

Ukraine's Consolidated Budget results through March 2011

Consolidated budget deficit and financing

- **After two months of strikingly buoyant fiscal performance, consolidated revenues abruptly slowed down in March, sending consolidated budget back into deficit¹.** Overall consolidated expenditures in the 1st Quarter exceeded revenues by UAH 610 million (see Table 1)². While expenditures in March continued to expand at the same speed as in January and February (around 9% of real growth to last year), the growth of consolidated revenues abruptly dried up. The double-digit real revenue growth demonstrated in the first two months was followed by a real monthly decrease in consolidated revenues in March compared to the same period of last year (detail in next section). At the same time, thanks to the revenue hikes in the beginning of the year, overall revenue result for the First Quarter remains high (17% real growth to 2010), and quarterly deficit is still smaller than in the same period of last year.

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

	Annual budget plan*	Actual budget totals	
		Jan-Mar 2011	Jan-Mar 2010
Latest budget execution statistics			
Expenditures	406,110	84,495	71,734
Revenues	364,970	84,425	67,140
Deficit (-) / Surplus (+)	-39,532	-610	-4,363
Deficit as % of GDP			
Plan (2011 Budget)	-3.15%		
Actual (Jan-Mar)		n/a	-2.00%
Actual (2010 4Q) (latest available official statistics)			-5.92%

* Based on the latest Treasury Report and MinEcon GDP forecast

Consolidated budget receipts

- **Consolidated revenues in the 1st Quarter of 2011 were strikingly buoyant and considerably higher than last year.** Total revenues of Ukraine's consolidated budget in January-March 2011 were almost 17% higher in real terms than in the same period of last year, and 7% above period baseline projection (see Table 2).
- **Table 3 and Figure 1 illustrate that revenue behaviour during the quarter was highly uneven, especially across the biggest taxes.** Revenue grew strongly in the first months of the year, and especially in February (by 44.2% in real terms, compared to February 2010). This was mostly due to a striking 84% real increase in VAT and a 77% real increase in EPT collection. As we wrote earlier, the State Tax Administration informed the press that most of the tax increase in January-February (68% of extra revenues) was collected from large enterprises, which include 1,152 entities or 0.13% of the total number of taxpayers in Ukraine³.

¹ Analysis in this report is limited to the government's consolidated budget (central and local budgets combined) and does not cover any of the social funds (which affect deficit threshold agreed with the IMF).

² Comparing latest deficit results to GDP is not yet possible because quarterly GDP statistics is normally released with about 3-month lag (so, it is not yet available for Q1 2011).

³ FINANCE.UA, 22.03.2011; <http://fisco-id.com/?module=news&action=view&id=8809>

However, all taxes (apart from import duties) have slowed down in March. The EPT, which ensured the February hike, dropped by 57% in real terms. VAT slowed down to 16.4% real growth. As a result, consolidated revenues during the month of March were actually somewhat lower than in the same month of 2010, in real terms.

Table 2. Consolidated Revenues through March 2011 (UAH Million)

	Nominal actual revenues in Jan-Mar 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-Mar 2011)	% Difference of actual over baseline	Nominal actual revenues in Jan-Mar 2010	% Change in real terms
Total Revenues	84,425.26	364,969.91	23.13%	78,899.36	7.00%	67,140.37	16.84%
VAT	29,345.86	108,330.00	27.09%	26,342.29	11.40%	21,277.89	27.94%
PIT	12,802.96	59,380.00	21.56%	12,629.29	1.38%	10,688.98	11.17%
EPT	11,524.01	44,673.01	25.80%	8,713.13	32.26%	9,342.86	15.11%
Excises	6,898.10	41,803.00	16.50%	8,531.45	-19.14%	5,269.97	21.48%
Land Tax	2,499.54	11,610.10	21.53%	2,631.22	-5.00%	2,219.19	4.61%
Import Duty	2,067.17	9,266.00	22.31%	2,020.05	2.33%	1,411.89	36.07%

Source: Treasury Budget Execution Report

Table 3. Monthly real revenue growth during 1Q 2011 (over same months of 2010)

	Monthly % Real Change (2011 to 2010)		
	January	February	March
Total	10.8%	44.2%	-0.6%
VAT	7.2%	84.0%	16.4%
EPT	-9.1%	76.7%	-56.5%
PIT	-3.9%	22.2%	13.9%
Excise domestic	18.4%	8.1%	9.5%
Excise imports	123.9%	55.9%	52.7%
Land tax	7.2%	4.0%	3.1%
Import duty	51.0%	29.0%	34.3%

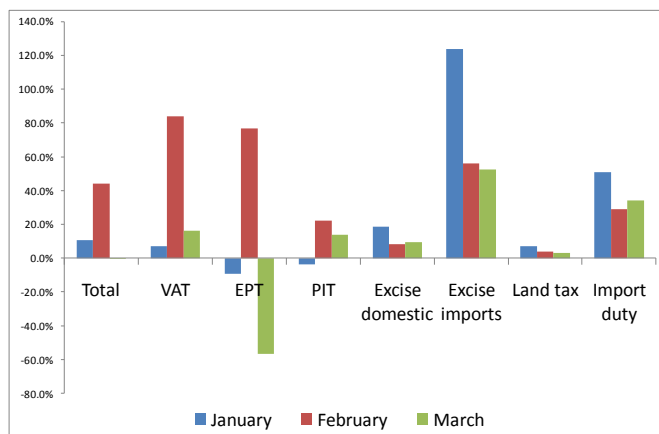
- **Despite the uneven monthly pattern with a rapid drop in March, VAT remains buoyant in 2011, contrary to the 2010 trends.** As illustrated in Table 2, VAT was one of the best performers of January-March 2011, up by almost 28% compared to last year (albeit rather low-based) and 11.4% above period baseline (calculated based on annual plan which, for this tax, was increased).
- **EPT is also significantly above schedule and demonstrates a very unusual monthly collection pattern.** Unlike in previous years, most of the quarterly EPT in 2011 was collected in February, and rapidly dropped in March. Overall quarterly collections were 15.1% higher than last year, in real terms, and 32.3% above schedule, which makes it the best performing tax this 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-March 2011, they were more than 36% higher than in respective period of 2010 (in real terms), and 2.3% above baseline projections for the quarter.

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Figure 1. Monthly real revenue growth during 1Q 2011 (over same months of 2010)



- Although excise collections continue to be much higher than last year, they are still significantly behind the ambitious 2011 schedule. Excise collections grew throughout the quarter, albeit with some deceleration (see Figure 1). Cumulative receipts for January-March were 21.5% higher than in the same period of 2010, in real terms (Table 2). At the same time, they are still 19.1% behind the quarterly projection (which assumes a significant annual growth in Excise revenues planned for this year). This makes Excises the worst performing revenue item so far.
- PIT is larger than last year and in line with 2011 projections. Quarterly collections of Personal Income Tax were 11.2% above respective period of last year, in real terms. This tax also remains just a bit higher than quarterly baseline projection (1.4%), although the annual plan itself for this tax was significantly reduced this year compared to 2010.

Consolidated budget spending

- Real consolidated spending exceeds last year levels by 9.39%, slightly accelerating during the quarter. By the end of March, cumulative expenditures of the consolidated budget were 9.39% higher than in the same quarter of last year, covering almost 21% of the annual spending commitment (see Table 4). Real expenditures continued to be higher than last year in all months of the quarter, with a slight stable expansion.
- Programmes intensive in capital investment improve compared to very low base of 2010, but are still funded at slowest rates. The biggest real increases in spending in the 1st Quarter were registered in Environment Protection (up by 48%) and Housing&Utilities (up by 20%). However, the growth is registered against the year when these two programmes were among those most underfinanced. Real spending on Economic Activities, which was exceeding last year results in February, demonstrated a 9% cumulative decrease in the cumulative results for the quarter (the biggest decrease among all expenditure programmes). All these programmes are also funded at slowest rates as percentages of the annual plan (12%, 14%, and 14%, respectively), even though the annual plan itself was significantly reduced in 2011 for those particular functions.
- Education, Healthcare, and (especially) Social Protection are energetically growing. Expenditures on the three major social programmes in the 1st Quarter 2011 were funded at the fastest rate (as a percentage of the annual commitment) – by 24%, 22% and 24% respectively, and significantly above last year levels in real terms (9.37%, 7.95%, and 15.41%).



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Table 4. Consolidated Expenditures through January-March 2011 (UAH Million)

	Nominal actual expenditures in Jan-Mar 2011	Comparisons to plan		Comparisons to same period of 2010	
		Annual plan (Jan-Dec 2011)	Actual expenditures as % of annual plan	Nominal actual expenditures in Jan-Mar 2010	% Change in real terms
Total Expenditures	84,495.21	406,110.11	20.81%	71,733.88	9.39%
Public Administration	10,056.89	53,197.06	18.90%	7,929.23	17.54%
Defence	2,623.42	14,288.38	18.36%	2,345.05	3.89%
Civil Order, Security & Judiciary	6,369.45	31,051.20	20.51%	5,524.68	7.05%
Economic Activities	7,435.58	54,514.67	13.64%	7,624.31	-9.11%
Environment Protection	457.12	3,762.52	12.15%	286.23	47.94%
Housing and Utilities	865.89	6,247.80	13.86%	669.63	20.22%
Healthcare	9,898.67	45,009.90	21.99%	8,515.92	7.95%
Culture and Sports	1,971.16	9,967.20	19.78%	1,899.29	-3.70%
Education	19,913.69	83,213.60	23.93%	16,905.20	9.37%
Social Protection & Social Care	24,903.33	104,857.77	23.75%	20,034.36	15.41%

Source: Treasury Budget Execution Report.

- **Considerable real growth is registered in expenditures in Social Protection (up by 15.41% 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 significantly above last year levels. In January-March, Social Protection spending exceeded the 2010 level by 15.41%, making it the programme funded at the second fastest rate compared to the annual target (23.75% of annual plan already spent).

The largest share of social protection spending is support to Pension Fund (reaching UAH 15 billion by end of March and growing by 9.94% 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 arrears (Minister of Labour and Social Policy V.Nadraga shared with the press that by 18-March the Government had repaid UAH 14.5 billion of pension arrears⁴).

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 family & youth; and Social protection of other categories of population.*

- **Expenditures on Culture & Sports decrease in real terms (down by 3.7%), in line with changed budgeted priorities.** In line with the changed priorities in the 2011 Budget, discussed earlier, spending on Culture & Sports is reduced – making it one of only two programmes shrinking in real terms.



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⁴ RBC.UA, 22.03.2011; <http://www.rbc.ua/ukr/newline/show/v-nadraga-pravitelstvo-pogasilozadolzhennost-po-pensiyam-22032011142600>