Ukraine: Letter of Intent, Memorandum of Economic and Financial Policies, and Technical Memorandum of Understanding

February 27, 2015

The following item is a Letter of Intent of the government of Ukraine, which describes the policies that Ukraine intends to implement in the context of its request for financial support from the IMF. The document, which is the property of Ukraine, is being made available on the IMF website by agreement with the member as a service to users of the IMF website.
Ukraine: Letter of Intent

Kyiv, February 27, 2015

Ms. Christine Lagarde
Managing Director
International Monetary Fund
Washington DC, 20431

Dear Ms. Lagarde:

1. The unresolved conflict in Eastern Ukraine has taken a significant toll on our economy, including a large shock to our industrial base and on our financial markets. Despite our efforts supported by the IMF Stand-by Arrangement as well as other official financing, recent developments have held back progress toward macroeconomic stabilization, worsened the near-term outlook, and generated significant balance of payments pressures. The large exchange rate depreciation since early 2014 raised public debt, weakened bank balance sheets, and eroded gains made towards cost recovery in the state-owned gas company Naftogaz. Notwithstanding this exceptionally difficult environment, we made steadfast efforts to implement policies under the program as a demonstration of our strong commitment to economic adjustment and reforms. Our actions ensured that all performance criteria (PC) for end-September and most benchmarks due in the fall were met (except for the standard continuous PCs on exchange restrictions and multiple currency practices), and the government was able to keep the budget on track through December 2014. However, other end-December targets proved out of reach given the intensification of capital outflows after the recent escalation of the conflict.

2. In the current challenging context, it is our view that Ukraine needs a longer period for our reforms and economic adjustment to restore macroeconomic stability and set the stage for robust growth. We therefore request a new four-year extended arrangement under the Extended Fund Facility (EFF) in an amount equivalent to SDR 12.34806 billion (900 percent of quota and about US$17.5 billion) and intend to cancel our 2014–16 Stand-By Arrangement immediately before approval of the new extended arrangement. Our international partners have committed additional funds to help ensure that the proposed program is fully financed and we are consulting with the holders of public sector debt with a view to improving medium-term debt sustainability.

3. We will use this support to implement an ambitious economic program including a strong and frontloaded macroeconomic adjustment and deep structural reform agenda to lift Ukraine’s economic prospects and improve the living standards of the population. Our policies will be geared
towards: (i) a low and stable inflation within a flexible exchange rate policy that allows the economy to adjust to its new equilibrium, while fostering steady reserve accumulation; (ii) a sound banking system that is better able to play its key intermediation role, subject to prudent oversight; (iii) short- and medium-term fiscal policies that strengthen fiscal sustainability while making space for social protection spending and investment in infrastructure; and (iv) measures to eliminate Naftogaz’s deficit by 2017. Critical to achieving our objectives is an extensive structural reform agenda that will focus on strengthening investment and growth through (v) governance reforms, including anti-corruption and judicial reform measures; (vi) deregulation and tax administration reforms to improve business climate; and (vii) reforms of state-owned enterprises to reduce fiscal risks, as well as restructuring of Naftogaz, and strengthen corporate governance. The attached Memorandum of Economic and Financial Policies (MEFP) lays out in detail the economic program that the Government of Ukraine will be undertaking, supported by the IMF and other international partners.

4. We also request approval of the retention of the exchange restrictions and multiple currency practices that we maintain temporarily due to balance of payments difficulties and that are inconsistent with our obligations under Article VIII Sections 2 (a) and 3.

5. We believe that the policies set forth in the attached MEFP are adequate to achieve the macroeconomic and financial objectives of the program, but we will take any additional measures that may be appropriate for this purpose. We will consult with the IMF on the adoption of these measures, and in advance of revisions to the policies contained in the MEFP, in accordance with the IMF’s policies on such consultation. We will provide IMF staff with the data and information it requests for the purpose of monitoring program implementation. Reaffirming commitment to our policy of transparency, we consent to the IMF’s publication of this letter, the MEFP, the Technical Memorandum of Understanding (TMU), and the accompanying Executive Board documents.

Yours sincerely,

/s/ Petro Poroshenko
President

/s/ Arseniy Yatsenyuk
Prime Minister

/s/ Natalie Jaresko
Minister of Finance

/s/ Valeria Gontareva
Governor, National Bank of Ukraine
I. Recent Developments and Outlook

1. **Domestic and external shocks as well as the escalation of the conflict in the East have taken a significant toll on the economy, affecting confidence and disrupting financial markets.** Economic activity is estimated to have contracted by 6.9 percent in 2014, and high frequency indicators for December show continued falls in industrial production, retail trade turnover, and construction. While the unresolved conflict in the East adds uncertainty to the outlook, economic activity could bottom out by mid-2015, as our policies take hold, confidence begins to rise, and reconstruction work commences, leading to a slower decline of 5.5 percent in 2015. For robust growth to be achieved over the medium term, which is so critical for Ukraine, we aim to move decisively on strengthening economic and financial stability and implementing wide-ranging and ambitious structural reforms that would improve the business climate, attract higher investment, and enhance competitiveness. In 2016–18, as economic and banking stability is restored and reforms take hold, growth is expected to return and gradually strengthen, reaching 4 percent over the medium term.

2. **Consumer price inflation accelerated in 2014, reflecting pass-through from the currency depreciation and increases in administered prices, but inflationary pressures are expected to abate in the coming years.** Inflation reached 25 percent at end-2014, as the hryvnia lost almost half of its value against the US dollar. During 2015, inflation is projected to remain at broadly similar levels, due to the effects of the further exchange rate depreciation in February 2015 and increases in administered prices. Inflation is expected to decelerate rapidly thereafter, dropping to single digits in 2016 and to 5 percent by 2018, as the impact of exchange rate depreciation and energy price increases dies out and the implementation of prudent monetary and financial policies help anchor inflation expectations.

3. **The current sizable balance of payments pressures are expected to moderate over the medium term.** Exports are projected to decline in 2015, reflecting the significant impact of the crisis on export-oriented sectors, deteriorating terms of trade, and a large decline in tourism and transportation receipts. Reduced FDI, continuing lack of access to Eurobond markets, and a decline in rollover rates for corporate and bank debt continue to aggravate financial pressures. Foreign currency interventions provided some support to the exchange rate in 2014, but also contributed to a significant loss of our international reserves. Our broad based-economic reform program will
strengthen competitiveness and the business environment and together with a return of confidence will restore public and private sector access to capital markets, making Ukraine an attractive destination for investment and boost its medium-term prospects. The current account deficit will stabilize to around 1–1½ percent of GDP in 2016–18, and reserves will gradually be replenished to comfortable levels.

II. Policies under the program

4. We are determined to implement an ambitious, deep, and comprehensive economic reform program to tackle deep seated problems that have weighed down Ukraine’s prospects for too long. The key objectives of the program are to restore macroeconomic and financial stability, achieve and sustain fiscal and external sustainability, and lay the foundation for a robust medium-term growth. To this end, we are committed to implementing a strong, front-loaded policy-driven economic adjustment and fundamental reforms to improve economic governance and business climate in order to restore confidence and catalyze support from the investment and international community. Specifically, policies will be geared towards:

a. A flexible and sustainable exchange rate policy to support adjustment and a gradual restoration of adequate reserves accompanied by a prudent monetary policy aiming to bring inflation to single digits;

b. Financial sector policies to support the rehabilitation of the banking system, and strengthen its ability to intermediate and support economic activity;

c. Fiscal adjustment based on expenditure consolidation to place public finances on a sound footing and restore debt sustainability with high probability, supported also by donor financing and a debt operation that would help alleviate the debt servicing burden in the coming years;

d. Deep and broad structural reforms to improve business climate, attract sizable domestic and foreign investment, and boost Ukraine’s growth potential through deregulation, governance, and state-owned enterprise reforms, including of Naftogaz.

A. Monetary and Exchange Rate Policy

5. Monetary policy will aim to reduce inflation to single-digit levels by end-2016. In support of this goal, we are committed to: (i) further strengthening the NBU’s monetary policy and operational framework; (ii) maintaining a flexible exchange rate and pursuing a gradual recovery of
international reserves over the medium term; (iii) strengthening the NBU’s institutional foundation and effectiveness, including safeguarding a strong balance sheet; and (iv) sharpening the NBU’s accountability and communication with the market and general public to better guide their decisions and inflation expectations.

6. **Monetary policy will be formulated consistent with inflation objectives, based on a monetary aggregate targeting regime.** The NBU will use its NIR and NDA as operational targets, and base money as intermediate target, and rely on open market operations to achieve them. Quantitative performance criteria and indicative targets are set out in Table 2.

7. **We expect our monetary program will strengthen the signaling of the monetary policy stance and help guide inflation expectations.** In the context of managing systemic liquidity through open market operations, the NBU will enhance the policy signaling role of its main policy interest rate (the discount rate). The NBU will move ahead with adopting market instruments for interest rate management. As the outflow of deposits from the banking system is bottoming out, liquidity support to banks will be delivered mainly through the standard monetary facilities and their cost will be closely linked to the main policy rate. The NBU will gear the policy rate towards achieving monetary aggregate targets consistent with its inflation objective. In this context, we anticipate maintaining a positive real policy rate on a 12–18-month forward-looking basis. Given a segmented money market, NBU monetary operations will also play an intermediary role by reallocating surplus liquidity to banks in need by performing weekly two-sided tenders.

8. **We are firmly committed to a flexible exchange rate regime to serve as a buffer against external shocks, while aiming for a gradual rebuilding of FX reserve buffers.** In support of this, we will undertake actions in the following areas.

a. **Rebuild reserves.** We will rebuild a strong international reserve position over the medium term in line with the program and via official sector support and gradual interventions as conditions permit. FX sales by the NBU will be limited to facilitating external payments by the central government, as well as critical energy imports by Naftogaz, and the nuclear power corporation Energoatom, for amounts factored into our program (TMU, Section I, Table C). To this end, we will abolish regulations preventing Naftogaz from purchasing foreign exchange from the market. To relieve pressures on reserves, the Ministry of Finance will seek to roll over the government’s domestic FX debt liabilities by offering suitable interest rate and maturity instruments. The Debt Management Unit of the Ministry of Finance (which is responsible for issuance of domestic FX-linked debt) and the NBU units responsible for monetary policy formulation and implementation will continue close coordination of their operations to support reserve targets. Furthermore, we
are discussing with the People’s Bank of China an extension of the existing swap line and its use to mitigate our foreign exchange needs and strengthen the balance of payments.

b. **Restrictions.** We are committed to removing administrative measures implemented on an emergency basis to help contain BOP pressures. The 2015 budget introduced a temporary surcharge on imports (with exceptions for energy and pharmaceuticals), effective February 26, 2015 and based on Article XII of the GATT (1994). While we took all precautions to ensure that this measure is compatible with our WTO commitments, we are committed to removing it by end-2015 or earlier if the WTO does not approve it. We are also committed to removing other administrative measures, including exchange restrictions and MCPs. We do expect that our policy program and the financial support of the international community will lead to steady improvement in the balance of payments, financial stability, and accumulation of international reserves in the course of 2015. To this end, by May 15, 2015, we will prepare a plan for the removal of the exchange restrictions and capital controls that will be conditioned on sufficient progress achieved in these areas as projected under the program. However, for the time being and until financial conditions have stabilized, capital controls will remain effective and we are ready to tighten administrative measures temporarily to the extent necessary, should downside risk materialize and financial stability and FX market conditions deteriorate.

9. **To strengthen the NBU’s institutional foundation and effectiveness, we will draft legislative amendments to the NBU Law in consultation with IMF staff by end-February 2015.** Parliamentary approval of these amendments is a structural benchmark for end-April 2015. The reform focuses primarily on the following key items:

a. **NBU Board.** We will transform the Board into an Executive Committee, composed of the Governor and Deputy Governors. The reformed Board will be charged with formulating and implementing monetary and exchange rate policy (in line with the Monetary Policy Fundamentals approved by the NBU Council) as well as with regulating the banking system.

b. **NBU Council.** We will strengthen the oversight mandate of the Council by: (i) charging the Council with ultimate responsibility for internal controls and risk management; and (ii) authorizing the establishment of an Audit Committee.

c. **NBU Autonomy.** We will strengthen the personal autonomy of NBU Council members and Deputy Governors by enhancing appointment and dismissal procedures and taking steps to mitigate conflict of interest, including a new Code of Conduct. We will uphold the NBU financial autonomy by keeping its administrative budget in line with the Law on the National Bank.
d. **NBU general reserves and profit distribution.** Profit distribution rules between the NBU and the government will seek a gradual build-up of general reserves to reach 4, 7, and 10 percent of monetary liabilities at end-2014, 2015, and 2016 respectively. In 2015, profit distribution to the government, based on the 2014 financial operations, is expected to be at least UAH 60 billion, pending verification from the NBU’s financial audit for 2014. We will limit the disbursement of the 2014 profit distribution, ahead of the completion of audit, to a maximum of 25 percent of the projected annual amount. In future years, we will not disburse any amount of the NBU profit distribution before the NBU financial audit is completed, consistent with current NBU law. To reinforce this, we will amend the Budget Code to prevent inclusion of advance profits in annual budgets.

10. **We have also initiated a restructuring of the NBU organizational structure and communications.** These include:

a. **Monetary policy formulation and implementation.** In relation to monetary policy, we will seek to ensure a clear organizational and operational separation of monetary policy formulation from the monetary policy implementation function. In particular, to ensure that monetary policy decisions are unbiased and have strong analytical support, we will set up a Monetary Policy Committee to advise the Executive Board.

b. **Communications.** We view stronger communication and public accountability as critical components of effective monetary and financial policies. The recently created communications department will support timely and policy-focused outreach. It will help convey to key stakeholders, including parliament, the financial sector, and the public how the NBU operates. To this end, the NBU will regularly publish inflation and financial stability reports, and will continue disseminating its policy decisions and other communications. The NBU and the Ministry of Finance will closely coordinate their public communications on matters of common interest.

11. **We will continue efforts towards future adoption of inflation targeting.** The NBU will continue strengthening its technical and operational capacity for the future adoption of inflation targeting when macro-financial conditions will permit it. The NBU will continue to refine its own inflation projection capacity, and has discontinued past practice of using projections developed by the Cabinet of Ministers for setting monetary policy targets.
B. Financial Sector Policies

12. **A central objective of our program is the steady and full rehabilitation of the financial system, so that sound financial institutions within a modern prudential and regulatory environment can play their fundamental role in supporting credit and sustainable growth.** As a first step, it is critical to restore the public’s confidence in the banking system so that banks can gradually resume their normal functioning and funding the real economy. It is also critical to bring financial surveillance, lending policies, and internal governance of all banks up to international best practice. To this end we are working on four fronts: (i) upgrading our regulatory and supervisory framework to identify and reduce related-party lending; (ii) updating our banking capitalization strategy, which is likely to call for additional private and public resources; (iii) enhancing asset recovery and official investigations of bank failures; and (iv) strengthening bank capacity to resolve bad loans.

**Upgrading our regulatory and supervisory framework to identify and reduce related-party lending**

13. **We are working toward ensuring proper identification, monitoring and, where applicable, unwinding of above-limit loans to insiders (related parties).** In this regard, we will take the following actions:

a. **Legislation.** We will approve legislation to introduce unlimited liability of bank owners on losses arising from loans granted directly or indirectly to the benefit of bank shareholders holding 10 percent or more (including shareholders acting in concert) of total voting shares as of end-2014 (prior action). The legislation will also contain other measures to ensure enforcement of best practices on related lending, including by furnishing the NBU with powers to presume the existence of economic (related) relationship between banks and borrowers on the basis of objective criteria.

b. **Lending rules.** By end-March 2015, in consultation with IMF and World Bank staff, we will pass legislation and revise NBU regulations on related parties to close loopholes that may leave room for the circumvention of lending limits to insiders.

c. **Bank reporting of related loans.** By end-May 2015, as instructed by the NBU and on the basis of end-March 2015 data, the 10 largest operating private banks (“banks”) will submit reports of related party exposure according to the new legal and regulatory framework. The next 10 largest banks will submit their reports by end-July 2015. All other banks will report by end-September 2015 (see Annex).
d. **Prudential review of bank reports.** By end-September 2015, the NBU, with technical support of the four largest international accounting firms (with teams led by foreign partners) and on the basis of terms of reference agreed with the IMF and WB staff, will complete comprehensive reviews of the 10 largest banks’ related party exposure reports. The review process will include the following steps:

i. A check whether the banks have reported all loans to individuals and legal entities above 1 percent and 3 percent of bank equity, respectively, that meet the revised related party criteria;

ii. Verification by the auditors that banks’ information security frameworks (policies, protocols and processes) ensure the integrity and confidentiality of bank records, as defined in the agreed terms of reference; and

iii. NBU’s notification of the banks of any identified discrepancies based on steps (i) and (ii) no later than end-July 2015 (structural benchmark). Banks will be given until end-August 2015 to prove otherwise. The NBU will then review the banks’ responses and issue its final report to each bank, listing all related party loans and the amounts by which they exceed limits by end-September 2015 as noted above.

e. **Prudential review of remaining banks.** Following the same procedures, the NBU will complete reviews of the next 10 largest banks by end-December 2015 and reviews of all other banks by end-April 2016. A more detailed underlying timetable for the latter group of banks will be agreed with IMF staff no later than end-May 2015.

f. **Bank related party unwinding action plans.** By end-October 2015, each of the top 10 banks will submit to the NBU an action plan to unwind above-limit related party exposures within 3 years. The NBU and the banks will reach agreement on these plans by end-November. Bank related party unwinding action plans (“unwinding plans”) for the next 10 largest banks should be agreed by end-February 2016 and by end-June 2016 for the remaining banks. These unwinding plans should include: (i) credible quarterly schedules; (ii) minimum first payments or related exposure reductions of no less than 5 percent of excess loans to insiders; (iii) proper loan collateralization; (iv) securing non-revocable written guarantees issued by qualified shareholders controlling (more than 10 percent of votes as regards to all of their related loans. These guarantees should remain in place until the bank is fully compliant with the legal and regulatory related lending framework. Details on time schedules for plan implementation will be agreed with staff no later than end-May 2015.
i. **NBU monitoring.** The NBU will closely monitor implementation of agreed unwinding plans, including by quarterly assessing financial information submitted by the key related businesses that owe the banks money with the aim to follow their debt repayment plans and use of cash flow.

ii. **Resolution.** If a bank has two breaches to the agreed unwinding plan, this will lead to cancellation of the plan and bank resolution.

g. **NBU Monitoring Unit.** We are strengthening our supervisory capabilities to monitor economically related parties and industrial and financial groups. To this end, the NBU has established a specialized group to identify all major economic groups as well as those related to banks and monitor their structure and credit exposure on a continuous basis. To this end, with technical assistance from the IMF and the World Bank, by end-September 2015 we plan to have this unit fully operational and with an action plan for the following 12 months, which would include the mapping of the largest 10 industrial and financial groups by end-December 2015.

14. **We are also taking actions on several other supervisory and regulatory fronts in order to strengthen supervision of banking risks with support of the IMF.** These include (i) establishment of a credit registry at the NBU; (ii) full adoption by banks of IFRS for financial reporting in the second half of 2015; (iii) a review of the NBU supervisory model; (iv) improving financial performance and monitoring of majority state-owned banks, for which we will develop a comprehensive strategy by September 1, 2015 with IMF technical assistance; and (v) legal protection for bank supervisors. Specific measures will be developed with IMF technical assistance.

**Updating our banking capitalization strategy**

15. **We have revisited our resolution strategy to go hand-in-hand with the gradual unwinding of related loans.** Based on the 2014 diagnostic studies, 9 of the largest 15 banks are required to submit credible and binding recapitalization plans. To this end, we will require a minimum contribution of 25 percent from these banks through cash injection or debt-to-equity swaps by end-January 2015. Otherwise, provided they have not been declared as a problem bank by the NBU, they will be subjected to temporary prudential restrictions, including: (i) zero growth ceiling on net lending; (ii) prohibition on any new lending to related parties; (iii) prohibition on repayment of related deposits; and (iv) the appointment of a senior NBU observer to the executive board and key managerial committees of the bank. We will require full implementation of the recapitalization plans by end-June 2015. Where capital needs will be complemented by asset deleveraging measures, the NBU will obtain from their parents or qualified shareholders written
commitments to maintain their credit lines or related deposits in the banks in amounts not less than the needed capital. Banks that do not meet final capitalization deadlines will be subject to restructuring and resolution. We have also submitted to parliament amendments to modify the law on measures to facilitate bank capitalization and restructuring with the view to: (i) allowing DGF to bail-in non-deposit creditors; (ii) eliminating provisions that may delay the bank restructuring process; and (iii) ensuring banks are adequately capitalized. We will coordinate with IMF staff regarding any potential measure that affects financial stability. Recapitalization plans for the next largest 20 banks have been approved and will be completed by end-February 2015.

16. **Banks that do not comply with their recapitalization plans will be resolved.** If bank owners of systemic banks are unwilling or unable to recapitalize their institutions, the bank will be intervened and either resolved or recapitalized with state funds, as prescribed by the DGF law and the law on measures to facilitate bank capitalization and restructuring. Prior to state recapitalization, the DGF authorized officer will bail-in related deposits, as defined in the law (mostly related to top management and shareholders holding above 10 percent of voting rights), subordinated debt, and unsecured non-deposit creditors up to 25 percent of regulatory capital so that the state becomes the controlling shareholder with a participation of 75 percent or more of the voting rights. The budget stands ready to provide all justified funds necessary for bank restructuring and recapitalization.

17. **We will develop a specific timetable to address any additional capital needs arising from recent extraordinary events.** By end-July 2015 and end-September 2015 on the basis of end-2014 and end-March 2015 data, respectively, we will update the diagnostic exercises for all operating banks among the top 10 and 10 subsequent banks, respectively, to identify additional losses associated with the conflict in the East and the downgraded economic outlook through 2017. This update will be made on the basis of terms of reference that will be agreed with IMF and WB staff by end-March 2015 and include two steps: (i) **Asset quality review:** To be completed on the basis of the regulation on credit risk assessment and with the participation of NBU inspection teams; (ii) **Stress test.** On the basis of the program’s baseline macro scenario and using NBU internal modeling forward looking losses through 2017 will be identified. This review will be closely monitored by a Steering Committee. The IMF and the WB will appoint independent observers to this committee. If this exercise reveals a bank undercapitalization with a CAR below 10 percent, the bank will be asked to present credible plans by end-August 2015 and end-October 2015 for the group of 10 top and 10 subsequent banks, respectively, to meet: (i) the 5 percent (tier I capital of 4 percent and tier II capital 1 percent) minimum capitalization level by end-January 2016; (ii) 7 percent (tier I capital of 6 percent and tier II capital 1 percent) by end-December 2017; and (iii) 10 percent (tier I
capital of 7 percent and tier II capital 3 percent) by end-December 2018. Should the exercise find insolvency in certain banks, these banks must be brought into solvency (positive equity) by end-August 2015 and end-October 2015 for the group of 10 top and 10 subsequent banks, respectively.

**Enhancing asset recovery and official investigations of bank failures**

18. **We will continue to improve prospects for asset recovery and DGF accountability, and identification of bad banking practices in failed banks.** We will take action on three fronts:

   a. **Extend timeframe to complete bank liquidation.** To this end, by end-May 2015 we will pass legislation to allow the DGF to complete bank liquidation within five years (up from the current 3 years).

   b. **Assess options to improve asset recovery.** With technical assistance from the World Bank and on the basis of international experience, by end-June 2015 we will complete an assessment of options available to maximize recovery value, taking into account the lack of fiscal resources to establish expensive arrangements. We will also develop an action plan with the World Bank staff that includes key performance indicators to assess progress made by the DGF in asset recovery.

   c. **Initiate due diligence investigations (forensic audits) of failed banks.** By end-February 2015 we will complete the terms of reference to guide due diligence of banks under temporary administration to identify whether wrongdoing or bad banking practices led the bank into insolvency. The tender process for the selection of the firms responsible for the due diligence investigations of the first two cases will be initiated by end-April 2015 with the view to launch the investigations by end-June 2015. In case of discovery of fraud and other illegal action by bank managers or owners, DGF will report it to law enforcement agencies. We will approach the donor community for funds to support the audits.

**Strengthening bank capacity to resolve bad loans**

19. **We will ensure that the framework for addressing NPLs is effective.** We will work on three fronts:

   a. **Legislation.** With technical assistance from the IMF, by mid-May 2015 we will identify a set of reforms that are needed to strengthen our legal framework related to private debt restructuring, on the basis of international best practice and cross-country experience, covering foreclosure procedures, corporate and personal insolvency and tax incentives. By end-July 2015, we commit
to submit to parliament legislation to introduce such reforms to ensure that a proper framework to facilitate the return to normal operations of viable but troubled borrowers is in place.

b. **Out of court mechanism.** With technical assistance from the EBRD, in consultation with Fund staff, and in close cooperation between the NBU, MoF, DGF and banks, by end-June 2015 we will establish a coordinated out-of-court restructuring system, in line with international best practice including the INSOL principles, and the Istanbul approach. This could include setting up a Coordination Secretariat, Arbitration Council function as well as development of all relevant regulations. We will ensure time-bound implementation of this framework, consistent with key financial objectives in the program.

c. **FX mortgages.** We remain committed to supporting a voluntary negotiation process between borrowers and banks for the restructuring of foreign currency denominated mortgage loans serviced by struggling but still performing borrowers. The state and the NBU should not interfere in bilateral negotiations between borrowers and banks while ensuring fair process. In this regard, should a law imposing mandatory conversion of foreign currency mortgages into hryvnia be passed, the president will veto its enactment. On the basis of NBU existing guidelines on loan in arrears and international best practice, with technical assistance from the IMF, by end-March 2015, the NBU will issue a Code of Conduct to guide negotiations between borrowers in difficulty and banks, establish debt restructuring guidelines, and an appeal process. The Code will seek to induce fair and balanced negotiations between banks and borrowers.

C. **Fiscal Policy**

20. **We will restore sound public finances and secure a sustainable path for public debt through a bold and durable medium-term fiscal adjustment.** Given Ukraine’s high levels of public debt and public spending relative to GDP, we will pursue an ambitious but necessary expenditure-led consolidation that targets a smaller and more efficient government. At the same time, we will make the tax system growth-friendly, transparent, and equitable to support private activity. We will also bring Naftogaz, a long-standing fiscal drain, to financial health as quickly as possible and eliminate government subsidies to the company by 2017. We will limit other debt creating operations to the strictly needed, while providing adequate government resources to support the rehabilitation of the banking system. Notwithstanding our ambitious fiscal efforts, support from our external creditors will be necessary to bring debt firmly on a sustainable downward path towards to our debt target of below 71 percent of GDP by 2020.
21. **To this end, and notwithstanding the adverse economic environment, we are aiming for sustainable budget deficit targets over the medium term, taking into account the changing needs of the budget.** Our program targets are as follows (fiscal quantitative performance criteria and indicative targets for program monitoring purposes are set out in Table 2):

a. **Combined general government-Naftogaz balances.** We aim to reduce the combined general government and Naftogaz deficit from 10.3 percent of GDP in 2014 to 7.4 percent of GDP in 2015, and take any measures necessary to achieve it. Moreover, we will continue to reduce the combined deficit toward 2.6 percent of GDP by 2018.

b. **General government fiscal deficit.** The headline deficit will fall from 4.6 percent of GDP in 2014 to 2.6 percent of GDP by 2018. Behind these numbers lays a strong fiscal effort, as the primary balance will move from a deficit of 1.2 percent of GDP in 2014 to a surplus of 1.6 percent of GDP by 2018. We make sure that the consolidation is mainly expenditure-led as evidenced by the primary expenditure fall from 43 percent of GDP in 2014 to 39.2 percent of GDP by 2018.

c. **Naftogaz balances.** *Naftogaz’s deficit* will improve from 5.7 percent of GDP in 2014 to 3.1 percent of GDP in 2015 and 0 percent of GDP by 2017 and thereafter. Starting with the 2017 budget, any government support to Naftogaz will be in line with ESA/GFSM accounting standards, where government support to state-owned enterprises is shown as a current subsidy.

22. **The 2015 budget passed in December 2014 targeted an overall deficit of UAH 65 billion, based on a sizable optimization in current primary expenditure through spending restraint and fiscal discipline, as well as tax reform.**

a. On the expenditure side, given the challenging financing conditions and the need to optimize current spending to make room for needed social and infrastructure spending, we have kept the current nominal levels of minimum and maximum pension benefits until December 1, 2015; adjusted further the pension replacement rate for special pensions from 80 percent in 2013 and 70 percent in 2014 to 60 percent this year, except pensions for military pensioners; restrained spending on goods and services; eliminated price subsidies to the coal-mining industry; and committed to maintain until December 1, 2015 the minimum and basic wage for the first tariff grade that is used to determine basic wages in the budgetary sector unchanged at the level of December 2013. As a result of these bold but necessary actions, and the optimization of staff in budgetary institutions, the wage bill of the budgetary sector (excluding the military) is maintained at the 2014 level.
b. On the revenue side, in view of the need to reduce the heavy tax burden while broadening the tax base, we reduced distortive and nuisance taxation through the elimination of various small taxes and fees and abolished the foreign exchange transaction tax for non-cash transactions. We expanded the base for property taxation and introduced a new excise on retail sales at 5 percent. A new annual assessment tax on luxury vehicles was also introduced. In view of the widespread underreporting of wages, we have reduced the social security contribution rate by 60 percent for those entities who significantly increase their reported overall wage bill and raise average wages. We increased progressivity in the personal income tax, and expanded the base to include income from capital gains while increasing the associated tax rate from 15 percent to 20 percent. We reduced the taxable threshold for pension benefits from ten to three minimum wages. Moreover, we extended the effective period of levying the military tax on income until parliament decides that the military forces reform is complete.

c. To improve compliance, we amended the transfer pricing legislation extending the scope of transfer pricing rules. To strengthen VAT compliance we introduced electronic VAT administration. We will also mandate cash registers for individual entrepreneurs starting July 1, 2015. In addition, we have eliminated the discretion for large taxpayers to choose a tax office to manage their tax affairs. Currently, almost 60 percent of large taxpayers are serviced outside the Large Taxpayer Office (LTO). By end-2015, we will transfer all taxpayers meeting large taxpayer criteria to the LTO (structural benchmark).

23. To achieve our 2015 fiscal targets and put our medium-term fiscal adjustment on a sound footing, we have decided to take supplementary budget measures. Parliamentary approval of a 2015 supplementary state budget law and a package of related tax and expenditure legislation consistent with the program deficit ceiling of UAH 78.2 billion for the general government is a prior action. The most important amendments in terms of budget impact are:

i. Social assistance. We will increase utility subsidies to households to mitigate the impact of retail energy price increases on the most vulnerable, costing up to an additional UAH 12.5 billion. Already in the budget is the introduction of income means-testing of households eligible for various benefits, as well as a reduction of unaffordable social insurance and non-insurance payments.

ii. VAT, profits, and royalties. Prices of domestically produced gas by Naftogaz’s subsidiary Ukrgazvydobuvannya (UGV) will be increased by 355 percent. While part of the additional UGV revenue will help raise investment in domestic gas extraction, improving our energy independence, the rest of the extra revenue will be collected by the government in the form of
tax revenues (VAT, profit, and royalty taxes), helping to offset the additional costs related to greater energy-related social spending.

iii. **Wage bill.** Aiming for a smaller, but more efficient government, we will reduce the number of budget-paid employees by 3 percent over the course of 2015, including a 20 percent reduction of the civil service workforce. The latter will reflect in part closure of redundant regulatory agencies. We will begin the process in earnest on March 1, 2015, and aim to complete it by end-September 2015. At the same time, as part of our anti-corruption efforts, we will repeal the law limiting wages to government and NBU employees to 7–10 minimum wages, as this could force many of our top tier employees out of public service and lead to loss of valuable human capital. We will offset the impact of the repeal within our budgeted wage bill.

iv. **Pensions.** To adapt to demographic trends and strengthen the soundness of the pension system, which would allow the government to provide fair pensions in the future, we will apply several saving measures. Specifically, we will reduce benefits for working pensioners and limit early retirement options by gradually (6 months a year) increasing the retirement age by 5 years and the qualified period of service by 5 years as well for a number of professions eligible for early retirement (as defined in the TMU Annex), effective April 1, 2015. While the increase in the qualified period of service affects both men and women, the increase in the retirement age is only for women. These measures will bring total savings of not less than UAH 1.6 billion already in 2015. The government will make legal provisions and ensure adequate funds for pensioners who remain in the territories outside of government control and did not receive pension benefits in 2014, were these to be requested by them.

24. **Over 2016–18, we will continue our gradual expenditure-based fiscal consolidation to reduce imbalances, reduce the size of government, build confidence, and facilitate growth.** On the expenditure side, we will underpin efforts with structural fiscal measures while creating fiscal space for growth-enhancing investment. A key adjustment anchor is pension reform, with additional steps in public sector wages, goods and services (procurement), while strengthening social assistance to those most in need. On the revenue side, we will continue our drive for a more efficient and equitable tax system, aiming for a shift from direct to indirect taxation and investment-friendly natural resource taxation. We will continue to simplify the tax system, lower the tax burden, limit opportunities for tax evasion, eliminate tax exemptions and encourage formalization of economic activity. Specific measures and benchmarks will be elaborated in the course of the program.
Expenditure reforms

a. **Parametric pension reform.** We recognize the need for a comprehensive pension reform to revamp the overall objectives and design of the pension system. Despite low average pensions, low retirement age, early retirement options and generous occupational retirement conditions make the overall pension spending as a share of GDP is one of the highest in Europe. We will build on the reforms begun in 2011 to improve the system’s long-term fiscal sustainability, and make it more equitable. With assistance from the IMF, we will review our pension system with the goal of reducing the pension deficit and achieving European standards. To this end, we will submit to parliament a revised pension law no later than September 15, 2015 to become effective by January 1, 2016. During the course of the program, we will index pensions (including civil service and special pensions) to prices and lower the threshold for pension benefits’ income tax liability. We shall also seek to gradually unify special pensions’ calculation rules with those of the general system.

b. **Size and efficiency of government.** We will continue efforts to rationalize the size of the budget-paid workforce with the goal of lowering the wage bill to around 9 percent of GDP over the medium term. In this context, we will review salary structures to ensure competitive remuneration, especially at the managerial level of the central government. With the help of our international partners, we will design and implement reforms in the health and education sectors aiming to improve outcomes with more efficient use and mix of resources and resulting in budget savings.

c. **Healthcare.** Healthcare reform will aim to open up the sector to private financing and gradually move to a medical insurance system. To this end, by end-March 2015, we will submit to parliament draft legislation that will:

(i) Change the basis of public financing of the secondary healthcare by moving from hospital bed to service-based financing and for primary healthcare from infrastructure-based to capita-based financing.

(ii) Allow medical facilities to legally generate own revenue.

(iii) Change public procurement regulation to allow purchasing medicines and medical supplies through direct, multi-year procurement involving UN based organizations.

d. **Education.** We will continue the reforms in education sector, commenced in 2014, aiming to improve the quality and efficiency of education spending. Reforms will focus on:
(i) rationalization and reduction of higher education institutions from 802 to 317; (ii) streamlining the network of vocational schools; (iii) streamlining the general secondary school system, reducing the number of schools by 5 percent by consolidating small schools and reducing employment accordingly; and (iv) reducing public appropriation for training specialists depending on the needs of the economy and demographic trends. These reforms will enable reduction in expenditures by at least UAH 300 million in 2015 and thereafter. To this end, we will submit by end-May 2015 draft legislation to parliament with the objective to enact all necessary legislation by the beginning of the next academic year (September 1, 2015) and complete all reforms during the course of 2015–16.

e. Social assistance. To protect the most vulnerable groups from higher energy bills, we plan to improve the design of existing social assistance programs (currently comprising of category-based for housing utilities; means-tested subsidies for housing utilities; and a new tariff compensation scheme). We will prioritize the general guaranteed minimum income (GMI) program, as it is better targeted to low-income households, though this will require substantial administrative effort.

f. Investment. To support growth, we will increase and maintain capital investment levels, from 1 percent of GDP in 2014 to over 3 percent of GDP by 2018, to fund Ukraine’s immediate reconstruction needs and long-term infrastructure development objectives.

Tax policy reforms

g. Social security contributions. We will continue reducing the social security contribution wedge, which should help encourage de-shadowing of wage payments. The outcome of the legalization efforts in 2015 will inform the direction of further reform of social security contribution rates. The pace of this reform will be closely linked to progress in reducing pension spending.

h. Agriculture VAT. We recognize that agriculture has become one of the most profitable sectors of the Ukrainian economy. We will therefore bring the agriculture sector fully under the general VAT regime in line with international practice, effective January 2016.

i. Personal income tax. We will continue with measures, begun in 2015, to broaden the base and further increase progressivity of taxation. This will include steps to better detect and tax the income and wealth of high net worth individuals, drawing on technical support from the IMF.

j. Property taxes. We will gradually eliminate exemptions and raise tax rates. The additional revenue will help strengthen the own revenue base of subnational governments.
k. **Extractive industry taxation.** We will introduce a new fiscal regime for the extractive industries from 2016 that will make a transition to taxation based on international best practice, including a review of the current level of royalties. We will prepare and submit to parliament the relevant amendments to the tax code by July 1, 2015 and in parallel strengthen administrative capacity in this area, drawing on IMF technical expertise.

25. **Over the course of the program, we will also pursue reforms to improve our revenue administration and public financial management.** We will develop specific measures and deadlines as needed, in consultation with the IMF, focusing in the following areas:

a. **Revenue administration reform.** We will prepare, in consultation with IMF staff, a revenue administration reform plan by end-April 2015 to overhaul the State Fiscal Service (*structural benchmark*). The plan will include governance and institutional reforms that streamline regional offices, removing large numbers of underperforming officials, modernize and computerize the customs system as well as strengthen its governance, and clarify the revenue authority’s reporting responsibilities by subordinating the State Fiscal Service to the Ministry of Finance, which will help the ministry better coordinate tax policy and administration. Implementation of the new arrangements is expected to start from January 2016 (*structural benchmark*). We will also continue with efforts to improve the tax dispute resolution framework and collection of tax arrears by focusing on the largest debtors and promoting arrangements that fit the current conditions. We will ensure that the amount of tax arrears, excluding the regions of Crimea, Donetsk, and Luhansk, does not increase. We will strengthen administrative capacity in the application of the transfer pricing legislation.

b. **Compliance with social security contributions.** We will undertake measures to strengthen compliance, including through directing more resources to fight evasion as soon as April 2015.

c. **Public finance management.** We will: (i) strengthen medium-term budget planning by introducing medium-term fiscal framework and expenditure ceilings on key spending units and (ii) develop the design features of the medium-term budget framework and prepare relevant amendments to the Budget Code in order to introduce a full-fledged MTBF from 2018.

d. **Cash management.** We will: (i) review the use of all central government commercial bank accounts, including foreign currency accounts, and close those that are not necessary; (ii) establish a cash planning unit in the Ministry of Finance or State Treasury; and (iii) reduce volatility of the Treasury Single Account through alignment of major receipts and expenditure.
e. **Budget execution.** We will: (i) Introduce commitment control system to the budget execution framework; (ii) Eliminate distinction between protected and unprotected items.

f. **Debt ceiling.** We will revisit recent amendments, aiming to introduce escape clauses for the deviation from the statutory debt limit, and re-insert the 5 percent limit on the issuance of government guarantees.

26. **To secure adequate public sector financing in the coming years, while also putting public debt firmly on a downward path, we intend to consult with the holders of public sector debt on a debt operation to improve medium-term debt sustainability.** To facilitate this consultation, and in line with international best practice, we have hired financial and legal advisors (*prior action*). While the specific terms of the debt operation would be determined following our consultations with creditors, it would be guided by the following program objectives: (i) generate US$15 billion in public sector financing during the program period; (ii) bring the public and publicly guaranteed debt/GDP ratio under 71 percent of GDP by 2020; and (iii) keep the budget’s gross financing needs at an average of 10 percent of GDP (maximum of 12 percent of GDP annually) in 2019–2025. The restructuring is expected to be based on the program baseline macro framework applicable at the time the debt operation is launched. The debt operation is expected to be finalized by the time of the first review.

D. **Energy Sector Policy**

27. **Our ambitious and comprehensive energy sector reform agenda, which began in 2014, marks a decisive break from the past.** The loss-making and opaque gas sector in Ukraine weighs heavily on public finances, the external sector, and the overall economy. The very low tariffs for residential gas and district heating (DH) encourage excessive energy consumption and lead to large quasi-fiscal losses by Naftogaz, push gas imports up, discourage investment in domestic production, and breed governance problems. To address these problems, our reforms aim to: (i) bring Naftogaz to profitability by raising gas and heating prices to cost recovery levels based on international gas prices, strengthening its governance, and restructuring the company; (ii) enhance the energy-related social safety net to provide adequate support to the most vulnerable; and (iii) undertake complementary structural reforms to attract capital investment, increase energy efficiency, and foster energy independence.

28. **Restoring the financial health of Naftogaz is an overarching goal of the program.** To this end, we will undertake bold measures to increase household tariffs, improve collection rates, and lower costs, aiming to reduce Naftogaz’s deficit to 3.1 percent of GDP in 2015 and eliminate it
by 2017. These steps will be supported by a fundamental restructuring of the company aimed at strengthening corporate governance and increasing operational efficiency.

a. **End-user price hikes.** While end-user gas and heating prices were raised by 56 and 40 percent, respectively, in mid-2014, subsequent Hryvnia depreciation eroded the gains. We will implement ambitious price hikes of end-user prices, and work on strengthening collections.

i. **Retail gas prices.** We will complete the process of increasing gas prices to levels consistent with full import parity by April 2017. As a first step, we will reform our current system for household gas prices, reducing the number of price tiers from four to two. Moreover, the energy regulator will adopt and officially publish a decision to raise gas prices for households by 285 percent on average. This is consistent with a price of UAH 3600/tcm for consumption in Tier 1 (below 200 m3 a month for consumers that use gas for heating in the cold season) and UAH 7187/tcm for consumption in Tier 2 (above 200 m3 a month as well as gas used only for cooking and hot water), effective April 1, 2015 (prior action). This will allow bringing the price Naftogaz receives to not less than UAH 2200/tcm without VAT for Tier 1 and not less than UAH 5100/tcm without VAT for Tier 2. We will abolish the two-tier pricing structure and raise the household price as needed to reach 75 percent of the level consistent with import parity in April 2016 and 100 percent of that level in April 2017. Until that point, prices will not be adjusted downwards. Once full import parity is reached, we will adopt a new methodology for retail gas prices, linking them to movements in the import gas prices and the exchange rate, among other relevant factors, on a quarterly basis. Prices paid to Naftogaz subsidiaries that extract gas will be gradually increased to the equivalent of at least $150/tcm by April 2017 in order to allow them to invest and raise future gas production. We will ensure that our energy pricing frameworks do provide for covering all investment costs in full. Moreover, should retail price components not related to Naftogaz rise over the year, the retail price will change to accommodate them rather than the price Naftogaz receives.

ii. **Retail heating prices.** We will adjust heating prices to levels consistent with gas priced at full import parity by April 2017, providing time for investment in energy efficiency measures that reduce losses in the system and allow consumers to better manage their consumption through measures such as installation of meters, heat valves, and insulation. Consistent with this, the energy regulator will adopt and officially publish a decision to raise retail heating prices to households by 67 percent on average, to UAH 625/gcal, effective April 1, 2015 (prior action). This will allow bringing the price Naftogaz receives
to not less than UAH 1793/tcm, excluding VAT and mark-up tax. After that, heating prices will increase to 75 percent of the level consistent with gas priced at full import parity in April 2016, and to 100 percent of that level in April 2017. Until that point, prices will not be adjusted downward. Thereafter, we will adopt a new methodology for retail heating prices as well, linking them to quarterly movements in the import gas prices and the exchange rate among other relevant factors. Should price components not related to Naftogaz rise over the year, the retail price will change to accommodate them rather than the price Naftogaz receives.

iii. **Industrial gas prices.** We will continue to adjust industrial gas prices to reflect exchange rate and gas import price movements.

b. **Structural reform.** To increase Naftogaz efficiency and governance, we will implement the following measures:

i. **Collections.** In consultation with the IMF, we will submit to Parliament legislative amendments to improve Naftogaz collection (*prior action*) and have them adopted by Parliament by March 31, 2015 (*structural benchmark*). These amendments are critical to increase Naftogaz collections of existing receivables (over 2 percent of GDP at end-2014) and should include (i) lifting two long-lasting moratoria (Law 2711-IV/2005 and Law 2864-III/2001) that protect energy and other companies from enforcement proceedings; and (ii) disconnecting non-compliant customers from the gas supply grid. With technical assistance from the IMF, we will develop regulations on the application of the law.

ii. **Independent audit of receivables.** To support our efforts to collect old receivables, enhance transparency, and avoid future collection problems, we will undertake an independent audit of all Naftogaz receivables by June 30, 2015 (*structural benchmark*). The objective of the audit is to identify the debtors, the size of the corresponding debts, as well as the reasons for their persistence. In addition, the audit will be useful in highlighting possible weaknesses in Naftogaz internal procedures to collect payments. The audit will be a key diagnostic tool that will help us clean up the company’s balance sheet and tighten collection efforts going forward. We will approach our international partners with a request to finance the audit externally.

iii. **Audit.** We will complete full IFRS audit of Naftogaz by reputable auditors for 2012 and 2013 on a consolidated basis by end-March, 2015, and for 2014 – by end-July 2015.
iv. **Naftogaz restructuring.** We support Naftogaz’s restructuring to reduce losses caused by governance issues and raise social acceptance of cost-recovery prices.

- **Gas market law.** A new draft gas market law has been presented to the Cabinet of Ministers. This law is paving the way for the restructuring of Naftogaz by establishing a new model of the gas market in Ukraine. The law will provide the framework for: (i) third party access to the gas infrastructure, (ii) approval of methodologies and tariffs by the energy regulator, and (iii) free and good faith competition through price liberalization. Notably the law establishes specific mechanisms for unbundling of the gas infrastructure management activities from gas production and supply. We will seek Parliamentary approval of the law by end-April 2015 (structural benchmark).

- **Gas sector reform and implementation plan.** In collaboration with the World Bank staff, the Ministry of Energy and Coal Industry and Naftogaz are currently finalizing a plan to reform the gas sector, including (i) the unbundling of Naftogaz’s main business lines (transmission, storage, and gas sales) and (ii) improving transparency in gas distribution via audits of distribution companies and of metering throughout the gas chain. The Cabinet of Ministers will adopt this plan by end-February 2015.

v. **Promoting Competition.** The emergency measure implemented in November 2014 to oblige over 170 companies to purchase natural gas exclusively from Naftogaz will be allowed to lapse at end-February, and we do not intend to reactivate it in the future.

c. **Energy SOE reform.** With the assistance of the EBRD, we are also seeking to improve corporatisation of the key state companies (including, but not limited to, NEC Ukrenergo, NAEC Energoatom, NAK Naftogas and its subsidiaries). We will introduce best international standards and practices in their corporate governance based on the OECD Guidelines. We are also preparing to privatize the Centrenergo generation company and other key energy producers.

29. **Eliminating energy subsidies requires an effective strategy for protecting lower-income households from the adverse impact of higher energy prices.** While recent reforms have sought to achieve this by means testing of energy privileges, elimination of duplication, and creation of a new energy compensation program for the poorest, further reform is needed to cope with the expected large increase in applicants and contain the fiscal cost. We will undertake measures to consolidate existing programs, improve the targeting of benefits, and ensure better coverage of lower-income groups. Specifically:
Program consolidation, benefits, and administrative capacity: By May 31, 2015, we shall merge the energy privileges program and the energy compensation program into an expanded energy housing utilities subsidy program by transferring energy compensation beneficiaries to the subsidy program. To this end, we will prepare a plan for the merger by March 31, 2015 and discuss it with IMF and World Bank staff. In the context of the merger, we will also revise the benefit formula in consultation with the IMF and World Bank staff to provide strong incentives for energy efficiency while ensuring poverty relief. Furthermore, we will allocate sufficient fiscal and administrative resources to prepare for an influx of new beneficiaries given the large upcoming tariff increases. Over the medium term, we will seek to integrate the energy bill assistance program as a component of the broader social safety net system built around a reformed and affordable General Minimum Income (GMI) program. This reform will streamline existing benefits and consolidate them into a single cash transfer program focused on protecting households from poverty. To this end, we will set out a timeline for transition to the new system by 2017.

Payments system: We will revise the billing methodology for energy allowing bill payments to be smoothed over the year—with payments for the previous heating season completed before the beginning of the new one—to avoid undue strain on households and maintain payments compliance.

Information campaign: We shall conduct extensive public information campaigns to explain the tariff increases and how they will help improve energy service provision, energy independence, and the finances of Naftogaz, as well as the availability of the new energy subsidy programs.

Energy efficiency and investment programs will be needed to reduce the cost of energy over time. Inefficiencies currently result in large energy losses at the production, distribution and household consumption stages. We will step up our efforts to install gas and heat meters to allow households to monitor and control their energy consumption. While metering is almost complete for households that use large amounts of gas, the gas meter coverage in low-consumption households and for heating is much lower. As of mid-2014, metering for heat was only at 36 percent. By end-2016, we shall seek to achieve universal gas and heat metering, make it compulsory to bill based on meter reading where meters exist, and move to universal consumption-based billing. Improved energy efficiency will also require legal and institutional reforms that specify responsibilities for expanding the use of meters and individual heat substations and facilitate the financing of these investments. With IFC and USAID assistance, we are making legislative changes to
allow for investment in multi-housing apartment buildings where the majority of heating losses are generated.

E. Governance, Transparency and the Business Climate

31. **We are fully committed to tackling Ukraine’s deep-rooted problems of governance and weaknesses in its business climate.** In October, Parliament ratified the government’s comprehensive reform strategy for 2014-2017 focusing on: (i) overhauling governance by reducing corruption, strengthening law enforcement and reforming the judiciary; (ii) improving the business climate; and (iii) reforming the public sector and political campaign financing. By end-February, the government will publish its program to implement the October reform strategy.

32. **Strengthening governance and the transparency of government operations and improving the business climate remain key reform priorities under the program.** We are gradually implementing the recommendations of last July’s diagnostic study on governance, including adoption of a set of laws on anti-corruption and anti-money laundering (AML) last October. Significant progress has been made towards the goal of establishing a strong anti-corruption investigative agency, and amendments to the AML law and the criminal code have strengthened our tools to fight money laundering. However, in light of a track record of failed initiatives to address high-level corruption, we are committed to further strengthening the anti-corruption legal framework and prioritizing its implementation. Specifically, we will:

a. **Strengthen the National Anti-corruption Bureau (NAB) legislative framework.** We will enact legal amendments to ensure that the NAB is subject to a robust external oversight process, can investigate former Presidents, can access all relevant information necessary for its investigations, and that appropriate mechanisms are in place to ensure the hiring of staff with high integrity (**prior action**). Specifically, the NAB Law will be amended to include the following elements:

i. **External Oversight.** Provision for an independent external oversight process that will entail an annual published report on the NAB’s operational performance, independence and institutional conditions. The report will focus on general issues and will not comment on specific, ongoing cases. The oversight will be conducted by a panel of respected experts with international experience in the work of specialized anti-corruption investigative agencies. The Law will ensure that panelists: (1) have recognized ethical standards and experience in anti-corruption investigations in other countries that can bring to bear their international experience; (2) act independently and are not subject to instructions from any source; and (3) have the ability to obtain from the NAB
any information on investigations, if relevant for the performance of its functions and without interfering in the conduct of investigations in progress.

ii. **Jurisdiction and Information.** The NAB will be able to investigate all high-level officials, including former Presidents. The Law will empower the NAB to obtain all relevant information to perform its functions, from public authorities and private persons, including information covered by banking secrecy, without restriction or court order requirement.

iii. **Staff Integrity.** To guarantee the professional integrity of staff, the NAB Law will ensure competitive and stable remuneration for the Director and personnel hired, commissioned and seconded at the NAB, and ensure that applicants and holders of positions at the NAB consent to having thorough background checks performed (criminal records, analysis of disclosures of assets beneficially owned and of potential conflicts of interests) beyond those required for all public servants.

iv. **Legal Consistency.** We will ensure that the NAB legal framework remains consistent with the specifications of the end-October structural benchmark and with the Constitution.

b. **Establish the NAB.** We will take necessary measures to establish the NAB by end-April 2015 (*structural benchmark*). In particular, steps will be taken to ensure that: (i) the NAB Director is selected; (ii) an adequate budget is provided and available for the NAB to use in organizing itself and in performing its ongoing functions; and (iii) secure and appropriate premises are made available for NAB’s central office.

c. **Enhance Ukraine’s AML framework.** We will strengthen the implementation of the AML framework to prevent the misuse of the financial sector to launder the proceeds of corruption, by end-June 2015 (*structural benchmark*). This work will include the following:

   i. **Regulations.** The NBU will amend the relevant AML/CFT regulations to implement the legal requirements related to domestic politically exposed persons (PEPs).

   ii. **Guidance to Financial Institutions.** The Financial Intelligence Unit (FIU) will assist financial institutions and other reporting entities in identifying domestic PEPs (in particular, by issuing relevant guidance and conducting training events).
iii. **Domestic Cooperation.** Proper arrangements will be put in place to facilitate the cooperation between the NBU, the FIU, and the NAB. The latter should include implementation of procedures requiring the FIU to report financial institutions’ potential breaches of compliance with AML/CFT requirements to the NBU, and for the NBU to report to the FIU suspicious transactions which have not been reported by financial institutions when it discovers them in the course of inspections. It should also include measures by the NAB and the FIU to formalize and facilitate their cooperation, in particular to ensure that the FIU disseminates information and the results of its analysis to the NAB when there are grounds to suspect corruption offenses or related money laundering offenses, and that the NAB is able to request all relevant information held by the FIU (in line with the Financial Action Task Force (FATF) standard).

d. **Strengthen asset disclosure process.** We will strengthen the framework for asset disclosures of high-level officials. By end-March 2015, the relevant legal framework will be revised to ensure that asset disclosures for the high-level officials subject to NAB’s jurisdiction include information on beneficial ownership and control of any funds or other assets (as defined by the FATF), and that the NAB can use its powers to ensure the reliability of these asset disclosures at any point in time. High-level officials will be prohibited from receiving any gifts and advantages other than of very low value, and from receiving any salary or emoluments other than those related to their official functions or that are allowed by the Constitution.

e. **Other measures.** Going forward, and in line with the July diagnostic study and the Anti-Corruption Strategy for 2014-2017, the government will supplement the above measures by tackling needed reforms of the Prosecutor General’s Office and establishing a robust and effective institutional framework for preventive anti-corruption measures.

33. **We will advance efforts to streamline the regulatory framework pertaining to economic activity.** In consultation with civil society, we have identified excessive regulatory barriers which need to be removed. These barriers have been specified and their removal prioritized, based on their substantive impact and timeline, in an action plan, which the Council of Ministers will adopt by March 11, 2015. We will publish the approved action plan together with the background note which will provide explanations on how the measures in the plan were prioritized and how their impact was assessed. The Ministry of Economy in cooperation with the State Regulatory Service (SRS) will monitor implementation of the plan and publish quarterly progress reports within 15 days of the end of the quarter beginning April 15, 2015. The SRS will be responsible for the conduct of proper regulatory impact assessment (RIA) of new regulatory proposals. To this end, the SRS—in consultation with the WB—will create and implement a proper RIA mechanism that ensures
that all draft laws and regulations include proper RIAs to protect against reemergence of overregulation.

34. **Improving business climate to attract investors remains our key priority.** In close cooperation with the World Bank staff, we have prepared a draft law on investors’ protection. Specifically, the law aims at (i) introduction of the minority shareholder’s right to bring a suit to indemnify for damages in the company’s interests; (ii) introducing disclosure requirements of the transactions, for which there is interest; and (iii) introducing requirement to invite an independent auditor in order to made assessment of the transaction in terms of compliance of its conditions with regular market conditions. We will pass the law by end-March, 2015. In addition, the government has also been working on a considerable reduction in the number of inspection agencies.

35. **We will implement measures to strengthen the effectiveness of the judiciary.** Following up on the recommendations of the July 2014 diagnostic report, we will press for measures to enhance the efficiency and effectiveness of the legal enforcement process and the integrity of legal institutions. Specifically, our reform program will encompass the following areas: (i) judicial reform; (ii) financial efficiency; and (iii) effective enforcement of commercial claims. These reforms will be supported by a number of measures:

a. **Judiciary and Status of Judges.** It is expected that the Parliament will adopt a Law on the Judiciary and the Status of Judges during February 2015. By end-March 2015, we will submit the Law to the Venice Commission of the Council of Europe (COE) for its review and opinion against European standards established by the COE, of which Ukraine is a member. By end-July 2015, with the goal of achieving greater efficiency and legal certainty, we will complete the preparation of a concept note assessing the impact of a potential consolidation of the superior courts, including with regard to jurisdiction, case process, personnel, budget, and buildings.

b. **Court Fees.** To enhance efficiency in civil litigation, by end-May 2015, a Law will be adopted on a selective increase of court fees, aiming to double court fee revenues in real terms within 12 months (*structural benchmark*).

c. **Order of Payment Procedure and Garnishments.** By end-August 2015, a Law will be adopted which strengthens the provisions in the Code of Civil Procedure on Order for Payment for domestic transactions and on garnishment of bank accounts (*structural benchmark*). In particular, the Order of Payment provisions will be amended to expand substantially the range of claims covered, streamline the evidence required, and make use of standardized forms. Regarding garnishment, our goal is to remove bottlenecks that have been identified as
hampering the effectiveness of the procedure in such areas as definitional issues, locating debtor bank accounts, service of process, adherence to strict timelines, and the liability of banks for non-compliance. We will complete an implementation plan for the new provisions by end-August 2015. The law will take effect according to a schedule allowing assessment of the results of its implementation and mitigating the risks of negative consequences.

d. **Private Enforcement Profession.** With the aim of strengthening the enforcement of claims, a Law establishing a profession of private enforcement agents will be adopted by end-September 2015. The Law will specify the expected jurisdiction of the new profession, professional standards, oversight and disciplinary mechanisms, a fee structure, and access of the profession to registers and records, with reference to the standards established by the CoE.

36. **Reforming the state-owned enterprises (SOEs) and other state owned assets could yield significant benefits.** The SOE sector in Ukraine is a source of significant value and employment, and also of fiscal risk. In total there are over 3,300 central government controlled SOEs in Ukraine, of which just under two-thirds are operational. In 2014, transfers from government to the SOE sector amounted to about 2½ percent of GDP (excluding the large transfers to Naftogaz), while dividends were less than 0.2 percent. We recognize the need for a comprehensive reform of the SOE sector to enhance the financial viability and reduce the fiscal burden of SOEs while more clearly separating ownership and regulatory functions of the state. Specific near-term measures include:

a. **Fiscal risk assessment.** The Ministry of Economy in cooperation with the Ministry of Finance will prepare by end-April a statement of fiscal risks emanating from SOEs to include; an inventory of enterprises that pose the largest fiscal risks and identification of the top 30 SOEs with the largest fiscal risks among them; an assessment of the size and probability of realization of these risks; and proposed mitigating actions. A monitoring and reporting system will also be designed and implemented (structural benchmark).

b. **Oversight.** By end-February, we will assign a unit at the Ministry of Economy responsible for (a) preparing reform strategy; (b) preparing an inventory of SOEs, and developing and implementing a fiscal risk management system. We will ensure adequate resources for proper functioning of the unit.

c. **Reform strategy.** The government will adopt, by end-May 2015, a strategy in consultation with the IMF and the WB, to reform the SOE sector. The strategy will lay out a specific timeline for implementation of measures needed to improve budgetary oversight, develop and implement a comprehensive ownership policy, strengthen corporate governance, prioritize which enterprises
should be made subject to restructuring, propose specific measures to restructure large SOEs requiring such intervention, and propose transparent privatization of identified assets in the medium run. The strategy will also examine options for improving management of other state assets such as real estate owned by central government entities (structural benchmark). In preparation of this reform strategy, the Ministry of Economy in cooperation with the Ministry of Finance and other line ministries, will:

- **Corporate governance**: By end-May 2015, (i) prepare, an inventory of all legislation governing the SOE sector, that relates to the institutional arrangements surrounding regulatory, ownership and oversight policies; and (ii) develop a reform plan to consolidate the existing legislative framework and specify the preferred option for separation of the government’s regulatory and SOE ownership functions; (iii) articulate the main measures to be taken to improve corporate governance standards of individual enterprises by adopting international standards;

- **Financial viability**: (i) By end-March, prepare an inventory of at least the 50 largest (in terms of assets or losses) SOEs, specifying their (a) turnover, sales, revenues, expenses, assets and liabilities, arrears, including wage arrears, number of employees, average salary, (b) subsidies and other transfers from the government, dividends paid to the budget, government guarantees issued and other contingent liabilities, and (c) legal status and functions, including their corporate status. (ii) By end-July, we will extend the coverage to all other SOEs and categorize them in terms of their commercial and non-commercial status, and economic viability.

- **Restructuring plans**: By end-April, identify the available options for SOEs restructuring, and set out a preliminary list of 30 key SOEs that may be subject to a restructuring process on a priority basis;

- **Communication**: prepare a communications strategy on the government’s proposals for reform of the SOE sector.

d. **Inventory of state property**: The Ministry of Economy, in close cooperation with line ministries and the State Property Fund, will prepare by end-August an inventory of real estate owned by the central government.

e. **Transparency**: The Ministry of Economy will by end June propose and begin implementation of the key transparency policies to be introduced with the objective of publishing details of the value, yield and size of the portfolio. This will include (a) creation and management of a public
database with historic and current information on the financial performance of the 50 largest SOEs; (b) preparation and publication of a comprehensive report on SOEs operating and financial performance. This will form the basis for expanding the database to all SOEs and subsequent publication of annual reports on SOE performance.

III. Safeguards

37. **We will ensure that adequate safeguards are in place.** An IMF safeguards assessment completed in August 2014, made recommendations to improve NBU governance, financial autonomy, and internal controls. These recommendations have been or are being addressed in the context of the proposed program.

a. **NBU governance and autonomy.** The draft legislative amendments to the NBU Law, described in ¶9 above, will address the legislative issues flagged in the safeguards assessment. Draft legislative amendments to the Budget Code will block the annual budget from requiring advance NBU profit distributions.

b. **NBU internal controls.** In May 2014, the government and the NBU signed an Agreement concerning the servicing of future financial obligations related to the budget support under the current program and provided a copy of this Agreement to the IMF. We have resumed the quarterly data audits first introduced during the 2008 IMF-supported program and will communicate the results to the IMF within six weeks of each test date. The NBU will establish a permanent senior level credit committee by the first review of the program. The committee will oversee the NBU’s lending operations, including emergency liquidity assistance. In this context, the NBU will shift the origination and management of these operations to a function outside of banking supervision.

IV. Program Monitoring

38. **Program implementation will be monitored through prior actions, quarterly reviews, quantitative performance criteria and indicative targets, continuous performance criteria and structural benchmarks.** The first review is set for mid-June 2015 based on end-March 2015 quantitative targets and taking into consideration relevant structural benchmarks. We anticipate that the next three reviews will take place in mid-September 2015; mid-December 2015; and mid-March 2016. These reviews will require observance of conditionality for end-June 2015, end-September 2015, end-December 2015, respectively and continuous performance criteria and structural
benchmarks. For all reviews, quantitative performance criteria will include: a ceiling on the cash deficit of the general government; a ceiling on the combined deficits of the general government and Naftogaz; a ceiling on publicly guaranteed debt; a floor on cumulative change in the NIR; a ceiling on cumulative change in the NBU’s NDA; and non-accumulation of external debt payments arrears by the general government. The prior actions and structural benchmarks are set out in Table 1. The quantitative targets for target dates through end-December 2015, along with a continuous quantitative performance criterion are set out in Table 2. The understandings between the Ukrainian authorities and IMF staff regarding the quantitative performance criteria and the structural measures described in this memorandum are further specified in the Technical Memorandum of Understanding (TMU) attached to this memorandum.
Table 1. Ukraine: Prior Actions and Structural Benchmarks

<table>
<thead>
<tr>
<th>Prior actions</th>
<th>Status</th>
<th>Completion date</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Financial Sector</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Parliament will approve legislation that introduces unlimited liability of bank owners on losses arising from loans granted directly or indirectly to the benefit of bank shareholders holding 10 percent or more of total voting shares as of end-2014 (¶13).</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Energy Sector</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The energy regulator will adopt and officially publish a decision to raise household gas prices to UAH 3600/tcm for consumption in Tier 1 and UAH 7187/tcm for consumption in Tier 2, effective April 1, 2015 (¶28).</td>
<td></td>
<td></td>
</tr>
<tr>
<td>The energy regulator will adopt and officially publish a decision to raise household heating prices to UAH 625/gcal on average, effective April 1, 2015 (¶28).</td>
<td></td>
<td></td>
</tr>
<tr>
<td>The Cabinet will submit to Parliament legislative amendments to improve Naftogaz collections. These amendments should include (i) lifting two long-lasting moratoria (Law 2711-IV/2005 and Law 2864-III/2001) that protect energy and other companies from enforcement proceedings; and (ii) disconnecting non-compliant customers from the gas supply grid (¶28).</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Fiscal Policy</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Parliament will approve a 2015 supplementary state budget law and a package of tax and expenditure legislation consistent with the program deficit ceiling of UAH 78 billion for the general government, containing the elements described in ¶23.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Government will hire financial and legal advisors to facilitate consultations with holders of public sector debt with a view to improving medium-term debt sustainability (¶26)</td>
<td>Done</td>
<td>February 11, 2015</td>
</tr>
<tr>
<td><strong>Governance</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Parliament will approve legal amendments to ensure that the NAB is subject to a robust external oversight process, can investigate former Presidents, can access all relevant information for its investigations, and that appropriate mechanisms are in place to ensure hiring of staff with high integrity (¶32).</td>
<td>Done</td>
<td>February 25, 2015</td>
</tr>
<tr>
<td><strong>Structural benchmarks</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>NBU and Financial Sector</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Parliament will approve amendments to the NBU Law to strengthen the governance and autonomy framework of the NBU (¶19).</td>
<td></td>
<td>End-April 2015</td>
</tr>
<tr>
<td>NBU will notify banks of any identified discrepancies in the related party exposure reports based on steps (i) and (ii) as described in ¶13.</td>
<td></td>
<td>End-July 2015</td>
</tr>
<tr>
<td><strong>Judiciary/Enforcement</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Parliament will approve a law on a selective increase of court fees, aiming to double court fee revenue in real terms within 12 months (¶35).</td>
<td></td>
<td>End-May 2015</td>
</tr>
<tr>
<td>Parliament will approve a law which strengthens the provisions in the Code of Civil Procedure on Order for Payment for domestic transactions and on garnishment of bank accounts (¶35).</td>
<td></td>
<td>End-August 2015</td>
</tr>
<tr>
<td>Structural benchmarks (continued)</td>
<td>Status</td>
<td>Completion date</td>
</tr>
<tr>
<td>----------------------------------</td>
<td>--------</td>
<td>----------------</td>
</tr>
<tr>
<td><strong>Fiscal Policy</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Government will prepare a revenue administration reform plan in order to overhaul the state fiscal service. The plan will include measures to implement governance and institutional reforms that clarify the tax agency’s reporting to the Minister of Finance; and remove large numbers of underperforming officials as described in ¶25.</td>
<td></td>
<td>End-April 2015</td>
</tr>
<tr>
<td>The State Fiscal Service will transfer all taxpayers meeting large taxpayer criteria to the LTO (¶22).</td>
<td></td>
<td>End-December 2015</td>
</tr>
<tr>
<td>The State Fiscal Service will implement its new arrangements as specified under the revenue administration reform plan (¶25).</td>
<td></td>
<td>End-December 2015</td>
</tr>
<tr>
<td><strong>State-Owned Enterprises</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The Ministry of Economy in cooperation with the Ministry of Finance will prepare a statement of fiscal risks emanating from SOEs as described in ¶36.</td>
<td></td>
<td>End-April 2015</td>
</tr>
<tr>
<td>The government will adopt a broad-based strategy (prepared in consultation with the IMF and the World Bank staff) to reform the SOE sector as described in ¶36, including measures needed to improve budgetary oversight, develop a comprehensive ownership policy, strengthen corporate governance, prioritize which enterprises should be made subject to restructuring, and examine options for improving management of other state assets.</td>
<td></td>
<td>End-May 2015</td>
</tr>
<tr>
<td><strong>Governance</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Take necessary measures to establish the National Anti-corruption Bureau (¶32).</td>
<td></td>
<td>End-April 2015</td>
</tr>
<tr>
<td>Strengthen the implementation of the AML framework to prevent the misuse of the financial sector to launder the proceeds of corruption. This includes: (i) regulatory amendments to ensure proper implementation of the legal requirements related to domestic politically exposed persons (PEPs); (ii) the Financial Intelligence Unit (FIU) will develop a system to assist financial institutions in identifying domestic PEPs; and (iii) proper arrangements will be put in place to facilitate cooperation between the NBU, FIU and NAB (¶32).</td>
<td></td>
<td>End-June 2015</td>
</tr>
<tr>
<td><strong>Energy Sector</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Parliament will approve legislative amendments to improve Naftogaz collections. These amendments should include (i) lifting two long-lasting moratoria (Law 2711-IV/2005 and Law 2864-III/2001) that protect energy and other companies from enforcement proceedings; and (ii) disconnecting non-compliant customers from the gas supply grid (¶28).</td>
<td></td>
<td>End-March 2015</td>
</tr>
<tr>
<td>Parliament will approve a new gas market law (¶28).</td>
<td></td>
<td>End-April 2015</td>
</tr>
<tr>
<td>Undertake an independent audit of all Naftogaz receivables (¶28).</td>
<td></td>
<td>End-June 2015</td>
</tr>
</tbody>
</table>
Table 2. Ukraine: Quantitative Performance Criteria and Indicative Targets 1/
(End of period; millions of Ukrainian hryvnias, unless otherwise indicated)

<table>
<thead>
<tr>
<th>I. Quantitative performance criteria</th>
<th>2014</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ceiling on the cash deficit of the general government (- implies a surplus) 2/</td>
<td>-</td>
<td>20,400</td>
</tr>
<tr>
<td>Ceiling on the cash deficit of the general government and Naftogaz (- implies a surplus) 2/</td>
<td>-</td>
<td>36,500</td>
</tr>
<tr>
<td>Floor on cumulative change in net international reserves (in millions of U.S. dollars) 2/ 3/</td>
<td>1,827</td>
<td>-2,502</td>
</tr>
<tr>
<td>Ceiling on cumulative change in net domestic assets of the NBU 2/ 3/</td>
<td>304,385</td>
<td>57,704</td>
</tr>
<tr>
<td>Ceiling on publicly guaranteed debt 2/</td>
<td>-</td>
<td>30,000</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>II. Continuous performance criterion</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-accumulation of new external debt payments arrears by the general government 2/</td>
<td>0</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>III. Indicative Targets</th>
<th>2014</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ceiling on cumulative change in base money 2/</td>
<td>333,194</td>
<td>18,256</td>
</tr>
<tr>
<td>Ceiling on net accumulation of VAT refund arrears 4/</td>
<td>697</td>
<td>0</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>IV. Memorandum Items</th>
<th>2014</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>External project financing 2/</td>
<td>-</td>
<td>4,523</td>
</tr>
<tr>
<td>NBU loans to DGF and operations with Government bonds issued for DGF financing or banks recapitalization 3/</td>
<td>-</td>
<td>25,000</td>
</tr>
<tr>
<td>Government bonds issued for banks recapitalization and DGF financing 2/</td>
<td>26,716</td>
<td>29,000</td>
</tr>
<tr>
<td>Programmed disbursements of international assistance except IMF (millions of U.S. dollars) 2/ 3/</td>
<td>-</td>
<td>476</td>
</tr>
<tr>
<td>Percent of it applied to adjustment</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>Purchases of foreign exchange from the NBU for the purposes of critical energy imports (incl. those of Naftogaz, millions of US dollars) 2/</td>
<td>-</td>
<td>1,486</td>
</tr>
<tr>
<td>NBU purchases of T-bonds Issued by Government for Naftogaz recapitalization 2/</td>
<td>-</td>
<td>17,200</td>
</tr>
<tr>
<td>Projected Payments of Interest on government bonds held by NBU 2/</td>
<td>-</td>
<td>7,100</td>
</tr>
<tr>
<td>Program exchange rate, Hryvnia per U.S. dollar</td>
<td>15.7686</td>
<td>15.7686</td>
</tr>
</tbody>
</table>

Sources: Ukrainian authorities; and IMF staff estimates and projections.
1/ Definitions and adjustors are specified in the Technical Memorandum of Understanding (TMU).
2/ Targets and projections are cumulative flows from January 1, 2015. Data for December 2014 are stocks as of end-December, 2014.
3/ Calculated using program exchange rates specified in the TMU.
4/ Data for December 2014 is a stock as of the end of the month. Quarterly targets are cumulative flows from end-December, 2014.
### Annex. Schedule of Bank Reporting, NBU Review, and Banks’ Reduction of the Excess of Related Party Lending

<table>
<thead>
<tr>
<th></th>
<th>10 largest</th>
<th>Next 10 largest</th>
<th>Rest</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>2015</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>May</td>
<td>Banks report to NBU</td>
<td></td>
<td></td>
</tr>
<tr>
<td>July</td>
<td>NBU notifies banks on discrepancies</td>
<td>Banks report to NBU</td>
<td></td>
</tr>
<tr>
<td>August</td>
<td>Banks responds on discrepancies (provide proof)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>September</td>
<td>NBU issues final report (decision)</td>
<td>NBU notifies banks on discrepancies</td>
<td>Banks report to NBU</td>
</tr>
<tr>
<td>October</td>
<td>Banks submit reduction plans</td>
<td>Banks responds on discrepancies (provide proof)</td>
<td></td>
</tr>
<tr>
<td>November</td>
<td>NBU approves reduction plans</td>
<td></td>
<td></td>
</tr>
<tr>
<td>December</td>
<td>NBU issues final report (decision).</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>2016</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>January</td>
<td>Banks submit reduction plans</td>
<td></td>
<td></td>
</tr>
<tr>
<td>February</td>
<td>NBU approves reduction plans</td>
<td></td>
<td></td>
</tr>
<tr>
<td>April</td>
<td></td>
<td></td>
<td>NBU issues final report (decision)</td>
</tr>
<tr>
<td>June</td>
<td></td>
<td></td>
<td>NBU approves reduction plans</td>
</tr>
</tbody>
</table>
Ukraine: Technical Memorandum of Understanding

February 27, 2015

1. This Technical Memorandum of Understanding (TMU) sets out the understandings between the Ukrainian authorities and IMF staff regarding the definitions of the variables subject to quantitative targets (performance criteria and indicative targets) for the economic program supported by the Extended Arrangement under the Extended Fund Facility, as described in the authorities’ Letter of Intent (LOI) dated February 27, 2015 and the attached Memorandum of Economic and Financial Policies (MEFP). It also describes the methods to be used in assessing the program performance and the information requirements to ensure adequate monitoring of the targets.

2. Prior actions and structural benchmarks are listed in Table 1 of the MEFP, with corresponding definitions in Section I below. The quantitative performance criteria are shown in Table 2 of the MEFP. The definitions of these quantitative targets and the adjustment mechanisms are described in Section I below. The official exchange rate is defined in Section II. Reporting requirements are specified in Section III.

3. For the purposes of the program, all exchange rates used to evaluate reserve levels and monetary aggregates are (i) the official exchange rate of the Ukrainian hryvnia to the U.S. dollar of 15.7686 set by the NBU as of December 31, 2014, and (ii) reference exchange rates of foreign currencies reported by the European Central Bank (ECB) on its web site as of December 31, 2014, which the NBU used to set official exchange rates of hryvnia to those currencies. In particular, the Swiss Franc is valued at 0.9904 per dollar, the Euro is valued at 1.2141 dollars, the Pound Sterling is valued at 1.5587 dollars, the Australian dollar is valued at 0.8187 U.S. dollars, the Canadian dollar is valued at 0.8633 dollars the Japanese yen is valued at 119.6195 per dollar, and the Norwegian Krone is valued at 0.1343 dollars. The accounting exchange rate for the SDR will be 0.690224 per dollar. Official gold holdings were valued at 1,206.00 dollars per fine ounce. These program exchange rates are kept fixed over the program period. Therefore, the program exchange rate differs from the actual exchange rate set in the foreign exchange market. Furthermore, setting a program exchange rate for the purpose of computing monetary aggregates does not imply that there is any target exchange rate for policy purposes.

4. For the purpose of the program, gross domestic product is compiled as per the System of National Accounts 2008 and excludes Crimea and Sevastopol.
I. Quantitative Performance Criteria, Indicative Ceilings, and Continuous Performance Criteria

A. Floor on Cumulative Change in Net International Reserves (Performance Criterion)

Definition

5. Net international reserves (NIR) of the NBU are defined as the dollar value of the difference between usable gross international reserve assets and reserve-related liabilities to nonresidents, evaluated at program exchange rates.

6. Usable gross international reserves comprise all readily available claims on nonresidents denominated in convertible foreign currencies, consistent with the Balance of Payments Manual (Fifth Edition) and the Special Data Dissemination Standard (SDDS) (Table A, item 1). Excluded from usable reserves, *inter alia*:
   - any assets denominated in foreign currencies held at, or which are claims on, domestic institutions (i.e., institutions headquartered domestically, but located either domestically or abroad, or institutions headquartered abroad, but located domestically). Also excluded are all foreign currency claims of the NBU on domestic banks, and NBU deposits held at the Interbank Foreign Currency Exchange Market and domestic banks for trading purposes;
   - any precious metals or metal deposits, other than monetary gold and gold deposits, held by the NBU;
   - any assets that correspond to claims of commercial banks in foreign currency on the NBU and any reserves assets that are: (i) encumbered; or (ii) pledged as collateral (in so far as not already included in foreign liabilities, or excluded from reserve assets); or (iii) frozen; and
   - any reserve assets that are not readily available for intervention in the foreign exchange market, *inter alia*, because of lack of quality or lack of liquidity that limits marketability at the book price.

7. For the purpose of this program, reserve-related liabilities comprise:
   - all short-term liabilities of the NBU vis-à-vis nonresidents denominated in convertible foreign currencies with an original maturity of one year or less;
   - the stock of IMF credit outstanding;
• the nominal value of all derivative positions\(^1\) (including swaps, options, forwards, and futures) of
the NBU and general government, implying the sale of foreign currency or other reserve assets;
and

• all foreign exchange liabilities of the NBU to resident entities (e.g., claims in foreign exchange of
domestic banks, and NBU credits in foreign exchange from domestic market) excluding foreign
exchange liabilities to the general government, or related to deposit guarantees.

### Table A. Components of Net International Reserves

<table>
<thead>
<tr>
<th>Type of Foreign Reserve Asset or Liability(^2)</th>
<th>NBU Balance Sheet and Memorandum Accounts</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. <strong>International reserves</strong></td>
<td></td>
</tr>
<tr>
<td>Monetary gold</td>
<td>1100, 1107</td>
</tr>
<tr>
<td>Foreign exchange in cash</td>
<td>1011, 1017</td>
</tr>
<tr>
<td>Demand deposits at foreign banks</td>
<td>1201, 1202,</td>
</tr>
<tr>
<td>Short-term time deposits at foreign banks</td>
<td>1211,</td>
</tr>
<tr>
<td>Long-term deposits at foreign banks</td>
<td>1212</td>
</tr>
<tr>
<td>SDR holdings and Reserve Position in the IMF</td>
<td>IMF, Finance Department(^3)</td>
</tr>
<tr>
<td>Securities issued by nonresidents</td>
<td>1300, 1305, 1307, 1308, minus 1306</td>
</tr>
<tr>
<td>Settlement of foreign securities</td>
<td>2746, minus 4746</td>
</tr>
<tr>
<td>2. <strong>Short-term liabilities to nonresidents</strong> (in convertible currencies)</td>
<td></td>
</tr>
<tr>
<td>Correspondent accounts of nonresident banks</td>
<td>3201</td>
</tr>
<tr>
<td>Short-term deposits of nonresident banks</td>
<td>3211</td>
</tr>
<tr>
<td>Operations with nonresident customers</td>
<td>3230, 3232, 3233</td>
</tr>
<tr>
<td>Use of IMF credit</td>
<td>IMF, Finance Department</td>
</tr>
</tbody>
</table>

\(^1\) This refers to the notional value of the commitments, not the market value.

\(^2\) The definitions used in this technical memorandum will be adjusted to reflect any changes in accounting
classifications introduced during the period of the program. The definitions of the foreign accounts here correspond
to the system of accounts in existence on December 31, 2014. The authorities will inform the staff before introducing
any change to the Charts of Accounts of the NBU and the Commercial Banks, and changes in the reporting forms.

\(^3\) Before receiving the monthly data from the IMF’s Finance Department, these components will be calculated on the
basis of preliminary data from the NBU and memorandum accounts.
**Adjustment mechanism**

- The NIR targets will be adjusted upward (downward) by the full amount of the cumulative excess (shortfall) in program disbursements relative to the baseline projection (Table B). Program disbursements are defined as external disbursements (excluding project financing disbursements) from official multilateral creditors (World Bank, European Commission, European Investment Bank, and European Bank for Reconstruction and Development), official bilateral creditors (net), and external bond placements that are usable for the financing of the central government budget deficit.

- NIR targets will be adjusted upward by the cumulative shortfall in purchases of foreign exchange from the NBU for the purposes of paying critical energy imports (including those of Naftogaz) relative to the baseline projection (Table C).

- NIR targets will be adjusted downward by the full amount of the cumulative excess in government purchases of foreign exchange from the NBU for the purpose and in the event of early repayment of the government-guaranteed part of a maturing external loan to Naftogaz (in case this loan is repaid ahead of schedule). The downward adjustment of the NIR targets will be capped at US$500 million.

- NIR targets will be adjusted upward by the amount that will be converted from Renminbi into US Dollar through an outright sale under the activated swap agreement between the People’s Bank of China and the NBU.

**Table B. Eurobond Placements and Disbursements from IFIs and Official Sources: Projections for NIR/NDA Adjustment**

(Cumulative flows from end-December 2014, millions of US dollars at program exchange rate)

<table>
<thead>
<tr>
<th></th>
<th>Eurobond placement</th>
<th>World Bank</th>
<th>EU</th>
<th>Others (Canada, Japan, Switzerland, Norway)</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>End-March 2015</td>
<td>0</td>
<td>0</td>
<td>304</td>
<td>173</td>
<td>476</td>
</tr>
<tr>
<td>End-June 2015</td>
<td>1,000</td>
<td>500</td>
<td>1,032</td>
<td>701</td>
<td>3,233</td>
</tr>
<tr>
<td>End-September 2015</td>
<td>1,000</td>
<td>1,000</td>
<td>1,032</td>
<td>701</td>
<td>3,733</td>
</tr>
<tr>
<td>End-December 2015</td>
<td>2,000</td>
<td>1,000</td>
<td>1,760</td>
<td>701</td>
<td>5,461</td>
</tr>
</tbody>
</table>
Table C. Purchases of Foreign Exchange from NBU for the Purposes of Critical Energy Imports: Projections for NIR Adjustment

(Cumulative flows from end-December 2014, millions of US$)

<table>
<thead>
<tr>
<th></th>
<th>Purchases of foreign exchange from the NBU for critical energy imports (incl. those of Naftogaz)</th>
</tr>
</thead>
<tbody>
<tr>
<td>End-March 2015</td>
<td>1,486</td>
</tr>
<tr>
<td>End-June 2015</td>
<td>1,686</td>
</tr>
<tr>
<td>End-September 2015</td>
<td>1,686</td>
</tr>
<tr>
<td>End-December 2015</td>
<td>1,686</td>
</tr>
</tbody>
</table>

B. Ceiling on Cumulative Change in Net Domestic Assets of the NBU
(Performance Criterion)

Definition

8. Net domestic assets (NDA) of the NBU are defined as the difference between the monetary base (as defined below) and the NIR of the NBU (as defined above). For the purpose of computing the NDA target, the NIR is valued at the program exchange rate defined in paragraph 3 and expressed in hryvnia.

Adjustment mechanism

- Consistent with the NIR target adjustment mechanism (as defined above), NDA targets will be adjusted downward (upward) by the full amount of the cumulative excess (shortfall) in program disbursements relative to the baseline projection (Table B) and evaluated at the program exchange rate.

- Consistent with the NIR target adjustment mechanism (as defined above), NDA targets will be adjusted downward by the full amount of the cumulative shortfall in NBU purchases of T-bonds issued by government for Naftogaz recapitalization relative to the baseline projection (Table D).

- Consistent with the NIR target adjustment mechanism (as defined above), NDA targets will be adjusted upward by the hryvnia equivalent of the full amount of the cumulative excess in government purchases of foreign exchange from the NBU for the purpose of repaying the government-guaranteed part of a maturing external loan to Naftogaz (in case this loan is repaid ahead of schedule). The upward adjustment of the NDA target will be capped to hryvnia
equivalent of US$500 million, calculated using the program exchange rate defined in paragraph 3.

- NDA targets will be adjusted upward by the full amount of the cumulative excess in the total amount of NBU loans to the Deposit Guarantee Fund (DGF) as well as total amount of NBU purchases of government bonds issued for the purposes of DGF financing, and NBU purchases of government bonds issued for bank recapitalization, relative to the baseline projection, and evaluated at the program exchange rate if provided in foreign exchange (Table D).

- In case the People’s Bank of China uses the hryvnia provided under the swap agreement between the People’s Bank of China and the NBU, a symmetric adjustor will be applied to NDA targets. NDA targets will be adjusted upward by the amount of hryvnia placed in a commercial bank’s account at the NBU, when the People’s Bank of China uses the hryvnia. NDA targets will be adjusted downward by the amount of hryvnia (both the principal and interest due), when the People’s Bank of China repays the used hryvnia.

Table D. NBU Loans to DGF and Purchases of Government Bonds Issued for DGF Financing or Banks Recapitalization and for Naftogaz Recapitalization: Projections for NDA/Monetary Base Adjustment

(Cumulative flows from end-December 2014, millions of hryvnia)

<table>
<thead>
<tr>
<th></th>
<th>NBU loans to DGF and purchases of government bonds issued for DGF Financing or Bank Recapitalization</th>
<th>NBU purchases of government bonds issued for Naftogaz recapitalization</th>
</tr>
</thead>
<tbody>
<tr>
<td>End-March 2015</td>
<td>25,000</td>
<td>17,200</td>
</tr>
<tr>
<td>End-June 2015</td>
<td>44,000</td>
<td>26,100</td>
</tr>
<tr>
<td>End-September 2015</td>
<td>53,000</td>
<td>28,300</td>
</tr>
<tr>
<td>End-December 2015</td>
<td>55,000</td>
<td>28,300</td>
</tr>
</tbody>
</table>
C. Ceiling on Cumulative Change in Monetary Base of the NBU
(Base Money)
(Indicative Target)

Definition

9. The NBU’s monetary base comprises domestic currency outside banks and banks’ reserves, including cash in vault of commercial banks, and funds of customers at the NBU.\(^4\) Currency outside banks is defined as: Currency—banknotes and coins—\((\text{NBU accounts 3000 (net)+3001 (net)-3007A-3009A-1001A-1004A-1007A-1008A-1009A})\) minus cash in vault at deposit money banks (DMBs) (DMB accounts 1001A:1005A, and 1007A). Banks’ reserves are defined as: cash in vault at deposit money banks (DMB accounts 1001A:1005A, and 1007A) plus DMB correspondent account deposits at the NBU in hryvnia (NBU liabilities accounts 3200, 3203, 3204, and 3206) plus funds of customers at the NBU in hryvnia (NBU liabilities accounts of groups 323,\(^5\) 3250, 4731, 4732, 4735, 4736, 4738, 4739, and 4750), plus accrued interest on time deposits of DMBs in national currency (NBU accounts 3208L), plus accrued interest on client’s current accounts in national currency.

Adjustment mechanism

- Consistent with the NDA target adjustment mechanism (as defined above), monetary base targets will be adjusted upward by the full amount of the cumulative excess in the total amount of NBU loans to the Deposit Guarantee Fund (DGF) as well as total amount of NBU purchases of government bonds issued for the purposes of DGF financing or banks recapitalization, relative to the baseline projection (Table D), and evaluated at the program exchange rate if provided in foreign exchange.

- Consistent with the NDA target adjustment mechanism (as defined above), monetary base targets will be adjusted upward by the amount of hryvnia placed in a commercial bank’s account at the NBU, when the People’s Bank of China uses the hryvnia. Monetary base targets will be adjusted downward by the amount of hryvnia (both the principal and interest due), when the People’s Bank of China repays the used hryvnia.

\(^4\) The definitions set out here will be modified to include any other accounts that may be identified or created in the future in connection with domestic currency issue and the deposit money banks’ deposits at the NBU.

\(^5\) Includes accounts of following sectors: 2 – other financial intermediaries and other financial organizations; 6 – regional and local authorities; 7 – government non-financial corporations; 8 – private and foreign-controlled non-financial corporations; 9 – non-commercial organizations serving households.
D. Ceiling on Cash Deficit of the General Government
(Performance Criterion)

Definition

10. The general government comprises the central (state) government, including the Road Fund (UkrAvtoDor), all local governments, and all extra budgetary funds, including the Pension Fund, Unemployment Fund, and the Fund for Social Insurance of Ukraine (formerly temporary disability insurance and occupational injury and disease insurance funds). The budget of the general government comprises: (i) the state budget; (ii) all local government budgets; and (iii), if not already included in (i), the budgets of the extra budgetary funds listed above, as well as any other extra budgetary funds included in the monetary statistics compiled by the NBU. The government will inform the IMF staff of the creation or any pending reclassification of any new funds, programs, or entities, immediately. The cash deficit of the general government is measured by means of net financing flows as:

- total net treasury bill sales\(^6\) (in hryvnias and foreign currency) as measured by the information kept in the NBU registry of treasury bill sales (net treasury bill sales are defined as the cumulative total funds realized from the sales of treasury bills at the primary auction and government securities issued for recapitalization of banks and SOEs, less the cumulative total redemption of principal on treasury bills), excluding bonds issued to recapitalize Naftogaz\(^7\) and other SOEs, banks and DGF; plus

- other net domestic banking system credit to general government as measured by the monetary statistics provided by the NBU (this consists of all non-treasury-bill financing in either domestic or foreign currency extended to the general government by banks less the change in all government deposits in the banking system) as well as any other financing extended by entities not reflected by the monetary statistics provided by the NBU; plus

- total receipts from privatization received by the State Property Fund and local governments (including the change in the stock of refundable participation deposits and the net sale of nonfinancial assets); plus

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\(^6\) From here on, treasury bills are defined as all treasury securities (including long term instruments or treasury bonds).

\(^7\) These are included in the financing of Naftogaz’ cash deficit when they are used (as collateral for a loan, or as an outright sale) by the latter to obtain financing.
• the difference between disbursements and amortization on any bond issued by the general government or the NBU to nonresidents for purposes of financing the deficit of the general government; plus

• the difference between disbursements of foreign credits to the general government (including project loans on-lent to public enterprises) and the amortization of foreign credits by the general government (including on-lent project loans); plus

• the net sales of SDR allocation in the SDR department; plus

• the net change in general government deposits in nonresident banks, or other nonresident institutions; plus

• net proceeds from any promissory note or other financial instruments issued by the general government.

11. For the purposes of measuring the deficit of the general government, all flows to/from the budget in foreign currency (including from the issuance of foreign currency denominated domestic financial instruments) will be accounted in hryvnias at the official exchange rate established as of the date of the transaction.

Adjustment mechanism

• The ceiling on the cash deficit of the general government is subject to an automatic adjuster based on deviations of external project financing (defined as disbursements from bilateral and multilateral creditors to the consolidated general government for specific project expenditure) from program projections (Table E). Specifically, if the cumulative proceeds from external project financing (in hryvnia evaluated at actual exchange rates):

a) exceed program projections, the ceiling on the consolidated general government deficit will be adjusted upward by 100 percent of the excess in external project financing; and
Table E. External Financing of General Government Projects—Adjustment

<table>
<thead>
<tr>
<th>Cumulative flows from January 1, 2015</th>
<th>In millions of hryvnia</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>External project financing</strong> (technical assumption for the adjuster purpose)</td>
<td></td>
</tr>
<tr>
<td>End-March 2015</td>
<td>4523</td>
</tr>
<tr>
<td>End-June 2015</td>
<td>11064</td>
</tr>
<tr>
<td>End-September 2015</td>
<td>19287</td>
</tr>
<tr>
<td>End-December 2015</td>
<td>25274</td>
</tr>
</tbody>
</table>

- The ceilings on the cash deficit of the general government at end-March, end-June, end-September, and end-December 2015 are subject to an automatic adjuster corresponding to the full amount of government bonds issued for the purposes of banks recapitalization and DGF financing, up to a cumulative maximum of UAH 139 billion in 2015. The test date ceilings on the cash deficit of the general government for 2015 will be adjusted upward by any amount of the UAH 139 billion bank recapitalization and DGF financing ceiling under the program that is not used in 2015.

- The ceiling on the cash deficit of the general government is subject to an automatic adjuster on the stock of budgetary arrears on social payments. Budgetary arrears on social payments comprise all arrears of the consolidated budget on wages, pensions, and social benefits owed by the Pension Fund, and the central or local governments. Budgetary arrears are defined as payments not made thirty days after they are due. Wages are defined to comprise all forms of remuneration for work performed for standard and overtime work. Pension obligations of the Pension Fund comprise all pension benefits and other obligations of the Pension Fund. This definition excludes unpaid pensions to individuals who resided or continue to reside on the territories that are temporarily outside the government control.

- The ceiling on the cash deficit of the general government at all 2015 test dates will be automatically adjusted downward by VAT refund arrears accumulated as defined in Section E from January 1, 2015.

- The ceilings on the cash deficit of the general government at end-March, end-June, end-September, and end-December 2015 are subject to an upward adjustment for the full amount of government repaying government-guaranteed part of an external loan to Naftogaz, in case this loan is repaid ahead of schedule and the repayment is recorded as above-the-line transaction. The adjustment will be equal to the actually repaid amount in US$ terms capped at US$500 million, and recalculated in hryvnia at the actual exchange rate at the time of repayment.
12. The ceilings on the cash deficit of the general government at end-March, end-June, end-September, and end-December 2015 are subject to an automatic downward adjuster corresponding to the full savings on the budgetary interest bill resulting from any restructuring or reprofiling of existing government debt to NBU as of end-2014. Such savings will be determined as the difference between the actual and projected payments on government bonds held by the NBU. The projected payments are presented in Table F.

Table F. Projected Payments of Interest on government bonds held by NBU

<table>
<thead>
<tr>
<th></th>
<th>Cumulative flows from January 1, 2015</th>
<th>In billions of hryvnia</th>
</tr>
</thead>
<tbody>
<tr>
<td>End-March 2015</td>
<td></td>
<td>7.1</td>
</tr>
<tr>
<td>End-June 2015</td>
<td></td>
<td>17.4</td>
</tr>
<tr>
<td>End-September 2015</td>
<td></td>
<td>27.4</td>
</tr>
<tr>
<td>End-December 2015</td>
<td></td>
<td>38.0</td>
</tr>
</tbody>
</table>

E. Ceiling on VAT Refund Arrears
(Indicative Target)

13. The ceiling on net accumulation of VAT refund arrears is set to UAH 0 billion. The stock of VAT refund arrears is defined as those claims that have not been settled (through a cash refund, netting out against obligations of taxpayers, payment with a government bond (VAT bond) or an official decision to reject the claim) within a specified time period after the VAT refund claim has been submitted to the State Fiscal Service (SFS). In 2015, this time period is 74 days, allowing for verification of the validity and payment processing of claims. According to this definition, the stock of VAT refund arrears as of December 31, 2014 was UAH 0.697 billion.

F. Ceiling on Cash Deficit of the General Government and Naftogaz
(Performance Criterion)

Definition

14. The cash deficit of the General Government and Naftogaz is the cash deficit of the General Government as defined above plus the cash deficit of Naftogaz.

15. Naftogaz is defined as the national joint stock company “Naftogaz of Ukraine.” The cash deficit of Naftogaz is measured from below the line as:

- net domestic banking system credit to the company (this consists of all financing in either domestic or foreign currency extended to the company by banks less the change in company deposits in the banking system); plus
the difference between disbursements of private foreign loans to Naftogaz (including private placements) and the amortization of private foreign loans (including private placements); plus

the difference between disbursements of official foreign credits to Naftogaz (including project loans) and the amortization of official foreign credits (including project loans); plus

the disbursements of trade credits to import gas; plus

the difference between disbursements and amortization on any bonds issued by Naftogaz; plus

the net change in deposits of Naftogaz in nonresident banks, or other nonresident institutions; plus

net proceeds from any promissory note or other financial instruments issued by Naftogaz; plus

net receipts from sale of financial assets (including recapitalization or other form of treasury securities issued to Naftogaz, irrespective of their issuance date); plus

any other forms of financing of the company not identified above.

16. For the purposes of measuring the deficit of Naftogaz, all flows in foreign currency will be accounted in hryvnias at the official exchange rate as of the date of the transaction. When there are arrears outstanding as of the test date, the official exchange rate on the test date will apply to their valuation.

**Adjustment mechanism**

- The ceiling on the cash deficit of the general government and Naftogaz will be adjusted upward by the amount of financing by multilateral institutions and official bilateral creditors disbursed to Naftogaz for investment projects.

- The ceiling on the cash deficit of the general government and Naftogaz will be adjusted downward by the net transfers made by Gazprom (advance transit fee). These transfers are measured on a cumulative basis from the beginning of each calendar year.
G. Ceiling on Non-Accumulation of New External Debt Payments Arrears by the General Government (Continuous Performance Criterion)

Definition

17. For the purposes of the program, an external debt payment arrear will be defined as a payment by the general government, which has not been made within seven days after falling due (including grace period, if any). The performance criterion will apply on a continuous basis throughout the program period.

H. Ceiling on Publicly Guaranteed Debt (Performance Criterion)

Definition

18. The ceiling on publicly guaranteed debt will apply to the amount of guarantees issued in 2015 by the central (state) government. The official exchange rate will apply to all non-UAH denominated debt. New state guarantees in 2015 will amount to no more than UAH 30 billion. This ceiling excludes guarantees issued by the Ministry of Finance for NBU borrowings from IMF.

I. Other Continuous Performance Criteria

19. During the period of the Extended Arrangement, Ukraine will not (i) impose or intensify restrictions on the making of payments and transfers for current international transactions; (ii) introduce or modify multiple currency practices; (iii) conclude bilateral payments agreements that are inconsistent with Article VIII; and (iv) impose or intensify import restrictions for balance of payments reasons.

II. Official Exchange Rate

Determination of the official exchange rate

20. The NBU will, on a daily basis, set the official rate calculated as a weighted average of the exchange rates of the interbank market deals on the same day. To calculate the official exchange rate, all deals concluded on the day will be considered regardless of the settlement date. Specifically, tod, tom and spot (T+2) deals will be included. NBU will make public its official exchange rate by no later than 18:00 of the day, preceding the one for which it is set.
III. Reporting Requirements

A. National Bank of Ukraine

21. The NBU will continue to provide to the IMF on a monthly basis, no later than the 25th day of the following month, an aggregate balance sheet for the NBU and a consolidated balance sheet for the deposit money banks.

22. The NBU will provide to the IMF, on a daily basis, with daily data the stock of net and gross international reserves, at both actual and program exchange rates. In addition, it will provide on a weekly and monthly basis, no later than the 25th of the following month, the full breakdown of NBU accounts included in net international reserves (defined in Table A above).

23. The NBU will provide the IMF on a daily basis with information on official foreign exchange interventions. In this context, it will also provide the results of any foreign exchange auctions.

24. The NBU will provide the IMF on a daily basis with information on balances held in the analytical accounts 2900 “Accounts payable per transactions for the foreign exchange, banking and precious metals purchase and sale on behalf of banks’ clients.”

25. The NBU will continue to provide on its web site the daily holdings of treasury bills at primary market prices, at current exchange rates. The NBU will provide information on daily holdings of treasury bills broken down by type of holders (including state-owned banks and private banks) at primary market prices at the rate fixed on the day of auction information on t-bills sales, including in the foreign exchange, from the beginning of the year at the official rate as of the date of placement, as well as the t-bills in circulation, by principal debt outstanding at the official exchange rate as of the date of placement (OP-2); reports on each treasury bill auction; and provide to the IMF the monthly report on treasury bills, in the format agreed with the IMF staff.

26. The NBU will provide information on daily transactions (volumes and yields) on the secondary market treasury bills (including over the counter transactions).

27. The NBU will provide to the IMF, on a daily basis, the information on the claims on banks provided and liabilities in the format agreed with the IMF staff.

28. The NBU will provide to the IMF its financial statements (income and expenses) for the current and, if available, for the following year, as approved by the NBU’s Council. The IMF is to be notified immediately of any update.
29. The NBU will keep providing to the IMF, on a monthly basis, general information on the NBU financing (as well as the refinancing) of the banks of Ukraine, and on the operations of mopping up (absorption) of the liquidity from the banking system (including through the CDs issuance) in the format agreed with the IMF staff. It will also provide, on a weekly basis, bank-by-bank information on the outstanding amount of loans from the NBU, reported by type of lending. In the weekly report, the NBU will include the collateral that has been pledged to the NBU for loans (by bank and loan type as well as by collateral type, haircut and currency). The weekly reporting of NBU loans and collateral will make clear which banks are under temporary administration or liquidation.

30. The NBU will provide to the IMF, on a quarterly basis but not later than 30 days after the expiration of the reporting quarter, the report on the banking sector financial stability indicators in the format agreed with the IMF staff.

31. Every 10 days, the NBU will continue to provide the IMF with the operational monetary survey of the NBU, including any additional information that is needed for the IMF staff to monitor monetary policy and developments in the banking sector.

32. The NBU will provide to the IMF, on a monthly basis, the net domestic assets data based on the monthly balance sheets within three weeks following the end of the month.

33. The NBU will continue to provide to the IMF the daily operational balance sheets of the NBU and commercial banks on a daily basis according to standard reporting forms, including detailed information on loans of the banking sector provided to the general government, with detailed breakdown of this information by indebtedness of the central (state) government and local budgets, including in national and foreign currency, by loan and by security, as well as the information on the balances of the funds of the government held at the NBU, in particular, the balances of the Single Treasury Account denominated in the national currency (account 3240 A) and the funds of the State Treasury denominated in foreign currency (account 3513 A).

34. The NBU will provide to the IMF, on a monthly basis, projections for external payments falling due in the next twelve months. The data on actual settlement of external obligations, reflecting separately principal and interest payments as well as actual outturns for both the public and private sectors, shall be provided on a quarterly basis, within 80 days following the end of the quarter.

35. The NBU will provide to the IMF, on a quarterly basis, the stock of short- and long-term external debt (including arrears) for both public and private sectors.
36. The NBU will provide to the IMF, on a daily basis, data on foreign exchange export proceeds and obligatory foreign exchange sales; data on import transactions for goods and services; data on amounts of foreign exchange transferred from abroad to the benefit of physical persons – residents and non-residents – to be paid in cash without opening an account; data on FX wires from Ukraine abroad for current foreign exchange non-trade transactions on the basis of the orders of physical persons; data on sales and purchases of foreign exchange cash by individuals (incl. through banks, exchange offices, and Ukrposta); data summarizing the implementation of T+2 verification system, namely, the total number and volume of transactions screened and the total number and volume of transactions blocked, with separate information on imports. The NBU will provide to the IMF weekly data on the volumes of non-cash foreign exchange purchases on behalf of banks’ clients and banks broken down by reasons (From N 538).

37. The NBU will provide to the IMF, on a daily basis, data on foreign assets and liabilities of the overall banking system (excl. the NBU); data on banks’ open foreign exchange positions by main groups of banks; data on deposits on the aggregated basis for the overall banking system (excl. the NBU) broken down by households and legal entities, maturity, as well as by national and foreign currency; data on loans on the aggregated basis for the overall banking system (excl. the NBU) broken down by households and legal entities as well as by national and foreign currency.

38. The NBU will provide, on a daily basis, bank-by-bank data for the largest 35 banks and aggregate data for the Group III and IV banks separately on cash and cash equivalents, available funds in NBU accounts (excl. reserve requirements), correspondent accounts with well-known international banks (excl. encumbered accounts), and deposits. The data will be reported by domestic and foreign currency. In addition, the deposits will be reported by households and legal entities and by maturity (current accounts, saving accounts, and time deposits).

39. The NBU will provide, on a monthly basis, data on the total number and volume of deposits of individuals broken down in groups by deposit size. The data will be reported by bank for the largest 35 banks and on aggregate for the remaining banks.

40. The NBU will provide to the IMF on a daily basis aggregated data on main currency flows, including government foreign receipts and payments by currencies as well as currency breakdown of interbank market operations. The NBU will continue to provide daily information on exchange market transactions including the exchange rate.

41. The NBU will provide to the IMF reports N 381.25; 381.26 with information on reserve requirements.
42. The NBU will provide the IMF, on a two weekly basis, with daily data on the total financing (including refinancing) issued by the NBU to commercial banks, broken down by types of instrument, maturity (average weighted), interest rate as well as transactions to absorb liquidity from the banking system.

43. The NBU will provide the IMF, on a two weekly basis, in an agreed format, data for the entire banking sector as well as on a bank-by-bank basis for Group I and Group II banks on total assets and liabilities; risk weighted assets (for ratio H2 calculation); regulatory and Tier 1 capital; capital adequacy ratios for normative, regulatory (Tier I and Tier II) and Tier 1 capital; deposits (by maturity, domestic and foreign currency, and households and legal entities); insured deposits (by domestic and foreign currency); deposits of related parties (by domestic and foreign currency, and households and legal entities); other liabilities to related parties (by domestic and foreign currency); counterparty names and amounts of the largest 20 deposits of related parties; loans and claims (by households in domestic and foreign currency, legal entities in domestic and foreign currency, banks in domestic and foreign currency, maturity, and by loan classification categories I, II, III, IV and V); collateral for loans and claims (by type of collateral, legal entities in domestic and foreign currency, households in domestic and foreign currency, banks in domestic and foreign currency, and by loan classification categories I, II, III, IV and V); provisions on loans and claims (by households in domestic and foreign currency, legal entities in domestic and foreign currency, banks in domestic and foreign currency, and by loan classification categories I, II, III, IV and V); related party loans (by households, legal entities, and banks); counterparty names and amounts of the largest 20 loans to related parties; large exposures (loans equal to or greater than 10 percent of equity), refinanced loans, and restructured loans (by households, legal entities, and banks); the average interest rate on the outstanding stock of loans to customers (by legal entities and households); amount in accounts at the NBU; accrued interest (by domestic and foreign currency); foreign exchange net open position; securities held for sale with government securities reported separately (by domestic and foreign currency); securities held as investment with government securities reported separately (by domestic and foreign currency); mandatory reserve requirement and assets held at the NBU; cash in vaults.

44. The NBU will provide to the IMF, on a monthly basis, data bank-by-bank and by region loans and provisions (by households and legal entities, and domestic and foreign currency); deposits (by households and legal entities, and domestic and foreign currency); due from banks (by domestic and foreign currency).

45. The NBU will report to the IMF, on a monthly basis, bank-by-bank data on cumulative income statements, including total revenues; interest revenues (from loans to households, loans to legal entities, interbank loans, placements with the NBU, securities); revenues from fees and
commissions; total expenses; interest expenses (on deposits to legal entities, deposits to households, interbank borrowing, borrowing from NBU, securities issued); fees and commissions paid; salaries and other staff compensation; other operational expenses; net earnings before loan loss provisions; loan loss provisions; net earnings after loan loss provisions; taxes paid; net earnings.

46. The NBU will provide to the IMF the existing report containing two-week projections of cash flows for the 35 largest banks. The report will be provided to the IMF with the same frequency as it is produced internally at the NBU.

47. The NBU will report to the IMF on a bi-weekly basis and bank-by-bank the amount by which the Group 1 and 2 banks’ regulatory capital has been increased. The report will disclose the instrument or means by which the regulatory capital has been increased (e.g., capital injection, conversion of subordinated debt to equity etc.)

48. The NBU will once a month inform the IMF any regulatory and supervisory measures against banks violating the NBU regulations on capital adequacy, liquidity ration, large exposures, and connected lending, as well as about decisions on declaring a bank as problem or insolvent.

49. The NBU will continue to provide on a monthly basis, no later than 25 days after the end of the month, banking system monitoring indicators in an agreed format. This includes inter alia data on nonperforming loans (III, IV and V category).

50. The NBU will continue to provide detailed quarterly balance of payments data in electronic format within 80 days after the end of the quarter.

51. The NBU will provide data on credit to nongovernment units that are guaranteed by the NBU on a monthly basis no later than 25 days after the end of the month.

52. The NBU will inform IMF staff if the Treasury does not pay interest or principal on domestic government bonds due to the NBU, deposit money banks, or nonbank entities and individuals. In such case, the NBU will provide information on outstanding interest and principal payments.

53. The NBU will inform IMF staff of any changes to reserve requirements for deposit money banks.

54. The NBU will communicate (electronically) to the IMF staff any changes in the accounting and valuation principles applicable to the balance-sheet data and will notify the staff before introducing any changes to the Charts of Accounts and reporting forms of both the NBU and the commercial banks.
55. The NBU Internal Audit Department will continue to provide an assurance report to the Fund, no later than six weeks after each test date, confirming that: (i) the monetary data are in accordance with program definitions and have been verified and reconciled to accounting records; and (ii) that there have been no changes to the chart of accounts or valuation methods that would impact the data reporting.

56. The NBU will continue to provide the Fund with a copy of the annual management letter from the external auditor within six weeks of completion of each audit. As required under the Fund’s safeguard policy, this will remain in effect for the duration of the arrangement and for as long as credit remains outstanding.

57. The NBU will provide the Fund with data on the interest income received from the portfolio of government bonds available at January 19, 2015 on a quarterly basis but no later than 15 days from the end of the reporting period,

B. Deposit Guarantee Fund

58. The DGF will report to the IMF on a monthly basis and bank-by-bank the amount of pending payments to insured depositors in banks in liquidation. The report will also contain the amount of resources available in DGF to pay insured depositors in banks in liquidation. The available resources will be reported by type of resource (e.g., cash balance, government bonds etc.)

59. The DGF will report to the IMF on a monthly basis the amount and type of resources that have been provided to DGF from the MoF during the preceding month. The report will also contain a 1-year month-by-month forecast of the amount and type of resources that the DGF expects to receive from MoF, the amount of government bonds the DGF plans to sell to or repurchase with the NBU and the amount that DGF expects to pay out to insured depositors in banks in liquidation (reported bank-by-bank).

C. Ministry of Finance

60. The Ministry of Finance will provide the IMF with the monthly consolidated balances (end-month) of other non-general government entities, including SOEs, holding accounts at the Treasury no later than 25 days after the end of the month.

61. The Treasury will continue to provide to the IMF reports on: daily operational budget execution indicators, daily inflow of borrowed funds (by currency of issuance) to the state budget and expenditures related to debt service (interest payments and principals), weekly balances of Treasury cash flow (outturn and forecast), including data on government foreign exchange deposits,
in a format agreed with IMF staff, 10-day basis data on revenue of the state, local government, and consolidated budgets, monthly data on funds, deposited with the Single Treasury Account, on the registration accounts of the entities which are not included to the state sector, information on the stock of public entities in account #3712 within the Single Treasury Account, on inflow to the State budget from placing Treasury or any other liabilities to households in foreign and domestic currency and their redemption.

62. The Ministry of Finance will continue to provide to the IMF in electronic form monthly and quarterly treasury reports, no later than 25 and 35 days after the end of the period respectively. The Ministry of Finance will continue to provide to the IMF in electronic form the final fiscal accounts at the end of each fiscal year, no later than March of the following year. Inter alia, these reports will provide expenditure data by programs and key spending units, as well as based on standard functional and economic classifications. In addition, quarterly reports will contain standard information on budget expenses to cover called government guarantees.

63. The Ministry of Finance will report monthly data on the public wage bill (excluding SOEs) in line with the template agreed with the IMF staff. It will also provide monthly reports on the borrowing (disbursements, interests and amortization) of UrkAvtoDor in line with the format agreed with IMF staff. The Ministry of Finance will report to the IMF on a monthly basis information on municipal borrowing and amortization of debt in format agreed with IMF staff.

64. The Ministry of Finance will report to the IMF on a monthly basis, no later than 15 days after the end of the month, the cash deficit of the general government, with details on budget execution data for privatization receipts of the state and local governments; disbursements of external credits (including budget support and project loans for on-lending) to the consolidated budget and amortization of external debt by the consolidated budget; net domestic borrowing of the general government, including net t-bill issuance, issuance of other government debt instruments, and change in government deposits.

65. The Ministry of Finance will provide data on the stock of all budgetary arrears on a monthly basis, no later than on the 1st day of the second subsequent month, including separate line items for wages, pensions, social benefits, energy, communal services, and all other arrears on goods and services. The Treasury will report monthly data on accounts payable for state and local budgets (economic and functional classification). The Pension Fund will provide monthly reports on net unpaid pensions to the individuals who resided or continue to reside in the territories that are temporarily outside the government control.
66. The Ministry of Finance will provide monthly information, no later than 25 days after the end of each month, on the amounts and terms of all external debt contracted or guaranteed by the central government.

67. The Ministry of Finance will provide to the IMF in electronic form on a monthly basis, no later than 25 days after the end of the month, (a) data on the outstanding stock of domestic and external debt of the state and local budgets (including general and special funds), (b) the standard files planned and actual external debt disbursement, amortization, and interest payments (including general and special funds), broken down in detail by creditor categories as agreed with Fund staff, and (c) the report on external debt amortization and interest payments by days and currencies. The Ministry of Finance will also report the accumulation of any budgetary arrears on external and domestic debt service.

68. The Ministry of Finance will provide to the IMF monthly debt (domestic and external) amortization schedules updated on a weekly basis.

69. The Ministry of Finance will provide data on external and domestic credit to key budgetary spending units as well as nongovernment units (including Naftogaz, State Mortgage Institution, Deposit Guarantee Fund and Agrarian Fund) that is guaranteed by the government (amount of sovereign guarantees extended by executive resolutions and actually effectuated; total amount of outstanding guarantees and list of their recipients) on a monthly basis no later than 25 days after the end of the month.

70. The Ministry of Finance will provide data on the approved budgets and quarterly operational data (daily for the Pension Fund only) on the revenue, expenditures, and arrears, and balance sheets of the Pension Fund (detailed data on the breakdown of revenues and expenditure by main categories are expected for this Fund), the Fund for Social Insurance, Employment Fund (detailed data on the breakdown of revenues and expenditure by main categories are expected for this Fund), and any other extra budgetary funds managed at the state level no later than 50 days after the end of each quarter (each month in case of the Pension Fund). Any within-year amendments to the budgets of these funds will be reported within a week after their approval. The Ministry of Finance will also report the annual financial statement including the final fiscal accounts of those funds at the end of each fiscal year, no later than April of the following year.

71. The Ministry of Finance will report semi-annual data on the number of employees of budgetary institutions financed from the central (state) and local budgets, starting from January 2010. After any public sector wage increase, the Ministry of Finance will provide an estimate
of its costs for the current and two subsequent fiscal years, for the state and local government budgets.

72. The Ministry of Finance will provide, no later than 15 days after the end of each month, monthly data on the budgetary costs associated with the recapitalization of banks and SOEs. This cost includes the upfront impact on the cash deficit of the general government of the recapitalization of banks and SOEs as well as the costs associated with the payment of interests.

73. The Ministry of Finance will provide monthly data on their expenditure plans (ROSPIS) for state budget.

74. The State Fiscal Service (SFS) will provide monthly data, no later than 25 days after the end of the month, on tax arrears, inclusive of deferred payments, interest and penalties outstanding, in the following format:

<table>
<thead>
<tr>
<th></th>
<th>Beginning Stock</th>
<th>Netting out during month</th>
<th>I. DEFER RALS DURING MONTH</th>
<th>Write-offs (arrears written off during month)</th>
<th>Collections of outstanding debt at beginning of month</th>
<th>New Arrears (tax liabilities becoming overdue during month)</th>
<th>Ending Stock</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>Principal</td>
<td>Interest</td>
<td>Penalties</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

75. The SFS will continue to provide on a quarterly basis, no later than two months after the end of the quarter, a listing of all tax exemptions granted, specifying the beneficiary the exemption provided, the duration, and the estimated subsequent revenue loss for the current fiscal year.

76. The SFS will continue to provide monthly information, no later than 25 days after the end of the month, on VAT refunds in the following format: (i) beginning stock of refund requests; (ii) refund requests paid in cash; (iii) refunds netted out against obligations of the taxpayer; (iv) denied requests; (v) new refund requests; (vi) end-of-period stock of requests; and (vii) stock of VAT refund arrears according to the definition in paragraph 11 (unsettled VAT refund claims submitted to the SFS more than 74 days before the end-of-period.

77. The SFS will continue to provide monthly reports 1.P0 on actual tax revenue and 1.P6 on tax arrears, no later than 25 days after the end of each month.
78. The SFS will provide on a quarterly basis but no later than 25 days after the end of each quarter information on the number of tax appeals and the associated disputed amounts received by the SFS in each reporting period, the number of internally resolved appeals indicating the number of appeals resolved in favor of the controlling body, in favor of taxpayer and partial satisfaction.

79. After each amendment of the state budget, the Ministry of Finance will provide data on revenue plans (ROSPIS) for state and local budgets.

D. Ministry of Economy, Ministry of Energy and Coal Industry, Ministry of Housing and Municipal Economy of Ukraine, NURC and NERC

80. The Ministry of Economy will provide quarterly information on actual levels of communal service tariffs in all regions for major services (heating, water supply, sewage and rent) and their level of cost recovery. In addition, the Ministry of Economy, the Ministry of Housing and Municipal Economy of Ukraine, and the National Energy Regulatory Commission will provide the methodology underlying the tariff calculations for full cost recovery, including heating and gas.

81. For each month, no later than the 25th of the following month, the government (based on information by the Ministry of Energy and Coal Industry, the Ministry of Economy, SFS/SCS, MoF, NERC, and Naftogaz) will provide IMF staff with information in electronic form (in an agreed format defined as “Ukraine: The Financial Position of Gas Sector”) on financial indicators in the gas and heating sectors, including prices and volumes of domestically produced (by production entity) and imported (by sources of imports) gas, sales, tariffs, arrears, payments to the budget, subsidies, and debt. On a monthly basis, Naftogaz will provide to IMF staff updated information on the company’s financial liabilities, with a schedule of loan-by-loan interest and principal payments.

82. For each month, no later than the 25th of the following month, the Ministry of Energy and Coal Industry (based on information by Naftogaz) will provide IMF staff with information “in electronic form (in an agreed format) on the cash flows and deficit of the company, as defined above. This report will break down the total cash outlays for gas imports from Gazprom by month in a separate table mutually agreed with IMF staff.

83. For each month, no later than the 25th of the following month, the Ministry of Energy and Coal Industry (based on information by Naftogaz) will provide IMF staff with information in electronic form in an agreed format on the domestic gas used by Naftogaz for sales to households, heating utilities, budget institutions, and industries, including gas produced by SC “Ukrgasvydobuvannya,” and OJSC “Uknafta.”
84. For each quarter, no later than the 25th of the following month, the Ministry of Housing and Municipal Economy will provide IMF staff with information of the quantity of heating energy meters installed at a building-level measured also as a ratio to the applicable buildings.

85. For each month, no later than the 25th of the following month, the Ministry of Energy and Coal Industry (based on information by Naftogaz) will provide IMF staff with information in electronic form on the amount of Naftogaz arrears to domestic suppliers including Naftogaz subsidiaries, Ukrtransgas, Ukrgas vydobuvannya, Ukrafta 90 days after they are due.

86. For each month, no later than the 25th of the following month, the Ministry of Energy and Coal Industry (based on information by Naftogaz) will provide IMF staff with information in electronic form and in an agreed format with IMF staff the stock of Naftogaz receivables and the amount of receivables paid in prior month.

87. The Ministry of Energy and Coal Industry (based on information by Naftogaz) will report on a weekly basis data on Naftogaz daily market purchases of foreign exchange.

88. The Ministry of Economy will provide on a quarterly basis, but no later than 80 days after the end of each quarter consolidated information from the financial statements of 50 largest SOEs (excluding Naftogaz). Specifically, the information will include data on: (a) gross profit/losses, (b) net financial results, (c) subsidies received from the budget, (d) guarantees granted from the budget, (e) stock of debt, broken down by domestic and foreign (f) taxes and dividends paid, (g) wage arrears and (h) other payment arrears. The report will also include information on the number of all SOE (a) making profits, (b) making loss or (c) balanced with aggregated financial results for each of these groups.

E. State Statistics Service

89. In case of any revisions of gross domestic products the State Statistics Service will provide to the IMF revised quarterly data on gross domestic product (nominal, real, deflator) and their components (economic activities, expenditure, income), no later than 10 days after any revisions have been made.
Annex

Occupations defined in the Law of Ukraine on Pensions that are eligible for early retirement and will be affected by an increase in the retirement age and the qualified period of service:

Occupations allowing early retirement based on the age and the qualified period of service:

Occupations included in Lists 1 and 2 established by the Cabinet of Ministers’ Resolution #36, plus:
- Tractor drivers
- Public transportation drivers
- Workers employed in the textile industry
- Milkmaids

Occupations allowing early retirement based on the qualified period of service:

Employees of education
Employees of healthcare
Employees of social security services
Athletes
Artists
Aviation workers