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Ukraine and International Financial Institutions

Russia's war against Ukraine has devastated the Ukrainian economy and is having widespread repercussions in Europe and around the world. While the economic impact is largest in Ukraine, neighboring countries are suffering from trade disruptions; higher food, energy, and commodity prices; and an influx of refugees. The World Bank, the International Monetary Fund (IMF), and other international financial institutions (IFIs) are providing emergency assistance to Ukraine and neighboring countries and are developing short- and medium-term assistance strategies. The United States government is supporting these efforts through U.S. leadership at the IFIs and through additional bilateral contributions.

On April 28, 2022, the Biden Administration requested new FY2022 funding for IFIs as part of an emergency supplemental budget request for Ukraine, which was incorporated in H.R. 7691 and signed into law on May 21, 2022. The measure provided $500 million to the European Bank for Reconstruction and Development (EBRD) for its assistance efforts in Ukraine and countries impacted by the conflict in Ukraine.

Background: Economic Outlook in Ukraine

According to the World Bank, Ukraine's economy is forecast to be positive in 2023 after a sharp decline in 2022 (**Table 1**). Ukraine, however, remains dependent on foreign assistance. According to the IMF, Ukraine requires in 2023 $3-4 billion in monthly financial assistance from international partners, including the IFIs, to maintain necessary government functions amidst the ongoing conflict. This figure could escalate to $5 billion a month if the severity of the conflict intensifies.

Table 1. Ukraine: Selected Economic Indicators

Annual percentage change, unless noted

	2021	2022e	2023f
Real GDP Growth	3.4	-35.0	3.3
Inflation	10.0	30.0	20.0
Debt (% of GDP)	60.4	50.7	66.8
Exports (Goods and Services)	-5.8	-10.4	-60.0
Imports (Goods and Services)	-6.4	12.7	-40.0
Upper Middle Income Poverty Rate ($6.85 a day in 2017)	7.1	5.5	25.5

Source: World Bank, Europe and Central Asia Economic Update, Fall 2022.

Notes: e = expected, f = forecast.

Selected IMF Activities

The IMF is the major intergovernmental organization dedicated to international monetary cooperation and stability. A primary activity of the IMF is providing financial assistance to countries during economic crisis, whether induced (e.g., poor management, inappropriate policies) or the result of external shocks. Ukraine has been the recipient of IMF programs since 2015. Prior to Russia's 2022 invasion, the IMF had a $5 billion loan in place for Ukraine, which had been extended through June 2022. The lending program was approved in June 2020 to help authorities address the Coronavirus Disease 2019 (COVID-19) pandemic and implement various economic reforms.

Following the February 2022 invasion, Ukraine cancelled its preexisting program and sought rapid IMF emergency assistance. On March 8, 2022, the IMF approved a $1.4 billion assistance package to help Ukraine cope with the economic shock of the Russian attack. In contrast to the IMF's traditional lending, the March 2022 funding is through an IMF Rapid Financing Instrument (RFI), which provides faster assistance at lower interest rates to meet an urgent crisis. The IMF's executive board statement on the new funding expressed the board's "strong support for the Ukrainian people."

In addition to short-term IMF lending, Ukraine is using its allocation of Special Drawing Rights (SDRs), international reserve assets created by the IMF to supplement Ukrainian official foreign exchange reserves. As part of a $650 billion global allocation of SDRs in August 2021, Ukraine received $2.7 billion; Ukraine largely depleted these funds between August and December 2021.

At the request of Canada, and with the support of the United States, the IMF established on April 8 a special account to allow individual countries to donate resources (either as grants or loans) that would be disbursed into Ukraine's account at the IMF. The so-called "administered account" is designed to allow interested countries to pool and channel resources to help Ukraine meet balance-of-payments and budget needs arising from the war and support macroeconomic stability, while taking advantage of the IMF's expertise and capacity. As of December 2022, four countries have disbursed $2.7 billion through this account. In addition to Canada ($1.7 billion), they are Germany ($1 billion), Netherlands ($200 million), and Belgium ($5 million).

Another IMF option to support Ukraine and economies affected by the crisis is the new Resilience and Sustainability Trust (RST). The RST was created in spring 2021 in order to "help low-income and vulnerable middle-income countries address longer-term structural challenges that pose macroeconomic risks, including climate change and pandemics." The United States and other advanced economies have the option to reallocate their SDRs to trust funds such as the RST or the Poverty Reduction and Growth Trust (PRGT, another IMF fund focused on grants and low-interest loans to the poorest countries), where they can be utilized to fund assistance for low-income or crisis-afflicted countries. The RST, which the IMF hopes will reach $50 billion, was created explicitly as a vehicle to channel unused SDRs.

In the FY20223 budget, the Biden Administration is requested legislative authority to lend up to $20 million of U.S. SDRs to the RST and the PRGT. The FY2023 Consolidated Appropriations Act (P.L. 117-328) did not provide any authorization for U.S. contributions to the RST but did appropriate $20 million for the PRGT or RST. The Administration had requested the necessary authorizations last year, but they were not included in the FY2022 Consolidated Appropriations Act (P.L. 117-103), although $102 million was appropriated for the PRGT.

The ongoing conflict has complicated efforts to design a full-scale IMF budget support program since the IMF's core lending instrument requires a debt sustainability analysis that is impossible to conduct in the middle of a conflict. In lieu of a lending program, however, the IMF designed a new instrument in December 2022 called "Program Monitoring with Board Involvement (PMB)" for Ukraine. This 4-month program is aimed to stabilize Ukraine's finances by providing technical assistance on areas such as tax collection, revenue management, and developing a financial sector strategy. IMF and Ukrainian officials hope that the PMB will be a precursor to a new $15-$20 billion IMF program later in 2023.

Selected World Bank Activities

The World Bank focuses on poverty alleviation and economic development. As of December 20, 2022, the World Bank has mobilized over $18 billion in financial support for Ukraine, the majority of which is through donor supported trust funds. According to the World Bank, the funds will help the government provide critical services to the Ukrainian people, including wages for hospital workers, pensions for the elderly, and social programs for the vulnerable. This package is in addition to the 11 ongoing World Bank projects in Ukraine, in areas such as energy, education, and transportation networks.

The World Bank also established a multidonor trust fund (MDTF) in March 2022 to facilitate channeling grant resources from donors. The United States is the largest donor to the MDTF, contributing $10.3 billion. Other donors are Germany ($50 million), Spain ($48 million), Finland ($21 million), Switzerland ($10.5 million), Belgium ($3 million), and Iceland ($1 million). In December 2022, the World Bank announced its most recent financing for Ukraine, $500 million for health care services funded by a guarantee from the United Kingdom. A full list of World Bank-related Ukraine financing is available at https://www.worldbank.org/en/country/ukraine/brief/world-bank-emergency-financing-package-for-ukraine.

Selected European Bank for Reconstruction and Development Activities

The European Bank for Reconstruction and Development (EBRD) was founded in 1991 to support the transition of the former Soviet and eastern European economies to market-based economies. The EBRD announced a €2 billion (about $2.2 billion) support package for the Ukraine on March 9, 2022. According the Bank, funding will be made available to support Ukrainian companies through several mechanisms, such as deferred loans, liquidity support, and trade finance. Additional assistance is expected to follow, including assistance for relocating Ukrainian companies and rebuilding the Ukrainian economy once the war ends.

Ukraine is one of the EBRD's largest borrowers, with lending (as of January 2023) of almost €18 billion ($19 billion) in 524 projects since 199. The Biden Administration requested $500 million for the EBRD in the FY2022 supplemental request, which became law on May 21 (H.R. 7691).

Issues for Congress

Members of Congress have considered legislation related to Ukraine and IFIs in recent months. For example, H.R. 7081 the Ukraine Comprehensive Debt Payment Relief Act was introduced in the 117th Congress. The legislations directed (1) U.S. representatives at the IFIs to support the immediate suspension of Ukraine's debt payments and the Secretaries of the Departments of the Treasury and State to help coordinate comprehensive debt relief for Ukraine from government and commercial creditors, among other efforts. While the legislation did not pass Congress, the United States and a group of major bilateral creditors agreed to suspend debt service by Ukraine through the end of 2023. Looking ahead, Members might also seek legislation to shield Ukraine from other holdout creditors.

Members might also consider supporting greater financial assistance for neighboring countries to help with the refugee inflows and to mitigate the economic contagion from the conflict. Members may also debate efforts to isolate Russia at the IFIs. In the 117th Congress, for example, H.R. 6891, the Isolate Russian Government Officials Act of 2022, sought for the United States to lead efforts to exclude Russian government officials from IFI meetings. On March 1, 2022, EBRD directors began procedures to suspend Russia's and Belarus's access to EBRD finance, and on April 4, EBRD members approved an operational suspension of Russia's access to EBRD resources. This required approval of members holding three-quarters of EBRD voting power and two-thirds of all members. Going further, a senior European official, for example, told Reuters that "there is on ongoing discussion to kick Russia out of all international financial institutions." Such actions, some argue, would have little benefit to Ukraine and could undermine the institutions' ability to operate constructively in Russia if there is a change of government in the future.

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