Appendix I. Letter of Intent

31066/0/2-23 від 01.12.2023

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

December 1, 2023

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, and essential services delivery. Through this hardship, our people continue to show courage, determination, and resilience while macroeconomic, financial, and external stability has been preserved. Our strong performance thus far under the Extended Fund Facility (EFF) has clearly demonstrated our capacity to implement sound economic policies despite these challenging circumstances. Approval of the IMF-supported arrangement, together with significant official financing assurances, provided a crucial financing envelope of US$122 billion over the program period. Nevertheless, we continue to face major risks amid the exceptionally high uncertainty due to the war.

2. The goal of our IMF-supported program remains to restore fiscal and achieve debt sustainability on a forward-looking basis as well as medium-term external viability, while also promoting long-term growth in the context of post-war reconstruction and our process of accession to the European Union. The program is designed to resolve our balance of payments problems and restore medium-term external viability not only in the baseline scenario but also under a downside scenario. We remain committed to ambitious reforms and strong policy implementation with a view 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 the authorities of Ukraine will undertake, supported by the IMF and other international partners.

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

second phase, we will further deepen our structural reform agenda and implement additional macroeconomic policy reforms to restore medium-term external viability, support reconstruction and promote strong long-term growth, and accelerate our progress toward EU accession. 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. In line with the NBU Strategy, we have begun the process of reverting to our pre-war monetary policy framework, including eventually inflation targeting as conditions allow. To that end, we recently transitioned smoothly to a managed exchange rate flexibility regime. We also plan, in line with the Strategy, to carefully adjust FX controls to support the economic recovery, while maintaining FX market stability and addressing national and international security considerations.

5. For this second review under the EFF, we met all end-June 2023 quantitative performance criteria (QPCs) and indicative targets (ITs). We also achieved all indicative targets for end-September 2023. Despite this positive performance, the outturns of several macroeconomic variables that we used to project taxes have diverged from our expectations, and actual tax collections at the local government level will rise by less than we had assumed. Recent blockages along western border crossings will also weigh on our tax collections. For these reasons, we are requesting a modification of the end-December QPC on tax revenues excluding social security contributions. We are also requesting modifications to tighten the end-December floor on the non-defense primary balance excluding grants and the end-December floor on net international reserves in order to lock in the better-than-expected outturns so far this year.

6. Against the highly difficult backdrop, we have implemented or are in the process of implementing key reforms under the program. Specifically, we met most structural benchmarks (7 of 12) for July–October 2023 on time (as shown in Table 2 of the MEFP). Despite our best efforts, implementation of four reform initiatives under the structural benchmarks has taken longer than we expected: (i) adopting the draft law on tax policy and administration prepared under the PMB, which contained major reforms to restore the pre-war framework for single tax and cash registers, but omitted the restoration of tax audits, which has also now been addressed through the recent adoption of additional legislation for this purpose; (ii) transferring the GTSO shareholding directly to the Ministry of Energy and adopting the new charter, which has since been implemented in September-October 2023; (iii) adopting a law to restore the obligation of public officials to submit asset declarations, which was completed in September 2023, after the end-July due date; and (iv) amending the AML/CFT Law to re-establish enhanced due diligence measures on politically exposed persons, which was also met with a delay. We request to reset, from end-September 2023 to end-March 2024, the structural benchmark on developing a concept note on the 5-7-9 program. Looking ahead, we also request to reset, from end-March 2024 to end-December 2024, the structural benchmark on preparing a bank rehabilitation framework due to the positive findings of the NBU's resilience assessment and to allow for a more comprehensive upgrade of financial safety nets. We

also request to modify the structural benchmark on SAPO (end-December 2023) to include additional elements to strengthen its institutional autonomy.

7. Going forward, we will continue implementing wide-ranging reforms, and as a demonstration of this commitment we propose 1 continuous structural benchmark and 11 new structural benchmarks falling due between end-December 2023 and end-December 2024. We remain fully committed to mobilizing tax revenues, as will be laid out in the National Revenue Strategy, to meet our budget needs, reduce reliance on external financing, and help restore debt sustainability.

8. Our international partners have assured us of their continued support to help ensure that debt sustainability is restored, and the program is fully financed. We publicly announced on March 24, 2023, our intention to undertake a debt treatment of our external public debt with the purpose of restoring public debt sustainability on a forward-looking basis. Our plan remains to start negotiations with bond holders in early 2024 with the objective of completing the needed operations no later than mid-2024, while a group of official creditors have committed to a two-step process for a debt treatment.

9. We retain a number of measures that constitute exchange restrictions for reasons of national or international security. We have notified these measures to the Fund for approval under Decision 144. We also retain three multiple currency practices (MCPs) under Article VIII, Section 3 for which we are requesting approval, and we are also requesting a waiver of nonobservance of the continuous PC on not introducing or modifying multiple currency practices. We will gradually remove such measures as circumstances normalize, in consultation with IMF staff.

10. Based on our successful implementation of the program targets for end-June 2023 and end-September 2023, our implementation of structural benchmarks over July-October 2023, as well as our policy commitments for the period ahead, we request completion of the second review, and a disbursement in the amount of SDR 663.90 million (33 percent of quota). A memorandum of understanding between the National Bank of Ukraine (NBU) and the Ministry of Finance (MoF) 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.

11. 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.

12. 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).

13. In line with our commitment to transparency, we consent to the IMF's publication of this letter, the MEFP, the TMU, and the accompanying Executive Board documents.

Sincerely yours,

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

Attachment I. Memorandum of Economic and Financial Policies

December 1, 2023

I. Background, Recent Economic Developments, and Outlook

Context

1. **Russia's unprovoked, illegal and unjustified invasion of our country continues to bring enormous human, social, and economic costs.** Civilian casualties keep rising, around a quarter of the population has been displaced, and devastating attacks on infrastructure and missile strikes countrywide continue. The termination by Russia of the Black Sea Grain Initiative and continued assault on ports has cut off a critical lifeline for Ukrainian grains to reach global markets. 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 have sustained strong performance under the program.** The approval of the EFF arrangement in March helped mobilize an external financing package, now totaling US$122 billion over the program period, from our international partners and donors. In these very difficult times, the program has helped infuse greater predictability into our macroeconomic management and remains an anchor for our economic policies. We remain highly committed to our program objectives; delivering on major components of the program thus far is a testament to this.

3. **Even as the war continues, we are initiating priority recovery and reconstruction projects to meet the essential needs of our population.** While updates for rapid damage needs assessment (RDNA) by the World Bank are expected around February 2024, the earlier estimate of the long-term reconstruction needs as of February 24, 2023, amount to a staggering US$411 billion. Every day of the war raises these costs. Our population faces urgent reconstruction needs, including those related to the restoration of energy, housing, critical and social infrastructure, basic services for the most vulnerable, and private sector development. It is time to begin rebuilding to help meet the basic needs of our people, encourage the return of those who fled the country, and lay the foundations for a quick and robust recovery.

4. **Efforts to achieve our strategic goal of EU accession will reinforce the drivers of long-term growth and stability.** On November 8, 2023, the European Commission recommended to open accession negotiations. The €50 billion Ukraine Facility for 2024–27 will be critical to support Ukraine's budgetary needs, recovery, reconstruction, and modernization. Reforms to achieve 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. This will facilitate reconstruction efforts, in line with the European green and digital agenda. 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

5. The economic recovery in 2023 has been stronger than projected, and we expect the recovery to be sustained in 2024 albeit at a somewhat slower rate.

- Following a decline in output of about 29 percent in 2022, and despite continuous attacks on infrastructure, economic activity in 2023 has been more resilient than expected. The sequential economic recovery has been strong as households and firms adapted to the war circumstances and high war-related expenditures have supported demand. In particular, economic activity in the first half of 2023 rebounded strongly, and 2023Q3 activity indicators point to a sustained expansion, as supply routes have improved, production and economic activity expanded (including from defense industry, construction and a strong harvest). FX markets remained stable, and the disinflationary trend continued. Moreover, the labor market has seen signs of stabilization amid lower net migrant outflows.

- Despite some potential headwinds in the winter, and through 2024, activity is expected to remain solid in 2024 given continued growth in non-combat areas, under the assumption of available supply routes for exports, as well as no further escalation of the war. A strong growth in 2023 could set the stage for a continuing recovery through 2024, though with growth somewhat tempered compared with 2023; given the uncertainty, we project annual growth for 2023 around 4 to 5 percent and 3 to 5 percent growth for 2024. The pace of the recovery will be determined by the degree to which the prevailing high uncertainty weighs on private investment, and the pace of return of migrants, 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 5.3 percent y/y in October, reflecting the rapid recovery of the energy system after attacks to the critical energy infrastructure, favorable FX market conditions, better supply of food (including from the closure of the grain corridor and the strong harvest) and fuel, the tight monetary policy as well as improving inflation expectations. While household electricity tariffs increased by 60 percent from June, the impact on inflation is minor due to a low base. In view of the continuing inflation trends, and the effects of the NBU's monetary policy, we expect inflation to reach around 6 percent y/y by end-2023 and slightly below 10 percent y/y by end-2024.

- The current account balance is expected to deteriorate and become negative in 2023, following a surplus of US$8 billion in 2022. This reflects a widening trade deficit, on account of increased imports from the stronger growth outlook but still subdued recovery in 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 are significant contributors to this. Going forward, exports could be supported by increased transportation capacity through alternative routes, including via Danube ports and efforts to develop export licenses with EU neighbors, as well as the better-than-expected 2023/24 harvest. The services balance is expected to remain negative in 2023 on continuing withdrawals and card payments by Ukrainian migrants abroad, though the net outflow of migrants is expected to be close to zero. Continued strong external financing inflows are expected to strengthen gross international reserves, estimated to reach US$39.5 billion by end-2023 under the baseline scenario, equivalent to 5.1 months of prospective imports, which will provide a strong cushion for shocks.

- Conditions in the FX market have remained stable, thanks to continued external inflows and efforts by the NBU to support the cash market. The spread between the official and cash rates remained low in the 3-5 percent for most of the year, including through the transition to managed flexibility of the exchange rate, and despite seasonal pressures toward the end of the year.

6. **The economy could rebound more quickly, particularly if the security situation improves sooner than expected.** Several factors could support a stronger recovery, primarily from a decline in security risks that enables a 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 improved access to seaports. Specifically, this may include the new corridor along the coasts of our neighboring countries in the Black Sea, 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.

7. **In spite of the improved near-term indicators, risks to the outlook remain tilted to the downside, amid exceptionally high uncertainty.** Security risks could persist for longer than expected, weighing on firm and household sentiment, and dampening the pace of return by migrants. Export transit routes could be further interrupted, there could be further damage to energy infrastructure or continuing power outages, or supply chain disruptions (including due to the war or logistics disruption on the western border) could worsen, weighing on production costs and firm profitability. Insufficient or delayed donor support could also exacerbate financing constraints, requiring difficult policy trade-offs. Moreover, the need for much higher domestic financing may

become difficult to mobilize. A prolonged war would continue to put pressures on our fiscal position, and fiscal and external financing gaps could widen substantially.

II. Macroeconomic and Structural Policies for 2023–27

A. Overview

8. The ultimate goal of the Ukrainian government's economic program—supported by the IMF—is to restore fiscal and debt sustainability, while promoting long-term growth in the context of post-war reconstruction and our path to EU accession. Given the large uncertainty, our economic program entails a two-phased approach.

- In the first phase, our primary focus will be to maintain macroeconomic, external, and financial stability, in order to strengthen Ukraine's capacity on its way to victory. Our program involves policies to ensure a robust budget over the remainder of this year and in 2024 coupled with a medium-term fiscal framework that would anchor fiscal policy and the assessment of financing gaps. The recent move to a managed flexibility of the exchange rate will strengthen the resilience of the Ukrainian economy and FX market, promote better adaptation to domestic and external shocks, and reduce the risks of accumulating FX imbalances that could be generated by prolonged maintenance of the exchange rate peg. At the same time, we will implement measures to prepare the ground for Ukraine's post-war growth, including in fiscal structural areas, financial sector, monetary and exchange rate policies, governance, anti-corruption, and the energy sector; we have already made good progress in difficult reform areas. Social spending will be safeguarded to the extent possible, also recognizing the large-scale humanitarian support from UN agencies and NGOs. Given the resilience of the economy as well as accumulated buffers, we will build on our recent track record and implement further crucial reforms in 2024 prior to the end of the war, including in the fiscal structural, anti-corruption and energy/ corporate governance areas.

- 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, including completing the transition toward an inflation targeting regime. To help lay the foundations for post-war growth, we will advance reform initiatives to enhance productivity and competitiveness, including in the energy sector. Progress toward EU accession will be a major anchor for our policies.

9. We acknowledge IMF staff analysis on an updated downside scenario, and we are fully committed to taking all necessary measures to ensure program success and a stable economy.

- Since the start of the war, we have repeatedly and decisively taken measures to respond to shocks as they have materialized, carefully balancing the need for a prompt and effective response with material social considerations. In 2022, we systematically streamlined capital expenditure and other lower priority expenditure items, and also identified additional financing. Building on this track record, we would respond decisively to a potential downside scenario, to ensure that public institutions function effectively while taking measures as needed to preserve economic and financial stability, and also maintain debt sustainability on a forward-looking basis. Under the downside scenario, as illustrated in IMF staff analysis, we stand ready to take feasible fiscal measures, including identifying tax policy measures that can be effectively and rapidly implemented or spending that could be deferred pending the receipt of additional external grants or concessional support. In parallel, we will also identify additional domestic financing as needed to ensure that financing gaps are closed, without compromising economic and financial stability or debt sustainability. We also stand ready to deploy our foreign reserves to maintain FX market stability in case of need. These are difficult balancing acts, and we welcome the fact that our partners stand ready to provide additional financial resources sufficient to close financing gaps and preserve debt sustainability; we are committed to play our part to ensure the burden of adjustment is shared.

- We are equally focused on 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.

B. Fiscal Policy

Fiscal Policies for the Rest of 2023

10. Our fiscal policies in 2023 have focused on ensuring adequate resources for core spending priorities while safeguarding fiscal and debt sustainability. Given the war-related uncertainty, we remain committed to taking all necessary measures to ringfence additional pressures and risks related to the budget for the rest of 2023. We will also continue to refrain from any tax policy and administrative measures that may erode the tax revenue base in 2023 and beyond, while taking measures that support post-war reconstruction and EU accession. On the spending side, we will only revise spending categories in consultation with IMF staff and with identified financing sources.

11. Reflecting our steadfast commitment to the program, we have met the fiscal targets for June and September 2023. In particular:

- The non-defense cash primary balance excluding grants was UAH 278.9 billion at end-June, substantially exceeding the program's floor of UAH 213.0 billion (***Quantitative Performance Criterion***). As of September, this indicator was UAH 404.9 billion, comfortably exceeding the program's indicative target (UAH 242.9 billion). This result reflected prudent control over non-defense spending, and strong tax performance. To lock in the strong performance so far this year, we request a modification of the floor on the non-defense cash primary balance excluding grants for end-December to UAH 105.0 billion.

- Reflecting our determined actions, the end-June Indicative Target on the overall balance excluding grants was UAH -660.3 billion, well above the floor of UAH -730 billion. This strong performance continued through end-September, with the indicative target amounting to UAH -1,027.5 billion against the floor of UAH -1,141.1 billion.

- Tax revenues (excluding social security contributions) of UAH 748.0 billion comfortably exceeded the end-June target of UAH 696.4 billion (***Quantitative Performance Criterion***). Strong tax collections continued through end-September, with the indicative target amounting to UAH 1,187.7 billion against the floor of UAH 1,094.7 billion. In line with the resilient economy, there has been solid growth of receipts of personal income taxes, corporate profit taxes, and taxes on goods and services. While our resolute efforts helped us achieve the target for this review, certain macroeconomic parameters used to project tax revenues (e.g., wage growth, gas prices, and the exchange rate) have deviated from our projections. This has led to underperformance in several tax categories on the local government level, and tax revenues for the fourth quarter of 2023 will likely fall short of our expectations. Recent blockages at border crossings on the western border may also affect our import-related tax collections. We therefore request a modification of the end-December 2023 floor on tax revenues QPC to be set at UAH 1,654.0 billion.

- The indicative target on the accumulation of overdue accounts payable (domestic arrears) was UAH 1.62 billion in June, below the ceiling of UAH 4.5 billion, and UAH 1.69 billion in September, below the ceiling of UAH 3.0 billion.

- As regards the ceiling of publicly guaranteed debt (Quantitative Performance Criterion), issuance amounted to UAH 17.7 billion through June, consistent with the adjusted ceiling of UAH 48.9 billion. The end-September indicative target was UAH 19.6 billion, against the adjusted target of UAH 48.9 billion.

- Social spending was UAH 276.1 billion at end-June, UAH 27.1 billion above the Indicative Target of UAH 249 billion. Social spending at end-September continued to exceed the indicative target, with an outturn of UAH 402.6 billion against the floor of UAH 359.6 billion. The elevated levels of social expenditures correspond to the need to provide adequate protection for vulnerable layers of the population, including people affected by the consequences of the war.

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

13. **We remain committed to achieving much needed revenue mobilization.** The adoption of Law No. 8401 in July 2023 was an important recent step. It reinstated the pre-war setup for taxpayers who moved from the universal tax regime (e.g., paying PIT, CIT, VAT) to the single tax, with effect from August 2023. It also reintroduced enforcement of the use of cash registers in retail outlets, including restoring liability for violations. The adopted law only canceled the moratoria on tax audits for a limited set of taxpayers. However, we are determined to fully reinstate tax audits, and legislation to this effect was adopted by parliament on November 8 (¶17). These reforms build on our earlier efforts to cancel deferrals on customs duties from March 1, 2023, and remaining deferrals on import duties as of June 1, 2023. Moreover, we will not extend the Tax Code provisions introduced during Martial Law that relaxed the administration of taxes and fees. We will also refrain from introducing tax amnesties for the duration of the program, or from introducing any tax measures which would jeopardize our tax base. Furthermore, any measures that are needed to support imports related to national defense and security will be targeted, timebound, controlled, and subject to oversight.

14. **On October 6, 2023, we adopted a supplementary budget for 2023 reflecting the greater-than-expected expenditure needs triggered by the war**. Specifically, the supplementary budget authorizes additional essential expenditures (UAH 311.1 billion) on national defense and social protection. Additionally, an increased envelope for social protection will enhance support to the still-large number of internally displaced persons, who remain highly vulnerable. We will mobilize new funding from the local bond market to cover a large part of these new spending needs.

15. **With the supplementary budget, we now expect the 2023 general government fiscal deficit excluding external grants to reach UAH 1.88 trillion, or about 29.3 percent of GDP**. While the supplementary budget's higher expenditures have caused the deficit excluding grants to widen by UAH 208 billion (3.2 percentage points of GDP) since the First Review, it remains consistent with fiscal sustainability given the overall funding mix. The floor on the non-defense cash primary balance of the general government excluding grants (***Quantitative Performance Criterion***) and the floor on the overall cash primary balance of the general government excluding grants (***Indicative Target***) will continue to monitor our progress in this area. Moreover, the floor on state budget spending on social programs will help safeguard social spending (***Indicative Target***).

Fiscal Policies for 2024 and Beyond

16. **The budget for 2024 was approved by Parliament on November 9, 2023**. Despite the challenges posed by the war, we adhered to the budget preparation calendar. Moreover, we undertook preparatory work in consultation with Fund staff. The budget submitted for a second reading targets an overall deficit excluding external grants of UAH 1,562 billion. Within this deficit, the expenditure envelope envisages maintaining high defense-related expenditures to provide for national security. Expenditures in other areas are being contained, although we continue to allocate resources for an adequate social safety net to respond to the needs of war veterans and vulnerable layers of the population. Given the narrow non-defense expenditure envelope, we are determined to guard against spending pressures wherever possible. In this context, we will make sure that key spending units adhere to expenditure envelope limits consistent with the need for fiscal and debt sustainability. The deficit will continue to be largely financed by international donor support, but important contributions will come from the domestic market.

17. **For 2024, we are committed to take additional action to increase revenues to help meet priority expenditures**. To help ensure that fiscal needs can be met next year, we have taken several measures to increase revenues. We have reinstated the pre-war tax framework, including excises on fuel. We have also adopted a law to reinstate tax audits for all taxpayers from December 1st, 2023, except for taxpayers whose tax address is located in temporarily occupied territories and combat zones (¶13). The Budget for 2024 allocates personal income tax revenues between the state and local budgets to ensure adequate resources for critical expenditure programs implemented by different levels of the government, without jeopardizing the independence of local authorities. To address potential spending pressures, we stand ready to take additional domestic revenue measures to safeguard fiscal stability in extraordinary circumstances (¶22). Looking ahead, the National Revenue Strategy (NRS) will also be a critical input to identifying durable measures over the medium term.

18. **We are committed to safeguarding fiscal and debt sustainability over the medium-term, while ensuring adequate resources for priority needs, and our macro-fiscal policy settings and financing strategy will be aligned with those goals.** To this end, we plan to complete a treatment of external public debt that brings debt and gross financing needs back to manageable levels (¶40-42), implement a revenue-based fiscal adjustment over the coming years, and seek financing on concessional terms to the degree possible (¶19). We have already included budget projections with key revenue and expenditures categories for 2025-26 in Budget 2024. Our guiding principle was to keep the spending envelope within the available financing envelope, including tax revenue mobilization. To meet our post-war priority spending needs, the reform efforts in tax policy and administration measures will focus on mobilizing 3-4 percent of GDP in additional revenues during 2024-2027, as prescribed by National Revenue Strategy (NRS). A portion of this revenue mobilization, along with a reduction in defense expenditures, will be directed toward improving the fiscal balance as our contribution to restoring sustainability. We recognize that a substantial fiscal consolidation is needed, and will target a primary fiscal surplus consistent with debt sustainability. Conversely, some of the space opened up by the gradual reduction in defense

expenditures and domestic revenue mobilization will be directed to capital and social spending, including for reconstruction and newly emerging vulnerable groups in the population. Anchoring this path to reforms in the governance of public resources, public finance and investment management, and higher quality of public and social services would help maintain fiscal and debt sustainability while rebuilding the country and supporting growth and adequate social protection.

19. **We are also laying the groundwork to undertake critical recovery and reconstruction activities in a sustainable manner**. An update to the RDNA is expected to be published in February 2024. When published, this document will assess damages and identify priorities for recovery and reconstruction initiatives. To ensure that these activities are consistent with a return to fiscal and debt sustainability, we will carefully evaluate the financing mix and will need financing on highly concessional terms. 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, while maintaining fiscal stability and debt sustainability (see ¶33).

C. Fiscal Structural Reforms

20. **Our fiscal structural reforms will help anchor the medium-term fiscal path, maintain fiscal and debt sustainability, and lay the foundations for long-term growth.** Post war, as defense spending winds down, we will aim to channel these resources to spending for recovery and reconstruction as well as to the social safety net to address the post-war needs of society and vulnerable layers of the population. To ensure efficient use of the emerging fiscal space and also maintain debt sustainability, we will undertake substantial changes to pension and social safety nets. These changes will encompass comprehensive reforms in social policies, including improved targeting and means-testing mechanisms for social assistance, in line with our ongoing work with the WB and social policy concept note.

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

Short-term Revenue Mobilization Policies

22. **Recognizing the importance of financing the additional spending pressures through domestic revenue mobilization we are taking several steps that would complement the work**

on National Revenue Strategy (NRS) in the short-term and provide for adequate revenue sources should additional shocks occur. As an exceptional measure, we have adopted the law on taxation of banks' profits (temporary increase in corporate income tax on banks from 18 to 50 percent applied on net profit), which will generate about 0.3 percent of GDP to meet deficit financing needs during 2024. To align with international peers, we will increase banks' CIT from the current 18 to 25 percent for 2025 and subsequent fiscal years. The NRS will include a specific discussion on the principles of corporate excess profits taxation, including guidance on extraordinary circumstances when such taxes may apply. In addition, by December 11, we will establish a working group complementing NRS preparation to formulate a proposal with a package of short-term revenue measures (tax and non-tax) that would yield additional revenues of at least 0.5 percent of GDP in 2024 (***Proposed Structural Benchmark*, end-February 2024)**. These measures could be activated in 2024 should additional spending pressures materialize. We will request IMF TA in the preparation of this proposal.

National Revenue Strategy

23. The National Revenue Strategy (NRS) will remain the anchor for our tax policy and administration reforms allowing an increase in tax revenues by about 3.0-4.0 percent of GDP over the program period. We have already taken a number of steps on the road to adoption and execution of the NRS.

- In June, we finalized the NRS gap analysis with the help of IMF TA and identified priority reforms in specific tax categories which are being included in the NRS (2024-2030). Specifically, we are focusing on a set of tax categories where reforms will help to broaden the tax base starting with labor taxation/personal income taxation, corporate income taxation, and excise.

- We remain on track to adopt the NRS by end-2023 **(*Structural Benchmark*, end-December 2023)**. It will include: (i) measures to strengthen the state tax and customs services; (ii) a revised simplified tax regime to address the erosion of labor taxes by moving the legal basis for labor relations to civil law; (iii) alignment of VAT and excise duties with the EU acquis; (iv) steps to enhance corporate income taxation, (v) strengthening anti-corruption measures and governance procedures to address integrity risks; (vi) tax reforms that balance the need to ensure an adequate revenue base with the vital tasks of supporting EU accession, environmental reforms, and post-war reconstruction and recovery including much needed investments and industrial development. To ensure that the NRS is consistent with the MTRS toolkit and to make the case for ambitious revenue mobilization targets, we will build into the document broad objectives of our development goals (e.g., social, infrastructure). In addition, the NRS will include revenue mobilization targets with specific revenue gains from reforms of core tax categories**.** It will also cover medium-term/post-war tax reforms (e.g., the single tax regime), as well as risks and contingencies. Specifically, we will prepare an assessment of the effectiveness of tax privileges, including their cost to the budget, in order to have a unified reform approach **(*Proposed Structural Benchmark,* end-July 2024*)*.** Finally, the NRS will cover guidance for coordination among government agencies, donors, the private sector and civil society on tax policies and administration led by the MoF.

24. 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 have adopted an action plan to take on board the recommendations of the survey completed in November 2022. Moreover, in July 2023, the STS approved the list of measures to reduce tax arrears based on supporting analyses (overdue accounts payable) by distinguishing between arrears related to or caused by Russian military aggression and occupation of Ukrainian territories by Russia, and those that are not impacted directly or indirectly by the war. The STS will continue doing similar exercises periodically and will review the action plan to reduce tax arrears as we progress, and more analyses become available. As part of the NRS gap analysis, we have also identified critical areas of STS reform that feed into the NRS, including implementation of a compliance risk management framework, strengthening the integrity and trust in the STS, creating and implementing modern digital solutions in line with the IT Strategy of the MOF, as well as improving the organizational structure and staffing.

- ***State Customs Service (SCS*****).** Following the SCS diagnostics with the support of IMF TA in June 2023, we will continue focusing on key three reform areas critical for reducing corruption risks within customs administration. Specifically, we will adopt legislation that reinstates customs post-clearance audit effective March 1st, 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. 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.

- As part of the NRS, SCS and STS have prepared a comprehensive action plan that identifies short- and medium-term reform priorities (***Structural Benchmark,*** **end-October 2023**), drawing on the earlier action plan developed to address findings from the tax perception survey for STS. These two action plans are being included in the overall NRS ahead of end-December SB deadline. We will continue strengthening these action plans as we progress with the implementation of NRS.

25. Economic Security Bureau of Ukraine (ESBU). The importance of strengthening compliance controls and detecting 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 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; (iii) introduce a contract system for employees; and (iv) develop a mechanism of attestation of staff **(*Proposed Structural Benchmark,* end-June 2024).**

Restoring the Medium-term Budget Framework

26. We have taken several steps towards repealing provisions under Martial Law impeding policies that help anchor fiscal sustainability and budget predictability. These steps have included: (i) reinstatement of the Medium-Term Budget Framework (MTBF), medium-term debt strategy (MTDS) and a fiscal rule that ringfences risks from guarantees, (ii) reinstatement and strengthening of Article 52 of the Budget Code supporting budget credibility, and (iii) including contours of the 2025-2026 budget projections in the 2024 draft budget, and a fiscal risks statement including details on energy and critical infrastructure SOEs.

27. We will continue enhancing expenditure planning and the medium-term budget framework (MTBF). We recognize the close interlinkages between the MTBF and the NRS. As a step towards our commitment to fiscal sustainability and budget unity we will include in NRS a brief reference to development goals while justifying tax revenue mobilization goals. Meanwhile, we will continue work on restoring and strengthening the MTBF. With the help of IMF TA, we will produce a diagnostic review of pre-war MTBF policies and practices relative to best practices (***Proposed Structural Benchmark*, end-October 2024**). This exercise will help us identify key weaknesses and work towards strengthening strategic budgeting, leveraging bottom-up PFM processes to capture more detailed spending needs and costing of new public services. Based on this diagnostic review we will prepare proposals to strengthen medium-term budget planning, which will be reflected in the instructions for the formulation of the 2026-2028 Budget declaration and 2026 Budget.

Pensions and Social Spending

28. 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.** In August 2023, we adopted a government decree that enhances the targeting and means testing of benefits for Internally Displaced Persons (IDPs). The decree determines the eligibility and procedures for those who are qualified for the living allowance. We will work further to sharpen the objective, calculation formula, target coverage, budgetary implications and graduation conditions. Specifically, to improve targeting we plan to increase the income threshold for eligibility under the Guaranteed Minimum Income (GMI) program.

Fiscal Transparency and Risks

29. 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 will also 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.

- 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 (***Proposed Structural Benchmark,*** **end-September 2024**). We will request further IMF TA to support our work on this 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.

- With the help of IMF TA, the MoF will finalize the development of risk-based fees for guarantees and amend the existing decree.

- We 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**.**

30. Business Development Fund (BDF) and the 5-7-9 loan program. We will continue to monitor fiscal risks related to the 5-7-9 loan program. The concept note, currently under preparation, is designed to target the program on small and medium enterprises by phasing out the eligibility of large companies, and enhancing monitoring, and maintaining adequate safeguards. Due to the comprehensive nature of the initiative, additional time has been allocated for the concept note. Pending the concept note, the MOF has already initiated phasing out large company eligibility, with the draft regulation currently under approval by other governmental bodies. The

MOF, in collaboration with international partners, has also commissioned an independent assessment of the Business Development Fund and its support programs, with the goal of refining their operational design to effectively serve only those SMEs that encounter substantial barriers to funding. We have further clarified the roles of MOE and MOF, by assigning policy development and controlling and monitoring of spending to the MOF, which includes the return of the 5-7-9 loan program to MOF management. The MOF, in consultation with MOE, plans to release the draft by end-December 2023 and, in collaboration with the IMF, aims to complete this concept note by end-March 2024 (***Structural Benchmark,* proposed to be reset for end-March 2024**). More generally, we will continue working on strengthening the governance and financial self-sustainability of the Business Development Fund.

31. 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 and available resources in the Fund are expected to be exhausted by end 2023. Consequently, we are determined to strengthen the Fund's operational framework in such a way which would allow facilitating the government's rapid response to urgent recovery needs. In addition to being integrated in the treasury reporting, we will continue reporting the operations from this special fund consistent with a regular consolidated report summarizing the sources of financing and expenditure (according to their economic classification) in one report. We will continue working on a legal framework that would enable the use of sanctioned and confiscated Russian assets for the purpose of reconstruction and recovery. Strengthening of the regulatory and operational framework of this Fund may facilitate implementation of critical infrastructure projects before the war ends and prepare the grounds for a stronger post-war institutional setup.

- ***Special accounts.*** We have operationalized the new legal framework governing the integration of special accounts into the budget framework and started receiving treasury reporting for use of funds through these accounts. We will continue strengthening the transparency and accountability of these accounts, and will improve further reporting on the sources and usage of these funds, as well as the opening and closing balances. Moreover, we will undertake periodic audits of transactions reflected in special accounts.

Strengthening Public Investment Management

32. We are continuing to strengthen public investment management ahead of post-war reconstruction, building on EU4PFM and the World Bank's Public Investment Management Diagnostic Assessment Report 2022. Our overarching goal is to enhance the efficiency of public investment consistent with medium term budget and debt sustainability objectives. This should help channel resources towards projects that provide the greatest value for money while supporting recovery and growth. The recent World Bank report identifies numerous areas for improvement, which if addressed in the short run can become critical inputs into achieving more transparent and efficient public investment management (PIM). To this end, with the support of World Bank TA, we are reviewing the current PIM procedures, and are on track to develop a roadmap of measures (***Structural Benchmark*, end-December 2023**) so that: (i) all public investment projects follow unified PIM approaches, including PPPs; (ii) investment projects are selected on a competitive basis, with transparent selection criteria, and consistent with the medium-term budget framework; (iii) stronger powers are provided to the MoF, including a clear gatekeeping role during the different stages of the investment project cycle. To further strengthen the efficiency and transparency of public investment and avoid multiple procurement platforms, we have adapted the national e-procurement system to comply with international competitive bidding standards used by Multilateral Development Banks.

33. We will work to operationalize the roadmap developed under the SB (¶32), 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 (***Proposed Structural Benchmark,* end-December 2024**). It would establish clear institutional links between the MTBF 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 and 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 ¶27, ¶32, following the principles of budget unity, coherence, and predictability.

D. Financing Strategy

34. Timely external financing on appropriately concessional terms is an essential pillar of our financing strategy. We remain grateful for the timely disbursement of external financing by our international partners and donors thus far; in 2023, as of end-October, we have received external budget support disbursements of US$35.4 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 facilitate effective policy management and maintain economic and financial stability. Over the next 12 months of the IMF-supported program (December 2023–December 2024), firm financing assurances are in place thanks to large official, multilateral, and bilateral commitments. Looking beyond December 2024, key partners have assured us of their continued support, which provides good prospects for ensuring the program will remain fully financed over the program period.

35. We will also strengthen our efforts to further mobilize domestic financing to help meet our evolving fiscal financing needs, and in a mix that supports macroeconomic stability. Our fiscal financing needs during wartime continue to be large and volatile. We will continue mobilizing domestic savings to also help finance our budget, and in a manner consistent with safeguarding macroeconomic and financial stability and supporting debt sustainability. Our strategy will involve maximizing the issuance of domestic government securities in the primary market with an objective of obtaining net positive financing in the fourth quarter of 2023 and in 2024. Successful placement of bonds on the domestic market of the necessary magnitude, 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.

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

- As of October 31st, we have raised UAH 452 billion in the primary market in 2023, achieving a year-to-date rollover rate of 137 percent, thereby providing net financing to the budget of about UAH 123 billion or US$3.4 billion. About 65 percent of gross hryvnia issuance has been raised through designated benchmark bonds that banks may use to meet reserve requirements. We continue to make progress in matching issuance yields and maturities to market demand, and in lengthening the maturity of our issuances this year.

- We intend to continue issuing government securities with an objective of financing a large part of the additional expenditures in the 2023 Supplementary Budget and through 2024, given our commitment to mobilize domestic resources to help meet our financing needs. The reserve requirement mechanism has contributed significantly to the improvement in rollover rates; given the substantial liquidity available and expected in the banking system, we are committed to identifying and implementing ways to increase bank financing in a more sustainable way. This includes studying the flow of liquidity into the banking system, including on a bank-by-bank basis, to develop targeted strategies to encourage increased uptake of government bonds, 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 help contribute to positive net domestic financing over the course of the program period.

37. We continue to make progress to ensure our debt management strategy is consistent with our objectives under the program. We have updated and published our Medium-Term State Debt Management Strategy on October 27, 2023 (***Structural Benchmark*, end-October 2023**). Our updated MTDS now takes into account developments since the start of the war and our future priorities, including budget financing needs, debt sustainability, and reconstruction and recovery. After the external commercial debt treatment is concluded in 2024, we plan to update the MTDS to reflect the outcomes of the debt operation 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 and the restoration of international capital market access, thereby enabling the bond market to play an active role in the reconstruction phase.

38. We remain committed to avoiding monetary financing. Given the considerable risks monetary financing presents for price and external stability, we have successfully avoided monetary financing thus far in 2023. Our commitment to this objective will continue to be monitored by a ceiling on general government borrowing from the NBU (***Indicative Target***). If there are unexpected critical financing needs or delays in external disbursements, we will first explore additional measures, such as drawing down of excess government deposits as well as borrowing additional funds from the government debt market; we will request monetary financing from the NBU only as a last resort and in strictly limited amounts (see also ¶45, ¶51).

39. We are determined to strengthen treasury cash and liquidity management. The war has brought about increased volatility to our expenditures. Given large donor support and proceeds from domestic financing are expected to continue, and in line with our continuous efforts to strengthen budget execution and commitment control, we find it important 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, we have requested IMF TA to review and diagnose the main areas of improvement for treasury cash and liquidity management starting with liquidity in treasury single account.

E. External Debt Strategy

40. To help restore debt sustainability on a forward-looking basis, we publicly announced on March 24 our intention to proceed with a debt treatment of our external public debt. Our strategy seeks to help close financing gaps during the program period, reduce gross financing needs to manageable levels, including after the program, and to place public debt on a sustainable path. Our strategy is also designed to help create the necessary conditions for private sector participation in the post-war reconstruction of Ukraine and takes into account the importance of preserving financial stability. To this end, we hired external financial advisors and are committed to a credible process with transparency for information and communication. We continue to discuss our strategy with private creditors and seek their feedback. Our goal remains to restore public debt sustainability and ensure that our program is fully financed throughout its duration, including in a downside scenario.

41. The debt treatment comprises the following elements:

- *Official bilateral debt.* Paris Club creditors have committed to a two-step process involving an extension throughout the program period of the current debt standstill that expires at end-December 2023, coupled with a separate assurance to deliver a final debt treatment sufficient to restore debt sustainability before the final review of the IMF-supported program. We will seek treatments on comparable terms with other official creditors.

- *External commercial debt.* In August 2022, 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 plan to begin discussions with commercial creditors shortly after the completion of this review, with a goal to complete the needed debt operation no later than mid-2024. We are committed to achieving a debt treatment on terms consistent with the most up-to-date IMF macroframework and the parameters of the debt sustainability assessment.

42. 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. In line with (¶26, first item), 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.

F. Monetary and Exchange Rate Policies

43. Our monetary and exchange rate policies aim to safeguard price and external stability and ensure adequate international reserves. Given the exceptionally high uncertainty driven by the war, our objective remains to safeguard overall macroeconomic and financial stability, while supporting households and firms to further strengthen the recovery. 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.

Monetary Policy

44. We will maintain an appropriate monetary policy stance to support price stability, manage inflation expectations, and foster FX market sustainability.

- Headline inflation has continued to decline much faster than expected (¶5), thanks to the easing of supply constraints, improvements in food prices, and a stable cash exchange rate. Core inflation has also fallen considerably, as have inflation expectations. In 2024, with the war continuing, some inflationary pressures will persist due to residual war-related supply shocks, though favorable harvest expectations, limited adjustments in tariffs, and a broader environment of lower global energy prices, should restrain inflation. Thus, on balance, we expect inflation at around 6 percent by end-2023 and around 10 percent by end-2024. Looking further ahead, we expect inflation to continue its trend toward the 5 percent medium-term target. Nevertheless, upside risks to inflation outlook, most notably from the security situation, remain.

- In view of these favorable macroeconomic trends, beginning from our July Monetary Policy Committee (MPC) meeting, we have cut the key policy rate (KPR) by a cumulative 900 bps to 16 percent. However, the de facto easing cycle started in April, with a reduction in the interest rate on overnight CDs by 700 bps cumulatively to 16 percent. With inflation expected to remain under control under the baseline, we envisage a further policy rate cut in December 2023. In 2024, the easing cycle will continue if risks to external sustainability and inflation subside. Overall, in line with our Strategy, we intend to maintain appropriate real interest rates to support price and external stability.

45. We will continue to make progress in liquidity management to facilitate monetary transmission. The structural surplus of liquidity remains high (the stock of overnight CDs amounted to UAH 490 billion as of end-October 2023). The tightening in reserve requirements (by a cumulative 20 percentage points since December 2022) and their adjustment for maturity and currency have helped to contain the growth in the structural liquidity surplus in the banking system. It also supported the primary market for government bonds, and induced banks to compete for term deposits by raising interest rates. Consequently, our strategy in this area remains to prudently manage liquidity, while preserving space for banks to participate in government bond auctions and thereby prevent monetary financing. At the same time, with liquidity sizable and expected to grow, we will continue to monitor carefully liquidity conditions in the banking system, including on the timing and size of flows, to determine the appropriate design of measures to manage liquidity, as needed.

46. We continue to adjust the operational design of our monetary policy framework to restore the effectiveness of the KPR and preserve the attractiveness of hryvnia assets.

- Effective April 7, we introduced three-month certificates of deposit at the KPR, where the volume of issuance was conditional on the stock and growth of banks' term-deposits with maturity longer than 3 months. This design is bearing fruit, with 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, thereby allowing individuals to preserve the value of their hryvnia savings and support FX market stability. We continue to study the effect of this instrument amid the easing cycle and fine tune the parameters as needed to support bank competition and sustain a positive real return on hryvnia assets.

- In view of the abundant liquidity in the banking system, on October 26, we adjusted our monetary policy operational framework to a floor system from a corridor. Currently, the majority of interbank operations are liquidity absorptions, and at the overnight CD (the standing facility). Shifting to a floor system has aligned the de jure KPR with the de facto main overnight CD instrument, thereby restoring the role of the KPR in our operational design and increasing 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, 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 as well as eventually reverting to a two-way corridor.

Exchange Rate Policies

47. Despite the imbalances brought about by the war, the FX market has been stable in recent months. The NBU continues to be a net seller of FX (US$46.5 billion between February 24, 2022, and end-September 2023). Recalibration of FX controls including measures undertaken to balance the cash FX market and monetary policy actions aimed to improve the attractiveness of hryvnia assets allowed us to keep exchange rate expectations under control and ease the pressure on FX market. Moreover, supported by sizable official inflows FX reserves have reached record highs. In recent months, the spread between the official exchange rate and the exchange rate on the cash segment of the FX market has stabilized around 3-5 percent, reflecting recent measures undertaken to ease pressure on the cash FX market.

48. In consideration of favorable macroeconomic developments, the NBU has embarked on a successful transition from the exchange rate peg to a regime of managed flexibility. The exchange rate peg, supported by FX controls introduced solely for reasons of national security, had served as an important nominal anchor during the war. However, in line with our conditions-based Strategy to normalize monetary and exchange rate policy frameworks, the prerequisites for moving the exchange rate peg were successfully met, including declining inflation and inflation expectations, high FX reserves and stability in the FX market. Thus far, the transition has been smooth, initiated from a position of strength, with the exchange rate moving in both directions in response to market conditions. We continue to monitor the FX market closely to ensure external stability and safeguard FX reserves. 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, and reduce the risks of accumulating FX imbalances that could arise from a prolonged exchange rate peg. 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.

49. We intend to maintain adequate FX reserves through the course of the program. Thanks to strong external financing flows, stronger than expected net exports and lower private outflows, FX reserves reached record levels as of September 2023, allowing us to comfortably meet our end-June ***Quantitative Performance Criteria*** and end-September ***Indicative Target*** on net international reserves. Reflecting this overperformance, and mindful of the need to support external stability amid the prevailing uncertainty, we will continue to keep adequate reserves, and keep them at a sufficient level over the medium term; we are requesting a modification to increase the QPC on the NIR floor for end-December 2023 and the IT for end-March 2024 by US$8.4 billion to US$24.9 billion.

50. We plan to carefully adjust FX controls to support the economic recovery, while maintaining FX market stability and addressing national and international security considerations. Although risks to the outlook remain exceedingly high, macro-financial stability has been maintained, and imbalances in the FX market have eased in recent months. Thus, while we will maintain generally the existing controls on FX transactions and continue to carefully monitor and enhance the effectiveness of these measures, as flagged in our Strategy, we intend to selectively ease FX controls to meet the needs of the economy. This will also ease pressure on the FX cash market and anchor exchange rate expectations. This should also help, over time, eliminate the three remaining multiple currency practices, and thereby reduce incentives for circumvention and support exchange rate stability.

NBU Independence and Governance

51. In line with our commitments, there has been no monetary financing of the budget deficit in 2023. To mitigate risks to price stability as well as safeguard central bank autonomy and enhance transparency, and in line with our intention to use monetary financing only when other options have been exhausted, the NBU and the MoF have developed, in consultation with the IMF, a framework stipulating the preconditions and procedures for short-term advances to accommodate temporary liquidity shortfalls for the duration of Martial Law. We will also 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. 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. Direct financing of off-budget programs by the NBU will be avoided altogether.

52. We remain fully committed to upholding the independence and institutional effectiveness of the NBU. A strong and independent NBU remains critical to achieving macroeconomic stability and will support the eventual transition back to an inflation targeting framework. In this regard, we will ensure strong governance arrangements within the NBU. We have introduced an MoU between the NBU and the MoF relating to the mechanism of servicing the government's obligations to the Fund by the NBU on behalf of the MoF, and will further strengthen the related safeguards to ensure timely fulfilment of the MoF's obligations to the NBU. Finally, we will continue adhering to our profit retention rules and ensure that the distribution of NBU profits to the state budget takes place in line with procedures established by the NBU Law. We acknowledge that costs on monetary policy implementation via liquidity absorption (interest expenses on NBU CDs) are necessary and justified to support macroeconomic stability.

53. 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.

54. Over the medium term, we intend to carefully unwind the unconventional measures undertaken to support price and external stability in wartime. Urgent wartime challenges have necessitated the use of several nonstandard measures by the NBU to support macroeconomic stability. We will strive to ensure that such measures are well-targeted, clearly communicated and time bound. When conditions permit, we are committed to phasing out war-time measures. This will strengthen our monetary policy toolkit, safeguard NBU credibility and independence, and thereby support our goals to eventually return to an inflation targeting framework.

G. Financial Sector

55. Our wide-ranging emergency measures have preserved financial stability. We will continue to closely monitor developments in the financial sector and make adjustments as necessary. Banks entered the war well-capitalized and liquid, thanks to the considerable progress achieved in cleaning up the banking system since 2014. Despite the severe impact of the war, the majority of bank branches have remained operational, online banking services are fully available to all clients with internet connectivity, the non-cash payment system is functioning normally, and liquidity has recovered for most banks. To ensure the continuity of the banking network, we introduced "Power Banking" in late 2022, a network of over 2,000 bank branches across the country that are capable of providing banking services to clients even during prolonged blackouts. The licenses of eight small banks (around 4 percent of system net assets as of August-2023) have been revoked under Martial Law and one bank (also around 4 percent of system assets) was nationalized.

56. In preparation for a return to normalcy, we have updated our financial sector strategy to implement a safe, coordinated, and prompt unwinding of financial sector emergency measures, while restoring accounting and prudential norms. Our 2021 financial sector strategy was updated in consultation with IMF staff to serve as a living document requiring periodic review, modification, and action plans with implementation milestones. It describes the future priorities for the financial system. Key elements of the strategy include: (i) coordinated steps to safely unwind exceptional measures (we aim to unwind most emergency prudential measures by end-March 2024 if conditions allow); (ii) diagnostics to quantify bank asset values and NPL resolution priorities; (iii) a framework to safely address any potential vulnerabilities; (iv) a prioritized action plan to monitor and tackle high NPL levels; (v) well-developed contingency plans to respond to potential further shocks; (vi) prioritized transposition of EU banking norms; and (vii) coordination arrangements among key stakeholders, including to consider any new initiatives that relate to policies in the strategy. We published non-market sensitive parts of the strategy in August 2023.

57. Recognizing the importance of well-informed financial sector policies, the NBU is undertaking detailed bank diagnostics. These are critical to ensure prudent and consistent valuation of banks' assets, informing triage and the modalities of eventual balance sheet cleanup. In line with the Terms of Reference adopted by the NBU in January 2023, we will: (i) complete an independent asset quality review (AQR) once conditions have stabilized; (ii) carry out a subsequent bank viability assessment, and (iii) prepare a prioritized interagency NPL resolution action plan by end-June 2024. The current prohibition on bank capital distributions will remain in place until after the independent AQR findings have been fully reflected in banks' regulatory ratios and financial statements. To better understand current banking system conditions and to inform supervisory priorities, the NBU with technical support of the World Bank has initiated a resilience assessment that includes an asset valuation and solvency assessment of banks comprising 90 percent of banking system assets that will be completed by end-December 2023.

58. We are determined to take the necessary steps to continue to preserve financial stability and limit potential fiscal cost of any interventions. Our priorities will focus on continued preservation of financial stability whilst ensuring financial and operational readiness to respond adeptly to shocks. The additional temporary tax on banks' profit effective for 2024 will be introduced in such a way that it will not distort income structures, nor create financial stability risks or monetary transmission imbalances. Further, the announcement of the permanent increase in CIT on banks profits, after the temporary measure expires, will provide banks with planning stability and help them prepare their balance sheets to absorb a measure that brings banks' CIT closer to levels in many EU countries. To prevent any shocks to the banking sector, the NBU will take the impact of this tax into account in banks' capital management plans. The NBU and Deposit Guarantee Fund (DGF) have prepared contingency plans to respond to further potential high-impact events in their respective areas, in consultation with key stakeholders and IMF staff. The Financial Stability Council has approved those plans related to preparation for potential adverse rulings from the constitutional challenges against the DGF Law and the Bank Resolution Law (Law #590), and an updated contingency plan to prepare for litigation risks concerning past bank resolution decisions. We will continue to monitor developments and update these plans as needed. We 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.

59. The DGF, MoF and NBU will prepare a bank rehabilitation framework in consultation with IMF staff (*Structural Benchmark*, proposed to be reset for 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; and (iv) alignment of the NBU's 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 will prepare in consultation with IFI stakeholders (i) 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, 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.

60. All our decisions will be consistent with our overall strategy to reduce state ownership in the banking sector. Any decision that has the potential to increase state ownership in the banking sector will be taken in consultation with IMF staff and be strictly limited to matters related to preserving financial stability and national security decisions during the Martial Law period. All banks with majority state ownership will remain under the responsibility of the MoF and any nationalized non-systemic banks will be immediately transferred to the DGF for resolution **(*Proposed 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 SOBs should be updated prior to 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 SOBs, including with respect to privatization (in line with our Financial Sector Strategy).

- In preparation for SOB privatization, we will review and update as necessary the 2012 draft law on SOB privatization in consultation with IFIs and submit it to Parliament by end-March 2024.

- 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.

61. 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.

- *Bank capital rules*. In recognition of the importance of preparing for EU accession, we have undertaken a gap analysis relative to the EU Capital Requirements Directive and Regulation. We will close the identified gaps in the regulatory capital structure by end-December 2023, and 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 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, and steps to strengthen the profession including additional requirements and specialized licensing for valuation of banking assets, insurance assets and collateral.

- *Immovable property databases and indices*. To increase the transparency of the real estate market for participants including international investors, strengthen systemic risk analysis and mitigation, and bank collateral valuations, the NBU and Ministry of Justice will consult with key stakeholders, and prepare a detailed proposal by end-March 2024. This proposal will include details and timelines for introducing: (i) a publicly accessible database of real estate transaction prices that includes 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 will strengthen the framework for remuneration policies of banks by end-December 2023, to introduce requirements to limit variable compensation and payment mechanisms for senior bank management, while aligning it with EU standards (Articles 92-96 of Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 and Commission Delegated Regulation (EU) No 2021/923 of 25 March 2021).

- *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-June 2024 to align with international best practice while considering economic development goals and mitigating price and financial stability risks.

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

- *Governance and oversight*. We have taken 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 stakeholders as well as consistency in decision making, and highlight issues that need special attention; and (iii) in recognition of the critical importance of onsite inspections, we 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*. We will prepare and implement a supervisory risk assessment methodology to inform supervisory engagement priorities (***Structural Benchmark*, end-June 2024**). We will apply this methodology to all banks and prepare a supervisory action plan by end-December 2024. We will also adjust the organizational structure for bank supervision to leverage efficiencies as we transition to a risk-based approach; and further improve 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*. We will continue strengthening our oversight of banks and payment service providers. Most recently, improved oversight of gambling businesses has helped end illegal tax evasion schemes and has resulted in a ten-fold increase in tax collections from the gambling business in 2023 relative to 2022.

63. 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 will come into force in January 2024 and the NBU is preparing 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 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 ensure that the law will be adopted 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 will increase capital requirements for financial companies by end-December 2023 and will provide a six-month transition period for existing entities to align their operations with the new requirements. To further strengthen the payments market, we will submit draft legislation to Parliament, that will strengthen regulatory requirements for market participants by end-December 2023; we will ensure the adoption of the law by end-May 2024. Moreover, 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.

- *Market oversight*. 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.

- *Regulatory effectiveness*. We will exclude NBU regulations for NBFIs from the scope of Law of Ukraine "On principles of state regulatory policy in the field of economic activity", which already exempts other NBU regulations from its scope. We commit that draft NBFI regulations will be subject to a public consultation process that is consistent with EU norms.

64. In recognition of its important catalytic role in post-war economic recovery, we will prepare financial market infrastructure.

- *Capital market infrastructure*. Mechanisms are needed for foreign investors to directly access marketable debt instruments beyond government securities. The NBU in consultation with key stakeholders will analyze the current state of Ukraine's capital market infrastructure and identify priority pathways for its development.

- *War risk insurance system*. The NBU, together with the Ministry of Economy and Ministry of Finance, will develop a concept note for the establishment of a fully functional war insurance system by end-January 2024.

- *Credit conditions*. The NBU in consultation with key stakeholders will prepare a comprehensive strategy to support resumption of lending, with due regard to financial stability, by end-May 2024.

- *Responsible consumer lending*. We remain committed to having the Law "On Amendments to Certain Legislative Acts of Ukraine on Improving State Regulation in the Field of Consumer Lending" (#9422) adopted by Parliament by end-2023. It will facilitate alignment of NBFI consumer lending with international standards and promote development of responsible price setting for consumer loans.

65. We will postpone the implementation of the Law on Administrative Procedures (#2073-20) for the NBU, the DGF and the NSSMC until end-December 2024 recognizing that wartime priorities have placed a significant burden on these institutions. The implementation of this law for these institutions will be preceded by a comprehensive assessment of its implications on their activities and the adoption of appropriate measures, including where necessary any legislative changes, before the implementation date. This will help ensure a balance between due process requirements and the ability of these institutions to deliver their respective mandates effectively in accordance with their founding and special laws in the area of financial services. The assessment will be conducted by end-June 2024 by a specially established working group under the Financial Stability Council in consultation with IFIs.

66. 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.

H. Governance and Growth

Promoting Medium- and Long-Term Growth

67. We remain committed to advancing a structural reform agenda that will lay the foundations for robust post-war growth and pave the path for EU accession. Ukraine will need high and sustained rates of economic growth after the war, to restore its economy and recover standards of living for its population as swiftly as possible. This will require unprecedented amounts of investment, including from continued donor support, inward migration and rebuilding of human capital. The public sector will play an important role in the recovery process, and we fully acknowledge that measures to increase efficiency and transparency of public sector governance will be critical to facilitate much-needed donor financing. We also recognize that a large part of investment will have to come from private sources, and that reforms and measures aimed at ensuring the rule of law, independent and strong anti-corruption institutions and achieving a level playing field for businesses will be critical to attract the needed investments as well as to encourage the return of migrants. In the near term, our efforts will focus, inter alia, on strengthening the public procurement system with a view to align it with the EU acquis and implementing measures to deregulate economic activity and improve the business climate. Furthermore, we envision a strong, stable banking sector being an important pillar of the reconstruction phase. Market-based financial intermediation will help enable the private sector in mobilizing savings toward the recovery, which would help enhance productivity and support high and sustained growth.

68. Overall, we will follow an integrated strategy for critical spending for the recovery and reconstruction. Based on a joint analysis by the Government of Ukraine, World Bank, European Commission, and the United Nations, the second Rapid Damage and Needs Assessment (RDNA2) estimated US$411 billion for the total cost of recovery and reconstruction. Our near-term sectoral priorities focus on housing, utilities, social infrastructure, demining, transport, energy infrastructure and the private sector. We are strongly committed to implementing an integrated strategy to include such reconstruction and recovery spending in the program design, while taking into account debt sustainability concerns, including assessing the availability of the appropriate financing mix (i.e., grants and concessional financing), absorption capacity, and the treatment of public guarantees (see ¶43). Overall, we commit to use budgetary processes for financing our reconstruction efforts in a transparent manner, which follows the principles of budget unity, coherence, and predictability with clear distribution of roles among the key stakeholders, and this will be reflected in the public investment management roadmap, including a strong gatekeeper role of the MOF (¶32, ¶33).

69. 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 (¶33, 67). Comprehensive audits of the use of reconstruction funds, performance audits of selected individual projects (including project costs, deliverables and outputs), and timely publication of audit reports will also be key features of the reconstruction strategy. The strategy will integrate and implement mechanisms to prevent and identify corruption risks, and cases will be referred, as appropriate, for follow-up by the anti-corruption institutions. 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.

70. We will take steps to reform and enhance the Anti-Monopoly Committee of Ukraine (AMCU). In September, we enacted amendments to strengthen the legal framework of the AMCU to enable it to effectively implement its capacities to promote market competition and combatting monopolistic practices. We plan to continue improving AMCU's legal framework and institutional capacity to ensure AMCU's institutional independence, enhancing and strengthening its enforcement powers.

Anti-Corruption and Rule of Law

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

72. Asset declaration obligations of public officials, including public access, has been restored. A law was enacted in October that restores the obligation of public officials (not directly involved in the mobilization and war efforts) to submit and disclose their asset declarations and reinstates the function of the National Agency for Corruption Prevention (NACP) to examine and verify the asset declarations. In addition, it brings back full public access to asset declarations of public officials (subject to prescribed exemptions on personal security), in response to public demand for transparency and a September presidential veto. To support the filing of public officials, the NACP also enhanced the asset declaration system to allow for automatic populating of information from other linked databases and registers (including for real estate, vehicles, income, shares, corporate rights, and beneficial ownership), while keeping with the public official's obligation for truthful and timely submission of asset declarations (***Structural Benchmark*, end-October)**. Moving forward, we will effectively implement the restored asset declaration system by ensuring submissions by end-January 2024 as per the enacted law, and by monitoring public officials' obligation to submit truthful, complete and accurate asset declarations (particularly, assets that are beneficially owned by them and their family members). In this regard, the NACP will maximize technological solutions to effectively analyze asset declarations and adopt a risk-based approach towards verification. Overall, having an effective asset declaration system will be critical for promoting public and donor trust while helping to safeguard public funds, especially for reconstruction and recovery.

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

- Building on the SAPO draft law submitted in September and to further strengthen the institutional autonomy and capacities of the SAPO within the constitutional framework, legislation will be adopted to: a) improve the selection procedures of the SAPO head and key officials with a crucial role and decisive vote of independent experts with international experience; (b) strengthen its capacity to regulate its organizational activities including its designation as a separate legal entity within the Prosecutor General's Office; (c) establish mechanisms for discipline and accountability of SAPO leadership (including performance evaluation and a periodic external audit conducted by independent experts with international experience in anti-corruption law enforcement); and (d) enhance 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,*** **end-December 2023**).

- 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 (***Proposed Structural Benchmark,*** **end-September 2024**), following one year from the March 2023 appointment of its new head. 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. Consistent with our broader reform plans for the forensic expert system for criminal law enforcement, we will ensure that the NABU has access to independent and competent forensic experts, to enable it to effectively conduct its investigative mandate, including investigating complex corruption schemes.

- Twenty-four new vacancies to the High Anti-Corruption Court (HACC) both at the first instance (15 vacancies) and appellate (9 vacancies) levels have been announced by the High Council of Justice in September. We will ensure the open and competitive selection for these new vacancies and adequately provision for their staffing and office needs. In this regard, the Public Council of International Experts will be reconstituted with nominations from the international and foreign organizations in line with the law, and the final appointments will be completed by end-July 2024. 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 **(*Proposed Structural Benchmark,* end-March 2024)**.

74. We are advancing work toward ensuring an effective risk-based AML regime. The key goal of the AML/CFT framework is to prevent, detect and deter the laundering of proceeds of corruption through effective risk-based AML/CFT supervision. In light of the November 2022 amendments to the AML/CFT framework, we have amended the AML/CFT law in October to re-establish the obligations of financial institutions to implement enhanced due diligence measures on politically exposed persons (PEPs) on a risk-based approach consistent with the Financial Action Task Force (FATF) standards. For the amendments to the AML/ CFT law, we have not included a government-issued PEP registry with names, as it would be otherwise inconsistent with the FATF standards. After resuming scheduled inspections and adopting amendments to the AML/CFT law regarding PEPs, the NBU will conduct a thematic inspection of the financial institutions' compliance with enhanced customer due diligence on PEPs by end-June 2024. By end-August 2024, the NBU will issue guidance for financial institutions and other covered non-bank institutions, consistent with the FATF standards, for using 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.

75. We are committed to advancing the rule of law and judicial reforms. In line with our commitments toward EU membership, the law strengthening the vetting process for candidates to the Constitutional Court has been approved in August. We are currently establishing the six-member Advisory Group of Experts (with three members being nominated by international partners) and will proceed with the open competition for the vacancies for the Constitutional Court judges. We will complete the appointment for the remaining vacancies of the High Council of Justice by ensuring open and transparent proceedings by the Ethics Council. Following the dissolution of the Kyiv District Administrative Court in December 2022, we will 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 with decisive and crucial vote of independent experts with international experience (***Proposed Structural Benchmark,* end-July 2024**).

76. We intend to conduct a new Governance and Corruption Diagnostic with IMF technical assistance, after Martial Law has been lifted. The published report will assess corruption vulnerabilities and governance weaknesses linked to key state functions and lay out future reforms in a post-war scenario. In this regard and in light of the Anti-Corruption Strategy approved by the Rada in June 2022, the NACP will publish annually a report on its implementation.

Corporate Governance in SOBs and SOEs

77. 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 (based on 2024 performance). In August 2025, the MoF will publish the key findings of its first annual assessment, together with Cabinet's proposed actions to address the findings.

78. We are committed to strengthen corporate governance in SOEs. A draft law (#5593-D) bringing the SOE corporate governance framework broadly in line with OECD Guidelines on Corporate Governance of SOEs and to mitigate fiscal risks, will be adopted by early 2024. 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 funding 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 through the financial plans or in the annual owner's letters for natural monopolies and strategic SOEs. During the time of 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 is adopted, we will follow up with a 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.

79. We are exploring options to strengthen SOE management through the existing SOE corporate governance reform agenda in close consultation with international partners. 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 SPFU. To start with, we will follow the following SOE reform agenda (as discussed in ¶77) and policy sequencing in close consultation with international partners, 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-March 2024; and (iv) producing a comprehensive state ownership, dividend policy and privatization strategy ***(Proposed Structural Benchmark,* end-August 2024*)***. The content of this strategy will be discussed and agreed upon in coming reviews. Importantly, the above-mentioned steps are essential preconditions for exploring options to strengthen SOE management. 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).

80. We remain strongly committed to energy corporate governance reforms. We are committed to implement the needed and critical corporate governance reform at the Gas Transmission System Operator (GTSO). To that end, we implemented all the following steps: (i) transferring the GTSO shareholding from MGU to the Ministry of Energy on September 22, and adopting the new charter on October 27, developed and agreed with the NEURC in consultation with the Secretariat of the Energy Community (***end-July 2023 Structural Benchmark, not met***); and (ii) selection and appointment of a supervisory board for the GTSO (***Structural Benchmark,*** **end-October 2023**). We commit to ensure an independent evaluation of the GTSO supervisory board one year after its appointment. Regarding other critical energy SOEs, we will seat a seventh member on Naftogaz's and Ukrenergo's supervisory boards, and also commit to launch an independent evaluation of their supervisory boards in early 2024 and conclude it by end-June 2024.

Energy Sector Reforms

81. We are strongly committed to implementing, once conditions allow, a timely and ambitious reform agenda aimed at tackling the longstanding structural challenges in the energy sector that have been compounded by the war. Ukraine's critical energy infrastructure has been swiftly repaired following frequent attacks, the country resumed electricity exports to neighboring countries in April, and gas storage was swiftly refilled ahead of the 2023/24 heating season according to the government target. We have also increased household electricity prices as of June 1 to help restore the energy system's stability ahead of the 2023/24 heating season. We are well prepared for the winter season, including plans to repair critical energy infrastructure. 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 sustainability of the system and reducing quasi-fiscal liabilities will necessitate a gradual increase in gas and electricity tariffs to cost recovery while allocating adequate and well-targeted resources to protect vulnerable households.

82. Our immediate priority is to contain the adverse impact of the war on the sector. This implies ensuring sufficient resources can be channeled to key large SOEs. In the short term, the menu of options includes tariff increases, securing external financing, and providing transparent and exceptional direct budget support pending available budgetary resources.

- Restrained domestic consumption as well as resilient and expanding domestic production have limited the need for gas imports for this heating season. For the next heating season in 2024/25, up to 2 bcm of additional gas imports could be required under the baseline, but we expect the amount to be lower from the expanded production capacity by Naftogaz. Naftogaz has secured additional financing for gas imports through the EBRD and bilateral donors. In case Naftogaz faces a liquidity shortfall, we will assess the amount of PSO compensation in 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, available financing, and capped at UAH 60 billion (about 1 percent of GDP).

- The GTSO revenues have been impacted by many factors including low tariffs, large unauthorized gas offtakes, payments to Naftogaz, and a drop in transit revenues since May 2022, as a key entry point is located in occupied regions. The GTSO is reducing expenditures (including on investment) to maintain its liquidity, and once the critical corporate governance reforms are finalized (see ¶80), the company's strategy should be speedily adjusted to reflect its new operating environment by rightsizing the system and identifying alternative sources of supply. This will be critical for the GTSO to prepare financially and operationally for a possible zero transit scenario when the transit contract expires 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 ***(Proposed 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.

I. Program Monitoring

83. 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 the data and information 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 third and fourth reviews are expected to take place on or after February 29, 2024, and June 15, 2024, respectively, based on quantitative performance criteria for end-December 2023 and end-March 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)

	Jun 2023					Sep 2023					Dec 2023		Mar 2024		Jun 2024		Sep 2024	Dec 2024
	QPC	Adjustor	Adjusted QPC	Actual	Status	IT	Adjustor	Adjusted IT	Actual	Status	QPC	Proposed Rev. QPC	QPC	Proposed Rev. QPC	IT	Proposed Rev. IT	Proposed IT	Proposed IT
I. Quantitative Performance Criteria 1/ 2/ Floor on the non-defense cash primary balance of the general government, excluding budget support grants (- implies a deficit) 2/ 3/	213,000		213,000	278,872	Met	242,900		242,900	404,895	Met	96,737	105,000	100,000	140,715	150,000	257,184	368,313	415,410
Floor on tax revenues (excluding Social Security Contributions)	696,400		696,400	747,986	Met	1,094,700		1,094,700	1,187,653	Met	1,679,170	1,653,992	420,000	426,300	835,000	880,400	1,398,600	2,042,250
Ceiling on publicly guaranteed debt 4/	37,000	11,917	48,917	17,731	Met	37,000	11,917	48,917	19,571	Met	37,000	37,000	46,000	47,900	46,000	47,900	47,900	47,900
Floor on net international reserves (in millions of U.S. dollars) 5/	16,500	-63	16,437	26,284	Met	16,500	-1,975	14,525	28,138	Met	16,500	24,900	16,500	25,400	16,500	25,300	25,400	23,000
II. Indicative Targets 1/ 2/ Floor on the cash balance of the general government, excluding budget support grants (- implies a deficit)	-730,000		-730,000	-660,336	Met	-1,141,100		-1,141,100	-1,027,513	Met	-1,674,500	-1,744,668	-354,000	-344,485	-750,000	-725,996	-1,123,107	-1,557,208
Ceiling on general government arrears	4,500		4,500	1,620	Met	3,000		3,000	1,690	Met	1,600	2,000	1,600	2,000	1,600	2,000	1,800	1,600
Floor on social spending	249,000		249,000	276,051	Met	359,600		359,600	402,556	Met	499,600	499,600	172,000	130,000	270,000	262,500	390,000	537,800
Ceiling on general government borrowing from the NBU 6/ 7/	-2,573		-2,573	-2,573	Met	-1,153		-1,153	-1,153	Met	-704	-704	-9,500	-9,500	-2,884	-2,884	-1,153	-704
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	Met	0	0	0	0	0	0	0	0
IV. Memorandum items External project financing (in millions of U.S. dollars)	62	...	...	63	...	381	...	...	172	...	1,555	894	32,700	8,647	65,400	413	832	1,496
External budget financing (in millions of U.S. dollars) 8/	19,934	...	...	19,870	...	30,615	...	...	28,849	...	37,627	40,956	356,223	8,521	712,367	17,367	26,548	31,565
Budget support grants (in millions of U.S. dollars)	7,409	...	...	7,374	...	11,073	...	...	9,924	...	11,573	14,909	79,040	3,103	158,000	5,937	8,770	8,770
Budget support loans (in millions of U.S. dollars) 8/	12,525	...	...	12,496	..	19,542	...	...	18,925	...	26,054	26,048	277,183	5,417	554,367	11,430	17,778	22,795
Interest payments	124,000	...	...	120,038	...	183,600	...	...	176,913	...	283,000	260,218	57,910	49,500	215,000	161,780	284,320	429,820
NBU profit transfers to the government	71,868	...	...	71,868	...	71,868	...	...	71,868	...	71,868	71,868	0	0	20,000	17,700	17,700	17,700
Government bonds for the purposes of bank recapitalization and DGF financing	0	...	...	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	...	...	0	...	25,800	...	...	3,700	...	25,800	25,800	25,800	0	25,800	0	0	2,370
Spending on gas purchases, PSO compensation and transfer to GTSO	30,000	...	...	0	...	45,000	...	...	0	...	60,000	60,000	0	0	30,000	0	60,000	60,000

Sources: Ukrainian authorities and IMF staff estimates and projections.
1/ Definitions and adjustors are specified in the Technical Memorandum of Understanding (TMU).
2/ Targets and projections for 2023 are cumulative flows from January 1, 2023. Targets and projections for 2024 are cumulative flows from January 1, 2024.
3/ Starting with June 2023, the floor on the non-defense cash 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 quantitative performance criteria.
5/ Calculated using program accounting exchange rates as specified in the TMU.
6/ For end-April, calculated cumulative from April 1, for end-June from May 1; for remaining test dates, from end of previous quarter.
7/ Calculated using the projected redemption of government bonds as of May 28, 2023.
8/ Excludes prospective IMF disbursements under the EFF.

Table 2. Ukraine: Structural Benchmarks (new SBs in blue 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	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	Reset to End-March 2024	**Not Met**
13	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: Table of Structural Benchmarks (continued)

	Structural Benchmark	Sector	Timing	Status
14	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**
15	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**
16	Update and publish the Medium-Term Debt Management Strategy to align it with the program objectives	Fiscal	End-October 2023	**Met**
17	Simplify the asset declaration system through linking with other databases and registers consistent with the public officials' legal obligations to make truthful and timely submissions	Governance/ Anti-Corruption	End-October 2023	**Met**
18	Select and appoint a supervisory board for the GTSO	Energy/ Corporate Governance	End-October 2023	**Met**
19	Review the current PIM procedures and develop a roadmap of measures so that: (i) all public investment projects follow unified PIM approaches, including PPPs; (ii) investment projects are selected on a competitive basis, with transparent selection criteria, and consistent with the medium-term budget framework; (iii) stronger powers are provided to MoF, including a clear gatekeeping role during the different stages of the investment project cycle.	Fiscal	End-December 2023	

Table 2. Ukraine: Table of Structural Benchmarks (continued)				
	Structural Benchmark	***Sector***	***Timing***	***Status***
20	Adopt the National Revenue Strategy	Fiscal	End-December 2023	
21	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	
22	***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***	
23	***Adopt a new law (consistent with ¶25 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 a bank rehabilitation framework in consultation with the DGF and IMF staff	Financial Sector	***End-December 2024***	***Reset***
25	***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***	
26	Implement a supervisory risk assessment methodology to inform supervisory engagement priorities	Financial Sector	End-June 2024	
27	***With the help of IMF TA, produce a diagnostic review of pre-war MTBF policies and practices relative to best practices to identify key weaknesses and work towards strengthening strategic budgeting, leveraging bottom-up PFM processes to capture more detailed spending needs and costing of new public services.***	***Fiscal***	***End-October 2024***	
28	***Identify major public companies severely affected by the war and prepare a review of potential fiscal and quasi-fiscal costs***	***Fiscal***	***End-September 2024***	
29	***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***	

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

	Structural Benchmark	Sector	Timing	Status
30	*All banks with majority public ownership remain under the shareholder management at the MoF and any nationalized non-systemic banks will be transferred to the DGF for resolution.*	*Financial Sector*	*Continuous*	
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-March 2024*	
33	*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*	
34	*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*	
35	*Produce a SOE state ownership policy, dividend policy and privatization strategy*	*SOE Corporate Governance*	*End-August 2024*	