

## Ukraine's Consolidated Budget results through December 2011

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

### Consolidated budget balance and financing

- Ukraine's Consolidated Budget remained consistently better-balanced throughout 2011 in comparison to the previous years and closed with a deficit of around 1.79% of GDP, which is smaller than planned and smaller than last year. The State Statistics Committee releases official GDP statistics with a four-month gap, and therefore official estimates of the 2011 consolidated deficit as a percentage of GDP will not be available until end of March. However, the deficit as a percent of the MoE annual GDP forecast was at 1.79%, which is significantly lower than the the planned benchmark (3.7%) and about three times lower than in 2010 (Table 1). Moreover, the MoE annual GDP forecast was based on the GDP growth assumption of 4.7% yoy, while the actual growth rate reported for 2011 (growth statistics is released earlier than the actual GDP data) was 5.2%, which means that the deficit is likely to be even smaller.

- This improved result does not include deficits in NJSC Naftogas (1.6% of GDP) and Pension Fund (1.1% of GDP), which are all covered by the benchmarks agreed with the IMF and have been higher than agreed thresholds. Consolidated budget deficit figures include local and state budget balance but exclude other quasi-fiscal obligations such as the deficit of NJSC Naftogas and the deficits of the country's social funds. At the same time, deficit ceilings agreed with the IMF in July 2010 as a condition to a SDR10 billion (USD 15.15 billion) stand-by arrangement, referred to the General Government balance defined by the IMF as covering both the Naftogas and social funds balances. This benchmark for 2011 was 3.5% of GDP and assumed that by the end of that year Naftogas finance would be in balance (see Figure 3). However, the MoF reported that Naftogas budget in 2011 had a deficit of 1.6% of GDP<sup>1</sup>, and the Pension Fund deficit was 1.1% of GDP<sup>2</sup>, which, combined with the deficit of the Consolidated Budget, adds up to 4.5% of GDP and breaks the IMF benchmark (see Table 2).

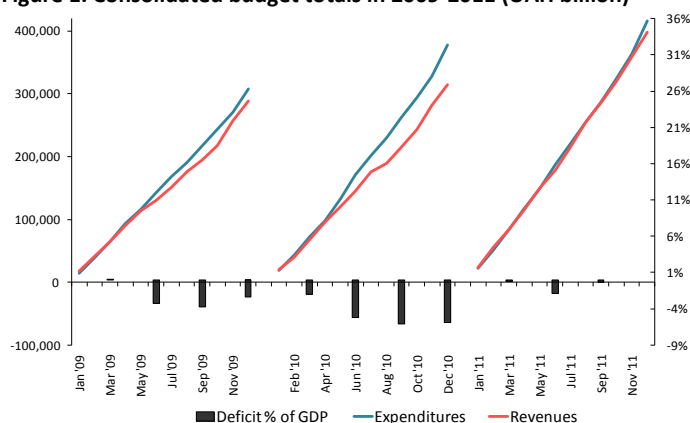
Table 1. Consolidated budget totals through Dec 2011 (UAH million)

	Annual budget plan for 2011*	Actual budget totals		Latest data for which GDP data is available and same period of the previous year	
		Q4 2011	Q4 2010	3Q 2011	3Q 2010
<b>Latest budget totals</b>					
Expenditures	445,614	416,610	377,873		
Revenues	397,393	398,310	314,391		
Deficit (-) / surplus (+)	-46,300	-23,055	-64,836		
<b>Deficit as % of GDP</b>	<b>-3.70%</b>	<b>-1.79% **</b>	<b>-5.92%</b>	<b>-0.32%</b>	<b>-6.06%</b>

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

\*\* Q4 2011 Deficit as % of GDP is estimated based on the MinEcon GDP forecast.

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



<sup>1</sup> <http://fisco-id.com/?module=news&action=view&id=10305>

<sup>2</sup> <http://www.fisco-id.com/?module=news&action=view&id=10277>

- **Throughout 2011, the Government balanced its budget by significantly raising the tax-take and redirecting its composition towards EPT and VAT, while spending remained at last year's level.** Consolidated expenditures in 2011 were almost the same as last year (only 2.3% higher than in 2010, in real terms). However, unlike in 2010, this year they were funded by a much higher amount of revenues, which grew by impressive 17.6% in real terms and kept deficit at bay. This revenue growth was mostly attributable to VAT and EPT. Soaring share of 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 2. Wider Government Deficit estimates for Jan-Dec 2011**

	2011 Actual	
	UAH mln	Percent of GDP*
Consolidated Budget deficit	23,055	1.79%
Naftogas deficit	20,600	1.60%
Pension Fund deficit	13,757	1.07%
<b>Combined deficit of: the Consolidated Budget, Naftogas and Pension Fund</b>	<b>57,411</b>	<b>4.45%</b>

\* Based on the MinEcon GDP forecast.

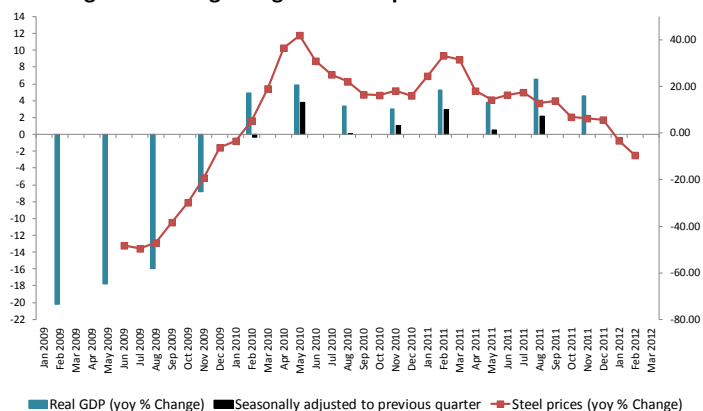
Source:

Consolidated Budget deficit: State Treasury of Ukraine,

Naftogas deficit: <http://fisco-id.com/?module=news&action=view&id=10305>,

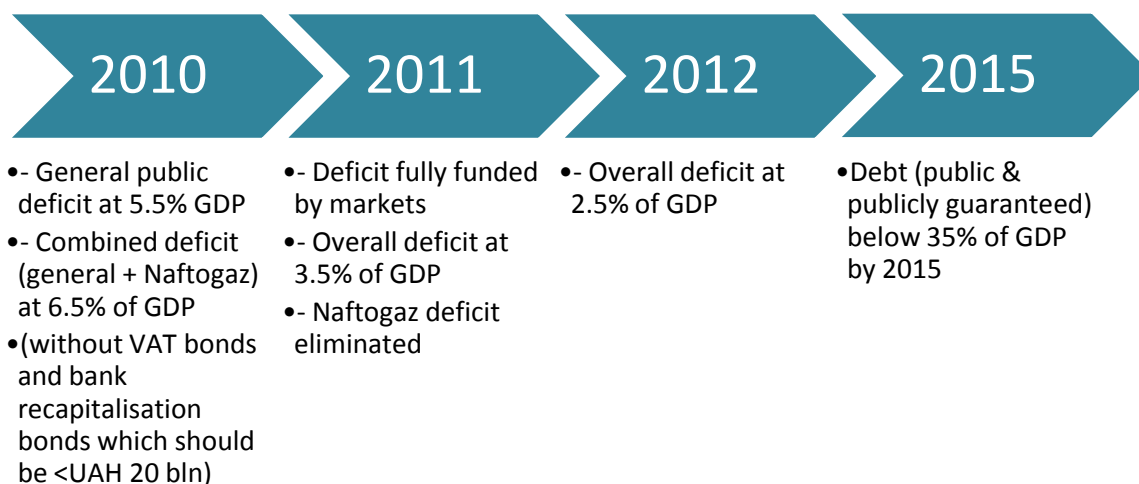
Pension Fund deficit: <http://www.fisco-id.com/?module=news&action=view&id=10277>.

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



- **Revenue mobilisation during 2011 was achieved at the background of GDP growth reflecting favourable terms of international trade, which started to shift since late 2011 and is likely to deteriorate significantly in 2012.** Global steel prices, which remain a critical growth factor to Ukraine's undiversified export-oriented economy, grew throughout 2011, but their growth decelerated in reflecting reduced demand in developed countries and cooling policies in China (see Figure 2). Ukraine's GDP duly slowed down in Q3 2011, but at the time it still remained impressively high. What is happening to the country's economy since January 2012, when steel prices actually started to decrease, is a disturbing open question. GDP statistics is released with a gap of at least three months, meaning that the figures for the first quarter of 2012, when the trade terms shifted, will only be made public in June. These macro-fiscal vulnerabilities, coupled by looming pick international debt liabilities and Parliamentary elections, will represent core risks for the country's public finance in the upcoming year.

**Figure 3. Key fiscal policy conditions under the agreed IMF stand-by arrangement, by years**



## Consolidated budget receipts

- Consolidated revenues in 2011 were raised just above annual targets (above by 0.23%) and considerably higher than last year (by 17.6% in real terms). Revenues remained highly buoyant throughout 2011, with all sources growing strongly in real terms compared to same period of 2010. Overall cumulative receipts of the Consolidated Budget during the year reached UAH 397 billion, a real growth of 17.6% in comparison to 2010 (Table 3).

Table 3. Consolidated Revenues through December 2011 (UAH Million)

	Nominal actual revenues (Jan-Dec 2011)	Comparisons to plan		Comparisons to same period of 2010		
		Annual plan (Jan-Dec 2011)	Actual revenues as % of annual plan	Nominal actual revenues (Jan-Dec 2010)	% Change in nominal terms	% Change in real terms
<b>Total Revenues</b>	<b>398,310.40</b>	<b>397,392.95</b>	<b>100.23%</b>	<b>314,391.02</b>	<b>26.69%</b>	<b>17.57%</b>
VAT	130,093.75	128,457.50	101.27%	86,315.92	50.72%	40.04%
PIT	60,224.52	61,178.53	98.44%	51,029.25	18.02%	9.42%
EPT	55,096.98	47,937.21	114.94%	40,359.07	36.52%	26.79%
Excises on domestic goods	26,097.12	31,641.95	82.48%	23,715.26	10.04%	1.98%
Excises on foreign goods	7,822.06	5,948.90	131.49%	4,600.81	70.01%	57.46%
Land Tax	10,700.93	11,802.69	90.67%	9,539.88	12.17%	3.91%
Import Duty	10,462.78	10,243.00	102.15%	8,556.41	22.28%	13.54%

Source: Treasury Budget Execution Report.

- Striking revenue performance in 2011 was explained by three major factors: (a) steady growth of VAT collections, (b) sharp increase in EPT, and (c) buoyancy of import-related taxes. While all types of revenues grew in real terms compared to last year, the biggest increases were in VAT, EPT, import duties and excises taxes on imported goods. These taxes were also above Government's annual plan, while other revenues fell behind. Given the significance of VAT and EPT 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 in line with the schedule, even though other sources have underperformed.
  - Increase in VAT:** Table 4 and Figure 4 illustrate, that the bulk of the overall revenue increase in consolidated revenues achieved during the year originated from expansion of VAT. Annual receipts of VAT in 2011 were 40% higher than last year, in real terms, and – given the size of this tax – the increase was responsible for 62% of the consolidated 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 (see Figure 6).
  - Increase in EPT.** Unlike any other tax, EPT broke all records in 2011. EPT was responsible for 19% of the overall revenue increase during the year, growing by 26.8% in real terms compared to 2010, and bringing 14.9% more revenues than planned (Table 3, Figure 7).
  - Increase in import-related taxes (Import Duty and Excises on Foreign Goods).** Both Import Duty and Excise taxes on imported goods were highly buoyant throughout the year, jointly responsible for 7% of the total consolidated revenue growth. Import duties collected in 2011 were 13.5% higher than last year, in real terms, and 2.2% above the annual plan. Excises on imported goods have risen dramatically (by 57.5% in real terms) and exceeded annual plan by 31.5% (the biggest overperformance rate among all taxes). As illustrated in Figure 9 and Figure 10, this came as a sharp contrast to collection of domestic excises which were only slightly above last year's benchmark and significantly below planned amounts.

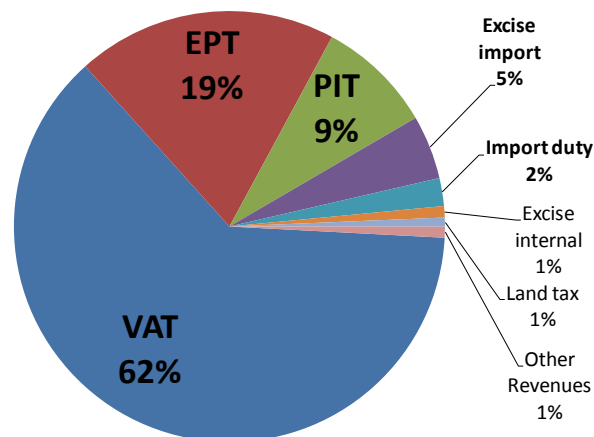
- As a result of the expansion of EPT and VAT over the last year, Ukraine's public finance became more dependent on these taxes. The shares of EPT and VAT have notably increased during the year, compared to last year – by 1.0% and 5.2%, respectively, as illustrated in Table 5 and Figure 5. As discussed 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 4. Contribution of individual revenue sources to revenue increase in 2011 compared to 2010**

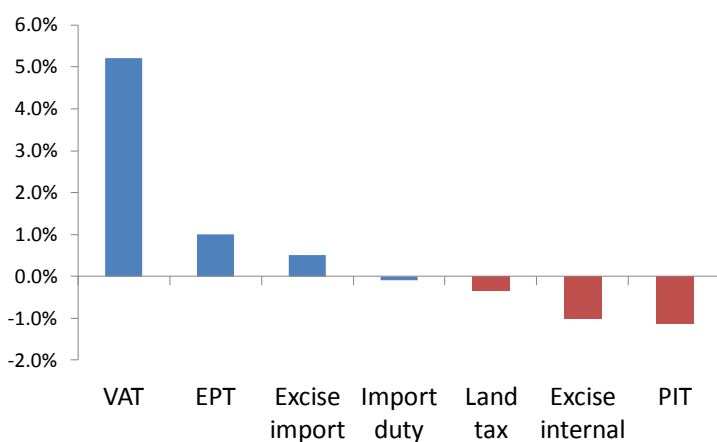
	Real change to same period of 2010		% Contribution to overall revenue growth
	(UAH mln)	(%)	
<b>Total Revenue Change</b>	<b>32,891.44</b>	<b>17.57%</b>	
<b>Revenues Increasing</b>	<b>32,891.44</b>		<b>100.00%</b>
VAT	20,558.78	40.04%	62.50%
EPT	6,431.30	26.79%	19.55%
PIT	2,862.36	9.42%	8.70%
Excise import	1,576.33	57.46%	4.79%
Import duty	689.07	13.54%	2.09%
Excise internal	280.54	1.98%	0.85%
Land tax	222.43	3.91%	0.68%
Other Revenues	270.62	0.50%	0.82%
<b>Revenues Decreasing</b>	<b>0.00</b>		

Source: Treasury Budget Execution Report; Calculations by FISCO id

**Figure 4. Major contributors to real revenue growth in 2011: VAT; EPT; PIT**



**Figure 5. Changes in the revenue composition between 2011 and 2010 (percentage points)**



**Table 5. Changes in the revenue composition between 2011 and 2010 (sorted by size of change)**

	Share in total revenue		
	2011	2010	Change
<b>Total Revenue</b>	<b>100.0%</b>	<b>100.0%</b>	
VAT	32.7%	27.5%	5.2%
EPT	13.8%	12.8%	1.0%
Excise import	2.0%	1.5%	0.5%
Import duty	2.6%	2.7%	-0.1%
Land tax	2.7%	3.0%	-0.3%
Excise internal	6.6%	7.5%	-1.0%
PIT	15.1%	16.2%	-1.1%

Source: Treasury Budget Execution Report; Calculations by FISCO id

- Personal Income Tax (PIT) grew by 9.42% in real terms and was the third biggest contributor to consolidated growth (partially because of its large scale), but it fell below plan and its share in the budget decreased.** Personal Income Tax remains Ukraine's second biggest tax (bringing 15.1% of consolidated revenues). In comparison to 2010, it grew by 9.42% in real terms, but still stayed slightly below schedule (at 98.4% of the annual plan, as illustrated in Figure 8) even though the annual plan itself was significantly reduced for this tax compared to last year. Moreover, given the expansion of other taxes (EPT, VAT and Import Duties), the share of PIT in overall revenues fell by 1.1% - the biggest shrink among all other taxes (see Figure 5).

Figure 6. VAT performance 2011: comparison to period projections and to last year

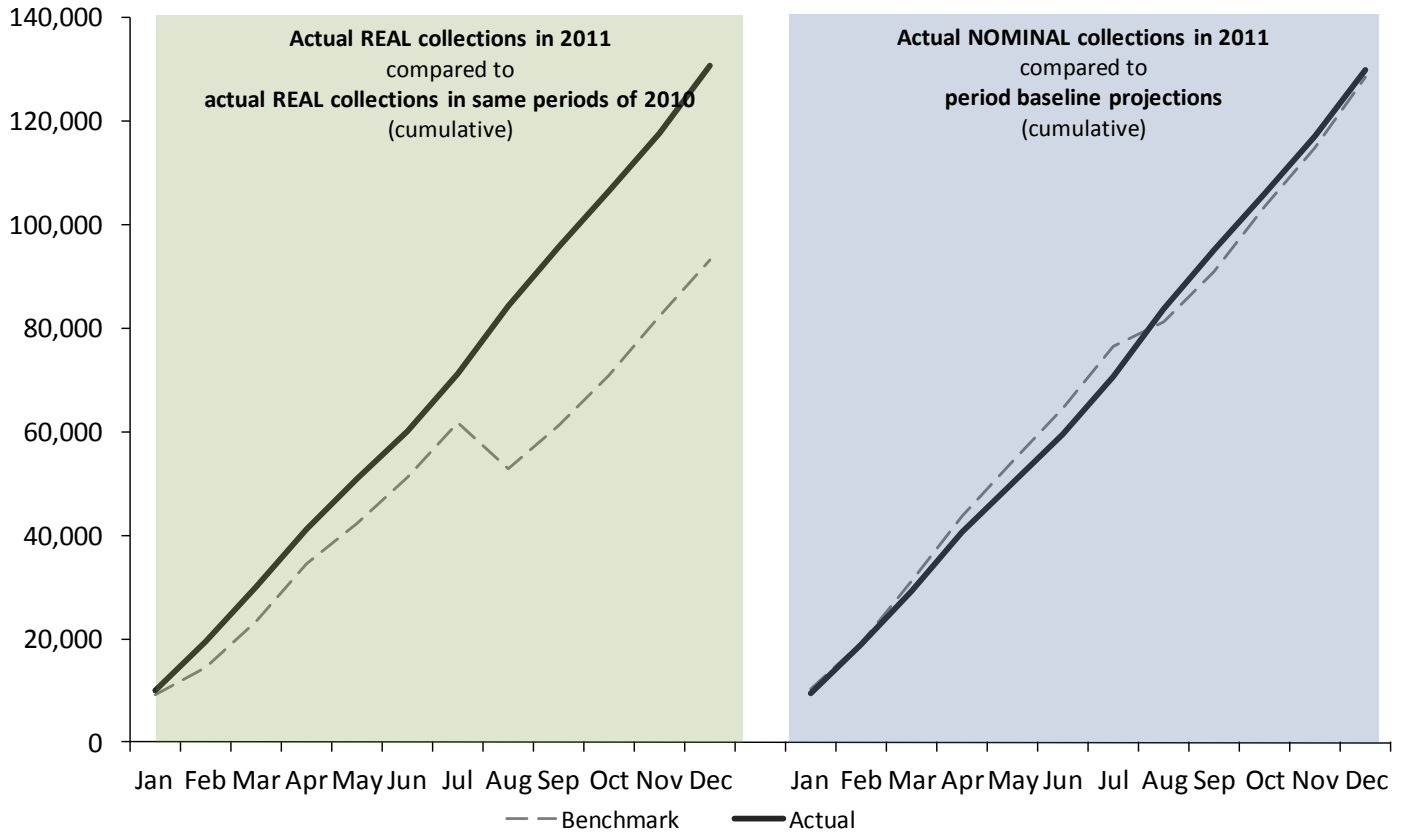
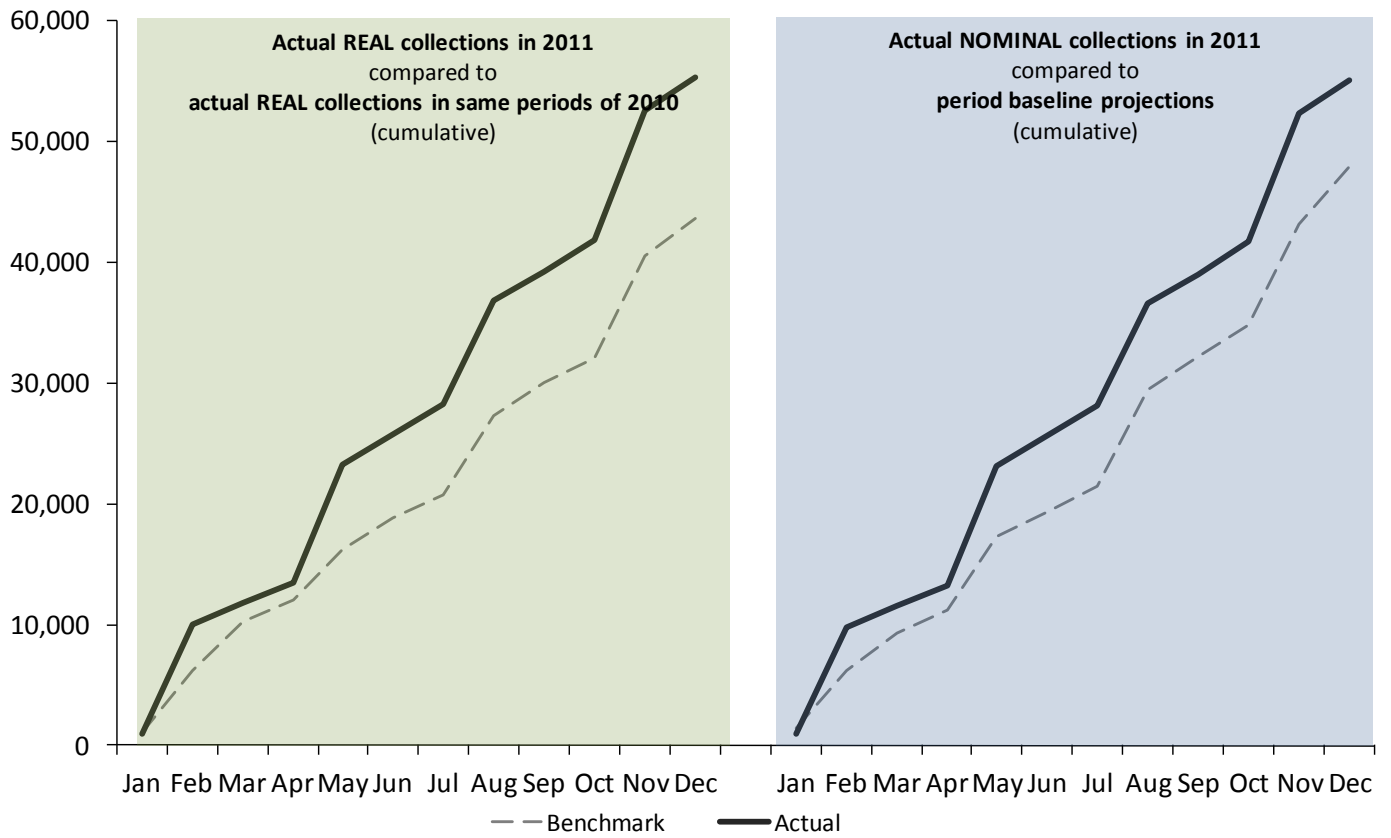
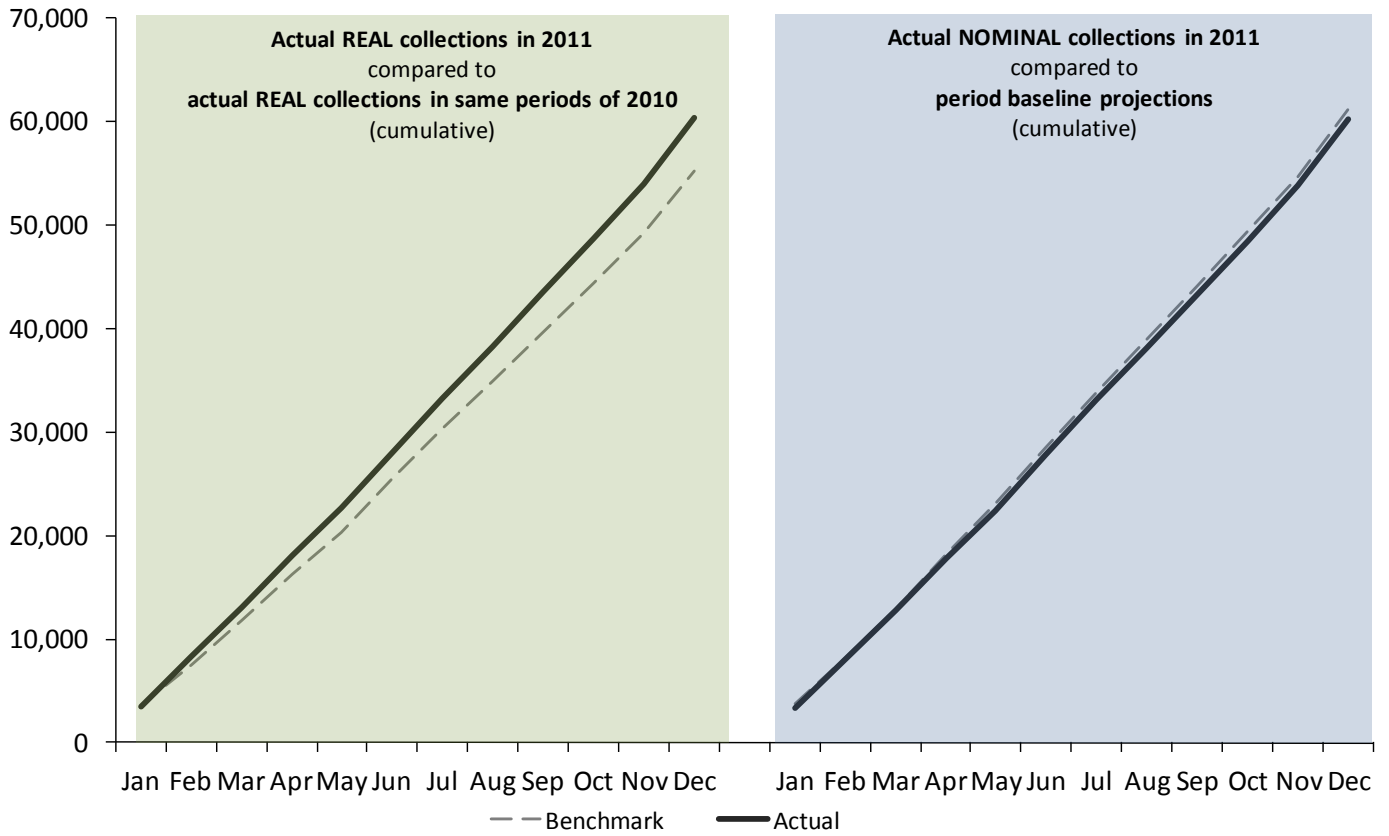


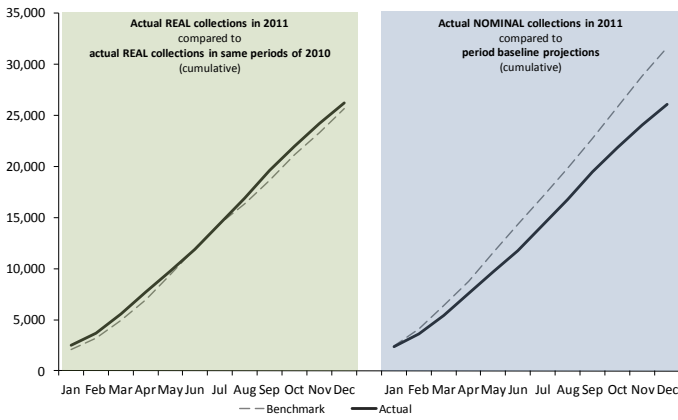
Figure 7. EPT performance in 2011: comparison to period projections and to last year



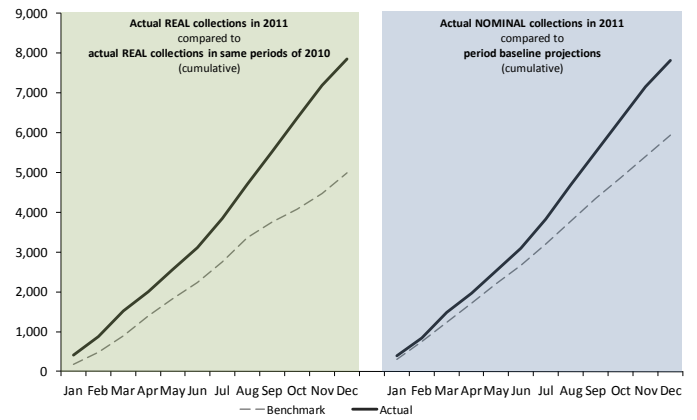
**Figure 8. PIT performance in 2011: comparison to period projections and to last year**



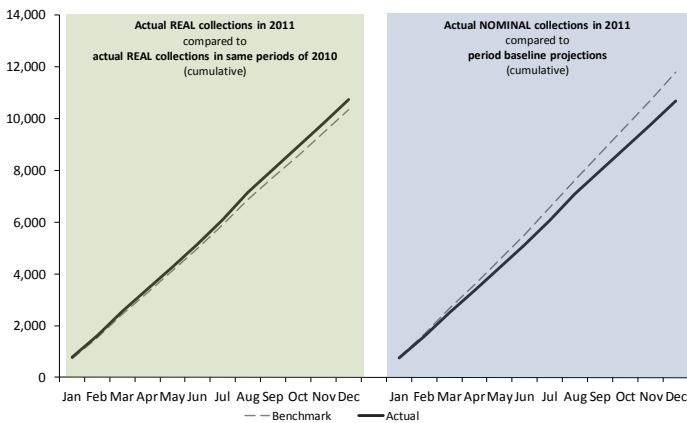
**Figure 9. Domestic Excise performance in 2011: comparison to period projections and to last year**



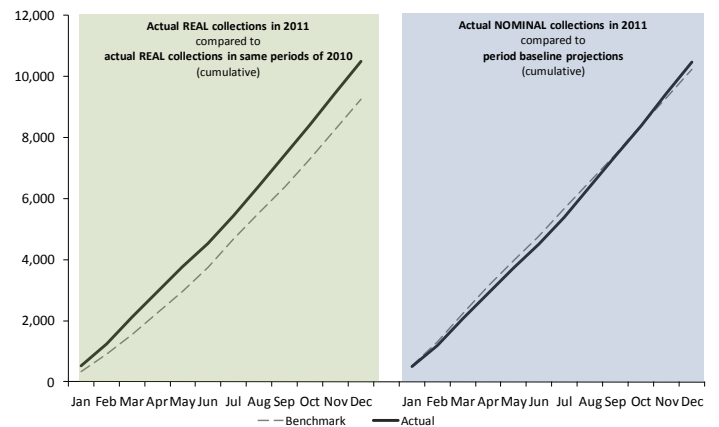
**Figure 10. Foreign Excise performance in 2011: comparison to period projections and to last year**



**Figure 11. Land Tax performance in 2011: comparison to period projections and to last year**



**Figure 12. Import Duty performance in 2011: comparison to period projections and to last year**



## Consolidated budget spending

- Actual consolidated expenditures in 2011 were 93.5% of the annual plan and 2.3% higher than last year, in real terms.** Overall spending of the consolidated budget in January-December 2011 amounted to UAH 416.6 billion, which was 4.5% below the amount budgeted for the year (Table 6). As we discuss further, under-spending occurred in all public functions, but the lowest priority of all was given to Housing and Utilities, Economic Activities, and Environment Protection, which fell lowest behind plan. In comparison with last year, total consolidated spending increased in real terms (by 2.3%). As planned, this increase was not universal across programmes, and the lowest priority functions listed before actually grew considerably to the low-based previous year. Monthly spending pattern was stable throughout 2011 and consistent with previous years (see Figure 13).

Table 6. Consolidated Expenditures through December 2011 (UAH Million)

	Nominal actual expenditures (Jan-Dec 2011)	Comparisons to plan		Comparisons to same period of 2010		
		Annual plan (for Jan-Dec 2011)	Actual expenditures as % of annual plan	Nominal actual expenditures (Jan-Dec 2010)	% Change in nominal terms	% Change in real terms
<b>Total Expenditures</b>	<b>416,610.07</b>	<b>445,613.51</b>	<b>93.49%</b>	<b>377,873.38</b>	<b>10.25%</b>	<b>2.26%</b>
Public Administration	49,749.88	52,020.65	95.63%	44,959.94	10.65%	2.92%
Defence	13,241.96	14,490.00	91.39%	11,346.80	16.70%	8.54%
Civil Order, Security & Judiciary	32,636.71	33,564.18	97.24%	28,825.11	13.22%	5.17%
Economic Activities	57,124.01	71,679.66	79.69%	43,827.48	30.34%	21.19%
Environment Protection	3,890.50	6,355.15	61.22%	2,872.33	35.45%	26.50%
Housing and Utilities	8,679.15	11,289.32	76.88%	5,431.24	59.80%	48.60%
Healthcare	48,856.63	49,120.56	99.46%	44,765.48	9.14%	1.39%
Culture and Sports	10,752.62	11,351.81	94.72%	11,525.06	-6.70%	-13.47%
Education	86,250.69	88,726.31	97.21%	79,788.75	8.10%	0.25%
Social Protection & Social Care	105,427.92	107,015.87	98.52%	104,531.18	0.86%	-6.79%

Source: Treasury Budget Execution Report.

- Social Protection spending decreased in real terms, although the high-base comparison to May and June 2010 exaggerates the magnitude of the decrease, which was in reality much less dramatic.** The high-base comparison to the spending hike in May-June 2010 explains why social protection spending in 2011 was 6.8% lower than in 2010 in real terms, 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, this programme was funded at one of the highest rates compared to annual target (98.5%). The largest share of social protection spending is support to Pension Fund.

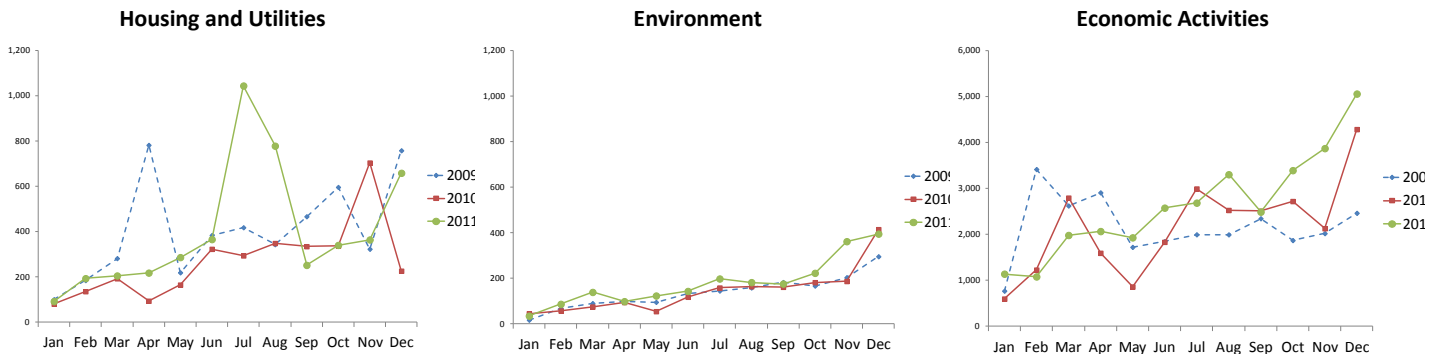
Figure 13. Monthly consolidated real spending in 2009-2011: Total Expenditures and Expenditures on Social Protection (UAH million)





- Programmes intensive in capital investment received lowest priority in 2011 (in terms of keeping budget targets) but improved compared to very low base of 2010.**
  - The biggest real increases in spending in 2011 were registered in Environment Protection (up by 26.5%) and, most strikingly, Housing & Utilities (up by 48.6%) (Figure 14). Real spending on Economic Activities during this period was also 21.2% above last year's results. However, the growth is registered against the year when these programmes were among those most underfinanced.
  - Environment Protection and Housing & Utilities were also the two programmes which were funded at slowest rates as percentages of the annual plan (only 61.2% and 76.9% of annual commitment). This is despite the fact that the annual plan for these programmes was itself significantly reduced in 2011. Spending patterns on Economic Activities (which also include expenditure related to Euro 2012) were funded at 79.7% of the plan.

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



- All wage-intensive programmes repeat their historical patterns, overall remaining around last year levels, in real terms. However, Health and Education grow much slower than Civil Order, Security, Judiciary, and Defence.** As illustrated in Figure 15, majority of other expenditure programmes remained within their seasonal patterns throughout 2011 and at the level of last year spending, in real terms (Table 6). At the same time, while Education and Health remained very close to 2010 funding levels (Education growing by 0.25% and Health declining by 1.39% in real terms), expenditures on Civil Order/Security/Judiciary and Defence grew much faster (by 5.2% and 8.5% in real terms).

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

