Appendix I. Letter of Intent

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

June 19, 2023

15534/0/2-23 від 19.06.2023

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,

Volodymyr Zelenskyy President of Ukraine	Denys Shmyhal Prime Minister of Ukraine
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. 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. 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. 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	