Preliminary Draft (February 28~~January 25~~, 2016)

Ukraine: Letter of Intent

Kyiv, March~~January~~ [..], 2016

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

Dear Ms. Lagarde:

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

2. Notwithstanding the exceptionally difficult situation in Ukraine—with the unresolved conflict in the East—we have made steadfast efforts to implement policies under the EFF-supported program reflecting our strong commitment to economic adjustment and reforms. Economic activity grew in the third quarter of 2015, quarter-on-quarter, for the first time since 2014 and after a deep and painful recession. Inflation is falling sharply and the foreign exchange market has remained broadly stable in recent months. ~~Our gross official reserves have continued to increase although by less than planned due largely to a more adverse external environment and delays related to disbursements from official creditors.~~ In terms of policies, we have taken measures to advance the much needed fiscal consolidation, restore financial sector stability, start to combat corruption, and improve the business climate. ~~We have successfully completed the restructuring of 13 out of 14 sovereign bonds, and are engaged in negotiations on the restructuring of the remaining bond consistent with the objectives of our program, aiming to achieve debt sustainability.~~

3. Our actions ensured that all but two of the~~most~~ performance criteria (PC) for ~~end-September 2015 and~~ end-December 2015 ~~PCs~~ were met, as well as~~and~~ most structural benchmarks set for the period through end-February 2016~~were met~~. Regarding the two missed PCs, f~~F~~ollowing the non-observance of the end-September PC for the National Bank of Ukraine's (NBU) Net International Reserves (NIR) by a small margin, ~~in September~~ we introduced daily foreign exchange auctions of preannounced volumes with safeguards to prevent undue depreciation, and have since purchased nearly US$~~[nearly~~ 400~~]~~ million. Notwithstanding these efforts, the (adjusted) end-December NIR PC was also missed, due largely to a more adverse external environment and delays related to disbursements from official creditors. Also, while we have successfully completed the restructuring of 13 out of 14 sovereign bonds, but could not reach an agreement yet on the restructuring of the remaining bond, on which we have fallen into arrears. However, we are engaged in negotiations on the restructuring of this bond consistent with the objectives of our program, aiming to achieve debt sustainability. Regarding the three~~We also~~ missed ~~[three] out of seven~~ structural benchmarks, we have taken the following corrective actions: (i)~~.~~ ~~T~~to correct for the delay in establishing a specialized anti-corruption prosecution function to oversee NABU's investigations, we have appointed the head of the anti-corruption prosecutors and two deputies prior to the completion of this review and have

~~will~~ mad~~k~~e further improvements to secure a sustainable, fair and balanced selection framework going forward by amending the Law on the Prosecutor's office~~ by end-March 2016~~. Meanwhile, NABU has become operational as planned; (ii) w~~W~~e ~~also~~ request to reset the end-December 2015 benchmark on pension reforms. While we remain committed to advancing reforms to set the pension system on a sound footing—which has gained urgency with the reduction in social security contributions—we need some additional time to build the necessary support within society; and (iii)~~.~~ ~~Furthermore,~~ while we have been making steady progress on the structural benchmark on orders of payment and garnishment, the legal process is taking more time and we request to reset this benchmark to end-April 2016, while also expanding its scope. We remain committed to enhance transparency and address corruption, speed up privatization, and improve governance of state-owned enterprises, and have stepped up our efforts by adopting several key pieces of legislation, including amendments to the Law on Privatization. a new Law on Corporate Governance of State Property, and—prior to the completion of this review—legislation to put in place an effective and transparent asset declaration requirement for high-levels officials.

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

5. On the basis of steps that we have already taken and commitments under the program, we request completion of the second review, and a disbursement in the amount of SDR 1,182.1 million. Given the delay in completing this review as well as in the implementation of some of the measures under the program, we also request that the third review under the arrangement be based on the end-March 2016 performance criteria, and the remaining access under the arrangement be rephased with the next three purchases to be equal to SDR 978 million each, followed by eight equal purchases of SDR 437.975 million. In addition, we request waivers of nonobservance of the end-December 2015 performance criterion on the net international reserves of the NBU and the

continuous performance criterion on the non-accumulation of external debt payment arrears, [as well as the continuous performance criterion on the non-imposition of restrictions on the making of payments and transfers for current international transactions, ~~import restrictions,~~ resulting from the freezing of assets of nonresidents that were introduced for national security purposes and of which we have notified the IMF under the procedures of IMF Executive Board Decision 144.].~~the temporary imposition of trade measures introduced at the beginning of this year in response to trade measures imposed against Ukraine]. We also request waivers of applicability of all other end-December 2015 performance criteria for which data are not yet available and for which there is no evidence that these were not observed.~~

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

Yours sincerely,

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

Attachment I. Ukraine: Memorandum of Economic and Financial Policies

I. Recent Economic Developments and Outlook

1. **While the 2015 recession proved deeper than expected, signs are emerging that the economy has turned the corner**. Real GDP declined by 15.8 percent in the first half of 2015, about one percentage point more than projected at the time of the first review. However, high frequency indicators since May point to nascent revival of economic activity, albeit from a low level. Industrial production has started to recover gradually. Retail trade is also improving, supported by a turnaround in real wage trends since May. Real GDP grew by 0.5 percent, q-o-q, in the third quarter and is expected to pick up in the fourth quarter, supported by recovering consumer and investor confidence, improved export performance, and a gradual easing of credit conditions on the back of ongoing bank recapitalization and resolution efforts. In view of the sharper than expected reduction in economic activity in early 2015, however, we revised our GDP growth estimate for 2015 to -10.5 percent. With a worsening external environment—including lower commodity prices that affect some of our key export products—we still expect growth to turn positive in 2016, but we have revised our forecast to 1.5 percent.

2. **Inflation has fallen sharply in recent months.** After the increase in the price level caused by the large exchange rate depreciation and energy price increases earlier in the year, seasonally adjusted annualized inflation has fallen to ~~below [...]~~ 13½ percent in June-December as a result of exchange rate stabilization, prudent monetary policy, and weak demand. Headline inflation slowed to 43.3 percent at end-2015, slightly below previous projections. Inflation is expected to decelerate quickly to 12½-13 percent by end-2016.

3. **The overall balance of payments was broadly in line with the program in 2015, but is expected to worsen in 2016, reflecting a more adverse external environment**. While exports continue to underperform—owing to feeble demand in trading partners and low commodity prices—imports have also been compressed as a result of the weaker economy, the hryvnia depreciation, and lower gas imports. As a result, the current account of the balance of payments is expected to have recorded a small deficit (~~[~~0.3~~4]~~) percent of GDP) in 2015, about ~~[~~1½ ~~.2]~~ percentage points of GDP less than in the first program review The private financial account has been broadly in line with projections, reflecting the ongoing restructuring of private sector debt. Gross reserves increased to over US$13 billion at end-December 2015, more than double the level at the start of the program, but below our projections, mostly as a result of delays in the disbursement of some US$~~[~~5~~]~~ billion in official financing. With lower prices of some of our key export commodities, however, and trade restrictions imposed against Ukrainian goods and services, the current account deficit is projected to widen to close to 2½ percent of GDP in 2016.

II. Policies under the Program

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

A. Monetary and Exchange Rate Policy

5. **We remain committed to securing monetary and financial stability by maintaining a flexible exchange rate, lowering inflation, and building reserves.** A flexible exchange rate will continue to support the needed economic adjustment, while higher reserves will further enhance confidence and strengthen the basis for normalizing financial conditions. To this end, the NBU has purchased US$1.4~~6~~ billion since end-February 2015 and agreed on swaps/credit lines with the central banks of Sweden and Poland equivalent to US$1.5 billion. In a break from the past, since the spring of 2015, Naftogaz has met its FX needs directly from the market or by borrowing from domestic banks and bilateral creditors. Notwithstanding these efforts, the PCs for NIR at end-September and end-December 2015 were missed, as lower than expected commodity prices and other external factors weighed on the hryvnia and sizable FX intervention could have led to self-fulfilling exchange rate depreciation expectations, with harmful effects on inflation as well as bank and corporate balance sheets. With stronger FX supply in the fall of 2015, partly due to grain export proceeds, we stepped up FX purchases through auctions that were introduced in September. Since then, we purchased on balance close to US$400 million from the market through end-December 2015. To further entrench stability, we will continue to:

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

b. **Ease administrative FX control measures as conditions warrant.** We will ease the restrictive measures gradually and cautiously, in line with the prerequisites in the roadmap for easing administrative restrictions, (July MEFP ¶6b), while closing newly found loopholes to limit the FX drain, ensuring orderly conditions in the FX market and supporting our efforts to build reserves. The NBU in consultation with the IMF will further elaborate this road map, aiming at striking a balance between preserving hard-won financial stability and alleviating the adverse effects of administrative measures on the economy, and communicate to the market progress with the implementation of the conditions-based plan to anchor expectations.

6. **Our monetary policy remains focused on reducing inflation to single-digit levels in the medium-term.** The NDA targets for end-September and end-December 2015 were met comfortably, with the NBU absorbing banks' excess liquidity through sales of NBU certificates of deposits (CDs). To reduce the wide corridor that had opened between the NBU's deposit rates and other key rates, the NBU reduced its discount rate by 800 bps in August-September (to 22 percent) and the rarely used overnight bank refinancing rate by 900 bps (to 24 percent), while keeping the rate on 14-day CDs (the main liquidity absorption instrument) unchanged at 20 percent. This adjustment will improve the NBU's monetary policy transmission, as it narrows the range within which the NBU aims to keep interbank rates close to the target policy rate. Going forward, the NBU will continue to improve the operating framework and communications to further strengthen the interest rate transmission mechanism and transparency. In particular, the NBU will communicate that there is one

policy rate, with standing facility rates linked to the policy rate and other rates market determined. As inflation expectations still remain around 15-20 percent, further gradual easing of the policy stance will resume only after the disinflation trend proves to be firmly entrenched (as reflected also by inflation expectations converging towards projected inflation), reserve accumulation is on track, and monetary and financial stability continue. The policy interest rate will remain strongly positive in real terms on a twelve-month forward-looking basis ~~to anchor expectations~~. To support its monetary policy objectives, the NBU will monitor bank liquidity closely and actively absorb liquidity as needed. As communicated in the monetary policy strategy, the NBU is committed to price stability (i.e., single-digit inflation in the medium-term) and to establishing formal inflation-targeting when the conditions for this are in place. The NBU will continue to consult with IMF staff on this during upcoming reviews.

B. Safeguards Assessment

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

C. Financial Sector Policies

8. **We have continued to make steady progress in implementing our banking sector strategy to rehabilitate the financial sector and restore confidence**. At end-July 2015, we notified banks of the results of NBU's verification of related-party loans and, in mid December, we sent a final report to the largest 10 banks listing all related-party loans and the amounts by which they exceed exposure limits, according to the new regulatory framework. Final results of the second wave of bank diagnostics for the 20 largest banks have also been completed and communicated to each individual institution. As of end-November 2015, 68 banks have been resolved as part of our continuous commitment to strengthen the financial system.

9. **Our next steps now go in six directions**:

- unwinding excess related loans and enhancing post monitoring of financial institutions;
- making further progress with our bank recapitalization and restructuring strategy;
- enhancing banking supervision and regulations;

- strengthening governance and financial performance in the DGF and state-owned banks;
- improving the existing framework for resolving non-performing loans; and
- reforming securities markets.

Unwinding excess of related loans and enhancing post monitoring

10. **We are working to complete the review of the banks' three-year plans to reduce related-party loans.** While our work in the field has been completed and preliminary results have been communicated to the concerned banks, completing the dialogue with each institution will require a short extension of the original deadlines. To this end:

a. By end-January 2016, ~~all~~the 10 largest private banks ~~will~~ submitted their plans to unwind related-party exposures that exceed limits according to the NBU's final list. We [have~~will~~ reviewed and approved] the plans ~~to~~ ensuring~~e~~ that they: (i) have been approved by bank managers and supervisory board members; and (ii) include well-defined quarterly targets designed on the basis of original loan repayment schedules. ~~We will complete our review of this group of banks' unwinding plans by end-February 2016.~~ We will complete the review of related-party exposures of the next 10 largest banks by end-March 2016 and by end-April 2016 these institutions will submit their plans to unwind related party exposures that exceed limits. By end-December 2016, we will complete the review of related parties for the remaining 100 banks. The review of the first 10 largest banks in this group will be completed by end-~~April~~[July] 2016.

b. By December 15, 2015, the Related Parties Monitoring Office (RPMO) was ready and fully staffed to monitor monthly the level of outstanding loan amounts of all related parties included in the above-mentioned list and identify a preliminary list of new borrowers in the banks subjected to unwinding plans. These findings will be reported to the NBU board ~~bi-~~monthly. The first report is due by end-February 2016. By end-October 2016 the RPMO, with technical assistance from the IMF, will review and, if needed revise its internal objectives and modes of coordination with other relevant NBU departments, and define a work plan for the next 12 months.

c. By end-March 2016, on the basis of our main findings during the recent review of related parties, we will refine the relevant regulatory framework to eliminate remaining gaps that may eventually be used by banks to evade credit limits.

d. The NBU has started working on expanding the operations of its current Registry of Borrowers toward establishing a credit registry at the NBU to enhance credit risk and related-party loans monitoring. The NBU will finalize by end-March 2016 discussions with banks on the data to be collected and shared by the credit registry. The NBU will submit the necessary amendments to the legislation to parliament by end-April 2016 to provide sufficient power to the NBU to set up the credit registry in line with international best practices and to authorize the NBU to disclose information from the credit registry to banks. Furthermore, considering that more than 60 banks are under liquidation, the law will introduce requirements on these institutions to regularly report to the NBU their credit data without imposing a cost burden on them and allowing the NBU to share such information with private credit risk bureaus.

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

Making further progress on bank recapitalization and restructuring

11. **~~We will ensure that~~ Tthe recapitalization plans for the 10 largest banks [were~~are~~ completed by end-January 2016 ~~(for the 10 largest banks)~~, and they [have since been reviewed and approved by the NBU.]** We will ensure that the recapitalization plans for the second 10 largest banks are completed by end-March 2016 ~~(for the second 10 largest banks)~~, and that all banks bring in high-quality capital. Specifically, we will ensure that bank insolvency or undercapitalization is addressed preferentially through cash injection and/or debt conversion into equity, although in their recapitalization plans the financial institutions could consider, as mitigating factors, the post-diagnostic problem--loan collection, incorporation in their balance sheets of other commercial assets as means of loan recovery and/or the effective enhancement of problematic borrowers' quality by adding new valuable collateral or consolidating their cash-flows with those of credit-worthy affiliated companies, subject to strict conditions discussed in paragraph 11.b (below). Upon communication of capital needs, we have appointed a monitoring team to verify in-situ that until the undercapitalized or insolvent banks meet a minimum CAR of 0 percent and 5 percent (by end-March 2016 and end-August 2016 for the first 10 largest banks, and end-April and end-September 2016 for the second 10 largest banks, respectively), they do not engage, without NBU board approval, in new business activities, asset disposal, transfer or pledge liquid assets held abroad or sign contracts that impose the payment of fees to third parties. Furthermore, we will ensure that:

a. Bank recapitalization plans through 2018 are credible, particularly their early actions to meet a minimum CAR of 5 percent as outlined above. In particular, we will ensure that capital needs arising from the correction of old practices to calculate loan provision are regularized by end-August end-September 2016, respectively, for the first and second 10 largest banks as part of the injection to meet the target of minimum CAR of 5 percent ~~Tier I capital~~ and in line with the adoption of the new regulation on credit risk assessment.

b. If some banks' recapitalization plans include measures to mitigate their capital needs we will ensure that the actual implementation of these measures meets the following criteria: (i) ***Proper valuation:*** the value of assets received as loan repayments or new loan collateral reflects market prices; (ii) ***Sound legal documentation:*** ownership of assets, liens on new loan collateral, and/or cash flow association between affiliated companies are based on legally binding documentation and adequately registered in public records, where applicable; (iii) ***Viability test:*** the incorporation of commercial assets and the consolidation of cash flows of affiliated companies is supported by credible and sustainable financial plans; and (iv) ***Timely unwinding of regulatory breaches***: in case the adoption of mitigating measures were to lead to breaches of prudential limits their unwinding should be completed no later than end-December 2018. While the NBU will complete the verification of the mitigating measures (with the participation of internationally recognized appraisers) no later than 90 days since their actual implementation the banks must adopt them or demonstrate they are on an irreversible track for completion by the due dates for bank capitalization indicated above. In case our review were to show that the adopted mitigating measures are insufficient to recapitalize a bank, we will grant the financial institution no more than 30 days to regularize its capital needs or face supervisory actions. By [end-~~mid~~ February] 2016, NBU, in consultation with IMF staff, will issue a resolution that defines the steps for the banks' adoption of the mitigating measures above discussed. Banks showing break-even or negative operating income through 2017, after stress tests, submit restructuring plans that demonstrate measures to be adopted in the next 12-18 months to reverse such trends and ensure its viability, defined in line with international best practices.

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

d. No later than end-~~June~~ July and end-October 2016, the steering committee, established at the NBU to revise the consistency of the bank diagnostics, will submit for board approval the results of the next second and third 20 largest banks, respectively. We will ensure that these banks inject capital according to the table below. The remaining 57 banks, accounting for 2 percent of the system assets, will be subjected to a well-targeted viability and capital needs assessment by the NBU with the aim to ensure that only sound and well run banks remain operating in the Ukrainian banking system. This targeted exercise will be run on a continuous basis and completed no later than end-June 2017.

Calendar of remaining 100 banks	Completion of			Recapitalization to	
	Diagnostics	Review SC	Board approval	Zero Tier 1	CAR of 5%
First 20 largest	end-May 2016	end-June 2016	end-July 2016	end-September 2016	end-December2016
Second 20 largest	end-September 2016	end-October 2016	end-November 2016	end-January 2017	end-April 2017

12. **We have completed our strategy and contingency planning for systemic banks on the basis of best international practices and principles agreed with IMF and WB staff.** In case of need, we will:

a. Assess all resolution options and on that basis the NBU board will timely submit to the Cabinet of Ministers a detailed report, including a resolution proposal and rationale, capital needs over a 3 years horizon, and a technical discussion on minimum assumptions under which the selected resolution option meets viability;

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

c. Ensure that the DGF 's special administrator, as part of the resolution process will dispose the full provision of all related loans identified by NBU. Furthermore, in case of bank nationalization, we will create inside the bank a special unit to manage and collect these loans managed by a specialized senior team that will be appointed by the new supervisory board within the first [60 days] since the bank's resolution started;

d. Engage a highly recognized international firm to run the resolved bank with commercial business perspectives. Furthermore, no later than [90] days since the banks' intervention, the MoF will establish and publish a "Relationship Framework Agreement" with the resolved bank in the terms described in paragraph 16 of this MEFP;

e. Prosecute bank managers and owners to the extent of the law.

13. **We are enhancing further our legal framework to facilitate program implementation**. In December 2015, amendments to the Law of Ukraine "On Measures Aimed At Facilitating Banks' Recapitalization and Restructuring" were approved by parliament.

Enhancing banking supervision and regulation

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

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

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

c. By end-March 2016, in consultation with IMF staff, the NBU board will approve a new regulation on credit risk activities that will be aligned with Basel principles and international best practices, including forcing banks to primarily classify borrowers on the basis of their forward looking financial position, while relegating collateral to be a loss mitigating factor, and ensuring that tangible loan collateral meets minimum safe and sound conditions. This regulation will become effective for the preparation of the banks' financial statements ending September 1, 2016 and onwards;

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

Strengthening bank governance and DGF's financial performance

15. **We recognize that ensuring effective corporate governance is critical to the proper functioning of the banking sector**. With the assistance of an external expert, by end-~~April~~ May 2016, the NBU will complete an assessment of its current regulatory and supervisory framework on sound risk governance practices against the 2015 Basel's Guidelines for Corporate Governance for Banks. The assessment aims to identify areas for further improvement on board qualifications and

responsibilities, the board's own structure and practices, risk management, and governance of group structures. On the basis of this assessment:

a. By end-~~July~~ August 2016, the NBU will pass revised or new resolutions reflecting the findings of the assessment, with the view that these will be fully implemented no later than end-December 2016; and

b. By end-October 2016, with external technical support, the NBU will complete its assessment of the collective suitability of the board and qualifications of senior management of the 10 largest banks and, where applicable, instruct banks to adopt corrective measures within 90 days. By end-December 2016, a similar assessment for the next 10 largest banks will be completed. The remaining banks will be subject to the same review through end-June 2017 in line with a calendar to be agreed with IMF staff.

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

a. By end-March~~February~~ 2016, we will select—with the assistance of the EBRD—~~-~~a reputable international recruitment firm to entirely run the selection process of all members of the SOB's supervisory boards and will adopt legislation to reduce their composition to seven members each. Bearing in mind new NBU corporate governance requirements discussed above, this firm will present no later than end-June 2016 a short-list of candidates for the members of the supervisory boards of the SOBs, from which by end-July 2016 a committee~~,~~ comprising representatives of the President and the~~, the~~ Cabinet of Ministers will make the selections for each of the supervisory boards~~by end-July 2016~~.

b. By end-April 2016, the three largest SOBs will complete their business strategy action plans taking into account the state's timetable to gradually reduce its presence in the financial sector (see bullets below). These strategies may be refined later to include the views and experience of the SOB's new supervisory board members.

c. ~~By end-April 2016, w~~We ~~will~~ submitted to parliament draft legislation that w~~sh~~ould facilitate the adoption of the new corporate governance approach that *inter alia* seeks to transfer the accountability of the SOB's performance from the Cabinet of Ministers to the banks' supervisory and management boards and establish as a criminal offense to lobby them. This will help to ensure that these banks are run on commercial basis. We will aim to have this legislation adopted by end-April~~June~~ 2016.

d. By end-May 2016, with IMF technical assistance, we will complete the assessment of the MoF's financial policy department (FPD) with a view to identify actions to be implemented by end-

September 2016 for the FPD to be able to effectively support the MoF's function of ~~that are required for it to be able to effectively~~ managing the State's interest in the SOBs. ~~This assessment will include an action plan with measures to be implemented through end-September 2016, by which time the MoF and FPD, following consultation with Fund staff, will sign a relationship framework agreement that sets out the basis of their relationship and interaction~~.

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

~~By end-March 2016, the MoF will complete, with external technical support, its strategy to gradually unwind the existing full guarantee of Oschadbank's deposits through end-2020~~.

f. By end-2017, we aim to dispose of the two small SOBs. In addition, by mid-2018 upon the effective implementation of their action plans and revised strategies, we will seek to sell, to well-known international financial institutions, no less than ~~25~~ 20 percent of our interest in the two largest SOBs, and within the same timeframe we will also aim to unwind the current full guarantee on Oschadbank's deposits. ~~by end-2019.~~

17. **We have prepared an ambitious plan to collect and restructure loans from banks under liquidation to mitigate bank resolution costs.** The recently-created centralized unit at the DGF to improve asset recovery will:

a. Complete its terms of reference and organization by end-March 2016;

b. Publish by end-~~February~~ March 2016 a calendar for disposing of assets, with quarterly targets through 2016; and

c. Begin preparing progress reports on asset disposal and recovery no later than 30 days after the end of each quarter. The first report is due in April 2016.

Moreover, by end-~~March~~ June 2016 we will submit legislation that will further enhance the DGF's ability to work with assets in a timely and efficient manner and increase the amount of net cash recoveries on assets,~~facilitates asset disposal by relaxing the currently excessive minimum conditions for asset sales in line with international best practices~~, as well as providing legal protection to DGF staff.

Improving the existing framework for resolving non-performing loans

18. **Although we have made progress in strengthening our framework for NPL resolution and corporate insolvency, further work is required.** To this end, by end-[February]~~January~~ 2016,

we will establish an interagency working committee chaired by the Ministry of Justice and comprised of representatives of all agencies with competencies in these areas, including the Ministry of Economy, the Ministry of Finance and the NBU. The committee will draft amendments to relevant legislation to advance reforms, as identified by the March 2015 IMF technical assistance mission, in the following areas: (i) improvements to the corporate insolvency regime; (ii) removal of tax impediments to debt restructuring and insolvency, including impediments to banks' sales of non-performing assets; and (iii) strengthening the legal regime for credit enforcement. We will prepare the first draft of the legislation by end-[March]~~February~~ 2016, hold in [April]~~March~~ 2016 a workshop with relevant stakeholders to seek their views, and aim to submit a final draft to parliament by end-[May]~~April~~ 2016. We will obtain parliamentary approval of the reforms of the bankruptcy law, the tax code, the mortgage law and the commercial and civil procedure codes consistent with Fund staff's advice, by end-June 2016 (a new completion date for the existing **structural benchmark**).

19. **We are also advancing the design of an alternative out-of-court mechanism for debt restructuring.** With technical assistance from the EBRD and the World Bank, we have made significant progress in designing a coordinated out-of-court restructuring mechanism for corporate debt (the "Ukraine approach"), in line with international best practice including the INSOL principles, and the Istanbul approach. The draft law on Financial Restructuring prescribes coordinated out-of-court restructuring procedures. It will be adopted by end-[March]~~February~~ 2016.

20. **We have reached agreement with the banking industry on the terms of a targeted, voluntary restructuring of small mortgage loans denominated in foreign currency**. Under the auspices of the NBU, the banks most exposed to these mortgage loans have agreed on a voluntary approach, reflected in draft legislation that was~~e will~~ submitted to parliament by end-January 2016. This draft proposal includes the following features:

a. FX loans equivalent up to UAH 2.5 million (about US$150,000) shall be converted into hryvnia at the market exchange rate reported by the NBU as of the date of restructuring. These loans will be eligible for restructuring as described below provided borrowers were still servicing them on January 1, 2014;

b. Upon the conversion of foreign currency denominated mortgage loans into hyrvnia, borrowers will receive a discount of not less than 25 percent of the new loan amount. Certain eligible citizens such as disabled persons or their parents, and war veterans may receive a minimum discount of 50 percent of the restructured amount of the loan. Individuals that are engaged in active military duty in the East or have died in action may receive discounts of up to 100 percent. Discount amounts will still be part of the loan, carrying an annual interest rate of 0.01 percent, and will be cancelled at the end of the new loan repayment schedule, provided the borrower has serviced the loan regularly throughout the entire period.

c. Additional key features of the draft law include: (i) *Interest rate:* the rate of the original foreign-currency loan agreement will be applied for three years. After that, the interest rate will be set at the level of Ukrainian index of retail deposit rates in hryvnia (for 12-month deposits) + 300 bps; (ii) *Moratorium on foreclosure of FX mortgages*: will be lifted by this law as well, with an effective date six months after the law is enacted; (iii) *Foreclosure:* no recourse, the loan is secured only by the dwelling; and (iv) *Application period:* except borrowers on active military duty, clients must apply within three months from enactment of the law. Banks must process applications within the following three months.

We estimate that this proposal will cost the banking system US$370 million (0.4 percent of GDP), which the banks have agreed to bear. We expect this legislation to be adopted by end-April 2016 and will ensure that it~~this legislation~~ will not (i) result in costs to the banks substantially above this amount and put financial stability in jeopardy, or (ii) depart from the voluntary approach to settling this matter that we have pursued since June 2014.

Reforming the securities markets and other nonbanks

21. **We are addressing significant challenges faced by the National Securities and Stock Market Commission (NSSMC) in its role as the regulator of the Ukrainian securities market.** These challenges include the issuance and trading of fictitious securities in the market, insufficient powers to deliver effective supervision, and cooperation with foreign supervisors. To this end—taking into account the IMF's September 2015 technical assistance report—we will submit legislation by [end-February] 2016—and expect its adoption by end-June 2016—to allow NSSMC to:

a. Conduct inspections of regulated entities without the existing undue constraints;

b. Conduct investigations of—and demand information from—any legal or natural person to determine compliance with securities laws;

c. Have access to—and ability to share with foreign authorities—information restricted by secrecy laws (including banking secrecy and personal data);

d. Assist foreign authorities even without an apparent violation of the Ukrainian securities laws;

e. Adopt regulations without any external approval/agreement/registration;

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

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

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

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

- ~~In addition, b~~By end-May 2016 with technical assistance from international donors we will develop a clear action plan with measures to ensure efficient counteraction against market manipulation, insider dealing and other market abuse at domestic capital markets in line with best international practices and to grant appropriate powers to the regulator.

D. Fiscal Policy

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

23. **We ~~expect to~~ have met the fiscal targets for 2015**. The general government budget performed strongly in 2015, on the back of robust revenue growth, firm control over spending, and savings on interest payments resulting from debt restructuring ~~and a slow execution of capital expenditure due to capacity constraints~~. This performance allowed us to bring forward the planned indexation of pensions and wages from December to September 2015 which ~~will~~ helped mitigate the negative effects from high inflation on the most vulnerable groups of the population, at an additional cost of about UAH 9.9 billion. In addition, we re-allocated some funding (UAH 5.6 billion) from various line ministries to defense spending and increased the allocation for clearing VAT refunds, which had increased since the beginning of the year~~, to clear the entire stock of VAT refund arrears~~. We also reduced the stock of overpaid corporate income tax to 22~~6~~ billion by end-December 2015.

24. **For 2016, parliament adopted a budget consistent with a general government deficit target of 3¾ percent of GDP, which is critical to continue a gradual fiscal adjustment and entrench stability (prior action)**. To achieve this target, a significant rebalancing of the budget was required given the need to: (i) offset the loss of one-off revenues that were available in 2015; (ii) provide an additional allocation for energy-related social assistance to mitigate an adverse impact on households from the next round of gas price increases; and (iii) offset the revenue loss from a reduction in the social security contribution (SSC) rate.

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

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

b. *VAT*. The special VAT regime in agriculture, which exempts agricultural producers from VAT was terminated effective January 1, 2017. As a transitional measure for 2016 only, grain producers are required to remit 85 percent of the collected VAT to the budget, livestock breeders and milk producers 20 percent; and all other agricultural producers 50 percent. We will review the operational aspects of this transitional measure by end-March 2016, and revert to a single rate of 50 percent of collected VAT to be remitted by all agricultural producers should the multiple rates have led to increased tax evasion. We are committed not to extend the transitional arrangement and will not amend bullet 4 of article 2 of chapter XIX of the tax code, which requires expiration of the special VAT regime on ~~As of~~ January 1, 2017~~,~~. From this date onwards, the general VAT regime will apply equally to all agricultural producers. We also ~~raised the VAT threshold from UAH 1 million to UAH 2 million and~~ subjected gas transit to VAT, replacing the current royalty regime.

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

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

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

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

g. *Simplified tax regime.* We increased the rates for the taxpayers falling in groups III and IV of the simplified regime.

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

i. *Taxation on gas extraction.* We lowered royalty rates on gas extracted for commercial purposes to 29 percent (on wells shallower than 5 thousand meters) and 14 percent (on wells deeper than 5 thousand meters) from 55 percent and 28 percent, respectively. We will consider the possibility to further lower rates to 20 percent and 10 percent, respectively, from January 1, 2018 and will introduce a corporate income tax surcharge of 15 percent on top of the standard 18 percent rate. We also lowered royalty rates on gas for PJSC UkrGasVydobuvannya (UGV) and UkrNafta to 50 percent from the current 70 percent from April 1, 2016. To compensate for the potential revenue loss from UGV and UkrNafta, we will increase the UGV sales price to $160, including VAT, to ensure budget neutrality.

j. *Other revenue measures*. We increased~~introduced~~ royalties on the mining of amber and increased dividends from state-owned enterprises by raising the government's statutory share to 75 percent.

26. **We complemented ~~out~~ our tax policy reform with strong revenue administration improvement efforts in order to strengthen tax compliance.** The implementation of the recently approved revenue administration reform plan, which is an important priority for 2016, will help build an efficient public revenue collection system that ensures fair and transparent application of tax laws, and promotes tax compliance and the development of the private sector. We recognize the damaging effect of tax amnesties on compliance and, therefore, will refrain from introducing any such amnesties during the program. ~~To strengthen compliance for social security contributions, we will: (i) harmonize the bases for social security contributions and the personal income tax; (ii) offer the possibility of single filing and payment; and (iii) launch a specialized audit program with a focus on under-declared wages.~~ In addition, we moved all large taxpayers to the Large Taxpayers' Office as of end-December 2015 (**structural benchmark**). The State Fiscal Service (SFS) started to implement its new organizational arrangements as specified under the revenue administration reform plan from end-December 2015 (**structural benchmark**). We will finalize downsizing the SFS by end-March 2016, reducing the staff from about 58,000 to less than 41,000. Our further efforts in 2016 to strengthen revenue administration will focus on the following areas:

a. While we have made progress in implementing the reform plan, three important draft laws that (i) allow increasing the number of deputy chairman positions; (ii) clarify the relationship between the regional customs offices and the rest of the SFS ~~and whic~~, which ~~h~~ will consolidate 50 regional structures into 25 tax and customs regions; and (iii) introduce one level internal dispute resolution, are pending in parliament. We expect these laws to be adopted by end-March 2016 (new **structural benchmark**) and implement the new arrangements by end-September 2016.

b. In addition, we have developed draft legislation that establishes criteria for the identification of High Net Worth Individuals (HNWIs), brings them under a new audit program, and gives permission to the SFS to access bank account information of HNWIs after seeking permission from relevant law-enforcement agencies. We will establish strong safeguards that will prevent abuse of bank information by SFS staff. The draft legislation will also cancel the moratorium on tax audits for taxpayers with an annual turnover of less than UAH 20 million, improve the legislative framework to strengthen the administrative enforcement of debt collection including through the elimination of the requirement for a court approval to enforce payment of debt, and authorize the SFS by law to use indirect measurement methods to ascertain the correct tax and social security obligations of any taxpayer. We expect this legislation to be adopted by end-June 2016 (new **structural benchmark**).

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

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

e. We have established a new internal~~n~~ investigation division at SFS with new staff, who in cooperation with other governmental authorities will assess risks, analyze annual reports on assets of high-ranking SFS officials, and carry out investigations as part of our efforts to tackle corruption. The activities of the investigation division will be under control of a recently established independent expert group, who will ensure publication of their monitoring work on a quarterly basis. Also, we will initiate rebranding of the tax police to improve its public reputation, demilitarize it and strengthen its capacity. We will arrange for regular independent surveys to monitor the evolution of public perception.

f. In addition to its fiscal role, the ongoing reform at customs will support greater facilitation of trade and improve the security and safety of the society through more effective border controls. As envisaged in the revenue administration reform plan, we will aim to appoint a new deputy head of SFS in charge of customs by end-March 2016. We will establish a post-clearance audit program~~,~~ simplify, further automate and streamline customs clearance processes, minimize the instances of physical inspection of cargo, develop and publicize the customs-specific integrity action plan, and strengthen coordination with the state border guard services to limit the illicit inflow of goods and exchange of information with customs administrations of major trading partners. By end-March, we will identify a set of key ICT projects with the highest priority for customs and seek external funding. We will ~~-~~also improve customs valuation procedures by applying European best practices and adopt a conditional release procedure as a way to avoid undue delay in the processing of declarations ~~[by date]~~from the third quarter of 2016. We will prepare a project plan for the further development of risk management to address current weaknesses, future plans and requirements and organizational and management issues by end-August, 2016. We will also adopt amendments to the customs code that allows for the harmonization of requirements for the authorized economic operator with the EU legislation by end-June 2016. In order to minimize probable revenue leakages resulting from weaknesses at the border, in transit and inland clearance facilities, we will initiate a third-party inspection of these weaknesses with the aim of completing at least five largest border-crossing points and inland clearance facilities by end-2016.

g. We will establish key performance indicators (KPIs) for the SFS in consultation with IMF staff for 2016 by end-March 2016. These targets will focus, inter alia on core performance outcomes of tax and customs administration (including audits, the collection of tax debts, eliminating the stock of VAT refund arrears and the internal reorganization. We will also develop a proposal by end-April 2016 to address the problem of stock of corporate income tax prepayments, which have accumulated over the last few years.

h. By the end of 2016, we will establish the SFS as a single legal entity instead of current multiple entities to reduce unnecessary bureaucracy, and facilitate efficiency and quality in implementation of management decisions.

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

a. *Pension reform.* Demographic trends and the sharp reduction in the social security contribution rate are set to widen the pension fund's structural deficit considerably in the coming years, demanding significant transfers from the budget. To address these challenges in a sustainable manner and be able to provide more adequate pensions to retirees over the medium-term, we are committed to pursue a multi-phased reform strategy, replacing the missed structural benchmark:

  ~~o~~ We already implemented the first phase of reforms in early 2015 by eliminating special pensions for civil servants and other privileged groups, and by increasing the retirement age and the qualified period of service for a number of professions eligible for early retirement. We ~~will~~ also extended the pension withholding for working pensioners introduced in March 2015 through end-2016,~~;~~ and decoupled the size of the maximum pension from the minimum wage and keep it unchanged at UAH 10,740.

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  o In the second phase of reforms, we will continue to phase out special privileges and exemptions from the general retirement system, while bringing some of its provisions up to current needs. To this end, by April 1, 2016 (new **structural benchmark**) we will; (i) apply the rules of the general retirement system to employees in the health and education sectors; and (ii) set the early retirement age at 57 years for all professions eligible for early retirement. We will also advance quickly our review of the list of occupations eligible for early retirement, and will adopt a decree to reduce it by at least two-fifths in terms of eligible persons by end-April 2016 (new **structural benchmark**) and will refrain from adding any new occupations to the list of early retirement occupations during the program. We will separate various categorical pension supplements from the labor pensions and bring their financing from the pension fund to the state budget. At the same time, we will start means-test these supplements starting from 2017 in order to make the system more equitable and free up resources for more efficient poverty alleviation. ~~Finally, we will also extend the pension withholding for working pensioners introduced in March 2015 through end-2016; decouple the size of the maximum pension from the minimum wage and keep it unchanged at UAH 10,740.~~

  o We will also continue preparations, in consultation with our international partners, for the third phase of the reform, reviewing all parameters of the current pay-as-you-go system. We will begin implementing this reform ~~the central element of which will be a gradual increase of the statutory retirement age starting from~~ by January 1, 2017 that would gradually ~~aiming to~~

unify the statutory retirement age between various employment categories, and that will begin to steadily reduce pension expenditure relative to GDP, better link benefits to contributions, and help make the system financially viable in the medium term (new end-December 2016 **structural benchmark**).

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

b. *Wage bill.* Budgetary sector wages will increase taking into account the minimum wage growth by 5 percent on May 1, 2016 and 7 percent on December 1, 2016, compensating budgetary employees for the expected inflation.

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

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

e. *Healthcare reform.* To improve the efficiency of the health care system as well as the quality of services to the population, we will undertake reforms aiming to lead to higher decentralization, increased managerial autonomy for hospitals, and transition away from funding based on the number of hospital beds to funding services. A full reform plan will be approved by the Parliament by end-March 2016. As a first step to address large inefficiencies in the hospital sector we have lowered the statutory limit on the number of hospital beds per ten thousand residents to 60 from 80 and plan to reduce the medical staff by 10 percent by end-June 2016. In addition, we will reform the procurement system for pharmaceuticals in line with European standards and principles. In particular, procurements will be made with involvement of the specialized organizations, starting [...] ~~which are undertaking procurements in~~ 2016.

f. *Other fiscal measures.* We will rationalize subsidies, including to state-owned enterprises (SOEs); following the adoption of the new Law on Procurement, implement e-procurement from April 1, 2016 for the central government and from August 1, 2016 for all other public entities; increase co-payments or cut costs ~~facilitate private reduce public funding~~ for cultural programs and public transport; and further streamline the number of government agencies. During 2015, we have reorganized ten and liquidated eight government agencies. With the assistance from the EU, we