

**Macro-financial assistance to Ukraine
of up to EUR 1.2 billion**

MEMORANDUM OF UNDERSTANDING

between

**Ukraine
as Borrower**

and

**The European Union
as Lender**

MEMORANDUM OF UNDERSTANDING BETWEEN UKRAINE AND THE EUROPEAN UNION

1. On 24 February 2022, the European Parliament and the Council of the European Union adopted a decision (Decision (EU) 2022/313) to make available emergency macro-financial assistance to Ukraine in the context of Russia's military aggression against Ukraine.¹ The Decision makes available to Ukraine (hereafter referred to as "the Country") macro-financial assistance (hereafter referred to as "assistance") of up to EUR 1.2 billion in the form of a loan. The assistance shall be made available for one year starting from the first day after the entry into force of this Memorandum of Understanding (hereafter referred to as "the MoU").
2. The objective of this assistance is to ease the Country's external financing constraints, alleviate its balance of payments and budgetary needs, improve its foreign exchange reserve position and help the Country strengthen its economic and social resilience. This assistance from the European Union is complementary to the resources provided to the Country by international financial institutions and bilateral donors in support of the authorities' economic stabilisation and reform programme.
3. The assistance shall be disbursed in two instalments of up to EUR 600 million each.
4. The first instalment of the assistance shall be released upon the signature and entry into force of this MoU and the accompanying Loan Facility Agreement and shall be conditional upon a satisfactory track record of implementation of the programme agreed between the Country and the International Monetary Fund (hereafter referred to as "the IMF").

The release of the second instalment shall not, in principle, take place earlier than three months after the release of the first instalment.

The disbursement of the second instalment of the assistance will be conditional on both a satisfactory track record in the implementation of the programme agreed with the IMF and on a positive assessment by the European Commission (hereafter referred to as "the Commission") on behalf of the European Union, of progress made with respect to a number of macroeconomic and structural adjustment measures. The policy conditions attached to this assistance are based on the economic stabilisation and reform programme endorsed by the authorities of the Country and are consistent with agreements reached by the Country with the IMF. Accordingly, before the release of the second instalment of this assistance, the Commission, in co-operation with the national authorities and IMF staff, will verify that the conditions attached to this assistance have been adequately respected or new understandings reached.

¹ Decision (EU) 2022/313 of the European Parliament and of the Council of 24 February 2022 providing macro-financial assistance to Ukraine, OJ L 55, 28 February 2022, p. 4–11

5. Prior to the release of the second instalment by the Commission, the Country's authorities shall provide the Commission with a Compliance Statement on the fulfilment of the conditionality attached to it. Upon receipt of the compliance statement by the authorities of the Country, the Commission will evaluate, based on consultations with the authorities of the Country and IMF staff, progress made with respect to the fulfilment of the conditionality. In this evaluation, particular attention will be paid to reforms in strengthening economic resilience and stability, governance and the rule of law, and the energy sector. The concrete policy measures and frame of reference for this evaluation are made explicit in Annex I. In case of a negative evaluation, the Commission may withhold the disbursement of the instalments until the Country proves the compliance with the conditionality. If necessary, Annex I may be amended upon mutual agreement, following the completion of the respective approval processes of the European Union and the Country.
6. The Commission will also continuously verify the financing needs of the Country and may reduce, suspend or cancel the assistance in case the financing needs of the Country have decreased fundamentally during the period of disbursement compared to the initial projections.
7. The Commission shall transfer the instalments to a euro account of the State Treasury of Ukraine (hereafter referred to as "the Recipient") at the National Bank of Ukraine (hereafter referred to as "the Agent"). Given the substantial budgetary financing needs faced by the Country, the proceeds of the loan will be used to finance the Country's budget.
8. During the implementation of the assistance, the Country's authorities shall supply the Commission with all information that is relevant for the monitoring of its economic and financial situation and for the assessment of progress in structural reforms. In particular, the authorities will supply to the Commission on a timely basis the relevant information as set out in Annex II.
9. With a view to preventing irregularities and fraud related to the use of the assistance and ensuring the protection of the EU's financial interests, the relevant provisions of the Loan Facility Agreement will apply, notably those regarding regular checks by the Country on the use of European Union assistance, and checks, audits and investigations performed by the Commission, including the European Anti-Fraud Office, the European Court of Auditors and the European Public Prosecutor's Office. Also, the provisions of the Loan Facility Agreement on early repayment will apply in case it has been established that the Country has engaged, in relation to the management of this assistance, in any act of fraud, corruption or any other illegal activity.
10. The Commission, represented by its own agents or its duly mandated experts, shall have the right to carry out operational assessments of the administrative procedures and financial circuits of the Country and of the Agent that relate to the management of European Union macro-financial assistance throughout the duration of this MoU and for five years after the disbursement of the last instalment (*ex-post* period).
11. An independent *ex-post* evaluation of the assistance may be carried out by the Commission or its duly authorised representatives. The authorities of the Country are committed to supplying all necessary information to the Commission, represented by its

own agents or its duly mandated experts, for the duration of this process. The evaluation report will be made available to the authorities of the Country for comments.

12. The authorities will ensure, as appropriate, close co-operation with the European Commission. Confidential information under this Memorandum shall be exchanged in accordance with the Agreement between the European Union and Ukraine on the security procedures for the exchange of classified information of 13 June 2005.
13. This assistance is implemented on the understanding that the authorities of the Country will continue to respect effective democratic mechanisms, including a multi-party parliamentary system and the rule of law, and to guarantee the respect for human rights. The Country also undertakes to safeguard central bank independence and to make progress towards implementation of the Association Agreement, including the Deep and Comprehensive Free Trade Area (DCFTA).
14. Annexes I and II are an integral part of this MoU.
15. All notices in relation with the present MoU shall validly be given if in writing and sent to:

For Ukraine

Ministry of Finance
12/2 Hrushevskiy Street
Kyiv 01008
Ukraine
For the attention of: Minister or Deputy
Ministers and the Department of Debt
Policy

With copy to:
National Bank of Ukraine
9 Instytutska Street
Kyiv 01601
Ukraine
For the attention of: Governor or Deputy
Governors


For the European Union

European Commission
Directorate General for
Economic and Financial Affairs
CHAR 11/248
B-1049 Brussels, Belgium

16. The present MoU shall enter into force following the signature by the European Union and the Country and upon its ratification by the Country's Parliament or following another applicable internal procedure pursuant to its legal order.
17. The MoU may be amended upon mutual agreement of the parties in form of a written Addendum. The Addendum will be an integral part of this MoU and will enter into force according to the same procedures as the MoU.

Done in Brussels on 3 March 2022 in two originals in the English language.

FOR UKRAINE
as Borrower



Sergii MARCHENKO
Minister of Finance of Ukraine

FOR THE NATIONAL BANK
OF UKRAINE
as Agent to the Borrower



Kyrylo SHEVCHENKO
Governor

FOR THE EUROPEAN UNION
as Lender



Valdis DOMBROVSKIS
Executive Vice-President
of the European Commission

ANNEX I

STRUCTURAL REFORM CRITERIA

At the time of the Commission staff review that will precede the decision on the disbursement of the second instalment, the authorities of the Country are committed to have accomplished the following actions:

Economic resilience and stability

1. Ensure the reappointment or transparent and merit-based selection of high-quality independent professionals as members of the Supervisory Boards of the state-owned banks (SOBs) by the end of June 2022. To this end, the SOB Nomination Commission, together with the participating International Financial Institutions and other international partners, should agree on and implement a joint methodology for the selection process (compliance assessment, merit ranking, deliberations and voting) and seek consensus among voting and non-voting members of the Commission.

2. The Cabinet of Ministers of Ukraine will continue to work on the corporate governance reform of state-owned enterprises (SOEs) in line with the OECD Guidelines, in particular:

(i) will improve the procedure for selection of members of supervisory boards and heads of economic entities in the public sector by amending the Procedure for selecting heads and independent members of their supervisory boards (approved by the Resolutions of the Cabinet of Ministers of Ukraine dated September 03, 2008 No. 777 and dated March 10, 2017 No.142), as well as the Procedure for determining and appointment of representatives of the state to the supervisory boards of economic entities in the public sector (approved by the Resolution of the Cabinet of Ministers of Ukraine dated March 10, 2017 No.143);

(ii) will continue the work of the Nomination Committee of SOEs and select members of supervisory boards, among others in the following SOEs: SE AMPU, JSC Ukrposhta, SE Boryspil International Airport, PJSC Ukrhydroenergo and NNEGC Energoatom.

3. Develop an action plan on identification of the crucial obstacles for SME development.

Governance and rule of law

4. Take all efforts in order to finalise the integrity vetting of the High Council of Justice (HCJ) members by the Ethics Council and finalise the selection of candidates to establish the High Qualification Commission of Judges of Ukraine (HQCJ).

5. Complete the selection of a new head of the Specialized Anticorruption Prosecutor's Office (SAPO) by certifying the identified winner of the competition and ensure his subsequent appointment.

Energy

6. Finalise the appointment of the Supervisory Board of NJSC Naftogaz, which shall approve a plan for gas purchases and storage to prepare for the 2022/23 heating season, including identification of sources for gas and the necessary financing.

7. The energy regulator (NEURC) should increase and keep the tariff for electricity transmission services at the level of full recovery of all economically justified costs of the Transmission System Operator, including the costs to ensure timely payments to producers of electricity from renewable sources.

ANNEX II

MONITORING SYSTEM

1. Monitoring of macro-economic and financial developments and policies

During the implementation of the European Union macro-financial assistance, the following indicators and reports shall be published or provided to the Commission by the relevant authorities of the Country, on a quarterly basis.

a) Information submitted by the Ministry of Finance:

- GDP or national income (quarterly)
- Main components of GDP (quarterly)
- Employment and unemployment rates (quarterly)
- Level and composition of general and central government revenue and expenditure as well as government payment arrears (quarterly)
- Fiscal balance of the central government (quarterly)
- Fiscal balance of the general government (annual)
- External public debt stock and (interest and principal) payments (quarterly)
- Domestic public debt stock and (interest and principal) payments (quarterly)
- Scheduled quarterly payments (interest and principal) of domestic and external public debt for the years 2022-2024 (quarterly)
- Consumer and producer price changes (monthly)
- Interest rates on benchmark government bonds at liquid maturities (monthly)

b) Information submitted by the National Bank of Ukraine

- Interbank interest rates at benchmark maturities (monthly)
- Banks' overall lending rate (monthly)
- Balance-of-payments and main components (quarterly)
- International reserve position (monthly)
- Nominal bilateral exchange rates against the euro and the USD (monthly)

2. Monitoring of structural policies

During the implementation of the European Union macro-financial assistance, data and/or information relating to the implementation of policy measures specified in Annex I shall be provided to the Commission by the relevant authorities of the Country, on request from the Commission.