

## Ukraine's Consolidated Budget results through May 2011

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Based on Monthly Budget Execution reports of Ukraine's State Treasury

### Consolidated budget balance and financing

- Ukraine's consolidated finance remain consistently better balanced in 2011 than last year, thanking mostly to a one-off hike in VAT in February and sharp real increases in Enterprise Profit Tax in February and May. Ukraine's consolidated finance have been consistently better balanced during the five months of 2011 than in respective periods of the previous year, arriving at a cumulative revenue surplus of UAH 0.1 billion by the end of May 2011 (compared to a deficit of UAH 11.5 billion in January-May 2010). The latest available statistics for consolidated deficit as a % of GDP is for the first quarter of 2011, at which point it was a 0.23% deficit – but still a much stronger result than the 2% deficit in Q1 of 2010 (see Table 1). As discussed further, much of this result is explained by the strikingly higher collections of EPT. Although EPT performance has been highly irregular and uneven during January-May, its cumulative receipts have been 43.7% higher than in the same period of 2010, in real terms, and 43.7% above period baseline. However, the major reason for the real revenue growth was a hike in VAT revenues in February (when this tax increased by 35.1% in real terms) which still strongly reverberates in the cumulative fiscal totals.

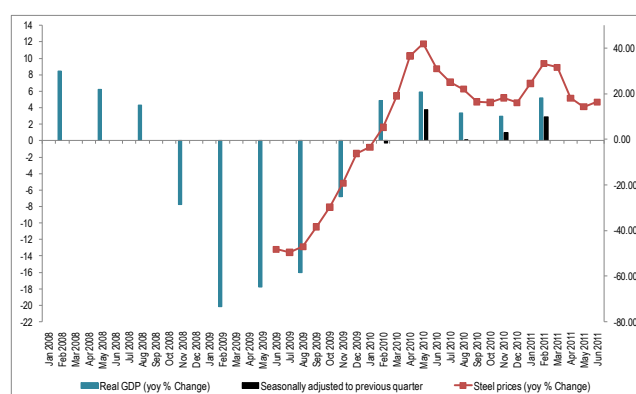
Table 1. Consolidated Budget Totals through April 2011 (UAH million)

	Actual budget totals			Latest period for which GDP data is available and the same period of the previous year	
	2011 Annual budget plan*	Jan-May 2011	Jan-May 2010	1Q 2011	1Q2010
<b>Latest budget totals</b>					
Expenditures	409,709	149,233	132,801		
Revenues	369,842	150,395	120,450		
Deficit (-) / surplus (+)	-38,264	146	-11,505		
<b>Deficit as % of GDP</b>	<b>-3.05%</b>	<b>n/a</b>	<b>n/a</b>	<b>-0.23%</b>	<b>-2.00%</b>

\* Based on the latest Treasury Report and MinEcon GDP forecast

- As expected, the Q1 GDP statistics was favourable, but longer term prospect remains unclear given the unstable terms of trade. Significant real GDP growth in the first quarter has improved budget balance outlook. However, this recent improvement continues to reflect the importance of the impact of favourable terms of trade and global steel prices on Ukraine's GDP performance, related to its undiversified export structure. This continues to represent an ingrained macroeconomic and fiscal uncertainty factor, especially given the steel price fluctuations and a general downward trend in 2011 (see Figure 1).

Figure 1. Changes in global steel prices and Ukraine's GDP



## Consolidated budget receipts

- Consolidated revenues in January-May 2011 remained significantly higher than last year (by 14.8%) and above period projections (by 5.3%). Although revenue performance has been highly uneven during 2011, cumulative revenues have consistently remained above last year levels in real terms and consistently above period baselines. By the end of May, cumulative consolidated collections have reached UAH 150 billion, which was 14.8% higher in real terms than in the same period of last year, and 5.3% above the baseline projection for this period (see Table 2).

Table 2. Consolidated Revenues through May 2011 (UAH Million)

	Nominal actual revenues (Jan-May 2011)	Comparisons to plan		Comparisons to baseline		Comparisons to same period of 2010	
		Annual plan (Jan-Dec 2011)	Actual revenues as % of annual plan	Baseline projection (Jan-May 2011)	% Difference of actual over baseline	Nominal actual revenues (Jan-May 2010)	% Change in real terms
<b>Total Revenues</b>	<b>150,395.31</b>	<b>369,841.81</b>	<b>40.66%</b>	<b>142,791.91</b>	<b>5.32%</b>	<b>120,449.69</b>	<b>14.82%</b>
VAT	50,236.90	112,979.10	44.47%	47,693.36	5.33%	38,486.69	20.06%
PIT	22,397.61	59,512.81	37.63%	22,417.49	-0.09%	18,505.76	11.27%
EPT	23,095.08	44,674.57	51.70%	16,071.63	43.70%	14,763.03	43.68%
Excises	12,165.16	40,753.90	29.85%	14,881.98	-18.26%	10,199.08	9.67%
Land Tax	4,219.09	11,605.58	36.35%	4,469.79	-5.61%	3,737.14	3.87%
Import Duty	3,725.62	9,266.00	40.21%	3,589.80	3.78%	2,695.60	27.12%

Source: Treasury Budget Execution Report.

- The two major factors behind the growing revenues were the sharp increase in the VAT in February and significant expansion of the EPT. Real growth in cumulative consolidated revenues was essentially ensured by strikingly robust performance of the two major taxes: the Value Added Tax (VAT) and the Enterprise Profit Tax (EPT). Moreover, these two taxes were among the three only revenue sources from (together with the the Import Duty) which were collected above period baseline projections. As shown in Table 2, all other taxes were actually below schedule.
  - Increase in VAT.** Table 3 and Figure 2 illustrate that the bulk of the overall revenue increase in consolidated revenues achieved in the first five months originated from the larger collections of VAT. Cumulative revenues from this tax in January-May 2011 were 20% higher than in the same period of last year, in real terms. Given the size of this tax - which is the biggest revenue source in Ukraine, representing about a third of the consolidated budget, this increase was responsible for 43% of the overall revenue growth. However, VAT performance during 2011 was highly uneven. Most of the increase in VAT collections was registered in February, when monthly collections of this tax were 84% higher than in the same month of the previous year, in real terms (see Table 4 and Figure 3). In all following months, VAT performance was much more modest, although still higher than in 2010. However, the impact of the striking hike in February is still palpable in the cumulative results for the five months. It is notable that VAT collections through May 2011 were 5.3% above period baseline projection (see Table 2).
  - Increase in EPT.** EPT is one of the three biggest revenue sources in Ukraine's budget (12% of total consolidated revenues in the 2011 Annual Plan - comparable to PIT at 16% but twice smaller than VAT at 30%). In the first five months of the year, collections of this tax have increased by 43.7% in real terms compared to the same period of 2010, representing the biggest real increase of all other taxes. As shown in Table 3 and Figure 2, this increase was responsible for 35% of the overall real growth in consolidated revenues in January-May 2011. Unlike VAT, EPT collections have been somewhat more consistent throughout the year: the tax has demonstrated two quarterly hikes (albeit each time it was a month earlier

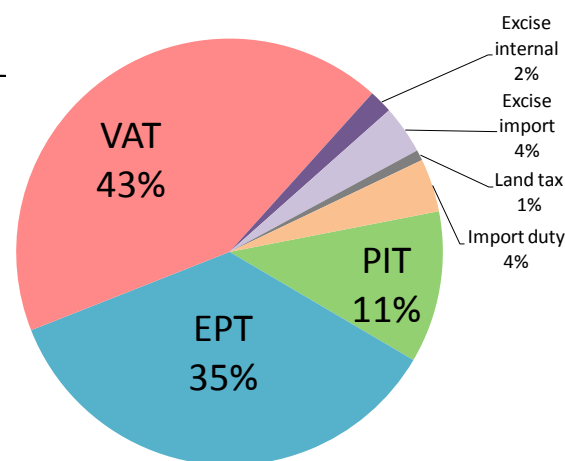
than the tax reporting period, as illustrated in Table 4 and Figure 3). As we wrote earlier, the State Tax Administration informed the media that most of the tax increase in January-February (68% of extra revenues) was collected from large enterprises, which include 1,152 entities or 0.13% of the total number of taxpayers in Ukraine<sup>1</sup>.

With the described real growth, EPT became the tax which demonstrated the best performance in comparison to period baseline projections. In January-May 2011, EPT collections were 43.7% higher than the period projection (see Table 2), while most other taxes (apart from VAT and Import Duties) have actually been behind schedule.

**Table 3. Contribution of individual revenue sources to revenue increase in Jan-May 2011 compared to same period of last year**

	Real change to same period of 2010		% Contribution to overall revenue growth
	(UAH mln)	(%)	
<b>Total Revenue Change</b>	<b>10,797.64</b>	<b>14.82%</b>	
<b>Revenues Increasing</b>	10,955.80		100.00%
<b>Revenues Decreasing</b>	-158.16		
PIT	1,262.22	11.27%	11.52%
EPT	3,894.53	43.68%	35.55%
VAT	4,672.87	20.06%	42.65%
Excise internal	195.21	3.77%	1.78%
Excise import	401.71	40.10%	3.67%
Land tax	87.61	3.87%	0.80%
Import duty	441.65	27.12%	4.03%
Other Revenue Sources	-158.16	-0.82%	

**Figure 2. Major contributors to real revenue growth in January-May 2011: VAT; EPT; PIT**



Source: Treasury Budget Execution Report; Calculations by FISCO id

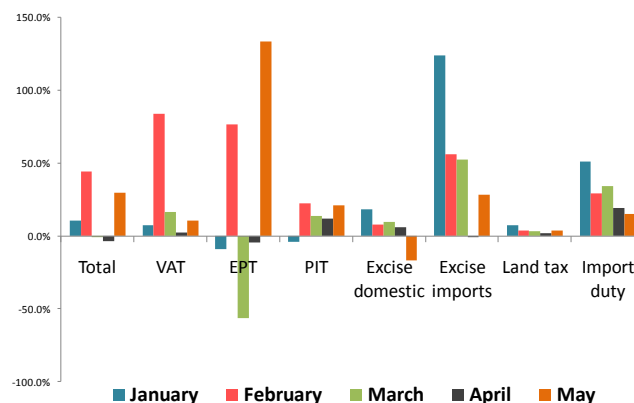
- **The third biggest contributor to consolidated revenue growth was Personal Income Tax (PIT), which increased at slower rates (and somewhat behind schedule) but still significantly, and more consistently.** As illustrated in Table 2, PIT receipts in January-May 2011 were 11.5% higher than in the same period of last year, and this result has persisted through most of these five months (Table 4 and Figure 3). At the same time, PIT collections have been just nearly at the level of period baseline projections (behind by 0.1% in the cumulative result for January-May 2011), although the annual plan itself for this tax was significantly reduced this year compared to 2010.
- **Import Duties remain to be one of the most buoyant revenue sources.** Continuing the trend of the previous months and of the previous year, import duties are fast growing. In January-May 2011, they were nearly 27.1% higher than in respective period of 2010 (in real terms), and 3.8% above baseline projections for this period.
- **Although excise collections continue to be much higher than last year, they are still significantly behind the ambitious 2011 schedule.** Excise collections grew throughout the period, albeit with significant deceleration, especially in excises on imported goods (Figure 3). Cumulative receipts for January-May were 9.7% higher than in the same period of 2010, in real terms (Table 2). At the same time, they are still 18.3% behind the period baseline projection (which assumes a significant annual growth in Excise revenues planned for this year). This makes Excises the worst performing revenue item so far.

<sup>1</sup> FINANCE.UA, 22.03.2011; <http://fisco-id.com/?module=news&action=view&id=8809>

**Table 4. Monthly real revenue growth during Jan-Apr 2011 (over same months of 2010)**

	Monthly % Real Change (2011 to 2010)				
	January	February	March	April	May
<b>Total</b>	<b>10.8%</b>	<b>44.2%</b>	<b>-0.6%</b>	<b>-3.4%</b>	<b>29.8%</b>
VAT	7.2%	84.0%	16.4%	2.5%	10.8%
EPT	-9.1%	76.7%	-56.5%	-4.7%	133.7%
PIT	-3.9%	22.2%	13.9%	12.0%	21.0%
Excise domestic	18.4%	8.1%	9.5%	6.0%	-16.6%
Excise imports	123.9%	55.9%	52.7%	-0.6%	28.3%
Land tax	7.2%	4.0%	3.1%	1.9%	3.7%
Import duty	51.0%	29.0%	34.3%	19.3%	15.1%

**Figure 3. Monthly real revenue growth during Jan-May 2011 (over same months of 2010)**



## Consolidated budget spending

- Real consolidated spending grew consistently during January-May 2011.** Cumulative expenditures of Ukraine's consolidated budget in January-May 2011 were 3.3% higher than in the same period of previous year, in real terms (see Table 5). Monthly spending pattern throughout the first months of 2011 has been stable and consistent, with real monthly spending gradually increasing every month (see Figure 4). In May 2011, despite the steady increase in real spending, comparison to the same period of 2010 became less favourable (dropping from 10.3% in January-April to only 3.3%) because of the hike in social protection expenditures related to a sharp increase in the transfer to the Pension Fund in May-June 2010 (also illustrated in Figure 4).

**Table 5. Consolidated Expenditures through January-May 2011 (UAH Million)**

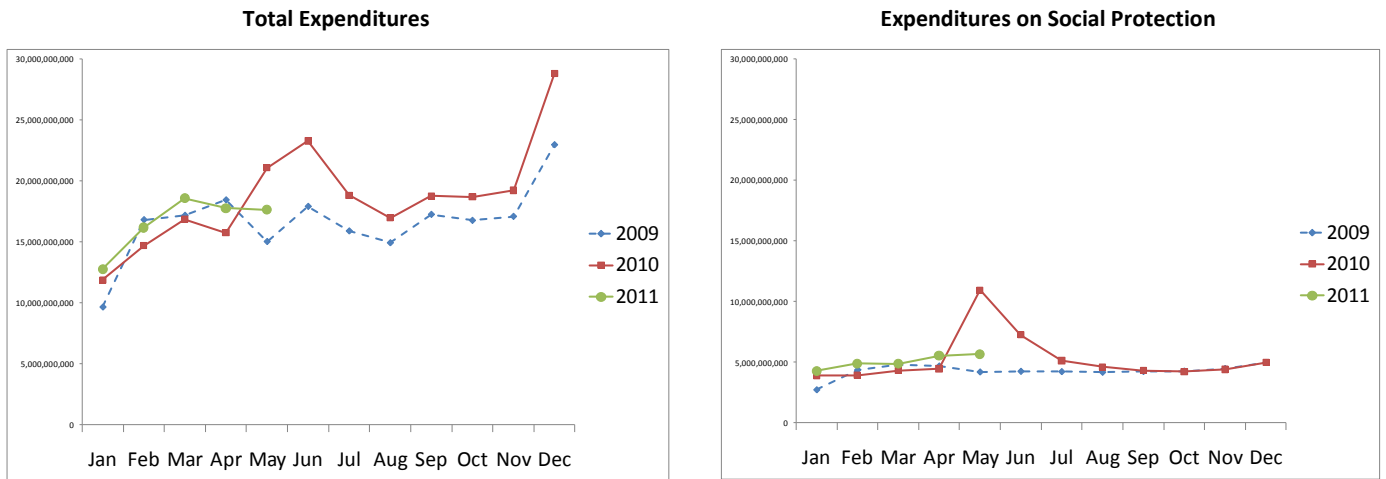
	Nominal actual expenditures in May 2011	Comparisons to plan		Comparisons to same period of 2010	
		Annual plan (for Jan-May 2011)	Actual expenditures as % of annual plan	Nominal actual expenditures in Jan-May 2010	% Change in real terms
<b>Total Expenditures</b>	<b>149,233.12</b>	<b>409,709.45</b>	<b>36.42%</b>	<b>132,801.20</b>	<b>3.32%</b>
Public Administration	17,156.28	53,012.24	32.36%	14,514.97	8.61%
Defence	4,322.73	14,293.93	30.24%	3,777.46	5.31%
Civil Order, Security & Judiciary	11,159.25	31,334.77	35.61%	9,368.74	9.51%
Economic Activities	14,712.34	56,197.57	26.18%	11,672.44	15.98%
Environment Protection	857.45	4,146.16	20.68%	529.09	48.71%
Housing and Utilities	1,782.83	6,167.03	28.91%	1,093.60	49.56%
Healthcare	16,860.22	45,605.75	36.97%	14,579.22	6.40%
Culture and Sports	3,647.44	10,141.03	35.97%	3,313.05	1.15%
Education	33,377.87	83,770.53	39.84%	28,400.29	8.13%
Social Protection & Social Care	45,356.70	105,040.43	43.18%	45,552.36	-8.51%

Source: Treasury Budget Execution Report.

- Social Protection spending is growing, although the high-base comparison to May 2010 disguises this fact.** The high-base comparison to the spending hike in May 2010 also explains why social protection spending in January-May 2011 is now 8.5% lower than in respective period of the previous year, although it actually grew strongly every month this year (Figure 4). This growth is happening at the background of a much more modest budget commitment to this function in 2011: the Budget assumed a significant shrinking of annual spending on social

protection and care compared to last year, even in nominal terms (by 12.3%). Respectively, in all months of 2011 this programme was funded at the fastest rate among all other functions compared to respective annual targets (43.2% of the annual allocation spent by end of May, see Table 5). The largest share of social protection spending (currently, 64%) is support to Pension Fund, with the transfer to the Pension fund reached UAH 27.9 billion by end of May 2011.

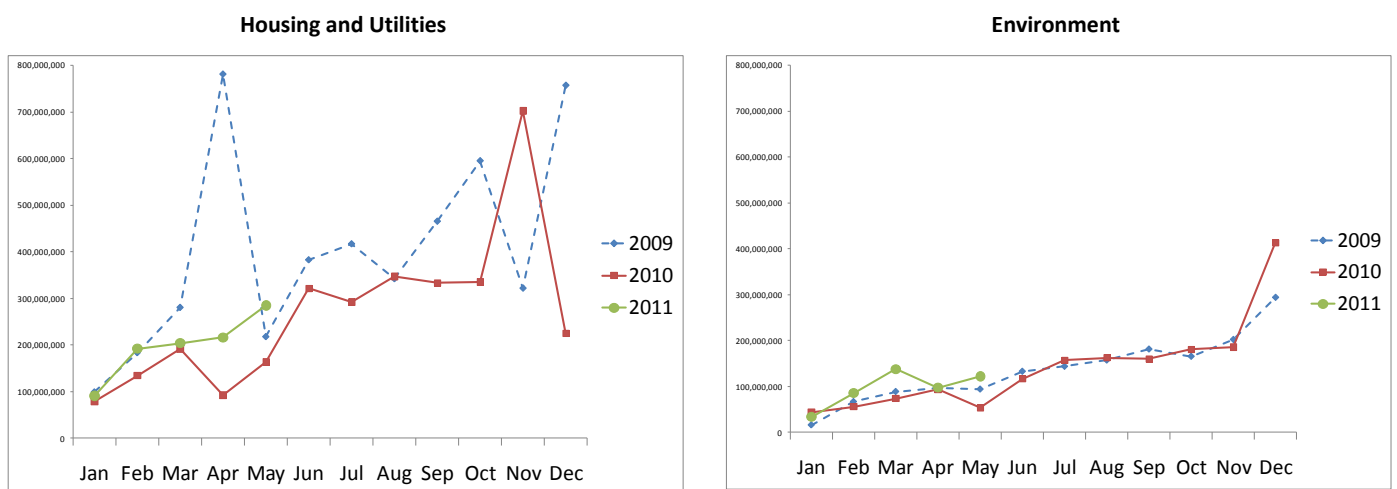
**Figure 4. Monthly consolidated real spending in 2009-2011: Total Expenditures and Expenditures on Social Protection**



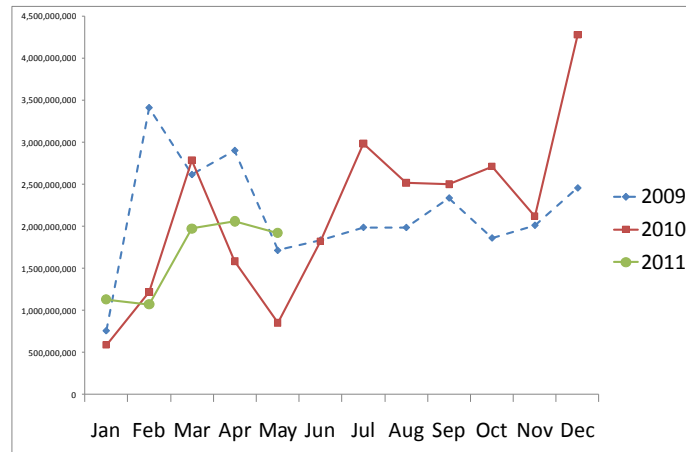
■ **Programmes intensive in capital investment improve compared to very low base of 2010, but are still funded at slowest rates and sometimes below 2009 levels.**

- The biggest real increases in spending throughout January-May 2011 were registered in Environment Protection (up by 48.7%) and Housing&Utilities (up by 49.6%). Real spending on Economic Activities in the first five months of 2011 is also 16% above last year's results. However, the growth is registered against the year when these two programmes were among those most underfinanced. As illustrated in Figure 5, for all those programmes, real spending in some months of 2011 was actually lower than in 2009. All these programmes are also funded at slowest rates as percentages of the annual plan (20.7% for Environment Protection, 29% for Housing and Utilities, and 26.2% for Economic Activities), even though the annual plan itself was significantly reduced in 2011 for those particular functions. This, however, could be related to the seasonal pattern of many investment-related programmes.

**Figure 5. Monthly consolidated real spending in 2009-2011: Housing & Utilities and Environment Protection**



### Economic Activities



- All wage-intensive programmes repeat their historical patterns, somewhat increasing in real terms compared to last year.** As illustrated in Figure 6, the majority of other expenditure programmes remain within their seasonal patterns, slightly expanding in real terms (Table 5). In particular, total expenditures on Education have been 8.1% higher in January-May 2011 than in the same period of the previous year, in real terms, and total real expenditures on Healthcare were higher by 6.4%. The real increase in total spending compared to last year in Civil Order, Security and Judiciary was 9.5%, and in Defence it was 5.3%.

Figure 6. Monthly consolidated real spending in 2009-2011: Education, Healthcare, Civil Order&Security, and Defense

