

NON-PAPER

for the Ukraine-EU 2nd Cluster 1 Meeting on macroeconomic cooperation, public financial management, budgeting, internal control and external audit, statistics, accounting and audit, anti-fraud and control provisions (Sub-Committee on Economic and Other Sector Cooperation)

28-29 September 2016, Kyiv

1. MACROECONOMIC COOPERATION

1.1. *Economic situation and outlook in Ukraine*

In the course of 2016 the Governmental policy was focused on business deregulation, improving the investment climate as well as on public sector management, adaptation of national legislation to the EU's legislation. Accordingly, such steps have led to economic growth and sustainable recovery of the state since the beginning of this year.

As a result, **there were observed a number of positive trends**, in particular:

- sustainable growth of all economic activities in the real sector of the economy during January-July 2016 (the indexes of construction output - increased by 11%, industrial production - increased by 1.7%, cargo turnover - increased by 1.1%, passenger turnover - increased by 3.8%, wholesale turnover - increased by 3.9%, retail turnover - increased by 2.4%, agricultural production - increased by 0.5%);
- strengthening of relative macroeconomic stability, revitalization of industrial activity in Donetsk and Lugansk regions;
- strengthening of reforming processes in the economy and deepening of cooperation with the European Union;
- reduction of adaptation period for most economic agents to the new economic conditions;
- deceleration of inflation (over the period of January-August 2016) - consumer prices increased by - 4.5% as against 43.3% in 2015 (as of December 2015);
- discontinuation of exports declining (in the course of January-July 2016 export of goods and services decreased by 9.5% comparing to 31.9% throughout January-July 2015);
- increase in foreign direct investments which are about USD 2.3 bn. in the course of January-July 2016 as against USD 1.5 bn. during the same period of 2015;
- recovery of GDP growth – during the first quarter of 2016 - 0.1% and during the second quarter - 1.3%.

All the above mentioned developments have formed the solid basis for further enhancement of economic situation in Ukraine.

On July, 1, 2016 the Cabinet of Ministers of Ukraine has adopted the Forecast for economic and social development of Ukraine for 2017 and key macroeconomic and social indicators of the development of Ukraine for 2018 and 2019, which was jointly prepared by the Ministry of Economic Development and Trade of Ukraine and the Ministry of Finance of Ukraine.

According to the principal governmental forecast for 2017 it is expected that: the GDP growth should be - 3%, inflation at the level of 8.1% (in the period from December 2015 to December 2016), real average wages will be increased by 5.4%, growth in exports will be - 8%, imports - 9.7 %.

The key factors under **optimistic scenario** will be the exports growth owing to improving of external economic conditions, extension of cooperation with the EU as well as investments increase.

At the same time, according to the **alternative scenario** of Ukrainian economic development which bases on more **pessimistic conditions**, the GDP growth is expected on the level of 1.5%.

On 15.09.2016 the Cabinet of Ministers of Ukraine has submitted the draft State Budget of Ukraine for 2017 to the Verkhovna Rada of Ukraine and published it on its official web-site. The draft State budget stipulates that the **revenues side set at UAH 706.269 billion** (about USD 27.27 billion), while **spending is planned at UAH 775.265 billion** (about USD 30 billion).

The consolidated state budget revenue in 2017 (including the local budgets) is planned at UAH 876.9 billion (about USD 34 billion), which is 17 % more than in 2016 (UAH 749 billion).

At the same time, the **state budget deficit is expected to reach 3 % of GDP or UAH 77.547 billion**.

The largest share of revenue is expected to be produced by the value added tax –UAH 281.7 billion, the personal income tax –UAH 150.6 billion and the excise tax - 108.1 billion hryvnia.

129 billion UAH will be allocated for country's defense needs, which is 14.5 billion hryvnia more than in 2016.

The draft state budget sets also **the maximum amount of public debt as of 31.12.2017 in the amount of UAH 1,716,630 trillion and state-guaranteed debt – UAH 579,369 billion**.

Another important point is that the **IMF Executive Board took a positive decision on 14.09.2016 on the extension of cooperation programs with Ukraine and the allocation of financial assistance**.

The third tranche of the **Extended Fund Facility (EFF) of USD \$ 1 bn.** will be disbursed soon. These funds will be directed to replenish reserves of the NBU.

First of all, the program is aimed at solving the problems of the financial sector through a comprehensive restructuring of the banking sector, focused on restoring financial stability and credit growth.

The program will reduce inflation by adapting macroeconomic policy, flexible exchange rate policy and tight fiscal policy proceedings.

In this regard, **Ukrainian side believes that after such IMF decision, the European Union will consequently join this by providing Ukraine with next instalment.**

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

With a view to strengthen macroeconomic and financial stability, the Ukrainian side has adopted the balanced and realistic State Budget of Ukraine for 2016.

Currently, State Budget guarantees the expenditures for the most pressing issues, especially, in the sphere of defence and social welfare as well as for proper fulfilment of debt obligations.

It is also worth to mention that **state budget deficit in 2016 is being kept in the previously planned volumes.** In fact, **in the course of January-September 2016, the State Budget of Ukraine has been executed with a deficit of UAH 42.6 bn.**

The Law of Ukraine “On the State Budget for 2016” (with amendments) clearly sets the **limit of state budget deficit in the amount of UAH 83.7 bn., or 3.7 % of GDP** (according to the official forecast of the Ministry of Economic Development and Trade of Ukraine, dated 01.07.2016, the GDP of Ukraine is UAH 2 262.8 bn.) and **consistent with the agreements reached with the IMF.**

At the end of 2015, the Ministry of Finance of Ukraine has developed the **draft law “On amendments to the Budget Code of Ukraine”, which was later adopted by the Verkhovna Rada of Ukraine (on 24.12.2015, # 914-VIII).**

According to this Law, the **Article 52 of the Budget Code of Ukraine was amended and now strictly defines the grounds for budget amendments and limits their numbers during the budget period.**

This draft law has been supported by the experts from the International Monetary Fund (IMF) and the Support Group for Ukraine (SGUA) established by the European Commission.

Thus, **Ukraine has fulfilled one of the obligations required for the 3rd loan instalment** (in amount of EUR 600 million) under the 3rd package of Macro-Financial Assistance to Ukraine from the EU.

In this regard, **during the first half of the year the number of amendments to the State Budget of Ukraine for 2016 was considerably minimized.** The principal amendments were mainly concerned the reallocation of expenditures for implementation of state administration functions and improvement of social standards.

The Ministry of Finance has also developed and approved a number of orders intended to ensure the strong linkage between public policy priorities set by the strategic state documents (previously adopted by the President of Ukraine, Parliament or the Cabinet of Ministers of Ukraine) **and budget documents** (e.g. budget requests and passports of budgetary programs).

In 2016, the **draft Budget policy guidelines for 2017 set for the first time the budgetary objectives for the next two budget periods that have become a basis for the formation of the draft State Budget of Ukraine for 2017 and forecast of the state budget for 2018 and 2019.**

In the course of 2015 the Ministry of Finance has prepared a number of amendments to the Tax Code of Ukraine, that were adopted by the Ukrainian Parliament (the Law of Ukraine # 909-VIII, dated 24.12.2015) and intended 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.

These amendments were aimed to reform the tax system of Ukraine and have been implemented in the course of 2016, in particular, through:

- reducing the rate of Single Social Contribution (SSC) from 41% to 22%;
- eliminating of SSC collection from the salary in the amount of 3.6%;
- establishing of single 18% personal income tax rate (instead of differentiated (progressive) rate - from 15% to 20%),
- abolishing of the advanced payments on income tax;
- reducing the rate of royalty for extraction of natural gas for industry (from 55% to 29% for deposits, placed at depth 5000 m; from 28% to 14% for deposits, placed at depth lower than 5000 m);
- reducing the rate of royalty for extraction of natural gas for needs of population (from 70% to 50% for deposits, placed at depth 5000 m; since 1 January 2017 - to 29%);
- introducing the new procedure for the VAT refund - in chronological order, according to filing of applications for refund;
- introducing the public availability of VAT refund registers on the SFS web-site, displaying the taxpayer's data concerning claimed amounts for VAT refund;
- renewal the right for VAT refund for all exporters of grain and industrial crops;
- introducing a system of electronic administration of fuel utilization.

However, **in order to ensure further improvement of the Tax Code of Ukraine, the Ministry of Finance developed the legislative package including amendments to the Tax Code of Ukraine.** The working version of

this package was presented on September, 7, 2016 by the Minister of Finance O. Danylyuk, to the Parliamentary Committee on Tax and Customs Policy.

Currently, the Working group, which includes MPs, civil society experts, business representatives as well as representatives from the Ministry of Finance and State Fiscal Service, is finalizing the development of respective amendments.

It is planned to submit the final version of draft amendments to the Government by the end of September this year.

The main purpose of above mentioned changes is to simplify overall administration, to increase transparency, to reduce the number of abuses made by the State Fiscal Service and diminish pressure on business.

Key transformations will include among other things the introduction of tax holidays for the five years period for newly established small businesses, introducing of transparent VAT refunds through a single register and transfer of databases from the State Fiscal Service to the Ministry of Finance.

1.3. EU economic assistance to Ukraine

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 1st tranche under this assistance package 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 1st and 2nd programs: EUR 1.360 bln in 2014 and EUR 250 mln 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.

2nd and 3rd tranches of macro-financial assistance (EUR 600 mln. each) - were expected in the 4th Q. of 2015 and in the 2st Q. of 2016 basing on the

evaluation of the execution by Ukraine of measures of structural reform implementation.

In particular, getting of the 2nd tranche foresees a necessary implementation of 15 structural policy measures by Ukraine, getting of the 3rd tranche – implementation of 21 conditions.

According to joint preliminary estimates made by Ukrainian side and the European Commission, **the most of relevant commitments could be regarded as fulfilled**. Currently, the implementation of above mentioned conditions continues.

Sectoral Budget Support (SBS)

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

Since 2008 the Government of Ukraine received EUR 237,05mln., including EUR 19 mln. in 2015 under the programs to support energy sphere, removal of technical barriers to trade and border management.

In this regard, **Ukrainian side believes that this year the EU will provide us with the budget support in a previously planned volumes.**

It is expected, that **in the course of 2016, Ukraine could receive up to EUR 73,4mln.**

State Building Contract (SBC)

On May 13, 2014 an Agreement on the financing of the State Building Contract for Ukraine, which provides **grant financing (non-reimbursable assistance) to the State Budget to support reforms in the amount of EUR 355 mln.**, was signed.

The first, fixed tranche of EUR 250 mln. has been paid in June 2014 and transferred to the General Fund of the State Budget of Ukraine.

The second, variable tranche expected to be paid by the end of 2016 for a maximum of EUR 105 mln., considering respective performance results presented by the Ukrainian side recently (in early September 2016) to the EU Delegation.

EU Programme “Support to Comprehensive Public Administration Reform in Ukraine” (PAR Reform Programme)

Ukraine has adopted in June this year **the Public Administration Reform (PAR) Strategy for 2016-2020** which was developed under the leadership of the Cabinet of Ministers of Ukraine and with involvement of other state bodies, EU experts and civil society representatives.

The Principles of PAR Strategy developed by OECD/SIGMA together with European Commission and adjusted to the European Neighbourhood Policy

(ENP) context were considered as the conceptual basis for the development of the Strategy.

In this regard, the EU side has taken a decision to develop the **Programme “Support to Comprehensive Public Administration Reform in Ukraine”** which is **expected to be adopted by the European Commission in November 2016** as a part of Special Measure on PAR in favour of Ukraine.

According to the EU Delegation to Ukraine, **the total amount of EU budget contribution will be: EUR 104 mln. of which: EUR 90 mln. for budget support and EUR 14 mln. complementary support.**

Currently, parties are coordinating their efforts in developing draft Financial Agreement, including draft Technical and Administrative Provisions and draft performance indicators as well as disbursement arrangements under the above mentioned Programme, **which should be agreed not later than early October 2016.**

2. FINANCIAL SECTOR COOPERATION

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

In order to stabilize the banking sector and protect the interests of depositors as well as fulfill Ukraine's commitments to international financial institutions, the Ministry of Finance developed and took part in development of a number of regulations in this area.

Thus, in order to create an efficient and effective mechanism for voluntary financial debts' restructuring of enterprises of Ukraine and their pre-judicial recovery, the Cabinet of Ministers of Ukraine submitted to the Parliament the draft **Law of Ukraine "On Financial Restructuring"** (reg. # 3555, dated 30.11.2015), **which was adopted by the Parliament on 14.06.2016 and later signed by the President of Ukraine on 15.07.2016.**

The bill was developed by the Ministry of Finance with the involvement of the World Bank and the EBRD experts, taking into account best international practices and international experience of financial restructuring.

Implementation of this law should improve the financial and economic activity of debtors, which are suffering financial distress, through restructuring their debts.

This law will also provide them with access to funding required for the rehabilitation of their economic activity and will generally contribute to the stability of the financial system of Ukraine.

With a view to improve the system of corporate governance in state-owned banks the Government of Ukraine adopted at its meeting held on 11.02.2016 the **Strategic principles for public sector banks reform** (hereinafter - the Strategic principles), which were developed by the Ministry of Finance of Ukraine.

These Strategic principles stipulate, in particular, that the mission of the banking sector should aim to increase the value and improve the financial performance of state-owned banks by providing quality banking services, diversification of income from different types of operations and development of attractive investment assets with a market level of profitability.

Ukraine's banking sector is undergoing painful changes that started since mid-2014. Yet, the most stressful period is already behind and banks are returning to a recovery path. Banking sector reforms over the past two years have been comprehensive and decisive. The key drivers were:

- **Clean-up of the sector** – the NBU has withdrawn more than 80 banks from market (over 40% of the total number accounting for c. 1/3 of total assets) for three major reasons: (i) insolvency, (ii) money laundering, (iii) non-transparent ownership structures.

- **Diagnostic study, comprising assets quality review (AQR) and stress-test** – an element of the Ukraine-IMF cooperation program. This is the first diagnostic study in Ukraine that was fully implemented by NBU staff without involvement of external auditors/consultants. Thus far, 39 banks representing c. 96% of total sector assets, have been subject to a detailed analysis. According to NBU findings, 28 banks had capital shortfalls and were obliged to take measures necessary to close capital gaps. The NBU plans to complete diagnostic study of another 20 banks by the end of 2016. Banks are given up to three years to bring their capital adequacy ratios back to a pre-crisis normal of 10%.

- **Analysis of related-party lending practices by banks.** Related-party lending has been a long-time disease of Ukrainian banks owned by local business groups. In some cases, such banks served as a source of funding for related businesses only and low quality of loan underwriting standards was common. NBU staff analyzed every single material exposure to get a clear and comprehensive picture of banks' balance sheets. We have obliged all banks to unwind their related party lending to below regulatory caps and gave them 5 years to achieve this target. We are monitoring the progress closely and banks that fail to meet obligations will be closed.

- **Anti-money laundering monitoring practices** have been strengthened and about 10 banks have been closed by the NBU for not adequately responding to NBU concerns.

Following a stormy period Ukraine's **banking sector is now showing persuasive signs of recovery** in many areas:

- Since mid-2015, Ukrainian banks raised about UAH 78 bln in capital, mostly via conversion of senior and subordinated debts from shareholders. Also the overall effect on capital of credit risk mitigating measures (mostly collateral enhancement) exceeded UAH 30 bln.

- Banking sector remains broadly liquid and customers' funds are returning to banks. Retail deposits, both UAH- and FX-denominated, grew about 2% since the beginning of the year. Corporate deposits recovered more

substantially: +3% in hryvnia and +16% in foreign currencies over January-August.

Given significant recovery progress in the banking sector, the **National Bank of Ukraine continued gradual liberalization of the administrative restrictions imposed at the height of the crisis**. The daily limit for FX deposit withdrawal has recently been lifted to an equivalent of UAH 250 000 from UAH 100 000 before. All limits on withdrawal of hryvnia deposits were entirely lifted in 1H16.

Due to reduction of the risks to price stability and recovery of the financial sector the NBU goes on with the policy of **gradual cutting of the key policy rate** – it was slashed from 22 % (January 2016) to 15% (September 2016). Lowering of NBU key rate should decrease cost of funding and could facilitate the core banking activities.

One of the main problems in the transition to sustainable development of the Ukrainian banking sector is the reduction of NPLs and restoring lending to the corporate sector and households. As of 1 September, 30.7% (UAH 402.2 billion) of all loans were classified as NPLs (doubtful and loss loans). Important steps in development of legal framework in the field of credit relationships have been already taken: mechanism for out-of-court debt restructuring and recovery of corporate debtors with participation of financial institutions was developed.

2.2. Implementation of the financial sector reform strategy, recent developments in financial sector regulation in Ukraine

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

In the framework of implementation of this Comprehensive Program the **Ukrainian side has amended its legislation concerning the financial sector**, in particular:

- **draft Law of Ukraine “On Insurance”** (reg. # 1797-1) was adopted in the first reading by the Verkhovna Rada of Ukraine on 31.03.2016. In turn, the NCRFSM has prepared amendments to the draft Law that will be considered by Parliament of Ukraine in the second reading. Draft Law intended to implement provisions of EU Directives: 2009/138/EC and 2016/97/EC;
- **draft Law of Ukraine “On Obligatory Insurance of Civil Liability of Owners of Vehicles”** (reg. # 3670) was registered in the Verkhovna Rada of Ukraine (on 17.12.2015). NCRFSM has also prepared amendments to this draft Law, which aimed at implementation of provisions of EU Directive 2009/103/EC.

Moreover, implementation of Directive 2003/41/EC was intensified. In this regard, the Working group develops the new version of the **draft of Law “On Amendments to the Law of Ukraine “On Private (Non-State) Pension Provision”** which provides for harmonization of national legislation with the aforementioned Directive.

In this regard, Ukrainian side highly appreciates the assistance provided by its international partners, first of all, by EU side as well as technical assistance provided by EU-FINSTAR, GIZ’s Project: “Reform Advisory Fund” and 2 TAIEX Expert Missions.

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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 is being 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.

Major challenges and achievements in 2014-2015:

- During last 2 years, NBU has done unprecedented reduction of the banks – decreasing for up to 100 banks, but there is still room for the further consolidation. Despite consistent course for bank system cleaning, the capitalization of the banking system since February 2016 has positive trend: +31 bln UAH. In addition, NBU may declare that the banking sector is fully transparent – we know all UBO of the banks.

- The share of “scheme” transactions on transferring funds outside Ukraine fell owing to an increase in the efficiency of the analysis carried out by banks and the use banks’ right of refusal of authorization to carry out FX transactions decreased. Introduction of the risk-based assessment in AML is a vital component of the integrated approach to building a new financial monitoring system.

- NBU implemented project related to Integration of IFRS to banking system. More transparent and clear IFRS financial reporting will ensure high-quality risk assessment of financial institutions and efficient decision making for preserving financial stability is a key factor of banks' and will improve access to capital markets.

Priority tasks for 2016-2017:

- **FX liberalization:** NBU moves from highly complex currency regulation to zero restrictions, and free capital flows, in accordance with EU Directive 88/361. Liberalization of currency regulation is performed in stages, bound to fulfilment of definite indicators. Liberalization of currency regulation will promote confidence in the currency, support currency inflows, ease trade and investment flows, and support inflation targeting.

- **Cashless initiatives being introduced in 4 different directions:** Cash demand (transactions cost increase, new limits for cash transactions, economic incentives for the development of CIT companies), Development of non-cash transactions (international payment systems further development, development of National payment system Prostir, E-money expansion, non-banking payment systems), Infrastructure (Increase coverage of POS network, E-channels development including mobile payments), Habits and motivation (Raising awareness of non-cash payments and financial literacy, removing fears, motivating to use cashless payments).

- **Reform of the state-owned banking sector** is focused on improving their corporate governance framework and will ensure business success of state banks and their efficient management.

- **NBU launches the project focused on Restart Lending.** As core priorities for the project: NPL resolution, creditors right protection (Fix-up issues on cancellation of loan agreements and Bankruptcy procedure revision), improving taxation issues dealing with NPLs, stabilizing IRs (new monetary policy implementation).

- Split project: **Functions of National Commission to be divided between NBU and the National Securities and Stock Market Commission;**

- Big quantity of **internal projects aimed on creating modern and effective central bank** have been launched: "New NBU mission implementation: focus on core"; "Accountable decision making", "HR wheel for talent magnet", "Digital Bank", "Adequate reporting", "New Web-site", "New data strategy: one data, open data, big data", "Internal control system", "Business process management", "International cooperation", "Corporate social responsibility", "Comprehensive communication strategy".

Due to positive changes linked with mentioned reforming financial sector and administrative measures, **key Ukraine macroeconomic figures stabilized:**

- Reducing the risks for price stability has allowed the NBU to soften its monetary policy and lower interest rates to 15%. The exchange rate is stabilized and the currency market is balanced enough, to predict economic growth of 1.1% in 2016.

- Decreasing risks for price stability allowed the NBU to ease the monetary policy. The key policy rate was reduced to 15% 16 September 2016. This became possible owing to a persistent trend towards slowing down consumer inflation complying with inflation targets for 2016 and 2017.
- UAH depreciation contributed to substantial correction of the external economic imbalances – reduction of the current account deficit in 2015. Thanks to the renewal of funding programs of the IMF and the EU the international reserves are expected to increase to USD 17.2 billion at the end of 2016 and USD 22.6 billion at the end of 2017
- Administrative measures applied during the 2014-2015 stopped the panic in the currency market and resumed market function in the short term. The balanced foreign exchange market allowed initiating gradual liberalization of currency regulation.

2.3. Internal transformation of the NBU

The structure and staffing of the NBU has changed dramatically since 2014. In just two years the **NBU has established a new function-based organizational structure**, removed non-core functions, reduced hierarchy, centralized operations and started optimizing key processes in the bank. The transformation of the NBU has been remarkable, especially given the short timeframe and the challenging external environment.

The transformation of NBU is a three-phased operation with the ultimate goal to become a “modern central bank”. Phase 0 was focused on streamlining and rightsizing the organization. Phase 1, which is on-going, consists of a whole-scale mapping and re-engineering of all processes in the bank, with the objective of focusing the bank even more on core and core-support functions. Phase 2, which is about to start, will build on the achievements so far and incorporate the NBU’s mandate and values in all NBU processes to enhance efficiency and improve policy effectiveness.

The organizational reform objectives and approach taken to achieve them was based in large part on recommendations of a number of IMF technical assistance missions in 2009-2010 and 2014.

One of the primary objectives of adopting a function-based organizational structure is to create a decision-making and operational environment that maximizes the ability of the bank’s senior management to focus on achieving its core policy objectives and not get caught up unnecessarily in day-to-day administrative matters.

2.4. Audit and Accounting law reform: state of play

According to the Action Plan for the implementation of the EU-Ukraine Association Agreement for 2014-2017 (approved by the Cabinet of Ministers of Ukraine on 09.17.2014, № 847-r), the Ministry of Finance of Ukraine is the main responsible for the development, adoption and implementation of regulations to

implement the provisions of Directive 2006/43/EC of the European Parliament and of the Council, from 17.05.2006 **on statutory audits of annual accounts** (para # 340) and the Directive 2013/34/EU of the European Parliament and of the Council from 26.06.2013 **on the annual financial statements, consolidated financial statements and related reports of certain types of companies** (Para # 347).

With its Resolution the Cabinet of Ministers of Ukraine (# 345, from 08.04.2015) approved the plans for the implementation of the EU legislation in the sphere of accounting and audit, in particular, Directive 2006/43/EC and 2013/34/EU.

In this regard, in order to implement the above mentioned regulations, the Ministry of Finance of Ukraine has developed **the draft Law of Ukraine "On the Audit of Financial Reporting and Auditing"** (was submitted for consideration to the Cabinet of Ministers of Ukraine) and **the draft Law of Ukraine "On Amendments to the Law of Ukraine "On Accounting and Financial Reporting in Ukraine"**, registered in the Verkhovna Rada of Ukraine reg. # 4646, from 11.05.2016 and scheduled for consideration at the fifth session of the Verkhovna Rada of Ukraine of the eighth convocation.

3. COOPERATION IN OTHER SECTORS

3.1. Management of public finances: budget policy, internal control and external audit

Public financial management strategy and budget policy: state of play with the new PFM Strategy, including budget reform

According to the program of cooperation with the IMF Ukraine has committed itself to introduce the medium-term budget planning beginning from 2018.

At the same time, **Ukrainian side is committed to reform the public finances** in line with the best European standards.

The governmental Priority Action Plan for 2016, approved by the Cabinet of Ministers of Ukraine on 28.05.2016, # 418-r, set the specific measures required for introduction of medium-term budget planning, respective deadlines, stakeholders and performance indicators.

In this regard, **the Government of Ukraine has also obliged to adopt the revised Public Finance Management Strategy** (hereinafter - PFM Strategy) and its Action plan by the end of 2016.

Recently, the Ukrainian side have begun the process on improvement of the Public Finance Management Area with a substantial support provided by the European Commission and the World Bank.

It is expected that new PFM Strategy will establish a sound monitoring mechanisms, will introduce medium-term budget planning and will improve the overall link between resource allocation policy and strategic policy planning.

The new PFM Strategy:

- builds upon existing strategic documents (Strategy 2020, Coalition Agreement, PAR Strategy) and reflects Ukraine's international commitments (EU Association Agreement, IMF, EU budget support and macro-financial assistance conditions);
- aims at building a modern and effective PFM system, which is able to deliver public services in the most efficient way using the resources available;
- defines clear objectives for a 5-year perspective and key performance indicators for system components, as well as Ministry of Finance ownership of the reform process';
- focuses on ensuring resource allocation based on development priorities and introduction of medium-term budget planning;
- incorporates all dimensions of PFM (institutional, legislative and regulatory, methodological, human capacity, IT support).

Key priorities of new PFM Strategy include:

- top down budgeting to ensure prioritization of spending;
- introduction of medium-term budget planning linked with sector strategic planning;
- improved revenue administration;
- established framework for assessing, managing and minimizing fiscal risks;
- policy and spending reviews to identify the expediency of spending and potential savings;
- efficient and transparent public procurement system;
- Increased accountability of local budgets;
- Implementation of Transparent Budget system.

Together with members of Inter-Agency Working Group and with support of World Bank and EU/SIGMA experts, the Ministry of Finance is finalizing the text of the Strategy based on the agreed matrix of objectives, tasks and KPIs.

Strategy, after approval, will be followed with the Action plan, which will contain detailed breakdown of particular measures and time frame of implementation, which will take into account proper timing and sequencing of reform activities.

The adopted Action plan will serve as a basis for targeting donor support and designing technical assistance projects.

Alongside with this, **recently adopted PAR Strategy includes also a dynamic reference to the existing PFM Strategy (2013-2017) as well as to ongoing work carried out together with EU and the World Bank experts to adopt a revised PFM Strategy.**

Consequently, the 2016-2020 PAR Strategy together with the upcoming revised PFM Strategy constitutes a relevant and credible framework for successful implementation of much needed reforms in Ukraine, as well as for provision of EU assistance, including through the budget support modality in line with respective EU policy.

Recent developments in external audit (implementation of the new law on the Accounting Chamber of Ukraine and appointments to the ACU) and in public internal financial control

In accordance with the Article 37 of the Law of Ukraine “On the Accounting Chamber”, the Accounting Chamber of Ukraine (hereinafter — ACU) submitted to the VerkhovnaRada of Ukraine its Annual Report for 2015.

The above mentioned document was duly considered and taken into account during the meeting of the Budget Committee of the VerkhovnaRada of Ukraine held on 1 June 2016. In addition, during 9 months of 2016, 49 reports and information (communications) on implementation of measures in a result of **Public External Financial Control (audit) of the Accounting Chamber of Ukraine** were presented at the meetings of the Committees of the VerkhovnaRada of Ukraine.

According to the provisions of the new Law of Ukraine “On the Accounting Chamber”, preparation for its modernization and development is underway. During the meeting of the ACU’s Members in August 2016 conceptual approaches were discussed. The main purpose of these meetings was to define objectives, mission and vision of the current role of the Accounting Chamber of Ukraine.

Revised Regulations of the Accounting Chamber are being developed. According to the Article 28 of the Law of Ukraine “On the Accounting Chamber”, the mentioned Regulations will determine the procedure of functioning of the ACU, its regional branches and other affiliated units, issues of interaction between such units, Members of the Accounting Chamber of Ukraine and other officials of its apparatus as well as issues of internal interaction.

The report on the pilot financial audit was completed and considered at the meeting of the Accounting Chamber of Ukraine. This report is basing on the case of the Ministry of Agrarian Policy and Food of Ukraine, conducted with the participation of expert from the National Audit Office of the Great Britain Alan Banks and with the support from the “Deutsche Gesellschaft für Internationale Zusammenarbeit” (GIZ) Project “Support to Public Finance Management Reform”.

The Twinning Project Fiche “Development of External Audit and Control of Public Finance in Ukraine” was prepared in close cooperation with the EU Delegation to Ukraine. The main objective of the Project was to improve public external audit and control through implementation of INTOSAI standards (levels I-III), enhancement of audit quality and institutional capacities of the ACU.

The new Cooperation Plan for 2016-2017 between the ACU and the GIZ was signed.

The Plan provides for expert assistance from Germany and the Great Britain in improving the preparation of annual reports of the ACU for the Verkhovna Rada of Ukraine, implementation of internal quality management system of audits according to INTOSAI standards, functional review of the Accounting Chamber of Ukraine, as well as enhancing cooperation with civil society.

Auditors of the ACU were included to the Group of Auditors from the Ukrainian Side to participate in audits of management and control systems, as well as audits of annual reporting under 4 border cooperation programs within the European Neighbourhood and Partnership Instrument for 2014-2020, in particular: "Black Sea Basin", "Ukraine- Romania", "Ukraine-Hungary-Slovakia-Romania" and "Ukraine-Poland-Belarus".

The State Audit Service of Ukraine (SAS) together with the Ministry of Finance are taking steps to realize the Action Plan for the implementation of the EU-Ukraine Association Agreement in the field of **Public Internal Financial Control** (hereinafter - PIFC), including the:

- cooperation between Ukraine and the EU in the area of public finances through exchange of information, experience and best practices, in particular in the field of PIFC (para 192 of the governmental Action Plan).

- steps intended to implement the agreements reached during the initial meeting of Cluster 1 held in October 2015.

- monitoring the implementation of the requirements of regulations on internal control and internal audit and amending them if necessary (para 194 of the governmental Action Plan);

- support and development of PIFC (advice, advocacy, methodological support, organization of periodic training and improve the professional level, seminars, conferences, roundtables, briefings, workshops) (para 195 of the governmental Action Plan):

In order to ensure further development of PIFC it is necessary:

- to provide constant advice, advocacy, legal, methodological support of internal control and internal audit, including through round tables, seminars, conferences, training managers and staff on these issues;

- tracking the issues of practical implementation of the legal framework for internal control and internal audit and appropriate amendments;

- strengthen the institutional capacity of the Central Harmonization Unit in order to implement the functions of harmonization of PIFC in line with European standards;

- to adopt organizational, structural and functional changes in SAS, considering the conditions on internal audit and independent external audit;

- to ensure progress in the implementation of activities and tasks of other components of the public finance management system defined by the PFM Strategy;

At the same time, **Ukrainian side plans to ensure further developing the PIFC system including its harmonization with international standards, frameworks and methodologies, in particular, through the transfer of harmonization functions in area of PIFC from the State Audit Service to the Ministry of Finance.**

3.2. Statistics

Cooperation in the area of statistics

At the end of 2015, the **Twinning project "Support to Development Process in the State Statistics Service of Ukraine with the Objective to Enhance its Capacity and Production"** was finished. Based on the project implementation results, a majority of the expected outcomes has been achieved. At the end of 2016, the State Statistics Service of Ukraine (SSSU) will have the Twinning review mission whose main purpose is to assess the project effectiveness, its main achievements, results sustainability, etc.

In January-April of 2016, the European expert mission conducted the Global Assessment of the national statistical system of Ukraine as to its compliance with the EU standards. Currently, the SSSU is expecting the final report which apart from the description of the current situation with institutional and sectoral areas of statistics would also contain the experts' assessment and recommendations on further improvements to Ukraine's official statistics.

The SSSU is involved into the work of the Panel of Statistics under the **Eastern Partnership Platform 2 "Economic Integration and Convergence with EU policies"**. In particular, in 2015 the SSSU experts took part in the Panel's two meetings related to enterprise statistics (May 5-6, Minsk, Belarus) and labour market statistics (October 5-6, Tbilisi, Georgia). The SSSU has also an intention to attend the next meeting of this expert group to be held on October 27-28, 2016 in Chisinau, Moldova and dedicated to price statistics.

During 2015, the SSSU took an active part in developing, compiling and finalizing **the draft of the Generic Law on Official Statistics (GLOS) for the countries of the Eastern Europe, Caucasus and Central Asia (EECCA)**. The main purpose to create such law is the improvements to the legal and institutional basis of these countries' statistical systems.

In 2016, within the framework of activity of the High Level Group on the European Statistics Code of Practice (CoP) including the GLOS, Ukraine by supporting the Eurostat initiative hosted the next meeting of the EECCA countries which was held on May 11-12, 2016 in Lviv. The first panel meeting related to quality issues in statistics was held on June 1-3, 2015 in Riga, Latvia. The SSSU representatives took active part in both events.

There is the active cooperation with the UN Statistics Division and UNECE Statistical Division, particularly in the area of involving the UN Statistical

Commission and the Conference of the European Statisticians (CES) into the activity.

The fulfilment of the provisions of chapter "Statistics" under the Association Agreement is continued particularly in a part of implementing the EU legislation acts.

Recent developments in the statistics office

The mutual exchange of information resources with the public authorities, institutions and organizations according to 57 agreements is underway.

The annual calculation of index for respondent satisfaction as well as the procedure for internal testing of statistical tools has been introduced.

The new wording of the Regulation to perform the work on updating a local units list based on the data from the state statistical observations was developed and approved.

Taking into account the European experts' recommendations, the preparation of the draft new national version of Statistical classification of products (SCP) based on CPA 2.1 was launched. In particular, the draft structure and explanations for items as well as the compliance table (SCP-2011) for the draft new version (SCP) were prepared.

The work on introducing the sample method into statistical observations in the area of retail trade and consumption of fuel and energy materials was done.

The new wording of Classification of the institutional sectors of Ukraine's economy was implemented. It was used to compile the national accounts indicators beginning from the 2014.

The calculation of seasonally adjusted index of industrial products was implemented on the whole (beginning from January 2016).

The Technique to check the quality of interrelated structural statistics indicators was approved. There is a plan to introduce it into the national practice starting from the report for 2016.

Currently, the calculation of business climate indicator which was developed in line with the SDDS Plus requirements is being implemented.

The statistical observation over the usage of information and communication technologies and e-trade at enterprises was undertaken according to the methodology recommended by Eurostat.

The updated state statistical observation over fishery activity of enterprises was implemented (using the Nomenclature of fishing and aquaculture products approved in 2015 and which is comparable with the SCP-2011 and the CPA2008).

The Methodological provisions to compile the ecological account for air protection was developed in accordance with international standards "NAMEA-air". Based on it, the calculation of the ecological account basic indicators for air protection for 2013 was made for the first time.

The consumer basket of representative goods (services) was updated to produce the consumer price index as well as the sample of cities where the observation over changes in prices (tariffs) for consumer goods (services) was optimized.

The next round of the state statistical observation "Survey of enterprises' expenditure for keeping the labour force" was conducted.

The new wording of the Methodological provisions to draft the standard reports on quality of the state sample surveys of the population (households) harmonized with the ESS standards was developed.

The Technique to form the reporting units population for the sample survey of entities (legal persons) as well as the technique to calculate retail trade turnover taking into account the activity of the private entrepreneurs were developed and approved based on the administrative data received from the State Fiscal Service.

The new wording of Methodological provisions on statistics of foreign trade in goods which is based on the UN Statistics Division's recommendations "Statistics of International Trade in Goods: Concepts and Definitions, 2010" was approved and implemented.

The annual forms for the state statistical reporting over utilization of fuel and energy were improved. The questionnaire survey of users of statistical information on indicators of fuel and energy usage was conducted.

The hardware component of virtualization server was modernized, the full modernization of hardware and software component of the SSSU web server was made. This gives the additional possibilities for work with the web server and processing the big amount of data.

The draft procedure to organize the work on upgrading the staff's professional competence in the state statistics bodies was developed. The new form for the work with the staff was introduced.

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

The SSSU defined in early 2010 the generic model of statistical business processes (GSBPM) as the basis for describing the statistical production processes. In order to implement the actions under Strategy-2017 and improve the statistical production, the process approach was introduced for planning and monitoring the statistical activity.

With a view to further implement the process-oriented approach into statistical production, in December 2015 the SSSU reorganized the territorial state statistics bodies to optimize the structure of the main offices for statistics, delegate the powers of their structural units according to statistical production processes (collection, processing, analysis and dissemination).

At the same time, the separate structural units at district (local) level were reorganized through their liquidation/merging and cuts the staff numbers. The

functional powers of those units were limited to their participation in the statistical data collection process only.

Also, to make effective use of the available resources and decrease the reporting burden per respondents, the measures to optimize the number of forms of the state statistical observations are taken on a permanent basis. Every year, while making the inventory of the state statistical observations, the forms of the state statistical observations are revised; the proposals made by the territorial state statistics bodies, the comments based on the results of the questionnaire survey of respondents and users of statistical information are taken into account; the analysis of the available sources of administrative data is made; the suggestions of the concerned public authorities are considered. As a result of this work, 27 forms of the state statistical observations were cancelled while forming the plan for the state statistical observations for 2016. This work is still in progress. At present, the issue is considered as to the rationale for collecting another 29 forms of the state statistical observations by the state statistics bodies. The measures are taken to transfer the functions dealing with collection and processing of information by indicators contained in the mentioned forms to the central executive bodies in line with their powers. The fulfilment of those measures will allow to improve current and introduce new statistical observations in accordance with the Eurostat requirements.

Promoting total quality management of all statistical production processes and dissemination

Within its activity on quality assurance, the SSSU is guided by the principles of the Ukraine state statistics bodies' activity harmonized with the European Statistics Code of Practice and the Fundamental Principles of Official Statistics developed by the UNECE.

Under the framework of developing the national system for official statistics, since 2014 the SSSU has included the actions on activities implemented by the Ministry of Finance of Ukraine and the National Bank of Ukraine into the plan for the state statistical observations.

In order to ensure the statistical production standardization and implement the Strategy-2017 on the basis of the generic model of statistical business processes (GSBPM), the process approach to planning and monitoring statistical activity was introduced. In 2014, the technological program for the state statistical observations formed by process and process component of statistical production was developed and implemented for the first time.

To create the system for monitoring statistical activity, the documentation was developed to assess the results of the state statistics bodies' activity. The tools to conduct monitoring were defined, in particular, questionnaires for self-assessment of the performance results.

The recommendations on preparing and agreeing the standard report on quality of the state statistical observation were developed and approved.

These recommendations defined the common approaches for compiling and agreeing such reports and create the unified methodological basis for quality assessment.

To disseminate statistical information, information and communication technologies have been introduced. The web-sites of the SSSU and its territorial bodies are the primary tool for the first publication of statistical data.

At the same time, for users' convenience, printed editions are released. The Catalogue of official statistical publications is prepared annually and posted on the SSSU web site.

For the mass media, the monthly information message "On social and economic situation in Ukraine" as well as press-releases are prepared.

Statistical information is released according to the approved and open for public access plans (calendars) that contain the date and tentative time of their release.

The special section "Access to public information" was created on the site. Through this section users can send their requests in line with Ukraine's law on access to public information. Also, the requests about information can be sent by mail, fax and phone or personally. The replies to the requests are provided during 5 days in the format specified by user. In 2015, there were 2 286 requests and for 8 months of 2016 their number reached 1 534.

Since 2010, the questionnaire surveys of users of statistical information were introduced. The questioning is conducted annually by selected statistical product in different areas of statistics (in 2015, 19; in 2016, 18). At present, for the purpose of implementing the calculation of index of users' satisfaction (IUS), the general questionnaire survey of users was tested and draft Technique to produce the IUS was prepared.

For users' convenience and taking into account the European experience, the web site structure with regard to presentation of statistical information, official statistical publication and press-releases has been improved. According to the Manual on statistics sections, 3 main sections were established: "Demographic and social statistics", "Economic statistics", "Multi-sector statistical information", which contains the materials placed in certain topics.

Given the main requirements of the UN Fundamental Principles of Official Statistics, the European Statistics Code of Practice, other standards of the European Union, the UN and the International Monetary Fund and best international practice, the Policy to disseminate statistical information has been approved. This Policy specifies the main principles to disseminate information and provide access to users.

Progress in the implementation of the chapter on statistics of the AA

In order to improve the national statistical system introducing the European standards, in particular the acquis, the SSSU carries out the plans to implement the EU legislation acts in the area of statistics approved by order # 564-p

from June 4, 2015 of the Cabinet of Ministers of Ukraine. The EU rules of law cover both the general economic statistical observations and observations in agriculture, energy, social sphere and education.

The reporting on the implementation plans is done quarterly and submitted to the Government Office on the European Integration. The implementation of the European standards will help collect more accurate statistical data.

This will allow making better analysis of tendencies occurring in the free-trade zone between Ukraine and the EU and shaping the state economic policy. The accessibility of the new quality statistics will help a wide range of users to be better oriented in the social and economic situation in Ukraine.

Revision of the law on the state statistics

The Agreement defines the gradual harmonization of Ukrainian statistical system with the European statistical system as one of the cooperation areas in the sphere of statistics. This foresees the creation of professionally independent statistical system, which would produce statistical information needed for citizens, entities and government agencies in Ukraine and the EU.

With allowance of this and with the aim of ensuring the fulfilment of international legal commitments made in the Agreement as well as for the purpose of creating the proper environment for the state statistical activity, Ukraine's draft law on making changes to some laws of Ukraine that regulate the state statistical activity (hereinafter, the draft law) has been developed.

Its main task is to further harmonize the state statistics with the EU statistical system, create the environment to implement the activity of bodies of the state statistics national system in line with the generally accepted principles of the world and European statistical practice, in particular the professional independence principle.

Taking this into consideration and in order to ensure the fulfilment of international legal commitments to observe the principles of official statistics adopted in the abovementioned Agreement, the draft law proposes to make the relevant changes to Ukraine's laws on the state statistics, Ukrainian population census and agricultural census.

Also, the bill contains other provisions, particularly with regard to a range of entities covered by operation of Ukraine's law on the state statistics; the draft law includes other specially authorized government agencies that undertake statistical observations.

According to the provision of the EU Generic law on official statistics, the developed draft law envisages the setting up of the National council on statistics. This is connected with Ukraine's commitments that follow the Agreement Agenda.

Also, the draft law incorporates the provisions on the ways of appointing the heads and deputy heads of the SSSU territorial bodies according to which they are appointed and dismissed by the head of the central executive body with

a special status. This ensures the shaping and implementing of the state policy in the area of statistics.

In addition, the bill includes the provisions on non-dissemination and non-provision of the requested information which is connected with ensuring the conduct of statistical observations and/or used to produce further compilations of aggregated statistical data, etc.

After having passed through all procedures for agreeing by the authorities concerned, the bill (registration number is 4584 of May 4, 2016) was considered at the meeting of Ukraine Parliament's Committee on Economic Policy (protocol # 34) on May 18, 2016. The Committee recommended it for approval in principle and this bill should be submitted for consideration of Ukrainian Parliament.

3.3. Anti-fraud

In the course of 2015 and 2016 **the Ukrainian side has established a number of public bodies responsible for preventing and combating corruption**, which became fully operational, in particular:

- National Anticorruption Bureau of Ukraine (NABU);
- Specialized Anticorruption Prosecutor's Office (SACPO);
- National Agency for Prevention of Corruption (NAPC).

The Ukrainian side intends to sign in foreseeable future the **draft Administrative cooperation agreement between the National Anti-Corruption Bureau of Ukraine (NABU) and the European Anti-Fraud Office (OLAF)** in accordance with obligations taken under Title VI. "Financial Cooperation, Including The Fight Against Fraud" of the EU-Ukraine Association Agreement(*Annex XLIII*).

This Agreement should define the ways and procedures for further interaction between partners, namely the exchange of information, assistance in the framework of investigations as well as joint investigative actions

According to the recommendations of OLAF experts **it was decided to coordinate the work on protection of the EU financial interests in Ukraine and establish a contact point with OLAF under aegis of the Ministry of Internal Affairs of Ukraine**, since this institution is responsible for state policy in the sphere of protecting public interests and combating crime.

Ministry of Internal Affairs drafted the mechanism of coordinating the activities of the agencies on corruption prevention and combating fraud with the EU funds which complies with European Union requirements, specified in Section VI of the EU-Ukraine Association Agreement, in particular, through exchange of information with OLAF, conducting joint operations, undertaking

preventive measures and reporting on facts of corruption and fraud with EU funds.

The coordination mechanism was agreed with the central executive authorities. In order to fulfil this work, the **MIA has created within the Ministry the Coordination Unit for protecting the financial interests of the European Union** (according to the Order from 12.08.2016,#789).

The **draft law “On amendments to the Budget Code of Ukraine in order to implement recommendations provided in the framework of the Action Plan on EU Visa Liberalisation for Ukraine concerning establishment of the National Agency of Ukraine for the identification, investigation and management of assets derived from corruption and other crimes”** was voted by the Verkhovna Rada of Ukraine on 10.11.2015 in the second reading and as a whole (# 772-VIII). On 09.12.2015 the bill was signed by the President of Ukraine and promulgated on 11.12.2015. The law came into force on 11.06.2016.

Thus, **the National Agency of Ukraine for identification, investigation and management of assets derived from corruption and other crimes has been created.**

Later, on 18.02.2016 the Parliament has adopted in the second reading and as a whole **the draft law reg. # 4056 “On amendments to certain laws on improving the activities of the National Agency of Ukraine on identification, investigation and management of assets derived from corruption and other crimes”** (# 1021-VIII) with the aim to implement the recommendations contained in the sixth report of the EC on the implementation by Ukraine of the Action Plan on EU visa liberalization regime for Ukraine.

In February 2016, the Government took a decision intended to launch the work of this Agency (Resolution # 104, dated 24.02.2016) and finalized the procedure on formation of the committee’s staff that will elect the candidates for the position of Head of this institution.

It is expected that Head of this institution will be appointed by the end of August 2016 and the staff will be recruited by the end of October 2016.

For the moment, Ukraine has also passed the following legislation:

- the Law of Ukraine No 1019-VIII “On the amendment of the Criminal Code and Code of Criminal Procedure of Ukraine regarding fulfillment of recommendations set out in the sixth report of the European Commission on the status of fulfillment by Ukraine of the Action Plan on Visa Liberalization for Ukraine concerning improvement of the property freezing procedure and institute of special confiscation”;
- the Law of Ukraine No 1020-VIII “On the amendment of the Law of Ukraine On Prosecution System regarding transparency of operation of the Specialized Anticorruption Prosecutor’s Office for the purpose of fulfilling recommendations of the International Monetary Fund”;

- the Law of Ukraine No 1022-VIII “On the amendment of certain legislative acts of Ukraine regarding the procedure of filing declarations of property, income, expenses and financial obligations by public officials in 2016”.

Currently the State Financial Monitoring Service of Ukraine (SFMS) has **almost completed its work on the preparation of the National Risk Assessment’s Report** in the area of prevention and counteraction to legalization (laundering) of the proceeds from crime and financing of terrorism. After the approval of the mentioned Report the proposals on its implementation will be submitted for consideration of the Cabinet of Ministers of Ukraine.

Nowadays, the SFMS pays a lot of attention to the work within the Committee MONEYVAL, as a key office of the Council of Europe on combating money laundering and terrorist financing. Thus, in March–April 2017 it is planned to organize the Fifth Round of evaluation of prevention and combating money laundering and financing of terrorism in Ukraine by the Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism (MONEYVAL).

Given the extreme importance, including in terms of national security, preparation for the Fifth Round of evaluation by MONEYVAL is under constant control of the SFMS. In order to intensify this work, the SFMS has established interagency Working Group on preparation for this high level event.