International Monetary Fund

Ukraine and the IMF

Press Release:
IMF Executive Board Completes First Review of Ukraine's EFF and Approves US$1.7 Billion Disbursement
July 31, 2015

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

July 21, 2015

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Ukraine: Letter of Intent

Kyiv, July 21, 2015

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

Dear Ms. Lagarde:

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

2. Notwithstanding the exceptionally difficult situation in Ukraine—with the unresolved conflict in the East—we have made steadfast efforts to implement policies under the EFF-supported program reflecting our strong commitment to economic adjustment and reforms. Following the significant economic contraction in 2015:Q1, there are signs that economic stability is gradually taking hold. The foreign exchange market has remained broadly stable in the last few months. Our official reserves, although still very low, have increased considerably following disbursements from official creditors and the NBU's foreign currency purchases from the market. We have taken bold measures to advance much needed reforms, including in the energy sector, by adopting a new gas sector law and increased gas and central heating retail prices by 285 percent and 67 percent, respectively. These are important first steps toward reaching cost recovery based on international market prices and thus eliminating the large losses in the state-owned gas company Naftogaz, while at the same time increasing significant allocations for social assistance programs. Budget outturn for 2015:Q1 was stronger than expected owing mainly to large VAT revenue driven by the higher-than-expected exchange rate depreciation and inflation. Banks' local currency deposits are growing again, although the FX deposit outflows continue, which remains a key concern.

3. Our actions ensured that all performance criteria (PC) for end-March, the continuous PC, and most structural benchmarks due through June 2015 were met, albeit some with a delay. We have also met the end-June PCs (preliminary data is reported in Table 2, with final data to be provided before the date of the Board meeting). We passed the necessary legislation to strengthen collections of Naftogaz receivables prior to the completion of the review. We also passed important legislation that strengthens the NBU independence and governance arrangements.

4. Our efforts now focus on restoring macroeconomic stability and setting the stage for robust and inclusive growth so critical for the Ukrainian people. This includes actions to improve competitiveness and the business climate through far-reaching structural reforms, rehabilitate the banking system, and restore sustainable external and fiscal positions.

5. Despite our strong efforts, the debt restructuring process is advancing more slowly than expected. Constructive discussions with holders of the state-owned Ukreximbank's US$1.5 billion Eurobonds led to the completion of a consensual reprofiling of those notes on July 8. Separately, state-owned Oschadbank launched on July 6 a consent solicitation for a reprofiling of its US$1.2 billion Eurobonds with the backing of an ad hoc committee holding a majority of the notes. These reprofiling operations are fully in line with the debt operation targets under the EFF-supported program. We are also making steady progress on the broader sovereign debt restructuring with the objective of concluding an agreement as soon as possible (as noted in the joint statements with the Ad Hoc Creditor Committee on July 1 and 15). We remain determined to complete the debt operation in line with its stated program objectives.

6. On the basis of steps that we have already taken and commitments under the program, we request completion of the first review, and a disbursement in the amount of SDR 1,182.1 million.

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

Yours sincerely,

/s/ Petro Poroshenko President	/s/ Arseniy Yatsenyuk Prime Minister
/s/ Natalie Jaresko Minister of Finance	/s/ Valeria Gontareva Governor, National Bank of Ukraine

Ukraine: Memorandum of Economic and Financial Policies

I. Recent Economic Developments and Outlook

1. **The decline in economic activity continued in early 2015**. As the conflict in the East intensified, industrial production, construction, and retail sales contracted sharply in January–March at a higher-than-expected pace. Accordingly, real GDP in the first quarter declined by 17.2 percent, about 1¼ percentage points worse than programmed.

2. **Inflation surprised on the upside, reflecting the sharp exchange rate depreciation in February**. After halving in value in February, the hryvnia recovered in March–May following the tightening of monetary policy and the administrative measures. In recent weeks, it has stabilized at around UAH 21–23/US$1, broadly as projected under the program. Headline 12-month inflation accelerated to 61 percent y-o-y in April, reflecting a rapid pass-through of the large exchange rate depreciation and sharp increases in energy prices.[1] As the hryvnia recovered, however, prices of imported goods began declining while increases in prices of non-tradables remain moderate. This suggests that the sharp rise in inflation largely represents a one-time shift in the price level rather than acceleration of underlying inflation pressures, which are constrained by the weak economy. Indeed, inflation in June declined to 0.4 percent m-o-m (57½ percent y-o-y), broadly as expected.

3. **While the current account deficit is somewhat weaker than expected, the overall balance of payments remains in line with the program**. Lower domestic demand and tightening of import restrictions prior to approval of the program led to import compression. At the same time, exports also underperformed as the conflict flared up in January–February, directly impacting key export industries, terms of trade turned worse than expected, and the repatriation of export proceeds decreased. Nevertheless, the balance of payments remains in line with program and reserves reached US$10.3 billion at end-June, following the first EFF purchase, disbursement of other official assistance, and NBU FX purchases.

4. **The macroeconomic framework has been updated to reflect the most recent developments**.

- **Growth** for 2015 has been revised down to -9 percent (compared to -5½ percent upon EFF approval) driven by the deterioration in industrial production, tighter credit, and scaled-back exports as supply constraints caused by the conflict in the East proved tighter than expected. Projections for 2016–20 are unchanged relative to the program.

- **Inflation** at end-2015 is projected at 46 percent compared to 27 percent at the EFF approval. This is due to the largely one-off pass-through effects of the large exchange rate depreciation in

[1] Subsequently, the State Statistics Committee found out that the effect of the April gas price increase was overstated by some 4 percentage points and revised its CPI methodology accordingly as recommended by an IMF TA mission. This revision will affect the CPI in October-November, once the two-tier winter season gas price schedule returns.

February 2015. Inflation is projected to recede in 2016 to around 12 percent as the one-off effects subside and economic stabilization takes hold.

- **Balance of payments**: The current account deficit is expected to widen to 1.7 percent of GDP, compared to 1.4 percent of GDP at program approval. Both export and import projections are more compressed than initially expected. This reflects mainly worse terms of trade than initially projected. The wider current account deficit is offset by a better-than-expected financial account, driven by significant private debt restructuring, lower than expected FX cash outflow from the banking system, and FDI pick-up in part related to bank recapitalization. Thus, the overall balance of payments remains unchanged.

II. Policies under the Program

5. **Against this backdrop and to keep the program on track, we have adapted program policies as needed to stabilize the economy and restore growth**. To this end, we will continue to maintain a flexible exchange rate regime and accumulate reserves as programmed. Until financial conditions have stabilized more firmly, capital controls and other FX restrictive measures will largely remain in place. At the same time, we have prepared a conditions-based roadmap for the unwinding of these restrictive measures as stability is restored and confidence returns. We will continue the implementation of the bank resolution strategy consistent with achieving adequate bank capitalization and the gradual unwinding of related loans. We also continue to implement reforms that entrench high-quality fiscal adjustment. We remain committed to a successful debt operation that is consistent with the program financing and debt sustainability objectives. Repairing Naftogaz finances through energy price adjustments to market levels and structural reforms in the energy sector remains a priority. Finally, we will reinvigorate our push to improve Ukraine's business environment and strengthen governance.

A. Monetary and Exchange Rate Policy

6. **We remain committed to reducing inflation and maintaining a flexible exchange rate, while building up NBU reserves**. In this regard, specific actions include:

a. **Rebuilding reserves**. Efforts to rebuild a strong international reserve position in line with the program will continue. The NBU will continue to mop up the excess supply on the FX market, and limit FX sales to facilitate external payments by the central government and prevent disorderly market conditions. Naftogaz is now meeting its FX needs through borrowing and market purchases. The recent extension until 2018 of the swap line with the People's Bank of China for an amount up to the equivalent of US$2.4 billion will help mitigate our foreign exchange needs and strengthen the balance of payments. To relieve pressures on reserves, the Ministry of Finance will seek to roll over the government's domestic FX debt liabilities at least at the rate assumed under the program by offering suitable interest rate and maturity terms (TMU, Section 1.A).

b. **Preparing for the removal of administrative measures.** The temporary administrative measures have helped to contain BOP pressures. We expect that our policy program and the financial support of the international community will lead to steady improvement in the balance of payments, financial stability, and the return of depositors' and investors' confidence, which will set the stage for the safe removal of these administrative measures in due course. To this end, we have prepared a roadmap and will begin implementing it in a gradual and cautious manner once the following prerequisites are met:

- a successful completion of the debt operation in line with the objectives specified in paragraph 26 of the MEFP dated February 27, 2015;
- full implementation of bank recapitalization based on the results of the 2014 diagnostic studies;
- a target level of the NBU's net international reserves (NIR) as specified in the roadmap for the first stage of the liberalization; and
- full transition of Naftogaz to the interbank market for its FX purchases (i.e., no further reliance on NBU reserves).

7. **Monetary policy will aim to reduce inflation to single-digit levels**. For the time being, the current monetary policy stance remains appropriate given our near-term inflation projections and current inflation expectations (15–20 percent for the year to June 2016). Keeping the policy interest rate positive in real terms on a near-term forward-looking basis is essential to achieving our operational NIR/NDA targets through open market operations and anchoring inflation expectations. The NBU will monitor closely incoming data to ensure that inflation decelerates as projected and second-round effects from the exchange rate depreciation and energy price hikes remain contained. If inflation expectations are well anchored, inflation is under control, and foreign exchange market stability is entrenched, we will consider easing the monetary policy stance later in 2015 to support economic activity. Conversely, if despite our expectations inflation repeatedly surprises on the upside, or strong exchange rate depreciation pressures return, we will tighten policy as needed to address these adverse developments.

8. **To support the conduct of monetary policy, we remain committed to** (i) further improving the NBU's monetary policy and operational framework; (ii) strengthening the NBU's institutional independence and effectiveness, including safeguarding a strong balance sheet; and (iii) sharpening the NBU's accountability and communication with the market and general public to better guide their decisions and inflation expectations. In this regard:

- **To strengthen the NBU's institutional foundation and effectiveness, parliament has passed legislative amendments to the NBU Law**. The amendments transform the Board into an Executive Committee—composed of the governor and deputy governors—in charge of formulating financial, monetary, and exchange rate policy. They also strengthen the oversight mandate of the NBU Council and the personal autonomy of the Council members. Given that the passage of these amendments was overdue (a missed structural benchmark for end-April), parliament passed these amendments (Laws 2742 and 2743) as a **prior action**.

B. Financial Sector Policies

9. **Our key near-term priority remains the restoration of stability and confidence in the financial sector**. To this end, we continue taking steps to (i) stabilize the banking system through prudent provision of collateralized liquidity by the NBU and close monitoring of banks' liquidity conditions; (ii) strengthen our regulatory and supervisory framework; and (iii) update and implement our bank resolution strategy. In particular, we have passed legal amendments (Law 218) to increase bank owners' liability for bank failure in case of wrongdoing and strengthen NBU's powers to require banks to identify and unwind excess risk concentrations from related party loans. We have effectively completed the first wave of bank recapitalization (covering the largest 35 banks) and continue to clean up the system by resolving insolvent and nonviable banks. More generally, we are working on five fronts to restore confidence in the financial sector by (i) taking decisive steps to monitor and substantially reduce related party lending; (ii) enhancing our banking recapitalization and resolution strategy; (iii) strengthening governance and financial performance in the DGF and state-owned banks; (iv) improving the existing framework for resolving bad loans; and (v) reforming securities markets.

Taking decisive steps to monitor and substantially reduce related party lending

10. **We have initiated the review of the banks' related party loans and are further enhancing our capacity to monitor such exposures**. By June 15, the top 10 private banks submitted their reports of related party exposure according to the new legal and regulatory framework. Moreover, independent accounting firms have begun reviewing these reports on the basis of terms of reference (TOR) provided by the NBU with IMF and World Bank (WB) staff assistance. To further support the review and monitoring process of related parties we will:

a. **Create a committee to oversee the review process**. By end-July, the NBU will create a committee comprised of the first deputy governor, and the heads of the Special Monitoring Unit (SMU), On-site Supervision, Off-site Supervision and Licensing Departments. The committee will also have observers from the IMF and the WB. The resolution for the Committee will be agreed with the IMF and WB staff. The Committee shall consider and approve the outcomes of the comprehensive analysis of banks' related party transactions and advise the NBU Board to approve or not banks' related party exposure unwinding plans.

b. **Enhance the NBU's monitoring capacity**. By end-July, the NBU will assess its information needs and agree on MOUs with the authorities that maintain public registers as well as the other financial sector regulators to share key data on corporations, including the main shareholders, senior managers, and properties, which the SMU can use to identify related parties. Furthermore, no later than end-July, the NBU will ensure sufficient budgetary allocation for the SMU to be fully operational by end-September.

11. **The NBU is also working to improve its supervisory capacity as well as other aspects of market discipline**. More specifically, we are:

a. Seeking parliamentary approval of the amendments to the banking law to establish a credit registry at the NBU by end-September 2015. To this end, a draft bill agreed with Fund staff has been submitted to parliament. Among other things, the draft requires banks to report to the NBU detailed information of their borrowers, and also states that the DGF should ensure that banks under special administration and liquidation must continue reporting the payment status of borrowers so that their total credit exposure is not suddenly reduced in case of bank resolution.

b. Instructing banks to adopt full IFRS for both financial reporting and the accounting of their daily operations no later than end-December 2015. We are also reinforcing our discretionary supervisory powers to request higher capitalization to banks when the implementation of accounting rules on loan provision fails to timely capture credit risk. To this end, by end-September 2015, with technical support of Fund staff, we will complete the review of the relevant regulations with the aim to ensure that our potential use of such powers is prudent, transparent, and in line with international best practices.

Enhancing banking recapitalization and resolution strategy

12. **The NBU is monitoring closely the implementation of banks' recapitalization plans and will update assessments to identify new losses**. Of the 18 largest banks identified by the 2014 diagnostic exercise as having capital needs, five were unable to present credible recapitalization plans and have been resolved by DGF, 12 have implemented their recapitalization plans as agreed with the NBU, and one large bank is set to raise the remaining UAH 2.5 billion by extending a subordinated loan that matures in September.[2] Given the extraordinary events since last year, on April 24 we initiated a new round of diagnostics (asset quality review and stress tests), on the basis of TOR agreed with the IMF and WB staff, to identify losses from the larger-than-expected exchange rate depreciation and the conflict in the East. Results for the top 10 banks and 10 subsequent banks will be available by end-August and end-October 2015, respectively, and the recapitalization plans for each bank will be ready within three months after the bank receives its final capital need estimate from the NBU. Any bank that finds itself with negative equity after the diagnostics will have to bring it to positive territory as part of their recapitalization plans within the same time frame (three months after the receipt of the final capital need estimate); meanwhile, such banks will be subject to enhanced supervisory constraints, including an *in situ* NBU supervisor. Furthermore, all banks will bring their post-diagnostics capital-asset ratios to at least 5 percent within six months after their recapitalization plans have been accepted by the NBU. We will allow viable but

[2] To ensure the credibility of the recapitalization process, this bank' shareholders have blocked in the bank funds of UAH 2.5 billion that will be immediately converted to subordinated debt by September 30 in case the envisaged extension of a subordinated loan that matures on this date does not materialize or if the extended loan does not meet the criteria for being counted as bank capital. This commitment of shareholders is final and irrevocable.

undercapitalized banks to temporarily continue operating with capital levels below 10 percent of risk weighted assets, with the 10 percent statutory CAR requirement being restored gradually by end-December 2018. Moreover, to support the bank restructuring efforts, we have:

a. Established a Steering Committee (SC) to oversee the diagnostic results. The SC shall commence consideration of the reports for the largest 10 banks and 10 subsequent banks by mid-August and mid-September, respectively; and

b. Identified a group of potentially problematic small banks based on quantitative criteria and supervisory intelligence as part of our efforts to identify emerging weaknesses in the banking system with the view to timely address them and prevent bank failure. We plan to continue strengthening our tools to anticipate problems, for which by end-August 2015 we plan to complete an assessment of our framework as regards to the soundness of metrics used to identify problems and effectiveness of our remedial measures.

13. **Our contingency planning is being enhanced to minimize fiscal costs associated with downside risks**. To this end, the NBU and MoF have agreed with IMF and WB staff on a set of strategic and operational principles that will guide the resolution of systemically important banks. These principles have established that:

a. Triggers for resolution should be transparent and well grounded in the law.

b. The NBU and MOF will take the lead in assessing tentative resolution options, taking into account viability criteria and including bail-in of non-deposit, unsecured creditors in line with international best practice;

c. Key management may need to be replaced promptly with independent, experienced bankers;

d. A sizeable amount of loans may need to be fully provisioned or removed to ensure bank viability, so there is a need to consider the transfer of such assets to a specialized unit (preferably inside the banks) to ensure prompt recovery;

e. Public funds are injected on market terms in order to bring the bank's capital adequacy ratio to at least 10 percent or the average for the bank's peer group, whichever is lower. This will contain the risk that a systemic bank, recapitalized with public funds, may use its higher capitalization level to unfairly attract deposits from other banks; and

f. The Financial Stability Council will need to develop a communication strategy to explain to the public how the actions protect depositors and help restore financial stability.

14. **We are ensuring that our legal framework is set to facilitate program implementation**. To this end, we will ensure that legislation is passed to:

a. Ensure that the law provides that an appeal before the judicial branch by borrowers classified by the NBU as related parties to a bank does not halt the bank's unwinding of excess lending to insiders (**prior action**). The law that enhances NBU independence and institutional capacity (¶8) already includes amendments to this effect;

b. Enhance further our capacity to monitor, restructure and resolve problem and insolvent banks. To this end, we already have:

   i. Refined existing provisions in law to facilitate the resolution of systemic banks, including by giving the DGF the power to allow the bail-in of unsecured non-depositor creditors before public funds are used to recapitalize systemic banks and ensuring close coordination between the DGF, the MoF, and the NBU on resolution options;

   ii. Enhanced DGF powers to speed resolution, accelerate repayment of depositors, prevent former bank owners from participating in the acquisition of other banks and consolidate management of assets from banks under liquidation into the DGF to improve asset recovery.

Strengthening governance and financial performance at the DGF and state-owned banks

15. **We will continue to implement measures to improve depositor payout, the least cost resolution process, and prospects for asset recovery from failed banks**. In this regard, we: (i) extended the timeframe to complete bank liquidation from three to five years; (ii) are creating a centralized unit to improve asset recovery; and (iii) have completed the terms of reference to conduct due diligence investigations (forensic audits) of failed banks and are pursuing funding to launch the bid process to select the auditing firms no later than end-August 2015. The DGF will develop an action plan to initiate immediate recovery of bank losses from shareholders found responsible for their banks' failures. For non-systemic banks, the DGF will start preparations for takeover, including early verification of banks' deposit records and prequalification of bidders, to improve the timeliness of depositor payouts. Also, banks meeting certain criteria will be automatically liquidated and the time period for temporary administration shortened to reduce the asset deterioration that occurs under the current lengthy administration process.

16. **The MoF will also establish a plan to improve the financial performance and monitoring of majority state-owned banks**. We are working on a strategic plan to strengthen governance and financial performance of the state-owned banks and have invited an expert supported by the IMF to assess the draft plan on the basis of international best practices. Based on the expert's recommendations, we will finalize the plan and publish it by end-September 2015 along with a schedule for its implementation.

Improving the existing framework for resolving bad loans

17. **We are working to strengthen the framework for resolving NPLs and corporate insolvency**. With the assistance from the March 2015 IMF technical assistance mission, we have identified a set of reforms that are needed to strengthen our legal framework for corporate debt

restructuring on the basis of international best practice and cross-country experience. Key areas of reform, as identified by the technical assistance mission, should include:

a. Improvements to the corporate insolvency regime to (a) lower barriers to creditor access, (b) increase involvement and protection of secured creditors and decision-making power for creditors generally, (c) streamline the process to limit appeals and other delaying tactics, (d) protect post-petition finance, (e) develop procedures of sale to maximize value in liquidation, and (f) strengthen the "claw-back" and executory contract rules to better protect the insolvency estate;

b. Removal of tax impediments to debt restructuring; and

c. Strengthening the legal regime for enforcement of loan collection, including use of out-of-court enforcement mechanisms, limitations on appeals, and reduction of the need for multiple valuations.

To develop the necessary legislation, we will form by end-August an interagency committee with representatives of all agencies with competencies in these areas, a designated lead agency, and a secretariat. We will then prepare a first draft of the legislation by end- November, conduct a workshop with relevant stakeholders to seek their views on the draft legislation by end-December, and submit a final draft of the legislation to parliament by end-January. We will obtain parliamentary approval of the reforms of the bankruptcy law, the tax code, the mortgage law and the commercial and civil procedure codes to address all issues outlined in a), b) and c) above, consistent with Fund staff's advice, by end-March 2016 (**structural benchmark**).

18. **Work on an alternative out-of-court mechanism for debt restructuring is also progressing**. With technical assistance from the EBRD and the WB, we have made significant progress in designing a coordinated out-of-court restructuring arrangement for corporate debt (the "Kyiv approach"), in line with international best practice including the INSOL principles, and the Istanbul approach. The necessary legislative framework will be introduced in parliament by end-September 2015 and adopted by end-October 2015.

19. **We are taking steps to facilitate the restructuring of foreign currency denominated mortgage loans through a voluntary negotiation process between borrowers and banks**. 11 banks have signed a Memorandum with the NBU on voluntary restructuring of mortgage loans and other banks with large portfolios are considering signing. Moreover, parliament passed amendments to the Tax Code in May 2015 that provide borrowers with tax relief from the proceeds arising from the partial debt forgiveness and tax deductibility of such losses to banks. By end-July 2015, the NBU, after consulting with Fund staff and stakeholders, will issue a Code of Conduct to guide the voluntary negotiations, debt restructuring, and appeals process.

Reforming the securities markets and other nonbanks

20. **We are committed to reforming our securities markets' regulation and supervision**. To function properly, Ukrainian securities markets require a significant overhaul and close supervision. However, a moratorium imposed in 2014 on conducting on-site inspections and investigations in regulated entities by most state agencies—including the National Securities and Stock Market Commission—may be undermining the Commission's ability to identify risk and misconduct. To correct this problem, by end-September 2015 we will lift the moratorium on inspections by the National Securities and Stock Market Commission. By end-August 2015, with technical assistance of international donors, we will define a clear action plan of measures to bring the functioning of our capital markets and the regulator's powers and independence to best international practices. Among other benefits, this could contain the evasion of capital controls by some corporates.

C. Fiscal Policy

21. **We are determined to reduce the fiscal deficit to the level necessary to secure a sustainable path for public debt in a balanced and socially fair manner**. Our adjustment strategy remains focused on expenditure-led consolidation that targets a smaller and more efficient government, while making the tax system growth-friendly, efficient, and equitable. We remain committed to reducing the *combined general government and Naftogaz deficit* from 10.1 percent of GDP in 2014 to 7.4 percent of GDP in 2015. Within this, we are committed to achieve a general government primary surplus of 1.1 percent of GDP in 2015 and 1.6 percent of GDP in the medium term. At the same time, bringing Naftogaz to financial health and eliminating government support to the company by 2017 is a priority. Starting with the 2017 budget, any government support to Naftogaz will be in line with ESA/GFSM accounting standards, where government support to state-owned enterprises is shown as a current subsidy. To complement our fiscal efforts and bring debt firmly on a sustainable path towards our target of below 71 percent of GDP by 2020, we are advancing discussions with creditors on a debt operation, which we aim to complete by late September 2015.

22. **The end-March general government deficit target was met with a significant margin**. The general government budget registered a surplus of UAH 3.2 billion in 2015:Q1. Strong revenue growth, mainly in VAT—owing to higher than projected inflation and exchange rate depreciation—and spending restraint caused by liquidity constraints early in the quarter account for this outcome.

23. **As revenue drivers are expected to wane in the remainder of the year, the 2015 budget deficit targets remain appropriate**. As the exchange rate has appreciated in Q2, the economy remains weak, and inflation is expected to decline, we expect revenue growth to slow down in the remainder of the year. We plan to channel the small projected revenue overperformance towards (i) national security needs; (ii) allocating sufficient funds for pensions and social assistance, including to support the internally displaced persons from the conflict in the East; (iii) clearing VAT refund arrears, which have picked up again; and (iv) supporting ongoing judicial and civil service reforms. Moreover, the Ministry of Finance will prepare a plan to clear outstanding arrears to suppliers of

community services stemming from maintaining tariffs below cost as mandated by the state. With support from our parliamentary majority, we are committed to preventing adoption of laws that are inconsistent with program policies and objectives, including recently submitted draft bills in the areas of pension reform, expenditure rationalization, and energy sector reform. Should any of these bills be passed, the Cabinet of Ministers will submit to the president proposals for a veto and the president will veto them. For any potential new draft laws, inconsistent with program policies and objectives, the Cabinet of Ministers will submit to the parliament its objection.

24. **We are preparing our 2016 budget in line with program targets**. To this end, we will take the necessary measures to achieve the program's deficit target of 3¾ percent of GDP in 2016, a reduction of ½ percentage point relative to 2014. To meet this target, provide extra funds for energy-related social assistance, and offset the impending large loss of revenue (about 2¼ percent of GDP) from the expiration of the temporary import surcharge and lower NBU profit transfer to the budget, we aim to undertake revenue-raising measures to the tune of 1½ percent of GDP (mainly in VAT and social security contributions) and expenditure cuts of about 1¾ percent of GDP. In our 2016 budget, we will aim to contain total general government expenditure to 43.4 percent of GDP. Specific measures will include:

- *Agriculture VAT*. We plan to submit to parliament by September, Tax Code amendments, which will introduce the general VAT regime in agriculture effective January 1, 2016. This measure will yield about 0.3 percent of GDP.

- *Social Security Contribution (SSC) reform.* We are reviewing the impact of amendments governing the calculations of SSC rates introduced in December 2014 and March 2015 on the reporting of actual wages. This analysis will inform options for reforming the SSC. The specific features of the reformed SSC will be developed in consultation with IMF staff. We aim to raise 0.5 percent of GDP in extra revenue through this reform in 2016.

- *Natural resource taxation.* Royalty rates introduced in July 2014 on gas and petroleum extracting companies are high by international standards and could be discouraging investments in the industry. With the assistance of IMF staff and in close consultations with the industry, we will develop amendments to the tax code with the aim to strike a balance between preserving revenue and encouraging investments into the industry. The amendments will become effective by October 1, 2015.

- *Revenue administration reform.* The revenue administration reform is a crucial element of our broader reform effort to strengthen governance and improve business environment. With input from IMF staff, we have developed and adopted a coherent revenue administration reform strategy and have started its implementation. The system of special VAT accounts has been piloted since February 2015 and seems to have contributed to the revenue overperformance. We have introduced this system in the whole country from July 1, 2015 after reviewing its design to ensure that it does not unduly block working capital of the VAT-paying companies. The process of moving large taxpayers to the large taxpayers' office and taxation of high-net-worth individuals is also progressing well. These reforms together with our efforts to strengthen control at customs will raise revenue by at least 0.3 percent of GDP in 2016.

- *Public Procurement*. With the assistance of the European Union, we have introduced an electronic procurement system on a pilot basis in various government agencies and state-owned enterprises. We are working on two procurement laws which will facilitate the full introduction of the new system. One—about simplification of procedures and regulations to streamline the public procurement process—was submitted to parliament and passed on first reading in June 2015. The second—about the full-fledged introduction of the electronic procurement system—will be submitted to parliament before end-2015. Following the adoption of these laws, the e-procurement system will be implemented over the course of 2016–17 in the entire public sector. When fully completed, this reform is expected to save about 20 percent of the total procurement budget, with about one-half coming from enhanced competition and the other half from transparency-induced cost-reduction effects.

- *Pension reform*. Following the reform measures adopted in March that began to improve the sustainability and equity of the pension system, we will continue with broader parametric reforms to make the system financially viable in the medium term. To this end, with technical assistance from the IMF, we will review all parameters of our current pay-as-you-go system and design a reform that will begin to steadily reduce pension expenditure relative to GDP already in 2016. Among other things, the reform options will include termination of special pensions, which had unjustifiably created a privileged group of pensioners, and further tightening of occupational early retirement options. Once these measures, in combination with improvements in contribution compliance, create sufficiently large and permanent fiscal space to finance the cost of a mandatory, fully-funded pension pillar, we will consider the introduction of such a scheme. This sequencing of reforms will also allow us to develop and implement a plan to strengthen the institutional, technological, and capital market preconditions required for safe, efficient, and transparent operation of the funded schemes. To this end, by end-December 2015, parliament will pass pension reform legislation agreed with IMF staff that revises the parameters of the pay-as-you-go system to make it more sustainable, abolishes special pensions, and lays the conditions for the adoption of a funded system that would complement the pay-as-you-go system (**structural benchmark**).

- *Health reforms*. Legislation allowing public procurement of medicines through UN-based organizations has been approved by parliament and the first procurements through the new system will take place within the next few months. Another legislation package changing the basis of public financing for healthcare will shortly be submitted to parliament.

- *Education reforms*. Amendments of the legislative framework this summer will allow the consolidation of the secondary school network. Local governments are analyzing the existing network and deciding on its optimization. According to recent information, their plans will result in reducing the number of schools by 5 percent after the end of the 2015–16 academic year. Expected savings will be reinvested in the sector to upgrade the school and class infrastructure and support student transportation. The process of optimization of high education and vocational training institutions is also ongoing.

- *Wage bill*. We are making progress on rightsizing the budget sector and our compensation and safety net programs have been enhanced to better serve the retrenched workers. We have already reduced staff employment by 26,000 positions in 2015:Q1 and are on track to complete the planned retrenchment of 3 percent of all budgetary positions by end-year.

- *Social assistance reform*. Increasing gas and heating prices to cost recovery requires an effective and fiscally affordable strategy for protecting vulnerable households. Under the current benefits system and projected price increases, the vast majority of households—including many with well above average income—would be eligible to receive significant social assistance next year. Reforms to the current system are needed to cope with the expected large increase in applicants and contain the fiscal costs while protecting vulnerable households. Specifically:

  - Effective July 1, 2015, we have introduced income testing into the category-based energy privileges program. Specifically, eligibility for privileges across most eligible categories (excluding people with disability, the military, military and police veterans, and Chernobyl survivors as specified in Law 76-VIII dated December 28, 2014) has been limited to households with gross monthly income per capita under the threshold for taxing social privileges (UAH 1710 in 2015). Moreover, we will make the necessary legislative and regulatory changes to ensure that from December 1, 2015 households that are subject to income testing according to Law 76-VIII/2014 can choose between being enrolled in either the privileges programs or the housing utility subsidy (HUS) one, but not both.

  - By July 31, 2015, on the basis of current technical capabilities we will set up a central monitoring system of the characteristics of households participating in the privileges and HUS programs (number of recipients, evaluation of family income, the amount of subsidies, etc.). At present, we can collect most of the necessary information and will start the system with the available indicators, with the view to add the rest by October 1, 2015. We will regularly analyze this information to monitor whether the two existing programs deliver assistance as intended. These analyses will inform the design of the 2016 reforms as noted below.

  - By May 31, 2016, we will reform utility-related social assistance by (i) reducing the scope of energy privilege programs to cover only households that remain exempt from income testing according to Law 76-VIII/2014; (ii) converging the associated benefits to the levels in the HUS program; and (iii) revising the benefit formula of the expanded HUS program in consultation with IMF staff to channel benefits to vulnerable households and provide incentives for energy efficiency. The overall fiscal envelope for all energy-related social assistance programs (privileges and HUS) will be set at UAH 43 billion. All these reform elements will be a **structural benchmark** for end-May 2016.

D. Energy Sector Policy

25. **We have made significant progress with the agreed energy sector reforms**.

- **Naftogaz deficit remains within program targets**. In 2015:Q1, the deficit reached UAH 14.3 billion (0.7 percent of annual GDP), below the program target. We remain committed to keeping Naftogaz's deficit below 3.1 percent of GDP for 2015.

- The independent audit of Naftogaz receivables (end-June SB) was completed on time by Price Waterhouse Coopers with external funding by the UK's DFID. As follow up actions, Price Waterhouse Coopers will work with Naftogaz to develop recommendations to improve debt recovery and to set collections targets.

- The gas market law was approved by parliament on April 8 (end-April SB). This law paves the way for the restructuring of Naftogaz by establishing a new model of the gas market in Ukraine. The law is expected to become effective on October 1, 2015. We are currently working on drafting necessary secondary legislation to operationalize the law.

- The Ministry of Social Policy has started an information campaign on assistance with the higher utility bills. In addition, an information campaign on energy savings has been rolled out.

26. **Despite this progress, we recognize that more needs to be done to keep Naftogaz on track to reach its programmed deficit targets**. We remain committed to improve Naftogaz's revenue collections. Although the end-March SB on parliamentary approval of legislative amendments to improve Naftogaz collections was missed, Law 2214 was passed on May 14. The law lifts the 2005 moratorium on collection enforcement proceedings against energy companies effective September 1, 2015 (and January 1, 2016 for Energoatom, our nuclear energy company). The law lifting the moratorium on enforcement proceedings for companies with at least 25 percent state ownership for companies that are debtors to Naftogaz and its daughter companies (Law 2956) was passed as a **prior action** for the approval of the review and will become effective upon publication, but no later than July 31, 2015. We are committed to not extending the deadlines for repeal of these two moratoria or reintroducing them once their cancelation becomes effective (including for Energoatom).

27. **We also intend to undertake additional measures to generate sufficient revenue flows for Naftogaz, strengthen transparency, and increase efficiency in the energy sector**. These include:

- By August 31, 2015, we will revise the formula for the distribution accounts collecting district heating bill payments to include an "adjustment coefficient" that allows Naftogaz to gradually collect payments for district heating company arrears that have accumulated since November 1, 2014.

- Also by August 31, 2015, we will adopt secondary legislation needed to facilitate the application of the new gas market law. This legislation will allow for below-international-parity gas pricing for a transition period until 2017 and the provision of subsidies to vulnerable consumers. In addition, we will take any necessary actions to change regulations in order for the distribution accounts in the gas market to continue being operational.

- By September 30, 2015, we will publish the independent audit on Naftogaz receivables to foster transparency and good governance. The study will also contain specific targets for Naftogaz debt collections and recommendations on needed collection methods and legislative improvements.

- We will improve Naftogaz collections by recommending to the energy regulator to revise by August 31, 2015 certain types of contracts for gas sales that delay the timing when Naftogaz can start collection procedures on payment arrears until the subsequent year.

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

28. **Our reform strategy approved in December 2014 focuses on overhauling governance and fighting corruption, improving the business climate, and state-owned enterprise reform**. We have undertaken a number of actions to implement it:

- We have ensured the establishment of the National Anti-corruption Bureau (NAB). The AML framework is being strengthened (end-June SB), and parliament adopted amendments in the legal framework related to asset disclosures to ensure that high-level officials disclose assets of which they are the ultimate owners or controllers and that the NAB can investigate cases of submission of fraudulent information.

- We supported the EBRD-led initiative to establish the Business Ombudsman. We are implementing the action plan to remove regulatory and legislative impediments to a growth-conducive business climate adopted in March. A deregulation law, the law on de-licensing, and the law on investor protection have recently been adopted by parliament.

- The State Regulatory Service, with assistance from the WB and external experts, is developing a methodology for regulatory impact assessment (RIA) of draft legislation, which will be used to prevent overregulation.

- A unit at the Ministry of Economy has been put in charge of SOE-related reform initiatives. The first statement of fiscal risks emanating from SOEs has been prepared. An annual report with financial indicators of the 100 largest SOEs has also been published. In addition, a draft law on corporate governance has been prepared and a new nomination procedure for appointment of CEOs in SOEs through an independent committee is being implemented. In May, the cabinet approved a list of about 350 state-owned assets that are subject to privatization in 2015. The new list includes SOEs previously on the non-privatization list.

29. **We remain determined to continue our efforts to strengthen transparency and improve governance**. Specifically:

- *Business climate*.

a. The Cabinet of Ministers will take all the necessary steps to ensure the full implementation of the deregulation action plan. Monthly implementation reports will be published on the State Regulatory Service and the Cabinet of Ministers websites, following submission to the cabinet.

b. We are preparing for a broad-scale revision of regulatory norms, which includes (i) codification of all norms that impact business; (ii) design of a list of criteria to assess these norms; and (iii) recommendations on whether the norm should be eliminated, revised or maintained. The government will adopt the reform and create a legal framework through a resolution of the Cabinet of Ministers.

c. Starting October 2015, we will ensure that all new and amended draft legislation includes a quantitative analysis of their regulatory impact, in line with the methodology on the RIA approved by the State Regulatory Service.

d. The Cabinet of Ministers will ensure that the recently adopted law on licensing of business activities is fully operational. Specifically, by end-July the licensing entities will submit to the Cabinet of Ministers proposed rules and conditions under which licenses in their competencies will be issued. Delays in submission or approval of these rules and conditions will not serve as a basis for denying a license or for prohibition of business activities.

- *Anti-corruption*. As the key legal and institutional reforms have been completed, we are resolutely turning to the implementation of the anti-corruption framework. Specifically, we will:

a. **Make the NAB operational**. We will ensure the establishment of a specialized anti-corruption prosecution function in charge of overseeing NAB's investigations, in accordance with the Law on the Prosecutor's office and enable NAB to timely access relevant information from other public institutions by end-September 2015 (***structural benchmark***). In particular, we will ensure:

  - Appointment of the head of the anti-corruption prosecutors and allocation of appropriate premises to the anti-corruption prosecutor's office. To ensure a timely, fair, and balanced appointment process, we will make the following amendments to the Law on Prosecutor Office:

    - At least five members of the Selection Committee for the head of the Anti-Corruption Prosecutor Office and his/her deputies will be nominated by a decision of parliament, in order to eliminate the risks of challenging the results of the selection. These persons will be of impeccable reputation, high professional and moral qualities, and authority in the society;

    - As an interim measure, until the qualification commission for prosecutors is established, no more than five members of the above-mentioned Selection Committee will be nominated by the general prosecutor;
    - The Selection Committee will be chaired by a widely recognized and well-respected expert with rich experience in the prosecution of corruption, elected by parliament as an additional member of the committee;
    - The committee will submit one candidate for each of the three positions (head and two deputies) to the general prosecutor;
    - There will be no amendments to the Law on Prosecutor Office concerning the selection procedure for the head of the Anti-Corruption Prosecutor Office and his/her deputies, other anti-corruption prosecutors, and non-prosecutorial staff, other than the ones specified above, unless otherwise agreed with the IMF.

- Agreement on technical details to ensure NAB's direct electronic access to administrative and law enforcement databases it deems relevant for its activities, particularly from the Ministries of Interior and Justice, and from the tax and customs administrations. An electronic mechanism will be agreed between the NAB and the financial intelligence unit (FIU) to enable the FIU to promptly respond to NAB's information requests. In cases when the FIU deems dissemination of information from its databases inappropriate, it will provide justification to the NAB.

We will also ensure that the NAB is fully operational by end-January 2016 (***structural benchmark***). In this regard, steps will be taken to ensure:

- Allocation of necessary infrastructure (e.g., hardware; software; access to administrative, law enforcement, and commercial databases; vehicles; special tools; investigative material), supported by the appropriate budgetary allocation if necessary.
- Operation of a hotline, including back office to identify cases deserving pre-trial investigation.

b. **Implement the AML framework**. The NBU will develop risk-based off-site and on-site AML supervisory tools, focusing on risks related to domestic politically exposed persons, by end-December 2015.

c. **Implement asset disclosure requirements for high-level officials**. By end-December 2015, the Ministry of Justice will ensure that applicants and newly appointed officials to high-level positions under the NAB's jurisdiction file their asset disclosures electronically. The disclosures will be directly and freely available to the public on a single website shortly after submission. In line with legislation, all high-level officials will report their assets electronically by end-April 2016.

d. **Other measures**. Going forward, and in line with the July 2014 diagnostic study and the Anti-Corruption Strategy for 2014–2017, the government will supplement the above measures by prioritizing the submission of a Bill on the Business Ombudsman to ensure adequate authority and access to information to perform his functions, preparing amendments to the legal framework for asset recovery including to establish an agency in charge of managing seized and confiscated assets, and ensuring that specialized judges receive training relevant to corruption cases. Finally, we will continue our efforts to establish a robust and effective institutional framework for prevention of corruption, including through the launch of a national corruption prevention agency.

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

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

  b. **Private Enforcement Profession**. We will continue to work on a Law establishing a profession of private enforcement agents as outlined in the February 2015 MEFP, to be adopted by end-September 2015.

  c. **High Council of Justice**. We will take steps to strengthen the management of the judiciary by taking the following steps by end-September 2015: appointing sufficient commissioners to the High Council of Justice to meet quorum requirements and allocating to the Council the necessary budget for salary payments.

30. **We are committed to a thorough implementation of the SOE-reform strategy**. This includes actions needed to (i) improve budgetary oversight, specifically by enhancing the fiscal-risk assessment; (ii) implement a comprehensive ownership policy and ensure a clear separation of ownership and regulatory functions; (iii) strengthen corporate governance, including by adoption of a new law on corporate governance; (iv) prioritize enterprises subject to restructuring; and

(v) implement transparent privatization of identified assets in the medium run. Specific near-term measures include:

a. **SOE fiscal risk assessment**. We will establish an inter-ministerial working group which will be led by the Ministry of Finance with the participation of the Ministry of Economic Development and Trade. The main task of the working group will be to (i) improve the methodology for assessing risks and identify the largest 30 SOEs with the highest fiscal risks, and (ii) review the financial plans of these SOEs and inform the respective ministry about fiscal risk aspects. The working group will also inform the Minister of Finance on the adequacy of financial plans of the SOEs with the highest risks and recommend mitigation measures as an input to the budgetary process. An update of the first SOE fiscal-risk statement will be published on Ministry of Finance and Ministry of Economic Development and Trade websites by end-October 2015.

b. **Stocktaking of arrears**. By end-August, we will extend the coverage of the SOEs reporting to include all arrears of the 50 largest companies, as defined in consultation with Fund staff and prepare information on the stock of these arrears as of end-2013, end-2014, March 2015 and June 2015.

c. **Privatization/Restructuring**. We will start implementing our SOE Reform Strategy. Key near-term measures include:

- Completion by end-September 2015 of a review of the existing portfolio of SOEs to identify non-operating companies for immediate liquidation. The review, prepared in consultation with Fund staff, will outline a timeline for the disposal of each company with the necessary intermediate steps, as well as preliminary estimates of budgetary and other costs stemming from liquidation, with the goal of initiating the first liquidations by end-2015.

- Preparation, in agreement with the line ministries, of the priority privatization list of 10 SOEs by end-July 2015. Companies shall be selected based on cost-benefit analyses. Building on this list, we will establish a working group, including the State Property Fund (SPF) that will develop a privatization action plan. The plan will define, for each SOE, the key parameters and conditions of the process, including the timeline for divesting, method of privatization, and intermediate steps to be taken. The action plans for five of these companies will be approved by SPF decision by end-August 2015. Furthermore, we will seek adoption, by cabinet resolution, of the action plan for these five companies by end-September 2015 (**structural benchmark**).

- Preparation of the list of 10 SOEs posing the biggest fiscal risks that will be subject to restructuring other than privatization by mid-September 2015. Detailed restructuring action plans for five of these companies will be agreed, in consultation with IMF staff, between the respective line ministry, Ministry of Economy and the Ministry of Finance by end-January 2016 (**structural benchmark**).

d. We will prepare legislative amendments needed to facilitate these actions. In particular,

- In July, we adopted a government decree mandating external audits for at least the largest 100 SOEs (by assets or revenue).
- By September 30, 2015, the Ministry of the Economy will adopt a regulation revising the methodology for developing the SOEs' financial plans to require the inclusion of a three-year action plan to increase operating efficiency.
- We will review needed changes to the SOEs remuneration policy to better align shareholders and management's interests. In this context, we will also seek to strengthen the legal environment to improve transparency and governance, including by introducing supervisory boards in unitary enterprises.

III. Safeguards

31. **In line with the recommendations of the IMF safeguards assessment of the NBU, we are taking the necessary measures to improve NBU governance and autonomy as well as NBU internal controls**. We have adopted legislative amendments to the NBU Law to address the governance and autonomy issues (¶8) and remain committed to their implementation. This will include prompt re-establishment of an Audit Committee following constitution of a new Council of the NBU. With regards to internal controls, the NBU established a permanent senior-level credit committee in June 2015 to oversee NBU's lending to financial institutions. Further, a new loan origination and management process is being developed and will be implemented by October 2015. Concerning the servicing of future financial obligations to the IMF related to budget support, we have updated the relevant agreements on the respective roles and responsibilities between the MoF and the NBU. In addition, quarterly data audits are ongoing with the results timely conveyed to the IMF.

IV. Program Monitoring

32. **Implementation of the policies under the program will continue to be monitored through prior actions, quantitative performance criteria, indicative targets, continuous performance criteria, structural benchmarks, and quarterly reviews**, as envisaged in our Memorandum of Economic and Financial Policies dated February 27, 2015 along with this Memorandum. The attached Technical Memorandum of Understanding (TMU) defines the quantitative performance criteria and indicative targets under the program. The ***prior actions*** and ***structural benchmarks*** are set out in Table 1. The quantitative targets for target dates through end-December 2015, along with a continuous quantitative performance criterion are set out in Table 2.

Table 1. Ukraine: Prior Actions and Structural Benchmarks

Prior actions	**Status**	**Completion date**
Parliamentary passage of Law 2956, lifting the 2001 moratorium on enforcement proceedings for companies with at least 25 percent state ownership that are debtors to Naftogaz and its daughter companies (July MEFP ¶26).		
Parliamentary passage of Laws 2742 and 2743 to strengthen the governance and autonomy framework of the NBU as agreed with IMF staff and also ensure that the law provides that an appeal before the judicial branch by borrowers classified by the NBU as related parties to a bank does not halt the bank's unwinding of excess lending to insiders (July MEFP ¶¶8, 14).	Met	June 18, 2015
Proposed New Structural Benchmarks	**Status**	**Completion date**
Parliament will approve amendments to legislation as described in MEFP ¶17, consistent with IMF staff advice, to strengthen the corporate insolvency and credit enforcement regimes, and to remove tax impediments (July MEFP ¶17).		End-March 2016
Undertake measures to make the National Anti-Corruption Bureau operational, including with regard to its prosecutorial function (July MEFP ¶29).		End-January 2016
Establish a specialized anticorruption prosecution function in charge of overseeing NAB's investigations, in accordance with the Law on the Prosecutor's Office, and enable NAB timely access to relevant information from other public institutions (July MEFP ¶29).		End-September 2015
Adoption by a cabinet resolution of the privatization action plan for five large SOEs from the priority privatization list (July MEFP ¶30).		End-September 2015
Agreement on detailed restructuring action plans, prepared in consultation with IMF staff, for five SOEs with the largest fiscal risks, between the respective line ministry, Ministry of Economy and the Ministry of Finance (July MEFP ¶30).		End-January 2016
Parliamentary passage of pension reform legislation, as agreed with IMF staff that revises the parameters of the pay-as-you-go system to make it more sustainable, abolishes special pensions, and lays the conditions for the adoption of a funded system that would complement the pay-as-you-go system (July MEFP ¶24).		End-December 2015
Reform utility-related social assistance by (i) reducing the scope of energy privilege programs to cover only households that remain exempt from income-testing according to Law 76-VIII/2014; (ii) converging the associated benefits to the levels in the HUS program; and (iii) revising the benefit formula of the expanded HUS program in consultation with IMF staff to channel benefits to vulnerable households and provide incentives for energy efficiency. The overall fiscal envelope for all energy-related social assistance programs (privileges and HUS) will be set at UAH 43 billion (July MEFP ¶24).		End-May 2016

Previous Structural Benchmarks	Status	Completion date
NBU and Financial Sector		
Parliament will approve amendments to the NBU Law to strengthen the governance and autonomy framework of the NBU (February MEFP ¶9).	Converted and met as a prior action	End-April 2015
NBU will notify banks of any identified discrepancies in the related-party exposure reports based on steps (i) and (ii) as described in February MEFP ¶13.		End-July 2015
Judiciary/Enforcement		
Parliament will approve a law on a selective increase of court fees, aiming to double court fee revenue in real terms within 12 months (February MEFP ¶35).	Met	May 22, 2015
Parliament will approve a law which strengthens the provisions in the Code of Civil Procedure on Order for Payment for domestic transactions and on garnishment of bank accounts (February MEFP ¶35).		End-December 2015; reset from end-August 2015
Fiscal Policy		
Government will prepare a revenue administration reform plan in order to overhaul the state fiscal service. The plan will include measures to implement governance and institutional reforms that clarify the tax agency's reporting to the minister of finance; and remove large numbers of underperforming officials as described in February MEFP ¶25.	Met with a Delay June 26, 2015	End-April 2015
The State Fiscal Service will transfer all taxpayers meeting large taxpayer criteria to the LTO (February MEFP ¶22).		End-December 2015
The State Fiscal Service will implement its new arrangements as specified under the revenue administration reform plan (February MEFP ¶25).		End-December 2015
State-Owned Enterprises		
The Ministry of Economy in cooperation with the Ministry of Finance will prepare a statement of fiscal risks emanating from SOEs as described in February MEFP ¶36.	Met with a delay May 29, 2015	End-April 2015
The government will adopt a broad-based strategy (prepared in consultation with the IMF and the WB staff) to reform the SOE sector as described in February MEFP ¶36, including measures needed to improve budgetary oversight, develop a comprehensive ownership policy, strengthen corporate governance, prioritize which enterprises should be made subject to restructuring, and examine options for improving management of other state assets.	Met	May 27, 2015

Previous Structural Benchmarks	**Status**	**Completion date**
Governance		
Take necessary measures to establish the National Anti-corruption Bureau (February MEFP ¶32).	Met with a delay May 7, 2015	End-April 2015
Strengthen the implementation of the AML framework to prevent the misuse of the financial sector to launder the proceeds of corruption. This includes (i) regulatory amendments to ensure proper implementation of the legal requirements related to domestic politically exposed persons (PEPs); (ii) the FIU will develop guidance to assist financial institutions in identifying domestic PEPs; and (iii) proper arrangements will be put in place to facilitate cooperation between the NBU, FIU and NAB (February MEFP ¶32).	Met with a delay July 20, 2015	End-June 2015
Energy Sector		
Parliament will approve legislative amendments to improve Naftogaz collections. These amendments should include (i) lifting two long-lasting moratoria (Law 2711-IV/2005 and Law 2864-III/2001) that protect energy and other companies from enforcement proceedings; and (ii) disconnecting noncompliant customers from the gas supply grid (February MEFP ¶28).	Converted into a prior action	End-March 2015
Parliament will approve a new gas market law (February MEFP ¶28).	Met	April 9, 2015
Undertake an independent audit of all Naftogaz receivables (February MEFP ¶28).	Met	June 30, 2015

Table 2. Ukraine: Quantitative Program Targets and Projected Performance 1/

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

	2014	2015								2016	
	December	March			June			September	December	March	June
		PC	Adj. PC	Actual	PC	Est. Adj. PC	Est.	PC	PC	IT	IT
I. Quantitative performance criteria											
Ceiling on the cash deficit of the general government (- implies a surplus) 2/	-	20,400	13,357	-14,536	32,700	34,110	7,816	43,100	82,700	12,700	32,400
Ceiling on the cash deficit of the general government and Naftogaz (- implies a surplus) 2/	-	36,500	29,457	-243	62,000	59,079	31,329	97,100	144,600	5,700	37,100
Floor on cumulative change in net international reserves (in millions of U.S. dollars) 3/ 4/	1,827	-2,502	-2,639	-2,125	-1,448	-2,528	-1,492	-284	2,098	2,224	2,545
Ceiling on cumulative change in net domestic assets of the NBU 3/ 4/	304,385	57,704	62,490	32,303	76,176	103,878	20,709	84,571	57,720	54,520	69,445
Ceiling on publicly guaranteed debt 2/	-	30,000	30,000	0	30,000	30,000	0	30,000	30,000	20,000	20,000
II. Continuous performance criterion											
Non-accumulation of new external debt payments arrears by the general government 2/	0	0			0			0	0	0	0
III. Indicative Targets											
Ceiling on cumulative change in base money 2/	333,194	18,256	18,256	-1,203	53,350	53,350	-2,816	80,086	90,796	89,584	109,578
Ceiling on net accumulation of VAT refund arrears 2/	697	0		2,942	0		7,000	0	0	0	0
IV. Memorandum Items											
Naftogaz deficit	87,301	16,100	16,100	14,293	29,300	24,970	23,512	54,000	61,900	-7,000	4,700
External project financing 2/	-	4,523		441	11,064		1,485	13,000	14,937	6,995	15,107
NBU loans to DGF and operations with Government bonds issued for DGF financing or banks recapitalization 3/	-	25,000		7,950	44,000		24,750	53,000	55,000	55,000	55,000
Government bonds issued for banks recapitalization and DGF financing 2/	26,716	29,000		0	59,500		18,004	59,500	152,000	0	0
Programmed disbursements of international assistance except IMF (millions of U.S. dollars) 3/ 4/	-	476		172.7	3,233		1,476	3,504	5,475	6,204	6,204
Percent of it applied to adjustment		*100*		*100*	*100*		*100*	*100*	*100*	*100*	*100*
Conversion of a non-reserve currency under a central bank swap line into a reserve currency through an outright sale 4/	-	-			0		581				
Exceptional financing (millions of U.S. dollars) 3/ 4/	-	-			-			500	4,228	4,228	5,478
Purchases of foreign exchange from the NBU for the purposes of critical energy imports (incl. those of Naftogaz, millions of US dollars) 3/ 4/	-	1,486		1,319.9	1,686		1,590	1,686	1,686	1,686	1,686
NBU purchases of T-bonds Issued by Government for Naftogaz recapitalization 3/	-	17,200		17,200	26,100		26,100	28,300	28,300	28,300	28,300
Projected Payments of Interest on government bonds held by NBU 2/	-	7,100		8,500	17,400		17,400	30,300	41,800	10,600	21,800
Program 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*

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

1/ Definitions and adjustors are specified in the Technical Memorandum of Understanding (TMU).

2/ Targets and projections are cumulative flows from January 1, 2015. Data for December 2014 are stocks as of end-December, 2014. For 2016, cumulative flows from January 1, 2016.

3/ Targets and projections are cumulative flows from January 1, 2015. Data for December 2014 are stocks as of end-December, 2014.

4/ Calculated using program exchange rates specified in the TMU.

Ukraine: Technical Memorandum of Understanding

July 21, 2015

1. This Technical Memorandum of Understanding (TMU) sets out the understandings between the Ukrainian authorities and IMF staff regarding the definitions of the variables subject to quantitative targets (performance criteria and indicative targets) for the economic program supported by the Extended Arrangement under the Extended Fund Facility, as described in the authorities' Letter of Intent (LOI) dated July 21, 2015 and the attached Memorandum of Economic and Financial Policies (MEFP). It also describes the methods to be used in assessing the program performance and the information requirements to ensure adequate monitoring of the targets.

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

3. For the purposes of the program, all exchange rates used to evaluate reserve levels and monetary aggregates are (i) the official exchange rate of the Ukrainian hryvnia to the U.S. dollar of 15.7686 set by the NBU as of December 31, 2014; and (ii) reference exchange rates of foreign currencies reported by the European Central Bank (ECB) on its web site as of December 31, 2014, which the NBU used to set official exchange rates of hryvnia to those currencies. In particular, the Swiss Franc is valued at 0.9904 per dollar, the Euro is valued at 1.2141 dollars, the Pound Sterling is valued at 1.5587 dollars, the Australian dollar is valued at 0.8187 U.S. dollars, the Canadian dollar is valued at 0.8633 dollars the Japanese yen is valued at 119.6195 per dollar, and the Norwegian Krone is valued at 0.1343 dollars. The accounting exchange rate for the SDR will be 0.690224 per dollar. Official gold holdings were valued at 1,206.00 dollars per fine ounce. These program exchange rates are kept fixed over the program period. Therefore, the program exchange rate differs from the actual exchange rate set in the foreign exchange market 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 (Fifth Edition) and the Special Data Dissemination Standard (SDDS) (Table A, item 1). 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 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[2]	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[3]
	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
	Use of IMF credit	IMF, Finance Department

Assumptions in line with the authorities' commitments

8. The NIR/NDA targets assume a rollover of general government's domestic foreign exchange debt liabilities in the amount of US$100 million in June 2015 and US$200 million in July 2015, and a rollover rate of at least 40 percent in 2016. The rollover will be achieved through an issuance of new general government foreign exchange bonds with a maturity of at least one year. Furthermore, the

[1] This refers to the notional value of the commitments, not the market value.

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

[3] Before receiving the monthly data from the IMF's Finance Department, these components will be calculated on the basis of preliminary data from the NBU and memorandum accounts.

NIR/NDA targets assume that there will be no early repayment of domestic foreign exchange bonds, in line with the authorities' commitment.

Adjustment mechanism

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

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

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

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

- In the event of higher exceptional financing 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 by the full amount of the cumulative excess in exceptional financing in foreign exchange relative to the baseline.

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

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

	Eurobond placement	World Bank	EU	Others (Canada, Germany, Japan)	Total
End-March 2015	0	0	304	173	4763
End-June 2015	1,000	500	1,032	701	3,233
End-September 2015	1,000	1,000	1,032	472	3,504
End-December 2015	2,000	1,000	1,760	715	5,475
End-March 2016	2,000	1,000	2,489	715	6,204
End-June 2016	2,000	1,000	2,489	715	6,204

Table C. Purchases of Foreign Exchange from NBU for the Purposes of Critical Energy Imports: Projections for NIR Adjustment

(Cumulative flows from end-December 2014, millions of U.S. dollars)

	Purchases of foreign exchange from the NBU for critical energy imports (incl. those of Naftogaz)
End-March 2015	1,486
End-June 2015	1,686
End-September 2015	1,686
End-December 2015	1,686
End-March 2016	1,686
End-June 2016	1,686

Table D. Exceptional Financing: Projections for NIR/NDA Adjustment

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

	Exceptional Financing
End-September 2015	500
End-December 2015	4,228
End-March 2016	4,228
End-June 2016	5,478

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). For the purpose of computing the NDA target, the NIR is valued at the program exchange rates defined in paragraph 3 and expressed in hryvnia.

Adjustment mechanism

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

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

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

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

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

- In the event of higher exceptional financing 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 by the full amount of the cumulative excess in exceptional financing in foreign exchange relative to the baseline and evaluated at the program exchange rates.

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

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

	NBU loans to DGF and purchases of government bonds issued for DGF Financing or Bank Recapitalization	NBU purchases of government bonds issued for Naftogaz recapitalization
End-March 2015	25,000	17,200
End-June 2015	44,000	26,100
End-September 2015	53,000	28,300
End-December 2015	55,000	28,300
End-March 2016	55,000	28,300
End-June 2016	55,000	28,300

C. Ceiling on Cumulative Change in Monetary Base of the NBU (Base Money) (Indicative Target)

Definition

10. The NBU's monetary base comprises domestic currency outside banks and banks' reserves, including cash in vault of commercial banks, and funds of customers at the NBU.[4] 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, 3204, and 3206) plus funds of customers at the NBU in hryvnia (NBU liabilities accounts of groups 323,[5] 3250, 4731, 4732, 4735, 4736, 4738, 4739, and 4750), plus accrued interest on time deposits of DMBs in national currency (NBU accounts 3208L), plus accrued interest on client's current accounts in national currency.

Adjustment mechanism

- Consistent with the NDA target adjustment mechanism (as defined above), monetary base targets will be adjusted upward by the full amount of the cumulative excess in the total amount

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

[5] Includes accounts of following sectors: 2 - other financial intermediaries and other financial organizations; 6 - regional and local authorities; 7 - government nonfinancial corporations; 8 - private and foreign-controlled nonfinancial corporations; 9 - noncommercial organizations serving households.

of NBU loans to the Deposit Guarantee Fund (DGF) as well as total amount of NBU purchases of government bonds issued for the purposes of DGF financing or banks recapitalization, relative to the baseline projection (Table E), and evaluated at the program exchange rates if provided in foreign exchange.

- Consistent with the NDA target adjustment mechanism (as defined above), monetary base targets will be adjusted upward by the amount of hryvnia placed in a commercial bank's account at the NBU, when another central bank uses the hryvnia provided under a central banks swap agreement. Monetary base targets will be adjusted downward by the amount of hryvnia (both the principal and interest due), when the other central bank repays the used hryvnia.

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

Definition

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

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

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

[7] These are included in the financing of Naftogaz' cash deficit when they are used (as collateral for a loan, or as an outright sale) by the latter to obtain financing.

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

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

- 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.

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

Adjustment mechanism

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

Table F. External Financing of General Government Projects—Adjustment

Cumulative flows from January 1, 2015	In millions of hryvnia
External project financing (technical assumption for the adjustor purpose)	
End-March 2015	4,523
End-June 2015	11,064
End-September 2015	13,000
End-December 2015	14,937
End-March 2016 1/	6,995
End-June 2016 1/	15,107

1/ Cumulative flows from January 1, 2016.

- The ceilings on the cash deficit of the general government at end-September and end-December 2015 are subject to an automatic adjustor corresponding to the full amount of government bonds issued for the purposes of banks recapitalization and DGF-financing, up to a cumulative maximum of UAH 152 billion in 2015. (Table 2 of the MEFP).

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

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

- The ceilings on the cash deficit of the general government at end-September and end-December 2015 are subject to an upward adjustment for the full amount of government repaying government-guaranteed part of an external loan to Naftogaz, in case this loan is repaid ahead of schedule and the repayment is recorded as above-the-line transaction. The adjustment will be equal to the actually repaid amount in US$ terms capped at US$500 million, and recalculated in hryvnia at the actual exchange rate at the time of repayment.

13. The ceilings on the cash deficit of the general government at end-September and end-December 2015 are subject to an automatic downward adjustor corresponding to the full savings on the budgetary interest bill resulting from any restructuring or reprofiling of existing government debt to NBU as of end-2014. Such savings will be determined as the difference between the actual and projected payments on government bonds held by the NBU. The projected payments are presented in Table G.

Table G. Projected Payments of Interest on Government Bonds held by NBU

Cumulative flows from January 1, 2015	In billions of hryvnia
End-March 2015	7.1
End-June 2015	17.4
End-September 2015	30.3
End-December 2015	41.8
End-March 2016 1/	10.6
End-June 2016 1/	21.8

1/ Cumulative flows from January 1, 2016.

E. Ceiling on VAT Refund Arrears (Indicative Target)

14. The ceiling on net accumulation of VAT refund arrears is set to UAH 0 billion. The stock of VAT refund arrears is defined as those claims that have not been settled (through a cash refund, netting out against obligations of taxpayers, payment with a government bond (VAT bond) or an official decision to reject the claim) within a specified time period after the VAT refund claim has been submitted to the State Fiscal Service (SFS). In 2015, this time period is 74 days, allowing for verification of the validity and payment processing of claims. According to this definition, the stock of VAT refund arrears as of March 31, 2015 was UAH 2.9 billion.

F. 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

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

- The ceiling on the cash deficit of the general government and Naftogaz will be adjusted downward by the net transfers made by Gazprom (advance transit fee). These transfers are measured on a cumulative basis from the beginning of each calendar year.

- 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 each calendar year.

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

Definition

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

H. Ceiling on Publicly Guaranteed Debt (Performance Criterion)

Definition

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

I. Other Continuous Performance Criteria

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

II. Official Exchange Rate

Determination of the official exchange rate

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

III. Reporting Requirements

A. National Bank of Ukraine

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

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

24. The NBU will provide the IMF on a daily basis with information on obligatory foreign exchange sales 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.

25. 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."

26. The NBU will continue to provide on its web site the daily holdings of treasury bills at primary market prices, at current exchange rates. The NBU will provide information on daily holdings of treasury bills broken down by type of holders (including state-owned banks and private banks) at primary market prices at the rate fixed on the day of auction information on t-bills sales, including in the foreign exchange, from the beginning of the year at the official rate as of the date of placement,

as well as the t-bills in circulation, by principal debt outstanding at the official exchange rate as of the date of placement (OP-2); reports on each treasury bill auction; and provide to the IMF the monthly report on treasury bills, in the format agreed with the IMF staff.

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

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

29. The NBU will provide to the IMF its financial statements (income and expenses) for the current and, if available, for the following year, as approved by the NBU's Council. The IMF is to be notified immediately of any update.

30. The NBU will continue to provide to the IMF, on a monthly basis, general information on the NBU financing (as well as the refinancing) of the banks of Ukraine, and on the operations of mopping up (absorption) of the liquidity from the banking system (including through the CDs issuance) in the format agreed with the IMF staff. It will also provide, on a weekly basis, bank-by-bank information on the outstanding amount 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 reporting of NBU loans and collateral will separately identify which banks are under temporary administration or liquidation.

31. 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 financial stability indicators (FSIs) in the format agreed with the IMF staff. The NBU will also provide core FSIs, as defined in the IMF Compilation Guide, for the individual banks in Group I and Group II on a monthly basis.

32. On a daily basis, the NBU will continue to provide the IMF with the operational monetary survey of the NBU, including any additional information that is needed for the IMF staff to monitor monetary policy and developments in the banking sector.

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

34. The NBU will continue to provide to the IMF the daily operational balance sheets of the NBU and commercial banks on a daily basis according to standard reporting forms, including detailed

information on loans of the banking sector provided to the general government, with detailed breakdown of this information by indebtedness of the central (state) government and local budgets, including in national and foreign currency, by loan and by security, as well as the information on the balances of the funds of the government held at the NBU, in particular, the balances of the Single Treasury Account denominated in the national currency (account 3240 A) and the funds of the Treasury denominated in foreign currency (account 3513 A).

35. 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.

36. 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.

37. 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+3 verification system, namely, the total number and volume of transactions screened and the total number and volume of transactions blocked, with separate information on imports. The NBU will provide to the IMF weekly data on the volumes of noncash foreign exchange purchases on behalf of banks' clients and banks broken down by reasons (form N 538).

38. 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 (external) assets and foreign liabilities (broken down by domestic and foreign currency) for the individual banks in Group I and Group II. 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.

39. The NBU will provide, on a daily basis, bank-by-bank data for the largest 35 banks and aggregate data for the Group III and IV banks separately on 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; 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 Group III and IV banks, the NBU will provide data excluding those banks in liquidation since 2014.

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

41. The NBU will provide to the IMF reports N 381.25; 381.26 with information on reserve requirements.

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

43. The NBU will provide the IMF, on a weekly basis, bank-by-bank for Group I and Group II banks the average interest rate on deposits to customers (by domestic and foreign currency, and legal entities and households); and the average interest rate on interbank borrowings (by domestic and foreign currency).

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

45. The NBU will provide the IMF, on a monthly basis, in an agreed format, data for the entire banking sector (and aggregates for Group III and IV) as well as on a bank-by-bank basis for Group I and Group II banks the amount of loans and claims (by households in domestic and foreign currency, legal entities in domestic and foreign currency, banks in domestic and foreign currency, maturity, and by loan classification categories I, II, III, IV, and V); collateral for loans and claims (by type of collateral, legal entities in domestic and foreign currency, households in domestic and foreign currency, banks in domestic and foreign currency, and by loan classification categories I, II, III, IV, and V); provisions on loans and claims (by households in domestic and foreign currency, legal entities in domestic and foreign currency, banks in domestic and foreign currency, and by loan classification categories I, II, III, IV, and V); large exposures (loans equal to or greater than 10 percent of equity), refinanced loans, and restructured loans (by households, legal entities, and banks); the average interest rate on the outstanding stock of loans to customers (by legal entities and households; accrued interest on loans (by domestic and foreign currency); securities held for trading and available for sale, with government securities reported separately (by domestic and foreign currency); securities held to maturity and as investment, with government securities reported separately (by domestic and foreign currency).

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

V); provisions on loans and claims on related parties (by households, legal entities, and banks in domestic and foreign currencies, as well as by loan classification categories I, II, III, IV, and V).

47. The NBU will provide to the IMF, on a monthly basis, data bank-by-bank and by region loans and provisions (by households and legal entities, domestic and foreign currencies, and by loan classification categories I, II, III, IV, and V); deposits (by households and legal entities, and domestic and foreign currencies); due from banks (by domestic and foreign currencies).

48. The NBU will report to the IMF, on a monthly basis, data for the entire banking sector (and aggregates for Group III and IV) as well as on a bank-by-bank basis for Group I and Group II banks on cumulative income statements, including total revenues; interest revenues (from loans to households, loans to legal entities, interbank loans, placements with the NBU, securities); revenues from fees and commissions; total expenses; interest expenses (on deposits to legal entities, deposits to households, interbank borrowing, borrowing from NBU, securities issued); fees and commissions paid; salaries and other staff compensation; other operational expenses; net earnings before loan loss provisions; loan loss provisions; net earnings after loan loss provisions; taxes paid; net earnings.

49. The NBU will provide to the IMF the two-week projections of cash flows for the Group I and II banks.

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

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

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

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

54. 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.

55. 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.

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

57. 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.

58. 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.

59. 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.

60. The NBU will provide the Fund with data relative to the interest income received from January 1, 2015 on the portfolio of government bonds on a quarterly basis but no later than 15 days from the end of the reporting period.

B. Deposit Guarantee Fund

61. 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.

62. 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.

63. 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.

64. 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.

65. 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.

66. 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

67. 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.

68. 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.

69. 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.

70. 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.

71. 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.

72. 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.

73. 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.

74. 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.

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

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

77. 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.

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

79. 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.

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

81. 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										

82. 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.

83. 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.

84. 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.

85. The SFS will provide on a quarterly basis but no later than 25 days after the end of each quarter information on the number of tax appeals and the associated disputed amounts received by the SFS in each reporting period, the number of internally resolved appeals indicating the number of appeals resolved in favor of the controlling body, in favor of taxpayer and partial satisfaction.

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

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

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

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

89. For each month, no later than the 25th of the following month, the Ministry of Energy and Coal Industry (based on information by Naftogaz) will provide IMF staff with information in electronic form in an agreed format on the domestic gas used by Naftogaz for sales to households, heating utilities, budget institutions, and industries, including gas produced by SC "Ukrgasvydobuvannya," and OJSC "Ukrnafta."

90. 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.

91. 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).

92. 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.

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

94. 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

95. 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

96. 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.