

Ukraine's Consolidated Budget results through November 2010

Prepared by FISCO id LLC
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Consolidated budget deficit and financing

- Announcement of GDP statistics for Q3 reveals a 6.01% consolidated deficit in January-September 2010 (breaking the 5.5% threshold agreed with IMF).** The latest quarterly comparison of deficit to GDP became available in December (see Table 1 and Figure 1). which amounted to 6.01% - almost twice higher than in the same period of 2009. Keeping annual consolidated deficit within 5.5% in 2010 is one of the core conditions agreed within the IMF stand-by support programme. General government balance, defined by the IMF as including central government, local governments and social funds, at a level below 5.5% of GDP for 2010, was one of the core benchmarks accepted by the Government as a condition to a SDR10 billion (about USD 15.15 billion) agreed with the IMF in July 2010. In particular, as a prior action for the stand-by agreement, the Government approved a supplementary budget which reduced annual target for general government deficit (not including Naftogaz) to 5.14% of GDP.
- State Treasury budget execution reports continue to be based on changing annual plan totals, which is difficult to explain and interpret.** It also remains disturbing that the official Treasury reports contain revenue and expenditure totals which are presented against changed numbers of annual plan, as compared to the 2010 Budget Law figures, taking into account amendments voted during the year. The annual plan figures in the Treasury report currently presume annual deficit at the level of about 7.52% of GDP (up from 7.32% based on the report of the previous month, 7.19% in September, and different from 5.14% in the actual budget voted in July). The nature and implications of these discrepancies are difficult to explain, although lower figures of annual revenue plans obviously improve reported indicators of current revenue performance.
- In January-November 2010, consolidated expenditures exceeded consolidated revenues by UAH 51 billion.** Again, this amount of deficit is almost twice higher in nominal terms than in the same period of last year (see Table 1). At the same time, as shown in Figure 1 and described in further sections, revenue trends have slightly improved in November compared to previous months, somewhat decreasing nominal gap.

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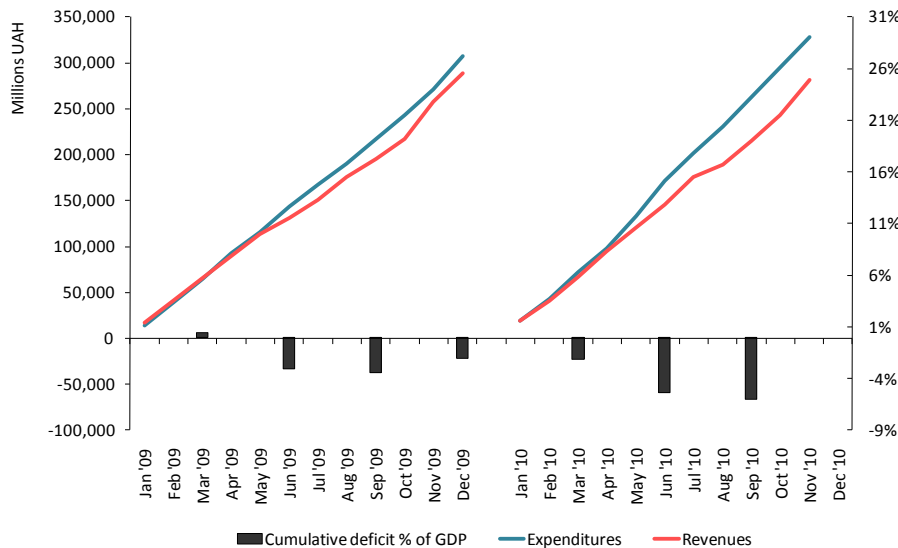
Table 1. Consolidated Budget Totals through November 2010

	Annual budget plan*	Actual budget totals	
	2010	2010	2009
Latest monthly comparisons		Jan-Nov 2010	Jan-Nov 2009
Expenditures	400,975,778,198	294,600,148,370	243,720,992,120
Revenues	319,556,181,096	243,548,339,764	217,403,198,383
Deficit	-81,419,597,102	-51,051,808,606	-26,317,793,737
% of GDP**	-7.52%	n/a	n/a
Latest quarterly comparisons		Q3 2010	Q3 2009
% of GDP		-6.01%	-3.45%

* Based on the latest Treasury Report

** Annual consolidated budget plan based on latest Treasury Report; GDP forecast based on IMF projection in Country Report No. 10/262

Figure 1. Consolidated Budget Totals through November 2010



Source: State Treasury of Ukraine; calculations by FISCO id

Consolidated budget receipts

- Although tax performance slightly improved in November compared to previous months (due to slight improvement in collection of VAT), it remains below schedule.** The gap between actual revenues of consolidated budget and period projection was slightly reduced during November (cumulative revenues for January-November were 1.5% below schedule, compared to a gap of 2.7% at the end of October). This improvement is mostly due to improved collections of VAT, as described below.
- All taxes apart, from EPT, continue to underperform.** EPT has been the only tax in 2010 which was raised above projections (raising concerns about the origins of such resilience). After a temporary deceleration during October, EPT revenues are up again, exceeding period baseline by 3.5% and increasing by 11% compared to same period of 2009, in real terms. All other taxes are significantly below baselines (VAT – by 4.6%, PIT – by 3%, Excises – by 8.2%, Land Tax – by 5.4%).

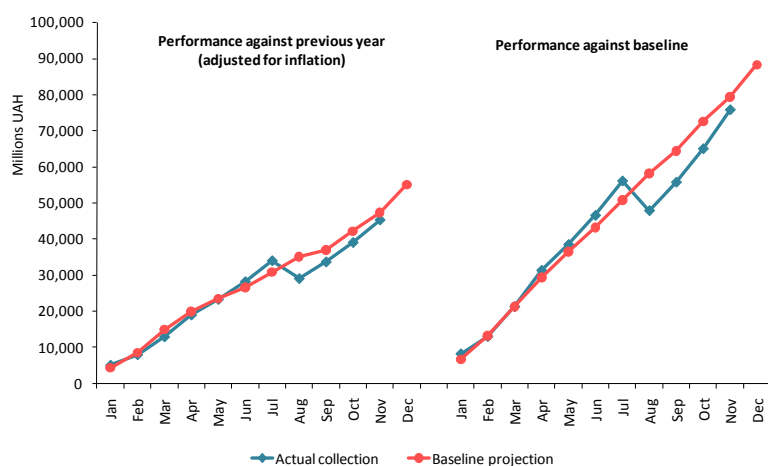
Table 2. Consolidated Revenue Execution in January-November 2010 (UAH Millions)

	Nominal actual revenues in Jan-Nov 2010	Comparisons to plan		Comparisons to baseline		Comparisons to same period of 2009	
		Annual plan (for Jan-Dec 2010)	Actual revenues as % of annual plan	Baseline projection (Jan-Nov 2010)	% Difference of actual over baseline	Nominal actual revenues in Jan-Nov 2009	% Change in real terms
Total Revenues	281,961.68	319,556.18	88.24%	286,198.29	-1.48%	257,447.09	0.12%
Value Added Tax	75,781.91	88,292.50	85.83%	79,463.14	-4.63%	72,208.45	-4.32%
Personal Income Tax	45,320.79	52,262.83	86.72%	46,724.68	-3.00%	39,710.22	4.32%
Enterprise Profit Tax	37,386.86	40,467.82	92.39%	36,126.27	3.49%	30,759.56	10.92%
Excise Taxes	25,543.27	30,405.02	84.01%	27,829.77	-8.22%	19,833.33	18.25%
Land Tax	8,703.01	10,139.97	85.83%	9,196.98	-5.37%	7,613.66	4.56%
Import Duty	7,635.86	8,290.00	92.11%	7,575.32	0.80%	5,743.19	21.34%

Source: Treasury Budget Execution Report.

- VAT performance slightly improved during November.** Value added tax is still significantly below schedule (by 4.63%) and is the only tax collected in amounts lower than in respective periods of 2009 (by 4.32%). However, during November, its performance somewhat improved, and the gap with period projections narrowed by more than twice (see Figure 2).

Figure 2. VAT performance during 2010



Consolidated budget spending

- Real expenditures continue to be about 10% higher than in 2009. Overall consolidated expenditures during January-November 2010 were 10.77% higher than in the same period of previous year and at 81.75% of annual plan (see Figure 3).

Table 3. Consolidated Expenditure Execution in January-November 2010 (UAH Millions)

	Nominal actual expenditures in Jan-Nov 2010	Comparisons to plan		Comparisons to same period of 2009	
		Annual plan (for Jan-Dec 2010)	Actual expenditures as % of annual plan	Nominal actual expenditures in Jan-Nov 2009	% Change in real terms
Total Expenditures	327,793.09	400,975.78	81.75%	270,723.86	10.77%
Public Administration	36,930.95	47,310.17	78.06%	28,660.53	17.98%
Defence	9,318.71	13,334.46	69.88%	8,445.02	0.97%
Civil Order, Security & Judici	24,434.65	28,985.83	84.30%	21,692.12	3.04%
Economic Activities	36,385.60	50,244.06	72.42%	35,776.16	-7.39%
Environment Protection	2,153.70	6,985.01	30.83%	2,071.25	-4.67%
Housing and Utilities	5,040.20	8,174.44	61.66%	6,268.32	-26.72%
Healthcare	38,040.87	44,223.31	86.02%	31,262.72	11.24%
Culture and Sports	10,057.89	11,900.30	84.52%	7,253.17	27.15%
Education	69,554.55	81,602.50	85.24%	58,455.31	8.76%
Social Protection & Social C:	95,875.98	108,215.70	88.60%	70,839.27	24.11%

Source: Treasury Budget Execution Report.

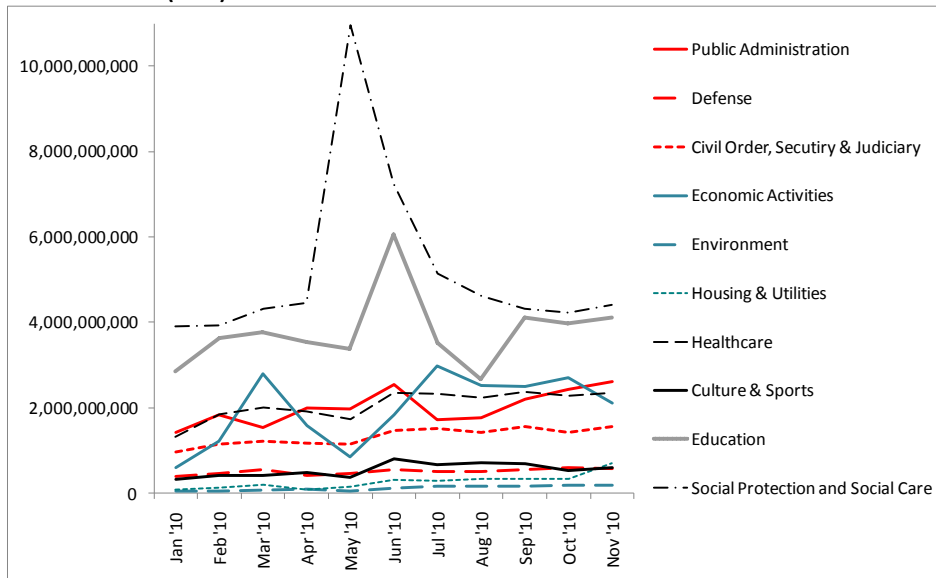
- Trends in functional composition of expenditures have not changed during November (expansion of social sectors and reduction of investment-intensive programmes). November was the fifth month is a raw which brought no change to the previously accumulated pattern of expenditure results, only with a small seasonal increase in Housing and Utilities (Figure 3) Spending remained at a considerably higher level compared to same period of last year (by 10.77% in real terms), mostly due to the growing transfers to cover Pension Fund deficit coupled with increasing public wages and social assistance payments. Because of the growth in public wages above inflation rate, expenditures in Healthcare and Education were also higher than in 2009 (by 11.24 illustrates that monthly real amounts of spending on key functions continued the trends of the previous months, with a small seasonal increase in Housing and Utilities spending.% and 8.76%, respectively).

- Investment-intensive spending continues to be much lower than in 2009. Unlike current spending items, investment-intensive programmes were funded at consistently lower rates in 2010 compared to same period of last year. Over January-November 2010, real expenditures on Economic Activities, Housing and Utilities, and Environment decreased in real terms compared to same period of 2009 by 7.39%, 26.72% and 4.67%, respectively.



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Figure 3. Monthly real expenditures on key functions in consolidated budget in January-November 2010 (UAH)



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