Appendix I. Letter of Intent

7139/0/2-25 від 21.03.2025

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

March ______, 2025

Dear Ms. Georgieva:

1. Three years since the start of Russia's illegal and unjustified full-scale invasion of our country, the war continues to bring enormous human, social, and economic costs. We are focused, together with our allies, on achieving an enduring and just peace that will ensure our security, bring Russia's war to a definitive end, and enable our population's living conditions to begin to return to normal. Unfortunately, attacks are still persisting with severe consequences: civilian casualties are large, over a quarter of the population has been displaced, and infrastructure damage is massive and increasing, with serious long-lasting implications for our people. The recently updated Rapid Damage and Needs Assessment (RDNA-4) of February 2025 estimated direct and documented damages of US$176 billion and reconstruction and modernization needs at US$524 billion over the next decade, and these needs increase with every day of the war. Despite 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$148.8 billion over the program period. In this regard, we are especially grateful to our partners for their efforts to bring to fruition the US$50 billion Extraordinary Revenue Acceleration (ERA) Loan 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 lay the foundations 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 Seventh Review under the EFF, we have met all the end-December 2024 and continuous quantitative performance criteria (QPCs); we also achieved all the indicative targets (ITs). We are requesting modifications of the net international reserves floors QPCs for all test dates in 2025, to reflect a more frontloaded disbursement schedule for ERA financing. This request reflects our commitment to utilizing these flows prudently and consistently with the program's parameters. It also reflects our objective of preserving external sustainability, and maintaining adequate buffers in an environment of elevated near-term risks.

6. We continue to strive to implement key policy measures and structural reforms under the program, as highlighted in Table 2 of the MEFP. To this end, we have met the following structural benchmarks due between end-December 2024 and end-February 2025: (i) preparation of the bank rehabilitation framework; (ii) implementation of a supervisory risk assessment methodology; (iii) adoption of budget code amendments in line with the Public Investment Management (PIM) action plan; and (iv) CMU adoption of a methodological framework underpinning the PIM process. Moreover, we respected the continuous structural benchmark on the banking system. While we were unable to meet the end-December structural benchmark on the enactment of a law establishing a specialized administrative court, Parliament adopted this reform with a delay. Unfortunately, we were not able to meet the implementation dates for the National Securities and Stock Market Commission's (NSSMC) comprehensive operational strategy, including initiating an independent fit-and-proper review. We were also not able to meet the end-December 2024 and end-February 2025 structural benchmarks for the amendments to the criminal procedural code, the appointment of the new head of the Economic Security Bureau of Ukraine (ESBU), and the external audit of the National Anticorruption Bureau of Ukraine (NABU), which we propose to reset all three for end-July 2025. Because more time is needed to develop and submit a draft law on critical third-party risk, we also request to reset this benchmark's implementation date from end-May to end-

September 2025. Finally, as a prior action for this review, we enacted law #11090, which was adopted by Parliament to align excise taxes on tobacco products with EU directives.

7. We continue to implement wide-ranging reforms, and as a demonstration of this commitment we propose four additional structural benchmarks: (i) completing the independent fit and proper review of the NSSMC by end-June 2025; (ii) revising selection and appointment processes for SOE supervisory board members and adopting appropriate changes to relevant CMU by-laws by August 2025; (iii) developing an operational plan for the implementation of the MOF's updated IT strategy by end-September 2025; and (iv) adopting sectoral strategies in line with new PIM approaches by end-December 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 2024, 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-December 2024, our implementation of structural benchmarks, as well as our strong policy commitments for the period ahead, we request completion of the Seventh Review and a disbursement in the amount of SDR 300.47 million (14.9 percent of quota), which will be channeled for budget support. We also request the rephasing to backload purchases under the program for 2025–26 to better align them with the profile of our balance-of-payments needs. 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

Attachment I. Memorandum of Economic and Financial Policies

I. Background, Recent Economic Developments, and Outlook

Context

1. **Three years since the start of the war, Russia's unprovoked, illegal, and unjustified invasion of our country continues to bring enormous human, social, and economic costs.** Recent developments portend the start of peace talks, and we are prepared to enter negotiations toward an enduring and just peace that will ensure our security, bring Russia's war to a definitive end, and allow the population's living conditions to begin to return to normal. Regrettably, pending such an agreement civilian casualties keep rising, around a quarter of the population has been displaced and missile strikes continue countrywide, 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 forces 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$148.8 billion over the program period (2023Q2–27Q1). In these very difficult times, the program has helped infuse greater predictability into our macroeconomic management and remains a key anchor for our current economic policies and preparations for recovery and post-war reconstruction. 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. **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 finalizing arrangements to make around US$50 billion available through the Extraordinary Revenue Acceleration (ERA) Loans for Ukraine Initiative. This financing, which has already begun to disburse, will help meet our sizable financing needs on terms consistent with the program's objective of restoring debt sustainability.

4. **The official launch of EU accession negotiations in June 2024 was a historic milestone, setting the stage for our European integration path, and reinforcing stability and long-term growth prospects.** 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, 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 in 2024 despite strains on energy and labor markets, and the economy will continue recovering in 2025 despite Russia's continuing war, and as energy shortages recede.

- Growth in 2024 is estimated at around 3.5 percent, thanks to our efforts to repair damage to energy infrastructure, resilient business and consumer confidence and robust government spending.

- Growth is expected between 2 and 3 percent in 2025, reflecting, on the one hand, further stabilization of the energy situation, a larger harvest than in 2024, and accommodative fiscal policy, and on the other, headwinds from labor market frictions, decreased gas production due to infrastructure damage, and the closure of the Pokrovsk coal mine.

- Inflation has accelerated quicker than expected, reaching 12.9 percent y/y in January 2025, due to continued pressure from food prices, energy and labor costs as well as the passthrough from depreciation. Inflation is expected to moderate to around 9 percent by end-2025. This deceleration will reflect an appropriately tight monetary policy response, a sharp deceleration in food and energy inflation from a larger harvest, a more stable energy situation, and fading unfavorable base effects that will drive inflation higher in the first half of the year.

- The current account deficit excluding grants reached US$24.7 billion in 2024 (up from US$21.3 billion in 2023), and is projected to widen further to US$34.3 billion in 2025 primarily due to increased import needs. Supported by frontloaded ERA disbursements, gross international reserves are projected to end the year at US$56.8 billion (127.3 percent of the ARA metric).

- After depreciating through end-December 2024 by a cumulative 15 percent since the transition to managed exchange rate flexibility, the hryvnia has remained broadly stable in recent months. 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 earlier in 2024. The role of state support in lending to businesses (5-7-9 program) has declined, 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, especially if a just peace agreement delivers a swift and enduring improvement in the security situation.** Even from early stages of the peace, economic performance could exceed expectations if security conditions allow and key bottlenecks resolve more swiftly through robust return migration, recovering sentiment, a resolution of war-related supply disruptions, and durable access to seaports and other supply routes. Additionally, our efforts on critical recovery and repair projects would also support stronger growth, as could stronger progress in the planned energy reforms. In the medium-term, economic growth could be accelerated by forceful implementation of structural reforms, including in the context of EU integration; significant investments to promote reconstruction and economic transformation, including those financed by private investment inflows or support from official development partners; and/or an even faster return of migrants.

7. **Despite the recent resilient growth, downside risks to the outlook persist, 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 slow 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 priority 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. The easing cycle in 2023–24 allowed lower borrowing costs for the government and private sector, and since then, our decisive policy response to recent inflation pressures has helped to stabilize inflation expectations. 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, SOE 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 ongoing war, we are confident that the EFF-supported program provides the appropriate framework to achieve our goals of restoring external viability by 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.

- We will continue to build on the significant progress so far and, when appropriate, shift our focus to more expansive structural reforms to entrench macroeconomic stability and bolster reconstruction to promote economic growth and thereby help restore medium-term external viability. As conditions allow, we will revert to pre-war policy frameworks. Swift 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 and in the EU enlargement report.

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. Despite immense challenges from Russia's continuing war, we registered a strong performance under the program once again, delivering all end-December fiscal targets:

- Tax collections were UAH 2,101.9 billion, overperforming the target of UAH 2,042.3 billion (***Quantitative Performance Criterion***).

- Prudent budget implementation resulted in a non-defense cash primary balance of the general government of UAH 756.0 billion (at program exchange rates), exceeding the floor of UAH 415.4 billion (***Quantitative Performance Criterion***).

- In parallel, the overall balance excluding grants was UAH -1,611.5 billion (at program exchange rates), above its floor of UAH -1,801.7 billion (***Indicative Target***).

- The issuance of government guarantees was UAH 46.8 billion (at program exchange rates), comfortably below the adjusted ceiling of UAH 61.6 billion (***Quantitative Performance Criterion***).

- The accumulation of overdue accounts payable (domestic arrears) dipped to UAH 1.4 billion, well below the ceiling of UAH 1.8 billion (***Indicative Target***).

- And, reflecting our commitment to ensure adequate social protection for vulnerable groups, social spending amounted to UAH 601.4 billion, exceeding the floor of UAH 537.8 billion.

11. The 2025 Budget remains the anchor for fiscal policies. As has been the case since the start of Russia's war, expenditures will remain high at UAH 5,065 billion (58.0 percent of GDP), reflecting the need to provide for our defense and despite the tight prioritization of other expenditures. We project revenues excluding grants of UAH 3,355 billion (38.4 percent of GDP), with tax revenues at UAH 3,087 billion (35.3 percent of GDP), reflecting the yield of a tax package enacted late last year. Nevertheless, the overall deficit excluding grants is expected to reach UAH 1,710 billion in 2025 (19.6 percent of GDP).

12. External support, especially the G7's ERA initiative, is essential for financing the deficit, and we commit to prudent and transparent management of these resources. Regarding ERA disbursements, which we expect to reach US$39.4 billion in 2025, we will take steps to ensure that they are used according to the program's fiscal paths over 2025–2027Q1. We will to the extent possible allocate a portion of ERA disbursements as prefinancing for budget deficits in the rest of the program and maintain an adequate buffer for the downside. To do so, we will rely on the relevant rules on revenue overperformance and the article of the budget code pertaining to prefinancing limits. The articles of the budget code pertaining to expenditure limits will help us to avoid expenditure risks as we execute the 2025 Budget consistent with program parameters. Further, we will only revise spending categories in consultation with IMF staff and after identifying either new financing sources or compensating fiscal measures. Last, 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.

13. We recognize the need for our own contribution to the effort, and will ensure adequate revenues, including through additional action if needed. We will benefit from the yield of the recently enacted package of tax measures mentioned above, which raised military tax rates and broadened its applicability, introduced presumptive tax on fuel stations, reformed corporate tax on non-bank financial institutions, and extended windfall bank taxation for another year. Additionally, we are taking major steps toward harmonizing our tobacco excise taxes with EU directives and will enact law #11090 as a ***prior action*** for this review. Despite these efforts, we remain highly exposed to shocks and our room for maneuver remains constrained. Reflecting this reality, we remain ready to respond to budgetary shocks—either revenue shortfalls or fresh expenditure demands—with an increase in taxes. We continue to view increases in the main VAT rate as being the most efficient potential source of additional revenue at this juncture. Thus, it remains central to our contingency planning and our commitment to pursue policies that preserve stability and restore fiscal and debt sustainability through revenue-based fiscal adjustment.

14. To entrench medium-term budget planning, we have begun work on next year's Budget Declaration. While last year's declaration covering 2025–27 was a helpful anchor for the budget discussions, we expect that the upcoming budget declaration for 2026–28 will be even more consequential. We plan on it serving as a critical anchor for fiscal policies in the post war reconstruction and recovery phase. We recognize the importance of a sound medium-term fiscal framework, and this document will help us to plan for critical spending on recovery and reconstruction, defense, and adequate social protection. Given the Budget Declaration's role in highlighting the government's strategic priorities, it will also help clarify the role of domestic revenue mobilization to ensure a decisive return to fiscal and debt sustainability. Thus, in consultation with the Fund, we will prepare and submit the 2026-28 budget declaration on time, and in line with the program's parameters (***Structural Benchmark, end-June 2025***).

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 reliance on 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 fourth Rapid Damage and Needs Assessment (RDNA-4) was published on February 25, 2025. The updated damage and needs assessment, covering the period February 2022-December 2024, now estimates direct documented damages reaching US$176 billion and total reconstruction and modernization needs at US$524 billion. It is worth noting that the RDNA-4 estimates do not account for undocumented damages, mineral resources extracted from occupied territories, and other factors. Moreover, damages and needs are increasing on a daily basis as the war continues. Addressing the largest needs—concentrated in housing, energy, 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 in these sectors will also help promote the return of refugees. In considering initiatives in this area, we will ensure that investment projects are prioritized and selected through the PIM framework, fit into the medium-term budgetary framework (MTBF) and are consistent with a return to fiscal and debt sustainability. To this end, we will also carefully evaluate the financing mix, and will seek financing on highly concessional terms.

C. Financing Strategy

17. Our financing strategy continues to focus on securing timely and predictable external disbursements on appropriately concessional terms. The war and its associated cost entail a large financing gap, which stands at US$148.8 billion over the baseline program period. We continue to work 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*: Over the first three years of the full-scale war, we have received budget support from international partners totaling close to US$120 billion. Since the start of the program, we have received US$78.1 billion, of which US$3.1 billion was disbursed during January-February 2025. For the remainder of the year, we expect to receive an additional US$52.3 billion.

- *Firm financing commitments are in place for the next 12 months of our IMF-supported program*: Over April 2025-March 2026, we have received assurances for US$45.7 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$31 billion from the 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 March 2026, 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. With the large-scale external disbursements committed this year, we expect that the need for domestic financing to cover the budget deficit will be smaller than last year's sizable effort. Nevertheless, we will remain closely engaged with the domestic bond market in 2025. We will also stand ready to further strengthen efforts as needed for the remainder of this year. The usage of benchmark bonds, which banks can utilize to meet reserve requirements, continues to support the absorption of government debt securities. Year-to-date, UAH 20 billion of benchmark bonds have been issued. 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 public debt management. We will ensure that our debt management strategy remains consistent with the program’s debt sustainability objectives. Upon completing the treatment of external commercial claims (including GDP-linked securities) and before the end of the year, we will update the Medium-Term Debt Strategy (MTDS). 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 by 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.

D. Fiscal Structural Reforms

20. We are moving forward with the fiscal structural reform agenda to support our development goals and path to EU accession. 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; (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 MTBF.

Revenue Mobilization

21. 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 opportunities for tax evasion, increasing compliance, and combating the shadow economy. NRS implementation is underway with detailed implementation plans with specific timetables for tax administration, customs, and tax policy reforms. We will closely monitor NRS implementation plans. To reflect reform progress and ensure accountability within a comprehensive, transparent, and unified reporting framework, we will publish a comprehensive annual status report each March going forward. We are finalizing this year's report and will publish it by the end of March 2025. NRS Steering Committees at SCS and STS will 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.

22. Near-term tax policy measures focus on raising revenues from excises, aligning with the EU acquis, and streamlining tax privileges. We 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 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. By end-September 2025, we will determine the benchmark tax system for each major tax (CIT, VAT, PIT, and excise tax). We will conduct a comprehensive inventory of all tax expenditures for publication alongside 2027 annual budget documentation, and we will conduct regular calculations of tax expenditure costs.

23. 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, we will consider reforms to make the tax system more equitable (e.g., through a more progressive PIT). Also, we plan to carry out a comprehensive reform of the Simplified Tax (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 early 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 review by the MoF in cooperation with the NBU, with TA from the IMF and other international partners, taking into account the best international practices and EU Directive requirements, the issue of the possible expansion of the grounds for extrajudicial access by tax authorities to the information regarding the amount of funds received into taxpayers' bank accounts.

- We are 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 of 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**).

- As planned in the NRS, we will, in 2025, submit legislative amendments to the CMU for the implementation of rules to combat tax evasion practices that take into account the requirements of the EU Anti-Tax Avoidance Directive and the best international practices for preventing tax evasion and ensure effective protection of the tax base from erosion and profit shifting.

24. 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 have published a survey of taxpayers in 2024 and, in line with best international practice, we commit to publish a new taxpayer survey on a biannual basis.

- 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.

- To guide the digital transformation required for the effective implementation of the NRS, the MOF, together with the STS and SCS, will develop the operational plan for the implementation of the updated IT Strategy of the MoF, which will be adopted by end-September 2025 (***proposed Structural Benchmark*, end-September 2025**). The operational plan will include a focus on IT infrastructure modernization and consolidation, including for the STS and SCS, ensuring that all NRS IT reforms remain on track.

- 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, we have developed the concept of using de-personified data on taxpayers by tax authorities (see NRS section 4.2.3), which we plan to operationalize by end-2026, conditional on funding needed for this important reform.

- To improve our risk-based approach to tax administration, we developed methodological documents to operationalize the tax risk management system. We have adopted 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.

- 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 are also on track to 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 of 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.

25. 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-March 2025.

- 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 83 by February 2025. We will ensure a steady increase in the number of participants while making every effort to maintain its integrity. We have introduced 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. We will ensure that the MOF continues to provide effective leadership and oversight of customs-related reforms and that the MOF approves any proposals before submission to the CMU. This will help to maintain a coherent, fiscally responsible, and well-coordinated reform agenda. 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.

- SCS completed a Customs Integrity Perception Survey in December 2024, which we commit to repeating on a biannual basis and using this information to inform future anti-corruption policy. 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.

26. 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 remain committed to finalizing the selection process for appointing the new ESBU as soon as possible despite the delays (***Structural Benchmark*, end-February 2025; not met and proposed reset for end-July 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

27. We will continue enhancing expenditure planning and the MTBF. A diagnostic review comparing pre-war MTBF policies and practices to best practices has been completed and we have adopted an action plan to enhance the MTBF. 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 (PIM) reforms, will be well aligned with the MTBF (¶38). Through these reforms, the government of Ukraine strengthens its ability to guide fiscal policy, more efficiently allocate scarce public resources, and further align its budgetary framework with EU requirements.

Pensions and Social Spending

28. 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-July 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, and we will take all necessary steps to organize expenditures for payments under retrospective court decisions and pensions recalculated by court decisions.

29. We are preparing modifications to the pension system and mechanisms to support vulnerable layers of the population:

- **Pensions.** In the next few years, and with the support of the World Bank, we plan to work on a comprehensive conceptual framework to improve and simplify the pension system. Also, we will work to introduce unified conditions for assignment of insurance pensions. We 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 the 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 program.

Fiscal Transparency and Risks

30. 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 and remain committed to further strengthening. With FAD TA, we will improve fiscal risk reporting by, for example, including projections of fiscal variables (deficit, debt) under certain shock scenarios starting with the Budget Declaration for 2027–2029 and the FRS, and improve the reporting of PPP fiscal risks in the FRS.

- We are strengthening the capacity for public investment fiscal risk management and have established a 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.

- We implement the MOFs SOE financial oversight and fiscal risk management function into the SOE governance framework and align it with secondary legislation. We will gradually enhance the identification, analysis, and reporting of Public Sector Obligations and Quasi-Fiscal Activities.

- 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.

31. We are strengthening the framework to limit long-term debt vulnerabilities of local governments. We will ensure debt sustainability at the local level by improving the regulatory and legal framework, increasing the level of fiscal prudence among local governments, ensuring a safe debt level and balance of local budgets. To this end, we are making efforts to strengthen the institutional capacity of local governments to attract credit resources for the implementation of the strategic goals of the development of territorial communicates and to manage local and guaranteed debt.

32. 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 Annual 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.

33. 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. To strengthen BDF governance and financial self-sustainability, we have enacted legislation to align the asset declaration obligations of the BDF's foreign independent supervisory board members with those of SOBs, increased BDF's fees from 0.15 percent to 0.5 percent, shifted responsibility for paying such fees from the government to banks participating in the 5-7-9 program and established a BDF supervisory board with majority of independent candidates. We further commit to:

- The BDF will review and update its guarantees framework, as needed, by end-April 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.

34. 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: (i) the need for appropriate oversight (including by the competent authorities); (ii) a business model that ensures long-term financial sustainability to mitigate fiscal risks, and incorporates sound risk management frameworks; and (iii) 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-June 2025, we will conduct an external assessment of the draft law on the National Development Institution (NDI) 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. The NDI draft law will be renamed as the draft law on the Business Development Fund and redrafted to explicitly emphasize its focus on enhancing the SME mandate and governance of the BDF.

35. 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 has supported the restoration of destroyed and damaged property in the amount of UAH 38.1 billion in 2023 and UAH 17 billion in 2024. In 2025, the Fund will continue to serve its purpose as stated in the Article 43 of the 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

36. We are implementing the 2023 Roadmap and 2024 Action Plan to reform our PIM framework. We are enhancing the PIM framework through enhancing (i) strategic planning; (ii) integration of public investment into the MTBF; (iii) procedures for preparing, appraising, selecting, and implementing projects; (iv) institutional capacity; and (v) the monitoring and evaluation of implementation. Our PIM reforms, with a key role for the annual Single Project Pipeline process, will follow the principles of budget unity, coherence, and predictability and strengthen coordination between the MOF, MOE, Ministry of Infrastructure, and other line ministries who remain responsible for project execution. The detailed Action Plan designates the MOF as a gatekeeper in all stages of public investment management. The first stage of the Action Plan, covering 2024–2025, is now being executed:

- Amendments to the Budget Code have been adopted to (i) integrate PIM into the budget process by including only appraised and selected projects in the budget; (ii) define roles in the PIM process; (iii) introduce medium-term planning for public investment, including prioritization of ongoing projects; and (iv) mandate the use of a unified IT platform (**Structural Benchmark**, **end-January 2025, met**).

- The CMU has approved the methodological framework for the PIM process, including procedures and criteria for (1) preparing projects, (2) forming the single project pipeline, (3) appraising projects, (4) selecting projects, (5) determining financing sources and mechanisms, and (6) implementing, monitoring, and evaluating projects (**Structural Benchmark, end-February 2025, met**).

- By end-May 2025, the Strategic Investment Council will approve the Medium-Term Plan of Priority Public Investments, ensuring total capital spending on existing and new projects aligns with the respective envelopes for new and existing projects as published in the Budget Declaration 2026–2028.

- To improve resource allocation, we will adopt sectoral strategies in line with the new approaches to public investment management by end-December 2025 (***proposed structural benchmark*, end-December 2025**). These strategies will include key priorities and indicators—consistent with expenditure limits aligned with the total available resource envelope for new projects—which will guide the prioritization of public investment areas under the Medium-Term Plan of Priority Investments in 2026 and selection of projects for the updated SPP.

- 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. We will prepare the legal amendments and the necessary implementation plans by the end of September 2025 and will request FAD TA if necessary.

- 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

37. Our efforts to restore debt sustainability on a forward-looking basis remain guided by the strategy announced in March 2023. The August 2024 Eurobond exchange was a major step forward in the process. However, a treatment of the remaining external commercial claims in the restructuring perimeter 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. 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.

38. Building on the successful Eurobond exchange, we are making progress on the additional components of the strategy:

- *Commercial claims other than Eurobonds*: We continue to engage with holders of GDP warrants; government-guaranteed bonds of Ukrenergo, where restricted discussions on restructuring proposals between Ukrenergo and its bondholders occurred in February; and a commercial creditor on external commercial loans that were a part of the restructuring perimeter approved in March 2023. A moratorium on government payments on these 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.

39. 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.

40. 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

41. 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

42. We will maintain a sufficiently tight monetary policy stance to combat inflation, anchor expectations, and support macroeconomic stability, guided by our Monetary Policy Guidelines (MPG). Inflation, which was slightly below the target in 2024H1, has been accelerating rapidly since mid-2024, primarily driven by supply-side shocks that are expected to unwind. While inflation expectations have not deteriorated significantly, the risks of de-anchoring have intensified should inflation remain persistently high. In response, we paused the easing cycle, followed by two rate hikes totaling 250 bps since December 2024, accompanied by strong one-sided forward guidance. This will help anchor inflation expectations, and serve to preserve the attractiveness of hryvnia instruments, thus limiting FX pressures. In the next few months, inflation pressures are projected to persist, driven by food and energy constraints as well as wage growth. Later this year, we expect these price pressures to abate thanks to a stabilized energy situation and a larger harvest than in 2024. We will conduct monetary policy with a view toward returning inflation to its target within our policy horizon of up to three years. The NBU stands ready to adjust its monetary policy if the balance of risks to inflation and the economic outlook changes significantly over the forecast horizon, with a focus on a consistent policy mix aligned with our guidelines:

- *Operational design*. We will ensure the operational design is aligned with the tightened monetary policy stance, guided by thorough analysis of its potential impact on banks' behavior and overall financial conditions. Over time, consistent with the evolution of liquidity conditions, we may consider the introduction of additional instruments 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.

- *Reserve requirements and CDs*. Recent adjustments to reserve requirements—including the share that can be met with eligible domestic bonds—and CDs serve to enhance banks' liquidity management while supporting the government's financing needs. In our March MPC, we introduced additional measures to strengthen monetary transmission, including refinements to 3-month CD investment limits and adjusting the spread. If needed, we are prepared to adapt should the current approach hinder effective liquidity absorption.

- *Flexible inflation targeting*. We will achieve our monetary policy objectives through the flexible inflation targeting regime defined by our MPG. To safeguard macroeconomic and financial stability, we have adopted an interim flexible inflation targeting regime with managed flexibility of the exchange rate to facilitate the adjustment of the Ukrainian economy to shocks while maintaining control over expectations. 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 remains covering the structural FX deficit of the private sector and avoiding excessive volatility in the FX market, while ensuring its stable functioning. 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 together with allowing the exchange rate to serve as a shock absorber, thus supporting our eventual return to full-fledged inflation targeting.

Exchange Rate Policies

43. 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. In December 2024 and January 2025, FX demand surged due to substantial year-end budget expenditures causing moderate depreciation, prompting the NBU to increase FXI both to address the war-related structural FX deficit of the private sector (while accommodating the structural surplus of FX in the public sector) and to mitigate excessive exchange rate volatility, actions that are aligned with our Strategy and guidelines (see ¶44). As outlined in our Strategy, we will continue to allow sufficient exchange rate flexibility to enable it to serve as a shock absorber, while also preventing the accumulation of external imbalances, and thereby safeguarding valuable reserve buffers. Allowing the exchange rate to adjust to domestic and external shocks and ensuring a two-way fluctuation in response to changes in the balance of supply and demand will enhance the resilience of the FX market and the Ukrainian economy. 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. The spread between exchange rates on the cash and official exchange rates marginally increased, while remaining moderate at below 2 percent since December, with the spread in March compressed below 0.5 percent. We continue to monitor the FX market closely and to calibrate our FX intervention policy in order to achieve the program's objective of external stability, including consistency with the program's NIR targets.

44. We are committed to maintaining adequate FX reserves throughout the program to safeguard external stability. Despite high net demand for FX due to seasonal spending from the public sector, we met the end-December 2024 Quantitative Performance Criterion on net international reserves thanks to careful FX intervention and large official financing inflows. As reflected in our request to tighten all 2025 NIR targets, we remain committed to ensuring adequate reserves and achieving the established NIR floors for 2025 (***quantitative performance criteria***) to safeguard the frontloaded ERA disbursements this year that are needed across the program period, and in light of the balance of risks to the outlook.

45. 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, the liberalization of FX controls will be guided by careful assessments of macroeconomic conditions and the outlook, ensuring consistency with the overall policy mix to enhance the investment environment, facilitate debt management, and attract capital inflows. To ensure the compliance with current controls and limit unproductive capital outflows, we will continue close monitoring, including through: (i) bank-level data analysis to identify and address potential circumvention of controls; (ii) careful assessment by the Government and NBU, on a needs-basis, of existing and potential new cases for exceptions and extensions to import and export settlement deadlines; and (iii) alignment by the NSSMC of OTC operations for FX government bonds with those applied to bank operations, and close monitoring of securities account operations in order to prevent capital outflows (see ¶59). We continue to remain vigilant, aligning with the FX liberalization roadmap under our Strategy to safeguard macroeconomic stability.

NBU Independence and Governance

46. We remain committed to avoiding monetary financing. In the event of unexpected critical needs or delayed external disbursements, we will first explore additional measures, such as excess government deposits or accessing the debt market. Monetary financing will be a last resort, strictly limited, and governed by the 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, including directed liquidity provision 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.

47. 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. We will adhere to the following principles, including in line with the 2023 Safeguards Assessment:

- *Ensure financial autonomy.* We will ensure adherence to our profit retention rules and 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.

- *Implement Safeguards Assessment recommendations*. We have strengthened counterparty eligibility criteria for refinancing operations (see ¶54) and are taking steps to enhance the NBU's secured creditor status under bank resolution in line with safeguards assessment recommendations. We will continue working with IMF staff to develop and adopt amendments to the NBU law to strengthen collective fitness of the NBU Council. We will continue working on strengthening the NBU's financial autonomy, in particular its secured creditor status. We will ensure that vacant positions in the NBU Council are filled by end-April 2025.

- *Unwinding unconventional wartime measures undertaken to support price and external stability.* Urgent wartime challenges required nonstandard measures by the NBU to support macroeconomic stability. We will strive to ensure such measures are well-targeted, clearly communicated and time bound. For example, as liquidity conditions evolve, we will adjust our monetary policy framework to better align with economic conditions, including assessing a return to a corridor system. When conditions permit, we are committed to phasing out war-time measures to strengthen our monetary policy toolkit, uphold NBU credibility and independence, and thereby support our transition to a full-fledged inflation targeting framework with a floating exchange rate.

48. 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.

G. Financial Sector

49. Our wide-ranging emergency measures have preserved financial stability. We continue to closely monitor developments in the financial sector and will adjust policies as necessary. Despite the 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. Most of the branches in the Power Banking network have 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) has been nationalized.

50. 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 will complete a resilience assessment by end-December 2025, which includes asset quality reviews that will involve external auditors, and stress testing under baseline and adverse scenarios. The results of the assessment will be considered as part of Pillar 2 implementation and inform a schedule for closing outstanding gaps in regulatory capital requirements and harmonization of regulations with EU acquis.

- The NBU 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**). We will continue to monitor the situation and adjust contingency plans accordingly.

- 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.

51. 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.

52. The DGF, MOF and NBU have updated the bank rehabilitation framework (*Structural Benchmark*, end-December 2024). It included: (i) measures to strengthen operational readiness; (ii) draft legislative changes to close key gaps in early intervention, temporary administration, and resolution frameworks, as set out in the NBU-DGF roadmap, as well as necessary ongoing changes to improve existing liquidation procedures. The draft law is expected to be adopted by end-December 2025; (iii) reviving the work of the NBU-DGF coordination committee to improve information sharing between and to foster cooperation and functioning of the two institutions. We are implementing the action plan approved by the coordination committee; and (iv) a review of the adequacy of DGF financial backstops. We will continue to maintain emergency financial backstops at least until the target ratio has been reached. In addition, the NBU has aligned its frameworks for counterparty eligibility in monetary policy operations with international best practice and their coordination with lender-of-last-resort operations.

53. 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, 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-June 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.

54. 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-July 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.

- The Ministry of Economy will develop a strategy for the Ukrainian Financial Housing Company in consultation with the MOF, NBU, and IFIs by end-June/ 2025 that fully considers fiscal and debt constraints and minimizes the use of fiscal resources. We will not allocate any further budget resources to the Ukrainian Financial Housing Company in 2025 until the strategy is complete.

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

- *Financial reporting*. 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 and will implement Pillar 2 capital requirements in 2025. 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, in February 2025 the NBU prepared amendments to the legislation to increase banks' minimum share capital to the equivalent of EUR 5 million, which includes 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.

- *Immovable property databases and indices*. As set out in a proposal developed in March 2024 to increase the transparency of the real estate market the Ministry of Justice and the NBU will by

September 2025: (i) launch a publicly accessible database of real estate transaction prices with detailed metadata including structural parameters of primary and secondary market; and (ii) publish residential and commercial property price indexes.

- *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. We will prepare an update of the legislation, with input from Fund technical assistance, and in consultation with IFIs by end-October 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 respective regulators by end-September 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 came into force on January 1st, 2025, and had no significant impact on the volume of non-performing exposures reported in the banking system. 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. Parliament is expected to adopt by end-August 2025, legislative 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.

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

- *Supervisory panels*. NBU Supervisory Committees 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 has implemented a supervisory risk assessment methodology to inform supervisory engagement priorities (***Structural Benchmark*, end-December 2024, met**). We will refine the supervisory methodology and expand the supervisory plan to include all material bank risks and develop methodologies for increased capital adequacy and liquidity requirements based on supervisory risk assessments by end-December 2025. We are also adjusting the organizational structure for bank supervision to leverage efficiencies as we implement 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, financial crimes and other illegal activities. By end-June 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-March 2025; and (ii) develop and submit a draft law to parliament (***Structural Benchmark*****, end-May 2025, proposed to be reset to end-September 2025**). The draft law 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.

57. 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*. 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 a 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 the NSSMC 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*. To prioritize supervisory activities of payment service providers in consultation with IFIs, we: (i) will further develop the early warning system and transition to transition to risk-based supervision in the payment market by end-December 2025; (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; (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 (vi) will prepare market guidance by end-March 2025 on measures to strengthen the risk-based payments monitoring by banks and non-bank payment service providers. We have and will continue to introduce regulation, including in the self-governed market, to restrict abnormal behavior. To minimize illegal use of the payment infrastructure, the NBU will prepare by end-May 2025 a legislative proposal to: (i) extend the supervisor's authority to limit operations of payment service providers non-compliant with regulatory requirements; (ii) establish a public register to be used by banks when establishing business relations and servicing customers; and (iii) align services with EU norms. Additionally, we will prepare by end-September 2025 a legislative proposal to: (i) align payment and acquiring services with EU norms; (ii) extend its supervisory and regulatory powers to technology operators on the payments market; and (iii) clearly delineate financial and payment licenses, while transition options will be given to market players; and (iv) establish clear ownership structure requirements for payment service providers to enhance transparency and integrity in the market.

- *Capital market regulation and harmonization with IOSCO principles*. Following the enactment of Law 3585-IX in March 2024 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 have: (i) proposed a reorganizational and operational strategy in consultation with IFIs; (ii) updated the Commission's

Employees Code of Ethics in line with international best practice in consultation with IFIs; (iii) initiated 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) strengthened the effectiveness of capital flow measures, including through regulatory harmonization and aligning capital flow restrictions for securities operations with those applied to bank operations (***Structural Benchmark*, end-January 2025, not met**). We were, however, able to deliver all items except (iii) although we remain committed to fulfilling this task in order to underpin its institutional foundation and effectiveness, the NSSMC will complete the independent fit and proper review **(*proposed Structural Benchmark*, end-June 2025)**. Additionally, to further strengthen capital flow restrictions, we will require that OTC FX bond operations carried out by non-banks are settled through the Settlement Center by end-March 2025.

- *Related parties*. Taking into account supervisory observations in the recognition of related parties, we will submit a draft law to Parliament to: (i) strengthen the related parties definition to capture economic interdependencies and related party risks; and (ii) adjust restrictions on related party market transactions. We will take the necessary steps to facilitate the adoption of the law by end-September 2025.

- *Insurance transparency.* We have required 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, develop proposals to improve legislation regulating the license revocation and liquidation procedures for non-bank financial institutions.

58. We continue monitoring and adjusting to financial and credit market challenges under martial law:

- *Debt 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, in consultation with the

NSSMC, MOF, and IFIs, will develop a targeted model for capital market infrastructure development, including the resolution of the CSD regulator and shareholder conflict of interest, that will facilitate engagement of foreign investors by end-March 2025. The CMU, NSSMC, and NBU will implement the agreed targeted model of capital markets infrastructure by end-May 2025. Following undercapitalization of the largest stock exchange, which threatened the smooth 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*. To preserve interests of households and businesses, and to facilitate compensation for damages caused by war risks materializing in Ukraine, a working group of the FSC prepared and submitted a draft law to parliament in December 2024 following public consultation. We will work closely with the respective committee in the parliament to facilitate its adoption by end-June 2025.

- *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 (#13018) for a specialized and restricted banking license which is expected to be adopted by end-June 2025 and 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 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. Banks supporting the lending development strategy will be subject to more intensive supervision on a proportionate basis. The NBU will coordinate with other stakeholder authorities and will prepare detailed action plans by end-March 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. The NBU, in consultation with IFIs, will prepare a concept note for the development of the mortgage lending market by end-June 2025.

- *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-June 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, have prepared a concept note that sets out the steps, conditions and timing needed to introduce and develop the foreign exchange derivative financial instruments (including forwards) market.

59. The NBU, NSSMC, and MOF, in consultation with IFIs, will prepare a concept note by end-May 2025 that sets out the steps to identify financial market infrastructure reforms aimed at maximizing opportunities to attract private investment. Current gaps in market standards and infrastructure threaten to weigh on prospects of attracting private capital. We will form an interagency working group under the Financial Stability Council that includes all policy stakeholders. The concept note will consider coordination arrangements to subsequently diagnose and close key market infrastructure gaps while strengthening market accountability and oversight. We will subsequently update our Financial Sector Strategy, as appropriate.

60. In parallel to the steps in the previous paragraph, by end-June 2025 we will:

- *Prepare a roadmap to close gaps in the Joint Investment Institutions (JII) framework* relative to international good practice and in consultation with IFIs. This includes strengthening regulation and monitoring, while fully considering the fiscal implications of associated tax expenditures.

- *Further align banking norms with the EU to achieve Regulatory Equivalence*. This important step towards EU market access will facilitate a reduction of Ukraine sovereign regulatory risk weights, which will positively impact EU banks' incentives to hold Ukraine risk. We have achieved about 70 percent convergence with the EU Acquis, and aim to achieve 75 percent convergence by end-June 2025. EU equivalence with professional secrecy and confidentiality is a prerequisite to banking regulatory equivalence. The NBU will prepare legislative amendments by end-September 2025 aimed at aligning banking secrecy and disclosures with Directive 2013+36/EC (CRD IV).

- *Implement European valuation standards (EVS)*, which will enhance confidence in valuations of real estate and bank collateral for all economic entities and public authorities and facilitate cross-border transactions. The State Property Fund (SPF) will close the gaps with TEGOVA "Blue Book" EVS in consultation with the NBU, NSSMC and IFIs, and: (i) 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", 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.

61. 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

62. 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 has been 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, met**). We have started the selection process for the six vacant ACU members and will aim to have a full membership of the ACU in line with the timelines provided in the law.

Anti-Corruption and Rule of Law

63. 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.

64. 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; not met and proposed to be reset for end-July 2025**). 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; not met and proposed to be reset for end-July 2025**). The auditors continue to gather and assess information and have received good cooperation with the NABU and other relevant stakeholders. 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) and based on the memorandum of understanding with law enforcement agencies, the NABU is making preparations for the implementation plan in the post-Martial Law period by securing resources, equipment and technological solutions to independently intercept communications of landlines and mobile devices.

- In December 2024, a law was enacted 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) has been monitoring them. A robust risk-based verification system is critical to mitigate corruption in higher risks areas such as procurement and customs. In this regard, the NACP will continue to enhance its capacities to conduct risk-based verification of asset declaration focusing on public officials under the NABU's jurisdiction in higher risk areas, including in reconstruction and recovery. It will maximize lifestyle monitoring investigations, technologies (including increasing data warehousing capacities), and information requests to other agencies and foreign counterparts.

- Members of the Public Council of International Experts (PCIE) have been appointed, who will vet candidates for the 24 vacancies to the High Anti-Corruption Court (HACC) both at the first instance (15 vacancies) and appellate (9 vacancies) levels. A law was enacted in November 2024 to extend the PCIE's mandate for the purpose of completing the ongoing selection process of remaining vacancies for HACC judges. We will ensure the open and competitive selection for these vacancies and adequately provision for their staffing and office needs to be able to conduct the HACC operations effectively.

- In December 2024, the ACU published its audit report of the HACC, and made the following recommendations: to provide HACC with the proper premises, develop indicators of the average duration of cases for anti-corruption categories, and improve internal control systems.

65. 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 Specialized Administrative Court (SAC) (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; not met**). 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, SAPO, ESBU and SCS). Swift operationalization of the new SAC 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.

AML/CFT

66. 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.

67. 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. We are committed to two actions by September 2025: First, amendments will be made to the Law "On Public Procurement", which will require the publication of UBO information for companies that have received direct contracts or a negotiated procedure for public procurement. Second, whereas currently, only successful resident bidders are subject to the publication of UBO information, UBO information will be also published for successful non-resident bidders. Furthermore, we will have enhanced the sanctioning regime by revising the legal framework, in consultation with the IMF, to ensure effective, proportionate, and dissuasive action against non-compliance with beneficial ownership requirements.

68. The operations and effectiveness of the State Financial Monitoring Service (SFMS), the Financial Intelligence Unit (FIU) of Ukraine, in analyzing and disseminating suspicious transaction reports will be strengthened, including through the development and implementation of a technical assistance roadmap. To prepare the FIU for the upcoming MONEYVAL assessment, and ensure our system is aligned with the harmonized (operational) framework of European countries (as set out in EU law), an independent fact- finding review of the strengths and weaknesses of the SFMS will be undertaken by end-December 2025 in consultation with the IMF and relevant stakeholders, including agreement on the terms of reference, criteria and methodology. The review will be carried out by an internationally recognized firm, which will analyze information provided by the SFMS in accordance with the requirements of the EU Anti-money laundering/countering the financing of terrorism legislative package and the FATF Standards.

Corporate Governance in SOBs and SOEs

69. 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 have reviewed the framework for setting and paying remuneration to Senior Management of all SOBs in December 2024 in consultation with IFIs and based on the principles that remuneration is 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.

70. We will update the SOB Nomination Committee (NomCom) rules in consultation with IFIs and ensure all SOB independent supervisory board vacancies are filled. We will update the independent supervisory board selection process by end-April 2025 by enabling applicants to one SOB to be considered for possible vacant positions in other SOBs to address any attrition in their supervisory boards. We will also update the NomCom processes based on lessons learned from past NomComs in consultation with IFIs by end-June 2025.

71. We will continue to strengthen SOE corporate governance, including through implementing law #3587-IX and the state ownership policy (SOP), in close consultation with international partners.

- The CMU approved the regulation for the financial indicators in August 2024 (No. 984) consistent with the gatekeeper role of the MOF to limit quasi-fiscal risks and help safeguard debt sustainability. If necessary, we will review the financial indicators at the latest in early 2027 before the next SOE financial planning season in 2028, and we will make any changes to the financial indicators through a CMU resolution.

- We have produced a comprehensive SOP, State Dividend Policy and privatization strategy. 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; preparing a concept consolidated SOE management (see ¶73); adopting the CMU resolution for the formation of mandatory supervisory boards; requiring that financial statements are prepared in accordance with IFRS subject to an appropriate transition 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 legislation and CMU resolutions. We commit to review and publish 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).

- We will revise the selection and appointment processes for SOE supervisory board members and adopt appropriate changes to the relevant CMU by-laws, including Resolutions 142 and 143, by August 2025 **(proposed Structural Benchmark, August 2025)** in consultation with Fund staff and international partners. The first stage of revising the CMU by-laws will envisage enhancing the efficiency of the NomCom activities, including through standardization of documentation related to recruitment, and improving transparency of the NomCom decisions. At the same time, we will adopt a roadmap for more substantial medium-term reforms of the SOE board recruitment in line with international best practices, taking into account the status of SOEs and results of the triage. In particular, the roadmap would aim for a) streamlining and centralizing the selection procedure for the supervisory board candidates, including through an IFI-agreed monitoring process; b) clearly identifying and delineating the roles and responsibilities of key decision makers; c) increasing efficiency of each separate stage of the process and thus shortening the time for selections' completion; d) ensuring proper compositions of supervisory boards with regards to SOE profile and required competencies; e) improving onboarding for new board members. Modernizing such corporate governance SOE board appointment procedures will be especially important for the post-Martial law environment to help catalyze private foreign investments into strategic and systemic SOEs.

- We will continue advancing energy corporate governance reforms. In this regard, the Supervisory Boards of GTSO, Naftogaz and Ukrenergo plan to promptly select the new CEOs under OECD standards. We have approved a framework for assessing supervisory board activity and launched an independent evaluation of the supervisory boards of GTSO, Naftogaz and Ukrenergo in January 2025 and commit to conclude and publish it by end-May 2025.

72. We are exploring options, in close consultation with international partners, to enhance SOE management, including the potential introduction of a centralized SOE management

model, consistent with the SOE corporate governance reform agenda in the SOP and best international practices. This will include 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). In particular, we will ensure a strong gatekeeper role of the MOF for SOE financial oversight, limit quasi-fiscal risks, and help safeguard debt sustainability. Importantly, any new SOE management framework must not dilute the government's authority over dividend policy, ensuring that SOE dividends are directed to the state budget and are transparently reported to ensure accountability and oversight. Any primary legislation to formalize a centralized SOE management model for non-major SOEs will be consistent with the principles of the medium-term reforms as envisaged in the NomCom Roadmap (see ¶72) and other key reforms of the SOP, which will have helped to enshrine modern SOE corporate governance practices.

Energy Sector Reforms

73. 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. Overall**,** we succeeded in repairing 4GW of energy capacity in 2024 with another 3GW of repairs planned for 2025. In addition, over 0.8GW of new power generation was commissioned and connected to the energy grid in 2024, with 0.9GW of distributed gas-fired generation planned in 2025. 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 damage to our generating capacity, and to ensure sufficient electricity provision to households and firms, including for the next heating season. We 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, including for households.

- For 2025, we plan additional gas imports for domestic consumption of up to 4 bcm under the baseline, while additional gas could be stored by non-residents for EU strategic reserves. 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, available financing, and capped at UAH 60 billion (about 0.8 percent of GDP).

74. 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 of 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. Over the coming months, we will adopt a law on market coupling, which will significantly advance the integration of Ukraine's energy market with the EU.

75. 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. 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 (***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.

76. We will tackle the arrears and debt of District Heating Companies (DHCs) comprehensively once war-related pressures on the budget subside by developing a new tariff methodology with cost-reflective tariffs. We have completed the review of arrears and debts of DHCs by a reputable audit firm, which has helped clarify the stock of arrears and the financial situation of DHCs, including the drivers of the arrears' accumulation.

I. Program Monitoring

77. 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 Eighth, Ninth, and Tenth Reviews are expected to take place on or after June 15, August 31, and November 30 respectively, based on quantitative performance criteria for end-March 2025, end-June 2025, and end-September 2025 respectively, and corresponding structural benchmarks.

Table 1. Ukraine: Quantitative Performance Criteria and Indicative Targets

(End of period; millions of Ukrainian hryvnias, unless otherwise indicated)

	Dec 2024					Mar 2025		Jun 2025		Sep 2025		Dec 2025		Mar 2026
	QPC	Adjustor	Adjusted QPC	Actual	Status	EBS/24/151	QPC	EBS/24/151	QPC	EBS/24/151	QPC	EBS/24/151	IT	IT
I. Quantitative Performance Criteria 1/ 2/														
Floor on the non-defense cash primary balance of the general government, excluding budget support grants (- implies a deficit) 2/ 3/	415,410	0	415,410	756,038	Met	254,800	254,800	547,200	547,200	752,400	752,400	822,000	822,000	117,800
Floor on tax revenues (excluding Social Security Contributions)	2,042,250	0	2,042,250	2,101,877	Met	485,000	485,000	1,019,600	1,019,600	1,622,200	1,622,200	2,491,045	2,491,045	599,000
Ceiling on publicly guaranteed debt 3/	47,900	13,718	61,618	46,799	Met	62,860	62,860	64,357	64,357	64,357	64,357	64,357	64,357	68,000
Floor on net international reserves (in millions of U.S. dollars) 3/	26,300	-206	26,095	28,228	Met	24,300	27,200	24,800	27,700	23,000	24,000	23,000	42,000	37,300
II. Indicative Targets 1/ 2/														
Floor on the cash balance of the general government, excluding budget support grants (- implies a deficit) 3/	-1,801,685	0	-1,801,685	-1,611,539	Met	-342,100	-410,500	-718,400	-821,000	-1,146,000	-1,248,600	-1,710,400	-1,710,400	-340,000
Ceiling on general government arrears	1,800	0	1,800	1,354	Met	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800
Floor on social spending	537,800	0	537,800	601,388	Met	132,000	132,000	271,200	271,200	414,000	414,000	560,900	560,900	160,000
Ceiling on general government borrowing from the NBU 4/ 5/	0	0	0	-49	Met	-984	-984	-4,100	-4,100	-1,500	-1,500	-6,500	-6,500	-2,500
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)	1,496	…	…	1,564	…	191	378	572	1,133	1,144	2,266	1,906	3,776	250
External budget financing (in millions of U.S. dollars) 6/	35,367	…	…	36,390	…	9,105	12,198	19,282	25,011	27,280	34,336	35,813	54,488	2,923
Budget support grants (in millions of U.S. dollars)	10,012	…	…	10,033	…	429	429	965	967	1,286	1,288	1,608	1,610	161
Budget support loans (in millions of U.S. dollars) 6/	25,355	…	…	26,357	…	8,677	11,770	18,318	24,044	25,994	33,047	34,206	52,878	2,762
Interest payments	429,820	…	…	305,011	…	86,200	86,200	244,600	244,600	366,100	366,100	488,800	488,800	107,773
NBU profit transfers to the government	38,000	…	…	38,643	…	0	0	63,900	63,900	63,900	63,900	63,900	63,900	0
Government bonds for the purposes of bank recapitalization and DGF financing	0	…	…	0	…	0	0	0	0	0	0	0	0	0
Spending from receipts resulting from sales of confiscated Russian assets and transfers of bank accounts	23,743	…	…	16,953	…	0	4,000	0	6,000	0	8,000	0	9,935	0
Spending on gas purchases, PSO compensation and transfer to GTSO	60,000	…	…	0	…	0	0	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)	-1,850.4	…	…	-1,320.7	…	-342.1	-410.5	-718.4	-821.0	-1,146.0	-1,248.6	-1,710.4	-1,710.4	-340.0

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 2025 and 2026 are cumulative flows from January 1, 2025, and 2026, 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 actual and projected redemptions of government bonds as of February 28, 2025.

6/ Excludes prospective IMF disbursements under the EFF.

Table 2. Ukraine: Structural Benchmarks and Prior Action (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 and Prior Action (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 and Prior Action (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	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
26	Identify major public companies severely affected by the war and prepare a review of potential fiscal and quasi-fiscal costs	Fiscal	End-September 2024	Met
27	Adopt amendments to the Customs Code, in line with international best practice.	Fiscal	End-October 2024	Met
28	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
29	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
30	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
31	Produce a SOE state ownership policy, dividend policy and privatization strategy	SOE Corporate Governance	End-October 2024	Met
32	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
33	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,	Governance/ Anti-Corruption	End-December 2024	Met

	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 standards on supreme audit institutions			
34	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
35	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	Met
36	The DGF, MOF and NBU will prepare a bank rehabilitation framework in consultation with IMF staff.	Financial Sector	End-December 2024	**Met**
37	Implement a supervisory risk assessment methodology to inform supervisory engagement priorities.	Financial Sector	End-December 2024	**Met**
38	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	**Not Met**
39	Adopt Budget Code amendments in line with Action 1 under the June 2024 PIM Action Plan.	Fiscal	End-January 2025	**Met**
40	CMU to approve a methodological framework underpinning the PIM process, as specified in ¶36 of the MEFP.	Fiscal	End-February 2025	**Met**
41	Submit legislative amendments to Parliament to introduce tax reporting requirements for digital platform operators.	Fiscal	End-April 2025	
42	Appoint a permanent head of SCS.	Fiscal	End-June 2025	
43	Submit a 2026–28 Budget Declaration on time and in line with program parameters.	Fiscal	End-June 2025	
44	**Appoint the new Head of the ESBU based on the selection process.**	**Fiscal**	**End-July 2025**	**Not Met *(Reset from end-February 2025)***
45	**The MOF, together with the STS and SCS, will develop the operational plan for the implementation of the updated IT Strategy, which will be adopted to support the digital transformation required for the digital transformation for the NRS.**	**Fiscal**	**End-September 2025**	
46	**Adoption of sectoral strategies in line with the new approaches for PIM.**	**Fiscal**	**End-December 2025**	
47	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	
48	Prepare a comprehensive operational strategy for the NSSMC, including initiating an independent fit and proper review.	Financial Sector	End-January 2025	**Not Met**

49	**Complete the independent fit and proper review of the NSSMC.**	**Financial Sector**	**End-June 2025**	
50	**Prepare and submit to parliament a draft law on financial sector critical third-party risk.**	**Financial Sector**	**End-September 2025**	***Reset from end-May 2025***
51	**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, ¶64, 1st bullet.**	**Governance/ Anti-Corruption**	**End-July 2025**	**Not Met *(Reset from end-December 2024)***
52	**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-July 2025**	**Not Met *(Reset from end-February 2025)***
53	**Revise the selection and appointment processes for SOE supervisory board members and adopt appropriate changes to the relevant CMU by-laws, in line with MEFP ¶71, 3rd bullet.**	**SOE Corporate Governance**	**End-August 2025**	
54	Complete and publish an external assessment of NEURC by the Energy Community Secretariat (upon request).	Energy	End-October 2025	
55	**Enact law #11090 on tobacco excise taxes.**	**Fiscal**	**Prior Action**	