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BUDGET AND ECONOMY OF UKRAINE

MAJOR TRENDS IN JANUARY-JUNE 2010



**INSTITUTE FOR BUDGETARY
AND SOCIO-ECONOMIC RESEARCH**

The monitoring materials have been prepared based on data of the State Treasury of Ukraine, State Statistics Committee of Ukraine, and other official sources. This booklet contains a brief review of Ukraine's budget and economy in January through June 2010, outlining the key trends in the execution of the consolidated, State, and local budgets, and highlighting the main changes in the macroeconomic situation, and trends in the banking system, as well as their interrelation with budget indicators. A more in-depth analysis of the Ukrainian budget and economy in this period can be found in the IBSER publication *Budget Monitoring: Analysis of Budget Execution in January-June 2010*.

Budget and Economy. Key Trends of January-June 2010

This publication has been prepared by the following IBSER experts:

I.F.Shcherbyna, Director General
V.V.Zubenko, Deputy Director General, Director of PPB and Training Programs
A.Yu.Rudyk, Director, Department of Tax Policy and Monitoring
I.V.Samchynska, Director, Department of Financial Policy
A.I.Korniyenko, Deputy Director, Department of PPB and Trainings Programs
I.M.Pereli, Chief Economist, Department of Financial Policy
M.S.Svyeshnikova, Banking Consultant

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Institute for Budgetary and Socio-Economic Research
15V, Borysohlibska St., 2nd Floor
Kyiv, 04070, Ukraine
Tel.: (044) 353-58-68, 492-97-80/81
Fax: (044) 492-97-83

BUDGET AND ECONOMY. KEY TRENDS OF JANUARY-JUNE 2010

Indicator	As of 1 July 2009	As of 1 July 2010
Consumer Price Index, %	108.6	103.3
Gross bank assets, UAH bn	944.6	1 019.5
Amount of credits, UAH bn	700.7	696.9
including credits to legal entities, UAH bn	446.0	480.7
credits to individuals, UAH bn	254.7	216.2
Amount of deposits, UAH bn	319.1	364.0
including deposits of legal entities, UAH bn	117.9	123.5
deposits of individuals, UAH bn	201.2	240.5
State budget revenues, UAH bn	101.1	112.1
including transfers from local budgets into State budget, UAH bn	3.4	3.2
State budget expenditures, UAH bn	110.7	139.5
Crediting, balance, UAH bn	1.0	-0.9
State budget deficit (-)/ surplus (+), UAH bn	-10.6	-26.5
Local budget revenues, UAH bn	60.0	71.3
including transfers from State budget to local budgets, UAH bn	26.6	34.9
Local budget expenditures, UAH bn	62.7	69.7

ANALYSIS OF MACROECONOMIC INDICATORS

An unstable **macroeconomic situation** caused by the global financial and economic crisis prevailed in Ukraine in January-June 2010, accompanied by a certain slowing down of the economic recession. Thus, Ukraine's GDP increased by 6.3%¹ in the first six months of 2010 compared to the same period in 2009. However, this result was obtained thanks to a low comparison base (real GDP dropped by 17.8% in the first six months of 2009). Also, a trend was noted in Q2 2010 towards the stabilization of the official hryvnya exchange rate against U.S. dollar, alongside an increase in the official exchange rate of the national currency against the euro.

Industrial output increased by 12.0% year-on-year. This is related to a gradual resumption of demand for Ukrainian exports on the world markets and a low comparison base, since according to the finalized data of the State Statistics Committee, a 31.0% production decline was recorded over January-June 2009. The gradual growth of retail trade turnover was also a characteristic feature of Q2 2010. It increased by 2.3% against January-June 2009, which is indicative of gradually recovering domestic demand and some growth in the purchasing power of individuals.

The Consumer Price Index amounted to 103.3% in January-June 2010 compared to 108.6% in January-June 2009 (see Chart 1). The growth of the Consumer Price Index in the first six months of 2010 was driven by an increase in prices of vegetables by 25.2%; sugar by 16.1%, which is partially due to an increase in the Producer Price Index of 12.3%; fruits by 14.8%; cheese and curds by 9.0%, and fuel and lubricants by 11.8% against December 2009.

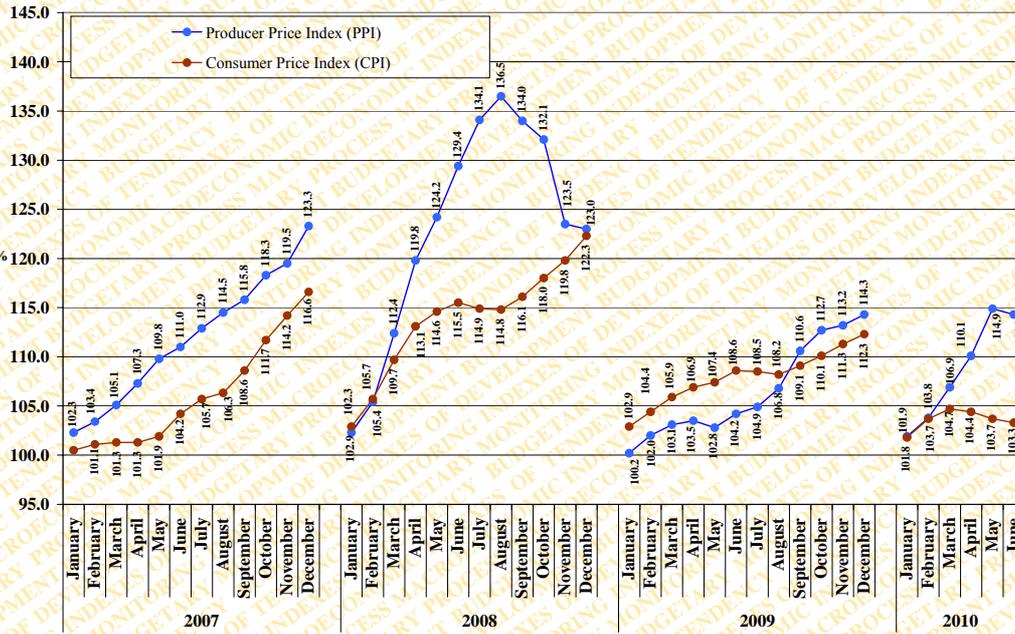
The Producer Price Index amounted to 114.3%, which is 10.1ppt more than in January-June 2009. The recovery of external demand is the reason behind the sharp upward dynamics in the Producer Price Index year-to-date, which testifies to a certain improvement of external market conditions and has an effect on the growth of industrial output. The highest growth in the Producer Price Index was noted in metal ore mining (by 54.0% vs. December 2009); the production of coke (by 52.9%); in coal mining, concentration, and agglomeration (by 31.2%); in metallurgy production and the production of finished metal products (by 17.9%). On the whole, in January-June 2010, a 36.9% growth of prices against December 2009 was observed in the extractive industry, a 10.3% rise in the manufacturing industry, a 19.8% jump in the production and distribution of electric power, gas, and water².

¹ <http://24news.in.ua/news/1/3/37799>

² www.ukrstat.gov.ua

Chart 1

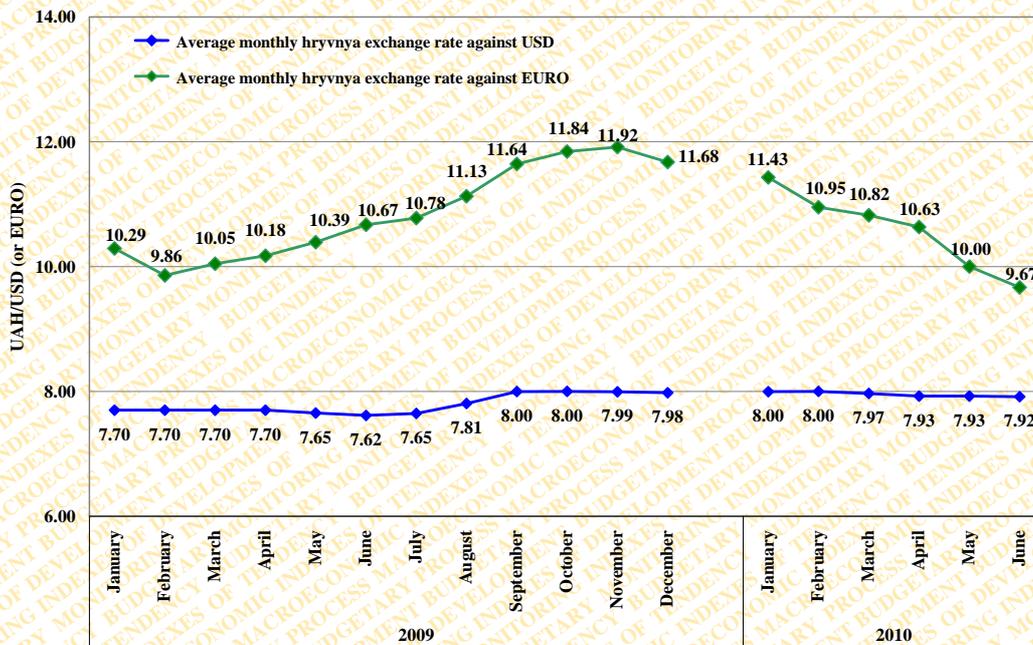
Dynamics of Price Indices in 2007–2010



A trend continued to prevail on the monetary and credit market in April-June towards increasing the banks' resource base, which contributed to lowering the cost of money (average weighted interest rates on credits and deposits both in the national and foreign currencies have decreased). Also, the National Bank of Ukraine lowered its discount rate from 10.25% to 9.5% annual as of 8 June 2010. However, due to a lack of solvent borrowers on the market, significant amounts of bank resources were invested into financial instruments, in particular, in government papers instead of crediting the real sector of the economy. Also, the dynamics of the average monthly hryvnya exchange rate against U.S. dollar demonstrated relative stability (with the exchange rate being within a band of UAH 7.92 - UAH 7.93 to \$1)³ (see Chart 2).

Chart 2

Dynamics of the Ukrainian Hryvnya Exchange Rate against U.S. Dollar and Euro in 2009-2010



³ http://www.bank.gov.ua/statist/Stat_data/Exchange_r.xls

The National Bank continued its currency interventions on the interbank market in Q2 2010 (the balance of interventions totaled +\$1,318mn in April⁴, +\$1,050.5mn in May⁵, and +\$864.6mn in June). The change in the volume of deposits since the beginning of the year has influenced the dynamics of the money supply, which increased by 9.4% to UAH 533.2bn as of the end of June 2010. The monetary base increased by 12.6% to UAH 219.5bn since the beginning of the year. In the period under review, the NBU international reserves increased to \$29.5bn⁶ (equivalent) or by \$3.0bn (11.3%).

On the whole, the first six months of 2010 demonstrated a gradual resumption of external demand for Ukrainian products, an insignificant volume of crediting of the real sector of the economy despite an increased volume of personal deposits in the banking system, and an increasing volume of gold and foreign-currency reserves of the National Bank of Ukraine.

BANKING SYSTEM TRENDS

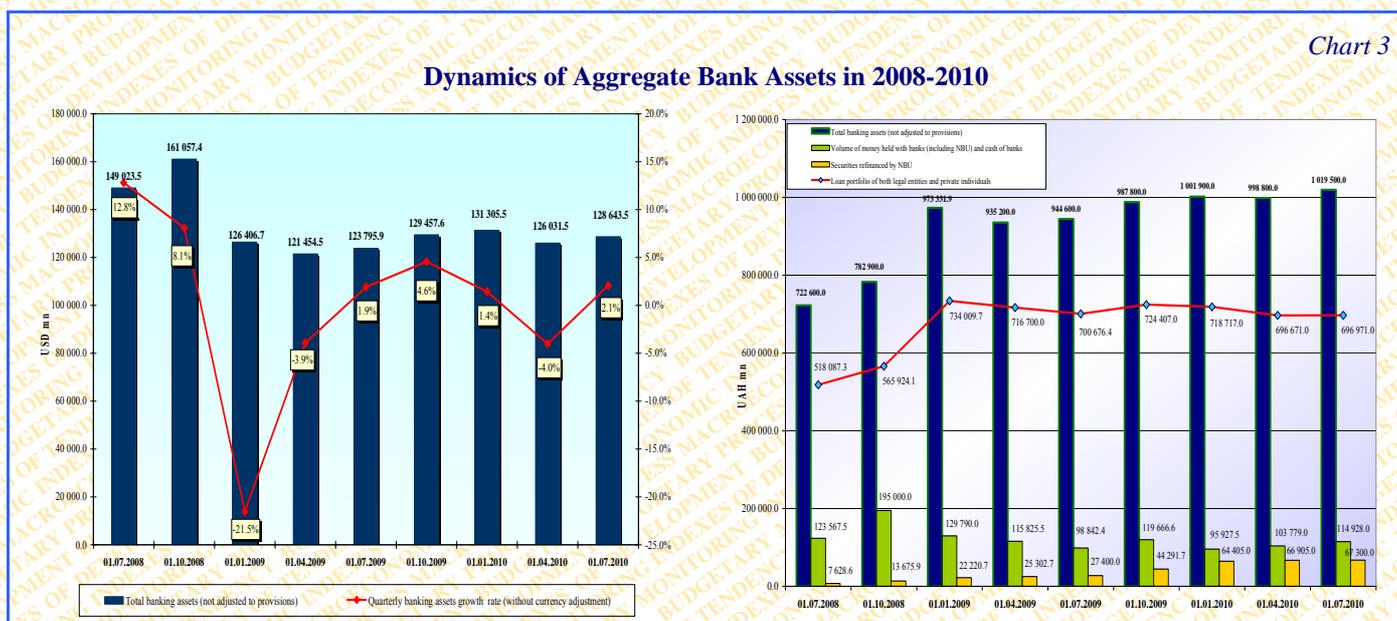
In the first six months of 2010, the **Ukrainian banking system** was characterized by:

- NBU’s pursuing a strict monetary and credit policy and taking steps to limit pressures on the currency exchange rate and banks’ conducting a more flexible interest-rate policy in order to attract clients' national-currency funds;
- a slight growth in the total assets of the banking system;
- further accelerated growth of personal deposits;
- a slight growth in the loan portfolio of legal entities in Q2 2010 (+1.7% or +UAH 8.0bn); nearly 60% of Ukrainian banks provided credits to enterprises, but the growth volume remains quite small;
- banks investing their free resources into financial instruments (internal government bonds and NBU deposit certificates);
- a negative financial result of the banking system of UAH 8.3bn;
- the National Bank lowering its discount rate from 10.25% to 9.5% per annum (as of 8 June 2010) and further to 8.5% one month after that (as of 8 July 2010);
- lifting of the restrictions stipulated in Decree No. 421 of the National Bank Board “On Certain Issues in the Operation of Banks in the Period of the Financial and Economic Crisis” as applied to loss-bearing banks;
- new requirements regarding the formation of the regulatory capital of banks.

As of 1 July 2010, 176 banks had licenses for carrying out banking operations from the National Bank of Ukraine. Eighteen banks were in the process of liquidation, including sixteen banks liquidated by NBU decisions and two banks liquidated by decisions of commercial (arbitration) courts. Five banks continue under temporary administration.

The number of operating banks with foreign capital remains unchanged at 51. The number of banks with 100.0% foreign capital also remains unchanged and stands at 18 financial institutions.

A slight increase in the rate of development of the Ukrainian banking system was noted in the first six months of 2010, in particular with regard to its aggregate assets. Thus, the aggregate assets of the Ukrainian banking system increased by +2.1% against Q1 and reached UAH 1,019.5bn (see Chart 3).



⁴ <http://economics.unian.net/ukr/detail/46023>

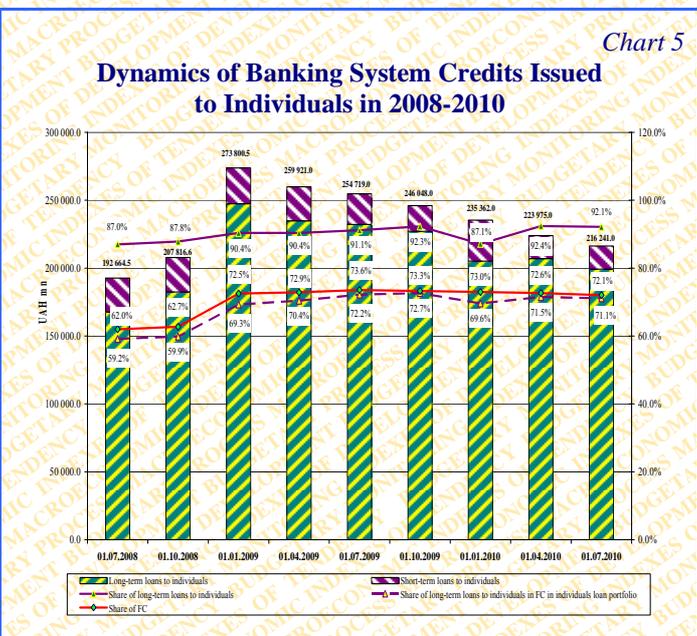
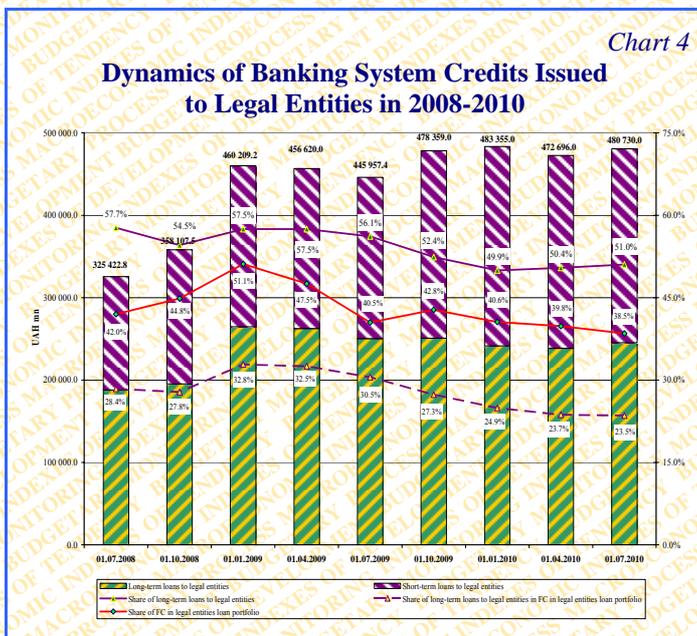
⁵ <http://ua.proua.com/news/2010/06/07/004814.html>

⁶ <http://www.golosua.com/ekonomika/2010/07/02/mizhnarodni-rezervi-nbu-zrosli-do-30-mlrd-dol/>

The client loan portfolio remained almost unchanged at UAH 696.9bn in Q2 2010. A downward dynamic of the loan portfolio of retail clients continues to play the key role here. Despite a still considerable part of credits in foreign currencies, their share continues to decline (51% at the end of Q2 2010 against 61% at the beginning of 2009 and 52% at the beginning of 2010). The key reasons behind the low lending activity of banks still include a high level of problem debts, high interest rates, and the low creditworthiness of the majority of borrowers.

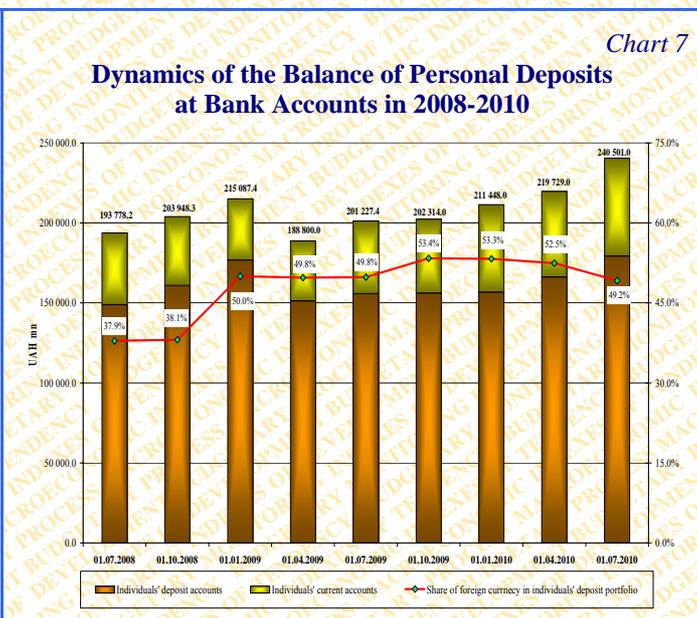
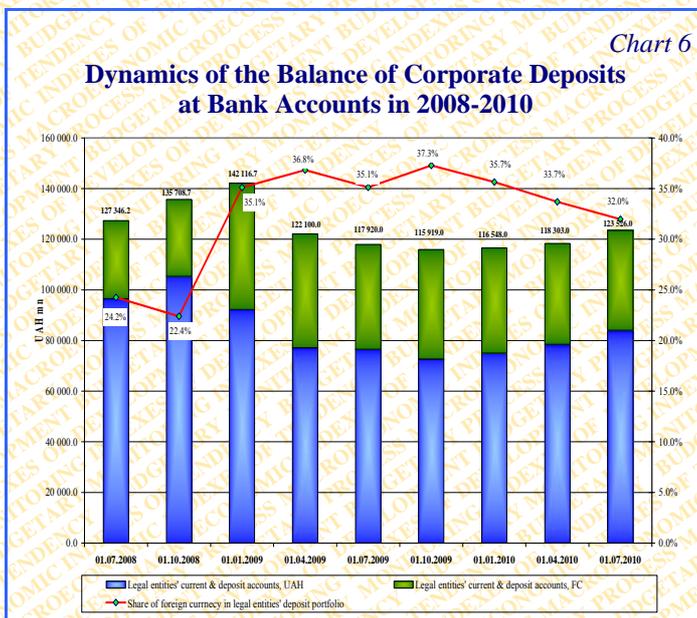
As of 1 July 2010, the loan portfolio of legal entities totaled UAH 480.7bn or 69.0% of the total client loan portfolio, and the individual loan portfolio totaled UAH 216.2bn or 31.0% of the total client loan portfolio (see Chart 4 and Chart 5).

In the light of suspending the process of lending to clients, the growth rate for credits issued to legal entities was positive at +1.7% in Q2 2010 (compared to a negative value of -2.2% in Q1 2010), and the rate of repayment of credits granted to individuals amounted to -3.5% (compared to 4.8% in Q1 2010).



Corporate lending activity increased in the first six months of 2010 (mainly thanks to an increased volume of lending by PrivatBank). PrivatBank (+UAH 11.2bn or +21.1%) has become the leader in terms of the increase in credits to corporate clients, followed by Finance and Credit Bank (+UAH 1.3bn or +11.6%). Active lending is also pursued by other banks, such as Russia's Savings Bank, Imexbank, and Brokbbiznesbank. At the same time, there was a significant decline in the loan portfolios of corporate clients for OTP Bank (-UAH 2.46bn or -18.8%) and UkrSibbank (-UAH 2.1bn or -12.7%).

As of 1 July 2010, the deposit portfolio of economic agents totaled UAH 123.5bn or 16.3% of total liabilities, and the deposit portfolio of individuals totaled UAH 240.5bn or 31.7% (see Chart 6 and Chart 7). The age structure of deposits improved in April-June 2010. Thus, the share of long-term deposits increased from 24.4% to 26.4% of the total during the last six months.



A positive trend continued of growth in corporate and personal deposits.

Corporate deposits increased to UAH 123.5bn or by 4.4% in Q2 2010. Also, the foreign-currency deposits of legal entities in dollar equivalent decreased slightly (by \$0.02bn or 0.6%), while national-currency deposits increased by UAH 5.8bn or 7.4%. Experts believe that a significant growth of funds in accounts of legal entities over Q1-Q2 2010 (especially for national currency funds) is related to increased earnings by exporters and, to a certain extent, a slight increase in the lending activity of banks in the corporate segment.

It is expected that the inflow of client deposits will retain a positive momentum through the end of 2010, which would provide UAH 405bn or +16% of growth (including +13% for the corporate deposit portfolio) compared to the beginning of 2010. VTB Bank (+UAH 1.6bn) and Oshchadbank (+UAH 1.1bn) are the leaders in terms of growth in corporate deposits.

Private deposits increased to UAH 240.5bn or by 9.5% in Q2 2010. Personal deposits in the national currency increased by UAH 17.8bn or 17.5%, and those in foreign currencies by \$0.4bn in dollar equivalent or by 2.8%. The age structure of personal deposits at banks is as follows: personal time deposits amount to UAH 179.9bn or 75.3% of total personal deposits, and call deposits amount to UAH 59.0bn or 24.7%.

A characteristic phenomenon is the increasing proportion of personal deposits in the national currency in the total amount of personal deposits: from 47% at the beginning of 2010 and to 51% after the first six months of the year, which shows a gradual restoration of the population's trust in the national currency in an environment of stable exchange rates against foreign currencies. Another positive trend is the share of long-term deposits (more than one year) in the structure of personal deposits growing from 27% to 31%.

PrivatBank (+UAH 8.8bn or 42.4%) and Ukrsibbank (+UAH 2.1bn or 12.0%) have become the leaders for the inflow of personal deposits.

The banking system has experienced no shortage of liquidity since the beginning of 2010. It should be noted that the amount of banks' correspondent accounts increased by 66.9% in June 2010 (by 70.2% year-to-date) to UAH 28.6bn, with the key factor of this growth being the National Bank transactions in the foreign-currency segment of the market. The amount of cash outside of banks increased by 3.8% to UAH 168.3bn in June (by 7.2% year-to-date). The share of cash in the money supply structure decreased to 31.6% in June (compared with 31.1% in May and 32.2% at the beginning of 2010).

The general economic recovery, stabilization of the growth of the banks' resource base, and decreased inflation all contributed to lowering of the cost of funds both in the national and foreign currencies. In particular, the average weighed interest rate on credits in the national currency decreased from 14.6% in May to 14.1% in June. However, it increased from 10.8% in May to 13.9% in June for foreign-currency credits. The average weighted rate on national-currency deposits decreased from 11.0% to 9.6% in this period, and from 8.1% to 7.8%, respectively, for foreign-currency deposits. According to National Bank data, the growth in the average weighted cost of foreign-currency credits in the banking system in June was due to one of the banks completing a credit transaction at a rate which was significantly higher than the average market rate. Without this bank's transactions, the average weighted cost of foreign-currency credits would not have changed significantly in June against May and amounted to 11.0%. The further reduction of interest rates by 1-2ppt is expected to continue until the end of 2010.

The average weighted rate on contracts at the interbank credit market decreased slightly from 2.6% per annum in May to 2.5% per annum in June 2010, and the overnight rate remained unchanged at 1.3%.

As of 1 July 2010, the equity of banks amounted to UAH 130.6bn or 14.7% of liabilities and had the following structure: the registered authorized capital accounted for 102.0% of the equity structure, with 0.3% for the dividends used to increase the authorized capital; 5.2% for issue difference; 9.9% for general provisions and other funds of banks; -17.8% for the results of previous years; -4.6% for the results of the reporting year pending approval; -3.5% for results of the reporting year; and 8.5% for the revaluation of fixed assets, intangibles, securities for sale in bank portfolios, and investments into associated companies.

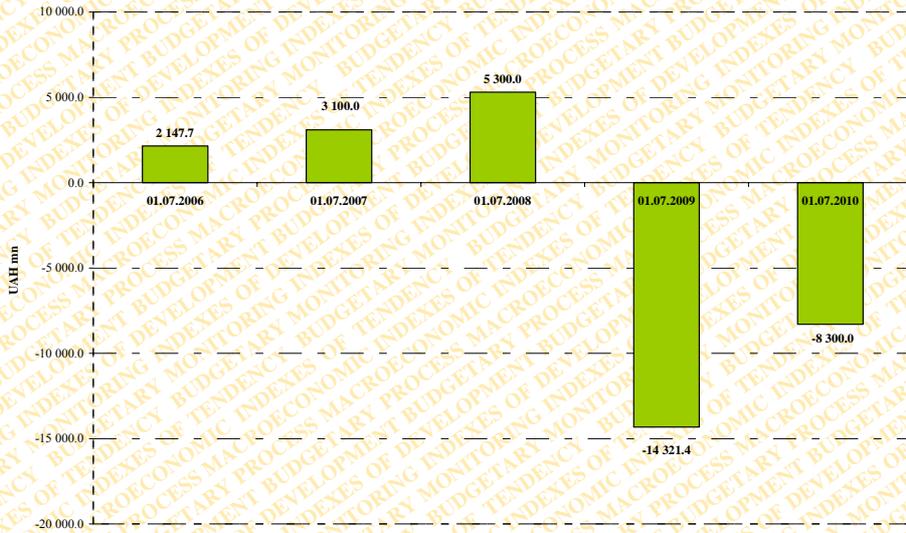
According to the preliminary results of banks' performance during the first six months of 2010, the net loss of the banking system totaled UAH 8.3bn (see Chart 8). The income of banks totaled UAH 65.2bn, with costs of UAH 73.5bn in the first six months of 2010. The operational losses of banks decreased by 42% compared to the same period of 2009.

According to bankers, the rate of accumulation of reserves for active transactions has decreased significantly, which would allow banks curtail their losses by the end of 2010, and for a number of banks to even show some profit. Also, analysts point to a decline in the interest and commission income of banks (the income of banks before remittance to reserves has decreased by 28.0%). Experts also quote an inefficient system for selling the property placed as loan security as another reason for operational losses.

Based on the performance results in the first six months of 2010, 39 banks have shown a negative financial result (against 65 banks in 2009). Rodovid Bank bears the largest share of the losses (-UAH 3.8bn).

Chart 8

Financial Results of Bank Operations in the First Six Months of 2006-2010



The top-ten loss-making banks also include banks with foreign capital, the most unprofitable of which is Russia's Savings Bank (-UAH 1.5bn). At the same time, the majority of Ukrainian banks have completed the first six months of 2010 with profits, including PrivatBank (+UAH 631.2mn) and Oshchadbank (+UAH 365.3mn). As usual, banks with foreign capital, which specialize in servicing large international companies, showed a profit: ING Bank (+UAH 181.3mn), Credit Agricole (+UAH 166.3mn), and Citibank (+UAH 155.0mn). Raiffeisen Bank Aval has shown a profit (+UAH 35.9mn), as well as OTP Bank (+UAH 236.2mn), both of which were among the most unprofitable financial institutions in 2009.

ACTUAL CONSOLIDATED BUDGET REVENUES AND EXPENDITURES

The actual inflow of **consolidated budget revenues** amounted to 42.5% of the 2010 plan in the first six months of 2010, which is close to last year's indicator (41.6%). Also, the actual inflow of State budget revenues amounted to 42.0% (42.4% accordingly) and local budget revenues amounted to 44.6% (43.2%). The share of local budget revenues in the consolidated budget structure decreased somewhat in the period under review and amounted to 25.1%, which is 0.4ppt less year-on-year (see Chart 9).

The structure of consolidated budget expenditures experienced some changes in January-June 2010 (see Chart 10). Consolidated budget expenditures increased by 19.4% year-on-year (to compare: this indicator amounted to 10.4% in January-June 2009, and 44.4% in January-June 2008). This is explained by the gradual recovery of the economy. The level of execution of consolidated budget expenditures amounted to 42.8% of the 2010 plan in the period under review (41.5% in the first six months of 2009). The share of consolidated budget expenditures for the social and cultural sphere amounted to 69.5% in the first six months of 2010 (63.2% in January-June 2009), which is primarily explained by cutting the expenditures for other purposes due to lack of funds.

Chart 9

Shares of State and Local Budget Revenues in Consolidated Budget in January-June 2005-2010

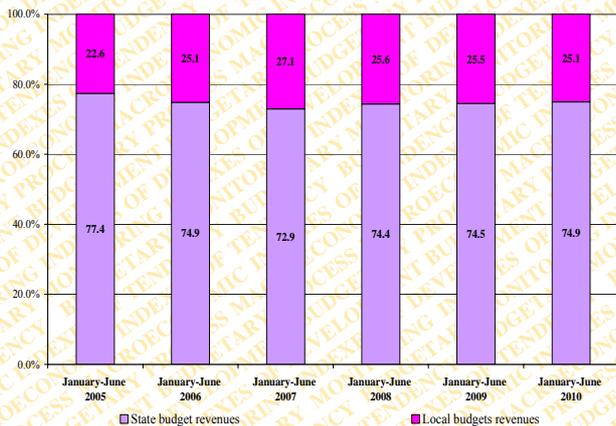
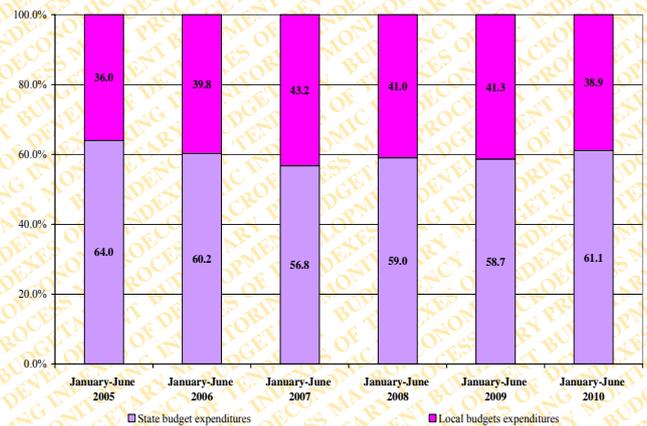


Chart 10

Shares of State and Local Budget Expenditures in Consolidated Budget in January-June 2005-2010



STATE BUDGET AND LOCAL BUDGET REVENUES

The actual revenues of the State budget (without intergovernmental transfers) totaled UAH 108.9bn, which is UAH 11.2bn or 11.5% more than the respective indicator of last year. The actual execution of the State budget revenues amounted to 44.9% in January-June 2009.

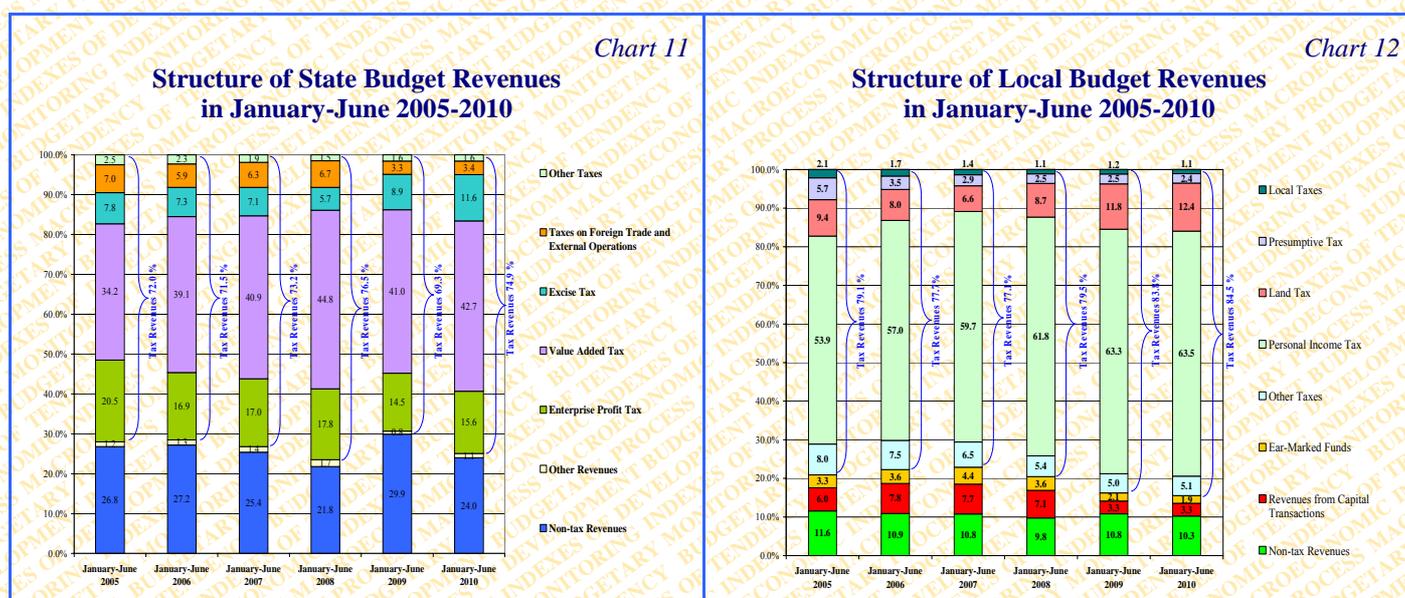
Execution of the **State budget revenues** was characterized by the following:

- the increased amount of tax remittances by the State sector of the economy, primarily, as increased payments of the enterprise profit tax paid by State-owned enterprises;
- decreased amounts of reimbursed value-added tax;
- increased revenues from excise tax, primarily, the excise tax on tobacco and tobacco products.

A sharp decline in the amount of VAT reimbursements from the budget is a distinctive feature of budget execution in 2010. Thus, the amount of VAT reimbursed in the first six months of 2010 was roughly a half of that in 2008 and 2009 (UAH 7.8bn vs. UAH 15.5bn and UAH 16.9bn, respectively).

Another feature of revenue intake in the first six months of 2010 is a UAH 2.9bn or more than 2.2 times greater payment of enterprise profit tax by State-owned enterprises and organizations. Despite a nominal growth in the intake of budget revenues from this source, note should be made of a significant decline in total revenues from the enterprise profit tax, whose collection was lower in the peak month for this tax (May) compared to the crisis year of 2009.

The structure of State budget revenues experienced some changes in the first six months of 2010 compared to the same period of 2009. In particular, note should be made of a 5.6ppt greater share of tax revenues in the overall structure of State budget revenues in January-June 2010 compared to the same period in 2009. The main drivers of this growth included a higher share of excise tax (by 2.7ppt), value-added tax (by 1.7ppt), and enterprise profit tax (by 1.1ppt) (see Chart 11).



Local budget revenues (without intergovernmental transfers) totaled UAH 36.4bn, which is 8.8% (or UAH 2.9bn) more than in the same period of 2009. This figure represents 49% of the Ministry of Finance estimates used for approving the Law of Ukraine “On the State Budget of Ukraine for the Year 2010”. The level of execution of the revenue plan approved by local councils amounted to 44.6% against 43.2% in January-June 2009.

Further growth in the share of tax revenues of up to 84.5% (by 0.7ppt) can be seen in the structure of local budget revenues, and decline in the share of non-tax revenues (by 0.5ppt) and receipts of targeted funds (by 0.2ppt) (see Chart 12). Compared to respective indicators of last year, growth in nominal intake is demonstrated by all components of local budget revenues: tax revenues by 9.7%; revenues from capital transactions by 7.9%; non-tax revenues by 3.2%; and revenues of targeted funds by 2.7%.

The growth in tax revenues was significantly influenced by the dynamics of revenues from personal income tax, which increased by 9.1% against 2009 in nominal terms and amounted to UAH 23.1bn. Accordingly, the share of this tax increased to 63.5% in the total local budget revenues (without intergovernmental transfers).

Based on the results of the first six months of 2010, the highest growth against 2009 is noted for revenues from the payment for land (+15.0%), which have also increased their share in the overall structure of local budget revenues from 11.8% to 12.4%. At the same time, the shares of revenues from the single tax on small business and local taxes and fees are practically in line with the level of January-June 2009 (see Chart 12). In nominal terms, the latter amounted to UAH 0.9bn and UAH 0.4bn, respectively.

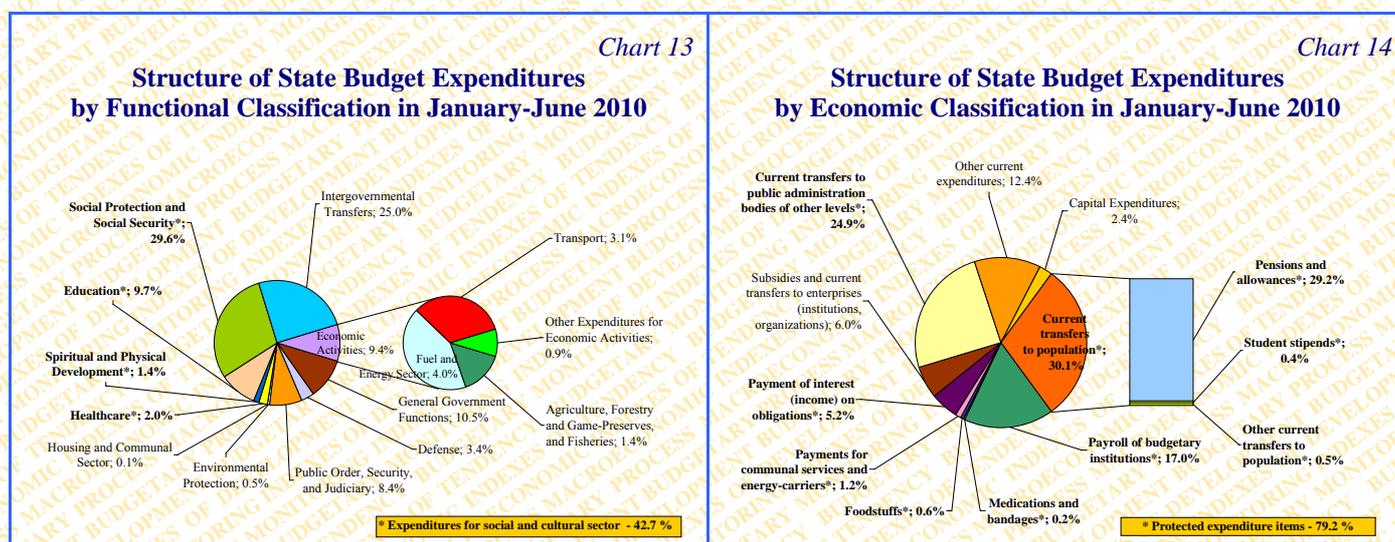
STATE BUDGET AND LOCAL BUDGET EXPENDITURES

The actual expenditures of the State budget (with intergovernmental transfers) totaled UAH 139.5bn in January-June 2010, which amounts to 43.2% of the plan approved for 2010. Expenditures increased by 26.0% in the first six months of 2010 against the respective period in 2009, which is 18.4ppt more year-on-year. The share of social expenditures in actual expenditures of the State budget increased by 6.4ppt year-on-year and amounted to 42.7% (see Chart 13).

Despite the growth of total expenditures, a 25.4% year-on-year reduction was observed for economic activity, including a 38.2% drop for transport; 22.9% for agriculture, forestry, game preserves, and fisheries, as well as a 17.9% fall for fuel and energy. Growth of 89.5% was observed in expenditures for spiritual and physical development, social protection and social security expenditures rose by 67.9%, and for general government expenditures gained 38.4%.

In terms of the economic content of transactions, the highest growth was recorded in expenditures for payment of interest payments on obligations, with 200%; capital transfers rose 80.5%, and current transfers to the population gained 66.8%. Expenditures decreased in such areas as medicines and bandaging materials (by 54.7%), capital repairs, reconstruction, and restoration (by 49.8%), and subsidies and current transfers to institutions and organizations (by 22.2%). At 79.2% of expenditures, protected expenditure items by economic classification rose by (see Chart 14), 7.6ppt over the first six months of 2009.

The share of capital expenditures in total expenditures increased from 2.0% in the first six months of 2009 to 2.4% in January-June 2010. Also, their amount increased by UAH 1.1bn or by 52.5% year-on-year. At the same time, the financing of capital construction and the acquisition of housing decreased by 8.2%; that of capital repairs, reconstruction, and restoration fell by 49.8%. The amount of capital transfers from the State budget to local budgets increased by UAH 1.1bn or, as has already been mentioned, by 80.5% against the indicators of the first six months of 2009.



The expenditures of local budgets totaled UAH 69.7bn in the first six months of 2010, which is 11.3% more than the respective indicator of 2009.

In the reporting period, 85.2% of local budget expenditures were for the social and cultural sectors (see Chart 15), which is 4.9ppt more than the respective indicator of 2009.

Based on functional classification, the greatest changes occurred in expenditures for social protection and social security, which increased by 2.4ppt to 23.2% of expenditures, and those for housing and communal services, which decreased by 2.5ppt to 2.2%. Compared to 2009, there was a 1.4ppt decrease in the share of local budget expenditures for economic activity, which amounted to 2.0% in January-June 2010. At the same time, there was an increase in the shares of expenditures for public health (by 1.3ppt to 22.5%) and education (by 1.1ppt to 35.7%).

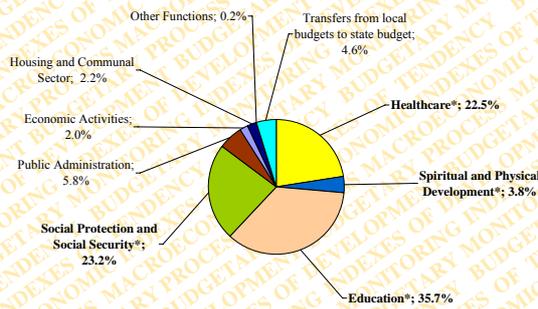
The share of funds transferred from local budgets to the State budget accounts for 4.6% of all local budget expenditures. UAH 3.2bn was transferred from local budgets to the State budget, which amounts to 44.8% of the annual target.

Protected items accounted for 88.8% of all local budget expenditures by economic classification in the first six months of 2010 (see Chart 16), which is 5.0ppt more than in 2009.

The greatest change in the structure of local budget expenditures was related to a reduction in the share of capital expenditures. It decreased by 2.8ppt and only amounted to 2.4%. In nominal terms, capital expenditures have nearly halved and amounted to UAH 1.7bn.

Chart 15

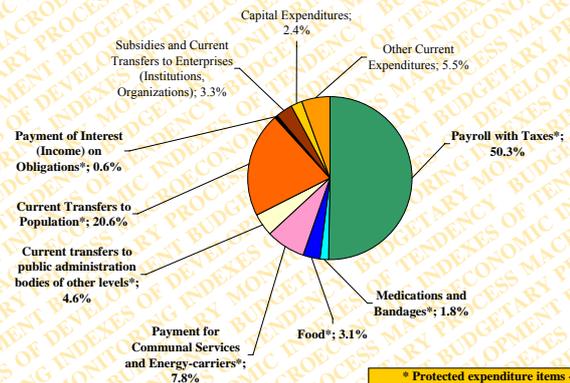
Structure of Local Budget Expenditures by Functional Classification in January-June 2010



* Expenditures for social and cultural sector - 85.2%

Chart 16

Structure of Local Budget Expenditures by Economic Classification in January-June 2010



* Protected expenditure items - 88.8%

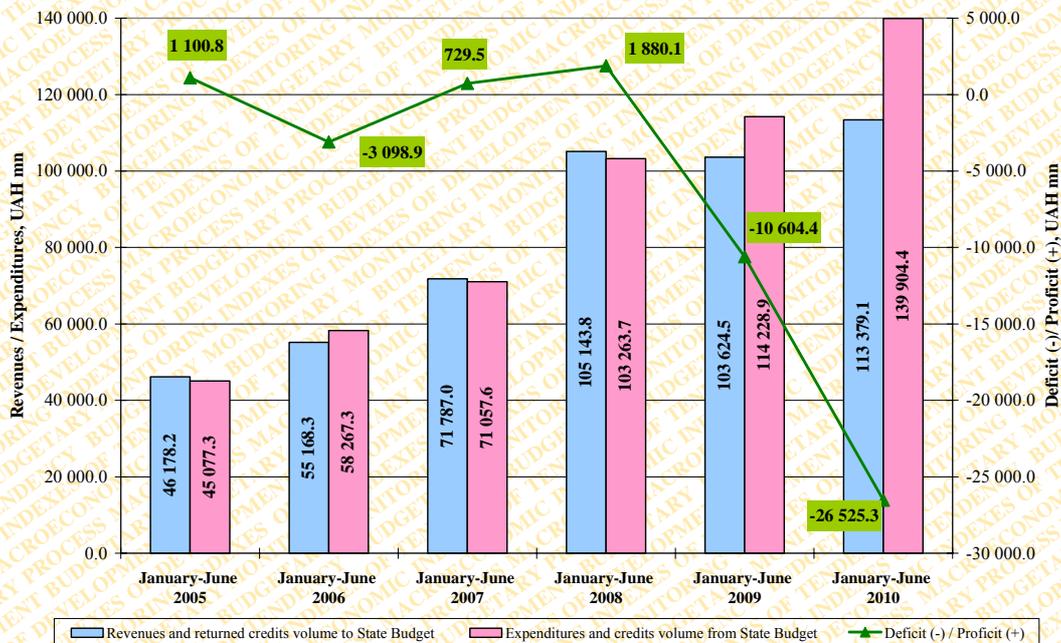
At the same time, a 2.8ppt growth is recorded in the share of expenditures for payroll with taxes, which is consistently the highest of all local budget expenditures and which amounted to 50.3% in the first half of 2010. There is also a 2.2ppt increase in the share of expenditures for current transfers to the population (up to 20.6%) and a 2.2ppt decrease in the share of expenditures for subsidies and current transfers to enterprises (institutions, organizations) (down to 3.3%).

FINANCING OF THE STATE BUDGET

The State budget deficit totaled UAH 26.5bn (see Chart 17), which amounts to 45.9% of the 2010 target. The General Fund deficit of the State budget was funded at the amount of UAH 25.3bn, which is 79.8% more year-on-year. A deficit of UAH 1.2bn was recorded for the Special Fund (a surplus of UAH 3.5bn was recorded in January-June 2009) against the planned 2010 deficit of UAH 32.5bn.

Chart 17

Dynamics of State Budget Deficit (-)/ Surplus (+) in January-June 2005-2010



State borrowing exceeded repayments by UAH 33.3bn, including UAH 26.6bn for the General Fund, in the first six months of 2010, which is 54.1% more than last year. Internal borrowing totaled UAH 29.9bn, including UAH 22.7bn for the General Fund, with external borrowing of UAH 16.2bn.

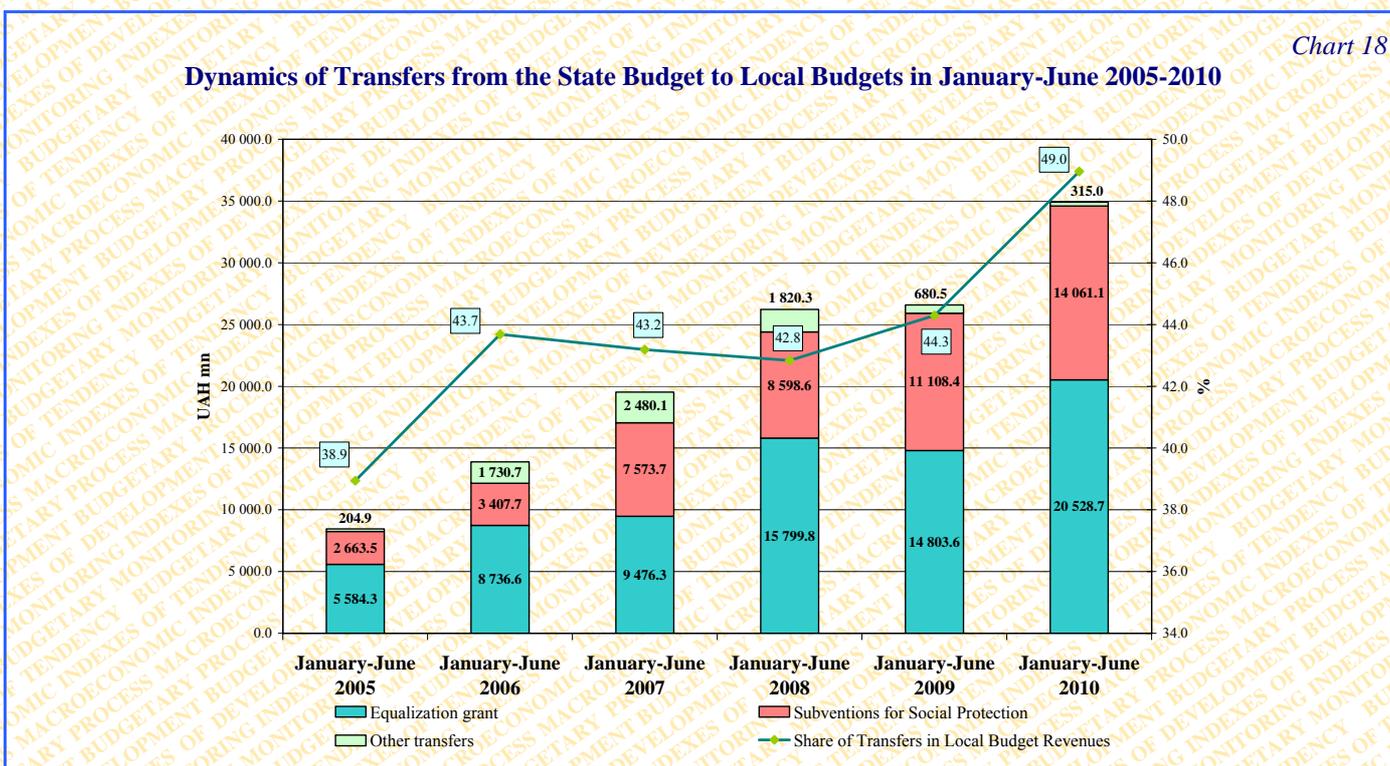
Debt repayments totaled UAH 12.7bn in the first half of 2010 or 53.6% of the planned amount, including repayment of internal debt of UAH 10.5bn or 61.8% of the planned amount, and external debt of UAH 2.2bn or 32.8%.

Receipts from the privatization of State-owned property totaled UAH 0.2bn in the first half of 2010 or 2.4% of the plan approved for 2010. The actual receipts from this source totaled UAH 0.5bn in the first half of 2009 or 6.2% of the annual plan. It should be noted that in both 2010 and in 2009, the receipts from the privatization of State property are used as a source for the formation of the Stabilization Fund.

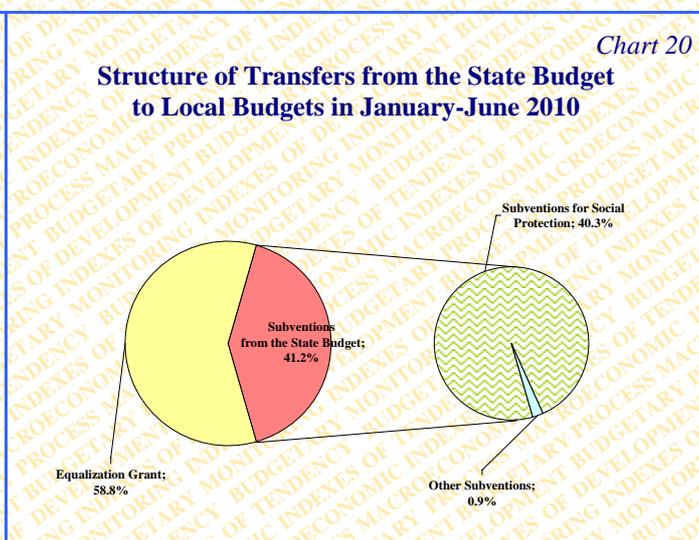
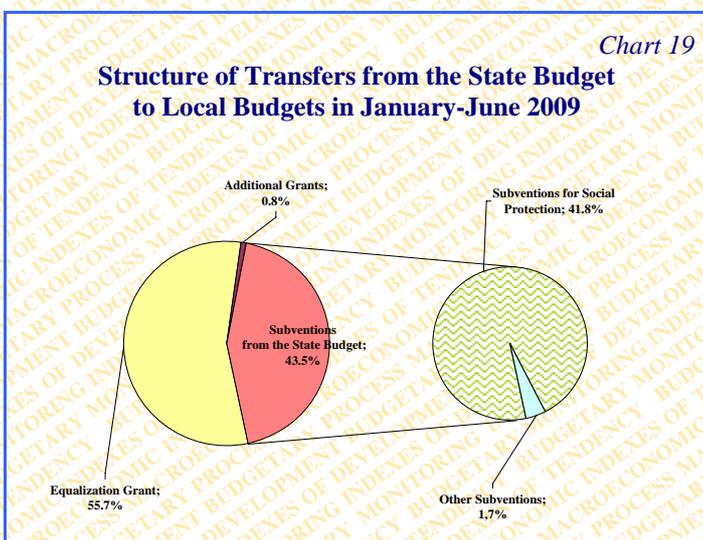
The balance of budget funds totaled UAH 22.5bn at the end of June 2010, including UAH 5.2bn in the General Fund and UAH 17.3bn in the Special Fund. The balance of funds increased by UAH 7.2bn in general in January-June of this year, including by UAH 1.4bn for the General Fund and by UAH 5.8bn for the Special Fund. Funds of the single treasury account of UAH 0.1bn were used for financing the State budget deficit in the period under review.

INTERGOVERNMENTAL TRANSFERS

Local budgets received UAH 34.9bn in **intergovernmental transfers** from the State budget in the reporting period (44.5% of the annual plan), which is 31.3% more than the respective amount in January-June 2009. This led to an increase in the share of intergovernmental transfers in the total structure of local budget revenues to 49.0% against 44.3% in January-June 2009 (see Chart 18).



The equalization grant has the largest share in the structure of transfers with 58.8%, which is 3.1ppt more than in 2009 (see Chart 19 and Chart 20). Local budgets received UAH 20.5bn in equalization grant funds in the first six months of 2010, which is 38.7% more than in the respective period of last year.



The share of social protection subventions decreased by 1.5ppt and amounted to 40.3%. In nominal terms, however, these subventions increased by 26.6% and reached UAH 14.1bn. At the same time, the share of other transfers remitted to local budgets from the State budget amounted to 0.9% against 1.7% in January-June 2009, and their volume dropped by more than 33.1%, down to UAH 315.0mn.

Therefore, the levels of execution of annual targets for the provision of various types of intergovernmental transfers are as follows:

- the equalization grant was remitted at 47.0% of the plan;
- funding of additional grants has not started yet;
- subventions for social protection of the population were remitted at 44.0% of the plan;
- other subventions were funded at 14.4%.

This publication outlines the key trends in execution of the consolidated, State, and local budgets in January-June 2010. A more detailed information is contained in the publication *Budget Monitoring. Analysis of Budget Execution in January-June 2010* to be published in September 2010.