

Ukraine's Consolidated Budget results through January 2011

Observations on 2011 Budget priorities

- **Unlike the state budget, local budgets approved with a large surplus – which significantly improves consolidated budget balance.** The deficit of Ukraine's State budget for 2011, established by the annual Budget Law, is UAH 38.8 billion or 3.1% of GDP. However, consolidated finance have a much smaller deficit of only 12 billion (less than 1% of GDP), given a significant surplus in the local budgets (UAH 26.7 billion). (See Table 1).

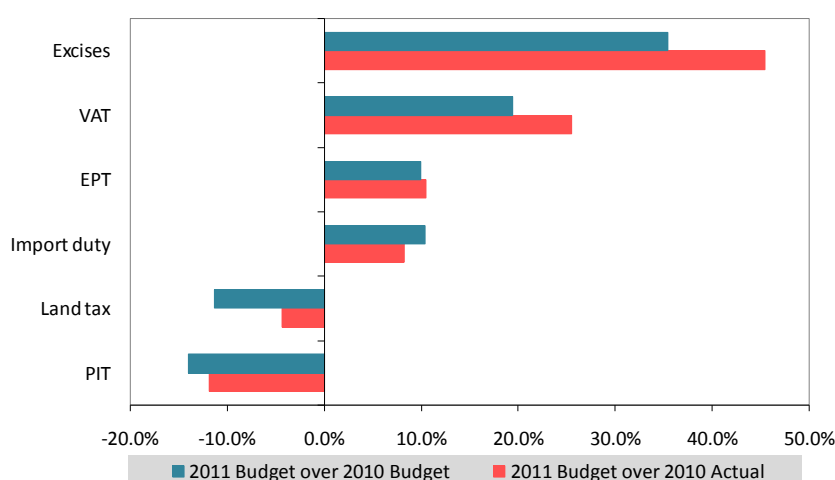
Table 1. 2011 Budget balance at state and local level (UAH million)

	Consolidated	State	Local
Revenues	338,969	281,497	146,929
Expenditures	352,712	321,953	120,237
Deficit*	-12,152	-38,843	26,691

*adjusted for budget loans

- **Revenue forecast for 2011 assumes significant growth in Excises, VAT, EPT and Import Duty, but is pessimistic on PIT and Land Tax.** Approved 2011 budgets (State and Local) assume a 3.8% nominal growth in consolidated revenues compared to the previous year budgets, and 7.8% nominal growth in revenues compared to the 2010 actual revenue execution. As illustrated on Figure 1, this increase is expected to generate primarily from two taxes: VAT (to grow by 25.5% to last year's actual, in nominal terms) and Excises (to grow by 45.5%). Increases are also expected in EPT (10.5%) and Import duties (8.3%). At the same time, revenues from PIT and Land Tax are forecasted in smaller amounts than in 2010, in nominal terms. Compared to 2010 actual execution, the decrease would be 4.3% and 11.9%, respectively.

Figure 1. Percent changes in nominal revenues in the 2011 Budget forecast



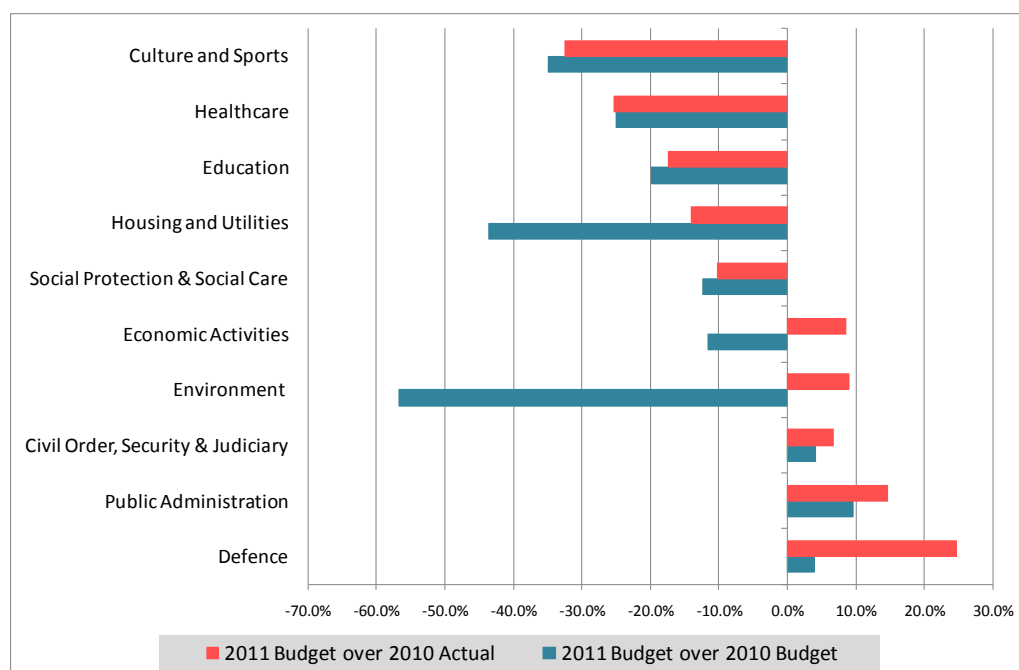
- **Spending priorities for 2011 have considerably changed.** Approved budgets for 2011 (State and Local) suggest a very different composition of expenditures compared to both planned and actual spending in 2010. The changes are described in detail in Table 2 and Figure 2 (all comparisons are in nominal terms). In particular:

- Consolidated expenditures were significantly reduced compared to both 2010 budget and actual spending for: Culture and Sports (biggest cut of 32.5% compared to actual spending, and 34.9% compared to budget); Healthcare (25.1% to budget); Education (19.8% to budget); Social Protection and Care (12.3% to budget) and Housing & Utilities (biggest cut compared to budget, at 43.6%).
- Expenditures on Economic Activities and Environment grew compared to actual spending (which was very poor last year), but were significantly reduced compared to 2010 plan (by 11.5% and 56.8%, respectively).
- At the same time, three expenditure programmes were increased, both compared to 2010 budget and actual spending: Civil Order, Security and Judiciary (by 4.0% and 6.7%, respectively), Public Administration (by 9.6% and 14.6%), and Defence (by 3.9% and 24.6%).

Table 2. Nominal Consolidated Spending Priorities in 2011 and 2010 (UAH million)

	Budget 2011	Budget 2010	Actual 2010	Percent Change	
				Budget 2011 over Budget 2010	Budget 2011 over Actual 2010
Total Expenditures	352,712	405,129	377,873	-12.9%	-6.7%
Public Administration	51,521	47,010	44,960	9.6%	14.6%
Defence	14,140	13,610	11,347	3.9%	24.6%
Civil Order, Security & Judiciary	30,755	29,561	28,825	4.0%	6.7%
Economic Activities	47,579	53,781	43,827	-11.5%	8.6%
Environment	3,132	7,245	2,872	-56.8%	9.0%
Housing and Utilities	4,666	8,272	5,431	-43.6%	-14.1%
Healthcare	33,450	44,637	44,765	-25.1%	-25.3%
Culture and Sports	7,779	11,947	11,525	-34.9%	-32.5%
Education	65,874	82,111	79,789	-19.8%	-17.4%
Social Protection & Social Care	93,815	106,956	104,531	-12.3%	-10.3%

Figure 2. Percent changes in consolidated expenditures between 2010 and 2011 Budget (nominal)



Consolidated budget deficit and financing

- **Deficit figures for the first month of the year are inconclusive, given the absence of GDP statistics and established revenue and expenditure trends:**
 - Nominal consolidated deficit in January 2011 was UAH 909 million, almost twice higher than in the same period of last year (see Table 3).
 - The latest statistics for deficit as a % of GDP is still for the 3d quarter of 2010.

Table 3. Consolidated Budget Totals through January 2011

	Annual budget plan*	Actual budget totals	
		Jan 2011	Jan 2010
Latest budget execution statistics			
Expenditures	352,712	22,441	19,287
Revenues	338,969	23,557	19,644
Deficit	-12,154	909	423
Deficit as % of GDP			
Annual deficit compared to annual GDP (official statistics)	-0.97%	n/a	n/a
Deficit in 3Q as % of GDP (latest available official statistics)			-6.01%

* Based on the latest Treasury Report and MinEcon GDP forecast

Consolidated budget receipts

- **In the first month of 2011, revenues were considerably above period baseline and compared to last year in real terms.** Consolidated revenues during January were raised at almost 11% higher, in real terms, than in the same month of 2010 (see Table 4). This was also almost 13% higher than the baseline projection for this month, based on the approved annual plan figures.
- **One of the best results was in collections of VAT, surprisingly and contrary to the 2010 trends.** As illustrated in Table 4, VAT was one of the best performers of January 2011, up by 7.17% compared to last year (albeit rather low-based) and 9.18% above period baseline (calculated based on annual plan which, for this tax, was increased).
- **PIT is lower than last year (by 3.85%).** As illustrated in Table 4, Personal Income Tax has fallen against January 2010, in real terms. Its performance against baseline is very buoyant (exceeding the projection by 23.57%). However, the baseline is calculated based on the annual budget for this tax, which was palpably reduced compared to 2010.
- **EPT was the poorest performer in January, decreasing compared to last year (by 9.14%) and falling behind schedule (by nearly 30%).** Notably, EPT is one of the taxes, whose performance was expected to improve by the 2011 Budget Forecast.
- **The best results were in Import Duties, Excises and Land Tax.** All of these taxes increased compared to 2010, in real terms, including a striking growth by almost 51% for Import Duties and almost 27% growth in Excises. At the same time, Excises were a bit behind baseline projection (which takes into account significant expansion of budgeted revenues for these taxes in 2011). Land Tax, collected at 7.24% above 2010 level, is significantly outperforming period projections (by 25%), which assume a smaller annual target compared to last year.

Table 4. Consolidated Revenues in January 2011 (UAH Million)

	Nominal actual revenues in Jan 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 2011)	% Difference of actual over baseline	Nominal actual revenues in Jan 2010	% Change in real terms
Total Revenues	23,556.93	338,968.86	6.95%	20,892.10	12.76%	19,643.73	10.79%
VAT	9,546.92	108,330.00	8.81%	8,744.47	9.18%	8,230.33	7.17%
PIT	3,401.69	44,956.95	7.57%	2,752.83	23.57%	3,268.65	-3.85%
EPT	966.34	44,590.21	2.17%	1,375.75	-29.76%	982.56	-9.14%
Excises	2,779.92	41,179.90	6.75%	3,005.54	-7.51%	2,024.46	26.86%
Land Tax	746.94	9,125.34	8.19%	596.50	25.22%	643.48	7.24%
Import Duty	499.44	9,266.00	5.39%	472.91	5.61%	305.64	50.97%

Source: Treasury Budget Execution Report.

Consolidated budget spending

- Consolidated expenditures in January 2011 were 7.5% higher than in the same period of last year, in real terms. The detail of consolidated spending by programmes is outlined in Table 5. It also shows that total spending covered 6.36% of annual budgeted commitment.
- According to budgeted priorities, spending on Defence and Security is growing. As was planned for this year, real expenditures on these programmes are funded in higher amounts compared to same periods of the previous year (by 4.24% and 6.92%, respectively).

Table 5. Consolidated Expenditures in January 2011 (UAH Million)

	Nominal actual expenditures in Jan 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 in Jan 2010	% Change in real terms
Total Expenditures	22,441.03	352,711.65	6.36%	19,286.90	7.50%
Public Administration	2,356.47	51,521.49	4.57%	2,321.81	-6.23%
Defence	726.90	14,139.78	5.14%	644.25	4.24%
Civil Order, Security & Judiciary	1,803.99	30,755.27	5.87%	1,558.84	6.92%
Economic Activities	1,987.74	47,579.09	4.18%	956.81	91.93%
Environment Protection	58.60	3,132.25	1.87%	71.08	-23.83%
Housing and Utilities	159.38	4,665.63	3.42%	128.04	15.00%
Healthcare	2,365.92	33,450.26	7.07%	2,136.59	2.31%
Culture and Sports	482.91	7,778.62	6.21%	516.13	-13.56%
Education	5,001.81	65,874.47	7.59%	4,616.88	0.09%
Social Protection & Social Care	7,497.30	93,814.78	7.99%	6,336.46	9.31%

Source: Treasury Budget Execution Report.

- Spending on all social programmes except culture is moderately growing in real terms. Real consolidated expenditures on Education, Healthcare and Social Protection & Care have all increased in real terms compared to January 2010 (by

0.09%, 2.31% and 9.31%, respectively). These three programmes are also those where percentage of annual commitment funded was the highest (above 7%).

- **The biggest decreases compared to last year are in Environment (down by 24%) and Culture (down by 14%), in line with changed budgeted priorities.** In line with the changed priorities in the 2011 Budget, discussed earlier, spending on Environment and Culture & Sports is reduced. Environment expenditures are also funded at slowest speed (compared to annual targets) among all programmes.



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