EXECUTIVE BOARD MEETING

EBS/17/15
Supplement 1

March 7, 2017

To: Members of the Executive Board

From: The Secretary

Subject: **Ukraine—Staff Report for the 2016 Article IV Consultation and Third Review Under the Extended Fund Facility and Requests for Rephasing of Access and Financing Assurances Review—Informational Annex**

Board Action:	Executive Directors' **consideration** (Formal)
Tentative Board Date:	**Monday, March 20, 2017**
Publication:	Yes*
Questions:	Mr. van Rooden, EUR (ext. 34011) Ms. Eble, EUR (ext. 37933) Mr. Llaudes, EUR (ext. 38312) Ms. Madrid Angers, EUR (ext. 39331) Mr. Rayner, EUR (ext. 38524)
Document Transmittal in the Absence of an Objection and in accordance with Board policy:	Wednesday, March 15, 2017—WTO After Board Consideration—European Bank for Reconstruction and Development, European Commission, Organisation for Economic Cooperation and Development

***The authorities have indicated that they consent to the Fund's publication of this paper.**

INTERNATIONAL MONETARY FUND

UKRAINE

March 7, 2017

STAFF REPORT FOR THE 2016 ARTICLE IV CONSULTATION AND THIRD REVIEW UNDER THE EXTENDED FUND FACILITY AND REQUESTS FOR REPHASING OF ACCESS AND FINANCING ASSURANCES REVIEW—INFORMATIONAL ANNEX

Prepared By

European Department in consultation with other departments

CONTENTS

FUND RELATIONS

(As of January 31, 2017)

SDR Department:	**SDR Million**	**%Allocation**
Net cumulative allocation	1,309.44	100.00
Holdings	2,011.30	153.60

Outstanding Purchases and Loans:	**SDR Million**	**%Quota**
Stand-by Arrangements	2,972.67	147.76
Extended Arrangements	5,444.21	270.61

Latest Financial Arrangements:

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR million)	Amount Drawn (SDR million)
EFF	03/11/15	03/10/19	12,348.00	5,444.21
Stand-By	04/30/14	03/10/15	10,976.00	2,972.67
Stand-By	07/28/10	12/27/12	10,000.00	2,250.00

Projected Payments to Fund:[1]

(SDR Million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2017	2018	2019	2020	2021
Principal	628.83	1,486.34	1,153.00	788.02	907.37
Charges/Interest	193.87	163.88	117.39	85.23	55.26
Total	**822.71**	**1,650.21**	**1,270.39**	**873.25**	**962.63**

Exchange Arrangements:

In September 1996, the authorities introduced the hryvnia (UAH) at a conversion rate with the previous currency karbovanets (Krb) of KrB 100,000 to UAH 1. The monetary policy strategy for 2016–20 calls for the National Bank of Ukraine (NBU) to maintain a floating exchange rate arrangement, meaning that monetary policy will not be aimed at achieving a certain exchange rate target or range. At the same time, the NBU will use foreign currency interventions for the purpose of accumulation of international reserves, smoothing out the functioning of the foreign exchange market, and maintaining the transmission of the key interest as the core monetary policy instrument. Effective March 31, 2015, the NBU sets the official hryvnia–U.S. dollar exchange rate, which takes effect on the following day, as a weighted average rate of the hryvnia against the U.S. dollar based on all the foreign exchange deals concluded between banks and their clients on the current day on tod, tom, and spot terms, regardless of the value date.

[1] When a member has overdue financial obligations outstanding for more than three months, the amount of such arrears will be shown in this section.

On September 24, 1996, Ukraine accepted the obligations of Article VIII, Sections 2, 3 and 4 of the Fund's Articles of Agreement. Ukraine maintains exchange restrictions and multiple currency practices subject to Fund approval under Article VIII: The exchange restrictions arise from (i) absolute limits on the availability of foreign exchange for certain nontrade current international transactions; and (ii) a partial ban on the transfer abroad of dividends received by nonresident investors from investments in Ukraine. The multiple currency practices arise from: (i) the use of multiple price foreign exchange auctions conducted by the NBU without a mechanism to prevent a deviation of more than 2 percent between the auction rates and the market exchange rate at the time of the auction; (ii) the requirement to transfer the positive difference between the sale and purchase price of foreign exchange to the state budget if the purchased foreign exchange is not used within 10 days and is resold; and (iii) the use of the official rate for government transactions without establishing a mechanism to ensure that the official rate does not deviate from the market rate by more than 2 percent.

FSAP Participation:

A joint World Bank-International Monetary Fund mission conducted an assessment of Ukraine's financial sector as part of the Financial Sector Assessment Program (FSAP) in 2003, and the Financial Sector Stability Assessment (FSSA) report (IMF Country Report No. 03/340) was considered by the Executive Board on May 14, 2003. The observance of the following standards and codes was assessed: Basel Core Principles for Effective Banking Supervision; Code of Good Practices on Transparency in Monetary and Financial Policies; CPSS Core Principles for Systemically Important Payment Systems; OECD Principles for Corporate Governance; Accounting and Auditing Practices; World Bank's Principles and Guidelines for Effective Insolvency and Creditor Rights System; and AML/CFT Methodology.

An FSAP update was undertaken in 2007. The observance of the following standards and codes was assessed: Basel Core Principles for Effective Banking Supervision; and IOSCO Core Principles of Securities Regulation. A Financial Sector Stability Assessment (FSSA) was considered by the Executive Board as part of the 2008 Article IV consultation.

ROSCS:

A Data ROSC Module was conducted in April 3–17, 2002, and was considered by the Executive Board on August 5, 2003 (IMF Country Report No. 03/256). A Fiscal Transparency Module (experimental) was issued in September 1999, and an update in April 2004 (IMF Country Report No. 04/98).

Safeguards Assessments:

An update safeguards assessment was completed on August 14, 2015. It confirmed that the NBU had made progress in strengthening its governance and control environment since the previous assessment conducted in 2014. In particular, amendments to the legal framework to enhance NBU's governance and autonomy in line with recommendations from the Fund entered into force in July 2015. A new Council was established in November 2016 and constituted an Audit Committee to provide independent oversight on audit mechanisms and internal controls. Progress has also been made in addressing other safeguards recommendations. In particular, the loan origination and management process has been enhanced and the NBU established a senior-level credit committee in June 2015 to oversee lending to financial institutions. In addition, quarterly data audits are ongoing with the results timely conveyed to the IMF.

UFR/Article IV Consultation:

Ukraine is on a 24-month consultation cycle. The last Article IV consultation was concluded on December 16, 2013 and a report was published on our external website: www.imf.org.

IMF Technical Assistance:

IMF Technical Assistance 2014–16

Fiscal Affairs Department

Area	Topic	Dates
Tax Policy	Staff visit on tax policy	6/2014, 6/2015
	Restoring a Strategic Approach to Tax Reform	9/2014
	Review of the Extractive Industries Fiscal Regimes	11/2014
	Extractive Industries: Petroleum Fiscal Regime and Associated Legal Design Issues, and Tax Admin	3/2015
	Transfer Pricing	3/2015
	Fiscal Regime for Natural Gas	6/2015, 4/2016
	Reducing S.S. Contributions and Improving Corporate and Small Business Tax System	7/2015
Revenue Administration	Tax Administration Reform and Governance Options	6/2014
	Staff visit on revenue administration	11/2014
	Capacity in Oil and Gas Administration	6/2015, 3/2016, 9/2016
	Reforming the State Fiscal Service	7/2015, 7/2016, 11/2016
	Staff visit on scoping for RA-GAP	12/2015
	Customs Administration	1/2016, 9/2016
Expenditure Policy	Expenditure Rationalization	5/2014, 4/2015
	Strengthening Social Assistance in Support of Energy Subsidy Reform	1/2015, 4/2015
	Pension reform	1/2015, 5/2015
PFM	Public Financial Management Overview	7/2014
	Fiscal Decentralization	11/2014
	Reforming Management and Oversight of State Assets	2/2015
	Expenditure Review and Rationalization	7/2015
	Developing the Spending Review Process and Assessing SOE Reform	11/2015
	Public Investment Management Assessment	4/2016

Monetary and Capital Markets Department

Area	Topic	Dates
Accounting	IFRS Related TA Mission	10/2014
	Accounting and Auditing	2/2016, 6/2016
Bank Restructuring	Resolving Systemic Banks	1/2016, 3/2016, 10/2016
	Bank Contingency Planning	10/2015
	Steering Committee Meeting on Bank Diagnostics	8/2014, 9/2015, 10/2015
	Bank Recapitalization and Resolution Costs	11/2014
	Related Party Identification and Monitoring	2/2015, 12/2015
	Banking Sector Restructuring and Reform	4/2014
	Due Diligence Review for Banks	9/2014
	Bank Resolution	10/2014
Bank Supervision	Bank Licensing	1/2016, 3/2016
	Central Credit Registry	12/2015, 12/2016
	Managing the State Participation on Banks	4/2016, 12/2016
	Credit Risk—Regulatory provisioning for banks	2/2016
	Reporting and Auditing of Related Parties Exposure	4/2015
	Governance at the Ministry of Finance	8/2014
	Early Identification of Problem Banks	10/2014
	Needs Assessment in the Area of Banking Supervision	9/2015
Capital Markets Develop.	Assistance to the National Securities and Stock Market	1/2016, 4/2016, 12/2016
	Reform of the Securities Market	5/2015, 7/2015
	Debt Management	4/2016
Central Bank Organization	Central Bank Operations	5/2014, 7/2014, 8/2014
	Central Bank Reorganization	11/2014, 6/2016
	Development of NBU Research Function	7/2015, 12/2015
Cross Border Flows	Reform of the NBU Law	11/2014
Financial Stability	Stress Testing	3/2014, 6/2014, 6/2015, 8/2015
Monetary Policy Operations	Monetary Operations and Money Market Development	5/2014, 7/2014
	Foreign Exchange Operations	9/2014
	Monetary Policy Communication	12/2014, 7/2015, 12/2015
	Monetary Policy and Operations	2/2015, 3/2016
	Emergency Liquidity Assistance	6/2016
	Modeling and Central Bank Operations	11/2016

Legal Department

Area	Topic	Dates
	Central Banking	11/2014
	Fiscal Law—Tax	3/2015, 7/2015
	AML to Support Anti-Corruption Efforts	5/2015, 6/2015, 10/2015, 11/2015, 12/2015, 2/2016, 3/2016, 6/2016, 10/2016, 12/2016
	New Legislation on Orders of Payments	6/2016
	Fiscal Law—Non-Tax	10/2016

Statistics Department

Area	Topic	Dates
	National Accounts	9/2014
	Prices	6/2015, 8/2016

RELATIONS WITH THE WORLD BANK

(January 2017)

Country Partnership Strategy and World Bank Program

The World Bank Group's Country Partnership Strategy (CPS), 2012–16 aimed to assist Ukraine in making progress on its reform and EU integration agenda and was organized around two pillars. The first pillar aimed to support deepened relations between government and citizens, focused on improving public services, including a more sustainable, efficient, transparent, and accountable use of public resources. The second pillar aimed to support more productive cooperation between government and business by focusing on growth, competitiveness and job creation, including improvements in the business climate and public investment in critical infrastructure.

The 2012–16 CPS was faced with supporting Ukraine in responding to the unprecedented double shocks from the conflict in the East of Ukraine and the decline in global commodity prices. From May 2014 to June 2016, the World Bank Group committed $4.6 billion in new support to Ukraine, including $2.2 billion in investment project financing, $2.25 billion in two series of development policy operations (DPOs) to advance critical structural reforms, and $250 million in International Finance Corporation (IFC) investments in the private sector.

The two series of DPOs, in coordination with the new IMF program, supported Ukraine in adopting critical, longstanding structural reforms in the face of unprecedented shocks. These reforms and results include: undertaking significant fiscal consolidation and moving to flexible exchange rate; reform energy tariffs to reduce a key source of rents and quasi-fiscal deficit and strengthen the social safety net system to cushion the impact on the poor; stabilizing the banking sector by putting in place the framework to resolve and recapitalize banks, strengthen supervision, and address the long-standing problem of related-party lending; streamlining the business environment by easing registration, licensing, and permitting requirements and establishing a deregulation framework; improving efficiency and accountability in the use of public resources by making public procurement more transparent, strengthening external audit, and improving public investment management; and putting in place key instruments of anticorruption.

The current investment lending portfolio includes eight operations totaling $2.62 billion, of which only 18.7 percent has been disbursed. These include: the Social Safety Net Modernization Project ($300 million, approved in July 2014); the Serving People Improving Health Project ($214.7 million, approved in March 2015); the Second Power Transmission Project ($330 million, approved in December 2014); the Energy Efficiency Project ($200 million, approved in 2011); the District Heating Energy Efficiency Project ($265.5 million, approved in May 2014, now restructured); the Second Urban Infrastructure Project ($300 million, approved in May 2014); the Second Road and Safety Improvement Project ($450 million, approved in 2012); and the Road Sector Development Project ($560 million, approved in November 2015). In addition, the Gas Supply Security Facility ($500 million in IBRD guarantee) was approved by the Board in October 2016.

The new Country Partnership Framework (CPF) for the period 2017–21 is being prepared by the WBG in close consultation with key stakeholders.

All areas of Bank engagement are built on strong diagnostic work and technical assistance, with focus on building consensus in society regarding policies and processes to tackle key structural challenges. Moving forward, the main areas for advisory services and analytical work (ASA) are expected to focus on: (i) anticorruption, state capture, and public financial management (PFM); (ii) fiscal sustainability and efficiency, including programmatic public finance reviews covering key areas; (iii) financial sector stability and development; (iv) energy efficiency and governance (including gas sector modernization); (v) the investment climate, including advice in key policy areas such as agriculture, land, and business regulations; (vi) municipal governance and service delivery; (vii) social protection including pensions and social assistance; (viii) health sector; and (ix) support for peacebuilding and conflict affected populations. Partnerships and coalitions on policy dialogue and ASA with other development partners, including the European Commission (EC), the International Monetary Fund (IMF), the UK Department for International Development (DFID), the U.S. Agency for International Development (USAID), European Bank for Reconstruction and Development (EBRD), and other bilateral donors will continue and be expanded as much as possible.

Bank-Fund Collaboration

According to Joint Management Action Plan on Fund-Bank collaboration on Ukraine, the staff teams agreed that the Fund and the Bank would coordinate in monitoring macroeconomic and fiscal developments and collaborate in supporting Ukraine's efforts to: (i) strengthen institutions of better governance and anticorruption; (ii) safeguard fiscal sustainability; (iii) maintain financial sector stability; (iv) bolster private sector competitiveness; and (v) improve effectiveness of social services and assistance. The teams agreed to the following division of labor and coordination:

- ***Macroeconomic and fiscal monitoring***. The Fund and the Bank coordinate in monitoring macroeconomic and fiscal developments and in assessing the medium-term macroeconomic framework. This includes sharing information and assessments of recent developments and prospects for economic growth, fiscal and external balances, and the macroeconomic implications of structural reforms.

- ***Strengthening anticorruption institutions***. Corruption and weak governance constitute a dominant impediment to Ukraine's development prospects. The Bank and the Fund are thus coordinating in supporting Ukraine's efforts to strengthen institutions of transparency and accountability, including in the areas of anticorruption, public financial management, and citizen's engagement. The Bank and the Fund are collaborating in supporting effective implementation of recently adopted anticorruption legislation, including electronic asset declarations and their external verification. The Bank has also supported the government in preparing a new Public Financial Management (PFM) reform strategy and plans to provide technical assistance on implementation in key areas including medium-term budgeting.

- ***Safeguarding fiscal sustainability***. While Ukraine has made significant progress in reducing large fiscal imbalances, medium-term fiscal pressures are considerable. The Bank and the Fund have coordinated in supporting Ukraine's fiscal consolidation efforts during 2014–16 through energy tariff and social assistance reform, expenditure restraint, and revenue measures. Going forward, further coordination in supporting reforms to the tax and pensions systems will be important in safeguarding fiscal sustainability. Tax reform will require strengthening tax administration, reducing exemptions, and improving international taxation arrangements. Pension reform options include restructuring the overall benefit package to improve adequacy of old-age benefits while reducing the medium-term deficit, as well as parametric measures related to the retirement age, early retirement, and categorical benefits.

- ***Maintaining financial sector stability***. The economic downturn has put Ukraine's banking sector under significant stress, which has been amplified by underlying structural weaknesses. The Bank and the Fund have coordinated in supporting the authorities to put in place a framework to resolve and recapitalize banks and strengthen supervision. In light of persisting vulnerabilities, further coordination in supporting sound implementation of the framework will be important. Furthermore, a resumption of credit growth will also require coordination in supporting reforms to resolve non-performing loans (NPLs) and strengthen corporate governance of state owned banks.

- ***Bolstering private sector competitiveness***. The competitiveness of Ukraine's private sector is held back by a number of factors, including inadequate infrastructure, a concentrated production structure that limits competition, and the lack of a land market along with weak land administration and management that constrains agriculture and other sectors. In supporting Ukraine's efforts to bolster competitiveness, the Bank is providing technical assistance on reforms in the areas of streamlining the regulatory environment, strengthening implementation of the competition framework, state-owned enterprises, and reforming land markets and management. The Bank and Fund teams will work closely to support implementation of this reform agenda.

- ***Improving effectiveness of social services and assistance***. Education, health, and social assistance in Ukraine are characterized by high levels of expenditure but weak and ineffective service delivery and poorly targeted assistance. Improving the effectiveness of social services can help build human capital, improve employment outcomes, and reduce dependence on transfers. The Bank's public expenditure analyses on health, education, and social assistance is providing technical support in assessing challenges and opportunities for reform in these areas. The ongoing health project is well placed to support implementation of the recently endorsed health reform plan, which includes a shift in focus from hospitals to primary care and improvements in the health financing model. The Bank's social safety net modernization project is supporting efforts to improve targeting. The Bank and Fund teams will work closely to support implementation of this reform agenda.

World Bank Contact: Faruk Khan, Lead Economist and Program Leader; Anastasia Golovach, Economist (Tel.: 380-44-490-6671).

RELATIONS WITH THE EUROPEAN BANK FOR RECONSTRUCTION AND DEVELOPMENT

(December 2016)

Since Ukraine joined the EBRD in 1992, the Bank has been active in supporting the country's transformation towards market economy. As of end-November 2016, the EBRD's portfolio in Ukraine reached €4.3 billion with almost half of it being in the private sector. In the first 11 months of 2016, disbursements accelerated to €802 million—the highest rate since 2009 and up from €247 million in the same period of 2015. The Bank's country exposure in Ukraine is its third largest after Turkey and Russia, accounting for approximately 1/10th of the Bank's overall portfolio. The portfolio represents roughly an equal exposure across the Bank's three main sectors: Industry, Commerce & Agribusiness, Financial Institutions and Energy & Infrastructure. In Ukraine's current context, the Bank is seeking to maintain the pace of its investments, capacity building and policy dialogue to provide support for economic stabilization and growth, while targeting continued impact on the country's transition to a sustainable market economy.

As a response to the crisis that engulfed Ukraine in late 2013, the EBRD has been providing comprehensive support to Ukraine under the strategic framework of its 'Reform Anchoring & Crisis Response Package.' The package is based on the following three priorities: 1) banking sector stabilization and restructuring; 2) energy security and energy sector reforms; 3) financing of key private corporate players. Since early 2014, EBRD has been able to step up its engagement in Ukraine in view of the authorities' willingness to implement broad-ranging reforms, while remaining cautious of the heightened risks in the operational environment. In 2014, despite the increased country risk, the EBRD invested €1.2 billion in Ukraine, a record level for the country. This was followed by new investments amounting to €997 million in 2015 and further €253 million in the first 11 months of 2016. From 2014 to November 2016, EBRD invested a total of €455 million into energy sector, €796 million into financial institutions, €810 million into industry, commerce and agribusiness and €400 million into infrastructure sector.

The EBRD supports FDI and local enterprises to help diversify the economy and restructure old energy-intensive industries with a focus on improving governance, transparency and energy efficiency. The Bank has been active in developing the local private sector and encouraging inflows of FDIs. It has supported a number of medium and large local clients. Small and medium-size enterprises have been reached via credit lines offered to them via partner banks and also through direct financing. The Bank has actively participated in financing several leading international investors (including Air Liquide and Louis Dreyfus) and cross-border transactions with sponsors from other countries of operation.

In 2014, the EBRD launched its Small Business Initiative, with an objective to provide SMEs with better access to finance and to render support to the SME sector in an efficient and holistic approach manner that encompasses direct and indirect finance products, advisory services and policy dialogue. Small Business Initiative is structured along two main pillars—Advice for Small Businesses and SME Finance. *Advice for Small Businesses* aims at increasing SME competitiveness through cost sharing for engagement of local consultants and international industry advisers to address specific enterprise needs and through implementing sector-specific development activities. Special initiatives like *Export Promotion and Women in Business* aim at improving export strategies and marketing for local SMEs as well as empowering women-led enterprises. To date, 690 projects were started under Advice for Small Businesses program, of which 140 projects with local consultants and 14 projects with international advisers were launched in 2016. *Financing* to SMEs is provided indirectly via financial institutions, through risk sharing with financial institutions, direct finance (debt and equity), as well as Trade Facilitation Program that also works via partner banks. In 2016, seven direct financing deals were signed. In May 2016, the European Union and the EBRD signed an agreement on providing up to €28 million for business advice, information, training and other support to SMEs in Ukraine under the EU4Business program. This assistance will include the creation of 15 business support centers in the regions of Ukraine. Up to €12 million of EU4Business funds will be used to support the EBRD's direct financing of SMEs via investment preparation and due diligence support.

Since 2014 the EBRD has been actively working with the Ukrainian authorities to facilitate essential reforms in the country's financial system. The EBRD supported the NBU in a major cleanup of the banking system by contributing to development and approval of key laws aimed at preventing improper business practices, increasing transparency and promoting fair competition among banks, targeting: (1) full disclosure of true beneficial ownership; (2) economic definition of related parties and monitoring of bank exposures by the NBU, and (3) personal responsibility of bank owners for related-party lending and fraud. Together with other IFIs, the Bank played a key role in the preparation of the strategy for state-owned banks' development, aiming at improving their corporate governance, commercialization of operations, and future privatization. EBRD provided advice to the government on new legislation for corporate governance of SOBs and entered into strategic cooperation with Oschadbank and MinFin to promote the bank's transformation through investment and technical cooperation. The EBRD is also involved in strategic advice and institutional capacity building of the Deposit Guarantee Fund through a comprehensive technical assistance program targeted at improving its operational and asset sale and valuation activities. Targeted expert advice has been provided to the NBU in the areas of capital stress testing, monetary policy, and problem bank resolution, as well as development of legislative and regulatory framework for the nonbank financial institutions and asset resolution companies. The EBRD has led the process the development, approval and rollout (expected in 2017) of the Financial Restructuring Law (the Kiev Approach) establishing a framework for out-of-court problem debt restructuring. Work has continued on the comprehensive derivatives legislation, which has been approved in first reading by the Rada. The Bank plans to expand its activities into supporting a joint project management office for financial sector reform at the NBU and NSSMC.

The EBRD's investment in the financial sector has focused on providing equity capital and trade financing. Senior lending activity has remained subdued due to low market demand, but is expected to grow, in part due to anticipated launch of operations in hryvnia.

In recognition of Ukraine's great potential as an agricultural producer, the EBRD supports investments along the whole value chain and especially instruments that benefit primary producers. The Bank has been actively supporting policy dialogue in grain, dairy and meat sectors. Improvement of market information systems and establishment of sectoral working groups as platforms for public-private consultations were important for promoting greater transparency and predictability of policy interventions. In order to bolster investments in the Agribusiness sector, the Bank provided significant support for the development and introduction of reforms aimed at streamlining regulations. Significant capacity development efforts have been deployed by the Bank to promote dissemination of best international practices, to improve access to new markets for local producers and to stimulate innovation for better sectors efficiency.

The Bank continues to pursue its strategic goal of supporting sustainable development in respect of environment, natural resources and energy. Together with other IFIs, the EBRD continues to explore mechanisms for supporting the authorities as they pursue modernization of the Ukraine's gas transit system and implementation of the March 2009 EU-Ukraine memorandum of understanding, which is the cornerstone of EU-Ukraine cooperation in the field of energy. In particular, the Bank is assisting with the modernization and rehabilitation of the main trans-European energy networks of Ukraine and investments in modern and energy efficient generation, transportation and distribution of energy. These aims are complemented by a support to reforms in the energy sector to advance its liberalization and promote private sector involvement. The Bank together with the EU, the World Bank, the IMF and the EIB has been actively engaged in joint policy dialogue with the Ukrainian authorities for a number of years with the aim to provide technical and financial assistance to reform and restructure the gas sector and to modernize the gas infrastructure based on market-based principles and liberalization. The key transition objectives of the joint IFIs action plan in the energy sector can be grouped into three themes: (i) restructuring of Naftogaz (NAK) according to EC Directive 2003/55/EC, including through the Corporate Governance Action Plan which envisions putting in place a board of directors with majority independent directors, unbundling of the gas sector/NAK by implementing effective separation of transmission activities from the operations not related to transmission and ensuring the independence of the gas transmission network operator; (ii) adoption of EU-based liberalization legislation as per Energy Community Treaty requirements; (iii) establishment of a credible independent regulator focused on the long-term development of the network and integration with larger, more liquid gas markets.

In addition, the Bank is actively supporting diversification of supply sources and promoting alternative fuels and development of renewable energy sector in Ukraine. The Bank signed two private deals (solar and hydro) for the total amount of €23 million over 2015–16. In natural resources, the Bank extended a three-year $300 million revolving working capital facility to NAK, a 100 percent state-owned gas holding, to finance the company's gas purchases via Ukraine's interconnections with the EU. The facility was built on several gas sector reform conditionalities, including the requirement to develop and implement a far-reaching Corporate Governance Action Plan for NAK agreed with the government.

In 2016, the EBRD launched a new program for financing energy efficiency in the residential sector ('IQ Energy') for up to €90 million, including €15 million from E5P for investments. It is currently available to the EBRD partner banks UkrSibbank (BNP) and OTP for lending to private sector sub-borrowers (individuals and HoAs) for energy efficiency investments in the residential buildings.

Finance and Technology Transfer Centre for Climate Change (FINTECC) was launched in 2016 to facilitate deployment of climate-friendly technologies through a combination of policy dialogue, technical assistance and incentive grants. A total $7 million is available from the GEF for incentive grants, which is expected to leverage about $40 million in investments into the best available climate technologies and techniques in Ukraine.

In the area of nuclear safety, the Bank is working to improve the safety standards at the existing nuclear power plants and in 2013 signed a €300 million Nuclear Safety sovereign loan with Energoatom (the operator of the Ukrainian nuclear power plants) as part of a major €1.4 billion project to be co-financed by the Bank, Euroatom and Energoatom. Main part of the EBRD and Euroatom financing is used to procure safety equipment for installation on the existing nuclear power plants. The Bank has administered two international special funds for: (i) ensuring the safe decommissioning of the Chernobyl NPP; and (ii) construction of a New Safe Confinement over the destroyed Unit 4 of the Chernobyl NPP and its old Shelter. A major milestone was achieved in November 2016, when the New Safe Confinement was successfully put in place over the Unit 4.

In 2016, the Bank signed four municipal sector loans for a total amount of €41 million. Two loans to public transport companies in the cities of Kremenchuk and Ivano-Frankivsk were committed for renewal of the aged trolleybus fleet and development of municipal public transport infrastructure. The loans are co-financed by investment grants from the E5P Fund (€2 million for Kremenchuk) and the Bank's shareholders' fund (€1 million for Ivano-Frankivsk). Lviv wastewater biogas project is one of the first large scale biogas projects in Ukraine based on municipal wastewater facilities. The project is co-financed by a loan from NEFCO, an investment grant from the E5P Fund and a charter fund contribution from the City of Lviv. The total amount of co-financing is €16.5 million. Another project will finance capital expenditures related to the implementation of the automated fare collection system in Lviv on a design, build and maintain basis. Municipal guarantees were extended in support of all these loans. The Bank's pipeline of municipal projects is strong and includes projects in the areas of municipal public transport and energy efficiency for public buildings, although regulatory constraints and shortcomings in the tariff policy delay their materialization. The Bank is also considering projects related to district heating, water and wastewater, street lighting and municipal solid waste management.

In transport, the Bank continued to promote commercialization and reform of the major transport operators though loan conditionalities and policy dialogue which, among other things, contributed to corporatisation of Ukrainian railways. To address critical bottlenecks, the Bank continued to finance the rehabilitation of the main pan-European road corridors, modernization of the national air navigation system as well as construction of a new railway tunnel. Preparation has been underway for new railway infrastructure and rolling stock projects. In addition, the Bank provided support to independent private companies working in the area of agricultural logistics to finance new port terminals and associated infrastructure critical for improving efficiency and expanding national export capacity.

Under the Reform Support Architecture for Ukraine, the Bank in collaboration with the EU is providing support to public administration to rebuild the reform momentum and establish a sustainable approach to reforms. The EBRD is supporting activities that range from reform conceptualization to implementation assistance. As part of this framework, Reform Support Teams (RSTs) will be established in selected ministries. RSTs will be tasked with the implementation of priority reforms undertaken by these ministries, and with the transformation of public administration within these ministries. A high-level international Strategic Advisory Group for Support of Ukrainian Reforms (SAGSUR) was established to provide expert advice to the prime minister and the president.

STATISTICAL ISSUES

(December 2016)

I. Assessment of Data Adequacy for Surveillance
General. Data provision has some shortcomings, but is broadly adequate for surveillance. Among Ukraine's economic and financial data, there are some shortcomings, particularly in national accounts, government finance statistics (GFS), and external sector statistics.
National Accounts. The National Accounts (NA) are compiled in accordance with the 2008 SNA. Volume measures are annually chain linked and compiled using 2010 as the benchmark year. Quarterly GDP is compiled by Production, Expenditure and Income at current and previous years' prices.

Price statistics. The weights of the consumer price index (CPI) are updated annually and the compilation methods are in line with international best practices. The coverage should be extended to include the cost of owner occupied housing. The State Statistics Service of Ukraine (SSSU) compiles a series of producer price indexes (PPIs), separately covering: mining, manufacturing and quarrying; construction; agriculture; and selected service industries. The SSSU launched two quarterly Residential Property Price Indexes (RPPIs), covering new and secondhand multiunit dwellings in April 2016. The indexes are based on a survey of real estate developers and agents, rather than comprehensive administrative data, and therefore suffer from a number of deficiencies. Starting in 2016, Ukraine is one of the beneficiaries of the SECO2 RPPI project, which will run until April 2019, to support the compilation and dissemination of RPPIs in line with the guidelines and best practices outlined in the *Handbook on Residential Property Price Indices*.
Government finance statistics. Compilers are cognizant of the *GFSM 2001/2014* methodology and reference materials. However, the lack of a strong legal framework for compiling GFS and its incomplete statistical coverage are significant shortcomings. The authorities plan on improving the data by fully implementing the GFSM 2001 framework when implementing the *Accounting System Modernization Strategy in General Government for 2007–2015*, which will include the introduction of a common chart of accounts for all government units that is harmonized with budget classifications and based on GFS. A lack of clarity on the stock of VAT refund claims prevents a full assessment of the underlying fiscal performance.
Monetary and financial statistics (MFS). Monthly monetary statistics are compiled and reported to the Fund by the NBU, based on standardized report forms (SRF) for the central bank (SRF 1SR) and for other depository corporations (SRF 2SR), since September 2006. In addition, the NBU reports monetary data covering Other Financial Corporations (OFCs, or nonbank financial institutions) on a quarterly basis since December 2008. Data for OFCs include several methodological departures from the IMF's MFS manual and compilation guide, concerning valuation and classification of financial assets. These departures were documented by a multisector diagnostic mission that visited the NBU in September 2015, which set out a work plan to improve the MFS.
Financial sector surveillance. The NBU reports Financial Soundness Indicators (FSIs) to STA and EUR on a regular quarterly basis since end-2005. FSIs reported include all FSIs for deposit takers and two FSIs for real estate markets.
External Sector. The compilation system relies heavily on the International Transactions Reporting System, customs declaration database, and enterprise surveys, providing a broad coverage of data on a timely basis. Nevertheless, direct data collection through enterprise surveys and a more intensive use of available data sources would improve data quality in the areas of financial services, travel, compensation of employees, workers' remittances, and reinvested earnings. Goods statistics could benefit by improving the methodology for estimating the c.i.f./f.o.b. conversion coefficient as well as by bringing reporting forms and instructions in line

with the international guidelines. Efforts are also needed to reconcile direct investment data provided by the survey enterprises and ITRS, and to determine the sources of large FX cash held outside of the banking system classified under currency and deposits. In line with 2012 STA TA, improvements are needed regarding direct investment by improving the coverage of debt instruments data and the valuation of equity. STA is currently seeking Dutch funding for a TA project, which is aiming at enhancing the external sector statistics (ESS) over the period 2017–19. Key areas to be covered under the project are (i) improvement of the source data on direct investment (DI), including by supporting steps for transferring data collection responsibilities from the State Statistical Service of Ukraine to NBU and conducting an improved DI survey and moving towards more comprehensive source data on services through survey-based data collections in line with regional (European Union) practices; and (ii) enhancing consistency and coverage of balance of payments and IIP indicators, in particular with regard to the financial flows and stocks.	
II. Data Standards and Quality	
Participant in the SDDS since January 10, 2003.	Data ROSC published on August 19, 2003.
III. Reporting to STA	
The country's IFS page has been published since July 1996. Annual government finance statistics have been reported for 1999–2015. On monetary statistics, data have been published since September 2006 using the SRF framework in the *IFS* and are available online. The authorities also report regularly the quarterly data on Financial Soundness Indicators. These data are disseminated on the IMF's website with observations beginning in 2005. Data on international investment position has been compiled and reported since 2002.	

Ukraine: Table of Common Indicators Required for Surveillance
(January 23, 2017)

	Date of latest observation	Date received	Frequency of data[6]	Frequency of reporting[6]	Frequency of publication[6]	Memo Items: Data Quality—Methodological soundness[7]	Memo Items: Data Quality—Accuracy and reliability[8]
Exchange Rates	11/30/2016	12/08/2016	D	D	D		
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	10/31/2016	11/21/2016	M	M	M		
Reserve/Base Money	9/30/2016	10/21/2016	D	D	M	O, LO, O, O	O, O, O, O, NA
Broad Money	9/30/2016	10/21/2016	D	D	M		
Central Bank Balance Sheet	9/30/2016	10/21/2016	M	M	M		
Consolidated Balance Sheet of the Banking System	9/30/2016	10/21/2016	M	M	M		
Interest Rates[2]	10/31/2016	11/18/2016	D	D	M		
Consumer Price Index	9/30/2016	10/28/2016	M	M	M	O, LO, O, O	O, O, LO, O, O
Revenue, Expenditure, Balance and Composition of Financing[3]—General Government[4]	Q3/2016	6/2016	M	M	M	O, LO, LO, O	O, O, O, O, NA
Revenue, Expenditure, Balance and Composition of Financing[3]—Central Government	11/2016	12/2016	M	M	M		
Stocks of Central Government and Central Government-Guaranteed Debt[5]	Q3/2016	12/2016	M	M	M		
External Current Account Balance	Q3 2016	12/19/2016	M	M	M	O, LO, LO, O	LO, O, O, O, LO
Exports and Imports of Goods and Services	9/30/2016	10/28/2016	M	M	M		
GDP/GNP	Q3 2016	12/2016	Q	Q	Q	O, LO, O, O	O, LO, O, O, LO
Gross External Debt	Q3/2016	12/2016	Q	Q	Q		

[1] Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.

[2] Both market based and officially determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

[3] Foreign, domestic bank, and domestic nonbank financing.

[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

[5] Including currency and maturity composition.

[6] Daily (D); Weekly (W); Monthly (M); Quarterly (Q); Annually (A); Irregular (I); or Not Available (NA).

[7] Reflects the assessment provided in the data ROSC published in August 2003 and based on the findings of the mission that took place in April 2002 for the dataset corresponding to the variable in each row. The assessment indicates whether international standards concerning (respectively) concepts and definitions, scope, classification/sectorization, and basis for recording are fully observed (O), largely observed (LO), largely not observed (LNO), or not observed (NO).

[8] Same as footnote 7, except referring to international standards concerning (respectively) source data, statistical techniques, assessment and validation of source data, assessment and validation of intermediate data and statistical outputs, and revision studies.