



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

EU FISCAL SURVEILLANCE AND ECONOMIC GOVERNANCE REVIEW

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1. FUNDAMENTAL STATEMENT



Sound and sustainable public finances are among the key guiding principles for the EU Member States [TFEU]

The core objective of the EU fiscal policy architecture is to ensure sound and sustainable public finances through coordinated rules, thereby safeguarding the stability of the Economic and Monetary Union

Ukraine is fully committed to aligning its fiscal policy and practices with the EU standards and principles in the very nearest future

1

The key priorities are the following: effective fiscal governance is essential for ensuring economic stability, sustainability, and harmonization with the EU, while also promoting transparency and accountability.

2

Ukraine has implemented numerous reforms to enhance fiscal governance and to meet the EU Standards. However, continuous efforts are required to maintain the sustainability of these reforms and further improve fiscal governance in accordance with the EU integration requirements

3

Ongoing improvements in fiscal governance, transparency, and fiscal discipline are vital for Ukraine's advancement towards the EU membership and adherence to the EU Fiscal Standards and Regulations



Main EU Legislation

Treaty on the Functioning of the European Union

Council Directive 2011/85/EU of 8 November 2011 on requirements for budgetary frameworks of the Member States

Regulation (EU) 2024/1263 of 29 April 2024 on the effective coordination of economic policies and on multilateral budgetary surveillance and repealing Council Regulation (EC) No 1466/97

Stability and Growth Pact



Main Ukrainian Legislation

Constitution of Ukraine

Budget Code of Ukraine

Tax Code of Ukraine, Customs Code of Ukraine

PFM System Reform Strategy for 2022-2025 (CMU Decree)

Ministry of Finance regulations on specific topics



Ukraine commits to fully aligning its policies and frameworks with the EU acquis, policies and standards.

Continued commitment to fiscal discipline and implementation of necessary reforms are crucial for Ukraine's progress towards the EU membership and compliance with the EU fiscal surveillance requirements.

The country remains dedicated to addressing the identified areas and ensuring comprehensive compliance throughout the accession process.



Partially Aligned

Treaty on the Functioning of the European Union

The Maastricht Treaty fiscal rules state that member states should avoid excessive deficits

- Article 121 promotes coordination of economic policies among member states through regular assessments by the European Commission and the Council.
- Article 126 requires deficits to be below 3% of GDP unless they are substantially and continuously declining. Debt should not exceed 60% of GDP or should be decreasing towards this value.
- Article 136 provides specific economic policy guidelines for the euro area to enhance coordination and stability. The Council offers guidelines to euro area member states to achieve common objectives related to fiscal policies, employment, and economic growth.



Deficit

The ceiling of the State Budget Deficit determined by the law on the State Budget of Ukraine may not exceed the State Budget deficit indicator for the respective budget period as defined in the Budget Declaration, which is 3 per cent of the forecasted nominal GDP of Ukraine for the respective year (part two of Article 14 of the Budget Code of Ukraine).

State Debt

The ceiling of the State Debt and the State-guaranteed Debt at the end of a budget period may not exceed 60 per cent of the annual nominal GDP of Ukraine (part two of Article 18 of the Budget Code of Ukraine).

State Guarantees

The ceiling of the state guarantees issuance may not exceed 3 per cent of the planned revenues of the general fund of the state budget (part one of Article 18 of the Budget Code of Ukraine, suspended until the 2028).



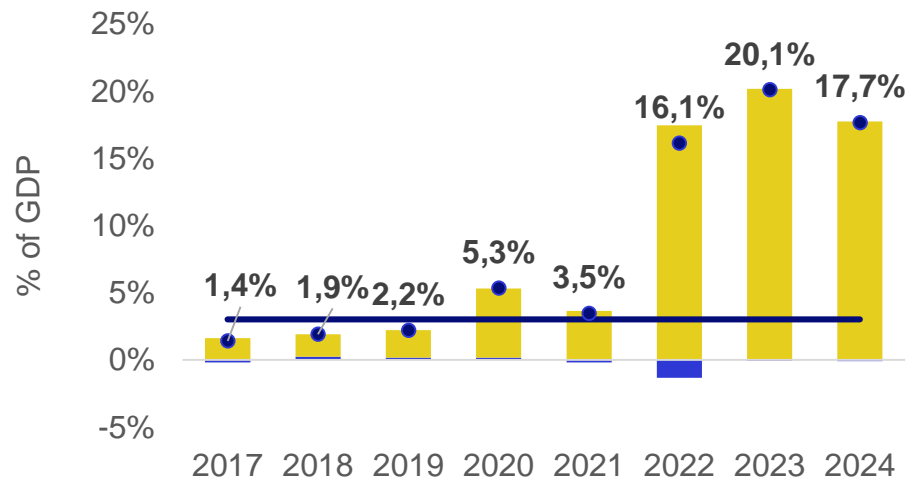
EU Fiscal Rules

Control is carried out by the Accounting Chamber, the Cabinet of Ministers and participants in the budget process (Article 26 of the Budget Code of Ukraine)

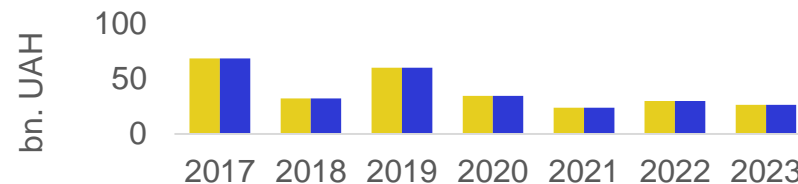
Due to the Martial Law, the requirements for compliance with the fiscal rules have been suspended

Treaty on European Union Protocol (No 12) on the excessive deficit procedure

[Deficit limit is] “3 % for the ratio of the planned or actual government deficit to gross domestic product at market prices”



■ State Budget Deficit
 ■ Local Budgets Deficit
 ● Consolidated Budget Deficit
 — 3% Fiscal Rule



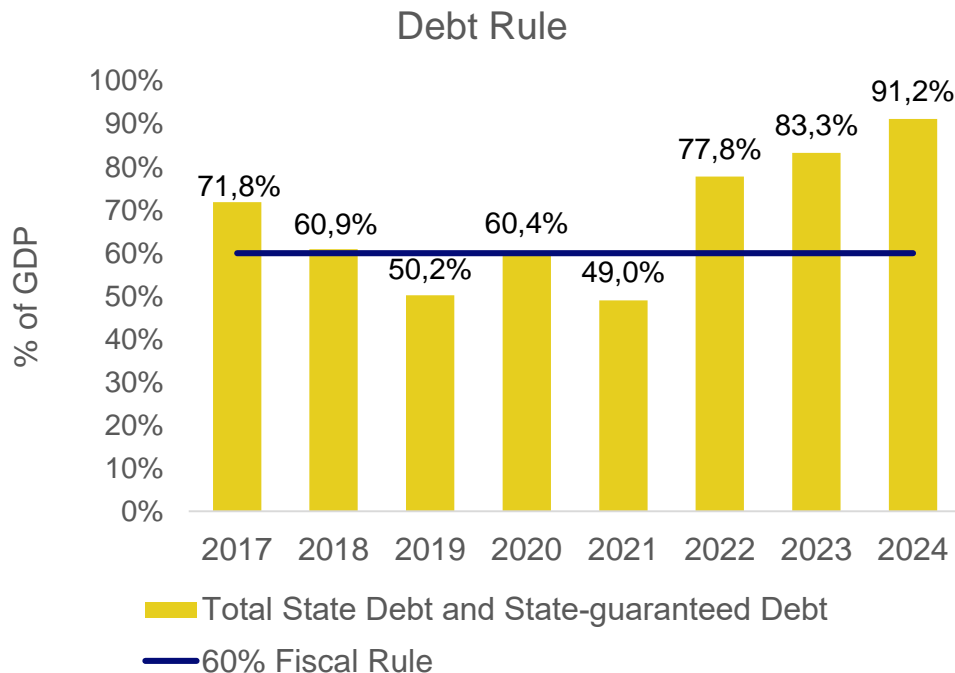
■ Pension Fund Deficit
 ■ Deficit Coverage from the State Budget

- The Pension Fund of Ukraine deficit is completely covered from the State Budget funds, and is thus included in the total State Budget deficit
- The Unemployment Social Security Fund is deficit-free

- Currently, the 3% deficit limit fiscal rule stipulated in the Budget Code of Ukraine (art. 14) covers only the State Budget deficit
- Next step: amendments to the legislation for the 3 per cent of GDP deficit limit to apply to the General Government sector (2027)

Treaty on European Union Protocol (No 12) on the excessive deficit procedure

[Debt limit is] “60 % for the ratio of government debt to gross domestic product at market prices”



- Currently, the 60% debt limit fiscal rule stipulated in the Budget Code of Ukraine (art. 18) covers only the State Debt and State-guaranteed Debt
- Next step: amendments to the legislation for the the 60 per cent of GDP debt limit to apply to the General Government sector (2027)



EU Legislation

- Regulation (EU) 2024/1263 of the European Parliament and of the Council of 29 April 2024 on the effective coordination of economic policies and on multilateral budgetary surveillance.
- Regulation (EU) No 1173/2011 of the European Parliament and of the Council of 16 November 2011 on the effective enforcement of budgetary surveillance in the euro area
- Regulation (EU) No 472/2013 of the European Parliament and of the Council of 21 May 2013 on the strengthening of economic and budgetary surveillance of Member States in the euro area experiencing or threatened with serious difficulties with respect to their financial stability.
- Regulation (EU) No 473/2013 of the European Parliament and of the Council of 21 May 2013 on common provisions for monitoring and assessing draft budgetary plans and ensuring the correction of excessive deficit of the Member States in the euro area



- Sound public finances through multilateral surveillance based on Article 121 of the TFEU.
- Preventing excessive deficits in member states.
- Stability and Convergence Programmes (SCPs).
- Medium-Term Budgetary Objectives (MTO) and Fiscal Consolidation Path.
- Excessive Deficit Procedure (EDP), Corrective Action and Timelines, and Sanctions and Penalties.
- Enhanced surveillance and financial assistance.
- Credible and realistic analysis of macroeconomic forecasts provided by independent bodies.
- Strong public finance planning and early identification of gross errors.
- Synchronized common budgetary timeline for member states with major milestone.

Economic Governance Framework in EU

Member States will design and present National Medium-Term Fiscal Structural Plans, which outline:

- Fiscal path, underlying the macroeconomic assumptions, and the planned fiscal policy and compliance with the fiscal requirements;
- Reforms and investments responding to the main challenges identified in the context of the European Semester, in particular in the country-specific recommendations.

The National Fiscal Structural Plan should ensure sustained and gradual debt reduction and sustainable and inclusive growth, avoiding a pro-cyclical fiscal policy.

The Fiscal Structural Plan is forward looking Medium-Term political document (commitment by national Government), assessed by the European Commission, approved by the Council.

Budget framework. Key improvements in 2024-2025

- Medium-Term Budget Planning restored
- Fiscal Risks Management System improved
- Debt management and Fiscal sustainability: Medium-Term State Debt Management Strategy for 2024-2026
- Public Investment Management Reform
- Gender aspect introduced in Performance-Based Budgeting

FISCAL STRUCTURAL PLAN AND NATIONAL BUDGET

Fiscal Structural Plan

5 years

Sets the fiscal path for 5 years



Budget Declaration

3 years

Revised annually according to the strict rules

Approaches to the Fiscal Space Assessment are in line with the Baseline calculation



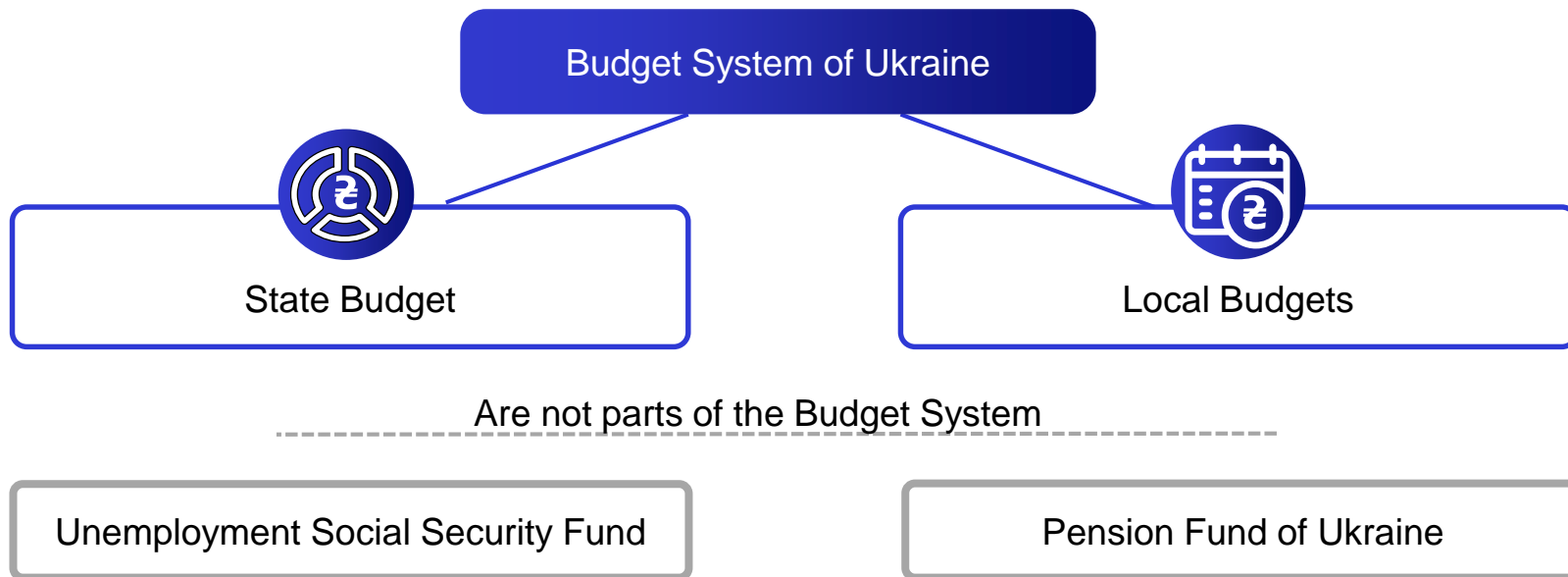
Fiscal capacity improvement

Harmonisation of national Customs and Tax legislation with the EU standards

Improved tax and customs procedures

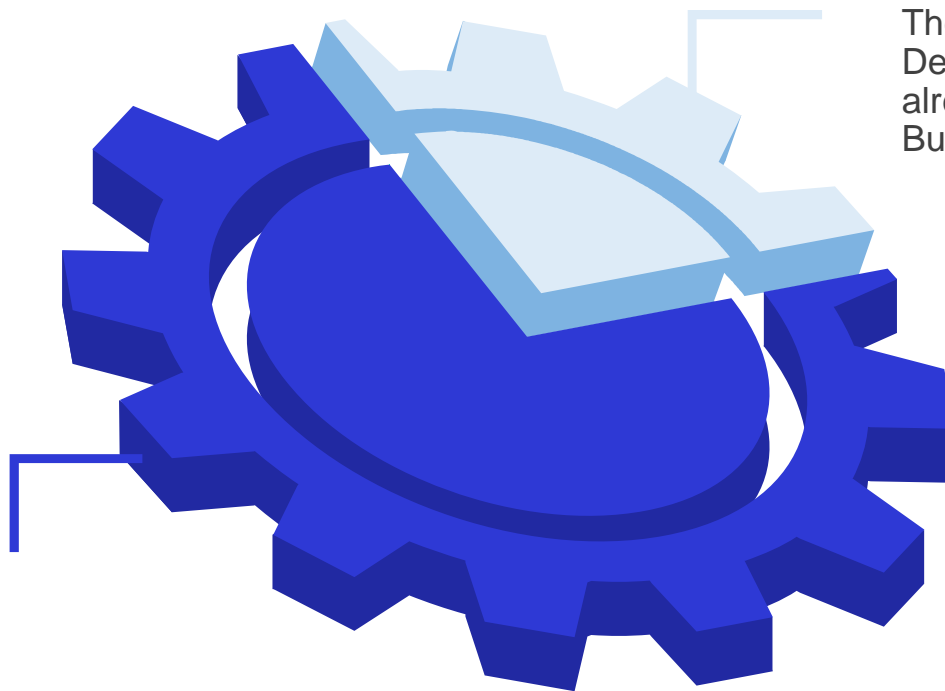
Incentives for post-war economic recovery

Covering the fiscal needs in the medium-term perspective



Next step by MoF:

- Introduce medium-term planning for the Unemployment Social Security and the Pension funds: Approaches for estimating medium-term indicators of the Obligatory state social insurance and the Pension funds (2025)



The Action Plan for the Enhancement of the MTBP system for 2025 provides for the integration of the general government sector including the Unemployment Social Security Fund and the Pension Fund, into the Budget Declaration 2026-2028

The Budget Declaration 2025-2027 already includes Local Budget indicators



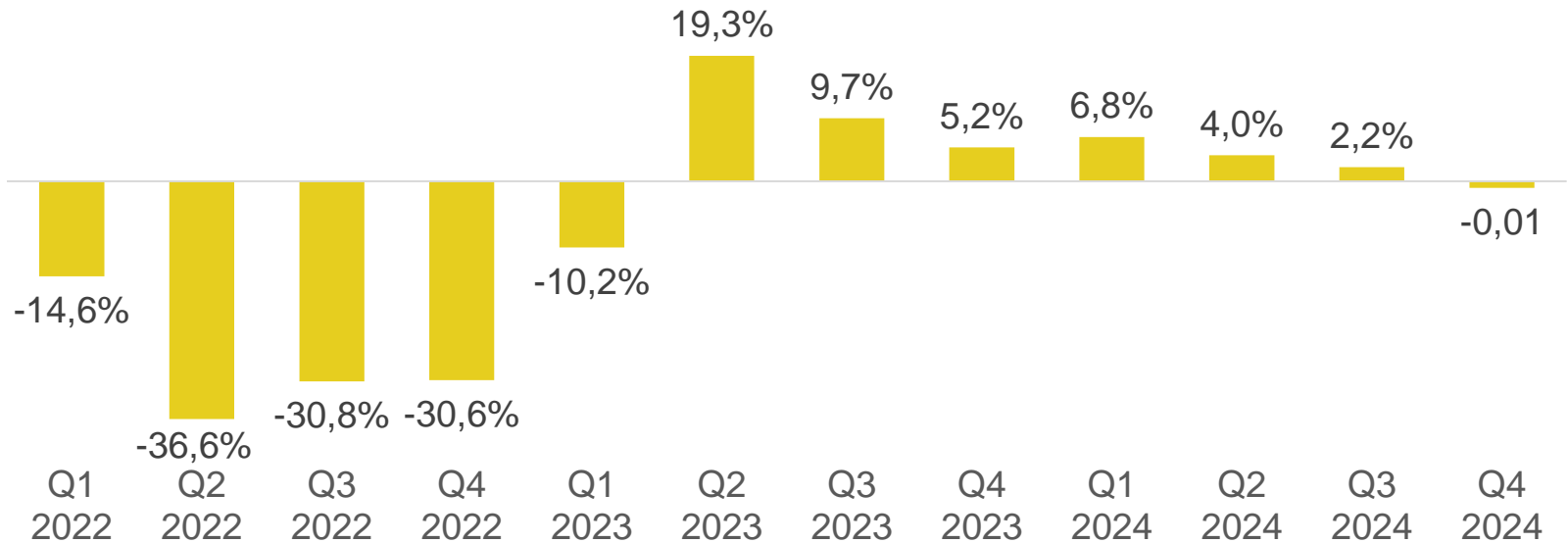
How Ukraine complies

The Budget Code sets out the framework for the fiscal rules. Some provisions were suspended following the implementation of the martial law. This mostly considers the MTBP framework

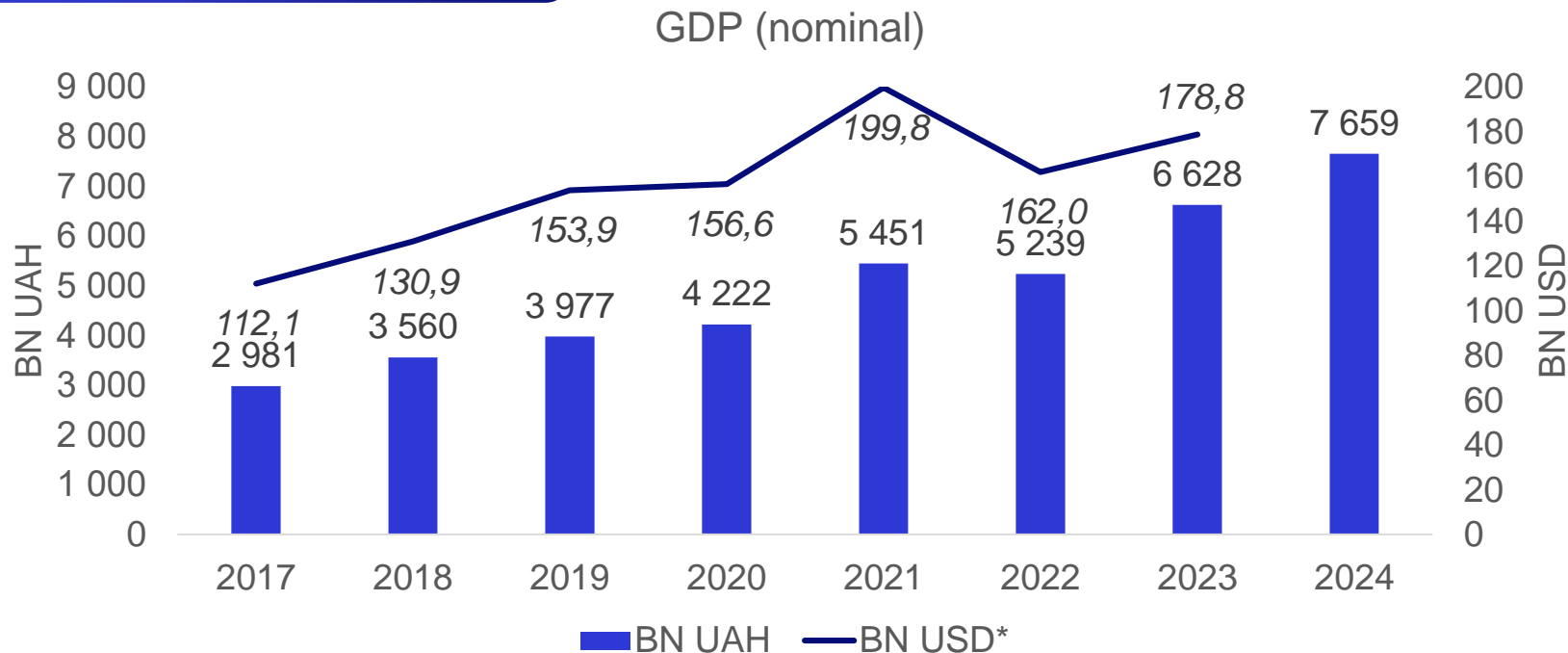
In line with the commitments under the Ukraine Plan within the Ukraine Facility framework, the Government of Ukraine has reinstated the MTBP through the approval of the Budget Declaration for 2025-2027. Ukraine adopted the National Revenue Strategy until 2030, aiming to align tax and customs legislation with the EU standards, introduce regular spending reviews and mitigate financial vulnerabilities by implementing Fiscal Risks Management mechanisms for local budgets. Ukraine remains committed to forecasting economic and social developments to ensure fiscal sustainability, despite the prevailing uncertainties and challenges.

Macroeconomic Indicators

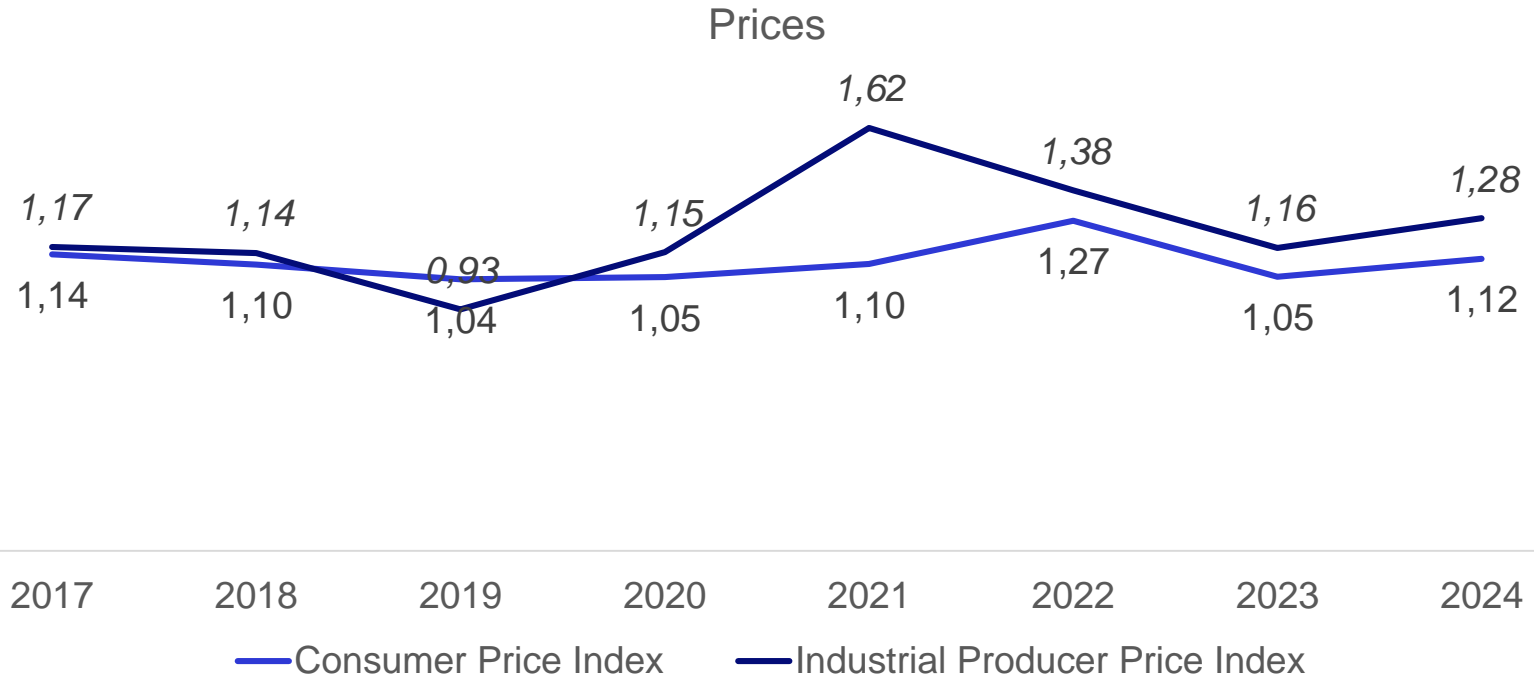
Real GDP Growth, % YoY



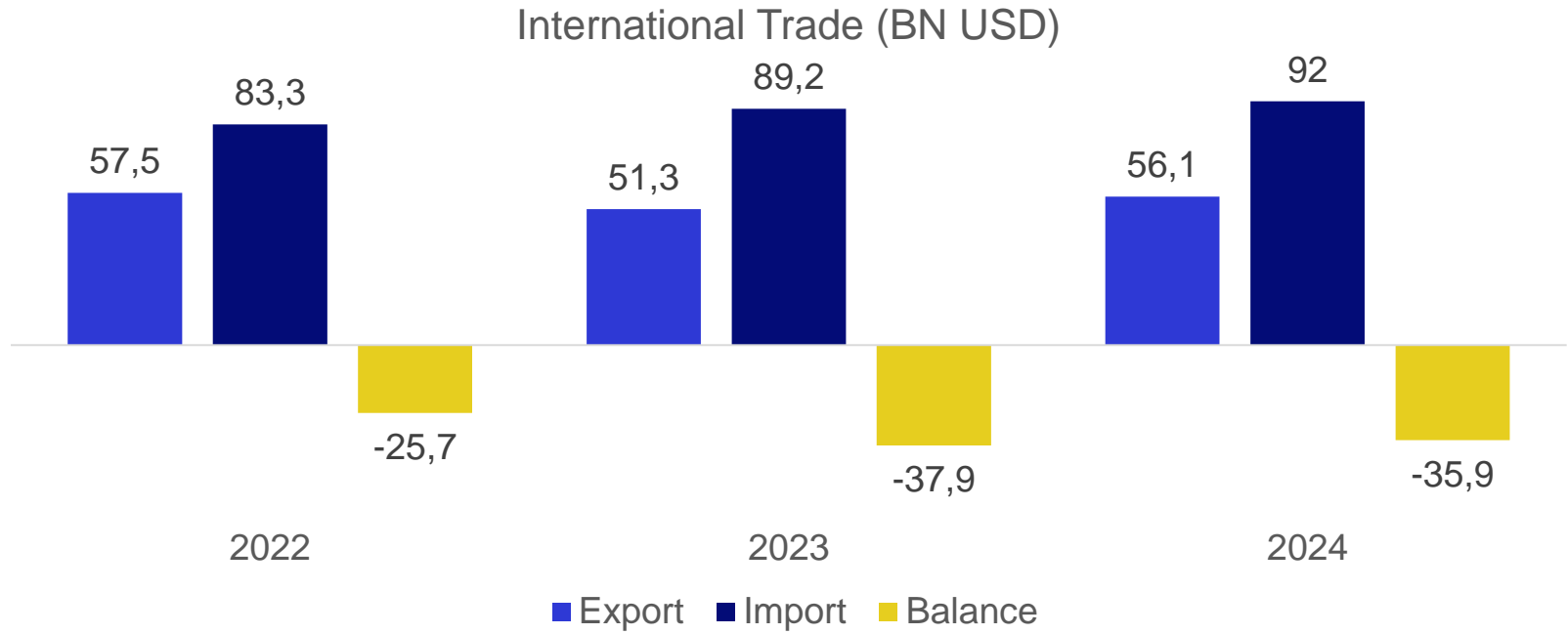
Macroeconomic Indicators



Macroeconomic Indicators



Macroeconomic Indicators





- Independent bodies must provide analysis of credible and realistic macroeconomic forecasts to support well-founded fiscal planning
- Robust public finances are best secured at the planning stage, ensuring that major discrepancies are detected at the earliest possible opportunity.
- The establishment and synchronisation of a common budgetary calendar is essential to enhance fiscal coordination and efficiency.
- Implementation into national legislation at the level of by-laws the budgetary framework, as well as procedures related to the Member State.



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