

Appendix I. Letter of Intent

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

October 1, 2022

Dear Ms. Georgieva:

1. The Ukrainian authorities are grateful for the support provided by the IMF since the Russian invasion of our country on February 24. The disbursement of SDR 1,005.9 million (about US\$1.4 billion) under the Rapid Financing Instrument on March 9, in the early days of the war, provided critical support at a time of acute financial stress. The subsequent establishment of an IMF Administrative Account has successfully channeled more than US\$2 billion of additional funds to Ukraine. In parallel, close collaboration on assessing financing needs has been crucial in catalyzing unprecedented financial assistance from donors.

2. Ukraine continues to suffer from the dramatic consequences of the Russian invasion. In addition to a large loss of life, over a third of Ukrainians have either left the country or been internally displaced, and infrastructure damage is estimated at around 60 percent of 2021 GDP. Against this background, GDP is projected to collapse by more than a third this year, and the outlook for next year remains highly dependent on the length and intensity of the war.

3. We have adjusted our macroeconomic policies forcefully to this unprecedented shock. In addition to the emergency measures undertaken immediately following the outbreak of the war, the devaluation of the exchange rate in July, following an increase in the NBU key policy rate from 10 to 25 percent in June, together with a tightening in capital controls, have been successful in helping to buoy international reserves. On the fiscal side, we have compressed non-priority expenditures and reoriented spending towards critical needs and in support of our defense effort and our citizens most affected by the war. NBU purchases of government war bonds on the primary market have been largely sterilized and base money growth has remained contained. Overall, in spite of very challenging circumstances, we have managed to maintain macroeconomic stability and the financial sector has demonstrated its resilience.

4. Despite all these efforts and large scale external official multilateral and bilateral support, for which we are very thankful, our balance of payments and fiscal financing needs remain large, including on the back of a major shortfall of cereal export receipts. Unfortunately, our financing needs are also subject to significant risks. A prolonged war would exacerbate infrastructure damage, population displacement, economic hardship, and an increase in poverty. Renewed loss of port access could jeopardize future agriculture seasons, affecting exports and global food security. Further pressure on gas stocks and contingent liabilities from state-owned enterprises in the energy sector as well as from the banking sector could add to already large financing needs.

5. Against this background, we are requesting financial assistance from the IMF under the food shock window of 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. 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. This IMF assistance will help meet urgent balance of payments needs arising from the consequences of the war, which, if not addressed, would result in immediate and severe economic disruption. We expect the RFI support to have a significant catalytic effect as we seek additional official financing to close our residual financing gap for 2022.

6. We will provide adequate and timely data and continue to collaborate closely with the IMF when designing and implementing policy measures. We remain committed to sound economic, fiscal and governance reforms to protect macro-financial stability. To that end, we herewith also request a Program Monitoring with Board involvement, which we expect would help eventually pave the way for an Upper Credit Tranche arrangement in the near future. The Fund's support under the PMB will provide a strong anchor for assessing financing needs and coordinating and implementing policies that support macroeconomic stability and continued donor support.

7. 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, in consultation with IMF staff.

8. 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.

9. 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 food shock window of the RFI.

Sincerely yours,



Sergii Marchenko
Minister of Finance of Ukraine



Kyrylo Shevchenko
Governor, National Bank of Ukraine