

Ukraine's Consolidated Budget results through December 2010

Consolidated budget deficit and financing

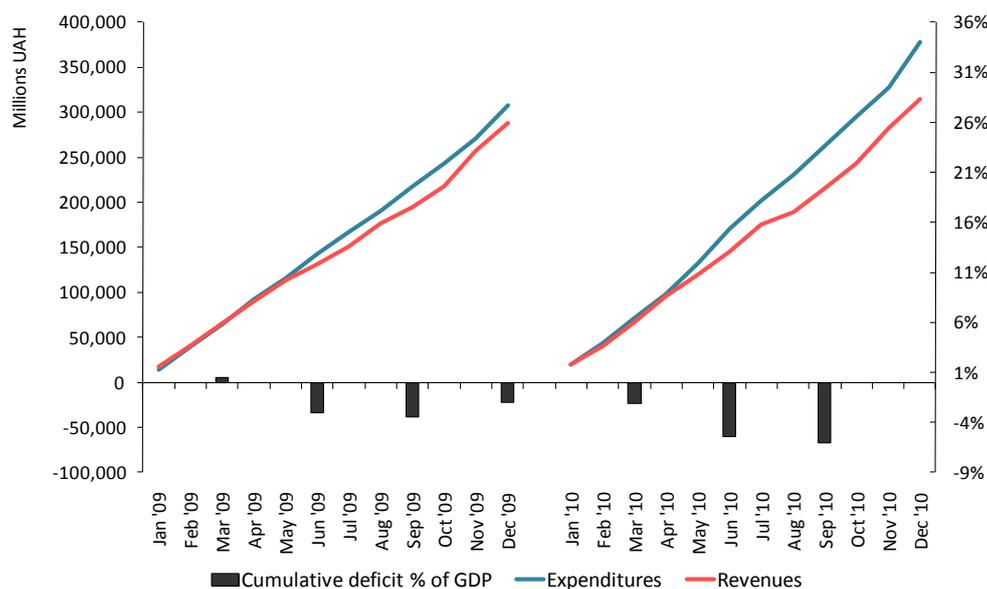
- Although it is too early to compare annual deficit to GDP (whose latest statistics is only for Q3), consolidated deficit as a share of GDP annual **forecast** is 5.86% (see Table 1). It is close, but still higher than the 5.5% threshold agreed with IMF in July.
- Nominal consolidated deficit in 2010 was UAH 63,5 billion.** As illustrated in Figure 1, the last month of 2010 had reinforced revenue and expenditure trends observed throughout the year, with a constantly growing nominal gap. Overall, in nominal terms, annual deficit in 2010 was more than three times higher than in 2009.

Table 1. Consolidated Budget Totals through December 2010

	Annual budget plan*	Actual budget totals	
		2010	2009
Latest budget execution statistics			
Expenditures	405,129,416,647	377,873,384,750	307,312,177,752
Revenues	326,681,580,736	314,391,022,368	288,579,557,250
Deficit	-78,447,835,911	-63,482,362,382	-18,732,620,502
Deficit as % of GDP			
Annual deficit as % of annual GDP (official statistics)		n/a	-2.05%
Annual deficit as % of annual GDP (forecast by IMF)	-7.24%	-5.86%	
Deficit in 3Q as % of GDP (latest available official statistics)		-6.01%	-3.45%

* Based on the latest Treasury Report

Figure 1. Consolidated Budget Totals through December 2010



Source: State Treasury of Ukraine; calculations by FISCO id

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Consolidated budget receipts

- Revenue shortfall in 2010 was 3.8%; and consolidated collections were only 0.4% above the (rather low-base) previous year. After slight improvement of VAT and EPT collections achieved in November, both of these taxes decelerated again in the last month of the year, leading to overall worsening of consolidated revenue results. The year closed with consolidated revenues at almost 3.8% behind annual plan, and 0.4% below 2009 level, in real terms.
- All taxes, except Import Duties, have underperformed in 2010, with collections being significantly below annual targets.

Table 2. Consolidated Revenue Execution in January-December 2010 (UAH Million)

	Nominal actual revenues in 2010	Comparisons to plan			Comparisons to 2009	
		Annual plan for 2010	Actual revenues as % of annual plan	% Difference of actual over annual plan	Nominal actual revenues in 2009	% Change in real terms
Total Revenues	314,391.02	326,681.58	96.24%	-3.76%	288,579.56	-0.37%
VAT	86,315.92	90,692.50	95.17%	-4.83%	84,596.66	-6.82%
PIT	51,029.25	52,270.90	97.62%	-2.38%	44,485.27	4.86%
EPT	40,359.07	40,565.38	99.49%	-0.51%	33,048.03	11.47%
Excises	28,316.07	30,405.02	93.13%	-6.87%	21,624.48	20.14%
Land Tax	9,539.88	10,292.52	92.69%	-7.31%	8,362.74	4.37%
Import Duty	8,556.41	8,390.00	101.98%	1.98%	6,328.82	23.37%

Source: Treasury Budget Execution Report.

- The poorest performer of 2010 was VAT.** Not only was it collected at 4.8% below target, but it was also the only tax whose proceeds have decreased compared to last year (in real terms). Moreover, VAT decrease over 2009 was rather tangible (at 6.8%) despite a rather low-based comparison (given the GDP's improved growth rates during 2010). Throughout the year, VAT collections were distorted by continued problems with VAT refund arrears, which were reported to grow despite the major restructuring of previous arrears with newly issued Treasury bonds. Following an agreement with IMF in July to maintain a ceiling on VAR refund arrears, the Government resorted to active reduction of arrears, including a dramatic report in August that in that month the Government had refunded higher amounts of VAT than it collected (see Figure 2). Without transparent official statistics, many independent observers questioned whether these reductions in arrears were credible and sufficient.
- Other biggest shortfalls** were in collections of Land Tax (7.3% below plan) and Excise Taxes (6.9% below plan), although both taxes, especially Excises, grew considerably compared to last year.
- The EPT was one of the most resilient taxes throughout 2010**, almost arriving to the annual target by end of year, and growing by 11.5% to 2009 in real terms.
- The best performance of 2010 was in Import Duties, which increased by 23.4% compared to 2009 (in real terms) and were almost 2% above annual plan. However, impressive performance of import duties throughout 2010 raised some concerns.** In particular, the growth was registered at the background of complains from Ukraine's major trade partners over opaque procedures for defining customs value of imported goods, which – they

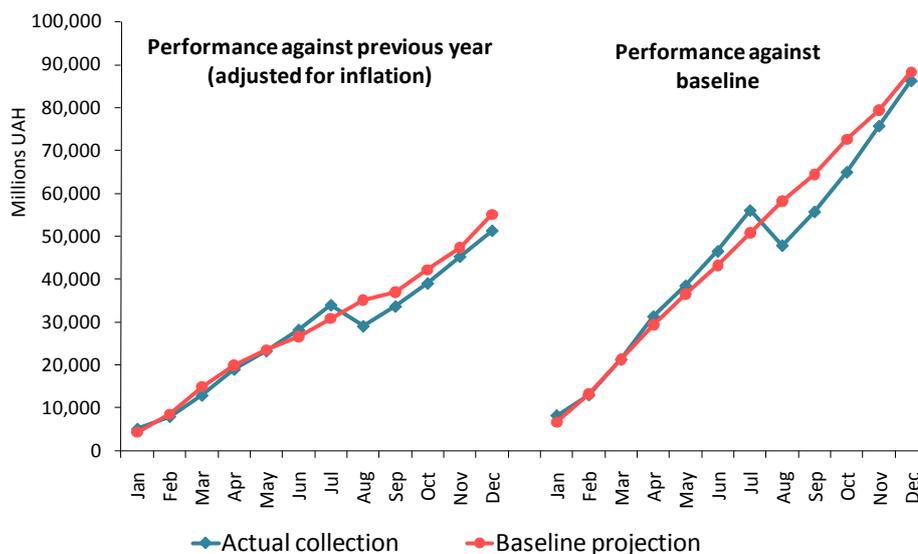
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claim – results in significantly overvalued amounts of chargeable import duties. In particular, this concern was voiced by the US delegation to the third meeting of the Trade and Investment Council (TIC), established by the United States-Ukraine Trade and Investment Cooperation Agreement, held on 13 October 2010. The US delegation leader, Deputy United States Trade Representative Miriam Sapiro, stated that while Ukraine had decreased customs tariffs after acceding WTO, it had also started to use lack of clear regulatory procedures to raise the customs value of imported goods by extreme amounts, nullifying the initial tariff decrease. In one quoted example, one US pharmaceutical company found that the customs value of the anti-cancer medications was increased from \$16 to hundreds of dollars, leading to a 1600% increase, without transparent explanation (KOMMERSANT 15 October 2010).

Figure 2. VAT performance during 2010



Source: State Treasury of Ukraine; calculations by FISCO id

Consolidated budget spending

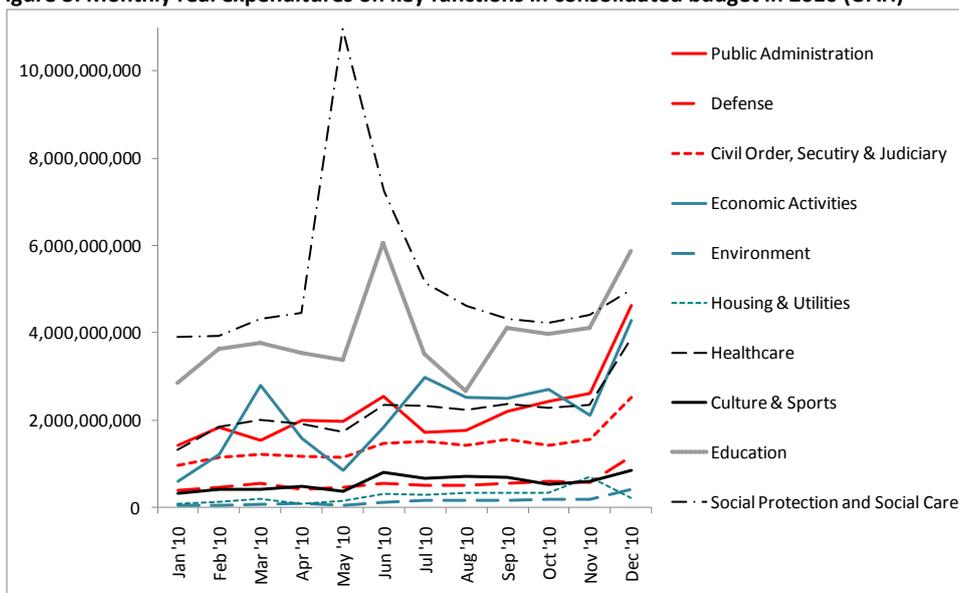
- **In 2010, the Government had funded its consolidated expenditures by 93.3% (that is, the shortfall in funding was 6.7%),** although they were 12.5% higher than in 2009 in real terms (see Table 3).
- **The only spending line funded as scheduled was Healthcare (100.3%),** which also grew by almost 12% compared to 2009.
- **All expenditures, except Housing & Utilities and Economic Activities, grew in real terms compared to last year.** The biggest increase was on Culture and Sports (26.9%), related to Euro-2012 spending, Public Administration (23.9%), related to growing debt servicing, and Social Protection (21.8%), related to significant growth of transfers to the Pension Fund.
- **Investment-intensive programmes were significantly underfunded in 2010.** Unlike current spending items, investment-intensive programmes were funded at consistently lower rates in 2010 compared to same period of last year, and compared to plan. In particular, real expenditures on Housing and Utilities decreased by 33.5% compared to last year. Real expenditures on Economic Activities and Environment were below 2009 during the year, levelling only in December, but still remaining woefully behind annual plan (by 18.5% and 60.4%, respectively).

Table 3. Consolidated Expenditure Execution in January-December 2010 (UAH Million)

	Nominal actual expenditures in 2010	Comparisons to plan		Comparisons to 2009	
		Annual plan (2010)	Actual expenditures as % of annual plan	Nominal actual expenditures in 2009	% Change in real terms
Total Expenditures	377,873.38	405,129.42	93.27%	307,312.18	12.46%
Public Administration	44,959.94	47,009.54	95.64%	33,173.68	23.91%
Defence	11,346.80	13,609.92	83.37%	9,654.45	7.35%
Civil Order, Security & Judiciary	28,825.11	29,560.69	97.51%	24,350.99	8.13%
Economic Activities	43,827.48	53,780.61	81.49%	39,692.30	0.35%
Environment Protection	2,872.33	7,244.96	39.65%	2,540.21	3.43%
Housing and Utilities	5,431.24	8,271.60	65.66%	7,474.66	-33.53%
Healthcare	44,765.48	44,637.13	100.29%	36,557.93	11.96%
Culture and Sports	11,525.06	11,947.35	96.47%	8,327.76	26.90%
Education	79,788.75	82,111.21	97.17%	66,770.25	9.25%
Soc. Protection & Soc. Care	104,531.18	106,956.42	97.73%	78,769.94	21.78%

Source: Treasury Budget Execution Report.

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



Source: State Treasury of Ukraine; calculations by FISCO id



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