

Ukraine's Consolidated Budget results through February 2011

Consolidated budget deficit and financing

- Ukraine's consolidated budget in January-February 2011 was in surplus, unlike in the same period of 2010. Through the two first months of 2011, consolidated revenues have exceeded expenditures by UAH 5,025 million: a result strikingly different from the same period of last year, when consolidated budget was in a deficit (of UAH 2,688 million) (see Table 1). As we discuss further in this update, a surplus in the consolidated budget reflects real growth in revenues which continues from January and which exceeds expenditures, even though they too increase in real terms compared to 2010.

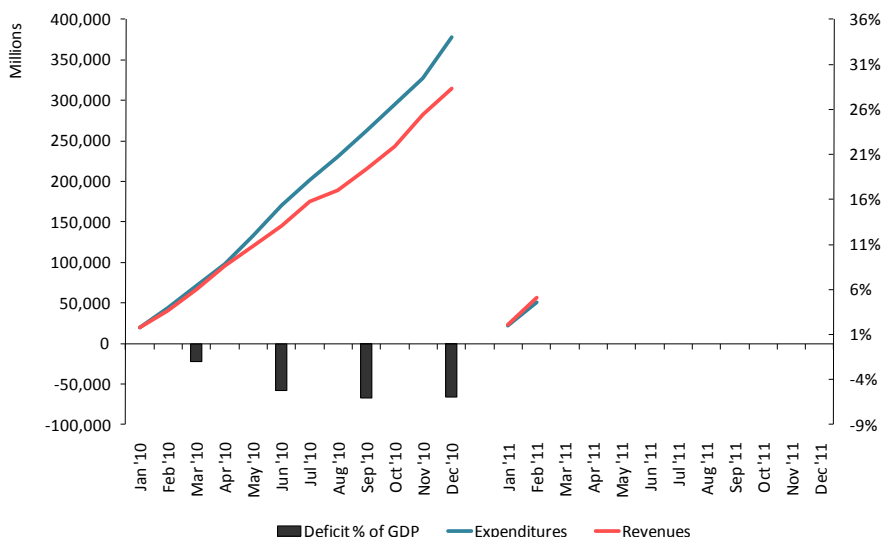
Table 1. Consolidated Budget Totals through February 2011 (UAH million)

	Annual budget plan*	Actual budget totals	
		Jan-Feb 2011	Jan-Feb 2010
Latest budget execution statistics			
Expenditures	401,951	51,107	43,600
Revenues	362,906	56,216	40,781
Deficit	-37,423	5,025	-2,688
Deficit as % of GDP			
2011 Budget	-2.99%		
2011 Jan-Feb actual		n/a	n/a
2010 4Q actual (latest available official statistics)			-5.92%

* Based on the latest Treasury Report and MinEcon GDP forecast

- The Government revealed GDP statistics for 2010, showing that annual consolidated deficit last year was at 5.92% of GDP. The annual deficit threshold for 2010, agreed with the IMF in July 2010, was established for general government balance, defined by the IMF as including central government, local governments and social funds, at the level of 5.5% of GDP. Notwithstanding the annual balances in the four social insurance funds (not covered by this report), the consolidated government deficit had slightly exceeded this target. The revealed annual statistics also illustrated that consolidated finance balance had gradually deteriorated during 2010 (see Figure 1).

Figure 1. Consolidated Budget Totals through February 2011



Consolidated budget receipts

- Consolidated revenues in 2011 continue to be strikingly buoyant**, mostly due to growing collections from large enterprises. For the second month in row, consolidated revenues remain about 14% higher than period baseline projections. They also grow in real terms compared to same periods of last year: in January-February they grew by almost 28% in real terms (in January, the real growth was 11%). (see Table 2). State Tax Administration informed the press that most of the tax increase (68% of extra revenues) was collected from large enterprises, which include 1,152 entities or 0.13% of the total number of taxpayers in Ukraine¹.

Table 2. Consolidated Revenues in February 2011 (UAH Million)

	Nominal actual revenues in Feb 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 (Feb 2011)	% Difference of actual over baseline	Nominal actual revenues in Feb 2010	% Change in real terms
Total Revenues	56,216.35	362,905.94	15.49%	49,350.33	13.91%	40,780.50	27.94%
VAT	18,989.43	108,330.00	17.53%	16,290.00	16.57%	13,018.07	35.10%
PIT	8,073.58	58,669.82	13.76%	7,817.69	3.27%	6,834.77	9.64%
EPT	9,791.13	44,674.62	21.92%	5,787.06	69.19%	5,642.22	61.52%
Excises	4,438.87	41,803.00	10.62%	5,407.59	-17.91%	3,337.29	23.38%
Land Tax	1,574.86	11,608.93	13.57%	1,647.68	-4.42%	1,386.48	5.50%
Import Duty	1,203.51	9,266.00	12.99%	1,185.99	1.48%	814.72	37.37%

Source: Treasury Budget Execution Report.

- One of the best results remains in collections of VAT, surprisingly and contrary to the 2010 trends.** As illustrated in Table 2, VAT was one of the best performers of January-February 2011, up by a striking 35,1% compared to last year (albeit rather low-based) and 16.57% above period baseline (calculated based on annual plan which, for this tax, was increased). It is exactly the same, even improving, pattern which was observed in January this year.
- February also saw a striking rebound in EPT revenues.** The EPT, one of the biggest hopes of the 2011 Budget Forecast, performed very poorly in January, but strongly recovered in the second month of the year. Cumulative results for the first two months show an almost 70% over-execution of the period baseline projection and about 62% real growth in collection compared to same period of last year.
- Import Duties remain to be one of the most buoyant revenue sources.** Continuing the trend of the previous months and of the previous year, import duties are fast growing. In January-February 2011, they were more than 37% higher than in respective period of 2010 (in real terms), and above baseline projections (albeit only by 1.5%).
- Excises are also above last year collections in real terms, but still below schedule.** A trend which set up in January continued in the second month of 2011: Excise Taxes are collected in much higher amounts than last year (up by 23% in real terms), but they are still behind the schedule based on the annual plans for this year (which assume a significant growth in Excise revenues).

¹ FINANCE.UA, 22.03.2011; <http://fisco-id.com/?module=news&action=view&id=8809>

- **PIT is recovering compared to January.** PIT collections, which were poor in January, recovered, and led to a cumulative real growth for the first two months of 2011 at almost 10% compared to same period of 2010. The tax remains above schedule, although the annual plan itself for this tax was significantly reduced this year compared to 2010.

Consolidated budget spending

- **Consolidated expenditures in January-February 2011 were 8.89% higher than in the same period of 2010, in real terms.** The level of financing of consolidated spending programmes continues to be higher than in 2010. During February, this result became only more pronounced than in the first month of the year. The detail of consolidated spending by programmes is outlined in Table 3.

Table 3. Consolidated Expenditures in February 2011 (UAH Million)

	Nominal actual expenditures in Feb 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 Feb 2010	% Change in real terms
Total Expenditures	51,107.10	401,950.81	12.71%	43,600.21	8.89%
Public Administration	5,530.13	53,091.26	10.42%	5,343.07	-3.85%
Defence	1,588.04	14,144.55	11.23%	1,429.12	3.22%
Civil Order, Security & Judiciary	3,919.29	30,872.77	12.69%	3,474.48	4.79%
Economic Activities	3,887.65	53,034.45	7.33%	2,974.10	21.78%
Environment Protection	209.90	3,575.65	5.87%	163.58	19.04%
Housing and Utilities	499.64	5,948.32	8.40%	350.25	32.56%
Healthcare	5,935.40	44,383.23	13.37%	5,182.15	6.42%
Culture and Sports	1,144.70	9,786.31	11.70%	1,206.97	-11.89%
Education	12,225.51	82,385.85	14.84%	10,633.68	6.79%
Social Protection & Social Care	16,166.83	104,728.42	15.44%	12,842.82	16.85%

Source: Treasury Budget Execution Report.

- **The two fastest growing programmes (compared to last year) remain to be Economic Activities and Housing & Utilities, but this comparison is very low based.** In January-February 2011, the two programmes expanded by 21.78% and by 32.56% respectively, in real terms. However, the growth is registered against the year when these two programmes were among those most underfinanced.
- **Considerable real growth is registered in expenditures in Social Protection (up by 16.85% in real terms).** The 2011 Budget assumed a significant shrinking of annual spending on social protection and care compared to last year (by 12.3%). However, spending on this programme in 2011 continues to be above last year levels. In January-February, Social Protection spending exceeded the 2010 level by 16.85%, making it the programme funded at fastest rate compared to the annual target (15.44% of annual plan already spent).

The largest share of social protection spending is support to Pension Fund (reaching UAH 10 billion by end of February and growing by 9.92% in real terms compared to same period of last year). This corresponds with reports by the Government about large pension spending in 2011 to cover pension



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

arrears (Minister of Labour and Social Policy V.Nadruga shared with the press that by 18-March the Government had repaid UAH 14.5 billion of pension arrears²).

However, other social protection programmes, albeit smaller in absolute terms, grew even faster in percentage terms compared to last year. In particular, higher growth rates are registered in: *Support to solution of housing problems; Social protection of war & labour veterans; Social protection of family & youth; and Social protection of other categories of population.*

- **The biggest decrease compared to last year is in Culture & Sports (down by 11.89%), 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 – making it one of only two programmes shrinking in real terms.
- **Spending on Healthcare and Education is moderately growing in real terms.** Real consolidated expenditures on Education and Healthcare have all increased in real terms compared to January-February 2010 (by 6.79% and 6.42%, respectively).



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*Based on Monthly Budget
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² RBC.UA, 22.03.2011; <http://www.rbc.ua/ukr/newsline/show/v-nadruga-pravitelstvo-pogasilo-zadolzhennost-po-pensiyam-22032011142600>