

# Ukraine's Consolidated Budget results through April 2011



## Key Highlights

- After two months of strikingly buoyant fiscal performance in early 2011, consolidated revenues abruptly slowed down in March, sending consolidated budget back into deficit, which deteriorated in April.
- Thanks to the ETP and VAT hikes in the beginning of the year, cumulative revenue result for January-April 2011 remains high (10.9% real growth to 2010) and 3.9% above period baseline projection. However, the double-digit increases in ETP and VAT collected in February were followed by much smaller collections in March and April, and overall decrease of total revenues compared to last year in those two months.
- Real consolidated spending exceeded last year levels by 10.3%, slightly but steadily accelerating during January-April.
- Social protection spending is growing fast, contrary to the budgeted shrinking of this priority. This is not only because of pensions (where UAH 21.3 billion – or 18.2% of overall consolidated budget - was already spent); other social payments are growing even faster.
- Spending on investment intensive programmes is catching up compared to the low based 2010 but still funded at the slowest rates.

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

## Consolidated budget deficit and financing

- **After a buoyant start of the year, consolidated budget balance returned into deficit in March 2011 and deteriorated during April 2011<sup>1</sup>.** Overall consolidated expenditures in January-April 2011 exceeded revenues by UAH 2.9 billion (see Table 1)<sup>2</sup>. Notably, Ukraine's fiscal performance in 2011 has been rather uneven. The Government started the year with two months with impressive fiscal results, real total revenues growing by 10.8% and 44.2% in January and February. But as expenditures expanded at constant speed, the growth of consolidated revenues abruptly dried up. The double-digit real revenue growth demonstrated in the first two months reversed into accelerating decrease in March and April (see Table 3 and detailed discussion in next section). Thanks to the revenue hikes in the beginning of the year, overall revenue result for January-April remains high (10.9% real growth to 2010). But the emerging cumulative deficit has been growing, exceeding last year's level (see Table 1).

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

	2011 Annual budget plan*	Actual budget totals		Latest period for which GDP data is available: 4Q 2010
		Jan-Apr 2011	Jan-Apr 2010	
<b>Latest budget execution statistics</b>				
Expenditures	408,886	116,849	97,945	
Revenues	365,854	114,346	95,429	
<b>Deficit (-) / Surplus (+)</b>	<b>-41,429</b>	<b>-2,916</b>	<b>-1,820</b>	
Debt Servicing	24,210	6,135	3,449	
<b>Primary Deficit (-) / Surplus (+)</b>	<b>-17,219</b>	<b>3,219</b>	<b>1,630</b>	
<b>Deficit as % of GDP</b>	<b>-3.31%</b>	n/a	n/a	<b>-5.92%</b>

\* Based on the latest Treasury Report and MinEcon GDP forecast

<sup>1</sup> 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).

<sup>2</sup> 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).

- **The growing deficit reflects rising costs of public debt.** Ukraine's consolidated budget balance without expenditures on public debt servicing was actually in surplus in January-April 2011 (see Table 1, Figure 3 and Figure 4). Moreover, this primary surplus at UAH 3.2 billion was almost twice higher than in the same period of last year.
- **A share of deficit incurred by the State (central) Budget is funded from a surplus in Local Budgets, in line with annual 2011 Budget policy.** Ukraine's annual budget was approved with an assumption of a significant surplus in the local budgets, covering about 2/3 of the central budget deficit (Figure 1). Respectively, in January-April 2011, while State Budget had actual deficit of UAH 3 971 million, Local Budgets were actually in surplus of around UAH 1 055 million, somewhat improving consolidated budget balance.
- **While it is too early to compare 2011 budget balance to GDP, the Q1 statistics is likely to be favourable, but longer terms prospect is unclear given the unstable terms of trade.** While separating the impact of favourable terms of trade on Ukraine's GDP performance from other factors is a complex task, previous research detected that the unpredictability and volatility of the country's GDP could be explained, to a significant extent, by its undiversified export structure and dependence on steel prices. Global economic recovery helped Ukraine to quickly pick up GDP growth rates. But this revival remained volatile and continues to mirror world steel price dynamics (see Figure 2). At this moment, the Government released only limited information about 1Q 2011 GDP behaviour, which indicates significant yoy real growth and is likely to improve budget balance outlook. However, downward movement of the global steel prices in the 2Q 2011 coupled with growing deficits raise concerns over sustainability of this trend.

Figure 1. Deficit (-) / Surplus(+) by Budget Tiers in 2011 (UAH million)

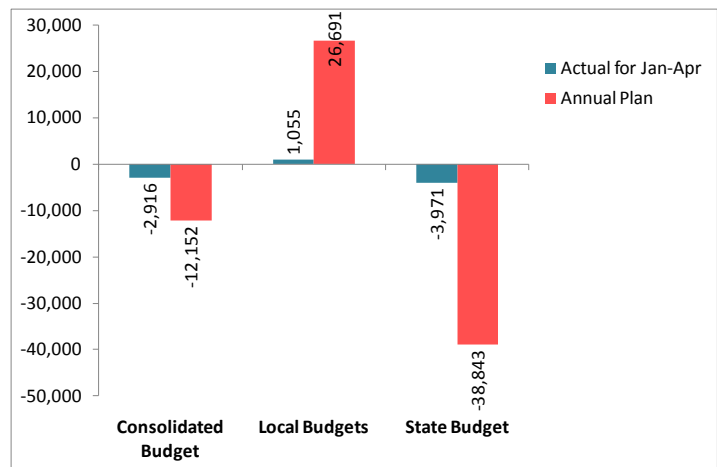


Figure 2. Changes in global steel prices and Ukraine's GDP

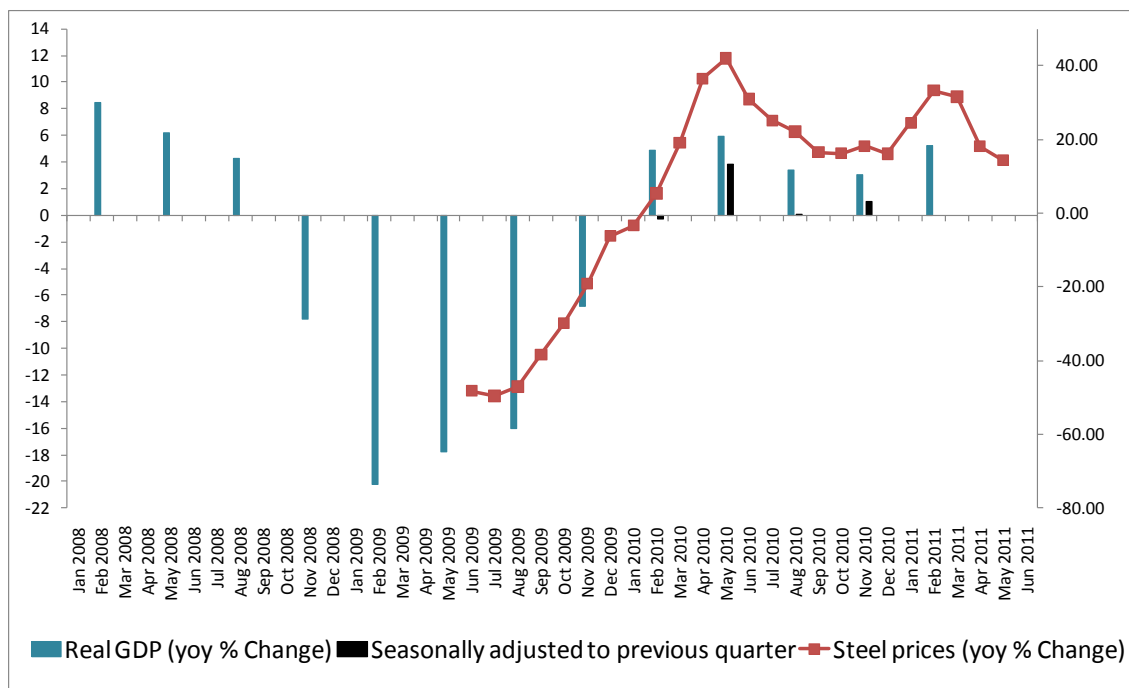


Figure 3. Real consolidated budget expenditures in comparable periods of 2007-2011 (Jan-Apr)

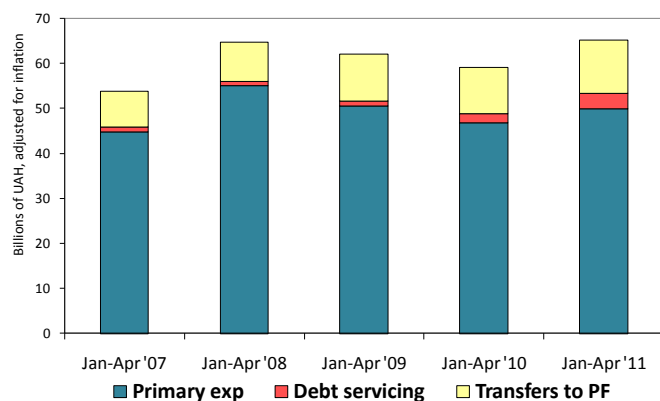
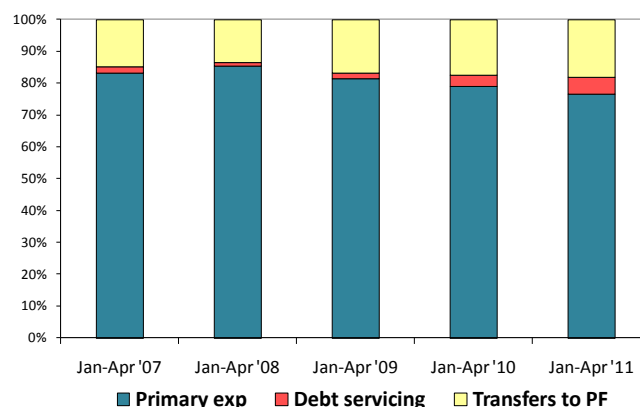


Figure 4. Composition of consolidated expenditures in comparable periods of 2007-2011 (Jan-Apr)



## Consolidated budget receipts

- Consolidated revenues in January-April 2011 remained significantly higher than last year (by 10.9%) and above period projections (by 3.9%). Total revenues of Ukraine's consolidated budget equalled UAH 114 billion, which was 10.9% higher than in the same period of last year, in real terms (see Table 4). This amount was also 3.9% higher than period baseline projection.

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

	Nominal actual revenues (Jan-Apr 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-Apr 2011)	% Difference of actual over baseline	Nominal actual revenues (Jan-Apr 2010)	% Change in real terms
<b>Total Revenues</b>	<b>114,346.11</b>	<b>365,853.79</b>	<b>31.25%</b>	<b>110,078.15</b>	<b>3.88%</b>	<b>95,429.44</b>	<b>10.89%</b>
VAT	40,627.49	108,330.00	37.50%	36,938.27	9.99%	31,331.88	19.84%
PIT	17,847.10	59,498.02	30.00%	17,785.04	0.35%	14,804.35	11.40%
EPT	13,197.12	44,674.79	29.54%	10,465.31	26.10%	10,946.48	12.23%
Excises	9,559.80	41,803.00	22.87%	11,662.29	-18.03%	7,593.59	16.37%
Land Tax	3,353.92	11,613.07	28.88%	3,546.44	-5.43%	2,985.22	3.92%
Import Duty	2,907.62	9,266.00	31.38%	2,838.14	2.45%	2,055.47	30.85%

Source: Treasury Budget Execution Report

- Table 3 and Figure 5 illustrate that revenue behaviour during the first for months of 2011 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 76.7% 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 Ukraine<sup>3</sup>.
  - However, all taxes (apart from import duties) have slowed down in March. The EPT, which ensured the February hike, dropped by 56.5% in real terms. VAT slowed down to 16.4% real growth. As a result,

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

consolidated revenues during the month of March were actually somewhat lower than in the same month of 2010, in real terms.

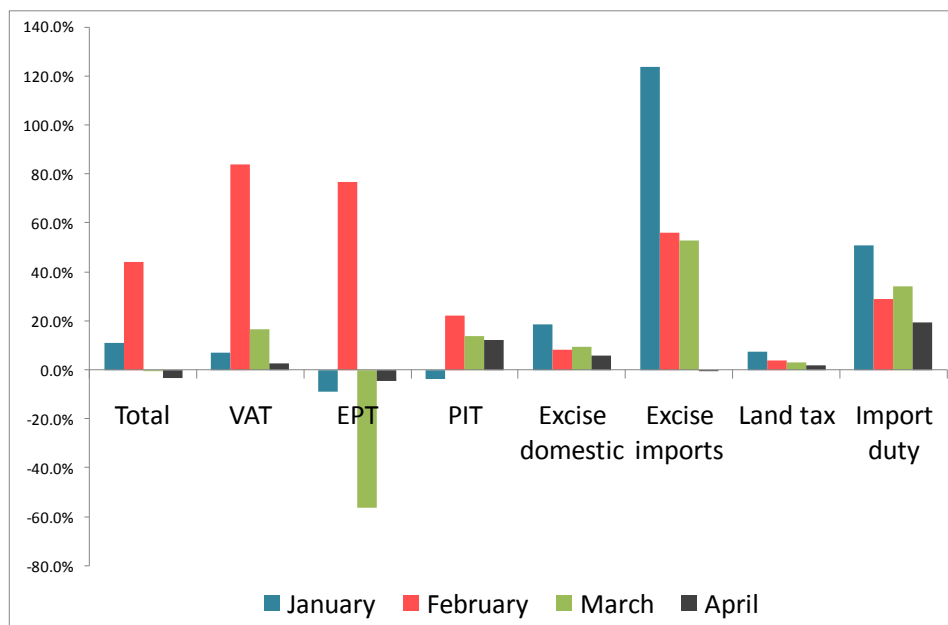
- In April, this trend intensified, with total real monthly revenue decrease over last year reaching -3.4%. As illustrated on Table 3 and Figure 5, monthly revenue collections decelerated for all taxes, but they were actually smaller than last year for EPT and Excise Taxes on Imported Goods (whose decline was especially sharp).

**Table 3. Monthly real revenue growth during Jan-Apr 2011 (over same months of 2010)**

	Monthly % Real Change (2011 to 2010)			
	January	February	March	April
<b>Total</b>	<b>10.8%</b>	<b>44.2%</b>	<b>-0.6%</b>	<b>-3.4%</b>
VAT	7.2%	84.0%	16.4%	2.5%
EPT	-9.1%	76.7%	-56.5%	-4.7%
PIT	-3.9%	22.2%	13.9%	12.0%
Excise domestic	18.4%	8.1%	9.5%	6.0%
Excise imports	123.9%	55.9%	52.7%	-0.6%
Land tax	7.2%	4.0%	3.1%	1.9%
Import duty	51.0%	29.0%	34.3%	19.3%

- **Revenue trends by individual taxes during April remained unchanged from the previous month, contributing to the following cumulative results:**
  - **Despite the uneven monthly pattern with a rapid deceleration in March and April, VAT remains buoyant in 2011, contrary to the 2010 trends.** As illustrated in Table 2, VAT was remains one of the best performers in January-April 2011, up by 19.8% compared to last year (albeit rather low-based) and 9.9% above period baseline (calculated based on annual plan which, for this tax, was increased).
  - **EPT is also remains 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 collections for January-April were 12.2% higher than last year, in real terms, and 26.1% 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-April 2011, they were nearly 30.9% higher than in respective period of 2010 (in real terms), and 2.5% above baseline projections for this period.
  - **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 period, albeit with significant deceleration, especially in excises on imported goods (Figure 5). Cumulative receipts for January-April were 16.4% higher than in the same period of 2010, in real terms (Table 2). At the same time, they are still 18% behind the period baseline projection (which assumes a significant annual growth in Excise revenues planned for this year). This makes Excises Taxes the worst performing revenue item so far.
  - **PIT is larger than last year and in line with 2011 projections.** Collections of Personal Income Tax in January-April 2011 were 11.4% above respective period of last year, in real terms. This tax also remains just a bit higher than quarterly baseline projection (0.35%), although the annual plan itself for this tax was significantly reduced this year compared to 2010.

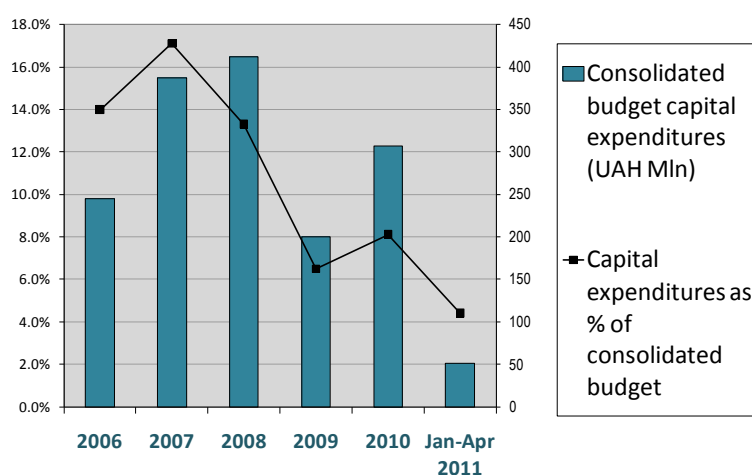
Figure 5. Monthly real revenue growth during Jan-Apr 2011 (over same months of 2010)



## Consolidated budget spending

- **Real consolidated spending exceeds last year levels by 10.3%, slightly but steadily accelerating during the quarter.** By the end of April, cumulative expenditures of the consolidated budget were 10.3% higher than in the same period of last year, covering almost 28.6% of the annual spending commitment (see Table 4). Real expenditures continued to be higher than last year in each of the four months, 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 January-April 2011 were registered in Environment Protection (up by 32.7%) and Housing & Utilities (up by 41.4%). 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 the beginning of the year, dropped significantly in March, and was only just above last year's expenditures by end of April (performing worst of all expenditure programmes). All these programmes are also funded at slowest rates as percentages of the annual plan (15.8%, 19.8%, and 19.9%, respectively), even though the annual plan itself was significantly reduced in 2011 for those particular functions.
  - Overall capital spending in January-April 2011 has been so far at the historical minimum as a percentage of total consolidated spending (4.4%, as illustrated in Figure 6).

Figure 6. Capital Spending as % of Total Consolidated Expenditures



- **Education, Healthcare, and (especially) Social Protection are energetically growing.** Expenditures on the three major social programmes in January-April 2011 were funded at the fastest rate (as a percentage of the annual commitment) – by 32.1%, 29.8% and 33.3% respectively, and significantly above last year levels in real terms (8.7%, 6.8%, and 17.7%).

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

	Nominal actual expenditures (Jan-Apr 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 (Jan-Apr 2010)	% Change in real terms
<b>Total Expenditures</b>	<b>116,849.30</b>	<b>408,886.05</b>	<b>28.58%</b>	<b>97,945.37</b>	<b>10.30%</b>
Public Administration	13,351.64	53,251.92	25.07%	11,248.78	9.67%
Defence	3,498.45	14,291.08	24.48%	3,023.83	6.99%
Civil Order, Security & Judiciary	8,738.29	31,092.71	28.10%	7,477.77	8.03%
Economic Activities	11,184.72	56,044.31	19.96%	10,262.56	0.89%
Environment Protection	633.94	4,010.35	15.81%	441.17	32.67%
Housing and Utilities	1,259.97	6,366.25	19.79%	823.20	41.44%
Healthcare	13,506.39	45,367.33	29.77%	11,696.28	6.79%
Culture and Sports	2,904.65	10,079.51	28.82%	2,714.82	-1.22%
Education	26,802.27	83,474.02	32.11%	22,799.99	8.70%
Social Protection & Social Care	34,968.97	104,908.57	33.33%	27,456.96	17.69%

Source: Treasury Budget Execution Report.

- **Considerable and accelerating real growth is registered in expenditures in Social Protection (up by 17.7% 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 and is accelerating. In January-April, Social Protection spending exceeded the 2010 level by 17.7% (it was 15.4% in the first quarter), making it the programme funded at the fastest rate compared to the annual target (33.3% of annual plan already spent).
- **The largest and growing share of social protection spending is support to Pension Fund.** Transfer to the Pension fund reached UAH 21.3 billion by end of April 2011, growing by 14.8% in real terms compared to January-April 2010 (the real increase in the 1Q was 9.9%). As illustrated in Figure 3 and Figure 4, the share of pension expenditures has also grown significantly in the previous years, and represents 18.2% of overall consolidated spending.
- **Expenditures on Culture & Sports decrease in real terms (down by 1.2%), 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. The recently published Monthly Budget Report for April 2011 by the Ministry of Finance explains that part of this reduction reflects a shifted accounting of the Expenditures on Euro 2012 from Culture & Sports to Economic Activities<sup>4</sup>.

<sup>4</sup> [http://www.minfin.gov.ua/control/uk/publish/article?art\\_id=294626&cat\\_id=77440](http://www.minfin.gov.ua/control/uk/publish/article?art_id=294626&cat_id=77440)