INTERNATIONAL MONETARY FUND

IMF Country Report No. 23/248

UKRAINE

July 2023

FIRST REVIEW UNDER THE EXTENDED ARRANGEMENT UNDER THE EXTENDED FUND FACILITY—PRESS RELEASE; STAFF REPORT; STAFF STATEMENT; 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 June 29, 2023, following discussions that ended on May 30, 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 June 20, 2023.
- A **Staff Statement** updating information on recent developments.
- A **Statement by the Executive Director** for Ukraine.

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

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Washington, D.C.

PRESS RELEASE

PR23/249

IMF Executive Board Completes the First Review under the Extended Fund Facility (EFF) Arrangement for Ukraine

FOR IMMEDIATE RELEASE

- *The IMF Board completed today the first review of the extended arrangement under the Extended Fund Facility (EFF) for Ukraine, allowing the authorities to draw the equivalent of about US$890 million (SDR 663.9 million), which will be channeled for budget support. The EFF was approved by the IMF Board in March 2023, and forms part of a US$115 billion total support package for Ukraine.*
- *The authorities have made strong progress toward their commitments under the EFF under challenging conditions, meeting all applicable quantitative performance criteria through end-April and structural benchmarks through end-June, and remain highly committed to the program.*
- *Continued strong ownership and reform momentum are necessary to safeguard macroeconomic stability, enhance institutional reforms, and support reconstruction efforts, while facilitating Ukraine's path to EU accession.*

Washington, DC – June 29, 2023: The Executive Board of the International Monetary Fund (IMF) completed today the First Review of the Extended Fund Facility (EFF) for Ukraine. The completion of the first review enables the authorities to immediately draw an amount of SDR 663.9 million (33 percent of quota, or about US$890 million).

Ukraine's 48-month EFF arrangement, with access of SDR 11.6 billion (equivalent to US$15.6 billion, or about 577 percent of quota), was approved on March 31, 2023 (see Press Release No. 23/101), and forms part of a US$115 billion support package for Ukraine. The authorities' IMF-supported program aims to anchor policies that sustain fiscal, external, price and financial stability at a time of exceptionally high uncertainty, support the economic recovery, and enhance governance and strengthen institutions to promote long-term growth in the context of reconstruction and Ukraine's path to EU accession.

Despite the war, the economy has been showing more resilience than expected following a sharp contraction in 2022. GDP growth has been upgraded to 1–3 percent in 2023 as domestic demand recovers, inflation is decelerating, and FX reserves are strong amid a stable FX market. Overall, macroeconomic and financial stability have been maintained, thanks to prudent policymaking as well as continuous and timely external support.

The authorities made strong progress in their commitments under the EFF amid difficult circumstances, meeting all continuous and end-April quantitative performance criteria. All structural benchmarks through end-June were also met, including to enact the second Supplementary Budget, strengthen the Budget Code, and complete inputs toward developing the National Revenue Strategy. The authorities' commitment to the program remains firm.

Sustained ownership and reform momentum in the challenging period ahead are essential to safeguard macroeconomic and financial stability. This includes maintaining a strong tax revenue base (including by refraining from measures that would erode the tax base),

700 19th Street NW
Washington, DC 20431
USA

supporting steady disinflation and exchange rate stability, supporting banking sector health, and advancing crucial governance and anti-corruption reforms, including with respect to asset declarations, AML/CFT and the Specialized Anti-Corruption Prosecutor's Office (SAPO). It is also vital that external financing for budget support continues on appropriately concessional terms to safeguard macroeconomic stability and ensure that the financing of reconstruction projects is on terms consistent with fiscal and debt sustainability.

Following the Executive Board discussion on Ukraine, Ms. Kristalina Georgieva, Managing Director of the IMF, issued the following statement[1]:

Russia's invasion of Ukraine continues to have a devastating economic and humanitarian impact. In addition to the continuing combat in Eastern and Southern parts of Ukraine, air raids on Kyiv and other population centers have been escalating since early May. The recent destruction of the Kakhovka dam is a reminder of the ongoing intensity of the war and associated challenges facing Ukraine. Spillovers to the global economy continue.

The Ukrainian economy is staging a gradual recovery, but risks are exceedingly high and exceptionally high uncertainty persists. After a sharp contraction in 2022, economic activity has been more resilient than expected, with growth upgraded to 1–3 percent in 2023 as domestic demand recovers. Inflation is decelerating, reserves are buoyant, and the FX market has been stable. Nevertheless, developments in the war remain the predominant risk, while significant external financing on concessional terms needs to continue to flow on a timely basis and policy slippages cannot be ruled out.

Despite the war, program performance has been strong under the First Review. All continuous and the quantitative performance criteria for end-April 2023 were met, as well as all six structural benchmarks through end-June 2023. The indicative targets on the overall budget balance and social spending, however, were missed due to higher defense spending and changes in the methodology for effecting social payments. Estimates of program external financing gaps remain broadly unchanged, as are medium- term assumptions about growth and financing.

In the near term, fiscal policies will continue to focus on ensuring adequate resources for priority spending, sustaining strong tax revenues, including by refraining from measures that would erode the tax base, and preserving fiscal and debt sustainability. The development of the National Revenue Strategy (NRS) is critical to mobilize revenues and support reconstruction and social spending. Restoring the legal framework for medium-term budget preparation, budget credibility and debt management is also important, combined with measures to improve fiscal transparency and strengthen public investment management.

The NBU's conditions-based strategy is an appropriate basis for moving toward normalizing the monetary and exchange rate policy frameworks. Once conditions permit, it will be important to transition from the current exchange rate peg toward a flexible exchange rate, cautiously ease emergency FX measures, and return to an inflation targeting framework.

[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.

Continued evidence of sustained disinflation and stability in the FX cash market provide scope for earlier easing in monetary policy.

While financial stability has been skillfully preserved through comprehensive measures since the onset of war, risks remain elevated and could rapidly materialize. Further vigilance and preparations are needed to respond to the broad range of high-impact risks alongside implementation of the authorities' comprehensive reform agenda envisioned in the financial sector strategy.

Reforms to strengthen governance, transparency and tackle corruption need to proceed without delay. Progress on strengthening governance and tackling corruption remain essential to convince foreign investors that there is a level playing field in Ukraine, and to assure donors that their resources will be well spent. These reforms are also critical for progress toward EU accession.

The extended arrangement for Ukraine continues to satisfy Fund policies governing the Fund's financing assurances for UCT-financing under exceptionally high uncertainty. The program has been designed to achieve its objectives across a range of assumptions about the large-scale war and under two scenarios. The authorities continue to exhibit the capacity and commitment to implement the program.

A credible process of a debt treatment of 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 under a downside scenario. The assurance provided to the Fund by a significant group of Fund shareholders about Ukraine's capacity to repay supports needed safeguards.

Annex

Russia's invasion of Ukraine continues to have a severe impact on human and physical capital, and the environment, with loss of life, drop in living standards and rise in poverty, as well as damage to infrastructure. Nevertheless, the Ukrainian people have been resilient, and the authorities' skillful policymaking and continued external support have helped support macroeconomic and financial stability.

In light of the significant balance of payments needs arising from the large exogenous shock of the war, the authorities requested a 48-month extended arrangement under the Extended Fund Facility (EFF) in March 2023, which forms part of a US$115 billion total financing package for Ukraine.

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 involves 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 eligibility criteria under the Fund's policy on Upper Credit Tranche (UCT) lending under exceptionally high uncertainty.

Fiscal policies. In the near term, fiscal policies will continue to focus on ensuring adequate resources for priority spending, maintaining a strong tax revenue base, including by refraining from measures that would erode the tax base, and preserving fiscal and debt sustainability. Efforts should focus on the development of the National Revenue Strategy (NRS) that would anchor much needed revenue mobilization to support reconstruction and social spending. Restoring the legal framework for medium-term budget preparation, budget credibility and debt management is also critical, combined with measures to improve fiscal transparency and strengthen public investment management.

Financing strategy and debt sustainability. External budget support will continue to constitute the bulk of fiscal financing, although mobilization of domestic financing along with the elimination of monetary financing remain important to meet the very large financing needs while preserving stability. The authorities are also taking steps to ensure debt sustainability on a forward-looking basis. In March 2023, the Group of Creditors for Ukraine (GCU) committed to a 2-step process involving an extension throughout the program period of the current debt standstill on official sector debt set to expire at end-December 2023, followed by a final debt treatment before the final review of the Extended Arrangement. In addition, staff assesses that there is a credible process in place for the treatment of external commercial debt. Moreover, highly concessional financing, including for reconstruction purposes, will remain critical over the medium term.

Monetary and exchange rate policies. The program aims to continue supporting 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 program would support a transition toward a more flexible exchange rate, further easing FX controls, and return to an inflation targeting framework.

Financial sector. Although the financial system remains stable and liquid thanks to extensive emergency measures, continued vigilance is warranted given the true health of the banking system remains opaque, and the risks of further shocks persist, including bank nationalizations. Bank diagnostics, reforms to banking oversight, governance of state-owned banks (SOBs) and contingency planning remain high priorities. The National Bank of Ukraine (NBU), together with other financial sector regulators, is finalizing the next iteration of the financial sector strategy, which provides a coordinated vision and roadmap for the future of the financial system.

Governance and growth: Robust post-war growth and rigorous structural reforms, including on governance and anti-corruption, are needed to swiftly restore the population's living standards and pave the path toward EU accession. Key legislative measures (e.g., restoration of asset declarations, AML standards, and strengthening anti-corruption prosecution) will help mitigate corruption risks during Martial Law and promote public trust and donor confidence, including in the post-war context. It will also be important to pursue an integrated strategy for critical spending during recovery and reconstruction, including on energy and procurement.

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

	2021	2022	2023	2024	2025	2026	2027
	Act.	Act.	Proj.	Proj.	Proj.	Proj.	Proj.
Real economy (percent change, unless otherwise indicated)							
Nominal GDP (billions of Ukrainian hryvnias) 1/	5,451	5,191	6,500	7,711	9,027	10,095	11,023
Real GDP 1/	3.4	-29.1	[1 to 3]	3.2	6.5	5.0	4.0
Contributions:							
Domestic demand	12.9	-23.7	6.1	2.9	5.1	3.7	2.6
Private consumption	4.7	-16.6	2.7	2.2	2.8	2.9	2.5
Public consumption	0.1	6.9	0.7	-0.5	-1.8	-0.6	-0.2
Investment	8.1	-13.9	2.6	1.2	4.2	1.4	0.3
Net exports	-9.5	-5.4	-4.1	0.3	1.4	1.3	1.4
GDP deflator	24.8	34.3	22.8	15.0	9.9	6.5	5.0
Unemployment rate (ILO definition; period average, percent)	9.8	24.5	19.4	10.6	9.2	8.7	8.4
Consumer prices (period average)	9.4	20.2	17.7	13.0	8.6	6.7	5.5
Consumer prices (end of period)	10.0	26.6	15.5	10.0	7.5	6.0	5.0
Nominal wages (average)	20.8	1.0	18.8	15.7	13.8	12.0	9.7
Real wages (average)	10.5	-16.0	1.0	2.4	4.8	5.0	4.0
Savings (percent of GDP)	12.8	17.6	9.5	9.8	11.3	13.7	17.4
Private	13.0	30.8	25.6	23.7	16.4	14.5	16.3
Public	-0.2	-13.2	-16.1	-13.9	-5.1	-0.8	1.1
Investment (percent of GDP)	14.5	12.6	15.2	16.9	18.4	19.8	20.8
Private	10.7	10.1	12.2	13.0	13.9	15.3	15.9
Public	3.8	2.5	3.0	3.9	4.5	4.5	4.9
General Government (percent of GDP)							
Fiscal balance 2/	-4.0	-15.7	-19.1	-17.8	-9.6	-5.3	-3.8
Fiscal balance, excl. grants 2/	-4.0	-25.0	-25.8	-21.1	-11.6	-6.4	-4.9
External financing (net)	2.4	10.8	17.1	14.5	8.2	4.0	2.9
Domestic financing (net), of which:	1.6	5.1	2.0	3.3	1.4	1.3	0.9
NBU	-0.3	7.4	-0.2	-0.2	-0.1	-0.1	-0.1
Commercial banks	1.5	-1.5	2.5	3.4	1.5	1.3	1.0
Public and publicly-guaranteed debt	50.5	78.5	88.1	98.6	100.7	99.5	98.4
Money and credit (end of period, percent change)							
Base money	11.2	19.6	30.6	13.0	9.0	7.7	6.0
Broad money	12.0	20.8	29.7	15.5	14.2	15.1	12.1

Credit to nongovernment	8.4	-3.1	2.0	13.3	15.0	18.1	13.9
Balance of payments (percent of GDP)							
Current account balance	-1.6	5.0	-5.7	-7.2	-7.1	-6.1	-3.4
Foreign direct investment	3.8	0.3	0.3	0.3	2.5	4.8	5.0
Gross reserves (end of period, billions of U.S. dollars)	30.9	28.5	30.5	33.2	36.1	39.4	45.7
Months of next year's imports of goods and services	4.5	3.8	4.1	4.4	4.5	4.8	5.2
Percent of short-term debt (remaining maturity)	67.5	65.2	63.2	74.5	74.9	82.3	90.5
Percent of the IMF composite metric (float)	98.8	91.3	82.3	78.3	80.0	81.4	91.2
Goods terms of trade (percent change)	-8.4	-11.6	3.7	0.5	1.7	2.0	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)	10.5	28.2	…	…	…	…	…
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

June 20, 2023

FIRST REVIEW UNDER THE EXTENDED ARRANGEMENT UNDER THE EXTENDED FUND FACILITY

EXECUTIVE SUMMARY

Context: Russia's invasion of Ukraine continues to have a devastating economic and humanitarian impact. In addition to the continuing combat in Eastern and Southern parts of Ukraine, air raids on Kyiv and other population centers have been escalating since early May; the recent destruction of the Kakhovka dam has added to the challenges. The war is having a severe impact on human and physical capital, with loss of life, drop in living standards and rise in poverty, as well as infrastructure damages. Despite the resilience of the Ukrainian people and the authorities' skillful policymaking in maintaining macroeconomic and financial stability, continuous external support is critical to help restore medium-term external viability, prepare the country for post-war recovery and reconstruction, and facilitate Ukraine's path to EU accession.

Outlook: Despite the ongoing war, economic developments have been more positive than expected at EFF approval, contributing to a modest upgrade in the outlook. Growth outturns have been higher, disinflation has continued, and the FX market has been stable. Baseline real GDP growth in 2023 has been revised up to a range of 1 to 3 percent. External financing inflows have materialized in the projected composition and timing, and external financing gaps over the program period remain unchanged. Nevertheless, exceptionally high uncertainty and risks related to the war and potential policy slippages remain as at approval. The downside scenario remains broadly unchanged.

Key policy priorities:

- **Fiscal policy:** In the near term, fiscal policies will continue to focus on ensuring adequate resources for priority spending, maintaining a strong tax revenue base, including by refraining from measures that would erode the tax base, and preserving fiscal and debt sustainability. Efforts should focus on the development of the National Revenue Strategy (NRS) that would anchor much needed revenue mobilization to support reconstruction and social spending. Restoring the legal framework for medium-term budget preparation, budget credibility and debt management is also critical, combined with measures to improve fiscal transparency and strengthen public investment management.

- **Financing strategy and debt sustainability:** External budget support will continue to constitute the bulk of fiscal financing, although mobilization of domestic financing along with the elimination of monetary financing remain important for meeting Ukraine's very large financing needs. The authorities are also taking steps to ensure debt sustainability on a forward-looking basis. In March 2023, the Group of Creditors for Ukraine (GCU) committed to a 2-step process involving an extension throughout the program period of the current debt standstill on official sector debt set to expire at end-December 2023, followed by a final debt treatment before the final review of the Extended Arrangement. In addition, staff assesses that there is a credible process in place for the treatment of external commercial debt. Moreover, highly concessional financing, including for reconstruction purposes, will remain critical over the medium term.

- **Monetary and exchange rate policies:** The program aims to continue supporting 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 program would support a transition toward a more flexible exchange rate, easing FX controls, and return to an inflation targeting framework.

- **Financial sector:** Overall, the financial system remains stable and liquid thanks to extensive emergency measures, but continued vigilance is warranted given the true health of the banking system remains opaque, and the risks of further shocks persist, including bank nationalizations. Bank diagnostics, reforms to banking oversight, governance of state-owned banks (SOBs) and contingency planning remain high priorities. The National Bank of Ukraine (NBU) is finalizing the next iteration of its financial sector strategy, which provides a coordinated vision and roadmap for the future of the financial system.

- **Governance and growth:** Robust post-war growth and rigorous structural reforms, including on governance and anti-corruption, are needed to swiftly recover the population's living standards and pave the path toward EU accession. Key legislative measures (e.g., asset declaration, AML, and anti-corruption prosecutor) will help mitigate corruption risks during Martial Law and promote public trust and donor confidence in the post-war context. It will also be important to pursue an integrated strategy for critical spending during recovery and reconstruction, including on energy and procurement.

Staff supports the completion of the first review under the EFF, to enable a purchase of SDR 663.9 million. The authorities met all quantitative performance criteria (QPC) for end-April and all structural benchmarks (SB) through end-May, as well as some of the indicative targets (IT). The IT on social spending was missed due to methodological changes to social payments; the IT on the cash overall balance of the general government excluding grants was missed amid higher-than-expected defense-related spending.

Program modifications. Reflecting the better-than-expected end-April 2023 outturn on net international reserves (NIR), while recognizing the exceptionally high uncertainty, the authorities are requesting modification of the NIR QPC, increasing the NIR target for end-June and end-December. The authorities are also requesting a modification to the fiscal QPC (non-defense cash primary balance excluding grants) to reflect: (i) a change in the perimeter of defense spending; and (ii) the trajectory of expenditures within the year, while the end-2023 target level remains unchanged. A further revision converts the continuous PC on the issuance of state guarantees into a periodic QPC. Finally, four new SBs are being proposed to reinforce near-term macroeconomic and financial stability and underpin reform momentum. These include: (i) measures for the tax and customs administrations; (ii) reinstating the articles of the Budget Code to support preparation of the 2024 Budget; (iii) preparing a concept note with proposals for containing potential fiscal risks related to the 5-7-9 affordable loan program, and (iv) reinvigorating needed and critical corporate governance reform at the Gas Transmission System Operator (GTSO) through selection and appointment of a supervisory board. Further, the deadline for the structural benchmark on adoption of the draft law on tax policy and administration is proposed to be reset from end-June 2023 to end-July 2023.

Program risks. The ongoing war-related exceptionally high uncertainty implies enormous and unprecedented risks to the program. If the war situation worsens or extends for longer than assumed under the baseline scenario, the economic recovery could sharply reverse, and the fiscal position could deteriorate. Despite skillful policymaking and a commitment to strong economic management, the authorities' room for maneuvering such shocks is limited. The program is also highly dependent on external financing, and any shortfalls and/or delays would raise the risk of suboptimal policy choices and measures, and the program going off track. The program is designed to achieve its objectives—of resolving BOP gaps and restoring external viability—under both a baseline scenario and a downside scenario. The authorities' strong capacity and commitment to implement the program and continued sizable and timely donor support (including credible and specific financing assurances) help mitigate such risks. However, given the ongoing war, program risks cannot be fully mitigated through program design and/or contingency planning alone.

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

Discussions were held in Vienna during May 23–30, 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), Heiko Hesse, Geoffrey Keim, Armine Khachatryan, Sanaa Nadeem (all EUR); Toomas Orav (SPR); Dermot Monaghan and Nikoletta Kleftouri (MCM); Jonathan Pampolina (LEG); and Vahram Stepanyan (Resident Representative), Ihor Shpak and Mariia Sydorovych (local office). Ender Emre (LEG) participated in some technical meetings. 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 15 months after the start of Russia's invasion and continues to take an enormous human and economic toll. While active combat remains concentrated in Eastern and Southern regions, Russian missile and drone attacks intensified countrywide in May, increasing the loss of civilian lives and erosion of the country's human and physical capital. The destruction of the Kakhovka dam is already having a sizable social and environmental impact, but it is too early to assess its full effect. The uncertainty around near-term developments remains elevated and continuous support of international partners remains essential.

2. Recent economic outturns have been largely positive, although the outlook remains highly uncertain as exceptionally high war-related unpredictability persists. Ukraine has emerged better than expected from the winter attacks on critical energy infrastructure; amid repairs and improving weather, the power supply has largely normalized. Data releases indicate that economic activity has been more resilient than expected, and sentiment has rebounded; inflation continues to decline; and conditions in the FX market have improved steadily. External financing has supported the buildup of FX reserves to record levels. At the same time, uncertainty looms large, and the risk of war-driven shocks persists, e.g., pressures on grain export transit routes and spending to support the wartime economy.

3. Program performance has been broadly strong, but implementation risks remain elevated. The authorities remain committed to the program, meeting all of the quantitative performance criteria for end-April, although two of the ITs were missed. Meanwhile, all five structural benchmarks (SBs) through end-May were met. In light of new developments, the authorities have requested program modifications, including with regard to QPCs. Estimates of program external financing gaps remain broadly unchanged, as are medium-term assumptions about growth and financing. Policy implementation risks remain elevated in the context of a very complex economic, social, and political situation. These risks cannot be fully mitigated through program design and contingency planning.

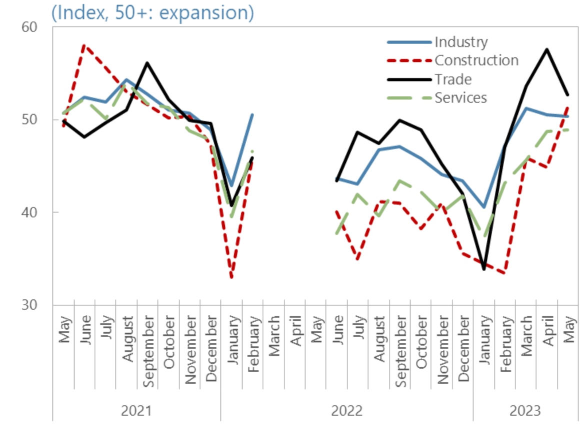
RECENT DEVELOPMENTS

4. Recent data releases suggest more resilient economic activity than at the time of EFF approval.

- Growth. 2022 real GDP growth was revised to -29.1 percent y/y from -30.3 percent y/y, mainly due to a stronger Q4 2022 (0.7 percent q/q seasonally adjusted (sa) vs. -4.3 percent estimated) as firms and households better adapted to electricity shortages. Moreover, the growth outturn in Q1 2023 was 2.4 percent q/q sa (vs. a flat projection), highlighting strong rebound in economic activity in early 2023 and continuing adaption of firms and households to the war situation. Business surveys support the improved sentiment. The recent destruction of the Kakhovka dam could affect growth through the loss of arable land, migration, and disruption to industrial facilities, including from water and electricity shortages.

- Inflation. In May 2023, headline inflation declined to 15.3 percent y/y from 17.9 percent y/y in April and 26.6 percent end-2022; core inflation also declined to 15.6 percent y/y in May from 16.9 percent y/y in April and 22.6 percent at end 2022. This reflected the unwinding of supply bottlenecks in food and fuel, the fast recovery in the energy sector after the infrastructure attacks, and a stronger hryvnia cash exchange rate. Household electricity tariffs are set to rise by more than 60 percent with effect from June, with only a minor impact on inflation due to a low base.

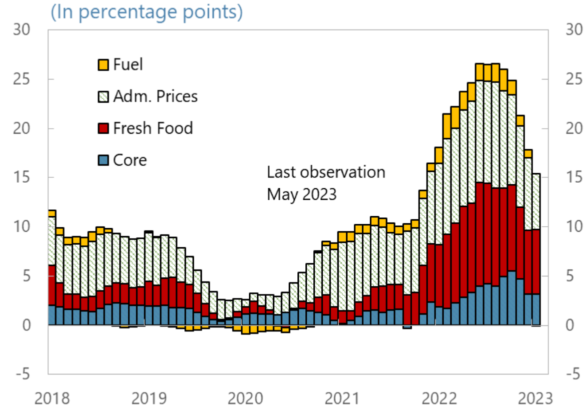
NBU Monthly Outlook Survey
(Index, 50+: expansion)



Source: NBU.

FX market. Conditions in the FX market have improved sharply due to continued external inflows and seasonal factors, including FX sales by agricultural producers. The spread between the official and cash rates have stabilized at around 2–4 percent since March, while the NBU's monthly net FX sales stabilized at US$1.6 billion in March-May compared to US$2.9 billion in the winter months (December 2022–February 2023) (Figure 3).

Contributors to Annual Inflation
(In percentage points)



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

5. The fiscal deficit has deteriorated compared with last year, as higher revenues were more than offset by higher expenditures during the first four months of 2023:

- Stronger activity and the war both affected tax collections. During January-April—in part driven by base effects as March-April 2022 covered the two first months of the war—tax revenues (excluding social security contributions) grew 17 percent y/y. Personal income tax grew 26 percent y/y, driven by revised wage policies and higher military enlistment. Meanwhile, taxes on goods and services (e.g., VAT, excises) expanded close to 24 percent y/y. Nontax revenues rose significantly due

Ukraine: Key Revenue Indicators

	Jan-April 2023	
	UAH billion	percent change, y/y
Total revenue (ex. Social Sec. Contrib.)	**925**	**75.3**
Tax revenue	473	17.1
Personal income tax	143	26.3
Corporate profit tax	41	-11.5
Tax on goods and services	218	23.7
Other tax revenues	70	3.8
Nontax revenue	453	265.4

to external grants, while dividends from state-owned enterprises and banks also performed strongly.

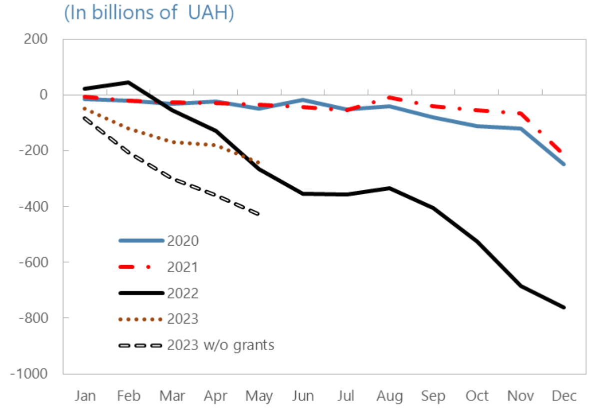
- Expenditures, however, grew markedly owing to war-related spending pressures. The war has pushed spending on wages and salaries—with exceptional growth in military personnel compensation—and on goods and services to very high levels. Other categories of spending have been contained to preserve space for priority spending, including interest, which fell around 18 percent y/y, in line with the debt standstill.

- The cumulative overall fiscal deficit reached around UAH 185 billion during the first four months of the year, compared with UAH 130 billion in the year-earlier period. However, the deficit has been financed mainly through external resources so far this year as opposed to monetary financing when the war began in 2022, which has supported economic stability.

Ukraine: Key Expenditure Indicators

	Jan-April 2023	
	UAH billion	percent change, y/y
Expenditures	**1,035**	**80.5**
Wages and salaries	447	97.8
Goods and services	394	124.8
Interest	40	-17.9
Capital expenditures	33	269.6
Other expenditures	121	5.9

Fiscal Balance Cumulative
(In billions of UAH)

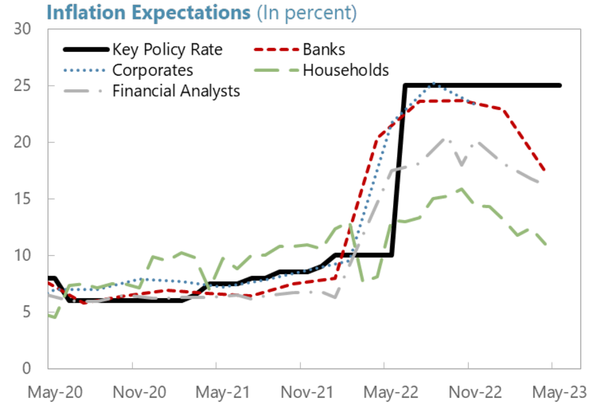


Source: MoF, IMF staff estimates.

6. **Substantial external flows continue to support budget financing.** Through May, about US$19.7 billion in external budget support loans (US$13.6 billion) and grants (US$6.2 billion) financing have been reported as disbursed providing the bulk of budget financing and supporting a buildup in government deposits. Net domestic bond financing remains positive for the year (US$1.7 billion as of end-May), with bonds eligible to meet reserve requirements comprising over 80 percent of hryvnia bond issuance. Since mid-May, given ample budget financing, domestic issuance has been capped, and maturities and yields remain largely unchanged. As planned under the program, there continues to be no monetary financing in 2023.

7. The NBU has maintained the key policy rate at 25 percent, while excess liquidity in the banking system persists. Ex-ante real rates have shifted more firmly into positive territory amid declining inflation expectations. Bank liquidity remains elevated despite the recent increases in reserve requirements, amid continued local currency deposit growth (36.6 percent y/y as of end-May) and declining credit (-9.6 percent y/y as of end-May). Following the early April change in the operational design of monetary policy (see ¶41), the stock of NBU CDs increased to US$12 billion at end-April (from US$9.7 billion at end-March).

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



Source: NBU, GfK Ukraine, Info Sapiens.

8. The external sector was impacted less than feared by the missile attacks, helping to boost reserves to record levels. Gross reserves climbed to an estimated US$35.2 billion as of mid-May, boosting the import coverage ratio to about 4.7 months, close to an all-time high. Reserve accumulation was a result of substantial external financing and smaller than expected impact of missile attacks on export capacity. Moreover, significant migrant outflows and energy import needs did not materialize, containing FX drains. Nonetheless, external pressures remain present and Q1 2023 saw the first current account deficit since the start of the war, as exports remain some 40 percent below pre-war levels, while imports have largely recovered, helped by the compression of the official and cash market exchange rate spreads, and improving sentiment.

9. The financial system remains stable and liquid overall, as deposits have continued to grow while lending has declined.

- During Q1 2023, the stock of all client deposits rose by 4 percent. Record profits also continue, with the return on assets and return on equity exceeding 6 percent and 55 percent respectively on an annualized basis in the same period. The stock of all loans stood at 19.3 percent of 2022 GDP as of end-March 2023. Subsidized loans issued via the 5-7-9 affordable loans scheme have grown to 11 percent of total outstanding loans. The non-performing loans ratio increased by 1pp in the quarter to 39 percent (from 30 percent in January 2022).

- The war has also weighed on the non-bank financial sector. Despite an 11 percent increase in total assets in 2022, the number of operating firms fell by 24 percent to 1,331.

- The National Agency for the Prevention of Corruption (NAPC) listed the foreign owners (through affiliate subsidiaries operating in Russia) of two of the three largest international banks operating in Ukraine (comprising 10 percent of banking system assets) as international sponsors of the war due to the continued operations in Russia of other entities owned by their parents.

10. Efforts to combat high-level corruption are continuing. The National Anti-Corruption Bureau of Ukraine (NABU) and Specialized Anti-Corruption Prosecutor's Office (SAPO) recently investigated and arrested a top judicial official. The agreement for information sharing and improving control mechanisms between the NABU and the restoration agency will contribute to transparency and accountability in the recovery and reconstruction efforts. As of March 2023, more than 70 percent of non-military procurement were processed through competitive bids in the digital procurement system (ProZorro), which includes beneficial ownership information.[1]

PROGRAM PERFORMANCE

11. The authorities' performance during the first review was broadly strong, demonstrating a solid commitment to reforms.

- ***Quantitative performance criteria (QPCs).*** Performance of fiscal targets was broadly satisfactory, despite the impact of the war. All continuous and end-April 2023 QPCs were met, but two indicative targets (ITs) on the overall balance excluding grants as well as the IT on social spending were missed. Specifically, the QPC on the floor on *the non-defense cash primary balance of the general government excluding budget support grants* was met with a comfortable margin. However, high levels of defense spending resulted in missing the indicative target on the *floor on the overall cash balance excluding budget support grants*. The IT on *social spending (floor)* was missed in April, owing to a change in the methodology for effecting social payments. Meanwhile, the *QPC on tax revenues* (excluding social security contributions) materially exceeded the floor. With no issuance of public guarantees, the continuous ceiling was respected, while *domestic arrears* were also well below the indicative target. *Net international reserves (NIR)* comfortably exceeded the end-April QPC thanks to strong external support and weaker-than-expected impacts from the attacks on infrastructure.

[1] In March 2023, the OECD invited Ukraine to participate in the Working Group on Bribery, which is a positive step toward the country's future accession to the OECD anti-bribery convention.

Ukraine: Quantitative Targets and Indicative Targets 1/

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

	2023				
	April			June	
	QPC	Actual	Status	Program QPC (CR 23/132)	Proposed Rev. 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) 2/					
Program definition (CR 23/132)	258,352	353,024	Met	318,502	...
Proposed re-definition 3/	...	...	...	...	213,000
Floor on net international reserves (in millions of U.S. dollars) 4/	15,500	23,762	Met	15,500	16,500
Floor on tax revenues (excluding Social Security Contributions)	451,700	472,689	Met	696,400	696,400
Ceiling on publicly guaranteed debt 5/	...	...	...	...	37,000
II. Indicative Targets 1/2/					
Floor on the overall cash balance of the general government, excluding budget support grants (- implies a deficit)	-356,500	-364,580	Not met	-638,300	-730,000
Ceiling on general government borrowing from the NBU 6/ 7/	-2,551	-2,551	Met	-2,573	-2,573
Ceiling on general government arrears	6,000	1,757	Met	4,500	4,500
Floor on social spending	187,000	182,321	Not met	258,100	249,000
III. Continuous Performance Criteria 1/2/					
Ceiling on non-accumulation of new external debt payments arrears by the general government	0	0	Met	0	0
Ceiling on publicly guaranteed debt 5/	20,000	0	Met	37,000	...

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. Targets and projections for 2024 are cumulative flows from January 1, 2024.
3/ Starting with June 2023, the floor on the non-defense cash primary balance of the general government excluding grants is redefined to exclude general fund defense expenditures only.
4/ Calculated using program accounting exchange rates as specified in the TMU.
5/ Starting with June 2023, the ceiling on government guarantees was converted into a quantitative performance criterion.
6/ For end-April, calculated cumulative from April 1, for end-June from May 1; for remaining test dates, from end of previous quarter.
7/ Calculated using projected redemption of government bonds as of May 28, 2023.

- **Structural benchmarks.** The authorities have met all five structural benchmarks set for the period from early-April 2023 through end-May 2023. Specifically, they have submitted to Parliament a draft law that restores and strengthens Article 52 of the Budget Code to minimize ad hoc amendments to the budget law. Within the same package they have included the reinstatement of the articles of Budget Code that establish limits on issuance of public guarantees. On April 11, 2023, Parliament adopted a law amending the Budget Code to enhance transparency and accountability of special accounts and consolidate them within the general government special fund. Separately the Head of the State Tax Service (STS) issued a directive with an action plan to address the weaknesses identified in taxpayers' perception survey.

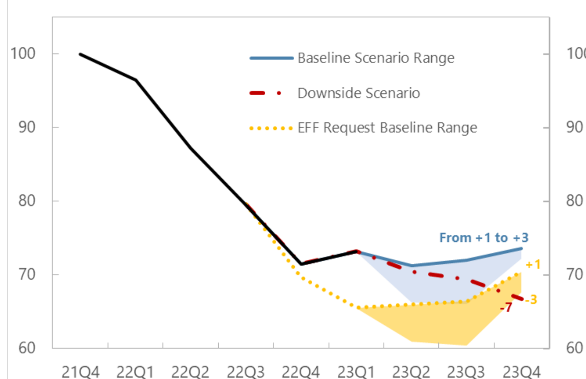
OUTLOOK AND RISKS

12. Staff has upgraded the baseline forecast for 2023, although the downside scenario continues to assume a more severe and protracted contraction in output. The economy has been more resilient than expected, largely driven by a recovery in domestic activity, although the outlook remains subject to exceptional high uncertainty. The core war-related assumptions underpinning the baseline outlook are unchanged since the EFF request. In particular, the war is expected to wind down by mid-2024; the grain corridor remains open, the security situation does not significantly deteriorate and any attacks to energy infrastructure will continue to be handled effectively, with no material electricity and gas shortage next winter. The medium-term path is also unchanged. Moreover, the downside scenario has been updated to reflect outturns (see below and Annex III), and as before envisages a forecast, where exceptionally high uncertainty is more protracted due to a longer and more intense war.

13. Staff's updated baseline scenario anticipates a resilient, quarterly sequential, domestic demand-driven growth, although elevated risks persist.

- **Output is projected to continue its quarterly sequential recovery through 2023.** Due to strong base effects and the Q1 outturn, growth has been upgraded to 1–3 percent for 2023 from the previous range of -3 to +1 percent. Domestic demand is expected to rebound, partly driven by 2022 base effects but also improving investment, government spending, and higher private consumption. This is consistent with a stabilizing labor market, amid lower net migrant outflows due to an improved trend in 2023 thus far, as well as lower inflation and stable FX markets (see below). Although external developments have been positive this year with the grain corridor expected to remain open and exports over-performing, the outlook for net exports this year is still subdued due to the destruction of productive capacity, including the ban on agricultural exports, to five neighboring EU countries through mid-September. binding logistical bottlenecks, and growth-driven imports (see below). In 2024, staff maintains its growth forecast of 3.2 percent, as the sequential recovery continues. Moreover, while it is too early for a full assessment of the impact of the destruction of the Kakhovka dam, economic activity in the affected region is a small share of overall GDP, and the likely impact is captured in the staff's baseline growth range.

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



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

- **Steady disinflation.** Headline inflation is expected to decline to 15.5 percent by end-2023 and 10 percent by 2024 (both faster than projected at program approval), reflecting lower than expected outturns in 2023, the improved energy situation, and stable FX markets.

- **Weaker current account, stronger FX reserves.** The 2023 current account deficit is expected to widen from the previously forecast 4.4 percent to 5.9 percent of GDP. This mainly reflects increased imports from the stronger growth outlook, and an expected decline in humanitarian and technical aid (i.e., technical services provided by countries and international organizations), which helped to manage the initial impacts of the war and amounted to about US$7 billion in 2022 and is expected to halve in 2023. However, year-end FX reserves are expected to strengthen by US$1 billion relative to the EFF request on lower FX interventions and stronger Q1 outturns.

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

	2023	2024	2025
Baseline			
Real GDP growth (%)	[1 to 3]	3.2	6.5
Inflation, period average (%)	17.7	13.0	8.6
Current account (% GDP)	-5.7	-7.2	-7.1
Current account (US$ billion)	-9.9	-13.3	-13.9
Trade balance (US$ billion)	-27.2	-29.0	-34.3
FX reserves (US$ billion)	30.5	33.2	36.1
Overall fiscal balance (% GDP)	-19.1	-17.8	-9.6
Overall fiscal balance, excl. grants (% GDP)	-25.8	-21.1	-11.6
Public debt (% GDP)	88.1	98.6	100.7
Downside			
Real GDP growth (%)	-7.0	-1.5	0.0
Inflation, period average (%)	21.8	22.8	14.6
Current account (% GDP)	-4.9	-6.0	-3.3
Current account (US$ billion)	-7.4	-8.8	-5.1
Trade balance (US$ billion)	-28.2	-35.2	-35.4
FX reserves (US$ billion)	30.5	33.2	36.1
Overall fiscal balance (% GDP)	-21.5	-20.0	-17.9
Overall fiscal balance, excl. grants (% GDP)	-32.1	-28.8	-23.9
Public debt (% GDP)	105.4	116.7	125.7

14. **The medium-term outlook under the baseline scenario is unchanged from the program approval.** Under the medium-term baseline scenario, real GDP growth is expected to rebound strongly in 2025–26 (post-war), supported by investment amid measured reconstruction, as well as consumption as migrants return. Assuming that investment has a large import component and export capacity and logistics recover slowly, net exports will contribute modestly to growth. Inflation is expected to decline, but only return to within the pre-war target of 5±1 percent toward the end of the program period. A key feature of the longer-run outlook are reforms undertaken by Ukraine to prepare for EU accession.

15. **The downside scenario continues to assume a more protracted and intense war than in the baseline (see Annex III).**[2] These sharper impacts would weigh on consumption and investment sentiment and exports and entail larger-scale damage to infrastructure. This would generate a

[2] Under the downside scenario in the medium-term (assumptions consistent with the program approval), 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.

deeper real GDP contraction of 7 percent in 2023 and a further contraction of 1.5 percent in 2024. This scenario is slightly improved compared to that presented at program approval, taking into account better recent outturns. Under the downside scenario, inflation would accelerate through 2024 before starting to decline. In view of continuing defense needs from the more protracted and intense war, the fiscal deficit would remain more elevated in 2023–24 than the baseline and reduce more gradually thereafter. Imbalances in the FX market would be expected to persist for longer, given continuing constraints on exports amid assumed disruptions to the grain corridor, leading to higher nominal depreciation. The downside scenario continues to anticipate additional donor financing relative to the baseline for the duration of the war. Finally, Annex III includes details on the downside scenario, including contingency plans, which are largely in line with those outlined at the EFF request.

16. Risks to the outlook remain exceptionally large, and broadly unchanged from the EFF request in terms of the war outlook, external financing, and the reform momentum (Annex I). The security situation could worsen or extend for longer than expected with continuing attacks to critical infrastructure. This could result in a much wider fiscal deficit, together with an intensification of FX and inflationary pressures as well as financial sector risks. Unexpected shortfalls or delays in external financing could widen financing gaps, necessitating monetary financing or a sharp compression in spending. 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. Moreover, enterprise risks to the Fund are broadly unchanged relative to the EFF request (IMF Country Report No. 2023/132, ¶6).

17. Key risk changes since EFF approval including the following:

- *Loss of transit corridor for agricultural produce.* Any large-scale disruption of the Black Sea Grain Initiative (BSGI) or prolonged import bans (through EU restrictions and/or actions by neighboring countries) would exacerbate financing gaps and FX pressures and undermine the nascent recovery (see Box 1).
- *Unfunded budget expenditures.* Such measures, including under the aegis of Martial Law, could, if implemented, derail macroeconomic adjustment, and reopen financing gaps (see also ¶23).
- *Banks.* Excessive interference, including the prospect of nationalization for reasons unconnected to financial stability, could pose risks to the banking system.

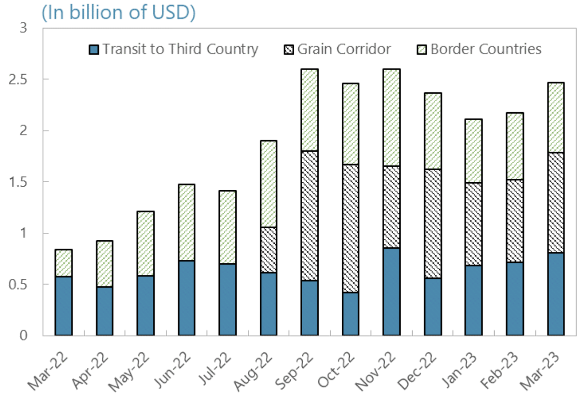
Box 1. The Costs of Disruptions to Ukraine's Food Exports

Since the onset of the war, Ukraine as a large food exporter has faced disruptions to its export corridors. Nevertheless, it has shown agility in providing financial support via the 5-7-9 program and reorganizing how it gets its produce to markets. The trade lifeline is tenuous, and any blockage would carry significant near- and medium-term costs. Efforts should be redoubled to strengthen and diversify trade channels.

The war has profoundly altered Ukrainian agricultural activity and trade routes. Mines as well as occupied and combat affected territory, have reduced the acreage area of Ukrainian farmland by around 25 percent. Moreover, access to markets early in the war was seriously disrupted due to a blockade of the seaports. To support Ukraine, rail and road "solidarity lanes" were established in neighboring countries—Bulgaria, Hungary, Poland, Romania, and Slovakia—to facilitate the transit of Ukrainian produce for re-export. In addition, the EU temporarily lifted import duties and tariff quotas on food imports from Ukraine. In July 2022, the Black Sea Grain Initiative (BSGI) made possible the export of foodstuffs from three Ukrainian ports, but overland transit has continued, and accounts for about a quarter of total shipments of agricultural produce (relative to a tenth pre-war).

These alternative trade routes have been a lifeline, but a tenuous one. The availability of overland routes and the BSGI, as well as increasing use of river barges to transport grain up the Danube River, helped restore monthly agricultural exports to around pre-war levels (also thanks to a bumper crop in 2021) and limited the annual decline of food exports to 16 percent in 2022. Trade was disrupted in April 2023 after Ukraine's EU neighbors imposed unilateral import restrictions on its agricultural produce. The moves came amid a backlash from local farmers about the preferential treatment of Ukrainian goods and its impact on local markets. The EU subsequently announced an emergency restriction on Ukrainian agricultural imports to these five countries through mid-September, but the restriction specifically exempts transit goods. At the same time, the BSGI has been subject to frequent renewals, initially after 120 days, and most recently on May 18 for a period of 60 days, as well as endemic inspection delays of vessels, causing uncertainty around market access via that corridor.

Exports of Food Products by the Mode of Transport
(In billion of USD)



Source: NBU staff calculations, SCSU, Black Sea Grain Initiative JCC.

Further trade disruptions would impact GDP growth and exports, depending on their scope and duration. Grain export volumes are already expected to fall given diminished stocks and harvests, but the NBU estimates that a grain corridor stoppage would imply additional foregone export receipts of US$290 million per month (relative to overall agricultural exports of around US$2 billion per month earlier this year and US$2.3 billion a month in 2021). Reorientation of trade would be difficult in the event of import bans by EU neighbors even with the possibility of transit; grains are largely unaffected, but the loss of markets would be important for oils and oilseeds and other food (e.g., milk and meat), especially with the 'grain corridor' operating at capacity. As a result, the impact on grain and non-grain products would be around US$170 million per month through mid-September and rise if it remains in place, as harvest begins to arrive (for an average monthly impact of US$270 million). There are downside risks since effective reorientation of trade may require additional offshore storage or transport capacity that is beyond Ukraine's control. If both import bans are reinstated and the grain corridor were disrupted, the compound effect with related logistical challenges could push losses to exceed US$800 million per month.

The near-term priority is to strengthen and diversify trade channels, while a longer-term recovery will need to tackle the mine problem. Any protracted trade disruption would weigh heavily on farmers—about

Box 1. The Costs of Disruptions to Ukraine's Food Exports (concluded)

90 percent realized losses in 2022 (though buffered by the 5-7-9 loan program), and a near term recovery is unlikely amid lower harvests in 2022–23 that are expected to see Ukrainian grain export volumes fall through 2024 to 60 percent of the pre-war level. The Ministry of Agriculture notes that farmers would manage disruptions by reducing acreage planted by another 20-30 percent. Crop switching toward lower volume cultures would also accelerate (e.g., replacing bulky grains with rapeseed, soy, sunflower). More financial support to farmers may be needed. The EU's recent decision to renew temporary trade liberalization for Ukraine through June 2024 is welcome but given the risk of a supply glut that would weigh on producer prices in neighboring countries, efforts should be stepped up to strengthen trade channels, including more border crossing points, streamlined inspections, and increased logistical capacity in the EU. In the longer run a recovery will also depend on a laborious and costly de-mining effort, given estimates of about 2.5 million hectares of agricultural land to be inspected and cleared.

POLICY DISCUSSIONS

18. The overarching goals of the program remain sustaining macroeconomic and financial stability, restoring debt sustainability, and supporting Ukraine's recovery on the path toward EU accession. In view of the exceptionally high uncertainty, the two-phased approach set out at program approval remains appropriate. Discussions focused on recalibrating macroeconomic policy settings while continuing to advance structural reforms. They also touched on the authorities' objective of accelerating recovery and reconstruction activity, and the steps required to ensure such projects would be consistent with the program.

19. As required under the policy for Fund lending under exceptionally high uncertainty (EHU), the program is designed to achieve its objectives—of resolving BOP problems and restoring medium-term external viability—under both a baseline scenario and a downside scenario. As for the EFF request, 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 III). Additional contingency measures may need to be undertaken should shocks be more severe than in the downside scenario, and the authorities have the commitment and the capacity to implement such measures. However, risks cannot be fully mitigated through program design and contingency planning alone given the war.

A. Macro-Fiscal Policies

Fiscal Policy in 2023

20. The overall deficit projection for 2023 is little changed at UAH1.24 trillion (19.1 percent of GDP), but resolute efforts will be required to achieve program targets in view of widespread risks. The projected deficit excluding grants has been revised down to UAH 1.67 trillion (25.8 percent of GDP), while valuation effects have lowered the hryvnia equivalent value of grants (in U.S. dollar terms, the value of grants is almost unchanged).

21. Although projections for aggregate revenues and expenditures are little changed, there are significant changes in composition:

- ***Revenues:*** Despite the changes in the macro framework and outturns through April, the total tax revenue projection for 2023 is broadly unchanged. Projections for goods and services taxes have been revised up, in line with assumptions on economic activity. Taxes related to income and profits are little changed, though corporate taxes are now expected to be higher, more than offsetting downward revisions to personal income tax and social security contributions. Lower international prices for gas are weighing on royalty collections. Non-tax revenues are mostly unchanged, as higher fee-related income offsets lower budget support grants.

- ***Expenditures:*** Expenditures on compensation for military personnel in 2023 will be higher than anticipated, following submission by a working group of the Parliament of a draft law (No. 9342) that would raise wages for new recruits, cadets, and instructors along with other non-wage proposals. Capital expenditures have been revised up to address priorities for renovation and repair. Other expenditure categories are being reprioritized to make space for these increases.

Ukraine: Revisions to Fiscal Projections

Percent of GDP

	2022		2023 (proj.)			
			UAH billion		Pct of GDP	
	UAH billion	Pct of GDP	EFF Req.	1st Rev.	EFF Req.	1st Rev.
Total revenue	2,609	50.3	2,861	2,855	47.3	43.9
Tax revenue	1,782	34.3	2,198	2,190	36.3	33.7
Income taxes and soc. sec. contrib.	981	18.9	1,158	1,162	19.1	17.9
Taxes on goods, services, and intl. trade	619	11.9	835	842	13.8	13.0
Property and other taxes	182	3.5	205	186	3.4	2.9
Non-tax revenue	827	15.9	663	665	11.0	10.2
o/w: grants	481	9.3	472	434	7.8	6.7
Total expenditure	3,426	66.0	4,098	4,096	67.7	63.0
Primary current expenditure	3,136	60.4	3,537	3,513	58.5	54.0
o/w: compensation	1,240	23.9	1,422	1,454	23.5	22.4
Interest	162	3.1	281	283	4.6	4.4
Capital expenditures	130	2.5	177	197	2.9	3.0
Contingency reserve and net lending	-2	0.0	103	103	1.7	1.6
Overall balance	-817	-15.7	-1,237	-1,240	-20.4	-19.1
Excluding grants	-1,299	-25.0	-1,709	-1,674	-28.2	-25.8
Primary balance	-655	-12.6	-956	-957	-15.8	-14.7

22. Embarking on critical reconstruction and recovery spending over and above current assumptions under the program requires mobilizing additional financing on highly concessional terms. The updated RDNA2 prepared by the World Bank identifies US$14.1 billion in expenditure priorities for 2023. Of this, US$3.5 billion has already been budgeted, leaving US$10.6 billion yet to be financed. The authorities are seeking additional donor commitments for this amount before undertaking these works (MEFP ¶21). Additional financing that the authorities identify for these priorities both this year and into the medium term will need to be on highly concessional terms, consistent with the program goal of restoring debt sustainability (see ¶59). Projects executed by SOEs requiring government guarantees would also require the financing mix to be appropriately concessional and consistent with the QPC on government guarantees.

23. Robust policy action will be needed to meet the program's fiscal targets, given the risks and the highly uncertain environment. Delivering on the commitments and avoiding *ad hoc* loosening measures will be essential for program success. Specifically:

- **Revenues:** The key near-term policy measures are to restore pre-war taxation regimes and avoid measures that would erode the revenue base (MEFP ¶13):
    - While remaining committed to passage of the package of revenue measures, the authorities have requested to reset the timing (from end-June 2023 to end-July 2023) of the Structural Benchmark that had already been prepared under the Program Monitoring with Board Involvement (PMB), and is a critical priority for mobilizing revenues, burden sharing, and sends a signal of the authorities' commitment to fiscal governance reforms. It was submitted to Parliament (Law No. 8401) and passed its first reading on May 29, but the authorities indicated that they may need more time to secure adoption of the Law. When adopted, the law will reverse a number of measures related to the single tax (Box 2) that were passed under Martial law and eroded the tax base. The law also contains provisions to improve tax compliance such as cancelling the moratorium on tax audits and restoring liability for failure to use cash registers in retail outlets.
    - Beyond Law No. 8401, tax-eroding measures such as exemptions and deferrals introduced during Martial Law should be cancelled or phased out, and pressures for their renewal should be resisted. Where tax measures are needed to support imports related to national defense and security, the authorities aim to ensure that such measures are not abused, by designing them to be targeted, timebound, controlled, and with oversight. The authorities should also consider replacing broad tax exemptions with targeted subsidies.
- ***Expenditures:*** Expenditure initiatives outside the current budget will require offsetting fiscal measures or new financing on terms consistent with debt sustainability. Risks to the expenditure projection include measures to expand military compensation even more than the proposal currently under parliamentary consideration. Expenditure pressures could also arise from the need for additional gas purchase, compensation for heating tariff differentials, and support to displaced people.

- ***Other fiscal risks*:** Other fiscal risks are related to tax and spending arrears, including pensions and social payments, and pressures arising from the 5-7-9 affordable loan program (administered by the Business Development Fund related to increasing costs of interest compensation and expanded scope of the program).

Box 2. Simplified Taxation in Ukraine: Drawbacks and Risks

Countries have generally introduced simplified taxation regimes (ST) for one of two main reasons. In advanced economies, the primary goal is to ease the tax compliance burden on small businesses by offering streamlined and simplified tax accounting procedures along with less demanding tax payment schedules. These measures are usually aligned with the general tax system to avoid creating large tax rate arbitrage opportunities. In developing countries with large informal sectors, the goal is to expand the coverage of taxpayers and thus formalize the shadow economy. In either case, the aim should not be to provide tax relief but to focus on simplification and lowering compliance burdens.

Ukraine introduced a ST (called the Single Tax or Unified Tax System) in 1998. It provides an optional regime under which taxpayers benefit both from simplifications of their compliance and administrative duties, and from a lower tax burden that is not based on profit. The original motivations for introducing an ST were: (i) capacity limitations to engage with a large number of taxpayers under the universal taxation system, and (ii) governance challenges in the taxation system. Notwithstanding these good intentions, the resulting tax system has been characterized by many effective tax rate arbitrage opportunities that translate into a proliferation of tax leakages.

Ukraine's ST consists of multiple and fragmented small business tax subcomponents, and its use has steadily grown, especially in recent years. ST taxpayers are divided among 4 groups (Table below). Over 2018–2022, the number of ST taxpayers grew 25 percent to about 2 million taxpayers and generated relatively stable tax revenues of approximately 0.9 percent of GDP during 2020–22.

Summary of Groups Eligible for the Single Tax

Groups	Income limit (multiple of annual min. wage)	Employ-ment limits	Activity	Applicable taxation		
				Tax base	Military tax	Soc. Sec. Cont. 1/
Group 1. Individual entrepreneurs	167	None	Mostly retail and household services	Tax rates are set locally and by activity, with a cap of 10 percent of the tax base	No	Yes
Group 2. Individual entrepreneurs	834	Up to 10	Mostly retail, household services, production & sales of goods, & restaurants	Tax rates are set locally and by activity, with a cap of 20 percent of the tax base	No	Yes
Group 3.						
(i.) individual entrepreneurs	1167	No limit	Taxpayers may engage in any activity with any counterparty	At the rate of 3 percent for VAT taxable persons, 5 percent for non-VAT payers., and 15 percent if above threshold.	No	Yes
(ii.) legal entities				At the rate of 3 percent for VAT taxpayers and 5 percent for non-VAT payers	Yes	No
Group 4. Invidual entrepreneurs and legal entities	No income criterion	No limit	Entities w/ > 75 percent of activity in agriculture	Normative monetary value of agricultural land. Effective rate depends on use and location, between 0.9 and 6.33 percent.	…	…

1/ 22 percent of the minimum statutory annualized salary.

Box 2. Simplified Taxation in Ukraine: Drawbacks and Risks (concluded)

However, diagnostics of the ST framework, including in the context of Fund TA, have identified several shortcomings of the system:

- ***Multiple rates and variations in tax base*** enable arbitrage between the ST tax groups above.
- ***Relatedly, ST taxpayers can strategically minimize their tax burden*** by repeatedly switching between the general income tax system and the ST system. This allows them to take advantage of the general system's loss carry-forward rule during periods of investment by opting-in to that regime at the start of the year but transiting back to the low-rate ST when the business, after the initial investment period, turns profitable. Shifting from the ST to the general system can be repeated indefinitely.
- ***Complex criteria for group membership*** leaves room for discretion and complicates enforcement.
- **The ST became a tool for tax reduction rather than reducing the compliance burden for small businesses**. Attractive concessions in the form of low effective rates are granted to legal entities and professionals, who would not be eligible for a ST regime in the rest of the world.
- **The Martial Law measure of granting a 2 percent turnover tax option to business essentially caps tax revenues**–disproportionately favoring those who benefited from significant tax cuts in the wartime. The functioning of the VAT has been put under pressure by the massive participation in the ST. Given the wide enrollment, effectively some VAT taxpayers may face unfair competition with ST participants.

The ST regime also creates a double challenge for the overall consistency and functioning of the income tax system:

- ***For business taxation***, the ST regime puts tax revenues at risk and biases business decisions. The optional nature of the system particularly incentivizes the most profitable taxpayers to opt into the system – de facto putting a cap on tax liabilities. Combined with strong incentives for underreporting, given lower tax administration standards under the ST, various types of taxpayers have a strong incentive to hide turnover or some type of activities.
- ***For labor taxation and labor informality***, the ST is even more problematic given that numerous companies and individuals opt for self-employment status under the ST instead of a standard labor contract, making them eligible for much lower tax payments and distorting the status of taxpayers.

Unjustified self-employment, an issue in many countries, is of prime importance in Ukraine. It introduces distortions, in particular because social security contributions are levied on the basis of the minimum statutory wage irrespective of hours worked, implying a lower effective rate for those who work longer hours.

Fiscal Policies in 2024 and Beyond

24. Ensuring that expenditure remains within the available revenue and financing envelope will be critical in the preparation and execution of the 2024 budget. The budget preparation calendar has already been launched despite formal suspension of budgetary processes under Martial Law (MEFP ¶15). The 2024 budget needs to be aligned with the authorities' reform agenda under the EFF and deliver outcomes consistent with fiscal and debt sustainability. The authorities will prepare a set of revenue measures building on priorities identified by the NRS, to become effective from January 1, 2024. These measures could include, among others, reforms aimed at harmonizing taxes with EU directives. The expenditure envelope will continue to reflect the wartime needs, but with some reorientation to emerging priorities, including the social safety net and recovery and reconstruction to the extent that resources permit. It will be critical to ensure that key spending units adhere to expenditure envelope limits.

B. Financing Strategy

25. External financing on concessional terms will remain the cornerstone of overall budget deficit financing, supporting fiscal sustainability and macroeconomic stability. Concessional financing from international partners and donors is expected to form the majority of net borrowing for financing the 2023 deficit (net external financing of US$29.7 billion out of the total net general government financing of US$33.1 billion) and the remainder of the program period. Domestic bond financing is expected to meet a smaller share of financing needs (net bond financing of US$3.4 billion for 2023); no monetary financing is envisaged. Timely disbursements of the external financing with the programmed degree of concessionality is necessary to support fiscal and debt sustainability, reduce the risk of monetary financing, and thereby help maintain macroeconomic stability.

26. Efforts to mobilize domestic financing should continue. Strong external and domestic financing (supported by the reserve requirement mechanism) has allowed the authorities to accumulate a sizable deposit buffer. Looking ahead, the authorities intend to target full rollover of maturing domestic bonds until at least the fourth quarter in view of the limited space for additional bank bond holdings under the reserve requirement mechanism, and already high deposit buffers. As a backup, in case of unmet financing needs, the authorities would aim to mobilize additional resources from the domestic market in the last quarter of the year. This should be feasible provided that the authorities' efforts to mobilize domestic financing continue; the recent reduction of the rate on NBU CDs, banks' main alternative to government bonds, expanding bank balance sheets and substantial liquidity, as well as a shift to a monetary easing cycle (see ¶41), could provide support in this regard. At the same time, other bank-specific factors, such as structural liquidity and risk appetite, will require more careful consideration. In this regard, the Joint Working Group established by the MoF and NBU in late-March to develop targeted strategies to mobilize bond financing will play an important role. Staff emphasized that efforts to expand and diversify the investor base should continue.

27. Improved treasury cash management, liquidity forecasting, and coordination between MOF and NBU can help develop optimal borrowing plans and financing mix. Due to the war, government financing needs have been highly volatile. In this regard, closer and more frequent coordination between MOF and NBU and key spending units within the government could help determine financing needs on a more frequent basis. More careful analysis of government local currency and FX deposit accounts, together with due consideration on the conditions on the use of external flows, could support liquidity forecasting and help determine the optimal amount of deposit use. This in turn could help inform borrowing plans for the Debt Management Office as well as strategies to raise such financing by the Joint Working Group, thereby optimizing the amount and cost of deficit financing, and minimizing the risk of monetary financing (see ¶29).

28. The authorities are making progress toward updating their Medium-Term Debt Management Strategy (*Structural Benchmark*, proposed reset for October 2023). The updated strategy will reflect recent developments and align with program objectives, including meeting near-term financing needs under the baseline and contingencies and restoring debt sustainability, in addition to other objectives such as debt market development. As the enactment of the relevant revisions to the Budget Code that would lift the suspension on the preparation of the debt management strategies is expected in end-September (¶36 Structural Benchmark, ¶10), this structural benchmark is proposed to be reset to end-October. Looking further ahead, enhancing the capacity of the Debt Management Office (such as through additional training and staffing) would help support the implementation of the MTDS.

29. The authorities remain committed to avoiding monetary financing of the budget. No monetary financing is expected under the baseline (***Indicative Target***). As a contingency, such as due to a shortfall in external financing or unexpected financing needs, monetary financing is expected to be used only after all other options have been exhausted, and in limited amounts. In line with the recommendations of the 2023 Update Safeguards Assessment, the NBU and MoF are working on a framework for monetary financing, to be in place by end-July, that will specify the key triggers and terms for accessing monetary financing, as well as the conditions for using different types of such financing (e.g., bonds, short-term advances). Together with more frequent coordination on fiscal financing needs, this framework should help limit ad hoc requests and mitigate the risks of excessive monetary financing.

C. Fiscal Structural Policies

Anchoring Revenue Mobilization

30. The authorities are committed to launching the National Revenue Strategy (NRS) by end-December (structural benchmark). As prior action for approval of the EFF, a Cabinet of Ministers (CMU) decree in March presented key principles and objectives of the NRS including for tax policies and administration (2024–2030) putting MOF in charge of NRS preparation. To this end, work on several initiatives is advancing.

31. The MOF is progressing with intermediate steps that are critical for the successful adoption of the NRS. In line with the CMU resolution and MEFP commitments (MEFP ¶21), MOF and the State Tax Service (STS) have finalized the NRS gap analysis with the help of IMF technical assistance covering core tax categories and diagnostics of the STS. By end-July, they will also prepare a roadmap for the NRS (2024–2030) setting out clear revenue targets and policy options affecting a wide spectrum of tax categories to help broaden the tax base. The roadmap will build on recommendations to reform labor and personal income taxation, corporate income taxation and excises, and will incorporate recommendations and guidance for coordination among government agencies, donors, the private sector, and civil society led by MOF.

32. The authorities recognize the importance of integrating tax and customs administration reforms into the NRS. *On STS,* diagnostic work has already identified critical areas of reform to feed into the NRS, including implementation of a compliance risk management framework, strengthening capacity for reform management, and improving governance (see ¶21). Moreover, the STS has issued a directive with an action plan to tackle shortcomings identified by taxpayer survey in November 2022, which will feed into the more comprehensive plan (**Structural Benchmark, May 2023).** To maintain reforms of both administrative bodies at par, diagnostics will be carried at State Customs Service (SCS) with the help of IMF TA. Three reform areas have already been identified for reducing corruption risks within customs administration: (i) reforms of HR and compensation policies; (ii) improving operational management of customs from its headquarters, including the development of centers of excellence for different functional tasks; and (iii) moving the verification/checking of customs documents from border crossings to inland offices. To maintain integrity and coherence in the overall NRS, STS and SCS will prepare a comprehensive action plan over the short- and medium term that focuses on the respective key reform areas (***Proposed Structural Benchmark,*** **end-October 2023**). To enhance tax governance and further reduce tax evasion, the authorities are working toward strengthening the *Economic Security Bureau of Ukraine (ESBU), focusing on* analytical support to identifying tax evasion.

Expenditure Policies, Pension Reforms and Social Spending

33. The authorities have reaffirmed their commitment to maintain the stability of the pension system. The potential introduction of a second pillar fully funded pension scheme is being debated, although the authorities have committed to move in this direction only after Martial Law is lifted, and a careful review of all necessary preconditions is conducted (MEFP ¶23). In staff's view, the focus should be on enhancing the first pillar of the pension system, ensuring that it remains rule-based and financially viable, especially once the war is over. Moreover, an introduction of a second pillar must not translate into a deficit for the pay-as-you-go system. It will be important to ensure that any changes to pension system are accompanied by a medium-term fiscal and budgetary impact analysis, including the budget of the Pension Fund of Ukraine.

34. The **authorities are taking steps to strengthen mechanisms of assistance to internally displaced persons (IDPs), in line with the social policy concept note**. At the start of the war, the authorities have adopted principles of support to IDPs with an ultimate goal of reintegrating them in the labor market. However, with the war continuing and the number of beneficiaries increasing, the authorities strive to enhance the governance of assistance framework, while containing the social spending within the 2023 budget envelope. Staff welcomes the authorities' work with the World Bank to strengthen mechanisms for better means testing of support to IDPs; the revised framework is expected to become effective from October 2023.

35. Staff welcomes authorities' intention to strengthen the analytical framework for expenditure analysis. Supported by IMF TA, the authorities will work on strategic budgeting and costing of new public services and define mechanisms to strengthen the link between the budget and fiscal risk assessments. This will be especially vital in post-war fiscal and budgetary analysis. It is expected that the enhanced framework would inform the formulation of the 2025 budget.

Budget Credibility and Medium-term Budget Framework

36. The authorities have made significant progress to reinstate and strengthen articles of the Budget Code that were suspended under the Martial Law. The CMU has submitted to Parliament a resolution with a package of legal amendments to the Budget Code (May 31, 2023) that aims to enhance the credibility and predictability of budget and reinstates articles covering medium-term budget framework, debt strategy and government guarantees (MEFP ¶19 and ¶23). Specifically, the following core areas are covered.

- ***Budget credibility and predictability***. In collaboration with the IMF, the authorities have prepared amendments to the Article 52 of the Budget Code, which defines the framework and circumstances when the budget can be amended both on the revenue and expenditure side (***Structural Benchmark*****, end-May 2023)**. The proposed amendments maintain consistency with the constitutional framework and aim to reduce scope for ad-hoc changes that may alter fiscal sustainability and predictability of budget policies. The proposal builds on a two-layered protection. On a broader level, in addition to the mandatory opinion of the MOF attached to any legislative initiative that offer modifications to the annual budget law, the proposed amendment also requires that proposed amendments include financing sources. A second layer of protection comes with amendments that designate the legal initiatives to modify deficit, debt and guarantees solely to CMU, and with an assessment by the MoF.

- ***A medium-term budget framework*****.** The authorities are also working toward reinstating the need for medium-term budget preparation ahead of budget 2024, with amendments effective from January 2024 (MEFP ¶23). Thus, the 2024 budget will cover projections of key revenue and expenditure categories for 2025–26, along with deficit financing sources, as well as 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 2025–27. In staff's view, a staged approach to medium-term budget planning remains appropriate.

- ***Strengthening the framework for debt management, provision, and risk assessment of guarantees*****.** The package of legal amendments also covers articles that should help strengthen fiscal risk management and debt management policies. The legal amendments—developed in consultation with the IMF—propose reinstatement of the articles of the Budget Code that establish limits on the issuance of state guarantees with clear criteria for such provisions (including for priority sectors) (***Structural Benchmark*****, end-May 2023**). The proposal implies that the Budget Code will reinstate the 3 percent limit on guarantees that are issued directly by the decision of the CMU. Meanwhile, to support projects financed by IFIs and foreign governments including for recovery and reconstruction, the issuance of guarantees will be discussed annually in the State Budget Law approved by Parliament. The limits on such guarantees are also subject to the authorities' commitments and program modalities, given the need to contain risks from contingent liabilities and preserve debt sustainability. This additional layer of guarantees is subject to a sunset clause in the Budget Code, expiring in 2028.

Overall, a package of legal amendments to Budget Code will be enacted in time to be effective for the preparation of the 2024 Budget (***Proposed Structural Benchmark,*** **end-September 2023**).

Fiscal Transparency and Risk Management

37. The authorities continue to strengthen fiscal transparency and risk management. Specifically:

- ***Overdue account payables.*** MOF has taken steps to avert the reemergence of arrears, with key spending units adhering to MOF directives in the oversight of financial obligations. The level of overdue account payables for January-April 2023 was at UAH 1.757 billion (0.02 percent of GDP) well within the indicative target of UAH 6 billion for the same period. Given the realities of the war, this excludes local governments that are in zones of direct combat or Ukrainian territories currently occupied by Russian forces.

- ***SOE reporting and risk assessment.*** The authorities are progressively restoring regular fiscal risk reporting by SOEs that are not located in temporarily occupied territories. Accordingly, all line ministries and SOEs under their auspices have been instructed to continue quarterly reporting. The MOF has also introduced a more stringent layer of ad-hoc data requests, should there be a need for additional risk assessment. Moreover, the ongoing stress testing exercise launched with the support of IMF TA, is expected to be included in the fiscal risk statement for Budget 2024 and onwards. The MOF is also on track to prepare regulations to tighten risk assessments to avoid abuse and introducing risk-based fees for guarantees (September 2023) (see MEFP ¶23 and ¶35).

- ***Business Development Fund (BDF) and 5-7-9 affordable loan program.*** The expanding portfolio of the BDF coupled with the risks arising from its weak governance and risk management may become a source of substantial fiscal risks. To mitigate such risks, the authorities will take stock of BDF governance and risk management structure to identify shortcomings that represent a material risk to public finances. The review will also assess the 5-7-9 affordable loan program to develop a concept note **(*Proposed Structural Benchmark,* end-September 2023)** with proposals to enhance the targeting of the program for SMEs and phasing out the eligibility of large companies and enhance monitoring and maintain adequate safeguards. Based on the concept note, the authorities may identify further reforms, with potentially conditionality under the program. (Box 3).

Box 3. "Affordable Loans 5-7-9" State Support Programs: Role and Emerging Risks

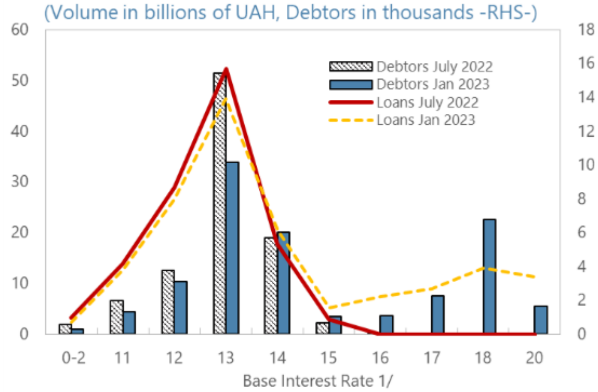
The "5-7-9 program" aims to support businesses through loans at reduced interest rates through state compensation. The program was launched in 2020, and repurposed and expanded during COVID and subsequently the war. The Business Development Fund (BDF) part subsidizes interest payments to banks, resulting in businesses paying interest rates of 5, 7 or 9 percent per annum for loans in local currency. The program's objectives include investment financing and provision of working capital. Since the beginning of the war and amid significant economywide credit risk, the program has been the main driver of new bank lending, mainly to the agricultural sector, providing critical support to businesses.

Governance. The program is designed and managed by the Ministry of Finance (MoF), together with the Ministry of Economy and the SME Development Office. Decisions under the program are implemented by the BDF, a wholly state-owned non-banking non-profit institution with a special status, controlled by the MoF.

Design. The interest rate on loans under the program is determined by a methodology that takes into account the banks' operating costs, credit risk, profitability and cost of deposits. Initially, overall loan rates were at fixed rates of 17-19 percent, with borrowers paying subsidized rates of 5-7 percent, depending on the purpose of financing, the amount of annual income from business activities and the number of jobs to be created. Subsequent amendments to the program provided zero interest rate for certain loan types or periods of time, increased the maximum loan size and removed restrictions on the size of businesses eligible for the program. The overall lending rates, as of May 2023, are approximately 20.5 percent. The program sets out general eligibility criteria, and banks are required to conduct their own risk assessment on loan applications. Some banks have simplified their processes to expedite the processing of small loans under the program.

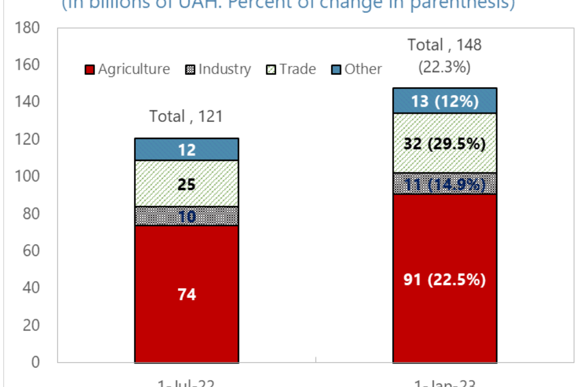
Statistics: The program has grown from 5 percent of net hryvnia corporate lending in 2020, to 26 percent by at end-2022, and accounts for most of the new lending since the start of the war. Outstanding loans issued under the program reached UAH 110 billion (2.1 percent of 2022 GDP) at end-May 2023; banks have received approval to issue up to UAH 201 billion in notional loans under the scheme. The average loan amount is UAH 4 million (USD $109,000). As of end-May, most loans have been granted to agricultural producers (54 percent) followed by trade (23 percent) and industry (14 percent). Some 45 of the 65 banks operating in Ukraine participate in the program, with international banks issuing the largest volume by loan amounts (40 percent of the total) and state-owned banks issuing the largest number of loans (53 percent). The program's NPL ratio was under 1 percent during 2020–21 but has risen to 9 percent in April 2023. Around 40 percent of loan applications have been rejected by participating banks since the start of the program, on the grounds of weak business models, solvency risk, reputational risk or insufficient reporting.

Volume and Debtors 5-7-9 Program by Interes Rate
(Volume in billions of UAH, Debtors in thousands -RHS-)



Source: Business Development Fund
1/ Only Interest Rates with more than 500 debtors are shown.

Dynamic of the 5-7-9 Loans by Sector
(In billions of UAH. Percent of change in parenthesis)



Source: Business Development Fund, NBU estimates.

Box 3. "Affordable Loans 5-7-9' State Support Programs: Role and Emerging Risks (concluded)

Government portfolio guarantees: The 5-7-9 program is also complemented by a 2020 credit-enhancement initiative whereby the State partially guarantees loans issued by selected banks following an application process. These guarantees get called in the event of borrower default. The amounts guaranteed per bank is determined based on its loan portfolio for micro-, small- and medium-sized enterprises. The total amount of guarantees issued since 2020 is UAH 73.81 billion (1.4 percent of 2022 GDP).

As the 5-7-9 program is financed by the BDF, any amendments to its scope could have a direct effect on the budget, creating fiscal risks. Risks to the public balance sheet reflect: (i) the fact that there is no limit on the state support that can be provided to businesses during Martial Law; (ii) there are no limits on the amounts banks can lend under the program; should individual banks take on excessive risks, public resources could be drawn upon under adverse circumstances; and (iii) in cases of default on these loans, state guarantees suffer loss first, followed by privately pledged collateral. Payments to banks under the scheme has been slow, which has restricted some banks from further participation in the program.

38. The MOF is taking steps to enhance transparency in the management and spending of budgetary funds and special accounts:

- ***On special accounts.*** Following the adoption of amendments to Budget Code (***Structural Benchmark*, end-April 2023**), the MOF gained control over the commitment and appropriations executed by key spending units from these special accounts. The amendments also help enhance the transparency and accountability of the special accounts and consolidate them within the general government as special funds of the state budget. As a next step, MoF will work to operationalize the adopted legal framework by introducing Treasury reporting for the usage of funds from these accounts (June 2023). Moreover, by end-July 2023, directives will be issued to include these special accounts in budget documentation and fiscal reports and publish aggregated data on these special accounts (MEFP ¶26).

- ***Fund for the Liquidation of the Consequences of the Armed Aggression.*** Given that this Fund follows all legal and regulatory provisions of budgetary programs financed through special funds, the authorities have committed to an additional layer of transparency by complementing the existing reporting with a regular consolidated report that summarizes its sources of financing and expenditure (according to their economic classification). The authorities have appropriately committed to refrain from using NBU profit for earmarked spending in 2024 (MEFP ¶26).

Strengthening Public Investment Management (PIM)

39. Strengthening public investment management ahead of post-war reconstruction is a priority (MEFP ¶27)**.** 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 on track with preparation to reforms in sequenced steps. With support from the World Bank, the authorities are reviewing current PIM procedures and preparing to 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.

D. Monetary and Exchange Rate Policies

40. The NBU has appropriately signaled a shift toward an easing monetary policy cycle, given sustained favorable inflation outturns. In the April MPC, in view of the continued disinflation and stability in the FX market, the NBU signaled an earlier easing in the key policy rate (KPR) than previously communicated (Q4 2023 vs. Q2 2024). With ex ante real rates now comfortably positive, and in view of the sustained decline in inflation and FX market stability, the NBU could consider the scope for an earlier reduction in the KPR while still maintaining positive real rates to support an overall tight monetary stance.

41. Efforts to strengthen monetary transmission, which continues to be impaired by high liquidity, should continue. Highly liquid conditions are expected to continue due to robust hryvnia deposit growth driven by large fiscal financing, deposit restrictions and limited lending, weakening transmission of the KPR economywide. Of particular note is the small share (34 percent of hryvnia deposits at end-April) and low rate of return on hryvnia term deposits despite the June 2022 KPR rate hike, presenting a risk to the FX market should risk premia rise. The NBU has undertaken several measures to address these challenges:

- *Reserve requirements*. The NBU has raised reserve requirements by a cumulative 20 pp since end-January, although the net effect on liquidity is diluted by using government bonds to meet up to half of obligatory reserves. The scope for further increases in the reserve requirements should consider the source and timing of the expected liquidity growth, the response of different banks to changes in requirements, as well as the need to minimize excessive changes to the instrument design that complicate its use and can undermine the planned strategy (roadmap) to normalize the monetary and exchange rate policy framework (see below).

- *Operational framework*. In early April, the operational design of the monetary policy framework was adjusted by (i) introducing 3-month CDs at the KPR, access to which was conditional on volume growth in hryvnia term deposits and (ii) reducing the rate offered on NBU overnight CDs from 23 to 20 percent, reflecting a de facto easing in monetary conditions. As of end-May, this design change has led to a small increase in hryvnia term deposits (UAH 17 billion, or about 9 percent relative to end-March), with the weighted average rate on such new accounts rising by 0.7 pp since end-March and real rates remaining broadly neutral (supported mainly by lower inflation). Most of the increase in term deposit volumes has been driven by private banks, as more liquid state-owned banks have weaker incentives to compete on rates. It is important for the NBU to monitor and recalibrate this change to the operational design to ensure its effectiveness. Looking ahead, it will be important to normalize the operational framework as conditions permit to help re-operationalize the KPR (such as replacing the overnight CDs by a 1- or 2-week operation conducted at the KPR as the main vehicle for liquidity absorption) and strengthen its effectiveness, including in preparation for the transition to a more flexible exchange rate and return to inflation targeting.

42. **The NBU has made good progress on developing a conditions-based strategy to normalize the monetary and exchange rate policy framework (*Structural Benchmark,* end-June 2023).** The NBU is working on a strategy comprising three elements—easing FX controls, moving toward a more flexible exchange rate, and transitioning back to an inflation targeting regime. The strategy—being developed in close consultation with the IMF—will set out the principles and prerequisites under which progress along these three elements would be conditioned, as well as plans for the normalization of war-related measures and contingencies. IMF TA on operationalization and communication of the strategy will support the technical preparations needed to implement the strategy when conditions permit (MEFP ¶37).

43. **The exchange rate peg continues to serve as a critical nominal anchor for the economy.** The spread between the official and cash rates declined sharply and has stabilized in recent months, supported by large official financing inflows as well as seasonal factors. Looking forward, it will be important to carefully monitor developments in the FX market, including in view of the evolution of budget spending in the second half of the year and risks to the outlook (e.g., the grain corridor, the security situation) which could weigh on these positive trends. On balance, the peg currently continues to play a crucial role in supporting macroeconomic stability. Whereas an eventual transition to a more flexible exchange rate would be warranted when conditions permit, there are no significant misalignments in the exchange rate at present.

44. **The NBU intends to selectively ease FX controls to support economic activity.** In view of positive developments in the FX market and to ease pressures on the cash rate, the NBU plans to selectively ease FX controls that are weighing on economic activity. It will be important to carefully assess such adjustments on a case-by-case basis, ensuring that the net impact of such measures is fully consistent with program parameters.

45. **The NBU has appropriately refined the relaxation of restrictions on nonresident repatriation of government bond coupons to limit FX outflows.** In early April, the NBU allowed nonresidents to repatriate abroad coupons on domestic government bonds, while extending the restriction on the repatriation of principal payments. Since the relaxation measure went into effect, the NBU observed a conversion of longer-maturity (2-year) bonds to short-term (1–3 month) bonds on the secondary market, allowing foreign investors to repatriate funds more quickly. This could have led to increased FX outflows relative to the earlier estimate of US$120 million for 2023. Consequently, the NBU tightened conditions on the repatriation of coupons in mid-May, requiring

foreign investors to have a minimum continuous holding period of 90 days before the coupon payment is made. The NBU has adopted an amendment to Resolution 18 in this regard and has notified the Executive Board of this change under Decision 144.[3]

46. To safeguard the financial autonomy of the NBU, and in line with the 2023 Safeguards Assessment, the MoF and NBU are adapting and clarifying internal arrangements for servicing payments to the IMF. While the assessment found broadly strong safeguards in place, monetary financing of the government needs to be based on a more robust framework (¶29). Also, the NBU services Ukraine's payments to the IMF on behalf of the MoF, but there have been payment lags due to largely administrative issues, resulting in short-term de facto monetary financing. The authorities are undertaking efforts to streamline administrative processes, including through digitalization, to eliminate these internal payment lags., The NBU and MoF will introduce a Memorandum of Understanding (MEFP ¶45) describing their respective responsibilities and to ensure their timely fulfilment, and covering all existing and future Fund arrangements, strengthening the current arrangement of initiating individual legal arrangements for each IMF payment tranche.

E. Financial Sector

47. The NBU is finalizing the next iteration of its financial sector strategy (MEFP ¶48). The Financial Stability Council (FSC) approved its outline on May 4, with final approval scheduled for late June and publication of the parts that do not contain market sensitive information in July. The strategy is a living document, subject to annual review, while the more detailed roadmap will be reviewed every six months. The membership of the Financial Development Working Group, which reports to the FSC, was amended to ensure that the Group can deliver on its mandate to develop, implement, and update the strategy.

48. The NBU launched a resilience assessment of banks in wartime in April and is preparing for a subsequent independent asset quality review (AQR) (MEFP ¶49). The resilience assessment involves an asset valuation and a forward-looking assessment of vulnerabilities. It will cover the 20 largest banks that account for more than 90 percent of the banking system's assets. The results of the assessment will be published in March 2024. In preparation for potential outcomes, the bank rehabilitation framework is being updated **(Structural Benchmark, end-March 2024)** to strengthen financial and operational safety nets and minimize risks to the state (MEFP ¶50). In parallel and in consultation with IFIs, the NBU has further detailed the methodology to be applied in a subsequent independent AQR, which will commence when conditions allow.

49. Financial oversight functions at the NBU are being reformed (MEFP ¶52). Two new functions were created in April alongside organizational restructuring within supervision teams in

[3] Decision No. 144-(52/51), adopted August 14, 1952, provides that restrictions notified to the Fund pursuant to that decision are approved for purposes of Article VIII, Section 2(a), unless the Fund informs the member within 30 days after receiving the notice that it is not satisfied that such restrictions are imposed solely to preserve national or international security. As a measure which has been notified to the Fund under Decision No. 144 on May 19, 2023, the modification of Resolution No. 18 will be approved under the terms of Decision No. 144. Accordingly, there is no non-observance of the standard continuous PC on the intensification of exchange restrictions.

preparation for transitioning to a risk-based supervisory approach. The Department of Integrated Banking Supervision will focus on oversight of banks and payment service providers, and a new Director has been appointed. The Bank Related Parties Monitoring division will focus on related-party issues, including identification of banks' related parties, preparing proposals for banking oversight committees (Banking Regulation, Supervision, and Payment Systems respectively), and controlling related party transactions. Further reforms are planned, including to strengthen the Supervisory Committee decision-making by implementing supervisory challenge panels to inform and promote consistency in the Committee decisions, resuming scheduled onsite inspections, which were suspended under martial law, following legal changes to that end (**Structural Benchmark, end-September 2023**), and implementing a risk assessment model to optimize allocation of supervisory resources (**Structural Benchmark, end-June 2024**). The latter will first be applied to banks and subsequently to non-banks to ensure optimal use of limited resources.

50. Contingency plans to respond to high-impact events continue to evolve. Risks such as cyberattacks, sanctions, adverse court rulings and rapid deterioration of asset values have the potential to undermine financial stability. The NBU and Deposit Guarantee Fund (DGF) continue to assess and revise these contingency plans using a risk-based approach to be ready to respond. The Financial Stability Council has approved those plans related to preparation for potential adverse rulings from the constitutional challenges against the DGF Law and the Bank Resolution Law, and an updated contingency plan to prepare for litigation risks concerning past bank resolution decisions.

51. Non-bank financial institutions (NBFIs) reform agenda (MEFP ¶53).

- Amendments to the National Securities and Stock Market Commission (NSSMC) law (draft #5865), which was originally envisaged by end-May, are still being discussed in Parliament, with adoption expected over the summer.

- The Credit Unions law (#5125) is to be finalized by end-June, which aims at enhancing the safety and soundness of credit unions (0.05 percent of system assets), while paving the way for the introduction of deposit insurance once the sector has been cleaned up from NPLs.

52. Bank intervention powers under Martial Law have been strengthened. A law (#3111-X) was adopted in late May that facilitates the resolution of sanctioned and failing systemically important banks under martial law. The authorities are preparing detailed operational plans to utilize these restored powers. Decisions and processes to intervene systemically important bank should continue to be firmly grounded on financial stability considerations.

53. Governance of State-owned banks (SOBs). The authorities have appointed a fresh slate of independent supervisory board members to the SOBs in the first half of 2023 that involved the NBU applying its fit and proper assessment framework to the selected candidates. The selection process was reviewed and enhanced following the completion of this second three-year recruitment cycle in consultation with IFI stakeholders. The authorities have committed to implementing the annual business planning and performance assessment procedures for SOBs that were developed before the war. The 2020 general strategy for SOBs will be reviewed and updated to consider wartime needs and preserve financial stability in cases where additional banks come under State control. The amendments will focus on preserving financial stability, bank value, ringfencing potential losses, sound operational management, assessing viability and identifying the future of newly nationalized banks. To the extent possible, decisions will be consistent with the overall strategy to reduce state ownership in the banking sector. Following completion of the independent AQR, the roadmap for the privatization of each SOB will be updated.

F. Governance and Growth-Enhancing Policies

Promoting Medium and Long-term Growth

54. Robust post-war growth and a comprehensive reform agenda are needed to swiftly recover the population's standard of living and pave the path to EU accession. Rebuilding human capital will be crucial as well as attracting unprecedented levels of investment (especially foreign private sources beyond continued donor support). In this regard, entrenching the rule of law, independent and strong anti-corruption institutions, as well as a level playing field for businesses will be critical to attract such durable investment for reconstruction and encourage the return of migrants. Staff welcomes some recent positive developments on the anti-corruption front (see ¶11) and also the accelerating inward migration since early 2023. At the same time, it will be crucial to continue the efforts to integrate with the EU single market, including on energy and procurement, and steadfastly implement the requirements on the path to EU accession. The EFF will support the authorities in these critical reform endeavors.

55. Overall, it will be important for the authorities to follow an integrated strategy for critical spending for the recovery and reconstruction (MEFP ¶56). They are strongly committed to implementing an integrated strategy to include such reconstruction and recovery spending in the program design, while taking into account debt sustainability concerns, including assessing the availability of the appropriate financing mix (i.e., grants and concessional financing), absorption capacity, and the treatment of public guarantees. Importantly, post-war reconstruction should meet the highest standards of transparency and accountability, with support from anti-corruption institutions, international partners, and civil society organizations.

Anti-corruption and Rule of Law

56. The authorities are making progress with critical governance reforms under the program, and discussions focused on steps to strengthen institutions and systems against high-level corruption. These efforts are important for fostering public trust, strengthening donor and private investor confidence, and advancing toward EU accession:

- ***Asset declarations (****M*EFP ¶60). Over 60 percent of public officials have continued to submit asset declarations even after Martial Law suspended this obligation of public officials. Targeted restoration of such obligation, especially for high risk and senior public officials who have yet to submit asset declarations (**Structural Benchmark, end-July**) will promote transparency and deter accumulation of unexplained assets (MEFP ¶60). Enhancements of the asset declaration system during Martial Law (**Structural Benchmark, end-October**) should preserve its overall effectiveness and not derogate from the obligation for truthful and complete disclosures (including assets beneficially owned by the public officials and their family members).

- Capacities of anti-corruption institutions to investigate high-level corruption will be strengthened by adoption of laws to improve institutional autonomy of the SAPO (**Structural Benchmark, end-December**) and to ensure access by the NABU to independent and competent forensic experts (MEFP ¶61).

- Implementation of **AML/CFT** controls over politically exposed persons (PEPs) by financial institutions will help monitor financial flows and identify any suspicious transactions (including cross-border ones). Amendments to the law on PEP requirements to align with the FATF standards (**Structural Benchmark, end-September**) and NBU's guidance/regulation and supervisory activities will be significant milestones, including for EU accession requirements. In particular, the NBU will amend its regulations to clarify implementation of the risk-based approach regarding PEPs and will conduct a thematic inspection of the financial institutions' compliance system and practice with enhanced customer due diligence on PEPs. The authorities continue discussions on mechanisms to verify the accuracy of beneficial ownership information in the registry given existing capacity constraints (MEFP ¶62).

57. Ongoing judicial reforms will enhance the rule of law culture in the country and mitigate judicial corruption risks (MEFP ¶63). The corruption investigation and arrest of a top judicial official underscore the criticality of reforms in judicial selection and discipline, and also highlights the anti-corruption institutions' investigative capacities against systemic corruption. Procedures for vetting judges (including for Constitutional Court judges) are key to ensuring that those that are appointed have integrity, competence, and independence. Robust disciplinary and accountability processes (including corruption investigations by NABU and SAPO) will hold liable judges who engage in unethical or criminal conduct. The post-Martial Law Governance Diagnostic committed by the authorities is a good opportunity to assess the corruption vulnerabilities in the judiciary and layout future institutional reforms (MEFP ¶64).

Energy Sector Reforms

58. While firm steps have been taken to maintain energy security, the launch of reforms to tackle longer term structural challenges will necessarily take more time.

- Critical energy infrastructure has been swiftly repaired following frequent attacks; the country resumed electricity exports to neighboring countries in April and is making steady progress in refilling the gas storage ahead of the next heating season. There is an upside risk that much less than 2 billion cubic of gas imports under the baseline (same assumption as under the EFF request) would be needed, which is supported by Naftogaz's plans to increase gas production this year. However, a ban on exports of domestic gas remains in place. The near-term priority for the sector is to contain the adverse impact of the war, with a menu of options including securing external financing (as Naftogaz has done), tariff increases to boost cost recovery, and transparent and exceptional direct budget support subject to available financing. The government is committed to tackle the structural challenges in the energy sector, including ensuring the sustainability of the system and reducing quasi-fiscal liabilities.

- The government decided to increase household electricity prices as of June 1 (from UAH 1.44/kWh to UAH 2.64/kWh), the first time since 2017, with the aim to restore the energy system's stability ahead of the next heating season. In the past, the government had postponed increasing electricity tariffs for households given the adverse impact on the population, especially during the war. Moreover, Ukrenergo's wholesale transmission tariffs have been increased in stages in 2023, enhancing cost recovery to some extent, including with the repair of damaged energy infrastructure. The key large SOEs are operating within this very challenging environment, with the gas transmission operator of Ukraine (GTSO), for instance, reducing operational costs, including investment, and updating its corporate strategy.

59. The authorities continue to advance corporate governance reforms in the energy sector. They are on track to transfer the shareholding of the GTSO to the Ministry of Energy by end-July 2023 (**Structural benchmark**), and also to adopt a new GTSO charter in agreement with the Energy Community (MEFP ¶67). The CMU approved the relevant draft law on May 19, with Parliament adoption due by end-July. After the adoption of the draft law and the charter, it will be critical to institute a competitive, transparent, and merit-based nomination procedure for the new GTSO supervisory board so that the new board can be selected and appointed by end-October 2023 (**proposed new Structural Benchmark**). This would ensure that the supervisory board of the holding company MGU, which will temporarily assume the supervisory board functions of the GTSO after the transfer of the GTSO shareholding, will be replaced by the new GTSO board in a timely manner (by end-October 2023) and thus avoiding a situation inconsistent with the fundamental objective of the corporate governance reform.

PROGRAM MODALITIES AND FINANCING ASSURANCES

A. Program Issues

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

- **Quantitative targets:** Reflecting the better-than-expected end-April 2023 outturn while recognizing that forecast confidence is subject to exceptionally high uncertainty, the authorities are requesting modification of the NIR QPC, increasing the targets for end-June and end-December 2023 by US$1 billion to US$16.5 billion. The authorities are also requesting a modification to fiscal QPC (non-defense cash primary balance excluding grants) to reflect: (i) a change in the definition that establishes the perimeter of defense spending (see below); and

(ii) the trajectory of expenditures within the year, while the end-2023 target remains unchanged. A further revision converts the continuous performance criterion on the issuance of state guarantees into a periodic QPC with effect from end-June. This revision aligns program design with the reinstatement of the relevant articles of the Budget Code that reestablish control over state guarantees and would facilitate external official financing for critical infrastructure projects.

- **Definitions:** A revision is proposed to the definition of the non-defense cash primary balance QPC that establishes the perimeter of defense spending as that of the state budget general fund. Defense spending via the state budget special fund would therefore be excluded, as it includes in-kind and monetary support that is hard to forecast and not within the MOF's immediate control.

- **Structural Benchmarks:** Four new structural benchmarks are being proposed that aim to buttress near-term macroeconomic and financial stability and underpin reform momentum. These include measures for (i) reinstating the articles of the Budget Code to support preparation of the 2024 budget, notably those allowing preparation of a medium-term budget framework, elaboration of a debt strategy, and ringfencing risks from state guarantees *(end-September 2023)*; (ii) preparing a concept note with proposals for containing potential fiscal risks related to the 5-7-9 affordable loan program *(end-September 2023)*; (iii) the tax and customs administrations to develop comprehensive short- and medium-term action plans for inclusion in the overall NRS *(end-October 2023)*; and (iv) reinvigorating needed and critical corporate governance reform at the GTSO through the selection and appointment of a supervisory board *(end-October 2023)*.

B. Debt Sustainability, Financing Assurances and Capacity to Repay the Fund

61. Ukraine's public debt continues to be assessed as sustainable on a forward-looking basis. This assessment is conditional on the implementation of a debt restructuring and on receiving sufficiently concessional financing during and after the program period. Given the impact of the war, Ukraine's public debt is expected to rise further, peaking at 100.7 percent of GDP in 2025 under the baseline and 135.8 percent of GDP in 2027 under the downside. Moreover, gross financing needs would remain very high in both scenarios. Updated Sovereign Risk and Debt Sustainability Analyses of both the baseline and downside scenarios find that without substantial policy commitments, debt treatment, and financing assurances, public debt would be unsustainable (Annexes III and IV). The debt sustainability targets defined at the EFF approval stage remain valid, with illustrative modeling indicating that keeping gross financing needs between 8-9 percent of GDP in the post program period (i.e., 2028–2033) and reducing debt to 60–65 percent of GDP by 2033 would be consistent with sustainable debt. In the downside scenario, delivering these targets would require a deeper debt treatment and higher program-period grants (consistent with the assurances received). Nevertheless, further exceptional financing over 2028–2033 would still be needed in this scenario to attain the targets. The debt sustainability analysis and the amount of debt relief required to achieve debt sustainability will be updated in subsequent program reviews and remains subject to revision.

62. The authorities' strategy and efforts on restructuring private and official bilateral claims support this assessment of forward-looking debt sustainability. This process will include debt treatments on both official bilateral and external commercial debt:

- *Official bilateral debt*: As announced by the Group of Creditors for Ukraine on March 24, 2023, a debt service standstill is in effect during the period of the EFF (2023–27) along with a commitment to a final debt treatment before the final review of the program. They have committed to the level of relief necessary in the baseline and to provide additional relief as needed to restore sustainability if the downside scenario emerges.

- *External commercial debt*: Staff judges that a credible process to restructure these claims is underway. Building off their March 24, 2023 announcement regarding debt restructuring, the authorities, with support from their advisors, are taking early steps to advance their strategy to implement a debt operation consistent with the parameters of the IMF's debt sustainability analysis and embedding comparability of treatment with other creditors. To this end, they have continued discussions with bondholders, consistent with the DSA. They aim to finalize the debt operation at the latest by mid-2024.

63. Ukraine's BoP needs are broadly unchanged, and firm financing assurances are in place for the next 12-month period. Financing gaps during the program period under the baseline and downside scenarios are US$114.2 billion and US$139.5 billion, respectively, so almost unchanged relative to the gaps identified in March 2023 (US$115 billion and US$140 billion, respectively). Donor and creditor financing have been broadly consistent with expectations through May 2023. Firm commitments have been provided for the next 12-month period (i.e., July 2023 through June 2024). Staff have also reconfirmed good prospects on financing for the remaining program period consistent with restoring debt sustainability on a forward-looking basis under both the baseline and downside scenarios.

Table 1. Ukraine: Financing Gap and Sources (Baseline Scenario), 2023–27

(In US$ billions)

		2023	2024	2025	2026	2027	Cumulative (prog. period) 1/	Annual avg. (2023-27) 1/
	A. Financing gap	42.2	38.5	23.6	14.4	4.8	114.2	24.7
	Underlying BOP Gap 2/	40.2	35.7	20.7	11.1	-1.6	100.1	21.2
	GIR accumulation (+ = increase)	2.0	2.7	2.9	3.2	6.4	14.1	3.4
	B. Official financing (excl. IMF) 3/	37.7	28.5	18.5	8.2	0.0	83.8	18.6
	C. IMF (prospective)	4.5	5.4	1.8	2.6	1.3	15.6	3.1
	D. Potential flow relief from debt operations		4.6	3.2	3.6	3.5		
E=A-B-C-D	E. Residual financing gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	Memorandum items:							
	Capital market access	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	IMF (net disbursements)	1.9	3.0	-0.5	0.6	0.1	3.2	1.0
	Gross international reserves	30.5	33.2	36.1	39.4	45.7		37.0
	% of composite metric 4/	82.3	78.3	80.0	81.4	91.2		

1/ Cumulative program period calculations begin from Q2 2023, while the annual average is calculated on a calendar year basis.

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

3/ Based on available information as of June 1, 2023. Staff assessments consistent with technical discussions with creditors and donors and their track record and terms of financing.

4/ Based on floating exchange rate regime.

Table 2. Ukraine: Financing Gap and Sources (Downside Scenario), 2023–2033

(In US$ billions)

		2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	Cumulative (prog. period) 1/	Annual avg. (2023-27) 1/	Annual avg. (2028-33) 1/
	A. Financing gap	46.7	45.0	28.5	18.4	10.1	16.1	13.5	12.9	10.4	10.0	9.5	139.5	29.7	12.1
	Underlying BOP Gap 2/	44.7	42.2	25.6	15.1	3.7	13.6	10.6	9.8	8.7	8.5	6.7	125.4	26.3	9.6
	GIR accumulation (+ = increase)	2.0	2.7	2.9	3.2	6.4	2.5	3.0	3.1	1.7	1.6	2.9	14.1	3.4	2.5
	B. Official financing (excl. IMF) 3/ 4/	42.2	35.0	23.5	12.2	4.9	0.0	0.0	0.0	0.0	0.0	0.0	108.6	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	15.6	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	15.3	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 5/						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	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	0.0	1.5
	IMF (net disbursements)	1.9	3.0	-0.5	0.6	0.1	-1.03	-1.7	-2.1	-2.5	-2.6	-2.3	3.2	1.0	-2.1
	Gross international reserves	30.5	33.2	36.1	39.4	45.7	48.3	51.2	54.3	56.0	57.6	60.5		37.0	54.7
	% of composite metric 6/	84.9	80.8	82.5	84.2	94.6	97.3	99.7	104.4	105.2	107.2	110.5			

1/ Cumulative program period calculations begin from Q2 2023, while the annual averagea are calculated on a calendar year basis.

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

3/ Based on available information as of June 1, 2023. Staff assessments consistent with technical discussions with creditors and donors and their track record and terms of financing.

4/ Includes exceptional support from donors (approximately 80 percent in concessional loans, 20 percent in grants) under financing assurances required to restore debt sustainability.

5/ 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).

6/ Based on floating exchange rate regime.

Ukraine: 12-Month Ahead Financing Gap and Sources (Baseline Scenario)
(In US$ billions)

		23Q2 thru 24Q1	23Q3 thru 24Q2
	A. Financing gap	38.2	33.3
	Underlying BOP Gap 1/	40.8	35.2
	Gross international reserves accumulation (+ = increase)	-2.6	-1.9
	B. Official financing (excl. IMF) 2/	32.8	29.2
	Multilateral	22.7	24.7
	Loans	22.7	24.7
	EU MFA	14.5	9.6
	World Bank	6.0	5.6
	Japan credit enhancement	5.0	5.0
	UK guarantees	0.5	0.5
	World Bank lending	0.5	0.1
	Other	2.2	9.5
	Grants	0.0	0.0
	Bilateral	10.0	4.5
	Loans	2.1	0.4
	Canada	1.8	0.0
	Norway	0.2	0.2
	Portugal	0.2	0.2
	Grants	7.9	4.2
	Japan	0.5	0.5
	Bilateral support via PEACE	0.0	0.0
	US	7.4	3.7
	C. IMF (prospective)	5.4	4.0
	D. Potential flow relief from debt operations	0.1	0.1
E=A-B-C-D	E. Residual gap	0.0	0.0

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

2/ Based on available information as of June 1, 2023. For disbursements already received in Q2 2023, data reflects actual USD equivalent according to National Bank of Ukraine daily reserves data. For prospective disbursements, USD equivalent is based on Spring 2023 WEO exchange rate forecasts.

64. The capacity to repay assurance provided by a significant group of creditors/donors at program approval remains valid. The assurance is required in view of the continuing exceptional high uncertainty surrounding the scale, intensity, and duration of the war, and consequently the economic outlook, which poses tail risks beyond the downside, and so the program itself cannot fully establish a safeguard on capacity to repay, as in normal UCT contexts. As such, in line with the Fund's EHU policy, at the time of the EFF request, a significant group of creditors/donors comprising countries in the G7 plus Belgium, Lithuania, the Netherlands, Poland, Slovakia, and Spain extended an assurance that management and staff understood to (i) reaffirm their recognition of the Fund's preferred creditor status in respect of the amounts currently outstanding to Ukraine, plus any purchases under the proposed extended arrangement; and (ii) further undertake to provide adequate financial support to secure Ukraine's ability to service all of its obligations to the Fund, in accordance with the Fund's preferred creditor status and complementing the IMF's multilayered risk management framework. Under the baseline scenario, the stock of total Fund credit is expected to peak at 5.3 percent of GDP and 29.9 percent of gross reserves in 2024. Debt service to the Fund would peak at 1.0 percent of GDP and 5.7 percent of gross reserves in 2024. A materialization of downside risks would increase these ratios.

65. Ukraine does not have any external arrears.

OTHER ISSUES

66. Ukraine's capacity development (CD) needs are large and commensurate with measures under the program. The demand for IMF CD in a range of policy areas—e.g., fiscal analysis and risks, tax revenue policy and administration, monetary and FX policy communications and operations, financial sector supervision and governance—reflects the program's objectives of strengthening policy frameworks and implementing comprehensive reforms, aligned with Ukraine's EU membership accession goals. The extensive, wide-ranging scope of CD needs calls for early and close coordination with the authorities and other partners, along with substantial external financing for CD delivery to be funded through the newly established Ukraine CD Subaccount.

67. The IMF's CD workplan for Ukraine will be carefully prioritized and tailored, reflecting war-related constraints and absorptive capacity. The authorities' technical capacity is broadly strong, but the war has placed pressures on staff and institutions, and imposed constraints on absorption capacity and travel. This puts a premium on well-targeted CD activities with short, focused in-person components. Furthermore, CD needs for Ukraine could be changing, with new policy priorities and areas emerging fast, so the Fund will need to be agile in responding to new requests for CD support.

STAFF APPRAISAL

68. The Ukrainian economy is staging a gradual recovery, but risks are exceedingly high and exceptionally high uncertainty persists. After a sharp contraction in 2022, economic activity has been more resilient than expected, with growth upgraded to 1–3 percent in 2023 as domestic demand recovers. Inflation is decelerating, reserves are buoyant, and the FX market has been stable. Nevertheless, developments in the war remain an enormous risk, significant external financing at concessional terms needs to flow on a timely basis, and policy slippages cannot be ruled out. These risks are mitigated by the authorities' track record of decisive policymaking, contingency plans (see Annex III), and close program monitoring to allow timely adjustment to program design as needed.

69. Program performance has been strong under the First Review. All the quantitative performance criteria for end-April 2023 were met, although indicative targets on the overall budget balance and social spending were missed due to higher overall defense spending and changes in the methodology for effecting social payments. The authorities also met all five structural benchmarks through end-May 2023 and are making progress toward structural benchmarks for end-June 2023. Estimates of program external financing gaps remain nearly unchanged, as are medium- term assumptions about growth and financing.

70. Firm policy actions are needed to achieve the fiscal targets and lay the foundations for robust medium-term fiscal performance. Creating fiscal space will require strong revenue measures, including improving tax compliance and reversing measures on the simplified tax that were introduced during martial law. Any measures that might erode tax revenues should be avoided. The authorities need to stand ready to step up domestic debt issuance as needed. The 2024 budget will need to take into account resource constraints, consistent with fiscal and debt sustainability constraints, and should be based on a conservative macroframework.

71. Critical recovery and reconstruction projects can be integrated into the program as long as additional financing is raised on terms consistent with debt sustainability. Financing with grants or highly concessional loans—over and above the financing already assumed under the program—will be necessary to finance additional projects in priority areas. The Ministry of Finance needs to play a gatekeeper role in public investment management.

72. The NBU's conditions-based strategy is an appropriate basis for moving toward normalizing the monetary and exchange rate policy frameworks. Once conditions permit, it will be important to transition from the current exchange rate peg toward a flexible exchange rate, ease emergency FX measures, and return to an inflation targeting framework. Conditional on continued evidence of sustained disinflation and stability in the FX cash market, there could be scope for earlier easing in monetary policy.

73. Financial stability risks warrant heightened vigilance. While financial stability has been skillfully preserved through comprehensive measures since the onset of war, risks remain elevated and could rapidly materialize. Further vigilance and preparations are needed to respond to the broad range of high-impact risks alongside implementation of the authorities' comprehensive reform agenda envisioned in the financial sector strategy.

74. Reforms to strengthen governance and tackle corruption need to proceed without delay and remain sustainable. Progress on this front is essential to convince foreign investors that there is a level playing field in Ukraine, and to assure donors that their resources will be well spent. These reforms are also critical for progress toward EU accession. Delivering on commitments to restore asset declarations for public officials not involved in the war effort and amending the AML/CFT law to ensure due diligence for politically exposed people are essential next steps. Adopting the legislation on SAPO in December is crucial.

75. The EFF for Ukraine continues to satisfy Fund policies governing the Fund's financing assurances for UCT-financing under exceptionally high uncertainty. The program has been designed to achieve its objectives across a range of assumptions about the large-scale war. The authorities continue to exhibit 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 under a downside scenario. The assurance provided by a significant group of Fund shareholders to the Fund about Ukraine's capacity to repay completes the necessary safeguards.

76. Staff supports the authorities' request to complete the First Review under the Extended Arrangement, as well as their request for modifications of three QPCs. The authorities' strong performance so far under the program, their commitment to maintaining appropriate policies as well as commitments from donors provide confidence that the program will meet its objectives. Staff supports the proposed modifications to the QPCs on the non-defense cash primary balance and net international reserves, as well as the conversion of the continuous QPC on guarantees into a periodic QPC.

Table 3. Ukraine: Table of Structural Benchmarks

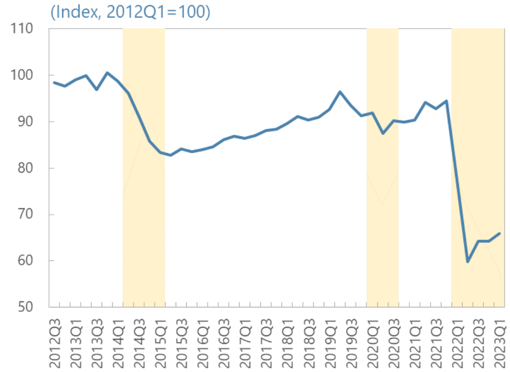
	Structural Benchmark	Sector	Timing	Status
1	Enact the second supplementary Budget 2023	Fiscal	End-April 2023	**Met**
2	Submit to Parliament a draft law to restore and strengthen Article 52 of the Budget Code to minimize ad hoc amendments to the budget law	Fiscal	End-May 2023	**Met**
3	Prepare an action plan, including to address the weaknesses identified in taxpayers' perception survey, as an input into National Revenue Strategy roadmap	Fiscal	End-May 2023	**Met**
4	Submit to Parliament a draft law which will reinstate articles of Budget Code that establish limits on issuance of public guarantee with clear criteria for such provision (including for priority sectors)	Fiscal	End-May 2023	**Met**
5	Enact amendments to the Budget Code and related regulatory framework to enhance transparency and accountability of the special accounts and consolidate them within general government as a special fund of the State Budget	Fiscal	End-May 2023	**Met**
6	Adopt the draft law on tax policy and administration prepared under the PMB	Fiscal	End-July 2023	Reset
7	Prepare a conditions-based strategy to move to a more flexible exchange rate, ease FX controls and transition to inflation targeting	Monetary and Exchange Rate	End-June 2023	
8	Transfer the GTSO shareholding directly to the Ministry of Energy and adopt the new charter	Energy/ Corporate Governance	End-July 2023	
9	Enact the law to restore asset declaration of public officials not directly involved in the mobilization and war efforts and reinstating the NACP's function to examine and verify them	Governance/ Anti-Corruption	End-July 2023	
10	**Enact the articles of the Budget Code that allow preparation of the medium-term budget framework, elaboration of the debt strategy, and ringfencing risks from guarantees.**	**Fiscal**	**End-September 2023**	
11	Present in the 2024 budget declaration projections for major revenue and spending categories and sources of deficit financing for 2025-2026, and a fiscal risks statement including details on energy and critical infrastructure SOEs	Fiscal	End-September 2023	
12	Update and publish the Medium-Term Debt Management Strategy to align it with the program objectives	Fiscal	End-October 2023	Reset

	Table 3. Ukraine: Table of Structural Benchmarks (concluded)			
	Structural Benchmark	**Sector**	**Timing**	**Status**
13	**Develop a concept note on the 5-7-9 program with proposals to target small and medium enterprises by phasing out the eligibility of large companies, enhance monitoring, and maintain adequate safeguards.**	**Fiscal**	**End-September 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	Governance/ Anti-Corruption	End-September 2023	
15	Strengthen bank governance and oversight by: (i) separating the related-parties-unit from banking supervision; (ii) implementing “supervisory panels” as a consulting body to the Supervisory Committee; and (iii) resume scheduled inspections for both banking and non-banking institutions, while ensuring NBU discretion on matters related to staff safety	Financial Sector	End-September 2023	
16	**MoF, with STS and SCS, to prepare an action plan, including short-term and medium-term measures covering key reform areas identified by the upcoming diagnostic, that would feed into broader NRS.**	**Fiscal**	**End-October 2023**	
17	Simplify the asset declaration system through linking with other databases and registers consistent with the public officials’ legal obligations to make truthful and timely submissions	Governance/ Anti-Corruption	End-October 2023	
18	**Select and appoint a supervisory board for the GTSO**	**Energy/ Corporate Governance**	**End-October 2023**	
19	Review the current PIM procedures and develop a roadmap of measures so that: (i) all public investment projects follow unified PIM approaches, including PPPs; (ii) investment projects are selected on a competitive basis, with transparent selection criteria, and consistent with the medium-term budget framework; (iii) stronger powers are provided to MoF, including a clear gatekeeping role during the different stages of the investment project cycle	Fiscal	End-December 2023	
20	Adopt National Revenue Strategy by the end of 2023	Fiscal	End-December 2023	
21	Adopt legislation to enhance the institutional autonomy of the SAPO, specifically, on the selection procedures, capacity to regulate organizational activities, and mechanisms for discipline and accountability	Governance/ Anti-Corruption	End-December 2023	
22	Prepare a bank rehabilitation framework in consultation with the DGF and IMF staff	Financial Sector	End-March 2024	
23	Implement a supervisory risk assessment methodology to inform supervisory engagement priorities	Financial Sector	End-June 2024	

Figure 1. Ukraine: Real Sector Developments

The war has driven the sharpest contraction in output on record with some recent stabilization…

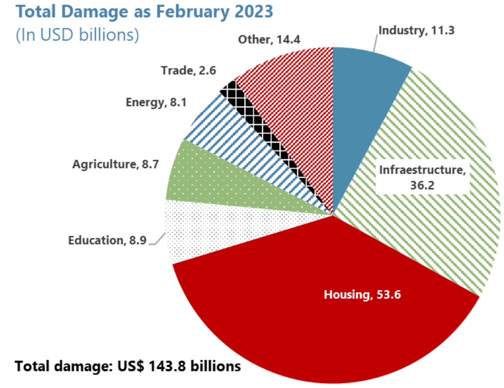
Real GDP
(Index, 2012Q1=100)



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

…as damage to physical infrastructure mounts.

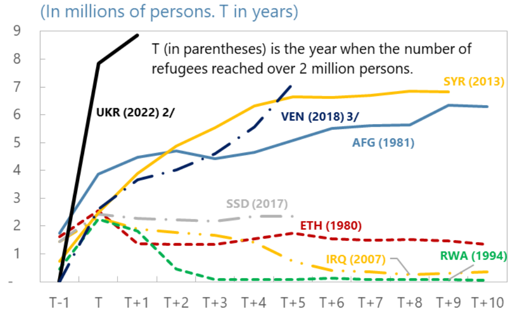
Total Damage as February 2023
(In USD billions)



Source: Kyiv School of Economics.

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

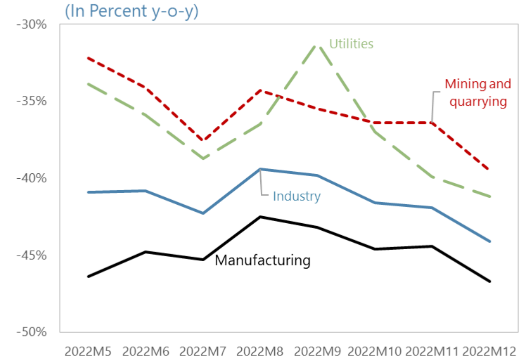
Evolution of International Refugees by Origin 1/
(In millions of persons. T in years)



1/ Only showing countries with more than 2 million refugees.
2/ Showing Ukranian refugees in Europe only. Up to May/2023.
3/ Other people in need of international protection considered refugees.
Source: UNHCR. Rav4. IMF staff estimates.

Industrial production has dropped drastically since the outbreak of the war.

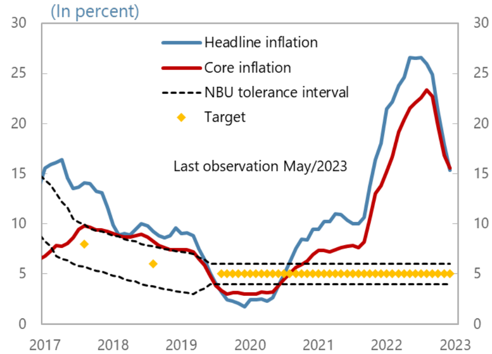
Industrial Production
(In Percent y-o-y)



Source: Statistics Committee

Inflation has started to decelerate recently

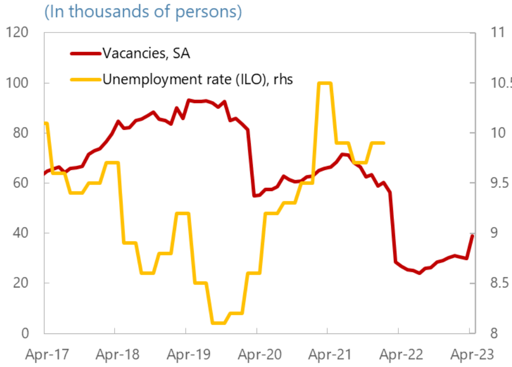
Inflation
(In percent)



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

…while dislocations in the labor market declined

Unemployment and Vacancies
(In thousands of persons)

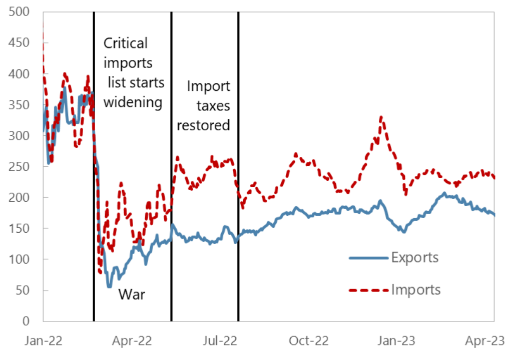


Source: Haver Analytics.

Figure 2. Ukraine: External Sector Developments

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

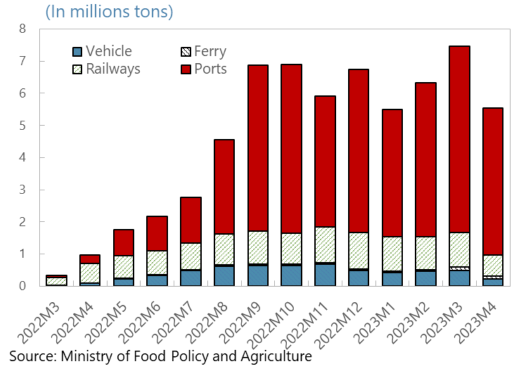
Exports and Imports
(5-day moving average, in millions of USD)



Source: NBU.

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

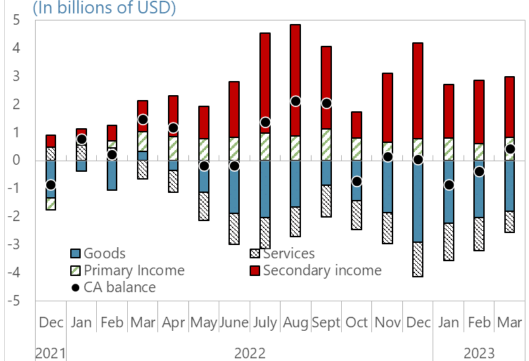
Exports of Agricultural Products, by Mode of Transportation
(In millions tons)



Source: Ministry of Food Policy and Agriculture

The widening trade balance has been offset by large transfers.

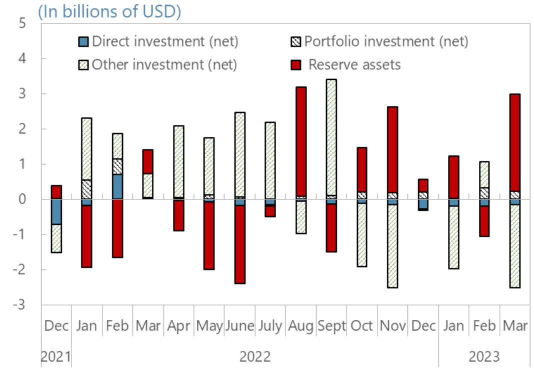
Current Account, by Component
(In billions of USD)



Source: NBU.

Amid capital controls, external financing has helped support reserves levels.

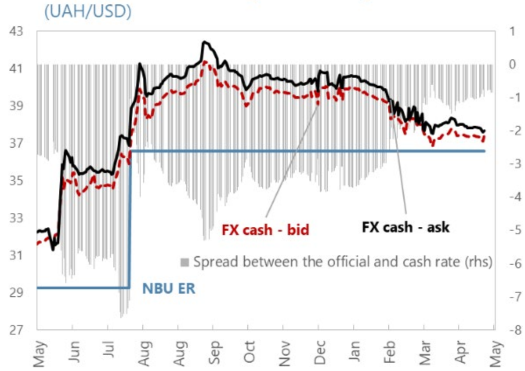
Financial Account, by Component
(In billions of USD)



Source: NBU.

External inflows and seasonal factors have helped narrow the differential of the peg with the cash rate...

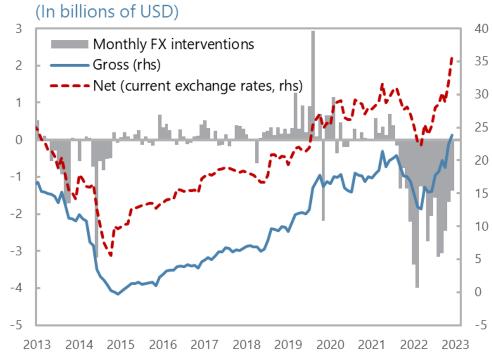
Exchange Rates from May 2022 to May 2023
(UAH/USD)



Source: NBU.

...while FX reserves have climbed to an all-time high, amid stabilizing NBU FX net sales.

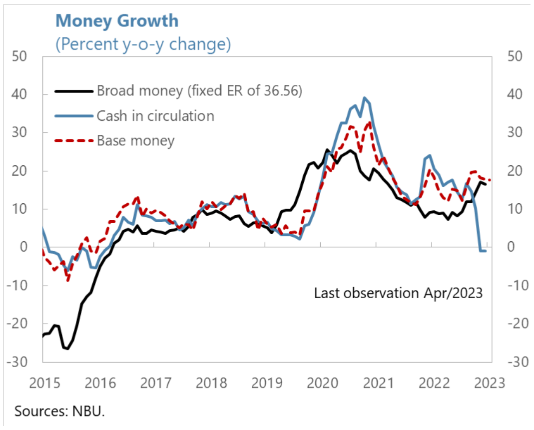
International Reserves
(In billions of USD)



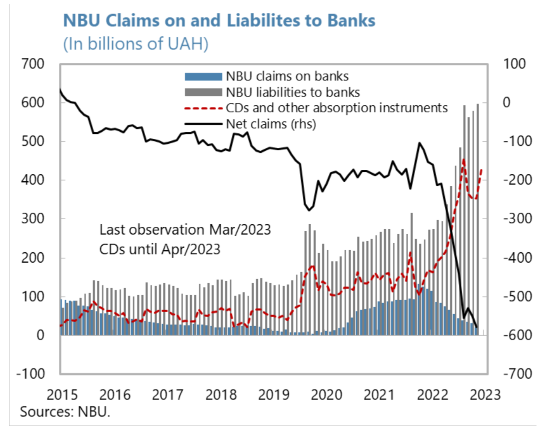
Source: NBU.

Figure 3. Ukraine: Monetary Developments

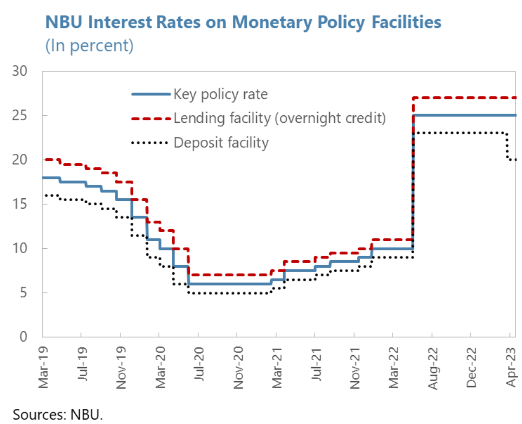
Base money growth has remained contained …



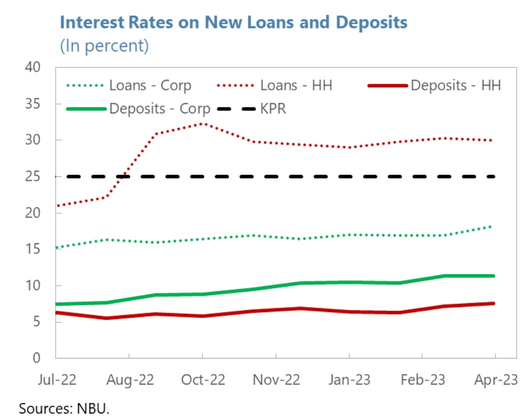
…while the stock of NBU CDs has continued to increase.



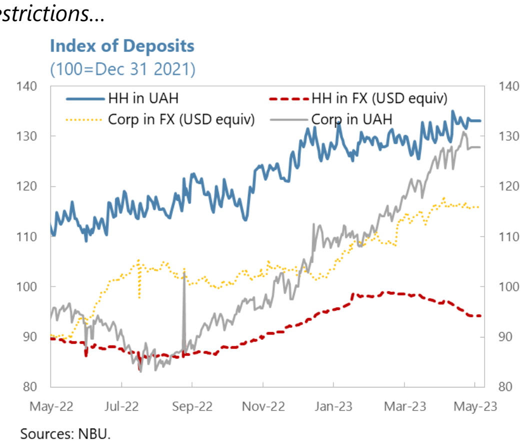
Whereas the rate hike has been transmitted to the interbank market…



…the transmission to retail rates has been more gradual.



Hryvnia deposits have been robust amid withdrawal restrictions…



…while credit growth has contracted.

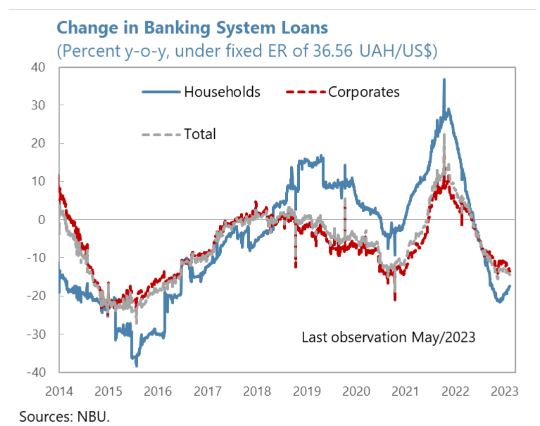
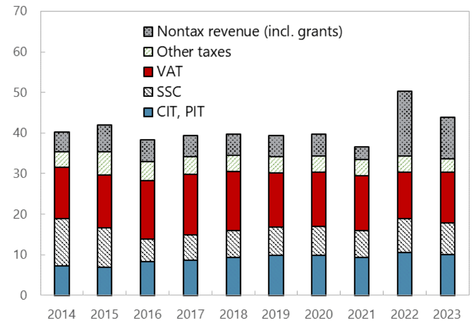


Figure 4. Ukraine: Fiscal Sector Indicators

Revenues have been lifted by grants…

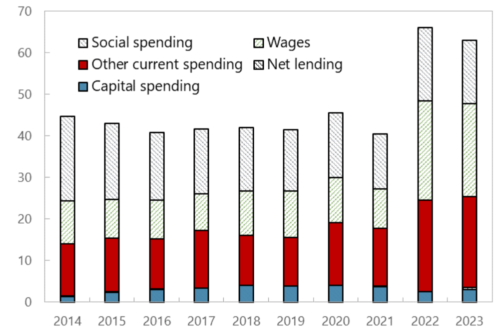
Revenue Components
(Percent of GDP)



Source: MoF, IMF staff estimates.

…as expenditures have been driven by priorities of the war, including defense and social payments

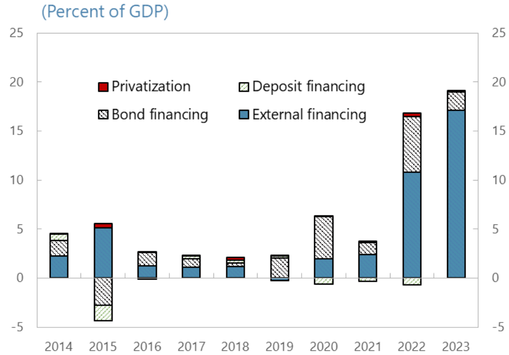
Spending
(Percent of GDP)



Source: MoF, IMF staff estimates.

The large fiscal deficit has been financed by significant external support and, in 2022, NBU financing.

Financing Composition
(Percent of GDP)



Source: MoF, IMF staff estimates.

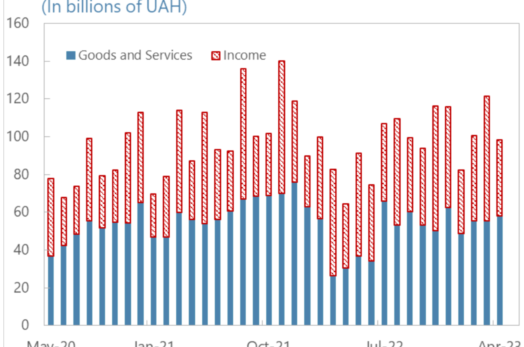
Government deposits have been volatile amid uncertainty on external disbursements and continued priority spending.

Government Deposits in NBU Treasury Single Accounts and Commercial Banks
(In billions of UAH, cumulative flows from beginning of the year)

Source: MoF, IMF staff estimates.

Tax revenues have been hit by the decline in economic activity, though the reversal of some exemptions has lifted revenues in recent months.

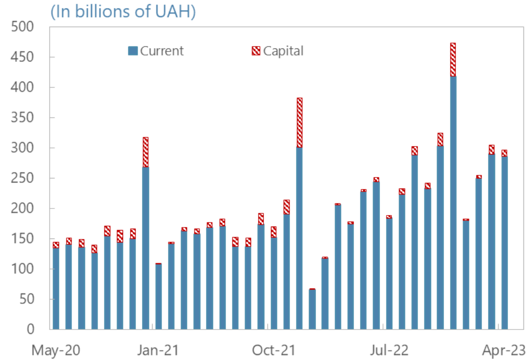
Taxes
(In billions of UAH)



Source: MoF.

Expenditures remain elevated to support the war effort, as capital expenditures focused on maintenance.

Expenditures
(In billions of UAH)



Source: MoF.

Table 4. Ukraine: Selected Economic and Social Indicators (Baseline Scenario), 2021–2033

	2021	2022		2023		2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
	Act.	EFF Approval	Act.	EFF Approval	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/	5,451	4,900	5,191	6,050	6,500	7,711	9,027	10,095	11,023	12,037	13,144	14,353	15,674	17,083	18,619
Real GDP 1/	3.4	-30.3	-29.1	[-3 to +1]	[1 to 3]	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	-28.9	-23.7	1.2	6.1	2.9	5.1	3.7	2.6	3.0	2.8	2.8	2.5	2.2	2.2
Private consumption	4.7	-17.9	-16.6	1.2	2.7	2.2	2.8	2.9	2.5	2.3	2.1	2.0	1.7	1.6	1.6
Public consumption	0.1	6.2	6.9	-0.2	0.7	-0.5	-1.8	-0.6	-0.2	0.0	0.0	0.0	0.0	0.0	0.0
Investment	8.1	-17.2	-13.9	0.3	2.6	1.2	4.2	1.4	0.3	0.8	0.7	0.8	0.7	0.5	0.6
Net exports	-9.5	-1.4	-5.4	-4.2	-4.1	0.3	1.4	1.3	1.4	1.0	1.2	1.2	1.5	1.6	1.6
GDP deflator	24.8	28.7	34.3	27.3	22.8	15.0	9.9	6.5	5.0	5.0	5.0	5.0	5.0	5.0	5.0
Unemployment rate (ILO definition; period average, percent)	9.8	24.5	24.5	20.9	19.4	10.6	9.2	8.7	8.4	8.5	8.2	8.1	8.1	8.0	8.0
Consumer prices (period average)	9.4	20.2	20.2	21.1	17.7	13.0	8.6	6.7	5.5	5.0	5.0	5.0	5.0	5.0	5.0
Consumer prices (end of period)	10.0	26.6	26.6	20.0	15.5	10.0	7.5	6.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
Nominal wages (average)	20.8	-5.1	1.0	18.6	18.8	15.7	13.8	12.0	9.7	9.2	9.2	9.1	9.1	9.0	9.0
Real wages (average)	10.5	-21.1	-16.0	-2.0	1.0	2.4	4.8	5.0	4.0	4.0	4.0	3.9	3.9	3.8	3.8
Savings (percent of GDP)	12.8	22.5	17.6	14.3	9.5	9.8	11.3	13.7	17.4	17.7	18.3	19.0	19.5	20.1	20.8
Private	13.0	36.5	30.8	31.8	25.6	23.7	16.4	14.5	16.3	14.8	14.6	14.8	15.1	15.6	16.3
Public	-0.2	-14.0	-13.2	-17.5	-16.1	-13.9	-5.1	-0.8	1.1	2.9	3.7	4.2	4.4	4.5	4.5
Investment (percent of GDP)	14.5	16.8	12.6	18.7	15.2	16.9	18.4	19.8	20.8	21.5	22.1	22.5	22.9	23.4	23.8
Private	10.7	14.2	10.1	15.8	12.2	13.0	13.9	15.3	15.9	16.5	16.7	17.2	17.7	18.2	18.8
Public	3.8	2.7	2.5	2.9	3.0	3.9	4.5	4.5	4.9	5.0	5.3	5.3	5.2	5.2	5.0
General Government (percent of GDP)															
Fiscal balance 2/	-4.0	-16.7	-15.7	-20.4	-19.1	-17.8	-9.6	-5.3	-3.8	-2.0	-1.6	-1.2	-0.9	-0.7	-0.5
Fiscal balance, excl. grants 2/	-4.0	-26.5	-25.0	-28.2	-25.8	-21.1	-11.6	-6.4	-4.9	-3.0	-2.4	-1.9	-1.5	-1.3	-1.2
External financing (net)	2.4	11.4	10.8	19.8	17.1	14.5	8.2	4.0	2.9	0.6	0.3	0.6	-0.1	0.0	0.3
Domestic financing (net), of which:	1.6	5.4	5.1	0.6	2.0	3.3	1.4	1.3	0.9	1.4	1.4	0.5	0.9	0.7	0.2
NBU	-0.3	7.8	7.4	-0.2	-0.2	-0.2	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Commercial banks	1.5	-1.6	-1.5	1.1	2.5	3.4	1.5	1.3	1.0	1.1	1.0	0.4	0.8	0.5	0.1
Public and publicly-guaranteed debt	50.5	81.7	78.5	98.3	88.1	98.6	100.7	99.5	98.4	94.6	90.9	86.9	82.9	79.0	75.2
Money and credit (end of period, percent change)															
Base money	11.2	19.6	19.6	23.4	30.6	13.0	9.0	7.7	6.0	5.0	5.0	5.0	5.0	5.0	5.0
Broad money	12.0	20.8	20.8	20.5	29.7	15.5	14.2	15.1	12.1	9.2	9.2	9.2	9.2	9.0	9.0
Credit to nongovernment	8.4	-3.1	-3.1	2.5	2.0	13.3	15.0	18.1	13.9	15.5	15.5	18.1	18.1	20.7	20.7
Balance of payments (percent of GDP)															
Current account balance	-1.6	5.7	5.0	-4.4	-5.7	-7.2	-7.1	-6.1	-3.4	-3.8	-3.8	-3.5	-3.4	-3.3	-3.0
Foreign direct investment	3.8	0.4	0.3	0.4	0.3	0.3	2.5	4.8	5.0	5.6	5.3	5.1	4.7	4.6	4.4
Gross reserves (end of period, billions of U.S. dollars)	30.9	28.5	28.5	29.6	30.5	33.2	36.1	39.4	45.7	48.3	51.2	54.3	56.0	57.6	60.5
Months of next year's imports of goods and services	4.5	3.9	3.8	4.0	4.1	4.4	4.5	4.8	5.2	5.3	5.3	5.4	5.3	5.2	5.3
Percent of short-term debt (remaining maturity)	67.5	66.1	65.2	62.3	63.2	74.5	74.9	82.3	90.5	85.8	94.2	95.0	100.9	102.8	99.3
Percent of the IMF composite metric (float)	98.8	91.6	91.3	82.2	82.3	78.3	80.0	81.4	91.2	93.7	95.9	100.3	101.1	102.8	105.9
Goods exports (annual volume change in percent)	34.3	-43.1	-44.7	-19.5	-13.7	10.9	4.3	11.2	11.5	9.2	8.5	9.0	8.5	8.1	8.0
Goods imports (annual volume change in percent)	17.2	-27.8	-24.4	7.4	15.4	9.6	12.0	12.4	8.5	5.8	4.4	4.8	4.8	4.8	4.8
Goods terms of trade (percent change)	-8.4	-11.5	-11.6	3.8	3.7	0.5	1.7	2.0	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)	10.5	22.9	28.2	…	…	…	…	…	…	…	…	…	…	…	…
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 5a. Ukraine: General Government Finances (Baseline Scenario), 2021–2033 1/

(Billions of Ukrainian Hryvnia)

	2021	2022		2023		2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
	Act.	EFF Approval	Act.	EFF Approval	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Revenue	1,990	2,609	2,609	2,861	2,855	3,199	3,666	4,141	4,563	5,031	5,451	5,916	6,364	6,915	7,539
Tax revenue	1,825	1,782	1,782	2,198	2,190	2,731	3,236	3,753	4,156	4,603	5,009	5,442	5,857	6,372	6,958
Tax on income, profits, and capital gains	514	551	551	640	655	832	978	1,136	1,254	1,385	1,512	1,650	1,796	1,958	2,153
Personal income tax	350	421	421	517	506	646	750	866	954	1,047	1,144	1,248	1,357	1,479	1,631
Corporate profit tax	164	131	131	123	149	186	228	270	300	337	368	402	439	479	522
Social security contributions	358	430	430	518	507	622	690	759	781	856	928	1,036	1,082	1,182	1,287
Property tax	43	37	37	37	46	47	51	48	54	49	54	49	50	50	50
Tax on goods and services	731	592	592	797	805	1,023	1,243	1,487	1,698	1,904	2,073	2,246	2,448	2,676	2,917
VAT	536	467	467	622	617	791	937	1,102	1,232	1,382	1,510	1,638	1,794	1,973	2,144
Excise	180	115	115	162	173	216	287	366	446	500	539	583	628	674	743
Other	14	10	10	13	14	17	18	20	21	23	24	26	27	29	31
Tax on international trade	38	26	26	38	37	45	65	76	96	112	128	140	153	166	181
Other tax	140	145	145	168	140	162	210	247	273	297	314	321	329	341	369
Nontax revenue	166	827	827	663	665	467	429	388	407	427	442	474	507	543	581
Grants	1	481	481	472	434	251	182	117	114	110	101	105	109	114	118
Expenditure	2,207	3,426	3,426	4,098	4,096	4,573	4,533	4,674	4,983	5,276	5,667	6,081	6,498	7,029	7,635
Current	1,995	3,298	3,298	3,818	3,796	4,157	3,910	4,103	4,310	4,538	4,811	5,128	5,477	5,921	6,453
Compensation of employees	516	1,240	1,240	1,422	1,454	1,360	919	957	1,030	1,061	1,130	1,186	1,291	1,402	1,527
Goods and services	483	848	848	926	926	925	900	887	872	899	999	1,059	1,164	1,270	1,359
Interest	155	162	162	281	283	429	392	422	419	410	410	415	405	407	409
Subsidies to corporations and enterprises	116	131	131	138	138	150	123	130	137	144	121	127	133	140	147
Social benefits	724	917	917	1,048	991	1,290	1,573	1,704	1,848	2,020	2,148	2,336	2,480	2,698	3,007
Social programs (on budget)	154	285	285	218	206	380	582	671	723	809	872	953	1,007	1,121	1,292
Pensions	519	583	583	808	769	891	969	1,010	1,101	1,185	1,249	1,354	1,442	1,545	1,682
Unemployment, disability, and accident	52	48	48	22	17	20	21	23	24	26	27	29	30	32	34
Other current expenditures	1	1	1	2	2	3	3	3	3	3	3	4	4	4	4
Capital	207	130	130	177	197	303	405	453	545	596	701	766	816	884	938
Net lending	5	-2	-2	34	34	51	155	49	53	58	63	89	97	106	116
Contingency reserve 2/	0	0	0	69	69	62	62	70	76	83	91	99	108	118	129
General government overall balance	-216	-817	-817	-1,237	-1,240	-1,375	-867	-533	-421	-245	-215	-165	-134	-114	-96
General government overall balance, excluding grants	-218	-1,299	-1,299	-1,709	-1,674	-1,626	-1,050	-650	-535	-355	-316	-270	-243	-227	-214
General government financing	216	817	817	1,237	1,240	1,375	867	533	421	245	215	165	134	114	96
External	132	560	560	1,200	1,113	1,121	741	405	318	73	37	87	-13	0	65
Disbursements	239	615	615	1,299	1,200	1,299	941	686	619	490	578	663	691	719	747
Amortizations	-107	-55	-55	-99	-87	-178	-200	-281	-301	-417	-541	-575	-704	-719	-682
Domestic (net)	85	263	263	37	127	253	126	128	103	172	178	78	147	114	31
Bond financing 3/	66	295	295	31	121	247	120	122	97	116	122	42	111	78	15
o/w NBU	-14	383	383	-15	-15	-12	-13	-12	-12	-12	-12	-12	-12	-12	-12
o/w Commercial banks	79	-77	-77	70	160	260	134	134	109	128	134	54	123	90	27
Direct bank borrowing	30	-2	-2	0	0	0	0	0	0	0	0	0	0	0	0
Deposit finance	-19	-37	-37	0	0	0	0	0	0	50	50	30	30	30	10
Privatization	7	20	20	6	6	6	6	6	6	6	6	6	6	6	6
Financing Gap/unindentified measures (-gap/+surplus)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Memorandum items:															
Primary balance	-62	-655	-655	-956	-957	-946	-475	-112	-1	165	195	250	272	293	312
Public and publicly-guaranteed debt	2,754	4,003	4,003	5,948	5,730	7,600	9,089	10,042	10,845	11,388	11,942	12,479	12,987	13,496	14,007
Nominal GDP (billions of Ukrainian hryvnia)	5,451	4,900	5,191	6,050	6,500	7,711	9,027	10,095	11,023	12,037	13,144	14,353	15,674	17,083	18,619

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.

Table5b. Ukraine: General Government Finances (Baseline Scenario), 2021–2033 1/

(Percent of GDP)

	2021	2022		2023		2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
	Act.	EFF Approval	Act.	EFF Approval	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Revenue	36.5	53.2	50.3	47.3	43.9	41.5	40.6	41.0	41.4	41.8	41.5	41.2	40.6	40.5	40.5
Tax revenue	33.5	36.4	34.3	36.3	33.7	35.4	35.9	37.2	37.7	38.2	38.1	37.9	37.4	37.3	37.4
Tax on income, profits, and capital gains	9.4	11.2	10.6	10.6	10.1	10.8	10.8	11.2	11.4	11.5	11.5	11.5	11.5	11.5	11.6
Personal income tax	6.4	8.6	8.1	8.6	7.8	8.4	8.3	8.6	8.7	8.7	8.7	8.7	8.7	8.7	8.8
Corporate profit tax	3.0	2.7	2.5	2.0	2.3	2.4	2.5	2.7	2.7	2.8	2.8	2.8	2.8	2.8	2.8
Social security contributions	6.6	8.8	8.3	8.6	7.8	8.1	7.6	7.5	7.1	7.1	7.1	7.2	6.9	6.9	6.9
Property tax	0.8	0.8	0.7	0.6	0.7	0.6	0.6	0.5	0.5	0.4	0.4	0.3	0.3	0.3	0.3
Tax on goods and services	13.4	12.1	11.4	13.2	12.4	13.3	13.8	14.7	15.4	15.8	15.8	15.6	15.6	15.7	15.7
VAT	9.8	9.5	9.0	10.3	9.5	10.3	10.4	10.9	11.2	11.5	11.5	11.4	11.4	11.6	11.5
Excise	3.3	2.4	2.2	2.7	2.7	2.8	3.2	3.6	4.0	4.2	4.1	4.1	4.0	3.9	4.0
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	0.5	0.5	0.6	0.6	0.6	0.7	0.8	0.9	0.9	1.0	1.0	1.0	1.0	1.0
Other tax	2.6	3.0	2.8	2.8	2.2	2.1	2.3	2.5	2.5	2.5	2.4	2.2	2.1	2.0	2.0
Nontax revenue	3.0	16.9	15.9	11.0	10.2	6.1	4.8	3.8	3.7	3.5	3.4	3.3	3.2	3.2	3.1
Grants	0.0	9.8	9.3	7.8	6.7	3.3	2.0	1.2	1.0	0.9	0.8	0.7	0.7	0.7	0.6
Expenditure	40.5	69.9	66.0	67.7	63.0	59.3	50.2	46.3	45.2	43.8	43.1	42.4	41.5	41.1	41.0
Current	36.6	67.3	63.5	63.1	58.4	53.9	43.3	40.6	39.1	37.7	36.6	35.7	34.9	34.7	34.7
Compensation of employees	9.5	25.3	23.9	23.5	22.4	17.6	10.2	9.5	9.3	8.8	8.6	8.3	8.2	8.2	8.2
Goods and services	8.9	17.3	16.3	15.3	14.3	12.0	10.0	8.8	7.9	7.5	7.6	7.4	7.4	7.4	7.3
Interest	2.8	3.3	3.1	4.6	4.4	5.6	4.3	4.2	3.8	3.4	3.1	2.9	2.6	2.4	2.2
Subsidies to corporations and enterprises	2.1	2.7	2.5	2.3	2.1	2.0	1.4	1.3	1.2	1.2	0.9	0.9	0.8	0.8	0.8
Social benefits	13.3	18.7	17.7	17.3	15.3	16.7	17.4	16.9	16.8	16.8	16.3	16.3	15.8	15.8	16.2
Social programs (on budget)	2.8	5.8	5.5	3.6	3.2	4.9	6.5	6.6	6.6	6.7	6.6	6.6	6.4	6.6	6.9
Pensions	9.5	11.9	11.2	13.4	11.8	11.6	10.7	10.0	10.0	9.8	9.5	9.4	9.2	9.0	9.0
Unemployment, disability, and accident	1.0	1.0	0.9	0.4	0.3	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Other current expenditures	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Capital	3.8	2.7	2.5	2.9	3.0	3.9	4.5	4.5	4.9	5.0	5.3	5.3	5.2	5.2	5.0
Net lending	0.1	0.0	0.0	0.6	0.5	0.7	1.7	0.5	0.5	0.5	0.5	0.6	0.6	0.6	0.6
Contingency reserve 2/	0.0	0.0	0.0	1.1	1.1	0.8	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7
General government overall balance	-4.0	-16.7	-15.7	-20.4	-19.1	-17.8	-9.6	-5.3	-3.8	-2.0	-1.6	-1.2	-0.9	-0.7	-0.5
General government overall balance, excluding grants	-4.0	-26.5	-25.0	-28.2	-25.8	-21.1	-11.6	-6.4	-4.9	-3.0	-2.4	-1.9	-1.5	-1.3	-1.2
General government financing	4.0	16.7	15.7	20.4	19.1	17.8	9.6	5.3	3.8	2.0	1.6	1.2	0.9	0.7	0.5
External	2.4	11.4	10.8	19.8	17.1	14.5	8.2	4.0	2.9	0.6	0.3	0.6	-0.1	0.0	0.3
Disbursements	4.4	12.6	11.8	21.5	18.5	16.8	10.4	6.8	5.6	4.1	4.4	4.6	4.4	4.2	4.0
o/w IFIs	1.4	5.3	4.6	25.4	20.4	19.9	8.7	0.0	4.8	0.0	0.0	0.0	0.0	0.0	0.0
o/w IMF budget support	0.4	1.8	1.7	3.0	2.6	2.9	0.5	0.6	0.3	0.0	0.0	0.0	0.0	0.0	0.0
Amortizations	-2.0	-1.1	-1.1	-1.6	-1.3	-2.3	-2.2	-2.8	-2.7	-3.5	-4.1	-4.0	-4.5	-4.2	-3.7
Domestic (net)	1.6	5.4	5.1	0.6	2.0	3.3	1.4	1.3	0.9	1.4	1.4	0.5	0.9	0.7	0.2
Bond financing 3/	1.2	6.0	5.7	0.5	1.9	3.2	1.3	1.2	0.9	1.0	0.9	0.3	0.7	0.5	0.1
o/w NBU	-0.3	7.8	7.4	-0.2	-0.2	-0.2	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
o/w Commercial banks	1.5	-1.6	-1.5	1.1	2.5	3.4	1.5	1.3	1.0	1.1	1.0	0.4	0.8	0.5	0.1
Direct bank borrowing	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	0.0	0.0
Deposit finance	-0.3	-0.8	-0.7	0.0	0.0	0.0	0.0	0.0	0.0	0.4	0.4	0.2	0.2	0.2	0.1
Privatization	0.1	0.4	0.4	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Financing Gap/undidentified measures (-gap/+surplus)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:															
Primary balance	-1.1	-13.4	-12.6	-15.8	-14.7	-12.3	-5.3	-1.1	0.0	1.4	1.5	1.7	1.7	1.7	1.7
Public and publicly-guaranteed debt	48.9	81.7	78.5	98.3	88.1	98.6	100.7	99.5	98.4	94.6	90.9	86.9	82.9	79.0	75.2
Nominal GDP (billions of Ukrainian hryvnia)	5,451	4,900	5,191	6,050	6,500	7,711	9,027	10,095	11,023	12,037	13,144	14,353	15,674	17,083	18,619

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 6a. Ukraine: Balance of Payments (Baseline Scenario), 2021–2033 1/ 2/

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

	2021	2022		2023		2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
	Act.	EFF Approval	Act.	EFF Approval	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Current account balance	-3.2	6.4	8.0	-6.5	-9.9	-13.3	-13.9	-12.7	-7.3	-8.5	-8.8	-8.6	-8.8	-8.7	-8.4
Goods (net)	-6.6	-15.9	-15.3	-24.5	-27.2	-29.0	-34.3	-37.3	-38.5	-38.9	-38.3	-37.7	-37.2	-36.6	-35.9
Exports	63.1	40.9	40.9	33.0	35.3	39.2	40.8	45.4	50.6	55.3	60.0	65.3	70.9	76.6	82.8
Imports	-69.8	-56.8	-56.2	-57.5	-62.5	-68.2	-75.1	-82.7	-89.1	-94.1	-98.3	-103.0	-108.0	-113.2	-118.6
Of which : gas	-3.4	-2.7	-1.3	-2.4	-1.6	-7.4	-6.6	-5.3	-4.9	-4.9	-4.9	-4.9	-4.9	-4.9	-4.9
Services (net)	4.0	-9.9	-10.7	-13.3	-11.6	-4.2	3.6	10.1	16.9	17.5	18.1	18.6	19.0	19.5	20.0
Receipts	18.4	16.0	16.1	16.0	15.8	17.4	19.8	23.1	26.7	28.2	29.9	31.0	32.2	33.5	34.8
Payments	-14.4	-25.9	-26.8	-29.2	-27.4	-21.6	-16.2	-13.0	-9.7	-10.7	-11.8	-12.5	-13.2	-14.0	-14.9
Primary income (net)	-5.2	9.8	8.7	11.6	8.1	6.1	5.7	4.7	4.2	3.7	3.3	3.0	2.7	2.5	2.5
Secondary income (net)	4.6	22.4	25.3	19.7	20.8	13.8	11.0	9.8	10.0	9.2	8.2	7.5	6.7	5.9	5.0
Capital account balance	0.0	0.0	0.2	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial account balance	-5.7	10.8	8.4	-9.3	-13.0	-16.1	-16.7	-14.9	-13.1	-10.2	-10.1	-12.1	-10.8	-11.3	-11.7
Direct investment (net)	-7.5	-0.6	-0.5	-0.6	-0.6	-0.5	-4.9	-9.9	-10.7	-12.6	-12.4	-12.4	-11.9	-12.2	-12.4
Portfolio investment (net)	-1.0	1.5	2.0	0.4	0.5	0.6	0.9	1.6	0.8	1.8	0.3	-0.4	-0.3	-0.7	-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	-0.4	-0.5	-0.6	-0.9	-1.6	-0.8	-1.8	-0.3	0.4	0.3	0.7	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	6.9	-9.0	-12.9	-16.2	-12.7	-6.6	-3.2	0.5	2.0	0.8	1.3	1.6	1.2
Other investment: assets	7.7	28.5	23.2	26.6	21.9	14.6	7.0	6.4	5.6	4.9	3.8	2.6	1.8	1.8	1.8
Other investment: liabilities	4.9	18.6	16.3	35.6	34.8	30.7	19.6	13.0	8.9	4.4	1.8	1.9	0.5	0.2	0.7
Net use of IMF resources for budget support	0.3	2.1	2.3	3.6	3.6	4.0	-0.6	-0.4	-0.5	-1.0	-1.7	-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	14.7	27.9	28.3	25.8	19.3	11.5	8.3	4.8	2.9	2.3	1.1	0.9	1.2
Banks 3/	0.4	-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
Other sectors	0.0	1.6	-0.6	4.2	2.9	0.9	0.9	1.8	1.0	0.6	0.6	0.6	0.6	0.6	0.6
Errors and omissions	1.8	0.8	0.0	0.0	0.5	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	-0.2	2.7	3.6	2.7	2.7	2.3	5.8	1.7	1.4	3.4	2.0	2.6	3.3
Financing	-4.2	3.5	0.2	-2.7	-3.6	-3.8	-2.7	-2.3	-5.8	-2.5	-3.0	-4.2	-3.0	-2.9	-4.0
Gross official reserves (increase: -)	-3.3	5.0	1.9	-1.1	-2.0	-2.7	-2.9	-3.2	-6.4	-2.5	-3.0	-3.1	-1.7	-1.6	-2.9
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	5.0	-4.4	-5.7	-7.2	-7.1	-6.1	-3.4	-3.8	-3.8	-3.5	-3.4	-3.3	-3.0
Goods and services trade balance (percent of GDP)	-1.3	-17.8	-16.2	-25.4	-22.3	-17.8	-15.6	-13.2	-10.0	-9.6	-8.7	-7.8	-7.1	-6.4	-5.7
Gross international reserves	30.9	25.1	28.5	29.6	30.5	33.2	36.1	39.4	45.7	48.3	51.2	54.3	56.0	57.6	60.5
Months of next year's imports of goods and services	4.5	3.0	3.8	4.0	4.1	4.4	4.5	4.8	5.2	5.3	5.3	5.4	5.3	5.2	5.3
Percent of the IMF composite metric (float)	98.8	80.0	91.3	82.2	82.3	78.3	80.0	81.4	91.2	93.7	95.9	100.3	101.1	102.8	105.9

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

1/ Based on BPM6.

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

3/ Includes banks' debt for equity operations.

Table 6b. Ukraine: Balance of Payments (Baseline Scenario), 2021–2033 1/ 2/

(Percent of GDP, unless otherwise indicated)

	2021	2022		2023		2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
	Act.	EFF Approval	Act.	EFF Approval	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Current account balance	-1.6	5.7	5.0	-4.4	-5.7	-7.2	-7.1	-6.1	-3.4	-3.8	-3.8	-3.5	-3.4	-3.3	-3.0
Goods (net)	-3.3	-9.7	-9.5	-16.5	-15.7	-15.6	-17.5	-18.1	-17.9	-17.4	-16.4	-15.5	-14.5	-13.7	-12.8
Exports	31.6	27.0	25.5	22.2	20.4	21.0	20.8	22.0	23.6	24.7	25.7	26.8	27.7	28.6	29.5
Imports	-34.9	-36.7	-35.0	-38.7	-36.0	-36.6	-38.3	-40.0	-41.5	-42.1	-42.2	-42.3	-42.3	-42.3	-42.3
Of which: gas	1.7	0.9	0.8	-1.6	-0.9	-4.0	-3.3	-2.6	-2.3	-2.2	-2.1	-2.0	-1.9	-1.8	-1.8
Services (net)	-5.3	-6.0	-6.6	-8.9	-6.7	-2.3	1.9	4.9	7.9	7.8	7.8	7.6	7.4	7.3	7.1
Receipts	9.2	10.7	10.0	10.7	9.1	9.3	10.1	11.2	12.4	12.6	12.8	12.7	12.6	12.5	12.4
Payments	-7.2	-16.7	-16.7	-19.7	-15.8	-11.6	-8.3	-6.3	-4.5	-4.8	-5.0	-5.1	-5.2	-5.2	-5.3
Primary income (net)	-2.6	6.0	5.4	7.8	4.7	3.3	2.9	2.3	2.0	1.7	1.4	1.2	1.0	0.9	0.9
Secondary income (net)	2.3	15.4	15.7	13.2	12.0	7.4	5.6	4.8	4.7	4.1	3.5	3.1	2.6	2.2	1.8
Capital account balance	0.0	0.0	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
Financial account balance	-2.8	6.3	5.2	-6.2	-7.5	-8.6	-8.5	-7.2	-6.1	-4.6	-4.3	-4.9	-4.2	-4.2	-4.2
Direct investment (net)	-3.8	-0.4	-0.3	-0.4	-0.3	-0.3	-2.5	-4.8	-5.0	-5.6	-5.3	-5.1	-4.7	-4.6	-4.4
Portfolio investment (net)	-0.5	1.4	1.3	0.3	0.3	0.3	0.5	0.8	0.4	0.8	0.1	-0.2	-0.1	-0.3	-0.2
Portfolio investment: assets	0.0	0.4	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	-0.3	-0.3	-0.3	-0.5	-0.8	-0.4	-0.8	-0.1	0.2	0.1	0.3	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	5.4	4.3	-6.1	-7.4	-8.7	-6.5	-3.2	-1.5	0.2	0.8	0.3	0.5	0.6	0.4
Other investment: assets	3.0	15.9	14.4	17.9	12.6	7.8	3.6	3.1	2.6	2.2	1.6	1.1	0.7	0.7	0.7
Other investment: liabilities	2.4	10.6	10.2	24.0	20.1	16.5	10.0	6.3	4.1	2.0	0.8	0.8	0.2	0.1	0.2
Net use of IMF resources for budget support	-0.5	-1.1	-1.0	2.4	2.0	2.2	-0.3	-0.2	-0.2	-0.5	-0.7	-0.4	-0.5	-0.5	-0.4
Central Bank	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	0.0
General government	0.8	9.7	9.2	18.7	16.3	13.9	9.9	5.6	3.9	2.2	1.3	1.0	0.4	0.4	0.4
Banks 3/	0.2	-0.3	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other sectors	0.0	-0.3	-0.4	2.8	1.7	0.5	0.5	0.9	0.5	0.3	0.3	0.2	0.2	0.2	0.2
Errors and omissions	0.9	0.3	0.0	0.0	0.3	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	-0.3	-0.1	1.8	2.1	1.5	1.4	1.1	2.7	0.8	0.6	1.4	0.8	1.0	1.2
Financing	0.1	1.5	1.4	-1.8	-2.1	-2.0	-1.4	-1.1	-2.7	-1.1	-1.3	-1.7	-1.2	-1.1	-1.4
Gross official reserves (increase: -)	0.4	1.8	1.7	-0.7	-1.2	-1.5	-1.5	-1.6	-3.0	-1.1	-1.3	-1.3	-0.7	-0.6	-1.0
Net use of IMF resources for BOP support	0.0	0.0	0.0	-1.1	-0.9	-0.6	0.1	0.5	0.3	0.0	0.0	-0.4	-0.5	-0.5	-0.4
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:															
Gross international reserves (USD billions)	30.9	28.5	28.5	29.6	30.5	33.2	36.1	39.4	45.7	48.3	51.2	54.3	56.0	57.6	60.5
Months of next year's imports of goods and services	4.5	3.9	3.8	4.0	4.1	4.4	4.5	4.8	5.2	5.3	5.3	5.4	5.3	5.2	5.3
Percent of the IMF composite metric (float)	98.8	91.6	91.3	82.2	82.3	78.3	80.0	81.4	91.2	93.7	95.9	100.3	101.1	102.8	105.9

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

1/ Based on BPM6.

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

3/ Includes banks' debt for equity operations.

Table 7. Ukraine: Gross External Financing Requirements (Baseline Scenario), 2021–2033

(Billions of U.S. dollars)

	2021	2022		2023		2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
	Act.	EFF Approval	Act.	EFF Approval	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
A. Total financing requirements	**37.2**	**57.6**	**56.8**	**68.8**	**69.6**	**64.7**	**55.6**	**55.8**	**50.5**	**52.8**	**55.4**	**53.8**	**55.9**	**55.0**	**54.8**
Current account deficit (excluding grants)	3.2	5.4	6.0	18.1	21.4	19.0	17.8	15.0	9.5	10.5	10.5	10.4	10.5	10.5	10.2
Portfolio investment	4.9	2.7	2.7	0.4	1.3	3.6	1.9	3.9	1.3	2.3	4.3	2.6	4.1	1.8	2.0
Private	0.6	0.9	0.9	0.4	0.5	2.7	0.6	1.8	0.0	0.0	3.0	1.0	2.3	0.5	0.5
General government	4.3	1.8	1.8	0.0	0.7	0.9	1.4	2.1	1.3	2.3	1.3	1.6	1.8	1.3	1.5
Medium and long-term debt	3.9	2.1	2.1	2.2	2.2	2.8	2.4	3.1	4.9	5.8	7.8	8.5	9.6	9.8	9.6
Private	2.7	1.2	1.2	1.4	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	0.3	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	0.9	0.9	0.9	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	0.9	0.9	0.8	0.8	1.5	1.1	1.9	3.7	4.6	6.7	7.3	8.5	8.7	8.4
Short-term debt (including deposits)	0.8	4.2	4.2	5.6	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	24.1	23.2	24.2	20.9	13.5	7.0	6.4	5.6	4.1	3.8	2.6	1.8	1.8	1.8
Trade credit	15.7	19.1	18.6	18.3	18.3	20.1	20.9	21.7	23.5	24.5	23.4	24.1	24.2	25.5	25.6
B. Total financing sources	**37.0**	**24.4**	**24.4**	**29.0**	**30.1**	**32.8**	**35.7**	**43.4**	**43.2**	**45.3**	**49.1**	**48.0**	**49.1**	**48.2**	**49.0**
Capital transfers	0.0	0.0	0.2	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Direct investment, net	7.5	0.6	0.5	0.6	0.6	0.5	4.9	9.9	10.7	12.6	12.4	12.4	11.9	12.2	12.4
Portfolio investment	6.0	0.5	0.5	0.0	0.8	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	0.5	0.5	0.0	0.8	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	0.3	0.4	2.6	3.0	2.8	2.4	2.1	1.9	1.6	1.6	1.6	1.6	1.6	1.6
Private	2.3	0.9	0.9	1.4	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	0.0	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	0.8	0.8	0.9	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	-0.5	-0.4	1.2	1.6	1.3	1.0	0.7	0.7	0.3	0.3	0.3	0.3	0.3	0.3
Short-term debt (including deposits)	0.9	4.7	4.4	5.6	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	18.3	18.3	20.1	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)	**0.2**	**33.2**	**32.4**	**39.8**	**39.5**	**31.9**	**20.0**	**12.4**	**7.3**	**7.5**	**6.3**	**5.8**	**6.8**	**6.8**	**5.8**
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	**0.2**	**33.2**	**32.4**	**39.8**	**39.5**	**31.9**	**20.0**	**12.4**	**7.3**	**7.5**	**6.3**	**5.8**	**6.8**	**6.8**	**5.8**
E. Official financing	**1.7**	**30.6**	**30.6**	**40.9**	**41.0**	**34.6**	**22.9**	**15.7**	**13.6**	**10.1**	**9.3**	**8.9**	**8.5**	**8.4**	**8.7**
IMF	-0.7	0.7	0.7	1.9	1.9	3.0	-0.5	0.6	0.1	-1.0	-1.7	-2.1	-2.5	-2.6	-2.3
Purchases	0.7	2.7	2.7	4.5	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	2.6	2.6	2.4	2.3	2.0	1.2	1.0	1.7	2.1	2.5	2.6	2.3
Official grants	0.0	14.0	14.0	11.6	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	27.4	27.5	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**	**-2.2**	**-1.9**	**1.1**	**2.0**	**2.7**	**2.9**	**3.2**	**6.4**	**2.5**	**3.0**	**3.1**	**1.7**	**1.6**	**2.9**
G. Errors and omissions	**1.8**	**0.5**	**0.0**	**0.0**	**0.5**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Memorandum items:															
Gross international reserves	30.9	28.5	28.5	29.6	30.5	33.2	36.1	39.4	45.7	48.3	51.2	54.3	56.0	57.6	60.5
Months of next year's imports of goods and services	4.5	3.9	3.8	4.0	4.1	4.4	4.5	4.8	5.2	5.3	5.3	5.4	5.3	5.2	5.3
Percent of short-term debt (remaining maturity)	67.5	66.1	65.2	62.3	63.2	74.5	74.9	82.3	90.5	85.8	94.2	95.0	100.9	102.8	99.3
Percent of the IMF composite (float) 2/	98.8	91.6	91.3	82.2	82.3	78.3	80.0	81.4	91.2	93.7	95.9	100.3	101.1	102.8	105.9
Loan rollover rate (percent)															
Banks	97.2	96.7	96.6	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	101.8	105.2	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	97.5	98.0	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/ 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 8. 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.	EFF Approval	Act.	EFF Approval	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Monetary survey															
Net foreign assets	1,002	1,328	1,326	1,689	1,516	1,730	1,986	2,185	2,594	2,880	3,279	3,729	4,145	4,579	5,103
Net domestic assets	1,070	1,173	1,176	1,325	1,728	2,015	2,290	2,738	2,926	3,148	3,304	3,459	3,705	3,976	4,222
Domestic credit	1,925	2,212	2,212	2,292	2,377	2,749	3,155	3,514	3,825	4,226	4,676	5,152	5,774	6,541	7,383
Net claims on government	898	1,218	1,218	1,272	1,362	1,599	1,832	1,951	2,045	2,170	2,302	2,348	2,463	2,545	2,559
Credit to the economy	1,023	991	991	1,016	1,011	1,145	1,317	1,556	1,773	2,048	2,365	2,794	3,300	3,985	4,811
Domestic currency	731	725	725	791	769	894	1,059	1,289	1,503	1,783	2,105	2,538	3,048	3,738	4,569
Foreign currency	292	266	266	225	242	251	258	267	270	265	261	256	252	247	242
Other claims on the economy	5	4	4	4	4	5	6	7	7	8	9	10	10	11	12
Other items, net	-856	-1,039	-1,036	-967	-650	-734	-865	-776	-899	-1,078	-1,372	-1,693	-2,069	-2,565	-3,161
Broad money	2,071	2,501	2,501	3,014	3,244	3,746	4,276	4,924	5,520	6,028	6,582	7,188	7,850	8,555	9,324
Currency in circulation	581	666	666	823	886	1,001	1,084	1,160	1,215	1,260	1,312	1,366	1,422	1,480	1,540
Total deposits	1,489	1,834	1,834	2,190	2,356	2,743	3,190	3,762	4,303	4,765	5,267	5,819	6,424	7,071	7,780
Domestic currency deposits	1,014	1,204	1,204	1,440	1,696	2,015	2,392	2,921	3,370	3,716	4,141	4,611	5,129	5,685	6,297
Foreign currency deposits	474	630	630	750	660	728	798	840	932	1,049	1,126	1,208	1,296	1,386	1,483
Accounts of the NBU															
Net foreign assets	852	983	981	1,187	1,078	1,173	1,418	1,619	2,029	2,319	2,697	3,126	3,521	3,934	4,437
Net international reserves	838	980	978	1,182	1,074	1,169	1,414	1,615	2,025	2,314	2,691	3,120	3,515	3,929	4,431
(In billions of U.S. dollars)	30.7	26.8	26.7	...	...	...	...	...	...	...	...	...	...	...	...
Reserve assets	843	980	980	...	...	...	...	...	...	...	...	...	...	...	...
Other net foreign assets	14	3	3	4	4	4	4	4	5	5	5	5	6	6	6
Net domestic assets	-190	-191	-188	-208	-43	-3	-143	-246	-574	-792	-1,093	-1,441	-1,752	-2,077	-2,488
Net domestic credit	175	310	312	253	84	139	67	-199	-486	-626	-745	-877	-924	-878	-829
Net claims on government	270	704	704	689	689	666	650	635	620	617	615	607	599	591	578
Claims on government	325	758	758	744	744	731	718	706	694	682	671	659	647	635	623
Net claims on banks	-95	-395	-392	-437	-605	-526	-583	-834	-1,106	-1,243	-1,360	-1,484	-1,524	-1,469	-1,407
Other items, net	-365	-501	-501	-461	-127	-142	-210	-47	-88	-166	-347	-565	-828	-1,200	-1,659
Base money	662	793	793	978	1,035	1,170	1,275	1,373	1,455	1,528	1,604	1,684	1,769	1,857	1,949
Currency in circulation	581	666	666	823	886	1,001	1,084	1,160	1,215	1,260	1,312	1,366	1,422	1,480	1,540
Banks' reserves	81	126	126	155	149	169	191	213	240	268	292	318	347	377	410
Cash in vault	47	49	49	69	74	86	100	118	135	149	165	182	201	221	244
Correspondent accounts	35	77	77	87	76	83	91	95	105	119	127	136	146	156	166
Deposit money banks															
Net foreign assets	149	345	345	502	438	557	568	566	565	560	582	603	624	645	665
Foreign assets	254	427	427	624	554	697	740	774	810	845	879	914	948	981	1014
Foreign liabilities	105	82	82	122	116	140	172	208	245	284	297	310	323	336	349
Net domestic assets	1,339	1,489	1,489	1,687	1,918	2,185	2,622	3,195	3,738	4,205	4,685	5,215	5,799	6,426	7,115
Domestic credit	1,875	2,064	2,064	2,229	2,480	2,816	3,316	3,963	4,588	5,157	5,750	6,383	7,082	7,833	8,658
Net claims on government 1/	628	513	513	583	673	933	1,182	1,316	1,425	1,553	1,687	1,741	1,864	1,954	1,981
Credit to the economy	1,023	991	991	1,016	1,011	1,145	1,317	1,556	1,773	2,047	2,365	2,793	3,300	3,984	4,811
Other claims on the economy	5	3	3	4	4	5	6	7	7	8	9	10	10	11	12
Net claims on NBU	220	594	594	627	792	733	812	1,084	1,383	1,548	1,689	1,840	1,908	1,883	1,854
Other items, net	-536	-574	-574	-542	-562	-630	-695	-768	-851	-952	-1,065	-1,169	-1,282	-1,407	-1,544
Banks' liabilities	1,488	1,834	1,834	2,190	2,356	2,743	3,190	3,761	4,302	4,765	5,267	5,818	6,424	7,071	7,780
Memorandum items:	(End of period, percent change unless otherwise noted)														
Base money	11.2	19.6	19.6	23.4	30.6	13.0	9.0	7.7	6.0	5.0	5.0	5.0	5.0	5.0	5.0
Currency in circulation	12.6	14.6	14.6	23.6	33.0	13.0	8.3	7.0	4.8	5.8	6.8	7.8	8.8	9.8	10.8
Broad money	12.0	20.8	20.8	20.5	29.7	15.5	14.2	15.1	12.1	9.2	9.2	9.2	9.2	9.0	9.0
Credit to the economy	8.4	-3.1	-3.1	2.5	2.0	13.3	15.0	18.1	13.9	15.5	15.5	18.1	18.1	20.7	20.7
Real credit to the economy 2/	-1.5	-23.5	-23.5	-14.6	-11.7	3.0	7.0	11.5	8.5	10.0	10.0	12.5	12.5	15.0	15.0
Credit-to-GDP ratio, in percent	18.8	16.2	16.1	16.8	15.6	14.9	14.6	15.4	16.1	17.0	18.0	19.5	21.1	23.3	25.8
Velocity of broad money, ratio	1.9	1.6	1.6	2.0	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	3.1	3.1	3.2	3.4	3.6	3.8	3.9	4.1	4.3	4.4	4.6	4.8
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 9. Ukraine: Indicators of Fund Credit (Baseline Scenario), 2023–2033

(In millions of SDR)

	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
	Projections										
Existing Fund credit											
Stock 1/	7,715	5,936	4,199	2,702	1,844	1,509	1,174	838	503	168	0
Obligations	1,648	2,166	1,998	1,686	987	448	448	448	448	448	280
Principal (repurchases)	1,265	1,780	1,736	1,498	858	335	335	335	335	335	168
Interest charges	383	386	262	189	129	112	112	112	112	112	112
Prospective purchases											
Disbursements	3,340	4,003	1,368	1,931	966	0	0	0	0	0	0
Stock 1/	3,340	7,343	8,711	10,643	11,553	11,137	10,192	8,995	7,476	5,876	4,332
Obligations 2/	126	355	588	668	811	1,153	1,613	1,760	1,956	1,879	1,703
Principal (repurchases)	0	0	0	0	55	416	946	1,197	1,519	1,599	1,544
Interest charges	126	355	588	668	755	737	668	563	437	279	159
Stock of existing and prospective Fund credit 1/	11,055	13,279	12,910	13,344	13,397	12,646	11,365	9,833	7,979	6,044	4,332
In percent of quota 2/	550	660	642	663	666	628	564	488	396	300	215
In percent of GDP	4.8	5.3	4.9	4.8	4.6	4.2	3.6	3.0	2.3	1.7	1.1
In percent of exports of goods and nonfactor services	16.2	17.6	15.9	14.5	12.8	11.2	9.3	7.5	5.7	4.0	2.7
In percent of gross reserves	27.2	29.9	26.6	25.2	21.7	19.3	16.4	13.4	10.5	7.7	5.3
In percent of public external debt	8.5	8.0	6.8	6.5	6.2	5.8	5.2	4.5	3.7	2.8	2.0
Obligations to the Fund from existing and prospective Fund credit	1,774	2,521	2,586	2,354	1,798	1,600	2,061	2,208	2,403	2,326	1,983
In percent of quota	88.2	125.3	128.6	117.0	89.3	79.5	102.3	109.5	119.2	115.3	98.2
In percent of GDP	0.8	1.0	1.0	0.8	0.6	0.5	0.7	0.7	0.7	0.6	0.5
In percent of exports of goods and nonfactor services	2.6	3.3	3.2	2.6	1.7	1.4	1.7	1.7	1.7	1.6	1.2
In percent of gross reserves	4.4	5.7	5.3	4.4	2.9	2.4	3.0	3.0	3.2	3.0	2.4
In percent of public external debt service	40.2	27.6	38.3	31.5	18.0	14.4	15.0	15.3	15.2	14.5	12.8

Source: Fund staff estimates and projections.

1/ End of period.

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

Table 10. Ukraine: Quantitative Performance Criteria and Indicative Targets 1/

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

	2023 (Quantitative Performance Criteria)									2024 (Indicative Targets)	
	April			June		September		December		March	June
	QPC	Actual	Status	Prgm. PC (CR 23/132)	Proposed Rev. QPC	Prgm. IT (CR 23/132)	Proposed Rev. IT	Prgm. PC (CR 23/132)	Proposed Rev. QPC	Proposed IT	Proposed IT
I. Quantitative Performance Criteria 1/2/											
Floor on the non-defense cash primary balance of the general government, excluding budget support grants (- implies a deficit) 2/											
Program definition (CR 23/132)	258,352	353,024	Met	318,502	…	337,998	…	96,737	…	…	…
Proposed re-definition 3/	…	…	…	…	213,000	…	242,900	…	96,737	100,000	150,000
Floor on net international reserves (in millions of U.S. dollars) 4/	15,500	23,762	Met	15,500	16,500	15,500	16,500	15,500	16,500	16,500	16,500
Floor on tax revenues (excluding Social Security Contributions)	451,700	472,689	Met	696,400	696,400	1,094,700	1,094,700	1,679,170	1,679,170	420,000	835,000
Ceiling on publicly guaranteed debt 5/	…	…	…	…	37,000	37,000	37,000	37,000	37,000	46,000	46,000
II. Indicative Targets 1/2/											
Floor on the overall cash balance of the general government, excluding budget support grants (- implies a deficit)	-356,500	-364,580	Not met	-638,300	-730,000	-1,046,000	-1,141,100	-1,708,700	-1,674,500	-354,000	-750,000
Ceiling on general government borrowing from the NBU 6/ 7/	-2,551	-2,551	Met	-2,573	-2,573	-1,153	-1,153	-704	-704	-9,500	-2,884
Ceiling on general government arrears	6,000	1,757	Met	4,500	4,500	3,000	3,000	1,600	1,600	1,600	1,600
Floor on social spending	187,000	182,321	Not met	258,100	249,000	372,600	359,600	499,600	499,600	172,000	270,000
III. Continuous Performance Criteria 1/2/											
Ceiling on non-accumulation of new external debt payments arrears by the general government	0	0	Met	0	0	0	0	0	0	0	0
Ceiling on publicly guaranteed debt 5/	20,000	0	Met	37,000	…	…	…	…	…	…	…
IV. Memorandum Items 1/2/											
External project financing	23,718	951	…	28,453	11,190	42,660	34,045	56,852	56,828	32,700	65,400
Budget support grants	178,363	179,407	…	268,871	270,823	404,632	404,847	422,916	423,132	79,040	158,080
Budget support loans 8/	324,762	326,082	…	531,646	460,947	713,899	717,586	945,126	955,428	277,183	554,367
Interest payments	39,052	40,104	…	129,702	124,000	183,898	183,600	279,937	283,000	57,910	215,000
NBU profit transfers to the government	71,600	71,868	…	71,600	71,868	71,600	71,868	71,600	71,868	0	20,000
Government bonds for the purposes of bank recapitalization and DGF financing	0	0	…	0	0	0	0	0	0	0	0
Spending from receipts resulting from sales of confiscated Russian assets and transfers of bank accounts	8,000	0	…	17,000	25,800	17,000	25,800	17,000	25,800	25,800	25,800
Spending on gas purchases, PSO compensation and transfer to GTSO	10,000	0	…	30,000	30,000	45,000	45,000	60,000	60,000	0	30,000

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. Targets and projections for 2024 are cumulative flows from January 1, 2024.

3/ Starting with June 2023, the floor on the non-defense cash primary balance of the general government excluding grants is redefined to exclude general fund defense expenditures only.

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

5/ Starting with June 2023, the ceiling on government guarantees was converted into a quantitative performance criterion.

6/ For end-April, calculated cumulative from April 1, for end-June from May 1; for remaining test dates, from end of previous quarter.

7/ Calculated using projected redemption of government bonds as of May 28, 2023.

8/ Excludes prospective IMF disbursements under the EFF.

Table 11. Ukraine: Schedule of Reviews and Available Purchases

Availability Date	Millions of SDR	Millions of USD 1/	Percent of quota	12-month access	Cumulative access	Conditions
March 31, 2023	2,011.83	2,714.98	100.0	150.0	449.0	Board approval of the EFF
June 15, 2023	663.90	895.94	33.0	183.0	473.0	First review and continuous and end-April 2023 performance criteria
October 13, 2023	663.90	895.94	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	521.0	Fourth review and continuous and end-March 2024 performance criteria
September 1, 2024	834.88	1,126.68	41.5	190.5	531.0	Fifth review and continuous and end-June 2024 performance criteria
December 1, 2024	834.88	1,126.68	41.5	199.0	560.0	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	563.0	Eighth review and continuous and end-June 2025 performance criteria
March 1, 2026	965.68	1,296.82	48.0	82.0	571.0	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	15,636.89	577.0			
Memorandum item:						
Quota	2,011.8					

Source: IMF staff calculations.

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

Annex I. 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 nascent 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 that is grant-based or on highly- 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 and more expensive sources (monetary financing, other borrowing on non-concessional terms).	Prioritize spending and seek additional revenue measures. Mobilize domestic financing to plug financing gaps. Diversify external financing sources and obtain financing that is grant-based or on highly concessional terms.

1/ The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path. The relative likelihood is the staff' s subjective assessment of the risks surrounding the baseline (“ low” is meant to indicate 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.	**Medium**	**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. Limit electricity exports. Increase gas production. 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 still 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.

Risks and Risk Likelihood		Expected Impact	Policy Response
Domestic Risks (Continued)			
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, reduces future external financing inflows and could lead to donor fatigue.	Adhere to governance reforms while maintaining recent progress made in strengthening anti-corruption and judicial institutions. Mobilize domestic financing and prioritize spending.
Loss of transit corridors and EU restrictions for agricultural produce.	High	**High.** A non-renewal of the Black Sea Grain Initiative would have a severe impact on Ukraine's balance of payments, exacerbating financing gaps and FX markets and undermining the nascent recovery. A prolonged closure of transit routes through Eastern Europe would curtail exports and weigh on future farming decisions.	Urge partners for a quick resolution toward full implementation of the BSGI and facilitating transit routes. Diversify supply chains. Accelerate the reconstruction of Danube Deep Sea shipping lanes and repair of railroads with external financing.
Nationalization of banks based on grounds other than financial stability considerations	Medium	**Medium.** Excessive interference on political grounds, including the prospect of nationalization for reasons outside of financial stability, could pose risks to foreign-owned banks and the banking system overall.	Implement an updated strategy for SOBs, including a framework to preserve value, manage, and decide the future of freshly nationalized banks.
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.

Risks and Risk Likelihood		Expected Impact	Policy Response
Structural Risks (concluded)			
Cyberthreats. Cyberattacks on critical domestic and/or international physical or digital infrastructure (including digital currency and crypto ecosystems) trigger financial and economic instability.	**High**	**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, energy sector 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 II. Debt Sustainability Analysis

In line with the approach in the EFF request, this DSA presents a pre-restructuring baseline scenario, which is complemented by a pre-restructuring downside scenario DSA, both of which show that debt is unsustainable in the absence of a debt treatment. With the commitments in terms of exceptional financial support, including debt relief, that were secured at program approval, Ukraine's debt sustainability would be restored in both the baseline and downside scenarios. Thus, staff continues to assess public debt as sustainable on a forward-looking basis.

1. **This is an update of the DSA that accompanied Ukraine's March 2023 request for an arrangement under the Extended Fund Facility.** The previous DSA (see IMF Country Report No 23/132) was based on a scenario that envisaged continued contraction in 2023 and a fairly weak medium-term outlook, with a measured reconstruction effort. The downside risks were very large, including from damage to energy infrastructure and uncertainty about the outlook for agricultural activity and the continuation of the Black Sea Grain Initiative. The financing mix reflected substantial concessional lending assumed under the program and the debt standstill. Nevertheless, the debt trajectory was only weakly downward and gross financing needs were elevated, leaving the analytical modules of the DSA uniformly pointing to high risk.

2. **In line with the applicable Fund policies for Ukraine on lending under exceptionally high uncertainty, this DSA continues to make use of two possible medium-term scenarios—baseline and downside.** Both scenarios build from the same 2022 outturn (which is now estimated at 78.5 percent of GDP versus 82 percent at program approval)[1,2] and this annex focuses on the baseline assumptions going forward, as well as a detailed discussion of the downside assumptions, as well as relevant DSA figures.

- **Revisions to the Macroeconomic Outlook.** Recent data suggest that the economy was more resilient in late 2022 and early 2023 than previously envisaged. As a result, the revised baseline scenario has been upgraded, with real GDP growth now at 1–3 percent (versus a range of -3 to +1 percent in the last DSA). The medium-term scenario continues to assume a measured reconstruction effort, so the economic recovery is expected to involve only a brief peak above the country's growth potential, estimated at around 3.5 percent. In line with lower-than-expected inflation outturns, the full-year projection has been revised down and will gradually recede over the medium term, reaching a stable level only in the longer term. Downside risks

[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 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.

[2] Please see IMF Country Report No. 23/132 for a decomposition of public debt and debt service by creditor.

remain very large, notably on potential spillovers from damage to energy infrastructure, and significant uncertainties on the outlook for agricultural activity especially as regards the prospects for continued extensions of the Black Sea Grain Initiative.

- **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. The assumption on budget support grants (US$11.6 billion) is unchanged, and the remainder is generally highly concessional lending. As before, the pre-restructuring 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 mid-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).

- **Debt and GFN trajectories**: Relative to the last DSA, revisions have had modest impacts on the key DSA indicators. Public debt under the revised baseline remains high and is expected to peak at about 101 percent of GDP in 2025 (versus a peak of 105 percent in 2024 in the last DSA). Thereafter, debt will decline to around 75 percent of GDP (versus 78 percent of GDP). GFNs have been revised up to an average of about 18.8 percent of GDP over 2023–28 (versus 18 percent of GDP), largely reflecting higher local currency debt service.

3. Thus, the overall assessment remains unchanged that without additional financial support on appropriate terms, including debt restructuring, Ukraine's debt would be unsustainable in both the baseline and downside scenarios. As a result, both medium-term modules signal high sovereign stress risks, notably a very wide fanchart that points to very high uncertainty around this forecast, and GFN analysis finds 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.

4. Sufficient debt restructuring and assurances for highly concessional lending during and after the program enable an assessment that debt is sustainable on a forward-looking basis. In Ukraine's case, illustrative modeling performed at the time of the program request indicated that medium-term external viability can be achieved with targets for average gross financing needs of 8–9 percent of GDP in the post-program period (i.e., 2028–2033) and the debt-to-GDP ratio of 60–65 percent of GDP in 2033. Staff continues to expect these targets to be achievable 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 highly exceptional uncertainty ends (or by 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 continuing 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.

Annex II. Figure 1. Ukraine: Risk of Sovereign Stress

Horizon	Mechanical signal	Final assessment	Comments
Overall	...	**High**	The overall risk of sovereign stress is high in the baseline scenario, and that vulnerability is amplified in the downside scenario, reflecting high vulnerabilities in the medium-term horizon.
Near term 1/	n.a.	n.a.	Not applicable
Medium term	**High**	**High**	Medium-term risks are assessed as high. The fanchart indicates very high uncertainty around the debt trajectory, and the financeability tool finds high liquidity risks compared with relevant comparators.
Fanchart	**High**	...	
GFN	**High**	...	
Stress test	...	...	
Long term	...	**High**	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 2/	Unsustainable in a pre-restructuring scenario		Restoring medium-term external viability requires policy commitments, as well as specific and credible safeguards commitments and exceptional financing from creditors and donors, including debt relief, consistent with achieving a manageable level of gross financing needs such that debt stabilizes at a sustainable level.
Debt stabilization in the baseline			Yes

DSA Summary Assessment

Ukraine's debt is assessed to be unsustainable in a pre-restructuring scenario, an unchanged assessment from the program request. 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 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 strong prospects that debt stabilizes at a sustainable level. With such commitments and assurances, the pre-restructuring baseline scenario underlines the impact of high projected primary deficits and an anticipated slow recovery from the war. The medium-term modules signal high sovereign stress risks, notably a wide fanchart that points to the very high uncertainty around the forecast, and the GFN tress 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.

1/ The near-term assessment is not applicable in cases where there is a disbursing IMF arrangement. In surveillance-only cases or in cases with precautionary IMF arrangements, the near-term assessment is performed but not published.

2/ A debt sustainability assessment is optional for surveillance-only cases and mandatory in cases where there is a Fund arrangement. The mechanical signal of the debt sustainability assessment is deleted before publication. In surveillance-only cases or cases with IMF arrangements with normal access, the qualifier indicating probability of sustainable debt ("with high probability" or "but not with high probability") is deleted before publication.

Annex II. Figure 2. Ukraine: Debt Coverage and Disclosures

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

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

						Comments
3. Instrument coverage:	Currency & deposits	Loans	Debt securities	Oth acct. payable 2/	IPSGSs 3/	
4. Accounting principles:	Basis of recording		Valuation of debt stock			
	Non-cash basis 4/	Cash basis	Nominal value 5/	Face value 6/	Market value 7/	
5. Debt consolidation across sectors:		Consolidated		Non-consolidated		Data unavailable

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

Reporting on Intra-Government Debt Holdings

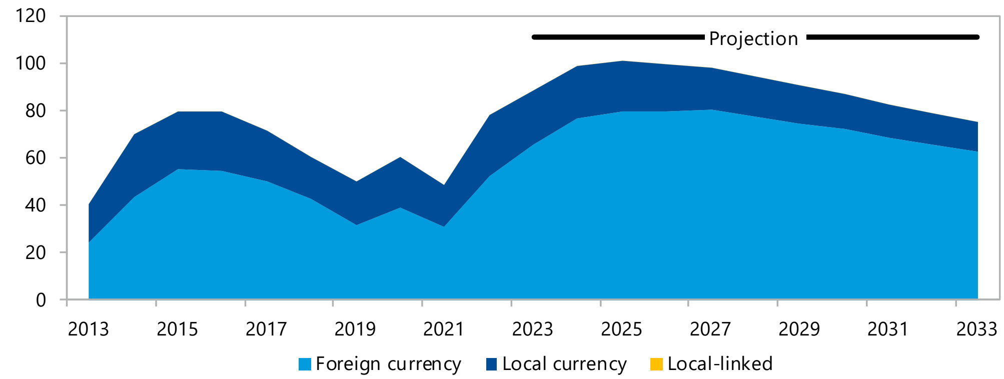
					Issuer \ Holder	Budget. central govt	Extra-budget. funds	Social security funds	State govt.	Local govt.	Nonfin. pub. corp.	Central bank	Oth. pub. fin corp	Total
CPS	NFPS	GG: expected	CG	1	Budget. central govt									0
				2	Extra-budget. funds									0
				3	Social security funds									0
				4	State govt.									0
				5	Local govt.									0
				6	Nonfin pub. corp.									0
				7	Central bank									0
				8	Oth. pub. fin. corp									0
					Total	0	0	0	0	0	0	0	0	0

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

The coverage of the DSA has not changed since the EFF request. It 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 concerning debt consolidation across sectors are not available.

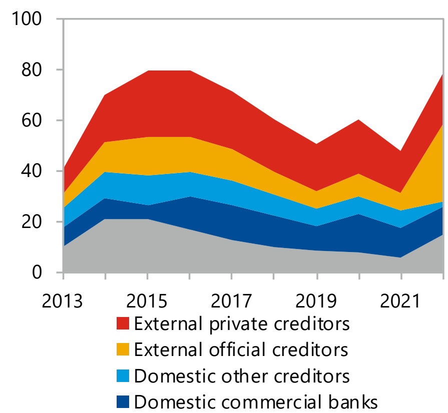
Annex II. Figure 3. Ukraine: Public Debt Structure Indicators

Debt by Currency (Percent of GDP)



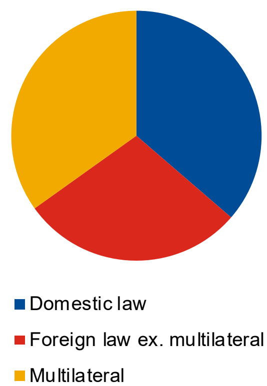
Note: The perimeter shown is general government.

Public Debt by Holder (Percent of GDP)



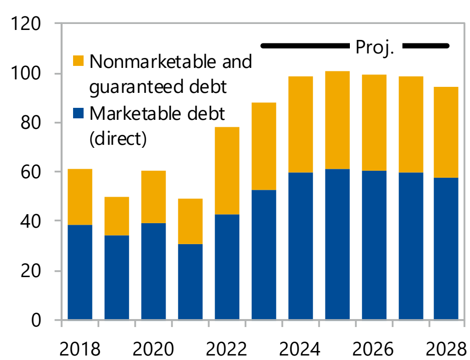
Note: The perimeter shown is general government.

Public Debt by Governing Law, 2022 (Percent)



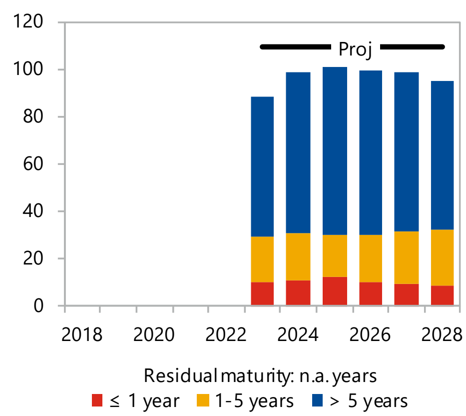
Note: The perimeter shown is general government.

Debt by Instruments (Percent of GDP)



Note: The perimeter shown is general government.

Public Debt by Maturity (Percent of GDP)



Note: The perimeter shown is general government.

The end-2022 debt structure info indicates that externally held debt rose to 64 percent of total public and publicly guaranteed debt, with multilateral debt accounting for the largest share (35 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 the preponderance of expected official financing during the program.

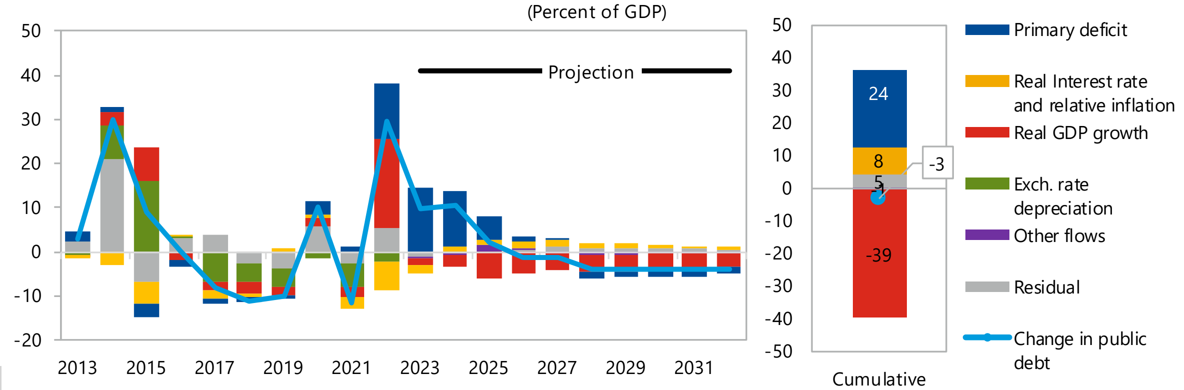
Annex II. Figure 4. Ukraine: Pre-Restructuring Baseline Scenario

(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	78.5	88.1	98.6	100.7	99.5	98.4	94.6	90.9	86.9	82.9	79.0	75.2
Change in public debt	29.5	9.7	10.4	2.1	-1.2	-1.1	-3.8	-3.8	-3.9	-4.1	-3.9	-3.8
Contribution of identified flows	24.1	10.9	10.8	2.1	-1.5	-2.5	-4.7	-4.5	-4.8	-4.8	-4.5	-4.3
Primary deficit	12.6	14.7	12.3	5.3	1.1	0.0	-1.4	-1.5	-1.7	-1.7	-1.7	-1.7
Noninterest revenues	50.3	43.9	41.5	40.6	41.0	41.4	41.8	41.5	41.2	40.6	40.5	40.5
Noninterest expenditures	62.9	58.7	53.7	45.9	42.1	41.4	40.4	40.0	39.5	38.9	38.8	38.8
Automatic debt dynamics	11.5	-3.7	-1.4	-4.8	-3.2	-2.3	-2.6	-2.3	-2.7	-2.8	-2.6	-2.5
Real interest rate and relative inflat	-6.4	-2.2	1.4	1.2	1.6	1.5	1.2	1.3	0.8	0.6	0.5	0.4
Real interest rate	-14.6	-9.8	-5.5	-3.9	-1.7	-0.7	-1.1	-1.2	-1.3	-1.4	-1.4	-1.4
Relative inflation	8.3	7.6	6.9	5.2	3.3	2.3	2.2	2.5	2.1	2.0	1.9	1.8
Real growth rate	20.0	-1.5	-2.7	-6.0	-4.8	-3.8	-3.8	-3.6	-3.5	-3.3	-3.0	-2.9
Real exchange rate	-2.2	...	...	...	...	...	...	...	...	...	...	...
Other identified flows	0.0	-0.1	-0.1	1.7	0.6	-0.2	-0.7	-0.7	-0.4	-0.4	-0.2	-0.1
Contingent liabilities	0.0	0.0	0.0	1.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
(minus) Interest Revenues	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other transactions	0.0	-0.1	-0.1	0.4	0.6	-0.2	-0.7	-0.7	-0.4	-0.4	-0.2	-0.1
Contribution of residual	5.4	-1.2	-0.4	0.0	0.3	1.4	0.9	0.7	0.9	0.8	0.6	0.5
Gross financing needs	25.0	26.0	26.3	19.9	16.1	12.9	11.3	10.7	9.3	9.9	7.8	7.6
of which: debt service	12.4	11.3	14.1	13.4	15.0	12.9	12.6	12.1	11.0	11.6	9.5	9.2
Local currency	8.0	7.9	8.2	8.4	9.6	8.0	6.9	6.0	5.1	5.4	3.8	3.9
Foreign currency	4.4	3.4	5.9	5.0	5.4	4.9	5.8	6.1	5.9	6.2	5.7	5.3
Memo:												
Real GDP growth (percent)	-29.1	2.0	3.2	6.5	5.0	4.0	4.0	4.0	4.0	4.0	3.8	3.8
Inflation (GDP deflator; percent)	34.3	22.8	15.0	9.9	6.5	5.0	5.0	5.0	5.0	5.0	5.0	5.0
Nominal GDP growth (percent)	-4.8	25.2	18.6	17.1	11.8	9.2	9.2	9.2	9.2	9.2	9.0	9.0
Effective interest rate (percent)	5.8	7.1	7.6	5.2	4.6	4.2	3.8	3.6	3.5	3.2	3.1	3.0

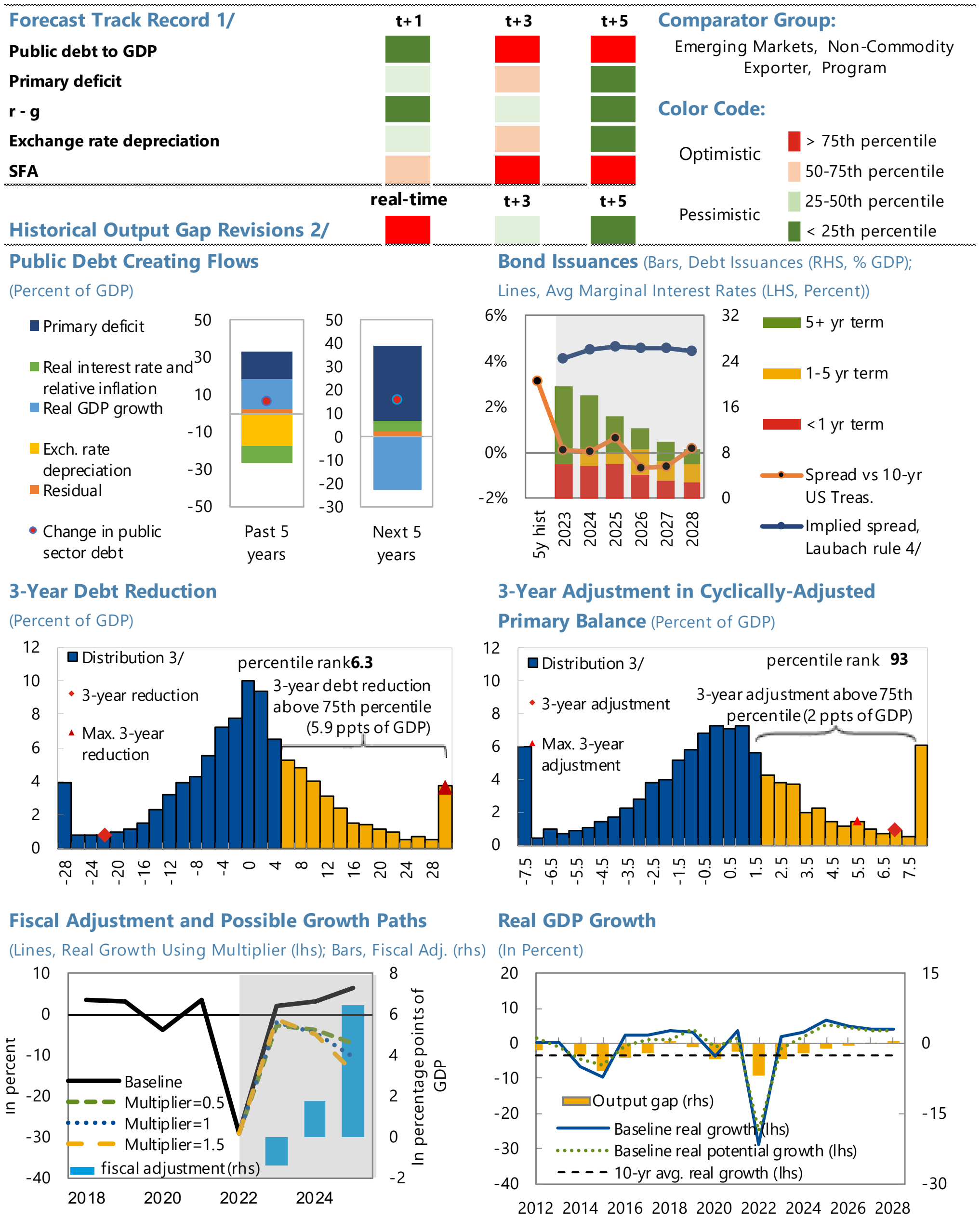
Contribution to Change in Public Debt

(Percent of GDP)



The dynamics of public debt are little changed from the EFF approval. Overall, key debt drivers, which were impacted heavily by the war, resulted in a step-rise in Ukraine's debt-to-GDP ratio in 2022. Debt is projected to rise further in 2023-25, largely reflecting the primary deficit. A recovery that is expected to take hold in 2025 as macroeconomic conditions and confidence improves will lead to a slight downward trajectory over the rest of the forecast horizon. The modestly downward trajectory reflects contributions from both the real interest rate-growth differential (notwithstanding a slight upward revision to the effective interest rate since the program request) and a better primary balance, including through fiscal adjustment. Debt service assumptions incorporate the terms of the 2022 debt service standstill agreed with private bondholders and warrant holders, as well as the standstill with a group of official bilateral creditors. Medium-term gross financing needs are slightly higher than in the program request, largely reflecting higher local currency debt service.

Annex iI. Figure 5. Ukraine: Realism of Pre-Restructuring Baseline Scenario Assumptions



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

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

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

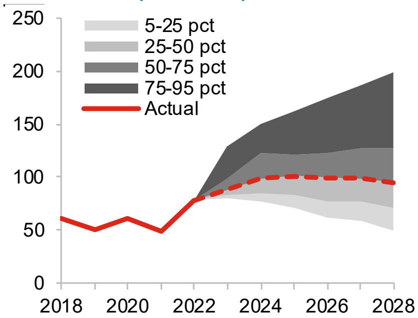
3/ Data cover annual observations over 1990-2019 for MAC advanced and emerging economies. Pct. of sample on vertical .

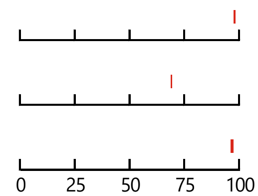
4/ The Laubach (2009) rule is a linear rule assuming bond spreads increase by about 4 bps in response to a 1 ppt increase in the projected debt-to-GDP ratio.

Annex II. Figure 6. Ukraine: Medium-Term Risk Analysis (Pre-Restructuring Baseline Scenario)

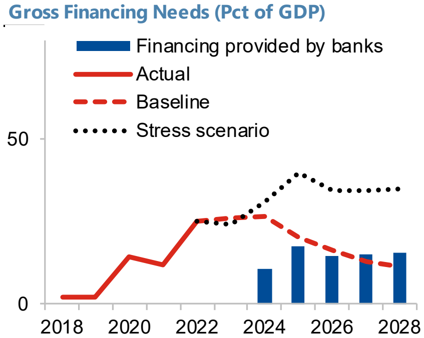
	Value	Contrib 1/	Percentile in peer group 2/
Debt fanchart module			
Fanchart width *(percent of GDP)*	149.0	2.2	
Probability of debt non-stabilization *(percent)*	10.0	0.1	
Terminal debt-to-GDP x institutions index	64.9	1.4	
Debt fanchart index (DFI)		3.7	
Risk signal: 3/		**High**	
Gross financing needs (GFN) module			
Average baseline GFN *(percent of GDP)*	18.8	6.4	
Banks' claims on the ge govt *(pct bank assets)*	21.3	6.9	
Chg. In banks' claims in stress *(pct banks' assets)*	80.1	26.8	
GFN financeability index (GFI)		40.1	
Risk signal: 4/		**High**	

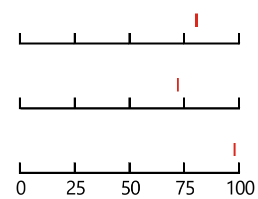
Final Fanchart (Pct of GDP)





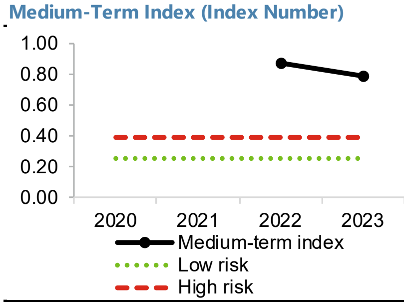
Gross Financing Needs (Pct of GDP)





Banking crisis Commodity prices Exchange rate Contingent liab. Natural disaster

Medium-Term Index (Index Number)



Medium-term risk analysis

	Value	Norm. Value	Weight	Contrib-ution
Debt fanchart index	3.7	0.81	0.50	0.41
GFN financeability index	40.1	0.77	0.50	0.39
Medium-term index		0.8		
Risk signal: 5/	**High**			
Final assessment:	**High**			

Prob. of missed crisis, 2023-2028, if stress not predicted: 90.9 pct.
Prob. of false alarms, 2023-2028, if stress predicted: 0.0 pct.

Both medium-term modules signal high sovereign stress risks in the baseline scenario, as in the EFF request. Although the DFI has improved slightly since the last DSA, it remains deeply in high-risk territory. This result mainly reflects the fanchart's high width (a measure of volatility and uncertainty) and the elevated terminal debt level. The GFI has weakened a bit and still indicates high liquidity-related risks, reflecting a slightly higher average GFN-to-GDP ratio in the baseline and somewhat higher changes in bank claims on the government in a stress scenario, which are very high and would be difficult to manage if these shocks materialized. The current level of bank exposures to the government is 21.3 percent--unchanged from the last DSA--but still somewhat elevated by cross-country comparison. Overall, the medium-term index is little changed since the EFF request and is consistent with high risk in line with the mechanical signals from both tools.

Source: IMF staff estimates and projections.

1/ See Annex IV of IMF, 2022, Staff Guidance Note on the Sovereign Risk and Debt Sustainability Framework for details on index calculation.

2/ The comparison group is emerging markets, non-commodity exporter, program.

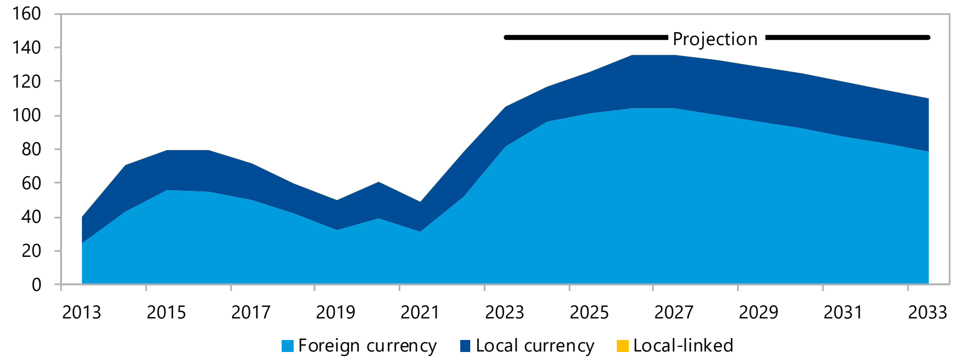
3/ The signal is low risk if the DFI is below 1.13; high risk if the DFI is above 2.08; and otherwise, it is moderate risk.

4/ The signal is low risk if the GFI is below 7.6; high risk if the DFI is above 17.9; and otherwise, it is moderate risk.

5/ The signal is low risk if the GFI is below 0.26; high risk if the DFI is above 0.40; and otherwise, it is moderate risk.

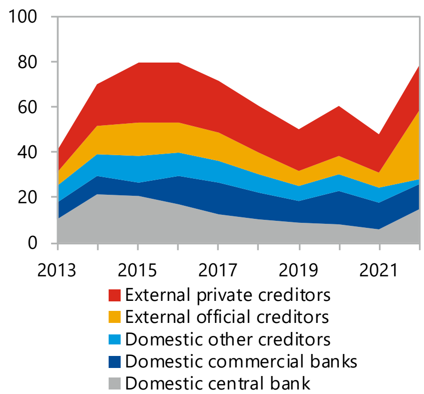
Annex II. Figure 7 Ukraine: Public Debt Structure Indicators Under the Pre-Restructuring Downside Scenario

Debt by Currency (Percent of GDP)



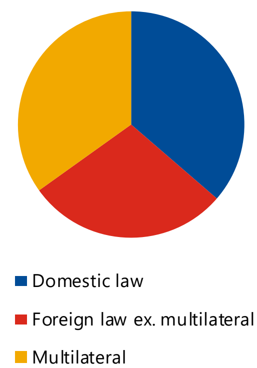
Note: The perimeter shown is general government.

Public Debt by Holder (Percent of GDP)



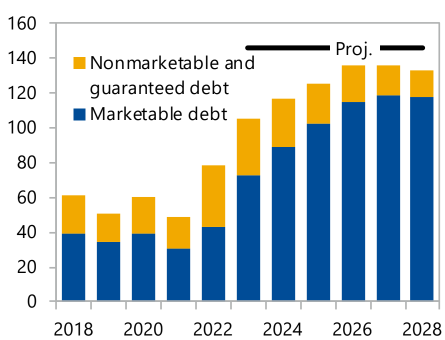
Note: The perimeter shown is general government.

Public Debt by Governing Law, 2022 (Percent)



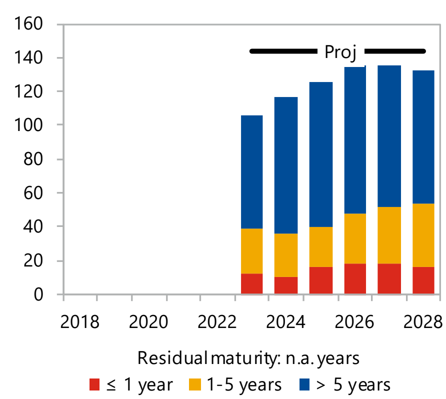
Note: The perimeter shown is general government.

Debt by Instruments (Percent of GDP)



Note: The perimeter shown is general government.

Public Debt by Maturity (Percent of GDP)



Note: The perimeter shown is general government.

As in the downside scenario presented in the last DSA, the share of local currency debt grows notably to a substantially higher medium-term level than in the baseline, due to elevated financing needs. The maturity structure is also tilted toward the shorter-term relative to the baseline.

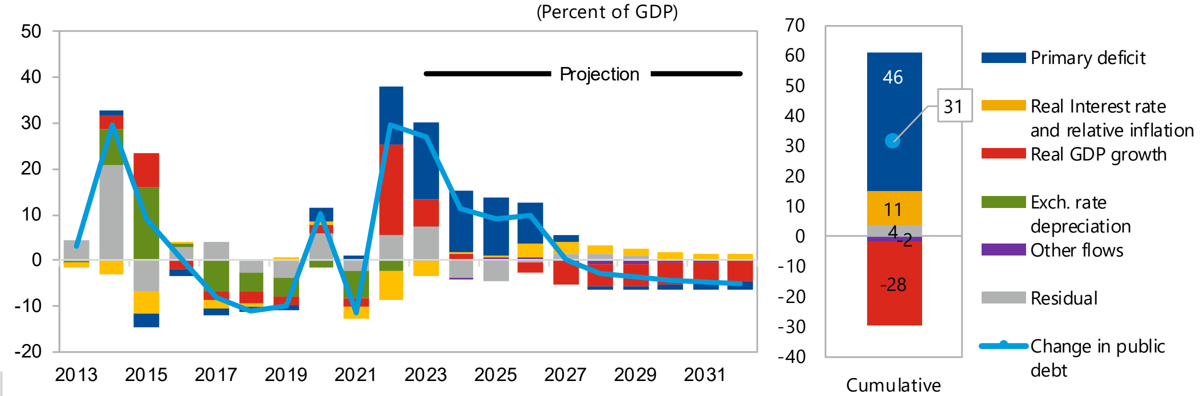
Annex II. Figure 8. Ukraine: Pre-Restructuring Downside Scenario

(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	78.5	105.4	116.7	125.7	135.7	135.8	132.8	129.2	124.9	120.1	115.1	109.9
Change in public debt	29.5	27.0	11.3	9.0	10.0	0.2	-3.0	-3.6	-4.3	-4.8	-4.9	-5.3
Contribution of identified flows	24.1	19.6	15.1	13.6	10.3	-1.4	-4.5	-4.7	-4.7	-5.1	-5.1	-5.4
Primary deficit	12.6	17.0	13.5	12.7	9.2	1.4	-0.7	-0.8	-1.1	-1.4	-1.7	-2.1
Noninterest revenues	50.3	46.6	43.0	40.3	40.3	38.5	38.6	38.3	38.2	38.2	38.2	38.4
Noninterest expenditures	62.9	63.6	56.5	53.0	49.5	39.8	37.9	37.6	37.1	36.8	36.5	36.3
Automatic debt dynamics	11.5	2.6	1.7	0.4	0.3	-2.7	-3.1	-3.2	-3.2	-3.3	-3.2	-3.1
Real interest rate and relative inflat	-6.4	-3.3	0.1	0.4	2.8	2.5	1.9	1.6	1.5	1.3	1.2	1.1
Real interest rate	-14.6	-13.2	-14.8	-12.8	-2.2	-0.5	-1.0	-1.1	-1.2	-1.2	-1.2	-1.2
Relative inflation	8.2	9.9	14.9	13.2	5.0	3.0	2.9	2.8	2.7	2.6	2.4	2.3
Real growth rate	20.0	5.9	1.6	0.0	-2.5	-5.2	-5.0 .	-4.9	-4.7	-4.6	-4.4	-4.2
Real exchange rate	-2.2	...	...	...	...	...	... .	...	...	...	...	...
Other identified flows	0.0	-0.1	-0.1	0.5	0.8	-0.1	-0.7	-0.7	-0.4	-0.4	-0.2	-0.2
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
(minus) Interest Revenues	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other transactions	0.0	-0.1	-0.1	0.5	0.8	-0.1	-0.7	-0.7	-0.4	-0.4	-0.2	-0.2
Contribution of residual	5.5	7.4	-3.8	-4.6	-0.3	1.6	1.5	1.0	0.4	0.3	0.2	0.1
Gross financing needs	25.0	29.1	30.1	27.2	30.3	23.7	22.2	21.3	18.9	20.3	15.1	14.8
of which: debt service	12.4	12.0	16.6	14.5	21.2	22.4	22.9	22.0	20.0	21.8	16.8	16.8
Local currency	8.0	8.3	8.8	7.9	13.9	15.9	15.3	14.0	12.3	13.8	9.4	10.0
Foreign currency	4.4	3.7	7.8	6.6	7.3	6.4	7.6	8.1	7.8	8.0	7.4	6.8
Memo:												
Real GDP growth (percent)	-29.1	-7.0	-1.5	0.0	2.0	4.0	3.8	3.8	3.8	3.8	3.8	3.8
Inflation (GDP deflator; percent)	34.3	26.7	24.9	18.3	7.3	5.2	5.0	5.0	5.0	5.0	5.0	5.0
Nominal GDP growth (percent)	-4.8	17.8	23.1	18.3	9.5	9.4	9.0	9.0	9.0	9.0	9.0	9.0
Effective interest rate (percent)	5.8	6.8	7.7	5.3	5.5	4.8	4.2	4.1	4.0	3.9	3.9	3.9

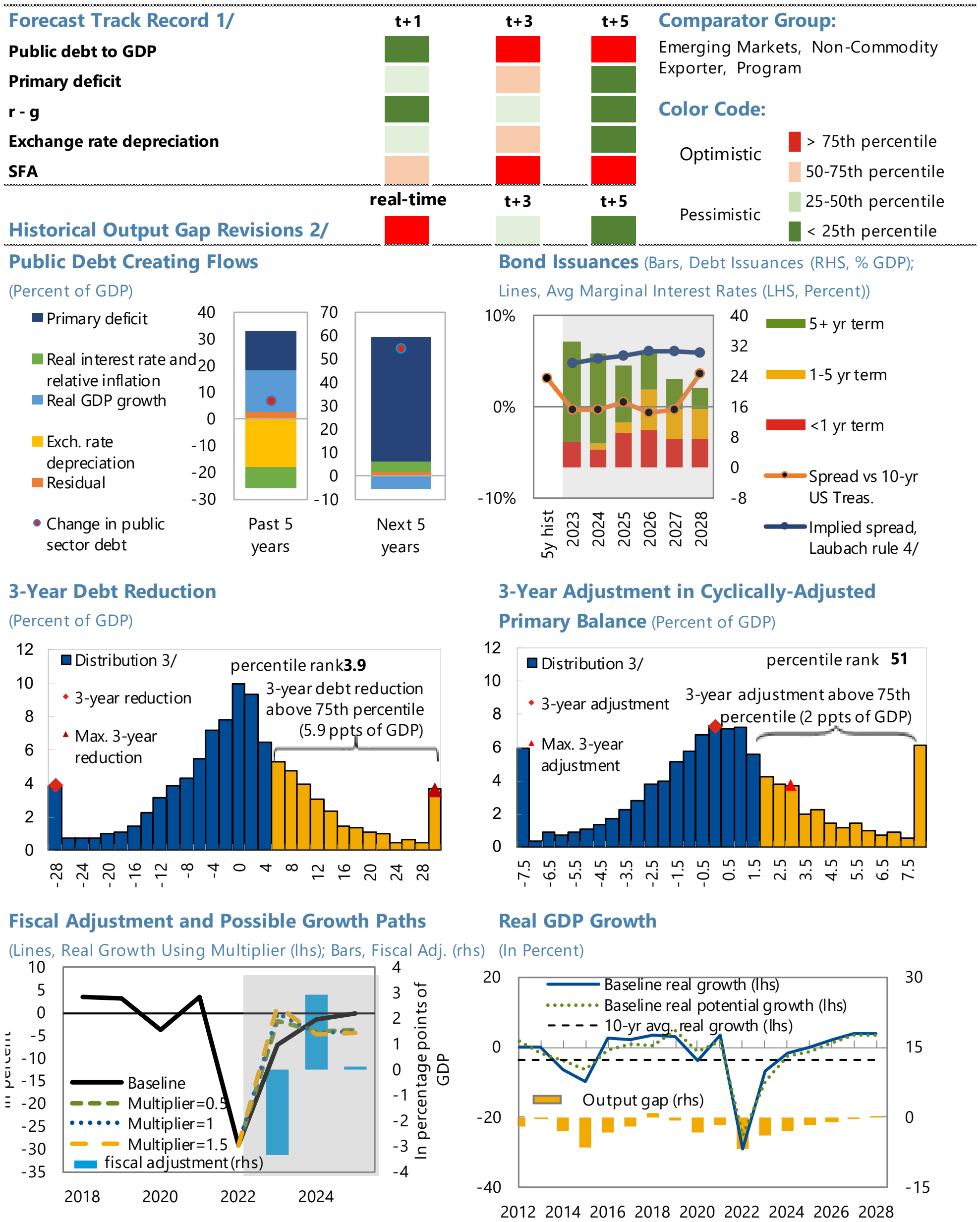
Contribution to Change in Public Debt

(Percent of GDP)



The features of the downside scenario presented in the Request for an Arrangement under the Extended Fund Facility have not changed, although debt levels have been revised down. In particular, the contour of the debt trajectory in the adverse scenario is sharply upward over the next several years before it decreases to still-high levels. Likewise, the financing needs are substantially higher in the adverse scenario, particularly in the next five years.

Annex II. Figure 9. Ukraine: Realism of Pre-Restructuring Downside Scenario Assumptions



The forecast track record provides the same results as in the baseline as it is anchored by past outturns. It continues to provide limited guidance given the severe structural break. The remaining tools are anchored on the downside scenario and they illustrate that: (i) the pattern of debt drivers would be substantially different than in the past five years; (ii) that borrowing costs could rise in line with the medium-term upward trend in debt-to-GDP; (iii) that neither the debt reduction nor the fiscal adjustment would be outside in cross country comparison; (iv) that growth is broadly in line with the assumed fiscal adjustment. The real GDP growth comparisons are distorted by the very large downside shocks in Ukraine's recent history.

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

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

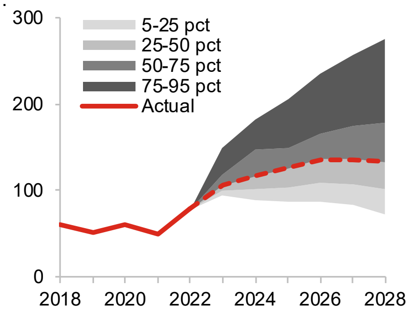
3/ Data cover annual observations over 1990-2019 for MAC advanced and emerging economies. Pct. of sample on vertical axis.

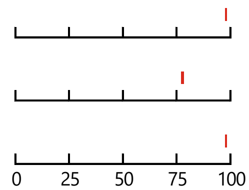
4/ The Laubach (2009) rule is a linear rule assuming bond spreads increase by about 4 bps in response to a 1 ppt increase in the projected debt-to-GDP ratio.

Annex II. Figure 10. Ukraine: Medium-Term Risk Analysis Under the Pre-Restructuring Downside Scenario

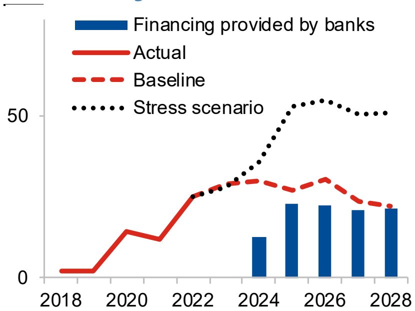
	Value	Contrib [1/]	Percentile in peer group [2/]
Debt fanchart module			
Fanchart width *(percent of GDP)*	202.0	2.9	
Probability of debt non-stabilization *(percent)*	15.9	0.1	
Terminal debt-to-GDP x institutions index	91.1	2.0	
Debt fanchart index (DFI)		5.0	
Risk signal: [3/]		**High**	
Gross financing needs (GFN) module			
Average baseline GFN *(percent of GDP)*	27.1	9.2	
Banks' claims on the ge govt *(pct bank assets)*	21.3	6.9	
Chg. In banks' claims in stress *(pct banks' assets)*	126.8	42.4	
GFN financeability index (GFI)		58.6	
Risk signal: [4/]		**High**	

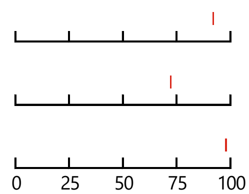
Final Fanchart (Pct of GDP)





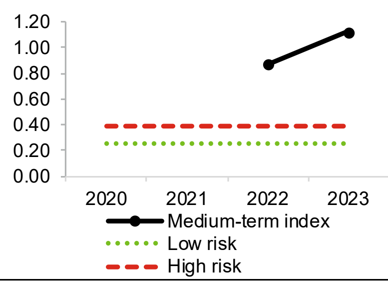
Gross Financing Needs (Pct of GDP)





Banking crisis Commodity prices Exchange rate Contingent liab. Natural disaster

Medium-Term index (Index Number)



Medium-term risk analysis

	Value	Norm. Value	Weight	Contrib-ution
Debt fanchart index	5.0	1.12	0.50	0.56
GFN financeability index	58.6	1.13	0.50	0.56
Medium-term index		1.1		
Risk signal: 5/	**High**			
Final assessment:	**High**			

Prob. of missed crisis, 2023-2028, if stress not predicted: 100.0 pct.
Prob. of false alarms, 2023-2028, if stress predicted: 0.0 pct.

As in the baseline and the analysis performed on the downside scenario in the EFF request, both medium-term modules signal high risks of sovereign stress. All three components of the DFI (width, probability of stabilization, and terminal debt level interacted with an institutions index) are worse than in the baseline; reflecting the slightly lower path for public debt, these metrics are a bit improved than the past DSA. The GFI is little changed since the EFF request and remains very high and well-above the baseline, reflecting higher levels of average GFNs and the change on bank claims in the stress scenario (the initial bank claims on the government is a data outturn and is common across both scenarios).

Source: IMF staff estimates and projections.

1/ See Annex IV of IMF, 2022, Staff Guidance Note on the Sovereign Risk and Debt Sustainability Framework for details on index calculation.

2/ The comparison group is emerging markets, non-commodity exporter, program.

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

4/ The signal is low risk if the GFI is below 7.6; high risk if the DFI is above 17.9; and otherwise, it is moderate risk.

5/ The signal is low risk if the GFI is below 0.26; high risk if the DFI is above 0.40; and otherwise, it is moderate risk.

Annex III. Downside Scenario

1. In line with the Fund's policy on lending under exceptionally high uncertainty, staff has updated the downside scenario with the underlying assumptions broadly unchanged. There have been modest revisions to the assumptions on account of baseline carryover effects from outturn data. The downside scenario still assumes a longer and more intense war compared to the current baseline scenario, strongly weighing on firm and household sentiment, and causing further infrastructure damage from attacks. This would result in a sharp real GDP decline of 7 percent in 2023 (versus 1–3 percent growth in the baseline) and a further contraction of 1.5 percent in 2024. In view of continuing high defense needs and lower economic activity, the fiscal deficit would further increase in 2023–24 and improve only gradually thereafter. Imbalances in the FX market would resurface and then be expected to persist for longer, given worse export performance, leading to higher nominal depreciation in the coming years before converging to the baseline trend. The subsequent recovery would be more subdued than in the baseline scenario, given the even greater damage to the capital stock and weakened balance sheets, leaving output to remain well-below pre-war levels.

2. The updated cumulative financing gap in the downside scenario would remain around US$140 billion at the EFF request, about a US$25 billion increase compared with 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 in the 5-year post-program period (up to the US$7.1 billion per year described in the EFF request), this scenario would also require some mix of additional grants in the program period, highly concessional financing consistent with assurances received, and a further debt treatment to ensure debt sustainability. This would 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 at the EFF request, 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 and since the EFF approval to achieve economic and financial stability.

4. Building on this track record of effective economic management, the authorities continue to stand ready to react decisively to a potential downside scenario through a prompt policy response, which would be largely in line with those outlined at the EFF request. The authorities stand ready to take appropriate policy measures as needed. Contingency plans from the EFF request are re-confirmed and would require a mix of increases in tax revenues, seeking further external financing, larger mobilization of domestic financing, and likely further adjusting FX policies and CFMs (to be justified and temporary). On the fiscal side, given the very tight expenditure envelope remains in the 2023 budget, the bulk of the adjustment would come from tax measures that could be effectively and rapidly implemented to boost revenues. That said, some spending should be made contingent on available financing. In parallel, the authorities would use and enhance necessary measures to continue to access additional domestic financing as needed to ensure that especially near-term fiscal financing gaps are closed, without compromising economic, financial, and monetary stability. Temporary pressures on the exchange rate peg under the downside scenario may require the reintroduction of some CFMs or FX controls used in the earlier days of the war.

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

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

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

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
	Act.	Act.	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/	5,451	5,191	6,115	7,526	8,905	9,751	10,666	11,626	12,673	13,814	15,057	16,413	17,890
Real GDP 1/	3.4	-29.1	-7.0	-1.5	0.0	2.0	4.0	3.8	3.8	3.8	3.8	3.8	3.8
Contributions:													
Domestic demand	12.9	-23.7	-2.2	-0.7	0.2	2.1	2.6	2.8	2.5	2.5	2.1	2.0	2.0
Private consumption	4.7	-16.6	-0.8	0.1	0.4	2.2	2.7	2.4	2.1	2.0	1.7	1.6	1.6
Public consumption	0.1	6.9	0.8	0.7	0.7	0.3	0.3	0.3	0.3	0.1	0.1	0.0	0.0
Investment	8.1	-13.9	-2.1	-1.5	-1.0	-0.4	-0.4	0.1	0.1	0.3	0.3	0.3	0.3
Net exports	-9.5	-5.4	-4.8	-0.8	-0.2	-0.1	1.4	1.0	1.3	1.3	1.7	1.8	1.8
GDP deflator	24.8	34.3	26.7	24.9	18.3	7.3	5.2	5.0	5.0	5.0	5.0	5.0	5.0
Unemployment rate (ILO definition; period average, percent	9.8	24.5	19.4	10.6	9.2	8.7	8.4	8.5	8.2	8.1	8.1	8.0	8.0
Consumer prices (period average)	9.4	20.2	21.8	22.8	14.6	9.8	6.3	5.0	5.0	5.0	5.0	5.0	5.0
Consumer prices (end of period)	10.0	26.6	25.0	18.0	12.0	8.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
Nominal wages (average)	20.8	1.0	18.8	16.0	14.5	12.0	9.6	9.2	9.2	9.1	9.1	9.0	9.0
Real wages (average)	10.5	-16.0	-2.4	-5.5	-0.2	2.0	3.1	4.0	4.0	3.9	3.9	3.8	3.8
Savings (percent of GDP)	12.8	17.6	8.2	7.5	11.1	14.8	15.4	14.6	15.0	15.1	15.2	15.3	15.6
Private	13.0	30.8	27.0	24.7	25.7	26.5	19.0	15.4	15.4	14.9	14.4	14.1	13.8
Public	-0.2	-13.2	-18.8	-17.2	-14.5	-11.7	-3.5	-0.8	-0.4	0.2	0.8	1.2	1.8
Investment (percent of GDP)	14.5	12.6	13.0	13.5	14.4	16.2	17.1	17.4	17.7	18.0	18.2	18.5	18.8
Private	10.7	10.1	10.3	10.7	11.0	12.4	13.3	13.6	13.9	14.1	14.4	14.6	14.9
Public	3.8	2.5	2.7	2.8	3.4	3.8	3.8	3.8	3.8	3.9	3.9	3.9	3.9
General Government (percent of GDP)													
Fiscal balance 2/	-4.0	-15.7	-21.5	-20.0	-17.9	-15.5	-7.3	-4.6	-4.2	-3.7	-3.0	-2.6	-2.1
Fiscal balance, excl. grants 2/	-4.0	-25.0	-32.1	-28.8	-23.9	-19.6	-8.7	-5.8	-5.2	-4.6	-4.0	-3.5	-2.9
External financing (net)	2.4	10.8	19.5	18.5	10.4	5.3	4.2	0.8	2.6	0.8	-0.1	0.0	0.1
Domestic financing (net), of which:	1.6	5.1	2.0	1.5	7.5	10.2	3.1	3.8	1.6	2.9	3.2	2.6	2.0
NBU	-0.3	7.4	-0.2	-0.2	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Commercial banks	1.5	-1.5	2.5	1.6	7.6	10.3	3.1	3.9	1.6	2.9	3.2	2.6	2.0
Public and publicly-guaranteed debt	48.9	78.5	105.4	116.7	125.7	135.7	135.8	132.8	129.2	124.9	120.1	115.1	109.9
Money and credit (end of period, percent change)													
Base money	11.2	19.6	25.3	17.3	10.3	5.6	6.3	5.0	5.0	5.0	5.0	5.0	5.0
Broad money	12.0	20.8	22.0	19.8	15.4	12.7	12.3	9.0	9.0	9.0	9.0	9.0	9.0
Credit to nongovernment	8.4	-3.1	-12.5	12.1	8.6	8.0	5.0	5.5	7.1	7.6	8.7	10.2	10.2
Balance of payments (percent of GDP)													
Current account balance	-1.6	5.0	-4.9	-6.0	-3.3	-1.4	-1.6	-2.8	-2.7	-2.8	-3.1	-3.2	-3.2
Foreign direct investment	3.8	0.3	0.4	0.5	0.8	2.2	3.9	4.8	4.9	4.9	4.9	4.9	5.0
Gross reserves (end of period, billions of U.S. dollars)	30.9	28.5	30.5	33.2	36.1	39.4	45.7	48.3	51.2	54.3	56.0	57.6	60.5
Months of next year's imports of goods and services	4.5	3.9	4.3	4.8	5.1	5.4	5.8	5.8	5.9	6.0	5.9	5.8	6.0
Percent of short-term debt (remaining maturity)	67.5	65.2	62.6	73.9	74.3	82.0	90.3	85.7	94.2	95.0	100.9	102.8	99.3
Percent of the IMF composite metric (float)	98.8	91.3	84.9	80.8	82.5	84.2	94.6	97.3	99.7	104.4	105.2	107.2	110.5
Goods exports (annual volume change in percent)	34.3	-44.7	-25.7	8.7	12.5	10.1	9.7	8.9	8.3	7.7	7.4	7.3	7.2
Goods imports (annual volume change in percent)	17.2	-24.4	8.1	4.1	9.2	11.3	9.0	7.8	4.8	4.3	4.4	4.5	4.5
Goods terms of trade (percent change)	-8.4	-11.6	3.7	0.4	1.8	2.3	0.8	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	...	...	...	...	...	...	...	...	...	...	...
Hryvnia per U.S. dollar (period average)	27.3	32.3	...	...	...	...	...	...	...	...	...	...	...
Real effective rate (deflator-based, percent change)	10.5	28.2	...	...	...	...	...	...	...	...	...	...	...
Memorandum items:													
Real GDP as share of 2021 Real GDP	100	71	66	65	65	66	69	72	74	77	80	83	86
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.

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

(Billions of Ukrainian Hryvnia)

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
	Act.	Act.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Revenue	1,990	2,609	2,848	3,237	3,587	3,933	4,105	4,482	4,859	5,276	5,756	6,270	6,866
Tax revenue	1,825	1,782	2,030	2,386	2,833	3,291	3,699	4,060	4,418	4,805	5,254	5,734	6,294
Tax on income, profits, and capital gains	514	551	608	733	870	955	1,047	1,103	1,224	1,355	1,492	1,626	1,772
Personal income tax	350	421	499	600	712	777	852	890	992	1,092	1,201	1,309	1,426
Corporate profit tax	164	131	109	134	158	178	195	212	232	262	291	317	346
Social security contributions	358	430	500	472	500	627	691	792	822	873	1,001	1,083	1,176
Property tax	43	37	32	47	51	48	49	49	49	49	50	50	50
Tax on goods and services	731	592	700	899	1,121	1,335	1,552	1,727	1,899	2,076	2,221	2,448	2,728
VAT	536	467	518	661	809	946	1,096	1,221	1,352	1,489	1,564	1,722	1,943
Excise	180	115	170	222	294	369	434	483	522	561	630	698	754
Other	14	10	13	16	18	20	21	23	24	26	27	29	30
Tax on international trade	38	26	38	50	60	70	80	93	102	111	120	129	139
Other tax	140	145	152	185	231	255	280	296	322	342	370	397	428
Nontax revenue	166	827	818	851	755	642	406	422	441	471	502	536	573
Grants	1	481	647	666	531	400	145	140	127	132	136	141	145
Expenditure	2,207	3,426	4,166	4,742	5,182	5,440	4,884	5,018	5,389	5,784	6,215	6,698	7,234
Current	1,995	3,298	3,934	4,475	4,786	4,812	4,433	4,556	4,861	5,188	5,566	5,990	6,463
Compensation of employees	516	1,240	1,421	1,483	1,478	1,224	872	906	950	998	1,067	1,150	1,237
Goods and services	483	848	998	976	1,042	997	767	726	777	821	888	953	1,030
Interest	155	162	276	491	463	612	634	614	628	661	676	706	737
Subsidies to corporations and enterprises	116	131	205	252	289	317	337	328	344	351	369	387	406
Social benefits	724	917	1,031	1,270	1,515	1,658	1,818	1,979	2,158	2,353	2,561	2,790	3,047
Social programs (on budget)	154	285	241	360	473	545	574	688	847	962	1,050	1,117	1,311
Pensions	519	583	744	852	974	1,040	1,139	1,150	1,130	1,170	1,250	1,370	1,390
Unemployment, disability, and accident	52	48	46	58	68	73	105	142	180	222	261	303	346
Other current expenditures	1	1	2	3	0	3	4	4	4	4	4	5	5
Capital	207	130	168	212	300	369	403	440	480	533	581	633	690
Net lending	5	-2	13	16	49	208	-9	-39	7	73	80	87	95
Contingency reserve 2/	0	0	51	39	47	51	56	61	42	-11	-12	-13	-14
General government overall balance	-216	-817	-1,318	-1,504	-1,595	-1,507	-779	-536	-530	-507	-459	-428	-368
General government overall balance, excluding grants	-218	-1,298	-1,964	-2,170	-2,126	-1,907	-924	-676	-657	-639	-595	-568	-513
General government financing	216	817	1,318	1,504	1,595	1,507	779	536	530	507	459	428	368
External	132	560	1,195	1,392	927	512	449	92	328	110	-17	0	16
Disbursements	239	615	1,288	1,613	1,178	867	782	619	732	836	864	892	920
Amortizations	-107	-55	-93	-221	-251	-355	-332	-527	-404	-726	-881	-892	-904
Domestic (net)	85	263	123	112	668	995	330	444	202	398	476	428	352
Bond financing 3/	66	295	117	106	662	989	324	438	196	392	470	422	346
o/w NBU	-14	383	-15	-12	-13	-12	-12	-12	-12	-12	-12	-12	-12
o/w Commercial banks	79	-77	156	118	675	1,001	336	450	208	403	481	434	358
Direct bank borrowing	30	-2	0	0	0	0	0	0	0	0	0	0	0
Deposit finance	-19	-37	0	0	0	0	0	0	0	0	0	0	0
Privatization	7	20	6	6	6	6	6	6	6	6	6	6	6
Financing Gap/unindentified measures (-gap/+surplus)	0	0	0	0	0	0	0	0	0	0	0	0	0
Memorandum items:													
Primary balance	-62	-655	-1,041	-1,013	-1,132	-895	-145	78	98	153	218	278	369
Public and publicly-guaranteed debt	2,667	4,072	6,446	8,781	11,193	13,227	14,488	15,444	16,374	17,250	18,080	18,899	19,658
Nominal GDP (billions of Ukrainian hryvnia)	5,451	5,191	6,115	7,526	8,905	9,751	10,666	11,626	12,673	13,814	15,057	16,413	17,890

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

1/ National methodology, cash basis.

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

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

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

(Percent of GDP)

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
	Act.	Act.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Revenue	36.5	50.3	46.6	43.0	40.3	40.3	38.5	38.6	38.3	38.2	38.2	38.2	38.4
Tax revenue	33.5	34.3	33.2	31.7	31.8	33.7	34.7	34.9	34.9	34.8	34.9	34.9	35.2
Tax on income, profits, and capital gains	9.4	10.6	9.9	9.7	9.8	9.8	9.8	9.5	9.7	9.8	9.9	9.9	9.9
Personal income tax	6.4	8.1	8.2	8.0	8.0	8.0	8.0	7.7	7.8	7.9	8.0	8.0	8.0
Corporate profit tax	3.0	2.5	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.9	1.9	1.9	1.9
Social security contributions	6.6	8.3	8.2	6.3	5.6	6.4	6.5	6.8	6.5	6.3	6.6	6.6	6.6
Property tax	0.8	0.7	0.5	0.6	0.6	0.5	0.5	0.4	0.4	0.4	0.3	0.3	0.3
Tax on goods and services	13.4	11.4	11.4	11.9	12.6	13.7	14.5	14.9	15.0	15.0	14.8	14.9	15.2
VAT	9.8	9.0	8.5	8.8	9.1	9.7	10.3	10.5	10.7	10.8	10.4	10.5	10.9
Excise	3.3	2.2	2.8	3.0	3.3	3.8	4.1	4.2	4.1	4.1	4.2	4.3	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
Tax on international trade	0.7	0.5	0.6	0.7	0.7	0.7	0.7	0.8	0.8	0.8	0.8	0.8	0.8
Other tax	2.6	2.8	2.5	2.5	2.6	2.6	2.6	2.5	2.5	2.5	2.5	2.4	2.4
Nontax revenue	3.0	15.9	13.4	11.3	8.5	6.6	3.8	3.6	3.5	3.4	3.3	3.3	3.2
Grants	0.0	9.3	10.6	8.8	6.0	4.1	1.4	1.2	1.0	1.0	0.9	0.9	0.8
Expenditure	40.5	66.0	68.1	63.0	58.2	55.8	45.8	43.2	42.5	41.9	41.3	40.8	40.4
Current	36.6	63.5	64.3	59.5	53.8	49.3	41.6	39.2	38.4	37.6	37.0	36.5	36.1
Compensation of employees	9.5	23.9	23.2	19.7	16.6	12.6	8.2	7.8	7.5	7.2	7.1	7.0	6.9
Goods and services	8.9	16.3	16.3	13.0	11.7	10.2	7.2	6.2	6.1	5.9	5.9	5.8	5.8
Interest	2.8	3.1	4.5	6.5	5.2	6.3	5.9	5.3	5.0	4.8	4.5	4.3	4.1
Subsidies to corporations and enterprises	2.1	2.5	3.4	3.3	3.2	3.3	3.2	2.8	2.7	2.5	2.4	2.4	2.3
Social benefits	13.3	17.7	16.9	16.9	17.0	17.0	17.0	17.0	17.0	17.0	17.0	17.0	17.0
Social programs (on budget)	2.8	5.5	3.9	4.8	5.3	5.6	5.4	5.9	6.7	7.0	7.0	6.8	7.3
Pensions	9.5	11.2	12.2	11.3	10.9	10.7	10.7	9.9	8.9	8.5	8.3	8.3	7.8
Unemployment, disability, and accident	1.0	0.9	0.8	0.8	0.8	0.8	1.0	1.2	1.4	1.6	1.7	1.8	1.9
Other current expenditures	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Capital	3.8	2.5	2.7	2.8	3.4	3.8	3.8	3.8	3.8	3.9	3.9	3.9	3.9
Net lending	0.1	0.0	0.2	0.2	0.5	2.1	-0.1	-0.3	0.1	0.5	0.5	0.5	0.5
Contingency reserve 2/	0.0	0.0	0.8	0.5	0.5	0.5	0.5	0.5	0.3	-0.1	-0.1	-0.1	-0.1
General government overall balance	-4.0	-15.7	-21.5	-20.0	-17.9	-15.5	-7.3	-4.6	-4.2	-3.7	-3.0	-2.6	-2.1
General government overall balance, excluding grants	-4.0	-25.0	-32.1	-28.8	-23.9	-19.6	-8.7	-5.8	-5.2	-4.6	-4.0	-3.5	-2.9
General government financing	4.0	15.7	21.5	20.0	17.9	15.5	7.3	4.6	4.2	3.7	3.0	2.6	2.1
External	2.4	10.8	19.5	18.5	10.4	5.3	4.2	0.8	2.6	0.8	-0.1	0.0	0.1
Disbursements	4.4	11.8	21.1	21.4	13.2	8.9	7.3	5.3	5.8	6.0	5.7	5.4	5.1
o/w IFIs	1.4	5.0	26.9	25.7	11.2	0.0	6.1	0.0	0.0	0.0	0.0	0.0	0.0
o/w IMF budget support	0.4	1.7	3.0	3.7	0.6	0.8	0.4	0.0	0.0	0.0	0.0	0.0	0.0
Amortizations	-2.0	-1.1	-1.5	-2.9	-2.8	-3.6	-3.1	-4.5	-3.2	-5.3	-5.8	-5.4	-5.1
Domestic (net)	1.6	5.1	2.0	1.5	7.5	10.2	3.1	3.8	1.6	2.9	3.2	2.6	2.0
Bond financing 3/	1.2	5.7	1.9	1.4	7.4	10.1	3.0	3.8	1.5	2.8	3.1	2.6	1.9
o/w NBU	-0.3	7.4	-0.2	-0.2	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
o/w Commercial banks	1.5	-1.5	2.5	1.6	7.6	10.3	3.1	3.9	1.6	2.9	3.2	2.6	2.0
Direct bank borrowing	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
Deposit finance	-0.3	-0.7	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	0.4	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0
Financing Gap/undidentified measures (-gap/+surplus)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:													
Primary balance	-1.1	-12.6	-17.0	-13.5	-12.7	-9.2	-1.4	0.7	0.8	1.1	1.4	1.7	2.1
Public and publicly-guaranteed debt	48.9	78.5	105.4	116.7	125.7	135.7	135.8	132.8	129.2	124.9	120.1	115.1	109.9
Nominal GDP (billions of Ukrainian hryvnia)	5,451	5,191	6,115	7,526	8,905	9,751	10,666	11,626	12,673	13,814	15,057	16,413	17,890

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

1/ National methodology, cash basis.

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

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

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

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

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
	Act.	Act.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Current account balance	-3.2	8.0	-7.4	-8.8	-5.1	-2.2	-2.7	-4.8	-4.8	-5.3	-6.0	-6.6	-6.9
Goods (net)	-6.6	-15.3	-28.2	-27.7	-27.9	-29.9	-31.7	-33.5	-33.4	-33.0	-32.8	-32.6	-32.3
Exports	63.1	40.9	30.4	33.0	37.2	40.9	44.9	48.9	52.9	57.0	61.3	65.7	70.5
Imports	-69.8	-56.2	-58.6	-60.7	-65.1	-70.8	-76.5	-82.4	-86.3	-90.0	-94.0	-98.3	-102.7
Of which : gas	-3.4	-1.3	-1.6	-7.4	-6.6	-5.3	-4.9	-4.9	-4.9	-4.9	-4.9	-4.9	-4.9
Services (net)	4.0	-10.7	-15.6	-8.7	-0.5	6.5	13.4	14.7	15.7	16.1	16.4	16.8	17.2
Receipts	18.4	16.1	14.4	15.0	17.3	20.7	24.1	26.5	28.6	29.7	30.9	32.2	33.5
Payments	-14.4	-26.8	-30.0	-23.7	-17.8	-14.2	-10.7	-11.7	-12.9	-13.7	-14.5	-15.4	-16.3
Primary income (net)	-5.2	8.7	9.1	7.6	8.0	8.7	7.0	6.4	6.4	6.0	5.6	5.4	5.5
Secondary income (net)	4.6	25.3	27.3	20.0	15.3	12.5	8.6	7.6	6.5	5.6	4.7	3.7	2.7
Capital account balance	0.0	0.2	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial account balance	-5.7	8.4	-10.5	-11.5	-7.8	-4.5	-8.5	-6.5	-6.2	-8.7	-8.0	-9.2	-10.2
Direct investment (net)	-7.5	-0.5	-0.6	-0.7	-1.2	-3.5	-6.4	-8.2	-8.7	-9.2	-9.6	-10.2	-10.9
Portfolio investment (net)	-1.0	2.0	0.5	1.2	1.3	2.0	1.0	2.0	0.3	-0.4	-0.2	-0.7	-0.5
Portfolio investment: assets	-0.1	0.6	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	-1.4	-0.5	-1.2	-1.3	-2.0	-1.0	-2.0	-0.3	0.4	0.2	0.7	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
Other investment (net)	2.9	6.9	-10.4	-11.9	-7.9	-2.9	-3.0	-0.3	2.2	0.9	1.8	1.7	1.2
Other investment: assets	7.7	23.2	24.4	18.8	11.7	10.1	5.8	4.1	4.0	2.8	2.3	2.0	1.8
Other investment: liabilities	4.9	16.3	34.8	30.7	19.6	13.0	8.9	4.4	1.8	1.9	0.5	0.2	0.7
Net use of IMF resources for budget support	0.3	2.3	3.6	4.0	-0.6	-0.4	-0.5	-1.0	-1.7	-1.0	-1.3	-1.3	-1.2
Central Bank	2.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
General government	1.5	14.7	28.3	25.8	19.3	11.5	8.3	4.8	2.9	2.3	1.1	0.9	1.2
Banks 3/	0.4	-0.2	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	-0.6	2.9	0.9	0.9	1.8	1.0	0.6	0.6	0.6	0.6	0.6	0.6
Errors and omissions	1.8	0.0	0.5	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
Overall balance	4.3	-0.2	3.6	2.7	2.7	2.3	5.8	1.7	1.4	3.4	2.0	2.6	3.3
Financing	-4.2	0.2	-3.6	-3.8	-2.7	-2.3	-5.8	-2.5	-3.0	-4.2	-3.0	-2.9	-4.0
Gross official reserves (increase: -)	-3.3	1.9	-2.0	-2.7	-2.9	-3.2	-6.4	-2.5	-3.0	-3.1	-1.7	-1.6	-2.9
Net use of IMF resources for BOP support	-0.9	-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
Memorandum items:													
Current account balance (percent of GDP)	-1.6	5.0	-4.9	-6.0	-3.3	-1.4	-1.6	-2.8	-2.7	-2.8	-3.1	-3.2	-3.2
Goods and services trade balance (percent of GDP)	-1.3	-16.2	-28.8	-24.9	-18.4	-14.8	-11.1	-11.0	-10.0	-9.1	-8.3	-7.6	-6.9
Gross international reserves	30.9	28.5	30.5	33.2	36.1	39.4	45.7	48.3	51.2	54.3	56.0	57.6	60.5
Months of next year's imports of goods and services	4.5	3.9	4.3	4.8	5.1	5.4	5.8	5.8	5.9	6.0	5.9	5.8	6.0
Percent of the IMF composite metric (float)	98.8	91.3	84.9	80.8	82.5	84.2	94.6	97.3	99.7	104.4	105.2	107.2	110.5

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

1/ Based on BPM6.

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

3/ Includes banks' debt for equity operations.

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

(Percent of GDP, unless otherwise indicated)

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
	Act.	Act.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Current account balance	-1.6	5.0	-4.9	-6.0	-3.3	-1.4	-1.6	-2.8	-2.7	-2.8	-3.1	-3.2	-3.2
Goods (net)	-3.3	-9.5	-18.5	-18.9	-18.1	-18.9	-19.3	-19.6	-18.8	-17.7	-16.7	-15.7	-14.7
Exports	31.6	25.5	20.0	22.6	24.0	25.9	27.3	28.6	29.8	30.6	31.2	31.7	32.2
Imports	-34.9	-35.0	-38.5	-41.5	-42.1	-44.8	-46.5	-48.3	-48.6	-48.4	-47.9	-47.4	-46.9
Of which : gas	1.7	0.8	-1.0	-5.0	-4.2	-3.4	-3.0	-2.9	-2.8	-2.6	-2.5	-2.4	-2.2
Services (net)	-5.3	-6.6	-10.3	-6.0	-0.3	4.1	8.2	8.6	8.8	8.6	8.4	8.1	7.8
Receipts	9.2	10.0	9.5	10.2	11.2	13.1	14.6	15.5	16.1	16.0	15.8	15.5	15.3
Payments	-7.2	-16.7	-19.7	-16.2	-11.5	-9.0	-6.5	-6.9	-7.3	-7.3	-7.4	-7.4	-7.4
Primary income (net)	-2.6	5.4	6.0	5.2	5.2	5.5	4.3	3.7	3.6	3.2	2.9	2.6	2.5
Secondary income (net)	2.3	15.7	18.0	13.7	9.9	7.9	5.2	4.5	3.7	3.0	2.4	1.8	1.2
Capital account balance	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial account balance	-2.8	5.2	-6.9	-7.9	-5.1	-2.8	-5.2	-3.8	-3.5	-4.7	-4.1	-4.4	-4.7
Direct investment (net)	-3.8	-0.3	-0.4	-0.5	-0.8	-2.2	-3.9	-4.8	-4.9	-4.9	-4.9	-4.9	-5.0
Portfolio investment (net)	-0.5	1.3	0.3	0.8	0.8	1.3	0.6	1.2	0.2	-0.2	-0.1	-0.3	-0.2
Portfolio investment: assets	0.0	0.4	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	-0.3	-0.8	-0.8	-1.3	-0.6	-1.2	-0.2	0.2	0.1	0.3	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
Other investment (net)	1.4	4.3	-6.8	-8.1	-5.1	-1.8	-1.8	-0.2	1.2	0.5	0.9	0.8	0.5
Other investment: assets	3.0	14.4	16.0	12.9	7.6	6.4	3.5	2.4	2.2	1.5	1.2	0.9	0.8
Other investment: liabilities	2.4	10.2	22.9	21.0	12.7	8.2	5.4	2.6	1.0	1.0	0.2	0.1	0.3
Net use of IMF resources for budget support	-0.5	-1.0	2.3	2.8	-0.4	-0.2	-0.3	-0.6	-1.0	-0.6	-0.6	-0.6	-0.5
Central Bank	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
General government	0.8	9.2	18.6	17.6	12.5	7.3	5.1	2.8	1.7	1.2	0.6	0.5	0.5
Banks 3/	0.2	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other sectors	0.0	-0.4	1.9	0.6	0.6	1.2	0.6	0.3	0.3	0.3	0.3	0.3	0.3
Errors and omissions	0.9	0.0	0.3	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
Overall balance	2.1	-0.1	2.4	1.9	1.8	1.4	3.5	1.0	0.8	1.8	1.0	1.2	1.5
Financing	0.1	1.4	-2.4	-2.6	-1.8	-1.4	-3.5	-1.5	-1.7	-2.2	-1.5	-1.4	-1.8
Gross official reserves (increase: -)	0.4	1.7	-1.3	-1.9	-1.9	-2.1	-3.9	-1.5	-1.7	-1.7	-0.9	-0.8	-1.3
Net use of IMF resources for BOP support	0.0	0.0	-1.1	-0.7	0.1	0.6	0.3	0.0	0.0	-0.6	-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
Memorandum items:													
Gross international reserves (USD billions)	30.9	28.5	30.5	33.2	36.1	39.4	45.7	48.3	51.2	54.3	56.0	57.6	60.5
Months of next year's imports of goods and services	4.5	3.9	4.3	4.8	5.1	5.4	5.8	5.8	5.9	6.0	5.9	5.8	6.0
Percent of the IMF composite metric (float)	98.8	91.3	84.9	80.8	82.5	84.2	94.6	97.3	99.7	104.4	105.2	107.2	110.5

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

1/ Based on BPM6.

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

3/ Includes banks' debt for equity operations.

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

(Billions of U.S. dollars)

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
	Act.	Act.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
A. Total financing requirements	**37.2**	**56.8**	**74.1**	**71.4**	**56.9**	**53.4**	**46.2**	**48.4**	**51.7**	**50.6**	**53.6**	**53.0**	**53.3**
Current account deficit (excluding grants)	3.2	6.0	23.5	20.9	13.9	8.5	4.9	6.8	6.5	7.0	7.7	8.3	8.7
Portfolio investment	4.9	2.7	1.3	4.1	2.3	4.3	1.5	2.5	4.3	2.6	4.1	1.8	2.0
Private	0.6	0.9	0.5	2.7	0.6	1.8	0.0	0.0	3.0	1.0	2.3	0.5	0.5
General government	4.3	1.8	0.7	1.4	1.7	2.5	1.5	2.5	1.3	1.6	1.8	1.3	1.5
Medium and long-term debt	3.9	2.1	2.2	2.8	2.4	3.1	4.9	5.8	7.8	8.5	9.6	9.8	9.6
Private	2.7	1.2	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	0.3	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	0.9	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	0.9	0.8	1.5	1.1	1.9	3.7	4.6	6.7	7.3	8.5	8.7	8.4
Short-term debt (including deposits)	0.8	4.2	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	22.8	23.3	17.8	11.7	10.1	5.8	3.3	4.0	2.8	2.3	2.0	1.8
Trade credit	15.7	19.0	18.3	20.1	20.9	21.7	23.5	24.5	23.4	24.1	24.2	25.5	25.6
B. Total financing sources	**37.0**	**24.4**	**30.1**	**33.0**	**31.9**	**37.0**	**38.9**	**40.9**	**45.4**	**44.8**	**46.9**	**46.2**	**47.5**
Capital transfers	0.0	0.2	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Direct investment, net	7.5	0.5	0.6	0.7	1.2	3.5	6.4	8.2	8.7	9.2	9.6	10.2	10.9
Portfolio investment	6.0	0.5	0.8	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	3.0	1.0	2.3	0.5	0.5	3.0	1.0	2.3	0.5	0.5
General government	4.2	0.5	0.8	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	1.0	2.0	2.0	2.0	2.0
Medium and long-term debt	5.4	0.4	3.0	2.8	2.4	2.1	1.9	1.6	1.6	1.6	1.6	1.6	1.6
Private	2.3	0.9	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	0.0	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	0.8	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	-0.4	1.6	1.3	1.0	0.7	0.7	0.3	0.3	0.3	0.3	0.3	0.3
Short-term debt (including deposits)	0.9	4.4	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	18.3	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)	**0.2**	**32.4**	**44.0**	**38.4**	**25.0**	**16.4**	**7.3**	**7.5**	**6.3**	**5.8**	**6.8**	**6.8**	**5.8**
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
D. Total exceptional financing needs	**0.2**	**32.4**	**44.0**	**38.4**	**25.0**	**16.4**	**7.3**	**7.5**	**6.3**	**5.8**	**6.8**	**6.8**	**5.8**
E. Official financing	**1.7**	**30.6**	**45.5**	**41.1**	**27.9**	**19.7**	**13.6**	**10.1**	**9.3**	**8.9**	**8.5**	**8.4**	**8.7**
IMF	-0.7	0.7	1.9	3.0	-0.5	0.6	0.1	-1.0	-1.7	-2.1	-2.5	-2.6	-2.3
Purchases	0.7	2.7	4.5	5.4	1.8	2.6	1.3	0.0	0.0	0.0	0.0	0.0	0.0
Repurchases	1.4	2.1	2.6	2.4	2.3	2.0	1.2	1.0	1.7	2.1	2.5	2.6	2.3
Official grants	0.0	14.0	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	27.5	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**	**-1.9**	**2.0**	**2.7**	**2.9**	**3.2**	**6.4**	**2.5**	**3.0**	**3.1**	**1.7**	**1.6**	**2.9**
G. Errors and omissions	**1.8**	**0.0**	**0.5**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Memorandum items:													
Gross international reserves	30.9	28.5	30.5	33.2	36.1	39.4	45.7	48.3	51.2	54.3	56.0	57.6	60.5
Months of next year's imports of goods and services	4.5	3.9	4.3	4.8	5.1	5.4	5.8	5.8	5.9	6.0	5.9	5.8	6.0
Percent of short-term debt (remaining maturity)	67.5	65.2	62.6	73.9	74.3	82.0	90.3	85.7	94.2	95.0	100.9	102.8	99.3
Percent of the IMF composite (float) 2/	98.8	91.3	84.9	80.8	82.5	84.2	94.6	97.3	99.7	104.4	105.2	107.2	110.5
Loan rollover rate (percent)													
Banks	97.2	96.6	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	105.2	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	98.0	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/ The IMF composite measure is calculated as a weighted sum of short-term debt, other portfolio and investment liabilities, broad money, and exports. Official reserves are recommended to be in the range of 100–150 percent of the appropriate measure.

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

(Billions of Ukrainian Hryvnia)

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
	Act.	Act.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Monetary survey													
Net foreign assets	1,002	1,326	1,791	2,138	2,511	2,763	3,275	3,645	4,134	4,661	5,140	5,636	6,237
Net domestic assets	1,070	1,176	1,260	1,518	1,708	1,993	2,066	2,177	2,213	2,257	2,401	2,583	2,723
Domestic credit	1,925	2,212	2,229	2,431	3,175	4,400	4,778	5,279	5,563	6,055	6,649	7,231	7,752
Net claims on government	898	1,218	1,358	1,454	2,113	3,253	3,573	4,008	4,201	4,589	5,056	5,475	5,816
Credit to the economy	1,023	991	867	972	1,056	1,141	1,198	1,264	1,353	1,457	1,583	1,745	1,924
Domestic currency	731	725	640	727	801	882	936	1,008	1,102	1,210	1,341	1,508	1,691
Foreign currency	292	266	227	245	255	258	261	256	251	246	242	237	233
Other claims on the economy	5	4	4	5	6	6	7	8	8	9	10	11	12
Other items, net	-856	-1,036	-969	-913	-1,467	-2,406	-2,712	-3,102	-3,350	-3,798	-4,248	-4,647	-5,030
Broad money	2,071	2,501	3,051	3,656	4,218	4,756	5,342	5,822	6,347	6,918	7,541	8,219	8,959
Currency in circulation	581	666	833	977	1,070	1,121	1,176	1,217	1,266	1,317	1,370	1,424	1,480
Total deposits	1,489	1,834	2,217	2,677	3,147	3,633	4,163	4,603	5,077	5,598	6,167	6,792	7,475
Domestic currency deposits	1,014	1,204	1,437	1,778	2,138	2,571	2,986	3,276	3,650	4,063	4,517	5,018	5,569
Foreign currency deposits	474	630	780	899	1,009	1,062	1,177	1,327	1,427	1,535	1,650	1,774	1,907
Accounts of the NBU													
Net foreign assets	852	981	1,274	1,449	1,793	2,047	2,562	2,936	3,400	3,907	4,366	4,842	5,424
Net international reserves	838	978	1,269	1,444	1,787	2,041	2,556	2,930	3,394	3,900	4,359	4,835	5,416
(In billions of U.S. dollars)	30.7	26.7	…	…	…	…	…	…	…	…	…	…	…
Reserve assets	843	980	…	…	…	…	…	…	…	…	…	…	…
Other net foreign assets	14	3	4	5	5	6	6	6	6	7	7	7	7
Net domestic assets	-190	-188	-281	-285	-508	-691	-1,121	-1,423	-1,811	-2,239	-2,614	-3,003	-3,492
Net domestic credit	175	312	189	71	343	1,033	833	827	574	498	466	360	126
Net claims on government	270	704	689	666	650	635	620	605	591	576	561	545	530
Claims on government	325	758	744	731	718	706	694	682	671	659	647	635	623
Net claims on banks	-95	-392	-500	-595	-307	398	213	221	-17	-78	-95	-185	-404
Other items, net	-365	-501	-470	-356	-852	-1,724	-1,955	-2,249	-2,385	-2,737	-3,080	-3,363	-3,618
Base money	662	793	993	1,164	1,284	1,356	1,441	1,513	1,589	1,668	1,752	1,839	1,931
Currency in circulation	581	666	833	977	1,070	1,121	1,176	1,217	1,266	1,317	1,370	1,424	1,480
Banks' reserves	81	126	160	188	215	236	265	296	322	351	382	415	451
Cash in vault	47	49	69	84	98	114	130	144	159	175	193	213	234
Correspondent accounts	35	77	90	104	116	122	135	152	163	176	189	203	217
Deposit money banks													
Net foreign assets	149	345	518	689	718	716	713	709	734	754	774	794	813
Foreign assets	254	427	654	862	936	978	1023	1069	1109	1142	1175	1208	1240
Foreign liabilities	105	82	137	173	218	262	310	360	375	388	401	414	427
Net domestic assets	1,339	1,489	1,699	1,988	2,429	2,917	3,450	3,893	4,343	4,843	5,393	5,997	6,662
Domestic credit	1,875	2,064	2,237	2,584	3,083	3,639	4,247	4,786	5,348	5,945	6,602	7,323	8,115
Net claims on government 1/	628	513	669	787	1,462	2,617	2,953	3,402	3,610	4,014	4,495	4,929	5,287
Credit to the economy	1,023	991	867	972	1,056	1,140	1,197	1,263	1,353	1,456	1,582	1,745	1,923
Other claims on the economy	5	3	4	5	6	6	7	8	8	9	10	11	12
Net claims on NBU	220	594	698	820	559	-125	90	112	376	466	514	638	893
Other items, net	-536	-574	-538	-596	-654	-722	-797	-893	-1,005	-1,102	-1,209	-1,325	-1,453
Banks' liabilities	1,488	1,834	2,217	2,677	3,146	3,633	4,163	4,603	5,077	5,597	6,167	6,791	7,475
Memorandum items:			(End of period, percent change unless otherwise noted)										
Base money	11.2	19.6	25.3	17.3	10.3	5.6	6.3	5.0	5.0	5.0	5.0	5.0	5.0
Currency in circulation	12.6	14.6	25.1	17.2	9.5	4.8	4.8	5.8	6.8	7.8	8.8	9.8	10.8
Broad money	12.0	20.8	22.0	19.8	15.4	12.7	12.3	9.0	9.0	9.0	9.0	9.0	9.0
Credit to the economy	8.4	-3.1	-12.5	12.1	8.6	8.0	5.0	5.5	7.1	7.6	8.7	10.2	10.2
Real credit to the economy 2/	-1.5	-23.5	-30.0	-5.0	-3.0	0.0	0.0	0.5	2.0	2.5	3.5	5.0	5.0
Credit-to-GDP ratio, in percent	18.8	11.2	14.2	12.9	11.9	11.7	11.2	10.9	10.7	10.5	10.5	10.6	10.8
Velocity of broad money, ratio	1.9	1.6	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	3.1	3.1	3.3	3.5	3.7	3.8	4.0	4.1	4.3	4.5	4.6
Hryvnia per U.S. dollar (end of period)	27.3	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.

Annex III. Table 6. Ukraine: Indicators of Fund Credit (Downside Scenario), 2023–2033

(In millions of SDR)

	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
	Projections										
Existing Fund credit											
Stock 1/	7,715	5,936	4,199	2,702	1,844	1,509	1,174	838	503	168	0
Obligations	1,648	2,166	1,998	1,686	987	448	448	448	448	448	280
Principal (repurchases)	1,265	1,780	1,736	1,498	858	335	335	335	335	335	168
Interest charges	383	386	262	189	129	112	112	112	112	112	112
Prospective purchases											
Disbursements	3,340	4,003	1,368	1,931	966	0	0	0	0	0	0
Stock 1/	3,340	7,343	8,711	10,643	11,553	11,137	10,192	8,995	7,476	5,876	4,332
Obligations 2/	128	365	583	668	811	1,152	1,612	1,759	1,955	1,878	1,703
Principal (repurchases)	0	0	0	0	55	416	946	1,197	1,519	1,599	1,544
Interest charges	128	365	583	668	755	737	666	562	436	278	159
Stock of existing and prospective Fund credit 1/	11,055	13,279	12,910	13,344	13,397	12,646	11,365	9,833	7,979	6,044	4,332
In percent of quota 2/	550	660	642	663	666	628	564	488	396	300	215
In percent of GDP	5.5	6.8	6.2	6.3	6.0	5.5	4.7	3.9	3.0	2.2	1.5
In percent of exports of goods and nonfactor services	18.5	20.7	17.7	16.1	14.4	12.4	10.3	8.4	6.4	4.6	3.1
In percent of gross reserves	27.2	29.9	26.6	25.2	21.7	19.3	16.4	13.4	10.5	7.7	5.3
In percent of public external debt	8.5	8.0	6.8	6.5	6.2	5.8	5.2	4.5	3.7	2.8	2.0
Obligations to the Fund from existing and prospective Fund credit	1,776	2,532	2,581	2,354	1,797	1,600	2,059	2,207	2,402	2,325	1,983
In percent of quota	88.3	125.8	128.3	117.0	89.3	79.5	102.2	109.5	119.1	115.2	98.2
In percent of GDP	0.9	1.3	1.2	1.1	0.8	0.7	0.9	0.9	0.9	0.8	0.7
In percent of exports of goods and nonfactor services	3.0	4.0	3.5	2.8	1.9	1.6	1.9	1.9	1.9	1.8	1.4
In percent of gross reserves	4.4	5.7	5.3	4.4	2.9	2.4	3.0	3.0	3.2	3.0	2.4
In percent of public external debt service	58.2	27.7	38.2	31.5	18.0	14.4	15.0	15.3	15.2	14.5	12.8

Source: Fund staff estimates and projections.

1/ End of period.

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

Appendix I. Letter of Intent

Ms. Kristalina Georgieva June 19, 2023
Managing Director
International Monetary Fund
Washington, D.C., 20431
U.S.A.

Dear Ms. Georgieva:

1. Russia's illegal and unjustified invasion of our country continue to bring enormous human, social, and economic costs. As attacks persist, civilian casualties are large, over a third of the population has been displaced, and infrastructure damage is massive and increasing, and the recent destruction of the Kakhovka hydroelectric power plant (HPP) will have serious long-lasting consequences for our people, essential services delivery, and the environment. Through this hardship, our people continue to show courage, determination, and resilience while macroeconomic, financial, and external stability has been preserved. Our strong performance thus far under the Extended Fund Facility (EFF) has clearly demonstrated our capacity to implement sound economic policies despite these challenging circumstances. Approval of the IMF-supported arrangement, together with significant official financing assurances, has provided a crucial financing envelope of US$115 billion over four years. Nevertheless, we continue to face major risks amid the exceptionally high uncertainty due to the war.

2. The goal of our IMF-supported program remains to restore fiscal and achieve debt sustainability on a forward-looking basis as well as medium-term external viability, 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 remain committed to ambitious reforms and strong policy implementation with a view of achieving much stronger economic outcomes. The attached updated 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.

3. Given the exceptional uncertainty, the program continues to envisage a two-phased approach. In the first phase, our primary objective remains to preserve macroeconomic and financial stability within the context of the ongoing war while preparing the ground for a strong post-war recovery, including undertaking critical recovery and repair. Additionally, we will implement wide-ranging structural reforms covering public finances, 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.

4. For this first review under the EFF, we met all continuous and end-April 2023 quantitative performance criteria (QPCs), and we implemented all five structural benchmarks set for the period from early-April 2023 through end-May 2023. However, we missed the indicative targets (ITs) on the overall balance excluding grants due to higher-than-expected defense expenditures as well as the IT on social spending due to changes in methods for effecting social payments.

5. We request modification of the end-June 2023 non-defense cash primary balance QPC, reflecting new information on the trajectory of expenditures during 2023. We also request modification of the QPC on net international reserves (NIR) by increasing the target for end-June and end-December. Furthermore, we request converting the continuous QPC on the issuance of state guarantees into a periodic QPC with effect from end-June. We also propose four new structural benchmarks to preserve macroeconomic and financial stability within the context of the ongoing war and to maintain the reform momentum (explained in Table 2 of the MEFP). We are requesting to reset the deadline of the structural benchmark on adoption of the draft law on tax policy and administration prepared under the PMB (Law #8401), from end-June 2023 to end-July 2023. This will allow additional time to secure adoption of the Law.

6. Our international partners have assured us of their continued support to help ensure that debt sustainability is restored, and the program is fully financed. We publicly announced on March 24, 2023, 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. Our plan remains 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.

7. We retain a number of measures for reasons of national or international security. We have notified these measures to the Fund for approval under Decision 144. We retain two multiple currency practices (MCPs) subject to Fund approval under Article VIII, Section 3. We will gradually remove exchange restrictions and MCPs as circumstances normalize, in consultation with IMF staff.

8. Based on our successful implementation of the program targets and benchmarks for end-April 2023 and end-May 2023, as well as our policy commitments for the period ahead, we request completion of the first review, and a disbursement in the amount of SDR 663.90 million (33 percent of quota). A memorandum of understanding between the National Bank of Ukraine (NBU) and the Ministry of Finance (MoF) will be introduced relating to the mechanism of servicing of the government's obligations to the Fund by the NBU on behalf of the MoF.

9. We believe that the policies set forth in the attached MEFP are adequate to achieve the objectives of the program, both in the baseline as well as in a downside scenario. Acknowledging

that these scenarios are subject to exceptionally high uncertainty, we are committed to continue adapting our policies as conditions evolve. We will consult with the IMF on the adoption of these measures, and in advance of any revisions to the policies contained in the MEFP, in line with the IMF's policies on consultation. We will refrain from any policies that would be inconsistent with the program's objectives and our commitments presented in the MEFP.

10. 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 Technical Memorandum of Understanding (TMU).

11. 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/	/s/
Volodymyr Zelenskyy President of Ukraine	Denys Shmyhal Prime Minister of Ukraine
/s/	/s/
Sergii Marchenko Minister of Finance of Ukraine	Andriy Pyshnyy Governor, National Bank of Ukraine

Attachment I. Memorandum of Economic and Financial Policies

June 19, 2023

I. Background, Recent Economic Developments, and Outlook

Context

1. **Russia's unprovoked, illegal and unjustified invasion of our country continues to bring enormous human, social, and economic costs.** Civilian casualties continue to mount, over a third of the population has been displaced, and infrastructure damage is massive. Our country faced devastating attacks through the winter on our critical energy infrastructure, and missile strikes continue countrywide today. In this context, we assess that the recent destruction of the Kakhovka hydroelectric power plant (HPP) will have serious long-lasting consequences for our people, essential services delivery, and the environment. Our people continue to show remarkable courage and resilience, while macroeconomic, financial, and external stability have been preserved. Nevertheless, we continue to face major challenges: the fiscal deficit remains very high, entailing large external financing needs. Protecting core functions of the state under existing financing constraints will force us to continue navigating difficult policy trade-offs.

2. **The Extended Fund Facility (EFF) arrangement provides a strong anchor for our economic policies, and we have performed strongly under the program.** The approval of the EFF arrangement in March helped mobilize an external financing package of US$115 billion over four years from our international partners and donors. In these very difficult times, the program has helped infuse greater predictability for our macroeconomic management and provides an anchor for our economic policies. We remain highly committed to our objectives under the program, and our strong performance thus far is a testament to this.

3. **Even as the war continues, we are initiating priority recovery and reconstruction projects to meet the essential needs of our population.** The World Bank has estimated that the long-term reconstruction needs for our country, as of February 24, 2023, amount to a staggering US$411 billion. Every day the war continues, this cost rises. Our population faces urgent reconstruction needs, including those related to the restoration of energy, housing, critical and social infrastructure, basic services for the most vulnerable, and private sector development. It is time to begin rebuilding to help meet the basic needs of our people, encourage the return of those who fled the country, and lay the foundations for a quick and robust recovery.

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 Ukraine's economy and institutions, 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 increase trade and stimulate revenue and technology transfer to the Ukrainian economy, thereby helping sustain the recovery.

Economic Outlook

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

- Following a decline in output of about 29 percent in 2022 (revised due to a stronger Q4), and despite attacks on critical energy infrastructure through early 2023, economic activity has been more resilient amid increased confidence of economic agents. We expect a stronger sequential economic recovery as households and firms progressively adapt to the war circumstances, while fiscal policy continues to be supportive. Economic activity in the beginning of 2023 rebounded strongly, and in April activity indicators continue to point to a sustained recovery, as the energy system was rapidly restored, FX markets stabilized, and inflation started to decline decisively. Moreover, the labor market has seen signs of stabilization amid lower net migrant outflows. In subsequent quarters, activity is expected to further strengthen given continued growth in non-combat areas as well as base effects, under the assumption of the continuation of the grain corridor and the transit corridor in EU neighboring countries, as well as 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, a robust growth in 2023 could set the stage for a stronger recovery through 2024; given the uncertainty, we project annual growth for 2023 in the 1 to 3 percent range.

- Inflation has decelerated faster than expected from its peak of 26.6 percent y/y in end-2022 to 15.3 percent y/y in May, reflecting the rapid recovery of the energy system after attacks to the critical energy infrastructure, a stronger FX market, the tight monetary policy as well as the sufficient supply of food and fuel. In view of the gradual easing of supply constraints through the year, relatively restrained consumer demand, slowing global inflation, and the effects of the NBU's monetary policy, we expect inflation to moderate to around 15 percent y/y by end-2023.

- The current account is expected to move to a deficit of around US$10 billion in 2023, following an estimated surplus of US$8 billion in 2022. This reflects a widening trade balance, on account of still subdued recovery in exports (given weak agricultural exports subject to disruptions to the grain corridor and trade restrictions from neighboring countries, loss of production capacity in metals and mining and residual supply constraints), and increased demand for imports from the stronger growth outlook. The services balance is also expected to remain very negative on continuing withdrawals and card payments by Ukrainian migrants abroad, though migrant outflows are expected to temper, with an even mild net inflow during 2023. Nevertheless, continued strong external financing inflows should strengthen gross international reserves levels to an adequate US$30.5 billion by end-2023 under the baseline scenario, equivalent to

4.1 months of imports, and by more than US$1 billion relative to the EFF request on account of lower FX interventions and better Q1 outturns.

- Conditions in the FX market have improved sharply due to continued external inflows and seasonal factors (including FX sales by agricultural producers). The spread between the official and cash rates declined noticeably to between 2-4 percent in March-April 2023.

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. Our efforts to raise resources for critical recovery and repair projects would also support stronger growth. From a medium-term perspective, our economic growth could be accelerated by the EU integration process and significant investments in reconstruction, including private investment inflows.

7. In spite of the improved near-term indicators, 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 or delayed donor support could also exacerbate financing constraints, requiring difficult policy trade-offs. The grain corridor as well as transit routes 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 prolonged 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 an updated downside scenario, 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 that our partners stand ready to provide additional financial resources sufficient to close financing gaps and preserve debt sustainability; we are committed 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, which would enable us to absorb substantial official resources and also catalyze private capital, including foreign direct investment, could have a decisive impact. Reforms required to achieve the strategic goal of EU accession coupled with progressive integration into the European internal market through the Association Agreement and Deep and Comprehensive Free Trade Agreement would be critical components of such a strategy.

B. Fiscal Policy

Fiscal Policy in 2023

10. Our fiscal policies in 2023 will continue to be designed to support fiscal and debt sustainability, while ensuring adequate resources for core spending priorities and helping to prepare for reconstruction. Given the war-related uncertainty, we remain committed to taking all necessary measures to ringfence additional pressures and risks related to the budget. We will refrain from 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.

11. We have made determined efforts to achieve the program's fiscal targets for April 2023. In particular:

- The non-defense cash primary balance excluding grants was UAH 353.0 billion, substantially exceeding the program's floor of UAH 258.3 billion (***Quantitative Performance Criterion***). However, the Indicative Target on the overall balance excluding grants was UAH -364.6 billion, missing the floor of UAH -356.5 billion. The divergent results in these targets reflect the implications of the war on the budget, including the need to maintain a high level of defense expenditure.

- Despite the dislocations to the economy caused by Russia's invasion, tax revenues (excluding social security contributions) amounted to UAH 472.7 billion, comfortably exceeding the end-April target (***Quantitative Performance Criterion***). This reflected strong performance across taxes on personal income, corporate income, and excises, amid a faster-than-envisaged pace of clearing outstanding VAT refunds and refund arrears so far this year.

- The indicative target on the accumulation of overdue accounts payable (domestic arrears) was UAH 1.76 billion, below the ceiling of UAH 6 billion.

- On the continuous performance criterion on the ceiling of publicly guaranteed debt, there was no issuance through April, consistent with the continuous ceiling of UAH 20 billion.

- Social spending was UAH 182.3 billion, missing the Indicative Target of UAH 187 billion by UAH 4.7 billion. This reflects lower-than-expected social spending due to changes in methods for effecting social payments.

12. Our expenditure policies in 2023 aim to accommodate core priorities, contain additional spending pressures, and provide some room for recovery and reconstruction. Recognizing the priority for the conduct of the war and already high contributions from international donors and partners, we are committed to resisting expenditure pressures on non-core categories of spending. Additionally, going forward, we are determined to identify full financing for any new initiatives that increase current expenditures through identified new resources or compensating fiscal measures. We will continue to operate strong commitment controls. and maintain strict oversight of budget execution by key spending units.

13. We remain committed to achieving much needed revenue mobilization. Specifically:

- We will adopt the draft law (#8401) prepared under the PMB by end-July 2023 (originally expected by June 30, 2023), so that the proposed law becomes effective on August 1, 2023 (***proposed reset Structural Benchmark***). With its adoption, the first component of the law restores the pre-war setup for taxpayers who moved from the universal tax regime (e.g., paying PIT, CIT, VAT) to the single tax. It also restores the pre-war brackets of single tax eligible groups and closes loopholes in the application of the single tax rate of 2 percent. The other two components are related to strengthening tax compliance and limiting the scope for tax evasion. Specifically, the law cancels the moratoria on tax audits, which should help with enhancing tax compliance, and provides for restoration of liability for failure to use cash registers in retail outlets.

- We remain committed to canceling or phasing out most of the tax deferrals introduced during Martial Law. We cancelled deferrals for customs duties starting from March 1, 2023, and cancelled the remaining deferrals on import duties as of June 1, 2023. The exemptions for special equipment for electricity generation and distribution and heating supply expired as scheduled on May 1, 2023. Moreover, we will not extend the Tax Code provisions introduced during Martial Law that relaxed the 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. Furthermore, any measures that are needed to support imports related to national defense and security will be targeted, timebound, controlled, and with oversight.

14. We expect the 2023 general government fiscal deficit excluding external grants to reach UAH 1,674.5 billion, or about 25.8 percent of GDP, which remains consistent with fiscal sustainability given the support from external donors. This updated estimate, which is lower than expectations at the program request by about UAH 34 billion (2.5 percentage points of GDP) reflects fiscal outturns so far this year, and revisions to the macroeconomic framework. Projections for revenues excluding external grants remain broadly as anticipated. Expenditures are expected to remain close to levels envisaged at the program's approval, although the composition has changed somewhat. The floor on the non-defense cash primary balance of the general government excluding grants (***Quantitative Performance Criterion***) and the floor on the overall cash primary balance of the general government excluding grants (***Indicative Target***) will continue to monitor our progress in this area. Moreover, the floor on state budget spending on social programs will help safeguard social spending (***Indicative Target***). We are requesting modification to the QPC on the non-defense cash primary balance for end-June 2023 to be set at UAH 213 billion, reflecting revised definition and new information on the trajectory of expenditures during 2023.

15. We have started preparations for Budget 2024. Despite the challenges posed by the war, we plan to adhere to the budget preparation calendar, and we will consult with the Fund as we progress in preparatory work. In terms of revenues, we will prepare a set of measures building on priorities identified by our work on National Revenue Strategy (NRS), to become effective from January 1, 2024. These measures could include, among others, reforms aimed at harmonizing taxes with EU directives. As for expenditures, the envelope will continue to reflect the wartime needs, but with some reorientation to emerging priorities, including the social safety net and recovery and reconstruction. In this context, we will make sure that key spending units adhere to expenditure envelope limits consistent with the need for fiscal and debt sustainability.

16. We are also laying the groundwork to undertake critical recovery and reconstruction activities in a sustainable manner. The World Bank has identified US$14.1 billion of priorities for 2023 in its latest Rapid Damage and Needs Assessment (RDNA2). Of this total, around US$3.3 billion is already identified in the Budget. Going forward, we are seeking additional donor commitments, on highly concessional terms, for the remaining US$10.8 billion. Further, we aim to develop an integrated public investment management strategy to ensure that critical reconstruction projects fit into the medium-term budget framework, while maintaining fiscal stability and debt sustainability (see ¶56).

Fiscal Structural Reforms

17. Our fiscal structural reforms will help anchor the medium-term fiscal path, maintain fiscal and debt sustainability, and lay the foundations for long-term growth. Post war, as defense spending winds down, we will aim to channel these resources to spending for recovery and reconstruction as well as to the social safety net to address the post-war needs of society and vulnerable layers of the population. To ensure efficient use of the emerging fiscal space and also maintain 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.

18. To support our medium-term spending priorities, development goals, and EU accession, we are moving forward with our structural reform agenda, focusing on: (i) raising adequate revenues to help meet reconstruction and social spending needs through measures that enhance the efficiency, fairness and simplicity of the tax system, including through a home-grown multi-year National Revenue Strategy (NRS); (ii) preparing our public investment and public financial management for the post-war era by strengthening public investment processes, the project management cycle, and commitment controls; (iii) enhancing fiscal transparency and management of fiscal risks; (iv) ensuring fiscal sustainability and the predictability of budget policy by restoring and strengthening provisions of the Budget Code that stipulate the cases for budget amendments.

19. To this end, we have taken steps towards implementation of the reform agenda, including by meeting structural benchmarks in several areas on time.

- We have submitted to Parliament a draft law that reinstates several articles of the Budget Code that were suspended under Martial Law. Specifically, we are restoring and strengthening Article 52 of the Budget Code, which defines the framework and circumstances when the budget can be amended both on the revenue and expenditure side (***Structural Benchmark*, end-May 2023**). The proposal offers two-layered protection. First, any legislative initiative that proposes modifications to the annual budget law (including medium-term) should have an opinion by the Ministry of Finance (MoF) and identified financing sources. Second, legislative initiatives that modify the deficit, debt and guarantees, may be submitted to Parliament only by the Cabinet of Ministers of Ukraine (CMU), and with an assessment by the MoF. With these amendments, and in line with the constitutional framework, we aim to reduce the opportunities for ad-hoc initiatives that may hamper fiscal sustainability and predictability of budget policy.

- The CMU has submitted a draft law (#9346) to reinstate the articles of the Budget Code that allow preparation of the medium-term budget framework, elaboration of the debt strategy, and ringfencing risks from guarantees (***Structural Benchmark*, end-May 2023**). These articles will be enacted in time to be effective for the preparation of the 2024 Budget (***Proposed Structural Benchmark,* end-September 2023**).

Revenue Mobilization Policies

20. The National Revenue Strategy (NRS) will remain the anchor for our tax policy and administration reforms. We have taken the first two steps on the road to adoption of the NRS.

- As a starting point, the CMU adopted a decree in late March (***Prior Action,* Program Request**) tasking the MoF to start preparation of the NRS (2024-2030). The decision laid out our intention to adopt an NRS, underscored key principles and objectives for tax policy and administration both in the short-term and in the post-war reconstruction period, and the steps to be taken to prepare and adopt the NRS.

- We have finalized the NRS gap analysis with the help of IMF TA. To this end, we have identified priority reforms in specific tax categories which will be part of a roadmap for the NRS (2024-2030) to be prepared by end-July 2023. Specifically, we are focusing on a set of tax categories where reforms will help to broaden the tax base starting with labor taxation/personal income taxation, corporate income taxation and excises. More broadly, we expect the roadmap to include clear revenue and other policy targets affecting a wide spectrum of tax categories, and guidance for coordination among government agencies, donors, the private sector and civil society led by the MoF.

- We remain on track to adopt the NRS by end 2023 **(*Structural Benchmark*, end-December 2023)**. It will include: (i) measures to strengthen tax and customs services; (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 tasks of supporting EU accession, environmental reforms, and post-war reconstruction and recovery, including much needed investments and industrial development.

21. We are also working to strengthen tax and customs administration as part of the NRS. We are committed to improving revenue mobilization through a well-functioning, transparent and taxpayer-friendly tax and customs administration. Specifically:

- ***State Tax Service (STS).*** We have already launched preparatory work; building on results of the STS survey from November 2022, we have adopted an action plan to take on-board the recommendations of the survey (***Structural Benchmark*, end-May 2023**). The STS is also making progress in analyzing tax arrears (overdue accounts payable) and potential means to reduce them. As has been committed, the review will distinguish between arrears related to or caused by Russian military aggression and occupation of Ukrainian territories by Russia, and those that are not impacted directly or indirectly by the war. The STS is on track to prepare a detailed action plan to progressively reduce these arrears by end-August 2023. Going forward, as part of the NRS gap analysis, we have also identified critical areas of STS reform that will be an important component of NRS, including implementation of a compliance risk management framework, strengthening capacity for reform management. and improving governance.

- ***State Customs Service (SCS*)**. We plan SCS diagnostics with the support of IMF TA in June 2023. To this end, we have identified three reform areas critical for reducing corruption risks within customs administration. Specifically, we will focus on: (i) reforms of HR and compensation policies; (ii) improving operational management of customs from its headquarters, including the development of centers of excellence for different functional tasks; and (iii) moving the verification/checking of customs documents from border crossings to inland offices.

- ***Taxpayer perception survey.*** We are embarking on work supported by the World Bank and the IMF to institutionalize and strengthen the survey by enhancing its scope and representation and make it an annual exercise covering not only STS but also SCS.

- **Overall, combining reform efforts in tax and customs administration**, as part of the NRS preparation, SCS and STS, will each prepare a comprehensive action plan over the short- and medium term that focuses on the respective key reform areas identified by the diagnostic work on SCS and by the work under the NRS gap analysis that covers STS (***Proposed Structural Benchmark,* end-October 2023**). The action plan developed to address findings from the tax perception survey will also serve as an input. The comprehensive action plans would be included in the overall NRS.

- ***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 have established a working group to revise the legal basis of the operation of the ESBU in order to (i) develop an open, transparent and competitive process for selection of management and staff; (ii) strengthen requirements for selection commission; (iii) introduce a contract system for employees; and (iv) develop a mechanism of attestation of the staff.

Medium-term Budget Framework

22. To better prepare for post-war reconstruction and anchor fiscal and debt sustainability, we are working towards restoring the Medium-Term Budget Framework (MTBF). To this end, as part of the structural benchmark (see ¶19) we have submitted to Parliament a draft law repealing the suspension of medium-term budget preparation (Budget Declaration) and medium-term debt strategy ahead of the 2024 budget cycle (, with effect from January 2024. Based on this, we will present the 2024 budget projections with key revenue and expenditures categories, along with deficit financing sources for the general government for 2025–26. As part of 2024 budget preparation, we will also prepare a fiscal risks statement including details on energy and critical infrastructure SOEs (***Structural Benchmark*, end-September 2023**). An IMF TA mission in May has helped us to lay ground for this work. For the 2025 budget cycle, we will prepare a comprehensive MTBF (2025–27) 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. The improved framework would inform the formulation of the 2025 budget.

Pensions and Social Spending

23. We will continue ensuring the financial stability of the pension system. The reforms, which began in 2017, aimed at protecting the elderly against poverty, providing incentives to stay longer in the labor force, applying uniform benefit rules irrespective of professional background, and providing incentives for participation and contribution compliance. We will refrain from: (i) introducing new special pensions or privileges; (ii) providing further discretionary benefit increases; and (iii) adopting changes that would lead to a lowering the effective retirement age. We will ensure that any proposed legal amendments, introduced both by laws and by-laws that will increase pension expenditures are accompanied by a medium-term fiscal and budgetary impact analysis and a clear identification of the necessary resources in the amendments to the Pension Fund of Ukraine budget. Furthermore, we will continue our collaboration with our development partners to establish well-regulated and fully funded obligatory pension saving schemes when the necessary preconditions are put in place after the removal of Martial Law and when medium-term fiscal risks are mitigated. In addition, in the context of our medium-term budget framework, we will seek to identify appropriate funding resources for the second pillar and ensure that resources reallocated from the first to the second pillar will be replaced by other revenue sources.

24. We will improve mechanisms to support vulnerable categories of the population, including internally displaced persons. This includes strengthening support mechanisms in compliance with the principles of targeting and encouraging the economic independence and employment of beneficiaries. In this regard, we are working with the World Bank to strengthen mechanisms for better means testing for providing benefits to internally displaced persons. We expect to introduce a resolution to this end by September 2023.

Fiscal Transparency and Risks

25. We are continuing to take measures to enhance fiscal transparency, address fiscal risks and strengthen commitment controls. Specifically:

- ***Overdue account payables.*** Reinstating reporting of key spending units to the MoF under the PMB has helped us tremendously in regaining control over commitments on all levels of government. Our ability to keep overdue account payables well below the ceiling of the indicative target makes us confident that we have sufficient powers to maintain strong commitment control and have comprehensive oversight over financial obligations on all levels of government. Given the realities of the war, this excludes local governments that are in zones of direct combat and are in Ukrainian territories occupied by Russia.

- ***SOE reporting and risk assessment.*** We have already restored regular fiscal risk reporting by SOEs that are not located in temporarily occupied territories. To this end, we informed all line ministries and SOEs under their auspices to continue quarterly reporting, with a caveat that risk assessment and stress testing efforts may require more frequent ad hoc updates. Based on the IMF's recent TA on risk assessment, we expect to include the outcomes of SOE stress testing in future fiscal risk statements, starting with the fiscal risk statement for Budget 2024.

- ***Strengthening the framework for provision and risk assessment of guarantees.*** With the help of the recent IMF TA, we are working on strengthening the risk assessment of guarantees (see also ¶35). We remain on track to prepare by September 2023 the rules and regulations to tighten risk assessments to avoid abuse and introduce risk-based fees for guarantees. To bolster our efforts for prudent fiscal risk management and debt policies, we have submitted to Parliament a draft law (***Structural Benchmark*, end-May 2023**) which reinstates articles of the Budget Code that establish limits on the issuance of state guarantees with clear criteria for such provisions (including for priority sectors). The proposal implies that the Budget Code will reinstate the 3 percent limit on guarantees that are issued directly by the decision of the Cabinet of Ministers. Meanwhile, to support projects financed by IFIs and foreign governments including for recovery and reconstruction, the issuance of guarantees will be discussed annually in the context of the State Budget Law approved by Parliament. The limits on such guarantees will be discussed in the context of the IMF program given the need to contain risks from guarantees and preserve debt sustainability, while not unduly constraining IFI financing or reconstruction projects.

- ***Monitoring risks from the 5-7-9 loan program.*** This program managed by the Business Development Fund has been instrumental in supporting sectors and industries that needed support to cope with consequences of the Russian aggression. To this end, we are determined to take stock of the program's performance and assess potential risks and contingent liabilities to the public sector. We will develop a concept note **(*Proposed Structural Benchmark,* end-September 2023)** with proposals to target the program on small and medium enterprises by phasing out the eligibility of large companies and enhance monitoring and maintain adequate safeguards. We will reinstate control of the Ministry of Finance over the program in order to mitigate fiscal risks.

- ***Business Development Fund.*** Given the expanding portfolio of the Business Development Fund, we will take stock of its governance and risk management structure with an aim to identify shortcomings that represent a material risk to public finances and the budget in 2023 and the medium term. In addition, we will secure the existing shareholding of the Ministry of Finance over the Business Development Fund.

26. We will continue to enhance transparency in the management and spending of budgetary funds and special accounts.

- ***Fund for the Liquidation of the Consequences of the Armed Aggression.*** 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, the MoF retains control over commitments and appropriations 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 expenditure (according to their economic classification) in one report. In this context, we commit to refrain from using the NBU profit for earmarked spending in 2024 and will direct this revenue category to General Fund of the State Budget.

- ***Special accounts.*** We met the structural benchmark on establishing a legal framework to regulate commitment controls and appropriations related to special accounts opened at NBU. Specifically, we have enacted amendments to the Budget Code (April 11, 2023) to bring commitment controls and appropriations under the supervision of the MoF as envisaged by the budgetary legislation. The amendments also enhance transparency and accountability of the special accounts and consolidate these within general government as special funds of the state budget. To this end we are working on operationalizing the adopted legal framework; in particular we will issue an MoF order by end June 2023 for key spending units and we are in the process of the creation of Treasury reporting for usage of funds from these accounts. The key steps are: (i) creation of reporting so that Treasury's and spending units' reports include both the initial balance as of the beginning of the year and remaining balance of funds for each reporting period; (ii) including these special accounts in budget documentation and fiscal reports, consistent with best practices of fiscal transparency and, (iii) publishing an aggregated data on these special accounts starting from end-July 2023.

Strengthening Public Investment Management

27. We continue our work on strengthening public investment management ahead of post-war reconstruction, building on EU4PFM and the World Bank's Public Investment Management Diagnostic Assessment Report 2022. Our overarching goal is to enhance the efficiency of public investment consistent with medium term budget and debt sustainability objectives. This should help channel resources towards projects that are providing the greatest value for money while supporting recovery and growth. The recent World Bank report identifies numerous areas for 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 are in the process of reviewing current PIM procedures, and are on track to 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 the 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.

C. Financing Strategy

28. We remain grateful for the timely disbursement of external financing by our international partners and donors, as well as commitments to predictable financing, in the amounts and composition envisaged. In 2023, as of May 15, we have received external disbursements of US$16.6 billion. 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. Further, over the next 12 months of the IMF-supported program (June 2023–June 2024), firm financing assurances are in place thanks to large official, multilateral, and bilateral commitments. Looking beyond June 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 continue to be large and volatile. We intend to continue mobilizing 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 enable us to eliminate monetary financing.

30. We will further strengthen our efforts to increase net domestic bond financing over the program period.

- As of May 1, we have raised UAH173 billion in the primary market in 2023, achieving a year-to-date rollover rate of 137 percent, thereby providing net financing to the budget of about US$1.3 billion. About 80 percent of gross hryvnia issuance has been raised through designated benchmark bonds that banks have been allowed to use to meet reserve requirements. We continue to make progress in matching issuance yields and maturities to market demand.

- 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 contributed significantly to the 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 established a joint Working Group under the auspices of the Financial Stability Council (FSC) in

April 2023, to consult regularly on strategies to mobilize domestic financing. Efforts continue 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.

31. We continue to make progress 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*****, reset for end-October 2023**) so that it fully takes into account developments since the start of the war and our future priorities, including reconstruction and recovery. The timing of this benchmark will be shifted from end-September to end-October 2023 to align with the proposed Structural Benchmark on the enactment of amendments to the Budget Code (¶19). We will continue to support the development of the domestic debt market, including benchmark securities outside the reserve requirement mechanism, 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 international capital market access, thereby enabling the bond market to play an active role in the reconstruction phase.

32. We remain committed to eliminating monetary financing. Given the considerable risks monetary financing presents for price and external stability, we have successfully avoided monetary financing thus far in 2023. Our commitment to this objective will continue to 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.

D. External Debt Strategy

33. To help restore debt sustainability on a forward-looking basis, we 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 hired external financial advisors and are committed to a credible process with transparency for information and communication. We continue to discuss our strategy with private creditors and seek their feedback. Our goal remains to restore public debt sustainability and ensure that our program is fully financed throughout its duration, including in a downside scenario.

34. The debt treatment comprises the following elements:

- *Official bilateral debt.* Paris Club creditors have committed to a two-step process involving an extension throughout the program period 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 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 macroframework and the parameters of the debt sustainability assessment.

35. To support our goal of safeguarding debt sustainability, we will also strictly limit the issuance of guarantees (*Quantitative Performance Criterion*). We propose to convert the continuous QPC agreed at program approval into a periodic QPC. This change is consistent with reinstatement of the articles of the Budget Code. Consistent with ¶25 (third bullet), adequate space will be provided to facilitate guarantees on loans from International Financial Institutions (IFIs) and foreign governments for projects, including those for recovery and reconstruction.

E. Monetary and Exchange Rate Policies

36. 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 safeguarding overall macroeconomic and financial stability, while also adjusting our policies to better serve the needs of households and firms and support the recovery.

37. We have made significant progress on our conditions-based strategy on the monetary and exchange rate policy framework (*Structural Benchmark*, end-June 2023). In particular, 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. The strategy, being developed in consultation with IMF staff, will help establish and assess the principles and prerequisites for this transition in our monetary and exchange rate policies, and guide the policy measures needed to support this transition. As the war continues and brings exceptionally high uncertainty, the strategy and the clear communication of its tasks and principles—with IMF TA support—will be important elements to ensure that adjustments in our policy framework are carefully considered and communicated while continuing to safeguard macroeconomic and financial stability.

Monetary Policy

38. We will maintain an appropriate monetary policy stance to support steady disinflation, manage inflation expectations, and support exchange rate stability.

- Headline inflation has continued to decline faster than expected, thanks to the easing of supply constraints, including from the liberation of occupied regions, normalizing energy costs and improvement in the cash exchange rate. Core inflation has also begun to fall, as have inflation expectations, though they remain elevated. In 2023, with the war continuing, inflationary pressures will persist due to residual war-related supply shocks, though restrained consumer demand and a broader environment of lower global energy prices should support a softening in prices. Thus, on balance, we expect inflation to further slow through 2023 to around 15 percent. Nevertheless, upside risks to inflation outlook, most notably from the security situation, remain.

- In this context, in our April Monetary Policy Committee (MPC) meeting, we maintained the key policy rate (KPR) at 25 percent, which was appropriate in view of declining but still high inflation and inflation expectations and continued supply-side headwinds on the one hand, and restrained consumer demand and the still incomplete transmission of the June 2022 hike on the other. With steady deceleration in inflation and continued stability in the FX market, together with positive real interest rates, we envisage shifting to an easing cycle sooner than previously anticipated.

39. We will continue to make efforts to manage liquidity, induce competition among banks for hryvnia term deposits, and thereby strengthen the attractiveness of hryvnia assets and monetary transmission. The structural surplus of liquidity (about UAH 235 billion as of end-April 2023) remains high and is expected to continue given the large fiscal deficit in 2023 and structural factors. Our strategy in this area is to prudently manage liquidity, while preserving space for banks to participate in government bond auctions and thereby prevent monetary financing. We will continue to carefully monitor liquidity conditions in the banking system, including on the timing and size of flows, to determine the appropriate design of measures to manage liquidity. We also intend to continue studying measures to stimulate the increase of hryvnia term deposits. These adjustments should help strengthen the attractiveness of hryvnia assets and support the effectiveness of our sterilization operations and better link our operational framework to help restore the KPR as the main policy instrument. Together, this will support the envisioned return to a more flexible exchange rate, the easing of FX controls, and the re-adoption of inflation targeting.

- **Reserve requirements.** The tightening in reserve requirements (by a cumulative 20 pp since December 2022) and their adjustment for maturity and currency have helped to reduce liquidity in the banking system and induce banks to compete for term deposits by raising interest rates. Nevertheless, liquidity remains sizable and is expected to grow. 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.

- **Operational design.** We have adjusted the operational design of monetary policy framework to restore the efficiency of the key policy rate, enhance competition among banks for term deposits, and improve the monetary transmission mechanism via a revival of the interbank money market. Effective April 7, we introduced three-month certificates of deposit at the KPR, where the volume of issuance was conditional on the stock of banks' term-deposits with maturity longer than 3 months, and also reduced the rate of renumeration on overnight CDs by 3 percentage points. Over the last month, we have observed a small increase in the remuneration on and total size of hryvnia term deposits in the banking system, and we are committed to further studying incentives to strengthen banks' action in this regard, and thereby allow individuals to preserve the value of their hryvnia savings. On balance, we intend to ensure that the parameters on standing facilities are consistent with an appropriate monetary policy stance in line with inflationary and economic developments.

Exchange Rate Policies

40. 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$31.4 billion between February 24, 2022, and end-April 2023). However, FX reserves remain strong, supported by sizable official inflows, FX controls, and recent measures undertaken to ease pressure on the cash FX market. In recent months, the spread between the official and cash segments of the FX market has narrowed sharply, stabilizing at around 3 percent. Conditional on these measures and 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.

41. We intend to maintain adequate FX reserves through the course of the program. Thanks to strong external financing flows and better than expected export performance, FX reserves reached an all-time high in end-April 2023, allowing us to comfortably meet our end-April ***Quantitative Performance Criteria*** on net international reserves. Nevertheless, to support external stability and in view of the large and prevailing uncertainty, we will continue to keep adequate reserves, and keep them at a sufficient level over the medium term. While recognizing that forecast confidence is subject to exceptionally high uncertainty, in view of better-than-expected FX reserve levels thus far this year, we are requesting modification to increase the NIR QPC for end-June and end-December 2023 by US$1 billion to US$16.5 billion.

42. We plan to carefully adjust FX controls to support the economic recovery, while maintaining exchange rate stability and national and international security. Although risks to the outlook remain exceedingly high, macro-financial stability has been maintained, and imbalances in the FX market have eased in recent months. Thus, while we will maintain generally the existing controls on FX transactions and continue to carefully monitor and enhance the effectiveness of these measures, as flagged in the April MPC, we intend to selectively ease FX controls to meet the needs of the economy. This will also ease pressure on the FX cash market and anchor 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.

43. We have amended the recent relaxation measure on the repatriation of interest payments to non-residents holders of domestic government securities after April 1, 2023 for national and international security reasons. Specifically, we require a minimum holding period of 90 days for the underlying security earning the interest payment. This will help preserve FX reserves in the face of still elevated risks to the economic outlook, and also help support demand for longer-term instruments on the primary market, thereby supporting our fiscal financing needs.

NBU Independence and Governance

44. In line with our commitments, there has been no monetary financing of the budget deficit in 2023. 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 are progressing on developing by end-July 2023, 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. 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.

45. 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 this regard, we will ensure strong governance arrangements within the NBU. We will introduce an MoU between the NBU and the MoF relating to the mechanism of servicing the government's obligations to the Fund by the NBU on behalf of the MoF. This MoU will describe the respective responsibilities of the NBU and the MoF, including ensuring the fulfillment of obligations in a timely manner in connection with existing and future payments related to Fund arrangements. This will strengthen our current arrangement of establishing legal agreements for individual tranches. Finally, we will continue adhering to our profit retention rules and ensure that the distribution of NBU profits to the state budget takes place in line with procedures established by the NBU Law.

46. 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 phasing out war-time measures. This will strengthen our monetary policy toolkit, safeguard NBU credibility and independence, and thereby support our goals to eventually return to an inflation targeting framework.

F. Financial Sector

47. Our wide-ranging emergency measures have preserved financial stability. We will continue to closely monitor developments in the financial sector and make adjustments as necessary. 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.

48. In preparation for a return to normality, we have updated our financial sector strategy to implement a safe, coordinated, and prompt unwinding of financial sector emergency measures, while restoring accounting and prudential norms. Our 2021 financial sector strategy was 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 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, including to consider any new initiatives that relate to policies in the strategy. We will publish parts of the strategy that are not market sensitive.

49. 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 with technical support of the World Bank has initiated a resilience assessment that includes an asset valuation and solvency assessment of banks comprising 90 percent of banking system assets that will be completed by end-December 2023.

50. 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) have prepared contingency plans to respond to further potential high-impact events in their respective areas, in consultation with key stakeholders and IMF staff. The Financial Stability Council has approved those plans related to preparation for potential adverse rulings from the constitutional challenges against the DGF Law and the Bank Resolution Law (Law #590), and an updated contingency plan to prepare for litigation risks concerning past bank resolution decisions. We will continue to monitor developments and update these plans as needed. 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.

51. 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. By the time of the second review of the EFF, we will consider how to include our vision for state-owned banks and financial institutions in our Financial Sector Strategy. In the immediate future, the key steps are as follows:

- We have prepared and are implementing a framework to inform decisions on any additional banks that come under State control, which aims to preserve value, ensure effective operational management, and reach decisions on the future of such banks.
- We will analyze the solvency and viability findings of the NBU resilience assessment taking into account the changing economic needs.
- Once the independent AQR is concluded, we will use its results in order to update the general SOB strategy and subsequently, strategies for individual SOBs, including with respect to privatization.

52. We are fully committed to further strengthening regulation and supervision. In recognition of the importance of preparing 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.

53. 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 NBFIs by end-September 2024. To strengthen NBFI supervision, we have passed legislation on Financial Services and Financial Companies (#1953) and Insurance (#1909). We remain committed to enacting legislation that amends the Law (#5865) 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 the law considers the mandate of other regulators, and we will move swiftly to align with IOSCO principles to allow 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".

54. 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

55. 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, including from continued donor support, inward migration 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, independent and strong anti-corruption institutions 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.

56. Overall, we will follow an integrated strategy for critical spending for the recovery and reconstruction. Out of the total cost of reconstruction and recovery of US$411 billion based on a recent joint analysis by the Government of Ukraine, World Bank, European Commission, and the United Nations, the second Rapid Damage and Needs Assessment (RDNA2) estimates that the country will need US$14.1 billion for critical and priority reconstruction and recovery investments in 2023. Near-term sectoral priorities focus on housing, utilities, social infrastructure, demining, transport, energy infrastructure and the private sector. We are strongly committed to implementing an integrated strategy to include such reconstruction and recovery spending in the program design, while taking into account debt sustainability concerns, including assessing the availability of the appropriate financing mix (i.e., grants and concessional financing), absorption capacity, and the treatment of public guarantees (see ¶25).

57. 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. Comprehensive audits of the use of reconstruction funds, performance audits of selected individual projects (including project costs, deliverables and outputs), and timely publication of audit reports will also be key features of the reconstruction strategy. The strategy will integrate and implement mechanisms to prevent and identify corruption risks, and cases will be referred, as appropriate, for follow-up by the anti-corruption institutions.

Recently, the NABU and the State Agency for Restoration and Development have entered into a memorandum of understanding (MOU) to facilitate cooperation and exchange of information for promoting transparent and effective management and improving internal control mechanisms to combat corruption.

58. 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

59. Our reform agenda on anti-corruption and rule of law aims at effectively combatting corruption, sustaining public confidence, and advancing towards our goal of EU membership. We remain firmly committed to preserving independent, competent and trustworthy institutions to combat high-level corruption. We will preserve the hard-won advances on building an independent and effective anti-corruption infrastructure and prevent any backtracking from progress made.

60. We continue to work toward the targeted restoration of asset declaration obligations. We are committed to enacting the law 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 National Agency for Corruption Prevention (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 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 National Anti-Corruption Bureau of Ukraine (NABU) and Specialized Anti-Corruption Prosecutor's Office (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. Any enhancements to the asset declaration system during the Martial Law period will not reduce the overall effectiveness of the system nor derogate from public officials' obligation to submit truthful, complete and accurate asset declarations (particularly, assets that are beneficially owned by them and their family members). 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.

61. We remain committed to strengthening the effectiveness of anti-corruption institutions. To further strengthen the institutional autonomy and capacities of the SAPO within the constitutional 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**). We will continue discussions to 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, consistent with our broader reform plans for the forensic expert system for criminal law enforcement.

62. We are advancing work toward ensuring an effective risk-based AML regime. A key goal 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 develop guidelines for financial institutions and other covered non-bank institutions, consistent with the Financial Action Task Force (FATF) standards, for using risk-based approach regarding politically exposed persons. 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 FATF standards (***Structural Benchmark*, end-September 2023**). In this regard, a draft law (#9269) has been registered with Parliament in May. The NBU will amend respective regulation to clarify penalties for improper or unjustified implementation of risk-based approach regarding PEPs. After resuming scheduled inspections and adopting amendments to the AML/CFT law regarding politically exposed persons, the NBU will plan and conduct a thematic inspection of the financial institutions' compliance with enhanced customer due diligence on politically exposed persons and publish subsequent guidance, if needed. 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.

63. We are committed to advancing the 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 in the voting within 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.

64. We intend to conduct a new Governance and Corruption Diagnostic with IMF technical assistance, after Martial Law has been lifted. The published report will assess corruption vulnerabilities and governance weaknesses linked to key state functions and lay out future reforms in a post-war scenario.

Corporate Governance in SOBs and SOEs

65. We will continue to strengthen the governance of state-owned banks (SOBs). We remain committed to uphold the spirit of corporate governance reforms in SOBs and ensuring their operation on a professional and commercial basis, without political interference on operational matters. We appointed a fresh slate of independent supervisory board members to the SOBs in the first half of 2023 that involved the NBU applying its fit and proper assessment framework to selected candidates. Upon completion of the selection process in this cycle, we have assessed the effectiveness of the new procedures and will make some minor adjustments to procedures in consultation with IFI stakeholders. We will also implement a procedure for conducting 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 the findings.

66. We have committed to strengthen corporate governance in SOEs. A draft law (#5593-D) 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.

67. We remain strongly committed to energy corporate governance reforms. We are committed to implement the needed and critical 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, developed and agreed with the NEURC in consultation with the Secretariat of the Energy Community (***Structural Benchmark*, end-July 2023**); and (ii) selection and appointment of a supervisory board for the GTSO (***Proposed Structural Benchmark, end-October 2023***). We are strongly committed to a competitive, transparent, and merit-based nomination procedure for the GTSO supervisory board under CMU Resolutions Nos. 142 and 777, and we will ensure that the supervisory board of the MGU, which will temporarily assume the supervisory board functions of the GTSO after the transfer of the GTSO shareholding, will be substituted by the newly appointed GTSO supervisory board no later than end-October 2023.

Energy Sector Reforms

68. 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. Ukraine's critical energy infrastructure has been swiftly repaired following frequent attacks to its infrastructure, the country has resumed electricity exports to neighboring countries in April and is making good and steady progress in refilling the gas storage ahead of the next heating season. 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.

69. 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, and 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 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. We will also increase household electricity prices as of June 1 to help restore the energy system's stability ahead of the next heating season.

- 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, up to 2 bcm of additional gas imports could be required under the baseline, but we expect the amount to be lower from recent trends of refilling the gas storage and expanded production by Naftogaz. Naftogaz has secured additional financing for gas imports through the EBRD and bilateral donors. In case Naftogaz faces a liquidity shortfall, 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 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 a key entry point is located in occupied regions. The GTSO is reducing expenditures (including on investment) to maintain its liquidity, but the current liquidity crisis could require budget support. In parallel, once the critical corporate governance reforms are finalized (see ¶67), 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

70. 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. Structural Benchmarks described in this MEFP are summarized in Table 2. The second and third reviews are tentatively planned for October 2023 and March 2024, based on quantitative performance criteria for end-June 2023 and end-December 2023, respectively, and corresponding structural benchmarks.

Table 1. Ukraine: Quantitative Performance Criteria and Indicative Target

(In millions of Ukrainian hryvnia, unless otherwise stated)

	2023 (Quantitative Performance Criteria)									2024 (Indicative Targets)	
	April			June		September		December		March	June
	QPC	Actual	Status	Prgm. PC (CR 23/132)	Proposed Rev. QPC	Prgm. IT (CR 23/132)	Proposed Rev. IT	Prgm. PC (CR 23/132)	Proposed Rev. QPC	Proposed IT	Proposed IT
I. Quantitative Performance Criteria 1/2/											
Floor on the non-defense cash primary balance of the general government, excluding budget support grants (- implies a deficit) 2/											
Program definition (CR 23/132)	258,352	353,024	Met	318,502	…	337,998	…	96,737	…	…	…
Proposed re-definition 3/	…	…	…	…	213,000	…	242,900	…	96,737	100,000	150,000
Floor on net international reserves (in millions of U.S. dollars) 4/	15,500	23,762	Met	15,500	16,500	15,500	16,500	15,500	16,500	16,500	16,500
Floor on tax revenues (excluding Social Security Contributions)	451,700	472,689	Met	696,400	696,400	1,094,700	1,094,700	1,679,170	1,679,170	420,000	835,000
Ceiling on publicly guaranteed debt 5/	…	…	…	…	37,000	37,000	37,000	37,000	37,000	46,000	46,000
II. Indicative Targets 1/2/											
Floor on the overall cash balance of the general government, excluding budget support grants (- implies a deficit)	-356,500	-364,580	Not met	-638,300	-730,000	-1,046,000	-1,141,100	-1,708,700	-1,674,500	-354,000	-750,000
Ceiling on general government borrowing from the NBU 6/ 7/	-2,551	-2,551	Met	-2,573	-2,573	-1,153	-1,153	-704	-704	-9,500	-2,884
Ceiling on general government arrears	6,000	1,757	Met	4,500	4,500	3,000	3,000	1,600	1,600	1,600	1,600
Floor on social spending	187,000	182,321	Not met	258,100	249,000	372,600	359,600	499,600	499,600	172,000	270,000
III. Continuous Performance Criteria 1/2/											
Ceiling on non-accumulation of new external debt payments arrears by the general government	0	0	Met	0	0	0	0	0	0	0	0
Ceiling on publicly guaranteed debt 5/	20,000	0	Met	37,000	…	…	…	…	…	…	…
IV. Memorandum Items 1/2/											
External project financing	23,718	951	…	28,453	11,190	42,660	34,045	56,852	56,828	32,700	65,400
Budget support grants	178,363	179,407	…	268,871	270,823	404,632	404,847	422,916	423,132	79,040	158,080
Budget support loans 8/	324,762	326,082	…	531,646	460,947	713,899	717,586	945,126	955,428	277,183	554,367
Interest payments	39,052	40,104	…	129,702	124,000	183,898	183,600	279,937	283,000	57,910	215,000
NBU profit transfers to the government	71,600	71,868	…	71,600	71,868	71,600	71,868	71,600	71,868	0	20,000
Government bonds for the purposes of bank recapitalization and DGF financing	0	0	…	0	0	0	0	0	0	0	0
Spending from receipts resulting from sales of confiscated Russian assets and transfers of bank accounts	8,000	0	…	17,000	25,800	17,000	25,800	17,000	25,800	25,800	25,800
Spending on gas purchases, PSO compensation and transfer to GTSO	10,000	0	…	30,000	30,000	45,000	45,000	60,000	60,000	0	30,000

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. Targets and projections for 2024 are cumulative flows from January 1, 2024.

3/ Starting with June 2023, the floor on the non-defense cash primary balance of the general government excluding grants is redefined to exclude general fund defense expenditures only.

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

5/ Starting with June 2023, the ceiling on government guarantees was converted into a quantitative performance criterion.

6/ For end-April, calculated cumulative from April 1, for end-June from May 1; for remaining test dates, from end of previous quarter.

7/ Calculated using projected redemption of government bonds as of May 28, 2023.

8/ Excludes prospective IMF disbursements under the EFF.

Table 2. Ukraine: Table of Structural Benchmarks

	Structural Benchmark	Sector	Timing	Status
1	Enact the second supplementary Budget 2023	Fiscal	End-April 2023	**Met**
2	Submit to Parliament a draft law to restore and strengthen Article 52 of the Budget Code to minimize ad hoc amendments to the budget law	Fiscal	End-May 2023	**Met**
3	Prepare an action plan, including to address the weaknesses identified in taxpayers' perception survey, as an input into National Revenue Strategy roadmap	Fiscal	End-May 2023	**Met**
4	Submit to Parliament a draft law which will reinstate articles of Budget Code that establish limits on issuance of public guarantee with clear criteria for such provision (including for priority sectors)	Fiscal	End-May 2023	**Met**
5	Enact amendments to the Budget Code and related regulatory framework to enhance transparency and accountability of the special accounts and consolidate them within general government as a special fund of the State Budget	Fiscal	End-May 2023	**Met**
6	Adopt the draft law on tax policy and administration prepared under the PMB	Fiscal	End-July 2023	Reset
7	Prepare a conditions-based strategy to move to a more flexible exchange rate, ease FX controls and transition to inflation targeting	Monetary and Exchange Rate	End-June 2023	
8	Transfer the GTSO shareholding directly to the Ministry of Energy and adopt the new charter	Energy/ Corporate Governance	End-July 2023	
9	Enact the law to restore asset declaration of public officials not directly involved in the mobilization and war efforts and reinstating the NACP's function to examine and verify them	Governance/ Anti-Corruption	End-July 2023	
10	**Enact the articles of the Budget Code that allow preparation of the medium-term budget framework, elaboration of the debt strategy, and ringfencing risks from guarantees**	**Fiscal**	**End-September 2023**	
11	Present in the 2024 budget declaration projections for major revenue and spending categories and sources of deficit financing for 2025-2026, and a fiscal risks statement including details on energy and critical infrastructure SOEs	Fiscal	End-September 2023	
12	Update and publish the Medium-Term Debt Management Strategy to align it with the program objectives	Fiscal	End-October 2023	Reset
13	**Develop a concept note on the 5-7-9 program with proposals to target small and medium enterprises by phasing out the eligibility of large companies, enhance monitoring, and maintain adequate safeguards**	**Fiscal**	**End-September 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	Governance/ Anti-Corruption	End-September 2023	

Table 2. Ukraine: Table of Structural Benchmarks (concluded)				
	Structural Benchmark	**Sector**	**Timing**	**Status**
15	Strengthen bank governance and oversight by: (i) separating the related-parties-unit from banking supervision; (ii) implementing "supervisory panels" as a consulting body to the Supervisory Committee; and (iii) resume scheduled inspections for both banking and non-banking institutions, while ensuring NBU discretion on matters related to staff safety	Financial Sector	End-September 2023	
16	**STS and SCS to prepare action plans including short-term and medium-term measures covering key reform areas identified by the upcoming diagnostic, that would feed into broader NRS.**	**Fiscal**	**End-October 2023**	
17	Simplify the asset declaration system through linking with other databases and registers consistent with the public officials' legal obligations to make truthful and timely submissions	Governance/ Anti-Corruption	End-October 2023	
18	**Select and appoint a supervisory board for the GTSO**	**Energy/ Corporate Governance**	**End-October 2023**	
19	Review the current PIM procedures and develop a roadmap of measures so that: (i) all public investment projects follow unified PIM approaches, including PPPs; (ii) investment projects are selected on a competitive basis, with transparent selection criteria, and consistent with the medium-term budget framework; (iii) stronger powers are provided to MoF, including a clear gatekeeping role during the different stages of the investment project cycle	Fiscal	End-December 2023	
20	Adopt National Revenue Strategy by the end of 2023	Fiscal	End-December 2023	
21	Adopt legislation to enhance the institutional autonomy of the SAPO, specifically, on the selection procedures, capacity to regulate organizational activities, and mechanisms for discipline and accountability	Governance/ Anti-Corruption	End-December 2023	
22	Prepare a bank rehabilitation framework in consultation with the DGF and IMF staff	Financial Sector	End-March 2024	
23	Implement a supervisory risk assessment methodology to inform supervisory engagement priorities	Financial Sector	End-June 2024	

Attachment II. Technical Memorandum of Understanding

June 16, 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 June 16, 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 0.9107 Swiss 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, the Japanese Yen is valued at 133.960 yen per U.S. dollar, and the Norwegian Krone is valued at 10.565 per dollar. The accounting exchange rate for the SDR will be 0.748641 SDR per U.S. dollar. Official gold holdings were valued at 1,902.6 dollars per fine ounce. These accounting exchange rates are kept fixed over the program period. Therefore, the program's exchange rate may differ from the actual exchange rate 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 (e.g,World Bank, European Commission) and official bilateral creditors.

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

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

9. The own revenues of budgetary institutions are defined in Item 15, Part 1, Article 2 of the Budget Code. Own revenues of budgetary institutions are revenues received in accordance with the established procedure by budgetary institutions as payment for the provision of services, performance of works, and targeted activities, grants, gifts, and charitable contributions, as well as proceeds from the sale of products or property and other activities in the prescribed manner.

10. For program purposes the proceeds of sales of confiscated Russian assets or bank accounts balances including those directed toward the Fund for the Liquidation of the Consequences of the Armed Aggression are recorded below the line as a deficit financing source with counter-entry into deposits of the Treasury Single Account.

11. Overdue accounts payables (domestic arrears) are specified in the Order of the Ministry of Finance No. 372 dated April 2, 2014, On the Approval of the Accounting Procedures for Specific Assets and Budget Institutions' Liabilities and On Amending Certain By-Laws on the Accounting for Budgetary Institutions. Accordingly, arrears are defined as the amount of payments due on the 30th day after the deadline for mandatory payment, in line with the legal contract in effect. In instances where the payment deadline is not specified, it counts as the 30th day after the confirmation of goods received, works done, and/or services rendered had been provided.

a. Budgetary arrears on social payments and wages comprise all arrears of the consolidated budget on wages, pensions, and social benefits of the central or local governments. The timeframe for wage arrears 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

12. Net international reserves (NIR) of the NBU are defined as the dollar value of the difference between usable gross international reserve assets and reserve-related liabilities to nonresidents, evaluated at program exchange rates (see Table A for a summary of the relevant components and the data sources).

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

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

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

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

14. 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).

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

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

- 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-Mar. 2/	end-Apr. 2/	end-June	end-Sept.	end-Dec.
Total (cumulative)	9,037	13,651	19,837	30,837	39,023
Bilateral	3,500	6,500	9,000	12,825	13,514
Loans 3/	-	1,750	1,750	1,911	2,100
Grants	3,500	4,750	7,250	10,914	11,414
Multilateral	5,673	7,280	10,934	17,790	24,113
Loans	5,514	7,121	10,775	17,631	23,954
Grants	159	159	159	159	159
Project support	23	30	62	381	1,555

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

2/ End-March and end-April figures are based on original currency values for disbursed support calculated at program exchange rates.

3/ April data reflects Canadian loan disbursement via IMF Administered Account that occurred March 31, 2023.

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

Definition

15. General government direct borrowing from the NBU, net of redemptions and repayments, is defined as the cumulative change in the stock of outstanding claims on the general government (as defined in ¶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.

16. 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

17. In general, should there be a shortfall in external financing defined as any shortfall of the financing listed in Table B, and primary issuances on government bonds 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., June 30, September 30, December 31 for 2023, and March 31, 2024) 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, for 2023 targets and end-December 2023 for 2024 targets. The shortfall in external financing is measured on 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 for test dates in 2023 and end-December 31, 2023 for test dates in 2024. In particular, for the test dates of the Indicative Target shown in Table C, if the cumulative amount of primary issuances of government bonds maturing after the test date shown, and measured at face value, is higher than the amounts shown in line (i.), then the ceiling on general government borrowing from the NBU, net of redemptions and repayments, will be adjusted upward by the smaller of either the shortfall in external financing as defined in Table B for that test date or the amount shown in line (ii.) of Table C.

Table C. Ukraine: Adjustors for the Ceiling on General Government Direct Borrowing from the NBU
(in UAH billion)

	For the test date of:				
	Jun 30, 2023	Sep 30, 2023	Dec 31, 2023	Mar 31, 2024	Jun 30, 2024
(i.) An adjustment is triggered if the cumulative amount of primary issuances of government bonds maturing after the test date **exceeds**: 1/	168	265	351	90	136
(ii.) borrowing from the NBU, net of redemptions is the smaller of external financing as defined in Table B (if any) **or** this amount (in UAH billion)	30.760	48.847	49.296	40.500	47.116

1/ Measured at face value.

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

Definition

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

19. 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,

- 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

[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.

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 Agency for the Restoration and Development of the Infrastructure of Ukraine per paragraph 93 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.

20. 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)

21. For the purposes of program monitoring, the non-Defense Cash primary Balance of the General Government excluding budget support grants is defined as the Overall Balance of the General Government excluding budget grants (defined in section C) less interest payments (total interest paid on domestic and external debt) less defense spending of the state budget general fund as defined in paragraph 8 of this TMU. The balance is measured on a cumulative basis, starting from January 1st of each calendar year.

Adjustors for Balances in Parts C and D

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

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

- The floor on the overall cash balance excluding grants and on the non-Defense Cash primary Balance of the general government is subject to an automatic adjustor downwards corresponding to the full amount of government bonds issued for the purposes of 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 downward 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 25.8 billion corresponding to the full amount of receipts from sales of confiscated Russian assets and transfers of bank accounts. This amount reflects the balance of the Fund for the Liquidation of the Consequences of the Armed Aggression, which stood at UAH 61.7 billion, net of one-half of the annual profit transfer of the National Bank of Ukraine (UAH 35.9 billion). For the period of the Martial law, the data from territories that are or were in direct combat zones and temporarily occupied by Russia are excluded from the adjustor.

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

22. 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)

23. 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 January 1st of each calendar year.

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

24. The ceiling of general government arrears is derived based on the definition provided in paragraph 11 of this TMU (excluding arrears of local governments) and reporting format set in paragraph 78 of this TMU. The target is cumulative starting January 1st of each calendar year, as described in table of paragraph 78 and covers arrears of state budget (general and special funds) and social funds (as defined in paragraph 11). The stock of arrears measured in that way will not exceed the stock of arrears at end December 2022. The arrears computation does not cover arrears accrued in territories that are or were in direct combat zones and temporarily occupied by Russia as of the applicable test date.

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

Definition

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

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

Definition

26. For purposes of the QPC, the ceiling on publicly guaranteed debt will apply to the amount of guarantees issued by the central (state) government once the underlying debt is disbursed. For test dates between June 30, 2023, and December 31, 2023, the ceiling will be set at UAH 37 billion, consistent with 3 percent of current year revenues of the state budget general fund (as defined in the Budget Code) and apply to the cumulative amount of guarantees issued by the central (state) government from January 1st of 2023 calendar year including guarantees to priority sectors. For 2024, the ceiling will be set at UAH 46 billion for end-March and end-June. The program exchange rates will apply to all non-UAH denominated debt. This ceiling excludes guarantees for NBU borrowings from IMF.

27. 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 GTSO for emergency support; (vi) loan for Boryspil International Airport for reconstruction of flight zone # 2. Consistent with debt sustainability objectives, the adjustor will be capped at UAH 45 billion and discussed in program reviews.

J. Other Continuous Performance Criteria

28. 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

29. 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

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

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

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

33. 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."

34. The NBU will continue to provide on its web site the ***daily*** holdings of domestic government securities as well as information on primary auctions and secondary market sales. The NBU will provide to the IMF information on ***daily*** holdings of government securities broken down by type of holders at primary market prices at the rate fixed on the day of auction; information on domestic government securities sales, from the beginning of the year at the official rate as of the date of placement, as well as the domestic government securities in circulation, by principal debt outstanding at the official exchange rate as of the date of placement; reports on each government securities auction; 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).

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

36. The NBU will provide to the IMF its financial statements (income and expenses, 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.

37. The NBU will continue to provide to the IMF ***daily and monthly data*** on the NBU financing operations (including swaps or refinancing) of the banks of Ukraine, and on the operations of mopping up (absorption) of the liquidity from the banking system (including through the CDs issuance) in the formats and timeliness agreed with the IMF staff. ***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.

38. The NBU will provide to the IMF, ***on a monthly basis*** but not later than 30 days after the expiration of the reporting month, (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.

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

40. The NBU will provide to the IMF, ***on a monthly basis***, projections for external payments falling due in the next 12 months. The data on actual settlement of external obligations, reflecting

separately principal and interest payments as well as actual outturns for both the public and private sectors, shall be provided on a quarterly basis, within 80 days following the end of the quarter.

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

42. The NBU will provide to the IMF, on a ***daily*** basis, data on foreign exchange export proceeds and foreign exchange sales; data on import transactions for goods and services; data on amounts of foreign exchange transferred from abroad to the benefit of physical persons—residents and nonresidents—to be paid in cash without opening an account; data on foreign exchange wires from Ukraine abroad for current foreign exchange nontrade transactions on the basis of the orders of physical persons; data on sales and purchases of foreign exchange cash by individuals (incl. through banks, exchange offices, and 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.

43. The NBU will provide to the IMF, on a ***daily*** basis, data on foreign assets and liabilities of the overall banking system (excl. the NBU); data on banks' open foreign exchange positions by main groups of banks; data on deposits on the aggregated basis for the overall banking system (excl. the NBU) broken down by households and legal entities, maturity, as well as by national and foreign currency; data on loans on the aggregated basis for the overall banking system (excl. the NBU) broken down by households and legal entities as well as by national and foreign currency. In addition, the NBU will provide to the IMF, ***on a daily basis***, data on deposits and credits on the aggregated basis for the overall banking system (excl. the NBU) without deposits and credits of banks in liquidation starting from the beginning of 2014 and broken down by households and legal entities, as well as by national and foreign currency***. On a weekly basis***, the NBU will provide the IMF data on foreign assets and foreign liabilities (broken down by domestic and foreign currency) for the individual banks in State Participation Group, Foreign Banking Group and Private Capital Group. ***On a monthly basis***, foreign assets 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.

44. The NBU will provide, ***on a daily basis***, bank-by-bank data for the largest 35 banks on the liquidity ratio and amounts of cash and cash equivalents, available funds in NBU accounts (excl. reserve requirements), correspondent accounts with well-known international banks (excl. encumbered accounts), and deposits from customers. The NBU will also provide, ***on a daily basis***,

bank-by-bank data for State Participation Group, Foreign Banking Group, and Private Capital Group banks, total assets and liabilities; loans and claims (by households, legal entities, and banks); and foreign exchange net open position. The data will be reported by domestic and foreign currency. The deposits data will be reported by households and legal entities and by maturity (current accounts, saving accounts, and time deposits). In addition, for the aggregate of the banking sector as well as groups of banks, the NBU will provide data on deposits and credits excluding those banks in liquidation since 2014. The NBU will provide, ***on a monthly basis***, bank-by-bank data on liquidity coverage ratio in all currencies and in foreign currency.

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

46. The NBU will provide the IMF, **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.

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

48. 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.

49. The NBU will provide the IMF, ***on a monthly basis***, in an agreed format, data for the entire banking sector and on a bank-by-bank basis for State Participation Group, Foreign Banking Group and Private Capital Group banks the amount of loans and claims (by households in domestic and foreign currency, legal entities in domestic and foreign currency, banks in domestic and foreign currency, maturity, and by borrower classification categories); collateral for loans and claims (by type of collateral, legal entities in domestic and foreign currency, households in domestic and foreign currency, banks in domestic and foreign currency, and by borrower classification categories;

provisions on loans and claims (by households in domestic and foreign currency, legal entities in domestic and foreign currency, banks in domestic and foreign currency, and by borrower classification categories); large exposures (loans equal to or greater than 10 percent of equity), refinanced loans, and restructured loans (by households, legal entities, and banks) (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).

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

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

52. NBU will report to the IMF, ***on a monthly basis***, data for the entire banking sector as well as on a bank-by-bank basis for each of the banks in the State Participation Group, Foreign Banking Group and Private Capital Group showing nonperforming loans (NPLs), including migration from NPLs to performing loans (PLs); migration from PLs to NPLs; the form of NPL repayments (cash, loan sales, collateral sales, etc.); write-offs; and other factors (e.g., exchange differences and revaluations) (and compared with banks' respective timebound plans for reducing NPLs once these are approved).

53. The NBU will report to the IMF***, on a monthly basis***, data for the entire banking sector as well as on a bank-by-bank basis 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.

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

55. 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.)

56. 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.

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

58. 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.

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

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

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

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

63. Monthly, the NBU will provide to the IMF 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

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

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

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

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

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

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

C. Ministry of Finance

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

71. The Treasury will continue to provide to the IMF reports on daily operational budget execution indicators, daily inflow of borrowed funds (by currency of issuance) to the state budget and expenditures related to debt service (interest payments and principals) including data on government foreign exchange deposits, in a format agreed with IMF staff, 10-day and monthly basis data on the execution of the state, local, and consolidated budgets on the revenue side and data on revenues from the social security contributions, including by oblast breakdown, monthly data on funds, deposited with the Single Treasury Account, on the registration accounts of the entities which

are not included in the state sector, information on balance of funds as of the 1st day of the month on the account #3712 "accounts of other clients of the Treasury of Ukraine," on inflow to the State budget from placing Treasury or any other liabilities to households in foreign and domestic currency and their redemption.

72. The Ministry of Finance will continue to provide to the IMF in electronic form monthly and quarterly treasury reports, 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.

73. 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.

74. 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.

75. 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.

76. The Ministry of Finance will report to the IMF on a monthly basis, no later than 15 days after the end of the month, the cash 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.

77. 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.

78. 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 are or were in direct combat zones and temporarily occupied by Russia. The provided information will include defense and law-enforcement.

Overdue account payables general government	**June 30, 2023**	**September 30, 2023**	**December 31, 2023**
Wages			
Other budgetary spending			
Social spending, including			
Pension and Social Insurance			
Unemployment			
Local governments			

79. The Ministry of Finance will provide a decomposition of own revenues of budgetary institutions (budget treasury code 25000000) into proceeds from fees for services provided by budget institutions in accordance with the law (budget treasury code 25010000) and other sources of own revenues of budgetary institutions (budget treasury code 25020000) no later than 25 days after the end of the quarter.

80. 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).

81. 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.

82. 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.

83. 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.

84. 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.

85. 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.

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

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

88. The STS will continue to provide monthly reports 1.P0 on actual tax revenue and 1.P6 on tax arrears, 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						

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

90. The Ministry of Finance will provide on a monthly basis information about the number and amount of loans under the 5-7-9 program as well as a breakdown by sectors of loans.

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

91. 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.

92. 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.

93. 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

94. 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

95. 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.

Statement by the Staff Representative on Ukraine
Executive Board Meeting
June 29, 2023

1. **This staff statement provides an update on recent developments since the issuance of the Staff Report (EBS/23/72).** This update does not alter the thrust of the staff appraisal.

Monetary and Exchange Rate Policies

2. **At its monetary policy committee meeting on June 15 the NBU maintained the key policy rate (KPR) at 25 percent while strengthening forward guidance on the easing cycle.** In view of the faster than expected disinflation and the still elevated risks to the inflation outlook, the NBU kept the KPR on hold but signaled a shift to an earlier easing cycle than communicated in April (where easing was seen as beginning in 2023Q4). According to NBU estimates, recent developments such as the destruction of the Kakhovka dam and the restoration of some electricity tariffs will have a limited impact on inflation this year (each measure would add +0.3 pp).

3. **The NBU has also announced the targeted easing of FX controls.** These include for payments on outstanding external loans contracted by Ukrainian private-sector entities to export credit agencies and to creditors with a majority foreign government share, as well as payments on new external private-sector loans (under certain conditions on maturity and cost). Such targeted easing is expected to help support economic activity and reconstruction efforts, while limiting the risk of excessive capital outflows.

Subsidized Loan Program

4. **On June 20, the government adopted a decree to introduce a subsidized loan program for businesses generating electricity at thermal power stations.** Similar to the 5-7-9 program (See Staff Report, Box 3), the support is expected to be channeled through the Business Development Fund (BDF) and implies that large corporations would become eligible for subsidized loans. In the staff's view this may increase risks from contingent liabilities, and the subsidies would put additional pressure on already constrained fiscal resources. This also underscores the importance of strengthening the governance of the BDF to mitigate fiscal risks, in line with commitments under the MEFP (¶25).

Energy

5. **Reforms to further improve stability in the domestic energy market and to align Ukraine's regulation with that of the European Union (EU) have continued to progress.** On June 10, Parliament adopted legislation (draft law #5322) to strengthen market monitoring, surveillance, and competition requirements for wholesale electricity markets, which would align Ukraine's regulation with the EU REMIT regulation. Furthermore, the energy regulator NEURC has cancelled wholesale electricity price restrictions, which had led to a price gap during peak and night hours, with the aim of further improving stability in the energy market.

Statement by Mr. Vladyslav Rashkovan, Alternate Executive Director for Ukraine
June 29, 2023

On behalf of the Ukrainian authorities, I would like to thank staff for the in-depth report and constructive engagement during the recent mission to Vienna and continuous virtual engagement with the authorities. I 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 severe impact of Russia's brutal and unjustified invasion and the ongoing war on human and physical capital, a drop in living standards, and rising poverty in Ukraine. It is visible that Russia's invasion caused extremely high population displacement, enormous infrastructural damages, and huge losses to the potential GDP of Ukraine.

While the external environment remains exceptionally uncertain, the Ukrainian authorities demonstrate the remarkable capacity to implement economic policies to address the challenges. In these challenges, the authorities believe that the Extended Fund Facility (EFF) arrangement provides a strong anchor for the economic policies and continue to consider the program crucial in achieving 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 program was designed to resolve Ukraine's balance of payments problems and restore medium-term external viability, not only in the baseline scenario but also under a downside scenario.

To support this vision, the authorities met all quantitative performance criteria for end-April and all structural benchmarks through end-May and remain committed to the ambitious reforms and strong policy implementation to achieve much stronger economic outcomes in a two-phased approach.

The authorities believe that the policies set forth in the MEFP are adequate to achieve the objectives of the program, both in the baseline as well as in an updated downside scenario. While acknowledging that these scenarios are subject to exceptionally high uncertainty, the authorities remain fully committed to continuing to adapt their policies as conditions evolve and take all necessary measures to ensure program success and a stable economy.

War economy

GDP was down 10.5 percent y/y in Q1 2023 reflecting the heavy toll of the war spillovers. Decline thus slowed considerably from more than 30 percent in each of the previous three quarters, all caused by Russia's brutal war. In seasonally adjusted terms, GDP after falling in Q4 2002 was up 2.4 percent q/q in Q1 2023. While the worsening in Q4 had been mainly due to the massive Russian missile strikes on the power infrastructure, the improvement in Q1 once again showed the resilience of the Ukrainian economy and the persistent adjustment of the economy to the war conditions. At the same time, Kyiv and other population centers experienced escalated Russia's air raids since early May which unfortunately will be reflected in the economic statistics in the second quarter.

About 46 million tons of grains should be harvested this year, which is 5 percent-7 percent less than in 2022 – exhibiting the clear spillover of Russia's war (last year, grain harvest fell to 53.1mn tons from a record 84mn tons in 2021). Domestic consumption forecast is 18mn tons of grain in 2023. Continuation of the Black Sea grain export deal with Turkey and the UN is a must to allow the remaining amount to be used for export to contribute to global food security efforts.

Consumer inflation also continued to decelerate (15.3 percent yoy in May), faster than the National Bank of Ukraine (NBU) expected, given the sufficient supply of food and fuel, the strengthening of the hryvnia on the cash market, improved expectations, and the base effect. Core inflationary pressures also eased under the influence of improved inflation and exchange rate expectations, amid a favorable situation on the foreign exchange market, still weak consumer demand, and reduced cost pressures in the energy sector. As the war continues, the NBU remains fully committed to maintaining an appropriate monetary policy stance to support steady disinflation, managing inflation expectations, safeguarding exchange rate stability, and protecting international reserves.

A significant budget deficit for January–May was financed at the expense of international aid and domestic debt borrowing. The expenditure policies in 2023 aim to accommodate core priorities, contain additional spending pressures, and provide some room for recovery and reconstruction. Expectations regarding the size of the deficit in 2023 and the financing of budgetary needs are broadly unchanged and remain consistent with fiscal sustainability given the support from external donors.

The authorities commit to achieving much-needed revenue mobilization and continuing their fiscal policies to be designed to support fiscal and debt sustainability while ensuring adequate resources for core spending priorities and helping to prepare for reconstruction. They also continue to enhance transparency in the management and spending of budgetary funds and special accounts and lay the groundwork to undertake critical recovery and reconstruction activities sustainably. To better prepare for post-war reconstruction and anchor fiscal and debt sustainability, the government is working towards restoring the Medium-Term Budget Framework. They also continue their work on strengthening public investment management ahead of post-war reconstruction, building on EU4PFM and the World Bank's Public Investment Management Diagnostic Assessment Report 2022.

The current account deficit amounted to USD 1.8 billion corresponding to 6.0 percent of GDP in Q1 2023 (a year earlier, Ukraine posted a surplus of USD 2.0 billion). The rise of the deficit is explained by a decrease in exports, an increase in imports, and significant spending by Ukrainian refugees abroad.

At the end of May, the number of Ukrainian migrants reached 8.9 million people (increased by 919 thousand people since the beginning of 2023 – UN estimations), of which 5.1 million people have temporary protection status in the EU. The number of registered IDPs reached 3.6 million as of April 30, but the total number of IDPs estimates on the level of 5.1 million, and their adaptation to the war reality is increasing. According to some estimations, the number of those who returned to their previous place of residence after 02/24/2022 is around 4.8 million people. According to CEDOS research, 76 percent of young people who migrated because of the war want to return to Ukraine, and 11 percent would like to remain where they are. The main obstacles to return are security and economic factors.

The NBU wide-ranging emergency measures have preserved financial stability, and despite the heavy toll of the war on the economy, the financial sector showed remarkable resilience. Profits of solvent banks amounted to UAH 53.6 billion (USD 1.5 billion) in 5 months of 2023. A year earlier, when Ukraine was devastated by the Russian large-scale invasion, the system posted losses of UAH 1.3 billion. Deposit growth accelerated to 36.6 percent yoy in May, reflecting the trust in banks despite the war, as deposit rates grew again. At the same time, outstanding bank loans to the real sector were down 9.6 percent yoy in May. Credit was in negative territory for the seventh month in a row due to the low-risk appetite of banks backed by the lack of war insurance which is in demand during the war. Deposit and credit dollarization, however, were also down.

In preparation for a return to normality, the NBU in cooperation with the Ministry of Finance, the National Securities and Stock Market Commission, and the Deposit Guarantee Fund, has developed a Strategy for the Development of the Financial Sector of Ukraine. The Strategy determines the future priorities of the financial system: ensure coordinated actions by the regulators of the Ukrainian financial sector to restore and develop the financial system, ensure continuity of operations, gradually unwind extraordinary prudential measures, and establish plans for diagnosing banking assets, monitoring, and resolving the issue of non-performing loans. Furthermore, the Strategy includes the development and implementation of measures for easing currency restrictions, transitioning to a more flexible exchange rate regime, and returning to inflation targeting, as well as the Medium-Term Debt Management Strategy and the National Income Strategy for 2024-2030. Special attention is also given to the implementation of European legislation and best global practices in the regulation and supervision of the financial sector. The approval of the strategy is expected in July 2023. It will be a public document, supplemented by non-public roadmaps.

The authorities 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. The reform agenda on anti-corruption and the rule of law aims at effectively combatting corruption, sustaining public confidence, and advancing toward the goal of EU membership. Framed by the current program, the authorities remain committed to continue to work toward the targeted restoration of asset declaration obligations, strengthen the effectiveness of anti-corruption institutions; advance work toward ensuring an effective risk-based AML regime, the rule of law, and judicial reforms.

Commanding the strong and timely policy actions of the government, forecasts for 2023 are revised upwards: the World Bank revised its 2023 growth forecast upwards to 2 percent from the in April projected 0.5 percent; The central bank predicted 2 percent growth; in May, the EBRD forecasted 1 percent growth. The authorities welcome staff's revision of the baseline real GDP growth to a range of 1 to 3 percent up, though they admit that the outlook remains uncertain as the war continues.

Impact of the destruction of the Kakhovka Dam

The Kakhovka Dam and hydroelectric power plant were destroyed by Russian military forces on Jun 6, 2023. The destruction led to a massive flood of territories below the riverbed, drainage above the riverbed, and a lowering of the groundwater level and basins of neighboring rivers. The dried Kakhovka water reservoir was the source for 94 percent of Kherson province's irrigation systems, 74 percent of those in the neighboring Zaporizhya region, and 30 percent in the Dnipropetrovsk region further north.

The irrigation systems in the area also provided water to an area where 4mn tons of grains and oilseeds, worth some USD 1.5 billion, were harvested in pre-war 2021. These regions account for about 10-11 percent of wheat and sunflower, 4 percent of corn, and 10-14 percent of vegetable harvests. At the current stage of the growing season, the risks for this year's wheat harvest are minimal, but in the following years, Ukraine may not be able to harvest about 2 million tons of grain needed to support the global fight against hunger. The risks are also high for the Zaporizhya nuclear plant due to the potential shortage of cooling water.

The destruction will slow down the recovery at the expense of the metallurgy, energy, and food industry. The inflationary pressure will increase somewhat (due to the destruction, the price pressure of certain vegetables may temporarily increase, up to +0.3 percentage point).

Direct losses from the Kakhovka hydroelectric power plant destruction to the irrigation systems in southern Ukraine are estimated at UAH 150 billion-160 billion (USD 4.1 billion-4.4 billion). The exact figure will be calculated once the area is liberated.

The major outcome of the destruction is ecocide – the environmental impact is enormous. Destruction of the ecosystem, epidemiological risks, climatic consequences (waterlogging and dust storms), desalination of the Black Sea, contamination of territories with agrochemicals, hazardous substances from industrial enterprises, mines, etc., death of plants and animals in a large area – the price of Russia's invasion for Ukraine's nature and people.

Donors' support

International partners have assured Ukraine of their continued support to ensure that debt sustainability is restored, and the program is fully financed. Indeed, the volume of international financial assistance during the last months after the approval of the current program met expectations. In April, $5.6 billion, we saw a record inflow since the beginning of the full-scale war. In May, the volume of official financing amounted to $3.3 billion, primarily thanks to the stable inflow of funds within the framework of the EU macro-financial program and grant funds from the USA, and the remarkable and visible support of other countries, IFIs, and DFIs.

As a result, since the beginning of the year, $19.8 billion has been received in grants and loans. The NBU's net interventions on the FX market in April-May turned out to be lower than expected. In line with the authorities' commitments, there has been no monetary financing of the budget deficit in 2023. As a result, the level of international reserves exceeded the forecast: at the end of May, the NBU reserves reached $37.3 billion, maintaining a record level since 2011

The authorities are tremendously thankful to all international donors and creditors for their continuous financial and humanitarian support, as well as for providing the necessary financial assurances for the current program. The authorities also much welcome the EUR 50 billion in grants and loans program announced by the European Commission prior to the recent Ukraine recovery conference in London. The proposed facility will support the recovery and reform plan drafted by Ukraine's government and will provide the investment framework aimed to attract public and private investment.

The authorities are also thankful to the OECD which recently launched a four-year country program to support Ukraine's reform agenda.

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, and 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.