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P R O C E E D I N G S

MR. JONES: Good afternoon, everybody. Welcome to Brookings. Thank you for joining us. My name is Bruce Jones. I'm the acting vice-president for foreign policy here at Brookings and it's a delight to welcome you here today. I'd like to start by thanking Steve Pifer and our team from our Center for United States and Europe for organizing today's event.

We've all spent much of the last year transfixed by events in Ukraine as it's gone through an extraordinarily difficult and tragic year.

The West's focus on Ukraine tends to revolve around the country's east and Russia's increasing aggression there and the tensions between the United States, Europe, and Russia over the east. As we all know, it was a year ago this March that Russia annexed Crimea and we've been, ever since, watching developments in the east as Russian supported separatists have been engaged in Donetsk and Luhansk, also with regular units of the Russian army, a process, which according to official statistics, may have killed at least 6,000 people and quite likely more.

As of now we're watching the very fragile implementation of the Minsk II Agreement knowing that resolving the conflict in the east will be key to the country's ability to put itself on a stable pathway and return to normalcy.

Kiev has other very demanding challenges, notably the country faces a precarious financial situation exacerbated by the devastation in the east. The situation was eased somewhat last week by the IMF's approval of a four-year program worth \$17.5 billion and the disbursement of an initial credit and hopefully the IMF program will unlock other funds from other institutions, but Ukraine is far from out of the woods with that program.

And the government faces a challenge in implementing a host of economic and anti-corruption reforms, a sweeping set of reforms that it's put on the table,

and we look forward to hearing more about the scale of those reforms and the challenges the government faces, the impact of the IMF loans, and having a discussion around those issues.

To introduce these and other questions and to have a discussion with us, we are delighted to host Natalie Jaresko, the Minister of Finance of Ukraine. Minister Jaresko was appointed to her position in the Ukrainian cabinet in December. She describes herself as a technocrat, not a politician. Around here, those are terms of high praise.

Prior to joining the government, Minister Jaresko served in the U.S. embassy and later as head of the Western NIS Enterprise Fund and of Horizon Capital. You have her fuller bio in the handout.

What stood out to me, looking at it, was the 20 years that she spent in Kiev and the evident dedication she has to that country's prosperity and well-being. So, Minister Jaresko, thank you for what you do, thank you for coming here to talk to us, and the stage is yours.

(Applause.)

MS. JARESKO: Thank you very much, ladies and gentlemen. I'd like to thank Brookings for this opportunity and for extending this invitation to me and thank all of you here today for your ongoing interest in Ukraine. Many friends and colleagues in the audience, thank you for making it out here today.

This is my first trip back to the United States and to Washington since I became Minister of Finance of Ukraine last December and as a Ukrainian-American who grew up in the Chicago suburbs, I'm honored for the opportunity today to speak in such a renowned U.S. institution in front of such a respected group of individuals. I want to take a special moment to thank Strobe Talbot, who couldn't be here, but along with Bruce and with Ambassador Pifer, are very critical to this event.

As you all know, a tragic war, driven by Russia and Russian-sponsored terrorists, is taking place on Ukrainian territory today and the Kremlin opposes Ukraine's desire to become a fully independent, Western-oriented, and prosperous country. A Democratic, pro-European, and economically successful Ukraine is perceived as a threat by the Kremlin because it challenges their current autocratic model. The idea is antithetical to it.

This seems to be one of the reasons why they have engineered and supported this conflict, first in Crimea, then in eastern Ukraine, and have launched a massive propaganda campaign against our pro-European Ukrainian government. Russia's expansionist and revisionist agenda goes well beyond Ukraine though, some of Putin's ideologues and political commentators are calling for the Russian army to invade the Baltic states, head on to Warsaw, Russian planes have violated NATO airspace some 400 times over the last year.

Today Ukraine is fighting to protect its sovereignty, its territorial integrity, and the security of the whole of Europe. Ukrainians are dying for the values of freedom, for the value of democracy, for values that many take for granted in the West, but they are the bedrock of the United States of America's existence.

Ukraine is fighting alone and it is bearing a terrible costs. But be sure of one thing, what the Ukrainian people want most, what they want more than anything, is peace, and we want to live in peace and be a fully sovereign, European nation.

The Ukrainian government has repeatedly demonstrated its readiness, its commitment, to a peaceful solution to this conflict. We have initiated unilateral ceasefires; we have repeatedly come to the negotiating table without any preconditions whatsoever. We have implemented each and every commitment we've undertaken in these many agreements.

But Russia and Russian-sponsored terrorists have systematically

violated the Minsk I and now Minsk II Agreements. According to NATO there are some 12,000 regular troops -- Russian troops, on the Ukrainian territory in the Donbass region and mercenaries continue to pour across the border.

The human tragedy of this war is even more important. The conflict in the east is a devastating humanitarian tragedy and it's putting a tremendous strain on our country. Nothing like this has occurred in Europe since World War II. There are more than 6,000 people, soldiers, civilians, who have died to defend Ukraine's territorial integrity and independence. More than 15,000 people have been wounded. We have over 1.1 million internally displaced people, people who have been forced to leave their homes due to the war in the east and the illegal annexation of Crimea.

This includes some of the most vulnerable parts of our population, over 60 percent of them are pensioners, some 15 percent are children. UNICEF describes that over a million children have been affected in some way by this tragic war.

In Crimea, the Tatar population is subject to systematic discrimination, threats, abuse of human rights, and selective justice. Tens of thousands of Tatars have had to leave their home. This is the second forced exile of Tatars from their homeland by the Kremlin.

The economic cost of the war is extraordinarily challenging. The conflict in the east has had a massive economic impact on our country. Ukraine has lost some 20 percent of its economy, its industrial output has fallen by 10 percent in 2014 due to the war, 30, 40 percent in Donetsk and Luhansk regions. The infrastructure damage, the loss of economic output from the regions that are currently being occupied by the terrorists, including Crimea, is massive.

More than 10,000 apartment buildings have been destroyed in the Donetsk region alone. Numerous industrial plants, airports, roads, energy infrastructure have been destroyed. The estimated value of the energy assets lost to the Russian

Federation in Crimea is some \$300 billion U.S. Ukraine spends just \$5 million a day trying to defend itself from this unprovoked invasion. That doesn't sound like a lot in Washington, but that is an enormous amount of money for my country.

And all of this economic crisis was worsened by Ukraine's previous poor economic governance. We've had 70-some years of communism, 23 years of incomplete economic reforms, mismanagement, large scale political corruption by the previous regime that took on over \$40 billion of debt, all of this has left the country in a very complex and difficult economic situation, poorly equipped to cope with the devastating conflict that we have on our hands.

In 2014, our GDP fell some 6.9 percent with an even sharper contraction in the fourth quarter. In 2015, we project it to fall some 5.5 percent. Inflation is expected this year to be 27 percent, double last year. The currency has depreciated by some 70 percent since last year. The currency depreciation and official borrowing are expected to push our public sector debt to very dangerous levels, meanwhile, the Ukrainian foreign reserves dropped to a low of \$5 billion previous to the IMF tranche that we received last week that doubled our reserves.

So, yes, I'm here to thank the U.S. taxpayers, the U.S. Administration and Congress for their support, but Ukraine needs more support. Ukraine cannot alone stop the expansionist agenda of the largest army on the European continent. International support is indispensable to protect Europe and to prevent an even larger humanitarian and economic crisis at the heart of Europe.

We are extraordinarily grateful for the role that the U.S. has played and continues to play and I've come to express my gratitude to the American people from the Ukrainian people. I've also asked the U.S. government to continue and increase its support in three primary directions: first, we will need more financial and humanitarian assistance. The \$17.5 billion U.S. -- IMF contribution represents some -- less than half of

the \$40 billion total package that's been estimated to be needed for the next four years. The U.S. government has provided an additional \$2 billion in credit guarantees and we hope this contribution will continue to increase.

Second, Ukraine needs defensive military equipment and training to protect the lives of our military and of our civilians and to put an end to this conflict. And, third, sanctions against Russia should be maintained and increased if the Minsk II Agreements are not fully implemented.

But what's most important, from my perspective, is that we win the war of creating a reformed market economy that is strong and capable and can lead Ukraine forward, not looking at what's happening in just 7 percent of our territory, focusing right now on what we can do with 93 percent of our territory.

International support can only be effective if the Ukrainian government is diligent in its efforts to stabilize the economy, reform the country, fight corruption, improve transparency and accountability, improve the rule of law, create conditions for the return of economic growth and prosperity. This is the common objective of President Poroshenko, Prime Minister Yatsenyuk, the cabinet ministers, and the constitutional majority, pro-European parliament. I am, of course, coming at this with somewhat of a conflict of interest personally as a member of the cabinet, but it is a fact that Ukraine today has the most reformist and professional government since independence. The cabinet ministers are young, with the exception of me -- I'm one of the oldest members of the government. On a graph recently I was the outlier all the way at the edge. Most -- many are not career politicians, as you said, I am not a politician, and we come from the private sector, as I came from the private equity, and we represent all different walks of life.

What we share is an absolutely common, unified commitment and an absolute resolute determination to change and reform Ukraine, and it is an honor for me,

honestly, after being in the country for 23 years in various positions, to serve today with this government, with this group of people, at this time.

Since spring of 2014 and the departure of former-President Yanukovich, a lot has been achieved. We've organized and held free and fair presidential elections, parliamentary elections resulting in the pro-European constitutional majority in parliament. Ukraine has signed and ratified the association agreement with the European Union, and that's incredibly important because given the educated workforce, given the labor cost advantages, and given what the depreciation has done to make Ukraine cost competitive, Ukraine today, with a deep and comprehensive trade agreement with the European Union, is extraordinarily well positioned to become the manufacturing platform into the European Union. That will help us with integration with Europe in a very real way.

Our reform agenda is aimed not only to cope with the deterioration in the macroeconomic environment, but to drive real, structural changes and end the old ways of doing business in Ukraine. The Ukrainian government is focused on five priority areas, first, national security and defense, obviously, second, macroeconomic and financial stability, third, energy independence, fourth, European integration, and fifth, but not last, good governance.

This reform agenda is a key part of the IMF program, but I need to underline, it is our program, which has been enshrined in the IMF agreement and a schedule has been placed to it. It is our program, it is not the IMF's program.

The key first stage is stabilizing our banking and financial system, and that means tackling corruption, increasing the transparency of our state-owned enterprises, it means bringing commercial activity out of the shadow economy and into the formal economy so that it participates in the tax burden of the country, it means implementing other fiscal reform to broaden the tax base. A country in its ninth quarter of

recession can't expect businesses, average, small, and medium-sized businesses, to pay more taxes. We need to broaden the tax base to those who haven't been paying, who haven't been participating, and who are avoiding their responsibility at this very difficult time. And we need to create the right conditions for businesses and investors.

We've taken critical actions. We've halved the government deficit when you take into account the combined deficit of the state and our oil and gas monopoly in Naftogaz from some 14 percent of GDP last year to this year just over 7 percent of GDP. And we've also begun to reduce our pension deficit with changes to our special system of pensions that allowed for a variety of categories and individuals that retire very, very early with very short tenures. This helps create a more just pension system in the end but also one that we can afford to finance so that all pensioners, over time, can receive a more fair and reasonable pension.

Energy sector reform and energy independence are absolutely key, they are key in terms of being challenges, they are also key in terms of what we need to accomplish to assure our success. Ukraine has historically had one of the most inefficient and corrupt energy sectors in Europe. That's not how it is today, I'm proud to say. We've taken decisive action to restructure the sector, increase our energy efficiency, reduce and diversify our gas imports.

We used to depend on Russia for some 90 to 100 percent of our gas imports. We now, in the first two months of 2015, thanks to our reverse flow from the EU, have two-thirds of our imports coming from Europe and one-third from Russia. This is not only important from a diversification and independence standpoint, we're also importing our gas from Europe at a lower price, so it's also a fiscal issue for us.

We've eliminated a major source of corruption in the energy sector. We used to have intermediaries that played a very murky role between Naftogaz purchasing and the (inaudible) Gasprom selling us gas. We've eliminated intermediaries in our trade

in gas. We no longer have intermediaries between Naftogaz and the Russian exporter, nor with our European exporters.

These systemic level reforms in our energy sector have enabled us to reduce the deficit of Naftogaz by some two-thirds in 2015 compared to last year. In dollar terms, last year the government financed the deficit of Naftogaz that was larger than the state budget deficit, it was more than \$10 billion. This year the budgeted deficit for Naftogaz is less than \$2 billion.

We are using, very importantly, a carrot and a stick approach to our fight against corruption, fraud, and abuse. We've set up an independent law enforcement agency called the Anti-Corruption Bureau, it has been fully funded in the budget despite our fiscal challenges, special powers for enforcement 700 staff members will investigate and pursue corruption in government, in the public, and in private legal entities.

A separate agency, the Anti-Corruption Agency, versus Bureau, will focus on the policy side. What can we do to eliminate the policies that enable corruption in government? So, transparent tendering, e-procurement at all of our ministries. All of these are to increase accountability, transparency, and combat abuse.

A new electronic VAT system has been introduced, which helps us to eliminate a lot of fraud. Last year alone we estimated about a billion dollars was stolen in false and artificial VAT invoicing. The electronic system will eliminate the possibility to do that.

We're changing the governance in state-owned enterprises by first holding competitive recruitment of the CEOs of these companies, but more than that we've now agreed with the big four to do audits of many of the large state-owned enterprises to see what's left at the end of the day, what really is on the balance sheet, and which of these businesses can be returned to some type of financial viability that both serves our fiscal interests, perhaps paying taxes, maybe paying dividends, things

that these state-owned enterprises should have been doing all these years, but even more than that, giving us a road and a path to privatization, privatization that we expect, in many cases, will begin in the third and fourth quarters of this year.

At the everyday level, the average citizen of Ukraine needs to feel that this fight against corruption is affecting their lives and although we've eliminated intermediaries, which is hundreds of millions of dollars of fraud, and although we have eliminated tax fraud in at least the VAT system, what is the average citizen going to feel and when is he going to feel it? Well, this summer we'll roll out, in Kiev and then in two or three of our other major cities, a brand new police system.

We've taken and borrowed the Georgian model, we've, in fact, borrowed, luckily, the Deputy Minister of Internal Affairs from Georgia, and Eka is extraordinarily talented, she's got great experience, and she's not trying to reinvent the wheel. She's rolling out a brand new police system with all new employees, people with higher education, with a higher level of pay so that they aren't corrupt, and a new rule, do not take and do not give. Ukrainian society is going to have to play their part in this as well because corruption is a two-way street and we need to stop it on both sides.

But this will be the first thing that people feel in their everyday life. Some of you who lived in Kiev knew that there was something called the pajalsta stick, it was the stick that the militia used to wave to wave you over, a stick that lit up and it was a joke we used to have -- I'm watching Sarah laugh -- the stick would wave you over and regardless of whatever you did, you knew that the next thing was a hand in your face. That will be eliminated this summer in Kiev and then in Odessa and Kharkiv and in Lviv and in Dnepropetrovsk and the average citizen will feel a change.

We've adopted important legislation to resolve failing banks. We've done this quickly and we need now to strengthen our law enforcement in situations where related third parties have caused banks, either through fraud or through criminal activity,

to fail. It's unfair to the depositors, it's unfair to the state that's responsible for financing these deposits. We have a deposit guaranty fund not unlike the FSOIC or FDIC here, people who have caused this through criminal or fraud ought to be facing law enforcement, and with the new law that we adopted just several weeks ago, that is now possible.

Changes like this, I hope will bring -- I'm confident will bring public confidence back to our banking system and back to our law enforcement system ensuring that as we go forward that our citizen's deposits are more secure and that the banks that they choose to use will no longer attempt to use those kinds of transactions.

We've started reforming our fiscal policies and the goals here, I mentioned, are first to broaden the tax base and more fairly share the fiscal burden. We're doing this by bringing as much of the commercial activity out of the shadows as we can.

We have a very high payroll tax rate of 41 percent. That means that a lot of businesses don't want to pay payroll tax and instead pay a lot of cash in an envelope to their employees for salaries.

The only way to bring them back was to give them some criteria and say, if you meet these couple criteria this year, you get a discount in payroll tax of some 16.5 percent. Come back. Operate legally and you get the discounted rate. If we're able to do that without, at this point, putting any more pressure on our pension fund deficit, then next year, for everyone, we can reduce this payroll tax 24 percent and move forward with a broader base.

We've also asked for a greater fiscal contribution from the wealthy. We've increased the progressive income tax rate to 20 percent, the regular tax rate is 15, and we've closed off all the opportunities for what they call "tax optimization" in Ukraine, so all passive income is now 20 percent. You don't get to pick and choose which avenue

is less expensive for you in taxes.

We have a couple new luxury taxes. All of this is to get the wealthy to pay a larger portion of the tax base.

And finally, closing big business loopholes the things that big business are able to do, closing different preferential treatments, shutting down state subsidies for specific industries.

We eliminated transfer pricing as a mechanism. A lot of businesses, for years, it was the sale, in particular, of commodities, would sell their product, their commodity, to a company that they owned abroad and leave the tax revenues and the profits abroad. We need to put a stop to that and the new transfer pricing laws stopped that in December.

And finally, we've simplified the fiscal system so that hopefully more people will not have the burden. So, we've moved from 22 taxes to 11 taxes. But this is just what we've done to date. Well, we have a lot ahead of us.

The IMF has already publicly acknowledged these achievements. I repeat that we met all of the targets, all of the requirements of our standby agreement in 2014. That wasn't me, so I'm not tooting my own horn, that was the government before me, post-revolution, but I think it's important because I think it's important for everyone to know that Ukraine is walking the walk, not just talking the talk about reforms. And that's not starting today and that's not starting in December with my government, it started in February with the new Ukraine.

These reforms that I have described are the tip of the iceberg. Much more needs to be done. This is simply the starting line.

We've unlocked, with the IMF program, an additional \$7.5 billion of bilateral and multilateral aid, all of it has conditionality, so no taxpayer should be worried in Ukraine or in the United States that this money is somehow going to disappear. It

cannot disappear. It has enormous conditionality and enormous requirements with regard to its usage.

The IMF program was agreed with us because it was based on our program and it provides a roadmap for us going forward.

I'll just discuss a couple things. The idea is that we right now stabilizing the financial and banking system. That means that we eliminate, to the extent possible, the volatility in the currency, reduce inflation, bring back confidence in our banking system, and by bringing back the confidence in the banking system, once again enable the banks to start lending.

We need to jump start the economy and to jump start the economy, we need the stability first.

Once we achieve the stability, we can look to build for real growth going forward. Real growth going forward is going to require the fiscal reforms that I described to you, it's going to require massive deregulation, ease of doing business. Ukraine cannot remain where it is on all these ease of doing business lists. It needs to rise up and rise up quickly to the top of those lists.

We'll need to move forward even more quickly on our fiscal policy reducing the inflationary aspect of our deficit spending and that means some very continued difficult changes in terms of reduction of the civil service workforce, it means continuing to work on tax policy, eliminating some of the tax problems that we have that have been fiscally oriented and not investor-friendly enough, so we'll need to work on our royalties in the gas and oil extraction industries very quickly.

Energy sector policy will continue to be a very critical part of what we do going forward. We have agreed to increased tariffs, rates for households as of April 1st to about 50 percent cost recovery in one year's time, 75 percent, and in the next two years, full cost recovery. What that means, given the average citizen's income level, is that we

will also have to provide, and we've started this year, a simplified social subsidy for the most needy.

As the price grows, the number of people in the population households will grow that will need the subsidy, so we need to be able to fiscally afford that, but it is the right thing to do.

We will lower energy usage, we will increase our energy efficiency when people know what the price of the gas is. We will also have to then -- we will, by doing this, eliminate what happens when you have different prices in a market, we'll eliminate the rent seeking behavior that occurs when someone gets to cheat and say that they're buying this kind of cheap gas but using it for something else.

The energy sector reform also involves adopting rules to split Naftogaz into two pieces, transportation and a storage piece. This is part of the EU energy charter and we're going to be in line with EU rules. Most importantly, this enables us to attract investment into these two new pieces, both into storage and into the investment, and so we're looking for the U.S./European partners to come and invest in our energy infrastructure. We need this investment not just because it's a good idea, not just because we need the capital, we do, but we need it because you bring modern technology, because you bring the right corporate governance, and because in this way we increase, again our energy independence.

And finally, the process for anti-corruption and better governance continues and it continues in our state-owned enterprises, it continues in our government itself. We have to continue to work on our anti-money laundering framework and streamline all of our government processes to eliminate all of the opportunities that we can for corruption.

Delivering on this IMF program and these objectives hopefully will restore confidence, growth, restart the economy, bring back domestic investment first,

and then foreign investment.

There is a lot of low-hanging fruit. We've done what we can for small- and medium-sized businesses, for example, by just putting a moratorium on all inspections, just let them do business, leave them alone in peace. And we've done things to cut red tape, but as I said, we understand fully that this is just a beginning.

We are reorienting our economy in significant ways and I think that we've brought an end to, hopefully, the volatility in the currency and we'll bring an end to the lack of confidence in our banking system.

I expect that this year is going to be a very difficult year, but next year we will return to growth and I think that will be the perfect solution to all of the things I described in the beginning, whether they be war or the illegal annexation of Crimea, proving that this economic model, a democratic, market economy, works, is critical, it is the solution to all of our problems.

So, let me conclude with the following thoughts. You know, by taking to the streets about a year ago to defend their dignity, and by opposing the Russian invasion in the east to defend their freedom, Ukrainians have taken control of the destiny of their country and of their lives. And this has come at a tremendous cost. Thousands of our compatriots have given their lives, our country bleeds one day at a time, one person at a time, one family at a time, to defend the values of democracy, independence, and freedom. But the current military conflict in Eastern Ukraine raises a very important question for all of us: if the international community allows this war to continue in the middle of Europe, what will the rest of the world be living in tomorrow?

It is a responsibility of Ukraine, of the Ukrainian government, to make our citizens' dream and vision a reality. Our task is to reform and defend Ukraine. It's an immense and unprecedented task. The number of obstacles we face are daunting.

But if Ukraine as a state has never been in such a challenging situation

in its independence, I assure you that today Ukraine as a nation has never been as strong and united and determined as it is today. With the support of the U.S. leadership, with the support of the American people, I am confident that in Ukraine, peace will prevail over war, tolerance will prevail over hatred, and prosperity will prevail over poverty.

Thank you.

(Applause.)

MR. PIFER: Well, Natalie, Minister, thank you for a really spectacular opening and I think a superb job at outlining, first, the nature of the challenge that Ukraine faces, but all of the pieces that are now in motion.

But let me start out with the first question, and it's a question that you and I have talked about a lot over the last 20 years when we've been in different positions. We've both had times where we say, Ukraine, they're doing it, they're moving in the right direction. The West got very excited, for example, in 2005. And we've seen programs, but then implementation has been difficult.

So, how do you convince people, in the IMF, in Western governments, you know, potential investors, that this time it's going to be different, that there will be the implementation, there will be the follow through that there is that commitment?

MS. JARESKO: I think the first thing that I'd say is, watch us. I don't think anything I can say will convince those who don't believe me. I think our actions will speak louder than any words I can use. And so I think it behooves us to make our actions known to the world, which means, very importantly, that we need to communicate what's going on better, we need to communicate more broadly, to a broader group globally, we need to bring our ministers here to speak to you, next week I think my colleague from the Ministry of Agriculture will be here speaking about the agricultural sector. Recently several of my colleagues have been in Europe talking to people.

I think for us right now, doing what we promise and what we say is

critical, and I think the actions will speak for themselves. I think when I tell you that there are no intermediaries in our gas trade, it's not a promise, it's not a plan, it's a fact. When I tell you that we've reduced the Naftogaz deficit, it's a fact, there is no other money so there's no other opportunity.

I think when we show you the 3G license auction that we just completed earlier this year, which was fair, transparent, attracted three different investors, it's a fact. We just need to keep showing you fact after fact and you need to keep your minds and your souls open to believing in the fact that this is a new Ukraine and it doesn't matter what I believe or what I promise you, the Ukrainian civil society will accept no less than real change, and so what in the end should assure all of you is that Ukrainian civil society is different.

The loss of people, the sacrifices made by the Ukrainian people, means that there is no room for words alone anymore, it's action, action, and more action.

MR. PIFER: Okay. Well, let me go ahead and open up the floor for questions. If I could ask -- if you could identify yourself and affiliation, keep questions short, and please have a question mark at the end. Right here.

SPEAKER: -- that are interested in investing in Ukraine so of course I was paying special attention to your comments about that and I thought one particular point you said about spurring or encouraging domestic investment first and putting international investment second, does that include infrastructure investment in the energy sector, because obviously that's necessary to reduce that dependence on foreign gas?

MS. JARESKO: I don't want you take too seriously which comes first and second. I think it's important for international investors to see that domestic investors believe in their own country, but which one comes first and second is less important to me. As I said, we've already attracted foreign investment this year through the 3G license. Energy infrastructure I mentioned to you, encouraging investment into the

transportation sector and the storage sector, critical.

We have committed -- I know there will be questions, I'll just answer it now -- we've committed to review and change and implement a new royalty on oil and gas extractive industries by July 1st, introduction to parliament, January 1st, by law. Something that balances investor-friendliness and attractiveness with our fiscal needs.

So, no, I mean, foreign investment is critical to Ukraine. I just -- I want everyone to understand that we also understand we need to make it compatible for Ukrainian business as well.

SPEAKER: Anders (inaudible) Peterson Institute. Thank you for a splendid presentation. You have been here now for two days and seen a lot of top officials, you told us what you want, the three big things. What do you feel that you have accomplished during these two days? Thank you.

MS. JARESKO: I guess I would outline there are three things that I hope to accomplish, I mean, only my counterparts can tell me whether or not I accomplished it or not, one is to truly, again, say thank you for U.S. leadership, for the U.S. example in global leadership, and for the United States' role in the G7 and the IMF and other institutions, in discussions with the EU on the issues of supporting Ukraine, whether it be financially or through maintenance of sanctions.

I think the second part is that, yes, I've come to say that this package from the IMF is critical and it helps us stabilize, but it's not enough. I have asked for continued American support, whether it be for defensive military weapons or for financial, but Ukraine, I believe, deserves, and the Ukrainian people deserve and we'll need additional financial support over time.

There's no magic number, so no one needs to ask me, because I don't have a magic number, I just know that for us to spur real growth, we're going to need

additional support.

And third, I guess, I've really asked that investors start to come and look at Ukraine, because we need to reopen the private sector as a channel. Borrowing more money is a short-term solution to our problems. Borrowing money from the IMF and from our bilateral creditors is a good thing when there are no other options, but I would much rather see a part of this be through real investment, and so we've talked to the commerce department, I've talked to others about trying to bring back investment, what sectors of the economy are critical for us, agriculture, energy, energy efficiency, and infrastructure as a first step.

And I hope that I've conveyed that we are, again, walking the walk, not just talking the talk on reforms and walked everyone through the kinds of things that we've done today.

SPEAKER: Thank you, Minister. My name is Andre Citova, I'm with the Russian news agency here. I wanted to ask you about the economic program that you've agreed on with the IMF. The program entails, in part, reaching an agreement with your creditors to the tune of about \$15 billion. How confident are you about reaching that agreement? And specifically on Russia, you have the \$3 billion outstanding, so do you treat Russia as a sovereign creditor? And in that case, do you plan to take it to the Paris club?

And secondly, on a different subject, yes, I just wanted to ask you about the eastern parts of the country, the financial services, the social support, I understand, also have been cut. Do you plan to restore them and how soon? Thank you.

MS. JARESKO: Thank you. The first question, yes, the \$40 billion package announced by the IMF is made up of three pieces, one is the \$17.5 billion, four-year program from the IMF, second is \$7.5 billion, give or take, of bilateral and multilateral commitments, which includes \$2 billion from the U.S. in credit guarantees,

amongst others, and third is \$15.3 billion dollars expected to be achieved in a debt operation, which I've begun Friday with a large webcast and then starting tomorrow we'll meet with individual creditors in multiple cities here and in the UK.

I believe this is -- I'm confident that this is doable. I'm confident that we will find a common language with our creditors because I'm confident that our creditors and we have the same interests, which is ensuring that Ukraine can repay and has a medium-term debt sustainability that enables all of us to succeed in the end.

I don't believe any of our creditors, including Russia, have any interest other than that.

Our position has been, thus far, that we invite all of our sovereign creditors and the Russian -- as it's called, Russian bond is a Euro bond, so I include that in my vision of who I've invited to the table. It is not up to me to discuss whether or not Russia sees this that way, but for right now, Ukraine is committed to a free, fair approach to -- non-discriminatory approach to restructuring all of its sovereign debt, sovereign guaranteed debt. There's a small part of quasi-sovereign in there, the city of Kiev, and a couple state-owned enterprises where we have guaranteed debt.

In terms of the eastern part of the region, the terrorists have indeed forced the closure of the financial system because every truck of -- armored truck with money, every bank, every ATM had been robbed. It's impossible to bring cash into that part of the country that is unfortunately, temporarily, out of our control. And for the same reason, if we can't have the ATMs and the banks working, it's hard to deliver social subsidies.

That said, Ukraine has gone out of its way to try and reach its citizenry by allowing every pensioner that wishes to register outside the occupied territories and we pay the bulk of pensions and social subsidies to those who have indeed re-registered out. We have an amount in arrears to those who have not yet been able to re-register,

but we will pay them as soon as that is possible or when and if they register.

More and more people re-register outside the occupied territory and each time we pay, in full, the arrears on pensions and social subsidies.

I think definitely, as I said, we want nothing more than peace. We would like nothing more than life as normal to return to Donbass and to the citizens of Ukraine that are in that region, so when the Minsk Agreements are fulfilled, I am confident that both the financial system and the social system, everything, will come back and be functional again. Of course it will require a large amount of infrastructure investment, as I described. The infrastructure has been very heavily damaged and so there will be a large amount of investment that will be required to rebuild the region as a whole.

MR. PIFER: Marvin?

MR. KALB: Marvin Kalb, I'm with the Pulitzer Center. Madam Minister, you used the expression "pro Western" several times to describe your government, but you do live very close to Russia and your relationship with Russia has been very close for hundreds and hundreds of years. So, if I ask you to look ahead five or ten years, how do you see that relationship, taking into account the very close, historical ties between the two countries?

MS. JARESKO: I'll be clear, I said pro-European, but I could say pro-Western, either one would work, because I think what I'm referring to specifically is a set of values, and in this case, I think the Ukrainian people have chosen their set of values. It's about freedom of assembly, it's about freedom of speech, it's about having a robust and vibrant civil society, it's about having a market economy that's competitive and not driven by either oligarchs or other interests. And I think Ukraine has made that choice. I think they've made that choice and there's no going back.

That does not, in any way, change, or in any way, denigrate, our very tight cultural ties to Russia, our familial ties to Russia, our border with Russia, and no one

would try to change that. I think Ukraine wants and always expected and always desires and wants tomorrow peace. We'd like that once again to be a relationship of equals, of neighbors, and not a relationship of warring parties.

I think it's important for people in the West and in the United States to understand that Ukraine's European history outdates its history with Russia, just to be perfectly clear. Ukraine -- Kiev and Kievan Rus' as a center, was called the mother or the father of Europe because our leaders of the Grand Princes of Kiev married off their families all over Europe. The Princess Anna of France married the King of France, was the daughter of one of our princes.

So, Ukraine has a long-standing European tradition as well as long-term ties and cultural ties with Russia. It is not that one is actually primary over the other. They are both important to Ukraine. They are both part of the vibrant culture of Ukraine, and, again, Ukraine is multilingual, multi-ethnic, multi-religious, a very tolerant society, so what I see in five years, I see a peaceful neighbor, I see a normal, diversified relationship where Ukraine is fulfilling its independent vision of its track moving forward, which is based on European values, but I see a very vibrant, normal trade relationship with Russia and a normal diplomatic relationship with Russia. I see the end of a war and a peaceful Europe.

MR. PIFER: I'll move to the back. Third row here. We do try to reward those who have the courage to sit up front, but I'll move to the back in just a moment.

SPEAKER: Natalie, you know almost any woman with any Ukrainian connections not only admire you, we're proud of you, and when you said --

MS. JARESKO: Thank you

SPEAKER: Well, sure. But we -- you said nobody who doesn't trust me will be convinced, and I don't think there are many people who don't trust you. And as you said, most ministers are not only young, but not coming from politics or the

government, including yourself, although I think I can say that, except from the very top. So, can you say something reassuring to us, what are the approaches, what are guarantees, (inaudible) hopes, (inaudible) good people, just are there any institutional changes, any legal changes that are on the line and are at least planned that will make it impossible for individuals, for personalities, to go all the way back to all the familial (inaudible)? So, anything reassuring in terms of how can we hope that those who do not come from business, do not go back to their old habits?

MS. JARESKO: First of all, I want to start with the question of how to reassure you. I could tell you that when I was on the outside not so many months ago, doing business and challenged by many of the things that business is challenged by in Ukraine for the past 23 years that I've lived there, I myself didn't understand -- and I only do now -- how committed our political leadership is. And, yes, it's a political leadership. They're elected officials, and there is a difference between an elected official, whether it be in the United States or in Ukraine or any other country.

The president and the prime minister, are, number one, I assure you, unified in their vision with regard to what needs to happen in Ukraine, unified in their vision that this is an absolutely critical time for these reforms and that these reforms are absolutely necessary, and I think they're unified in their vision with regard to Ukraine's path, and I think that should reassure a lot of people because you hear a lot of other things. There will always be differences between people, there will be differences between me and my colleague at the Ministry of Economy about some set of reforms, but those are minor.

If you look at the big picture, we've never been more unified, and that's the first reassurance.

The second thing I'd like to show is an example of how things have changed in government is that I just last week announced four new deputy ministers that

I personally chose, did not approve or pre-approve with anyone -- I have five deputy ministers. I left one that was previously there in charge of my budget, my first deputy minister, and brought in four new people, only one of the four had been in government before, the other three had not been in government, they're all very young, we'll just leave it at that -- younger, much younger than me, and that in and of itself, I have to tell you, is a major change because I don't know a government previous to this where ministers -- and I'm not the only one, I'm just giving you an example, my colleagues have all been selecting their own deputies as well -- where you've had this freedom to staff your own ministry. There's always been influence from all different corners and who you should pick and why, and that's not the case anymore.

That's a very practical example.

I think -- again, I think Ukraine has changed in a way that the leadership understands that civil society will demand no less than real change and I think we all feel the time pressure that we have because society wants solutions and they want them now.

Unfortunately, because of the economic situation, which we inherited, to some extent, and then it was exacerbated by the war, it's going to be long and difficult to provide for what people would like to see in terms of, you know, another chicken in every pot and another deposit in every bank, but we will get there over time and if we can show step by step gradual movement, I believe society will support the political leadership and the technocrats in government together.

MR. GOLDSTEIN: Thank you, Jeff Goldstein from the Open Society Foundations. Madam Minister, you were careful to say there's no magic number for what more Ukraine needs, but could you tell us, what is it that you would do in the first instance if there was more that you're not able to do with the current levels of assistance?

MS. JARESKO: Well, you know, this discussion is always about macro

fiscal, and so I would rebuild the national bank reserves faster to a larger number, that would be the first thing I do, because that's the confidence in the banking system that needs to be returned. We're doing it with the monies that we've been provided. As I said, we doubled our reserves just last week, that's a great thing, but we were at a very low level, so that's now taken us to, let's say, two months critical imports.

We need to get closer to two and a half, three months to be truly safe. So, I would accelerate rebuilding of the reserves. I would use some of it to increase our social programs for the most poor. As we look forward to, again, increasing energy prices next year, I think there is an element of my budget where, until the real economy starts to grow again and tax revenues start to grow, I have to worry greatly about the poor in society and the growing number of vulnerable in the population.

But I think aside from macro fiscal, or what I tried to tell you, is that I would like to see more investment. You know, the reserves are one issue and they're critical, but aside from the reserves, which it's no terribly different whether I have three months critical imports or three and a half -- that's why I said there's no magic number. I think, you know, confidence is confidence and we have to do a lot to build confidence.

But the second part of it is investment, and there, you know, the sky is the limit. Ukraine had zero foreign direct investment last year. We didn't have an enormous amount over the last 23 years cumulatively if you look at it. We had some good years. But the country is ripe for investment, as I said, as a manufacturing platform for the EU, into agriculture, which is one of the most competitive agriculture sectors in the world, Ukraine today is the number one exporter of sunflower oil, the number four largest grain exporter in the world, and this is all with a relatively inefficient land use system.

When and if we actually get to reforming our land system, enabling land to be used as collateral, you know, the sky's the limit. I recommend everyone look into agriculture before that happens because that will be priced in later.

I think energy and energy efficiency, both domestic gas extraction but also in energy efficiency where there are enormous savings to be had. The IT sector, Ukraine today is a platform for IT and software development for Europe, for the United States. We could do a great deal more and we could do much more value added, not just outsourcing, but actually marketing and producing our own products.

So, I think there's no number because I think that the opportunity is enormous and it's very great on the investment side.

SPEAKER: Andre (inaudible). Thank you very much for your comments. I have a couple of questions. First of all, one of the critical elements for restoring growth is reduction of the size of the economy -- reduction of the size of government and the economy. The latest data for the last year is about 54 percent of GDP for the government expenditure as share of GDP. So, since you mentioned today this budget deficit for the last year of 14 percent, probably it's even higher than that has been mentioned before.

Could you tell us, what is your kind of target, maybe even implied target, for these particular indicators by the end of this year or maybe in a few year's time, if any? Or some particular measures that you are envisage to reduce the size of the government and the economy?

And the second one, concerning this package that is the center of attention over last several weeks, what is the time schedule for this package, I mean, for the years, among these four years? And if you can tell a little bit about this \$15 billion element, whether it's interest or it's a kind of the main principle, or that's going to be reduced completely or cancelled or just what is kind of your vision about this?

MS. JARESKO: Thank you. The first question on public spending, and I know there are many people in the audience -- I'm looking at Andres -- who believe very strongly that this ought to be my most critical focus. I'll be honest with you, I don't have a

number for you and I'm right now focused on doing what I can to increase the revenue base so that we don't have to run a deficit, so I don't have the inflationary struggle that I have today, and in government what our focus has been on reducing the number of people in government first, but because our salary levels are so low, which is also a source of corruption, when we last year reduced our government size by 10 percent, and this year we've committed to reduce again by 20 percent additionally in government, 3 percent overall in the state sector, which means including education, health, and other public funded, it's not about -- in these numbers it's not about reducing expenses by 3 percent or by 20 because we hope to leave that in the salary funding for those who remain, increase salaries for those who remain even though we're reducing the size of government overall, which reduces bureaucracy, which reduces corruption, which reduces and hopefully makes more efficient the work within our government, but it's not a savings, per se.

I think our focus on Naftogaz is clear to get to a zero deficit by the end of 2015 and our deficit spending targets for next year continue to decline quite strongly.

I think it's hard to predict going forward two or three years, so I can only predict that next year we'll have this again, hopefully to around 3.5 percent total or less between Naftogaz and the public state budget.

Your second question was on the program. The \$17.5 billion program I would expect \$10 billion, approximately, maybe slightly more, to come in to the central bank reserves and into the treasury this year and then over the next two years, the remaining 7.5. The \$7.5 billion bilateral/multilateral is really 12-, 18-month money. For the most part it's 12-month money, so the U.S., for example, \$2 billion is two fiscal years, but it's my hope that given the way the fiscal years stack up in the United States, that we'll get the second billion before the end of this calendar year, which is the beginning of the U.S. fiscal -- next fiscal year.

There are small parts of it that are early next year, for example, Sweden has committed \$100 million in early 2016, but the great bulk of it is one-year money, which means that the \$40 billion package -- I'll get to the last piece in a minute -- is not really all for four years. Again, the \$17.5 is four-year money, but the \$7.5 is really one-, one and a half-year money. That means that, you know, if the EBRD has committed a billion dollars of new investments, there will be another billion dollars of EBRD investments next year, or more, assuming that we continue down this path and prove ourselves worthy, which I'm certain we will be able to do that.

So, again, the numbers have different qualities.

With regard to the last piece, the \$15.3 billion, we're just entering into these consultations right now and we believe this should be a consultative approach. I'm not dictating to my creditors right now which way is best. We have the perimeter of this -- that operation, which is defined, the box that I need to stay within is defined in our IMF program. The box has to do with our targets with regard to debt-to-GDP over time, our targets with regard to sustainability and percentage of GDP in any given year on average of payments out and other targets.

So, I think it can be -- we can be flexible as to how to take our interests, these targets and our creditors' interests and what it involves, whether it's coupon changes, whether it's term changes, whether it's nominal changes, we'll have that discussion with the creditors and come to what I hope is a collaborative solution.

SPEAKER: Michael Desinko, U.S.-Ukraine Business Council. Mrs. Minister, the question about both the confidence of the population into the banking system as well as for investor's confidence, as well as national security, is affected, of course, by the presence of several big Russian banks in the Ukrainian banking system right now, if I'm not mistaken, it's 25 or so percent of the market.

We had some investors that are already working in Ukraine as well as

companies that plan to go to Ukraine probably very soon express concerns about the fact that there is a large portion of the banking system that may potentially be a danger. We obviously hope that in five years the relationship between the countries will improve, but the Sberbank of Russia, of course, we know who controls that.

And is Ukrainian government planning to do anything like sanction them in particular because their accounts are being used for funding the terrorists when they collect money in Russia and send off to the eastern -- the occupied eastern area? What's Ukrainian government doing with those banks?

Another concern is, the U.S. business thinks that when sanctions are required of the United States and western Europe, when Ukrainian government asks for sanctions, and doesn't sanction the banks of the aggressor country, that's -- that makes them ask that question, why? Thank you.

MS. JARESKO: First of all, let me say that the central bank governs and supervises the banking sector, not the government and not the Ministry of Finance, so what I can give you is my perspective, but it's not my role or my responsibility.

My perspective is that these banks operate under Ukrainian law, supervised by the central bank, and are currently under, from everything I understand, are currently within all of the operational and all of the regulatory strictures operating legally in Ukraine. And at this time, frankly speaking, if there have been accusations or investigations with regard to any type of terrorist financing, they've been dealt with by the government, by the law enforcement agencies, and stopped.

If you know of something else, you ought to turn to the law enforcement agencies.

So, it's my opinion that they are, right now -- at least two of them are systemic banks and they're important to the banking sector, they hold Ukrainian citizen's and businesses' deposits, so I think we shouldn't act too quickly to affect the banking

system as a whole and I think we need to look to the banks themselves. If the banks are involved in illegal activity, Ukrainian, Russian, western European, I don't care what kind, then we ought to act within the law and stop any financing of terrorism. So, that's just an absolute. It doesn't matter what kind of bank.

But aside from that, I think if the banks are operating legally in Ukraine and if they're operating within the regulatory environment, that's all you can ask of them.

SPEAKER: Thank you so much, Madam Finance Minister, for the talk. My question was on sanctions. Although I agree with the reasoning behind the sanctions, my question is, do sanctions hurt the controlling oligarchy of Russia more or the common people of Russia more?

MS. JARESKO: Well, I think there are different types of sanctions, first of all. I think the bulk of the sanctions have been aimed at the financial sector and to the extent that the financial sector is not able to access international markets, in the end, that will affect all of the economy.

I think the second part of sanctions has been very individual based with regard to travel restrictions, and that affects those that have been named and not the average Russian.

I think, to be honest with you, that whether or not sanctions are working is a question that is hard to answer because a large part of I think what's happened in Russia is a result of the energy price, and that's not a sanction, that's just a market development, and I think the combination of the sanctions with lower oil prices is what you can take together, and I don't know which is first, second, or third, but taken together, has caused the economic decline and some of the challenges that Russia faces economically.

I don't think sanctions are meant to hurt the Russian people in any way. Sanctions are meant as a disincentive to continue with the war. And sanctions will not be

necessary when the war is over, when Minsk I, Minsk II are fully implemented, when Crimea is returned, when our territorial integrity and sovereignty are at peace and fulfilled. No one has, I think, any desire to hurt Russian business, Russian people. The issue is as a disincentive to continue the policies of aggression.

SPEAKER: Hi. Andrew Miada from Bloomberg News. I'd just like to ask about -- you mentioned that Ukraine may require additional financing. I'm a little confused because you just signed an IMF agreement that is predicated on a financing gap of about \$40 billion, so I'm just wondering, has something changed since you negotiated that? Or -- and can you provide any more details on what you think the financing needs are now?

MS. JARESKO: Again, the \$40 billion is the package that's supposed to enable us -- and I believe it will enable us -- to achieve a financial stability in our banking and currency. It isn't a package that ensures us growth at whatever, you know, my target rate of 5 percent annual GDP growth per year going forward.

This is one building block, this package is one building block, and it's based on a macroeconomic forecast, which is reasonable, but assumes single digit inflation after a year's time, it assumes, over the period of the program, a very narrow band of currency fluctuation. So, any risk to that macroeconomic forecast changes -- potentially changes the package of financial support that we will need.

If there is an external shock of any size or if there's a banking risk that could occur inside the system, anything -- any social risk to the reforms that we've implemented already, a social reaction, certainly any increase in -- and I have to say this -- any increase in violence in the east is not figured in, and hopefully it won't happen, hopefully this fragile ceasefire will, in effect, take effect and we will have peace. But I can't avoid knowing that there are risks, and as a government official, I'm responsible for taking that into account in my thinking.

If we have peace, we will have the need for more financial support because, as I said, we'll have to rebuild the east. So, you know, when I say more, I'm not speaking with regard to the singular goal of financial stability. Forty billion dollars, we're grateful. It is enough, I believe, assuming the macroeconomic forecast remains in place, we're able to achieve all three building blocks, it is enough to stabilize the economy, but stability isn't enough. I want more for my people.

MR. PIFER: Last question in the very back there. All the way back.

SPEAKER: Natalie, my name is (inaudible). Two questions. You had a very successful career in the private sector. What convinced you to take on this daunting job? And second question pertains to a widening of the tax base. You said you wanted to expand it. Does this mean that Ukrainian oligarchs will actually pay taxes for a change? And do they pay taxes now? And how much taxes would you like them to pay? Thank you.

MS. JARESKO: I don't know which one to answer first. What caused me -- so, I never thought about being Minister of Finance. There's a person here in the audience that had breakfast with me about six months before this and was saying, you know, foreigners ought to -- Diaspora ought to participate in the government. I said, nah, it'll never happen. That's not in the cards for this country. I never believed they would invite Diaspora or other foreigners to participate in governance, I never could have assumed that.

So, I'm the first one to say that I could never have predicted this opportunity would arise or this challenge, I should say, would arise.

Why did I do it? First of all, I've lived in Ukraine for 23 years. The ambassador, my former boss here in the audience will know, I have always believed in the opportunity and the potential of Ukraine. And after 23 years, I was constantly trying to do everything that I knew how to make that opportunity and potential a reality and not a

promise.

Living through the revolution, watching what happened to the Ukrainian people, being there with them, frankly speaking, on the street and the Maidan and doing what any citizen did what they could do during all of that Maidan. Some people supported with food, others came and supported with money. Everyone did everything they could.

When the president of the country asks you if you will serve -- and now we're in a war -- there's almost no way to say no. I felt like there were Ukrainian citizens going to the front, volunteering, not conscripted, drafted, forced -- volunteering to go and protect their nation, I always have, for 23 years, looked for a way to protect and help build Ukraine. I have no value at the front. I can't help protect Ukraine at the front. I'd probably be, you know, worse than useless.

This is what I thought I might be able to do to help my country. This was the small value added, I thought if I could help the country at this time, I was doing my part.

My daughters -- I've said this in several meetings here -- my daughters have reminded me, I don't see them often, I see them in the morning before school. When I get home from work they're sleeping -- you know, I say, are you okay with the fact that, you know -- this is very challenging for them, and my ten-year-old tells me, mom, so many people go and serve and don't come home. At least you come home every night.

That's from a ten-year-old who understands that at this time, the Ukrainian nation needs every single one of its citizens, every single one of its supporters, to do their part, whatever part that may be. That may be my older daughter supporting and volunteering at a rehabilitation military hospital nearby. It may be -- my younger daughter makes bracelets for the soldiers that are wounded. It may be Diaspora organizations organizing just information, getting the word out to the world.

Everyone ought to be doing their part because today the existence of the

state, the very existence of our sovereign state, is what's at question, and every one of us has a role to play, I believe, in supporting a country that has shown its sacrifice and its willingness -- no one's asking for anyone to do anything more, or anything even close to what the Ukrainian people have done for themselves, and I think Ukraine deserves that support.

So, for me, this was my -- the continuation of my career, the continuation of my attempt to support Ukraine.

The second part, oligarchs should pay their taxes, Oligarchs -- some oligarchs do pay their taxes. Some oligarchs are no longer oligarchs because the economy has been rough for a lot of people, not just for the average citizen. I think cutting the loopholes, eliminating the transfer pricing, eliminating specific sectoral subsidies that have existed in different sectors is critical to getting them to pay their taxes. But generally, when I talk about increasing the tax base, I do mean everyone needs to pay their taxes. And that means oligarchs as well.

More, more, more. I'm the Finance Minister. I like revenues.

MR. PIFER: Okay, unfortunately, we have to get the Minister back up to Capitol Hill for another meeting, but let me just thank you, Natalie, for a presentation that showed knowledge, enthusiasm, energy, and a lot of heart.

Let us please thank -- join in thanking her, and also expressing hope for your success.

MS. JARESKO: Thank you.

(Applause.)

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