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Letter of Intent

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

December 11, 2024

Dear Ms. Georgieva:

1. Russia's illegal and unjustified invasion of our country continues to bring enormous human, social, and economic costs. As attacks persist, civilian casualties are large, over a quarter of the population has been displaced, and infrastructure damage is massive and increasing, with serious long-lasting consequences for our people. The Rapid Damage and Needs Assessment (RDNA-3) of February 2024 estimated reconstruction needs at US$486 billion over the next decade, and these needs increase with every day of the war. Through this hardship, our people continue to show courage, determination, and resilience while macroeconomic, financial, and external stability has been preserved with skillful policymaking and external support.

2. Our strong and sustained performance thus far under the Extended Fund Facility (EFF) has clearly demonstrated our capacity to implement sound economic policies despite these challenging circumstances. However, we continue to face major risks amid the exceptionally high uncertainty due to the war. Our IMF-supported program, together with significant official financing assurances, therefore provides a crucial financing envelope of US$148 billion over the program period. In this regard, we are especially grateful to our partners for their efforts to make US$50 billion available through the Extraordinary Revenue Acceleration (ERA) Loans for Ukraine Initiative.

3. The goal of our IMF-supported program remains to restore fiscal and debt sustainability on a forward-looking basis as well as medium-term external viability. It also aims to promote long-run growth in the context of post-war reconstruction and our goal of EU membership, which took a critical step forward with the beginning of accession negotiations on June 25, 2024. Our IMF-supported program is designed to resolve our balance of payments problems and restore medium-term external viability not only in the baseline scenario but also under a downside scenario. We remain committed to ambitious reforms and strong policy implementation with a view to maintaining macroeconomic stability and achieving stronger economic outcomes, even as the war continues. The attached updated Memorandum of Economic and Financial Policies (MEFP) lays out in detail the economic program that we will undertake, supported by the IMF and other international partners.

4. Given the exceptionally high uncertainty, our objectives under the program remain to first preserve macroeconomic and financial stability within the context of the ongoing war while preparing the ground for a strong post-war recovery. We remain focused on restoring stability and undertaking repairs to essential infrastructure, such as in the energy sector that has suffered from repeated attacks. Despite Russia's illegal war, we continue to implement wide-ranging structural reforms covering public finances, the financial sector, monetary and exchange rate policies, governance, anti-corruption, and the energy sector. These efforts are expected to set the stage for stronger prospects after the war ends, when we will further deepen our structural reforms and implement additional macroeconomic policy reforms. These will help restore medium-term external viability, support reconstruction, promote strong long-term growth, and accelerate our progress toward EU accession.

5. For this Sixth Review under the EFF, we have met all the end-September 2024 and continuous quantitative performance criteria (QPCs) and all of the indicative targets (ITs). We are requesting to modify a QPC by raising the floor for net international reserves for end-March 2025, to reflect the positive outlook for international reserves in 2025Q1 and reinforce our commitment to external sustainability, and to maintain adequate buffers in view of near-term risks.

6. We continue to implement key policy measures and structural reforms under the program, as highlighted in Table 2 of the MEFP, and have met the following structural benchmarks for end-October: we produced a diagnostic review of pre-war MTBF policies and practices relative to best practices; the NBU assessed key financial and operational risks to financial stability and prepared contingency plans; we analyzed debts and assessed financial conditions of District Heating Companies (DHCs) through a desk review undertaken by a reputable audit firm; and we produced a SOE state ownership policy, dividend policy and privatization strategy. Moreover, to ensure our energy regulator NEURC's functional independence, we adopted amendments to law #3915-IX to exempt its regulatory decisions from the state registration procedure (end-December 2024 structural benchmark). Additionally, we respected the continuous structural benchmark on the banking system. Finally, as a prior action for this review, we enacted a package of tax measures on November 28.

7. We continue to implement wide-ranging reforms, and as a demonstration of this commitment we propose three additional structural benchmarks: (i) prepare a comprehensive operational strategy for the NSSMC, including initiating an independent fit and proper review (by end-January 2025); (ii) preparing and submitting to parliament a draft law on financial sector critical third-party risk (by end-May 2025); and (iii) completing a third-party external audit of NEURC, enshrined in the law, and publishing it (by end-October 2025).

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. As part of our efforts to restore debt sustainability, in March 2023, we announced the intention to undertake a treatment of our external public debt, in line with program parameters. After successfully completing an exchange of outstanding government and Ukravtodor bonds in August, we are making progress on other

elements of the debt restructuring strategy. Should the case arise where the macroeconomic and debt outlook worsen, we also commit to undertaking a further external commercial debt treatment as needed to restore debt sustainability in line with program parameters. It is expected such a treatment would take place once conditions of exceptionally high uncertainty abate, or at the latest by the penultimate review of the program. In light of the collaborative discussions we are having with our creditors, we request the completion of the financing assurances review.

9. Based on our successful implementation of the program targets for end-September 2024, our implementation of structural benchmarks, as well as our strong policy commitments for the period ahead, we request completion of the Sixth Review and a disbursement in the amount of SDR 834.88 million (41.5 percent of quota), which will be channeled for budget support. A memorandum of understanding between the National Bank of Ukraine (NBU) and the Ministry of Finance (MOF) has been established to govern the mechanism of servicing of the government's obligations to the Fund by the NBU on behalf of the MOF.

10. We believe that the policies set forth in the attached MEFP are adequate to achieve the objectives of the program, both in the baseline and 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.

11. We will continue to 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).

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

Sincerely yours,

Volodymyr Zelenskyy
President of Ukraine

Denys Shmyhal
Prime Minister of Ukraine

Sergii Marchenko
Minister of Finance of Ukraine

Andriy Pyshnyy
Governor, National Bank of Ukraine

Memorandum of Economic and Financial Policies

I. Background, Recent Economic Developments, and Outlook

Context

1. **Russia's unprovoked, illegal, and unjustified invasion of our country continues to bring enormous human, social, and economic costs.** Civilian casualties keep rising, around a quarter of the population has been displaced, and missile strikes countrywide continue including devastating attacks on our electricity infrastructure. Despite all the destruction, 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, and protecting core functions of the state under tight financing constraints force us to navigate difficult policy trade-offs.

2. **The Extended Fund Facility (EFF) arrangement provides a strong anchor for our economic policies, and we continue to sustain strong performance under the program.** The arrangement has helped mobilize an external financing package from our international partners that now totals US$148 billion over the program period (2023Q2–27Q1). In these very difficult times, the program has helped infuse greater predictability into our macroeconomic management and remains a key anchor for our economic policies. We remain highly committed to our program objectives, as demonstrated by our robust implementation of macroeconomic and structural reforms under the program thus far. Sustained disbursements of external financing underline the commitment of our international partners to our stability, reform, and recovery.

3. **As we plan ahead to next year, and despite the continuing war, we remain committed to sound policies that support macroeconomic and financial stability.** Our external partners have also provided assurances that adequate resources will be available to help finance our budget and meet our still sizable external financing needs. In this regard, we are especially grateful to the EU and our bilateral G7 partners for their efforts to make US$50 billion available through the Extraordinary Revenue Acceleration (ERA) Loans for Ukraine Initiative. This financing will help meet our needs, and on terms consistent with the program's objective of restoring debt sustainability.

4. **The official launch of EU accession negotiations in June was a historic milestone that sets the stage for our euro integration path, and helps reinforce stability and long-term growth.** Reforms to achieve EU accession will strengthen our economy and institutions, as they are essential to creating conditions for increased investment and growth going forward. Our candidate status implies that the choice of the regulatory regime defined by the EU acquis will frame our recovery and reconstruction process. Progressive integration into the European internal market should enhance trade and technology transfer to the Ukrainian economy, helping sustain the recovery. In 2024–27, the Ukraine Plan and €50 billion Ukraine facility, together with the ERA

financing, will provide a critical support for our budgetary needs, recovery, reconstruction, and modernization efforts as we advance on our path to EU membership.

Economic Outlook

5. Activity remained resilient despite strains on energy and labor markets, and the economy will continue recovering in 2025 despite Russia's war continuing for longer, and as energy shortages recede.

- Economic activity was resilient in 2024H1, despite widespread shortages caused by large-scale attacks on energy infrastructure (with around 50 percent of energy capacity either damaged or destroyed). The recovery continued through 2024Q3, where growth is estimated at 3.8 percent y/y, thanks to strong early harvesting activity in July and a marked reduction in energy shortages in August and September.

- Growth is expected at around 4 percent in 2024, with the recovery expected to slow in the last quarter due to the impact of the energy attacks and an expected decrease in harvest activity, offsetting the expected strengthening in exports from the Black Sea corridor and robust consumption growth. Continuing repair and recovery in the energy sector (including from new capacity in gas turbines) and accommodative fiscal policy are expected to support the economy in the coming months. Some energy deficit is expected in the winter season, including from the higher demand, but the impact on the economy will be mitigated through our multipronged measures such as anti-missile defense, repairs, higher EU imports (increased to a 2.1 GW cap) and extra generation capacity (e.g., gas turbines).

- Inflation, which decelerated from 26.6 percent y/y in end-2022 to 3.3 percent y/y in May, picked up somewhat quicker than expected to 9.7 percent y/y in October, under pressure from increasing energy and labor costs and the passthrough from depreciation. Inflation is expected to edge up further to up to 10 percent by end-year due to pressures from business labor and energy costs, continued passthrough from the past currency depreciation and the fading of favorable base effects from raw food prices that helped contain inflation earlier in the year. The further stabilization of the energy situation, a larger harvest and an accommodative fiscal policy will support growth in 2025, which is expected between 2.5 and 3.5 percent. Thanks to an appropriate monetary policy response and receding cost pressures from food and energy, inflation is expected to decelerate to 7.5 percent by the end of 2025, after an acceleration in the first half of the year driven primarily by base effects.

- For 2024, the current account deficit is expected to widen to US$15.9 billion (from US$9.6 billion in 2023), despite an improvement in the trade balance and flow relief from the commercial debt treatment, reflecting a moderation in grants and a deteriorated primary balance amid higher public sector interest payments and FX liberalization, among other factors. Supported by external financing, reserves are expected to end the year at US$42.3 billion (112 percent of the ARA metric). In 2025, the current account deficit is projected to widen further to US$29.3 billion on account of a further decline in grants, high import needs, and the lower grain harvest in 2024.

Gross reserves are projected to reach US$43.3 billion at end-2025 or 100.5 percent of ARA, supported by sizable official financing.

- After depreciating through end-July 2024 by a cumulative 12.2 percent since the transition to managed exchange rate flexibility, the hryvnia has remained broadly stable. FX interventions remain sizeable to fill the structural deficit, against a backdrop of increased net FX demand of the private sector (while accommodating the structural surplus of FX of the public sector). The spread between the official and cash rates has remained low.

- Credit growth continues to recover, broadly supported by improved business activity, credit guarantee schemes, and the decline in interest rates. The role of state support in lending to businesses (5-7-9 program) has been declining, while mortgage lending continues to be dominated by a subsidy program (eOselya). Gross non-performing loans continue to fall while loan default rates are declining and approaching pre-war levels. The banking system remains profitable and highly liquid amid still strong deposit growth.

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 swifter resolution of war-related supply disruptions and more durable access to seaports and other supply routes. Our efforts to raise resources for critical recovery and repair projects, including in the energy sector to address the energy deficit, would also support stronger growth, as could stronger progress in the planned energy decentralization. In the medium-term, economic growth could be accelerated by forceful implementation of structural reforms, including in the context of the EU integration, significant investments in reconstruction, including private investment inflows, as well as a faster return of migrants.

7. Despite the recent resilient growth, risks to the outlook remain tilted to the downside, amid exceptionally high uncertainty. Security risks could persist for longer than expected, putting pressures on our fiscal position, and leading to additional financing needs. A prolonged or more intense war would weigh on firm and household sentiment as well as exchange rate and inflation expectations, discourage migrant return and worsen labor market mismatches, and delay private investment, all of which would weigh on growth. Export transit routes could be significantly interrupted, there could be further large-scale damage to the energy infrastructure, or supply chain disruptions could resurface, weighing on production costs and firm profitability. While near-term external financing risks have diminished following recent disbursements and the ERA financing agreement, shortfalls or delays could recur, exacerbating financing constraints and requiring difficult policy trade-offs. Moreover, if such risks materialized, the needed higher domestic financing may become difficult to mobilize.

II. Macroeconomic and Structural Policies for 2025–27

A. Overview

8. The ultimate goals of our economic program—supported by the IMF—are to restore fiscal and debt sustainability, maintain external and financial stability, and restore medium-term external viability. This is the foundation for promoting long-term growth in the context of post-war reconstruction and our path to EU accession. Our economic program continues to focus on a two-phased approach which includes preserving stability and advancing necessary structural reforms while planning for a broadening and deepening of reforms once the war tapers off.

- Our current focus is 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 robust budget implementation in 2025, consistent with a strong medium-term budget framework that would guide fiscal policy and ground the assessment of financing gaps. The managed flexibility of the exchange rate strengthens the resilience of the Ukrainian economy and FX market, promotes better adaptation to domestic and external shocks, and reduces the risks of an accumulation of FX imbalances. Monetary policy actions have resulted in an improvement in inflation expectations earlier this year, which allowed lower borrowing costs for the government and private sector. At the same time and despite the war, we are also implementing well-targeted structural measures covering public finances, the financial sector, monetary and exchange rate policies, governance, anti-corruption, and the energy sector to prepare the ground for Ukraine's post-war growth. Importantly, social spending is being safeguarded to the extent possible.

- Despite the prospect of a longer war, we are confident that the EFF program provides the appropriate framework to achieve our goals of restoring external viability in 2027. With a strong track record during the EFF, a demonstrated commitment to policy reform implementation, and continued buy-in from stakeholders across Ukrainian society and international partners, we are able to address new challenges as they arise.

- Once the war tapers off, expected in late 2025 under the baseline scenario, we will build on the significant progress so far and shift our focus to more expansive structural reforms to entrench macroeconomic stability, and reconstruction to promote economic growth and thereby help restore medium-term external viability. As conditions allow, Ukraine will revert to pre-war policy frameworks. Progress toward EU accession will be a major anchor for our policies; we have committed to undertake a wide range of measures in support of this under the Ukraine Facility.

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

- Since Russia's full-scale invasion of Ukraine, we have repeatedly and decisively taken measures to respond to shocks as they have materialized, carefully balancing the need for a prompt and effective response with social considerations. Building on this track record, we would respond decisively to a potential downside scenario, to ensure that public institutions function effectively while taking measures as needed to preserve economic and financial stability, and also maintain debt sustainability on a forward-looking basis. Under the updated downside scenario, as illustrated in IMF staff analysis, we stand ready to take additional feasible fiscal measures, including identifying additional tax policy measures that can be implemented swiftly and effectively or spending measures building on efficiency gains. In particular, we would be guided by the National Revenue Strategy (NRS), a cornerstone of our efforts to strengthen revenue mobilization. In parallel, we will also identify additional domestic financing as needed to ensure that financing gaps are swiftly closed, without compromising economic and financial stability or debt sustainability. We also stand ready to deploy our foreign reserves, adjust our monetary policy stance, and recalibrate FX controls, to maintain macrofinancial stability as needed. These are very difficult balancing acts, and we welcome the fact that our partners stand ready to provide additional financial resources sufficient to close financing gaps and preserve debt sustainability under the downside scenario; we are strongly 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 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 and reforms will require our steadfast commitment for an extended period.

B. Fiscal Policy

10. We met all the end-September 2024 fiscal targets amid immensely challenging conditions arising from Russia's war. Specifically:

- Tax collections have continued to overperform expectations, and tax revenues (excluding social security contributions) reached UAH 1,527.9 billion, exceeding the floor of UAH 1,398.6 billion (***Quantitative Performance Criterion***).

- Strong revenues and tight non-defense expenditure prioritization led to an end-September non-defense cash primary balance of the general government excluding grants of UAH 651.0 billion (at program exchange rates), above the program's floor of UAH 368.3 billion (***Quantitative Performance Criterion***).

- Relatedly, the overall balance excluding grants was UAH 898.1 billion (at program exchange rates), exceeding the floor of UAH -1,123.1 billion (***Indicative Target***).

- The issuance of government guarantees was UAH 22.7 billion, well below the adjusted ceiling of UAH 61.6 billion (***Quantitative Performance Criterion***).

- The accumulation of overdue accounts payable (domestic arrears was UAH 1.7 billion as of end-September, below the ceiling of UAH 1.8 billion (***Indicative Target***).

- Social spending amounted to UAH 427.7 billion at end-September, respecting the floor of UAH 390.0 billion (***Indicative Target***).

11. For the rest of this year, we are implementing fiscal policies consistent with the 2024 Supplementary Budget. The Supplementary Budget has authorized additional expenditures to reflect the need to provide for national defense while also tightly prioritizing other categories. Nevertheless, we remain committed to ensuring adequate resources for the social safety net, including to address the needs of war veterans and vulnerable groups. The floor on social spending (***Indicative Target***) underscores our commitment to safeguarding this spending. We will also strive to ensure that revenues, especially taxes, achieve our plan for the rest of the year, ensuring an appropriate degree of burden sharing. Overall, in 2024, we continue to expect that the overall balance of the general government excluding grants will reach UAH -1,850 billion or around 24.3 percent of GDP. Our progress in budget implementation continues to be monitored by the floor on the non-defense primary balance of the general government excluding grants (***Quantitative Performance Criterion***) and the floor on the overall cash balance of the general government excluding grants (***Indicative Target***).

12. To ensure adequate revenues, we have taken important recent efforts to mobilize taxes and stand ready to do more:

- On October 10, Parliament adopted a package of amendments to the tax code in the second reading. The package contains a number of measures, including (i) raising the Military Tax rate from 1.5 to 5 percent; (ii) broadening the base of Military Tax by extending it to taxpayers in the Simplified Tax System; (iii) introducing presumptive taxation on fuel stations; and (iv) increasing the corporate tax rate applied to non-bank financial institutions (excluding insurance) to that already applied to banks (25 percent). It also contained a second year of an exceptional profit tax on banks (50 percent), which we intend to avoid repeating in the years ahead in favor of high-quality, permanent measures.

- We are also taking steps to harmonize our tax code with EU directives. To build on the legislation enacted in September that will gradually align fuel excises with EU levels, we adopted parallel legislation on tobacco excises on December 4. We will begin discussions with EU counterparts on the next steps of adjusting our taxes to meet EU requirements next year.

- Considering that we remain highly exposed to potential shocks and our room for maneuver remains constrained, we remain ready to respond to budgetary shocks—either expenditure shortfalls or fresh expenditure demands—with an increase in taxes. As before, we view increases in the main VAT rate as being the most efficient potential source of additional revenue at this juncture and it remains central to our contingency planning. Moreover, this intention underscores our commitment to pursue policies that preserve stability and restore fiscal and debt sustainability through revenue-based fiscal adjustment.

13. The preparations for the 2025 Budget are taking place according to schedule and are in line with the program's assumptions and financing parameters. Regarding the process, the first reading of the 2025 Budget law occurred October 31, after which a revised budget for the second reading was submitted to Parliament on November 8. We expect parliamentary adoption by the end of the month.

- *Expenditures*: The Budget authorizes expenditures of UAH 5,065 billion or about 58 percent of GDP, reflecting our expectation that the war will continue into the next year. This very high level of expenditures reflects they priority that we are giving to defense, and notwithstanding our efforts to identify savings elsewhere. We also remain committed to adequate social protection, and as in 2024, we will continue to set aside an appropriate allocation for these programs.

- *Revenues*: We expect to realize the benefits of the tax measures described above, which we estimate will yield around UAH 141 billion or around 1.6 percent of GDP. Recognizing the importance of realizing these revenues for smooth implementation of the 2025 Budget, before the IMF Executive Board’s consideration of this review, we enacted the package of tax measures (Law #11416-d) as adopted by Parliament on November 28 (***prior action***). Total revenues excluding budget support grants will be UAH 3,355 billion, of which the vast majority will be comprised of tax collections.

- *Balance*: We will continue to have a sizable fiscal deficit next year, with the 2025 overall deficit excluding grants expected to be UAH 1,710 billion (19.7 percent of GDP). As has been the case since the start of the program, this deficit will be mainly financed by the support of our external partners. The largest external disbursements to finance the budget next year will come from the G7's ERA mechanism. We remain committed to ensuring that the ERA financing is being incorporated in a manner consistent with the fiscal paths under the program (over 2025-27Q1). To this end, we will administer these flows as budget support, ensuring that the financing is: (i) transparently incorporated in the budget, (ii) accounted for in our treasury reporting, (iii) disbursed into the treasury single account, and (iv) not directed to any special fund without prior agreement from the donor country.

14. To entrench medium-term budget planning, we are beginning work on next year's Budget Declaration. This year's declaration was a helpful anchor for the budget discussions and we expect that next year's budget declaration for 2026-28 will be even more consequential. We expect that it will serve as a critical anchor for fiscal policies in the post war period. We recognize the importance of a sound medium-term fiscal framework, both to support our efforts to return to sustainability and to plan for recovery and reconstruction. Thus, in consultation with the Fund, we will prepare and submit next year's budget declaration on time, and in line with the program's parameters (***end-June 2025 Structural Benchmark***).

15. We recognize that there will be a need to complete the return to fiscal and debt sustainability by targeting a primary surplus of around ½-1½ percent of GDP in the medium term, after the end of the war with Russia. We remain committed to undertaking a fiscal adjustment to contribute to the restoration of fiscal and debt sustainability. This will entail a sustained revenue effort that generates sufficient tax revenues to meet post-war spending needs (including recovery and reconstruction and emerging post-war social priorities) while also reducing the need for external financing, in line with the strategic objectives of the NRS.

16. Every day that Russia's war continues the already staggering reconstruction needs rise. The latest Rapid Damage and Needs Assessment (RDNA-3), published on February 15, 2024, estimated reconstruction needs of US$486 billion over the next ten years. Since then, the attacks on energy and other infrastructure have pushed damages up further. Addressing the largest needs—concentrated in housing, transport, and commerce and industry—will be vital to delivering essential public services, restoring the economy's productive capacity, and providing adequate social protection. Repair and recovery on these fronts will also help promote the return of refugees. In considering initiatives in this area, we will ensure that these activities are consistent with a return to fiscal and debt sustainability. To this end, we will carefully evaluate the financing mix, and will seek financing on highly concessional terms. Additionally, we will make sure that the mechanisms used for reconstruction financing are consistent with the principles of integrated public investment management to ensure that reconstruction projects fit into the medium-term budget framework (see ¶[29]).

C. Financing Strategy

17. Our financing strategy continues to focus on securing timely and predictable external disbursements on appropriately concessional terms. The likelihood of a longer war and its associated cost entails a larger financing gap, which now stands at US$148 billion over the program period. We have been working closely with our donors and have identified sources to ensure that this financing need can be met:

- *We remain very grateful for the substantial budget support from our donors*: Since the start of the program, we have received US$60.6 billion, of which US$27.3 billion was disbursed between January and November 14, 2024. For the remainder of the year, we expect to receive an additional US$13.6 billion.

- *Firm financing commitments are in place for the next 12 months of our IMF-supported program*: Over January 2025-December 2025, we have received assurances for US$36.6 billion of financing (excluding IMF financing). This financing includes contributions from multilateral institutions and official bilateral donors as well as a portion amounting to US$21.9 billion from the US$50 billion ERA mechanism. The provision of support in the amounts, terms, and timing envisaged will be vital to maintaining economic and financial stability.

- *We have good prospects for financing the remainder of the program period*: Beyond December 2025, key partners have assured us of their continued support, helping ensure that our program remains fully financed.

18. We recognize that financing the budget and maintaining stability will require mobilizing resources as needed from the domestic government bond market:

- In line with our strategy for implementing the Supplementary 2024 Budget, we have ramped up issuance on the domestic market. Consequently, over the first ten months of 2024, we have mobilized net domestic bond financing of UAH 480.5 billion (around US$11.8 billion) broadly on market terms, implying a rollover rate of 152 percent so far this year. To support substantial absorption of our recent external debt placements, we made adjustments to regulations pertaining to reserve requirements at the NBU's September MPC meeting (¶[46]). About UAH 85 billion has been issued year-to-date as designated benchmark bonds that banks may use to meet reserve requirements. We stand ready to further strengthen efforts as needed to help meet our financing needs for the remainder of 2024.

- Given the substantial liquidity still available and expected in the banking system, we remain committed to identifying and implementing ways to support bank financing. This involves studying the flow of liquidity into the banking system, including on a bank-by-bank and bank-group basis, in order to develop targeted strategies that encourage increased uptake of government bonds, supported by the joint Working Group under the auspices of the Financial Stability Council (FSC). With an appropriate mix of approaches, such measures could contribute to net domestic financing over the course of the program.

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

19. We will continue to enhance the management of public debt and treasury cash and liquidity:

- We will ensure our debt management strategy remains consistent with the program's debt sustainability objectives. We will update the Medium-Term Debt Strategy (MTDS) upon completing our plans for the treatment of external commercial claims, including GDP-linked securities. We are also committed to strengthening our debt management capacity, including by increasing staffing and training. We will continue to support the development of the domestic debt market, including through medium-term efforts to maintain the attractiveness of locally-issued instruments and diversify the set of investors (including encouraging non-resident participation). Moreover, our efforts should help facilitate international capital market access in the medium term, consistent with debt sustainability objectives, and thereby enable the bond market to play an active role in reconstruction.

- *Treasury cash and liquidity management*: The expected provision of large-scale financing, including through the ERA initiative as well as risks to budget execution from the ongoing war highlight the need to strengthen capacity in this area. To avoid vulnerabilities, strengthen budget execution and commitment controls, and to help lower the volatility and transaction costs of treasury resource management, we are committed to further strengthening liquidity forecasting and cash management To this end, we continue to review the findings of a diagnostic assessment of treasury cash and liquidity management based that we conducted with the help of IMF TA, examining international best practices with regards to the roles of finance ministries, treasuries, central banks, and debt management agencies and identify next steps.

D. Fiscal Structural Reforms

22. We are moving forward with our structural reform agenda to support our development goals and path to EU accession. In the area of public finances we are focusing on: (i) raising revenues to help meet reconstruction and social spending needs, guided by the objective of enhancing the efficiency, fairness and simplicity of the tax system, through the home-grown NRS; (ii) improving our public investment and public financial management frameworks by strengthening public investment processes, the project management cycle, and commitment controls; (iii) reforming and strengthening the pension system and social safety net, (iv) enhancing fiscal transparency and management of fiscal risks; and (v) ensuring fiscal sustainability and the predictability of budget policy by strengthening the medium-term budget framework (MTBF).

Revenue Mobilization

23. Our efforts to increase revenues through tax policy and administrative reforms are guided by the NRS. The NRS, adopted in December 2023, aims to establish a fair and competitive tax framework to generate sufficient revenues to address our post-war development goals while maintaining fiscal and debt sustainability. The strategic goals include improving tax revenues by closing existing opportunities for tax evasion, increasing compliance and combating the shadow economy. Our focus has now shifted to NRS implementation, we have developed detailed implementation plans with specific timetables for tax administration, customs, and tax policy reforms. We will closely monitor the NRS's implementation plans and publish a comprehensive annual status report each March, starting in 2025, to reflect reform progress and ensure accountability within a comprehensive, transparent, and unified reporting framework. We have already created NRS Steering Committees at SCS and STS to supervise reform implementation. We will continue to abstain from tax policy and administrative measures that may adversely affect the tax base and will refrain from introducing new categories of taxpayers in the existing preferential regimes. We are developing amendments to the strategy of digital development, digital transformations and digitalization of public finance management for the period till 2025, approved by the CMU in 2021, to bring it in line with the NRS till 2030, approved by the CMU in 2023. We plan to submit the amendments for the CMU approval by end-2024.

24. Near-term tax policy measures focus on raising revenues from excises, aligning with the EU acquis, and streamlining tax privileges. We recently took measures to increase excise rates, a first step in a gradual increase to EU minimum levels over the medium term. In line with the NRS, we are also planning to better target and rationalize tax exemptions, minimize revenue losses, and avoid compromising equity and economic efficiency. We recently adopted a formal assessment methodology for tax privileges and guidelines specifying (i) the number of topics on tax privileges to be evaluated in an annual cycle, (ii) a standardized evaluation template, and (iii) the publication process of underlying assessments. We will phase in this methodology and gradually apply it to all relevant topics, targeting the most significant tax expenditures first, and leading to a regular evaluation cycle covering all topics over a number of years. We will compile an updated and comprehensive inventory of all tax expenditures for publication alongside budget documentation, starting with the 2026 annual budget.

25. Over the next few years, we will undertake important tax policy reforms, guided by the NRS, to meet post-war needs. In addition to streamlining tax exemptions, we will strengthen revenue mobilization by:

- (i) developing a comprehensive package of measures for the post-war period to reform the taxation of carbon emissions; (ii) analyzing and assessing the taxation of extractive industries; and (iii) defining the principles of taxation of virtual assets, aligned with EU rules, in particular with regard to information exchange and initiatives of the OECD Global Forum. Work in several of these areas has already begun and will be supported by TA from the IMF FAD and other development partners.

- In the future, when conditions allow, we will consider reforms to make the tax system more equitable (e.g., through a more progressive personal income tax (PIT)). Also, we plan to carry out a comprehensive reform of the ST system in order to limit the sphere of application and the scope for abuse. The ST system's reform will aim to minimize opportunities for medium and large businesses to legally avoid the payment of taxes or to hide from taxation the sales volumes of goods and services, including goods illegally imported or produced; it will also aim to make it economically infeasible to use the ST system to move the legal basis for labor relations to civil law. In particular, starting at the latest by the start of 2027 we will begin to implement measures that will limit the possibility for business entities to return to the use of ST after their transition to the general taxation system, revise the approaches to determine and index the thresholds for ST, and narrow eligibility of ST by excluding certain types of activities. However, as outlined in the NRS, such PIT and ST reforms require administrative reforms, including to safeguard the confidentiality of tax data in the STS systems and to provide tax authorities an access to data about the volume of funds on taxpayers' accounts in banks.

- We are currently developing legislative amendments to introduce reporting requirements for digital platform operators and international data exchange in line with EU Council DAC 7 Directive / OECD Model reporting rules, which will allow the STS to obtain data from digital platform operators and international authorities about incomes of private individuals who receive incomes without registration of private entrepreneurship or use the ST system. This will become an effective tool to control the timeliness, accuracy, and completeness of declarations of such incomes and will contribute to a significant expansion of the tax base due to inclusion of private individuals whose income is currently not taxed. The measure will facilitate revenue mobilization and harmonization of Ukrainian tax legislation with EU legislation and OECD standards and will become a first step to reform the ST system via the introduction of new digital control tools by the STS. We will submit relevant legislative amendments to Parliament by end April 2025 **(Structural Benchmark, end-April 2025)**.

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

26. Near-term reform efforts at the State Tax Service (STS) focus on building public trust in the STS and developing modern compliance risk management practices:

- We expect to be able to publish the results of a survey of taxpayers conducted earlier this year by an independent company by end-2024 and no later than 2 weeks after we receive the results.

- We continue efforts to improve excise tax administration, including for tobacco. To this end, and as envisaged in the NRS, we are developing a track and trace system, in cooperation with the Ministry of Digital Transformation, and remain on track to operationalize it by January 1, 2026.

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

- We will take measures to ensure the confidentiality and protection of data in the STS systems (including information received from taxpayers and tax agents). To enhance the confidentiality of tax data held by STS, by end-2024 we will develop the concept of using de-personified data on taxpayers by tax authorities (see NRS section 4.2.3), until the risk of tax non-compliance is detected. These changes to our systems will be operational by end-2026.

- To improve our risk-based approach to tax administration, we developed methodological documents to operationalize the tax risk management system. We will adopt a compliance improvement plan (Overall Compliance Improvement Plan) as a comprehensive document on the identification, assessment analysis, and mitigation of risks by major types of tax risks. In July 2024, we officially launched a pilot of the new compliance risk management system.

- We are finalizing the IT framework for the e-audit program, which will automatically verify the consistency of tax declarations with other data. We will ensure that the e-audit program is fully operational by end-2025. We will also implement IT solutions for SAF-T UA (electronic format of data submission) for large taxpayers, by end-March 2025.

- We are also working on: (i) organizational restructuring to reflect the functional review (by end-2024) to better align the STS's organizational structure with the principle of functionally organized tax administration and support modern Compliance Risk Management practices of functional principle; and (ii) improving the efficiency of information exchange with foreign competent authorities. In June 2024 we obtained a positive assessment from OECD Global Forum on Informational Security Management Maturity.

27. Near-term reform efforts at the State Customs Service (SCS) focus on areas critical for reducing corruption risks and boosting capacity to combat fraud:

- Following the adoption of legislation to criminalize large-scale customs fraud and smuggling, we have also submitted legislation to modernize the framework to address administrative liability for violations of customs regulations, to be adopted by end-2024.

- We have also stepped-up efforts to improve compliance risk management, including through an automatic risk management system and a significant expansion of the authorized economic operator (AEO) program from one participant at end-2023 to 65 by November 2024. We will ensure a steady increase in the number of participants while making every effort to maintain its integrity. By end-2024, we will introduce a random check methodology to establish a baseline measure of compliance risk and assess the validity of existing risk criteria.

- We are moving swiftly to implement the recently enacted Customs Code, with key reforms to simplify procedures, establish a framework for integrity-based dismissal and periodic re-attestation, attestation of central office employees and all employees, create a disciplinary committee, enable contractual hiring, bar re-hiring of personnel dismissed for ethics violations, and align national customs legislation with EU regulations by 2027. Additional reforms include granting customs authorities law enforcement status and centralization of customs IT and infrastructure by mid-2026. By end-June 2025, and in line with the enhanced selection process in the Customs Code we will appoint a new permanent head of customs **(Structural Benchmark, end-June 2025)**. The MoF will oversee the selection, KPI-based performance evaluation, and policy guidance for the SCS head, ensuring transparency and accountability while allowing SCS operational independence. Any vacancies for regional customs heads will be filled as soon as possible. We also commit to improving efficiency by gradually and selectively centralizing and standardizing functions such as HR, accounting, and litigation, across Ukraine's customs service to enhance efficiency, productivity, and compliance.

- We have launched an initiative to determine the criteria for assessing the impact of the SCS Anti-Corruption Program. This assessment will be supported by regular (biannual) independent surveys of traders on the perception of integrity level in customs. 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.

28. Economic Security Bureau of Ukraine (ESBU). The ESBU will focus on major economic and financial crimes, and strengthen its analytical capacity to prevent such crimes effectively using a risk-based approach (complemented by efforts to ensure the capacity of the STS and SCS to address violations in the tax and customs spheres). The ESBU law approved in June 2024 establishes robust mechanisms for the selection commission for the ESBU head with a decisive and crucial vote for independent experts with international experience. Independent experts will also play an important role in the attestation process of existing staff (to assess their integrity and professional competence), as well as HR commissions to select new staff. The selection commission for the new ESBU head was approved in October, and we are on track to appoint the new ESBU head based on the selection process **(*Structural Benchmark*, end-February 2025).** The new ESBU head will approve procedures of attestation and form the attestation commission within three months of being appointed. The attestation of heads of division and territorial offices and their deputies will be prioritized. We will leverage the anti-money laundering and counter terrorist financing (AML/CFT) framework to support efforts to detect tax evasion and smuggling of goods in significant amounts through the use of financial intelligence tools, in coordination with relevant agencies.

Restoring the Medium-term Budget Framework

29. We will continue enhancing expenditure planning and the medium-term budget framework (MTBF). A diagnostic review comparing pre-war MTBF policies and practices to best practices has been completed (**Structural Benchmark met, end-October 2024**). Based on this review, we developed an action plan to enhance the MTBF, which is incorporated into a MOF Order for implementation. In 2025, our focus will be on the practical application of diagnostic review results, improving expenditure baseline estimates and costing of new policies. Building on experiences of practical application and with FAD TA, by end-October 2025 we will identify next steps to further improve expenditure baseline estimates and costing of new policies to ensure their usage by all key spending units. We will ensure that PFM-related reforms, including Public Investment Management reforms, will be well aligned with the MTBF (¶36). Through these reforms, the government of Ukraine strengthens its ability guide fiscal policy, more efficiently allocate scarce public resources, and further aligns its budgetary framework with EU requirements.

Pensions and Social Spending

30. We are taking steps to mitigate fiscal risks arising from the complexity of the pension system. Our pre-Covid pension reform addressed aging-related sustainability issues but did not tackle the complexity of the pension system. The ambiguity in the law has given rise to numerous court cases with adverse outcomes for the budget. To achieve greater legal certainty and avoid additional pension spending pressures caused by legal ambiguity, we will submit to the Parliament by end-March 2025:

- amendments to the legislation to ensure that Article 61, Part 5 of Law 3354-20 becomes effective immediately.

- new legislation prohibiting any changes to the pension system through unrelated legislation (i.e., outside the pension law).

Also, we will focus on consolidation of pension legislation provisions to replace various sectoral legislative acts that regulate pension rights.

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

- **Pensions.** In the next few years, we plan to work on a comprehensive conceptual framework to improve and simplify 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) passing any new legislation that would give rise to additional pension-related contingent liabilities, which are not provided with financial resources; and (iii) modifications that would lead to a lowering of the legally defined retirement age. In the near term, we will take measures to limit the amount of additional benefits paid to certain categories of pensioners, on top of the contributive part of their pensions. We will also offer a unified approach to the annual increase of all pensions assigned in the pension system, exclusively through the indexation mechanism. In addition, we will improve the targeting and prevent the abuse of certain pensions supplements, by clarifying eligibility criteria.

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

Fiscal Transparency and Risks

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

- To strengthen the link between the fiscal risks assessment and the predictability of government spending, we will update the methodological guidance (with input from MOE and other line ministries in their respective areas of responsibility) for assessing fiscal risks in key spending areas and contingent liabilities, including PPPs, guarantees, local governments 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.

- We have made significant improvements in fiscal risk analysis and reporting. The Fiscal Risk Statement (FRS) for the 2025 budget featured an enhanced SOE fiscal risk analysis, incorporating a consolidated view of financial performance analysis and stress testing across major SOEs. Going forward, with FAD TA we will further quantify fiscal risks by including projections of fiscal variables (deficit, debt) under certain shock scenarios in the Budget Declaration and the FRS.

- We are strengthening the capacity for public investment fiscal risk management and have established a new unit within the MoF's Fiscal Risk Management Department. The unit will complement the assessment of project risk undertaken by the PIM sectoral unit, MOE, and MOI.

- In collaboration with the MOE, the MOF published, as part of the FRS, a list of PPPs and prepared a review of the associated risks and potential impact on the 2025 Budget and onwards. We are committed to improving the reporting of PPP fiscal risks in the FRS for the 2025 budget and have requested FAD TA to support this.

- We will implement the MOFs SOE fiscal risk management function for SOEs into the new SOE governance framework and align it with secondary legislation, including Order 984 on Financial Indicators. This requires comprehensive analysis of SOE financial and fiscal risks, for which we have requested FAD TA. We will gradually enhance the identification, analysis, and reporting of Public Sector Obligations (PSOs) and Quasi-Fiscal Activities (QFAs).

- The MOF will continue the development of risk-based fees for guarantees and prepare amendments to the existing decree. We are collaborating with an independent team of researchers at State Tax University and Kyiv National Economic University to develop the underlying risk assessment model. We expect the framework for risk-based fees to be finalized by end-2025.

- We recognize that earmarking revenues, including through special funds, entails important transparency risks, and increases complexity, which can have unintended consequences for budget planning and implementation. To this end, we will avoid any amendments to the Budget Code that would result in additional earmarking of revenues, including through creation of new special funds and/or transfer of existing revenues of the general fund to newly created special funds.

33. We are strengthening the framework to limit long-term debt vulnerabilities of local governments. In 2023, we introduced legislation to expand the list of local government entities entitled to local borrowing and to issue local guarantees, with MOF approval. In this context, it will be key to ensure debt sustainability at the local level by improving the regulatory framework and increase the level of fiscal prudence among local governments. To this end, we are making efforts to strengthen the institutional capacity of local governments to attract resources and to manage debt and guarantees. In parallel, we are working to improve the mechanism for approving the amounts and terms of local borrowing and local guarantees. We are also developing methodological frameworks that guide the relevant processes and creating tools to monitor and control the debt burden of local budgets, including through strengthened reporting requirements.

34. The MOF remains responsible for overseeing the BDF. We have developed a coordination mechanism with clearly defined roles for the MOE and the MOF. While the MOE will maintain its role of identifying priority sectors for SME support and modelling of all needed changes and development of the 5-7-9 program and the relevant financial instruments, the MOF will control and monitor spending under the program. This appropriately balances SME support objectives against fiscal risks and ensures that the established directions and bank lending limits are respected. The appropriations for the 5-7-9 program in the 2025 Budget will be consistent with the parameters of the program and fiscal constraints. We will also ensure that the 5-7-9 program remains solely within the BDF, preventing its delegation to (or replication by) other entities, unless a government decision, made after prior consultations with IMF staff, allows it.

35. Our reforms of the 5-7-9 program are accompanied by measures to strengthen the BDF's effectiveness and sustainability, consistent with the SME Development Strategy (Government Order No. 821). The MOF, in collaboration with international partners, has commissioned an independent assessment of the BDF (to be completed by end-June 2025) and its support programs, with the goal of refining their operational design to effectively serve only those SMEs that face substantial barriers to funding and of informing the future role of the BDF. Moreover, the World Bank will carry out a policy effectiveness review of the 5-7-9 program in 2024. We will wait for the results of these studies before making any changes to the BDF's structure or scope of activities. To ensure legal certainty and attract a wide range of qualified candidates for the BDF supervisory board, legislation was recently passed to align the asset declaration obligations of the BDF's foreign independent supervisory board members with those of SOBs, effective November 2024 through the enactment of law #3818-IX. To further strengthen the governance and financial self-sustainability of the BDF, we have recently increased BDF's fees from 0.15 percent to 0.5 percent and shifted responsibility for paying such fees from the government to banks participating in the 5-7-9 program, and we are committed to:

- Establishing a BDF supervisory board with majority of independent candidates (by end-January 2025).
- The BDF will review and update its guarantees framework, as needed, by end-February 2025 in consultation with relevant stakeholders, to ensure adequate guarantees backstops and taking

into account its financial position. The NBU will formally assess the eligibility of guarantees issued by the BDF as collateral for the prudential reserves calculations and its liquidity coefficients (Annex 6 to NBU Resolution No. 351) in consultation with IFIs by end-May 2025.

36. **To limit fiscal risks, any government lending facilities or development finance institutions will strictly adhere to international best practice.** We will ensure that any legislation along these lines conforms to international best practice. Specifically, we will ensure that any proposal internalizes the need for appropriate oversight (including by the competent authorities), a business model that ensures long-term financial sustainability to mitigate fiscal risks, and incorporates sound risk management frameworks and corporate governance standards, to provide insulation from political interference. The implementation of any new programs will not affect existing government lending and granting programs along with the coordination mechanism with clearly defined roles for the MOE and the MOF. We will consult with IMF staff and other international partners before launching any such programs. To this end, by end-September 2025, we will conduct an external assessment of the draft law on the National Development Institution and related legislation against international best practice and in consultation with IFIs while laying out the fiscal implications and risks and providing recommendations that should be implemented before the SME development finance institute is created.

37. **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 continues to serve it in the current year, supporting the restoration of destroyed and damaged property in the amount of UAH 38.1 billion in 2023 and UAH 16.7 billion for the first nine months of 2024. In 2025, the Fund will continue to serve its purpose as stated in the Article 43 of the draft State Budget Law and we will keep control over commitments and appropriations with the MoF as prescribed by the budgetary legislation.

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

Strengthening Public Investment Management

38. **We are implementing the 2023 Roadmap to reform our public investment management (PIM) framework.** The 2023 Roadmap will gradually address identified weaknesses in the areas of (i) strategic planning, (ii) integrating public investment into the MTBF, (iii) procedures for preparing, appraising, selecting, and implementing projects, (iv) institutional capacity, and (v) monitoring and evaluating implementation. Our PIM reforms will follow the principles of budget unity, coherence, and predictability and will strengthen coordination between the MOF, MOE,

Ministry of Infrastructure, and other line ministries who remain responsible for project execution. To guide implementation of the 2023 Roadmap, we are implementing a detailed Action Plan with a clear timeline that provides clear linkages between the MTBF and national reconstruction priorities, specifying a gatekeeper role for the MOF, which implies a central role for MOF in all stages of public investment management. The first stage of the Action Plan, covering 2024–25, is now being executed:

- As a first step to implement the 2023 Roadmap, we have established the Strategic Investment Council (SIC), which will play a central role in defining the project pipeline, including endorsing public investment projects for the annual budget. We will enact legal amendments (in line with Action 1 under the Action Plan) to (i) integrate PIM into the budget process, ensuring that only projects that were appraised and selected in the prescribed manner are included in the budget; (ii) define the functions of the participants in the PIM process; (iii) introduce medium-term planning of public investment, including prioritization of ongoing projects; and (iv) establish the mandatory use of a unified IT platform (DREAM; IT systems of the MOF and the MOE). The amended Budget Code will give MOF a clear mandate to verify—and report in annual budget documents—that all projects financed from the budget (and all PPPs and guarantee-backed projects) were appraised and selected in the prescribed manner (***Structural Benchmark***, **end-January 2025**). Moreover, by end-February 2025, Cabinet will approve secondary legislation required to implement the Budget Code amendments.

- Upon adoption of the above Budget Code amendments, the CMU will approve a methodological framework underpinning the PIM process, including procedures and criteria (as described in Actions 17-22 under the Action Plan) for (i) the preparation of projects, (ii) the formation of the single project pipeline, (iii) the appraisal of projects, (iv) the selection of projects, (v) determining the sources and mechanisms of financing, and (vi) the implementation, monitoring, and evaluation of projects **(*Structural Benchmark*, end-February 2025)**. These procedures will provide a clear distribution of functions and responsibilities among participants in the PIM process and will adhere to the following principles:

    i. The degree of scrutiny will be commensurate with the scale and complexity of the project.
    ii. To speed up delivery, project review decisions will be timely.
    iii. To avoid a political commitment to projects before there is reasonable confidence in key project variables (e.g., cost estimates or delivery schedules), the procedures will include mechanisms to abandon or modify projects at any stage in the process. We will submit any necessary changes in regulation or legislation to this effect. In line with its gatekeeper role, MOF will have the right to trigger such mechanisms, especially for larger projects.
    iv. Conflicts of interest will be avoided, for example when officials appraise project proposals submitted by their own ministry.

v. The source of financing will be considered only after a decision on whether to proceed. Moreover, availability of finance will not inform the decision, including for externally financed projects.

vi. The review of project proposals by the MOF, MOE and MOI will be conducted in an integrated fashion (rather than by each ministry separately), so that interdependencies between the technical, economic, and financial reviews are adequately captured in the overall quality assurance of project proposals.

- By end-2025, we will enact legal amendments (in line with Action 31 under the Action Plan) to improve the integration of PIM into medium-term budget planning and fiscal risk management, covering: (i) use and recording of multiannual budget commitments and contingent liabilities for public investment projects; (ii) determination of contingent liabilities that may arise from PPPs; (iii) management and disclosure of fiscal risks related to public investments; and (iv) public investment budgeting at the local level.

- In parallel, we will finalize the required IT infrastructure (by end-2025) and will take steps to increase the institutional capacity of agencies participating in the PIM process.

E. External Debt Strategy

39. Our efforts to restore debt sustainability on a forward-looking basis remain guided by the strategy that we announced in March 2023. A treatment of external public debt remains necessary 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. We completed a major step in this process with the successful Eurobond exchange, which was completed in August 2024. Our goal remains to restore public debt sustainability and ensure that our program is fully financed, including in a downside scenario. Additionally, our strategy is 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.

40. With the completion of the Eurobond exchange, we are turning to additional components of our strategy:

- *Commercial claims other than Eurobonds*: In addition to the bonds, we intend to pursue treatments of: (i) GDP warrants; (ii) government guaranteed bonds of Ukrenergo; and (iii) external commercial loans owed to a commercial creditor, which was a part of the restructuring perimeter approved in March 2023. To this end, we have made contact with the holders of these claims and a moratorium on government payments on the respective instruments was introduced in August 2024. We are committed to prompt implementation of the strategy in line with the debt sustainability objectives of the program. We continue to be aided by our external financial advisors and remain committed to a credible process for restructuring these claims in line with the overall strategy under the program, including with transparency for information and communication.

- *Official bilateral debt.* Creditors in the Group of Creditors of Ukraine remain committed to a two-step process involving an extension of the debt standstill, coupled with a separate assurance to deliver a final debt treatment sufficient to restore debt sustainability before the final review of the IMF-supported program. The first stage—an extension of the standstill until 2027—was formally concluded in December 2023. We remain in close contact with the GCU regarding the restructuring of external commercial debt to ensure their comfort with the overall strategy as developments unfold. Going forward, we will seek treatments on comparable terms with other official creditors, including guaranteed loans, and the definitive restructuring of these claims.

41. We believe that the full implementation of our strategy will allow us to deliver the debt sustainability targets under the program's baseline scenario. We are committed to undertake a further treatment of external commercial claims as needed to restore debt sustainability, in line with program parameters. We note that the exceptionally high uncertainty now prevailing means that it is difficult to pin down a future scenario. If the scenario prevailing at the penultimate review of the program (or once conditions of exceptionally high uncertainty abate if that occurs earlier) is worse than that on which the present restructuring is based, then a further treatment of external commercial claims would be required. This would be alongside the restructuring of official bilateral claims. The further treatment would be expected to take place once conditions of exceptionally high uncertainty abate, or at the latest by the penultimate review of the program. We continue to retain legal and financial advisors to assist us in this process and will continue to share information on a regular basis with creditors about an eventual further treatment, including the potential range of outcomes and possible timelines.

42. To support our goal of safeguarding debt sustainability, we will continue to strictly limit the issuance of guarantees (*Quantitative Performance Criterion*). 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 an adequate level of international reserves. Guided by our Strategy, we continue adapting our monetary and exchange rate policies in view of evolving macroeconomic conditions and outlook, including cautiously continuing with FX liberalization, while ensuring external viability is restored, a key objective of our program.

Monetary Policy

44. We will maintain an appropriate monetary policy stance to support price stability, anchor inflation expectations, and enhance FX market stability. Rapid disinflation supported an easing cycle in the first half of the year, allowing us to cut the key policy rate (KPR) by 200 bps. However, since our July MPC, we have kept the KPR on hold at 13 percent, in view of accelerating inflation from energy and labor costs, food supply shocks and the passthrough of currency depreciation. Our decision will also help keep real rates high to preserve the attractiveness of hryvnia instruments and limit the demand for FX. Pending the resolution of recent inflationary shocks, we will maintain this tight monetary stance, while standing ready to tighten our interest rate policy if inflation continues to accelerate above our forecast or expectations show signs of deanchoring, and to resume the easing cycle once inflationary pressures abate. Despite the recent acceleration, expectations remained well-anchored. As pressures on inflation are expected to largely abate due to a stabilized energy situation and an expected larger harvest next year, we plan to steer monetary policy towards sustaining moderate inflation through 2025, followed by its return toward the target of 5 percent over our policy horizon of up to three years. The NBU intends to adapt its monetary policy if the balance of risks to inflation and the economic outlook changes significantly over the forecast horizon. Overall, in line with our Strategy, we intend to maintain sufficiently positive real interest rates to support price and external stability.

45. We will achieve our monetary policy objectives through the flexible inflation targeting regime defined by our updated Monetary Policy Guidelines (MPG). As outlined in our Strategy, we intend to return to a full-fledged inflation targeting regime as conditions permit. However, in the meantime, as expressed in our MPG, in order to safeguard macroeconomic and financial stability we have adopted an interim flexible inflation targeting regime. This deviates from the pre-war regime along several dimensions, including due to the managed flexibility of the exchange rate. In addition, the flexibility inherent in our inflation targeting regime accommodates short-term deviations from the inflation target in response to shocks, which should facilitate the adjustment of the Ukrainian economy to such shocks while maintaining control over expectations. Nevertheless, our strong commitment to achieving and supporting price stability in the medium term is crucial in guiding inflation expectations. Another key difference from our pre-war regime, as per the MPG, is the reliance on a combination of interest rate and exchange rate policies as well as FX restrictions and other tools that are consistent with maintaining price stability. In this context, we are continuing our efforts to further strengthen the effectiveness of the KPR towards its role as our main policy instrument to achieve the inflation target. Meanwhile, the main role of FXI is to cover the structural deficit and avoid excessive volatility in the FX market, ensuring its stable functioning. At the same time, to support our eventual transition to full-fledged inflation targeting, we will continue to allow sufficient exchange rate flexibility to serve as a shock absorber, while also preventing the accumulation of external imbalances, and safeguarding valuable reserve buffers.

46. To ensure appropriate attractiveness of hryvnia-denominated instruments and strengthen monetary transmission, we will continue to adjust the operational design of our monetary policy framework if needed and take steps to manage the banking system's structural liquidity position.

- The adoption of the floor system in our monetary policy operational framework, that assigns the key policy rate to the overnight CD, continues to support monetary transmission. Our use of 3-month CDs, access to which is linked to retail hryvnia term deposit growth, has supported real returns and volumes of such deposits, enhancing FX market sustainability and bank funding. Going forward, we will continue to make technical changes to our operational design if needed to ensure consistency with appropriate monetary conditions, proper transmission of monetary policy, and to support external stability and FX reserves. Further changes to our operational design will be based on a thorough analysis of their potential impact on banks' behavior and monetary policy conditions, considering the need to maintain hryvnia assets' attractiveness and monetary stability.

- In October, we increased reserve requirements and the share of these requirements that can be met with eligible domestic bonds to 60 percent; this was aimed at strengthening the flexibility of banks in managing their liquidity and supporting the uptake of government bonds in the primary market to meet financing needs in 2024. This is expected to have a broadly neutral impact on liquidity and an increase in banks' benchmark bond holdings by about UAH 150 billion relative to before this adjustment to the RR. We will continue to carefully monitor the impact of these adjustments on liquidity conditions, including to ensure consistency with our monetary policy objectives.

- Over time, consistent with the evolution of liquidity conditions, we may consider the introduction of instruments beyond an overnight maturity to achieve, among other objectives, an increase in the average maturity of our sterilization operations, while considering the implications for the primary government bond market.

Exchange Rate Policies

47. Effective operationalization of the managed flexibility exchange rate regime has enhanced the FX market's capacity for self-balancing and strengthens the exchange rate's role as a shock absorber while safeguarding reserves. The exchange rate, while supported by FX interventions, has fluctuated in both directions in response to market conditions. FX trading has increased significantly, accompanied by a notable increase in its depth: since the transition to managed flexibility, transactions excluding the NBU's participation have more than tripled, and their share more than doubled. The spread between exchange rates on the cash and official exchange rates remained compressed, not exceeding 0.9 percent in September-October 2024, thus aligning different FX market segments. In general, these developments help to reduce the FX market's sensitivity to short-term volatility and strengthen its ability to self-balance. Allowing the exchange rate to adjust to domestic and external shocks and ensuring the exchange rate fluctuates in both directions in response to changes in the balance of supply and demand will enhance the resilience of the FX market and Ukrainian economy. We continue to monitor the FX market closely and to calibrate our FX intervention policy to achieve the program's objective of external stability, including consistency with the program NIR targets. As envisioned in our Strategy, FX interventions will be used to fill the war-related structural FX deficit of the private sector (while accommodating the structural surplus of FX in the public sector) and to reduce excessive volatility of the exchange rate, with the level of the exchange rate otherwise determined by prevailing market conditions. Avoiding excessive exchange rate volatility under the managed flexibility framework will further help keep inflation and exchange rate expectations under control, thereby preserving confidence in the hryvnia and supporting our eventual return to full-fledged inflation targeting. 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.

48. We are committed to maintaining adequate FX reserves throughout the program to safeguard external stability. Despite an unexpected increase in demand for FX cash, we met the end-September 2024 Quantitative Performance Criterion on net international reserves thanks to an increase in FX supply—especially from the agricultural sector— as well as positive net issuance of domestic FX securities. We remain committed to achieving the established NIR targets at the end of the year and through 2025 to ensure adequate reserves in light of the balance of risks to the outlook.

49. We continue to carefully adjust FX controls to support the economic recovery, while maintaining FX market stability and accommodating national and international security considerations. In line with our Strategy, we have cautiously eased FX controls, including most recently by further easing external loan repayments for corporates' Eurobond financing. These reforms are aimed at improving the investment environment, facilitating debt management, and promoting capital inflows into Ukraine, while considering assessments on macroeconomic conditions and outlook, and also ensuring consistency with the overall policy mix. We will remain vigilant, aligning with the FX liberalization roadmap under our Strategy to safeguard macroeconomic stability. To ensure the effectiveness of our liberalization efforts, we will continue to closely monitor the situation, including via bank-level data, to identify and address potential circumvention.

NBU Independence and Governance

50. We remain committed to avoiding monetary financing. If unexpected critical needs arise or external disbursements are delayed, we will first explore additional measures, such as drawing down excess government deposits or tapping the government debt market. We will request monetary financing from the NBU only as a last resort and in strictly limited amounts, underpinned by a framework agreed between the MOF and NBU in consultation with the IMF, and for which an NBU resolution was adopted in September 2024. We will also avoid indirect forms of monetary financing that are outside the core functions of the NBU, such as through the directed provision of liquidity to banks for the purchase of government securities on the primary market. Direct financing of off-budget programs by the NBU will be avoided altogether.

51. 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 a full-fledged inflation targeting framework with a floating exchange rate.

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

- *Financial autonomy.* We will continue adhering to our profit retention rules and ensure that the distribution of NBU profits to the state budget takes place in line with procedures established under the NBU Law. We commit to refrain from using NBU profit for earmarked spending and will direct this revenue category to the General Fund of the State Budget. Finally, we recognize that costs incurred from monetary policy implementation via liquidity absorption (interest expenses on NBU CDs) are both necessary and justified to support macroeconomic stability in line with our mandate.

52. We are taking concrete steps to incorporate recommendations of the 2023 Safeguards Assessment. In July, pursuant to a key recommendation of the Safeguards Assessment, the NBU Council conducted a self-assessment assisted by external consultants, containing recommendations to further improve its oversight role and collective fitness. We will continue working with IMF staff to develop and adopt amendments to the NBU law to establish appropriate selection criteria for the Council and strengthen financial autonomy safeguards, clarify counterparty eligibility for refinancing operations and emergency liquidity assistance and further strengthen NBU's status as a secured creditor. We will ensure that vacant positions in the NBU Council are filled by end-April 2025.

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. We intend to carefully unwind the unconventional measures undertaken to support price and external stability in wartime. Urgent wartime challenges necessitated the use of several nonstandard measures by the NBU to support macroeconomic stability. We will strive to ensure that such measures are well-targeted, clearly communicated and time bound. For example, as the structural liquidity surplus unwinds, we will adjust the design of our monetary policy operational framework to better align with economic conditions, including assessing the merits of reverting to a corridor system. When conditions permit, we are committed to phasing out war-time measures. This will strengthen our monetary policy toolkit, safeguard NBU credibility and independence, and thereby support our goals to eventually return to a full-fledged inflation targeting framework with a floating exchange rate regime.

G. Financial Sector

55. Our wide-ranging emergency measures have preserved financial stability. We continue to closely monitor developments in the financial sector and will make adjustments to policies as necessary. Despite the severe impact of the war, the majority of bank branches remain operational, online banking services are fully available to all clients with internet connectivity, the non-cash payment system is functioning normally, and liquidity is robust for most banks. To ensure the continuity of the banking network, we introduced "Power Banking" in late 2022. The network currently includes over 2,400 branches or about 55 percent of the total, which are capable of providing banking services even during prolonged power outages. The Power Banking project continues to evolve to further strengthen resilience. Despite heavy attacks on energy infrastructure in September, 98.5 percent of the branches in the Power Banking network remained open and operational during prolonged disruptions to electricity supply. The licenses of eight small banks (around 4 percent of system net assets) have been revoked under Martial Law and one bank (also around 4 percent of system net assets) was nationalized.

56. Recognizing the importance of a well-informed approach to supervision, the NBU continues to undertake detailed bank diagnostics. These are critical to ensure prudent and consistent valuation of banks' assets, informing triage and the modalities of eventual balance sheet cleanup.

- The NBU completed a resilience assessment of banks comprising 90 percent of system assets in December 2023. This asset valuation and solvency assessment found minor capital needs in five banks, which have mostly been addressed. Four banks submitted capital management plans to close the approximately UAH 10 billion (US$260 million) gap as of end-2023 in two stages by March 2026. The findings of the 2023 resilience assessment have been fully reflected in banks' regulatory ratios and financial statements.

- Annual resilience assessments will resume in 2025, which includes asset quality reviews and stress testing under baseline and adverse scenarios and involve external auditors.

- The NBU has assessed key financial and operational risks to financial stability under various downside conditions in consultation with IMF staff and has updated NBU's monitoring and emergency response frameworks accordingly (***Structural Benchmark*, end October 2024**).

- In line with the Terms of Reference adopted by the NBU in January 2023, we will: (i) complete an independent asset quality review (AQR) once conditions have stabilized; and (ii) carry out a subsequent bank viability assessment. The current prohibition on bank capital distributions will remain in place until after the independent AQR findings have been fully reflected in banks' regulatory ratios and financial statements, and banks will not be subject to further fiscal measures that erodes capital buffers. In the interim, the NBU's regulatory activities will be informed by supervisory observations and resilience assessments.

57. We are determined to take the necessary steps to preserve financial stability and limit the potential fiscal cost of any interventions. Our priorities will focus on continued preservation of financial stability whilst ensuring financial and operational readiness to respond adeptly to shocks. The NBU and Deposit Guarantee Fund (DGF) have prepared contingency plans to respond to further potential high-impact events in their respective areas, in consultation with key stakeholders and IMF staff. The Financial Stability Council has approved those plans related to preparation for potential adverse rulings from the constitutional challenges against the DGF Law and an updated contingency plan to prepare for litigation risks concerning past bank resolution decisions. We will continue to monitor developments and update these plans as needed.

58. The DGF, MOF and NBU will prepare a bank rehabilitation framework in consultation with IMF staff (*Structural Benchmark*, end-December 2024). It will be based on existing roles and responsibilities of financial safety net stakeholders and include: (i) measures to strengthen operational readiness, including regularly updated bank recovery and contingency plans; (ii) drafting by end-December 2024 legislative changes to close key outstanding legislative and operational gaps in early intervention, temporary administration, and resolution frameworks, as set out in an updated roadmap prepared in September 2024 by the DGF and NBU in consultation with IFIs; (iii) revive the work of the NBU-DGF coordination committee to improve information sharing between the NBU and DGF to foster cooperation and functioning of the two institutions; and (iv) ensure that the DGF continues to have adequate financial backstops. To this end, the NBU has reinstated requirements for banks to update their recovery plans and first submissions from banks were received in October. Based on the recommendations of the Financial Stability Council, the DGF Administrative Board approved the quantum and timeframe for achieving the deposit insurance target coverage ratio. We will continue to maintain emergency financial backstops at least until the target ratio has been reached. In addition, the NBU will align its frameworks for counterparty eligibility in monetary policy operations with international best practice and their coordination with lender-of-last-resort operations. The framework preserves the progress under past reforms and takes into account the longer-term goals related to EU accession.

59. We will refrain from making any changes to the allocation of roles and responsibilities of financial safety net stakeholders during Martial Law. The current financial safety net design is heavily shaped by reforms undertaken under past Fund-supported programs and has served Ukraine well during crisis times. The DGF plays an important role in Ukraine's financial safety net by safeguarding deposits and addressing insolvent banks. We recognize that maintaining its current role in the financial safety net is therefore essential. In consultation with IFIs, (i) we appointed a new Managing Director in November 2024; and (ii) the Financial Stability Council established a working group in August 2024 consisting of representatives from the NBU, MoF, and DGF to review DGF governance arrangements. The review will cover the composition of the Administrative Board as well as DGF accountability, legal protection, functioning of decision-making structures, internal controls, and the procedures for the appointment of the Managing Director. The working group will prepare legislative proposals to close gaps relative to good practice by end-March 2025. The new appointment procedures will include the engagement of an independent HR firm to assist with the selection process and introduce a nomination committee comprised of voting representatives and IFIs as observers.

60. Our decisions will be consistent with our overall strategy to reduce state ownership in the banking sector. Any decision that has the potential to increase state ownership in the banking sector will be taken in consultation with IMF staff and be strictly limited to matters related to preserving financial stability and national security decisions during the Martial Law period. All systemic banks with majority state ownership will fall under the responsibility of the MOF, and any non-systemic banks that come under state ownership will not be recapitalized using fiscal resources and will be transferred to the DGF for resolution upon breach of prudential requirements **(*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 of the state of the banking system and wartime developments and needs. Informed by the NBU resilience assessment, we developed capital management plans and adjusted the business plans of SOBs needing capital increases to meet the requirements. The MoF in its capacity as SOB shareholder has instructed SOBs to maintain best practice risk appetite frameworks and the NBU will assess the frameworks as a thematic review as part of the 2025 annual Supervisory Review and Evaluation Process. Once the independent AQR is concluded, we will use its results to update the general SOB strategy and subsequently, strategies for individual banks with majority public ownership, including with respect to privatization (in line with our Financial Sector Strategy).

- In preparation for the privatization of banks with majority public ownership, Parliament approved a law on SOB privatization in October 2024. We are also preparing two systemic state-owned banks for sale, Sense Bank and Ukrgasbank. We plan to appoint an internationally recognized financial advisor by end-March 2025 using a transparent procedure and in consultation with IFIs. The privatization of SOBs is excluded from the general privatization law. Given uncertainties with the timing of sale processes, we will ensure SOB supervisory boards remain fully operational, including for Sense Bank, and will propose amendments to the independent supervisory board selection process by establishing a shortlisted panel of pre-screened candidates to accommodate any attrition in Supervisory Boards by end-January 2025.

- The Ministry of Economy will develop a strategy for the Ukrainian Financial Housing Company in consultation with the Ministry of Finance, National Bank of Ukraine and IFIs by end-June 2025 that: (i) fully considers fiscal and debt constraints, (ii) minimizes the use of fiscal resources, and (iii) aligns with the general objectives of the updated financial sector development strategy approved by the Financial Stability Council. We will not allocate any further budget resources to the Ukrainian Financial Housing Company in 2025 until the strategy is complete.

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

- *Financial reporting*. We have restored the legislative obligations to submit financial statements and audit reports for financial institutions for the 2023 financial year and for business entities located outside the occupied territories for the 2024 financial year. In anticipation of this change, the NBU has fully restored prudential reporting requirements for NBFIs. To improve the quality of financial reporting in the non-banking financial services market, in September 2024 we restored the requirements for mandatory quality control of services provided by audit companies, including the verification of audit reports prepared to comply with the requirements of the law. We will expand the functional capabilities of the Financial Reporting Collection Center to ensure stakeholder access to financial reports submitted by financial institutions to the Center in XBRL format by end-December 2025. Key tasks include identifying and allocating appropriate budgets to integrate software systems for reporting entities, state users, and the Financial Reporting Collection Center platform.

- *Bank capital rules.* The NBU has aligned banks' regulatory capital structure and leverage ratio calculations with EU rules. With support of the World Bank, we will close key gaps in regulatory capital requirements by end-June 2025 and other gaps thereafter. The implementation of the new requirements will be phased to facilitate banks integrating them into their business plans. To align with the EU Directive, the NBU will prepare amendments to the legislation to increase banks' minimum share capital to the equivalent of EUR 5 million by end-January 2025, with a six-month transition period for existing banks. The NBU will continue monitoring economic conditions and relax controls and reinstate pre-war regulations when it is safe to do so and based on banks' adherence to the new capital requirements aligned with EU standards, the results of resilience assessments, and considering the banking system's role of lending to the economy and their involvement in the domestic debt market.

- *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 close the gaps with international standards in consultation with the NBU, NSSMC and IFIs, and: (i) by end-June 2025 in coordination with the World Bank submit to Parliament amendments to the law "On Valuation of Property, Property Rights and Professional Valuation Activities in Ukraine" that closes the gaps with international valuation standards, and (ii) by end-December 2025, we will propose an implementation roadmap that includes transitional arrangements, details of supportive regulation and/or guidance, steps to strengthen the valuers' profession including additional training requirements for valuation of financial assets (banking assets, insurance assets and collateral), and the creation of a register of valuations for financial assets.

- *Immovable property databases and indices*. In March 2024, the NBU and Ministry of Justice prepared a detailed proposal in consultation with key stakeholders to increase the transparency of the real estate market for participants (including international investors), strengthen systemic risk analysis and mitigation, and bank collateral valuations. This proposal includes conditions, details, and timelines for introducing: (i) a publicly accessible database of real estate transaction prices with detailed metadata including structural parameters of primary and secondary market; and (ii) residential and commercial property price indexes. Based on this proposal, the Ministry of Justice and the NBU will continue to implement reforms within the timeframe planned in the proposal to launch databases and publish the indices in September 2025.

- *Virtual assets*. Virtual assets pose risks to price stability, the effectiveness of monetary transmission, and tax revenue in the absence of a strong legal framework. The NBU and NSSMC will prepare an update of the legislation, with input from Fund technical assistance, and in consultation with IFIs by end-February 2025 to align with international best practice while considering economic development goals and mitigating price and financial stability risks. The regulation and supervision roles and responsibilities will be decided in consultation with the Financial Stability Council and the IMF. We will prepare a Memorandum of Understanding in consultation with IFIs that defines the coordination and information sharing arrangements between the NSSMC and NBU by end-January 2025.

- *Non-performing exposures*. The NBU, in consultation with IFIs, has aligned the definition of non-performing exposures with Article 47a (non-performing exposures) and Article 178 (Default of an obligor) of Regulation EU 575/2013 of the European Parliament and the EU Council of 26 June 2013. The amendments will come into force from January 1st, 2025, and will strengthen monitoring by supervisors and banks. We will take further steps to strengthen banks' NPL workout capacity and to revive the secondary market for NPLs, in line with the NPL strategy approved by the Financial Stability Council.

- *NBU's status as a secured creditor*. We will strengthen the NBU's status as a secured creditor in line with the IMF's Safeguards Assessment. We will submit to Parliament by end-December 2024, law amendments that reflect the NBU and the DGF's coordinated position and that aim at strengthening the NBU's status as a secured creditor of banks by improving the mechanisms for extraordinary satisfaction of the NBU's claims through collateral, management, and sale of collateral.

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

- *Supervisory panels*. NBU Supervisory Committee decision-making has been strengthened by implementing "supervisory panels" as a consulting body to the Committee that provides additional independent review by relevant subject matter experts. We undertook a survey of the effectiveness of the new supervisory panels, in end-September 2024, in consultation with IMF staff, and adjusted processes accordingly.

- *Transition to risk-based supervision*. The NBU will prepare and implement a supervisory risk assessment methodology to inform supervisory engagement priorities (***Structural Benchmark*, end-December 2024**). We will apply this methodology to all banks and prepare a supervisory action plan by end-December 2024. We will also adjust the organizational structure for bank supervision to leverage efficiencies as we transition to a risk-based approach; continue to develop expertise for effective supervision, in particular, for supervision of information and communications technology risks as part of operational risk; and further improve the professional capacity of bank supervision, which will include the development of professional profiles needed and a multi-year training program for new hires.

- *AML and Banking Supervision*. The NBU will continue strengthening risk-based AML/CFT supervision of banks, payment service providers and non-bank financial institutions, particularly in relation to corruption, tax crimes and illegal gambling. By end-March 2025, we will amend Article 32 of the AML/CFT law and corresponding amendments to Article 73 of the Banking Law to ensure that the penalties for AML/CFT violations by entities regulated and supervised by the NBU are effective, dissuasive, and proportionate, in line with the FATF standards. The financial sanctions applied to such entities will be established by the laws of Ukraine and the regulatory legal acts of the National Bank of Ukraine. 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.

- *Supervision of banking hybrid business models*. We recognize the growing importance of banks' hybrid business models, including Banking-as-a-Service, a model in which banks integrate their digital banking services with non-bank businesses. The NBU prepared an analysis of the issues in October 2024 in consultation with IMF staff, that considers the specific risks of such business models (including operational resilience, critical third parties, and AML/CFT), and aligns with international standards and best practices. To mitigate growing critical third-party risk in banks, non-bank financial institutions, and payments service providers, we will: (i) prepare a concept note on oversight of critical third-party risk and digital operational resilience by end-February 2025; and (ii) develop and submit a draft law to parliament (***proposed Structural Benchmark*, end-May 2025**). It will be prepared in consultation with IFIs and will include measures for detection, containment, and mitigation of critical third-party risk under both going- and gone-concern conditions. Entities identified as critical third parties will be subject to NBU's fit and proper rules.

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

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

- *Legal framework*. In December 2021–July 2023, we passed legislation on Financial Services and Financial Companies (#1953), Insurance (#1909) and Credit Unions (#3254). Most provisions of these laws came into force in January 2024 and the NBU has prepared implementing regulations. Rules for insurance intermediaries apply from January 2025, and Solvency II will apply from January 2027. The NBU and DGF plan to develop 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 above laws are fully implemented.

- *Capital and reporting requirements*. Increased capital requirements for financial companies came into effect in July 2024. The NBU has developed a supervisory risk assessment methodology that distinguishes between the types of NBFIs. By end-December 2025, the NBU will test this methodology to refine it and transition to a risk-based approach for supervising NBFIs. The NSSMC will prepare draft regulation for financial intermediaries by end-June 2025, which will bring their capital requirements in line with the EU acquis. The regulation will be enacted by end-December 2025 following consultation with IFIs.

- *NBFI governance*: As part of its supervisory strategy for the NBFI market, the NBU will continue to strengthen its review of NBFIs and their ownership structures to ensure compliance with the transparency standards and that NBFI owners meet the requirements for business reputation, and financial/property status.

- *Payments market*. Law 3994-IXpassed in October aligns Ukrainian law with the EU payment services directive (PSD2, 2015/2366) and international good practice. To prioritize supervisory activities of payment service providers in consultation with IFIs, we: (i) prepared a concept note for a supervisory risk assessment methodology in August 2024 and will implement the methodology by end-December 2024; (ii) will develop the reporting system; (iii) will strengthen supervision capacity through hiring specialists and building analytical competence; (iv) prepared a concept note in June 2024 on regulatory requirements for person to person (p2p) and other such electronic payments. We have and will continue to introduce regulation to restrict abnormal behavior; and (v) developed a concept note in August 2024 on the establishment of a public register to record card holder and merchant violations, and its potential use by market participants and government agencies such as cyber police, SSU, ESBU, and SFSU. To minimize illegal use of the payment infrastructure, the NBU will prepare by end-December 2024 a legislative proposal to: (i) extend supervisor's authority to limit operations of payment service providers non-compliant with regulatory requirements; and (ii) establish two public registers to be used by banks when establishing business relations and servicing customers. The first register will be of persons with a high risk of payment transactions related to illegal activities, and the second of business entities to promote correct use of payments activity codes. Additionally, the NBU will prepare a concept note by end-December 2024 on measures to strengthen the risk-based approach by banks and non-bank payment service providers.

- *Capital market regulation and harmonization with IOSCO principles*. Following the enactment of Law 3585-IX on the improvement of state regulation of capital and commodity markets, we are moving swiftly to align with IOSCO principles by conducting the screening process to become a signatory of IOSCO's multilateral MoU by end-June 2025 with full implementation of the other provisions of the law by end-December 2025. To prepare for implementation and to front-load critical reforms, the NSSMC will: (i) propose a reorganizational and operational strategy in consultation with IFIs; (ii) update and implement the Commission's Employees Code of Ethics in line with international best practice in consultation with IFIs; (iii) initiate an advance independent fit and proper review of NSSMC Chair and Commissioners in accordance with Article 12 of the above law and disclosures made in line with the Code of Ethics and in consultation with IFIs; and (iv) by end-December 2024 in consultation with the NBU, take steps to ensure the effectiveness of capital flow measures, including through regulatory harmonization and aligning capital flow restrictions for securities operations with those applied to bank operations (**proposed**

Structural Benchmark, end-January 2025). The Commission will complete the independent fit and proper review by end-March 2025.

- *Related parties*. Taking into account supervisory observations in the recognition of related parties, we have submitted a draft law to Parliament aimed at strengthening supervisory powers to capture economic interdependencies and related party risks. We will take the necessary steps to facilitate the adoption of the law by end-March 2025.

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

- *Strengthening NBU legal capacity*. Effective procedures are needed for addressing violations in the provision of financial services and payment services, including strengthening the regulator's role in such procedures. The NBU, in collaboration with the Ministry of Internal Affairs and the National Police of Ukraine, will propose coordination arrangements by end-June 2025 to promote more effective detection, documentation, and processing of administrative offenses related to unauthorized provision of financial and payment services. To respond effectively to critical threats to the stability of our financial system in the event of adverse court rulings regarding NBU decisions to revoke licenses of non-bank financial institutions, we will, in consultation with IMF staff, improve legislation regulating the license revocation and liquidation procedures for non-bank financial institutions.

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

- *Capital market infrastructure.* The NBU and the NSSMC have implemented the necessary mechanisms for foreign investors to directly access marketable debt instruments (municipal bonds and other Ukraine reconstruction-related debt instruments). The NSSMC, National Depositary (NDU), and NBU will target establishment of a direct link between the Central Securities Depository (CSD) and foreign CSDs by end-July 2025 to expand foreign investors' access to a broader range of instruments and markets. The NBU, NSSMC, and MOF, in consultation with IFIs, will develop a targeted model for capital market infrastructure development that will facilitate engagement of foreign investors by end-December 2024.

- *Secondary market for government bonds*. The largest stock exchange for domestic government bonds is undercapitalized and the NSSMC has agreed recapitalization terms with the owners. To mitigate the risks to the functioning of the secondary government bond market, the NBU and NSSMC have coordinated to facilitate launching by Settlement Center, an NBU majority owned central counterparty, contract making and clearing services for over-the-counter transactions in government bonds.

- *War risk insurance system*. The working group of the FSC has finalized a draft law establishing a fully functional war insurance system. The NBU and the Ministry of Economy held public consultations in September and October 2024 in preparation for finalizing and submitting the draft law to Parliament by end-December 2024.

- *Financial inclusion.* The war is jeopardizing access to financial services for households and enterprises in areas close to the armed conflict zone, in the liberated territories, as well as for certain groups of the population. The war is also restricting IFIs' ability to comprehensively assess financial inclusion developments and priorities. We have collated fresh data with the assistance of the World Bank using a best-efforts approach and will update our financial inclusion strategy in consultation with IFIs by end-March 2025. We will encourage financial institutions to do more to meet the needs of vulnerable clients and to reintegrate de-occupied territories. The NBU prepared draft law (#12044) for a specialized and restricted banking license in July 2024 which aims to quickly tackle growing financial inclusion challenges by leveraging on existing infrastructure. These specialized banks will: (i) be subject to the full extent of the Law of Ukraine on Banks and Banking; (ii) participate in the Ukraine deposit insurance scheme; (iii) have limits imposed on lending and funding operations. The proposal has been prepared in consultation with key stakeholders and IFIs, and with due regard to international good practice.

- *Lending development strategy*. The Financial Stability Council approved a strategy in July 2024 to support bank lending that aims to provide a unified policy approach to support fresh credit, which includes a prioritized interagency NPL resolution action plan informed by the 2023 NBU resilience assessment. It focuses on targeting subsidized lending instruments to key priority sectors during the war and further developing credit infrastructure to support banks' risk management and lending decisions. NBU regulation and supervision will continue to apply to institutions that provide financial services to a large volume of clients, and any authorities or agencies mandated with improving the lending infrastructure will adhere to the approved strategy. The NBU will coordinate with other stakeholder authorities and will prepare detailed action plans by end-February 2025 to implement the steps outlined in the Strategy's second (implementation) phase, including for exchange of information, protection of creditors' rights, and tackling NPLs.

- *Responsible consumer lending*. To strengthen borrowers' rights, improve information exchange, and encourage responsible lending, we submitted to Parliament in February a draft law on improving state regulation and the functioning of credit bureaus. We will take the necessary steps to facilitate the adoption of the law by Parliament by end-April 2025. We will also enhance the supervision of credit bureaus by establishing requirements for ownership and internal controls within six months of the law being adopted by the parliament and signed by the President.

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

65. **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 Anti-Corruption

Governance of Reconstruction

66. **Our strategy for post-war reconstruction will meet the highest standards of transparency and accountability.** In coordination with international partners, we plan to take full advantage of digital technologies in implementation of the full cycle of public investment projects, providing timely information to transparently track and analyze related projects throughout the whole project cycle from planning to implementation, including procurement processes and expenditures. We will achieve this through developing a single digital ecosystem for PIM based on the updated Ministry of Economy's Prozorro digital procurement system, the Ministry of Finance's IT systems for planning and execution monitoring of state and local budgets and IFI projects, the Digital Restoration EcoSystem for Accountable Management (DREAM) and other relevant systems and registries. Comprehensive audits of the use of reconstruction funds, performance audits of selected individual projects (including project costs, deliverables and outputs), and timely publication of audit reports will be key features of the reconstruction strategy. Our strategy will integrate and implement mechanisms to prevent and identify corruption risks, and cases will be referred, as appropriate, for follow-up by the anti-corruption institutions. In line with their memorandum of understanding, the NABU and the State Agency for Restoration and Development will continue cooperation efforts and exchange of information to prevent and detect corruption.

67. **We will undertake efforts to enhance the institutional independence and effectiveness of key audit institutions to ensure that public funds, including for reconstruction and recovery, are used for their intended purposes and any misuse is prevented or detected.** In this respect, a law will be enacted that enhances the independence (organizational, functional, and financial), mandate and effectiveness of the Accounting Chamber of Ukraine (ACU) to fulfill its constitutional oversight function over public expenditures in line with standards of the International Organization of Supreme Audit Institutions, and audit all public funds (***Structural Benchmark,*** **end-December 2024**). In particular, the law will: (i) enhance its independence including strengthening the selection process for new ACU members for an open, transparent, credible and competitive procedure with a decisive and crucial vote of independent experts with international experience and improving dismissal procedures; (ii) establish that ACU has a minimum of 11 members; (iii) enable the ACU to select the scope of the audit free from any direction or interference and to have full and timely access to all relevant information and databases to perform its audit functions; (iv) empower the ACU to exercise external audit function on all public funds (including funds or budgets of local

governments, SOEs and off-budget funds); and (v) establish formal procedures in the legislature for reviewing and monitoring external audit reports and following up on audit recommendations with commensurate financial and technical resources; and (vi) establish a periodic peer review mechanism by independent experts with international audit experience for ten years from the enactment of the law. The enacted law is expected to continue requiring the ACU to independently determine its priority tasks and funding requirements and submit its proposed budget to the Ministry of Finance during the preparation of the budget declaration and state budget; in case of disagreements, and if the CMU is unable to settle such differences, both the ACU and Ministry of Finance shall submit information, including proper justification and calculations, alongside the draft state budget to Parliament, where the final decision is taken by the Verkhovna Rada Budget Committee. In this regard, the Rada approved a draft law on October 30. We are committed to start the selection process for the six vacant ACU members and have a full membership of the ACU in line with the timelines provided in the law.

Anti-Corruption and Rule of Law

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

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

- To strengthen effective procedures for corruption investigations, further amendments to the Criminal Procedural Code will be enacted, including (i) to enable the Prosecutor General to delegate to the SAPO the management of extraditions and mutual legal assistance requests in relation to corruption investigations, (ii) remove the mandatory dismissal of pre-trial investigations due to the lapse of time limits of pre-trial investigation after notice of suspicion, and (iii) with the aim of appropriately balancing the objectives of prompt and comprehensive investigations of criminal offenses and protection of rights of parties in criminal proceedings, upon expiration of the timelines and motion of the defendant or affected parties, enable the investigating judge to compel in a timely manner the prosecutors to decide on the pre-trial investigation (either close the proceeding or complete the pre-trial investigation), or reject the motion (***Structural Benchmark*, end-December 2024**). Moreover, we will provide full legal certainty in terms of legal regulation and determination of the timelines of pre-trial investigation after notice of suspicion has been filed.
- As provided for in the law, the external audit of the NABU's effectiveness with participation of three independent experts with international experience will be completed and its report published (***Structural Benchmark*, end-February 2025**). After consultation with IMF staff, the terms of reference and the criteria and methodology approved by the commission in conducting

the external audit was published in November. Based on the analysis conducted by the auditors, the audit report will include clear, reasoned, and evidence-based conclusions as well as prioritized recommendations on the effectiveness of NABU and its operational and institutional independence.

- Consistent with our broader reform plans for the forensic expert system for criminal law enforcement, we will ensure that the NABU by end-July 2025 has access to independent and competent forensic experts, to enable it to effectively conduct its investigative mandate, including investigating complex corruption schemes.

- To effectively implement the law empowering the NABU to intercept communications (wiretapping), the NABU and law enforcement agencies have finalized a memorandum of understanding on the implementation plan 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.

- We will also enact by end-January 2025 a law to enhance corporate criminal liability, to support the country's efforts towards accession to the OECD Anti-Bribery Convention. The law will be applicable to private and public legal entities either resident or non-resident in Ukraine and covering, among others, domestic corruption offenses, and consistent with international standards.

- We are committed to conduct an external independent audit of SAPO and publish the audit report consistent with the two-year period provided in the December 2023 amendments to the SAPO law.

- Since the restoration of public access to asset declarations in January 2024, the National Agency for Corruption Prevention (NACP) continues to monitor and verify them on a risk-based approach. A robust and sustainable asset declaration system is critical to preventing and mitigating corruption risks in procurement, particularly for recovery and reconstruction.

- We have initiated the process for nominating and appointing new members of the Public Council of International Experts (PCIE), which will vet candidates for the 24 new vacancies to the High Anti-Corruption Court (HACC) both at the first instance (15 vacancies) and appellate (9 vacancies) levels. A law has been enacted in November to extend the PCIE's mandate for the purpose of completing the ongoing selection process of all 24 vacancies for HACC judges. We will ensure the open and competitive selection for these new vacancies and adequately provision for their staffing and office needs.

70. The NBU is taking steps to ensure that risk-based implementation of AML tools helps prevent, detect, and deter the laundering of proceeds of corruption. Following the August 2024 NBU guidance, financial institutions and covered non-bank institutions are implementing a risk-based approach to politically exposed persons, and are being monitored by the NBU for compliance within the risk-based supervisory approach.

71. We will also improve the effectiveness of the ultimate beneficial ownership (UBO) regime to enhance transparency in public procurement, detect conflicts of interest through transparent ownership structures, and prevent the misuse of companies. By end-December 2024, the Ministry of Justice will enhance the operational framework for obtaining adequate, accurate and up-to-date UBO information.

72. We are committed to advancing the rule of law and judicial reforms. Following the dissolution of the Kyiv District Administrative Court in December 2022, we will enact a law to establish the High Public Disputes Court (HPDC) (with first instance and appellate chambers) that will hear administrative cases against national state agencies (e.g., NBU, NABU, NACP) by judges who have been properly vetted for professional competence and integrity with decisive and crucial vote of independent experts with international experience following the PCIE model **(*Structural Benchmark,* end-December 2024)**. In particular, the new court will have authority over cases belonging to the competence of the liquidated Kyiv District Administrative Court in relation to the appeal of acts of state agencies with nationwide authority, in addition to administrative cases against procedures of selection commissions and external audit commissions that include the participation of independent experts (such as NACP, NABU, and SAPO). Importantly, the PCIE model will be leveraged to assess the integrity of candidates to the HPDC. Swift operationalization of the new HPDC law through the appointment of a minimum number of judges within the timelines provided for in the law will enable independent adjudication of administrative cases against national state agencies and promote the rule of law.

Corporate Governance in SOBs and SOEs

73. 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, and any restrictions applied to Supervisory Boards members are prudent and justified. We will review the framework for setting and paying remuneration to Senior Management of all SOBs by end-December 2024 in consultation with IFIs and based on the principles that remuneration should be internationally competitive, consistent, and proportionate to their functions, duties, responsibilities, and considers the part-time nature of their roles and Martial Law restrictions. We will also implement a procedure for conducting performance assessments for all SOBs in 2025. The first such performance assessment will be conducted by the MoF for each of the banks in end-July 2025. In December 2025, the MOF will publish the key findings of its first annual assessment, together with the CMU's proposed actions to address the findings.

74. We will continue to strengthen SOE corporate governance.

- We are implementing law #3587-IX on SOE corporate governance. This includes, in particular, developing secondary legislation to operationalize SOEs' financial planning processes, including the required financial indicators designed with the help of IMF TA that are consistent with the gatekeeper role of the MOF to limit quasi-fiscal risks and help safeguard debt sustainability. The CMU approved the regulation for the financial indicators in August 2024 (No. 984), and, if necessary, we will review the financial indicators at the latest in early 2027 before the next SOE financial planning season in 2028. If necessary, we will make any changes to the financial indicators through a CMU resolution. The implementation of #3587-IX has also included revamping the nomination process and independent evaluation procedure for SOE supervisory board activity, consistent with OECD standards. We also commit to review Resolution 777, which guides the appointment procedures for independent supervisory board members in SOEs, by September 2025 in consultation with Fund staff and international partners.

- We will advance energy corporate governance reforms, including to complete the formation of the full supervisory board of Ukrenergo (7 members), with independent members in the majority **(*Structural Benchmark*, end-December 2024)**. In particular, the new independent Supervisory Board members will be chosen in a transparent and merit-based selection process consistent with OECD standards. The new Supervisory Board will be tasked with selecting the new Ukrenergo CEO under the same OECD standards in a very timely manner. We have developed a framework for assessing supervisory board activity and commit to launch an independent evaluation of the supervisory boards of GTSO, Naftogaz and Ukrenergo in January 2025 and to conclude and publish it by end-March 2025.

75. We are exploring options, in close consultation with international partners, to strengthen SOE management through the existing SOE corporate governance reform agenda. Drawing on best practices, we will define the scope for strengthening SOE management, such as centralized modes, including defining the roles and mandates of key government institutions engaged in SOE management, such as the MOF, MOE, CMU, and the State Property Fund (SPFU). We continue to adhere to the following SOE reform agenda items after adoption of #3587-IX (as discussed in ¶74) and policy sequencing in close consultation with international partners, which are all essential preconditions for strengthening SOE management, including: (i) implementing related secondary legislation for #3587-IX, including having established a methodology for and subsequently conducting regular independent evaluations of SOE supervisory board activity; (ii) we have assessed the financial conditions and fiscal risks of the SOEs in the state ownership policy (SOP); and (iii) we have produced a comprehensive SOP, dividend policy and privatization strategy ***(Structural Benchmark met)***. We will implement the SOP, including the State Dividend Policy by: classifying those SOEs of strategic importance; implementing the framework for privatizations (full or partial) in the future, as well as preparing a concept of consolidated SOE management; finalizing the legislation for the formation of mandatory supervisory boards, and evaluation of supervisory board activity; establishing financial statements in accordance with IFRS subject to an appropriate phase-in period; and implementing SOE information disclosure and SOE remuneration policy (not applicable to SOBs). We will consult with the IMF and international partners on such draft legislations and CMU resolutions. We commit to review the SOP by December 2025. 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) with the help of IMF TA (see ¶32).

Energy Sector Reforms

76. Our immediate priority remains to mitigate the adverse impact of the war on the energy sector. We have continued implementing our multi-pronged approach to deal with the energy crisis, with donor coordination taking place through the Ukraine Donor Platform (UDP) and the G7+ energy group. We remain strongly committed to implementing, once conditions allow, an ambitious reform agenda to address long-standing structural problems in the energy sector that have been exacerbated by Russia's war.

- We continue to work swiftly to repair the damage to our generating capacity, and to ensure sufficient electricity provision to households and firms, during the winter heating season. We also aim to make our energy system more resilient to future attacks, such as through decentralized energy generation, including gas turbines, and the Green Transformation in a conducive market and regulatory environment with an independent energy regulator (see below). Affected companies are mostly relying on their working capital to repair and restore energy facilities, while we are grateful for continuing donor support, including for equipment. We need additional financial assistance by donors to support repairs, as well as decentralized electricity generation support programs, including gas generation projects. We expanded the role of 5-7-9 and the BDF to support the energy sector and are implementing SOB energy support lending programs.

- For the current 2024/25 heating season, we do not plan additional gas imports for domestic consumption under the baseline, while additional gas could be stored by non-residents for EU country needs. If gas imports are needed, Naftogaz has secured additional financing for gas imports from the EBRD and bilateral donors. If Naftogaz faces a liquidity shortfall, we will assess the amount of PSO compensation in 2025 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 2025. The potential spending pressure from gas imports and PSO compensation will be accommodated through an adjustor on fiscal balance targets, subject to the above assessment, the findings of the stock of arrears of District Heating Companies (DHCs) based on a desk audit (see below), available financing, and capped at UAH 60 billion (about 0.8 percent of GDP).

77. Potential reform measures, once conditions allow, include additional gradual tariff increases (subject to a new tariff methodology and social considerations), external financing, and transparent and exceptional direct budget support to energy SOEs pending available budgetary resources. Once the war winds down, the reform agenda in the energy sector will, inter alia, require restoring and enhancing competition in wholesale and retail gas markets. Furthermore, ensuring the sustainability of the system and reducing quasi-fiscal liabilities will necessitate a gradual increase in gas and electricity tariffs to cost recovery, while allocating adequate and well-targeted support to protect vulnerable households. Based on a proposal by the Ministry of Energy and input by stakeholders, the CMU will adopt a roadmap for the gradual liberalization of gas and electricity markets within 6 months after the end of Martial Law, with a time-bound implementation plan for the post Martial Law period. The roadmap will be based on technical analysis of the financial condition of the sector, in coordination with the European Commission.

78. The updated strategies of the GTSO and the transmission industry appropriately reflect the new operating environment by seeking to rightsize the system and identifying alternative sources of gas supply. This will be critical for the GTSO to prepare financially and operationally for the zero-transit situation when the transit contract expires at end-2024. In particular, we adopted draft law #11083 in late August that allows for a special regime of operations for GTSO to reduce its operational expenditures and maintenance for non-critical gas transmission purposes. To help address the energy deficit during the upcoming winter season, we continue implementing plans to install gas turbines for electricity generation. Finally, the adjusted transmission tariffs for 2025 should also factor in the financial situation of GTSO in the new zero-transit environment.

79. Consistent with our commitments to the EU and other international partners, we will ensure the independence of the National Energy and Utilities Regulatory Commission (NEURC). The regulator plays an important role in efforts to integrate the Ukrainian energy market with the EU, to attract needed FDI and advance the decentralization of power generation, and thus help make the energy system more resilient to missile attacks. Specifically, in order to align the Law of Ukraine 'On the NEURC' with European legislation to ensure NEURC's functional independence, we have adopted amendments in #3915-IX to exempt regulatory decisions by NEURC from the state registration procedure (***Structural Benchmark***, **met)** and also to implement Article 5 of the Law of Ukraine 'On the NEURC' prohibiting state bodies from interfering with NEURC's activities. We have appointed two new NEURC's Commissioners based on the results of the competition carried out in line with the norms of the Law of Ukraine 'On the NEURC.' We commit to develop an accountability framework for NEURC, which enshrines regular external assessments of NEURC's governance and independence frameworks in the law. Such assessments will be requested by NEURC to the Energy Community Secretariat. The first such external assessment of NEURC will be finalized and published by October-2025 (***proposed Structural Benchmark***, **October-2025**). Finally, we will ensure that NEURC will have sufficient staff to take on the expanded mandate such as the REMIT implementation in line with EU regulations and supporting the energy decentralization plans of the authorities.

80. We have completed the review of arrears and debts of District Heating Companies (DHCs) (**end-October *Structural Benchmark, met***). The desk review, conducted by a reputable audit firm, has helped clarify the stock of arrears and the financial situation of DHCs, including the drivers of the arrears' accumulation, ahead of the 2024/25 heating season. We will tackle this arrears and debt issue comprehensively once war-related pressures on the budget subside by developing a new tariff methodology with cost-reflective tariffs.

I. Program Monitoring

81. Program implementation is being monitored through quarterly reviews via quantitative performance criteria, indicative targets, and structural benchmarks. We commit to providing to IMF staff all the data needed for adequate monitoring of the program, including as detailed in the attached TMU. The complete schedule of reviews is presented in the companion staff report, and quantitative conditionality is detailed in Table 1. The program will also be monitored through the continuous performance criterion (PC) on the non-accumulation of external payments arrears and standard continuous PCs. Structural Benchmarks described in this MEFP are summarized in Table 2. The Seventh, Eighth and Ninth Reviews are expected to take place on or after March 1, 2025, June 15, and August 31, respectively, based on quantitative performance criteria for end-December 2024, end-March 2025, and end-June 2025, respectively, and corresponding structural benchmarks.

Table 1. Ukraine: Quantitative Performance Criteria and Indicative Targets

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

	Sep 2024					Dec 2024		Mar 2025		Jun 2025		Sep 2025		Dec 2025
	QPC	Adjustor	Adjusted QPC	Actual	Status	EBS/24/108	QPC	EBS/24/108	QPC	EBS/24/108	Proposed QPC	EBS/24/108	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/	368,313	0	368,313	650,954	Met	415,410	415,410	254,800	254,800	546,800	547,200	751,000	752,400	822,000
Floor on tax revenues (excluding Social Security Contributions)	1,398,600	0	1,398,600	1,527,903	Met	2,042,250	2,042,250	485,000	485,000	1,019,600	1,019,600	1,622,200	1,622,200	2,491,045
Ceiling on publicly guaranteed debt	47,900	13,718	61,618	22,667	Met	47,900	47,900	62,860	62,860	62,860	64,357	62,860	64,357	64,357
Floor on net international reserves (in millions of U.S. dollars) 3/	28,800	-4,435	24,365	24,988	Met	26,300	26,300	23,800	24,300	24,800	24,800	23,000	23,000	23,000
II. Indicative Targets 1/ 2/														
Floor on the cash balance of the general government, excluding budget support grants (- implies a deficit)	-1,123,107	0	-1,123,107	-898,146	Met	-1,557,208	-1,801,685	-342,400	-342,100	-719,000	-718,400	-1,146,900	-1,146,000	-1,710,400
Ceiling on general government arrears	1,800	0	1,800	1,687	Met	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800
Floor on social spending	390,000	0	390,000	427,680	Met	537,800	537,800	135,000	132,000	270,000	271,200	410,000	414,000	560,900
Ceiling on general government borrowing from the NBU 4/ 5/	0	0	0	-33	Met	0	0	-984	-984	-4,100	-4,100	-1,500	-1,500	-6,500
III. Continuous performance criterion 1/ 2/														
Ceiling on non-accumulation of new external debt payments arrears by the general government	0	0	0	0	Met	0	0	0	0	0	0	0	0	0
IV. Memorandum items														
External project financing (in millions of U.S. dollars)	271	…	…	271	…	1,496	1,496	191	191	572	572	1,144	1,144	1,906
External budget financing (in millions of U.S. dollars) 6/	21,310	…	…	21,310	…	35,367	35,367	9,105	9,105	19,282	19,282	27,280	27,280	35,813
Budget support grants (in millions of U.S. dollars)	6,556	…	…	6,556	…	10,012	10,012	429	429	965	965	1,286	1,286	1,608
Budget support loans (in millions of U.S. dollars) 6/	14,754	…	…	14,754	…	25,355	25,355	8,677	8,677	18,318	18,318	25,994	25,994	34,206
Interest payments	284,320	…	…	284,320	…	429,820	429,820	86,700	86,200	244,800	244,600	366,600	366,100	488,800
NBU profit transfers to the government	38,000	…	…	38,643	…	38,000	38,000	0	0	63,861	63,900	63,861	63,900	63,900
Government bonds for the purposes of bank recapitalization and DGF financing	0	…	…	0	…	0	0	0	0	0	0	0	0	0
Spending from receipts resulting from sales of confiscated Russian assets and transfers of bank accounts	0	…	…	16,737	…	23,743	23,743	0	0	0	0	0	0	0
Spending on gas purchases, PSO compensation and transfer to GTSO	60,000	…	…	0	…	60,000	60,000	0	0	0	0	0	0	0
Cash balance of the general government, excluding budget support grants, treasury report at current exchange rates (- implies a deficit; in billions of Ukrainian hryvnia)	-1,046.6	…	…	-969.4	…	-1,741.1	-1,850.4	-342.4	-342.1	-719.0	-718.4	-1,146.9	-1,146.0	-1,710.4

Sources: Ukranian authorities and IMF staff estimates and projections.

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

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

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

4/ From end of previous quarter.

5/ For December 2024 onwards, calculated using the projected redemptions of government bonds as of September 10, 2024

6/ Excludes prospective IMF disbursements under the EFF.

Table 2. Ukraine: Structural Benchmarks (modified/new SBs in bold text; blue indicates new timing)				
	Structural Benchmark	**Sector**	**Timing**	**Status**
1	Enact the second supplementary Budget 2023	Fiscal	End-April 2023	Met
2	Submit to Parliament a draft law to restore and strengthen Article 52 of the Budget Code to minimize ad hoc amendments to the budget law	Fiscal	End-May 2023	Met
3	Prepare an action plan, including to address the weaknesses identified in taxpayers' perception survey, as an input into National Revenue Strategy roadmap	Fiscal	End-May 2023	Met
4	Submit to Parliament a draft law which will reinstate articles of Budget Code that establish limits on issuance of public guarantee with clear criteria for such provision (including for priority sectors)	Fiscal	End-May 2023	Met
5	Enact amendments to the Budget Code and related regulatory framework to enhance transparency and accountability of the special accounts and consolidate them within general government as a special fund of the State Budget	Fiscal	End-May 2023	Met
6	Prepare a conditions-based strategy to move to a more flexible exchange rate, ease FX controls and transition to inflation targeting	Monetary and Exchange Rate	End-June 2023	Met
7	Adopt the draft law on tax policy and administration prepared under the PMB	Fiscal	End-July 2023	Not Met (implemented with delay)
8	Transfer the GTSO shareholding directly to the Ministry of Energy and adopt the new charter	Energy/ Corporate Governance	End-July 2023	Not Met (implemented with delay)
9	Enact the law to restore asset declaration of public officials not directly involved in the mobilization and war efforts and reinstating the NACP's function to examine and verify them	Governance/ Anti-Corruption	End-July 2023	Not Met (implemented with delay)
10	Enact the articles of the Budget Code that allow preparation of the medium-term budget framework, elaboration of the debt strategy, and ringfencing risks from guarantees.	Fiscal	End-September 2023	Met
11	Present in the 2024 budget declaration projections for major revenue and spending categories and sources of deficit financing for 2025–2026, and a fiscal risks statement including details on energy and critical infrastructure SOEs	Fiscal	End-September 2023	Met
12	Amend the AML/CFT Law to re-establish enhanced due diligence measures on politically exposed persons consistent with the risk-based approach consistent with the FATF standards.	Governance/ Anti-Corruption	End-September 2023	Not Met (implemented with delay)

Table 2. Ukraine: Structural Benchmarks (continued)

	Structural Benchmark	Sector	Timing	Status
13	Strengthen bank governance and oversight by: (i) separating the related-parties-unit from banking supervision; (ii) implementing "supervisory panels" as a consulting body to the Supervisory Committee; and (iii) resume scheduled inspections for both banking and non-banking institutions, while ensuring NBU discretion on matters related to staff safety	Financial Sector	End-September 2023	Met
14	MOF, with STS and SCS, to prepare an action plan, including short-term and medium-term measures covering key reform areas identified by the upcoming diagnostic that would feed into broader NRS.	Fiscal	End-October 2023	Met
15	Update and publish the Medium-Term Debt Management Strategy to align it with the program objectives	Fiscal	End-October 2023	Met
16	Simplify the asset declaration system through linking with other databases and registers consistent with the public officials' legal obligations to make truthful and timely submissions	Governance/ Anti-Corruption	End-October 2023	Met
17	Select and appoint a supervisory board for the GTSO	Energy/ Corporate Governance	End-October 2023	Met
18	Review the current PIM procedures and develop a roadmap of measures so that: (i) all public investment projects follow unified PIM approaches, including PPPs; (ii) investment projects are selected on a competitive basis, with transparent selection criteria, and consistent with the medium-term budget framework; (iii) stronger powers are provided to MOF, including a clear gatekeeping role during the different stages of the investment project cycle.	Fiscal	End-December 2023	Met
19	Adopt the National Revenue Strategy	Fiscal	End-December 2023	Met
20	Adopt legislation to enhance the institutional autonomy and effectiveness of the SAPO by being designated as a separate legal entity, and specifically, on the selection procedures, capacity to regulate organizational activities, mechanisms for discipline and accountability, and autonomy under the criminal procedural code	Governance/ Anti-Corruption	End-December 2023	Met
21	Based on findings of the revenue working group, prepare short-term revenue measures (tax and non-tax) with yields of at least 0.5 percent of GDP ready to be included in budget 2024	Fiscal	End-February 2024	Met

Table 2. Ukraine: Structural Benchmarks (continued)				
	Structural Benchmark	**Sector**	**Timing**	**Status**
22	Develop a concept note on the 5-7-9 program with proposals to target small and medium enterprises by phasing out the eligibility of large companies, enhance monitoring, and maintain adequate safeguards.	Fiscal	End-March 2024	Met
23	Enact amendments to the procedural code to rationalize matters or issues to be heard at the first instance by one anti-corruption judge or by a panel of three anti-corruption judges.	Governance/ Anti-Corruption	End-April 2024	Not Met (implemented with delay)
24	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; 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	Met
25	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	Met
26	Develop a methodology to assess the effectiveness of tax privileges, including their cost to the budget, in order to have a unified reform approach	Fiscal	End-September 2024	Met
27	Identify major public companies severely affected by the war and prepare a review of potential fiscal and quasi-fiscal costs	Fiscal	End-September 2024	Met
28	Adopt amendments to the Customs Code, in line with international best practice.	Fiscal	End-October 2024	Met
29	With the help of IMF TA, produce a diagnostic review of pre-war MTBF policies and practices relative to best practices.	Fiscal	End-October 2024	**Met**
30	NBU to assess key financial and operational risks to financial stability under various downside scenarios and to prepare contingency plans.	Financial Sector	End-October 2024	**Met**
31	Analyze the debts 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-October 2024	**Met**
32	To ensure NEURC's functional independence, adopt amendments to the law #3354-IX to exempt regulatory decisions by NEURC from the state registration procedure, in line with MEFP, ¶79.	Energy	End-December 2024	**Met**
33	Produce a SOE state ownership policy, dividend policy and privatization strategy	SOE Corporate Governance	End-October 2024	**Met**

34	Adopt Budget Code amendments in line with Action 1 under the June 2024 PIM Action Plan, as specified in ¶39 of the MEFP.	Fiscal	End-January 2025	
35	Appoint the new Head of the ESBU based on the selection process.	Fiscal	End-February 2025	
36	CMU to approve a methodological framework underpinning the PIM process, as specified in ¶39 of the MEFP.	Fiscal	End-February 2025	
37	Submit legislative amendments to Parliament to introduce tax reporting requirements for digital platform operators.	Fiscal	End-April 2025	
38	Appoint a permanent head of SCS	Fiscal	End-June 2025	
39	Submit a 2026-28 Budget Declaration on time and in line with program parameters.	Fiscal	End-June 2025	
40	All systemic banks with majority state ownership will fall under the responsibility of the MOF, and any non-systemic banks that come under state ownership will not be recapitalized using fiscal resources and will be transferred to the DGF for resolution upon breach of prudential requirements.	Financial Sector	Continuous	
41	The DGF, MOF and NBU will prepare a bank rehabilitation framework in consultation with IMF staff.	Financial Sector	End-December 2024	
42	Implement a supervisory risk assessment methodology to inform supervisory engagement priorities	Financial Sector	End-December 2024	
43	Complete the formation of the full supervisory board of Ukrenergo (7 members), with independent members constituting the majority of the supervisory board.	Energy	End-December 2024	
44	Amend the Criminal Procedural Code to enable the Specialized Anti-Corruption Prosecutor's Office to manage extradition and mutual legal assistance request and rationalize consequences from expiration of time limits for pre-trial investigations (including for corruption cases) in line with MEFP, ¶69, 1st bullet.	Governance/ Anti-Corruption	End-December 2024	
45	Publish the completed external audit of the National Anti-Corruption Bureau of Ukraine's effectiveness with participation of three independent experts with international experience.	Governance/ Anti-Corruption	End-February 2025	
46	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-December 2024	
47	Enact amendments to the law to reform the Accounting Chamber of Ukraine (the supreme audit institution), including through a decisive vote of independent experts with international experience for vetting new members, establishing a minimum of 11 members, enhancing the scope of its audit functions, and steps to safeguard the ACU's financial independence consistent with international	Governance/ Anti-Corruption	End-December 2024	

	standards on supreme audit institutions, in line with MEFP, ¶67.			
48	**Prepare a comprehensive operational strategy for the NSSMC, including initiating an independent fit and proper review**	**Financial Sector**	**End-January 2025**	
49	**Prepare and submit to parliament a draft law on financial sector critical third-party risk.**	**Financial Sector**	**End-May 2025**	
50	**Complete and publish an external assessment of NEURC by the Energy Community Secretariat (upon request)**	**Energy**	**End-October 2025**	