

# RRR4U

**Nº1**

November 2023

## Monitoring of Implementation of the IMF program and the EU MFA





# Main points

**Cooperation with international partners is critical for Ukraine today**, as domestic budget revenues are only sufficient to finance defence and security

The European Union, the International Monetary Fund and other partners are ready to help. However, their goal is not just to give money, but to create the preconditions for Ukraine's economic development and growth, so that in time we can finance our needs without donor assistance.

For this purpose, structural benchmarks (IMF) and policy conditions (EU) are included in the loan memoranda. These are the changes that Ukraine needs to make to achieve macroeconomic sustainability and create the basis for economic growth.

Commitments under financial support programmes are not needed by donors - they are needed by Ukraine first and foremost. Fulfilling these conditions puts Ukraine on the path to a strong economy and the well-being of Ukrainians. It is also the way to gain the trust of all international partners and foreign businesses.

That is why **the RRR4U consortium is launching regular monitoring** of Ukraine's compliance with the terms of key international financing programmes, such as the IMF and the EU.

In the first issue, we analysed the results of the IMF's Extended Fund Facility (EFF) and the EU's Macro-Financial Assistance programme as of November 2023.



# Key findings of the Monitoring



## Deadlines are important

The IMF is already disbursing money under the EFF program in exchange for meeting the program's conditions.

Starting next year, the new EU facility will also operate on the principle of "money for reforms", while this year's monitoring by the EU is rather lenient



## Fiscal sphere is a priority

The largest number of commitments are related to fiscal policy. This will ensure the sustainability of the Ukrainian economy



## Other important areas

The rule of law, governance, and energy are important



## Ukraine fulfils its commitments

So far, Ukraine has not refused to fulfil any of the agreed conditions. Over the 9 months of the IMF program, Ukraine has taken the necessary steps on 17 of the 23 IMF program benchmarks, as well as 8 out of 20 commitments under the EU program



## The main risk is failure to meet deadlines

Already at the second review of the program, Ukraine has not met at least four IMF conditions on time.

So far, the IMF and Ukraine have reached an agreement at the expert level on a successful review of the programme, but there are likely to be some preliminary steps that need to be approved before the IMF Board decides on the next tranche of the loan

The political risk of delaying the implementation of the benchmarks threatens that the IMF may not agree on the next disbursement, which is essential for Ukraine's resilience

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# The IMF programme: what's happening now?

## ◆ What is an IMF program?

In March 2023, the IMF Board of Directors approved 4-year arrangement under 4an Extended Fund Facility (EFF) for Ukraine. This is an unprecedented decision, as the IMF has changed its policy to provide a loan to a country at war without a reliable macroeconomic forecast.

Over the four years of the programme, Ukraine can receive USD 15.6 billion in loans to be repaid by 2037. In addition, the IMF programme guarantees Ukraine's reliability and helps to attract funding from other creditors.

## ◆ How does the program work?

The programme defines mandatory steps - the so-called lighthouses. These are mainly changes for fiscal, financial and price stability, as well as economic recovery. If they are implemented within the agreed timeframe, the next tranche will be disbursed to the country.

## ◆ What does the programme consist of?

The programme currently includes 23 structural benchmarks. With each review, new tasks are added. Due to the high level of uncertainty, only two of the benchmarks have a deadline in 2024, while the others are shorter-term. There are also macroeconomic targets that are expected to be achieved.

*The IMF Program Monitoring with Board Involvement was granted to Ukraine as a bridge to a more traditional program, as the IMF was changing its policies to enable financing of the country during the war*

*The EFF program is a traditional IMF program that is provided to countries in extreme difficulties, usually for three, sometimes four years. It involves the provision of interest-bearing loans, as well as a charge on the unused amount of the loan. The loan is traditionally repaid within 4.5 to 10 years.*

*The Letter of Intent with attached Memorandum of Economic and Financial Policies is signed by the President of Ukraine, the Prime Minister, the Minister of Finance and the Governor of the NBU*



# IMF programme: some details



## What are structural benchmarks?

- These are measures and steps of reforms and changes that Ukraine has committed to implement under the program and that are necessary to achieve the program objectives



## What does the implementation of structural benchmarks give?

- Fulfilment of commitments contributes to greater resilience of the state's economy and lays important foundations for growth
- The programme provides for regular reviews and assessments by the IMF: implementation of the structural benchmarks as planned will result in the receipt of the IMF loan tranches envisaged in the program



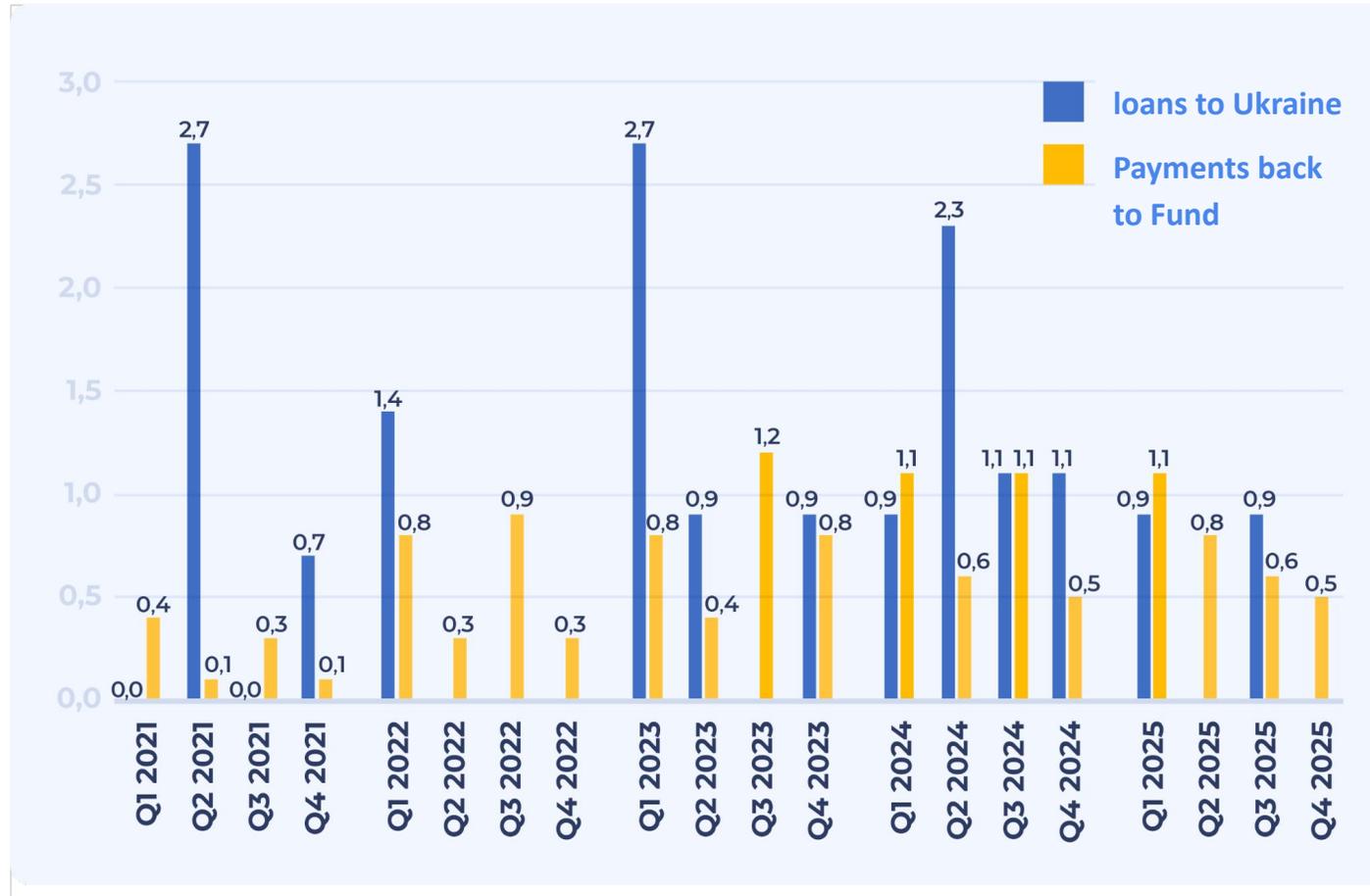
## What kind of money are we talking about?

- The programme provides for a USD 15.6 billion loan over four years in tranches based on fulfilled commitments, which is effectively a refinancing of interest and repayment of previous IMF loans
- At the same time, IMF program is a part of a almost \$100bn financial support package.





# IMF programmes: history and expected tranches



Ukraine has been working with the IMF for many years. However, it has not yet fully implemented any of the programmes to receive the full sum agreed

In 2024-2025, the IMF will continue to provide loans subject to the terms of the programme. Therefore, it is extremely important to adhere to the agreed deadlines and parameters

Although the current four-year programme primarily covers the repayment of previous loans from the Fund and interest on them, it is an important signal to other donors and investors that Ukraine is continuing to reform



# The EU Macro-Financial Assistance Facility: what is it today?



## What is the EU Macro-Financial Assistance (MFA)?

The EU's macro-financial assistance is a traditional instrument of support for Ukraine, which was used even before the full-scale war. The latest one was adopted in December 2022 at the initiative of the European Commission. The current programme allows the EU to cover short-term financial needs of Ukraine and finance its recovery.



## How does the current facility work?

As part of the MFA+ program, the EU has committed to provide €18 billion to Ukraine through 2023. Ukraine will not need to repay the principal until 2033 and repayments will last until 2053. The EU committed to pay the interest on the loan.



## What does the programme consist of?

The current programme contains 20 steps in the areas of macro-financial stability, structural reforms and the rule of law that Ukraine must implement.



# EU macro-financial assistance program: details

## • The MFA provides Ukraine with a concessional loan in tranches:

- Traditionally, tranches are granted for fulfilling conditionalities - steps for reforms
- The macro-financial assistance programme for 2023 is more lenient. There is quarterly monitoring of “sufficient progress” in meeting the conditions, and tranches are disbursed monthly in the amount of €1.5 billion (in January alone, the amount was €3 billion)
- For MFA 2023, the EU provides an interest subsidy

## ◆ Is there any other support from the EU?

- MFA is not the only support programme, the EU also provides other budgetary support
- EU member states provide additional financial and other assistance on a bilateral basis
- EU institutions, such as the European Investment Bank also support Ukraine

## ◆ What's in 2024?

- The European Parliament has already approved a new **Ukraine Facility** instrument, under which Ukraine is to receive €50 billion over four years
- preliminary, about **EUR 39 billion is budget support**, EUR 8 billion is investment guarantees, and the rest is ITA and interest subsidies. The fulfilment of obligations under this programme will be assessed on a quarterly basis, just as in the IMF programme. The results of the review will also determine whether the EU will disburse the next tranche.



# Main risks



## Military risk:

The biggest risk to Ukraine's commitments is **more active military operations and a new russian offensive**, which could make it impossible to make important decisions.



## Political risk:

- Ukraine has already undergone two reviews of the IMF program. The second review was more difficult: Ukraine fulfilled its obligations with delays, and some decisions were made several times to meet the program benchmarks.
- This political risk, ie difficulties with the adoption of legislative and regulatory decisions necessary to fulfil the IMF programme's benchmarks and obligations under the EU's macro-financial assistance programme, is one of the most significant. The significance of this risk cannot be overstated. Proper fulfilment of obligations will determine whether Ukraine receives the next loans from the IMF and the EU, which are crucial for financing the state budget.
- Thus, the Budget for 2024 provides for external financing in the amount of USD 41 billion including USD 29 billion of which has not yet been confirmed by international partners.
- To mitigate this risk, our #RRR4U consortium plans to continue to monitor the implementation of commitments, advocate for the necessary solutions, and explain the need for certain benchmarks and commitments. Our main goal is to ensure that all stakeholders understand the importance of and contribute to the implementation of the steps agreed with international partners.



# A map of benchmarks and commitments

Implementation of the structural benchmarks will contribute to fiscal sustainability and create the basis for economic growth



## IMF

<b>Fiscal sector</b>	<div style="display: flex; gap: 5px;"> <span style="background-color: #28a745; color: white; padding: 2px 5px;">1</span> <span style="background-color: #28a745; color: white; padding: 2px 5px;">2</span> <span style="background-color: #28a745; color: white; padding: 2px 5px;">3</span> <span style="background-color: #28a745; color: white; padding: 2px 5px;">4</span> <span style="background-color: #28a745; color: white; padding: 2px 5px;">5</span> <span style="background-color: #ffc107; color: white; padding: 2px 5px;">6</span> <span style="background-color: #28a745; color: white; padding: 2px 5px;">10</span> <span style="background-color: #28a745; color: white; padding: 2px 5px;">11</span> </div> <div style="display: flex; gap: 5px; margin-top: 5px;"> <span style="background-color: #28a745; color: white; padding: 2px 5px;">12</span> <span style="background-color: #dc3545; color: white; padding: 2px 5px;">13</span> <span style="background-color: #dc3545; color: white; padding: 2px 5px;">16</span> <span style="background-color: #ffc107; color: white; padding: 2px 5px;">19</span> <span style="background-color: #ffc107; color: white; padding: 2px 5px;">20</span> </div>
<b>Monetary and exchange rate policy</b>	<div style="display: flex; gap: 5px;"> <span style="background-color: #28a745; color: white; padding: 2px 5px;">7</span> <span style="background-color: #28a745; color: white; padding: 2px 5px;">15</span> <span style="background-color: #ffc107; color: white; padding: 2px 5px;">22</span> <span style="background-color: #ffc107; color: white; padding: 2px 5px;">23</span> </div>
<b>Management/ Combating corruption</b>	<div style="display: flex; gap: 5px;"> <span style="background-color: #ffc107; color: white; padding: 2px 5px;">9</span> <span style="background-color: #ffc107; color: white; padding: 2px 5px;">14</span> <span style="background-color: #28a745; color: white; padding: 2px 5px;">17</span> <span style="background-color: #ffc107; color: white; padding: 2px 5px;">21</span> </div>
<b>Energy/ Corporate governance</b>	<div style="display: flex; gap: 5px;"> <span style="background-color: #ffc107; color: white; padding: 2px 5px;">8</span> <span style="background-color: #28a745; color: white; padding: 2px 5px;">18</span> </div>



## EU macro-financial assistance programme

<b>Macro-financial stability</b>	<div style="display: flex; gap: 5px;"> <span style="background-color: #ffc107; color: white; padding: 2px 5px;">1</span> <span style="background-color: #28a745; color: white; padding: 2px 5px;">2</span> <span style="background-color: #28a745; color: white; padding: 2px 5px;">3</span> <span style="background-color: #28a745; color: white; padding: 2px 5px;">4</span> </div>
<b>Structural reforms/ good governance</b>	<div style="display: flex; gap: 5px;"> <span style="background-color: #ffc107; color: white; padding: 2px 5px;">5</span> <span style="background-color: #ffc107; color: white; padding: 2px 5px;">6</span> <span style="background-color: #ffc107; color: white; padding: 2px 5px;">7</span> <span style="background-color: #ffc107; color: white; padding: 2px 5px;">8</span> <span style="background-color: #dc3545; color: white; padding: 2px 5px;">9</span> </div>
<b>Rule of law</b>	<div style="display: flex; gap: 5px;"> <span style="background-color: #28a745; color: white; padding: 2px 5px;">10</span> <span style="background-color: #28a745; color: white; padding: 2px 5px;">11</span> <span style="background-color: #28a745; color: white; padding: 2px 5px;">12</span> <span style="background-color: #ffc107; color: white; padding: 2px 5px;">13</span> <span style="background-color: #dc3545; color: white; padding: 2px 5px;">14</span> <span style="background-color: #ffc107; color: white; padding: 2px 5px;">15</span> <span style="background-color: #ffc107; color: white; padding: 2px 5px;">16</span> </div>
<b>Energy</b>	<div style="display: flex; gap: 5px;"> <span style="background-color: #ffc107; color: white; padding: 2px 5px;">17</span> <span style="background-color: #28a745; color: white; padding: 2px 5px;">18</span> <span style="background-color: #dc3545; color: white; padding: 2px 5px;">19</span> <span style="background-color: #ffc107; color: white; padding: 2px 5px;">20</span> </div>

- IMF structural benchmarks**
- Completed
  - Completed, but not on time
  - In progress
  - Not completed



# Monitoring of the implementation of structural benchmarks under the IMF programme



completed  
on time



completed,  
but not on  
time



In  
progress



not  
completed





## Ukraine completed the first five structural benchmarks by the first review of the programme (June 2023)

### **Benchmark N°1 Amendments to the Budget for 2023 - Defence Financing** (end of April 2023)

The Parliament approved the government's amendments to the State Budget for 2023 to provide for increased and more sustainable funding for defence and security, as well as funds for urgent reconstruction. In particular, the expenditures appropriated to the reserve fund were doubled. In addition, two ministries were merged into a single Ministry of Communities, Territories and Infrastructure, which was given responsibility for the Fund for the Elimination of the Consequences of Armed Aggression.

### **Benchmark N°2 Minimize ad hoc changes to the budget law and restore medium-term planning** (end of May 2023)

To this end, the Parliament registered a draft law that, among other things, allowed the Rada to consider only those changes to the state budget that had received an expert opinion from the Ministry of Finance, and restored medium-term budget planning. In June, the Budget Committee updated the text, which later became law (see more in Benchmark #10).

### **Benchmark N°3 Preparation of a tax change plan for the National Revenue Strategy roadmap** (end of May 2023)

The Ministry of Finance has prepared an action plan, as noted in the IMF assessment under the first review.. The document should serve as a input for the preparation of the National Revenue Strategy (see benchmark N°20)

### **Benchmark N°4 Registration of the draft law on capping state guarantees** (end of May 2023)

These changes are intended to contribute to higher debt sustainability of the state. The provisions for the implementation of this milestone were included in the draft law No. 9346 together with the provisions for the implementation of milestone N°2 (see more in benchmark N°10)

### **Benchmark N°5 Transparency and accountability of funds on the NBU's special accounts in UNITED24** (end May 2023)

In April 2023, the Parliament passed a law (No. 3035-IX) to enhance the transparency and accountability of accounts opened with the NBU by the spending units for charitable assistance and donations. This primarily concerned accounts on the UNITED24 platform. This finally provided a legal framework for transparent fundraising and spending from public charity accounts.

**Benchmark No.6 Restoration of pre-war taxation**

(deadline - end of July 2023)

**Sector:** fiscal sector

**Status:** completed, but not on time

Back in December 2022, the Ukrainian government promised to abolish the 2% simplified tax, resume documentary inspections, and return penalties for rule violations relating to the cash registers. This step was supposed to increase budget revenues. This was and still is important given the unprecedentedly large wartime budget deficit, which is currently being covered by foreign aid and loans. However, even foreign aid is not enough, and more resources are needed to finance the state's defense capability.

At the end of June 2023, the Verkhovna Rada adopted the relevant [draft law](#). However, this law returned inspections only for manufacturers of excisable goods, gambling and financial companies. Other businesses could operate without inspections. The IMF representatives were not satisfied with this: the Fund [said](#) they were waiting for a new law to be passed on the resumption of tax inspections.

On 9 November, the Parliament passed in the second reading the [draft law No. 10016-d](#) expanding the range of taxpayers who may be subject to documentary tax inspections starting from 1 December 2023. At the same time, the signing of the draft law has been delayed, as some MPs have registered [two resolutions](#) to cancel the voting results. Thus, until the parliament rejects the resolutions at the plenary session, the signing of the draft law by the Speaker of the Parliament and the President will be blocked.



**Benchmark N°7 Prepare a strategy for the transition to a more flexible exchange rate** (Deadline: June 2023)

**Sector:** financial sector

**Status:** completed on time

Right at the beginning of the full-scale invasion, the National Bank fixed the hryvnia and imposed strict currency controls. This was the right move, which prevented panic, reduced inflationary pressures and stabilised expectations of hryvnia depreciation.

Over time, the fixed exchange rate began to lose its benefits **as the peak of the crisis passed**. In general, a flexible exchange rate is much better for the economy. This benchmark envisages a gradual return to such an exchange rate and the necessary easing of currency restrictions. The NBU has approved the relevant Strategy, thus fully and timely fulfilling the conditions of this benchmark.

**More details:** On June 29, 2023, the NBU Board approved the Strategy for easing FX restrictions, transition to greater exchange rate flexibility and return to inflation targeting. The public version of the Strategy was [published on](#) July 7. At the same time, the IMF has not set any deadlines for the implementation of the Strategy. The implementation of the strategy depends on whether macroeconomic conditions are favourable for the gradual removal of restrictions and the transition to a flexible exchange rate and inflation targeting.

The NBU is now gradually working on this and is removing currency restrictions in stages. For example, on October 3, the NBU switched to a regime of managed hryvnia flexibility, which is an intermediate stage between a fixed exchange rate and full flexibility.



**Benchmark N°8 Corporate governance reform of GTSOU: transfer the GTSO shareholding to the Ministry of Energy and adopt the new charter** (deadline - end of July 2023)

**Sector:** energy/corporate governance      **Status:** completed, but not on time

The implementation of the benchmark will create a more transparent and efficient model for managing Ukraine's gas transmission system.

On 28 July 2023, the Verkhovna Rada of Ukraine [adopted](#) Law No. 3293-IX, which provides for the transfer of the corporate rights of LLC "Ukrainian Gas TSO" (GTSOU) to the management of the state, represented by the Ministry of Energy of Ukraine. The Law also obliges the appointment of an independent supervisory board of the GTSOU, which in turn will be responsible for appointing the head and members of the executive body of the GTSOU.

The first part of the benchmark was completed on 22 September, when the Cabinet of Ministers [transferred the](#) corporate rights of GTSOU to the Ministry of Energy.

A month later, on 27 October, JSC "Mahistralni Gazoprovody Ukrainy", which was the parent company of GTSOU, was liquidated. The liquidation of the company is one of the steps towards the corporate reform of the GTSOU and the transition to the single company model.

The second part was completed only at the end of October, when the Ministry of Energy approved the updated GTSOU charter [agreed](#) with the Energy Community. The document appeared on the company's website on 31 October.

Thus, the benchmark was completed only by the end of October, three months late.

**Benchmark N°9 Restoration of declaration by officials**

(deadline - end of July 2023)

**Sector:** governance/anti-corruption

**Status:** completed, but not on time

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One of the important steps towards a return to pre-war anti-corruption policies and procedures should be the restoration of asset declaration by public officials.

In September 2023, the parliament passed a [bill](#) stipulating that the register of declarations would remain closed for another year. Declarants could voluntarily open their data for public access. The public and international partners reacted negatively to this news. As a result, the President of Ukraine vetoed the draft law and submitted his own proposals, by which the register of declarations opens immediately.

On 20 September this year, the Parliament reconsidered the above-mentioned draft law and adopted it with the President's proposals. The NACP has already [announced](#) that it will open public access to the register on 10 December 2023, when it has completed all security measures. According to the law, they must open access to the registry within 60 days after the law comes into force.



**Benchmark N°10** Resumption of medium-term budget planning, development of a debt strategy and ringfencing risks from state guarantees (end of September 2023)

**Sector:** fiscal sector    **Status:** completed on time

In July, the Parliament adopted the necessary [amendments to the Budget Code](#) to make fiscal policy more predictable in the medium term.

The government has already presented some indicators and targets for the three-year perspective in the materials for the draft State Budget for 2024. In the spring 2024, the government promised to adopt a Budget Declaration for 2025-2027, which should reflect the priorities of budget expenditures and the vision of the government's strategy in general.

The government committed to approve the Medium-Term Public Debt Management Strategy by the end of October 2023 (which corresponds to benchmark 12). This step is extremely important, as the level of public and publicly guaranteed debt increased from 50% of GDP to almost 80% of GDP during the full-scale war and will continue to grow. This is an unsustainable level for countries with weak institutions, but in Ukraine it is driven by the need to borrow for economic stability.

The Budget Code also made budget rules not applicable to the guarantees provided by the government for projects financed by international financial institutions (IFIs). Previously, this provision limited the government's ability to receive funds from IFIs. Now, the absence of the restriction will allow the government to increase borrowing for reconstruction and recovery projects, as there is a lack of domestic sources of funding



**Benchmark N°11** Presentation of the medium-term budget forecast and fiscal risk statement as part of the 2024 draft State Budget package (end of September 2023)

**Sector:** fiscal sector

**Status:** completed on time

The steps outlined in the benchmark are intended to increase the predictability and resilience of the fiscal system.

On 15 September 2023, the government submitted to Parliament a [draft law](#) on the State Budget for 2024 with a long list of explanatory documents. The package included the following documents:

- planned KPIs for budget programmes in 2022-2026;
- forecasts of budgetary and macroeconomic indicators for 2025-2026, and priority fiscal policy objectives;
- Limit expenditures for the period 2022-2026

The documents also contained a report assessing the impact of macroeconomic risks and risks of state-owned enterprises on the budget. For example, the government assessed the impact of three macroeconomic scenarios on the operations of major state-owned enterprises, including Naftogaz, Energoatom, Ukrenergo and Ukrhydroenergo.



## **Benchmark N°12** Update and publication of the Medium-Term Public Debt Management Strategy (end of October 2023)

**Sector:** fiscal sector

**Status:** completed on time

The medium-term strategy for public debt management will increase the transparency and predictability of fiscal policy and optimise the structure of public debt.

In line with the amendments to the Budget Code (see benchmarks #2 and #10), the government committed to update the Medium-Term Public Debt Management Strategy. Public debt and publicly guaranteed debt to GDP has already increased from 50% at the end of 2021 to around 80% at the end of 2022 and may exceed 100% of GDP in 2024. Therefore, a clear Strategy should provide the necessary predictability of the government's debt policy.

The challenge for the preparation of the Strategy is the need to restructure the public debt in 2024, which is only at the initial stage of negotiations

On 27 October, the Ministry of Finance adopted the [Strategy](#), which clearly includes plans to conduct a public debt treatment operation and to adopt an updated Strategy afterwards. The document states that the Ministry of Finance plans these steps in order to: "(i) restoring Ukraine's debt sustainability, (ii) preserving liquidity and reducing Ukraine's financing gap during the IMF programme period, and (iii) creating the necessary conditions for commercial sector participation in the post-war reconstruction of Ukraine, being mindful of the objective to restore Ukraine's market access as early as practicable."



## **Benchmark N°13** Concept note on the 5-7-9 programme for greater support to SMEs (end of September 2023)

**Sector:** fiscal sector

**Status:** not completed

The limits on budget funding require a review and streamlining of the 5-7-9% loan programme for businesses.

In 2020 Affordable Loans 5-7-9% programme was created to support small and medium-sized enterprises (SMEs) for which conventional bank loans were not available. Such loans were provided for investment in fixed assets and support of start-ups. After the start of the full-scale invasion, the programme was expanded to cover working capital loans and extended to large companies. In fact, in 2022, the programme became the main instrument for business support and a lifeline for some companies. In some banks, 80-90% of business loans were issued under this programme.

At this time, limited amount of funds in the budget mean that there is a need to return the programme to supporting SMEs. The government has not publicly released a concept note on the programme. It may have been submitted directly to the IMF mission (as was the case with the social policy note in winter), but information about such documents should be made public.

Instead, in September, the government expanded the 5-7-9% programme, which contradicts its commitment under the IMF Memorandum. For example, the government allowed affordable loans to be used by companies in the energy efficiency and recycling sectors. In addition, the maximum term of the programme for these borrowers was increased to 10 years, and the programme limit was raised to UAH 150 million, which is important for large companies. It is worth noting that in November, the Executive Director of the Entrepreneurship Development Fund [stressed](#) that amendments to the CMU resolution that exclude large enterprises from the programme are ready (but the drafts have not been made public).



## Benchmark N°14 Strengthening the financial monitoring of politically exposed persons (PEPs)

(deadline - end of September 2023)

**Sector:** governance/anti-corruption

**Status:** completed, but not on time

In the Memorandum with the IMF, the Ukrainian side promised to resume enhanced financial monitoring of top officials (politically exposed persons, PEPs) in accordance with [FATF](#) standards. This step "should ensure a more effective fight against money laundering".

As a reminder, on 19 November 2022, [amendments](#) to the [law on financial monitoring](#) came into force, which reduced the term of the status of a politically exposed person (PEP) from all life to 3 years after leaving office. Thus, financial institutions were entitled to carry out enhanced financial monitoring of PEPs only for 3 years after their dismissal. The amendments were [not in line](#) with international anti-money laundering standards.

Therefore, on 17 October 2023, the Verkhovna Rada adopted a [draft law](#) that effectively restores the lifetime status of a politically exposed person (PEP). At the same time, it increases the liability of banks for unreasonable refusal to provide financial services to users.

It should be added that, as part of the EU's macro-financial assistance, Ukraine must also improve its anti-money laundering regulations. The program envisages changes to secondary legislation on beneficial ownership (commitment No.14).

*\*Politically exposed persons are persons who perform or have performed significant public functions in Ukraine. The full list of such positions is defined in Article 1 of the [Law on Financial Monitoring](#).*



## **Benchmark N°15** Strengthening banking supervision and oversight (Deadline: end of September 2023)

**Sector:** financial sector

**Status:** completed on time

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The implementation of the benchmark will align Ukraine's banking supervision with EU directives. This is necessary to bring Ukraine closer to EU accession. The NBU fully and timely fulfilled the relevant requirements.

### **More details:**

**Point I:** On April 21, 2023, the National Bank of Ukraine [separated](#) the Bank Related Parties Monitoring Division and the Integrated Banking Supervision Department.

**Point II:** The NBU has introduced supervisory panels without public announcement. The panels are supposed to advise the Supervisory Committee on issues and additionally independently analyse its decisions, facilitate horizontal communications between stakeholders, and highlight particularly important issues.

**Point III:** On July 29, 2023, the NBU [resumed](#) scheduled on-site inspections of banks and non-bank institutions in a remote format in order not to put its employees in danger.



**Benchmark N°16** **The Tax and Customs authorities should prepare a reform action plan** (Deadline: end of October 2023)

**Sector:** fiscal sector

**Status:** not completed

The State Tax Service (STS) and the State Customs Service (SCS) are important implementers of the upcoming National Revenue Strategy (see Benchmark No. 20). To ensure that the National Revenue Strategy is coherent and consistent, the IMF programme has added a structural benchmark to develop reform plans for both Services.

The STS and the SMS were to prepare action plans by the end of October, which will be further integrated into the overall National Revenue Strategy (see Benchmark No. 20). On October 23-27, representatives of the STS and the SMS met with the IMF representatives to discuss progress. It is known that the tax service has prepared a draft plan for reforming the STS. In response to our request, the SMS said that the work is still in progress.

**More details:** On October 23, the State Tax Service [announced](#) that it would participate in the IMF technical mission together with the SMS to continue working on their reform plans. On October 31, the State Tax Service announced that it had made progress in fulfilling the task.

The State Tax Service and the State Migration Service are systemically important institutions not only for the budget revenues, but also for shaping the attitude of businesses and citizens towards the state. [Surveys](#) show a low level of trust in the work of fiscal authorities. The low level of trust is mainly due to non-transparency, slow customs clearance, and corruption. At the same time, trust has remained low since the start of the invasion, unlike many other institutions. Numerous attempts to reform these bodies by previous governments did not result in sustainable positive changes.



**Benchmark N°17** Simplification of the system of declaration of public officials (deadline - end of October 2023)

**Sector:** governance/anti-corruption

**Status:** completed on time

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In addition to restoring asset declarations by public officials (Benchmark N°9), the Ukrainian side promised to improve the declaration system. The changes should allow officials to automatically fill in information from other related databases and registers.

[The draft law](#) on the restoration of the declaration process, adopted in September 2023, stipulates that the NACP will provide access to and automatic transfer of data from other registers and databases to the declaration form. At the same time, the function of automatically filling in the available data does not relieve the declarant of the obligation to indicate in the declaration all the information known to him or her, even if it is not available in other databases.



**Benchmark N°18 Corporate governance reform of the GTSOU:  
appointment of a Supervisory Board** (end of October 2023)

**Sector:** energy/corporate governance

**Status:** completed on time

Implementation of the benchmark is important for the corporate governance reform of state-owned enterprises. Supervisory boards should eliminate the "manual control" regime in state-owned companies. This helps to transform state-owned enterprises into transparent, efficient, competitive companies that are able to attract investment and generate profits.

The benchmark can be considered a logical continuation of benchmark N°8 on the introduction of the model of a single company to manage the gas TSO of Ukraine. The Ministry of Economy [conducted](#) a selection process for the position of an independent member of the GTSOU Supervisory Board. A total of three candidates were to be selected as independent members, with two more members to be appointed by the state. Thus, the Supervisory Board was to consist of 5 members.

It is worth noting that the tender announcement was initially [published](#) on the website of the Ministry of Energy on September 26, and the tender itself was due to end on October 5. Later, the deadline for submitting documents was extended to October 10.

On October 31, the government [approved](#) the company's Supervisory Board: three independent members and one state representative, completing this benchmark in time. At the same time, there remains the question of appointing one more representative of the state to form a full 5-member board.



**Benchmark N°19** **Develop roadmap for better management of public investments** (Deadline - end of December 2023)

**Sector:** fiscal sector

**Status:** In progress

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Improving the quality of public investment management (PIM) will allow for more efficient use of public funds in the context of limited budgetary resources. One of the steps should be the unification of PIM approaches and the competitive selection of projects for budget funding.

According to the World Bank's estimates in February 2023, Ukraine's reconstruction will require \$411 billion. Private business should become an important source of funding for reconstruction. An important tool for attracting companies will be public-private partnerships (PPPs), which, unfortunately, are not yet working in Ukraine. Revising the approach to PPPs could help.



**Benchmark N°20** **Adopt the National Revenue Strategy by the end of 2023** (Deadline - December 2023)

**Sector:** fiscal sector      **Status:** In progress

**Details:**

During the full-scale war, half of Ukraine's state budget expenditures are financed by foreign loans and grants. This situation is not sustainable, and this dependence needs to be gradually eliminated. The National Revenue Strategy is designed to create conditions for increasing domestic budget revenues. To do this, Ukraine needs to strengthen its ability to collect tax and customs revenues.

**The strategy should include the following measures:**

- strengthening the tax and customs authorities;
- closure of the possibility to use the simplified taxation system instead of official employment of full-time employees;
- bringing VAT and excise taxes in line with EU legislation;
- Strengthening anti-corruption measures;
- tax administration system reforms;
- reorganisation of the Economic Security Bureau of Ukraine.

In August, Ukraine [sent](#) the IMF a roadmap for the preparation of the National Revenue Strategy. The National Revenue Strategy should be fully prepared and approved by the end of 2023.



**Benchmark N°21** Enhancing the institutional independence of the SAPO (deadline - end of December 2023)

**Sector:** governance/anti-corruption

**Status:** In progress

In the Memorandum with the IMF, the Ukrainian side indicated its intention to strengthen the effectiveness of anti-corruption institutions. The changes should also affect the Specialised Anti-Corruption Prosecutor's Office (SAPO). On 15 September, the government submitted to the Verkhovna Rada [draft law N°10060](#), which meets the requirements of the IMF and the EU and aims to:

- improving the procedure for competitive selection of SAPO heads and prosecutors;
- strengthening the capacity of the SAPO to regulate its own organizational structure and activities;
- clarifying the powers of the head of the SAPO;
- creation of a Specialised Disciplinary Commission of SAPO prosecutors;
- conducting regular audits of the SAPO's activities with the participation of external experts with international experience.

On 21 November 2023, the Verkhovna Rada adopted in the first reading draft law N°10060.

It should be noted that a similar obligation is provided for in the EU's macro-financial assistance program (commitment N°16).



# Monitoring of commitments under the EU macro-financial assistance programme



completed  
on time



completed,  
but not on  
time



In  
progress



not  
completed



**Condition N°1****Restore tax legislation**

(Q1-Q2 2023)

**Sector:** Macro-financial stability

**Status:** completed, but not on time

This commitment replicates benchmark N°6 under the IMF programme (with a deadline of the end of July 2023 - met, but later), see the analysis above.

**Condition N°2****Measures to support the stability of the banking system:****Sector:** Macro-financial stability**Status:** completed

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The banking system proved its resilience during a full-scale war. At the same time, risks continue to exist given the possible increase in non-performing assets. That is why attention to the resilience of the banking system is important.

**To fulfil the obligation under this step:**

- i) New independent members of Privat's supervisory board were appointed in December 2022, and independent board members the other three state-owned banks were appointed in April-June 2023
- ii) The asset quality review was due to be completed by the end of September and the necessary regulatory framework was timely approved. In August, in its review of the banking sector, the NBU wrote that the first results were optimistic: no major asset quality difficulties were identified. At the end of September, the NBU approved the conditions for the third stage of the bank resilience assessment. This indicates that the first stage ie asset quality review likely was conducted as planned

**Condition №3****Prepare legislation to improve bankruptcy processes**

(Q3 2023)

**Sector:** Macro-financial stability**Status:** completed

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Ukraine's bankruptcy procedures are inefficient - they do not help individuals and businesses find a clear path to resolve their debt problems - and do not comply with EU standards. On October 12, the Verkhovna Rada registered [draft law №10143](#), which is intended to align Ukrainian bankruptcy and debt restructuring rules with European ones, reduce the cost and shorten the timeframe of bankruptcy procedures.

**Condition N°4**

**Review by the National Bank of Ukraine of insurers' ownership structures and compliance with prudential requirements established by law (Q3 2023)**

**Sector:** Macro-financial stability

**Status:** completed

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On March 4, 2023, the [NBU Board Resolution N°39](#) came into force, which allowed the NBU to check the insurers' ownership structure to ensure compliance with transparency requirements. This is necessary to ensure a transparent and competitive insurance market.

In March-September 2023, the NBU [confirmed](#) compliance with the transparency requirements of 67 non-bank financial institutions.



## Condition N°5 Implementation of the Deregulation Action Plan:

- i) Deregulation of the licensing and permitting system (end of February)
- ii) improvement of the e-construction portal (Q1 2023)
- iii) simplifying the placement of temporary structures for business activities (2nd quarter of 2023)
- iv) elimination of outdated provisions (3rd quarter of 2023)
- v) digitalisation of licensing (Q4 2023)

**Scope:** Structural reforms/ good governance    **Status:** In progress

Deregulation measures are designed to make it easier to do business and reduce the cost of administrative procedures.

In January 2023, the government amended the Deregulation Action [Plan](#). These changes included simplification of the licensing system and the task of revising the licensing rules. The Ministry of Economy and the Ministry of Digital Transformation continue to work on the ePermit system: in the near future, 10 licences will be available through Diya.

On 10 April, the e-Construction website resumed publishing open construction data, which was suspended last year due to a large-scale intrusion.

According to the Ministry of Economy, an interagency working group has already analysed more than 1,000 regulatory instruments to identify those that need to be cancelled, revised or digitised so that they are not burdensome for business. However, the changes have not yet been implemented

According to the [SRS report](#) as of 20 April, most of the points of the Deregulation Plan were in the process of implementation. Amendments were made to the regulation on the e-construction system (it is unclear whether they are the ones required in point ii), and outdated rules on regulating the operation of markets were cancelled (if this was meant in point iv). Laws were passed to simplify licensing of alcohol production for small businesses, and draft law 7331 on replacing licensing with declarations during martial law was passed in the first reading (point i?). The draft law on kiosks (item iv) has not yet been submitted to the Verkhovna Rada by the Government. However, a similar draft law was introduced by MPs which was approved by the relevant ministry with comments. The draft law 9233 was rejected by the Verkhovna Rada

**Commitment N°6**

**Further development of the public procurement system with a view to its alignment with the EU acquis, preservation of the State-owned Enterprise "Medical Procurement of Ukraine" (MZU) as the sole national procurer (no deadline)**

**Scope:** Structural reforms/ good governance

**Status:** In progress

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This item does not specify any deadlines. This is probably due to the understanding that steps are needed to further approximate national legislation to EU norms, in particular, as provided for in the implementation plan of the Association Agreement with the EU, under which Ukraine has already completed several stages of implementation of changes. An efficient public procurement system is extremely important given the very tight budget constraints, while a large share of the budget is allocated to public procurement.

The most recent changes introduced (CMU Resolution N°952) include changes due to the lifting of the COVID-19 quarantine (in particular, localisation for goods to combat covid was returned), justification of the grounds for procurement, sanctions for participants whose assets are transferred to ARMA, and new powers for SASU.

SOE "Medical Procurement of Ukraine" remains the only national procurer of medical goods at the central level

**Commitment N°7****Advance customs administration reform, including improvements in IT systems, human resources management, and anti-corruption measures**

(Q4 2023)

**Scope:** Structural reforms/ good governance

**Status:** In progress

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Customs reform is crucial for establishing effective administration. At the same time, it should contribute to both the convenient operation of customs as well as the budget revenues and safety of goods and products entering the Ukrainian markets.

In fact, the tasks envisaged under this commitment in the EU programme are in line with the IMF programme. For example, the IMF programme requires the government to develop a customs reform plan (benchmark N°16).

The State Customs Service is currently working to improve its IT systems, human resources management and anti-corruption measures

**Commitment N°8****Strengthening the process of selecting independent members of supervisory boards and management for the largest state-owned enterprises**

(4Q 2023)

**Scope:** Structural reforms/ good governance

**Status:** In progress

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The measure is intended to increase the efficiency of state-owned enterprises and thus reduce the fiscal risks they pose to the budget.

Back in 2021, a draft law (5593-d) was registered in the parliament to improve corporate governance. Under this draft law, the powers of supervisory boards will be expanded and they will be able to appoint and dismiss the heads of state-owned enterprises. In August, it was reported that the OECD is to assess this draft law for compliance with the OECD Corporate Governance Guidelines for SOEs.

**Commitment N°9****Bringing the legislation in line with the requirements of the Law on Administrative Procedure**

(deadline - Q3 2023)

**Sector:** Structural reforms/ good governance

**Status:** not completed

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On 15 December 2023, the Law of Ukraine "[On Administrative Procedure](#)" (the "Law") will come into force, which will regulate in a new way the relations of public authorities and their officials with individuals and legal entities regarding the consideration and resolution of administrative cases. In mid-October 2023, the Ministry of Justice [announced that the](#) Government had approved a draft law that proposes to amend 122 legislative acts and bring them into line with the Law on Administrative Procedure. Representatives of the Ministry of Justice noted that the draft law minimizes duplication of regulations and special procedures, unifies administrative procedures as much as possible so that citizens and businesses have the same algorithm for dealing with the state. This will help bring Ukrainian legislation closer to European standards, as the European community considers the right to good governance to be one of the fundamental rights of citizens of EU member states.

It should be noted that the deadline for fulfilling the obligation has already passed, so even if the Parliament adopts the above-mentioned draft law, it will not be fulfilled on time.

**Commitment N°10****Appointment of the Head of the NABU**

(deadline - Q2 2023)

**Sector:** rule of law

**Status:** completed

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The EU and other development partners expect Ukraine to step up its fight against corruption and strengthen anti-corruption institutions. In line with the agreed arrangements under the EU macro-financial assistance, in March 2023, the CMU [appointed the](#) Director of the NABU through a competitive process. The National Anti-Corruption Bureau had been operating without a full-fledged leader for almost a year, as the previous director's term of office expired in April 2022.

It should be added that the appointment of the NABU director was also one of the [recommendations](#) made by the EU when Ukraine received candidate status.

**Commitment N°11****Resumption of work of the HCJ and HQCJ**

(deadline - 3Q 2023)

**Sector:** rule of law

**Status:** completed

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On 22 February 2022, 10 members of the High Council of Justice resigned early at their own request. Thus, the work of the institution was blocked due to the lack of a quorum required for decision-making. It was only in January 2023, when the Congress of Judges of Ukraine [elected](#) eight members of the HCJ, that the judicial governance body resumed its work, which allowed unblocking a number of processes in the judiciary related to the work of courts and personnel issues, as well as continuing the implementation of tasks related to judicial reform.

In June 2023, the HCJ [appointed](#) the full composition of the HQCJ and unblocked the work of the key body for the formation of the judiciary (the powers of the previous HQCJ were terminated in October 2019). This made it possible to select judges for more than two thousand vacant positions and complete the qualification assessment of judges.

The selection of candidates to the HQCJ was one of the [recommendations](#) made by the EU when Ukraine received candidate status.



## Commitment N°12

### Adoption of a strategy for reforming the law enforcement sector

(deadline - Q3 2023)

**Sector:** rule of law

**Status:** completed

The relevant Comprehensive Strategic Plan (hereinafter - the Plan) for Law Enforcement Reform for 2023-2027 was approved by the [Decree of the President of Ukraine of 11.05.2023](#). The Plan aims to increase the priority of law enforcement reform as part of the security and defense sector, ensure its modernization and bring it in line with the standards that Ukraine must achieve on its way to EU membership.

The plan sets out the concept of reforms in law enforcement and prosecution, which will help to resolve a number of problematic issues, including:

- excessive duration of pre-trial investigation due to overload and sometimes inefficiency of pre-trial investigation and prosecution bodies;
- unclear delineation of the competence and powers of different law enforcement agencies, duplication of their functions;

- the presence of corruption risks in the activities of law enforcement and prosecutors;
- imperfect mechanisms of appointment and promotion.

The plan applies, in particular, to the prosecutor's office, the Ministry of Internal Affairs of Ukraine, the National Police of Ukraine, the State Border Guard Service of Ukraine, the State Bureau of Investigation, the Bureau of Economic Security of Ukraine, the Security Service of Ukraine and the State Customs Service of Ukraine.



### Commitment N°13

**Improving the selection of judges** (deadline - part of the commitment was to be fulfilled in Q2-3 2023, the other part in Q4 2023)

**Sector:** rule of law    **Status:** In progress

In addition to the commitment to resume the work of the HCJ and HQCJ (commitment N°11), the Ukrainian authorities also promised to improve the selection of judges, namely:

- 1) streamline the stages of judicial selection and change their sequence;
- 2) review the length of the mandatory training period for judges;
- 3) to approve and publish a regulation on the selection of judges with clear criteria and evaluation methodology (Q2-3 2023);
- 4) launch the procedure for selecting judges based on the improved database (Q4 2023).

The above provisions are necessary in the context of continuing the implementation of judicial reform, the importance of which has been repeatedly emphasized by foreign partners.

On 14 September 2023, the High Qualification Commission of Judges of Ukraine [amended](#) the Regulations on the Competition for the Vacant Position of a Judge, and the very next day the HQCJ announced a [competition](#) for 560 vacant positions of judges in local courts.

In order to fulfil the first two points of the commitment, a [draft law](#) aimed at improving the procedures for judicial career was submitted to the Verkhovna Rada in October this year. The draft law proposes the following: to define the main criteria of integrity and competence of judges (judicial candidates); to establish that a psychophysiological examination with the use of a polygraph may be conducted in respect of a judicial candidate; to abandon the stage of the selection exam, since holding two exams (selection and qualification) significantly delayed the selection procedure, etc.

As of early November, the draft law was being reviewed by a parliamentary committee.



## Commitment N°14

### Improvement of anti-money laundering legislation

(deadline - Q3 2023)

**Sector:** rule of law    **Status:** not completed

According to the Memorandum with the EU, Ukraine has committed to improving the legal framework for combating money laundering and terrorist financing by developing relevant secondary legislation and making progress in developing institutional capacity on beneficial ownership.

The Memorandum does not specify what exactly Ukraine should adopt, so we will mention those regulations that are already known to be in the development.

1. In August 2023, the Ministry of Finance published a [draft](#) of new version of the Regulation on the Form and Content of the Ownership Structure dated 19 March 2021 N°163. The draft was developed to bring the provisions of the acts of the Ministry of Finance in the field of anti-money laundering in line with the requirements of the law. It establishes the form and content of a legal entity's ownership structure and provides for the possibility of its submission to the Unified State Register in electronic form. The explanatory [note to the](#) draft law states that it was developed to implement the mentioned provision of the Memorandum with the EU. There is no information on its approval as of the end of October;

2. In September 2023, the Ministry of Finance published the [draft Regulation](#) on Financial Monitoring. The draft was developed to bring the acts of the Ministry of Finance in line with the provisions of the [law on financial monitoring](#). The draft order proposes to establish requirements for the relevant entities of primary financial monitoring (auditors, accountants, tax advisers, realtors, etc.) to comply with the legislation in the field of financial monitoring, in particular, regarding: proper organization and conduct of primary financial monitoring, proper risk management system; appointment of an employee responsible for financial monitoring, etc. According to the explanatory [memorandum](#), it was also developed to implement the mentioned provision of the Memorandum with the EU. There is no information on its approval as of mid-October.

As part of the IMF program, the Ukrainian side promised to strengthen financial monitoring of politically exposed persons (benchmark N°14). In October of this year, the Ukrainian Parliament passed a [draft law](#) that effectively establishes a lifetime status of a politically exposed person (PEP), rather than the three-year status that was previously in place. At the same time, it increases the liability of banks for unreasonable refusal to provide financial services to users..

**Commitment N°15****Criminalisation of smuggling** (deadline - 4Q 2023)**Sector:** rule of law**Status:** In progress

Among other things, as part of the EU's macro-financial assistance, Ukraine promised to start implementing legislation aimed at criminalising large-scale smuggling of all goods, providing for effective penalties in the form of imprisonment for any damage caused to the state budget above a certain threshold.

Currently, the [Criminal Code of Ukraine](#) provides for criminal liability only for the movement of certain categories of goods across the customs border of Ukraine outside of customs control or with concealment from customs control (cultural property, poisonous, potent, explosives, narcotic substances, timber, etc.). Illegal movement of other goods is not smuggling.

The absence of criminal liability for the illegal movement of goods (including excisable goods) across the customs border of Ukraine concealed from customs control and outside customs control, as well as for the false declaration of goods, [contributes](#) to the growth of the shadow economy in the country and promotes the use of illegal means and techniques in business among entrepreneurs.

Back in April 2021, a [draft law](#) on the criminalisation of smuggling was submitted to the Verkhovna Rada. As of the end of October 2023, it is awaiting a second reading. The draft law proposes to amend the legislation of Ukraine to establish criminal liability for smuggling of goods (including excisable goods), as well as for false declaration of goods that led or could lead to unlawful reduction or exemption from customs duties.

**Commitment N°16****Strengthening the capacity of the SAPO** (deadline - Q4 2023)**Sector:** rule of law**Status:** In progress

It should be noted that a similar commitment is contained in the Memorandum with the IMF (benchmark No.21).

In fulfillment of the commitment to increase the institutional independence of the SAPO, on 15 September this year, the Verkhovna Rada introduced [draft law N°10060](#), which aims to:

- improving the procedure for competitive selection for administrative positions in the SAPO and for prosecutors;
- strengthening the capacity of the SAPO to regulate its own organizational structure and activities;
- clarifying the powers of the head of the SAPO;
- establishing a separate procedure for disciplinary proceedings against SAPO prosecutors by creating a Specialised Disciplinary Commission of SAPO prosecutors;
- defining the mechanism of accountability of the SAPO management based on the assessment of the SAPO performance and periodic external audit of its activities with the participation of external experts with international experience.

On 21 November 2023, the Verkhovna Rada adopted in the first reading draft law N°10060.

**Commitment N°17****High energy efficiency standards for new and renovated buildings** (Q2 2023)**Sector:** energy**Status:** in progress (although the deadline has already passed)

This task is quite complex and is aimed at introducing high energy efficiency standards in buildings and, as a result, reducing energy consumption in the residential sector.

Ukraine started implementing energy efficiency best practices even before the full-scale invasion. The minimum requirements for energy efficiency of buildings in Ukraine were [approved](#) in October 2020, in line with the requirements of the [Law on Energy Efficiency of Buildings](#).

In turn, in early July 2022, the Verkhovna Rada of Ukraine adopted [Law](#) N°2932-IX to strengthen energy efficiency measures and create conditions for comprehensive thermal modernisation of buildings. The law was part of a package of three initiatives, including draft laws N°7282 (comprehensive plan for the restoration of regions), N°7398 (civil security in urban development) and N°6485 (construction of new energy-efficient housing), designed to ensure a systematic approach to the restoration of cities affected by Russia's war against Ukraine. The Law also provides for new minimum requirements for the energy efficiency of buildings, which are set by the Ministry of Regional Development and reviewed every 5 years, taking into account the requirements of EU and Energy Community acts.

Also, in 2022, the government [published](#) a draft Long-term Strategy for Thermal Modernisation of Buildings until 2050 and the Concept of the National Economic Target Programme for Supporting Thermal Modernisation of Buildings for 2022-2030, but the documents were never adopted. In turn, the Government of Ukraine's Priority Action Plan for 2023 [envisaged](#) the development of a Strategy for Thermal Modernisation of Buildings for the period up to 2050, as well as the approval of its implementation plan in June 2023, which has not yet been implemented.

**Commitment N°17**

(continuation)

Thus, despite certain steps towards the use of high energy efficiency standards, these changes in Ukraine are not being implemented as expected. It should be understood that as of September, [according](#) to the KSE Institute, Ukraine lost about 37% of its housing stock. As reconstruction requires significant funding, there is uncertainty about the priority between quickly meeting people's basic housing needs or implementing energy-efficient and longer-term projects. The availability of large-scale international funding for green recovery could help to address this issue, but such initiatives are currently only being discussed.

In turn, Ukraine continues to work on implementing EU waste legislation, which also counts towards fulfilling this commitment. Thus, on July 25, the Cabinet of Ministers drafted a resolution "[On Approval of the Procedure for Monitoring Waste Treatment Facilities](#)". The draft document is in line with European requirements, in particular Directive 2008/98/EC on waste, Directive 1999/31/EC on waste disposal, and Directive 2010/75/EU on industrial emissions (an integrated approach to pollution prevention and control). The government also approved the [draft law "On Packaging and Packaging Waste"](#), which implements European approaches into Ukrainian legislation, namely Directive 94/62/EC on packaging and packaging waste and Directive (EU) 2018/852 amending Directives 94/62/EC as part of the EU's transition to a circular economy.

Given that the commitment itself does not contain a specific "task" to be fulfilled, the strengthening of the legal and administrative framework can be interpreted in different ways. In our opinion, certain policies that promote energy efficiency and the transition to a circular economy have been introduced, but we cannot say that this fully ensures the implementation of the commitment and will stimulate the implementation of high energy efficiency standards for new and renovated buildings.



## Commitment N°18

### Improve the functioning of the gas system

**Sector:** energy    **Status:** completed

The commitment is divided into three parts. The first part involves the **selection of the Supervisory Board of Naftogaz of Ukraine in Q1 2023**.

In pursuance of this part, on January 24, 2023, the Cabinet of Ministers [adopted](#) a resolution to elect six members of the Supervisory Board of Naftogaz. The independent members of the Supervisory Board are former Senior Vice President of Equinor (Statoil) (Norwegian company) Tor Martin Anfinsen; former President and CEO of Vermilion Energy and present President and CEO of Tenaz Energy Anthony Marino; Richard Hookway, who brings 33 years of experience at BP; and INSEAD business school professor Ludo Van der Heyden.

[According to](#) Naftogaz's website, the company's supervisory board was elected following a transparent and independent competition in accordance with the OECD Principles of Corporate Governance and the OECD Guidelines on Corporate Governance of State-Owned Enterprises.

In accordance with the second part - **taking the measures necessary for the certification of a gas storage operator in compliance with the Regulation (EU) No. 715/2009 (Q1 2023)**, on December 13, 2022, the Verkhovna Rada [adopted](#) Law No. 2850-IX, which establishes the general principles for the certification of a gas storage operator in accordance with the requirements of EU legislation, in accordance with Regulations (EU) No. 715/2009 and 2017/1938.

In turn, on March 1, 2023, pursuant to the provisions of the Law, the NEURC [approved](#) the Resolution No. 393 "On Adoption of a Preliminary Decision on Certification of the Gas Storage Operator", with mandatory conditions for JSC "Ukrtransgaz" as the operator. Additionally, on April 6, the Energy Community Secretariat [issued a](#) positive opinion on the certification of Ukrtransgaz, and the next day the NEURC [made the](#) final decision on certification.

To implement the third part - **launching corporate restructuring of the Gas Transmission System Operator in line with the agreed target model (Q2 2023)**, on July 28, 2023, the Verkhovna Rada [adopted](#) Law No. 3293-IX "On Optimisation of the Ownership Structure of the Gas Transmission System Operator of Ukraine", which, inter alia, provides for the legal, economic and organisational framework for the transition to the agreed model of a single company managing the GTS.

Thus, all three parts have been fulfilled, which indicates that the commitment has been fulfilled in general.

**Commitment N°19****Prepare an Action Plan for the restoration of the energy infrastructure in line with the green transition goals**

(Q2 2023)

**Sector:** energy    **Status:** not completed

Fulfilment of the commitment will allow for a clear plan for restoring energy infrastructure after the war, which will strengthen the country's energy security. However, given the state of war in which the Ukraine is now, the plan itself will be difficult to implement during the war and as part of the recovery process. At the same time, Ukraine's [ambitious intentions](#) to achieve EU membership by the end of 2024 require adherence to the environmental vector and green transition, and thus to the restoration of energy infrastructure. In addition, before the war, Ukraine declared its [support](#) for the European Green Deal, which aims to achieve climate neutrality in Europe.

According to the National Security and Defense Council [decision](#) of October 17, 2023, the Cabinet of Ministers must approve within three months the Action Plan for the restoration of critical infrastructure facilities of the fuel and energy sector of critical infrastructure that were destroyed and/or damaged as a result of Russian brutal war against Ukraine. However, the decision does not mention the green transition component.

In turn, on July 4, 2022, the [draft Recovery](#) Plan for Ukraine was presented at a recovery conference in Lugano, Switzerland. This draft was prepared in accordance with the findings of working groups, one of which was the Energy Security group, which considered measures to restore destroyed facilities at the intersection of the green transition and reconstruction needs. However, the plan has not been approved by the government.

Additionally, the Ukrainian government is [developing](#) a roadmap - the Ukraine Plan - under the future European Ukraine Facility, which will include structural reforms and investment projects until 2027, focusing in particular on rebuilding critical infrastructure, as well as a National Energy and Climate Plan to align energy, climate and social policies and ensure Ukraine's sustainable development.

Thus, a number of measures to fulfil the obligation have only been announced but not implemented, so implementation is likely to be delayed.

**Commitment N°20****Make progress in implementation of a roadmap for electricity market integration after synchronisation (Q4 2023)****Sector:** energy    **Status:** In progress

On June 12 , 2023, during a meeting between Yaroslav Demchenkov, Deputy Minister of Energy of Ukraine and Mechthild Wörsdörfer, deputy director general for the European Commission Directoral General for Energy (DG ENER) it was [noted](#) that despite the war, Ukraine had managed to make progress in implementing the roadmap for the integration of electricity markets after synchronisation with ENTSO-E. On the same day, the EU and Ukraine signed the 2023 Energy Work Plan. And in early August 2023, the USAID Energy Security Project [launched](#) an initiative to develop a Roadmap and Capacity Building for Electricity Market Integration to help the NEURC, the Market Operator, and Ukrenergo implement the market integration process.

In addition, the Government of Ukraine [is working](#) to accelerate the achievement of full membership of NPC Ukrenergo in ENTSO-E and of Market Operator in the Committee of European Market Operators, and the NEURC has [agreed](#) on the distribution of capacity revenues between Ukraine, Slovakia, Poland and Hungary, in line with the aspirations to make progress after market synchronisation.

This commitment is a continuation of the path started to integrate the energy sector with the EU. Synchronisation significantly improves the reliability of Ukraine's power system by enabling it to receive timely assistance from Europe in case of power plant outages, import European electricity and reduce the number of disconnected consumers, which has been the case since March 16, 2022 after joining the European power system ENTSO-E. As [noted](#), due to the accession, an additional 8.7 billion UAH (including VAT) was received for access to interstate crossings and within the framework of special obligations imposed on exporters, which made it possible to maintain a preferential price for electricity for the population, finance work to increase the capacity of interstate crossings and reduce debt in the electricity market.

Focus topic

# Currency policy and currency restrictions: An overview of memoranda with the IMF





## Currency liberalisation: a topic that remains relevant

- ◆ The topic of **liberalising currency policy** and lifting currency restrictions appeared on the Ukrainian agenda neither today nor yesterday
- ◆ Since its inception, CES has been advocating for **currency liberalisation**
- ◆ In the IER research, currency liberalisation was first mentioned in 2000
- ◆ We have studied what **issues of currency policy** and currency restrictions the IMF has raised in its memoranda since 2006

## 2006 - 2012



Fixed exchange rate, a number of currency restrictions; economic growth → financial crisis → stagnation

**Ukraine did not have the political will to fulfil its obligations to the IMF and was looking for ways to evade them.**

### Key requirements of the IMF:

- Transition to a flexible exchange rate;
- Removal of currency restrictions;
- Cancellation of the practice of multiple courses.

### Key achievements:

- Bringing the official exchange rate to the previous day's interbank rate with a deviation of no more than 2%.
- Abolition of the tax on foreign exchange transactions.

## 2014 - 2021



Transition to a flexible exchange rate; tightening of currency restrictions due to the war, which were gradually eased.

**Ukraine has pursued a prudent exchange rate policy and has made significant progress in currency liberalisation.**

### Key requirements of the IMF:

- Adherence to a flexible exchange rate regime;
- Gradual easing of currency restrictions;
- Cancellation of the practice of multiple courses.

### Key achievements:

- Transition to a flexible exchange rate regime.
- Introduce a roadmap for lifting currency restrictions and meet a number of its targets.

## 2022 - to date



A full-scale war leads to currency restrictions and the introduction of a fixed exchange rate, which later becomes manageable.

**Ukraine is pursuing a prudent foreign exchange policy and is moving towards easing war-related restrictions.**

### Key requirements of the IMF:

- Prepare a Strategy for the transition to a more flexible exchange rate, relaxation of currency restrictions, and return to inflation targeting.

### Key achievements:

- The strategy has been adopted and is already being implemented.
- Easing a number of currency restrictions.
- Shift to managed exchange rate flexibility

2006 - 2012

- ◆ The 2006-2012 programmes were not successful, as key IMF requirements were not met:
  - Introduction of a flexible exchange rate;
  - Abolition of currency restrictions;
  - Cancellation of multiple courses.
  
- ◆ Twice, the Ukrainian authorities did not take advantage of the opportunity to move to a flexible exchange rate - in February 2007 and August 2010-January 2011 - when fundamentals, including sufficient international reserves, allowed for it.

Structural benchmarks	Status
The NBU's statement on its commitment to introduce a flexible exchange rate regime.	Completed with a delay
The official exchange rate should be defined as the market exchange rate of the previous day.	Done
Abolish the tax on foreign exchange transactions	Completed with a significant delay
Develop a schedule for the phased removal of currency restrictions	Not fulfilled

**2014 - 2021** 

◆ The 2014-2021 programs are the most successful in terms of transforming Ukraine's foreign exchange policy. This included:

- Transition to a flexible exchange rate;
- Adoption of the Law of Ukraine "On Currency and Currency Transactions"
- Developing a roadmap for lifting currency restrictions.

◆ Despite all the successes of the SB and EFF programmes, the key problems highlighted by the IMF remained:

- Slow lifting of currency restrictions.
- Preservation of the multiplicity of courses.

Preliminary actions / Structural benchmarks	Status.
Adoption of a resolution that the official exchange rate is calculated as a weighted average of interbank transactions on the same day.	Done
Developing a schedule for the gradual reduction of banks' NBUs from 1.05.2014.	Done
Achieving the target of net international reserves of at least UAH 7.7 billion in early 2015	Done

## 2022 - to date

- ◆ Russia's full-scale invasion of Ukraine contributed to the need to fix the exchange rate to the US dollar. US DOLLAR. At the same time, the NBU immediately announced that this was a temporary measure to stabilise the macroeconomic situation and that it would return to a flexible exchange rate when conditions permitted.
- ◆ The IMF was sympathetic to such measures. At the same time, as a first structural benchmark, the IMF prepared for us a public statement of intent to return to IT, a flexible exchange rate, and the removal of currency restrictions.

Structural benchmark	Status
Prepare a conditionality-based strategy for the transition to a more flexible exchange rate, relaxation of currency restrictions, and transition to inflation targeting.	Done

### What requirements should we expect from the IMF in the future?

- Transition from managed flexibility to a floating exchange rate.
- Further gradual lifting of currency restrictions.
- Ensuring adequate international reserves.



# Currency policy: key IMF requirements of the past years

## → Flexibility of the course and minimisation of the number of courses:

The main requirement for exchange rate policy that the IMF has written into all of Ukraine's programmes under review is the transition to a flexible exchange rate and its maintenance. This requirement has been included in every programme since at least 2006. However, until 2014, the Ukrainian government was unwilling to comply with the IMF's demands, constantly finding new reasons why exchange rate liberalisation was not timely. With the exception of 2008, when the financial crisis forced an exchange rate adjustment, there was no real progress in these years, according to the IMF. In 2014, Ukraine began to let go of the hryvnia and finally switched to a flexible exchange rate in 2015, which was a breakthrough moment in Ukraine's cooperation with the IMF on currency policy; in all subsequent years before the full-scale invasion, the IMF noted the importance of the National Bank maintaining a flexible exchange rate regime. However, in 2022, Ukraine was forced to fix the hryvnia, but the government and the NBU committed to gradually returning to a flexible exchange rate.

## → Abolition of currency restrictions:

The least clearly defined requirement is the one that moves from programme to programme. Ukraine's currency restrictions in 2006-2023 came and went; the IMF has required in each subsequent programme the "gradual removal of currency restrictions in accordance with an agreed schedule". Ukraine's limited progress in lifting restrictions was interrupted by crises: first in 2008, then in 2014, and again in 2022.

## → Abolition of the tax on foreign exchange transactions:

This is one of the few clearly stated IMF requirements that the Ukrainian authorities have been constantly reminded of. The 1.5% pension tax on foreign exchange transactions was first introduced in 1998; it was gradually reduced in 2006 and was supposed to be finally abolished in 2009. The abolition was even recorded as a commitment to the IMF, but the Ukrainian authorities did not fulfil it. The fee became invalid only in 2011; in 2014, it was brought back and later even increased to 2%, but was relatively abolished again in 2017.



# Appendix





## IMF Structural benchmarks - table in the first revision

Nº	Structural benchmark	Sector	Time	Status.
1	Entry into force of the law on the second package of amendments to the budget for 2023	Fiscal	End of April 2023.	Completed
2	Submit to the Parliament a draft law to restore and strengthen Article 52 of the Budget Code to limit spontaneous amendments to the budget law	Fiscal	End of May 2023.	Completed
3	Preparation of an action plan, including to address the shortcomings identified in the taxpayer survey on the perception of services, as a contribution to the roadmap National Revenue Strategy	Fiscal	End of May 2023.	Completed
4	Submission to the Verkhovna Rada of a draft law that would restore the effect of the articles of the Budget Code that set restrictions on the provision of state guarantees with clear criteria for providing such guarantees (including for priority sectors)	Fiscal	End of May 2023.	Completed
5	Enactment of amendments to the Budget Code and the relevant legal framework to increase transparency and accountability of special-purpose accounts and their consolidation at the sector level general government as a special fund of the State Budget	Fiscal	End of May 2023.	Completed
6	Adoption of the draft law on tax policy and tax administration prepared within the framework of the MAPR	Fiscal	End of July 2023.	Completed but not in time

Nº	Structural benchmark	Sector	Time	Status.
7	Preparing a strategy, moving to a more flexible exchange rate regime, relaxing currency controls and return to inflation targeting based on fulfilment of specific prerequisites	Monetary and foreign exchange coursework politics	End of June 2023	Completed
8	Transfer of the GTS Operator's stake directly to the Ministry of Energy and adoption of a new charter	Energy / Corporate Governance	End of July 2023	Completed, but not on time
9	Entry into force of the law restoring submissions declarations by officials who are not directly involved in mobilisation and hostilities, and restoration of the NACP's function to verification and verification of declarations	Governance / Anti-corruption	End of July 2023	Completed, but not on time
10	Enactment of articles of the Budget Code that will allow the preparation of a medium-term budget planning, development of a debt strategy, and limitation of risks on public guarantees	Fiscal	End of September 2023	Completed
11	Presentation in the draft budget for 2024 of forecasts for the main categories of revenues and expenditures and sources of deficit financing for 2025-2026, as well as a fiscal risk report, including detailed information on state-owned enterprises in the energy sector and critical infrastructure.	Fiscal	End of September 2023	Completed
12	Update and publish the Medium-Term Public Debt Management Strategy to align it with the objectives of the programme	Fiscal	End of October 2023	Completed

Nº	Structural benchmark	Sector	Time	Status.
13	Develop a concept note for the 5- 7-9 programme with proposals to target small and medium-sized enterprises enterprises, gradually phasing out the participation of large companies, strengthen monitoring and Maintain adequate safeguards.	Fiscal	End of September 2023	Not completed
14	Amend the AML/CFT Law to restore the obligations of financial institutions to Introducing enhanced due diligence measures for politically exposed persons, which is proportionate to the risk a focused approach that meets FATF standards	Governance / Anti-corruption	End of September 2023	Completed, but not on time
15	Strengthening the management and supervision of banks by: (i) separating the unit dealing with related parties from the banking supervision unit, (ii) introduction of "dashboards", such as advisory body of the Supervisory Committee, and (iii) resumption of scheduled on-site inspections of banking and non-banking institutions, leaving it to the NBU's discretion issues related to staff safety	Financial sector	End of September 2023	Completed
16	Preparation of action plans by the SBGS and the SCSU that will include short- and medium-term measures covering the key reform areas identified in the upcoming diagnostic, which will integrated into the overall National Revenue Strategy of the NHS.	Fiscal	End of October 2023	Not Completed
17	Simplification of the asset declaration system by linking it to other databases and registers that are consistent with the legal obligation of officials Provide timely and accurate information	Governance / Anti-corruption	End of October 2023	Completed

Nº	Structural benchmark	Sector	Time	Status.
18	Selection and appointment of the Supervisory Board for GTSOU.	Energy/ Governance	End of October 2023	Completed
19	Review current public investment management (PIM) procedures and develop a roadmap of measures to (i) ensure that all public investment projects Unified PFI approaches were applied, including to PPP projects; investment projects were selected on the basis of (iii) the Ministry of Finance was given enhanced powers on a competitive basis with transparent selection criteria and in line with the medium-term budget; and including a clear role for control at different stages of the cycle investment project	Fiscal	End of December 2023	In process
20	Approval of the National Revenue Strategy by the end of 2023	Fiscal	End of December 2023	In process
21	Adoption of legislation to enhance the institutional independence of the SAPO, in particular, regarding selection procedures, ability to regulate organisational activities, mechanisms Ensuring discipline and accountability	Governance / Anti-corruption	End of December 2023	In process
22	Preparing a framework for bank recovery in consultation with the DGF and IMF experts	Financial sector	End of March 2024	
23	Implementation of a risk assessment methodology for supervision to make informed decisions on the priorities of supervisory activities	Financial sector	End of June 2024	



# Liabilities under the EU macro-financial assistance programme

Nº	Condition.	Sector	Time	Status.
1	Implementation of the roadmap for the gradual cancellation of temporary emergency measures adopted after the outbreak of war in the field of tax policy	Macro-financial stability	1 - 2 quarters of 2023	Completed, not on time
2	Measures to support the stability of the banking system: i) implementing an agreed methodology for the succession of the supervisory board of a state-owned bank; ii) preparing to launch the valuation of commercial banks' assets	Macro-financial stability	i) 1 quarter of 2023 ii) 3 quarter of 2023	Completed
3	Improving the regimes of bankruptcy of legal entities (corporate bankruptcy) and insolvency of individuals by preparing legislation that allows individuals to fully repay their debt in accordance with the basic principles of EU Directive 2019/1023	Macro-financial stability	3rd quarter of 2023	Completed
4	Review by the National Bank of Ukraine of insurers' ownership structures and compliance with prudential requirements established by law	Macro-financial stability	3rd quarter of 2023	Completed
5	Implementation of the Deregulation Action Plan: i) deregulation of licensing and permitting system; ii) improvement of the e-construction portal; iii) simplification of placement of temporary structures for business activities; iv) elimination of outdated provisions; v) digitalisation of licensing	Structural reforms/ good governance	i) the end of February; ii) 1 quarter of 2023; iii) 2 quarter of 2023; iv) 3rd quarter of 2023; v) 4th quarter of 2023	In process

Nº	Condition.	Sector	Time	Status.
6	Further development of the public procurement system to bring it in line with the EU acquis, preserving the State Enterprise "Medical Procurement of Ukraine" (MPU) as the sole national procurer	Structural reforms/ good governance		In process
7	Advancing customs administration reform, including improvements to IT systems, human resources management and anti-corruption measures	Structural reforms/ good governance	4th quarter of 2023	In process
8	Strengthening the process of selecting independent members of supervisory boards and management for the largest state-owned enterprises	Structural reforms/ good governance	4th quarter of 2023	In process
9	Bringing legislation in line with the requirements of the Law of Ukraine "On Administrative Procedure"	Structural reforms/ good governance	3rd quarter of 2023	Not Completed
10	Completion of the selection and appointment of the new head of the NABU	Rule of law	2nd quarter of 2023	Completed
11	Re-establish the HCJ and HQCJ of Ukraine on the basis of the current work of the Ethics Council and the Competition Commission	Rule of law	3rd quarter of 2023	Completed
12	Develop and adopt a strategic plan for reforming the entire law enforcement sector	Rule of law	3rd quarter of 2023	Completed
13	Improve the selection of judges: streamline the selection stages and change their sequence; review the duration of the mandatory training period for judges; approve and publish the updated HQCJ regulations on the selection of judges, including clear evaluation criteria and evaluation methodology; launch the selection of judges	Rule of law	4 quarter 2023	In process

Nº	Condition.	Sector	Time	Status.
14	Improving the legal framework for combating money laundering and terrorist financing through the development of relevant secondary legislation and progress in developing institutional capacity on beneficial ownership	Rule of law	3rd quarter of 2023	Not Completed
15	Adopt and begin implementing relevant legislation to criminalise large-scale smuggling of all goods, with imprisonment for any damage caused to the state budget above a certain threshold	Rule of law	4th quarter of 2023	In process
16	Further strengthening the SAPO, inter alia, by introducing performance evaluation, improving management selection and other measures to ensure its accountability and independence	Rule of law	4th quarter of 2023	In process
17	Strengthen the legal and administrative framework to ensure the use of high energy efficiency standards, aimed at applying international best practices on energy efficiency and circular economy, for newly constructed and renovated buildings	Energy	2nd quarter of 2023	In progress (although the deadline has already passed)
18	Improve the operation of the gas system by: i) election of the Supervisory Board of Naftogaz; (ii) taking the measures necessary for the certification of a gas storage facility operator in accordance with Regulation (EC) No 715/2009; iii) launch the corporate restructuring of the GTS Operator in accordance with the agreed target model	Energy	i) 1st quarter of 2023; ii) 1 quarter of 2023; iii) 2 quarter of 2023;	Completed

Nº	Condition.	Sector	Time	Status.
19	Prepare an action plan for the restoration of Ukraine's energy infrastructure destroyed by the military aggression of the Russian Federation, with reference to the goals of green transition and reconstruction, where possible	Energy	2nd quarter of 2023	Not Completed
20	Make progress in the implementation of the post-synchronisation electricity market integration roadmap	Energy	4th quarter of 2023	In process

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