Ukraine: Letter of Intent

Kyiv, March 2, 2017

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

Dear Ms. Lagarde:

1. We reaffirm our commitment to the policies and objectives of the economic program supported by an IMF arrangement under the Extended Fund Facility (EFF). In the attached supplement to the Memoranda of Economic and Financial Policies (MEFP) from February 27 and July 21, 2015, and September 1, 2016, we outline further policy steps toward meeting these objectives.

2. We have successfully moved the economy out of the deep recession. The economy is now recovering, inflation has declined to close to single digits, official reserves have more than doubled, and the financial system is getting stronger. This reflects our steadfast efforts to implement the policies and reforms under our EFF-supported program. Nonetheless, the economy continues to face significant challenges, including low growth that does not benefit all, a still high level of public debt, and a weak business climate, including from persistent corruption and an inefficient and large state sector. Remaining weaknesses in the financial sector still prevent it from playing its role in supporting growth. The challenge ahead is to continue to maintain fiscal and external stability, reduce financial vulnerabilities, and most importantly move ahead with the long-delayed structural transformation of the economy to achieve durable, strong and inclusive growth to catch up with our regional peers.

3. Our actions ensured that we met all continuous and end-December 2016 quantitative performance criteria (PCs) and indicative targets (ITs), except for the IT on VAT refund arrears (Table 1). We, however, met only 3 out of 11 structural benchmarks set for the period from September through December 2016 (Table 2), as our focus has been on key measures to ensure fiscal sustainability and financial stability.

4. Most notably, since the completion of the second review, our efforts have been directed at the following (all prior actions for the completion of this review (see also Table 2):

- *Fiscal policy*. Parliament has adopted a 2017 budget in line with the program deficit target of 3.1 percent of GDP. To ensure that the deficit target is achieved, we have taken a number of steps, including adopting legislation to limit fiscal risks from the increase in the minimum wage; putting in place an automatic adjustment mechanism for gas and heating tariffs to ensure that tariffs remain at market levels; and adjusting the parameters of the utility-related social assistance programs to ensure their better targeting and efficiency.

- *Financial stability*. Out of the 39 largest banks, most have strengthened their capital position as required under our bank recapitalization program. We have resolved those that were unable to meet minimum capital requirements, including by nationalizing the largest and systemic privately owned bank.

- *Fighting corruption*. For the first time in Ukraine's history, we have published the asset declarations of high-level officials, sending an important signal about our determination to improve transparency. High-level officials that failed to report have been referred to the National Anti-Corruption Bureau of Ukraine (NABU).

5. Against this background, we request to reset—and in a few instances also modify—the remaining eight structural benchmarks as outlined in the attached MEFP and propose a number of new benchmarks to help maintain the reform momentum (see Table 2). Notably, we request that the benchmarks on pension reform and land reform be reset to end-April and end-May 2017, respectively, to provide more time to build social consensus for these critical reforms.

6. On the basis of steps that we have already taken and our commitments for the period ahead, we request completion of the third review, and a disbursement in the amount of SDR 734.05 million based on the end-December 2016 performance criteria. Given the delay in completing this review, we request the fourth review under the arrangement to be based on the end-March 2017 performance criteria, and that the remaining amounts be allocated over the next seven purchases, as set out in Table 3. 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 in advance with the IMF on the adoption of these measures or on any 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 program monitoring. Reaffirming our commitment to transparency, we

consent to the IMF's publication of this letter, the MEFP, the Technical Memorandum of Understanding, and the accompanying Executive Board documents immediately upon completion of the review by the IMF's Executive Board.

Yours sincerely,

/s/ Petro Poroshenko President	/s/ Volodymyr Groysman Prime Minister
/s/ Oleksandr Danylyuk Minister of Finance	/s/ Valeria Gontareva Governor, National Bank of Ukraine

Attachment I. Ukraine: Memorandum of Economic and Financial Policies

1. **Our policies remain focused on reducing vulnerabilities, accelerating growth and creating private sector jobs, while strengthening macroeconomic stability**. We are committed to preserving the achievements to date and to continue implementing in full the measures agreed since the start of the program. Our policies are centered on: (i) maintaining a cautious monetary policy geared toward further reducing inflation and rebuilding reserves, while repairing viable banks and reviving bank lending; (ii) continuing fiscal consolidation to ensure medium-term debt sustainability, supported by pension reform and making the tax system more efficient and growth friendly, while improving the quality of government spending; and (iii) accelerating structural reforms to reform the large state-owned enterprise (SOE) sector, improve the business environment and tackle corruption, to attract investment and raise the economy's potential.

A. Monetary and Exchange Rate Policies

2. **We are fully committed to an institutionally strong and independent National Bank of Ukraine (NBU) that can effectively focus on meeting its objectives of price and financial stability**. We will ensure that this framework remains unchanged going forward.

3. **Monetary policy will continue to be aimed at reducing inflation to achieve the targets under the NBU's inflation targeting framework**. The Monetary Policy Guidelines for 2017 and Medium Term were approved by the NBU Council in December 2016, setting inflation targets of 8, 6 and 5 percent for 2017, 2018 and 2019, respectively. These guidelines also define the main principles of our monetary policy, to which the NBU will firmly adhere, including the priority of achieving price stability, maintaining a flexible exchange rate, maintaining NBU independence, and assuring transparency of NBU activities. Within this framework, the NBU will aim to accumulate international reserves in line with our program with the IMF, while gradually relaxing foreign exchange restrictions (see below). The NBU will continue to strengthen its inflation targeting framework, with technical assistance from the IMF, including by enhancing liquidity forecasting and moving toward more active liquidity management to help develop the interbank market, as well as by further enhancing its communication, accountability framework, and macroeconomic modeling. Meeting the inflation targets will help improve policy credibility, lengthen investment horizons, decrease dollarization, and strengthen monetary transmission.

4. **The monetary policy stance will remain appropriately tight to achieve these objectives**. Given the still elevated inflation expectations and risks to the outlook, we will ease our monetary

policy stance gradually as inflation and risks abate and reserve targets are met, maintaining the key policy rate appropriately positive in real terms. In the event of unexpected shocks that endanger the achievement of our inflation targets, we will use the key policy rate and other tools to bring inflation to our target within a reasonable forecast horizon.

5. **Our recently announced foreign exchange intervention strategy reflects our commitment to increasing transparency and deepen liquidity in the foreign exchange market**. Our strategy remains fully consistent with the objectives of continuing to strengthen our reserve position within a framework where the exchange rate is fully driven by fundamentals. In this regard, we aim to develop a liquid foreign exchange market that will be better able to absorb shocks. With technical assistance from the IMF, the NBU will elaborate the institutional and operational reforms needed to further develop the foreign exchange market and increase its resiliency, while remaining foreign exchange restrictions are gradually being removed.

6. **We will continue to ease foreign exchange restrictions and administrative controls as conditions allow**. We have agreed with the IMF a revised conditions-based roadmap, taking into account the results of previous relaxations, updated impact assessments and additional stages on the road toward the complete removal of the measures. The roadmap prioritizes easing the more distortive current account restrictions and reducing disincentives for foreign direct investment, conditional on meeting our reserve targets, as well as ensuring macro-financial stability and enhanced information collection and enforcement powers. The NBU will monitor the impact of relaxation measures, update assessments as new information becomes available and adjust the easing steps as needed, in order to ensure that the gradual removal of restrictions remains consistent with the conditions specified above.

7. **We have continued to strengthen the governance and operational structures of the NBU**. We appointed a new audit committee, with strong professional qualifications to improve the oversight of internal controls. The NBU has also reformed its emergency liquidity assistance (ELA) framework, adopting international best practices. The new ELA framework, which will replace stabilization loans, places emphasis on preparatory work (e.g., pre-evaluation of collateral) that will make it possible to respond quickly when needed, while also having terms and conditions to minimize moral hazard and safeguard the NBU balance sheet.

B. Financial Sector Policies

8. **We have taken major steps to ensure a well-functioning and sound financial system**. Most of the largest 20 banks (group I) in the country, accounting for 88 percent of banking system

assets have been making good progress toward meeting regulatory capital norms in line with the agreed recapitalization plans. Those banks in group I that were unable, according to the 2015 NBU diagnostics, to meet a minimum capital adequacy ratio (CAR) of at least 5 percent, as well as banks in the next group of 19 largest banks (group II) that were unable to reach at least zero capital have been resolved (a ***prior action*** for this review), and of which PrivatBank was nationalized given its systemic importance. With this, as of mid-January 2017, 88 banks, accounting for almost 50 percent of banking system assets at the beginning of 2014, have been resolved as part of our continuous commitment to strengthen and consolidate the financial system. In addition:

a. In the case of the recently nationalized PrivatBank, we are taking decisive steps to ensure that its nationalization is efficient and transparent and minimizes costs to the State:

   i. We have appointed a new supervisory and management board. The supervisory board is comprised of seven members that meet the criteria stipulated in paragraph 27b and c of the Principles of State Banking Sector Strategic Reforms.

   ii. To address the bank's immediate capital needs—arising from loan losses of UAH 155 billion and adjusted by the bail-in of creditors for UAH 29 billion—the Ministry of Finance (MoF) has recapitalized the bank through government bonds in the amount of UAH 117 billion, issued at market-based rates. In case of liquidity needs, the NBU stands ready to purchase a portion of these instruments or provide refinancing loans secured by the above-mentioned recapitalization bonds, while ensuring consistency with the NBU's monetary program. The currently outstanding NBU liquidity facilities will not be restructured in a way that the effectiveness of the former bank owners' personal guarantees associated with such facilities is undermined.

   iii. To remove uncertainty and strengthen depositors' confidence during the nationalization phase, we have passed legislation to temporarily protect PrivatBank's household deposits in full. In the context of the Principles of State Banking Sector Strategic Reforms, we intend to gradually remove the government guarantee on deposits held in state-owned banks (SOBs).

   iv. The bank's new supervisory board has already: (a) selected an internationally recognized audit firm to perform a due diligence of the bank's balance sheet at its intervention date, as required by the Deposit Guarantee Fund (DGF) law, to define the nationalized bank's capital needs according to fair value practices; and (b) approved the establishment of a specialized unit inside the bank to manage and restructure loans and financial leasing agreements of about UAH 155 billion identified by the NBU to be related to the former bank owners on the basis of the current legal and regulatory framework, as well as other impaired loans. Before end-March 2017, the bank's General Meeting of Shareholders will approve the terms of reference—developed in consultation with IMF staff—for, and launch the process for hiring of, an internationally recognized firm (IRF) with the appropriate expertise that, on behalf of the bank, will negotiate the restructuring and collection terms of the loans above mentioned, as well as of other impaired loans, which requires the use of similar approach, on the basis of international best practices, including as a minimum borrowers' and lessees' reliable and credible supporting information on ultimate beneficiary owners, financials, main activities, and proper collateral valuation. Furthermore, we will ensure that the bank's supervisory board by end-April 2017 selects the IRF on the basis of a transparent process, and selects a reputable international audit firm to conduct for the next two years a semi-annual detailed independent loan review (in accordance with the legal and NBU regulatory framework), with the aim of properly monitoring asset value recovery (a new ***structural benchmark)***. These interim reports, prepared by the audit firm will be completed by end-September 2017, end-March 2018, end-September 2018, and end-March 2019, respectively.

v. The supervisory board is expected to approve by mid-May 2017 the IRF's strategy to restructure the above-mentioned loans through end-June 2017, which will reflect best practices—a brief summary of this strategy and bi-monthly implementation progress reports will be made public in a timely manner, and consistent with applicable banking secrecy and data protection requirement, at the bank's website.

vi. By end-May 2017, in consultation with IMF staff, on the basis of the above mentioned due diligence and the bank's business plan (prepared by its newly appointed supervisory and management board)—which is to include restructuring and strategic measures (including as regards to lending activities through end-2018)—we will decide on final steps to complete the bank's restructuring, including the coverage of any additional capital needs assessed at that time. The MoF (through its FPD) and the NBU will require the bank to submit bi-monthly progress reports on the implementation of its business plan to ensure effective official monitoring.

vii. By end-June 2017, the IRF, in close coordination with the bank's supervisory board, will seek to complete the restructuring and collateral enhancement or collection of PrivatBank's impaired loans, including those to parties related to its former owners, in line with the principles established in the strategy above, such that the losses associated with these loans that were accounted by the DGF at the time of the bank's intervention are reversed.

viii. We remain fully committed to follow international best practices and the banking law to pursue all legal and commercial means available to recover the loans mentioned above in a timely manner. In this context, by mid-March 2017, the NBU will extend and expand the work of the internationally recognized firms that have been assisting the NBU in this case. This includes expanding the mandate of the internationally recognized firm that had been assisting the NBU in identifying related-party transactions to perform a forensic audit of PrivatBank's operations to identify whether wrongdoing or bad banking practices took place prior to the bank's nationalization, with the aim to complete this audit by mid-September 2017.

b. To ensure sufficient time for the verification of group II and III banks' recapitalization and unwinding measures, we have slightly revised the timetable for their compliance as shown in the table below.

Calendar of next 100 banks	Completion of		Recapitalization to	
	Diagnostics	Board Approval	Zero Tier 1	CAR of 5 percent
Group II (largest 19)	End-May 2016	End-July 2016	Mid-January 2017	End-April 2017
Group III (next 21)	End-September 2016	End-December 2016	End-March 2017	End-June 2017
Remaining banks	Continuous process to be completed by no later than End-September 2017			

c. From the banks of groups I and II showing negative operating profitability through 2017, we have requested the submission of restructuring plans (including quarterly targets) by end-April 2017, with measures to be adopted in the next 36 months to reverse such trend and ensure their viability. By end-June 2017, the NBU, in consultation with the IMF and World Bank staff, will review these plans and approve when adequate. Furthermore, banks from group III showing such patterns through 2018 must submit their restructuring plans by end-May 2017 and the NBU shall complete their review by end-July 2017.

d. In addition, we have started focusing on strengthening all remaining banks in the banking system. The completion of the diagnostics of the remaining banks (accounting for less than 2 percent of the system assets) will be completed by end-September 2017, on the basis of terms of reference already agreed with IMF and World Bank staff. Where applicable, the remaining banks will submit their restructuring plans on a continuous process to be reviewed and approved by the NBU no later than end-December 2017. Furthermore, as envisaged in the current legislation, we will ensure that by mid-July 2017 all banks hold at least a minimum capital of UAH 200 million. Banks that fail to meet this requirement will be resolved.

9. We will ensure that all banks strictly adhere to targets set for the unwinding and limitation of their exposure to related parties. To this end, the Related Party Monitoring Office (RPMO), in addition to overseeing banks' full adherence to their unwinding plans in strict compliance with the terms of reference agreed with IMF staff, by end-March 2017, will complete a work plan for the following 12 months on the basis of a revised set of objectives, modes of coordination with other relevant NBU departments, and monitoring procedures, agreed with a recent IMF TA mission. Furthermore, we remain committed to keep the RMPO as the undisputed center of expertise on related-party issues, as envisaged at its creation.

10. We are working toward establishing a credit registry in NBU. To this end:

a. By end-March 2017, we will seek parliamentary approval of legislation to authorize the NBU to establish a credit registry with a view to start collecting information from banks by end-September 2017 and by end-December 2018 commence sharing this information with the banking industry (disclosing borrowers' exposures loan by loan, but without indicating what individual institution is the creditor), with the view to enhance its lending practices, according to a minimum threshold defined by the NBU in line with international best practices (including credit risk assessment). Furthermore, considering that nearly 80 banks are under liquidation, the legislation will also 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.

b. Within two months of the adoption of the above-mentioned law, the NBU will issue the corresponding regulations and action plan to ensure timely implementation.

c. By end-April 2017, in consultation with Fund staff, we will define proper procedures to share NBU information on the composition of related economic groups with the industry, to enable banks to effectively enhance the monitoring of their credit concentration limits.

11. We continue enhancing our supervision and regulation of banks. By end-March 2017, with input from the IMF and World Bank staff, the NBU will complete the identification of remaining key policy measures that are required to ensure our compliance with the Basel Core Principles (BCPs) as per our peer group, on which basis we will prepare an action plan through end-2019, to be approved by the NBU Board by end-April 2017. Furthermore, on the basis of its assessment of the banks' pro-forma balance sheet, the NBU will has amended its new regulation on credit risk to make it technically better calibrated with best practices. The potential impact of these changes will be communicated to each individual institution that has additional capital needs arising from the adoption of the new regulations, requiring them to reflect this in the remaining horizon of their recapitalization plans. Additionally, the NBU will:

a. By end-April 2017, prepare an interim report board on progress made toward adopting risk-based supervision by end-June 2017; and

b. By end-May 2017, with technical external assistance, benchmark its revised supervisory structure, internal procedures (including coordination between offsite supervision and onsite inspection) and administrative arrangements (including staff count and budgets) against those of peer countries.

12. We will take steps to ensure effective corporate governance in banks. We have completed the initial assessment of our current regulatory and supervisory framework for sound risk governance practices against the 2015 Basel's Guidelines for Corporate Governance for banks. Additionally, we have issued prudential regulations towards enhancing governance at banks, including guidelines on the functioning of internal audit functions. Going forward:

a. By end-March 2017, the NBU will submit draft legislation to parliament to address legal loopholes arising from the assessment above mentioned. We expect parliament to adopt this legislation by end-June 2017. The NBU will adopt revised or new resolutions reflecting the findings of the assessment for full implementation no later than end-December 2017; and

b. The NBU, with external support, will: (i) by end-September 2017 approve a regulation on minimum organizational and functioning conditions for an effective risk management system at banks; and (ii) by end-April 2018 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-July 2018, a similar assessment for the next 10 largest banks will be completed. The remaining banks will be subject to the same review through end-April 2019 in line with a calendar to be agreed with IMF staff by end-September 2017.

13. We continue implementing our strategy for the public banks. The strategy includes the Principles of State Banking Sector Strategic Reforms to govern the SOBs, approved by the Cabinet of Ministers of Ukraine (CMU) in early February 2016. The MoF, in consultation with IMF staff, will prepare amendments to the strategy in light of the nationalization of PrivatBank, to be approved by the CMU by end-April 2017. Based on this strategy:

a. The CMU will assume the role of controlling shareholder of the SOBs, supported by the MoF's FPD.

b. In consultation with IMF staff, in March 2017 we will submit to parliament the draft law on SOBs that facilitates the adoption of the new corporate governance approach and expect this law to be adopted by end-March 2017.

c. By end-March 2017, with IMF technical assistance, we will complete a new organizational structure of the FPD and an action plan for its strengthening through end-June 2017, for it to be able to effectively support the CMU's function of managing the State's interest in the SOBs.

d. By end-June 2017, the MoF's Financial Policy Department (FPD), in consultation with IMF staff, will establish Memoranda of Understanding with all SOBs (PrivatBank, Oschadbank, Ukreximbank, Ukrgasbank) in order to *inter alia* define a relationship framework between the MoF and each bank, and safeguard each bank's commercial independence in achieving its objectives.

e. The supervisory board of each of the SOBs will be selected in line with the Principles of State Banking Sector Strategic Reforms, which *inter alia* requires the candidates to be proposed by a reputable international recruitment firm. However, if the SOBs were to receive private participation, the selection process of the independent members of the SOB's supervisory boards will be made on the basis of the Law on State-Owned Enterprises.

f. We will refrain from making operational the recently created Export Credit Agency until all related cost and capital needs for the next three years are clearly identified, on the basis of an independent assessment, and included in the government budget.

14. The DGF is working to further enhance its transparency, recovery procedures, and asset disposal procedures. A centralized unit at the DGF is now set to consolidate the management and control of bank assets from the nearly 80 resolved institutions. We fully commit to:

a. We will submit legislation to parliament 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. We expect this law to be adopted by end-March 2017.

b. The first executive summary of the forensic audits was published and the second will be published by mid-March 2017. By mid-March 2017, the DGF also will launch the selection process for the next three forensic audit exercises.

c. The disposal of assets through international platforms of distressed assets, aiming to dispose of at least UAH 10 billion worth of assets by end-June 2017.

d. By end-September 2017, the DGF will publish its review of a selected pool of assets sold in the preceding two years. To this end, by end-March 2017, the DGF will agree with IMF and World Bank staff the terms of reference for its regular examinations of asset sales, including their scope and frequency.

15. We will further strengthen our regime for corporate debt restructuring and protection of creditors' rights. Parliament already adopted amendments to the Law on Enforcement Procedures to speed up the enforcement process. By end-September 2017, parliament is expected to adopt the amendments to the Law on Restoration of Debtor's Solvency or Declaration of its Bankruptcy (draft bill No. 3132(d)), to facilitate restructuring procedures and increase the efficiency of liquidation (a new deadline for this ***structural benchmark,*** reset from end-September 2016). Parliament will also adopt by end-September 2017 legislation to strengthen the provisions in the Code of Civil Procedure and the Code on Commercial Procedure and related laws on the automated collection and enforcement of debts Orders for Payments for domestic transactions and Garnishment of Bank accounts (a new deadline for this ***structural benchmark***, reset from end-September 2016). Furthermore, recognizing the need to eliminate tax disincentives to restructuring, by end-June 2017 the MoF, in consultation with the NBU, will submit legislative changes to the tax code to change the definition of "bad debts" to allow for the write-off of uncollectable debts without having to initiate or complete a bankruptcy process (e.g., 360 days post default) and to extend the tax incentives available on a temporary basis to out-of-court restructurings under the Law on Financial Restructuring to debt restructurings subject to the insolvency law. Additionally, regarding the possible restructuring of mortgage loans denominated in foreign currency, in line with our commitment made in earlier Memorandum of Economic and Financial Policies (MEFP), we will support only legislative initiatives that are consistent with the existing agreement reached between the NBU and the banking industry.

16. We are committed to establishing a strong regulatory framework for securities markets and non-bank financial institutions, as well as banks. To this effect:

a. We are reinforcing the powers, independence and institutional capacity of the National Securities and Stock Market Commission (NSSMC), aiming *inter alia* at allowing it to become a signatory to IOSCO's Multilateral Memorandum of Understanding. To achieve this, we will seek parliamentary approval by end-April 2017 of legislation that meets the objectives outlined in points a through j of paragraph 22 of the MEFP dated September 1, 2016.

b. With the assistance of international donors, the NSSMC is reforming its internal organization and procedures. In particular, a functional structure is being introduced to replace the sectoral one. A further redesign of key processes including governance mechanisms, decision-making procedures, responsibilities, internal controls and operational risk prevention systems will be developed and implemented during the next 18 months. To this end, by end-April 2017 we will agree with IMF staff an action plan with clear quarterly targets.

c. Supervisory responsibilities for a variety of financial intermediaries will be reassigned from the National Commission of Financial Services (NCFS) to the NBU and the NSSMC. In particular, the NBU will become responsible for the regulation and supervision of insurance and leasing companies, credit unions, credit bureaus and other non-bank lenders, pawnshops and other financial companies and the NSSMC for private pension funds, issuers of mortgage certificates, funds for construction financing and real estate funds. The relevant legislation was adopted by parliament in first reading in July 2016. We are working to ensure that this legislation is adopted in second reading by end-March 2017 and fully implemented by end-December 2017.

d. To improve the functioning of financial markets, enhance transparency and the quality of issuer disclosures, and to reduce the scope for corruption and fraud, we will adopt a new Audit Law and a revised Accounting Law based on EU standards. These laws, which have been developed with assistance from the EU and the World Bank, will bring Ukraine's accounting framework broadly in line with the EU Accounting Directive and establish a new oversight structure for the audit profession, while safeguarding the NBU's and NSSMC's ability to set additional standards for auditors of banks and other regulated entities (professional market participants and issuers) in a transparent manner. These laws will be adopted by end-July 2017.

C. Income Policies

17. To reduce extensive labor informality and support vulnerable households, we have increased the minimum wage to UAH 3,200, effective January 1, 2017. While we believe this was a necessary step, we recognize that it also poses risks to our macroeconomic achievements to date, including fiscal sustainability and competitiveness, if this is followed by generalized and significant wage increases in the economy beyond productivity improvements. To limit these risks, parliament adopted legislation to delink the minimum wage from a range of wage setting and administrative decisions, as described below, to ensure that the impact on the budget deficit will be neutral. We will also refrain from further increasing the minimum wage in 2017, and any increases in 2018 and thereafter will take into consideration the impact on employment, including of the youth, and competitiveness. We will also adjust the minimum subsistence level in 2017 in line with inflation. We expect our comprehensive pension reform efforts (described in paragraph 21a) to open up the necessary fiscal space for paying better pensions to the population over time. Further, we will take the following measures:

- ***Fiscal sustainability***. The increase in the minimum wage is expected to increase the wage bill of the general government to 11.3 percent of GDP in 2017, significantly above our previous plans. To ensure that the wage bill declines over time to more sustainable levels, we will accelerate fiscal structural reforms including by implementing health and education reforms to reduce the size of the public sector, comprehensive pension reform, as well as civil service reform, including by delinking the civil service wage grid from the minimum wage and revisiting the new civil service law in consultation with the EU and the IMF (see paragraph 21b).

- ***Informality***. To reduce the risks that the minimum wage increase will lead to further dropouts from the formal sector, particularly of the young and low-skilled workers, thus increasing the shadow economy, we will accelerate tax administration reforms, including by tightening the simplified tax regime, abolishing the moratorium on tax audits and labor inspections of small enterprises, increasing penalties for undeclared labor, and enhancing inspections (see paragraphs 19–20).

- ***Competitiveness***. To limit the impact of the increase in minimum wages on labor costs that could undermine competitiveness at a time that growth is still weak, we will decouple collective agreements from the minimum wage. In addition, we will accelerate productivity enhancing reforms to reduce the costs of businesses, as specified in paragraphs 27–28.

- ***Employment***. Further, we will limit any adverse impact on employment, especially of the youth, by (i) improving the system of apprenticeship through a removal of the restrictions contained in the labor code; (ii) modernizing the system of vocational training to address skill mismatches in the labor force; (iii) removing outdated norms that limit employers' ability to adjust employment to labor conditions; and (iv) limiting the scope of "protected" categories of employment by end-December 2018. More generally, in the period ahead we will proceed with a revision of our labor code to remove existing rigidities and to better adapt it to today's labor market needs by end-December 2017.

D. Fiscal Policies

18. Fiscal policy in 2017 and beyond will be anchored by our medium-term consolidation plan reflected in our IMF-supported program. Parliament adopted a budget for 2017 and supporting legislation consistent with a general government deficit ceiling of 3.1 percent of GDP (a ***prior action*** for this review). We aim to gradually reduce the general government budget deficit to 2½ percent of GDP in 2018 and 2¼ percent of GDP in 2019. This will be achieved mainly by reducing current spending, while providing for an increase in capital investment spending to improve public infrastructure. Any revenue over-performance will either be used to clear the stock of corporate income tax prepayments, further increase capital spending, or will be saved. We will also regularly review revenue sharing and expenditure assignment responsibilities between the central and subnational budgets to avoid accumulation of imbalances at the local government level.

Revenue measures

19. Further tax reform will aim to increase the efficiency and equity of the tax system. We will refrain from any major tax cuts and will not introduce new tax exemptions and amnesty schemes. We will substantially tighten the simplified tax regime from January 1, 2018, which provides a major loophole in our tax net. We will also refrain from introducing preferential tax treatment—other than for local property taxes—for companies operating in industrial zones. To allow us to efficiently implement the harmonization of filing and payment of social security contributions and personal income tax, we will submit legislation to parliament for adoption by end-April 2017. We will legalize amber mining and gambling, which should provide additional revenues to the budget not later than in 2018.

20. We will accelerate revenue administration reform to help de-shadow the economy, broaden the tax base and improve the business climate:

a. ***Transparency and accountability***. We are establishing a strong oversight and accountability framework of the MoF over the State Fiscal Service (SFS). For the first time, the MoF has established Key Performance Indicators (KPI) for the SFS, to monitor its progress in reform implementation. These KPIs will be published on a quarterly basis. In addition, to ensure integrity of the SFS information-technology (IT) operations, by end-June 2017 we will complete an external audit of SFS' IT systems and databases, and establish a strong oversight role of the MoF over SFS IT operations. To this end, by end-March 2017, the MoF will issue a resolution setting standards and goals for both the development and integrity of SFS software, the implementation of which will be monitored as a new KPI. The resolution will allow the MoF to have access to tax data in the SFS Management Information System that will not be identifiable by individual taxpayer, in an online format, as well as to have the ability to monitor and audit changes in taxpayer data. To this end, we will establish adequate audit capacity in the MoF and introduce key technological controls. We will conduct and publish semi-annual surveys of taxpayers to assess their perception of corruption at the SFS, as well as their overall assessment of the quality of SFS services.

b. ***Institutional strengthening of the SFS***. The main objectives are to increase the effectiveness, efficiency and integrity of the SFS and turn it into a service-based revenue collection organization. The full merger of tax and customs administrations into a single legal entity is expected to be completed by end-March 2017 (a new deadline for this ***structural benchmark,*** reset from end-December 2016). We will also consolidate regional tax and customs offices into a single office per region by end-March 2017. The MoF and SFS are in the process of agreeing a methodology and process for accelerating the vetting of SFS staff. Following this, a new funding model for the SFS to ensure adequate salaries for the vetted SFS staff will be adopted by end-March 2017. In order to strengthen the SFS' audit and enforcement capacity we have restored its powers to audit small- and medium-size taxpayers from January 1, 2017 and we expect parliament to adopt by end-December 2017 legislation that will grant the SFS powers to use indirect methods to ascertain tax and social security contribution obligations. The lifting of the moratorium on audits will allow the SFS to undertake more targeted inspections of companies to identify undeclared employees. We also intend to improve the quality of tax audits and establish a new, analytical risk-management unit responsible for the identification of risk criteria for the detection of non-compliance by mid-March 2017.

c. ***Reform of customs operations***. The cabinet will approve a new comprehensive customs reform strategy by end-March 2017 along with a detailed action plan, which will include the task to reduce the number of inland clearance facilities during 2017 by at least one third. We have established multi-agency mobile groups under the MoF, which have become operational since September 2016, to fight fraud and smuggling outside the border crossing points, while new inter-regional customs offices will operate at border crossing points only. We are also strengthening the SFS’ partnership with the State Border Guard and have begun exchanging information in real time. To support our efforts to exchange information with major trading partners, we will approve an action plan on accession to the convention on a common transit procedure and the convention on a Single Administrative Document (SAD), and start implementing the New Computerized Transit System (NCTS) by end-2017. We will develop a control management strategy to complement the risk management strategy. By end-June 2017 the SFS will create a unified customs value reference database and build adequate capacity to ensure a regular update and analysis of prices on international markets and an effective oversight of and support to the valuation field work at the regional offices of the SFS. These efforts will be monitored by the MoF to ensure that this reference database is kept up to date and adequately reflects developments in international markets. We will publish by mid-March 2017 both the new Code of Conduct and the Anti-Corruption Program.

d. ***Reduction in compliance burden on taxpayers***. To help achieve a better image of the SFS and encourage voluntary tax compliance, a single-level dispute resolution system will become effective at SFS headquarters from March 1, 2017. We will also introduce record-keeping of outcomes of court decisions after the completion of the administrative appeals procedure. This will help us assess the effectiveness of the appeals system at the SFS. We will increase opportunities for electronic filing of tax returns, aiming that at least 70 percent of taxpayers will be filing their tax returns electronically by end-December 2017. The SFS will also improve the quality of taxpayer consultations.

e. ***Reform of financial police***. Parliament is expected to adopt legislation to establish by end-April 2017 (a new ***structural benchmark***) a new civil service responsible for investigation of financial offences against the State under the MoF to replace the current tax police and to consolidate responsibilities of fighting financial offenses against the State into a single agency, while avoiding duplication of functions. The new financial police will have a much smaller staff, the majority of which will be hired outside the current law enforcement system and will be better paid and equipped. Responsibilities of the new financial police and the SFS will be clearly delineated and we will ensure that strong cooperation exists between the two agencies. At the same time, we will maintain adequate capacity in the SFS allowing it to fight against tax fraud.

Expenditure measures

21. We will accelerate structural fiscal reforms to improve the structure of public finances and consolidate our fiscal position, while increasing the efficiency and quality of government spending:

a. ***Pension reform***. We recognize that the pension system needs to be reformed. Structural problems in the labor market (low compliance of social security contributions and low participation rates), unfavorable demographics, and outdated pension rules have eroded the sustainability of the pension system. Pension expenditure is very high, even though most individual pensions are relatively low, as the number of pensioners has grown disproportionate to the active labor force. As a result, the deficit of the pension fund has exceeded UAH 140 billion in 2016 (about 6 percent of GDP), and is set to widen further without any changes, which puts in danger the viability of the pension system in the future. To put the pension system on a sustainable basis, provide incentives for workers to contribute, and ensure adequate pensions over time, parliament will adopt by end-April 2017 a comprehensive pension reform (a new date for this delayed end-December 2016 ***structural benchmark***) that will become effective by January 1, 2018. This reform will have the following features: (i) a new set of retirement options, with a wider range of retirement ages than at present, offering an important degree of choice and dependent on total years of service, and with pension benefits that provide incentives for longer employment and later retirement; (ii) savings of at least 3 percent of GDP over the long term, including by lengthening the effective years of service at retirement; and (iii) an assurance that Ukrainian citizens have pensions that are proportionate to their contributions and adequate in real terms. This general system will apply to all categories of employment, except for a limited number of hazardous occupations. For the latter, a surcharge on social security contributions will be introduced payable by employers that is actuarially fair, which will be accumulated on personified accounts and will be used as bridge financing between the early retirement and the system described above. In addition, we will increase our efforts to expand the base for social security contributions.

b. ***Public administration and remuneration reforms***. To limit the effect from the doubling of the minimum wage in 2017, we have delinked base salaries for civil servants from the minimum wage. We have also suspended the application of the provision in the civil service law that envisaged a gradual increase in the base salary. By end-June 2017, we will undertake a comprehensive review of the overall remuneration system of the public sector taking into consideration the current legal framework and its impact on the wage structure, compression, and the overall wage bill. We will start a medium-term program of public sector downsizing and plan to reduce the size of employment in the budgetary sector (excluding the military) by at least 4 percent by end-2017, and by a further 10 percent by end-2019. In the civil service, we will continue downsizing through further optimization of ministries and other government agencies and introducing more efficient procedures, and also aim to reduce the number of staff by 5 percent by end-2017 and by a further 10 percent by end-2019. We are also building a central civil service information system and will start reporting on the number of civil servants as well as on the number of budgetary sector employees on a semi-annual basis. To monitor progress, we have established an indicative target on employment downsizing.

c. ***Healthcare reform***. We are launching deep and comprehensive healthcare reforms to increase the efficiency of spending and improve outcomes. In the first phase of the reform, we will introduce a new mechanism of financing in primary healthcare based on the principle of "money follows the patient." As a result, from July 1, 2017, primary healthcare facilities will receive budget financing based on the number of individuals registered with a chosen physician in a particular facility or a private practice. This financing will be universal and its size will vary by age. The procurement of healthcare services will be conducted by the single national purchasing agency (the National Health Service), which will be established in the first half of 2017. From 2018 the National Health Service will operate the funding for specialized and hospital care as well as outpatient pharmaceuticals. From early 2017, we will start establishing about 100 regional hospital districts within a defined territory in each oblast, thus eliminating duplication in the provision of healthcare services and building upon complementarities. This will help to significantly reduce large excess capacity in the hospital sector and improve the quality of services. In 2017, we will also introduce an outpatient drugs reimbursement program, gradually expanding the coverage of drugs.

d. ***Social assistance administration reform***. We are determined to strengthen control over the provision of social payments and improve targeting to minimize leakages to non-eligible beneficiaries. To this end, as part of the 2017 budget legislation, we have amended the legislation that will allow the MoF, in the process of verification of social payments, to access the unified database of civil status, the registry of voters, and other relevant databases. Moreover, by end-June 2017, parliament will adopt legislation to establish means testing for the recipients of all social assistance, based on households' income and assets. Based on this, we will discontinue payments to non-eligible recipients. We will also establish a single centralized database under the MoF of all recipients of social assistance and their benefits (a new ***structural benchmark*** for end-December 2017).

Institutional reforms

22. We have approved a comprehensive public finance management reform strategy for 2017-21, and have started its implementation. Under the strategy, we will ensure a full-fledged implementation of the Medium-Term Budget Framework and the strategic planning for more effective and efficient resource allocation. In order to strengthen overall fiscal discipline, we plan to develop a fiscal rule by mid-2018. We will also introduce a comprehensive fiscal risk management system and adopt the necessary legislative changes by end-December 2017 to cover and reduce macroeconomic risks, risks related to SOEs and public asset management, public guarantees, local borrowings, public-private partnerships, and other risks. To strengthen public investment management, we will implement strategic planning of public investments, create a single 'entry point' for investment proposals, and institutionalize project management by end-December 2017. We will improve the efficiency of internal control and audit functions in central and local authorities during 2017–18.

E. Energy Policies

23. We will continue our efforts to better target social assistance, improve household incentives for energy efficiency and keep spending within budget limits. To this end, we have reduced consumption norms from 5.5 to 5.0 cm per m2 for gas for individual heating, from 65 to 51 kwh per m2 for electricity used for individual heating, and from 0.0548 to 0.0431 Gcal per m2 for centralized heating effective May 1, 2017 (a delayed end-September 2016 ***structural benchmark*** and a ***prior action*** for this review). In addition, by end-July 2017, we will: (i) revise other parameters of the household utility subsidies (HUS) system to improve targeting; (ii) introduce an adjustment to the social norm for off-peak heating months; and (iii) apply a capacity-based distribution tariff for gas and heat that would shift some of the costs to the summer, all effective August 1, 2017 (a new ***structural benchmark***), thereby limiting HUS outlays to UAH 47 billion in 2017.

24. We will continue our efforts to transform the gas sector. Specifically:

a. ***To ensure that tariffs remain at full cost recovery***, we have revised the Public Service Obligations (CMU Resolution 758) to introduce an interim mechanism to automatically adjust retail gas and heating tariffs on a semi-annual basis if tariffs deviate from full cost-recovery levels (based on import parity as defined in the TMU) by 10 percent or more (a ***prior action*** for this review). The interim adjustment mechanism will remain in place until tariffs are fully liberalized. We will also adjust the price of domestic gas (UGV price) semi-annually starting April 1, 2017 to ensure that it remains in line with import prices.

b. ***To facilitate the full liberalization of gas tariffs***, by end-August 2017, we will adopt a CMU Resolution to monetize the benefits of the HUS program at the level of utility companies as of end-September 2017 (a new ***structural benchmark***), so that private gas traders can compete with Naftogaz to supply gas. We will also work toward the monetization of utility subsidies at the household level to help improve energy efficiency. Also by end-September 2017, we will further amend CMU Resolution 758 so that tariffs on gas transportation and distribution are separated from the gas cost as commodity. We will cancel the scheme that allows a 12-month installment plan to pay heating bills for households that do not receive subsidies (CMU Resolutions 630 and 357) by May 1, 2017. We will also reintroduce the sunset clause to CMU

Resolution 217 that earmarks heating company revenues for specific (non-gas) operating costs by April 1, 2017.

F. Governance, Business Climate, and State-Owned Enterprises

25. 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

26. We are making strides in our fight against high-level corruption, building upon the e-declaration of assets and the AML framework, and the increase in criminal investigations. Looking ahead we will focus our efforts on addressing impediments to the effective implementation of our anticorruption efforts:

a. ***E-declaration***. We have enforced the submission of the 2015 income and asset declaration by high-level officials. The submitted declarations have been made publicly available and the National Agency for Prevention of Corruption (NAPC) has reported cases of officials who did not submit a declaration to the National Anti-Corruption Bureau of Ukraine (NABU), as required by law 2014/49 (a ***prior action*** for this review). The number of high level officials that filed the asset declarations was close to 22,000 and the number of non-filers reported to NABU was 10. To monitor progress made in verifying asset declarations of high-level officials, NAPC will publish statistics on a quarterly basis starting on a webpage freely available to the public (in line with the template detailed in paragraph 98 of the TMU). In light of the unexpectedly low level of bank accounts and other assets disclosed abroad, the NBU, and the Financial Intelligence Unit (FIU) will inform their counterparts in key financial centers abroad that the absence of declaration of assets owned or beneficially owned by Politically Exposed Persons (PEPs) or their family members and associates in foreign jurisdictions may constitute a crime under Ukrainian law and a money laundering offence in these jurisdictions. Looking ahead, we will enforce the filing of comprehensive asset declarations by all high-level officials including managers of SOEs, for the calendar year 2016, as defined under Article 46 of law 2014/49, by April 1, 2017. Following this, we will evaluate the effectiveness of the asset declaration requirements to ensure that they remain appropriately focused on high-level officials and will consider amending the categories of officials that will be required to submit asset declarations.

b. ***NABU operations***. Parliament will adopt legislation to strengthen the powers of NABU in line with paragraph 36a of the September 2016 MEFP by end-May 2017 (a new deadline for this ***structural benchmark***, reset from November 2016). By end-December 2016, NABU had hired 542 staff out of its full complement of 700 staff and opened three regional offices. It started demonstrating its ability to investigate high-level officials, with 8 members of parliament, 39 judges, 23 prosecutors, and 52 SOE managers having been under investigations since the beginning of NABU operations. NABU investigations, under the supervision of the special anti-corruption prosecutor, led to more than 40 cases having been sent to court, and to the lifting of the immunity of a member of parliament in the context of an anticorruption investigation. Looking ahead, we will maintain NABU's exclusive authority to investigate acts of corruption by high-level officials. To monitor progress made in implementing the anticorruption legal framework, NABU will continue publishing statistics related to investigations of acts of corruption by high-level officials under the NABU's jurisdiction, on a webpage freely available to the public (in line with the revised template detailed in paragraph 99 of the TMU) and on a quarterly basis. By end-April 2017, the President, Parliament, and the Cabinet of Ministers will each nominate one expert for the commission of external control, in line with Article 26.6 of the NABU Law. The commission will approve the terms of reference for the annual external audit of NABU by end-June 2017, in agreement with IMF staff. Based on the analysis conducted by the auditors, the audit report will include clear and prioritized recommendations for improvements of the bureau's operations, in line with international best practices. In case auditors unanimously conclude that the criteria referred to in Article 6.4.11 of the NABU Law are met, they will include a detailed rationale and recommendation in their report. The audit report will be finalized by end-October 2017 and appended to the subsequent NABU bi-annual report.

c. ***Anticorruption court***. To ensure that prosecution of acts of corruption by senior officials receives a specialized and prioritized judicial response, we will operationalize the anticorruption court established by the June 2016 Law on the Judiciary, consistent with the European Convention of Human Rights and other standards of the Council of Europe. To this end, by mid-April 2017 we will submit relevant legislation to parliament, and we expect this legislation to be adopted by parliament by mid-June 2017 (a new ***structural benchmark***). This legislation will include provisions to ensure budgetary autonomy and adequate security of the anticorruption judiciary framework and establish the selection process for anticorruption judges. Building upon the experience with NABU and SAP, it is critical that the selection process is seen as independent and trustworthy by the public. In line with Article 33.2 of the Law on the Judiciary, specific requirements will be introduced in the proposed legislation to ensure that applicants to the position of anticorruption judges are not only of impeccable reputation, and have high professional qualities, but also possess relevant specific skills necessary to adjudicate criminal cases related to corruption. In this regard, the legislation will set out the procedure, including tests and tasks, for the assessment of the specific professional skills of applicants, which will be based on a transparent evaluation of candidates by the High Qualification Commission of Judges with the support from respected experts with recognized ethical standards and experience in anticorruption prosecution or adjudication, including potential engagement of experts with relevant experience in other countries. This procedure should be in line with the Ukrainian Constitution and the standards of the Council of Europe. The assessment of high integrity and ethical standards shall be conducted with the participation of the Civic Integrity Council as provided by the Law on the Judiciary. In line with Article 81 of the Law on the Judiciary, this selection process will ensure that for each available position, an applicant of impeccable reputation, relevant specific skills, and high professional qualities is timely selected by the High Qualification Commission of Judges, and presented by the High Council of Justice to the President of Ukraine for appointment by mid-January 2018. The anti-corruption court will begin its operations by end-March 2018.

d. ***AML implementation***. AML/CFT on-site inspections of banks targeted on the implementation of measures related to PEPs start to bear fruits, by both increasing the implementation of requirements by banks, and the suspicious transaction reporting to the FIU. The NBU has implemented enforcement actions on 13 banks since July 2016, including the revocation of a bank's license, notably for failure to implement requirements related to PEPs. In 2016, the FIU disseminated 71 cases involving PEPs to NABU, including 24 members of parliament. We will ensure that the legal and institutional measures contemplated in paragraph 36e of the September MEFP are implemented by end-March 2017. In particular, we will adopt amendments to the legal framework 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, and we will strengthen the operational capacity and integrity of the Financial Intelligence Unit (FIU). In the context of amendments to the AML legal framework, we will also ensure, in agreement with Fund staff, that the definition of the persons related to PEPs is consistent with the risk-based approach encouraged by the FATF standard, and that proportionate and dissuasive sanctions can be implemented by the NBU in case of breaches of compliance with the AML framework. To monitor its contribution to anticorruption efforts, the FIU will continue publishing quarterly statistics on the information it disseminates to the NABU (in line with the template detailed in paragraph 99 of the TMU). The NBU will continue to conduct at least four quarterly inspections of banks at higher risk of laundering of the proceeds of corruption, focused on regulatory requirements related to customer due diligence and PEPs. By January 2018, when sanctions are imposed for breaches of AML/CFT requirements, the NBU will publish information on the name of the bank, the enforcement actions imposed, and a brief description of the breaches identified, while allowing case-by-case exceptions particularly where publication jeopardizes the stability of financial markets or an on-going investigation.

e. ***Business ombudsman***. Parliament is expected to adopt legislation on the Business Ombudsman in line with paragraph 36g of the September 2016 MEFP by end-March 2017. Since the start of its operations, the Business Ombudsman received more than 1,450 complaints, with a 95 percent satisfaction rate from complainants and a direct financial impact from its interventions estimated at more than UAH 8 billion.

Business climate

27. We remain firm in our efforts to improve the business climate to attract investment and boost the growth potential of our economy. Recent achievements include adoption of amendments to the law on inspections to increase the transparency and efficiency of company inspections and adoption of legislation to streamline the export of services. Further initiatives to strengthen our business environment include:

a. ***Deregulation and licensing***. The CMU has recently adopted a number of decisions abolishing a large number of regulatory acts, especially in the areas of telecommunications and agriculture. Moreover, we have revised our deregulation action plan to reflect progress to date and to refocus our efforts. In particular, we expect implementation of items 7, 8, 73, 83, and 108 of the new plan, as well as adoption of the law on the electricity market, by end-March 2017. Remaining items will be implemented in line with the commitments in the action plan. In parallel, we are conducting a rolling review of regulatory burdens in the energy, infrastructure, construction, and agriculture sectors. The CMU will adopt specific proposals for reform in each of these areas by end-April 2017. Finally, the CMU will adopt all remaining licensing conditions by end-March 2017. In this context, we will also take the necessary steps to ensure that the Single State Register of legal entities and natural persons becomes operational by end-June 2017.

b. ***Land reform***. Liberalizing the land market, including the sale of agricultural land, remains essential to boost Ukraine's growth potential. To this end, we have established a working group with relevant ministries that, in collaboration with the World Bank, will draft legislation to open up the land market and allow the sale of land under adequate safeguards. Parliamentary approval of the law on agricultural land circulation is expected by end-May 2017 (a modification and new deadline for the missed end-September 2016 ***structural benchmark***), allowing for the current moratorium on the sale of agricultural land to expire by the end of 2017, thus allowing for the sale of state-owned and private land to start immediately thereafter. We will also launch a public information campaign to explain the benefits of this reform.

State-Owned Enterprise Reform

28. Albeit with some delays, we continue to make progress with the implementation of our SOE-reform strategy. Specific near-term measures include:

a. ***Oversight of SOEs fiscal risks***. Building on recent technical assistance by the IMF, we are strengthening through adequate legislation the fiscal risks management unit in the MoF, which is tasked with monitoring and analyzing SOE fiscal risks. We will prepare an initial analysis of these fiscal risks by end-April 2017 and expect to have a comprehensive statement of fiscal risks emanating from the SOE sector included in the 2018 budget documentation and published on the MoF website.

b. ***SOE governance and reform***. Our comprehensive strategy to reform and increase the sector's efficiency includes:

    i. ***Governance***. Following adoption of the SOE corporate governance law, the CMU will adopt the decisions regulating the establishment of supervisory boards by end-March 2017. We will complete the appointment of independent supervisory boards in the largest 15 SOEs by end-June 2017. Moreover, we expect audit reports for the largest SOEs, prepared by reputable auditors that were selected on the basis of the CMU decree on criteria for auditor selection in large SOEs, to be completed by end-June 2017. We continue to explore options for the establishment of a single national Holding Company that will be tasked with managing strategic commercial SOEs.

    ii. ***Triage of all SOEs***. We continue with the triage of all SOEs in consultation with IMF staff. SOEs without a clear national strategic interest will be privatized or liquidated. By end-August 2017, the cabinet will adopt, and publish on the MoEDT website, the triage and transfer of SOEs to the State Property Fund of Ukraine (SPFU) (a new deadline for this ***structural benchmark***, reset from end-October 2016).

c. ***Liquidation of SOEs***. On the basis of the results of the triage, we plan to centralize the liquidation of non-operating SOEs under the SPFU. With this intent, the SPFU, in consultation with relevant ministries, is preparing a draft law that will enable the SPFU to liquidate SOEs 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 to adopt this draft bill by end-June 2017.

d. ***Privatization***. While we have made limited progress to date in the privatization of large SOEs, we recognize the need to accelerate this process to raise Ukraine's growth potential. Key elements in our privatization strategy include:

   i. ***Improving the legal framework***. Parliament will adopt amendments to the privatization law to improve transparency and safeguards, and to further streamline the privatization process for medium-sized enterprises by end-August 2017 (a new deadline for this ***structural benchmark***, reset from end-December 2016).

   ii. ***Creating a larger pipeline of enterprises for privatization***. Based on the triage and facilitated also by the adoption of legislation to reduce the list of companies banned from privatization, expected by end-June 2017, we will develop a schedule for transferring additional SOEs from the line ministries to the SPFU. The shares of all companies that are planned to be offered for sale in 2017 will be transferred to the SPFU by end-March 2017.

   iii. ***Privatization of small SOEs and assets***. We will streamline and accelerate the privatization of small SOEs and of thousands of small assets (buildings, machinery, etc.) currently in state hands, including by holding electronic auctions through our Prozorro system. We expect to conduct first auctions in this new platform by end-June 2017.

   iv. ***Privatization of large SOEs***. We remain committed to the privatization of PJSC Odessa Portside Plant and will implement the necessary measures, including addressing the identified balance sheet shortcomings, to attract reputable international investors and complete its privatization by the first half of 2017. In parallel, we will initiate the privatization of a number of large SOEs identified for privatization by end-September 2017, including PJSC Centrenergo, Turboatom, whose shares have already been transferred to the SPFU, and the regional energy distribution companies, obloenergos, whose shares will be transferred to the SPFU by end-April 2017. Similarly, we expect the adoption of legislation allowing for the full privatization of Ukrspirits, Ukraine's state-owned producer of spirits, which consists of about 150 related SOES, by end-March 2017, with the objective to have the contest sale completed by end-September 2017.

Table 1. Ukraine: Quantitative Criteria and Indicative Targets 1/

(End of period; millions of Ukrainian hryvnias, unless otherwise indicated)

	2016						2017			
	September			December			March	June	September	December
	PC	Adj. PC	Act.	PC	Adj. PC	Act.	PC	Proposed PC	Proposed PC	Proposed PC
I. Quantitative performance criteria										
Ceiling on the cash deficit of the general government (- implies a surplus) 2/	35,000	42,212	39,451	84,900	205,014	177,769	15,000	29,000	45,000	80,970
Ceiling on the cash deficit of the general government and Naftogaz (- implies a surplus) 2/	30,500	23,977	22,208	90,000	194,692	163,328	-1,100	16,200	52,000	80,970
Floor on cumulative change in net international reserves (in millions of U.S. dollars) 3/ 4/	1,776	2,234	2,283	2,317	2,627	2,692	2,288	3,734	3,292	5,032
Ceiling on cumulative change in net domestic assets of the NBU 2/ 3/	-2,886	-10,103	-16,808	9,923	30,835	3,135	22,584	11,183	26,351	17,955
Ceiling on publicly guaranteed debt 2/	28,200	28,200	0	28,200	28,200	16,523	15,000	15,000	15,000	15,000
II. Continuous performance criterion										
Non-accumulation of new external debt payments arrears by the general government 4/	0		0	0			0	0	0	0
III. Indicative Targets										
Ceiling on cumulative change in base money 3/	25,123	25,123	19,192	46,452	72,252	45,576	58,655	n.a.	n.a.	n.a.
Inflation (mid-point, percent) 5/	n.a.		n.a.	12.0		12.4	12.0	12.0	10.0	8.0
Ceiling on stock of VAT refund arrears	0		2,566	0		494	0	0	0	0
Ceiling on current primary expenditure of the state budget 2/	n.a.		n.a.	526,000		525,647	n.a.	n.a.	n.a.	620,000
General government employment 6/	n.a.		3,340,112	n.a.		n.a.	n.a.	n.a.	3,290,011	n.a.
IV. Memorandum Items										
Naftogaz deficit (- implies a surplus) 2/	-4,500	-18,235	-17,243	5,100	-10,322	-14,441	-16,100	-12,800	7,000	0
External project financing 2/	8,965		3,691	15,858		6,758	4,000	8,000	12,000	16,000
NBU loans to DGF and operations with government bonds issued for DGF financing or banks recapitalization 3/	-635		-635	-635		25,165	455	28,027	24,979	23,599
Government bonds issued for banks recapitalization and DGF financing 3/	166,000		14,275	166,000		129,216	174,000	184,000	207,000	227,000
Programmed disbursements of international assistance except IMF (millions of U.S. dollars) 2/ 3/	1,339		1,339	2,404		1,471	2,529	2,479	2,534	4,368
Conversion of a non-reserve currency under a central bank swap line into a reserve currency through an outright sale 3/ 4/	0		0	0		0	0	0	0	0
Net financing from debt operations (millions of U.S. dollars) 3/ 4/	1,237		1,237	2,467		2,542	2,199	2,545	4,877	5,846
Projected payments of interest on government bonds held by NBU 2/	36,056		36,056	49,294		49,294	10,585	22,880	33,290	44,822
Net issuance of central government domestic FX debt 3/	455		913	-38		1,130	-99	1,000	852	701
Program accounting exchange rate, hryvnia per U.S. dollar	15.7686	15.7686	15.7686	15.7686	15.7686	15.7686	15.7686	15.7686	15.7686	15.7686

Sources: Ukrainian authorities; and IMF staff estimates and projections.

1/ Definitions and adjustors for 2016 and 2017Q1 are specified in the Technical Memorandum of Understanding (TMU) in IMF Country Report No. 16/319 and in the TMU dated March 2, 2017 for 2017Q2 through 2017Q4.

2/ Targets for 2016 are cumulative flows from January 1, 2016. For 2017, cumulative flows from January 1, 2017.

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 through 2017Q3. Mid-point within a +/- 2 percent rage in 2017Q4.

6/ Excluding salaried military personnel. Actual data reported for end-September, 2016 is as of end-June, 2016. For the end-September, 2017 test dates the reported data is for end-June, 2017.

Table 2. Ukraine: Prior Actions and Structural Benchmarks

Prior Actions	**Status**	**Completion date**
Parliamentary approval of the 2017 budget and supporting legislation consistent with the program target of 3.1 percent of GDP (as specified in ¶18).	Met	
Resolution of all large banks that do not meet the minimum capital requirements (as specified in ¶8).	Met	
Revise the Public Service Obligations (CMU Resolution 758) to introduce an interim mechanism to automatically adjust gas and heating tariffs on a semi-annual basis if tariffs deviate from full cost-recovery levels (based on import parity as defined in the TMU) by 10 percent or more (as specified in in ¶24a).	Met	
Reduce consumption norms from 5.5 to 5.0 cm per m2 for gas for individual heating, from 65 to 51 kwh per m2 for electricity used for individual heating, and from 0.0548 to 0.0431 Gcal per m2 for centralized heating effective May 1, 2017 (as specified in ¶23).	Met	
Enforce the filing of asset declarations for 2015 by high-level officials in accordance with the law on prevention of corruption, report cases of non-filers to NABU, and make publicly available the submitted declarations (as specified in ¶26a).	Met	
Proposed New Structural Benchmarks	**Status**	**Completion date**
Selection of an international reputable firm on the basis of a transparent process, that negotiates the restructuring and collection terms of PrivatBank's impaired loans, on the basis of international best practices; and selection of a reputable international audit firm to conduct for the next two years a semi-annual independent loan review of PrivatBank's loan portfolio (in accordance with the legal and NBU regulatory framework), with the aim of properly monitoring asset value recovery (as specified in ¶8iv).		End-April 2017
Parliamentary approval of pension legislation (as specified in ¶21a).		End-April 2017
Parliamentary approval of legislation to establish a new civil service responsible for investigation of financial offences under the MoF to replace the current tax police and to consolidate responsibilities of fighting financial offenses against the State into a single agency, while avoiding duplication of functions (as specified in ¶20e).		End-April 2017
Parliamentary approval of a law on agricultural land circulation allowing for the current moratorium on the sale of agricultural land to expire by the end of 2017, thus allowing for the sale of state-owned and private land to start immediately thereafter (as specified in ¶27b).		End-May 2017

Table 2. Ukraine: Prior Actions and Structural Benchmarks (continued)		
Proposed New Structural Benchmarks	**Status**	**Completion date**
Parliamentary approval of legislation to establish an anticorruption court (as specified in ¶26c).		June 15, 2017
Revise parameters of the household utility subsidies (HUS) system to improve targeting; introduce an adjustment to the social norm for off-peak heating months; and apply a capacity-based distribution tariff for gas and heat that would shift some of the costs to the summer, all effective May 1, 2017, thereby limiting household utility subsidy outlays to UAH 47 billion in 2017 (as specified in ¶23).		End-July 2017
Adopt CMU resolution to monetize utility subsidies at the level of utility companies (as specified in ¶24b).		End-August 2017
Establish a centralized database in the MoF of recipients of social assistance (as specified in ¶21d).		End-December 2017
Previous Structural Benchmarks	**Status**	**Completion date**
Adjust the parameters of utility-related social assistance programs, including the HUS benefits formula, to ensure that benefits remain within the allocated fiscal envelope (September 2016 MEFP ¶31a).	Prior action (modified)	End-September 2016
Submit law on agricultural land circulation to parliament (September 2016 MEFP ¶38d).	Not met	End-September 2016 Modified and reset for end-May 2017
Parliament will approve amendments to legislation, consistent with IMF staff advice, to strengthen the corporate insolvency regime (September 2016 MEFP ¶20).	Not met	End-September 2016 Reset for end-September 2017
Parliament will approve a law which strengthens the provisions in the Code of Civil Procedure and the Code on Commercial Procedure on Order for Payments for domestic transaction and on garnishment of bank accounts (September 2016 MEFP ¶37).	Not met	End-September 2016 Reset for end-September 2017
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 (September 2016 MEFP ¶33a).	Prior action (modified)	End-October 2016
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 (September 2016 MEFP ¶36c).	Prior action	End-October 2016
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 (September 2016 MEFP ¶39c).	Not met	End-October 2016 Reset for end-August 2017

Table 2. Ukraine: Prior Actions and Structural Benchmarks (concluded)		
Previous Structural Benchmarks	**Status**	**Completion date**
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 (September 2016 MEFP ¶36a).	Not met	End-November 2016 Reset for end-May 2017
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 (September 2016 MEFP ¶29a).	Not met	End-December 2016 Reset and modified for end-April 2017
Parliamentary approval of amendments to the privatization law to improve transparency and safeguards, and to further streamline the privatization process (September 2016 MEFP ¶39e).	Not met	End-December 2016 Reset for end-August 2017
Adopt legislation to merge the customs and tax administration into a single legal entity (September 2016 MEFP ¶27a).	Not met	End-December 2016 Reset for end-March 2017

Table 3. Ukraine: Proposed Schedule of Purchases Under the Extended Arrangement

Availability date	Amount of purchase			Conditions
	Millions of SDRs	Millions of US$ 1/	Percent of quota 2/	
March 11, 2015	3,546.00	4,872.00	258.45	Board approval of extended arrangement
June 15, 2015 3/	1,182.10	1,650.00	86.16	First review and end-March 2015 performance criteria
September 15, 2015 3/	716.11	999.80	35.60	Second review and end-December 2015 performance criteria
November 15, 2016	734.05	987.34	36.49	Third review and end-December 2016 performance criteria
May 15, 2017	1,418.48	1,906.91	70.51	Fourth review and end-March 2017 performance criteria
August 15, 2017	952.49	1,279.62	47.35	Fifth review and end-June 2017 performance criteria
November 15, 2017	952.49	1,278.81	47.35	Sixth review and end-September 2017 performance criteria
February 15, 2018	711.57	954.67	35.37	Seventh review and end-December 2017 performance criteria
May 15, 2018	711.57	954.58	35.37	Eighth review and end-March 2018 performance criteria
August 15, 2018	711.57	954.78	35.37	Ninth review and end-June 2018 performance criteria
November 15, 2018	711.57	955.15	35.37	Tenth review and end-September 2018 performance criteria
Total	12,348	16,794	614	

Source: IMF staff estimates.

1/ For 2015–18, the average USD/SDR rates used in this table are: 1.399, 1.396, 1.362, and 1.361, 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. The total amount of SDR 12,348 million is equivalent to 614% of the new quota.

3/ The second purchase took place on August 4, 2015 and the third purchase took place on September 16, 2016.

Attachment II. Ukraine: Technical Memorandum of Understanding

March 2, 2017

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 March 2, 2017 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 National Bank of Ukraine (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[1] (including swaps, options, forwards, and futures) of the NBU and general government, implying the sale of foreign currency or other reserve assets; and
- all foreign exchange liabilities of the NBU to resident entities (e.g., claims in foreign exchange of domestic banks, and NBU credits in foreign exchange from domestic market) excluding foreign exchange liabilities to the general government, or related to deposit guarantees.

Table A. Components of Net International Reserves

	Type of Foreign Reserve Asset or Liability[1]	NBU Balance Sheet and Memorandum Accounts
1.	International reserves	
	Monetary gold	1100, 1107
	Foreign exchange in cash	1011, 1017
	Demand deposits at foreign banks	1201, 1202
	Short-term time deposits at foreign banks	1211
	Long-term deposits at foreign banks	1212
	SDR holdings and Reserve Position in the IMF	IMF, Finance Department[2]
	Securities issued by nonresidents	1300, 1305, 1307, 1308, minus 1306
	Settlement of foreign securities	2746, minus 4746
2.	Short-term liabilities to nonresidents *(in convertible currencies)*	
	Correspondent accounts of nonresident banks	3201
	Short-term deposits of nonresident banks	3211
	Operations with nonresident customers	3230, 3232, 3233, 3401, 8805
	Operations with resident banks	8815
	Use of IMF credit	IMF, Finance Department

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 82 percent in 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 NBU, 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 any 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 January 1, 2016, millions of U.S. dollars at program exchange rate)

	Eurobond placement	World Bank	EU	Others (Japan, Sweden, Switzerland, Turkey)	Total
End-June 2017	1,000	40	880	559	2,479
End-September 2017	1,000	70	880	584	2,534
End-December 2017	2,000	100	1,609	659	4,368

Table C. Net Issuance of Central Government Domestic FX Debt: Projections for NIR/NDA Adjustment

(Cumulative flows from January 1, 2016, millions of U.S. dollars at program exchange rate)

	Net issuance
End-June 2017	1000
End-September 2017	852
End-December 2017	701

Table D. Net Financing from Debt Operations: Projections for NIR/NDA Adjustment

(Cumulative flows from January 1, 2016, millions of U.S. dollars at program exchange rate)

	Net Financing
End-June 2017	2,545
End-September 2017	4,877
End-December 2017	5,846

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.

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.[2] 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)[3] plus funds of customers at the NBU in hryvnia (NBU liabilities accounts of groups 323,[4] 3250, 4731, 4732, 4735, 4736, 4738, 4739,

[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.

and 4750), plus accrued interest on demand 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 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 (downward) by the full amount of the cumulative excess (shortfall) in the total amount of NBU loans (net) 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 from Privatbank of government bonds issued for bank recapitalization (net of change in Privatbank's NBU outstanding loans since nationalization), relative to the baseline projection, and evaluated at the program exchange rates if provided in foreign exchange (Table E). For the June, September, and December 2017 targets, the combined upward adjustment is up to a cumulative maximum of the bank recapitalization and DGF financing bonds issued from January 1, 2017 and the indicative cumulative limits are derived from the relevant row of Table 1 of the MEFP.

- 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 January 1, 2016, millions of hryvnia)

	Net NBU loans to DGF and purchases of government bonds issued for DGF Financing	NBU purchases of government bonds issued for Bank Recapitalization (net of change in NBU loans since nationalization)
End-June 2017	3,501	24,526
End-September 2017	1,834	23,146
End-December 2017	1,834	21,766

C. 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 by end-March, end-June and end-September 2017 and within a range of +/- 2 percentage points around the mid-point target by end-December 2017.

D. 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 state-owned enterprises (SOE), less the cumulative total 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.

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

[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.

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 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, 2017, in millions of hryvnia)

	External project financing (Technical assumption for the adjustor purpose)	Budget support grant (Technical assumption for the adjustor purpose)
End-March 2017	4,000	0
End-June 2017	8,000	0
End-September 2017	12,000	0
End-December 2017	16,000	0

- 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 UAH 227 billion from January 1, 2016. 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 30 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 in 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, 2017.

- 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 held by the NBU and an automatic upward adjustor corresponding to the increase in the budgetary interest bill arising from any recapitalization of state-owned banks and the DGF that took place after approval of the 2017 budget. Savings from any restructuring or reprofiling 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 G. Projected Payments of Interest on Government Bonds held by NBU

Cumulative flows from January 1, 2017	In billions of hryvnia
End-March 2017	10.6
End-June 2017	22.9
End-September 2017	33.3
End-December 2017	44.8

14. The modalities of monitoring fiscal performance, including the adjustors listed above, can be revisited in agreement with IMF staff to ensure the achievement of the primary fiscal balance and debt targets under the program.

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

Definition

15. 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.

16. 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.

17. 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 the year.

F. Ceiling on VAT Refund Arrears (Indicative Target)

18. 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). 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)

19. 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.

20. 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 30 days after they are due.

H. Ceiling on the Stock of General Government Employment (Indicative Target)

21. The ceiling on the stock of general government (as defined in paragraph 12), employment is defined as the number of staff positions by the general government sector excluding the military personnel receiving salaries from the state ("monetary provision"). This ceiling is set semi-annually for end-June and for end-December.

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

Definition

22. For the purposes of this performance criterion, an external debt payment arrear will be defined as a payment by the general government to nonresidents, which has not been made within the due date (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

23. The ceiling on publicly guaranteed debt will apply to the amount of guarantees issued by the central (state) government. The official exchange rate will apply to all non-UAH denominated debt. This ceiling excludes guarantees issued by the Ministry of Finance for NBU borrowings from IMF.

K. Other Continuous Performance Criteria

24. 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.

L. Key Performance Indicators for the Revenue Administration

25. The SFS will provide on a quarterly basis but no later than 25 days after the end of each quarter, data on its performance indicators included in the table below:

Quantitative Key Performance Indicators for 2016–17

Indicator	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17
	Target	Target	Target	Target	Target
Tax returns filed on time (in percent of total number of tax returns)	97.0	97.0	97.5	97.5	98.0
Taxes paid (in percent of total audit-assessed tax liabilities)	n.a.	15.0	20.0	25.0	30.0
Audits to address SSC and PIT non-compliance (total number, cumulative from the beginning of the year) 1/	9,853	2,366	4,722	7,215	10,143
Payroll tax audits (in percent of total number of audits) 1/	23	31	31	33	33
Post-clearance customs audits (total number, cumulative from the beginning of the year) 1/	335	80	170	270	380
Reduction in tax debts (percentage changed from the previous year) 2/	10.0	2.5	5.0	7.5	10.0
Number of scheduled offsite tax audits (in percent of total number of audits)	35.0	36.0	37.0	38.0	40.0
Tax returns filed electronically (in percent of total number of tax returns)	55.0	55.0	60.0	65.0	70.0
Number of taxpayer calls on corruption hotline (so called service "pulse") reviewed by SFS (in percent of total number of calls received on the hotline) 3/	100.0	100.0	100.0	100.0	100.0
The maximum amount of time needed to complete customs clearance for goods for which the customs risk assessment system (ASAUR) did not generate the need for formal procedures (in minutes) 4/					
Import	*115.0*	*105.0*	*95.0*	*85.0*	*75.0*
Export	*45.0*	*45.0*	*40.0*	*35.0*	*30.0*
Transit	*18.0*	*18.0*	*17.0*	*16.0*	*15.0*
Number of customs declarations for which discrepancies have been actually established (in percent of total number of customs declarations identified by ASAUR as risky)	n.a.	1.0	2.0	3.0	4.0
Cap on the number of customs declarations that are subject to audit (in percent of total number of suspected cases identified outside the ASAUR system)	n.a.	1.0	2.0	3.0	3.5
VAT refund arrears (in UAH billions)	0.0	0.0	0.0	0.0	0.0
Total assessed and due liabilities paid (percent)	n.a.	93.5	94.0	94.5	95.0

1/ For end-2016 data are actuals.
2/ The targeted reduction is relative to the stock that does not include debt accumulated in the course of the year.
3/ Service "pulse" is an anti-corruption portal of SFS.
4/ Data for 2015 is the average for 4th quarter, for 2016 is the average for the second half.

II. Official Exchange Rate

Determination of the Official Exchange Rate

26. 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 5:30 pm 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

27. The threshold deviation from cost recovery based on import parity to trigger an automatic adjustment each half-year of gas year (April 1, October 1) in retail gas and heating tariffs will apply to the retail gas price, which includes the appropriate transmission costs (Ukrtransgas), distribution costs (oblgases), provider markup, in effect at the date of calculation as officially published by the regulator and VAT. The date of calculation shall be two months prior to the effective date of the adjustment. The import parity shall be calculated based on monthly average German gas hub (NCG) prices, transmission and entry costs multiplied by monthly average exchange rates of USD/EUR "spot" and recalculated in UAH at the average exchange rate per NBU for the last 2 months of the calculation period. Calculation period for the import parity calculation cannot exceed 12 months and is defined since the last retail gas prices determination date to the month preceding the calculation date for the first calculation, and further since the month preceding the last calculation date to the month preceding the next calculation date.

IV. Reporting Requirements

A. National Bank of Ukraine

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

29. 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.

30. The NBU will provide the IMF on a daily basis with information on obligatory, voluntary and total foreign exchange sales (including total from nonresidents 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.

31. 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."

32. 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.

33. 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).

34. 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.

35. 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.

36. 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.

37. 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 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.

38. 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.

39. 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.

40. 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).

41. 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.

42. 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.

43. 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.

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

45. 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).

46. 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.

47. 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).

48. 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).

49. 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).

50. 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.

51. 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.

52. 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.)

53. 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.

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

55. 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.

56. 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.

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

58. 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.

59. 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.

60. 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.

61. 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

62. 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.

63. 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.

64. 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.

65. 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.

66. 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.

67. 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

68. 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.

69. 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.

70. 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.

71. 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.

72. 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.

73. 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.

74. 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.

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

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

77. 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, DGF, 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.

78. 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.

79. The Ministry of Finance will report data on the general government employment levels by sector. The report will be provided semi-annually, no later than April 1 and October 1 on the employment levels as of January 1 and July 1 of the same year, respectively. 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 report on the employment levels will be provided in the following format:

	The maximum number of staff positions, units	Number of actual staff employed (including contractual), units	Total wage bill (incl. social security contributions), in UAH millions	Average monthly wage (UAH)
Healthcare				
Physical culture and sports				
Social assistance and social protection				
Education				
Culture				
Science				
Other activities				
Judiciary				
Local administrations				
Central government bodies (including territorial bodies)				
Pension fund				
Diplomatic installments				
Prosecutor's office				
Defense				
Public Order and Security				
Local self-governance bodies				
Total				

80. 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.

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

82. 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:

	Beginning Stock				Netting out during month	Deferrals during month	Write--offs (arrears written off during month)	Collections of outstanding debt at beginning of month	New Arrears (tax liabilities becoming overdue during month)	Ending Stock
	Total	Principal	Interest	Penalties						
Tax arrears										

83. 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.

84. 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.

85. 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.

86. 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 Economic Development and Trade, Ministry of Energy and Coal Industry, Ministry of Housing and Municipal Economy of Ukraine, National Commission in Charge of State Regulation in Energy and Utilities (NCSREU), and Naftogaz

87. The Ministry of Regional Development, Construction, and Housing and Municipal 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 Economic Development and Trade and the NCSREU will provide the methodology underlying the tariff calculations for full cost recovery, including heating and gas.

88. 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 Economic Development and Trade, 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.

89. 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.

90. 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."

91. 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.

92. 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).

93. 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.

94. NJSC Naftogaz will report on a weekly basis data on Naftogaz daily market purchases of foreign exchange.

95. 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

96. 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

97. 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 Agency for Prevention of Corruption

98. The National Agency for Prevention of Corruption (NAPC) 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 action taken regarding the asset declaration of high level officials, in the following format:

Number of Full Verifications of Asset declarations by the NAPC
(Article 50 Law on Prevention of Corruption)

	Members of Parliament, Members of the Government	Judges	Prosecutors	Category A Civil Servants	SOE Managers	Others
Number						

Reports sent by the NAPC to NABU

	Members of Parliament, Members of the Government	Judges	Prosecutors	Category A Civil Servants	SOE Managers	Others
Number of reports for absence of declaration						
Number of reports for false declaration						

H. National Anti-Corruption Bureau

99. 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

Penal Code Article	Members of Parliament, Members of the Government	Judges	Prosecutors	Category A Civil Servants	SOE Managers	Others
Art. 191						
Art. 206-2						
Art. 209						
Art. 210						
Art. 211						
Art. 354						
Art. 364						
Art. 368						
Art. 368-2						
Art. 369						
Art. 369-2						
Art. 410						

Number of Persons Convicted—First Instance

Penal Code Article	Members of Parliament, Members of the Government		Judges		Prosecutors		Category A Civil Servants		SOE Managers		Others	
	Fine	Jail	Fine	Jail	Fine	Jail	Fine	Jail	Fine	Jail	Fine	Jail
Art. 191												
Art. 206-2												
Art. 209												
Art. 210												
Art. 211												
Art. 354												
Art. 364												
Art. 368												
Art. 368-2												
Art. 369												
Art. 369-2												
Art. 410												

For fines, total value in UAH. For jail, total months (and suspended jail).

Number of Persons Convicted—Final Decision

Penal Code Article	Members of Parliament, Members of the Government		Judges		Prosecutors		Category A Civil Servants		SOE Managers		Others	
	Fine	Jail	Fine	Jail	Fine	Jail	Fine	Jail	Fine	Jail	Fine	Jail
Art. 191												
Art. 206-2												
Art. 209												
Art. 210												
Art. 211												
Art. 354												
Art. 364												
Art. 368												
Art. 368-2												
Art. 369												
Art. 369-2												
Art. 410												

For fines, total value in UAH. For jail, total months (and suspended jail).

I. Financial Intelligence Unit

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

Reports sent by the FIU to NABU

	Members of Parliament, Members of the Government	Judges	Prosecutors	Category A Civil Servants	SOE Managers	Others
Number of reports disseminated						
Aggregated value of suspected money laundering						

Supplementary Letter of Intent

Kyiv, March 29, 2017

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

Dear Ms. Lagarde:

1. This letter supplements our Letter of Intent of March 2, 2017, and provides information about recent developments that have adversely affected the economic outlook for this year, and describes our policies to mitigate these effects and achieve the objectives of our economic program.

2. An escalation of the situation in the eastern part of Ukraine and an increase in actions against our national and economic security, including the seizure of assets of Ukrainian companies operating in the non-government controlled areas and the disruption of supply chains, led the National Security and Defense Council of Ukraine to decide to temporarily halt trade with the non-government controlled areas and all transport of goods, excluding humanitarian assistance, to and from the non-government controlled areas, until these companies' property rights are restored. These events have clear and immediate negative repercussions for our energy and steel production, and hence for our exports and economic growth. While we expect that companies will gradually adjust their operations, including by finding new suppliers and expanding capacity in government-controlled areas, we expect that growth in 2017 will be almost 1 percentage point lower than previously projected. In addition, while we will aim to limit the adverse impact on the balance of payments by allowing the exchange rate to adjust and maintaining appropriately tight monetary policies, also to meet our inflation objective, the current account deficit is expected to widen to 3¾ percent of GDP this year and the National Bank of Ukraine's (NBU) reserves are projected to reach US$21.8 billion by year-end, about US$0.5 billion less than anticipated earlier. We are firmly committed to continuing our efforts, including by maintaining appropriately tight monetary policies, to catch up with the reserve targets under the program as the economic recovery strengthens in the coming years. Although the recent events have increased uncertainty and the challenges to the budget, including some loss in revenues, we remain committed to meet the budget deficit targets previously agreed, which is critical to continue reducing the still high public debt burden.

3. The recent events also caused a strong negative public reaction to Russian state-owned banks operating in Ukraine. In the interest of our national security, we imposed restrictions on the transactions of these banks with their parent banks, and we have notified the IMF's Executive Board

of these measures under Decision No. 144-(52/51). We will ease these restrictions as soon as security conditions permit.

4. We remain firmly committed to take appropriate measures as needed to safeguard the stability of our financial system. In this regard, as the abovementioned banks are solvent and continue to adhere to prudential regulations and we remain committed to treat banks evenhandedly, we have made arrangements to ensure that these banks have quick access to the necessary liquidity support if needed, including emergency liquidity assistance from the NBU. Moreover, we are firmly committed to adherence to the rule of law, and are ensuring the safety and security of these banks' offices and branches, to allow their continued and uninterrupted operations.

5. Reflecting the changed economic outlook, we propose that the performance criteria for the accumulation of the NBU's net international reserves and net domestic assets for end-June, end-September, and end-December 2017 be set as specified in the attached Table 1; all other performance criteria and indicative targets for end-June, end-September, and end-December 2017 remain as proposed in our letter of March 2, 2017, and as reflected also in the attached Table 1. In addition, we request a waiver of non-observance of the end-March 2017 performance criterion on the accumulation of the NBU's net international reserves, which based on available data is expected to be missed by US$520 million, as a result of the recent developments outlined above and the impact on financial markets from the nationalization of our largest bank. Also, we request a waiver of applicability of all the other end-March 2017 performance criteria as presented in the attached Table 1, which have become controlling for this review, as final data for these performance criteria are not yet available, while there is no indication that these have not been observed. We furthermore request to reset the structural benchmark on the adoption of legislation to merge customs and tax administration into a single legal entity to end-April 2017 (instead of end-March 2017, as had been envisaged in the MEFP of March 2, 2017), as more time is needed to complete the legislative process. With these changes, we request the completion of the third review and the financing assurances review, and the disbursement of SDR 734.05 million.

Yours sincerely,

/s/
Petro Poroshenko
President

/s/
Volodymyr Groysman
Prime Minister

/s/
Oleksandr Danylyuk
Minister of Finance

/s/
Valeria Gontareva
Governor, National Bank of Ukraine

Table 1. Ukraine: Quantitative Criteria and Indicative Targets 1/

(End of period; millions of Ukrainian hryvnias, unless otherwise indicated)

	2017			
	March	June	September	December
	PC	Proposed PC	Proposed PC	Proposed PC
I. Quantitative performance criteria				
Ceiling on the cash deficit of the general government (- implies a surplus) 2/	15,000	29,000	45,000	80,970
Ceiling on the cash deficit of the general government and Naftogaz (- implies a surplus) 2/	-1,100	16,200	52,000	80,970
Floor on cumulative change in net international reserves (in millions of U.S. dollars) 3/ 4/	2,288	3,451	2,894	4,578
Ceiling on cumulative change in net domestic assets of the NBU 3/	22,584	14,301	30,791	23,169
Ceiling on publicly guaranteed debt 2/	15,000	15,000	15,000	15,000
II. Continuous performance criterion				
Non-accumulation of new external debt payments arrears by the general government 4/	0	0	0	0
III. Indicative Targets				
Ceiling on cumulative change in base money 3/	58,655	n.a.	n.a.	n.a.
Inflation (mid-point, percent) 5/	12.0	12.0	10.0	8.0
Ceiling on stock of VAT refund arrears	0	0	0	0
Ceiling on current primary expenditure of the state budget 2/	n.a.	n.a.	n.a.	620,000
General government employment 6/	n.a.	n.a.	3,290,011	n.a.
IV. Memorandum Items				
Naftogaz deficit (- implies a surplus) 2/	-16,100	-12,800	7,000	0
External project financing 2/	4,000	8,000	12,000	16,000
NBU loans to DGF and operations with government bonds issued for DGF financing or banks recapitalization 3/	455	28,027	24,979	23,599
Government bonds issued for banks recapitalization and DGF financing 3/ 7/	6,000	184,000	207,000	227,000
Programmed disbursements of international assistance except IMF (millions of U.S. dollars) 3/ 4/	2,529	2,479	2,534	4,368
Conversion of a non-reserve currency under a central bank swap line into a reserve currency through an outright sale 3/ 4/	0	0	0	0
Net financing from debt operations (millions of U.S. dollars) 3/ 4/	2,199	2,545	4,877	5,846
Projected payments of interest on government bonds held by NBU 2/	10,585	22,880	33,290	44,822
Net issuance of central government domestic FX debt 3/ 4/	-99	1,000	852	701
Program accounting exchange rate, hryvnia per U.S. dollar	15.7686	15.7686	15.7686	15.7686

Sources: Ukrainian authorities; and IMF staff estimates and projections.

1/ Definitions and adjustors for 2016 and 2017Q1 are specified in the Technical Memorandum of Understanding (TMU) in IMF Country Report No. 16/319 and in the TMU dated March 2, 2017 for 2017Q2 through 2017Q4.

2/ Targets for 2016 are cumulative flows from January 1, 2016. For 2017, cumulative flows from January 1, 2017.

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 through 2017Q3. Mid-point within a +/- 2 percent rage in 2017Q4.

6/ Excluding salaried military personnel. Actual data reported for end-September 2016 is as of end-June 2016. For the end-September 2017 test dates the reported data is for end-June 2017.

7/ For March 2017, cumulative from January 1, 2017.