

## Annex I. Letter of Intent

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

March 7, 2022

Dear Ms. Georgieva:

1. Ukraine's invasion by Russia represents a massive humanitarian and economic shock:
  - Ahead of the February 24 invasion, the economy was emerging from the COVID-19 crisis. Real GDP grew by 3.2 percent in 2021, as a record grain harvest and strong consumer spending helped lift growth in the last quarter of the year. Gross international reserves stood at US\$30.9 billion. In December 2021, alongside the approval of the 2022 budget, we had submitted a tax package intended to make space for priority expenditure while starting to reduce the deficit, in line with our commitment to medium-term fiscal sustainability. Revenue performance overperformed in the first two months of 2022. In response to strong global energy and food prices contributing to inflationary pressures, we had been tightening our monetary policy stance, and inflation had declined from its September 2021 peak. We had been making progress on structural commitments under the Stand-by Arrangement, and, on February 23, we had started negotiations with the intent to complete the second review.
  - Since February 24, our country has already incurred widespread loss of life, large outward migration, and significant infrastructure damage, including to major airports, seaports, and transportation systems. At the same time, Eurobond markets remain closed. Against this background, the Ukrainian economy is set to experience a deep recession this year and large financing gaps.
2. To preserve macro-financial stability in the face of this unprecedented shock, we have immediately implemented emergency measures aimed at protecting core government operations and ensuring our people can continue to access cash and meet their most basic needs. Specifically:
  - We have introduced administrative foreign exchange controls and capital controls to protect international reserves. We have temporarily fixed the official exchange rate at the level prevailing on February 24, while allowing limited interbank trading in a narrow band around the official rate to facilitate the availability of foreign exchange for critical import purchases. We have postponed changes to the key policy rate as these administrative restrictions are in place.
  - During the initial phase of the shock, the monetary policy operations of the NBU with banks and the Government are aimed at supporting the smooth functioning of financial system.
  - We have set limits on daily cash withdrawals and established a new liquidity facility to allow banks to access unsecured funding with a maturity of up to one year for an amount up to

30 percent of their retail deposits. The declaration of martial law allows the NBU to provide direct financing to the budget.

- In the very near term, our fiscal policy is focused on ensuring priority payments are being made. Following the adoption of martial law on February 24, public wages, defense spending, social spending and other critical needs are being prioritized given immediate liquidity constraints. We have strived to continue with regular treasury auctions, offering “war bonds” to mobilize financing. We have remained current on all our external and domestic debt obligations.
3. Against this background, we are requesting financial assistance from the IMF under the Rapid Financing Instrument (RFI) in the amount equivalent of SDR 1,005.9 million, corresponding to a purchase of 50 percent of Ukraine’s quota. Furthermore, we request that the purchase be disbursed into Ukraine’s SDR holdings account. This IMF assistance will help finance priority spending and meet urgent balance of payments needs arising from the ongoing military conflict, which, if not addressed, would result in immediate and severe economic disruption. Should we ultimately use RFI funds for budget support, we commit to put in place a memorandum of understanding between the National Bank of Ukraine (NBU) and the Ministry of Finance that clarifies the responsibilities for timely servicing of our financial obligations to the IMF. It is our expectation that the RFI support will have a significant catalytic effect in helping secure additional official financing to close our large fiscal and external financing gaps. Given the constraints the ongoing war has imposed on our capacity for policy design, implementation, and monitoring that would be consistent with our commitments under the Stand-by Arrangement (SBA), we have already requested cancellation of SBA, effective March 3. We intend to work with the IMF to design an appropriate economic program aimed at rehabilitation and growth when conditions permit.
4. We will continue to collaborate closely with the IMF when designing and implementing emergency measures in the short term. The exchange restrictions we imposed on February 24 were necessary from a national security perspective, including to ensure smooth operation of critical infrastructure. We do not intend to introduce or intensify exchange and trade restrictions and other measures or policies that would compound Ukraine’s balance of payments difficulties. We will gradually remove restrictions as our situation eventually normalizes. Our track record speaks clearly to our commitment in that regard: following the 2014 security crisis, when such measures last became necessary, we have been following a liberalization roadmap to phase out exchange restrictions, in consultation with IMF staff.
5. We remain fully committed to our inflation targeting regime, and plan to return to our inflation targeting framework and a floating exchange rate as soon as the situation stabilizes. In this respect, all the NBU monetary financing operations with the Government will be ceased and the monetary operational framework with the banks will be gradually returned to standard practices.
6. In line with IMF safeguards policy, we commit to undergoing a new safeguards assessment of the National Bank of Ukraine and will continue providing IMF staff with the NBU’s audit reports and authorize its external auditors to hold discussions with staff.
7. While extensive data provision to the IMF is not possible under the current circumstances, we will continue to provide high frequency data on central bank foreign exchange reserves and financial

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sector liquidity and operations. To assess sovereign liquidity needs, we recommit to providing regular data on a weekly basis on domestic bond auctions and treasury account balances in domestic and foreign currency, and on cash revenue and expenditures from the state budget on a monthly basis. We will strive to provide additional data, including government resolutions and decrees on new emergency spending, as necessary, that would support the determination of financing gaps, to allow for the formulation of a broad-based and comprehensive external financing package

8 We authorize the IMF to publish this letter and the accompanying Executive Board documents immediately upon consideration by the IMF's Executive Board of our request for a purchase under the RFI.

Sincerely yours,



Sergii Marchenko  
Minister of Finance



Kyrylo Shevchenko  
Governor, National Bank of Ukraine