policies • Reallocate fiscal spending to social policies, within the existing budget envelope • Maintain strong policies and strengthen institutions (including new anti-corruption agencies and the judiciary) as a foundation of strong and sustainable growth
Escalation of conflict in the eastern part of the country	Low	Short to Medium Term	High • A substantial intensification of the conflict could quickly and sharply erode confidence putting significant strain on banks' liquidity and the exchange rate. Production, trade and investment could be severely impacted, causing a sharp decline in GDP and incomes.	• The authorities would need to tighten monetary policy to stem outflows.

EXTERNAL				
Prolonged Covid-19 outbreak. Containment measures remain in place (in some places intensify or need to be re-introduced) through early 2021. Longer containment and uncertainties about the intensity and the duration of the outbreak reduce supply (including through global value chains' disruption) and domestic and external demand. Deteriorating economic fundamentals and the associated decline in risk appetite result in a second wave of financial tightening (amplified as hidden fragilities are unmasked) and in debt service and refinancing difficulties for corporates and households. Rising bankruptcies translate into financial institutions' losses, forcing them to cut credit, with further adverse implications for growth. Concerns about public debt sustainability mount, and EMs and frontier economies experience a greater number of sudden stops.	**High**	**Short to Medium Term**	**High** • -Ukraine would be particularly hard hit due to certain characteristics of its economy: • -Due to tight borrowing constraints in Ukraine smoothing of consumption and investment, which is mainly funded from corporates own-savings, will be weaker. With limited fiscal space to counter the decline in corporate earnings, drop in investments is expected to be larger than in economies where bank credit is more important and where central bank easing and liquidity support has more effect on private credit growth. • -Uncertainty about a possible return to containment and mitigation measures in the fall may adversely impact investor sentiment. Moreover, increased uncertainty puts additional pressure on the exchange rate and international reserves, and this may make the central bank reluctant to ease the currently high real interest rates. • -Asset quality of the banking system would deteriorate as growth slows and NPLs rise. • -Concerns about debt sustainability may prolong Ukraine's loss of access to market financing, posing difficulties for financing government spending needs and servicing external debt in 2021. • -Given the large economic costs and the strong impact on vulnerable segments of the population, the government may not be able to keep mitigation and containment measures in place, which could in turn lead to an escalated public health crisis.	• Monetary policy stance should be eased, making use of exchange rate flexibility. • Fiscal policy should allow automatic stabilizers to work as needed; with possible adjustments in related quantitative conditionality. • Make use of growth-supportive fiscal policy measures (reducing the labor tax wedge and raising infrastructure spending) without undermining debt sustainability. • Maintain financial stability to weather external shocks, tight supervision to monitor banking risks and implement an efficient mechanism to resolve NPLs in a timely manner. • Resist policy reversals that could undermine domestic and global investor confidence

More protectionism. Pandemic-prompted protectionist actions (e.g., export controls) stay in place and deteriorating economic conditions re-ignite broader protectionist measures.	High	**Short Term**	Medium • Ukraine's export sectors, remittances and FDI inflows will be adversely affected.	• Flexible exchange rate should serve as a first line of defense. • Decisive progress on structural reforms (rule of law and business environment) should anchor confidence and improve competitiveness.

[1] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). 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. "Short term" and "medium term" are meant to indicate that the risk could materialize within 1 year and 3 years, respectively.

Annex IV. Ex-Post Peer Reviewed Assessment (PRA)

A. Background

1. **Ukraine became member of the International Monetary Fund in 1992.** Ukraine has had a total of 11 Fund arrangements since independence, including one arrangement under the Systemic Transformation Facility (STF), eight Stand-By Arrangements (SBA), and two arrangements under the Extended Fund Facility (EFF). Combined these programs had a total access of SDR 51.4 billion, of which only SDR 21.9 billion was drawn.

B. Recommendations from Past Ex-Post Assessment

2. **An Ex-Post Assessment (EPA) was last conducted in October 2005.** The document looked back at IMF involvement in Ukraine since 1994 and concluded that Ukraine's performance was weak: stabilization—although eventually successful—was only achieved with delay and lack of progress with structural reforms jeopardized successful completion of the 1998 EFF-supported program.

3. **The EPA concluded that focus of future IMF-supported programs should be: (i) to re-orient the monetary framework toward achieving low and stable inflation, and shift to a more flexible exchange rate regime; (ii) maintaining a tight fiscal stance, restoring a viable public pension fund, introducing systemic tax reform, and strengthening the transparency of fiscal and quasi-fiscal operations; (iii) strengthening the resilience of the banking sector and developing domestic capital markets; and (iv) improving the investment climate through stronger governance and institutions.** Moreover, the report encouraged staff to streamline conditionality and focus on critical institutional bottlenecks and core Fund areas. It also stressed the importance of political support and program ownership and suggested to ask for a good track record of macro policies and implementation of structural reforms to test authorities' commitment prior to further engagement.

C. Fund-supported Programs 2005–2019

4. **This EPA takes stock of the IMF engagement with Ukraine from 2005 onwards. Pillars of the programs which took place between 2005 and 2019 were: (i) achieving macroeconomic stabilization, supported by an independent monetary policy, a flexible exchange rate and a prudent fiscal policy; (ii) eliminating quasi-fiscal deficits by reforming the energy sector, (iii) restoring soundness in the financial sector, and—starting from the 2014 SBA—(iv) improving governance, business climate and the judiciary.**

5. **After the 2004 precautionary SBA, aimed at establishing a track record, went off track ahead of elections, the authorities requested a new 24-month, $16 billion (exceptional access) SBA in 2008, to address a balance of payment crisis caused by tumbling export prices and global demand, which soon turned into a financial and fiscal**

tumbling export prices and global demand, which soon turned into a financial and fiscal crisis. The goals of the program were to stabilize the banking system and facilitate the adjustment of the economy.

6. **Amid the financial crisis, quick action was needed.** However, sharp political divisions made program implementation difficult from the start. With a divided government and weak governance, reviews relied on an increasing number of prior actions. The program went off-track after a year and only two of the envisaged eight reviews were completed. Overall, short-term objectives were met—the program did succeed in stabilizing the economy and a timid recovery got underway in 2009—but not medium-term ones: (i) the exchange rate regime returned to the pre-crisis practice of pegging, (ii) the bank resolution framework was left incomplete; (iii) quasi-fiscal deficits continued to persist; (iv) the energy sector was left unreformed; and (v) there was little progress on the legal and governance front. Weak ownership and policy implementation prevented achieving better outcomes and tackling fundamental structural and institutional weaknesses, leaving Ukraine with core medium-term vulnerabilities.

7. **A new government took office in 2010 and elaborated a reform plan which was consistent with many of the Fund's policy recommendations.** The government asked for the cancellation of the 2008 SBA and quickly negotiated a new program, with as key objectives: (i) consolidating public and energy sector finances and putting the public finances on a sustainable path, thanks to a mix of fiscal measures, energy tariff increases, and structural fiscal reforms; (ii) restoring banking system soundness; and (iii) developing a more robust monetary policy framework focused on domestic price stability, with greater exchange rate flexibility. The board approved a new 29-month US$15.2 billion SBA for Ukraine in July 2010.

8. **After a promising start, the 2010 SBA too ran into difficulties quickly.** After the approval of the program in July 2010, market confidence was restored, and the government regained market access. With the financing pressure off, the high political cost of and opposition from vested interests, resulted in only one of nine reviews was completed. A reluctance to increase energy tariffs and to implement fiscal adjustments prevented the completion of the second review. The main achievements of the program were progress in pension reform and the adoption of a new NBU law. In other areas—including the VAT refund system, social assistance programs, the corporate insolvency law, foreign exchange regulations, resolution of intervened banks, and the framework for addressing NPLs—reforms were incomplete. Moreover, a reluctance to allow greater exchange rate flexibility undermined the ability to boost reserve buffers in line with program objectives.

9. **Discussions for a new SBA-supported program started at the beginning of 2013, but this did not lead to an arrangement until early 2014 when, after the "Maidan" revolution, the annexation of Crimea plunged Ukraine into a full-fledged currency, banking, balance of payment, and political crisis.** As a new government came to office in 2014, a new 2-year US$15 billion (exceptional access) SBA was approved. The main objectives of the program were: (i) stabilizing the macroeconomic situation in the short run; (ii) implementing deep-reaching reforms to strengthen governance and transparency; and (iii) laying the

foundation for robust and balanced economic growth over the longer term. Given the past track record of programs in Ukraine, the SBA made strong use of prior actions, with upfront conditionality, and bi-monthly reviews. However, soon after SBA approval, all the risks highlighted in the program request were realized: the conflict in the eastern part of the country escalated and macroeconomic conditions considerably worsened, well beyond initial projections. Thus, after the conclusion of the first out of eight reviews in August 2014, the SBA was canceled in March 2015 and a three-year arrangement under the EFF was approved. Even if the program was derailed by the worsening of the economic and political situation, some important steps were taken: (i) energy tariffs were raised; (ii) governance in Naftogaz was improved; (iii) the exchange rate was allowed to adjust, as the monetary framework moved towards inflation targeting; (iv) tangible steps were taken towards identifying problems in the financial sector; and (v) thanks to a comprehensive diagnostic study on corruption and governance steps for reforms in this area were laid out.

10. As the conflict in the eastern part of Ukraine worsened and the crisis deepened, it became clear that the balance of payments and adjustment needs were beyond what could be achieved by the program and more time was needed to address the country's structural weaknesses. In March 2015, the IMF board therefore approved a 4-year US$17.5 billion (exceptional access) 4-year EFF arrangement. The program had two major objectives: (i) restoring confidence and financial-economic stability through strong adjustment policies—mostly stabilizing the FX market, repairing banks' balance sheet, and restoring viability in the sector, and strengthen public finances—and (ii) boosting medium-term growth through structural reforms aimed at improving business climate and competitiveness.

11. The extended arrangement under the EFF was a natural successor to the SBA and its conditionality built on the unfinished agenda from the earlier arrangement: financial sector, energy sector, and fiscal reforms. However, it placed more emphasis on governance and control of corruption. Building on earlier experiences, the program made substantial use of prior actions. After initial successes in advancing reforms, and success in restoring macro-stability and growth, and allowing Ukraine to regain market access, reforms increasingly met with delays, causing delays in completing reviews. Overall, the implementation of the structural reform agenda fell considerably short of expectations, even if significant steps forward were made in the financial sector, where about half of existing banks were resolved, in the fiscal and energy sectors, where debt was reduced thanks to a debt operation and Naftogaz was transformed into a profitable company. As during previous arrangements, program ownership and commitment to deep reforms faltered as the economy stabilized and market access was regained. Notably, the long delays in completing the fourth review of the EFF revealed that the reform momentum had ran out.

12. With presidential and parliamentary elections looming in 2019, the authorities opted to cancel the extended arrangement and requested a more limited program arrangement. A 14-month SBA was approved by the Board in December 2018 for US$3.9 billion (within normal access limits). The focus of the program was to preserve macroeconomic stability and advance some key reforms. Conditionality was streamlined in line with these goals, but with some prior actions aiming to advance reforms that were still pending from the EFF arrangement (i.e., the adjustment in the heating tariffs and governance reform). No reviews were completed under this program, however, as the new president (who was elected in April 2019) decided to call early parliamentary elections in the summer of 2019. Nonetheless, the program managed to preserve macro-stability, while most of the structural conditionality was met.

13. Following the parliamentary elections in the summer of 2019, a new government was appointed, which initiated discussions on a three-year extended arrangement under the EFF, with the objective of preserving macroeconomic stability while implementing an ambitious structural reform agenda, focused on improving the business environment and increasing competition in the economy.

D. Lessons and Risks

14. Performance under Fund-supported programs continued to be uneven. Fifteen years after the last ex-post assessment of long-term engagement with the Fund, Ukraine's performance with IMF-supported programs remains disappointing. None of the programs in the period under consideration went past the third review and two programs completed only one review. However, programs tended to be successful in restoring or achieving macroeconomic stability, and the program's helped the authorities to successfully navigated through very difficult times. On the other hand, progress on structural reforms was generally slow and incomplete, and contributed to the persistence of vulnerabilities that forced Ukraine to repeatedly request the Fund's support.

15. This is not to say that there was no progress. Important progress has been made in some key areas: (i) the NBU was transformed into a modern central bank with an inflation targeting regime and a flexible exchange rate; (ii) the resilience of the financial sector was considerably strengthened (half of the banks were closed, the largest bank in the country successfully nationalized, and a legal framework to deal with impaired loans was developed); (iii) the government was able to place public debt on a sustainable path, ensuring medium-term fiscal sustainability; (iv) the long-term sustainability of the pension system was improved; (v) the energy sector was transformed and its quasi-fiscal deficits were eliminated; (vi) governance improved, and some steps were made to improve the judicial system.

16. But progress was slow and remains vulnerable to setbacks. Ownership for many of the important structural reforms took a long time to build, explaining the generally slow pace of the advancement in the structural reform agenda. Moreover, as with macroeconomic stabilization—often achieved for some period, only to be reversed by discretionary increases in spending or fixing of the exchange rate—progress appears always vulnerable. Vested interests are very influential and well organized, with influence over parliamentarians, policymakers and the judiciary. Like many other emerging markets, Ukraine's economy has proved vulnerable to external forces—increasing volatility. In this respect, it seems that Ukraine's recent shift towards increased exchange-rate flexibility accompanied by inflation targeting is making its economy more resilient to coping with shocks.

17. And some of the long-standing issues are not yet resolved. Although major steps forward in the reform of the energy sector were made with the 2015 extended arrangement under the EFF, an open and competitive market for energy has yet to be created. Politically, the temptation to remain involved in setting utility prices to gain electoral support remains strong. The progress in governance reforms, which were first introduced in program conditionality in 2014, has led to the creation of new anti-corruption institutions, but concreate results in adjudicating corrupt officials have yet to be achieved. An unreformed judiciary remains an important obstacle to firmly tackling corruption.

18. Program ownership—when present—has tended to weaken as macro-economic goals were achieved. Since 2005, the Fund has been involved in Ukraine either during periods of financial crisis, when macroeconomic stabilization was of primary importance, or in the aftermath of elections, when a new government would come to power with the mandate of transforming the economy through a comprehensive structural reform agenda. In both cases program ownership has proved to be fairly short-lived. During periods of crises, after the first tough adjustment, Ukraine would quickly regain market access, lifting the pressure on the government and limiting the sense of urgency for the completion of reforms. When newly elected reform-minded governments came to power, instead, after a first push in the right direction, they would often fall prey to political divisions, dwindling popularity, and pressures from vested interests.

19. Despite these limitations, continued Fund engagement, has proven to be useful. Even if very few of the originally scheduled reviews ended up being completed**,** the Fund played an essential role in Ukraine by: (i) supporting macroeconomic and financial stability; (ii) being able to engage and influence some policy proposals, often also preventing worse outcomes, (iii) cooperating with IFIs and NGOs to mobilize support for needed reforms; (iv) providing technical assistance for capacity building; and (v) mobilizing international support.

20. But some lessons can be drawn for future program engagement. With weak and often fickle ownership, Fund-supported programs tried to push for reforms at the start, capitalizing on a "window of opportunity". The recent experience, however, has shown that this window of opportunity can close quickly. As such, conditionality needs to be appropriately frontloaded, with the use of prior actions, especially in areas where reforms are difficult and politically sensitive, or vested interests stronger. Much of the progress in advancing structural reforms was in fact achieved by means of prior actions. The need to capitalize on the short window of opportunity, while acknowledging that some structural reforms take time to be implemented, requires focusing frontloaded conditionality on measures that break existing gridlocks and kickstart the reform process. For this reason, the focus of prior action and frontloaded conditionality on implementation of legal changes appears justified. Backloading access can help maintain commitment—and limit risks to the Fund—but may not succeed in preserving traction once the country regains market access. In this environment, while strong engagement is warranted by the need to implement much needed structural reforms, program horizons may need to be carefully tailored to political realities; shorter arrangements might be preferable, or alternatively, longer arrangements need to have mechanisms to terminate the program if it has gone irremediably off track. At the same time, Ukraine's difficulties in advance reforms also highlight the need to: (i) assist the authorities in building broad-based ownership for reforms, which can take time; and (ii) build strong and independent institutions—while no reform is irreversible, where solid institutions have been built, these have proven to be better able resist backtracking. Ukraine's experience has illustrated that governance issues can be macro-critical and, where they are, they should be addressed heads-on.

21. Progress with structural reforms requires persistence and coordination across IFIs. The challenges facing the Ukrainian economy were well known since the beginning of its cooperation with the Fund. Hence, the structural reform agenda has rightfully focused on addressing them, which more recently has also brought the Fund—upon the authorities' request—to engage in areas that are not part of its core expertise (i.e. governance and judicial reform), but which have a clear impact on economic performance. The list of structural reforms in programs has been broad, but this was warranted by Ukraine's many weaknesses and by the governments' difficulty in addressing them. However, by insisting on the same issues, by leveraging programs' prior actions, and by coordinating messages with other IFIs, consensus around the reforms slowly emerged and progress on the structural reforms' agenda was made possible.

Appendix I. Letter of Intent

Kyiv, June 2, 2020

Ms. Kristalina Georgieva
Managing Director
International Monetary Fund
Washington, DC 20431

Dear Ms. Georgieva:

1. Since the deep economic crisis of 2014–15, Ukraine, with strong support from the international community, had been able to achieve macro-economic stability and restart growth. Economic vulnerabilities had been reduced, as tight fiscal policies had placed government finances on a sound footing and public debt on a downward path. Sound monetary policies and the adoption of a flexible exchange rate regime restored competitiveness, improved our external position, and allowed the National Bank of Ukraine (NBU) to rebuild its foreign exchange reserves.

2. After last year's presidential and parliamentary elections, our aim was to continue sound macro-economic policies and advance structural reforms, that would deliver higher, sustainable and inclusive growth and allow incomes in Ukraine to catch up with the levels seen elsewhere in the region.

3. As all other countries, Ukraine is now being hit hard by the COVID-19 pandemic, and the resulting decline in global activity and trade, as well as the closure of capital markets. We have taken drastic, but necessary, steps to contain the spread of the virus. Starting on March 13, 2020, we have taken extensive measures to protect our population's health and support our economy. Ukraine entered this crisis with strong macro-economic fundamentals and fiscal and financial buffers. Nonetheless, the toll this crisis is taking on our economy, combined with the decline in trade and in remittances, is without precedent in modern history.

4. We have focused our policies on saving people's lives and livelihoods and ensuring that our economy recovers quickly when the crisis subsides. We are temporarily relaxing our fiscal and financial policies, to absorb the impact of the shock, while aiming to maintain macroeconomic and financial stability. Key priorities are to step up public spending to meet urgent healthcare needs, and to provide additional resources to protect employment and viable businesses and increase social assistance to protect the most vulnerable households and the elderly. We are committed to ensuring strong control, audit, reporting, and transparency with respect to all crisis-related government spending. Our monetary and exchange rate policies aim to ensure an orderly exchange rate adjustment in response to the shock and to prevent liquidity distress. This is supplemented by our financial sector policies that aim to strike a balance between preserving financial stability and sustaining economic activity. The attached Memorandum of Economic and Financial Policies (MEFP) describes our goals and policies in more detail.

5. In addressing the crisis, we continue to focus on the pre-conditions for increasing incomes through higher growth. Our macro-economic policies will continue to be aimed at

preserving medium-term fiscal sustainability, safeguarding central bank independence and maintaining stable inflation; and safeguarding financial stability, while minimizing the costs to the state—and hence to the taxpayers—stemming from bank resolution decisions. We will continue to strengthen the rule of law and tackle corruption, including by ensuring the effectiveness and independence of our new anti-corruption institutions. We are also committed to creating a level playing field and reducing the role of the state and vested interests in the economy, including by safeguarding and advancing corporate governance reforms in our state-owned enterprises and banks.

6. To support our efforts, we request an 18-month Stand-By Arrangement (SBA) in the amount of SDR 3.6 billion (178.9 percent of quota and equivalent to about US$5 billion) for balance of payments and budget support. We commit to put in place a memorandum of understanding between the NBU and the Ministry of Finance that clarifies the responsibilities for timely servicing of the financial obligations to the IMF. Together with our policies, this new arrangement will help cover Ukraine's urgent balance of payments and fiscal needs, in support of our emergency crisis response. The new arrangement will build upon progress made under the previous IMF-supported programs and provide a valuable anchor for our economic policies. The new program will also continue to play a catalytic role in mobilizing international support, notably from the EU and the World Bank, to ensure that the program is fully financed, and in helping to ensure continued access to international capital markets as global market conditions permit.

7. We have already taken numerous steps toward achieving our goals, including by adopting a revised budget for 2020, reflecting the crisis-related loss in revenues and the additional spending needs. We have also passed and enacted several pieces of important legislation. Specifically, we have already taken the following prior actions:

- We have enacted amendments to the customs and tax codes and other laws to enable the elimination of the regional tax and customs offices as independent legal entities and thereby the creation of the Tax and Customs Services as single legal entities (paragraph 8b of the MEFP);

- We have enacted amendments to the banking law, the law on the Deposit Guarantee Fund (DGF) and the code of administrative justice to ensure that courts defer to the NBU's, the DGF's and the Ministry of Finance's expertise and discretion in bank resolution matters (including provisional administration and liquidation) and cannot reverse banks resolutions decisions, allowing only compensation, limited to proven losses, as a remedy if warranted (paragraph 22 of the MEFP);

- We have adopted a contingency plan to mitigate potential risks posed to financial stability and public finances by adverse court rulings against past resolution decisions (paragraph 23 of the MEFP);

- We have enacted legislation to re-criminalize illicit enrichment consistent with international standards and Ukraine's Constitution (paragraph 25a of the MEFP);

- We have enacted amendments to the AML law consistent with FATF standards (paragraph 25f of the MEFP); and

- We have lifted the cap on household heating tariffs (paragraph 27b of the MEFP).

8. Based on these steps and our commitments for the period ahead, we request approval by the IMF Executive Board of the proposed SBA. We also request that the IMF Executive Board approves to make available SDR 1.5 billion (74.6 percent of quota, equivalent to about US$2.1 billion) upon approval of the arrangement. We furthermore request approval of the retention of the exchange restriction and multiple currency practices that we maintain temporarily due to balance of payments difficulties and that are inconsistent with our obligations under Article VIII Sections 2 (a) and 3 of the Fund's Articles of Agreement. During the period of the SBA, Ukraine will not introduce or intensify exchange restrictions, introduce or modify multiple currency practices, and will not introduce or intensify import restrictions for balance of payments reasons nor conclude bilateral payment agreements that are inconsistent with article VIII of the Fund's Articles of Agreement.

9. The program will be monitored through four reviews, and Table 1 of the attached MEFP presents the quantitative conditions (periodic and continuous performance criteria, indicative targets) and a monetary policy consultation clause, while Table 2 describes the structural benchmarks under the program. The four reviews are expected to be completed on or after September 1, 2020, December 1, 2020, May 15, 2021, and October 15, 2021, respectively.

10. We believe that the policies set forth in the attached MEFP are adequate to achieve the macroeconomic and financial objectives of the program, but we will take any additional measures that may become appropriate for this purpose. We will consult in advance with the IMF on the adoption of these measures and on any revisions to the policies contained in the MEFP, in accordance with the IMF's policies on such consultation. We will refrain from policies that would be inconsistent with the program's objectives. We will provide IMF staff with the data and information it requests for the purpose of program monitoring. Reaffirming our commitment to transparency, we consent to the IMF's publication of this letter, the MEFP, the Technical Memorandum of Understanding (TMU), and the accompanying Executive Board documents immediately upon consideration of our requests by the IMF's Executive Board.

Yours sincerely,

/s/	/s/
Volodymyr Zelenskyy President	**Denys Shmyhal** Prime Minister
/s/	/s/
Sergii Marchenko Minister of Finance	**Yakiv Smolii** Governor, National Bank of Ukraine

Attachment I. Memorandum of Economic and Financial Policies

May 28, 2020

1. **Our policies are focused on effectively tackling the health emergency caused by COVID-19 in the short run, while maintaining macroeconomic stability, reducing vulnerabilities, and achieving stronger and inclusive economic growth in the medium run.** As the crisis resulting from the COVID-19 outbreak intensified and the macro-economic outlook worsened, we have swiftly adopted an emergency fiscal package aimed at reorienting expenditure toward healthcare and social support to address the immediate needs. For the medium term, we remain committed to preserving the achievements realized since the economic crises of 2014–15. Our policies are centered on: (i) continuing with sound fiscal policies to ensure medium-term debt sustainability, while improving spending outcomes and protecting the poor, and strengthening revenue administration; (ii) ensuring central bank independence, maintaining a cautious monetary policy to keep inflation low and rebuilding reserves in the context of a flexible exchange rate regime, while ensuring banks' financial health, minimizing fiscal costs from bank resolutions, and reviving sound bank lending; (iii) firmly establishing the rule of law and tackling corruption; and (iv) enhancing competition by opening up markets, creating a level playing field, and reducing the role of the state and vested interests in the economy to improve the business environment, attract investment and raise the economy's potential.

A. Fiscal Policies

2. **In the short term, fiscal policy is focused on addressing the emergency caused by the COVID-19 outbreak, while in the medium term it will continue to be directed at ensuring fiscal sustainability.** After allowing the deficit to widen in 2020, we will progressively tighten fiscal policy as the economy recovers to return to primary budget surpluses of around 1–1½ percent of GDP with a view to reduce public debt to around 60 percent of GDP by the end of the program. More specifically:

   a. ***2019 Budget.*** We kept the general government budget deficit below the target of 2.3 percent of GDP. Budget execution has been broadly in line with the approved budget. A shortfall in some revenue categories, notably lower revenues from VAT, royalties and excise on imports and customs duties, due to a stronger exchange rate and lower international gas prices, were partly offset by higher personal income tax and social security contributions owing to strong wage growth, higher revenues from state-owned enterprises (SOEs), as well as by savings in debt servicing due to improved liquidity management by the Ministry of Finance and the stronger exchange rate. A supplementary budget was adopted to formalize these adjustments. Similarly, higher-than-budgeted pension spending was compensated by the higher social security contributions as well as new custom clearance procedures for cars with foreign registration.

b. ***2020 Budget.*** The 2020 budget adopted by parliament in late 2019 as a ***prior action*** was consistent with a general government budget deficit of 2.3 percent of GDP, as projected at the time of budget approval. This budget included no major changes in tax policy, other than the already scheduled increases in excise rates on tobacco products and the legalization of amber extraction. The increase in the payroll fund for civil service was limited to 5.3 percent in 2020 and the minimum monthly wage was raised by 13.2 percent to UAH 4,723. Pension benefits, including for military and other special pension schemes, were budgeted to increase in accordance with the provisions of the pension reform law adopted in 2017. Separately, we have also increased the effective taxation of iron ore and effective from January 1, 2021, we have also harmonized the taxation of heated tobacco products with that of traditional tobacco products.

c. ***2020 supplementary budget.*** Since the approval of the budget, the macro-economic outlook has worsened dramatically due to outbreak of the COVID-19 virus. To respond to this emergency, we have adopted a supplementary budget (***an update to the prior action***), which allows the deficit of the general government to expand to UAH 300 billion (about 8 percent of GDP), taking into account the large fall in revenues due to the decline in activity, as well as the additional spending needs to respond to the crisis. On the revenue side, the fiscal package provides support to households and small entrepreneurs by raising the thresholds for businesses to qualify for the simplified tax regime, a temporary exemption from tax fines and penalties for delays in filing tax returns, land and property taxes, and the unified social tax; as well as through a temporary moratorium on tax audits and inspections. Medicines and medical devices used to prevent or combat COVID-19 infections have been exempted from import duties and VAT. On the expenditure side, expenditures on health care, pensions, and social protection were increased by about 3 percent of GDP, partially offset by a reduction in capital and non-priority current expenditures. A temporary cap was introduced on all public sector wages and salaries, including those in other state bodies and state-owned entities. This cap is to be lifted by end-June, as containment measures are gradually eased. Should further burden-sharing be needed, we will explore other mechanisms for efficient redistribution**.** The increases in pensions will take the form of: (i) an advanced date of indexation of pensions, and (ii) one-off additional pension payments to low-income pensioners and elderly pensioners (80 years or older). To administer these expenditures the government has created a temporary budget program, the fund for COVID-related spending.

d. We expect that improvements in tax and customs administration will yield some higher than budgeted revenues in the course of the year but were revenues to underperform we will curtail non-priority spending as needed, to ensure that the deficit target will not be exceeded. Any revenue over-performance will be used to reduce public debt, settle arrears, increase infrastructure investment, or to raise social benefits to improve living standards of the most vulnerable. We will remain current on all our payment obligations and not accumulate any spending arrears. We will work with IMF staff to develop in 2020 proposals to reform our tax system and make the tax system more growth friendly, including by addressing tax gaps, broadening the tax base, and reducing opportunities for tax avoidance, with a view to shift taxation from direct taxes to indirect taxes and the taxation of wealth. We will not enact any legislation during the program period that changes our tax system such that it will undermine fiscal sustainability. Moreover, during the program period we will refrain from introducing new tax exemptions or privileges (except for the already approved exemptions that are implemented for COVID-related healthcare expenditures), including tax-free zones, and preferential rates and duties, and further earmarking of revenues (except for the expenditure of the fund for COVID-related spending). We also plan to develop together with IMF staff a voluntary disclosure scheme for possible consideration by end-September-2020 that is consistent with international best practices, including fairness vis-à-vis compliant taxpayers, consistency with AML and anti-corruption legislation (such as non-exemption from non-tax offenses and exclusion of politically exposed persons), and including rigorous due diligence procedures, and which will be linked to base erosion and profit shifting (BEPS) legislation that has been adopted recently and demonstrated progress in strengthening tax administration.

e. ***Budget Program for COVID-related spending.*** The approved supplementary budget envisions the establishment of the budget program "Fund to Fight Against COVID-19 and its Impact". We will ensure that this fund will be temporary, transparent and its expenditures efficient. The fund will be used primarily for the purpose of financing additional health care and social expenditures directly related the COVID-19 epidemic. The operations of the fund will be governed by regulations issued by Cabinet of Ministers of Ukraine (CMU) reflecting transparency and accountability requirements. These government regulations will cover: (i) the procedures for re-allocating resources to the fund; (ii) the authorization processes for committing the resources of the fund, allocating a central role to the Minister of Finance; (iii) the budget execution rules that will be followed; (iii) the detailed monthly reporting to be filed with the CMU and parliament on the use of funds in the previous period; (iv) the requirement that all cash transactions of the fund have to be executed through and reported by the Treasury; (v) the rules for discontinuing the operations of the fund, including the use of any remaining resources and responsibility for commitments active at the time of the fund's closure. An ex-post procurement audit of the COVID-19 program will be conducted by the State Audit Service of Ukraine, in consultation with external/third party auditors, of all transactions conducted under the rules of CMU resolution 302 at the time of closing the fund but no later than 12 months after its establishment (a ***structural benchmark*** for end-March 2021). We will also prepare a detailed progress report regarding disbursements and commitments of the fund by program and economic classification within 30 days of the Fund's closure. These reports will be made public, in full, at the time of their completion. Furthermore, we will publish all procurement notices in a manner readily accessible to the general public and will make all purchase orders, including information on beneficial owners of the participating bidding companies, electronically accessible to the public on the ProZorro internet site (*https://prozorro.gov.ua*). The fund will operate only until the emergency situation so requires, but not beyond 31 December 2020.

3. We will continue implementing the pension reform measures introduced in 2017 aimed at providing better pensions while ensuring the financial stability of the pension system. The reform was aimed at protecting the elderly against poverty, decelerating the inflow of new retirees by providing incentives to stay longer in the labor force, applying uniform benefit rules irrespective of professional background, and providing incentives for participation and contribution compliance. We will refrain from: (i) introducing new special pensions or privileges; (ii) providing further discretionary benefit increases; and (iii) adopting changes that would lead to lowering the effective retirement age. We will ensure that any proposed legal amendments that will increase pension expenditures are accompanied by a medium-term fiscal impact analysis and the identification of the commensurate resources. We will strive to ensure that, over the medium term, payments to pensioners approach statistically measured subsistence minima and the dates for annual pension indexation will be specified in the Law on Compulsory Pension Insurance. Furthermore, we will continue our collaboration with our development partners to establish the preconditions that would need to be in place before the introduction of well-regulated privately-managed funded pension schemes.

4. We will improve our social assistance programs to create a well targeted (means-tested) and affordable social safety net that can effectively support poor and vulnerable households. With the assistance of the World Bank, we are planning to: (i) consolidate selected existing assistance programs into our guaranteed minimum income (GMI) scheme, while increasing the size of the program; (ii) combine the GMI program with active labor market policies; (iii) implement improvements to the management information system to enhance the verification of beneficiaries of social programs to improve targeting. We will also take further steps to ensure the sustainability of the social funds, including by streamlining the administration of these funds.

5. The implementation of the health care reform will proceed in 2020 by expanding the new mode of financing to secondary and specialized care. Health care financing reform [has] been rolled out on April 1, 2020, expanding strategic purchases of healthcare services by the National Health Service of Ukraine (NHSU) to emergency, intensive and specialized care. The NHSU—a government executive agency funded by the state budget—will function as a single payer in public health care and will closely monitor service delivery and financial performance of providers. Health care providers' gradual transformation into municipally owned non-profit legal entities will continue and their financing will be based on performance contracts concluded with the NHSU. We will complete the delineation of a defined, NHSU-financed package of health services, including primary, specialized, palliative and emergency care, and control demand through financial incentives to service providers, while allowing for the possibility to introduce co-payments for patients if needed, while ensuring that the accessibility and quality of services improves. To ensure that NHSU purchases deliver best value for the patients, the NHSU decision making will be transparently protected from conflict of interest, in particular by excluding participation of service providers in its governance structures. The Ministry of Health will continue to outsource the procurement of key pharmaceuticals to reputable international organizations. Starting in 2020, the Ministry of Health will start piloting the centralized procurement of medicines through the newly created state-owned enterprise Medical Procurement of Ukraine, using ProZorro in line with the Law on Public

Procurement, while also following best international practices of transparency, accountability, and competition.

6. **Once the crisis abates, we will accelerate the reform of the education system.** We will continue with the right-sizing of the school network for primary and secondary education, increase capital expenditure to renovate buildings and ensure that schools will have the needed infrastructure. We will start with the reform of curricula and, to align teachers' incentives and keep the system fiscally affordable, we will submit amendments to the law on education to parliament to modify the salary structure. For higher education we will transform the funding system of universities and link salaries to performance.

7. **We will continue to improve public financial management.** We will strengthen our fiscal framework to facilitate sustainable fiscal adjustment and improve the credibility and predictability of fiscal policies. The amendments to the budget code approved in late 2018 have paved the way to our first full-fledged medium-term budget framework (MTBF). We are fully committed to improve our MTBF to reinforce fiscal discipline, facilitate informed policymaking, improve monitoring of commitments, and provide predictability in planning and executing budgets. To this end, together with IMF technical assistance, we will: (i) clarify the mechanisms for adjusting expenditure ceilings, (ii) review the arrangements which limit multi-annual commitments, (iii) improve the methodology to produce forward baseline estimates and fiscal impact assessments especially through capacity building both within the Ministry of Finance and in key spending units. We will expand the coverage and strengthen the quantitative analysis of spending reviews based on the pilot projects conducted in 2018-19. In particular, we will conduct a review of the social funds, including the Pension Fund. We will improve the assessment of fiscal risks by developing the necessary tools within the Ministry of Finance and by expanding our financial model to include major SOEs. To increase the efficiency of government investments we will consider ways to simplify the authorization procedure for multi-year contracts and the carryover of unspent appropriations. We have also amended the budget code to allow pre-financing of the budget deficit. Pre-financing will be subject to limits to preserve fiscal stability in accordance with best practices. We will operationalize the debt management office (DMO) with the aim to improve the institutional capacity to manage public debt and to optimize our debt structure and reduce our financing cost. Strategies, operations and results will be published yearly in the debt management strategy.

8. **We are taking decisive steps to improve revenue administration.** Specifically:

a. We have enacted legislation to introduce a single account for tax payments unifying requirements for social security contributions and personal income tax payments, effective January 1, 2021. We have also adopted legislation to establish fiscal accountability for cash receipts issued by participants of the simplified regime, with the mandatory use of cash registers and electronic cash registering, and the possibility for customers to verify tax reporting online, effective January 1, 2021. We will assess the impact of the implementation of this legislation on preventing tax avoidance and abuse of the simplified tax regime, and are taking steps to incentivize SMEs to participate in the universal tax regime. We will refrain from widening the eligibility criteria for the simplified tax regime. We will refrain from introducing new groups of taxpayers benefiting from a simplified tax regime. We will ensure that the automated system for VAT refunds will continue to operate, while continuing our efforts to detect abuse, referring such cases to the appropriate law enforcement agencies. We will also develop ways to share information on taxes that are due to local budgets (land, property, and personal income taxes) with local governments, to help improve the collection of those taxes. We will furthermore improve the process for the determination of the tax base of land and property taxes.

b. We have established the State Tax Service (STS) and State Customs Service (SCS) as new legal entities, responsible for tax and customs collection. We [have also enacted] changes in the legislation that remove obstacles to establishing the STS and SCS as the only two legal entities as a ***prior action***. This included changes to the Customs Code, Administrative Procedural Code, State Secrecy Law, Labor Code, Public Service Law, Law on Central Executive Bodies, budget legislation, as well as other laws that restrict the authority of delegation and efficient management of operations in STS and SCS. We will develop new organizational structures and frameworks for the delegation of authorities and accountabilities in both organizations as single legal entities (a ***structural benchmark*** for end-September 2020). This will be immediately followed by a testing period of consolidated legal entities in selected pilot offices of the STS and SCS, also to identify possible additional critical changes to the legislation to achieve the objectives of the reform. Simultaneously, we will liquidate the State Fiscal Service (SFS) and transfer its assets, including IT systems, to the STS and SCS. These changes will be enacted no later than end-December 2020. Starting from January 1, 2021, the STS and SCS will be operating nationally as two single legal entities both comprising of functionally organized headquarters and field offices and the regional and other legal entities of the STS, SCS, and SFS will cease to exist (a ***structural benchmark*** for January 1, 2021).

c. We also have set up reform offices in the STS and SCS that have prepared time-bound, measurable STS and SCS reform plans for 2020-22. These plans define reform actions, including modernizing core business processes in the STS and SCS, and the sequencing of their implementation. We have established reform governance arrangements in both organizations, including Reform Steering Committees led by the STS and SCS heads, with monthly reporting on reform progress.

d. The STS and SCS will fundamentally transform the operations of tax and customs administration. Redundant tax and customs processes that burden businesses and taxpayers with little impact on improving compliance will be discontinued. Other processes will be improved, simplified, and where possible digitalized to reduce the administrative cost imposed on taxpayers, while also helping to improve integrity of both organizations. By end-September 2020, a centralized risk-management unit will be set up in the STS that will select audit cases (including of VAT refund checks) for STS' audit units, which will be based on perceived tax compliance risks. We will abolish the system of planned tax audits by end-September 2020, when tax audit selection will be fully based on risk analyses. The STS has also increased the internal capacity of the debt settlement department and re-launched the legal department to enhance its ability to collect tax arrears. In this regard, the Ministry of Justice has removed all barriers to the enforcement of decisions on tax debt collection, which were previously blocked, and the executive service has begun to recover tax debts accordingly.

e. Moreover, with the goal of consolidating the investigative authority of economic crimes into a single investigative body, we will adopt legislation to establish a financial investigative authority effective January 1, 2021. This authority will take over the responsibility for investigating economic, financial, and tax fraud and crimes that resides with the national police, the state secret service, and the tax police, but with the exception of those instances that fall under the jurisdiction of the National Anti-corruption Bureau of Ukraine (NABU). The law will set out clear rules for management selection, internal decision-making, and oversight to ensure operational independence and proper oversight and accountability. The head of the authority will be appointed through an open competition.

B. Monetary and Exchange Rate Policies

9. We remain fully committed to an institutionally strong and independent National Bank of Ukraine (NBU), which is crucial for safeguarding macro-economic as well as financial stability. To this end, we are taking steps to implement the recommendations of the 2019 Safeguards Assessment and we will request IMF technical assistance to review the capital management and profit distribution framework to ensure NBU's financial autonomy and policy credibility, and will strengthen within the upcoming DGF Law amendments the NBU's secured creditor status in the case of bank failures. Further, we will avoid taking any actions that may imply political interference with the NBU's independence (regarding policy decisions, term limits and legal protection of managers and staff). The NBU will continue its flexible inflation targeting (IT) policy, within a floating exchange rate regime, and with a strong focus on maintaining financial stability. A credible flexible IT regime will better anchor inflation expectation, allowing the NBU to better smooth economic cycles and mitigate liquidity stress. We will ensure that this framework remains unchanged including irrevocable inflation targets and principles of monetary policy.

10. Our monetary and exchange rate policies and operations will remain consistent with our commitment to meet the program's international reserve and inflation objectives, as well as ensuring sufficient liquidity. We intend to contain inflation within the NBU's target range of 5 percent +/-1 percentage point, while letting the exchange rate adjust in line with economic fundamentals and purchasing foreign exchange to meet the program's reserve targets. The NBU stands ready to adjust the policy rate to reach its inflation target over a policy horizon of 9-18 months. Progress in meeting inflation targets will be monitored under the program by consultation bands around the central points of our inflation targets (Table 1). If actual inflation falls outside the outer (inner) band, the NBU will consult with the IMF Executive Board (staff) on the reasons for the deviation and policies to return inflation to within the band. The gradual capital control liberalization envisaged in the February 2019 currency law will be carefully sequenced and conditions-based, without setting specific deadlines for the removal of existing restrictions. The banking system is currently highly liquid, with free liquidity equal to about 30 percent of client liabilities. Nonetheless, as the crisis has tightened financial conditions, the NBU has adapted its operating framework to provide banks with greater liquidity management flexibility, including by increasing the frequency and maturities of liquidity provision tenders, and by expanding eligible collateral. The NBU will continue to closely monitor financial conditions to assess whether other liquidity measures may be needed, while also maintaining sound risk management practices. Ensuring sufficient liquidity should allow banks to function normally and finance the private sector and government at market rates in line with fundamentals.

11. **We will take further steps to strengthen the effectiveness of monetary policy and support the development of financial markets.** We will strengthen the regulatory framework for financial markets (see below) and continue to work with stakeholders to enhance the efficiency and robustness of money and securities markets, which are important for effective monetary policy transmission.

C. Financial Sector Policies

12. **Consistent with our commitments under the Fund-supported programs, we have made considerable progress since 2014 in cleaning up the banking system and closing gaps in the regulatory framework.** We have intervened and resolved almost 100 banks since 2014, and nationalized PrivatBank, the largest financial institution. We have increased capital and liquidity requirements, tightened rules for credit risk calculation and improved procedures for assessing bank ownership structures. We have beefed up the regulatory and oversight framework for related-party exposures, developed a risk-based approach for supervision and established a centralized credit registry. Our resolute actions were commensurate to the severity of the banking crisis whose direct fiscal costs are estimated at about 15.7 percent of GDP. Thanks to these stringent actions and rules, as well as improved macro-economic conditions, the banking system has gained strength: weak banks have exited the market and the capital buffers of the remaining have increased, related-party exposures have fallen, and most banks have returned to profitability.

13. **We will pursue our efforts to ensure financial stability and limit fiscal costs.** Our priorities will focus on: (i) implementing targeted and temporary supervisory policies in response to the COVID-19 crisis; (ii) further strengthening bank capital requirements as the crisis passes; (iii) reducing legacy non-performing loans (NPLs) and recovering assets from resolved banks; (iv) implementing the reform strategy for state-owned banks; (v) improving the Deposit Guarantee Fund's (DGF) financial position; (vi) upgrading the supervisory and resolution framework; and (vii) developing the non-bank financial sector and financial markets.

14. **The COVID-19 crisis is also taking a toll on the banking sector, and we are reconsidering our supervisory approach during these exceptional circumstances.** Borrowers are already facing difficulty in servicing their loans, and legislation was adopted prohibiting banks to impose additional fees and penalties on retail customers that miss regular payments during the

period of quarantine. The NBU has suspended on-site inspections during the period of quarantine and postponed the introduction of additional capital buffers and the annual stress-testing exercise and encouraged voluntary and prudent loan restructuring where necessary to sectors or firms heavily impacted by the crisis. In applying our corrective measures, we will utilize the flexibilities within the current regulatory framework considering the problems cause by the outbreak. Still, any temporary decline in capital ratios should be accompanied with a credible capital restoration plan. On the other hand, we are not contemplating a relaxation of minimum capital and liquidity requirements, loan classification and provisioning rules, to prevent excessive risk taking and hiding poor underwriting practices and losses. Furthermore, to help absorb potential losses from the crisis, we will ensure that banks revise their 2019 dividend distribution planning.

15. Once the crisis abates, we will conduct asset quality reviews (AQRs) to guide our regulatory and supervisory policies. These reviews will provide better information on banks' asset quality and the size of the capital shortfalls. We will ask undercapitalized banks for a time-bound plan to restore capital adequacy ratios. We will take supervisory measures against banks that fail to implement their action plans. We will resume our efforts to align capital rules with international standards once the crisis has passed and the economy returns to the stable growth path. In this regard, based on the new Banking Law amendments, we will implement the capital conservation buffer and finalize the regulation on new capital structure to meet the Basel capital standard.

16. We will safeguard and advance governance reforms in state-owned banks. The majority-independent supervisory boards for all state-owned banks are now operational, following a selection process that was transparent and consistent with the provisions of the Banking Law on state-owned banks, and the fit and proper assessment was conducted without political interference. We will continue to adhere to these processes for filling any vacancies at the supervisory and management boards of these banks, and we will offer market-based remuneration to attract and motivate highly-qualified Ukrainian and international professionals. By end-July, we will (i) finalize relationship agreements with each state-owned bank to ensure that they operate on a commercial basis without political interference; and (ii) hire staff for the oversight unit in the Ministry of Finance in charge of shareholding management, to operationalize this unit in line with IMF technical assistance recommendations. We will also ensure that each state-owned bank develops a code of ethics that will inter alia clarify the procedures for recommending the dismissal of a supervisory board member in line with article 7 of the Banking Law, include disciplinary processes, and establishes an ethics committee to handle complaints and conflicts.

17. Consistent with the Principles of State Banking Sector Strategic Reforms, we are committed to divesting the state's shares in the state-owned banks. As a first step, the International Finance Corporation (IFC) of the World Bank Group has approved a loan to UkrGasBank, convertible into equity. Additionally, we will ensure that all the triggers for the entry of the European Bank for Reconstruction and Development (EBRD) into the capital of OschadBank will be met by end-October 2020. Furthermore, we will ensure that the state-owned banks remain adequately capitalized and meet capital requirements. The implementation of this will be monitored through Key Performance Indicators (KPIs). We will review, in consultation with international partners, the Strategy of State-owned banks (to be endorsed by the CMU); the review will include in particular actions to respond to economic shocks caused by COVID-19 pandemic.

18. We are stepping up efforts to address the high level of legacy non-performing loans (NPLs) in state-owned banks. In July 2019, the NBU issued a regulation on the organizational arrangements for the management of problem assets to guide banks on how to deal with their troubled borrowers. In September 2019, we extended for three years the Law on financial restructuring (Kyiv approach), which was set to expire in October 2019. Also, in October 2019, we operationalized the new Insolvency Law enacted in April 2019. In April 2020, the CMU approved a resolution that determines the criteria and conditions for the determination by state-owned banks of instruments to resolve NPLs. We will ensure that state-owned banks develop time-bound and credible NPL reduction plans in line with the NBU regulation on problem assets. The state-owned banks' legacy NPL reduction plans, including the option of taking NPL resolution decisions that could realize final losses, will be endorsed by the shareholder and approved by the Financial Stability Council (FSC) and the NBU (a ***structural benchmark*** for end-June 2020). The implementation of these plans will be subject to quarterly monitoring by the FSC and the NBU and annual evaluation under the NBU's Supervisory Review and Evaluation Process (SREP) and be part of banks` annual KPIs. While balance sheet repair will help revive lending, we will have set up a working group to identify obstacles to bank lending, including mortgage lending, such as remaining weaknesses in credit rights. The working group will formulate its recommendations and proposed legislative changes as needed, by end-June 2020.

19. We are firmly committed to making tangible progress in reducing the cost of bank failures to the state. Since the scope for the recovery of losses becomes increasingly difficult as time elapses, we will promptly pursue all commercial and legal avenues available to recover assets from failed banks and hold former owners and former managers of failed banks accountable for losses. To that end we have taken or will take the following operational and legal steps:

a. We recognize the need to improve coordination among the relevant state bodies for asset recovery efforts. The FSC's NPL Working Group on state-owned banks initially gathered with representatives of law enforcement agencies also to discuss broader asset recovery issues. The working group will continue to hold regular meetings to review significant restructuring cases concerning state-owned banks. The NBU and the DGF will continue to coordinate their efforts with the Prosecutor General's Office (PGO) and NABU, including by way of providing necessary documentation (including forensic audit reports) to these bodies without prejudice to their prosecutorial and investigative autonomy. The DGF will also start pursuing the recovery of assets abroad. Addressing the DGF insolvency will create the necessary space and incentives for committing the required resources to engage with reputable legal and forensic experts. Recent amendments allow the DGF to continue realizing the remaining assets of the banks that are close to the end of statutory liquidation timeframe. We will furthermore adopt legal amendments to the DGF and other laws to improve bank liquidation mechanisms, and the recovery of assets as a ***structural benchmark*** for end-October 2020. These amendments will underscore the DGF's ability to claim damages from related parties without showing a deficit in the liquidation estate, and subject to a special statute of limitation. Further, the DGF will be authorized to enter into a settlement with related parties only if clear and strong safeguards are in place (e.g., after an independent audit confirms that recovery prospects within a reasonable timeframe are limited without a settlement in view of related parties' financial standing, by adequately protecting the DGF's pre-settlement rights in case of a breach, including via collateral, and by transparently informing the public on such agreements). These amendments will facilitate interim measures against related parties during civil lawsuits and recognize the DGF's victim status in criminal proceedings.

b. We will also utilize administrative mechanisms for the accountability of the owners of failed banks. As part of our efforts to reduce the ultimate costs of bank failures to the state, we are working on a strategy paper that will propose by end-June 2020 a set of credible measures to improve asset recoveries from former owners of failed banks and their related parties, including through the use of administrative mechanisms. In consultation with IMF staff, we will integrate these improvements into the legislative package enhancing the bank liquidation framework. Based on the draft law that is being developed to replace the Law on Financial Services, the beneficial owners of failed banks will be disqualified from being involved in non-bank financial institutions as an owner or senior manager, and this will be further supported by appropriate declaration requirements. The NBU will take enforcement actions against such owners and managers as identified under this new framework.

c. We will transparently report on progress our asset recovery efforts. The CMU will continue to publish semi-annual reports summarizing progress in asset recovery and litigation efforts related to the state-owned banks, while the DGF will continue such reporting in relation to liquidated banks, including by publishing on its website the list of all borrowers, managers, and former bank shareholders of resolved banks that are yet to honor their debts related to the failed institutions as ruled by court decisions. Additionally, the new banking law amendments will require banks to disclose their related parties that are in default for more than 180 calendar days.

20. A well-capitalized and funded deposit insurance system is critical for financial stability. The large amount of depositor payouts following the liquidations of around 100 banks since 2014, together with the low recovery rate of assets, have led to the DGF's insolvency. The Ministry of Finance and the DGF, in consultation with the NBU, IMF and World Bank, will prepare a time-bound plan by end-July 2020 to restore the DGF's solvency by end-2021, while maintaining incentives to maximize recoveries from failed banks. The Financial Stability Council will adopt this plan by end-August 2020.

21. We will ensure that our bank supervision framework is aligned with good practices. To this end, we will enact amendments to the Banking Law, prepared in coordination with the IMF and World Bank staff: (i) to address the gaps vis-à-vis sound corporate governance practices against the 2015 Basel's Guidelines for Corporate Governance for banks (including the collective suitability of the supervisory board); (ii) to introduce a new capital structure (with appropriate implementation schedule) and capital buffers; (iii) to grant the NBU legal powers to calibrate capital and liquidity requirements based on the bank's risk profile; and (iv) to strengthen our licensing and shareholder requirements (a ***structural benchmark*** for end-November 2020).

22. We have improved our current early intervention and resolution frameworks in several respects. To be able to effectively address critical threats to the soundness of our financial system in case of adverse court rulings against past resolution decisions and to fully protect the interests of the State and the Ukrainian taxpayers, we [have enacted], in consultation with IMF staff, as a ***prior action,*** a legislative package that amended the Banking Law, the DGF Law, the Code of Administrative Justice, and other procedural codes, to make the following urgent enhancements:

a. ***Banking law amendments.*** These amendments introduce the notion of professional judgement to support the NBU's discretionary assessments, require the NBU's prior approval all supervisory board members before they take their duty, and enhance our early intervention framework, including problem bank designation and entry into resolution by underscoring the NBU's flexibility to move a problem bank to resolution within the 120-days period and by improving resolution triggers based on capital and liquidity grounds.

b. ***Judicial review of resolution decisions.*** The reversal of bank resolution decisions in a series of cases instigated significant legal uncertainties, potentially undermining financial stability and public finances. To balance financial stability concerns with the protection of individual rights in line with good practices, the above law reform amendments ensure that: (i) as with the NBU and the DGF, the CMU's and Ministry of Finance's involvement in systemic bank resolution is protected against injunctive orders and that NBU and DGF officials can also perform their duties without interference by such orders; (ii) courts defer to the technical expertise and discretion of the NBU, DGF, CMU and Ministry of Finance on bank resolution matters; and (iii) given the potential impact of any reversals on financial stability and the interests of depositors, judicial actions cannot result in a reversal of bank resolution measures (including provisional administration and liquidation), but redress is provided only by granting monetary compensation for proven damages (in case of unlawful resolution or liquidation initiation, damages will be determined by an internationally reputable audit company appointed by court and that meets predefined criteria based on the value of shares as of the resolution date, with no share value considered to exist if a bank's net worth was negative in view of all available information, including post-resolution information, and after excluding any public financial support extended to the bank and by deducting any shareholder recoveries during resolution/liquidation). For accountability and transparency purposes, these amendments require that bank resolution decisions are dully substantiated, while the NBU will continue to strengthen its decision-making process;

c. ***Resolution tools.*** We have facilitated the effective resolution of a bank through State involvement. Among others, these changes critically incorporated flexibilities to the timelines of resolution tools where the State is involved, including the establishment of a bridge bank before resolution and for a longer period, while benefiting a grace period (3 months) for compliance with prudential ratios. These amendments further provide that the suspension of payments is discretionary if the State is involved in resolution, clarify the specifics of the sale of shares to the State (including when the State has a partial stake in the bank), define the mechanism for the determination of assets and liabilities to be transferred (including a list of non-transferable liabilities, such as claims of related parties), while facilitating the acquisition of assets and liabilities in bulk with the signing of relevant contracts by an assuming bank or the bridge bank, also as part of the liquidation process, and with the possibility to subsequently rectify errors in account balances.

23. We have further strengthened our crisis management arrangements. We have prepared in consultation with IMF staff, under the upgraded early intervention and resolution framework, a credible and robust contingency plan to mitigate and effectively address potential risks posed to financial stability and public finances by adverse court rulings against past resolution decisions. We have ensured that this plan, that has been adopted by the Financial Stability Council (a ***prior action***), is: (a) legally sound; (b) operationally feasible; (c) safeguards financial stability; (iv) minimizes fiscal costs; and (v) minimizes moral hazard risks. The Financial Stability Council will continue to review the level of preparedness of all stakeholders at its regular meetings and will update the plan as needed upon material developments.

24. We are fully committed to strengthening the legal and regulatory framework for non-bank financial markets. As a major step, we have enacted the legislation (split law) that transferred the supervisory responsibility for non-bank financial intermediaries to the NBU. To complement this, we will adopt, by end-October 2020, the draft law (formerly #6303) that enhances the independence and institutional capacity, the cross-border and domestic cooperation mandate, and the enforcement powers of the National Securities and Stock Market Commission to ensure that it meets IOSCO standards. Finally, by end-June 2020, we will adopt the law simplifying investments and introducing financial instruments (#2284). We will closely coordinate with the staff of the IMF and the World Bank to further align these laws with good practices, where needed. We will expand the coverage of the centralized credit registry to the non-bank credit institutions and lower the threshold for submitting information both for banks and non-banks.

D. Structural Policies

Anticorruption and rule of law

25. We are committed to advancing good governance efforts and combatting high-level corruption. We will ensure that the country's new anticorruption institutions—the National Anticorruption Bureau of Ukraine (NABU), the Special Anticorruption Prosecutor's Office (SAPO), and the High Anti-Corruption Court (HACC)—maintain their independence and integrity (including by providing them with adequate resources), to be able to effectively and credibly investigate, prosecute and adjudicate high-level corruption cases. To further support our anti-corruption efforts, we will strengthen and implement the asset declaration and AML/CFT frameworks, and prevent any backtracking from recent gains in the anti-corruption regime:

a. ***Illicit Enrichment.*** The criminalization of illicit enrichment is an important tool in the anti-corruption framework and part of the authorities' commitments in the previous IMF-supported program, in line with the UN Convention against Corruption. To address the legal issues raised by the February 2019 decision of the Constitutional Court, we have enacted as ***a prior action*** a law to re-criminalize illicit enrichment. We will monitor the law's implementation, especially as regards to the link to the income of the public official's asset declaration, criminal prosecution against assets above the designated threshold amount, and acquisition of assets by or through third-parties.

b. ***Anticorruption court.*** The HACC, as established under Law No. 2018/2447-VIII, formally began its operations in September 2019. Law No. 2019/100-IX was also passed, which streamlines the jurisdiction of the HACC with respect to corruption cases investigated by NABU and SAPO prior to the court's establishment. Nevertheless, a permanent facility for the HACC has been delayed. We will continue to ensure the full operationalization of the HACC, by providing adequate financial resources for its activities (including staffing and IT requirements and maintaining competitive staff remuneration) and ensuring a permanent and dedicated and adequate suitable facility for the HACC. By end-August 2020, the HACC will have been provided ownership of permanent offices (first instance and appellate levels) that are appropriate for its needs, and security services and protocols for its personnel and buildings. The HACC will publish reports on its performance with respect to the number and types of corruption cases, decisions on convictions or acquittals, and penalties imposed (in line with the template detailed in the TMU).

c. ***NABU Operations.*** We will uphold NABU's institutional and operational independence, including by upholding procedures for appointment of its head and maintaining the limited and serious grounds for dismissal of its head, in line with Law No. 2014/1698-VII. We will also maintain NABU's exclusive authority to investigate acts of corruption involving significant amounts or committed by high-level officials. We will strengthen the investigative powers of NABU to use a wide range of investigative techniques, including undercover operations, intercepting communications, accessing computer systems and controlled delivery, without having to rely on other agencies' infrastructure, in line with international AML/CFT standards. In this regard, we amended legislation (Law No. 2019/187-IX) to allow the NABU to independently intercept communications. We will issue all necessary implementing regulations by end-July 2020 and provide adequate resources and equipment to enable NABU to effectively and independently implement interception of communications for landlines by end-September 2020. In addition, we will continue to maintain adequate financial and human resources for NABU and ensure that staff remuneration remains competitive at the levels provided for in Law No. 2014/1698-VII, as amended. We will ensure the conduct of an external audit of the NABU in accordance with the requirements set out in the NABU Law (Law No. 2014/1698-VII), particularly that the audit will be conducted by a three-member panel of reputable and respected experts with considerable international experience in anti-corruption law enforcement and will be adequately resourced to efficiently, independently and timely complete the audit of NABU. The audit report will include clear and prioritized recommendations on the effectiveness of NABU and its operational and institutional independence, in line with international best practices. We will ensure that the proposed financial investigative body for economic crimes will not have overlapping criminal jurisdiction with NABU and that NABU will have primary jurisdiction over criminal cases of corruption. To monitor its activities, NABU and SAPO will publish in their respective websites quarterly statistics on corruption cases being investigated and prosecuted as well as pending cases before the HACC (in line with the template detailed in the TMU).

d. ***SAPO.*** We will ensure the autonomy of SAPO. In this regard, we will review the legal framework to improve the procedures for selection of SAPO officials, strengthen its capacity to regulate its organizational activities similar to the regional prosecutorial offices, and assess its performance through an external audit of reputable and respectable experts with international experience in anti-corruption law enforcement

e. ***E-declaration.*** Ensuring that politically exposed persons (PEPs) remain subject to comprehensive and published asset declaration requirements remains a priority, as this is critical to effectively address illicit enrichment and prevent the laundering of the proceeds of corruption. In this regard, amendments to the law on the National Agency for the Prevention of Corruption (NAPC) have been approved that ensure that NABU has direct, unconditional, full and secure electronic access to the NAPC's database of asset declarations of all persons under NABU's investigative jurisdiction (Law No. 2019/140-IX). We have issued and registered the implementing regulations through the Ministry of Justice and will put in place mechanisms to facilitate NABU's automatic and unrestricted electronic access to the NAPC database of asset declarations by end-June 2020. We have also strengthened the governance design and framework of the NAPC to enhance its effectiveness in assessing asset declarations and focus its verification efforts towards PEPs.

f. ***AML implementation.*** We remain committed to strengthening and mobilizing the AML/CFT framework to support efforts to tackle high-level corruption. In this respect, we have enacted amendments to the AML legal framework (a ***prior action***), including to ensure: (i) the implementation of a three-tier reporting system (suspicious transaction reports as defined by the FATF, threshold-based reporting of cash transactions and international funds transfers, and mandatory reporting of transactions related to high-risk jurisdictions and PEPs); (ii) that the definition of the persons related to PEPs is consistent with the risk-based approach encouraged by the FATF standard; (iii) that proportionate and dissuasive sanctions can be implemented by the NBU and other supervisory authorities in case of breaches of compliance with the AML framework, (iv) that information on beneficial owners of companies in the Unified State Register of Legal Entities, Entrepreneurs, and Public Associations is up-to-date, accurate and publicly accessible; and (v) that a conviction for a predicate offense is not necessary for the investigation or prosecution of money laundering. By end-December 2020, we will improve the beneficial ownership information contained in the Unified State Register of Legal Entities, Entrepreneurs and Public Associations with mechanisms to sanction legal entities for non-compliance, ensure open and public access to its information, and require that financial institutions report any discrepancies. To monitor its contribution to anti-corruption efforts, the State Financial Monitoring Service of Ukraine (the country's financial intelligence unit) will continue publishing quarterly statistics on the information it disseminates to NABU (in line with the template detailed in paragraph […] of the TMU). The NBU will continue to conduct at least four quarterly inspections of banks at higher risk of laundering of the proceeds of corruption, focused on regulatory requirements related to customer due diligence and PEPs, including with regard to requirements to identify PEPs, to verify their source of wealth and beneficial ownership information.

26. We will strengthen the rule of law, by ensuring the independence, integrity and accountability of the judiciary. We will ensure that the judicial selection processes and disciplinary mechanisms (including for the Supreme Court) are managed and implemented by persons with high competence, trustworthiness and integrity. We will strengthen the administrative procedures to give sufficiently superior level of judicial consideration to cases challenging the decisions of national state agencies and provide proper safeguards against undue influence on decision-making. In this regard, while ensuring consistency with European judicial standards and Venice Commission opinions, we will:

a. Amend the Law on the High Council of Justice (HCJ) to enhance the selection process ensuring that its members have impeccable reputation and integrity (an end-October 2020 ***structural benchmark***). Through an amendment of the HCJ Law (Law No. 2016/1798-VIII), and consistent with the March 2020 decision of the Constitutional Court, an independent commission will be established to pre-screen potential candidates to the HCJ and assess their integrity. This commission will perform a similar one-off screening of existing HCJ members. At least half of the commission's members will be respected experts with recognized ethical standards and judicial experience, including with relevant experience in other countries. The commission will give said experts a crucial role and decisive vote. In addition, the amendment will outline the procedures and criteria for the pre-selection process for the HCJ candidates, including a call by the commission for applications. The commission will then nominate at least two persons for each vacancy, which will be forwarded to the respective appointing authorities as designated by the Constitution for final selection and approval.[1] In case of negative assessment by the commission of an existing HCJ member, the commission will send and publish a recommendation for dismissal to the respective appointing authority.

b. Amend the HCJ's organic law (Law No. 2016/1798-VIII) by end-November 2020 to create a permanent inspectorate unit in the HCJ. This unit will be responsible for investigating disciplinary cases against judges and submitting recommendations to the HCJ for disciplinary actions and sanctions against judges. We will ensure that the unit will be composed of permanent staff to ensure consistency in investigative practice and continuity and evenhandedness in the treatment of judicial disciplinary cases.

c. Amend the procedural codes to transfer the judicial review of exemplary administrative cases against national state agencies to the Supreme Court, as a court of first instance, and to the Grand Chamber of the Supreme Court, as an appellate court. In further consultation with stakeholders and agreement with IMF staff, the criteria for determining exemplary administrative cases to be transferred to the Supreme Court will be finalized by end-August 2020. The criteria will include such factors such as cases of national importance, cases above a pre-determined threshold amount, or having significant impact or damage to the country, and will cover the decisions, acts or omissions of specific national state agencies (such as Cabinet of Ministers, Ministries, National Bank of Ukraine, Anti-Monopoly Committee, HCJ, NABU, NACP, HACC).

[1] Under Article 131 of the Constitution, the Congress of Judges, the President of Ukraine, the Verkhovna Rada, Congress of Advocates, All-Ukrainian Conference of Prosecutors, and congress of representatives of legal higher educational establishments and scientific institutions elect or appoint the twenty members of the High Council of Justice. The Chief Justice of the Supreme Court is the twenty-first member (ex-oficio).

d. To foster greater efficiencies in courts, Law No. 2020/460-IX has been enacted, which will optimize court procedures by reducing the heavy caseload of courts and rationalize the ability of administrative courts to suspend the decisions of national state agencies.

Energy sector reforms

27. We will continue our efforts to avoid the re-emergence of quasi-fiscal deficits and enhance competition and increase production to achieve energy independence. In doing so, we will continue to provide utility subsidies to low-income and vulnerable households to help defray the impact of gas and heating tariffs on their incomes. Specifically:

a. ***Gas prices.*** We have liberalized household gas prices as of January 1, 2020 in line with existing provisions in CMU resolution #867. The wholesale price of gas supplied by Naftogaz under special obligations will correspond to import-parity levels and will be determined for each month as the average of the day-ahead spot prices of natural gas at the TTF hub for the period of the 1st to the 22nd day of the month, plus the cost of transportation and entry into Ukraine. Naftogaz will post the wholesale price within a few business days of the 22nd of each month. We commit to apply this market-based pricing scheme symmetrically, without any ceiling. The Public Service Obligation Order for the supply of gas to households will be terminated on July 1, 2020, after which prices will continue to be fully market-determined. We will ensure that wholesale prices are determined on a transparent and efficient market. The Public Service Obligation Order will remain in effect until May 2021 only for the supply of gas to utility companies and tariffs will be based on fully market-determined gas prices; the National Energy and Utilities Regulatory Commission (NEURC) will bring distribution tariffs to full cost recovery.

b. ***Heating tariffs.*** We have eliminated the cap on household heating tariffs by revoking CMU resolution #560 of June 26, 2019 (a ***prior action***). We will ensure that, by end-August 2020, all heating tariffs under the jurisdiction of both NEURC and local authorities are reviewed and officially enacted to fully reflect gas and non-gas costs (including capex) (part of a ***structural benchmark***). By end-June we will legislate an October 1st, 2020 deadline for all new utility service contracts incorporating the revised heating tariffs to be concluded. Starting with the 2020–21 heating season, heating tariffs will be reviewed and set at least once per year before the start of the heating season to ensure that changes in gas and non-gas costs (including capex) are adequately reflected in heating tariffs. To that end, prior to the start of the 2020-21 heating season, we will rescind CMU resolution #1082 of December 24, 2019, which allows for the asymmetric changes in heating bills without the need to address heating tariffs when the price of input gas changes. In order to mitigate the risk of future arrears we will develop in consultation with the World Bank mechanisms to provide buffers for district heating companies to deal with the volatility in the wholesale gas price.

c. ***Supplier of last resort.*** In order to ensure the security of gas supply for households, we will set up a temporary supplier of last resort (SOLR) mechanism. We will select a SOLR through a competitive tender by end- June 2020. We will ensure that the SOLR has full access to the consumer database (see the joint data hub for gas household consumers below);

d. ***Enhancing competition on the retail market.*** We will ensure that the procedure for supplier switching for household consumers is simplified in such a way that: (i) it poses a minimum administrative burden on the household consumer; (ii) it can be carried out through the new supplier who would act as a principal point of contact on behalf of the household consumer; and (iii) the start of the supply by new supplier is not hampered by the existence of a disagreement between the household consumer and the previous supplier, including by any claims of payments outstanding (part of a ***structural benchmark*** for end-August 2020). In addition, household consumers must have the right to authorize sharing their historic consumption data, and distribution system operators will be required to provide access to their historic consumption data to any supplier of the household consumer's choosing. Such provision of data must be done free of charge. For that matter, we will launch a joint data hub for gas household consumers;

e. ***Debt restructuring and collection of payments.*** We will address the issue of indebtedness and payment discipline of households, district heating companies and oblgazs to secure the continuity of gas nominations and to help the development of a competitive market. We will develop adequate instruments for district heating companies to enforce collection of payments from households (including via higher fines and simplified legal enforcement);

f. ***Gas transit.*** We have established an independent and commercially oriented gas transmission system operator that is certified by the energy regulator (NEURC), following the review and confirmation by the European Energy Community that it is in compliance with relevant European legislation;

g. ***Regulation.*** We will adopt legislation to bring the powers and responsibilities of the energy regulator (NEURC) in line with the EU Third Energy Package and Energy Community Treaty and the 2016 NEURC law by end-March 2021. We shall also amend and enforce gas market secondary legislation in line with the European gas market *acquis*;

h. ***Production.*** To increase gas production and help ensure energy independence, we will simplify and accelerate procedures for obtaining permits for the exploration and development of gas fields, while ensuring transparency, including by holding open permit auctions (through ProZorro.Sale) and production sharing agreement tenders. We will also promote investment in existing fields to increase extraction, while ensuring compliance with environmental standards.

Land reform

28. We will establish a market for agricultural land by lifting the moratorium on land sales and introducing a financial support mechanism for small farmers. Specifically:

a. ***Land property rights.*** We have enacted the law "On Agricultural Land Turnover" developed with the assistance of the World Bank, but with amendments, to allow Ukrainian individuals to purchase and sell land up to 100 hectares effective July 1, 2021, and legal entities owned by Ukrainians up to 10,000 hectares starting in 2024. We will explore opportunities to bring forward greater participation and competition in the market.

b. ***Safeguards.*** We have enacted legislation that mandates: (i) automating the exchange of information between the registry of property rights and the land cadaster, and digitization and transfer to the registry of property rights of all paper records (anti-raider legislation (#0858); and (ii) ensuring free and open access to cadaster data and the inter-operability of the land cadaster and the registry of property rights (#2370). By end-June 2020, we will also enact legislation that (i) establishes a partial credit guarantee fund to ensure financial support to small farmers through provision of portfolio credit guarantees; (ii) streamlines land transfer procedures and decentralizes land management (#2194), transferring state land to communal ownership and shifting land use control functions from the cadaster to appropriate bodies; and (iii) establishes a transparent process for electronic land auctions and mandates the sale of state and communal land on such auctions (#2195).

c. ***Implementation and monitoring.*** To ensure legal provisions are implemented and to prevent tax evasion, we will, by January 1, 2021, establish a public monitoring system based on linking information from cadaster, registry, and fiscal service at parcel level. To prevent circumvention of AML/CFT rules we will implement a mechanism to identify the ultimate beneficial owners of legal entities that own land. We will also link the company registry with the registry of property rights and implement sufficient safeguards to ensure that the beneficial ownership data in the company registry is accurate and up to date.

Privatization, state-owned enterprise reform, and markets

29. We remain committed to our SOE-reform strategy, that focuses on significantly downsizing the state-owned enterprise sector. Specifically:

a. ***Privatization.*** We have appointed new management at the State Property Fund (SPF), while parliament adopted legislation to reduce the list of companies banned from privatization, leaving only companies of strategic importance or essential for national security on the list. As of end-March 2020, we have transferred 530 companies from line ministries to the SPF. The SPF will aim to launch tenders for the sale of at least 2 large SOEs by end-December 2020, market conditions permitting, and at least 3 more by end-June 2021, including companies from the following list: the Odesa Portside Plant, United Ore and Mining Company, CentreEnergo, Elekrovazhmash, Krasnolymanska mine, and the President Hotel. We will continue with the sale of small companies and assets and leasing of state property through open, competitive and transparent two-tier electronic auctions (ProZorro.Sale). We will amend the privatization law by end-November 2020 to extend the period during which companies can be sold under UK law by at least three years and to enhance the SPF's capacity and streamline its procedures. We have adopted legislation on the leasing of state property, as well as on concessions to allow additional ways to attract private investment in the management of public assets, including in seaports and airports;

b. ***SOE governance.*** We will ensure that SOEs—including state-owned banks—will continue to operate at arm's length of the government, by safeguarding progress made in strengthening corporate governance, including by maintaining majority-independent supervisory boards. We will further strengthen SOE corporate governance including by: (i) revising the corporate governance framework for SOEs, with the assistance of the OECD and EBRD, to bring it in line with OECD Guidelines on Corporate Governance of State-Owned Enterprises; (ii) adopting the draft SOE corporate governance law to broaden the powers of supervisory boards to appoint CEOs and approve financial plans; (iii) adopting an overarching state ownership policy; and (iv) adopting a new corporate charter for Naftogaz (***structural benchmark***~~,~~ by end-September, 2020), in line with the OECD's recommendations on corporate governance, and applicable legislation, including the current law "On Joint Stock Companies".

30. We will strengthen the Anti-Monopoly Committee of Ukraine (AMCU) in line with international best practices. We will adopt legislation to ensure: (i) its financial and operational independence; (ii) that the appointment and the dismissal of the AMCU's chairperson and its commissioners are transparent, competitive and insulated from political interference; (iii) strengthens the powers of AMCU to conduct physical searches and confiscate documents and to obtain information from, and share information with other law enforcement agencies and other government bodies; and (iv) that the decisions of AMCU will gain the status of enforcement documents, therefore ensuring that there is no need for a court process to enforce decisions.

Table 1. Ukraine: Quantitative Criteria and Indicative Targets 1/

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

	2019	2020		2020	2021	2021
	December	June	September	December	March	June
	Act.	PC	PC	PC	IT	IT
I. Quantitative performance criteria						
Ceiling on the cash deficit of the general government (- implies a surplus) 2/	80,812	180,000	217,000	302,150	45,000	90,000
Ceiling on the cash deficit of the general government and Naftogaz (- implies a surplus) 2/	80,812	180,000	217,000	302,150	45,000	90,000
Floor on net international reserves (in millions of U.S. dollars) 3/	15,785	12,268	9,137	7,567	9,618	10,296
Ceiling on publicly guaranteed debt 2/	4,900	40'000	40'000	40'000	20,000	20,000
II. Continuous performance criterion						
Ceiling on accumulation of new external debt payments arrears by the general government 3/	0	0	0	0	0	0
III. Monetary Policy Consultation Clause (MPCC)						
Inflation target 4/	4.1	5.0	5.0	5.0	5.0	5.0
IV. Indicative Targets						
Ceiling on net domestic assets of the NBU 3/	103,604	225,670	287,818	319,300	278,166	269,552
Ceiling on stock of VAT refund and CIT prepayment arrears 6/	0	0	0	0	0	0
Ceiling on primary expenditure of the state budget and social funds 2/ 7/	1,229,130	n.a.	n.a.	1,437,000	n.a.	n.a.
V. Memorandum Items						
Naftogaz deficit (- implies a surplus) 2/	0	0	0	0	0	0
External project financing 2/	15,900	14,300	18,900	22,700	6,000	12,000
NBU Profit transfers to the government	64,900	n.a.	n.a.	42,710	n.a.	n.a.
Budget support grants	348.1	812.0	1135.0	2,217	804.0	804.0
Government bonds issued for banks recapitalization and DGF financing 2/	0	20,000	20,000	20,000	20,000	20,000
Programmed market issuance, placements and disbursements of international assistance except IMF (millions of U.S. dollars) 3/ 5/	n.a.	2,952	3,510	4,510	6,010	6,568
Use of swaps with other central banks (millions of U.S. dollars) 3/ 5/	n.a.	0	0	0	0	0
Debt service on eurobonds or placements (millions of U.S. dollars) 3/ 5/	n.a.	1,737	3,676	3,758	4,343	4,502
Net issuance of central government domestic FX debt (millions of U.S. dollars) 3/ 5/	n.a.	-385	-994	-1,180	-1,280	-1,449
Use of confiscated assets for FX payments or transfer to NBU gross international reserves (millions of US. Dollars) 3/ 5/	n.a.	0	0	0	0	0
Program accounting exchange rate, hryvnia per U.S. dollar	23.6862	23.6862	23.6862	23.6862	23.6862	23.6862

Sources: Ukrainian authorities; and IMF staff estimates and projections.

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

2/ Targets and projections for 2020 are cumulative flows from January 1, 2020. Targets and projections for 2021 are cumulative flows from January 1, 2021.

3/ Calculated using program accounting exchange rates of 12/28/2019, specified in TMU of 2020 SBA.

4/ End of period, year-on-year headline inflation.

Outer consultation bands, triggering consultation with the Board, will be +/- 3pp for 2020 and 2021.

Inner consultation bands, triggering consultation with staff, will be +/- 1pp.

5/ Projections are cumulative from January 1, 2020.

6/ CIT prepayment arrears are measured as cumulative changes from January 1, 2020.

7/ Primary spending of the State budget plus the consolidated spending of pension and social funds.

Table 2. Ukraine: Prior Actions and Structural Benchmarks

Prior actions	**Status**	
1. Amend the customs and tax codes, and other laws as needed, to eliminate the regional tax and customs offices as independent legal entities (¶8b).	Met	
2. Enact a legislative package that amended the Banking Law, the DGF Law, the Code of Administrative Justice, and other procedural codes to improve the early intervention and bank resolution frameworks as defined in ¶22.	Met	
3. Adoption by the FSC of a contingency plan to mitigate potential risks posed to financial stability and public finances by adverse court rulings against past resolution decisions that is: (a) legally sound; (b) operationally feasible; (c) safeguards financial stability; (iv) minimizes fiscal costs; and (v) minimizes moral hazard risks (¶23).	Met	
4. Enact legislation to re-criminalize illicit enrichment consistent with international standards and Ukraine's Constitution (¶25a).	Met	
5. Adopt amendments to the AML law consistent with FATF standards and as defined in ¶25f.	Met	
6. Eliminate the cap on household heating tariffs (¶27b)	Met	
Structural Benchmarks	**Status**	**Completion date**
1. The state-owned banks' NPL reduction plans to be formally endorsed by the shareholder and approved by the Financial Stability Council (FSC) and the NBU (¶18).		End-June 2020
2. Ensure that all heating tariffs under the jurisdiction of both NEURC and local authorities are reviewed and officially enacted to fully reflect gas and non-gas costs (including capex), , and adopt a simplified procedure for households to switch gas supplier, in line with ¶27 b and d.		End-August, 2020

Table 2. Ukraine: Prior Actions and Structural Benchmarks (concluded)	
3. Develop new organizational structures and frameworks for the STS and SCS for the delegation of authorities and accountabilities in both organizations as single legal entities (¶8b).	End-September 2020
4. Enact amendments to the Banking Law, prepared in coordination with the IMF and World Bank staff: (i) to address the gaps vis-à-vis sound corporate governance practices against the 2015 Basel's Guidelines for Corporate Governance for banks (including the collective suitability of the supervisory board); (ii) to introduce a new capital structure (with appropriate implementation schedule) and capital buffers, (iii) to grant the NBU legal powers to calibrate capital and liquidity requirements based on the bank's risk profile: and (iv) to strengthen the licensing and shareholder requirements (¶21)	End-November 2020
5. Enact amendments to the DGF and other laws to improve the bank liquidation mechanism, and the recovery of assets (¶19a).	End-October 2020
6. Enact amendments to the Law on the High Council of Justice (HCJ) to enhance its selection process ensuring that its members have impeccable reputation and integrity, as defined in ¶26a.	End-October 2020
7. Strengthen corporate governance in SOEs, including by adopting a new corporate charter for Naftogaz, to bring it in line with the OECD's recommendations for corporate governance and other applicable legislation, including the law "On Joint Stock Companies (¶29b).	End-September 2020
8. The STS and SCS to operate nationally as two single legal entities both comprising of functionally organized headquarters and field offices and the regional and other legal entities of the STS, SCS and SFS have ceased to exist (¶8b).	January 1, 2021
9. Complete a compliance audit by the State Audit Service of Ukraine, in consultation with external/third party auditors, of COVID-related spending, as defined in ¶2e.	End-March, 2021

Attachment II. Technical Memorandum of Understanding

June 2, 2020

1. This Technical Memorandum of Understanding (TMU) sets out the understandings between the Ukrainian authorities and IMF staff regarding the definitions of the variables subject to quantitative targets (performance criteria and indicative targets and the monetary policy consultation clause (MPCC)) for the economic program supported under the Stand-By Arrangement, as described in the authorities' Letter of Intent (LOI) dated June 2, 2020 and the attached Memorandum of Economic and Financial Policies (MEFP). It also describes the methods to be used in assessing the program performance and the information requirements to ensure adequate monitoring of the targets.

2. The quantitative performance criteria, indicative targets and MPCC are shown in Table 1 of the MEFP. The definitions of these quantitative targets and the adjustment mechanisms 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 23.6862 set by the National Bank of Ukraine (NBU) as of December 28, 2019; and (ii) reference exchange rates of foreign currencies reported by Bloomberg ("BFIX quotes"[1]) as of December 27, 2019, which the NBU used to set official exchange rates of hryvnia to those currencies and reported as of December 28, 2019. In particular, the Swiss Franc is valued at 0.9759 per dollar, the Euro is valued at 1.1155 dollars, the Pound Sterling is valued at 1.3096 dollars, the Australian dollar is valued at 0.6975 U.S. dollars, the Canadian dollar is valued at 0.7642 dollars, the Chinese Yuan is valued at 0.1429 U.S. dollars, and the Japanese yen is valued at 109.5265 per dollar. The accounting exchange rate for the SDR will be 0.724357 per dollar. Official gold holdings were valued at 1,511.52 dollars per fine ounce. These accounting exchange rates are kept fixed over the program period. Therefore, the program's accounting exchange rate differs from the actual exchange rate 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 (UkrAvtoDor), all local governments, and all extra budgetary funds, including the Pension Fund, Unemployment Fund, and the Fund for Social Insurance of Ukraine. 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, as well as any other extra budgetary funds included in the monetary statistics compiled by the NBU. The government will

[1] NBU Resolution No.148 of December 10, 2019: BFIX quotes are Bloomberg Generic Price weighted average spot-market exchange rate or price quotes of foreign currencies or investment metals against the U.S. dollar.

inform the IMF staff of the creation or any pending reclassification of any new funds, programs, or entities, immediately.

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

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

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

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

6. For the purpose of the program, gross domestic product is compiled as per the System of National Accounts 2008 and excludes Crimea and Sevastopol.

I. QUANTITATIVE PERFORMANCE CRITERIA, INDICATIVE TARGETS, CONSULTATION CLAUSE, AND CONTINUOUS PERFORMANCE CRITERIA

A. Floor on Net International Reserves (Performance Criterion)

Definition

7. 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.

8. 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:

- 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;

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

- any assets that correspond to claims of commercial banks in foreign currency on the NBU and any reserves 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

- 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.

9. For the purpose of this program, reserve-related liabilities comprise:

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

- the stock of IMF credit outstanding;

- the nominal value of all derivative positions[2] (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.

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

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	3230, 3232, 3233, 3401, 8805
	Operations with resident banks	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 December 31, 2019. 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.

Adjustment Mechanism

- The NIR targets will be adjusted upward (downward) by the full amount of the cumulative excess (shortfall) in program disbursements relative to the baseline projection (Table B). Program disbursements are defined as external disbursements (including grants and long-term credit to the NBU, while excluding project-financing disbursements) from official multilateral creditors (World Bank, European Commission, European Investment Bank, and European Bank for Reconstruction and Development), official bilateral creditors (net), and external bond placements that are usable for the financing of the central government budget deficit or reserve assets.

- The NIR targets will be adjusted upward (downward) by the full amount of the cumulative shortfall (excess) in Eurobond or private placement debt service from the amounts expected under the baseline (see Table 1 of the MEFP).

- The NIR targets will be adjusted upward (downward) by the full amount of the cumulative excess (shortfall) in net issuance (gross issuance minus debt service) of central government's domestic foreign exchange securities over (under) the amounts expected under the baseline (see Table 1 of the MEFP).

- In case the NBU converts any non-reserve currency provided under a central bank swap agreement 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 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.

- The NIR targets will be adjusted upward (downward) by the full amount of the cumulative excess (shortfall) from the transfer of unencumbered confiscated foreign exchange assets to international reserves at the NBU or, if not transferred to international reserves, by the use of confiscated assets held at other accounts (or any other non-international reserve accounts) to make government FX payments, over (under) the amounts expected under the baseline (see Table 1 of the MEFP).

Table B. Ukraine: Eurobond/Private Placements and Disbursements from IFIs and Official Sources:
Projections for NIR/NDA Adjustment

(Cumulative flows from January 1, 2020, millions of U.S. dollars at program exchange rate)

	Eurobonds and placements	EU	World Bank	Others	Total
End-June 2020	1,394	558	1,000	0	2952
End-September 2020	1,394	1,116	1,000	0	3,510
End-December 2020	2,394	1,116	1,000	0	4,510
End-March 2021	3,894	1,116	1,000	0	6,010
End-June 2021	3,894	1,673	1,000	0	6,568

B. Ceiling on Net Domestic Assets of the NBU (Indicative Target)

Definition

10. Net domestic assets (NDA) of the NBU are defined as the difference between the monetary base (as defined below) and the NIR of the NBU (as defined above, excluding the conversion of a non-reserve currency to a reserve currency through an outright sale under a central bank swap agreement of exchange of deposits). For the purpose of computing the NDA target, the NIR is valued at the program exchange rates defined in paragraph 3 and expressed in hryvnia.

11. The NBU’s monetary base comprises national currency outside banks and banks' reserves, including cash at banks, and other NBU liabilities included in broad money and denominated in

national currency.[32] Currency in circulation outside banks is defined as Currency—banknotes and coins (NBU accounts of group 300 minus NBU accounts of group 100)—minus cash at banks (banks' accounts of group 100. Banks' reserves are defined as cash at banks (banks' accounts of group 100) plus banks' demand deposits at the NBU in national currency (NBU liabilities accounts 3200, 3203, 3204 and 3208). Other NBU liabilities consist of deposits at the NBU that are included in broad money and denominated in national currency (NBU liabilities accounts of groups 323[43] and accounts 3250, 4731, 4732, 4735, and 4739).

Adjustment Mechanism

- Consistent with the NIR target adjustment mechanism (as defined above), NDA targets will be adjusted downward (upward) by the full amount of the cumulative excess (shortfall) in program disbursements relative to the baseline projection (Table B) and evaluated at the program exchange rates.

- The NDA targets will be adjusted downward (upward) by the full amount of the cumulative excess (shortfall) in Eurobond or private placement debt service from the amounts expected under the baseline (see Table 1 of the MEFP).

- The NDA targets will be adjusted downward (upward) by the full amount of the cumulative excess (shortfall) in net issuance (gross issuance minus debt service) of central government's domestic foreign exchange debt liabilities over (under) the amounts expected under the baseline (see Table 1 of the MEFP).

- The NDA targets will be adjusted downward (upward) by the full amount of the cumulative excess (shortfall) from the transfer of confiscated foreign exchange assets to international reserves at the NBU or, if not transferred to international reserves at the NBU, by the use of confiscated assets held at other institutions (or other non-international reserves assets) to make budget FX payments, over (under) the amounts expected under the baseline (see Table 1 of the MEFP).

C. Monetary Policy Consultation Clause (MPCC)

Definition

12. Headline inflation is defined as the year-on-year rate of change of the Consumer Price Index as measured by Ukraine's State Statistics Service. The inflation mid-point targets and consultation bands are specified in Table 1 of the MEFP. Consultation with the IMF Executive Board will be triggered if the observed headline inflation falls outside an outer band of +/-3 percentage points around the mid-point targets for 2020 and 2021. In this case, the authorities will complete a

[3] The definitions set out here will be modified to include any other accounts that may be identified or created in the future in connection with national currency issue and banks' deposits at the NBU.

[4] Includes accounts of following sectors: other financial corporations;
state and local government; nonfinancial corporations; and non-profit institutions serving households.

consultation with the IMF Executive Board that would focus on (i) the stance of monetary policy and whether the Fund-supported program remains on track; (ii) the reasons for program deviations, taking into account compensating factors; and (iii) proposed remedial actions, if deemed necessary. If the observed headline inflation falls outside an inner band range of +/- 1 percentage points around the mid-point targets for 2020 and 2021, then the authorities will complete a consultation with IMF staff on the reasons for the deviation and the proposed policy response.

D. Ceiling on Cash Deficit of the General Government (Performance Criterion)

Definition

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

- total net treasury bill sales[54] (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), excluding bonds issued to recapitalize Naftogaz[6] and other SOEs; 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

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

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

[6] These are included in the financing of Naftogaz' 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 of foreign credits to the general government (including project loans on lent to public enterprises) and the amortization of foreign credits by the general government (including on lent project loans); plus

- the net sales of SDR allocation in the 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.

14. For the purposes of measuring the deficit 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 in hryvnias at the official exchange rate established as of the date of the transaction. Financing changes resulting from exchange rate valuation of foreign currency deposits are excluded from the deficit. The government deposits in the banking system exclude VAT accounts used for electronic administration and escrow accounts of taxpayers used for customs clearance.

Adjustment Mechanism

- The ceiling on the cash deficit of the general government is subject to an automatic adjustor based on deviations of external project loans (defined as disbursements from bilateral and multilateral creditors to the consolidated general government for specific project expenditure) from program projections (Table C). Specifically, if the cumulative proceeds from external project financing (in hryvnia evaluated at actual exchange rates):

    a. exceed program projections, the ceiling on the consolidated general government deficit will be adjusted upward by 100 percent of the excess in external project financing; and

    b. fall short of program projections, the ceiling on the consolidated general government deficit will be adjusted downward by 100 percent of the shortfall in external project financing.

- The ceiling on the cash deficit of the general government is subject to an automatic downward (upward) adjustment by 100 percent of the amount of the budget support grants received in excess (in short fall) of the program amounts (Table C).

Table C. Ukraine: External Financing of General Government Projects and Budget—Adjustment

(Cumulative flows from January 1, 2020 and January 1, 2021, in millions of hryvnia)

	External project financing (Technical assumption for the adjustor purpose)	Budget support grant (Technical assumption for the adjustor purpose)
End-June 2020	14,300	812
End-September 2020	18,900	1,135
End-December 2020	22,700	2,217
End-March 2020	6,000	804
End-June 2020	12,000	804

- The ceilings on the cash deficit of the general government are subject to an automatic adjustor corresponding to the full amount of government bonds issued for the purposes of banks recapitalization and DGF financing, up to a cumulative maximum UAH 15 billion from January 1, 2020. The amount included in the targets is zero, and indicative cumulative amounts for bank recapitalization/DGF financing are presented in Table 1 of the MEFP.

- The ceiling on the cash deficit of the general government will be adjusted downward by the full amount of any increase in the stock of budgetary arrears on social payments accrued since the start of the fiscal (calendar) year. Budgetary arrears on social payments comprise all arrears of the consolidated budget on wages, pensions, and social benefits owed by the Pension Fund, the Unemployment Fund and the Fund for Social Insurance of Ukraine, and the central or local governments. Budgetary arrears are defined as payments not made 30 days after they are due. Wages are defined to comprise all forms of remuneration for work performed for standard and overtime work. Liabilities of social funds (Pension Fund, Unemployment Fund, Social Insurance Fund of Ukraine) comprise of all benefits and other obligations of these funds. This definition excludes unpaid pensions to individuals who resided or continue to reside in the territories that are temporarily outside the government control.

- The ceiling on the cash deficit of the general government will be adjusted downward by the full amount of any increase in the stock of VAT refund arrears as defined in section F.

- The ceiling on the cash deficit of the general government are subject to an automatic downward adjustment corresponding to the full amount of profits transferred by the NBU in excess of the amount accounted for in the 2020 supplementary budget (Law 553-IX of April 13, 2020).

- The ceiling on the cash deficit of the general government will be adjusted upwards by the full amount of any operation involving GDP warrants (state derivatives) issued during restructuring in 2015-16, including exchange or buy-back.

15. The modalities of monitoring fiscal performance, including the adjustors listed above, can be revisited in agreement with IMF staff to ensure the achievement of the primary fiscal balance and debt targets under the program.

E. Ceiling on Cash Deficit of the General Government and Naftogaz (Performance Criterion)

Definition

16. The cash deficit of the general government and Naftogaz is the cash deficit of the general government as defined above plus the cash deficit of Naftogaz.

17. Naftogaz is defined as the national joint stock company "Naftogaz of Ukraine" and its subsidiaries (collectively, the "Naftogaz Group"). The cash deficit of Naftogaz is measured from below the line as:

- net domestic banking system credit to the company (this consists of all financing in either domestic or foreign currency extended to the company by banks less the change in company deposits in the banking system); plus
- the difference between disbursements of private foreign loans to Naftogaz (including private placements) and the amortization of private foreign loans (including private placements); plus
- the difference between disbursements of official foreign credits to Naftogaz (including project loans) and the amortization of official foreign credits (including project loans); plus
- the disbursements of trade credits to import gas; plus
- the difference between disbursements and amortization on any bonds issued by Naftogaz; plus
- the net change in deposits of Naftogaz in nonresident banks, or other nonresident institutions; plus
- net proceeds from any promissory note or other financial instruments issued by Naftogaz; plus
- net receipts from sale of financial assets (including recapitalization or other form of treasury securities issued to Naftogaz, irrespective of their issuance date); plus
- any other forms of financing of the company not identified above.

18. For the purposes of measuring the deficit of Naftogaz, all flows in foreign currency will be accounted in hryvnias at the official exchange rate as of the date of the transaction. When there are arrears outstanding as of the test date, the official exchange rate on the test date will apply to their valuation.

Adjustment Mechanism

- All the adjustors as specified in section D for the Cash Deficit of the general government also apply to the general government component of this ceiling on the cash deficit of the general government and Naftogaz.
- The ceiling on the cash deficit of the general government and Naftogaz will be adjusted upward by the amount Naftogaz's investment expenditure in excess of UAH 15 billion, but by no more than UAH 25 billion (corresponding to a total investment expenditure of UAH 40 billion).

F. Ceiling on VAT Refund Arrears and Overpaid Corporate Profit Tax (Indicative Target)

19. The ceiling on the stock of active VAT refund arrears is set to UAH 0 billion. The stock of active VAT refund arrears is defined as [those claims that have not been settled (through a cash refund, netting out against obligations of taxpayers, payment with a government bond (VAT bond) or an official decision to reject the claim) within a specified time period after the VAT refund claim has been submitted to the State Tax Service (STS). This time period is 74 days, allowing for verification of the validity and payment processing of claims.

20. The ceiling on the change of overpaid Corporate Profit Tax is set at 0 million UAH. Overpaid Corporate Profit Tax is defined as the amounts of corporate profit tax which have been remitted to the respective budget in excess of the amount which was due for that date. The change in overpaid corporate profit tax is measured cumulatively from January 1, 2020.

G. Ceiling on the State Budget Primary Spending and Consolidated Spending of Social Funds (Indicative Target)

21. The ceiling on the state budget primary and social funds is defined as current cash expenditure of the state government of Ukraine net of interest payments on domestic and external debt and net of transfers from the state budget to the pension fund, plus total expenditures of the pension fund, unemployment fund and social insurance fund of Ukraine, plus payments of any past expenditure arrears. The ceiling is based on the definition as reported in the monthly treasury report (Kv_1ek) adjusted for Ukravtodor debt repayment and on information provided by the aforementioned extra budgetary funds.

22. The ceiling on state budget current primary expenditure is subject to an automatic downward adjustor on the accumulation of new budgetary arrears on wages and social benefits owed by the state budget and social funds. Budgetary arrears are defined as payments not made 30 days after they are due.

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

Definition

23. For purposes of the PC on the non-accumulation of new external payment arrears, arrears are defined as external debt obligations of the 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.

I. Ceiling on Publicly Guaranteed Debt (Performance Criterion)

Definition

24. The ceiling on publicly guaranteed debt will apply to the amount of guarantees issued by the central (state) government. The official exchange rate will apply to all non-UAH denominated debt. This ceiling excludes guarantees issued by the Ministry of Finance for NBU borrowings from IMF.

25. The ceiling on publicly guaranteed debt will is subject to an automatic upward adjustor for guarantees signed for selected projects financed by the EIB and the EBRD. Namely: (i) loan to UGV to purchase equipment for gas extraction; (ii) loans to UkrPoshta to improve network of post offices; (iii) working capital loan to UkrEnergo; (iv) loan to Ukrainian Railways; (v) loans to Ukrenergo to modernize the electricity grid and substations. The adjustor will be capped at 21 bil UAH.

J. Other Continuous Performance Criteria

26. During the period of the Stand-By Arrangement, 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

27. The NBU, on a daily basis, will set the official UAH/USD rate based on a weighted average of the exchange rates from the day's interbank market deals, excluding outliers. To calculate the official exchange rate, information on all deals concluded and provided to the NBU by trade information systems until 3:30 pm on the day will be considered regardless of the settlement date. Specifically, *tod*, *tom* and *spot* (T+2) deals will be included. Outliers are transactions for which the exchange rate deviates from the arithmetic mean for all transactions by more than 2 percent and the rate or

volume deviates from the arithmetic mean for all remaining transactions by more than 2 standard deviations. As a back-up mechanism, in case the number of transactions to be taken into account for the calculation is by noon less than or equal to 10 percent of the average daily value for the previous month, the rate will be calculated as the arithmetic mean of all quotations for purchases or sales of US$1 million submitted by banks from noon to 1pm. The NBU will aim to make public its official exchange rate by no later than 4 pm of the day, preceding the one for which it is set.

III. COST RECOVERY OF GAS AND HEATING TARIFFS

28. As of January 1, 2020 the wholesale price of gas supplied by Naftogaz under special obligations will correspond to import-parity levels and will be determined for each month as the average of the day-ahead spot prices of natural gas at the TTF hub for the period of the 1st to the 22nd day of the month, plus the cost of transportation and entry into Ukraine. Naftogaz will post the wholesale price within a few business days of the 22nd of each month.

29. By end-August 2020, all heating tariffs under the jurisdiction of both NEURC and local authorities are reviewed and officially enacted to fully reflect gas and non-gas costs (including capex).

IV. REPORTING REQUIREMENTS

A. National Bank of Ukraine

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

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

32. The NBU will provide to the IMF daily information on total foreign exchange sales (including total from nonresidents and sales by clients in the interbank market, as well as any obligatory sales, if any) and approved foreign exchange demand in the interbank market, including Naftogaz foreign

exchange purchases. The NBU will provide the IMF daily information on official foreign exchange interventions and intervention quotations. In this context, it will also provide the results of any foreign exchange auctions.

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

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

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

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

37. The NBU will continue to provide to the IMF daily and monthly data on the NBU financing operations (including swaps or refinancing) of the banks of Ukraine, and on the operations of mopping up (absorption) of the liquidity from the banking system (including through the CDs issuance) in the formats and timeliness agreed with the IMF staff. It will also provide, on a weekly basis, bank-by-bank information on the outstanding amount and weighted-average interest rates of loans from the NBU, reported by type of lending. 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). The weekly and monthly reporting of NBU loans and collateral will separately identify which banks are under temporary administration or liquidation.

38. The NBU will provide to the IMF, on a monthly basis but not later than 30 days after the expiration of the reporting month, the report on the banking sector indicators in the format agreed with the IMF staff. The NBU will also provide core and expanded FSIs, as defined in the IMF Compilation Guide, for the aggregate as well as individual banks in State Participation Group Foreign Banking Group and Private Capital Group.

39. On a daily basis and on a monthly basis, not later than on the 25th day after the termination of the report month (except report data as of the end of the report year, which should be submitted not later than the 41st day after the report year), the NBU will provide the IMF with the depository corporations surveys, including any additional information that is needed for the IMF staff to monitor monetary policy and developments in the banking sector, in particular: net domestic assets, 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 A) and the funds of the Treasury denominated in foreign currency (account 3513 A) and DGF.

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

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

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

43. The NBU will provide to the IMF, on a daily basis, data on foreign assets and liabilities of the overall banking system (excl. the NBU); data on banks' open foreign exchange positions by main groups of banks; data on deposits on the aggregated basis for the overall banking system (excl. the NBU) broken down by households and legal entities, maturity, as well as by national and foreign currency; data on loans on the aggregated basis for the overall banking system (excl. the NBU) broken down by households and legal entities as well as by national and foreign currency. In addition, the NBU will provide to the IMF, on a daily basis, data on deposits and credits on the aggregated basis for the overall banking system (excl. the NBU) without deposits and credits of

banks in liquidation starting from the beginning of 2014 and broken down by households and legal entities, as well as by national and foreign currency. On a weekly basis, the NBU will provide the IMF 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 will be broken down by type (i.e., cash and deposits, government securities, nongovernment securities, loans, other) and foreign liabilities by type, holder (i.e., banks, other financial institutions, nonfinancial corporate, and individuals) and remaining maturity (less than one month, one to three months, three to 12 months and over 12 months). For foreign credit lines from banks and for securities, the rollover rates will also be provided.

44. The NBU will provide, on a daily basis, bank-by-bank data for the largest 35 banks on the liquidity ratio and amounts of cash and cash equivalents, available funds in NBU accounts (excl. reserve requirements), correspondent accounts with well-known international banks (excl. encumbered accounts), and deposits from customers. The NBU will also provide, on a daily basis, bank-by-bank data for State Participation Group, Foreign Banking Group, and Private Capital Group banks and aggregate for Group 2, total assets and liabilities; loans and claims (by households, legal entities, and banks); and foreign exchange net open position. The data will be reported by domestic and foreign currency. The deposits data will be reported by households and legal entities and by maturity (current accounts, saving accounts, and time deposits). In addition, for the aggregate of the banking sector as well as groups of banks, the NBU will provide data on deposits and credits excluding those banks in liquidation since 2014. The NBU will provide, on a monthly basis, bank-by-bank data on liquidity coverage ratio in all currencies and in foreign currency.

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

46. The NBU will provide the IMF with information on reserve requirements.

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

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

currencies; and foreign exchange net open position, split between total foreign exchange assets (long position) and foreign exchange liabilities (short position), and between on- and off-balance sheet.

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

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

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

52. The NBU will report to the IMF, on a monthly basis, data for the entire banking sector as well as on a bank-by-bank basis by bank groups for State Participation Group, Foreign Banking Group and Private Capital Group banks 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; net earnings.

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

54. The NBU will report to the IMF on a bi-weekly 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.)

55. The NBU will, once a month, inform the IMF any regulatory and supervisory measures against banks violating the NBU regulations on capital adequacy, liquidity ratio norm, large exposures, and related or connected lending, as well as about decisions on declaring a bank as problem or insolvent.

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

57. The NBU will provide data on credit to nongovernment units that are guaranteed by the NBU on a monthly basis no later than 25 days after the end of the month.

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

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

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

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

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

63. Monthly, the NBU will provide to the IMF data on the monthly coupons and principal to be paid (in hryvnia and foreign currency, separately) until end-2021 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). Annually, the NBU will provide information on hryvnia-denominated securities that are indexed (i.e., to inflation; USD), broken down by the type of the owner.

B. Deposit Guarantee Fund

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

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

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

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

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

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

C. Ministry of Finance

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

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

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

73. The Ministry of Finance will report quarterly data on the public wage bill (excluding SOEs) in line with the template agreed with the IMF staff. This template will include inter alia the wage component of National Health Service (NHS) appropriation, as well as the wage component of higher education. It will also provide monthly reports on the borrowing (disbursements, interests, and amortization) of UrkAvtoDor in line with the format agreed with IMF staff. The Ministry of Finance will report to the IMF on a monthly basis information on municipal borrowing and amortization of debt in format agreed with IMF staff.

74. 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 deficit 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 for 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.

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

76. 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)

77. 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.

78. 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 (in casu loan-by-loan) data regarding the debt stock, associated payments, and disbursements.

79. 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.

80. 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), the Fund for Social Insurance, 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.

81. 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 deficit 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.

82. The Ministry of Finance will provide monthly performance report for the budget program "Fund to Fight Against COVID-19 and its Impact" in line with the requirements set by the Cabinet of Minister's resolution #302 (dated April 22 2020) and this program's final ex-post audit, including for its procurement. Quarterly performance reports for the Fund for Entrepreneurship Development will be also provided by the Ministry of Finance.

83. STS will provide monthly data, no later than 25 days after the end of the month, on tax arrears, inclusive of deferred payments, interest and penalties outstanding, in the following format:

	Beginning Stock				Netting out during month	Deferrals during month	Write--offs (arrears written off during month)	Collections of outstanding debt at beginning of month	New Arrears (tax liabilities becoming overdue during month)	Ending Stock
	Total	Principal	Interest	Penalties						
Tax arrears										

84. 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 the exemption 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.

85. 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 according to the definition in paragraph 11 (unsettled VAT refund claims submitted to the STS more than 74 days before the end of period.

86. The STS will continue to provide monthly reports 1.P0 on actual tax revenue and 1.P6 on tax arrears, no later than 25 days after the end of each month.

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

D. Ministry of Development of Economy, Trade and Agriculture, National Commission in Charge of State Regulation in Energy and Utilities (NEURC), TSO and Naftogaz

88. For each month, no later than the 25th of the following month Naftogaz and TSO will provide IMF staff with information in electronic form (in an agreed format) on the cash flows and deficit of Naftogaz Group and TSO and separately for each of the entities, as defined above. This report will 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.

89. The National Commission for State Energy and Public Utilities Regulation will provide information with a breakdown by its licensees regarding the levels of tariffs for heat energy for the households, centralized heating services and centralized hot water supply to the households in the event of their changes with the definition of average tariff levels (net of VAT and VAT included).

90. The National Commission for State Energy and Public Utilities Regulation will provide the aggregated quarterly information on the number of residential gas consumers who have changed their supplier of gas.

91. NJSC Naftogaz will report on a weekly basis data on Naftogaz daily market purchases and sales of foreign exchange.

92. The Ministry of Development of Economy, Trade and Agriculture will provide on a quarterly basis, but no later than 80 days after the end of each quarter consolidated information from the financial statements of 50 largest SOEs (excluding Naftogaz). 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. The report will also include information on the number of all SOE (a) making profits, (b) making loss or (c) balanced with aggregated financial results for each of these groups.

E. State Statistics Service

93. 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

94. The Ministry of Social Policy will collect and submit to IMF staff on a monthly basis data on HUS and privileges for energy consumption. The data, which will be presented in an agreed excel format, will show for each program (a) the number of households which applied for HUS; (b) number of approvals extended to such HUS applications; (c) number of households-recipients of HUS and privileges in the reporting month; (d) total value of transfers; (e) total value of outstanding HUS debt (f) number of refusals extended to such applications; (g) income per capita of participants, both for HUS and privileges; (h) number of household members; and (i) main reason for refusal for HUS applications (e.g. lack of residency information) and are to be presented by overall, by region and for rural/urban areas.

G. National Agency for Prevention of Corruption

95. The National Agency for Prevention of Corruption (NAPC) will publish on a website freely available to the public quarterly data, no later than at the end of the month following the quarter, on the action taken regarding the asset declaration of high-level officials, in the following format:

Number of Full Verifications of Asset declarations by the NAPC (Article 50 Law on Prevention of Corruption)						
	Members of Parliament, Members of the Government	Judges	Prosecutors	Category A Civil Servants	SOE Managers	Others
Number						

Reports sent by the NAPC to NABU						
	Members of Parliament, Members of the Government	Judges	Prosecutors	Category A Civil Servants	SOE Managers	Others
Number of reports for absence of declaration						
Number of reports for false declaration						

H. National Anti-Corruption Bureau

96. The National Anti-Corruption Bureau (NABU) will publish on a website freely available to the public quarterly data, no later than at the end of the month following the quarter, on the number of persons indicted in the following format:

Number of Persons Indicted						
Penal Code Article	Members of Parliament, Members of the Government	Judges	Prosecutors	Category A Civil Servants	SOE Managers	Others
Art. 191						
Art. 206-2						
Art. 209						
Art. 210						
Art. 211						
Art. 354						
Art. 364						
Art. 368						
Art. 368-5						
Art. 369						
Art. 369-2						
Art. 410						

I. High Anti-Corruption Court

97. The High Anti-Corruption Court (HACC) will publish on a website freely available to the public quarterly data, no later than at the end of the month following the quarter, on the number of persons convicted by a first instance court decision and the number of persons convicted pursuant a final court decision, in the following format:

Number of Persons Convicted and Acquittals—First Instance												
Penal Code Article	Members of Parliament, Members of the Government		Judges		Prosecutors		Category A Civil Servants		SOE Managers		Others	
	Conviction	Acquittal	Conviction	Acquittal	Conviction	Acquittal	Conviction	Acquittal	Conviction	Acquittal	Conviction	Acquittal
Art. 191												
Art. 206-2												
Art. 209												
Art. 210												
Art. 211												
Art. 354												
Art. 364												
Art. 368												
Art. 368-5												
Art. 369												
Art. 369-2												
Art. 410												
For fines, total value in UAH. For jail, total months (and suspended jail).												

Penalties Imposed on Persons Convicted - First Instance												
Penal Code Article	Members of Parliament, Members of the Government		Judges		Prosecutors		Category A Civil Servants		SOE Managers		Others	
	Fine	Jail	Fine	Jail	Fine	Jail	Fine	Jail	Fine	Jail	Fine	Jail
Art. 191												
Art. 206-2												
Art. 209												
Art. 210												
Art. 211												
Art. 354												
Art. 364												
Art. 368												
Art. 368-5												
Art. 369												
Art. 369-2												
Art. 410												
For fines, total value in UAH. For jail, total months (and suspended jail).												

Number of Persons Convicted and Acquittals—Final Decision

Penal Code Article	Members of Parliament, Members of the Government		Judges		Prosecutors		Category A Civil Servants		SOE Managers		Others	
	Conviction	Acquittal	Conviction	Acquittal	Conviction	Acquittal	Conviction	Acquittal	Conviction	Acquittal	Conviction	Acquittal
Art. 191												
Art. 206-2												
Art. 209												
Art. 210												
Art. 211												
Art. 354												
Art. 364												
Art. 368												
Art. 368-5												
Art. 369												
Art. 369-2												
Art. 410												
For fines, total value in UAH. For jail, total months (and suspended jail).												

Number of Persons Convicted—Final Decision												
Penal Code Article	Members of Parliament, Members of the Government		Judges		Prosecutors		Category A Civil Servants		SOE Managers		Others	
	Fine	Jail	Fine	Jail	Fine	Jail	Fine	Jail	Fine	Jail	Fine	Jail
Art. 191												
Art. 206-2												
Art. 209												
Art. 210												
Art. 211												
Art. 354												
Art. 364												
Art. 368												
Art. 368-5												
Art. 369												
Art. 369-2												
Art. 410												
For fines, total value in UAH. For jail, total months (and suspended jail).												

J. Financial Intelligence Unit

98. The State Financial Monitoring Service of Ukraine will continue to publish on a website freely available to the public quarterly data, no later than at the end of the month following the quarter, information on reports sent to NABU in relation to suspicions of laundering of the proceeds of corruption, in the following format:

Reports sent by the FIU to NABU						
	Members of Parliament, Members of the Government	Judges	Prosecutors	Category A Civil Servants	SOE Managers	Others
Number of reports disseminated						
Aggregated value of suspected money laundering						

Statement by Vladyslav Rashkovan, Alternate Executive Director for Ukraine
June 9, 2020

On behalf of the Ukrainian authorities I would like to thank staff for the in-depth reports and constructive engagement during regular and remote missions, as well as for the helpful technical assistance. I also want to thank Management and Executive Board for their continued support of Ukraine.

My authorities are in a broad agreement with the well-balanced staff assessment of the economic outlook and the key policy recommendations, which will be carefully considered in addressing the challenges the Ukrainian economy faces due to the COVID-19 pandemic outbreak. The authorities reaffirm their strong commitment to the policies and objectives under the new IMF program.

In this statement I will focus on (1) macroeconomic fundamentals and policies prior to the COVID-19 pandemics; (2) COVID-19 impact on the economic outlook; (3) the Government policies response to the economic slowdown.

Macro-economic fundamentals and policies prior to the COVID-19 pandemics

Since the start of the deep economic crisis in 2014 Ukraine went through three Fund-supported programs, including the Stand-By Arrangement (SBA), approved in April 2014, and the Extended Fund Facility (EFF) arrangement, approved in March 2015, which has been succeeded with a 14-month SBA, approved in December 2018. All three programs and strong support from the international community played a crucial role in restoring economic and financial stability in Ukraine, supporting the inclusive growth and helping to advance structural reforms.

Framed by these Fund programs important progress has been made in some key areas of the Ukrainian economy: the NBU has been transformed into a modern central bank with a strong inflation targeting regime and flexible exchange rate; the resilience of the financial sector was considerably strengthened: banks getting more capitalized, liquid and profitable; sound fiscal and monetary policies resulted in a sharp reduction of Ukraine's external and internal imbalances; the Government managed to bring public debt on a sustainable path, ensuring medium-term fiscal sustainability; the long-term sustainability of the pension system was improved; the energy sector was transformed and its quasi-fiscal deficits were eliminated; governance improved, and a solid anticorruption infrastructure has been built.

As a result, prior to the outbreak of COVID-19, the Ukrainian economy was recovering at a solid pace, despite the headwinds posed by the ongoing military conflict in the east of Ukraine. GDP growth sped from just over 2 percent in 2016 up to 3.2 percent in 2019 thanks to strong growth of the agricultural export sector, favorable terms of trade and robust domestic demand, both in consumption and investment. Consumption growth was supported by strong growth in real wages, pension benefits and labor migrant remittances. The current account deficit fell to below 3 percent of GDP in 2019, and strong foreign exchange inflows allowed the NBU to continue to build reserves while lifting exchange restrictions and easing capital controls.

During the 2019 election year macro-economic policies also remained on track, anchored by the SBA focused on preserving macro-stability. The tight NBU monetary policy, aided by a strong exchange rate and lower energy prices, brought inflation gradually down to 4.1 percent by end-2019, helping the NBU to successfully achieve its disinflation goals and medium-term inflation target. Inflation continued to decline further to 2.1 percent by April 2020. Thanks also to steady inflows of remittances and increasing non-resident inflows into the domestic bond market, international reserves recovered from less than US$6 billion in 2015 to over US$25 billion by end-2019.

The government has achieved a drastic fiscal consolidation: the overall fiscal deficit in 2019 was limited to just above 2 percent of GDP, pursuing a conservative expenditure approach and keeping general government finances under control. Legislation regarding base erosion and profit shifting (BEPS) has been adopted. Renewed efforts to strengthen revenue administration (Tax Service and the State Customs Service) have been launched. Public debt was reduced from its peak of 85 percent of GDP in 2014 to 50 percent of GDP by end 2019. The initially approved 2020 budget was based on conservative assumptions and was fiscally prudent and compliant with fiscal consolidation program targets. In January 2020, Ukraine managed to raise US$1.4 billion by issuing a euro-denominated 10-year Eurobond (priced at a 4.375 percent initial yield).

The COVID-19 pandemics impact on the economic outlook

Ukraine's strengthened macroeconomic fundamentals and recent shift towards increased exchange-rate flexibility accompanied by inflation targeting have made economy more resilient to coping with shocks prior to the outbreak of COVID-19. Nevertheless, the COVID-19 pandemics significantly worsened the economic outlook and has forced the authorities to refocus policies on crisis containment and stabilization, making protection of lives and livelihoods their first order policy priority.

With the first registered COVID-19 case on March 3, 2020, as of June 4, there are little more than 25.4 thousand verified cases of COVID-19, and 747 deaths in Ukraine. Factoring to the population of Ukraine, these figures are on par with CEE neighbors and below the worst-hit countries globally. The spread of the virus currently remains under control.

More severe pandemic outcomes have been prevented by early and stringent containment measures enacted by the authorities on March 12, three weeks before registering the first 100 infections. Successfully preempting community spread, the authorities banned intercity, suburban public transportation, severely restricted municipal transport and shut down restaurants, shopping malls and entertainment places (grocery stores, fueling stations, pharmacies, banks and insurance companies kept operating). The initial lockdown lasted for two months, with the first relaxations introduced on May 11, allowing to reopen small non-food retailers, summer terraces at restaurants and other businesses. The ban on municipal public transportation was lifted on May 22, but social distancing requirements remained intact. Ukraine is going to restart domestic flights and reopen cafes and restaurants in a normal regime from June 5. International flights are scheduled to restart from June 15.

Uncertainty about further development and length of the pandemics is exceptionally high. At the same time COVID-19 already bears heavily on the Ukrainian economy, which is projected to contract sharply as strict containment measures—in Ukraine and globally—led to sizable falls in domestic and external demand.

In Q1 2020, Ukraine's economy fell 1.5 percent yoy for the first time since 2015. GDP decline accelerated to 5.0 percent yoy in January-April 2020 according to the recent estimations of the Ministry of Economy, but a deeper decline is expected to come. The labor market indicators have also started to reveal economic pain: wage growth decelerated sharply in March and registered unemployment has surged, both due to easing of requirements for application and due to loss of jobs. Public debt is expected to rise.

The 2020 budget is hit hard by the global slowdown, and COVID-19 stringent containment in Ukraine, with a sharp decline in revenues: direct taxes declined due to decrease of consumption (and therefore VAT declined); import of consumer goods decreased due to closure of shopping centers during the lockdown, subsequently import VAT, customs duties and excises declined; profit of corporations fell down - therefore, CIT decreased; unemployment increase led to the PIT decrease.

The Government policies response to the economic slowdown

The authorities fiscal and monetary response to the coronavirus-driven economic crisis have focused on support of an economic recovery, giving priority to transparent public spending to meet urgent healthcare needs, protecting employment and supporting the affected business. On April 13, 2020, the Parliament approved the supplementary budget, which also created a UAH 64.7 billion COVID-19 budget fund to promptly allocate spending on healthcare and social assistance. The authorities have committed that any public procurement under expedited COVID-19 procedures will remain fully transparent and will include information on beneficial owners of participating bidding companies.

Increased fiscal stimulus to address the COVID-19 has led to the budget deficit expansion from 2.2 percent to slightly less than 8 percent of GDP in 2020. The fiscal measures include one-off pension top-ups to 10 million pensioners in April, introduced partial salary compensation to quarantine-hit businesses maintaining labor force, simplified access to unemployment benefits, increased salaries to healthcare workers dealing with COVID-19; exempted individual entrepreneurs from payroll taxes for 3 months; cancelled land taxes, real estate taxes and state property rents for 1 month; abolished fines on businesses for missed tax payments (except VAT, excises and royalties); canceled tax inspections and other government checks for businesses; and abolished fines for delayed utility payments. Working under such difficult circumstances the authorities are committed to safeguard medium-term fiscal sustainability.

To address the COVID-19 pandemics outcomes and support the economic recovery the NBU has eased its monetary policy, reducing the key rate by 550 basis points since the end of 2019, and still aiming to keep inflation within the target band over the policy horizon. The NBU has also provided substantial liquidity to help alleviate the sharp tightening of financial conditions associated with the COVID-19 pandemic. The NBU strives to further ensure sufficient financial system liquidity, allowing banks to function normally and finance the private sector and government at market rates in line with fundamentals. The NBU eased banks access to refinancing, introducing medium-term refinancing instruments of up to 5 years, lengthened standard short-term refinancing facility to 3 months from 2 weeks; added government-guaranteed corporate bonds and municipal bond to collateral for refinancing; delayed introduction of new capital buffers, suspended on-site bank inspections and postponed stress tests; cut the reserve requirement for funding raised in foreign currency.

The NBU's progress with implementing a credible monetary policy framework would not be feasible without a clear policy mandate and operational independence. The Ukrainian authorities are fully committed to maintaining and protecting the independence of the central bank. The NBU will continue implementing its inflation targeting roadmap by further enhancing the decision-making process, monetary instruments, financial market developments, and communications. To further develop the financial markets the NBU mandate will be enhanced to supervised non-banking institutions from July 1, 2020.

Despite the COVID-19 pandemics, the authorities are committed to build on recent gains in tackling high-level corruption and to deliver concrete results, leveraging on the increasing efficiency of the anticorruption institutions (some of them built as a part of the 2015 EFF arrangement and recent SBA program). The authorities are committed to maintain the independence of these institutions and their integrity, to ensure that high-level corruption cases are effectively and credibly investigated, prosecuted, and adjudicated. The authorities are also stepping up efforts to recover assets from failed banks and hold former owners accountable.

Concluding remarks

In this challenging context of the COVID-19 outbreak and global slowdown, the authorities are requesting a new 18-month SBA with access at SDR 3.6 billion (about US$5 billion, 179 percent of quota). The new requested program aims to provide balance of payments and budgetary support, consolidating achievements to date, bolstering confidence, catalyzing support from other official lenders, helping Ukraine regain access to international capital markets when they re-open, and moving forward on a critical subset of macro-critical measures to reduce key vulnerabilities, ensuring that Ukraine is well-poised to return to growth and resume broader reform efforts when the crisis ends.

The SBA envisages moving forward on a streamlined set of critical policy actions, some already delivered as prior actions, focusing on fiscal, financial, and energy sector policies to safeguard sustainability and reduce vulnerabilities, as well as on governance, given its criticality to achieving program objectives. The authorities remain strongly committed to the full and timely implementation of the policies under the Fund-supported program to achieve its goals.

The authorities are grateful for the cooperation and support from the Fund, as well as from other IFIs and the international community.