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# **BUDGET AND ECONOMY OF UKRAINE**

## **KEY TRENDS OF JANUARY-SEPTEMBER 2011**



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

The monitoring materials have been prepared based on data of the State Treasury Service of Ukraine, State Statistics Service of Ukraine, and other official sources. This booklet contains a brief review of Ukraine's budget and economy in January through September 2011, describing 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, and 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-September 2011*.

## **Budget and Economy. Key Trends of January-September 2011**

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**Budget and Economy. Key Trends of January-September 2011** / [I.F.Shcherbyna, A.Yu.Rudyk, V.V.Zubenko, I.V.Samchynska]; IBSER, Municipal Finance Strengthening Initiative Project, USAID. – K.: DHVPP Zovnishtorhvydav Ukrayiny, 2011. - 12 p.

### **Publisher's Note:**

This publication is prepared with support from the American People provided via the U.S. Agency for International Development (USAID). The content of this product is the responsibility of the Institute for Budgetary and Socio-Economic Research (IBSER) and it does not necessarily coincide with the views of USAID or the United States Government. All rights in this publication are reserved. Use of the monitoring materials must be coordinated with IBSER experts.

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## BUDGET AND ECONOMY. KEY TRENDS OF JANUARY-SEPTEMBER 2011

Indicator	As of 1 October 2010	As of 1 October 2011
Consumer Price Index (vs. December of last year), %	107.4	104.2
Gross bank assets, Hr bn	1 064.1	1 193.6
Amount of credits, Hr bn	721.1	791.6
including credits to legal persons, Hr bn	507.6	589.4
credits to individuals, Hr bn	213.5	202.2
Amount of deposits, Hr bn	393.3	466.9
including deposits of legal entities, Hr bn	135.7	166.2
deposits of individuals, Hr bn	257.6	300.7
State budget revenues, Hr bn,	162.7	226.7
including transfers from local budgets into State budget, Hr bn	4.7	2.0
State budget expenditures, Hr bn	215.1	232.1
Crediting, balance, Hr bn	0.3	2.8
State budget deficit (-)/ surplus (+), Hr bn	- 52.8	-8.2
Local budget revenues, Hr bn,	114.1	130.3
including transfers from State budget to local budgets, Hr bn	56.8	68.2
Local budget expenditures, Hr bn	108.7	125.2

### ANALYSIS OF MACROECONOMIC INDICATORS

Ukraine's economy continued to recover in the first nine months of 2011, which was mainly due to a favorable foreign trade market dynamic and the ongoing growth of internal demand. In addition, the national currency exchange rate grew against the euro in this period compared to a decline in the respective period of 2010.

One of the reasons for the economic growth was increased industrial output, though this growth was somewhat slower than in 2010. The industrial production index amounted to 108.6% in January-September 2011 compared to 111.1% in the same period of 2010. Specifically, the production of transport vehicles and equipment increased by 29.7%. Engineering goods output rose 20.4%, including 1.4 times for the production of automobiles; chemical and petrochemical products grew by 18.2%; metals and finished metal products were up 11.7%, with pipes in particular rising by 30.2%. At the same time, the production of tobacco products decreased by 6.3%, petroleum product output fell by 17%, and dairy products and ice cream dropped 6.6%.

Year-on-year, real wages increased by 8.0% (1.8ppt less than during nine months of 2010). Also, retail trade turnover increased by 15.2% (10.1ppt more than 2010), which indicates a gradual recovery of domestic consumer demand.

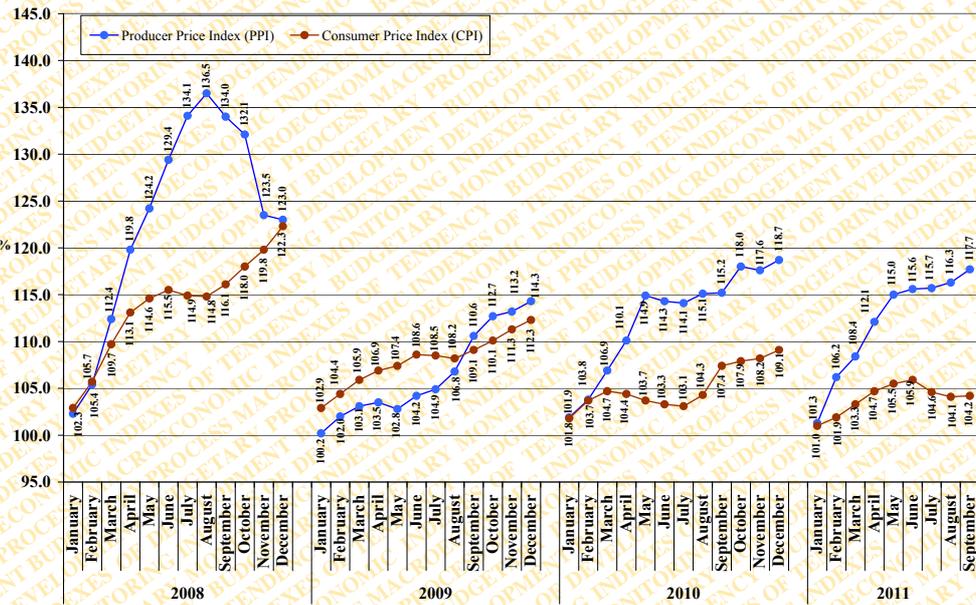
The Consumer Price Index amounted to 104.2% vs. 107.4% in 2010 (see Chart 1). An upward trend in the price of oil on world markets was the main driver of inflation in this period, leading to a 30.6% growth in the price of fuel and lubricants. In addition, the price of electric energy increased by 22.9% in the reviewed period, fees for own housing (rent) by 17.6% and hot water and heating charges grew by 13.8%. The prices of vegetables decreased by nearly 40%, primarily, thanks to cheaper potatoes, the price of which nearly halved, as well as the prices of milk, cheese, and eggs, which decreased by 5.0%.

The Producer Price Index (PPI) amounted to 117.7%, which is 2.5ppt more than in nine months of 2010. On the whole, extraction industry prices increased by 23.7%, manufacturing industry prices grew by 13.3%, and prices in the production and distribution of electric power, gas, and water increased by 27.4%<sup>1</sup>. The highest PPI increase against December of 2010 was noted in the production of minerals, except energy minerals, by 34.3% and in the production of petroleum products by 26.3%.

<sup>1</sup> www.ukrstat.gov.ua

Chart 1

Dynamics of Price Indices in 2008–2011

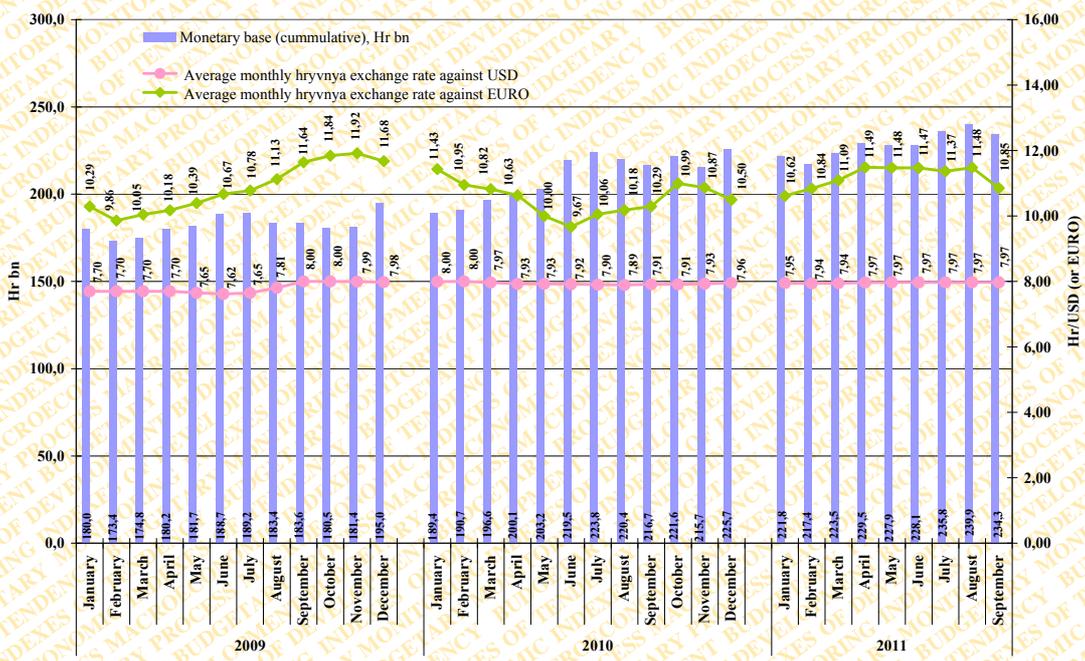


The monetary and credit market reflected the following trends during the first nine months of 2011. Bank lending activity intensified, 93.3% of which came from Dnipropetrovsk Oblast and Kyiv Oblast including the city of Kyiv. Other regions with significant growth in lending were Kirovohrad and Luhansk oblasts as well as the Autonomous Republic of Crimea including the city of Sevastopol. At the same time, there was a significant decline in lending in Cherkasy, Rivne, Kherson, and Zakarpattia oblasts. There was a further growth in the amount of deposits, and the cost of money continued downward; specifically, the average weighted rate on national currency credits decreased from 14.8% to 14.2%.

Also, the average monthly hryvnya exchange rate against the U.S. dollar was relatively stable, with the exchange rate remaining within Hr 7.94 - Hr 7.97 to \$1)<sup>2</sup> (see Chart 2). The official exchange rate of the Ukrainian hryvnya against the euro averaged Hr 11.19 to €1 in the period under review, compared to Hr 10.45 to €1 in the same period of 2010.

Chart 2

Dynamics of the Ukrainian Hryvnya Exchange Rate against U.S. Dollar and Euro in 2009–2011



<sup>2</sup> www.bank.gov.ua/statist/Stat\_data/Exchange\_r.xls  
2

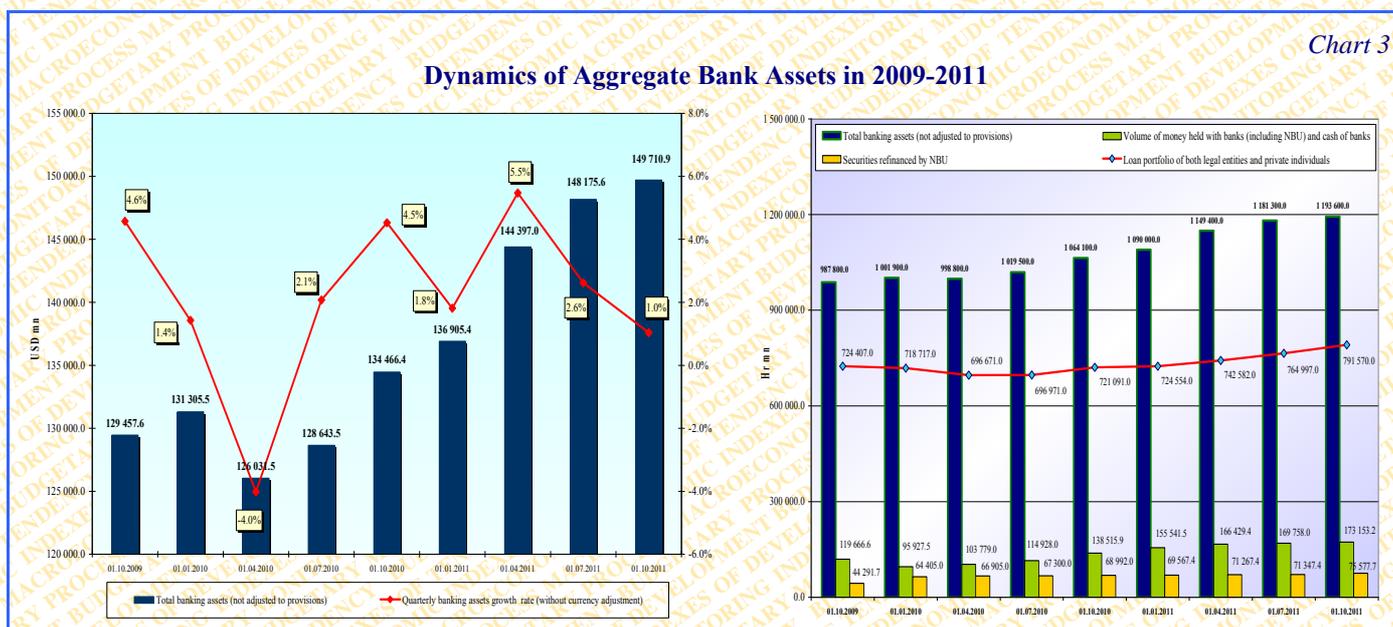
## BANKING SYSTEM OPERATIONAL TRENDS

In Q3 2011, the Ukrainian banking system was characterized by:

- the NBU 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;
- an insufficient level of banking system liquidity and growing demand for refinancing transactions on the part of the National Bank of Ukraine;
- minor growth in the total assets of the banking system (by 1.04%);
- a continued trend of minor growth in the loan portfolio of legal entities (+4.9% or +Hr 27.4bn);
- further growth of client deposits, with deposits of legal entities increasing by Hr 3.0bn or 1.8%, and those of individuals by Hr 2.7bn or 0.9%;
- a negative financial result for the banking system of Hr 5.6bn, which was mainly caused by the loss-bearing operations of the banks in temporary administration and the banks being liquidated, as well as a slower growth rate in the operational result due to suspended lending operations;
- an increase in the share of foreign capital in the Ukrainian banking system to 42.0% (40.6% at the beginning of the year); Also, the total number of banks with foreign capital decreased by one bank and amounted to 55 financial institutions;
- a decrease in the proportion of overdue debt (by 0.2%) to 10.1% of the total client loan portfolio. In absolute terms, the amount of overdue debt decreased by 2.5% (to Hr 82.8bn) in January-September 2011, against a backdrop of an increasing total client loan portfolio.

As of 1 October 2011, 177 banks had licenses for conducting the banking business from the National Bank of Ukraine. Twenty banks were in the process of liquidation, including nineteen banks liquidated by NBU decision and one bank liquidated by decision of commercial (arbitration) courts. Three banks continue under temporary administration.

The total assets of the Ukrainian banking system increased slightly in Q3 2011. Thus, the aggregate assets of the banking system increased by +1.04% in Q3 2011 against the previous quarter and reached Hr 1,193.6bn (see Chart 3).



The client loan portfolio increased by 3.5% in the third quarter and reached Hr 791.6bn, with the main portion of this growth once again coming from the loan portfolio of corporate clients.

Though they are still significant, the share of foreign-currency credits continues to decline (42.5% at the end of Q3 2011 compared to 45.0% at the end of Q2 2011). This is mainly due to a continued downward trend in the loan portfolio issued to retail clients in foreign currencies and more exacting requirements regarding the accumulation of debt reserves in foreign currencies. The key reasons behind banks' low lending activity still include a high level of problem debts, high interest rates, and the low creditworthiness of the majority of borrowers.

As of 1 October 2011, the loan portfolio of legal entities totaled Hr 589.4bn or 74.5% of the total client loan portfolio, and the individual loan portfolio totaled Hr 202.2bn or 25.5% of the total client loan portfolio (see Chart 4 and Chart 5).

Chart 4

**Dynamics of Banking System Credits Issued to Legal Entities in 2009-2011**

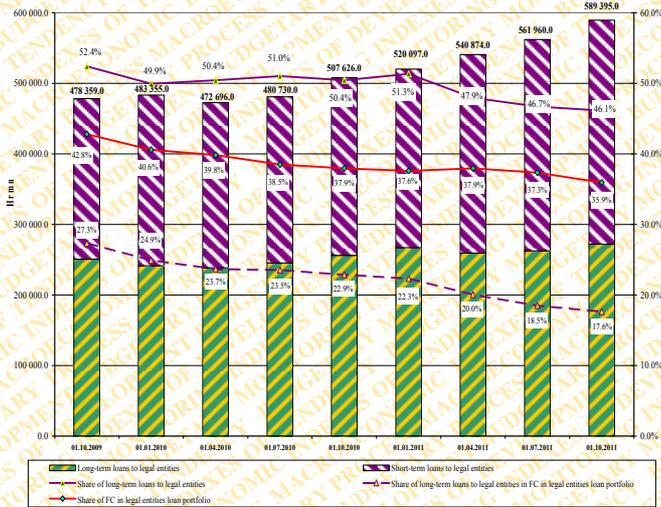
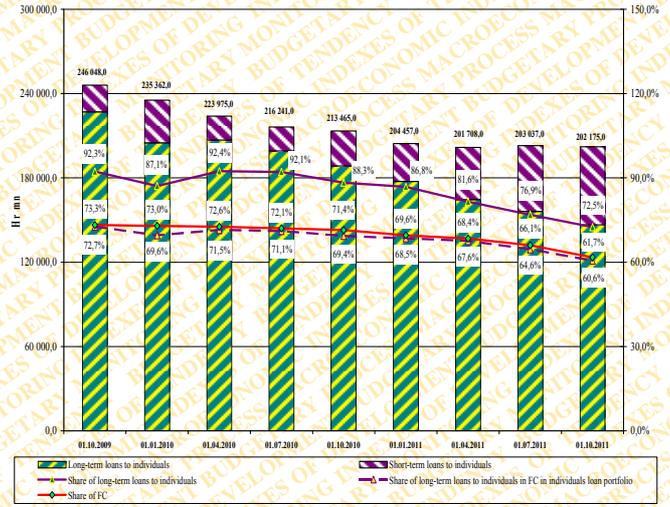


Chart 5

**Dynamics of Banking System Credits Issued to Individuals in 2009-2011**



Given the stagnation in lending to clients, the growth rate for credits issued to legal entities was a positive one at +4.88% (compared to +4.93% in Q2 2011).

The pace of repayment of the individual loan portfolio is still higher than the growth in new lending. It should be noted that the pace of decline in the loan portfolio of individuals decelerated and a 0.42% decline in the loan portfolio of individuals was noted in Q3 2011 compared to a rise of 0.7% in Q2 2011.

The deposit portfolio of economic agents totaled Hr 166.2bn or 19.0% of total liabilities, and the deposit portfolio of individuals totaled Hr 300.7bn or 34.3% (see Chart 6 and Chart 7).

Chart 6

**Dynamics of the Balance of Corporate Deposits at Bank Accounts in 2009-2011**

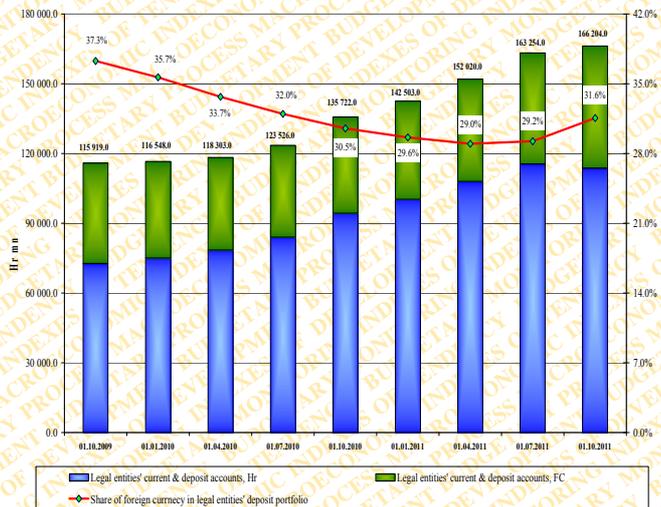
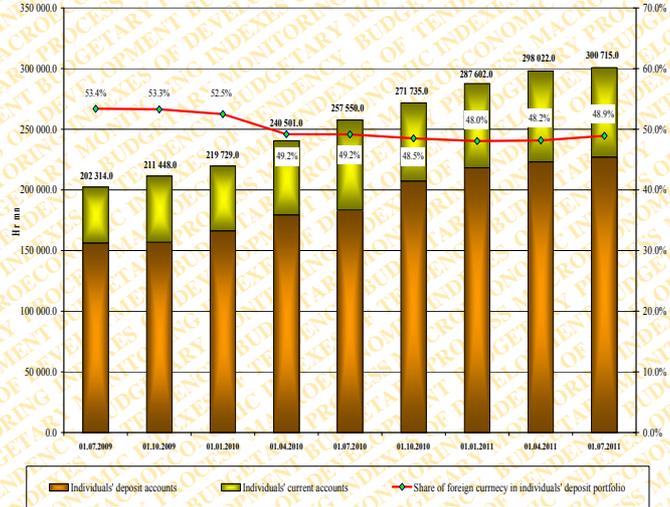


Chart 7

**Dynamics of the Balance of Personal Deposits at Bank Accounts in 2009-2011**



Growth in both corporate and personal deposits continued.

The funds of legal entities increased by 1.8%. Also, the foreign-currency deposits of legal entities in dollar equivalent increased by \$0.59bn or 9.9%, while national-currency deposits decreased by Hr 1.8bn or 1.5%.

Personal deposits increased by 0.9% in Q3. This dynamic is explained by an outflow of personal deposits from national-currency accounts, with the decline by Hr 0.85bn or 0.6%. However, foreign-currency personal deposits increased by \$0.4bn or 2.5%. The age structure of personal deposits at banks is as follows: time deposits amount to Hr 227.0bn or 75.5%, and call deposits amount to Hr 73.7bn or 24.5%. The share of national currency personal deposits in total personal deposits remains at 51.5% in Q3 2011.

The banking system was short of hryvnya liquidity throughout Q3 2011. The banks' demand for refinancing transactions totaled Hr 4.2bn in the quarter under review.

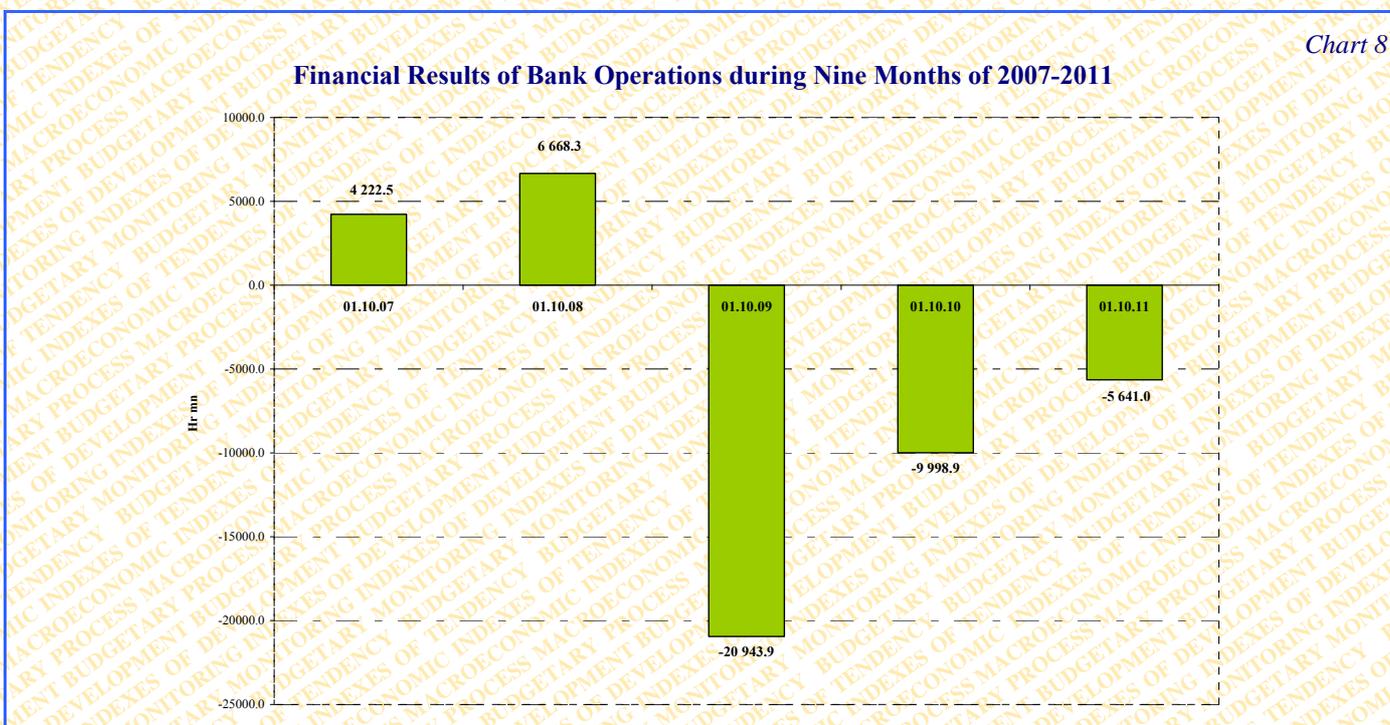
The mandatory reserves accumulated by banks totaled Hr 13.9bn, including Hr 11.1bn in funds remitted to the separate account.

The growth rate of personal deposits has had an appropriate impact on the money supply, which decreased by 1.2% in Q3 2011 (up 10.4% year-to-date). The amount of cash outside of banks decreased by 16.7% in Q3 2011, from Hr 228.1bn to Hr 189.9bn. The monetary base decreased by 2.3% in the reviewed period (down 3.8% since the year outset) to Hr 234.3bn.

The equity of banks increased by 10.3% during the first three quarters of 2011 and totaled Hr 151.9bn or 15.0% of bank liabilities as of 1 October 2011. The registered authorized capital increased by 14.9% year-to-date and totaled Hr 167.5bn.

The banks posted a loss of Hr 5.6bn as of 1 October 2011 (the loss totaled Hr 10.0bn in the respective period of 2010) (see Chart 8). The income of banks increased by 3.2% year-on-year and totaled Hr 103.5bn. Bank costs decreased by 1.1% and amounted to Hr 109.1bn. It should be noted that the current loss is mainly due to losses of the problem banks. Without the losses of the problem banks, Ukraine's banks as a whole could have generated a profit.

The total income consists of 80.2% of interest income and 12.9% of commission income. The main expenditure items of banks include interest costs of Hr 42.9bn or 39.3%, other operating and general administrative costs of Hr 34.0bn or 31.2%, and deductions into reserves of Hr 29.9bn or 27.4%.



Bank profits before the formation of reserves grew, which is mainly caused by an increased volume of interest and commission income of banks. Based on their operational results, bank profits before reserves totaled Hr 23.3bn.

A negative financial result was experienced by 37 banks or 21.0% of Ukraine's banks. Ukgasbank bears the largest share of the losses (-Hr 3.6bn).

The top ten most unprofitable banks also include banks with foreign capital, the most unprofitable of which were UkrSibbank (-Hr 1.4bn), Pireus Bank (-Hr 641.1mn), and Forum Bank (-Hr 429.7mn). The most profitable operations were PrivatBank (+Hr 979.7mn), Delta Bank (+Hr 518.9mn), and OTP Bank (+Hr 444.9mn).

## ACTUAL CONSOLIDATED BUDGET REVENUES AND EXPENDITURES

The actual intake of **consolidated budget revenues** totaled Hr 286.8bn in the reviewed period, which is 33.2% more than during the same period of 2010, and 47.0% more than during the same period in 2009. In the last three years, the level of execution of the annual plan of the consolidated budget has reached the highest level of 73.4% (this figure amounted to 67.9% last year, and 61.3% in 2009). The actual inflow of State budget revenues amounted to 73.5% (64.3% and 62.4%, accordingly) and local budget revenues amounted to 72.5% (69.6% and 65.4%, respectively). The share of local budget revenues in the consolidated budget structure decreased by 4.9ppt year-on-year to 21.7% in the period under review (see Chart 9).

Chart 9

Shares of State and Local Budget Revenues in Consolidated Budget in January-September 2006-2011

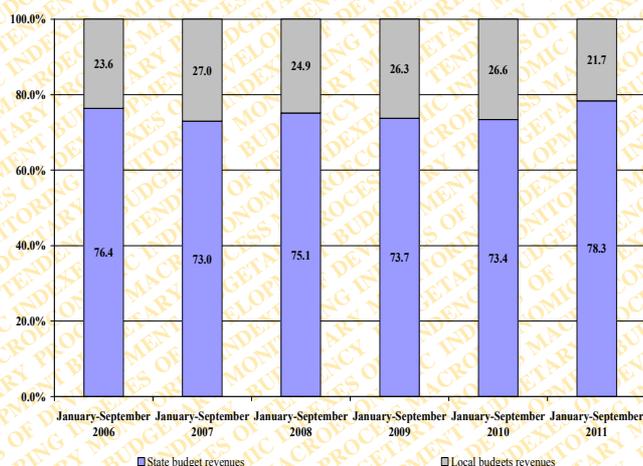
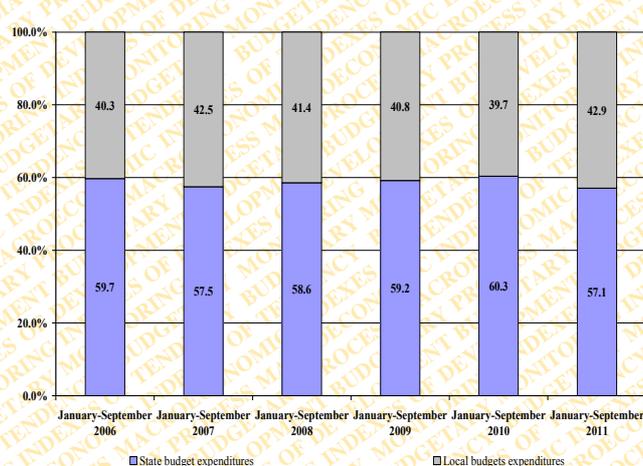


Chart 10

Shares of State and Local Budget Expenditures in Consolidated Budget in January-September 2006-2011



The consolidated budget expenditures totaled Hr 287bn in January-September 2011, which is 9.4% more year-on-year (to compare, such growth amounted to 20.7% in January-September 2010, and 6.1% in 2009). The level of execution of consolidated budget expenditures amounted 65.6% of the 2011 plan in the period under review (66.4% during nine months of 2010, and 62.2% during nine months of 2009).

The structure of consolidated budget expenditures changed somewhat compared to 2010 (see Chart 10). The share of local budget expenditures increased by 3.2ppts compared to the 2010 figure and amounted to 42.9%, which is the highest proportion of local budget expenditures in the overall consolidated budget structure since 2005. At the same time, the reduction of the share of local budget revenues is indicative of local budgets' greater dependence on transfers from the State budget.

Consolidated budget expenditures for society and culture accounted for 62.8% of the total outlay, which is 3.8ppts less year-on-year.

## STATE BUDGET AND LOCAL BUDGET REVENUES

The actual revenues of the State budget (without intergovernmental transfers) totaled Hr 224.7bn, which is Hr 66.7bn or 42.2% more than the respective indicator for 2010. Revenue intake equaled 75.8% of the annual plan is forecast to meet the full-year target.

Growth in budget revenues was noted for all items, though the main growth factor consisted of tax revenues, which increased by 69.4%.

As a result of the tax reform implemented, as well as thanks to an overall improvement of the economic situation in the country, revenues increased for the following items: value-added tax by Hr 39.4bn or 70.8%, enterprise profit tax by Hr 11.6bn or 42.6%, rent and fees for fuel and energy by Hr 5.7bn or 60.3%, excise tax by Hr 4.4bn or 21.9%, taxes on foreign trade and external transactions by Hr 2.1bn or 34.4%.

The structure of State budget revenues changed compared to 2010. Firstly, there was a 13.5ppts growth in the share of tax revenues in the general structure of State budget revenues, which was caused by including the rent and fees for fuel and energy resources in the category of taxes. The same applies to an 8.4ppts increase in such a category as other tax revenues, which now includes the rent and the above fees (see Chart 11).

Chart 11

Structure of State Budget Revenues in January-September 2006-2011

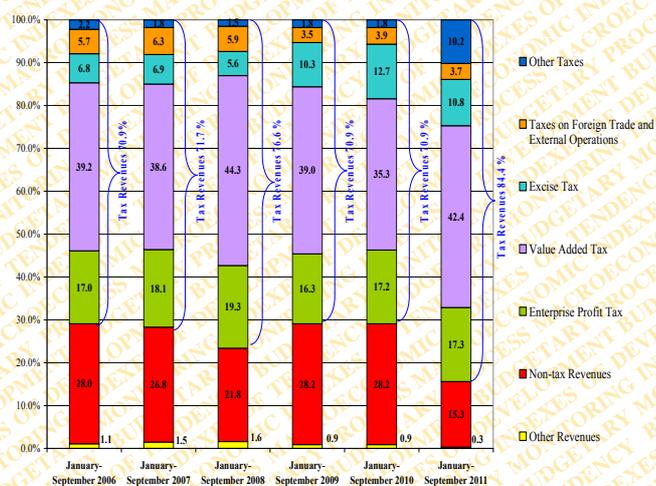
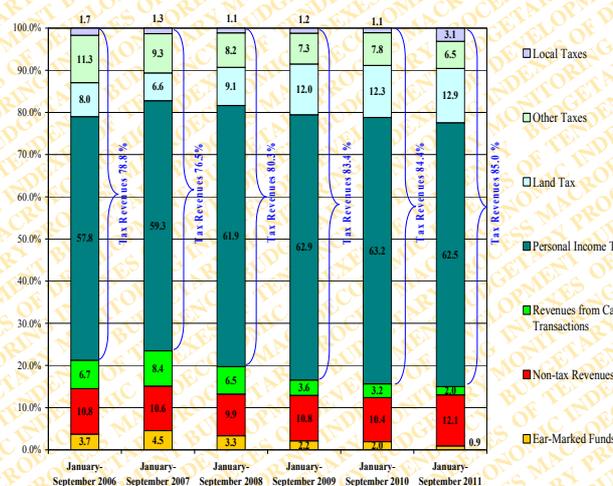


Chart 12

Structure of Local Budget Revenues in January-September 2006-2011



Local budget revenues (without intergovernmental transfers) totaled Hr 62.1bn, which is 8.4% (or Hr 4.8bn) more than in January-September 2010. This amount equals 72.5% of the revenue plan approved by local councils. The annual estimate of the Ministry of Finance was executed by 76.6%.

Further growth in the share of tax revenues of up to 85.0% (by 0.6ppt) is observed in the structure of local budget revenues, and an increase in the share of non-tax revenues (to 12.1% by 1.7ppt) (see Chart 12). Tax revenues (by 9.2%) and non-tax revenues (by 25.6%) both increased year-on-year. At the same time, the revenues from capital transactions decreased by 34.0% and revenues of targeted funds by 48.3%.

The growth in tax revenues was significantly influenced by the increase of revenue from personal income tax, which rose by 7.3% against the 2010 figure and amounted to Hr 38.9bn. At the same time, the share of this tax decreased to 62.5% in the total amount of local budget revenues (without intergovernmental transfers).

The receipts from payment for land grew throughout nine months of 2011 (+13.1% against 2010). Also, their share in the structure of local budget revenues increased somewhat and amounts to 12.9%.

Local taxes and fees generated a total of over Hr 1.9bn or 3.1 times more than in 2010, which has increased their share in the structure of local budget revenues to 3.0% vs. 1.1%. This increase stems from the new version of the Budget Code and the Tax Code of Ukraine approved on 2 December 2010, in which local taxes and fees shall include a fee for conducting certain types of business activity, parking fee, tourist charge, and single tax. The latter tax generated Hr 1.5bn in revenue year-to-date, which is 9.2% more than in the same period of 2010. The immovable property tax, which is also included into local taxes and fees, shall come into effect as of 1 January 2012.

The Tax Code also abolished the tax on owners of transport vehicles and other self-propelled machines and mechanisms, which has influenced the local budget revenues accordingly. At the same time, in January through September 2011, local budgets received a total of Hr 500.0mn from fees for the initial registration of vehicles and from the tax on owners of transport vehicles levied for 2010, as part of taxes on property, which is 65.3% less than the 2010 level.

## STATE BUDGET AND LOCAL BUDGET EXPENDITURES

The actual expenditures of the State budget (with intergovernmental transfers) totaled Hr 232.1bn, which amounts to 68.7% of the plan approved for 2011. This level of execution equals the 2010 figure and is 1.3% greater than the level of expenditure execution in the pre-crisis year of 2008. Expenditures increased by Hr 16.9bn or 7.9% compared to Q3 2010 (see Table 1).

Table 1

**Comparison between Expenditures of the State Budget of Ukraine in Nine Months of 2011 and Nine Months of 2010  
by Functional Classification of Expenditures and Crediting**

Description as per Functional Classification of Expenditures and Crediting	Executed in nine months of 2010, Hr mn	Executed in nine months of 2011, Hr mn	Deviation (+/-) of nine months of 2011 vs. nine months of 2010, Hr mn	Growth structure in nine months of 2011 vs. nine months of 2010	Growth rate in nine months of 2011 vs. nine months of 2010, %
<b>Expenditures total, including:</b>	<b>215 139.2</b>	<b>232 050.4</b>	<b>16 911.2</b>	<b>x</b>	<b>107.9</b>
<b>Reduction of expenditures, total, including:</b>	<b>77 032.5</b>	<b>58 854.7</b>	<b>-18 177.8</b>	<b>x</b>	<b>76.4</b>
- Social protection of pensioners	53 038.6	46 090.8	-6 947.8	x	86.9
- Gas and oil industry	2 900.0	-	-2 900.0	x	
- Air transport	2 559.3	329.7	-2 229.6	x	12.9
- Vocational education	2 895.8	723.9	-2 171.9	x	25.0
- Physical culture and sport	2 338.1	658.4	-1 679.7	x	28.2
- Holding of elections and referendums	945.8	36.7	-909.0	x	3.9
- Financial and fiscal activities	5 581.8	5 316.9	-264.9	x	95.3
- Housing and communal services	225.3	39.4	-186.0	x	17.5
- Other reduction of expenditures	6 547.9	5 659.0	-888.9	x	86.4
<b>Increase of expenditures, total, including:</b>	<b>138 106.7</b>	<b>173 195.7</b>	<b>35 089.0</b>	<b>100.0</b>	<b>125.4</b>
- Intergovernmental transfers	56 782.5	68 198.6	11 416.1	32.5	120.1
- Debt servicing	9 558.2	16 547.0	6 988.8	19.9	173.1
- Multipurpose development projects	843.2	4 360.4	3 517.2	10.0	517.1
- Road building and maintenance	6 470.0	9 535.3	3 065.3	8.7	147.4
- Higher education	15 528.3	16 991.3	1 462.9	4.2	109.4
- Defense	5 500.9	6 857.5	1 356.6	3.9	124.7
- Public order, fighting crime, and protection of national border	9 217.6	10 264.4	1 046.8	3.0	111.4
- Coal industry and other solid fuel extraction industries	4 914.3	5 929.3	1 015.0	2.9	120.7
- Agriculture, forestry and game preserves, and fisheries	3 817.9	4 830.3	1 012.5	2.9	126.5
- Other increase of expenditures	25 473.6	29 681.4	4 207.8	12.0	116.5

Even though the annual plan for expenditures is in general executed at the 2010 level, some changes are observed in this indicator for individual functions. For instance, there was a significant increase in the level of execution of expenditures for environmental protection (by 32.4ppt), which is a positive development. At the same time, the levels of execution decreased for the expenditures for housing and communal services (-22.8ppt), spiritual and physical development (-8.2ppt), economic activity (-6.6ppt), healthcare (-3.2ppt), and social protection (-1.6ppt).

The share of social expenditures dropped to 32.7% (see Chart 13) or by 6.7ppt, and their amount decreased by Hr 8.8bn or by 10.4%. This, among other things, is related to cutting expenditures for covering the Pension Fund deficit by about 37.0% and transferring vocational schools to funding by local budgets.

**The local budget expenditures** totaled Hr 125.2bn, which is 15.1% more than the respective indicator of 2010. The annual estimate of the Ministry of Finance was executed by 75.4%, and the plan approved by local councils - by 67.3%.

The share of local budget expenditures used for societal and cultural sphere amounted to 82.0% in the reporting period (see Chart 14), which is 0.9ppt less than the respective indicator of 2010.

In terms of functional classification, the most significant changes occurred in the expenditures for housing and communal services, the share of which increased by 2.1ppt and reached 4.9%. In addition, there was an increase in expenditures for economic activity (by 1.8ppt or to 5.6%), for social protection and social security (by 0.9ppt or to 23.9%), and a decrease in health expenditures (by 1.6ppt or to 21.3%). Note should also be made of a 2.7ppt reduction in the share of transfers from local budgets to the State budget. These changes are mainly due to a decline in the planned amount of intergovernmental transfers from the Kyiv city budget, resulting from the crediting of 50.0% of the personal income tax into the State budget.

Chart 13

**Structure of State Budget Expenditures by Functional Classification in January-September 2011**

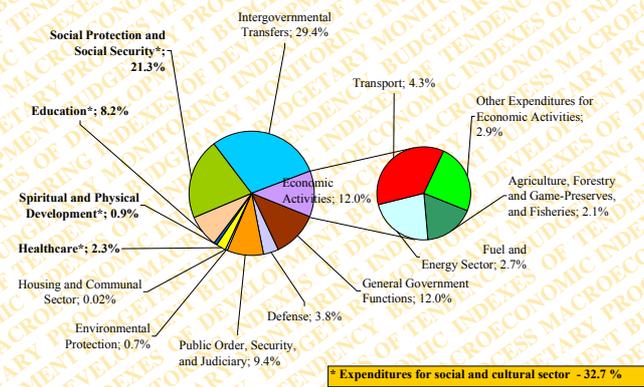
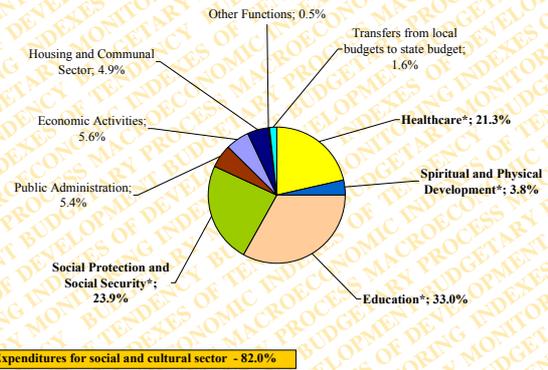


Chart 14

**Structure of Local Budget Expenditures by Functional Classification in January-September 2011**



A positive factor is a reduction in the share of protected items of **State budget expenditures by economic classification** to 75.1% (see Chart 15), which is 1.3ppt less than the respective indicator of 2010. These expenditures, however, still make up a significant part of the budget compared to the pre-crisis year 2008, when they amounted to 68.1% of all expenditures. Alongside the reduction in the share of protected items, the share of capital expenditures increased from 5.4% in January-September 2010 to 7.4% in 2011. Also, the amount of these expenditures increased by Hr 5.7bn or 1.5 times year-on-year. However, this increase was mainly driven by capital transfers, which are provided from the budget to non-budgetary sphere. Capital construction and major renovation, on the other hand, i.e., the expenditures intended for improving the infrastructure of budgetary institutions, were even somewhat decreased.

Chart 15

**Structure of State Budget Expenditures by Economic Classification in January-September 2011**

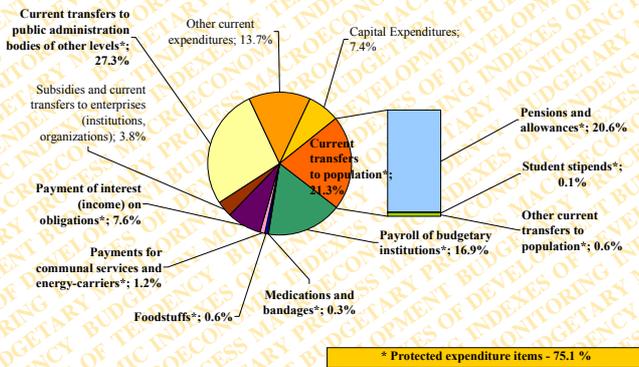
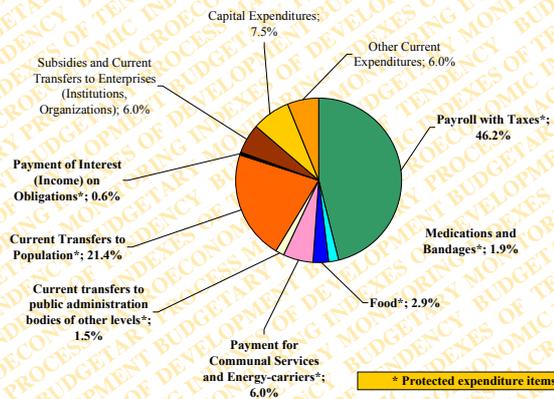


Chart 16

**Structure of Local Budget Expenditures by Economic Classification in January-September 2011**



Protected items accounted for 80.5% of all **local budget expenditures by economic classification** (see Chart 16), which is 3.8ppt more than the respective indicator of 2010.

The share of expenditures for payroll with taxes fell by 2.0ppt in the structure of local budget expenditures, which is consistently the largest item from among all the local budget expenditures and which amounted to 46.2% in the first three quarters of 2011. A 2.7ppt decrease is also observed in for Current transfers to public administration bodies of other levels fell by 2.7ppt the share of expenditures (down to 1.5%) and a 1.4ppt increase in the share of expenditures for current transfers to the populace (up to 21.4%).

At the same time, the share of capital expenditures increased by 2.1ppt and amounts to 7.5% of all local budget expenditures. In nominal terms, the capital expenditures increased 1.6 times and amounted to Hr 9.4bn.

## FINANCING OF THE STATE BUDGET

The **State budget deficit** totaled Hr 8.2bn (see Chart 17), which amounts to 23.2% of the 2011 target. This indicator is 84.4% lower than in 2010. The General Fund deficit totaled Hr 10.8bn or 32.4% of the annual plan, whereas a surplus of Hr 2.6bn was noted for the Special Fund, with the planned annual deficit of Hr 1.9bn.

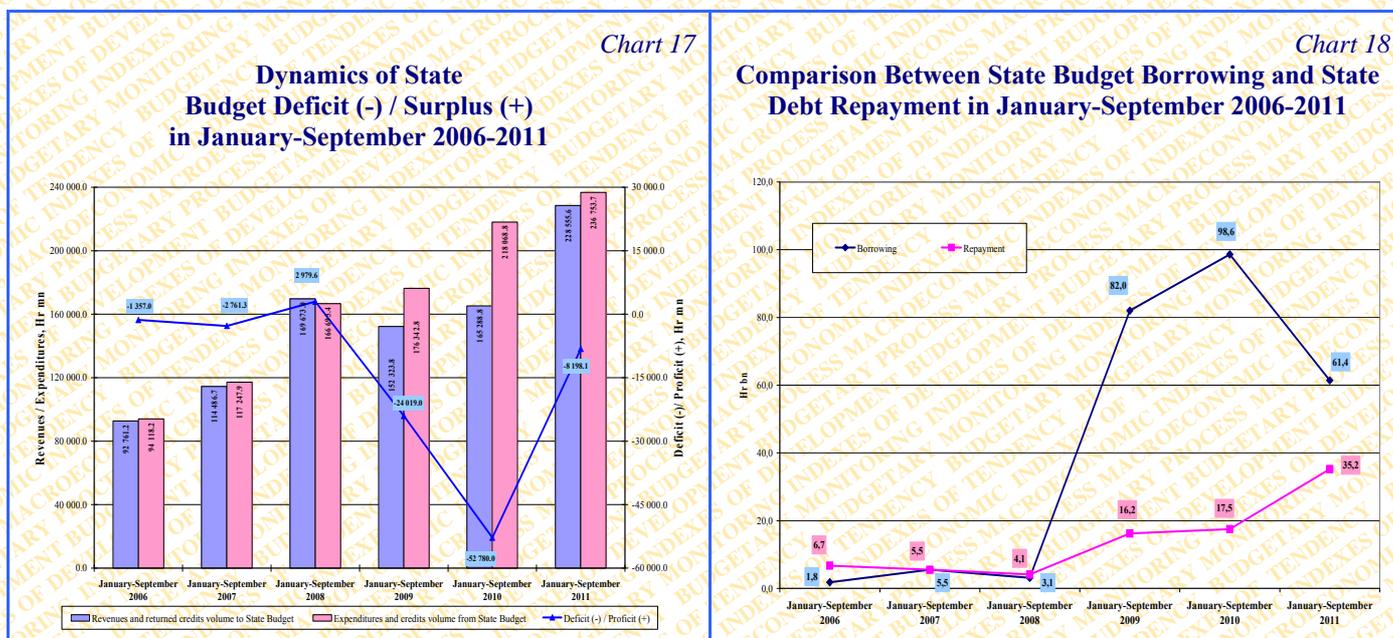
Financing under debt transactions (excess of borrowing over repayment of the State debt) totaled Hr 26.2bn or 101.5% of the annual plan, including Hr 19.4bn or 83.2% for the General Fund, and Hr 6.7bn for the Special Fund, which is 2.8 times more than the annual plan. Financing under debt transactions for the General Fund decreased by 61.2% year-on-year, and fell for the Special Fund by 77.8%.

**Internal borrowing** totaled Hr 36.3bn (36.7% less than in 2010), including Hr 31.2bn for the General Fund (12.6% more than in 2010).

**External borrowing** decreased by 38.8% year-on-year and was incurred at Hr 25.2bn. The bulk of external borrowing (Hr 22.7bn or 90%) is intended for the General Fund. Of the total external debt, 96.8% or Hr 24.4bn was borrowed as long-term obligations.

The annual borrowing plan was implemented by 69.6%, including by 63.5% for the General Fund, and 2.3 times over the annual plan for the Special Fund.

In the period of January through September of 2011, **debt repayment** amounted to more than a half of the annual plan (56.5% or Hr 35.2bn) (see Chart 18). The repayment of internal debt totaled Hr 27.4bn or 72.8% of the plan, with the external debt repayment of Hr 7.8bn or 31.5%.



The situation regarding the use of borrowed resources improved. In 2011, with the General Fund deficit of Hr 10.8bn, capital expenditures totaled nearly the same amount (Hr 10.5bn), therefore, consumption expenditures are covered by budget revenues, as opposed to 2010, when the General Fund deficit amounted to Hr 29.9bn, against capital expenditures of just Hr 1.1bn or 3.7% of the deficit.

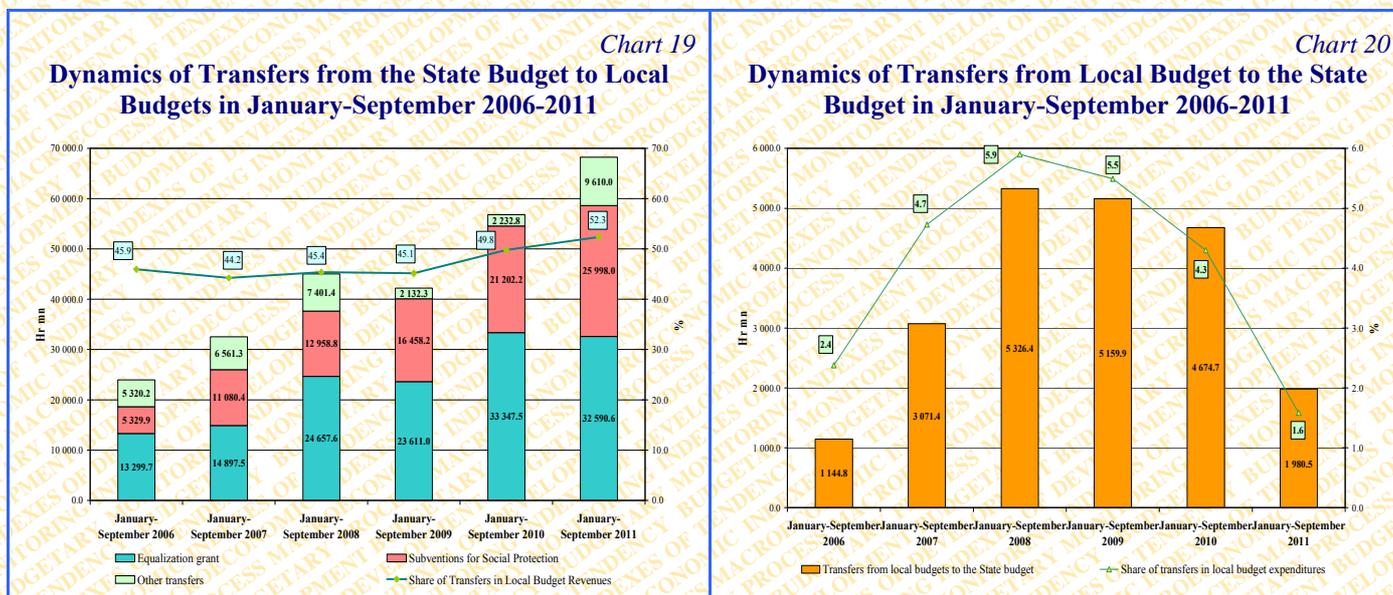
Thanks to the sale of Ukrtelecom, the **receipts from privatization of State-owned property** totaled Hr 10.9bn or 9.0% more than the annual target approved for 2011.

The **balance of budget funds** totaled Hr 50.9bn at the end of September 2011, showing a growth of Hr 11.5bn since the beginning of the year. This balance increased by 14.5% year-on-year.

## INTERGOVERNMENTAL TRANSFERS

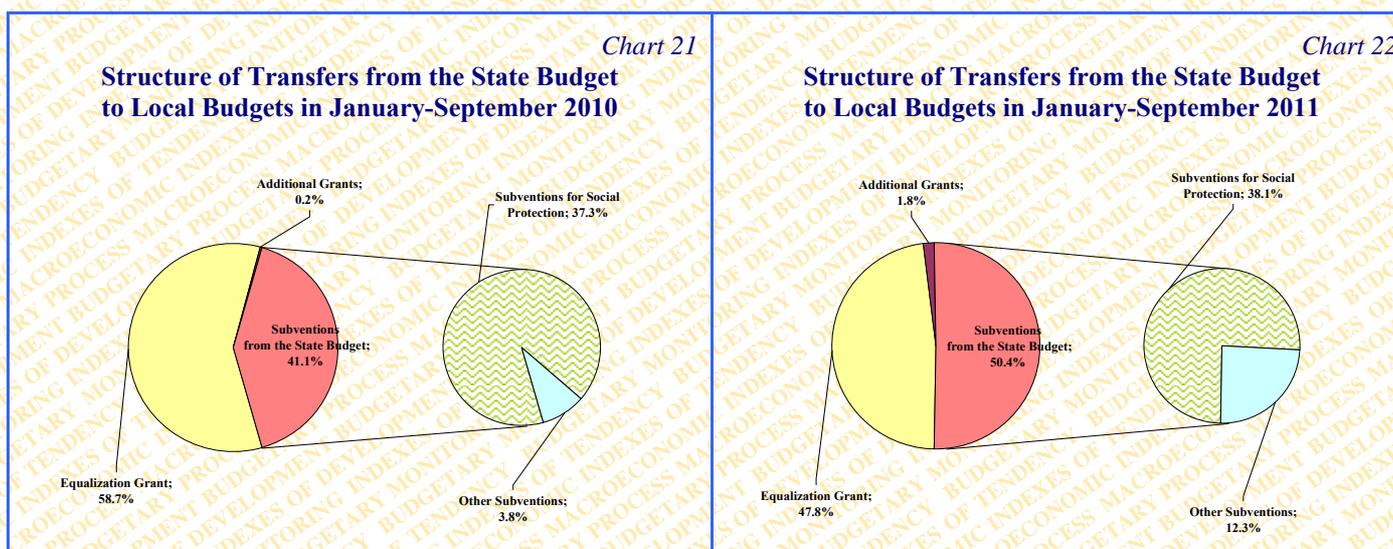
The local budgets received Hr 68.2bn in intergovernmental transfers from the State budget (72.6% of the annual plan), which is 20.1% more than in the first three quarters of 2010. This led to an increase in the share of intergovernmental transfers in the total structure of local budget revenues to 52.3% against 49.8% in the respective period of 2010 (see Chart 19).

The amount of intergovernmental transfers remitted to the State budget by local budgets totaled nearly Hr 2.0bn. (see Chart 20). Compared to 2010, their volume decreased by 57.6% (nearly by Hr 2.7bn) and amounted to 1.6% of all local budget expenditures. These changes are primarily linked to the abovementioned reduction in the planned amount of intergovernmental transfers to be remitted by the Kyiv city budget.



The equalization grant has the largest share in the structure of transfers from the State budget with 47.8%, which is 10.9ppt less than the respective indicator of 2010 (see Chart 21 and Chart 22). An equalization grant totaling Hr 32.6bn was remitted to local budgets, which is 2.3% less than during three quarters of 2010.

The share of social protection subventions increased by 0.8ppt and amounted to 38.1%. In nominal terms, these subventions increased by 22.6% and totaled nearly Hr 26.0bn. The share of other subventions remitted to local budgets from the State budget amounted to 12.3% against 3.8% in 2010, and their volume totaled Hr 8.4bn.



Based on the three quarters' data, the levels of execution of annual targets for the provision of various types of intergovernmental transfers are as follows:

- equalization grant – 74.7%;
- additional grants – from 30.2% to 72.7%;
- subventions for social protection of the population - 73.3%;
- other subventions – 69.4%.

It should be noted that the Law of Ukraine “On Amending the Law of Ukraine ‘On the State Budget of Ukraine for the Year 2011’” dated 14 June 2011, No.3491 increased the amount of intergovernmental transfers to be remitted to local budgets by Hr 3.4bn. Of this amount, Hr 1.7bn will be remitted as capital subventions, Hr 1.6bn as additional grants for raising salaries of public servants, and Hr 47.7mn for increasing the equalization grant amount. In general, these amendments have introduced over 20 types of new transfers that were not previously envisaged for 2011.

This publication outlines the key trends in execution of the consolidated, State, and local budgets in January-September 2011. A more detailed information is contained in the publication *Budget Monitoring. Analysis of Budget Execution in January-September 2011* to be published in December 2011.