# Appendix I. Letter of Intent

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

October 4, 2024

Dear Ms. Georgieva:

1. Russia's illegal and unjustified invasion of our country continues to bring enormous human, social, and economic costs. As attacks persist, civilian casualties are large, over a quarter of the population has been displaced, and infrastructure damage is massive and increasing, with serious long-lasting consequences for our people. The latest Rapid Damage and Needs Assessment (RDNA-3) estimates reconstruction needs at US$486 billion over the next decade, and these needs increase with every day of the war. Through this hardship, including more recently due to damage to our energy infrastructure, 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 sustained strong 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$151.4 billion over the program period. In this regard, we welcome the commitment by G7 leaders to make US$50 billion available by end-2024 through the Extraordinary Revenue Acceleration mechanism.

3. The goal of our IMF-supported program remains to restore fiscal and achieve debt sustainability on a forward-looking basis as well as medium-term external viability. It also aims to promote long-term 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 the 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 should set the stage for stronger prospects after the war ends. After the war, 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. As a Prior Action for this Fifth Review under the EFF, we have appointed independent auditors to assess the effectiveness of the National Anti-Corruption Bureau of Ukraine to investigate corruption. Moreover, we met all of the end-June 2024 and continuous quantitative performance criteria (QPCs) and all of the indicative targets (ITs). We expect to meet all QPCs for end-September, including (i) the floor on the non-defense cash primary balance of the general government, excluding budget support grants, (ii) the floor on tax revenues, (iii) the ceiling on publicly guaranteed debt, and (iv) the floor on net international reserves. We request waivers for applicability for these end-September QPCs since treasury reporting of final data to evaluate the fiscal and debt targets will be available around October 25, and final data on net international reserves will be available around October 20. To modify an adjustor applicable to end-December net international reserves, we are requesting a modification of the respective QPC.

6. We also continue to implement key policy measures and structural reforms under the program, as highlighted in Table 2 of the MEFP. In June – six months ahead of schedule – the Cabinet of Ministers also approved a detailed action plan to implement the 2023 Public Investment Management Roadmap (end-December 2024 structural benchmark). In September, we finalized a new methodology for assessing tax privileges (end-September 2024 structural benchmark); identified major public companies severely affected by the war, with an assessment of their potential fiscal and quasi-fiscal costs (end-September 2024 structural benchmark); and adopted legislative amendments to reform the State Customs Service (end-October 2024 structural benchmark). Additionally, we respected the continuous structural benchmark on the banking system. The end-September 2024 structural benchmark on completing an external audit of the National Anti-corruption Bureau of Ukraine was not met, owing to delays in the appointment of independent auditors. We propose to reset this item as a new end-February 2025 structural benchmark.

7. Going forward, we will continue implementing wide-ranging reforms, and as a demonstration of this commitment we propose 10 additional structural benchmarks: (i) assessing key financial and operational risks to financial stability under various downside scenarios and preparing contingency plans (both by end-October 2024); (ii) adopting amendments to exempt decisions by the energy regulator (NEURC) from the state registration procedure; (iii) formation of the full supervisory board of Ukrenergo (7 members), with independent members constituting the

majority of the supervisory board; (iv) enacting amendments to reform the Accounting Chamber of Ukraine (all by end-December 2024); (v) adopting Budget Code amendments in line with the June 2024 Public Investment Management (PIM) Action Plan (by end-January 2025); (vi) approving a methodological framework underpinning the PIM process (by end-February 2025); (vii) appointing the new Head of the Economic Security Bureau (by end-February 2025); (viii) submitting legislative amendments to Parliament to introduce tax reporting requirements for digital platform operators (by end-April 2025); (ix) appointing a permanent Head of the Customs (by end-June 2025); and (x) submitting a 2026-28 Budget Declaration in line with program parameters (by end-June 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 we announced in March 2023, the intention to undertake a restructuring of our external public debt, in line with program parameters. After reaching agreement in principle with a committee of commercial creditors in July, we successfully completed the exchange of outstanding government and Ukravtodor bonds into new instruments on August 30. 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. In light of these steps, we request the completion of the financing assurances review.

9. Based on our successful implementation of the program targets for end-June 2024, our implementation of structural benchmarks, as well as our strong policy commitments for the period ahead, we request completion of the Fifth Review and a disbursement in the amount of SDR 834.88 million (41.5 percent of quota), which will be channeled for budget support. A memorandum of understanding between the National Bank of Ukraine (NBU) and the Ministry of Finance (MOF) has been established to govern the mechanism of servicing of the government's obligations to the Fund by the NBU on behalf of the MOF. We also request the rephasing of purchases under the EFF over 2025–27 (totaling SDR4.265 billion) within the existing envelope of the program to (i) accommodate quarterly monitoring in 2025 given continued exceptionally high uncertainty amid a prolonged war, and to (ii) allow modest frontloading of IMF financing consistent with higher fiscal financing needs. Our track record of good program performance so far, strong commitments going forward, steadfast progress on debt restructuring, and increase external support from the G7 should constitute safeguards for the use of IMF resources.

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 as well as in a downside scenario. Acknowledging that these scenarios are subject to exceptionally high uncertainty, we are committed to continue adapting our policies as conditions evolve. We will consult with the IMF on the adoption of these measures, and in advance of any revisions to the policies contained in the MEFP, in line with the IMF's policies on consultation. We will refrain from any policies that would be inconsistent with the program's objectives and our commitments presented in the MEFP.

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. Russia's unprovoked, illegal, and unjustified invasion of our country continues to bring enormous human, social, and economic costs.** Civilian casualties keep rising, around a quarter of the population has been displaced, and missile strikes countrywide continue including devastating attacks on our electricity infrastructure. Despite all the destruction, suffering and challenges, our people continue to show remarkable courage and resilience, while macroeconomic, financial, and external stability have been preserved. Nevertheless, we continue to face major challenges: the fiscal deficit remains very high, entailing large external and domestic financing needs, and protecting core functions of the state under tight financing constraints force us to navigate difficult policy trade-offs.

**2. The Extended Fund Facility (EFF) arrangement provides a strong anchor for our economic policies, and we continue to sustain strong performance under the program.** The arrangement has helped mobilize an external financing package from our international partners that now totals US$151.4 billion over the program period (2023Q2–27Q1). In these very difficult times, the program has helped infuse greater predictability into our macroeconomic management and remains a key anchor for our economic policies. We remain highly committed to our program objectives, as demonstrated by our robust implementation of macroeconomic and structural reforms under the program thus far. Sustained disbursements of external financing underline the commitment of our international partners to our stability, reform, and recovery.

**3. Meanwhile, it has become apparent that the war will likely last longer than assumed at the time of the 4th Review of the EFF.** Defense appropriations in the 2025 budget will be aligned to hostilities continuing at the current level of intensity for most of 2025. Despite the more challenging war and economic outlook, we remain committed to sound policies that support macroeconomic and financial stability. Although we have already taken proactive measures (see ¶12), to mitigate the impact of higher defense spending on the fiscal deficit, the revised war outlook will have sizable implications for our external financing needs. We welcome the assurances from our bilateral partners that sufficient additional resources will be made available – including through funds backed by the G7's Extraordinary Revenue Acceleration (ERA) mechanism – to help meet these needs, on terms consistent with the program's objective of restoring debt sustainability.

**4. The official launch of EU accession negotiations on June 25 was a historical milestone that sets the stage for our euro integration path, and helps reinforce stability and long-term growth.** Reforms to achieve EU accession will strengthen our economy and institutions, as they are essential to creating conditions for increased investment and growth going forward. Our candidate status implies that the choice of the regulatory regime defined by the EU acquis will frame our recovery and reconstruction process. Progressive integration into the European internal market should enhance trade and technology transfer to the Ukrainian economy, thereby 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 the first half of 2024 despite the attacks on energy infrastructure, and the economy will continue recovering in 2025 despite Russia's war continuing for longer, and as energy shortages recede.**

- The recovery continued in 2024Q1, with growth reaching 6.5 percent y/y and estimated at 3.9 percent y/y for January to August 2024. The economy continued to expand in 2024Q2, despite widespread shortages caused by large-scale attacks on energy infrastructure (with around 50 percent of energy capacity either damaged or destroyed), by seasonal nuclear power plant maintenance, and by a hot summer that likely constrained activity in July.

- Growth is expected to remain resilient between 3 and 4 percent in 2024; the recovery is expected to slow due to the impact of the energy attacks and an expected decrease in harvests, offsetting the expected strengthening in exports from the new Black Sea corridor and robust consumption growth. Continuing repair and recovery in the energy sector (including from new capacity in gas turbines) and higher government demand due to a longer war are expected to support the economy in the second half of the year. Some energy deficit is expected in the winter season, including from the higher demand, but the impact on the economy will be mitigated through our multipronged measures such as anti-missile defense, repairs, higher EU imports and extra generation capacity (e.g., gas turbines). Inflation, after decelerating from 26.6 percent y/y in end-2022 to 3.3 percent y/y in May, picked up again to 7.5 percent y/y in August, under pressure from increasing energy and labor costs and base effects. Inflation is expected to edge up further to up to 9 percent by end-year due to pressures from business labor costs, pass-through from the past currency depreciation and the fading of favorable base effects from raw food prices that helped contain inflation earlier in the year.

- For 2024, the current account deficit is expected to widen to US$14.9 billion (from US$9.7 billion in 2023), reflecting a moderation in grants and a deteriorated trade balance due to a smaller harvest and elevated imports from defense and reconstruction needs, and despite flow relief from the commercial debt restructuring and lower-than-expected outflow from FX liberalization measures. With higher external loan financing expected in 2024, reserves are expected to end the year at US$42.6 billion (113.5 percent of the ARA metric). The current account deficit is projected to widen further in 2025 on account of high imports and a deteriorated services balance from tight labor markets and continued migrant spending abroad, notwithstanding higher private transfers and humanitarian aid, as well as lower interest payment outflows from the commercial debt restructuring. Gross reserves are projected to reach US$44.9 billion at end-2025 or 104.7 percent of ARA, supported by G7 financing.

- Under the managed flexible exchange rate regime, the hryvnia has depreciated through end-July 2024 by a cumulative 12.2 percent since the transition while adjusting to market conditions. At the same time, FX interventions remain sizeable to continue 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, including following the easing of some FX controls amid increased confidence.

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

**6. The economy could rebound more quickly, particularly if the security situation improves sooner than expected.** Several factors could support a stronger recovery, primarily from a decline in security risks that enables a quicker return of migrants and faster recovery in sentiment, along with a revitalization in economic activity from a swifter resolution of war-related supply disruptions and more durable access to seaports and other supply routes. Our efforts to raise resources for critical recovery and repair projects, including in the energy sector to address the energy deficit, would also support stronger growth, as could stronger progress in the planned energy decentralization. In the medium-term, economic growth could be accelerated by forceful implementation of structural reforms, including in the context of the EU integration, significant investments in reconstruction, including private investment inflows, as well as a faster return of migrants.

**7. Despite the recent resilient growth, risks to the outlook remain tilted to the downside, amid exceptionally high uncertainty.** Security risks could persist for longer than expected, putting pressures on our fiscal position, and leading to additional financing needs. A prolonged or more intense war would weigh on firm and household sentiment, as well as exchange rate and inflation expectations and discourage migrant return, worsening labor market mismatches. Export transit routes could be significantly interrupted, there could be further damage to the energy infrastructure, or past supply chain disruptions could resurface, weighing on production costs and firm profitability. While near-term external financing risks have diminished following recent disbursements, external 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 2024–27

## A. Overview

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

- Our current focus is to maintain macroeconomic, external, and financial stability, in order to strengthen Ukraine's capacity on its way to victory. Our program involves policies to ensure a robust budget implementation in 2024 and 2025, consistent with a strong medium-term fiscal framework that would guide fiscal policy and ground the assessment of financing gaps. The managed flexibility of the exchange rate strengthens the resilience of the Ukrainian economy and FX market, promotes better adaptation to domestic and external shocks, and reduces the risks of an accumulation of FX imbalances. Monetary policy actions resulted in an improvement in inflation expectations, which allowed lower borrowing costs for the government and private sector. At the same time and despite the war, we are also implementing well-targeted structural measures covering public finances, the financial sector, monetary and exchange rate policies, governance, anti-corruption, and the energy sector to prepare the ground for Ukraine's post-war growth. Importantly, social spending is being safeguarded to the extent possible.

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

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

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

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

- We are equally focused on identifying policies that can help us achieve high and sustained growth rates, including via illustrative upside scenarios that motivate reform priorities towards EU accession. Our medium-and long-term growth post-war will crucially depend on catalyzing high and sustained investment levels, supporting inward migration, rebuilding human capital, and fostering an enabling business environment that could propel total factor productivity (TFP) growth to help converge to European income levels. In this regard, establishing frameworks for post-war reconstruction, which would enable us to absorb substantial official resources and also catalyze private capital, including foreign direct investment, could have a decisive impact. Reforms required to achieve the strategic goal of EU accession coupled with progressive integration into the European internal market through the Association Agreement and Deep and Comprehensive Free Trade Agreement would be critical components of such a strategy. Implementing these wide-ranging policies and reforms will require our steadfast commitment for an extended period.

## B. Fiscal Policy

**10. Despite the challenges arising from Russia's war, we achieved all the end-June 2024 fiscal targets**, as follows:

- Tax collections have run ahead of our expectations so far this year, and tax revenues (excluding social security contributions) reached UAH 1,002.0 billion, exceeding the floor of UAH 880.4 billion (***Quantitative Performance Criterion***).

- The strong revenue performance, along with tight control on non-defense expenditure categories enabled us to achieve an end-June non-defense cash primary balance of the general government excluding grants of UAH 466.5 billion (at program exchange rates), above the program's floor of UAH 250.0 billion (***Quantitative Performance Criterion***).

- Relatedly, the overall balance excluding grants was UAH -555.7 billion (at program exchange rates), exceeding the floor of UAH -726.0 billion (***Indicative Target***).

- The issuance of government guarantees was UAH 7.1 billion, well below the adjusted ceiling of UAH 53.8 billion (***Quantitative Performance Criterion***).

- The accumulation of overdue accounts payable (domestic arrears was UAH 1.7 billion as of end-June, below the ceiling of UAH 2.0 billion (***Indicative Target***).

- Social spending amounted to UAH 291.4 billion at end-June, respecting the floor of UAH 262.5 billion (***Indicative Target***).

- With the IMF Executive Board's consideration of the Fifth Review occurring in mid-October, the three fiscal quantitative performance criteria for end-September have become controlling. However, consistent with the reporting procedures for treasury reporting, the final data to evaluate these targets will be shared with the IMF around October 25, and we are therefore requesting waivers of applicability. All indications suggest that they are on track to be met.

**11. The revised outlook for the war has led us to recalibrate fiscal policies for the remainder of the program**. Defense spending needs are higher this year and we now expect higher expenditures over the medium term. Our Budget Declaration for 2025–27 internalizes this outlook while also acknowledging that significant additional external financing and domestic resource mobilization are needed to continue executing our planned budgets. To this end, and as described below, we are moving forward with identifying measures that will help us meet our budgetary needs.

**12. Our fiscal priorities for 2024 and beyond are adapting to the challenges posed by the war**. With defense expenditures running higher than we expected, including due to slower provision of equipment earlier this year, Parliament adopted a supplementary budget in September to ensure adequate resources to finance our national defense. To this end, we are designing a package of revenue measures to be adopted in parallel with the supplementary budget:

- *Expenditures*: The supplementary budget envisages higher expenditures to accommodate defense priorities, but has also sought some offsetting savings where possible. Overall, on net, expenditures will be UAH 4,815 billion, about UAH 410 billion higher than originally budgeted. We remain committed to ensuring adequate resources for the social safety net, including to address the need of war veterans and vulnerable groups. The floor on social programs (***Indicative Target***) represents our commitment to safeguarding this spending.

- *Revenues*: We have taken revenue measures to respond to new expenditure pressures, including a package of measures currently in Parliament, which entail (i) raising the Military Tax rate from 1.5 to 5 percent; (ii) broadening the base of Military Tax by extending it to taxpayers in the Simplified Tax System; (iii) introducing presumptive taxation on fuel stations; and (iv) increasing the corporate tax rate applied to non-bank financial institutions (excluding insurance) to that already applied to banks (25 percent); we intend to avoid additional exceptional taxes on bank profits.

- *Balance*: We now expect the overall balance excluding grants to reach UAH –1,850 billion or around 24.5 percent of GDP this year. This deficit will continue to be financed primarily through budget support from international donors, and is consistent with our efforts to return to fiscal and debt sustainability. Our progress in budget implementation continues to be monitored by the floor on the non-defense primary balance of the general government excluding grants (***Quantitative Performance Criterion***) and the floor on the overall cash balance of the general government excluding grants (***Indicative Target***).

**13. We submitted the 2025 Budget according to schedule, and it is in line with our expectation of a longer war and the program's financing parameters.** While we continue to tightly prioritize our spending, the continuation of defense operations next year will cause expenditures to be higher than we previously expected. In the 2025 Budget, total expenditures are now expected at UAH 5,056 billion. We have sought savings where possible and have found some areas to right-size the provision of public services, including to reflect ongoing migration developments. We will ensure that adequate social protection continues to be available to vulnerable members of our society. We are also targeting strong tax collections next year, boosted by the full-year impact of the package of measures passed in 2024. Overall, we envisage next year's overall deficit excluding grants to be UAH 1,712 billion next year (20 percent of GDP) which will be financed mainly through the support of our external partners. The largest external financing contributions will come from funds backed by the G7's ERA mechanism. In line with our intention to use ERA disbursements in a manner consistent with the fiscal paths under the program (2024-2027Q1), we will administer these flows as budget support. Specifically, we will ensure that the ERA financing is: (i) transparently incorporated in the budget, (ii) accounted for in our treasury reporting, (iii) disbursed into the treasury single account, and (iv) not directed to any special fund without prior agreement from the donor country.

**14. We stand ready to take further tax measures promptly when needs arise.** We remain highly exposed to potential shocks at this juncture, and our room for maneuver within the current resource envelope is tightly constrained. Therefore, to safeguard budget execution, we will respond to revenue shortfalls or fresh expenditure demands with an increase in taxes. We regard increases in the main rate of VAT as the most efficient potential source of additional revenue at this juncture, and it is central to our contingency planning. This underscores our commitment to policies that preserve stability, by restoring fiscal and debt sustainability through revenue-based fiscal adjustment.

**15. This year's budget declaration has helped to anchor discussions around fiscal policies, and we plan to entrench this practice for future budget cycles.** We expect that next year's budget declaration, covering 2026-28, will be a critical document that serves as an anchor for fiscal policies in the post war period. We recognize the importance of a sound medium-term fiscal framework, both to support our efforts to return to sustainability and to plan for recovery and reconstruction. Thus, in consultation with the Fund, we will prepare and submit next year's budget declaration on time, and in line with the program's parameters (***proposed end-June 2025 Structural Benchmark***).

**16. We re-affirm that we are prepared to take fiscal measures as needed to ensure sustainability, contain risks, and advance EU accession objectives.** On the latter, in September, we enacted legislation to gradually align fuel excises with EU directives and the new rates became effective on September 1. We also continue our efforts to secure parliamentary adoption this year of a law gradually aligning tobacco excises with EU requirements over the coming years. Given the still high risks, we continue to stand ready to take additional feasible measures to respond to potential shocks. We also intend to mobilize additional financing if necessary.

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

**18. Every day that Russia's war continues reconstruction needs rise.** The latest Rapid Damage and Needs Assessment (RDNA-3), published on February 15, 2024, estimated reconstruction needs of US$486 billion over the next 10 years. Since then, the attacks on energy and other infrastructure have pushed damages up further. Addressing the largest needs—concentrated in housing, transport, and commerce and industry—will be vital to delivering essential public services, restoring the economy's productive capacity, and providing adequate social protection. Repair and recovery on these fronts will also help promote the return of refugees. In considering initiatives in this area, we will ensure that these activities are consistent with a return to fiscal and debt sustainability. To this end, we will carefully evaluate the financing mix, and will seek financing on highly concessional terms. Additionally, we will make sure that the mechanisms used for reconstruction financing are consistent with the principles of integrated public investment management to ensure that reconstruction projects fit into the medium-term budget framework (see ¶39).

## C. Financing Strategy

**19. Our financing strategy continues to focus on securing timely and predictable external disbursements on appropriately concessional terms.** The likelihood of a longer war and its associated cost will lead to a larger financing gap, which now stands at US$151.4 billion over the program period. We have been working closely with our donors and have identified sources to ensure that this financing need can be met:

- *We remain very grateful for the substantial budget support from our donors*: Since the start of the program, we have received US$57.9 billion, of which US$24.6 billion was disbursed between January and September 17, 2024. For the remainder of the year, we expect to receive an additional US$16.8 billion.

- *Firm financing commitments are in place for the next 12 months of our IMF-supported program*: Over October 2024-September 2025, we have received assurances for US$36.4 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$11.7 billion from the US$50 billion ERA mechanism. The provision of support in the amounts, terms, and timing envisaged will be vital to maintaining economic and financial stability.

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

**20. We recognize that financing the budget and maintaining stability will require mobilizing resources as needed from the domestic government bond market.** While most of our financing will come externally, our financing strategy entails auctioning domestic government securities in the primary market to satisfy budget needs or address potential shocks.

- As of end-August 2024, we have mobilized net domestic bond financing of UAH 88.9 billion (around US$2 billion), an implied rollover rate of 141 percent so far this year. We have continued with the progress we began last year in matching issuance yields and maturities to market demand, and continue to strive to lengthen the maturity of our issuances. About UAH 25 billion was issued as designated benchmark bonds that banks may use to meet reserve requirements. We expect to further strengthen these efforts to help meet our financing needs, given the higher spending needs, for the remainder of 2024, including through the use of reserve requirements.

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

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

**21. Building on the successful restructuring of our sovereign Eurobonds, we will ensure our debt management strategy remains consistent with our objectives under the program.** The bond exchange, whose settlement was on August 30, 2024, entails important impacts on the overall public debt burden and its structure. We will update the Medium-Term Debt Strategy (MTDS) upon completion of our current plans for the treatment of external commercial claims, including GDP-linked securities. We are also committed to strengthening our debt management capacity, including by increasing staffing and training. We will continue to support the development of the domestic debt market, including through medium-term efforts to maintain the attractiveness of locally-issued instruments and diversify the set of investors (including encouraging non-resident participation). Moreover, our efforts should help facilitate international capital market access in the medium term, consistent with debt sustainability objectives, and thereby enable the bond market to play an active role in reconstruction.

**22. We are determined to strengthen treasury cash and liquidity management.** Although we have greater clarity on external financing, the ongoing war entails risks to budget execution. To avoid vulnerabilities and strengthen budget execution and commitment controls, we have worked on improving liquidity forecasting and cash management to help lower the volatility and transaction costs of treasury resource management. To this end, with the help of FAD TA, we have conducted a diagnostic assessment of treasury cash and liquidity management based on an examination of international best practices with regards to the roles of finance ministries, treasuries, central banks, and debt management agencies. We continue to review the findings of the diagnostic assessment to improve the predictability of cash and liquidity management and may seek further TA.

## D. Fiscal Structural Reforms

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

***Revenue Mobilization***

**23. Our efforts to increase revenues through tax policy and administrative reforms are guided by the NRS.** The NRS, adopted in December 2023, aims to establish a fair and competitive tax framework to generate sufficient revenues to address our post-war development goals while maintaining fiscal and debt sustainability. The strategic goals include improving tax revenues by closing existing opportunities for tax evasion, increasing compliance and combating the shadow economy. As our focus now shifts to NRS implementation, we have developed detailed implementation plans with specific timetables for tax administration, customs, and tax policy reforms. We have also created NRS Steering Committees at SCS and STS to supervise reform implementation. We will continue to abstain from tax policy and administrative measures that may adversely affect the tax base and will refrain from introducing new categories of taxpayers in the existing preferential regimes.

**24. Near-term tax policy measures focus on raising revenues from excises, aligning with the EU acquis, and streamlining tax privileges.** We recently took measures to increase excise rates, a first step in a gradual increase to EU minimum levels over the medium term. Work continues to develop legislation on medical cannabis taxation. 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. To this end, we recently developed and 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 **(*Structural Benchmark,* end-September 2024, met*).*** Subsequently, this methodology will be phased in and gradually applied 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.

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

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

- In the future, when conditions allow, we will consider reforms to make the tax system more equitable (e.g., through a more progressive personal income tax (PIT)). Also, according to the NRS we plan to carry out a comprehensive reform of the simplified tax (ST) system in order to limit 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. However, as outlined in the NRS, such PIT and ST reforms require administrative reforms, including to safeguard the confidentiality of tax data in the STS systems and to provide tax authorities an access to data about the volume of funds on taxpayers' accounts in banks.

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

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

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

- In October 2024, we will publish the results of a survey of taxpayers conducted earlier this year by an independent company.

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

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

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

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

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

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

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

- We adopted legislation to criminalize large-scale customs fraud and smuggling, effective January 1st, 2024, for excisable goods and July 1st, 2024, for all other goods. We have also submitted legislation to modernize the framework to address administrative liability for violations of customs regulations, to be adopted by end-2024.

- We have also stepped up efforts to improve compliance risk management, including through an automatic risk management system and a significant expansion of the authorized economic operator (AEO) program from one participant at end-2023 to 50 by mid-2024. We will ensure a steady increase in the number of participants while making every effort to maintain its integrity. By end-2024, we will introduce a random check methodology to establish a baseline measure of compliance risk and assess the validity of existing risk criteria.

- As part of our ongoing customs reform, Parliament recently adopted a set of amendments to the Customs Code **(*Structural Benchmark,* end-October 2024, met**). The reform will (i) simplify procedures, (ii) establish the legal basis for dismissing customs officers, including the role of integrity checks in a framework for periodic re-attestation (verification of their qualifications and integrity), (iii) set up a disciplinary committee, (iv) introduce the hiring of customs personnel on contractual basis, (v) ensure alignment with EU legislation and regulations, and (vi) continue to prevent the re-hiring of personnel previously dismissed from the civil service for ethics violations. The revised Customs Code also establishes a merit-based and transparent process for customs leadership selection, with integrity checks and with meaningful participation of independent experts with international experience. At the same time, reflecting SCS's central role in government finances, it ensures that, consistent with the law, the SCS remains subordinated to and accountable to the MOF, by

  a) tasking MOF with representing the government in the preparation of a short list of qualified candidates, together with the meaningful participation of independent experts with international experience, in the Selection Commission for head of SCS,

  b) mandating the Minister of Finance to select the final candidate for head of SCS from the short list prepared by the Selection Commission, and to make an official nomination to the Prime Minister for submission to the CMU,

c) mandating the MOF to define key performance indicators (KPIs) for the purpose of measuring performance of the head of SCS,

d) mandating the MOF to assess performance against the KPIs,

e) giving the MOF the mandate to make recommendations to the CMU regarding the extension or termination of the SCS head's tenure, and

f) tasking MOF with giving broad policy directives to SCS, while giving SCS independence in managing its day-to-day operations.

We will swiftly enact and implement the law. We will, by end-June 2025, appoint a new permanent head of customs **(*proposed Structural Benchmark*, end-June 2025)**. Any vacancies for regional customs heads will be filled as soon as possible.

- We have launched an initiative to determine the criteria for assessing the impact of the SCS Anti-Corruption Program. This assessment will be supported by regular (biannual) independent surveys of traders on the perception of integrity level in customs. Moreover, we are working on: (i) reforms of HR and compensation policies; (ii) improving operational management of customs from its headquarters, including the development of centers of excellence for different functional tasks; and (iii) moving the verification/checking of customs documents from border crossings to inland offices.

**28. Economic Security Bureau of Ukraine (ESBU).** Given the importance of strengthening compliance controls and detecting major financial and economic crimes, there is a need to bolster analytical support for identifying tax evasion. To this end, the new ESBU law adopted in June 2024 enshrines robust mechanisms for transparency, accountability, and integrity. 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 effectively address violations in the tax and customs spheres). Importantly, the law strengthens the requirements 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 both the attestation process of existing staff to assess their integrity and professional competence, as well as the HR commissions to select new staff. We will appoint the new head of the ESBU based on the selection process **(*proposed Structural Benchmark*, end-February 2025).** The new ESBU head will approve procedures of attestation and form the attestation commission within three months from the date of the appointment of the ESBU head. The attestation of heads of division and territorial offices and their deputies will be prioritized. We will leverage the anti-money laundering and counter terrorist financing (AML/CFT) framework to support efforts to detect tax evasion and smuggling of goods in significant amounts through the use of financial intelligence tools, in coordination with relevant agencies.

***Restoring the Medium-term Budget Framework***

**29. We will continue enhancing expenditure planning and the medium-term budget framework (MTBF).** With the help of IMF TA, we will undertake a diagnostic review of pre-war MTBF policies and practices relative to best practices **(*Structural Benchmark*, end-October 2024)**. To this end, we have undertaken the first set of gap analyses, which have identified key areas of focus in our work. Based on this diagnostic review, we will take a sequenced approach to strengthening the medium-term budget planning and expanding the coverage of the Budget Declaration to include budget estimates of the local governments and social funds. In this regard, we expect that Parliament will adopt legislation soon to restore medium-term budget planning for local budgets. Our priorities include aligning the MTBF with international practices and EU requirements.

***Pensions and Social Spending***

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

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

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

We will refrain from passing any new legislation that would give rise to additional pension-related contingent liabilities.

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

- **Pensions.** In the next few years, we plan to work on a comprehensive conceptual framework to improve and simplify the pension system and are reviewing the possibility of introducing a second pillar of the pension scheme, when conditions are in place. We reiterate that any proposed legal amendments that would increase pension expenditures need to be accompanied by a medium-term fiscal and debt sustainability analysis, and a clear identification of the necessary resources in the amendments to the Pension Fund of Ukraine budget. We will refrain from: (i) introducing new special pensions or privileges; (ii) providing further discretionary benefit increases; and (iii) modifications that would lead to a lowering of the legally defined retirement age. In the near term, we will take measures to limit the amount of additional benefits paid to certain categories of pensioners, on top of the contributive part of their pensions. We will also offer a unified approach to the annual increase of all pensions assigned in the pension system, exclusively through the indexation mechanism. In addition, we will improve the targeting and prevent the abuse of certain pensions supplements, by clarifying eligibility criteria.

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

***Fiscal Transparency and Risks***

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

- We have established a new unit within the MoF's Fiscal Risk Management Department dedicated to the management of risks related to public investment. The unit will complement the assessment of project risk undertaken by the PIM sectoral unit, MOE, and MOI and will play a key role in assessing aggregate fiscal risks within the new Public Investment Management framework (¶39).

- By including a Fiscal Risk Statement (FRS) in the 2024 budget, we achieved significant progress in strengthening our risk analysis. The FRS for the 2025 budget further expands the risk analysis by including a consolidated view of financial performance analysis and stress testing across major SOEs. Going forward, with IMF TA we will further quantify fiscal risks by including projections of fiscal variables (deficit, debt) under certain shock scenarios in the FRS. We are also taking steps to strengthen the policies and practices for feeding the FRS analysis into the annual budget preparation, strengthening the integration of fiscal risks at all stages of the budget cycle. For example, the medium-term budget declaration for 2025–2027 included information on key fiscal risks identified by line ministries and key spending units.

- In collaboration with the MOE, the MOF published, as part of the FRS, a list of PPPs and prepared a review of the associated risks and potential impact on the 2025 Budget and onwards.

- Based on recent IMF TA on risk assessment and SOE stress testing, we continue to strengthen SOE stress testing under different scenarios. We have identified major public companies severely affected by the war and, as part of the FRS, prepared an assessment of their potential fiscal and quasi-fiscal costs **(*Structural Benchmark,* end-September 2024, met**).

- 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, 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.

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

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

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

**34. We have implemented reforms to reduce the BDF's deficit and limit fiscal risks from the BDF's 5-7-9 loan program.** In line with the BDF concept note developed by MOF in consultation with MOE, we have reduced bank margins by 300-500 basis points, lowered the maximum size of working capital loans to non-priority sectors from UAH150 million to UAH5 million, reinstated state aid rules, and taken measures to target the lower end of medium-sized enterprises. In addition, after the end of the war, implementing ESG criteria will improve the quality of the program and further limit its size.

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

**36. 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-2024) and its support programs, with the goal of refining their operational design to effectively serve only those SMEs that face substantial barriers to funding and of informing the future role of the BDF. Moreover, the World Bank will carry out a policy effectiveness review of the 5-7-9 program in 2024. We will wait for the results of these studies before making any changes to the BDF's structure or scope of activities. To ensure legal certainty and attract a wide range of qualified candidates for the BDF supervisory board, legislation was recently passed to align the asset declaration obligations of the BDF's foreign independent supervisory board members with those of SOBs, effective January 2025. To further strengthen the governance and financial self-sustainability of the BDF, we have recently increased BDF's fees from 0.15 percent to 0.5 percent and shifted responsibility for paying such fees from the government to banks participating in the 5-7-9 program, and we are committed to:

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- Establishing a BDF supervisory board with majority of independent candidates (by end-January 2025).

- Adopting a law to clarify the mandate and ensure the independence of the supervisory board, as outlined in our BDF concept note (by end-year 2024). A draft law has already been submitted to Parliament.

**37. To limit fiscal risks, any government lending facilities or development finance institutions will strictly adhere to international best practice.** We will ensure that any legislation along these lines conforms to international best practice. Specifically, we will ensure that any proposal internalizes the need for appropriate oversight (including by the competent authorities), a business model that ensures long-term financial sustainability to mitigate fiscal risks, and incorporates sound risk management frameworks and corporate governance standards, to provide insulation from political interference. The implementation of any new programs will not affect existing government lending and granting programs along with the coordination mechanism with clearly defined roles for the MOE and the MOF. We will consult with IMF staff and other international partners before launching any such programs.

**38. We will continue to enhance transparency in the management and spending of budgetary funds and special accounts:**

- ***Fund for the Liquidation of the Consequences of the Armed Aggression.*** The Fund served its purpose well in the context of Budget 2023, supporting the restoration of destroyed and damaged property in the amount of UAH 38.1 billion. In 2024, the Fund is continuing to serve its purpose as stated in the Article 28 of the 2024 State Budget Law. The sources for the Fund's operations are expected to comprise the unspent balance which stood at about UAH 8.7 billion as of end-June 2024. In 2025, 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. Starting mid-2023, the MOF publishes 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**

**39. We are implementing the 2023 Roadmap to reform our public investment management (PIM) framework.** The Roadmap will gradually address identified weaknesses in the areas of (i) strategic planning, (ii) integrating public investment into the MTBF, (iii) procedures for preparing, appraising, selecting, and implementing projects, (iv) institutional capacity, and (v) monitoring and evaluating implementation. Our PIM reforms will follow the principles of budget unity, coherence, and predictability and will strengthen coordination between the MOF, MOE, Ministry of Infrastructure, and other line ministries who remain responsible for project execution. To guide implementation of the Roadmap, we recently finalized a detailed Action Plan with a timeline that provides clear linkages between the MTBF and national reconstruction priorities, specifying a gatekeeper role for the MOF, which implies a central role for MOF in all stages of public investment management **(*Structural Benchmark,* end-December 2024, met*)***. The first stage of the Action Plan, covering 2024–25, is now being executed:

- As a first step to implement the roadmap, we recently established the Strategic Investment Council (SIC), which will play a central role in defining the project pipeline. In September 2024, the SIC endorsed the list of public investment projects for the 2025 budget.

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

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

    i. The degree of scrutiny will be commensurate with the scale and complexity of the project.
    ii. To speed up delivery, project review decisions will be timely.
    iii. To avoid a political commitment to projects before there is reasonable confidence in key project variables (e.g., cost estimates or delivery schedules), the procedures will include mechanisms to abandon or modify projects at any stage in the process. We will submit any necessary changes in regulation or legislation to this effect. In line with its gatekeeper role, MOF will have the right to trigger such mechanisms, especially for larger projects.
    iv. Conflicts of interest will be avoided, for example when officials appraise project proposals submitted by their own ministry.
    v. The source of financing will be considered only after a decision on whether to proceed. Moreover, availability of finance will not inform the decision, including for externally financed projects.
    vi. The review of project proposals by the MOF, MOE and MOI will be conducted in an integrated fashion (rather than by each ministry separately), so that interdependencies between the technical, economic, and financial reviews are adequately captured in the overall quality assurance of project proposals.

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

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

## E. External Debt Strategy

**40. Our efforts to restore debt sustainability on a forward-looking basis remain guided by the strategy that we announced in March 2023.** A treatment of external public debt remains necessary to help close financing gaps during the program period, reduce gross financing needs to manageable levels, including after the program, and to place public debt on a sustainable path. We have initiated this process by treating the Eurobonds in August 2024. 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. Our goal remains to restore public debt sustainability and ensure that our program is fully financed, including in a downside scenario.

**Recently, we have made substantial progress on implementing this strategy:**

- *Eurobonds*: After restricted consultations with an ad hoc committee of bondholders, we reached an agreement-in-principle on a restructuring of US$23.4 billion of sovereign Eurobonds (including capitalized interest arising from the debt service standstill that ended August 2024) and US$0.7 billion of government guaranteed bonds issued by the State Agency for Restoration and Development of Infrastructure of Ukraine (known as Ukravtodor). Under the agreement, the bondholders have received a package of bonds in a debt operation that delivers significant maturity lengthening, flow relief during the program, and nominal and NPV haircuts. A debt exchange offer opened on August 9 and closed on August 27, 2024. Creditors holding over 97 percent of the bonds consented to the offer, showcasing very strong support. The debt exchange settled on August 30, thus achieving an important step of our strategy.

- *Other commercial claims*: In addition to the bonds, we intend to start pursuing treatments of: (i) GDP warrants; (ii) government guaranteed bonds of Ukrenergo; and (iii) several external commercial loans. To this end, contact has been established with the holders of GDP warrants and Ukrenergo bonds to facilitate dialogue with the holders of such instruments and a moratorium on government payments on the respective instruments was introduced. 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 well as the treatment of Eurobonds in particular. Going forward, we will seek treatments on comparable terms with other official creditors, including guaranteed loans.

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

**42. To support our goal of safeguarding debt sustainability, we will continue to strictly limit the issuance of guarantees (*Quantitative Performance Criterion*).** Adequate space will be provided to facilitate guarantees on loans from International Financial Institutions (IFIs) and foreign governments for projects, including those for recovery and reconstruction.

## F. Monetary and Exchange Rate Policies

**43. Our monetary and exchange rate policies aim to safeguard price and external stability and ensure an adequate level of international reserves**. Guided by our Strategy, we continue adapting our monetary and exchange rate policies in view of evolving macroeconomic conditions and outlook, including cautiously continuing with FX liberalization.

### Monetary Policy

**44. We will maintain an appropriate monetary policy stance to support price stability, anchor inflation expectations, and enhance FX market stability.** In view of rapid disinflation combined with a favorable inflation trajectory, we continued the easing cycle by cutting the key policy rate (KPR) by 200 bps this year, at a faster pace than envisaged at the beginning of the year. We kept the KPR on hold at 13 percent at our July and September MPCs, in view of heightened risks to the inflation outlook from fiscal measures, energy costs and food supply shocks. Recent increases in FX demand also supported our decision and aim at keeping real rates high to preserve the attractiveness of hryvnia instruments. Pending the resolution of uncertainty on key inflation determinants, we will maintain this tight monetary stance, while standing ready to resume the easing cycle if inflationary pressures abate. Despite these mounting risks, inflation remained close to the target through July while accelerating moderately, as expected, in August, and expectations remained well-anchored. Control of inflation has been enhanced by the gradual restoration of monetary transmission channels, including by the KPR gradually regaining its effectiveness in fulfilling its role as the main monetary instrument, due to operational design adjustments undertaken by the NBU.

**45. We continue to carefully assess the conditions required by our Strategy to continue our gradual transition toward a full-fledged inflation targeting regime as conditions permit.** Our strong commitment to achieving and supporting price stability in the medium term is crucial in guiding inflation expectations. As expressed in our updated Monetary Policy Guidelines and in line with our Strategy, in order to safeguard macroeconomic and financial stability our interim regime deviates from that pre-war due to the managed flexibility of the exchange rate, a vital policy instrument due to high uncertainty, as well as given underlying macroeconomic conditions. The flexibility inherent in our inflation targeting regime, which accommodates short-term deviations from the inflation target in response to shocks, should facilitate the adjustment of the Ukrainian economy to shocks while maintaining control over expectations. To this end, we plan to steer monetary policy towards sustaining moderate inflation through 2025, followed by its return toward the target of 5 percent over the relevant policy horizon. In the meantime, to support our readiness for our transition to full-fledged inflation targeting, we will continue to allow sufficient exchange rate flexibility to serve as a shock absorber, while also preventing the accumulation of external imbalances, and safeguarding valuable reserve buffers. The NBU intends to adapt its monetary policy if the balance of risks to inflation and the economic outlook changes significantly over the forecast horizon. Overall, in line with our Strategy, we intend to maintain sufficiently positive real interest rates to support price and external stability.

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

- Our update of our monetary policy operational design to the floor system, with the key policy rate on the overnight CD, continues to support monetary transmission. Our use of 3-month CDs, access to which is linked to retail hryvnia term deposit growth has supported real returns and volumes of such deposits, enhancing FX sustainability and bank funding. However, we continue to make technical adjustments to the operational design to better enable alignment with the appropriate monetary stance and enhance monetary policy transmission, and supporting external stability and FX reserves. This has included adjusting the eligibility for 3-month CDs and, as done most recently in September, reducing the spread between the rates on 3-month CDs and overnight CDs, and the spread between the KPR and the refinancing rate. Going forward, we will continue to monitor the impact of this instrument on banks' behavior and the transmission of monetary policy as further changes to our operational design are introduced, ensuring these are carefully calibrated while preserving hryvnia assets' attractiveness and monetary stability.

- We have increased reserve requirements and the share of these requirements that can be met with eligible domestic bonds to 60 percent. The combination of these measures will strengthen the flexibility of banks in managing their liquidity and support the uptake of government bonds in the primary market to meet additional financing needs in 2024. We will carefully monitor the impact of these adjustments on liquidity conditions.

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

## Exchange Rate Policies

**47. Effective operationalization of the managed flexibility exchange rate regime has enhanced the FX market's capacity for self-balancing and strengthens the exchange rate's role as a shock absorber while safeguarding reserves.** The exchange rate, while supported by FX interventions, has fluctuated in both directions in response to market conditions, reflecting the effects of domestic and external shocks. FX trading has increased significantly, accompanied by a notable increase in its depth: since the transition to managed flexibility, transactions excluding the NBU's participation have more than tripled, and their share more than doubled. The spread between exchange rates on the cash and official exchange rates remained compressed, not exceeding 1.3 percent in July-August 2024, thus aligning different FX market segments. In general, these developments help to reduce the FX market's sensitivity to short-term volatility and strengthen its ability to self-balance. Allowing the exchange rate to adjust to domestic and external shocks and ensuring the exchange rate fluctuates in both directions in response to changes in the balance of supply and demand will enhance the resilience of the FX market and Ukrainian economy. We continue to monitor the FX market closely and to calibrate our FX intervention policy to achieve the program's objective of external stability, including consistency with the program NIR targets. As envisioned in our strategy, FX interventions will be used to fill the war-related structural FX deficit of the private sector (while accommodating the structural surplus of FX in the public sector) and to reduce excessive volatility of the exchange rate provided it moves in both directions, with the level of the exchange rate otherwise determined by prevailing market conditions. Avoiding excessive exchange rate volatility under the managed flexibility framework will further help keep inflation and exchange rate expectations under control, thereby preserving confidence in the hryvnia and supporting our eventual return to full-fledged inflation targeting. We will also continue to facilitate the functioning of the FX cash market to ensure a low and stable spread, in line with our Strategy, including by easing access to noncash FX and increasing cash FX supply depending on market conditions.

**48. We are committed to maintaining adequate FX reserves throughout the program to safeguard external stability.** We met the end-June 2024 Quantitative Performance Criterion on net international reserves thanks to still robust current account performance supported by private transfers, lower-than-expected outflows from FX liberalization measures, and a better-than-expected services balance which more than offset lower financial flows from a moderation in net FDI and trade credit liabilities. Preliminary data suggest we have met the end-September 2024 NIR PC helped by, inter alia, higher FX debt issuance. While risks to the outlook remain exceptionally high, we remain committed to achieving the NIR targets for the remainder of the year and through 2025.

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

**NBU Independence and Governance**

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

**51. We remain fully committed to upholding the independence and institutional effectiveness of the NBU.** A strong and independent NBU remains critical to achieving macroeconomic stability and will support the eventual transition back to a full-fledged inflation targeting framework with a floating exchange rate.

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

- *Financial autonomy*. We will continue adhering to our profit retention rules and ensure that the distribution of NBU profits to the state budget takes place in line with procedures established by 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. These costs have decreased in line with the recent monetary easing.

**52. We are taking concrete steps to incorporate recommendations of the 2023 Safeguards Assessment.** In July, pursuant to a key recommendation of the Safeguards Assessment, the NBU Council conducted a self-assessment assisted by external consultants, containing recommendations to further improve its oversight role and collective fitness. We will continue working with IMF staff to develop and adopt amendments to the NBU law to establish appropriate selection criteria for the

Council and strengthen financial autonomy safeguards, clarify counterparty eligibility for refinancing operations and emergency liquidity assistance and further strengthen NBU's status as a secured creditor. We will also work to ensure vacant positions in the NBU Council are promptly filled.

**53. As part of our efforts to achieve our strategic goal of EU accession, we will continue to improve the conceptual framework and content of the NBU's financial reporting.** We aim to provide reliable and relevant presentation of information, taking into account the purpose and unique features of the central bank's operations. With the help of technical assistance from the IMF and other partners, we will study the experiences of European national central banks, the legal framework for accounting and financial reporting in the European System of Central Banks (ESCB), and assess the NBU's readiness to transition to financial reporting in line with ESCB standards.

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

## G. Financial Sector

**55. Our wide-ranging emergency measures have preserved financial stability.** We will continue to closely monitor developments in the financial sector and make adjustments to policies as necessary. Despite the severe impact of the war, the majority of bank branches remain operational, online banking services are fully available to all clients with internet connectivity, the non-cash payment system is functioning normally, and liquidity is robust for most banks. To ensure the continuity of the banking network, we introduced "Power Banking" in late 2022. The network currently includes over 2,400 branches or about 55 percent of the total, which are capable of providing banking services even during prolonged power outages. The Power Banking project continues to evolve to further strengthen resilience. Despite heavy attacks to energy infrastructure in September, 98.5 percent of the branches in the Power Banking network remained open and operational during prolonged disruptions to electricity supply. The licenses of eight small banks (around 4 percent of system net assets as of December-2023) have been revoked under Martial Law and one bank (also around 4 percent of system assets) was nationalized.

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

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

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

- The NBU will assess key financial and operational risks to financial stability under various downside scenarios in consultation with IMF staff and update NBU's contingency plans accordingly (***Structural Benchmark*, end October 2024**).

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

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

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

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

**60. Our decisions will be consistent with our overall strategy to reduce state ownership in the banking sector**. Any decision that has the potential to increase state ownership in the banking sector will be taken in consultation with IMF staff and be strictly limited to matters related to preserving financial stability and national security decisions during the Martial Law period. All systemic banks with majority state ownership will fall under the responsibility of the MOF, and any non-systemic banks that come under state ownership will not be recapitalized using fiscal resources and will be transferred to the DGF for resolution upon breach of prudential requirements **(*Continuous Structural Benchmark*)**. We are considering how to include our vision for state-owned banks and financial institutions in our Financial Sector Strategy. In the immediate future, the key steps are as follows:

- Preparing and implementing a framework to inform decisions on any additional banks that come under state control, which aims to preserve value, ensure effective operational management, and reach decisions on the future of such banks.

- We will continue to undertake analysis of the state of the banking system and wartime developments and needs. Informed by the NBU resilience assessment, we developed capital management plans and adjusted the business plans of SOBs needing capital increases to meet the requirements. The MoF in its capacity as SOB shareholder representative has instructed SOBs to maintain best practice risk appetite frameworks. 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 privatization of banks with majority public ownership, we prepared a draft law on SOB privatization in consultation with IFIs and submitted it to Parliament in September 2024. We are also preparing two systemic state-owned banks for sale, Sense Bank and Ukrgasbank. We are planning to appoint an internationally recognized financial advisor by end-December 2024 using a transparent procedure and in consultation with IFIs. The privatization of SOBs will be excluded from the general privatization law. Given uncertainties with sale processes, we will take steps to facilitate fully operational SOB supervisory boards, including Sense Bank.

- The Ministry of Economy will develop strategies for the Ukrainian Financial Housing Company and Export Credit Agency in consultation with the Ministry of Finance by end-November 2024 to align with the general targets of financial sector development.

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

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

- *Bank capital rules.* In recognition of the importance of preparing for EU accession, the NBU issued a regulation to align banks' regulatory capital structure with the EU Capital Requirements Directive and Regulation in December 2023 and banking groups in July 2024. The calculation of capital adequacy ratios considers the updated capital structure since August 2024. Additionally, in July 2024, the NBU adopted regulations on the procedure for calculating the leverage ratio of banks and banking groups. With the continued support of the World Bank, we will close key gaps in regulatory capital requirements by end-June 2025 and other gaps thereafter. The implementation of the new requirements will be phased to facilitate banks integrating them into their business plans. To align with the EU Directive, the NBU will prepare amendments to the legislation to increase banks' minimum share capital to the equivalent of EUR 5 million by end-January 2025 with a six-month transition period for existing banks. The NBU will continue monitoring prevailing economic conditions and relax controls and reinstate pre-war regulations when it is safe to do so and based on banks' adherence to the new capital requirements aligned with EU standards, the results of resilience assessments, and considering the banking system's role of lending to the economy and their involvement in the domestic debt market.

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

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

- *Virtual assets*. Virtual assets pose risks to price stability, the effectiveness of monetary transmission, and tax revenue in the absence of a strong legal framework. The NBU and NSSMC will prepare an update of the legislation with input from IMF technical assistance and in consultation with IMF staff by end-December 2024 to align with international best practice while considering economic development goals and mitigating price and financial stability risks.

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

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

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

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

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

- *AML and Banking Supervision*. The NBU will continue strengthening risk-based AML/CFT supervision of banks, payment service providers and non-bank financial institutions, particularly in relation to corruption, tax crimes and illegal gambling. By end-December 2024, 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.

- *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 will prepare an oversight framework concept note, by end-October 2024 and 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.

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

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

- *Legal framework*. In December 2021–July 2023, we passed legislation on Financial Services and Financial Companies (#1953), Insurance (#1909) and Credit Unions (#3254). Most provisions of these laws came into force in January 2024 and the NBU has prepared implementing regulations. Rules for insurance intermediaries apply from January 2025, and Solvency II will apply from January 2027. The NBU and DGF plan to initiate the development of a deposit insurance framework for credit unions and a guarantee framework for life insurance companies after Martial Law is lifted, and once the regulations required for enforcing the above laws are fully implemented.

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

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

- *Payments market*. Draft law (#11043) that will strengthen regulatory requirements for market participants has passed the public consultation stage and is ready for the second reading. It aims to align with the EU payment services directive (PSD2, 2015/2366) and international good practice. To prioritize supervisory activities of payment service providers in consultation with IFIs, we: (i) prepared a concept note for a supervisory risk assessment methodology in August 2024 and will implement the methodology by end-December 2024; (ii) will develop the reporting system; (iii) will strengthen supervision capacity through hiring specialists and building analytical competence; (iv) prepared a concept note in June 2024 on regulatory requirements for person to person (p2p) and other such electronic payments with the aim of identifying and restricting abnormal behavior and implement the reforms as quickly as possible; and (v) developed a concept note in August 2024 on the establishment of a public register to record card holder and merchant violations, and its potential use by market participants and government agencies such as cyber police, SSU, ESBU, and SFSU. To minimize illegal use of the payment infrastructure, the NBU will prepare by end-December 2024 a legislative proposal to: (i) extend supervisor's authority to limit operations of payment service providers non-compliant with regulatory requirements; and (ii) establish two public registers to be used by banks when establishing business relations and servicing customers. The first register will be of persons with a high risk of payment transactions related to illegal activities, and the second of business entities to promote correct use of payments activity codes. Additionally, the NBU will prepare a concept note by end-December 2024 on measures to strengthen the risk-based approach by banks and non-bank payment service providers when establishing business relationships with new clients.

- *Capital market regulation and harmonization with IOSCO principles*. Law (#3585) on the National Securities and Stock Market Commission (NSSMC) which enhances the NSSMC's powers, independence and institutional capacity, and its cross-border and domestic cooperation mandate was enacted in April 2024. The law considers the mandate of other regulators, and we will move 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-June 2026. The NSSMC will take steps to enhance the operational efficiency of NBU's capital controls in consultation with the NBU, including through regulatory harmonization and aligning capital flow restrictions for securities accounts with those applied to bank accounts by end-December 2024.

- *Related parties*. Taking into account supervisory observations in the recognition of related parties, we have submitted an important draft law to Parliament aimed at strengthening supervisory powers to duly capture economic interdependencies and related party risks. We will take the necessary steps to facilitate the adoption of the law by Parliament by end-December 2024.

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

- *Strengthening NBU legal capacity*. We will establish effective procedures for addressing violations in the provision of financial services and limited payment services, including strengthening the regulator's role in such procedures.

- *New enterprise licensing rules under Martial Law*. We enacted Law #3869-IX in September 2024 to reduce licensing red tape and encourage the establishment of new enterprises under Martial Law. Economic activities overseen by the NBU are excluded from the law and we have assessed activities overseen by the NSSMC and taken steps to exclude those from the scope of this law that have bearing on financial stability.

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

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

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

- *War risk insurance system*. The working group of the FSC has finalized a draft law establishing a fully functional war insurance system and presented it to the FSC in August 2024. The draft law will be submitted to Parliament by end-December 2024 following a public consultation.

- *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-December 2024. We will encourage financial institutions to do more to meet the needs of vulnerable clients and to reintegrate de-occupied territories. The NBU prepared a legislative draft proposal for a specialized and restricted banking license in July 2024 which aims to quickly tackle growing financial inclusion challenges by leveraging on existing infrastructure. These specialized banks will: (i) be subject to the full extent of the Law of Ukraine on Banks and Banking; (ii) participate in the Ukraine deposit insurance scheme; (iii) have limits imposed on lending and funding operations. The proposal has been prepared in consultation with key stakeholders and IFIs, and with due regard to international good practice.

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

- *Responsible consumer lending*. To strengthen borrowers' rights, improve information exchange, and encourage responsible lending, we submitted to parliament in February a draft law on improving state regulation and the functioning of credit bureaus. We will take the necessary steps to facilitate the adoption of the law by Parliament by end-December 2024. We will also enhance the supervision of credit bureaus by establishing requirements for ownership and internal controls within six months of the law being adopted by the parliament and signed by the President.

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

**65. Finally, we will continue our efforts to recover value from former shareholders of failed banks.** We reconfirm our commitment to continue efforts to recover value from assets of failed banks and to abstain from any interference with the current asset recovery strategies of the largest bank nationalized in 2016 and of the DGF.

## H. Governance and Anti-Corruption

### Governance of Reconstruction

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

**67. We will undertake efforts to enhance the institutional independence and effectiveness of key audit institutions to ensure that public funds, including for reconstruction and recovery, are used for their intended purposes and any misuse is prevented or detected.** In this respect, a law will be enacted to enhance 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 (***proposed Structural Benchmark,* end-December 2024**). In particular, the law will: (i) enhance its independence including strengthening the selection process for new ACU members for an open, transparent, credible and competitive procedure with a decisive and crucial vote of independent experts with international experience and improving dismissal procedures; (ii) establish that ACU has a minimum of 11 members; (iii) enable the ACU to select the scope of the audit free from any direction or interference and to have full and timely access to all relevant information and databases to perform its audit functions; (iv) empower the ACU to exercise external audit function on all public funds (including funds or budgets of local government agencies, SOEs and off-budget funds); and (v) establish formal procedures in the legislature for reviewing and monitoring external audit reports and following up on audit recommendations with commensurate financial and technical resources; and (vi) establish a periodic peer review mechanism by independent experts with international audit experience for ten years from the enactment of the law. The enacted law is expected to continue requiring the ACU to independently determine its priority tasks and funding requirements and submit its proposed budget to the Ministry of Finance during the preparation of the budget declaration and state budget; in case of disagreements, and if the CMU is unable to settle such differences, both the ACU and Ministry of Finance shall submit information, including proper justification and calculations, alongside the draft state budget to Parliament, where the final decision is taken by the Verkhovna Rada Budget Committee

**Anti-Corruption and Rule of Law**

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

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

- To strengthen effective procedures for corruption investigations, further amendments to the Criminal Procedural Code will be enacted, including (i) to enable the Prosecutor General to delegate to the SAPO the management of extraditions and mutual legal assistance requests in relation to corruption investigations, (ii) remove the mandatory dismissal of pre-trial investigations due to the lapse of time limits of pre-trial investigation after notice of suspicion, and (iii) with the aim of appropriately balancing the objectives of prompt and comprehensive investigations of criminal offenses and protection of rights of parties in criminal proceedings, upon expiration of the timelines and motion of the defendant or affected parties, enable the investigating judge to compel in a timely manner the prosecutors to decide on the pre-trial investigation (either close the proceeding or complete the pre-trial investigation), or reject the motion, **(*Structural Benchmark,* end-October 2024, proposed to be reset for end-December**

**2024)**. Moreover, we will provide full legal certainty in terms of legal regulation and determination of the timelines of pre-trial investigation after notice of suspicion has been filed.

- As provided for in the law, the external audit of the NABU's effectiveness with participation of three independent experts with international experience will be completed and its report published **(*Structural Benchmark,* end-September 2024; missed and proposed for end-February 2025)**. The Cabinet of Ministers issued a resolution on September 3 appointing the independent experts nominated by international partners **(*Prior Action*)**, and will, as necessary, provide further support to this external audit commission. After consultation with IMF staff, the terms of reference and the criteria and methodology approved by the commission in conducting the external audit will be published. 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), we will develop an implementation plan in the post-Martial Law period to provide resources, equipment and technological solutions for the NABU to independently intercept communications of landlines and mobile devices. In this regard, the NABU and law enforcement agencies are finalizing the memorandum of understanding on the implementation plan. We will also enact by end-December a law to enhance corporate criminal liability (applicable to private and public legal entities either resident or non-resident in Ukraine and covering, among others, domestic corruption offenses) consistent with international standards to support the country's efforts towards accession to the OECD Anti-Bribery Convention. 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.

- We have initiated the process for nominating and appointing new members of the Public Council of International Experts (PCIE), which will vet candidates for the 24 new vacancies to the High Anti-Corruption Court (HACC) both at the first instance (15 vacancies) and appellate (9 vacancies) levels. A law will be enacted to extend the PCIE's mandate for the purpose of completing the ongoing selection process of all 24 vacancies for HACC judges. We will ensure the open and competitive selection for these new vacancies and adequately provision for their staffing and office needs. Following the May 2024 amendments to the procedural code that allow matters or issues to be heard at the first instance by one HACC judge or by a panel of three HACC judges based on the severity of the penalty, we continue to monitor the potential impact on judicial efficiencies and resources to all criminal courts by the inclusion of a list of high-level public officials, whose cases would automatically be heard by a panel of judges (regardless of the penalty).

**70. The NBU is taking steps to ensure that risk-based implementation of AML tools helps prevent, detect, and deter the laundering of proceeds of corruption.** Following the legal amendments to the definition of politically exposed persons (PEPs), the NBU conducted a thematic inspection of the selected financial institutions' compliance with enhanced customer due diligence on PEPs. The NBU with IMF capacity development support issued guidance in August for financial institutions and other covered non-bank institutions, consistent with the FATF standards, on the application of a risk-based approach regarding PEPs, which includes relevant case examples. We will also improve the effectiveness of the beneficial ownership regime to enhance transparency in public procurement, detect conflicts of interest through transparent ownership structures, and prevent the misuse of companies. In this regard, the Ministry of Justice updated the software to facilitate submission by companies of their beneficial ownership information (including information on the ownership structure and the possibility of entering several citizenships), which was made fully operational in September. Such information will continue to be publicly available through the Unified State Register of Legal Entities, Entrepreneurs and Public Associations. By end-December 2024, we will also enhance the operational framework for obtaining adequate, accurate and up-to-date beneficial ownership information.

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

### Corporate Governance in SOBs and SOEs

**72. We will continue to strengthen the governance of state-owned banks (SOBs).** We remain committed to upholding the spirit of corporate governance reforms in SOBs and ensuring their operation on a professional and commercial basis, without political interference on operational matters, and any restrictions applied to Supervisory Boards members are prudent and justified. We will review the framework for setting and paying remuneration to Senior Management of all SOBs by end-December 2024 in consultation with IFIs and based on the principles that remuneration should be internationally competitive, consistent, and proportionate to their functions, duties, responsibilities, and considers the part-time nature of their roles and Martial Law restrictions. We will also implement a procedure for conducting performance assessments for all SOBs in 2025. The first such performance assessment will be conducted by the MoF for each of the banks in end-July

2025. In December 2025, the MOF will publish the key findings of its first annual assessment, together with the CMU's proposed actions to address the findings.

**73. We will continue to strengthen SOE corporate governance.**

- We are working on implementing law #3587-IX on SOE corporate governance which entered into force in March 2024. This includes, in particular, developing secondary legislation to operationalize SOEs' financial planning process, including financial indicators designed with the help of IMF TA that are consistent with the gatekeeper role of the MOF to limit quasi-fiscal risks and help safeguard debt sustainability. The CMU approved the regulation for the financial indicators in August 2024 (No. 984), and, if necessary, we will review the financial indicators after two years of application in early 2027 before the next SOE financial planning season in 2028. If necessary, we will make any changes on the financial indicators through a CMU resolution. The implementation of #3587-IX will also include a revamped nomination process and effective independent evaluation procedure for SOE supervisory board activity, consistent with OECD standards.

- We will advance energy corporate governance reforms, including to ensure an independent evaluation of the GTSO supervisory board one year after its appointment. We will complete the formation of the full supervisory board of Ukrenergo (7 members), with independent members constituting the majority of the supervisory board **(*proposed Structural Benchmark*, end-December 2024)**. We are developing a framework for assessing supervisory board activity and commit to launch an independent evaluation of the supervisory boards of Naftogaz and Ukrenergo in November 2024 and to conclude and publish it by end-January 2025.

**74. We are exploring options, in close consultation with international partners, to strengthen SOE management through the existing SOE corporate governance reform agenda.** Drawing on best practices, and putting it into the context of the ongoing SOE corporate governance reforms, we will define the scope and mandate of options for strengthening SOE management, such as centralized modes, including defining the roles and mandates of key government institutions engaged in SOE management, such as the MOF, MOE, CMU, and the State Property Fund (SPFU). We continue to adhere to the following SOE reform agenda items after adoption of #3587-IX (as discussed in ¶73) and policy sequencing in close consultation with international partners, which are all essential preconditions for strengthening SOE management, including: (i) implementing related secondary legislation for #3587-IX, including establishing a methodology for and subsequently conducting regular independent evaluations of SOE supervisory board activity; (ii) as an interim step, we have assessed the financial conditions and fiscal risks of the SOEs in the state ownership policy; and (iii) producing a comprehensive state ownership, dividend policy and privatization strategy ***(Structural Benchmark,* end-October 2024*)***. 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).

**75. The SOE state ownership policy, which will serve as a critical input and pre-condition for the triage and privatization strategy of SOEs, will include the following elements:**

- Long-term priorities of SOE state ownership; SOE public policy objectives and rationales for SOEs remaining in state ownership (subject to regular reviews); the state's role in the governance of SOEs and its implementation (including roles and responsibilities of involved government agencies).

- Indicators of financial efficiency of SOEs and the commitment to regularly provide financial assessment of SOEs (including contingent liabilities, debts and risks to public finances) according to the established criteria; critical gatekeeper role of Ministry of Finance to safeguard public finances and debt sustainability (via tracking financial viability of SOEs and fiscal risk analysis).

- Dividend policy (e.g., rationale, sectoral policy, impact on public finances, and post-war strategy) and remuneration policy for Board members and managers.

## Energy Sector Reforms

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

- Recent large-scale attacks on our energy infrastructure have damaged or destroyed around a half of our generating capacity, especially thermal and hydroelectric power. We continue to work swiftly to repair the damage and to ensure sufficient electricity provision to households and firms, especially during the upcoming winter heating season. We also aim to make our energy system more resilient to future attacks, such as through decentralized energy generation, including gas turbines, and the Green Transformation in a conducive market and regulatory environment with an independent energy regulator (see below). Affected companies will mostly rely on their working capital to conduct the repairs and restoration of energy facilities, while we are grateful for continuing donor support, including on equipment. We need additional financial assistance by donors to support the various repairs, as well as decentralized electricity generation support programs, including gas generation projects. We have also approved a law to temporarily exempt VAT and customs duties from energy equipment imports, expanded the role of 5-7-9 and the BDF to support the energy sector and are implementing SOB energy support lending programs.

- Restrained domestic consumption and growing domestic production limited the need for gas imports during the past heating season. For the upcoming 2024/25 heating season, we plan additional gas imports for domestic consumption of up to 2-3 bcm, while additional gas could be stored by non-residents for EU country needs under the baseline. Naftogaz has secured additional financing for gas imports from the EBRD and bilateral donors. If Naftogaz faces a liquidity shortfall, we will assess the amount of PSO compensation in 2025 based on actual documentary proven expenditures of Naftogaz verified by the State Audit Service and other stakeholders. The relevant calculations will be finalized by end-August 2025. The potential spending pressure from gas imports and PSO compensation will be accommodated through an adjustor on fiscal balance targets, subject to the above assessment, the findings of the stock of arrears of District Heating Companies (DHCs) based on a desk audit (see below), available financing, and capped at UAH 60 billion (about 0.8 percent of GDP).

**77. Potential reform measures, once conditions allow, include additional gradual tariff increases (subject to a new tariff methodology and social considerations during the war), securing external financing, and providing 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 towards cost recovery, while allocating adequate and well-targeted resources to protect vulnerable households. The CMU will adopt a roadmap for the gradual liberalization of gas and electricity markets, with a time-bound implementation plan for the post Martial Law period. The roadmap will be based on technical analysis of the financial condition of the sector, in coordination with the European Commission.

**78. The updated strategies of the GTSO and the transmission industry appropriately reflect the new operating environment by seeking to rightsize the system and identifying alternative sources of gas supply.** This will be critical for the GTSO to prepare financially and operationally for the zero-transit scenario when the transit contract expires at end-2024. In particular, we adopted draft law #11083 (formerly #6133) in late August that allows for a special regime of operations for GTSO to reduce its operational expenditures and maintenance for non-critical gas transmission purposes. To help address the energy deficit during the upcoming winter season, we are implementing plans to install gas turbines for electricity generation.

**79. Consistent with our commitments to the EU and other international partners, we will ensure the independence of the National Energy and Utilities Regulatory Commission (NEURC).** The regulator plays an important role in efforts to integrate the Ukrainian energy market with the EU, to attract needed FDI and advance the envisaged decentralization of power generation, and thus help make the energy system more resilient to missile attacks. Specifically, in order to align the Law of Ukraine 'On the NEURC' with European legislation to ensure NEURC's functional independence, we will adopt amendments to the law #3354-IX by end-December 2024 to exempt regulatory decisions by NEURC from the state registration procedure (***proposed Structural Benchmark***, **end-December 2024)** and also to implement Article 5 of the Law of Ukraine 'On the NEURC' prohibiting state bodies from interfering with NEURC's activities. We have appointed two new NEURC's Commissioners based on the results of the competition carried out in line with the norms of the Law of Ukraine 'On the NEURC.' Finally, we will ensure that NEURC will have sufficient staff to be able to effectively take on the expanded mandate such as implementing the REMIT implementation in line with EU regulations and supporting the energy decentralization plans of the authorities.

**80. District Heating Companies (DHCs) have accumulated a significant stock of arrears to Naftogaz, due to accumulated tariff differentials and the impact of the war.** We will tackle this issue comprehensively once war-related pressures on the budget subside by developing a new tariff methodology. In the interim, we will analyze the debts and financial conditions of DHCs through a desk review, by a reputable audit firm, which will analyze the debts before and after February 2022 (***Structural Benchmark***, **end-October 2024)**. This will help clarify the stock of arrears and the financial situation of DHCs, including the drivers of the arrears' accumulation, ahead of the 2024/25 heating season.

## I. Program Monitoring

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

## Table 1. Ukraine: Quantitative Performance Criteria and Indicative Targets

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

| | Jun 2024 | | | | | Sep 2024 | Dec 2024 | | Mar 2025 | | Jun 2025 | | Sep 2025 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | QPC | Adjustor | Adjusted QPC | Actual | Status | QPC | EBS/24/74 | QPC | EBS/24/74 | Proposed QPC | EBS/24/74 | Proposed IT | Proposed IT |
| **I. Quantitative Performance Criteria 1/ 2/** | | | | | | | | | | | | | |
| Floor on the non-defense cash primary balance of the general government, excluding budget support grants (- implies a deficit) 2/ | 250,000 | 0 | 250,000 | 466,499 | Met | 368,313 | 415,410 | 415,410 | 310,000 | 254,800 | 660,000 | 546,800 | 751,000 |
| Floor on tax revenues (excluding Social Security Contributions) | 880,400 | … | 880,400 | 1,001,994 | Met | 1,398,600 | 2,042,250 | 2,042,250 | 485,000 | 485,000 | 850,000 | 1,019,600 | 1,622,200 |
| Ceiling on publicly guaranteed debt | 47,900 | 5,879 | 53,779 | 7,071 | Met | 47,900 | 47,900 | 47,900 | 53,626 | 62,860 | 53,626 | 62,860 | 62,860 |
| Floor on net international reserves (in millions of U.S. dollars) 3/ | 25,300 | -33 | 25,267 | 25,792 | Met | 28,800 | 26,300 | 26,300 | 23,800 | 23,800 | 24,800 | 24,800 | 23,000 |
| **II. Indicative Targets 1/ 2/** | | | | | | | | | | | | | |
| Floor on the cash balance of the general government, excluding budget support grants (- implies a deficit) | -725,996 | 0 | -725,996 | -555,702 | Met | -1,123,107 | -1,557,208 | -1,557,208 | -215,000 | -342,400 | -370,000 | -719,000 | -1,146,900 |
| Ceiling on general government arrears | 2,000 | … | 2,000 | 1,654 | Met | 1,800 | 1,600 | 1,800 | 1,600 | 1,800 | 1,600 | 1,800 | 1,800 |
| Floor on social spending | 262,500 | … | 262,500 | 291,447 | Met | 390,000 | 537,800 | 537,800 | 130,000 | 135,000 | 250,000 | 270,000 | 410,000 |
| Ceiling on general government borrowing from the NBU 4/ 5/ | -2,884 | 0 | -2,884 | -3,079 | Met | 0 | 0 | 0 | -984 | -984 | -4,100 | -4,100 | -1,500 |
| **III. Continuous performance criterion 1/ 2/** | | | | | | | | | | | | | |
| Ceiling on non-accumulation of new external debt payments arrears by the general government | 0 | … | 0 | 0 | Met | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **IV. Memorandum items** | | | | | | | | | | | | | |
| External project financing (in millions of U.S. dollars) | 251 | … | … | 216 | … | 605 | 1,496 | 1,496 | 142 | 142 | 426 | 426 | 851 |
| External budget financing (in millions of U.S. dollars) 6/ | 12,936 | … | … | 12,936 | … | 25,745 | 32,565 | 35,832 | 4,236 | 4,236 | 10,794 | 9,538 | 12,678 |
| Budget support grants (in millions of U.S. dollars) | 1,050 | … | … | 1,050 | … | 10,506 | 12,114 | 10,574 | 429 | 429 | 965 | 965 | 1,286 |
| Budget support loans (in millions of U.S. dollars) 6/ | 11,887 | … | … | 11,887 | … | 15,239 | 20,451 | 25,258 | 3,807 | 3,807 | 9,830 | 8,573 | 11,392 |
| Interest payments | 161,780 | … | … | 133,701 | … | 284,320 | 429,820 | 429,820 | 67,000 | 86,700 | 190,600 | 244,800 | 366,600 |
| NBU profit transfers to the government | 38,000 | … | … | 38,643 | … | 38,000 | 38,000 | 38,000 | 0 | 0 | 34,400 | 63,861 | 63,861 |
| Government bonds for the purposes of bank recapitalization and DGF financing | 0 | … | … | 0 | … | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Spending from receipts resulting from sales of confiscated Russian assets and transfers of bank accounts | 0 | … | … | 15,091 | … | 0 | 23,743 | 23,743 | 0 | 0 | 0 | 0 | 0 |
| Spending on gas purchases, PSO compensation and transfer to GTSO | 0 | … | … | 0 | … | 60,000 | 60,000 | 60,000 | 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) | -671.7 | … | … | -590.5 | … | -1,046.6 | -1,562.1 | -1,741.1 | -181.8 | -342.4 | -363.6 | -719.0 | -1,146.9 |

Sources: Ukranian authorities and IMF staff estimates and projections.

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

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

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

4/ From end of previous quarter.

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

6/ Excludes prospective IMF disbursements under the EFF.

**Table 2. Ukraine: Structural Benchmarks** (modified/new SBs in bold text; purple indicates new timing)

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

| Table 2. Ukraine: Structural Benchmarks (continued) | | | | |
|---|---|---|---|---|
| | **Structural Benchmark** | **Sector** | **Timing** | **Status** |
| **13** | Strengthen bank governance and oversight by: (i) separating the related-parties-unit from banking supervision; (ii) implementing "supervisory panels" as a consulting body to the Supervisory Committee; and (iii) resume scheduled inspections for both banking and non-banking institutions, while ensuring NBU discretion on matters related to staff safety | Financial Sector | End-September 2023 | Met |
| **14** | MOF, with STS and SCS, to prepare an action plan, including short-term and medium-term measures covering key reform areas identified by the upcoming diagnostic, that would feed into broader NRS. | Fiscal | End-October 2023 | Met |
| **15** | Update and publish the Medium-Term Debt Management Strategy to align it with the program objectives | Fiscal | End-October 2023 | Met |
| **16** | Simplify the asset declaration system through linking with other databases and registers consistent with the public officials' legal obligations to make truthful and timely submissions | Governance/ Anti-Corruption | End-October 2023 | Met |
| **17** | Select and appoint a supervisory board for the GTSO | Energy/ Corporate Governance | End-October 2023 | Met |
| **18** | Review the current PIM procedures and develop a roadmap of measures so that: (i) all public investment projects follow unified PIM approaches, including PPPs; (ii) investment projects are selected on a competitive basis, with transparent selection criteria, and consistent with the medium-term budget framework; (iii) stronger powers are provided to MOF, including a clear gatekeeping role during the different stages of the investment project cycle. | Fiscal | End-December 2023 | Met |
| **19** | Adopt the National Revenue Strategy | Fiscal | End-December 2023 | Met |
| **20** | Adopt legislation to enhance the institutional autonomy and effectiveness of the SAPO by being designated as a separate legal entity, and specifically, on the selection procedures, capacity to regulate organizational activities, mechanisms for discipline and accountability, and autonomy under the criminal procedural code | Governance/ Anti-Corruption | End-December 2023 | Met |
| **21** | Based on findings of the revenue working group, prepare short-term revenue measures (tax and non-tax) with yields of at least 0.5 percent of GDP ready to be included in budget 2024 | Fiscal | End-February 2024 | Met |

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

| | Structural Benchmark | Sector | Timing | Status |
|---|---|---|---|---|
| 22 | Develop a concept note on the 5-7-9 program with proposals to target small and medium enterprises by phasing out the eligibility of large companies, enhance monitoring, and maintain adequate safeguards. | Fiscal | End-March 2024 | Met |
| 23 | Enact amendments to the procedural code to rationalize matters or issues to be heard at the first instance by one anti-corruption judge or by a panel of three anti-corruption judges. | Governance/ Anti-Corruption | End-April 2024 | Not Met (implemented with delay) |
| 24 | Adopt a new law on the ESBU that has a clear mandate and scope for investigative powers consistent with good practice by focusing on major economic crimes; establishing legal basis for operation of the ESBU in terms of the selection of management and staff. The law will respect the existing delineation between the investigative powers of the ESBU and the National Anti-corruption Bureau of Ukraine (NABU). | Fiscal | End-June 2024 | Met |
| 25 | Based on the outcomes of a roadmap on development of PIM procedures, adopt a government decree with an action plan and timeline that provides clear linkages between MTBF and capital expenditures, including reconstruction priorities, and specifying the gatekeeper role of the MOF. | Fiscal | End-December 2024 | **Met** |
| 26 | Develop a methodology to assess the effectiveness of tax privileges, including their cost to the budget, in order to have a unified reform approach | Fiscal | End-September 2024 | **Met** |
| 27 | Identify major public companies severely affected by the war and prepare a review of potential fiscal and quasi-fiscal costs | Fiscal | End-September 2024 | **Met** |
| 28 | Adopt amendments to the Customs Code, in line with international best practice. | Fiscal | End-October 2024 | **Met** |
| 29 | With the help of IMF TA, produce a diagnostic review of pre-war MTBF policies and practices relative to best practices. | Fiscal | End-October 2024 | |
| 30 | **Adopt Budget Code amendments in line with Action 1 under the June 2024 PIM Action Plan, as specified in ¶39 of the MEFP.** | **Fiscal** | **End-January 2025** | |
| 31 | **Appoint the new Head of the ESBU based on the selection process.** | **Fiscal** | **End-February 2025** | |
| 32 | **CMU to approve a methodological framework underpinning the PIM process, as specified in ¶39 of the MEFP.** | **Fiscal** | **End-February 2025** | |
| 33 | **Submit legislative amendments to Parliament to introduce tax reporting requirements for digital platform operators.** | **Fiscal** | **End-April 2025** | |
| 34 | **Appoint a permanent head of SCS** | **Fiscal** | **End-June 2025** | |
| 35 | **Submit a 2026-28 Budget Declaration on time and in line with program parameters.** | **Fiscal** | **End-June 2025** | |

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| **36** | **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** | |
| **37** | 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 | |
| **38** | The DGF, MOF and NBU will prepare a bank rehabilitation framework in consultation with IMF staff. | Financial Sector | End-December 2024 | |
| **39** | Implement a supervisory risk assessment methodology to inform supervisory engagement priorities | Financial Sector | End-December 2024 | |
| **40** | 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 | |
| **41** | **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** | |
| **42** | **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** | |
| **43** | **Amend the Criminal Procedural Code to enable the Specialized Anti-Corruption Prosecutor's Office to manage extradition and mutual legal assistance request and rationalize consequences from expiration of time limits for pre-trial investigations (including for corruption cases) in line with MEFP, ¶69, 1st bullet.** | **Governance/ Anti-Corruption** | **End-December 2024** | ***Reset from end-October 2024*** |
| **44** | **Publish the completed external audit of the National Anti-Corruption Bureau of Ukraine's effectiveness with participation of three independent experts with international experience.** | **Governance/ Anti-Corruption** | **End-February 2025** | ***Missed in end-September 2024*** |
| **45** | 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 | |
| **46** | **Enact amendments to the law to reform the Accounting Chamber of Ukraine (the supreme audit institution), including through a decisive vote of independent experts with international experience for vetting new members, establishing a minimum of 11 members, enhancing the scope of its audit functions, and steps to safeguard the ACU's financial independence consistent with international standards on supreme audit institutions, in line with MEFP, ¶67.** | **Governance/ Anti-Corruption** | **End-December 2024** | |

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| **47** | Produce a SOE state ownership policy, dividend policy and privatization strategy | SOE Corporate Governance | End-October 2024 | |
| **48** | **Appoint the independent auditors to assess the effectiveness of the National Anti-Corruption Bureau of Ukraine to investigate corruption, as provided in its law** | **Governance/ Anti-Corruption** | **Prior Action** | **Met** |