IMF Country Report No. 21/250

UKRAINE

November 2021

FIRST REVIEW UNDER THE STAND-BY ARRANGEMENT, REQUESTS FOR EXTENSION AND REPHASING OF ACCESS OF THE ARRANGEMENT, WAIVERS OF NONOBSERVANCE OF A PERFORMANCE CRITERION, FINANCING ASSURANCES REVIEW, AND MONETARY POLICY CONSULTATION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR UKRAINE

In the context of the Staff Report for the First Review Under the Stand-By Arrangement, Requests for Extension and Rephasing of Access of the Arrangement, Waivers of Nonobservance of a Performance Criterion, Financing Assurances Review, and Monetary Policy Consultation, 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 November 21, 2021, following discussions that ended on October 18, 2021, 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 November 8, 2021.
- A **Statement by the Executive Director** for Ukraine.

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

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International Monetary Fund
Washington, D.C.

PRESS RELEASE

PR21/342

IMF Executive Board Completes First Review Under Stand-By Arrangement for Ukraine, Approves Extension of the Arrangement

FOR IMMEDIATE RELEASE

Washington D.C – November 22, 2021: The Executive Board of the International Monetary Fund (IMF) completed today the first review of Ukraine's economic performance under the 18-month Stand-By Arrangement (SBA) that was approved on June 9, 2020. The completion of the review allows the authorities to draw the equivalent of about US$699 million (SDR 500 million), bringing total disbursements under the current SBA to about US$2.8 billion (SDR 2 billion).

The Board also approved an extension of the Stand-By Arrangement to end-June 2022 and a rephasing of program disbursements as well as the Ukrainian authorities' request for a waiver for non-observance of the December 2020 performance criterion on government guaranteed debt in light of the corrective actions already taken.

Ukraine's IMF supported economic program aims to help the authorities address the effects of the COVID-19 shock, sustain the economic recovery, and move ahead on important structural reforms to reduce key vulnerabilities.

In particular, under the agreed policy priorities the Ukrainian authorities are committed to (i) returning fiscal policies to settings consistent with medium-term debt sustainability while protecting the socially vulnerable, strengthening revenue administration, and reducing fiscal risks from quasi-fiscal operations, including in the energy sector; (ii) safeguarding central bank independence and focusing monetary policy on returning inflation to its target; (iii) ensuring banks' financial health, including through good governance, with the goal of reviving sound bank lending to the private sector; (iv) tackling corruption and pushing forward with the implementation of judicial reform; and (v) 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.

Following the Executive Board's discussion on Ukraine, Ms. Antoinette Sayeh, Managing Director and Acting Chair, issued the following statement:

"The Ukrainian authorities' program was successful in augmenting fiscal space in 2020 and providing a liquidity backstop by boosting reserves. This allowed the authorities to deploy a strong policy response that cushioned the economic and social impacts of the COVID-19 pandemic while preserving macroeconomic and financial stability.

"The authorities took important corrective actions to address program slippages. Progress has been made in strengthening the *de jure* independence of the central bank, restoring the integrity of anti-corruption institutions, and implementing the structural reform agenda.

"Risks to the program remain high, including global uncertainty and vested interests. The authorities' strong ownership as well as full and timely implementation of agreed reforms is crucial to ensure the success of the program.

"Going forward, the authorities' plans to continue the gradual fiscal consolidation to rebuild fiscal buffers remain essential. The planned tax reforms should be accompanied by decisive measures to contain fiscal risks from off-budget spending and quasi-fiscal activities in the energy sector.

"Maintaining the effective autonomy and governance of the National Bank of Ukraine—a key achievement of previous programs—is paramount. This will aid monetary policy in ensuring that currently high inflation does not become entrenched. Greater efforts are needed to further enhance the transmission of monetary policy, allow exchange rate flexibility, and accumulate reserves. Rebuilding the central bank's supervisory capacity is also key.

"Improving governance and the rule of law is a key policy priority. Progress on this front requires the full implementation of the enacted law to reform the High Council of Justice. The authorities also plan to strengthen corporate governance frameworks in state-owned enterprises and banks, boost asset recovery from failed banks, and press ahead with the privatization agenda."

UKRAINE

November 8, 2021

FIRST REVIEW UNDER THE STAND-BY ARRANGEMENT, REQUESTS FOR EXTENSION AND REPHASING OF ACCESS OF THE ARRANGEMENT, WAIVER OF NONOBSERVANCE OF A PERFORMANCE CRITERION, FINANCING ASSURANCES REVIEW, AND MONETARY POLICY CONSULTATION

EXECUTIVE SUMMARY

After a number of critical setbacks and delays in the 16 months since program approval, the authorities have taken important corrective actions to address shocks to program objectives. Early tension around the authorities' commitment to uphold the independence of the National Bank of Ukraine required a pause to assess policy continuity and to determine possible corrective actions. A prior action for this review and new commitments by the authorities provide a way forward in protecting a key policy pillar under the program. Similarly, adverse Constitutional Court rulings challenged the anti-corruption framework in fundamental ways that required restoring its effectiveness before the review could proceed. In a push to make progress on delayed structural benchmarks, the authorities have recently met seven of the nine structural benchmarks set at the time of the program request.

After a stronger-than-expected macroeconomic performance in 2020, the outlook has become increasingly uncertain, reinforcing the continued importance of the program framework to maintaining macroeconomic stability. The recession in 2020 was milder than expected, the financial sector has weathered the crisis well, and the external position is stronger than programmed. However, reserve coverage is projected to stay below 100 percent of the ARA metric in 2022 even assuming full disbursements of remaining available amounts under the current SBA. Building reserve buffers remains appropriate considering elevated global and domestic uncertainty. The rebound in the second half of 2020 has stalled, downgrading the 2021 growth outlook, which is also clouded by a sharp rise in COVID cases amid still low vaccination rates. Continued high gas prices also pose risks to growth while contributing to a deteriorating inflation outlook. Currently strong exports are a clear positive to the balance of payments, but underlying portfolio flows into the domestic bond market are weaker than expected, and likely vulnerable to an acceleration of the global tightening cycle.

Policies under the updated Memorandum of Economic and Financial Policies address identified risks, but residual risk will require that the authorities demonstrate stronger program ownership going forward. Risks to debt from off-budget spending during the crisis are being contained in the 2022 budget. Risks from quasi-fiscal activities in the energy sector (gas, electricity) will be addressed through structural conditionality and monitored through (new) quantitative conditionality. The de facto weakening of corporate governance as a risk management framework in key state-owned financial and non-financial enterprises is difficult to mitigate, but new program conditionality and commitments in this area would help monitor progress. Similarly, a significant erosion of human capital at the NBU has created operational risks that are being addressed–but cannot be fully mitigated–by the authorities' commitments to bolster the institutional strength of the NBU. Finally, amendments to the NBU Law enacted as a prior action strengthen de jure independence, but the continuity of policies will require that the government and the NBU's own decision-making bodies uphold good governance principles and the spirit of autonomy.

Staff supports the completion of the first review and monetary policy consultation, and the authorities' requests for a waiver of the missed performance criterion, program extension, rephasing of access, and financing assurances review. All prior actions have been met. The purchase available upon completion of this review would be equivalent to SDR 500 million, bringing total purchases under the SBA to SDR 2,000 million.

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

Discussions were held remotely from Washington DC during September 21–October 18, 2021, by a staff team comprising Ivanna Vladkova Hollar (head), Anil Ari, Wim Fonteyne, Jean Guillaume Poulain, Sergio Sola (all EUR); Edda Rós Karlsdóttir (MCM); Toomas Orav (SPR); Ender Emre and Jonathan Pampolina (LEG); and Vahram Stepanyan, Ihor Shpak, Maria Sydorovych, and Mariia Chebanova (Resident Representative office). Vladyslav Rashkovan (OED) participated in some discussions. Stephane Couderc, Ashraf Khan, Istvan Mak, Tjoervi Olafsson, and Katherine Seal (MCM), Hans Weenink (LEG), Matevz Zbasnik (FIN) and Enriko Aav (FAD) joined select meetings. Chasta Piatakovas and Samuel Romero Martinez (both EUR) provided support from headquarters.

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INTRODUCTION

1. **Since the SBA approval in June 2020, macroeconomic and financial stability has been maintained.** The program was successful in augmenting fiscal space in 2020 to allow for an appropriate fiscal response to the crisis and providing a liquidity backstop by boosting reserves. Fiscal policy efforts were complemented by substantial monetary easing in 2020 and a set of targeted measures to provide temporary liquidity support to banks. Taken together, these cushioned the effect of the pandemic in 2020, but the effects of the COVID crisis linger into 2021, particularly as new cases are on a sharp increase and vaccination rates, while rising, remain low. The authorities have met targets on NIR and NDA at all relevant test dates with comfortable margins. No continuous PCs have been breached. However, the end-2020 ceiling on government guarantees was breached by a small margin, and the authorities are requesting a waiver of non-observance. In addition, inflation has risen substantially outside of the Monetary Policy Consultation Clause (MPCC) outer bands despite recent policy rate hikes.

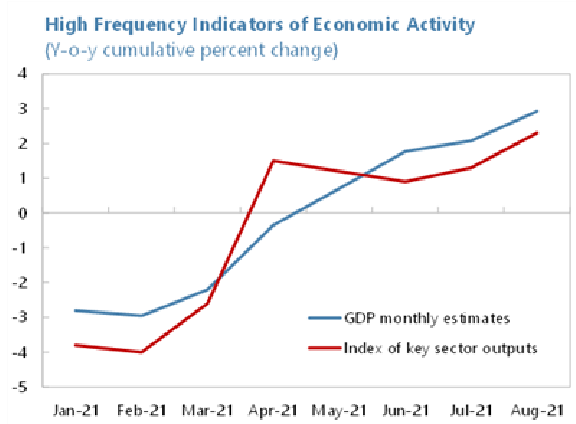
2. **The first review was substantially delayed on slow progress along the structural reform agenda and on critical setbacks.** Early manifested tension around the authorities' commitment to uphold the operational, financial, and legal independence of the National Bank of Ukraine (NBU) required taking a pause to test policy continuity and design corrective actions. A prior action for this review together with commitments in the MEFP (Attachment I) provide a way forward in protecting a key pillar of the macro-financial stability, including through strengthening institutional capacity in the wake of substantial loss of human capital in the last year (see Section C). Similarly, adverse Constitutional Court rulings weakened the anti-corruption framework in fundamental ways that required restoring its effectiveness through prior actions before the review could proceed (see Section E). Finally, following a push to make progress on delayed structural benchmarks, the authorities have recently delivered on seven of the nine structural benchmarks set at the time of the program request.

3. **Against this background, the authorities are requesting an extension of the program.** An extension from December 8, 2021 to June 30, 2022, along with a rephasing of remaining access, would give the authorities more time to achieve the objectives under the program, which remain highly relevant. While financing pressures were not as acute as foreseen at the height of the crisis, extending the program would provide an important liquidity and confidence backstop at a time of lingering uncertainty, both globally and in Ukraine, reflecting the spread of the Delta variant, inflation pressures, supply constraints and a weaker outlook.

RECENT DEVELOPMENTS AND OUTLOOK

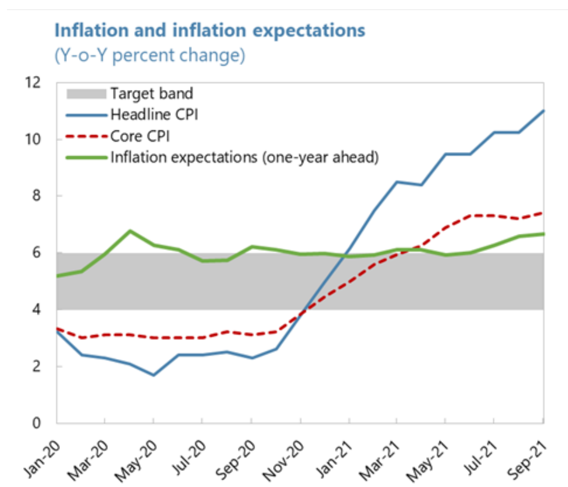
4. **The economic recovery which started in the second half of 2020 has stalled in 2021.** The economy contracted by 4 percent in 2020, significantly overperforming the 8 percent contraction projected at program approval on the back of a sharp rebound in consumer spending in the second half of the year. However, following a lockdown-induced GDP

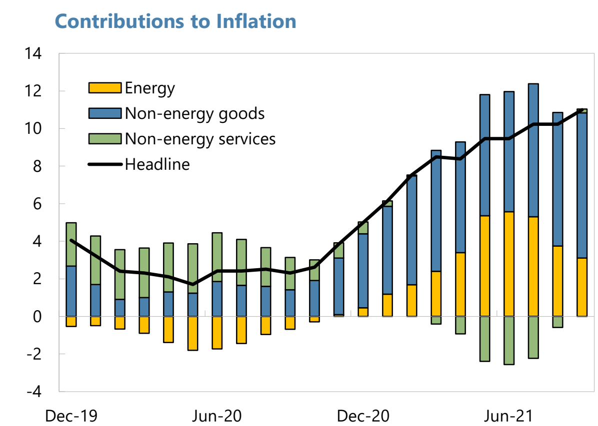
contraction of 1.4 percent q/q in Q1, GDP continued to shrink by 0.8 percent q/q in Q2, in part due to a late harvest causing a sharp contraction in the agricultural sector. High frequency indicators suggest that growth has picked up in Q3, reflecting a rebound in agricultural exports and continued strong domestic consumption. Staff project output to exceed its pre-pandemic level by end-2021, with an annual growth rate of 3.2 percent, but there is heightened uncertainty about the growth outlook, with risks tilted to the downside.



Sources: Ministry of Economy of Ukraine; and National Bank of Ukraine.

5. Inflation is significantly above the 5±1 percent target band. After hovering below the target range for most of 2020, headline inflation accelerated substantially since end-2020, reaching 11 percent in September 2021. Core inflation and inflation expectations, respectively at 7.4 and 6.7 percent in September, appear to have stabilized above the target. Inflationary pressures, which stem from strong consumer demand, a rise in global commodity prices, and strong wage growth, are expected to persist into 2022, with average 2021 inflation projected at 9½ percent. The recent spike in gas prices has so far had a limited inflationary impact due to annual fixed price contracts for gas consumed by households but is expected to gradually raise food price inflation through input costs. While lower commodity price inflation and tighter monetary policy are expected to return inflation to the target band by end-2022, inflationary risks, which include further commodity price surges and a de-anchoring of inflation expectations, are tilted firmly to the upside.





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

6. Banks remain profitable and well capitalized, but NPLs, while declining, remain very high (Figure 5 and Table 6). Regulatory measures, introduced in 2020 to deal with the impact of the COVID-19 pandemic on banks' credit risk, were unwound during April to July 2021. Their impact on banks' capital is expected to be relatively small (Box 1). The annual asset quality review was expanded to include bank's largest exposures restructured under the COVID-19 measures, and, together with stress tests, suggests that loan classification and asset quality is broadly acceptable. The NBU has taken supervisory actions to address identified weaknesses, including by requiring four banks (3.1 percent of system deposits) to inject capital by year-end (MEFP ¶16). Implementation of banks' time-bound strategies to reduce non-performing loans (NPLs) resulted in the sector ratio of nonperforming loans falling from 48.4 percent at end-December 2019 to 37.2 percent at end-June 2021, despite the impact of the pandemic. Banks' loan loss provisions stood at 89 percent of NPLs at end-June 2021. Growth rates of consumer loans are returning to pre-crisis levels, even as higher risk weights are being introduced, and the growth in net corporate loans accelerated in Q2. However, bank credit to the economy remains low at around 20 percent of GDP and, to support credit revival, the authorities have committed to prepare an actionable plan to address already identified structural obstacles in bank lending (MEFP ¶25).

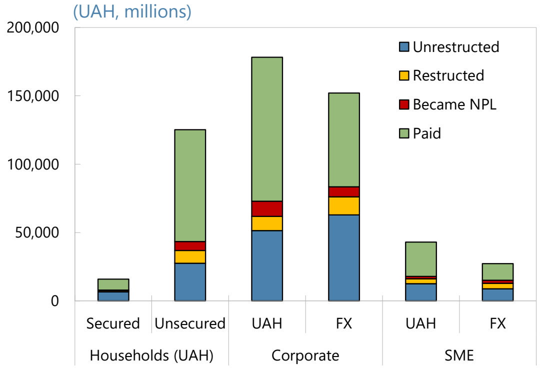
Box 1. Banks's Use of Regulatory Measures to Deal with the Impact of COVID-19

Regulatory measures were introduced in March 2020 to deal with the pandemic's impact on banks' credit risk. NBU encouraged banks to offer voluntary and prudent payment holidays and loan restructuring to borrowers that were heavily impacted by the crisis. Loans that were performing on March 1, 2020 and restructured by end-September 2020 (extended to end-November 2020), were exempted from heightened risk classification. Application of this restructuring measure was subject to several restrictions, including a maximum net present value (NPV) reduction of 10 percent. Prudential reporting was enhanced.
Almost 11 percent of all eligible loans were restructured by end-September 2020, mostly in the form of payment holidays and corresponding majority extensions.[1] Over half of eligible loans are already repaid, reflecting short maturities and improved debt service capacity. While information about NPV losses is incomplete, these indicate losses below 1 percent of book value, with the important exception of SME loans in foreign currency and unsecured household loans, where NPV losses may have averaged around 3 percent. Overall, the impact of regulatory measures on banks' capital is expected to be relatively small and manageable.

Performance Evolution of Loans Classified as Performing on 1 March 2020[1]

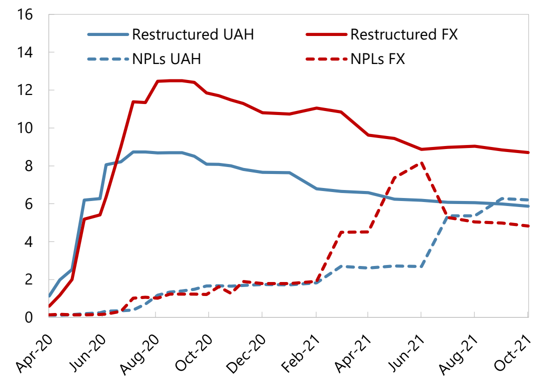
Banks' performing loans in March 2020 were mostly corporate loans and unsecured household loans.

Performance Status, end-September 2021
(UAH, millions)



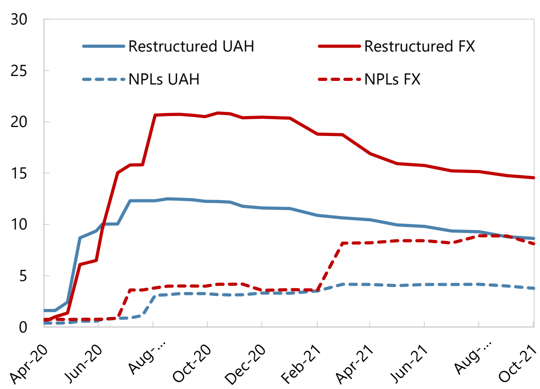
Corporate restructuring peaked in August 2020, while NPLs in UAH are gradually increasing.

Corporates: Restructured and Nonperforming Loans
(Percent)



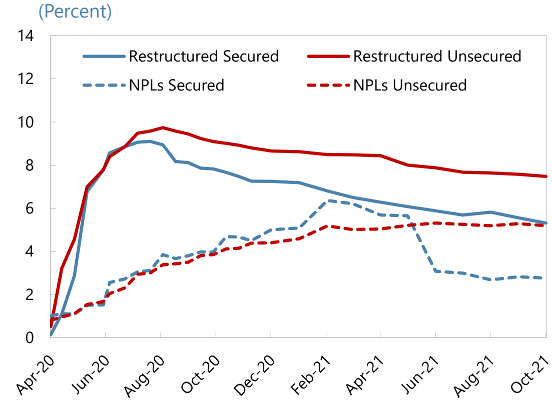
The high share of SME restructuring and NPLs, indicate strong impact from COVID-19 and limited FX income.

SME: Restructured and Nonperforming Loans
(Percent)



Household loan performance appears to have stabilized.[2]

Households: Restructured and Nonperforming Loans
(Percent)



Source: NBU, staff calculation.
[1] A survey of 22 banks, accounting for 90 percent of sector assets. [2] Since 2019, all issued household loans are all in UAH.
[2] Since 2019, all issued household loans are all in UAH.

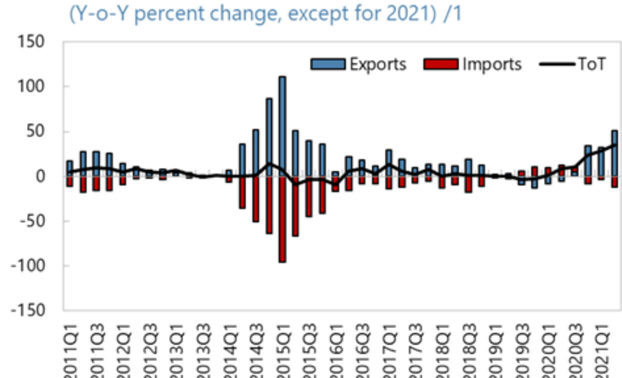
7. The nominal 2021 deficit target is on track to be met. In the first three quarters of the year, tax revenues have overperformed, on the unanticipated surge in commodity prices (through higher royalty revenues) and on a rebound in imports (through higher revenues from VAT). Higher wage growth and higher nominal economic growth have supported revenues from VAT, PIT, social security contribution and corporate income tax. This has allowed the Ministry of Finance to submit three supplements to the 2021 budget which allocate about 1.3 percent of GDP of additional revenues. More than half of this was allocated to construction and maintenance for roads, about 20 percent were used to top-up the appropriation for the household utility subsidy (HUS) program, and the rest to increase wages for the military, and goods and services spending (mostly medicine). As a result of these developments, and despite the higher than anticipated expenditure on pension benefits, the deficit of the general government would likely be contained to 3.5 to 4 percent of GDP.

8. Budget financing has proved somewhat challenging in 2021 but constraints are expected to alleviate in 2022. Domestic debt placement has been lower than expected, with an average rollover rate of about 113 percent. IFI financing—linked to reform implementation—has been delayed, and only a small fraction of the gap was filled with market borrowing. Instead, half of the recent SDR allocation (SDR 1 billion, or about US$1.4 billion) was used on September 17 to repay maturing debt.[1] Gross financing needs in 2022 are projected to moderate and are expected to be covered by domestic debt (over two thirds), IFI disbursements, and market borrowing. The implied rollover rate for domestic debt of 130 percent appears realistic, especially if supported by non-resident inflows. Bond placements may benefit from the inclusion of Ukraine into the JPM GBI-EM Index starting from end-March 2022.

9. The external position is stronger than projected at program approval (Annex I). Lower import volumes and outbound tourism and rising commodities prices for key exports (notably metals, minerals, and agricultural products) helped bring about a current account surplus in 2020 (3.3 percent of GDP). Indications of a strong harvest should buoy the current account again this year. The initial uncertainty that constrained financial inflows and increased borrowing costs last year has gradually declined. Ukraine was able to issue US$1.75 billion in 8-year Eurobonds in 2021, and non-resident purchases of domestic UAH bonds returned, with net inflows of around US$0.5 billion. Since the beginning of the year, the hryvnia appreciated some

Terms of Trade

(Y-o-Y percent change, except for 2021) /1



Source: IMF staff calculations.

/1 2021 has 2019 instead of 2020 as calculation base in order to exclude the impact of large shifts in comparative base in 2020Q2.

[1] The 2021 SDR allocation is reflected as an increase in the NBU's long term debt liabilities. The resulting increase in SDR holdings is reflected in both an increase in the gross international reserves and net international reserves of the NBU.

7 percent vis-à-vis the US dollar allowing the NBU to accumulate FX reserves (net FX purchases of nearly US$2 billion). The current account is expected to return to a deficit as pandemic-related factors dissipate (e.g., a recovery in corporate profitability should translate into higher outflows related to reinvested earnings – Box 2), as well as the impact from Nord Stream 2 pipeline, which is expected to reduce Ukraine's gas transit revenues by some US$1.2 billion per year through 2024.

Box 2. Incorporating Reinvested Earnings in Ukraine's Balance of Payments Statistics

In June 2020, the NBU strengthened Ukraine's foreign direct investment (FDI) statistics by including corporate reinvested earnings in its balance of payments statistics in line with international standards. This change implies that foreign direct investors' income will no longer only reflect dividend income, but also corporate retained earnings, broadening the coverage of FDI transactions and facilitating comparability with other countries.

This change does not affect the overall balance of payments given offsetting modifications. On the one hand, the share of profits accruing to non-residents is being recorded as an outflow in the primary income balance of the current account. On the other, the fact that these earnings are reinvested implies that they flow back into Ukraine and are recorded as an FDI inflow under the financial account.

The modification has been retroactively applied to data from 2015 onwards. This widens the historical current account deficit for 2016-19, because over that period non-resident investors reinvested earnings, which increased both primary income outflows and direct investment inflows. 2015 differs since many firms realized losses amidst the economic and security crisis; this improves the current account as corporate losses accrued to non-resident investors improving the primary income balance, and this was matched by lower reinvested inflows under FDI.

These statistical changes suggest that Ukraine's FDI inflows are likely to become more procyclical, in line with corporate profitability, and that the current account will become more countercyclical. In boom periods, corporate profits being distributed to non-residents should tend to lower the primary income balance, with the opposite occurring in times of difficulty.

The latter factor partly contributed to the large current account surplus in 2021

Impact of Balance of Payment Revision on Historical Outturns for 2015–19

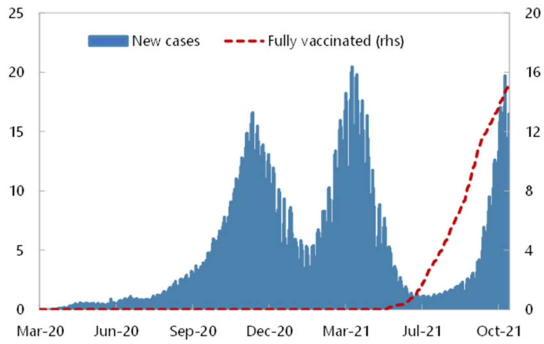
	2015			2016			2017			2018			2019		
	Before	**After**	*Diff*	Before	**After**	*Diff*	Before	**After**	*Diff*	Before	**After**	*Diff*	Before	**After**	*Diff*
Current account, billion of US$	1.6	**5**	*3.4*	-1.3	**-1.9**	*-1*	-2.4	**-3.5**	*-1*	-4.4	**-6.5**	*-2*	-1.4	**-4.2**	*-3*
FDI inflows, billion of US$	3	**-0.4**	*-3*	3.3	**3.8**	*0.5*	2.6	**3.7**	*1.1*	2.4	**4.5**	*2.1*	2.4	**5.2**	*2.8*

Source: NBU.

10. Staff's assessment is that Ukraine's external position at end-2020 is broadly in line with fundamentals and desirable policy settings (see Annex I). Staff's assessment is anchored on the current account using the EBA-lite methodology and taking into account the unusual and temporary pandemic-related impacts. The quantitative results suggest that the external position is only moderately weaker than the norm. That said, downside risks are elevated given that reserves are projected to remain below adequate levels, pending large debt service obligations, and weak investment inflows. These considerations underline the need for a sustained and well-prioritized reform agenda to reduce policy gaps and buttress external sustainability.

11. The near-term outlook is uncertain. Ukraine is currently amidst a Delta variant outbreak with increasing, but still low, vaccination rates, which poses a risk to the near-term growth outlook from a tightening of containment measures. Intensification of the conflict in the eastern part of Ukraine and a tightening in global financial conditions also constitute risks to growth and macro-financial stability, while unfinished structural reforms and risks of reform reversals weigh on medium-term growth. Continued high gas prices also pose risks to growth while contributing to a deteriorating inflation outlook. This could create difficult policy trade-offs, particularly should inflation expectations destabilize. The spike in gas prices have highlighted limited progress in reducing the degree of subsidization of domestic gas consumption, which is creating fiscal risks.

New Cases and Full Vaccinations
(Thousands of persons and percent of population)



Sources: Our World in Data; and IMF staff calculations.

REVIEW DISCUSSIONS

12. First review discussions have been delayed by slow progress in implementing structural benchmarks (SBs) and several setbacks. The text table summarizes the status of initially agreed benchmarks—while very few were met on time, most have been completed, including as proposed prior actions for the review, and the delayed COVID fund audit is proposed to be reset for end-December 2021.

Text Table. Past Structural Benchmarks Implementation

Structural Benchmarks (SB) and deadlines	Status	Comment
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 (End-June 2020)	Met	
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. (End-August 2020)	Not Met 1/	The Law was signed by the President in August 2021 and tariffs are currently being reviewed.
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 (End-September 2020).	Met	

Text Table. Past Structural Benchmarks Implementation (concluded)		
Structural Benchmarks (SB) and deadlines	**Status**	**Comment**
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 (End-November 2020)	Not Met	Reset as prior action for this review
5. Enact amendments to the DGF and other laws to improve the bank liquidation mechanism, and the recovery of assets (End-October 2020).	Not Met	Reset as prior action for this review, with some modifications in view of the legislative timeline and other commitments on asset recovery
6. Enact amendments to the Law on the High Council of Justice to enhance its selection process ensuring that its members have impeccable reputation and integrity (End-October 2020)	Not Met	Reset as prior action for this review
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 (End-September 2020)	Not Met	Adopted with a short delay on October 26, 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 (January 1, 2021)	Not met	STS and SCS operate as single legal entities, but the SFS has not been liquidated.
9. Complete a compliance audit by the State Audit Service of Ukraine, in consultation with external/third party auditors, of COVID-related spending (End-March 2021)	Not Met	Reset proposed for end-December 2021. Recalibrated to include publication of an audit report.
1/ A simplified procedure for households to switch gas suppliers was adopted on time, although there is room for further streamlining		

A. Fiscal Policy

13. Fiscal policy will be anchored by the medium-term budget declaration approved by Parliament in June 2021 (MEFP ¶8). After allowing the deficit to widen in 2020, as the economy recovers, fiscal policy will be geared towards progressive tightening. The fiscal stance will aim to run primary surpluses to reduce gross financing needs and to rebuild fiscal space, allowing room for appropriate responses to shocks while keeping public debt under 60 percent of GDP.

14. The 2022 draft budget approved in the first reading is consistent with a general government deficit of 3.5 percent of GDP *(structural benchmark, end-November 2021*),

healthcare, education, and defense and security, while containing the wage bill for public sector workers outside of priority sectors. Capital expenditure—kept at about the same level as in the approved 2021 budget—will need to be increased to improve the expenditure mix; appropriations for pensions expenditure and the HUS program will likely need augmentation, as current assumptions on the latter are not aligned with structural commitments in the gas sector (see paragraph 30).

15. To provide additional fiscal space, the government has prepared a tax package of about 0.5 percent of 2022 GDP. The tax measures mostly focus on increases in rates of existing taxes and other measures to broaden the tax base. Tax rates on excises, royalties, and land fees will be indexed to CPI and PPI, and rates on environmental taxes will be increased. Other changes to the tax code aim—*inter alia*—at improving tax administration, limiting scope for abuses (especially for excises, and PIT on sales of real estate), closing some tax loopholes associated with real estate transactions, and improving the valuation of tax base (for VAT on tobacco products, corporate income tax and royalties). This fiscal space will be used to address the weaknesses in expenditure composition identified above (MEFP ¶6).

Proposed Measures	Bil UAH	%GDP
Increases in rates of existing taxes	6.9	0.1
Broadening of the tax base for existing taxes	15.9	0.3
Introduction of new taxes	0.1	0.0
Other changes in the tax code	5.1	0.1
TOTAL	28.0	0.5

16. As fiscal space, appropriately used in response to the crisis, will need to be rebuilt, it will be important to contain fiscal risks. In particular:

- **Tax exemptions should be limited.** Some changes to the tax code—together with those included in the recently proposed bill—aim at improving tax administration, close loopholes, and reduce the opportunities for abuse.[2] However, several initiatives undermine the effort in strengthening the revenue base. In December 2020 the Rada approved a law[3] linking the threshold for participating to the simplified tax regime to the minimum wage, which will effectively lead to a broadening of the eligibility in the future. Other laws have introduced tax incentives for industrial parks, for imported equipment in large size investments, and for creative industries. The cost of tax exemptions needs to be monitored closely and should include the tax expenditure associated with the simplified tax regime (MEFP ¶8a).

- **Extra budgetary institutions must be monitored carefully**. In 2021, the government has increased the capital of the State Financial Housing Company by UAH 20 billion, and of the

[2] For instance: the introduction of a single account for payments of personal income tax and social security contribution; the introduction of fiscal accountability for cash receipts issued by the participants of the simplified regime and the mandatory use of cash registers—albeit in a reduced format with respect to what originally envisaged; the implementation of measures to facilitate the exchange of information on taxes due to local budgets; and the inclusion into the universal tax regime of taxpayers from Group IV of the simplified tax regime.

[3] Law of Ukraine № 1017-IX.

Export Credit Agency by UAH 1.8 billion. While the scope of these institutions is not yet clearly defined, the authorities need to be mindful of potential quasi-fiscal losses generated by their activities; as a safeguard, staff propose to adjust the general government definition under the program to capture the broader perimeter of fiscal operations.

- **The first pillar of the pension system must be rule-based, and introduction of a second pillar must not translate into a deficit for the pay-as-you-go system.** Pension top-ups approved in the height of the first wave of the pandemic in 2020[4] have recently been extended[5] and other top-ups for servicemen have been approved.[6] To ensure transparency and certainty of benefits, it is important that the pay-as-you-go system be rule-based, and the introduction of discretionary benefit increases be limited. To that end, it will be important to amend the Law on Compulsory Pension Insurance to specify the date of the annual pension indexation. The authorities are considering the introduction of a funded second pillar. While average pensions in Ukraine are low, a funded second pillar is unlikely to improve their adequacy, especially if the contributions will be invested in government bonds. Most importantly, a funded second pillar should be introduced only when appropriate preconditions are in place; it could be financed by new resources but in any case, should not lead to a reduction in the resources devoted to the first pillar (MEFP ¶8d).

- **Issuance of guarantees should be contained.** In 2020 and 2021, as a measure to contain the economic fallout from the pandemic, the government suspended the application of revenue-linked limits on government guarantees established in the budget code of Ukraine, to create fiscal space to scale up road construction and support SMEs. However, to contain fiscal risks, and given the associated potential for a macro-significant loosening of the fiscal policy stance via large off-budget spending, it is important that the ceiling on the issuance of government guarantees embedded in the budget code no longer be suspended (MEFP ¶7).

- **Quasi-fiscal liabilities in the energy sector should be contained** (see Section F). Progress in this area will be monitored through existing and new structural and quantitative conditionality (Table 7). Specifically, the QPC on the combined cash deficit of the general government and Naftogaz *de facto* brings a key component of these quasi-fiscal operations on-budget, broadly defined.

17. The audit of the 2020 budget program for COVID-related spending is ongoing and will be completed and published by end-2021 (***structural benchmark***, proposed to be reset from end-March 2021). A partial ex-post audit by the State Audit Service of the "Fund to Fight Against COVID-19 and its Impact" has been completed, covering UAH 44.5 billion out of UAH 66.5 billion spent. The audit reports have identified a range of issues, from weak verification

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[4] Supplements for pensioners of 80 or more years of age (CMU resolution N.251, April 2020), and for pensioners between 75 and 80 years of age (CMU resolution N.849, September 2020).

[5] Supplements for pensioners between 70 and 75 years of age (CMU resolution N.963, September 2021)

[6] CMU resolution N.713, July 2021.

processes for benefits eligibility to evidence of violation of tender processes and over-statement of prices. The government will follow up with action plans to address identified PFM issues and implement any remedial measures, has referred 212 cases to law enforcement agencies and is committed to fully cooperate with any potential criminal investigations in relation to COVID-related spending (MEFP ¶2). All procurement notices, all purchase orders, and information on beneficial owners of the bidding companies have been made accessible to the public.[7]

18. The tax administration reform, support by a technical assistance program delivered by FAD, is proceeding with some delays:

- **The State Tax Service (STS) and the State Customs Service (SCS) were consolidated as single legal entities (SLE), but other organizational changes created setbacks.** This will allow for better coordination and uniform implementation of tax and customs policies nation-wide. However, progress in substituting the tax police with the newly created Bureau of Economic Security has been uneven: The Bureau is not yet operational and there is a risk of unchecked flow of old cadre into the new institution. The Large Taxpayers' Office (LTO) reform created new structural inefficiencies that require resolution. Split of a single LTO into a five separate LTOs in the beginning of 2021 weakened STS's capacity to administer revenues from the largest taxpayers, which could have serious impact on budget revenues. Best practice suggests administering large taxpayers as a single group, to avoid inconsistencies that would undermine large businesses' confidence in certainty of application of taxes. To avoid such risks, if the LTO cannot be reestablished as a single STS functional unit, the authorities should build a stronger STS HQ oversight over LTO operations (MEFP ¶10b).

- **The focus of the STS reform should now shift from organizational changes to improvements of its operations.** Even though STS field office network could be optimized further, the STS organizational reforms have laid good groundwork for reforming operations towards compliance risk management process. The newly established Risk Management Unit (RMU) is a step in the right direction, but it should improve its analytical capacity, be granted wider access to data (possibly including bank account information) and broaden its focus to tax audit and enforcement. To improve effectiveness of revenue collection, it will be important to build a systemic tax compliance risk management process in the STS by developing capacity to detect highest compliance risks and adopt processes that use STS resources with a best possible impact on improving tax compliance. Introduction of proper compliance risk management would also allow the elimination of "planned" tax audits and the establishment of a specialized unit focusing only on High-Net-Worth taxpayers (MEFP ¶10).

B. Monetary and Exchange Rate Policies

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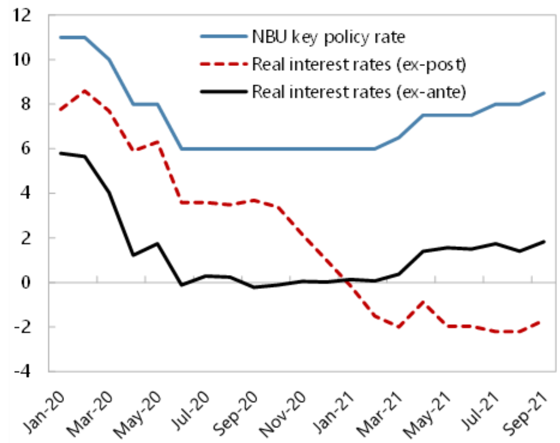
[7] The information is available electronically on the website of the public procurement platform "ProZorro" (*https://prozorro.gov.ua*).

19. Above-target inflation has triggered the Monetary Policy Consultation Clause (MPCC) in March and June 2021 (MEFP ¶13 and Attachment II).

- **In response to inflationary pressures, the NBU has raised the key policy rate by 250 basis points (to 8½ percent).** The NBU has also strengthened its forward guidance by communicating that it stands ready to implement more substantial rates hikes if inflation overshoots NBU's projected trajectory to return to the target in 2022. The monetary policy stance, which remains mildly accommodative with real interest rates held down by high inflation, is appropriate in view of the uncertain growth outlook and the expected unwinding of commodity price inflation in the coming months. However, given Ukraine's history with high inflation, NBU should remain vigilant about high inflation becoming entrenched and continue to provide clear forward guidance. Should disinflation fail to materialize as projected, further tightening would likely be needed as prescribed by NBU's forward guidance. The program will continue to include a monetary policy consultation clause to align conditionality with the NBU's inflation-targeting framework (MEFP ¶12).

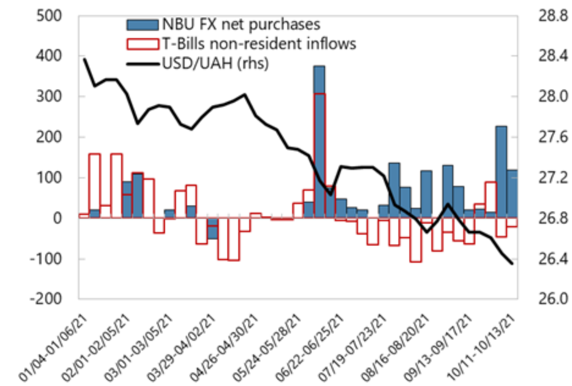
Nominal and real interest rates
(Percentage point)



- **The NBU has also normalized the operational design of its monetary policy by phasing out emergency measures implemented in response to the COVID-19 crisis**. As recommended by IMF staff, the NBU has discontinued long-term refinancing and interest rate swap operations with banks and reduced the maturity of refinancing loans it offers through weekly tenders from 90 to 30 days. Such policy normalization is expected to strengthen the transmission of monetary policy tightening and place a limit on the extent of available domestic financing, which is welcome given the high sovereign exposure of domestic banks (see Figure 5). Going forward, the NBU has committed to maintain the key policy rate as its core monetary policy instrument and refrain from continuing long-term refinancing operations or conducting any other liquidity providing operations exceeding a maturity of 30 days, unless necessary to safeguard financial stability (MEFP ¶12). The program will also retain an indicative target on the NBU's net domestic assets to safeguard against excessive expansion of its balance sheet.

- **The NBU will continue to allow exchange rate flexibility, while aiming to maintain adequate reserve buffers.** Foreign exchange interventions will be aimed at smoothing disorderly market conditions and at reserve accumulation (with gross reserves projected to remain above 90 percent of the ARA metric by the end of the program period), while letting the exchange rate adjust in line with economic fundamentals. In this respect, asymmetry towards FX purchases in interventions aimed at alleviating FX market volatility has weakened the transmission of recent policy rate hikes through the exchange rate channel. The NBU has acknowledged this asymmetry but emphasized structural factors such as shallow secondary markets for domestic government bonds, which constrain outflows but not inflows, and therefore necessitate more frequent FX purchases than sales. Further progress in reducing the NBU's footprint and allowing more exchange rate flexibility, including by reducing the aforementioned asymmetry, is needed to enhance the transmission of monetary policy tightening.

FX Purchases and Non-Resident T-Bill Inflows
(Million USD)



Sources: NBU and IMF staff calculations.

20. 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. Elimination of the remaining exchange restriction and liberalization of the CFMs will only proceed as conditions permit, in line with conditions outlined in the roadmap previously agreed with the Fund.[8]

C. Financial Sector and NBU Governance

21. Recent legal amendments to the NBU Law are a welcome step, but it is crucial for macro-economic and financial stability that the authorities observe the NBU's autonomy and sound governance principles. The autonomy and independence of the NBU is crucial for its price stability mandate as well as monetary policy implementation and FX management. They are further strengthened by enacted amendments to the NBU Law (***prior action***), as recommended by the 2019 safeguards assessment (see Box). Improvements include measures to mitigate undue interference between NBU decision-making bodies, strengthened conflict of interest provisions (such as an ex-ante cooling-off period for transition from the NBU's oversight body (the Council) to its management body (the Board), clearer appointment and dismissal criteria for the members of decision-making bodies, and strengthened legal protections. These

[8] 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.

will be complemented by an update of the relevant secondary framework (MEFP ¶11). Amendments notwithstanding, the continuity of policies that have served macro-economic and financial stability well requires that the government and the NBU's own decision-making bodies uphold good governance principles and the spirit of autonomy.

Box 3. Update Safeguards Assessment of the NBU Completed in 2019

It concluded that the NBU continued to maintain a broadly robust safeguards framework with audit arrangements and financial reporting practices that are well established. It recommended further improvements in the NBU Law and found scope to strengthen the 2015 governance arrangements to operationalize stronger delineation of roles among the decision-making bodies. Since then, the authorities have implemented most recommendations, including enacting legal amendments (*prior action*) to strengthen the autonomy and governance of the NBU. Some recommendations remain outstanding including on the need to strengthen governance arrangements in practice. This is particularly important given the aforementioned turnover at senior levels at the NBU. Staff will continue to closely monitor developments including on the steps that are underway to protect the NBU's secured creditor status and to strengthen the counterparty eligibility criteria in the NBU's monetary policy refinancing operations (MEFP ¶18).

22. Enactment of amendments to the Banking Law and Deposit Guarantee Fund (DGF) Law (prior actions) deliver on key program objectives (MEFP ¶17)**.** These amendments, previously structural benchmarks, strengthen the bank supervision framework and the DGF's framework for recovering assets from failed banks, their former owners, and related parties. In line with the new legislation, by January 2025, banks are expected to comply with the Basel II, Pillar 2 capital framework and the Basel III capital and liquidity framework. Preliminary estimates show that banks are generally prepared for the new capital requirements.

23. Actions are underway to further strengthen the financial safety net and financial stability (MEFP ¶18)**.** Parliament has passed in first reading legal amendments that restore DGF's solvency and make state-owned Oschadbank a member of the DGF. The NBU is reviewing its emergency liquidity assistance framework, including its governance, the verification of the solvency requirement, appropriate collateralization and risk management, conditionality, and monitoring through the implementation of funding plans. In preparation for potential adverse rulings from the constitutional challenges filed against the DGF Law and the Bank Resolution Law (Law #590), the authorities have developed a contingency plan and updated their existing plan concerning litigation risks over failed banks, which will be endorsed by the Financial Stability Council (FSC) by end-November.[9]

24. Decisive actions are needed to mitigate risks to supervision, following a significant erosion of human capital at the NBU. Significant staff turnover at the decision-making level creates operational risk, including with respect to fit-and-proper assessment and certification and assessing shareholder transparency in banks. The NBU is looking at a new organizational

[9] The contingency plan will identify the operationally feasible and effective options to ensure continuity of DGF's functions (i.e., deposit insurance, resolution, and liquidation), subject to the reasoning of a potential adverse constitutional court ruling, with appropriate institutional operational and communication plans.

structure for bank supervision to support, and potentially enhance its predominantly formulaic approach to supervision. To increase the likelihood of effective oversight within the new structure, the NBU will, by end-December 2021, adopt a time-bound action plan, in consultation with IMF staff, to improve professional capacity of bank supervision (MEFP ¶20; **structural benchmark**). Following recent amendments to the NBU Law, which introduce a new (sixth) deputy governor position to the NBU Board, the NBU plans to regroup its organizational units for bank and non-bank supervision. To ensure efficient information flow and effective decision making, NBU confirmed its commitment to pursue collegial decision-making and preserve the function-based, lean organization model that was implemented under previous IMF-supported programs (MEFP ¶21).

D. Asset Recovery

25. To reduce the fiscal cost of past bank failures, the authorities are stepping up their efforts to boost asset recovery from the former owners and related party of failed banks. Progress to date has been minimal. Actions are needed at the government level to demonstrate commitment to asset recovery. To that end, the authorities have launched a high-level working group to develop a more comprehensive approach to 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. By end-February 2022, the authorities will adopt and publish an asset recovery strategy paper and action plan (MEFP ¶26a; **structural benchmark**). This document will enumerate time-bound measures to fix institutional and legal impediments forestalling recoveries and coordination, and inter alia, propose steps to end the current business as-usual-situation occurring with former bank owners through procurement and privatization. Existing public disclosures of progress will be improved. In addition, starting by end-December 2021, the Prosecutor General's Office will publish a semi-annual report on the outcomes of criminal proceedings against former bank owners, managers and other related parties in each resolved bank since the beginning of 2014, with aggregate data on the number of persons investigated, tried, and convicted as well as the amount of fines and damage recovered (MEFP ¶26.c; **structural benchmark**).

E. Anti-corruption and Rule of Law

26. Independent, transparent, and accountable institutions will contribute to the sustainability of Ukraine's advancements on anti-corruption and rule of law. The authorities are committed to supporting the effectiveness of these institutions, especially in light of attempts by vested and oligarchic interests to undermine overall good governance efforts.

27. Key progress was made to address risks to the anti-corruption infrastructure flowing from several adverse Constitutional Court decisions (MEFP ¶28). A reform law was enacted (***prior action***) that strengthens the institutional independence of the National Anti-Corruption Bureau of Ukraine (NABU) and enhances the integrity and credibility of the selection process of its head with a decisive role for independent experts with international experience.

Criminal liability against public officials for violating their obligations to file asset declarations was restored (***prior action***). In light of lessons learned from the recent experience in the selection of the head of the Specialized Anti-Corruption Prosecutor's Office (SAPO), legislative amendments will be made to improve the selection processes, institutional autonomy, and accountability (***end-March 2022 structural benchmark***). Provisioning of adequate resources will support the High Anti-Corruption Court's (HACC) independence and its effectiveness in holding high-level officials accountable.

28. Aside from corruption, rule of law issues are major impediments for the business environment (MEFP ¶29). One of the key reform priorities on rule of law is to improve the selection and disciplinary processes that fosters judicial integrity and accountability. The law on the High Council of Justice (HCJ) (the relevant judicial self-governance body) was thus amended (***prior action***). It creates an Ethics Council with a critical vote by independent experts with international experience to assess integrity of the candidates and members of the HCJ. A significant milestone in the law's implementation is the completion of the one-off integrity assessment of existing HCJ members within six-months from the establishment of the Ethics Council (***end-April 2022 structural benchmark***). A permanent inspectorate unit within the HCJ will also be established to assure consistency and evenhandedness of disciplinary investigations of judges. Legislative efforts are ongoing to provide a superior level of judicial consideration of administrative cases involving key national state agencies and robust safeguards against undue influence on decision-making by the courts.

Box 4. Anti-Corruption Law Enforcement Reforms: Progress, Crossroads and Sustainability

Public discontent over corruption ushered the establishment of Ukraine's new anti-corruption law enforcement infrastructure. Following the Maidan Revolution in 2014, it was generally recognized that pervasive corruption was negatively impacting Ukraine's economy and strong law enforcement measures targeting corrupt high-level officials were lacking (Ukraine's Governance Diagnostic, July 11, 2014). To investigate, prosecute and adjudicate corruption cases, the key pillars of the anti-corruption infrastructure were established: the NABU and the SAPO in 2015, and the HACC in 2019. In coordination with development partners and considering inputs from civil society organizations, the IMF lent its institutional support in achieving milestones in the adoption of key legal reforms and their operationalization through structural conditionality in IMF-supported programs.

Critical progress has been made to hold corrupt officials accountable. In the last two years, the HACC adjudicated corruption cases investigated and prosecuted by NABU and SAPO respectively and issued 45 decisions (80 percent of which led to convictions for bribery, embezzlement of public funds, abuse of office and other corruption offenses). Judges, prosecutors, former members of parliament, heads of state-owned enterprises and local officials were penalized with imprisonment, fines and confiscation of property. The number of convictions of such senior officials is unprecedented since Ukraine's independence, and contributed to the country's improved ratings in third-party indicators (e.g., earning a score of 33 in Transparency International's 2020 Corruption Perceptions Index, its highest since 2014).

Box 4. Anti-Corruption Law Enforcement Reforms: Progress, Crossroads and Sustainability (concluded)

Vested interests however continue to undermine the effectiveness of the anti-corruption infrastructure. Risks of overturning the anti-corruption framework remain substantial as parties opposed to reforms question the legality through some courts, some of which are perceived as vulnerable to external influence. To weaken the powers of the anti-corruption institutions, legislative amendments attempt to water down the framework. Vested interests are also pursuing different avenues to exert undue influence over the leadership or activities of the anti-corruption institutions (e.g., abusing disciplinary processes to pressure officials).

Continued efforts are needed to ensure the sustainability of the reform momentum. The capacity of the anti-corruption infrastructure to hold accountable public officials at the highest levels will demonstrate a significant cultural shift that ensures there is no impunity for grand corruption. The anti-corruption infrastructure needs to continue to be independent and robust in order to withstand undue political pressures and deliver judgements on corruption based on the evidence presented. The sustainability of corruption law enforcement efforts will also benefit from continued vigilance from the public and civil society organizations and strategic technical support from development partners.

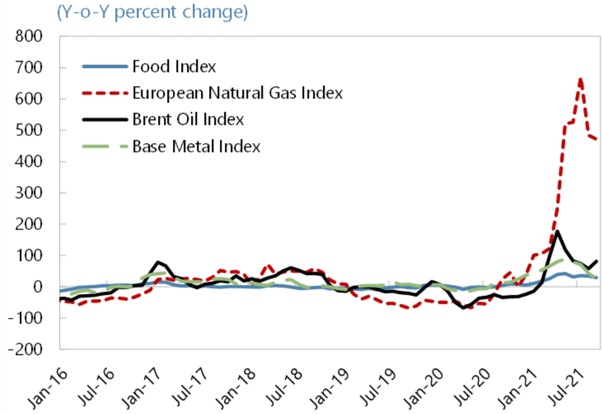
F. Energy Sector Policies

29. **A combination of slow progress on structural measures, weak governance frameworks in large SOEs in the sector, and large spike in gas prices are generating significant fiscal risks.** Competition in retail and wholesale gas markets remains elusive and the large and rapid increase in gas prices in Europe has exacerbated existing and largely unaddressed structural weaknesses in the sector. In the electricity sector, Public Service Obligations (PSO) have continued to create quasi-fiscal liabilities.

Gas Sector

30. **In response to the recent extraordinary increases in gas prices, the authorities have committed to implement transparent measures to protect the vulnerable population and provide support to key players in the sector.** This set of measures are not expected to widen the 2021 deficit in light of the projected additional revenue overperformance, including from gas royalties which are linked to gas import prices:

Commodity Prices
(Y-o-Y percent change)



Source: IMF Commodity Price System.

- The allocation to the Household Utility Subsidy (HUS) program was increased by UAH 12 billion. This should be sufficient to ensure adequate coverage through end-December 2021, given that pressure on gas prices facing households is also contained by the fixed-price contracts concluded between Naftogaz and main gas suppliers last spring. The authorities should strive to ensure coverage of all qualifying households prior to the heating season, including by better informing the public and eliminating rigidities in registration (MEFP ¶4, ¶6, and ¶30a).

- To strengthen the financial position of municipality-owned District Heating Companies (DHCs), the poorest municipalities will receive a subsidy for the heating season of up to UAH 1 billion and further support to municipalities of around UAH 11.4 billion will be provided in the 2022 budget. The remaining DHC liquidity needs are expected to be covered by municipalities from their own budgets.

- As a contingency measure, any remaining liquidity gap at Naftogaz during the upcoming heating season will be covered by a transparent and direct budget transfer, in recognition of the company's role in energy security and the subsidy element implicit in current gas supply contracts (MEFP ¶4c and ¶31). The need for other corrective measures will be assessed at the next review.

31. To prevent quasi-fiscal deficits and foster the development of gas markets, the authorities are taking wide-ranging commitments to:

- Ensure that all heating tariffs are officially enacted to fully reflect gas and non-gas costs and that price caps on gas supplied to households are not reintroduced. (MEFP ¶30b)

- Protect the short-term liquidity position and medium-term viability of the gas transmission system operator (GTSO) and its ability to invest in critical gas transport infrastructure in response to structural shifts in the transportation network (MEFP ¶31).

- Enhance competition in the retail gas market by further simplifying the procedure for supplier switching for household consumers, launching a joint data hub accessible to all market participants by end-March 2022, containing all the information necessary for a new supplier to bill households (**a structural benchmark**), and developing an action plan to ensure development and enforcement of market and anti-monopoly regulations, including effective unbundling of distributors and suppliers in all regions so that they cannot have the same beneficial owner. (MEFP ¶32a)

- Enhance competition in the wholesale market by implementing a domestic gas release program under which, starting in May 2022, the Naftogaz production subsidiary will sell every year at least 40–50 percent of its production on a transparent and competitive basis on local exchanges with equal access for all market participants. (MEFP ¶32b)

Electricity Sector

32. **The authorities propose to eliminate arrear accumulation to renewable energy producers (RES) by increasing transmission tariffs.** The commitment will be monitored through a new **quantitative performance criterion**. Under the RES PSO, the state-owned Guaranteed Buyer is obliged to purchase wind and solar energy at feed-in tariffs that are significantly above market prices. The difference is only partially covered by the transmission tariffs, resulting in accumulation of arrears to RES of about UAH 25 billion in 2020 and another UAH 5 billion are expected in 2021 despite favorable conditions. Ukrenergo, the transmission system operator (TSO) borrowed UAH 10 billion from SOBs to finance some arrear reduction in January and is planning on issuing publicly guaranteed "green" bonds to eliminate the stock of arrears as of end-2021. The transmission tariff is expected to increase to a level sufficient to fully eliminate arrear accumulation and service the debt issued to finance past accumulated arrears (MEFP ¶33).

33. **The authorities have also implemented changes to the household PSO.** Under the new model, Energoatom, the nuclear power generation SOE, is allowed to sell all its production at market prices but has to compensate the Guaranteed Buyer for the difference between market prices and fixed tariffs for electricity consumed by households. At the same time, the large increase in the cap on electricity prices sold to commercial users is expected to considerably increase revenues of Energoatom, allowing the company to generate net revenues above those needed to cover power generation costs and basic investment needs (estimated at UAH 0.75 per KWh[10]). This new model is a step in the right direction but is subject to large implementation risks related to payment discipline along the chain of actors that will need to be closely monitored. In parallel, efforts are being stepped up to strengthen the corporate governance of Energoatom. The Law on corporatization of Energoatom is expected to be enacted by end-December 2021, followed by the introduction of a supervisory board with a majority of independent members and a requirement to produce financial accounts according to international standards by May 2022 (a new **structural benchmark**).

G. Corporate Governance and Privatization

34. **The adherence to the corporate governance framework has worsened since program approval.** A series of government interventions in SOEs were not in line with the spirit of good corporate governance, including the introduction of an ad-hoc salary cap on management and board members which in some cases led to the exit of such officials; the circumvention of the SOE corporate governance framework to replace the CEO as in the case of Naftogaz; and the recent renegotiation of the sale purchase agreement between MGU (new owner of the GTSO) and Naftogaz while none of the SOEs had a supervisory board in place.

[10] Under the previous model, Energoatom had to sell electricity consumed by households at UAH 0.10 per KWh to the Guaranteed Buyer.

These developments undermine an important risk-mitigation framework under the program, deployed to minimize fiscal and financial stability risks in an economy with a large role for SOEs.

35. The authorities are taking some steps to strengthen the corporate governance legal framework, but only a track-record of adherence will ensure that proper safeguards are in place. The authorities have submitted a draft SOE corporate governance law, which incorporates some improvements to bring the framework closer to OECD guidelines on corporate governance of SOEs. One important step would be to broaden the powers of the supervisory boards of economically important SOEs, so they have the ultimate authority on CEO appointments and dismissals.

36. Policies should safeguard corporate governance reforms in state-owned banks and address weaknesses in implementation. Corporate governance in state-owned banks has faced significant challenges. On one hand**,** with the IFI support, the MoF and the majority-independent supervisory boards of each of the SOBs have developed a Memorandum of Understanding, which delineates the boundaries of their relationship and provides a methodology for assessment of the supervisory board's performance (MEFP ¶22). On the other hand, delays in approving SOB strategies and obstructions to the process of renewing management boards reduce the effectiveness of the supervisory boards, delaying much-needed restructuring and weakening NPL recoveries. Finally, changes introduced during the parliamentary process to the recently approved Banking Law weaken the SOB governance framework by relaxing the eligibility criteria for state representatives in SOBs' supervisory boards, creating risks of weakened oversight. To address these weaknesses in SOB governance, the authorities agreed to (MEFP ¶22–23 and ¶25):

- Enact, by end-November 2021, legal amendments that reverse the relaxation of eligibility criteria for state representatives in SOB's supervisory boards (**structural benchmark**).

- Engage an international reputable advisor to conduct an assessment for each of the SOB's supervisory boards performance in 2021. Key findings will be published in June 2022, together with Cabinet's actions to address these findings, including any identified obstacles that are outside the supervisory board's control and may reduce their effectiveness.

- Adopt, by end-November 2021 and in consultation with IFIs, a time-bound succession plan for each of the SOB supervisory boards, consistent with their approved 2021-2024 strategies (**structural benchmark**). The three-year term of supervisory board members expires in the spring of 2022 and the plan will lay out a competitive and transparent succession process.

- Maintain market-based remuneration for SOB supervisory board members.

- Monitor on a quarterly basis, through FSC, implementation of SOBs time bound NPL reduction plans, which will also continue to be subject to an annual evaluation under the NBU's Supervisory Review and Evaluation Process.

37. The authorities remain committed to downsizing the SOE sector. Adopting an overarching state ownership policy would be a key step. Ultimately, corporatization and the concomitant improvement in performance of non-strategic SOEs should lead to their successful privatization. As the crisis recedes, an acceleration of that agenda will be important. To pave the way for this, efforts to strengthen the institutional capacity of the State Property Fund (SPF) should continue, along with legal amendments to simplify the transfer of assets to the SPF, streamline the privatization process, and extend the period during which companies can be sold under UK Law.

38. Preparations are also underway to execute the authorities' strategy to reduce state ownership in the banking sector. Updated in August 2020, the strategy envisions a reduction in state ownership to below 25 percent of banking sector net assets by 2025. An important first step was taken in 2020, when the International Finance Corporation (IFC) granted a convertible loan to UkrGasBank. A roadmap for UkrGasBank's privatization is already approved by Cabinet. To further advance the state's divestment strategy and the objective to attract reputable international investors, Cabinet will endorse, by end-January 2022, a roadmap that outlines the steps required to take PrivatBank and Oschadbank to the market for their partial or full privatization (MEFP ¶24; **structural benchmark**).

PROGRAM ISSUES

39. While the BOP need is less urgent than anticipated at program approval, staff considers the overall BOP need largely unchanged. Although the external position is stronger than anticipated at program approval, particularly as the programmed adverse baseline did not materialize, reserve coverage is projected to stay below 100 percent of the ARA metric in 2022 even assuming full disbursements of remaining available amounts under the current SBA. Against lingering uncertainty, both globally and in Ukraine, building such buffers remains appropriate.

40. The attached Letter of Intent and MEFP describe the authorities' progress in implementing their economic program and set out their commitments. Table 2 of the MEFP summarizes proposed reset and new structural benchmarks.

41. The authorities are requesting an extension of the program and a rephasing of the remaining access. In light of the long delay in completing this review, extending the program through June 30, 2022 and rephasing disbursements will give the authorities time to make further progress under the program objectives. The second review (end-December 2021 test date) would unlock an additional SDR 500 million and the last two tranches would be combined totaling SDR 1.1 billion and subject to a third review with an end-March 2022 test date (Table 8). The proposed rephasing keeps access under normal annual and cumulative limits. Table 7 proposes net international reserves floors and ITs on net domestic assets for the end-December and end-March test dates and adds the new QPC on arrears to renewable energy producers. The ceiling on publicly guaranteed debt is also reduced in 2022 to be aligned with the limit specified in the budget code.

42. While an agreement on outstanding arrears to Russia has not yet been reached, the authorities pursue good faith efforts. Ukraine has outstanding arrears[11] to Russia which has not provided consent to Fund financing despite these arrears. Staff assesses that the Fund may provide financing in line with the policy on arrears to official bilateral creditors. In particular:

- **Prompt financial support from the Fund is considered essential, and the member is pursuing appropriate policies.** As part of the broader Fund response to COVID-19, the SBA provided support in June 2020 to allow for an appropriate response to the crisis. The remaining financing under the program will allow Ukraine to maintain an adequate level of reserves amidst prevailing high uncertainty, while it recalibrates fiscal and monetary policy, addresses fiscal risks from energy policies, and implements reforms intended to shift drivers of growth to the private sector, particularly through boosting private investment.

- **The debtor is making good faith efforts to reach agreement with the creditor on a contribution consistent with the parameters of the Fund-supported arrangement**. The Ukrainian authorities continue to be engaged with Germany which has acted as an intermediary in the past and have communicated their readiness to participate in meetings to take forward bilateral negotiation to reach a settlement in line with the earlier bond restructuring terms, the financing and debt objectives of the 2015 Extended Arrangement for Ukraine, and with contributions proportionate to that of other official bilateral creditors.

- **The decision to provide financing despite the arrears would not have an undue negative effect on the Fund's ability to mobilize official financing packages in future cases**. As detailed in Box 4 of IMF Country Report No. 16/319, the vast majority of the total financing contributions required from official bilateral creditors during the 2015 Extended Arrangement was provided through new financing. Despite taking into consideration Russia's strong track record of providing contributions in the context of Fund programs, in the staff's view, lending into arrears to Russia is not expected to have an undue negative effect on the Fund's ability to mobilize future financing packages given the exceptional nature of the current dispute.

[11] 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. Parties will have an additional one-day hearing before the Court on November 11, and a judgment may be handed down before the end of the year.

43. Financing assurances are expected to remain in place for the duration of the extended arrangement. Disbursements of IFI financing have been delayed in line with lags in reform implementation, but such delays have not caused disruptive balance of payments pressures. Ukraine has retained market access throughout. The remaining SDR holdings from the US$2.7 billion SDR allocation (about half were already converted) are being kept as a financing buffer. Burden sharing among IFIs has been appropriate over the duration of the program, and even if the financing gap in 2022 is conservatively assumed to be covered almost fully by Fund financing, further IFI support might be forthcoming. Finally, while the arrears to Russia are partly financing the program, this is expected to give way to a restructuring of the Russian-held bond consistent with program parameters.

Ukraine: Program Financing
(US$ billion)

	2020	2021	2022
Financing Gap	3.4	2.8	2.7
Gross international reserves accumulation	3.8	0.6	-1.0
Underlying BOP gap 1/	-0.4	2.2	3.6
Official Financing	3.4	2.8	2.7
Bilateral and multilateral	3.4	2.8	2.7
IMF	2.1	0.7	2.3
Other multilateral/bilateral	1.4	2.0	0.4
Multilateral	0.1	1.3	0.4
European Union	1.3	0.7	0.0
Unidentified Official Financing	0.0	0.0	0.0
Memorandum items:			
Capital market access	4.6	1.8	2.5
IMF (net)	1.0	-0.7	0.1
Gross international reserves	29.1	29.7	28.7
% of composite metric	98.1	97.2	90.9

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

44. Ukraine's capacity to repay the Fund is assessed to remain adequate, albeit subject to significant risks associated with policy implementation. Credit outstanding already peaked in 2020 and peak repayments to the Fund are projected to be more moderate than in the recent past: obligations will reach 4.8 percent of gross reserves and 0.6 percent of GDP in 2023 compared to 6 percent and 1 percent respectively at the 2018 peak. Although anticipated risks to the reform program's objectives have materialized, the authorities have managed to enact bills that strengthen the judicial system and protect the anti-corruption framework. These measures preserve and should, to some extent, improve economic governance and therefore private investment, laying the ground for stronger growth. Further losses of gas transit revenues and uncertainty regarding ongoing litigation around Russian-held Eurobonds represent downside risks. Regarding the latter, 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.

45. 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 individuals' and 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 June 2020 for a period of one year (see Staff Report for Request of SBA (IMF Country Report No. 20/197).

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46. Against the backdrop of large global shock, the new Fund arrangement approved in mid-2020 provided space to pursue an appropriate counter-cyclical response. An emergency 2020 fiscal package aimed at reorienting expenditure toward healthcare and social support and boosting public investment in roads to create jobs and offset weak private sector activity. A suspension of ceilings on government guarantees provided further fiscal space, including to support lending to SMEs. Fiscal policy efforts were complemented by substantial monetary easing in 2020 and a set of targeted measures to provide temporary liquidity support to banks. Taken together, these measures have cushioned the effect of the pandemic on growth, preserved confidence, and retained macroeconomic and financial sector stability.

47. As the effects of the crisis have lingered into 2021, the authorities' macroeconomic policy responses remained broadly appropriate. In light of building inflationary pressures, the NBU started raising its policy rate in March, for a cumulative 250 basis points as of October, and, while it remains slightly accommodative, the NBU's strong forward guidance should, for now, anchor expectations. On the fiscal side, overperformance in revenues throughout the year has been promptly allocated to priority expenditure to support activity; even so, with some risk of under execution, the fiscal stance is likely to be less accommodative than planned.

48. However, the program faltered early on broader commitments in the program to protect the independence of the NBU, the resources and independence of anti-corruption institutions and to safeguard progress made in corporate governance. Growing tension around the authorities' commitment to uphold the operational, financial, and legal independence of the NBU manifested itself in the resignation of Governor Smolii in July 2020. Adverse Constitutional Court rulings challenged the anti-corruption framework, and specifically the standing of NABU and its director, as well as the effectiveness of the asset-declaration framework. Government interventions undermined and, in several cases, suspended supervisory boards which provide an important risk-management function in strategic state-owned enterprises.

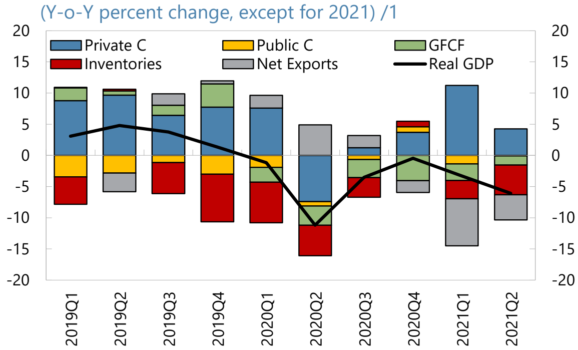
49. A concerted effort by the authorities in recent months has corrected some of these setbacks and delivered on most structural benchmarks set at the time of the program request. The prior actions for this review provide a way forward in (i) protecting the mandate and de jure autonomy of the NBU, (ii) restoring the effectiveness of the asset declaration framework, and (iii) strengthening the institutional independence of the NABU. The other prior actions catch up the delayed structural financial sector and judicial reform agenda set out in the program request, allowing for a shift in focus from legislation to implementation. In light of the reemergence of quasi-fiscal risks in the gas and electricity sectors, reinstalling, and recommitting to, the corporate governance framework as a firewall between public policy and the commercial operation of strategic SOEs is critical.

50. In view of the authorities' recent performance under the program and their commitments for the period ahead, staff supports the authorities' request for the completion of the first review and monetary policy consultation, waiver for non-observance of a performance criterion, extension, the rephasing of access, and financing assurances review. The extension allows for more time to deliver on the objectives of the program, particularly on macroeconomic stability in the context of the uncertain outlook, while the proposed backloading provides strong incentives to push forward with reform, notably on the rule of law—the top impediment to investment in Ukraine. Staff supports the waiver for non-observance of the performance criterion on the ceiling on government guarantees in light of the fact that corrective action—a reintroduction of a binding cap in the 2021 budget—has been taken. Staff also supports the authorities' request for approval, for a period of 12 months, of the retention of the exchange restriction and multiple currency practices on the grounds that the exchange restriction is maintained for balance of payments reasons, necessary, non-discriminatory, and temporary; while the multiple currency practices, which are imposed for non-balance of payments reasons, do not materially impede balance of payments adjustment or harm the interests of other Fund members, and are also non-discriminatory.

Figure 1. Ukraine: Real Sector Developments

After a sharp rebound in the second half of 2020, the economic recovery stalled in 2021…

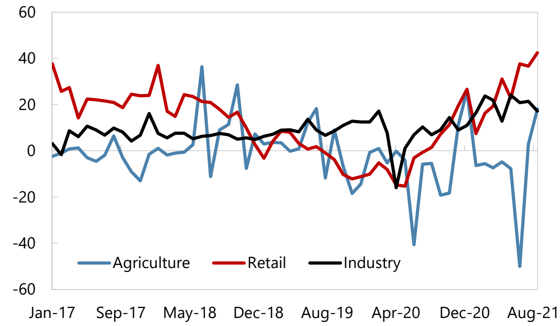
Contributions to Real GDP Growth
(Y-o-Y percent change, except for 2021) /1



Sources: State Statistics Service of Ukraine; and IMF staff calculations.
/1 2021 has 2019 instead of 2020 as calculation base in order to exclude the impact of large shifts in comparative base in 2020Q2.

…but is expected to pick up on the back of strong consumer demand and a recovery in agriculture

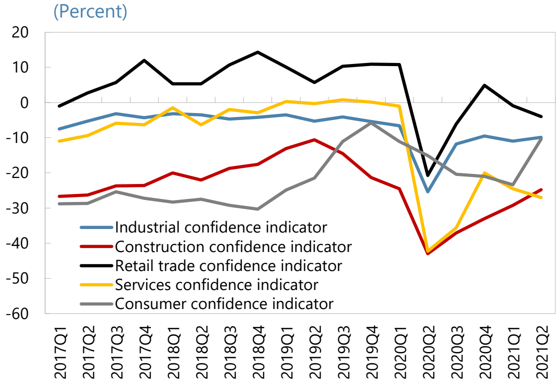
Agriculture, Industry, and Retail
(Y-o-Y percent change, except for 2021) /1



Sources: Haver Analytics and IMF staff estimates.
/1 2021 has 2019 instead of 2020 as calculation base in order to exclude the impact of large shifts in comparative base in 2020Q2.

The outlook is uncertain amid renewed COVID-19 outbreaks and energy price shocks…

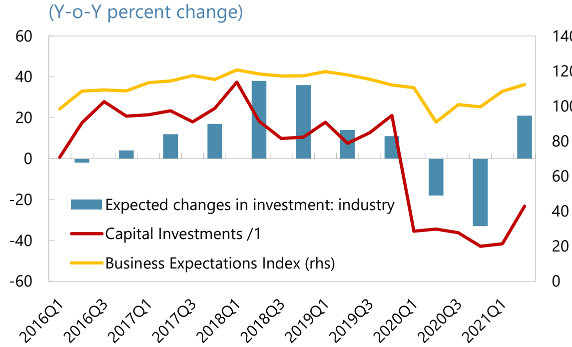
Economic Sentiment Indicators
(Percent)



Source: State Statistics Service of Ukraine.

…holding back private investment.

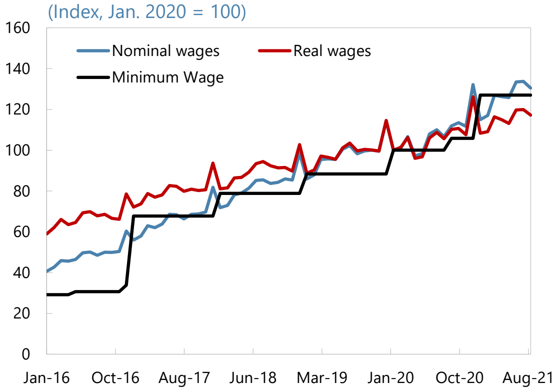
Business Expectations Index and Capital Investments
(Y-o-Y percent change)



Sources: Haver Analytics, NBU, and IMF staff calculations.
/1 2021 has 2019 instead of 2020 as calculation base in order to exclude the impact of large shifts in comparative base in 2020Q2.

Wage growth has resumed with the aid of a large minimum wage hike…

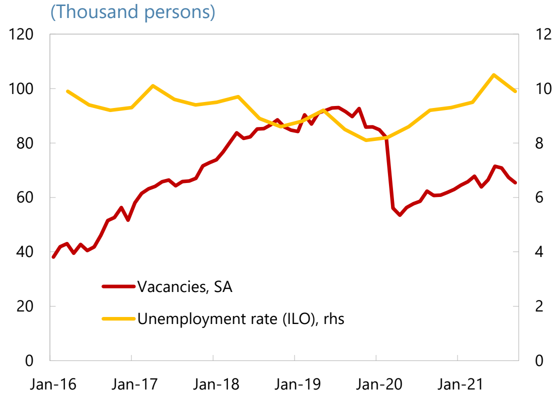
Nominal, Real, and Minimum Wage
(Index, Jan. 2020 = 100)



Sources: Haver Analytics and IMF staff calculations.

…while unemployment remains high.

Unemployment and Vacancies
(Thousand persons)

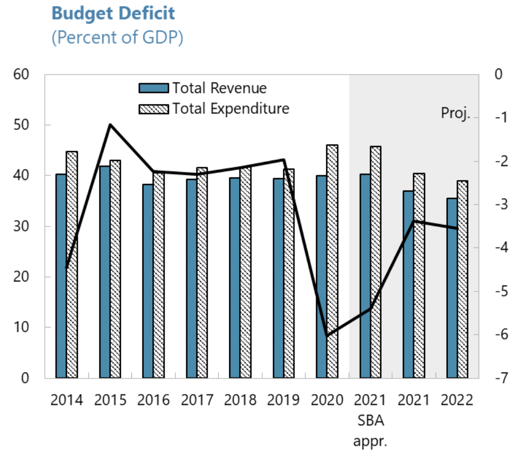


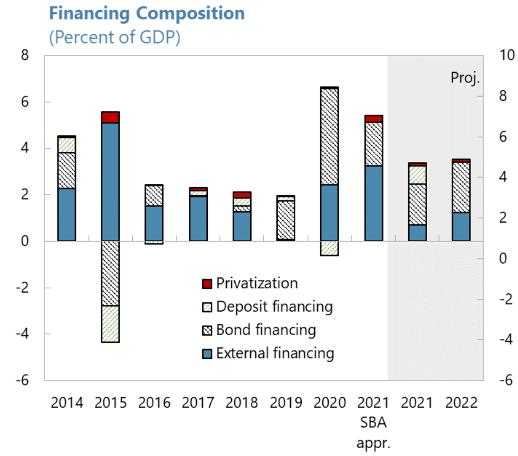
Source: Haver Analytics.

Figure 2. Ukraine: Fiscal Sector Developments

The fiscal deficit is expected to be lower than what originally projected and decline further in 2022.

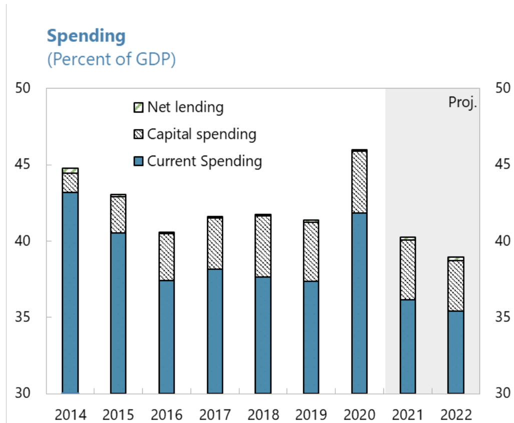
It is expected to be financed primarily by domestic sources.

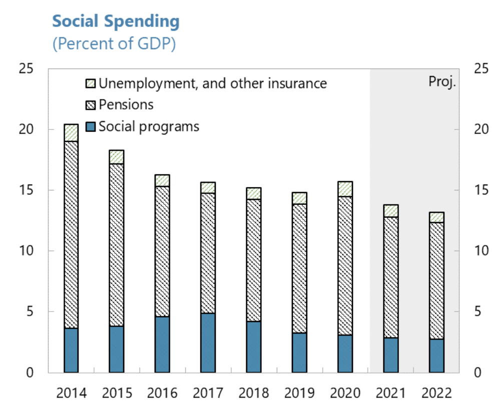




Current spending is projected to decline as a share of GDP

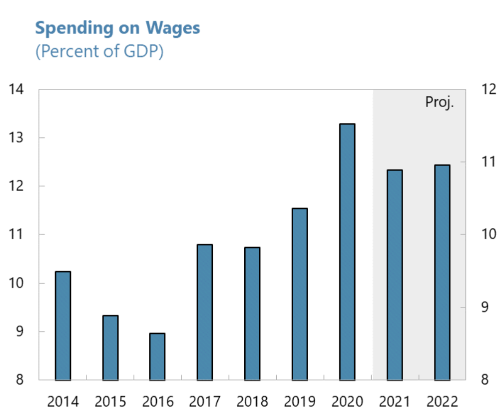
Among current expenditure, the social component will remain broadly stable…





…with larger savings materializing from compression in the wage bill.

Fiscal consolidation will keep the debt to GDP ratio below the 60 percent threshold.



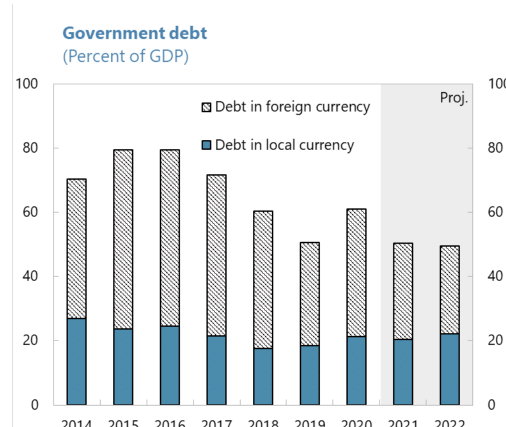
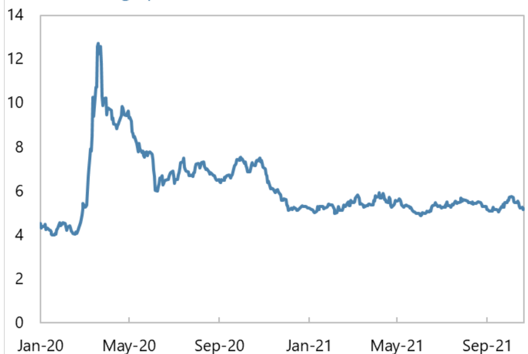


Figure 3. Ukraine: External Sector Developments

Market access has been retained despite setbacks...

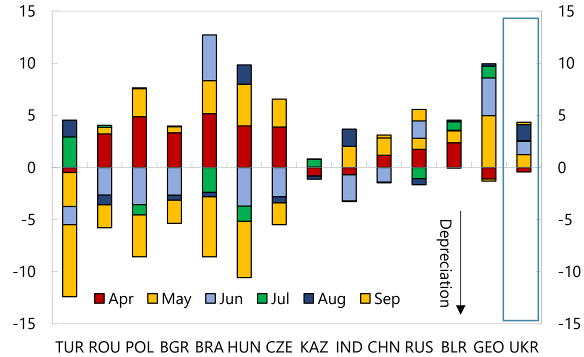
Ukraine, 10 year sovereign spreads 1/
(Percentage points)



Sources: Bloomberg L.P. and IMF staff calculations.
1/ Spreads from 10 year US government bond yields.

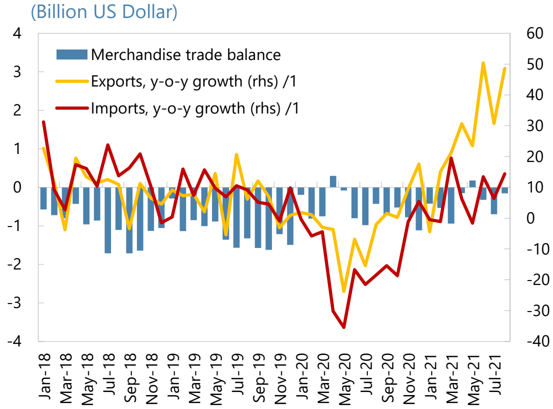
...with little depreciation pressure on the hryvnia.

Exchange Rates of Selected EM Currencies versus USD, 2021 (M-o-M percent change, end of period)



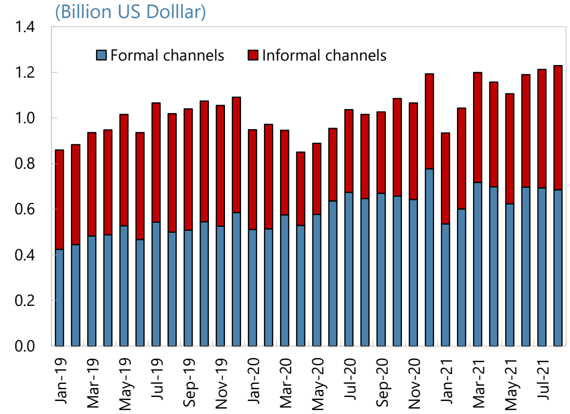
Export growth has outpaced imports...

Merchandise Trade
(Billion US Dollar)



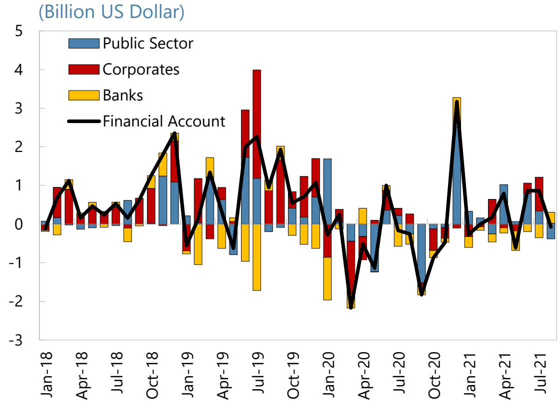
...while remittances remain stable.

Remittances
(Billion US Dollar)



Mild capital outflows from the banking sector were more than offset by large inflows to the public sector...

Financial Account
(Billion US Dollar)



...and reserves remained stable in recent months around US$28.6 billion, covering four months of imports.

Gross International Reserves
(Billion US Dollar)

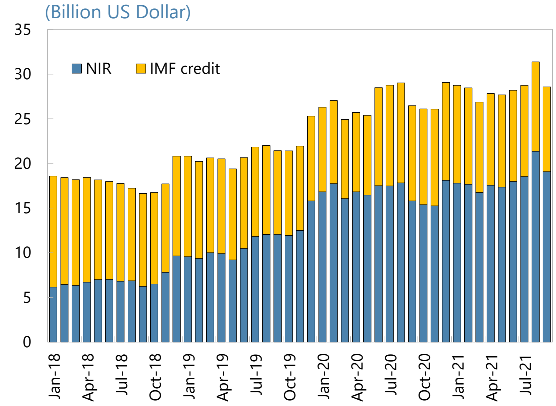
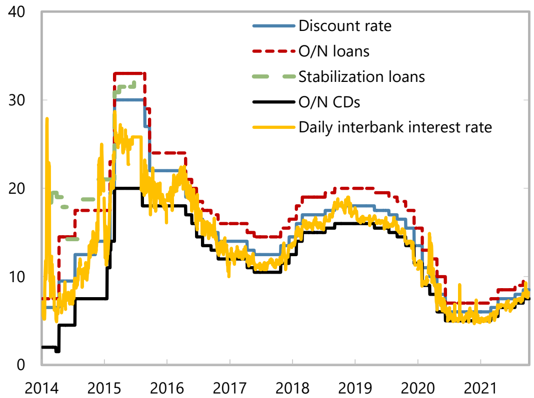


Figure 4. Ukraine: Monetary Developments

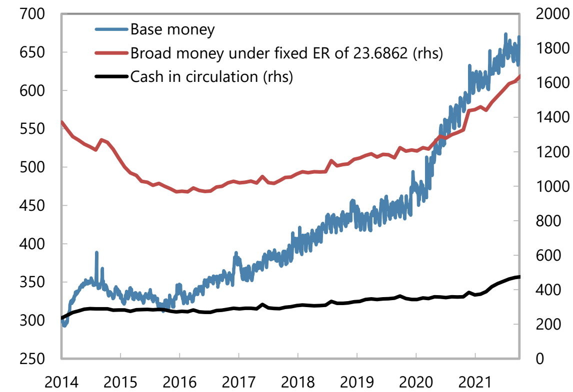
NBU hiked policy rates in response to the rise in inflation…

NBU Interest Rates



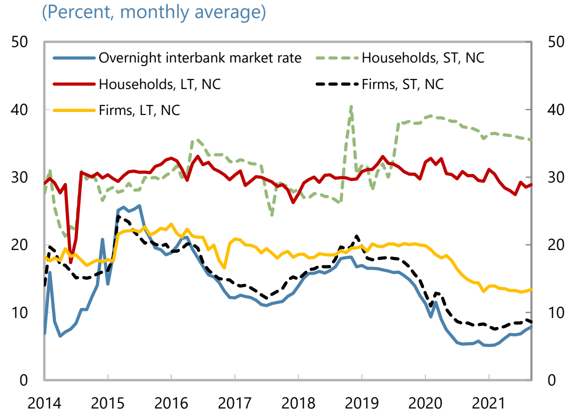
…but the growth of monetary aggregates remains strong.

Money Growth
(UAH billion)



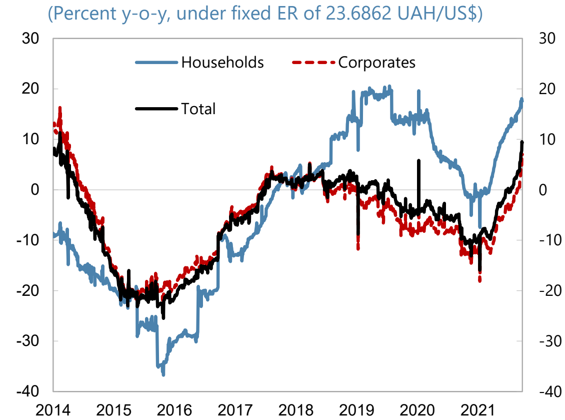
The transmission of monetary tightening to credit markets has been weak…

Lending Rates
(Percent, monthly average)



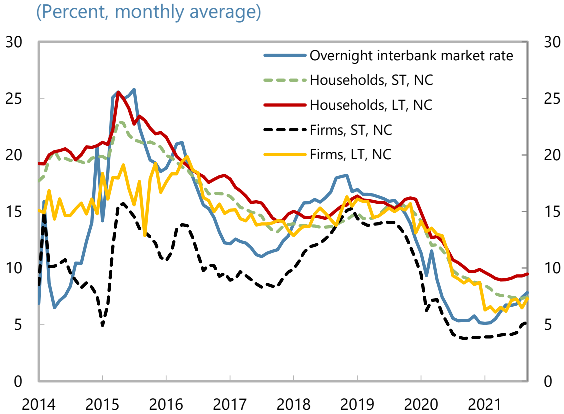
…amid a recovery in bank lending

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



Stronger transmission has been observed in interbank and deposit rates…

Deposit Rates
(Percent, monthly average)



…following the suspension of long-term refinancing operations.

NBU Claims on and Liabilites to Banks
(UAH billion)

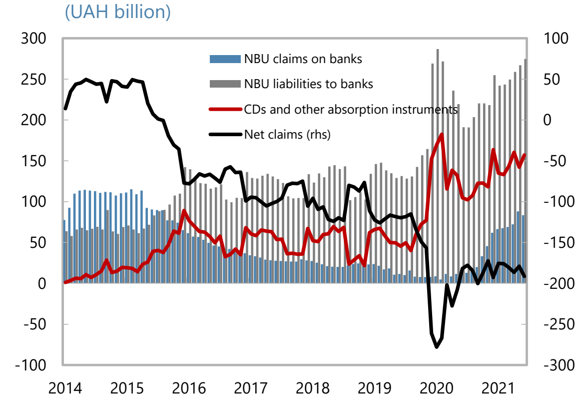
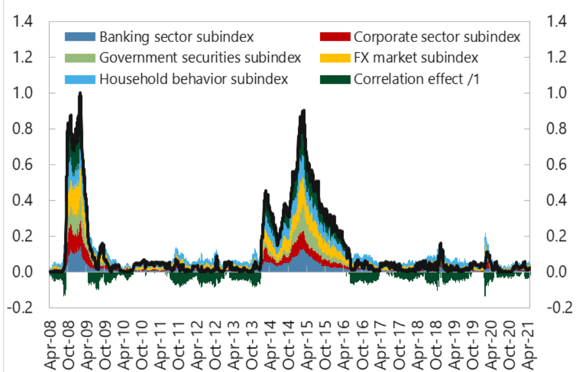


Figure 5. Ukraine: Financial Developments

Financial stress has been lower than during past crisis episodes.

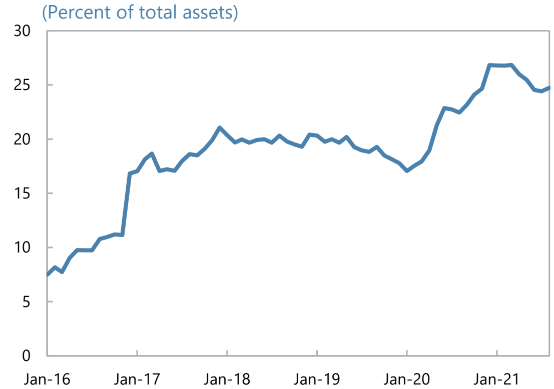
Financial Stress Indicator



Source: NBU.
/1 Net effect of the time-varying correlation (excluding the average correlation for the entire observation period).

Banks' sovereign exposure has increased substantially…

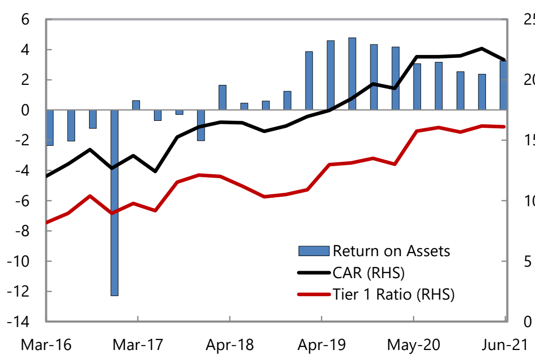
Share of Government securities in Bank assets
(Percent of total assets)



Sources: IMF MFS and IMF staff calculations.

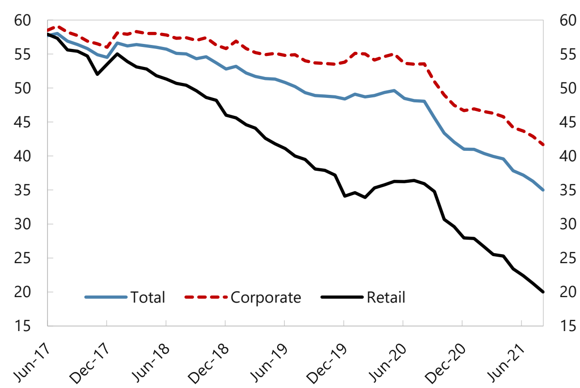
…supporting bank profitability and capital ratios.

Regulatory Capital Ratios and Bank Profitability
(Percent)



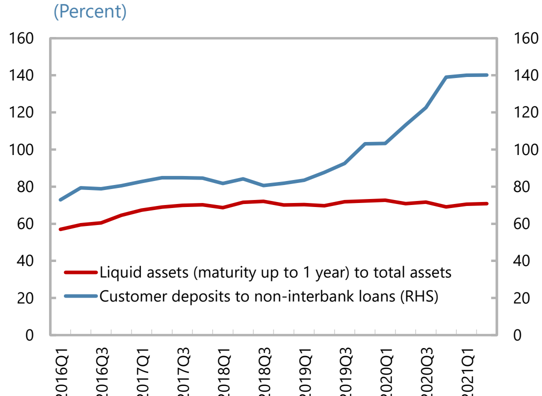
NPLs are on a downward trajectory as banks implement their NPL reduction strategies.

NPL Ratios by Type of Borrower
(Percent)



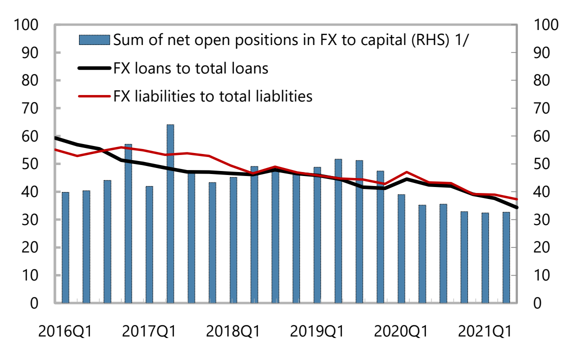
Bank liquidity is high, but the liability structure has shifted towards deposits…

Liquidity
(Percent)



…and FX risks are non-trivial but decreasing.

FX Risk Exposures
(Percent)



1/ 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, 2019–2026

	2019	2020		2021		2022	2023	2024	2025	2026
	Act.	Prog.	Act.	Prog.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Real economy (percent change, unless otherwise indicated)										
Nominal GDP (billions of Ukrainian hryvnias) 1/	3,977	3,908	4,192	4,277	5,213	5,867	6,487	7,111	7,789	8,505
Real GDP 1/	3.2	-8.2	-4.0	1.1	3.2	3.6	3.4	3.8	4.0	4.0
Contributions:										
Domestic demand	3.0	-8.6	-5.7	2.7	3.4	7.0	4.6	4.7	4.9	4.3
Private consumption	8.1	-3.8	1.0	2.3	5.4	3.5	3.4	3.5	3.6	3.6
Public consumption	-2.6	-0.4	-0.6	0.0	0.1	0.1	0.1	0.1	0.1	0.1
Investment	-2.6	-4.5	-6.2	0.4	-2.1	3.5	1.2	1.1	1.3	0.7
Net exports	0.2	0.5	1.6	-1.6	-0.3	-3.5	-1.2	-0.9	-0.9	-0.3
GDP deflator	8.2	7.1	9.8	8.2	20.6	8.7	6.9	5.6	5.3	5.0
Output gap (percent of potential GDP)	-0.4	-7.3	-3.0	-5.1	-1.5	-0.4	-0.2	-0.1	0.0	0.0
Unemployment rate (ILO definition; percent)	8.5	12.6	9.2	12.0	9.4	8.7	8.2	7.8	7.5	7.2
Consumer prices (period average)	7.9	4.5	2.7	7.2	9.5	7.5	5.5	5.3	5.0	5.0
Consumer prices (end of period)	4.1	7.7	5.0	5.9	10.2	6.0	5.6	5.0	5.0	5.0
Nominal wages (average)	18.5	3.6	10.4	11.4	22.0	12.1	9.2	9.0	9.0	9.2
Real wages (average)	9.5	-0.9	7.4	3.9	11.5	4.3	3.5	3.6	3.8	4.0
Savings (percent of GDP)	12.2	6.4	10.8	7.8	10.3	14.1	14.6	15.1	15.7	16.6
Private	10.3	10.5	12.8	9.8	10.9	14.9	14.6	14.1	13.9	14.1
Public	1.9	-4.0	-2.0	-2.1	-0.6	-0.8	-0.1	0.9	1.8	2.5
Investment (percent of GDP)	14.9	8.1	7.5	9.8	10.3	16.8	17.6	18.5	19.4	20.5
Private	11.0	4.4	3.5	6.1	6.4	13.5	14.3	15.1	16.1	17.2
Public	3.9	3.7	4.0	3.7	3.9	3.3	3.3	3.3	3.3	3.3
Gross fixed capital formation (percent of GDP)	17.6	13.7	13.0	13.9	15.2	16.6	17.4	18.2	19.0	19.9
Public finance (percent of GDP)										
General government balance 2/	-2.0	-7.7	-6.0	-5.3	-3.4	-3.5	-2.4	-2.4	-2.4	-2.4
Public and publicly-guaranteed debt	50.5	65.4	61.0	62.7	50.3	49.6	46.8	44.6	43.2	42.3
Money and credit (end of period, percent change)										
Base money	9.6	4.4	24.8	6.0	15.6	9.1	5.5	5.3	5.2	5.1
Broad money	12.6	4.0	28.6	11.0	18.4	13.2	12.2	11.7	11.8	11.8
At program exchange rate	17.5	-2.9	23.0	12.9	20.4	12.7	12.3	12.0	12.1	12.0
Credit to nongovernment	-9.8	-7.3	-3.1	-12.4	4.5	15.6	14.5	16.4	16.2	16.3
At program exchange rate	-3.9	-13.8	-8.9	-9.1	5.7	15.2	15.0	17.2	16.9	16.9
Velocity	2.8	2.6	2.1	2.6	2.4	2.4	2.3	2.3	2.2	2.2
Interbank overnight rate (annual average, percent)	15.6	9.6	7.3	...	...	...	...	...	...	...
Balance of payments (percent of GDP)										
Current account balance	-2.7	-1.7	3.3	-2.0	0.0	-2.7	-3.1	-3.4	-3.7	-3.9
Foreign direct investment	3.4	0.8	-0.1	2.1	3.3	2.4	2.5	2.5	2.5	2.3
Gross reserves (end of period, billions of U.S. dollars)	25.3	19.3	29.1	23.4	29.7	28.7	29.1	28.5	28.9	28.1
Months of next year's imports of goods and services	4.8	3.1	4.4	3.4	4.0	3.6	3.3	3.0	2.8	2.5
Percent of short-term debt (remaining maturity)	54.9	63.6	62.3	70.8	66.5	60.5	57.1	62.1	58.7	53.2
Percent of the IMF composite metric (float)	88.9	70.2	98.1	78.8	97.2	90.9	86.6	79.7	79.1	73.0
Goods exports (annual volume change in percent)	7.2	-7.2	-3.0	8.3	32.8	-3.3	7.2	8.1	8.4	8.4
Goods imports (annual volume change in percent)	7.2	-5.3	-4.0	7.0	17.3	9.5	10.6	9.3	9.2	8.9
Goods terms of trade (percent change)	4.6	4.4	11.1	-2.9	-4.2	-0.8	0.9	0.4	0.2	0.1
Exchange rate										
Hryvnia per U.S. dollar (end of period)	23.7	29.5	28.3	...	...	...	...	...	...	...
Hryvnia per U.S. dollar (period average)	25.8	30.0	27.0	...	...	...	...	...	...	...
Real effective rate (deflator-based, percent change)	15.0	-7.0	1.5	...	...	...	...	...	...	...
Real effective rate (deflator-based, 2010=100)	121.1	111.9	122.9	...	...	...	...	...	...	...
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 2a. Ukraine: General Government Finances, 2019–2026 1/

(Billions of Ukrainian Hryvnia)

	2019	2020		2021	2022	2023	2024	2025	2026
	Act.	Prog.	Act.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Revenue	1,566.3	1,551.8	1,675.4	1,930.0	2,079.6	2,247.7	2,452.9	2,673.7	2,915.0
Tax revenue	1,358.6	1,346.2	1,446.4	1,755.8	1,933.6	2,091.6	2,278.8	2,487.7	2,713.7
Tax on income, profits, and capital gains	392.8	392.3	413.6	501.2	562.7	616.9	673.7	735.4	803.1
Personal income tax	275.5	285.2	295.1	350.1	392.6	428.8	467.5	509.5	556.5
Corporate profit tax	117.3	107.1	118.5	151.2	170.2	188.1	206.2	225.9	246.7
Social security contributions	279.1	292.1	300.2	356.3	391.8	409.5	447.1	489.6	533.6
Property tax	38.0	36.7	37.4	44.7	46.8	47.6	48.6	49.4	50.3
Tax on goods and services	526.6	519.5	565.4	699.5	769.9	855.9	942.3	1,038.2	1,142.7
VAT	378.7	372.7	400.6	513.4	590.0	658.3	725.4	800.2	881.5
Excise	137.1	136.1	153.9	172.8	167.1	183.9	202.5	222.8	245.0
Other	10.9	10.7	11.0	13.3	12.9	13.7	14.5	15.3	16.2
Tax on international trade	30.1	30.5	30.5	38.4	38.9	43.4	47.4	51.8	56.3
Other tax	92.1	75.2	99.3	115.6	123.4	118.3	119.7	123.2	127.6
Nontax revenue	207.7	205.6	229.0	174.1	146.0	156.1	174.1	186.1	201.2
Expenditure	1,644.5	1,854.0	1,927.8	2,106.4	2,287.3	2,525.6	2,686.9	2,862.2	3,049.1
Current	1,486.8	1,652.0	1,753.5	1,884.6	2,076.8	2,292.9	2,431.8	2,582.8	2,744.0
Compensation of employees	442.5	447.9	503.0	509.0	555.6	600.8	645.3	692.0	741.8
Goods and services	250.7	358.9	329.5	425.4	465.3	502.6	538.5	575.2	614.5
Interest	120.8	147.0	122.2	164.2	188.7	244.0	227.0	225.5	228.4
Subsidies to corporations and enterprises	80.9	46.7	133.6	66.5	90.8	95.8	100.9	105.9	111.2
Social benefits	589.5	650.4	657.4	718.2	774.8	848.0	918.4	982.4	1,046.2
Social programs (on budget)	130.1	130.4	130.5	149.2	162.3	175.5	188.2	201.3	215.4
Pensions	421.0	473.3	475.8	516.9	560.6	617.1	671.6	719.4	766.0
Unemployment, disability, and	38.4	46.7	51.2	52.1	51.9	55.4	58.6	61.7	64.7
Other current expenditures	2.4	1.1	7.9	1.3	1.6	1.7	1.8	1.9	2.0
Capital	153.7	144.2	169.0	204.9	195.5	216.1	236.9	259.5	283.4
Net lending	4.0	7.8	5.3	9.0	13.5	14.9	16.3	17.9	19.5
Contingency reserve 2/	0.0	49.9	0.0	7.8	1.5	1.7	1.8	2.0	2.2
Unidentified measures	0.0	0.0	0.0	0.0	0.0	122.2	63.3	1.5	-70.0
General government overall balance	-78.2	-302.1	-252.4	-176.4	-207.7	-155.7	-170.7	-186.9	-204.1
General government financing	78.2	302.1	252.4	176.4	207.7	155.7	170.7	186.9	204.1
External	2.5	133.5	101.8	36.4	73.3	17.7	-7.9	6.2	-27.9
Disbursements	88.6	246.5	218.4	125.3	141.9	97.7	123.2	123.2	123.2
o/w IFIs	22.2	173.9	92.7	75.6	74.5	0.0	0.0	0.0	0.0
o/w IMF budget support		103.7	55.4	19.5	63.4	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	0.0
Amortizations	-86.1	-113.0	-116.6	-88.8	-68.5	-80.0	-131.1	-117.0	-151.1
Domestic (net)	75.8	168.6	150.6	139.9	134.4	138.0	178.5	180.7	232.0
Bond financing 3/	67.0	138.4	173.2	92.5	126.4	132.0	172.5	174.7	226.0
Direct bank borrowing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Deposit finance	7.2	30.0	-26.2	40.0	0.0	0.0	0.0	0.0	0.0
Privatization	1.6	0.2	3.7	7.4	8.0	6.0	6.0	6.0	6.0
Bank and DGF recapitalization	5.0	20.0	6.8	8.5	17.0	0.0	0.0	0.0	0.0
Memorandum items:									
Primary balance	42.6	-155.1	-130.2	-12.2	-19.0	88.3	56.4	38.6	24.2
Cyclically-adjusted primary balance	48.3	-32.4	-78.4	11.8	-12.2	91.4	58.0	38.5	24.4
Structural primary balance 4/	48.3	-32.4	-110.2	11.8	-12.2	91.4	58.0	38.5	24.4
Public and publicly-guaranteed debt	2,008	2,580	2,557	2,622	2,908	3,038	3,174	3,367	3,596
Nominal GDP (billions of Ukrainian hryvnia)	3,977	3,908	4,192	5,213	5,867	6,487	7,111	7,789	8,505

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 2b. Ukraine: General Government Finances, 2019–2026 1

(Percent of GDP)

	2019	2020		2021	2022	2023	2024	2025	2026
	Act.	Prog.	Act.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Revenue	39.4	39.7	40.0	37.0	35.4	34.7	34.5	34.3	34.3
Tax revenue	34.2	34.5	34.5	33.7	33.0	32.2	32.0	31.9	31.9
Tax on income, profits, and capital gains	9.9	10.0	9.9	9.6	9.6	9.5	9.5	9.4	9.4
Personal income tax	6.9	7.3	7.0	6.7	6.7	6.6	6.6	6.5	6.5
Corporate profit tax	2.9	2.7	2.8	2.9	2.9	2.9	2.9	2.9	2.9
Social security contributions	7.0	7.5	7.2	6.8	6.7	6.3	6.3	6.3	6.3
Property tax	1.0	0.9	0.9	0.9	0.8	0.7	0.7	0.6	0.6
Tax on goods and services	13.2	13.3	13.5	13.4	13.1	13.2	13.3	13.3	13.4
VAT	9.5	9.5	9.6	9.8	10.1	10.1	10.2	10.3	10.4
Excise	3.4	3.5	3.7	3.3	2.8	2.8	2.8	2.9	2.9
Other	0.3	0.3	0.3	0.3	0.2	0.2	0.2	0.2	0.2
Tax on international trade	0.8	0.8	0.7	0.7	0.7	0.7	0.7	0.7	0.7
Other tax	2.3	1.9	2.4	2.2	2.1	1.8	1.7	1.6	1.5
Nontax revenue	5.2	5.3	5.5	3.3	2.5	2.4	2.4	2.4	2.4
Expenditure	41.3	47.4	46.0	40.4	39.0	38.9	37.8	36.7	35.8
Current	37.4	42.3	41.8	36.2	35.4	35.3	34.2	33.2	32.3
Compensation of employees	11.1	11.5	12.0	9.8	9.5	9.3	9.1	8.9	8.7
Goods and services	6.3	9.2	7.9	8.2	7.9	7.7	7.6	7.4	7.2
Interest	3.0	3.8	2.9	3.2	3.2	3.8	3.2	2.9	2.7
Subsidies to corporations and enterprises	2.0	1.2	3.2	1.3	1.5	1.5	1.4	1.4	1.3
Social benefits	14.8	16.6	15.7	13.8	13.2	13.1	12.9	12.6	12.3
Social programs (on budget)	3.3	3.3	3.1	2.9	2.8	2.7	2.6	2.6	2.5
Pensions	10.6	12.1	11.3	9.9	9.6	9.5	9.4	9.2	9.0
Unemployment, disability, and accident	1.0	1.2	1.2	1.0	0.9	0.9	0.8	0.8	0.8
Other current expenditures	0.1	0.0	0.2	0.0	0.0	0.0	0.0	0.0	0.0
Capital	3.9	3.7	4.0	3.9	3.3	3.3	3.3	3.3	3.3
Net lending	0.1	0.2	0.1	0.2	0.2	0.2	0.2	0.2	0.2
Contingency reserve 3/	0.0	1.3	0.0	0.1	0.0	0.0	0.0	0.0	0.0
Unidentified measures	0.0	0.0	0.0	0.0	0.0	1.9	0.9	0.0	-0.8
General government overall balance	-2.0	-7.7	-6.0	-3.4	-3.5	-2.4	-2.4	-2.4	-2.4
General government financing	2.0	7.7	6.0	3.4	3.5	2.4	2.4	2.4	2.4
External	0.1	3.4	2.4	0.7	1.2	0.3	-0.1	0.1	-0.3
Disbursements	2.2	6.3	5.2	2.4	2.4	1.5	1.7	1.6	1.4
o/w IFIs	0.6	4.4	2.2	1.5	1.3	0.0	0.0	0.0	0.0
o/w IMF budget support		2.7	1.3	0.4	1.1	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	0.0
Amortizations	-2.2	-2.9	-2.8	-1.7	-1.2	-1.2	-1.8	-1.5	-1.8
Domestic (net)	1.9	4.3	3.6	2.7	2.3	2.1	2.5	2.3	2.7
Bond financing 4/	1.7	3.5	4.1	1.8	2.2	2.0	2.4	2.2	2.7
Direct bank borrowing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Deposit finance	0.2	0.8	-0.6	0.8	0.0	0.0	0.0	0.0	0.0
Privatization	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Bank and DGF recapitalization	0.1	0.5	0.2	0.2	0.3	0.0	0.0	0.0	0.0
Memorandum items:									
Primary balance	1.1	-4.0	-3.1	-0.2	-0.3	1.4	0.8	0.5	0.3
Cyclically-adjusted primary balance	1.2	-0.8	-1.9	0.2	-0.2	1.4	0.8	0.5	0.3
Structural primary balance 5/	1.2	-0.8	-2.6	0.2	-0.2	1.4	0.8	0.5	0.3
Public and publicly-guaranteed debt	50.5	65.4	61.0	50.3	49.6	46.8	44.6	43.2	42.3
Nominal GDP (billions of Ukrainian hryvnia)	3,977	3,908	4,192	5,213	5,867	6,487	7,111	7,789	8,505

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, 2019–2026 1/

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

	2019	2020	2021	2022	2023	2024	2025	2026
	Act.	Act.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Current account balance	-4.2	5.2	-0.1	-5.8	-7.1	-8.7	-10.3	-11.9
Goods (net)	-14.3	-6.9	-3.9	-12.6	-15.3	-17.1	-19.1	-21.1
Exports	46.1	45.1	62.0	59.3	63.5	68.6	74.4	80.6
Imports	-60.4	-52.0	-65.9	-71.9	-78.8	-85.8	-93.5	-101.7
Of which: gas	-2.2	-2.1	-1.9	-1.8	-1.9	-1.9	-1.9	-1.9
Services (net)	1.8	4.4	3.1	1.6	1.6	1.7	1.8	2.1
Receipts	17.3	15.6	17.2	18.4	19.7	21.2	22.7	24.6
Payments	-15.6	-11.2	-14.2	-16.8	-18.1	-19.5	-20.9	-22.5
Primary income (net)	1.9	3.5	-3.8	0.3	1.2	1.1	1.2	1.2
Secondary income (net)	6.5	4.1	4.6	5.0	5.3	5.6	5.9	6.0
Capital account balance 2/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial account balance	-7.9	2.0	-1.4	-6.6	-9.8	-10.7	-12.0	-10.4
Direct investment (net) 3/	-5.2	0.1	-6.2	-5.1	-5.8	-6.3	-6.9	-7.9
Portfolio investment (net)	-5.1	0.8	-0.8	-2.1	-4.1	-2.3	-3.0	-2.3
Portfolio investment: assets	0.4	0.2	-0.2	0.0	0.0	0.0	0.0	0.0
Portfolio investment: liabilities	5.5	-0.7	0.6	2.1	4.1	2.3	3.0	2.3
Financial derivatives (net)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other investment (net)	2.5	1.0	5.6	0.6	0.1	-2.0	-2.1	-0.2
Other investment: assets	5.9	6.3	8.3	3.4	1.6	-0.5	-1.2	0.0
Other investment: liabilities	3.4	5.2	2.6	2.8	1.5	1.5	0.9	0.2
Net use of IMF resources for budget support	-1.0	2.1	0.3	1.8	-0.5	0.0	-1.6	-1.6
Central Bank	0.0	0.0	2.7	0.1	0.0	0.0	0.0	0.0
General government	1.0	1.2	0.7	-0.7	-0.5	-1.3	-0.1	-1.0
Banks 3/	-0.3	-0.2	0.3	0.0	0.0	0.0	0.0	0.0
Other sectors	3.7	2.2	-1.4	1.5	2.4	2.8	2.6	2.8
Errors and omissions	1.2	0.8	0.7	0.0	0.0	0.0	0.0	0.0
Overall balance	4.9	3.9	2.0	0.8	2.7	2.0	1.7	-1.5
Financing	-5.1	-3.9	-2.0	-0.8	-2.7	-2.0	-1.5	0.4
Gross official reserves (increase: -)	-4.5	-2.8	-1.1	1.0	-0.4	0.7	-0.4	0.7
Net use of IMF resources for BOP support	-0.6	-1.1	-0.9	-1.7	-2.3	-2.6	-1.1	-0.4
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)	78.9	79.0	65.9	60.1	56.4	52.1	48.3	45.2
Current account balance (percent of GDP)	-2.7	3.3	0.0	-2.7	-3.1	-3.4	-3.7	-3.9
Goods and services trade balance (percent of GDP)	-8.2	-1.6	-0.4	-5.2	-5.9	-6.1	-6.2	-6.3
Gross international reserves	25.3	29.1	29.7	28.7	29.1	28.5	28.9	28.1
Months of next year's imports of goods and services	4.8	4.4	4.0	3.6	3.3	3.0	2.8	2.5
Percent of the IMF composite metric	88.9	98.1	97.2	90.9	86.6	79.7	79.1	73.0
Gross domestic product (current prices)	154.0	155.3	190.8	213.9	232.4	254.0	278.2	303.8

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, 2019–2026

(Billions of U.S. dollars)

	2019 Act.	2020 Act.	2021 Proj.	2022 Proj.	2023 Proj.	2024 Proj.	2025 Proj.	2026 Proj.
Total financing requirements	41.7	31.5	39.3	37.2	38.9	43.7	41.6	48.6
Current account deficit	4.2	-5.2	0.1	5.8	7.1	8.7	10.3	11.9
Portfolio investment	5.6	7.2	3.2	1.7	2.3	5.6	2.0	3.8
Private	1.7	1.2	0.5	0.7	0.9	2.7	0.6	1.0
General government	3.9	6.0	2.8	1.0	1.4	2.9	1.4	2.8
Medium and long-term debt	4.9	5.6	5.6	5.3	5.4	6.1	5.0	5.9
Private	4.3	4.2	4.3	4.3	4.3	4.2	4.2	4.1
Banks	0.4	0.4	0.5	0.6	0.6	0.5	0.5	0.4
Corporates	3.9	3.8	3.8	3.8	3.8	3.8	3.8	3.8
General government	0.6	1.4	1.3	0.9	1.1	1.9	0.8	1.8
Short-term debt (including deposits)	7.8	3.2	6.6	6.6	6.6	6.6	6.6	6.6
Other net capital outflows 1/	5.9	6.3	8.3	3.4	1.6	-0.5	-1.2	0.0
Trade credit	13.3	14.5	15.5	14.4	15.9	17.2	18.9	20.4
Total financing sources	44.2	31.3	38.3	35.8	42.1	45.7	44.7	48.4
Capital transfers	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Direct investment, net	5.2	-0.1	6.2	5.1	5.8	6.3	6.9	7.9
Portfolio investment	10.7	6.3	4.0	3.8	6.4	7.9	5.0	6.1
Private	2.6	0.7	1.0	0.3	0.9	3.5	0.6	1.7
General government	8.1	5.7	3.0	3.5	5.5	4.4	4.4	4.4
Of which: Market financing	2.4	4.6	1.8	2.5	3.5	4.4	4.4	4.4
Medium and long-term debt	5.1	5.4	6.5	4.4	6.1	6.0	5.8	5.7
Private	4.3	2.9	3.9	4.4	5.5	5.4	5.3	5.3
Banks	-1.4	0.3	0.5	0.6	0.6	0.5	0.5	0.4
Corporates	5.7	2.6	3.3	3.8	4.9	4.9	4.9	4.9
General government	0.8	2.6	2.7	0.0	0.6	0.6	0.4	0.4
Short-term debt (including deposits)	8.7	3.6	7.1	6.7	6.6	6.6	6.6	6.6
Trade credit	14.5	16.0	14.4	15.9	17.2	18.9	20.4	22.0
Increase in gross reserves	4.5	2.8	1.1	-1.0	0.4	-0.7	0.4	-0.7
Errors and omissions	1.2	0.8	0.7	0.0	0.0	0.0	0.0	0.0
Total financing needs	0.8	2.3	1.4	0.5	-2.8	-2.6	-2.7	-0.5
Official financing	-0.8	2.3	1.4	0.5	-2.8	-2.6	-2.7	-0.5
IMF	-1.6	1.0	-0.7	0.1	-2.8	-2.6	-2.7	-0.5
Purchases	0.0	2.1	0.7	2.3	0.0	0.0	0.0	0.0
Repurchases	1.6	1.1	1.4	2.2	2.8	2.6	2.7	0.5
Official creditors	0.8	1.4	2.0	0.4	0.0	0.0	0.0	0.0
World Bank	0.2	0.0	1.1	0.2	0.0	0.0	0.0	0.0
EU	0.0	1.3	0.7	0.0	0.0	0.0	0.0	0.0
EBRD/EIB/Others	0.6	0.1	0.2	0.1	0.0	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	25.3	29.1	29.7	28.7	29.1	28.5	28.9	28.1
Months of next year's imports of goods and services	4.8	4.4	4.0	3.6	3.3	3.0	2.8	2.5
Percent of short-term debt (remaining maturity)	54.9	62.3	66.5	60.5	57.1	62.1	58.7	53.2
Percent of the IMF composite metric 2/	88.9	98.1	97.2	90.9	86.6	79.7	79.1	73.0
Loan rollover rate (percent)								
Banks	97.2	94.2	105.7	100.5	100.5	100.0	100.0	0.0
Corporates	160.5	67.2	93.3	101.1	123.5	123.5	123.5	123.5
Total	120.2	76.5	100.3	100.7	110.5	110.4	110.4	110.4

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

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

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

Table 5. Ukraine: Monetary Accounts, 2019–2026

(Billions of Ukrainian hryvnia unless otherwise noted)

	2019 Act.	2020 Act.	2021 Proj.	2022 Proj.	2023 Proj.	2024 Proj.	2025 Proj.	2026 Proj.
Monetary survey								
Net foreign assets	714	977	1,056	1,120	1,177	1,155	1,188	1,208
Net domestic assets	724	873	1,135	1,361	1,608	1,957	2,291	2,681
Domestic credit	1,647	1,321	1,433	1,690	1,626	1,971	2,357	2,896
Net claims on government	664	368	438	541	312	443	582	834
Credit to the economy	974	944	987	1,140	1,305	1,519	1,766	2,053
Domestic currency	616	596	585	731	891	1,103	1,347	1,632
Foreign currency	358	348	402	409	414	416	419	421
Other claims on the economy	8	9	9	9	9	9	9	9
Other items, net	-923	-448	-299	-329	-18	-15	-65	-215
Broad money	1,438	1,850	2,191	2,481	2,785	3,112	3,480	3,889
Currency in circulation	384	516	588	639	669	700	730	761
Total deposits	1,051	1,331	1,599	1,838	2,112	2,408	2,745	3,123
Domestic currency deposits	641	837	1,101	1,297	1,539	1,814	2,130	2,487
Foreign currency deposits	410	494	498	541	573	594	615	636
Accounts of the NBU								
Net foreign assets	617	826	824	829	868	854	893	933
Net international reserves	599	821	820	825	863	849	889	928
(In billions of U.S. dollars)	25.3	29.0	….	…	…	…	…	…
Reserve assets	599	824	802	814	831	810	818	793
Other net foreign assets	18	4	4	4	4	4	4	4
Net domestic assets	-140	-230	-135	-77	-74	-18	-14	-9
Net domestic credit	183	197	97	140	-221	-228	-228	-135
Net claims on government	309	267	248	234	220	206	192	177
Claims on government	348	337	325	314	301	288	276	263
Net claims on banks	-126	-70	-150	-95	-441	-434	-419	-312
Other items, net	-323	-426	-232	-217	147	210	213	126
Base money	477	596	689	752	794	836	879	924
Currency in circulation	384	516	588	639	669	700	730	761
Banks' reserves	93	80	101	113	125	136	149	163
Cash in vault	41	42	51	59	67	77	87	99
Correspondent accounts	52	38	50	54	57	59	61	64
Deposit money banks								
Net foreign assets	96	151	232	291	309	302	295	275
Foreign assets	214	262	332	384	403	403	398	398
Foreign liabilities	117	111	100	92	94	101	102	122
Net domestic assets	954	1,180	1,367	1,547	1,802	2,106	2,449	2,848
Domestic credit	1,599	1,247	1,479	1,705	2,014	2,378	2,776	3,237
Net claims on government 1/	355	102	190	306	92	237	390	657
Credit to the economy	974	944	986	1,140	1,305	1,519	1,766	2,053
Other claims on the economy	8	9	9	9	9	9	9	9
Net claims on NBU	269	255	294	250	608	613	611	518
Other items, net	-644	-67	-112	-158	-211	-272	-327	-389
Banks' liabilities	1,051	1,331	1,599	1,838	2,112	2,408	2,744	3,123
Memorandum items:	(End of period, percent change unless otherwise noted)							
Base money	9.6	24.8	15.6	9.1	5.5	5.3	5.2	5.1
Currency in circulation	5.7	34.3	14.0	8.7	4.6	4.6	4.4	4.2
Broad money	12.6	28.6	18.4	13.2	12.2	11.7	11.8	11.8
At program accounting exchange rate	17.5	23.0	20.4	12.7	12.3	12.0	12.1	12.0
Credit to the economy	-9.8	-3.1	4.5	15.6	14.5	16.4	16.2	16.3
At program accounting exchange rate	-3.9	-8.9	5.7	15.2	15.0	17.2	16.9	16.9
Real credit to the economy 2/	-13.3	-7.7	-5.2	9.0	8.4	10.9	10.7	10.7
Credit-to-GDP ratio, in percent	24.5	12.9	18.9	19.4	20.1	21.4	22.7	24.1
Velocity of broad money, ratio	2.8	2.1	2.4	2.4	2.3	2.3	2.2	2.2
Money multiplier, ratio	3.0	3.1	3.2	3.3	3.5	3.7	4.0	4.2
Hryvnia per U.S. dollar (end of period)	23.7	28.3	….	…	…	…	…	…

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

1/ Includes claims for recapitalization of banks.

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

Table 6. Ukraine: Structural and Financial Soundness Indicators for the Banking Sector, 2017–2021

(Percent, unless otherwise indicated)

	2017	2018	2019	2020				2021	
	Dec.	Dec.	Dec.	Mar.	Jun.	Sep.	Dec.	Mar.	Jun.
Ownership									
Number of banks, *of which 1/*	84	78	75	75	75	74	74	73	73
Private	79	73	70	70	70	69	69	68	68
Domestic	40	36	35	36	36	36	36	35	35
Foreign	39	37	35	34	34	33	33	33	33
Of which: 100% foreign-owned	19	23	23	23	23	22	23	23	23
State-owned	2	2	3	3	3	3	3	3	3
State-controlled (inc. in sanation)	3	3	2	2	2	2	2	2	2
Foreign-owned banks' share in statutory capital	34.3	30.1	31.1	31.0	30.9	30.1	29.8	29.8	29.8
Concentration									
Share of assets of largest 10 banks	75.7	76.9	78.8	78.9	79.0	78.9	78.1	77.7	76.6
Share of assets of largest 25 banks	93.4	93.8	94.4	94.6	94.3	94.4	93.8	93.7	93.0
Number of bank with assets less than $150 million	54	47	46	48	46	47	41	38	35
Capital Adequacy									
Regulatory capital to risk-weighted assets	16.1	16.2	19.7	19.3	21.9	21.9	22.0	22.6	21.7
Regulatory Tier 1 capital to risk-weighted assets	12.1	10.5	13.5	13.0	15.8	16.1	15.7	16.2	16.1
Capital to total assets	11.9	10.8	13.5	13.3	12.5	12.3	11.7	11.9	11.1
Asset Quality									
NPLs to total loans (NBU definition) 2/	54.5	52.9	48.4	48.9	48.5	45.6	41.0	39.9	37.2
NPLs net of provisions to capital (NBU definition) 2/	70.2	60.2	25.3	25.4	24.8	23.1	21.9	21.1	21.1
Provisioning coverage ratio	81.1	86.0	90.4	90.9	90.9	90.6	89.3	89.2	89.1
Loan loss reserves to total (gross) loans	46.7	49.1	48.1	48.8	49.0	47.4	42.5	41.5	38.7
Foreign Exchange Rate Risk									
Loans in foreign currency to total loans	47.1	46.5	41.2	44.5	42.5	42.0	39.1	37.6	34.4
Deposits in foreign currency to total deposits	46.6	43.2	40.7	44.6	41.0	41.3	38.7	38.7	37.4
Foreign currency loans to foreign currency deposits	115.1	127.7	95.4	94.6	89.7	81.7	71.8	68.7	64.7
Net open FX position to capital 3/	43.3	47.0	47.4	39.0	35.2	35.6	32.9	32.4	32.7
Liquidity Risk									
Liquid assets to total assets	53.9	51.1	72.3	72.7	70.8	71.7	69.1	70.5	70.9
Customer deposits to total loans to the economy	84.6	81.8	103.1	103.3	113.3	122.6	139.0	140.1	140.2
Earnings and Profitability									
Return on assets (after tax; end-of-period) 4/	-1.8	1.6	4.7	4.5	3.3	3.4	2.8	2.7	3.6
Return on equity (after tax; end-of-period) 4/	-15.3	14.6	37.6	32.8	24.8	26.2	21.7	22.5	31.0
Net interest margin to total assets	3.9	5.3	5.4	1.3	2.6	3.7	4.6	1.4	2.8
Interest rate spreads (percentage points; end-of-period)									
Between loans and deposits in domestic currency	8.0	7.6	7.8	9.2	8.1	8.1	8.2	8.2	9.2
Between loans and deposits in foreign currency	3.9	3.1	2.6	3.9	3.4	4.0	4.0	3.6	4.5
Between loans in domestic and foreign currency	11.0	16.0	13.5	11.4	9.0	7.5	7.4	8.1	8.2
Between deposits in domestic and foreign currency	6.9	11.6	8.4	6.1	4.3	3.3	3.2	3.5	3.6
Number of banks not complying with banking regulations									
Not meeting capital adequacy requirements for Tier I capital	3	1	0	0	0	0	0	0	0
Not meeting prudential regulations	32	20	8	11	9	9	9	7	5
Not meeting reserve requirements	3	3	1	1	0	1	1	1	1

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

1/ Excludes banks under liquidation.

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

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

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

Table 7. Ukraine: Quantitative Criteria and Indicative Targets 1/

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

	2020									2021							2022
	June			September			December			March			June			December	March
	PC	Adj. PC	Act.	PC	Adj. PC	Act.	PC	Adj. PC	Act.	IT	Adj. IT	Act.	IT	Adj. IT	Act.	PC	PC
I. Quantitative performance criteria																	
Ceiling on the cash deficit of the general government (- implies a surplus) 2/	180,000	170,636	19,412	217,000	216,043	83,245	302,150	301,936	249,819	45,000	39,022	17,231	90,000	82,149	42,094	237,000	47,000
Ceiling on the cash deficit of the general government and Naftogaz (- implies a surplus) 2/	180,000	170,636	52,112	217,000	216,043	121,645	302,150	301,936	287,719	45,000	39,022	2,331	90,000	82,149	33,294	237,000	47,000
Floor on net international reserves (in millions of U.S. dollars) 3/	12,268	11,864	17,229	9,137	9,954	15,546	7,567	10,141	17,878	9,618	10,310	16,799	10,296	11,720	17,978	19,264	20,521
Ceiling on publicly guaranteed debt 2/	40,000	44,877	27,121	40,000	44,877	27,121	40,000	44,877	48,531	20,000	29,845	9,845	20,000	29,845	38,936	70,000	35,000
Ceiling on stock of arrears of the Guaranteed Buyer to RES 1/	-	-	-	-	-	-	-	-	25,618		-	-			16,300	0	0
II. Continuous performance criterion																	
Ceiling on accumulation of new external debt payments arrears by the general government 3/	0	0	0	0	0	0	0	-	0	0	-	0	0	-	0	0	0
III. Monetary Policy Consultation Clause (MPCC)																	
Inflation target 4/	5.0	-	2.4	5.0	-	2.3	5.0	-	5.0	5.0	-	8.5	5.0	-	9.5	5.0	5.0
IV. Indicative Targets																	
Ceiling on net domestic assets of the NBU 3/	225,670	235,240	124,559	287,818	268,462	199,655	319,300	258,335	172,525	278,166	261,780	210,759	269,552	235,819	219,188	232,856	178,465
Ceiling on stock of CIT prepayment arrears 6/	0	-	-1,572	0	-	-4,080	0	-	4,894	0	-	3,666	0	-	6,018	0	0
Ceiling on stock of VAT refund arrears	0	-	551	0	-	531	0	-	519	0	-	282	0	-	164	0	0
Ceiling on primary expenditure of the state budget and social funds 2/ 7/	n.a.	-	n.a.	n.a.	-	n.a.	1,437,000	-	1,491,660	n.a.	-	n.a.	n.a.	-	n.a.	1,594,790	n.a.
V. Memorandum Items																	
Naftogaz deficit (- implies a surplus) 2/	0	-	32,700	0	-	38,400	0	-	37,900	0	-	-14,900	0	-	-8,800		
External project financing 2/	14,300	-	6,298	18,900	-	12,419	22,700	-	18,075	6,000	-	1,145	12,000	-	5,170	17,000	6,400
NBU Profit transfers to the government 2/	n.a.	-	n.a.	n.a.	-	n.a.	42,720	-	42,720	33,000	-	0	33,000	-	24,434	24,434	13,600
Budget support grants 2/	812.0	-	0	1135.0	-	350.7	2,217	-	361.4	804.0	-	0	804.0	-	0	1,254	402
Government bonds issued for banks recapitalization and DGF financing 2/	20,000	-	0	20,000	-	6,840	20,000	-	6,840	17,000	-	0	17,000	-	0	8,500	17,000
Operations Involving GDP Warrants								-			-			-			
Arrears on social payments							0	-	54	0	-	37	0	-	53	0	0
Programmed market issuance, placements and disbursements of international assistance except IMF (millions of U.S. dollars) 3/ 5/	2,952	-	1,998	3,510	-	3,455	4,510	-	5,372	6,010	-	5,372	6,568	-	7,054	8,647	9,647
Use of swaps with other central banks (millions of U.S. dollars) 3/ 5/	0	-	0	0	-	0	0	-	0	0	-	0	0	-	0	0	0
Debt service on eurobonds or placements (millions of U.S. dollars) 3/ 5/	1,737	-	1,741	3,676	-	3,991	3,758	-	4,077	4,343	-	5,105	4,502	-	5,267	7,960	8,506
Net issuance of central government domestic FX debt (millions of U.S. dollars) 3/ 5/	-385	-	-250	-994	-	-543	-1,180	-	115	-1,280	-	76	-1,449	-	-482	-961	-940
Use of confiscated assets for FX payments or transfer to NBU gross international reserves (millions of US. Dollars) 3/ 5/	0	-	419	0	-	736	0	-	736	0	-	736	0	-	736	736	736
Program accounting exchange rate, hryvnia per U.S. dollar	23.6862	23.6862	23.6862	23.6862	23.6862	23.6862	23.6862	23.6862	23.6862	23.6862	23.6862	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 November 2021 Technical Memorandum of Understanding (TMU).

2/ Targets and projections for 2020 are cumulative flows from January 1, 2020. Targets and projections for 2021 and 2022 are cumulative flows from January 1, 2021 and January 1, 2022 respectively.

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, 2021 and 2022.

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 8a. Ukraine: Proposed Schedule of Reviews and Available Purchases

Availability Date	Millions of SDR	Percent of Quota	Conditions
June 9, 2020	1,500	74.6	Board approval of the Stand-by arrangement
September 1, 2020	500	24.9	First review and continuous and end-December 2020 performance criteria
March 4, 2022	500	24.9	Second review and continuous and end-December 2021 performance criteria
June 3, 2022	1,100	54.7	Third review and continuous and end-March 2022 performance criteria
Total	3,600	178.9	
Memorandum item:			
Quota	2,011.8		

Source: IMF staff calculations.

Table 8b. Ukraine: Schedule of Reviews and Available Purchases Approved in June 2020

Availability Date	Millions of SDR	Percent of Quota	Conditions
June 9, 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 9. Ukraine: Indicators of Fund Credit, 2018–2026

(In millions of SDR)

	2018	2019	2020	2021	2022	2023	2024	2025	2026
	Actual	Actual	Actual	Projections					
Existing Fund credit									
Stock 1/	7,036	6,883	7,595	6,626	5,096	3,192	1,412	303	61
Obligations	1,728	1,408	994	1,150	1,664	1,977	1,808	1,120	245
Principal (repurchases)	1,486	1,153	788	969	1,530	1,905	1,780	1,109	242
Interest charges	242	255	206	181	134	73	29	10	3
Stock of existing and prospective Fund credit 1/	7,036	6,883	7,595	7,126	7,196	5,292	3,512	1,690	399
In percent of quota 3/	350	342	378	354	358	263	175	84	20
In percent of GDP	3.9	3.2	3.4	2.6	2.3	1.6	0.9	0.4	0.1
In percent of exports of goods and nonfactor services	8.6	7.9	8.7	6.3	6.4	4.3	2.6	1.3	0.3
In percent of gross reserves	24.4	19.7	18.1	16.8	17.3	12.4	8.4	4.0	0.9
In percent of public external debt	10.7	10.7	10.3	9.5	9.2	6.8	4.7	2.3	0.5
Obligations to the Fund from existing and prospective Fund credit	1728	1,408	994	1,152	1,723	2,062	1,858	1,853	1,306
In percent of quota	85.9	70.0	49.4	57.3	85.6	102.5	92.4	92.1	64.9
In percent of GDP	1.0	0.7	0.4	0.4	0.6	0.6	0.5	0.5	0.3
In percent of exports of goods and nonfactor services	2.1	1.6	1.1	1.0	1.5	1.7	1.4	1.4	1.0
In percent of gross reserves	6.0	4.0	2.4	2.7	4.1	4.8	4.4	4.4	3.1
In percent of public external debt service	39.4	22.8	12.8	13.1	20.0	22.8	17.8	17.7	12.5

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 assess Ukraine's external position to be broadly in line with fundamentals and desirable policy settings. The current account as assessed by the EBA-lite methodology is only moderately weaker than the norm, although downside risks are present given reserves are projected to remain below adequate levels in the medium term, large external public debt service needs, and constrained investment inflows (the latter related to ongoing tensions with Russia and the unfinished structural reform agenda). Large policy gaps and downside risks underline the importance of continued and well-prioritized reform agenda.

Current Account

1. **The economic impacts of the COVID-19 pandemic contributed to a sharp improvement of Ukraine's current account.** Prior to the pandemic, Ukraine's registered current account deficits of 2–3 percent of GDP, but in 2020 the current account swung into a surplus of 3.3 percent of GDP, and while the situation has started to normalize, the forecast for 2021 anticipates a roughly balanced position. This sizeable swing was driven by several country specific factors:

- The bulk of the swing stems from a compression of import volumes following the sharp contraction in domestic economic activity over the course of 2020. Import levels returned to pre-pandemic levels in early 2021.

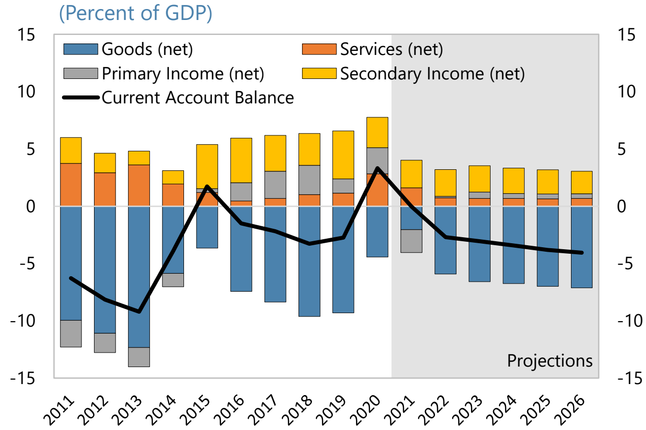
- Ukraine typically has a net deficit on its travel balance, but there was been a sharp decline in outbound tourists as travel plans were shelved. This reduced the travel balance deficit from 4.5 percent of GDP in 2019 to 2.8 percent in 2020. Through July 2021 travel had not yet substantially recovered, as travel debits were still about one-third lower than the year before the pandemic.

- As a net energy importer, Ukraine benefitted from oil prices some US$20 lower per barrel in 2020 than envisioned in 2019, but by mid-2021 energy prices accelerated quickly more than unwinding those gains.

- Exports have remained robust through the pandemic thanks to a pickup in prices for major Ukrainian products through late 2020 and early 2021, including metals, minerals, and agricultural goods. Some commodities prices have corrected since mid-year, but agricultural export values are expected to boom in the late months of 2021 thanks to a very strong harvest and still high cereals prices (for example, wheat prices are expected to be more than 50 percent higher than pre-pandemic levels). Exports of telecommunication, computer, and information services have also boomed over the last two years growing by almost half (to around US$6 billion annually) thanks to many services migrating onto digital platforms.

2. Over the medium term, Ukraine's current account is expected to return to its prior deficit position (Figure 1). This is consistent with Ukraine's high domestic investment needs, while the projected activation of the Nord Stream 2 pipeline will reduce Ukraine's gas transit revenues. Over the last five years, Ukraine received an average of just over US$2.5 billion per year in return for making its gas pipelines available to Gazprom. In 2021, transits fees are expected to be around 40 percent less than recent years. Once Nord Stream 2 is operational, the volume of gas passing through Ukraine could decrease further, with Ukraine's transit revenues forecasted at around US$1.2 billion per year. The current contract between Gazprom and Naftogaz will expire in 2024.

Annex I. Figure 1. Ukraine: Current Account
(Percent of GDP)



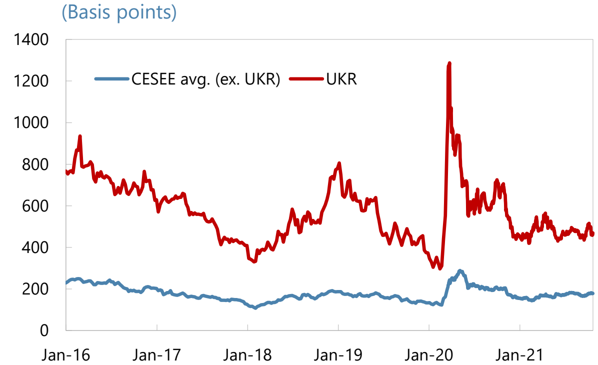
Sources: Haver Analytics, NBU, and IMF stafff calculations.

3. The external sector continues to be adversely affected by ongoing trade tensions. Russia decided on June 28, 2021 to intensify the ban on Ukrainian imports (mostly affecting agricultural sector and food products) that will last a year. The impact of the measures is thought to be limited. A build-up of Russian troops on the border with Ukraine in April 2021 seeded some uncertainty (causing temporary outflows from the domestic bond market) but did not result in major economic disturbances. The impending completion of the Nord Stream 2 pipeline could increase energy security vulnerabilities for Ukraine going forward.

Capital and Financial Accounts: Flows and Policy Measures

4. While the onset of the COVID-19 pandemic pushed Ukraine's EMBIG-spread over 1,000 basis points in March of 2020, borrowing costs have since normalized to levels seen in 2019 (Figure 3). Given this favorable development, Ukraine issued Eurobonds in the second half of 2020. In April of 2021, Ukraine issued US$1.25 billion of 8-year Eurobonds at a yield of 6.876 percent, placing an additional US$0.5 billion in July—this time at a slightly lower yield of 6.3 percent.

Annex I. Figure 2. Sovereign Bond Spreads
(Basis points)



Sources: Bloomberg and IMF staff calculations.
Note: CESEE avg. includes ALB, BLR, BGR, HRV, CZE, EST, HUN, LVA, LTU, MKD, MNE, POL, ROU, RUS, SRB, SVK, SVN, TUR.

5. Portfolio inflows have returned but not yet normalized, and foreign direct investment (FDI) is weak. Non-residents have shown continued interest in Ukraine's local currency bonds: year-to-date, the domestic bond market attracted net inflows equal to US$0.5 billion. This compares favorably with

2020 (which brought net outflows of just over US$1 billion) but lies significantly below the record-levels seen in 2019—when non-resident flows into the domestic bond market netted to US$4.4 billion (attracted by Ukraine's high real rate of interest, which has since come down. FDI recorded a net outflow in 2020 of about US$0.1 billion, mostly driven by the distribution of corporate losses, which is expected to reverse in 2021 with inflow of around US$6 billion thanks to high prices for key exports which is boosting corporate profits and reinvested earning.[1]

6. Going forward, Ukraine is projected to receive significant inflows through its financial account. While non-resident inflows in the domestic bond market are expected to fall to zero over the medium term on a net basis, the inclusion of Ukraine's local government bond issues in J.P. Morgan's GBI-EM Index effective March 31, 2022 should buoy a further recovery of non-resident inflows during the second half of 2022. Continued access to international bond markets along with gradually increasing FDI inflows are expected to finance Ukraine's current account deficit over the medium term. Any resulting shortfall is expected to be covered by official financing. The risk of significant pressures arising from sudden capital outflows is currently mitigated by the fact that non-resident investors are primarily invested into longer-term bonds, and the secondary market is relatively illiquid. The tax amnesty bill that was approved in June 2021 may lead to some inflows of funds earlier transferred abroad starting this year and through part if 2022. However, weak incentives under this program suggest flows are likely to be modest.

7. Ukraine has taken steps toward significant further liberalization, but an exchange restriction (ER) and some capital flow measures (CFMs) remain in place. The "Law on Currency and Currency Transactions", which came into force on February 7, 2019, aims at liberalizing Ukraine's currency control regime, and the NBU has continued liberalizing restrictions as macroeconomic and financial stability conditions allowed. During the active phase of the COVID-19 crisis the NBU stopped liberalization efforts, then restarted in early 2021. In January, the NBU allowed legal entities to sell FX on forward terms without restrictions on the type of transactions; in February 2021, the annual e-limit on investments and deposits abroad by individuals was doubled up to EUR 200,000. In July 2021 the NBU allowed for purchase of FX for legal entities and individuals without presenting an underlying ground within the daily EUR 100,000 limit. The remaining ER and CFMs mostly concern limits on capital outflows (which may constrain some current transactions) and include, inter alia, a limit on banks' long open positions and a ban on FX purchases on forward terms. Further liberalization of the capital account should only proceed with due consideration for reserve accumulation objectives and macroeconomic and financial stability.

FX Intervention and Reserve Levels

8. Ukraine's FX reserve levels continue to lie below the Fund's reserve adequacy metric (Figure 3). Relative to the 2014 low (when reserves stood at only US$7.5 billion), the NBU

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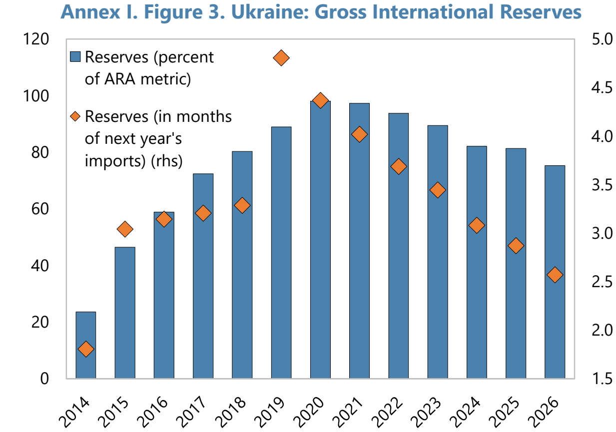
[1] Since June 2020, reinvested earnings are now considered a form of FDI; when there are losses, they are considered an FDI outflow.

has accumulated some US$20 billion in international reserve assets—partly through sustained net purchases in response to (somewhat volatile) inflows into the local bond market. Given the prevailing direction of these flows, which is inward on balance, Ukraine's FX intervention strategy has been tilted towards FX purchases. At end-2020, Ukraine's FX reserves corresponded to 93 percent of short-term external debt, 4.4 months of prospective 2021 imports (which are recovering gradually from the pandemic shock), or 98 percent the Fund's adequacy metric. The August 2021 SDR allocation added US$2.7 billion to Ukraine's stock of international reserves, of which about half was used to address a significant amount of debt maturing that was issued at concessional rates. The authorities have indicated they intend to retain the remainder of the allocation as a buffer against future risks.

9. Over the medium term, reserves are projected to remain below the ARA metric. Under the baseline, reserve coverage would fall to around 70 percent of the Fund's adequacy metric by 2026. Should reform-implementation accelerate, reaching the ARA-recommended level would be achievable on the back of stronger non-resident inflows (both into the local bond market, as well as in the form of FDI). Pressures are coming from Ukraine's external public debt service burden along with its current account deficit. Additional risks stem from the US$3 billion Eurobond that is currently in default (with a court case pending) as well as a loss in gas transit revenues that is bigger than currently envisioned. Warrant payments (which are linked to past real GDP growth) add a layer of uncertainty to debt service projections; the fact that payouts are based on growth with a two-year delay makes Ukraine vulnerable to boom-bust episodes (in which case a recession could coincide with high warrant payment obligations, stemming from booming growth two years prior). At the same time, the warrants do offer Ukraine protection in the case of more gradual economic developments (with payouts dropping should Ukraine get to experience lower trend growth going forward, particularly if real growth is lower than 3 percent—below which no warrant payouts are due).

Annex I. Figure 3. Ukraine: Gross International Reserves

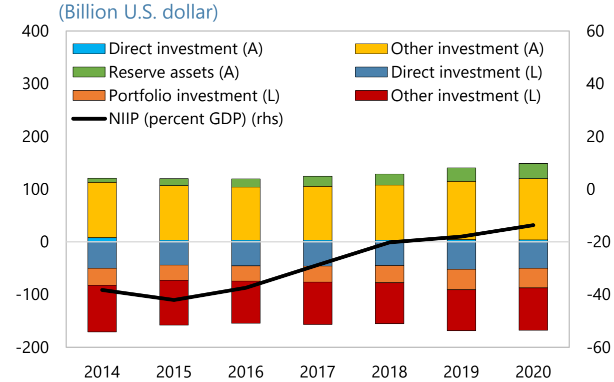


Sources: NBU and IMF staff calculations.

Foreign Assets and Liabilities: Position and Trajectory

10. Ukraine's net international investment position (NIIP) has come closer to balance over the last five years (Figure 4); Table 1 presents some core statistics summarizing the end-2020 situation. While Ukraine's NIIP stood at -42 percent of GDP back in 2015, it has since risen to -11.7 percent (end-2020). This development resulted from lower current account deficits and reduced financial flows into the country (in particular, net FDI, which—in recent years—was only half of levels seen over the previous decade). At end 2020, Ukraine's gross assets consisted mainly of reserve assets (US$29 billion) and private sector holdings of FX (US$107 billion). Some 60 percent of Ukraine's debt liabilities (which, in turn, account for over 70 percent of total foreign liabilities) are denominated in US dollars; the euro accounts for about 15 percent. Less than 5 percent of Ukraine's debt liabilities is denominated in hryvnia, making Ukraine's NIIP vulnerable to depreciation of the local currency. Staff projections suggest that the NIIP will fall to about -23 percent of GDP by 2026, mostly driven by increased borrowing from non-residents to finance Ukraine's development and refinancing needs.

Annex I. Figure 4. Ukraine: Net International Investment Position
(Billion U.S. dollar)



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

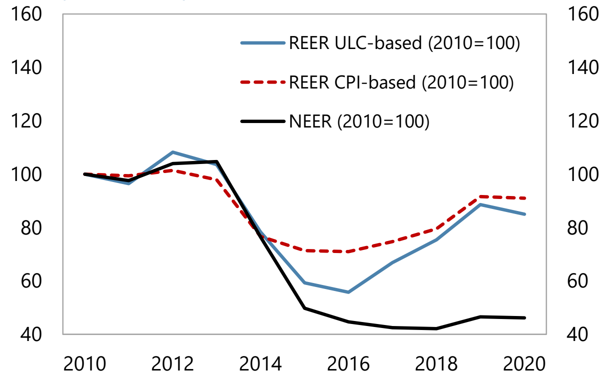
Annex I. Table 1. Foreign Assets and Liabilities, end-2020

	NIIP	Gross assets	Debt assets	Gross liabilities	Debt liabilities
% of GDP	-11.7	96.4	6.8	108.1	78.8

Real Exchange Rate

11. The COVID-shock only had a modest impact on Ukraine's real exchange rate (Figure 5). In the early months of the pandemic the hryvnia depreciated in nominal terms (from UAH 25 to UAH 28 per USD), but this depreciation was largely offset by higher domestic inflation. Ukraine's rate of inflation outpacing that of its trading partners is also the reason for the sustained real appreciation which Ukraine has experienced since 2015. 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 is driven by broad wage increases, caused by increases in the minimum wage (which has quadrupled since late 2015), combined with negative labor supply shocks emanating from continued labor migration. Going forward, increased productivity improvements should lead to modest-yet-sustained real appreciation in line with the Balassa-Samuelson effect.

Annex I. Figure 5. Effective Exchange Rates
(2010 = 100)



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

12. Overall, the external sector position of Ukraine is assessed to be broadly in line with fundamentals and desirable policies (Table 2, left column). The current account-based EBA-lite methodology suggests that the external position is moderately weaker than that suggested by fundamentals, subject to a large policy gap offset by residuals. The bulk of the policy gap is explained by a relatively loose cyclically adjusted fiscal balance and relative weaknesses in public health expenditure. A further policy gap stems from relatively stronger change in reserves, but this seems appropriate in a context where reserves remain below adequate levels. 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 2, middle column), although the misalignment is slightly larger at 4.5 percent. The external sustainability approach also suggests that Ukraine's external position is weaker than warranted by fundamentals by around 7 percent (Table 2, right column). This latter 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. Given that the three model-based approaches do not suggest major imbalances, the overall assessment is that Ukraine's external position in broadly in line with fundamentals and desirable policies. That said, downside risks appear elevated, including from large external public debt service needs, ongoing tensions with Russia, and the unfinished structural reform agenda. The latter risks constrain investment inflows, notably foreign direct investment. The large policy gaps and downside risks underline the importance of continued and well-prioritized fiscal adjustment.

Annex I. Table 2. Ukraine: Model Estimates for 2021 (in percent of GDP)

	CA model	REER model	ES model
CA-Actual	**0.0**		
Cyclical contributions (from model) (-)	0.3		
COVID-19 adjustor (+) 1/	-0.6		
Natural disasters and conflicts (-) 2/	2.4		
Adjusted CA	**-3.3**		
CA Norm (from model) 3/	**-2.9**		
Adjusted CA Norm	**-2.9**		
CA Gap	**-0.4**	**-1.4**	**-2.3**
o/w Relative policy gap	4.3		
Elasticity	-0.32	-0.32	-0.32
REER Gap (in percent)	**1.3**	**4.5**	**7.1**

1/ Additional cyclical adjustment to account for the temporary impact of the pandemic on tourism (-0.6 percent of GDP).
2/ Accounts for observation that savings tend to rise in years of natural disasters or conflict.
3/ Cyclically adjusted, including multilateral consistency adjustments.

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, as in the adverse scenario, which could render debt unsustainable. Over the last 18 months, COVID-related pressures have raised public debt to 61 percent of GDP at end-2020. Starting this year, debt is expected to resume its recent downward trajectory, falling to 45 percent of GDP by 2026. Main risks are related to 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, a sizable exchange rate depreciation, or an interest shock. The latter highlights risks from potential global monetary policy tightening.

A. Key Assumptions underlying the DSA

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

- *Real GDP growth* for 2021 is estimated to equal 3.2 percent, which is boosted by a base-year effect (the COVID-induced drop in 2020 real GDP). This effect is absent in future years when growth is projected to gradually converge to its potential (estimated at 4.0 percent).

- *Exchange rate* traded at around UAH26.3/USD as of mid-October (and has been relatively stable since the onset of the COVID-pandemic).

- *Inflation* (based upon the GDP deflator) is projected at 20.6 percent in 2021—exceptionally high on the back of pandemic-effects, notably high global food, energy, and commodities prices, which coincided with resurgent domestic consumer demand. Going forward, the baseline assumes that strong policy implementation will see inflation around 5 percent over the medium term.

- *Primary fiscal deficit* is estimated to improve from 3.1 percent of GDP in 2020 to 0.2 percent of GDP in 2021 and remain near the same level in 2022. Moderate surpluses are anticipated through the projection horizon. Comparing the envisioned 3-year adjustment of the cyclically adjusted primary balance against past cases (and accounting for the unique pandemic-circumstances in 2020), suggests that the current assumptions are not unrealistic (Figure 3).

- *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). Increased reliance on market access pushes these costs up, but Ukraine's risk premium should decline as the envisioned policy implementation succeeds in bringing the debt-to-GDP ratio down.

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

- *Banking system support* is expected to remain contained given recent progress with banking sector recapitalization (and NPL provisioning) over the last years. Fiscal costs to the recognition of these contingent liabilities for 2021-22 are expected around 0.9 percent of GDP each year.

- *Government guaranteed debt* totaled around 7.0 percent of GDP at end 2020. This stock is projected to remain contained given that the issuance of new guarantees is controlled under the Fund-supported program. A gradual decline is expected with increased privatization and corporatization of state-owned enterprises.

- *Privatization proceeds* under the baseline is assumed to be modest over the projection horizon at around 0.1 percent of GDP.

3. **The baseline assumes official financing from several sources.** The baseline incorporates expected pending disbursements in 2021 of EUR 600 million from the European Union under its Macro-Financial Assistance program and US$700 million in budget support from the World Bank. IMF lending under the program is budget support and lent on SBA terms, and aside from the SBA-related financing the DSA makes no assumptions on official budget financing beyond 2021, although discussions are ongoing concerning such support in 2022.

4. **The macroeconomic framework assumes no additional bond issuance in late 2021, nor additional non-resident local bond market inflows.** In April 2021, Ukraine issued a US$1.25 billion 8-year Eurobond at 6.875 percent; in July, it topped up this issuance with another US$0.5 billion. Ukraine drew on half of its latest SDR allocation, pushing the next Eurobond bond issuance out to early 2022. Following significant net outflows last year (some US$1.2 billion), the framework assumes no new non-resident inflows into Ukraine's local bond market beyond the net inflows of around US$0.5 billion that were realized over the first three-quarters of the year.

Annex II. Table 1: Public and Publicly Guaranteed Debt, end-2020

	UAH (billion)	USD (billion)	percent of GDP	percent of total
Public and publicly guaranteed debt	2,557.1	94.7	61.0	100.0
Domestic debt	1,032.0	38.2	24.6	40.4
Direct debt in UAH	862.9	32.0	20.6	33.7
Direct debt in FX	137.8	5.1	3.3	5.4
Guaranteed	31.3	1.2	0.8	1.2
External debt	1,525.0	56.5	36.4	59.6
Multilateral 1/	372.7	13.8	8.9	14.6
of which: IMF budget support	181.47	6.72	4.3	7.1
Bilateral 2/	174.3	6.5	4.2	6.8
Sovereign Eurobonds	721.1	26.7	17.2	28.2
Local government Eurobonds 3/	9.3	0.3	0.2	0.4
External guaranteed debt	247.6	9.2	6.2	9.7
of which: IMF loans to NBU	181.1	6.7	4.6	7.1

Sources: Ministry of Finance
1/ Includes IMF, WB, EBRD, EIB.
2/ Includes EU.
3/ Issued by the city of Kyiv.

B. Public Sector DSA

5. **This DSA captures public and publicly guaranteed debt.** 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 state-owned enterprises (SOEs); (iii) debt of local

governments; and (iv) Ukraine's liabilities to the IMF that are not included in central government direct debt. It does not include non-guaranteed domestic and external liabilities of SOEs.

6. **About 60 percent of total public and publicly guaranteed debt (about 36 percent of GDP) is externally held** (Table 1). Sovereign Eurobonds account for the largest share of the debt stock, closely followed by multilateral support. The bulk of debt service on external debt is related to Eurobonds (Table 2). Domestic debt is mostly held by residents and denominated in hryvnia. State guaranteed external debt account for about nine-tenths of guarantees issued.

Annex II. Table 2. Ukraine. Decomposition of Public Debt and Debt Service by Creditor, 2020–22

	Debt Stock (end of period)			Debt Service					
	2020			2020	2021	2022	2020	2021	2022
	(In US$ bln)	*(Percent total debt)*	*(Percent GDP)*	*(In US$ bln)*			*(Percent GDP)*		
Total	**94.7**	**100.0**	**61.0**	**17.87**	**21.88**	**15.83**	**11.5**	**11.5**	**7.4**
External	**56.5**	**59.6**	**36.4**	5.98	5.37	4.36	3.9	2.8	2.0
Multilateral creditors[2]	21.7	22.9	14.0	0.65	1.19	1.49	0.4	0.6	0.7
IMF[3]	13.4	14.2	8.6	0.03	0.48	0.52	0.0	0.3	0.2
World Bank[4]	6.1	6.4	3.9	0.42	0.45	0.68	0.3	0.2	0.3
Other Multilaterals[4]	2.2	2.3	1.4	0.20	0.27	0.29	0.1	0.1	0.1
Bilateral Creditors[2]	6.5	6.8	4.2	0.29	0.10	0.10	0.2	0.1	0.0
Paris Club	1.6	1.7	1.0	0.28	0.05	0.06	0.2	0.0	0.0
Non-Paris Club	4.9	5.2	3.1	0.01	0.04	0.04	0.0	0.0	0.0
o/w: European Union	4.9	5.1	3.1	0.01	0.04	0.04	0.0	0.0	0.0
Bonds	24.8	26.2	16.0	4.78	3.49	2.51	3.1	1.8	1.2
Sovereign Eurobonds	24.5	25.8	15.8	4.78	3.49	2.51	3.1	1.8	1.2
Local Government Eurobonds	0.3	0.4	0.2	0.00	0.00	0.00	0.0	0.0	0.0
Commercial Creditors[4]	3.5	3.7	2.3	0.25	0.59	0.27	0.2	0.3	0.1
Domestic	**38.2**	**40.4**	**24.6**	**11.9**	**16.5**	**11.5**	7.7	8.6	5.4
Held by residents, total	35.2	37.2	22.7	n/a	n/a	n/a	n/a	n/a	n/a
Held by non-residents, total	3.0	3.2	1.9	n/a	n/a	n/a	n/a	n/a	n/a
T-Bills and Bonds	37.1	39.1	23.9	11.7	16.1	11.0	7.5	8.4	5.2
Denominated in local currency	32.0	33.7	20.6	7.0	11.4	8.8	4.5	6.0	4.1
Denominated in foreign currency	5.1	5.4	3.3	4.7	4.7	2.3	3.0	2.4	1.1
Guaranteed Loans and Bonds	1.2	1.2	0.7	0.2	0.4	0.4	0.1	0.2	0.2
Memo items:									
Collateralized debt[5]	0.0	0.0	0.0						
Contingent liabilities	10.3	10.9	6.7						
o/w: Public guarantees	10.3	10.9	6.7						
o/w: Other explicit contingent liabilities[6]	0.0	0.0	0.0						
Nominal GDP (UAH billions)	...	...	4192				4192	5213	5867

1/ As reported by Country authorities according to their classification of creditors, including by official and commercial. Debt coverage is the same as the DSA.
2/ Multilateral creditors" are simply institutions with more than one official shareholder and may not necessarily align with creditor classification under other IMF policies (e.g. Lending Into Arrears).
3/ Comprises both IMF budget support and lending to National Bank of Ukraine.
4/ Includes both direct lending and loans carrying state guarantees.
5/ Debt is collateralized when the creditor has rights over an asset or revenue stream that would allow it, if the borrower defaults on its payment obligations, to rely on the asset or revenue stream to secure repayment of the debt. Collateralization entails a borrower granting liens over specific existing assets or future receivables to a lender as security against repayment of the loan. Collateral is "unrelated" when it has no relationship to a project financed by the loan. An example would be borrowing to finance the budget deficit, collateralized by oil revenue receipts. See the joint IMF-World Bank note for the G20 "Collateralized Transactions: Key Considerations for Public Lenders and Borrowers" for a discussion of issues raised by collateral.
6/ Includes other-one off guarantees not included in publicly guaranteed debt (e.g. credit lines) and other explicit contingent liabilities not elsewhere classified (e.g. potential legal claims, payments resulting from PPP arrangements). For Ukraine, does not include recognition implicity contigent liabilities related to the banking system recapitalization.

7. **Under baseline projections, Ukraine will see its debt-to-GDP ratio decline to about 43 percent of GDP by 2026** (Figure 3). This reduction is driven by (and conditional on) real GDP growth and the realization of primary surpluses as projected. It will also be important to contain contingent risks, including potential fiscal risks related to the energy sector. Policy slippages would compromise the debt trajectory.

8. Vulnerabilities are significant as signaled by the heat map, particularly in terms of financing needs (Figure 1). For 2021, debt falling due contributes to the significant financing pressures. Ukraine is particularly vulnerable to a depreciation of the exchange rate, which would increase the external debt service burden—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), also mitigates risks stemming from external debt.

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. At that time, 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 will most likely remain below 80 percent of GDP; under an adverse scenario (in which Ukraine does not realize positive primary balances, and its real exchange rate only depreciates), debt is most likely to stay below 100 percent of GDP over the projection. That said, given the relatively low debt-to-GDP ratios at which debt has proved unsustainable in the past, caution is warranted—especially since the COVID-19 shock has heightened debt levels and risks.

10. Stress tests signal that debt dynamics are vulnerable to further shocks to the growth rate, the exchange rate, and real interest rates. Both growth and exchange rate shocks have recently materialized with the expected adverse impact on debt ratios, opening the possibility for some mean reversion over the coming period. However, already large public gross financing needs would explosively under a real interest rate shock, resulting in an upward trajectory for debt. The combined macro-fiscal shock (which looks at the joint impact of various stress scenarios), would have the most significant adverse impact on near-term debt sustainability for Ukraine.

C. External Sector DSA

11. Baseline projections suggest that external debt would drop to about 45 percentage points of GDP by 2023. Gross external debt has declined to about 80 percent, after peaking at 130 percent of GDP in 2015. The medium-term sustainability of external debt considers an expected weakening of the deficit in the balance of goods and services. Contributing factors include lower gas transit fees linked to the Nord Stream 2 pipeline and a gradual unwinding of pandemic era commodity price volatility (see Annex I), while imports are expected to remain relatively stable. The downward path of external debt is also supported by the recovery of sizable remittance inflows.

12. External debt dynamics are subject to downside risks stemming from macroeconomic shocks (Figure 6). Worsening financial conditions for emerging markets and/or a faster than expected normalization in interest rates in advanced economies could widen the current account deficit further at the time when imports being propelled by a recovery in growth. FDI flows are projected to continue mainly in the form of debt-to-equity operations, although deeper structural reforms could spur additional non-debt creating inflows into the economy. The historical scenario, with the main macro variables constant at their 10-year historical average, would undermine the downward debt path. Like the public DSA, external debt dynamics are also highly vulnerable to an exchange rate shock.

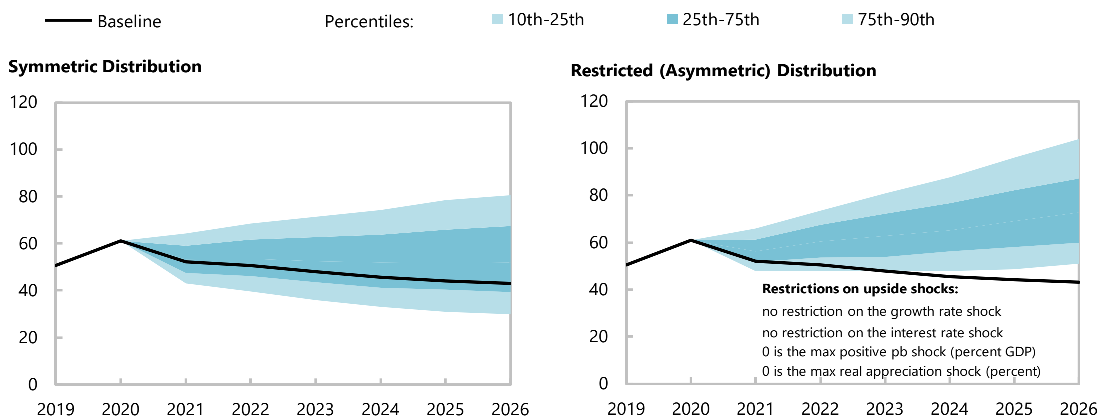
Annex II. Figure 1. Ukraine Public DSA—Risk Assessment

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

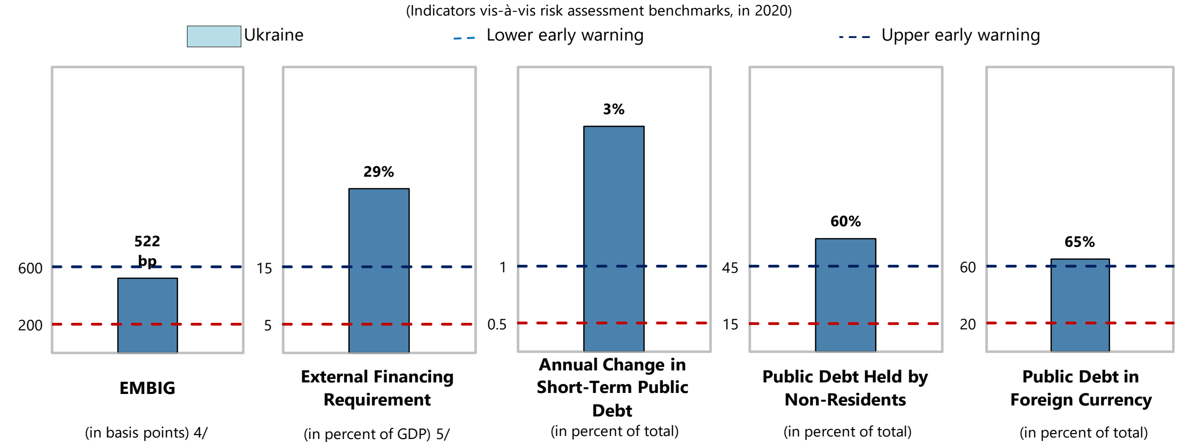
Evolution of Predictive Densities of Gross Nominal Public Debt

(in percent of GDP)



Debt Profile Vulnerabilities

(Indicators vis-à-vis risk assessment benchmarks, in 2020)



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.

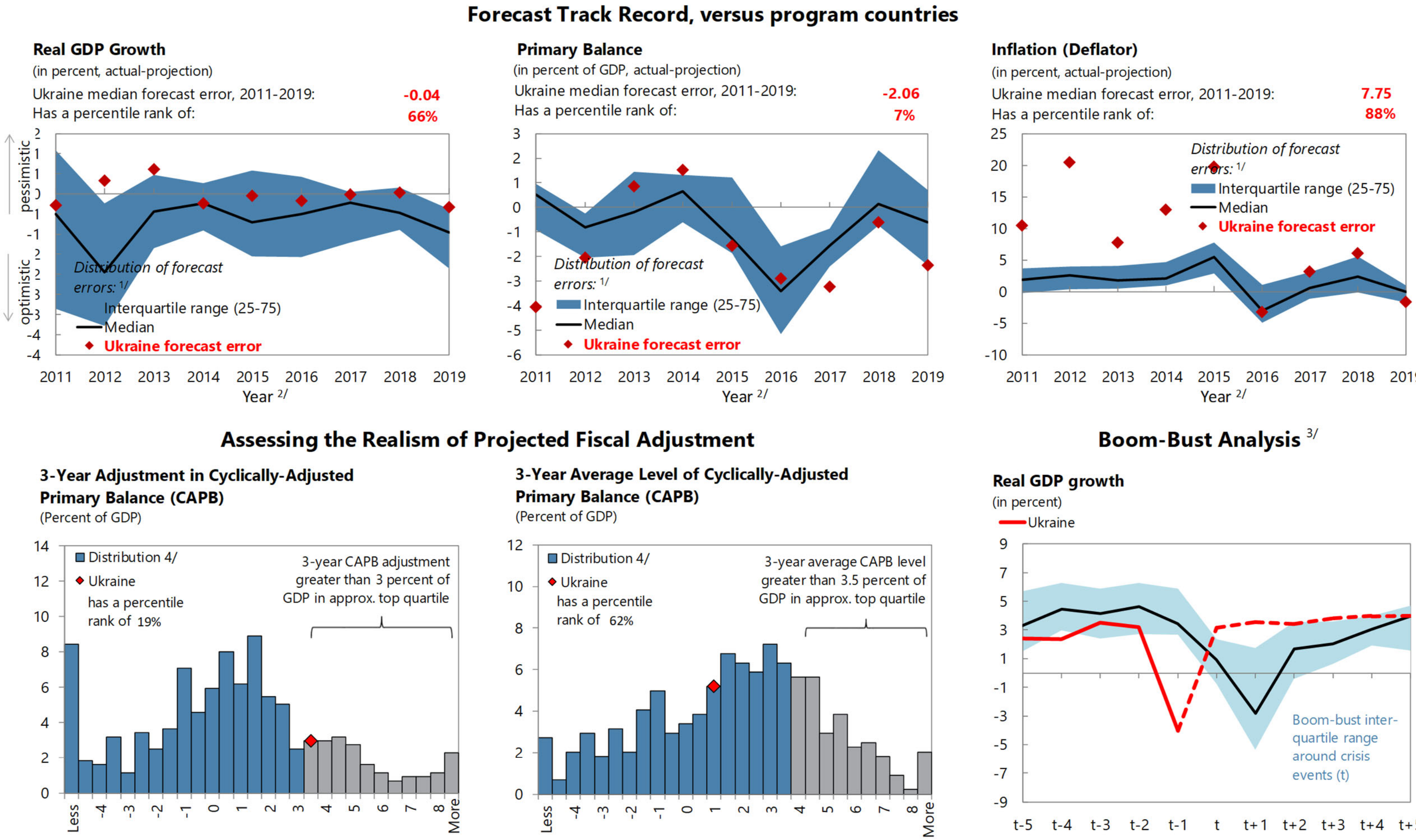
3/ The cell is highlighted in green if country value is less than the lower risk-assessment benchmark, red if country value exceeds the upper risk-assessment benchmark, yellow if country value is between the lower and upper risk-assessment benchmarks. If data are unavailable or indicator is not relevant, 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, 06-Mar-21 through 04-Jun-21.

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, 2018-2020. For Ukraine, t corresponds to 2021; 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)

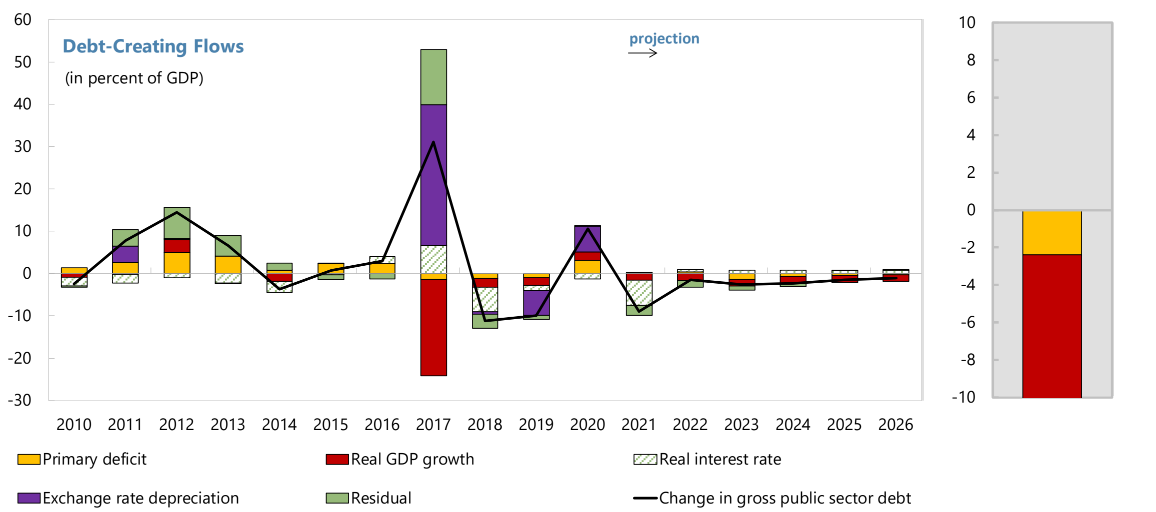
Debt, Economic and Market Indicators [1/]

	Actual			Projections					
	2010-2018 [2/]	2019	2020	2021	2022	2023	2024	2025	2026
Nominal gross public debt	39.2	50.5	61.0	52.0	50.5	47.9	45.6	44.1	43.1
Of which: guarantees	6.8	5.9	6.7	4.3	2.9	1.7	0.6	0.3	0.2
Public gross financing needs	9.4	12.2	15.0	13.9	14.5	12.0	10.3	10.2	10.5
Real GDP growth (in percent)	13.2	3.2	-4.0	3.2	3.6	3.4	3.8	4.0	4.0
Inflation (GDP deflator, in percent)	12.8	8.2	9.8	20.6	8.7	6.9	5.6	5.3	5.0
Nominal GDP growth (in percent)	25.6	11.7	5.4	24.4	12.6	10.6	9.6	9.5	9.2
Effective interest rate (in percent) [4/]	8.7	6.5	6.9	9.1	10.3	8.9	7.7	7.2	6.8

As of June 04, 2021		
Sovereign Spreads		
EMBIG (bp) 3/		467
5Y CDS (bp)		395
Ratings	Foreign	Local
Moody's	Caa1	Caa1
S&Ps	B	B
Fitch	B	B

Contribution to Changes in Public Debt

	Actual			Projections							
	2010-2018	2019	2020	2021	2022	2023	2024	2025	2026	cumulative	debt-stabilizing primary balance [9/]
Change in gross public sector debt	5.1	-9.9	10.5	-9.0	-1.5	-2.6	-2.3	-1.5	-1.0	-18.0	
Identified debt-creating flows	2.4	-8.8	10.4	-6.5	0.0	-1.6	-1.7	-1.6	-1.3	-12.8	
Primary deficit	1.8	-1.1	3.1	0.2	0.3	-1.4	-0.8	-0.5	-0.3	-2.4	-0.5
Primary (noninterest) revenue and grants	41.8	39.4	40.0	37.0	35.4	34.7	34.5	34.3	34.3	210.2	
Primary (noninterest) expenditure	43.6	38.3	43.1	37.3	35.8	33.3	33.7	33.8	34.0	207.8	
Automatic debt dynamics [5/]	0.5	-8.8	6.8	-7.5	-1.1	-0.8	-0.8	-1.0	-1.0	-12.1	
Interest rate/growth differential [6/]	-3.6	-3.0	0.6	-7.5	-1.1	-0.8	-0.8	-1.0	-1.0	-12.1	
Of which: real interest rate	-0.8	-1.3	-1.3	-6.0	0.6	0.8	0.8	0.7	0.6	-2.4	
Of which: real GDP growth	-2.8	-1.7	1.9	-1.5	-1.6	-1.6	-1.7	-1.7	-1.6	-9.7	
Exchange rate depreciation [7/]	4.1	-5.8	6.2	…	…	…	…	…	…	…	
Other identified debt-creating flows	0.1	1.0	0.5	0.7	0.8	0.5	-0.1	-0.1	-0.1	1.7	
Net GG financing: Privatization (negative)	-0.5	0.0	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.6	
Bank and Naftogaz recapitalization	0.6	1.0	0.6	0.9	0.9	0.6	0.0	0.0	0.0	2.3	
Residual, including asset changes [8/]	2.7	-1.1	0.2	-2.4	-1.6	-1.0	-0.6	0.1	0.3	-5.2	



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.

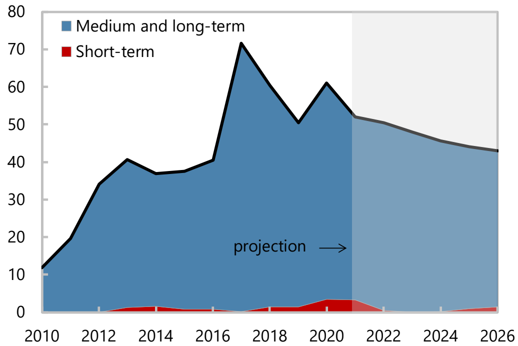
9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

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

Composition of Public Debt

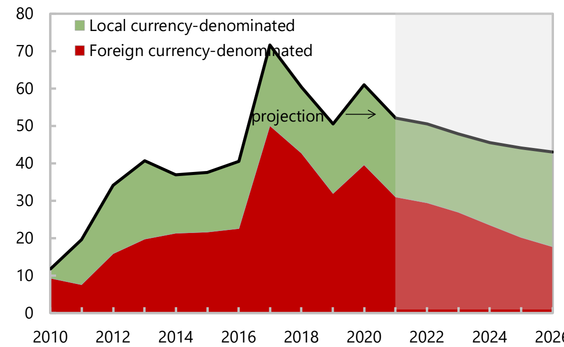
By Maturity

(in percent of GDP)



By Currency

(in percent of GDP)

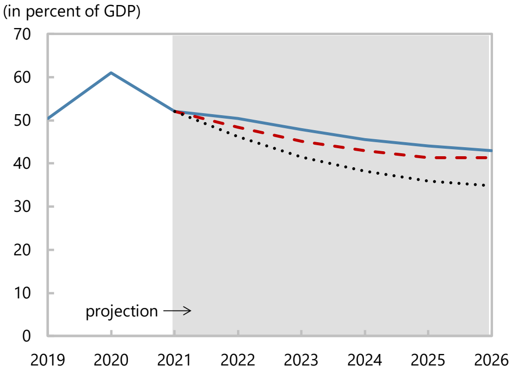


Alternative Scenarios

Baseline Historical Constant Primary Balance

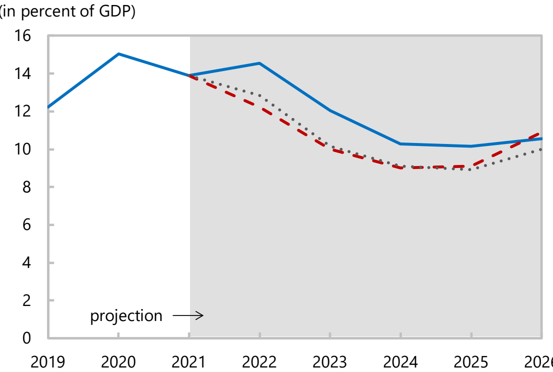
Gross Nominal Public Debt

(in percent of GDP)



Public Gross Financing Needs

(in percent of GDP)



Underlying Assumptions
(in percent)

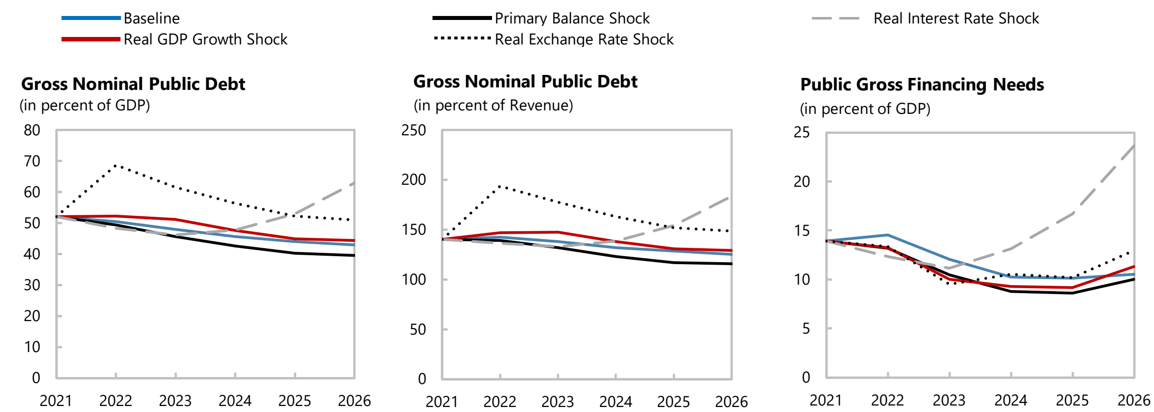
Baseline Scenario	2021	2022	2023	2024	2025	2026
Real GDP growth	3.2	3.6	3.4	3.8	4.0	4.0
Inflation	20.6	8.7	6.9	5.6	5.3	5.0
Primary Balance	-0.2	-0.3	1.4	0.8	0.5	0.3
Effective interest rate	9.1	10.3	8.9	7.7	7.2	6.8
Constant Primary Balance Scenario						
Real GDP growth	3.2	3.6	3.4	3.8	4.0	4.0
Inflation	20.6	8.7	6.9	5.6	5.3	5.0
Primary Balance	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2
Effective interest rate	9.1	7.7	7.2	7.2	7.3	7.5

Historical Scenario	2021	2022	2023	2024	2025	2026
Real GDP growth	3.2	11.0	11.0	11.0	11.0	11.0
Inflation	20.6	8.7	6.9	5.6	5.3	5.0
Primary Balance	-0.2	-1.7	-1.7	-1.7	-1.7	-1.7
Effective interest rate	9.1	7.7	7.0	6.7	6.6	6.7

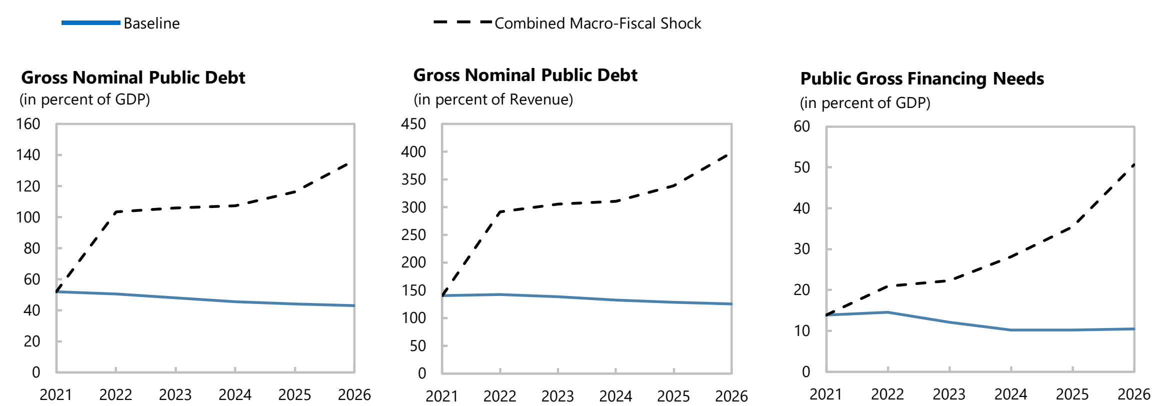
Source: IMF staff.

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

Macro-Fiscal Stress Tests



Additional Stress Tests



Underlying Assumptions

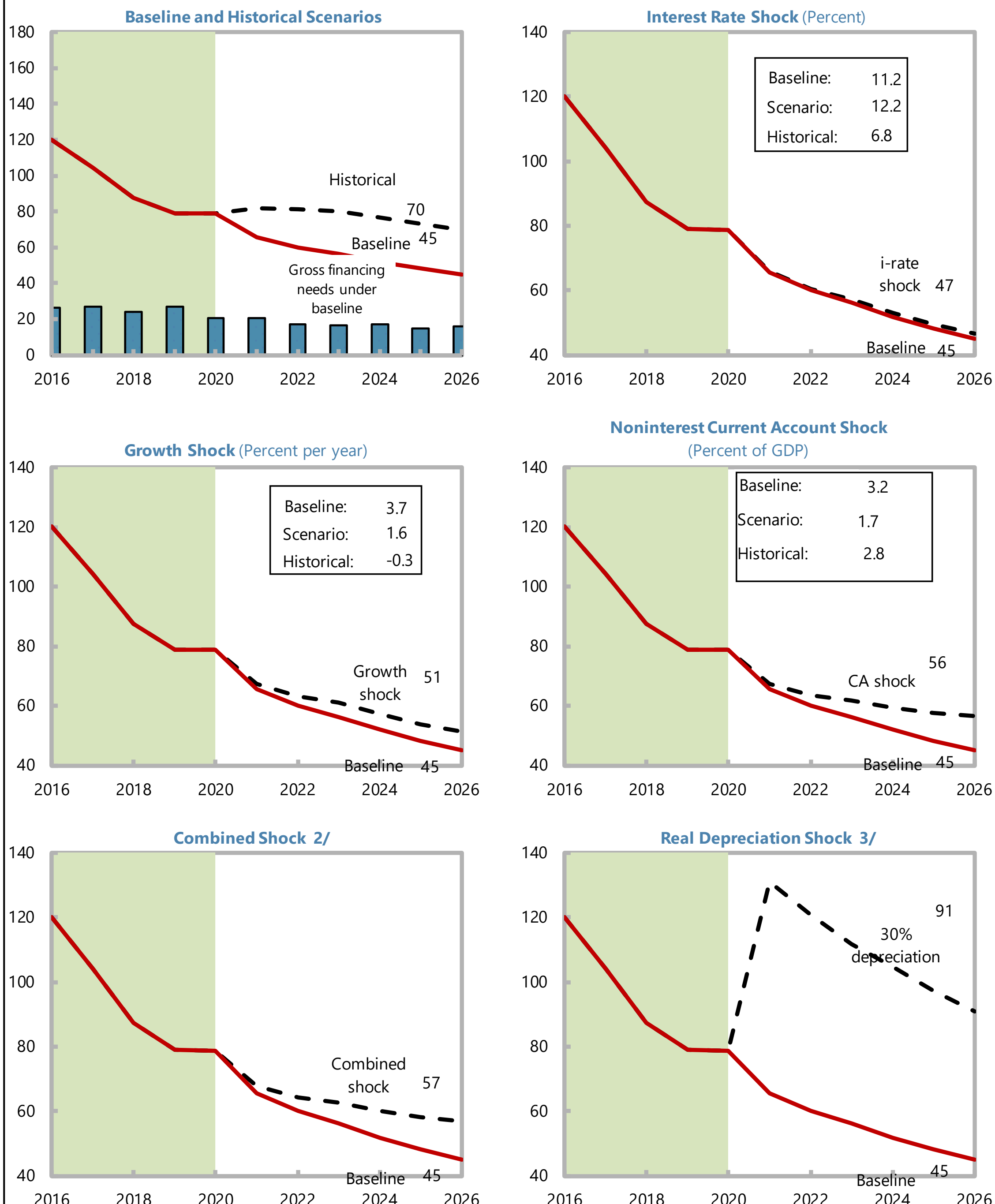
(in percent)

	2021	2022	2023	2024	2025	2026
Primary Balance Shock						
Real GDP growth	3.2	3.6	3.4	3.8	4.0	4.0
Inflation	20.6	8.7	6.9	5.6	5.3	5.0
Primary balance	-0.2	-1.5	0.2	0.8	0.5	0.3
Effective interest rate	9.1	7.7	7.3	7.3	7.4	7.6
Real Interest Rate Shock						
Real GDP growth	3.2	3.6	3.4	3.8	4.0	4.0
Inflation	20.6	8.7	6.9	5.6	5.3	5.0
Primary balance	-0.2	-0.3	1.4	0.8	0.5	0.3
Effective interest rate	9.1	7.7	13.8	19.5	24.1	28.5
Combined Shock						
Real GDP growth	3.2	-2.6	-2.7	3.8	4.0	4.0
Inflation	20.6	7.2	5.4	5.6	5.3	5.0
Primary balance	-0.2	-1.5	0.2	0.8	0.5	0.3
Effective interest rate	9.1	11.8	10.9	16.2	21.8	27.0

	2021	2022	2023	2024	2025	2026
Real GDP Growth Shock						
Real GDP growth	3.2	-2.6	-2.7	3.8	4.0	4.0
Inflation	20.6	7.2	5.4	5.6	5.3	5.0
Primary balance	-0.2	-0.3	1.4	0.8	0.5	0.3
Effective interest rate	9.1	7.7	7.2	7.2	7.3	7.5
Real Exchange Rate Shock						
Real GDP growth	3.2	3.6	3.4	3.8	4.0	4.0
Inflation	20.6	50.6	6.9	5.6	5.3	5.0
Primary balance	-0.2	-0.3	1.4	0.8	0.5	0.3
Effective interest rate	9.1	11.8	6.0	6.1	6.4	6.8

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 2021.

Annex II. Table 3. Ukraine: Program External Debt Sustainability Framework, 2016–26

(Percent of GDP, unless otherwise indicated)

	Actual							Projections						Debt-stabilizing non-interest current account 6/
	2016	2017	2018	2019	2020			**2021**	**2022**	**2023**	**2024**	**2025**	**2026**	
Baseline: external debt	120.1	104.1	87.5	78.9	79.0			65.9	60.1	56.4	52.1	48.3	45.2	-1.9
Change in external debt	-10.6	-16.0	-16.7	-8.5	0.1			-13.2	-5.8	-3.7	-4.4	-3.8	-3.1	
Identified external debt-creating flows (4+8+9)	-6.6	-21.3	-15.1	-13.8	-4.0			-4.9	-1.6	-1.1	-0.8	-0.3	-0.1	
Current account deficit, excluding interest payments	-4.3	-3.8	-3.2	-4.6	-8.9			-9.3	-3.7	-2.7	-1.9	-1.1	-0.5	
Deficit in balance of goods and services	7.0	7.7	8.6	8.2	1.6			0.4	4.8	5.4	5.5	5.8	5.9	
Exports	49.2	48.0	45.2	41.2	39.1			37.0	33.4	32.8	32.3	32.0	31.6	
Imports	56.2	55.6	53.8	49.4	40.7			37.4	38.2	38.1	37.8	37.8	37.5	
Net non-debt creating capital inflows (negative)	-4.1	-3.4	-3.4	-3.4	0.0			-2.9	-2.2	-2.3	-2.3	-2.3	-2.4	
Automatic debt dynamics 1/	1.8	-14.1	-8.5	-5.7	4.9			7.3	4.4	3.9	3.4	3.0	2.8	
Contribution from nominal interest rate	5.8	6.0	6.5	7.4	5.6			9.4	6.4	5.7	5.3	4.9	4.6	
Contribution from real GDP growth	-3.1	-2.4	-3.1	-2.4	3.2			-2.0	-2.1	-1.9	-2.0	-1.9	-1.8	
Contribution from price and exchange rate changes 2/	-0.9	-17.8	-11.8	-10.7	-3.8			...	...	...	...	...	...	
Residual, including change in gross foreign assets (2-3) 3/	-3.9	5.4	-1.6	5.3	4.1			-8.3	-4.2	-2.6	-3.5	-3.4	-3.1	
External debt-to-exports ratio (percent)	243.8	217.0	193.7	191.6	202.2			177.9	179.9	172.3	161.3	151.2	142.8	
Gross external financing need (billions of U.S. dollars) 4/	24.6	30.3	31.7	41.7	31.5			39.3	37.2	38.9	43.7	41.9	49.1	
Percent of GDP	26.3	27.0	24.2	27.1	20.3			20.6	17.4	16.7	17.2	15.1	16.2	
Scenario with key variables at their historical averages 5/						10-Year Historical Average	10-Year Standard Deviation	82.3	81.5	80.1	77.1	73.7	70.2	0.4
Key macroeconomic assumptions underlying baseline														
Real GDP growth (percent)	2.4	2.4	3.5	3.2	-4.0	-0.3	4.9	3.2	3.6	3.4	3.8	4.0	4.0	
GDP deflator in U.S. dollars (change in percent)	0.7	17.4	12.8	14.0	5.1	2.8	14.5	19.1	8.3	5.1	5.3	5.3	5.0	
Nominal external interest rate (percent)	4.6	6.0	7.3	9.9	7.1	6.8	1.8	14.6	11.0	10.4	10.3	10.3	10.4	
Growth of exports of goods and services (U.S. dollar terms, percent)	-4.0	17.0	9.9	7.3	-4.3	0.0	16.6	30.5	-1.9	7.1	8.0	8.1	8.1	
Growth of imports of goods and services (U.S. dollar terms, percent)	4.7	18.9	12.8	8.0	-16.9	0.5	20.6	26.7	10.9	9.2	8.6	9.0	8.5	
Current account balance, excluding interest payments	4.3	3.8	3.2	4.6	8.9	2.8	4.0	9.3	3.7	2.7	1.9	1.1	0.5	
Net non-debt creating capital inflows	4.1	3.4	3.4	3.4	0.0	2.6	1.9	2.9	2.2	2.3	2.3	2.3	2.4	

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

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

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

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

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

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

Appendix I. Letter of Intent

Kyiv, November 8, 2021

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

Dear Ms. Georgieva:

1. We reaffirm our commitment to the policies and objectives of the economic program supported by an IMF arrangement under the Stand-by Arrangement (SBA). In the attached supplement to the Memorandum of Economic and Financial Policies (MEFP) from June 2, 2020, we outline further policy steps toward meeting these objectives.

2. We have provided appropriate policy support to contain the health and economic impact of the COVID-19 pandemic on Ukraine. The balance of payments and budgetary support under the first tranche of the SBA provided an important boost to reserves and allowed us to put in place a fiscal package aimed at reorienting expenditure toward healthcare and social support and scaling up public investment in roads to create jobs and offset weak private sector activity. Our 2021 budget continues to provide support to the recovery. Our fiscal policy efforts were complemented by substantial monetary easing in 2020 and targeted measures to provide temporary liquidity support to banks. Taken together, these measures have cushioned the economic effect of the pandemic and output contracted by less than expected at the time of the program request. On the health front, our vaccination campaign started in February, and as of mid-October we have fully vaccinated about 6.3 million people against a target of 17 million by end-year.

3. We met all continuous and end-December 2020 quantitative performance criteria (QPCs), except for the QPC on government guarantees; inflation has also accelerated above the Monetary Policy Consultation Clause (MPCC) outer band (Table 1) in 2021. We have implemented seven out of the nine structural benchmarks set for the period from end-June 2020 through end-March 2021, including through prior actions for the first review (Table 2). We have taken corrective actions in response to implementation slippages and unanticipated shocks. Specifically, we are requesting a waiver for the non-observance of a performance criterion for end-December 2020 based on corrective actions already taken. We have also attached a separate letter outlining the underlying reasons for the inflation deviation, as well as our policy response, as part of the monetary policy consultation with the IMF's Executive Board. To address the consequences of decisions taken by the Constitutional Court of Ukraine on key elements of our anti-corruption framework, we have [enacted] amendments to the relevant legislation to ensure that the framework remains operational and effective in investigating and prosecuting high-level public sector corruption.

4. We request that the structural benchmark on the audit of COVID-related spending be reset as outlined in the attached MEFP and propose several new benchmarks to help maintain the reform momentum and strengthen risk management (see Table 2). Specifically,

- To support the implementation of the recently enacted law on the High Council of Justice (HCJ), we propose an end-April 2022 structural benchmark on the completion of the one-time integrity check of existing HCJ members.

- On asset recovery, we propose to elevate to a structural benchmark the delayed MEFP commitment to adopt a comprehensive asset recovery strategy and have already taken first steps to deliver on that commitment.

- We recognize that adhering to good corporate governance remains an important safeguard in the state-owned financial sector and the state-owned energy sector, and we propose three new structural benchmarks in this area, aiming to ensure proper renewal of supervisory boards in state-owned banks and to install corporate governance in a key energy company to strengthen financial sustainability in the sector. Looking forward, to be able to advance our strategy for decreasing the state's ownership share in the banking sector, we propose developing a concrete roadmap ahead of the next review that could form the basis for further commitments.

- We will step up our efforts to prevent the buildup of quasi-fiscal deficits in the energy sector. To that end, we are committing to eliminate the stock of arrears to producers of renewable energy and prevent future debt accumulation (monitored through a new performance criterion). We will implement further measures (with new structural conditionality) to enhance competition in the retail and wholesale gas markets. In response to the recent sharp increase in gas prices will ensure adequate support to vulnerable groups by ensuring sufficient appropriation for the Household Utility Subsidies (HUS) program and provide transparent budget support, as needed, to ensure security of gas supply during the 2021–22 heating season.

5. We remain committed to maintaining the institutional strength of the National Bank of Ukraine (NBU), in recognition of the key role it has played in macroeconomic management and financial stability. The complex global environment underscores the importance of maintaining sound monetary, financial, and exchange rate policies. We have enacted a set of amendments designed to further strengthen the autonomy and governance of the NBU and will put in place a plan to address staff turnover and retain capacity in bank supervision. To ensure the continuity and integrity of monetary and financial policies, we will continue to uphold good governance practices in the context of the collegial and inclusive decision-making culture that we developed under the post-2014/2015 reforms of the NBU.

6. On the basis of steps that we have already taken and our commitments for the period ahead, we request completion of the first review, and a disbursement in the amount of SDR 500 million based on the end-December 2020 performance criteria. Given the delay in completing this review, we request an extension of the program to June 30, 2022 and a rephasing of remaining purchases. This would entail a second review under the arrangement, on or after March 4, 2022, based on the end-December 2021 performance criteria and a third review, on or after June 3, 2022, based on end-March 2022 performance criteria, as set out in Table 3. Furthermore, we also request the completion of the financing assurances review, and approval of the retention, for a period of 12 months, of the exchange restriction and multiple currency practices that are inconsistent with our obligations under Article VIII Sections 2 (a) and 3

of the Fund's Articles of Agreement. The exchange restriction is non-discriminatory and maintained temporarily due to balance of payments difficulties, while the multiple currency practices do not materially impede balance of payments adjustment or harm the interests of other Fund members, and are also non-discriminatory. 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.

7. We remain confident that the policies set forth in the attached MEFP are adequate to achieve the macroeconomic and financial objectives of the program and stand ready to 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 any policy that would be inconsistent with the program's objectives and our commitments laid out in the MEFP. 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/

Volodymyr Zelenskyy
President

/s/

Denys Shmyhal
Prime Minister

/s/

Sergii Marchenko
Minister of Finance

/s/

Kyrylo Shevchenko
Governor, National Bank of Ukraine

Attachment I. Memorandum of Economic and Financial Policies

November 8, 2021

1. **Our policies will continue to focus on addressing the economic and health crisis caused by COVID-19, while maintaining macroeconomic and financial stability, reducing vulnerabilities, and tackling key obstacles to private investment.** As the crisis resulting from the COVID-19 outbreak intensified and the macro-economic outlook worsened, we adopted and implemented an emergency 2020 fiscal package aimed at reorienting expenditure toward healthcare and social support, and frontloaded public investment in roads to create jobs and offset weak private sector activity. Our 2021 budget aimed to continue to provide support to the recovery, largely through policies that boost private consumption. Fiscal policy efforts were complemented by substantial monetary easing in 2020 and a set of targeted measures to provide temporary liquidity support to banks. Taken together, these measures have cushioned the effect of the pandemic. As the recovery takes hold, we are committed to (i) returning fiscal policies to settings consistent with medium-term debt sustainability while protecting the socially vulnerable, strengthening revenue administration, and reducing fiscal risks from quasi-fiscal operations; (ii) safeguarding central bank independence and focusing monetary policy on returning inflation to its target; (iii) ensuring banks' financial health, including through good governance, with the goal of reviving sound bank lending to the private sector; (iv) tackling corruption and pushing forward with the implementation of judicial reform; and (v) 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. In recognition that vaccination efforts are key to sustaining economic recovery, we have secured sufficient vaccine supply and aim to vaccinate at least 17 million people by end-2021.

2. **We have made progress in auditing the 2020 budget program for COVID-related spending and we will complete[1] and publish the audit by end-2021.** The budget program "Fund to Fight Against COVID-19 and its Impact", established through the 2020 supplementary budget, has been discontinued, and a partial ex-post audit by the State Audit Service has been completed, covering UAH 44.5 billion out of UAH 66.5 billion spent. We have published our audit findings covering expenditures by the Ministry of Health, Ministry of Social Policy, and Ministry of Culture and Information Policy through the webpage of the State Audit Service. We will not audit 100 percent of the funds as we do not plan to audit all of the funds used for social security—given that so far violations in this area were very small and the costs of a comprehensive audit in this area by far would outweigh the benefit. We will complete the audit of the remaining portion of the funds spent out of this budget program—mostly spent by the state road fund (UAH 13.3 billion)—by end-December 2021 (***structural benchmark***, reset from end-March 2021). While confidentiality agreements with suppliers may not allow for public disclosure of details on some spending, we are currently exploring options to make this possible. We have referred 212 cases to law enforcement

[1] The effective completion rate of the audit would stand at 85 percent. We will stop the audit of social insurance spending at about 72 percent, as we have found very low levels of violations (UAH 9 million) in this area, and established controls over implementation and eliminating violations. Registration for salary supplements was made through the digital platform Diya, significantly limiting the scope for misdirection of such expenditure.

agencies and are committed to fully cooperate with any potential criminal investigations in relation to COVID-related spending, including by providing access to evidence collected as part of the audit process. In addition, we have published all procurement notices in a manner readily accessible to the general public and have made 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]*).

A. Fiscal Policies

3. We are on track to meet our 2021 budget deficit target, despite recent expenditure pressures. The deficit of the general government will not exceed UAH 237 billion as per the IMF definition, which corresponds to a deficit of the state budget of UAH 246.6 billion. Tax revenue has overperformed, mostly on the back of stronger than expected commodity prices and a rebound in imports, allowing us to increase expenditures through two supplementary budgets and allocate it for road construction and maintenance. We are currently formulating a third deficit-neutral supplementary budget for 2021 of about 0.8 percent of GDP, which will increase by roughly equal amounts: (i) wage bill for military and healthcare workers; (ii) maintenance of roads; (iii) capital expenditure on roads; and (iv) Household Utility Subsidy program (HUS). While the deficit has remained in check, given large gross external financing needs including a significant amount of debt maturing that was issued at concessional rates, we have used about half of the recent general SDR allocation; we intend to retain the remainder of the allocation as a buffer against future risks, which also helps to buttress our external stability objectives.

4. In response to the recent extraordinary increases in gas prices, we will implement transparent measures to protect the vulnerable population, strengthen the financial position of municipality-owned District Heating Companies (DHCs), and provide temporary and exceptional liquidity support to state-owned Naftogaz. We expect to execute the following set of actions without widening the 2021 deficit in light of the projected additional revenue overperformance, including from gas royalties which are linked to gas import prices.

a. We will introduce amendments to the 2021 budget increasing allocation to the HUS by UAH 12 billion. This should be sufficient to ensure adequate coverage through end-December 2021, in light of the fact that pressure on gas prices facing households is also contained by the fixed-price contracts concluded by Naftogaz in April/May of this year.

b. We will provide a subsidy for the 2021–22 heating season for the poorest municipalities[2] of up to UAH 1 billion and provide further support to municipalities in the 2022 budget by redistributing to local budgets a part of PIT in the amount of UAH 11.4 billion (4 percent of PIT revenues). The remaining DHC liquidity need will be covered by municipalities from their own budgets.

[2] Refers to municipalities below the 90 percent threshold of the tax capacity index.

c. The MGU/GTSO has pre-paid to Ukrtransgas UAH 27 billion as part of a new agreement replacing the original sale purchase agreement (SPA) by fixed annual payments over the period 2020–24. We will suspend further execution of the emergency order until a proper assessment of its implications can be completed by the newly appointed supervisory board of MGU (see ¶31). Instead, any remaining liquidity gap at Naftogaz during the upcoming heating season would be covered by a transparent and direct budget transfer, in recognition of the company's role in energy security and the subsidy element implicit in current gas supply contracts. Such support is expected to be budget neutral in light of the royalty revenue overperformance. Naftogaz's liquidity situation is expected to improve in 2022 as prices move closer to market terms once the current fixed price sale contracts expire in April, aided by structural measures described in ¶30 and ¶32 below.

5. We will approve a 2022 budget that targets a general government deficit[3] of 3.5 percent of GDP (***structural benchmark***, end-November 2021), continuing on a path of gradual fiscal consolidation, and prioritizing a boost to healthcare, education and defense and security spending. In line with the recently approved Presidential decree #261/2021 dd. 18.06.2021, funding for the guaranteed healthcare package has been increased substantially to allow for an increase in wages of doctors and secondary medical staff of about 30 percent on average. These changes will be reflected in a CMU resolution which will increase the tariffs and capitation rate accordingly. The education sector will receive sufficient funding to finally meet the 7.3 percent of GDP target stipulated in the law on education. Specifically, wages of teachers will be increased by about 8 percent to keep them in line with the increase in social standards, stipends for students will be increased by about 50 percent. We will ensure that the defense and security budget will be above the floor of 5 percent of GDP, with additional funding partly allocated to the support of veterans. To make space for these important priorities, we will limit the increase in the minimum wage and the wage bill of other public sector workers to inflation plus two percent, and we will further strengthen the targeting of social programs.

6. To provide additional fiscal space to increase priority expenditures in 2022, we have prepared a tax package of about 0.5 percent of 2022 GDP. The tax measures are roughly equally distributed between increases in rates on existing taxes and base broadening measures. We intend to legislate the amendments to the tax code by end-November 2021. We plan to allocate these additional revenues to capital expenditure, and to augment the HUS program allocation when fixed-price gas supply contracts are renegotiated in the spring.

7. To contain fiscal risks, we will scale down the temporary expansion of government guarantees. So far in 2021, we have issued UAH 38.9 billion in government guarantees, and our plans for the remainder of the year, which include the issuance of guarantees for green bonds (see ¶33), are consistent with remaining within the established ceiling. As part of the exit from extraordinary support to the economy, we will no longer suspend, including in the 2022 budget, Article 18.1 of the budget code, which prescribes the ceiling for public guarantees to be set at

[3] As defined in ¶13 of the Technical Memorandum of Understanding

3 percent of the planned revenue of the general fund of the state budget. In consultation with the IMF, we will analyze ways to improve the management of guarantees, in line with best practices and with the objective of ensuring their consistency with the medium-term fiscal framework and debt sustainability.

8. Fiscal policy in 2022 and beyond will be anchored in our medium-term budget plan, approved by Parliament in June 2021. After allowing the deficit to widen in 2020, we are progressively tightening fiscal policy as the economy recovers and aim to return to primary budget surpluses with a view to (i) reduce gross financing needs and (ii) rebuild fiscal space to allow us to respond to future shocks while keeping debt under 60 percent of GDP. Our policy priorities are outlined in our 2022–24 budget declaration, and include, *inter alia*, the following:

a. **Tax policy will ensure the stability of the tax system, increase its efficiency, and enhance tax administration while minimizing opportunities for abuse**. We have proposed changes to the tax code which—among other things—aim at improving tax administration, limiting scope for abuses (especially for excises, and PIT on sales of real estate), closing some tax loopholes associated with real estate transactions, and improving the valuation of tax base (for corporate income tax and royalties). We have introduced indexation of rates on excises, royalties, and land fees to CPI and PPI, and increased the rates on environmental taxes. To avoid tax evasion in the agricultural sector we have also introduced a minimal tax liability on agricultural land. We will align tax legislation with EU legislation in line with commitments undertaken as part of the Association Agreement between Ukraine and the EU; and have implemented standards to prevent base erosion and profit shifting (BEPS), and the automatic exchange of tax information according to international standards. After a careful technical assessment, we will not move forward with substituting the current Corporate Profit Tax (CPT) for a Distributed Profit Tax (DPT) or an Exit Capital Tax (ECT). We will refrain from widening the eligibility criteria for the simplified tax regime or introducing new groups of taxpayers benefiting from a simplified tax regime and we have started taking steps to prevent tax avoidance and abuse of this regime. We will abstain from introducing new or expanding existing tax preferences, both on a sectoral and regional level, except for potential small scale support mechanisms which will be carefully designed to provide limited and targeted incentives. We will continue to inform the public of the cost of tax exemptions and will broaden the analysis to include the tax expenditure associated with the simplified tax regime.

b. **We will continue to protect the poor and the vulnerable by ensuring that our social programs are appropriately funded.** Although the changes made to the eligibility criteria in 2021 have improved the targeting, the relaxation of the norms during the pandemic and the effects of the lockdown have increased the need for funds. The appropriation in the 2022 budget for the HUS program is sufficient to ensure coverage for the same number of participants as this year if tariffs remain unchanged. However, after the renegotiation of tariffs in the spring, we will ensure that a supplementary budget will identify resources to top up the program in a timely manner and by the required amount.

c. **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; and (iii) improve the management information system, including through the digital platform Diya, 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, and strengthening incentives for recipients of housing and utility subsidies to introduce energy efficient measures.

d. **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, 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, introduced both by laws and by-laws, that will increase pension expenditures are accompanied by a medium-term fiscal impact analysis and a clear identification of the commensurate resources spelled out in the amendments to the PFU budget. We will simplify and streamline the current complex system of old age pension guarantees and we will adopt amendments to the Law on Compulsory Pension Insurance which specify the date of the annual pension indexation. Furthermore, we will continue our collaboration with our development partners to establish well-regulated and fully funded obligatory pension saving schemes when the necessary preconditions are put in place. In addition, will identify appropriate funding resources for the second pillar, and ensure that resources reallocated from the first to the second pillar will be replaced by other revenue sources.

9. 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. We will enhance our medium-term budget framework (MTBF), embedded into the Budget Code as of 2021, 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; and (iii) improve the methodology to produce forward baseline estimates and fiscal impact assessments especially through capacity building both within the Ministry of Finance (MoF) 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 2019–20. 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 MoF and by expanding our financial model to include major SOEs and will amend Cabinet resolution 7 dd.11.01.2018 on the methodology to assess fiscal risks to improve the submission of information from SOEs necessary to gauge associated fiscal risks. We will operationalize the Debt Management Office 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.

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

a. 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 developed new organizational structures and frameworks for the delegation of authorities and accountabilities in both organizations as single legal entities. Starting from January 1, 2021, the STS and, from July 1, 2021, the SCS have been 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 and SCS, have ceased to exist. While we have not been able to liquidate the State Fiscal Service (SFS) within that same timeframe, and transfer its assets to the STS and SCS, we will complete that process by end-December 2021, when the Ukraine's Bureau for Economic Security (see below) is staffed and fully operational.

b. To improve effectiveness of revenue collection, we will continue building systemic tax compliance risk management process in the STS by developing capacity to detect highest compliance risks and adopt processes that use STS resources with a best possible impact on improving tax compliance. To achieve this, we will: (i) clearly define strategic tax compliance improvement objectives based on analysis of compliance risks and estimation of their potential impact to the tax revenue; and (ii) put in place strong governance arrangements to assure that all functional units of the STS will align their operations to the STS Compliance Strategy. This will be supported by a formal process of adopting annual compliance improvements plans (CIP) with defined and measurable objectives and regular reporting to the STS senior management from functional and structural units of the STS. The CIP for 2022, will be prepared by December 1, 2021. One key objective of the STS Compliance Strategy would be to focus on taxpayer segments that carry highest risks to the tax revenue collections. For this we will continue strengthening the process of managing large taxpayers from large taxpayer offices (LTOs) under the coordination of the head of the STS to achieve consistency in servicing this important taxpayer segment. We will also establish by December 1, 2021 a specialized STS unit to analyze tax behavior of High-Net-Worth Individual taxpayers, to assure that tax compliance risks from this group are minimized.

c. With the goal of consolidating the investigative authority of economic crimes into a single investigative body, the Ukraine's Bureau for Economic Security will become operational by end-December 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 sets out clear rules for management selection, internal decision-making, and oversight to ensure operational independence and proper oversight and accountability.

B. Monetary and Exchange Rate Policies

11. 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 [have enacted] amendments to the NBU Law (***prior action***), in line with recommendations of the 2019 safeguards assessment, to further strengthen the autonomy and governance of the NBU, including by (i) better describing the role of the NBU Council and its relationship with the Management Board to mitigate interference with the Board's mandate; (ii) reducing the number of NBU Council and audit committee meetings in line with their mandate; (iii) introducing an *ex ante* cooling-off period for Council members to become Management Board members and further clarifying the applicability of existing *ex post* cooling-off period to Council members; (iv) clearly formulating the tenure of NBU deputy governors and improving the appointment and dismissal criteria for the members of Council and Management Board without undermining the status of current members; (v) strengthening conflict of interest rules for NBU officials; and (vi) improving legal protections accorded to these officials, including former NBU officials. We will update our secondary framework (e.g., NBU Council's Rules of Procedure) to align it with the new amendments by end-2021. Furthermore, 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, and the NBU's capital and profit distribution rules).

12. Our monetary and exchange rate policies and operations will remain consistent with our commitment to meet the program's international reserve and inflation objectives. We remain committed to steering inflation back to the NBU's target of 5 percent with a tolerance band of ±1 percentage point, 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). 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. As the banking system has weathered the crisis well (see below) and is currently highly liquid with free liquidity at about 30 percent of client liabilities, the NBU has normalized the operational design of its monetary policy by phasing out emergency measures implemented in response to the COVID-19 crisis. As of October 1, 2021, the NBU has discontinued long-term refinancing and interest rate swap operations with banks, reduced the maturity of refinancing loans it offers through weekly tenders from 90 to 30 days and raised the maturity of its certificates of deposits back to the pre-crisis length of 14 days. The NBU will maintain the key policy rate as its core monetary policy instrument and refrain from continuing long-term refinancing operations or conducting any other liquidity providing operations exceeding a maturity of 30 days, unless necessary to safeguard financial stability.

13. The monetary policy consultation clause (MPCC) was triggered by unexpectedly high inflation in March and June 2021. We have attached a separate letter outlining the underlying reasons for the inflation deviation, as well as our policy response (Attachment II). We are confident that the combination of policy interest rate hikes and the unwinding of temporary supply-side factors will bring inflation within the NBU's target range by end-2022.

14. 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 capital markets, which are important for effective monetary policy transmission.

C. Financial Sector Policies

15. We will pursue policies to ensure financial stability and limit potential fiscal cost of interventions. Our priorities will focus on: (i) further strengthening bank capital requirements; (ii) reducing legacy non-performing loans (NPLs) and recovering assets from resolved banks; (iii) implementing the reform strategy for state-owned banks (SOBs); (iv) improving the Deposit Guarantee Fund's (DGF) financial position and the NBU Emergency Liquidity Assistance (ELA) framework; and (v) developing the regulatory framework for the non-bank financial sector and financial markets.

16. The banking sector has weathered the crisis well. Banks entered the crisis well capitalized and liquid, thanks to our considerable progress in cleaning up the banking system since 2014. Regulatory measures introduced in 2020 to deal with the impact of the COVID-19 pandemic on banks' credit risk were unwound between April and July 2021, with the exception of measures directed at municipalities. Measures to support banks' liquidity (long-term refinancing operations and interest rate swaps) were also suspended in October 2021. Asset quality reviews, conducted by external auditors in all banks, and stress tests conducted in the 30 largest banks (accounting for 93 percent of system assets) showed the banking system as a whole to be profitable and adequately capitalized at end-2020. Based on these diagnostics, the NBU instructed four banks in August 2021 to take measures and/or raise additional capital to cover capital needs found under the baseline scenario by end-December 2021 and instructed these and sixteen additional banks to submit action plans to further improve their capital adequacy by injecting capital and/or reducing risk by end-June 2022, in response to the adverse scenario. We will take supervisory measures against banks that fail to implement their action plans.

17. We have enacted amendments to the Banking Law and DGF Law (*both prior actions*) in line with program commitments, to strengthen the bank supervision framework and the DGF's asset recovery framework:

a. **Through amendments to the Banking Law and other laws we have strengthened the bank supervision framework** by bringing the corporate governance framework in line with the Basel's Guidelines for Corporate Governance for banks (including the collective suitability of supervisory boards), improving shareholder and licensing requirements, improving the capital structure, and granting the NBU legal powers to calibrate bank-specific capital and liquidity requirements. Following a three-year transitional period, the regulatory framework will comply with the Basel II, pillar 2 capital framework and the Basel III capital and liquidity framework. We have adopted a time-bound implementation schedule to ensure that banks will be fully compliant with the new framework by January 2025.

b. **Through amendments to the DGF Law and other laws we have** improved bank liquidation mechanisms and strengthened the DGF's asset recovery powers. Among others, these amendments enhance the DGF's powers to set aside suspicious transactions concluded before the bank's insolvency and facilitates the DGF's ability the claim damages from former bank owners and related parties, including interim measures (asset seizures) against such parties under certain circumstances.

18. We are taking actions to further strengthen the financial safety net and financial stability, also addressing a number of past safeguards assessment recommendations.

a. **We have submitted to Parliament legal amendments that restore the DGF's solvency and make state-owned Oschadbank a member of the DGF.** Based on a plan prepared by the MoF and the DGF and adopted by the Financial Stability Council in August 2020, the law converts into contingent liabilities remaining liabilities related to MoF's back-up funding in 2015–18 to facilitate the DGF's payout of insured deposits in failed banks. The contingent liabilities will be settled with (i) the DGF's recovered claims from failed banks and (ii) with funds that exceed the DGF's target size, as approved by the DGF Administrative Council. The law also gradually raises the insured deposit coverage limit to reach its 2014 value in real terms (from UAH 200,000 to UAH 600,000), establishes a process for determining the DGF's target size, and explicitly requires that any funding from the NBU to the DGF is at NBU's discretion, is short-term, addresses urgent situations, and when systemic stability aspects are at stake (addressing a 2019 safeguards assessment recommendation). We aim to adopt the law by mid-November 2021 and restore DGF´s solvency by end-December 2021.

b. **Supported by IMF technical assistance, we are reviewing our operational framework for ELA,** including its governance, the verification of the solvency requirement, appropriate collateralization and risk management conditionality, and monitoring through the implementation of funding plans. To mitigate risk when regular refinancing operations of commercial banks would need to be switched to ELA, we will also strengthen the counterparty eligibility criteria (solvency criteria) in the NBU's monetary policy refinancing operations (a 2019 safeguard assessment recommendation). We will develop changes to the ELA policy and operational framework by end-May 2022. Following bilateral technical assistance from a member of the European System of Central Banks, we will review the operational process for the NBU's emergency liquidity support and assess (with the involvement of the DGF) the legal framework concerning the NBU's secured creditor status in bank resolution and liquidation, and prepare amendments to strengthen this status, as appropriate.

c. **To mitigate and effectively address potential risks posed to financial stability and public finances due to potential adverse rulings** from the constitutional challenges filed against the DGF Law and the Bank Resolution Law (Law No. 590 of 2020), we have prepared a contingency plan for the DGF Law and updated the existing contingency plan prepared at the onset of the Fund-supported program to mitigate and effectively address potential risks posed to financial stability and public finances by adverse court rulings against past resolution decisions. We will ensure that that plans (i) are operationally feasible; (ii) safeguard financial stability; (iii) minimize fiscal costs; and (iv) minimize moral hazard risks. The Financial Stability Council will adopt the plans by end-November 2021 and continue to review the level of preparedness of all stakeholders at its regular meetings and update the plans as needed upon material developments.

19. We have reviewed banks' first recovery plans and we are implementing our time-bound plans to introduce new capital and liquidity requirements. All banks have submitted recovery plans and the NBU has completed its first round of comments. The plans will become part of NBU's annual Supervisory and Review Evaluation Process in 2022. The Net Stable Funding Ratio (NSFR) for banks was implemented in April 2021, originally set at 80 percent to be gradually raised to 100 percent in April 2022. Risk weights for unsecured consumer loans were raised in July 2021, to address rapid growth in this credit segment. In January 2022, capital requirements for operational risk are set to take effect. Also, in 2022, NBU will endorse the requirements to provide the internal capital adequacy assessment process (ICAAP) and the internal liquidity adequacy assessment process (ILAAP). Based on the Banking Law, these requirements will take effect in August 2024. We will introduce a schedule for activating the new capital conservation buffer and the systemic importance buffer by March 2022. Preliminary estimates show that banks are generally prepared for the new capital requirements, and that the additional burden on capital ratios will not be significant.

20. We are fully committed to preserving the strength of supervision and will take resolute measures to support continuity of bank supervision. Earlier this year, we conducted a self-assessment of the NBU's supervisory approach, tools and reporting against the relevant Basel Core Principles. We will prepare and adopt a plan to address the identified regulatory gaps by end-2021. We are preparing to change the organizational structure for bank supervision, including by establishing a new expert unit than will provide technical support to the more compliance-based supervisors. To increase the likelihood of effective oversight within the new structure and mitigate operational risk stemming from high staff turnover, we will adopt a time-bound action plan, in consultation with IMF staff, to improve professional capacity of bank supervision (a ***structural benchmark*** for end-December 2021). The plan will include the development of professional profiles needed and a multi-year training program for new hires.

21. While considering how best to serve our expanded mandate, we will maintain collegial Board decision-making and our function-based structure. In light of the NBU's recently acquired mandate for non-bank financial institutions (NBFIs) supervision, and amendments to the NBU Law in June 2021 introducing a new (sixth) deputy governor position to the NBU Board, we are developing a plan for regrouping of NBU's organizational units, in addition to the organizational reform of supervision described in ¶20. To ensure efficient information flow and effective decision making, we will continue to pursue collegial decision-making by the Board and its committees, and the function-based, lean organization model that we have implemented over the past years with IMF support. To this end, at the governance level, the NBU will identify upfront an effective and balanced division of responsibilities among the Board members, taking into account the collegial model of decision-making, while avoiding potential conflicts between executive responsibilities. At the organizational level, the NBU will also identify activities that can be conducted cross-sectorally and examine the merit of grouping these together. Additional organizational safeguards will be considered, such as establishing new senior staff committees (advisory or for information-sharing) across departments, as needed. Critically, we will ensure that any organizational reforms will enhance internal information-sharing and decision-making, retain key staff, ensure business continuity is not hampered, and are easy to explain internally and externally, thereby minimizing reputational risk.

22. We are taking steps to advance the corporate governance reforms for banks under state-control, including by upgrading accountability mechanisms. We have operationalized the oversight unit in the MoF in charge of shareholding management in line with IMF technical assistance recommendations and are committed to filling currently vacant staff position quickly with high-caliber professionals. Each SOB has adopted a Code of Ethics that establishes a balanced disciplinary process to handle misconducts, complaints, and conflicts within the banks, including involving supervisory board members. A new Memorandum of Understanding (MoU) between the MoF and the majority-independent supervisory boards of each of the SOB will be signed by end-October 2021, providing a balanced relationship framework to ensure commercial independence of state-owned banks and accountability to the State as a shareholder In consultation with International Financial Institutions (IFIs), we have developed a methodology for assessment of the supervisory board's performance conducted by an internationally reputable advisor (to strengthen accountability), which considers obstacles that are outside the supervisory board's control and may reduce their effectiveness and tasks the advisor to propose measures to improve corporate governance and supervisory board efficiency. The first performance assessment will be conducted for each of the banks in 2022 (based on the 2021 performance) and will inform the Cabinet's performance assessment in line with Article 7 of the Banking Law. In June 2022, the MOF will publish the assessment's key findings, together with Cabinet's actions to address the findings.

23. To build on that momentum, we are committed to promptly addressing recent risks to the oversight of banks under state control. Changes to the recently approved Banking Law relaxed the eligibility criteria for state representatives in SOBs' supervisory boards, creating risk of weakened oversight. To mitigate this risk, we will, by end-November, enact legal amendments, prepared jointly by the Ministry of Finance and the NBU, that reverse this relaxation (end-November 2021 ***structural benchmark***). The term of Ukrgasbank's supervisory board members expires in April 2022, and we are committed to select new members through a competitive and transparent process. In the remaining three SOBs, the three-year term of the majority-independent supervisory board members expires in June 2022, and we will, by end-February 2022, initiate the selection process for new supervisory board members in line with Article 7 of the Banking Law. In light of that, by end-November, we will, in consultation with IFIs, adopt a time-bound succession plan for the supervisory boards of each of the SOBs that support the implementation of the approved 2021-2024 strategies for each of the banks (***structural benchmark,*** end-November 2021). The succession plan will lead to the revision of relevant resolutions and procedures (including, but not limited to Cabinet Resolution No. 159 and 267 of 2019), in consultation with IFIs, with the objective to (i) strengthen the qualification criteria for international recruitment firms, including by ensuring rotation and effective leadership and endorsement by a reputable foreign partner; (ii) ensure that the recruitment firm's procedure for shortlisting candidates is consistent with banks' approved strategies and with the objective of collective suitability of each of the new boards reflects the respective bank's approved strategy; (iii) elaborate the process for the Nomination Committee's selection from the already shortlisted candidates (including verification, evaluation and voting); and (iv) provide for a transparent process for reappointing a person to the position of an independent member of a supervisory board. We will offer market-based remuneration to attract and motivate highly qualified Ukrainian and international professionals.

24. Consistent with the Principles of State Banking Sector Strategic Reforms, we will advance preparations to reduce state ownership in the banking sector. The updated Strategy, approved by the Cabinet in August 2020, envisions a reduction in state ownership from the current 50.4 percent in net assets (total assets net of loan loss provisions) to below 25 percent by 2025. An important first step was taken in 2020, when the International Finance Corporation (IFC) of the World Bank Group granted a loan to UkrGasBank, that is convertible into equity. We are fully committed to facilitate the process of privatization of UkrGasBank, as laid out in its approved strategy. To support a potential pre-privatization engagement, which would be based on a convertible debt instrument that would already augment Oschadbank's regulatory capital (tier 2), the European Bank for Reconstruction and Development (EBRD) conducted due diligence of Oschadbank in June 2021. Cabinet has approved Oschadbank's strategy for 2021–24 and the MoF and Oschadbank will enter formal negotiations with EBRD about the terms and conditions of cooperation in line with the approved strategy. To further advance the state's divestment, we will ensure that Privatbank and Oschadbank will, by end-year 2021, develop and adopt, in cooperation with the MoF, a road map that (i) outlines the steps required to take each of these banks to the market for partial or full privatization and advance our objective to attract reputable international investors; (ii) identifies legal amendments that might be required to execute the divestment option(s) presented. These road maps will be endorsed by the Cabinet by end-January 2022 (***structural benchmark***). To strengthen the oversight of SOBs and prepare for divestment, we will enhance the professional capacity of the shareholder management unit within the MoF's Department for Financial Policy. Furthermore, we will ensure that the banks under state control remain adequately capitalized and meet capital requirements. Any additional decisions that may affect state ownership in the banking sector (including, but not limited to the acquisition of corporate right by government bodies and state-owned enterprises (e.g., UkrPoshta)) would be undertaken only if consistent with the government's overall strategy to reduce state ownership and control in the banking sector, ringfencing the banking services in a separate legal entity, which will be subject to international best practices including stringent licensing safeguards (such as prudential vetting of shareholders).

25. We have made progress in reducing legacy NPLs in SOBs. All SOBs have prepared time bound and credible NPL reduction plans, which were endorsed by the Financial Stability Council in June 2020. Applying the comprehensive legal and regulatory framework for managing problem assets, adopted in 2018-2020, all the banks are on track with the implementation of their plans, resulting in their combined NPL ratio falling from 65 percent at end-December 2019 to 52 percent at end-August 2021, on the back of write-offs of fully provisioned NPLs. Implementation of these plans will continue to 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 the banks' annual Key Performance Indicators. While balance sheet repair will help revive lending, we have identified a set of key obstacles to bank lending. To this end, the NBU and respective ministries will, together with the banking community, review recommendations submitted by the working group set up to identify obstacles in bank lending, with the aim to prepare an actionable plan, by end-January 2022.

26. We are stepping up our efforts to boost asset recovery from the former owners and related parties of failed banks to reduce the cost of bank failures to Ukrainian taxpayers and hold such persons accountable for wrongdoings. The recently adopted legal amendments strengthen the DGF's framework for asset recovery framework (i.e., the recovery of claims against former bank owners and related parties, including damages inflicted by them) (MEFP ¶[18a]). Another amendment is in Parliament to strengthen the DGF's ability to seek damages in criminal proceedings. In addition, the DGF will pursue legal actions abroad to recover losses and engage with reputable legal and forensic experts to that end. These efforts will be supported by effective coordination with law enforcement agencies and by ensuring DGF's solvency, which will create more financial space and incentives for the DGF to commit the required resources to take these steps. However, we recognize the need to take a more comprehensive approach to 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. This comprehensive approach would demonstrate a strong political commitment and provide a consolidated view on Ukraine's asset recovery strategy, on policy measures that will fix institutional, legal and coordination gaps forestalling recoveries, with due attention paid to the fact that, while relevant agencies are trying to recover assets, the state continues to do business with the former owners of failed banks as usual, via public procurement and privatization. We are thus fully committed to the following actions:

a. **Develop an asset recovery strategy and action plan**. We have launched a high-level working group chaired by the Prime Minister, with the NBU Governor as Deputy Chair, and convening all relevant ministries, as well as the Prosecutor General's Office (PGO) and NABU upon their consent, to prepare a comprehensive asset recovery strategy paper and action plan, to be adopted and published by the Cabinet of Ministers (***structural benchmark*** for end-February 2022). Given the relevance of their work, we will extend the membership of this high-level working group to other law enforcement agencies. The strategy would set asset recovery as a policy goal, take stock of the status of asset recovery efforts, identify impediments to asset recovery, define our strategy, and propose credible and time-bound concrete policy actions to strengthen legal framework, increase the institutional and operational capacity of relevant agencies, and establish effective and structured coordination mechanisms among relevant agencies to that end. We will ensure that the proposed actions will not give rise to any moral hazard risk and that there will be no interference with the operational autonomy of respective agencies and PrivatBank's asset recovery efforts. Inter alia, we will specifically enumerate measures that can be taken to end the state's business-as-usual with former owners of failed banks until the latter have taken actions to satisfy their debts to the DGF, for example, by prohibiting former bank owners of resolved banks, their related parties, and entities controlled by them, with legally ascertained debts to the DGF, from participating in public procurement and privatization processes.

b. **Ensure continuous cooperation.** While the above strategy paper is being developed, the NBU and the DGF will continue to coordinate their efforts with the PGO and NABU, including by way of exchange of information and documentation (e.g., forensic audit reports), as permitted by law and without prejudice to the prosecutorial and investigative autonomy of PGO and NABU respectively.

c. **Agencies involved in asset recovery will continue to adequately inform the public on progress made.** To that end, the CMU publishes semi-annual reports summarizing progress in asset recovery and litigation efforts related to the SOBs. 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, including credit debts, to the failed institutions as ruled by court decisions. The DGF will also disclose semi-annually the amount of damage it claims from former owners and related parties in each failed bank. The DGF will increase the accessibility of its reports with easily understandable and comparable information. In addition, for enhanced transparency around outcomes, the Prosecutor General's Office will publish a semi-annual report on the outcomes of criminal proceedings against former bank owners, managers, and other related parties in each resolved bank since the beginning of 2014, with aggregate data on the number of persons investigated, tried, and convicted as well as the amount of fines and damage recovered (***structural benchmark*** for end-December 2021).

27. We will strengthen the legal, regulatory, and supervisory framework for NBFIs and financial markets. The NBU has adopted new rules on shareholder transparency, which requires all NBFIs (apart from credit unions) to disclose their owners and those with non-transparent ownership structures to change their ownership structure by October 17, 2021. We will take supervisory actions against those NBFIs that do not meet this requirement. To strengthen NBFI supervision, we have, with support from IFIs, prepared new legislation on Financial Services and Financial Companies (#5065), on Insurance (#5315) and on Credit Unions (#5125). Another draft law amends the Law on the National Securities and Stock Market Commission (NSSMC), enhancing NSSMC’s independence and institutional capacity, its cross-border and domestic cooperation mandate, and its enforcement powers. We will ensure that this law meets the objectives outlined in ¶22 of the September 1, 2016 MEFP and allows Ukraine to become a signatory of IOSCO’s multilateral MoU. We will closely coordinate with the staff of the relevant IFIs to ensure that these four draft laws are aligned with international best practices and aim for these laws to be enacted by Parliament by end-December 2021. 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

28. We remain committed to good governance and rooting out high-level corruption. Building on the successful establishment of Ukraine's anti-corruption institutions—the National Anticorruption Bureau of Ukraine (NABU), the Specialized Anticorruption Prosecutor's Office (SAPO), the High Anti-Corruption Court (HACC), and the National Agency for Corruption Prevention (NACP)—we will continue to uphold their independence, enhance their effectiveness, and secure the adequacy of their resources. Robust implementation of the asset declaration and AML/CFT frameworks is intended to advance efforts to hold corrupt public official accountable. We will avoid any backtracking from the progress made to our anti-corruption efforts.

a. **NABU Operations.** We will continue to safeguard the institutional and operational independence of the NABU and ensure its effectiveness in investigating corruption. The powers of the President over the NABU (including the authority to appoint its head) were declared unconstitutional by the September 2020 decision of the Constitutional Court. To address this legal gap, we [have amended] the NABU law (***prior action***) to: (i) protect NABU's independence as a central executive authority with special status under the Cabinet of Ministers (including resolving conflicts of laws in favor of NABU's independence and enhancing the existing external audit model to be conducted by independent experts with international experience); (ii) enhance the selection process for the new NABU head by giving a decisive role to independent experts with international experience with at least two votes of independent experts in the six-member Selection Commission required for majority and split decisions; and (iii) confirm the current NABU head's status in order to prevent legal challenges to NABU's ongoing work and provide a smooth transition of credibly selected NABU leadership until a new NABU head is selected. We will also maintain NABU's exclusive authority to investigate acts of corruption involving significant amounts or committed by high-level officials and empower its effective use of a wide range of investigative techniques in line with international AML/CFT standards without having to rely on other agencies' infrastructure. Thus, to implement the law allowing the NABU to intercept communications, we will provide adequate resources, equipment, and technological solutions to enable the NABU to independently intercept communications of landlines and mobile devices by end-December 2021. In addition, we will continue to maintain adequate financial and human resources for NABU and ensure that staff remuneration remains competitive. By end-March 2022, further amendments to the legal framework will be undertaken to allow the NABU access to competent, independent, and speedy forensic examinations by experts, in criminal proceedings in relation to corruption cases under the NABU's jurisdiction. We will ensure that the NABU will have primary jurisdiction over criminal cases of corruption within its investigative jurisdiction over other law enforcement agencies, including the new State Bureau of Economic Security. 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).

b. **False Asset Declaration.** We restored criminal liability against public officials with respect to their obligations to file asset declarations (***prior action***). In an October 2020 decision, the Constitutional Court invalidated the previous law on the grounds of lack of proportionality of sanctions against public officials who intentionally fail to submit or make false entries in their asset declarations. Consistent with the December 2020 Opinion of the European Commission for Democracy through Law (Venice Commission), a new law was enacted in June 2021 that created three separate corruption offenses of (i) non-submission of asset declaration; (ii) ordinary false declaration (involving assets below the threshold amount of US$170,000); and (iii) aggravated false declaration (involving assets valued above the threshold amount). The serious offense of aggravated false declaration will be punishable by imprisonment for up to two years. Together with the revised offense of illicit enrichment, the new offenses on asset declaration should help contribute to an effective and dissuasive asset declaration system.

c. **SAPO.** We will ensure the autonomy of SAPO. We will complete the selection process and appoint a new SAPO head by end-November 2021. Based on the lessons learned from the ongoing selection process of the new SAPO head, we will amend the SAPO law (end-March 2022 ***structural benchmark***): (i) to improve the procedures for selection of SAPO officials with the crucial role and decisive vote of independent experts with international experience; (ii) strengthen its capacity to regulate its organizational activities including rationalizing the powers of the SAPO head and its deputies; and (iii) establish mechanisms for accountability of SAPO leadership based on the findings and recommendations of the external audit to be conducted by independent experts with international experience in anti-corruption law enforcement, in conjunction with the NABU audit.

d. **Anticorruption court.** We fully support the independence of the HACC and will aim to ensure that it is adequately provisioned to perform its mandate. Since its successful establishment, the HACC is demonstrating its capacity to hold corrupt public officials accountable. In the past two years, more than 80 percent of the HACC's decisions have led to convictions for corruption against judges, prosecutors, former members of parliament, heads of state-owned enterprises (SOEs) and local officials. We will continue to ensure the full operationalization of the HACC by providing adequate financial resources for its activities (including staffing, security and IT requirements and maintaining competitive staff remuneration) and ensuring a permanent, dedicated, and adequate suitable facility for the HACC. By end-December 2021, the HACC will be provided title to use and manage permanent offices that are appropriate for its needs. 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).

e. **E-declaration.** To mitigate illicit enrichment and laundering of proceeds of corruption, we will continue to ensure that politically exposed persons (PEPs) are subject to comprehensive and published asset declaration requirements. In the same October 2020 decision on false asset declaration, the Constitutional Court abolished the powers of the (NACP) on the grounds that the power to verify asset declarations were contrary to the principle of judicial independence. To address these concerns, and in response to the recommendations of the Venice Commission (December 2020 Opinion), we enacted in December 2020 amendments to the NAPC law restoring their powers with respect to verification of asset declaration but carved out a separate regime for asset declarations for the judiciary. In this regard, we continue to work with the judicial branch to finalize procedures for verification of asset declarations of members of the judiciary. We continue to ensure and facilitate NABU's automatic and unrestricted electronic access to the NAPC database of asset declarations. We remain focused on efforts to prioritize the verification of asset declarations of PEPs based on risk.

f. **AML implementation.** We are mobilizing the AML/CFT framework to support efforts to tackle high-level corruption. To implement the December 2019 amendments to the AML/CFT framework, we issued guidance to banks on the new definition of PEPs. In undertaking supervisory and enforcement actions, we are aiming to utilize the proportionate and dissuasive sanctions provided under the new AML/CFT framework in cases of breaches of obligations. By end-March 2022, 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 ¶100 of the TMU). With respect to the voluntary tax declaration, we will ensure that this program fully complies with AML and anti-corruption legislation and the risks of abuse and money laundering are sufficiently mitigated. In this regard, the NBU will publish after the voluntary tax declaration program a thematic inspection report of AML/CFT compliance by banks that facilitated tax declarations through special accounts (including random sampling of beneficiaries). 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.

29. 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 are managed and implemented by persons with high competence, trustworthiness, and integrity consistent with European judicial standards and Venice Commission opinions. 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.

a. **High Council of Justice (HCJ)**. We amended the HCJ Law to enhance the selection process ensuring that its members have impeccable reputation and integrity (***prior action***). As one of the judicial self-governance bodies, the HCJ is a constitutionally created body that has appointment and disciplinary functions over judges in general. In July 2021, we amended the law governing its selection process to create an Ethics Council to pre-screen potential candidates to the HCJ and assess their integrity as well as perform a one-off integrity check of existing HCJ members. Consistent with the recommendations in the May 2021 opinion of the Venice Commission, the first composition of the six-member Ethics Council will have three independent experts with international judicial experience and will be given a decisive vote (at least two of these three independent experts would be required in majority decisions and split votes). The procedures and criteria for the pre-selection process for the HCJ candidates, including a call by the commission for applications, has been outlined. The Ethics Council will forward those candidates that have passed the pre-screening to the respective appointing authorities as designated by the Constitution for final selection and approval. In case of negative assessment by the commission of an existing HCJ member, the Ethics Council will send and publish a recommendation for dismissal to the relevant appointing authority. The HCJ member subject of the negative assessment will be temporarily suspended from office until such time as the relevant appointing authority decides on the dismissal. We will undertake all necessary actions to establish the Ethics Council by end-October 2021. In addition, the one-off integrity check of existing HCJ members would be completed within the six-month period from the establishment of the Ethics Council as provided under the law (end-April 2022 ***structural benchmark***).

b. **HCJ Disciplinary Inspectorate Service**. We have also created a permanent inspectorate unit in the HCJ to support the conduct of judicial disciplinary investigations. Under the same July 2021 amendments to the HCJ law, this new standalone unit in the HCJ will be responsible for investigating disciplinary cases against judges and submitting recommendations to the HCJ for disciplinary actions and sanctions. The unit will be composed of permanent staff, who will be subject to competitive selection, in order to ensure consistency in investigative practice and continuity and evenhandedness in the treatment of judicial disciplinary cases.

c. **Review of Exemplary Administrative Cases**. We will 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-December 2021. The criteria will include such factors 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).

Energy Sector Reforms

30. We will continue our efforts to avoid the re-emergence of quasi-fiscal deficits in the gas sector by setting tariffs above cost recovery while protecting vulnerable households. Specifically:

a. **Protecting vulnerable households.** We will continue providing utility subsidies to help defray the impact of gas and heating tariffs on low-income and vulnerable households. To this end, as described in ¶4a and ¶8b, we will ensure adequate budget allocation for the HUS in accordance with gas price forecasts and strive to ensure coverage of all qualifying households prior to the heating season, including by better informing the public and eliminating rigidities in registration.

b. **Preventing quasi-fiscal deficits**

- We are committed not to reintroduce any price cap on gas supplied to households, and to ensure that wholesale prices are determined on a transparent and efficient market. We will also ensure that all heating tariffs under the jurisdiction of local authorities are reviewed and officially enacted to fully reflect gas and non-gas costs (including capex) by end-October 2021. Any deviation from the cost recovery level caused by the surge in gas prices will be covered by an explicit and transparent subsidy from either the state or respective local budget.

- To support such efforts, we will (i) make fully operational the supervisory board of Naftogaz by the end of January 2022, and (ii) ensure that an independent audit is conducted by an internationally reputable firm by April 2022, focusing on measuring the extent to which Naftogaz activities and fixed price contracts represent a subsidization of gas prices for households and DHCs.

- Before restructuring the debt of DHCs and Distribution System Operators (DSOs), we will implement and assess the results of measures which aim to address the underlying causes of debt accumulation. Such measures would include ensuring cost reflective heating tariffs and sufficient working capital in DHCs, as well as measures improving payment discipline (see ¶30c below).

c. **Enforcing payment discipline.** We will address the issue of payment discipline of households, district heating companies and distributors 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). We will refrain from any measures which may undermine payment discipline.

31. We are committed to protecting the financial strength of MGU/GTSO and their ability to invest without delay in critical gas transport infrastructure in response to structural challenges in this sector. We will soon make fully operational the supervisory board of MGU, including by ensuring all appointed members have been provided contractual agreements. As the supervisory board was not appointed when the recent agreement replacing the original SPA was renegotiated, we are committed to providing all necessary information to the supervisory board, to allow it to assess whether the implications of this agreement are in the company's best interests, does not jeopardize its short-term liquidity position and medium-term viability, and fosters its capacity to invest, including its capacity to invest in response to structural shifts in the transportation network. Based on the findings of that thorough assessment, we are committed to amending the relevant CMU resolution governing payment terms.

32. We will take further steps to support the development of energy markets by implementing measures to enhance competition and consumer choice. Our measures will include:

a. **Enhancing competition in the retail market**

- We will further simplify the procedure for supplier switching for household consumers, including by ensuring it cannot be hampered by the existence of a disagreement between the household consumer and the previous supplier or by any claims of payments outstanding. In addition, we will ensure household consumers have the right to authorize sharing their historic consumption data, and DSOs 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. To facilitate this, we will ensure that all the by-laws required for finalizing the launch a joint data hub for household consumers will be approved by December 2021. The data hub will then be made accessible to all market participants by end-March 2022 (**a structural benchmark**).

- We will create a working group with key stakeholders including NEURC, the Ministry of Energy and the Anti-Monopoly Committee of Ukraine (AMCU) whose task will be to develop and promulgate by end-March 2022 a joint workable action plan to ensure development and enforcement of market and anti-monopoly regulations, including effective unbundling of DSOs and suppliers in all regions so that they cannot have the same beneficial owner. The regulator will be responsible for verifying the effectiveness of the unbundling. We will also adopt legislation to ensure (i) AMCU's financial and operational independence; (ii) that the appointment of its Chairman and commissioners is transparent, competitive and insulated from political interference and a clear exhaustive list of reasons for their dismissal is provided; (iii) that its powers are strengthened to conduct physical searches, confiscate documents and to obtain information from, and share information with law enforcement agencies and other government bodies; and

(iv) that its decisions will gain the status of enforcement documents, so that there is no need for a court process to enforce decisions. Finally, AMCU will publish information on the initiation and results of its investigations.

b. **Enhancing competition in the wholesale market.** We will ensure that wholesale prices are determined on a transparent and efficient market. Against this objective, we will implement a domestic gas release program under which, starting in May 2022, UGV will sell every year at least 40–50 percent of its production on a transparent and competitive basis on local exchanges with equal access for all market participants. This share is expected to increase toward 100 percent by 2024 as fixed price contracts currently tying up production expire. In parallel, we will also develop a workable action plan to improve financial stability and institutional capacity of the demand side (including DHCs) to make sure they are capable of sourcing gas through an exchange. We will speed up our progress towards full implementation of the EU Regulation on wholesale Energy Market Integrity and Transparency (REMIT) as envisaged under the Association Agreement between Ukraine and the EU. We will develop an action plan to improve transparency and ensure commercial attractiveness of exchange gas trading in Ukraine.

33. We are committed to addressing the large imbalances in the electricity sector. In order to eliminate quasi-fiscal deficits in the electricity sector, we will ensure that:

a. The state-owned Guaranteed Buyer will no longer accumulate arrears to renewable energy producers from 2022 onwards (a new **quantitative performance criterion** – see TMU). To that end, we will ensure that the regulator (NEURC) sets the Transmission System Operator (TSO) transmission tariff at a level sufficient to cover—in addition to material and labor expenses, capital expenditures, dividend payments, and profit tax—all obligations to renewable producers (including 100 percent of the value of estimated output of electricity volume produced for the relevant year) as well as financial expenses in relation to debt service and principal payment of existing and planned borrowing. This borrowing would include financing in form of loans or issuance of bonds until December 31, 2021 to repay all arrears accumulated in 2020 and 2021 in the limits permitted by the ceiling on issuance of publicly guaranteed debt.

b. Energoatom will maintain revenues that can at least cover power generation costs and basic investment needs after paying the compensation described in the CMU resolution #859 on Public Service Obligations (PSO) for households, including by rescinding resolutions that allowed Energoatom and other producers to sell large volumes of electricity significantly below market prices to other entities. We will closely monitor payment discipline between the Universal Service Providers, oblenergos, the Guaranteed Buyer, and Energoatom and Ukrhydroenergo. Furthermore, we will introduce measures to strengthen the governance of Energoatom. Specifically, we will ensure that the Law on corporatization of Energoatom is enacted by end-December 2021, including a requirement to produce financial accounts according to international standards. We will ensure that a supervisory board with a majority of independent members selected through a transparent and robust procedure is established by end-May 2022 (a **structural benchmark**).

SOE reform – Corporate Governance and Privatization

34. We reiterate our strong belief in the importance of sound corporate governance in SOEs. We will ensure that SOEs will operate at arm's length of the government, by safeguarding progress made in strengthening corporate governance, including by maintaining majority-independent supervisory boards. In particular, as discussed in ¶30b and ¶33b, we will make fully operational the supervisory board of Ukrenergo by end-December 2021, Naftogaz by the end of January 2022, and Energoatom by end-May 2022, based on transparent and competitive selection procedures. Furthermore, we will adopt an SOE corporate governance law to further strengthen the SOE corporate governance framework by bringing it in line with OECD Guidelines on Corporate Governance of SOEs, including by strengthening the accountability and broadening the powers of supervisory boards so they have the ultimate authority to appoint and dismiss CEOs. We have adopted an overarching accounting policy in line with IFRS to be implemented by SOEs and we will adopt an overarching state ownership policy.

35. We remain committed to significantly downsizing the SOE sector. We will enact legislation simplifying the transfer of assets to the State Property Fund (SPF), streamlining the privatization process, and extending the period during which companies can be sold under UK Law by at least three years. In parallel, we will continue our efforts to strengthen the institutional capacity of the SPF. The SPF will aim to launch tenders for the sale of at least 3 large SOEs by end-December 2021, including United Mining and Chemical Company, First Kyiv Machine-Building Plant, 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).

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

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

	2020									2021							2022
	June			September			December			March			June			December	March
	PC	Adj. PC	Act.	PC	Adj. PC	Act.	PC	Adj. PC	Act.	IT	Adj. IT	Act.	IT	Adj. IT	Act.	PC	PC
I. Quantitative performance criteria																	
Ceiling on the cash deficit of the general government (- implies a surplus) 2/	180,000	170,636	19,412	217,000	216,043	83,245	302,150	301,936	249,819	45,000	39,022	17,231	90,000	82,149	42,094	237,000	47,000
Ceiling on the cash deficit of the general government and Naftogaz (- implies a surplus) 2/	180,000	170,636	52,112	217,000	216,043	121,645	302,150	301,936	287,719	45,000	39,022	2,331	90,000	82,149	33,294	237,000	47,000
Floor on net international reserves (in millions of U.S. dollars) 3/	12,268	11,864	17,229	9,137	9,954	15,546	7,567	10,141	17,878	9,618	10,310	16,799	10,296	11,720	17,978	19,264	20,521
Ceiling on publicly guaranteed debt 2/	40,000	44,877	27,121	40,000	44,877	27,121	40,000	44,877	48,531	20,000	29,845	9,845	20,000	29,845	38,936	70,000	35,000
Ceiling on stock of arrears of the Guaranteed Buyer to RES 1/	-	-	-	-	-	-	-	-	25,618		-	-			16,300	0	0
II. Continuous performance criterion																	
Ceiling on accumulation of new external debt payments arrears by the general government 3/	0	0	0	0	0	0	0	-	0	0	-	0	0	-	0	0	0
III. Monetary Policy Consultation Clause (MPCC)																	
Inflation target 4/	5.0	-	2.4	5.0	-	2.3	5.0	-	5.0	5.0	-	8.5	5.0	-	9.5	5.0	5.0
IV. Indicative Targets																	
Ceiling on net domestic assets of the NBU 3/	225,670	235,240	124,559	287,818	268,462	199,655	319,300	258,335	172,525	278,166	261,780	210,759	269,552	235,819	219,188	232,856	178,465
Ceiling on stock of CIT prepayment arrears 6/	0	-	-1,572	0	-	-4,080	0	-	4,894	0	-	3,666	0	-	6,018	0	0
Ceiling on stock of VAT refund arrears	0	-	551	0	-	531	0	-	519	0	-	282	0	-	164	0	0
Ceiling on primary expenditure of the state budget and social funds 2/ 7/	n.a.	-	n.a.	n.a.	-	n.a.	1,437,000	-	1,491,660	n.a.	-	n.a.	n.a.	-	n.a.	1,594,790	n.a.
V. Memorandum Items																	
Naftogaz deficit (- implies a surplus) 2/	0	-	32,700	0	-	38,400	0	-	37,900	0	-	-14,900	0	-	-8,800		
External project financing 2/	14,300	-	6,298	18,900	-	12,419	22,700	-	18,075	6,000	-	1,145	12,000	-	5,170	17,000	6,400
NBU Profit transfers to the government 2/	n.a.	-	n.a.	n.a.	-	n.a.	42,720	-	42,720	33,000	-	0	33,000	-	24,434	24,434	13,600
Budget support grants 2/	812.0	-	0	1135.0	-	350.7	2,217	-	361.4	804.0	-	0	804.0	-	0	1,254	402
Government bonds issued for banks recapitalization and DGF financing 2/	20,000	-	0	20,000	-	6,840	20,000	-	6,840	17,000	-	0	17,000	-	0	8,500	17,000
Operations Involving GDP Warrants								-			-			-			
Arrears on social payments							0	-	54	0	-	37	0	-	53	0	0
Programmed market issuance, placements and disbursements of international assistance except IMF (millions of U.S. dollars) 3/ 5/	2,952	-	1,998	3,510	-	3,455	4,510	-	5,372	6,010	-	5,372	6,568	-	7,054	8,647	9,647
Use of swaps with other central banks (millions of U.S. dollars) 3/ 5/	0	-	0	0	-	0	0	-	0	0	-	0	0	-	0	0	0
Debt service on eurobonds or placements (millions of U.S. dollars) 3/ 5/	1,737	-	1,741	3,676	-	3,991	3,758	-	4,077	4,343	-	5,105	4,502	-	5,267	7,960	8,506
Net issuance of central government domestic FX debt (millions of U.S. dollars) 3/ 5/	-385	-	-250	-994	-	-543	-1,180	-	115	-1,280	-	76	-1,449	-	-482	-961	-940
Use of confiscated assets for FX payments or transfer to NBU gross international reserves (millions of US. Dollars) 3/ 5/	0	-	419	0	-	736	0	-	736	0	-	736	0	-	736	736	736
Program accounting exchange rate, hryvnia per U.S. dollar	23.6862	23.6862	23.6862	23.6862	23.6862	23.6862	23.6862	23.6862	23.6862	23.6862	23.6862	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 November 2021 Technical Memorandum of Understanding (TMU).

2/ Targets and projections for 2020 are cumulative flows from January 1, 2020. Targets and projections for 2021 and 2022 are cumulative flows from January 1, 2021 and January 1, 2022 respectively.

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, 2021 and 2022.

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
Enact amendments to the NBU Law that strengthen autonomy and governance of the NBU (¶11)	Met
Enact amendments to the Banking Law to improve banks' corporate governance framework, capital structure, and shareholder and licensing requirements, and grant the NBU legal powers to calibrate capital and liquidity requirements (¶17.a)	Met
Enact amendments to the DGF Law to improve bank liquidation mechanisms and strengthened the DGF's asset recovery powers (¶17.b)	Met
Enact amendments to the NABU law to provide legal certainty on its continued effective and independent operation and on the status of its head (¶28.a)	Met
Enact Law to reimpose criminal liability for false asset declarations, consistent with constitutional requirements (¶28.b)	Met
Enact amendments to the High Council of Justice (HCJ) Law to enhance the selection process ensuring that its members have impeccable reputation and integrity (¶29.a)	Met

Structural Benchmarks	Completion Date
Approve a 2022 budget targeting a general government deficit of 3.5 percent of GDP	End-November 2021
Enact legal amendments to reverse the relaxation of eligibility criteria for state representatives to supervisory boards of state-owned banks (¶23)	End-November 2021
Adopt time-bound succession plans for the supervisory boards of each of the SOBs, consistent with the approved 2021-2024 strategies for each of the banks (¶23)	End-November 2021
Complete and publish the audit of the of the remaining portion of the funds spent out of the Covid-related spending program (¶2)	End-December 2021
NBU will adopt a time-bound action plan, in consultation with IMF staff, to improve professional capacity of bank supervision (¶20)	End-December 2021

Table 2. Ukraine: Prior Actions and Structural Benchmarks (concluded)	
The Prosecutor General's Office to publish a semi-annual report on the outcomes of criminal proceedings against former bank owners, managers, and other related parties in each resolved bank since the beginning of 2014, with aggregate data on the number of persons investigated, tried, and convicted as well as the amount of fines and damage recovered (¶26c)	End-December 2021
Cabinet will endorse a roadmap that outlines the steps required to take PrivatBank and Oschadbank to the market for partial or full privatization and advance the objective of attracting reputable international investors (¶24)	End-January 2022
Adopt and publish a comprehensive asset recovery strategy paper and action plan (¶26a)	End-February 2022
Enact amendments to the SAPO law to improve the selection procedures of SAPO officials, strengthen its capacity to regulate its organizational activities, and establish mechanisms for accountability of SAPO leadership (¶28c)	End-March 2022
Develop and make available to all gas suppliers a consumer database with all the information necessary for a new supplier to bill households (¶32a)	End-March 2022
Complete the one-off integrity check of existing HCJ members by the Ethics Council in line with provisions in the new HCJ law (¶29a)	End-April 2022
Appoint a supervisory Board in Energoatom with a majority of independent members selected through a transparent and robust procedure (¶33b)	End-May 2022

Table 3. Ukraine: Proposed Revised Schedule of Reviews and Available Purchases

Availability Date	Millions of SDR	Percent of Quota	Conditions
June 9, 2020	1,500	74.6	Board approval of the Stand-by arrangement
September 1, 2020	500	24.9	First review and continuous and end-December 2020 performance criteria
March 4, 2022	500	24.9	Second review and continuous and end-December 2021 performance criteria
June 3, 2022	1,100	54.7	Third review and continuous and end-March 2022 performance criteria
Total	3,600	178.9	
Memorandum item:			
Quota	2,011.8		

Source: IMF staff calculations.

Attachment II. Consultation with the IMF Executive Board on the Missed Inflation Target Under the MPCC

Consultation on the Breach of the MPCC Target at March 2021 and July 2021

National Bank of Ukraine

October 25, 2021

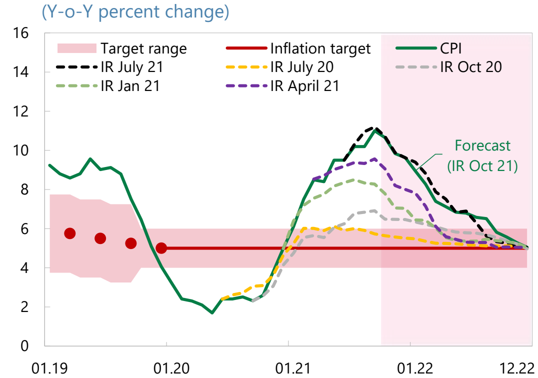
In March 2021, inflation (at 8.5 percent yoy) exceeded the upper bound of the 5 percent ±3percentage points of MPCC outer band, agreed under the 2020 SBA. Inflation expectedly accelerated further (to 10.2 percent yoy in July and further to 11 percent yoy in September 2021), deviating from the upper bound. This letter explains: (i) the reasons why inflation has breached the upper limit of the MPCC band; and discusses; (ii) the policy response; and (ii) the outlook of inflation.

The reasons why inflation has breached the upper limit of the MPCC band

1. Actual inflation deviated from the target primarily due to higher global energy and food prices, as well as robust consumer demand. These factors we briefly discuss below:

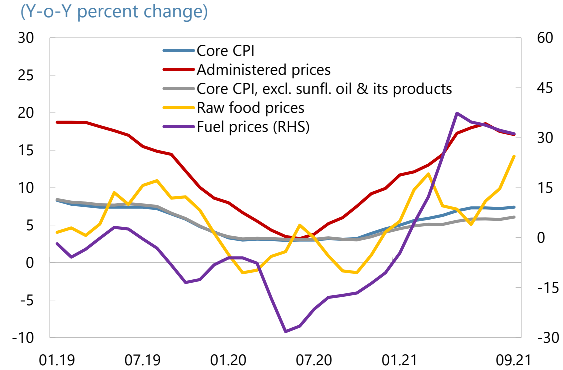
- **High global and domestic food prices.** The jump in world food prices amid lower yields in many food-producing countries and strengthening demand for grains and oil seeds, including from the recovering animal production sector and bio-fuel manufacturing, influenced Ukrainian domestic food prices significantly. Given that Ukraine is a small and open economy, rapidly rising global prices transmitted into prices in the domestic market. Thus, high export prices drove domestic sunflower oil prices higher, with the latter contributing almost 1 pp to annual CPI growth in September 2021. The correction of world prices for sunflower oil in recent months helped domestic prices of this item to start decelerating but it has not yet been reflected in prices for products made of sunflower oil. Rising production costs, largely due to surging feed and energy costs, also contributed to a fast pace of growth in food

CPI and Inflation Targets, eop
(Y-o-Y percent change)



Sources: SSSU, NBU forecasts.

Headline CPI Growth by Main Components
(Y-o-Y percent change)



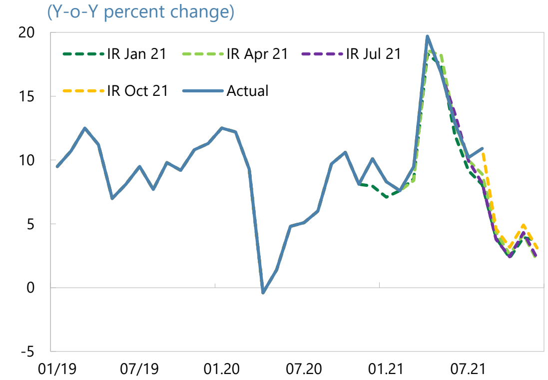
Sources: SSSU, NBU staff estimates.

prices. Rising raw food prices affected those of processed foods as well.

- **Growth in global energy prices contributed to high domestic prices for fuels and utilities.** The global energy prices have rallied since the second half of 2020 due to recovering economic activity and supply-side bottlenecks. In addition, policies aimed at combatting climate change in a number of countries contributed to a surge in some commodity prices in H12021, including natural gas, which has a lower carbon footprint than other non-renewable energy resources. As a result, natural gas prices for Ukrainian households grew rapidly (growth peaked in June at 175.3 percent yoy and decelerated to 68.6 percent yoy in September 2021). The sharp deceleration in gas price inflation in recent months can be attributed to the fading of the base effects and introduction of annual fixed price contracts for gas supply for households. Electricity also became more expensive after the preferential electricity price for households was canceled at the start of 2021.

- **Consumer demand proved to be surprisingly resilient during the recent crisis and reported strong growth in 2021.** Following a deep decline in Q2 2020, private consumption has been recovering fast and at a strong pace since Q32020. Household consumption expenditures rose 1.6 percent for the whole year with the growth picking up to an estimated 10.5 percent yoy in H1 2021. Other high-frequency indicators signaled solid consumption growth as well. Retail trade turnover rose by 12.2 percent yoy over January–September 2021 and sales of cars reached record high levels in the first nine months of 2021. Additionally, propensity to consume increased and consumer sentiments improved, despite rising inflation. We attribute the resilience of consumer spending to ongoing wage growth, supported by government social policies, measures to support businesses hit the most by the quarantine restrictions, and introduction of wage supplements for doctors and other medical staff. At the same time, real wages rose faster than forecast despite higher inflation, among other things due to resumed pressure from labor migration. In particular, real wages grew by 7.4 percent in 2020 and 11.9 percent yoy January–August 2021.

The Growth in Real Wages
(Y-o-Y percent change)



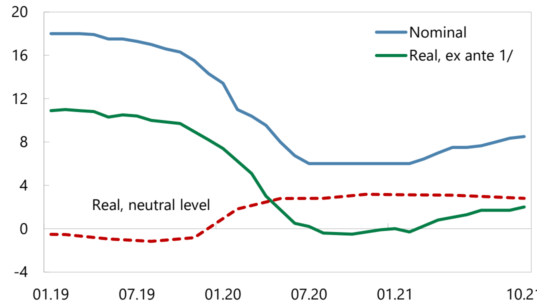
Sources: SSSU, NBU forecasts.

2. Underlying inflation pressures built up faster than expected. In September 2021, core inflation sped up to 7.4 percent yoy. While the increase in core inflation was partially attributed to higher world sunflower oil prices, robust private consumption for foods also contributed (final household expenditures on foods were up 7.4 percent yoy in H1 2021 as estimated by the NBU). Prices for services also rose faster than expected both due to robust consumer demand and higher production costs on energy and wages. However, appreciation of the hryvnia restrained prices growth of non-food products.

Policy Response

3. The NBU was among the first central banks to hike its key policy rate this year. Anticipating rising fundamental pressures, the NBU has refrained from further cutting its key policy rate since mid-2020. In March 2021, the NBU started a tightening cycle of its monetary policy. The NBU raised the key rate four times—in March, April, July and September—by a tally of 250 bps, up to 8.5 percent. As a result, the ex-ante real key policy rate turned positive and was gradually approaching its neutral level. Monetary policy has thus become less accommodative. The gap between the key policy rate and the neutral rate has narrowed from -4 pp in Q1 2021 (the NBU started increasing its policy rate in March) to less than -1.0 pp in Q4 2021. The real key policy rate is projected to approach its neutral level and become restrictive in 2022.

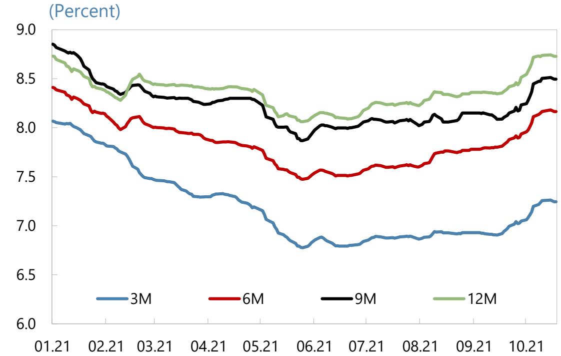
Key Policy Rates, average
(Percent)



Source: NBU staff estimates.
1/ Deflated by 12-month ahead inflation expectations of financial analysts (median).

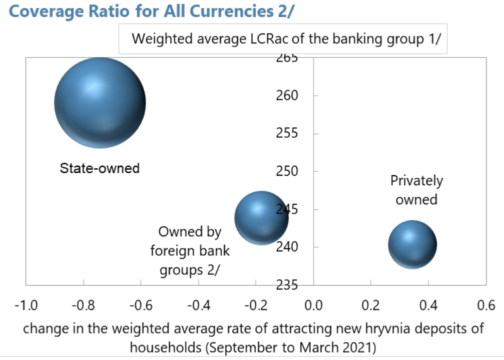
4. The gradual key policy rate increases by the NBU in the current year have not yet been fully transmitted to the banks' interest rates on loans and deposits. We expect further transmission in the coming months. Interest rates on loans to nonfinancial corporations responded most noticeably. More specifically, the weighted average interest rate on loans with maturity of up to one year (the share of these loans accounts for about 80 percent) rose from 7.8 percent in March 2021 to 8.6 percent in September 2021. Interest rates on household loans respond more slowly as these rates are significantly higher with risk premium as a main component and driver of their dynamics. Interest rates on deposits have just started to react to tighter monetary policy. The sluggishness of the monetary transmission is due to a number of reasons. Structural liquidity surplus fueled by long-term refinancing and FX interventions coupled with substantial inflows of deposits to the banking system is one of these reasons. Another one is sluggish response of state-owned banks (SOBs) that have significant market power in the deposit market. SOBs hold about 50 percent of all deposits and act as price-setters in the market of deposits for both individuals and legal entities. At the same time, SOBs are liquidity rich, which reduces their incentives to compete for additional deposit resources. At the same time, SOBs

Ukrainian Index of Retail Deposit Rate 1/
(Percent)



Source: Thomson Reuters.
1/ 7 days moving average. Last data for 21.10.21

Change in Weighted Average Interest rates on New Hryvnia Household Deposits by Banking Group and Their Liquidity Coverage Ratio for All Currencies 2/



Source: NBU staff estimates.
1/ Weighted by total assets of the bank that belongs to the respective group.
2/ Excluding some banks with Russian capital, banks that did not attract new hryvnia deposits from households during 2021.
3/ The size of the bubble reflects the share of outstanding amounts of hryvnia household deposits held by the respective banking group in total household hryvnia deposits.

absorbed significant portion (30 percent) of long-term refinancing. Thus, termination of the anti-crisis monetary instruments that came into effect starting from Q4 is expected to enhance monetary transmission.

5. **The NBU also tightened monetary policy through some additional measures:** (a) from July 1, 2021, the NBU started to gradually phase out its emergency monetary measures, which were implemented in response to the coronavirus crisis. The NBU fully discontinued long-term refinancing and interest rate swaps by Q4 2021; (b) NBU changed the operational design of its monetary policy by setting the interest rate on refinancing loans at the level of the key policy rate +1 pp for fixed rate tenders (previously the key policy rate was applied). Additionally, from October 1, the maturity of refinancing loans was reduced to 30 days from 90 days; and (c) the maturity of certificates of deposit returned to from 7 days to its pre-crisis level of 14 days.

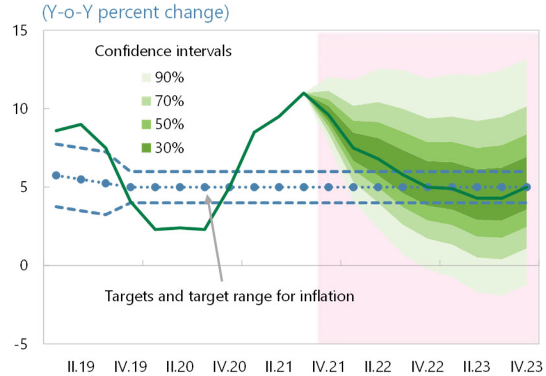
6. **We expect that these measures will strengthen monetary transmission** via expectations, FX and interest rate channels and enhance the effect of the monetary policy on inflation over the monetary policy relevant horizon. Tighter monetary policy will also help to calm inflation expectations and bring back a steady disinflation trend toward the 5 percent target, which we project to achieve in 2022.

7. **The NBU remains hawkish in its forward guidance to enhance the credibility of its actions.** In its communications, the NBU pointed out that according to the baseline forecast the key policy rate will be maintained at a level no lower than 8.5 percent until Q3 2022. The NBU also stated its readiness to continue deploying monetary tools to return inflation to the target 5 percent if additional inflationary risks materialize.

Inflation Outlook

8. **A number of factors pushing inflation up are transitory.** According to the NBU October 2021 forecast, some of these forces will start fading out through the end of the year. In particular, we expect commodity prices to correct on global markets. Indeed, global prices for some foods have already started descending. In addition, a record harvest of early grain crops and high yields of other crops on the back of still high world prices will spur exports, underpinning the appreciation pressure on the hryvnia. This will help reduce raw food inflation with favorable spillover effects on feed costs and prices of processed food.

CPI Forecast and Inflation Target
(Y-o-Y percent change)



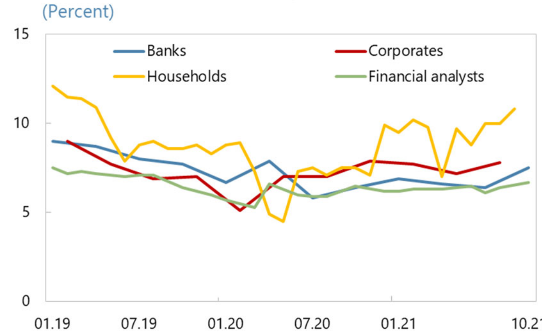
Source: NBU staff estimates.

9. **Both headline and core inflation already showed signs of stabilization. Seasonally adjusted data suggest the peak might have been already passed in the middle of the year.** In annual terms, we expect inflation to hover in the range of 10–11percent in the coming months before descending below 10 percent by the end of 2021. Core inflation stayed flat at 7.2–7.4 percent

for four months in a row from June to September 2021. Although the growth in services prices sped up faster than expected amid robust demand and higher production costs, it was outweighed by lower imported inflation thanks to favorable FX market conditions.

10. Inflation expectations moderately deteriorated over the last months due to high actual inflation. The NBU pays close attention to inflation expectations of all groups of respondents. In response to worsening inflation expectations households may become more prone to increase consumption and/or bargain for higher wages, contributing further to inflation pressures. Enterprises, facing higher wages, prices for raw materials and equipment, and other costs might pass on those costs through increased prices. However, current worsening of the inflation expectations was relatively moderate given the size of the inflationary shock. The hikes in key policy rate caused the ex-ante real interest rate to turn positive and start approaching towards its neutral level.

12-month-ahead Inflation Expectations 1/
(Percent)



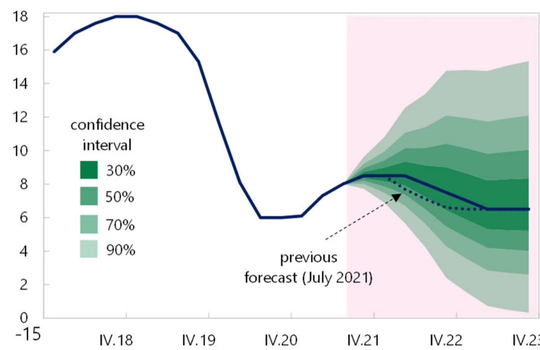
Sources: NBU, GfK Ukraine, Info Sapiens surveys.
1/ Dashed lines depicts periods when there was a change in survey method due to quarantine measures.

11. Consumer demand will support the underlying inflation trend in near-term but will weaken in the future. Particularly, higher wages will bolster consumer demand, while also pushing up production costs. Businesses will compensate for this by raising prices, especially in the services sector. However, the tighter monetary policy will gradually reduce this impact as the recent policy rate hikes are fully transmitted. The discontinuation of anti-crisis monetary instruments will also make banks more interested in attracting deposits, encouraging them to raise their deposit rates. The exchange rate channel will contribute to disinflation due to the appreciation of UAH this year. The underutilization of production capacity and gradual fiscal consolidation will also support disinflation. The draft budget for 2022 envisages moderate increase in the minimum wage, which will not put any significant pressure on prices.

12. There is a challenging trade-off for monetary policy between the needs to ensure disinflation and to avoid a recession. Factoring in the weak GDP growth in H1 2021, the spike in energy prices, and the worsening of the pandemic, the NBU has revised downward its economic growth forecast for 2021, from 3.8 percent to 3.1 percent. Unfavorable conditions on the energy market and the impact of global logistic problems will continue to limit Ukraine's industrial output and curb the economic recovery next year. At the same time, the NBU assesses the balance of risks for its baseline scenario of inflation and the key policy rate as having shifted upwards, especially in the medium term. Higher morbidity due to the low vaccination coverage in Ukraine could lead to a stricter lockdown and a more significant slowdown in economic activity. However, in contrast to the quarantine imposed last year, this time supply will be more constrained than demand, which could increase inflationary pressures. There are also stronger risks of a more protracted global price surge than envisaged in the baseline scenario, which will put pressure on domestic prices. This, among other factors, refers to persistent high energy prices and supply chain disruptions amid strong aggregate demand. These factors could cause global stagflation. Other inflationary risks also remain important, such as a sharp deterioration in terms of trade, capital outflows from emerging markets, and an escalation of the military conflict with Russia.

13. We are carefully monitoring inflationary pressures and risks and stand ready to apply monetary instruments to bring inflation back to the 5 percent target in the case of further build-up of inflationary pressures. The NBU will continue to keep a balance between supporting the economic recovery from the COVID-19 crisis and maintaining moderate inflation close to its 5 percent target. According to the October 2021 forecast, the NBU expects to maintain its key policy rate no lower than 8.5 percent until Q3 2022 and start a cycle of key policy rate cuts later in 2022, provided inflation expectations stabilize and the disinflation trend steadies. We also strengthened our forward guidance. In particular, the NBU signaled that it stands ready to deploy additional monetary tightening to return inflation to the target 5 percent if additional pro-inflationary risks materialize, including a possible key rate hike, if needed, in December.

Key Policy Rate, average
(Percent)



Sources: NBU staff estimates and forecast (October 2021 Inflation report).

Attachment III. Technical Memorandum of Understanding

November 8, 2021

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 November 8, 2021 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 U.S. 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, the Fund for Social Insurance of Ukraine, and the State Financial Housing Company. 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

[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.

statistics compiled by the NBU. The government will 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 a remaining 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-Dec 2021	5,569	1,979	1,075	25	8,647
End-Mar 2022	6,569	1,979	1,075	25	9,647

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.[3] 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)

[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.

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 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

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

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[5] (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

- 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

[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 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-December 2021	17,000	1,254
End-March 2022	6,400	402

- 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 8.5 billion from January 1, 2021, and a cumulative maximum of UAH 17 billion from January 1, 2022. 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 is subject to an automatic downward adjustment corresponding to the full amount of profits transferred by the NBU in excess of UAH 13.6 billion.

- 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 fiscal objectives 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, 2021.

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 once it is officially enacted following the respective decision of the Ministry of Finance, with IMF staff notification. 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; and (v) loans to Ukrenergo to modernize the electricity grid and substations. The adjustor will be capped at UAH 21 billion.

J. Ceiling on the stock of arrears of the "Guaranteed Buyer" to the Renewable Energy Sector (Performance Criterion)

Definition

26. The ceiling on the stock of arrears of the "Guaranteed Buyer" to renewable producers is defined as the stock of the state-owned Guaranteed buyer's overdue trade accounts payable to electricity producers from the Renewable Energy Sector (RES) as a whole. The ceiling is fixed at UAH 0 billion.

Adjustment Mechanism

27. The ceiling on the stock of arrears of the "Guaranteed Buyer" to renewable producers will be adjusted upward by the difference in percent, if positive, between the actual average UAH/EUR exchange rate over the reference period and a predetermined threshold, multiplied by a sensitivity factor of 51.4 for yearly data and 12.85 for quarterly data. The predetermined threshold is set a 33 UAH per EUR.

28. The ceiling on the stock of arrears of the "Guaranteed Buyer" to renewable producers will be adjusted by the difference in percent, if positive, between the actual output volume of RES in GWh over the reference period and a predetermined threshold, multiplied by a sensitivity factor of 24.8 for yearly data and 6.2 for quarterly data. The predetermined threshold is set a 12,600 GWh for 2021 (test date: end-December 2021) and 3,000 GWh for the first quarter of 2022 (test date: end-March 2022).

K. Other Continuous Performance Criteria

29. 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

30. 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

31. By end-October 2021, all heating tariffs under the jurisdiction of 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

32. 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).

33. 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.

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

exchange purchases. The NBU will provide the IMF daily information on official foreign exchange interventions and intervention quotations in the breakdown agreed with the IMF staff. In this context, it will also provide the results of any foreign exchange auctions. On a quarterly basis, the NBU will provide to the IMF information on the indicators of FX interventions approved by the NBU Board. The IMF is to be notified immediately of any updates to the FX interventions methodology documentation and any decisions that define these parameters.

35. 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."

36. 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).

37. 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).

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

39. 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). On a monthly basis, the NBU will also provide bank-by-bank information on NBU refinancing, broken down by operations (with indications of their settlement and maturity dates), and collateral pools, broken down by asset types and securities (with their values before and after haircuts). The weekly and monthly reporting of NBU loans and collateral will separately identify which banks are under temporary administration or liquidation.

40. 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.

41. 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.

42. 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.

43. 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.

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

45. 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.

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

47. 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.

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

49. 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).

50. 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.

51. 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).

52. 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.

53. 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).

54. NBU will report to the IMF, on a monthly basis, data for each of the banks in the State Participation Group, showing nonperforming loans (NPLs) compared with their timebound plans for reducing NPLs, including migration from NPLs to performing loans (PLs); migration from PLs to

NPLs; the form of NPL repayments (cash, loan sales, collateral sales, etc.); write-offs; and other factors (e.g., exchange differences and revaluations).”

55. 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.

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

57. 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.)

58. 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.

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

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

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

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

63. The NBU Internal Audit Department will continue to provide an assurance report to the Fund, no later than six weeks after each test date, confirming that (i) the monetary data are in accordance with program definitions and have been verified and reconciled to accounting records;

and (ii) that there have been no changes to the chart of accounts or valuation methods that would impact the data reporting.

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

65. Monthly, the NBU will provide to the IMF 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

66. 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.

67. 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.

68. 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.

69. 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.

70. 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.

71. 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

72. 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.

73. 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.

74. 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.

75. 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.

76. 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.

77. 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.

78. 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)

79. 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.

80. 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.

81. 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.

82. 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.

83. 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.

84. The Ministry of Finance will provide quarterly performance reports for the State Financial Housing Company and for the Fund for Entrepreneurship Development

85. 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										

86. 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.

87. 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 ¶11 (unsettled VAT refund claims submitted to the STS more than 74 days before the end of period.

88. 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.

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

90. For each month, no later than the 25th of the following month Naftogaz and GTSO will provide IMF staff with information in electronic form (in an agreed format) on the cash flows and deficit of Naftogaz Group and GTSO 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.

91. The Ministry of Development of Communities and Territories will provide information with a breakdown by district heating companies regarding the levels of tariffs for heat energy for the households, centralized heating services and centralized hot water supply to the households on a quarterly basis.

92. 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.

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

94. The Ministry of f 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. Ministry of Energy

95. The Ministry of Energy will provide to the IMF staff on a monthly basis the actual volume of electricity output of RES and the stock of arrears from the Guaranteed Buyer to RES as defined in section I. J.

F. State Statistics Service

96. In case of any revisions of gross domestic products, the State Statistics Service will provide to the IMF revised quarterly data on gross domestic product (nominal, real, deflator) and their

components (economic activities, expenditure, income), no later than 10 days after any revisions have been made.

G. Ministry of Social Policy

97. 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.

H. National Agency for Prevention of Corruption

98. 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:

Table 1. 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						

Table 2. 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						

I. National Anti-Corruption Bureau

99. 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:

Table 3. 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						

J. High Anti-Corruption Court

100. 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:

Table 4. 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).

Table 5. 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).												

Table 6. 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).

Table 7. 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).												

K. Financial Intelligence Unit

101. 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:

Table 8. 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
November 22, 2021

On behalf of the Ukrainian authorities, I thank staff for the constructive engagement during the virtual mission, the well-prepared in-depth report, and the helpful technical assistance provided to Ukraine in recent years. I also want to thank Management and the Executive Board for their continued support of Ukraine.

The Ukrainian authorities are in broad agreement with the 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 commitment to the policies and objectives of the economic program supported by the IMF under the current Stand-by Arrangement (SBA).

In this statement, I will focus on COVID-19 pandemic development, its impact on the macroeconomic fundamentals, the authorities' policies response and a future policies outlook.

<u>COVID-19 status</u>

COVID-19 took a heavy toll on the livelihoods of people, as well as on the Ukrainian economy. As of November 17, 2021, about 3.26 million cases of COVID infections were registered in Ukraine, with more than 78 thousand deaths. The government introduced the first strict lockdown in the second half of March 2020. This was followed by several periods of relatively tight quarantine restrictions in November 2020, January, March-April and October-November 2021, across various regions and depending on the severity of the COVID outbreak.

Vaccinations started at the end of February 2021 and by today, more than 12.44 million people have received the first dose of the vaccine; 9.07 million people have received two doses of the vaccine (about 21.5 percent of the total population). The speed of vaccination is accelerating quickly, reaching 1.6 million inoculations last week. While the coronavirus situation in Ukraine has shown signs of stabilization in the previous weeks, the uncertainty about further development and length of the pandemics has been exceptionally high.

<u>Economic developments during pandemics</u>

Ukraine entered the COVID-19 crisis with solid macroeconomic fundamentals, also strengthened by the recent Fund-supported programs – real GDP was growing at a steady pace of around 3-4 percent per year, inflation was close to 5 percent target, the current account deficit was moderate and sustainable, and the banking sector and public finances were healthy. As a result, the COVID-crisis was not accompanied by devastating depreciation and skyrocketing inflation faced as was the case during the previous crises in 2008 and 2014. Moreover, there was some space for fiscal and monetary stimuli to support the economy during the current crisis. As a result, following a deep decline in Q2'2020, the economy showed robust recovery in H2'2020, bringing the whole year decline of real GDP in 2020 to a moderate 4 percent. This contraction was in line with peers and lower than expected at the start of the current SBA program.

The economy continued to recover from the crisis and returned to positive but weaker than expected growth. According to the flash estimate published last week, real GDP grew by 2.4 percent yoy in Q3'2021. Weaker recovery can be attributed to several factors, such as limited capacities in some activities due to a sharp fall in investments in 2020 and persistent underinvestment in the previous periods, intensifying competition in some external markets, and rising production costs, particularly for energy resources. The expected record-high grain harvest (81mln tons this year, according to NBU forecast), along with the recovering global economy and still favorable terms of trade, will support real GDP growth at about 3-4 percent in 2021-2022. Household consumption kept growing at a strong pace, underpinned by robust growth in wages (over January-September 2021, wages rose by 21.5 percent yoy in nominal terms and 11.3 percent yoy in real terms) and pension benefits, improved consumer sentiments, and government measures to support businesses hit most by the quarantine restrictions. Investments returned to growth in annual terms in H1'2021, mainly driven by improved financial results of corporations, a favorable external environment, and ongoing infrastructure projects.

In 2020, the surplus of Ukraine's current account hit one of its highest levels in history (3.3 percent of GDP compared to the deficit of 2.7 percent of GDP in 2019), resulting from a significant drop in imports of goods and services, lower primary income payments, and relatively resilient export sectors. The significant current account surplus covered capital outflow under the financial account. In January – September 2021, the current account returned to a deficit, driven by an increase in reinvested earnings and record-high amounts of dividend repatriation. Both resulting from companies' strong financial results due to favorable commodity market conditions.

After sizable external debt repayments in Q3'2021, international reserves slightly declined by the end of September year-to-date. However, thanks to the SDR allocation in August, the decrease was relatively minor. Accounting for sizable FX purchases by the central bank, international reserves grew to USD 29.7 billion by end October, which corresponds to 92 percent of the IMF ARA metrics. The NBU continued to purchase the FX in the first half of November, leading to further accumulation of reserves, but future gross financing needs and elevated budget financing constraints in 2022 are still high. The extension of the current SBA program would provide the authorities with room for appropriate responses to potential external shocks while keeping public debt under 60 percent of GDP. The government's debt strategy may also benefit from the inclusion of Ukraine into the JPM GBI-EM Index starting from end-March 2022.

Authorities' policies response

The government's fiscal response to the COVID crisis focused on social support and economic recovery. The balance of payments and budgetary support under the current SBA, complemented by substantial monetary easing in 2020 and targeted measures to provide temporary liquidity support to banks, allowed the authorities to put in place a comprehensive fiscal package aimed at reorienting expenditures towards healthcare, unemployment support, social support to vulnerable households and affected business, and scale up public investment in roads to create jobs. Social spending, healthcare sector support and road infrastructure projects remain key priorities in 2021-2022.

In July 2021, for the first time, the government approved the Medium-term Budgetary Framework (MTBF) for three years until 2024, in line with the Fund's technical assistance advice in public finance management. To follow the fiscal consolidation path envisaged by the SBA program design, the Parliament approved the 2022 budget in the first reading with a deficit of 3.5 percent of GDP, consistent with the MBTF targets and SBA program objectives.

To address the COVID-19 pandemic outcomes and to support the economic recovery, the NBU has eased its monetary policy in 2020, reducing the key rate by 750 basis points since the end of 2019. The NBU also provided substantial liquidity to help banks alleviate the sharp tightening of financial conditions associated with the pandemic. Despite these monetary stimuli, inflation remained subdued in 2020 and stood at 5 percent at the end of 2020.

While the monetary policy framework remained intact this year, the NBU faced a permanent challenging trade-off between the need to support further economic recovery and to combat elevated inflation. Therefore, while anticipating rising fundamental pressures, **the NBU was among the first central banks to hike its key policy rate in 2021**, remaining vigilant in its forward guidance. Since tightening its monetary policy in March 2021, the NBU raised the key rate four times—in March, April, July, and September—by a tally of 250 bps, up to 8.5 percent.

The NBU also tightened its monetary policy through additional measures: from July 1, 2021, the NBU started to gradually phase out its emergency monetary measures, which were implemented in response to the pandemic. These measures should strengthen monetary transmission via expectations, FX and interest rate channels. Tighter monetary policy will also help calm inflation expectations and bring back a steady disinflation trend.

Despite these steps, inflation rose to 10.9 percent in October 2021, driven primarily by higher global energy and food prices and robust consumer demand in Ukraine. The acceleration and breach of the upper bound of the inflation target band 5 percent ± 1 pp was expected, although prices grew somewhat faster than forecasted by the NBU in the first half of the year. Global energy prices contributed to high domestic prices for fuels and utilities – with natural gas prices peaking in June at 175.3 percent yoy. In response to the extraordinary increases in gas prices, the authorities implemented measures to protect vulnerable households.

In the financial sector, the NBU introduced policies to help banks be more flexible in their response to the crisis and continue lending. Capital buffers were temporarily deactivated in the first days of the crisis. The NBU also recommended banks to refrain from paying dividends until the fallout from the economic crisis could be assessed more accurately. The NBU ensured favorable regulatory conditions for loan restructurings: financial institutions granted some form of credit vacations to borrowers while quarantine restrictions were in effect. No substantial increase in NPLs is accounted in the banks' balance sheets in 2021.

It becomes visible that **the financial sector reforms completed under the previous EFF program in 2015-2019 paid off** – the banking sector went through the peak of the COVID-19 crisis capitalized, liquid and profitable. In 2021, the NBU conducted stress tests of banks which showed that the banking sector is resilient to shocks and ready for the planned enhanced capital requirements. All banks have submitted recovery plans and the NBU has completed its first round of comments. Those plans will become part of NBU's annual Supervisory and Review Evaluation Process in 2022.

<u>Future policies outlook</u>

The government is working to further improve public financial management through strengthening of the fiscal framework to facilitate sustainable fiscal adjustment and improve the predictability of fiscal policies. To provide additional fiscal space to increase priority capital expenditures in 2022, the Ministry of Finance prepared a tax package of about 0.5 percent of 2022 GDP.

The authorities plan to implement additional transparent measures to protect the vulnerable households, without widening the 2021-2022 deficit. Additionally, they will provide temporary and exceptional liquidity support to state-owned Naftogaz, which financial position has been hit by the recent extraordinary increases in gas prices. The authorities are also committed to addressing the large imbalances in the electricity sector by agreeing on the new QPC aimed at reducing accumulated arrears to renewable energy investors.

The NBU's progress with implementing a credible monetary foreign exchange and supervision policy framework would not be feasible without a clear policy mandate and operational independence. The authorities remain fully committed to an institutionally strong and independent NBU. In the following months, the NBU will carefully monitor inflationary pressures and financial stability risks and continue implementing its inflation targeting roadmap by further enhancing the decision-making process, monetary instruments and communication. The NBU's management team is fully committed to preserve financial sector supervision, plans to adopt a roadmap to address the regulatory gaps identified in a self-assessment against relevant Basel Core Principles.

Consistent with the approved Principles of State Banking Sector Strategic Reforms, the authorities are committed to advance preparations to reduce state ownership in the banking sector. The updated strategy, approved by the government in August 2020, envisions a reduction in state ownership from the current 50.4 percent in net assets to below 25 percent by 2025. An essential first step was taken in 2020 when the IFC granted a loan to the Ukrgasbank. In June 2021, the EBRD conducted the due diligence of the Oschadbank. As a result, the authorities plan to enter into formal negotiations with the EBRD about the terms and conditions of a potential pre-privatization engagement. Meanwhile, the authorities are taking steps to advance the corporate governance reform for banks under state control and to reduce legacy NPLs in those banks.

The authorities also take actions to strengthen the financial safety net further by addressing a number of past safeguards assessment recommendations. The authorities submitted to Parliament legal amendments to restore the DGF's solvency and make the state-owned Oschadbank a member of the DGF. A high-level working group, chaired by the Prime Minister, is entrusted to boost asset recovery from the former owners and related parties of failed banks to reduce the cost of bank failures to Ukrainian taxpayers and hold such persons accountable for wrongdoings. The recently adopted legal amendments should further strengthen the DGF's toolkit for asset recovery.

Continuing on the strong foundation built during the previous EFF program, the authorities remain committed to implementing structural reforms. The authorities ensured timely opening of the market of agricultural lands for individuals on July 1, 2021 and established the legislative and institutional basis for land turnover, including the legislation on data interoperability, opening public access to national spatial data infrastructure and creating a digital hub for small & medium farmers to access credit and state support.

Being committed to significantly downsizing the SOE sector and following the legislative framework created in 2019, **the State Property Fund of Ukraine (SPFU) changed the privatization process to be similar to classic M&A routine procedures**. To achieve the full disclosure of information and transparency of the process to all participants, the SPFU team standardized the privatization process, minimized post-privatization conditions, introduced virtual data rooms for each privatization object. In 2021 the SPFU organized about 2,000 online privatization auctions, primarily for small-size state enterprises. While still having a sizable number of the companies in its hands, the authorities will ensure that SOEs will operate at arm's length of the Government by strengthening corporate governance framework, including maintaining majority-independent supervisory boards.

The authorities remain committed to good governance and rooting out high-level corruption, leveraging on the successful establishment of the anti-corruption infrastructure built as a part of the previous IMF-supported programs. The authorities also work towards strengthening the rule of law by ensuring the independence, integrity, and accountability of the judiciary. Particularly after amending the legislation to enhance the selection process for judges, on November 10, 2021 the Ethics Council of Higher Commission of Justice (HCJ) started operating. Consistent with the recommendations of the Venice Commission, the first composition of the six-member Ethics Council will have three independent experts with international judicial experience who will be given a decisive vote. The Ethics Council will perform a one-off integrity check of existing HCJ members by end-April 2022 and will be engaged in assessing of the potential HCJ candidates' integrity.

Concluding remarks

Fiscal and monetary measures have cushioned the economic effect of the pandemic, and the output contracted less than expected at the time of the program request. High economic uncertainty, new waves of the pandemic and weak economic recovery amid growing macrofinancial and geopolitical risks call for the support from official partners.

Thus, in this challenging context of the COVID-19 recovery, the authorities remain confident that the policies set forth are adequate to achieve the macroeconomic and financial objectives of the current program. The authorities are ready to take any additional measures that may become appropriate for this purpose.

Based on the taken steps and the commitments for the period ahead, the authorities request completion of the first review, an extension of the program to June 30, 2022 and a rephasing of remaining purchases.