Appendix I. Letter of Intent

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

March 11, 2024

Dear Ms. Georgieva:

1. Russia's illegal and unjustified invasion of our country continues to bring enormous human, social, and economic costs. As attacks persist, civilian casualties are large, over a quarter of the population has been displaced, and infrastructure damage is massive and increasing, with serious long-lasting consequences for our people. The latest Rapid Damage and Needs Assessment (RDNA-3) estimates reconstruction needs at US$486 billion over the next decade, and these needs increase with every day of the war. Through this hardship, our people continue to show courage, determination, and resilience while macroeconomic, financial, and external stability has been preserved with skillful policymaking and external support. 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. The IMF-supported arrangement, together with significant official financing assurances, provides a crucial financing envelope of US$121.8 billion over the program period. In this regard, we welcome the EU's Ukraine Facility as a major step forward to reinforce long-term growth and stability. 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. It also aims to promote long-term growth in the context of post-war reconstruction and our process of accession to the EU. The IMF-supported 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 to maintaining macroeconomic stability and achieving stronger economic outcomes, even as the war continues. The attached updated Memorandum of Economic and Financial Policies (MEFP) lays out in detail the economic program that we will undertake, supported by the IMF and other international partners.

3. Given the exceptionally high 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. Despite the war, we are implementing wide-ranging structural reforms covering public finances, the financial sector, monetary and exchange rate policies, governance, anti-corruption, and the energy sector. These ongoing efforts should set the stage for stronger prospects after the war ends, and after which in the second phase, we will further deepen our structural reforms and implement additional macroeconomic policy reforms. These will help restore medium-term external viability, support reconstruction and promote strong long-term growth, and accelerate our progress toward EU accession. 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 third review under the EFF, we met all but one of the end-December 2023 quantitative performance criteria (QPCs) and also met all indicative targets (ITs). Despite the strong program performance, the floor on tax revenues (QPC) was missed by UAH 3.6 billion (0.05 percent of GDP) due to shortfalls in customs revenues caused by recent blockages along western border crossings. For this reason, we are requesting a waiver of non-observance of the floor on tax revenues on the basis of the minor and temporary nature of the shortfall. Recent volatility around external financing has affected our budget implementation in the first quarter. Therefore, we are requesting modifications to the end-March QPC for the non-defense cash primary balance excluding grants, even though we continue to expect the same full-year result for this indicator. While recognizing that forecast confidence is subject to exceptionally high uncertainty, in view of better-than-expected FX reserve levels thus far this year and our continued commitment to external sustainability, we are requesting modification to increase the floor on the NIR QPC for end-March.

5. Against the very difficult backdrop, implementation of key reforms under the program has been robust. Specifically, we have met all four structural benchmarks for December 2023–February 2024 (as shown in Table 2 of the MEFP). In particular, we adopted the National Revenue Strategy to boost medium-term revenue mobilization; reviewed public investment management procedures and generated a roadmap of future measures; adopted legislation to enhance the institutional autonomy and effectiveness of the SAPO; and prepared short-term revenue measures that could be included in the 2024 Budget. We are requesting to modify the continuous structural benchmark so that all systemic banks with majority state ownership will fall under the responsibility of the MoF, and any non-systemic banks that come under state ownership will not be recapitalized using fiscal resources and will be transferred to the Deposit Guarantee Fund for resolution upon breach of prudential requirements. We request to reset, from end-June 2024 to end-December 2024, the structural benchmark on implementing a supervisory risk assessment methodology to inform supervisory engagement priorities, as more time is needed for implementation. We also request to reset, from end-August 2024 to end-October 2024, the structural benchmark on producing a SOE state ownership policy, dividend policy and privatization strategy to allow for more time after the recent

adoption of law 5593-D. Finally, we request to reset from end-March 2024 to end-April 2024, the structural benchmark to enact amendments to the procedural code to rationalize matters or issues to be heard at the first instance by one anti-corruption judge or by a panel of three anti-corruption judges to allow more time for the legislative process.

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 soon with the objective of completing the needed operations no later than mid-2024. A group of official creditors have committed to a two-step process for a debt treatment and last December formally extended their debt moratorium until 2027.

7. Under IMF's new policy on multiple currency practices (MCPs), the three previously approved MCPs are now considered eliminated. As we continue the transition in our exchange rate regime laid out in the NBU's Strategy, we will continue to monitor these issues carefully in close collaboration with the IMF to help ensure that MCPs do not arise.

8. Based on our successful implementation of the program targets for end-December 2023, our implementation of structural benchmarks over December 2023-February 2024, as well as our strong policy commitments for the period ahead, we request completion of the third review, and a disbursement in the amount of SDR 663.90 million (33 percent of quota), which will be channeled for budget support. A memorandum of understanding between the National Bank of Ukraine (NBU) and the Ministry of Finance (MoF) has been established to govern 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

Memorandum of Economic and Financial Policies

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 keep rising, around a quarter of the population has been displaced, and devastating attacks on infrastructure and missile strikes countrywide continue. Despite all the devastation, suffering and challenges, 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 and domestic 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 continue to sustain strong performance under the program.** The approval of the EFF arrangement in March 2023 helped mobilize an external financing package from our international partners that now totals US$121.8 billion over the program period (2023Q2–27Q1). In these very difficult times, the program has helped infuse greater predictability into our macroeconomic management and remains a strong anchor for our economic policies. We remain highly committed to our program objectives; our robust implementation of major components of the program thus far is a testament to this.

3. **The approval of the EU's Ukraine Facility is a major step forward, which coupled with efforts to achieve our strategic goal of EU accession will reinforce long-term growth and stability.** The €50 billion Ukraine Facility for 2024–27, approved in February 2024 by the EU Council, will be critical to support our budgetary needs, recovery, reconstruction, and modernization. Reforms to achieve EU accession will strengthen our 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. Progressive integration into the European internal market, already underway within 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

4. **The economic recovery in 2023 was stronger than projected, and we expect the recovery to be sustained in 2024 albeit at a more moderate rate.**

- Despite continuous attacks on infrastructure, economic activity in 2023 was more resilient than expected with estimated growth of 5 to 6 percent. The sequential economic recovery has been strong as households and firms have continued to adapt to the war circumstances, and the disinflationary trend has continued. Moreover, the labor market has seen signs of stabilization amid lower net migrant outflows.

- Despite some headwinds over the winter, activity is expected to remain solid in 2024 supported by growth in non-combat areas, under the assumption of no further escalation of the war. Given the continuing high uncertainty, we project 3 to 4 percent growth for 2024, lower than in 2023 due to an expected decrease in harvests and greater war-related labor market mismatches. The pace of the sequential recovery will be determined by the degree to which the prevailing high uncertainty weighs on private investment, the pace of return of migrants and broader labor market dynamics, the strength of consumption given the erosion in purchasing power, as well as the availability of export supply routes. The economy has become more resilient to the war, and assuming no significant worsening of the security situation and no protracted energy shortages, we do not expect a longer war through end-2024 to materially impact economic performance.

- Inflation has decelerated significantly and faster than expected from its peak of 26.6 percent y/y in end-2022 to 5.1 percent y/y at end-December 2023, reflecting the rapid recovery of the energy system after attacks on critical energy infrastructure, favorable FX market conditions, improved supply of food (e.g., a strong harvest) and fuel, the tight monetary policy as well as improving inflation expectations. Inflation is expected to edge up in 2024 to around 8.5 percent, driven by temporary factors (e.g., pass-through of higher business costs) and as lower price effects from the 2023 harvests wane in the second half of 2024.

- The current account balance deteriorated to a deficit of US$9.8 billion in 2023, following a surplus of US$8 billion in 2022. This reflected a widening trade deficit, on account of increased imports from stronger growth but still subdued exports due to the loss of production capacity and logistical bottlenecks induced by the war. The termination of the grain corridor, and trade restrictions from neighboring countries have been significant contributors to this trend. Higher reinvested earnings by firms that have adapted to the war context also contributed to the current account deterioration. Going forward, the current account is projected to remain in deficit, although exports could be supported by increased transportation capacity through the new Black Sea corridor and Danube ports, and efforts to develop export licenses with EU neighbors. Continued strong external financing inflows are expected to strengthen gross international reserves, estimated to reach US$42.1 billion by end-2024 under the baseline scenario, equivalent to 5.4 months of prospective imports, which will provide a strong cushion for shocks.

- Conditions in the FX market have remained stable, including through the transition to managed flexibility of the exchange rate. The exchange rate has depreciated through end-February 2024 by a cumulative 4.5 percent since the transition supported by FX interventions aimed both at fulfilling the somewhat compressed FX demand and limiting volatility. The spread between the official and cash rates has remained low in the 1–5 percent range, including as the lifting of FX controls increased competition in the cash market amid increased confidence.

- Credit growth, while still contracting overall, is showing signs of stabilization due to government-backed subsidized lending initiatives (including the 5-7-9 program for SMEs and eOselya for mortgages), credit guarantee schemes and improved business activity. The official non-performing loan ratio fell to 37 percent in January 2024 due to growth of the loan portfolio amid a high provisioning ratio (83 percent). Deposits increased by 27 percent in 2023.

5. 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 quicker return of migrants and faster recovery in sentiment, along with a revitalization in economic activity from a swifter resolution of war-related supply disruptions and more durable access to seaports and other supply routes. 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 forceful implementation of structural reforms in the context of the EU integration, significant investments in reconstruction, including private investment inflows, as well as a faster return of migrants.

6. 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, leading to the emergence of additional budget needs. A prolonged war would adversely weigh on firm and household sentiment, as well as exchange rate and inflation expectations and dampen the pace of return by migrants. Export transit routes could be significantly interrupted, there could be further damage to energy infrastructure, or past supply chain disruptions could resurface again, weighing on production costs and firm profitability. Insufficient or delayed donor support could also exacerbate financing constraints, requiring difficult policy trade-offs. Moreover, the needed higher domestic financing may become difficult to mobilize. A prolonged war would continue to put pressures on our fiscal position, and financing gaps could widen substantially.

II. Macroeconomic and Structural Policies for 2024–27

A. Overview

7. The ultimate goals of the Ukrainian government's economic program—supported by the IMF—is to restore fiscal and debt sustainability, maintain external and financial stability 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 involves a two-phased approach.

- In the first phase, our primary focus will be on maintaining 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 implementation in 2024 coupled with a strong medium-term fiscal framework that would anchor fiscal policy and the assessment of financing gaps. The move to a managed flexibility of the exchange rate strengthens the resilience of the Ukrainian economy and FX market, promotes better adaptation to domestic and external shocks, and reduces the risks of accumulating FX imbalances. At the same time, we will implement measures across all key policy areas to prepare the ground for Ukraine's post-war growth, while social spending will be safeguarded to the extent possible.

- In the second phase, once the war has tapered off, we will build on the progress so far and shift our focus 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. Progress toward EU accession will be a major anchor for our policies.

8. We acknowledge IMF staff analysis on an updated downside scenario, and we are fully committed to swiftly 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 social considerations. Building on this track record, we would respond decisively to a potential downside scenario, to ensure that public institutions function effectively while taking measures as needed to preserve economic and financial stability, and also maintain debt sustainability on a forward-looking basis. Under the updated downside scenario, as illustrated in IMF staff analysis, we stand ready to take additional feasible fiscal measures, including identifying tax policy measures that can be implemented swiftly and effectively or spending measures building on efficiency gains. In particular, we would be guided by the National Revenue Strategy (NRS), a cornerstone of our efforts to strengthen revenue mobilization. In parallel, we will also identify additional domestic financing as needed to ensure that financing gaps are swiftly closed, without compromising economic and financial stability or debt sustainability. We also stand ready to deploy our foreign reserves to maintain FX market stability in case of need. These are very 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 identifying policies that can help us achieve high and sustained growth rates, including via illustrative upside scenarios that motivate reform priorities towards EU accession. Our medium-and long-term growth post-war will crucially depend on catalyzing high and sustained investment levels, supporting inward migration, rebuilding human capital, and fostering an enabling business environment that could propel total factor productivity (TFP) growth to help converge to European income levels. In this regard, 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. Implementing these wide-ranging policies will require our steadfast commitment for an extended period.

A. Fiscal Policy

Fiscal Outturns in 2023

9. We exercised caution in implementing fiscal policies in late-2023 amid substantial uncertainty on several fronts. In the last quarter of the year, we faced continued high defense-related needs, a shortfall in expected grant financing, and a loss of tax revenue due to blockades on the Western border. To manage these pressures, we exercised tight control over non-defense expenditures. As a result, the overall deficit was capped at UAH 1,282 billion, or 19.7 percent of GDP in 2023, close to projections in the Second Review's baseline.

10. Despite the challenging environment, we achieved all but one of the end-December 2023 fiscal targets, as follows:

- Given the prudence on non-defense expenditure execution, the non-defense cash primary balance excluding grants was UAH 380.5 billion at end-December, substantially exceeding the program's floor of UAH 105.0 billion (***Quantitative Performance Criterion***). However, recent volatility around external financing has affected our budget implementation, and we are requesting modifications of the end-March QPC from UAH 140.7 billion to UAH 135.0 billion. However, we continue to expect the same full-year result for this indicator.

- Relatedly, the end-December Indicative Target on the overall balance excluding grants was UAH -1,717 billion, comfortably above the floor of UAH -1,744.7 billion.

- However, the impact of the border blockades had larger effects on import-related tax collections than we anticipated. Despite our best efforts we missed the floor on tax revenues (excluding social security contributions) by a small amount. In the event, end-December tax collections were UAH 1,650.4 billion, against the target of UAH 1,654.0 billion (***Quantitative Performance Criterion***).

- The indicative target on the accumulation of overdue accounts payable (domestic arrears) was UAH 1.6 billion in December, below the ceiling of UAH 2.0 billion.

- Guarantees issued by the state government in 2023 amounted to UAH 40.3 billion, well below the adjusted end-December 2023 ceiling of UAH 57.5 billion (***Quantitative Performance Criterion***).

- Social spending was UAH 551.1 billion at end-June, UAH 51.5 billion above the Indicative Target of UAH 499.6 billion. This level of social expenditures corresponds to the need to provide adequate protection for vulnerable layers of the population, including people affected by the consequences of the war.

Fiscal Policies for 2024 and Beyond

11. The budget for 2024 remains the anchor for fiscal policy this year. The budget recognizes the need to give priority to national defense and contains an allocation consistent with a full-year of war operations. Expenditures elsewhere are being contained, although we will maintain adequate resources for the social safety net to address the needs of war veterans and vulnerable layers of the population. The 2024 budget also reflects important revenue-mobilization policies that we have taken. Building on the measures that we have already taken, we have introduced an extraordinary one-time tax on bank profits for this year. Going forward, banks will be taxed at a permanently higher corporate income tax rate. The budget also contains a provision to reallocate personal income taxes between the state and local budgets to provide adequate resources for key programs, while avoiding interference with the independence of local authorities.

12. Under our projections, the overall balance excluding grants for 2024 will continue to be elevated at UAH -1,562 billion, or -20.2 percent of GDP. The annual pension indexation will be carried out in line with the legislation and amount to 7.9 percent, which is within the expenditure envelope consistent with this deficit projection. Our progress in budget implementation will continue to be monitored by 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). Moreover, the floor on state budget spending on social programs will help safeguard social spending (Indicative Target). As in 2023, the deficit will continue to be primarily financed through budget support from international donors. However, we will also seek an important contribution from the government domestic bond market (¶19). Given this financing mix, this deficit, while large, is consistent with fiscal sustainability.

13. With external financing becoming increasingly subject to risks, we are prepared to take additional fiscal measures as needed to ensure stability. We have created a working group to identify potential temporary revenue measures for 2024. The working group met on February 9, 2024 and on the basis of their recommendations, we have identified potential measures yielding at least ½ percent of GDP (***end-February structural benchmark***). However, given the still-high uncertainties and need to maintain stability, the working group will continue its efforts. We continue to stand ready to take feasible measures to respond to shocks, including if a downside scenario materializes. Reflecting the likely substantial demands on resources for defense and social protection activities, the actions that we would take are predominantly focused on increasing revenues and mobilizing domestic financing.

14. The budget for 2025 will reflect our efforts to return to sustainability and be prepared according to the standard timeline. The MOF has launched the preparation of the Budget Declaration for 2025-2027, which will be a basis for the preparation of the 2025 Budget. We expect next year to remain challenging, with substantial expenditure pressures that correspond to our key defense, reconstruction, and development priorities. At the same time, we recognize that while external partners will continue to be an important source of financing, there will be a need for greater self-reliance in generating tax and non-tax revenues to cover our expenditures, which will also need to be carefully prioritized. These efforts will help us to ensure that the budget is financeable. As regards the process, just as last year, we will adhere to the standard schedule, to ensure careful preparation and timely adoption.

15. We will carefully implement fiscal policies and remain committed to taking all necessary measures to ringfence additional pressures and risks to the budget 2024 and beyond. On the revenues side, we will continue to refrain from introducing tax amnesties for the duration of the program, and from any tax policy and administrative measures that may erode the tax revenue base. Furthermore, any tax-related measures that are needed to support imports related to national defense and security will be targeted, timebound, controlled, and subject to oversight. As regards expenditures, we will resist pressures on non-core spending categories, recognizing the already high contributions from international donors and partners and priority given to the conduct of the war. Further, we will only revise spending categories in consultation with IMF staff and after identifying either new financing sources or compensating fiscal measures. We will continue to exercise strong commitment controls and maintain strict oversight of budget execution by key spending units.

16. Over the medium term, we remain committed to policies that are consistent with fiscal and debt sustainability. The return to sustainability involves three components. First, we will continue implementing fiscal adjustment over the coming years to deliver a medium-term primary surplus. Post-war priorities for recovery and reconstruction, social protection, and maintaining defense readiness require reform efforts to principally focus on tax policy and administration. We aim on mobilizing 3-4 percent of GDP in additional revenues during 2024-27, as prescribed by the National Revenue Strategy (NRS). Second, we will carefully evaluate the financing mix and seek highly concessional terms wherever possible. And third, we will complete a treatment of external public debt that brings public debt and gross financing needs back down to manageable levels (¶35).

17. The third Rapid Damage and Needs Assessment (RDNA-3), published on February 15, 2024, estimated reconstruction needs of US$486 billion over the next 10 years. Addressing the largest needs in housing, transport, and commerce and industry will be vital to delivering essential public services, restoring the economy's productive capacity, and providing adequate social protection. Repair and recovery on these fronts will also help promote the return of those who were forced to flee the country. In considering initiatives in this area, we will ensure that these activities are consistent with a return to fiscal and debt sustainability. To this end, we will carefully evaluate the financing mix, and will seek financing on highly concessional terms. Additionally, we will make sure that the mechanisms used for reconstruction financing are consistent with the principles of integrated public investment management to ensure that critical reconstruction projects fit into the medium-term budget framework (see ¶28).

B. Financing Strategy

18. Timely external financing on appropriately concessional terms is an essential pillar of our financing strategy. In 2023, we received gross external budget support disbursements of US$42.5 billion (including the IMF). In 2024, continued support from the EU, IFIs, and bilateral donors in the amounts, composition, and timing envisaged are vital to maintain economic and financial stability. Over the next 12 months of the IMF-supported program (April 2024–March 2025), firm financing assurances are in place thanks to large official, multilateral, and bilateral commitments. Looking beyond March 2025, 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.

19. To this end, we will further strengthen our efforts to increase net domestic bond financing over the program period. Our strategy will involve maximizing the issuance of domestic government securities in the primary market with an objective of obtaining net positive financing in 2024.

- In 2023, our net debt issuance on the domestic market amounted to UAH 183 billion, or US$5 billion, bringing the implied rollover rate to 149 percent. About 57 percent of gross hryvnia issuance was in the form of designated benchmark bonds that banks may use to meet reserve requirements. We continued to make progress in matching issuance yields and maturities to market demand, and in lengthening the maturity of our issuances last year.

- We intend to continue issuing government securities with an objective of obtaining a meaningful contribution in 2024, given our commitment to mobilize domestic resources to help meet our financing needs. Given the substantial liquidity available and expected in the banking system, we are committed to identifying and implementing ways to increase bank financing, including 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, supported by the joint Working Group under the auspices of the Financial Stability Council (FSC), established in April 2023. With an appropriate mix of approaches, such measures could contribute to positive net domestic financing over the course of the program.

Successful placement of domestic securities coupled with timely external financing on appropriately concessional terms will enable us to execute the budget as planned, avoid arrears, and continue to avoid monetary financing. It will also ensure that the budget is financed in a manner consistent with safeguarding macroeconomic and financial stability and consistent with attaining debt sustainability.

20. We will ensure our debt management strategy is consistent with our objectives under the program. Under the external commercial debt treatment that we plan to conclude by mid-2024, we will seek to obtain adequate flow relief from debt operations, including from the external commercial debt restructuring, in 2024 and beyond consistent with program parameters. This debt treatment will also have important impacts on the overall public debt burden and its structure. To reflect these developments, we plan to update the Medium-Term Debt Strategy (MTDS) with a view towards publishing it by end-2024. To support the implementation of the MTDS and our upcoming debt operation, we are also committed to strengthening the capacity of the Debt Management Agency, including by increasing staffing and training. 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 over the medium term and the cautious restoration of international capital market access, thereby enabling the bond market to play an active role in the reconstruction phase.

21. We are determined to strengthen treasury cash and liquidity management. The ongoing war and recent uncertainty around the timing of external disbursements has brought about increased volatility with respect to our budget execution. These events, along with our continuous efforts to strengthen budget execution and commitment control, have prompted us to enhance our cash and liquidity management. Strengthened liquidity forecasting and cash management will help lower the volatility and transaction costs of treasury resource management. To this end with the help of FAD TA, we have conducted a diagnostic assessment of treasury cash and liquidity management based on an examination of international best practices with regard to the roles of finance ministries, treasuries, central banks, and debt management agencies. We will work to incorporate these findings in improving the predictability of cash and liquidity management and seek further TA.

C. Fiscal Structural Reforms

22. Despite the uncertainty and risks, we are moving forward with our structural reform agenda to support EU accession and achievement of development goals. In the area of public finance we will focus 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) reforming and strengthening the pension system and social safety net, (iv) enhancing fiscal transparency and management of fiscal risks; and (v) ensuring fiscal sustainability and the predictability of budget policy by further strengthening the interlinkages between medium-term budget frameworks (MTBF), reconstruction priorities, and public investment management, while keeping fiscal risks arising from state-owned companies under control. To support these structural reforms, we will continue to abstain from any tax policy and administrative measures that may adversely affect the tax revenue base, and as such we will refrain from introducing new categories of taxpayers in the existing preferential regimes.

National Revenue Strategy

23. The National Revenue Strategy (NRS) will remain the anchor for our tax policy and administration reforms. The NRS will allow us to achieve a fair and competitive tax framework that would generate revenues sufficient to safeguard our post-war development goals while maintaining fiscal and debt sustainability. We adopted the NRS in December 2023 **(*Structural Benchmark*, end-December 2023)**. We will invigorate efforts for outreach to key stakeholders and taxpayers to strengthen the buy-in for expansion of the tax base much needed for financing the post-war spending priorities. To enhance the efficiency of NRS implementation, and prepare the groundwork for efficient tax policy reforms, we will take a sequenced approach by focusing first on reforms in tax and customs administration, with emphasis on integrity, reducing administrative and political discretion, and improving the trustworthiness of administrative processes. By increasing the trust in the controlling authorities through measures in the NRS, we will pave the way for the implementation of specific measures to address long-standing structural impediments to revenue mobilization (e.g., the overly broad and generous simplified regimes), equity-focused reforms (e.g., a more progressive personal income tax (PIT)), and revenue-enhancing alignment with EU directives (e.g., on VAT and excise taxes), environmental taxation and extractive industries' rent payments. Following IMF FAD TA, the NRS covers guidance for coordination among government agencies, donors, the private sector and civil society on tax policies and administration led by the MOF.

24. To start with, the implementation of NRS will focus on the following key areas of reforms. Specifically.

- We are preparing an assessment of the effectiveness of tax privileges, including their cost to the budget, in order to have a unified reform approach. We remain on track to finalize the draft by end-July, 2024 **(*Structural Benchmark,* end-July 2024*).***]

- We will approve a long-term Digital Development Plan for the STS in accordance with the NRS's implementation plan (by the end of 2024). It will include measures for the gradual consolidation of IT platforms and information resources, and their administration by an independent administrator.

- We will also define strategic measures to ensure the confidentiality and protection of data in the STS systems (including information received from taxpayers and tax agents). To enhance the confidentiality of tax data held by STS, we will develop the concept of using anonymized data (data masking) on taxpayers by tax authorities (see NRS section 4.2.3), until the risk of tax non-compliance is detected.

- We will also develop legislative amendments to implement rules to combat tax evasion practices that take into account the requirements of the EU Anti-Tax Avoidance Directive (EU ATAD) and the best international practices for preventing tax evasion and ensure effective protection of the tax base from erosion and profit shifting.

25. Over the next few years, we will undertake important tax policy reforms guided by the NRS to meet post-war needs. We will also strengthen the revenue mobilization in the following areas by: (i) developing a comprehensive package of measures for the post-war period to reform the taxation of carbon emissions, based on a concept of environmental protection; (ii) analyzing and assessing the taxation of extractive industries; (iii) defining the principles of taxation of virtual assets, aligned with EU rules, in particular with regard to information exchange and initiatives of the OECD Global Forum. This work will be supported by TA from the IMF FAD and other international development partners.

26. We are 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 will continue to take measures aimed at increasing public trust and creating a positive image of the STS**,
    - As an input into this important process, we will use the taxpayer independent perception survey (Global Taxpayer Survey) as a source for identifying key problems. We will continue running it systematically at least once every two years. Currently we are working on eliminating problems identified in the 2023 taxpayer perception survey and will complete a similar survey for 2024 by end-year.
    - We will develop a methodology to operationalize the tax risk management system. For this purpose, we will adopt a comprehensive compliance improvement plan on the identification, assessment, analysis, and mitigation of risks by major types of tax risks.
    - We are also working on: (i) organizational restructuring that will reflect the results of the functional review (by end-2024) to better align the STS's organizational structure with the principle of functionally organized tax administration and support modern Compliance Risk Management practices of functional principle; (ii) determining the criteria for assessing the impact and efficiency of the STS Anti-Corruption Program; (iii) implementing IT solutions for SAF-T UA (electronic format for large taxpayer data submission, one of the EU integration obligations); (iv) improving the efficiency of information exchange with foreign competent authorities (including obtaining positive assessment from the OECD Global Forum on Information Security Management Maturity).

- ***State Customs Service (SCS*).** We will continue focusing on key reform areas critical for reducing corruption risks within customs administration. Specifically, we will adopt legislation that reinstates post-clearance customs audit effective end-April 2024, to complement the reinstatement of tax audits and close potential loopholes in managing compliance processes. We will also adopt and implement legislation to criminalize large-scale customs fraud and smuggling of all goods that should also help with stronger tax and customs compliance. Similar to STS, we will launch an initiative to determine the criteria for assessing the impact of the SCS Anti-Corruption Program. Moreover, we are working 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.

27. Economic Security Bureau of Ukraine (ESBU). The importance of strengthening compliance controls and detecting major financial and economic crimes implies a need to bolster analytical support for identifying tax evasion on an arm's length basis. We will adopt a new law on the ESBU that has a clear mandate and scope for investigative powers consistent with good practice by focusing on major economic crimes and strengthening its analytical capacity, while ensuring the capacity of the STS and SCS to effectively address violations in the tax and customs spheres**.** The ESBU's activities will be directed and coordinated by the CMU, while noting the ESBU's focus on major economic crimes. The existing delineation between the investigative powers of the ESBU and the National Anti-corruption Bureau of Ukraine (NABU) will be maintained. In addition, the law will aim to establish a legal basis for 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 the selection commission for the ESBU head, including a decisive and crucial vote for independent experts with international experience ; (iii) set up of a disciplinary committee; (iv) introduce a contract system for employees; and (v) develop a mechanism of attestation based on high-level principles in the law and procedures approved by the CMU; the attestation of managers will be prioritized and completed within a reasonable period after the appointment of the new ESBU head **(*Structural Benchmark,* end-June 2024).**

Restoring the Medium-term Budget Framework

28. **We will continue enhancing expenditure planning and the medium-term budget framework (MTBF)**. With the help of IMF TA, we will undertake a diagnostic review of pre-war MTBF policies and practices relative to best practices (***Structural Benchmark*, end-October 2024**). To this end, we have undertaken the first set of gap analysis, which have identified key areas of focus in our work. In this context, as a first step, we have started with preparation of the budget declaration for 2025-2027 and have sent a letter to key spending units requesting them to share with MOF key factors feeding into the estimation of baseline costs of public services for this period. This is an essential input into enhancing the credibility of fiscal forecasts and assessing the affordability of existing policies. Based on this diagnostic review, we will take a sequenced approach to strengthening the medium-term budget planning, and expanding the coverage of the MTBF to include budgets of the local governments and social funds. Key steps towards aligning the MTBF with international practices and EU requirements are also among the priorities. Looking ahead, we expect to have continuous IMF TA support to enhance the estimation of the baseline expenditures in the instructions for the formulation of the 2026-2028 Budget declaration and 2026 Budget.

Pensions and Social Spending

29. With the help of World Bank TA, we are preparing modifications to the pensions system and mechanisms to support vulnerable layers of the population:

- **Pensions.** We plan to work on a comprehensive conceptual framework to improve the pension system and are reviewing the possibility of introducing a second pillar of the pension scheme, when conditions are in place. We reiterate that any proposed legal amendments that would increase pension expenditures need to be accompanied by a medium-term fiscal and debt sustainability analysis, and a clear identification of the necessary resources in the amendments to the Pension Fund of Ukraine budget. We will refrain from: (i) introducing new special pensions or privileges; (ii) providing further discretionary benefit increases; and (iii) modifications that would lead to a lowering of the legally defined retirement age.

- **Mechanisms to support vulnerable groups.** We are working on further enhancement of targeting and means testing of benefits to vulnerable groups of population. With the support of the World Bank, including through a programmatic loan, we are working on draft legislation to consolidate different types of social entitlements. More specifically, we are exploring the options for integrating various social assistance programs under a single unified package based on individual needs regardless of a recipient's status (e.g., IDP or non-IDP). In this context, we also have increased the income threshold for eligibility under the Guaranteed Minimum Income (GMI) program by 10 percent.

Fiscal Transparency and Risks

30. Measures to enhance fiscal transparency and address fiscal risks remain an important part of our program. Specifically:

- We have made significant progress in strengthening the fiscal risk statement report that is attached to the budget 2024. Going forward we will include a consolidated view of financial performance analysis and stress testing across major SOEs. We are taking steps to strengthen the policies and practices for feeding the Fiscal Risk Statement (FRS) analysis into the annual budget preparation, strengthening the integration of fiscal risks at all stages of the budget cycle. As a first step, we have issued a letter to line ministers and key spending units requesting them to start identifying key fiscal risks to be included in the medium-term budget 2025-2027 declaration.

- Based on recent IMF TA on risk assessment and SOE stress testing, we will continue strengthening SOE stress testing under different scenarios. We will identify major public companies severely affected by the war and prepare an assessment of their potential fiscal and quasi-fiscal costs **(*Structural Benchmark,* end-September 2024**). We have already requested IMF TA to support our work, and are working on defining the scope and the timeline of the assessment.

- To strengthen the link between the fiscal risks assessment and the predictability of government spending, we will develop methodological guidance for assessing fiscal risks in key spending areas and contingent liabilities, including PPPs, guarantees, and SOEs. By integrating these assessments more robustly into the early stages of the budget cycle, fiscal risk analyses can better inform budgetary and fiscal decisions. In this process, we will reach out to MOE and other line ministries to develop methodological guidance and establish stronger links between the fiscal risks assessment and government spending predictability.

- With the help of ongoing IMF TA, the MOF will finalize the development of risk-based fees for guarantees and prepare amendments to the existing decree. The upcoming IMF TA mission is expected in April-May 2024.
- In collaboration with MOE, the MOF will publish a list of PPPs and prepare a review of the associated risks and potential impact on the 2025 Budget and onwards by end-September 2024**.**

31. We are reinvigorating efforts to strengthen the governance of BDF and take measures to ringfence the increasing fiscal and financial sector risks from the 5-7-9 program.

- A draft **concept note** was approved by the Cabinet of Ministers at end-2023, discussing options to strengthen the governance of BDF and a proposal to strengthen the design of 5-7-9 program to focus on targeting small and medium enterprises by phasing out the eligibility of large companies, enhancing monitoring, and maintaining adequate safeguards.
- In January 2024, the CMU approved the **phasing out of large company eligibility**.
- In February 2024, the MOF, in collaboration with international partners, commissioned an **independent assessment of the BDF and its support programs** (to be implemented by a reputable consulting company), with the goal of refining their operational design to effectively serve only those SMEs that encounter substantial barriers to funding.

32. We are now working on strengthening the concept note to incorporate the following amendments:

- **BDF:** We will incorporate measures to strengthen the governance and financial self-sustainability of the BDF, to keep the lending programs run by BDF targeted and time bound and to eliminate the risk of political interference in decision-making processes. While the BDF will continue to be subordinated to the MOF, we will establish a majority independent supervisory board by end-September 2024, while also including representatives of minority shareholders and international agencies (KfW, JICA, etc) as observers during the selection of independent members. The independent members will be hired via an independent recruitment firm and the supervisory board will be chaired by an independent member. To ensure legal certainty and attract wide range of qualified candidates, we will approve a law (by end-May 2024), to allow for foreign independent supervisory board members of the BDF to have similar asset declaration obligations as foreign independent members of supervisory boards of SOBs. The BDF will be given an adequate operational budget to fulfil its mandate, including from an allocation of resources from the program budget for the 5-7-9 lending subsidy and/ or 0.5 percent of the amount compensated to the banks. The MOF will develop a draft law on the BDF by end-December 2024 to support the independence and responsibility of the supervisory board including: (i) undertaking analysis and recommending to the CMU on how lending programs should be targeted, implemented and phased-out, and once the BDF law is enacted, for overall design of the lending programs based on the key performance indicators suggested by the CMU; (ii) setting policies, processes and controls so lending programs remain within medium-term and annual budgets, enabling MOF's control over the spending for subsidized interests; (iii) setting detailed and clear guidance on eligibility criteria and annual reviews of continued eligibility for borrowers; (iv) establishing rules for participating banks; and, (v) preparing regular detailed reports on lending program performance and recommendations for adjustment including a semi-annual report on activities, detailed publishing of costs including operational costs related to administering the Fund, and detailed operational statistics (including number of applications, approvals/rejections, early loan termination, NPLs, number of fraudulent incidents).

- **5-7-9 loan program:** We will take immediate measures to ringfence the increasing fiscal and financial sector risks related to the 5-7-9 loan program. The MOF has approved the *budgetary passport* for the program submitted by the MOE, which will enable compensation of amounts due to participating banks starting from end-March 2024.
  - *Strengthening the criteria for targeting the program to small and medium enterprises*. In addition to phasing out the eligibility of large companies, we will also reconsider the lending limits, enhance monitoring and maintain adequate safeguards.
  - *Clarifying the roles of MOE and MOF*. The MOE will maintain the identification of priorities for sectors of SMEs, and the MOF will be responsible for controlling and monitoring the spending under the program to avoid risks of overspending and accumulation of spending arrears. Moreover, the declaration for medium-term and annual budgets will continue establishing the direction and spending envelop on subsidized interest. To ensure the envelope is respected, the MOF and MOE will develop clear coordination mechanisms so that the established directions and bank lending limits are respected and consistent with budgeted interest subsidy envelope.

With these amendments, the MOF, in consultation with MOE will finalize this concept note by end-March 2024 (***Structural Benchmark*** **end-March 2024**) and prepare all necessary amendments to the regulatory framework to operationalize the concept note.

33. 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.*** The Fund served its purpose well in the context of Budget 2023, supporting the restoration of destroyed and damaged property in the amount of UAH 38.1 billion. In 2024, the Fund will continue serving its purpose as stated in the Article 28 of the 2024 State Budget Law. The sources for the Fund's operations are expected to comprise the unspent balance of about UAH 24 billion as of end-2023.

- ***Special accounts.*** In April 2023 we amended the Budget Code to ensure transparency of sources, usage and reporting of funds on special accounts. Starting mid-2023, the MOF publishes information about sources and usage of funds on special accounts, donated by private individuals and legal entities. We are committed to further transparency and accountability of these accounts.

Strengthening Public Investment Management

34. We have developed a roadmap of measures to reform our public investment management (PIM) which covers ambitious reform agenda **(Structural *Benchmark*, end-December 2023).** With the help of IMF TA and/or other partners, we will work to operationalize the roadmap, complementing it with a government decree with a specific action plan and a timeline that provides clear linkages between the MTBF and national reconstruction priorities, specifying a gatekeeper role for the MOF, which implies a central role for MOF in all stages of public investment management **(*Structural Benchmark,* end-December 2024*)*. We will amend the Budget Code (by end-2024) to establish clear institutional links between the MTBF, PIM and reconstruction priorities, thus bolstering the MOF's institutional role as a gatekeeper of public investment and mitigating risks to debt sustainability. Coordination will be strengthened between the MOF, MOE and Ministry of Infrastructure and other line ministries, who remain responsible for project execution. Meanwhile, we will continue working on strengthening public investment management policies consistent with best practices of MTBF and PIM (¶28), following the principles of budget unity, coherence, and predictability.

D. External Debt Strategy

35. To help restore debt sustainability on a forward-looking basis, we publicly announced our intention to proceed with a debt treatment of our external public debt on March 24, 2023. 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.

36. The debt treatment comprises the following elements:

- *Official bilateral debt.* Paris Club creditors have committed to a two-step process involving an extension of the debt standstill, 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. The first stage—an extension of the standstill until 2027—was formally concluded in December 2023. We will seek treatments on comparable terms with other official creditors.

- *External commercial debt.* In August 2022, we reached an agreement with our 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 are advancing technical work to prepare for the launch of discussions with commercial creditors, which we expect to begin shortly after the completion of this review. Our goal remains to complete the needed debt treatment no later than mid-2024. We are committed to achieving a treatment on terms consistent with the most up-to-date IMF macroframework and the parameters of the debt sustainability assessment.

37. To support our goal of safeguarding debt sustainability, we will continue to strictly limit the issuance of guarantees (*Quantitative Performance Criterion*). This limit is consistent with reinstatement of the articles of the Budget Code. 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

38. Our monetary and exchange rate policies aim to safeguard price and external stability and ensure an adequate level of 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. Now, as conditions evolve and the economy adjusts to the war, we too have adapted our policies to ensure we continue to meet these objectives guided by our Strategy.

Monetary Policy

39. We will maintain an appropriate monetary policy stance to support price stability, anchor inflation expectations, and foster FX market sustainability. In view of rapid disinflation combined with a favorable inflation trajectory, we cut the key policy rate (KPR) by a cumulative 1,000 bps to 15 percent in 2023. In line with our Strategy, we will gradually strengthen the role of inflation as the nominal anchor of monetary policy. To this end, we plan to steer monetary policy towards sustaining moderate inflation throughout 2024, followed by its return toward the target of 5 percent over the NBU's forecast horizon. With inflation expected to remain in control over the policy horizon under the baseline, we envisage the easing cycle to continue, albeit more gradually in 2024, supported by the recent shift to a symmetric forward guidance, subject to the balance of risks to the inflation and economic outlook on the NBU's forecast horizon. Overall, in line with our Strategy, we intend to maintain sufficiently positive real interest rates to support price and external stability.

40. To ensure proper attractiveness of hryvnia-denominated instruments and strengthen monetary transmission, we will continue to adjust the operational design of our monetary

policy framework as well as take steps to manage the banking system's structural liquidity position.

- Our October 2023 shift from a corridor to a floor system for our monetary policy operational framework has aligned the de jure KPR with the de facto main overnight CD instrument. This has helped restore the role of the KPR in our operational design and increased the effectiveness of our communications around the KPR. In the near term, we will continue to ensure that the parameters on standing facilities are consistent with the appropriate monetary policy stance. Over time, as we further enhance the role of the KPR in the transmission of monetary policy and consistent with the evolution of liquidity conditions, we may consider the introduction of instruments beyond an overnight maturity to achieve, among other objectives, an increase in the average maturity of our sterilization operations, while considering the implications for the primary government bond market.

- The introduction of the 3-month CD linked to hryvnia term deposit growth in April 2023 is continuing to support an increase in the real rate of return (notwithstanding the easing cycle) as well as the total volume of hryvnia term deposits in the banking system. This has allowed individuals to preserve the value of their hryvnia savings and support FX market stability, while also serving as a more stable bank funding base. We continue to study the associated impact amid the easing cycle and fine tune the parameters as needed to support bank competition and sustain a positive real return on hryvnia assets.

Exchange Rate Policies

41. The transition from an exchange rate peg to a regime of managed flexibility has been smooth, and enables the exchange rate to act as a shock absorber. The transition away from the exchange rate peg, initiated from a position of strength, has been smooth, with the exchange rate fluctuating in response to market conditions while being supported by FX intervention. We continue to monitor the FX market closely to ensure external stability, including calibrating the parameters of the intervention framework in order to align with the program's objectives, and ensure FX interventions are consistent with the program NIR targets. Avoiding excessive exchange rate volatility under the managed flexibility framework will further help keep inflation and exchange rate expectations under control, thereby preserving confidence in the hryvnia and helping steer inflation toward the target over the NBU's forecast horizon. We are confident that the new regime will strengthen the resilience of the Ukrainian economy and FX market by gradually allowing the exchange rate to adjust to domestic and external shocks. We will also continue to facilitate the functioning of the FX cash market to ensure a low and stable spread, in line with our Strategy, including by easing access to noncash FX and increasing cash FX supply depending on market conditions.

42. We intend to maintain adequate FX reserves through the course of the program to safeguard external stability. Thanks to strong external financing flows, stronger than expected net exports and lower private outflows, FX reserves reached record levels in 2023, allowing us to comfortably meet our end-December ***Quantitative Performance Criterion*** on net international reserves. While recognizing that forecast confidence is subject to exceptionally high uncertainty, in view of better-than-expected FX reserve levels thus far and our continued commitment to external sustainability, we are requesting an increase of the floor on the NIR QPC for end-March 2024.

43. We plan to carefully adjust FX controls to support the economic recovery, while maintaining FX market stability and addressing national and international security considerations. Over the past year, we have in line with our Strategy eased FX controls on a case-by-case basis, in particular to support humanitarian aid and energy infrastructure and economic activity. We will continue to remain vigilant and adjust these controls in line with the FX liberalization roadmap under our Strategy to safeguard macroeconomic stability.

- *FX Transactions under Martial Law*. Our FX Strategy will continue to guide our decisions to gradually relax FX restrictions, as conditions allow. The NBU plans to amend the necessary legislations in order to ensure the discretionary right of the NBU to approve permits for exemptions to the general rules on cross-border transactions set by Resolution #18. Our decisions to approve such permits will be consistent with the FX Strategy and the goal of safeguarding macroeconomic, financial and external stability.

- *MCPs*. Under IMF's new multiple currency practice (MCP) policy, the three previously approved MCPs are now considered eliminated. As we continue with our exchange rate transition, we will continue to monitor this area carefully to ensure multiple currency practices do not arise.

NBU Independence and Governance

44. We remain committed to avoiding monetary financing. We successfully avoided monetary financing in 2023, and our commitment to this objective will continue to be monitored by a ceiling on general government borrowing from the NBU (***Indicative Target***). If unexpected critical needs arise or external disbursements are delayed, we will first explore additional measures, such as drawing down excess government deposits or tapping the government debt market; we will request monetary financing from the NBU only as a last resort and in strictly limited amounts, underpinned by a mutually agreed framework between the MOF and NBU being developed in consultation with the IMF. We will also avoid indirect forms of monetary financing that are outside the core functions of the NBU, such as through the directed provision of liquidity to banks for the purchase of government securities on the primary market. 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.

- *Governance arrangements*. We will ensure strong governance arrangements within the NBU. We have further enhanced the MoU between the NBU and the MOF for servicing the government's obligations to the Fund by the NBU through the introduction of additional agreements and necessary contracts, as well as rigorous monitoring of the status of settlements between the MOF and the NBU.

- *Financial autonomy*. 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. In this regard, to help alleviate financing pressures, a provision is envisaged to be introduced in the NBU law aimed at granting NBU the right to advance profit transfers in 2024, while capping the amount of distributable profits to safeguard financial autonomy. We commit to refrain from using NBU profit for earmarked spending in 2024 and will direct this revenue category to the General Fund of the State Budget. Finally, we acknowledge that costs incurred from monetary policy implementation via liquidity absorption (interest expenses on NBU CDs) are both necessary and justified to support macroeconomic stability.

46. As part of our efforts to achieve our strategic goal of EU accession, we will continue to improve the conceptual framework and content of the NBU's financial reporting. We aim to provide reliable and relevant presentation of information, taking into account the purpose and unique features of the central bank's operations. With the help of technical assistance from the IMF and other partners, we will study the experiences of European national central banks, the legal framework for accounting and financial reporting in the European System of Central Banks (ESCB), and assess the NBU's readiness to transition to financial reporting in line with ESCB standards.

47. 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. For example, as the structural liquidity surplus unwinds we will adjust the design of our monetary policy operational framework to better align with economic conditions, including assessing the merits of reverting to a corridor system. 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

48. 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. Despite the severe impact of the war, the majority of bank branches remain operational, online banking services are fully available to all clients with internet connectivity, the non-cash payment system is functioning normally, and liquidity is robust 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 eight small banks (around 4 percent of system net assets as of December-2023) have been revoked under Martial Law and one bank (also around 4 percent of system assets) was nationalized.

49. Recognizing the importance of a well-informed approach to supervision, the NBU continues 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.

- To better understand current banking system conditions and to inform supervisory priorities, the NBU with technical support of the World Bank completed a resilience assessment in 2023 that included an asset valuation and solvency assessment of banks comprising 90 percent of banking system assets. It found that banks generally adequately assess credit risk with only minor additional capital requirements identified in five banks (mostly due to their lower operating efficiency). Most of the capital needs were in two banks and have already been addressed. The other three banks are required to submit capital management plans to the NBU to close the approximately UAH10 billion (US$260 million) gap as of end-2023 in two stages by March 2026. In 2025, the NBU plans to resume annual resilience assessments, which will include asset quality reviews and stress testing under baseline and adverse scenarios. We will prepare a prioritized interagency NPL resolution action plan by end-June 2024, which will be informed by the NBU resilience assessment.

- 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; and (ii) carry out a subsequent bank viability assessment. 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.

50. We are determined to take the necessary steps to continue to preserve financial stability and limit the 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 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 shall also continue working on our longstanding priorities including timely recovery of value from historical non-performing loans (NPLs) and assets of resolved banks whilst maximizing the recovery of economic value.

51. The DGF, MOF and NBU will prepare a bank rehabilitation framework in consultation with IMF staff (*Structural Benchmark*, end-December 2024). It will include: (i) financial backstop mechanisms and improvements to the DGF's financial position; (ii) measures to strengthen operational readiness, including regularly updated bank recovery and contingency plans; and (iii) improving procedures to implement bank resolution tools and early intervention measures, including temporary administration for anti-crisis management. In addition, the NBU will align its frameworks for counterparty eligibility in monetary policy operations and for lender-of-last-resort operations with international best practice. As interim steps, the DGF and NBU in consultation with IFI stakeholders (i) have prepared a diagnostic note by end-February 2024 to assess current bank resolution infrastructure, including analysis of current challenges with information sharing, coordination arrangements as well as the effectiveness of decision making and operations during pre-resolution, resolution and post-resolution based on past lessons learned and international good practice; and (ii) based on the diagnostic note, prepare a roadmap by end-April 2024 that sets out the reform agenda to further strengthen the authorities' resolution and crisis-management capacity, including to close key outstanding gaps by end-December 2024, building on the progress under past reforms and taking into account any relevant longer-term goals related to EU accession.

52. 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 preserving financial stability and national security decisions during the Martial Law period. All systemic banks with majority state ownership will fall under the responsibility of the MOF, and any non-systemic banks that come under state ownership will not be recapitalized using fiscal resources and will be transferred to the DGF for resolution upon breach of prudential requirements. **(*Modified Continuous Structural Benchmark*)**. We are considering 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:

- Preparing and 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 continue to undertake analysis on the state of the banking system and wartime developments and needs. Drawing on this and the NBU's resilience exercise, we will consider whether the general SOB strategy under Martial Law and those for individual majority state-owned banks should be updated prior to the independent AQR. Should any banks fall below regulatory capital requirements as a result of either (i) NBU resilience assessment and/or (ii) new regulatory capital rules (¶53 herein), they will be subject to capital management plans and adjustments to business plans, that will return them to compliance before the independent AQR. Once the independent AQR is concluded, we will use its results to update the general SOB strategy and subsequently, strategies for individual banks with majority public ownership, including with respect to privatization (in line with our Financial Sector Strategy).

- In preparation for privatization of banks with majority public ownership, we will review and update the 2012 draft law on SOB privatization in consultation with IFIs and for submission to Parliament by end-March 2024. We will also prepare two systemic state-owned banks for sale, Sense Bank and Ukrgasbank by selecting and appointing an internationally recognized financial advisor using a transparent procedure by end-May 2024 and with IFIs as observers. The main considerations for selection will include an international track record in the sale of financial institutions, the advisor will propose a comprehensive sale action plan, and the advisory fee shall not be the key determining criterion.

- Develop strategies for the Ukrainian Financial Housing Company and Export Credit Agency, by end-November 2024 to align with the general targets of financial sector development.

53. We will take further steps to align financial and credit market infrastructure with international good practice.

- *Financial reporting*. We will restore the legislative obligations to submit financial statements and audit reports for financial institutions for the 2023 financial year and for business entities located outside the occupied territories for the 2024 financial year. In anticipation of this change, the NBU has fully restored prudential reporting requirements for NBFIs. To improve the quality of financial reporting in the non-banking financial services market, we will restore by end-September 2024 the requirements for mandatory quality control of services provided by audit companies, including the verification of audit reports prepared to comply with the requirements of the law (draft #9662).

- *Bank capital rules.* In recognition of the importance of preparing for EU accession, the NBU issued a regulation to align banks' regulatory capital structure with the EU Capital Requirements Directive and Regulation in December 2023. With the continued support of the World Bank, we will close other gaps by end-December 2024.

- *Property valuations law*. In recognition of the need for prudent (fair) valuation of real estate and bank collateral for all economic entities and public authorities, the State Property Fund (SPF) will consult with key stakeholders, including the NBU, NSSMC and IFIs, and by end-March 2024: (i) in coordination with the World Bank, develop provisions that will improve the draft amendments to the law registered in Parliament "On Valuation of Property, Property Rights and Professional Valuation Activities in Ukraine" (#7386) that closes the gaps with international valuation standards, and (ii) propose an implementation roadmap that includes transitional arrangements, details of supportive regulation and/or guidance, steps to strengthen the valuers profession including additional training requirements for valuation of financial assets (banking assets, /insurance assets and collateral), and creation of a register of valuations for financial assets.

- *Immovable property databases and indices*. The NBU and Ministry of Justice will prepare a detailed proposal in consultation with key stakeholders by end-March 2024 to increase the transparency of the real estate market for participants (including international investors), strengthen systemic risk analysis and mitigation, and bank collateral valuations. This proposal will include details and timelines for introducing: (i) a publicly accessible database of real estate transaction prices with detailed metadata including structural parameters of primary and secondary market; and (ii) residential and commercial property price indexes. Based on this proposal, the NBU will prepare a framework for the development and annual publication of property price index forecasts.

- *Bank remuneration*. The NBU has strengthened the framework for remuneration policies of banks, including to introduce requirements to limit variable compensation and payment mechanisms for senior bank management, and staff whose professional activities have a material impact on the institution's risk profile, while aligning it with EU standards.

- *Virtual assets*. The current legal framework for virtual assets could pose risks to price stability and the effectiveness of monetary transmission. The NBU and NSSMC will prepare an update of the legislation with input from IMF technical assistance and in consultation with IMF staff by end-December 2024 to align with international best practice while considering economic development goals and mitigating price and financial stability risks.

- *Non-performing exposures*. By end-April 2024, the NBU in consultation with IFIs will align the definition of non-performing exposures with Article 47a (non-performing exposures) and Article 178 (Default of an obligor) of Regulation EU 575/2013 of the European Parliament and the EU Council of 26 June 2013. The amendments will come into force from January 1st 2025 and will strengthen monitoring by supervisors and banks.

54. We are fully committed to further strengthening banking supervision.

- *Recent developments*. We took the following actions in 2023: (i) separated the related-parties unit from banking supervision; and (ii) strengthened Supervisory Committee decision-making by implementing "supervisory panels" as a consulting body to the Committee that provides additional independent review by relevant subject matter experts. The goal is to foster challenge of the recommendations of supervisory teams, promote horizontal communications among teams involved in financial supervision 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 have resumed scheduled inspections for both banking and non-banking institutions, while ensuring NBU discretion on matters related to staff safety. We will undertake a survey of the effectiveness of the new supervisory panels by end-September 2024 in consultation with IMF staff.

- *Transition to risk-based supervision*. The NBU will prepare and implement a supervisory risk assessment methodology to inform supervisory engagement priorities (***Structural Benchmark*, end-June, proposed to be reset to end-December 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; continue to develop expertise for effective supervision, in particular, for supervision of information and communications technology risks as part of operational risk; and further improve the professional capacity of bank supervision, which will include the development of professional profiles needed and a multi-year training program for new hires.

- *AML and Banking Supervision*. The NBU will continue strengthening risk-based AML/CFT supervision of banks, payment service providers and non-bank financial institutions, particularly in relation to tax crimes and illegal gambling. By end-December 2024, we will amend Article 32 of the AML/CFT law and corresponding amendments to Article 73 of the Banking Law to ensure that the penalties for AML/CFT violations by entities regulated and supervised by the NBU are effective, dissuasive and proportionate, in line with international AML/CFT standards. The financial sanctions applied to such entities will be established by the laws of Ukraine and the regulatory legal acts of the National Bank of Ukraine.

- *Supervision of banking hybrid business models*. We recognize the growing importance of banks' hybrid business models, specifically Banking-as-a-Service, a model in which banks integrate their digital banking services directly into the products of other non-bank businesses. The NBU in consultation with the IMF will propose a supervisory framework that will incorporate the specific risks of such business models based on international best practices by end-July 2024.

- *Transfer of bank ownership*. We commit to ensuring that any future transfers of bank ownership, including following seizures during Martial Law, can only take place with due regard to the Law of Ukraine on Banks and Banking and following formal notification, review and approval of the process by the NBU.

55. We will strengthen the legal, regulatory, and supervisory framework for non-bank financial institutions (NBFIs) and financial markets.

- *Beneficial ownership*. The NBU has required all NBFIs (except credit unions) to disclose their owners and remedy any opaque ownership structures since October 2021. We will continue to monitor and take supervisory actions against those NBFIs that do not meet this requirement.

- *Legal framework*. In December 2021–July 2023 we passed legislation on Financial Services and Financial Companies (#1953), Insurance (#1909) and Credit Unions (#3254). Most provisions of these laws came into force in January 2024 and the NBU has prepared implementing regulations. Rules for insurance intermediaries apply from January 2025, and Solvency II will apply from January 2027. The NBU and DGF plan to initiate the development of a deposit insurance framework for credit unions and a guarantee framework for life insurance companies after Martial Law is lifted, and once the regulations required for enforcing the new laws are put into effect. In order to strengthen the governance of the Motor (Transport) Insurance Bureau of Ukraine (MTIBU), we have submitted amendments to the Law of Ukraine "On Compulsory Civil Liability Insurance of Land Vehicles Owners" (#8300) to Parliament. We will also take the necessary steps to facilitate adoption of the law by Parliament by end-May 2024. In addition to improving governance, once passed, the law will help improve the state supervision of the MTIBU's activities and align with the European Motor Insurance Directive (2009/103/EC).

- *Capital and reporting requirements*. To further strengthen the NBFI market, the NBU increased capital requirements for financial companies in December 2023 and has provided a six-month transition period for existing entities to align their operations with the new requirements. The

NBU will increase capital requirements for payment market participants aligned with the EU payment services directive (PSD2, 2015/2366) and international good practice by end-June 2024. The NBU will also prepare a supervisory risk assessment methodology by end-September 2024 that distinguishes between the types of NBFIs with the aim to transition to a risk-based supervision approach for NBFIs. The NSSMC will prepare draft regulation for financial intermediaries by end-December 2024, which will bring their capital requirements in line with the EU acquis.

- *Payments market*. We submitted draft legislation to Parliament in December 2023 that will strengthen regulatory requirements for market participants; we will aim to adopt the law by end-May 2024. To prioritize supervisory activities of payment service providers we will in consultation with IFIs: (i) prepare a concept note for a supervisory risk assessment methodology by end-August 2024 and implement the methodology by end-December 2024; (ii) develop the reporting system; (iii) strengthen supervision capacity through hiring specialists and building analytical competence; and (iv) prepare a concept note by end-July 2024 on regulatory requirements for person to person (p2p) and other such electronic payments with the aim of identifying and restricting abnormal behavior. We will implement supporting regulation by end-October 2024.

- *Capital market regulation and harmonization with IOSCO principles*. 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. The NSSMC will take steps to enhance the operational efficiency of NBU's capital controls in consultation with the NBU, including through regulatory harmonization and aligning capital flow restrictions for securities accounts with those applied to bank accounts by end-July 2024.

- *Related parties*. The NBU will extend the powers of its related-parties supervision unit to NBFIs by end-August 2024. This will include increasing the resources of the unit, and designing a new internal database and tools for effective related-parties identification. The NBU, in consultation with IFIs, will propose draft amendments to the Law on Banks and Banking by end-June 2024 to take into account supervisory observations in the recognition of related parties.

- *Insurance transparency*. We have adopted a regulation in February 2024 that requires auditors to confirm that insurers have acceptable assets and to assess their value for the 2023 financial year. We will also update the disclosure requirements for insurance and reinsurance brokers by end-December 2025.

56. In recognition of its important catalytic role in post-war economic recovery, we will take steps to enhance credit and financial market infrastructure:

- *Capital market infrastructure.* Mechanisms are needed for foreign investors to directly access marketable debt instruments beyond government securities. The NBU, NSSMC and MOF in consultation with IMF and other IFIs will propose priority actions for enhancing the capital market infrastructure by end-April 2024.

- *War risk insurance system*. The NBU, together with the Ministry of Economy and Ministry of Finance, will prepare an initial draft law establishing a fully functional war insurance system by end-June 2024.

- *Credit conditions*. The NBU in consultation with key stakeholders will prepare a comprehensive strategy to support development of lending, that will incorporate the 5-7-9 program amendments approved by the government (according to the concept note as envisaged in ¶31 herein) with due regard to financial stability and fiscal risks, by end-May 2024.

- *Responsible consumer lending*. To strengthen borrowers' rights, improve information exchange, and encourage responsible lending, we submitted to parliament in February a draft law on improving state regulation and the functioning of credit bureaus. We will take the necessary steps to facilitate the adoption of the law by Parliament by end-September 2024. We will also enhance the supervision of credit bureaus by establishing requirements for ownership and internal controls within six months of the law being adopted by the parliament and signed by the President.

- *Monetary derivative instruments*. To hedge foreign exchange and interest rate risks and improve monetary transmission, the NBU in consultation with IFIs will prepare a concept note by end-July 2024 that will set out the steps, conditions and timing needed to introduce and develop the derivative financial instruments (including forwards) market.

57. 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 Anti-Corruption

Governance of Reconstruction

58. Our strategy for post-war reconstruction will meet the highest standards of transparency and accountability. In coordination with international partners, we plan to take full advantage of digital technologies in implementation of the full cycle of public investment projects, providing timely information to transparently track and analyze related projects throughout the whole project cycle from planning to implementation, including procurement processes and expenditures. We will achieve this through developing a single digital ecosystem for PIM based on the updated Ministry of Economy's Prozorro digital procurement system, the Ministry of Finance's IT systems for planning and execution monitoring of state and local budgets and IFI projects, the

Ministry of Infrastructure's Digital Restoration EcoSystem for Accountable Management (DREAM) and other relevant systems and registries. 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. Our 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. In line with their memorandum of understanding, the NABU and the State Agency for Restoration and Development will continue cooperation efforts and exchange of information to prevent and detect corruption. We will undertake efforts to enhance the institutional independence and effectiveness of key audit institutions, the Accounting Chamber and State Audit Service, to ensure that public funds, particularly for reconstruction and recovery, are used for their intended purposes and any misappropriation is prevented or detected.

Anti-Corruption and Rule of Law

59. Our reform agenda on anti-corruption aims at effectively combatting corruption, sustaining public confidence in the rule of law, 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. To support transparency and accountability during the war and afterwards, we have restored public access to asset declarations of key public officials. The National Agency for Corruption Prevention (NACP) made publicly accessible previous asset declarations in January 2024.

61. [1] Efforts by the NACP to effectively monitor and verify the completeness and accuracy of these declarations (particularly, those that were acquired during the war and beneficially owned by them and their family members) are ongoing. Following the expiration of the term of the head, the open and competitive selection for the new NACP Head was completed in February 2024.

62. We remain committed to strengthening the effectiveness of anti-corruption institutions.

- On December 8, legislation was enacted that: a) improves the selection procedures of the SAPO head and key officials with a crucial role and decisive vote of independent experts with international experience; (b) strengthens its capacity to regulate its organizational activities including its designation as a separate legal entity within the Prosecutor General's Office; (c) establishes mechanisms for discipline and accountability of SAPO leadership, including performance evaluation and a periodic external audit conducted by independent experts with

[1] Publicly accessible here: https://public.nazk.gov.ua.

international experience in anti-corruption law enforcement; and (d) enhances its procedural autonomy in prosecuting corruption cases via amendments to the criminal procedural code such as extending periods for investigations, and settling disputes of investigative jurisdiction involving the NABU as well as carrying out joint investigations (*Structural Benchmark met*). To strengthen effective procedures for corruption investigations, further amendments to the Criminal Procedural Code will be enacted by end-June 2024, including to enable the Prosecutor General to delegate to the SAPO the management of extraditions and mutual legal assistance requests in relation to corruption investigations, and enhance the reasonableness and effectiveness of the time limits of pre-trial investigation after notice of suspicion.

- As provided for in the law, the external audit of the NABU's effectiveness with participation of three independent experts with international experience will be completed and its report published (***Structural Benchmark,* end-September 2024**). The Cabinet of Ministers is preparing to issue the decision to initiate the selection and nomination of independent experts. To effectively implement the law empowering the NABU to intercept communications (wiretapping), we will develop a plan for implementation in the post-Martial Law period to provide resources, equipment and technological solutions for the NABU to independently intercept communications of landlines and mobile devices. Discussions between the NABU and law enforcement agencies are ongoing on the development of the implementation plan. Consistent with our broader reform plans for the forensic expert system for criminal law enforcement, we will ensure that the NABU by end-October 2024 has access to independent and competent forensic experts, to enable it to effectively conduct its investigative mandate, including investigating complex corruption schemes.

- We initiated the process for nominating and appointing new members of the Public Council of International Experts, which will vet candidates to the 24 new vacancies to the High Anti-Corruption Court (HACC) both at the first instance (15 vacancies) and appellate (9 vacancies) levels. We will ensure the open and competitive selection for these new vacancies and adequately provision for their staffing and office needs. Final appointments to the HACC will be completed by end-July. To enhance its efficiency and facilitate hearings, amendments to the procedural code will be enacted to rationalize matters or issues to be heard at the first instance by one HACC judge or by a panel of three HACC judges **(*Structural Benchmark,* end-March, proposed to be reset to end-April 2024)**.

63. The NBU is ensuring that risk-based implementation of AML tools helps prevent, detect and deter the laundering of proceeds of corruption. Following the legal amendments to the definition of politically exposed persons (PEPs), the NBU is proceeding to conduct a thematic inspection of the selected financial institutions' compliance with enhanced customer due diligence on PEPs by end-June 2024. By end-August 2024, the NBU with IMF capacity development support will issue guidance for financial institutions and other covered non-bank institutions, consistent with the FATF standards, on the application of a risk-based approach regarding PEPs, which will include relevant case examples. In this regard, we are committed to invest in building the capacity of new and existing NBU staff to improve organizational performance, remain flexible and respond rapidly to changes and challenges in the AML/CFT framework. 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.

64. We are committed to advancing the rule of law and judicial reforms. The Advisory Group of Experts has been constituted and is proceeding with the open competition for the vacancies for the Constitutional Court judges. Following the dissolution of the Kyiv District Administrative Court in December 2022, we will enact a law to establish the High Administrative Court of Ukraine (with first instance and appellate chambers) that will hear administrative cases against national state agencies (e.g., NBU, NABU, NACP) by judges who have been properly vetted for professional competence and integrity with decisive and crucial vote of independent experts with international experience in the Public Council of International Experts (***Structural Benchmark,*** **end-July 2024**).

Corporate Governance in SOBs and SOEs

65. We will continue to strengthen the governance of state-owned banks (SOBs). We remain committed to upholding 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. The NBU is currently 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 performance assessments for all SOBs in 2024. The first such performance assessment will be conducted for each of the banks in early 2025. In August 2025, the MOF will publish the key findings of its first annual assessment, together with the CMU's proposed actions to address the findings.

66. We are committed to strengthen corporate governance in SOEs.

- A draft law (#5593-D) bringing the SOE corporate governance framework broadly into line with OECD Guidelines on Corporate Governance of SOEs and to mitigate fiscal risks, was adopted on February 22. This reform, inter alia, aims to establish a regular independent evaluation procedure of SOE supervisory boards and clear criteria for early supervisory board dismissal. Overall, it will strengthen the accountability and broaden the powers of supervisory boards, so they have the ultimate authority to appoint and dismiss CEOs and set CEO remuneration (based on the state's remuneration policy). From a budget financing and PFM perspective to limit quasi-fiscal risks and safeguard debt sustainability, we will ensure a strong gatekeeper role of the MOF in its relationship with SOEs on financial predictability, reporting, transparency, and accountability, including approving the key financial metrics in the financial plans for natural monopolies and strategic SOEs, while the supervisory boards will be responsible to approve the financial plans. During Martial Law and 12 months thereafter—but not for a period of more than 3 years—a minimum level of SOE dividends will be set in #5593-D. Once the draft Law #5593-D has been adopted, we will follow up with new secondary legislation that will implement this law such as the operationalization of SOEs' financial planning process, including financial indicators that are consistent with the gatekeeper role of the MOF. This will also include a revamped nomination process and effective independent evaluation procedure for SOE supervisory boards, consistent with OECD standards. The legal framework established by #5593-D shall not be applicable to state-owned banks.

- We remain strongly committed to energy corporate governance reforms, including to ensure an independent evaluation of the GTSO supervisory board one year after its appointment. We also commit to launch an independent evaluation of the supervisory boards of Naftogaz and Ukrenergo in early 2024 and to conclude it by end-October 2024.

67. We are exploring options, in close consultation with international partners, to strengthen SOE management through the existing SOE corporate governance reform agenda. Drawing on best practices and putting it into the context of the ongoing SOE corporate governance reforms, we will clearly define the scope and mandate of options for strengthening SOE management, such as centralized modes, including defining the roles and mandates of key government institutions engaged in management of SOEs, such as the MOF, MOE, CMU, and the State Property Fund (SPFU). To start with, we will adhere to the following SOE reform agenda (as discussed in ¶65) and policy sequencing in close consultation with international partners, which are all essential preconditions for strengthening SOE management, including: (i) passing the SOE corporate governance law; (ii) implementing related secondary legislation, including establishing a methodology for and subsequently conducting regular independent evaluations of SOE supervisory boards; (iii) as an interim step, assessing the financial conditions and fiscal risks of the SOEs in the state ownership policy by end-May 2024; and (iv) producing a comprehensive state ownership, dividend policy and privatization strategy ***(Structural Benchmark,* end-August, proposed to be reset to end-October 2024*)***. More broadly, we will also assess the financial viability of key SOEs as an input to developing a framework to deal with quasi-fiscal costs, including legacy Public Service Obligations (PSOs).

68. The SOE state ownership policy, which will serve as a critical input and pre-condition into the triage and privatization strategy of SOEs, will include the following important elements:

- Long-term priorities of SOE state ownership; SOE public policy objectives and rationales for SOEs in state ownership (subject to regular reviews); the state's role in the governance of SOEs and its implementation (including roles and responsibilities of involved government agencies); relationship between government agencies, the supervisory board and management.

- Criteria of financial viability of SOEs, financial assessment of SOEs (including contingent liabilities, debts and risks to public finances); critical gatekeeper role of Ministry of Finance to safeguard public finances and debt sustainability (via tracking financial viability of SOEs and fiscal risk analysis).

- Dividend policy (e.g., rationale, sectoral policy, impact on public finances, and post-war strategy) and remuneration policy for Board members and managers.

Energy Sector Reforms

69. Our immediate priority is to contain the adverse impact of the war on the energy sector. We remain strongly committed to implementing, once conditions allow, a timely and ambitious energy reform agenda to address long-standing structural problems in the energy sector that have been exacerbated by the war.

- We have been well prepared for the winter attacks, with no material impact on the energy supply. Overall, potential reform measures include gradual tariff increases (subject to a new tariff methodology and social considerations during the war), securing external financing, and providing transparent and exceptional direct budget support to energy SOEs pending available budgetary resources. Once the war winds down, the reform agenda in the energy sector will, inter alia, require restoring and enhancing competition in wholesale and retail gas markets. Furthermore, ensuring the sustainability of the system and reducing quasi-fiscal liabilities will necessitate a gradual increase in gas and electricity tariffs towards cost recovery while allocating adequate and well-targeted resources to protect vulnerable households. The CMU will adopt a Roadmap for the gradual liberalization of gas and electricity markets, with a time-bound implementation plan for the post Martial Law period. The Roadmap will be based on technical analysis of the financial condition of the sector.

- Restrained domestic consumption and growing domestic production limited the need for gas imports during the past heating season. For the next heating season in 2024/25, the authorities do not plan additional gas imports for domestic consumption, including due to Naftogaz's expanded production capacity, but up to 3 bcm of additional gas for storing by non-residents for EU country needs could occur under the baseline. Naftogaz has secured additional financing for gas imports through the EBRD and bilateral donors. If Naftogaz faces a liquidity shortfall, we will assess the amount of PSO compensation in 2024 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 2024. 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, the findings of the stock of arrears of District Heating Companies (DHCs) based on a desk audit (see below), available financing, and capped at UAH 60 billion (about 1 percent of GDP).

- The updated strategies of the GTSO and transmission industry appropriately reflect the new operating environment by seeking to rightsize the system and identifying alternative sources of gas supply. This will be critical for the GTSO to prepare financially and operationally for the zero transit scenario when the transit contract expires at end-2024. In particular, we will adopt draft law #6133 that allows for a special regime of operations for GTSO to reduce its operational expenditures and maintenance for non-critical gas transmission purposes.

- District Heating Companies (DHCs) have accumulated a significant stock of arrears to Naftogaz before and since the start of the war, which are a result of accumulated tariff differentials and the impact of the war. We will tackle this issue comprehensively once war-related pressures on the budget subside by developing a new tariff methodology. In the interim, we will establish the stock of arrears and financial condition of DHCs through a desk review, by a reputable audit firm, which will distinguish arrears before and after February 2022 (***Structural Benchmark**, end-June 2024). This will help clarify the stock of arrears and the financial situation of DHCs, including the drivers of the arrears' accumulation, ahead of the heating season in 2024/25.

H. Program Monitoring

70. Program implementation in 2024 will be monitored through quarterly reviews via 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 as detailed in the attached TMU. The complete schedule of reviews is presented in the companion staff report, and 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 fourth and fifth reviews are expected to take place on or after June 15, 2024, and September 1, 2024, respectively, based on quantitative performance criteria for end-March 2024 and end-June 2024, respectively, and corresponding structural benchmarks.

Table 1. Ukraine: Quantitative Performance Criteria and Indicative Targets

(end of period; billions of Ukrainian hryvnia, unless indicated otherwise)

	Dec 2023					Mar 2024		Jun 2024		Sep 2024		Dec 2024		Mar 2025
	QPC	Adjustor	Adjusted QPC	Actual	Status	QPC	Proposed Rev. QPC	IT	Proposed QPC	IT	Proposed Rev. IT	IT	Proposed Rev. 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/ 3/	105,000	0	105,000	380,542	Met	140,715	135,000	257,184	250,000	368,313	368,313	415,410	415,410	330,000
Floor on tax revenues (excluding Social Security Contributions)	1,653,992	...	1,653,992	1,650,424	Not Met	426,300	426,300	880,400	880,400	1,398,600	1,398,600	2,042,250	2,042,250	485,000
Ceiling on publicly guaranteed debt 4/	37,000	20,538	57,538	40,258	Met	47,900	47,900	47,900	47,900	47,900	47,900	47,900	47,900	53,626
Floor on net international reserves (in millions of U.S. dollars) 5/	24,900	-3,211	21,689	28,244	Met	25,400	28,400	25,300	26,800	25,400	27,900	23,000	24,900	26,000
II. Indicative Targets 1/ 2/														
Floor on the cash balance of the general government, excluding budget support grants (- implies a deficit)	-1,744,668	0	-1,744,668	-1,717,172	Met	-344,485	-344,485	-725,996	-725,996	-1,123,107	-1,123,107	-1,557,208	-1,557,208	-215,000
Ceiling on general government arrears	2,000	...	2,000	1,556	Met	2,000	2,000	2,000	2,000	1,800	1,800	1,600	1,600	1,600
Floor on social spending	499,600	...	499,600	551,083	Met	130,000	130,000	262,500	262,500	390,000	390,000	537,800	537,800	135,000
Ceiling on general government borrowing from the NBU 6/ 7/	-704	49,296	48,592	-731	Met	-9,500	-9,500	-2,884	-2,884	-1,153	0	-704	0	-984
III. Continuous performance criterion 1/ 2/														
Ceiling on non-accumulation of new external debt payments arrears by the general government	0	...	0	0	Met	0	0	0	0	0	0	0	0	0
IV. Memorandum items														
External project financing (in millions of U.S. dollars)	894	...	...	548	...	127	476	413	861	832	1,200	1,496	1,497	326
External budget financing (in millions of U.S. dollars) 8/	40,956	...	...	37,745	...	8,521	9,267	17,367	16,825	26,548	25,654	31,565	32,414	5,183
Budget support grants (in millions of U.S. dollars)	14,909	...	...	11,620	...	3,103	1,017	5,937	4,942	8,770	10,474	8,770	12,082	1,735
Budget support loans (in millions of U.S. dollars) 8/	26,048	...	...	26,125	...	5,417	8,250	11,430	11,883	17,778	15,180	22,795	20,332	3,447
Interest payments	260,218	...	...	253,914	...	49,500	49,500	161,780	161,780	284,320	284,320	429,820	429,820	117,831
NBU profit transfers to the government	71,868	...	...	71,868	...	0	30,000	17,700	38,000	17,700	38,000	17,700	38,000	0
Government bonds for the purposes of bank recapitalization and DGF financing	0	...	...	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	25,800	...	...	15,330	...	0	0	0	0	0	0	2,370	23,743	0
Spending on gas purchases, PSO compensation and transfer to GTSO	60,000	...	...	0	...	0	0	0	0	60,000	60,000	60,000	60,000	0
Cash balance of the general government, excluding budget support grants, treasury report at current exchange rates (- implies a deficit; in billions of Ukrainian hryvnia)	...	...	...	-1,706.7	...	...	-262.4	...	-671.7	...	-1,046.6	...	-1,562.1	-212.2

Sources: Ukranian authorities and IMF staff estimates and projections.

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

2/ Targets and projections for 2023, 2024, and 2025 are cumulative flows from January 1, 2023, 2024, and 2025, respectively.

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

4/ Starting in June 2023, the ceiling on government guarantees was converted into a periodic quantitative performance criterion.

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

6/ From end of previous quarter.

7/ Calculated using the projected redemption of government bonds as of February 21, 2024.

8/ Excludes prospective IMF disbursements under the EFF.

Table 2. Ukraine: Structural Benchmarks (modified SBs in bold text; purple indicates new timing)

	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	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	Met
7	Adopt the draft law on tax policy and administration prepared under the PMB	Fiscal	End-July 2023	Not Met (implemented with delay)
8	Transfer the GTSO shareholding directly to the Ministry of Energy and adopt the new charter	Energy/ Corporate Governance	End-July 2023	Not Met (implemented with delay)
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	Not Met (implemented with delay)
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	Met
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	Met
12	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	Not Met (implemented with delay)

Table 2. Ukraine: Structural Benchmarks (continued)

	Structural Benchmark	Sector	Timing	Status
13	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	Met
14	MOF, with STS and SCS, to prepare an action plan, including short-term and medium-term measures covering key reform areas identified by the upcoming diagnostic, that would feed into broader NRS.	Fiscal	End-October 2023	Met
15	Update and publish the Medium-Term Debt Management Strategy to align it with the program objectives	Fiscal	End-October 2023	Met
16	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	Met
17	Select and appoint a supervisory board for the GTSO	Energy/ Corporate Governance	End-October 2023	Met
18	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	Met

Table 2. Ukraine: Table of Structural Benchmarks (continued)

	Structural Benchmark	Sector	Timing	Status
19	Adopt the National Revenue Strategy	Fiscal	End-December 2023	**Met**
20	Adopt legislation to enhance the institutional autonomy and effectiveness of the SAPO by being designated as a separate legal entity, and specifically, on the selection procedures, capacity to regulate organizational activities, mechanisms for discipline and accountability, and autonomy under the criminal procedural code	Governance/ Anti-Corruption	End-December 2023	**Met**
21	Based on findings of the revenue working group, prepare short-term revenue measures (tax and non-tax) with yields of at least 0.5 percent of GDP ready to be included in budget 2024	Fiscal	End-February 2024	**Met**
22	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-March 2024	
23	Adopt a new law (consistent with ¶27 of the MEFP) on the ESBU that has a clear mandate and scope for investigative powers consistent with good practice by focusing on major economic crimes; establishing legal basis for operation of the ESBU in terms of the selection of management and staff. The law will respect the existing delineation between the investigative powers of the ESBU and the National Anti-corruption Bureau of Ukraine (NABU).	Fiscal	End-June 2024	
24	Prepare an assessment of the effectiveness of tax privileges, including their cost to the budget, in order to have a unified reform approach	Fiscal	End-July 2024	
25	With the help of IMF TA, produce a diagnostic review of pre-war MTBF policies and practices relative to best practices.	Fiscal	End-October 2024	
26	Identify major public companies severely affected by the war and prepare a review of potential fiscal and quasi-fiscal costs	Fiscal	End-September 2024	
27	Based on the outcomes of a roadmap on development of PIM procedures, adopt a government decree with an action plan and timeline that provides clear linkages between MTBF and capital expenditures, including reconstruction priorities, and specifying the gatekeeper role of the MOF.	Fiscal	End-December 2024	
28	**All systemic banks with majority state ownership will fall under the responsibility of the MOF, and any non-systemic banks that come under state ownership will not be recapitalized using fiscal resources and will be transferred to the DGF for resolution upon breach of prudential requirements.**	Financial Sector	Continuous	***Modify***

Table 2. Ukraine: Table of Structural Benchmarks (concluded)

	Structural Benchmark	Sector	Timing	Status
29	Prepare a bank rehabilitation framework in consultation with the DGF and IMF staff	Financial Sector	End-December 2024	
30	**Implement a supervisory risk assessment methodology to inform supervisory engagement priorities**	Financial Sector	***End-December 2024***	***Reset (from end-June)***
31	Determine the stock of arrears and assess financial conditions of District Heating Companies (DHCs) through a desk review by a reputable audit firm, including by separating arrears until and after February 2022.	Energy	End-June 2024	
32	**Enact amendments to the procedural code to rationalize matters or issues to be heard at the first instance by one anti-corruption judge or by a panel of three anti-corruption judges.**	Governance/ Anti-Corruption	***End-April 2024***	***Reset (from end-March)***
33	Enact a law to establish a new court that will hear administrative cases against national state agencies (e.g., NBU, NABU, NACP) by judges who have been properly vetted for professional competence and integrity.	Governance/ Anti-Corruption	End-July 2024	
34	Complete an external audit of the National Anti-Corruption Bureau of Ukraine's effectiveness with participation of three independent experts with international experience and publish its report.	Governance/ Anti-Corruption	End-September 2024	
35	**Produce a SOE state ownership policy, dividend policy and privatization strategy**	SOE Corporate Governance	***End-October 2024***	***Reset (from end-August)***