September 1, 2016

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.

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

Dear Ms. Lagarde:

1. In the attached update to the Memoranda of Economic and Financial Policies (MEFP) from February 27 and July 21, 2015, we confirm our commitment to the policies and objectives of the economic program supported by an IMF arrangement under the Extended Fund Facility (EFF). We also describe progress and further policy steps toward meeting these objectives.

2. Notwithstanding the exceptionally difficult situation in Ukraine—with the unresolved conflict in the East—we have made steadfast efforts to implement policies under the EFF-supported program reflecting our strong commitment to economic adjustment and reforms. Economic activity continued to expand in the first half of 2016, with real GDP growing in two consecutive quarters for the first time since 2012 and after a deep and painful recession. Inflation is falling sharply. In terms of policies, we have taken measures to support the much-needed fiscal consolidation, restore financial sector stability, start to combat corruption, and improve the business climate.

3. Our actions ensured that all but three performance criteria (PC) were met, as well as six out of eleven structural benchmarks set for the period through end-May 2016. Regarding the missed PCs, despite increased efforts by the National Bank of Ukraine (NBU) to purchase foreign exchange in the market following the introduction of foreign exchange auctions, the (adjusted) end-December 2015 PC for the NBU’s net international reserves (NIR) was missed, due largely to a more adverse external environment. Also, the continuous PCs on the non-accumulation of external debt payment arrears and the non-imposition of exchange restrictions were not observed. While we have successfully completed the restructuring of 13 out of 14 sovereign bonds, we could not reach an agreement yet on the restructuring of the remaining bond, on which we have fallen into arrears. However, we are engaged in negotiations on the restructuring of this bond consistent with the objectives of our program, aiming to achieve debt sustainability. Further, we imposed an exchange restriction arising from the prohibition of foreign exchange purchases for payments of imports where goods had been cleared by customs before January 1, 2014 and where one of the contractual parties changed. This measure has now been eliminated. Regarding the five missed structural
benchmarks, we have taken the following corrective actions: (i) to correct for the delay in establishing a specialized anticorruption prosecution function to oversee NABU's investigations, we have appointed the head of the anticorruption prosecutors and two deputies prior to the completion of this review and have made further improvements to secure a sustainable, fair and balanced selection framework going forward by amending the Law on the Prosecutor's office. Meanwhile, NABU has become operational as planned; (ii) we request to reset the end-December 2015 benchmark on pension reforms. While we remain committed to advancing reforms to restore the viability of our pension system—which has gained urgency with the reduction in social security contributions—we need some additional time to build the necessary support within society. As a first step, we have reduced the list of occupations eligible for early retirement prior to the completion of this review; (iii) we have been making steady progress on the structural benchmark on orders of payment and garnishment, however, the legal process is taking more time and we request to reset this benchmark to end-September 2016, while also expanding its scope; (iv) we request to reset the end-March 2016 structural benchmark on corporate insolvency and credit enforcement regimes to end-September 2016, which has been reformulated to focus on insolvency law reform; and (v) we request to replace the partially met benchmark on improving the targeting of household utility subsidies with a new benchmark for end-September 2016 to fine tune the program to ensure that the 2016 utility subsidies will remain within the budget ceiling. We have also ensured further progress in improving the financial health of our banking system prior to the completion of this review.

4. Our policy efforts will continue to focus on entrenching macroeconomic stability and setting the stage for robust and inclusive growth so critical for the Ukrainian people. This includes actions to achieve low and stable inflation within a flexible exchange rate regime, gradually restore NBU’s international reserves to adequate levels, rehabilitate the banking system, strengthen external and fiscal positions further, and improve competitiveness and the business climate through far-reaching structural reforms. To ensure continued progress toward fiscal sustainability, our parliament has also adopted the government budget for 2016 broadly consistent with program targets, together with supporting changes to our tax legislation and expenditure reforms prior to the completion of this review. Given the risks to the budget from the more adverse external environment, the challenge in administering the range of changes implemented in late 2015, and the need for a further fiscal adjustment of about 1.5 percent of GDP in 2017, our fiscal effort will focus on adopting permanent measures to raise revenue collection and reduce expenditures in line with the fiscal objectives of the program. In this respect, we will refrain from revenue-reducing tax policy changes not fully offset by permanent measures and our efforts will aim primarily at improving the efficiency and equity of our tax system, including by broadening the tax base (particularly by eliminating existing exemptions.
and refraining from granting new ones) and strengthening revenue administration. Also, to eliminate the quasi-fiscal deficit of Naftogaz—earlier than previously envisaged—prior to the completion of this review, we have adopted the necessary decisions to further increase gas and heating tariffs as of May 1, and July 1, 2016, respectively, to bring them fully to cost-recovery levels.

5. We remain committed to continuing our efforts to enhance transparency and address corruption, speed up privatization, and improve governance of state-owned enterprises, as described in the attached document. In this regard, we have adopted legislation and launched an effective and transparent asset declaration requirement for high-level officials. We have also stepped up our efforts by adopting several key pieces of legislation, including amendments to the Law on Privatization and a new Law on Corporate Governance of State Property.

6. On the basis of steps that we have already taken and commitments for the period ahead, we request completion of the second review, and a disbursement in the amount of SDR 716.110 million. Given the delay in completing this review as well as in the implementation of some of the measures under the program, we expect the third review under the arrangement to be based on the end-September 2016 performance criteria, and request that the remaining amounts be allocated over the next nine purchases, as set out in Table 3. In addition, we request waivers of nonobservance of the end-December 2015 performance criterion on the net international reserves of the NBU, the continuous performance criterion on the non-accumulation of external debt payment arrears, as well as the continuous performance criterion on the non-imposition of restrictions on the making of payments and transfers for current international transactions. Furthermore, we also request the completion of the financing assurances review.

7. 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 our 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.
UKRAINE

Yours sincerely,

/s/  /s/
Petro Poroshenko  Volodymyr Groysman
President  Prime Minister

/s/  /s/
Oleksandr Danylyuk  Valeria Gontareva
Minister of Finance  Governor, National Bank of Ukraine
I. Recent Economic Developments and Outlook

1. While the 2015 recession proved deeper than expected, the economy has now turned the corner. While real GDP contracted by 15.8 percent in the first half of 2015, an economic recovery gradually took hold in the second half of the year. Real GDP growth, quarter-on-quarter, expanded by 0.5 percent in the fourth quarter supported by recovering consumer and investor confidence, a pick-up in investment activity, and a de-escalation of the conflict in the East. The recovery in the latter part of the year mitigated the overall real GDP decline to close to 10 percent in 2015. The economic revival has continued into 2016, with real GDP growth accelerating to 1.3 percent year-on-year in the second quarter. Agriculture, retail sales, and construction have all posted strong gains over this period. Despite a worsened external environment—including lower commodity prices that affect some of our key export products—we still expect positive growth in 2016, but we have revised our forecast slightly downward to 1.5 percent.

2. Inflation continues to sharply decelerate. After the increase in the price level caused by the large exchange rate depreciation and energy price increases early last year, headline inflation has rapidly dropped to 7.9 percent in July because of exchange rate stabilization, prudent monetary policy, and weak demand. Going forward, inflation is expected to pick up on account of administered price adjustments, some strengthening in demand, and waning base effects.

3. The overall balance of payments was broadly in line with the program in 2015, but is expected to worsen in 2016, reflecting a more adverse external environment. While exports continue to underperform—owing to feeble demand in trading partners and low commodity prices—imports have also been compressed as a result of the weaker economy, the hryvnia depreciation, and lower gas imports. As a result, the current account of the balance of payments is estimated to have recorded a small deficit of 0.3 percent of GDP in 2015, about 1½ percentage points of GDP less than envisaged at the time of the first program review. The private financial account has been broadly in line with projections, reflecting the ongoing restructuring of private sector debt. Gross reserves increased to over US$13 billion at end-December 2015, more than double the level at the start of the program, but below our projections, mostly as a result of delays in the disbursement of some US$5 billion in official financing. Trade restrictions imposed against Ukrainian goods and services combined with low prices of some of our key commodities adversely affected exports early this year and despite a more recent rebound in commodity prices, the current
account deficit is projected to widen to around 1.5 percent of GDP in 2016. The resumption of private capital inflows will enable us to speed up our accumulation of reserves.

II. Policies Under the Program

4. Against this backdrop, we have adapted program policies as needed to support economic stability and restore growth.

A. Monetary and Exchange Rate Policy

5. We remain committed to securing monetary and financial stability by maintaining a flexible exchange rate, lowering inflation, and building reserves. A flexible exchange rate will continue to support the needed economic adjustment, while higher reserves will further enhance confidence and strengthen the basis for normalizing financial conditions. To this end, the NBU has purchased some US$3.1 billion on a net basis since end-February 2015 and arranged swaps/credit lines with the central banks of Sweden and Poland equivalent to US$1.5 billion. In a break from the past, since the spring of 2015, Naftogaz has met the bulk of its FX needs directly from the market or by borrowing from domestic banks and bilateral creditors. Further, in September 2015, we started regular FX auctions, while also gradually easing administrative restrictions in line with the agreed roadmap. Notwithstanding these efforts, the PCs for NIR at end-September and end-December 2015 were missed, as lower-than-expected commodity prices, delays in official disbursements, and domestic political factors weighed on FX supply. Sizable FX purchases could have led to overshooting of the exchange rate, with harmful effects on inflation as well as bank and corporate balance sheets; and we limited FX sales to smooth exchange rate fluctuations. However, taking advantage of improvements in commodity prices in the second quarter of 2016 and banks’ comfortable foreign exchange liquidity the (adjusted) indicative target for end-June 2016 was observed. To further entrench stability, we will continue to:

a. **Build reserves in line with available net inflows.** The NBU will continue to hold daily FX purchase auctions—market conditions permitting—aiming to build reserves without triggering market instability.

b. **Ease administrative FX control measures as conditions warrant.** We will ease the restrictive measures gradually and cautiously, in line with the prerequisites in the roadmap for easing administrative restrictions, while closing newly found loopholes to limit the FX drain, ensuring orderly conditions in the FX market, and supporting our efforts to build reserves. The NBU, in consultation with the IMF, will further elaborate this road map, aiming to: (i) strike a balance
between preserving hard-won financial stability and alleviating the adverse effects of administrative measures on the economy and especially on our ability to attract investments, and (ii) communicate to the market progress with the implementation of the conditions-based plan to anchor expectations.

6. **Our monetary policy framework is evolving toward inflation targeting, with the primary goal to reduce inflation to single-digit levels in the medium term.** Central bank independence was enshrined last year with the amendments to the Law “On the National Bank of Ukraine.” Since then, the NBU has made significant progress in implementing a forward-looking and transparent monetary policy based on macroeconomic forecasts and enhanced policy analysis, with regular and pre-scheduled meetings of the NBU Board on monetary issues. The NBU also improved its communications and operational framework to increase the transparency and accountability of monetary policy. In particular, the NBU enhanced and streamlined the interest rate framework, which now emphasizes the role of the key policy rate (currently the interest rate on 14-day certificates of deposits (CDs)) and sets a symmetric corridor around this rate, bound by the overnight standing facilities. This should strengthen the interest rate transmission mechanism and enhance transparency. The NBU will continue its efforts toward implementing inflation targeting in line with its monetary policy strategy and inflation-targeting transition road map approved by the NBU Board. To reflect this evolution of the monetary policy regime and our commitment to achieve price stability, an indicative target on headline inflation has been added. The NBU will continue to enhance its operational framework to actively manage liquidity and consult with IMF staff on the implementation of inflation targeting.

7. **The NBU’s monetary policy stance will remain appropriately tight to support the disinflation process and achieve the announced multi-year inflation targets of 12 percent (+/- 3 pp) by end-2016 and declining to 5 percent (+/- 1 pp) by end-2019.** The NDA targets for end-September and end-December 2015 as well as the indicative targets for first half of 2016 were met comfortably, with base money declining more than expected and the NBU absorbing excess liquidity, mainly through 14-day CDs. To reduce the wide corridor between the NBU’s deposit and lending interest rates, in August–September 2015 the NBU reduced its discount rate by 800 bps (to 22 percent) and the rarely used overnight refinancing rate by 900 bps (to 24 percent), while keeping the rate on 14-day CDs unchanged at 20 percent. In April 2016, with inflation decelerating quickly, rates were again reduced—the discount rate by 300 bps and the 14-day CD rate by 100 bps (both set at 19 percent), and narrowing the corridor for the overnight facilities to +/- 200 bps around the 14-day CD rate. In May, June and July 2016, the discount rate was further reduced to 18, 16.5 and 15.5 percent, respectively. If disinflation and reserve accumulation are on track and monetary and
financial stability are entrenched, we will continue to gradually reduce the policy rate, while maintaining rates positive in real terms on a forward-looking basis as needed to anchor inflation expectations. Conversely, if inflation or financial stability risks intensify, we will tighten monetary policy as needed.

B. Safeguards Assessment

8. In line with the recommendations of the IMF safeguards assessment of the NBU, we are taking the necessary measures to improve NBU governance and autonomy, as well as NBU internal controls. We have adopted legislative amendments to the NBU Law to address the governance and autonomy issues and remain committed to their implementation. This will include prompt re-establishment of an Audit Committee and audit charter following constitution of a new Council of the NBU, which has been held up at the appointment stage. Further, the NBU has adopted a new code of ethics, which was prepared in consultation with IMF staff. With regards to internal controls, the NBU established a permanent senior-level credit committee in June 2015 to oversee NBU’s lending to financial institutions. Further, a new lending and credit risk management process has been implemented, with operations shifted from banking supervision to the newly created credit and risk management departments. Quarterly data audits are ongoing with the results timely conveyed to the IMF.

C. Financial Sector Policies

9. We have continued to make steady progress in implementing our banking sector strategy to rehabilitate the financial sector and restore confidence. Final results of the second wave of bank diagnostics and NBU’s verification of related-party loans (including amounts exceeding exposure limits, according to the new regulatory framework) for the 20 largest banks have been communicated to each individual institution. As of late-July 2016, 79 banks, accounting for about 30 percent of the system assets, have been resolved as part of our continuous commitment to strengthen and consolidate the financial system.

10. Our efforts continue to go in six directions:

- making further progress with our bank recapitalization and restructuring strategy;
- unwinding excess related loans and enhancing post monitoring of financial institutions;
- enhancing banking supervision and regulations;
• strengthening governance and financial performance in the DGF and state-owned banks;
• improving the existing framework for resolving non-performing loans; and
• reforming securities markets.

Making further progress on bank recapitalization and unwinding related-party exposures

11. The NBU has completed its review of the recapitalization plans submitted by the 16 out of the 20 largest banks that require additional capital—and, where applicable, of their unwinding plans as well—and is currently monitoring the implementation of the 14 plans approved. Specifically, while bank insolvency or undercapitalization is to be addressed preferably through cash injection and/or debt conversion into equity, banks are allowed to consider, as mitigating factors, the post-diagnostic problem-loan collection, incorporation in their balance sheets of other commercial assets as means of loan recovery, addition of new valuable collateral to enhance loan quality, and consolidation of their cash-flows with those of credit-worthy affiliated companies, subject to strict conditions discussed in paragraph 11.b (below). We have resolved two banks that missed presenting a credible plan and all other 14 undercapitalized or insolvent banks have now achieved a minimum CAR of 0 percent under the June 2016 regulatory framework. Furthermore, we are also ensuring that:

   a. The implementation of banks’ recapitalization plans is on track, and credible actions are underway for the 20 largest banks to meet a minimum CAR of 5 percent by end-September 2016. In particular, we will ensure that any capital needs arising from the correction of old practices to calculate loan provision are addressed as part of the capital injection to meet the minimum CAR of 5 percent and in line with the new regulation on credit risk assessment. Of these banks, those that have been unable to meet a minimum CAR of 5 percent by end-September 2016 will be resolved.

   b. Where applicable, if a bank’s recapitalization plan includes measures to mitigate capital needs, we will ensure that the implementation of these measures meets the following criteria:
      (i) **Integrity**: all rights on assets, including associated income, are transferred, and post-diagnostic loan repayments are well sustained; (ii) **Sound legal documentation**: the transfer of ownership of assets, liens on new loan collateral, and/or cash flow association between affiliated companies is based on legally binding documentation and adequately registered in public records; (iii) **Viability test**: the incorporation of commercial assets and the consolidation of cash flows of affiliated companies is supported by credible and sustainable financial plans; (iv) **Proper valuation**: the value of assets received as loan repayments or new loan collateral reflects true
market prices; and (v) **Timely unwinding of non-core assets**: in case the adoption of mitigating measures were to lead to breaches of prudential limits their unwinding should be completed no later than end-December 2018. On the basis of terms of reference agreed with IMF staff, for any of the largest 20 banks that is taking mitigating measures the NBU has completed the verification of the integrity and soundness of the legal documentation associated with assets that have been transferred to the balance sheet of banks and, where applicable, the NBU has ensured that their ownership is properly registered in public records. No later than end-September 2016, the NBU will complete the verification of the mitigating measures as regards the viability test and the valuation of the transferred assets (with the valuation conducted by internationally recognized appraisers).

c. Banks showing breakeven or negative operating income through 2017, after stress tests, must submit restructuring plans by end-September 2016 with measures to be adopted in the next 12–18 months to reverse such trends and ensure its viability, defined in line with international best practices.

d. Related-party exposures that exceed limits according to the new framework are being addressed by banks in line with the well-defined quarterly targets embedded in the unwinding plans. Additionally, our work on related-party exposures also entails that:

- By end-December 2016, we will complete the review of related parties for the remaining 100 banks. The review of the first 10 largest banks in this group was completed in July 2016.

- Plans to unwind exposure to related parties may be factored in the recapitalization plans if banks provide firm assurances that a source of repayment of related loans is being set aside (e.g., by pledging marketable assets that can be quickly cashed if related loans are not repaid within the timeframe agreed in the plans).

- Upon successful completion of the first year of their unwinding plans (that entails a reduction of no less than 20 percent of the original stock of related loans) the banks could apply to the NBU to receive up to two additional years extension for the repayment of at least one-quarter of the remaining related party loans in each of the following four years, provided these loans are and remain fully performing (as defined by NBU regulations).

e. The board approved the results of the next 19 banks in July 2016. These banks are required to meet zero tier 1 capital by end-November 2016 and 5 percent CAR by end-February 2017. Any bank deemed not viable or unable to meet these deadlines will be resolved promptly. In addition, the steering committee, established at the NBU to revise the consistency of the bank
diagnostics, will submit by end-November 2016 for board approval the results for the next 21 largest banks. We will ensure that these banks inject capital according to the table below. The remaining 57 banks, accounting for 2 percent of the system assets, will be subjected to a well-targeted viability and capital needs assessment by the NBU with the aim to ensure that only sound and well-run banks remain operating in the Ukrainian banking system. This targeted exercise will be run on a continuous basis and completed no later than end-June 2017.

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<th>Calendar of next 100 banks</th>
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<td>Diagnostics</td>
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<td>End-May 2016</td>
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<td>Next 21</td>
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<td>Remaining banks</td>
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Enhancing further monitoring of related-party exposures

12. **We are working towards enhancing further our monitoring of the banks’ related-party exposures.** To this end:

a. The Related Parties Monitoring Office (RPMO) has been fully staffed to monitor monthly the level of outstanding loan amounts of all related parties included in the above-mentioned paragraph and identify a preliminary list of new borrowers in the banks subject to unwinding plans. These findings will be reported to the NBU board monthly. The first report was issued in June 2016. By end-October 2016 the RPMO, with technical assistance from the IMF, will review and, if needed revise its internal objectives and modes of coordination with other relevant NBU departments, and define a work plan for the next 12 months.

b. On the basis of our main findings during the recent review of related parties, we refined in July 2016 the relevant regulatory framework to eliminate remaining gaps that may eventually be used by banks to evade credit limits.

c. The NBU has started working on expanding the operations of its current Registry of Borrowers toward establishing by end-June 2017 a credit registry at the NBU to enhance credit risk and related-party loans monitoring. To this end, in August 2016, the NBU board approved an action plan including key steps and critical dates. By end-September 2016, the NBU will also submit the necessary amendments to the legislation to parliament to authorize the NBU to disclose information from the credit registry to banks. Furthermore, considering that more than 70 banks are under liquidation, the law will introduce requirements on these institutions to regularly report to the NBU their credit data and allowing the NBU to share such information with private credit risk bureaus.
13. **We have completed our strategy and contingency planning for systemic banks in line with best international practice and principles agreed with IMF and WB staff.** In case of need, we, in close consultation with IMF staff, will:

a. Assess all resolution options and on that basis the NBU board will timely submit to the Cabinet of Ministers a detailed report, including a resolution proposal and rationale, capital needs over a 3-year horizon, and a technical discussion on minimum assumptions under which the selected resolution option meets viability. The selected option will aim to avoid ultimate losses to the State and, therefore, will: fully write down existing shareholders; ensure the full and timely servicing of loans including by adequate collateralization where this is lacking and by not imposing any impediments on our ability to collect related-party or any other loans in a timely manner; and secure bail-in from all liabilities to related parties.

b. In case of bank nationalization, hire a highly recognized international firm to run the resolved bank with commercial business perspectives. Furthermore, no later than 90 days since the banks’ intervention, the MoF will establish and publish a “Memorandum of Understanding” with the resolved bank in the terms described in paragraph 17 of this MEFP.

c. Follow international best practices and pursue all suitable legal and commercial means to ensure that the State secures from former bank owners the recovery, in a timely manner, of all the loans they directly, and indirectly through their holdings in other entities, owe to the bank. We will create inside the bank a special unit to manage and collect these loans, managed by an internationally recognized asset management firm (AMF) that will be appointed by the new supervisory board within the first 60 days after the bank’s resolution started. Furthermore, we will ensure, through the MoF’s financial policy department (FPD) that no later than 45 days after its appointment, the AMF will complete its strategy to collect the loans, including an action plan with detailed collection targets for the following 12 months.

d. Ensure that the recipient bank accounts government bonds received to cover existing gaps between assets and liabilities and as means of capitalization on the basis of international financial reporting standards (IFRS). The NBU will also follow the same accounting rules if it were to purchase such bonds to support bank resolution or receive as means of payment of our stabilization loans from the MoF.

14. **We are enhancing further our legal framework to facilitate program implementation.**

In December 2015, amendments to the Law of Ukraine “On Measures Aimed At Facilitating Banks’ Recapitalization and Restructuring” were approved by parliament.
Enhancing banking supervision and regulation

15. **We are taking decisive steps to improve our supervision of banks.** In mid-November 2015, we announced a number of measures to strengthen the banking system:

a. Starting January 2016, we are conducting risk-based supervision with the aim to obtain a better understanding of banks and be able to take early corrective measures when needed;

b. By end-March 2016, all banks were required to have a transparent ownership structure in place and by end-June 2016 to hold a minimum authorized capital of UAH 120 million;

c. In June 2016, in consultation with IMF staff, the NBU board approved a new regulation on credit risk activities to broadly align them with Basel principles and international best practices, including forcing banks to primarily classify borrowers on the basis of their forward-looking financial position, while relegating collateral to be a loss-mitigating factor, and ensuring that tangible loan collateral meets minimum safe and sound conditions. This regulation will become effective on September 1, 2016, and by end-September 2016 banks will submit to NBU their pro-forma balance sheet showing the impact of the new rule, but they will have time until January 1, 2017 for the full implementation;

d. Since December 2015, the NBU board receives monthly reports on potential problem banks, prepared on the basis of our revised Early Warning System. This enhanced report will help us to timely identify banks that require intensified supervisory monitoring and minimize the possibility of their further deterioration.

Strengthening bank governance and DGF’s financial performance

16. **We recognize that ensuring effective corporate governance is critical to the proper functioning of the banking sector.** With the assistance of an external expert, by end-September 2016, the NBU will complete an assessment of its current regulatory and supervisory framework on sound risk governance practices against the 2015 Basel’s Guidelines for Corporate Governance for Banks. The assessment aims to identify areas for further improvement on board qualifications and responsibilities, the banks’ board structure and practices, risk management, and governance of group structures. On the basis of this assessment:

a. By end-October 2016, the NBU will submit draft legislation to parliament to address legal loopholes, and pass revised or new resolutions reflecting the findings of the assessment with the view that these will be fully implemented no later than end-March 2017; and
b. By end-June 2017, with external technical support, the NBU will complete its assessment of the collective suitability of the board and qualifications of senior management of the 10 largest banks and, where applicable, instruct banks to adopt corrective measures within 90 days. By end-August 2017, a similar assessment for the next 10 largest banks will be completed. The remaining banks will be subject to the same review through end-March 2018 in line with a calendar to be agreed with IMF staff.

17. **The Ministry of Finance—as the controlling shareholder of the public banks—is committed to take the necessary steps to ensure that these banks are run on a commercial basis.** In consultation with the IMF, WB, IFC, and EBRD, we have developed the Principles of State Banking Sector Strategic Reforms to govern the state-owned banks (SOBs) and provide a framework for improving their financial condition and transparency, and for their privatization. These principles were approved by the Cabinet of Ministers in early February 2016 and key policies include:

a. The SOBs’ supervisory boards will be composed of 7 members, with 5 of them being independent and appointed by the selection committee (see below), while the remaining members will be appointed by the President and the Cabinet of Ministers. We have selected—with international donors’ assistance—a reputable international recruitment firm to entirely run the selection process of the independent members of the SOB’s supervisory boards. Bearing in mind the new NBU corporate governance requirements discussed above, this firm will present no later than end-December 2016 a short-list of candidates for the independent members of SOB’s supervisory boards, from which by end-January 2017 a committee comprising representatives of the President, the Cabinet of Ministers, and IFI representatives as observers will make the selections for each of the supervisory boards. The supervisory board members will elect one of the independent members as the chairman of the respective supervisory board.

b. To enable and support the above-discussed policies, by end-October 2016 we expect parliament to adopt legislation that would facilitate the adoption of the new corporate governance approach for SOBs that *inter alia* defines the size and composition of the SOB’s supervisory boards, seeks to transfer the accountability of the SOB’s performance from the Cabinet of Ministers to the banks’ supervisory and management boards and establish as a criminal offense efforts to unduly influence their decisions. This will help to ensure that these banks are run on commercial basis. To this end, we have hired a reputable law firm to update the draft legislation on the corporate governance of SOBs to take into account the recent changes in the legislative framework for the corporate governance of SOEs, and we aim to submit the draft legislation to parliament by end-September 2016.
c. In the first half of 2016, the three largest SOBs completed their business strategy action plans taking into account the state’s timetable to gradually reduce its presence in the financial sector. These strategies may be refined later to include the views and experience of the SOB’s new supervisory board members. In addition, by mid-2018 upon the effective implementation of their action plans and revised strategies, we will seek to sell, to reputable international financial institutions, no less than 20 percent of our interest in the two largest SOBs, and within the same timeframe we will aim to unwind the current full guarantee on Oschadbank’s deposits. We aim to divest our interest in the other three SOBs by end-2017.

d. With IMF technical assistance, we have completed the assessment of the FPD with a view to identify actions to be implemented by end-September 2016 for the FPD to be able to effectively support the MoF’s function of managing the State’s interest in the SOBs.

e. By end-October 2016, in consultation with Fund staff, we will establish memorandums of understanding defining a relationship framework between the MoF and each of the SOBs in order to: (i) provide clarity about the interaction between each bank and the MoF; (ii) safeguard the banks’ commercial independence in achieving their objectives, while imposing accountability for their actions; (iii) provide the MoF an appropriate level of visibility and input into certain material aspects of the banks’ activities proportionate with its shareholding and deemed necessary to accomplish its mandate; and (iv) identify specific matters reserved for consultation with and approval by the MoF.

18. The DGF is working towards enhancing the quality and transparency of its asset management and recovery procedures and asset disposal planning. A centralized unit at the DGF has been established to consolidate the management and control of bank assets from the nearly 80 resolved institutions, and is now fully staffed and operating on the basis of its recently approved terms of reference and organization. DGF has also published a calendar for disposing of assets, with quarterly targets through 2016, and is working in the following four fronts:

a. **Accountability.** A progress report on asset disposal and recovery is set to be published no later than 30 days after the end of each quarter. The first report is due in July 2016;

b. **Efficiency.** New strategies to place bank assets in the market are being developed, which entail: (i) providing access to electronic data rooms to potential buyers; and (ii) using more expeditious mechanisms widely used in other jurisdictions to sell assets in a transparent manner. To support these efforts the Ministry of Justice has passed a resolution to facilitate DGF work in these areas. Moreover, by end-September 2016 we will submit legislation that will further enhance the DGF’s
ability to work with assets in a timely and efficient manner and increase the amount of net cash recoveries on assets, as well as providing legal protection to DGF staff. By end-November 2016 we will place the first batch of assets under these new asset-sale modalities;

c. **Transparency.** Selectively, but ensuring that all transactions above certain threshold are approved by the DGF board are included, the DGF’s anticorruption office will each quarter deliver an ex-post evaluation of the process followed to dispose assets in the preceding quarter with the aim to verify that DGF integrity policies have been met. Upon its discussion at the DGF board, we will publish the first results of these evaluations no later than end-September 2016;

d. **Forensic review.** The investigation by two specialized firms of the main factors that drove two medium-sized domestic banks into liquidation continues. We aim to publish an executive summary of these reports no later than end-September 2016.

**Improving the existing framework for resolving non-performing loans**

19. **We have made progress in strengthening our framework for NPL resolution.** Parliament adopted in June 2016 the Law of Ukraine “On Financial Restructuring,” designed with technical assistance from the EBRD and the World Bank, which prescribes a coordinated out-of-court restructuring procedure for non-financial corporates in line with international best practice. Amendments were also made to the Tax Code earlier this year to remove impediments to out-of-court debt restructuring.

20. **However, further work is required to strengthen the corporate insolvency regime.** In this regard, we have established a committee chaired by the Ministry of Justice and including the Ministry of Finance and other relevant agencies. The committee is currently in the process of drafting amendments to the Law “On Restoration of Debtor’s Solvency or Declaration of its Bankruptcy,” to advance the reforms identified by the March 2015 IMF technical assistance mission. We will incorporate these amendments to draft bill No. 3132, currently in parliamentary procedure. Thereafter, we expect the revised bill to be adopted by parliament by end-September 2016 (a new completion date for the structural benchmark, which has been reformulated to focus on insolvency law reform). Meanwhile, we are continuing to work with IMF staff to amend legislation to: (i) remove tax impediments to insolvency and (ii) strengthen the legal regime for credit enforcement (e.g., amending the mortgage law, the commercial code, and civil procedure codes), consistent with IMF staff advice. We expect adoption of this legislation by end-December 2016.

21. **We will support the approval of legislation that would guide the restructuring of foreign currency denominated mortgage loans serviced by distressed but still performing
borrowers without interfering in bilateral negotiations between borrowers and banks. We will ensure this legislation will: (i) aim to protect the rights and interests of individuals that can demonstrate to be in financial difficulties; (ii) target borrowers with loans that do not exceed UAH 2.5 million as of end-December 2013 (about US$150,000) and who live in the mortgaged properties as their primary residence; (iii) establish a voluntary process where eligible borrowers would apply to banks for restructuring and can prove their difficult financial situation; (iv) guide banks to restructure loans on the basis of the borrowers’ financial condition and capacity to pay and with banks—after considering reasonable living expenses—making a proposal to borrowers that may include debt conversion and interest and principal reduction; (v) require banks to establish an independent and credible mechanism to deal with customers’ complaints; and (vi) will not impose a cost on the banking system that is estimated to exceed US$370 million (0.4 percent of GDP). We expect legislation consistent with these principles to be adopted by end-September 2016. We will ensure that no law will be adopted that does not meet the conditions listed above. Simultaneously, we will also lift the moratorium on collateral foreclosure.

Reforming the securities markets and other non-banks

22. We are addressing significant challenges faced by the National Securities and Stock Market Commission (NSSMC) in its role as the regulator of the Ukrainian securities market. These challenges include the issuance and trading of fictitious securities in the market and insufficient powers to conduct effective supervision. They also severely constrain the ability of the NSSMC to cooperate with foreign supervisors and, as a result, to receive reciprocal assistance from them. To this end—and to bring our legislation in line with IOSCO Principles and with a view for Ukraine to become a signatory of IOSCO’s Multilateral Memorandum of Understanding—Parliament will adopt legislation by end-September 2016 to allow the NSSMC to:

a. Conduct inspections of regulated entities without the existing undue constraints, including by removing any remaining moratorium on the NSSMC’s ability to conduct certain inspections;

b. Conduct audits of any legal or natural person to determine compliance with securities laws;

c. Demand and have access to information from any natural or legal person to determine compliance with securities laws, including by introducing appropriate exemptions from the existing secrecy laws (such as banking secrecy and protection of personal data);

d. Have the ability to share with foreign authorities information in the possession of the NSSMC or acquire such information on the foreign authorities’ behalf to determine compliance with securities laws;
e. Use any of its available powers to provide assistance to foreign authorities regardless of whether the NSSMC has an independent interest in the matter;

f. Adopt regulations under Ukrainian securities laws without any external approval/agreement/registration;

g. Have access to a larger and more stable source of funding than currently; and

h. Provide appropriate legal protections to the NSSMC and its Chairman, Commissioners and staff.

To ensure that NSSMC’s new powers are appropriately exercised, the above legislations should:

i. Require the NSSMC to establish proper confidentiality and data protection framework in order to safeguard information from improper disclosure;

j. Subject the NSSMC and its Chairman, Commissioners and staff to confidentiality requirements and effective administrative and criminal sanctions for undue disclosure of confidential information, even after they have separated from the NSSMC.

In addition, we are taking decisive steps to enhance further the functioning of financial markets:

k. We have submitted for parliamentary approval key draft legislation to transfer regulatory and supervisory responsibilities of a variety of financial intermediaries from the National Commission of Financial Services (NCFS) to NBU (insurance and leasing companies, credit unions, credit bureaus and other non-bank lenders, pawnshops and other financial companies) and NSSMC (private pension funds, issuers of mortgage certificates and funds for construction financing and real estate funds) with the aim to consolidate the oversight of our financial markets. We are working to ensure this legislation is fully implemented by end-December 2016.

D. Fiscal Policy

23. We are determined to continue our fiscal consolidation to strengthen public finances which is critical to support financial stability in Ukraine. To complement our fiscal efforts and bring debt firmly on a sustainable path, we have concluded a debt operation with private creditors and are advancing discussions with other creditors, consistent with the objectives of our program, aiming to achieve debt sustainability, which we aim to complete soon.

24. We have met the fiscal targets for 2015. The general government budget performed strongly in 2015, on the back of robust revenue growth, firm control overspending, and savings on
interest payments resulting from debt restructuring. This performance allowed us to bring forward the planned indexation of pensions and wages from December to September 2015 which helped mitigate the negative effects from high inflation on the most vulnerable groups of the population, at an additional cost of about UAH 9.9 billion. In addition, we re-allocated some funding (UAH 5.6 billion) from various line ministries to defense spending and increased the allocation for clearing VAT refunds, which had increased since the beginning of the year.

25. **For 2016, parliament adopted a budget consistent with a general government deficit target of 3¾ percent of GDP, which is critical to continue a gradual fiscal adjustment and entrench stability** (a **prior action** for this review). To achieve this target, a significant rebalancing of the budget was required given the need to: (i) offset the loss of one-off revenues that were available in 2015; (ii) provide an additional allocation for energy-related social assistance to mitigate an adverse impact on households from the gas price increases; and (iii) offset the revenue loss from a reduction in the social security contribution (SSC) rate. To support our efforts to contain current spending, we have introduced a ceiling on state budget (general fund) current primary expenditure (a new **indicative target**). The indicative targets on the cash deficit of the general government for the first half of 2016 were met with comfortable margins.

26. **To support the 2016 budget, parliament also adopted a number of tax policy changes** (also a **prior action** for completing this review) aiming to: (i) significantly reduce labor taxation, which was high by international standards, and has led to considerable shadow employment and underreporting of wages; (ii) broaden the tax base and reduce opportunities for tax evasion and corruption; and (iii) raise some taxes to meet program targets. Key elements of these changes, which are effective since January 1st, 2016, include:

a. **Social Security Contributions.** Different social security contribution rates were unified into a single rate of 22 percent payable only by the employer and the cap on the base for social security contributions was raised to 25 minimum wages from 17 minimum wages.

b. **VAT.** The special VAT regime in agriculture, which exempts agricultural producers from paying VAT to the budget was terminated effective January 1, 2017. As a transitional measure for 2016 only, grain producers are required to remit 85 percent of their net VAT obligation to the budget, livestock breeders and milk producers 20 percent; and all other agricultural producers 50 percent. We are committed not to extend the transitional arrangement and will not amend bullet 4 of article 2 of chapter XIX of the tax code, which requires expiration of the special VAT regime on January 1, 2017. From this date onwards, the general VAT regime will apply equally to
all agricultural producers. We have also subjected gas transit to VAT, replacing the current royalty regime.

c. **VAT refunds.** To address the problem of recurring VAT refund arrears on a sustainable basis, we no longer include projected amount of VAT refunds in annual budget law annexes and the Ministry of Finance does not include the amount of VAT refunds in the monthly revenue plan (ROSPIS) for the state budget.

d. **Excises.** In view of the depreciation of the hryvnia and high inflation, we raised specific excise tax rates on ethyl spirits (by 50 percent), fortified and sparkling wines and beer (by 100 percent), tobacco (by 40 percent), as well as on gasoline and diesel (by 13 percent).

e. **Corporate income tax.** We kept the rate unchanged at 18 percent. To avail the budget additional revenue from lower social security contributions already in 2016, we introduced quarterly accruals and payments of corporate income tax.

f. **Personal income tax.** We introduced a single rate of 18 percent to replace the current two rates of 15 and 20 percent, and will continue to apply a tax deduction of half of a minimum wage only for individuals with incomes below 1.4-times the minimum subsistence for able-bodied individuals.

g. **Simplified tax regime.** We increased the rates for the taxpayers falling in groups III and IV of the simplified regime, and reduced the qualification threshold for the third group to UAH 5 million from UAH 20 million.

h. **Property taxation.** We raised the rate and expanded the property tax base to include luxury houses and apartments, and expanded the tax base for the recently introduced luxury vehicle tax.

i. **Taxation on gas extraction.** We lowered royalty rates on gas extracted for commercial purposes to 29 percent (on wells shallower than 5 thousand meters) and 14 percent (on wells deeper than 5 thousand meters) from 55 percent and 28 percent, respectively. We are considering the possibility of further amending the petroleum taxation by end-September 2016 with a view of establishing a flat royalty rate independent of the well depth and introducing a corporate profit tax surcharge. We also lowered royalty rates on gas for companies that are required by law to supply gas for households and heating companies to 50 percent from the current 70 percent from April 1, 2016. To compensate for the potential revenue loss from these companies, we have
increased the sales price for companies whose gas supplies form the stock of gas for households and heating companies to UAH 4849 (about US$185), excluding VAT, effective May 1, 2016.

j. **Other revenue measures.** We increased royalties on the mining of amber and increased dividends from state-owned enterprises by raising the government’s statutory share to 75 percent. We will also adopt all necessary legislation to legalize amber mining by end-October 2016 and eliminate the distortive foreign exchange transaction tax for cash operations by end-October 2016. We have also launched renegotiations of double taxation avoidance agreements with key partners with a view of minimizing tax avoidance.

27. **We are complementing our tax policy reform with strong revenue administration improvement efforts.** The implementation of the recently approved revenue administration reform plan, which is an important priority for 2016, will help build an efficient public revenue collection system that ensures fair and transparent application of tax laws, reduces complexity and arbitrariness, and promotes tax compliance and the development of the private sector. We recognize the damaging effect of tax amnesties on tax compliance and, therefore, in case any tax reform during the program period includes elements of a tax amnesty, any such elements will be agreed with IMF staff, with a view to avoid an adverse impact on tax compliance and on our efforts to tackle corruption. Thus, we will not consider any such amnesty until significant progress has been made in reforming the State Fiscal Service (SFS), including as outlined below, so that it can effectively detect undeclared incomes and enforce taxation. Further, any consideration of forgiveness of tax liabilities would only apply to undeclared or underreported but lawfully obtained incomes or assets. More specifically, our further efforts in 2016 to strengthen revenue administration are focused on the following areas:

a. **Continued progress in implementing the revenue administration reform plan.** We moved all large taxpayers to the Large Taxpayers’ Office as of end-December 2015 (**structural benchmark**). The SFS started to implement its new organizational arrangements as specified under the revenue administration reform plan from end-December 2015 (structural benchmark). We have largely finalized downsizing the SFS reducing the staff from about 58,800 to about 44,000 as of end-April, 2016. By end-September 2016 Parliament will adopt a law to introduce a one-level internal dispute resolution at the SFS. Our objective is to merge the tax and customs administration into a single legal entity, to take advantage of synergies, and we expect parliament to adopt a law to this effect by end-December 2016 (a new **structural benchmark**). As an interim step, by end-September 2016 the Cabinet of Ministers will adopt a resolution to merge the tax offices into a single legal entity and the parliament will adopt legislation to merge the customs offices into a single legal entity within the structure of the SFS, while also providing
signature rights to heads of regional branches. We will ensure that the structures of the reformed tax and customs administrations are fully compatible with one another to allow for their merger and the reorganization of the SFS along functional lines by end-December 2016. As part of these efforts, by end-December 2016 we will also consolidate regional offices and substantially reduce administrative functions at regional and local levels, and move all audit and debt management functions to the regional/headquarters level to ensure tighter supervision and greater expertise leaving only front-office functions at the local level. We will furthermore dissolve the tax police and, in consultation with IMF staff, establish by end-October 2016 a new civil service with new staff under the Ministry of Finance that will be responsible for investigation of financial and economic criminal offenses against the State, including tax-related offenses, while removing the role of other government agencies in this area, but without infringing upon the investigative jurisdiction of NABU. Following the completion of the SFS reform, we will consider bringing the new tax investigations service within the SFS structure.

b. In addition, we are finalizing draft legislation that will establish criteria for the identification of High Net Worth Individuals (HNWIs), bring them under a new audit program, and provide the SFS with adequate tools to reveal noncompliant taxpayers, including the possibility to access bank account information but with strong safeguards in place to minimize the risks of abuse by SFS staff. We will also allow the moratorium on tax audits for taxpayers with an annual turnover of less than UAH 20 million to expire at end-2016 as envisaged under the Tax Code. We will finalize draft legislation to strengthen the administrative enforcement of debt collection in line with best international practices, and authorize the SFS to use indirect measurement methods to ascertain the correct tax and social security obligations of any taxpayer. We expect to have this legislation adopted by end-October 2016, when we expect to have made significant progress in the reform of the SFS.

c. We recognize the importance of providing adequate compensation for SFS staff as part of our integrity strategy. Therefore, concurrently with the completion of the vetting and re-appointment of staff, we will implement targeted compensation reform at the SFS, which will aim at bringing salary levels at SFS comparable with those in other reformed government agencies (e.g., patrol police) and ensure adequate funding for key IT systems and customs during 2016 but within the limits of SFS’s current budgetary allocation. We will also give priority to raising professional standards in SFS.

d. To strengthen compliance for social security contributions, effective January 1, 2017 we will harmonize the bases for social security contributions and the personal income tax and offer the
possibility of single filing and payment. To help achieve these objectives we will finalize the relevant plan and launch a taxpayer awareness program by end-September 2016.

e. We have established a new internal investigation division at SFS with new staff, who in cooperation with other government authorities will assess risks, analyze annual reports on assets of high-ranking SFS officials, and carry out investigations as part of our efforts to tackle corruption. The activities of the investigation division will be under control of a recently established independent expert group, who will ensure publication of their monitoring work on an annual basis. We will arrange for regular independent surveys to monitor the evolution of public perception.

f. In addition to its fiscal role, the ongoing reform at customs will provide greater facilitation of trade and improve the security and safety of the society through more effective border controls. As envisaged in the revenue administration reform plan, we will aim to appoint a new deputy head of SFS in charge of customs by end-September 2016. We will adopt amendments to the customs code by end-September 2016 that allow for the harmonization of requirements for the authorized economic operator with EU legislation. We will equip the SFS with appropriate powers and establish a post-clearance audit program by end-September 2016. To simplify, further automate, and streamline customs clearance processes through the implementation of a one-stop-shop service on customs, the cabinet adopted in May 2016 the relevant resolution, for which implementation started in August 2016. In that context we will minimize the instances of physical inspection of cargo, develop and publicize the customs-specific integrity action plan, and strengthen coordination with the state border guard services to limit the illicit inflow of goods and exchange of information with customs administrations of major trading partners. We have identified a set of key ICT projects with the highest priority for customs and are seeking external funding. We will also improve customs valuation procedures by applying European best practices and promote a conditional release procedure as a way to avoid undue delay in the processing of declarations from the third quarter of 2016. We will prepare a project plan for the further development of risk management to address current weaknesses, future plans and requirements and organizational and management issues by end-October 2016. In order to minimize probable revenue leakages resulting from weaknesses at the border, in transit and inland clearance facilities, we will initiate a third-party inspection of these weaknesses with the aim of completing at least three largest border-crossing points and inland clearance facilities by end-December 2016.

g. We will establish key performance indicators (KPIs) for the SFS in consultation with IMF staff for 2016 and 2017 in September 2016. These targets will focus, inter alia on core performance
outcomes of tax and customs administration including audits, the collection of tax debts, eliminating the stock of VAT refund arrears and the internal reorganization. In 2016, we will also continue reducing the stock of corporate income tax prepayments, which have accumulated over the last few years, within the space created by any revenue over-performance.

h. Following the shift to a new VAT refund system in 2016, we will delink the payments of VAT refunds and the consideration of meeting net VAT revenue targets established by monthly plans, which should allow us to entirely clear the outstanding stock of VAT refund arrears.

28. **We recognize the need for a fundamental reform of the simplified tax regime, which remains overly complex and offers opportunities for arbitrage.** Therefore, by end-September 2016 we will develop a proposal and take action to address its abuse and lessen the concessionality and complexity of the current regime and narrow the gap in the tax burden with those under the general tax regime.

29. **To remain consistent with the program deficit target, we have also developed permanent expenditure saving measures as part of a medium-term reform effort to improve the efficiency and quality of public services:**

a. **Pension reform.** Demographic trends and the sharp reduction in the social security contribution rate are set to widen the pension fund’s structural deficit considerably in the coming years, demanding significant transfers from the state budget. To address these challenges in a sustainable manner, we are committed to pursue a multi-phased reform strategy:

- We already implemented the first phase of reforms in 2015 by eliminating special pensions for civil servants and other privileged groups, and by increasing the retirement age and the qualified period of service for a number of professions eligible for early retirement. We also extended the pension withholding for working pensioners introduced in March 2015 through end-2016, and decoupled the size of the maximum pension from the minimum wage and kept it unchanged at UAH 10,740. To continue phasing out special privileges, we have as a prior action for this review adopted a Cabinet of Ministers’ decree reducing the list of occupations eligible for early retirement by at least 40 percent in terms of eligible persons.

- To reduce the very high pension fund deficit that threatens the viability of the pay-as-you-go system and to improve its fairness and ability to provide adequate pensions over time, we will, by end-December 2016, adopt legislation (a new structural benchmark) to:
  (i) gradually adjust the statutory retirement age and further reduce the scope for early
retirement; (ii) tighten the eligibility criteria for the minimum pension; (iii) consolidate pension legislation, which is now spread across about two dozen laws, and ensure a single principle for providing pensions without privileges for any occupation (with the exception of the military); (iv) expand the base for social security contributions; (v) ensure equitable tax treatment of pensions; and (vi) better link benefits to contributions, also to encourage the declaration of actual incomes. In addition, we will separate various categorical pension supplements from the labor pensions, bring their financing from the pension fund to the state budget and improve their targeting starting from 2017 to make the system more equitable and free up resources for more efficient poverty alleviation.

- Until all the above measures have been adopted and the pension system is set on a sustainable basis, we will refrain from introducing a second pillar to the pension system.

b. **Wage bill.** Budgetary sector wages will increase taking into account the minimum wage growth by 5 percent on May 1, 2016 and 10.4 percent on December 1, 2016, compensating budgetary employees for the expected inflation and to help cushion the impact of increasing gas tariffs to cost recovery earlier than targeted.

c. **Social assistance and social insurance reform.** We will improve the targeting and progressivity of a number of social assistance programs through better means-testing; streamline and consolidate programs with similar objectives; and realign the housing utility subsidies to prevailing international market prices for natural gas. In addition, the Ministry of Finance will complete the verification of beneficiaries of pensions and social benefits and take recourse against ineligible beneficiaries by end-December 2016, and reduce the administrative costs of the social insurance funds.

d. **Education reform.** We will continue our efforts to improve performance and standards in education. The reforms, which will be implemented by September 2016, will also improve spending efficiency, including by: (i) further optimizing the school network through closing smaller schools and transferring students to better equipped schools; (ii) improving targeting of financial assistance to students through better means-testing; (iii) streamlining research institutions; (iv) facilitating private funding of higher and vocational education institutions; and (v) devolving part of vocational school funding to lower levels of government.

e. **Healthcare reform.** To improve the efficiency of the health care system as well as the quality of services to the population, we will undertake reforms aiming to lead to higher decentralization, increased managerial autonomy for hospitals, and transition away from funding based on the
number of hospital beds to funding services. A full reform law will be adopted by parliament by end-December 2016. As a first step to address large inefficiencies in the hospital sector we have lowered the statutory limit on the number of hospital beds per ten thousand residents to 60 from 80 with a commensurate downsizing of hospital staff by end-September 2016. In addition, we have reformed the procurement system for pharmaceuticals in line with European standards and principles. In particular, procurements are made with involvement of the specialized organizations, since the beginning of 2016.

f. Other expenditure measures. We will rationalize subsidies, including to state-owned enterprises (SOEs); following the adoption of the new Law on Procurement, we have started implementing e-procurement from April 1, 2016 at the central government and from August 1, 2016 have started implementing for all other public entities; increase co-payments or cut costs for cultural programs and public transport by end-September 2016; and further streamline the number of government agencies. During 2015, we have reorganized ten and liquidated eight government agencies. With the assistance from the EU, we have started developing a comprehensive public administration reform strategy and we will ensure that the strategy is fully aligned with our medium-term fiscal program. Further downsizing of the public sector could provide room for targeted wage increases to support efforts in combating corruption.

30. Moreover, we will strengthen our budgetary process to encourage more efficient use of public funds. In line with IMF technical assistance recommendations, we intend to institutionalize a spending review process. In support of the spending review process, we will impose hard budget constraints on line ministries, encouraging them to identify savings within their resources envelopes. We will use the spending review process to develop high quality expenditure saving measures. In cooperation with the EU and other international partners we will develop and Cabinet will adopt by end-December 2016 a comprehensive public financial management reform plan, which will include specific, measureable and time-bound actions in the areas of medium-term budgeting, cash and debt management, financial controls, transparency of government finances and fight against corruption.

31. Finally, the increase in gas and heating prices to full cost recovery is being accompanied by significant additional social assistance, with improved targeting, to support vulnerable households. Specifically:

a. As part of the 2016 budget, we increased the envelope for energy-related benefits (privileges and HUS) from around UAH 24.4 billion in 2015 to UAH 35 billion in 2016, and issued a supplementary budget to further increase it to UAH 40.3 billion to support the advanced
increase of gas prices to cost recovery. We have initiated reforms to improve targeting to support vulnerable households and help to ensure that these programs remain fiscally affordable, including by: (i) giving energy privileges recipients the choice between the privileges and HUS programs (but not both) and; (ii) updating the consumption norms for the HUS program to bring them closer to current consumption levels. We are reviewing and will adjust the parameters of the utility-related social assistance programs, including the HUS benefits formula, to ensure that benefits remain within the allocated fiscal envelope (a new structural benchmark).

b. We have initiated a central monitoring system of the characteristics of households participating in the privileges and HUS programs. The system contains information on number of recipients, household income, and the amount of subsidies. By end-September 2016, we will expand the capabilities of the system to report benefits and consumption levels across the income distribution, which is critical to improve targeting. We will regularly analyze this information to monitor whether the two existing programs deliver assistance as intended. We have mailed HUS applications to every household and have taken steps to manage the surge in applications for social assistance, including by dedicating adequate budget resources and additional staffing.

E. Energy Sector Policy

32. We continue to make significant progress with improving Naftogaz’s finances and advancing the agreed energy-sector reforms.

a. The Naftogaz deficit remains within program targets. In 2015, the cumulative cash deficit reached UAH 18.2 billion (0.9 percent of GDP), below the program target. We remain committed to eliminating the Naftogaz deficit by end-2017.

b. The independent diagnostic of Naftogaz receivables was completed on time by Price Waterhouse Coopers with external funding by the UK’s DFID. The associated report, which contains recommendations to improve debt recovery, was shared with the IMF, and the first section of the report was published on September 30, 2015.

c. We have revised the formula for the distribution accounts collecting district heating bill payments to ensure that Naftogaz receives a share proportional to the current cost of gas in the heating tariff and reintroduced the “adjustment coefficient” that allows Naftogaz to gradually collect payments for district heating company arrears that have accumulated since September 1, 2015. We will take any necessary actions to ensure that the distribution accounts remain operational.
d. We have adopted much of the secondary legislation needed to facilitate the application of the new gas market law, which became effective on October 1, 2015. This secondary legislation allowed for below-international-parity gas pricing for a transition period until 2017 and the provision of subsidies to vulnerable consumers.

e. We have extended the allowed use of the state guarantees allocated in the 2016 budget for general purposes and for Naftogaz’s borrowing to also cover at least US$700 million as well as external guarantees provided by IFIs and private parties for the benefit of Naftogaz.

f. We will ensure that the moratoria on Naftogaz collection enforcement proceedings against energy companies and SOEs that were abolished as part of the conditionality for the first program review will not be reintroduced. Thus, we have reversed parliament’s decision to extend the moratorium on collection enforcement proceedings against Energoatom and the district heating companies.

33. Moreover, we have accelerated our efforts to eliminate Naftogaz’ deficit and to transform the gas sector.

a. Reflecting our commitment to raising gas and heating prices to cost recovery levels based on import parity, the Cabinet of Ministers has published a decision to unify the retail gas tariffs at a level consistent with full cost recovery effective May 1, 2016 (a prior action for this review). A decision by the Energy and Utilities National Regulatory Commission (NEURC) was also published to increase retail heating tariffs to a level consistent with gas priced at full import parity effective July 1, 2016 (a prior action for this review). To ensure that tariffs remain at full cost recovery, we will revise by end-October 2016 the Public Service Obligations (CMU Resolution 758) to introduce an interim mechanism to adjust retail gas and heating tariffs on a quarterly basis if tariffs deviate from full cost-recovery levels (based on import parity as defined in the TMU) by 10 percent or more (a new structural benchmark). The first price adjustment, if needed, will be effective from January 1, 2017. The interim adjustment will remain in place until tariffs are fully liberalized, which will take place no later than April 1, 2017. We will also adjust the price of domestic gas (UGV price) quarterly starting October 1, 2016 to ensure that it remains in line with import prices.

b. To facilitate the full liberalization of gas tariffs, we will further amend CMU Resolution 758 of October 1, 2015 so that tariffs on gas transportation and distribution are separated from the gas cost as commodity. We will also monetize the benefits of the HUS program by end-March 2017.
so that private gas traders can compete with Naftogaz to supply gas to households and utilities, and create incentives for energy conservation.

c. To further improve Naftogaz collections from heating companies, in June 2016 the NEURC adopted a resolution to introduce compensation for technical losses into heat tariffs and set targets to reduce technical losses, and this resolution will become effective by September 1, 2016.

d. Furthermore, by end-September 2016, we will adopt the remaining amendments (Bill 4868) needed to facilitate the application of the new gas market law.

F. Governance, Business Climate, and State-Owned Enterprise Reform

34. We have made progress in advancing our structural reform agenda aimed at addressing corruption, strengthening the business climate, and improving governance at SOEs. We will continue with these reforms aimed at transforming our economy in the period ahead.

Anticorruption

35. We are determined to accelerate the implementation of our anticorruption agenda and have largely completed the enabling statutory framework for key legal and institutional reforms, which will now allow us to shift our focus toward implementation. Specifically:

a. We have ensured that the National Anti-Corruption Bureau of Ukraine (NABU) became operational (an end-January 2016 structural benchmark). It has started recruiting and training its staff. Out of a total envisaged complement of 700, about 453 staff, including 142 detectives, have been hired and are receiving training. More generally, the management of NABU is steadily implementing its Action Plan, which was developed with the support of various donors.

b. We also adopted legislation on the asset recovery and management office and on asset confiscation and seizure. The latter provides the NABU with the ability to carry out provisional measures, such as freezing and seizing of assets, in order to prevent any dealing, transfer, or disposal of assets, in line with FATF recommendation 4.

c. The Ministry of Finance has produced a strategy to reform the AML reporting framework. The reform should ensure that reporting entities focus their reporting efforts on suspicious transactions, as defined by the Financial Action Task Force (FATF), rather than sending millions of routine reports yearly, the large majority of which do not contain useful information, and requiring a burdensome manual processing by banks. The strategy has been issued after
consultation with relevant public and private stakeholders and with support of IMF technical assistance.

d. The NBU put into force risk-based off-site and on-site AML supervisory tools, focusing on risks related to domestic politically exposed persons, incorporating technical advice received from Fund staff.

e. We have established a specialized anticorruption prosecution function in charge of overseeing NABU’s investigations. The head of the anticorruption prosecutors and two deputies have been appointed following a process ensuring broad public support, as a prior action for this review, and adequate premises have been allocated.

f. We have also amended the Law on the Prosecutor’s Office to ensure that a timely, fair, and balanced appointment process of anticorruption prosecutors is made sustainable over time, as previously agreed in the context of the first review and described below. In particular, the approved amendments provide for the following:

- The members of the Selection Committee must be persons of impeccable reputation and high professional qualities;

- The nomination of Selection Committee members by the General Prosecutor shall be an interim measure, until the Council of Prosecutors is established. At that point, Selection Committee members currently nominated by the General Prosecutor shall be nominated by the Council of Prosecutors;

- The Selection Committee will be chaired by a widely recognized and well-respected expert from among the members appointed by Parliament with a rich experience, interest, or record of advocacy in the prosecution of corruption;

- The Selection Committee will submit only one candidate for each of the three positions (head and two deputies of the anticorruption prosecution function) to the General Prosecutor, after having confirmed that a candidate satisfies the eligibility requirements prescribed in the laws of Ukraine “On power purification” and On the prevention of corruption”, and the security clearance requirements prescribed in the law “On State secrets.”
• The authority for the nomination and dismissal of other prosecutorial and non-prosecutorial staff of the anticorruption prosecutor’s office is to be granted to the head anticorruption prosecutor.

g. Parliament also adopted legislative amendments enabling the launch of a comprehensive electronic system for asset and income disclosure by high-level officials. Among the key features of this framework are: (i) asset disclosures for the high-level officials subject to NABU’s jurisdiction include information on beneficial ownership and control of any funds or other assets (as defined by the FATF); (ii) high-level officials are prohibited from receiving any gifts and advantages other than of very low value; and (iii) the NABU can use its powers to ensure the reliability of these asset and income disclosures at any point. The electronic filing system was fully launched in accordance with law 2014/49, as amended, on September 1, 2016 by the National Agency for the Prevention of Corruption (NAPC).

36. Looking ahead, we will take the following measures to further strengthen the implementation of anticorruption efforts:

a. We will submit legislation to parliament, for adoption by end-November 2016 (a new structural benchmark) to ensure that (i) the NABU has the use of a wide range of investigative techniques, including undercover operations, intercepting communications, accessing computer systems and controlled delivery, without having to rely on other agencies’ infrastructure; and that (ii) the registration of pre-court cases and of investigative judges’ rulings pertaining to NABU should be protected from leakage of information related to ongoing investigations, by restricting access to the information to NABU and SAPO officers until the investigation of the case is completed, or the case is closed, without undue restriction to an individual’s right to defense.

b. To monitor progress made in implementing the anticorruption legal framework, the NABU will publish statistics on acts of corruption related to high-level officials under the NABU’s jurisdiction, on a webpage freely available to the public (in line with the template detailed in paragraph 96 of the TMU) and on a quarterly basis. We will publish the information for the first and second quarters of 2016 by mid-September 2016. Subsequently, publication of these statistics will occur by the end of the month following each quarter.

c. All high-level officials are required to file their assets and income declarations, as defined under Article 46 of law 2014/49 for the calendar year 2015 within 60 days of the launch of the e-filing system, and officials that filed during the period the system operated in test mode will have to resubmit their submission, and the disclosures will be made freely available to the public on a
single website shortly after submission (a **new structural benchmark** for end-October 2016). We are committed to make any further revisions to the disclosure system as needed to ensure that it is effective, in agreement with IMF staff.

d. The NBU has completed 8 targeted inspections of banks, focused on regulatory requirements related to customer due diligence and politically exposed persons, to address the risks of misuse by corrupt officials, and it will publish on an ongoing basis the sanctions imposed for breaches of AML/CFT requirements by banks.

e. We are taking steps to implement the strategy adopted to reform the AML reporting framework to ensure that necessary legal, regulatory and institutional changes are implemented by the end of 2016. In particular, we will adopt amendments to the legal framework by end-September 2016 to ensure a three tier reporting system (i) suspicious transaction reports as defined by the FATF, (ii) threshold based reporting of cash transactions and international funds transfers, and (iii) mandatory reporting of transactions related to high-risk jurisdictions and politically exposed persons. We will strengthen the operational capacity and integrity of the Financial Intelligence Unit (FIU), including by appointing its head in line with the process set forth in the new law on government administration, and increasing staff salaries closer to those of other agencies involved in tackling corruption. To monitor its contribution to anticorruption efforts, the NABU will publish quarterly statistics on the information it receives from the FIU (in line with the template detailed in paragraph 97 of the TMU). By mid-September-2016, the information for the first and second quarters of 2016 will be published. Subsequently, publication of these statistics will occur by the end of the month following each quarter.

f. We will adopt a law ensuring the establishment of a specialized anticorruption court, as provided in the new law on the judiciary, following a review and analysis of the efficiency of such courts functioning in other European countries, in line with European standards and best practices.

g. We will adopt, by end-November 2016, a Law on the Business Ombudsman. The law will include clauses that ensure adequate authority, immunities consistent with international practices, authority to impose administrative penalties, and access to information to facilitate the exercise of the function.

**Judicial reform**

37. **On judicial reform, Parliament passed a constitutional amendment in June 2016, which brings important structural changes to the judicial organization and status of judges.** A prior
draft of these changes received a favorable opinion of the Venice Commission (October 26, 2015). The amendment, among other things, enhances judicial independence including by abolishing the probationary period for judges, introducing objective recruitment standards and procedures, and strengthening the management by judges of the judiciary. Parliament also enacted a new Law on the Judicial System and the Status of Judges, which implements the constitutional amendment. We will establish the civic integrity councils (designed to enhance the professional ethics and the integrity of judges) within three months from publication as provided by that law. Further reform measures called for by these statutes will be developed and implemented in the coming months. Progress is also made in the following areas:

a. *Orders of Payment and Garnishment.* We are making steady progress on the structural benchmark on Orders of Payment and Garnishment. In this regard, draft laws that provide inter alia for electronic submission of order for payment claims, will be enacted by end-September 2016 (modified *structural benchmark*). These laws will amend relevant parts of the Code of Civil Procedure and the Code of Commercial Procedure.

b. *Private Enforcement Profession.* In June 2016, parliament adopted a law establishing a profession of private enforcement agents, as set out in the February 2015 and July 2015 MEFPs.

c. *High Council of Justice and High Qualification Commission.* With the objective to track progress in the resolution of the backlog of disciplinary cases against judges, we will provide adequate financing to the High Council of Justice and the High Qualification Commission so as to enable them to commence routine publication of statistical data by end-November 2016. The data will include the following: the number of cases closed, entered and pending for each time period, and the sanctions applied for each case closed, if any. The first such data set will cover Q1, Q2 and Q3 of 2016, up to and including September 30, 2016. Thereafter, such data shall be published on a quarterly basis throughout the period of the arrangement.

d. *Court Fees.* The May 2015 law on the increase in court fees (end-May 2015 structural benchmark) envisaged that its implementation would begin by September 1, 2015. In this regard, the State Judicial Administration (SJA) has begun implementation of the law and is already recording a rise in revenues from court fees. The SJA will also closely monitor whether the increased fee requirements are having a limiting impact on the filing of frivolous suits, which was also an objective of the law.
Business climate and deregulation

38. We are implementing, albeit with some delays, the action plan to remove regulatory and legislative impediments to a growth-conducive business climate. In this context, we are updating the action plan to reflect achievements to date and to incorporate additional deregulation initiatives. Monthly implementation reports are being published on the State Regulatory Service’s and the Cabinet of Ministers’ websites, following submission to the cabinet. Looking ahead:

a. The Cabinet of Ministers will take all the necessary steps to ensure the full implementation of the plan, including the publication of monthly implementation reports. In particular, priority actions 1, 2, and 5 from the plan, aimed at streamlining clarifying business registration and operation procedures, were adopted by the Cabinet. Moreover, the Cabinet of Ministers will cooperate with Parliament to ensure adoption of the legislation necessary to implement actions 2, 5, 50, 54, and 62 from the plan by end-September 2016. The Cabinet of Ministers approved an updated methodology for regulatory impact assessment (RIA) in December 2015, which included mandatory quantitative regulatory impact analysis for all new and amended draft legislation.

b. We are preparing a full-scale revision of regulatory norms, which includes (i) review of all norms that influence businesses; and (ii) preparing recommendations on whether the norm should be eliminated, revised or maintained. This review is expected to be finalized by end-December 2016 together with a roadmap for the implementation of these recommendations.

c. The Cabinet of Ministers will ensure that the recently adopted Law "On Licensing of Types Economic Activity" will be fully functional. To date, the Cabinet has already approved 13 licensing conditions (out of 30) and the remainder will be adopted by end-September 2016. Delays in submission or approval of these rules and conditions will not serve as a basis for denying a license or for prohibition of business activities.

d. The Cabinet of Ministers, in consultation with the IMF, we will submit a draft law on agricultural land circulation to parliament by end-September 2016 (a new structural benchmark). Parliamentary approval of the law is expected by end-December 2016.

State-owned enterprise reforms

39. We continue to press ahead with the implementation of the SOE-reform strategy. Key elements of our strategy include (i) improving budgetary oversight, specifically by enhancing the SOEs fiscal-risk assessment; (ii) improving governance of SOEs; and (ii) implementing transparent
privatization, restructuring, or liquidation of identified SOEs in the medium run. Specific near-term measures include:

a. **SOE fiscal risk assessment:**

- We have established an inter-departmental working group to improve the methodology for assessing fiscal risks emanating from SOEs liabilities. In this context, we have identified the list of the 10 SOEs posing the biggest fiscal risks that will be subject to restructuring. Furthermore, we have developed, in consultation with IMF staff, a reporting template to facilitate the stocktaking of SOEs arrears. On this basis, we have extended the coverage of the SOEs reporting to include all arrears of the 50 largest companies and have prepared reports on the stock of these arrears.

- Building on these efforts and as part of our strategy to improve fiscal risk management, we are establishing a fiscal risks management unit in the Ministry of Finance. Through this unit, the Ministry of Finance will put in place SOE fiscal risks monitoring and analysis framework and will use the analysis to inform the budget preparation process and provide for any expected fiscal impact on the budget. In line with recent IMF TA recommendations, we will ensure that the new unit is only responsible for monitoring and analysis and does not interfere in any form in the management of SOEs or exert additional control over SOE operations. After the unit has been established, we will prepare a comprehensive statement of fiscal risks emanating from the SOE sector to be included in budget documentation and published on the Ministry of Finance website. After the ministry of finance develops the capacity to manage fiscal risks from SOEs we will expand the analysis to the wider portfolio of fiscal risks facing Ukraine, such as general macroeconomic risks and commodity prices risks.

b. **SOE governance:**

- The Law “On Amendments to Some Legislative Acts of Ukraine on Corporate Governance of State Property,” aimed at strengthening the SOEs governance structure and enhancing the transparency of their operations has been adopted. The law allows for the introduction of supervisory boards at fully state-owned enterprises and makes external audits obligatory for these enterprises. To enable its proper implementation and with a view to introducing independent supervisory boards in the largest unitary SOEs, the Cabinet of Ministers will adopt by end-September 2016 a decision that will regulate the process of establishing such supervisory boards, selecting its members, and other procedural matters. Thereafter, we will
appoint independent supervisor boards in at least five large SOEs by end-October 2016 and in at least 10 more large SOEs by end-December 2016. First audit reports for these companies based on end-2015 financial results will be completed by end-October 2016.

- In particular, we appointed the independent supervisory board of Naftogaz, consisting of five members, with three independent members and two members appointed upon nomination by the President and the Cabinet of Ministers of Ukraine, consistent with the Naftogaz Corporate Governance Action Plan.

- The Cabinet of Ministers adopted a decree establishing criteria for auditor selection in SOEs based on the SOE’s size. We plan to have audit reports of 20 large SOEs completed and published in accordance to the decree by end-October 2016, and audit reports of at least 30 more large SOEs published by end-December 2016.

- The MEDT, in consultation with IMF staff, will develop by end-September 2016, a time-bound action plan that will outline: (i) the corporate governance structure of the single national Holding Company that will be tasked with managing strategic commercial SOEs, including nomination procedures for supervisory boards, CEO and executive board, authorities of the managing bodies and reporting lines and requirements, and (ii) steps required to establish the Holding Company, including the necessary legal framework, and the timeline thereof.

c. Triage of all SOEs.

- We are committed to the triage of all SOEs to determine their appropriate classification: keep under the management of the State (strategic commercial SOEs and SOEs that perform other strategic functions, including regulatory, social, and defense, and SOEs that are located in territories currently not under the control of the government), sell (privatization), or liquidate (liquidation or bankruptcy). In particular,

- The MEDT, in consultation with IMF staff, will complete a preliminary triage of all SOEs and reconcile it within the Cabinet of Ministers by end-September 2016. Within this stage, we will review the list of “strategic” companies and assess their proper qualification as “strategic,” therefore not for sale.

- In parallel, we are reviewing and developing the necessary legal framework that would allow implementing the triage of all SOEs, including a significant reduction of the non-privatization list, establishment of a special unit within the State Property Fund of Ukraine (SPFU) tasked with the liquidation of non-operating SOEs, and development of streamlined procedures for the liquidation of certain non-operating SOEs.
• Following the above preparatory work, we will (i) aim to adopt amendments to the relevant legislation, that will allow for the implementation of the triage of all SOEs; (ii) complete the triage of all SOEs in consultation with IMF staff, other line ministries and governments agencies managing SOEs, which will be approved by Cabinet resolution. Moreover, we will transfer to the SPFU the SOEs incorporated in the privatization plan for 2016, except those that will remain in the list of companies banned from privatization. Cabinet adoption and publication in the MEDT website of the triage and transfer of SOEs to the SPFU will be completed by end-October 2016 (a new structural benchmark). Within this process, we are developing an action plan for privatization and liquidation of SOEs, including a phased schedule for transferring of SOEs to the SPFU to preserve sufficient institutional capacity at the SPFU.

d. Restructuring and Liquidation:

• Building on the list of those SOEs posing the biggest fiscal risks, we prepared, in agreement between the respective line ministry, Ministry of Economy and the Ministry of Finance, detailed restructuring action plans for fives of these companies (an end-January 2016 structural benchmark). The relevant line ministry together with the MEDT and Ministry of Finance will ensure adequate implementation of these restructuring plans.

• The government plans to centralize the liquidation of non-operating SOEs in one governmental body. With this intent, the SPFU, in consultation with relevant ministries and IMF staff, is preparing a draft law on liquidation of SOEs that will enable the SPFU to liquidate certain SOEs, those with zero assets or where assets are smaller than liabilities, under streamlined procedures. In this context, we will conduct an analysis of the bankruptcy law as relevant for SOEs and introduce the necessary changes where needed. We expect parliament adoption of this law by end-October 2016. We will also revise, by end-October 2016, secondary legislation that regulates the transfer of non-operating SOEs between Government bodies with the aim to simplify procedures for transferring of non-operating SOEs with zero assets, or where assets are smaller than liabilities, from line ministries and other managing authorities to the SPFU with the sole purpose of their liquidation. Moreover, we will ensure, in consultation with IMF staff, that the SPFU has sufficient institutional capacity to perform these duties, including adequate financial and human resources.

e. Privatization. We are committed to accelerate the privatization of SOEs, while ensuring an open and transparent process aimed at attracting strategic investors that will fully develop the potential of the privatized companies. In the meantime:
The Cabinet of Ministers adopted a resolution identifying a list of SOEs subject to priority privatization with the participation of advisors. Building on this, we have adopted by Cabinet resolution action plans for these companies, which define for each SOE the key parameters and conditions of the process, including the timeline for divesting, method of privatization, and intermediate steps to be taken. The shares of all SOEs on the priority privatization list approved by the Cabinet of Ministers have now been transferred to the SPFU. Subsequently, we will initiate their privatization, taking the necessary steps to ensure an open and transparent process.

In this context, Parliament adopted amendments to the privatization law to cancel mandatory sale of 5–10 percent of shares on stock exchange. The Cabinet of Ministers will adopt by end-September 2016 the necessary secondary legislation establishing the criteria for the selection of advisors for large SOEs (Group G).

By end-September 2016, the Cabinet of Ministers will adopt the 2016 Privatization Plan. Parliament will also adopt by end-September 2016 legislation to reduce the list of companies banned from privatization, notably to remove seaports and agricultural SOEs from the list, which will form part of the 2016 Privatization Plan. Subsequently, the Cabinet of Ministers will adopt the necessary decisions to transfer all the shares of the companies included in the 2016 Privatization Plan to the SPFU. Transfer of these shares will be completed by end-October 2016.

Furthermore, the MEDT and SPFU are preparing, in cooperation with the MoF, additional amendments to the privatization law to improve transparency and safeguards, and to further streamline the privatization process, including:

i. A set of measures to prevent asset stripping in SOEs selected for privatization, by limiting the right of management of such SOEs to enter into (i) long term contractual obligations (in excess of 6 months), and (ii) transactions the value of which, individually or in the aggregate, exceeds a specific limit. These measures will provide for personal liability of SOE managers for breach of such obligations and the right for unwinding all affected contracts post-privatization. The only exception to the limitations under (i) and (ii) above will be where the relevant transaction receives a prior written consent from the SPFU;

ii. Streamlined procedures for the privatization of small- and medium-sized SOEs;
iii. Comprehensive procedures for the privatization of large-scale SOEs in line with international best practices;

iv. Improved cooperation between the SPFU, law enforcement agencies, and regulatory authorities in the process of verification of information about interested buyers. We will complete these amendments, in consultation with IMF staff, submit to parliament by end-September 2016 and expect Parliament adoption by end-December 2016 (a new structural benchmark).

- We have made significant progress to ensure a robust and transparent privatization of PJSC Odessa Portside Plant, including the engagement of advisors, in accordance with international best practices, that have prepared and submitted to SPFU information packages for PJSC Odessa Portside Plant. Financial audits, based on end-December 2015 results and according to IFRS standards and the relevant environmental audits have also been completed. Furthermore, the Cabinet of Ministers approved conditions for the sale of the company, including the requirement that at least two bidders, at least one of them foreign, participate in the contest. We expect the SPFU to hold the auction by end-October 2016.

- Similarly, by end-2016, we aim to undertake contest sales of JSC Kharkivoblenergo, OJSC Zaporizhyaoblenergo, PJSC Mykolayivoblenergo, PJSC Khmelnytskoblenergo, OJSC Ternopiloblenergo, following the same procedures as for PJSC Odessa Portside Plant.

- We will aim to launch the privatization contest for PJSC Centrenergo and aim to complete its sale by end-March 2017, following the same procedures as for PJSC Odessa Portside Plant.

III. Program Monitoring

40. Implementation of the policies under the program will continue to be monitored through prior actions, quantitative performance criteria, indicative targets, continuous performance criteria, structural benchmarks, and quarterly reviews, as envisaged in our Memoranda of Economic and Financial Policies dated February 27 and July 21, 2015 along with this Memorandum. We also request to establish new indicative targets for the inflation rate. The attached Technical Memorandum of Understanding (TMU) defines the quantitative performance criteria and indicative targets under the program. The prior actions and structural benchmarks are set out in Table 1. The quantitative targets for target dates for end-September and end-December 2016 and end-March 2017, along with continuous quantitative performance criteria, and indicative targets for end-June 2017, are set out in Table 2b and the TMU.
Table 1. Ukraine: Prior Actions and Structural Benchmarks

<table>
<thead>
<tr>
<th>Proposed Prior Actions</th>
<th>Status</th>
<th>Completion date</th>
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<tbody>
<tr>
<td>Parliamentary approval of the 2016 budget in line with program commitments and of a new tax code (as described in ¶26, except the measures due after July 1, 2016).</td>
<td>Met</td>
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<tr>
<td>Appointment of the Head Anticorruption Prosecutor and his/her two deputies (¶35e)</td>
<td>Met</td>
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<tr>
<td>Adoption and publication of a Cabinet of Ministers decision to unify and increase the retail gas tariffs at a level consistent with 100 percent of cost recovery based on import parity, effective May 1, 2016 (as described in ¶33a).</td>
<td>Met</td>
<td></td>
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<tr>
<td>Adoption and publication of necessary decisions to increase retail heating tariffs to 100 percent of the level consistent with gas priced at full import parity effective July 1, 2016 (as described in ¶33a).</td>
<td>Met</td>
<td></td>
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<tr>
<td>Adopt a Cabinet of Ministers decree reducing the lists 1 and 2 of occupations eligible for early retirement by at least 40 percent in terms of eligible persons (¶29a).</td>
<td>Met</td>
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<tr>
<th>Proposed New Structural Benchmarks</th>
<th>Status</th>
<th>Completion date</th>
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<tbody>
<tr>
<td>Adjust the parameters of the utility-related social assistance programs, including the HUS benefits formula, to ensure that benefits remain within the allocated fiscal envelope (¶31a).</td>
<td>End-September 2016</td>
<td></td>
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<tr>
<td>Submit law on agricultural land circulation to parliament (¶38d).</td>
<td>End-September 2016</td>
<td></td>
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<tr>
<td>Revise the Public Service Obligations (CMU Resolution 758) to introduce an interim mechanism to adjust gas and heating tariffs on a quarterly basis if tariffs deviate from full cost-recovery levels (based on import parity as defined in the TMU) by 10 percent or more (as described in ¶33a).</td>
<td>End-October 2016</td>
<td></td>
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<tr>
<td>Ensure all high-level officials filed their assets and income declarations, as defined under Article 46 of law 2014/49 for the calendar year 2015 and their full disclosures freely available to the public on a single website shortly after submission (¶36c).</td>
<td>End-October 2016</td>
<td></td>
</tr>
<tr>
<td>Cabinet of Ministers approval and publication in the MEDT website of the completed triage of all SOEs, dividing them into companies to (i) remain under management of the State (including SOEs that are located in territories currently not under the control of the government); (ii) privatize; or (iii) liquidate; and transfer to the SPFU those SOEs incorporated in the privatization plan for 2016 (¶39c).</td>
<td>End-October 2016</td>
<td></td>
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### Proposed New Structural Benchmarks

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<thead>
<tr>
<th>Proposed New Structural Benchmarks</th>
<th>Status</th>
<th>Completion date</th>
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<tr>
<td>Parliamentary approval of legislation ensuring that the NABU has: (i) the use of a wide range of investigative techniques, including undercover operations, intercepting communications, accessing computer systems and controlled delivery, without having to rely on other agencies’ infrastructure; and that (ii) the registration of pre-court cases and of investigative judges’ rulings pertaining to NABU should be protected from leakage of information related to ongoing investigations, by restricting access to the information to NABU and SAPO officers until the investigation of the case is completed, or the case is closed (¶36a).</td>
<td></td>
<td>End-November 2016</td>
</tr>
<tr>
<td>Parliamentary approval of legislation to: (i) gradually adjust the statutory retirement age and further reduce the scope for early retirement; (ii) tighten the eligibility criteria for the minimum pension; (iii) consolidate pension legislation, which is now spread across about two dozen laws, and ensure a single principle for providing pensions without privileges for any occupation (with the exception of the military); (iv) expand the base for social security contributions; (v) ensure equitable tax treatment of pensions; and (vi) better link benefits to contributions, also to encourage the declaration of actual incomes. In addition, we will separate various categorical pension supplements from the labor pensions, bring their financing from the pension fund to the state budget and improve their targeting starting from 2017 (¶29a).</td>
<td></td>
<td>End-December 2016</td>
</tr>
<tr>
<td>Parliamentary approval of amendments to the privatization law to improve transparency and safeguards, and to further streamline the privatization process (¶39e).</td>
<td></td>
<td>End-December 2016</td>
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<tr>
<td>Adopt legislation to merge the customs and tax administration into a single legal entity (¶27a).</td>
<td></td>
<td>End-December 2016</td>
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### Previous Structural Benchmarks

<table>
<thead>
<tr>
<th>NBU and Financial Sector</th>
<th>Status</th>
<th>Completion date</th>
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<tbody>
<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 February 2015 MEFP ¶13.</td>
<td>Met</td>
<td>End-July 2015</td>
</tr>
<tr>
<td>Parliament will approve amendments to legislation, consistent with IMF staff advice, to strengthen the corporate insolvency regime (July 2015 MEFP ¶17, modified this MEFP ¶20).</td>
<td>Not met</td>
<td>End-March 2016 Reset to end- September 2016</td>
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### Fiscal Policy

<table>
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<tr>
<th>Fiscal Policy</th>
<th>Status</th>
<th>Completion date</th>
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<tbody>
<tr>
<td>The State Fiscal Service will transfer all taxpayers meeting large taxpayer criteria to the LTO (February 2015 MEFP ¶22).</td>
<td>Met</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 (February 2015 MEFP ¶25).</td>
<td>Met</td>
<td>End-December 2015</td>
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<tr>
<td>Previous Structural Benchmarks</td>
<td>Status</td>
<td>Completion date</td>
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<tr>
<td><strong>Fiscal Policy</strong></td>
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<td>Parliamentary passage of pension reform legislation, as agreed with IMF staff that revises the parameters of the pay-as-you-go system to make it more sustainable, abolishes special pensions, and lays the conditions for the adoption of a funded system that would complement the pay-as-you-go system (July 2015 MEFP ¶24).</td>
<td>Not met</td>
<td>End-December 2015</td>
</tr>
<tr>
<td><strong>State-Owned Enterprises</strong></td>
<td></td>
<td></td>
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<tr>
<td>Adoption by a cabinet resolution of the privatization action plan for five large SOEs from the priority privatization list (July 2015 MEFP ¶30).</td>
<td>Met</td>
<td>End-September 2015</td>
</tr>
<tr>
<td>Agreement on detailed restructuring action plans, prepared in consultation with IMF staff, for five SOEs with the largest fiscal risks, between the respective line ministry, Ministry of Economy, and the Ministry of Finance (July 2015 MEFP ¶30).</td>
<td>Met</td>
<td>End-January 2016</td>
</tr>
<tr>
<td><strong>Governance</strong></td>
<td></td>
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<tr>
<td>Parliament will approve a law which strengthens the provisions in the Code of Civil Procedure and the Code on Commercial Procedure on Order for Payment for domestic transactions and on garnishment of bank accounts (February 2015 MEFP ¶35; modified this MEFP ¶37a).</td>
<td>Not met</td>
<td>End-December 2015</td>
</tr>
<tr>
<td>Establish a specialized anticorruption prosecution function in charge of overseeing NAB’s investigations, in accordance with the Law on the Prosecutor’s Office, and enable NAB timely access to relevant information from other public institutions (July 2015 MEFP ¶29).</td>
<td>Not met (prior action)</td>
<td>End-September 2015</td>
</tr>
<tr>
<td>Undertake measures to make the National Anti-Corruption Bureau operational, including with regard to its prosecutorial function (July 2015 MEFP ¶29).</td>
<td>Met</td>
<td>End-January 2016</td>
</tr>
<tr>
<td><strong>Energy Sector</strong></td>
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<tr>
<td>Reform utility-related social assistance by (i) reducing the scope of energy privilege programs to cover only households that remain exempt from income testing according to Law 76-VIII/2014; (ii) converging the associated benefits to the levels in the HUS program; and (iii) revising the benefit formula of the expanded HUS program in consultation with IMF staff to channel benefits to vulnerable households and provide incentives for energy efficiency. The overall fiscal envelope for all energy-related social assistance programs (privileges and HUS) will be set at UAH 35 billion for 2016 (July 2015 MEFP ¶24, as revised in ¶31a of the current MEFP).</td>
<td>Not met</td>
<td>End-May 2016</td>
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| Table 2a. Ukraine: Quantitative Criteria and Indicative Targets 1/  
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<tr>
<td></td>
<td>I. Quantitative performance criteria</td>
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<td></td>
<td>Ceiling on the cash deficit of the general government (- implies a surplus) 2/</td>
<td>43,100</td>
<td>57,937</td>
<td>6,344</td>
<td>82,700</td>
<td>119,320</td>
<td>50,470</td>
<td>12,700</td>
<td>20,694</td>
<td>5,196</td>
<td>32,400</td>
<td>30,822</td>
<td>18,815</td>
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<tr>
<td></td>
<td>Ceiling on the cash deficit of the general government and Naftogaz (- implies a surplus) 2/</td>
<td>97,100</td>
<td>95,682</td>
<td>13,512</td>
<td>144,600</td>
<td>162,632</td>
<td>77,644</td>
<td>5,700</td>
<td>10,754</td>
<td>-6,534</td>
<td>37,100</td>
<td>29,693</td>
<td>-8,735</td>
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<td>Floor on cumulative change in net international reserves (in millions of U.S. dollars) 3/ 4/</td>
<td>-284</td>
<td>-471</td>
<td>-638</td>
<td>2,098</td>
<td>575</td>
<td>-576</td>
<td>2,224</td>
<td>127</td>
<td>-987</td>
<td>2,545</td>
<td>809</td>
<td>1,084</td>
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<td>Ceiling on cumulative change in net domestic assets of the NBU 3/ 4/</td>
<td>84,571</td>
<td>87,936</td>
<td>-1,924</td>
<td>57,720</td>
<td>81,731</td>
<td>11,882</td>
<td>54,120</td>
<td>87,577</td>
<td>9,559</td>
<td>66,495</td>
<td>96,817</td>
<td>2,562</td>
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<tr>
<td></td>
<td>Ceiling on publicly guaranteed debt 2/</td>
<td>30,000</td>
<td>30,000</td>
<td>0</td>
<td>30,000</td>
<td>30,000</td>
<td>12,758</td>
<td>20,000</td>
<td>20,000</td>
<td>0</td>
<td>20,000</td>
<td>20,000</td>
<td>0</td>
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<td></td>
<td>II. Continuous performance criterion</td>
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<tr>
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<td>Non-accumulation of new external debt payments arrears by the general government (millions of U.S. dollars) 2/ 5/ 6/</td>
<td>0</td>
<td>0</td>
<td>575</td>
<td>0</td>
<td>0</td>
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<tr>
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<td>Ceiling on net accumulation of VAT refund arrears 2/</td>
<td>80,086</td>
<td>10,988</td>
<td>90,796</td>
<td>2,805</td>
<td>89,584</td>
<td>109,578</td>
<td>109,578</td>
<td>19,455</td>
<td></td>
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<td>III. Indicative Targets</td>
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</tr>
<tr>
<td></td>
<td>Ceiling on cumulative change in base money 3/</td>
<td>54,000</td>
<td>37,745</td>
<td>19,805</td>
<td>61,900</td>
<td>41,312</td>
<td>18,173</td>
<td>7,800</td>
<td>-9,940</td>
<td>-11,730</td>
<td>4,700</td>
<td>-1,129</td>
<td>-27,550</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Ceiling on net accumulation of VAT refund arrears 2/</td>
<td>0</td>
<td>4,322</td>
<td>0</td>
<td>3,121</td>
<td>0</td>
<td>0</td>
<td>1,299</td>
<td>0</td>
<td>0</td>
<td>2,935</td>
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<tr>
<td></td>
<td>IV. Memorandum Items</td>
<td></td>
<td></td>
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<tr>
<td></td>
<td>Naftogaz deficit (- implies a surplus) 2/</td>
<td>54,000</td>
<td>37,745</td>
<td>19,805</td>
<td>61,900</td>
<td>41,312</td>
<td>18,173</td>
<td>7,800</td>
<td>-9,940</td>
<td>-11,730</td>
<td>4,700</td>
<td>-1,129</td>
<td>-27,550</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>External project financing 2/</td>
<td>13,000</td>
<td>4,009</td>
<td>14,937</td>
<td>6,344</td>
<td>6,995</td>
<td>15,107</td>
<td>15,107</td>
<td>2,505</td>
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<tr>
<td></td>
<td>NBU loans to DGF and operations with government bonds issued for DGF financing or banks recapitalization 2/</td>
<td>54,000</td>
<td>4,009</td>
<td>14,937</td>
<td>6,344</td>
<td>6,995</td>
<td>15,107</td>
<td>15,107</td>
<td>2,505</td>
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<tr>
<td></td>
<td>Government bonds issued for banks recapitalization and DGF financing 2/</td>
<td>54,000</td>
<td>37,745</td>
<td>19,805</td>
<td>61,900</td>
<td>41,312</td>
<td>18,173</td>
<td>7,800</td>
<td>-9,940</td>
<td>-11,730</td>
<td>4,700</td>
<td>-1,129</td>
<td>-27,550</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Programmed disbursements of international assistance except IMF (millions of U.S. dollars) 3/ 4/</td>
<td>1,504</td>
<td>1,220</td>
<td>5,475</td>
<td>3,462</td>
<td>620</td>
<td>3,771</td>
<td>6,204</td>
<td>3,801</td>
<td></td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td></td>
<td>Conversion of a non-reserve currency under a central bank swap line into a reserve currency through an outright sale 3/ 4/</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Net financing from debt operations (millions of U.S. dollars) 3/ 4/</td>
<td>500</td>
<td>575</td>
<td>4,228</td>
<td>4,728</td>
<td>4,228</td>
<td>5,478</td>
<td>4,145</td>
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</tr>
<tr>
<td></td>
<td>Purchases of foreign exchange from the NBU for the purposes of critical energy imports (incl. those of Naftogaz, millions of U.S. dollars) 3/ 4/</td>
<td>1,686</td>
<td>1,686</td>
<td>1,686</td>
<td>1,686</td>
<td>1,686</td>
<td>1,686</td>
<td>1,686</td>
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</tr>
<tr>
<td></td>
<td>NBU purchases of T-bonds issued by government for Naftogaz recapitalization 3/</td>
<td>28,300</td>
<td>29,939</td>
<td>28,300</td>
<td>29,939</td>
<td>28,300</td>
<td>29,939</td>
<td>28,300</td>
<td></td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Projected payments of interest on government bonds held by NBU 2/</td>
<td>30,000</td>
<td>30,000</td>
<td>0</td>
<td>30,000</td>
<td>30,000</td>
<td>12,758</td>
<td>20,000</td>
<td>20,000</td>
<td>0</td>
<td>20,000</td>
<td>20,000</td>
<td>0</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Program accounting exchange rate, hryvnia per U.S. dollar</td>
<td>15.7686</td>
<td>15.7686</td>
<td>15.7686</td>
<td>15.7686</td>
<td>15.7686</td>
<td>15.7686</td>
<td>15.7686</td>
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</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).
3/ Targets and projections for 2015 to June 2016 are cumulative flows from January 1, 2015.
4/ Calculated using program accounting exchange rates specified in the TMU.
5/ The entry is in accordance with the Technical Memorandum of Understanding between Ukraine and the IMF and is subject of ongoing litigation commenced by the creditor in the High Court in England.
6/ Arrears incurred in September 2015 were settled following a restructuring agreement. Arrears incurred in January 2016 were settled following a restructuring agreement in February 2016.
<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>September</td>
<td>December</td>
</tr>
<tr>
<td></td>
<td>PC</td>
<td>PC</td>
</tr>
<tr>
<td>I. Quantitative performance criteria</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ceiling on the cash deficit of the general government (- implies a surplus) 2/</td>
<td>35,000</td>
<td>84,900</td>
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<tr>
<td>Ceiling on the cash deficit of the general government and Naftogaz (- implies a surplus) 2/</td>
<td>30,500</td>
<td>90,000</td>
</tr>
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<td>Floor on cumulative change in net international reserves (in millions of U.S. dollars) 3/ 4/</td>
<td>1,776</td>
<td>2,317</td>
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<td>Ceiling on cumulative change in net domestic assets of the NBU 3/ 4/</td>
<td>-2,886</td>
<td>9,923</td>
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<td>Ceiling on publicly guaranteed debt 2/</td>
<td>28,200</td>
<td>28,200</td>
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<tr>
<td>II. Continuous performance criterion</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non-accumulation of new external debt payments arrears by the general government (millions of U.S. dollars) 2/</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>III. Indicative Targets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ceiling on cumulative change in base money 3/</td>
<td>25,123</td>
<td>46,452</td>
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<tr>
<td>Ceiling on stock of VAT refund arrears 2/</td>
<td>0</td>
<td>0</td>
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<tr>
<td>Inflation (mid-point, percent) 5/</td>
<td>n.a.</td>
<td>12.0</td>
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<tr>
<td>Ceiling on current primary expenditure of the state budget 2/</td>
<td>n.a.</td>
<td>526,000</td>
</tr>
<tr>
<td>IV. Memorandum Items</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Naftogaz deficit (- implies a surplus) 2/</td>
<td>-4,500</td>
<td>5,100</td>
</tr>
<tr>
<td>External project financing 2/</td>
<td>8,965</td>
<td>15,858</td>
</tr>
<tr>
<td>NBU loans to DGF and operations with government bonds issued for DGF financing or banks recapitalization 3/</td>
<td>-635</td>
<td>-635</td>
</tr>
<tr>
<td>Government bonds issued for banks recapitalization and DGF financing 2/</td>
<td>166,000</td>
<td>166,000</td>
</tr>
<tr>
<td>Programmed disbursements of international assistance except IMF (millions of U.S. dollars) 3/ 4/</td>
<td>1,339</td>
<td>2,404</td>
</tr>
<tr>
<td>Conversion of a non-reserve currency under a central bank swap line into a reserve currency through an outright sale 3/ 4/</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Net financing from debt operations (millions of U.S. dollars) 3/ 4/</td>
<td>1,237</td>
<td>2,467</td>
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<tr>
<td>Projected payments of interest on government bonds held by NBU 2/</td>
<td>36,056</td>
<td>49,294</td>
</tr>
<tr>
<td>Net issuance of central government domestic FX debt 3/</td>
<td>455</td>
<td>-38</td>
</tr>
<tr>
<td>Program accounting 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).
3/ Targets for 2016 and 2017 are cumulative flows from January 1, 2016.
4/ Calculated using program accounting exchange rates specified in the TMU.
5/ End of period, year-on-year headline inflation. Mid-point within a +/- 3 percent range.
<table>
<thead>
<tr>
<th>Availability date</th>
<th>Millions of SDRs</th>
<th>Millions of US$</th>
<th>Percent of quota 2/</th>
<th>Conditions</th>
</tr>
</thead>
<tbody>
<tr>
<td>March 11, 2015</td>
<td>3,546.000</td>
<td>4,872.00</td>
<td>258.45</td>
<td>Board approval of extended arrangement</td>
</tr>
<tr>
<td>June 15, 2015 3/</td>
<td>1,182.100</td>
<td>1,650.00</td>
<td>86.16</td>
<td>First review and end-March 2015 performance criteria</td>
</tr>
<tr>
<td>September 15, 2015</td>
<td>716.110</td>
<td>1,000.00</td>
<td>52.19</td>
<td>Second review and end-December 2015 performance criteria</td>
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<tr>
<td>November 15, 2016</td>
<td>952.487</td>
<td>1,330.88</td>
<td>47.35</td>
<td>Third review and end-September 2016 performance criteria</td>
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<tr>
<td>February 15, 2017</td>
<td>1,418.479</td>
<td>1,985.90</td>
<td>70.51</td>
<td>Fourth review and end-December 2016 performance criteria</td>
</tr>
<tr>
<td>May 15, 2017</td>
<td>952.487</td>
<td>1,333.59</td>
<td>47.35</td>
<td>Fifth review and end-March 2017 performance criteria</td>
</tr>
<tr>
<td>August 15, 2017</td>
<td>952.487</td>
<td>1,333.56</td>
<td>47.35</td>
<td>Sixth review and end-June 2017 performance criteria</td>
</tr>
<tr>
<td>November 15, 2017</td>
<td>525.570</td>
<td>735.83</td>
<td>26.12</td>
<td>Seventh review and end-September 2017 performance criteria</td>
</tr>
<tr>
<td>February 15, 2018</td>
<td>525.570</td>
<td>735.42</td>
<td>26.12</td>
<td>Eighth review and end-December 2017 performance criteria</td>
</tr>
<tr>
<td>May 15, 2018</td>
<td>525.570</td>
<td>735.67</td>
<td>26.12</td>
<td>Ninth review and end-March 2018 performance criteria</td>
</tr>
<tr>
<td>August 15, 2018</td>
<td>525.570</td>
<td>736.08</td>
<td>26.12</td>
<td>Tenth review and end-June 2018 performance criteria</td>
</tr>
<tr>
<td>November 15, 2018</td>
<td>525.570</td>
<td>736.08</td>
<td>26.12</td>
<td>Eleventh review and end-September 2018 performance criteria</td>
</tr>
<tr>
<td>Total</td>
<td>12,348</td>
<td>17,185</td>
<td>614</td>
<td></td>
</tr>
</tbody>
</table>

Source: IMF staff estimates.

1/ For 2015–18, the average USD/SDR rates used in this table are: 1.402, 1.397, 1.400, and 1.400, respectively.

2/ For 2015, Ukraine’s previous quota of SDR 1,372 million applies. Ukraine’s new quota of SDR 2,011.8 million became effective in February 2016.

3/ The second purchase took place on August 4, 2015.
Ukraine: Technical Memorandum of Understanding

September 1, 2016

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 September 1, 2016 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 Chinese Yuan is valued at 0.1611 U.S. 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 accounting exchange rates are kept fixed over the program period. Therefore, the program’s accounting exchange rate differs from the actual exchange rate set in the foreign exchange market of Ukraine. 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 (Sixth Edition) and the Special Data Dissemination Standard (SDDS) (Table 6.1, item A). Excluded from usable reserves, *inter alia*, are:

- 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 they are not fully under the control of the NBU or 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 (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 Liability¹</th>
<th>NBU Balance Sheet and Memorandum Accounts</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. International reserves</td>
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</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>IM, Finance Department²</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. Short-term liabilities to nonresidents (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, 3401, 8805</td>
</tr>
<tr>
<td>Operations with resident banks</td>
<td>8815</td>
</tr>
<tr>
<td>Use of IMF credit</td>
<td>IM, Finance Department</td>
</tr>
</tbody>
</table>

¹ 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.

² 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.

### Assumptions in line with the authorities’ commitments

8. The NIR/NDA targets assume a rollover of central government’s domestic foreign exchange debt liabilities of 110 and 82 percent in 2016 and 2017, respectively. The rollover will be achieved through an issuance of new central government foreign exchange bonds with a maturity of at least one year. Furthermore, the NIR/NDA targets assume that there will be no early repayment of domestic foreign exchange bonds, in line with the authorities’ commitment.

¹ This refers to the notional value of the commitments, not the market value.
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 (including grants and long-term credit to the National Bank of Ukraine, while 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 or reserve assets.

• The NIR targets will be adjusted upward (downward) by the full amount of the cumulative excess (shortfall) in net issuance (gross issuance minus debt service) of central government’s domestic foreign exchange debt liabilities over (under) the amounts expected under the baseline (see Table C).

• In case the NBU converts Renminbi or any other non-reserve currency provided under a central bank swap agreement with the NBU into a reserve currency through an outright sale, a symmetric adjustor will be applied to NIR targets. NIR targets will be adjusted upward by the amount that will be converted into a reserve currency at the time of the conversion. NIR targets will be adjusted downward by the amount of a reserve currency (both the principal and interest due), when the NBU repays the non-reserve currency provided under a central bank swap agreement.

• In the event of higher (lower) net financing from the debt operations than envisaged under the baseline (Table D), either due to the discontinuation of payments or due to changes to the terms resulting from the issuance of new debt upon completion of the debt operation on general government direct and guaranteed debt included in the perimeter of the debt operation as published in the Cabinet of Minister’s Resolution No. 318-p on April 4, 2015, NIR targets will be adjusted upward (downward) by the full amount of the cumulative excess (shortfall) in net financing in foreign exchange relative to the baseline.
### Table B. Eurobond Placements and Disbursements from IFIs and Official Sources: Projections for NIR/NDA Adjustment
(Cumulative flows from end-December 2015, millions of U.S. dollars at program exchange rate)

<table>
<thead>
<tr>
<th>Period</th>
<th>Eurobond placement</th>
<th>World Bank</th>
<th>EU</th>
<th>Others (Japan, Sweden, Switzerland, Turkey)</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>End-September 2016</td>
<td>1,000</td>
<td>30</td>
<td>0</td>
<td>309</td>
<td>1,339</td>
</tr>
<tr>
<td>End-December 2016</td>
<td>1,000</td>
<td>40</td>
<td>930</td>
<td>434</td>
<td>2,404</td>
</tr>
<tr>
<td>End-March 2017</td>
<td>1,000</td>
<td>40</td>
<td>930</td>
<td>559</td>
<td>2,529</td>
</tr>
<tr>
<td>End-June 2017</td>
<td>1,000</td>
<td>40</td>
<td>1,658</td>
<td>584</td>
<td>3,283</td>
</tr>
</tbody>
</table>

### Table C. Net Issuance of Central Government Domestic FX Debt: Projections for NIR/NDA Adjustment
(Cumulative flows from end-December 2015, millions of U.S. dollars at program exchange rate)

<table>
<thead>
<tr>
<th>Period</th>
<th>Net issuance</th>
</tr>
</thead>
<tbody>
<tr>
<td>End-September 2016</td>
<td>455</td>
</tr>
<tr>
<td>End-December 2016</td>
<td>-38</td>
</tr>
<tr>
<td>End-March 2017</td>
<td>-99</td>
</tr>
<tr>
<td>End-June 2017</td>
<td>-156</td>
</tr>
</tbody>
</table>

### Table D. Net Financing from Debt Operations: Projections for NIR/NDA Adjustment
(Cumulative flows from end-December 2015, millions of U.S. dollars at program exchange rate)

<table>
<thead>
<tr>
<th>Period</th>
<th>Net Financing</th>
</tr>
</thead>
<tbody>
<tr>
<td>End-September 2016</td>
<td>1,237</td>
</tr>
<tr>
<td>End-December 2016</td>
<td>2,467</td>
</tr>
<tr>
<td>End-March 2017</td>
<td>2,199</td>
</tr>
<tr>
<td>End-June 2017</td>
<td>2,470</td>
</tr>
</tbody>
</table>

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

**Definition**

9. 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, excluding the conversion of a non-reserve currency to a reserve currency through an outright sale under a central bank swap agreement of exchange of deposits). For the purpose of computing the NDA target, the NIR is valued at the program exchange rates 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 rates.
- 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 (all combined up to a limit of UAH 166 billion) and UAH 12 billion in 2016 and January through June 2017, respectively), relative to the baseline projection, and evaluated at the program exchange rates if provided in foreign exchange (Table E).

- In case another central bank uses the hryvnia provided under a central bank swap agreement with 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 central bank uses the hryvnia. NDA targets will be adjusted downward by the amount of hryvnia (both the principal and interest due), when the other central bank repays the used hryvnia.

- In the event of higher (lower) net financing from debt operations than envisaged under the baseline (Table D), either due to the discontinuation of payments or due to changes to the terms resulting from the issuance of new debt upon completion of the debt operation on general government direct and guaranteed debt included in the perimeter of the debt operation as published in the Cabinet of Minister’s Resolution No. 318-p on April 4, 2015, NDA targets will be adjusted downward (upward) by the full amount of the cumulative excess (shortfall) in net financing in foreign exchange relative to the baseline and evaluated at the program exchange rates.

- The NDA targets will be adjusted downward (upward) by the full amount of the cumulative excess (shortfall) in rollover of central government’s domestic foreign exchange debt liabilities over (under) the amounts expected under the baseline (see Table C).

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

(Cumulative flows from end-December 2015, millions of hryvnia)

<table>
<thead>
<tr>
<th></th>
<th>Net NBU loans to DGF and purchases of government bonds issued for DGF Financing</th>
<th>NBU purchases of government bonds issued for Bank Recapitalization</th>
</tr>
</thead>
<tbody>
<tr>
<td>End-September 2016</td>
<td>-635</td>
<td>0</td>
</tr>
<tr>
<td>End-December 2016</td>
<td>-635</td>
<td>0</td>
</tr>
<tr>
<td>End-March 2017</td>
<td>455</td>
<td>0</td>
</tr>
<tr>
<td>End-June</td>
<td>1,607</td>
<td>0</td>
</tr>
</tbody>
</table>
C. Ceiling on Cumulative Change in Monetary Base of the NBU
(Base Money)
(Indicative Target)

Definition

10. 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. Currency outside banks is defined as Currency—banknotes and coins—(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, and 3204) plus funds of customers at the NBU in hryvnia (NBU liabilities accounts of groups 323, 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 (all combined up to a limit of UAH 166 billion in 2016 and UAH 12 billion in 2016 and January through June 2017, respectively), relative to the baseline projection (Table D), and evaluated at the program exchange rates 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 another central bank uses the hryvnia provided under a central banks swap

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2 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.

3 Previously included account 3206.

4 Includes accounts of following sectors: 2—other financial intermediaries and other financial organizations; 6—regional and local authorities; 7—government nonfinancial corporations; 8—private and foreign-controlled nonfinancial corporations; 9—noncommercial organizations serving households.
agreement. Monetary base targets will be adjusted downward by the amount of hryvnia (both the principal and interest due), when the other central bank repays the used hryvnia.

D. Headline Inflation (Indicative Target)

Definition

11. Headline inflation is defined as the year-on-year rate of change of the Consumer Price Index as measured by Ukraine’s State Statistics Service. The indicative target will be considered met if headline inflation falls within a range of +/- 3 percentage points around the mid-point target in 2016 and 2017.

E. Ceiling on Cash Deficit of the General Government (Performance Criterion)

Definition

12. 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 excluding the impact of valuation changes as:

- total net treasury bill sales\(^5\) (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

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\(^5\) From here on, treasury bills are defined as all treasury securities (including long-term instruments or treasury bonds).
UKRAINE

redemption of principal on treasury bills), excluding bonds issued to recapitalize Naftogaz\(^6\) and other SOEs; 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) and the proceeds from uncompensated seizures; plus

- 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.

13. 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. Financing changes resulting from exchange rate valuation of foreign currency deposits are excluded from the deficit. The government deposits in the banking system

\(^{6}\) 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.
exclude VAT accounts used for electronic administration and escrow accounts of taxpayers used for customs clearance.

**Adjustment mechanism**

- The ceiling on the cash deficit of the general government is subject to an automatic adjustor based on deviations of external project loans (defined as disbursements from bilateral and multilateral creditors to the consolidated general government for specific project expenditure) from program projections (Table F). 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

  b. fall short of program projections, the ceiling on the consolidated general government deficit will be adjusted downward by 100 percent of the shortfall in external project financing.

- The ceiling on the cash deficit of the general government is subject to an automatic downward (upward) adjustment by 100 percent of the amount of the budget support grants received in excess (in short fall) of the program amounts (Table F).

### Table F. External Financing of General Government Projects and Budget—Adjustment

(Cumulative flows from January 1, 2016, in millions of hryvnia)

<table>
<thead>
<tr>
<th></th>
<th>External project financing (Technical assumption for the adjustor purpose)</th>
<th>Budget support grant (Technical assumption for the adjustor purpose)</th>
</tr>
</thead>
<tbody>
<tr>
<td>End-September 2016</td>
<td>8,965</td>
<td>0</td>
</tr>
<tr>
<td>End-December 2016</td>
<td>15,858</td>
<td>5,057</td>
</tr>
<tr>
<td>End-March 2017 1/</td>
<td>4,000</td>
<td>0</td>
</tr>
<tr>
<td>End-June 2017 1/</td>
<td>8,000</td>
<td>0</td>
</tr>
</tbody>
</table>

1/ Cumulative from January 1, 2017.

- The ceilings on the cash deficit of the general government are subject to an automatic adjustor 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 166 billion in 2016 and UAH 42 billion in 2017. The amount included in the targets is zero, and indicative cumulative amounts for bank recapitalization/DGF-financing are presented in Table 2 of the MEFP.

- The ceiling on the cash deficit of the general government is subject to an automatic adjustor 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 will be automatically adjusted downward by VAT refund arrears accumulated as defined in Section E from January 1, 2016.

14. The ceilings on the cash deficit of the general government are subject to an automatic downward adjustor 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-2015. 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 G.

<table>
<thead>
<tr>
<th>Table G. Projected Payments of Interest on Government Bonds held by NBU</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cumulative flows from January 1, 2016</td>
</tr>
<tr>
<td>End-September 2016</td>
</tr>
<tr>
<td>End-December 2016</td>
</tr>
<tr>
<td>End-March 2017 1/</td>
</tr>
<tr>
<td>End-June 2017 1/</td>
</tr>
</tbody>
</table>

1/ Cumulative from January 1, 2017.

F. Ceiling on VAT Refund Arrears (Indicative Target)

15. The ceiling on the stock 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 2016 and 2017, this time period is 74 days, allowing for verification of the validity and payment processing of claims.

G. Ceiling on State Budget Current Primary Expenditure (Indicative Target)

16. The ceiling on the state budget current primary expenditure is defined as current cash expenditure of the general fund of the central (state) government of Ukraine net of interest
payments on domestic and external debt and plus payments of any past expenditure arrears. The ceiling is based on the definition as reported in the monthly treasury report (Kv_1ek) adjusted for Ukravtodor debt repayment.

17. The ceiling on state budget current primary expenditure is subject to an automatic downward adjustor on the accumulation of new budgetary arrears on wages and social benefits owed by the state budget. Budgetary arrears are defined as payments not made thirty days after they are due.

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

Definition

18. 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.

19. 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.

20. 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

• All the adjustors as specified in section E. for the Cash Deficit of the General Government also apply to the general government component of this ceiling on the cash deficit of the general government and Naftogaz.

• The ceiling on the cash deficit of the general government and Naftogaz will be adjusted upward by the amount of loan 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.

• The ceiling on the cash deficit of the general government and Naftogaz will be adjusted by the net amount of accumulated domestic arrears by Naftogaz to Ukrgazvydobuvannya and Ukrtransgaz, measured on a cumulative basis from the beginning of 2015.

I. Ceiling on Non-Accumulation of New External Debt Payments Arrears by the General Government (Continuous Performance Criterion)

Definition

21. For the purposes of this performance criterion, an external debt payment arrear will be defined as a payment by the general government to non-residents, which has not been made within seven days after falling due (including grace period, if any). This includes direct and guaranteed debt by the general government. The general government is defined for the purposes of this performance criterion in section E paragraph 12 above. For the purposes of the performance
criterion on the non-accumulation of new external payments arrears by the General Government, arrears resulting from nonpayment of debt service for which a clearance framework has been agreed or for which a restructuring agreement is being sought are excluded from this definition. The performance criterion will apply on a continuous basis throughout the program period.

J. Ceiling on Publicly Guaranteed Debt
(Performance Criterion)

Definition
22. The ceiling on publicly guaranteed debt will apply to the amount of guarantees issued in 2016 by the central (state) government. The official exchange rate will apply to all non-UAH denominated debt. New state guarantees in 2016 will amount to no more than UAH 28.2 billion. This ceiling excludes guarantees issued by the Ministry of Finance for NBU borrowings from IMF.

K. Other Continuous Performance Criteria
23. 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
24. 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 until 5:30pm 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. Cost Recovery of Gas and Heating Tariffs
25. The threshold deviation from cost recovery based on import parity to trigger a quarterly adjustment in retail gas and heating tariffs will apply to the commodity gas price, which is defined as the weighted monthly average of Naftogaz import prices (inclusive of transportation and entry
costs) from the date of the last adjustment to the date of calculation, multiplied by the spot US$/euro and UAH/US$ exchange rates on the date of calculation. The date of calculation shall be two months prior to the effective date of the adjustment (i.e., November 1, 2016 for the January 1, 2017 adjustment). Retail gas and heating tariffs would add to the commodity gas price the appropriate transmission costs (Ukrtransgas), distribution costs (oblgases), provider mark-up, and VAT in effect at the date of calculation as officially published by the regulator.

IV. Reporting Requirements

A. National Bank of Ukraine

26. The NBU will continue to provide to the IMF on a monthly basis sectoral balance sheets for the NBU and a other depository corporations (banks) according to the standardized reporting forms (SRFs), no later than the 25th day of the following month.

27. 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 the full breakdown of NBU accounts included in net international reserves (defined in Table A above) any additional information that is needed for the IMF staff to monitor developments in net and gross international reserves. On a monthly basis, no later than the 25th of the following month, the currency composition of reserve assets and liabilities.

28. The NBU will provide the IMF on a daily basis with information on obligatory, voluntary and total foreign exchange sales (including total from non-residents and sales by clients in the interbank market) and approved foreign exchange demand in the interbank market, including Naftogaz foreign exchange purchases. The NBU will provide the IMF on a daily basis with information on official foreign exchange interventions and intervention quotations. In this context, it will also provide the results of any foreign exchange auctions.

29. 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.”

30. 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; 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.

31. The NBU will provide information on daily transactions (volumes and yields) on the secondary market treasury bills (including over the counter transactions and with a breakout for any NBU transactions).

32. The NBU will provide to the IMF its financial statements (income and expenses as well as balances on the general reserves) for the current and, if available, projections for the following year, as approved by the NBU’s Council. The IMF is to be notified immediately of any update.

33. The NBU will continue to provide to the IMF daily and monthly data on the NBU financing operations (including swaps or 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 formats and timeliness agreed with the IMF staff. It will also provide, on a weekly basis, bank-by-bank information on the outstanding amount and weighted-average interest rates of loans from the NBU, reported by type of lending. On a monthly basis, the NBU will provide information on 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 and monthly reporting of NBU loans and collateral will separately identify which banks are under temporary administration or liquidation.

34. The NBU will provide to the IMF, on a monthly basis but not later than 30 days after the expiration of the reporting month, the report on the banking sector indicators in the format agreed with the IMF staff. The NBU will also provide core and expanded FSIs, as defined in the IMF Compilation Guide, for the aggregate as well as individual banks in State Participation Group Foreign Banking Group and Group 1.

35. On a daily basis and on a monthly basis within three weeks following the end of the month, the NBU will continue to provide the IMF with the depository corporations surveys, including any additional information that is needed for the IMF staff to monitor monetary policy and developments in the banking sector, in particular: net domestic assets, including NBU loans and liabilities with banks and 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 and the depository guarantee fund (DGF), 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 Treasury denominated in foreign currency (account 3513 A) and DGF.

36. The NBU will provide to the IMF, on a monthly basis, projections for external payments falling due in the next 12 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.

37. 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.

38. 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 nonresidents—to be paid in cash without opening an account; data on foreign exchange wires from Ukraine abroad for current foreign exchange nontrade 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+n verification system (with n determined by the latest NBU resolution), 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 noncash foreign exchange purchases on behalf of banks’ clients and banks broken down by reasons (form N 538).

39. 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. In addition, the NBU will provide to the IMF, on a daily basis, data on deposits and credits on the aggregated basis for the overall banking system (excl. the NBU) without deposits and credits of banks in liquidation starting from the beginning of 2014 and broken down by households and legal entities, as well as by national and foreign currency. On a weekly basis, the NBU will provide the IMF data on foreign assets and foreign liabilities (broken down by domestic and foreign currency) for the individual banks in State Participation Group, Foreign Banking Group and Group 1. On a monthly
basis, foreign assets will be broken down by type (i.e., cash and deposits, government securities, nongovernment securities, loans, other) and foreign liabilities by type, holder (i.e., banks, other financial institutions, nonfinancial corporate, and individuals) and remaining maturity (less than one month, one to three months, three to 12 months and over 12 months). For foreign credit lines from banks and for securities, the rollover rates will also be provided.

40. The NBU will provide, on a daily basis, bank-by-bank data for the largest 35 banks and aggregate data for the State Participation Group, Foreign Banking Group, Group 1 and Group 2 separately (all excluding banks in temporary administration) on the liquidity ratio and amounts of cash and cash equivalents, available funds in NBU accounts (excl. reserve requirements), correspondent accounts with well-known international banks (excl. encumbered accounts), and deposits from customers. The NBU will also provide, on a daily basis, bank-by-bank data for State Participation Group, Foreign Banking Group, and Group 1 banks and aggregate for Group 2, total assets and liabilities; loans and claims (by households, legal entities, and banks); and foreign exchange net open position. The data will be reported by domestic and foreign currency. The deposits data will be reported by households and legal entities and by maturity (current accounts, saving accounts, and time deposits). In addition, for the aggregate of the banking sector as well as Groups of banks, the NBU will provide data on deposits and credits excluding those banks in liquidation since 2014.

41. 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 interbank market operations by currencies. The NBU will continue to provide daily information on exchange market transactions including the exchange rate.

42. The NBU will provide to the IMF with information on reserve requirements.

43. The NBU will provide the IMF, on a monthly basis, bank-by-bank for State Participation Group, Foreign Banking Group and Group 1 banks the average interest rate on deposits to customers (by domestic and foreign currency, and legal entities and households, and by maturity—demand, savings, and time accounts); and on a weekly basis, the average interest rate on interbank borrowings (by domestic and foreign currency, and by maturity—overnight, 1–7 days, and over one week).

44. The NBU will provide the IMF, on a two weekly basis, in an agreed format, data for the entire banking sector—aggregate for Group 2 and on a bank-by-bank basis for State Participation Group, Foreign Banking Group and Group 1 banks—risk weighted assets and other risk exposures (for ratio
H2 calculation), including for the excess of long-term asset to funding and foreign exchange open position; total regulatory (Tier 1 and Tier 2) and core (Tier 1) capital; capital adequacy ratio for total regulatory (H2) capital; loans and claims by maturity buckets for households, legal entities, and banks in domestic and foreign currencies; deposits by maturity buckets for households, legal entities, and banks in domestic and foreign currencies; and foreign exchange net open position, split between total foreign exchange assets (long position) and foreign exchange liabilities (short position), and between on- and off- balance sheet.

45. The NBU will provide the IMF, on a monthly basis, in an agreed format, data for the entire banking sector—aggregates for Group 2 and on a bank-by-bank basis for State Participation Group, Foreign Banking Group and Group 1 banks the amount of 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); 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; accrued interest on loans (by domestic and foreign currency); securities held for trading and available for sale, with government securities reported separately (by domestic and foreign currency); securities held to maturity and as investment, with government securities reported separately (by domestic and foreign currency).

46. The NBU will provide the IMF, on a monthly basis, in an agreed format, bank-by-bank for the State Participation Group, Foreign Banking Group and Group 1 banks the amount of deposits of related parties (by domestic and foreign currencies, and households and legal entities); deposits of related parties pledged as (cash cover) collateral (by domestic and foreign currencies, and households and legal entities); other liabilities to related parties (by domestic and foreign currencies); related party loans (by households, legal entities, and banks); counterparty names and amounts of the largest 20 loans to related parties; collateral for loans and claims on related parties (by type of collateral, legal entities, households, and banks in domestic and foreign currencies, as well as by loan classification categories I, II, III, IV, and V); provisions on loans and claims on related parties (by households, legal entities, and banks in domestic and foreign currencies, as well as by loan classification categories I, II, III, IV, and V).
47. The NBU will provide to the IMF, on a monthly basis, aggregate and bank-by-bank and by region data on loans and provisions (by households and legal entities, domestic and foreign currencies, and by loan classification categories I, II, III, IV, and V); deposits (by households and legal entities, and domestic and foreign currencies); due from banks (by domestic and foreign currencies).

48. The NBU will report to the IMF, on a monthly basis, data for the entire banking sector (and aggregates for Group 2) as well as on a bank-by-bank basis for State Participation Group, Foreign Banking Group and Group 1 banks 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.

49. Upon request, the NBU will provide to the IMF the two-week projections of bank-by-bank cash flows for the State Participation Group, Foreign Banking Group and Group 1 banks.

50. The NBU will report to the IMF on a bi-weekly basis and bank-by-bank the amount by which the State Participation Group, Foreign Banking Group and Group 1 banks' regulatory capital has been increased. The report will disclose the instrument or transactions by which the regulatory capital has been increased (e.g., capital injection, conversion of subordinated debt to equity etc.).

51. 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 related or connected lending, as well as about decisions on declaring a bank as problem or insolvent.

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

53. 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.

54. 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.
55. The NBU will inform IMF staff of any changes to reserve requirements for other depository corporations.

56. 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.

57. 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.

58. 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.

59. The NBU will provide the Fund with data relative to the interest income and principal received from January 1, 2016 on its portfolio of government bonds on a monthly basis but no later than 15 days from the end of the reporting period. Monthly, the NBU will also provide data on the monthly coupons and principal to be paid (in hryvnia and foreign currency, separately) on the outstanding stock of government securities held by NBU and the public.

B. Deposit Guarantee Fund

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

61. The DGF will report to the IMF on a monthly basis and bank-by-bank for all banks in the banking system the amount of insured deposits and total household deposits. The data will be reported according to an agreed format, by domestic and foreign currency.

62. The DGF will report to the IMF on a monthly basis and bank-by-bank the total insured deposits and remaining insured deposits to be paid by the DGF for the banks under liquidation and
under provisional administration. The data will be reported according to an agreed format, by
domestic and foreign currency.

63. The DGF will report to the IMF on a monthly basis the financial position of the DGF,
including information about the cash balance, bond holdings, credit lines, and loans. The data will
be reported according to an agreed format.

64. The DGF will report to the IMF on a monthly basis the financing arrangements of the DGF,
including information about contracted financing from MoF. The data will be reported according to an agreed format.

65. The DGF will report to the IMF on a monthly basis a one-year forecast of the amount and
type of financial resources that the DGF expects to receive from MoF, NBU and other entities, the
amount that DGF expects to pay out to insured depositors in banks in liquidation, and the amount
of asset recoveries expected by DGF. The data will be reported according to an agreed format.

C. Ministry of Finance

66. 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.

67. 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 the execution of the state, local, and
consolidated budgets on the revenue side and data on revenues from the social security
contributions, monthly data on funds, deposited with the Single Treasury Account, on the
registration accounts of the entities which are not included in the state sector, information on
balance of funds as of the 1st day of the month on the account #3712 “accounts of other clients of
the Treasury of Ukraine,” on inflow to the State budget from placing Treasury or any other liabilities
to households in foreign and domestic currency and their redemption.

68. 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.

69. 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.

70. 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.

71. 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 classification of expenditures). 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.

72. 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.

73. 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
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.

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.

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.

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, including the respective changes as a result of supplementary budgets.

The Ministry of Finance will provide monthly data on their expenditure plans (ROSPIS) for state budget.
80. 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:

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<tr>
<th></th>
<th>Beginning Stock</th>
<th>Netting out during month</th>
<th>Deferrals 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>
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<td></td>
<td>Total</td>
<td>Principal</td>
<td>Interest</td>
<td>Penalties</td>
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<td>Tax arrears</td>
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81. 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.

82. 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).

83. 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.

84. 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.

D. Ministry of Economy, Ministry of Energy and Coal Industry, Ministry of Housing and Municipal Economy of Ukraine, and National Commission in Charge of State Regulation in Energy and Utilities (NCSREU)

85. 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 NCSREU will provide the methodology underlying the tariff calculations for full cost recovery, including heating and gas.

86. 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, NCSREU, 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.

87. For each month, no later than the 25th of the following month, the Ministry of Economic Development and Trade (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.

88. For each month, no later than the 25th of the following month, the Ministry of Economic Development and Trade (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 “Ukrnafta.”

89. 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.

90. The National Commission for State Energy and Public Utilities Regulation will provide information with a breakdown by its licensees regarding the levels of tariffs for heat energy for the households, centralized heating services and centralized hot water supply to the households in the event of their changes with the definition of average tariff levels (net of VAT and VAT included).

91. The National Commission for State Energy and Public Utilities Regulation will inform in advance (10 days before the day of the meeting at which it is planned to adopt such a decision) about any amendments that can be made to the Commission’s decisions regulating the distribution accounts for companies in the natural gas sector. The National Commission for State Energy and Public Utilities Regulation on the day following the adoption of the Resolution on the approval of
Register of norms for the transfer of funds received as payment for provided heat and / or utilities including centralized heating, centralized hot water supply to all categories of consumers and as a payment of heat supplying enterprises for heat produced by heat generating enterprises for respective month and on the changes to the Register of norms, will inform about them in the electronic format.

92. The Ministry of Economic Development and Trade (based on information by Naftogaz) will report on a weekly basis data on Naftogaz daily market purchases of foreign exchange.

93. 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

94. 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.

F. Ministry of Social Policy

95. The Ministry of Social Policy will collect and submit to IMF and World Bank staff on a monthly basis data on HUS and privileges for energy consumption. The data, which will be presented in an agreed excel format, will show for each program (a) the number of households which applied for HUS; (b) number of approvals extended to such HUS applications; (c) number of households-recipients of HUS and privileges in the reporting month; (d) total value of transfers; (e) number of refusals extended to such applications; (f) income per capita of participants, both for HUS and privileges; (g) number of household members; and (h) main reasons for refusal for HUS application (e.g., lack of residency information) and are to be presented by overall, by region and for rural/urban areas.
G. National Anti-Corruption Bureau

96. The National Anti-Corruption Bureau (NABU) will publish on a website freely available to the public quarterly data, no later than at the end of the month following the quarter, on the number of persons indicted, the number of persons convicted by a first instance court decision, and the number of persons convicted pursuant a final court decision, in the following format:

### Number of Persons Indicted

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<tr>
<th>Penal Code Article</th>
<th>Members of Parliament, Members of the Government (Article 216.1.1 CPP)</th>
<th>Judges (article 216.1.4 CPP)</th>
<th>Prosecutors (Article 216.1.5 CPP)</th>
<th>Category A Civil Servants (Article 216.1.2 CPP)</th>
<th>SOE Managers (Article 216.1.8 CPP)</th>
<th>Others</th>
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### Number of Persons Convicted—First Instance

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<th>Penal Code Article</th>
<th>Members of Parliament, Members of the Government (Article 216.11 CPP)</th>
<th>Judges (article 216.1.4 CPP)</th>
<th>Prosecutors (Article 216.1.5 CPP)</th>
<th>Category A Civil Servants (Article 216.1.2 CPP)</th>
<th>SOE Managers (Article 216.1.8 CPP)</th>
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For fines, total value in UAH. For jail, total months (and suspended jail).
### Number of Persons Convicted—Final Decision

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<th>Penal Code Article</th>
<th>Members of Parliament, Members of the Government (Article 216.1.1 CPP)</th>
<th>Judges (article 216.1.4 CPP)</th>
<th>Prosecutors (Article 216.1.5 CPP)</th>
<th>Category A Civil Servants (Article 216.1.2 CPP)</th>
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For fines, total value in UAH. For jail, total months (and suspended jail).

97. NABU will publish on a website freely available to the public quarterly data, no later than at the end of the month following the quarter, on reports received by the Financial Intelligence Unit (FIU) in relation to suspicions of laundering of the proceeds of corruption, in the following format:

### Reports received by NABU from FIU

<table>
<thead>
<tr>
<th>Penal Code Article</th>
<th>Members of Parliament, Members of the Government (Article 216.1.1 CPP)</th>
<th>Judges (article 216.1.4 CPP)</th>
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