



Negotiating Team for the Accession of Ukraine to the European Union
Working Group for Chapter 17 — Economic and Monetary Policy

CHAPTER 17 — ECONOMIC AND MONETARY POLICY

SOUND NATIONAL BUDGETARY FRAMEWORKS

Denys Uliutin

First Deputy Minister of Finance
Ministry of Finance of Ukraine

Brussels, 04 June 2025

CONTENTS



1. COMPLIANCE OF THE UKRAINIAN BUDGET LEGISLATION WITH THE EU ACQUIS	3
2. NATIONAL FORECASTS	4
3. MEDIUM TERM BUDGET FRAMEWORK	5
4. FISCAL RULES	15
5. MOF FINANCIAL OVERSIGHT OVER SOEs	17
6. FISCAL RISK MANAGEMENT	18
7. STATISTICS AND ACCOUNTING	22
8. INDEPENDENT FISCAL INSTITUTION	26
9. PFM STRATEGY	27
10. STRATEGIC PLANNING	29

1. COMPLIANCE OF THE UKRAINIAN BUDGET LEGISLATION WITH THE EU ACQUIS



EU standards served as a guidance for the first budgetary reform initiated in 2001, including program and performance-based budgeting



Provisions of the **European Council Directive 2011/85/EU** (regarding the budgetary frameworks of the member states) implemented in the Budget Code of Ukraine, include, in particular:

- The medium-term budgetary frameworks at the state and local levels (the Budget Declaration and the local budgets forecasts under Articles 33 and 75¹ of the Budget Code of Ukraine)
- The fiscal rules (Articles 14 and 18 of the Budget Code of Ukraine)
- Disclosing information on contingent liabilities with potentially large impacts on budget (Article 32¹ and 33 of the Budget Code of Ukraine)
- Public accounting practices for all sub-sectors of general government (Articles 56-62 of the Budget Code of Ukraine)

In the domain of budget preparation, the quality of the medium-term budget framework (MTBF) has been improved through the introduction of a clear legal framework for preparation, consideration, and approval of the MTBF, as well as the introduction of a new medium-term Budget Declaration since 2018. Budget preparation has also been improved through the addition of policy-based information, mainly related to non-financial performance to inform decision-making.

The annual budget process is well established in key budget legislation to foster budget discipline, with an orderly budget calendar that is adhered to.

2. NATIONAL FORECASTS



THE GOVERNMENT'S MACROECONOMIC FORECAST



3. MEDIUM TERM BUDGET FRAMEWORK



Partially Aligned

The primary document for the Medium-term budget planning is Budget Declaration. It defines the budget policy principles and the key indicators for the medium-term period. The Budget Declaration is the basis for drafting the State Budget and the local budgets forecasts. The MoF prepares the Budget Declaration annually according to the established national goals and priorities

- The MTBP horizon is 3 years. The legal framework is set by the Budget Code of Ukraine
- The Budget Declaration covers all the macroeconomic and fiscal indicators for the period

In 2025 the baseline (unchanged policy) expenditures approach is being introduced into the budget system

MEDIUM-TERM AND ANNUAL BUDGET PLANNING (STATE LEVEL)





Fiscal Forecasts

- The Ministry of Economy provide key macroeconomic indicators forecasts that are considered during the Budget Declaration preparation, including the medium-term public investments plan.
- The MoF performs a forecast for the key fiscal indicators for the three-year period: the budget revenues, expenditures limits and financing amounts, and the public investments amount.
- Based on the expenditures' ceilings defined by the MoF, the Key Spending Units (first level budget institutions) make Budget requests that become the basis for a draft State Budget.

Partially Aligned

Forecasts used in the annual budget planning process

- The Ministry of Economy provides a macroeconomic forecast for the medium-term period and performs its quarterly assessment.
- The NBU provides the CMU with information on the expected amount of profit that is to be transferred to the State Budget by March 1st .
- Other state bodies provide additional information necessary for budget planning.
- The forecast methodologies used for the budget indicators are public.
- The planned and actual budget indicators are public



European Council Directive 2011/85/EU:

«medium-term budgetary frameworks as a specific set of national budgetary procedures that extend the horizon for fiscal policy-making beyond the annual budgetary calendar, including the setting of policy priorities and of national budgetary objectives over the medium term»

Budget Declaration – medium-term fiscal policy document, established in the Budget Code of Ukraine in 2018 (Article 33), which serves as a basis for preparing draft annual State Budget and forecasts of local budgets and contains:

- key macro indicators of economic and social development of the country
- key budget indicators
- **objectives of state policy by sectors**
- **ceiling of expenditures and loans to the key spending units**
- relations between the state budget and local budgets
- assessment of fiscal risks and their impact on the state budget indicators



The Public Financial Management System Reform Strategy for 2022-2025 envisages an improvement of medium-term planning reliability - reduction of the deviation of the budget indicators for the planning year provided for in the Budget Declaration from the corresponding indicators approved in the previous Budget Declaration from 10% to 5%

The indicators of the Budget Declaration may differ from the indicators determined for the respective budget periods by the Budget Declaration approved in the previous budget period, in case:

1. deviation of the assessment of the main forecast macro indicators of economic and social development of Ukraine from the forecast included in the Budget Declaration approved in the previous budget period;
2. deviation of the budget indicators defined by the law on the State Budget of Ukraine from the similar indicators defined in the Budget Declaration approved in the previous budget period;
3. adoption of new legislative and other regulatory acts affecting the state budget indicators in the medium term.

MAIN GAPS IN MTBP SYSTEM IN UKRAINE



The MoF is working on the MTBP system capacity improvement. In 2024 a diagnostic assessment was performed with the support from the IMF. Report on Diagnostic Review of the Medium-Term Budgetary Planning System of Ukraine approved the order of the Ministry of Finance dated 30.10.2024 No. 542 and outlines the following key gaps:

01

Lack of a methodology for calculating the baseline expenditures

02

Lack of the comprehensive assessment of fiscal space

03

New policy costs estimation mechanism is not implemented in the budget process

04

The MTBP system is limited to the national level

05

Public investment planning is not sufficiently integrated into the MTBP system

06

Multi-year commitments are not accounted for in the MTBP system in all areas



The MoF has already taken a number of steps to address the identified gaps in MTBP system, focusing on extension of its coverage and quality:

- ✓ The Budget Declaration 2025-2027 already includes local budgets indicators, MTBP at the local level is introduced for 2026-2028 planning cycle
- ✓ Baseline estimations approaches being piloted by the Ministry of Finance and used for preparation of Budget Declaration for 2026-2028
- ✓ Action plan for improving the MTBP system for 2025 developed envisages the inclusion of the general government sector to the Budget Declaration.
- ✓ A new IT tool for budget planning is being introduced to improve the technical capacity of the PFM system.
- ✓ The MoF performs training for the Key Spending Units regarding the practical implementation of new MTBP approaches



Development and adoption of Guidelines on: calculating the baseline, new policies impact estimation, and fiscal space assessment

✓ *order of the MoF dated 31.12.2024 No. 675*



Raising knowledge regarding new approaches among the budget process participants



Approaches for estimating medium-term indicators of the Obligatory state social insurance and the Pension funds



Preparation of the Budget Declaration for 2026-2028, considering the new approaches and information, including baseline expenditures estimated by the MoF



Analysis of the experience gained

2025

MEDIUM-TERM BUDGET PLANNING (LOCAL LEVEL)



The Cabinet of Ministers approves the Budget Declaration

May

The Ministry of Finance communicates the requirements for the calculation of local budget forecasts for medium-term

June

Local KSU's Budget Proposal to the local budget forecasts

July

Local Budget Forecast is the basis for drafting the Local Budget

September

The Council of Ministers of the Autonomous Republic of Crimea, local state administrations, and local councils consider local budget forecasts

Article 75¹ of the Budget Code of Ukraine



Baseline



- Based on current year budget expenditures
- One-time and temporary expenses are excluded (e.g., elections, budget programmes ending in the current year)
- Cost and quantitative factors are considered (e.g. debt and credit obligations, pension indexation, changes in staffing levels, etc.)



New policies



- Introduction of new services/activities
- Changing the existing mechanism for implementing the service/activity policy



4. FISCAL RULES



Numerical Fiscal Rules

Partially Aligned

Framework

The key legal document that defines the numerical fiscal rules is the Budget Code of Ukraine, which is mandatory for all public bodies in Ukraine.

Numerical fiscal rules for the state budget (suspended due to the martial law):

- State budget deficit for each year of the medium-term period should not exceed 3% of the forecasted nominal GDP of Ukraine for the respective year.
- The maximum amount of sovereign guarantees issuance must not exceed 3% of the planned revenues of the general fund of the state budget.
- Total state debt and state-guaranteed debt at the end of the budget period must not exceed 60% of the annual nominal GDP of Ukraine. In case of the debt limit exceeding, the CMU must seek permission from the Verkhovna Rada and submit a plan to bring the debt within the established limits.

Debt Rule Compliance:

- The debt rule (60% of GDP) was established in 2001.

Deficit Rule Compliance:

- The deficit rule (3% of GDP) was introduced in December 2018 but has been suspended since 2020.

State Guarantees Compliance:

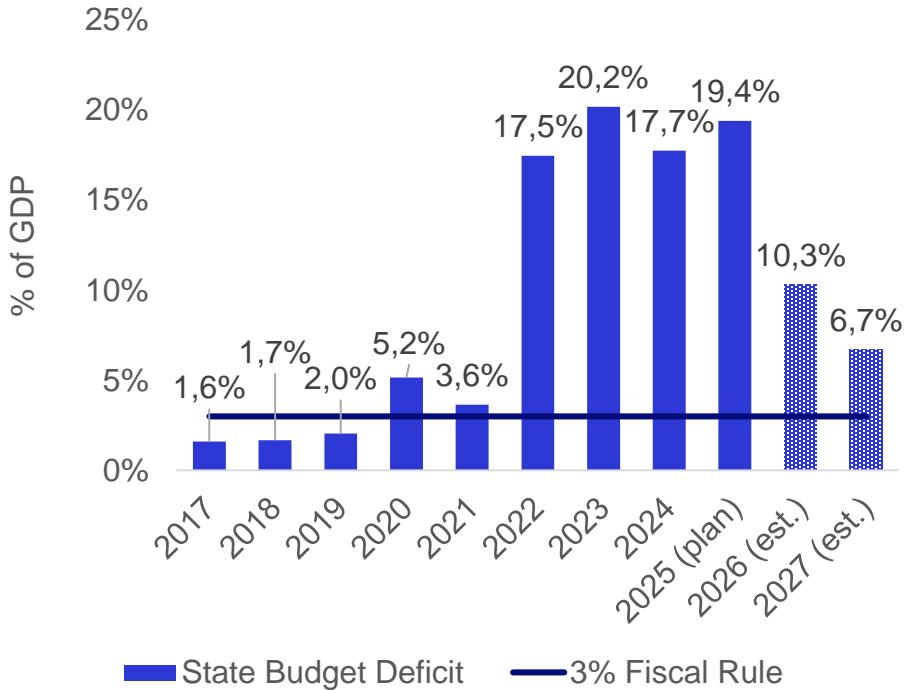
- The limit on sovereign guarantees (3% of planned revenues of the general fund) was introduced in 2018, and suspended until the 2028.

Numerical fiscal rules have been suspended due to the Martial Law.

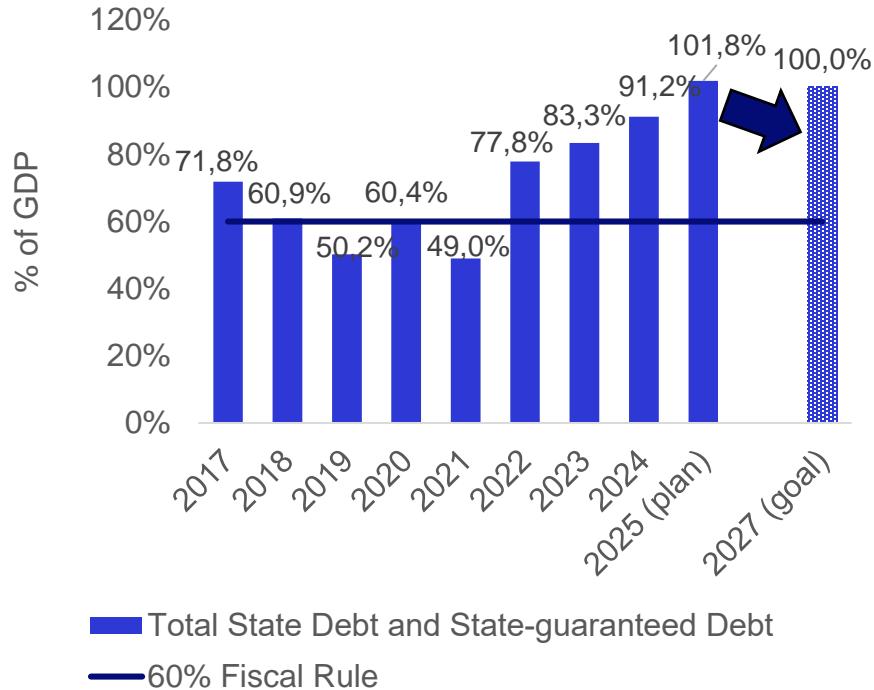
After lifting the Martial Law, the fiscal indicators will gradually be brought in correspondence to the fiscal rules



Budget Deficit Rule



Debt Rule



5. MOF FINANCIAL OVERSIGHT OVER SOEs



Key state-owned enterprises (net profit over UAH 50 million and natural monopolies)

Annual approval of financial indicators (profitability, liquidity and solvency ratios), amounts of payments to the state, budget financing and quasi-fiscal operations (CMU Resolution No. 984 of 27.08.2024)

Annual (during the period of Martial Law) approval of maximum thresholds for capital investments (Resolution of the Cabinet of Ministers of Ukraine No. 1452 dated 20.12.2024)

Approval of the methods for calculating the amount of the allowance for doubtful debts (allowance for expected credit losses) under accounting policies (Resolution of the Cabinet of Ministers of Ukraine No. 604 dated 24.05.2024)

Approval of domestic long-term and external borrowing

Assessment and management of fiscal risks associated with financial and economic activities of SOEs (including stress testing under various scenarios)

Forecasting state budget revenues in terms of dividends/portion of net profit from SOEs, implementation of the State Dividend Policy for key SOEs

Participation in the preparation of annual consolidated report on the effectiveness of management of enterprises and companies with a controlling interest of the state (starting from 2026)

Approval by the management body of the owner's letter of expectations (financial, operational and non-operational goals for the planned year)

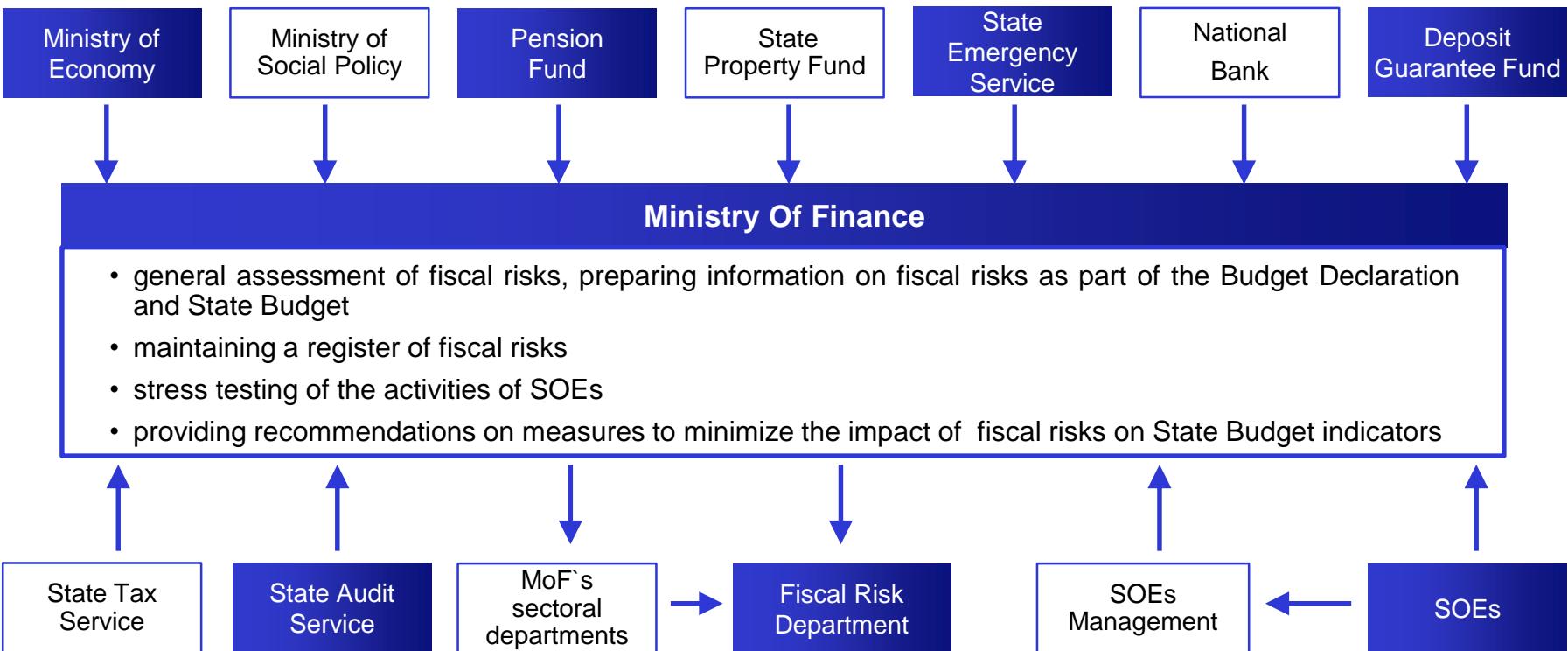
Approval of the annual financial plan by the supervisory board (or management body in its absence)

6. FISCAL RISK MANAGEMENT: LEGAL FRAMEWORK



- The Budget Code of Ukraine
- Resolution of the Cabinet of Ministers of Ukraine No. 351 dated 24.04.2019 'On Approval of the Methodology for Fiscal Risk Assessment'
- Resolution of the Cabinet of Ministers of Ukraine No. 7 dated 11.01.2018 'On Approval of the Methodology for Assessing Fiscal Risks Related to the Activities of Public Sector Economic Entities'
- Resolution of the Cabinet of Ministers of Ukraine No. 232 dated 16.02.2011 'On Approval of the Methodology for Identifying Risks of Public-Private Partnerships, Assessing Them and Determining the Form of Their Management'

FISCAL RISK MANAGEMENT: INSTITUTIONAL SET-UP





KEY RESULTS:



- Since 2017, information on fiscal risks and their impact on the State Budget indicators is prepared annually (included in the materials to the draft Law on the State Budget of Ukraine and published on the website of the Ministry of Finance (<https://mof.gov.ua/uk/zvity>))
- Since 2020, the Budget Declaration includes a section on the assessment of fiscal risks and their impact on the State Budget indicators
- Since 2021, to determine the impact of SOEs on the State Budget indicators, stress testing of their activities is carried out under various scenarios

NEXT STEPS:



- Development and implementation of fiscal risk management framework for local budgets
- Enhancing the methodology for assessing fiscal risks associated with public investment projects, in particular PPPs, concessions, and the activities of SOEs
- Improvement of stress testing of the activities of SOEs under various scenarios
- Continued implementation of the SOEs corporate governance reform in line with the adopted legal framework



Fiscal Risk Matrix by sources of origin in 2025

		High (>66%)	<i>Likelihood of realization</i>
FISCAL IMPACT	High (>0,5% of GDP)	Macroeconomic environment	
		SOE's activities	
		Public debt and public guaranteed debt management	
		Agriculture area and public food security	
		Social area	
		War-related disasters	
	Low (<0,5% of GDP)	Privatization plan failure	
		Financial sector	
		Emergency (disasters) excluding war-related disasters	

All possible identified sources of fiscal risk were measured and the impact of each fiscal risk worked out as ratio to GDP and classified as high and low based on the level and possibility of occurrence using a framework.



State Statistics Service

Department of Statistics of National Accounts

Compiles and publishes information on the General Government Sector in line with the Regulation 549/2013 (ESA 2010), work is underway to fully implement it across sectors.

Based on the results of the screening of chapter 18 "Statistics", it was determined that the methodology of annual and quarterly accounts is partially aligned with EU standards.

The establishment of a structural unit for preparing GFS/EDP statistics in line with ESA2010 is in progress

administrative data sources

Ministry of Finance

State Treasury Service

State Tax Service

National Bank

National Securities and Stock Market Commission

State Employment Service

Pension Fund





- The National Accounts of Ukraine implemented ESA 2010 in 2014.
- GDP, GNI, institutional sector accounts, input-output tables, regional accounts and financial accounts are calculated.
- In Q1 2025, datasets on GDP and institutional sector accounts were submitted to the Eurostat database in SDMX format for the first time.

In 2025, work is launched on the implementation of Government finance statistics and the Excessive deficit procedure.



- ✓ The national accounting system comprehensively covers all subsectors of the general government sector and social insurance funds. National accounting standards are based on international public sector accounting standards (IPSAS).
- ✓ All types of financial and budgetary reporting required for the production of European government finance statistics (GFS) and statistics relating to the Protocol on the Excessive Deficit Procedure (EDP) are submitted to the State Statistics Service.
- ✓ Budget reporting contains specific information necessary for converting cash data to accrual-based data.
- ✓ Ukraine has established the basic principles of internal control applicable to general government institutions, including accounting systems. The internal audit is systematic and provides an assessment of the effectiveness of internal control processes in public institutions.

Necessary steps for data preparation based on ESA 2010

- Certain amendments to the National Regulations (Standards) on Public Sector, in particular, in terms of accounting for non-financial assets
- Amendments to the national budget classification, in particular, regarding the disaggregation of certain data
- Preparation and submission of additional information, in particular, on state and local debt (total and detailed).
- Identification of additional sources of information for compiling GFS/EDP tables according to ESA2010

Establishment of Inter-Agency Working Group for implementation of ESA2010 is under way



Implementation of a centralized information and analytical accounting system in the public sector

Current gaps:

Constant need for capital investment in purchasing, updating and maintaining software products at the public sector level

Lack of adequate cyber security arrangements

Lack of disaggregate accounting information at the national level

Separate data storage, lack of integration processes



Implementation objectives:

Availability in the Ministry of Finance of Ukraine of primary accounting information at the national level, the possibility of using analytical tools

Unified free software product for the entire public sector that works according to the policy established by the Ministry of Finance of Ukraine

Integration with state services and information resources

Single information space and balance

Ensuring reliable protection of information

8. INDEPENDENT FISCAL INSTITUTION



European Council Directive 2011/85/EU:

«Member States shall ensure that independent fiscal institutions are established by national laws, regulations or binding administrative provisions.

Independent fiscal institutions as bodies structurally independent or bodies endowed with functional autonomy as regards the budgetary authorities of the Member States established by national legal provisions.»

Current situation:

- The independent fiscal institution is not yet established, relevant tasks of the PFM Strategy put on hold due to the Martial Law
- Under the implementation of lending programs with the IMF, the external verification of macroeconomic and budget forecasts is de-facto performed by the Fund

Next steps:

- PAR Roadmap envisages the establishment of the Independent fiscal institution by the end of 2027
- Work is launched by the MoF on defining the mandate of such institution, its institutional set-up and ways to safeguard its independence. This work is currently supported by the Ministry of Finance of Netherlands and IMF.

9. PFM STRATEGY 2022-2025: OBJECTIVES



Modern, resilient and effective PFM system

Compliance with overall fiscal discipline in the medium term



Improved efficiency of resource allocation at the level of state policy formulation

Effective and efficient budget execution

Developed HR capacity in PFM area

Enhanced transparency and accountability



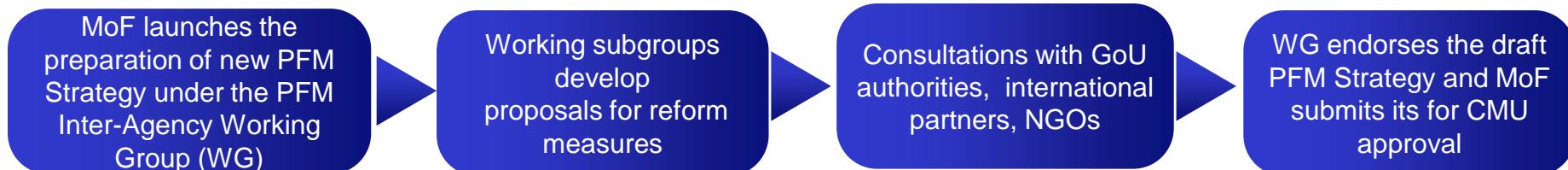
CHALLENGES REMAINING IN THE REFORM PROCESS:

- Implementation of a number of PFM Strategy measures was suspended under the Martial Law, especially those related to large-scale capacity development and establishment of new bodies;
- Specific reform plans and timelines need to account for the uncertainty and volatility of the macroeconomic situation and the state of public finances associated with Martial Law

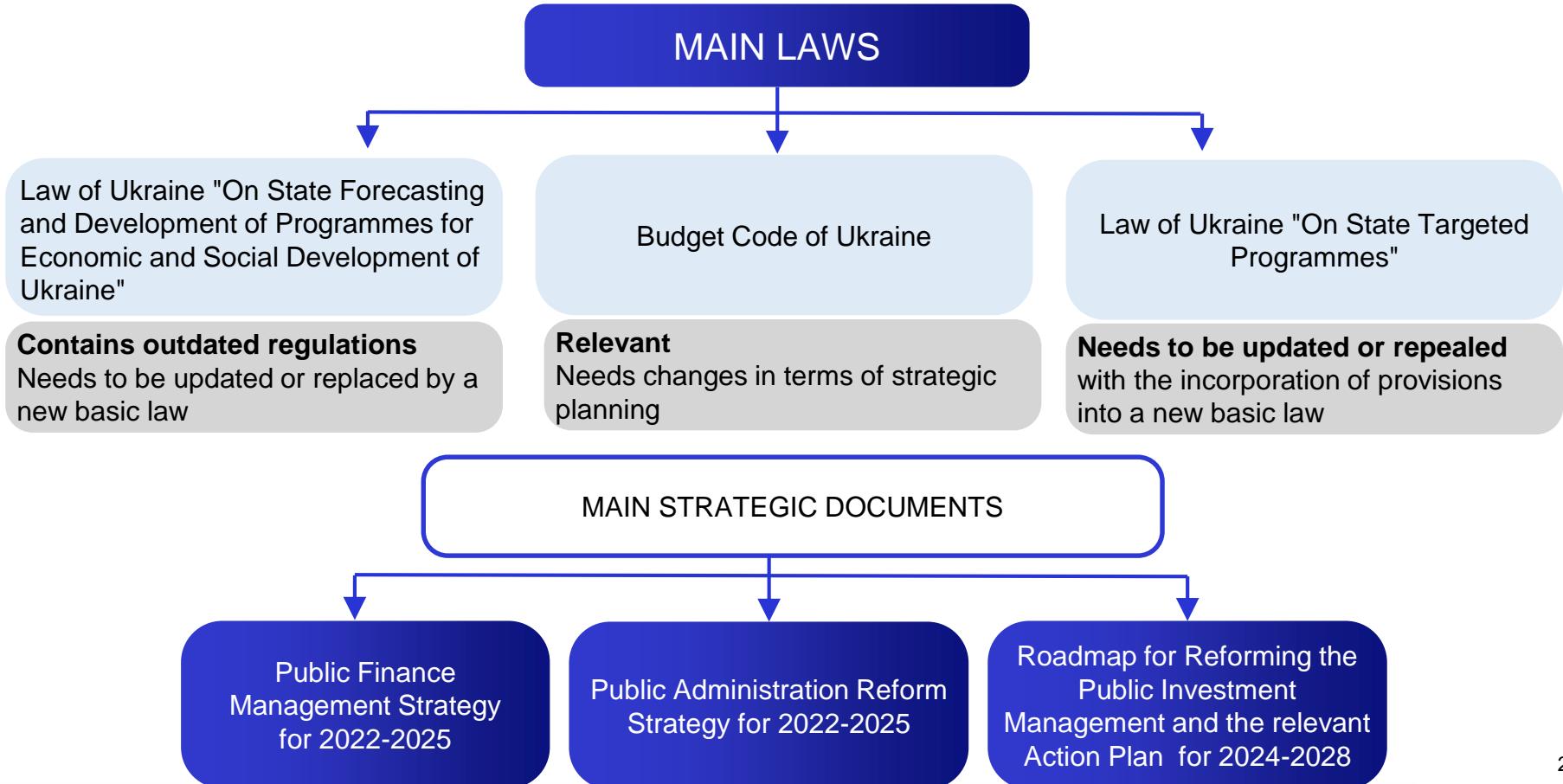


NEXT STEPS:

- Progress evaluation and assessment of the relevance of activities which were suspended under the Martial Law
- As part of the updated Enlargement Report 2024, Screening Process and SIGMA Report 2024, priorities for further development of the PFM will be identified
- Launch of new PFM Strategy 2026-2030 preparation to be adopted by the year end



10. LEGAL FRAMEWORK FOR STRATEGIC PLANNING



REFORM OF THE NATIONAL STRATEGIC PLANNING SYSTEM (NSSP): PLANS AND PROGRESS



Roadmap for reforming the NSSP at the national level

Main actions:

Establishment of an Interagency Working Group to develop the NSSP Concept

Analysis of current legislation and strategic planning practices,
Identification of problems and shortcomings

Analysis of EU legislation and practice in the field of strategic planning

Preparation of the draft NSSP Concept, interagency consultations and
consultations with international experts

Approval of the NSSP Concept by the Government of Ukraine (based on the results of the interagency
coordination and consultations)

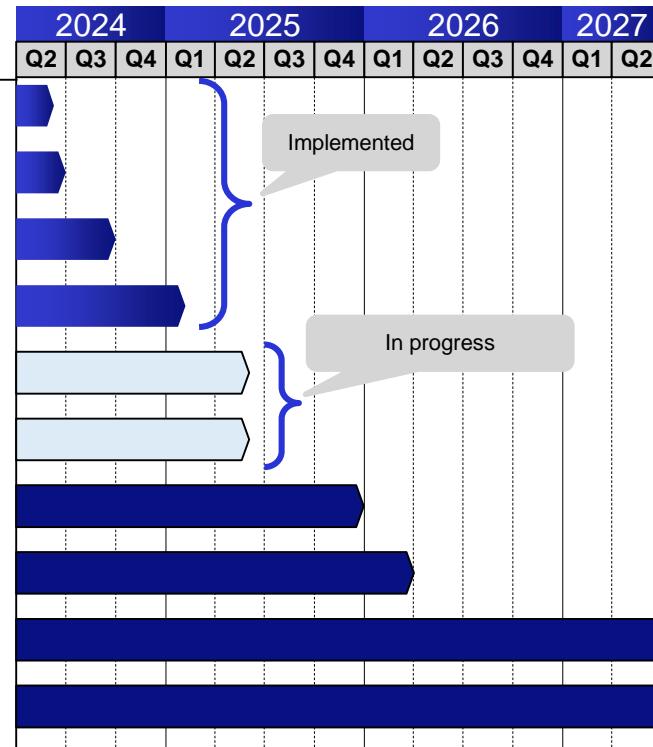
Streamlining the process of developing, monitoring and evaluating sectoral strategies

Developing draft laws on reforming the NSSP system, holding interagency
Consultations and consultations with Ukrainian and international experts

Submission to the Verkhovna Rada of draft laws on reforming the NSSP system, conducting
consultations with parliamentary committees

Reform of the NSSP system within the framework of the adopted laws: implementation of changes,
implementation of capacity building programmes, development of methodologies and guidelines

Adoption of a long-term national development document





DENYS ULIUTIN

First Deputy Minister of Finance
Ministry of Finance of Ukraine