

NON-PAPER
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public financial management, budgeting, internal control and external audit,
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MACROECONOMIC COOPERATION

Economic situation and outlook in Ukraine

Since April-May 2015 there has been some improvement in key indicators of economic development. Improvement of all without exception aggregated economic activities **has been formed under the conditions:**

- Gradual adaptation of economic agents to the new conditions of the economy functioning and, accordingly, formation of new intersectoral links in the economy;
- relative macroeconomic equilibrium (exchange rate and price stability);
- low base of comparison of April-August 2014 (when statistics already begun to show the effects of hostilities).

However, the economy has seen some economic **problems** caused by the following:

- military conflict in eastern Ukraine;
- restricted access to the market of the Russian Federation;
- downward price dynamics in key commodity markets;
- low population's capacity to pay amid reducing real wages (January-August 2015 the fall stands at 23.2%);
- financial difficulties of enterprises amid growing costs of production (*financial results before tax paid for the first half of 2015 amounted to "minus" 232.6 bln UAH. against the "minus" 136 bln UAH.*)
- Negative expectations of economic agents and reduction of the domestic investment demand.

Based on the results in August 2015 the industry's fall slows down. **Reduction of the volume of industrial output** in January-August 2015 amounted to 18% compared to a decrease of 19.5% in January-July 2015.

The improvement of the annual production dynamics is due to general factors: macroeconomic stabilization (lack of price and exchange rate fluctuations); gradual recovery / forming intersectoral links; and specific factors: the growth of the resource base and an increase of demand for certain products in the food industry; the build-up of computers production, electronic and optical products in engineering.

There is still an effect of such negative factors as logistical problems and failure to resume work of certain steel, coking, chemical and mining enterprises in Eastern Ukraine due to military action; low domestic demand from the population; low investment activity, including because of the unavailability of financial resources and high level of credit debts of enterprises.

Agricultural production in January-August 2015 deepened its fall to 5.8% (against 3.5% in January-July 2015), which is primarily **due to the high statistical base of comparison last year** (an increase of 6, 3%), while dry weather in August 2015 led to the need to begin fairly early crops harvest.

Factors that influenced the development of agriculture:

- direct and indirect negative consequences of military operations in Eastern Ukraine (a halt of livestock enterprises and the difficult conditions of field work) (in January-July 2015 the decline in agricultural production in the Donetsk region comprised 29.9%, in the Luhansk region - 28%);
- an increase of production spend (the main components of cost - fodder, electricity, fuels and lubricants) amid a significant reduction in the purchasing power of the population;
- decrease of demand from the processing food industry (in January-August 2015 production of food, beverages and tobacco decreased by 12%).

In the transport sector a decline in freight traffic continues slowing down: in 8 months of 2015 a decline in cargo traffic slowed down to 16.2% (against 19.1% in January-July 2015), freight turnover - to 12.2% (against 15.5% in January-July 2015).

That situation in the transport sector is due to the following factors:

- improvement of the production activity of enterprises and the restoration of previously lost intersectoral links in Eastern Ukraine, which increase demand for cargo transportation by rail, road and pipeline,
- positive impact of the effect of low statistics base in 2014

Due to the relative stability in the foreign exchange market, price movements slow and gradual recovery of intersectoral links in Eastern Ukraine **the wholesale trade** of enterprises demonstrates a **slowed fall**, which in January-August 2015 amounted to 14.1% (*against 17.1% in January July 2015*).

As of April 2015 **there has been an improvement in building**. In January-August 2015 **the decline** in construction output **slowed** to 24.6% against 25.9% in January-July 2015.

The improvement of the negative cumulative dynamics was due to **improvement in the financing of construction work in the municipal sector** and the statistics base effect in 2014.

The causes of fall in demand for the construction services were:

- an increase of unprofitable enterprises and decline of availability of credit over their high cost;
- low level of capital expenditure of the consolidated budget compared to the years before the military confrontation in the east;
- significant reduction in real incomes of population at times of the growing tariffs.

The index of GDP for the first half of 2015 showed a decrease of reduction - to 15.8% in the first half of 2015 compared to the fall in the first quarter of 2015 to 17.2%.

After nearly two-year term of the increase in consumer prices, **in August 2015 there was deflation at the level of 0.8%** (calculated to July 2015).

The main causes of deflation were seasonal factors which caused the decline of not core inflation on 1.7% (the contribution to the general index was «-» 0,89 (in July, decline on 1.8%), due to the seasonal increase in the supply of agricultural products at times of the descending price dynamics on world commodity markets and passing in April the stage of the most high increase of the administratively managed prices/tariffs.

In annual terms the inflation slowed down to 52.8% in August 2015 against 55.3% in July 2015, which reflects the stabilization of the consumer market.

In the foreign exchange market after the sharp devaluation of the UAH almost by 55% in February 2015, **in March and August 2015 revaluation took place on 12 %**.

The official exchange rate of UAH to USD at the end of August 2015 compared to July 2015 revalue by 2% to 21.1854 UAH/ USD (since the beginning of year UAH devalued by 34,4 %).

In January - July 2015 **exports of goods** decreased by 34.8%, imports - by 37.8% by comparison to January - July 2014.

The factors of the development of negative dynamics of foreign trade were:

- the fall in world prices for exports (January - July 2015 compared with January - July 2014 the price of wheat on the world market fell by 26.9%, corn– by 17%, black metals - by 16.3 %, carbamide - 9.6%);
- the suspension of production of some enterprises, particularly because of damage to assets and the destruction of transport infrastructure in Eastern Ukraine;
- strengthening of protectionism policy in relation to the Ukrainian exports;
- worsening of the financial state of domestic enterprises and increase the cost of domestic products;
- the decline of purchasing power and internal consumer demand;
- the devaluation of national currency (average exchange rate against the dollar in seven months devalued by 2.1 times);
- the performance of additional import duty.

Although both export and import operations falling has decreased by more than a third (**imports of goods and services** in January - August 2015 compared with January–August 2014 decreased by 33.9% (goods - by 36.4%), **exports of goods and services** – by 31.6% (goods - by 34.6%)), in January - August 2015 **the improvement of the current account balance** at the level of «-»133 mln USD against «-» 2 346 mln USD. in January-August 2014 and improved balance of goods and services - «-» 466 mln USD against the US «-» 2234 mln USD in January - August 2014 was fixed.

However, there are signs of business adaptation to new economic conditions, which give reason to expect a recovery of economic activity followed by economic growth.

According to the **Economic and Social Development of Ukraine Forecast for 2016 - 2019 years in 2015 is anticipated the following:**

- reduction of the real GDP by 8.9%;
- reduction of industrial production volumes - by 11%;
- gross agricultural output will drop by 5.7%;
- consumer prices will rise by 45.8% (December to December of the previous year);
- producer prices will rise by 32.2% (December to December of the previous year);
- exports of goods and services will decrease by 23%, imports - by 26.9%.

Forecast analyses for 2016 – 2019 years takes into account the difficult current situation, the number of assumptions concerning the external situation and internal conditions of economic development. According to the forecasts of the "bottom falling" Ukrainian economy will reach in 2015. In 2016 it is anticipated the economic growth.

The Forecast for 2016-2019 years developed base on 2 scenarios.

- **Scenario 1** (optimistic) foresees GDP growth up to 2%, nominal GDP - 2,262 bln UAH, inflation - 12% (December to December of the previous year).

Macro indexes agreed with the IMF and include the successful implementation of the Government's economic program supported by international partners. The main factors of growth are investment demand and exports. The leverages of recovery - maintaining macro-stability, international assistance to infrastructure projects and reconstruction of affected areas. Activation of exports - over depreciation benefits of opening markets and regulatory approximation to EU norms. It is anticipated the growth in production in investment sectors and export-oriented activities due to the return to traditional foreign markets and entering new ones.

- **Scenario 2** (pessimistic) expects **GDP drop by 0.3%; nominal GDP - 2 245,7 bln UAH, inflation - 14.7%.**

As the reforms implemented in conditions of significant challenges, the growth of recovery may take longer time and be less marked.

Medium-term forecast represents conservative guidance, according to which in Scenario 1 GDP will grow on average during the years 2017-2019 by 3.8% annually, Scenario 2 – by 2.3%.

Situation of public finances and recent developments in tax policy and budget policy in Ukraine

December 28, 2014, the Law (№ 71-VIII) amending the Tax Code and certain laws on tax reform was adopted, which allowed:

- reduce the number of taxes and fees - from 22 to 11 (cancelled - 3, and 13 of these transformed into 5);
- a moratorium of 2 years on inspections of small businesses was introduced (with a volume of up to 20 mln UAH per year);
- electronic VAT administration system was introduced.

In order to bring legislation in line with OECD guidelines and improve standards on the prevention of tax evasion in carrying out business transactions with related parties - non-residents **the Law (№ 72-VIII) was passed on December 28, 2014**, which:

- introduced the principle of "arm's length", which is the main standard for transfer pricing;
- improved the concept of "related parties" and "business transactions";
- recognized controlled business transactions for the sale of goods through the commissioners - non-residents and transactions involving one or more not related intermediaries if such transaction would be subject to the control of such assets without the intermediaries.

In order to improve the current system of state regulation of transfer pricing, eliminate contradictions and specify certain rules of international experience and optimum combination of fiscal and regulatory function of taxation to boost business activity in Ukraine. In particular, the Law provides:

In order to increase business activity the Law of 15 July 2015 № 609-VIII improved current system of state regulation of transfer pricing, and eliminated the inconsistencies, and specified distinct rules for combining fiscal and regulatory function of tax law, in particular, the Law:

- increased the thresholds for declaring the operation controlled;
- improved the criteria for forming the list of countries (territories) transactions with which are declared controlled for the purpose of transfer pricing;
- increased the penalty for failure to submit (submit untimely) the report on controlled operations, and reduced the fine on all undeclared controlled operations;
- shortened the grounds for inspections of controlled transactions.

Law of 16 July 2015 № 643-VIII improved the system of electronic VAT administration to ensure its efficient functioning on a regular basis, including:

- agricultural producers applying special regime of VAT have additional accounts automatically opened for the electronic transfer of VAT on agricultural activities (*a/c business automatically transfers funds on the day of admission to the electronic account to special accounts of a/c producers*);
- **the amount of subventions from the budget** that increase the amount for registration in SRTP invoices is paid to providers of utility services to the population;
- **arrest of funds on electronic accounts of taxpayers is prohibited**, which enabled the Treasury to write off unblocked funds in the budget for the repayment of VAT payers' obligations;
- **taxpayers can receive extracts from SFS on cash flow on their electronic accounts and VAT amounts** paid to the budget. These extracts are the basis for the display of VAT in accounting.

The Ministry of Finance drafts tax reform, which aims to build a simple, transparent, equitable tax system that promotes investment, creates the conditions for sustainable economic development meeting the needs of state and local budgets for implementation of priority expenditures. The objective of the reform is to reduce the tax burden on citizens and businesses.

The legislative work on implementing medium-term budget planning is ongoing, particularly in 2015:

- **law amending the Budget Code on the rules was drafted** and is being prepared for consideration by the Government. The law will reduce the number of amendments to the budget during the year and provide stability and predictability of the annual budget;
- **the general requirements for the performance indicators of budget programs and instructions on preparing budget requests were amended (orders of the Ministry of Finance)**, changing the approaches to the formation of the budget documents, including:
 - budget request of any general manager contains his strategic goals and performance over the medium term, defined according to national priorities,
 - performance indicators for budget programs (budget request and budget program passport) are clearly subordinated to the strategic objectives of general manager and highlight the effectiveness of public service delivery.

The budget requests for 2016-2018 years to prepare the draft budget for 2016 were formed taking into account the updated requirements.

In December 2014 the Budget Code was amended, aimed at building a new model of financial security of local budgets and new approaches in relations between the state budget and local budgets, including:

- clear budgetary rights and the level of responsibility of central government and local governments were legislatively defined;
- motivation for increasing the revenue base of local budgets was increased contributing to solving complex issues of local communities.

IMF mission on decentralization positively assessed the changes to the Budget Code and the directions of intergovernmental relations reform.

The main directions of changes to the Budget Code are as follows:

1. The rights of local authorities were expanded and full budgetary autonomy was provided to them, in particular:

- Local authorities have the right, without waiting for approval of the state budget, to independently form and approve local budgets (*the deadline for budget approval - 25 December of the year preceding the planned one*);
- procedure for the provision of local guarantees and borrowing from IFIs was simplified by introducing the principle of "tacit consent" (*within one month of filing in case of non-receipt of MoF's conclusion*);
- the right to external local borrowing was granted to all local city councils of regional centres (*previously such borrowing was possible for only city councils of cities with a population of over 300 000 inhabitants*);
- local authorities were granted the right to choose the institution (*in the Treasury bodies or in public sector banks*) to service the budget of local budgets and own revenues of budgetary institutions;
- local authorities independently determine the volume of local budgets revenues based on fixed stable revenue sources (*previously MoF determined and brought to the local budgets indicative revenue indexes*);
- formation of general fund revenues single basket was introduced (*without separation into I and II basket*) and the sources of its formation were expanded;
- the mechanism for calculating basic and reverse subsidies was defined (*subsidies amounts can be determined by local authorities themselves, because their calculation is based on official figures of treasury reporting*).

2. Sources of local budgets were expanded, in particular by:

- transfer of income from the state budget (*100% of fees for administrative services, 100% of the state fee, 10% private sector corporate income tax*);
- excise tax on excise goods sales by retail undertakings (*beer, alcoholic beverages, tobacco, petroleum products*) at a rate of 5% of the cost of goods sold;
- expanding the tax base of property tax (*by including into taxing with this tax of commercial (non-residential) property and cars with large engine capacity*);
- increasing ecological tax payment normative for local budgets (from 35% to 80%).

In January-August 2015 the general fund of local budgets received 62.9 bln UAH, the increase in revenues compared to January - August 2014 is 39.1% or 17.7 bln UAH. In 14 of the 25 regions revenue growth rate is above the national average (*revenue growth in all taxes was achieved*).

Local state bodies got an additional source in order to execute state functions (local budgets also obtain a basic dotation for increasing the fiscal capability of their budgets) **as well as** in future they will have a significant source for financing self-managing competences.

3. It was established a new mechanism of budget regulation and balancing – horizontal balancing of a taxable capacity of the budget;

The system of balancing the taxable capacity is more progressive than a former balancing system and aims to encourage the interest of local authorities to involve additional incomes and enlargement of existing tax base. Balancing is carried out only for 2 taxes:

- revenue-based levy of enterprises of private sector of economy (10%) –oblast budgets;
- revenue-based levy of individuals – budgets of cities, district and oblast budgets.

The rest of payments stay at the disposal of local authorities.

4. A new transfer policy was formed and the it was strengthened the responsibility of line ministries for realization the state policy in relevant sectors

The state took the full responsibility concerning:

- provision of education services by general educational institutions,
- preparation of work personnel by professional and technical institutions,
- provision of medical services to the population,
- financing of state programs of social protection of certain categories of citizens.

Local budgets will be given new types of transfers, in particular: educational subvention; subvention for preparation of work personnel; and medical subvention.

The change of the mechanism of financing of expenses for education and health protection was the result of negative tendencies of the state of development of these sectors. At the same time, line ministries responsible for realization of the state policy in a relevant sector (particularly, in a part of preparation of normative and legal acts, which regulate the usage of sectoral standards when making expenses of local budgets, concerning the network of budget institutions, staff rules, work load, pedagogic duty, rules of expenses of budget institutions etc.) will be jointly liable with local authorities for provision of medical and educational services and its quality.

5. The norms were envisaged, which will encourage the transition from three-level to two-level budget system and establishing self-sufficient territorial community

Communities, which will join together according to criteria, defined by the Law of Ukraine “On voluntary association of territorial communities”, will have:

- the same competences as cities of oblast meaning;
- direct inter-budget relations with the state budget.

Such measures will encourage the establishing of self-sufficient territorial communities, which will be able to ensure the provision of qualitative services to the population.

In Ukraine the process of consolidation of communities is active and until today:

- the Government approved Perspective Plans of Establishing the Territories of Communities of 16 oblasts;
- the decision on establishing of consolidated territorial communities and appointed the first elections for 25 October 2015 in 163 new-established communities was adopted.

On 22 September 2015 the Government approved basic conditions of the proposal of exchange (change of conditions) concerning flotation of new bonds and state derivatives; this will let to carry out legally the process of debt restructuring.

It is expected that the results of restructuring concerning all series of debt securities will be known during October or at the beginning of November 2015. The accomplishment of the process of debt restructuring is expected till 1 December 2015.

Interested bondholders have till 12 October 2015 to make applications concerning participation of holders in meetings, at which the exchange proposal will be considered. It is expected, that such meetings will be held on 14 October 2015. Ukraine reserves a right to extend the term of acceptance of such applications, to change the date of the meeting and/or organize additional meeting.

Provided that on 14 October 2015 the proposal of exchange will be approved by sufficient amount of voices of creditors at the meeting, the exchange of old bonds into new bonds and state derivatives has to be held till 27 October 2015.

In order to accomplish the restructuring of the state and guaranteed by the state debt the government temporarily stops payments under certain state and guaranteed by the state loans (*base sum of a debt and interest payment*). Such temporal stop of payments is a technical measure.

Temporal stop of payments extends on 9 of 14 series of bonds of external state loan (BESL) and guaranteed by the state Eurobonds State Enterprise “Finipro”, which are included to the perimeter of restructuring, including Eurobonds with redemption in September and October 2015.

Temporal stop of payments does not include any BESL and guaranteed by the state Eurobonds State Enterprise “Finipro”, which do not envisage any payments from 23 September to 1 December 2015.

Potential reduction of sovereign ratings of Ukraine, arising from such actions, will not have a significant impact on the restructuring of debts process. After legal accomplishment of the restructuring process it is expected the revising and increasing of a sovereign rating on the side of international rating agencies.

EU economic assistance to Ukraine

I. EU macro-financial assistance

According to the Memorandum of understanding between Ukraine as a borrower and the EU as the lender as well as the Loan Agreement between Ukraine as a borrower, the NBU as a Financial agent of the borrower and the EU as a creditor on granting Ukraine with the EU macro-financial assistance amounting to 1.8 bln Euro in July 2015 Ukraine received the Ist tranche of this assistance amounting to 600 mln Euro.

This is the third program of the EU macro-financial assistance to Ukraine, in particular:

- **In 2013** Memorandum of Understanding between Ukraine and the EU and the Loan Agreement between Ukraine as a borrower, the NBU as agent of the borrower and the EU as a creditor on granting Ukraine with the EU macro-financial assistance amounting to 610 mln Euro were signed (100 + 260 + 250 mln Euro);
- **In 2014** Memorandum of Understanding between Ukraine and the EU and the Loan Agreement between Ukraine as a borrower, the NBU as agent of the borrower and the EU as a creditor on granting Ukraine with the EU macro-financial assistance amounting to 1 bln Euro were signed (500 + 500 mln Euro).

Ukraine received all planned funds under the Ist and IInd programs: 1.360 bln Euro in 2014 and 250 mln Euro in 2015. Funds were credited to the account of the NBU and used to reduce external financial pressure on Ukraine, to improve its balance of payments and to provide budgetary needs, as well as strengthening its position on foreign currency reserves.

IInd and IIIrd tranches of macro-financial assistance (600 mln. Euro each) – are expected in the IVth Q. of 2015 and in the Ist Q. of 2016 on the evaluation of the execution by Ukraine of measures of structural reform implementation.

Regulations of the mentioned Memorandum of Understanding foresees that before taking a decision on the possibility of payment of the IInd and IIIrd tranches, the European Commission together with the Ukrainian party must evaluate implementation of the relevant terms of structural reforms.

Getting of the IInd tranche foresees a necessary implementation of 15 structural policy conditions by Ukraine, getting of the IIIrd tranche – implementation of 21 conditions. Implementation of mentioned conditions continues.

II. Sectoral budgetary support

In 2008 – 2014 between Ukraine and the EU were signed 8 agreements on the funding of sector budget support in sectors: energy (Phase I and Phase II); energy efficiency; removal of technical barriers to trade; ecology; transport; border management; regional policy. The total budget of the program is 444 mln Euro.

Since 2008 the Government of Ukraine has received 226.63 mln Euro of sectoral budgetary support (8.55 mln Euro was received in 2015). The work to receive the rest of the funds continues.

III. State building contract

On May 13, 2014 an Agreement on the financing of the State Building Contract for Ukraine, which provides free and irrevocable financing to the State Budget to support reforms in the amount of 355 mln Euro, was signed.

On June 17, 2014 250 mln Euro were received and credited to the general fund of the State Budget of Ukraine. The Government is working on implementation of necessary indicators of eight components of the State Building Contract in order to receive 105 mln Euro.

FINANCIAL SECTOR COOPERATION

Financial stability situation in Ukraine: deposit trends, asset quality and capital adequacy, resolved and restructured banks

During 2014-2015, the banking system of Ukraine experienced a significant impact of negative factors, primarily – decrease of the main macroeconomic indicators, inflation and devaluation processes, annexation of the Crimea and escalation of the military conflict in the east of Ukraine.

A variety of factors, such as significant narrowing of the resource base, slowdown of credit activity and deterioration of loan portfolios' quality, high level of dollarization and low capitalization as well as unprofitable activities are still considered as challenges for the banking system.

Stabilization trends in the banking sector are formed through the cleaning of banking sector by means of withdrawal of insolvent banks from the market, currency market stabilization in the second quarter of 2015 and gradual improvement of inflation dynamics.

During the first quarter of 2015 the banking system witnessed a significant outflow of individuals' funds due to the panic among people on the background of UAH devaluation. Starting from the second quarter of 2015 this trend has been gradually slowing, while there is a tendency of backflow of deposits in the national currency into the banking system. In particular, in January-March 2015 the individuals' deposits in national currency on accounts of operating banks fell by 10 bln UAH (-6%), while in April-September - increased by almost 16 bln UAH (+11%). The volume of corporate deposits on accounts of operating banks increased by 41 bln UAH (+29%) from the beginning of 2015 (as of 30/09/2015).

Due to a significant deterioration in the borrowers' financial conditions, the levels of negatively classified debts of credit operations for January-August increased from 18% to 24% of credit debts. However, in recent months the rate of growth of this indicator has slowed.

As a result of an increase of bad debts during 2015, banks had to expand the volume of reserves for compensation of possible losses – during the eight months of 2015 the volume of reserves by negatively classified credit debt increased by 75 bln UAH (+56%) to 208 bln UAH.

The increase in reserves resulted in a negative financial result of banks' activities (as of 01.09.2015, -46.1 bln UAH), that in turn caused the reduction of regulatory capital of these banks (39 bln UAH, or -23% to 133 bln UAH) and corresponding decrease of regulatory capital adequacy ratio - from 17.84% to 12.99%. However, existing authorized capital of operating banks in January-September 2015 increased by 48 bln UAH (+33%) to 192 bln UAH.

The Ukrainian side hopes for support in the development and improvement of the Ukrainian households deposit guarantee system and bringing the Ukrainian legislation on this issue into compliance with the EU legislation, in particular the completion of implementation of the Directive 2014/49/EU of the European Parliament and of the Council of 16 April 2014 on deposit guarantee schemes and the Directive 2014/59/EU of the European Parliament and of the Council of 15 May 2014 establishing a framework for the recovery and resolution of credit institutions and investment firms, scheduled till 2018.

Update on the ongoing stress tests of the banking sector in Ukraine

Stress-testing is being implemented within the stress-testing methodology elaborated by the NBU and approved with the IMF and the World Bank. Stress-testing of 10 banks has been almost completed; stress-testing of the following 10 banks is being continued. In total these 20 banks control about 85% of assets of the banking sector. The completion is expected till the end of October 2015.

Implementation of the financial sector reform strategy and the internal restructuring of the NBU

Comprehensive Program of the Financial Sector Development in Ukraine till 2020 has been developed and approved (Comprehensive Program). The Comprehensive Program has been produced jointly by the representatives of the National Bank of Ukraine (NBU), National Securities and Stock Market State Commission (NSSMC), State Commission for Regulation of Financial Services Markets (SCRFSM), Fund Deposit Guarantee as well as leading experts in this area.

In accordance with the commitments arising from the Ukraine-EU Association Agreement, on 2 October 2015 the English text of the Comprehensive Program was sent to the European Commission for consideration.

The main objective of the Comprehensive Program is to ensure an efficient functioning and development of the financial sector on the basis of a fully-fledged market competitive environment in compliance with the EU standards.

The measures set out in the Comprehensive Program address three key areas: 1) ensuring financial stability; 2) development of institutional capacity of financial market regulators; 3) consumer and financial market investors' rights protection.

The Comprehensive Program will be implemented according to the project management standards in three phases: 1- cleaning up the financial sector; 2 - laying down the foundation for the system development of the financial sector; 3 – stable development of the financial sector aimed at capital market development, asset growth of the whole financial sector, increasing internal and external investments.

In the context of the Comprehensive Program implementation the Ukrainian legislation concerning the financial sector has been amended, in particular on:

- preventing negative consequences for the banking system stability (*Law № 1586 of 4 July 2014*);
- defining peculiarities of corporate governance in banks (*Law № 1587 of 4 July 2014*);
- strengthening internal financial monitoring of the financial institutions (*Law № 1702 of 14 October 2014*);
- information disclosure on the financial services market (*Law № 123 of 15 January 2015*);
- approving the measures aimed at stirring up the banks' capitalization and reorganization (*Law № 78 of 28 December 2014*);
- increasing the responsibility associated with the bank persons (*Law № 218 of 2 March 2015*);
- protecting the investors' rights (*Law № 289 of 7 April 2015*);

- amendments to the Tax Code on taxation of debt forgiveness (*Law № 321 of 9 April 2015*);
- prohibition of early withdrawal of term deposits (*Law № 424 of 14 May 2015*);
- development of institutional capacity of the NBU (*Laws № 541 and № 542 of 18 June 2015*);
- improving the households deposit guarantee system and withdrawal of insolvent banks from the market (*Law № 629 of 16 July 2015*).

The following upcoming activities to implement the reforms are directed at:

- adhering to macroeconomic and financial stability;
- further cleansing of the financial sector (*completion of cleaning up the financial sector, continuation of cleaning up the stock market and insurance companies market and non-bank financial institutions*);
- restoring confidence in the financial sector, adopting legislation on creditors' rights protection, consumers' rights protection of the financial services;
- providing legislative instruments to improve the supervision of non-banking sector by adopting the laws on the institutional capacity of the NSSMC, lifting the moratorium on inspecting by the NSSMC the stock market participants, the function allocation and transfer from the SCRFMS to the NBU and the NSSMC;
- ensuring integral development of the financial market and adopting legislation on derivatives, on corporate bonds;
- laying the basis for strengthening a long-term investment resources of the financial market by the adoption of a Law on the introduction of second pillar pension provision.

With the purpose of strengthening the NBU institutional capacity and as one of the areas of the Comprehensive Program implementation the NBU transformation is currently being pursued:

- new organization structure of the NBU is introduced which is concentrated on 6 basic functional groups, the hierarchy is reduced to 4 levels;
- composition of the NBU management is reformed (from 11 to 6 persons) and the NBU committees system work is arranged (*the committees on the following issues have been created: monetary police; financial stability; audit; credit; assets and liabilities; budget; competitive bidding; the creation of the committees on supervision; change management; operational risks is at the final stage*);
- function centralization model and the NBU territorial offices reform are being implemented;
- 5 non-key functions are reorganized and/or removed from the NBU;
- introduction of the international standards of project management and competence development system and human resources management of the NBU is launched;
- NBU staff is reduced by 40% (above 4500 staff positions) since the beginning of 2014.

Under the NBU transformation it is planned by the end of 2015:

- strengthening of the key functions and supervision of financial institutions;
- completion of the removal, outsourcing and/or reorganization of the majority of non-key NBU functions;
- improvement of the internal processes, for instance: credit, budget, cost control, purchase, a new reporting system development, etc.;
- improvement of the internal electronic circulation of documents;
- completion of the transition to a single balance;
- introduction of the continuance management system and process management;
- reduction of the NBU staff by more than 2000 employees.

Recent developments in financial sector regulation in Ukraine

Ukraine implements the measures foreseen by the reform of the financial sector and agreed with IMF, World Bank, EU, EBRD and other international donors. These measures are aimed at maintaining the stability and proper functioning of national banking system, and lead to increase its resistance to existing challenges.

On December 28, 2014 the law № 78 was adopted. It provides to introduce a simplified procedure of reorganization and capitalization of banks, in particular the capitalization of banks with participation of the state.

According to the measures envisaged in the Memorandum of Economic and Financial Policies in frames of the IMF Extended Fund Facility (EFF) the diagnostic testing of 20 largest banks is updated to evaluate additional possible losses connected to the conflict in the east and the deterioration of the economic prognosis by the end of 2017.

If the results of diagnostic testing will show insufficient capital of the bank (*regular capital adequacy ratio below 10%*), banks are obliged to gradually increase capital volume to achieve the normative regular capital adequacy value by the end of 2018.

The implementation of EU technical assistance projects in the financial sector was started. One of the projects components foresee the introduction of Basel II's Pillar 2 aimed at development of regulations for introduction of ICAAP and SREP process.

The law adopted in March 2015 is aimed to strengthen the responsibility of person associated with the bank and in particular foresee to:

- expands the list of person associated with the bank;
- entitles NBU to recognize person as associated with the bank on the basis of defined characteristics;
- increase liability of person associated with the bank, including introduction of criminal liability for the actions that led to problematycity or insolvency of the bank.

In frames of implementation of abovementioned legislation the NBU Board adopted regulations to strengthen the requirements for transactions of person associated with the bank, form and time limits for submission of the list of persons associated with the banks to the NBU, as well as determine the list of characteristics which NBU can use to identify the persons or entities as associated with the bank. New requirements for disclosure of banks ownership structure were approved. Procedures of acquiring license from the NBU for substantial participation in the bank for legal entities

and individuals were improved. Mechanisms of evaluation of business reputation and financial status of these persons were enhanced.

A comprehensive analysis and verification of active operations of 20 largest banks with associated persons is carried out with engagement of leading auditors and in line with the Memorandum of Economic and Financial Policies measures. For this purpose, the NBU Board approved a number of relevant documents, including the terms of reference for verification of active bank operations with bank associated persons and form of the relevant report and action plan requirements for the bank to bring its operations into compliance with the legislation on the operations of the bank associated person.

On December 29, 2014 the NBU approved regulations on the organization of internal control in banks of Ukraine, which set mandatory minimum requirements for the organization of internal control in banks. To continue this course the regulations on the organization of risk management in banks and the new edition of the Regulation on the organization of internal control in banks were drafted. Mentioned documents await the approval.

To reduce of the bad debts volume of the banks, amendments to the legislation regarding the introduction of extra-judicial approach to restructuring loans ("Kyiv approach") is being prepared. Work is done together with the Ministry of Finance, DGF and banks with technical assistance from the IFIs. In parallel, the draft law "On financial restructuring" (*to define the mechanism for financial restructuring*) and the draft law "On Amendments to the Tax Code of Ukraine" (*to determine the tax incentives in the framework of the "Kiev approach"*) were elaborate.

The National Bank studied generally accepted banking practice and international experience in the restructuring of bad loans and prepared the Guidelines for banks on work with debtors – physical persons, who got in or may get in financial difficulties.

In order to implement the provisions of directives 2009/138/EC and 2002/92/EC the draft Law of Ukraine "On insurance" was developed and submitted to Parliament. The draft is aimed to:

- improve monitoring of insurers and enhance control over compliance to the requirements for insurer's solvency, financial stability, state regulation of insurance mediation;
- introduce European standards for risk classification of insurance;
- improve licensing of insurers;
- increase requirements for capitalization of insurers, including the amount of regulatory capital;
- introduce international standards of prudential supervision;
- enhance the protection of insurance consumers.

To this end, to reform the compulsory insurance of civil liability of vehicle owners and to implement Directive 2009/103/EC **National Commission for Regulation of Financial Services Market of Ukraine is drafting the Law "On Amendments to the Law of Ukraine "On obligatory insurance of civil liability of owners of vehicles". And to implement the Directive 2003/41/EC Commission is preparing the draft law "On Amendments to the Law of Ukraine "On private pension provision".**

COOPERATION IN OTHER SECTORS

External audit and internal control

External audit

In order to implement the provisions of the EU Directive on 17 May 2006 № 2006/43/EC on statutory audits of annual accounts and consolidated accounts the Ministry of finance **has developed the draft Law "On audit of financial reporting and Auditing"** (*currently the endorsement procedure of the draft Law with the government authorities is ongoing*).

Is in progress the work on the implementation of INTOSAI GOV9100-9199 standards concerning the common framework (requirements and targets) for the internal control systems, in particular, requirements for reporting on the operational efficiency of the internal control and its evaluation; ensuring the basis for accountability in governance, risk management within the institution; the principles for independency of internal auditor; the principles for cooperation and coordination between the external and internal auditors in the public sector.

On September 19 2013 had been adopted the Law "On Amendments to the Article 98 of the Constitution of Ukraine (concerning the powers of the Accounting Chamber of Ukraine)", which had expanded the mandate of the Accounting Chamber in respect to the control over the incomings to the State budget, and also determined that the organization, powers and Accounting Chamber's operational procedures are determined by law.

On July 2 2015 was adopted a new edition of the Law "On Accounting Chamber", which partially takes into account the generally recognized international standards for external audit of public finances, in particular, the provisions of the Lima Declaration of Guidelines on Auditing and the Mexican Declaration of Independence of Supreme Audit Institutions, and EU practice.

The Law "On Accounting Chamber":

- defines the organization, powers and work order of the Accounting Chamber establishes the functional and organizational independence of the Accounting Chamber which is necessary for performance of assigned duties and tasks;
- authorized the Accounting Chamber for efficiency auditing and financial audit, in particular, for the auditing the revenues to the State budget and their use, also, for the state owned objects' management, which have financial implications for the state budget.

The Accounting Chamber has initiated the Twinning project, which will contribute to the qualitative improvement of audits by strengthening the institutional capacity of the Accounting Chamber, improvement of the possibilities of audits by developing and implementation of modern methods of conducting audits, training of the staff of the Accounting Chamber and the use of new methods and technology of audit, improvement of the quality of reports to the results of audits and system for the monitoring of implementation of the recommendations of the Accounting Chamber.

The development of the institutional capacity (potential) envisaged be implemented by means of three innovative approaches:

- **active application of criteria for the effectiveness measurement of the audit institution's activity** (SAI Performance Measurement (SAI PMF) with the use of tools of conformity assessment of audit institution's practices to the ISSAI standards (ISSAI Compliance Assessment Tools) (iCATs) in order to identify strengths and weaknesses and to choose the direction for the improvement of the institutional capacity (capacity);
- **creation of a sustainable society perception that guarantees of independence of the Accounting Chamber is the key to its sustainable and stable functioning.** Such public support will be based on strategic plans, identification of common interactive opportunities and communications, mutual commitments of the audit institution's management, external strategies of activity;
- **an integrated approach to the capacity building of the Accounting Chamber,** which should provide support for professional improvement of staff, organizational potential (administrative and managerial systems and procedures) and institutional capacity, i. e. the ability of institution to monitor effectively the environment changes (state and society) and to create the partnership, which will enable to take advantage of open opportunities and mitigate existing risks.

The Accounting Chamber is developing the Code of Ethics of the auditor with due regard to the requirements ISSAI 30 on observance of the principles of integrity, independence, objectivity, impartiality, privacy of service, competence. In this regard the proper state financial support of the auditor, which guarantees its professional independence, is of vital importance.

The Law "On Accounting Chamber" have regulated only the issue of the basic wage of the member of the Chamber. Currently the issue regarding legal definition of the size of the additional salary, as well as the remuneration Secretary of the Accounting Chamber, which heads its apparatus and appoints, dismisses officials of the Chamber, in particular the auditors (*applies on the advisor to the member of the Accounting Chamber, which by its functionality not only the auditor, but also heads the control group on behalf of a member of the Accounting Chamber, created to implement measures of public external audit*).

Public internal financial control

The Budget Code of Ukraine is the legal framework for the introduction of an European system of public internal financial control and adoption of the secondary legislation on its functioning.

In particular, the Code defines the concept of internal control and internal audit, the basic principles of the organization and implementation of financial management and control, accountability and responsibility of managers of budgetary institutions, internal audit, and the powers of the Government, the Ministry of Finance, units of the State Financial Inspection to determine the organizational and methodological principles of internal control and internal audit , the assessment and monitoring of their operation.

To ensure the implementation of the Code the Government and the Ministry of Finance jointly with the State Financial Inspection had adopted a number of regulations, which take into account the recommendations of the Ministry of Finance of the Kingdom of the Netherlands, the SIGMA and Twinning project, in particular:

- the Government had approved the procedure for the creation and functioning activities of the internal audit units and implemented such activities in ministries and other central executive institutions and regional state administrations (Government resolution on September 28, 2011 №1001);
- the Ministry of Finance had approved the following: internal audit standards (the Ministry's Order on October 4, 2011 №1247); The Code of Ethics of internal audit (Ministry's Order on September 29, 2011 №1217); Guidelines for the organization of internal control (Ministry's Order on September 14, 2012 № 995); The form of reporting on the performance of internal audit units (Order on March 27, 2014 № 347); Procedures for monitoring of internal audit (Order on July 31, 2014 № 794).

In the framework of the execution of tasks on the development of public internal financial control was ensured the legal basis for its operational activities and also introduced the activity of internal audit in the ministries and other central executive bodies and regional public administrations.

The Ministry of Finance and the State Financial Inspection are preparing the training manual on Internal Audit and Program for Development and Training on internal audit and preconditions and prospects for further preparation and trainings for internal auditors.

Statistics

Cooperation in the area of statistics, including Twinning

On November 18, 2013 the State Statistics Service of Ukraine started the new Twinning project «Support to Development Processes in the State Statistics Service of Ukraine with the Objective to Enhance its Capacity and Production», implementation is expected for a 2 year period (originally comes to an end in December 2015). One of the main purposes of the Project is to strengthen the institutional capacity of the State Statistics Service of Ukraine for collecting, processing and disseminating statistical products in line with the EU acquis through improving the production of statistics and training of staff.

In summer of 2015, «Evaluation of the statistics sector in Ukraine and EU assistance provided since 2010» has been conducted. The results of the evaluation identified strengths and weaknesses of the current status of the Ukrainian statistical sector, outlined the main areas on which support should be provided after the last (current) Twinning project, and provided specific recommendations to address these issues.

The State Statistics Service constantly provides statistical information to the requests of international organizations, international unions and unions, who are interested in getting the official statistical information from Ukraine. The active cooperation is conducted with the Statistical Commission of the United Nations and the Statistics Division of the UNECE, particularly towards the involvement to the activities of the Conference of European Statisticians (CES).

The State Statistics Service of Ukraine is involved in the work of the Working Group on Statistics Energy Community and during 2014 participated in the activities on the implementation of Ukraine's commitments under the Energy Community Treaty, elaborated by the Secretariat of the Energy Community.

Recent developments in the statistics office

Currently, work is ongoing by the following priorities:

- **introduction of the Integrated System of Processing of Statistical Data (ISPSD)** which should create in the bodies of state statistics a single environment for preparation and conduct of statistical observations, through which the state statistics system will receive modern tools for input, processing, accumulation and submission of the information;
- **development of the electronic reporting system**, including support for automated system for collection of the electronic reports (*introduced in 2010*), which operates unstable during peaks loads due to the rapid growth of the number of respondents who report in electronic form;
- **creation of a single web portal for the state statistical bodies**, which is caused by large amounts of state statistical information accumulated in the state statistics bodies and a large number of user requests for this information to be processed in the shortest possible time with the maximum effectiveness. There is a need for the European Commission to review the issue of equipment procurement and software for the project "Web-portal of statistical information" established within the framework of EuropeAid.
- **creation of the distant learning system in the state statistics bodies**, which aims to obtain effective educational and technological resource for the State Statistics Service of Ukraine via distance training form and by self-education. The distant learning system will include appropriate facilities, new teaching methods, modern teaching methods as well as technologies and will be able to satisfy the education needs of existing staff of the state statistics bodies.

According to these areas the State Statistics Service of Ukraine is a need to obtain assistance from the EU of different instruments (EuropeAid, Twinning, TAIEX, etc.).

Development of statistics by sectors:

- **Reducing reporting burden on respondents.** Reporting burden on respondents in 2015 compared with 2014 decreased by 13.4% by reducing the number of respondents who participate in the state statistical observations, changes of frequency of granting forms and reduction of expenses of time for filling of one form (in 2014 in comparison with 2013 - decreased by 9,81%);
- **Classifications and registries.** In May 2015 in the framework of the Twinning project within the bilateral cooperation between INSEE and the State Statistics Service of Ukraine specialists of the Service were informed about the general bases and approaches to the development of the new CPA 2.1 version;
- **Application of modern mathematical methods in statistical practice.** With the European Commission support and in the framework of the Twinning project it has been initiated preparation of the uniform methodological documentation on the use of sampling for the state statistical observations that makes business statistics;

- **National accounts and macroeconomic statistics.** It has been made the transition to the compilation of indicators of the system of national accounts in accordance with the updated international standards of the system of national accounts 2008 (SNA 2008), the European System of National and Regional Accounts 2010 (ESA-2010) and the Classification of Economic Activities (NACE 2010 / NACE Rev.2);
- **Industry statistics.** Work on the preparation of the methodology of calculating index of internal and external traffic of the industry products is continuing as well as on experimental calculations of seasonally adjusted index of the industrial products;
- **Investment statistics.** In the framework of the Twinning project work is continuing on the development of methodological and methodical support for the observation of the capital investments on a selective basis in terms of small enterprises;
- **Structural business statistics.** In order to improve the quality of information from structural business statistics on data for 2014 project carried out testing guidelines for structural statistics interrelated indicators which are based on Eurostat document "The SBS validation process". Taking into account the consulting help of the Twinning project the specified Methodical recommendations will be specified and approved;
- **Business activity statistics.** In 2015 were introduced business confidence indicators in industry, construction, retail trade, services and financial services (publication of these indicators was first implemented in the first quarter of 2015). According to the EU requirements were developed and approved the Methodological provisions on organization of the state statistical observation "Status of business activity " (order of the State Statistics Service of Ukraine 06.07.2015 № 155);
- **Service statistics.** In January 2015 were approved the Methodological provisions on organization of the state statistical observations for using information and communication technologies at the enterprises. In the first quarter of 2015 were received the reports of another round of statistical observation of Ukraine's innovation economy for the period 2012-2014, which were prepared using the international methodology for CIS. During the first half of 2015 it was conducted a statistical observation of the use of information and communication technologies and electronic commerce in enterprises according to European methodology (methodology recommended by Eurostat). Further this observation will be conducted on the annual basis;
- **Agricultural statistics.** Nomenclature of agricultural products, which ensures comparability of statistical classification categories of products (SKP-2011) and is an analogous classification of products by economic activity of the EU (Statistical Classification of Products according to their Activities of the European Community - CPA2008) was developed. The creation of the methodological and practical basis for the implementation agricultural typology to the national statistical practice is ongoing;

- **Environment statistics.** It was improved the structure of the annual reporting forms of respondents, which provides accounting separation of waste at the place of production and handling (collection, disposal, removal). Operations of recycling and waste management applications were adapted according to the annexes 1 and 2 of the Directive on waste on 19 November 2008 № 2008/98/EU. The list of waste materials was harmonized with the latest version of the statistical classification of waste (EWC-Stat / Version 4). The state statistical observations on the exploitation of forests was Improved in order to use data in preparing national inventories of anthropogenic emissions and absorption of greenhouse gases in accordance with international obligations;
- **Price statistics.** Measures were taken for the implementation of the calculation of the producers price indexes of industrial services and products to be sold on internal and external markets;
- **Population statistics.** Put into practice the Methodology of calculations (estimates) population, which regulates basic approaches, methods and sources of information used during the annual and monthly calculations (estimates) population, annual payments (ratings) of the resident population by sex and age. Were made the recalculations of a dynamic number of indicators of mortality tables and average life expectancy and birth rates and population reproduction regime in 1989-2001 separately for each year in Ukraine in general and in the regions, according to the method of constructing mortality tables and life expectancy and Methods of constructing general fertility tables;
- **Labour Statistics.** Since 2014 labour force survey has been conducted within the updated program, which includes the issue of informal employment and takes into account the recent recommendations of the ILO and the EU;
- **Household Survey.** It was developed the Methodology of calculation of the indicators of income and resources of households and found out the directions of the improvement of indicators of material deprivation (deprivation) of the population which is based on the recommendations of international experts and certain provisions of regulations of the EU statistics on income and living conditions (EU-SILC). According to the EU-SILC new questionnaires concerning the income and living conditions of households have been drafted. For the purpose of harmonization of the program of inspection living conditions of households with the requirements of the European Statistical it was expanded the list of indicators to assess the possibilities for households to access certain goods and services;
- **Domestic trade statistics.** The Method of forming constellation reporting units for the sample survey of business entities (legal entities) is developed. Starting with the report for January 2015 testing it is carried out the new sampling;
- **Foreign Trade Statistics.** The new version of the Methodological guidelines on statistics of foreign trade is adopted. It's based on the recommendations "International Merchandise Trade Statistics: Concepts and Definitions 2010" of the UN Statistics Division. The State Statistic Service of Ukraine according to the agreements under the Memorandum of Understanding continues to provide Eurostat Comext database with information on the volume of foreign trade at 8 Marks of the Harmonized System (HS-2012) in Euros on monthly basis. Continues data exchange with the EU countries in statistics on foreign trade: Austria, Bulgaria, Latvia, Lithuania, Poland and the Czech Republic;

- **Energy Statistics.** Pursuant to the agreements within the framework of the Memorandum between the State Statistics Service of Ukraine and the International Energy Agency (IEA) on the exchange of statistical information the State Statistics Service of Ukraine annually provides information concerning production, residual and use of fuel and energy in the form of 5 international IEA questionnaires. Starting with the energy balance for 2010 the State Statistics Service of Ukraine annually generates energy balances of Ukraine using the IEA methodology and gradually provides a retrospective review of data of the energy basis provides information to the questionnaires «JODI Oil» and «JODI GAS»;
- **Information technologies.** In 2015 started the process of filling in the metadata database with the descriptions of the first stage of the state statistical observations for the purpose of their transfer for the processing within the Integrated system of statistical information;
- **Human resource management.** Program of development of improving professional competence of employees of the State Statistics Service for the period to 2017 has been developed and approved.

Plans for the reforms of the state statistical system – state of play

Measures for reorganizing the territorial bodies of the State Statistics Service of Ukraine were developed. Implementation of these measures are aimed at providing structure optimization of the main statistics departments, assignment of responsibilities between their structural subdivisions for the processes of statistics production (collection, processing, analysis and dissemination) and reorganization of structural subdivisions of the district (municipal) level by their elimination or combination and reducing the number of employees.

The State Statistics Service of Ukraine continuously implements measures for optimization of quantity of state statistical forms aimed at reducing the reporting burden of respondents. Annually, during the inventory of state statistical observations, the review of the forms of state statistical observations is carried out; comments and suggestions of regional statistics bodies and comments and suggestions of the respondents and users, received by the questionnaires, are taken into consideration; the analysis of available sources of administrative data is carried out and the proposals of interested state bodies are studied. **As result of such work, 15 forms of the state statistical observations were eliminated while forming the 2016 State Statistical Observations Plan. Besides, 23 forms are provided to transfer to the administrative reporting.**

Promoting total quality management of all statistical production processes and dissemination

Classificatory of the processes and elements of statistical production processes has been developed, based on statistical models Universal Business Process (version 4.0 - April 2009) which were prepared by the UNECE secretariat (GSBPM) as the basis for forming the technology plan of the state statistical observations by the process scheme.

Recommendations for the preparation and approval of a standard report on the quality of the state statistical observation were developed and approved. These recommendations define common approaches to the preparation and approval of a standard report on the quality of statistical monitoring and create a unified methodological framework for evaluating the quality of statistical data and processes of state statistical observations. Based on recommendations and developed under the Time schedule during November 2014 - August 2015 standard reports on quality 9 state statistical observations were prepared.

Preparation for/progress in the implementation of the chapter on statistics of the AA

25 implementation plans of individual acts of the EU legislation in the field of statistics were developed and approved by the Cabinet of Ministers of Ukraine on June 4, 2015 (Decree № 564). The EU law covers both the economy-wide statistical observation and the surveillance in agriculture, energy, social issues and education. Reporting on the state of implementation of the mentioned plans takes place on a quarterly basis.

Revision of the law on the state statistics

The draft law "On amendments to some laws of Ukraine regulating state statistical activity" was developed and its main task are the further harmonization of the state statistics with the EU statistical system, creation of the proper conditions for conducting of the activities of the organs of the national system of the state statistics in accordance with generally accepted principles of International and European statistical practices, in particular the principle of professional independence.

The draft law is aimed at amending the law "On State Statistics", "On population census" and "On agricultural census."

According to the provisions of the Model Law on the EU Statistics, which is based on the principles of the official statistics, **the draft law envisages the creation of the National Statistics Council**, which is foreseen by the EU-Ukraine Association Agenda. The draft law also includes provisions of the procedure for the appointment of the heads and deputy heads of territorial bodies of the State Statistics Service of Ukraine.

Currently, the draft law is being finalizing jointly with the Ministry of Economic Development and Trade of Ukraine in order to pass it for the consideration by the Government.

Anti-fraud

Way forward regarding the implementation of the anti-fraud provisions (Annex XLIII)

Criminal liability for financial resources fraud is provided for in Article 222 of the Criminal Code of Ukraine, the penalty for which is set to a fine of 3,000 to 10,000 times of minimum tax-free incomes with disqualification to hold certain positions or engage in certain activities for up to three years.

According to Article 216 (investigative jurisdiction) of the Criminal Procedure Code of Ukraine (CPC) detection and investigation of criminal offenses under Article 222 of the CPC is within the jurisdiction of the interior affairs bodies.

During 2015 the internal affairs bodies' uncovered 104 criminal offenses related to financial fraud. 69 persons reported suspicious, 55 proceedings were submitted to the Court.

According to the State Judicial Administration of Ukraine 24 people were sentenced for committing financial fraud in 2015, of which 15 were fined, 8 persons were deprived of the right to occupy certain positions or engage in certain activities and criminal proceedings against 6 persons were closed.

Internet fraud remains the most quantitative type of criminal offenses, including the Internet auction fraud or online shopping fraud.

Most fraud is committed with the use of leading national online internet auctions and the rest – with the use of social networks groups.

During 2015 **13,803 appeals** on cases of Internet fraud were recorded. Criminal proceedings were initiated on **11,019 appeals (79.8%)**. The rest 2784 appeals were recorded in the Uniform Accounting subsequent cancellation of the case or connected to other proceedings.

Measures taken by the Ministry of Interior of Ukraine (Mol) to counter fraud:

- annual **operation "Trickster"**, which makes it possible to intensify the work of all territorial subdivisions of the Mol and increase the average monthly number of disclosed facts.

indicator	before operation	during operation
the number of criminal offenses with reported suspicion for a month period	113	267
the number of persons who reported suspicions for a month period	25	51

- **information exchange with representatives of e-commerce business, telecommunications and banking sector:**
 - technical data exchange with representatives of Internet auctions;
 - interaction with banks;
 - work with mobile operators and providers.
- **international cooperation with law enforcement bodies in other countries:**
 - functioning of the National Contact Point;
 - cooperation with liaison officers (including the USA and the EU).

The Ministry of Justice in cooperation with other state bodies is working on creation of a Joint body between Ukraine and the EU on financial investigations and fraud prevention. Currently the Ukrainian side expects the European Commission's mandate for negotiations on a bilateral agreement between Ukraine and the EU which will regulate all aspects of a Joint body activity.