

# Ukraine's Consolidated Budget results through August 2011

Prepared by FISCO, [www.fisco-id.com](http://www.fisco-id.com)

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Contact: [office@fisco-id.com](mailto:office@fisco-id.com)

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

## Consolidated budget balance and financing

- Throughout January-August 2011, Ukraine's Consolidated Budget remained remarkably and consistently better balanced than in both previous years, showing an unusually small and decreasing deficit. By the end of August 2011, Ukraine's Consolidated Budget still had only a small deficit of UAH 2.1 billion, compared to UAH 39.4 billion in 2010, in nominal terms (Table 1, Figure 1). This result has only improved the already impressive second quarter statistics, the latest period for which GDP data is available. In the second quarter, the deficit was at 1.92% of GDP: much lower than in the same period of previous year (5.2%), and safely within the annual target of 3.47%. As illustrated in Figure 1, during August nominal deficit was reduced even further.
- The Government continues to balance its 2011 budget through significantly raising the tax-take and intensively redirecting its composition towards EPT and VAT. Consolidated expenditures in 2011 are maintained at the level of the previous year (in real terms), but – unlike in 2010 – this time they are funded by a much higher amount of revenues, which grew by impressive 22% in real terms and kept the deficit at bay. As we discussed further, this impressive revenue growth is mostly attributable to expansion of EPT and VAT. These two taxes are the only ones collected significantly above schedule, with EPT being above projections by 27.9%. All other taxes are below period targets, and the divergence is growing. Soaring EPT reflects further departure of Ukraine's public finance away from taxation of general voting public towards contributions by major taxpaying units. This concern is aggravated by the possibility that VAT growth is accompanied by selective tax refunds which opens further windows for manipulation with the burden of this tax, rather than distributing it fairly among the voters.

Table 1. Consolidated budget totals through August 2011 (UAH million)

	Annual budget plan for 2011*	Actual budget totals		Latest period for which GDP data is available and same period of the previous year	
		Jan-Aug 2011	Jan-Aug 2010	2Q 2011	2Q2010
<b>Latest budget totals</b>					
Expenditures	434,954	254,287	230,323		
Revenues	389,046	254,796	189,629		
Deficit (-) / surplus (+)	-43,497	-2,105	-39,374		
<b>Deficit as % of GDP</b>	<b>-3.47%</b>	<b>n/a</b>	<b>n/a</b>	<b>-1.92%</b>	<b>-5.20%</b>

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

Figure 1. Consolidated budget totals in 2009-2011 (UAH billion)

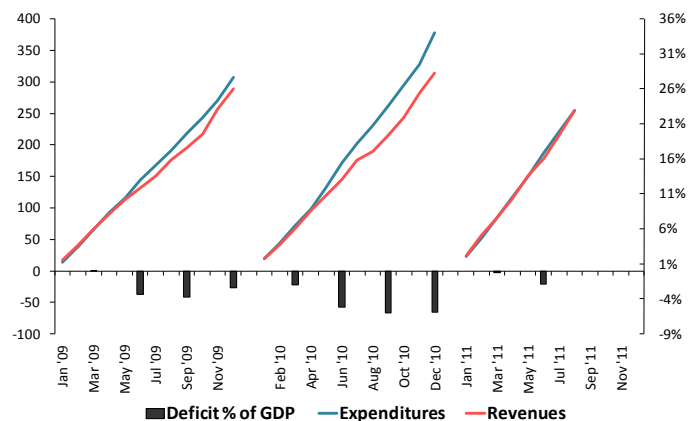
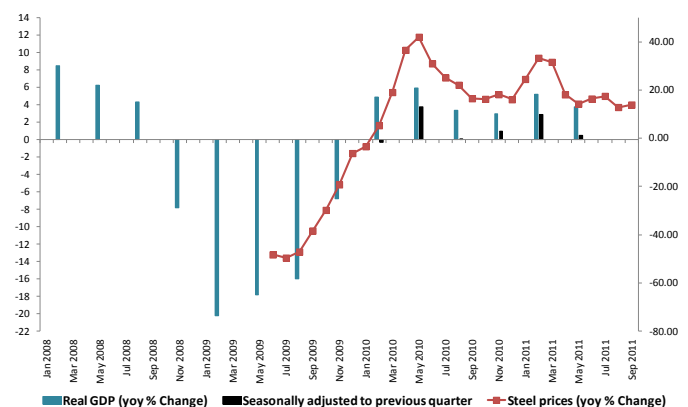


Figure 2. Changes in global steel prices and Ukraine's GDP



- **Decelerating GDP growth in the second quarter of 2011 reinforces concerns over macro-fiscal vulnerabilities related to Ukraine’s undiversified export structure.** Further releases of Q2 GDP statistics confirmed a downward trend (3.8% yoy compared to 5.3% in the Q1), mirroring the downward fluctuation in the global steel prices during that period (Figure 2). This infamous vulnerability of Ukraine’s macro-fiscal performance to external shocks is a growing concern amid continued global turbulence.

## Consolidated budget receipts

- **Consolidated revenues in January-August 2011 were considerably higher than last year (by 22.8% in real terms) and 5.1% above schedule.** Revenues remained highly buoyant through August 2011, with all sources growing strongly in real terms compared to same period of 2010. Overall cumulative receipts of the Consolidated Budget reached UAH 255 billion by end of August, a real growth of 22.8% above January-August of the previous year (Table 2). This considerable growth is so far helping the Government to stay in line with the ambitious revenue plans for this year, with overall collections being currently 5.14% above baseline projection for the period.

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

	Nominal actual revenues (Jan-Aug 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-Aug 2011)	% Difference of actual over baseline	Nominal actual revenues (Jan-Aug 2010)	% Change in real terms
<b>Total Revenues</b>	<b>254,796.23</b>	<b>389,045.69</b>	<b>65.49%</b>	<b>242,332.99</b>	<b>5.14%</b>	<b>189,628.58</b>	<b>22.77%</b>
VAT	83,685.35	125,600.70	66.63%	79,580.17	5.16%	47,870.59	59.45%
PIT	38,095.94	60,221.62	63.26%	38,333.90	-0.62%	31,699.54	9.78%
EPT	36,630.76	46,645.83	78.53%	28,654.42	27.84%	24,923.08	34.57%
Excises	21,461.46	37,429.90	57.34%	23,503.79	-8.69%	17,889.52	9.58%
Land Tax	7,104.26	11,724.41	60.59%	7,582.97	-6.31%	6,245.78	4.00%
Import Duty	6,393.42	10,243.00	62.42%	6,554.34	-2.46%	5,026.84	16.23%

Source: Treasury Budget Execution Report.

- **Striking revenue performance in 2011 continues to be explained by two major factors: steady growth of VAT collections and sharp increase in EPT.** While all types of revenues have increased in real terms compared to last year, only two taxes – VAT and EPT – were buoyant to a degree which matched the Government’s revenue plans for 2011 and showed an unusual resilience compared to previous years (as discussed below). Given the significance of both taxes to Ukraine’s budget (VAT brings about a third of consolidated revenues, and EPT is responsible for another 14%), their combined impact helped to keep overall consolidated revenues above schedule. All other taxes without exception have been underperforming.

### – Increase in VAT:

Table 3 and Figure 3 illustrate that the bulk of the overall revenue increase in consolidated revenues achieved in January-August originated from expansion of VAT. Cumulative revenues from this tax in the first eight months of 2011 were 59.5% 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 66.1% of the overall revenue growth.

Comparison of VAT current performance to the previous year is notably low-based. Twice during 2010 (in February and, especially, in August), total VAT collections plunged reflecting announced massive repayments of refund arrears. Respectively, comparisons to these months of 2010 are highly favourable, and will especially affect VAT totals since August 2011 till end of this year, as illustrated in Figure 4. This figure also shows how steady growth of VAT in 2011 has now advanced above schedule.

- **Increase in EPT.** Unlike any other tax, EPT breaks all records this year. EPT was responsible for 20% of overall revenue increase in January-August 2011, growing by 34.6% in real terms compared to last year, and bringing 27.9% more revenues than would be projected for this period based on the annual plan (Table 2, Figure 5).

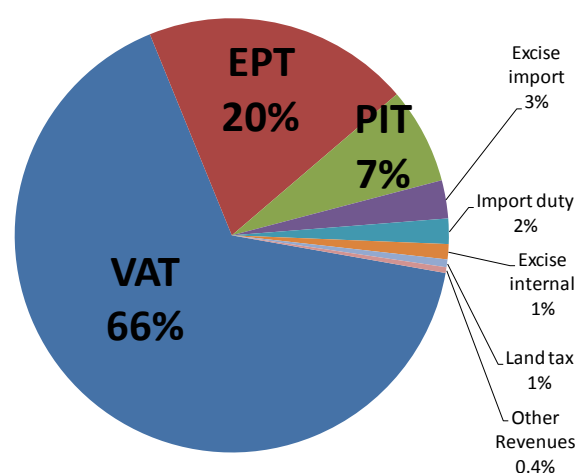
- **As a result of this expansion of EPT and VAT over the last year, Ukraine’s public finance became palpably more dependent on these taxes.** The shares of EPT and VAT have notably increased in January-August 2011, compared to last year – by 1.2% and 7.6%, respectively, as illustrated in Figure 6. As a result, during this period EPT became Ukraine’s second biggest tax, outpacing personal income tax (PIT). The share of VAT in the revenue composition grew to 33% from already significant 25%. As discussed earlier, this trend reflects further departure of Ukraine’s public finance away from taxation of general voting public towards contributions by major taxpaying units. This concern is aggravated by the possibility that VAT growth is accompanied by selective tax refunds which opens further windows for manipulation with the burden of this tax, rather than distributing it fairly among the voters.

**Table 3. Contribution of individual revenue sources to revenue increase in Jan-Aug 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>26,148.86</b>	<b>22.77%</b>	
<b>Revenues Increasing</b>	<b>26,148.86</b>		<b>100.00%</b>
VAT	17,274.62	59.45%	66.06%
EPT	5,204.06	34.57%	19.90%
PIT	1,875.95	9.78%	7.17%
Excise import	742.81	40.23%	2.84%
Import duty	493.48	16.23%	1.89%
Excise internal	295.51	3.29%	1.13%
Land tax	151.17	4.00%	0.58%
Other Revenues	111.26	0.33%	0.43%
<b>Revenues Decreasing</b>	<b>0.00</b>		<b>n/a</b>

Source: Treasury Budget Execution Report; Calculations by FISCO id

**Figure 3. Major contributors to real revenue growth in Jan-Aug 2011: VAT; EPT; PIT**



**Figure 4. VAT performance in Jan-Aug 2011: comparison to period projections and to last year**

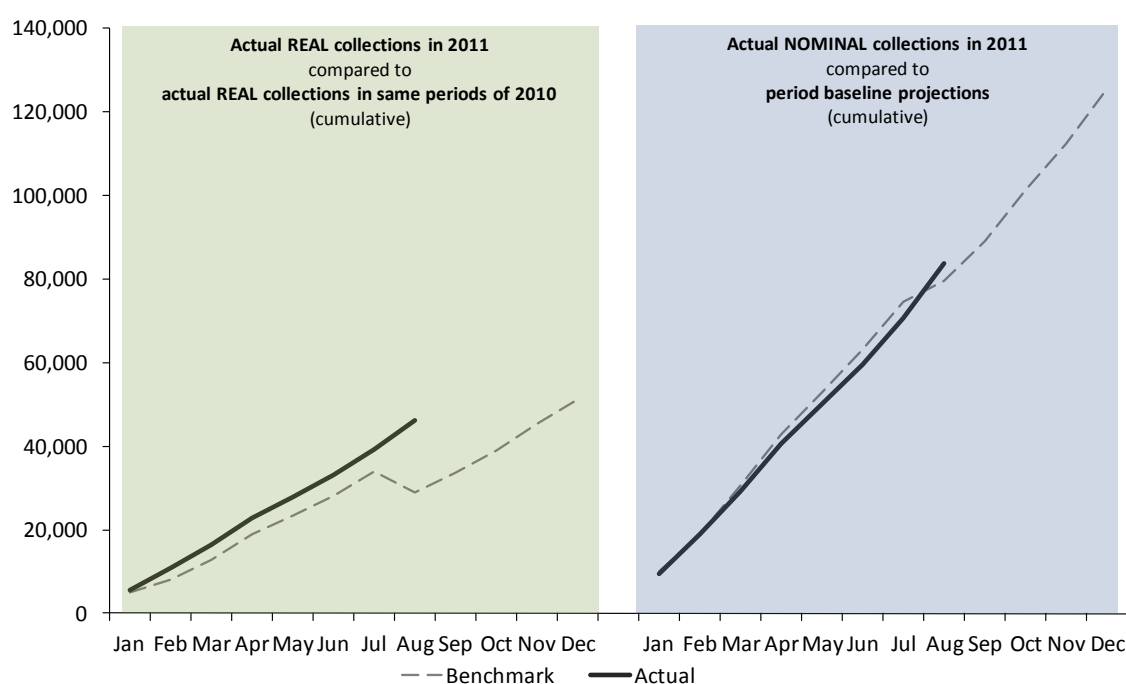
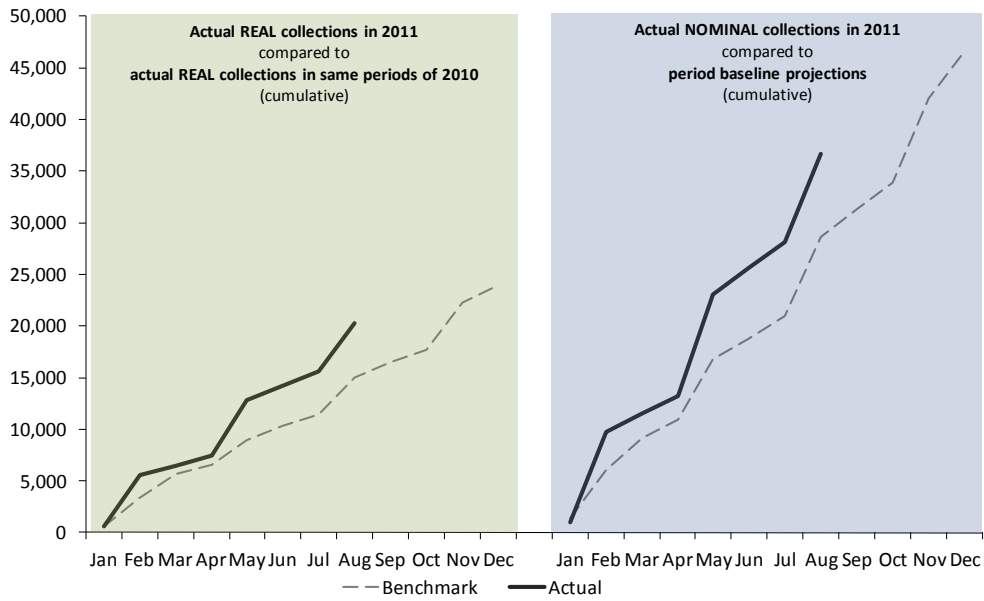


Figure 5. EPT performance in Jan-Aug 2011: comparison to period projections and to last year



- The third biggest contributor to consolidated revenue growth was Personal Income Tax (PIT), which increased at slower rates but still significantly, consistently, and almost in line with the schedule. As illustrated in Table 2 and Figure 7, PIT receipts in January-August 2011 were 9.8% higher than in the same period of last year. Collections remained almost exactly in line with period projections throughout the year (being 0.6% behind schedule as of end August 2011), although the annual plan itself for this tax was significantly reduced this year compared to 2010.

Figure 6. Changes in the shares of revenue sources within Consolidated Budget between August 2011 and August 2010 (in %)

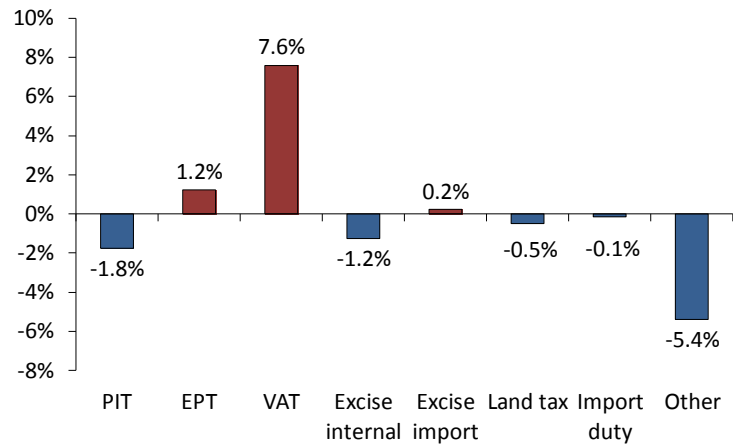
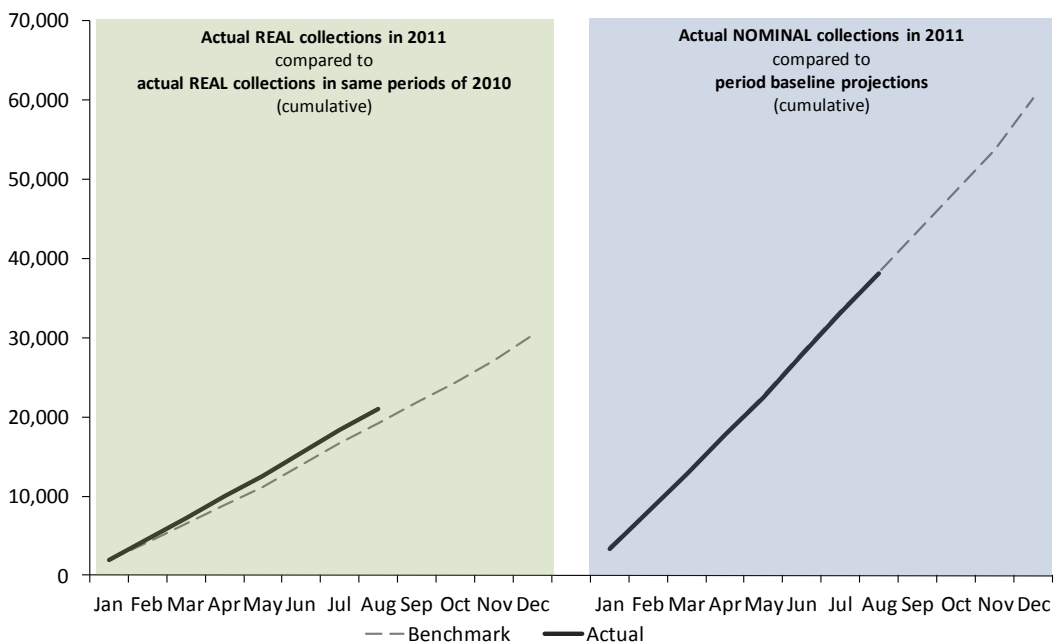
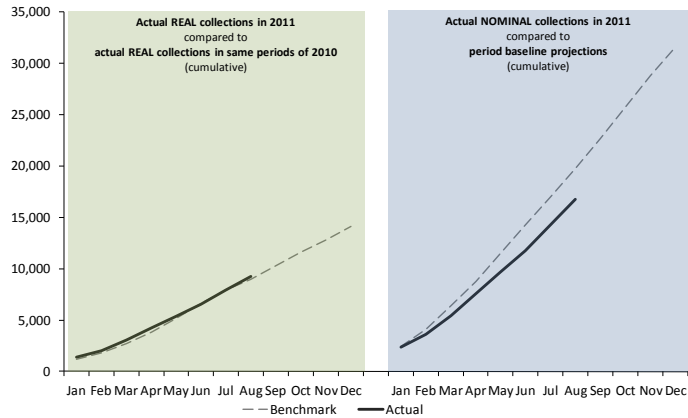


Figure 7. PIT performance in Jan-Aug 2011: comparison to period projections and to last year

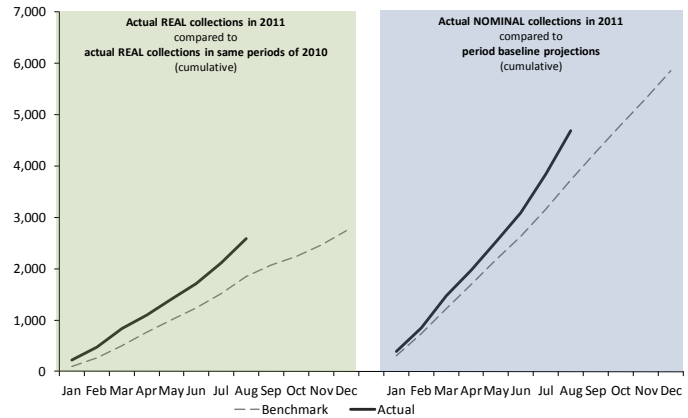


- Import-related taxes have been relatively buoyant in 2011, and especially so in July-August.** The two key import-related taxes – Import Duties and Excise taxes on imported goods - were responsive for 5% of overall revenue growth in the consolidated budget, being 16.2% and 42.2% higher (respectively) than in the same period of 2010, in real terms. Performance of both of these taxes accelerated in July-August (Figure 9 and Figure 11), with Import Duties almost catching up with the baseline, and Excise Tax on imported goods exceeding the baseline by 25.6% by the end of August (overall collections of excise taxes remained below schedule because of poor performance of excises on domestic goods, as illustrated in Figure 8).

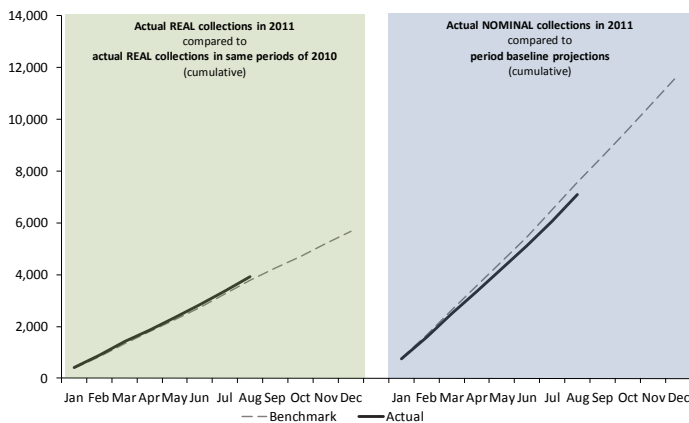
**Figure 8. Domestic Excise performance in Jan-Aug 2011: comparison to period projections and to last year**



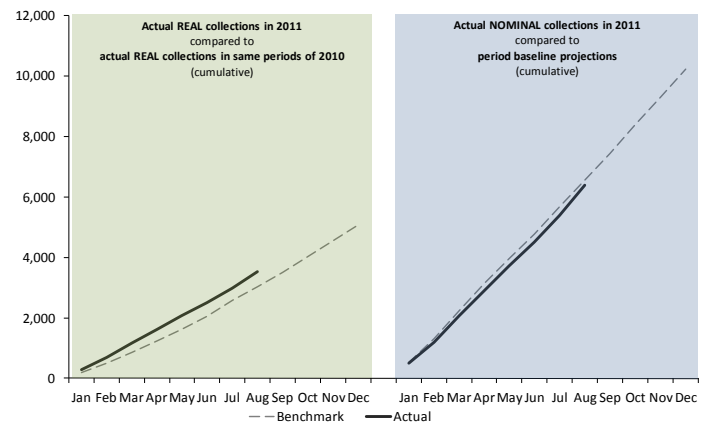
**Figure 9. Foreign Excise performance in Jan-Aug 2011: comparison to period projections and to last year**



**Figure 10. Land Tax performance in Jan-Aug 2011: comparison to period projections and to last year**



**Figure 11. Import Duty performance in Jan-Aug 2011: comparison to period projections and to last year**



## Consolidated budget spending

- Real consolidated spending during January-August 2011 was maintained just above the level of last year, in real terms.** Cumulative expenditures of Ukraine’s consolidated budget in January-August 2011 were almost the same as last year, exceeding the 2010 result by only 0.8%, in real terms (see Table 4). Monthly spending pattern throughout these eight months of 2011 was stable and consistent with previous years (see Figure 13). In May and June 2011, despite the steady increase in real spending, comparison to the same periods of 2010 became less favourable because of the hikes in social protection expenditures in May-June 2010 (related to a sharp increase in the transfer to the Pension Fund (also illustrated in Figure 13)).
- Social Protection spending decreased in real terms, although the high-base comparison to May and June 2010 exaggerates the magnitude of the decrease, which is in reality much less dramatic.** The high-base comparison to the spending hike in May-June 2010 also explains why social protection spending in January-August 2011 is now 11.7% lower than in respective period of the previous year, although it actually grew consistently every month of the year compared to the previous month, with only small monthly decrease in June (Figure 13). Moreover, in all months of 2011 this programme was funded at the fastest rate among all other functions compared to respective annual targets (67.3% of the annual allocation spent by end of August, see Table 4). The largest share of social protection spending is support to Pension Fund.

Table 4. Consolidated Expenditures through January-August 2011 (UAH Million)

	Nominal actual expenditures (Jan-Aug 2011)	Comparisons to plan		Comparisons to same period of 2010	
		Annual plan (Jan-Dec 2011)	Actual expenditures as % of annual plan	Nominal actual expenditures (Jan-Aug 2010)	% Change in real terms
<b>Total Expenditures</b>	<b>254,286.52</b>	<b>434,953.83</b>	<b>58.46%</b>	<b>230,322.94</b>	<b>0.83%</b>
Public Administration	30,086.66	53,544.01	56.19%	24,497.91	12.10%
Defence	7,768.69	14,591.05	53.24%	6,359.04	11.64%
Civil Order, Security & Judiciary	19,253.36	33,011.23	58.32%	16,628.70	5.76%
Economic Activities	30,284.93	67,287.40	45.01%	23,776.42	16.27%
Environment Protection	1,803.45	5,892.07	30.61%	1,249.26	31.60%
Housing and Utilities	5,757.44	10,490.50	54.88%	2,681.15	95.61%
Healthcare	28,289.20	47,652.22	59.37%	25,992.92	-0.53%
Culture and Sports	6,111.90	10,997.51	55.58%	6,931.92	-19.50%
Education	53,842.71	85,850.34	62.72%	48,600.05	1.15%
Social Protection & Social Care	71,088.16	105,637.49	67.29%	73,605.57	-11.74%

Source: Treasury Budget Execution Report.

**Box: Spending on cash transfers based on "Money Follows the Child" programme as an example of continuously growing social benefits**

"Money Follows the Child" benefit scheme for family-type orphanages and fostering, which exists in Ukraine since 2006, continues to be an illustrative example of a social protection programme which slowly but consistently expanded during 2011. As illustrated in Table 5 and Figure 12, allocations to this programme in January-August 2011 increased by 9.4% in real terms compared to the same period of the previous year (considerably above the rate of growth in total expenditures and in most other programmes) and have expanded consistently in every month of 2011 compared to previous months (in real terms).

Table 5. Key totals related to "Money Follows the Child" spending in Jan-Aug 2011 (UAH million)

	Nominal actual expenditures (Jan-Aug 2011)	Comparisons to plan		Comparisons to same	
		Annual plan (Jan-Dec 2011)	Actual expenditures as % of annual plan	Nominal actual expenditures (Jan-Aug 2010)	% Change in real terms
Total Consolidated Budget Expenditures	254,286.52	434,953.83	58.46%	230,322.94	0.18%
Cash transfer based on "MFC" scheme	184.34	283.35	65.06%	153.98	9.40%

Figure 12. Real monthly spending on Money Follows the Child benefits in 2010-2011

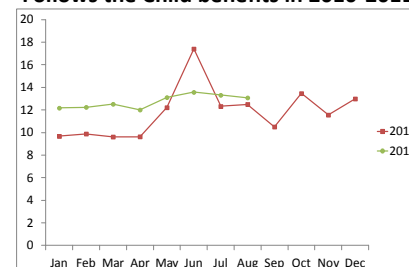
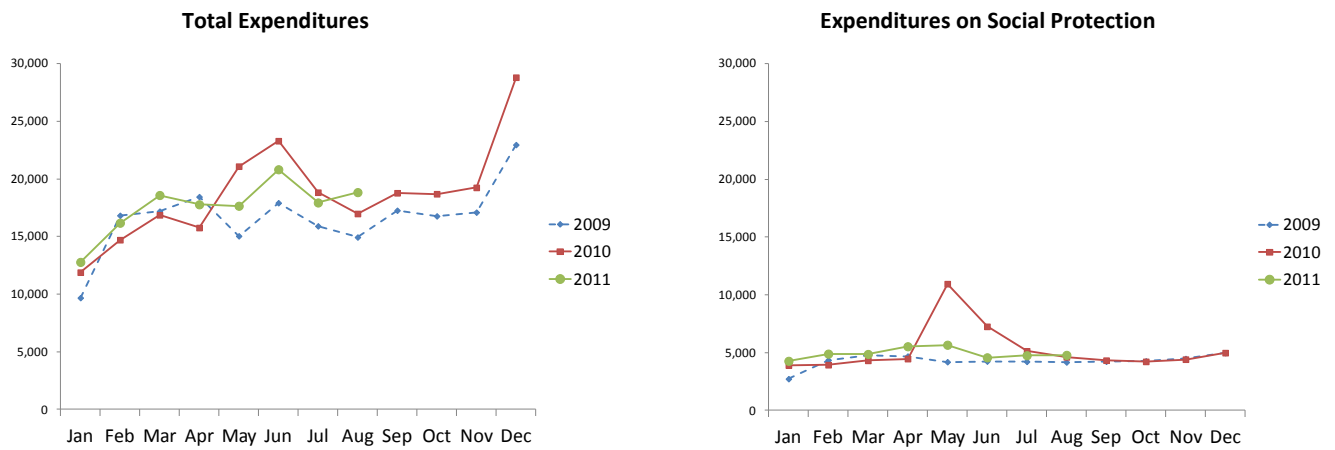


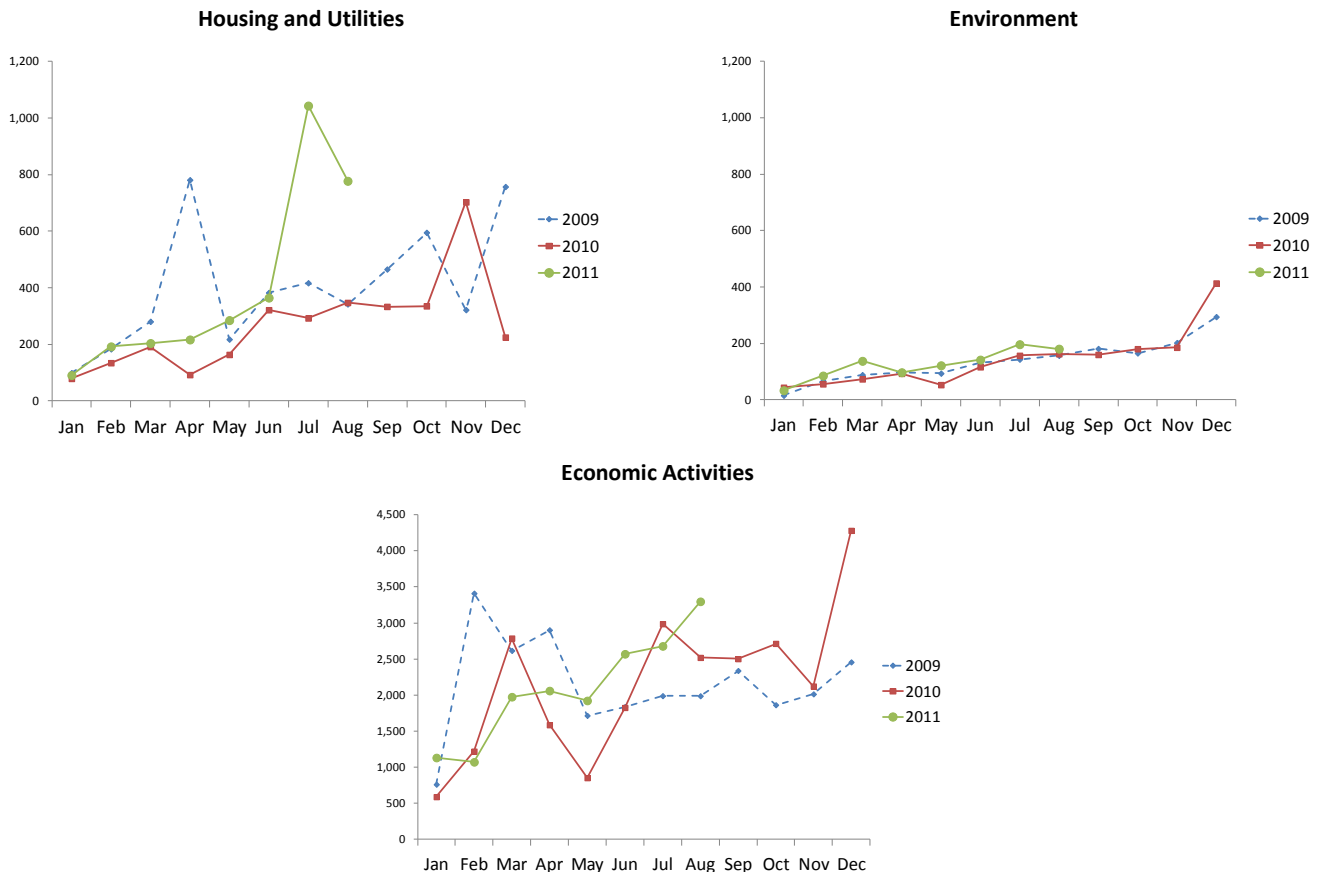
Figure 13. Monthly consolidated real spending in 2009-2011: Total Expenditures and Expenditures on Social Protection (UAH million)



■ Programmes intensive in capital investment improve compared to very low base of 2010 (especially Housing and Utilities spending which showed a strong hike in July).

- The biggest real increases in spending throughout January-August 2011 were registered in Environment Protection (up by 31.6%) and, most strikingly, Housing&Utilities (up by 95.6%) (Figure 14). Real spending on Economic Activities during this period was also 16.3% above last year’s results. However, the growth is registered against the year when these programmes were among those most underfinanced.
- Environment Protection and Economic Activities are the two programmes which are funded at slowest rates as percentages of the annual plan (only 30.6% and 45% of annual commitment covered by end of August 2011). This is despite the fact that the annual plan for these programmes was itself significantly reduced in 2011. At the same time, spending on Environment is broadly in line with historical monthly pattern and may be expected to catch up by the end of year (Figure 14). Spending patterns on Economic Activities (which also include expenditure related to Euro 2012) are less straightforward.

Figure 14. Monthly consolidated real spending in 2009-2011: Housing & Utilities and Environment Protection



- All wage-intensive programmes repeat their historical patterns, overall remaining at the level of last year, in real terms. However, Health and Education grow much slower than Civil Order, Security, Judiciary, and Defence.** As illustrated in Figure 15, during January-August 2011 the majority of other expenditure programmes remain within their seasonal patterns and at the level of last year spending, in real terms (Table 4). At the same time, while Education and Health remained very close to 2010 funding levels (Education growing by 1.2% and Health declining by 0.5% in real terms), expenditures on Civil Order/Security/Judiciary and Defence grew much faster (by 5.8 and 11.6% in real terms).

**Figure 15. Monthly consolidated real spending in 2009-2011: Education, Healthcare, Civil Order&Security, and Defense**

