Appendix I. Letter of Intent

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

June ______, 2025

15192/0/2-25 від 19.06.2025

Dear Ms. Georgieva:

1. Russia's illegal and unjustified full-scale invasion of our country, now in its fourth year, continues to bring enormous human, social, and economic costs. We are focused, together with our allies, on achieving an enduring and just peace that will ensure our security, bring Russia's war to a definitive end, and enable our population's living conditions to begin to return to normal. Unfortunately, attacks persist with severe consequences: civilian casualties are large, over a quarter of the population has been displaced, and infrastructure damage is massive and increasing, with serious long-lasting implications for our people. The Rapid Damage and Needs Assessment (RDNA-4) completed in February estimated direct and documented damages of US$176 billion and reconstruction and modernization needs at US$524 billion over the next decade; these needs increase with every day the war continues. Despite the hardship, our people continue to show courage, determination, and resilience while macroeconomic, financial, and external stability has been preserved with skillful policymaking and continued large-scale external support.

2. Our strong and sustained performance thus far under the Extended Fund Facility (EFF) has clearly demonstrated our capacity to implement sound economic policies despite these challenging circumstances. However, we continue to face major risks amid exceptionally high uncertainty due to the war. Our IMF-supported program, together with unprecedented official financing assurances, therefore, provides a crucial financing envelope of US$152.9 billion over the program period. In this regard, we are especially grateful to our partners for the US$50 billion Extraordinary Revenue Acceleration (ERA) Loan Initiative, and are committed to managing the disbursements prudently and transparently to finance our critical spending needs.

3. The goal of our IMF-supported program remains to restore fiscal and debt sustainability on a forward-looking basis as well as medium-term external viability. It also aims to promote long-run growth in the context of post-war reconstruction and our goal of EU membership, which took a critical step forward with the beginning of accession negotiations on June 25, 2024. Our IMF-supported program is designed to resolve our balance of payments problems and restore medium-term external viability in both the baseline scenario and 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 our international partners.

4. Given the exceptionally high uncertainty, our objectives under the program remain to first preserve macroeconomic and financial stability within the context of the ongoing war while preparing the ground for a strong post-war recovery. We remain focused on restoring stability and undertaking repairs to essential infrastructure, such as in the energy sector that has suffered from repeated attacks. Despite Russia's illegal war, we continue to implement wide-ranging structural reforms covering public finances, the financial sector, monetary and exchange rate policies, governance, anti-corruption, and the energy sector. These efforts are expected to lay the foundations for stronger prospects after the war ends, when we will 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. We are also optimistic about the recent agreement between ourselves and the USA to create an economic partnership agreement that establishes a Reconstruction Investment Fund which will further solidify our ties, benefit both nations, and enable financing for critical and growth enhancing development projects, all while complying with our international obligations and consistent with our EU accession path plans.

5. For this Eighth Review under the EFF, we have met all the end-March 2025 and continuous quantitative performance criteria (QPCs); we also achieved all the indicative targets (ITs). We are requesting a modification of the floor on the non-defense primary cash balance of the general government to recalibrate an adjustor pertaining to the NBU's annual profit transfers to the budget to accommodate an additional distribution in May 2025. Additionally, we are requesting a modification of the end-September 2025 NIR floor to maintain buffers amid elevated near-term risks.

6. We continue to strive to implement key policy measures and structural reforms under the program, as highlighted in Table 2 of the MEFP. To this end, we have met the following structural benchmarks: (i) submission of legislative amendments to parliament to introduce tax reporting requirements for digital platform operators by end-April; and (ii) publication of the completed external audit of the National Anti-Corruption Bureau of Ukraine's effectiveness with participation of three independent experts with international experience. Finally, as a prior action for this review, we will submit to the CMU a reform plan for the state customs service (SCS). We also propose to reset four structural benchmarks: (i) on the appointment of a permanent head of SCS from end-June to end-December 2025, because more time is needed to complete the selection process; and (ii) the publication of external assessment of NEURC by the Energy Community Secretariat from end-October to end-December 2025 to align with the adoption timeline of the NEURC law; (iii) on NBU taking steps to mitigate growing critical third-party risk in banks, non-bank financial institutions, and payments service providers from end-September 2025 to end-June 2026; (iv) completion of NSSMC's fit and proper review from end-June 2025 to end-August 2025.

7. We continue to implement wide-ranging reforms, and as a demonstration of this commitment we propose four additional structural benchmarks: (i) on the SIC to approve the updated Single Project Pipeline by end-August 2025; (ii) preparation by the NBU and NSSMC of a prioritized roadmap for financial market infrastructure reforms in consultation with IFIs and other stakeholders by end-October 2025; (iii) implementation of European and international valuation standards by end-December 2025; and (iv) preparation of legislative proposals by NSSMC for submission to parliament to align the securitization and covered bonds frameworks with international standards by end-March 2026.

8. Our international partners have assured us of their continued support to help ensure that debt sustainability is restored, and the program is fully financed. As part of our efforts to restore debt sustainability, in March 2023, we announced the intention to undertake a treatment of our external public debt, in line with program parameters. After successfully completing an exchange of outstanding government and Ukravtodor bonds in August 2024, we are making progress on other elements of the debt restructuring strategy. Should the case arise where the macroeconomic and debt outlook worsen, we also commit to undertaking a further external commercial debt treatment as needed to restore debt sustainability in line with program parameters. It is expected such a treatment would take place once conditions of exceptionally high uncertainty abate, or at the latest by the penultimate review of the program. In light of the collaborative discussions we are having with our creditors, we request the completion of the financing assurances review.

9. Based on our successful implementation of the program targets for end- March 2025, our implementation of structural benchmarks, as well as our strong policy commitments for the period ahead, we request completion of the Eighth Review and a disbursement in the amount of SDR 373.53 million (18.6 percent of quota), which will be channeled for budget support. We also request a rephasing to backload purchases under the program within 2025 to better align them with the profile of our balance-of-payments needs. A memorandum of understanding between the National Bank of Ukraine (NBU) and the Ministry of Finance (MOF) has been established to govern the mechanism of servicing of the government's obligations to the Fund by the NBU on behalf of the MOF.

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

11. We will continue to provide IMF staff with the data and information needed to monitor program implementation, including by adhering to the data provision requirements described in the attached Technical Memorandum of Understanding (TMU).

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

Sincerely yours,

Volodymyr Zelenskyy
President of Ukraine

Denys Shmyhal
Prime Minister of Ukraine

Sergii Marchenko
Minister of Finance of Ukraine

Andriy Pyshnyy
Governor, National Bank of Ukraine

Attachment I. Memorandum of Economic and Financial Policies

I. Background, Recent Economic Developments, and Outlook

Context

1. **Russia's unprovoked, illegal, and unjustified invasion of our country, now in its fourth year, continues to bring enormous human, social, and economic costs.** We are prepared to work toward an enduring and just peace that will ensure our security, bring Russia's war to a definitive end, and allow the population's living conditions to begin to return to normal. Regrettably, pending such an agreement, civilian casualties keep rising, around a quarter of the population has been displaced, while missile and drone strikes continue countrywide, including devastating attacks on our civilian and energy infrastructure. Despite all the destruction, suffering, and challenges, our people continue to show remarkable courage and resilience, while macroeconomic, financial, and external stability have been preserved. Nevertheless, we continue to face major challenges: the fiscal deficit remains very high, entailing large external and domestic financing needs, and protecting core functions of the state under tight financing constraints forces us to navigate difficult policy trade-offs.

2. **The Extended Fund Facility (EFF) arrangement provides a strong anchor for our economic policies, and we continue to sustain strong performance under the program.** The arrangement has helped mobilize an external financing package from our international partners that totals US$152.9 billion over the program period (2023Q2–27Q1). In these very difficult times, the program has helped infuse greater predictability into our macroeconomic management and remains a key anchor for our current economic policies and preparations for recovery and post-war reconstruction. We remain highly committed to our program objectives, as demonstrated by our robust implementation of macroeconomic and structural reforms under the program thus far. Sustained disbursements of external financing underline the commitment of our international partners to our stability, reform, and recovery.

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

4. **The official launch of EU accession negotiations last year was a historic milestone, setting the stage for our European integration path, and reinforcing stability and long-term growth prospects.** Reforms to achieve EU accession will strengthen our economy and institutions, as they are essential to creating conditions for increased investment and growth going forward. Our candidate status implies that the choice of the regulatory regime defined by the EU acquis will frame

our recovery and reconstruction process. Progressive integration into the European internal market should enhance trade and technology transfer to the Ukrainian economy, helping sustain the recovery. In 2024–27, the Ukraine Plan and €50 billion Ukraine Facility, will provide a critical support for our budgetary needs, recovery, reconstruction, and modernization efforts as we advance on our path to EU membership.

5. **We welcome the ratification in May by the Verkhovna Rada of our agreement with the US on an economic partnership agreement to establish a Reconstruction Investment Fund**. The fund will benefit both nations and enable financing for critical projects in the development of natural resources, while also fostering innovation, technological development, and recovery. Moreover, the agreement complies with Ukrainian legislation, international obligations, and Ukraine's EU accession path.

Economic Outlook

6. **The economy's growth is expected to slow in 2025 due to headwinds from Russia's continuing war.**

- After growth of 2.9 percent in 2024, GDP is expected to grow between 2 and 3 percent in 2025, reflecting, on the one hand, further stabilization of the energy situation, a stronger harvest, and accommodative fiscal policy, and on the other, headwinds, including from labor market constraints, and decreased gas production due to infrastructure damage.

- Inflation has accelerated broadly in line with expectations, reaching 15.1 percent y/y in April, due to continued pressure from food prices, energy and labor costs as well as the passthrough from depreciation. Nevertheless, inflation is expected to moderate to around 9 percent by end-2025 thanks to a sharp deceleration in food price inflation from a larger harvest, a more stable energy situation, and the tapering off of unfavorable base effects, together with an appropriately tight monetary policy stance.

- The current account deficit excluding grants reached US$25 billion in 2024 (up from US$21.3 billion in 2023), and is projected to widen further to US$38.6 billion in 2025 primarily due to increased import needs. Supported by frontloaded ERA disbursements, gross international reserves are projected to end the year at US$53.4 billion (125.5 percent of the ARA metric).

- After depreciating by 2.1 percent against the US dollar through Q4-2024, including due to the fiscal impulse and seasonal factors, the hryvnia appreciated year to date through May by 1.2 percent on the back on increased FX supply and stabilized net FX demand. Over the same period, the hryvnia depreciated by 7.2 percent against the euro. FX interventions have declined since end-2024, but remain sizeable to cover the structural FX deficit of the private sector (while intermediating the public sector's structural FX surplus). The spread between the official and cash rates has remained low.

- Credit growth continues to recover, supported by improved business activity, credit guarantee schemes, with lending to households and micro, small and medium-sized enterprises increasing rapidly from anemic levels in 2024. The role of state support in lending to businesses (5-7-9 program) has declined, while mortgage lending continues to be dominated by a subsidy program (eOselya). Gross non-performing loans continue to fall while loan default rates are declining towards pre-war levels. The banking system remains profitable and highly liquid amid still strong deposit growth.

7. The economy could rebound more quickly, especially if a just and durable peace agreement delivers a swift and sustained improvement in security. Even in the early stages of a peace agreement, economic performance could exceed expectations if security conditions allow and key bottlenecks are resolved more swiftly through robust return migration, improving energy security, recovering sentiment, reduced war-related supply disruptions, and durable access to seaports and other supply routes. Additionally, our efforts on critical recovery and repair projects would also support stronger growth, as could stronger and faster progress in the planned energy reforms. In the medium-term, economic growth could be accelerated by forceful implementation of structural reforms, including in the context of EU integration; significant investments to promote reconstruction and economic transformation, including those financed by private investment inflows in macro critical sectors or support from official development partners; and/or an even faster return of migrants.

8. Despite the economy's resilient growth, downside risks to the outlook persist amid exceptionally high uncertainty. Security risks could last longer than expected, putting continuing pressures on our fiscal and external positions and creating additional financing needs. A prolonged or more intense war would also weigh on firm and household sentiment as well as exchange rate and inflation expectations, discourage migrant return and worsen labor market mismatches, and delay private investment, all of which would slow growth. Export transit routes could be significantly interrupted, there could be additional large-scale damage to energy infrastructure, or supply chain disruptions could resurface, weighing on production costs and firm profitability; there could also be a sustained need for priority imports. A peace settlement without credible security guarantees and/or sufficient financial resources for reconstruction and defense could lead to adverse economic and social outcomes. While near-term external financing risks have diminished, largely due to ongoing disbursements from the ERA Initiative, shortfalls or delays could recur, exacerbating financing constraints and requiring difficult policy trade-offs. Moreover, if such risks materialized, additional domestic financing may become difficult to mobilize.

II. Macroeconomic and Structural Policies for 2025–27

A. Overview

9. 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. These are the foundations for promoting long-term growth in the context of post-war reconstruction and our path to EU accession. Our economic program continues to focus on a two-phased approach which includes preserving stability and advancing priority structural reforms while planning for a broadening and deepening of reforms once the war tapers off.

- Our current focus is to maintain macroeconomic, external, and financial stability, in order to strengthen Ukraine's capacity on its way to victory. Our program involves policies to ensure robust budget implementation in 2025, consistent with a strong medium-term budget framework, including our Budget Declaration for 2026–28, that would guide fiscal policy and ground the assessment of financing gaps. The managed flexibility of the exchange rate strengthens the resilience of the Ukrainian economy and FX market, promotes better adaptation to domestic and external shocks, and reduces the risks of an accumulation of FX imbalances. The easing cycle in 2023–24 allowed lower borrowing costs for the government and private sector, and since then, our decisive monetary policy response to recent inflation pressures has helped stabilize inflation expectations. Despite the war, we are also implementing well-targeted structural measures covering public finances, the financial sector, monetary and exchange rate policies, SOE governance, anti-corruption, and the energy sector to prepare the ground for Ukraine's post-war growth. Importantly, social spending is being safeguarded to the extent possible.

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

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

10. We acknowledge IMF staff analysis on an updated downside scenario, and we are fully committed to swiftly take 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 playing our part to ensure the burden of adjustment is shared.

- We are equally focused on identifying policies to help achieve high and sustained growth rates, including via upside scenarios that motivate reform priorities towards EU accession. Our medium-and long-term growth post-war will crucially depend on catalyzing high and sustained investment levels, supporting inward migration, rebuilding human capital, and fostering an enabling business environment that could drive total factor productivity (TFP) growth and help Ukraine converge to European income levels. In this regard, establishing effective 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

11. We successfully met all the program's fiscal targets for end-March despite continued shocks from the war:

- Tax collections totaled UAH 614 billion, exceeding the floor of UAH 485 billion (Quantitative Performance Criterion).

- We carefully executed the budget in the first quarter, delivering a general government non-defense cash primary balance excluding grants of UAH 381.4 billion (at program exchange rates), thus achieving the floor of UAH 254.8 billion with a margin (Quantitative Performance Criterion).

- The related general government cash balance excluding grants was UAH -239.2 billion, exceeding the floor of UAH -410.5 billion (Indicative Target).

- The issuance of government guarantees was UAH 7.8 billion (at program exchange rates), fully respecting the ceiling of UAH 62.9 billion (Quantitative Performance Criterion).

- Overdue accounts payable (domestic arrears) were UAH 1.4 billion at end-March, beneath the ceiling of UAH 1.8 billion (Indicative Target).

- Social spending amounted to UAH 164.9 billion, respecting the floor of UAH 132 billion and consistent with our efforts to ensure adequate protection for vulnerable groups in the population.

12. The expenditure risks in 2025 as a result of Russia's continued war have materialized and a Supplementary Budget for 2025 has become necessary. A draft Supplementary Budget has been submitted to the Cabinet of Ministers and is expected to be registered with Parliament soon. With this budget, we expect that the overall deficit excluding budget support grants will amount to UAH 1,960 billion (22.1 percent of GDP). Although our defense needs are higher than previously expected, we have found offsetting savings wherever possible to contain the impact on the deficit. The benefits of recently enacted tax measures and overperformance on both tax and non-tax revenues have also helped contain the increase in our deficit.

13. Disbursements under the G7's ERA initiative have begun, and we will manage these flows prudently and transparently to finance deficits through the remaining program period. We will continue to take the necessary steps to ensure that the US$35.9 billion in expected 2025 ERA disbursements are used consistently with the program's fiscal paths. To this end, we will allocate a portion of these disbursements as prefinancing for budget deficits during the rest of the program. We will also preserve a portion of these resources as an adequate buffer for the downside. In operationalizing this commitment, we will:

- Rely on the relevant rules on revenue overperformance and the article of the budget code pertaining to prefinancing limits. The articles of the budget code pertaining to expenditure limits will help us to avoid expenditure risks as we execute the 2025 Budget consistent with program parameters.

- Only revise spending categories in consultation with IMF staff and after identifying either new financing sources or compensating fiscal measures. We continue to stand ready to increase taxes if budgetary shocks materialize, and view increases in the main VAT rate as the most efficient option to mobilize resources in such a contingency.

- Administer these flows as budget support, ensuring that the financing is: (i) transparently incorporated in the budget, (ii) accounted for in our treasury reporting, (iii) disbursed into the treasury single account, and (iv) not directed to any special fund without prior agreement from the donor country.

14. The Budget Declaration for 2026-28 begins to define our strategic priorities for the immediate post-war period. Ahead of its parliamentary submission by June 30, 2025, we were in consultation with Fund staff to ensure the Declaration was aligned with the program and thus satisfied the ***end-June Structural Benchmark***.

- *For 2026*: We expect an overall deficit excluding grants of 10.4 percent of GDP, under the assumptions underpinning the baseline macroframework. The expenditure envelopes reflect our priorities to allocate resources for defense preparedness, reconstruction initiatives, and social protection. On the revenues side, consistent with our commitment to domestic revenue mobilization, we will ensure that next year's tax revenues in terms of GDP are at least as high as in 2025, which we anticipate will be at 37.3 percent of GDP. To achieve this objective, the budget declaration envisages tax measures of about 0.5 percent of GDP, largely reflecting items already scheduled for implementation under the NRS (¶21-22). Legislation to implement these measures has already been registered in Parliament and we will seek prompt adoption and enactment of these laws so that they will be in effect by the start of next year. The steps that we are taking to strengthen tax administration and compliance (e.g., our work on compliance risk management and improved methods for collecting tax debts) will also contribute to achieving adequate tax revenues next year (¶25). Should further measures be necessary, we will focus on higher-quality and permanent measures, while avoiding suboptimal policies such as a renewal of windfall bank taxation.

- *Over 2027-28*: We expect deficits to narrow as expenditures further normalize, although we expect that certain spending needs, including defense and social spending, will be permanently higher than before the war. Consistent with our program's objective of restoring medium-term fiscal sustainability, this will require further efforts to mobilize adequate domestic revenues in these years to cover these expenditures. To this end, we are working on identifying high-quality and permanent measures of a magnitude that is sufficient to deliver the rising path of tax revenues envisaged in the program. Measures that we have identified in our NRS (¶23), including reforms to carbon, personal income, and simplified taxation, and EU accession process will be an important starting point. We expect that next year's budget declaration will further incorporate them as more specifics on the scope and timing of the reforms become available. To this end, in June, the European Union will begin a review of the compatibility of Ukraine's current tax legislation with EU directives, and the findings of this review will inform the next steps for our work program in this area. We will also determine whether adjustments to taxes are needed.

15. We recognize the need to restore fiscal and debt sustainability and this will require targeting a primary surplus of around ½-1½ percent of GDP in the medium term, beginning soon after the end of the war with Russia. We remain committed to undertaking this fiscal adjustment that will entail a sustained effort to generate sufficient tax revenues to meet post-war spending needs (including recovery and reconstruction and emerging post-war social priorities) while also reducing reliance on external financing, in line with the strategic objectives of the NRS. We are also planning on reevaluating the merits of spending norms, such as mandatory floors on spending for certain sectors (currently suspended as part of Martial Law), which reduce budget flexibility and limit reprioritization efforts.

16. Every day that Russia's war continues the already staggering reconstruction needs rise. The fourth Rapid Damage and Needs Assessment (RDNA-4) was published on February 25, 2025, covering the period February 2022-December 2024. It estimated direct documented damages reaching US$176 billion and total reconstruction and modernization needs at US$524 billion. Damages and needs are only increasing every day that Russia's war continues. Addressing the largest needs—concentrated in housing, energy, transport, and commerce and industry—will be vital to delivering essential public services, restoring the economy's productive capacity, and providing adequate social protection. Repair and recovery in these sectors will also help promote the return of refugees and the settlement of IDPs. Consistent with the law and recent PFM reforms, we will ensure that all investment projects are prioritized and selected through the established Public Investment Management (PIM) framework, fit into the medium-term budgetary framework (MTBF) and are consistent with a return to fiscal and debt sustainability. To this end, we will also carefully evaluate the financing mix, and will seek financing on highly concessional terms. We will also seek to reform financial market infrastructure with the aim of mobilizing private financing for recovery and reconstruction (see ¶60–61).

C. Financing Strategy

17. Our financing strategy continues to focus on securing timely and predictable external disbursements that, given the need to restore debt sustainability, is appropriately on highly concessional terms. The war and its associated cost entail a large financing gap, which stands at US$152.9 billion over the baseline program period. We continue to work closely with our donors and have identified sources to ensure that this financing need can be met:

- *We remain very grateful for the substantial budget support from our donors*: Since the start of the full-scale war, we have received budget support from international partners totaling about US$133 billion. Since the start of the program, we have received US$91 billion, of which US$15.9 billion was disbursed during January-May 15, 2025. For the remainder of the year, we expect to receive an additional US$36.4 billion.

- *Firm financing commitments are in place for the next 12 months of our IMF-supported program*: Over July 2025–June 2026, we have received assurances for US$42.4 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$25.2 billion from the ERA mechanism. The provision of support in the amounts, terms, and timing envisaged will be vital to maintaining economic and financial stability.

- *We have good prospects for financing the remainder of the program period*: Beyond June 2026, key partners have assured us of their continued support, helping ensure that our program remains fully financed.

18. We recognize that financing the budget and maintaining stability will require mobilizing resources as needed from the domestic government bond market. With the large-scale external disbursements thus far this year, we scaled back our domestic bond issuances in the first half of 2025 to reduce debt service costs. Nevertheless, in the second half of the year, we expect to further mobilize financing from the domestic government debt market consistent with the Supplementary Budget and to ensure the program is fully financed. We are remaining closely engaged with the domestic bond market, so support this plan. We also expect that Benchmark Bonds, which banks can use to meet reserve requirements, will support these efforts, with issuance so far this year amounting to UAH [60] billion. 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, while safeguarding debt sustainability across the program macroframeworks.

19. We will continue to enhance our capacity to manage public debt as well as treasury cash and liquidity:

- *Medium-term debt strategy (MTDS)*: We are working on an MTDS update, which we expect to issue upon completing the treatment of external commercial claims (including GDP-linked securities) and ideally before the end of the year.

- *Other debt management efforts*: We are also committed to strengthening our debt management capacity, including by increasing staffing and training. We will continue to support the development of the domestic debt market, including through medium-term efforts to maintain the attractiveness of locally-issued instruments and diversify the set of investors (including by encouraging non-resident participation). Moreover, our efforts should help facilitate international capital market access in the medium term, consistent with debt sustainability objectives, and thereby enable the bond market to play an active role in reconstruction.

D. Fiscal Structural Reforms

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

Revenue Mobilization

21. Our efforts to increase revenues through tax policy and administrative reforms are guided by the NRS. The NRS aims to establish a fair and competitive tax framework that generates sufficient revenues to support our post-war development goals while ensuring fiscal and debt sustainability. The strategic goals include improving tax revenues by closing opportunities for tax evasion, increasing compliance, and combating the shadow economy. NRS implementation is underway with detailed implementation plans and specific timetables for tax administration, customs, and tax policy reforms. We will continue to closely monitor and report progress on NRS implementation. Notably, we have prepared and published our NRS implementation report, taking stock of reform progress until end-2024. Going forward, to reflect reform progress and ensure accountability within a comprehensive, transparent, and unified reporting framework, we will publish a comprehensive status report each year in March. The NRS Steering Committees at State Customs Services (SCS) and State Tax Services (STS) will supervise reform implementation. We will continue to abstain from tax policy and administrative measures that may adversely affect the tax base and will refrain from introducing new categories of taxpayers in the existing preferential regimes.

22. Near-term tax policy measures focus on raising revenues from excises, aligning with the EU acquis, and streamlining tax privileges. We have taken measures to increase excise rates, a first step in a gradual increase to EU minimum levels over the medium term. In line with the NRS, we are also planning to better target and rationalize tax exemptions, minimize revenue losses, and avoid compromising equity and economic efficiency. In 2024 we adopted a formal assessment methodology for tax privileges and guidelines specifying (i) the number of topics on tax privileges to be evaluated in an annual cycle, (ii) a standardized evaluation template, and (iii) the publication process of underlying assessments. We will phase in this methodology and gradually apply it to all relevant topics, targeting the most significant tax expenditures first, and leading to a regular evaluation cycle covering all topics over a number of years. By end-September 2025, we will determine the benchmark tax system for each major tax (CIT, VAT, PIT, and excise tax). We will conduct a comprehensive inventory of tax expenditures related to these major taxes for publication alongside the 2027 annual budget documentation, and we will conduct regular calculations of tax expenditure costs.

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

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

- In the future, we will consider reforms to make the tax system more equitable (e.g., through a more progressive PIT). Also, we plan to carry out a comprehensive reform of the Simplified Tax (ST) system in order to limit the sphere of application and the scope for abuse. The reform of the ST system will aim to minimize opportunities for medium and large businesses to legally avoid the payment of taxes or to hide from taxation the sales volumes of goods and services, including goods illegally imported or produced; it will also aim to make it economically infeasible to use the ST system to move the legal basis for labor relations to civil law. In particular, starting at the latest by early 2027, we will begin to implement measures that will limit the possibility for business entities to return to the use of ST after their transition to the general taxation system, revise the approaches to determine and index the thresholds for ST, and narrow eligibility of ST by excluding certain types of activities. However, as outlined in the NRS, such PIT and ST reforms require administrative reforms, including safeguarding the confidentiality of tax data in the STS systems and a review by the MoF in cooperation with the NBU, and with TA from the IMF and other international partners, taking into account best international practices and EU Directive requirements, including specifically on the issue of the possible expansion of the grounds for extrajudicial access by tax authorities to information regarding the amount of funds received into taxpayers' bank accounts.

- We have developed legislative amendments to introduce reporting requirements for digital platform operators and international data exchange in line with EU Council DAC7 Directive/OECD Model reporting rules, which will allow the STS to obtain data from digital platform operators and international authorities about incomes of private individuals who receive incomes without registration of private entrepreneurship or use of the ST system. This will become an effective tool to control the timeliness, accuracy, and completeness of declarations of such incomes, and will contribute to a significant expansion of the tax base due to inclusion of private individuals whose income is currently not taxed. The measure will facilitate revenue mobilization and harmonization of Ukrainian tax legislation with EU legislation and OECD standards and will become a first step to reform the ST system via the introduction of new digital control tools by the STS. We submitted the relevant legislative amendments to Parliament on April 30, 2025 (***Structural Benchmark*****, end-April 2025,** ***met***). We aim for swift adoption by end-2025. To further incentivize compliance, the draft law envisages a 5 percent turnover tax on income received through digital platforms. The law will not introduce new VAT exemptions.

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

24. Robust IT processes are necessary for successful NRS implementation. The MOF, in accordance with the NRS, has developed an updated IT strategy for the Public Finance Management (PFM) System, which was approved by the CMU in May 2025. The core approach outlined in the IT strategy is consolidation of IT-systems of the PFM system entities at the MOF level, ensuring the administration of these IT systems by an independent administrator using cloud technologies. This includes gradual transition to a new level of service-oriented systems, particularly within STS and SCS, to facilitate the availability of state services online. We are committed to implementing the updated IT strategy, in coordination with international partners:

- In May 2025 we created a working group, with representation among others from MOF, STS, and SCS. The working group will develop an operational plan of implementation of the updated IT-strategy for the PFM System, to be adopted by the Committee on IT management for PFM entities by end-September 2025 (***Structural Benchmark*****, end-September 2025**) for the implementation of the updated IT Strategy. This operational plan will specify a time-bound sequence of actions, with clearly defined responsibilities for the relevant units within the MOF, STS, and SCS. It will focus on IT infrastructure modernization and consolidation, including for the STS and SCS.

- 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 stored by STS, we have developed the concept note of using anonymized data on taxpayers by tax authorities (see NRS section 4.2.3), which we plan to operationalize by end-2026, subject to the availability of sufficient financing for this important reform.

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

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

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

- To improve our risk-based approach to tax administration, we have developed methodological documents to operationalize the tax risk management system. We have adopted a compliance improvement plan (Overall Compliance Improvement Plan) as a comprehensive document on the identification, assessment analysis, and mitigation of risks by major types of tax risks. We have launched a two-year pilot (ending in July 2026) of the compliance risk management (CRM) system. Based on lessons learned so far from this pilot, we will prepare and submit to the CMU a report on results of the pilot and necessary proposals for legislative amendments by September-2026.

- 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. Earlier this year, we also implemented IT solutions for SAF-T UA (electronic format of data submission) for large taxpayers.

- We are also working on: (i) restructuring of the STS's organizational structure with the principle of functionally organized tax administration and support modern CRM practices of functional principle; and (ii) improving the efficiency of information exchange with foreign competent authorities.

- We have identified an IT solution to more effectively collect outstanding tax debts which are recoverable and undisputed (or have exhausted the appeals process). We are currently working on implementing this solution, with the aim of having it operational by end-2025.

26. We will proceed promptly with reforms of customs including installing a new permanent head and taking concrete steps to reduce corruption risks and boost capacity to combat fraud. Reforms of the SCS are guided by: (i) the NRS; (ii) the Reform Plan of the State Customs Service of Ukraine for 2024-2030 (Order of the State Customs Service of Ukraine No. 686);

(iii) the long-term National Strategic Plan for Digital Development, Digital Transformation and Digitalization of the State Customs Service of Ukraine and its Territorial Units (Order of the Ministry of Finance of Ukraine No. 63); and (iv) the changes to the Customs Code enacted in 2024 (Law of Ukraine No. 3977−IX).

27. We have appointed a Government Commissioner for Customs Reform who, together with the MOF, will develop a time-bound action plan to ensure the effective implementation of these reforms:

- The draft plan will be submitted to CMU by June 17, 2025 (***Prior Action***). CMU will finalize the plan by mid-July, after consultations with IMF staff.

- To ensure that the SCS has the necessary tools to effectively combat smuggling, the plan will specify investment needs in IT infrastructure, including modern scanning equipment (in line with item 5.2.5 of the NRS). We will prepare relevant public investment projects in line with PIM methodologies and subject to established evaluation procedures. We aim to secure financial support for these projects from our international partners by end-August 2025.

- We also remain committed to implementing the changes to the Customs Code enacted in 2024, including key governance reforms. However, more time is needed to complete the appointment of the new head of customs (***Structural Benchmark*, end-June 2025, proposed reset to end-December 2025**). To meet this timeline, we expect to formally appoint the selection commission no later than end-August 2025. We will also establish Key Performance Indicators (KPIs) for the head of customs (by end-November 2025). These KPIs will balance revenue collection performance with other objectives, such as trade facilitation, good governance, and reform progress. The MoF will continue to oversee the selection, KPI-based performance evaluation, and policy guidance for the SCS head, ensuring transparency and accountability while allowing SCS operational independence. Any vacancies for regional customs heads will be filled as soon as possible.

- We will ensure that the MOF continues to provide effective leadership and oversight of customs-related reforms, and that the MOF approves any proposals before submission to the CMU. This will help to maintain a coherent, fiscally responsible, and well-coordinated reform agenda. We also commit to improving efficiency by gradually and selectively centralizing and standardizing functions such as HR, accounting, and litigation, across Ukraine's customs service to enhance efficiency, productivity, and compliance.

28. Meanwhile, other SCS reforms continue:

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

- 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 93 by May 2025. We will ensure a steady increase in the number of participants in the program while making every effort to maintain its integrity. We have introduced a random check methodology to establish a baseline measure of compliance risk and confirmed the validity of existing risk criteria.

- SCS completed a Customs Integrity Perception Survey in December 2024, which we commit to repeat on a biannual basis and using this information to inform future anti-corruption policy. Moreover, we are working on: (i) reforms of HR and compensation policies; (ii) improving operational management of customs from its headquarters, including the development of centers of excellence for different functional tasks; and (iii) moving the verification/checking of customs documents from border crossings to inland offices.

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

Strengthening the Medium-Term Budget Framework

30. We will continue enhancing expenditure planning and the MTBF, in line with the 2024 action plan to enhance the MTBF. In 2025, our focus is on the practical application of diagnostic review results, improving expenditure baseline estimates, and costing of new policies. This includes agreeing between the Ministry for Social Policy and the MOF on approaches to determine the medium-term indicators of social and pension insurance funds. Building on experiences of practical application and with FAD TA, by end-October 2025 we will identify next steps to further improve expenditure baseline estimates and costing of new policies to ensure their usage by all key spending units. We will ensure that PFM-related reforms, including PIM reforms, will be well aligned with the MTBF (¶39). Through these reforms, we will strengthen our ability to guide fiscal policy, more efficiently allocate scarce public resources, and further align our budgetary framework with EU requirements.

Pensions and Social Spending

31. 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 have submitted to the Parliament:

- amendments to legislation to ensure that Article 61, Part 5 of Law 3354-20 becomes effective immediately.
- new legislation (draft law 12278) prohibiting any changes to the pension system through unrelated legislation (i.e., outside the pension law).

Also, we will focus on the consolidation of pension legislation provisions to replace various sectoral legislative acts that regulate pension rights, and we will take all necessary steps to organize expenditures for payments under retrospective court decisions and pensions recalculated by court decisions.

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

- **Pensions.** In the next few years, and with World Bank support, we plan to work on a comprehensive conceptual framework to improve and simplify the pension system. Also, we will work to introduce unified conditions for assignment of insurance pensions. We are reviewing the possibility of introducing a second pillar of the pension scheme, when conditions are in place. Any proposed legal amendments that would increase pension expenditures need to be accompanied by a medium-term fiscal and debt sustainability analysis, and a clear identification of the necessary resources in the amendments to the Pension Fund of Ukraine budget. We will refrain from: (i) introducing new special pensions or privileges; (ii) passing any new legislation that would give rise to additional pension-related contingent liabilities, which are not provided with financial resources; and (iii) modifications that would lead to a lowering of the legally defined retirement age. In the near term, we will take measures to limit the amount of additional benefits paid to certain categories of pensioners, on top of the contributive part of their pensions. We will also offer a unified approach to the annual increase of all pensions assigned in the pension system, exclusively through the indexation mechanism. Specifically, we will submit draft legislation to Parliament to discontinue the practice of linking annual increases in certain special pensions to increases in salaries. In addition, we will improve the targeting, and prevent the abuse of certain pensions supplements by clarifying eligibility criteria.
- **Disability benefits.** We will introduce new approaches to supporting people with health impairments, including people with disabilities. To ensure comprehensive and better targeted support, we have submitted legislation (draft Law No. 12209) aiming (i) to foster rehabilitation

and inclusion of people with health impairments into the labor market, and (ii) to better protect those unable to work from poverty.

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

Fiscal Transparency and Risks

33. Measures to enhance fiscal transparency and address fiscal risks remain important. Specifically:

- To strengthen the link between the fiscal risks assessment and the predictability of government spending, with FAD TA 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 public investments (including PPPs), guarantees, local governments and SOEs, by end-2026. By integrating these assessments more robustly into the early stages of the budget cycle, fiscal risk analyses can better inform budgetary and fiscal decisions.

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

- We are currently designing a new PPP law. We will ensure that the final version of the law provides for adequate risk sharing between the public and private partners, ensures integration with the public investment framework, and strengthens the gatekeeper role for the MOF. We will consult with international partners before finalizing the law.

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

- We will implement the MOF's SOE financial oversight and fiscal risk management function into the SOE governance framework and align it with secondary legislation. We will gradually enhance the identification, analysis, and reporting of Public Sector Obligations and quasi-fiscal activities.

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

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

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

35. The MOF remains responsible for overseeing the Business Development Fund (BDF). We will continue to adhere to the agreed coordination mechanism between the MOF and MOE. 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 continue to control and monitor spending under the program. The appropriations for the 5-7-9 program in the State Budget will be consistent with the parameters of the program and fiscal constraints. We will also ensure that the 5-7-9 program remains solely within the BDF, preventing its delegation to (or replication by) other entities, unless a government decision, made after prior consultations with IMF staff, allows it.

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-June 2025) and its support programs, with the goal of refining their operational design to effectively serve only those SMEs that face substantial barriers to funding and of informing the future role of the BDF. To strengthen BDF governance and financial self-sustainability, we have enacted legislation to align the asset declaration obligations of the BDF's foreign independent supervisory board members with those of SOBs, increased BDF's fees from 0.15 percent to 0.5 percent, shifted responsibility for paying such fees from the government to banks participating in the 5-7-9 program and established a BDF supervisory board with a majority of independent candidates. In addition, the NBU formally assessed the eligibility of guarantees issued by the BDF as collateral for the prudential reserves calculations and its liquidity coefficients (Annex 6 to NBU Resolution No. 351) in consultation with IFIs. The NBU informed the MOF, the MOE, and the BDF of its position regarding the key prerequisites for including BDF guarantees in eligible collateral. The NBU recommendations focused primarily on the need to reinforce the BDF's legal framework and to ensure greater clarity and robustness in its corporate governance and internal control mechanisms. To implement these changes, the MOF will amend Draft Law #11238 (see also next paragraph below), in consultation with the NBU, MOE, and IFIs.

37. To limit fiscal risks, any government lending facilities or development finance institutions will strictly adhere to international best practices. We will ensure that any legislation conforms to international best practice by establishing: (i) appropriate oversight (including by the competent authorities); (ii) a business model that ensures long-term financial sustainability to mitigate fiscal risks and incorporates sound risk management frameworks; and (iii) corporate governance standards, to provide insulation from political interference. The implementation of any new programs will not affect existing government lending and granting programs along with the coordination mechanism with clearly defined roles for the MOE and the MOF. We will consult with IMF staff and other international partners before launching any such programs. To this end, by end-June 2025, we will conduct an external assessment of the draft law on the National Development Institution (NDI) and related legislation against international best practice and in consultation with IFIs while laying out the fiscal implications and risks and providing recommendations that should be implemented before the SME development finance institute is created. The NDI draft law will be renamed as the draft law on the Business Development Fund and will focus on: (i) enhancing the BDF's SME mandate, governance and controls; (ii) empowering the BDF to build capacity in line with international best practices and with the aim of reaching compliance with the EC's pillar assessment requirements; (iii) ensuring the BDF's financial sustainability through pricing of the BDF's services to reflect the risks; and (iv) further strengthening institutional capacity.

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 has supported the restoration of destroyed and damaged property totaling UAH 17 billion in 2024. In 2025, the Fund will continue to serve its purpose as stated in the Article 43 of the State Budget Law and we will keep control over commitments and appropriations with the MoF as prescribed by the budgetary legislation.

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

Strengthening Public Investment Management

39. We are implementing the Action Plan for the Implementation of the PIM Roadmap for 2024–2028. We are enhancing the PIM framework through enhancing (i) strategic planning in accordance with the Concept of the National Strategic Planning System, which we will adopt in June 2025; (ii) integration of public investment into the MTBF; (iii) procedures for preparing, appraising, selecting, and implementing projects; (iv) institutional capacity; and (v) the monitoring and evaluation of implementation. Our PIM reforms, with a key role for the annual SPP process, will follow the principles of budget unity, coherence, and predictability and strengthen coordination between the MOF, MOE, Ministry of Infrastructure, and other line ministries who remain responsible for project execution. The detailed Action Plan designates the MOF as a gatekeeper in all stages of public investment management. The first stage of the Action Plan, covering 2024–2025, is now being executed:

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

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

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

- By end-August 2025, the SIC will approve the annual update of the SPP **(*proposed structural benchmark*, end-August 2025)**. Only projects from the SPP will be eligible for financing from the 2026 Budget as approved by the decision of the Inter-Agency Commission for Allocation of Public Investment.

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

- By end-2025, we will enact legal amendments to improve the integration of PIM into medium-term budget planning and fiscal risk management, covering: (i) use and recording of multiannual budget commitments and contingent liabilities for public investment projects; (ii) determination of contingent liabilities that may arise from PPPs; (iii) management and disclosure of fiscal risks related to public investments; and (iv) public investment budgeting at the local level. We will prepare the legal amendments and necessary implementation plans by end-September 2025 and will request FAD TA if necessary.

- In parallel, we will finalize the required IT infrastructure (by end-2025), introducing necessary transformations to existing IT systems, in particular DREAM, to ensure full compliance with PIM methodologies and eliminate any conflict of interest in administration. We will take steps to increase the institutional capacity of agencies participating in the PIM process at the national and local level.

E. External Debt Strategy

40. Our efforts to restore debt sustainability on a forward-looking basis remain guided by the strategy announced in March 2023. The August 2024 Eurobond exchange was a major step forward in the process. However, a treatment of the remaining external commercial claims in the restructuring perimeter remains necessary to help close financing gaps during the program period, reduce gross financing needs to manageable levels, including after the program, and to place public debt on a sustainable path. Our goal remains to restore public debt sustainability and ensure that our program is fully financed, including in a downside scenario. Additionally, our strategy is designed to help create the necessary conditions for private sector participation in the post-war reconstruction of Ukraine and takes into account the importance of preserving financial stability.

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

- *Commercial claims other than Eurobonds*: We reached agreement-in-principle with a group of investors holding 45 percent of Ukrenergo's government-guaranteed bonds in the restructuring perimeter. We are aiming for implementation of this agreement over the summer. As regards the GDP warrants, although a restricted session ended in end-April without an agreement, we continue to engage with warrant holders in hopes of promptly reaching an agreement. We continue to reach out to a commercial creditor on external commercial loans that was a part of the restructuring perimeter approved in March 2023. To support our efforts, a moratorium on government payments on all these instruments was introduced in August 2024 and remains in effect. We are committed to prompt implementation of the strategy in line with the debt sustainability objectives of the program. We continue to be aided by our external financial advisors and remain committed to a credible process for restructuring these claims in line with the overall strategy under the program, including with transparency for information and communication.

- *Official bilateral debt.* Creditors in the Group of Creditors of Ukraine (GCU) remain committed to a two-step process involving an extension of the debt standstill, accompanied by a separate assurance to deliver a final debt treatment sufficient to restore debt sustainability before the final review of the IMF-supported program. The first stage—an extension of the standstill until

2027—was formally concluded in December 2023. We remain in close contact with the GCU regarding the restructuring of external commercial debt to ensure their comfort with the overall strategy as developments unfold. Going forward, we will seek treatments on comparable terms with other official creditors, including guaranteed loans, and the definitive restructuring of these claims.

42. 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.

43. 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

44. 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 for Easing FX Restrictions, Transitioning to Greater Flexibility of the Exchange Rate, and Returning to Inflation Targeting and our Monetary Policy Guidelines for the medium term (MPG), and in close collaboration with the IMF, we continue adapting our monetary and exchange rate policies in view of evolving macroeconomic conditions and outlook, including cautiously continuing with FX liberalization, while ensuring external viability is restored, a key objective of our program.

Monetary Policy

45. We will maintain a sufficiently tight monetary policy stance to combat inflation, anchor expectations, and support macroeconomic stability, guided by our MPG. Following cumulative rate hikes of 250 bps since December 2024, we decided to keep the key policy rate unchanged at 15.5 percent, recognizing early signs of easing price pressures and the need to maintain monetary policy prudence amid ongoing uncertainty. We plan to move to an easing cycle only once incoming data provide clear and consistent evidence that inflation has peaked and remains on the path toward our target of 5 percent. Our stance is aimed at anchoring inflation expectations and preserving the attractiveness of hryvnia instruments, thereby limiting inflationary and FX pressures. In the next few months, inflationary pressures driven by food and energy constraints as well as wage growth are projected to abate, thanks to a stabilized energy situation and a larger harvest than in 2024, together with our tight monetary policy stance. Looking ahead, we will conduct monetary policy with a view toward returning inflation to its target within our policy horizon of up to three years. The NBU stands ready to adjust its monetary policy if the balance of risks to inflation and the economic outlook changes significantly over the forecast horizon, with a focus on a consistent policy mix aligned with our guidelines:

- *Operational design*. We will ensure the operational design of our monetary policy—including elements related to the parameters of 3-month CD placements, and the share of reserve requirements that can be met with eligible domestic bonds—is aligned with our monetary policy stance, guided by thorough analysis of the passthrough from the KPR to bank interest rates and overall financial conditions. Over time, consistent with the evolution of liquidity conditions, we may consider the introduction of additional instruments to achieve, among other objectives, an increase in the average maturity of our sterilization operations, while considering the implications for the primary government bond market.

- *Flexible inflation targeting*. We will achieve our monetary policy objectives through the flexible inflation targeting regime defined by our MPG. To safeguard macroeconomic and financial stability, we have adopted an interim flexible inflation targeting regime with managed flexibility of the exchange rate to facilitate the adjustment of the Ukrainian economy to shocks while maintaining control over expectations. In this context, we are continuing our efforts to strengthen the effectiveness of the KPR towards its role as our main policy instrument to achieve the inflation target. Meanwhile, the main role of FXI remains covering the structural FX deficit of the private sector and avoiding excessive volatility in the FX market, while ensuring its stable functioning. Avoiding excessive exchange rate volatility under the managed flexibility framework can further help keep inflation and exchange rate expectations anchored, thereby preserving confidence in the hryvnia while allowing the exchange rate to serve as a shock absorber, thus supporting our eventual return to full-fledged inflation targeting.

Exchange Rate Policies

46. 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 NBU continues to address the war-related structural FX deficit of the private sector (while intermediating the structural surplus of FX in the public sector), including to mitigate excessive exchange rate volatility, actions that are aligned with our Strategy and MPG (see ¶45). Through March-April this year, due to seasonal factors, FX supply increased largely owing to the agriculture sector, while the non-defense component of FX demand has stabilized. More generally, while the depth of the FX market has increased with the share of FX interventions declining, the level of FXI remains high given sizeable fiscal spending. We also continue to facilitate the functioning of the FX cash market to ensure a low and stable spread, in line with our Strategy. The spread between the cash FX selling rate and the official exchange rates has narrowed for most of the current year. In April, amid a seasonal improvement in the cash market conditions, it turned negative, while hovering around zero during the first half of May. As outlined in our Strategy, and based on the assessment of a set of predefined macroeconomic preconditions outlined therein, we will continue to allow sufficient exchange rate flexibility to enable it to serve as a shock absorber, while also preventing the accumulation of external imbalances, and thereby safeguarding valuable reserve buffers. Allowing the exchange rate to adjust to domestic and external shocks and ensuring a two-way fluctuation in response to changes in the balance of supply and demand will enhance the resilience of the FX market and the Ukrainian economy. We continue to monitor the FX market closely and to calibrate our FX intervention policy in order to achieve the program's objective of external stability, including consistency with the program's NIR targets.

47. We are committed to maintaining adequate FX reserves throughout the program to safeguard external stability. Despite elevated net demand for FX in the first two months of the year that reflected government spending, we met the end-March 2025 Quantitative Performance Criterion on net international reserves thanks to prudent FX interventions. As reflected in our request to tighten the end-September 2025 NIR target (***quantitative performance criterion***), we remain committed to ensuring adequate reserves amid elevated near-term risks and achieving the established NIR floors.

48. We continue to carefully adjust FX controls to support the economic recovery, while maintaining FX market stability and accommodating national and international security considerations. In line with our Strategy, the liberalization of FX controls continues to be guided by careful assessments of macroeconomic conditions and the outlook, ensuring consistency with the overall policy mix to enhance the investment environment, facilitate debt management, and attract capital inflows. Most recently, we have introduced easing measures to increase financing limits for foreign branches and enhanced cross-border transfer capabilities, while introducing measures to limit unproductive outflows, including enhanced currency supervision and tightened regulations on settlements for imports. To ensure compliance with current controls and limit unproductive capital outflows, we will continue to closely monitor FX market conditions and related flows, including through: (i) bank-level data analysis to identify and address potential circumvention of controls; (ii) careful assessment by the Government and NBU, on a needs-basis, of existing and potential new cases for exceptions and extensions to import and export settlement deadlines; and (iii) alignment by the NSSMC of OTC operations for FX government bonds with those applied to bank operations by May 2025, and close monitoring of securities account operations in order to prevent capital outflows (see ¶60). We continue to remain vigilant, aligning with the FX liberalization roadmap under our Strategy to safeguard macroeconomic stability.

NBU Independence and Governance

49. We remain committed to avoiding monetary financing. In the event of unexpected critical needs or delayed external disbursements, we will first explore additional measures, such as excess government deposits or accessing the debt market. Monetary financing will be a last resort, strictly limited, and governed by the framework agreed between the MOF and NBU in consultation with the IMF, and for which an NBU resolution was adopted in September 2024. We will also avoid indirect forms of monetary financing, including directed liquidity provision to banks for the purchase of government securities on the primary market. Direct financing of off-budget programs by the NBU will be avoided altogether.

50. A strong and independent NBU remains critical to achieving macroeconomic stability and will support the eventual transition back to a full-fledged inflation targeting framework with a floating exchange rate. We will adhere to the following principles, including in line with the 2023 Safeguards Assessment:

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

- *Implement Safeguards Assessment recommendations.* We are taking steps to enhance the NBU's financial autonomy, in particular its secured creditor status under bank resolution, and improve the Audit Committee. We will continue working with IMF staff to develop and adopt amendments to the NBU law to strengthen collective fitness of the NBU Council. We will ensure that vacant positions in the NBU Council are filled by end-July 2025 to support its operational effectiveness.

- *Unwinding unconventional wartime measures undertaken to support price and external stability.* Urgent wartime challenges required nonstandard measures by the NBU to support macroeconomic stability. We will strive to ensure such measures are well-targeted, clearly communicated and time bound. For example, as liquidity conditions evolve, we will adjust our monetary policy framework to better align with economic conditions, including assessing a return to a corridor system. When conditions permit, we are committed to phasing out war-time measures to strengthen our monetary policy toolkit, uphold NBU credibility and independence, and thereby support our transition to a full-fledged inflation targeting framework with a floating exchange rate. In addition, consistent with our FX liberalization roadmap under the NBU's Strategy, and as conditions permit in the post-Martial Law period, we will gradually phase out FX controls implemented under Resolution No. 18. This approach will continue to support the recovery while safeguarding external stability. Accordingly, any necessary legal amendments will be developed for submission for Parliament with an expectation of adoption by year-end, including as related to the Currency Law and the NBU Law.

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

G. Financial Sector

52. Our wide-ranging emergency measures have preserved financial stability. We continue to closely monitor developments in the financial sector and will adjust policies as necessary. Despite the impact of the war, the majority of bank branches remain operational, online banking services are fully available to all clients with internet connectivity, the non-cash payment system is functioning normally, and liquidity is robust for most banks. To ensure the continuity of the banking network, we introduced "Power Banking" in late 2022. The network currently includes over 2,400 branches or about 55 percent of the total, which are capable of providing banking services even during prolonged power outages. The licenses of eight small banks (around 4 percent of system net assets) have been revoked under Martial Law and one bank (also around 4 percent of system net assets) has been nationalized. Additionally, in May, we updated the Financial Sector Development Strategy and the Lending Development Strategy, which will serve to enhance European integration efforts and lay the groundwork for post-war recovery by developing financial and capital market infrastructure, and expanding financial inclusion.

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

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

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

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

54. We will take all 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.

55. We are preparing legislative changes to close key gaps in early intervention, temporary administration, and resolution of insolvent banks, as set out in the NBU-DGF roadmap, as well as necessary ongoing changes to improve existing liquidation procedures. The draft law is expected to be adopted by end-December 2025. We are implementing the action plan approved by the recently revived NBU-DGF coordination committee and we have reviewed the adequacy of DGF financial backstops. We will continue to maintain emergency financial backstops at least until the target ratio has been reached. In addition, the NBU has aligned its frameworks for counterparty eligibility in monetary policy operations with international best practice and their coordination with lender-of-last-resort operations.

56. 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 essential. A working group established by the Financial Stability Council is reviewing DGF governance arrangements, including the composition of the Administrative Board as well as DGF accountability, functioning of decision-making structures, internal controls, and the procedures for the appointment of the Managing Director. The working group will prepare legislative proposals to close gaps relative to good practice by end-September 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.

57. 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 (SOBs) and financial institutions in our Financial Sector Strategy. In the immediate future, the key steps are as follows:

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

- We will continue to undertake analysis of the state of the banking system and wartime developments and needs. Informed by the NBU resilience assessment, we developed capital management plans and adjusted the business plans of SOBs needing capital increases to meet the requirements. The MoF in its capacity as SOB shareholder has instructed SOBs to maintain best practice risk appetite frameworks, and the NBU will assess the frameworks as a thematic review as part of the 2025 annual Supervisory Review and Evaluation Process. Once the independent AQR is concluded, we will use its results to update the general SOB strategy and subsequently, strategies for individual banks with majority public ownership, including with respect to privatization (in line with our Financial Sector Strategy).

- In preparation for the privatization of banks with majority public ownership, Parliament approved a law on SOB privatization in October 2024. We are also preparing two systemic SOBs for sale, Sense Bank and Ukrgasbank. We plan to appoint an internationally recognized financial advisor at the appropriate time using a transparent procedure and in consultation with IFIs. The privatization of SOBs is excluded from the general privatization law. Given uncertainties with the timing of sale processes, we will ensure SOB supervisory boards remain fully operational, including for Sense Bank.

- The Ministry of Economy in consultation with the MOF, NBU, and IFIs will implement changes to the mortgage finance "eOselia" program implemented by the Ukrainian Financial Housing Company (UFHC) that balances the need to provide affordable housing at scale, encourage new construction, and minimize the use of fiscal and government debt resources. The UFHC strategic plan will be approved by the company's Supervisory Board by end-June 2025. We will not allocate any further budget resources to the UFHC in 2025 until the strategy is complete.

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

- *Financial reporting*. We have restored the requirements for mandatory quality control of services provided by audit companies that apply to non-bank financial companies. The NSSMC will continue to provide access to financial reporting files submitted to the Financial Reporting Collection Center, and will define the main tasks for expanding the functional capabilities of the Financial Reporting Collection Center in consultation with key stakeholders by end-December 2025. Key tasks include identifying appropriate budgets to integrate the Financial Reporting Collection Center software systems with state users' information systems.

- *Bank capital rules.* The NBU has aligned banks' regulatory capital structure and leverage ratio calculations with EU rules and will implement capital requirements in 2025. With support of the World Bank, we have closed key gaps in minimum capital requirements relative to EU standards. In addition, we have updated the requirements for credit risk weighting exposure and introduced provisions for calculating settlement risk. The implementation of the new requirements will be phased to facilitate banks integrating them into their business plans. To align with the EU Directive, in [February 2025] we submitted legislative amendments to increase banks' minimum share capital to the equivalent of EUR 5 million, which includes a six-month transition period for existing banks. The NBU will continue monitoring economic conditions and relax controls and reinstate pre-war regulations when it is safe to do so and based on banks' adherence to the new capital requirements aligned with EU standards, the results of resilience assessments, and considering the banking system's role of lending to the economy and its involvement in the domestic debt market.

- *Removing regulatory arbitrage in supervisory enforcement measures.* The NBU will prepare and we will submit to Parliament amendments to Article 73 of the Law of Ukraine On Banks and Banking to set the upper limit of fines based on a bank's regulatory capital rather than its registered authorized capital by end-September 2025.

- *Immovable property databases and indices*. The Ministry of Justice and NBU have improved mechanisms for real estate transactions information collection and exchange. Processing of price data will be administered by SPFU as part of the Unified Database, which contains data on taxable transactions involving real estate owned by individuals. We will make legislative changes to expand the Unified Database to include real estate transactions that are not subject to taxation by end-December 2025. In parallel, we will prepare a residential real estate price indices methodology by end-December 2025 in consultation with IFIs to facilitate eventual publication of regular residential real estate price indices in consultation with IFIs and with IMF technical assistance.

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

- *Non-performing exposures*. We have aligned the definition of non-performing exposures with EU Acquis and we will take further steps to strengthen banks' NPL workout capacity and to promote the secondary market for NPLs, in line with the NPL strategy approved by the Financial Stability Council.

- *NBU's status as a secured creditor*. We will strengthen the NBU's status as a secured creditor in line with the IMF's Safeguards Assessment. Parliament is expected to adopt by end-August 2025, legislative amendments that reflect the NBU and the DGF's coordinated position and that aim at strengthening the NBU's status as a secured creditor of banks by improving the mechanisms for extraordinary satisfaction of the NBU's claims through collateral, management, and sale of collateral.

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

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

- *Transition to risk-based supervision*. The NBU has implemented a risk assessment methodology to inform supervisory engagement priorities. We will refine the supervisory methodology and expand the supervisory plan to include all material bank risks and develop methodologies for increased capital adequacy and liquidity requirements based on supervisory risk assessments by end-December 2025. We are also adjusting the organizational structure for bank supervision to leverage efficiencies as we implement a risk-based approach; continue to develop expertise for effective supervision, in particular, for supervision of information and communications technology risks as part of operational risk; and further improve the professional capacity of bank supervision, which will include the development of professional profiles needed and a multi-year training program for new hires.

- *AML and Banking Supervision*. The NBU will continue strengthening risk-based AML/CFT supervision of banks, payment service providers and non-bank financial institutions (NBFIs), particularly in relation to corruption, financial crimes and other illegal activities. By end-June 2025, we will amend Article 32 of the AML/CFT law and corresponding amendments to Article 73 of the Banking Law to ensure that the penalties for AML/CFT violations by entities regulated and supervised by the NBU are effective, dissuasive, and proportionate, in line with the FATF standards. Draft law #13233 was approved by the government and has been submitted to the Parliamentary Committee on Finance, Taxation and Customs Policy for consideration. The financial sanctions applied to such entities will be established by the laws of Ukraine and the regulatory legal acts of the NBU. In this regard, we are committed to invest in building the capacity of new and existing NBU staff to improve organizational performance, remain flexible and respond rapidly to changes and challenges in the AML/CFT framework.

- *Supervision of banking hybrid business models*. We recognize the growing importance of banks' hybrid business models, including Banking-as-a-Service, a model in which banks integrate their digital banking services with non-bank businesses. The NBU will take steps to mitigate growing critical third-party risk in banks, non-bank financial institutions, and payments service providers **(*Structural Benchmark*, end-September 2025 proposed to be reset to end-June 2026)**. The steps include: (i) preparing a concept note on oversight of critical third-party risk, including for the purpose of digital operational resilience, which was completed in May 2025; (ii) enhancing regulatory requirements to address third-party risk for banks and non-banks by end-March 2026; (iii) implement the requirements by end-June 2026; and (iv) if needed, we will develop and submit a draft law to Parliament. Any such legislation will be prepared in consultation with IFIs and will include measures for detection, containment, and mitigation of critical third-party risk under both going- and gone-concern conditions. Entities identified as critical third parties will be subject to NBU's fit and proper rules.

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

60. We will strengthen the legal, regulatory, and supervisory framework for NBFIs and financial markets.

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

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

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

- *Payments market*. To prioritize supervisory activities of payment service providers in consultation with IFIs, we will: (i) further develop the early warning system and transition to risk-based supervision in the payment market by end-December 2025; (ii) will develop the reporting system; and (iii) strengthen supervision capacity through hiring specialists and building analytical capacity. The NBU will issue market guidance by end-[June] 2025 on measures to strengthen the risk-based payments monitoring by banks and non-bank payment service providers and we will continue to introduce regulation, including in the self-governed market, to restrict abnormal behavior. To minimize illegal use of the payment infrastructure, the NBU will prepare by end-June 2025 a legislative proposal to: (i) extend the supervisor's authority to limit operations of payment service providers non-compliant with regulatory requirements; (ii) establish a public register to be used by banks when establishing business relations and servicing customers; and

(iii) align services with EU norms. Additionally, we will prepare by end-December 2025 a legislative proposal to: (i) align payment acquiring services (to enable a merchant to receive and process electronic payments from a customer) with EU norms; (ii) extend the NBU's supervisory and regulatory powers to technology operators on the payments market; and (iii) clearly delineate financial and payment licenses, while transition options will be given to market players; and (iv) establish clear ownership structure requirements for payment service providers to enhance transparency and integrity in the market.

- *Capital market regulation and harmonization with IOSCO principles*. Following the enactment of Law 3585-IX in March 2024 on the improvement of state regulation of capital and commodity markets, we are moving swiftly to align with IOSCO principles by conducting the screening process to become a signatory of IOSCO's multilateral MoU by end-June 2025 with full implementation of the other provisions of the law by end-December 2025. To prepare for implementation and to front-load critical reforms, the NSSMC have: (i) proposed a reorganizational and operational strategy in consultation with IFIs; (ii) updated the Commission's Employees Code of Ethics in line with international best practice in consultation with IFIs; (iii) initiated an advance independent fit and proper review of NSSMC Chair and Commissioners in accordance with Article 12 of the above law and disclosures made in line with the Code of Ethics and in consultation with IFIs; and (iv) strengthened the effectiveness of capital flow measures, including through regulatory harmonization and aligning capital flow restrictions for securities operations with those applied to bank operations **(*Structural Benchmark*, end-January 2025, not met)**. We were able to deliver all items except (iii), although we remain committed to fulfilling this task in order to underpin its institutional foundation and effectiveness, the NSSMC will complete the independent fit and proper review **(*Structural Benchmark*, end-June 2025 proposed to be reset to end-August 2025)**. To strengthen capital flow restrictions, we will require that OTC FX bond operations carried out by non-banks are settled through the Settlement Center by mid-June 2025.

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

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

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

61. We continue monitoring and adjusting to financial and credit market challenges under Martial Law:

- *Debt market infrastructure.* The NBU and the NSSMC have implemented the necessary mechanisms for foreign investors to directly access marketable debt instruments (municipal bonds and other Ukraine reconstruction-related debt instruments). The NSSMC, National Depositary (NDU), and NBU will target establishment of a direct link between the Central Securities Depository (CSD) and foreign CSDs by end-July 2025 to expand foreign investors' access to a broader range of instruments and markets. The NBU has prepared a targeted model of capital market infrastructure in consultation with IFIs. The NBU in consultation with the NSSMC, Ministry of Finance, and IFIs, will develop an action plan for the practical implementation of the targeted model of capital market infrastructure by end-June 2025.

- *National Depository of Ukraine (NDU)*. We will optimize the NDU ownership structure to create the necessary preconditions to attract international investors, which is a key element of our targeted model of capital market infrastructure. We will develop a roadmap to facilitate the transfer of the state's share in the NDU's authorized capital to the management of the NBU to be approved by the Financial Stability Council (FSC) by end-July 2025.

- *Stock exchange risks.* Following undercapitalization of the largest stock exchange, which threatened the smooth functioning of the secondary government bond market, the NBU and NSSMC have coordinated to facilitate launching by Settlement Center, an NBU majority owned central counterparty, contract making and clearing services for over-the-counter transactions in government bonds.

- *War risk insurance system*. To preserve interests of households and businesses, and to facilitate compensation for damages caused by war risks materializing in Ukraine, a working group of the FSC prepared and submitted a draft law (#12372) to Parliament in December 2024 following public consultation. We will work closely with the respective committee in the Parliament to facilitate its adoption by end-[December] 2025.

- *Financial inclusion.* The war is jeopardizing access to financial services for households and enterprises in areas close to the armed conflict zone, in the liberated territories, as well as for certain groups of the population. The war is also restricting IFIs' ability to comprehensively assess financial inclusion developments and priorities. We have collated fresh data with the assistance of the World Bank using a best-efforts approach and will update our financial inclusion strategy in consultation with IFIs by end-July 2025. We will encourage financial institutions to do more to meet the needs of vulnerable clients and to reintegrate de-occupied territories. Draft law #13018-D for a such restricted banking license is due to be adopted by end-June 2025 and aims to quickly tackle growing financial inclusion challenges by leveraging on existing infrastructure. These specialized banks will: (i) be subject to the full extent of the Law of Ukraine on Banks and Banking; (ii) participate in the Ukraine deposit insurance scheme; (iii) have limits imposed on lending and funding operations. The proposal has been prepared in consultation with key stakeholders and IFIs, and with due regard to international good practice.

- *Lending development strategy*. The Financial Stability Council approved a strategy in July 2024 to support bank lending that focuses on targeting subsidized lending instruments to priority sectors during the war and further developing credit infrastructure to support banks' risk management and lending decisions. The NBU will coordinate with other stakeholder authorities and will prepare detailed action plans by end-May 2025 to implement the steps outlined in the Strategy's second (implementation) phase, including for exchange of information, protection of creditors' rights, and tackling NPLs. The NBU has prepared a concept note for the development of the mortgage lending market, which will be approved by the Financial Stability Council by end-June 2025 following consultation with IFIs.

- *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 2025. We will also enhance the supervision of credit bureaus by establishing requirements for ownership and internal controls within six months of the law being adopted by the Parliament and signed by the President.

- *Monetary derivative instruments*. To hedge foreign exchange and interest rate risks and improve monetary transmission, the NBU in consultation with IFIs, including via technical assistance, have prepared a concept note that sets out the steps, conditions and timing needed to introduce and develop the foreign exchange derivative financial instruments (including forwards) market. Relatedly, in May, the NBU has enabled FX forward transactions between banks and allowed FX sales from customers with delivery, while clarifying relevant provisions of Resolution No. 18.

62. We will reform financial market infrastructure with the aim of maximizing opportunities to attract private investment for reconstruction and recovery. Current gaps in market standards and infrastructure limit the prospects for attracting private capital, which needs to play a critical and large-scale role in Ukraine's reconstruction strategy. We have formed an interagency working group under the Financial Stability Council (FSC) that includes all policy stakeholders. Specifically:

- The NBU, NSSMC, and MOF, in consultation with IFIs, will finalize a concept note by end-[June] 2025 that sets out the steps to identify, prioritize, and implement the reform agenda. The note will consider coordination arrangements to subsequently diagnose and close key market infrastructure gaps while strengthening market accountability and oversight. We will subsequently update our Financial Sector Strategy, as appropriate. The FSC working group will include regular consultation with IFIs and monetary financial institutions, and will be supported by a project management office established with IFI assistance and staffed with specialists to assist working group task forces with (a) identification of detailed deliverables and timelines, (b) interagency coordination and communication, (c) market research and outreach, and (d) to monitor deliverables to ensure they are completed on time, within budget, and to the expected standard.

- The NBU and NSSMC will prepare a prioritized roadmap for financial market infrastructure reforms in consultation with IFIs and other stakeholders that is aimed at maximizing the opportunity to attract private capital (**proposed Structural Benchmark, end-October 2025**). The roadmap will include detailed activities to (i) further coordinate and develop public, private, and public-private deal pipelines; (ii) engage with industry on market instrument reforms; (iii) prioritize new market instruments, including securitizations, covered bonds, loan syndications, loan sub-participations; and (iv) reform existing investment frameworks (including JIIs) and lending instruments (such as factoring and leasing).

- We will prepare for submission to Parliament, legislative proposals to align the securitizations and covered bonds frameworks with international standards and good practice in consultation with IFIs and industry **(proposed Structural Benchmark, end-March 2026)**.

63. In parallel to the steps in the previous paragraph, we will:

- *Prepare a roadmap by end-July 2025 to close gaps in the Joint Investment Institutions (JII) framework* relative to international good practice and in consultation with IFIs. This includes strengthening regulation and monitoring, while fully considering the fiscal implications of associated tax expenditures.

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

- *We will implement European (TEGOVA) and international valuation standards (IVS)* **(proposed Structural Benchmark, end-December 2025)**. This will enhance confidence in valuations of real estate and bank collateral for all economic entities and public authorities and facilitate cross-border transactions. Specifically, we will close the gaps with TEGOVA and IVS in consultation with IFIs by: (i) submitting to Parliament by end-August 2025 amendments to the law "On Valuation of Property, Property Rights and Professional Valuation Activities in Ukraine"; (ii) adopting the law by end-December 2025; and (iii) proposing an implementation roadmap that includes transitional arrangements, details of supportive regulation and/or guidance, steps to strengthen the valuers' profession including additional training requirements for valuation of financial assets (banking assets, insurance assets and collateral), and the creation of a register of valuations for financial assets.

64. 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

65. 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. Following the December 2024 enactment of the reform law on the Accounting Chamber of Ukraine (ACU), the selection process for the six vacancies for the ACU members has been initiated, specifically the identification of independent experts for the Advisory Group of Experts. We expect to form the Advisory Group of Experts by end-June and complete the selection process and appointing all members of the ACU by end-March 2026.

Anti-Corruption and Rule of Law

66. 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.

67. 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-July 2025**). Moreover, we will provide full legal certainty in terms of legal regulation and determination of the timelines of pre-trial investigation after notice of suspicion has been filed.

- As a major milestone for our anti-corruption architecture, we published in May the first inaugural external audit of the NABU's effectiveness, which was conducted by three independent experts with international experience (***Structural Benchmark*, end-July 2025, met**). The report highlighted that the NABU has been moderately effective, and included key recommendations to strengthen its effectiveness. The NABU is preparing an action plan for timely implementation of the priority recommendations as part of a broader NABU strategy for 2025-30.

- Consistent with our broader reform plans for the forensic expert system for criminal law enforcement, we will ensure that the NABU by end-February 2026 has access to independent and competent forensic experts, to enable it to effectively conduct its investigative mandate, including investigating complex corruption schemes. In this regard, the Ministry of Justice will conduct consultations primarily with NABU and ESBU, on establishing a dedicated and independent forensic expert institution for their cases, which will have an independent oversight board, strong selection process for core senior staff, and robust safeguards for protecting confidential information.

- To effectively implement the law empowering the NABU to intercept communications (wiretapping) and based on the memorandum of understanding with law enforcement agencies, the NABU is undertaking preparations for the implementation plan in the post-Martial Law period by securing resources, equipment and technological solutions to independently intercept communications of landlines and mobile devices. NABU is finalizing the process of tendering for the specified equipment.

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

- Since the restoration of public access to asset declarations in January 2024, the National Agency for Corruption Prevention (NACP) has been monitoring them. A robust risk-based verification system is critical to mitigating corruption in higher risks areas such as procurement and customs. In this regard, the NACP will continue to enhance its capacities to conduct risk-based verification of asset declaration focusing on public officials under the NABU's jurisdiction in higher risk areas, including in reconstruction and recovery. It will maximize lifestyle monitoring investigations, technologies (including increasing data warehousing capacities), and information requests to other agencies and foreign counterparts. To this end and with IMF technical assistance support, the NACP will publish further guidance and general rules for risk-based, prioritized and comprehensive verification of asset declarations and on lifestyle monitoring activities with a focus on higher risk individuals by end-September 2025.

- Members of the Public Council of International Experts (PCIE) have been appointed, who will vet candidates for the 24 vacancies to the High Anti-Corruption Court (HACC) both at the first instance (15 vacancies) and appellate (9 vacancies) levels. We will ensure an open and competitive selection for these vacancies within the 18-month extension of the PCIE's mandate, and adequately provision for their staffing and office needs to be able to conduct the HACC operations effectively. In this regard, in May 2025 the High Council of Justice voted in favor of two candidates for appointment to the HACC. Moreover, the legislature adopted in the same month a law to streamline the selection process that would facilitate new appointments of HACC judges.

- In December 2024, the ACU published its audit report of the HACC, and made the following recommendations: (i) provide HACC with appropriate premises; (ii) develop indicators of the average duration of cases for anti-corruption categories; and (iii) improve internal control systems. We will identify appropriate premises for the HACC (including for the new anti-corruption judges) by end-October 2025, and refurbish them.

68. We are committed to advancing the rule of law and judicial reforms. In March 2025, a law was enacted for the Specialized Administrative Courts (SAC) (with first instance and appellate levels) that will hear administrative cases against national state agencies by judges who have been properly vetted for professional competence and integrity with decisive and crucial vote of independent experts. The President submitted a law to Parliament in May, after consulting with the High Council of Justice, to formally create the SAC. We are proceeding with the appointment of members of the Expert Council and are aiming to appoint the minimum number of judges within the timelines provided for in the law.

AML/CFT

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

70. We will also improve the effectiveness of the ultimate beneficial ownership (UBO) regime to enhance transparency in public procurement, detect conflicts of interest through transparent ownership structures, and prevent the misuse of companies. We are committed to two actions by September 2025: First, the CMU will adopt changes to the Martial Law procurement decree No.1178, which will require the publication of UBO information for companies that have received direct contracts or contracts concluded under a negotiated procedure for public procurement. Second, whereas currently, only successful resident bidders are subject to the publication of UBO information, UBO information will be also published for successful non-resident bidders. Respective changes will also be reflected in the draft Law "On Public Procurement" (No.11520) before the Second Reading. Furthermore, we will have enhanced the sanctioning regime by revising the legal framework, in consultation with the IMF, to ensure effective, proportionate, and dissuasive action against non-compliance with beneficial ownership requirements.

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

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 have updated the framework for setting and paying remuneration to Senior Management of all SOBs based on the principles that remuneration is internationally competitive, consistent, and proportionate to their functions, duties, responsibilities, and considers the part-time nature of their roles and Martial Law restrictions. We will also implement a procedure for conducting performance assessments for all SOBs in 2025. The first such performance assessment will be conducted by the MOF for each of the banks in end-November 2025. In February 2026, 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 update the SOB Nomination Committee (NomCom) rules in consultation with IFIs and ensure all SOB independent supervisory board vacancies are filled. We updated the independent supervisory board selection process in April 2025 to enable applicants to one SOB to be considered for possible vacancies in other SOBs in order to address any attrition in their supervisory boards. We will also review and update the SOB NomCom processes as necessary based on lessons learned from past NomComs in consultation with IFIs by end-September 2025.

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

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

- We produced a comprehensive SOP, State Dividend Policy and privatization strategy in October 2024, and we will implement the SOP during 2025-26 as per the SOP Action Plan: implementing the framework for privatizations (full or partial) in the future; preparing a concept for consolidated SOE management (see ¶75); requiring that financial statements are prepared in accordance with IFRS, subject to an appropriate transition period; and implementing SOE information disclosure and SOE remuneration policy (not applicable to SOBs). We will consult with the IMF and international partners on such draft legislation and CMU resolutions. We commit to review and publish the SOP by December 2025. More broadly, we will also assess the financial viability of key SOEs as an input to developing a framework to deal with quasi-fiscal costs, including legacy Public Service Obligations (PSOs) with the help of IMF TA (see ¶32).

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

- We will continue advancing energy corporate governance reforms. In this regard, the Supervisory Boards of GTSO and Ukrenergo plan to promptly select new CEOs under OECD standards, while welcoming the selection of the new Naftogaz CEO. We have launched an independent evaluation of the supervisory boards of GTSO, Naftogaz and Ukrenergo in January 2025 and have finalized the assessments ahead of the May timeline. Moreover, we plan to promptly select the fifth supervisory board member of Energoatom under OECD standards and will expand the Board to seven members, commensurate with the macro-criticality of the SOE and the tasks of the Board.

75. We are exploring options, in close consultation with international partners, to enhance SOE management, including the potential introduction of a centralized SOE management model, consistent with the SOE corporate governance reform agenda in the SOP and international best practices. This will include defining the roles and mandates of key government institutions engaged in SOE management, such as the MOF, MOE, CMU, other relevant line ministries, and the State Property Fund (SPFU). We will ensure a strong gatekeeper role of the MOF for SOE financial oversight, limit quasi-fiscal risks, and help safeguard debt sustainability. Importantly, any new SOE management framework must not dilute the government's authority over dividend policy, ensuring that SOE dividends are directed to the state budget and are transparently reported to ensure accountability and oversight. Any primary legislation to formalize a centralized SOE management model for non-strategic SOEs will be consistent with the principles of the medium-term reforms as envisaged in the NomCom Roadmap (see ¶74) and other key reforms of the SOP, which will have helped to enshrine modern SOE corporate governance practices. Overall, the ultimate goal of centralizing SOE ownership should be to professionalize the state's ownership function, and any centralized management framework should only proceed with caution. It should rest on a clear legal mandate, ensure adequate MOF oversight and fiscal transparency, incorporate robust safeguards against political interference to ensure professional, merit-based leadership, and require rigorous, internationally aligned reporting and accountability.

Energy Sector Reforms

76. Our immediate priority remains to mitigate the adverse impact of the war on the energy sector. Overall**,** after repairing 4GW of energy capacity in 2024, we are on good track to repair another 3GW for 2025. Moreover, over 0.8GW of new power generation was commissioned and connected to the energy grid in 2024, with 0.9GW of distributed gas-fired generation planned in 2025. We remain strongly committed to implementing, once conditions allow, an ambitious reform agenda to address long-standing structural problems in the energy sector that have been exacerbated by Russia's war.

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

- For 2025, we plan significant gas imports following the large-scale attacks on our gas infrastructure. Naftogaz has secured financing for gas imports from the EBRD and bilateral donors, and we are working towards securing additional donor financing. If Naftogaz faces a liquidity shortfall, we will assess the amount of PSO compensation in 2025 based on actual documentary-proven expenditures of Naftogaz verified by the State Audit Service and other stakeholders. The relevant calculations will be finalized by end-August 2025. The potential spending pressure from gas imports and PSO compensation will be accommodated through an adjustor on fiscal balance targets, subject to the above assessment, available financing, and capped at UAH 60 billion (about 0.8 percent of GDP).

77. Potential reform measures, once conditions allow, include additional gradual tariff increases after the war (subject to a new tariff methodology and social considerations), external financing, and transparent and exceptional direct budget support to energy SOEs pending available budgetary resources. Once the war winds down, the energy reform agenda will, inter alia, require restoring and enhancing competition in wholesale and retail gas markets. Ensuring the sustainability of the system and reducing quasi-fiscal liabilities will necessitate a gradual increase in gas and electricity tariffs to cost recovery after the war, while allocating adequate and well-targeted support to protect vulnerable households. Based on a proposal by the Ministry of Energy and input by stakeholders, the CMU will adopt a roadmap for the gradual liberalization of gas and electricity markets within 6 months of the end of Martial Law, with a time-bound implementation plan for the post-Martial Law period. The roadmap will be based on technical analysis of the financial condition of the sector, in coordination with the European Commission. A working group of key government stakeholders, including macro critical SOEs, would be useful to advance any work on the roadmap and coordinate technical analysis. In the coming months, we will adopt a law on market coupling, which will significantly advance the integration of Ukraine's energy market with the EU.

78. Consistent with our commitments to the EU and other international partners, we will ensure the independence of the National Energy and Utilities Regulatory Commission (NEURC). The regulator plays an important role in efforts to integrate the Ukrainian energy market with the EU, to attract needed FDI and advance the decentralization of power generation, and thus help make the energy system more resilient to missile attacks. We commit to develop an accountability framework for NEURC, which enshrines regular external assessments of NEURC's governance and independence frameworks in the law. Such assessments will be requested by NEURC to the Energy Community Secretariat (ECS). The first such external assessment of NEURC will be finalized and published by December-2025 (***Structural Benchmark*, end-October-2025, proposed to be reset to end-December 2025**). The relevant NEURC law, which would include the provisions for the external assessment, will be enacted in a timely manner, taking into consideration the NEURC law recommendations of the ECS. In close consultation with international partners, we will fill the three vacant positions for the NEURC Commissioners on a timely basis and consistent with the legal provisions in the law. Finally, we will ensure that NEURC will have sufficient staff to take on the expanded mandate such as the REMIT implementation in line with EU regulations and supporting the energy decentralization plans of the authorities.

79. We will tackle the arrears and debt of District Heating Companies (DHCs) comprehensively once war-related pressures on the budget subside, by developing a new tariff methodology with cost-reflective tariffs. We completed the review of arrears and debts of DHCs by a reputable audit firm in October 2024, which has helped clarify the stock of arrears and the financial situation of DHCs, including the drivers of the arrears' accumulation.

I. Program Monitoring

80. 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 (SBs) described in this MEFP are summarized in Table 2. The Ninth and Tenth Reviews are expected to take place on or after November 30, 2025 and February 28, 2026 respectively, based on quantitative performance criteria for end-September 2025 and end-December 2025, respectively, and corresponding SBs.

Table 1. Ukraine: Quantitative Performance Criteria and Indicative Targets

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

	Mar 2025					Jun 2025		Sep 2025		Dec 2025		Mar 2026		Jun 2026
	QPC	Adjustor	Adjusted QPC	Actual	Status	EBS/25/18	IT	EBS/25/18	QPC	EBS/25/18	QPC	EBS/25/18	IT	IT
I. Quantitative Performance Criteria 1/ 2/														
Floor on the non-defense cash primary balance of the general government, excluding budget support grants (- implies a deficit) 2/ 3/	254,800	0	254,800	381,442	Met	547,200	547,200	752,400	752,400	822,000	827,000	117,800	153,600	460,500
Floor on tax revenues (excluding Social Security Contributions)	485,000	0	485,000	614,434	Met	1,019,600	1,019,600	1,622,200	1,622,200	2,491,045	2,491,045	599,000	599,000	1,292,800
Ceiling on publicly guaranteed debt 3/	62,860	7,839	70,699	7,839	Met	64,357	64,357	64,357	64,357	64,357	64,357	68,000	68,000	68,000
Floor on net international reserves (in millions of U.S. dollars) 3/	27,200	-4,176	23,024	26,924	Met	27,700	28,450	24,000	26,000	42,000	35,000	37,300	34,300	34,300
II. Indicative Targets 1/ 2/														
Floor on the cash balance of the general government, excluding budget support grants (- implies a deficit) 3/	-410,500	0	-410,500	-239,245	Met	-821,000	-821,000	-1,248,600	-1,275,000	-1,710,400	-1,960,400	-340,000	-340,000	-590,000
Ceiling on general government arrears	1,800	0	1,800	1,421	Met	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800
Floor on social spending	132,000	0	132,000	164,874	Met	271,200	271,200	414,000	414,000	560,900	560,900	160,000	160,000	327,000
Ceiling on general government borrowing from the NBU 4/ 5/	-984	0	-984	-1,029	Met	-4,100	-4,100	-1,500	-1,500	-6,500	-6,500	-2,500	-2,500	-6,264
III. Continuous performance criterion 1/ 2/														
Ceiling on non-accumulation of new external debt payments arrears by the general government	0	0	0	0	Met	0	0	0	0	0	0	0	0	0
IV. Memorandum items														
External project financing (in millions of U.S. dollars)	378	…	…	12	…	1,133	737	2,266	1,875	3,776	3,776	250	250	250
External budget financing (in millions of U.S. dollars) 6/	12,198	…	…	8,381	…	25,011	19,903	34,336	28,773	54,488	49,835	2,923	5,170	9,778
Budget support grants (in millions of U.S. dollars)	429	…	…	0	…	967	431	1,288	431	1,610	1,610	161	161	295
Budget support loans (in millions of U.S. dollars) 6/	11,770	…	…	8,381	…	24,044	19,473	33,047	28,342	52,878	48,225	2,762	5,009	9,483
Interest payments	86,200	…	…	59,305	…	244,600	223,740	366,100	307,450	488,800	438,790	107,773	93,600	250,500
NBU profit transfers to the government	0	…	…	0	…	63,900	84,159	63,900	84,159	63,900	84,159	0	0	151,300
Government bonds for the purposes of bank recapitalization and DGF financing	0	…	…	0	…	0	0	0	0	0	0	0	0	0
Spending from receipts resulting from sales of confiscated Russian assets and transfers of bank accounts	4,000	…	…	0	…	6,000	6,000	8,000	8,000	9,935	13,016	0	0	0
Spending on gas purchases, PSO compensation and transfer to GTSO	0	…	…	0	…	0	0	0	0	0	60,000	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)	-410.5	…	…	-259.8	…	-821.0	-821.0	-1,248.6	-1,275.0	-1,710.4	-1,960.4	-340.0	-340.0	-590.0

Sources: Ukranian authorities and IMF staff estimates and projections.

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

2/ Targets and projections for 2025 and 2026 are cumulative flows from January 1, 2025, and 2026, respectively.

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

4/ From end of previous quarter.

5/ For March 2025 onwards, calculated using actual and projected redemptions of government bonds as of May 28, 2025.

6/ Excludes prospective IMF disbursements under the EFF.

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Table 2. Ukraine: Structural Benchmarks and Prior Action (modified/new SBs in bold text; blue indicates new timing)

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

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

Table 2. Ukraine: Structural Benchmarks and Prior Action (continued)				
	Structural Benchmark	**Sector**	**Timing**	**Status**
22	Develop a concept note on the 5-7-9 program with proposals to target small and medium enterprises by phasing out the eligibility of large companies, enhance monitoring, and maintain adequate safeguards.	Fiscal	End-March 2024	Met
23	Enact amendments to the procedural code to rationalize matters or issues to be heard at the first instance by one anti-corruption judge or by a panel of three anti-corruption judges.	Governance/ Anti-Corruption	End-April 2024	Not Met (implemented with delay)
24	Adopt a new law on the ESBU that has a clear mandate and scope for investigative powers consistent with good practice by focusing on major economic crimes; establishing legal basis for operation of the ESBU in terms of the selection of management and staff. The law will respect the existing delineation between the investigative powers of the ESBU and the National Anti-corruption Bureau of Ukraine (NABU).	Fiscal	End-June 2024	Met
25	Develop a methodology to assess the effectiveness of tax privileges, including their cost to the budget, in order to have a unified reform approach	Fiscal	End-September 2024	Met
26	Identify major public companies severely affected by the war and prepare a review of potential fiscal and quasi-fiscal costs	Fiscal	End-September 2024	Met
27	Adopt amendments to the Customs Code, in line with international best practice.	Fiscal	End-October 2024	Met
28	With the help of IMF TA, produce a diagnostic review of pre-war MTBF policies and practices relative to best practices.	Fiscal	End-October 2024	Met
29	NBU to assess key financial and operational risks to financial stability under various downside scenarios and to prepare contingency plans.	Financial Sector	End-October 2024	Met
30	Analyze the debts and assess financial conditions of District Heating Companies (DHCs) through a desk review by a reputable audit firm, including by separating arrears until and after February 2022.	Energy	End-October 2024	Met
31	Produce a SOE state ownership policy, dividend policy and privatization strategy	SOE Corporate Governance	End-October 2024	Met
32	Based on the outcomes of a roadmap on development of PIM procedures, adopt a government decree with an action plan and timeline that provides clear linkages between MTBF and capital expenditures, including reconstruction priorities, and specifying the gatekeeper role of the MOF.	Fiscal	End-December 2024	Met
33	Enact amendments to the law to reform the Accounting Chamber of Ukraine (the supreme audit institution), including through a decisive vote of independent experts with international experience for vetting new members,	Governance/ Anti-Corruption	End-December 2024	Met

	establishing a minimum of 11 members, enhancing the scope of its audit functions, and steps to safeguard the ACU's financial independence consistent with international standards on supreme audit institutions			
34	To ensure NEURC's functional independence, adopt amendments to the law #3354-IX to exempt regulatory decisions by NEURC from the state registration procedure.	Energy	End-December 2024	Met
35	Complete the formation of the full supervisory board of Ukrenergo (7 members), with independent members constituting the majority of the supervisory board.	Energy	End-December 2024	Met
36	The DGF, MOF and NBU will prepare a bank rehabilitation framework in consultation with IMF staff.	Financial Sector	End-December 2024	Met
37	Implement a supervisory risk assessment methodology to inform supervisory engagement priorities.	Financial Sector	End-December 2024	Met
38	Enact a law to establish a new court that will hear administrative cases against national state agencies (e.g., NBU, NABU, NACP) by judges who have been properly vetted for professional competence and integrity.	Governance/ Anti-Corruption	End-December 2024	Not Met (implemented with delay)
39	Adopt Budget Code amendments in line with Action 1 under the June 2024 PIM Action Plan.	Fiscal	End-January 2025	Met
40	Prepare a comprehensive operational strategy for the NSSMC, including initiating an independent fit and proper review.	Financial Sector	End-January 2025	Not Met
41	CMU to approve a methodological framework underpinning the PIM process, as specified in ¶39 of the MEFP.	Fiscal	End-February 2025	Met
42	Submit legislative amendments to Parliament to introduce tax reporting requirements for digital platform operators.	Fiscal	End-April 2025	**Met**
43	**Appoint a permanent head of SCS.**	**Fiscal**	**End-June 2025**	**Proposed reset to End-December 2025**
44	Submit a 2026–28 Budget Declaration on time and in line with program parameters.	Fiscal	End-June 2025	
45	Appoint the new Head of the ESBU based on the selection process.	Fiscal	End-July 2025	
46	**SIC to approve the updated Single Project Pipeline**	**Fiscal**	**Proposed, End-August 2025**	
47	The MOF, together with the STS and SCS, will develop the operational plan for the implementation of the updated IT Strategy, which will be adopted to support the digital transformation required for the digital transformation for the NRS.	Fiscal	End-September 2025	
48	Adoption of sectoral strategies in line with the new approaches for PIM.	Fiscal	End-December 2025	
49	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	Financial Sector	Continuous	

	the DGF for resolution upon breach of prudential requirements.			
50	**Complete the independent fit and proper review of the NSSMC.**	**Financial Sector**	**End-June 2025**	**Proposed reset to End-August 2025**
51	**Prepare and submit to parliament a draft law on financial sector critical third-party risk.**	**Financial Sector**	**End-September 2025**	**Proposed reset to End-June 2026**
52	**Prepare a prioritized roadmap for financial market infrastructure reforms aimed at maximizing the opportunity to attract private capital.**	**Financial Sector**	**Proposed, End-October 2025**	
53	**Implement European (TEGOVA) and international valuation standards (IVS) in consultation with IFIs.**	**Financial Sector**	**Proposed, End-December 2025**	
54	**Submit legislative proposals to parliament to align the securitization and covered bonds frameworks with international standards and good practice in consultation with IFIs and industry.**	**Financial Sector**	**Proposed, End-March 2026**	
55	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, ¶66, 1st bullet.	Governance/ Anti-Corruption	End-July 2025	
56	Publish the completed external audit of the National Anti-Corruption Bureau of Ukraine's effectiveness with participation of three independent experts with international experience.	Governance/ Anti-Corruption	End-July 2025	**Met**
57	Revise the selection and appointment processes for SOE supervisory board members and adopt appropriate changes to the relevant CMU by-laws, in line with MEFP ¶73, 3rd bullet.	SOE Corporate Governance	End-August 2025	
58	**Complete and publish an external assessment of NEURC by the Energy Community Secretariat (upon request).**	**Energy**	**End-October 2025**	**Proposed reset to End-December 2025**
59	**Submit to the CMU a reform plan for the state customs service (SCS)**	**Fiscal**	**Prior Action**	