Letter of Intent

Kyiv, December 5, 2018

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

Dear Madame Lagarde:

1. Since the deep economic crisis of 2014-15, with strong support from the international community, we have been able to make considerable progress in stabilizing the economy and restoring growth by beginning to address key macroeconomic imbalances and advancing structural reforms. Notably, a drastic fiscal consolidation and the adoption of a flexible exchange rate regime have led to a sharp reduction in Ukraine's twin deficits. The overall fiscal deficit—including the energy sector's quasi-fiscal deficit—which had swelled to 10 percent of GDP in 2014, declined to just above 2 percent of GDP last year, supported by prudent fiscal policies and needed increases in energy tariffs in 2015 and 2016. Similarly, the current account deficit fell sharply from over 9 percent of GDP in 2013 to 2 percent of GDP last year. Inflation has declined to single digits and official reserves have reached nearly US$17 billion. These results reflect our commitment to sound economic policies consistent with the targets under our arrangement under the IMF's Extended Fund Facility that had been approved in March 2015.

2. Structural reforms—needed to complete the transformation to a modern and open market economy—have proven to be more challenging. Considerable progress has been made in the last few years in strengthening the financial health of our banking system and in creating new independent institutions to fight corruption, with the establishment of the National Anticorruption Bureau of Ukraine (NABU), the Special Anticorruption Prosecutor's Office (SAPO), and more recently with the adoption of legislation to set up a High Anticorruption Court (HACC). Similarly, we have adopted pension reform legislation, to enhance the financial viability of the pension system, while allowing payment of better pensions, as well as a new privatization law to substantially streamline the privatization processes. Despite these achievements, several areas of reforms have faced delays. Privatization and revenue administration reform are just starting, deregulation, energy sector reforms and improving governance of state-owned enterprises are underway but have yet to be completed, while land reform is still at the stage of public debate. Because of these delays, some of the goals of the EFF arrangement are no longer attainable before its expiration in Mach 2019.

3. Nonetheless, we greatly value the continued support from the IMF and hereby request a 14-month Stand-By Arrangement (SBA) in the amount of SDR 2.8 billion (139.2 percent of quota) to succeed the EFF arrangement. The SBA will build upon progress made under the EFF arrangement and continue to provide a valuable anchor for our economic policies during 2019—a particularly challenging year as it includes two major elections and with the formation of a new government not expected before the end of 2019. The new arrangement will also continue to play a catalytic role in mobilizing international support, notably from the EU and the World Bank, which have committed additional funds to help ensure that the proposed program is fully financed.

4. The SBA will focus primarily on maintaining macroeconomic stability and keeping the economy on a path toward sustainable growth. It will focus on: (i) continuing with fiscal consolidation to keep public debt on a steady downward path; (ii) maintaining a flexible exchange rate and a tight monetary stance to bring inflation down toward the National Bank of Ukraine's medium-term inflation target and allow a further accumulation of international reserves; and (iii) reforms to further strengthen tax administration, the financial sector and the energy sector, as well as continue to improve governance and address corruption. The attached Memorandum of Economic and Financial Policies (MEFP) sets out our economic policies for the remainder of 2018 and for 2019 in greater detail. The program will be monitored through semi-annual reviews, and Table 1 of the attached MEFP presents the quantitative conditions (periodic and continuous performance criteria, indicative targets) and a monetary policy consultation clause, while Table 2 describes the structural benchmarks under the program.

5. In line with our focus, we have already taken the following prior actions:

- We have enacted a government budget for 2019, together with the necessary tax policy changes and consistent with IMF staff recommendations, that limits the budget deficit to 2.3 percent of GDP (paragraph 5b of the attached MEFP);

- Household gas tariffs have been raised, and heating tariffs will have been raised at least one week before consideration by the IMF Executive Board of our request, to reflect rising international prices and we have adopted a path for further tariff adjustment next year (paragraph 8a of the attached MEFP); and

- We have enacted legislation to improve the governance of state-owned banks (paragraph 9 of the attached MEFP).

6. Based on these steps and our commitments for the period ahead, we request approval by the IMF Executive Board of the proposed SBA and notify our decision to the cancel immediately prior to such approval the EFF arrangement. We also request that the IMF Executive Board approves to make available SDR 1 billion (49.7 percent of quota) upon approval of the arrangement. We furthermore request approval of the retention of the exchange restrictions and multiple currency practices that we maintain temporarily due to balance of payments difficulties and that are inconsistent with our obligations under Article VIII Sections 2 (a) and 3 of the Fund's Articles of Agreement. During the period of the SBA, Ukraine will not introduce or intensify exchange restrictions, introduce or modify multiple currency practices, and will not introduce or intensify import restrictions for balance of payments reasons nor conclude bilateral payment agreements that are inconsistent with article VIII of the Fund's Articles of Agreement

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 become appropriate for this purpose. We will consult in advance with the IMF on the adoption of these measures and on any revisions to the policies contained in the MEFP, in accordance with the IMF's policies on such consultation. We will refrain from policies that would be inconsistent with the program's objectives. In particular, we will refrain from granting any tax amnesty, introducing new tax exemptions or privileges, and reducing or altering corporate income taxation (CIT) directly or indirectly by replacing the CIT regime, but will explore together with IMF staff ways to make our tax system more growth friendly while assuring debt sustainability. We will provide IMF staff with the data and information it requests for the purpose of program monitoring. Reaffirming our commitment to transparency, we consent to the IMF's publication of this letter, the MEFP, the Technical Memorandum of Understanding (TMU), and the accompanying Executive Board documents immediately upon consideration of our requests by the IMF's Executive Board.

Yours sincerely,

/s/

Petro Poroshenko
President

/s/

Volodymyr Groysman
Prime Minister

/s/

Oksana Markarova
Minister of Finance

/s/

Yakiv Smoliy
Governor, National Bank of Ukraine

Attachment I. Memorandum of Economic and Financial Policies

December 5, 2018

1. **Our policies remain focused on maintaining macroeconomic stability, reducing vulnerabilities, and achieving stronger and inclusive economic growth.** We are committed to preserving the achievements realized since the economic crises of 2014–15. Our policies are centered on: (i) maintaining a cautious monetary policy geared toward further reducing inflation and rebuilding reserves in the context of a flexible exchange rate regime, while repairing viable banks and reviving sound bank lending; (ii) durable fiscal consolidation to ensure medium-term debt sustainability, supported by broader fiscal reforms to make the tax system more efficient and growth friendly, and improve the quality and efficiency of government spending; and (iii) continuing with structural reforms to reform the large state-owned enterprise (SOE) sector, improving the business environment and tackling corruption, to attract investment and raise the economy's potential.

A. Monetary and Exchange Rate Policies

2. **We remain fully committed to an institutionally strong and independent National Bank of Ukraine (NBU)** that preserves continuity in its inflation targeting (IT) policy, within a flexible exchange rate regime, and with a strong focus on maintaining financial stability. We will ensure that this framework remains unchanged.

3. **Our monetary and exchange rate policies will remain consistent with our commitment to meet the program's international reserve and inflation objectives.** We intend to bring inflation down to below 7 percent by end-2019 and within the NBU's target range of 5 percent +/-1 percentage points in 2020, while letting the exchange rate adjust in line with economic fundamentals and purchasing foreign exchange to meet the program's reserve targets. Progress in reducing inflation will be monitored under the program by consultation bands around the central points of our inflation targets (Table 1); if actual inflation falls outside the inner band, the NBU will consult with IMF staff on the reasons for the deviation and policies to return inflation to within the band. To achieve our inflation targets, the NBU will continue to keep its policy rate firmly positive in real terms on a forward-looking basis. The NBU stands ready to raise the policy rate if inflation pressures threaten the disinflation path projected in the program. Any further easing of foreign exchange restrictions and administrative controls will be aligned with the agreed roadmap's principles and conditions that, inter alia, require steps to be consistent with meeting the program's

reserve targets. Additionally, the gradual capital control liberalization envisaged in the new currency law will be carefully sequenced and conditions-based, without setting specific deadlines for the removal of existing restrictions.

4. We will take further steps to strengthen the effectiveness of monetary policy and support the development of financial markets. To enhance the monetary transmission mechanism, the NBU, in consultation with IMF staff, will adjust its operational framework to make it applicable to varying structural liquidity conditions. In this context, the Ministry of Finance will provide the NBU with enhanced daily and monthly cash flow projections of the Single Treasury Account, as needed for improved liquidity forecasting.

B. Fiscal Policies

5. Fiscal policy in 2018 and 2019 will continue to be anchored by our medium-term consolidation path aimed at ensuring fiscal sustainability. We will limit the general government budget deficit to no more than 2½ percent of GDP in 2018 and 2¼ percent of GDP in 2019. More specifically:

a. ***2018 Budget.*** While budget execution is so far broadly in line with the approved budget, spending pressures are expected to increase in the coming months stemming primarily from higher than envisaged social spending (including pensions and utility subsidies). We will ensure compliance with the deficit target of 2½ percent of GDP, by strictly curtailing discretionary spending, notably spending on goods and services but also by deferring some capital spending, raising additional excise revenues on tobacco products according to the current schedule of increases; and additional profit transfers from state-owned enterprises. The Ministry of Finance will not release any resources to spending units that would cause the deficit to exceed the target and inform all spending units of the changes to the payment schedule.

b. ***2019 Budget.*** The general government budget deficit will be limited to UAH 90 billion, equivalent to 2¼ percent of GDP, with revenues in the State budget estimated at UAH 1,026 billion and spending budgeted at UAH 1,116 billion. The budget includes no major changes in tax policy, other than the already scheduled increases in excise rates plus a further increase in the excise on tobacco products by 9 percent effective from July 1, 2019;

an increase in the rates of royalty payments for hydrocarbons (oil extraction and gas condensate extraction) by 2 percentage points and for iron ores by 0.8 percentage points; an increase in the royalty payment for forestry usage by 2 percentage points; an increase in the environmental tax rate for carbon dioxide (CO^2) emissions by stationary sources from UAH 0.41 per ton to UAH 10 per ton; a reduction of the threshold for VAT exemption for parcels sent through international express shipment from €150 to €100; the introduction of customs duties of US$1,000 on imported cars with foreign registration; and the introduction of electronic excise stamps. To create sufficient fiscal space for security-related spending and much-needed investment in infrastructure, civil service wages are kept at their 2018 level and the average wage increase for public sector employees is limited to 9.4 percent in 2019, while the minimum monthly wage was raised by 12 percent to UAH 4,173. Similarly, pension benefits, including for military and other special pension schemes, will increase on average by 8½ percent in accordance with the pension reform law adopted in 2017. To rationalize our health care expenditures, in 2019 the Ministry of Health will continue to outsource the procurement of pharmaceuticals to reputable international organizations. We have taken steps to further improve the targeting of housing and utility subsidies to ensure that these will remain within the budgeted amount, including by reducing the social norms for the calculation of housing and utility subsidies on average by 11 percent (including by reducing the amount of the subsidized gas consumption from 4.5 cubic meters to 4.0 cubic meters per one square meter of heated space and a commensurate reduction in the norm for centralized heating, effective May 1, 2019). Parliamentary approval and enactment of this budget is a ***prior action***. In early 2019, we will remove the caps on the base for social security contribution assessments. If during 2019 it becomes evident that the reduction in the social norms is not sufficient to ensure that housing and utility subsidies will remain within the budgeted amount, we will further reduce these norms or make the necessary changes to the formula for the calculation of subsidies.

c. During the program period we will refrain from: (i) granting any tax amnesty, introducing new tax exemptions or privileges, and further earmarking of revenues; (ii) reducing or altering corporate income taxation (CIT) directly or indirectly by replacing the CIT regime; (iii) introducing new special pensions or privileges; and (iii) introducing (elements of) a funded second pillar to the pension system. We will continue to work with IMF staff to develop proposals to improve corporate taxation and make the tax system more growth friendly, including by addressing tax gaps, broadening the tax base, and reducing opportunities for tax avoidance, but will not enact any legislation during the program period that changes our tax system such that it will undermine fiscal sustainability. Any revenue over-performance will be used to reduce public debt, settle arrears, or increase infrastructure investment. We will remain current on all our payment obligations and not accumulate any spending arrears. We will review the revenue sharing and expenditure assignment responsibilities between the central and local government budgets to avoid the accumulation of subnational imbalances.

Public Financial Management

6. **We will continue to strengthen our fiscal framework to facilitate sustainable fiscal adjustment and improve the credibility and predictability of fiscal policies.** As part of our Public Financial Strategy for 2017–2021, we are fully committed to implement a full-fledged medium-term budget framework (MTBF) for the 2019 budget year. Adhering to the MTBF will reinforce fiscal discipline and facilitate informed policymaking, better monitor expenditure commitments, and provide predictability in planning and executing budgets. To this end, we will: (i) amend the budget code to reflect core elements of the MTBF in line with IMF recommendations, establish the mandate for fiscal risk monitoring and reporting, and strengthen debt management by requiring a credit risk assessment for issuing government guarantees; (ii) introduce binding budget ceilings for key spending units in the annual budget declaration; and (iii) regularize assessments of public expenditure efficiency through rolling spending reviews. In this context, we will seek technical assistance from the IMF to further strengthen the MTBF by adopting a rule-based fiscal policy framework, in line with best international practices, to avoid procyclical behavior and anchor public debt sustainability.

Revenue Administration

7. **We are taking steps to move toward modern and efficient tax and customs administrations.** As progress in revenue administration reform had met with several obstacles in recent years, to achieve our objectives:

a. ***Organization.*** We will consolidate the current central and regional units of the State Fiscal Service (SFS) into two separate legal entities: the Tax Service and the Customs Service by end-April 2019, which will both report to the Minister of Finance (a ***structural benchmark***). The many current legal entities comprising the SFS will be abolished as part of this process. This will be the first, and essential, foundational step on the roadmap to long-term reform of revenue administration. The heads of both services will be able to delegate their powers in the organizations as needed for the more efficient functioning of tax and customs administrations. By the same time, the tax police will be transformed into a new financial investigation service under the Ministry of Finance, in line with technical advice from the IMF, while ensuring that assessment of tax liabilities remains solely with the Tax Service.

b. ***Management.*** We will ensure that an effective and reform-oriented management for both the tax and customs administrations will be appointed through a transparent recruitment process by end-April 2019. The new managers will be tasked with developing and implementing transformational improvement of operations in both organizations, which include reforming tax audit and verification practices and introducing new approaches in addressing tax non-compliance. The new agency heads should present within one month following their appointments transformational reform plans to the Minister of Finance. The plan for the tax administration will be guided by the roadmap suggested by the IMF's technical assistance report of September 2017.

c. ***Oversight.*** We will increase the Ministry of Finance's role in the oversight of the tax and customs administrations by strengthening its supervision and control functions. We will also develop detailed reporting requirements for the tax and customs administrations and the methodology for calculating KPIs to enable the Ministry of Finance to verify and better assess KPIs, including indicators related to anti-corruption efforts in both organizations. As part of monitoring the effectiveness of the managements in tax and customs services, by end-December 2018 the Ministry of Finance will begin conducting annual independent surveys of taxpayers to assess their perception of corruption at tax and customs administrations. The Ministry of Finance will also complete an audit of the tax and customs administrations' IT systems to detect weaknesses and risks for data security in the tax and customs systems by end-December 2018. Based on the audit results, the necessary steps to address any security threats will be implemented by March 2019.

d. ***Tax and customs processes.*** We are also taking measures to improve the efficiency of the tax and customs administrations. We will alleviate the burden that taxpayers face to comply with their tax obligations by: (i) rebalancing the audit program away from mandatory audits (such as liquidation audits and audits at the request of other agencies) towards targeted audits based entirely on assessed compliance risks; (ii) enhancing the online taxpayer portal (e-cabinet) to allow for online registration, electronic payment for businesses and updating of taxpayer information; and (iii) improving taxpayers information services. In customs, we have established a one-stop process for clearance, and are continuing efforts to fight fraud and corruption, facilitate the information exchange with major trading partners and build an effective oversight of and support to the valuation field work of the regional offices.

C. Energy Policies

8. We will continue our efforts to advance gas sector reforms. Specifically:

a. ***Gas and heating tariffs.*** We have (i) raised the wholesale price for gas supplied to households and district heating companies to UAH 6,236 per thousand cubic meters (excluding transmission and distribution tariffs, supplier's mark-up and VAT), effective November 1, 2018; (ii) revised the automatic gas price adjustment mechanism to ensure that the wholesale price for gas supplied to households and for heating will be adjusted automatically effective May 1, 2019 to 80 percent of the base market price as defined in CMU Resolution 867 (as defined also in paragraph 25 of the TMU); and (iii) the National Energy and Utilities Regulatory Commission (NEURC) has given final approval to—and published in the official gazette—increases in the heating tariffs, effective January 1, 2019, to fully reflect the increase in the wholesale gas price, of all the heating companies licensed by NEURC together accounting for about 60 percent of the total centralized heating supply (a ***prior action***). The necessary decisions for raising heating tariffs, effective January 1, 2019, to reflect the higher wholesale gas price, of remaining heating companies —thus together covering at least 95 percent of the total centralized heating supply—are expected to be taken by end-December 2018 (a ***structural benchmark***). As of January 1, 2020, Naftogaz will sell gas for household and district heating companies' use at prevailing market prices and the Public Service Orders will be cancelled by May 1, 2020. We have cancelled the scheme that allowed a 12-month installment plan to pay heating bills for households that do not receive subsidies (CMU Resolutions 630 and 357).

b. ***Monetization.*** We are working with the World Bank to gradually monetize the benefits of the HUS program to facilitate retail market competition and incentivize households to reduce gas consumption. As a preparation for the monetization of subsidies the Ministry of Social Policy has already created the public registry of utility subsidy recipients and the Ministry of Finance and the Ministry of Social Policy will complete the verification of recipients of all social benefits and allowances by end-December 2018. In March 2019, a pilot project of monetization of subsidies will be launched. Upon a successful trial period, we aim to implement the monetization of subsidies at end-user level starting from January 2020. Additionally, starting from July 2019, we will set up an Energy Efficiency Fund to help facilitate the decrease in gas consumption in Ukraine.

c. ***Unbundling.*** The unbundling of Naftogaz and certification of a Transmission System Operator (TSO) is a key strategic issue for advancing energy sector reforms. The establishment of Mahistralni Gazoprovody Ukrayiny (MGU) as a certifiable TSO on January 1, 2020 requires transfer of selected activities and staff from Naftogaz (UTG) to MGU. As result of the Stockholm arbitration, only non-core transit activities can be transferred from Naftogaz to MGU until the end of 2019, and core transit activities can be transferred after January 1, 2020. To start the transfer, Naftogaz will prepare the list of non-core transit activities by December 31, 2018 and these will be transferred to MGU during 2019. The selection will prioritize activities which are not yet fully established in UTG, such as metering and market balancing operations, network development, and planning. It is expected that MGU will reach its target staffing level of about 4000 and meet all preconditions for certification as a TSO by end-September 2019.

d. ***Gas production.*** To increase gas production and help ensure energy independence, we will simplify and accelerate procedures for obtaining permits for the exploration and development of gas fields, while ensuring transparency, inter alia by holding open permit and production sharing agreement tenders at least of a quarterly basis, offering at least 20,000 km^2 during 2019. We will also promote investment in existing fields to increase extraction, while ensuring compliance with environmental standards.

D. Financial Sector Policies

9. Since 2014, we have taken major steps to rehabilitate and strengthen the banking system. We have intervened and resolved 95 banks (out of 180 in 2014), including PrivatBank, the largest financial institution. In addition, a few banks excessively exposed to related-party lending have made progress in reducing such exposures. As a result of these efforts, as of end-July 2018, all banks met the capital adequacy ratio (CAR) target of 7 percent. Furthermore, we have made progress in strengthening our supervisory and regulatory framework, including our credit risk regulation by reversing amendments to Regulation 351 lowering the loss-given-default ratio for the calculation of credit risk for state-owned enterprises and automatically removing provisioning on restructured loans, with the view to bringing them closer to international standards and best practices. Importantly, we have improved state-owned banks' governance by adopting the Principles of State Banking Sector Strategic Reforms and enacting a law on State-Owned Bank Corporate Governance (a ***prior action***).

10. We remain fully committed to further strengthening the banking system's financial health. To this end:

a. ***Capitalization.*** On the basis of the 2018 diagnostic study, by end-March 2019, all banks will have to meet a minimum 7 percent Tier 1 capital and 10 percent CAR. In the context of the transition to Basel III capital structure requirements, we will allow banks to include in Tier 1 capital additional Tier 1 (AT1) up to 0.75 percent; as such, Tier 1 capital will consist of at least 6.25 percent of common equity. In the computation of their capital needs, the largest 24 banks will also address capital needs arising from the 2018 stress testing, under the baseline scenario for 2018 only (these banks will have until end-2019 to address potential capital needs under the adverse scenario and their restructuring plans will fully address the effects of amortization of collateral against NPLs in line with the requirements of resolution 351). When banks that fail to comply with requirements under the baseline scenario, the NBU will take appropriate supervisory actions, including resolution, by end-June 2019 (a ***structural benchmark***). Furthermore, by end-March 2019, the NBU will complete its viability assessment of the smallest 56 banks' business models. This evaluation process will be conducted by the NBU Committee of Supervision, with the participation of IMF and World Bank staff as observers.

b. ***Related-party exposures.*** By end-December 2018, the NBU will publish amendments to the existing regulation on related-party exposures that incorporates lessons learned from the implementation of the current regulation over the last 3 years. Additionally, by the same date, the NBU will adopt revisions to its capital regulations to subtract loan exposures to related parties above regulatory limits from regulatory capital (an end-December 2018 ***structural benchmark***). Furthermore, with IMF technical assistance, we will further enhance the effectiveness of the Related Party Monitoring Office (RPMO) by developing a data registry based on information from public registries, for which by end-December 2018 the NBU will sign a Memorandum of Understanding with the Ministry of Justice and the Securities Market Authority on information sharing, which is critical to build such registry.

c. ***Deposit Guarantee Fund (DGF).*** As a well-capitalized and funded deposit insurance system is critical for financial stability, we have set up a tripartite working group (comprised of representatives of the Ministry of Finance, the NBU and the DGF) to submit specific measures to the Financial Stability Council (FSC). In consultation with staff of the IMF and the World Bank, the FSC will decide by end-March 2019 on steps to bring the DGF back into solvency by end-December 2019. Finally, we will pursue parliamentary approval by end-March 2019 of draft amendments to the DGF law that aims at strengthening its effectiveness as resolution authority. Meanwhile the NBU and the DGF will timely share information.

d. ***Supervision and regulation.*** By end-December 2018, in the context of the transition to Basel III capital structure requirements and in consultation with IMF and World Bank staff, the NBU will approve a resolution on the use of additional Tier 1 capital instruments (AT1) to meet Tier 1 capital for the current recapitalization process, including minimum triggers, limits and full adaptation of Basel III's terms and conditions. Additionally, we will complete the assessment of the collective suitability of the boards and qualifications of senior management for the 20 largest banks by end-December 2018, for the next 15 largest banks by end-September 2019, for the next 15 largest banks by end-December 2019, and with the remaining banks to be assessed in 2020. Furthermore, we will verify compliance with the new risk management regulation for the 30 largest banks according to the schedule of implementation of the regulation. Furthermore, we will adopt the Supervisory Review and Evaluation Process (SREP), except for ICAAP and ILAAP, for the 13 largest banks by end-

2018, and for all banks by end-June 2019. By end-December 2018, we also plan to complete and introduce the new regulation on banks' registration and licensing (replacing NBU Regulation No. 306). By end-December 2018, we also plan to complete the draft new regulation on internal control, which we will introduce as of July 1, 2019.

11. We are determined to recover assets from resolved banks to reduce the cost of bank failures to the state. To this end, we will ensure that all relevant institutions will pursue all commercial and legal avenues available to recover assets and hold banks' former owners accountable as envisaged by the banking law. As such, beginning by end-March 2019, the DGF will post on its website a list of all borrowers, management, and former bank shareholders of resolved banks that are yet to honor their debts related to the failed institutions as ruled by court decisions. By end-March 2019, the DGF will put on sales assets for at least UAH 20 billion. The DGF will continue selling assets through electronic platforms, while ensuring that the ultimate buyers of defaulted related party loans and the bank owners are not the same person. Additionally, the Ministry of Finance will produce regular reporting summarizing progress in asset recovery and litigation efforts related to the four state-owned banks, with the first report to be published by end-March 2019 (a ***structural benchmark***).

12. We are taking further steps to facilitate NPL resolution. Following the establishment of a mechanism for out-of-court restructuring, the removal of tax impediments and the adoption of the law on creditors' rights protection, parliament also adopted a new insolvency law (# 8060). In addition, by end-June 2019, the NBU, with the support from World Bank staff, will issue a regulation on NPL work-out to guide the financial institutions on how to deal with their troubled borrowers. This regulation will be in line with best practices and the European Central Bank's guidance to banks on NPLs, while taking into account local structural issues such as large credit exposure to related parties in banks. With respect to the stock of NPLs held by our three SOBs (OschadBank, UkrGazBank, and UkrEximBank), we are taking decisive steps: (i) in September 2018, under the auspices of the FSC, we have established a working group comprised of the Ministry of Finance, the NBU, and the DGF to prepare, in consultation with IMF staff, policy principles to guide the restructuring of these troubled borrowers. These policy principles will be in line with the legislation on joint stock companies with regard to the respective responsibilities of corporate governance bodies regarding significant restructuring decisions and include, *inter alia,* recommendations to the state-owned banks' supervisory boards. By end-December 2018, the FSC will approve these principles and communicate them to the above-mentioned state-owned banks' supervisory boards, which ultimately remain responsible for these banks' debt restructuring decisions.

13. We will further strengthen bank governance, transparency and risk management practices of the state-owned banks. In this direction:

a. Following the adoption of the law on state-owned banks, we will appoint independent supervisory board members in line with the new law in OschadBank and UkrEximBank (following the establishment of majority independent supervisory boards at PrivatBank and UkrGasBank) by end-March 2019.

b. By end-April 2019, the Ministry of Finance will sign a Memorandum of Understanding with each state-owned bank defining the boundaries of their relationship with the view to ensuring that these banks are run on a commercial basis and isolated from political interference on operational matters.

c. From end-December 2018 onward, the financial unit of the Ministry of Finance will publish quarterly Key Performance Indicators (KPIs) of the state-owned banks and also report on progress made in the implementation of their strategic planning and NPL restructuring.

d. Consistent with the Principles of State Banking Sector Strategic Reforms, we will take the necessary steps to pave the way for the entry of EBRD and IFC into the capital of OschadBank and UkrGasBank, respectively. In this context, we will also aim to unwind the current full state guarantee of Oschadbank's deposits by end-December 2019.

14. Additionally, we will move forward with legislation that is critical to create a sound operating environment for the development of our financial markets. To this end:

a. By end-March 2019, we expect parliament to adopt the law revisiting the supervisory responsibility for a variety of financial intermediaries ("split" law; #2413a; a ***structural benchmark***) and legislation establishing the powers, independence and institutional capacity of the National Securities and Stock Market Commission, allowing it to meet IOSCO standards (# 6303).

b. By end-March 2019, in coordination with the IMF and World Bank staff, we will submit amendments to the Law on Banks and Banking to address legal loopholes identified after the assessment of our regulatory and supervisory framework for sound risk governance practices against the 2015 Basel's Guidelines for Corporate Governance for banks.

c. Finally, we will work toward the adoption by mid-2019 of several financial sector laws under consideration by the Parliament, notably laws on derivatives and financial markets, consumer protection and money transfers.

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

Anticorruption

15. We are committed to build on recent gains in our efforts to tackle high-level corruption and to deliver concrete results. It is critical that the new anticorruption institutions—the National Anticorruption Bureau of Ukraine (NABU), the Special Anticorruption Prosecutor's Office (SAPO), and the High Anti-Corruption Court (HACC)—maintain their independence and integrity, to ensure that high-level corruption cases are effectively and credibly investigated, prosecuted, and adjudicated. We will make every effort to ensure the independence and integrity of these institutions and address shortcomings in the asset declaration and AML/CFT frameworks:

a. ***Anticorruption court***. We will operationalize the High Anti-Corruption Court (HACC) as established under Law 2018/2447, to ensure that corruption cases are adjudicated by judges with specialized skills and high integrity. The six members of the Public Council of International Experts (PCIE) have been appointed by the High Qualification Commission of Judges (HQCJ) from the nominations submitted by international organizations according to the criteria established in the Law. We will ensure that the entire process for assessing the candidates' practical skills and integrity, and their selection is transparent and consistent with the Law on the Judiciary and the Law on the HACC, including that the qualification evaluation is centered on anonymous written tests and a case study, and with publication of the methodology for assessment, the criteria used for the qualification evaluation, and the grades received by candidates for each test. The members of the PCIE and the HQCJ are provided, bound by confidentiality and sufficiently ahead of any interviews and assessments, with the same access to information on candidates. By end-April 2019, following nomination by the High Council of Justice, at least thirty-five anti-corruption judges with impeccable reputation and relevant professional skills will be appointed to the HACC in line with law

2018/2447, and with rules of procedures guaranteeing the objectivity and transparency of the process (a ***structural benchmark***). We expect the HACC to begin its operations by end-June 2019, and we will ensure that it has adequate resources for its operations, including staffing and IT, and that security is provided for buildings and personnel, as well as that all pending corruption cases subject to the HACC's jurisdiction are transferred from the other courts in accordance with the law.

b. ***National Anticorruption Bureau of Ukraine (NABU) operations***. In line with the prior action implemented in the context of the approval of the arrangement under the IMF's Extended Fund Facility in March 2015, an external audit of the NABU will be conducted by a panel of respected experts with international experience selected in accordance with the requirements set out in the NABU Law (#1698-VII). The terms of reference for the external audit of NABU will be developed in consultation with IMF staff and we will ensure that auditors have adequate resources to efficiently and independently complete the audit of NABU in time. Based on the analysis conducted by the auditors, the audit report will include clear and prioritized recommendations on the effectiveness of NABU and its operational and institutional independence, in line with international best practices. In case the auditors unanimously conclude that the criteria on dismissal of the NABU director referred to in Article 6.4.11 of the NABU Law are met, they will include the evidentiary basis, a detailed rationale, and recommendation in their report. In line with this framework, an audit report will be finalized by end-July 2019 and appended to the subsequent NABU report (a ***structural benchmark***). By end-June 2019, parliament will adopt legislation to strengthen the powers of NABU to ensure that the NABU has the use of a wide range of investigative techniques, including undercover operations, intercepting communications, accessing computer systems and controlled delivery, without having to rely on other agencies' infrastructure. We will maintain NABU's exclusive authority to investigate acts of corruption by high-level officials.

c. ***E-declaration***. Ensuring that politically exposed persons (PEPs) remain subject to comprehensive and published asset declaration requirements remains a priority, as this is critical to effectively address illicit enrichment and prevent the laundering of the proceeds of corruption. In this regard, by end-December 2018: (i) the National Agency for the Prevention of Corruption (NAPC) will ensure that NABU has direct and secure electronic access to the full asset declarations of all persons under NABU investigative jurisdictions; (ii) the NAPC will revise the electronic declaration form to facilitate the identification of PEPs, by ensuring an online search criteria for PEPs and the publication of the PEP's year and month of birth; (iii) the NAPC will start publishing quarterly statistics to monitor progress made in detecting absence or false declarations on a webpage freely available to the public (in line with the template detailed in paragraph 94 of the TMU); and (iv) the Ministry of Justice will prepare, in consultation with the relevant authorities, including the NAPC and NABU, a study on the legal and practical steps needed to transfer responsibility for the verification of asset declarations of persons under NABU's jurisdiction to NABU.

d. ***AML implementation***. We remain committed to strengthening and mobilizing the AML/CFT framework to support efforts to tackle high-level corruption. In this respect, by end-March 2019, and in agreement with IMF staff, we will adopt amendments to the AML legal framework, including to ensure: (i) the implementation of a three-tier reporting system (suspicious transaction reports as defined by the FATF, threshold-based reporting of cash transactions and international funds transfers, and mandatory reporting of transactions related to high-risk jurisdictions and PEPs); (ii) that the definition of the persons related to PEPs is consistent with the risk-based approach encouraged by the FATF standard; (iii) that proportionate and dissuasive sanctions can be implemented by the NBU in case of breaches of compliance with the AML framework, and (iv) that information on beneficial owners of companies is up-to-date and accurate. To monitor its contribution to anticorruption efforts, the FIU will continue publishing quarterly statistics on the information it disseminates to the NABU (in line with the template detailed in paragraph 96 of the TMU). The NBU will continue to conduct at least four quarterly inspections of banks at higher risk of laundering of the proceeds of corruption, focused on regulatory requirements related to customer due diligence and PEPs, including with regard to requirements to identify PEPs, to verify their source of wealth and beneficial ownership information. By end-January 2019, the NBU, with technical assistance from the IMF, will also prepare a roadmap to focus AML/CFT supervision on ensuring the adequacy of financial institutions' AML/CFT framework, and discontinue investigative functions.

Privatization and State-Owned Enterprise Reform

16. We remain committed to our SOE-reform strategy, that focuses on significantly downsizing the state-owned enterprise sector. Key measures include:

a. ***Privatization***. We have enacted a new privatization law, and the CMU has adopted the triage of all SOEs. We have now started the preparations for the sale in line with international best practices of six large SOEs, with the assistance of reputable advisors, and by end-December 2018 will launch the tender for the sale of PJSC Centrenergo. This will be followed by tenders for sale of Coal Company Krasnolymanska, Indar, and the President Hotel Kiev in the first half of 2019. We have also started with the sale of small companies and assets through electronic auctions (ProZorro), with the objective to have at least 500 small companies and assets sold by end-April 2019. We will submit draft legislation to parliament by end-April 2019, to reduce the list of companies banned from privatization to ensure that it is limited only to enterprises that are essential for national security. We will adopt a new law on the leasing of state property as a step to generate further demand for public assets by private entities. We will continue with our efforts to adopt a new bankable concessional law and launch a concession pilots in the first half of 2019.

b. ***SOE governance.*** We expect parliament to adopt the law on SOE governance (draft bill # 6428) by [end-June 2019], clarifying and strengthening the powers of supervisory boards and granting legal immunity and indemnity to its members. The selection of majority-independent supervisory boards for the largest SOEs, including Ukrenergo, Boryspil, Ukrposhta, is expected to be completed by end-December 2018. Moreover, external audits of the largest SOEs (prepared by international reputable companies) will be conducted by end-December 2019.

c. ***Oversight of SOEs fiscal risks***. Monitoring and assessment of fiscal risks emanating from the SOE sector will be one of the key responsibilities of the recently-established fiscal risks management division in the Ministry of Finance. We will also introduce a comprehensive fiscal risk management system and adopt the necessary legislative changes by end-July 2019 to better manage and reduce fiscal risks and enhance public asset and debt management (including public guarantees, public private partnerships, and local government borrowing).

Business Climate and Markets

17. ***Deregulation.*** In the last two years, we have substantially streamlined our regulatory framework *inter alia* by reviewing and abolishing about 700 obsolete and non-relevant sub-legislative acts, the automation of state supervision (control), streamlining procedures for obtaining permits and licenses, improving clarity and transparency in construction, telecom, and natural resources. We will continue to further review and streamline sub-legislation, reduce time for land allocation, simplify access to geological information, improve the system of subsoil use right auctions, implement risk-based approaches to audits and inspections by state authorities, simplify cash registers usage (by introducing new technologies and widening possibilities for cashless transactions, and impose sanctions for violating cash turnover regulations.

18. ***Land market.*** We will continue our preparations for establishing a transparent market for agricultural land. A working group comprising relevant ministries, in collaboration with the World Bank, has drafted a land turnover law to allow for the sale of land under adequate safeguards, and we have launched a public information campaign to explain the benefits of this reform.

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

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

	2017	2018	2019	2019	2019	2019
	December	December	March	June	September	December
	Act.	IT	PC	IT	PC	IT
I. Quantitative performance criteria						
Ceiling on the cash deficit of the general government (- implies a surplus) 2/	-	86,168	35,000	50,000	75,000	90,071
Ceiling on the cash deficit of the general government and Naftogaz (- implies a surplus) 2/	-	86,168	35,000	50,000	75,000	90,071
Floor on cumulative change in net international reserves (in millions of U.S. dollars) 3/ 4/	6,691	1,218	1,229	1,955	334	893
Ceiling on publicly guaranteed debt 2/	-	15,000	20,000	20,000	20,000	20,000
II. Continuous performance criterion						
Non-accumulation of new external debt payments arrears by the general government 4/	-	0	0	0	0	0
III. MPCC						
Inflation target 5/	-	6.0	5.75	5.5	5.25	5.0
IV. Indicative Targets						
Ceiling on cumulative change in net domestic assets of the NBU 3/	209,845	16,865	6,225	8,952	51,795	64,269
Ceiling on stock of VAT refund and CIT prepayment arrears 6/	-	0	0	0	0	0
Ceiling on current primary expenditure of the state budget and social funds 2/ 7/	-	1,118,520	n.a.	n.a.	n.a.	1,253,870
V. Memorandum Items						
Naftogaz deficit (- implies a surplus) 2/	-	0				0
External project financing 2/	-	17,000	5,000	10,000	15,000	21,161
Government bonds issued for banks recapitalization and DGF financing 3/	-	0	14,000	14,000	14,000	14,000
Programmed disbursements of international assistance except IMF (millions of U.S. dollars) 3/ 4/	-	3,297	4,297	5,882	5,882	6,882
Use of swaps (exchange of deposits) with other central banks 3/ 4/	-	0	0	0	0	0
Net issuance of central government domestic FX debt 3/ 4/	-	-30	-312	-356	-419	-479
Use of confiscated assets for FX payments or transfer to NBU gross international reserves 3/ 4/	-	0	0	0	0	0
Net new NBU loans to DGF and operations with government bonds issued for DGF financing or banks recapitalization (net of repayments to NBU) 3/	-	-9,384	-10,984	-10,984	-10,984	-10,984
Program accounting exchange rate, hryvnia per U.S. dollar	28.2794	28.2794	28.2794	28.2794	28.2794	28.2794

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 for 2018 are cumulative flows from January 1, 2018. Targets and projections for 2019 are cumulative flows from January 1, 2019.

3/ Targets and projections are cumulative from January 1, 2018. Data for December 2017 are stocks for end-December 2017.

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

5/ End of period, year-on-year headline inflation. Outer consultation band, triggering consultation with the Board, will be +4.75/-3.5 percentage for March 2019 and September 2019. Inner consultation bands, triggering consultation with staff, will be +/- 2 percentage points for December 2018, March 2019, June 2019 and September 2019 and +/- 1 percentage point for December 2019.

6/ For 2018 includes the stock of CIT prepayment arrears.

7/ For 2018, includes the consolidated pension and social funds.

Table 2. Ukraine: Prior Actions and Structural Benchmarks

Prior actions	Status	Completion date
1. Parliamentary approval and enactment of the 2019 budget and supporting tax legislation consistent with the program target of 2.3 percent of GDP (as specified in ¶5b).	Met	
2. (i) Raising the wholesale price for gas supplied to households and district heating companies to UAH 6,236 per thousand cubic meters (excluding transmission and distribution tariffs, supplier's mark-up and VAT), effective November 1, 2018; (ii) revision of the automatic gas price adjustment mechanism to ensure that the wholesale price for gas supplied to households and for heating will be adjusted automatically effective May 1, 2019 to 80 percent of the base market price as defined in CMU Resolution 867; and (iii) and approval and publication by the National Energy and Utilities Regulatory Commission (NEURC) of increases in the heating tariffs, effective January 1, 2019, to fully reflect the increase in the wholesale gas price, of all the heating companies licensed by NEURC (as specified in ¶8a).	Met	
3. Enactment of the law on State-Owned Bank Corporate Governance (law #2491).	Met	
Proposed Structural Benchmarks		
1. Raising heating tariffs, effective January 1, 2019, to reflect the higher wholesale gas price, of all remaining heating companies with an output of up to the NEURC-set threshold for volumes of annual production and supply of heating energy—thus together covering at least 95 percent of the total centralized heating supply (as specified in ¶8a).		End-December 2018
2. Adoption by the NBU of revisions to its capital regulations to subtract loan exposures to related parties above regulatory limits from regulatory capital (as specified in ¶10b).		End-December 2018
3. Parliamentary approval of the law revisiting the supervisory responsibility for a variety of financial intermediaries ("split" law; #2413a) (as specified in ¶14a).		End-March 2019
4. Publication of first report summarizing progress in asset recovery and litigation efforts related to the four state-owned banks (as specified in ¶11).		End-March 2019
5. Consolidate the current central and regional units of the State Fiscal Service (SFS) into two separate legal entities: the Tax Service and the Customs Service by end-April 2019, which will both report to the Minister of Finance (as specified in ¶7a).		End-April 2019

Table 2. Ukraine: Prior Actions and Structural Benchmarks (concluded)	
Proposed Structural Benchmarks	
6. Following nomination by the High Council of Justice, at least thirty-five anti-corruption judges with impeccable reputation and relevant professional skills will be appointed to the HACC in line with law 2018/2447, and with rules of procedures guaranteeing the objectivity and transparency of the process (as specified in ¶15a).	End-April 2019
7. The NBU to take appropriate supervisory actions against banks that fail to comply with capital requirements (as specified in ¶10a).	End-June 2019
8. Complete an external audit of the NABU, conducted by a panel of respected experts with international experience selected in accordance with the requirements set out in the NABU Law (#1698-VII) (as specified in ¶15b).	End-July 2019

Attachment II. Technical Memorandum of Understanding

December 5, 2018

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 under the Stand-By Arrangement, as described in the authorities' Letter of Intent (LOI) dated December 5, 2018 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. The quantitative performance criteria are shown in Table 1 of the MEFP. Prior actions and structural benchmarks are listed in Table 2 of the MEFP, with corresponding definitions in Section I below. 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 28.2794 set by the National Bank of Ukraine (NBU) as of August 31, 2018; and (ii) reference exchange rates of foreign currencies reported by the European Central Bank (ECB) on its web site as of August 31, 2018, which the NBU used to set official exchange rates of hryvnia to those currencies. In particular, the Swiss Franc is valued at 0.9698 per dollar, the Euro is valued at 1.1692 dollars, the Pound Sterling is valued at 1.3026 dollars, the Australian dollar is valued at 0.7301 U.S. dollars, the Canadian dollar is valued at 0.7734 dollars, the Chinese Yuan is valued at 0.1464 U.S. dollars, and the Japanese yen is valued at 111.4608 per dollar. The accounting exchange rate for the SDR will be 0.713578 per dollar. Official gold holdings were valued at 1,202.35 dollars per fine ounce. These accounting exchange rates are kept fixed over the program period. Therefore, the program's accounting exchange rate differs from the actual exchange rate set in the foreign exchange market of Ukraine. Furthermore, setting a program exchange rate for the purpose of computing monetary aggregates does not imply that there is any target exchange rate for policy purposes.

4. For the purpose of the program, gross domestic product is compiled as per the System of National Accounts 2008 and excludes Crimea and Sevastopol.

I. QUANTITATIVE PERFORMANCE CRITERIA, INDICATIVE CEILINGS, CONSULTATION CLAUSE, AND CONTINUOUS PERFORMANCE CRITERIA

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

Definition

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

6. Usable gross international reserves comprise all readily available claims on nonresidents denominated in convertible foreign currencies, consistent with the Balance of Payments Manual (Sixth Edition) and the Special Data Dissemination Standard (SDDS) (Table 6.1, item A). Excluded from usable reserves, *inter alia*, are:

- any assets denominated in foreign currencies held at, or which are claims on, domestic institutions (i.e., institutions headquartered domestically, but located either domestically or abroad, or institutions headquartered abroad, but located domestically). Also excluded are all foreign currency claims of the NBU on domestic banks, and NBU deposits held at the Interbank Foreign Currency Exchange Market and domestic banks for trading purposes;
- any precious metals or metal deposits, other than monetary gold and gold deposits, held by the NBU;
- any assets that correspond to claims of commercial banks in foreign currency on the NBU and any reserves assets that are (i) encumbered; or (ii) pledged as collateral (in so far as not already included in foreign liabilities, or excluded from reserve assets); or (iii) frozen; and
- any reserve assets that are not readily available for intervention in the foreign exchange market, *inter alia*, because they are not fully under the control of the NBU or because of lack of quality or lack of liquidity that limits marketability at the book price.

7. For the purpose of this program, reserve-related liabilities comprise:

- all short-term liabilities of the NBU *vis-à-vis* nonresidents denominated in convertible foreign currencies with an original maturity of one year or less;
- the stock of IMF credit outstanding;
- the nominal value of all derivative positions[1] (including swaps, options, forwards, and futures) of the NBU and general government, implying the sale of foreign currency or other reserve assets; and
- all foreign exchange liabilities of the NBU to resident entities (e.g., claims in foreign exchange of domestic banks, and NBU credits in foreign exchange from domestic market), which are not already excluded from reserve assets, but excluding foreign exchange liabilities to the general government, or related to deposit guarantees.

Table A. Ukraine: Components of Net International Reserves

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

1/ The definitions used in this technical memorandum will be adjusted to reflect any changes in accounting classifications introduced during the period of the program. The definitions of the foreign accounts here correspond to the system of accounts in existence on December 31, 2014. The authorities will inform the staff before introducing any change to the Charts of Accounts of the NBU and the Commercial Banks, and changes in the reporting forms.
2/ Before receiving the monthly data from the IMF's Finance Department, these components will be calculated on the basis of preliminary data from the NBU and memorandum accounts.

Assumptions in Line With the Authorities' Commitments

8. The NIR/NDA targets assume an average rollover of central government's domestic foreign exchange securities of at least 70 percent in 2018Q4 and 2019Q1 and 100 percent in 2019Q2-Q4.

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

The rollover will be achieved through an issuance of new central government foreign exchange securities with a maturity of at least 6 months, without options of early repayment.

Adjustment Mechanism

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

- The NIR targets will be adjusted upward (downward) by the full amount of the cumulative excess (shortfall) in net issuance (gross issuance minus debt service) of central government's domestic foreign exchange securities over (under) the amounts expected under the baseline (see Table 1 of the MEFP).

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

- In case the NBU requests use (draws) any reserve currency provided under a central bank swap agreement with a maturity of over 1 year, a symmetric adjuster will be applied to NIR targets. NIR targets will be adjusted upward by the amount used with maturity over 1 year. NIR targets will be adjusted downward when the NBU repays these amounts.

- The NIR targets will be adjusted upward (downward) by the full amount of the cumulative excess (shortfall) from the transfer of unencumbered confiscated foreign exchange assets to international reserves at the NBU or, if not transferred to international reserves, by the use of confiscated assets held at other accounts (or any other non-international reserve accounts) to make government FX payments, over (under) the amounts expected under the baseline (see Table 1 of the MEFP).

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

(Cumulative flows from January 1, 2018, millions of U.S. dollars at program exchange rate)

	Eurobond and private placement	EU	Others	Total
End-December 2018	2,695	603	0	3,297
End-March 2019	3,695	603	0	4,297
End-June 2019	4,695	1.187	0	5,882
End-September 2019	4,695	1,187	0	5,882
End-December 2019	5,695	1,187	0	6,832

B. Ceiling on Cumulative Change in Net Domestic Assets of the NBU (Indicative Target)

Definition

9. Net domestic assets (NDA) of the NBU are defined as the difference between the monetary base (as defined below) and the NIR of the NBU (as defined above, excluding the conversion of a non-reserve currency to a reserve currency through an outright sale under a central bank swap agreement of exchange of deposits). For the purpose of computing the NDA target, the NIR is valued at the program exchange rates defined in paragraph 3 and expressed in hryvnia.

10. The NBU's monetary base comprises national currency outside banks and banks' reserves, including cash at banks, and other NBU liabilities included in broad money and denominated in national currency.[2] Currency in circulation outside banks is defined as Currency—banknotes and coins (NBU accounts of group 300 minus NBU accounts of group 100)—minus cash at banks (banks' accounts of group 100. Banks' reserves are defined as cash at banks (banks' accounts of group 100) plus banks' demand deposits at the NBU in national currency (NBU liabilities accounts 3200, 3203, 3204 and 3208). Other NBU liabilities consist of deposits at the NBU that are included in broad money and denominated in national currency (NBU liabilities accounts of groups 323,[3] and accounts 3250, 4731, 4732, 4735, 4736, 4738, 4739, and 4750).

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

[3] Includes accounts of following sectors: other financial corporations;
state and local government; nonfinancial corporations; nonfinancial corporations; and non-profit institutions serving households.

Adjustment Mechanism

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

- NDA targets will be adjusted upward (downward) by the full amount of the cumulative excess (shortfall) in the total amount of new NBU loans (net of repayments) to the Deposit Guarantee Fund (DGF) as well as total amount of NBU purchases of government bonds issued for the purposes of DGF financing and NBU purchases from Privatbank of government bonds issued for bank recapitalization (net of change in Privatbank's NBU outstanding loans), relative to the baseline projection, and evaluated at the program exchange rates if provided in foreign exchange (Table C). The combined upward adjustment is up to a cumulative maximum of the bank recapitalization and DGF financing bonds issued from January 1, 2018 and the indicative cumulative limits are derived from the relevant row of Table 1 of the MEFP.

- The NDA targets will be adjusted downward (upward) by the full amount of the cumulative excess (shortfall) in net issuance (gross issuance minus debt service) of central government's domestic foreign exchange debt liabilities over (under) the amounts expected under the baseline (see Table 1 of the MEFP).

- The NDA targets will be adjusted downward (upward) by the full amount of the cumulative excess (shortfall) from the transfer of confiscated foreign exchange assets to international reserves at the NBU or, if not transferred to international reserves at the NBU, by the use of confiscated assets held at other institutions (or other non-international reserves assets) to make budget FX payments, over (under) the amounts expected under the baseline (see Table 1 of the MEFP).

Table C. Ukraine: NBU Net Loans to DGF and Purchases of Government Bonds Issued for DGF Financing or Banks Recapitalization: Projections for the NDA Adjustment

(Cumulative flows from January 1, 2018, millions of hryvnia)

	Net NBU loans to DGF and purchases of government bonds issued for DGF Financing	NBU purchases of government bonds issued for Bank Recapitalization (net of change in NBU loans)
End-December 2018	-4,884	-4,500
End-March 2019	-6,484	-4,500
End-June 2019	-6,484	-4,500
End-September 2019	-6,484	-4,500
End-December 2019	-6,484	-4,500

C. Monetary Policy Consultation Clause (MPCC)

Definition

11. Headline inflation is defined as the year-on-year rate of change of the Consumer Price Index as measured by Ukraine's State Statistics Service. The inflation mid-point targets and consultation bands are specified in Table 1 of the MEFP. Consultation with the IMF Executive Board will be triggered if the observed headline inflation falls outside an outer band of +4.75/-3.5 percentage points around the mid-point targets for end-March 2019 and end-September 2019. In this case, the authorities will complete a consultation with the IMF Executive Board that would focus on (i) the stance of monetary policy and whether the Fund-supported program remains on track; (ii) the reasons for program deviations, taking into account compensating factors; and (iii) proposed remedial actions, if deemed necessary. If the observed headline inflation falls outside an inner band range of +/- 2 percentage points around the mid-point targets for December 2018, March 2019, June 2019 and September 2019 and an inner band range of +/- 1 percentage point around the mid-point target for December 2019, then the authorities will complete a consultation with IMF staff on the reasons for the deviation and the proposed policy response.

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

Definition

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

- total net treasury bill sales[4] (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

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

cumulative total funds realized from the sales of treasury bills at the primary auction and government securities issued for recapitalization of banks and state-owned enterprises (SOE), less the cumulative total redemption of principal on treasury bills), excluding bonds issued to recapitalize Naftogaz[5] and other SOEs; plus

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

- total receipts from privatization (including the change in the stock of refundable participation deposits and the sale of nonfinancial assets) and the proceeds from uncompensated seizures; plus

- the difference between disbursements and amortization on any bond issued by the general government or the NBU to nonresidents for purposes of financing the deficit of the general government; plus

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

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

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

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

13. For the purposes of measuring the deficit of the general government, all flows to/from the budget in foreign currency (including from the issuance of foreign currency denominated domestic financial instruments) will be accounted in hryvnias at the official exchange rate established as of the date of the transaction. Financing changes resulting from exchange rate valuation of foreign currency deposits are excluded from the deficit. The government deposits in the banking system

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

exclude VAT accounts used for electronic administration and escrow accounts of taxpayers used for customs clearance.

Adjustment Mechanism

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

  a. exceed program projections, the ceiling on the consolidated general government deficit will be adjusted upward by 100 percent of the excess in external project financing; and

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

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

Table D. Ukraine: External Financing of General Government Projects and Budget—Adjustment

(Cumulative flows from January 1, 2018 and January 1, 2019, in millions of hryvnia)

	External project financing (Technical assumption for the adjustor purpose)	Budget support grant (Technical assumption for the adjustor purpose)
End-December 2018	17,000	0
End-March 2019	5,000	0
End-June 2019	10,000	0
End-September 2019	15,000	0
End-December 2019	21,161	0

- The ceilings on the cash deficit of the general government are subject to an automatic adjustor corresponding to the full amount of government bonds issued for the purposes of banks recapitalization and DGF financing, up to a cumulative maximum UAH 15 billion from January 1, 2019. The amount included in the targets is zero, and indicative cumulative amounts for bank recapitalization/DGF financing are presented in Table 1 of the MEFP.

- The ceiling on the cash deficit of the general government will be adjusted downward by the full amount of any increase in the stock of budgetary arrears on social payments accrued since the start of the fiscal (calendar) year. Budgetary arrears on social payments comprise all arrears of the consolidated budget on wages, pensions, and social benefits owed by the Pension Fund, and the central or local governments. Budgetary arrears are defined as payments not made 30 days after they are due. Wages are defined to comprise all forms of remuneration for work performed for standard and overtime work. Pension obligations of the Pension Fund comprise all pension benefits and other obligations of the Pension Fund. This definition excludes unpaid pensions to individuals who resided or continue to reside in the territories that are temporarily outside the government control.

- The ceiling on the cash deficit of the general government will be adjusted downward by the full amount of any increase in the stock of VAT as defined in section F.

- The ceiling on the cash deficit of the general government are subject to an automatic downward adjustment corresponding to the full amount of profits transferred by the NBU in excess of the amount accounted for in the 2019 budget, as approved by the Rada on November 22, 2018.

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

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

Definition

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

16. Naftogaz is defined as the national joint stock company "Naftogaz of Ukraine" and its subsidiaries (collectively, the "Naftogaz Group"). The cash deficit of Naftogaz is measured from below the line as:

- net domestic banking system credit to the company (this consists of all financing in either domestic or foreign currency extended to the company by banks less the change in company deposits in the banking system); plus

- the difference between disbursements of private foreign loans to Naftogaz (including private placements) and the amortization of private foreign loans (including private placements); plus
- the difference between disbursements of official foreign credits to Naftogaz (including project loans) and the amortization of official foreign credits (including project loans); plus
- the disbursements of trade credits to import gas; plus
- the difference between disbursements and amortization on any bonds issued by Naftogaz; plus
- the net change in deposits of Naftogaz in nonresident banks, or other nonresident institutions; plus
- net proceeds from any promissory note or other financial instruments issued by Naftogaz; plus
- net receipts from sale of financial assets (including recapitalization or other form of treasury securities issued to Naftogaz, irrespective of their issuance date); plus
- any other forms of financing of the company not identified above.

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

Adjustment Mechanism

- All the adjustors as specified in section D for the Cash Deficit of the General Government also apply to the general government component of this ceiling on the cash deficit of the general government and Naftogaz.
- The ceiling on the cash deficit of the general government and Naftogaz will be adjusted upward by the amount Naftogaz's investment expenditure in excess of UAH 15 billion, but by no more than UAH 25 billion (corresponding to a total investment expenditure of UAH 40 billion).

F. Ceiling on VAT Refund Arrears (Indicative Target)

18. The ceiling on the stock of VAT refund arrears is set to UAH 0 billion. The stock of VAT refund arrears is defined as those claims that have not been settled (through a cash refund, netting out against obligations of taxpayers, payment with a government bond (VAT bond) or an official decision to reject the claim) within a specified time period after the VAT refund claim has been

submitted to the State Fiscal Service (SFS). This time period is 74 days, allowing for verification of the validity and payment processing of claims.

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

19. The ceiling on the state budget current primary and pension expenditure is defined as current cash expenditure of the general fund of the central (state) government of Ukraine net of interest payments on domestic and external debt and net of transfers to from the state budget to the pension fund, plus total expenditures of the pension fund, plus payments of any past expenditure arrears. The ceiling is based on the definition as reported in the monthly treasury report (Kv_1ek) adjusted for Ukravtodor debt repayment and on information provided by the pension fund.

20. The ceiling on state budget current primary expenditure is subject to an automatic downward adjustor on the accumulation of new budgetary arrears on wages and social benefits owed by the state budget. Budgetary arrears are defined as payments not made 30 days after they are due.

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

Definition

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

I. Ceiling on Publicly Guaranteed Debt (Performance Criterion)

Definition

22. The ceiling on publicly guaranteed debt will apply to the amount of guarantees issued by the central (state) government. The official exchange rate will apply to all non-UAH denominated

debt. This ceiling excludes guarantees issued by the Ministry of Finance for NBU borrowings from IMF.

J. Other Continuous Performance Criteria

23. During the period of the Stand-By 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

A. Determination of the Official Exchange Rate

24. The NBU, on a daily basis, will set the official UAH/USD rate based on a weighted average of the exchange rates from the day's interbank market deals, excluding outliers. To calculate the official exchange rate, information on all deals concluded and provided to the NBU by trade information systems until 3:30 pm on the day will be considered regardless of the settlement date. Specifically, *tod*, *tom* and *spot* (T+2) deals will be included. Outliers are transactions for which the exchange rate deviates from the arithmetic mean for all transactions by more than 2 percent and the rate or volume deviates from the arithmetic mean for all transactions by more than 2 standard deviations. As a back-up mechanism, in case the number of transactions to be taken into account for the calculation is by noon less than or equal to 10 percent of the average daily value for the previous month, the rate will be calculated as the arithmetic mean of all quotations for purchases or sales of $1 million submitted by banks from noon to 1pm. The NBU will aim to make public its official exchange rate by no later than 4 pm of the day, preceding the one for which it is set.

III. COST RECOVERY OF GAS AND HEATING TARIFFS

25. Starting from November 1, 2018 and through December 31, 2019 (inclusive), Naftogaz shall sell/supply natural gas at the price (without VAT, natural gas transportation and distribution tariffs subject to mandatory payment in accordance with the natural gas distribution contracts) calculated in accordance with the formula:

P = (Pbase* Kd) where:

P – (wholesale) price of selling/supplying natural gas

Pbase - average arithmetic price of selling/supplying natural gas by Naftogaz to industrial consumers under the condition of advance payment prior to the gas delivery period, effective from July 1 through September 30, 2018 according to the Price List with regard to natural gas from the resources of the NJSC "Naftogas of Ukraine" (UAH 8981 per 1000 cubic meters).

Kd - discount coefficient (ratio) equaling:

0.6943 - for calculation of natural gas prices starting from November 1, 2018;

0.8 – for calculation of natural gas prices starting from May 1, 2019.

Starting from January 1, 2020, Naftogaz shall sell/supply natural gas at the prices set between the vendor (supplier) and purchaser (consumer), but no higher than the average arithmetic gas price, at which the Company offers gas to industrial consumers under the condition of advance payment prior to the gas delivery period.

IV. REPORTING REQUIREMENTS

A. National Bank of Ukraine

26. The NBU will continue to provide to the IMF on a monthly basis sectoral balance sheets for the NBU and other depository corporations (banks) according to the standardized reporting forms (SRFs), no later than the 25th day of the following month (except for SRFs for the end of the reporting year, which should be provided no later than the 41st day of the following month).

27. The NBU will provide to the IMF, on a daily basis, with daily data the stock of net and gross international reserves, at both actual and program exchange rates. In addition, it will provide the full breakdown of NBU accounts included in net international reserves (defined in Table A above) any additional information that is needed for the IMF staff to monitor developments in net and gross international reserves. On a monthly basis, no later than the 25th of the following month, the NBU will provide data on the currency composition of reserve assets and liabilities.

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

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

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

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

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

33. The NBU will continue to provide to the IMF daily and monthly data on the NBU financing operations (including swaps or refinancing) of the banks of Ukraine, and on the operations of mopping up (absorption) of the liquidity from the banking system (including through the CDs issuance) in the formats and timeliness agreed with the IMF staff. It will also provide, on a weekly basis, bank-by-bank information on the outstanding amount and weighted-average interest rates of loans from the NBU, reported by type of lending. On a monthly basis, the NBU will provide information on the collateral that has been pledged to the NBU for loans (by bank and loan type as well as by collateral type, haircut and currency). The weekly and monthly reporting of NBU loans and collateral will separately identify which banks are under temporary administration or liquidation.

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

35. On a daily basis and on a monthly basis within three weeks following the end of the month, the NBU will continue to provide the IMF with the depository corporations surveys, including any additional information that is needed for the IMF staff to monitor monetary policy and developments in the banking sector, in particular: net domestic assets, including NBU loans and liabilities with banks and detailed information on loans of the banking sector provided to the general government, with detailed breakdown of this information by indebtedness of the central (state) government and local budgets and the DGF, including in national and foreign currency, by loan and by security, as well as the information on the balances of the funds of the government held at the NBU, in particular, the balances of the Single Treasury Account denominated in the national currency (account 3240 A) and the funds of the Treasury denominated in foreign currency (account 3513 A) and DGF.

36. The NBU will provide to the IMF, on a monthly basis, projections for external payments falling due in the next 12 months. The data on actual settlement of external obligations, reflecting separately principal and interest payments as well as actual outturns for both the public and private sectors, shall be provided on a quarterly basis, within 80 days following the end of the quarter.

37. The NBU will provide to the IMF, on a quarterly basis, the stock of short- and long-term external debt (including arrears) for both public and private sectors.

38. The NBU will provide to the IMF, on a daily basis, data on foreign exchange export proceeds and obligatory foreign exchange sales; data on import transactions for goods and services; data on amounts of foreign exchange transferred from abroad to the benefit of physical persons—residents and nonresidents—to be paid in cash without opening an account; data on foreign exchange wires from Ukraine abroad for current foreign exchange nontrade transactions on the basis of the orders of physical persons; data on sales and purchases of foreign exchange cash by individuals (incl. through banks, exchange offices, and Ukrposta); data summarizing the implementation of T+n verification system (with n determined by the latest NBU resolution), namely, the total number and volume of transactions screened and the total number and volume of transactions blocked, with separate information on imports. The NBU will provide to the IMF weekly data on the volumes of noncash foreign exchange purchases on behalf of banks' clients and banks broken down by reasons (file 3KX).

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

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

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

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

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

43. The NBU will provide the IMF, on a monthly basis, bank-by-bank for State Participation Group, Foreign Banking Group and Private Capital Group banks the average interest rate on deposits to customers (by domestic and foreign currency, and legal entities and households, and by maturity—demand, savings, and time accounts); and on a weekly basis, the average interest rate on

interbank borrowings (by domestic and foreign currency, and by maturity—overnight, 1–7 days, and over one week).

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

45. The NBU will provide the IMF, on a monthly basis, in an agreed format, data for the entire banking sector—aggregates for Group 2 and on a bank-by-bank basis for State Participation Group, Foreign Banking Group and Private Capital Group banks the amount of loans and claims (by households in domestic and foreign currency, legal entities in domestic and foreign currency, banks in domestic and foreign currency, maturity, and by loan classification categories I, II, III, IV, and V); collateral for loans and claims (by type of collateral, legal entities in domestic and foreign currency, households in domestic and foreign currency, banks in domestic and foreign currency, and by loan classification categories I, II, III, IV, and V); provisions on loans and claims (by households in domestic and foreign currency, legal entities in domestic and foreign currency, banks in domestic and foreign currency, and by loan classification categories I, II, III, IV, and V); large exposures (loans equal to or greater than 10 percent of equity), refinanced loans, and restructured loans (by households, legal entities, and banks); the average interest rate on the outstanding stock of loans to customers (by legal entities and households; accrued interest on loans (by domestic and foreign currency); securities held for trading and available for sale, with government securities reported separately (by domestic and foreign currency); securities held to maturity and as investment, with government securities reported separately (by domestic and foreign currency).

46. The NBU will provide the IMF, on a monthly basis, in an agreed format, bank-by-bank for the State Participation Group, Foreign Banking Group and Private Capital Group banks the amount of deposits of related parties (by domestic and foreign currencies, and households and legal entities); deposits of related parties pledged as (cash cover) collateral (by domestic and foreign currencies, and households and legal entities); other liabilities to related parties (by domestic and foreign currencies); related-party loans (by households, legal entities, and banks); counterparty names and

amounts of the largest 20 loans to related parties; collateral for loans and claims on related parties (by type of collateral, legal entities, households, and banks in domestic and foreign currencies, as well as by loan classification categories I, II, III, IV, and V); provisions on loans and claims on related parties (by households, legal entities, and banks in domestic and foreign currencies, as well as by loan classification categories I, II, III, IV, and V).

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

48. The NBU will report to the IMF, on a monthly basis, data for the entire banking sector (and aggregates for Group 2) as well as on a bank-by-bank basis for State Participation Group, Foreign Banking Group and Private Capital Group banks on cumulative income statements, including total revenues; interest revenues (from loans to households, loans to legal entities, interbank loans, placements with the NBU, securities); revenues from fees and commissions; total expenses; interest expenses (on deposits to legal entities, deposits to households, interbank borrowing, borrowing from NBU, securities issued); fees and commissions paid; salaries and other staff compensation; other operational expenses; net earnings before loan loss provisions; loan loss provisions; net earnings after loan loss provisions; taxes paid; net earnings.

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

50. The NBU will report to the IMF on a bi-weekly basis and bank-by-bank the amount by which the State Participation Group, Foreign Banking Group and Private Capital Group 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 ratio, large exposures, and related or connected lending, as well as about decisions on declaring a bank as problem or insolvent.

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

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

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

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

56. The NBU will communicate (electronically) to the IMF staff any changes in the accounting and valuation principles applicable to the balance sheet data and will notify the staff before introducing any changes to the Charts of Accounts and reporting forms of both the NBU and the commercial banks.

57. The NBU Internal Audit Department will continue to provide an assurance report to the Fund, no later than six weeks after each test date, confirming that (i) the monetary data are in accordance with program definitions and have been verified and reconciled to accounting records; and (ii) that there have been no changes to the chart of accounts or valuation methods that would impact the data reporting.

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

59. The NBU will provide the Fund with data relative to the interest income and principal received from January 1, 2017 on its portfolio of government bonds on a monthly basis but no later than 15 days from the end of the reporting period. Monthly, the NBU will also provide data on the monthly coupons and principal to be paid (in hryvnia and foreign currency, separately) on the outstanding stock of government securities held by NBU and the public.

B. Deposit Guarantee Fund

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

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

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

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

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

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

C. Ministry of Finance

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

67. The Treasury will continue to provide to the IMF reports on daily operational budget execution indicators, daily inflow of borrowed funds (by currency of issuance) to the state budget and expenditures related to debt service (interest payments and principals), weekly balances of Treasury cash flow (outturn and forecast), including data on government foreign exchange deposits, in a format agreed with IMF staff, 10-day basis data on the execution of the state, local, and consolidated budgets on the revenue side and data on revenues from the social security contributions, monthly data on funds, deposited with the Single Treasury Account, on the registration accounts of the entities which are not included in the state sector, information on balance of funds as of the 1st day of the month on the account #3712 "accounts of other clients of the Treasury of Ukraine," on inflow to the State budget from placing Treasury or any other liabilities to households in foreign and domestic currency and their redemption.

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

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

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

71. The Ministry of Finance will provide data on the stock of all budgetary arrears on a monthly basis, no later than on the 1st day of the second subsequent month, including separate line items for wages, pensions, social benefits, energy, communal services, and all other arrears on goods and services. The Treasury will report monthly data on accounts payable for state and local budgets (economic classification of expenditures). The Pension Fund will provide monthly reports on net unpaid pensions to the individuals who resided or continue to reside in the territories that are temporarily outside the government control.

72. The Ministry of Finance will provide monthly information, no later than 25 days after the end of each month, on the amounts and terms of all external debt contracted or guaranteed by the central government.

73. The Ministry of Finance will provide to the IMF in electronic form on a monthly basis, no later than 25 days after the end of the month, (a) data on the outstanding stock of domestic and external debt of the state and local budgets (including general and special funds); (b) the standard files planned and actual external debt disbursement, amortization, and interest payments (including

general and special funds), broken down in detail by creditor categories as agreed with Fund staff; and (c) the report on external debt amortization and interest payments by days and currencies. The Ministry of Finance will also report the accumulation of any budgetary arrears on external and domestic debt service.

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

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

76. 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.

77. 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.

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

79. 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										

80. 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.

81. 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.

82. 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.

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

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

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

85. For each month, no later than the 25th of the following month, the government (based on information by the Ministry of Energy and Coal Industry, the Ministry of Economic Development and Trade, SFS/SCS, MoF, NCSREU, and Naftogaz) will provide IMF staff with information in electronic form (in an agreed format defined as "Ukraine: The Financial Position of Gas Sector") on financial indicators in the gas and heating sectors, including prices and volumes of domestically produced (by production entity) and imported (by sources of imports) gas, sales, tariffs, arrears, payments to the budget, subsidies, and debt.

86. For each month, no later than the 25th of the following month, the Ministry of Economic Development and Trade (based on information by Naftogaz) will provide IMF staff with information in electronic form (in an agreed format) on the cash flows and deficit of Naftogaz Group and separately for each of the entities, as defined above. This report will provide information on volumes and prices of gas purchases and sales (purchase of domestic and imported gas, sales to households, heating utilities, budget institutions, and industries), and the main revenue, expenditure and financing items. 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. 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.

87. 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.

88. 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).

89. 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.

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

91. 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

92. 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

93. 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) total value of outstanding HUS debt (f) number of refusals extended to such applications; (g) income per capita of participants, both for HUS and privileges; (h) number of household members; and (i) main reason for refusal for HUS applications (e.g. lack of residency information) and are to be presented by overall, by region and for rural/urban areas.

G. National Agency for Prevention of Corruption

94. The National Agency for Prevention of Corruption (NAPC) will publish on a website freely available to the public quarterly data, no later than at the end of the month following the quarter, on the action taken regarding the asset declaration of high level officials, in the following format:

Number of Full Verifications of Asset declarations by the NAPC (Article 50 Law on Prevention of Corruption)						
	Members of Parliament, Members of the Government	Judges	Prosecutors	Category A Civil Servants	SOE Managers	Others
Number						

Reports sent by the NAPC to NABU						
	Members of Parliament, Members of the Government	Judges	Prosecutors	Category A Civil Servants	SOE Managers	Others
Number of reports for absence of declaration						
Number of reports for false declaration						

H. National Anti-Corruption Bureau

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

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

Number of Persons Convicted—First Instance												
Penal Code Article	Members of Parliament, Members of the Government		Judges		Prosecutors		Category A Civil Servants		SOE Managers		Others	
	Fine	Jail	Fine	Jail	Fine	Jail	Fine	Jail	Fine	Jail	Fine	Jail
Art. 191												
Art. 206-2												
Art. 209												
Art. 210												
Art. 211												
Art. 354												
Art. 364												
Art. 368												
Art. 368-2												
Art. 369												
Art. 369-2												
Art. 410												
For fines, total value in UAH. For jail, total months (and suspended jail).												

Number of Persons Convicted—Final Decision												
Penal Code Article	Members of Parliament, Members of the Government		Judges		Prosecutors		Category A Civil Servants		SOE Managers		Others	
	Fine	Jail	Fine	Jail	Fine	Jail	Fine	Jail	Fine	Jail	Fine	Jail
Art. 191												
Art. 206-2												
Art. 209												
Art. 210												
Art. 211												
Art. 354												
Art. 364												
Art. 368												
Art. 368-2												
Art. 369												
Art. 369-2												
Art. 410												
For fines, total value in UAH. For jail, total months (and suspended jail).												

I. Financial Intelligence Unit

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

Reports sent by the FIU to NABU						
	Members of Parliament, Members of the Government	Judges	Prosecutors	Category A Civil Servants	SOE Managers	Others
Number of reports disseminated						
Aggregated value of suspected money laundering						