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Monthly Monitoring of Main Indicators of Budget and Banking Systems of Ukraine as of May 1, 2009

This booklet is a monthly publication prepared based on official statistics. It contains a brief analysis and a selection of charts illustrating the key changes occurring in the budget and banking systems of Ukraine.

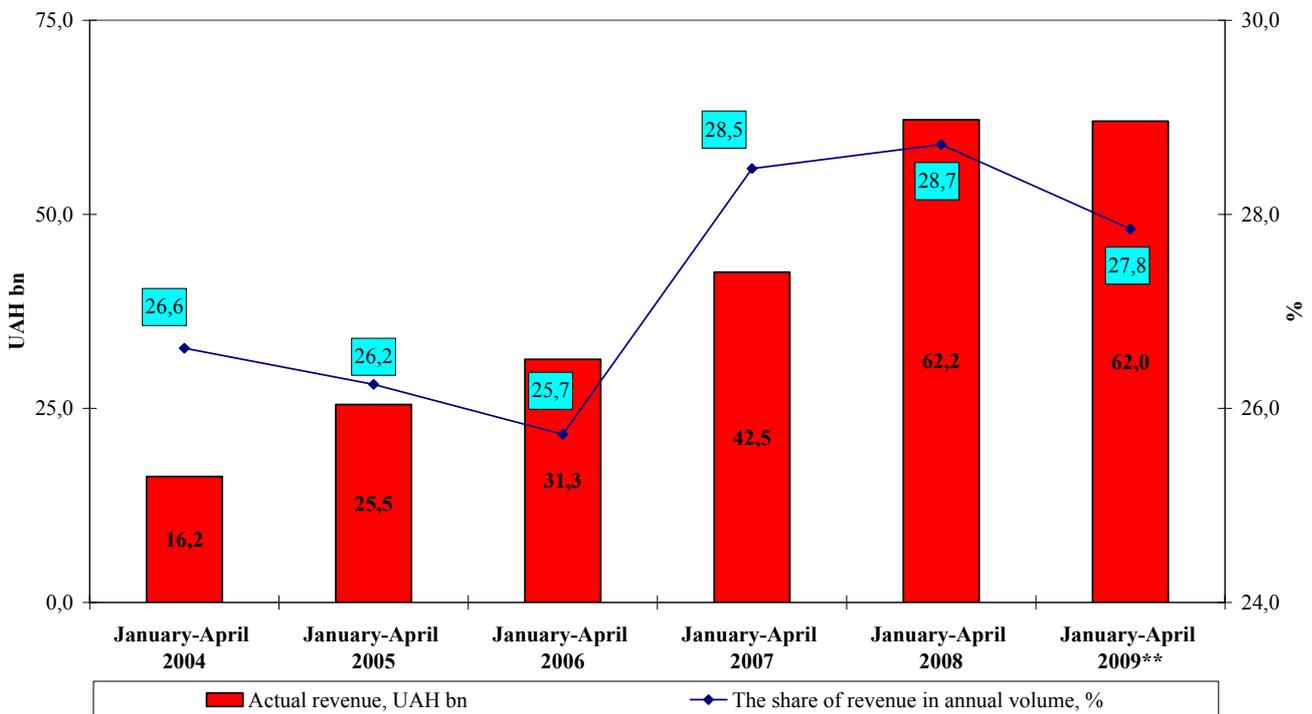
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Tendencies of the Budget System Development

According to operational data of the State Treasury of Ukraine (<http://www.treasury.gov.ua/main/uk/publish/article/109902>), the State budget **received** a total of Hr 62.0bn in **revenues** in January-April 2009, with Hr 18.2bn mobilized in April 2009.

Chart 1

Dynamics of Aggregate Revenues of the State Budget of Ukraine in January-April 2004-2009*

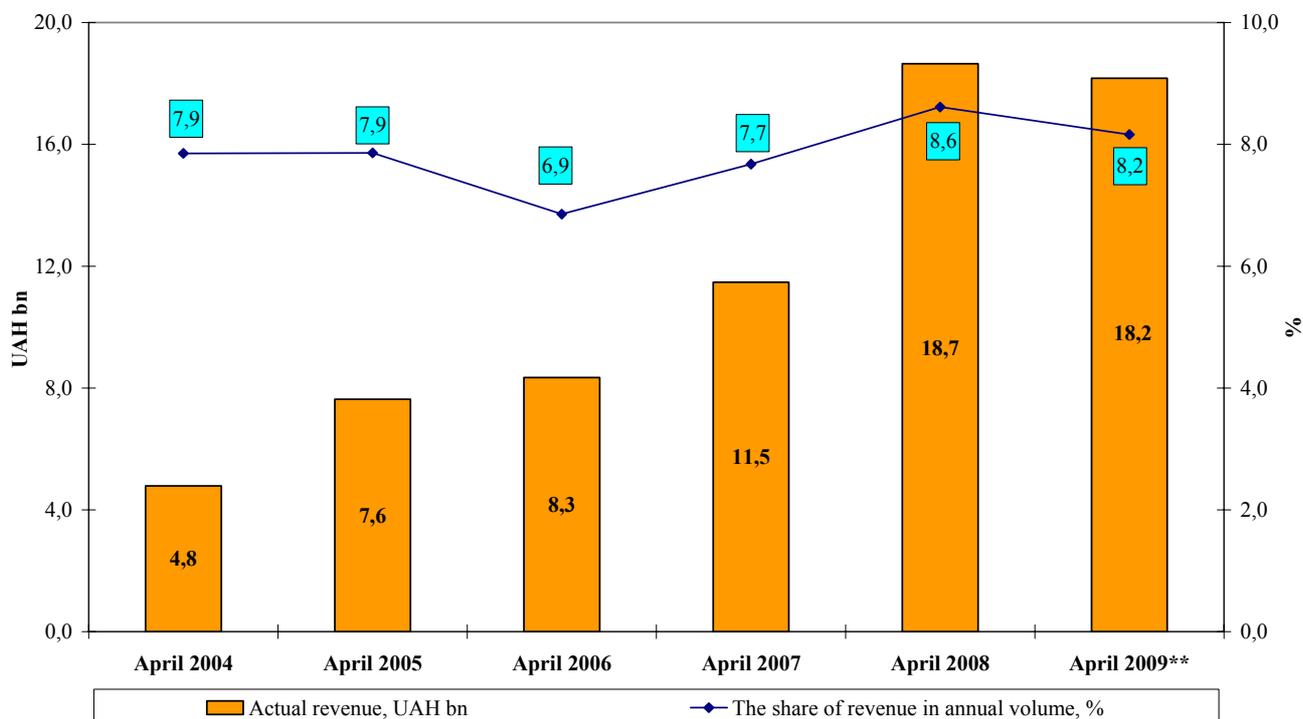


**The data are presented with interbudgetary transfers and without own revenue of budget institutions
** The share of total revenue is determined with regard to provided planned annual index*

In particular, the General Fund received Hr 48.7bn or 26.5% of the annual plan, compared to Hr 51.5bn year-on-year, which amounted to 27.7% of the approved annual target.

The State budget Special Fund revenues were recorded at Hr 13.3bn in January-April 2009 (without own revenues of budgetary institutions), which amounts to 34.1% of the annual plan. In the same period of 2008, the Special Fund revenues of the State budget totaled Hr 10.7bn or 34.9% of the annual plan.

Dynamics of Aggregate Revenues of the State Budget of Ukraine in April 2004-2009*



*The data are presented with interbudgetary transfers and without own revenue of budget institutions
** The share of total revenue is determined with regard to provided planned annual index

In April 2009, Hr 14.3bn were mobilized for the General Fund of the State budget (including VAT compensation) or 105.7% of the monthly apportionment of the General Fund revenues of the State budget. The Special Fund intake of the State budget totaled Hr 3.9bn in April 2009 (without own revenues of budgetary institutions) or 133.7% of the monthly apportionment of the Special Fund of the State budget.

Some non-typical revenues have contributed to execution of the State budget revenue plan. For instance, the National Bank of Ukraine remitted Hr 3.4bn in April 2009, as surplus of its income over costs. As the result, the annual plan for this type of revenues was implemented by 109.9%.

Another non-typical source of revenues in April included Hr 1.8bn in value-added tax on imported natural gas remitted by the NAK Naftohaz Ukrayiny company.

The State Treasury reimbursed Hr 9.9bn in value-added tax from the budget in January-April 2009 or 100.0% of the plan for January-April, including Hr 2.8bn paid up in April or 102.2% of that month's target.

In general, the State budget revenues decreased by Hr 186.6mn in absolute terms in January-April 2009 or by 0.3%.

Payments on State's debt obligations for the General Fund of the State budget were effected in a timely manner in January-April 2009, according to the State Treasury data (<http://www.treasury.gov.ua/main/uk/publish/article/110149>).

The expenditures for servicing the State debt totaled Hr 1.5bn or 9.7% of the annual amount, including Hr 0.7bn or 7.1% for internal debts, and Hr 0.8bn or 15.0% for external debts.

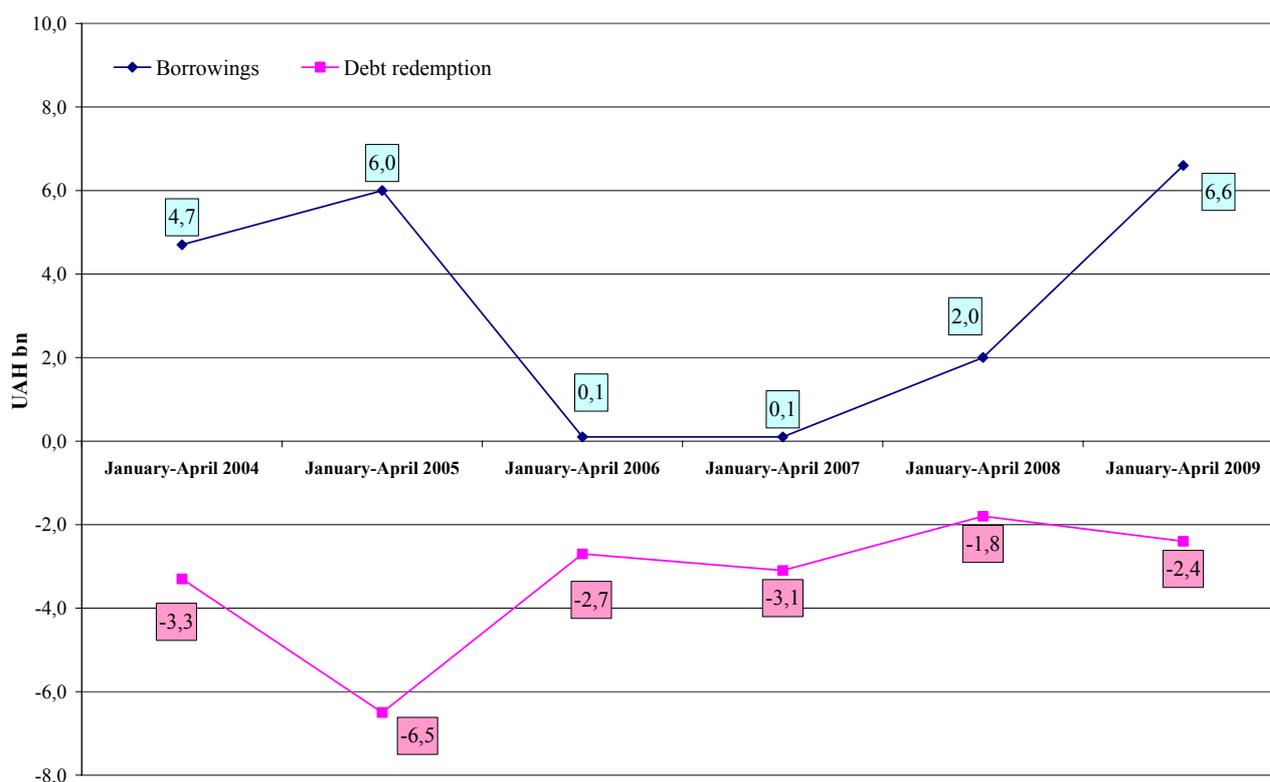
The expenditures for repayment of the State debt totaled Hr 2.4bn or 8.6% of the annual amount in January-April 2009, including Hr 1.4bn or 9.3% for internal State debt and Hr 1.0bn or 7.7% for external State debt.

The State borrowing was incurred at Hr 6.6bn or 7.4% of the planned annual amount.

By comparison, the State budget borrowing totaled Hr 2.0bn or 12.5% of the annual plan in January-April 2008; and State debt repayment totaled Hr 1.8bn or 31.0% of the annual plan.

Chart 3

Comparison of State Budget Borrowing and State Debt Repayment in January-April 2004-2009



A complicated **macroeconomic situation** was observed in January-April 2009 as the result of negative processes in the world economy, which unfolded in the second half of 2008. One must mention, however, some positive developments, such as a gradual slowing down of inflationary processes, a trend towards reduction in the rate of outflow of funds from commercial banks, and stabilization of the hryvnya exchange rate at a certain level.

The industrial output decline amounted to 31.9% in January-April 2009 year-on year, which, to a certain degree, was caused by a slower growth in personal income and declining demand for Ukrainian exports on foreign markets.

The World Bank has downgraded its **GDP decline forecast** for Ukraine to 9% for 2009 (the previous forecast predicted a GDP decline of 4%). GDP is predicted to grow by 1% in 2010, with gradual increase to 4-5% annual (<http://www.afn.by/news/i/116684>).

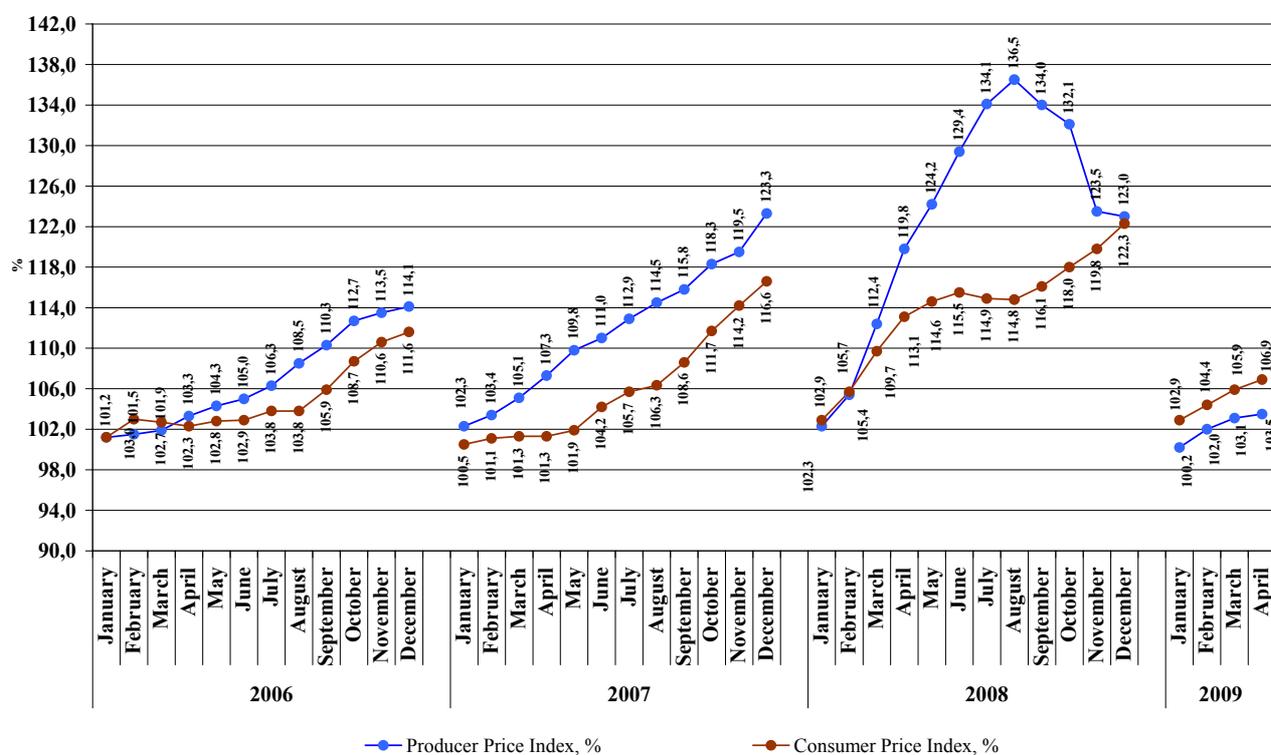
The European Bank for Reconstruction and Development (EBRD) has also downgraded its forecast for Ukraine's GDP decline from 5% to 10% in 2009. EBRD predicts a zero GDP growth for 2010 (<http://www.afn.by/news/i/118221>).

The main contributing factors for the predicted GDP decline in Ukraine, as perceived by EBRD, include a drop in prices of steel, which is the core of Ukrainian exports. This will result in a declining volume of export, increase in price of Ukraine's energy imports, and Ukrainian companies' facing limited opportunities for external borrowing.

Inflation reached 2.9% in January 2009. However, a gradual shrinking of the aggregate demand has led to easing of inflationary pressures in February and March. The consumer price index amounted to 105.9% in Q1 vs. 109.7% in Q1 2008. Inflation amounted to 106.9% in January-April 2009 against 113.1% year-on-year (http://www.ukrstat.gov.ua/operativ/operativ2009/ct/isc/isc_u/isc2009gr_u.html).

Chart 4

Dynamics of Price Indices in 2006-2009

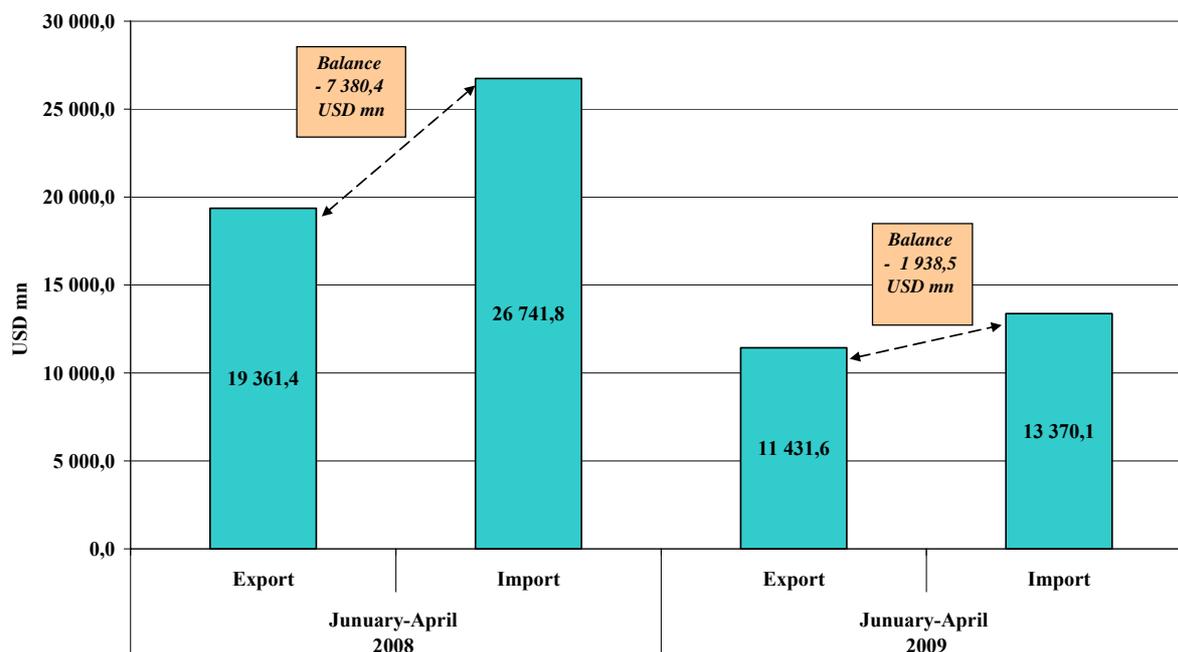


According to the calculations made when approving the Law of Ukraine "On the State Budget of Ukraine for the Year 2009," **inflation is projected** at 9.5%. At the same time, the World Bank predicts inflation at 16.4% (inflation amounted to 22.3% in Ukraine in 2008) (<http://korrespondent.net/business/economics/797500>).

According to the State Statistics Committee of Ukraine (<http://www.ukrstat.gov.ua/operativ/operativ2009/mp/dopovidx/d052009.rar>), **export of Ukrainian goods** dropped by 41.4% in January-April 2009 year-on-year, and amounted to \$11.4bn. **Import of goods** in Ukraine totaled \$13.3bn in the period under review, which is 50.1% below the respective last year's figure.

A negative balance of foreign trade in goods totaled \$1.9bn (a negative balance of \$7.4bn was also recorded in the respective period of 2008). The ratio of import coverage by export amounted to 0.86 (against 0.72 in January-April 2008).

Export and Import of Goods in January-April 2008-2009



Ukraine conducted foreign trade in goods with partners from 196 countries. The CIS countries accounted for 33.7% of all exported goods and the EU states — for 23.2% (35.9% and 27.4%, respectively in January-April 2008).

Of the total volume of exports, the largest export deliveries were made to the Russian Federation (19.1%), China (5.2%), Turkey (5%), Kazakhstan (4.3%), Italy (3.4%), Belarus (3.3%), and Germany (3%).

The volume of exports to the majority of trading partners decreased in January-April 2009, except for Kazakhstan, Turkmenistan, and Uzbekistan (CIS states), Spain (EU countries), and India and China (other countries).

Imports from the CIS countries accounted for 45.7% of all imported goods, and those from the EU — for 31.2% (41.9% and 32.6%, respectively, in January-April 2008). The largest exporters to Ukraine included the Russian Federation (21.7% of total imports), Uzbekistan (9.3%), Germany (8.2%), Kazakhstan (6.1%), China (5.4%), Turkmenistan (5.2%), and Poland (4.5%). Imports from nearly all the main trading partner-countries declined year-on-year (except Uzbekistan).

As before, mineral products, base metals and products, mechanical and electrical machinery, chemicals and related products, and plant products make up the core of Ukraine's foreign trade structure.

The export of Ukrainian give-and-take stock totaled \$12.3mn in January-April 2009, or 0.1% of country's total exports. Ukraine imported \$16.6mn worth of finished products made from give-and-take stock or 0.1% of total imports.

Ukraine imported \$428.3mn worth of foreign give-and-take stock or 3.2% of country's total imports. The export of finished products made of imported give-and-take stock totaled \$640.4mn or 5.6% of total exports.

The largest volumes of foreign trade in goods were noted in the city of Kyiv, and the Donetsk, Dnipropetrovsk, Zaporizhzhya, and Odesa oblasts in January-April 2009.

Tendencies of the Banking System Development

In April 2009, the Ukrainian banking system was characterized by:

- **an improved** situation on the financial market and **lowering** tensions in the finance and banking sector;
- **stability** of the national currency cash exchange rate against U.S. Dollar (the official Dollar exchange rate remained unchanged at Hr 7.70 to \$1 since the beginning of 2009);
- **a slowing-down in the rate of depletion** of the aggregate assets of the banking system, which is mostly linked to a negative growth of the clients' loan portfolio;
- **stopping** of client funds outflow and growing volume of lending to companies in the real sector of the economy.

As of 1 May 2009, 185 banks had the National Bank licenses for conducting the banking business. Ten banks are in the process of liquidation, including seven banks liquidated by NBU decision, and three banks liquidated due to decisions of commercial/arbitration courts. 15 banks have been placed into temporary administration

In order to support the liquidity of banks, the National Bank carried out bank refinancing transactions totaling Hr 9.6bn in April (Hr 44.0bn year-to-date). Credits obtained under financial stabilization programs (totaling Hr 9.2bn) and overnight credits (totaling Hr 0.3bn) were used as the main refinancing tools.

An average weighted interest rate on refinancing transactions amounted to 16.9% annual in April, including 20.0% for overnight credits.

The statutory reserves accumulated by banks totaled Hr 11.9bn in April 2009.

There was a slowdown in the rate of development of the Ukrainian banking system in April 2009, in particular, in terms of its aggregate assets (see Chart 5). Hence, the aggregate assets of the Ukrainian banking system decreased by 0.4% against February, down to Hr 935.2bn.

The loan portfolio was down 0.3% in April (-0.17% in March) to Hr 714.2bn (see Chart 6 through Chart 11). The amount of credits to legal entities was up 0.3% in April against March and totaled Hr 457.9bn. Lending to private individuals decreased by 1.4% to Hr 256.3bn in April.

As of 1 May 2009, personal deposits amounted to Hr 192.5bn or 25.2% of total liabilities, and corporate deposits amounted to Hr 119.3bn or 15.8%.

Deposits of legal entities decreased by 2.4% in April (by 15.9% year-to-date) (see Chart 12 through Chart 14). This mainly occurred due to depletion of national currency deposits by 3.7% (by 19.5% year-to-date) down to Hr 74.2bn, influenced by payment of quarterly tax obligations in April. At the same time, foreign-currency deposits (in Dollar equivalent) decreased only by 0.1% (by 9.3% year-to-date) down to \$5.9bn.

The amount of personal deposits was up 0.6% in April (see Chart 15 through Chart 17). Increase in personal deposits is noted for both the national and foreign currencies. The personal deposits in the national currency increased by 1.1% (decreased by 8.8% year-to-date) to Hr 98.5bn, and those in foreign currencies (in Dollar equivalent) by 0.1% (decreased by 12.6% year-to-date) to \$12.2bn. A faster growth of hryvnya deposits points to a gradual restoration of trust both in the banking system and the Ukrainian currency.

This growth in personal deposits has had a positive impact on the overall deposit dynamics, with deposits reduction rate slowing down to 0.6% in April against March (this indicator amounted to 2.0% in March, 5.6% in February, and 5.1% in January) and their volume totaled Hr 312.1bn as of 1 May 2009.

The money supply was up 0.2% in April (down 9.9% year-to-date) and amounted to Hr 464.8bn.

The monetary base increased by 3.1% in April (down 3.5% year-to-date) to Hr 180.2bn. The volume of banks' correspondent accounts increased by 4.2% to Hr 17.5bn in this period (down 6.1% year-to-date).

A slowdown in the outflow of clients' deposits, alongside with the National Bank's proactive support of banks' liquidity in April, as well as support of the national currency via currency auctions for selling foreign currencies have contributed to improving the banking system liquidity. In the environment of sufficient liquidity and in view of alleviation of inflationary pressures, banks were cutting their interest rates on lending transactions. In particular, an average weighted cost of credits in the national currency decreased from 26.7% to 20.4% in April, while it increased slightly from 11.0% to 11.6% for foreign-currency credits. An average weighted rate under contracts at the interbank credit market decreased from 30.8% to 6.9% in April, including from 30.9% to 5.0% for overnight credits.

In order to mobilize clients' resources and retain the interest margin at a sufficient level, the majority of banks are raising their interest rates on deposit products. Thus, the average rate for clients' resources in the national currency placed for up to three months is 24%-25% for private individuals and 16%-17% for legal entities. These rates for foreign currencies amount to 13%-14% and 10%-11%, respectively.

As of 1 May 2009, the equity of banks totaled Hr 119.8bn or 13.7% of bank liabilities. The banks' equity has the following structure. The paid registered authorized capital accounts for 74.5% in the equity structure; dividend used for increasing the authorized capital 1.5%; issue difference 5.0%; general provisions, reserve funds, and other bank funds 11.4%; results of previous years 1.0%; results of the reporting year to be approved 1.4%; results of the current year (-4.1%); results of revaluation of fixed assets, intangibles, and securities in bank portfolio for sale and investing in associated companies 9.3%.

The income of banks totaled Hr 49.6bn, including interest income of Hr 42.4bn (or 85.4% of total income), commission income of Hr 5.3bn (10.6%). Bank costs totaled Hr 54.5bn, including interest costs of Hr 23.4bn (or 42.9% of total costs), deductions into reserves of Hr 18.6bn (34.1%), and commission costs of Hr 0.9bn (1.6%).

Chart 5

Assets Dynamics of the Ukrainian Banking System in 2006-2009

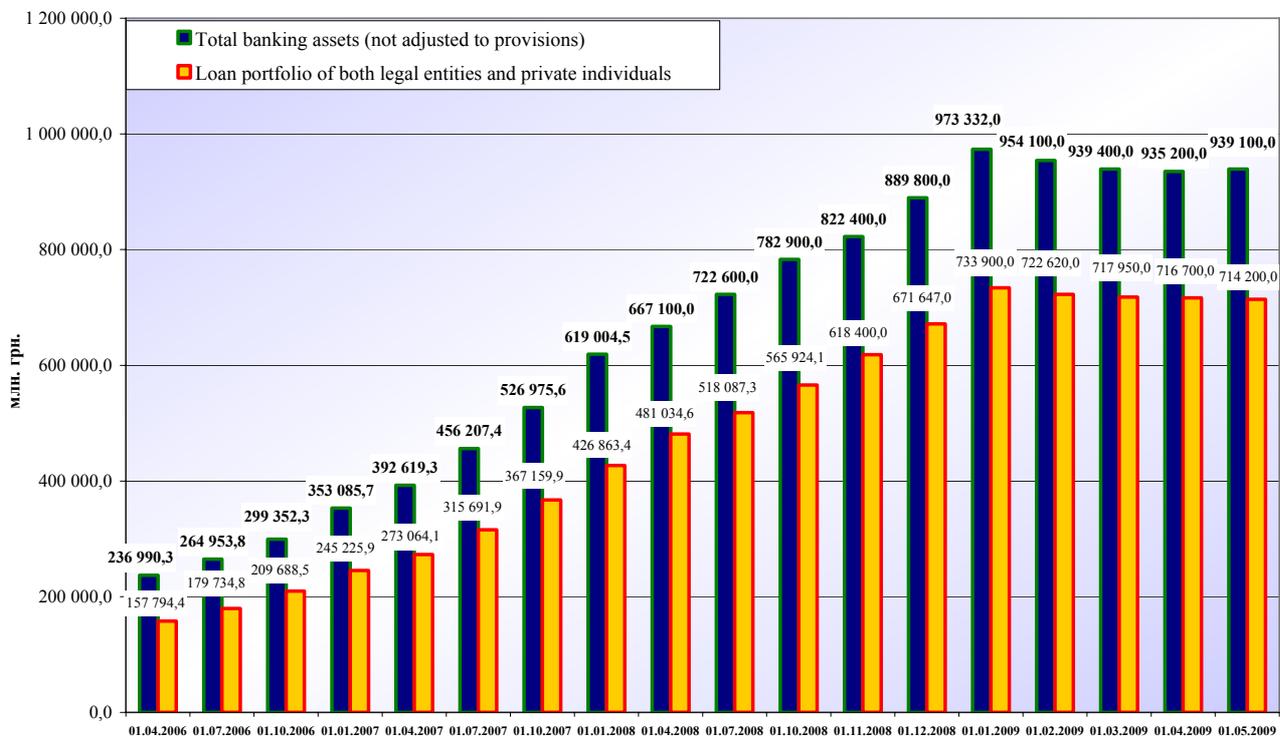


Chart 6

Legal Entities Loan Portfolio

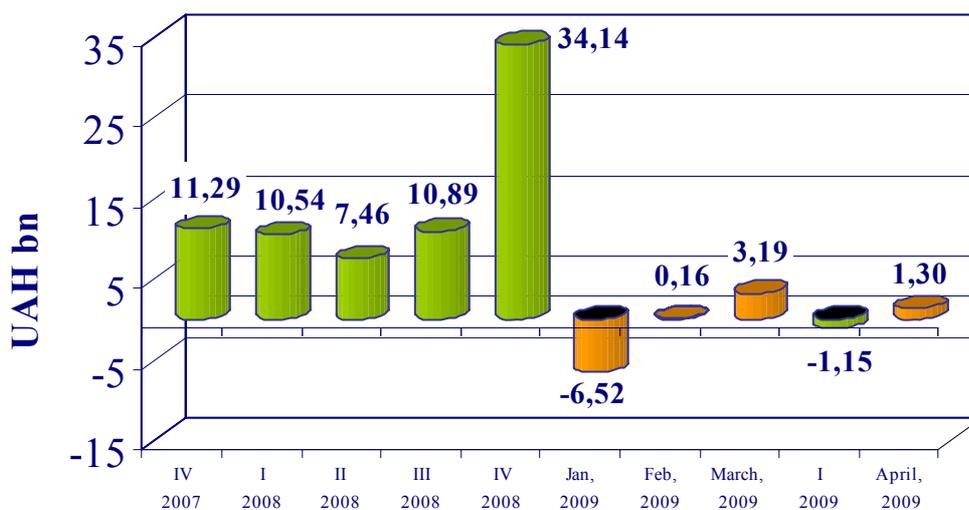


Chart 7

Legal Entities Loan Portfolio in UAH

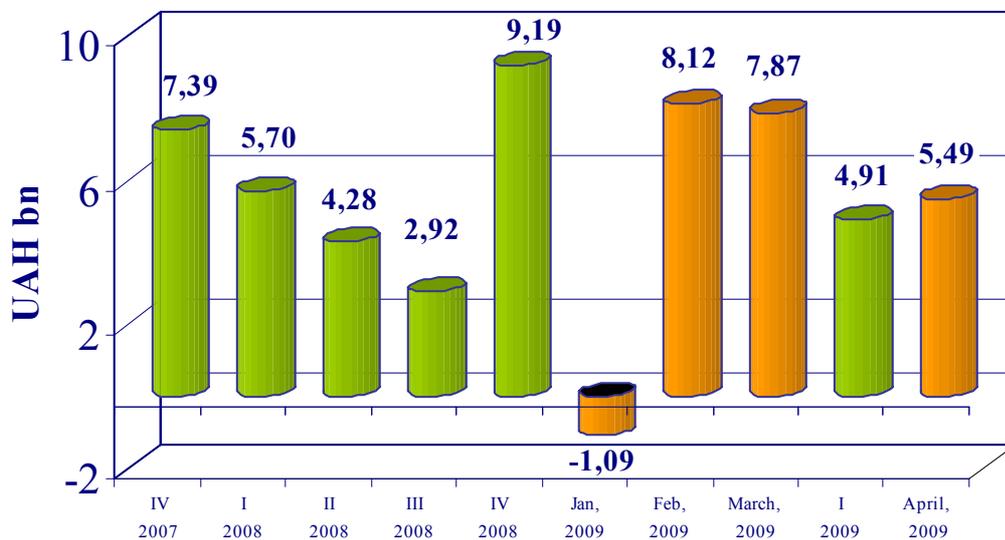


Chart 8

Legal Entities Loan Portfolio in FX

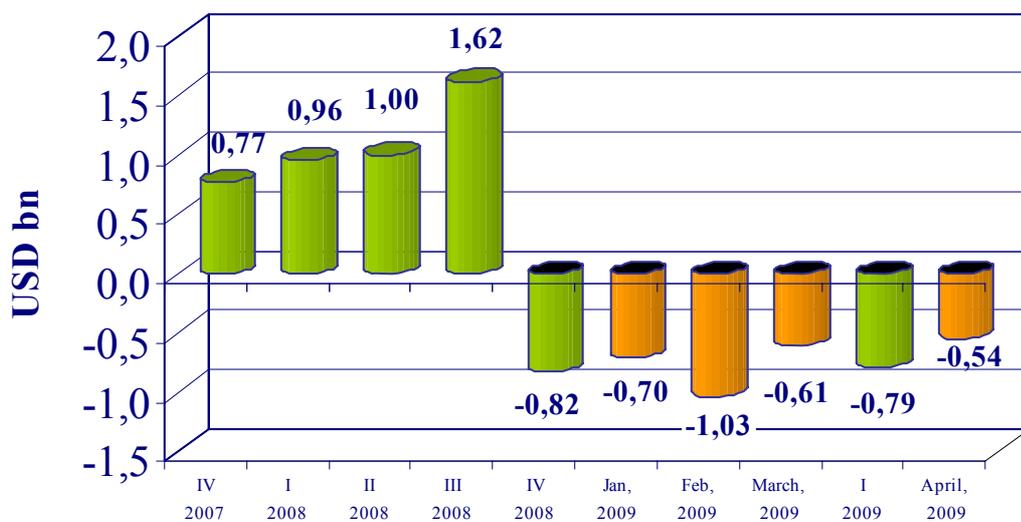


Chart 9

Individuals Loan Portfolio

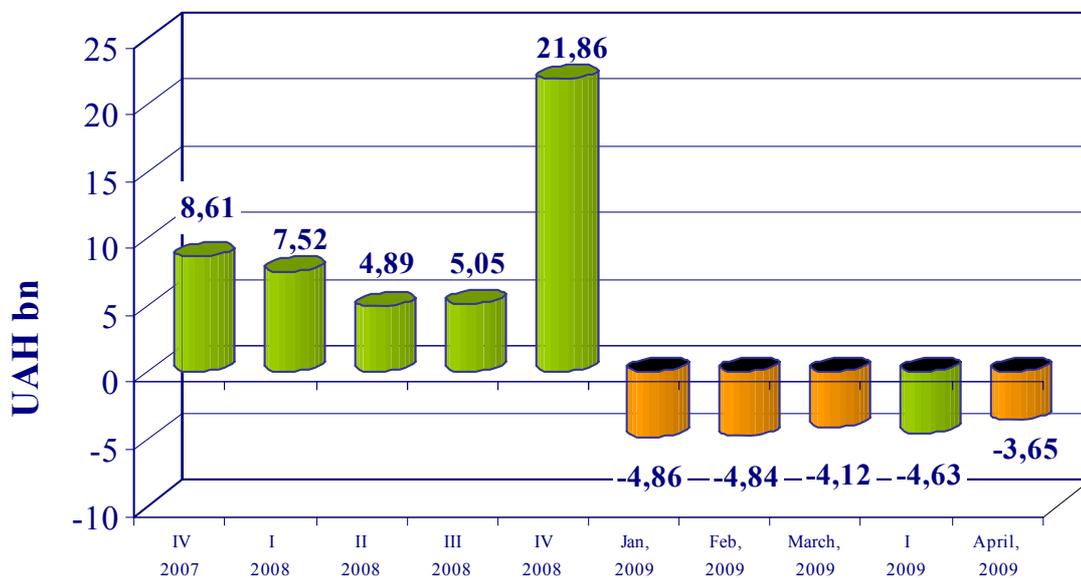


Chart 10

Individuals Loan Portfolio in UAH

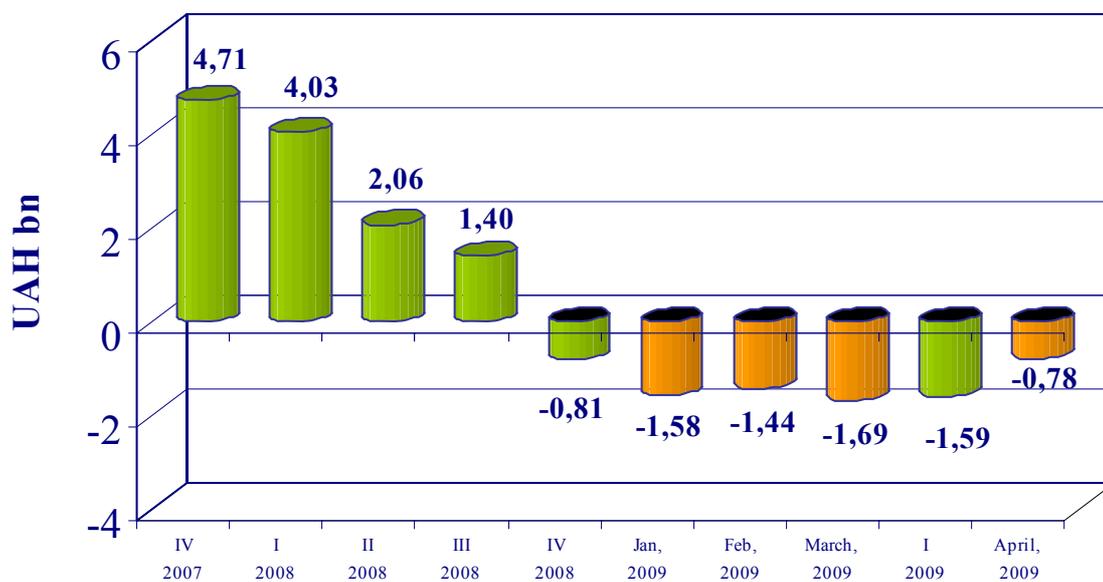


Chart 11

Individuals Loan Portfolio in FX

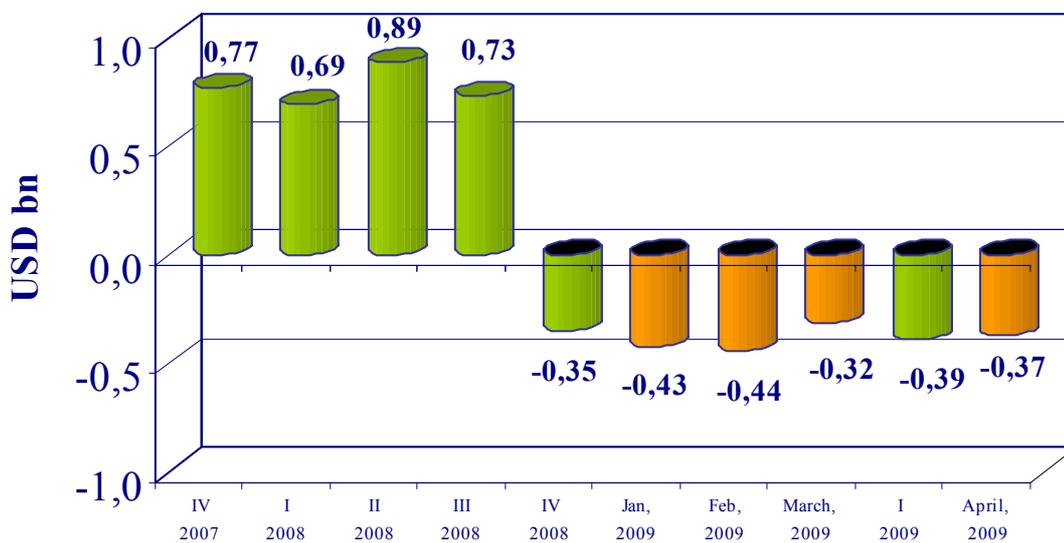


Chart 12

Legal Entities Deposits

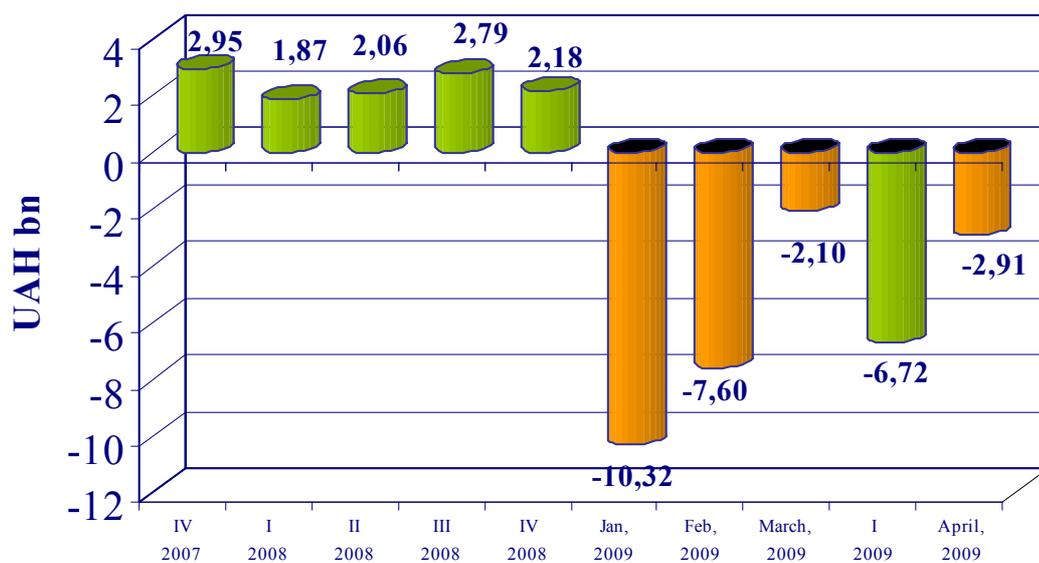


Chart 13

Legal Entities Deposits in UAH

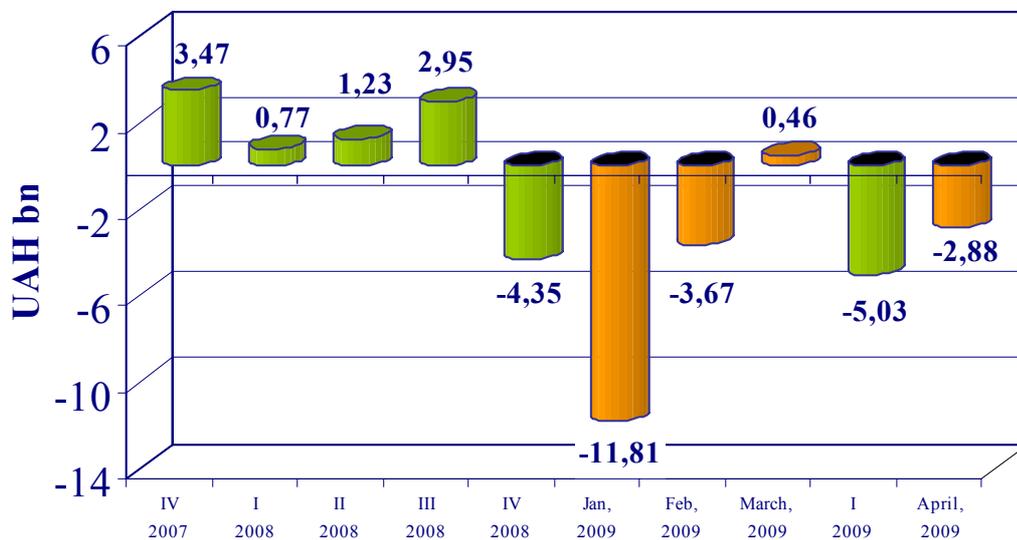


Chart 14

Legal Entities Deposits in FX

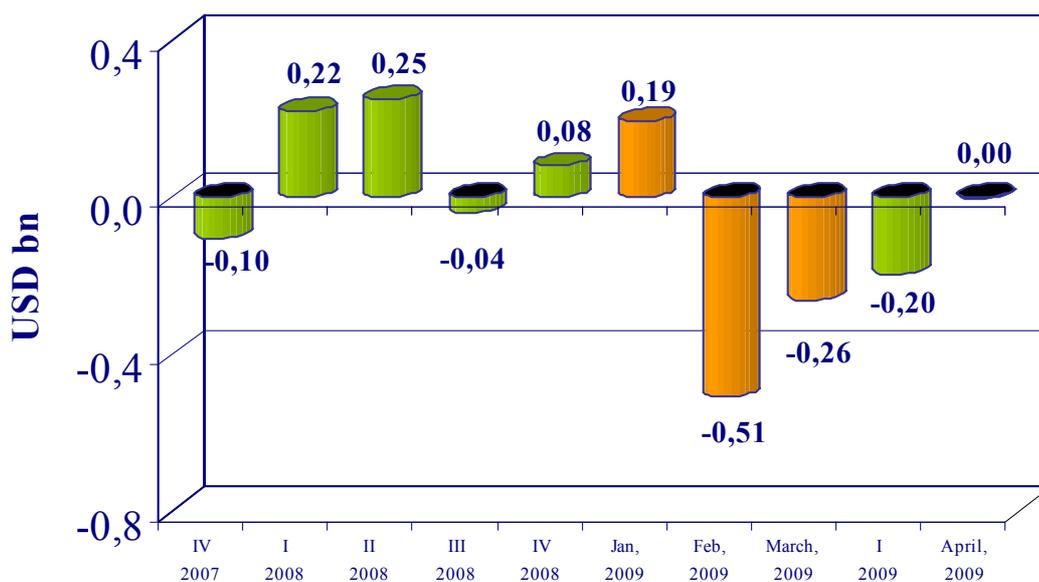


Chart 15

Individuals Deposits

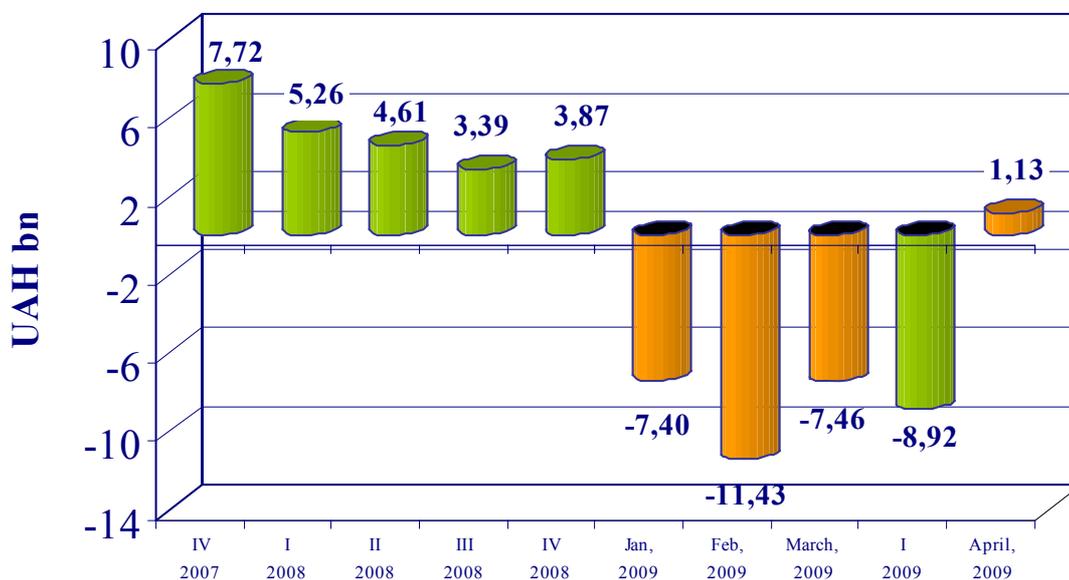
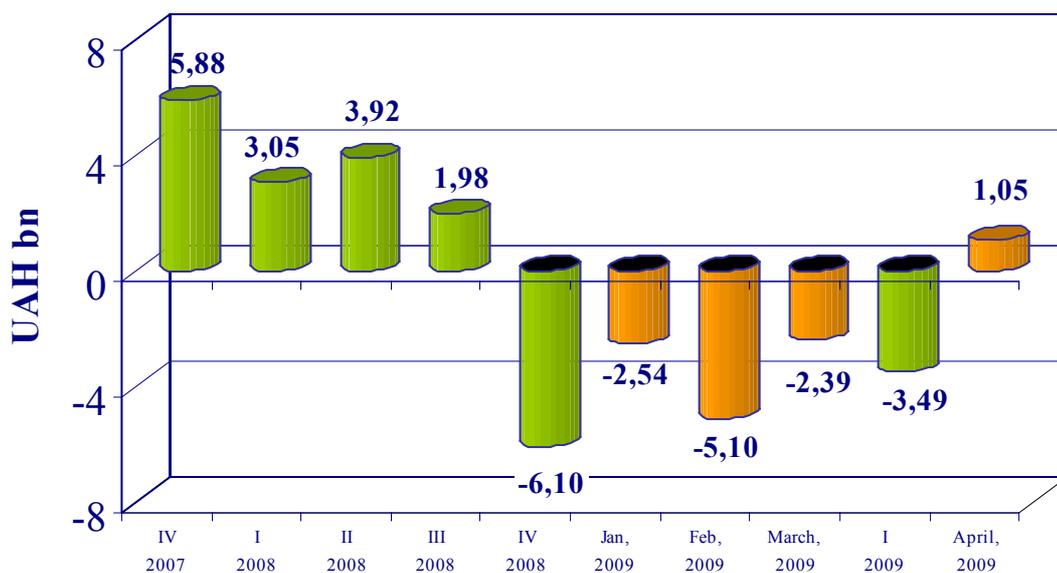


Chart 16

Individuals Deposits in UAH



Individuals Deposits in FX

