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UKRAINE

March 2023

REQUEST FOR AN EXTENDED ARRANGEMENT UNDER THE EXTENDED FUND FACILITY AND REVIEW OF PROGRAM MONITORING WITH BOARD INVOLVEMENT—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR UKRAINE

In the context of the Request for an Extended Arrangement Under the Extended Fund Facility and Review of Program Monitoring with Board Involvement, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on March 31, 2023, following discussions that ended on March 15, 2023, with the officials of Ukraine on economic developments and policies underpinning the IMF arrangement under the Extended Fund Facility. Based on information available at the time of these discussions, the staff report was completed on March 24, 2023.
- A **Staff Supplement** updating information on recent developments.
- A **Statement by the Executive Director** for Ukraine.

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

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PRESS RELEASE

PR23/101

IMF Executive Board Approves US$15.6 Billion under a New Extended Fund Facility (EFF) Arrangement for Ukraine as part of a US$115 Billion Overall Support Package

FOR IMMEDIATE RELEASE

- The IMF Board approved a new 48-month extended arrangement under the Extended Fund Facility (EFF) of SDR 11.6 billion (about US$15.6 billion) as part of a US$115 billion total support package for Ukraine.
- Ukraine's EFF-supported program aims to anchor policies that sustain fiscal, external, price and financial stability and support economic recovery, while enhancing governance and strengthening institutions to promote long-term growth in the context of post-war reconstruction and Ukraine's path to EU accession.
- The approval of the EFF is expected to mobilize large-scale concessional financing from Ukraine's international donors and partners, to help resolve Ukraine's balance of payments problem, attain medium-term external viability, and restore debt sustainability on a forward-looking basis in both a baseline and downside scenario.

Washington, DC – March 31, 2023: The Executive Board of the International Monetary Fund (IMF) approved today a 48-month extended arrangement under the Extended Fund Facility (EFF) with an amount of SDR 11.6 billion (577 percent of quota or about US$15.6 billion). This arrangement is part of a US$115 billion total support package for Ukraine. The Executive Board's decision allows the immediate disbursement of around SDR 2 billion (or US$2.7 billion).

The overarching goals of the authorities' program are to sustain economic and financial stability at a time of exceptionally high uncertainty, restore debt sustainability on a forward-looking basis in both a baseline and downside scenario, and promote reforms that support Ukraine's recovery on the path toward EU accession in the post-war period. The program, together with financing assurances from the G7, EU and other donors, is designed to solve Ukraine's balance of payment problem and restore medium term external viability. It is in line with the IMF's policy requirements under the recently modified financing assurances policy (Press Release 23/78) on Upper Credit Tranche-quality financing for countries facing exceptionally high uncertainty, with adequate safeguards for IMF lending.

In view of the exceptionally high uncertainty faced by Ukraine, its IMF-supported program envisions a two-phased approach:

In the first phase of the program, envisaged during 2023-24, the focus will be on (i) implementing a robust budget for 2023 and bolstering revenue mobilization, including by avoiding new measures that might erode tax revenues, (ii) sustaining steady disinflation and exchange rate stability, including through maintaining adequate foreign exchange reserves, and (iii) contributing to long-term financial stability, including by preparing a deeper assessment of the banking sector health and further promoting central bank independence.

The authorities are also committed to safeguarding and continuing reforms to strengthen governance and anti-corruption frameworks, including through legislative changes. Social spending will be safeguarded under the program.

The second phase of the program will shift focus to more ambitious structural reforms to entrench macroeconomic stability, support the recovery and early post-war reconstruction, and enhance resilience and higher long-term growth, including in the context of Ukraine's EU accession goals. Ukraine would be expected to revert to pre-war policy frameworks, principally a flexible exchange rate and inflation targeting, while boosting productivity and competitiveness, strengthening institutions, and tackling financial and energy sector vulnerabilities. In addition, fiscal policies would focus on critical structural reforms to anchor medium-term revenues through the implementation of a national revenue strategy, together with strengthening public finance management and introducing public investment management reforms to support post-war reconstruction.

Following the Executive Board discussion on Ukraine, Ms. Gita Gopinath, First Deputy Managing Director, issued the following statement[1]:

"Russia's invasion of Ukraine continues to have a devastating economic and social impact. Activity contracted sharply last year, a large swathe of the country's capital stock has been destroyed, and poverty is on the rise. The authorities have nevertheless managed to maintain overall macroeconomic and financial stability, thanks to skillful policymaking and substantial external support.

"The review of the 4-month Program Monitoring with Board Involvement (PMB) was successfully completed. The authorities met all quantitative and indicative targets and structural benchmarks. This established a strong track record of policymaking despite the challenging circumstances.

"The 48-month extended arrangement under the Extended Fund Facility (EFF) is built on a two-phased approach, starting with measures to anchor macroeconomic and financial stability as well as to undertake critical structural reforms as the war continues, followed by more ambitious structural reforms to restore medium-term external viability, support sustained growth and post-war reconstruction, and facilitate Ukraine's path to EU accession.

"Building on the PMB, robust policymaking remains essential. Near-term priorities include (i) implementing a robust budget for 2023, while avoiding new measures that erode tax revenues (ii) supporting steady disinflation and exchange rate stability, including through maintaining adequate FX reserves, (iii) preserving financial sector stability, and (iv) carrying out essential governance and anti-corruption reforms. For the medium-term, as conditions permit, the authorities plan to revert to pre-war policy frameworks, principally a flexible exchange rate and inflation targeting, while boosting productivity and competitiveness and strengthening institutions.

"Risks to the EFF arrangement are exceptionally high. The success of the program depends on the size, composition, and timing of external financing on concessional terms to help close fiscal and external financing gaps and restore debt sustainability on a forward-looking basis

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

under the baseline and downside scenarios. Moreover, the authorities' track record of undertaking ambitious policies when warranted, their readiness to undertake contingency measures, and the frequent reviews in the first phase of the program are risk mitigating factors.

"The program has been appropriately designed to resolve Ukraine's balance of payments problem and restore medium-term external viability in both a baseline and downside scenario and, thereby, together with other safeguards satisfies the Fund policy requirements on financing assurances for UCT-financing under exceptionally high uncertainty.

"In conjunction with Ukraine's capacity and commitment to implement the program as well as strong engagement of multiple stakeholders, including International Financial Institutions and the private sector, the bulk of Ukraine's official bilateral creditors and donors has announced, through the statements of the relevant Executive Directors at the Fund, a two-step debt treatment together with provision of adequate financing assurances on debt relief and concessional financing during and after the program to support debt sustainability both in a baseline and downside scenario.

"A significant group of Fund shareholders reaffirm their recognition of the Fund's preferred creditor status in respect of the amounts currently outstanding to the Fund by Ukraine, plus any purchases under the extended arrangement. These shareholders comprise the G7 and the following countries: Belgium, Lithuania, the Netherlands, Poland, Slovak Republic, and Spain. They further undertake to provide adequate financial support to secure Ukraine's ability to service all of its obligations to the Fund, in accordance with the Fund's preferred creditor status and complementing the Fund's multilayered risk management framework.''

Annex

Russia's invasion of Ukraine continues to have a devastating economic and social impact. Active combat is concentrated in eastern and southern Ukraine, while continued attacks on critical energy infrastructure had a severe social toll over the winter. Civilian casualties continue to rise, and over a third of the population has been displaced. The war has had a profound impact on the economy: activity contracted by around 30 percent in 2022, a large swathe of the country's capital stock has been destroyed, and poverty is on the rise. The authorities have nevertheless managed to maintain overall macroeconomic and financial stability, thanks to skillful policymaking and substantial external support.

Following two purchases under the Rapid Financing Instrument (RFI) in March and October 2022 (the latter under the Food Shock Window)—that provided cumulative financing of 100 percent of quota (US$2.7 billion)—the authorities requested a 4-month Program Monitoring with Board Involvement in December 2022. The authorities have performed strongly under the PMB, achieving all quantitative targets and structural benchmarks.

In light of the significant Balance of Payment needs arising from the large exogenous shock of the war, the authorities have requested a 48-month extended arrangement under the Extended Fund Facility (EFF).

Program Summary

The authorities' program for 2023-27, supported by the EFF, aims to help secure macroeconomic and financial stability, catalyze external financing, and provide a framework for structural policies that could lay the foundations for post-war recovery and reconstruction, including in the context of EU accession. The program will comprise a two-phased approach: the first phase focuses on securing macroeconomic stabilization and undertaking critical structural reforms while the war is still ongoing; the second phase once active combat has subsided sufficiently, will focus on further entrenching macroeconomic policies and embarking on a more expansive set of structural reforms to restore medium-term external viability, support sustained growth, and facilitate Ukraine's path to EU accession. Ukraine is assessed to meet the five principal criteria for eligibility for Fund UCT-quality financing under the Fund's policy on UCT lending under exceptionally high uncertainty.

Fiscal policy. In the near term, fiscal policies will focus on ensuring adequate resources for priority spending, maintaining a strong tax revenue base, and preserving fiscal and debt sustainability. Measures that erode tax revenue should be avoided. Over the medium term, to support early reconstruction and social spending needs, efforts will focus on anchoring revenue mobilization through a national revenue strategy and restoring the medium-term budget framework to enhance budget credibility. The authorities will also take steps to improve fiscal transparency and risk management and strengthen public investment management.

Financing strategy and debt sustainability. The authorities' program would help restore debt sustainability on a forward-looking basis through treatments of both official and external commercial debt, coupled with continued external financing on concessional terms. On official debt, the Group of Creditors for Ukraine (GCU) has committed to a 2-step process involving a 3-year extension of the current debt standstill set to expire at end-December 2023, followed by a final debt treatment before the expiry of the proposed EFF arrangement. These debt treatments, together with an increase in domestic financing and the elimination of monetary financing, will help the authorities meet their financing needs over the program period.

Monetary and exchange rate policies. A key priority is to support steady disinflation and exchange rate stability, including through maintaining an adequate level of FX reserves, while prudently managing the wartime liquidity surplus. Once conditions permit, the authorities should transition toward a more flexible exchange rate, ease emergency FX measures, and return to an inflation targeting framework.

Financial sector. Policies will need to preserve financial stability and prepare for the postwar recovery, including contingency planning, bank diagnostics, as well as tackling troubled banks and non-performing assets.

Governance and growth. Further improving governance is critical to Ukraine's objectives of EU membership and achieving sustained growth. Independent and effective anti-corruption institutions will help mitigate corruption risks during Martial Law and promote public trust and donor confidence in future reconstruction. Ambitious reforms will be required in the energy sector to enhance competition, improve market mechanisms, and reduce large quasi-fiscal risks. Deepening integration with the EU single market and steadfastly implementing the EU accession requirements will be crucial to bring to fruition long sought institutional and structural reforms.

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

	2021	2022	2023	2024	2025	2026	2027
	Act.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Real economy (percent change, unless otherwise indicated)							
Nominal GDP (billions of Ukrainian hryvnias) 1/	5,460	4,900	6,050	7,365	8,685	9,700	10,592
Real GDP 1/	3.4	-30.3	[-3 to +1]	3.2	6.5	5.0	4.0
Contributions:							
Domestic demand	12.9	-28.9	1.2	4.7	5.4	4.5	3.1
Private consumption	5.2	-17.9	1.2	2.7	3.2	3.2	2.7
Public consumption	0.3	6.2	-0.2	-0.4	-1.7	-0.5	-0.1
Investment	7.4	-17.2	0.3	2.4	4.0	1.8	0.5
Net exports	-9.6	-1.4	-4.2	-1.5	1.1	0.5	0.9
GDP deflator	25.1	28.7	27.3	18.0	10.7	6.4	5.0
Unemployment rate (ILO definition; period average, percent)	9.8	24.5	20.9	11.9	9.7	9.2	8.7
Consumer prices (period average)	9.4	20.2	21.1	15.5	10.0	6.9	5.5
Consumer prices (end of period)	10.0	26.6	20.0	12.5	8.0	6.0	5.0
Nominal wages (average)	20.8	-5.1	18.6	18.4	15.5	12.2	9.7
Real wages (average)	10.5	-21.1	-2.0	2.5	5.0	5.0	4.0
Savings (percent of GDP)	12.2	22.5	14.3	15.6	16.5	17.8	21.9
Private	12.4	36.5	31.8	29.6	21.8	18.5	20.3
Public	-0.2	-14.0	-17.5	-14.0	-5.3	-0.7	1.5
Investment (percent of GDP)	13.8	16.8	18.7	21.8	23.2	24.3	25.0
Private	10.0	14.2	15.8	17.9	18.7	19.9	20.1
Public	3.8	2.7	2.9	3.9	4.4	4.4	4.9
General Government (percent of GDP)							
Fiscal balance 2/	-3.9	-16.7	-20.4	-17.9	-9.8	-5.2	-3.4
Fiscal balance, excl. grants 2/	-4.0	-26.5	-28.2	-21.7	-12.1	-6.5	-4.6
External financing (net)	2.4	11.4	19.8	17.7	9.5	4.6	3.3
Domestic financing (net), of which:	1.5	5.4	0.6	0.2	0.3	0.6	0.1
NBU	-0.3	7.8	-0.2	-0.2	-0.2	-0.1	-0.1
Commercial banks	1.5	-1.6	1.1	0.3	0.4	0.6	0.2
Public and publicly-guaranteed debt	50.4	81.7	98.3	105.0	104.1	102.0	100.2

Money and credit (end of period, percent change)							
Base money	11.2	19.6	23.4	15.6	9.5	7.5	6.0
Broad money	12.0	20.8	20.5	18.5	15.0	15.0	12.1
Credit to nongovernment	8.4	-3.1	2.5	15.4	14.8	13.4	12.4
Balance of payments (percent of GDP)							
Current account balance	-1.6	5.7	-4.4	-6.2	-6.7	-6.5	-3.2
Foreign direct investment	3.8	0.4	0.4	0.4	2.4	4.7	4.8
Gross reserves (end of period, billions of U.S. dollars)	30.9	28.5	29.6	32.4	35.6	38.8	44.6
Months of next year's imports of goods and services	4.6	3.9	4.0	4.2	4.3	4.5	5.0
Percent of short-term debt (remaining maturity)	67.5	66.1	62.3	75.4	75.7	83.5	90.9
Percent of the IMF composite metric (float)	98.8	91.6	82.2	78.0	80.4	81.8	90.8
Goods terms of trade (percent change)	-8.4	-11.5	3.8	0.3	1.7	2.1	0.7
Exchange rate							
Hryvnia per U.S. dollar (end of period)	27.3	36.6	…	…	…	…	…
Hryvnia per U.S. dollar (period average)	27.3	32.3	…	…	…	…	…
Real effective rate (deflator-based, percent change)	12.0	22.9	…	…	…	…	…
Memorandum items:							
Per capita GDP / Population (2017): US$2,640 / 44.8 million							
Literacy / Poverty rate (2022 est 3/): 100 percent / 25 percent							

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

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

3/ Based on World Bank estimates.

INTERNATIONAL MONETARY FUND

UKRAINE

March 24, 2023

REQUEST FOR AN EXTENDED ARRANGEMENT UNDER THE EXTENDED FUND FACILITY AND REVIEW OF PROGRAM MONITORING WITH BOARD INVOLVEMENT

EXECUTIVE SUMMARY

Russia's invasion of Ukraine continues to have a devastating economic and social impact. Active combat is concentrated in eastern and southern Ukraine, while continued attacks on critical energy infrastructure had a severe social toll over the winter. Civilian casualties continue to rise, and over a third of the population has been displaced. The war has had a profound impact on the economy: activity contracted by 30 percent in 2022, a large swathe of the country's capital stock has been destroyed, and poverty is on the rise. The authorities have nevertheless managed to maintain overall macroeconomic and financial stability, thanks to skillful policymaking and substantial external support.

The review of the 4-month Program Monitoring with Board Involvement was successfully completed. The authorities met all quantitative and indicative targets and structural benchmarks, as well as most of their commitments under the program's Memorandum of Economic and Financial Policies (MEFP). This established a strong track record of policymaking despite the challenging circumstances, which has helped pave the way for an Upper Credit Tranche (UCT) quality arrangement.

The authorities have requested a 48-month extended arrangement under the Extended Fund Facility (EFF) to help address the country's large balance of payments needs and facilitate economic adjustment through structural reforms. Access is proposed at SDR 11.608 billion (577.01 percent of quota, about US$15.6 billion), which would form part of a US$115 billion package of external support over 2023–27 involving sizable official financing in the form of grants and concessional loans, as well as debt relief.

Consistent with the Fund's policy on UCT lending under exceptionally high uncertainty, the authorities' program is designed to resolve Ukraine's balance of payments (BoP) problem and restore medium-term external viability, under both a baseline and downside scenario. Ukraine is assessed to meet the five principal criteria for eligibility for Fund UCT-quality financing under this policy, i.e., there is: the presence of an exogenous shock outside of the authorities' control; the impact of the shock depends on events fundamentally out of the control of the authorities' economic policies; large and persistent BOP needs that are difficult to assess; the difficulty of establishing a single central scenario; and, the lack of a central scenario inhibits the ability to conduct standard,

upfront debt write-downs. The program will comprise a two-phased approach: the first phase focuses on securing macroeconomic stabilization and undertaking critical structural reforms while the war is still ongoing; the second phase will focus, once active combat has subsided sufficiently, on further entrenching macroeconomic policies and a more expansive set of structural reforms to restore medium-term external viability, support sustained growth, and facilitate Ukraine's path to EU accession. Staff assesses that the program would continue to achieve its objectives in a downside scenario through a combination of additional policy measures by the authorities, donor commitments, and debt relief.

Key policy priorities under the program include:

- ***Fiscal policy.*** In the near term, fiscal policies will focus on ensuring adequate resources for priority spending, maintaining a strong tax revenue base, and preserving fiscal and debt sustainability. Measures that erode tax revenue should be avoided. Over the medium term, to support early reconstruction and social spending needs, efforts will focus on anchoring revenue mobilization through a national revenue strategy and restoring the medium-term budget framework to enhance budget credibility. The authorities will also take steps to improve fiscal transparency and risk management and strengthen public investment management.

- ***Financing strategy and debt sustainability.*** The authorities' program would help restore debt sustainability on a forward-looking basis through treatments of both official and external commercial debt and continued external financing on concessional terms. On official debt, the Group of Creditors for Ukraine (GCU) has committed to a 2-step process involving a 3-year extension of the current debt standstill set to expire at end-December 2023, followed by a final debt treatment before the expiry of the proposed EFF arrangement. These debt treatments, together with an increase in domestic financing and the elimination of monetary financing, will help meet Ukraine's very large financing needs over the program period.

- ***Monetary and exchange rate policies.*** A key priority is to support steady disinflation and exchange rate stability, including through maintaining an adequate level of FX reserves, while prudently managing the wartime liquidity surplus. Once conditions permit, it will be imperative to transition toward a more flexible exchange rate, ease emergency FX measures, and return to an inflation targeting framework.

- ***Financial sector.*** Policies will need to preserve financial stability and prepare for the post-war recovery, including contingency planning, bank diagnostics, as well as tackling troubled banks and non-performing assets.

- ***Governance and growth.*** Further improving governance is critical to Ukraine's objective of EU membership and achieving sustained growth. Independent and effective anti-corruption institutions will help mitigate corruption risks during Martial Law and promote public trust and donor confidence in future reconstruction. Ambitious reforms will be required in the energy sector to enhance competition, improve market mechanisms, and reduce large quasi-fiscal risks. It will be crucial to continue efforts to integrate with the EU single market and steadfastly implement the EU accession requirements to bring to fruition long-attempted key institutional and structural reforms.

Program modalities. Access is frontloaded in view of very large BoP needs, especially in the initial phase of the program. In line with relevant IMF policies, adequate safeguards have been built in to help achieve program objectives and safeguard Fund resources, including securing firm financing assurances for the first 12-months of the program, and specific and credible assurances about financing thereafter to restore debt sustainability. In view of the exceptionally high uncertainty producing tail risks, a group of donors have provided an assurance about Ukraine's capacity to repay the Fund.

Program risks. The exceptionally high uncertainty relating to the scale, intensity and duration of the war implies enormous and unprecedented risks to the program. If active combat escalates, the economy could further contract and the fiscal position could deteriorate. A year into the war, and notwithstanding skillful policymaking and a commitment to strong economic management, the authorities' room for maneuver is limited, which may constrain their ability to take large-scale actions to mitigate such shocks. The program is also highly dependent on the adequate size, composition and timing of external financing, and shortfalls and/or delays would raise the risk of suboptimal policy measures, unresolvable financing gaps, and the program going off track. The authorities' strong capacity and commitment to implement the program (including as showcased under the PMB), and very strong donor support (including credible and specific financing assurances) will help safeguard against such outcomes.

Approved By
Uma Ramakrishnan (EUR) and Martin Čihák (SPR)

Discussions were held in Warsaw during March 8–15, 2023, with Finance Minister Serhii Marchenko, National Bank of Ukraine Governor Andriy Pyshnyy and other senior government officials. The staff team comprised Gavin Gray (mission chief), Natan Epstein (deputy mission chief), Jean Guillaume Poulain, Armine Khachatryan, Sanaa Nadeem (all EUR); Toomas Orav (SPR); Dermot Monaghan and Nikoletta Kleftouri (MCM); Hoda Selim (FAD); Jonathan Pampolina (LEG); and Vahram Stepanyan, Ihor Shpak and Mariia Sydorovych (Resident Representative office). Stéphane Couderc, Tjoervi Olafsson (both MCM) and Ender Emre (LEG) participated in some technical meetings. Uma Ramakrishnan (EUR) and Vladyslav Rashkovan (OED) participated in policy discussions. Chasta Piatakovas and Luis Omar Herrera Prada (both EUR) provided support from headquarters.

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CONTEXT

1. **The war is still raging over a year after Russia's invasion of Ukraine and taking a heavy toll.** Active combat remains intense and concentrated in eastern and southern Ukraine. In addition, since mid-October, Ukraine has been hard hit by multiple large-scale strikes on critical civilian infrastructure, which are estimated to have damaged 40 percent of the power grid. Civilian casualties are mounting, over a third of the population has been displaced, and poverty levels have climbed. With the war now widely expected to continue through 2023, international military and economic support for Ukraine continues to be resolute.

2. **Ukraine's main economic policy challenge since the start of the war has been to maintain stability while ensuring adequate resources for core functions of the state.** While the authorities have managed to maintain overall macroeconomic and financial stability, the fiscal deficit has ballooned to accommodate a large expansion of defense and security spending, financed by a combination of external support and monetization, with multiple supplementary budgets since the start of the war. Public debt has soared, and market access has been lost. The inflation targeting regime was replaced by a peg to the U.S. dollar, supported by FX controls introduced for national security reasons and a sizeable increase in policy interest rates. In the latter half of 2022, the authorities developed a budget for 2023, sought and received large external financing commitments from the G7 and other donors, and began to reverse tax exemptions and other ad hoc measures taken at the start of the war.

3. **Program Monitoring with Board Involvement (PMB) was approved by IMF Management in December 2022 to support the authorities' efforts to navigate these challenges.** The request for a PMB followed two purchases under the Rapid Financing Instrument (RFI) in March and October 2022 (the latter under the Food Shock Window), providing cumulative financing of 100 percent of quota (US$2.7 billion). The 4-month PMB involved a parsimonious set of policies and reforms, monitored through structural benchmarks and quantitative targets, coupled with commitments for timely data provision. The goal was to test the waters on feasible set of economic policies, and help the authorities establish a track record to pave the way for an Upper Credit Tranche-quality Fund arrangement. The authorities have performed strongly under the PMB, achieving all quantitative targets and structural benchmarks, and are progressing steadily in their other PMB commitments.

4. **In light of the significant BoP needs arising from the large exogenous shock of the war, the authorities have requested a 48-month extended arrangement under the Extended Fund Facility (EFF).** The war has generated large and persistent BoP needs, whose precise magnitude and evolution hinges critically on war-related developments. The authorities have requested a medium-term program to help secure macroeconomic and financial stability, catalyze external financing, and provide a framework for structural policies that could lay the foundations for post-war recovery and reconstruction, including in the context of EU accession.

5. Risks to the program are enormous and unprecedented. Fund lending in the context of an active and large-scale war is unprecedented and entails substantial risks in terms of Ukraine's ability to undertake the necessary policy adjustments to restore medium-term external viability. The main exogenous risk is the exceptionally high uncertainty associated with the scale, duration, and intensity of the war (see ¶19). With the room for policy maneuver already limited, such shocks may prevent the authorities from adhering to agreed program parameters and policy measures, or even being able to take corrective actions, as many conditions are outside of the direct control of economic policy. The program also depends on an adequate size, composition and timing of external financing, and any delays and/or shortfalls would raise the risk of suboptimal policy measures, such as monetary financing or a further sharp compression in spending. These shocks could lead to unresolvable financing gaps and involve difficult policy tradeoffs to secure macroeconomic stability amid a challenging social and security environment. In addition, the magnitude of the financing assurances required under the program, including to restore debt sustainability, is very high. In view of this uncertainty, a downside scenario is a core element of policy design under the program to ensure the program remains robust to the materialization of a range of downside risks.

6. The Fund also faces significant enterprise risks related to a UCT-quality program with Ukraine, which are somewhat mitigated including with additional safeguards required under the changed policies for financing assurances to lend under exceptionally high uncertainty.

- The Fund faces *financial risks*, including the risk of arrears, arising from Ukraine's capacity to repay, given the uncertainty around the medium-term outlook. Access is front-loaded, which could leave the Fund with high exposures should the program go off-track early. The financial risks would be at least partially mitigated with the safeguards arising from an assurance over capacity to repay that has been received from a group of significant Fund shareholders.

- *Operational risks* arise from the challenges of designing and implementing a UCT-standard program under conflict conditions. Building on the experience under the PMB, the program design is carefully tailored to Ukraine's specific circumstances as the security situation evolves, ensuring the timely implementation of macroeconomic and structural policies required to help solve BoP gaps and restore external viability. The planned higher frequency reviews under the proposed EFF in the first stage of the program will entail close monitoring, while providing opportunities to adapt program design to new information.

- *Reputational risks* could arise if the Fund does not assist a member with large BoP needs who has requested a Fund-supported program and has shown strong commitment toward implementing policies to support a UCT quality-program. Potential adverse spillover effects to other members from the Fund's inaction are also non-negligible. Conversely, proceeding with a Fund-supported program to anchor macroeconomic policies and reforms could help catalyze significant resources, thereby helping the authorities achieve the objectives of their program and enhance Ukraine's capacity to repay.

7. Staff assesses that Ukraine meets the five principal criteria required to establish eligibility for Fund UCT lending under exceptionally high uncertainty (Box 1). The application of this policy to program design would help the authorities meet program objectives while strengthening the provision of adequate safeguards for Fund lending into such circumstances, which should help mitigate the above risks.

Box 1. Ukraine: Assessment of Eligibility–Fund UCT Lending under Exceptionally High Uncertainty

The recent Board-approved policy on Changes to the Fund's Financing Assurances Policy in the Context of Fund Upper Credit Tranche Financing Under Exceptionally High Uncertainty establishes five principal criteria for Fund UCT-quality lending to countries facing exceptionally high uncertainty (EHU). Under this new policy, staff assess that the Fund supported program together with the capacity to repay assurances and the financing assurances to restore debt sustainability is strong enough in the baseline and downside scenarios to solve Ukraine's balance of payments problem and restore it to medium term external viability meets the five EHU criteria as follow:

Exogenous shock outside of authorities' control. Russia's invasion of Ukraine, ongoing since February 2022, is a very large exogenous shock that arose from events fundamentally outside the Ukrainian authorities' control. The war has taken a heavy humanitarian, social, and economic toll on Ukraine. The resulting economic impact has resulted in a 30 percent output contraction in 2022, a sharp widening in the trade deficit as key exports from the eastern and southern regions dropped precipitously (e.g., metals and grains), and a ballooning in the fiscal deficit and public debt.

Impact from the shock. The war has continued, with its nature and intensity shifting sharply over the past year. Fighting subsided somewhat during the winter but has resumed in the east in recent weeks. The authorities are making every effort to manage the impact of the shock on the economy, although the impact also depends on the evolution of the war, which by its nature is fundamentally outside of the control of the authorities' economic policies.

Large and persistent BoP needs are difficult to assess. The war is ongoing, causing a severe BoP shock whose precise magnitude and likely evolution are hard to assess with a high degree of confidence that would normally be feasible in a standard UCT-quality Fund-supported program. The large BoP needs are mainly driven by the significant fiscal deficit as well as the loss of international capital market access; they are compounded by the sharp deterioration of export capacity and FX inflows/transactions of Ukrainian migrants. Estimates of the total financing gap range between US$115–140 billion over the next 48 months, depending on how the war evolves.

Difficult to establish a single "central" scenario. While staff has developed a baseline scenario for a possible IMF-supported program engagement with Ukraine wherein it is assumed that the war tapers off next year, it is hard to settle on this baseline as a unique scenario with high probability. Consultations with national security experts support such an interpretation. A range of downside scenarios are possible, including one where the war lasts longer and has more severe effects resulting in weaker fiscal, external, and debt outcomes.

Box 1. Ukraine: Assessment of Eligibility–Fund UCT Lending under Exceptionally High Uncertainty (concluded)

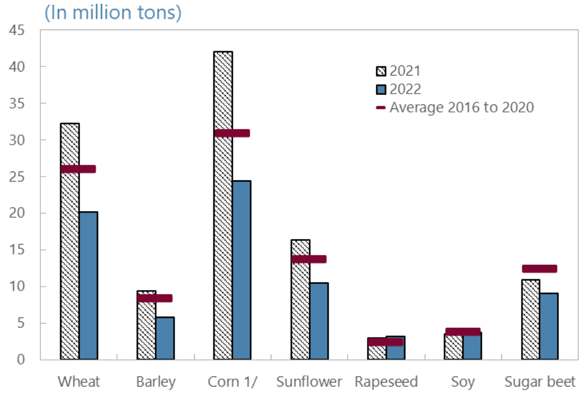
Standard upfront debt write-downs impaired by the lack of a sufficiently "central" scenario. Ukraine's debt is assessed to be unsustainable at this time. However, given the exceptionally high uncertainty presented in this case, it is difficult for official bilateral creditors to ensure debt sustainability through a standard upfront debt write down in the absence of a sufficiently central baseline scenario. Additional and broader sources of financing beyond debt relief are needed to help resolve the BoP problem, ensure the program is fully financed, as well as achieve debt sustainability and medium-term viability, as needed for a UCT-quality program.

RECENT DEVELOPMENTS

8. The war continues to severely damage the economy's productive capacity and inflict enormous humanitarian costs. According to the World Bank's latest Rapid Damage and Needs Assessment, as of February 24, 2023, the estimated direct physical damage from the war to Ukraine amounts to US$135 billion, over 60 percent of pre-war GDP. The damage is predominantly to residential buildings, transportation infrastructure, energy, and enterprises, and the cost of reconstruction and recovery could amount to US$411 billion. The impact of the war on the productive capacity of key sectors, due to damage or occupation, is substantial and likely long lasting (e.g., facilities accounting for half of metals production have been destroyed). Moreover, the humanitarian costs of the war continue to rise. A third of the population has either migrated or been internally displaced; these large dislocations have generated mismatches in the labor market including a decline in real wages[1] and substantial unemployment. The World Food Program estimates that 1 out of 3 families in Ukraine are food insecure, and humanitarian support has been stepped up since the start of the war (**Box 2**).

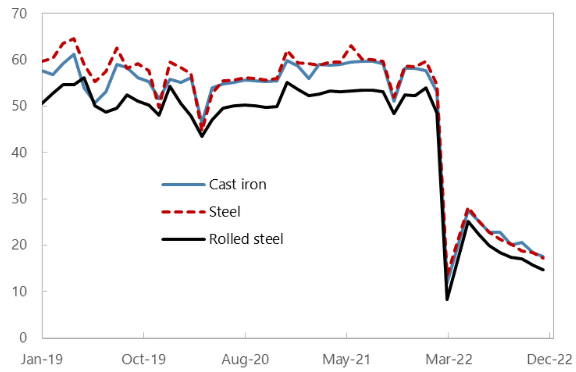
[1] Official labor market statistics have not been available since February 2022. Data from the Pension Fund of Ukraine show that for that segment, nominal wages grew 3 percent y/y as of end-2022, implying a real wage decline of 18.6 percent.

Harvest Volumes of Selected Crops
(In million tons)



Source: SSSU, Ministry of Agriculture of Ukraine.
1/ As of January 20 of 2023.

Average Daily Production of Steel, Cast Iron and Rolled Steel
(In thousand tons)



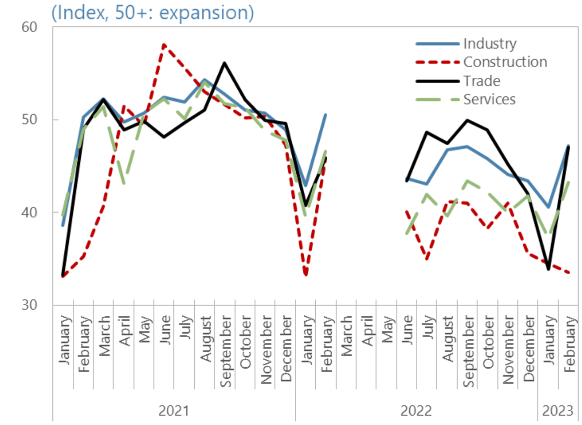
Source: Ukrmetalurgprom

9. Economic activity began to recover late summer from the initial impact of the war, though this nascent stabilization was disrupted by the attacks on critical infrastructure.

- ***2022 GDP growth. Following a sharp contraction in 2022Q2, activity in 2022Q3 was stronger*** than expected, in part thanks to the UN-brokered grain corridor.[2] However, the widespread attacks on critical energy infrastructure interrupted this recovery, leading to a weaker than expected 2022Q4. Damage to distribution, transmission and generation facilities led to prolonged power disruptions and caps on electricity consumption. Net migrant outflows were stable until November 2022 and picked up in late-December amid the prospect of a difficult winter (Figure1). On balance, 2022 growth is now estimated at -30.3 percent y/y, a stronger outturn than the -33 percent y/y expected at the PMB.

- ***Early 2023 economic activity*** is showing signs of adapting to power outages. Household and firms have largely adjusted, albeit with some sectoral variation, with the help of generators and swift efforts to repair damaged energy facilities. Power supply has thus largely normalized since mid-February, amid improving weather. Recent business surveys suggest an improvement in firms' assessment on the outlook in February.

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

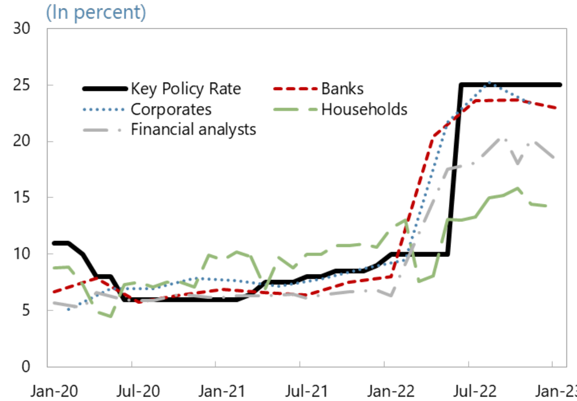


Source: NBU.

[2] The BSGI is an agreement reached last July between Russia, Turkey, Ukraine, and the UN for the safe transportation of grain, related foodstuffs, and fertilizer from designated Ukrainian ports to global markets.

- ***Inflation.*** Headline inflation as of end-2022 reached 26.6 percent y/y (vs. 30 percent y/y expected in the PMB), although core inflation was slightly higher than expected at 22.6 percent y/y. The slowing in headline inflation over the last few months reflects a decline in food prices, easing of supply constraints around the newly liberated regions, and weak consumer demand as power outages offset increased pressure from fuel costs. As of end-February 2023, headline inflation had further declined to 24.9 percent y/y, while core inflation softened from 23.3 percent y/y in January to 22.7 percent y/y, reflecting easing production cost pressures. One-year ahead inflation expectations appear to be stabilizing further at around 18–23 percent as activity adapts.

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



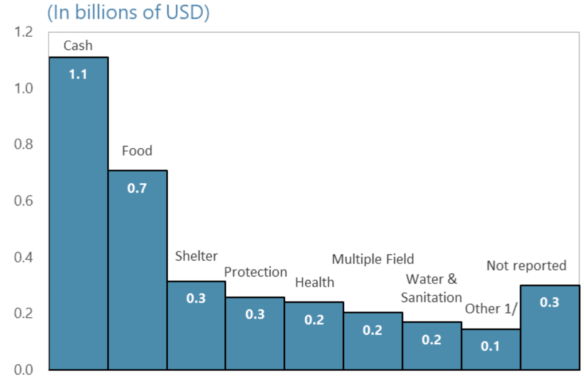
Source: NBU, GfK Ukraine, Info Sapiens.

Box 2. Humanitarian Assistance During Russia's War in Ukraine

The humanitarian situation in Ukraine has deteriorated drastically since Russia's invasion as the war continues to have a devastating social impact (Box 1, IMF Country Report No. 22/387). Rapid and substantial humanitarian assistance, mainly delivered by the UN agencies—often under very challenging circumstances—has played a vital role in mitigating the social consequences of the war.

Coverage: Assistance funds have been used to provide direct cash transfers to vulnerable households, distribute food, facilitate access to basic health care, provide shelter and non-food items, and restore access to water, sanitation and hygiene services. In 2022, 15.8 million people in Ukraine received different types of humanitarian assistance among which: more than 12 million people received food and livelihood support; more than 9 million people got access to medicines and basic health care; for more than 7 million people, some access has been provided to basic utilities such as water and sanitation; more than 7 million people were afforded protection services; nearly 6 million people received cash transfers worth US$1.1 billion; and humanitarian partners reached almost 2 million conflict-affected children through education services and learning support (UN OCHA, February 2023).

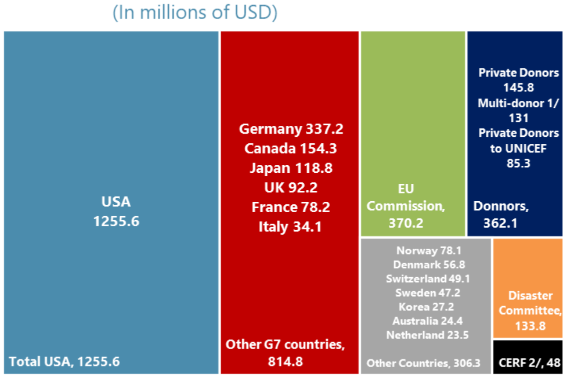
Humanitarian Funding by Cluster
(In billions of USD)



Source: UN-OCHA Financial Tracking Service.
1/ Other Includes: <Education, Camp Coordination and Management, Nutrition, Coordination Services, Logistics, and Emergency Telecomunications.

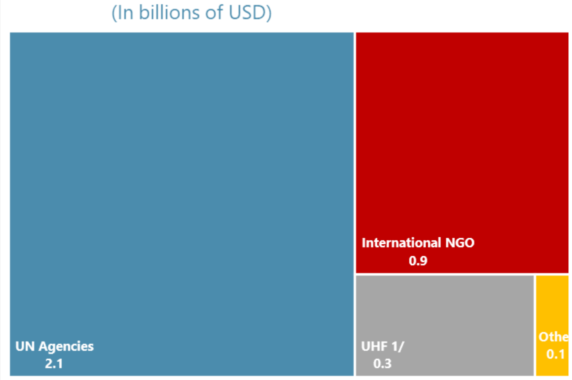
Funding: Since the outbreak of the war, governments, organizations, private companies, and individuals from around the world have been providing humanitarian funding to Ukraine. By end-2022, approximately $3.4 billion of the US$4.3 billion requested in the UN's Humanitarian Flash Appeal had been received by the humanitarian organizations operating in Ukraine. The two largest contributors to these funds have been the G7 countries, with the US in the lead (about US$1.3 billion), followed by the European Commission. Furthermore, in 2022, numerous private sector donors contributed over US$1.6 billion equivalent to the humanitarian response in Ukraine through cash and in-kind donations (OCHA/UNDP Connecting Business initiative). In terms of the partners through which the donor funds have been distributed, the UN agencies have played the leading role.

Humanitarian Funding by Contributor
(In millions of USD)



Source: UN-OCHA Financial Tracking Service. 1/ Multi-donor flexible humanitarian contribution (UNICEF Regional Humanitarian Thematic) 2/ Central Emergency Response Fund. Donor list at CERF website.

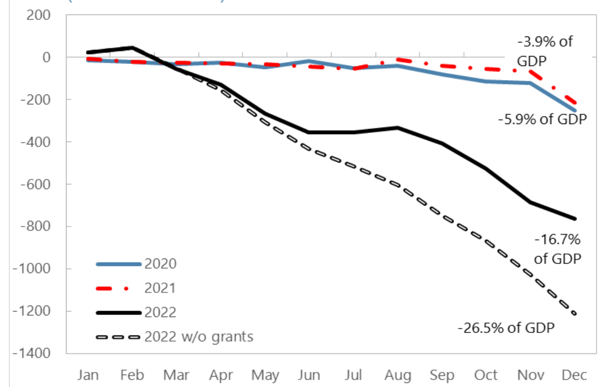
Humanitarian Funding by Partner Type
(In billions of USD)



Source: UN-OCHA Financial Tracking Service. 1/ Ukraine Humanitarian Fund (UHF) is a Country-based Pooled fund (CBPF). Contributions from donors are collected into single, unearmarked funds to support local humanitarian efforts .

10. The fiscal deficit reached a record level in 2022, reflecting wartime spending pressures, the impact of economic contraction on the revenue base, as well as structural shifts in the economy.[3] Due to the authorities' prudent commitment controls under the PMB, the overall fiscal deficit was capped at 16.7 percent of GDP (20.5 percent of GDP at the PMB), and the overall fiscal deficit excluding grants was 26.5 percent of GDP (30.3 percent of GDP at the PMB). General government spending arrears were below 0.1 percent of GDP.

Fiscal Balance Cumulative
(In billions of UAH)



Source: MoF, IMF staff estimates.

- ***Nominal expenditures overshot***, driven by defense and security needs, together with social spending priorities induced by the war (including internally displaced people). The authorities went through several spending revisions, aiming to align wartime needs with financing sources, reflected in nine supplementary budgets. As a result, nominal expenditures rose by about 55 percent in 2022 relative to 2021 and were about 50 percent higher than in the original 2022 budget.

- ***Tax revenues were broadly stable.*** This reflects two factors. On the one hand, wage increases in defense and security outweighed the impact of economic contraction and migration on income taxes, pushing up personal income tax (PIT) payments and social security contributions significantly. On the other hand, taxes on goods and services (e.g., VAT, excise) were depressed by the collapse in economic activity, migration, and Martial Law measures (including changes in tax policy rates and administrative arrangements). Tax revenues were thus lower by about 0.3 percent of GDP relative to the original 2022 budget.

11. Budget financing was largely in line with expectations at the time of the PMB, although there has been a pick-up in domestic debt issuance in recent months:

- ***Monetary financing*** of the fiscal deficit was on target for end-2022. Gross purchases of government securities by the NBU amounted to UAH 400 billion (US$12.5 billion) as expected. Base money growth at end-2022 increased to 19.6 percent y/y, supported by external financing inflows, while broad money growth reached 20.8 percent y/y, driven by strong deposit growth.

- ***Domestic bond financing*** of the fiscal deficit in net terms was negative for 2022 at minus UAH 88 billion (minus US$2.4 billion), with an aggregate rollover rate of 68 percent. Bank rollover rates increased to around 80 percent in November and December 2022 as primary market yields increased by a cumulative 50 bps to 19.75 percent on the 18-month instrument, albeit still negative in real terms. In 2023, net financing by banks has accelerated,

[3] The deficit is based on a cash concept, measured below the line.

due mainly to the option available to banks to meet up to half of their reserve requirements with government securities. As of end-February 2023, domestic auctions have yielded bond financing of UAH 84 billion (US$2.3 billion), or UAH 41.8 billion in net terms (US$1.1 billion). Nearly 70 percent of these issuances involve benchmark bonds designated to meet reserve requirements; auctions for benchmarks bonds have been heavily oversubscribed, amid caps on their issuance amounts, putting downward pressure on yields.

12. The NBU held the key policy rate (KPR) at 25 percent in March and has been tightening reserve requirements. The decision to hold the policy rate was motivated by high (albeit softening) inflation outturns, still elevated (though stabilizing) inflation expectations, and risks to the inflation outlook. Upside risks to inflation and pressures on the exchange rate peg persist, including from supply shocks from the ongoing war and high-risk premia. In addition, with the stock of liquidity in the banking system rising to a record UAH 534 billion (US$14.6 billion) at end-December 2022 (Figure 3), driven by monetization and official financing of the fiscal deficit, the NBU tightened reserve requirements, by 5 pp in December and a further 5 pp in January with the aim of improving monetary transmission. Most banks took the option to meet up to half of required reserves with government bonds, and the cumulative increase in reserve requirements thus far is estimated to have absorbed UAH 70-100 billion of liquidity.[4]

13. The trade deficit has widened substantially due to the war. Despite the launch of the Black Sea Grain Initiative last summer, overall exports remain some 40 percent below pre-war levels; shipping values have been further depressed by falling grain prices (now almost 30 percent below levels early in the war). Export volumes have fallen sharply across all sectors due to logistical bottlenecks, diminished capacity due to the destruction of facilities throughout the value chain (especially in metals) and electricity supply disruptions. After the initial shock, imports rebounded strongly, but have since stabilized at around 10 percent below pre-war levels. Import demand is driven by essential needs, most recently for generators and fuel, as well as continued bank account withdrawals by migrants abroad. As a result, the trade deficit more than doubled to US$12.1 billion during January–November 2022. However, the income balances have been supported by sizable grants and humanitarian support, resulting in a current account surplus of US$8.5 billion (5.7 percent of GDP) in January–November 2022 (Figure 2).

14. The FX market has remained broadly stable in the past six months, with NBU interventions offset by sizeable external inflows. In late 2022, FX demand increased for the import of electricity generators and other related equipment in the wake of the strikes on energy infrastructure, and end-year budget execution, leading to increased FX sales by the NBU (of US$3.2 billion in December). However, official financing inflows were robust (US$5.7 billion in December), stabilizing the FX market, helping to maintain the spread between the official and cash exchange rates to around 10 percent. Since then, in part due to seasonal factors, conditions

[4] The total amount of obligatory reserves from the two increases in reserve requirements is estimated to be UAH 140 billion; but given that about 50 percent of the reserve requirements would be met with eligible government bonds, under the scheme agreed to in the PMB MEFP, the effective part of the reserve requirements to assess liquidity conditions is the cash-based portion (about UAH 70–100 billion).

in the FX market have improved, with the spread staying in the 8-10 percent range, and declining to 5 percent by early March. As of December 2022, FX reserves amounted to US$28.5 billion, down from US$30.9 billion at end-2021, with the NBU's net FX sales at US$25.1 billion for the year (Figure 2). Reserves are assessed as broadly adequate, amounting to 3.9 months of imports, or 91.6 percent of the Fund's ARA metric.[5]

15. While the banking system remains operational and liquid, and rising NPLs are largely provisioned, it is difficult to assess the true impact of the war on the financial system.

- The majority of commercial banks' branch networks are operational, and the introduction of power banking has enhanced resilience.[6] The number of operating banks fell to 66 after the licenses of 6 small banks (around 3 percent of system net assets) were revoked. [7] The majority ownership of PINbank was transferred to the state in February 2023, creating a fifth state-owned bank.[8]

- Banking system assets and liabilities increased by 17.9 and 18.8 percent respectively in 2022. This reflects strong local currency deposit growth, which was supported by direct payment into bank accounts of government wages and social security payments, hryvnia devaluation, and deposit withdrawal restrictions. As a result, liquidity remains high for most banks, with deposits remaining banks' main funding source (88 percent of liabilities as of end-December); banks have been able to repay loans from NBU, including refinancing loans and the emergency unsecured financing facility introduced at the start of the war.

- The official NPL ratio increased by 8 pp in 2022 to 38 percent as more loans have been recognized as 90+ days past due after loan repayment holidays ended in late June. The overall loan loss provisioning coverage ratio was 99 percent as of end December. Nevertheless, the NPL ratio remains a burden for state-owned banks (SOBs), which still hold about 80 percent of the sector's NPLs (60 percent are accounted by PrivatBank).

- Retail lending continues to shrink, while corporate lending has grown slightly due to government support schemes (notably the 5–7–9 affordable loans scheme).

- Despite booking fresh provisions of US$3.2 billion (equivalent to 5 percent of total loans), the banking sector recorded profits of US$700 million in 2022 (21 institutions, including 2

[5] This level of reserves is close to but below the adequacy range of 100 to 150 percent for countries with a floating exchange rate regime, which remains Ukraine's de jure framework. Staff's overall assessment of reserve adequacy takes into account the presence of capital controls, as well as import coverage ratio.

[6] As a contingency measure, the NBU introduced "Power Banking" in December 2022, a network of circa 2,000 bank branches across the country that provides banking services to clients even during prolonged blackouts.

[7] This includes Prominvestbank, IR Bank, Megabank, Bank Sich, IBOX bank, and Forward Bank. Further details are available here.

[8] On February 27, the High Anti-Corruption Court ruled to transfer 89 percent of shares from the sanctioned Russian owner of PINbank to the state. The bank has total assets of around US$33 million and 100 employees.

SOBs, ended the year with an aggregate loss of US$565 million), which has been driven by increases in interest, fee, and commission income.

- The banking system has been subject to regulatory forbearance on capital, credit, and reporting standards, thus the impact of the war on asset quality is difficult to ascertain with precision due to these measures.

16. The authorities have made progress in governance, anti-corruption, and rule of law reforms despite the war, although the challenges remain significant. The competitive selection processes for staff of key governance institutions are advancing, including 8 new anti-corruption prosecutors appointed in December, and 15 members of the judicial self-governance body appointed in January. The selection of the new head of the National Anti-Corruption Bureau of Ukraine (NABU) was also completed. The legislature approved a law in December that dissolved the Kyiv District Administrative Court, whose judges have been subject of corruption investigations. A new supervisory board for Naftogaz was appointed on January 24 (¶25). However, the task ahead is challenging, given the risks from weak governance, rent-seeking opportunities, and vested and oligarchic interests. Concerns about the scale of corruption risks and rent-seeking behavior are underscored by recent bribery allegations against senior public officials for reportedly inflated prices for defense non-weapons procurement (e.g., generators and food supplies).

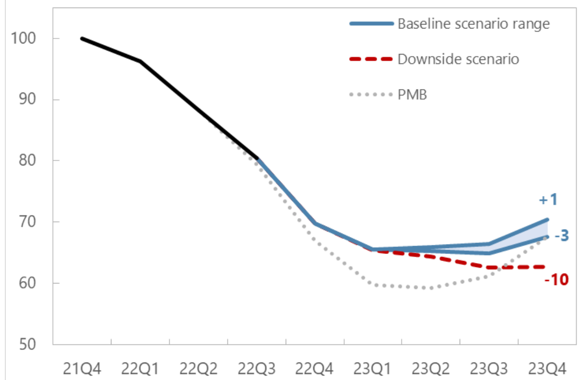
OUTLOOK AND RISKS

17. Developing an economic outlook under such exceptionally high uncertainty is very challenging, as several outcomes are plausible. The outlook hinges on key assumptions, most notably around developments in the war, the principal exogenous factor driving the outlook, as well as related assumptions around the composition and pace of reconstruction, resumption of port access, the pace of return of migrants, and the availability of adequate external financing on sufficiently concessional terms. However, different assumptions around these parameters can generate a widely differing outturns, with an insufficient basis that a particular scenario is more plausible than the other. In view of these considerations, and informed by staff's extensive consultations, including with international security experts, the program is based on a baseline scenario that assumes that the war winds down in the first half of 2024, followed by a measured investment and reconstruction effort. Staff has also developed a downside scenario where the exogenous factors driving the exceptionally high uncertainty persist, in this case, a longer and more intense war. These distinct scenarios help to ensure that program design is sufficiently robust to a range of outcomes. These two scenarios are expected to be updated as economic conditions and war prospects evolve.

18. In staff's baseline scenario, a gradual recovery is expected in the near term as activity recovers from the attacks on critical infrastructure, though headwinds persist.

- **Output is expected to begin a sequential recovery through 2023.** However, this recovery is expected to be weaker than anticipated at the time of the PMB request, given assumptions around a longer war. Government spending would be an important contributor to activity, amid soft consumption (amid declines in purchasing power), delayed private investment, and weak net exports (see below). The pace of the recovery depends on several factors, including security developments, how economic agents will adjust given eroding balance sheets, and the extent to which the ongoing war weighs on sentiment. Growth for 2023 could thus be in the -3 to +1 percent range, subject to exceptionally high uncertainty. In 2024, the sequential recovery is expected to continue, with growth projected to reach 3.2 percent y/y.

Real GDP Levels
(2021Q4 = 100. Labels show annual growth for 2023, in percent)



Sources: State Statistics Service of Ukraine; and IMF staff projections.

- **Inflation** is expected to decline to 20 percent by year-end, reflecting, on balance, continued but abating supply disruptions and production costs, and weaker demand due to the more prolonged war.

- The **current account** is expected to move to a deficit of 4.4 percent of GDP, reflecting still weak exports, which remain some 40 percent below year-earlier levels amidst a weak harvest, falling grain prices, and the impaired facilities through the value chain, especially in the metal sector. Import growth is expected to remain driven by essential equipment and repairs, as well as the full-year effect of bank account withdrawals and credit card payments by migrants. The forecast assumes the grain corridor remains in place through the year. Nevertheless, supported by sizable external inflows, reserves are expected to increase to US$29.5 billion, amounting to 4 months of imports or 82.2 percent of the ARA metric.

Ukraine: Selected Economic Indicators, Baseline and Downside Scenarios, 2023–25

Baseline			
Real GDP growth (%)	[-3, +1]	3.2	6.5
Inflation, period average (%)	21.1	15.5	10.0
Current account (% GDP)	-4.4	-6.2	-6.7
Current account (US$ billion)	-6.5	-9.4	-11.3
Trade balance (US$ billion)	-24.5	-24.4	-30.1
FX reserves (US$ billion)	29.6	32.4	35.6
Overall fiscal balance (% GDP)	-20.4	-17.9	-9.8
Overall fiscal balance, excl. grants (% GDP)	-28.2	-21.7	-12.1
Public debt (% GDP)	98.3	105.0	104.1
Downside			
Real GDP growth (%)	-10.0	-2.0	0.0
Inflation, period average (%)	27.6	25.3	17.2
Current account (% GDP)	-4.9	-6.1	-5.4
Current account (US$ billion)	-6.3	-7.9	-7.1
Trade balance (US$ billion)	-26.7	-26.2	-26.1
FX reserves (US$ billion)	29.5	32.4	35.1
Overall fiscal balance (% GDP)	-23.1	-22.3	-20.2
Overall fiscal balance, excl. grants (% GDP)	-35.4	-32.2	-27.2
Public debt (% GDP)	112.5	124.8	138.6

Source: IMF staff estimates

19. The downside scenario assumes a more protracted and intense war than in the baseline. The continuing war would weigh on consumption and investment sentiment, discouraging the return by migrants, and causing further infrastructure damage. This would generate a sharper real GDP contraction of -10 percent in 2023 and a further contraction of 2 percent in 2024, together with an acceleration in inflation. In view of continuing defense needs, the fiscal deficit would remain elevated in 2023–24 and narrow more gradually thereafter. Imbalances in the FX market would be expected to persist for longer, given continuing constraints on exports, leading to higher nominal depreciation, though the extent of real depreciation would be contained by relatively higher inflation. The downside scenario assumes additional donor financing relative to the baseline for the duration of the war.

20. The medium-term outlook under the baseline scenario involves a steady recovery following the cessation of hostilities, as a measured investment and reconstruction effort gathers pace, and Ukraine adopts reforms on the path in support of EU accession.

- Following an end to active combat, GDP growth is expected to rebound strongly in 2025–26, supported by investment (for immediate repairs and the start of a measured reconstruction effort), and consumption (given the gradual return of migrants and somewhat constrained by the dislocations spurred by the war). The contribution of net exports to growth remains moderate in the near-term, given the large import component of investment and slow recovery in export capacity and logistics, given the extent of war-related scarring. As supply side constraints ease, inflation is expected to decline, but only return within the pre-war target of 5±1 percent at the end of the program period.

- Over the medium term, growth is underpinned by the continuing reconstruction, the recovery of private demand, and reforms undertaken by Ukraine to prepare for EU accession. These reforms relate to the upgrading of regulatory frameworks, strengthening rule of law, boosting trade and competitiveness. And a green transition, which would help raise potential growth. The baseline scenario takes into account the experience of other post-war cases (**Annex I**), and the substantial destruction of capital stock Ukraine has faced could weigh on the growth trajectory. It also takes a prudent approach to incorporating the possible gains to growth from reconstruction and accession-related reforms, given the absorption capacity and duration accession can take, and that such gains are generally realized toward the end of the accession period.

- The external position is assessed to be moderately weaker than fundamentals, though it is expected to be stable in the near term given continued strong donor support. The external position could face strains due to the war-related scarring to export sectors, significant numbers of migrants abroad, and the large investment needs related to rebuilding (**Annex II**). However. With the policies and reforms envisaged under the program, including financing on the terms and volumes anticipated, medium-term external viability would be restored.

- Under the downside scenario, the post-war recovery would be more subdued than in the baseline scenario, given the more severe damage to the capital stock, slower return of migrants, and weakened balance sheets. Investment spending relative to (the much higher) reconstruction costs is smaller than in the baseline, including in view of the overhang of the war on sentiment, while progress in adopting policies toward EU accession is more gradual, making the return to potential growth slower than in the baseline.

21. While the program is calibrated around the baseline scenario, risks are exceptionally large and on balance could tilt outcomes toward the downside (Annex III).

- *War developments.* The security situation could worsen or extend for longer than expected, necessitating a much wider fiscal deficit than envisaged, together with an intensification of FX and inflationary pressures. Attacks on critical energy and other infrastructure could continue, and extend to banking or other networks, disrupting economic activity and confidence while driving migrant outflows. Financial sector risks could intensify given the possibility of sharply deteriorated loan quality and balance sheet losses caused by the war, potentially requiring recapitalization or resolution with inherent fiscal implications.

- *External financing.* Unexpected shortfalls or delays in external financing could widen financing gaps, necessitating monetary financing or a sharp compression in spending. This could be exacerbated by weak governance and corruption, which may impede timely donor support.

- *Reform momentum.* Slippages in program implementation or reform reversals may derail macroeconomic adjustment and exacerbate fiscal and BoP gaps, weaken confidence, and hamper public support for reforms. Increasingly populist measures could be pushed under the aegis of Martial Law, and open room for corruption and governance risks, while proving difficult to unwind. Social tensions could emerge in response to sustained elevated inflation and unemployment.

22. The outlook could be more favorable than expected should there be a swifter cessation of hostilities. Under such an upside risk, a more pronounced rebound in activity would arise, due to renewed confidence, the return of migrants and a larger and more accelerated reconstruction effort. The availability of substantial and sustained external financing (both public and private), together with more forceful implementation of structural reforms on the path to EU accession could provide further support to the recovery. The outcomes underlying such a scenario would depend, inter alia, on Ukraine's absorption capacity of capital investment. An upside scenario entailing a more pronounced reconstruction effort and stronger reform implementation is illustrated in **Box 3**.

Box 3. Ukraine: Medium-Term Growth Trajectory Under an Upside Scenario

Uncertainty around the medium-term outlook is extremely high. Several factors will play a role in determining the growth path over the medium term beyond the duration and intensity of the war, such as the extent of reconstruction, the return of net migrants, and the implementation of structural reforms that will expand Ukraine's capacity to absorb inflows. This box highlights how differing assumptions around these factors could lift Ukraine's growth path over the medium- to long-term relative to the baseline.

Ukraine's medium- to long-term growth trajectory could be stronger than currently assumed in the baseline scenario, depending on assumptions related to the size of the reconstruction effort and the quality and pace of reform implementation. Though subject to high uncertainty, an illustrative upside scenario suggests that potential growth could rise by at least 1 percentage point (from 3¾ to 4¾ percent) relative to the baseline under the following assumptions:

- **Investment.** The large reconstruction bill will require an increase in both public capex and private investment, including via FDI. Enabling this will depend critically on absorptive capacity to undertake large-scale investment projects in both the public and private sectors. In the immediate post-war phase, reconstruction will likely require public investment to lead the way in initial repairs, the success of which could more quickly crowd in private investment. The baseline assumes a doubling in public capex execution capacity; the upside scenario assumes a tripling in this, allowing for greater private investment and lifting the investment to GDP ratio over 10 years by 7 pp (an additional US$300 billion) relative to the baseline. Key considerations in boosting public absorption capacity include the availability of fiscal space (although defense spending will decline, elevated social spending needs will remain), the strength of the public investment management framework (to enable the selection of projects with higher growth multipliers), and governance reforms.
- **Return of migrants.** The upside scenario assumes a quicker return of migrants, as the critical set of preconditions required to support returning migrants (including housing, schools, and healthcare) are put in place in a timely manner.
- **Pace of reform implementation.** Cross-country experience suggests that the boost to potential growth stemming from reforms related to EU accession can be sizable. Hagemejer, Michalek and Svatko (2021) estimate that for 10 Central and Eastern European countries, the average increase in per capita GDP following EU accession over 12 years amounted to 30 percent, with higher gains for countries with lower levels of economic development, implying on average an increase of average real GDP growth rates by 2½ pp. Further, Campos, Coricelli and Moretti (2014) note the significance of "anticipation effects" for some Eastern European countries, where an increase in real GDP growth rates is realized before formal accession (estimated to average about 1.4 pp). More optimistic assumptions than in the baseline about the length of the EU accession road, and Ukraine's capacity to implement a complex set of reforms could further boost long-term growth.
- **Export recovery.** Under the upside scenario, exports could recover more quickly than assumed in the baseline, but some lag will still remain, given needed investments to rebuild capacity and logistics. Separately, the large import component to support investment, particularly in the near term, will weigh on headline growth.

Selected Assumptions

	Baseline	Downside	Upside
Investment to GDP, end of projection period (2033)	25 percent	17 percent (-US$120 billion relative to baseline)	32 percent (+US$300 billion relative to baseline)
Net migration relative to end-2021	-2 million persons	-3.5 million persons	-1 million persons

PERFORMANCE UNDER THE PMB

23. **The authorities' performance under the PMB has been strong, thereby helping to establish a track record paving the way for a request for the prospective EFF-supported program.** The 4-month PMB involved a parsimonious set of policies and reforms, monitored through structural benchmarks in the areas of fiscal, banking and governance as well as quantitative and indicative targets, coupled with commitments for timely data provision.

24. **All end-December quantitative and indicative targets were met.** The authorities have met both end-December quantitative targets—on non-defense primary cash balance, excluding grants, and the floor on NIR—and the indicative targets—on the overall cash balance, excluding grants, and the ceiling on general government borrowing from the NBU (see Text Table). Early data for 2023 suggest end-March indicative targets are likely to be met; net international reserves have remained stable, reaching US$18.6 billion by mid-March, comfortably above the end-March indicative target. There has so far been no general government borrowing from the NBU in 2023.

Ukraine: PMB Quantitative Targets and Indicative Targets 1/
(In millions of hryvnia, unless otherwise specified)

	2022		2023
	December		March
	QT	Act.	IT
I. Quantitative Targets			
Floor on the non-defense cash primary balance of the general government, excluding grants (- implies a deficit) 2/	86,950	402,002	-8,240
Floor on net international reserves (in millions of U.S. dollars) 3/	15,000	17,879	11,500
II. Indicative Targets			
Floor on the overall cash balance of the general government, excluding grants (- implies a deficit) 2/	-1,425,762	-1,298,698	-506,476
Ceiling on general government borrowing from the NBU 1/ 2/ 4/	388,500	388,400	-7,600
Floor on social spending 1/			
III. Memorandum Items			
External project financing 2/	51,733	48,700	13,713
Budget support grants 2/	461,940	456,270	182,843
Budget support loans 2/	577,814	562,446	164,559
NBU profit transfers to the government 2/	19,700	18,786	71,000
Net financing of general government deficit by commercial banks 2/	-101,223	-77,323	-5,434
Government bonds for the purposes of bank recapitalization and DGF financing	0	0	0
Called guaranteed debt principal 2/	15,000	2,645	10,500

Sources: Ukrainian authorities; and IMF staff estimates and projections.
1/ Definitions and adjustors are specified in the Technical Memorandum of Understanding (TMU).
2/ Targets and projections for 2022 are cumulative flows from January 1, 2022. Targets and projections for 2023 are cumulative flows from January 1, 2023.
3/ Calculated using program accounting exchange rates as specified in the TMU.
4/ Calculated using the projected redemption of government bonds for 2022Q4 and 2023Q1 respectively as of November 22, 2022.

25. **Staff assesses that all five end-January structural benchmarks were met:**

- *Tax revenue enhancement measures.* The authorities have prepared and submitted for adoption by Parliament a package of tax policy and administration measures that would restore the pre-war set up of several policy and administration components, including amendments to the tax code and the law on social security contributions. The adoption of these three laws remains challenging given the complex political environment. Adoption is proposed as a structural benchmark under the EFF (¶34).

- *Action plan on arrears.* The authorities have also taken important measures to prevent the accumulation of arrears (overdue account payables) during wartime, starting by repealing the clause of Martial Law that limited the Ministry of Finance (MoF)'s powers to collect financial reports from key spending units, including local governments. Consequently, as part of the action plan under the structural benchmark, a Cabinet of Ministers of Ukraine (CMU) resolution tasked line ministries and other executive bodies, to prepare and submit reports on budget arrears accumulated at end-2022, analyze the reasons for the arrears accumulation, and develop an action plan to clear all arrears outstanding at end-January 2023. As of end-December 2022, the reported stock of general government arrears (overdue account payables) was estimated at UAH 1.6 billion (below 0.1 percent of GDP).

- *Concept note on social safety net.* Supported by World Bank Technical Assistance, the authorities have prepared a concept note on the social safety net identifying key reform priorities, options to address challenges, and elements to help achieve a more targeted, adequate, and efficient social assistance system. It also emphasizes the need to identify steps to ensure a sustainable social protection system in the long term, given large social spending needs.

- *Terms of reference (TOR) for diagnostics of the banking system.* On January 26, the NBU Board formally approved a TOR for undertaking an asset quality review (AQR), viability analysis, and the diagnostics steps needed to design a Non-Performing Loan (NPL) resolution strategy. These diagnostics will be undertaken as soon as security conditions permit.

- *New supervisory board for Naftogaz.* On January 24, the Cabinet appointed four new independent members and two out of the three state representatives for Naftogaz's new supervisory board. While the last position has yet to be filled, the supervisory board was already functional by end-January. The new members met and elected their chairperson on February 10.

THE AUTHORITIES' PROGRAM: OBJECTIVES UNDER THE EXTENDED ARRANGEMENT (EFF)

26. The authorities have requested a 4-year extended arrangement under the EFF with the overarching goals of sustaining macroeconomic and financial stability, restoring debt sustainability, and supporting Ukraine recovery on the path toward EU accession in the

post-war period. In view of the exceptionally high uncertainty, a two-phased approach is envisioned:

- **In the first phase,** building on the PMB, the program aims to buttress fiscal and external stability by (i) revenue mobilization (ii) eliminating monetary financing, and aiming for net positive financing from domestic debt markets; (iii) contributing to long-term financial stability, including by fostering a better diagnosis of the banking sector health and continuously promoting NBU independence and good governance. At the same time, measures will need to be taken to prepare Ukraine for the eventual post-war era, including in fiscal structural areas, financial sector, monetary and exchange rate policies, governance, and anti-corruption.

- **In the second phase,** the focus of the program would shift to more expansive reforms to entrench macroeconomic stability, support recovery and early reconstruction, and promote economic growth, including in the context of Ukraine's EU accession goals. Ukraine would be expected to revert to pre-war policy frameworks, including a more flexible exchange rate underpinning the inflation targeting regime, and to finalize the restructuring of the banking sector within the program period. To help lay the foundations for post-war growth, the authorities would also be expected to advance reform initiatives to enhance productivity and competitiveness, including the green transition. Given more time will be required to develop specific policies to achieve these medium-term objectives, the MEFP signals the authorities' high-level intentions in these medium-term reform areas, while specific conditionality would be developed as the program progresses and uncertainty dissipates.

27. As required under the policy for Fund lending under exceptionally high uncertainty, the program is designed to achieve its objectives—of solving BoP gaps and restoring external viability—under both a baseline and a downside scenario. The set of policies outlined in this section refer primarily to the baseline scenario, and the authorities are committed to take measures if necessary to achieve the program objectives under the downside scenario. Specifically, the mix of additional policy measures envisaged by the authorities could include: seeking further external financing and a larger mobilization of domestic financing, increasing tax revenues, making some spending contingent on available financing, and potentially, adjusting to FX policies and temporary capital flow measures (**Annex V**). Additional contingency measures may need to be undertaken should shocks be more severe than in the downside scenario, and staff considers the authorities have the capacity to implement such measures.

A. Macro-Fiscal Policies

28. The wartime economy continues to have a decisive impact on Ukraine's public finances. The war has caused structural and policy changes in revenues, spending, and deficit financing. In this context, the goals of Ukraine' fiscal policies are as follows:

- ***In the short-term,*** the focus will be on providing adequate resources for priority spending (including defense and security, social spending) and maintaining a strong tax revenue base, while enhancing fiscal transparency and risk management. Maintaining fiscal sustainability and predictability during wartime will be essential for achieving sustainable public finances in the postwar era.

- ***To prepare for post-war recovery and growth,*** fiscal policies will focus on structural reforms essential to anchor medium-term revenues via adopting a National Revenue Strategy (NRS), restore and enhance the medium-term budget framework, and strengthen public finance and investment management to support post-war reconstruction, EU accession, and broader development needs.

Fiscal Policy in 2023

29. The execution of fiscal policy will remain challenging in 2023 in view of the difficult and uncertain economic environment, structural shifts in the economy, and the impact of administrative measures under Martial Law. The availability and mix of financing will be key binding constraints to budget execution. Mindful of these challenges, the authorities are preparing to implement measures to curb the risk of suboptimal policy choices, while mitigating the impact of war-induced shocks. They are committed to refrain from any tax policy and administrative measures that would erode the tax revenue base in 2023 and beyond, while taking measures that support post-war reconstruction and EU accession.

30. In March the authorities prepared a supplementary budget with a more realistic expenditure envelope than the 2023 budget. This supplementary budget has been approved by the CMU and submitted to Parliament (***Prior Action***) to reflect updates to revenue, spending, and financing sources.[9] The increase in the expenditure envelope reflects the materialization of risks identified by staff at the time of the PMB; this is partly cushioned by an estimated accumulation of government deposits (3.3 percent of GDP). This supplementary budget was approved by Rada on March 21, and is awaiting the President's signature (***Structural Benchmark, end-April***).

31. The supplementary budget adjusts the following spending and revenue categories:

[9] By contrast, a supplementary budget adopted in February was largely deficit neutral. It addressed the need for changes in spending categories to align the reorganization of key spending units with earmarking of resources under different programs that will be reflected transparently in the budget.

- ***Expenditures.*** The spending envelope has increased by about 11 percent of GDP relative to the original budget, with annual overall expenditures estimated at 67.7 percent of GDP. The increase aims to support priority sectors, including defense, security, and social spending, mitigated by cost efficiency measures and spending cuts where feasible. The authorities also announced a 19.7 percent indexation of pensions, effective March 1, 2023. The indexation is higher than what was assumed in the original 2023 budget, as it now incorporates updated outturns for the parameters of the indexation formula (including actual inflation for 2022 and average wage growth over the last three years). The measure will increase overall social spending by 2.3 percent of GDP, with no additional impact expected on budget transfers to social funds.[10] In view of the risk of large-scale spending pressures arising from gas imports and Public Service Obligation (PSO) compensation, and to enhance budget predictability in view of these underlying risks, the program allows an adjustor on fiscal balance targets, subject to the assessment of spending needs and available financing (MEFP ¶60).

Selected Expenditure Indicators
(In percent of GDP)

	2021	2022	2023	
	Actual	Actual	PMB	EFF
Expenditure	40.3	69.9	56.5	67.7
Current, o/w	36.4	67.3	51.6	63.1
Compensation of employees	9.3	25.3	15.5	23.5
Goods and services	8.8	17.3	13.9	15.3
Interest	2.8	3.3	5.5	4.6
Subsidies to corporations and enterprises	2.1	2.7	1.7	2.3
Social benefits	13.3	18.7	15.0	17.3
Capital	3.8	2.7	2.8	2.9
Net lending	0.1	0.0	0.7	0.6
Contingency Reserve	0.0	0.0	1.3	1.1

Source: Ukranian authorities, and IMF staff projections.

- ***Revenues.*** Despite the contraction in economic activity, tax revenues remain at par with pre-war levels. Tax revenues are projected at 36.3 percent of GDP, slightly lower than in 2022 and significantly higher than projected under the PMB. While revenues from profit taxes will continue to deteriorate consistent with lower corporate profits, the decline in PIT revenue due to structural developments in the labor market and the lower public sector wage bill will be partly offset by the impact of the increase in the wage bill (estimated to increase PIT by about 2 percentage points of GDP). The projected increase in tax revenues on goods and services accounts— as consumption recovers and measures under Martial Law are lifted—result from measures restoring excise and VAT on fuel from July 2023 and revenue gains from restoring simplified taxation to pre-war brackets (with an estimated cumulative impact of 0.8 percent of GDP).

Selected Revenue Indicators
(In percent of GDP)

	2021	2022	2023	
	Actual	Actual	PMB	EFF
Revenue	36.3	53.2	47.5	47.3
Tax revenue, o/w	33.3	36.4	32.1	36.3
Personal income tax	6.4	8.6	8.6	10.6
Social security contributions	6.4	8.8	6.6	8.6
Tax on goods and services	13.4	12.1	13.0	13.2
Nontax revenue	3.0	16.9	15.3	11.0
Grants	0.0	9.8	12.5	7.8

Source: Ukranian authorities, and IMF staff projections.

[10] The amendments also include some reclassification of spending across different categories (largely deficit neutral) and the reduction of the interest payments bill after updating domestic and external debt interest payments.

32. As a result, the 2023 deficit excluding external grants is estimated to reach UAH 1.71 trillion (28.2 percent of GDP). This is about UAH 424 billion higher than the initial 2023 budget, and about 1.7 percentage points of GDP higher than the estimated deficit excluding external grants for 2022. The deficit is expected to be financed primarily though external concessional financing, with a small net positive contribution from the domestic bond market (UAH 31 billion, or 0.5 percent of GDP).

33. Tax revenues are subject to several risks stemming from the war, as well as potential policy choices that could erode the tax base. Policies that weaken the distributional impact of tax policies, affect taxpayer incentives, and ultimately erode much needed revenue mobilization to support wartime priorities should be avoided. Such risks could arise if, for instance, the Parliament does not vote on the package of laws prepared under the PMB or extends or issues new tax deferrals. These alone may result in at least a 1 percentage point of GDP loss in tax revenues, opening additional financing gaps. These risks should be, inter alia, ringfenced by the authorities' strong commitment to measures identified in the MEFP (MEFP ¶19 and 22).

Medium-Term Fiscal Policy

34. Along with restoring the medium-term budget framework, the authorities will resume the practice of anchoring annual budgets on a medium-term fiscal path. In view of spending pressures, reforms should focus on revenue mobilization (¶37) and enhancing the efficiency of public expenditures. Implementing the program's fiscal structural reforms would strengthen Ukraine's institutional and governance framework both for tax policies and administration as well as for managing public finances. Accordingly, the program's baseline scenario envisages a gradual improvement in the medium-term fiscal primary balance, with the estimated deficit declining from 16 percent of GDP in 2023 to a surplus of 0.8 percent of GDP by 2028; such an improvement would be slower under the downside scenario (text charts).[11]

[11] Under the downside scenario, the medium-term fiscal primary deficit is projected to decline from 18.2 percent of GDP in 2023 to 0.4 percent of GDP by 2028.

Medium Term Fiscal Developments, Baseline vs. Downside, 2023–2033

35. To anchor the medium-term fiscal path, the baseline scenario is based on two sets of assumptions:

- ***Revenues.*** Implementing tax policy and administration measures could generate 2 percent of GDP in revenues during the program period. These reforms (MEFP ¶22) would help level the playing field for businesses, while also reducing tax evasion and corruption in the tax and customs administration system. In the near term, tax policy measures should focus on restoring pre-war tax policies, while preparing for a national revenue strategy (¶36).

- ***Expenditures.*** Total expenditures over the medium-term reflect the two-stage approach of the program: the first phase (2023–24) involves addressing the priorities of the wartime economy while laying the groundwork for post-war reconstruction. As the war tapers off, the space opened up by the gradual reduction in defense expenditures would be taken by capital and social spending, including for reconstruction and newly emerging vulnerable groups in the population. Anchoring this path to reforms in the governance of public resources, public finance and investment management, and higher quality of public and social services would help maintain fiscal and debt sustainability while rebuilding the country and supporting growth.

Composition of Government Spending under Baseline Scenario, 2023–27
(In percent of GDP)

	2023	2024	2025	2026	2027
Expenditure	67.7	61.3	51.9	47.3	46.2
Current	63.1	55.9	44.8	42.2	40.7
Compensation of employees	23.5	18.4	10.8	10.1	9.9
Goods and services	15.3	11.7	10.1	8.9	8.0
Subsidies to corporations and enterprises	2.3	2.1	1.5	1.4	1.4
Social benefits	17.3	17.5	18.4	18.0	18.0
Capital	2.9	3.9	4.4	4.4	4.9
Other	1.7	1.5	2.6	0.6	0.6

Source: IMF staff projections.

36. The medium-term fiscal path is subject to multiple risks:

- **Realization of contingent liabilities.** As the war continues, the risks from contingent liabilities, including Public Private Partnerships, guarantees, SOEs (importantly from energy sector), and banks, are likely to grow. The authorities are committed to strengthening the link between fiscal risks assessment and their impact on spending categories, including monitoring, and assessing risks from government guarantees.

- **Backtracking on the medium-term revenue strategy.** Fiscal sustainability could be compromised if the authorities decide to pursue tax policies with narrow objectives that serve special interest groups.

- **Unfinished reform agenda in public finance and investment management.** Absent ambitious reforms in this area, the post-war era may bring about a public investment framework that discourages competitive and transparent project selection, resulting in lower yield and more costly investments.

B. Fiscal Structural Policies

Domestic Revenue Mobilization

37. Solid revenue mobilization is essential to anchor the medium-term fiscal path while generating adequate resources for reconstruction and other post-war development goals. The program bases revenue mobilization on a phased approach under the umbrella of a National Revenue Strategy (NRS), as well as restoring pre-war tax policies and building on measures to enhance the efficiency of tax system and reduce tax evasion, while adhering to the principles of fairness and simplicity. Progress on this front would also signal the authorities' commitment toward burden sharing in the rebuilding of Ukraine, strengthen the governance of public finances, and level the playing field for taxpayers while creating a competitive environment for investment and growth

- ***Restoring pre-war tax policies.*** In the short-term, efforts would focus on continuing the process already started under the PMB (MEFP¶19) while taking measures to enhance tax and customs administration. A survey of taxpayer perception and satisfaction with the State Tax Service (STS) conducted in November 2022 pinpointed several weaknesses that are conducive for tax evasion and corruption (MEFP ¶22). However, the survey covers only STS, omitting the State Customs Service (SCS). Recognizing the importance of reforms in both the STS and SCS, and with the help of the IMF and the World Bank, the authorities will prepare an action plan to address weaknesses identified in the survey, as an input into preparation of NRS roadmap (***Structural Benchmark*****, end-May 2023**). The authorities are committed to institutionalizing the survey into an annual exercise covering both institutions, with the aim of transforming survey findings into an annual action plan, as part of the NRS implementation.

- ***Strengthening taxpayer culture and incentives to thereby reduce arrears.*** The stock of tax arrears of economically active taxpayers[12] is estimated at 1.5 percent of GDP as of end-2022. Under the PMB, following staff engagement, a reporting requirement for tax arrears was established, which generated a dataset on the overall stock of tax arrears for the first time in many years. Building on this progress, the authorities are committed to identifying the causes of arrears accumulation and prepare a plan to reduce them (excluding those related or caused by Russian aggression and occupation of Ukrainian territories by Russia).

- ***Preparing for the adoption of the National Revenue Strategy (*****Structural Benchmark*****, end-December 2023).*** The authorities have committed to anchor the reform path through several intermediate steps. In the very near-term, the CMU will adopt a decision tasking the MoF to start the preparation of the NRS (2024-2030) (***Prior Action***). The CMU decision will lay out the key principles and objectives of tax policy and administration both in the short-term and in the post-war reconstruction period, including a timeline of measures needed to adopt the NRS. As a next step, with IMF Technical support, the authorities will undertake an analysis of their existing reform strategy relative to MTRS toolkit, which will inform the roadmap for the NRS (2024–2030). The roadmap will include clear revenue and other policy targets, as well as guidance for coordination among government agencies, donors, private sector and civil society. The NRS will cover both policy and administrative reforms, including but not limited to: (i) measures to strengthen tax and customs services, drawing on perception survey analysis; (ii) a revised simplified tax regime to address the erosion of labor taxes by moving the legal basis for labor relations to civil law; (iii) alignment of VAT and excise duties with the EU acquis; (iv) strengthened anti-corruption measures and governance procedures to address integrity risks; (v) tax reforms for post-war reconstruction and investment.

[12] Taxpayers that continue to operate, are not engaged in court hearings, not in bankruptcy procedures and away from combat zones and temporarily occupied territories.

- ***Strengthening the institutional framework of tax policies and administration.*** The NRS would provide a strong foundation for this endeavor, and thus help insulate public finances from vested interests.

Medium-term Budgeting Framework (MTBF)

38. A full-scale MTBF is infeasible at this juncture, implying a staged road to medium-term budget planning. As a first step, the authorities will prepare a draft law repealing the suspension of medium-term budget preparation, with effect from January 2024 (MEFP ¶23). Then, they will present projections of key revenue and expenditure categories, along with deficit financing sources for 2025–26 as part of the 2024 budget. The 2024 budget will also present a fiscal risks statement including details on energy and critical infrastructure SOEs (***Structural benchmark,*** **end-September 2023**)**.** Finally, the preparation of the 2025 budget will include a comprehensive MTBF for 2026-28. With IMF technical assistance, the authorities will also improve strategic budgeting and costing of new public services and define mechanisms to strengthen the link between the budget and fiscal risk assessments.

39. A credible and predictable fiscal framework is necessary to strengthen the link between medium-term revenue mobilization and Ukraine's development and reconstruction goals. First, the authorities will restore and strengthen the provisions of the Budget Code that stipulate the circumstances under which budget amendments are envisaged, both for revenues and expenditures. This should help limit the scope for ad hoc amendments to the budget, strengthen the position of the MoF in managing the annual budget, and minimize deviations from budget. To this end, a draft law to restore and strengthen Article 52 of the Budget Code[13] will be submitted to Parliament (***Structural Benchmark*****, end-May 2023**).

Fiscal Transparency and Risk Management

40. Building on their achievements under the PMB, the authorities remain committed to further strengthening fiscal transparency and risk management:

- ***Mitigating the risk of domestic arrears accumulation.*** To continue strengthening commitment controls, the authorities will build on the progress made under the PMB to centralize the role of MoF in these processes. The authorities have also agreed to establish an indicative target on State Budget and social fund arrears, and to continue monitoring arrears at all levels of government (***Indicative Target***).

- ***Strengthening control over contingent liability risks.*** This is warranted not only for fiscal risk management, but also for prudent debt policies. The authorities are committed to strengthening the monitoring and risk control of contingent liabilities, including guarantees. First, they will submit to Parliament a draft law restoring and reinstating

[13] Article 52 of Budget Code defines the framework and cases under which the Budget can be amended, both on the revenue and expenditure side.

articles of the Budget Code that establish fiscal rules for the issuance of public guarantees (***Structural Benchmark*, end-May 2023**). Rules will also be strengthened by establishing clear criteria for the provision of guarantees, including to priority sectors. Supported by IMF technical assistance, to strengthen risk assessment of guarantees (MEFP ¶12 and 24), the authorities will develop regulations to tighten risk assessment of guarantees, allowing them to establish stricter eligibility criteria and develop risk-based fees for guarantees.

- ***Restoring regular reporting by SOEs.*** The MoF plans to gradually restore all reporting requirements in all SOEs that are not located in temporarily occupied territories or combat zones, which will be an important input into the fiscal risk assessment, particularly in preparation for medium-term budget framework.

- ***Enhancing the management and transparency of special accounts.*** Following the outbreak of the war, special accounts were established at the NBU to collect donations from individuals and entities supporting Ukraine. These special accounts resemble endowment or extrabudgetary funds, with resources directed to spending on public and social goods and services. Balances on these accounts have grown quickly, which necessitates establishing appropriation limits for key spending units and transparent commitment controls by MoF. Moreover, the accounts are held at the NBU, creating an additional layer of safeguards and transparency requirements. Given these risks, the authorities are working toward treating spending from these accounts as budget programs under a special fund of the State Budget. They are preparing a package of legal amendments to enable spending controls from these accounts and enhance transparency and accountability (MEFP ¶25). Once adopted, these accounts will be consolidated within the general government as own revenues of budgetary institutions executed via a special fund of the State Budget. (***Structural Benchmark*, end-May 2023**).

- **Strengthening transparency and accountability of the "*Fund for the Liquidation of Consequences of the Armed Aggression*".** Rules and regulations governing the objectives and spending directions of the fund have been prepared, but the recent transfer of the administrative role to a newly established ministry raises concerns about the MoF's ability to maintain strong commitment control. The fund finances a budgetary program through a special fund, and is thus subject to relevant articles of the Budget Code; the MoF needs to gain full control over commitments and appropriations as prescribed by the budgetary legislation. The authorities are committed to further strengthen accountability over this und by complementing existing reporting with a regular consolidated report that summarizes the sources of financing and the nature of spending. The authorities will also refrain from earmarking NBU profit for this Fund in 2024 and to direct this revenue category to the General Fund of the State Budget.

41. The authorities are determined to strengthen the legal and operational framework of oversight bodies that investigate economic and financial crimes. In this context, they plan to reorganize the Economic Security Bureau of Ukraine (ESBU). Fighting tax evasion and enhancing governance in the tax system require a strong oversight body that can not only investigate financial and economic criminal offenses against the State, but importantly, provide analytical support to identifying tax evasion on an arm's length basis. The authorities are preparing amendments to the legal framework and a reorganization of ESBU to clearly define its functions, consistent with best practices, strengthen the analytical component of its work, and to subordinate it to the MoF.

Public Investment Management (PIM)

42. Strengthening public investment management ahead of post-war reconstruction is a priority. Work in this area would build on the ongoing work of EU4PFM project and the World Bank's Public Investment Management Diagnostic Assessment Report 2022. Absorbing large reconstruction projects requires building stronger institutions that can amplify the ability of the public sector to channel much needed resources to projects that provide the most value for money. The authorities are preparing to continue reforms in sequenced steps. With the help of World Bank TA, the authorities will review current PIM procedures and develop a roadmap of measures (***Structural Benchmark*, end-December 2023**) that ensure: (i) all public investment projects follow unified PIM approaches, including PPPs; (ii) investment projects are selected on a competitive basis, with transparent selection criteria, and consistent with the medium-term budget framework; and, (iii) stronger powers are provided to MoF, including a clear gatekeeping role during the different stages of the investment project cycle. The authorities are mindful of the risks of creating multiple procurement platforms, which may not only weaken national public procurement practices, but open room for abuse of post-war reconstruction projects. To further strengthen efficiency and transparency of post-war public investment and avoid multiple procurement platforms, the authorities plan to adapt the national e-procurement system (ProZorro) compliant with the international competitive bidding standards used by Multilateral Development Banks.

C. Financing Strategy

43. In view of very large and uncertain fiscal financing needs, the program envisages mobilizing an appropriate mix of external and domestic financing that preserves macroeconomic and financial stability and debt sustainability. The strategy involves tapping large amounts of external financing, largely on concessional terms and supported by the catalytic role of the program, as well as increasing the contribution of domestic financing. If such financing is catalyzed in the amounts and timing envisaged, monetary financing of the fiscal deficit under the program could be eliminated.

44. While external financing is expected to provide the bulk of fiscal financing, it is important to further mobilize domestic financing over the program period. Commitments to Ukraine by external partners is expected to amount to US$36.9 billion in 2023 (of which US$11.9 billion are grants). Nevertheless, in view of the risks to external financing and the uncertainty around fiscal financing needs, measures are needed to increase the contribution of domestic financing, particularly from banks. There is space to increase banks' exposure to government bonds, which decreased to 21 percent of their total assets as of end-2022, well below pre-war levels (25.8 percent of total assets). The stock of banking system liquidity is already high and is projected to further increase through the year, given expected government sales of foreign FX inflows; at the same time, there are limited alternative assets available to banks in the current environment (amid high credit risks). The program envisages achieving positive net financing from the domestic bond market over the program period, with bank exposure to sovereign debt under the baseline projected to be broadly in line with pre-war levels by 2027.

45. While there are impediments to greater demand for government bonds, the authorities are adopting a coordinated strategy to increase domestic financing. The prevailing impediments include below market yields on government bonds, the availability of a more liquid and higher yielding alternative instrument in the form of NBU CDs, credit risk perceptions (particularly form nonresident investors), banks' individual risk considerations, and small investor base (for retail investors). There is, however, some evidence suggesting market demand for government bonds outside of the reserve requirement mechanism (see ¶11), as the increase in issuance yields in November-December 2022 helped raise rollovers, and secondary market rates remain in the 20–25 percent range. To increase issuances more sustainably, the authorities are developing a multipronged strategy that balances multiple considerations, including around financial stability and debt sustainability. In this regard:

- The authorities will continue carefully studying bank-by-bank liquidity to understand banks' demand for government bonds, which will help develop targeted strategies to attract liquidity. In this context, a Working Group, comprising the MoF and the NBU, under the auspices of the NBU's Financial Stability Council (FSC), will be set up to meet regularly to develop and assess measures needed to achieve issuances in line with program objectives.

- The adjustment in the operational design of monetary policy (¶49) could support the primary market by more closely aligning yields between government bonds issued at market yields and NBU CDs. A more market-based issuance policy—including market-based pricing—would help incentivize banks and other investors to purchase more government bonds.

- The authorities announced an extension of the restriction on the repatriation of nonresident redemptions of government bonds (¶39) while allowing the repatriation of coupons. This could support nonresident rollovers, should government issuances be at market rates.

46. The program seeks to eliminate monetary financing in 2023 given risks to price and external stability. Risks to financing needs and external financing flows are elevated, and shortfalls and/or delays in disbursements, if even for a month or quarter, and restrictions around the use of some types of external funding increase the likelihood of resorting to monetary financing. Recognizing these risks, the authorities agreed that monetary financing is a last resort option, with commitments to first explore all other financing options, including drawing down government deposits and achieving higher rollover rates in the domestic bond market. In addition, the authorities have committed to develop a framework to formalize the conditions under which the limited amount of monetary financing can be accessed, and the form that such monetary financing can take (MEFP ¶40). This would include setting out the financing terms, maturities, and limits to the use of short-term advances as opposed to government bonds.

47. The authorities commit to updating their Medium-Term Debt Management Strategy to align it with the program objectives (*Structural Benchmark,* end-September 2023).[14] The document will be updated to reflect changes since the start of the war, including to the debt structure and payment profile, as well as the financing requirements and supporting strategies that would be required to be consistent with the requirements of the program. The strategy would also set out the longer-term goals for domestic debt market development, including diversifying the investor base and restoring market access in due course, that would help marshal financing for the post-war recovery.

D. Monetary and Exchange Rate Policies

48. The key policy priority under the program is to ensure a monetary policy stance that preserves price and external stability amid a challenging environment and maintains adequate FX reserves through both phases of the program. In the near term, the exchange rate peg has proved to be an effective nominal anchor; however, as conditions permit, the authorities intend to move to a more flexible exchange rate and transition back to inflation targeting. To support these objectives, near term priorities are managing liquidity conditions and strengthening the transmission of the KPR to reduce pressures on exchange rate stability.

Monetary Policy

49. The monetary policy stance remains broadly appropriate. In its March MPC meeting, the NBU kept the key policy rate at 25 percent and shifted to more symmetric forward guidance, in consideration of recent economic outturns, the more negative outlook, and the balance of risks. With inflation softening over the last three months, both ex ante and ex post real rates are now in positive territory. The tight monetary policy stance together with the shift in forward guidance is appropriate in light of, on the one hand, upside risks to inflation and exchange rate expectations and, on the other hand, weaker than expected demand, the gradual resolution of cost pressures over the year, and relative stability in the FX market. In its January MPC, the NBU also signaled gradual easing on the FX controls side, communicating a targeted approach to support the recovery and ease pressures on the FX market. Looking ahead, it will be important to

[14] Ukraine's Medium Term Debt Management Strategy, a publicly available document prepared by the Debt Commissioner's Office, sets out a 3-year plan for debt issuance and risk management; the last update was in mid-2020 in the context of the COVID-19 crisis.

assess whether the recent disinflation process is durable, and, in line with the economic outlook and balance of risks, adjust the monetary policy stance accordingly.

50. Record liquidity conditions continue to present a key challenge to the effectiveness of the KPR and exchange rate stability. Large FX inflows and the overhang from monetary financing has generated a large hryvnia liquidity surplus in the banking system (estimated at UAH 220 billion, or US$6.3 billion as of March 1). Longstanding structural factors, such as the concentration of liquidity in large state-owned banks and low government bond issuance yields, has weakened monetary transmission, thereby reducing the effectiveness of the KPR. The low rate of return on hryvnia assets together with the large share of deposits in current accounts poses a risk to exchange rate stability.

51. The NBU has tightened reserve requirements since December 2022. To absorb surplus liquidity in the banking system as well as to induce a shift from current to term deposits, reserve requirements on current accounts have been increased by a cumulative 10 pp since December 2022, and by an additional 10 pp on household hryvnia demand deposits and current accounts. However, the extent of liquidity absorption, estimated at UAH 70–100 billion out of a possible UAH 140 billion, is diluted by the inclusion of government bonds in the set of assets eligible to meet the reserve requirements.[15] Given the still large liquidity remaining in the banking system and expectations of increased liquidity because of the fiscal deficit for 2023, there could be scope to further tighten reserve requirements as needed, given they are easily implementable and their impact on liquidity conditions is more predictable. However, future adjustments in the reserve requirement will need to carefully take stock of the source and timing of the expected liquidity growth, the response of different groups of banks, as well as the need to minimize excessive changes to the instrument design that complicate the use of this instrument.

52. The NBU has adjusted the operational design of its monetary policy framework. Following the outbreak of the war, the NBU replaced the main instrument of the interest rate corridor, a 2-week certificate of deposit (CD) renumerated at the key policy rate, with an overnight CD at KPR less 2 percentage points, i.e., 23 percent. In March, the NBU announced a reduction in the rate offered on overnight CDs to 20 percent, while introducing a 3-month CD at the KPR, access to which is conditional on the stock and increase in the volume of term deposits. This unconventional design, which introduces a sizable difference between the return of the overnight and 3-month instruments, is intended to induce banks to compete for deposits, including by offering a higher real return on deposits; lengthen the average maturity of sterilization operations; and extend the maturity of bank funding and thereby encourage bank investment in longer term assets (such as government bonds). The NBU intends to closely monitor and assess how banks react to this change to the operational design. In due course, the pre-war operational design could be reinstated, including with a 2-week operation at the KPR, to

[15] Most banks have used the option of fully using the space available to hold government bonds in fulfilling reserve requirements, given the cash portion of reserve requirements is unremunerated.

simplify the interest rate corridor and reinstate the role of KPR as the main signal of the NBU's monetary policy stance.

Exchange Rate Policy

53. The exchange rate peg remains appropriate in the near term as sizable external support has eased FX imbalances. The peg has served as an important nominal anchor in the economy, given the continuing FX market imbalances driven by the war. Conditional on the continued scale and pace of external financing inflows, and assuming no increase in net FX demand, the current peg can be maintained in the near term. Over time, the exchange rate peg can introduce distortions, be costly to defend, and repeated devaluations would weigh on the credibility of the peg.

54. Substantial external financing flows, together with measures to improve the balance in the FX market have helped narrow the spread between the official and cash rate.[16] These measures focus on reducing the demand for cash FX and increasing FX supply, including an FX-linked term deposit facility launched in October, and easing access to FX at the official rate for businesses, households, and humanitarian causes. A reduction in the spread between the official and cash exchange rates will reduce the incentives for circumventing FX controls. Frequent monitoring and enforcement of the restrictions will support fine tuning of regulations.

55. The NBU will prepare a conditions-based strategy for the move to a more flexible exchange rate, ease FX controls, and transition back to inflation targeting (*Structural Benchmark,* end-June 2023*).* In consultation with IMF staff, the NBU will prepare a conditions-based strategy that sets out the key prerequisites and principles underpinning the steps needed to transition toward a more flexible exchange rate, easing FX controls and returning to an inflation targeting regime. It will be important that contingency plans continue to be prepared and updated given the balance of risks to the outlook.

56. The FX control measures undertaken under Resolution No. 18 following the imposition of the Martial Law are assessed as exchange restrictions imposed consistent with Article VIII, Section 2(a). On February 24, 2022, the NBU adopted Resolution No. 18 which set out controls on current and capital account transactions and banking system controls. The Ukrainian authorities have notified to the IMF Executive Board that Resolution No. 18 (and amendments to Resolution No. 18) and other measures as being those taken solely for reasons of national or international security under the procedures provided for under Decision No. 144. In line with the approach consistently taken by the Fund, for measures relating to addressing national and international security, and assessments on the appropriateness of the measures, the Fund does not provide a suitable forum for discussion. For these reasons, all measures which fall

[16] The introduction of Resolution No. 18 by the NBU supersedes other existing regulations contravening Resolution No. 18 and that gave rise to previous exchange restrictions and MCPs previously maintained by Ukraine (see CR/21/250).

within the scope of Resolution 18 and which amount to restrictions on the making of payments and transfers for current international transactions are considered to be approved exchange restrictions consistent with Article VIII, Section 2(a).[17]

57. In light of BoP pressures and the need to ensure adequate FX reserves, staff supports the continuation of the restriction preventing the repatriation of proceeds from nonresident government debt redemptions. Such redemptions (based on the current stock, estimated at US$1.56 billion between April 2023 and May 2027) could constitute a significant outflow in FX reserves in conflict with program objectives. However, the authorities have instead allowed the repatriation of interest payments received after April 1, 2023, on such claims. The size of these interest payments is expected to be small (about US$120 million between April and December 2023), and staff assesses that such a measure would not materially impact the level of FX reserves.

58. Staff identified that the exchange rate system set out under Resolution No. 18 give rise to two multiple currency practices (MCPs), and recommend their temporary approval under Article VIII, Section 3.

- The *first* arises from a spread of more than 2 percent between the exchange rates that banks may freely set for certain non-cash FX transactions and the official exchange rate or exchange rate tied to the official exchange rate (i.e., +/- 1 percent around the official rate) required to be used for the purchase/sale of FX for other non-cash transactions (including government transactions);

- The *second* arises from the potential for a spread of more than 2 percent between (i) the official exchange rate of the day of the FX transactions and (ii) the official exchange rate of the previous business day or the official exchange rate which the NBU sets monthly that are required to be used for certain FX transactions.

Given the risks to the outlook, the role of the FX controls in preserving external stability in the near term, and the program's objective to maintain an adequate level of FX reserves, staff would recommend the temporary approval of these two MCPs, which are maintained for BoP reasons, by the IMF Executive Board. In line with the authorities' clear intention under the program to ease FX controls when conditions permit (¶54), such measures are expected to be temporary and unwound. The MCPs do not give Ukraine an unfair competitive advantage over other members or discriminate among members.

[17] Exchange restrictions under Resolution No. 18 include limitations on the making of the following payments and transfers for current international transactions, including the purchase of FX for such payments and transfers: (i) payments for certain imports of goods and services; (ii) transfers to non-residents on amortization and interest of domestic government bonds; (iii) payments by residents to non-residents of interest and amortization on foreign loans; (iv) normal short term banking and credit facilities; (v) payments due as net income from investments; (vi) other invisibles, as well as (vii) transfers by nonresidents abroad of amounts recently acquired from current international transactions.

59. It will be important to unwind the unconventional policy measures resulting from war-related exigencies when conditions permit, and thereby preserve the autonomy and institutional effectiveness of the NBU. The war has necessitated several suboptimal policy measures (including allowing monetary financing, the modification of reserve requirements to support government bond primary issuances, unconventional operational design of monetary policy, the limits on deposit withdrawals that underpin abundant bank liquidity, and the restrictions on the repatriation of nonresident redemptions) that should be phased when conditions permit. The outstanding stock of legacy monetary financing will also need to be addressed over the medium term to support monetary policy transmission. Keeping these measures longer than needed could also adversely impact the hard-won credibility of the NBU. Preserving institutional independence and effectiveness will be important considerations in the post-war period and will require restoring fiscal sustainability. Thus, an exit strategy for the unconventional measures undertaken by the NBU to support government financing in the context of the war will be required over the medium term. An updated safeguards assessment mission was completed in March 2023; key recommendations from the assessment will be adopted in course of the program (see ¶86).

E. Financial Sector

60. Far-reaching emergency measures introduced under Martial Law to preserve financial stability are being carefully unwound.[18] One year after the war, the authorities recognize that the emergency measures are causing distortions, obscuring the true health of the banking sector, and inhibiting effective financial system operations and oversight. The process of unwinding these measures has started with resuming the count of loan days past due in June 2022; introducing a procedure under Martial Law to resolve insolvent systemic banks in October 2022; and submitting of a draft law in March 2023 to improve the procedure for withdrawing non-systemic banks from the market under Martial Law. The NBU also plans to resume scheduled onsite supervision inspections for both bank and non-bank financial institutions ***(Structural Benchmark, September 2023)*** and unwind all emergency prudential measures by end-March 2024, if conditions allow.

61. In preparation for a return to normality, the authorities will update their 2021 financial sector strategy by end-June 2023 to prepare for a safe and prompt unwinding of financial sector emergency measures, while restoring accounting and prudential norms. The strategy will describe the future priorities for the financial system and serve as a living document with the aim of guiding policies and promoting effective coordination among stakeholders through action plans and implementation milestones. Key elements of the strategy will include: (i) coordinated steps to safely unwind exceptional measures; (ii) diagnostics to quantify bank asset values and NPL resolution priorities; (iii) a framework to safely address any potential vulnerabilities; (iv) a prioritized action plan to monitor and tackle high NPL levels; (v) well-developed contingency plans to respond to potential further shocks; (vi) prioritized

[18] Further details of the measures are provided in the October 2022 RFI staff report.

transposition of EU banking norms; and, (vii) coordination arrangements among key stakeholders. The strategy will be periodically reviewed and updated to reflect most recent developments, and those parts of the strategy that are not considered market sensitive will be published.

62. The NBU is preparing to undertake detailed bank diagnostics. This is in recognition of the critical importance of well-designed and timely analysis to value banks' assets using a prudent and consistent methodology to inform subsequent triage and the modalities of eventual balance sheet cleanup. In January 2023, the NBU adopted a Terms of Reference in preparation for undertaking an independent asset quality review (AQR) once conditions have stabilized. This AQR will inform (i) a subsequent bank viability assessment and (ii) the preparation of a prioritized interagency NPL resolution action plan by end-June 2024 (or it will update that plan if the AQR takes place at a later date). The current prohibition on bank capital distributions will remain in place until after the independent AQR findings have been fully reflected in banks' regulatory ratios and financial statements. While waiting for suitable conditions to undertake the independent AQR, the NBU's banking oversight teams will undertake an asset valuation and solvency assessment of banks comprising 90 percent of banking system assets by end-December 2023. This review will provide an indication of bank balance sheet health and will be used to inform supervisory priorities.

63. In recognition of the non-zero risk of high-impact shocks materializing, the NBU and Deposit Guarantee Fund (DGF) are updating contingency plans to be ready to respond. A risk-based approach is being employed that considers higher probability events and/or events with a higher impact speed such as cyberattacks, sanctions, adverse court rulings, rapid deterioration of asset values, etc. The Financial Stability Council will adopt by end-June 2023 those plans related to preparation for potential adverse rulings from the constitutional challenges against the DGF Law and the Bank Resolution Law (Law #590), and an updated contingency plan to prepare for litigation risks concerning past bank resolution decisions.

64. Banking system safety nets are being updated to ensure financial and operational readiness for banking system cleanup; limit the potential fiscal cost of any interventions; and preserve the NBU balance sheet. In recognition of the need for robust financial safety nets and to minimize risks to the state, the rehabilitation framework is being updated **(*Structural Benchmark*, end-March 2024)** to include: (i) carefully designed financial backstops to support bank recapitalization and resolution; (ii) regularly updated bank recovery and resolution plans to ensure operational and financial readiness; (iii) improving the DGF's financial position so it is equipped to respond to potential bank resolution needs; and (iv) aligning the NBU's frameworks for counterparty eligibility in monetary policy operations and for lender-of-last-resort operations with international best practice to lower the risks to the NBU.[19]

[19] The gaps in the NBUs lending operations were identified in two successive IMF safeguards assessments.

65. With the risks of further bank nationalizations being elevated, the authorities commit to decisions that are consistent with the overall strategy to reduce state ownership in the banking sector. One small bank is in the process of being nationalized (¶15) and the risk of further nationalizations remains high. The authorities have committed that any decisions that have the potential to increase state ownership in the banking sector will be taken in consultation with IMF staff and be strictly limited to matters related to national security decisions during the Martial Law period and preserving financial stability. In that regard, any further nationalizations should also include plans to promptly re-privatize or resolve the banks concerned.

66. The NBU intends to implement measures to strengthen bank regulation and supervision, including to increase efficiencies and reap the benefits of earlier access to EU markets.

- ***EU Accession.*** In preparation to joining the EU single market, the NBU with assistance from the EBRD has undertaken gap analyses relative to the EU Capital Requirements Directive. This gap analysis has been shared with the European Banking Authority for the purposes of availing of the multiple benefits of so-called "regulatory equivalence" ahead of full EU membership. The NBU aims to close the identified gaps in the regulatory capital structure by end-September 2023 and other gaps by end-September 2024.

- ***Governance and oversight.*** The NBU has committed to take the following actions (***Structural Benchmark*, end-September 2023**): (i) separate the related-parties-unit from banking supervision teams to ensure sufficient arms-length treatment on this important governance consideration; (ii) strengthen Supervisory Committee decision-making by implementing "supervisory panels" as a consulting body to the Committee that will provide additional independent review and challenge to recommended decisions, promote horizontal communications among stakeholders as well as consistency in decision making, and highlight issues that need special attention; and (iii) resume onsite inspections as described in ¶60.

- ***Risk-based supervision.*** The NBU is keen to allocate supervisory resources to the areas of greatest risk and therefore plan to implement a supervisory risk assessment methodology to inform supervisory engagement priorities **(*Structural Benchmark*, end-June 2024)**. The methodology will be applied to all banks and a supervisory action plan will be prepared by end-December 2024. Whilst improving supervisory outcomes, the NBU also plans to leverage supervisory efficiencies through improved resource allocation and processes by adjusting the organizational structure for bank supervision. This will be complemented by strengthening the professional capacity of bank supervision by developing the professional profiles needed and introducing a multi-year training program for new hires.

67. Non-bank financial institutions (NBFIs) will undergo similarly ambitious reforms.

- ***Disclosure of ownership.*** The NBU required all NBFIs (except credit unions) to disclose their owners and those with non-transparent ownership structures to change their ownership structure by October 2021. The aim is to monitor and take supervisory actions against those NBFIs that do not meet this requirement.

- ***Strengthening supervision.*** Legislation on Financial Services and Financial Companies (law #5065) and Insurance firms (law #5315) has been promulgated. In recognition of the value of the risk-based approach, the NBU will also transition to a risk-based supervision approach for NBFIs and will prepare a supervisory risk assessment methodology that distinguishes between the types of the NBFIs, by end-September 2024.

- ***Aligning securities market rules with international standards.*** The longstanding gaps of the National Securities and Stock Market Commission (NSSMC) powers relative to international standards are well-known.[20] The authorities have committed to amend the NSSMC Law by end-May 2023 following technical assistance from multiple IFIs. This will substantially enhance the NSSMC's powers, independence and institutional capacity, and its cross-border and domestic cooperation mandate. Importantly, this law will also consider the mandate of other regulators and will align with the IOSCO objectives and principles, including to become eligible to be a signatory of IOSCO's multilateral MoU by end-December 2024. The law will be fully implemented by end-December 2025.

- ***Credit Unions law.*** The Credit Unions Law (#5125) has been under parliamentary review for over two years. The authorities have committed to promulgation by end-June 2023.

68. The authorities remain committed to tackling other longstanding priorities. These include: (i) reducing historical non-performing loans (NPLs) while maximizing recovery of economic value and (ii) recovering value from assets of failed banks and abstaining from any interference with the current asset recovery strategies of the largest bank nationalized in 2016 and of the DGF.

F. Governance and Growth-Enhancing Policies

Promoting Medium and Long-term Growth

69. Ukraine will need high and sustained rates of economic growth after the war to rebuild its productive capacity and recover standards of living for its population as swiftly as possible. Unprecedented levels of investment will be required, as well as a rebuilding of human capital. The public sector will play an important role in the reconstruction process, and measures to increase efficiency and transparency of public sector governance will be critical to facilitate donor financing. But a large part of investment will have to come from private sources, largely foreign.

[20] Amendments to the NSSMC law have been delayed for over a decade.

70. The EFF will support the authorities as they implement critical reforms to support reconstruction, as well as the path to EU accession (Box 4). To support these efforts, reforms and measures aimed at ensuring rule of law and a level playing field for businesses will be critical to attract the needed foreign investments as well as encourage the return of migrants. Furthermore, it will be crucial to continue the efforts to integrate with the EU single market and steadfastly implement the EU accession requirements to bring to fruition long-attempted key institutional and structural reforms.

71. The reconstruction will provide opportunities to upgrade the structure of the economy and applying the "build-back-better" principle in reconstruction should be supportive of these efforts. Reconstruction should be based on innovative and green technologies that would help enhance productivity and competitiveness in an environment with possibly scarce labor and with transitioning to a greener economy. Ukraine could further develop its competitive advantage in information and communication technology services by investing into related education, research, and development. Investing in new technologies in agriculture and the planned further liberalization of the land market starting 2024 will increase the productivity of the sector. Finally, policies will need to aim to increase labor market participation rates, above those in the pre-war times, help job seekers, especially war veterans, to acquire new skill sets, and encourage migrated labor to return. Post-war reconstruction should meet the highest standards of transparency and accountability, with support from anti-corruption institutions, international partners, and civil society organizations. Enhancing governance of the Anti-Monopoly Committee of Ukraine, in promoting market competition and combating monopolistic practices would also support long-term reform prospects.

Box 4. Ukraine: On the Path to the EU Accession

Ukraine's aspiration to become an EU member builds on important economic and institutional reforms implemented over the past several years. Granting of the EU candidate status in 2022 has opened a unique timely opportunity for the country to advance reforms, benefit from the EU's substantial financial and capacity development resources and become an attractive destination for much-needed investment once the war is over. This will, in turn, help Ukraine effectively implement reconstruction of the economy and rebuild its human capital to achieve high and sustained rates of economic growth.

Ukraine applied for EU membership in February 2022 and was granted EU candidate status on June 23, 2022, following the European Commission's (EC) Opinion on Ukraine's application for membership, adopted on June 17, 2022 (EC, 2022). Membership requires that the candidate country has achieved stability of institutions, that it has a functioning market economy and that it would be able to take part in the political, economic, and monetary union. As such, the accession process is critical to facilitating and promoting a reform momentum in Ukraine. Strengthening the rule of law, fighting against corruption, and addressing money laundering are essential elements for Ukraine's European accession path. Specifically, the EC has established several key reform-related steps: (i) the selection of judges of the Constitutional Court and judicial reform, (ii) the fight against corruption and money laundering, (ii) proper implementation of anti-oligarchic legislation, (iv) adoption of a new law on media, and (v) ensuring the rights of national minorities.

Box 4. Ukraine: On the Path to the EU Accession (concluded)

The accession process entails regular monitoring and assessments of these efforts. The EC's Analytical Report, from February 1, 2023 (EC, 2023), complements the Opinion. It provides a structural assessment against the criteria set by the European Council in Copenhagen in 1993 and subsequent European Council conclusions. The EC will continue to monitor Ukraine's progress and will report on it, together with a detailed assessment of the country, in its regular enlargement report foreseen in the fall of 2023.

On the path to EU accession, Ukraine can benefit from the EU pre-accession funds which support candidate countries' progress in implementing the necessary reforms. Ukraine's efforts to achieve its strategic goal of EU accession will reinforce the drivers of long-term growth and stability. The reform efforts will strengthen the productive capacity of the economy and the institutions of Ukraine; they are essential to creating conditions for increased investment, rebuilding of human capital and long-term growth. Furthermore, the candidate status of Ukraine implies that the choice of the regulatory regime defined by the EU acquis will frame the recovery and reconstruction process. This will further facilitate the reconstruction efforts in line with the European green and digital agenda. Progressive integration into the European internal market, already underway based on the Association Agreement and Deep and Comprehensive Free Trade Agreement, increases trade and is a source of revenue and technology transfer to the Ukrainian economy, which are essential to sustaining the recovery.

The Ukrainian authorities have stated that progress on the path toward EU accession will be a major anchor for their policies, including for those outlined under the Fund-supported program. This refers, inter alia, to measures in the areas of taxation; changes in the banking regulation and norms; measures to strengthen the public procurement system in line with the EU acquis; and efforts to strengthen the rule of law (MEFP paragraphs 8, 15, 22, 47, 51, 54, and 57).

Anti-corruption and Rule of Law

72. **Sustained reforms efforts on anti-corruption and rule of law will mitigate corruption risks during the war and help promote public trust and donor confidence in the reconstruction phase (MEFP ¶56).** Competitive, open, and robust selection processes for the head of the National Anti-Corruption Bureau of Ukraine, who was appointed on March 6 (***Prior Action***), and members of the High Council of Justice (the judicial self-governance body) are key milestones to raising public trust. Institutional independence is key to strengthening the effectiveness of anti-corruption institutions, including amendments to enhance the institutional autonomy of the Specialized Anti-Corruption Prosecutor's Office (SAPO) (***Structural Benchmark*, end-December 2023**). Further legal reforms on the selection process for constitutional court judges as well as the new framework following the dissolved Kyiv District Administrative Court will advance the rule of law, that will also contribute toward their efforts on EU membership. A new governance and corruption diagnostic to be conducted with IMF technical assistance after the war will provide a future roadmap of reforms to assess and further mitigate governance weaknesses and corruption vulnerabilities.

73. **Preventing illicit enrichment and misappropriation calls for a targeted restoration of the asset declaration framework and effective AML/CFT implementation (MEFP ¶56).** Restoring the asset declaration requirement for high-risk and senior level public officials (which was temporarily suspended) can help detect illicit gains from corruption, including assets

laundered abroad (***Structural Benchmark*, end-July 2023**). In addition, the asset declaration system will be enhanced by automatic linkages to other public databases and registers while keeping with the public officials' legal obligations for truthful and timely submission of simplified asset declarations (***Structural Benchmark*, end-October 2023**). Detection and prevention of laundering of corruption proceeds is one of the key goals of the AML/CFT regime. In this regard, the NBU will undertake risk-based on-site AML/CFT supervisory activities that will ensure that banks, and other financial institutions comply with AML/CFT obligations in line with their risks, which will require the development of appropriate guidelines, consistent with FATF standards. The AML/CFT legal framework with respect to the enhanced due diligence requirements for politically exposed persons will be amended and made consistent with the risk-based approach under the FATF standard (***Structural Benchmark*, end-September 2023**) and reverse the November 2022 amendments. Additional legal reforms and improved verification of accuracy, adequacy and up-to-date information in the beneficial ownership registry managed by the Ministry of Justice will support efforts toward transparency in public procurement, detection of conflicts of interest, and preventing misuse of companies.

Corporate Governance in SOBs and SOEs

74. The authorities have committed to strengthen corporate governance in SOEs. A draft law bringing the SOE corporate governance framework 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, will be adopted by October 2023. The authorities will also reform the corporate governance of the gas transmission operator of Ukraine (GTSO) (¶76).

75. Improvements to governance of SOBs continue. Substantial reforms have taken place under previous Fund-supported programs, including adoption in 2018 of a dedicated SOB framework within the banking law. For each SOB, the authorities have: (i) appointed a majority-independent supervisory board, and (ii) signed a Memorandum of Understanding that defines the relationship between each SOB and the MoF and CMU as shareholder. New procedures for appointments to SOB supervisory boards were adopted ahead of the current cycle of recruiting independent supervisory board members, which is expected to be completed in H1 2023. Selected candidates are subject to NBU's fit and proper assessment framework. The MoF is introducing an annual business planning and performance assessment procedure for all SOBs. The first of this will be applied in 2024 based on 2023 performance and the MoF will publish its first annual assessment of key findings in August 2024, together with the Cabinet's actions to address those findings.

Energy Sector Reforms

76. The authorities have committed to implement ambitious reforms once the war tapers off. A combination of slow progress on structural measures, weak governance frameworks in large SOEs, and fixed gas retail prices in a context of rising gas prices left the energy sector in an already weak position before the war. These challenges have been compounded in recent months by severe damage to critical infrastructure, still high albeit receding import prices, and a further deterioration in payment discipline. Restoring competition in the retail and wholesale gas markets and ensuring cost-reflective tariffs in the gas and electricity sector, while ensuring adequate protection of vulnerable households are key priorities to contain quasi-fiscal risks.

77. In the meantime, the immediate priority is to contain the adverse impact of the war on the sector. The potential spending pressure from gas imports, compensation to Naftogaz for its public service obligations or other energy-related need for support will be accommodated through an adjustor on fiscal balance targets, subject to available financing (MEFP ¶60). The recent increase in electricity Transmission System Operator (TSO) tariffs for 2023, although more gradual than what was envisaged in November, provides additional resources to Ukrenergo to cope with repair of damages to the electricity infrastructure. However, further increases may be needed in light of increased costs stemming from the larger use of gas in the electricity generation mix and the need to fully compensate renewable energy producers. Gas import needs have been largely contained so far this year thanks to low domestic consumption, resilient domestic production, and a mild winter. However, the need to increase gas storage ahead of the next winter season are projected to require an additional 2 billion cubic meters under the baseline.

78. Corporate governance reform in the GTSO is urgently needed. The GTSO is experiencing a difficult financial situation, compounded by an inadequate governance framework. Revenues have been impacted by many factors including low tariffs, large unauthorized gas offtakes, and unchanged payments to Ukrtransgaz despite of a large drop in transit revenues since May 2022 (as the entry point of Sokhranivka is located in occupied regions). The GTSO is reducing its expenditures, but the current liquidity crisis could require budget support. In parallel, the authorities have committed to implement all the following steps: transfer the GTSO shareholding directly from the Main Gas pipelines of Ukraine (MGU) to the Ministry of Energy and adoption of the new charter of the GTSO which was developed and agreed with the Secretariat of the Energy Community (***Structural Benchmark*, end-June 2023**), followed by the selection and appointment of a supervisory board for the GTSO by end-October 2023, the subsequent appointment of a new CEO, and the eventual liquidation of MGU.

PROGRAM MODALITIES AND MONITORING

A. Program Design

79. Ukraine's BoP needs are very large and subject to significant risks. The large BoP needs are mainly driven by the significant war-driven fiscal deficit as well as the loss of international capital market access, the sharp deterioration of export capacity, and FX transactions of Ukrainian migrants. Under staff's baseline scenario, the external fiscal financing gap is assessed based on priority spending needs and a constrained scope to mobilize domestic revenues or financing. This gap is estimated at US$41.9 billion in 2023, slightly higher that the

US$39.5 billion estimated at the time of the PMB request in December 2022. Over the program period (2023–27), the external financing gap amounts to US$114.4 billion. Downside risks include a further intensification of the war, resulting in higher damage to productive capacity, larger FX drains from additional emigration, a halt to natural gas transit fees, and further disruption to agricultural activity. Under the downside scenario, this financing gap stands at US$139.6 billion, as it captures the materialization of such risks, as well as greater spending needs and a delayed fiscal adjustment. Moreover, the downside scenario requires a more concessional financing mix over the program period and beyond to ensure debt sustainability, as outlined below.

80. Against this background, the authorities are requesting a 48-month extended arrangement under the EFF. The proposed access amounts to SDR 11,608.25 million (577.01 percent of quota), equivalent to about US$15.6 billion. Access is frontloaded in view of very large balance of payment needs, especially during the initial phase of the program. Given large fiscal financing needs, the domestic counterpart of Fund financing is expected to be used to provide budget support in the first phase of the program; for each purchase intended for budget support, a special agreement between the National Bank of Ukraine and the Ministry of Finance will be signed to clarify the responsibilities for timely servicing their financial obligations to the Fund.

Ukraine: Financing Gap and Sources (Baseline Scenario), 2023–27

(In billions of U.S. dollars)

		2023	2024	2025	2026	2027	Annual avg. 2023-27
	A. Financing gap	41.9	38.5	23.5	14.4	5.2	24.7
	Underlying BOP Gap 1/	40.8	35.7	20.3	11.2	-0.6	21.5
	Gross international reserves accumulation (+ = increase)	1.1	2.8	3.2	3.2	5.8	3.2
	B. Official financing (excl. IMF) 2/	37.5	28.5	18.6	8.2	0.0	18.5
	C. IMF (prospective)	4.5	5.4	1.8	2.6	1.3	3.1
	D. Potential flow relief from debt operations		4.6	3.2	3.6	3.9	3.8
E=A-B-C-D	E. Residual financing gap	0.0	0.0	0.0	0.0	0.0	0.0
	Memorandum items:						
	Capital market access	0.0	0.0	0.0	0.0	0.0	0.0
	IMF (net disbursements)	1.9	3.0	-0.6	0.6	0.1	0.7
	Gross international reserves	29.6	32.4	35.6	38.8	44.6	31.8
	% of composite metric (based on floating exchange rate regime)	82.2	78.0	80.4	81.8	90.8	82.6

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

2/ Based on available information as of March 23, 2023. Staff assessments consistent with political commitments from and technical discussions with creditors and donors and their track record and terms of financing.

Ukraine: Financing Gap and Sources (Downside Scenario), 2023–2033
(In billions of U.S. dollars)

		2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	Annual avg. 2023-27	Annual avg. 2028-33
	A. Financing gap	46.4	45.0	27.7	19.4	10.2	16.1	13.5	12.9	10.4	10.0	9.5	29.7	12.1
	Underlying BOP Gap 1/	45.4	42.1	25.1	16.2	5.5	14.8	8.7	9.9	9.7	9.9	7.2	26.9	10.0
	Gross international reserves accumulation (+ = increase)	1.1	2.9	2.6	3.2	4.7	1.4	4.8	3.0	0.7	0.1	2.3	2.9	2.1
	B. Official financing (excl. IMF) 2/ 3/	42.0	35.0	22.7	13.2	4.9	0.0	0.0	0.0	0.0	0.0	0.0	23.6	0.0
	C. IMF (prospective)	4.5	5.4	1.8	2.6	1.3	0.0	0.0	0.0	0.0	0.0	0.0	3.1	0.0
	D. Potential flow relief from debt operations		4.6	3.2	3.6	3.9	9.0	6.4	5.8	3.3	2.9	2.4	3.8	5.0
E=A-B-C-D	E. Adjusted financing gap						7.1	7.1	7.1	7.1	7.1	7.1		
	F. Exceptional financing 4/						7.1	7.1	7.1	7.1	7.1	7.1		
G=E-F	G. Residual financing gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	Memorandum items:													
	Capital market access	0.0	0.0	0.0	0.0	0.0	0.0	1.0	2.0	2.0	2.0	2.0	0.0	1.5
	IMF (net disbursements)	1.9	3.0	-0.6	0.6	0.1	-1.0	-1.8	-2.1	-2.5	-2.6	-2.3	0.7	-2.1
	Gross international reserves	29.5	32.4	35.1	38.3	43.0	44.3	49.1	52.2	52.9	53.0	55.3	31.6	51.1
	% of composite metric (based on floating exchange rate regime)	84.2	80.4	81.9	83.8	91.3	91.7	98.3	103.3	102.7	102.2	105.0	84.3	100.5

1/ Post-program period (2027-2033) financing gap reflects in a pre-restructuring scenario reflects measures required to ensure that financing needs and sources are consistent with sustainable debt outook.
2/ Based on available information as of March 23, 2023. Staff assessments consistent with political commitments from and technical discussions with creditors and donors and their track record and terms of financing.
3/ Includes exceptional support from donors (approximately 80 percent in concessional loans, 20 percent in grants) under financing assurances required to restore debt sustainability.
4/ Exceptional financing would include a mix of higher program period grants (which reduces debt service subsequently), a larger 2nd stage restructuring, and additional financing (consistent with assurances received).

81. The phasing of access in the program design reflects the importance of high frequency monitoring for members facing a BoP crisis in an uncertain economic environment. In line with the two-step approach of the program design, performance will initially be assessed through high frequency monitoring (three reviews in 2023 and four reviews in 2024), while the uncertainty related to the war persists. The frequency in this initial phase is consistent with: (i) the need for close engagement and updates in the period of heightened uncertainty. In particular, the first and second reviews will help ensure that the 2023 budget is on track and timely corrective actions are taken if necessary, and the Indicative Targets for end-September and an Article IV Consultation in the Fall that will be critical elements for a forward-looking assessment of program performance at the second review in October, and will also help further develop the structural policy priorities for the second stage of the program; and (ii) the timing and size of projected BoP needs and donor financing. Quarterly reviews are envisaged in 2024. The program would then move to semi-annual reviews from mid-2025. All reviews would be based on continuous and quantitative performance criteria (QPCs) and structural benchmarks (SBs).

82. The proposed quantitative conditionality builds on the PMB and is complemented by QPCs, and indicative targets (ITs) deemed critical for fiscal and external sustainability. The two quantitative targets established in the PMB (floor on the primary cash balance of the general government excluding defense-related activity and grants; floor on net international reserves) will become QPCs and the two ITs (floor on the overall cash balance of the general government excluding grants and ceiling on general government borrowing from the NBU) are also retained. These will be complemented by two additional QPCs and two ITs focused on key program objectives:

- Given the importance of revenue mobilization both in the short term (to alleviate financing constraints) and in the medium term (to support reconstruction and social needs), a floor on nominal tax revenues is established (QPC).

- To help control fiscal risks, a continuous ceiling on publicly guaranteed debt is proposed at UAH37 billion (continuous PC). Furthermore, a ceiling on the stock of general government domestic arrears is established (IT).

- A floor on social spending (IT) is also established to ensure that social spending is protected in spite of the streamlining of non-defense spending.

- In addition, the standard continuous program conditionality will apply, including on the non-accumulation of external arrears.

83. Prior actions and initial SBs discussed in the report are summarized in Text Table 1.

B. Debt Sustainability and Financing Assurances

84. Ukraine's public debt is assessed to be sustainable on a forward-looking basis conditional on the implementation of a debt restructuring and on receiving sufficiently concessional financing during and after the program period. The war has resulted in a large increase on Ukraine's total public debt to 82.1 percent of GDP at end 2022.[21] Recognizing the broad range of risks and uncertainties, DSAs have assessed outcomes in both the baseline and downside scenarios, giving insight into the evolution of debt vulnerabilities **(Annex III)**. In the absence of substantial policy commitments, debt treatment, and financing assurances, Ukraine's debt is unsustainable under the baseline scenario, and that vulnerability would be amplified under the downside scenario. As such, the prospective EFF requires adequate safeguards to ensure Ukraine's debt is sustainable. This would entail a sufficient debt treatment to achieve the appropriate sustainability targets on debt levels and average gross financing needs even if the downside scenario emerges. Moreover, in the downside scenario, there would be a need for further exceptional financing of roughly US$7 billion per year in the post-program period (2028–2033), which would require a mix of higher program-period grants, additional financing consistent with the assurances received, and further debt treatment. The estimates on the scale and mix of external financing could be subject to revision during each program review.

85. On March 24, the authorities announced their intention to undertake a restructuring of public debt, with a view to restore its sustainability on a forward-looking basis. The authorities' strategy aims to reduce gross financing needs and the public debt stock to levels consistent with debt sustainability. Key elements of this strategy are the following:

[21] The DSA perimeter includes a 2013 Eurobond liability to Russia. Ukraine represents a dispute as to the validity of the Eurobond claim held by Russia. These claims are also subject to ongoing litigation before the courts of England and Wales.

- *Official bilateral debt.* A Group of Creditors for Ukraine (GCU) have committed to a 2-step process involving a 3-year extension of the current debt standstill set to expire at end-December 2023, followed by a final debt treatment before the expiry of the EFF arrangement. They have committed to the level of relief necessary in the baseline and to provide additional relief if necessary to restore sustainability of the downside scenario emerges.

- *External commercial debt.* The Ukrainian authorities have signaled their intention to seek an agreement with bond holders on a debt operation consistent with the parameters of the IMF debt sustainability analysis and embedding comparability of treatment with other creditors, with the aim to finalize it by the end of the current debt standstill expiring on August 31, 2024. Staff assesses that a credible process is in place to bring such a restructuring to a successful conclusion.

86. Financing commitments have been secured, on terms and conditions consistent with restoring debt sustainability on a forward-looking basis. Firm financing commitments are in place to address the external financing needs for the first 12 months of the program (i.e., April 2023-March 2024) under the baseline scenario (Text Table). For the remaining financing gaps through 2027, and additional financing needed post-program to restore debt sustainability, staff has received a credible high-level signal of support for Ukraine, and discussions with donors on their instruments and recent support (the G7, including through the EC) have enabled staff to assess how this could translate to actual support going forward, including terms and conditions and volumes. On this basis, staff assesses that the needed financing will be available on adequate terms and conditions to help restore debt sustainability in both the baseline and downside scenarios.

Ukraine: Financing Gap and Sources, 12-month Basis (Baseline Scenario)
(In billions of U.S. dollars)

		23Q2 thru 24Q1
	A. Financing gap	37.9
	Underlying BOP Gap 1/	40.2
	Gross international reserves accumulation (+ = increase)	-2.3
	B. Official financing (excl. IMF) 2/	32.5
	Multilateral	20.6
	Loans	20.6
	EU MFA	14.5
	World Bank	3.9
	Japan credit enhancement 3/	3.0
	UK guarantees	0.5
	World Bank lending	0.4
	Other	2.2
	Grants	0.0
	Bilateral	11.9
	Loans	4.0
	Japan 3/ 4/	2.0
	Portugal	0.2
	Other 5/	1.8
	Grants	7.9
	Japan	0.5
	Bilateral support via PEACE	0.0
	US	7.4
	C. IMF (prospective)	5.4
	D. Potential flow relief from debt operations	0.1
E=A-B-C-D	E. Residual gap	0.0

1/ Underlying BOP gap indicates the decrease in reserves absent official financing and IMF support.
2/ Based on available information as of March 23, 2023.
3/ Subject to Diet approval.
4/ US$2 billion of Japan's support will be in the form of credit enhancement for loans.
5/ Likely commitment; publication expected in the near term.

C. Capacity to Repay

87. Given the high uncertainty surrounding the scale, intensity, and duration of the war, and consequently surrounding the economic outlook, there are tail risks beyond the downside, which signifies the program itself cannot fully establish a safeguard on capacity to repay, as is normal in UCT lending contexts. Thus, a credible assurance about the member's capacity to repay is required under IMF policies.

88. In the case of Ukraine's EFF-supported program, management and staff has discussed with a group of countries, consisting of Canada, France, Germany, Italy, Japan, Spain, United Kingdom, and United States, which is prepared to extend an assurance. The group is considered sufficiently large to (i) mitigate the risk of any change in an individual country's external position and (ii) represent a sufficient shareholding in the IMF. In addition, these creditors are all participants in the Fund's FTP, and all have provided debt relief within multilateral initiatives in the past on a significant scale. Management and staff note the signal of strong support for Ukraine from the leadership of these countries, and understand that this group of countries: (i) reaffirm their recognition of the Fund's preferred creditor status in respect of the amounts currently outstanding to Ukraine, plus any purchases under the proposed extended arrangement; and (ii) further undertake to provide adequate financial support to secure Ukraine's ability to service all of its obligations to the Fund, in accordance with the Fund's preferred creditor status and complementing the IMF's multilayered risk management framework. In light of statements by Ukraine's partners that they intend to stand by Ukraine and support its independence, territorial integrity and sovereignty, staff also assesses that scenarios when assurances cease to be effective because the member could not exercise its rights and obligations in the Fund are very unlikely and that adequate safeguards for Fund lending are in place.

89. Notwithstanding exceptional risks, taking into account the assurances provided by the significant group of creditors/donors, Ukraine's capacity to repay the IMF is adequate. Under the program's baseline and downsides scenarios, Ukraine's capacity would be adequate, provided there is full implementation of the program.

90. Obligations to the Fund will remain elevated in the near term. Under the proposed arrangement, under the baseline scenario, the stock of total Fund credit is expected to peak at 5.5 percent of GDP and 25.9 percent of gross reserves in 2024. Debt service to the Fund would peak at 1.2 percent of GDP and 5.8 percent of gross reserves in 2024. A materialization of downside risks would increase these ratios.

D. Safeguards Assessment

91. An update safeguards assessment of the NBU is substantially completed. The assessment found that the NBU has adapted its operations well to the war, but its mandate has been significantly impacted with regard to monetary financing of the government. In addition, while the NBU has maintained a broadly strong safeguards framework, governance practices need to be strengthened further. Monetary financing poses a risk to the NBU's financial autonomy and will need to be curtailed through a well-defined framework (¶45, MEFP ¶40) and, over the medium-term, resolved through a comprehensive exit strategy (¶58). There also continues to be scope to further strengthen the governance practices at the NBU, including through legal amendments on eligibility criteria and experience for appointments at the Council and Executive Board. The financial reporting, external and internal audit mechanisms, and risk management all have sound practices.

STAFF APPRAISAL

92. The war in Ukraine continues to have a severe social and economic impact on Ukraine, yet overall macroeconomic and financial stability has been maintained. There are rising civilian casualties, over a third of the population has been displaced, and the country is experiencing widespread attacks on its critical energy infrastructure. Despite the resilience of the Ukrainian people who have adapted their daily life, the country's productive capacity has been greatly curtailed, including its key export sectors. Still, with skillful policymaking and generous external support, a broadly stable economy has been sustained. Strong policy actions have included a consolidation in nonessential spending, a sharp increase in the key policy rate, the switch to a pegged exchange rate and its subsequent devaluation, and FX controls. However, amid the war, both the fiscal deficit and public debt have ballooned, greatly limiting fiscal space.

93. The authorities established a strong track record under the PMB. They met all quantitative and structural benchmarks under the 4-month PMB, which was monitored through a set of policies covering fiscal, financial sector, and governance areas. This has demonstrated the authorities' ability to design and undertake coordinated macroeconomic policies, to provide adequate data for policymaking, and embark on critical structural reforms.

94. The authorities have requested a 48-month extended arrangement under the EFF (with access of SDR 11,608.25 million) to meet their large BoP needs and anchor macroeconomic stability. The economic program is carefully calibrated to meet Ukraine's needs and contemplates a two-phased approach to first anchor macroeconomic stability as the war continues, and then implement ambitious structural reforms to restore medium-term viability, support post-war reconstruction, accelerate growth, and support efforts toward eventual EU accession. Near-term policies envisage a robust budget for 2023, boosting tax revenue, developing a medium-term fiscal framework that anchors fiscal policy and ensuring price and exchange rate stability, safeguarding financial sector stability, as well as essential governance and anti-corruption reforms that will help set the stage for a strong recovery. For the medium-term, as conditions permit, the program envisages reverting to pre-war policies such as a more flexible exchange rate to underpin the transition to inflation targeting, enhancing productivity and competitiveness, and addressing energy sector vulnerabilities.

95. The proposed EFF for Ukraine satisfies Fund policies governing the Fund's financing assurances for UCT-financing under exceptionally high uncertainty. The program has been designed so that it can achieve its objectives across a range of assumptions about the large-scale war. The authorities have the capacity and commitment to implement the program. Moreover, a credible process to restructure private external commercial claims is underway, and adequate financing assurances on debt relief and concessional financing during and after the program have been received from official bilateral creditors and donors to support debt sustainability both in the baseline and downside scenarios. In addition, a significant group of Fund shareholders has stepped forward to provide an assurance to the Fund about Ukraine's capacity to repay, completing the necessary safeguards.

96. Risks to the program are exceptionally high, and swift recalibration may become necessary. The success of the program hinges on several factors, most notably developments in the war, which is outside the direct economic control of the authorities. The program depends on large and sustained flows of external financing at concessional terms to help close fiscal and external gaps and restore external viability and debt sustainability on a forward-looking basis. Policy slippages cannot be ruled out either, given the current difficult circumstances faced by Ukraine. In this context, the authorities track record of undertaking very tough policies when warranted, understandings on contingency plans, and the program's higher frequency reviews in the initial phase of the program will allow timely adjustment to program design to ensure that it is robust to negative shocks. Given the large enterprise risks to the Fund, heightened safeguards will need to be secured at every review as long as the exceptionally high uncertainty persists.

97. Securing strong and sustained medium-term growth is conditional on timely and well-prioritized structural reforms. Ukraine's medium-term growth path will be contingent on the efforts needed to restore and revitalize the economy's productive capacity, including by enabling the swift return of migrants, advancing reconstruction-related investment, boosting productivity and strengthening institutions. This is conditional on the availability of sufficient financing and a sustained commitment to implement required policy reforms, especially with regard to facilitating EU accession, including in the areas of governance, competition, and green technology. Establishing frameworks for post-war reconstruction would enable Ukraine to absorb substantial official resources and catalyze private investment.

98. Staff recommends approval of the 48-month extended arrangement under the EFF (with access of SDR 11,608.25 million). In circumstances of exceptionally high uncertainty, staff assesses the proposed program is appropriately designed to resolve Ukraine's balance of payments problem and restore Ukraine to medium term external viability in both a baseline and downside scenario. Staff also recommends the temporary approval by the Executive Board of the two MCPs subject to Fund jurisdiction. Ukraine's capacity to repay the Fund is subject to exceptional risks and will depend critically on the authorities' ability to fully implement the program and is supported by capacity to repay assurances from a significant group of creditors/donors giving management and staff the basis to assess that there are adequate safeguards in place for tail risks beyond the Fund supported program.

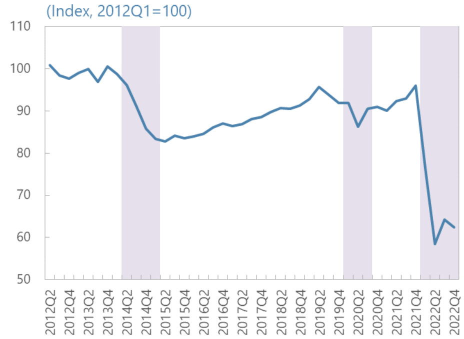
Ukraine: EFF Prior Actions and Structural Benchmarks			
	Prior Actions	**Sector**	**Timing**
1	Appointment of the NABU Head following an open, credible, and transparent process consistent with the law	Governance/ Anti-Corruption	Prior Action
2	The CMU to approve a second supplementary budget, and submit it to Parliament	Fiscal	Prior Action
3	The CMU to adopt a decision tasking the MoF to start the preparation of the NRS (2024-2030)	Fiscal	Prior Action
	Structural Benchmarks	**Sector**	**Timing**
1	Enact the second supplementary Budget 2023	Fiscal	End-April 2023
2	Submit to Parliament a draft law to restore and strengthen Article 52 of the Budget Code to minimize ad hoc amendments to the budget law (MEFP ¶21)	Fiscal	End-May 2023
3	Adopt the draft law on tax policy and administration prepared under the PMB (MEFP ¶19)	Fiscal	End-June 2023
4	Update and publish the Medium-Term Debt Management Strategy to align it with the program objectives (MEFP ¶30)	Fiscal	End-September 2023
5	Present in the 2024 budget declaration projections for major revenue and spending categories and sources of deficit financing for 2025-2026, and a fiscal risks statement including details on energy and critical infrastructure SOEs (MEFP ¶23)	Fiscal	End-September 2023
6	Prepare an action plan, including to address the weaknesses identified in taxpayers' perception survey, as an input into National Revenue Strategy roadmap (MEFP ¶22)	Fiscal	End-May 2023
7	Submit to Parliament a draft law which will re-instate articles of Budget Code that establish limits on issuance of public guarantee with clear criteria for such provision (including for priority sectors) (MEFP ¶24)	Fiscal	End-May 2023
8	Enact amendments to the Budget Code and related regulatory framework to enhance transparency and accountability of the special accounts and consolidate them within general government as a special fund of the State Budget (MEFP ¶25)	Fiscal	End-May 2023
9	Review the current PIM procedures and develop a roadmap of measures so that: (i) all public investment projects follow unified PIM approaches, including PPPs; (ii) investment projects are selected on a competitive basis, with transparent selection criteria, and consistent with the medium-term budget framework; (iii) stronger powers are provided to MoF, including a clear gatekeeping role during the different stages of the investment project cycle (MEFP ¶26)	Fiscal	End-December 2023

Ukraine: EFF Prior Actions and Structural Benchmarks (concluded)			
	Structural Benchmarks	**Sector**	**Timing**
10	Adopt National Revenue Strategy by the end of 2023 (MEFP ¶22)	Fiscal	End-December 2023
11	Prepare a conditions-based strategy to move to a more flexible exchange rate, ease FX controls and transition to inflation targeting (MEFP ¶32)	Monetary and Exchange Rate	End-June 2023
12	Transfer the GTSO shareholding directly to the Ministry of Energy and adopt the new charter (MEFP ¶58)	Energy/ Corporate Governance	End-July 2023
13	Enact the law to restore asset declaration of public officials not directly involved in the mobilization and war efforts and reinstating the NACP's function to examine and verify them (MEFP ¶56)	Governance/ Anti-Corruption	End-July 2023
14	Amend the AML/CFT Law to re-establish enhanced due diligence measures on politically exposed persons consistent with the risk-based approach consistent with the FATF standards (MEFP ¶56)	Governance/ Anti-Corruption	End-September 2023
15	Simplify the asset declaration system through linking with other databases and registers consistent with the public officials' legal obligations to make truthful and timely submissions (MEFP ¶56)	Governance/ Anti-Corruption	End-October 2023
16	Legislation will be adopted to enhance the institutional autonomy of the SAPO, specifically, on the selection procedures, capacity to regulate organizational activities, and mechanisms for discipline and accountability (MEFP ¶56)	Governance/ Anti-Corruption	End-December 2023
17	Strengthen bank governance and oversight by: (i) separating the related-parties-unit from banking supervision; (ii) implementing "supervisory panels" as a consulting body to the Supervisory Committee; and (iii) resume scheduled inspections for both banking and non-banking institutions, while ensuring NBU discretion on matters related to staff safety (MEFP ¶49)	Financial Sector	End-September 2023
18	Prepare a bank rehabilitation framework in consultation with the DGF and IMF staff (MEFP ¶47)	Financial Sector	End-March 2024
19	Implement a supervisory risk assessment methodology to inform supervisory engagement priorities (MEFP ¶49)	Financial Sector	End-June 2024

Figure 1. Ukraine: Real Sector Developments

The war has driven the sharpest contraction in output on record…

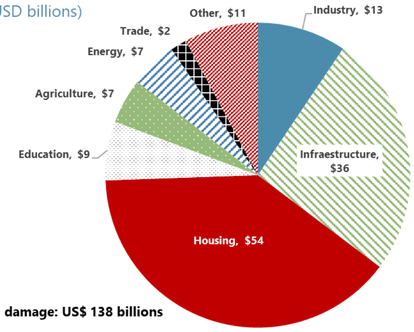
Real GDP
(Index, 2012Q1=100)



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

…as damage to physical infrastructure mounts.

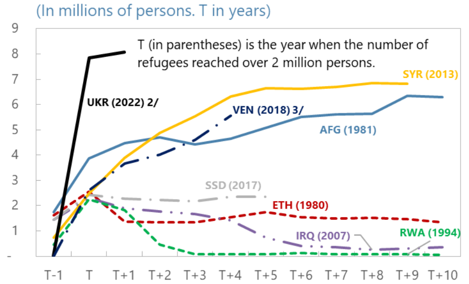
Total Damage as December 2022
(In USD billions)



Source: Kyiv School of Economics.

A fifth of the population has left Ukraine; a similar number are internally displaced.

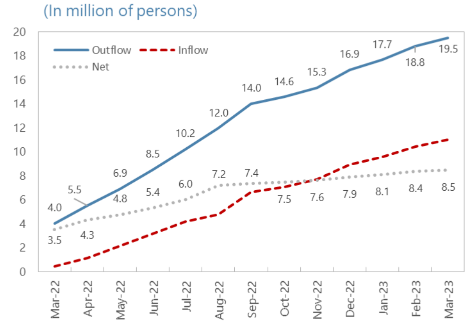
Evolution of International Refugees by Origin 1/
(In millions of persons. T in years)



1/ Only showing countries with more than 2 million refugees.
2/ Showing Ukranian refugees in Europe only. Up to Jan/2023.
3/ Other people in need of international protection considered refugees.
Source: UNHCR. IMF staff estimates.

…and following some stabilization, net outward migration picked up in late 2022 following the infrastructure attacks.

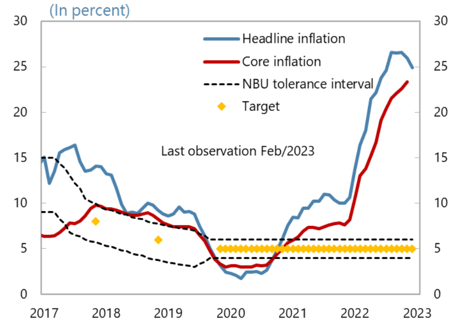
Total Ukranian Refugees Flow
(In million of persons)



Source: UNHCR

Inflation has climbed since the war, though slowing in recent months…

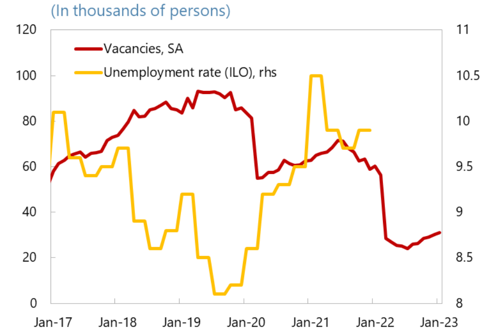
Inflation
(In percent)



Source: State Statistics Commitee of Ukraine; NBU; Bloomberg; Haver Analytics

…and dislocations in the labor market persist.

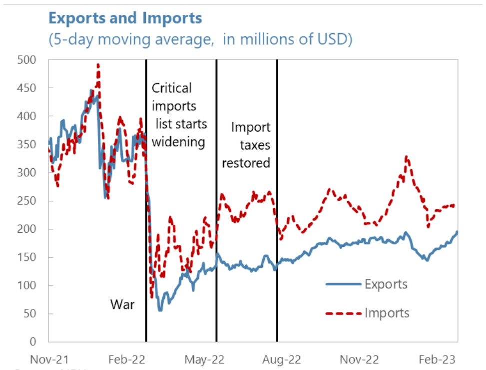
Unemployment and Vacancies
(In thousands of persons)



Source: Haver Analytics.

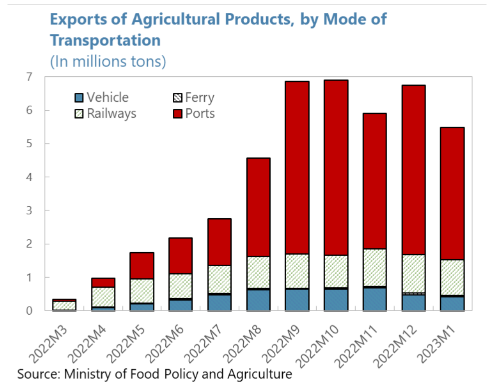
Figure 2. Ukraine: External Sector Developments

Following a sharp initial decline, exports have recovered more slowly than imports...



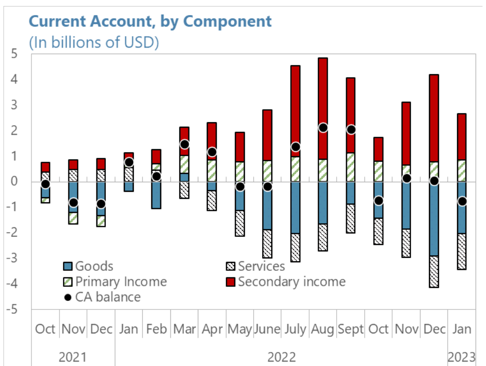
Source: NBU.

...and though agricultural exports have been boosted by the grain corridor, they remain below prewar levels.



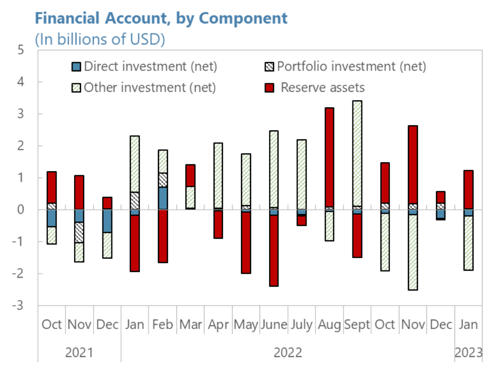
Source: Ministry of Food Policy and Agriculture

The widening trade balance has been offset by large transfers



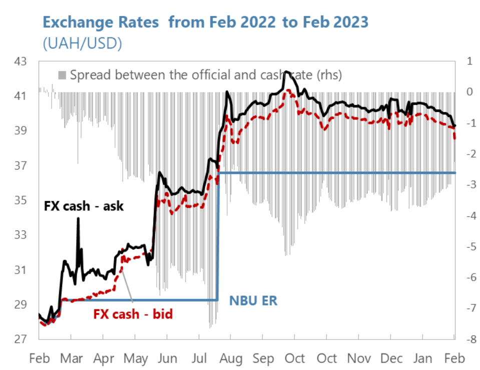
Source: NBU.

Amid capital controls, external financing has helped support reserve.



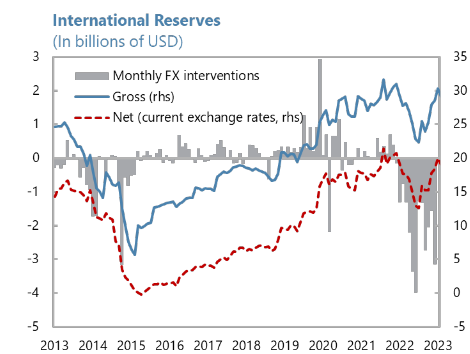
Source: NBU.

The devaluation of the official exchange rate helped narrow the differential with the cash rate, though the gap persists.



Source: NBU.

The NBU has been a consistent seller in the FX market to meet FX demand

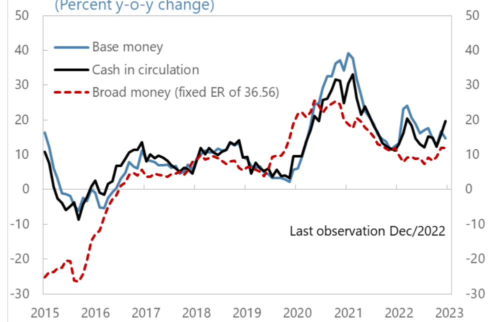


Source: NBU.

Figure 3. Ukraine: Monetary Developments

Base money growth has remained contained despite monetary financing…

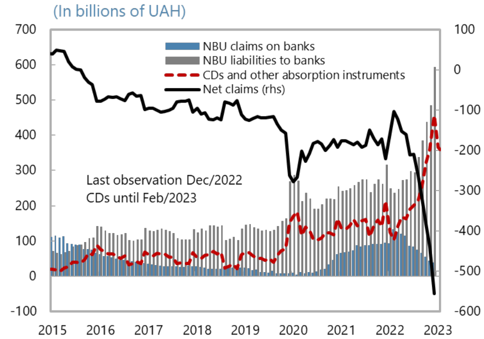
Money Growth
(Percent y-o-y change)



Sources: NBU.

…sterilized by FX intervention and NBU CDs, whose stock has continued to increase.

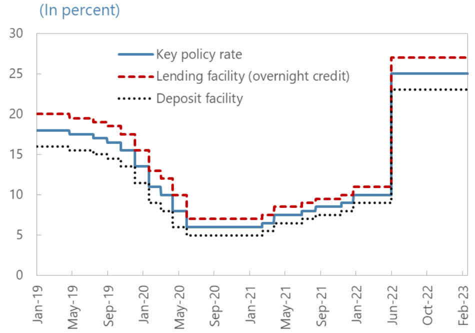
NBU Claims on and Liabilites to Banks
(In billions of UAH)



Sources: NBU.

Whereas the rate hike has been transmitted to the interbank market…

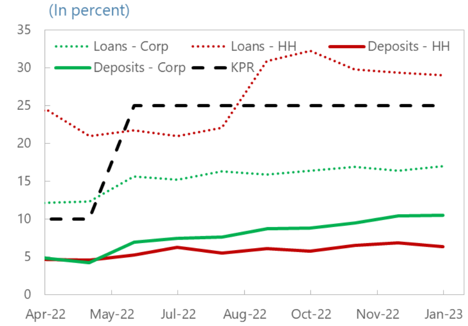
NBU Interest Rates on Monetary Policy Facilities
(In percent)



Sources: NBU.

…the transmission to retail rates has been more gradual.

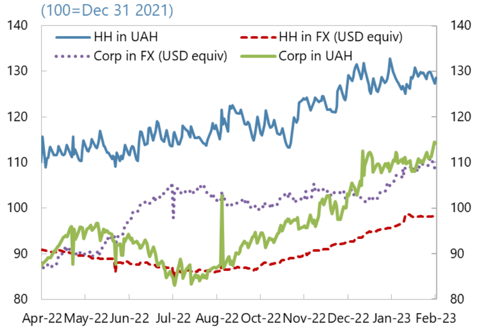
Interest Rates on New Loans and Deposits
(In percent)



Sources: NBU.

Hryvnia deposits have been robust amid withdrawal restrictions…

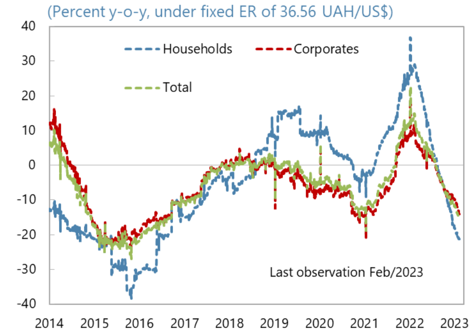
Index of Deposits
(100=Dec 31 2021)



Sources: NBU.

…while credit growth has slowed.

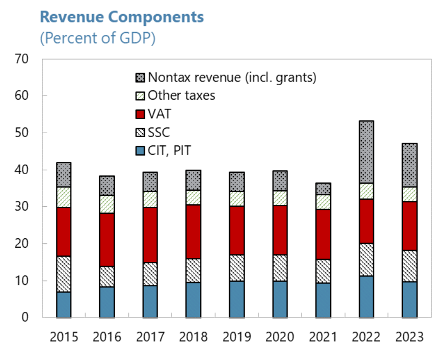
Change in Banking System Loans
(Percent y-o-y, under fixed ER of 36.56 UAH/US$)



Sources: NBU.

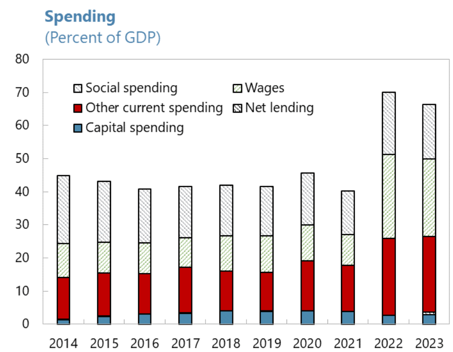
Figure 4. Ukraine: Fiscal Sector Indicators

Revenues have been lifted by grants…



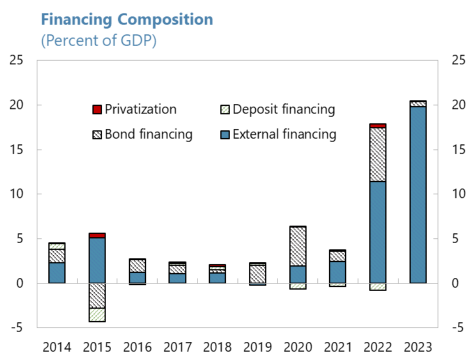
Source: MoF, IMF staff estimates.

…as expenditures have been driven by wages and social payments



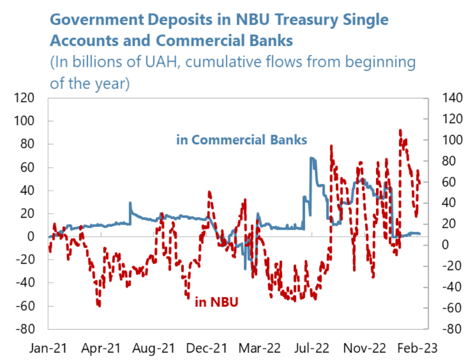
Source: MoF, IMF staff estimates.

The large fiscal deficit has been financed by significant external support



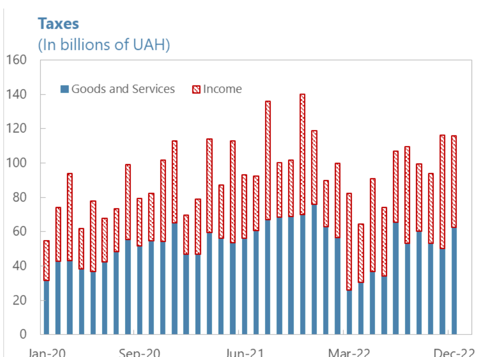
Source: MoF, IMF staff estimates.

…while government deposits have fluctuated amid uncertainty in the timing of external disbursements.



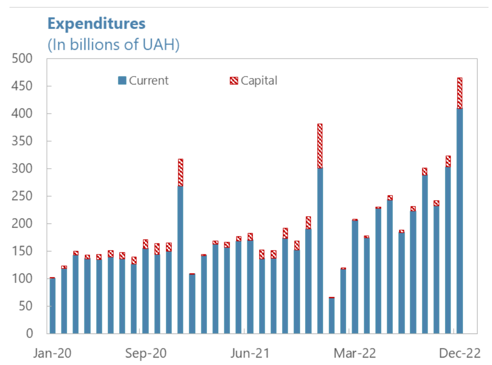
Source: MoF, IMF staff estimates.

Tax revenues were hit by declining economic activity, but were bolstered by the recent reversal of some exemptions.



Source: MoF.

Expenditures remain elevated to support the war effort, amid a compression in capital expenditure.



Source: MoF.

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

	2021	2022		2023		2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
	Act.	PMB Request	Proj.	PMB Request	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Real economy (percent change, unless otherwise indicated)															
Nominal GDP (billions of Ukrainian hryvnias) 1/	5,460	4,700	4,900	6,100	6,050	7,365	8,685	9,700	10,592	11,571	12,636	13,800	15,070	16,425	17,900
Real GDP 1/	3.4	-33.0	-30.3	1.0	[-3 to +1]	3.2	6.5	5.0	4.0	4.0	4.0	4.0	4.0	3.8	3.8
Contributions:															
Domestic demand	12.9	-30.3	-28.9	5.5	1.2	4.7	5.4	4.5	3.1	3.4	3.1	3.1	2.8	2.5	2.4
Private consumption	5.2	-15.3	-17.9	2.3	1.2	2.7	3.2	3.2	2.7	2.5	2.3	2.1	1.8	1.7	1.7
Public consumption	0.3	5.2	6.2	4.0	-0.2	-0.4	-1.7	-0.5	-0.1	0.0	0.1	0.1	0.1	0.1	0.1
Investment	7.4	-20.2	-17.2	-0.8	0.3	2.4	4.0	1.8	0.5	0.9	0.8	0.9	0.8	0.7	0.7
Net exports	-9.6	-2.7	-1.4	-4.5	-4.2	-1.5	1.1	0.5	0.9	0.7	0.9	1.0	1.2	1.3	1.3
GDP deflator	25.1	28.5	28.7	28.5	27.3	18.0	10.7	6.4	5.0	5.0	5.0	5.0	5.0	5.0	5.0
Unemployment rate (ILO definition; period average, percent)	9.8	24.5	24.5	20.9	20.9	11.9	9.7	9.2	8.7	8.5	8.5	8.5	8.4	8.4	8.4
Consumer prices (period average)	9.4	20.6	20.2	25.0	21.1	15.5	10.0	6.9	5.5	5.0	5.0	5.0	5.0	5.0	5.0
Consumer prices (end of period)	10.0	30.0	26.6	22.5	20.0	12.5	8.0	6.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
Nominal wages (average)	20.8	-12.0	-5.1	21.9	18.6	18.4	15.5	12.2	9.7	9.2	9.2	9.1	9.1	9.0	9.0
Real wages (average)	10.5	-27.0	-21.1	-2.5	-2.0	2.5	5.0	5.0	4.0	4.0	4.0	3.9	3.9	3.8	3.8
Savings (percent of GDP)	12.2	12.9	22.5	5.9	14.3	15.6	16.5	17.8	21.9	21.6	21.3	21.3	21.3	21.5	22.0
Private	12.4	30.2	36.5	14.3	31.8	29.6	21.8	18.5	20.3	18.8	17.7	17.4	16.9	17.3	17.8
Public	-0.2	-17.3	-14.0	-8.4	-17.5	-14.0	-5.3	-0.7	1.5	2.8	3.6	3.9	4.3	4.3	4.3
Investment (percent of GDP)	13.8	8.4	16.8	9.9	18.7	21.8	23.2	24.3	25.0	25.1	25.2	25.3	25.3	25.5	25.6
Private	10.0	7.0	14.2	7.1	15.8	17.9	18.7	19.9	20.1	20.2	20.0	20.1	20.2	20.4	20.5
Public	3.8	1.5	2.7	2.8	2.9	3.9	4.4	4.4	4.9	4.9	5.2	5.2	5.1	5.1	5.1
General Government (percent of GDP)															
Fiscal balance 2/	-3.9	-20.5	-16.7	-9.1	-20.4	-17.9	-9.8	-5.2	-3.4	-2.1	-1.6	-1.2	-0.8	-0.8	-0.8
Fiscal balance, excl. grants 2/	-4.0	-30.3	-26.5	-21.6	-28.2	-21.7	-12.1	-6.5	-4.6	-3.2	-2.5	-2.1	-1.6	-1.6	-1.5
External financing (net)	2.4	12.1	11.4	13.3	19.8	17.7	9.5	4.6	3.3	0.8	0.4	0.8	0.0	0.2	0.5
Domestic financing (net), of which:	1.5	6.9	5.4	-4.2	0.6	0.2	0.3	0.6	0.1	1.3	1.2	0.5	0.8	0.7	0.3
NBU	-0.3	8.3	7.8	-0.2	-0.2	-0.2	-0.2	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Commercial banks	1.5	-2.2	-1.6	-0.4	1.1	0.3	0.4	0.6	0.2	1.0	0.9	0.3	0.6	0.5	0.2
Public and publicly-guaranteed debt	50.4	89.4	81.7	90.2	98.3	105.0	104.1	102.0	100.2	97.2	93.6	89.8	85.6	81.6	77.8
Money and credit (end of period, percent change)															
Base money	11.2	14.8	19.6	9.0	23.4	15.6	9.5	7.5	6.0	5.1	5.0	5.0	5.0	5.0	5.0
Broad money	12.0	17.0	20.8	15.0	20.5	18.5	15.0	15.0	12.1	9.2	9.2	9.2	9.2	9.0	9.0
Credit to nongovernment	8.4	3.4	-3.1	2.0	2.5	15.4	14.8	13.4	12.4	12.3	12.9	15.5	18.1	20.7	20.7
Balance of payments (percent of GDP)															
Current account balance	-1.6	4.4	5.7	-4.0	-4.4	-6.2	-6.7	-6.5	-3.2	-3.5	-3.9	-4.0	-4.1	-3.9	-3.6
Foreign direct investment	3.8	0.4	0.4	0.8	0.4	0.4	2.4	4.7	4.8	5.4	5.1	4.9	4.6	4.4	4.3
Gross reserves (end of period, billions of U.S. dollars)	30.9	25.1	28.5	21.1	29.6	32.4	35.6	38.8	44.6	46.1	50.5	53.9	54.9	55.7	58.0
Months of next year's imports of goods and services	4.6	3.0	3.9	2.5	4.0	4.2	4.3	4.5	5.0	4.9	5.1	5.2	5.1	5.0	5.0
Percent of short-term debt (remaining maturity)	67.5	58.9	66.1	45.8	62.3	75.4	75.7	83.5	90.9	83.7	95.1	96.1	101.3	101.9	102.6
Percent of the IMF composite metric (float)	98.8	80.0	91.6	61.6	82.2	78.0	80.4	81.8	90.8	91.3	96.4	101.5	101.0	101.6	103.7
Goods terms of trade (percent change)	-8.4	-16.8	-11.5	0.2	3.8	0.3	1.7	2.1	0.7	0.2	0.0	0.0	0.0	0.0	0.0
Exchange rate															
Hryvnia per U.S. dollar (end of period)	27.3	36.6	36.6	...	...	...	...	...	...	...	...	...	...	...	...
Hryvnia per U.S. dollar (period average)	27.3	32.3	32.3	...	...	...	...	...	...	...	...	...	...	...	...
Real effective rate (deflator-based, percent change)	12.0	2.9	22.9	...	...	...	...	...	...	...	...	...	...	...	...
Memorandum items:															
Per capita GDP / Population (2017): US$2,640 / 44.8 million															
Literacy / Poverty rate (2022 est 3/): 100 percent / 25 percent															

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

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

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

3/ Based on World Bank estimates.

Table 2. Ukraine: General Government Finances (Baseline Scenario), 2021–2033 1/

(Billions of Ukrainian Hryvnia)

	2021	2022		2023		2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
	Proj.	PMB Request	Proj.	PMB Request	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Revenue	1,983	2,606	2,609	2,895	2,861	3,199	3,654	4,086	4,537	4,972	5,411	5,833	6,344	6,888	7,489
Tax revenue	1,817	1,803	1,782	1,959	2,198	2,705	3,209	3,690	4,121	4,536	4,960	5,348	5,824	6,329	6,890
Tax on income, profits, and capital gains	514	549	551	526	640	832	990	1,150	1,270	1,402	1,531	1,670	1,817	1,981	2,178
Personal income tax	350	414	421	403	517	672	792	914	1,007	1,105	1,206	1,316	1,431	1,559	1,718
Corporate profit tax	164	134	131	123	123	159	198	236	263	297	324	354	387	421	459
Social security contributions	351	428	430	400	518	582	569	674	766	816	928	991	1,180	1,268	1,364
Property tax	43	37	37	37	37	47	51	48	54	49	54	49	50	50	50
Tax on goods and services	731	609	592	792	797	1,002	1,298	1,486	1,664	1,860	2,005	2,176	2,294	2,522	2,765
VAT	536	482	467	617	622	774	969	1,081	1,192	1,339	1,441	1,568	1,638	1,816	1,988
Excise	180	116	115	162	162	213	312	387	453	500	542	585	632	679	750
Other	14	11	10	13	13	15	17	18	19	21	22	23	25	26	28
Tax on international trade	38	27	26	38	38	49	69	80	100	118	134	147	162	177	193
Other tax	140	154	145	167	168	194	234	251	267	292	308	314	321	333	340
Nontax revenue	166	803	827	936	663	493	444	396	415	436	451	485	520	558	599
Grants	1	462	481	763	472	284	202	129	125	120	110	114	118	123	127
Expenditure	2,198	3,569	3,426	3,448	4,098	4,516	4,503	4,587	4,895	5,218	5,613	6,005	6,467	7,024	7,636
Current	1,987	3,472	3,298	3,150	3,818	4,119	3,887	4,094	4,306	4,532	4,844	5,155	5,544	6,023	6,544
Compensation of employees	507	1,286	1,240	944	1,422	1,355	937	978	1,052	1,085	1,124	1,181	1,245	1,344	1,461
Goods and services	483	887	848	848	926	865	873	861	845	862	960	1,018	1,121	1,225	1,341
Interest	155	159	162	334	281	452	350	367	352	338	343	351	346	360	373
Subsidies to corporations and enterprises	116	176	131	105	138	154	129	136	144	151	128	135	142	149	156
Social benefits	724	953	917	916	1,048	1,290	1,595	1,749	1,909	2,093	2,285	2,467	2,685	2,941	3,208
Social programs (on budget)	154	302	285	240	218	459	701	800	828	900	967	1,054	1,146	1,268	1,451
Pensions	519	594	583	630	808	805	865	919	1,021	1,100	1,191	1,250	1,340	1,435	1,479
Unemployment, disability, and accident	52	57	48	46	22	26	29	30	60	92	127	163	200	238	278
Other current expenditures	1	11	1	2	2	3	3	3	3	3	4	4	4	4	4
Capital	207	69	130	172	177	285	386	431	521	571	653	713	775	840	915
Net lending	5	24	-2	45	34	48	165	9	10	11	12	33	36	39	42
Contingency reserve 2/	0	4	0	81	69	64	65	53	58	104	104	104	113	123	134
General government overall balance	-216	-964	-817	-553	-1,237	-1,317	-850	-501	-358	-246	-201	-172	-123	-137	-147
General government overall balance, excluding grants	-217	-1,426	-1,299	-1,316	-1,709	-1,601	-1,051	-630	-483	-366	-311	-285	-241	-259	-274
									-5.89	-7.55	-9.48	-9.58	-11.23	-10.84	-10.00
General government financing	216	896	817	553	1,237	1,317	850	501	358	246	201	172	123	137	147
External	132	571	560	814	1,200	1,301	824	446	347	91	48	107	1	29	89
Disbursements	239	629	615	912	1,299	1,508	1,048	757	679	535	629	719	747	775	803
Amortizations	-107	-59	-55	-98	-99	-207	-224	-311	-332	-444	-581	-612	-745	-746	-714
Domestic (net)	84	326	263	-261	37	16	26	55	11	155	154	65	121	108	57
Bond financing 3/	66	240	295	-64	31	10	20	49	5	99	98	29	85	72	21
o/w NBU	-14	389	383	-15	-15	-12	-13	-12	-12	-12	-12	-12	-12	-12	-12
o/w Commercial banks	79	-101	-77	-25	70	22	33	61	17	111	109	41	97	84	33
Direct bank borrowing	30	0	-2	0	0	0	0	0	0	0	0	0	0	0	0
Deposit finance	-19	85	-37	-203	0	0	0	0	0	50	50	30	30	30	30
Privatization	7	0	20	6	6	6	6	6	6	6	6	6	6	6	6
Financing Gap/unindentified measures (-gap/+surplus)	0	-68	0	0	0	0	0	0	0	0	0	0	0	0	0
Memorandum items:															
Primary balance	-61	-872	-655	-219	-956	-865	-500	-134	-6	92	141	179	224	223	227
Public and publicly-guaranteed debt	2,754	4,202	4,003	4,921	5,948	7,736	9,044	9,890	10,614	11,245	11,831	12,389	12,896	13,409	13,924
Nominal GDP (billions of Ukrainian hryvnia)	5,460	4,700	4,900	6,100	6,050	7,365	8,685	9,700	10,592	11,571	12,636	13,800	15,070	16,425	17,900

Sources: Ministry of Finance; National Bank of Ukraine; and IMF staff estimates and projections.
1/ National methodology, cash basis.
2/ Includes the unallocated portion of expenditures from the COVID fund.
3/ Domestic bonds have been adjusted to reflect discrepancy between the above-the-line and the below-the-line deficits.

Table 2. Ukraine: General Government Finances (Baseline Scenario), 2021–2033 (Concluded) 1/

(Percent of GDP)

	2021	2022		2023		2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
	Proj.	PMB Request	Proj.	PMB Request	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Revenue	36.3	55.4	53.2	47.5	47.3	43.4	42.1	42.1	42.8	43.0	42.8	42.3	42.1	41.9	41.8
Tax revenue	33.3	38.4	36.4	32.1	36.3	36.7	37.0	38.0	38.9	39.2	39.3	38.8	38.6	38.5	38.5
Tax on income, profits, and capital gains	9.4	11.7	11.2	8.6	10.6	11.3	11.4	11.9	12.0	12.1	12.1	12.1	12.1	12.1	12.2
Personal income tax	6.4	8.8	8.6	6.6	8.6	9.1	9.1	9.4	9.5	9.5	9.5	9.5	9.5	9.5	9.6
Corporate profit tax	3.0	2.9	2.7	2.0	2.0	2.2	2.3	2.4	2.5	2.6	2.6	2.6	2.6	2.6	2.6
Social security contributions	6.4	9.1	8.8	6.6	8.6	7.9	6.5	6.9	7.2	7.1	7.3	7.2	7.8	7.7	7.6
Property tax	0.8	0.8	0.8	0.6	0.6	0.6	0.6	0.5	0.5	0.4	0.4	0.4	0.3	0.3	0.3
Tax on goods and services	13.4	12.9	12.1	13.0	13.2	13.6	14.9	15.3	15.7	16.1	15.9	15.8	15.2	15.4	15.4
VAT	9.8	10.3	9.5	10.1	10.3	10.5	11.2	11.1	11.3	11.6	11.4	11.4	10.9	11.1	11.1
Excise	3.3	2.5	2.4	2.6	2.7	2.9	3.6	4.0	4.3	4.3	4.3	4.2	4.2	4.1	4.2
Other	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Tax on international trade	0.7	0.6	0.5	0.6	0.6	0.7	0.8	0.8	0.9	1.0	1.1	1.1	1.1	1.1	1.1
Other tax	2.6	3.3	3.0	2.7	2.8	2.6	2.7	2.6	2.5	2.5	2.4	2.3	2.1	2.0	1.9
Nontax revenue	3.0	17.1	16.9	15.3	11.0	6.7	5.1	4.1	3.9	3.8	3.6	3.5	3.5	3.4	3.3
Grants	0.0	9.8	9.8	12.5	7.8	3.9	2.3	1.3	1.2	1.0	0.9	0.8	0.8	0.7	0.7
Expenditure	40.3	75.9	69.9	56.5	67.7	61.3	51.9	47.3	46.2	45.1	44.4	43.5	42.9	42.8	42.7
Current	36.4	73.9	67.3	51.6	63.1	55.9	44.8	42.2	40.7	39.2	38.3	37.4	36.8	36.7	36.6
Compensation of employees	9.3	27.4	25.3	15.5	23.5	18.4	10.8	10.1	9.9	9.4	8.9	8.6	8.3	8.2	8.2
Goods and services	8.8	18.9	17.3	13.9	15.3	11.7	10.1	8.9	8.0	7.5	7.6	7.4	7.4	7.5	7.5
Interest	2.8	3.4	3.3	5.5	4.6	6.1	4.0	3.8	3.3	2.9	2.7	2.5	2.3	2.2	2.1
Subsidies to corporations and enterprises	2.1	3.8	2.7	1.7	2.3	2.1	1.5	1.4	1.4	1.3	1.0	1.0	0.9	0.9	0.9
Social benefits	13.3	20.3	18.7	15.0	17.3	17.5	18.4	18.0	18.0	18.1	18.1	17.9	17.8	17.9	17.9
Social programs (on budget)	2.8	6.4	5.8	3.9	3.6	6.2	8.1	8.2	7.8	7.8	7.7	7.6	7.6	7.7	8.1
Pensions	9.5	12.6	11.9	10.3	13.4	10.9	10.0	9.5	9.6	9.5	9.4	9.1	8.9	8.7	8.3
Unemployment, disability, and accident insurance	1.0	1.2	1.0	0.8	0.4	0.4	0.3	0.3	0.6	0.8	1.0	1.2	1.3	1.4	1.6
Other current expenditures	0.0	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Capital	3.8	1.5	2.7	2.8	2.9	3.9	4.4	4.4	4.9	4.9	5.2	5.2	5.1	5.1	5.1
Net lending	0.1	0.5	0.0	0.7	0.6	0.6	1.9	0.1	0.1	0.1	0.1	0.2	0.2	0.2	0.2
Contingency reserve 2/	0.0	0.1	0.0	1.3	1.1	0.9	0.8	0.5	0.5	0.9	0.8	0.8	0.8	0.8	0.8
General government overall balance	-3.9	-20.5	-16.7	-9.1	-20.4	-17.9	-9.8	-5.2	-3.4	-2.1	-1.6	-1.2	-0.8	-0.8	-0.8
General government overall balance, excluding grants	-4.0	-30.3	-26.5	-21.6	-28.2	-21.7	-12.1	-6.5	-4.6	-3.2	-2.5	-2.1	-1.6	-1.6	-1.5
General government financing	3.9	19.1	16.7	9.1	20.4	17.9	9.8	5.2	3.4	2.1	1.6	1.2	0.8	0.8	0.8
External	2.4	12.1	11.4	13.3	19.8	17.7	9.5	4.6	3.3	0.8	0.4	0.8	0.0	0.2	0.5
Disbursements	4.4	13.4	12.6	14.9	21.5	20.5	12.1	7.8	6.4	4.6	5.0	5.2	5.0	4.7	4.5
o/w IFIs	1.4	5.8	5.3	16.9	25.4	23.0	10.0	0.0	5.8	0.0	0.0	0.0	0.0	0.0	0.0
o/w IMF budget support	0.4	1.9	1.8	0.0	3.0	3.5	0.5	0.7	0.4	0.0	0.0	0.0	0.0	0.0	0.0
Amortizations	-2.0	-1.2	-1.1	-1.6	-1.6	-2.8	-2.6	-3.2	-3.1	-3.8	-4.6	-4.4	-4.9	-4.5	-4.0
Domestic (net)	1.5	6.9	5.4	-4.3	0.6	0.2	0.3	0.6	0.1	1.3	1.2	0.5	0.8	0.7	0.3
Bond financing 3/	1.2	5.1	6.0	-1.0	0.5	0.1	0.2	0.5	0.0	0.9	0.8	0.2	0.6	0.4	0.1
o/w NBU	-0.3	8.3	7.8	-0.2	-0.2	-0.2	-0.2	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
o/w Commercial banks	1.5	-2.2	-1.6	-0.4	1.1	0.3	0.4	0.6	0.2	1.0	0.9	0.3	0.6	0.5	0.2
Direct bank borrowing	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Deposit finance	-0.3	1.8	-0.8	-3.3	0.0	0.0	0.0	0.0	0.0	0.4	0.4	0.2	0.2	0.2	0.2
Privatization	0.1	0.0	0.4	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0
Financing Gap/undidentified measures (-gap/+surplus)	0.0	-1.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:															
Defense expenditure	...	...	32.5	...	25.2	17.8	9.7	8.3	7.5	6.8	6.1	5.6	5.1	4.6	4.2
Non-defense balance excluding grants	...	...	0.0	...	-3.0	-4.0	-2.4	1.8	3.0	3.6	3.6	3.5	3.5	3.0	2.6
Primary balance	-1.1	-18.6	-13.4	-3.6	-15.8	-11.7	-5.8	-1.4	-0.1	0.8	1.1	1.3	1.5	1.4	1.3
Public and publicly-guaranteed debt	50.4	89.4	81.7	89.9	98.3	105.0	104.1	102.0	100.2	97.2	93.6	89.8	85.6	81.6	77.8
Nominal GDP (billions of Ukrainian hryvnia)	5,460	4,700	4,900	6,100	6,050	7,365	8,685	9,700	10,592	11,571	12,636	13,800	15,070	16,425	17,900

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

Table 3. Ukraine: Balance of Payments (Baseline Scenario), 2021–2033 1/

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

	2021	2022		2023		2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
	Act.	PMB Request	Proj.	PMB Request	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Current account balance	-3.2	6.4	8.6	-5.7	-6.5	-9.4	-11.3	-11.7	-6.0	-6.9	-8.0	-8.5	-9.3	-9.4	-9.0
Goods (net)	-6.6	-15.9	-14.6	-30.4	-24.5	-24.4	-30.1	-34.5	-35.3	-35.3	-35.4	-35.1	-35.0	-34.4	-33.5
Exports	63.1	40.9	40.9	39.7	33.0	38.9	40.5	44.4	49.3	53.9	58.8	64.0	69.8	75.9	82.6
Imports	-69.8	-56.8	-55.6	-70.1	-57.5	-63.3	-70.6	-78.9	-84.6	-89.2	-94.1	-99.2	-104.7	-110.3	-116.1
Of which : gas	-3.4	-2.7	-1.4	-8.6	-2.4	-7.3	-6.5	-5.2	-4.8	-4.9	-4.9	-4.9	-4.9	-4.9	-4.9
Services (net)	4.0	-9.9	-9.1	-11.9	-13.3	-5.5	2.8	9.5	16.6	17.1	17.7	18.1	18.5	19.0	19.4
Receipts	18.4	16.0	16.2	17.9	16.0	17.6	20.1	23.4	27.0	28.6	30.3	31.4	32.7	33.9	35.3
Payments	-14.4	-25.9	-25.3	-29.8	-29.2	-23.1	-17.3	-13.9	-10.4	-11.4	-12.6	-13.3	-14.1	-15.0	-15.9
Primary income (net)	-5.2	9.8	9.0	12.5	11.6	8.2	6.6	5.1	4.5	3.9	3.4	3.0	2.5	2.3	2.3
Secondary income (net)	4.6	22.4	23.4	24.1	19.7	12.2	9.4	8.1	8.2	7.3	6.3	5.5	4.6	3.8	2.8
Capital account balance	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial account balance	-5.7	10.8	9.6	-3.2	-9.3	-12.3	-14.4	-13.9	-11.2	-7.6	-10.9	-12.2	-10.6	-11.2	-11.7
Direct investment (net)	-7.5	-0.6	-0.6	-1.1	-0.6	-0.6	-4.0	-8.5	-9.0	-10.5	-10.5	-10.5	-10.5	-10.5	-10.9
Portfolio investment (net)	-1.0	1.5	2.0	0.9	0.4	0.6	0.9	1.6	0.8	1.7	0.3	-0.4	-0.3	-0.8	-0.5
Portfolio investment: assets	-0.1	0.2	0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Portfolio investment: liabilities	1.0	-1.3	-1.4	-0.9	-0.4	-0.6	-0.9	-1.6	-0.8	-1.7	-0.3	0.4	0.3	0.8	0.5
Financial derivatives (net)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other investment (net)	2.9	9.9	8.1	-3.0	-9.0	-12.3	-11.3	-7.0	-3.0	1.2	-0.6	-1.2	0.2	0.1	-0.3
Other investment: assets	7.7	28.5	24.1	17.2	26.6	17.8	8.7	5.8	5.8	5.4	0.9	0.4	0.3	0.1	0.1
Other investment: liabilities	4.9	18.6	16.0	20.2	35.6	30.1	20.0	12.8	8.8	4.3	1.5	1.6	0.1	-0.1	0.4
Net use of IMF resources for budget support	0.3	2.1	2.3	-0.9	3.6	4.1	-0.7	-0.4	-0.5	-1.0	-1.8	-1.0	-1.3	-1.3	-1.2
Central Bank	2.7	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
General government	1.5	15.2	14.6	20.2	27.9	25.1	19.7	11.3	8.3	4.7	2.7	2.1	0.8	0.6	0.9
Banks 3/	0.4	-0.2	-0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other sectors	0.0	1.6	-0.5	1.0	4.2	0.9	0.9	1.8	1.0	0.6	0.6	0.6	0.6	0.6	0.6
Errors and omissions	1.8	0.8	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Unidentified financing need	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	4.3	-3.5	-0.5	-2.5	2.7	2.8	3.1	2.2	5.2	0.7	2.8	3.6	1.3	1.8	2.7
Financing	-4.2	3.5	0.6	2.5	-2.7	-3.8	-3.1	-2.2	-5.2	-1.5	-4.4	-4.4	-2.3	-2.2	-3.4
Gross official reserves (increase: -)	-3.3	5.0	2.2	4.1	-1.1	-2.8	-3.2	-3.2	-5.8	-1.5	-4.4	-3.3	-1.0	-0.9	-2.3
Net use of IMF resources for BOP support	-0.9	-1.4	-1.6	-1.6	-1.6	-1.0	0.1	1.0	0.6	0.0	0.0	-1.0	-1.3	-1.3	-1.2
Unidentified financing need				0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:															
Current account balance (percent of GDP)	-1.6	4.4	5.7	-4.0	-4.4	-6.2	-6.7	-6.5	-3.2	-3.5	-3.9	-4.0	-4.1	-3.9	-3.6
Goods and services trade balance (percent of GDP)	-1.3	-17.8	-15.7	-29.4	-25.4	-19.5	-16.1	-13.8	-9.9	-9.2	-8.6	-7.9	-7.2	-6.5	-5.6
Gross international reserves	30.9	25.1	28.5	21.1	29.6	32.4	35.6	38.8	44.6	46.1	50.5	53.9	54.9	55.7	58.0
Months of next year's imports of goods and services	4.6	3.0	3.9	2.5	4.0	4.2	4.3	4.5	5.0	4.9	5.1	5.2	5.1	5.0	5.0
Percent of the IMF composite metric (float)	98.8	80.0	91.6	61.6	82.2	78.0	80.4	81.8	90.8	91.3	96.4	101.5	101.0	101.6	103.7

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

1/ Based on BPM6.

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

3/ Includes banks' debt for equity operations.

Table 3. Ukraine: Balance of Payments (Baseline Scenario), 2021–2033 (Concluded) 1/

(Percent of GDP, unless otherwise indicated)

	2021	2022		2023		2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
	Act.	PMB Request	Proj.	PMB Request	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Current account balance	-1.6	4.4	5.7	-4.0	-4.4	-6.2	-6.7	-6.5	-3.2	-3.5	-3.9	-4.0	-4.1	-3.9	-3.6
Goods (net)	-3.3	-10.9	-9.7	-21.1	-16.5	-15.9	-17.8	-19.1	-18.8	-18.0	-17.2	-16.3	-15.4	-14.4	-13.4
Exports	31.5	28.1	27.0	27.6	22.2	25.4	23.9	24.7	26.3	27.4	28.5	29.6	30.7	31.8	32.9
Imports	-34.9	-39.1	-36.7	-48.7	-38.7	-41.3	-41.7	-43.8	-45.0	-45.3	-45.7	-45.9	-46.1	-46.3	-46.3
Of which : gas	1.7	-1.9	0.9	-6.0	-1.6	-4.7	-3.8	-2.9	-2.6	-2.5	-2.4	-2.3	-2.1	-2.0	-1.9
Services (net)	-4.6	-6.8	-6.0	-8.2	-8.9	-3.6	1.6	5.3	8.8	8.7	8.6	8.4	8.2	7.9	7.7
Receipts	9.2	11.0	10.7	12.4	10.7	11.5	11.9	13.0	14.4	14.5	14.7	14.5	14.4	14.2	14.1
Payments	-7.2	-17.8	-16.7	-20.7	-19.7	-15.1	-10.2	-7.7	-5.5	-5.8	-6.1	-6.2	-6.2	-6.3	-6.3
Primary income (net)	-2.6	6.8	6.0	8.7	7.8	5.4	3.9	2.8	2.4	2.0	1.6	1.4	1.1	0.9	0.9
Secondary income (net)	2.3	15.4	15.4	16.8	13.2	8.0	5.5	4.5	4.4	3.7	3.1	2.5	2.0	1.6	1.1
Capital account balance	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial account balance	-2.8	7.4	6.3	-2.2	-6.2	-8.0	-8.5	-7.7	-6.0	-3.9	-5.3	-5.6	-4.7	-4.7	-4.7
Direct investment (net)	-3.8	-0.4	-0.4	-0.8	-0.4	-0.4	-2.4	-4.7	-4.8	-5.4	-5.1	-4.9	-4.6	-4.4	-4.3
Portfolio investment (net)	-0.5	1.0	1.4	0.6	0.3	0.4	0.6	0.9	0.4	0.9	0.1	-0.2	-0.1	-0.4	-0.2
Portfolio investment: assets	0.0	0.1	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Portfolio investment: liabilities	0.5	-0.9	-0.9	-0.6	-0.3	-0.4	-0.6	-0.9	-0.4	-0.9	-0.1	0.2	0.1	0.4	0.2
Financial derivatives (net)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other investment (net)	1.4	6.8	5.4	-2.1	-6.1	-8.0	-6.7	-3.9	-1.6	0.6	-0.3	-0.6	0.1	0.1	-0.1
Other investment: assets	3.0	19.6	15.9	12.0	17.9	11.6	5.1	3.2	3.1	2.8	0.4	0.2	0.1	0.0	0.0
Other investment: liabilities	2.4	12.8	10.6	14.1	24.0	19.6	11.8	7.1	4.7	2.2	0.7	0.8	0.1	0.0	0.1
Net use of IMF resources for budget support	-0.5	1.4	-1.1	-0.6	2.4	2.6	-0.4	-0.2	-0.3	-0.5	-0.9	-0.5	-0.6	-0.6	-0.5
Central Bank	1.3	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
General government	0.8	10.4	9.7	14.0	18.7	16.4	11.7	6.3	4.4	2.4	1.3	1.0	0.3	0.3	0.4
Banks 3/	0.2	-0.1	-0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other sectors	0.0	1.1	-0.3	0.7	2.8	0.6	0.5	1.0	0.5	0.3	0.3	0.3	0.3	0.3	0.3
Errors and omissions	0.9	0.6	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Unidentified financing need	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	2.1	-2.4	-0.3	-1.7	1.8	1.8	1.8	1.2	2.8	0.4	1.4	1.7	0.6	0.8	1.1
Financing	0.1	2.4	1.5	1.7	-1.8	-2.5	-1.8	-1.2	-2.8	-0.7	-2.2	-2.0	-1.0	-0.9	-1.4
Gross official reserves (increase: -)	0.4	3.4	1.8	2.8	-0.7	-1.8	-1.9	-1.8	-3.1	-0.7	-2.2	-1.5	-0.4	-0.4	-0.9
Net use of IMF resources for BOP support	0.0	-1.0	0.0	-1.1	-1.1	-0.7	0.1	0.5	0.3	0.0	0.0	-0.5	-0.6	-0.6	-0.5
Unidentified financing need		0.0		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:															
Gross international reserves (USD billions)	30.9	25.1	28.5	21.1	29.6	32.4	35.6	38.8	44.6	46.1	50.5	53.9	54.9	55.7	58.0
Months of next year's imports of goods and services	4.6	3.0	3.9	2.5	4.0	4.2	4.3	4.5	5.0	4.9	5.1	5.2	5.1	5.0	5.0
Percent of the IMF composite metric (float)	98.8	80.0	91.6	61.6	82.2	78.0	80.4	81.8	90.8	91.3	96.4	101.5	101.0	101.6	103.7

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

1/ Based on BPM6.

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

3/ Includes banks' debt for equity operations.

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

(Billions of U.S. dollars)

	2021	2022		2023		2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
	Act.	PMB Request	Proj.	PMB Request	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
A. Total financing requirements	**37.2**	**65.1**	**57.6**	**67.9**	**68.8**	**64.1**	**53.9**	**54.0**	**48.8**	**51.3**	**51.5**	**51.1**	**54.7**	**53.5**	**53.3**
Current account deficit (excluding grants)	3.2	7.6	5.4	23.7	18.1	15.1	15.2	14.0	8.1	8.9	9.8	10.3	11.0	11.2	10.8
Portfolio investment	4.9	1.8	2.7	0.9	0.4	3.6	1.9	3.9	1.3	2.2	4.3	2.6	4.1	1.7	2.0
Private	0.6	0.6	0.9	0.4	0.4	2.7	0.6	1.8	0.0	0.0	3.0	1.0	2.3	0.5	0.5
General government	4.3	1.2	1.8	0.5	0.0	0.9	1.4	2.1	1.3	2.2	1.3	1.6	1.8	1.2	1.5
Medium and long-term debt	3.9	3.8	2.1	3.6	2.2	2.9	1.6	2.8	4.5	5.4	7.6	8.1	9.4	9.5	9.2
Private	2.7	2.8	1.2	2.8	1.4	1.3	1.3	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2
Banks	0.2	0.5	0.3	0.5	0.5	0.4	0.4	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Corporates	2.5	2.3	0.9	2.3	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9
General government	1.2	1.0	0.9	0.7	0.8	1.5	0.3	1.6	3.3	4.2	6.4	6.9	8.2	8.4	8.1
Short-term debt (including deposits)	0.8	6.4	4.2	6.4	5.6	5.6	5.6	5.6	5.6	5.6	5.6	5.6	5.6	5.6	5.6
Other net capital outflows 1/	8.6	28.5	24.1	17.2	24.2	16.8	8.7	5.8	5.8	4.6	0.9	0.4	0.3	0.1	0.1
Trade credit	15.7	16.9	19.1	16.1	18.3	20.1	20.9	21.7	23.5	24.5	23.4	24.1	24.2	25.4	25.6
B. Total financing sources	**37.2**	**28.7**	**24.4**	**26.8**	**29.0**	**32.2**	**34.3**	**44.0**	**41.0**	**42.6**	**46.7**	**45.6**	**47.2**	**46.0**	**46.9**
Capital transfers	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Direct investment, net	7.5	0.6	0.6	1.1	0.6	0.6	4.0	8.5	9.0	10.5	10.5	10.5	10.5	10.5	10.9
Portfolio investment	6.0	0.2	0.5	0.0	0.0	3.0	1.0	2.3	0.5	0.5	4.0	3.0	4.3	2.5	2.5
Private	1.8	0.0	0.0	0.0	0.0	3.0	1.0	2.3	0.5	0.5	3.0	1.0	2.3	0.5	0.5
General government	4.2	0.2	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.0	2.0	2.0	2.0	2.0
Of which: Market financing	1.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.0	2.0	2.0	2.0	2.0
Medium and long-term debt	5.4	5.1	0.3	2.2	2.6	2.1	1.9	4.1	1.4	1.0	1.1	1.0	1.0	1.0	1.0
Private	2.3	5.2	0.9	2.8	1.4	1.4	1.4	1.4	1.3	1.3	1.3	1.3	1.3	1.3	1.3
Banks	0.2	0.4	0.0	0.5	0.5	0.5	0.4	0.4	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Corporates	2.1	4.7	0.8	2.3	0.9	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
General government	3.1	-0.1	-0.5	-0.6	1.2	0.7	0.5	2.7	0.1	-0.2	-0.2	-0.2	-0.2	-0.3	-0.3
Short-term debt (including deposits)	1.1	6.6	4.7	6.4	5.6	5.6	5.9	5.6	5.6	5.6	5.6	5.6	5.6	5.6	5.6
Trade credit	17.2	16.2	18.3	17.1	20.1	20.9	21.4	23.5	24.4	24.9	25.5	25.4	25.7	26.3	26.9
C. Financing needs (A - B)	**0.0**	**36.4**	**33.2**	**41.1**	**39.8**	**31.9**	**19.6**	**10.0**	**7.8**	**8.6**	**4.8**	**5.6**	**7.5**	**7.5**	**6.4**
Unidentified fiscal financing need	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
D. Total exceptional financing needs	**0.0**	**36.4**	**33.2**	**41.1**	**39.8**	**31.9**	**19.6**	**10.0**	**7.8**	**8.6**	**4.8**	**5.6**	**7.5**	**7.5**	**6.4**
E. Official financing	**1.7**	**30.6**	**30.6**	**37.0**	**40.9**	**34.7**	**22.8**	**15.7**	**13.6**	**10.1**	**9.3**	**8.9**	**8.5**	**8.4**	**8.7**
IMF	-0.7	0.7	0.7	-2.5	1.9	3.0	-0.6	0.6	0.1	-1.0	-1.8	-2.1	-2.5	-2.6	-2.3
Purchases	0.7	2.7	2.7	0.0	4.5	5.4	1.8	2.6	1.3	0.0	0.0	0.0	0.0	0.0	0.0
Repurchases	1.4	2.1	2.1	2.5	2.6	2.4	2.3	2.0	1.2	1.0	1.8	2.1	2.5	2.6	2.3
Official grants	0.0	14.0	14.0	18.0	11.6	5.7	3.8	2.3	2.2	2.0	1.7	1.7	1.7	1.7	1.7
Official creditors	2.3	15.9	15.9	21.5	27.4	26.0	19.5	12.7	11.4	9.1	9.3	9.3	9.3	9.3	9.3
F. Increase in reserves	**3.3**	**-5.0**	**-2.2**	**-4.1**	**1.1**	**2.8**	**3.2**	**3.2**	**5.8**	**1.5**	**4.4**	**3.3**	**1.0**	**0.9**	**2.3**
G. Errors and omissions	**1.8**	**0.8**	**0.5**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Memorandum items:															
Gross international reserves	30.9	25.1	28.5	21.1	29.6	32.4	35.6	38.8	44.6	46.1	50.5	53.9	54.9	55.7	58.0
Months of next year's imports of goods and services	4.6	3.0	3.9	2.5	4.0	4.2	4.3	4.5	5.0	4.9	5.1	5.2	5.1	5.0	5.0
Percent of short-term debt (remaining maturity)	67.5	58.9	66.1	45.8	62.3	75.4	75.7	83.5	90.9	83.7	95.1	96.1	101.3	101.9	102.6
Percent of the IMF composite (float) 3/	98.8	80.0	91.6	61.6	82.2	78.0	80.4	81.8	90.8	91.3	96.4	101.5	101.0	101.6	103.7
Loan rollover rate (percent)															
Banks	97.2	97.0	96.7	100.0	100.0	100.4	100.3	100.6	100.3	100.0	100.0	100.0	100.0	100.0	100.0
Corporates	89.3	173.7	101.8	100.0	100.0	109.8	109.8	109.8	109.8	109.8	109.8	109.8	109.8	109.8	109.8
Total	91.4	124.5	97.5	100.0	100.0	101.6	101.6	101.8	101.5	101.3	101.3	101.3	101.3	101.3	101.3

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

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

2/ Includes bilateral and other multilateral budget and project support.

3/ 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 (Baseline Scenario), 2021–2033

(Billions of Ukrainian Hryvnia)

	2021	2022		2023		2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
	Act.	PMB Request	Proj.	PMB Request	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Monetary survey															
Net foreign assets	1,002	1,184	1,328	1,499	1,689	1,921	2,175	2,387	2,788	3,020	3,528	4,018	4,407	4,811	5,312
Net domestic assets	1,070	1,240	1,173	1,288	1,325	1,651	1,932	2,337	2,508	2,766	2,790	2,882	3,127	3,402	3,638
Domestic credit	1,925	1,771	2,212	1,550	2,292	2,449	2,768	2,995	3,186	3,506	3,862	4,233	4,779	5,471	6,239
Net claims on government	898	710	1,218	467	1,272	1,272	1,417	1,463	1,465	1,573	1,680	1,714	1,803	1,879	1,904
Credit to the economy	1,023	1,057	991	1,078	1,016	1,172	1,345	1,525	1,714	1,925	2,173	2,510	2,965	3,580	4,323
Domestic currency	731	818	725	886	791	933	1,097	1,269	1,455	1,671	1,923	2,264	2,723	3,343	4,090
Foreign currency	292	239	266	192	225	239	248	257	259	255	250	246	242	237	232
Other claims on the economy	5	4	4	5	4	5	6	7	7	8	9	10	11	12	13
Other items, net	-856	-531	-1,039	-262	-967	-798	-836	-659	-678	-741	-1,073	-1,351	-1,651	-2,069	-2,601
Broad money	2,071	2,423	2,501	2,787	3,014	3,572	4,108	4,724	5,296	5,786	6,318	6,900	7,535	8,212	8,950
Currency in circulation	581	637	666	676	823	954	1,042	1,113	1,166	1,209	1,259	1,309	1,362	1,417	1,473
Total deposits	1,489	1,785	1,834	2,109	2,190	2,616	3,064	3,609	4,128	4,574	5,057	5,587	6,169	6,792	7,473
Domestic currency deposits	1,014	1,155	1,204	1,359	1,440	1,793	2,183	2,683	3,107	3,427	3,823	4,261	4,744	5,263	5,833
Foreign currency deposits	474	630	630	750	750	822	881	925	1,021	1,147	1,233	1,326	1,426	1,529	1,640
Accounts of the NBU															
Net foreign assets	852	849	983	989	1,187	1,286	1,543	1,758	2,164	2,403	2,889	3,358	3,727	4,110	4,591
Net international reserves	838	830	980	965	1,182	1,282	1,539	1,753	2,159	2,397	2,884	3,352	3,721	4,103	4,584
(In billions of U.S. dollars)	30.7	22.7	26.8	21.1	25.9	25.6	29.3	31.9	37.5	40.0	46.1	51.6	55.1	58.6	63.2
Reserve assets	843	919	980	…	…	…	…	…	…	…	…	…	…	…	…
Other net foreign assets	14	19	3	24	4	4	5	5	5	5	6	6	6	6	6
Net domestic assets	-190	-88	-191	-160	-208	-155	-305	-426	-753	-920	-1,332	-1,723	-2,010	-2,307	-2,698
Net domestic credit	175	483	310	118	253	76	-96	-464	-848	-1,048	-1,236	-1,446	-1,540	-1,536	-1,523
Net claims on government	270	685	704	619	689	667	651	636	621	618	616	609	601	593	585
Claims on government	325	721	758	706	744	731	718	706	694	682	671	659	647	635	623
Net claims on banks	-95	-202	-395	-501	-437	-590	-746	-1,099	-1,468	-1,666	-1,852	-2,054	-2,140	-2,129	-2,107
Other items, net	-365	-571	-501	-278	-461	-231	-209	37	95	128	-96	-277	-470	-771	-1,175
Base money	662	761	793	829	978	1,131	1,239	1,332	1,411	1,483	1,557	1,635	1,717	1,803	1,893
Currency in circulation	581	637	666	676	823	954	1,042	1,113	1,166	1,209	1,259	1,309	1,362	1,417	1,473
Banks' reserves	81	124	126	153	155	177	197	218	245	274	299	326	355	386	419
Cash in vault	47	56	49	66	69	82	96	113	129	143	158	175	193	213	234
Correspondent accounts	35	68	77	87	87	95	101	106	116	131	140	151	162	173	185
Deposit money banks															
Net foreign assets	149	335	345	510	502	635	632	629	624	617	639	660	681	701	722
Foreign assets	254	452	427	638	624	783	811	846	881	915	949	983	1016	1049	1082
Foreign liabilities	105	117	82	128	122	148	179	217	257	298	310	323	335	347	360
Net domestic assets	1,339	1,450	1,489	1,599	1,687	1,981	2,432	2,979	3,503	3,956	4,417	4,927	5,488	6,090	6,750
Domestic credit	1,875	1,455	2,064	1,628	2,229	2,584	3,095	3,712	4,314	4,863	5,432	6,039	6,708	7,427	8,216
Net claims on government 1/	628	25	513	-152	583	605	766	827	844	955	1,064	1,105	1,202	1,286	1,319
Credit to the economy	1,023	1,057	991	1,078	1,016	1,172	1,345	1,525	1,713	1,925	2,173	2,510	2,965	3,580	4,322
Other claims on the economy	5	4	3	5	4	5	6	7	7	8	9	10	11	12	13
Net claims on NBU	220	369	594	697	627	802	978	1,353	1,749	1,975	2,186	2,415	2,530	2,550	2,562
Other items, net	-536	-5	-574	-29	-542	-603	-663	-733	-810	-906	-1,015	-1,112	-1,220	-1,337	-1,465
Banks' liabilities	1,488	1,785	1,834	2,109	2,190	2,615	3,064	3,608	4,127	4,574	5,056	5,587	6,169	6,791	7,472
Memorandum items:				(End of period, percent change unless otherwise noted)											
Base money	11.2	14.8	19.6	9.0	23.4	15.6	9.5	7.5	6.0	5.1	5.0	5.0	5.0	5.0	5.0
Currency in circulation	12.6	9.6	14.6	6.2	23.6	16.0	9.1	6.9	4.8	5.8	6.8	7.8	8.8	9.8	10.8
Broad money	12.0	17.0	20.8	15.0	20.5	18.5	15.0	15.0	12.1	9.2	9.2	9.2	9.2	9.0	9.0
Credit to the economy	8.4	3.4	-3.1	2.0	2.5	15.4	14.8	13.4	12.4	12.3	12.9	15.5	18.1	20.7	20.7
Real credit to the economy 2/	-1.5	-20.5	-23.5	-16.7	-14.6	2.6	6.3	7.0	7.0	7.0	7.5	10.0	12.5	15.0	15.0
Credit-to-GDP ratio, in percent	18.7	22.5	16.2	17.7	16.8	15.9	15.5	15.7	16.2	16.6	17.2	18.2	19.7	21.8	24.1
Velocity of broad money, ratio	1.9	1.9	1.6	2.2	2.0	2.1	2.1	2.1	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Money multiplier, ratio	3.1	3.2	3.2	3.4	3.1	3.2	3.3	3.5	3.8	3.9	4.1	4.2	4.4	4.6	4.7
Hryvnia per U.S. dollar (end of period)	27.3	36.6	36.6	…	…	…	…	…	…	…	…	…	…	…	…

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: Indicators of Fund Credit, 2023–2033

(In millions of SDR)

	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
	Projections										
Existing Fund credit											
Stock 1/	5,704	3,924	2,187	690	0	0	0	0	0	0	0
Obligations	1,834	2,166	1,998	1,686	819	112	112	112	112	112	112
Principal (repurchases)	1,451	1,780	1,736	1,498	690	0	0	0	0	0	0
Interest charges	383	386	262	189	129	112	112	112	112	112	112
Prospective purchases											
Disbursements	3,340	4,024	1,328	1,945	972	0	0	0	0	0	0
Stock 1/	3,340	7,363	8,691	10,636	11,385	10,634	9,353	7,821	5,967	4,032	2,320
Obligations 2/	128	365	583	668	978	1,488	1,947	2,094	2,290	2,213	1,871
Principal (repurchases)	0	0	0	0	223	751	1,281	1,532	1,854	1,935	1,712
Interest charges	128	365	583	668	755	737	666	562	436	278	159
Stock of existing and prospective Fund credit 1/	9,043	11,287	10,878	11,326	11,385	10,634	9,353	7,821	5,967	4,032	2,320
In percent of quota 2/	450	561	541	563	566	528	464	388	296	200	115
In percent of GDP	4.5	5.5	4.8	4.6	4.4	4.0	3.3	2.6	1.9	1.2	0.7
In percent of exports of goods and nonfactor services	13.7	14.8	13.3	12.3	10.9	9.4	7.7	6.0	4.3	2.7	1.4
In percent of gross reserves	22.7	25.9	22.6	21.5	18.7	16.9	13.5	10.6	8.0	5.3	2.9
In percent of public external debt	7.0	6.8	5.8	5.6	5.4	5.0	4.4	3.7	2.8	1.9	1.1
Obligations to the Fund from existing and prospective Fund credit	1,963	2,532	2,581	2,354	1,797	1,600	2,059	2,207	2,402	2,325	1,983
In percent of quota	97.6	125.8	128.3	117.0	89.3	79.5	102.2	109.5	119.1	115.2	98.2
In percent of GDP	1.0	1.2	1.1	1.0	0.7	0.6	0.7	0.7	0.8	0.7	0.6
In percent of exports of goods and nonfactor services	3.0	3.3	3.1	2.6	1.7	1.4	1.7	1.7	1.7	1.5	1.2
In percent of gross reserves	4.9	5.8	5.4	4.5	3.0	2.5	3.0	3.0	3.2	3.1	2.5
In percent of public external debt service	59.4	27.0	44.6	32.7	19.0	15.2	15.5	16.0	15.7	15.1	13.3

Source: Fund staff estimates and projections.

1/ End of period.

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

Table 7. Ukraine: Proposed Schedule of Reviews and Available Purchases

Availability Date	Millions of SDR	Millions of USD 1/	Percent of quota	12-month access 2/	Cumulative access 2/	Conditions
March 31, 2023	2,011.83	2,707.59	100.0	150.0	449.0	Board approval of the EFF
June 15, 2023	663.90	893.50	33.0	183.0	473.0	First review and continuous and end-April 2023 performance criteria
October 13, 2023	663.90	893.50	33.0	166.0	465.0	Second review and continuous and end-June 2023 performance criteria
February 29, 2024	663.90	895.94	33.0	199.0	478.0	Third review and continuous and end-December 2023 performance criteria
June 15, 2024	1,669.82	2,253.43	83.0	149.0	505.0	Fourth review and continuous and end-March 2024 performance criteria
September 1, 2024	834.88	1,126.68	41.5	190.5	523.0	Fifth review and continuous and end-June 2024 performance criteria
December 1, 2024	834.88	1,126.68	41.5	199.0	561.0	Sixth review and continuous and end-September 2024 performance criteria
March 1, 2025	684.02	921.22	34.0	200.0	559.0	Seventh review and continuous and end-December 2024 performance criteria
August 31, 2025	684.02	921.22	34.0	151.0	562.0	Eighth review and continuous and end-June 2025 performance criteria
March 1, 2026	965.68	1,296.82	48.0	82.0	570.0	Ninth review and continuous and end-December 2025 performance criteria
August 31, 2026	965.68	1,296.82	48.0	96.0	591.0	Tenth review and continuous and end-June 2026 performance criteria
March 10, 2027	965.74	1,291.24	48.0	96.0	599.0	Eleventh review and continuous and end-December 2026 performance criteria
Total	11,608.25	15,624.63	577.0			
Memorandum item:						
Quota	2,011.8					

Source: IMF staff calculations.

1/ Based on WEO January 2023 forecasts for annual average USD/SDR exchange rates.

2/ Current 12-month and cumulative normal access limits are 200 and 600 percent of quota, respectively.

Table 8. Ukraine: Quantitative Performance Criteria and Indicative Targets 1/

(End of period, millions of Ukrainian hryvnia, unless otherwise indicated)

	2022		2023				
	December		March	April	June	September	December
	QT	Act.	PMB (IT)	QPC	QPC	IT	QPC
I. Quantitative Performance Criteria 1/2/							
Floor on the non-defense cash primary balance of the general government, excluding budget support grants (- implies a deficit)	86,950	402,002	-8,240	258,352	318,502	337,998	96,737
Floor on net international reserves (in millions of U.S. dollars) 3/	15,000	17,879	11,500	15,500	15,500	15,500	15,500
Floor on tax revenues (excluding Social Security Contributions)				451,700	696,400	1,094,700	1,679,170
II. Indicative Targets 1/ 2/							
Floor on the overall cash balance of the general government, excluding budget support grants (- implies a deficit)	-1,425,762	-1,298,698	-506,476	-356,500	-638,300	-1,046,000	-1,708,700
Ceiling on general government borrowing from the NBU 4/ 5/	388,500	388,400	-7,600	-2,551	-2,573	-1,153	-704
Ceiling on general government arrears				6,000	4,500	3,000	1,600
Floor on social spending				187,000	258,100	372,600	499,600
III. Continuous performance criteria 1/2/							
Ceiling on non-accumulation of new external debt payments arrears by the general government				0	0	0	0
Ceiling on publicly guaranteed debt				20,000	37,000	37,000	37,000
IV. Memorandum Items 1/2/							
External project financing	51,733	48,700	13,713	23,718	28,453	42,660	56,852
Budget support grants	461,940	456,270	182,843	178,363	268,871	404,632	422,916
Budget support loans	577,814	562,446	164,559	324,762	531,646	713,899	945,126
Interest payments				39,052	129,702	183,898	279,937
NBU profit transfers to the government	19,700	19,700	71,000	71,600	71,600	71,600	71,600
Net financing of the general government deficit by commercial banks 2/ 5/ 6/	-101,223	-77,323	-5,434	51,533	175,213	266,420	329,692
Government bonds for the purposes of bank recapitalization and DGF financing	0	0	0	0	0	0	0
Called guaranteed debt principal 2/	15,000	2,645					
Spending from receipts resulting from sales of confiscated Russian assets and transfers of bank accounts				8,000	17,000	17,000	17,000
Spending on gas purchases, PSO compensation and transfer to GTSO				10,000	30,000	45,000	60,000

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

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

2/ Targets and projections for 2023 are cumulative flows from January 1, 2023, unless otherwise noted.

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

4/ For end-April, calculated cumulative from April 1, for end-June from May 1, for end-September, July 1; and for end-December, October 1.

5/ Cumulative flows from April 1, 2023

6/ Calculated using the projected redemption of government bonds for 2023 as of March 11, 2023

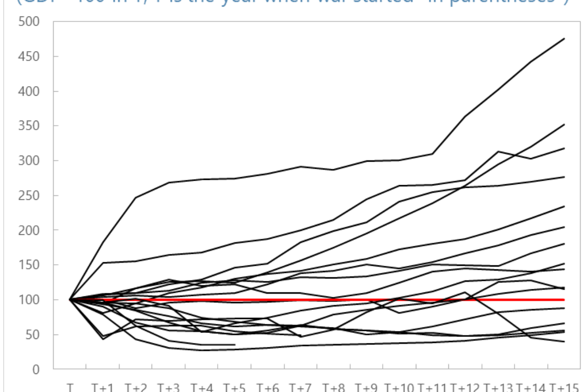
Annex I. Post-War Recoveries

By damaging productive capacity, wars have been found to substantially lower the affected country's output level. However, past conflict cases suggest that the pace of economic recovery following the outbreak of a war is highly heterogenous, depending inter alia on the duration and intensity of the conflict, the extent of external reconstruction support, and institutional settings. This annex examines several conflict cases to highlight the variation in post-war recoveries.

1. **Wars have largely been found to negatively impact output.** For countries on whose territory wars are fought[1], recent studies have helped quantify the negative effect of war on GDP. Using a sample of 400 wars over the last two centuries, Koczan and Chupilkin (2022) find GDP per capita is lower on average by 7 percentage points following the end of the war. Theis and Baum (2020) find that the impact of wars on GDP per capita varies with the intensity of war; for wars with the highest battle deaths (e.g., Vietnam 1955), per capita GDP can decline by up to a fifth over a five-year period. The literature suggests that civil wars generally bring larger costs to output than inter-state wars (Koczan and Chupilkin 2022, Murdoch and Sandler 2002). Wars can affect output levels through several channels: the destruction of human and physical capital during the war, dislocations in logistics and labor markets (including from outward and internal migration), as well as widespread uncertainty that could deter investment and trade, weighing on total factor productivity.

Real Output following Outbreak of War

(GDP=100 in T; T is the year when war started -in parentheses-)



Source: WEO. Countries in war defined as in UCDP/PRIO Armed Conflict Dataset v22.1. Conflict identified as incompatibility about territory by two or more governments with an intensity of at least 1000 battle related deaths in a given year, and battle in their territory.

2. **There is significant variation in the pace of post-war recoveries**. Using data on inter-state conflict cases from the Uppsala Conflict Data Program (UCDP) and the Peace Research Institute of Oslo (PRIO)'s Armed Conflict Dataset, the Economies at War Atlas, and real GDP from the IMF World Economic Outlook Database, we find that real GDP per capita returns to pre-war levels within five years for about half the sample (see Figure, and Table 1). However, there is sizable variation within the sample, with output remaining even below pre-war levels at 10 years following the outbreak of war for several drawn-out conflicts (Democratic Republic of the Congo, Eritrea 1998, Lebanon 1982, Sierra Leone).

3. **Several elements can help explain the strength of post-war recovery**, including:

[1] This would exclude countries that are party to a conflict but whose territory is not directly impacted (e.g., the United States in the Iraq or Afghanistan wars). Koczan and Chupilkin (2022) find that GDP per capita can increase for countries involved in wars outside of their territory.

- **Intensity and duration of the war.** Longer, more intense wars result in greater destruction of capital stock and erosion of human capital. Rapid improvements in GDP levels often reflect a more abbreviated duration or limited damage to key productive sectors of the economy (Kuwait 1991). Longer wars are also more expensive to wage amid worsening economic conditions; indeed, several wars are associated with economic crises that further impair post-war recoveries.

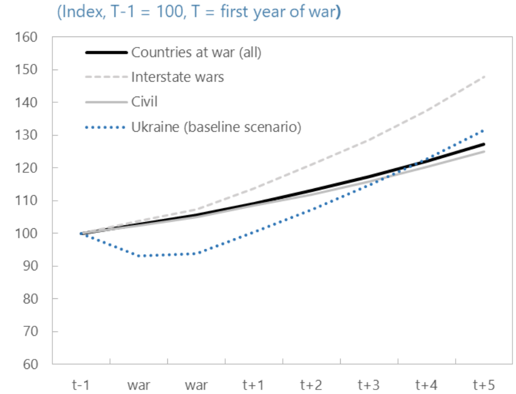
- **The resolution of the war.** Whether there is a definitive end to the war as opposed to a long *stalemate* is an important consideration in supporting a recovery. Longstanding fragility due to unresolved conflict can impair growth (e.g., Lebanon, Georgia, Yemen). The risk of repeat conflicts is also found to be high; with the Economies at War database highlighting that only a fifth of wars are followed by at least 25 years of peace. Heightened uncertainty around whether hostilities could resume tends to dampen consumer sentiment and deter investment, as well as keep reconstruction assistance at bay.

- **Extent of post-war reconstruction support.** A concerted reconstruction drive, including supported by external financial and technical support, can play an important role in quickly replenishing the capital stock, encouraging the return of labor, raising productivity, and strengthening investment and trade links. Notable examples include the reconstruction of Western Europe (Marshall Plan) following World War II, and South Korea following the Korean War (1950). However, even if sizable resources for reconstruction are available, absorption capacity can play an important role in lifting output levels: for example, following World War II, despite significant external assistance it took Japan nearly 25 years to recover to pre-war output levels.

- **Institutional strength.** The postwar recovery has generally been stronger in cases with strong institutional settings (strong rule of law, economic freedom) and a quicker return to domestic political stability.

4. The ongoing war in Ukraine differs from that in 2014/15 in several important ways, that could have implications for the pace of the recovery. The destruction of the capital stock (60 percent of pre-war GDP in 2022 compared with 10 percent of pre-war GDP in 2014–15) is much more severe, and also larger than many other conflict cases.

Capital stock
(Index, T-1 = 100, T = first year of war)



Annex II. Ukraine: Preliminary Exchange Rate Assessment (EBA-lite)

Staff has applied the EBA-lite approach to inform thinking in the near- and medium-term on Ukraine's external position. The application of the EBA-lite approach is a major challenge at this juncture as the outsized economic impact of the war makes it hard to derive cyclically adjusted aggregates. Overall, the external sector position is assessed to be moderately weaker than the level implied by fundamentals but appears stable in the near term as strong donor support anchors the program and is expected to continue.

1. Adjustments to the EBA-lite model results are needed to reflect temporary phenomena, as well as judgements around desirable policy levels amidst exceptionally high uncertainty, notably:

- *Significant grant inflows*. Official concessional financing support is expected to be sustained into the medium term, with disbursed and forecasted official grant support expected to average about 8.5 percent of GDP over 2022-2024, and thereafter gradually decline over time. To better capture the persistence of grants, the current account is adjusted to reflect the longer-term structural increase in grant support, or 5 percent of GDP (i.e., the average of 2022–2030).

- *Uncertainties around the cyclically adjusted fiscal balance*. The EBA-lite approach requires an estimate of the cyclically-adjusted fiscal balance, which is difficult in the context of a deep structural break, involving a significant increase in defense spending and needs for recovery. For the purposes of this analysis, the cyclically-adjusted fiscal balance is assumed to be fixed at the pre-war level.

- *Strict capital controls dampen the risk of a large reserve drain*. Pending an update of the Financial Account Restrictiveness Index (FARI), the current policy setting for capital controls is set at the level prevailing after the 2014-2015 Russian invasion.

- *The level of reserves and the policy interest rate are considered appropriate for the circumstances*. The forecast level of reserves appears adequate in a context of donor assurances for grant and concessional loan support, including in an adverse scenario. Moreover, commitments to maintain an appropriately tight monetary policy stance further underpin the adequacy of policies. In that context, the change of reserves is set at zero and the real interest rate is aligned to the prevailing level.

- *Private credit growth is expected to stabilize at a higher level*. The desirable level of private credit is set at 35 percent of GDP, somewhat lower than the previous ESA that assumed 40 percent of GDP as the desirable policy level. This downgrade recognizes the low policy level currently (28 percent of GDP) and the limited scope for policy measures to strengthen financial intermediation in the near term.

- *The desirable policy level for the cyclically adjusted fiscal balance is set at the projected level for 2033,* a point at which war-related impacts would be substantially reduced.

2. **Overall, the external sector position is assessed to be moderately weaker than fundamentals, but Ukraine's external position appears stable in the near term.** 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 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, although the misalignment is slightly larger and suggests a weak external position relative to fundamentals. The external sustainability approach also suggests that Ukraine's external position is weaker than warranted by fundamentals. The finding of an external position that is moderately weaker than fundamentals is broadly consistent with the prevailing spreads on the official UAH/USD exchange rate versus those in the gray market: spreads have remained stable since July 2022, underpinned by strong donor support. Donor commitments to continue to support Ukraine in the near term, including in a potential adverse scenario, provides an anchor to external stability.

Ukraine: EBA-lite Model Results, 2022

	CA model 1/	REER model	ES model
	(in percent of GDP)		
CA-Actual	**5.7**		
Cyclical contributions (from model) (-)	0.9		
Additional temporary/statistical factors (-)	0.0		
Natural disasters and conflicts (-)	2.0		
Adjustment for grants 2/	5.0		
Adjusted CA	**-2.2**		
CA Norm (from model) 3/	**-1.1**		
Adjustments to the norm (-)	0.0		
Adjusted CA Norm	**-1.1**		
CA Gap	**-1.1**	**-4.1**	**-2.2**
o/w Relative policy gap	3.5		
Elasticity	-0.3		
REER Gap (in percent)	**3.5**	**13.0**	**7.1**

1/ Based on the EBA-lite 3.0 methodology
2/ Forecast of average level of official grants relative to GDP during 2022-2028.
3/ Cyclically adjusted, including multilateral consistency adjustments.

3. **Ukraine's longer-run external position is subject to high uncertainty.** The policy gaps identified under the EBA-lite approach shed light on the critical factors going forward, as Ukraine's overall policy gap is largely explained by relatively low public health expenditure (a proxy for the strength of social insurance policies), a loose fiscal balance, and the need to maintain reserves. These policy gaps could widen if there is an intensification of social needs, fiscal financing pressures, and import needs to rehabilitate public and private infrastructure and replenish energy inventories, coupled with an uncertain recovery for exports. On the latter, the important agricultural and metals sectors have suffered significant war-related scarring, and their recovery hinges on renewed sea-based shipping. There is also uncertainty around the pace at which migrants return to Ukraine, and how many will choose to remain abroad. A limited or slow return is likely to increase private remittance inflows in the future, which international experience suggests is linked to increased consumption and higher current account deficits. In contrast, the greater migration abroad as a part of family reunification may lead to a decline in remittances in the long-run period. Finally, a large-scale rebuilding of the country funded by foreign donors would likely stretch Ukraine's absorptive capacity and if productivity does not improve commensurately, lead to real appreciation and a loss of competitiveness. These and other issues will be explored in more depth as Ukraine's post-war strategy takes shape.

Annex III. Risk Assessment Matrix 1/

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

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

Risks and Risk Likelihood		Expected Impact	Policy Response
		External Risks	
Commodity price volatility. A succession of supply disruptions (e.g., due to conflicts and export restrictions) and demand fluctuations (e.g., reflecting China reopening) causes recurrent commodity price volatility, external and fiscal pressures, and social and economic instability.	**High**	**High.** High energy prices could further strain consumption and business activity and widen fiscal and external financing needs. Low and/or volatile prices for agriculture products amid logistical costs could alter sowing decisions for future agriculture seasons.	Continue rationing access to energy to priority areas. Secure alternative sources and storage for gas through the heating season. Targeted transfers to most vulnerable groups within the existing budget envelope.
Monetary policy miscalibration. Amid high economic uncertainty and volatility, major central banks slow monetary policy tightening or pivot to loosen monetary policy stance prematurely, de-anchoring inflation expectations and triggering a wage-price spiral in tight labor markets.	**Medium**	**Low.** Although a slowing in the pace of tightening could ease financing conditions, the specificities of Ukraine's situation limit the impact of this channel. In Ukraine itself, during the war, inflation in Ukraine is largely cost-based, demand remains weak, and labor markets are experiencing widespread dislocation, limiting the scope for a wage-price spiral. In addition, the monetary policy stance is likely to remain tight regardless of the stance in other countries to safeguard price and external stability. Borrowing costs are unlikely to materially decline given persisting risk premia as the war continues.	Maintain appropriate macroeconomic policies to anchor inflation expectations. Diversify external financing sources. Mobilize domestic financing.
		Domestic Risks	
Social unrest.	**Medium**	**High.** Rising inflation, declining real incomes, and worsening inequality could amplify social unrest and undermine national unity, resulting in counterproductive populist policies that widen fiscal and external imbalances, delay adjustment, and stall reform momentum.	Maintain appropriate macroeconomic policies to safeguard stability. Targeted transfers to most vulnerable groups within the existing budget envelope.

Domestic Risks			
Loss of reform momentum.	**Medium**	**High.** Poor governance, corruption, retrenchment of oligarchic interests, and lack of oversight on the use of external funding could decrease incentives for reform. Lack of progress on reforms exacerbates financing gaps and reduces future external financing inflows.	Adhere to governance reforms while maintaining recent progress made in strengthening anti-corruption and judicial institutions. Mobilize domestic financing.
Structural Risks			
Deepening geo-economic fragmentation. Broader and deeper conflict(s) and weakened international cooperation lead to a more rapid reconfiguration of trade and FDI, supply disruptions, technological and payments systems fragmentation, rising input costs, financial instability, a fracturing of international monetary and financial systems, and lower potential growth.	**High**	**High.** Ukraine remains at the fault line of ongoing geopolitical tensions and being a trade dependent economy is exposed to supply chain issues.	Maintain appropriate macroeconomic policies to safeguard stability, and ensure adequate resources for core functions of the state. Diversify trade products, supply chains, and partners. Continue with reforms to support competitiveness and increase productivity.
Cyberthreats. Cyberattacks on critical domestic and/or international physical or digital infrastructure (including digital currency and crypto ecosystems) trigger financial and economic instability.	**Medium**	**High.** In the context of the war, Ukraine remains exposed to attacks on critical infrastructure (electricity, heat, and water), while attacks on digital infrastructure could disrupt the banking system and economic activity more broadly, particularly given the reliance on non-cash payments during the war.	Strengthen digital infrastructure and cybersecurity. Diversify electricity, energy, and water supplies.

Annex IV. Debt Sustainability Analysis

This DSA presents a pre-restructuring baseline scenario, which is complemented by a pre-restructuring downside scenario DSA discussed in Annex V, both of which show that debt is unsustainable in the absence of debt treatment. However, commitments in terms of exceptional financial support, including debt relief, have been secured to ensure Ukraine's debt sustainability in both the baseline and downside scenarios. Public debt is thus assessed to be sustainable on a forward-looking basis.

1. This is an update of the DSA that accompanied Ukraine's December 2022 request for Program Monitoring with Board involvement (PMB). The previous DSA determined that Ukraine's macroeconomic situation, following the severe war shock, had stabilized somewhat over the second half of the year (see IMF Country Report No. 22/387). The baseline scenario assumed a stabilization in 2023 as the economy adjusts to a protracted war, but also that activity would remain weak amidst a lower harvest, subdued consumer sentiment, and attacks on the energy infrastructure. Looking into the medium term, the DSA pointed to unusually large and unique uncertainties, notably on the duration of the war or the scale of reconstruction, leading to several plausible but widely differing scenarios that would yield varying debt and GFN trajectories. With that in mind, it stressed the tentative and modest nature of the medium-term macroeconomic and financing assumptions, yielding an elevated and relatively flat debt trajectory into the future.

2. Given that the uncertainties on Ukraine's macroeconomic outlook remain exceedingly high, Ukraine's EFF request makes use of two possible medium-term scenarios—baseline and downside. Both scenarios build from the same 2022 outturn, and this annex focuses on the baseline assumptions going forward, while Annex V includes a detailed discussion of the downside assumptions, as well as relevant DSA figures.

- **2022 Outturn.** While the war continues to severely impact the economy, activity stabilized somewhat in the third and into the fourth quarters, and the economic contraction for the year is estimated to be 30.3 percent (33 percent previously). Inflation is high and the 2022 outturn was broadly in line with expectations, and the GDP deflator was 28.7 percent (forecast was 28.5 percent). Disbursed and prospective external official financing was a significant US$32 billion, and only US$0.5 billion lower than expected, and over 40 percent came in the form of grants. Nonetheless, given extreme fiscal pressures from defense and social needs, the primary deficit was 13.4 percent of GDP, which was better than the early forecast of 17.9 percent. The total public debt stock at end 2022 was 82.1 percent of GDP.[1]

[1] The DSA perimeter includes a disputed Russian claim of US$605.86 million as of end-2022. In February 2016, the Trustee of the Eurobond held by Russia's National Wealth Fund brought summary proceedings in the England and Wales 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 U.K. Court of Appeal reversed the summary judgement and returned the case to the High Court for full trial. Russia appealed to the Supreme Court and on March 15, 2023, the Supreme Court handed down its final judgment rejecting the Trustee's appeal. The Court ruled that Ukraine's defense

(continued)

Debt service standstills have been in effect since August 2022 as agreed with official bilateral and private Eurobond and GDP warrant holders, and staff did not encounter any evidence of external arrears.

- **Macroeconomic Outlook.** The revised baseline scenario assumes a weaker growth trajectory in the near-term, with Ukraine's economy expected to contract 3 percent in 2023 (versus a positive growth rate of 1 percent previously). The markdown reflects the continuing war, now assumed to persist longer, as well as deeper economic scarring. The scenario assumes no significant reconstruction effort, so the economic recovery is expected to be measured with only a brief peak above the country's growth potential, estimated at around 3.5 percent. Inflation is expected to recede only slowly, reaching a stable level only in the longer term. Downside risks remain very large, notably on potential spillovers from accruing damage to energy infrastructure, and significant uncertainties on the outlook for agricultural activity; continued extensions of the Black Sea Grain Initiative will be critical to this end.
- **Financing Assumptions.** The external financing assumptions for 2023 are broadly unchanged at around US$42 billion and identified financing commitments are sufficient to fill the external financing need for the year. Budget support grants are expected to total about US$11.6 billion, somewhat less than the US$18 billion assumed under the previous DSA, but the remainder is generally highly concessional lending. The pre-structuring baseline scenario reflects the expiration of the agreed debt service standstills with bilateral official lenders (with payments resuming at the start of 2024) and private bondholders (as of August 2024). The medium-term (2024–27) assumes further official financing of over US$80 billion, with annual levels falling over time. It is assumed that around 80 percent of Ukraine's external financing would come in the form of concessional loans, and a further 20 percent in the form of grants. The support would be required to buttress post-war macroeconomic stability; while no commitments are in place beyond early 2024, there are specific and credible assurances that these financing needs will be filled as the EFF progresses. In the longer term, the scenario involves relatively smaller flows of official financing of US$8-9 billion per year, which includes a return to market financing in the extended projection (starting 2029).

3. **Without additional financial support on appropriate terms, including debt restructuring, Ukraine's debt is assessed to be unsustainable in both the baseline and downside scenarios**. The pre-restructuring baseline DSA sees debt increase to over 105 percent of GDP by 2024, as result of projected primary deficits given high defense spending, and then gradually decline to 78 percent of GDP by 2033 as the country recovers from the war. As a result, the medium-term modules signal high sovereign stress risks, notably a very wide fanchart that points to very high uncertainty around this forecast, and the GFN stress tests that find persistently high financing needs, especially in the near term. Under the downside DSA, the debt trajectory deteriorates substantially relative to the baseline, and the vulnerabilities captured by the fanchart and GFN tools are further amplified.

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based on physical duress should be subject to full trial on the merits and dismissed the Trustee's Summary Judgment application on this basis. The matter is now expected to proceed to trial.

4. Debt sustainability can be restored on a forward-looking basis with sufficient restructuring and assurances for highly concessional lending during and after the program. In Ukraine's case, illustrative modeling indicates that medium-term external viability can be achieved where average gross financing needs are contained to 8-9 percent of GDP in the post-program period (i.e., 2028–2033) and the debt-to-GDP ratio declines to 60–65 percent of GDP. Staff expects this to be achieved given: (i) official bilateral creditors' commitment to extend the debt service standstill through the program period, with a commitment to restructure to amounts needed in the baseline and a definitive debt restructuring based on updated data when the high uncertainty ends (or around the time the proposed Fund-supported program ends); (ii) the Ukrainian authorities' commitment to seek an agreement on comparable terms with private external commercial creditors and the credible process underway to this end; and (iii) the credible and specific assurances from donors about support on adequate financial terms, in both the baseline and downside scenarios.

Ukraine: Risk of Sovereign Stress

Horizon	Final assessment	Comments
Overall	**High**	The overall risk of sovereign stress in the baseline scenario is high, and that vulnerability is amplified in the downside scenario, reflecting high vulnerabilities in the medium-term horizon.
Near term	n.a.	Not applicable.
Medium term	**High**	Medium-term risks are assessed as high. The fanchart indicates very high uncertainty around the debt trajectory, and the financeability tool finds high liquidity risks compared to relevant comparators.
Fanchart	…	
GFN	…	
Stress test	…	
Long term	**High**	The long-term modules have not been activated given high uncertainty and data gaps. Future DSAs will need to investigate changes to Ukraine's demographic structure due to the war, notably through large scale movements of refugees, and any potential impact on the sustainability of public pensions.
Sustainability assessment	Unsustainable in a pre-restructuring scenario	Restoring medium-term external viability requires policy commitments, as well as specific and credible safeguards commitments and exceptional financing from creditors and donors, including debt relief, consistent with achieving a manageable level of gross financing needs such that debt stabilizes at a sustainable level.
Debt stabilization in the baseline		No

DSA summary assessment

Commentary: Ukraine's debt is assessed to be unsustainable in a pre-restructuring scenario. Debt sustainability on a forward-looking basis is contingent on strong policy commitments and financing assurances and specific and credible assurances of debt relief that achieves the GFN targets of 8-9 percent of GDP and public debt of 60-65 percent of GDP (in a post-restructuring scenario). These debt targets are judged to be consistent with a manageable level of gross financing needs and those strong prospects that debt stabilizes at a sustainable level. With such commitments and assurances, the pre-resturcturing baseline scenario underlines the impact of high projected primary deficits and an anticipated slow recovery from the war. The medium-term modules signal high sovereign stress risks, notably a wide fanchart that points to very high uncertainty around the forecast, and the GFN stress tests that find persistently high financing needs, especially in the near term.

Source: Fund staff.

Note: The risk of sovereign stress is a broader concept than debt sustainability. Unsustainable debt can only be resolved through exceptional measures (such as debt restructuring). In contrast, a sovereign can face stress without its debt necessarily being unsustainable, and there can be various measures—that do not involve a debt restructuring—to remedy such a situation, such as fiscal adjustment and new financing.

Ukraine: Debt Coverage and Disclosures

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

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

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

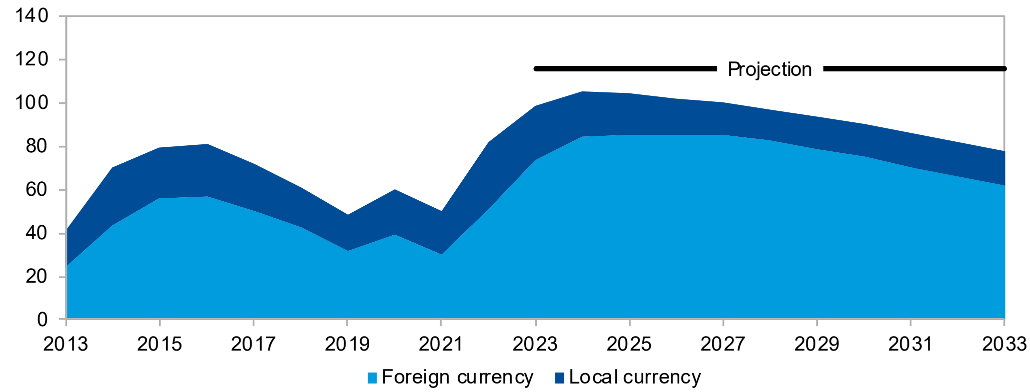
4. Accounting principles:	Basis of recording		Valuation of debt stock		
	Non-cash basis 4/	Cash basis	Nominal value 5/	Face value 6/	Market value 7/

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

Commentary: This DSA is based on end-2022 debt stock data. As previously, the coverage of public debt 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, nor does it include Ukraine's GDP warrants. Data concering debt consolidation across sectors is not available.

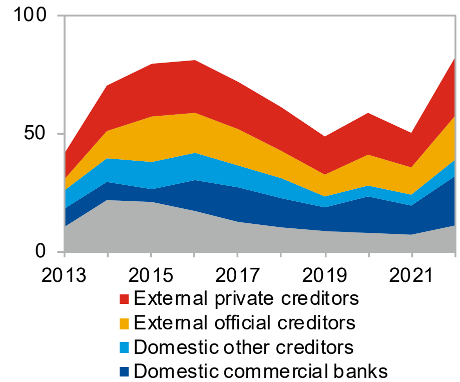
Ukraine: Public Debt Structure Indicators under Pre-restructuring Baseline Scenario

Debt by currency (percent of GDP)



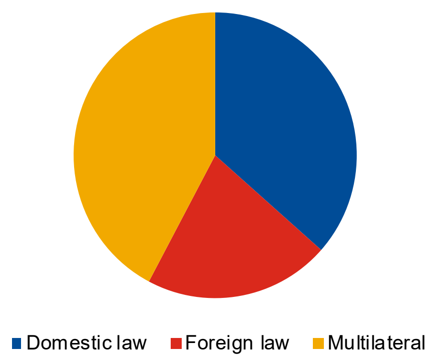
Note: The perimeter show n is general government.

Public debt by holder (percent of GDP)



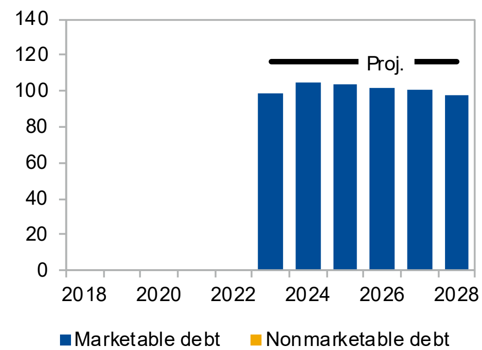
Note: The perimeter show n is general government.

Public debt by governing law, end-2022 (%)



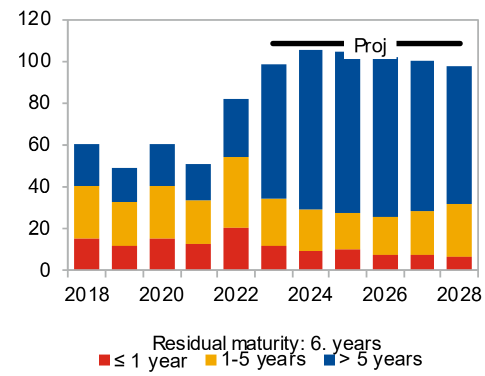
Note: The perimeter show n is general government.

Debt by instruments (percent of GDP)



Note: The perimeter show n is general government.

Public debt by maturity (percent of GDP)



Note: The perimeter show n is general government.

Commentary: The end-2022 debt structure info indicates that externally held debt rose to 62 percent of total public and publicly guaranteed debt, w ith multilateral debt accounting for the largest share (42 percent). Domestic debt is mostly held by residents and denominated in hryvnia. The share of FX debt in total debt is expected to continue to rise based on expected official financing to over 80 percent, and then slow ly begin the decline in the extended projection.

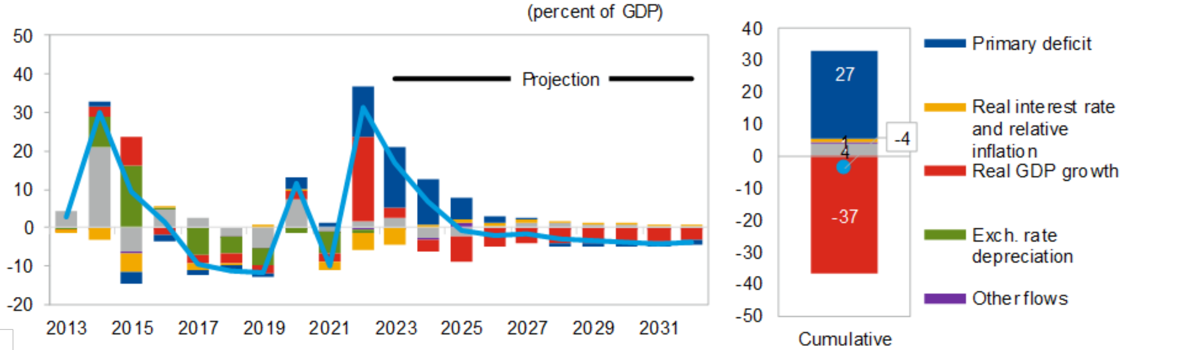
Ukraine: Pre-Restructuring Baseline Scenario

(percent of GDP unless indicated otherwise)

	Actual	Medium-term projection						Extended projection				
	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Public debt	81.7	98.3	105.0	104.1	102.0	100.2	97.2	93.6	89.8	85.6	81.6	77.8
Change in public debt	31.3	16.6	6.7	-0.9	-2.2	-1.8	-3.0	-3.5	-3.9	-4.2	-3.9	-3.9
Contribution of identified flows	29.6	13.9	9.6	1.3	-2.7	-3.1	-4.1	-4.5	-4.6	-4.8	-4.4	-4.2
Primary deficit	13.4	15.8	11.7	5.8	1.4	0.1	-0.8	-1.1	-1.3	-1.5	-1.4	-1.3
Noninterest revenues	53.2	47.3	43.4	42.1	42.1	42.8	43.0	42.8	42.3	42.1	41.9	41.8
Noninterest expenditures	66.6	63.1	55.2	47.8	43.5	42.9	42.2	41.7	41.0	40.6	40.6	40.6
Automatic debt dynamics	16.6	-1.8	-2.1	-5.9	-4.0	-3.1	-3.3	-3.3	-3.3	-3.3	-3.0	-2.9
Real interest rate and relative inflation	-4.4	-4.3	1.0	0.5	0.9	0.9	0.6	0.4	0.3	0.2	0.1	0.1
Real interest rate	-12.8	-14.3	-8.3	-5.5	-2.3	-1.5	-1.7	-1.8	-1.8	-1.8	-1.8	-1.7
Relative inflation	8.4	10.0	9.3	6.0	3.2	2.3	2.3	2.2	2.1	2.0	1.9	1.8
Real growth rate	21.9	2.5	-3.0	-6.4	-5.0	-3.9	-3.9	-3.7	-3.6	-3.5	-3.1	-3.0
Real exchange rate	-0.9	…	…	…	…	…	…	…	…	…	…	…
Other identified flows	-0.4	-0.1	-0.1	1.4	-0.1	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0
Contingent liabilities	0.0	0.0	0.0	1.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other transactions	-0.4	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0
Contribution of residual	1.7	2.7	-2.9	-2.2	0.5	1.3	1.1	0.9	0.8	0.6	0.5	0.4
Gross financing needs	16.7	27.2	27.6	19.1	13.9	10.3	9.9	9.8	9.6	10.2	9.2	8.8
of which: debt service	3.3	11.4	15.8	11.8	12.5	10.2	10.7	10.9	10.9	11.7	10.5	10.1
Local currency	2.4	7.6	8.4	6.1	6.6	5.5	5.0	4.3	4.1	4.4	3.3	3.8
Foreign currency	0.9	3.8	7.4	5.7	6.0	4.8	5.7	6.6	6.8	7.2	7.2	6.4
Memo:												
Real GDP growth (percent)	-30.3	-3.0	3.2	6.5	5.0	4.0	4.0	4.0	4.0	4.0	3.8	3.8
Inflation (GDP deflator; percent)	28.7	27.3	18.0	10.7	6.4	5.0	5.0	5.0	5.0	5.0	5.0	5.0
Nominal GDP growth (percent)	-10.2	23.5	21.7	17.9	11.7	9.2	9.2	9.2	9.2	9.2	9.0	9.0
Effective interest rate (percent)	5.9	5.7	7.7	4.6	3.9	3.4	3.1	3.0	2.9	2.8	2.7	2.7

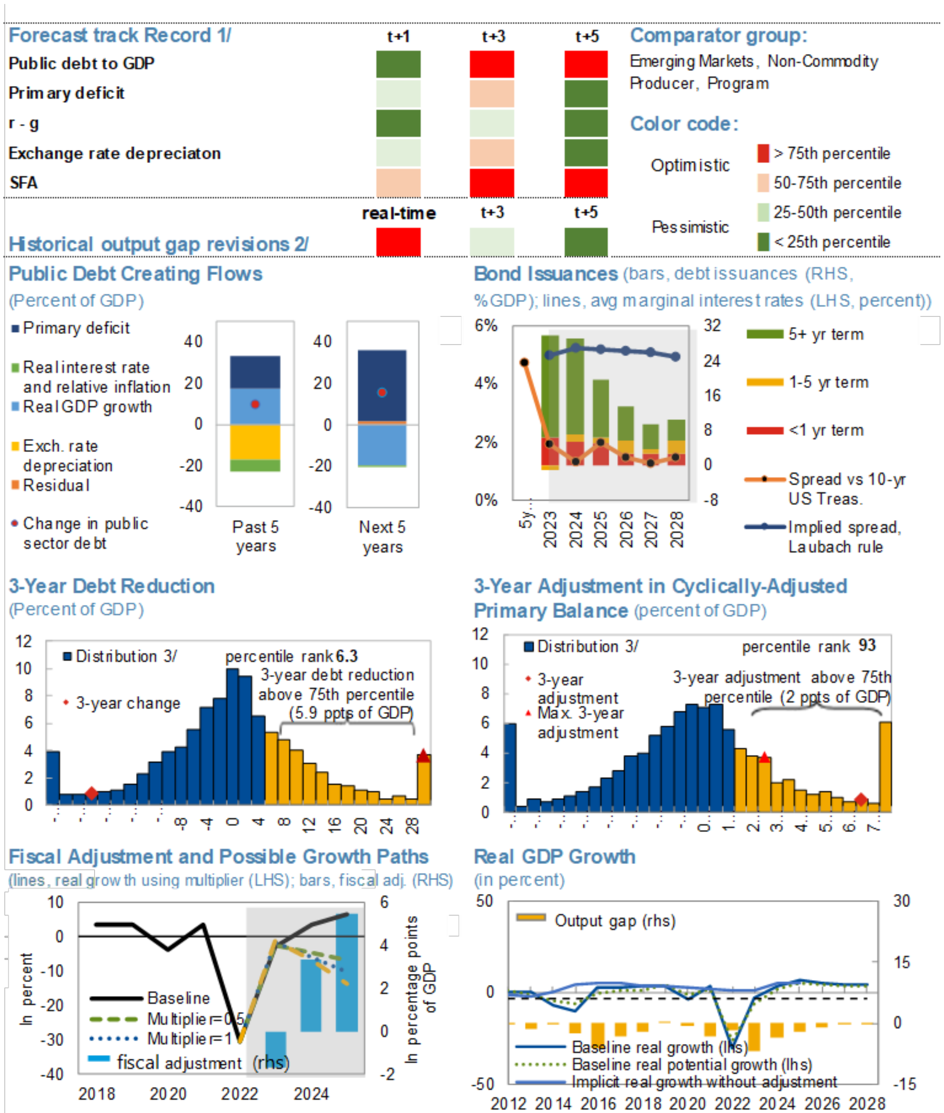
Contribution to change in public debt

(percent of GDP)



Commentary: Impacts from the war trigger a step-rise in Ukraine's debt-to-GDP ratio, but this is smaller than was projected under the PMB request given a better than exected 2022 fiscal outturn. The economic contraction is now expected to persist into 2023, with a recovery taking hold in 2025 as the macroeconoic conditions and confidence improves. Nonetheless, high primary deficits in the near term drive debt higher than previously anticipated, as defense spending unwinds more slowly. This is partly mitigated by the interest rate-growth differential, containing the rise in debt and leading to the decline in the extended projection. Debt service assumptions incorporate the terms of the 2022 debt service standstill agreed with private bondholders and warrant holders, as well as the standstill with a group of official bilateral creditors. The current standstill results in a low effective interest rate in 2022-23.

Ukraine: Realism of the Pre-Structuring Baseline Scenario Assumptions



Commentary: The forecast track record points to persistent optimism for the debt-to-GDP, and stock-flow adjustment indicators flag upward surprises in the medium-term horizon. However, the scale of the war shock and uncertainties about its duration suggest caution in assessing the realism of baseline forecast based on backward-looking tools. The key debt drivers will be the primary deficit and a weak recovery. Substantial long-term official financing drives the maturity structure and interest rate assumptions. The realism of the three-year fiscal adjustment critically depends on the duration of the war and the speed at which deficitd can be reversed. Ukraine has previously achieved a relatively large fiscal adjustment of 5.5 percent of GDP, although this will face considerable headwinds from a slow recovery. The assumptions on multipliers are uncertain amid a deep structural break. The output gap is assumed to close gradually over 5 years.

Source : IMF Staff.

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

2/ Data cover annual obervations from 1990 to 2019 for MAC advanced and emerging economies. Percent of sample on vertical axis.

3/ Starting point reflects the team's assessment of the initial overvaluation from EBA (or EBA-Lite).

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

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

Ukraine: Medium-term Risk Analysis Under Pre-Restructuring Baseline Scenario

Debt fanchart and GFN financeability indexes

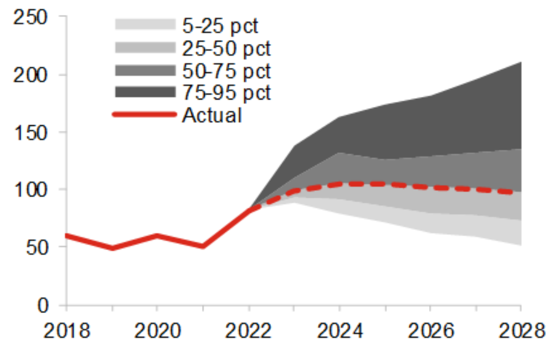
(percent of GDP unless otherwise indicated)

Module	Indicator	Value	Risk index	Risk signal
Debt fanchart module	Fanchart width	159.7	2.3	…
	Probability of debt not stabilizing (pct)	9.2	0.1	…
	Terminal debt level x institutions index	66.4	1.4	…
	Debt fanchart index	**…**	**3.8**	**High**
GFN finance-ability module	Average GFN in baseline	18.0	6.1	…
	Bank claims on government (pct bank assets)	21.3	6.9	…
	Chg. in claims on govt. in stress (pct bank assets)	72.9	24.4	…
	GFN financeability index	**…**	**37.4**	**High**

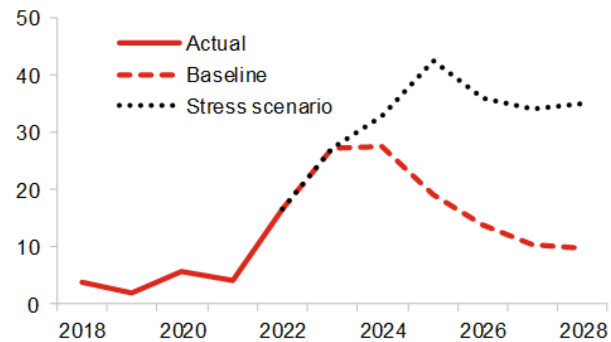
EME, Non-Com. Exp, Program: 0, 25, 50, 75, 100

Legend: Interquartile range; Ukraine

Final fanchart (pct of GDP)



Gross Financing Needs (pct of GDP)

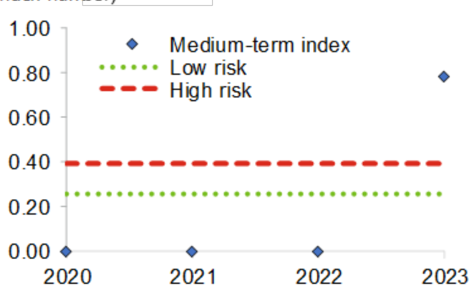


Triggered stress tests (stress tests not activated in gray)

Banking crisis | Commodity prices | Exchange rate | Contingent liab. | Natural disaster

Medium-term index

(index number)



Medium-term risk analysis

	Low risk threshold	High risk threhsold	Weight in MTI	Normalized level
Debt fanchart index	1.1	2.1	0.5	0.9
GFN finaceability	7.6	17.9	0.5	0.7
Medium-term index (MTI)	0.3	0.4	…	0.8, High

Prob. of missed crisis, 2022-2027 (if stress not predicted): 100.0 pct.

Prob. of false alarm, 2022-2027 (if stress predicted): 0.0 pct.

Commentary: Both medium-term modules signal high sovereign stress risks in the baseline scenario. The high risk signal for fanchart width points to a structural break and very high uncertainty around the forecast, and although the metric has decreased slightly relative to the previous DSA, there remains a high probability that debt-carrying capacity is stretched. The GFN stress tests find persistently high financing needs, especially in the near term, as well as very limited scope for banks to absorb government debt, deteriorating the financeability index relative to the previous DSA. As a result, the aggregate signal substantially exceeds the high risk threshold.

Ukraine: Decomposition of Public Debt and Debt Service by Creditor, 2022–24 1/

	Debt Stock (end of period) End 2022			Debt Service					
				2022	2023	2024	2022	2023	2024
	(In US$ bln)	*(Percent total debt)*	*(Percent GDP)*	*(In US$ bln)*			*(Percent GDP)*		
Total	**109.8**	**100.0**	**81.7**	**19.5**	**16.5**	**15.3**	**12.9**	**11.1**	**10.0**
External	**69.9**	**63.6**	**51.9**	**3.0**	**3.0**	**9.2**	**2.0**	**2.0**	**6.0**
Multilateral creditors[2]	38.3	34.9	28.6	1.5	2.4	3.8	1.0	1.6	2.5
IMF[3]	14.0	12.8	10.5	0.6	1.2	1.7	0.4	0.8	1.1
World Bank[4]	8.8	8.0	6.5	0.7	0.8	0.8	0.4	0.6	0.5
Other Multilaterals[4]	15.5	14.1	11.6	0.3	0.4	1.3	0.2	0.3	0.9
o/w: EIB	2.6	2.4	1.9	0.1	0.1	0.1	0.0	0.1	0.1
EBRD	0.8	0.7	0.6	0.2	0.2	0.5	0.1	0.2	0.3
European Union	11.8	10.7	8.8	0.0	0.1	0.7	0.0	0.0	0.5
Others	0.3	0.3	0.2	0.0	0.0	0.0	0.0	0.0	0.0
Bilateral Creditors[2]	4.6	4.2	3.4	0.1	0.1	0.2	0.0	0.1	0.1
Paris Club	4.5	4.1	3.4	0.1	0.1	0.2	0.0	0.1	0.1
Non-Paris Club	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Bonds	22.5	20.5	16.8	0.9	0.0	4.4	0.6	0.0	2.9
Sovereign Eurobonds	22.5	20.5	16.8	0.9	0.0	4.4	0.6	0.0	2.9
Local Government Eurobonds	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Commercial Creditors[4]	4.5	4.1	3.1	0.5	0.4	0.7	0.4	0.3	0.5
Domestic	**39.9**	**36.4**	**29.8**	**16.5**	**13.5**	**6.1**	**10.9**	**9.1**	**4.0**
Held by residents, total	38.3	34.9	28.6	n/a	n/a	n/a	...	...	...
Held by non-residents, total	1.6	1.5	1.2	n/a	n/a	n/a	...	...	...
T-Bills and Bonds	38.0	34.6	28.3	16.0	12.9	5.7	10.5	8.7	3.7
Denominated in local currency	35.0	31.8	26.1	11.6	10.2	5.4	7.7	6.9	3.5
Denominated in foreign currency	3.0	2.7	2.2	4.4	2.7	0.4	2.9	1.8	0.2
Guaranteed Loans and Bonds	1.9	1.8	1.4	0.5	0.5	0.4	0.3	0.4	0.2
Memo items:									
Contingent liabilities	9.8	9.0	6.5						
o/w: Public guarantees	9.8	9.0	6.5						
External guarantees	7.9	7.2	5.2						
External guarantees (IMF loan to NBU)	3.6	3.3	2.4						
External guarantees (Others)	4.3	3.9	2.8						
Domestic guarantees	1.9	1.8	1.3						
o/w: Other explicit contingent liabilities[6]	0.0	0.0	0.0						

1/ As reported by Country authorities according to their classification of creditors, including by official and commercial. Data presented as of end-December 2022, with exchange rate conversions based on WEO projections as of March 2023. 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). Ukraine has represented to the Fund a dispute as to the validity of the Eurobond claim held by Russia, and as such this claim is not reflected in this presentation.

3/ Comprises IMF budget support, lending to National Bank of Ukraine, and use of SDR allocations.

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.

Annex V. Downside Scenario

1. **In light of exceptionally high uncertainty, staff has developed a downside scenario.** The scenario assumes a longer and more intense war compared to the baseline scenario, weighing on sentiment, dampening the pace of return by migrants, and causing further infrastructure damage. This would result in a sharper real GDP decline of -10 percent in 2023 and a further contraction of 2 percent in 2024. In view of continuing high defense needs, the fiscal deficit would be higher in 2023–24 and improve more gradually thereafter. Imbalances in the FX market would be expected to persist for longer, given continuing constraints on exports, leading to higher nominal depreciation, though the extent of real depreciation would be contained by relatively higher inflation. The subsequent recovery would be more subdued than in the baseline scenario, given the even greater damage to the capital stock, slower return of migrants, and weakened balance sheets, leaving output to remain well-below pre-war levels.

2. **The cumulative financing gap in the downside scenario would reach around US$140 billion, about a US$25 billion increase compared to the baseline forecast for 2023–27, requiring additional steps to ensure debt sustainability.** The entirety of the additional financing in this downside scenario would need to be in the form of highly concessional loans (close to grant terms). In addition, given the presence of exceptional financing of US$7.1 billion per year in the 5-year post-program period, this scenario would also require some mix of additional grants in the program period, highly concessional financing consistent with assurances received, and a further debt treatment to ensure debt sustainability. This would decrease total public debt to around 60 percent of GDP by the end of the 10-year projection, and a manageable level of gross financing needs of 8-9 percent of GDP per year in the post-program period, thus underpinning debt sustainability on a forward-looking basis.

3. **Since the start of the war, the authorities have decisively taken measures to respond to shocks as they have materialized, carefully balancing the need for a prompt and effective response with material social considerations.** As underscored in the MEFP (¶8), these included a multitude of measures, including streamlining capital expenditure and other lower priority expenditure items, identifying additional financing, and implementing decisive measures to maintain financial stability and protect FX reserves, including through capital controls. The authorities have further enhanced their track record by demonstrating their ability to take on additional reforms and measures in the PMB to achieve economic and financial stability,

4. **Building on this track record of effective economic management, the authorities stand ready to react decisively to a potential downside scenario through a prompt policy response.** The authorities stand ready to take appropriate policy measures as needed. Contingency plans would require a mix of increases in tax revenues, larger mobilization of domestic financing, and likely further CFMs (whose use would be justified, given the exceptional circumstances, by their temporary role as part of a broader policy package). On the fiscal side,

given the very compressed nature of expenditures in the 2023 budget, the bulk of the adjustment would come from tax measures that could be effectively and rapidly implemented to boost revenues. In parallel, the authorities would use necessary measures to access additional domestic financing as needed to ensure that financing gaps are closed, without compromising economic and financial stability. Temporary pressures on the exchange rate peg may require the reintroduction of some CFMs or FX controls used in the earlier days of the war, such as a critical import list to prioritize use of FX, the tightening of repatriation requirements, and tighter limits on usage of payment cards abroad.

5. **If the severity of shocks pushes the situation beyond the downside scenario, additional measures may need to be undertaken, and the authorities have the commitment and capacity to implement such measures.** The war has already taken a very heavy toll on the country and depleted many of the policy buffers that were available in early 2022. Renewed shocks may compel the authorities to take temporary unconventional measures. Depending on the size of the financing need, staff considers that there are contingency measures that could further boost revenues (e.g., a solidarity tax in the form of a supplement to the PIT, and/or an additional tax on luxury goods, or excise duties/fees) and mobilizing domestic bond financing on a larger scale may be required. The latter could include administrative measures requiring banks to hold a stipulated amount in or a minimum holding period of government securities, possibly differentiating among banks based on the degree of individual bank's liquidity conditions. Secondary purchases of government bonds by the NBU might also serve as a backstop for the primary market. Instruments such as inflation or exchange-rate linked bonds could be considered. Finally, in case of permanent pressures on the exchange rate but a still adequate level of reserves, some combination of expanded CFMs and FX controls, as well as proactive FX policies, could be considered. Moreover, while the scope for tightening the fiscal position is already highly constrained, ultimately spending under certain categories would be contingent on the flow of highly concessional/grant-based external financing.

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

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

	2021	2022		2023		2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
	Act.	PMB Request	Proj.	PMB Request	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Real economy (percent change, unless otherwise indicated)															
Nominal GDP (billions of Ukrainian hryvnias) 1/	5,460	4,700	4,900	6,100	5,800	7,200	8,200	9,150	10,039	10,942	11,925	12,997	14,166	15,439	16,821
Real GDP 1/	3.4	-33.0	-30.3	1.0	-10.0	-2.0	0.0	2.0	4.0	3.8	3.8	3.8	3.8	3.8	3.8
Contributions:															
Domestic demand	12.9	-30.3	-29.3	5.5	2.2	0.4	1.6	3.1	3.4	2.6	2.8	2.6	2.6	2.2	2.4
Private consumption	5.2	-15.3	-17.9	2.3	-1.7	1.3	1.7	2.7	2.5	2.2	2.1	2.1	2.1	1.8	1.7
Public consumption	0.3	5.2	6.3	4.0	3.2	2.2	0.8	0.8	0.8	0.5	0.5	0.2	0.1	0.1	0.1
Investment	7.4	-20.2	-17.8	-0.8	0.8	-3.1	-1.0	-0.4	0.1	-0.1	0.2	0.4	0.4	0.4	0.6
Net exports	-9.6	-2.7	-1.0	-4.5	-5.2	-2.4	-1.6	-1.1	0.6	1.2	1.0	1.2	1.2	1.6	1.4
GDP deflator	25.1	28.5	28.7	28.5	31.5	26.7	13.9	9.4	5.5	5.0	5.0	5.0	5.0	5.0	5.0
Unemployment rate (ILO definition; period average, percent)	9.8	24.5	24.5	20.9	22.5	17.5	15.0	10.7	9.6	9.9	9.7	9.5	9.4	9.2	9.0
Consumer prices (period average)	9.4	20.6	20.2	25.0	27.6	25.3	17.2	12.6	8.4	5.1	4.9	5.0	5.0	5.0	5.0
Consumer prices (end of period)	10.0	30.0	26.6	22.5	32.5	20.0	15.0	10.0	6.5	5.0	5.0	5.0	5.0	5.0	5.0
Nominal wages (average)	20.8	-12.0	-5.1	21.9	21.3	25.3	18.4	16.0	12.7	9.1	8.9	9.0	9.0	9.0	9.0
Real wages (average)	10.5	-27.0	-21.1	-2.5	-5.0	0.0	1.0	3.0	4.0	3.8	3.8	3.8	3.8	3.8	3.8
Savings (percent of GDP)	12.2	12.9	21.9	5.9	9.5	7.8	9.9	14.5	16.4	16.4	15.0	14.3	13.7	13.3	13.3
Private	12.4	30.2	40.1	14.3	29.7	27.1	26.5	27.7	21.1	18.4	16.8	15.4	13.4	12.9	12.4
Public	-0.2	-17.3	-18.3	-8.4	-20.2	-19.3	-16.6	-13.2	-4.8	-2.0	-1.8	-1.1	0.2	0.4	0.9
Investment (percent of GDP)	13.8	8.4	16.2	9.9	14.3	13.9	15.3	16.6	17.9	17.8	17.5	17.5	17.3	17.2	16.9
Private	10.0	7.0	14.8	7.1	11.4	10.9	11.7	12.6	13.9	13.8	13.5	13.4	13.2	13.1	12.8
Public	3.8	1.5	1.4	2.8	2.9	3.0	3.6	4.0	4.0	4.0	4.0	4.1	4.1	4.1	4.1
General Government (percent of GDP)															
Fiscal balance 2/	-3.9	-20.5	-20.1	-9.1	-23.1	-22.3	-20.2	-17.2	-8.8	-6.0	-5.8	-5.2	-3.9	-3.7	-3.2
Fiscal balance, excl. grants 2/	-4.0	-30.3	-29.5	-21.6	-35.4	-32.2	-27.2	-21.9	-10.3	-7.4	-7.0	-6.2	-4.9	-4.7	-4.1
External financing (net)	2.4	12.1	11.9	13.3	22.4	20.9	12.2	6.1	4.9	1.1	3.0	1.1	0.1	0.3	0.4
Domestic financing (net), of which:	1.5	6.9	6.6	-4.2	0.7	1.4	8.0	11.2	3.9	4.9	2.8	4.1	3.7	3.4	2.8
NBU	-0.3	8.3	7.8	-0.2	-0.3	-0.2	-0.2	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Commercial banks	1.5	-2.2	-2.4	-0.4	1.3	1.5	8.1	11.2	4.0	5.0	2.9	4.1	3.8	3.5	2.8
Public and publicly-guaranteed debt	50.4	89.4	81.7	90.2	112.5	124.8	138.6	149.2	149.3	146.9	144.2	140.6	135.4	130.3	124.9
Money and credit (end of period, percent change)															
Base money	11.2	14.8	19.6	9.0	20.2	21.5	8.7	7.4	6.0	5.1	5.0	5.0	5.0	5.0	5.0
Broad money	12.0	17.0	20.8	15.0	15.5	24.6	13.9	11.6	9.7	9.0	9.0	9.0	9.0	9.0	8.9
Credit to nongovernment	8.4	3.4	-3.1	2.0	12.6	14.0	12.1	10.0	6.5	5.5	7.1	7.6	8.7	10.3	10.3
Balance of payments (percent of GDP)															
Current account balance	-1.6	4.4	5.7	-4.0	-4.9	-6.1	-5.4	-2.1	-1.5	-1.4	-2.5	-3.2	-3.6	-3.9	-3.7
Foreign direct investment	3.8	0.4	0.4	0.8	0.5	0.5	0.8	2.2	3.8	4.7	4.8	4.7	4.8	4.8	4.9
Gross reserves (end of period, billions of U.S. dollars)	30.9	25.1	28.5	21.1	29.5	32.4	35.1	38.3	43.0	44.3	49.1	52.2	52.9	53.0	55.3
Months of next year's imports of goods and services	4.6	3.0	3.9	2.5	4.0	4.2	4.3	4.5	4.8	4.7	5.0	5.1	4.9	4.8	4.8
Percent of short-term debt (remaining maturity)	67.5	58.9	66.1	45.8	62.3	75.5	74.6	82.5	87.6	80.7	92.7	93.4	97.9	97.4	97.9
Percent of the IMF composite metric (float)	98.8	80.0	91.6	61.6	84.2	80.4	81.9	83.8	91.3	91.7	98.3	103.3	102.7	102.2	105.0
Goods terms of trade (percent change)	-8.4	-16.8	-11.5	0.2	3.8	0.3	1.8	2.3	0.8	0.1	0.0	0.0	0.0	0.0	0.0
Exchange rate															
Hryvnia per U.S. dollar (end of period)	27.3	36.6	36.6	...	...	...	...	...	...	...	...	...	...	...	...
Hryvnia per U.S. dollar (period average)	27.3	32.3	32.3	...	...	...	...	...	...	...	...	...	...	...	...
Real effective rate (deflator-based, percent change)	12.0	2.9	2.4	...	...	...	...	...	...	...	...	...	...	...	...
Memorandum items:															
Per capita GDP / Population (2017): US$2,640 / 44.8 million															
Literacy / Poverty rate (2022 est 3/): 100 percent / 25 percent															

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

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

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

3/ Based on World Bank estimates.

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

(Billions of Ukrainian Hryvnia)

	2021	2022		2023		2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
	Proj.	PMB Request	Proj.	PMB Request	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Revenue	1,983	2,606	2,585	2,895	2,860	3,210	3,496	3,884	4,051	4,417	4,756	5,172	5,716	6,174	6,762
Tax revenue	1,817	1,803	1,782	1,959	1,974	2,306	2,705	3,212	3,634	3,986	4,315	4,703	5,217	5,641	6,194
Tax on income, profits, and capital gains	514	549	550	526	547	705	828	959	1,075	1,133	1,234	1,364	1,502	1,637	1,784
Personal income tax	350	414	415	403	438	569	673	781	880	921	1,002	1,102	1,211	1,320	1,439
Corporate profit tax	164	134	136	123	109	136	155	177	195	212	231	262	291	317	345
Social security contributions	351	428	428	400	521	472	500	627	691	792	822	873	1,062	1,091	1,185
Property tax	43	37	37	37	32	47	51	48	49	49	49	49	50	50	50
Tax on goods and services	731	609	587	792	684	852	1,039	1,255	1,460	1,624	1,789	1,978	2,140	2,379	2,669
VAT	536	482	460	617	534	659	785	928	1,074	1,193	1,323	1,474	1,566	1,738	1,972
Excise	180	116	116	162	137	176	235	306	363	405	439	476	543	609	664
Other	14	11	11	13	13	16	19	21	23	26	27	28	30	32	33
Tax on international trade	38	27	26	38	38	49	59	69	79	92	101	110	119	129	138
Other tax	140	154	154	167	152	182	229	254	281	295	320	328	344	356	368
Nontax revenue	166	803	804	936	886	904	791	672	417	432	440	469	500	533	568
Grants	1	462	462	763	715	717	572	431	155	148	135	140	144	148	153
Expenditure	2,198	3,569	3,569	3,448	4,201	4,815	5,150	5,462	4,931	5,076	5,451	5,844	6,262	6,751	7,302
Current	1,987	3,472	3,472	3,150	3,940	4,509	4,721	4,827	4,520	4,657	4,942	5,300	5,670	6,105	6,598
Compensation of employees	507	1,286	1,286	944	1,421	1,494	1,463	1,269	904	938	985	1,034	1,105	1,190	1,279
Goods and services	483	887	887	848	1,028	1,010	1,107	1,100	900	873	931	982	1,058	1,131	1,217
Interest	155	159	159	334	285	504	455	552	638	617	631	687	730	783	846
Subsidies to corporations and enterprises	116	176	176	105	205	257	301	340	368	363	380	389	409	429	451
Social benefits	724	953	953	916	998	1,241	1,394	1,563	1,707	1,861	2,011	2,203	2,363	2,567	2,800
Social programs (on budget)	154	302	302	240	241	337	395	445	402	568	695	802	842	884	1,053
Pensions	519	594	594	630	711	845	932	1,045	1,200	1,150	1,130	1,170	1,250	1,370	1,390
Unemployment, disability, and accident	52	57	57	46	46	59	67	73	105	144	185	231	271	313	357
Other current expenditures	1	11	11	2	2	3	0	4	4	4	4	5	5	5	5
Capital	207	69	69	172	168	213	293	367	402	440	480	533	581	633	689
Net lending	5	24	24	45	13	16	48	220	5	-24	24	62	68	74	80
Contingency reserve 2/	0	4	4	81	80	77	87	48	2	2	5	-51	-55	-60	-66
General government overall balance	-216	-964	-984	-553	-1,341	-1,604	-1,654	-1,577	-880	-658	-695	-672	-546	-578	-540
General government overall balance, excluding grants	-217	-1,426	-1,446	-1,316	-2,056	-2,321	-2,227	-2,008	-1,035	-806	-830	-812	-690	-726	-693
									-5.05	-7.44	-5.49	-9.48	-11.07	-10.69	-10.44
General government financing	216	896	903	553	1,341	1,604	1,654	1,577	880	658	695	672	546	578	540
External	132	571	581	814	1,299	1,503	999	556	488	120	359	139	15	47	70
Disbursements	239	629	630	912	1,420	1,738	1,267	934	840	660	774	882	912	940	968
Amortizations	-107	-59	-49	-98	-121	-235	-268	-378	-352	-540	-414	-743	-896	-893	-898
Domestic (net)	84	326	322	-261	42	101	655	1,021	392	538	336	533	531	530	470
Bond financing 3/	66	240	237	-64	36	95	649	1,015	386	532	330	527	525	524	464
o/w NBU	-14	389	383	-15	-15	-12	-13	-12	-12	-12	-12	-12	-12	-12	-12
o/w Commercial banks	79	-101	-118	-25	75	107	662	1,027	398	544	342	539	537	536	476
Direct bank borrowing	30	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Deposit finance	-19	85	85	-203	0	0	0	0	0	0	0	0	0	0	0
Privatization	7	0	0	6	6	6	6	6	6	6	6	6	6	6	6
Financing Gap/unindentified measures (-gap/+surplus)	0	-68	-81	0	0	0	0	0	0	0	0	0	0	0	0
Memorandum items:															
Primary balance	-61	-872	-825	-219	-1,056	-1,100	-1,199	-1,025	-241	-41	-64	15	184	206	306
Public and publicly-guaranteed debt	2,754	4,202	4,003	4,921	6,526	8,983	11,363	13,651	14,987	16,071	17,198	18,272	19,187	20,124	21,013
Nominal GDP (billions of Ukrainian hryvnia)	5,460	4,700	4,900	6,100	5,800	7,200	8,200	9,150	10,039	10,942	11,925	12,997	14,166	15,439	16,821

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

1/ National methodology, cash basis.

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

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

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

(Percent of GDP)

	2021	2022		2023		2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
	Proj.	PMB Request	Proj.	PMB Request	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Revenue	36.3	55.4	52.8	47.5	49.3	44.6	42.6	42.5	40.4	40.4	39.9	39.8	40.4	40.0	40.2
Tax revenue	33.3	38.4	36.4	32.1	34.0	32.0	33.0	35.1	36.2	36.4	36.2	36.2	36.8	36.5	36.8
Tax on income, profits, and capital gains	9.4	11.7	11.2	8.6	9.4	9.8	10.1	10.5	10.7	10.4	10.3	10.5	10.6	10.6	10.6
Personal income tax	6.4	8.8	8.5	6.6	7.6	7.9	8.2	8.5	8.8	8.4	8.4	8.5	8.6	8.6	8.6
Corporate profit tax	3.0	2.9	2.8	2.0	1.9	1.9	1.9	1.9	1.9	1.9	1.9	2.0	2.1	2.1	2.1
Social security contributions	6.4	9.1	8.7	6.6	9.0	6.6	6.1	6.9	6.9	7.2	6.9	6.7	7.5	7.1	7.0
Property tax	0.8	0.8	0.7	0.6	0.5	0.6	0.6	0.5	0.5	0.4	0.4	0.4	0.4	0.3	0.3
Tax on goods and services	13.4	12.9	12.0	13.0	11.8	11.8	12.7	13.7	14.5	14.8	15.0	15.2	15.1	15.4	15.9
VAT	9.8	10.3	9.4	10.1	9.2	9.2	9.6	10.1	10.7	10.9	11.1	11.3	11.1	11.3	11.7
Excise	3.3	2.5	2.4	2.6	2.4	2.4	2.9	3.3	3.6	3.7	3.7	3.7	3.8	3.9	3.9
Other	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Tax on international trade	0.7	0.6	0.5	0.6	0.7	0.7	0.7	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8
Other tax	2.6	3.3	3.1	2.7	2.6	2.5	2.8	2.8	2.8	2.7	2.7	2.5	2.4	2.3	2.2
Nontax revenue	3.0	17.1	16.4	15.3	15.3	12.6	9.6	7.3	4.2	3.9	3.7	3.6	3.5	3.4	3.4
Grants	0.0	9.8	9.4	12.5	12.3	10.0	7.0	4.7	1.5	1.4	1.1	1.1	1.0	1.0	0.9
Expenditure	40.3	75.9	72.8	56.5	72.4	66.9	62.8	59.7	49.1	46.4	45.7	45.0	44.2	43.7	43.4
Current	36.4	73.9	70.9	51.6	67.9	62.6	57.6	52.8	45.0	42.6	41.4	40.8	40.0	39.5	39.2
Compensation of employees	9.3	27.4	26.2	15.5	24.5	20.7	17.8	13.9	9.0	8.6	8.3	8.0	7.8	7.7	7.6
Goods and services	8.8	18.9	18.1	13.9	17.7	14.0	13.5	12.0	9.0	8.0	7.8	7.6	7.5	7.3	7.2
Interest	2.8	3.4	3.2	5.5	4.9	7.0	5.6	6.0	6.4	5.6	5.3	5.3	5.2	5.1	5.0
Subsidies to corporations and enterprises	2.1	3.8	3.6	1.7	3.5	3.6	3.7	3.7	3.7	3.3	3.2	3.0	2.9	2.8	2.7
Social benefits	13.3	20.3	19.4	15.0	17.2	17.2	17.0	17.1	17.0	17.0	16.9	17.0	16.7	16.6	16.6
Social programs (on budget)	2.8	6.4	6.2	3.9	4.1	4.7	4.8	4.9	4.0	5.2	5.8	6.2	5.9	5.7	6.3
Pensions	9.5	12.6	12.1	10.3	12.3	11.7	11.4	11.4	11.9	10.5	9.5	9.0	8.8	8.9	8.3
Unemployment, disability, and accident insurance	1.0	1.2	1.2	0.8	0.8	0.8	0.8	0.8	1.0	1.3	1.6	1.8	1.9	2.0	2.1
Other current expenditures	0.0	0.2	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Capital	3.8	1.5	1.4	2.8	2.9	3.0	3.6	4.0	4.0	4.0	4.0	4.1	4.1	4.1	4.1
Net lending	0.1	0.5	0.5	0.7	0.2	0.2	0.6	2.4	0.1	-0.2	0.2	0.5	0.5	0.5	0.5
Contingency reserve 2/	0.0	0.1	0.1	1.3	1.4	1.1	1.1	0.5	0.0	0.0	0.0	-0.4	-0.4	-0.4	-0.4
General government overall balance	-3.9	-20.5	-20.1	-9.1	-23.1	-22.3	-20.2	-17.2	-8.8	-6.0	-5.8	-5.2	-3.9	-3.7	-3.2
General government overall balance, excluding grants	-4.0	-30.3	-29.5	-21.6	-35.4	-32.2	-27.2	-21.9	-10.3	-7.4	-7.0	-6.2	-4.9	-4.7	-4.1
General government financing	3.9	19.1	18.4	9.1	23.1	22.3	20.2	17.2	8.8	6.0	5.8	5.2	3.9	3.7	3.2
External	2.4	12.1	11.9	13.3	22.4	20.9	12.2	6.1	4.9	1.1	3.0	1.1	0.1	0.3	0.4
Disbursements	4.4	13.4	12.9	14.9	24.5	24.1	15.4	10.2	8.4	6.0	6.5	6.8	6.4	6.1	5.8
o/w IFIs	1.4	5.8	5.8	16.9	30.5	29.0	13.1	0.0	7.0	0.0	0.0	0.0	0.0	0.0	0.0
o/w IMF budget support	0.4	1.9	1.8	0.0	3.4	4.2	0.7	1.0	0.5	0.0	0.0	0.0	0.0	0.0	0.0
Amortizations	-2.0	-1.2	-1.0	-1.6	-2.1	-3.3	-3.3	-4.1	-3.5	-4.9	-3.5	-5.7	-6.3	-5.8	-5.3
Domestic (net)	1.5	6.9	6.6	-4.3	0.7	1.4	8.0	11.2	3.9	4.9	2.8	4.1	3.7	3.4	2.8
Bond financing 3/	1.2	5.1	4.8	-1.0	0.6	1.3	7.9	11.1	3.8	4.9	2.8	4.1	3.7	3.4	2.8
o/w NBU	-0.3	8.3	7.8	-0.2	-0.3	-0.2	-0.2	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
o/w Commercial banks	1.5	-2.2	-2.4	-0.4	1.3	1.5	8.1	11.2	4.0	5.0	2.9	4.1	3.8	3.5	2.8
Direct bank borrowing	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Deposit finance	-0.3	1.8	1.7	-3.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Privatization	0.1	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0
Financing Gap/undidentified measures (-gap/+surplus)	0.0	-1.4	-1.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:															
Defense expenditure	...	...	32.5	...	26.4	17.1	13.2	9.0	6.6	5.9	5.0	4.3	3.4	3.0	2.5
Non-defense balance excluding grants	...	...	-1.9	...	-9.0	-15.1	-14.0	-13.0	-3.7	-1.5	-2.0	-1.9	-1.4	-1.7	-1.7
Primary balance	-1.1	-18.6	-16.8	-3.6	-18.2	-15.3	-14.6	-11.2	-2.4	-0.4	-0.5	0.1	1.3	1.3	1.8
Public and publicly-guaranteed debt	50.4	89.4	81.7	89.9	112.5	124.8	138.6	149.2	149.3	146.9	144.2	140.6	135.4	130.3	124.9
Nominal GDP (billions of Ukrainian hryvnia)	5,460	4,700	4,900	6,100	5,800	7,200	8,200	9,150	10,039	10,942	11,925	12,997	14,166	15,439	16,821

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

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

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

	2021	2022		2023		2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
	Act.	PMB Request	Proj.	PMB Request	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Current account balance	-3.2	6.4	8.6	-5.7	-6.3	-7.9	-7.1	-2.9	-2.2	-2.2	-4.0	-5.3	-6.4	-7.2	-7.2
Goods (net)	-6.6	-15.9	-14.6	-30.4	-26.7	-26.2	-26.1	-28.7	-31.5	-33.7	-34.3	-34.7	-34.7	-34.6	-34.0
Exports	63.1	40.9	40.9	39.7	30.4	33.2	37.5	40.8	44.4	48.2	51.6	55.7	59.9	64.5	69.4
Imports	-69.8	-56.8	-55.6	-70.1	-57.2	-59.3	-63.6	-69.5	-75.9	-81.9	-85.9	-90.3	-94.6	-99.2	-103.4
Of which : gas	-3.4	-2.7	-1.4	-8.6	-2.4	-7.3	-6.5	-5.2	-4.8	-4.9	-4.9	-4.9	-4.9	-4.9	-4.9
Services (net)	4.0	-9.9	-9.1	-11.9	-16.4	-10.2	-4.1	4.2	11.5	14.4	14.8	15.1	15.4	15.7	15.9
Receipts	18.4	16.0	16.2	17.9	13.4	15.0	17.4	20.3	23.6	27.3	29.0	30.1	31.3	32.6	33.9
Payments	-14.4	-25.9	-25.3	-29.8	-29.7	-25.3	-21.5	-16.1	-12.1	-12.9	-14.2	-15.1	-16.0	-16.9	-18.0
Primary income (net)	-5.2	9.8	9.0	12.5	12.6	9.8	8.7	9.5	9.7	9.9	9.2	8.8	8.3	8.0	8.1
Secondary income (net)	4.6	22.4	23.4	24.1	24.2	18.7	14.4	12.1	8.2	7.3	6.3	5.5	4.6	3.8	2.8
Capital account balance	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial account balance	-5.7	10.8	9.6	-3.2	-9.0	-10.8	-9.6	-5.1	-6.3	-2.8	-7.2	-8.7	-7.4	-8.3	-9.9
Direct investment (net)	-7.5	-0.6	-0.6	-1.1	-0.6	-0.6	-1.0	-3.0	-5.5	-7.0	-7.5	-7.7	-8.3	-8.8	-9.5
Portfolio investment (net)	-1.0	1.5	2.0	0.9	0.4	0.6	0.9	1.6	0.8	1.7	0.3	-0.4	-0.3	-0.8	-0.5
Portfolio investment: assets	-0.1	0.2	0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Portfolio investment: liabilities	1.0	-1.3	-1.4	-0.9	-0.4	-0.6	-0.9	-1.6	-0.8	-1.7	-0.3	0.4	0.3	0.8	0.5
Financial derivatives (net)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other investment (net)	2.9	9.9	8.1	-3.0	-8.8	-10.8	-9.5	-3.7	-1.6	2.5	0.0	-0.5	1.2	1.4	0.1
Other investment: assets	7.7	28.5	24.1	17.2	25.7	18.4	9.6	8.5	6.5	6.2	0.9	0.4	0.7	0.7	0.0
Other investment: liabilities	4.9	18.6	16.0	20.2	34.5	29.2	19.2	12.2	8.1	3.7	0.9	0.9	-0.5	-0.7	-0.1
Net use of IMF resources for budget support	0.3	2.1	2.3	-0.9	3.6	4.1	-0.7	-0.4	-0.5	-1.0	-1.8	-1.0	-1.3	-1.3	-1.2
Central Bank	2.7	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
General government	1.5	15.2	14.6	20.2	26.8	24.2	18.9	10.7	7.6	4.1	2.1	1.4	0.2	0.0	0.4
Banks 3/	0.4	-0.2	-0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other sectors	0.0	1.6	-0.5	1.0	4.2	0.9	0.9	1.8	1.0	0.6	0.6	0.6	0.6	0.6	0.6
Errors and omissions	1.8	0.8	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Unidentified financing need	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	4.3	-3.5	-0.5	-2.5	2.7	2.9	2.5	2.2	4.1	0.6	3.2	3.3	1.0	1.1	2.7
Financing	-4.2	3.5	0.6	2.5	-2.7	-3.9	-2.5	-2.2	-4.1	-1.4	-4.8	-4.1	-2.0	-1.4	-3.5
Gross official reserves (increase: -)	-3.3	5.0	2.2	4.1	-1.1	-2.9	-2.6	-3.2	-4.7	-1.4	-4.8	-3.0	-0.7	-0.1	-2.3
Net use of IMF resources for BOP support	-0.9	-1.4	-1.6	-1.6	-1.6	-1.0	0.1	1.0	0.6	0.0	0.0	-1.0	-1.3	-1.3	-1.2
Unidentified financing need				0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:															
Current account balance (percent of GDP)	-1.6	4.4	5.7	-4.0	-4.9	-6.1	-5.4	-2.1	-1.5	-1.4	-2.5	-3.2	-3.6	-3.9	-3.7
Goods and services trade balance (percent of GDP)	-1.3	-17.8	-15.7	-29.4	-33.0	-28.0	-22.9	-17.8	-13.9	-12.8	-12.3	-11.8	-11.0	-10.3	-9.2
Gross international reserves	30.9	25.1	28.5	21.1	29.5	32.4	35.1	38.3	43.0	44.3	49.1	52.2	52.9	53.0	55.3
Months of next year's imports of goods and services	4.6	3.0	3.9	2.5	4.0	4.2	4.3	4.5	4.8	4.7	5.0	5.1	4.9	4.8	4.8
Percent of the IMF composite metric (float)	98.8	80.0	91.6	61.6	84.2	80.4	81.9	83.8	91.3	91.7	98.3	103.3	102.7	102.2	105.0

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

1/ Based on BPM6.

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

3/ Includes banks' debt for equity operations.

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

(Billions of U.S. dollars)

	2021	2022		2023		2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
	Act.	PMB Request	Proj.	PMB Request	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
A. Total financing requirements	**37.2**	**65.1**	**57.6**	**67.9**	**72.2**	**69.6**	**55.6**	**51.8**	**45.7**	**47.2**	**47.3**	**47.9**	**52.0**	**51.7**	**51.2**
Current account deficit (excluding grants)	3.2	7.6	5.4	23.7	22.4	20.0	15.9	9.2	4.4	4.2	5.7	7.1	8.1	9.0	8.9
Portfolio investment	4.9	1.8	2.7	0.9	0.4	3.6	1.9	3.9	1.3	2.2	4.3	2.6	4.1	1.7	2.0
Private	0.6	0.6	0.9	0.4	0.4	2.7	0.6	1.8	0.0	0.0	3.0	1.0	2.3	0.5	0.5
General government	4.3	1.2	1.8	0.5	0.0	0.9	1.4	2.1	1.3	2.2	1.3	1.6	1.8	1.2	1.5
Medium and long-term debt	3.9	3.8	2.1	3.6	2.2	2.8	1.6	2.8	4.4	5.3	7.4	8.0	9.2	9.4	9.0
Private	2.7	2.8	1.2	2.8	1.4	1.3	1.3	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2
Banks	0.2	0.5	0.3	0.5	0.5	0.4	0.4	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Corporates	2.5	2.3	0.9	2.3	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9
General government	1.2	1.0	0.9	0.7	0.8	1.5	0.3	1.5	3.2	4.1	6.2	6.8	8.0	8.2	7.8
Short-term debt (including deposits)	0.8	6.4	4.2	6.4	5.6	5.6	5.6	5.6	5.6	5.6	5.6	5.6	5.6	5.6	5.6
Other net capital outflows 1/	8.6	28.5	24.1	17.2	23.4	17.4	9.6	8.5	6.5	5.4	-0.2	0.4	0.7	0.7	0.0
Trade credit	15.7	16.9	19.1	16.1	18.3	20.1	20.9	21.7	23.5	24.5	24.5	24.1	24.2	25.4	25.6
B. Total financing sources	**37.2**	**28.7**	**24.4**	**26.8**	**27.8**	**31.3**	**30.5**	**37.9**	**36.7**	**38.5**	**42.9**	**42.0**	**44.2**	**43.5**	**44.8**
Capital transfers	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Direct investment, net	7.5	0.6	0.6	1.1	0.6	0.6	1.0	3.0	5.5	7.0	7.5	7.7	8.3	8.8	9.5
Portfolio investment	6.0	0.2	0.5	0.0	0.0	3.0	1.0	2.3	0.5	0.5	4.0	3.0	4.3	2.5	2.5
Private	1.8	0.0	0.0	0.0	0.0	3.0	1.0	2.3	0.5	0.5	3.0	1.0	2.3	0.5	0.5
General government	4.2	0.2	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.0	2.0	2.0	2.0	2.0
Of which: Market financing	1.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.0	2.0	2.0	2.0	2.0
Medium and long-term debt	5.4	5.1	0.3	2.2	1.5	1.2	1.1	3.4	0.6	0.4	0.3	0.3	0.3	0.2	0.2
Private	2.3	5.2	0.9	2.8	1.4	1.4	1.4	1.4	1.3	1.3	1.3	1.3	1.3	1.3	1.3
Banks	0.2	0.4	0.0	0.5	0.5	0.5	0.4	0.4	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Corporates	2.1	4.7	0.8	2.3	0.9	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
General government	3.1	-0.1	-0.5	-0.6	0.1	-0.3	-0.3	2.0	-0.7	-0.9	-1.0	-1.0	-1.0	-1.0	-1.1
Short-term debt (including deposits)	1.1	6.6	4.7	6.4	5.6	5.6	5.9	5.6	5.6	5.6	5.6	5.6	5.6	5.6	5.6
Trade credit	17.2	16.2	18.3	17.1	20.1	20.9	21.4	23.5	24.4	24.9	25.5	25.4	25.7	26.3	26.9
C. Financing needs (A - B)	**0.0**	**36.4**	**33.2**	**41.1**	**44.4**	**38.3**	**25.2**	**14.0**	**9.0**	**8.7**	**4.4**	**5.9**	**7.7**	**8.3**	**6.4**
Unidentified fiscal financing need	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
D. Total exceptional financing needs	**0.0**	**36.4**	**33.2**	**41.1**	**44.4**	**38.3**	**25.2**	**14.0**	**9.0**	**8.7**	**4.4**	**5.9**	**7.7**	**8.3**	**6.4**
E. Official financing	**1.7**	**30.6**	**30.6**	**37.0**	**45.4**	**41.2**	**27.8**	**19.7**	**13.6**	**10.1**	**9.3**	**8.9**	**8.5**	**8.4**	**8.7**
IMF	-0.7	0.7	0.7	-2.5	1.9	3.0	-0.6	0.6	0.1	-1.0	-1.8	-2.1	-2.5	-2.6	-2.3
Purchases	0.7	2.7	2.7	0.0	4.5	5.4	1.8	2.6	1.3	0.0	0.0	0.0	0.0	0.0	0.0
Repurchases	1.4	2.1	2.1	2.5	2.6	2.4	2.3	2.0	1.2	1.0	1.8	2.1	2.5	2.6	2.3
Official grants	0.0	14.0	14.0	18.0	16.1	12.2	8.8	6.3	2.2	2.0	1.7	1.7	1.7	1.7	1.7
Official creditors	2.3	15.9	15.9	21.5	27.4	26.0	19.5	12.7	11.4	9.1	9.3	9.3	9.3	9.3	9.3
F. Increase in reserves	**3.3**	**-5.0**	**-2.2**	**-4.1**	**1.1**	**2.9**	**2.6**	**3.2**	**4.7**	**1.4**	**4.8**	**3.0**	**0.7**	**0.1**	**2.3**
G. Errors and omissions	**1.8**	**0.8**	**0.5**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Memorandum items:															
Gross international reserves	30.9	25.1	28.5	21.1	29.5	32.4	35.1	38.3	43.0	44.3	49.1	52.2	52.9	53.0	55.3
Months of next year's imports of goods and services	4.6	3.0	3.9	2.5	4.0	4.2	4.3	4.5	4.8	4.7	5.0	5.1	4.9	4.8	4.8
Percent of short-term debt (remaining maturity)	67.5	58.9	66.1	45.8	62.3	75.5	74.6	82.5	87.6	80.7	92.7	93.4	97.9	97.4	97.9
Percent of the IMF composite (float) 3/	98.8	80.0	91.6	61.6	84.2	80.4	81.9	83.8	91.3	91.7	98.3	103.3	102.7	102.2	105.0
Loan rollover rate (percent)															
Banks	97.2	97.0	96.7	100.0	100.0	100.4	100.3	100.6	100.3	100.0	100.0	100.0	100.0	100.0	100.0
Corporates	89.3	173.7	101.8	100.0	100.0	109.8	109.8	109.8	109.8	109.8	109.8	109.8	109.8	109.8	109.8
Total	91.4	124.5	97.5	100.0	100.0	101.6	101.6	101.8	101.5	101.3	101.3	101.3	101.3	101.3	101.3

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

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

2/ Includes bilateral and other multilateral budget and project support.

3/ 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 (Downside Scenario), 2021–2033

(Billions of Ukrainian Hryvnia)

	2021	2022		2023		2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
	Act.	PMB Request	Proj.	PMB Request	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Monetary survey															
Net foreign assets	1,002	1,184	1,328	1,499	1,889	2,264	2,648	2,913	3,326	3,588	4,228	4,778	5,191	5,576	6,141
Net domestic assets	1,070	1,240	1,173	1,288	1,001	1,337	1,452	1,662	1,694	1,883	1,734	1,721	1,892	2,143	2,270
Domestic credit	1,925	1,771	2,212	1,550	2,398	2,640	3,441	4,763	5,249	5,872	6,325	6,994	7,693	8,442	9,153
Net claims on government	898	710	1,218	467	1,277	1,362	2,008	3,187	3,571	4,100	4,428	4,952	5,474	5,995	6,455
Credit to the economy	1,023	1,057	991	1,078	1,116	1,272	1,427	1,569	1,671	1,764	1,889	2,033	2,209	2,436	2,685
Domestic currency	731	818	725	886	901	1,031	1,179	1,321	1,426	1,523	1,653	1,801	1,982	2,213	2,467
Foreign currency	292	239	266	192	215	241	247	248	245	241	236	232	227	223	218
Other claims on the economy	5	4	4	5	4	5	6	6	7	8	8	9	10	11	12
Other items, net	-856	-531	-1,039	-262	-1,397	-1,303	-1,989	-3,101	-3,555	-3,989	-4,591	-5,273	-5,802	-6,299	-6,883
Broad money	2,071	2,423	2,501	2,787	2,890	3,600	4,100	4,575	5,020	5,471	5,963	6,499	7,083	7,720	8,410
Currency in circulation	581	637	666	676	789	962	1,036	1,110	1,165	1,208	1,257	1,307	1,359	1,413	1,468
Total deposits	1,489	1,785	1,834	2,109	2,099	2,637	3,062	3,463	3,852	4,260	4,703	5,188	5,721	6,304	6,939
Domestic currency deposits	1,014	1,155	1,204	1,359	1,259	1,668	1,976	2,319	2,590	2,846	3,179	3,547	3,952	4,400	4,890
Foreign currency deposits	474	630	630	750	840	968	1,086	1,144	1,262	1,415	1,524	1,642	1,768	1,904	2,049
Accounts of the NBU															
Net foreign assets	852	849	983	989	1,327	1,516	1,869	2,136	2,554	2,827	3,443	3,970	4,364	4,730	5,275
Net international reserves	838	830	980	965	1,322	1,511	1,863	2,130	2,548	2,821	3,437	3,963	4,357	4,722	5,267
(In billions of U.S. dollars)	30.7	22.7	26.8	21.1	25.8	25.7	28.8	31.3	35.9	38.2	44.7	49.9	53.1	55.9	60.5
Reserve assets	843	919	980	…	…	…	…	…	…	…	…	…	…	…	…
Other net foreign assets	14	19	3	24	5	5	6	6	6	7	7	7	7	8	8
Net domestic assets	-190	-88	-191	-160	-374	-360	-611	-785	-1,123	-1,323	-1,864	-2,312	-2,622	-2,901	-3,354
Net domestic credit	175	483	310	118	537	404	783	1,658	1,707	1,852	1,813	1,961	2,083	2,197	2,213
Net claims on government	270	685	704	619	689	667	651	636	622	607	593	578	563	548	533
Claims on government	325	721	758	706	744	731	718	706	694	682	671	659	647	635	623
Net claims on banks	-95	-202	-395	-501	-153	-263	133	1,023	1,085	1,244	1,220	1,383	1,520	1,649	1,681
Other items, net	-365	-571	-501	-278	-911	-764	-1,395	-2,444	-2,830	-3,175	-3,676	-4,273	-4,705	-5,098	-5,568
Base money	662	761	793	829	952	1,157	1,257	1,350	1,431	1,505	1,580	1,659	1,742	1,829	1,920
Currency in circulation	581	637	666	676	789	962	1,036	1,110	1,165	1,208	1,257	1,307	1,359	1,413	1,468
Banks' reserves	81	124	126	153	163	195	222	240	266	297	323	351	382	416	452
Cash in vault	47	56	49	66	66	83	96	108	121	133	147	162	179	197	217
Correspondent accounts	35	68	77	87	98	112	126	132	146	163	176	189	203	219	235
Deposit money banks															
Net foreign assets	149	335	345	510	562	747	779	778	771	760	785	807	827	847	866
Foreign assets	254	452	427	638	699	921	1001	1046	1088	1127	1166	1202	1234	1266	1298
Foreign liabilities	105	117	82	128	137	174	221	269	317	367	381	395	407	419	432
Net domestic assets	1,339	1,450	1,489	1,599	1,537	1,889	2,283	2,685	3,080	3,500	3,918	4,381	4,893	5,456	6,072
Domestic credit	1,875	1,455	2,064	1,628	2,059	2,465	2,914	3,379	3,843	4,351	4,870	5,419	6,027	6,696	7,426
Net claims on government 1/	628	25	513	-152	588	695	1,358	2,551	2,949	3,493	3,835	4,374	4,911	5,447	5,923
Credit to the economy	1,023	1,057	991	1,078	1,116	1,272	1,426	1,569	1,671	1,763	1,889	2,033	2,209	2,435	2,685
Other claims on the economy	5	4	3	5	4	5	6	6	7	8	8	9	10	11	12
Net claims on NBU	220	369	594	697	351	493	124	-747	-784	-913	-862	-996	-1,102	-1,198	-1,193
Other items, net	-536	-5	-574	-29	-522	-576	-631	-694	-763	-851	-952	-1,038	-1,134	-1,239	-1,354
Banks' liabilities	1,488	1,785	1,834	2,109	2,099	2,636	3,062	3,463	3,852	4,260	4,703	5,188	5,720	6,303	6,938
Memorandum items:				(End of period, percent change unless otherwise noted)											
Base money	11.2	14.8	19.6	9.0	20.2	21.5	8.7	7.4	6.0	5.1	5.0	5.0	5.0	5.0	5.0
Currency in circulation	12.6	9.6	14.6	6.2	18.5	21.9	7.7	7.2	4.8	5.8	6.8	7.8	8.8	9.8	10.8
Broad money	12.0	17.0	20.8	15.0	15.5	24.6	13.9	11.6	9.7	9.0	9.0	9.0	9.0	9.0	8.9
Credit to the economy	8.4	3.4	-3.1	2.0	12.6	14.0	12.1	10.0	6.5	5.5	7.1	7.6	8.7	10.3	10.3
Real credit to the economy 2/	-1.5	-20.5	-23.5	-16.7	-15.0	-5.0	-2.5	0.0	0.0	0.5	2.0	2.5	3.5	5.0	5.0
Credit-to-GDP ratio, in percent	18.7	22.5	16.6	17.7	19.2	17.7	17.4	17.2	16.6	16.1	15.8	15.6	15.6	15.8	16.0
Velocity of broad money, ratio	1.9	1.9	1.6	2.2	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Money multiplier, ratio	3.1	3.2	3.2	3.4	3.0	3.1	3.3	3.4	3.5	3.6	3.8	3.9	4.1	4.2	4.4
Hryvnia per U.S. dollar (end of period)	27.3	36.6	36.6	…	…	…	…	…	…	…	…	…	…	…	…

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: Indicators of Fund Credit (Downside Scenario), 2021–2033

(In millions of SDR)

	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
			Projections								
Existing Fund credit											
Stock 1/	5,704	3,924	2,187	690	0	0	0	0	0	0	0
Obligations	1,834	2,166	1,998	1,686	819	112	112	112	112	112	112
Principal (repurchases)	1,451	1,780	1,736	1,498	690	0	0	0	0	0	0
Interest charges	383	386	262	189	129	112	112	112	112	112	112
Prospective purchases											
Disbursements	3,340	4,024	1,328	1,945	972	0	0	0	0	0	0
Stock 1/	3,340	7,363	8,691	10,636	11,385	10,634	9,353	7,821	5,967	4,032	2,320
Obligations 2/	128	365	583	668	978	1,488	1,947	2,094	2,290	2,213	1,871
Principal (repurchases)	0	0	0	0	223	751	1,281	1,532	1,854	1,935	1,712
Interest charges	128	365	583	668	755	737	666	562	436	278	159
Stock of existing and prospective Fund credit 1/	9,043	11,287	10,878	11,326	11,385	10,634	9,353	7,821	5,967	4,032	2,320
In percent of quota 2/	450	561	541	563	566	528	464	388	296	200	115
In percent of GDP	5.2	6.4	6.1	6.1	5.8	5.2	4.3	3.4	2.5	1.6	0.9
In percent of exports of goods and nonfactor services	15.4	17.4	14.7	13.7	12.3	10.3	8.5	6.7	4.8	3.0	1.6
In percent of gross reserves	22.8	25.9	22.9	21.8	19.4	17.6	13.9	11.0	8.3	5.6	3.1
In percent of public external debt	7.2	7.1	6.0	5.9	5.8	5.5	4.9	4.1	3.1	2.2	1.2
Obligations to the Fund from existing and prospective Fund credit	1,963	2,532	2,581	2,354	1,797	1,600	2,059	2,207	2,402	2,325	1,983
In percent of quota	97.6	125.8	128.3	117.0	89.3	79.5	102.2	109.5	119.1	115.2	98.2
In percent of GDP	1.1	1.4	1.4	1.3	0.9	0.8	1.0	1.0	1.0	0.9	0.7
In percent of exports of goods and nonfactor services	3.3	3.9	3.5	2.8	1.9	1.5	1.9	1.9	1.9	1.8	1.4
In percent of gross reserves	4.9	5.8	5.4	4.5	3.1	2.6	3.1	3.1	3.3	3.2	2.6
In percent of public external debt service	61.7	27.1	44.6	33.0	19.3	15.3	15.8	16.0	15.9	15.2	13.6

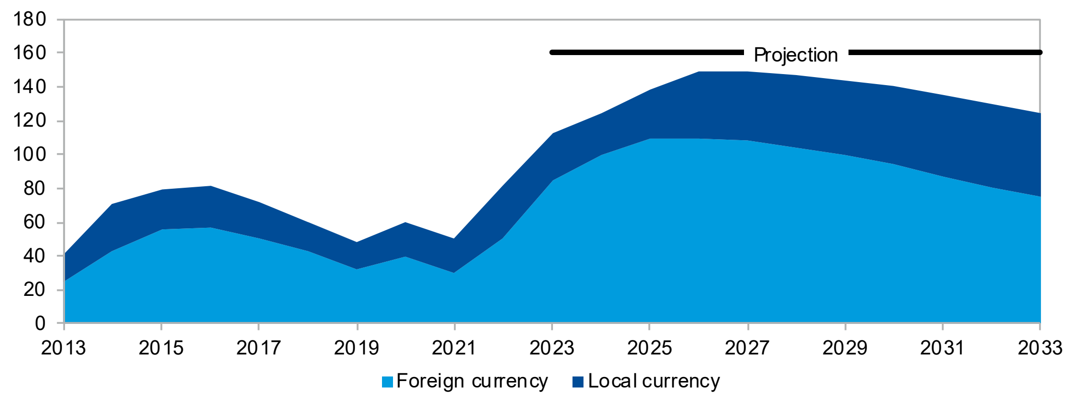
Source: Fund staff estimates and projections.

1/ End of period.

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

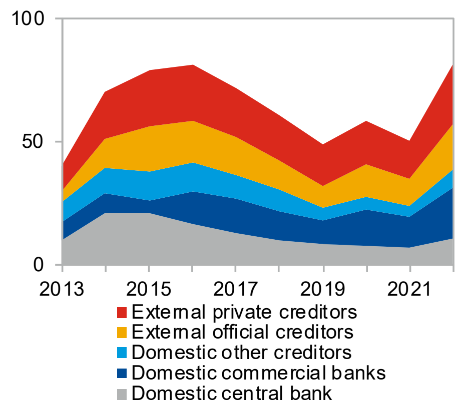
Ukraine: Public Debt Structure Indicators Under the Pre-Restructuring Downside Scenario

Debt by currency (percent of GDP)



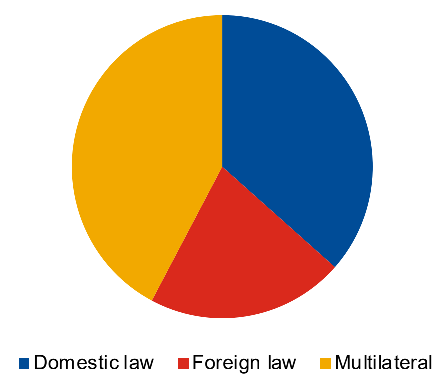
Note: The perimeter shown is general government.

Public debt by holder (percent of GDP)



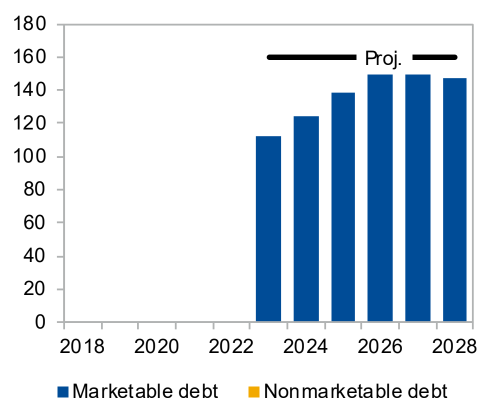
Note: The perimeter shown is general government.

Public debt by governing law, end-2022 (%)



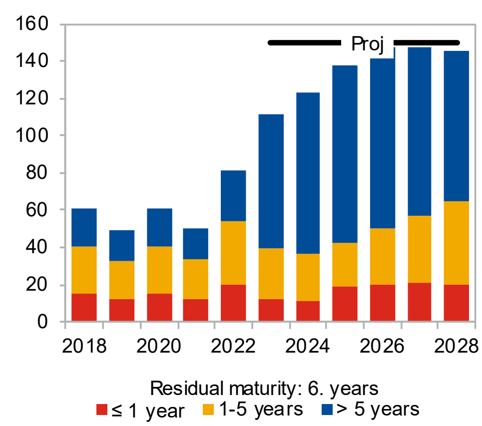
Note: The perimeter shown is general government.

Debt by instruments (percent of GDP)



Note: The perimeter shown is general government.

Public debt by maturity (percent of GDP)



Note: The perimeter shown is general government.

Commentary: The share of local currency debt grows rapidly amidst high financing needs, rising from 17 to 34 percent of the total (2023 to 2033). The share of short term debt also climbs, amplifying rollover risks.

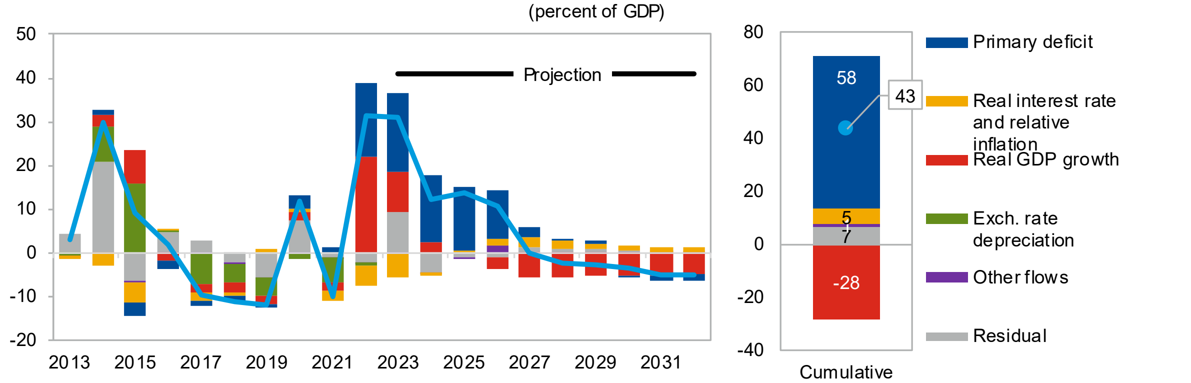
Ukraine: Pre-Restructuring Downside Scenario

(percent of GDP unless indicated otherwise)

	Actual	Medium-term projection						Extended projection				
	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Public debt	81.7	112.5	124.8	138.6	149.2	149.3	146.9	144.2	140.6	135.4	130.3	124.9
Change in public debt	31.3	30.8	12.2	13.8	10.6	0.1	-2.4	-2.7	-3.6	-5.1	-5.1	-5.4
Contribution of identified flows	33.4	21.5	16.7	15.0	11.5	-1.2	-3.5	-3.6	-4.1	-5.3	-5.2	-5.4
Primary deficit	16.8	18.2	15.3	14.6	11.2	2.4	0.4	0.5	-0.1	-1.3	-1.3	-1.8
Noninterest revenues	52.8	49.3	44.6	42.6	42.5	40.4	40.4	39.9	39.8	40.4	40.0	40.2
Noninterest expenditures	69.6	67.5	59.9	57.2	53.7	42.8	40.7	40.4	39.7	39.1	38.7	38.4
Automatic debt dynamics	16.5	3.4	1.5	0.5	-1.5	-3.5	-3.8	-4.1	-4.0	-4.0	-3.8	-3.6
Real interest rate and relative inflation	-4.5	-5.7	-0.8	0.5	1.3	2.2	1.7	1.3	1.3	1.2	1.2	1.2
Real interest rate	-12.9	-17.8	-17.2	-9.6	-5.8	-1.2	-1.3	-1.5	-1.4	-1.3	-1.2	-1.0
Relative inflation	8.4	12.2	16.3	10.1	7.0	3.4	2.9	2.8	2.7	2.5	2.4	2.2
Real growth rate	21.9	9.1	2.3	0.0	-2.7	-5.7	-5.5	-5.4	-5.3	-5.1	-5.0	-4.7
Real exchange rate	-0.9	…	…	…	…	…	… .	…	…	…	…	…
Other identified flows	0.0	-0.1	-0.1	-0.1	1.8	-0.1	-0.1	-0.1	0.0	0.0	0.0	0.0
Contingent liabilities	0.0	0.0	0.0	0.0	1.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other transactions	0.0	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	0.0	0.0	0.0	0.0
Contribution of residual	-2.1	9.3	-4.4	-1.2	-0.9	1.3	1.1	0.9	0.5	0.2	0.1	0.0
Gross financing needs	20.1	31.4	32.7	30.1	36.8	26.8	26.0	26.3	24.7	26.3	20.8	20.1
of which: debt service	3.2	13.2	17.5	15.5	23.8	24.4	25.7	25.8	24.8	27.6	22.1	21.9
Local currency	2.4	8.9	8.8	8.3	16.1	18.3	18.4	17.4	16.0	18.3	12.9	13.8
Foreign currency	0.9	4.3	8.7	7.2	7.7	6.1	7.3	8.4	8.8	9.3	9.3	8.1
Memo:												
Real GDP growth (percent)	-30.3	-10.0	-2.0	0.0	2.0	4.0	3.8	3.8	3.8	3.8	3.8	3.8
Inflation (GDP deflator; percent)	28.7	31.5	26.7	13.9	9.4	5.5	5.0 .	5.0	5.0	5.0	5.0	5.0
Nominal GDP growth (percent)	-10.2	18.4	24.1	13.9	11.6	9.7	9.0 .	9.0	9.0	9.0	9.0	8.9
Effective interest rate (percent)	5.8	5.7	7.7	5.1	4.7	4.6	4.1	3.9	3.9	4.0	4.0	4.1

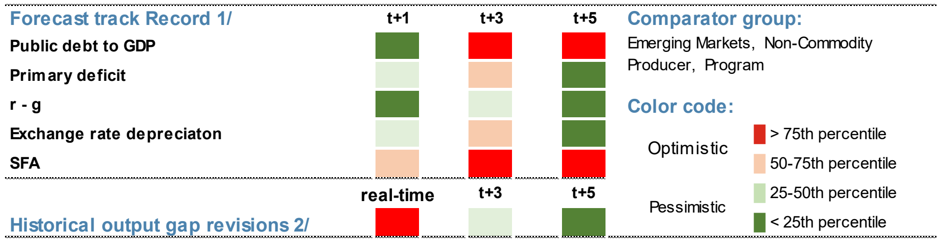
Contribution to change in public debt

(percent of GDP)

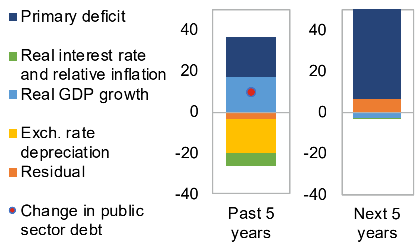


Commentary: Under a more adverse scenario, and despite increased support in the form of grants, the debt trajectory increases sharply given continued economic contraction and prolonged elevated primary deficits. Debt declines in the extended projection, but is very elevated throughout. Gross financing needs are substantially greater than in the baseline scenario.

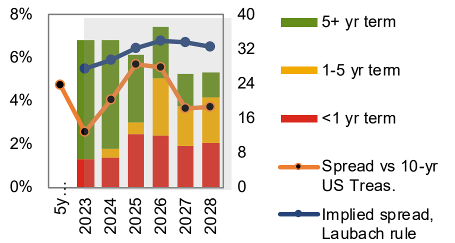
Ukraine: Realism of Pre-Restructuring Downside Scenario Assumptions



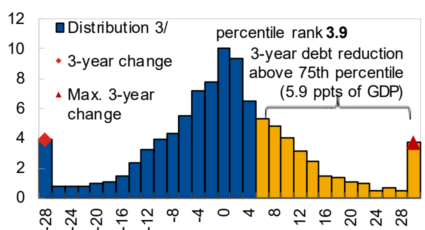
Public Debt Creating Flows
(Percent of GDP)



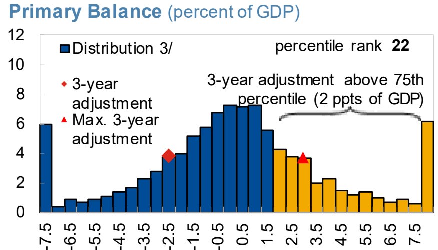
Bond Issuances (bars, debt issuances (RHS, %GDP); lines, avg marginal interest rates (LHS, percent))



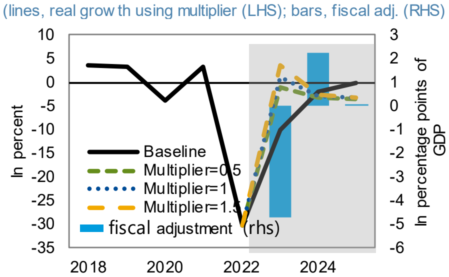
3-Year Debt Reduction
(Percent of GDP)



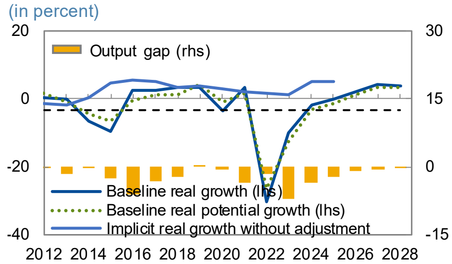
3-Year Adjustment in Cyclically-Adjusted Primary Balance (percent of GDP)



Fiscal Adjustment and Possible Growth Paths
(lines, real growth using multiplier (LHS); bars, fiscal adj. (RHS))



Real GDP Growth
(in percent)



Commentary: The forecast track record provides limited guidance under a severe structural break, but the range of errors suggests challenges pre-war with key debt drivers. The other realism tools do convey aspects of the downside scenario, such as higher and more costly bond issuances in the medium term. The three-year fiscal adjustment tool captures both looser fiscal policies and the scale of the required fiscal adjustment. Broad and substantial social needs are likely to create severe headwinds for fiscal adjustment, but fiscal multiplier assumptions are conservative leading to upside risk on growth.

Source : IMF Staff.

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

2/ Data cover annual obervations from 1990 to 2019 for MAC advanced and emerging economies. Percent of sample on vertical axis.

3/ Starting point reflects the team's assessment of the initial overvaluation from EBA (or EBA-Lite).

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

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

Ukraine: Medium-term Risk Analysis Under Pre-Restructuring Downside Scenario

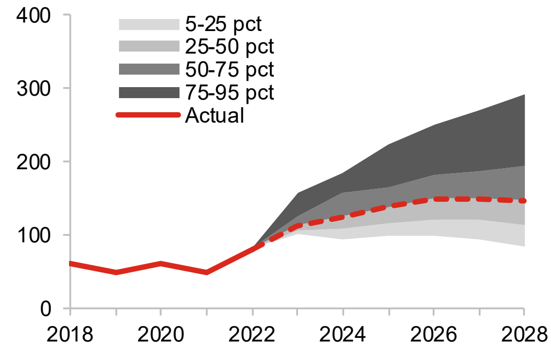
Debt fanchart and GFN financeability indexes

(percent of GDP unless otherwise indicated)

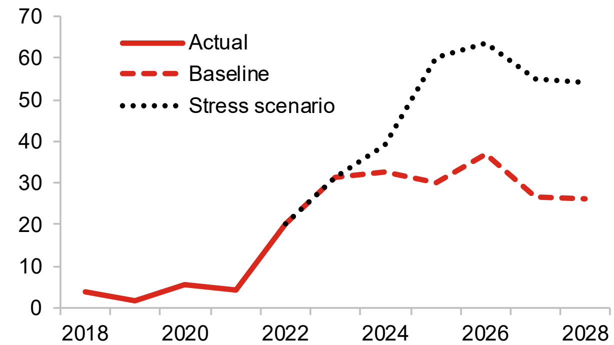
Module	Indicator	Value	Risk index	Risk signal	EME, Non-Com. Exp, Program (0 25 50 75 100)
Debt fanchart module	Fanchart width	206.8	3.0	…	
	Probability of debt not stabilizing (pct)	16.6	0.1	…	
	Terminal debt level x institutions index	100.3	2.2	…	
	Debt fanchart index	**…**	**5.3**	**High**	
GFN finance-ability module	Average GFN in baseline	30.7	10.5	…	
	Bank claims on government (pct bank assets)	21.3	6.9	…	
	Chg. in claims on govt. in stress (pct bank assets)	124.0	41.5	…	
	GFN financeability index	**…**	**58.8**	**High**	

Legend: Interquartile range; Ukraine

Final fanchart (pct of GDP)



Gross Financing Needs (pct of GDP)

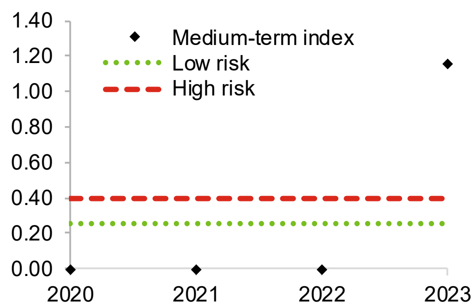


Triggered stress tests (stress tests not activated in gray)

Banking crisis Commodity prices Exchange rate Contingent liab. Natural disaster

Medium-term index

(index number)



Medium-term risk analysis

	Low risk threshold	High risk threhsold	Weight in MTI	Normalized level
Debt fanchart index	1.1	2.1	0.5	1.2
GFN finaceability index	7.6	17.9	0.5	1.1
Medium-term index (MTI)	0.3	0.4	…	1.2, High

Prob. of missed crisis, 2022-2027 (if stress not predicted): 100.0 pct.

Prob. of false alarm, 2022-2027 (if stress predicted): 0.0 pct.

Commentary:The medium-term modules signal high sovereign stress risks in the downside scenario. All fanchart metrics have deteriorated, increasing the likelihood that debt-carrying capacity is exceeded. The GFN financeability module includes a notable increase in financing needs in the downside relative to the baseline to the edge of peer countries.

Appendix I. Letter of Intent

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

March 24, 2023

Dear Ms. Georgieva:

1. Russia's illegal and unjustified invasion of our country continues to bring enormous human, social, and economic costs. Civilian casualties are large, over a third of the population has been displaced, and infrastructure damage is massive. Through this hardship, our people have shown courage, determination, and resilience while macroeconomic, financial, and external stability have been preserved. Strong performance under the Program Monitoring with Board Involvement (PMB) has clearly demonstrated our ability to implement sound economic policies despite these challenging circumstances. Meeting all the quantitative and indicative targets as well as all structural benchmarks helped establish a strong track record. Nevertheless, despite our efforts and the support of the IMF and other significant official external financing, we continue to face major challenges and large external financing needs.

2. Against this background and in light of Ukraine's balance of payments needs, we are requesting a 48-month Extended Arrangement under the Extended Fund Facility (EFF) from the IMF to support our economic policy priorities, in an amount equivalent to SDR11,608.25 million (577.01 percent of quota, about US$15.6 billion), with an initial purchase of SDR2,011.83 million (100 percent of quota; about US$2.7 billion). For each purchase intended for budget support, a special agreement between the National Bank of Ukraine and the Ministry of Finance will be signed to clarify the responsibilities for timely servicing their financial obligations to the Fund.

3. The goal of our IMF-supported program is to restore fiscal and debt sustainability as well as medium-term external viability, while also promoting long-term growth in the context of post-war reconstruction and our process of accession to the European Union. The program is designed to resolve our balance of payments problems and restore medium-term external viability not only in the baseline scenario but also under a downside scenario. We will also strive to design and implement policies that could achieve much stronger economic outcomes. The attached Memorandum of Economic and Financial Policies (MEFP) lays out in detail the economic program that the authorities of Ukraine will undertake, supported by the IMF and other international partners.

4. Given the exceptional uncertainty, the program envisages a two-phased approach. In the first phase, our primary objective is to preserve macroeconomic and financial stability within the context of the ongoing war while preparing the ground for a strong post-war recovery, including structural reforms in the fiscal area, financial sector, monetary and exchange rate policies,

governance, anti-corruption, and the energy sector. In the post-war second phase, we will deepen our structural reform agenda and implement additional macroeconomic policy reforms to restore medium-term external viability, support reconstruction and promote strong long-term growth, and accelerate our progress toward EU accession. As conditions allow, Ukraine will revert to pre-war policy frameworks, including a flexible exchange rate underpinning the inflation targeting regime. To help lay the foundation for post-war growth, we will advance reform initiatives to enhance productivity and competitiveness, including in the energy sector.

5. Our international partners have assured us of their continued support to help ensure that debt sustainability is restored and the proposed program is fully financed. In addition, we have also publicly announced our intention to undertake a debt treatment of our external public debt with the purpose of restoring public debt sustainability on a forward-looking basis. We are planning to start negotiations with bond holders in early 2024 with the objective of completing the needed operations no later than mid-2024, while a group of official creditors have committed to a two-step process for a debt treatment.

6. The progress we make in implementing our program will be monitored through reviews, initially at quarterly frequency, based on prior actions, quantitative performance criteria, indicative targets and structural benchmarks as described in the accompanying MEFP and the technical memorandum of understanding (TMU). There will be eleven such reviews to examine the progress made in carrying out the program and to agree on any corrective measures necessary to achieve program objectives. A first review of the program would be completed on or after June 15, 2023, and a second review on or after October 13, 2023.

7. We have introduced a number of measures that constitute exchange restrictions for reasons of national or international security. We have notified these measures to the Fund for approval under Decision 144. We have also introduced two multiple currency practices subject to Fund approval under Article VIII, Section 3. We request temporary approval of such measures, which are maintained for balance of payments reasons. We will gradually remove exchange restrictions as circumstances normalize, in consultation with IMF staff.

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

9. We will provide IMF staff with the data and information needed to monitor program implementation, including by adhering to the data provision requirements described in the attached TMU.

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

Sincerely yours,

/s/

Volodymyr Zelenskyy
President of Ukraine

/s/

Denys Shmyhal
Prime Minister of Ukraine

/s/

Sergii Marchenko
Minister of Finance of Ukraine

/s/

Andriy Pyshnyy
Governor, National Bank of Ukraine

Attachment I. Memorandum of Economic and Financial Policies

March 24, 2023

I. Background, Recent Economic Developments, and Outlook

1. Russia's illegal and unjustified invasion of our country continues to bring enormous human, social, and economic costs. Civilian casualties are large, over a third of the population has been displaced, and infrastructure damage is massive. Through this hardship, our people have shown courage and resilience, while macroeconomic, financial, and external stability have been preserved. Nevertheless, we continue to face major challenges: the fiscal deficit remains very high, causing large external financing needs. Protecting core functions of the state under existing financing constraints will force us to continue navigating difficult policy trade-offs.

2. Despite the war, Ukraine's economy continues to be well-managed, and the strong performance under the Program Monitoring with Board Involvement (PMB) demonstrated our ability to implement sound economic policies. Meeting all the quantitative and indicative targets as well as all structural benchmarks helps establish a strong track-record and shows strong program ownership. It also underscores our full control of government functions. Specifically:

- We have met all three fiscal structural benchmarks, as detailed in ¶14.
- On January 26, the National Bank of Ukraine (NBU) Board formally approved Terms of Reference (TOR) for undertaking an asset quality review (AQR), viability analysis, and the diagnostics steps needed to design a Non-Performing Loan (NPL) resolution strategy. These diagnostics will be undertaken as soon as it has been deemed appropriate to do so. Formally adopting the TOR is the first critical step in the process to rehabilitate the financial sector and realign it with international accounting and regulatory standards while safeguarding financial stability.
- Finally, on January 24, the Cabinet of Ministers of Ukraine (CMU) appointed four new independent members and two out of the three state representatives for Naftogaz's new supervisory board. While the last position has yet to be filled, the supervisory board is fully functional.

3. Against this background, we are requesting a 48-month Extended Arrangement under the Extended Fund Facility (EFF) from the IMF to support our economic policy priorities in the coming years, an amount equivalent to SDR11,608.25 million (577.01 percent of quota, about US$15.6 billion). Despite our efforts, our strong performance under the PMB (see ¶2), and the support of our international partners, we continue to face major challenges and large balance of payment needs. In view of the exceptionally high uncertainty, our program's policy objectives envisage a two-phased approach. In the first phase, our key objective is to preserve macroeconomic and financial stability within the context of an ongoing war while preparing the ground for a strong post-war recovery, including measures in fiscal structural areas, financial sector, monetary and exchange rate policies, governance, anti-corruption, and energy sector. In the post-war second phase, we will implement an ambitious structural reform agenda and additional macroeconomic policy reforms to restore medium-term external viability, support reconstruction and promote strong growth, and accelerate our efforts toward EU accession.

4. Efforts to achieve our strategic goal of EU accession will reinforce the drivers of long-term growth and stability. Reforms to achieve accession will strengthen the economy and the institutions of Ukraine, as they are essential to creating conditions for increased investment and growth going forward. The candidate status of Ukraine implies that the choice of the regulatory regime defined by the EU acquis will frame our recovery and reconstruction process. This will facilitate the reconstruction efforts, in line with the European green and digital agenda. Progressive integration into the European internal market, already underway on the basis of the Association Agreement and Deep and Comprehensive Free Trade Agreement, should increases trade and stimulate revenue and technology transfer to the Ukrainian economy, thereby helping sustain the recovery.

A. Economic Outlook

5. We expect a gradual economic recovery over the course of this year, though the outlook remains uncertain as the war continues.

- Following a decline in output of about 30 percent in 2022, and despite attacks on critical energy infrastructure through early 2023, economic activity is showing signs of resilience. Although the war could continue through the year, we expect a gradual sequential recovery as households and firms continue to adapt to the war circumstances. Economic activity in the first quarter is expected to be flat, as quick solutions have been put in place to cope with power outages; in subsequent quarters, activity is expected to strengthen given continued growth in non-combat areas as well as base effects, under the assumption of the continuation of the grain corridor and no further escalation of the war. The pace of the recovery will be determined by the degree to which the prevailing high uncertainty weighs on private investment, the strength of consumption given the erosion in purchasing power amid contained real wage growth, and the direction and pace of net migration. Nevertheless, by the last quarter of the year, Q4/Q4 growth could be strongly positive, and set the stage for a stronger recovery through 2024; yet, given the uncertainty, we project annual growth for 2023 in the -3 to +1 percent range.

- Inflation reached 26.6 percent y/y in end-2022, lower than initially expected. It has begun to show some signs of deceleration in early 2023, but remains elevated, at 24.9 percent in February 2023. In view of the gradual easing of supply constraints though the year, subdued consumer demand and slowing global inflation, we expect inflation to continue moderating to about 20 percent y/y by end-2023.

- The current account is expected to move to a deficit of US$6.5 billion in 2023, following an estimated surplus of US$8.6 billion in 2022. This reflects a widening trade balance, on account of a weaker than expected recovery in exports (given a weak agricultural harvest, loss of production capacity in metals and mining and residual supply constraints), and continued demand for imports (including for essential equipment and fuel). The services balance is also expected to widen slightly on continuing withdrawals and card payments to Ukrainian migrants abroad.

Nevertheless, continued strong external financing inflows should strengthen gross international reserves levels to an adequate US$29.6 billion by end-2023 under the baseline scenario, equivalent to 4 months of imports.

6. The economy could rebound more quickly, particularly if the security situation improves sooner than expected. Several factors could support a stronger recovery, primarily from a decline in security risks that enables a faster recovery in sentiment, a revitalization in economic activity including from a swifter resolution of war-related supply disruptions and increased access to seaports, and the quicker return of migrants.

7. Nevertheless, risks to the outlook remain tilted to the downside, amid exceptionally high uncertainty. Security risks could persist for longer than expected, weighing on sentiment and dampening the pace of return by migrants. Insufficient donor support could also increase financing constraints, requiring difficult trade-offs. The grain corridor could be interrupted, there could be further damage to energy infrastructure or continuing power outages, or war-related supply chain disruptions could worsen, weighing on production costs and firm profitability. A continued war would continue to put pressures on our fiscal position, and fiscal and external financing gaps could widen substantially.

II. MACROECONOMIC AND STRUCTURAL POLICIES FOR 2023–27

A. Overview

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

- In the first phase, our primary focus will be to maintain macroeconomic, external, and financial stability, in order to strengthen Ukraine's capacity on its way to victory. Our program involves policies to ensure a robust budget 2023 coupled with a medium-term fiscal framework that would anchor fiscal policy and the assessment of financing gaps. At the same time, we will implement measures to prepare the ground for Ukraine's post-war growth, including in fiscal structural areas, financial sector, monetary and exchange rate policies, governance, anti-corruption, and the energy sector. Social spending will be safeguarded to the extent possible, also recognizing the large-scale humanitarian support from UN agencies and NGOs.

- In the second phase, once the war has tapered off, our focus will shift to more expansive reforms to entrench macroeconomic stability, support recovery and early reconstruction, promote economic growth, and thereby restore medium-term external viability. As conditions allow, Ukraine will revert to pre-war policy frameworks, including a flexible exchange rate underpinning the inflation targeting regime. To help lay the foundations for post-war growth, we will advance reform initiatives to enhance productivity and competitiveness, including in the energy sector. Progress toward EU accession will be a major anchor for our policies.

9. We acknowledge IMF staff analysis on upside and downside scenarios, and we are fully committed to taking all necessary measures to ensure program success and a stable economy.

- Since the start of the war, we have repeatedly and decisively taken measures to respond to shocks as they have materialized, carefully balancing the need for a prompt and effective response with material social considerations. In 2022, we systematically streamlined capital expenditure and other lower priority expenditure items, and also identified additional financing. Building on this track record, we would respond decisively to a potential downside scenario, to ensure that public institutions function effectively, taking measures as needed to preserve economic and financial stability, and maintain debt sustainability on a forward-looking basis. In downside scenarios, as illustrated in IMF staff analysis, we stand ready to take feasible fiscal measures, including identifying tax policy measures that can be effectively and rapidly implemented or spending that could be deferred pending the receipt of additional external grants or concessional support. In parallel, we will also identify additional domestic financing as needed to ensure that financing gaps are closed, without compromising economic and financial stability. These are difficult balancing acts, and we welcome the fact, as detailed in the staff report, that our partners stand ready to provide additional financial resources sufficient to close financing gaps and preserve debt sustainability; we recommitted to play our part to ensure the burden of adjustment is shared.

- We are equally focused on advancing policies that can help us achieve high and sustained growth rates. Establishing frameworks for post-war reconstruction that would enable us to absorb substantial official resources and also catalyze private capital, including foreign direct investment, could have a decisive impact. Reforms required to achieve the strategic goal of EU accession coupled with progressive integration into the European internal market through the Association Agreement and Deep and Comprehensive Free Trade Agreement would be critical components of such a strategy.

B. External Debt Strategy

10. To help restore debt sustainability on a forward-looking basis, we have publicly announced on March 24 our intention to proceed to a debt treatment on our external public debt. Our strategy seeks to help close financing gaps during the program period, reduce gross financing needs to manageable levels, including after the program, and to place public debt on a sustainable path. Our strategy is also designed to help create the necessary conditions for private sector participation in the post-war reconstruction of Ukraine and takes into account the importance of preserving financial stability. To this end, we have hired external advisors and are committed to a credible process with transparency for information and communication. In addition, financing assurances will be sought after from our international partners to ensure that the two-step approach (see ¶11, bullet 1) will restore public debt sustainability and ensure that our program is fully financed throughout its duration, including in a downside scenario.

11. The debt treatment will comprise the following elements:

- *Official bilateral debt.* Paris Club creditors have committed to a two-step process involving a 3-year extension of the current debt standstill that expires at end-December 2023, coupled with a separate assurance to deliver a final debt treatment sufficient to restore debt sustainability before the final review of the prospective IMF-supported program. We will seek treatments on comparable terms with other official creditors.

- *External commercial debt.* In August 2022, Ukraine reached an agreement with its international bondholders that included, amongst other things, a voluntary 24-month deferral of debt service on Ukraine's direct and state-guaranteed Eurobonds; similar deferrals were agreed on some non-guaranteed external commercial debt. We will begin discussions with commercial creditors in early 2024, with a goal to complete the needed debt operation no later than mid-2024 on terms consistent with the most up-to-date IMF's macro framework and the parameters of the debt sustainability assessment.

12. To support our strategy of safeguarding debt sustainability, we will also strictly limit the issuance of guarantees (Quantitative Performance Criterion, see ¶24). Adequate space will be provided to facilitate guarantees supporting critical needs, including essential loans from International Financial Institutions (IFIs) and other partners to ensure investments for critical infrastructure needs.

C. Fiscal Policy

13. In 2022, Russia's invasion forced us to manage fiscal policy under unprecedented war-related uncertainty, leading to unforeseen complexities in budget predictability and the emergence of a large fiscal deficit:

- The war had an enormous impact on expenditure, including the need to prioritize defense, security and social protection, while compressing non-priority spending. As the war progressed, we adopted several supplementary budgets to calibrate spending needs and financing sources. In this context, the financing gap resulting from the sizeable increase in defense spending in the last supplementary budget was closed by a combination of additional financing sources and under-execution of some expenditures. Thanks to timely measures taken in the context of the PMB, we managed to cap the level of general government arrears (overdue account payables) in 2022 at UAH 1,585 billion (below 0.1 percent of GDP). Consequently, actual expenditures of general government in nominal terms were almost 50 percent higher than the pre-war 2022 budget, estimated at 69.9 percent of GDP. While tax revenues (36.4 percent of GDP) were only 0.3 percent lower in nominal terms than the pre-war budget, they have been affected by structural changes in the economy, cyclical developments and Martial Law measures that aimed to ease the impact of war on economic agents.

- The general government fiscal deficit[1] for 2022 is estimated at UAH 817.9 billion or 16.7 percent of 2022 GDP, supported by substantial external grants equivalent to UAH 481.3 billion or 9.8 percent of 2022 GDP; the deficit excluding grants was UAH 1,299.2 billion (26.5 percent of GDP). This outcome is well below the projections under the PMB and allowed us to comfortably meet the PMB's quantitative targets on the floor on the non-defense cash primary balance of the general government (excluding grants) and the indicative target in the overall cash primary balance of the general government (excluding grants). The deficit has been financed primarily by external official financing and NBU monetary financing, whereas net financing from domestic banks and non-banks turned negative. Public debt increased to slightly over 80 percent of GDP at end-2022.

14. Despite the war-related challenges, we succeeded in meeting all fiscal structural benchmarks under the PMB. In particular:

- On the tax front, we prepared and submitted for adoption by Parliament a package of tax policy and administration measures that would restore the pre-war set up of critical policy and administration components. We expect these laws to be adopted by end-June 2023.

- We have also taken important measures to prevent the accumulation of arrears (overdue account payables) during wartime. As a starting point, we have repealed the clause of the Martial law that limited the Ministry of Finance (MoF)'s powers to collect financial reports from key spending units, including local governments. Consequently, as part of the action plan, a CMU protocol decision tasked line ministries and other executive bodies, to prepare and submit reports on budget arrears accumulated at end-2022, analyze the reasons for the arrears accumulation and to develop an action plan to clear arrears outstanding at end-January 2023. As of end-December 2022, the reported stock of overdue account payables of general government is estimated at below 0.1 percent of GDP.

- With the help of World Bank technical assistance, we have prepared a concept note on social safety nets. The note identifies important reform priorities and policy options to help achieve a more targeted, adequate, and efficient social assistance system. Considering the importance of fiscal sustainability and its role in medium-term fiscal framework we will continue to work on social sector reforms bearing in mind that large social spending needs require consistency with fiscal sustainability considerations, hence the need to identify steps to ensure a sustainable social protection system in the long term.

Fiscal Policy in 2023 and Supplementary Budget

15. Our fiscal policies in 2023 will be designed to support fiscal and debt sustainability, while continuing to ensure adequate resources for core spending priorities and helping to prepare for reconstruction. Still, given the war-related uncertainty, we are committed to take all necessary measures to ringfence additional pressures and risks to the budget. We will refrain from

[1] The deficit is based on a cash concept, measured below the line.

any tax policy and administrative measures that may erode the tax revenue base in 2023 and beyond, while taking measures that support post-war reconstruction and EU accession. On the spending side, we will only revise spending categories in consultation with IMF staff and with identified financing sources.

16. Relative to the initial budget 2023, approved in November 2022, two sets of amendments are to be reflected in supplementary budgets. We have identified changes stemming from the reorganization of key spending units and earmarking of resources under the different programs that will be reflected transparently in the budget. We also expect several spending pressures to materialize. Specifically,

- **We adopted a first supplementary budget in February to introduce transparently certain changes to budget categories within pre-existing resources.** We reallocated existing resources to the newly established Ministry of the Development of Communities, Territories and Infrastructure with budget appropriations needed to start the reconstruction. We also transferred the budget program known as "Fund for the Liquidation of Consequences of the Armed Aggression" from the MoF to the new Ministry. In addition, amendments to the budget earmark new grants, including to the budgetary program supporting loans for agricultural producers, and channel savings from the Unemployment Fund for businesses' support under the auspices of the Ministry of Economy.

- **The CMU has approved a second supplementary budget and submitted it to Parliament (prior action) to reflect modifications in revenue, spending and financing sources.** We have recognized increases in defense and security needs, while also efforts to enhance the cost-efficiency of our spending. First, we have identified about 8.6 percent of GDP in additional defense and security related spending. Effective February 1, 2023, we revised the wage policies in defense and security aimed at optimizing the increase in wages while incentivizing combat recruitment. Second, following the review of 2022 social fund resources and actual outcomes of key macroeconomic variables, we have announced a 19.7 percent indexation of pensions, effective March 1, 2023. The indexation is higher than what was assumed in the original 2023 budget; it is based on outcomes of parameters feeding into the indexation formula, including inflation and average wage growth over the last three years. This measure would increase overall social spending by 2.3 percent of GDP, with no additional impact expected on budget transfers to social funds. Relatedly, the receipts from personal income tax and social security contributions are revised up by about 2 percentage points of GDP in view of the higher public sector wage bill. To cover other unexpected spending, we have added 0.3 percent of GDP to our contingency fund, bringing total amount of undistributed expenditures to 1.14 percent of GDP (partly reallocated to specific spending categories).

- After these measures, total expenditures of general government are projected at 67.7 percent of GDP, representing about 11.2 percentage points of GDP increase over the original budget. In view of the importance of our budget credibility and commitment control, the second supplementary budget will be enacted by end-April 2023 (***Structural Benchmark***).

17. We expect the deficit excluding external grants in the 2023 budget to reach UAH 1,708.8 billion, or about 28.2 percent of GDP, which is consistent with fiscal sustainability given the support from external donors. This is about UAH 424 billion higher relative to what was envisaged in the initial 2023 budget, and also about 1.7 percentage points of GDP higher than the estimated 26.5 percent of GDP deficit excluding external grants for 2022. To monitor our progress in this area, a floor on the non-defense cash primary balance of the general government excluding grants will be established (Quantitative Performance criterion), along with a floor on the overall cash primary balance of the general government excluding grants (Indicative Target). Moreover, to help safeguard social spending, a floor on state budget spending on social programs will be established (Indicative Target).

18. Our tax revenues have continued to hold up well since the start of the war. Consistent with the projected macroeconomic framework, and measures adopted at end-2022 (effective July 1, 2023), combined with measures in ¶19 of the current MEFP, the tax revenues are estimated at 36.3 percent of GDP. We expect profit taxes to deteriorate consistent with lower corporate profits; the decline in personal income tax due to structural developments in the labor market and a decline in the public sector wage bill will be partly offset by the impact of the increase in the military wage bill. Taxes on goods and services are projected to improve as consumption recovers and measures under Martial Law are lifted.

19. We will take a number of steps to support much needed revenue mobilization. Specifically:

- We affirm our commitment to revenue mobilization and a floor on nominal tax revenues excluding SSC will be established (***Quantitative Performance Criterion***). We will adopt the draft law prepared under the PMB by end-June (***Structural Benchmark***), effective July 1, 2023, signaling our commitment to strengthen revenue mobilization. Once adopted, the first component of the law will restore the pre-war setup for taxpayers who moved from universal tax regime (e.g., paying PIT, CIT, VAT) to the single tax. In addition, it will restore pre-war brackets of single tax eligible groups and close loopholes in application of the single tax rate of 2 percent. The law will remove idiosyncrasies of the application of the simplified tax regime by taxpayers under the single tax of 2 percent and restore the pre-war regime for these taxpayers effective July 1, 2023. The second part of the law will cancel the moratoria on tax audits, effective July 1, 2023. This should help with enhancing tax compliance. Another component of the law will provide for restoration of liability for failure to use cash registers in retail outlets, effective July 1, 2023.

- We are canceling or phasing out most of the tax deferrals introduced during the Martial Law. We have cancelled deferrals for customs duties starting from March 1, 2023, and will cancel the remaining deferrals on import duties from June 1, 2023. Moreover, we will not extend the Tax Code provisions introduced during the Martial Law that relaxed administration of taxes and fees. We will also refrain from introducing tax amnesties for the duration of the program, or from introducing any tax measures which would jeopardize our tax base. The exemptions for special equipment for electricity generation and distribution and heating supply will expire on May 1, 2023.

Fiscal Structural Reforms

20. We are committed to implementing fiscal structural reforms to anchor the medium-term fiscal path, maintain fiscal and debt sustainability and lay the foundations for long-term growth. As defense spending winds down, we will aim to channel the resources to spending for recovery and reconstruction as well as social safety net to address post-war needs of the society and vulnerable layers of population. Cognizant of efficient use of emerging fiscal space and the need to restore debt sustainability, we will undertake substantial changes to pension and social safety nets after comprehensive reforms in social policies including improved targeting and means-testing mechanisms for social assistance, in line with our social policy concept note (see ¶14).

21. Fiscal structural reforms are essential to meet our medium-term spending priorities and wider development goals. Thus, our reform agenda will focus on: (i) raising adequate revenue to help meet reconstruction and social spending needs through measures that enhance the efficiency, fairness and simplicity of tax system, including through a home-grown multi-year National Revenue Strategy (NRS), (ii) preparing our public investment and financial management for the post-war era, by strengthening public investment processes, the project management cycle and commitment controls, (iii) enhancing fiscal transparency and management of fiscal risks, (iv) ensuring fiscal sustainability and predictability of budget policy by restoring and strengthening the provisions of the Budget Code which stipulate the cases for budget amendments. Specifically, we will submit to Parliament a draft law to restore and strengthen Article 52 of the Budget Code, which defines the framework and cases when the budget can be amended both on revenue and expenditure side (**Structural Benchmark, May 2023**).

Revenue Mobilization Policies

22. We are committed to boosting revenues through a multi-year National Revenue Strategy (NRS):

- **In the short-term**, in addition to commitments in ¶19 of this MEFP, we will take measures to enhance tax and customs administration. In mid-February, we published the relevant parts of an independent survey of taxpayer perception and satisfaction with the State Tax Service (STS) conducted in November 2022 (with the help of Swedish International Development Cooperation Agency). With the help of the IMF and the World Bank, we will prepare an action plan, including to address the weaknesses identified in the survey, as an input into our NRS (***Structural Benchmark*, end-May 2023**). We will institutionalize and strengthen the survey by enhancing its scope and representation and make it an annual exercise covering not only STS but also State Customs Service. We will approve measures to address main issues identified in survey within a month following survey publication, as part of implementation of NRS. To understand the causes of tax arrears (overdue accounts payable) and potential means to reduce them, we commit that the STS will review the existing stock of tax arrears, establish those that are not related or caused by Russian military aggression and occupation of Ukrainian territories by Russia, and review the possibility of arrears repayment. As a next step, the STS will prepare by end-August 2023 a detailed action plan to progressively reduce these arrears. Moreover, in addition to measures in ¶19 of this MEFP, we will identify, by end-September 2023, further revenue measures to be implemented in 2023, focusing on those that could be integrated into the revenue projections for the 2024 budget (e.g., harmonization of taxes with EU directives).

- **Multi-year National Revenue Strategy.** The CMU will adopt a decision tasking the MoF to start the preparation of the NRS (2024-2030) (***Prior Action***). The decision will declare our intention to adopt an NRS, underscore key principles and objectives for tax policy and administration both in the short-term and in the post-war reconstruction period, and lay out the steps to be taken to prepare and adopt the NRS. Subsequently, with the support of IMF TA, we will undertake gap analysis to inform a roadmap for the NRS (2024-2030) with clear revenue and other policy targets, and guidance for coordination among government agencies, donors, private sector and civil society led by MoF, to be finalized by end-July 2023. A final strategy will be adopted by the end of 2023 (***Structural Benchmark*, end-December 2023**) and will include: (i) measures to strengthen tax and customs services, drawing among others on perception survey analysis; (ii) a revised simplified tax regime to address the erosion of labor taxes by moving the legal basis for labor relations to civil law ; (iii) alignment of VAT and excise duties with the EU acquis; (iv) strengthened anti-corruption measures and governance procedures to address integrity risks; (v) tax reforms that balance the need to ensure an adequate revenue base with the vital task of creating conditions for the post-war reconstruction and recovery, including much needed investments and industrial development; and (vi) reorganization of the Economic Security Bureau of Ukraine (ESBU) under subordination of the MoF.

- **Economic Security Bureau of Ukraine (ESBU)**. Fighting tax evasion and enhancing governance in the tax system require a strong oversight body that can not only investigate financial and economic criminal offenses against the State, but importantly provide analytical support to identifying tax evasion on an arm's length basis. With this in mind, we are preparing amendments to the Law and reorganization of ESBU to clearly define its functions, consistent with best practices in this field, strengthen the analytical component, and to subordinate it to the MoF. As a starting point we are revising the legal basis for operation of ESBU and will develop transparent and competitive processes for staff and management selection. We will also strengthen requirements for selection commission and will introduce clear process of competitive selection as well as streamline an activity of civil control council of the Bureau. We will develop a mechanism of attestation of the staff and introduce a contract system for employees.

Medium-term Budget Framework

23. To better prepare for post-war reconstruction and anchor fiscal and debt sustainability, we are committed to working towards restoring the medium-term budget framework. To that end, we will (i) submit to Parliament in May a draft law repealing the suspension of medium-term budget preparation (Budget Declaration) ahead of 2024 budget cycle, with effect from January 2024, (ii) present in the 2024 budget projections with key revenue and expenditures categories, along with deficit financing sources for general government for 2025-26. This will serve as a basis for preparation of budget 2025. As part of 2024 budget preparation, we will also include a fiscal risks statement including details on energy and critical infrastructure SOEs (***Structural benchmark*, end-September 2023**); (iii) prepare a comprehensive MTBF (2025-2028) for the 2025 budget cycle, as prescribed by the budgetary legislation. To strengthen our expenditure planning framework, with the help of IMF TA, we will take steps to improve the strategic budgeting and costing of new public services and define mechanisms to strengthen the link between the budget and fiscal risk assessments.

Fiscal Transparency and Risks

24. We will continue taking measures to enhance fiscal transparency, address fiscal risks and strengthen commitment controls. Specifically:

- Building on the progress made under the PMB, the MoF will continue strengthening the current centralized approach to commitment control, putting us on a stronger institutional footing to prevent of arrears (overdue accounts payable) financial obligations on all levels of government, except those that were caused by the Russian military aggression and occupation of Ukrainian territories by Russia.

- As part of our continuous work, we have agreed to monitor general government arrears (overdue accounts payable) through a cumulative indicative target (***Indicative Target***), as specified in the Technical Memorandum of Understanding (TMU).

- We plan to restore regular reporting by SOEs that are not located in temporarily occupied territories.

- To strengthen risk assessment of guarantees (see also ¶12), we will prepare by September 2023 rules and regulations to tighten risk assessments to avoid abuse and introduce risk-based fees for guarantees. To safeguard our efforts for prudent debt policies, we will submit to Parliament a draft law (***Structural Benchmark*, end-May 2023**) which will re-instate articles of the Budget Code that establish limits on issuance of public guarantee with clear criteria for such provision (including for priority sectors).

25. We will continue enhancing transparency in the management and spending of budgetary funds and special accounts.

- We have already prepared rules and regulations for the “Fund for the Liquidation of the Consequences of the Armed Aggression” and notwithstanding the important administrative role of the new government agency managing this Fund, we will keep control over commitments and appropriations with the MoF as prescribed by the budgetary legislation. This Fund finances a budgetary program through a special fund, and thus is subject to relevant articles of the Budget Code. We also commit to complement the existing reporting with a regular consolidated report summarizing the sources of financing and the nature of spending in one report. In this context, we commit to refrain from using the NBU profit for earmarked spending in 2024 and direct this revenue category to General Fund of the State Budget.

- *Special accounts*. We are committed to achieving maximum transparency on the operations of special accounts that have been established at the NBU to gather donations from entities seeking to support Ukraine and which provide resources to key spending units. The directions of spending of these accounts are defined in decrees and regulations issued at the onset of the war. Given that the resources are parked with monetary authority of Ukraine-NBU and their spending categories are in the domain of public expenditures, we will work towards treating programs implemented with resources of these accounts as budget programs under a Special Fund of the State Budget. We will take further steps to bring commitment controls and appropriations under the control of the MoF as envisaged by the budgetary legislation. To strengthen the legal basis of these practices, we will enact amendments to the Budget Code and related regulatory framework to enhance transparency and accountability of the special accounts and consolidate them within general government as a Special Fund of the State Budget (***Structural Benchmark*, end-May 2023**).

Strengthening Public Investment Management

26. We are committed to strengthening public investment management ahead of post-war reconstruction, building on EU4PFM and the World Bank's Public Investment Management Diagnostic Assessment Report 2022. We will enhance the efficiency of public investment and channel resources towards projects that are providing the most value for money while supporting recovery and growth. The recent World Bank report identifies numerous areas of improvement, which if addressed in the short run can become critical inputs into achieving more transparent and efficient public investment management (PIM). To this end, with the support of World Bank TA, we will review the current PIM procedures and develop a roadmap of measures (***Structural Benchmark*, end-December 2023**) so that: (i) all public investment projects follow unified PIM approaches, including PPPs; (ii) investment projects are selected on a competitive basis, with transparent selection criteria, and consistent with the medium-term budget framework; (iii) stronger powers are provided to MoF, including a clear gatekeeping role during the different stages of the investment project cycle. To further strengthen efficiency and transparency of post-war public investment and avoid multiple procurement platforms, we will adapt the national e-procurement system compliant with international competitive bidding standards used by Multilateral Development Banks.

D. External and Domestic Financing

27. We are grateful for the large, sustained support from all our international donors and partners. External disbursements of about US$32.1 billion in 2022 were crucial to close our external and fiscal financing gaps and maintain macroeconomic and financial stability in very difficult circumstances. Continued support from the EU, IFIs, and bilateral donors remains the cornerstone of our financing strategy in 2023, and timely disbursements are vital to facilitate effective policy management and maintain economic and financial stability.

28. We are also thankful for the additional support already committed in 2023, as well as commitments to predictable financing. Firm commitments for calendar year 2023 already amount to US$37.5 billion. Over the first 12 months of the IMF-supported program (April 2023–March 2024), the program is fully financed thanks to large official multilateral and bilateral commitments totaling US$30.2. billion. Looking beyond March 2024, key partners have assured us of their continued support, which provides good prospects for ensuring the program will remain fully financed over the program period.

29. We intend to continue our efforts to further mobilize domestic financing to help meet our fiscal financing needs, and in a mix that supports macroeconomic stability. Our fiscal financing needs during wartime are both large and volatile. The still relatively high tax collections combined with the large external financing will continue to play the critical role in supporting our spending needs. In addition, we intend to better mobilize domestic savings to also help finance our budget, and in a manner consistent with safeguarding macroeconomic and financial stability and supporting debt sustainability. Our strategy will involve maximizing the issuance of domestic government securities in the primary market with an objective of at least covering the expected redemptions, which will allow us to eliminate monetary financing.

30. Building on the achievements during the PMB, we will further strengthen our efforts to increase net domestic bond financing over the program period.

- As of March 1, we have raised UAH 97.3 billion in the primary market in 2023, achieving a year-to-date rollover rate of 142 percent, thereby providing net financing to the budget of about US$0.8 billion. About three-quarters of this amount has been raised through designated benchmark bonds that banks have been allowed to use to meet reserve requirements. In addition, as agreed during the PMB, issuance yields on government securities were gradually increased to support market recovery. During November-December 2022, yields increased from 18 to 19.75 percent for longer-term instruments, and longer maturity bonds were offered on some issuances in line with market demand.

- Looking ahead, we intend to continue issuing government securities with an objective of at least covering the redemptions expected in 2023 to help us meet large financing needs. The reserve requirement mechanism has been a key driver of the recent improvement in rollover rates; given the substantial liquidity available and expected in the banking system, we are committed to identifying and implementing ways to increase bank financing in a more sustainable way. This includes studying the flow of liquidity into the banking system, including on a bank-by-bank basis, to develop targeted strategies to encourage increased uptake of government bonds. To support this, we will establish a joint Working Group under the auspices of the Financial Stability Council (FSC), with participation from relevant parties, including the NBU and the Ministry of Finance, to consult regularly on strategies to mobilize domestic financing. We will make efforts to strengthen the effectiveness of the FSC, in its current mandate, as the major platform for discussions to achieve the program's objectives. With an appropriate mix of approaches, such measures could help contribute to positive net domestic financing over the course of the program period.

- To ensure our debt management strategy is consistent with our objectives under the program, we will update and publish our Medium-Term State Debt Management Strategy (***Structural Benchmark*, end-September 2023**) so that it will fully take into account developments since the start of the war. We will continue to support the development of benchmark securities and will undertake further efforts to expand and diversify the set of investors, including encouraging the return of non-residents to domestic bond markets and the restoration of market access, thereby enabling the bond market to play an active role in the reconstruction phase.

31. We are committed to eliminating monetary financing. Given the considerable risks monetary financing presents for price and external stability, we successfully contained it to the gross amount envisioned in 2022 (UAH 400 billion), and we are committed to eliminate it in 2023. Our commitment to this objective will be monitored by a ceiling on general government borrowing from the NBU (Indicative Target). If there are unexpected critical financing needs or delays in external disbursements, we will first explore additional measures, such as drawing down of excess government deposits as well as borrow additional funds from the government debt market; we will request monetary financing from the NBU only as a last resort and in strictly limited amounts.

E. Monetary and Exchange Rate Policies

Monetary Policy

32. As the war continues, we remain fully committed to safeguarding price and exchange rate stability and protecting international reserves. Following the start of the full-scale war, we undertook several emergency measures to safeguard price and external stability, including the introduction of a fixed exchange rate regime and FX controls solely for reasons of national security. As the war continues and the economy adapts to evolving conditions, our near-term objective is to continue to judiciously safeguard overall macroeconomic and financial stability, while also adjusting our policies to better serve the needs of households and firms and support the recovery. Once conditions permit, we intend to gradually move to a more flexible exchange rate, ease FX controls, and transition back to an inflation targeting framework. In this regard, we commit to prepare a conditions-based strategy (***Structural Benchmark*, end-June 2023**) that, in consultation with IMF staff, will help establish and assess the prerequisites for such a move, and guide the policy measures needed to support this transition.

33. We will maintain an appropriate monetary policy stance to support steady disinflation, manage inflation expectations, and support exchange rate stability. Over the past three months, headline inflation has been slower than expected, thanks to the easing of supply constraints, including from the liberation of occupied regions, and despite high energy costs. However, core inflation remains elevated due to pressures from production costs. Inflation expectations also appear to have stabilized, though at a high level. In 2023, with the war continuing, inflationary pressures will persist due to residual war-related supply shocks, though weak consumer demand and a broader environment of slowing global inflation should support a softening in prices. Thus, on balance, we expect inflation to further slow through 2023 to around 20 percent. Nevertheless, upside risks to inflation outlook, most notably from the security situation, remain. In this context:

- In our March Monetary Policy Committee (MPC) meeting, we maintained the key policy rate (KPR) at 25 percent, which was appropriate in view of stabilizing but still high inflation and inflation expectations and continued supply-side headwinds on the one hand, and weak consumer demand and the still incomplete transmission of the June hike on the other.

- We will continue our efforts to strengthen the monetary transmission of the KPR. At the same time, we stand ready to adjust monetary conditions in view of the balance of risks and developments in the economic outlook, to maintain price and external stability, while establishing preconditions for the gradual easing of FX controls, transition to a more flexible exchange rate, and return to inflation targeting (see below).

34. We will continue to make efforts to manage liquidity, induce competition among banks for term deposits, and thereby strengthen monetary transmission. The record structural surplus of liquidity (UAH 300 billion as of end-February 2023), brought about by the war, including the concentration of liquidity inflows in state owned banks, has weakened transmission of the key policy rate. As a result, the rate of return on hryvnia assets is low, which poses risks to exchange rate stability. Further, the high fiscal deficit projected in 2023 is expected to infuse new liquidity into the system through the year. Our strategy in this area is to prudently manage liquidity, while preserving space for banks to participate in government bond auctions and prevent monetary financing. We will continue to carefully monitor liquidity conditions, including the timing and size of flows to determine the appropriate design of measures to manage liquidity and to induce banks to compete for term deposits. In this regard, we have taken the following steps:

- **Reserve requirements.** In December 2022 and January 2023, we tightened reserve requirements for current account and demand deposits of legal entities and individuals by 5 percentage points each, and an additional 10 percentage points for hryvnia and FX retail demand deposits and current accounts, effective March 11. Such measures are expected to induce banks to compete for term deposits with raising interest rates. We will continue monitoring the impact of changes to the reserve requirements on liquidity conditions (considering that a part of obligatory reserves can be met through the use of benchmark government bonds), and adjust further as needed. We also intend to fine-tune the mechanism for calculation of reserve requirements so that higher reserve requirements apply also to the ultra-short-term deposits.

- **Operational design.** We intend to adjust the operational design of monetary policy framework to restore the efficiency of the key policy rate, enhance competition in banks for term deposits, and improve the monetary transmission via revival of the interbank money market. We will introduce three-month certificates of deposit at the key policy rate; the volumes of issuance will be limited and conditional on the stock of banks' term-deposits with maturity longer than 3 months. This will create additional incentives for banks to compete for term deposits. On balance, we intend to adjust the rate on standing facilities to help maintain an appropriate monetary policy stance in line with economic developments. These adjustments should help support the effectiveness of our sterilization operations and better link our operational framework to the KPR. Together, this will help strengthen the effectiveness of the key policy rate, which will support the eventual envisioned return to a more flexible exchange rate, easing FX controls, and inflation targeting.

Exchange Rate Policies

35. **The exchange rate peg, supported by FX controls introduced solely for reasons of national security, has served as an important nominal anchor during the war.** The imbalance in the FX market brought about by the war persists, and the NBU continues to be a net seller of FX (US$28.3 billion between February 24, 2022, and end-February 2023). However, FX reserves remain strong, supported by sizable official inflows, FX controls, and recent measures undertaken to eases pressure on the cash market. In recent months, the spread between the official and cash segments of the FX market has been narrowing despite increased FX demand related to imports for repairing the damage caused by the attacks on energy infrastructure in end-2022, stabilizing at around 10 percent through the winter, and reaching 5 percent in early March 2023. Conditional on the support of FX inflows, maintaining the stability of the exchange rate can continue to play an important role in ensuring price and financial stability.

36. **We intend to maintain adequate FX reserves through the course of the program.** To support external stability and in view of the large and prevailing uncertainty, the program envisages stabilizing reserves at a modest but adequate level in the near term, and gradually building them over the medium term. Progress in this area will be monitored under the program by a floor on net international reserves (***Quantitative Performance Criterion***).

37. **To support FX reserves and ease pressures on the FX market, we are taking measures to increase the attractiveness of hryvnia assets.** Recent measures, such as the FX-linked deposit facility and allowing individuals to purchase FX at the cash rate, have started bearing fruit. We intend to continue studying measures to stimulate the increase of hryvnia term deposits, allowing individuals to preserve the value of their hryvnia savings.

38. **We intend to carefully adjust FX controls to support the economic recovery, while maintaining exchange rate stability and national security.** At this point, although macrofinancial stability has been maintained, and imbalances in the FX market have somewhat eased, risks to the outlook remain high. Thus, we intend to maintain generally the existing controls on FX transactions and continue to carefully monitor and enhance the effectiveness of these measures. As flagged in the January MPC, we intend to continue finetuning FX controls to meet the needs of the economy, thereby easing pressure on the FX cash market and anchoring exchange rate expectations. This should also help, over time, eliminate the two multiple currency practices, and thereby reduce incentives for circumvention and support exchange rate stability.

39. We have extended the restriction on the repatriation of principal payments to non-residents holders of domestic government securities after April 1, 2023; however, we will allow the repatriation of interest paid after April 1, 2023. This will balance our considerations of preserving FX reserves in the face of still elevated risks to the economic outlook as well as consistency with the standstill offered by the Government of Ukraine on holders of external sovereign debt. It will also help build incentives for nonresident investors to reinvest principal in government bonds, thereby helping to meet our objectives of meeting fiscal financing needs and developing the government debt market.

NBU Independence and Governance

40. We intend to eliminate monetary financing, thereby upholding the financial autonomy of the NBU. In 2022, despite monetary financing of the state budget amounting to 8 percent of GDP, we have successfully sterilized the associated liquidity injection with FX sales and NBU CDs, keeping nominal base money growth contained at about 20.8 percent y/y as of end-December. Looking ahead, we intend to eliminate direct monetary financing of the budget deficit (¶31). To mitigate risks to price stability as well as safeguard central bank autonomy and enhance transparency, and in line with our intention to use monetary financing only when other options have been exhausted, the NBU and the MoF will establish, in consultation with the IMF, a framework stipulating the preconditions and procedures for short-term advances to accommodate temporary liquidity shortfalls for the duration of Martial Law by end-July 2023. We will also strive to limit indirect forms of monetary financing that are outside the core functions of the NBU, such as through the directed provision of liquidity to banks or SOEs for the purchase of government securities on the primary market. We commit to refrain from using the NBU profit for earmarked spending in 2024 and direct this revenue category to General Fund of the State Budget. Direct financing of off-budget programs by the NBU will be avoided altogether.

41. We remain fully committed to upholding the independence and institutional effectiveness of the NBU. A strong and independent NBU remains critical to achieving macroeconomic stability and will support the eventual transition back to an inflation targeting framework. In February 2023, we undertook a Safeguards Assessment, and are committed to implementing measures in line with the key recommendations. In this regard, we intend to continue adhering to our profit retention rules and ensure that the distribution of NBU profits to the state budget takes place in line with established procedures in a transparent manner.

42. Over the medium term, we intend to carefully unwind the unconventional measures undertaken to support price and external stability in wartime. Urgent wartime challenges have necessitated the use of several nonstandard measures by the NBU to support macroeconomic stability. We will strive to ensure that such measures are well-targeted, clearly communicated and time bound. When conditions permit, we are committed to developing a plan to phase out war-time measures. This will strengthen our monetary policy toolkit, safeguard NBU credibility and independence, and thereby support our goals to eventually return to an inflation targeting framework.

F. Financial Sector

43. Our wide-ranging emergency measures have preserved financial stability. We will continue to closely monitor developments and make adjustments as necessary. Banks entered the war well-capitalized and liquid, thanks to the considerable progress achieved in cleaning up the banking system since 2014. Despite the severe impact of the war, the majority of bank branches have remained operational, online banking services are fully available to all clients with internet connectivity, the non-cash payment system is functioning normally, and liquidity has recovered for most banks. To ensure the continuity of the banking network, we introduced "Power Banking" in late 2022, a network of over 2,000 bank branches across the country that are capable of providing banking services to clients even during prolonged blackouts. The licenses of six small banks (around 3 percent of system net assets as of end-2021) have been revoked under Martial Law.

44. The emergency measures have been critical for the financial sector's continued operations. Key measures have included the following:

- Administrative controls introduced for security reasons to preserve FX liquidity and channel it towards priority imports.
- An unsecured funding facility, introduced with a maturity of up to one year for an amount up to 30 percent of banks' late-January 2022 retail deposits, but which was discontinued on November 5, 2022, due to a decline in usage.
- Enforcement actions on banks have been suspended for war-inflicted breaches of prudential requirements regarding capital, liquidity, credit risk, net open positions in FX and for delays in prudential reporting; audits of banks' financial statements have been postponed, and regular bank stress testing in 2022 was cancelled.
- Loans restructured during the Martial Law period are exempt from reclassification for credit risk.
- Banks have been prohibited from related party lending (except for consumer loans granted on standard terms, available to a wide range of borrowers), capital distributions (dividend payments and share buy-backs), and bonus payments; and
- Banks have also granted payment holidays on retail and corporate loans for 3-6 months depending on the type of product and temporarily cancelled fees and commissions on cashless payments as well as cash withdrawals.

45. In preparation for a return to normality, we will update our financial sector strategy by end-June 2023 to implement a safe, coordinated, and prompt unwinding of financial sector emergency measures, while restoring accounting and prudential norms. Our 2021 financial sector strategy is being updated in consultation with IMF staff to serve as a living document requiring periodic review, modification, and action plans with implementation milestones. It will describe the future priorities for the financial system. Key elements of the strategy will include: (i) coordinated steps to safely unwind exceptional measures (we aim to unwind emergency prudential measures by end-March 2024 if conditions allow); (ii) diagnostics to quantify bank asset values and NPL resolution priorities; (iii) a framework to safely address any potential vulnerabilities; (iv) a prioritized action plan to monitor and tackle high NPL levels; (v) well-developed contingency plans to respond to potential further shocks; (vi) prioritized transposition of EU banking norms; and (vii) coordination arrangements among key stakeholders. We will publish parts of the strategy that are not market sensitive.

46. Recognizing the importance of well-informed financial sector policies, the NBU is preparing to undertake detailed bank diagnostics. These are critical to ensure prudent and consistent valuation of banks' assets, informing triage and the modalities of eventual balance sheet cleanup. In line with the Terms of Reference adopted by the NBU in January 2023, we will: (i) complete an independent asset quality review (AQR) once conditions have stabilized; (ii) carry out a subsequent bank viability assessment, and (iii) prepare a prioritized interagency NPL resolution action plan by end-June 2024. The current prohibition on bank capital distributions will remain in place until after the independent AQR findings have been fully reflected in banks' regulatory ratios and financial statements. To better understand current banking system conditions and to inform supervisory priorities, the NBU's banking oversight teams will undertake an asset valuation and solvency assessment of banks comprising 90 percent of banking system assets by end-December 2023 and will share results with IMF staff.

47. We are determined to take the necessary steps to continue to preserve financial stability and limit potential fiscal cost of any interventions. Our priorities will focus on continued preservation of financial stability whilst ensuring financial and operational readiness to respond adeptly to shocks. The NBU and Deposit Guarantee Fund (DGF) will prepare contingency plans to respond to further potential high-impact events in their respective areas, in consultation with key stakeholders and IMF staff. The Financial Stability Council will adopt by end-June 2023 those plans related to preparation for potential adverse rulings from the constitutional challenges against the DGF Law and the Bank Resolution Law (Law #590), and an updated contingency plan to prepare for litigation risks concerning past bank resolution decisions. We will also prepare a bank rehabilitation framework in consultation with the DGF and IMF staff (***Structural Benchmark*, end-March 2024**). It will include: (i) financial backstops; (ii) regularly updated bank recovery and resolution plans;(iii) improving the DGF's financial position; and (iv) aligning the NBU's frameworks for counterparty eligibility in monetary policy operations and for lender-of-last-resort operations with international best practice. We shall also continue working on our longstanding priorities including: (i) reducing historical non-performing loans (NPLs) while maximizing recovery of economic value; (ii) recovering of value from assets of resolved banks; and (iii) developing the regulatory framework for the non-bank financial sector and financial markets.

48. All our decisions will be consistent with our overall strategy to reduce state ownership in the banking sector. Any decision that has the potential to increase state ownership in the banking sector will be taken in consultation with IMF staff and be strictly limited to matters related to national security decisions during the Martial Law period and preserving financial stability.

49. We are fully committed to further strengthening regulation and supervision. In recognition of the importance of preparation for EU accession, we have undertaken a gap analysis relative to the EU Capital Requirements Directive. We will aim to close the identified gaps in the regulatory capital structure by end-September 2023 and other gaps by end-September 2024.

- To strengthen governance and oversight, we will take the following actions (***Structural Benchmark*, end-September 2023**): (i) separate the related-parties-unit from banking supervision; (ii) strengthen Supervisory Committee decision-making by implementing "supervisory panels" as a consulting body to the Committee that will provide additional independent review and challenge to recommended decisions, promote horizontal communications among stakeholders as well as consistency in decision making, and highlight issues that need special attention; and (iii) In recognition of the critical importance of onsite inspections, we will resume scheduled inspections for both banking and non-banking institutions, while ensuring NBU discretion on matters related to staff safety.

- We recognize the need to promptly transition to a risk-based supervision approach. In this regard, we will implement a supervisory risk assessment methodology to inform supervisory engagement priorities (***Structural Benchmark*, end-June 2024**). We will apply this methodology to all banks and prepare a supervisory action plan by end-December 2024. We will also adjust the organizational structure for bank supervision to leverage efficiencies as we transition to a risk-based approach; and further improve professional capacity of bank supervision, which will include the development of professional profiles needed and a multi-year training program for new hires.

50. We will strengthen the legal, regulatory, and supervisory framework for non-bank financial institutions (NBFIs) and financial markets. The NBU required all NBFIs (apart from credit unions) to disclose their owners and those with non-transparent ownership structures to change their ownership structure by October 2021. We will continue to monitor and take supervisory actions against those NBFIs that do not meet this requirement. We also recognize the need to promptly transition to a risk-based supervision approach for NBFIs and will prepare a supervisory risk assessment methodology that distinguishes between the types of the NBFIs, by end-September 2024. To strengthen NBFI supervision, we have passed legislation on Financial Services and Financial Companies (#5065) and Insurance firms (#5315). We will adopt legislation by end-May 2023, which will amend the Law on the National Securities and Stock Market Commission (NSSMC) to enhance the NSSMC's powers, independence and institutional capacity, and its cross-border and domestic cooperation mandate. We will ensure that this law takes into account the mandate of other regulators, that it meets the objectives outlined in ¶22 of the September 2016 MEFP and that it allows Ukraine to become a signatory of IOSCO's multilateral MoU by end-December 2024 with full implementation of the other provisions of the law by end-December 2025. To strengthen regulatory effectiveness for NBFIs, we will adopt the Credit Unions Law (#5125) by end-June 2023, and we will exclude NBU regulations for NBFIs from the scope of Law of Ukraine "On principles of state regulatory policy in the field of economic activity".

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

G. Governance and Growth

Promoting Medium- and Long-Term Growth

52. We remain committed to advancing a structural reform agenda that will lay the foundations for robust post-war growth and pave the path for EU accession. Ukraine will need high and sustained rates of economic growth after the war, to restore its economy and recover standards of living for its population as swiftly as possible. This will require unprecedented amounts of investment and rebuilding of human capital. The public sector will play an important role in the recovery process, and we fully acknowledge that measures to increase efficiency and transparency of public sector governance will be critical to facilitate much-needed donor financing. We also recognize that a large part of investment will have to come from private sources, and that reforms and measures aimed at ensuring rule of law and level playing field for businesses will be critical to attract the needed investments as well as encourage the return of migrants. In the near term, our efforts will focus, inter alia, on strengthening the public procurement system with a view to align it with the EU acquis and implementing measures to deregulate economic activity and improve the business climate. Furthermore, we envision a strong, stable banking sector being an important pillar of the reconstruction phase. Market-based financial intermediation will help enable the private sector in mobilizing savings toward the recovery, which would help enhance productivity and support high and sustained growth.

53. Our strategy for post-war reconstruction will meet the highest standards of transparency and accountability. In coordination with international partners and civil society organizations, we plan to take full advantage of digital technologies including through a platform that will provide timely information to transparently track and analyze reconstruction-related procurement processes and expenditures (see ¶26). The reconstruction strategy will integrate and implement mechanisms to prevent and identify corruption risks, and refer cases, as appropriate, for follow-up by the anti-corruption institutions. Comprehensive audits of the use of reconstruction funds, performance audits of selected individual projects (including project costs, deliverables and outputs), and timely publication of audit reports will also be key features of the strategy.

54. We will take steps to reform and enhance the Anti-Monopoly Committee of Ukraine (AMCU). By end-September, we will adopt amendments to strengthen the legal framework of the AMCU to enable it to effectively implement its capacities to promote market competition and combatting monopolistic practices. In that context, we will identify and implement necessary steps to help ensure that Ukraine's anti-monopoly framework does not inappropriately discourage public investment or state aid, above all in reconstruction projects. By end-December, we will also submit a new draft law to parliament ensuring AMCU's institutional independence, enhancing appointment procedures for key officials, and strengthening its enforcement powers.

Anti-Corruption and Rule of Law

55. We remain firmly committed to preserving independent, competent and trustworthy institutions to combat high-level corruption. The anti-corruption institutions - the National Anti-Corruption Bureau of Ukraine (NABU), Specialized Anti-Corruption Prosecutor's Office (SAPO), the High Anti-Corruption Court (HACC), and the National Agency for Corruption Prevention (NACP) – have continued to operate unabated despite the war. In line with our commitments under the PMB, eight new additional SAPO prosecutors were onboarded in December 2022. In addition, new members constituting a quorum of the High Council of Justice (the judicial self-governance body) were appointed in January 2023. Independent and effective anti-corruption institutions are critical to pursue and recover illicit proceeds from corrupt activities and provide strong foundations for the transparency and accountability of post-war reconstruction funds.

56. Strengthening the rule of law, fighting against corruption, and addressing money laundering are essential elements for Ukraine's path to EU membership. These efforts will also promote public trust and donor confidence, and we will avoid any backtracking from the progress made to our anti-corruption and judicial reform efforts. At the same time, we will take steps to ensure that our framework does not inadvertently dissuade competent professionals with integrity from taking civil service roles. We will prioritize the following structural reform measures:

- *Strengthening Effectiveness of Anti-Corruption Institutions*. The CMU appointed a new head of the NABU last March 6 following an open, credible, and transparent process conducted by the Selection Commission (***prior action***). In line with a broader reform of the forensic expert system for criminal law enforcement, we will ensure that the NABU will have access to competent, independent and speedy forensic examinations by experts, to enable it to effectively conduct its investigative mandate. We will also further strengthen the capacities of the SAPO, including enhancing its institutional autonomy within the constitutional framework. To that an end, following an analysis of the SAPO framework, legislation will be adopted to: (a) improve the selection procedures of the SAPO head and key officials; (b) strengthen its capacity to regulate its organizational activities; and (c) establish mechanisms for discipline and accountability of SAPO leadership (including performance evaluation and a periodic external audit conducted by external experts with international experience) (***Structural Benchmark*, end-December 2023**).

- *Targeted Restoration of Asset Declaration Obligations*. A law will be enacted to restore the obligation of public officials (but not directly involved in the mobilization and war efforts) to submit and disclose their asset declarations during Martial Law and reinstate the function of the NACP to examine and verify the asset declarations (***Structural Benchmark*, end-July 2023**). To support the filing of public officials, we will enhance the asset declaration system to allow for automatic populating of information from other linked databases and registers while keeping with the public official's obligation for truthful and timely submission of simplified asset declarations during the period of the Martial Law (***Structural Benchmark*, end-October 2023**).

We will subsequently undertake consultations with stakeholders to explore publishing during Martial Law summary information about the assets and liabilities of official persons who hold positions of high and especially high responsibility under the Law on Prevention of Corruption, balancing the need for transparency and safeguarding personal security. The NABU and SAPO will be provided full, direct, and confidential access to these submitted asset declarations to facilitate efforts on investigation and prosecution of corruption, bribery, and illicit enrichment. Once Martial Law is lifted, the asset declarations system will be fully restored, including disclosure requirements for all covered public officials, risk-based verification of asset declarations, and public access to asset declarations.

- *Ensuring effective risk-based AML regime.* One of the key goals of the AML/CFT framework is to prevent, detect and deter the laundering of proceeds of corruption through effective risk-based AML/CFT supervision. With the help of IMF capacity development, the NBU will start work immediately to develop guidelines, consistent with the FATF standards, for risk-based supervisory on-site activities to ensure that financial institutions and other covered non-bank institutions are complying with AML/CFT obligations in line with their risks. In parallel, in light of the November 2022 amendments to the AML/CFT framework, we will further amend the AML/CFT law to re-establish the obligations of financial institutions to implement enhanced due diligence measures on politically exposed persons on a risk-based approach consistent with the Financial Action Task Force (FATF) standards (Structural Benchmark, end-September 2023). We will also improve the effectiveness of the beneficial ownership regime to enhance transparency in public procurement, detect conflicts of interest through transparent ownership structures, and prevent the misuse of companies. By end-September 2023, we will adopt amendments to the relevant legislation to align the definition of beneficial owner with the FATF standards, and implement verification measures to ensure accuracy, adequacy and up-to-date beneficial ownership information submitted.

- *Advancing Rule of Law and Judicial Reforms*. We will complete the appointment for the remaining vacancies of the High Council of Justice by ensuring open and transparent proceedings by the Ethics Council. As part of our commitments towards joining the EU, we will adopt a law by end-June 2023 that will provide an effective solution to break ties with the six-member Advisory Group of Experts, when vetting candidates to the Constitutional Court. Following the dissolution of the Kyiv District Administrative Court in December 2022, we will establish a new court by end-December 2023 that will hear administrative cases against national state agencies (e.g., NBU, NABU, NACP) by judges who have been properly vetted for independence, competence and integrity.

- *Governance Diagnostic.* To help anchor governance reforms in the reconstruction phase, we will seek IMF technical assistance to conduct after the Martial Law is lifted a new Governance and Corruption Diagnostic to take stock of progress made since the 2014 Diagnostic, assess corruption vulnerabilities and governance weaknesses linked to key state functions, and laying out future reforms in a post-war scenario.

Corporate Governance in SOBs and SOEs

57. We remain committed to strengthening the governance of state-owned banks (SOBs). We recognize that sound governance arrangements are key to preserve financial stability, protect public finances, and maintain the confidence of our international partners. Under previous Fund-supported programs, we have undertaken substantial reforms to improve the governance and oversight of SOBs, including adoption in 2018 of a dedicated SOB framework within the banking law. For each SOB, we have: (i) appointed a majority-independent supervisory board, and (ii) signed a Memorandum of Understanding that defines the relationship between each SOB and the MoF and CMU as shareholder. We remain fully committed to upholding the spirit of governance reforms in SOBs and ensuring their operation on a professional and commercial basis, without political interference on operational matters. New procedures for appointments to SOB supervisory boards were adopted ahead of the current cycle of recruiting independent supervisory board members. In this regard, we will ensure that operational continuity and institutional memory are preserved at each SOB, and the NBU will rigorously apply its fit and proper assessment framework to the new supervisory board members put forward following the recent selection process. We will also introduce a procedure for conducting annual business planning and performance assessments for all SOBs. The first performance assessment will be conducted for each of the banks in 2024 (based on 2023 performance). In August 2024, the MoF will publish its first annual assessment's key findings, together with Cabinet's actions to address them findings.

58. We are committed to continue strengthening corporate governance in SOEs. To that end, we will adopt by October 2023 the SOE corporate governance law #5593-D to bring the SOE corporate governance framework 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. In line with our commitments under the PMB, we have appointed members of the supervisory board of Naftogaz, which is now fully operational. Furthermore, we are committed to implement the needed corporate governance reform at the Gas Transmission System Operator (GTSO) and we will implement all the following steps: (i) transfer the GTSO shareholding from MGU to the Ministry of Energy and adoption of the new charter (Structural Benchmark, end-July 2023); and (ii) selection and appointment of a supervisory board for the GTSO by end-October 2023.

Energy Sector Reforms

59. We are strongly committed to implementing a timely and ambitious reform agenda aimed at tackling the longstanding structural challenges in the energy sector that have been compounded by the war. Once the war winds down, this will inter alia require restoring and enhancing competition in wholesale and retail gas markets. Furthermore, ensuring sustainability of the system and reducing quasi-fiscal liabilities will necessitate a gradual increase in gas and electricity tariffs to cost recovery while allocating adequate and well-targeted resources to protect vulnerable households.

60. The immediate priority should be to contain the adverse impact of the war on the sector. This implies ensuring sufficient resources can be channeled to key large SOEs. In the short term, the menu of options includes tariff increases, securing external financing, or transparent and exceptional direct budget support.

- Ukrenergo has secured significant external financing support that should be sufficient to cope with the most urgent repair of the electricity grid. The recent increase in the TSO tariffs for 2023 is also helping, although the operator costs remain under pressure, including from the additional ancillary costs stemming from the increased use of gas for electricity generation purposes and from the need for full payment of the electric power generated from renewable energy sources.

- Low domestic consumption, resilient domestic production, and a mild winter have limited the need for gas imports for this season. For the next heating season, about 2 bcm of additional gas imports could be required under the baseline. Naftogaz has made progress in securing additional financing for gas imports through the EBRD and bilateral donors. In case of a liquidity shortfall, including in a downside scenario where more gas imports would be needed, we will assess the amount of PSO compensation in 2023 based on actual documentary proven expenditures of Naftogaz verified by the State Audit Service and other relevant stakeholders. The relevant calculations will be finalized by end-August 2023. The potential spending pressure from gas imports and PSO compensation will be accommodated through an adjustor on fiscal balance targets, subject to the above assessment, available financing, and capped at UAH 60 billion (about 1 percent of GDP).

- The GTSO revenues have been impacted by many factors including low tariffs, large unauthorized gas offtakes, payments to Naftogaz, and a drop in transit revenues since May 2022, as one key entry point is located in occupied regions. The GTSO is reducing expenditures, but the current liquidity crisis could require budget support. In parallel, once corporate governance reforms are finalized (see ¶58), the company's strategy should be adjusted to reflect its new operating environment by rightsizing the system and identifying alternative sources of supply.

H. Program Monitoring

61. Program implementation will be monitored through reviews (initially at higher frequency), quantitative performance criteria, indicative targets, and structural benchmarks. We commit to provide to IMF staff all the data needed for adequate monitoring of the program, including the data and information detailed in the attached TMU. The complete schedule of reviews is presented in the companion staff report. Performance will be initially assessed through high frequency reviews and then move to semi-annual reviews. The quantitative conditionality is detailed in Table 1. The program will also be monitored through the continuous performance criterion (PC) on the non-accumulation of external payments arrears and standard continuous PCs. Prior actions and Structural Benchmarks described in this MEFP are summarized in Table 2. The first and second reviews are tentatively planned for July 2023 and October 2023, based on quantitative performance criteria for end-April 2023 and end-June 2023, respectively, and corresponding structural benchmarks.

Table 1. Quantitative Performance Criteria and Indicative Target

(In millions of Ukrainian hryvnia, unless otherwise stated)

	2022		2023				
	December		March	April	June	September	December
	QT	Act.	PMB (IT)	QPC	QPC	IT	QPC
I. Quantitative Performance Criteria 1/2/							
Floor on the non-defense cash primary balance of the general government, excluding budget support grants (- implies a deficit)	86,950	402,002	-8,240	258,352	318,502	337,998	96,737
Floor on net international reserves (in millions of U.S. dollars) 3/	15,000	17,879	11,500	15,500	15,500	15,500	15,500
Floor on tax revenues (excluding Social Security Contributions)				451,700	696,400	1,094,700	1,679,170
II. Indicative Targets 1/ 2/							
Floor on the overall cash balance of the general government, excluding budget support grants (- implies a deficit)	-1,425,762	-1,298,698	-506,476	-356,500	-638,300	-1,046,000	-1,708,700
Ceiling on general government borrowing from the NBU 4/ 5/	388,500	388,400	-7,600	-2,551	-2,573	-1,153	-704
Ceiling on general government arrears				6,000	4,500	3,000	1,600
Floor on social spending				187,000	258,100	372,600	499,600
III. Continuous performance criteria 1/2/							
Ceiling on non-accumulation of new external debt payments arrears by the general government				0	0	0	0
Ceiling on publicly guaranteed debt				20,000	37,000	37,000	37,000
IV. Memorandum Items 1/2/							
External project financing	51,733	48,700	13,713	23,718	28,453	42,660	56,852
Budget support grants	461,940	456,270	182,843	178,363	268,871	404,632	422,916
Budget support loans	577,814	562,446	164,559	324,762	531,646	713,899	945,126
Interest payments				39,052	129,702	183,898	279,937
NBU profit transfers to the government	19,700	19,700	71,000	71,600	71,600	71,600	71,600
Net financing of the general government deficit by commercial banks 2/ 5/ 6/	-101,223	-77,323	-5,434	51,533	175,213	266,420	329,692
Government bonds for the purposes of bank recapitalization and DGF financing	0	0	0	0	0	0	0
Called guaranteed debt principal 2/	15,000	2,645					
Spending from receipts resulting from sales of confiscated Russian assets and transfers of bank accounts				8,000	17,000	17,000	17,000
Spending on gas purchases, PSO compensation and transfer to GTSO				10,000	30,000	45,000	60,000

Sources: Ukrainian authorities; and IMF staff estimates and projections.
1/ Definitions and adjustors are specified in the Technical Memorandum of Understanding (TMU).
2/ Targets and projections for 2023 are cumulative flows from January 1, 2023, unless otherwise noted.
3/ Calculated using program accounting exchange rates as specified in the TMU.
4/ For end-April, calculated cumulative from April 1, for end-June from May 1, for end-September, July 1; and for end-December, October 1.
5/ Cumulative flows from April 1, 2023
6/ Calculated using the projected redemption of government bonds for 2023 as of March 11, 2023

Table 2. Prior Actions and Structural Benchmarks

	Prior Actions	Sector	Timing
1	Appointment of the NABU Head following an open, credible, and transparent process consistent with the law	Governance/ Anti-Corruption	Prior Action
2	The CMU to approve a second supplementary budget, and submit it to Parliament	Fiscal	Prior Action
3	The CMU to adopt a decision tasking the MoF to start the preparation of the NRS (2024-2030)	Fiscal	Prior Action
	Structural Benchmarks	**Sector**	**Timing**
1	Enact the second supplementary Budget 2023	Fiscal	End-April 2023
2	Submit to Parliament a draft law to restore and strengthen Article 52 of the Budget Code to minimize ad hoc amendments to the budget law (MEFP ¶21)	Fiscal	End-May 2023
3	Adopt the draft law on tax policy and administration prepared under the PMB (MEFP ¶19)	Fiscal	End-June 2023
4	Update and publish the Medium-Term Debt Management Strategy to align it with the program objectives (MEFP ¶30)	Fiscal	End-September 2023
5	Present in the 2024 budget declaration projections for major revenue and spending categories and sources of deficit financing for 2025-2026, and a fiscal risks statement including details on energy and critical infrastructure SOEs (MEFP ¶23)	Fiscal	End-September 2023
6	Prepare an action plan, including to address the weaknesses identified in taxpayers' perception survey, as an input into National Revenue Strategy roadmap (MEFP ¶22)	Fiscal	End-May 2023
7	Submit to Parliament a draft law which will re-instate articles of Budget Code that establish limits on issuance of public guarantee with clear criteria for such provision (including for priority sectors) (MEFP ¶24)	Fiscal	End-May 2023
8	Enact amendments to the Budget Code and related regulatory framework to enhance transparency and accountability of the special accounts and consolidate them within general government as a special fund of the State Budget (MEFP ¶25)	Fiscal	End-May 2023
9	Review the current PIM procedures and develop a roadmap of measures so that: (i) all public investment projects follow unified PIM approaches, including PPPs; (ii) investment projects are selected on a competitive basis, with transparent selection criteria, and consistent with the medium-term budget framework; (iii) stronger powers are provided to MoF, including a clear gatekeeping role during the different stages of the investment project cycle (MEFP ¶26)	Fiscal	End-December 2023

Table 2. Prior Actions and Structural Benchmarks (concluded)

	Structural Benchmarks	Sector	Timing
10	Adopt National Revenue Strategy by the end of 2023 (MEFP ¶22)	Fiscal	End-December 2023
11	Prepare a conditions-based strategy to move to a more flexible exchange rate, ease FX controls and transition to inflation targeting (MEFP ¶32)	Monetary and Exchange Rate	End-June 2023
12	Transfer the GTSO shareholding directly to the Ministry of Energy and adopt the new charter (MEFP ¶58)	Energy/ Corporate Governance	End-July 2023
13	Enact the law to restore asset declaration of public officials not directly involved in the mobilization and war efforts and reinstating the NACP's function to examine and verify them (MEFP ¶56)	Governance/ Anti-Corruption	End-July 2023
14	Amend the AML/CFT Law to re-establish enhanced due diligence measures on politically exposed persons consistent with the risk-based approach consistent with the FATF standards (MEFP ¶56)	Governance/ Anti-Corruption	End-September 2023
15	Simplify the asset declaration system through linking with other databases and registers consistent with the public officials' legal obligations to make truthful and timely submissions (MEFP ¶56)	Governance/ Anti-Corruption	End-October 2023
16	Legislation will be adopted to enhance the institutional autonomy of the SAPO, specifically, on the selection procedures, capacity to regulate organizational activities, and mechanisms for discipline and accountability (MEFP ¶56)	Governance/ Anti-Corruption	End-December 2023
17	Strengthen bank governance and oversight by: (i) separating the related-parties-unit from banking supervision; (ii) implementing "supervisory panels" as a consulting body to the Supervisory Committee; and (iii) resume scheduled inspections for both banking and non-banking institutions, while ensuring NBU discretion on matters related to staff safety (MEFP ¶49)	Financial Sector	End-September 2023
18	Prepare a bank rehabilitation framework in consultation with the DGF and IMF staff (MEFP ¶47)	Financial Sector	End-March 2024
19	Implement a supervisory risk assessment methodology to inform supervisory engagement priorities (MEFP ¶49)	Financial Sector	End-June 2024

Attachment II. Technical Memorandum of Understanding

March 24, 2023

1. This Technical Memorandum of Understanding (TMU) sets out the understandings between the Ukrainian authorities and staff of the International Monetary Fund (IMF) regarding the definitions of the variables subject to targets—both quantitative performance criteria and indicative targets—for the Extended arrangement under the Extended Fund Facility (EFF), as described in the authorities' Letter of Intent (LOI) dated March 24 , 2023 and the attached Memorandum of Economic and Financial Policies (MEFP). It also describes the methods to be used in assessing program performance and the information requirements to ensure adequate monitoring of the targets.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

9. For program purposes the proceeds of sales of confiscated Russian assets or bank accounts balances are recorded below the line as a deficit financing source with counter-entry into deposits of the Treasury Single Account.

10. Overdue accounts payables (domestic arrears) are specified in the Order of the Ministry of Finance N 372 dated April 2, 2014, On the Approval of the Accounting Procedures for Specific Assets and Budget Institutions' Liabilities and On Amending Certain By-Laws on the Accounting for Budgetary Institutions. Accordingly, arrears are defined as the amount of payments due on the 30th day after the deadline for mandatory payment, in line with the legal contract in effect. In instances where the payment deadline is not specified, it counts as the 30th day after the confirmation of goods received, works done and services rendered had been provided.

a. Budgetary arrears on social payments and wages comprise all arrears of the consolidated budget on wages, pensions, and social benefits of the central or local governments. The timeframe for wage arrears follows timeframe consistent with general definition. Considering the specifics of the martial law, information on arrears in the security and defense sector can be presented in an aggregated form.

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

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

I. QUANTITATIVE PERFORMANCE CRITERIA AND INDICATIVE TARGETS

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

Definition

11. 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.

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

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

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

c. any assets that correspond to claims of commercial banks in foreign currency on the NBU and any 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,

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

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

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

- the stock of IMF credit outstanding;

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

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

Table A. Ukraine: Components of Net International Reserves

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

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

Adjustors

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

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

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

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

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

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

(in USD millions, at program exchange rates)

	end-March	end-April	end-June	end-Sept.	end-Dec.
Total (cumulative)	9,553	14,407	22,669	31,754	38,965
Bilateral	3,475	6,462	8,937	12,811	13,311
Loans	-	1,750	1,750	1,911	1,911
Grants	3,475	4,713	7,188	10,900	11,400
Multilateral	5,688	7,296	12,953	17,777	24,100
Loans	5,523	7,131	12,788	17,612	23,935
Grants	165	165	165	165	165
Project support	389	649	778	1,167	1,555

1/ Cumulative flows from January 1, 2023, in USD billions (at program exchange rates). Excludes prospective IMF disbursements under prospective EFF. Totals differ from Ukrainian authorities' projections under the supplementary budget due to different exchange rate assumptions.

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

Definition

14. General government direct borrowing from the NBU, net of redemptions and repayments, is defined as the cumulative change in the stock of outstanding claims on the general government (as defined in ¶4) held by the NBU, including general government securities, direct loans and credits, other accounts receivable, and overdraft transfers from the NBU in accounts of the general

government. The stock of general government securities held by the NBU will be measured at the face value as reported on the NBU's balance sheet. The change in the stock of general government securities held by the NBU will exclude the securities acquired as collateral under loans provided by the NBU during the measurement period, and loans will exclude those to the Deposit Guarantee Fund. The change in the stock of such claims will be measured relative to the stock as of end March 2023, and adjusted for exchange rate valuation effects using program exchange rates. The detailed breakdown of the accounts will be provided in a format agreed with IMF experts.

15. An additional precondition for activating monetary financing is the drawing down of government deposits (consistent with ¶31 of MEFP), with the criteria being determined in a discussion between the NBU and the Ministry of Finance.

Adjustors

16. In general, should there be a shortfall in external financing defined as any shortfall of the financing listed in Table B, and primary issuances on government bonds exceed 120 percent of redemptions, then the ceiling on general government borrowing from the NBU, net of redemptions and repayments, will be adjusted upward by the smaller of: the amount of the shortfall in external financing or a cap on general government borrowing from the NBU, equivalent to gross borrowing of UAH50 billion every quarter. The ceiling on general government borrowing from the NBU resets every quarter (i.e., on March 31, June 30, September 30) and is not carried over between quarters. The amount of the shortfall in external financing is assessed as the total cumulative shortfall from end-March 31, 2023, at the last day of the previous month. The amount of primary issuances of government bonds is assessed as the total cumulative issuance from end-March 31, 2023.

a. For the end-April 2023 Indicative Target, if the cumulative amount of primary issuances of government bonds maturing after April 30, 2023 measured at face value is higher than UAH 51 billion, then the ceiling on general government borrowing from the NBU, net of redemptions and repayments, will be adjusted upward by the smaller of:

- a shortfall in external financing (as defined in 14), if any;
- UAH 14.116 billion.

b. For the end-June 2023 Indicative Target, if the cumulative amount of primary issuances of government bonds maturing after June 30, 2023, and measured at face value, is higher than UAH 175 billion, then the ceiling on general government borrowing from the NBU, net of redemptions and repayments, will be adjusted upward by the smaller of:

- a shortfall in external financing (as defined in ¶14), if any;
- UAH 30.760 billion.

c. For the end-September 2023 Indicative Target, if the cumulative amount of primary issuances of government bonds maturing after September 30, 2023, and measured at face value, is higher than UAH 266 billion, then the ceiling on general government borrowing from the NBU, net of redemptions and repayments, will be adjusted upward by the smaller of:

- a shortfall in external financing (as defined in ¶14), if any;
- UAH 48.847 billion.

d. For the end-December 2023 Indicative Target, if the cumulative amount of primary issuances of government bonds maturing after December 31, 2023, and measured at face value, is higher than UAH 329 billion, then the ceiling on general government borrowing from the NBU, net of redemptions and repayments, will be adjusted upward by the smaller of:

- a shortfall in external financing (as defined in ¶14), if any;
- UAH 49.296 billion.

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

Definition

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

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

- Total net treasury bill sales[2](in hryvnias and foreign currency) as measured by the information kept in the NBU registry of treasury bill sales (net treasury bill sales are defined as the cumulative total funds realized from the sales of treasury bills at the primary auction and government securities issued for recapitalization of banks and state-owned enterprises (SOE), less the cumulative total redemption of principal on treasury bills), excluding bonds issued to recapitalize Naftogaz[3] and other SOEs (including State Housing Financial Corporation); plus,

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

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

- Other net domestic banking system credit to general government (as defined above) as measured by the monetary statistics provided by the NBU (this consists of all non-treasury bill financing in either domestic or foreign currency extended to the general government by banks less the change in all government deposits in the banking system) as well as any other financing extended by entities not reflected by the monetary statistics provided by the NBU; plus,
- Total receipts from privatization (including the change in the stock of refundable participation deposits and the sale of nonfinancial assets) and the proceeds from uncompensated seizures; plus,
- Total proceeds from sales of confiscated Russian assets and bank account balances
- The difference between disbursements and amortizations on any bond issued by the general government or the NBU to nonresidents for purposes of financing the general government; plus,
- The difference between disbursements of foreign loans attracted by the State (including budget support, project support, including on lent to public enterprises) and the amortization of foreign credits by the general government (including on lent project loans, e.g. budgeted payments on behalf of the road fund per item 90 of this TMU); plus,
- The net sales of SDR holdings in the IMF's SDR department; plus,
    - the net change in general government deposits in nonresident banks, or other nonresident institutions; plus,
    - net proceeds from any promissory note or other financial instruments issued by the general government.

19. For the purposes of measuring the balance of the general government, all flows to/from the budget in foreign currency (including from the issuance of foreign currency denominated domestic financial instruments) will be accounted for based on paragraph 3 of this TMU. Financing changes resulting from exchange rate valuation of foreign currency deposits are excluded from the computation of balance. The government deposits in the banking system exclude VAT accounts used for electronic administration and escrow accounts of taxpayers used for customs clearance.

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

20. For the purposes of program monitoring, the non-Defense Cash primary Balance of the General Government excluding budget support grants is defined as the Overall Balance of the General Government excluding budget grants (defined in section B) less interest payments (total interest paid on domestic and external debt) less defense spending as defined in paragraph 6 of this TMU. The balance is measured on a cumulative basis, starting from January 1st of each calendar year.

Adjustors for Balances in part C and D

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

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

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

- The floor on the overall cash balance excluding grants and on the non-Defense Cash primary Balance of the general government is subject to an automatic upward adjustment corresponding to the full amount of profits transferred by the NBU in excess of UAH 71.6 billions in 2023.

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

- The floor on the overall cash balance excluding grants and on the non-Defense Cash primary Balance of the general government is subject to an automatic downward adjustor up to a cumulative maximum amount of UAH 17 billion corresponding to the full amount of receipts from sales of confiscated Russian assets and transfers of bank accounts. For the period of the Martial law, the data from territories that are or were in direct combat zones and temporarily occupied by Russia.

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

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

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

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

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

23. The ceiling of general government arrears is derived based on the definition provided in paragraph 10 of this TMU (excluding arrears of local governments) and reporting format set in paragraph 77 of this TMU. The target is cumulative starting January 1st of each calendar year , as described in table of paragraph 77 and covers arrears of state budget (general and special funds) and social funds (as defined in paragraph 10). The stock of arrears measured in that way will not exceed the stock of arrears at end December 2022. The arrears computation do not cover arrears accrued in territories that are or were in direct combat zones and temporarily occupied by Russia.

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

Definition

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

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

Definition

25. For purposes of the continuous PC, the ceiling on publicly guaranteed debt will apply to the amount of guarantees issued by the central (state) government once it is officially enacted. It will be set at UAH 37 billion, consistent with 3 percent of current year revenues of the state budget general

fund (as defined in Budget Code) and apply to the cumulative amount of guarantees issued by the central (state) government from January 1st of 2023 calendar year including guarantees to priority sectors. The official exchange rate will apply to all non-UAH denominated debt. This ceiling excludes guarantees for NBU borrowings from IMF.

26. The ceiling on publicly guaranteed debt will be subject to an automatic upward adjustor for guarantees signed for selected projects financed by the multilateral and bilateral donors (e.g. WB, EIB, EBRD, KfW. Namely: (i) loan to UGV to purchase equipment for gas extraction; (ii) working capital loan to UkrEnergo; (iii) loan to Ukrenergo to modernize the electricity grid and substations; (iv) loan to Ukrainian Railways for emergency support; (v) loan for Energoatom for nuclear safety upgrades; (vi) loan for Boryspil International Airport for reconstruction of flight zone # 2. The adjustor will be capped at 30 billions UAH and discussed in program review.

J. Other Continuous Performance Criteria

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

II. OFFICIAL EXCHANGE RATE

A. Determination of the Official Exchange Rate

28. The official exchange rate of the hryvnia against U.S. dollar is UAH/USD 36.5686 as set by the NBU, effective 9 a.m. 21 July 2022, but remains subject to change. The cross rates are determined by the NBU on the basis of this official exchange rate, and the NBU will aim to make public its cross rates no later than 4 pm of the day, preceding the one for which it is set.

III. REPORTING REQUIREMENTS

A. National Bank of Ukraine

29. 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).

30. 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.

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

32. The NBU will provide the IMF ***daily i***nformation 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."

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

34. 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).

35. 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.

36. The NBU will continue to provide to the IMF ***daily and monthly data*** on the NBU financing operations (including swaps or refinancing) of the banks of Ukraine, and on the operations of

mopping up (absorption) of the liquidity from the banking system (including through the CDs issuance) in the formats and timeliness agreed with the IMF staff. ***On a monthly basis***, the NBU will provide information on the collateral that has been pledged to the NBU for loans (by bank and loan type as well as by collateral type, haircut, and currency). ***On a monthly basis***, the NBU will also provide bank-by-bank information on NBU refinancing, broken down by operations (with indications of their settlement and maturity dates), and collateral pools, broken down by asset types and securities (with their values before and after haircuts). ***The monthly reporting*** of NBU loans and collateral will separately identify which banks are under temporary administration or liquidation.

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

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

39. 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.

40. 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.

41. 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.

42. 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 for the individual banks in State Participation Group, Foreign Banking Group and Private Capital Group will be broken down by type (i.e., cash and deposits, government securities, nongovernment securities, loans, other) and foreign liabilities by type, holder (i.e., banks, other financial institutions, nonfinancial corporate, and individuals) and remaining maturity (less than one month, one to three months, three to 12 months and over 12 months). For foreign credit lines from banks and for securities, the rollover rates will also be provided.

43. 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.

44. 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.

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

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

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

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

49. 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.

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

51. 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), including migration from NPLs to performing loans (PLs); migration from PLs to NPLs; the form of NPL repayments (cash, loan sales, collateral sales, etc.); write-offs; and other factors (e.g., exchange differences and revaluations) (and compared with banks' respective timebound plans for reducing NPLs once these are approved).

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

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

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

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

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

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

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

59. 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.

60. 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.

61. 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.

62. Monthly, the NBU will provide to the IMF and the Ministry of Finance data on the monthly coupons and principal to be paid for the period till the end of 2023 (in hryvnia and foreign currency, separately) on the outstanding stock of government securities held by NBU and the public (broken down by resident banks, resident non-bank; and non-resident investors). The data on resident banks will be further broken down by bank group (State Participation, Foreign Banking, and Private Capital) and include ISIN-level. Annually, the NBU will provide information on hryvnia-denominated securities that are indexed (i.e., to inflation; USD), broken down by the type of the owner.

B. Deposit Guarantee Fund

63. 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.

64. 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.

65. 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.

66. 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.

67. 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.

68. 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

69. 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.

70. 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.

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

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

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

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

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

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

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

Overdue account payables general government	November 1st, 2022	December 31, 2022	March 31, 2023
Wages			
Other budgetary spending			
Social spending, including			
Pension and Social Insurance			
Unemployment			
Local governments			

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 (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), 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 balance of the general government of the recapitalization of banks and SOEs as well as the costs associated with the payment of interests, including the respective changes as a result of supplementary budgets. The Ministry of Finance will provide quarterly performance reports for the Fund for Entrepreneurship Development. The registry of fiscal risks would become available to the IMF staff on semi-annual or if available sooner basis.

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

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

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

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

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

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

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

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

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

E. State Statistics Service

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

F. Ministry of Social Policy

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

INTERNATIONAL MONETARY FUND

UKRAINE

March 30, 2023

REQUEST FOR AN EXTENDED ARRANGEMENT UNDER THE EXTENDED FUND FACILITY AND REVIEW OF PROGRAM MONITORING WITH BOARD INVOLVEMENT—SUPPLEMENTARY INFORMATION

Approved By
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Prepared by the European Department.

1. This supplement provides an update on developments since the issuance of the Staff Report (EBS/23/30) on March 24, 2023. This update does not alter the thrust of the staff appraisal.

Recent Developments

2. Newly available data suggest that the real GDP contraction for 2022 was somewhat less than previous staff estimates (-29.2 percent y/y vs. -30.3 percent y/y), on account of a more robust fourth quarter. The State Statistics Service of Ukraine (SSSU) released fresh estimates of 2022Q4 GDP on March 14 and selected sectoral data over March 24–27. According to 2022Q4 flash estimates, Q4 real GDP growth is now estimated at -31.4 percent y/y compared with -35 percent y/y estimated by staff.[1] This reflects a less severe than expected impact on economic activity from the countrywide power outages stemming from the attacks on critical energy infrastructure, as well as increased spending for repairs.[2] Outturns for earlier quarters of 2022 have not been revised. This update would bring GDP growth for 2022 to -29.2 percent y/y versus the -30.3 percent y/y estimate in the Staff Report.

3. This upward revision implies that 2023 GDP growth could be at the upper end of staff's projected range in the baseline. Accounting for a stronger 2022Q4 would, all

[1] By contrast, y/y growth in GDP for Q2 was estimated at -37.2 percent and for Q3 at -30.8 percent.

[2] Another factor lifting 2022Q4 output is the inclusion into 2022Q4 GDP of agricultural crops sown in 2022 but harvested in early-2023.

else equal, help lift growth in 2023 by reducing negative carryover effects. Applying the same sequential quarterly growth rates assumed in staff's current projections, growth could be at the higher end of staff's projected range of 2023 GDP growth of [-3 to +1]. Staff is awaiting more complete and final release of real sector statistics, while continuing to examine high frequency indicators and consult with different counterparts (including economic agencies and business groups) to assess the implications for the outlook for 2023 GDP. These findings will be factored into the macroeconomic framework for the first review.

Prior Actions

4. **The authorities have completed all three prior actions for the EFF request.** As noted in the Staff Report, (i) the head of the National Anticorruption Bureau of Ukraine (NABU) was appointed on March 6; and (ii) the Cabinet of Ministers of Ukraine (CMU) approved and submitted to the Rada the second supplementary budget on March 13, which has since been approved by the Rada, and is awaiting signature by the President. As part of the third and final prior action, on March 24, the CMU adopted a decision tasking the Ministry of Finance to start preparations of the National Revenue Strategy (NRS) (2024–2030). The decision outlines the steps and timeline for the preparation of the NRS as well as the core principles and objectives of tax policies during wartime and post-war reconstruction. Importantly, the decision designates the Ministry of Finance as the coordinator for the development of the NRS.

Financing

5. **Two donors have provided updates with respect to their bilateral support for Ukraine:**

- The Canadian authorities have publicly announced that they will provide a loan totaling C$2.4 billion (US$1.8 billion), which is expected to be disbursed this week via the IMF Administered Account for Ukraine; these resources were already anticipated, and thus listed as "Other," in the 12-month Financing Gap Table (¶86). [3]

- The Norwegian authorities have publicly confirmed plans for NOK 2 billion (US$190 million) of budget support in 2023 to be disbursed via a World Bank multi-donor trust fund to help support critical services such as education, health care, and pension payments. This bilateral financing was not incorporated in the program projections. It forms part of a NOK 75 billion (US$7.2 billion) broader package to be disbursed over five years (2023–27).

Financing Assurances/Capacity to Repay

6. **Additional countries have joined the group of countries extending an assurance to help allay the risks to the Fund from lending to Ukraine under the current exceptional**

[3] The bilateral financing described here was already fully embedded in the program projections presented in EBS/23/30 under the US$115 billion baseline financing gap in the 48-month program.

circumstances (¶88). Specifically, Belgium, Lithuania, the Netherlands have confirmed their decision to join the group of countries listed in the staff report; the list now comprises Belgium, Canada, France, Germany, Italy, Japan, Lithuania, the Netherlands, Spain, United Kingdom, and United States.

Statement by Vladyslav Rashkovan on Alternate Executive Director for Ukraine

March 31, 2023

On behalf of the Ukrainian authorities, we would like to thank staff for the in-depth report and constructive engagement during recent missions and virtual discussions. We also want to thank Management and the Executive Board for their continuous support of Ukraine.

The authorities are in broad agreement with the staff assessment of the devastating social and economic impact of Russia's invasion. While the external environment remains exceptionally uncertain, strong performance under the Program Monitoring with Board Involvement (PMB) has clearly demonstrated the authorities' capacity to implement economic policies despite these challenging circumstances.

The Ukrainian authorities see the Extended Fund Facility (EFF) program realize three important targets: (i) restore fiscal and debt sustainability, (ii) restore medium-term external viability, and (iii) promote long-term growth in the context of post-war reconstruction and accession path to the European Union. The authorities will strive to design and implement policies that would achieve even stronger economic outcomes.

To realize those objectives in such a macroeconomic and dire security situation, the authorities reaffirm their strong commitment to the policies and objectives under the new IMF program, while also preserving the hard-won gains from past Fund-supported programs.

War economy

Russia's unprovoked, unjustified, and illegal invasion of Ukraine, which started on February 24, 2022, continues its enormous negative human, social, and economic impact on Ukraine. Ukraine's gross domestic product (GDP) shrank by about 30 percent in 2022, and poverty increased from 5.5 percent to 24.1 percent in 2022 (World Bank assessment based on the poverty line of $6.85 per person per day). Civilian casualties are large, over a third of the population has been displaced, and the damage to critical infrastructure is massive.

According to the recently published World Bank Rapid Damage Needs Assessment (RDNA2), during the full year of Russia's invasion, direct damage in Ukraine has reached over $135 billion (over 60 percent of pre-war GDP), with housing, transport, energy, commerce, and industry as the most affected sectors. According to the estimations of the Kyiv School of Economics, only in January-February 2023, the damage caused by Russia's terroristic attacks on Ukraine's civil infrastructure has increased by another $6 billion.

Disruptions to economic flows and production, as well as additional expenses associated with the war, are collectively measured as losses of the potential output of $290 billion. Reconstruction and recovery needs are estimated at $411 billion. The urgent reconstruction needs include restoration of energy, housing, critical and social infrastructure, basic services for the most vulnerable, and private sector development. The authorities believe that the macro framework built-in in both scenarios of the EFF program will provide a solid base for other donors to provide financing to Ukraine, also for its rapid recovery and post-war reconstruction.

Despite Russia's attacks on critical energy infrastructure, economic activity continues to show signs of resilience. The authorities expect a gradual economic recovery for this year, including slowing down inflation, and growth of the NBU reserves, though the outlook remains uncertain as the war continues. The economy could rebound more quickly if the security situation improves sooner than expected.

Economic policies

Macroeconomic management in recent months has been exceedingly difficult. Notwithstanding the war strains, the authorities have largely managed to maintain macroeconomic and financial stability, and are committed to taking necessary measures to preserve stability.

Since the start of the war, the authorities have repeatedly and decisively taken measures to respond to shocks as they materialized, carefully balancing the need for prompt and effective response with material social considerations. In 2022, they systematically streamlined capital expenditure and other lower-priority expenditure items and identified additional financing.

Nevertheless, the fiscal deficit reached a record level in 2022, reflecting wartime spending pressures, the impact of economic contraction on the revenue base, as well as structural shifts in the economy. The actual expenditures of the government in nominal terms were almost 50 percent higher than the pre-war 2022 budget, estimated at 69.9 percent of GDP. While tax revenues (36.4 percent of GDP) were only 0.3 percent lower in nominal terms than the pre-war budget, they have been affected by structural changes in the economy, cyclical developments, and Martial Law measures that aimed to ease the impact of war on economic agents. The trade deficit has widened substantially due to the war

Despite the war-related challenges, the authorities succeeded in meeting all fiscal structural benchmarks under the PMB. Thanks to timely measures taken in the context of the PMB, the authorities managed to cap the level of general government arrears (overdue account payables) in 2022. On top of that, they prepared and submitted for adoption by Parliament a package of tax policy and administration measures that would restore the pre-war setup of critical policy and administration components. With the help of the World Bank's technical assistance, they have prepared a concept note on social safety nets to identify important reform priorities and policy options to help achieve a more targeted, adequate, and efficient social assistance system, which became even more urgent due to the war impact on the most vulnerable groups of people, including internally displaced people.

2023 fiscal policies will be designed to support fiscal and debt sustainability while continuing to ensure adequate resources for core spending priorities and helping to prepare for reconstruction. And while the 2023 deficit (excluding external grants) is still forecasted on a high level, the government is committed to taking a number of necessary steps to support much-needed revenue mobilization and boost revenues to anchor the medium-term fiscal path. The government is also committed to continue taking measures to enhance fiscal transparency, address fiscal risks, and strengthen commitment controls. Strengthening public investment management ahead of post-war reconstruction is a priority. Work in this area would build on the ongoing work of EU4PFM project and the World Bank's Public Investment Management Diagnostic Assessment Report 2022

While the program envisages mobilizing an appropriate mix of external and domestic financing that preserves macroeconomic and financial stability and debt sustainability, **the authorities are committed to eliminating monetary financing, thereby upholding the financial autonomy of the NBU**. On top of the sizable donor support with loans and grants, the authorities intend to continue their coordinated efforts to further mobilize domestic financing to help meet the fiscal financing needs.

A strong and independent NBU remains critical to achieving macroeconomic stability and will support the eventual transition back to an inflation-targeting framework. The NBU will maintain an appropriate monetary policy stance to support steady disinflation, manage inflation expectations, and support exchange rate stability. When conditions allow, the NBU will revert to pre-war monetary policy frameworks, including a flexible exchange rate underpinning the inflation-targeting regime. During the program, the NBU intends to maintain adequate FX reserves, while carefully adjusting FX controls and unwinding the unconventional measures undertaken to support price and external stability in wartime.

The Ukrainian banking system continues to withstand the wartime challenges: the banks operate without interruption, and the liquidity of the sector remains high. This became possible thanks to the banks' coordinated efforts, timely response by the NBU, and years of joint work on reforming the sector, also with the help of previous IMF programs. As a result, the banks go through the war with significant capital and liquidity buffers. They were operationally stable, efficient, and had contingency plans ready.

In preparation for a return to normality, the NBU will update the 2021 financial sector strategy to reflect the impact of the war on the sector. To fully analyze the impact of the war on banks' loan portfolios, the NBU recently approved the Terms of Reference (TOR) for undertaking an Asset Quality Review (AQR), viability analysis, and an assessment of the diagnostics steps needed to design a Non-Performing Loan (NPL) resolution strategy. These diagnostics will be undertaken as soon as opportune. The NBU and government are determined to take the necessary steps to continue to preserve financial stability and limit the potential fiscal cost of any interventions for problem banks.

The authorities believe that **sustained reform efforts on anti-corruption and rule of law will mitigate corruption risks during the war and help promote public trust and donor confidence in the reconstruction phase**. The authorities request IMF's technical assistance to conduct an updated governance and corruption diagnostic which could build a future roadmap of reforms to assess and further mitigate governance weaknesses and corruption vulnerabilities.

In the meantime, the Group of States against Corruption (GRECO), established by the Council of Europe to monitor the anti-corruption standards, has recently published its Fourth Round Interim Compliance Report on Ukraine. In light of the progress made, GRECO has concluded that the current level of compliance with its recommendations is no longer "globally unsatisfactory" and, thus, Ukraine exits GRECO's non-compliance procedure. GRECO recognizes the strong commitment shown by Ukraine in respect of GRECO's work at an extremely difficult time.

Program modalities

The program is designed to resolve Ukraine's balance of payments (BOP) problems and restore medium-term external viability, not only in the baseline scenario but also under a downside scenario. The authorities believe that the policies under the new EFF arrangement are adequate to achieve the objectives of the program, in both scenarios. Though acknowledging that these scenarios are subject to high uncertainty, the authorities are committed to consulting with the IMF on adapting their policies as conditions evolve.

Given the exceptional uncertainty, the program envisages a two-phased approach. In the first phase, the primary goal is to preserve macroeconomic and financial stability within the context of the ongoing war while preparing the ground for a strong post-war recovery, including structural reforms in the fiscal area, financial sector, monetary and exchange rate policies, governance, anti-corruption, and the energy sector. In the post-war second phase, the structural reform agenda will be deepened.

The authorities are committed to implementing additional macroeconomic policy reforms to support reconstruction, promote strong long-term growth, and accelerate the progress toward EU accession.

Coordination of donors

The Ukrainian authorities are immensely grateful for the large, sustained support from all international donors and partners through this war. The initiative for a multi-agency Donor Coordination Platform for Ukraine set up in December 2022, is much welcomed by the Ukrainian authorities. Through this platform, the main partners of Ukraine can coordinate further existing mechanisms to provide ongoing short- and long-term financial support. The first meeting of the Platform was organized in January 2023, and the next one is planned for early April 2023. The authorities support the view of the G-7 that the IMF should have a central role in this effort.

The authorities are also hugely thankful for the international partners who have assured Ukraine of their continued support to help restore debt sustainability and ensure the proposed program is fully financed. We would like to express our gratitude to all countries, including Canada, France, Germany, Italy, Japan, Spain, United Kingdom, United States, the Netherlands, and Belgium that provide financing assurances.

Concluding remarks

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

Given the significant BOP needs arising from the large exogenous shock of the war, the authorities have requested a medium-term program to help secure macroeconomic and financial stability. They believe that a new EFF arrangement will play an important catalytic role for the whole $115 billion package of external support over 2023–2027 involving sizable official financing in the form of grants and concessional loans, as well as debt relief.

The authorities remain strongly committed to the full and timely implementation of the policies under the EFF, which should pave the way toward EU accession. They believe that efforts to achieve Ukraine's strategic goal of EU accession will reinforce the drivers of long-term growth and stability.