Supplementary Letter of Intent

Kyiv, March 29, 2017

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

Dear Ms. Lagarde:

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

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

3. The recent events also caused a strong negative public reaction to Russian state-owned banks operating in Ukraine. In the interest of our national security, we imposed restrictions on the transactions of these banks with their parent banks, and we have notified the IMF's Executive Board of these measures under Decision No. 144-(52/51). We will ease these restrictions as soon as security conditions permit.

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

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

Yours sincerely,

Petro Poroshenko
President

Volodymyr Groysman
Prime Minister

Oleksandr Danylyuk
Minister of Finance

Valeria Gontareva
Governor, National Bank of Ukraine