

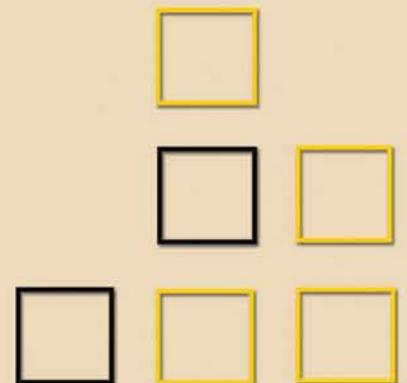


**USAID**  
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**MUNICIPAL FINANCE  
STRENGTHENING INITIATIVE**

# BUDGET MONITORING

**Analysis of Budget Execution  
in January – June 2009**



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Analysis of Budget Execution  
in January-June 2009

## **Budget Monitoring**

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## **BUDGET MONITORING: ANALYSIS OF BUDGET EXECUTION BOOK SERIES**

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The main goal of the project is strengthening the capacity of cities to plan and finance local development projects, in particular, those intended for improving the municipal infrastructure by strengthening their own financial resources and attracting alternative sources for financing of local development.

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## EXECUTIVE SUMMARY

Presented herein is *Budget Monitoring*, a periodical publication prepared by the experts of the Institute for Budgetary and Socio-Economic Research (IBSER) as part of the Municipal Finance Strengthening Initiative (MFSI) project implemented with support of the American People provided via the U.S. Agency for International Development (USAID).

The results of budget execution in January-June 2009 presented in this monitoring report cover a brief review of the legislative framework and an analysis of indicators of actual revenue intake and expenditure outflow for budgets at all levels.

The analytical section of the report provides a brief description of the key macroeconomic indicators, makes a more detailed presentation of State budget and local budget performance indicators for January-June 2009, identifies the main trends in the budget policy, and evaluates the impact of fiscal decisions taken on the State budget and local budgets. Special focus, as usual, is made on evaluating the status of actual revenues and expenditures of local budgets.

**The analysis of budget execution in January-June 2009** was conducted based on the quarterly reports of the State Treasury of Ukraine, official statistics of the State Statistics Committee of Ukraine, data from the Ministry of Finance and Ministry of Economy of Ukraine, as well as the Budget Committee of the Verkhovna Rada.

The volatile **macroeconomic situation** that had emerged under the influence of the financial crisis and due to the unstable political situation in the country, prevailed in the first half of 2009. However, special features of the period under review also include some positive developments, such as a trend towards a slowing down of the outflow of depositors' funds from commercial banks, the reduction of the official jobless rate, and a certain stabilization of the hryvnya against the U.S. dollar and the euro.

**Nominal GDP** totaled Hr 390.3bn in January-June 2009 against Hr 421.4bn in the same period in 2008. **The GDP amount** was down 17.8% in stable 2007 prices in Q2 2009 compared to the respective period of 2008.

**The Consumer Price Index (CPI)** fell to 108.6% in the first half of the year against 115.5% in the respective period of 2008. **The Producer Price Index (PPI)** amounted to 104.2%, which is 25.2ppt less year-on-year.

According to the State Statistics Committee, **real disposable personal income** decreased by 8.3% in January-June 2009 year-on-year.

Based on State Statistics Committee data, **exports of Ukrainian goods** fell 46.7% in January-June 2009 year-on-year and totaled \$17.3bn. **Exports of services** totaled \$4.3bn in January-June 2009, which is 25.0% less than in the respective period last year.

**The import of goods** into Ukraine totaled \$19.8bn in the period under review, which equals 46.7% of the import of goods in the first half of 2008. **The import of services** into Ukraine totaled \$2.3bn in the first half of 2009, down 21.4% year-on-year.

**Foreign Direct Investment (FDI)** in Ukraine totaled about \$38.0bn as of 1 July 2009, which is 6.6% more year-to-date and amounts to \$823.90 per person.

There was a slight increase in the growth rate of the **Ukrainian banking system** in Q2 2009 and in particular, aggregate assets increased in this period. The aggregate assets of the Ukrainian banking system increased by 1.9% at the end of Q2 2009 compared to Q1 2009, and reached Hr 944.6bn or \$123.8bn.

In the first half of 2009, **the amount of credits in the national currency** increased by 11.2% to Hr 333.8bn thanks to 18.0% growth in credits to legal entities. At the same time, **the volume of foreign-currency credits** decreased by 13.6% to Hr 369.4bn.

Credits in the national currency (47.5%) and U.S. dollar (46.5%) have the largest shares in **the client loan portfolio structure**.

As of 1 July 2009, **personal deposits** totaled Hr 201.2bn or 26.7% of total liabilities, and **deposits of commercial entities** totaled Hr 117.9bn or 15.5%. **Term personal deposits** totaled Hr 155.8bn or 77.4% of total personal deposits, and **call deposits** totaled Hr 45.4bn or 22.6%.

A trend was observed in Q2 2009 towards a slight growth of **clients' deposit accounts**, at 2.7% in Q2 2009 (this indicator has decreased by 10.7% year-to-date).

According to the National Bank of Ukraine, banks' equity totaled Hr 116.8bn or 13.4% of their liabilities as of 1 July 2009.

**Commercial banks posted a negative financial result** of Hr 14.3bn in January-June 2009.

**International reserves** decreased by 13.3% to USD 27.3bn (equivalent) in the first half of 2009 in general.

In January-March 2009, the **PFTS Index** (reflects variations of share prices of a basket of the most liquid companies on the PFTS stock exchange) fell 24.6% compared to the year's outset. However, starting in April, when certain signs of stabilization started to emerge, the key indicators of the Ukrainian stock market started demonstrating positive dynamics. The PFTS Index increased by 80.9% to 411.20 points during April through June 2009, showing one of the fastest growth rates worldwide.

**The average weighted yield on internal government bonds** at the time of initial offering in January-June 2009 amounted to 13.9%.

**The market leaders in terms of profits** were banks such as Oshchadbank (+Hr 753.7mn), PrivatBank (+Hr 405.3mn), Citibank Ukraine (+Hr 245.7mn), Calyon Bank (+Hr 193.1mn), and ING Bank (+Hr 92.7mn).

**The actual revenue intake of the consolidated budget** totaled Hr 131.2bn in the first half of 2009, which is Hr 5.3bn or 3.9% less year-on-year.

**The share of tax revenues** in the structure of total **consolidated budget** revenues decreased by 4.3ppt to 73.0% in January-June 2009 compared to the same period in 2008. **The share of non-tax revenues of the consolidated budget** increased by 6.4ppt to 25.1%.

**The share of tax revenues** in the structure of total **State budget** revenues decreased by 7.2ppt in the first half of 2009 year-on-year. **The share of non-tax revenues in the State budget** revenues increased by 8.1ppt and amounted to 29.9% in January-June 2009. This occurred due to a 4.8ppt growth in the share of own revenues of budgetary institutions.

**The State budget deficit** totaled Hr 10.6bn in the first half of 2009, with an planned annual amount of Hr 31.1bn.

As of the end of June, **the State and State-guaranteed debt** of Ukraine totaled Hr 218.8bn or USD 28.7bn, including State debt of Hr 148.2bn or USD 19.4bn and the State-guaranteed debt of Hr 70.6bn or USD 9.3bn.

**Expenditures of the consolidated budget of Ukraine** totaled Hr 143.4bn or 41.5% of the annual target in the first half of 2009.

**Social expenditures of the consolidated budget** totaled Hr 90.6bn in the first half of 2009, which is Hr 9.8bn or 12.1% more year-on-year.

**Expenditures of the State budget of Ukraine (with intergovernmental transfers)** totaled Hr 110.7bn in January-June 2009, which is 7.6% more than in January-June 2008. At 40.2%, annual plan execution in the first half of 2009 is 3.5ppt below last year's respective indicator.

**The amount of credits granted from the State budget** totaled Hr 3.5bn or 59.9% of the annual plan in the first half of 2009, and **the amount of credits repaid** to the State budget was nearly Hr 2.5bn or 79.4% of the planned amount. The level of annual plan implementation was higher in the first half of 2009 than last year: by 49.6ppt for granting credits; and by 59.7ppt for repaying credits.

**The local budget revenues (without intergovernmental transfers) of the General Fund and Special Fund combined** totaled Hr 33.4bn, which is 4.4% or Hr 1.5bn less year-on-year.

**The revenues of the General Fund of local budgets (without intergovernmental transfers)** totaled Hr 28.3bn or 43.7% of the annual plan approved by local councils.

**The personal income tax** remains the most important source of local revenues. However, nominal receipts from this tax totaled Hr 21.2bn in January-June 2009, which is Hr 0.5bn less than in the first half of last year.

In January-June 2009, local budgets received Hr 3.9bn from the **payment for land**, which is 29.0% more than in the respective period of last year. In the first half of 2009, local budgets received Hr 853.6mn from the **single tax on small businesses**, which is 2.4% less than the amount received in the same period of last year.

**The revenues from local taxes and fees** totaled Hr 389.4mn in January-June 2009, which is nearly the same as the amount in the first half of 2008. Their share in the structure of General Fund revenues of local budgets continued demonstrating a downward trend and only amounted to 1.3%.

The nominal amount of **non-tax revenues** of the General Fund of local budgets totaled Hr 959.4mn in the first half of 2009, which is 4.7% less year-on-year.

In January-June 2009, **the Special Fund of local budgets (without intergovernmental transfers)** received more than Hr 5.1bn, which is 25.7% less year-on-year. The 2009 plan approved by local councils was implemented by 40.6%.

**The aggregate expenditures of local budgets (without transfers from local budgets to the State budget)** totaled Hr 59.2bn in the first half of 2009, which is 11.3% more year-on-year.

The share of GDP redistribution via local budgets amounted to 14.64% in the first half of 2009 (11.87% in the first half of 2008).

**The General Fund expenditures** of local budgets totaled Hr 52.4bn. They increased 11.1% compared to the same period of last year. The annual targets approved by local councils were implemented by 47.2%, which is 1.0ppt more than in January-June 2008.

**Expenditures for the social and cultural sector** amount to 88.0% of the General Fund structure, which is 0.4ppt less than the respective indicator in 2008.

**The current expenditures of local budgets (without transfers from local budgets to the State budget)** were funded at the amount of Hr 51.7bn, which is 12.4% more than in January-June 2008. More than 98.6% of General Fund expenditures were spent for the current upkeep of budgetary institutions.

More than 87.7% of all local budget expenditures were used to finance **protected expenditure** items in January-June 2009, which is 1.0ppt more year-on-year.

**Expenditures of the Special Fund** of local budgets were financed at the amount of Hr 6.8bn in January-June 2009, which is 13.1% more than the respective indicator for last year.

**The share of intergovernmental transfers** in the overall structure of local budget revenues amounted to 44.3% in the first half of 2009, which is 1.5ppt more than last year.

**The equalization grant** has the largest share, at 55.6%, **in the structure of transfers** (it amounted to 60.3% in January-June 2008).

**The State budget of Ukraine** received Hr 3.4bn in **intergovernmental transfers** from local budgets in the first half of 2009, which is 4.6% more year-on-year.

# SECTION 1. REVIEW OF THE NORMATIVE-LEGAL FRAMEWORK

## 1.1. BANKING SYSTEM OF UKRAINE

### **NBU DECREE OF 21 JULY 2009, NO.414**

**According to the National Bank of Ukraine Decree of 21 July 2009, No.414, each bank is required to keep 40% of its statutory reserves at a special account with the NBU.** This actually reduces the circulation of funds within the banking system and somewhat limits the banks with regard to the timely performance of the full scope of client payments.

### **NBU DECREE OF 22 JULY 2009, NO.421**

**According to the NBU Decree of 22 July 2009, No.421, the National Bank will not impose sanctions on banks in the following circumstances:**

- a bank incurs losses caused by the accumulation of reserves against possible losses on lending transactions implemented pursuant to credit agreements concluded before 1 October 2008 and/or those that have been restructured;
- there is an increase in the proportion of negatively categorized assets in the total amount of assets by which a bank has to assess risks and accumulate reserves in accordance with NBU regulations;
- starting from the Decree's approval date, if a bank departs from the statutory standards related to the reduction in regulatory capital due to an accumulation of reserves on lending transactions, provided the bank presents a schedule for the gradual return to these standards within the next six months.

At the same time, loss-bearing banks are prohibited to:

- pay out dividends to shareholders or distribute capital in any other form;
- pay bonuses, awards, and other types of additional compensation to bank employees;
- increase the amounts of capital investments and intangible assets;
- make payments for consulting services of a financial nature;
- open new branches and offices;
- issue blank credits;
- conduct active transactions with insiders with regard to granting new credits and guarantees;
- conduct early repayment of own debt instruments, except for the circumstances when the early repayment of own debt instruments is carried out at a price not higher than 50% of its face value and does not lead to any significant worsening of the bank's liquidity;

- buy out own shares;
- buy any securities for its own account, except for government papers.

Also, if banks grant funds for sponsorships and charities, they are obligated to inform the Directorate for Bank Regulation and Oversight within three days. Banks must take immediate steps to increase the level of liquidity, profitability, and optimize bank costs.

**LAW OF UKRAINE  
OF 24 JULY 2009,  
NO.4630**

*(AS PART OF THE  
IMPLEMENTATION  
OF IMF PROGRAM  
REQUIREMENTS)*

**According to the Law of Ukraine of 24 July 2009,  
No.4630:**

- the process of bank recapitalization is made easier;
- the subordinated debt amount allowed to be included as regulatory capital, is increased from 50% to 100% (only for subordinated funds listed as Group One currency according to the NBU's Classifier of Foreign Currencies);
- the amount of interest received by holders of deposits is tax-exempt until the year 2013 (earlier, this requirement was extended until 2010).

## 1.2. REVENUES OF THE STATE BUDGET OF UKRAINE

**LAW OF UKRAINE  
OF 4 JUNE 2009,  
NO.1451**

The Law of Ukraine dated 4 June 2009, No.1451 “On Amending Certain Laws of Ukraine on the Issues of the Taxation of Services of International Transport of Passengers, Baggage, and Cargo, International Postage, International Leasing, and International Repair of Goods” introduces a zero rate of VAT on the value of international transportation services by road transport both inside and outside Ukraine, if such transportation is carried out based on a unified international transport document, i.e. international consignment note (CMP).

The Law is intended to support the national trucking companies by offering preferences in VAT payments. The specifics of international trucking services are such that the majority of such services are provided outside Ukraine and due to this the value-added tax base at zero rate would be significantly greater than that at the current rate of 20%. Based on the proportion of the Ukrainian segment of international trucking services (20%-30%), VAT tax obligations are charged at Hr 110mn to Hr 140mn per year, which would constitute the budget losses from the introduction of the zero rate for the whole route of international trucking services.

**LAW OF UKRAINE  
OF 23 JUNE 2009,  
NO.1534**

The Law of Ukraine dated 23 June 2009, No.1534 “On Amending the Law of Ukraine ‘On the State Budget of Ukraine for the Year 2009’ and ‘On the Rates of Excise Tax and Import Duty on Some Goods/Products’” imposes higher rates of excise tax on certain types of alcoholic beverages.

The law raises the rates of excise tax on beer from Hr 0.34 to Hr 0.54 per 1 liter.

Enactment of the law is expected to provide additional budget revenues of Hr 0.3bn in 2009. The annual revenues of the General Fund of the State budget for 2009 have been increased by this amount.

**ORDINANCE OF  
THE CABINET OF  
MINISTERS OF  
UKRAINE OF 1 JULY  
2009, NO.757**

**The Ordinance of the Cabinet of Ministers dated 1 July 2009, No.757 “Certain Issues of Administration of Taxes, Fees (Statutory Payment)”** was adopted to meet the obligations undertaken during the visit of the International Monetary Fund mission with regard to the improved administration of the value-added tax. In addition to the issue of creating and maintaining an electronic register of persons related to taxpayers, the Ordinance also included the provision canceling the VAT payer registration if the State tax authorities discover issuance of tax bills which fail to declare/pay tax obligations in excess of Hr 300,000 on taxable transactions.

The provisions of this Ordinance, in particular, with regard to the forced cancellation of VAT payer certificates have been appealed against by NGOs and taxpayers. As the result, the Ordinance provision related to the forced cancellation of VAT payer registration was overruled by Presidential Edict of 4 September 2009, No.706/2009, and on 9 September, this provision of the Ordinance was abolished by Cabinet Ordinance No.1120-p.

**ORDINANCE OF  
THE CABINET OF  
MINISTERS OF  
UKRAINE OF  
17 JULY 2009,  
NO.838**

**The Ordinance of the Cabinet of Ministers of Ukraine dated 17 July 2009, No.838 “On the Regulation of Some Issues in the Administration of Value-Added Tax”** was issued to meet the obligations undertaken during a visit of the International Monetary Fund with regard to improving the administration of Value Added Tax. The Ordinance stipulated the clarified procedures for analyzing the tax report indicators and identifying the risk criteria which are to be taken into account by tax authorities when reviewing the tax return and conducting office inspections of VAT tax returns. In this case, the taxpayer’s presentation of VAT tax returns for the reporting period using tax bills issued in a tax period other than the reporting period was categorized as the highest degree of risk. In addition, the Ordinance introduced new grounds for conducting extra taxpayer inspections with the participation of the tax police, if such taxpayer adjusts or clarifies its tax indicators for an amount in excess of 10% of the total tax obligation.

The provisions of this Ordinance, in particular, those related to restricting a VAT payer’s right to include in the tax credit the tax amounts paid to suppliers in previous tax periods, have been appealed against by non-governmental organizations and taxpayers. As the result, the Ordinance was overruled by Presidential Edict of 4 September 2009, No.706/2009, and the Ordinance was abolished by Ordinance of the Cabinet of Ministers No.1120-p.

### 1.3. EXPENDITURES OF THE STATE BUDGET OF UKRAINE AND BUDGET PROCESS

#### **DECREE OF THE CABINET OF MINISTERS OF UKRAINE OF 29 JULY 2009, NO.783**

**The Cabinet Decree of 29 July 2009, No.783** amended the Procedure of Using the Budget's Reserve Fund approved by Decree of the Cabinet of Ministers dated 29 March 2002, No.415.

The said amendments supplement the uses and conditions for using funds from the budget's reserve fund. According to these modifications, the reserve fund resources may be used for the implementation of activities related to the prevention of man-made and natural disasters.

Changes have also been made to the provision that sets the conditions for allocating additional resources from the reserve fund for the continuation of works. If previously this provision applied to additional allocation of reserve fund resources within one budget period, now, the words "during one budget period" have been removed, since additional resources may now be allocated in subsequent budget periods.

#### **ORDINANCE OF THE CABINET OF MINISTERS OF UKRAINE OF 19 AUGUST 2009, NO.1007**

**The Ordinance of the Cabinet of Ministers dated 19 August 2009, No.1007 "On Ensuring the Targeted Use of Funds by Budgetary Institutions/Establishments in the Social and Cultural Sector"** directs the State Treasury to ensure the opening of a registration account (for handling transactions for the execution of the budget's General Fund) for each budgetary institution in the social and cultural sector and a special registration account (for handling transactions for the execution of the budget's Special Fund) at regional offices of the State Treasury, and together with key spending units, start incurring expenditures of budgetary institutions in the social and cultural sector from the said registration accounts as of 1 October 2009. The said ordinance regulates the opening of accounts for budgetary establishments which are served by central accounting offices.

#### **DECREE OF THE CABINET OF MINISTERS OF UKRAINE OF 3 SEPTEMBER 2009, NO.955**

**The Decree of the Cabinet of Ministers dated 3 September 2009, No.955** amended the Cabinet Decree of 26 November 2008, No.1036 "Certain Issues of the Budget Process Organization." The said amendments, among other things, extend the procedure of incurring expenditures for non-protected items to local budgets. Therefore, local budget expenditures now must be implemented in the following sequence: expenditures at the expense of the reserve fund; capital transfers to other local budgets; transfers to enterprises, institutions, and organizations for payroll; current expenditures related to the upkeep of budgetary institutions; other expenditures; and the granting of credits.

## 1.4. STATE DEBT

### DECREE OF THE CABINET OF MINISTERS OF UKRAINE OF 12 AUGUST 2009, NO.866

**The Decree of the Cabinet of Ministers dated 12 August 2009, No.866** directed an increase of the authorized capital of the State Export/Import Bank of Ukraine public stock company by the amount of Hr 650.0mn. To this end, the Ministry of Finance was instructed to issue internal government bonds for the said amount, with a maturity of nine years and an annual yield of 9.5%.

## 1.5. LOCAL BUDGETS AND INTERGOVERNMENTAL BUDGET RELATIONS

### DECREE OF THE CABINET OF MINISTERS OF UKRAINE OF 17 JULY 2009, NO.865

**The Decree of the Cabinet of Ministers dated 17 July 2009, No.865 “On Amending the Procedure of Borrowing into Local Budgets”** introduced conceptual changes to the Procedure approved by the Cabinet Decree of 24 February 2003, No.207, which changes: simplifying the procedure of Ministry of Finance approvals of local borrowing, and in certain cases, abolishing the need for seeking such approval; eliminating inefficient costs of obtaining the findings of commercial ratings agencies; and setting clear and transparent requirements for collaboration with the Ministry of Finance, etc.

Note must be made of the following key provisions approved by this Decree:

- the obligatory requirement of the local government being assigned a borrower’s credit rating to be able to borrow funds by means of concluding agreements on receiving loans, credits and credit lines from financial institutions;
- clear conditions set for the Ministry of Finance to provide a decision on a draft decision’s being at variance with the requirements stipulated by the budget law, viz.:
  - expenditures for servicing the local debt exceed 10% of the General Fund expenditures of respective local budgets based on the local budget execution report for the year preceding the year of making a decision to borrow or reschedule debt obligations or to conduct some other transaction;
  - the amount of payments for repayment of the local debt in any one year for the whole period of its repayment is in excess of the average annual amount of development budget revenues in the last three years preceding the year of making the decision, without account for other borrowed funds;
  - if the Ministry of Finance fails to send a reasoned objection in writing within 30 working days after receiving a draft decision of the Verkhovna Rada of the Autonomous Republic of Crimea or of a local council on borrowing

or rescheduling debt obligations, the draft decision is considered to be in conformity with the requirements of the budget law.

- it is stipulated that local borrowing may be incurred without the Ministry of Finance examining the compliance of a draft decision of the Verkhovna Rada of the Autonomous Republic of Crimea or a local council, when:
  - the local budget borrowing amount does not exceed 25% of the average annual amount of development budget revenues in the last three years preceding the decision year, without the funds obtained through borrowing;
  - the total debt of the local budget as of the date of borrowing envisaged by the draft decision does not exceed 75% of the average annual amount of development budget revenues in the last three years preceding the decision year, without the funds obtained through borrowing;
  - the amount of expenditures for servicing the local budget debt for borrowing of previous years does not exceed 5% of the total local budget expenditures in the year preceding the year of decision on borrowing or rescheduling of debt obligations or conducting some other transaction.

Also, local governments are authorized to implement the initial offering of local bonds at a price below face value, provided this is a public offering via a stock exchange.

**ORDER OF THE  
STATE TREASURY  
OF UKRAINE OF  
13 AUGUST 2009,  
NO.328**

**The Order of the State Treasury dated 13 August 2009, No.328** amended the Procedure of Covering Temporary Cash Gaps of Local Budgets by the State Treasury of Ukraine in 2009 approved by Decree of the Cabinet of Ministers dated 12 December 2005, No.1232.

The said amendments supplement the list of uses of General Fund expenditures of local budgets to repay obligations on which a short-term loan may be used with “subsidies and current transfers to enterprises (institutions, organizations)” (KEKV [Economic Classification of Expenditures Code] 1310). The amendments have been introduced for municipal public health enterprises, which are recipients of budget funds and incur expenditures for payroll with taxes, the procurement of foodstuffs and medicines, the payment for communal services and energy according to KEKV 1310.

**DECREE OF THE  
CABINET OF  
MINISTERS OF  
UKRAINE OF 3  
SEPTEMBER 2009,  
NO.922**

**The Decree of the Cabinet of Ministers dated 3 September 2009, No.922** amended the Procedure of the Placement of Temporarily Free Funds of Local Budgets into Holding/Deposit Accounts at Banking Institutions approved by Decree of the Cabinet of Ministers dated 28 January 2009, No.52. The said amendments allow the placement of temporarily free resources of local budgets not only with State-owned banks, but also with banks in whose capitalization the State took part.

## SECTION 2. ANALYSIS OF MACROECONOMIC INDICATORS IN JANUARY-JUNE 2009

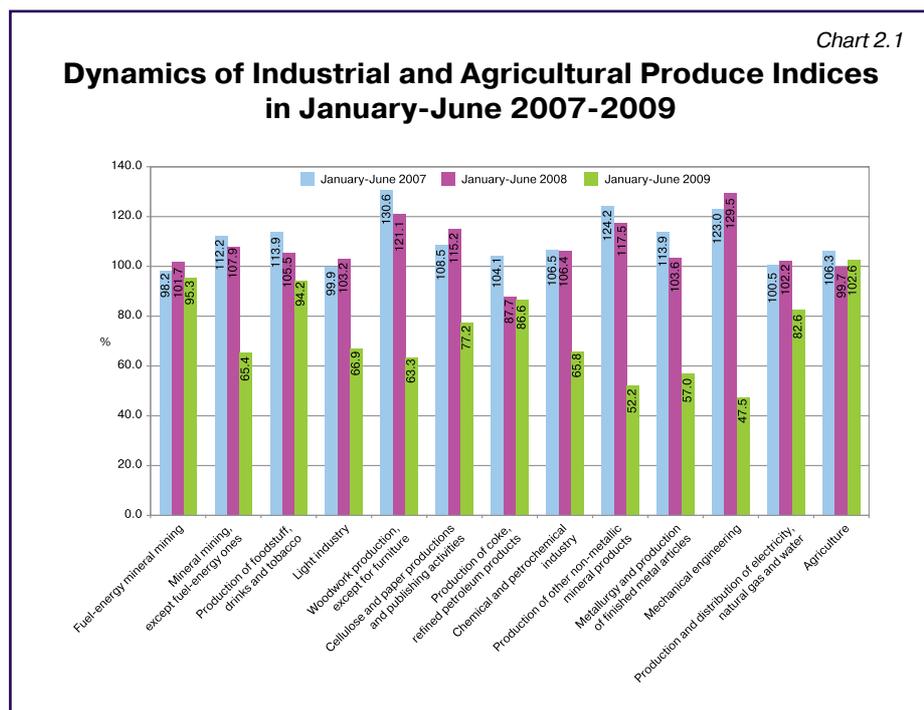
### GDP

An unstable macroeconomic situation continued to prevail in the first half of 2009. This situation emerged both as the result of the financial crisis and due to the volatile political situation in the country. The distinctive features of the period under review, however, also included some positive developments, such as the trends towards a slowing down of the outflow of funds from commercial banks (as a result of reduced consumer lending and a gradual restoration of retail deposit activity), the lowering of the official jobless rate (from 3.1% in Q1 to 2.4% in Q2 2009 thanks to the effect of seasonal factors), and a certain stabilization of the hryvnya rate against the U.S. dollar and the euro.

At the same time, the fall of industrial output amounted to 31.1% in January-June 2009 year-on-year due to a decline in demand for Ukrainian exports and a reduction in the effective consumer demand on the domestic market. This is on top of industrial output dropping 31.9% in January-March 2009 year-on-year.

According to the State Statistics Committee, the nominal GDP totaled Hr 390.3bn in January-June 2009 against Hr 421.4bn in the respective period of 2008. GDP decreased by 17.8% in Q2 2009 in stable 2007 prices compared to the same period last year.

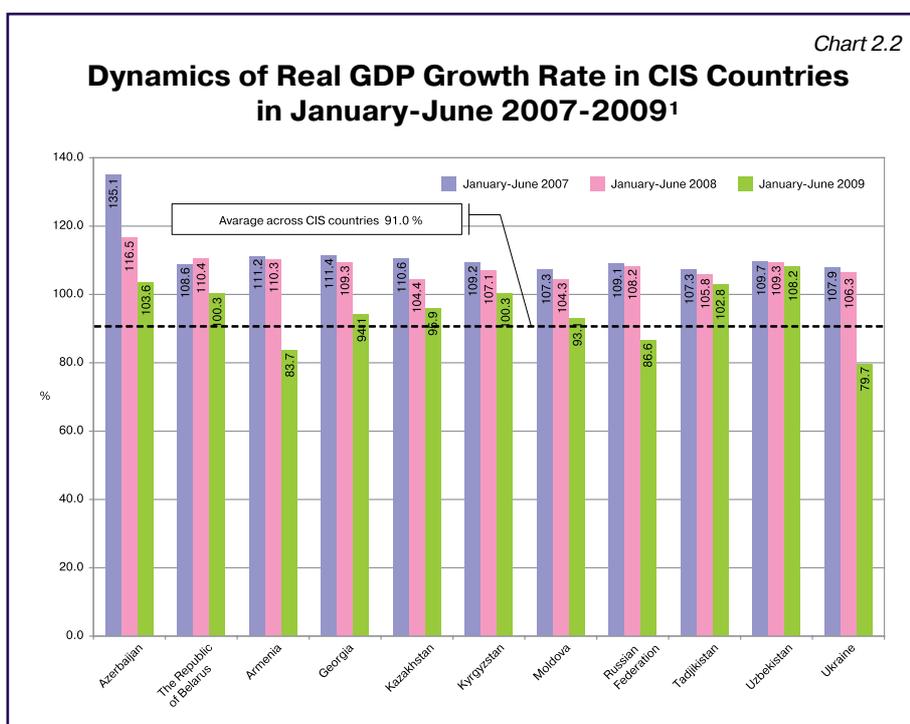
The significant drop in GDP resulted from a reduced growth of gross added value in nearly all sectors of the economy. The dynamics of the industrial and agricultural produce indices are shown in Chart 2.1.



Obviously, the most dramatic year-on-year industrial decline in the first half of 2009 was noted in the engineering sector with 52.5%, other non-metal mineral products with 47.8%, and production of metals and finished metal products with 43.0%. An industrial output decline of about 35.0% was also recorded in the extraction of minerals besides fuel and energy, woodworking and the manufacturing of wood products except furniture, and in the light, chemical, and petrochemical industries.

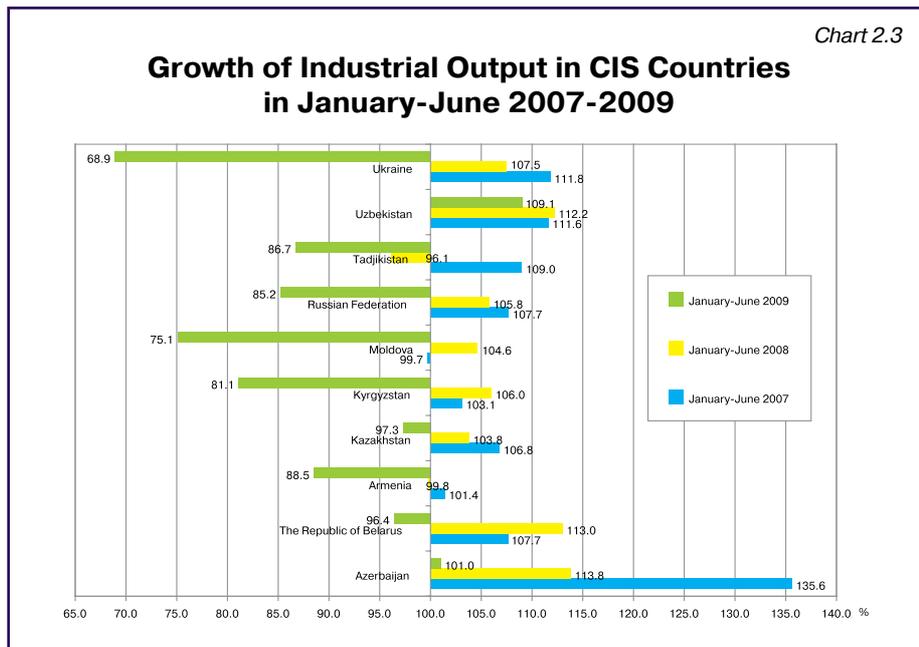
Growth in output is only noted in agriculture. However, it occurred against the backdrop of 2008's rise vs. 2007 due to the prior year's unfavorable weather and market conditions.

CIS countries also show a significant slow-down in economic growth in January-June 2009 compared to respective periods in previous years. However, Ukraine has the worst indicators (see Chart 2.2).



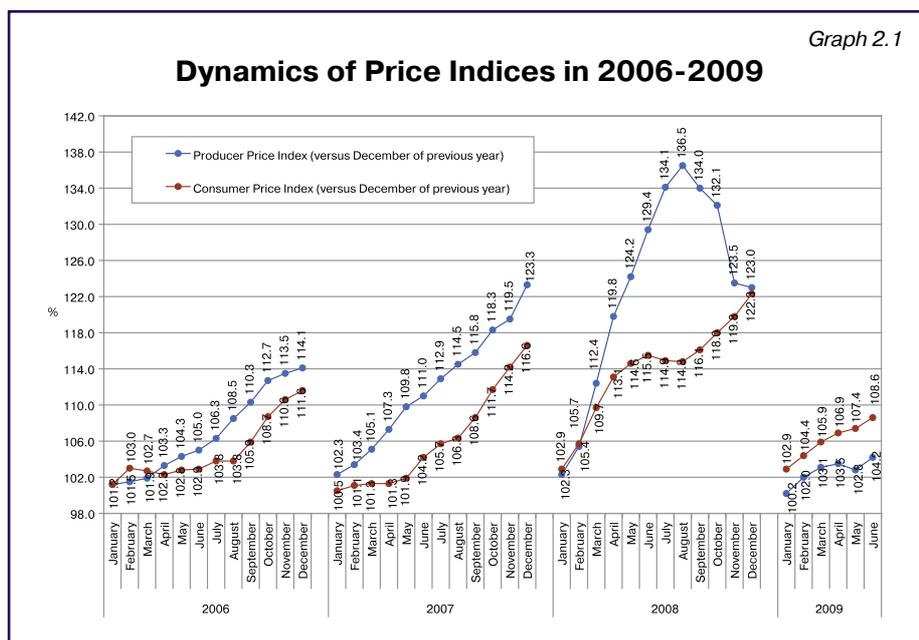
The slow-down in the rate of economic growth of CIS states was mainly caused by a significant reduction in the industrial output growth rate in the first half of 2009 due to an unfavorable situation on world markets, which in turn was caused by falling global prices for energy-carriers, metal products, and engineering products (see Chart 2.3). The last two types of products are part of Ukraine's export oriented industries.

<sup>1</sup> The Gross Domestic Product (in stable prices) was taken here for Ukraine, Moldova, and Georgia based on the indicators of Q1 2009 vs. Q1 2008, according to information of the State Statistics Committee of Ukraine ([www.ukrstat.gov.ua](http://www.ukrstat.gov.ua)).



## CONSUMER AND PRODUCER PRICE INDICES

Inflationary pressures gradually eased off, which was connected with the further shrinking of aggregate demand. **The Consumer Price Index (CPI)** amounted to 108.6% in the first half of the year against 115.5% in the respective period of 2008 (see Graph 2.1). The growth of the Consumer Price Index occurred due to a 20.8% increase of prices in the healthcare sector (due to growing prices of pharmaceuticals, medical goods and equipment), as well as due to a 23.6% increase of prices of alcoholic beverages and tobacco products (in particular, the prices of tobacco products increased by 50.2% against December 2008 due to the higher excise tax) and transport by 13.0% (due to increased prices of fuel and oil, as well as higher prices for transportation by trains and motor passenger transport).

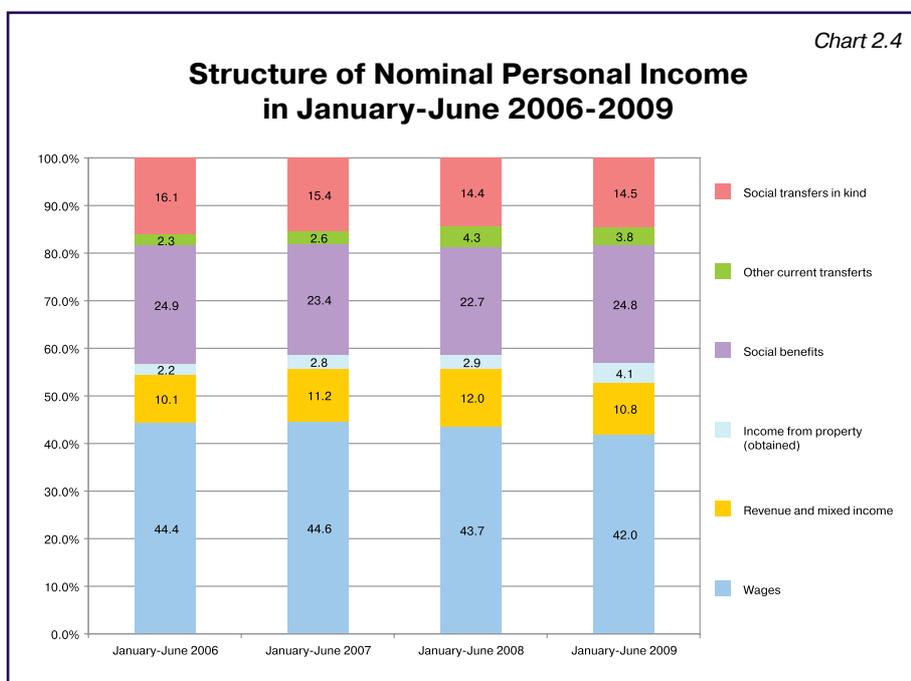


**The Producer Price Index (PPI)** amounted to 4.2% in the first half of 2009, which is 25.2ppt less than in the first half of 2008. This index decline is explained by shrinking external and internal demand for commodities, which in turn, effected a reduction in industrial output. The most significant drop in demand against last December occurred in the production of: coke - by 12.0%; extraction of minerals, except fuel and energy - by 5.0%; transport vehicles and equipment - by 2.1%. In January-June 2009, prices of foodstuffs increased by 12.2% (in particular, due to a 33.1% hike in the price of sugar), chemical products - by 15.0%, and petroleum products - by 20.4%<sup>2</sup>.

The period under review is special in the dynamics of consumer and producer price indices in that the former is higher than the latter, which is radically different from previous years. For instance, the Producer Price Index dominated over 2006-2008. However, by Q4 2008, influenced by a sharp drop in world prices of commodities and shrinking of domestic demand, PPI started to decline and nearly reached the CPI level.

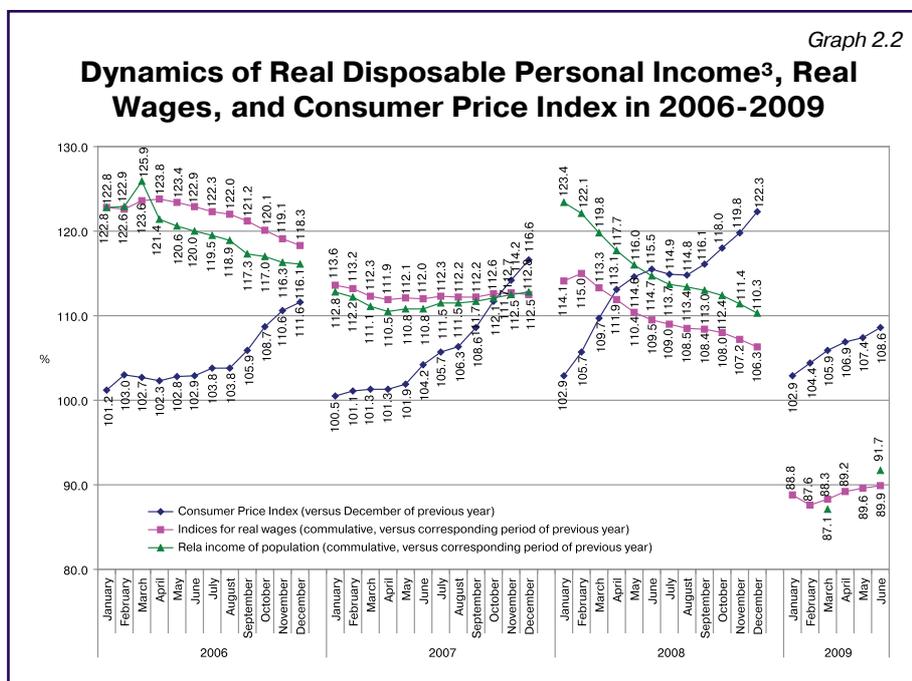
## PERSONAL INCOME AND SPENDING

**The structure of nominal personal income** in January-June 2006-2009 is shown in Chart 2.4. As is shown, salaries and wages accounted for the largest share of nominal personal income (more than 40.0%), followed by social allowances (about 23.0%), and in-kind social transfers (nearly 15.0%).



At the same time, **real wages** decreased by 10.1% in January-June 2009 year-on-year, while they increased by 9.5% in January-June 2008. Also, wage arrears increased 37.9% in the first half

of 2009. It is notable that the real disposable income dynamics reflects the trends in the changes of real wages since, as has already been noted above, they account for more than 40.0% in its overall structure (see Graph 2.2).



The nominal average monthly wage level per full-time employee reached Hr 1,812 in January-June 2009, which exceeds the State social standards as of the end of June 2009, viz.: 2.9 times more than the minimum wage level (Hr 623); and 2.7 times more than the subsistence level for an employable person (Hr 669).

Nominal wages increased 6.2% year-on-year (see Table 2.1). The highest average monthly wages are, as usual, recorded in Kyiv (Hr 3,039.0), with the lowest in the Ternopil Oblast (Hr 1,336.0).

The regional analysis of average monthly wages dynamics points to a disparity in the regional development of the Ukrainian economy. Given the slow-down in the growth of nominal wages in the country in general, the most noticeable drops in real wages were observed in Dnipropetrovsk (by 14.2%), Zaporizhzhya (by 13.8%), and Donetsk (13.7%) oblasts due to a slump in industrial output.

The types of economic activity with the highest wages included air transport and financial activities, and in industry — the extraction of fuel and energy and the production of coke and petrochemicals, where wages of employees are 1.6 to 2.6 times higher than in the economy in general. The lowest wages are noted in fisheries, agriculture, game preserves and related services, as well as in the garment industry, along with furs and products, leather and products, where wages did not exceed 61.0% of the average for the economy.

<sup>3</sup> Starting in 2009, the State Statistics Committee of Ukraine has changed the periodicity of providing information on "Real Disposable Personal Income" from monthly to quarterly reports.

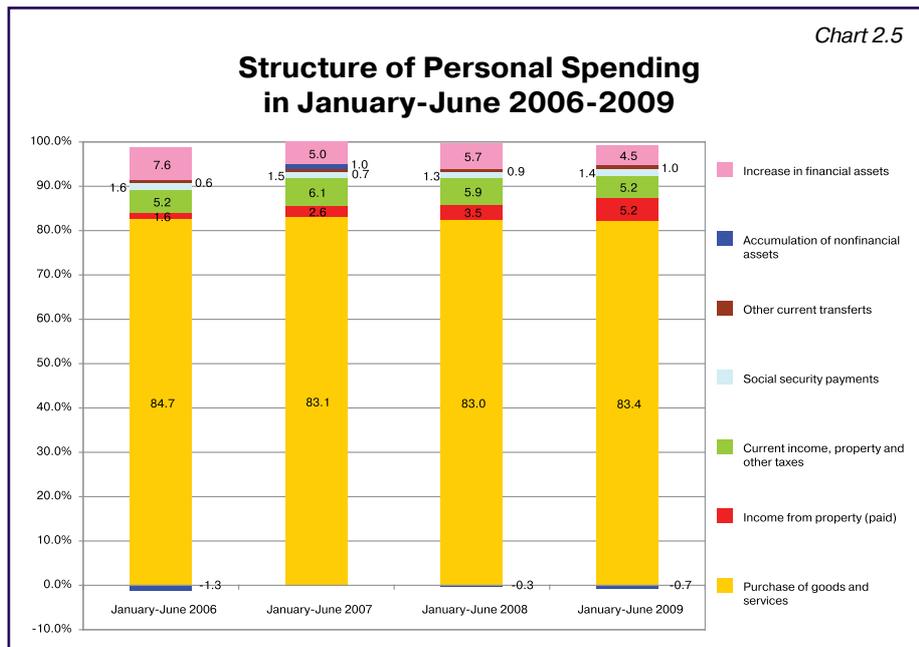
Table 2.1

### Nominal and Real Wages by Administrative Area in January-June 2007-2009

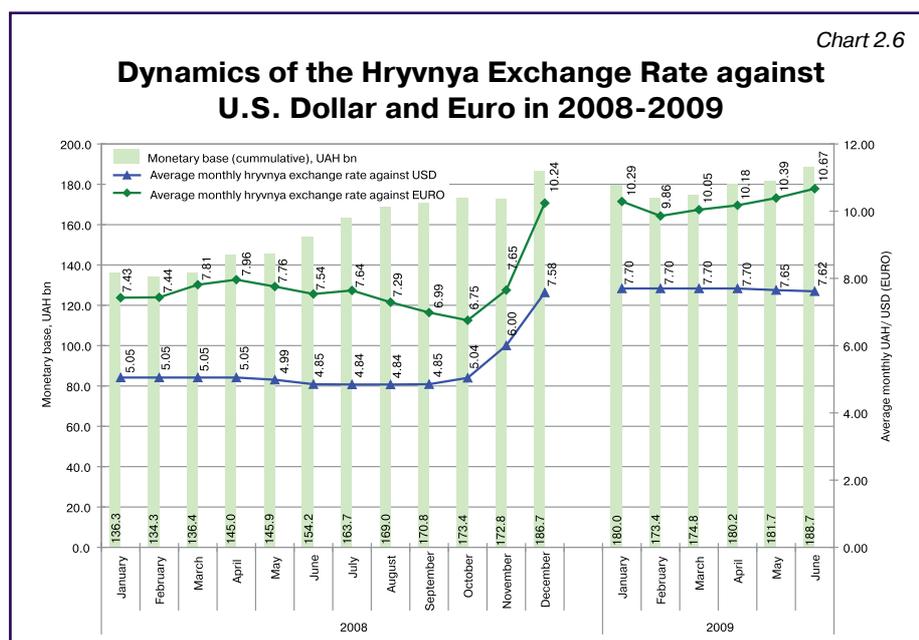
Name of administrative-territorial unit	Average monthly wages (per full-time employee), Hr			Nominal wage growth rate		In Ukraine in general	Index of real wages (against the respective period of the previous year), %		
	2007	2008	2009	2008 / 2007	2009 / 2008		2007	2008	2009
Autonomous Republic of Crimea	1 091.0	1 516.0	1 596.0	139.0	105.3	106.2	111.6	108.3	88.9
Vinnitsya Oblast	915.0	1 297.0	1 416.0	141.7	109.2	106.2	111.8	110.1	94.9
Volyn' Oblast	902.0	1 295.0	1 350.0	143.6	104.2	106.2	114.1	113.3	90.2
Dnipropetrovsk Oblast	1 373.0	1 810.0	1 857.0	131.8	102.6	106.2	106.2	104.7	85.8
Donetsk Oblast	1 405.0	1 931.0	2 003.0	137.4	103.7	106.2	110.7	109.8	86.3
Zhytomyr Oblast	930.0	1 315.0	1 410.0	141.4	107.2	106.2	114.3	110.8	92.6
Zakarpattia Oblast	976.0	1 345.0	1 459.0	137.8	108.5	106.2	112.8	113.4	96.3
Zaporizhzhya Oblast	1 270.0	1 729.0	1 769.0	136.1	102.3	106.2	112.1	106.9	86.2
Ivano-Frankivsk Oblast	1 076.0	1 452.0	1 568.0	134.9	108.0	106.2	115.5	108.0	92.0
Kyiv Oblast	1 229.0	1 748.0	1 889.0	142.2	108.1	106.2	112.7	112.8	90.3
Kirovohrad Oblast	942.0	1 338.0	1 445.0	142.0	108.0	106.2	113.7	113.2	93.5
Luhansk Oblast	1 213.0	1 676.0	1 787.0	138.2	106.6	106.2	108.2	109.2	89.6
Lviv Oblast	1 062.0	1 474.0	1 580.0	138.8	107.2	106.2	114.0	108.0	89.3
Mykolaiv Oblast	1 097.0	1 512.0	1 721.0	137.8	113.8	106.2	112.6	105.4	96.9
Odesa Oblast	1 122.0	1 531.0	1 676.0	136.5	109.5	106.2	113.6	102.5	92.2
Poltava Oblast	1 115.0	1 566.0	1 635.0	140.4	104.4	106.2	111.2	108.4	88.1
Rivne Oblast	1 027.0	1 434.0	1 530.0	139.6	106.7	106.2	110.6	109.2	90.6
Sumy Oblast	990.0	1 374.0	1 505.0	138.8	109.5	106.2	107.3	110.9	94.0
Ternopil Oblast	843.0	1 221.0	1 336.0	144.8	109.4	106.2	109.9	110.7	94.1
Kharkiv Oblast	1 130.0	1 573.0	1 706.0	139.2	108.5	106.2	110.3	106.6	89.7
Kherson Oblast	917.0	1 279.0	1 408.0	139.5	110.1	106.2	114.1	105.7	94.2
Khmelnyskyi Oblast	936.0	1 338.0	1 442.0	142.9	107.8	106.2	113.7	109.5	91.0
Cherkasy Oblast	977.0	1 362.0	1 463.0	139.4	107.4	106.2	111.0	108.9	90.9
Chernivtsi Oblast	943.0	1 301.0	1 441.0	138.0	110.8	106.2	113.2	108.1	96.4
Chernihiv Oblast	908.0	1 281.0	1 402.0	141.1	109.4	106.2	110.3	112.0	90.8
City of Kyiv	2 058.0	2 909.0	3 039.0	141.4	104.5	106.2	112.0	112.9	87.8
City of Sevastopol	1 171.0	1 626.0	1 798.0	138.9	110.6	106.2	112.0	107.5	95.5
<b>Ukraine</b>	<b>1 225.0</b>	<b>1 707.0</b>	<b>1 812.0</b>	<b>139.3</b>	<b>106.2</b>	<b>106.2</b>	<b>112.0</b>	<b>109.5</b>	<b>89.9</b>

The largest share of **personal spending** was used for purchases of goods and services (more than 83.0%) in January-June 2009, which is in line with the trends of previous years (see Chart 2.5). The growth of financial assets, as well as current taxes on income and property account for 5.0% of the total structure of personal spending.

The income from property shows a growing trend for its share (from 1.6% in January-June 2006 to 5.2% in the first half of 2009).



**The monetary-and-credit market** was characterized by some improvement of the situation in the first half of 2009. Since this period saw a slowdown in the outflow of funds from the banking system, there was no shortage of foreign currencies on the market, which, in turn, reduced the devaluation pressure. This alleviation of pressure was due to the National Bank’s conducting active currency interventions in selling foreign currencies, which ensured the relative stability of the Ukrainian hryvnia exchange rate at Hr 7.62 to Hr 7.70 to \$1 (see Chart 2.6), as well as due to the regular holding of special-purpose currency auctions to satisfy the needs of private bank clients. Overall, there were \$645.0mn worth of foreign currency was sold at such auctions in the first half of 2009.



In the first half of 2009, the amount of international reserves shrank by 13.3% to \$27.3bn (equivalent). This level of reserves is sufficient for financing future import of goods and services for five months.

The money supply decreased by 8.3% in general in the first half of the year. In annual terms (against the respective month of last year), the rate of growth of the money supply decreased to 4.9% in the first half of 2009 compared to 30.2% at the year's outset.

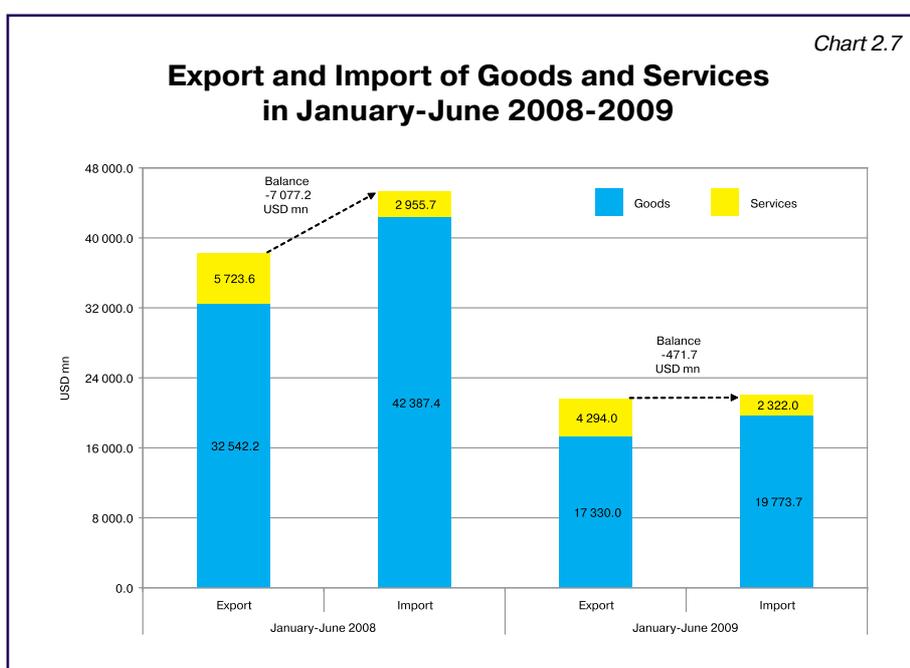
During the first half of 2009, banks started gradually resuming lending. According to the National Bank of Ukraine, the amount of national-currency credits increased by 11.2% to Hr 333.8bn year-to-date, thanks to an 18.0% growth in such credits granted to legal entities. At the same time, the amount of foreign-currency credits decreased by 13.6% to Hr 369.4bn.

In line with declining personal income, the credits granted to private individual diminished in the first half of 2009, both in the national and in foreign currencies. The overall decline amounted to 9.4% in the first half of 2009.

Obligations on deposits decreased by 10.6% year-to-date and totaled Hr 321.7bn at the end of June 2009. Obligations on deposits from household accounts decreased by 7.6% year-to-date and totaled Hr 201.4bn.

## FOREIGN TRADE

According to the State Statistics Committee, **exports of Ukrainian goods** fell by 46.7% in January-June 2009 year-on-year and amounted to Hr 17.3bn (see Chart 2.7).

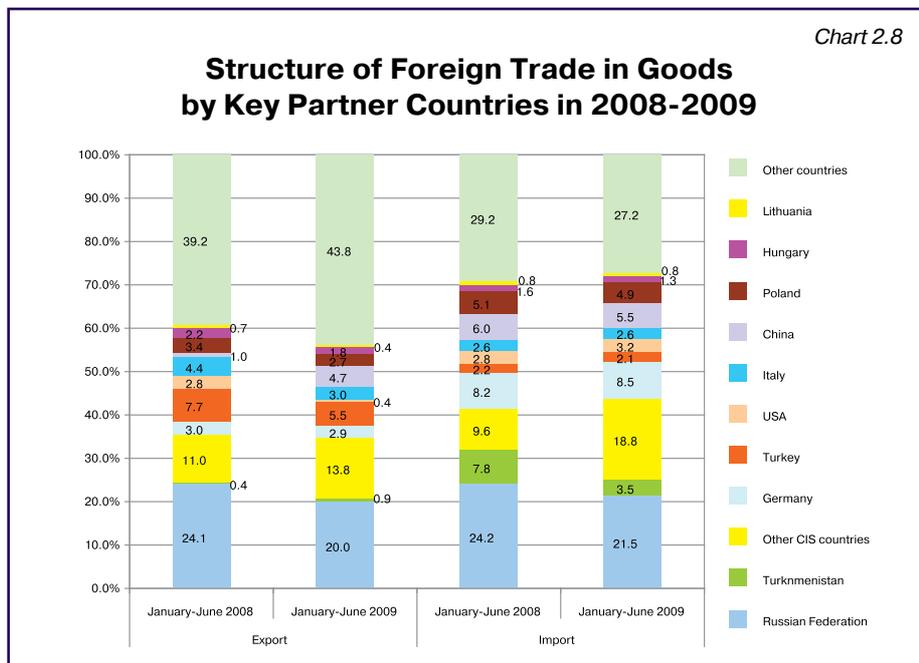


Of the total volume of exported goods, the share of grains increased from 3.1% to 9.4%, mechanical machinery from 5.1% to

6.8%, ferrous metal products from 5.1% to 5.5%, electric machines from 4.3% to 5.2%, animal or plant fats and oils from 2.9% to 4.9%, and paper and cardboard from 1.2% to 1.8%. At the same time, the share of ferrous metals decreased from 38.0% to 26.6%, energy materials, oil, and petrochemicals from 6.2% to 4.3%, railroad and tram engines and road equipment from 3.9% to 1.9%.

In the geography of exports, the volume of deliveries of goods to CIS countries accounted for 34.7% of the total, Asia accounted for 30.7%, Europe for 24.8% (including 22.8% to EU member-states), Africa for 7.0%, the Americas for 2.6%, and Australia and Oceania for 0.1%.

The main consumers of Ukrainian goods remain in the Russian Federation (20.0%), Turkey (5.5%), China (4.7%), Italy (3.0%), Germany (2.9%), and Poland (2.7%) (see Chart 2.8).



Exports of goods to China increased 2.5 times (thanks to greater deliveries of ferrous metals, as well as ores, slag, and ash) and 2.0 times to India (thanks to increased deliveries of animal or plant fats and oils and fertilizers). Exports of goods to Italy dropped 2.7 times, Turkey - 2.6 times, Russian Federation - 2.3 times, Belarus - 48.2%, and Kazakhstan - 3.8% compared to last year.

**The export of services**, according to the State Statistics Committee, totaled USD 4.3bn in January-June 2009, showing a 25.0% year-on-year decline (see Chart 2.7). Transport services (65.9%) and business, professional, and technical services (13.3%) had the largest shares in the total Ukrainian export of services.

The most significant declines in the export of services were noted for pipeline transport (by 43.0%), various business,

professional, and technical services (by 23.9%), auxiliary transport services (by 39.1%), and rail transport services (by 22.6%). On the other hand, the services of sea transport increased by 10.0% and repair services by 8.8%.

The Russian Federation remains the key partner country, with 33.0% of the total amount of services. At the same time, the share of exports to CIS countries and EU member-states amounts to 37.1% and 33.1%, respectively.

**The import of goods** into Ukraine totaled \$19.8bn in the period under review, which amounts to 46.7% of the import of goods in the first half of 2008.

There was a decline in the import of goods to Ukraine from Australia and Oceania by 30.3%, from Asia by 37.5%, from Africa by 41.4%, from Europe by 44.8%, from the CIS by 49.1%, and from the Americas by 56.2%. Imports of goods from Uzbekistan increased 2.0 times. Import deliveries from Turkmenistan dropped 4.7 times, from the Russian Federation - 2.4 times, from China - 2.3 times, from Poland - 2.2 times, from Germany - 2.1 times, and from Kazakhstan - by 13.6%.

The largest deliveries of goods in the total structure of imports were imported from the Russian Federation (21.5%), Germany (8.5%), Uzbekistan (8.1%), Kazakhstan (6.9%), China (5.5%), Poland (4.9%), and Turkmenistan (3.5%).

In the structure of Ukraine's demand for imported goods, an increase is noted in the share of energy materials, oil and petrochemicals from 28.0% to 33.1%, pharmaceuticals from 2.5% to 4.4%, paper and cardboard from 1.8% to 2.5%, edible fruits and nuts, citrus fruit from 0.6% to 1.5%, meat and byproducts from 0.4% to 1.5%.

The share of mechanical machines decreased from 11.0% to 8.6%, surface transport vehicles, except rail vehicles, from 13.8% to 4.7%, ferrous metals from 3.9% to 2.4%, ores, slag, and ash from 2.4% to 1.8%.

**Imports of services** into Ukraine totaled USD 2.3bn in the first half of 2009, which is 21.4% less year-on-year.

The geographic structure of the import of services is characterized by the domination of services from the European Union, the share of which approached 58.6% of the total volume of imported services, compared to 15.3% for services imported from CIS states. The import of services from CIS countries decreased by 30.9% against the first half of 2008, including a 31.1% fall for services imported from the Russian Federation, 63.5% for those from Moldova, and 32.2% from Belarus. The volume of services imported from other countries worldwide decreased by 19.5% year-on-year. At the same time, the share of services imported from France increased by 78.5% or by \$53.8mn.

The largest percentages of services imported into Ukraine included financial services (25.2%), various business, profession-

al, and technical services (18.2%), transport services (17.7%), and State services not included in any other categories (10.7%). The import of services into Ukraine decreased due to a reduction in the volume of rail (by 46.6%) and air (by 44.9%) transport services and travel service, which fell by 42.0%, various business, professional, and technical services by 14.5%, computer services by 47.5%, etc. At the same time, there was growth in received State services not included in any other category, by 8.9%, in telecommunications services by 20.9%, and building services by 20.9%.

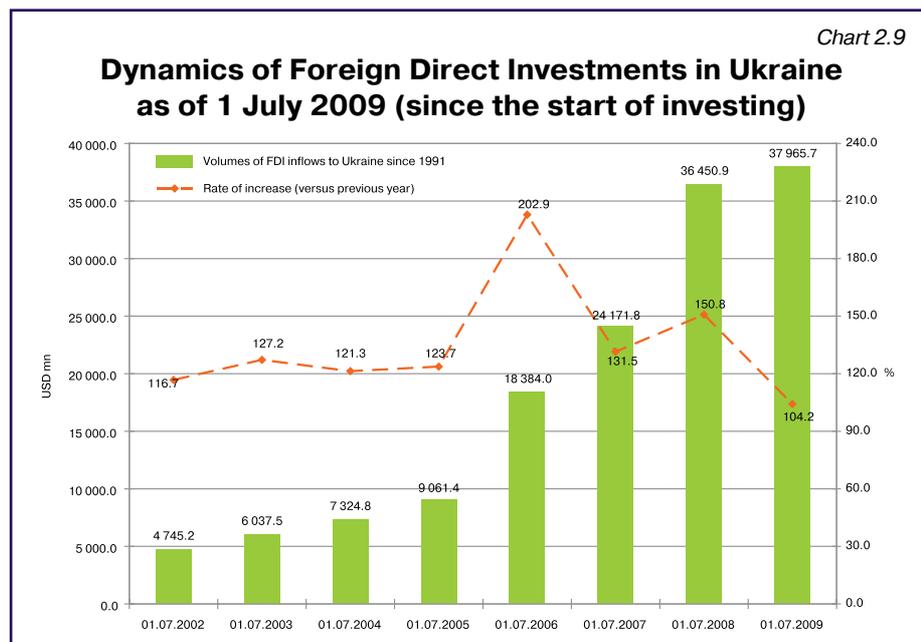
In general, foreign trade transactions were conducted with partners from more than 200 countries worldwide.

Therefore, the negative foreign trade balance of Ukraine reached about \$0.5bn in the first half of 2009, which is nearly 15 times less year-on-year.

## FOREIGN DIRECT INVESTMENT

According to information from the State Statistics Committee, the Ukrainian economy received \$2.7bn in Foreign Direct Investment in the first half of 2009<sup>4</sup>, which equals 40.2% of the amount invested in the first half of last year. Investment from EU member-states amounted to \$2.1bn (76.8% of the total), \$0.3bn from CIS countries (12.8%), and about \$0.3bn from other countries (10.4%). At the same time, non-residents withdrew capital amounting to Hr 0.4bn.

**The total of Foreign Direct Investments** made into Ukraine amounted to \$38.0bn as of 1 July 2009 (see Chart 2.9), which is 6.6% more than the amount of investments at the beginning of 2009, and in per capita terms amounted to \$823.90.



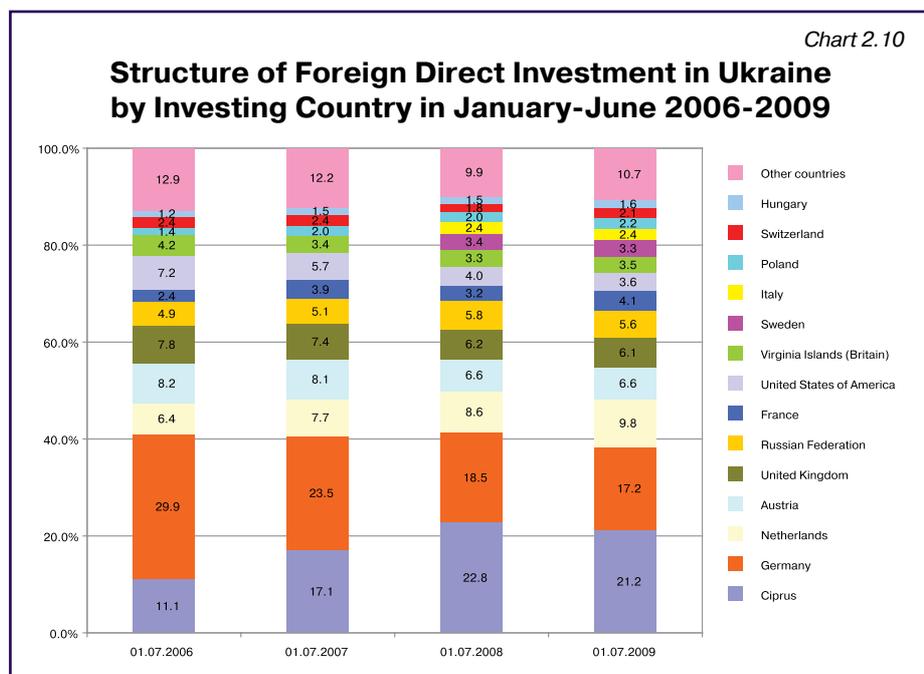
<sup>4</sup> The data on direct investments from/to Ukraine is provided with NBU and State Property Fund information taken into account (regarding the difference between the market and nominal value of shares, property, etc., which is not accounted for in the statistical reports of individual companies and not categories by type of economic activity and by region).

The largest amounts were invested in industrial enterprises (\$8.6bn or 22.6% of the total direct investment in Ukraine), including 19.4% into processing industries and 2.7% into extraction industries. Financial institutions account for 21.1%, organizations engaged in real estate, leasing, engineering, and provision of business services account for 10.7%, retailers, car service, household appliances, and personal consumer goods - 10.1%.

Despite the fact that investments were received from 125 countries worldwide, ten key investors of Ukraine account for 81.0% of total direct investments. These ten countries include: Cyprus (\$8,073.7mn), Germany (\$6,530.9mn), the Netherlands (\$3,717.1mn), Austria (\$2,490.9mn), United Kingdom (\$2,330.0mn), Russian Federation \$2,125.1mn), France (\$1,573.2mn), United States of America (\$1,369.2mn), British Virgin Islands (\$1,323.7mn), and Sweden (\$1,259.1mn).

The structure of Foreign Direct Investments in the Ukrainian economy by investing countries in the first six months of 2006-2009 is shown in Chart 2.10. As noted above, the largest foreign investors in Ukraine include Cyprus with 21.2% of total Foreign Direct Investment into Ukraine as of 1 July 2009, Germany with 17.2%, and the Netherlands with 9.8%.

At the same time, direct investments are made from Ukraine into the economies of other countries. As of 1 July 2009, the total investments amounted to \$6.2bn (cumulative sum from the start of investing), including 93.5% invested in the economy of Cyprus, 2.2% in the Russian Federation, and 0.8% in Poland.



By comparison, China is one of the world powers in terms of Foreign Direct Investment. In the last 30 years, China has made

investments in the economies of 170 countries and regions worldwide, with its total direct investments approaching the amount of \$184bn. In the same period, there were 660,000 companies with foreign investments registered in China and the amount of practically used foreign capital reached \$899bn.

According to the PRC's Ministry of Commerce, State Statistics Authority, and State Foreign Currency Control Authority, more than 12,000 companies with Chinese capital were registered in 174 countries and regions worldwide as of 1 January 2009, with 71% of those located in Asia and Europe. Chinese companies registered abroad employed more than 1mn individuals, including 455,000 foreigners.

As of the end of 2008, more than 8,500 Chinese investors have invested \$184bn in economies of foreign countries and regions. The assets of Chinese companies registered abroad exceeded \$1 trillion. In 2008 alone, the amount of Chinese direct investment increased by 111% year-on-year and reached \$55.9bn. Investments in the non-financial sectors amounted to \$41.9bn, with a growth of 68.5%, those in the financial sector increased by 74.1% to \$14.0bn. The share of investors, which are limited companies, increased to 50.2%, while the share of State-owned companies decreased to 16.1%, and the share of privately-owned companies reached 9.4%.

The City of Kyiv accounts for about 46% of all Foreign Direct Investment in Ukraine. For instance, \$1.25bn in direct investment was contributed by foreign investors into Kyiv's economy in January-June 2009, which amounts to 36.2% of the amount invested in January-June 2008. There were \$0.9bn of investments from EU countries (70.4% of the total), \$0.2bn from other countries of the world (17.2%), and \$0.15bn from CIS countries (12.4%). At the same time, nonresidents withdrew \$0.19bn of capital.

In general, the growth of aggregate foreign capital in the city's economy, with due account for its revaluation, losses, and exchange rate difference, amounted to \$1.1bn, which equals 30.2% of the amount in the respective period of last year.

The total Foreign Direct Investment in the City of Kyiv amounted to \$14.5bn as of 1 July 2009, which is 7.8% more than the amount of investments as of the year's outset, and amounts to \$5,354.50 per person.

Investments were received from 114 countries worldwide. As usual, the key investing countries include: Cyprus with \$3.7bn, the Netherlands with \$2.1bn, Austria with \$1.2bn, Russian Federation with \$1.0bn, the United Kingdom with \$0.9bn, British Virgin Islands with \$0.8bn, and the United States of America with \$0.6bn.

Financial institutions have accumulated \$5.9bn (40.8% of the total amount of direct investment in the City of Kyiv) of direct investments, companies engaged in real estate, leasing, engineering,

and business services have \$2.5bn (17.3%), retailers, car service, household appliances, and personal consumer items sectors have \$2.4bn (16.6%), and the building sector has attracted \$1.4bn (9.6%).

Industrial enterprises have attracted \$1.1bn (7.5% of total direct investments in Kyiv), including the processing industry with \$0.99bn and extraction industry with \$0.07bn.

The amount of credits and loans received by companies based in Kyiv from direct investors amounted to \$3.2bn as of 1 July 2009.

Their largest amounts were received from Cyprus (\$0.7bn), the Netherlands (\$0.5bn), Russian Federation (\$0.4bn), Hungary (\$0.2bn), Austria (\$0.17bn), Germany (\$0.16bn), and Sweden (\$0.13bn).

Total Foreign Direct Investments, including loaned funds, amounted to \$17.7bn as of 1 July 2009.

Direct investment from Kyiv into the economies of other countries amounted to \$0.023bn in January-June 2009. Investments were mostly made as monetary contributions. Kyiv's residents withdrew capital of \$0.037bn

The amount of direct investment from Kyiv, accounting for its revaluation, losses, and exchange rate difference, totaled \$0.2bn as of 1 July 2009.

Direct investments from Kyiv were made in 27 countries worldwide, with the largest amount invested in Cyprus (\$0.05bn), Poland (\$0.044bn), Russian Federation (\$0.035bn), and Kazakhstan (\$0.026bn).

## SECTION 3. ANALYSIS OF UKRAINE'S BANKING SYSTEM INDICATORS IN JANUARY-JUNE 2009

In the first half of 2009, **the banking system of Ukraine** was characterized by:

- the National Bank of Ukraine taking steps to ensure stable operations and enhance the financial strength of the banking system (NBU took proactive measures to address the issues of bank recapitalization, mechanisms were simplified for attracting funds to boost the bank capital (including subordinated debt), principles and conditions were stipulated for the rescheduling of credits). On 10 June, the Cabinet of Ministers approved its final decision regarding the recapitalization of Ukrhazbank, Kyiv Bank, and Rodovid Bank with the participation of the State;
- stability of the official exchange rate of the cash national currency against the U.S. dollar;
- a slight growth in the volume of aggregate assets of the banking system, which was mostly due to increased transactions on the interbank capital market and growth in the portfolio of securities refinanced by the NBU;
- a sharp deterioration in the quality of assets and growing level of bad debts, which according to experts, amounted to 23%-27% of the banks' credit portfolio as 1 July 2009;
- a negative financial result of Ukrainian banks, which mostly resulted from banks' growing costs of having to accumulate reserves for credit and operational risks, and the slowing down in the rate of growth of operational results due to suspended lending;
- the National Bank's maintaining the discipline of clients' payments by means of holding special-purpose foreign-currency auctions to repay debt on credits received in foreign currencies. The exchange rate of the cash national currency at such auctions varied within Hr 7.62 - Hr 7.70 to \$1 + 0.2% fee payable to the Pension Fund;
- a gradual restoration of clients' trust in the banking system and a slight growth in clients' deposits in bank accounts;
- cancellation by the National Bank of temporary administrative measures, which were imposed as the financial crisis worsened (including those with regard to the early withdrawal of funds from deposit accounts), and settling the issue of granting credits to the Fund for Guaranteeing Deposits of Private Individuals for covering the shortage of resources.

### MONEY-AND-CREDIT POLICY AND LIQUIDITY

The return of funds into the banking system, the reduction in the scope of National Bank interventions on the currency market, and the abolition of the legislative provisions allowing Government

interference in the issues of banks' refinancing — all have had a beneficial effect on the dynamics of banking system liquidity. Following a decline of 9.9% in Q1, the amount of banks' correspondent accounts increased by 32.6% to Hr 22.3bn in Q2.

In order to regulate the liquidity of the banking system, the National Bank conducted transactions for both supporting the liquidity of banks, and the withdrawal of funds through the placement of National Bank deposit certificates. The direction of liquidity regulation transactions was determined based on market conditions. In particular, in an environment of diminishing correspondent accounts of banks and a deficit of liquidity on the market in Q1 2009, the NBU was mostly conducting bank refinancing transactions, which totaled Hr 34.4bn in this period (funds mobilization transactions totaled Hr 10.6bn in Q1).

When the banks' correspondent accounts grew in Q2, the National Bank transactions had a greater mobilization focus. The amount of transactions aimed at the mobilization of funds for banks' correspondent accounts totaled Hr 28.9bn in this period, whereas refinancing transactions totaled Hr 21.3bn.

At the same time, in order to reduce the negative impact of the financial crisis on banks' operations and to promote the further stabilization of the banks' performance, decisions were taken to extend the duration of refinancing credits, in total about Hr 2.0bn.

Also, in the first half of 2009, the National Bank bought out Ukrainian government bonds totaling Hr 20.2bn. These transactions were conducted both for regulating liquidity and for implementing the requirements of Article 84 of the Law of Ukraine "On the State Budget of Ukraine for the Year 2009" (when this Article was in effect) and Article 2 of the Law of Ukraine "On Priority Measures to Prevent the Negative Consequences of the Financial Crisis and on Amending Certain Legislative Acts of Ukraine."

The increased amount of banks' correspondent accounts in Q2 2009 has had an appropriate effect on the monetary base dynamics: following its decline by 6.4% in Q1, its volume increased by 8.0% to Hr 188.7bn in Q2.

## **MONEY SUPPLY**

In an environment of renewed growth of deposits in Q2 2009, the growth of the money supply also resumed. Whereas it had decreased by 10.1% in Q1, it then increased by 1.9% to Hr 472.7bn in Q2. In the first half of the year in general, the money supply decreased by 8.3%. In annual terms (against the respective month of last year), the money supply growth rate decreased to 4.9% in the first half of 2009 compared to 30.2% at the year's outset.

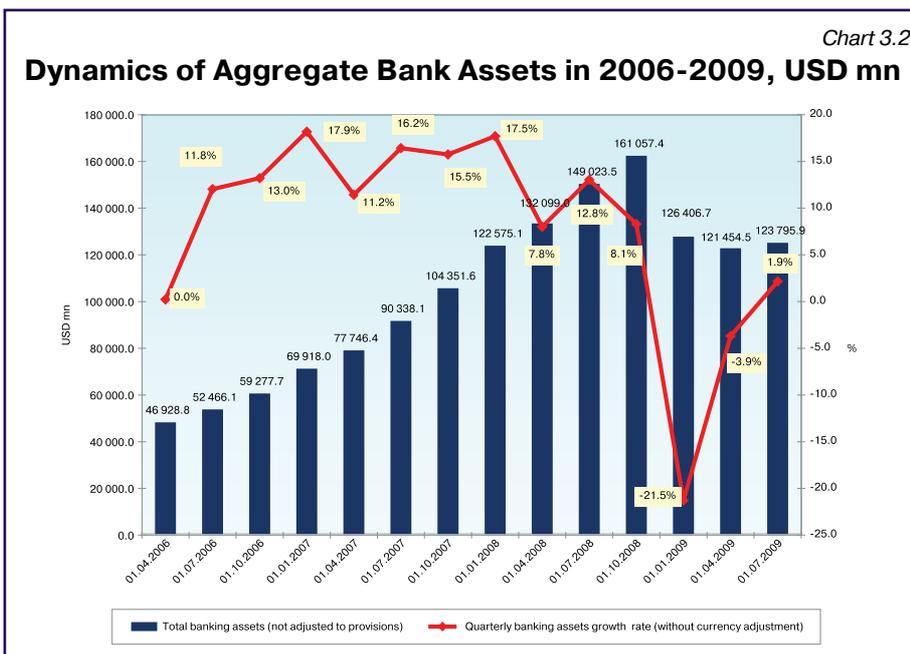
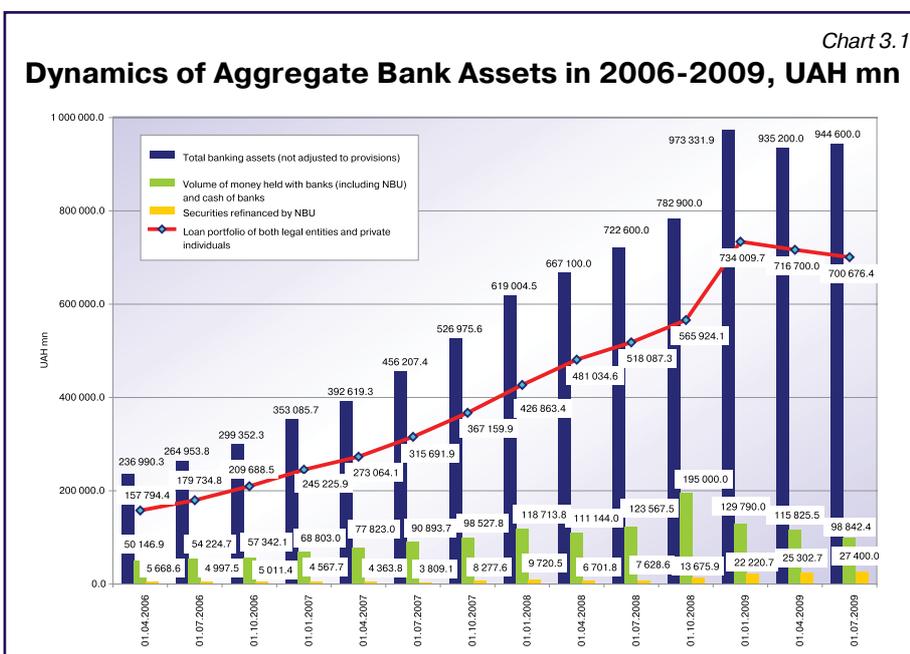
The amount of cash outside the banking system decreased by 1.0% year-to-date, to Hr 153.2bn. However, its amount increased by 4.1% in Q2. Such changes in the dynamics of cash outside the banking system reflect the reduction in the amount of funds (includ-

ing the funds withdrawn from bank accounts) used for buying foreign cash.

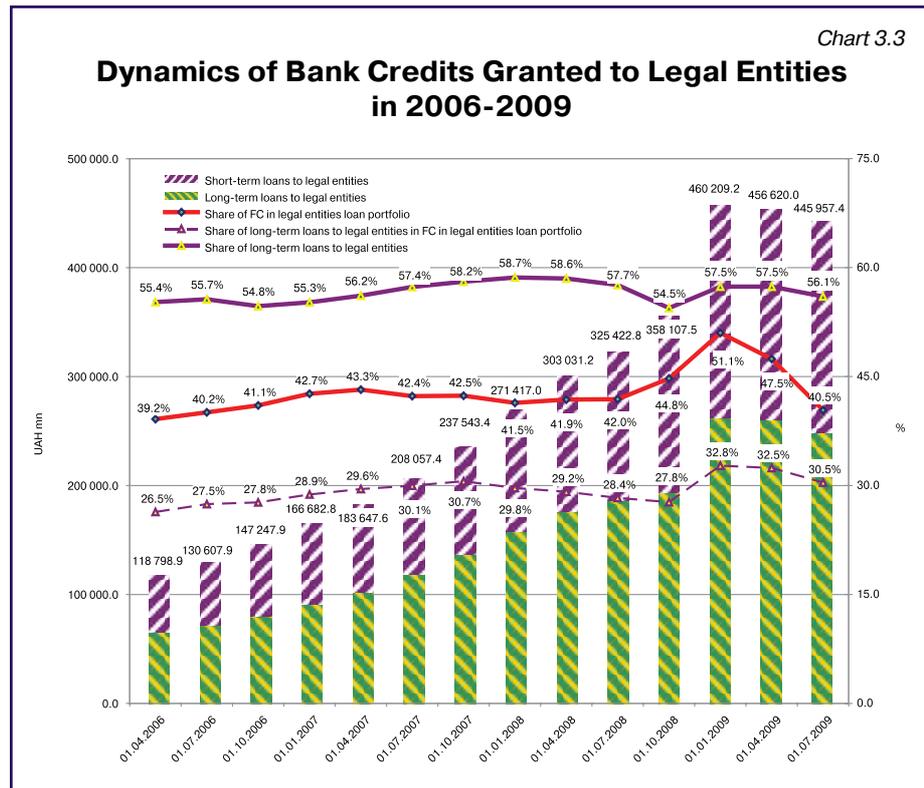
**KEY TRENDS  
IN THE BANKING  
SECTOR**

As of 1 July 2009, 187 banks had National Bank licenses for conducting banking operations. Nine banks were in the process of liquidation, including six banks liquidated by decision of the National Bank, and three by decisions of commercial (arbitration) courts. 15 banks have been placed into temporary administration.

There was a slight growth in the rate of Ukraine’s banking system development in Q2 2009. In particular, there was some increase in aggregate assets (see Chart 3.1 and Chart 3.2). Thus, the aggregate assets of the Ukrainian banking system increased by 1.9% in Q2 vs. Q1 2009 and reached Hr 944.6bn or \$123.8bn.

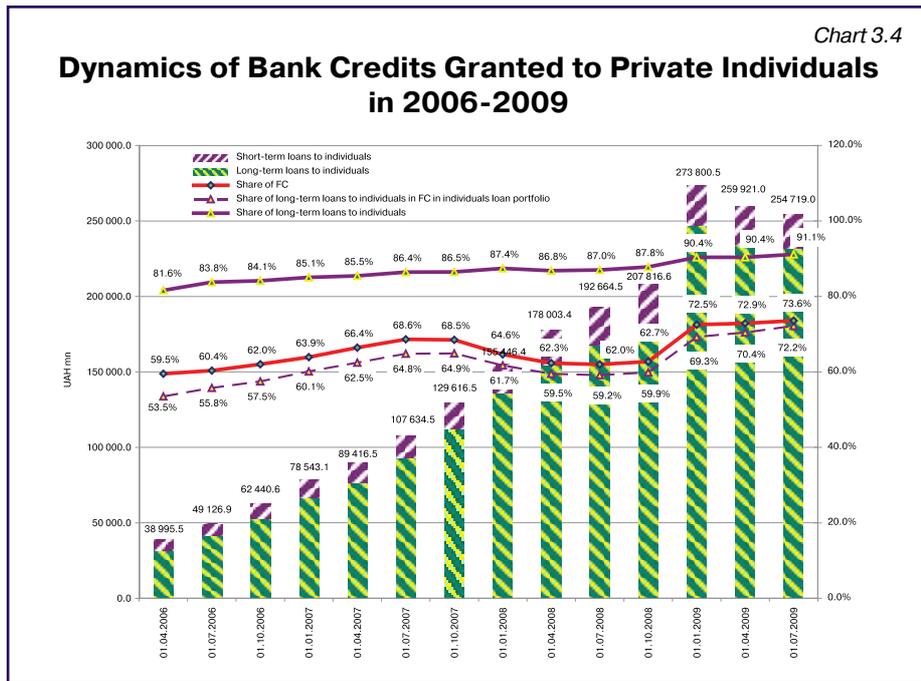


Improving the liquidity of banks and reducing the cost of credits helped to stop a negative trend towards reducing the amount of lending by banks in Q2. The amount of lending decreased by 2.2% to Hr 700.7bn in Q2. The amount of credits granted to legal entities decreased by 2.3% in Q2 vs. Q1 2009, and totaled Hr 446.0bn (see Chart 3.3). It should be noted here that the amount of credits in the national currency granted to legal entities increased by 10.8% against Q1 2009 and reached Hr 265.5bn.



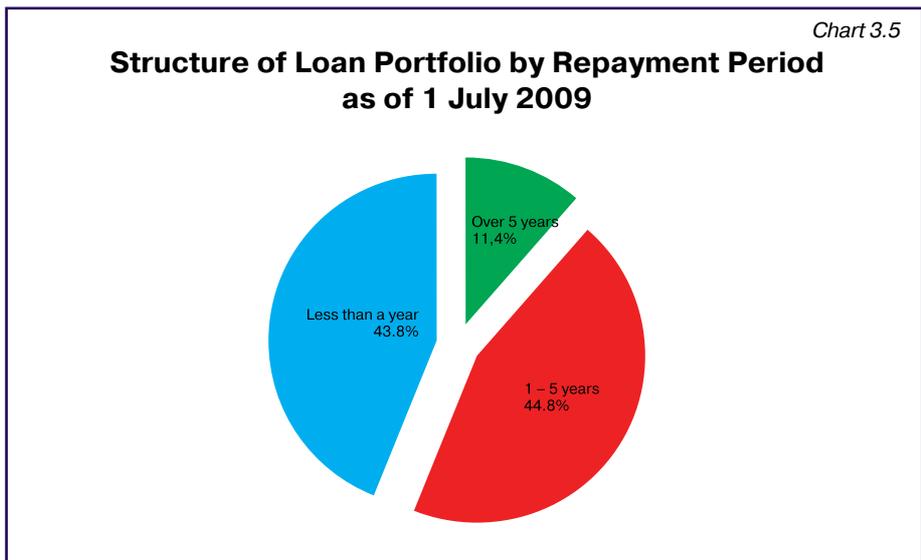
At the same time, banks stepped up their lending in the national currency, with the amount of loans growing by 6.8% in Q2 vs. Q1 2009 and a respective growth of 2.2% in Q1 vs. beginning of the year. In the first half of 2009, the amount of credits in the national currency increased by 11.2 to Hr 333.8bn due to an 18.0% increase in credits granted to legal entities. At the same time, the amount of foreign-currency credits decreased by 13.6% to Hr 369.4bn.

In an environment of declining personal income, the amount of credits issued to private individuals decreased in the first half of the year in both the national and foreign currencies. Overall, their amount decreased by 9.4% in the period under review. The decline in foreign-currency lending was primarily caused by the National Bank's substantial raising of reserve coefficients (based on the degree of risk) on foreign-currency lending to the borrowers with no sources of foreign-currency earnings at the end of last year.



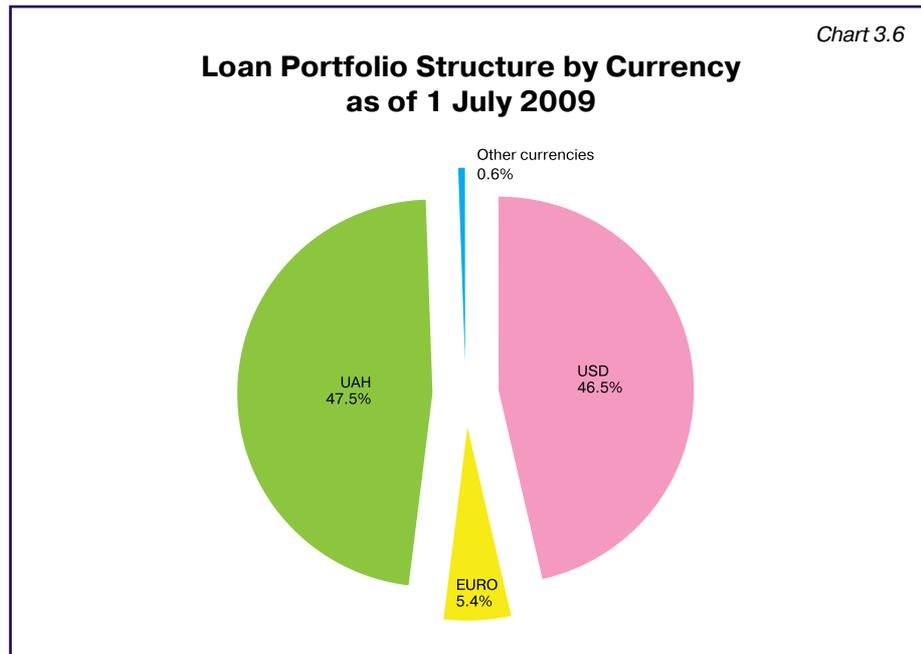
Due to the suspension of lending, the rate of repayment of credits granted to private individuals decreased somewhat and amounted to 2.0% in Q2 (compared to 5.1% in Q1). As of 1 July 2009, the loan portfolio of private individuals totaled Hr 254.7bn (see Chart 3.4).

The structure of the client loan portfolio by repayment period is as follows: the credits with a repayment period of less than one year (43.8%) and long-term credits with repayment periods of one to five years (44.8%) have almost equal shares. Long-term credits with repayment periods of more than five years have a minor share in the total client loan portfolio (11.4%) (see Chart 3.5).



Credits in the national currency (47.5%) and U.S. dollar (46.5%) have the largest shares in the client loan portfolio structure by currency (see Chart 3.6).

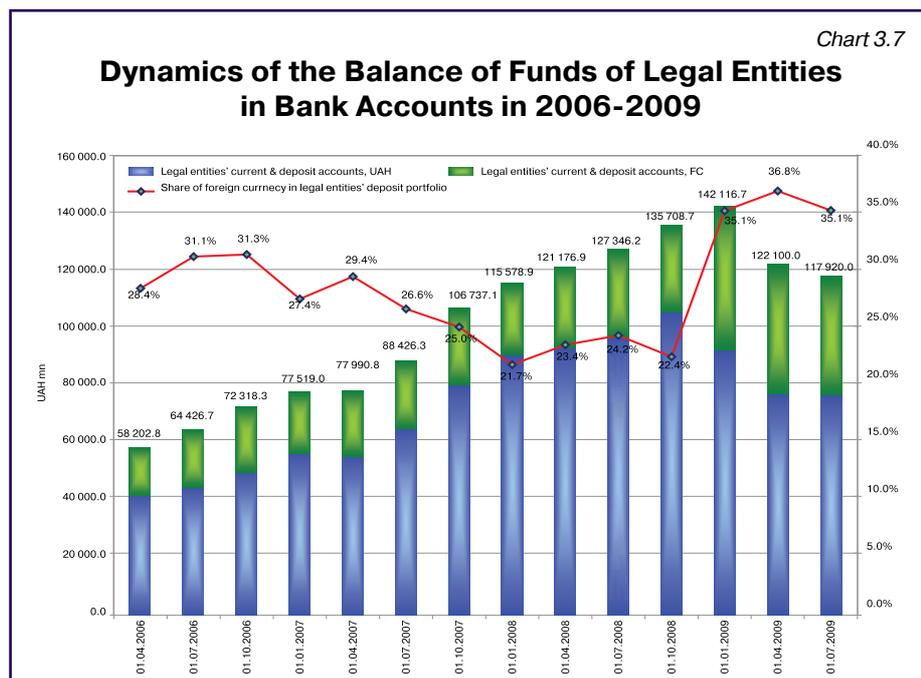
Chart 3.6

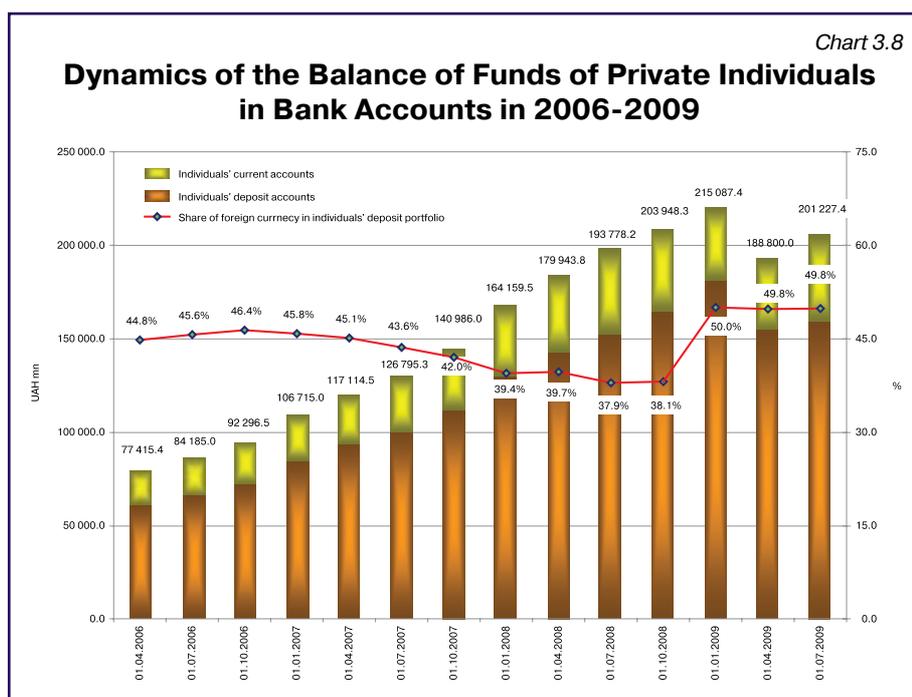


A trend of the outflow of funds from the banking system ended in Q2 2009. Whereas the figures for the monthly growth of personal deposits had a negative value in Q1 2009, an upward trend for the deposits of private individuals prevailed in Q2. As of 1 July 2009, personal deposits totaled Hr 201.2bn or 25.6% of the total liability, and deposits of economic agents totaled Hr 117.9bn or 15.5%. Term personal deposits totaled Hr 155.8bn or 77.4% of the total personal deposits, and call deposits totaled Hr 45.4bn or 22.6%.

A trend towards the slight growth of funds in clients' deposit accounts was observed in Q2 2009 (see Chart 3.7 and Chart 3.8). The growth rate amounted to 2.7% in Q2 (this figure decreased by 10.7% year-to-date).

Chart 3.7



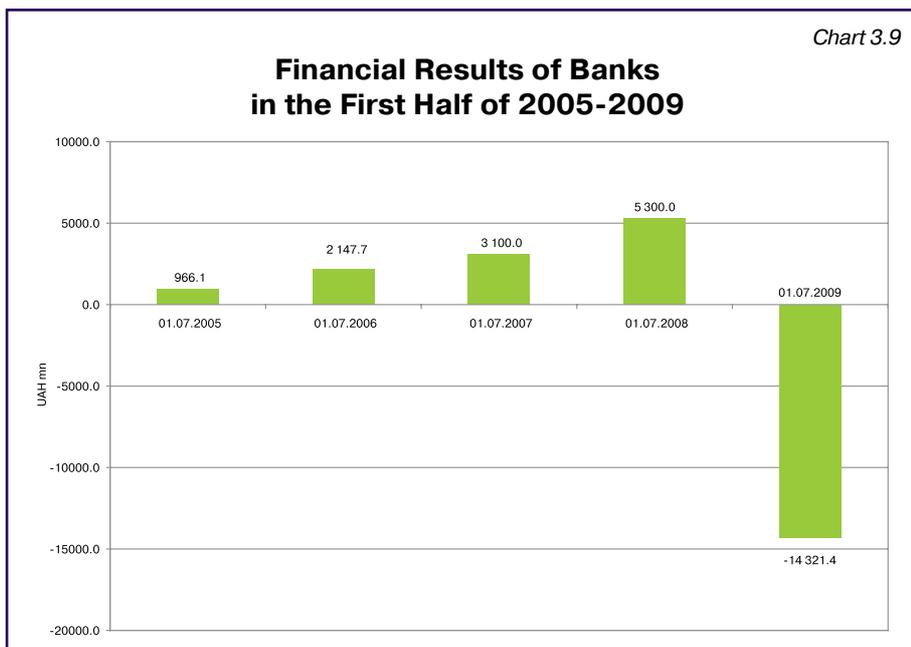


Unlike personal deposits, the dynamics of the amount of funds held by legal entities still had a downward trend in Q2 2009. The amount decreased by 3.4% to Hr 117.9bn. Also, the foreign-currency deposits of legal entities decreased by an equivalent USD 0.5bn or by 8.0%, and those in the national currency by Hr 0.6bn or by 0.8%. Personal foreign-currency deposits increased by an equivalent of USD 0.9bn or by 7.7%, and those in the national currency by Hr 3.5bn or by 3.6%. Therefore, the total deposits of private individuals increased by nearly 6.6% in Q2 2009.

Difficulties with the early withdrawal of funds from term accounts has influenced the age structure of deposits. In the first half of the year, the share of term deposits in the total amount of deposits decreased from 70.0% to 64.9%, including the share of long-term deposits — from 44.4% to 34.2%.

As of 1 July 2009, the equity of banks totaled Hr 116.8bn or 13.4% of their liabilities and had the following structure: paid and registered authorized capital amounted to 78.8% of equity; dividends used for increasing the authorized capital - 0.5%; issue difference - 5.1%; general provisions, reserve funds, and other bank funds - 14.7%; results of previous years - 0.6%; results of the reporting year pending approval - 0.1%; results of the current year - minus 8.8%; results of the revaluation of fixed assets, intangible assets, and securities in the bank portfolio for sale, and investment into associated companies - 9.0%.

As seen from Chart 3.9, a negative financial result for commercial banks of Hr 14.3bn was recorded in January-June 2009, which was primarily caused by significant deductions into reserves for active bank transactions.



As of 1 July 2009, the income of banks totaled Hr 72.0bn, including interest income of Hr 61.8bn (or 85.9% of total income) and commission income of Hr 7.5bn (10.5%). The costs of banks as of 1 July 2009 totaled Hr 82.2bn, including interest costs of Hr 34.3bn (or 41.7% of total costs), deductions into reserves of Hr 29.1bn (35.4%) and commission costs of Hr 1.3bn (1.6%). The net loss of the banking system totaled Hr 10.2bn.

## CURRENCY MARKET AND EXCHANGE RATE

Among other things, the money-and-credit market has benefited from measures to ensure the stability of its foreign-currency segment. Therefore, in an environment of significant devaluation pressures, the official hryvnya exchange rate against the US dollar was maintained at Hr 7.7000 to USD 1 in Q1 2009, and the hryvnya even gained 0.91% to Hr 7.6303 to USD 1 in Q2. Also, tensions on the currency market have been alleviated thanks to the National Bank introducing on 27 February 2009 practices for the conducting of special-purpose foreign-currency auctions to satisfy the needs of private bank clients who had to repay their foreign-currency credits. Overall, sales of foreign currencies at these auctions totaled \$645.0mn in the first half of the year.

The above steps have helped to ease the demand for foreign cash and balance out the cash hryvnya exchange rate. Whereas the sale of foreign cash exceeded purchases by \$2.6bn in Q1 2009, it decreased to \$0.6bn in Q2 2009.

Signs of an improving situation in Q2 were also noted on the non-cash segment of the currency market, which allowed a significant reduction in the scope of interventions in selling foreign currencies at the interbank market. Whereas the amount of National Bank interventions in foreign currency sales at the interbank market totaled USD 4.4bn in Q1, it only amounted to USD 1.9bn in Q2.

To improve the transparency of its transactions on the currency market, the National Bank was announcing the schedule and format of its market intervention in advance, as well as providing the level of quotations under which it was going to participate in the trading beforehand.

In May 2009, according to the terms of the IMF Standby program, the National Bank continued its policy of gradually raising its hryvnya exchange rate flexibility by changing the methodology of calculating the official hryvnya exchange rate against the U.S. dollar, according to which the rate is established as of 7 May as the average weighted sellers' and buyers' rate at the interbank currency market of Ukraine set in the previous banking day, with a possible deviation of  $\pm 2\%$ .

Aggregate international reserves shrank by 13.3% to \$27.3bn (equivalent) in the first half of 2009 in general. This level of reserves is sufficient for financing the future import of goods and services through 5.5 months.

## **INTEREST RATE POLICY**

Striving to facilitate the consolidation of positive trends on the money-and-credit market and an improvement of the situation in the real sector of the economy, the National Bank of Ukraine reduced its discount rate from 12% to 11% as of 15 June 2009. At the same time, the average weighted interest rate on refinancing transactions decreased compared to the beginning of the year and amounted to 14.8% annually in June, including 18.3% for overnight credits.

In view of the slowing down in the outflow of client deposits and the proactive support of the liquidity of banks by the National Bank of Ukraine, a change in the interest rates on deposit programs took place on the banking market. Thus, the average weighted rate on deposits in the national currency increased from 14.3% to 14.8% in the first half of 2009, and those in foreign currencies decreased from 9.2% to 8.7%. The integral rate on deposits remained virtually unchanged at 11.0%.

Also, the reduction in NBU interventions in selling foreign currencies at the interbank market helped to improve the liquidity of the banking system, which was also reflected in the interest rate dynamics. Therefore, the average weighed cost of credits in the national currency decreased from 21.6% to 18.5%, and those in foreign currencies decreased from 12.6% to 9.4%.

## **STOCK MARKET**

The dynamics of securities market indicators were also in line with the general situation on the money-and-credit market. Thus, in the worsening situation during Q1 2009, the PFTS index, which reflects variations in prices of the most liquid equities) fell by 24.6% against the year's outset. On the other hand, starting in April, when certain signs of stabilization started to emerge, the key indicators

of the Ukrainian stock market demonstrated a positive dynamic. The PFTS index increased by 80.9% to 411.20 points in April through June 2009, showing one of the highest growth rates worldwide. The PFTS index increased by 109.78 points or 36.4% year-to-date. The volume of trading at the PFTS Stock Exchange (which is the largest securities trading organization in Ukraine) dropped 5.3 times in January-June 2009 year-on-year to Hr 3.9bn

In the first half of 2009, the Ministry of Finance placed internal government bonds, which generated Hr 8.4bn for the State budget of Ukraine. In addition, internal government bonds totaling Hr 4.7bn were issued in January and June 2009 in order to increase the authorized capital of banks.

In June 2009, the Ministry of Finance increased the yield for government bonds to be placed at initial offering auctions. For instance, though the yield of such securities varied between 15.6% to 20.2% depending on maturity in January-May, the rates in June were from 19.3% through 22.7%. The average weighed yield on internal government bonds amounted to 13.9% at initial offerings in January-June 2009.

A trend towards the reduced involvement of foreign investors on the government papers market continued in the first half of 2009. The amount of internal government bonds held by nonresidents decreased by Hr 311.7mn to Hr 155.5mn in this period, which amounted to 0.4% of the total internal government bonds in circulation.

## **FINANCIAL CONDITION OF UKRAINIAN BANKS**

PrivatBank and Raiffeisen Bank Aval have remained the leaders in recent years in terms of their net assets (see Table 3.1).

As of 1 July 2009, PrivatBank's market share amounted to 9.2% of all net assets of the banking system (the change in the market share amounted to +0.54% or +\$8.0mn in the first half of 2009). As of 1 July 2009, the market share of Raiffeisen Bank Aval amounted to 6.6% (the change in the market share amounted to -0.44% or -\$989mn in the first half of 2009).

There was a reduction in the amount of banks net assets in the first half of the year (-\$6,947.0mn). It should be noted, however, that Ukreximbank continues to increase the net assets portfolio (+\$1,159mn), having risen from the 6<sup>th</sup> to the 3<sup>rd</sup> position since the end of 2008.

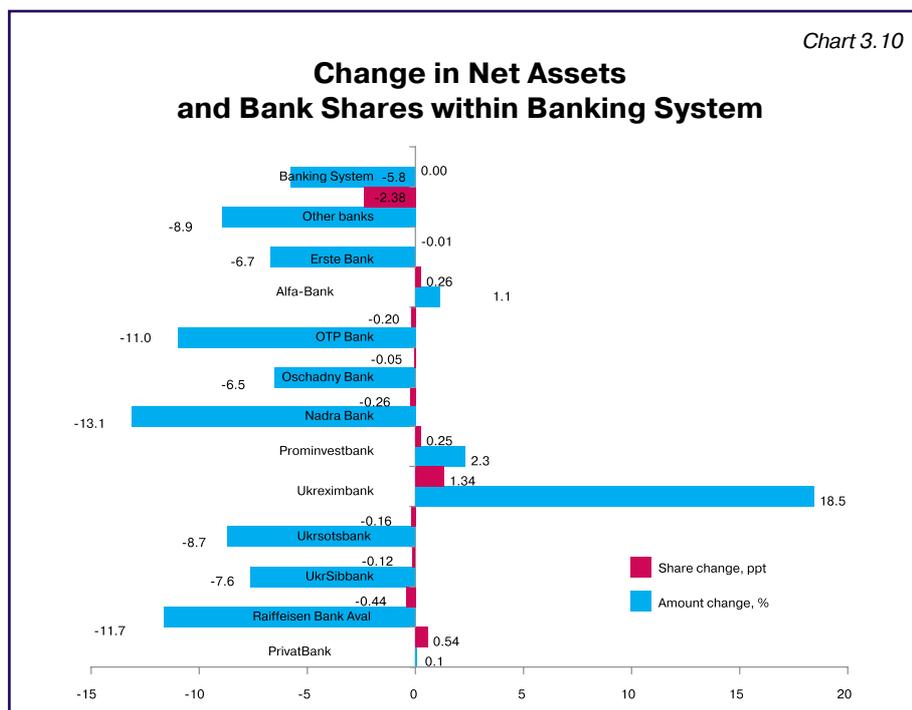
As of 1 January 2009, the share of "other banks" in the banking sector started to decline gradually (from 71.4% to 69.1%), which testifies to their slower development compared to the largest banks on the Ukrainian market.

Table 3.1

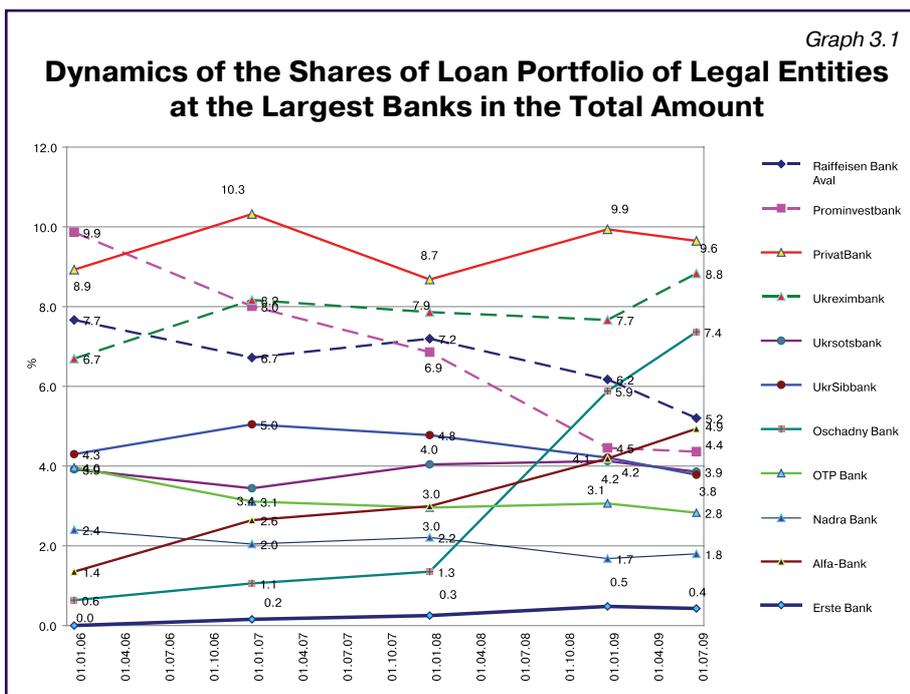
### Change in Assets of Largest Banks and Their Shares in Total Assets

Bank name	As of 01.07.2009		As of 01.01.2009		Growth Rate		
	Amount, USD mn	Share, %	Amount, USD mn	Share, %	Amount, USD mn	Amount change, %	Share change, ppt
PrivatBank	10 420	9.2	10 411	8.7	9	0	0.54
Raiffeisen Bank Aval	7 499	6.6	8 489	7.1	-989	-12	-0.44
UkrSibbank	6 680	5.9	7 233	6.0	-553	-8	-0.12
Ukrsotsbank	5 894	5.2	6 454	5.4	-560	-9	-0.16
Ukreximbank	7 435	6.6	6 276	5.2	1 159	18	1.34
Prominvestbank	3 652	3.2	3 570	3.0	82	2	0.25
Nadra Bank	3 446	3.0	3 967	3.3	-521	-13	-0.26
Oschadny Bank	7 017	6.2	7 505	6.2	-488	-7	-0.05
OTP Bank	3 897	3.4	4 379	3.6	-482	-11	-0.20
Alfa-Bank	4 244	3.7	4 196	3.5	48	1	0.26
Erste Bank	1 337	1.2	1 432	1.2	-96	-7	-0.01
Other banks	78 271	69.1	85 933	71.4	-7 662	-9	-2.38
<b>Banking System</b>	<b>113 324</b>	<b>100.0</b>	<b>120 271</b>	<b>100.0</b>	<b>-6 947</b>	<b>-6</b>	<b>x</b>

Changes in the amount of net assets and bank shares in the banking system are shown in Chart 3.10.



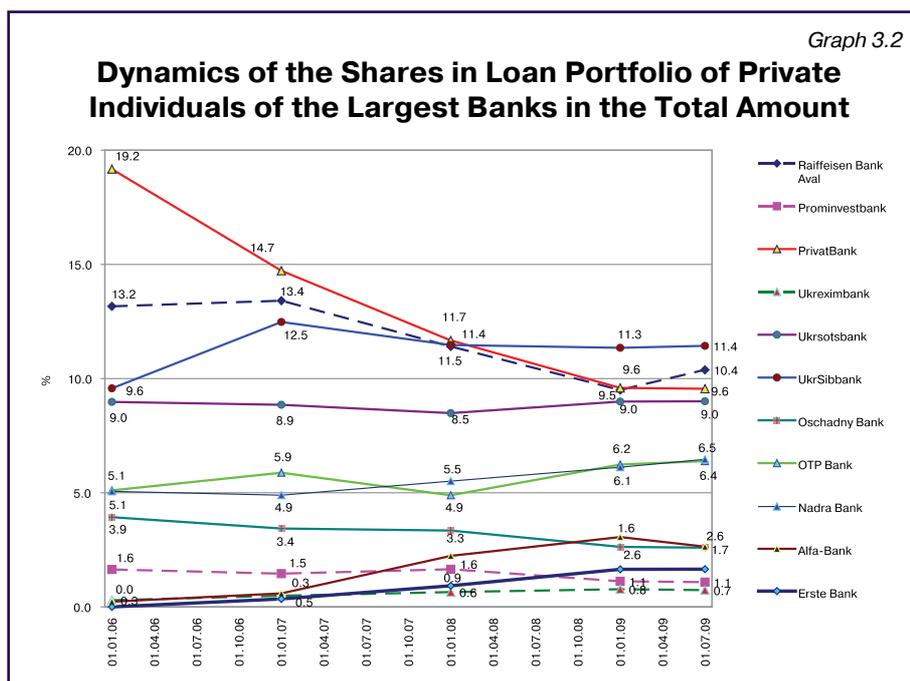
PrivatBank and Ukreximbank remain the market leaders in terms of lending to legal entities for the second successive year, with market shares of 9.6% and 8.8%, respectively, as of 1 July 2009 (see Graph 3.1). In the first half of 2009, Oshchadbank secured third place in terms of market share, with a 2.2% or USD 1,365mn lead over Raiffeisen Bank Aval.



The group of top ten banks in lending to private individuals, experienced some changes based on their performance in the first half of 2009. Thus, UkrSibbank has finally secured the first position, leaving Raiffeisen Bank Aval and PrivatBank behind. Raiffeisen Bank Aval took the second position with a market share of 10.4% in the first half of 2009.

As of 1 July 2009, the gap in volume between UkrSibbank and Raiffeisen Bank Aval was quite small at about \$345.0mn or +1.0% of the market share (see Graph 3.2).

UkrSotsbank and OTP Bank also continue increasing their shares on the market of lending to legal entities.



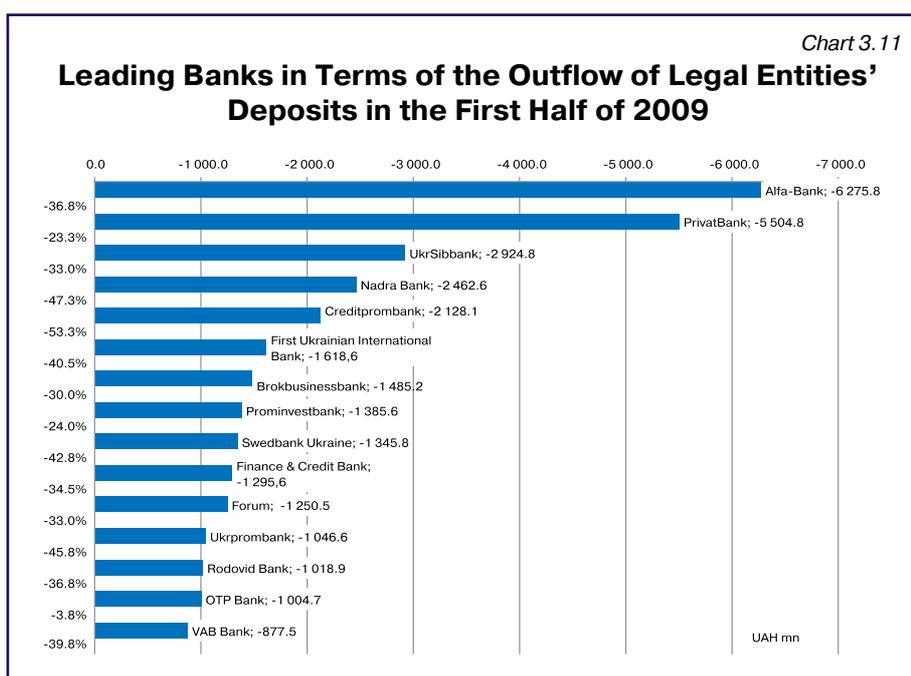
Despite a negative dynamic in Q1 2009 (deposits decreased by nearly Hr 10.3bn), PrivatBank remains the largest bank in terms of the balance of funds for both current and term accounts of legal entities, with 11.6% of the banking system total (see Table 3.2). Ukreximbank secured second place with 7.9% as of 1 July 2009, followed by Raiffeisen Bank Aval with a market share of 6.3%.

Table 3.2

### Change in the Amounts of Deposit Portfolio of Legal Entities of the Largest Banks and Their Shares in the Total Amount

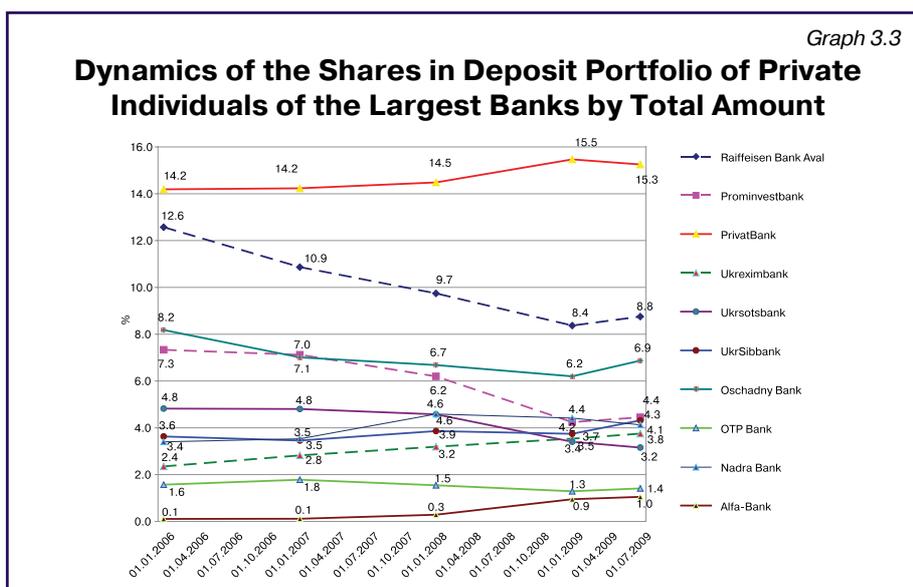
Bank's Title	01.01.2006	01.01.2007	01.01.2008	01.01.2009	01.07.2009	01.01.2006	01.01.2007	01.01.2008	01.01.2009	01.07.2009
	amount, USD mn	share, %								
PrivatBank	1 295	1 920	2 835	3 069	2 135	8.9	10.1	12.4	10.7	11.6
Raiffeisen Bank Aval	1 171	1 087	1 390	1 187	1 163	8.0	5.7	6.1	4.1	6.3
UkrSibbank	566	639	1 033	1 138	637	3.9	3.4	4.5	4.0	3.5
Ukrsotsbank	951	1 162	1 722	897	764	6.5	6.1	7.5	3.1	4.2
Ukreximbank	678	931	1 332	1 419	1 447	4.7	4.9	5.8	5.0	7.9
Prominvestbank	1 491	1 541	2 136	762	526	10.2	8.1	9.3	2.7	2.9
Nadra Bank	180	372	800	678	254	1.2	2.0	3.5	2.4	1.4
Oschadny Bank	449	190	582	492	628	3.1	1.0	2.5	1.7	3.4
OTP Bank	454	432	808	527	423	3.1	2.3	3.5	1.8	2.3
Alfa-Bank	141	504	945	2 220	1 144	1.0	2.7	4.1	7.8	6.2
Other banks	6 655	9 374	7 649	16 236	9 222	45.7	49.4	33.4	47.0	50.3
<b>Banking System</b>	<b>14 557</b>	<b>18 969</b>	<b>22 887</b>	<b>28 625</b>	<b>18 344</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Based on their performance in the first half of 2009, the leaders in terms of the outflow of deposits of legal entities included Alfa-Bank (the amount of deposits decreased by nearly Hr 6,276mn), PrivatBank (-Hr 5,505mn), UkrSibbank (-Hr 2,925mn), and Nadra Bank (-Hr 2,463.0mn) (see Chart 3.11).

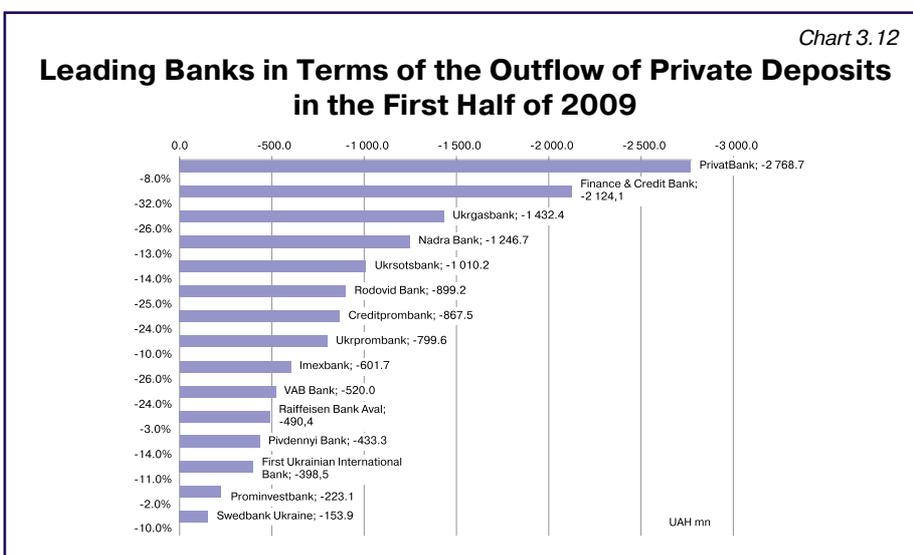


At the same time, growth in the deposits of legal entities was observed in such banks as Oshchadbank (+Hr 1,002mn), Pravex Bank (+Hr 186.6mn), ING Bank (+Hr 122.2mn), and Erste Bank (+Hr 121.5mn).

Despite its negative dynamic in the first half of 2009, PrivatBank remains the largest bank in Ukraine serving private depositors, with a market share of 15.3% as of 1 July 2009, with a change of -0.2% in the first half of 2009. Raiffeisen Bank Aval secured second place again with 8.8%, followed by State-owned Oshchadbank in third place (6.9%) (see Graph 3.3).

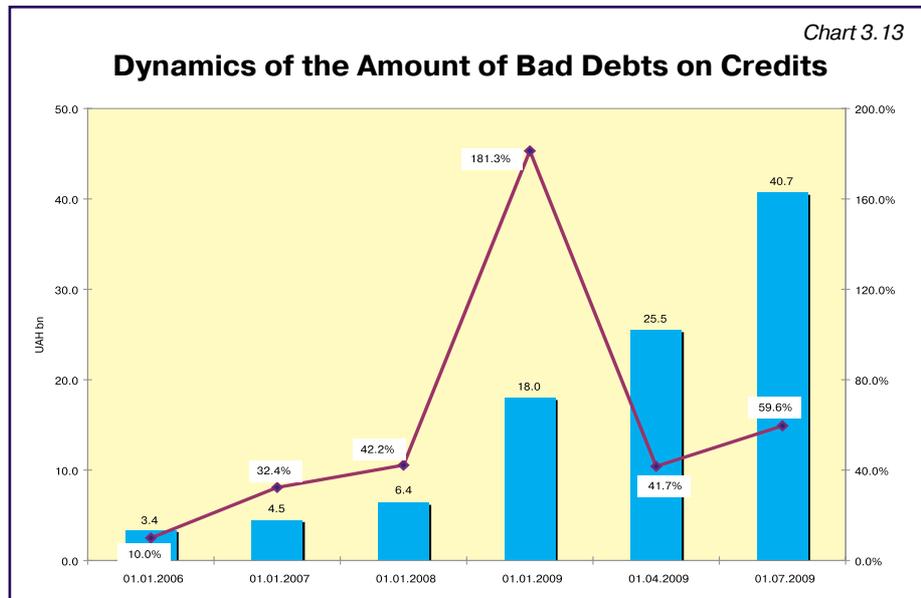


Based on their performance in the first half of 2009, the leaders in terms of the outflow of private deposits included PrivatBank (deposits decreased by nearly Hr 2,768.7mn), Finance and Credit Bank (-Hr 2,124.1mn), and Ukrhazbank (-Hr 1,432.4) (see Chart 3.12).

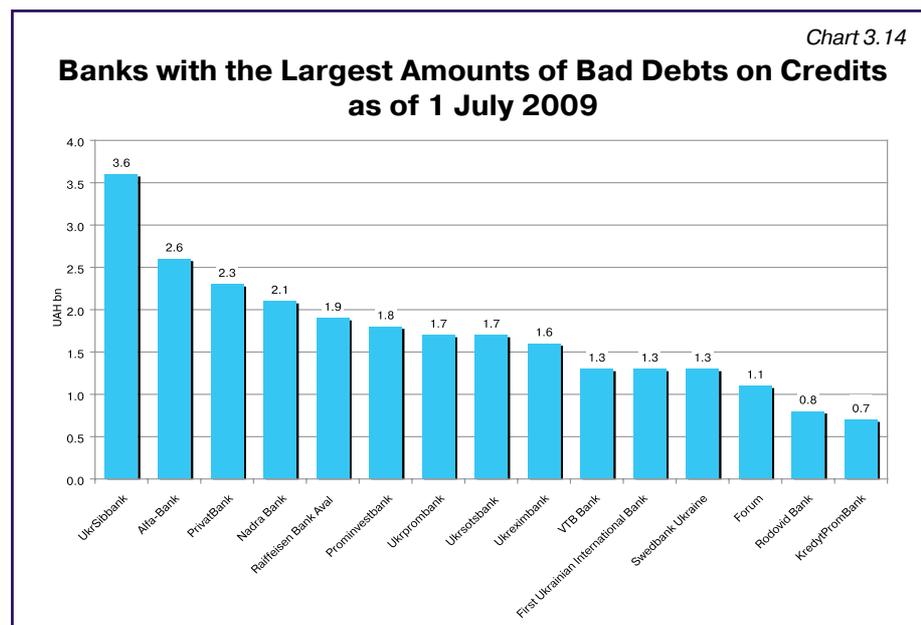


At the same time, however, growth in private deposits was observed at such banks as UkrSibbank (+Hr 590.2mn), Forum (+Hr 466.2mn), Oshchadbank (+Hr 417.4mn), VTB Bank (+Hr 273.5mn), and Brokbyznesbank (+Hr 241.1mn).

As of 1 July 2009, the amount of bad debts totaled Hr 40.7bn or 5.8% of the total client loan portfolio of the banking system (see Chart 3.13).



The largest amounts of bad debts on credits are held by UkrSibbank (Hr 3.6bn), Alfa-bank (Hr 2.6bn), and PrivatBank (Hr 2.3bn) (see Chart 3.14).



According to collectors' estimates, the amount of bad debts might reach Hr 65.0bn by the end of 2009.

Losses totaled Hr 14.3bn in H1 2009, or Hr 7.3bn more than in Q1 2009.

Based on their performance of the first six months of 2009, the income of banks totaled Hr 72.0bn, including interest income of Hr 61.9bn (or 85.8% of total income), commission income of Hr 7.5bn (10.5%), results of trading transactions of Hr 1.3bn (1.8%), and other operating income of Hr 1.2bn (1.6%). The costs of banks totaled Hr 86.4bn, including interest costs of Hr 34.3bn (or 40.0% of total costs), commission costs of Hr 1.3bn (1.4%), other operating costs of Hr 3.8bn (4.4%), general administrative costs of Hr 13.5bn (15.6%), deductions into reserves of Hr 33.1bn (38.3%), and tax on profit of Hr 0.3bn (0.3%) (see Table 3.3).

Table 3.3

### Structure of Bank Income and Costs in the First Half of 2009

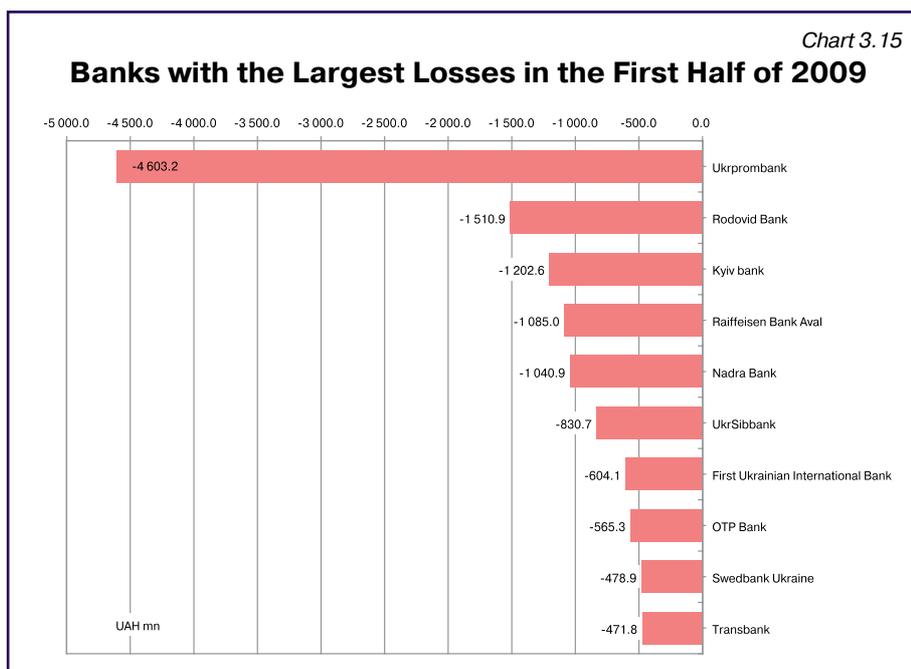
(UAH mn)

Income	72 038	100.0%	Costs	86 359	100.0%
Interest income	61 850	85.8%	Interest costs	34 333	40.0%
Commission income	7 548	10.5%	Commission costs	1 333	1.4%
Trade income	1 311	1.8%	Other operating costs	3 800	4.4%
Other operating income	1 161	1.6%	General administrative costs	13 496	15.6%
Other income	127	0.2%	Reserves	33 134	38.3%
Income from previously written-off assets	41	0.1%	Tax on profit	264	0.3%

The greatest losses in the first half of 2009 were recorded for Ukrprombank (-Hr 4,603mn), Rodovid Bank (-Hr 1,510.9mn), and Kyiv Bank (-Hr 1,202.6mn) (see Chart 3.15). More than one third of Ukrainian banks ended in the red based on the results of the first half of 2009.

An analysis of the banks that have suffered the greatest losses in the first half of 2009 indicates that the banks which recently recapitalized with the participation of the State had the greatest losses. In general, loss-bearing financial institutions could be subdivided into two categories. The first category includes the banks placed into temporary administration (Ukrprombank, Rodovid Bank, Kyiv Bank, and others), where losses had been caused by an overall distortion of the balance sheet structure. Group two includes large retail banks whose main problem consisted in defaults on credits by their clients.

The main reason behind the declining profitability of banks in the first half of 2009 lies in the substantial amounts of deductions into reserves for credit risks and a shortfall in the interest and commission income due to the lower volume of lending.



According to NBU data, as of 1 July 2009, the amount of reserves accumulated for lending transactions for some of the largest Ukrainian banks and their shares in the total loan portfolio amount are as follows: Raiffeisen Bank Aval - Hr 2.5bn (or 4.9% of the total loan portfolio amount); UkrSibbank - Hr 2.5bn (5.4%); OTP Bank - Hr 1.6bn (5.4%); First Ukrainian International Bank - Hr 1.04bn (7.4%); and Swedbank - Hr 0.95bn (7.3%).

As before, the leaders in the volume of profits include Oshchadbank (+Hr 753.7mn), PrivatBank (+Hr 405.3mn), Citibank Ukraine (+Hr 245.7mn), Calyon Bank (+Hr 193.1mn), and ING Bank (+Hr 92.7mn).

In the first half of the year, the highest growth in equity was recorded for Ukreximbank (110.1%), UkrSibbank (16.1%), PrivatBank (15.0%), and Oshchadbank (6.08%).

## SECTION 4. ANALYSIS OF BUDGET INDICATORS IN JANUARY-JUNE 2009

### 4.1. EXECUTION OF REVENUES OF THE CONSOLIDATED BUDGET AND STATE BUDGET OF UKRAINE IN JANUARY-JUNE 2009

#### CONSOLIDATED AND STATE BUDGET REVENUES

The actual intake of consolidated budget revenues totaled Hr 131.2bn in the first half of 2009, which is Hr 5.3bn or 3.9% less year-on-year (see Table 4.1.1).

In January-June 2009, 41.6% of the annual plan was executed. Actual consolidated budget revenues amounted to 45.8% in January-June 2008.

The actual intake was characterized by a decline in the nominal amount of revenues by 5.3% and an increase in Special Fund revenues by more than 20%.

Table 4.1.1

#### Revenues of the Consolidated, State, and Local Budgets of Ukraine in the First Half of 2006-2009

(UAH bn)

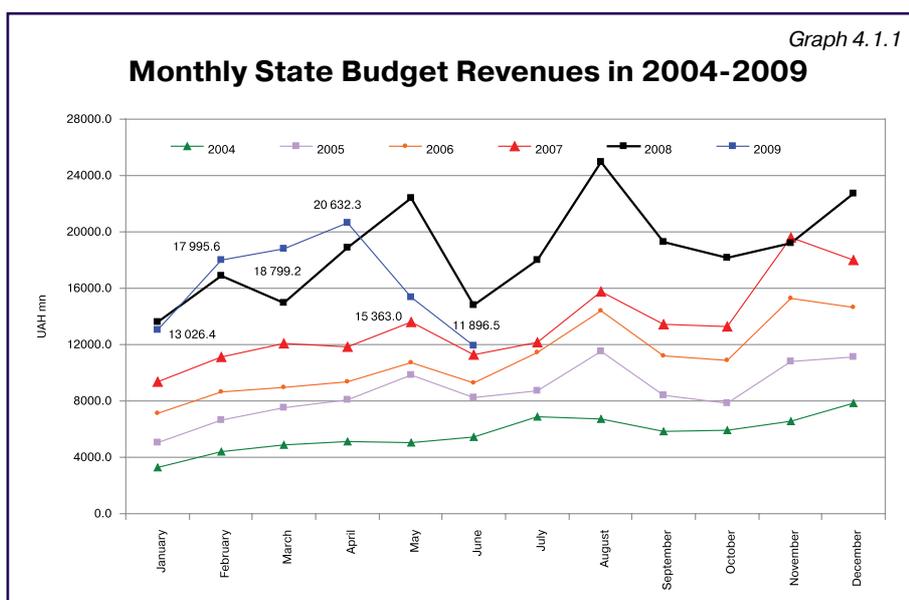
Indicators	2006	2007	2008	2009	2009 vs. 2008	
					UAH bn	Growth rate, %
<b>Consolidated budget, including:</b>	<b>72.2</b>	<b>95.0</b>	<b>136.5</b>	<b>131.2</b>	<b>-5.3</b>	<b>-3.9</b>
General Fund	56.2	74.0	108.3	96.9	-11.4	-10.5
Special Fund	16.0	21.0	28.2	34.3	6.1	21.6
<b>State budget (without intergovernmental transfers), including:</b>	<b>54.0</b>	<b>69.3</b>	<b>101.5</b>	<b>97.7</b>	<b>-3.8</b>	<b>-3.7</b>
<i>Share in consolidated budget revenues</i>	<i>74.8</i>	<i>72.9</i>	<i>74.4</i>	<i>74.5</i>		
General Fund	42.3	54.2	80.2	68.6	-11.6	-14.5
Special Fund	11.7	15.1	21.3	29.1	7.8	36.6
<b>Local budgets (without intergovernmental transfers), including:</b>	<b>18.1</b>	<b>25.7</b>	<b>35.0</b>	<b>34.4</b>	<b>-0.6</b>	<b>-1.7</b>
<i>Share in consolidated budget revenues</i>	<i>25.2</i>	<i>27.1</i>	<i>25.6</i>	<i>25.5</i>		
General Fund	13.8	19.8	28.1	28.3	0.2	0.7
Special Fund	4.3	5.9	6.9	5.1	-1.8	-26.1

The State budget received Hr 101.1bn in revenues (with intergovernmental transfers), which is Hr 4.0bn or 3.5% less year-on-year. Of this amount, the General Fund of the State budget received Hr 71.9bn and Special Fund received Hr 29.2bn.

**The intake of State budget revenues (without intergovernmental transfers)** totaled Hr 97.7bn, which is Hr 3.8bn or 3.7% less than the respective indicator of last year.

The intake accounted for 42.4% of the State budget's annual plan. Actual State budget revenues amounted to 45.3% of the yearly total in January-June 2008.

The dynamics of monthly State budget revenues in the reporting period are somewhat different from the dynamics of previous years due to the negative influence of the financial and economic crisis (see Graph 4.1.1).



The execution of the State budget revenues in January-June 2009 was characterized by the following:

- a 3.7% decline in the nominal amount of revenue intake in the State budget against the same period last year;
- a significant reduction in the share of tax revenues in the general structure of State budget revenues due to an increase in the share of non-tax revenues. This was the first such occurrence in more than three years;
- an increase in the share of atypical revenues, such as payment of tax obligations for previous periods by monopolies, as well as an increase in the amount of advance tax payment and growth in the amount of overdue VAT reimbursements.

Therefore, the revenue structure of the State budget changed quite significantly in the first half of 2009 compared to the same period in 2008.

#### **STRUCTURE OF CONSOLIDATED AND STATE BUDGET REVENUES**

**The share of tax revenues** in the structure of total revenues of the decreased by 4.3ppt in January-June 2009 year-on-year to 73.0%. Also, the structure of the tax revenues themselves has changed. For instance, there was a decline in the shares of such

revenues as corporate profit tax (by 2.4ppt), value-added tax (2.8ppt), taxes on international trade and external transactions (2.6ppt). At the same time, there was a 2.4ppt increase in the share of excise tax, 0.3ppt for personal income tax, and 0.6ppt for the payment for land.

**The share of non-tax revenues** of the increased by 6.4ppt and amounted to 25.1%. The shares of nearly all components of non-tax revenues increased: own revenues of budgetary institutions increased by 4.0ppt; revenues from property and business activity, by 1.6ppt; other non-tax revenues, by 1.0ppt. Only the share of administrative charges and fees decreased, by 0.2ppt.

**The share of tax revenues** in the structure of total revenues decreased by 7.2ppt in the first half of 2009 compared to the same period of 2008. On the whole, changes in the structure of State budget revenues are similar to those in the structure of consolidated budget revenues. The decline in the share of revenues from value-added tax (by 3.8ppt), taxes on international trade and external transactions (by 3.4ppt), and enterprise profit tax (by 3.3ppt) were the main reasons for a shrinking share of tax revenues in the overall structure of State budget revenues. Excise tax was the only source of tax revenues showing growth, with 3.2ppt.

**The share of non-tax revenues** in the State budget revenues increased by 8.1ppt in January-June 2009 and amounted to 29.9%. The increase was due to a growth in the share of own revenues of budgetary institutions of 4.8ppt; revenues from property and business activity, at 2.2ppt; and other non-tax revenues, which grew by 1.5ppt. However, the share of revenues from administrative charges and fees decreased by 0.4ppt.

The structure of the consolidated and State budget revenues is shown in Table 4.1.2.

Table 4.1.2

### Structure of Revenues of the Consolidated and State Budget of Ukraine in January-June 2007-2009

(%)

Revenues	Consolidated budget			State budget		
	2007	2008	2009	2007	2008	2009
<b>Tax revenues, including:</b>	<b>74.3</b>	<b>77.3</b>	<b>73.0</b>	<b>73.2</b>	<b>76.5</b>	<b>69.3</b>
personal income tax	16.2	15.8	16.1	–	–	–
enterprise profit tax	12.6	13.4	11.0	17.0	17.8	14.5
fee for special use of natural resources, including:	2.8	3.1	4.0	1.4	1.1	1.2
<i>payment for land</i>	1.8	2.2	3.0	–	–	–
value-added tax	29.9	33.3	30.5	40.9	44.8	41.0
excise tax	5.2	4.3	6.7	7.1	5.7	8.9
taxes on international trade and external transactions	4.6	5.0	2.4	6.4	6.7	3.3
other tax revenues	3.0	2.4	2.3	0.4	0.4	0.4

Revenues	Consolidated budget			State budget		
	2007	2008	2009	2007	2008	2009
<b>Non-tax revenues, including:</b>	<b>21.4</b>	<b>18.7</b>	<b>25.1</b>	<b>25.4</b>	<b>21.8</b>	<b>29.9</b>
revenues from property and business activity	7.7	6.8	8.4	10.3	8.6	10.8
administrative charges and fees, income from non-commercial and incidental sales	1.4	1.2	1.0	1.4	1.2	0.8
own revenues of budgetary institutions	7.1	6.1	10.1	6.8	6.1	10.9
other non-tax revenues	5.2	4.6	5.6	6.9	5.9	7.4
<b>Income from capital transactions</b>	<b>2.5</b>	<b>2.6</b>	<b>1.1</b>	<b>0.5</b>	<b>1.0</b>	<b>0.4</b>
<b>Targeted funds</b>	<b>1.7</b>	<b>1.4</b>	<b>0.8</b>	<b>0.8</b>	<b>0.6</b>	<b>0.4</b>
<b>Other revenues</b>	<b>0.1</b>	<b>0.0</b>	<b>0.0</b>	<b>0.1</b>	<b>0.1</b>	<b>0.0</b>

## TAX REVENUES OF THE STATE BUDGET

The State budget received Hr 67.7bn in **tax revenues** in January-June 2009, which is Hr 10.1bn or 12.9% less year-on-year.

Based on the results of the first six months of 2009, actual tax revenues amounted to 37.9% of the annual plan compared to 46.3% for the actual annual revenues in the same period of 2008. These indicators testify to a rather difficult situation with State budget execution this year and rather high risks of failure to achieve the annual plan for tax revenues.

## ENTERPRISE PROFIT TAX

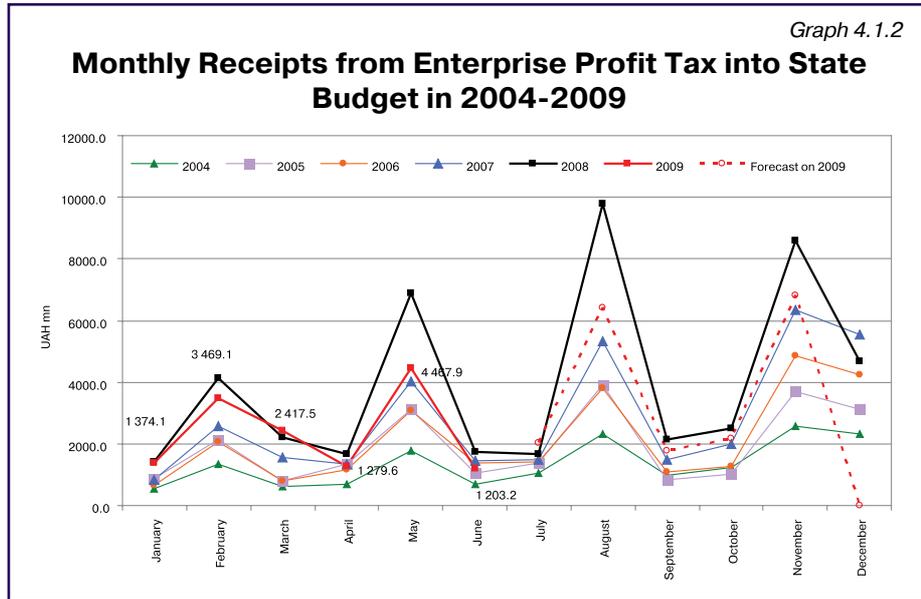
The State budget received Hr 14.2bn from the **enterprise profit tax** in the reporting period, which is Hr 3.4bn or 21.5% less than in the respective period last year. It amounts to 33.9% of the annual revenue plan for this tax, compared to 38.1% of actual annual revenues received in the respective period of 2008.

It is quite likely that the annual plan for enterprise profit tax will not be met. This is not only due to the low amount of revenues from this source in the first six months of 2009, but also due to the lack of a provision this year that would require payment of the tax based on the results of 11 months, in addition to quarterly charging and payments. This means that the tax charged for Q4 2009, will only be received into the budget in 2010, whereas previously, in particular in 2008, the enterprise profit tax for October and November was paid in the last month of the year, i.e., in December. According to expert estimates, the total revenues from this tax will be Hr 33.4bn in 2009, which is Hr 8.5bn or 20.3% less than the plan.

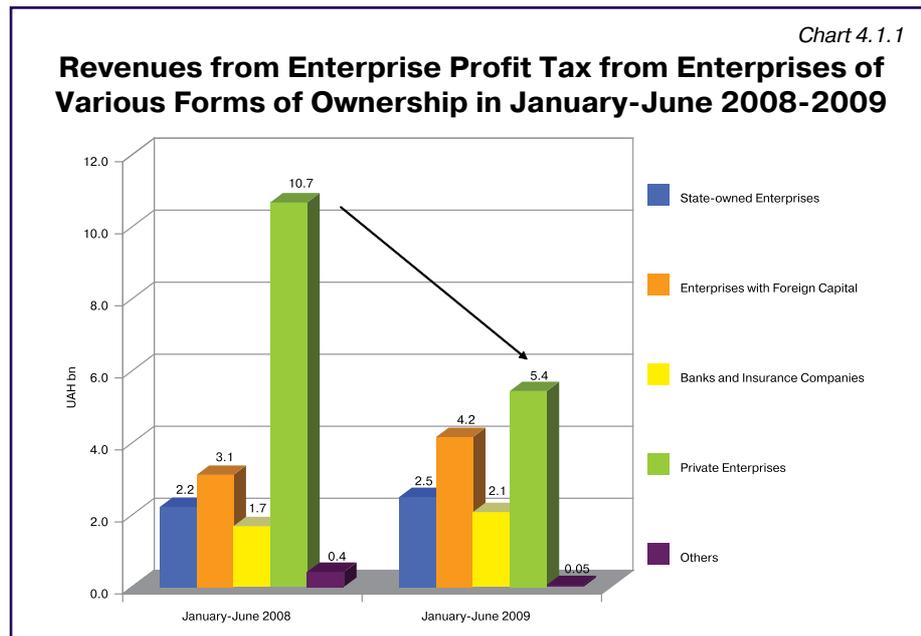
The monthly dynamics of the enterprise profit tax and the IBSER expert estimate of receipts in the second half of the year is shown in Graph 4.1.2.

A slowdown in the flow of revenues from this source is primarily due to a reduction in the amount of enterprise profit tax levied on private companies from Hr 10.7bn to Hr 5.4bn, or by 49.5%. At the same time, companies with foreign capital increased the

payment of this tax by Hr 1.1bn, with some smaller growth also noted for banks, insurance companies, and State-owned enterprises.



These trends are summarized in Chart 4.1.1.



Private enterprises, despite a decline of 20.7ppt, still account for the largest share at 38.2% in the overall structure of enterprise tax receipts from various economic agents, followed by enterprises with foreign capital at 29.3%, and State-owned enterprises at 17.6%. The share of revenues from banks and insurance companies, even though higher than last year, is the lowest so far at 14.6%.

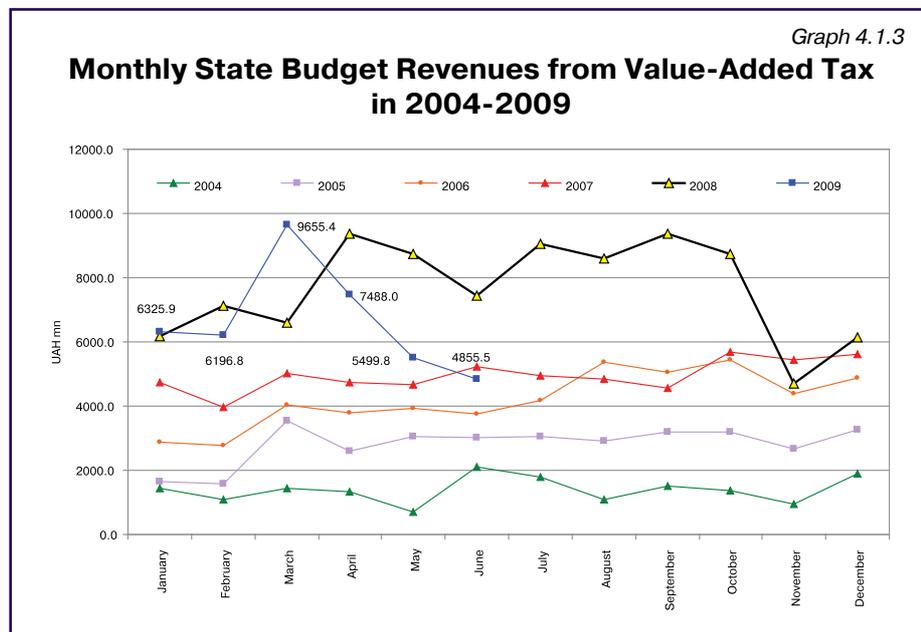
Since the enterprise profit tax was partially paid based on operational results of the previous year in the first half of 2009, the ex-

cution of the State budget in this period was significantly influenced by the onset of the financial and economic crisis, which occurred in the last quarter of 2008. Among other things, this influence manifested itself in a dramatic decline in industrial output and, accordingly, a decline in budget revenues. Therefore, not a single industry increased its output in the last quarter of 2008 compared to the same period of last year, with the deepest dive recorded in the export-oriented sectors of the economy.

## VALUE-ADDED TAX

In January-June 2009, the State budget received Hr 46.5bn in **value-added tax**, which is Hr 5.4bn or 12.0% less year-on-year.

The dynamics of monthly receipts from value-added tax are shown in Graph 4.1.3.

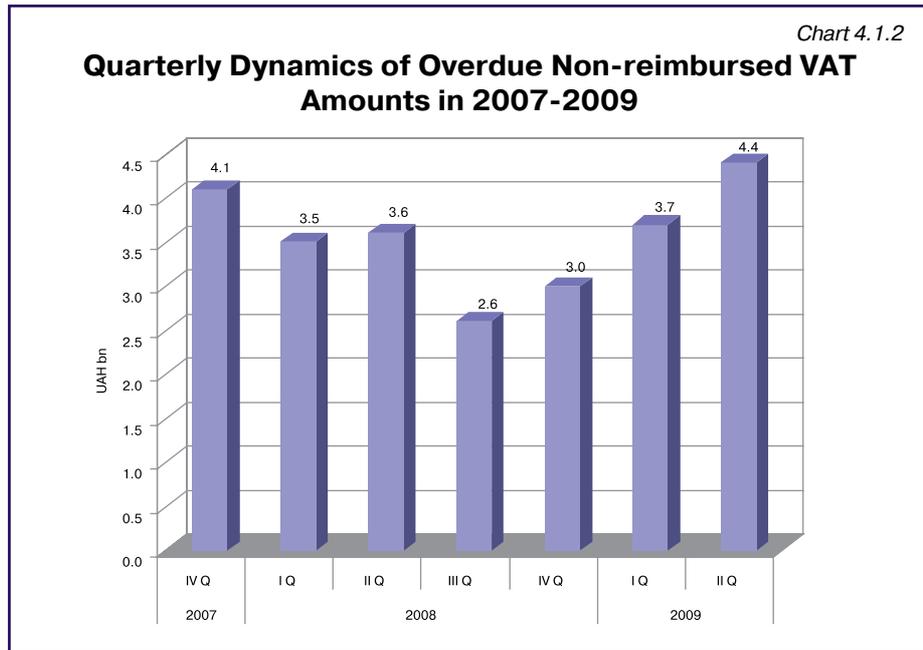


The revenues from the value-added tax amounted to 49.0% of the annual plan, which is nearly the same as the amount in the respective period of 2008, at 49.4% of actual annual revenues.

In particular, the planned targets for the value-added tax on goods imported into Ukraine were implemented by 48.3% (49.6% of actual annual revenues in the first half of 2008), and that on goods made in Ukraine - by 52.2% (48.9% in the first half of 2008).

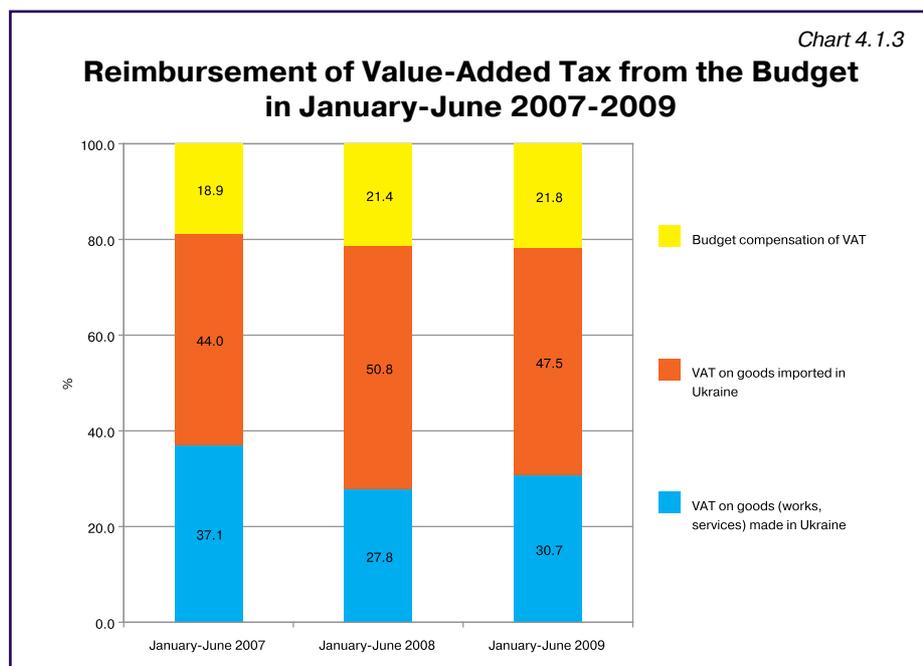
Despite the fact that the annual target is implemented at a level higher than last year, the situation around it remains quite difficult. This is due to an accrual of the amount of overdue taxes. This indicator increased by 47.5% during the first six months of the year and amounted to Hr 4.4bn as of 1 July 2009<sup>5</sup> (see Chart 4.1.2).

5 <http://www.president.gov.ua/news/14368.html>



Despite a decline in the volume of export transactions, which was the main factor for the emergence of negative tax obligations in VAT payments, i.e., the emergence of the grounds for receiving a reimbursement from the budget, the amounts of the tax reimbursed from the budget actually remain at last-year's level. In particular, VAT reimbursements only amounted to Hr 1.4bn in January-June 2009, which is 8.2% less year-on-year.

Accordingly, the share of reimbursement in the overall structure of this tax remains virtually unchanged (see Chart 4.1.3).



## TAXES ON INTERNATIONAL TRADE AND EXTERNAL TRANSACTIONS

The State budget received Hr 3.2bn from **taxes on international trade and external transactions** in January-June 2009, which is half of that in the respective period of last year.

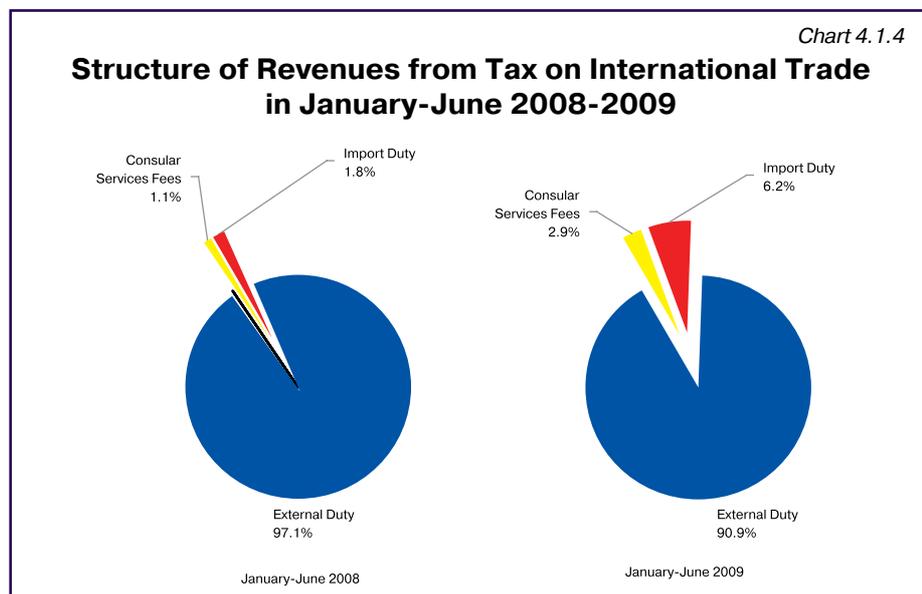
Receipts from taxes on international trade and external transactions amounted to 24.9% of the annual plan, compared to 54.9% of actual annual revenues in the same period of 2008.

Such a dramatic decline in the amount of revenues is connected with the lower volume of foreign trade transactions compared to the previous year. Thus, the volume of import transactions dropped by 46.6% and exports more than halved in the first half of 2009.

Also, the structure of taxes on international trade has changed somewhat. In particular, due to a radical decline of imports, the import duty decreased, and the export duty increased, accordingly, in the general structure of taxes on international trade and external transactions:

- the share of revenues from import duty decreased by 6.2ppt (from 97.1% to 90.9%);
- the share of revenues from export duty increased by 4.4ppt (from 1.8% to 6.2%);
- the share of revenues from consular services increased by 1.8ppt to 2.9%.

This is summarized in Chart 4.1.4.



The fall in revenues from taxes on international trade occurred to a decline in the revenues from **import duty**. The receipts from this type of duty totaled Hr 3.4bn in the first half of 2009, which is Hr 4.1bn or 54.3% less year-on-year.

## EXCISE TAX

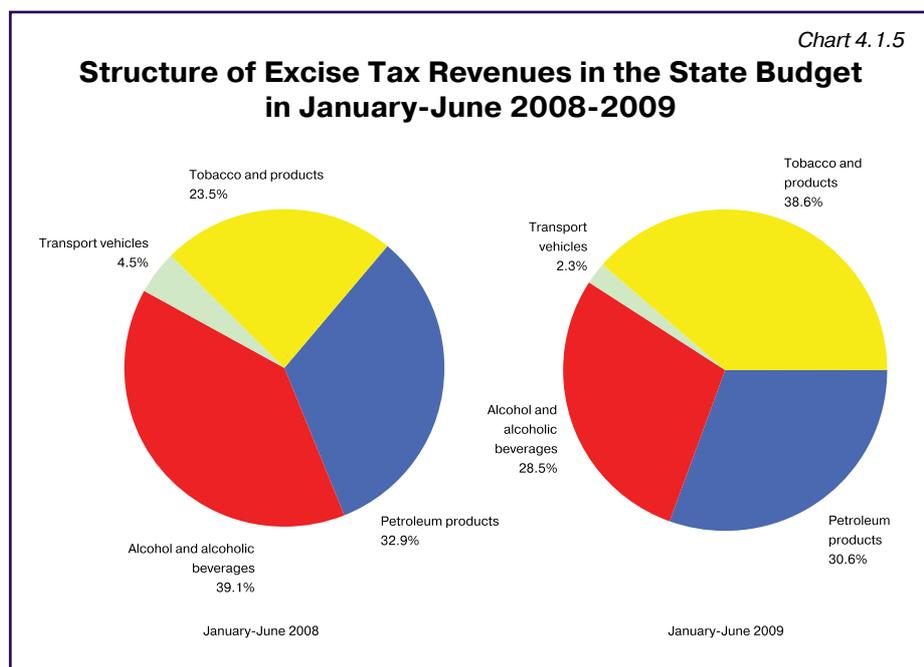
The State budget revenues from **excise tax** totaled Hr 8.7bn in January-June 2009, which is Hr 2.9bn or 51.2% more year-on-year. Such a steep growth in revenue from this source was due to

the raising of excise tax rates. In particular, the rate of this tax on tobacco and tobacco products doubled against 2008.

The revenue from excise tax amounted to 34.8% of the planned amount. The State budget received 45.8% of the actual annual revenues from this source in the same period of 2008.

The share of revenues from the excise tax on goods made in Ukraine decreased by 2.1ppt in the reporting period against the same period in 2008. However, given the other changes in the structure of tax revenues in 2009, this reduction in the share of the domestic excise tax is insignificant.

The structure of excise tax revenues is summarized in Chart 4.1.5.



Revenues from the excise tax on goods made in Ukraine totaled Hr 4.6bn in the first half of 2009. They increased by Hr 2.4bn or 53.0% year-on-year. This growth occurred due to Hr 1.7bn in greater receipts from the excise tax on tobacco products as the result of imposing higher excise tax rates on this type of goods as of 1 January 2009, and another raising of the tax rate as of 1 May 2009, which more than doubled for cigarettes without filters and smoking tobacco from Hr 15.6 to Hr 35 per 1000 cigarettes, and nearly doubled from Hr 37.5 to Hr 60 per 1000 filter-tipped cigarettes. The amounts of the remaining components of the “domestic” excise tax have either decreased or remained virtually unchanged.

## **NON-TAX REVENUES**

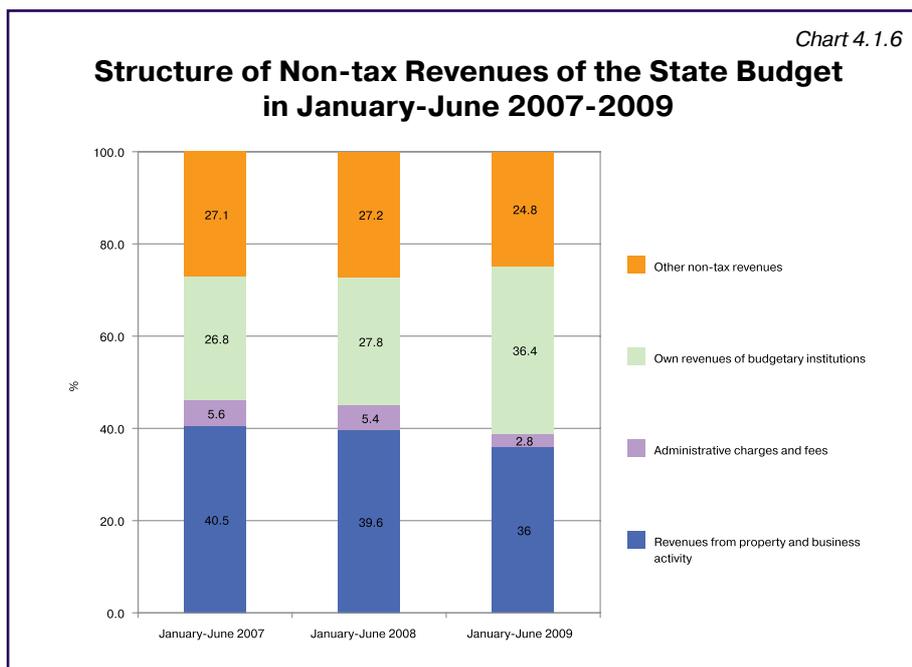
In January-June 2009, the State budget received Hr 29.3bn in **non-tax revenues**, which is Hr 7.2bn or 32.6% more year-on-year.

Based on results of the first two quarters of 2009, the actual non-tax revenues amounted to 61.2% of the annual plan compared to 41.8% of the respective actual annual revenues in the same period of 2008.

The structure of non-tax revenues in the State budget has changed significantly — the share of own revenues of budgetary institutions was the only component showing a substantial growth (by 8.6ppt). The remaining components of non-tax revenues declined: the share of revenues from property and business activity fell by 3.6ppt; administrative charges and fees, by 2.6ppt; and the share of other non-tax revenues, by 2.4ppt.

The main reason behind the steep growth in own revenues of budgetary institutions was an increase in revenues from such items as “Other sources of own revenues of budgetary institutions.” The State budget received Hr 4.7bn in such own revenues, which is substantially more than the last year’s figure of Hr 0.5bn. It can be assumed that a credit granted to UkrAvtoDor, the Ukrainian Motor Road Service, was credited as this budget revenue item.

The structure of non-tax revenues is summarized in Chart 4.1.6.



## REVENUES FROM PROPERTY AND BUSINESS ACTIVITY

The State budget received Hr 10.6bn in revenues from property and business activity in January-June 2009, which is Hr 1.8bn or 20.7% more than the respective indicator of last year.

The revenues from this source amounted to 63.0% of the annual plan, compared to 40.8% of the actual annual revenues in the same period of 2008.

At the same time, the execution of component revenues from property and business activity was rather uneven.

Thus, the receipts from royalties decreased by Hr 1.4bn or by 26.1% against last year (primarily, due to a 54.8% lower intake of royalties for oil produced in Ukraine, and a 31.5% lower receipts from royalties for gas condensate produced in Ukraine).

Such a decline in revenues from this source, however, was compensated for in January-June 2009 compared to the same period of last year by such revenues, as:

- receipts from the surplus of gross income over costs of the National Bank of Ukraine - by Hr 2.5bn or by 133.6%;
- administrative fines in the area of road traffic security - by Hr 0.2bn. No revenues from this item were recorded in the first half of 2008.

Also, in the reporting period, NAK Naftohaz Ukrainy paid its deferred tax obligations in rent for gas condensate produced in Ukraine, the due date on which was in 2008, for a total amount of Hr 0.4bn.

## ADMINISTRATIVE CHARGES AND FEES

Revenues from **administrative charges and fees** of the State budget totaled Hr 0.8bn in January-June 2009, which is Hr 0.4bn or 32.6% less than the respective indicator of last year.

The reduction of revenues from this source in the first half of 2009 compared to the first half of 2008 occurred due to the cancellation — as the result of Ukraine's joining the World Trade Organization — of such item of budget revenues as customs duty, which accounted for nearly a half of total State budget revenues from administrative charges and fees.

At the same time, other components of this source of revenues demonstrated an upward trend:

- receipts from rent for the lease of integrated property complexes and other State-owned property increased by Hr 19.0mn or 5.9%;
- receipts from stamp duty increased by Hr 32.6mn or 15.7%.

## OTHER NON-TAX REVENUES

In January-June 2009, the State budget received Hr 7.3bn in **other non-tax revenues**, which is Hr 1.2bn or 20.8% more year-on-year.

Based on results of the first two quarters of 2009, the revenues from this source amounted to 54.6% of the annual plan, compared to 42.2% of actual annual revenues in the same period of 2008.

Growth in these revenues in January-June 2009 compared to the respective period in 2008 took place primarily due to the receipt of funds from selling parts of the quota for greenhouse emissions, as provided by Article 17 of the Kyoto Protocol to the UN Framework Convention on Climate Change, for an amount of Hr 3.0bn.

Also, the reporting period was noted for receipts from lending transactions and guarantee provisions increasing by Hr 0.2bn or 3.4 times, and receipts from exchange rate differences by Hr 0.2bn.

At the same time, there was a decline in receipts from the special-purpose surcharge to the existing electrical and heat energy rates, which were received for an amount of Hr 0.3bn or 22.8% less than last year. Revenues from additional charges for the payment of pensions also decreased by Hr 1.3bn or by 41.8%. Notably, receipts decreased for nearly all types of additional charges for the payment of pensions:

- charge on buying/selling foreign currencies decreased by Hr 0.4bn or 41.9%;
- charge on the sale of cars - by Hr 0.6bn or 55.7%;
- charge on the buying/selling of immovable property - by Hr 0.2bn or 49.9%.

## REVENUES FROM CAPITAL TRANSACTIONS

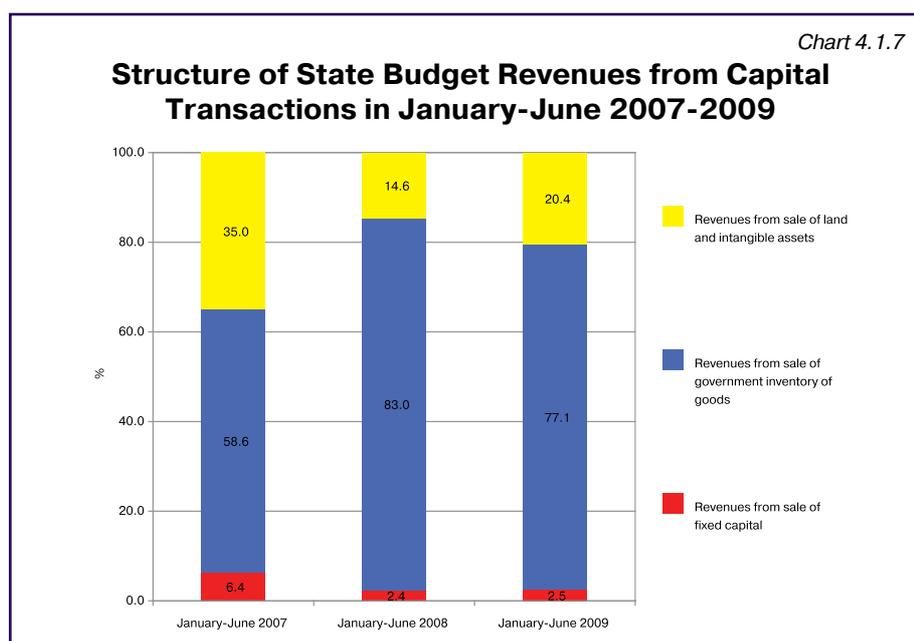
The intake of revenues from capital transactions significantly decreased in January-June 2009. Therefore, the State budget received Hr 0.3bn in such revenues in this period, which is 67.7% less than in 2008.

The amount of all components of this revenue source declined in the first half of the year:

- revenues from the sale of fixed capital by 65.9%;
- revenues from the sale of the government inventory of goods by 69.9%; and
- revenues from the sale of land by 54.7%.

Changes also occurred in the structure of revenues from capital transactions: the share of revenues from the sale of the government inventory of goods decreased by 5.9ppt, whereas the revenues from the sale of fixed capital and land increased by 0.1ppt and 5.8ppt, accordingly.

The information on revenue intake from capital transactions is summarized in Chart 4.1.7.

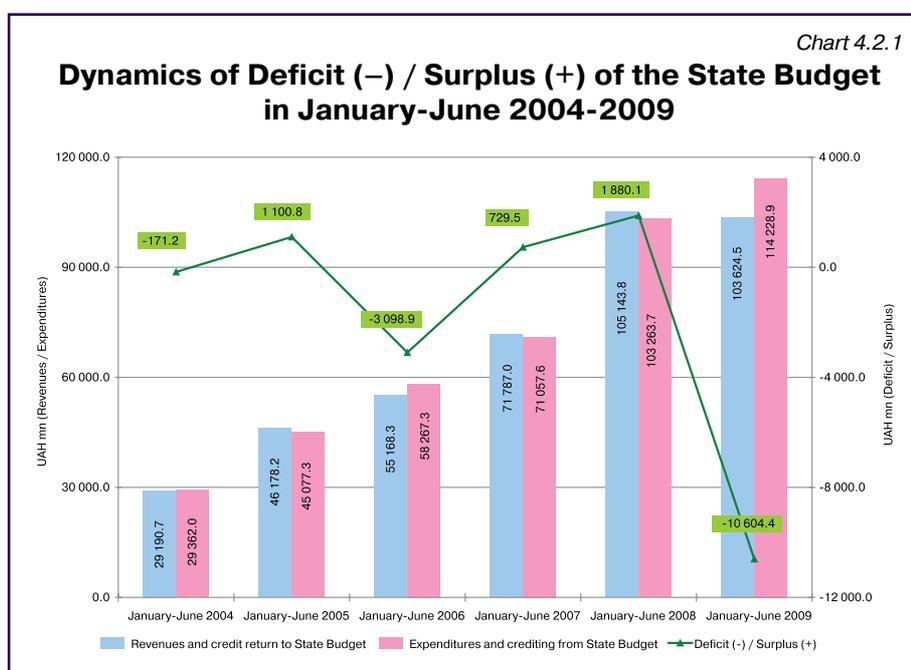


## 4.2. FINANCING OF THE STATE BUDGET OF UKRAINE AND STATE DEBT IN JANUARY-JUNE 2009

### FINANCING OF BUDGET DEFICIT

The State budget deficit amounted to Hr 10.6bn in the first half of 2009 (see Chart 4.2.1), with the planned annual amount of Hr 31.1bn. As seen from Table 4.2.1, the General Fund budget deficit was financed for the amount of Hr 14.1bn, which is 1.5 times more than the annual target, whereas there emerged a surplus of Hr 3.5bn for the Special Fund, with the planned annual deficit of Hr 21.9bn. The emergence of the Special Fund surplus in January-June 2009 is explained by an increment in the balance of funds by Hr 2.8bn or by 27.3%, as of the year outset, to Hr 12.9bn.

For the Special Fund in general, the balance of cash, including other settlements, increased by Hr 4.7bn in the first half of 2009<sup>6</sup>.



Borrowing exceeded repayment of the State debt by Hr 17.8bn and the proceeds from privatization amounted to Hr 0.5bn. Financing at the expense of the balance of funds and the change in the amount of deposits and securities used for liquidity management had a negative value, at -Hr 7.7bn (see Table 4.2.1).

Table 4.2.1

### Indicators of Financing the State Budget of Ukraine in January-June 2005-2009

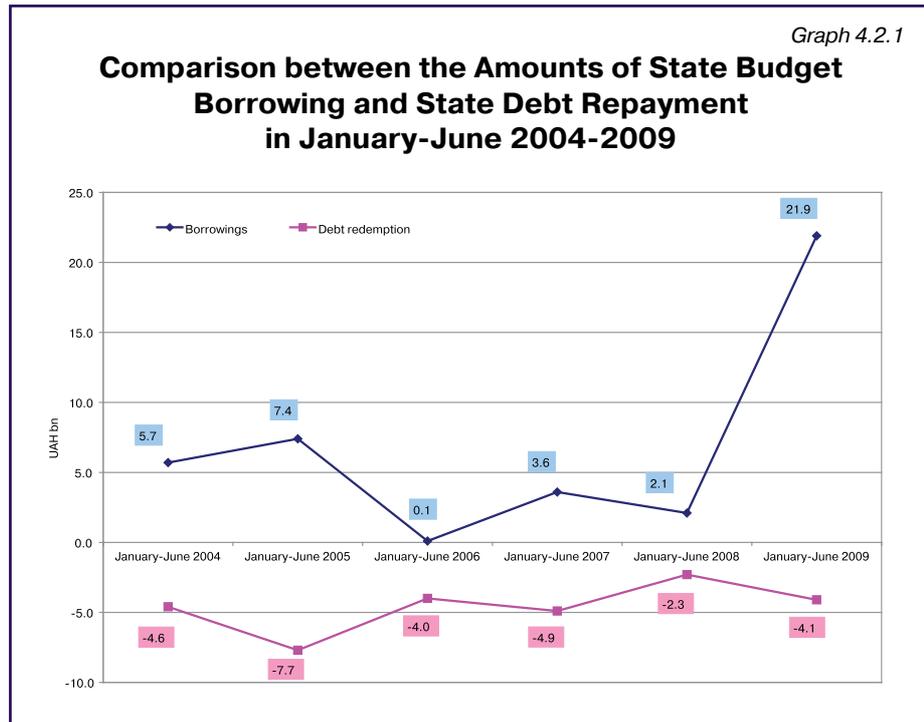
(UAH bn)

Indicator	2005	2006	2007	2008	2009		
					Plan	Actual in January-June	Execution, %
<b>General financing</b>	-1.1	3.1	-0.7	-1.9	31.1	10.6	34.2
<i>General Fund</i>	0.7	5.1	2.5	1.5	9.2	14.1	153.0
<i>Special Fund</i>	-1.8	-2.0	-3.2	-3.3	21.9	-3.5	x
<b>Financing under debt transactions</b>	-0.3	-3.9	-1.2	-0.2	61.4	17.8	29.0
<b>Borrowing</b>	7.4	0.1	3.6	2.1	88.8	21.9	24.6
Internal borrowing	6.3	0.0	0.8	0.4	70.0	9.4	13.4
<i>Structure, %</i>	85.2	0.0	22.2	20.0	78.8	43.0	x
External borrowing	1.1	0.1	2.8	1.7	18.8	12.5	66.4
<i>Structure, %</i>	14.8	100.0	77.8	80.0	21.2	57.0	x
<b>Repayment</b>	-7.7	-4.0	-4.9	-2.3	-27.4	-4.1	14.8
Internal obligations	-4.5	-1.1	-1.8	-0.9	-14.5	-2.0	13.6
<i>Structure, %</i>	58.9	28.7	37.1	41.4	52.9	48.4	x
External obligations	-3.2	-2.9	-3.1	-1.3	-12.9	-2.1	16.3
<i>Structure, %</i>	41.1	71.3	62.9	58.6	47.1	51.6	x
<b>Revenues from privatization of State property</b>	0.7	0.2	1.3	0.3	8.5	0.5	5.9
<b>Financing under active transactions</b>	-1.5	6.8	-0.8	-2.0	-38.8	-7.7	19.8

The financing of the State budget under debt transactions totaled Hr 17.8bn as of 1 July 2009, which amounts to 29.0% of the annual plan. Borrowing totaled Hr 21.9bn or 24.6% of the annual plan. Also, external sources have the major share in the total borrowing structure (57.0%). External obligations also have a somewhat greater part in the total structure of the repayment of obligations (51.6%). This shows that funds for financing the budget deficit are being mobilized from various sources, with the key criterion being more advantageous terms (interest on loans and repayment period).

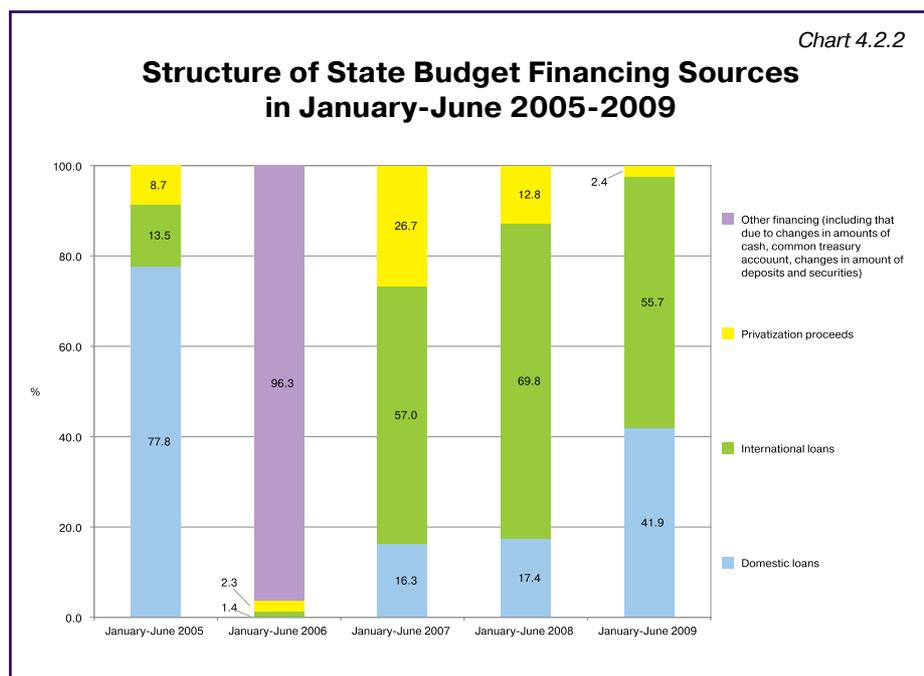
As seen from Graph 4.2.1, the amount of borrowing into the State budget increased 10.4 times in the first half of 2009 year-on-year. This is the largest amount borrowed in the first six months of the year in the period of 2004-2009. This is explained, first of all, by external borrowing from the IMF. The IMF Board approved granting the second tranche of the credit under the standby agreement, about \$2.8bn, of which \$1.5bn was allocated directly to the State budget of Ukraine for financing Government's external debt obligations.

The repayment of the State debt totaled Hr 4.1bn in the first half of the year, which amounts to 14.8% of the annual plan.



The structure of the sources of financing was not a stable one in the first six months of 2005-2009 (see Chart 4.2.2). This is explained by significant variations in the amounts of receipts from the privatization of State property and the balance of funds used for covering the deficit.

External borrowing was the main source of financing in January-June of this year, accounting for 55.7% in the total structure of budget deficit financing sources. Internal borrowing amounted to 41.9% in the overall structure of State budget financing sources, and revenues from privatization only accounted for 2.4%.



In general, it should be noted that based on the results of budget execution in the first half of 2009, the structure of State budget financing sources follows the trends of the first six months of 2007-2008, though with a reduction in the share of proceeds from the privatization of State property.

**Financing of the General Fund deficit of the State budget** totaled Hr 14.1bn, including:

- financing under debt transactions (surplus of borrowing over repayment of the State debt) of Hr 17.2bn or 101.5 times more than in the first half of 2008;
- financing under active transactions has a negative value, at -Hr 3.1bn, which is due to the accrual of the balance of funds of Hr 4.2bn thanks to the obtaining of the second tranche of the abovementioned IMF credit. Also, this indicator amounted to about Hr 1.0bn in the same period last year.

The amount borrowed for the General Fund of the budget totaled Hr 20.6bn, of which internal borrowing amounted to 43.9%.

The repayment of the State debt amounted to Hr 3.3bn or 12.4% of the planned annual amount. Compared to the same indicator of 2008, the amount of this repayment increased 1.9 times, including Hr 2.0bn used to repay the internal State debt or 2.1 times more, and Hr 1.3bn used for repaying external debt, which is 1.6 times more than in the first half of last year.

The balance of funds accrued from the year's outset totaled Hr 2.1bn and amounted to Hr 4.2bn at the end of June. It should be noted that care must be taken to preserve the balance of funds of up to Hr 3.9bn or up to 2.0% of General Fund expenditures of the State budget<sup>7</sup>.

**Financing of the State budget's Special Fund** was executed with a surplus of Hr 3.5bn against a planned annual deficit of Hr 21.9bn.

This is explained by a 27.3% year-to-date increment in the balance of funds, or by the amount of Hr 2.8bn.

The funds mobilized from international organizations for financing development projects were granted in the amount of about Hr 1.0bn, which is six times more than the respective indicator of 2008.

The actual intake of revenues from the privatization of State property in the Special Fund of the budget totaled Hr 0.5bn in the first half of 2009, which amounts to 6.2% of the annual plan.

The repayment of loans granted by foreign government authorities amounted to about Hr 0.8bn.

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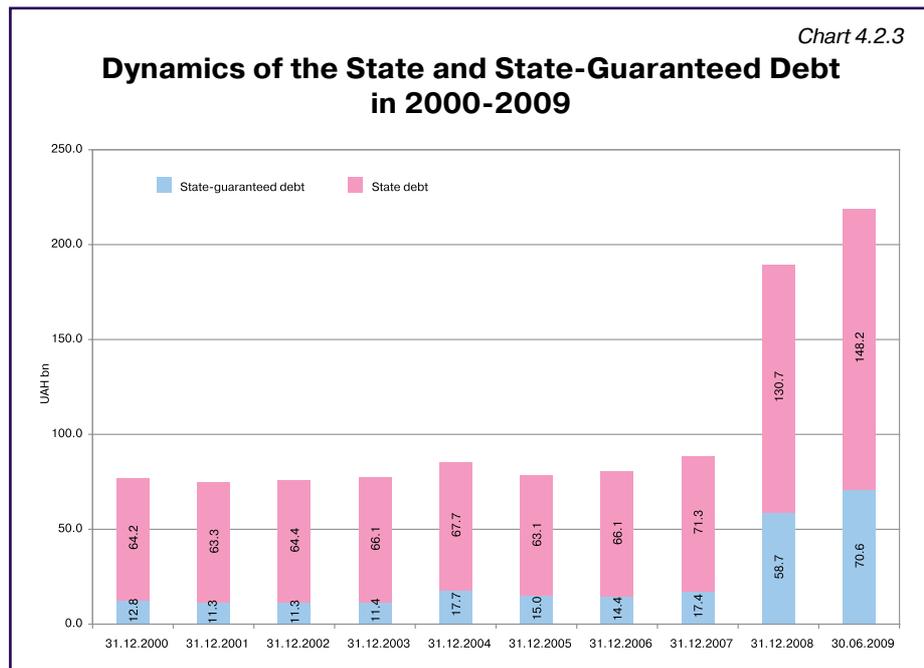
<sup>7</sup> According to Article 14-1 of the Budget Code of Ukraine, the circulating cash shall be set at the amount of not more than 2% of the planned budget's General Fund expenditures and shall be approved by Law on the State Budget of Ukraine and by local budget decisions, and its preservation at the end of a budget period is obligatory. According to Article 1 of the Law of Ukraine «On the State Budget of Ukraine for the Year 2009,» the circulating cash is set at a level of up to 2% of total General Fund expenditures of the State budget of Ukraine.

## STATE AND STATE-GUARANTEED DEBT

**The State debt ceiling for the year 2009**, according to Article 11 of the Law of Ukraine "On the State Budget of Ukraine for the Year 2009," was set at Hr 192.9bn.

At the end of June, the State and State-guaranteed debt of Ukraine totaled Hr 218.8bn or \$ 28.7bn, including State debt of Hr 148.2bn or \$19.4bn and State-guaranteed debt of Hr 70.6bn or \$9.3bn (see Chart 4.2.3).

The State debt accounts for 67.7% of the combined State and State-guaranteed debt, and the State-guaranteed debt accounts for 32.3%.



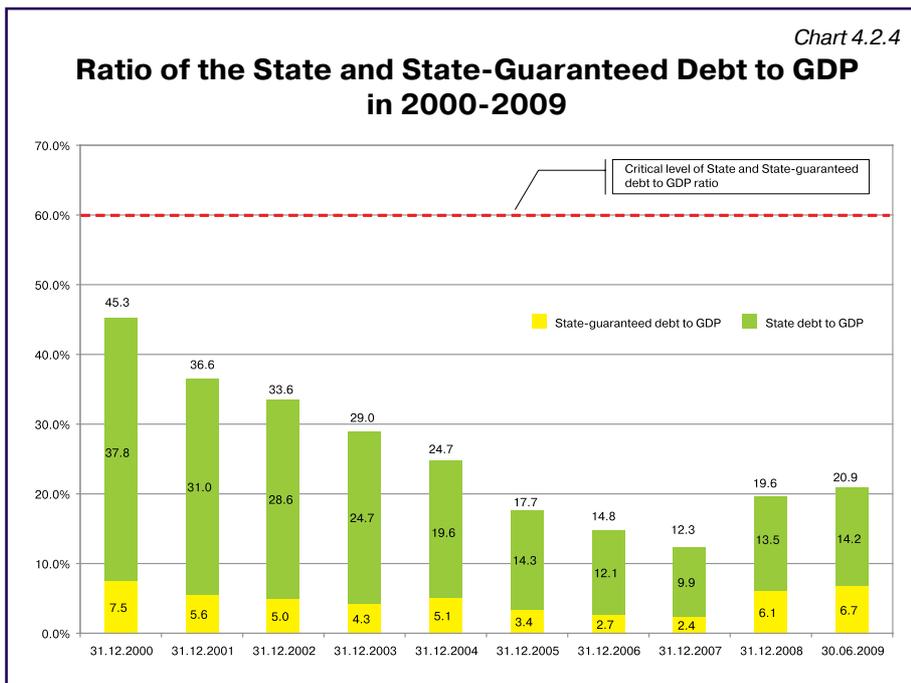
As seen from Chart 4.2.3, a significant growth in the amounts of the State and State-guaranteed debt had occurred already in 2008. This trend remained in place also in the first half of 2009.

The external State debt totaled Hr 95.7bn or \$12.5bn as of the end of June 2009. Its absolute value increased by Hr 9.7bn, which was mainly due to receiving the IMF credit.

The internal State debt totaled Hr 52.5bn or \$6.9bn in the first half of 2009, having grown by Hr 7.9bn.

The State-guaranteed debt of Ukraine totaled Hr 70.6bn or \$9.3bn, including external debt of Hr 60.6bn or \$7.9bn, and internal debt of Hr 10.0bn or \$1.4bn. The debt guaranteed by the State of Ukraine increased by Hr 11.9bn in the period under review.

The ratio of the State and State-guaranteed debt of Ukraine to GDP amounted to 20.9% in the first half of 2009, which is 1.3ppt more year-on-year (see Chart 4.2.4). On the one hand, this situation is due to a gradual growth in the State debt amount, and on the other hand, it is related to the processes of decline in the GDP growth in Ukraine over the analyzed period.

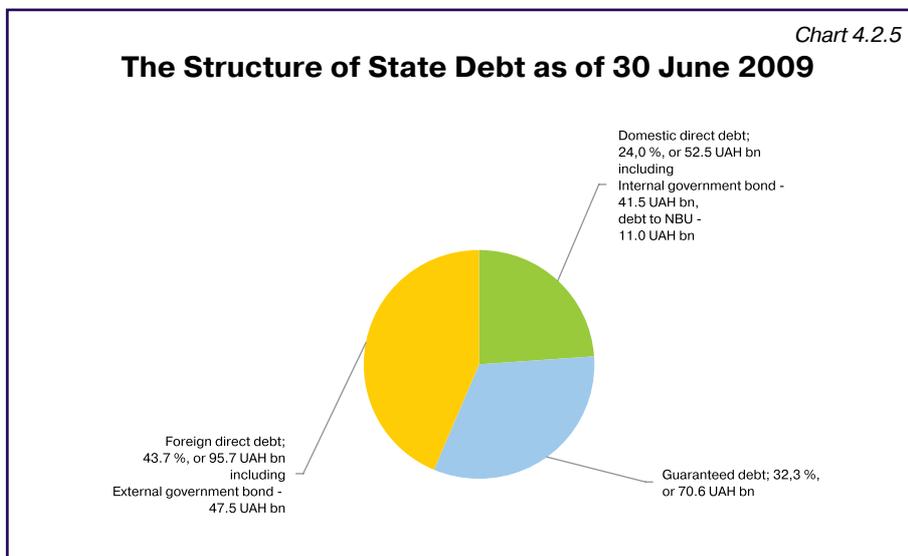


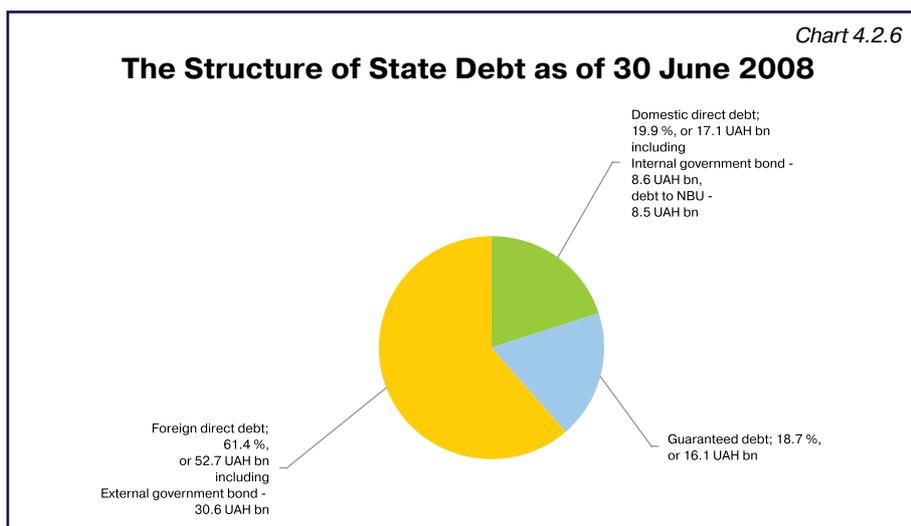
The structure of the State debt in January-June 2009 is shown in Chart 4.2.5 and Chart 4.2.6.

The share of external direct debt amounts to 43.7%, which is 17.7ppt less than in the first half of 2008.

The internal direct debt accounts for 24.0%, which is 4.1ppt more year-on-year. The increase in the share of the internal direct debt is explained by the issuance of internal government bonds. Thus, with the issue of internal government bonds for a total of Hr 8.6bn in the first half of 2008, their amount totaled Hr 41.5bn as of the end of the first half of 2009. On the whole, Hr 8.0bn worth of internal government bonds were issued in January through June 2009.

The State-guaranteed debt accounts for 32.3% of the total debt amount, which is 13.6ppt more than in the first half of 2008.





**The internal State and State-guaranteed debt totaled Hr 62.5bn as of the end of June 2009 and consisted of:**

- debt to banking institutions, viz.: Hr 11.0bn to the National Bank of Ukraine or 5.1% in the total amount of the State and State-guaranteed debt (4.7ppt less than at the end of June 2008); Hr 2.1bn to VAT State Export-Import Bank of Ukraine (Ukreximbank) or 1.0% in the total debt; Hr 5.4bn to VAT State Savings Bank of Ukraine (Oshchadbank) or 2.5% of the combined State and State-guaranteed debt amount;
- debt to legal entities: Hr 41.5bn in internal government bonds or 19.0% (9.0ppt more than at the end of June 2008); Hr 2.5bn in government mortgage authority bonds or 1.1% (0.4ppt less than the debt indicator in the first half of the previous year).

**The key components of the external State and State-guaranteed debt (Hr 156.3bn) include:**

- Hr 84.5bn in loans granted by international economic development organizations (38.6%, which is 20.0ppt more than at the end of June 2008), including Hr 22.4bn granted by the World Bank (10.3%, which is 4.0ppt less than at the end of June 2008) and Hr 58.0bn granted by the International Monetary Fund (26.5%, which is 25.0ppt more than at the end of June 2008);
- Hr 12.4bn in loans provided by foreign government authorities (5.7%, which is 4.6ppt less than at the end of June 2008), including Hr 8.4bn granted by Russia (3.8%, which is 2.9ppt less than at the end of June 2008);
- Hr 47.5bn in external government bonds (21.7%, which is 14.0ppt less than at the end of June 2008); and
- Hr 5.4bn in loans provided by foreign commercial banks under Government guarantees (2.5%, which is 7.5ppt less than at the end of June 2008).

**In terms of currency**, the largest shares in the structure of the State and State-guaranteed debt are denominated in U.S. dollars at 37.7% or 26.8ppt less year-on-year, in special drawing rights (SDR) at 26.5% or 25.0ppt more, in Ukrainian hryvnyas at 25.0% or 9.4ppt more year-on-year, in euros at 6.6% or 5.4ppt less, in Swiss francs at 2.5% or 1.7ppt less, in Japanese yen at 1.7% or 0.6ppt less than in the first half of 2008.

**In terms of interest rates**, the largest shares in the structure of the State and State-guaranteed debt include fixed-rate loans amounting to 53.8%, which is 10.0ppt less year-on-year, loans at the IMF rate amounting to 26.5% or 25.0ppt less less-year-on, and LIBOR rate loans amounting to 19.2% or 13.8ppt less than in the first half of 2008.

### EXPENDITURES FOR SERVICING THE STATE DEBT

**Expenditures for servicing the State debt** totaled Hr 3.1bn or 20.9% of the annual plan in January-June 2009, which is 14.5ppt less year-on-year. Expenditures for servicing external debts totaled Hr 1.7bn or 35.6% of the annual plan, and those for servicing internal debt totaled Hr 1.4bn or 13.8% of the annual plan (see Table 4.2.2).

Table 4.2.2

### Budget Expenditures for the Repayment and Servicing of the State Debt in January-June 2007-2009

(UAH bn)

	2007			2008			2009		
	Plan	Actual	Execution, %	Plan	Actual	Execution, %	Plan	Actual	Execution, %
<b>PAYMENTS UNDER STATE DEBT, total, including:</b>	<b>11.6</b>	<b>6.4</b>	<b>55.2</b>	<b>10.7</b>	<b>3.9</b>	<b>36.4</b>	<b>42.4</b>	<b>7.2</b>	<b>17.0</b>
<i>internal</i>	3.9	2.2	56.4	5.0	1.3	26.0	24.6	3.4	13.7
<i>external</i>	7.7	4.2	54.5	5.7	2.6	45.6	17.8	3.8	21.6
<b>State debt repayment</b>	<b>6.6</b>	<b>4.9</b>	<b>74.2</b>	<b>5.9</b>	<b>2.2</b>	<b>37.3</b>	<b>27.4</b>	<b>4.1</b>	<b>14.8</b>
<i>internal</i>	2.5	1.8	72.0	3.6	0.9	25.0	14.5	2.0	13.6
<i>external</i>	4.1	3.1	75.6	2.3	1.3	56.5	12.9	2.1	16.3
<b>State debt servicing expenditures</b>	<b>5.0</b>	<b>1.5</b>	<b>30.0</b>	<b>4.8</b>	<b>1.7</b>	<b>35.4</b>	<b>15.0</b>	<b>3.1</b>	<b>20.9</b>
<i>internal</i>	1.4	0.4	28.6	1.4	0.4	28.6	10.1	1.4	13.8
<i>external</i>	3.6	1.1	30.6	3.4	1.3	38.2	4.9	1.7	35.6
<b>BUDGET EXPENDITURES, total (expenditures, credit provision, State debt repayment)</b>	<b>179.8</b>	<b>76.0</b>	<b>42.3</b>	<b>241.7</b>	<b>105.4</b>	<b>43.6</b>	<b>300.9</b>	<b>118.3</b>	<b>39.3</b>
<b>Share of State debt payments in total budget expenditures</b>	<b>6.5</b>	<b>8.4</b>	<b>x</b>	<b>4.4</b>	<b>3.7</b>	<b>x</b>	<b>14.1</b>	<b>6.1</b>	<b>x</b>

**The combined amount of expenditures for the repayment and servicing of the State debt** totaled Hr 7.2bn in the first half of 2009 or 6.1% of all State budget expenditures. The share of these expenditures in the total budget expenditures increased by 2.4ppt year-on-year, and decreased by 2.3ppt compared to the same indicator of 2007.

### 4.3. ANALYSIS OF EXPENDITURES AND CREDITING OF THE CONSOLIDATED BUDGET AND STATE BUDGET OF UKRAINE IN JANUARY-JUNE 2009

#### CONSOLIDATED BUDGET

**Actual expenditures of the consolidated budget of Ukraine** totaled Hr 143.4bn in the first half of 2009, which amounts to 41.5% of the annual plan, including General Fund expenditures of Hr 113.2bn or 45.4% and Special Fund expenditures of Hr 30.2bn or 31.3% (see Table 4.3.1).

As seen from Table 4.3.1, the level of execution of expenditures of the consolidated budget in the first half of 2009, compared to similar periods of previous years, demonstrated a relatively stable trend. However, expenditures of the Special Fund were executed in the first half of 2009 at a level 5.9ppt lower year-on-year.

Table 4.3.1

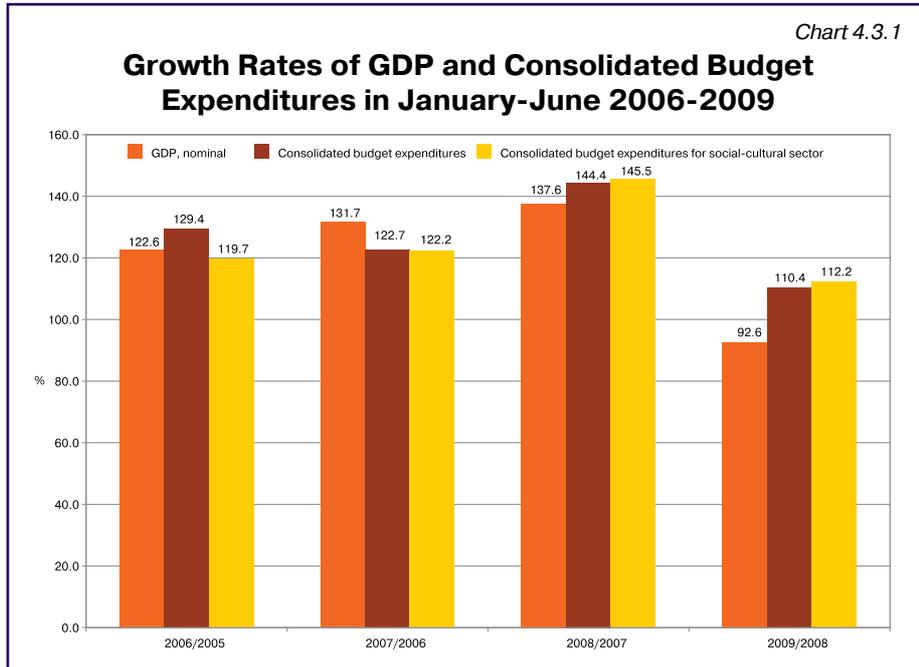
#### Expenditures of the Consolidated, State, and Local Budgets of Ukraine in January-June 2007-2009

(UAH mn)

Expenditures	2007			2008			2009		
	Plan	Actual	Execution, %	Plan	Actual	Execution, %	Plan	Actual	Execution, %
<b>Consolidated budget, including:</b>	<b>222 333.4</b>	<b>89 967.5</b>	<b>40.5</b>	<b>298 998.1</b>	<b>129 926.0</b>	<b>43.5</b>	<b>345 583.2</b>	<b>143 374.8</b>	<b>41.5</b>
<i>General Fund</i>	174 487.3	73 396.4	42.1	235 157.7	106 169.6	45.1	249 346.3	113 216.5	45.4
<i>Special Fund</i>	47 846.1	16 571.1	34.6	63 840.4	23 756.4	37.2	96 236.9	30 158.3	31.3
<b>State budget (without intergovernmental transfers), including:</b>	<b>128 528.7</b>	<b>51 068.3</b>	<b>39.7</b>	<b>175 854.3</b>	<b>76 698.4</b>	<b>43.6</b>	<b>214 522.0</b>	<b>84 136.1</b>	<b>39.2</b>
<i>General Fund</i>	97 450.3	39 519.7	40.6	133 068.5	58 980.6	44.3	138 287.3	60 804.9	44.0
<i>Special Fund</i>	31 078.4	11 548.6	37.2	42 785.8	17 717.8	41.4	76 234.7	23 331.2	30.6
<b>Local budgets (without intergovernmental transfers), including:</b>	<b>93 804.7</b>	<b>38 899.2</b>	<b>41.5</b>	<b>123 143.8</b>	<b>53 227.6</b>	<b>43.2</b>	<b>131 061.2</b>	<b>59 238.7</b>	<b>45.2</b>
<i>General Fund</i>	77 037.0	33 876.7	44.0	102 089.2	47 189.0	46.2	111 059.0	52 411.6	47.2
<i>Special Fund</i>	16 767.7	5 022.5	30.0	21 054.6	6 038.6	28.7	20 002.2	6 827.1	34.1
<b>State budget (with intergovernmental transfers), including:</b>	<b>175 768.8</b>	<b>70 598.5</b>	<b>40.2</b>	<b>235 488.4</b>	<b>102 917.1</b>	<b>43.7</b>	<b>275 341.6</b>	<b>110 728.7</b>	<b>40.2</b>
<i>General Fund</i>	142 768.2	58 712.1	41.1	186 583.5	84 963.0	45.5	193 328.8	85 332.3	44.1
<i>Special Fund</i>	33 000.6	11 886.4	36.0	48 904.9	17 954.1	36.7	82 012.8	25 396.4	31.0
Total intergovernmental transfers	47 240.0	19 530.1	41.3	59 634.2	26 218.7	44.0	60 822.7	26 592.5	43.7

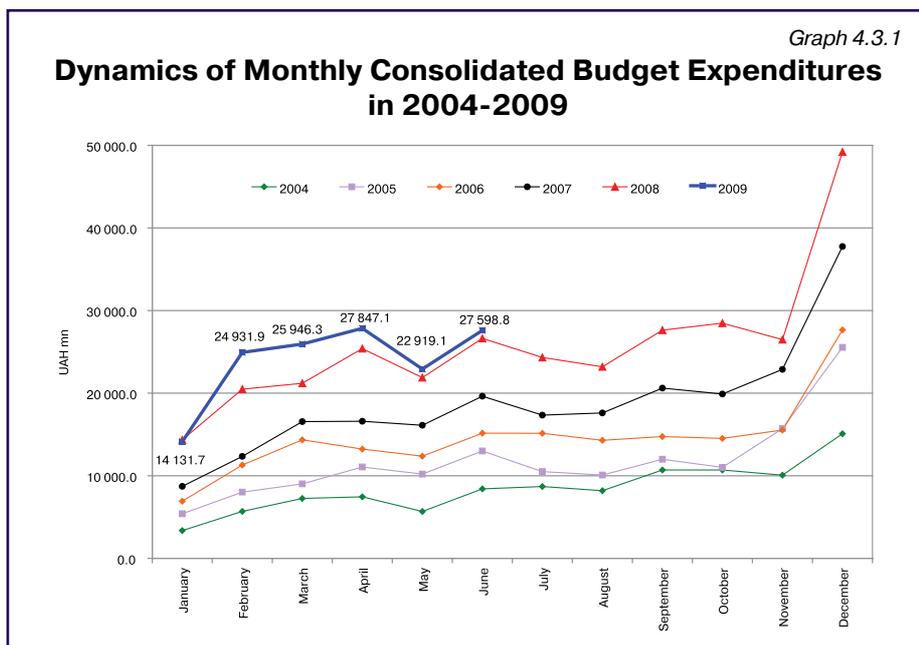
The rate of growth in consolidated budget expenditures amounted to 110.4% in January-June 2009 year-on-year or 34.0ppt less, and the growth rate of consolidated budget expenditures for the social and cultural area amounted to 112.2% in the first half of 2009 year-on-year, which is 33.3ppt less than in the first half of 2008. This is mainly due to lower expenditures for reimbursing the public's losses from depreciated monetary savings, which were funded

at the amount of Hr 5.8bn in the first half of 2008 vs. Hr 0.2bn in the first half of 2007; with no funding in the first half of 2009.



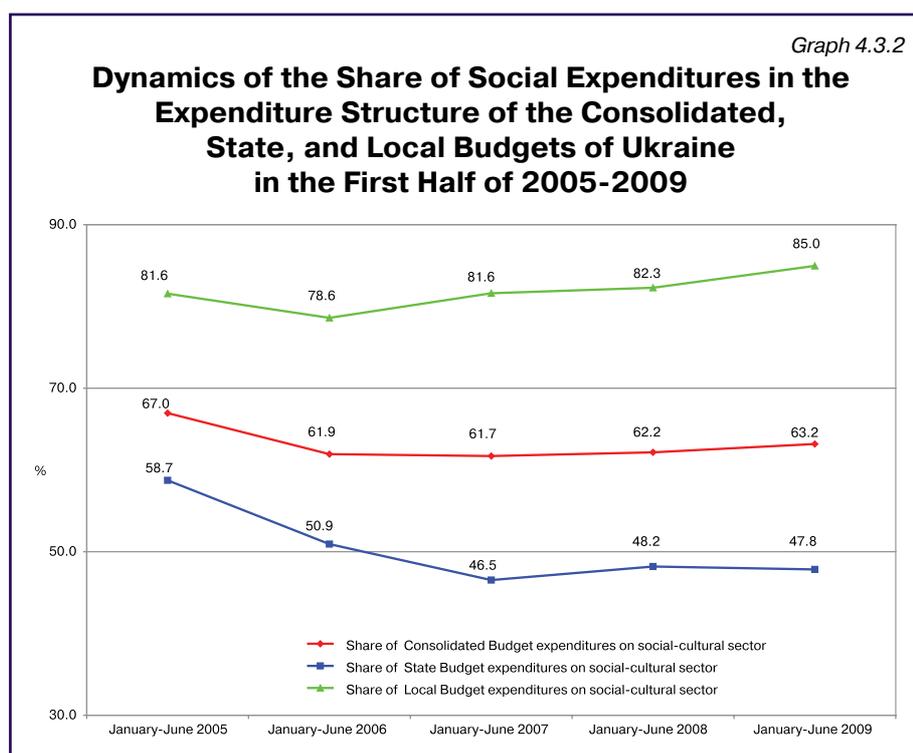
The growth rate of GDP amounted to 92.6% in January-June 2009 compared to January-June 2008. The reduction amounts to 45.0ppt. The share of consolidated budget expenditures in GDP amounts to 36.7%, which is 5.9ppt more year-on-year.

In general, the monthly dynamics of the actual consolidated budget expenditures in the first half of 2009 repeat the trends of previous years, which are characterized by the lowest amounts in January and a substantial growth of expenditures in June (see Graph 4.3.1).



The social expenditures<sup>8</sup> of the consolidated budget totaled Hr 90.6bn in the first half of 2009, which is Hr 9.8bn or 12.1% more year-on-year. The social expenditures of the State budget totaled Hr 40.2bn, which is Hr 3.3bn or 8.9% more than last year's indicator.

The share of social expenditures in the State budget amounted to 47.8% in January-June 2009 (see Graph 4.3.2). It decreased by 0.4ppt year-on-year.



As seen from Graph 4.3.2, social expenditures amounted to about 50.0% of all expenditures, with a trend towards their slight reduction, in the State budget structure in January-June 2006-2009. At the same time, in the structure of local budget expenditures, these expenditures tend to remain at a level greater than 80.0%. Thus, based on the performance in the first half of 2009, the share of expenditures for the social and cultural sector reached as high as 85.0% in the structure of local budgets, which reflects the limited capacity of local budgets to incur any development expenditures.

## STATE BUDGET

**Expenditures of the State budget of Ukraine (with inter-governmental transfers)** totaled Hr 110.7bn in January-June 2009, which is 7.6% more than in January-June 2008. The level of annual plan execution was 3.5ppt lower in the first half of 2009 year-on-year and amounted to 40.2% (see Table 4.3.1).

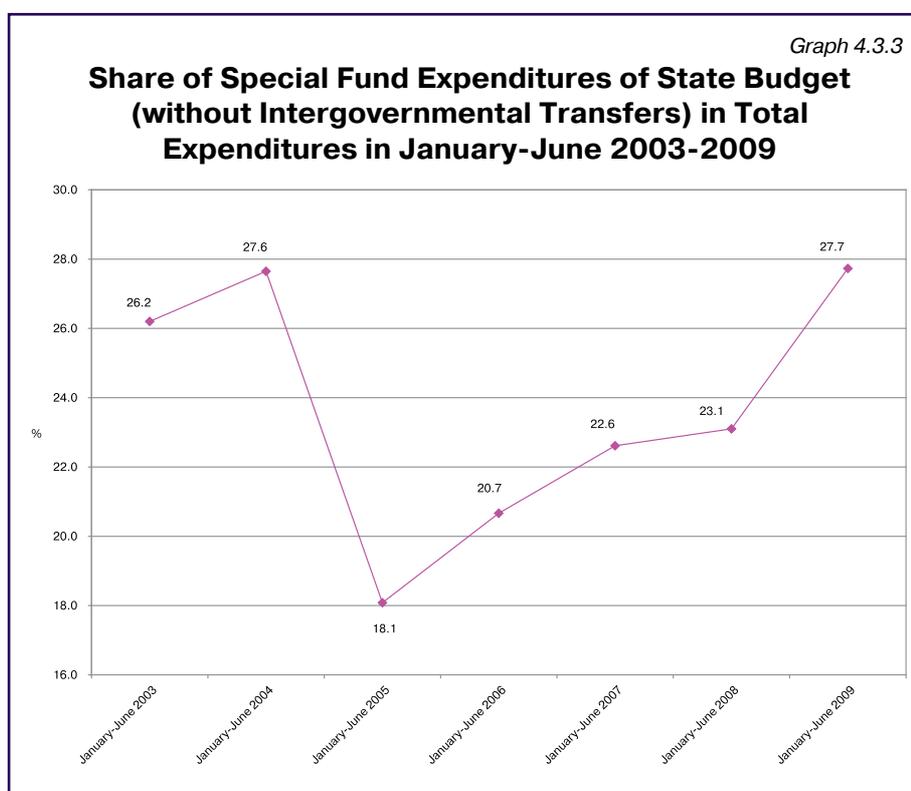
<sup>8</sup> Social expenditures include expenditures for healthcare, education, spiritual and physical development, and social protection and social security.

Actual expenditures of the General Fund totaled Hr 85.3bn or 44.1% of the annual plan and 0.4% more than in the first half of 2008, and Special Fund expenditures totaled Hr 25.4bn, which is 41.5% more year-on-year. The level of annual plan execution for the Special Fund amounted to 31.0% (36.7% in the first half of 2008).

**Expenditures of the State Budget of Ukraine (without intergovernmental transfers)** totaled Hr 84.1bn in the first half of 2009, which amounts to 39.2% of the annual plan, including Hr 60.8bn or 44.0% for the General Fund and Hr 23.3bn or 30.6% of annual apportionments for the Special Fund.

The share of Special Fund expenditures of the State budget (without intergovernmental transfers) in the total expenditures increased by 4.6ppt against the first half of 2008 and amounted to 27.7% (see Graph 4.3.3). This is mostly due to repayment by the State Motor Roads Service of Ukraine of its obligations on the credits obtained under the guarantees of the Cabinet of Ministers and intended for expanding the network of public motor roads totaling Hr 4.9bn, as well as due to incurring expenditures at the expense of the Stabilization Fund.

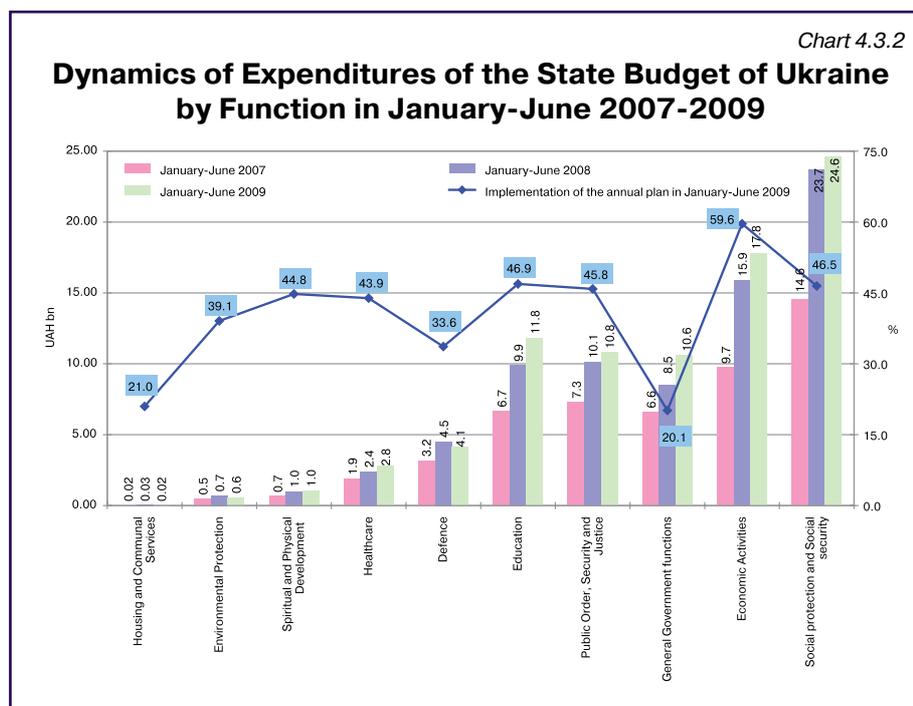
As is seen from Graph 4.3.3, the share of Special Fund expenditures of the State budget (without intergovernmental transfers) tended to grow during January-June 2005-2009.



## EXPENDITURES BY FUNCTIONAL CLASSIFICATION

Expenditures of the State budget of Ukraine (without intergovernmental transfers) increased by Hr 7.4bn or 9.7% in general in the first half of 2009 year-on-year. A growth in State budget expen-

ditures was observed in all departments in the first half of 2009 against the respective indicators of the previous year, except for the housing and communal services, environmental protection, and defense sectors (see Chart 4.3.2). Expenditures in these sectors decreased by 24.5%, 17.6%, and 8.7%, respectively, in January-June 2009.



In nominal terms, the highest growth of expenditures was noted in such areas as:

- social protection of pensioners - by Hr 7.0bn or by 43.9%;
- transport - by Hr 4.1bn or 1.4 times;
- education - by Hr 1.9bn or by 19.4%;
- general government - by Hr 2.1bn or by 24.6%.

The significant growth of transport expenditures in the first half of 2009 against last year's figure is due to the repayment by the State Motor Roads Service of Ukraine of its obligations on the credit received under a guarantee from the Cabinet of Ministers for expanding the network of public motor roads. The growth of general government expenditures is linked to higher costs of debt servicing (by Hr 1.4bn or by 84.7%). Expenditures for the social protection of pensioners increased primarily in connection with allocating funds for covering the Pension Fund deficit for paying pensions at the amount of Hr 5.9bn during January-June 2009, which was not done last year.

The level of expenditure execution by function was rather uneven in the first half of 2009 and amounted to about 40% on average. The lowest level of financing is observed in general government expenditures (the annual plan was executed by 20.1%) and housing and

communal services (21.0%) (see Chart 4.3.2). Besides, a low level of execution for expenditures is observed in such departments as defense (33.6%).

The highest indicators of annual plan execution in the first half of 2009 are noted for the expenditures for economic activity (59.6%), which includes components such as expenditures for the fuel and energy complex (111.3%) and for transport (47.2%). A high level of annual plan execution is also observed in expenditures for education (46.9%) and social protection and social security (46.5%).

The trend of the previous year is preserved in the structure of actual expenditures of the State budget in the first half of 2009 (see Table 4.3.2). Therefore, the largest expenditure items include expenditures for social protection and social security (22.2%), economic activity (16.1%), and intergovernmental transfers (24.0%). On the other hand, the smallest expenditure items include expenditures for housing and communal services (0.02%), environmental protection (0.5%), and spiritual and physical development (0.9%). Also, the greatest changes in their shares in the total structure of expenditures in the first half of 2009 year-on-year occurred in expenditures for the social protection of pensioners (increased by 5.2ppt to 20.7% in 2009), transport (increased by 3.5ppt to 6.4%), the fuel and energy complex (decreased by 1.8ppt to 6.2%), agriculture, forestry and game preserves, and fisheries (decreased by 1.1ppt to 2.3%). The share of intergovernmental transfers decreased by 1.5ppt in the overall structure of expenditures in the first half of 2009 year-on-year.

Table 4.3.2

### Expenditures of the State Budget of Ukraine by Functional Classification in January-June 2007-2009

(UAH mn)

Expenditures according to functional classification	2007			2008			2009		
	Plan	Actual	Structure, %	Plan	Actual	Structure, %	Plan	Actual	Structure, %
<b>General government, including</b>	<b>19 196.1</b>	<b>6 601.5</b>	<b>9.4</b>	<b>22 587.4</b>	<b>8 498.5</b>	<b>8.3</b>	<b>52 560.1</b>	<b>10 590.1</b>	<b>9.6</b>
<i>Debt servicing</i>	<i>4 982.4</i>	<i>1 543.5</i>	<i>2.2</i>	<i>4 784.7</i>	<i>1 697.4</i>	<i>1.6</i>	<i>15 044.3</i>	<i>3 135.8</i>	<i>2.8</i>
<b>Defense</b>	<b>9 613.7</b>	<b>3 181.0</b>	<b>4.5</b>	<b>10 971.5</b>	<b>4 514.7</b>	<b>4.4</b>	<b>12 255.8</b>	<b>4 123.2</b>	<b>3.7</b>
<b>Public order, security, and judiciary</b>	<b>17 266.5</b>	<b>7 291.2</b>	<b>10.3</b>	<b>22 700.5</b>	<b>10 119.6</b>	<b>9.8</b>	<b>23 527.2</b>	<b>10 785.9</b>	<b>9.7</b>
<b>Protection of natural environment</b>	<b>1 811.3</b>	<b>477.7</b>	<b>0.7</b>	<b>2 110.2</b>	<b>707.4</b>	<b>0.7</b>	<b>1 492.2</b>	<b>583.1</b>	<b>0.5</b>
<b>Housing and communal services</b>	<b>1 312.9</b>	<b>21.3</b>	<b>0.03</b>	<b>982.7</b>	<b>28.3</b>	<b>0.03</b>	<b>101.9</b>	<b>21.4</b>	<b>0.02</b>
<b>Healthcare</b>	<b>5 992.7</b>	<b>1 871.0</b>	<b>2.7</b>	<b>7 219.0</b>	<b>2 403.8</b>	<b>2.3</b>	<b>6 386.0</b>	<b>2 803.1</b>	<b>2.5</b>
<b>Spiritual and physical development</b>	<b>1 918.4</b>	<b>657.9</b>	<b>0.9</b>	<b>2 972.5</b>	<b>1 001.0</b>	<b>1.0</b>	<b>2 335.8</b>	<b>1 046.1</b>	<b>0.9</b>
<b>Education</b>	<b>15 038.6</b>	<b>6 672.6</b>	<b>9.5</b>	<b>20 981.0</b>	<b>9 882.6</b>	<b>9.6</b>	<b>25 153.2</b>	<b>11 799.8</b>	<b>10.7</b>

Expenditures according to functional classification	2007			2008			2009		
	Plan	Actual	Structure, %	Plan	Actual	Structure, %	Plan	Actual	Structure, %
<b>Social protection and social security, including</b>	<b>28 849.8</b>	<b>14 562.9</b>	<b>20.6</b>	<b>45 427.0</b>	<b>23 675.5</b>	<b>23.0</b>	<b>52 929.5</b>	<b>24 597.4</b>	<b>22.2</b>
<i>Social protection of pensioners</i>	23 504.9	12 552.1	17.8	33 656.6	15 940.9	15.5	48 249.6	22 940.9	20.7
<b>Economic activity</b>	<b>26 316.6</b>	<b>9 731.2</b>	<b>13.8</b>	<b>36 786.0</b>	<b>15 867.0</b>	<b>15.4</b>	<b>29 830.3</b>	<b>17 786.1</b>	<b>16.1</b>
• <i>Agriculture, forestry and game preserves, and fisheries</i>	8 128.0	3 181.4	4.5	9 759.6	3 521.3	3.4	5 811.7	2 560.1	2.3
• <i>Fuel and energy complex</i>	8 967.4	3 190.4	4.5	12 448.8	8 214.1	8.0	6 166.4	6 865.5	6.2
• <i>Transport</i>	6 022.2	2 395.2	3.4	10 925.1	2 980.6	2.9	14 997.4	7 079.0	6.4
• <i>Other expenditures for economic activity</i>	3 199.0	964.3	1.4	3 652.5	1 151.0	1.1	2 854.7	1 281.4	1.2
Intergovernmental transfers	47 315.0	19 530.1	27.6	59 634.2	26 218.7	25.5	60 822.7	26 592.5	24.1
<b>Total</b>	<b>174 631.5</b>	<b>70 598.5</b>	<b>100.0</b>	<b>232 372.0</b>	<b>102 917.1</b>	<b>100.0</b>	<b>267 394.9</b>	<b>110 728.7</b>	<b>100.0</b>

The share of social expenditures in the State budget amounted to 36.3% in January-June 2009, which is 0.4ppt more year-on-year. In nominal terms, these expenditures totaled Hr 40.2bn against Hr 37.0bn in the first half of 2008.

## EXPENDITURES BY ECONOMIC CLASSIFICATION

As seen from the data in Table 4.3.3, actual expenditures increased for items of all economic classifications in the first half of 2009 compared to the same period in 2008, except for subsidies and current transfers to enterprises (institutions, organizations), other current transfers to the population, and capital expenditures in general.

Table 4.3.3

### Expenditures of the State Budget of Ukraine (with Intergovernmental Transfers) by Economic Classification in January-June 2007-2009

(UAH mn)

Expenditures according to economic classification	2007			2008			2009		
	Plan	Actual	Plan execution, %	Plan	Actual	Plan execution, %	Plan	Actual	Plan execution, %
<b>Current expenditures</b>	<b>153 350.6</b>	<b>65 964.4</b>	<b>43.0</b>	<b>206 729.6</b>	<b>97 726.3</b>	<b>47.3</b>	<b>242 440.5</b>	<b>108 534.3</b>	<b>44.8</b>
Payroll of budgetary institutions	24 604.2	10 779.5	43.8	32 348.6	15 110.9	46.7	34 571.2	16 004.3	46.3
Taxes on payroll	8 176.8	3 446.3	42.1	10 775.9	4 769.0	44.3	11 223.1	5 047.3	45.0
Medicines and bandaging materials	1 386.6	408.4	29.5	1 733.4	472.5	27.3	2 047.9	740.2	36.1
Foodstuffs	1 087.3	364.9	33.6	1 362.1	598.0	43.9	1 756.9	712.3	40.5
Payment for communal services and energy carriers	2 062.3	936.4	45.4	2 572.7	1 174.0	45.6	2 960.3	1 488.2	50.3
Payment of interest/income on obligations	5 287.1	1 759.4	33.3	5 080.0	2 072.5	40.8	15 609.5	3 612.1	23.1
Subsidies and current transfers to enterprises (institutions, organizations)	15 958.6	5 865.3	36.8	21 249.8	11 591.7	54.5	17 236.5	10 751.2	62.4
Current transfers to government authorities of other levels	41 395.0	18 243.8	44.1	53 830.9	24 990.0	46.4	60 648.9	26 478.6	43.7

Expenditures according to economic classification	2007			2008			2009		
	Plan	Actual	Plan execution, %	Plan	Actual	Plan execution, %	Plan	Actual	Plan execution, %
Current transfers to population, including:	27 998.8	14 718.4	52.6	44 573.4	23 893.6	53.6	53 010.9	25 130.9	47.4
• payment of pensions and allowances	25 146.9	13 511.6	53.7	35 373.7	16 931.6	47.9	49 909.9	23 920.4	47.9
• student scholarships	504.7	279.8	55.4	807.8	360.4	44.6	887.6	457.6	51.6
• other current transfers to population	2 347.2	927.0	39.5	8 392.0	6 601.6	78.7	2 213.5	753.0	34.0
Other current expenditures	25 393.8	9 441.8	37.2	33 202.7	13 054.1	39.3	43 375.3	18 569.2	42.8
<b>Capital expenditures</b>	<b>22 054.6</b>	<b>4 634.1</b>	<b>21.0</b>	<b>28 450.1</b>	<b>5 190.8</b>	<b>18.2</b>	<b>17 374.9</b>	<b>2 194.4</b>	<b>12.6</b>
Capital construction/acquisition	2 095.6	306.8	14.6	2 046.9	431.9	21.1	1 633.2	211.3	12.9
Capital repair, reconstruction, and renovation	1 927.8	332.0	17.2	2 164.8	340.1	15.7	1 222.7	172.2	14.1
Capital transfers	14 521.1	3 443.5	23.7	19 680.1	3 212.4	16.3	12 473.9	1 377.9	11.0
<b>Unappropriated expenditures</b>	<b>363.5</b>		<b>0.0</b>	<b>308.8</b>		<b>0.0</b>	<b>15 526.3</b>		<b>0.0</b>
<b>Total expenditures (with intergovernmental transfers)</b>	<b>175 768.7</b>	<b>70 598.5</b>	<b>40.2</b>	<b>235 488.4</b>	<b>102 917.1</b>	<b>43.7</b>	<b>275 341.7</b>	<b>110 728.7</b>	<b>40.2</b>

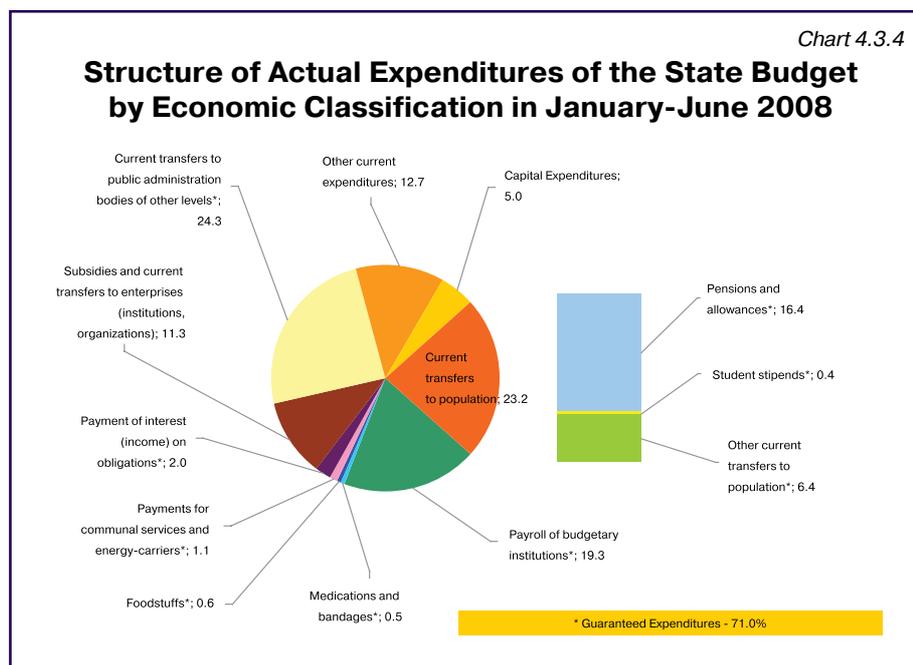
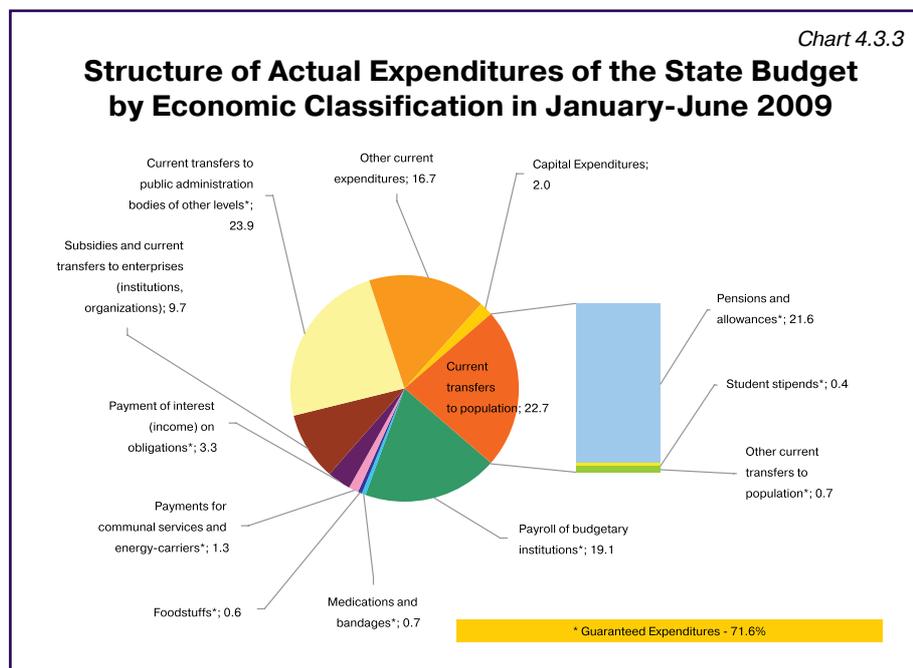
As seen from Table 4.3.3, current expenditures increased by 11.1% in general and capital expenditures decreased by 57.7% in the first half of 2009 year-on-year.

A decrease in the amount of expenditures for such economic classification items as other current transfers to the population, is linked to the fact that, as has already been mentioned above, there were no expenditures for the reimbursement of depreciated monetary savings incurred in the first half of 2009, as was the case in the 2008 budget.

The level of execution of current expenditures amounted to 44.8% of annual appropriations in January-June 2009; that of capital expenditures amounted to 12.6%.

The structure of State budget expenditures by economic classification changed somewhat in the first half of 2009 compared to the respective indicators of last year (see Chart 4.3.3 and Chart 4.3.4). The share of current expenditures in the overall structure increased by 3.0ppt and reached 98.0%. The share of subsidies and current transfers to enterprises (institutions, organizations) decreased by 1.6ppt in the structure of current expenditures, and in absolute terms, expenditures for this budget item decreased by Hr 840.5mn or by 7.3%. In addition, the share of current transfers to the population decreased by 0.5ppt, primarily due to a reduction in the share of other current transfers to population in the general structure of expenditures by 5.7ppt (in absolute terms, this reduction amounted to Hr 5.8bn or 88.6%). Also, the share of current transfers to government authorities of other levels decreased in the general structure of expenditures by 0.4ppt, however, in absolute terms, expenditures for this item increased by Hr 1.5bn or by 6.0% year-on-year. The share of payroll with taxes of budgetary institutions also decreased by 0.2ppt in general, however, in absolute terms, these expenditures increased by nearly Hr 1.2bn. At the same time, the share of the payment of interest on obligations decreased in

the total structure of expenditures by 1.3ppt, which amounted to Hr 1.5bn in absolute terms. Overall, current expenditures increased by Hr 10.8bn or 11.1% in the first half of 2009 compared to the indicators in the first half of 2008.



Increases in all areas were observed for protected items in general in the first half of 2009, except for other current transfers to the population, which is due, as mentioned above, to there being no expenditures incurred in the first half of this year for the reimbursement for depreciated monetary savings, as included in the 2008 budget.

Capital expenditures decreased by Hr 3.0bn in absolute terms or by 57.7% in the first half of 2009 year-on-year. The share of

capital expenditures amounted to a mere 2.0% in the total expenditure structure in January-June 2009, which is 3.0ppt less than in January-June 2008. The decrease in the share of capital expenditures against the first half of 2008 is explained by a reduction in expenditures for capital construction by 51.1%, for reconstruction and renovation by 49.4%, and capital transfers by 57.1%.

According to Article 27 of the Law on the State budget of Ukraine for the year 2009, other expenditures are categorized as protected items, including: training of specialists by higher education institutions of accreditation levels I-IV; basic research; construction/acquisition of housing for military servicemen, etc. With such items, the proportion of protected items reached about 82.0%, which is 9.0ppt more than last year.

#### **EXPENDITURES BY PROGRAM CLASSIFICATION**

The structure of expenditure execution of the State budget of Ukraine as broken down by program classification in January-June 2007-2009 is shown in Appendix 1.

The highest level of expenditure execution by program classification in the first half of 2009 was observed in such programs of key spending units, as:

- Ministry of Fuel and Energy of Ukraine, program "Compensation to NAK Naftohaz Ukrainy of the Differences between the Imported Natural Gas Buying Prices and Its Selling Prices to Economic Agents for the Generation of Thermal Energy Consumed by the Population" was executed in the amount of Hr 3.5bn, which is 2.2 times more than the approved appropriations. This is explained by the remittance to the Special Fund of the deferred tax obligations of the Naftohaz Ukrainy National Joint-Stock Company of value-added tax in amounts in excess of the plan;
- Ministry of Coal Industry of Ukraine, program "State Support for Coal-Mining Enterprises (Including Brown Coal-Mining Enterprises) for Partial Coverage of Production Costs" was executed at the amount of Hr 2.5bn, which is 3.3 times more than the plan (at the expense of Stabilization Fund resources); program "Restructuring of the Coal and Peat Industry, Including Repayment of Debt for the Electrical Power Consumed in Previous Years by State-Owned Coal-Mining Enterprises, Which Are Undergoing Preparations for Liquidation, in the Amount of Hr 160mn" was executed at Hr 0.4bn or at 60.7% of annual appropriations;
- Ministry of Agrarian Policy of Ukraine, program "Providing Financial Support to Agribusiness Companies through the Mechanism of Provision of Cheaper Credits" was executed in the amount of Hr 0.2bn or 62.6% of the annual plan; program "Expenditures of the Agrarian Fund for Storage of State Price Regulation Items That Are Included in the State

Food Reserves” was executed in the amount of Hr 41.8mn or 69.7%;

- Ministry of Finance of Ukraine, program “Supplementing the Fund for Guaranteeing the Deposits of Private Individuals” was approved at Hr 1.0bn and executed by 100.0%.

The lowest level of expenditures executed was recorded at the Ministry for Housing and Communal Services of Ukraine at 20.1% of the annual amount compared to the average level of expenditures execution of 41.4%.

The highest expenditure growth figures by department in the first half of 2009 compared to the first half of 2008 were recorded at the following government ministries:

- Ministry of Coal Industry of Ukraine - by Hr 2.5bn or 1.9 times;
- Ministry of Education and Science of Ukraine - by Hr 1.4bn or 1.2 times;
- State Motor Roads Services of Ukraine - by Hr 3.9bn or 2.4 times;
- Ministry of Finance of Ukraine (general government expenditures) - by Hr 6.2bn or nearly 1.2 times, including the Pension Fund of Ukraine - by nearly Hr 5.0bn or 1.3 times.

#### PROVISION OF BUDGET CREDITS/ REPAYMENT OF BUDGET CREDITS

The indicators of the provision and repayment of credits to and from the State budget of Ukraine in the first half of 2007-2009 are shown in Table 4.3.4.

**The amount of credits granted from the State budget** totaled Hr 3.5bn in the first half of 2009 or 59.9% of the annual amount, and **the amount of credits repaid** to the State budget amounted to about Hr 2.5bn or 79.4%. The level of annual plan execution in January-June 2009 is higher than last year: by 49.6ppt for credit provisions, and by 59.7ppt for credit repayment.

Table 4.3.4

#### Provision and Repayment of Budget Credits in January-June 2007-2009

(UAH mn)

Indicators	2007			2008			2009		
	Plan	Actual	Execution, %	Plan	Actual	Execution, %	Plan	Actual	Execution, %
<b>Crediting, including:</b>	<b>1 731.6</b>	<b>13.5</b>	<b>0.8</b>	<b>1 809.6</b>	<b>37.3</b>	<b>2.1</b>	<b>2 716.0</b>	<b>1017.5</b>	<b>37.5</b>
provision of credits	3 705.2	459.1	12.4	3 377.3	346.6	10.3	5 844.0	3 500.2	59.9
repayment of credits	-1 973.6	-445.6	22.6	-1 567.7	-309.3	19.7	-3 128.0	-2 482.7	79.4

The largest amounts of **credits** from the State budget in January-June 2009, as with the respective period of previous year, were provided in the agribusiness sector and road building and maintenance, as well as in the financial sector, in particular:

- Hr 1.6bn provided to the Ministry of Agrarian Policy under the program “Formation of the State Food Reserve by the Agrarian Fund, Implementation of the State Forward and Mortgage Procurements, Commodity and Financial Interventions on the Organized Agrarian Market”;
- Hr 0.2bn provided to the State Motor Roads Service of Ukraine under the budget program “Development of Highways and Reform of the Road Sector”;
- Hr 0.8bn to the Ministry of Finance (general government expenditures) under the program “State’s Performance of Guarantee Obligations for Borrowers Who Received Credits under State Guarantees”; and Hr 0.4bn under the program “Financing of Development Projects at the Expense of the Funds Mobilized by the State”;
- Hr 0.2bn to the Ministry of Industrial Policy under the program “Implementation of Investment Projects at Aircraft-Building Enterprises.”

**Repayment of credits** mostly took place under the “Economic activity” function.

By budget program, the largest repayments of credits took place for the following key spending units:

- Ministry of Agrarian Policy of Ukraine:
  - Hr 2.2bn under the program “Repayment of Funds Provided to the Ministry of Agrarian Policy of Ukraine for the Formation of the State Food Reserve by the Agrarian Fund and for the Implementation of Mortgage and Intervention Procurements”;
  - Hr 16.9mn under the program “Repayment of Funds Provided for Crediting Private Rural Developers”;
  - Hr 36.8mn under the program “Repayment of Funds Regarding Reimbursement of the Cost of the Agricultural Machinery Transferred to Economic Agents under Financial Leasing Terms”;
- Ministry of Finance of Ukraine:
  - Hr 182.6mn under the program “Repayment of Loans Provided for Financing Development Projects at the Expense of the Funds Mobilized by the State.”

The Ministry of Ukraine for Family, Youth, and Sports Affairs repaid Hr 13.5mn to the budget under the program “Repayment of Funds Provided for Crediting Young Families and Single Young Individuals for Construction/Reconstruction and the Purchase of Housing.”

## 4.4. EXECUTION OF LOCAL BUDGETS IN JANUARY-JUNE 2009

### LOCAL BUDGET REVENUES

According to reporting data from the State Treasury, **the General Fund and Special Fund revenues of local budgets (without intergovernmental transfers) combined** totaled Hr 33.4bn in January-June 2009, which is 4.4% or Hr 1.5bn less year-on-year.

Local councils executed 43.2% of the annual revenue plan they approved for 2009 in the first half of 2009 (49.2% in the first half of 2008).

Execution of local budget revenues in January-June 2007-2009 is characterized by the data shown in Table 4.4.1.

Table 4.4.1

### Dynamics of Local Budget Revenues in January-June 2007-2009

(UAH mn)

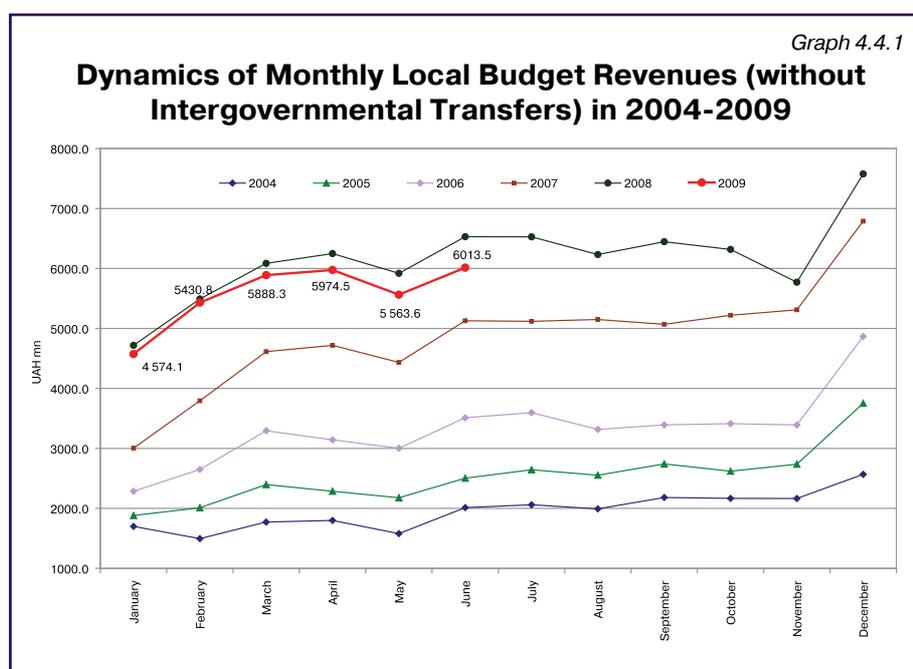
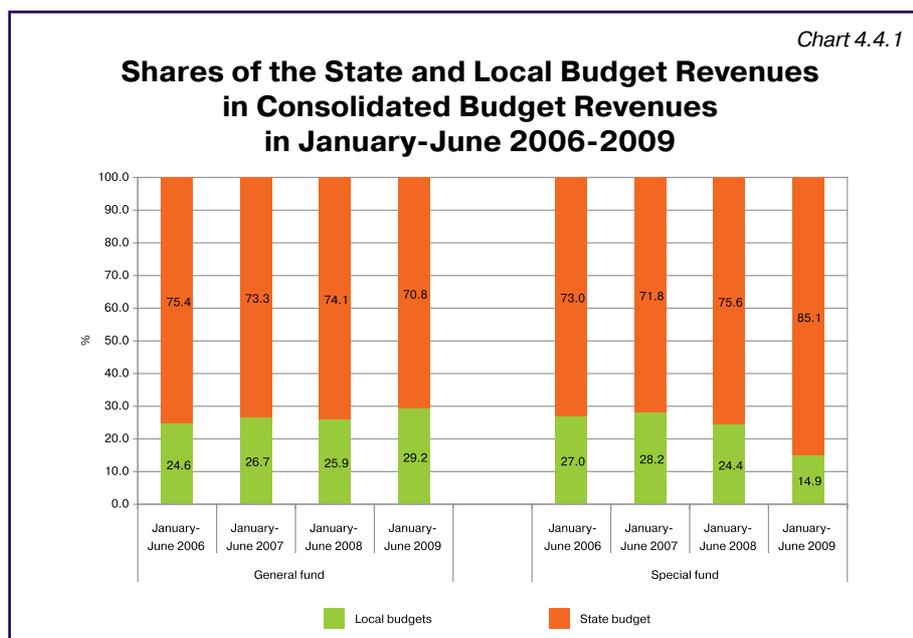
Revenues	Actual in January-June 2007	Actual in January-June 2008	Approved by local councils for 2009	Actual in January-June 2009	Execution of plan approved by local councils, %
<b>Total</b>	<b>25 693.4</b>	<b>34 990.2</b>	<b>77 469.8</b>	<b>33 444.9</b>	<b>43.2</b>
General Fund	19 767.3	28 101.1	64 859.0	28 325.5	43.7
Special Fund	5 926.1	6 889.1	12 610.8	5 119.4	40.6

Local budget revenues accounted for 25.5% of the consolidated budget in January-June 2009, which is practically the same as in the first half of 2008. At the same time, the share of General Fund revenues of local budgets in the consolidated budget revenues increased by 3.3ppt against the respective indicator for last year and reached 29.2%. The share of Special Fund revenues of local budgets decreased by 9.5ppt to 14.9% (see Chart 4.4.1), which is primarily explained by a change in the State budget structure.

The dynamics of monthly revenues of local budgets in January-June 2009 demonstrates a decline in amounts compared to the respective indicators of last year, which is observed for the first time in recent years (see Graph 4.4.1).

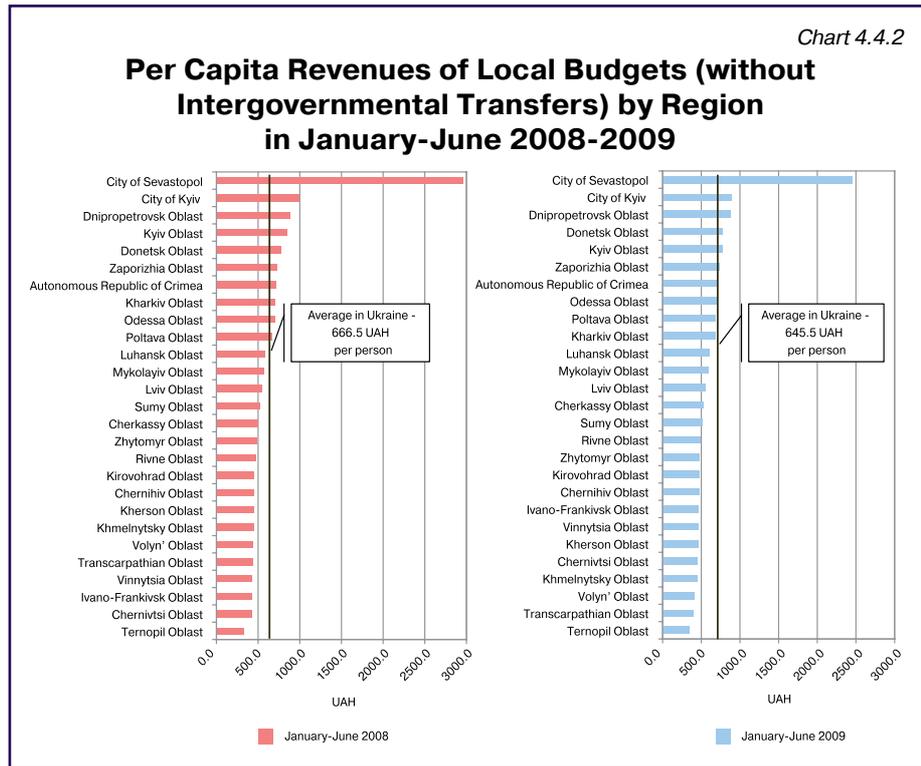
The greatest intake of revenues (without intergovernmental transfers) in January-June 2009 was noted for the Kyiv city budget (Hr 6.8bn or 20.3% of all local budget revenues), Donetsk (Hr 3.5bn or 10.4%), Dnipropetrovsk (Hr 3.0bn or 8.9%), and Kharkiv (Hr 1.9bn or 5.7%) oblasts. At the same time, in absolute terms, the revenues in the above regions decreased against the first half of 2008, with the largest decline of Hr 1.3bn observed in the City of Kyiv.

The lowest intake of revenues was noted for the Sevastopol city budget (Hr 340.4mn or 1.0% of all local budget revenues), Ternopil Oblast (Hr 382.7mn or 1.1%) and Chernivtsi Oblast (Hr 409.7mn or 1.2%).



Per capita revenues of the respective budgets show substantial differences between regions in Ukraine<sup>9</sup>. The highest per capita indicators are observed in the City of Kyiv (Hr 2,453.4 per resident), in Sevastopol (Hr 896.3), in Dnipropetrovsk Oblast (Hr 883.8), and Donetsk Oblast (Hr 776.5). The lowest per capita figures are in the Ternopil (Hr 350.8 per resident), Zakarpattia (Hr 397.1), and Volyn' (Hr 408.6) oblasts. The average national per capita level of local budget revenues amounted to Hr 645.5, which is 3.1% less than in the first half of 2008 (see Chart 4.4.2).

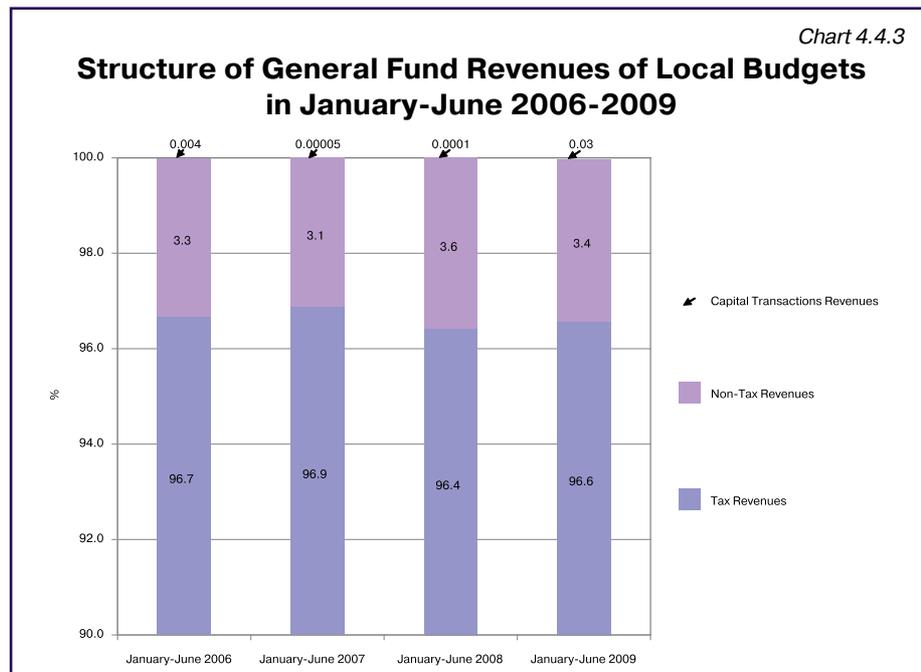
<sup>9</sup> According to data of the State Statistics Committee of Ukraine:  
[http://www.ukrstat.gov.ua/operativ/operativ2008/ds/kn/kn\\_u/kn0608\\_u.html](http://www.ukrstat.gov.ua/operativ/operativ2008/ds/kn/kn_u/kn0608_u.html)  
[http://www.ukrstat.gov.ua/operativ/operativ2009/ds/kn/kn\\_u/kn0609\\_u.html](http://www.ukrstat.gov.ua/operativ/operativ2009/ds/kn/kn_u/kn0609_u.html)



**GENERAL FUND REVENUES OF LOCAL BUDGETS**

The General Fund revenues of local budgets (without intergovernmental transfers) totaled Hr 28.3bn, which amounts to 43.7% of the annual plan approved by local councils.

There were no significant changes in the General Fund revenue structure of local budgets compared to previous years (see Chart 4.4.3).

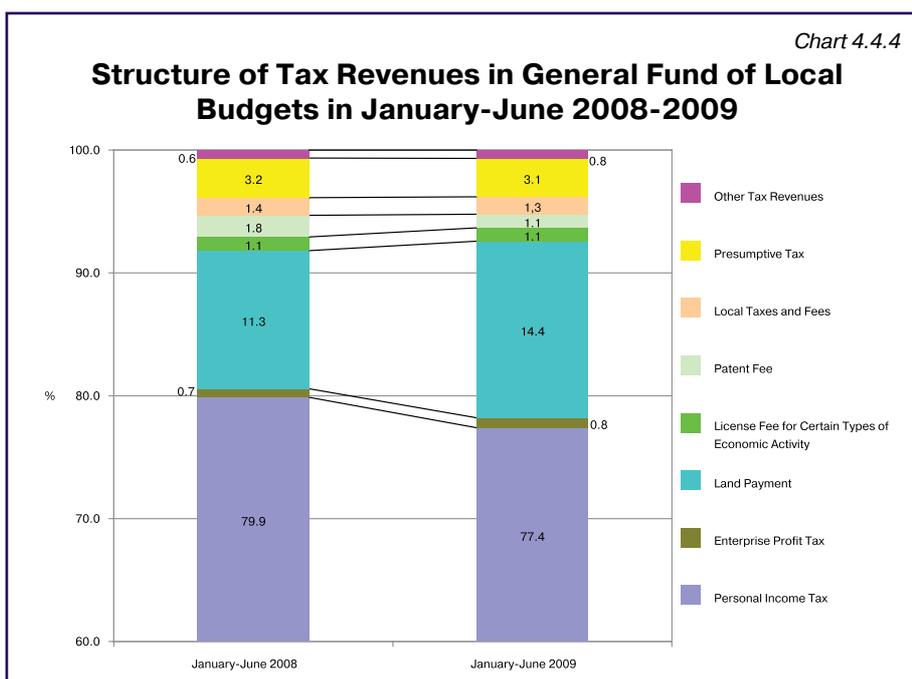


**TAX REVENUES**

Tax revenues have the largest share, 96.6%, in the structure of General Fund revenues of local budgets. The amount of

these revenues in the General Fund of local budgets (without intergovernmental transfers) reached Hr 27.4bn in January-June 2009, which is only 1.0% more than the same indicator of 2008 (to compare: the growth amounted to +41.5% in the first half of 2008).

The main changes in the structure of tax revenues of local budgets are characterized by a decline in the share of the personal income tax to 77.4% (its share amounted to 79.9% in January-June 2008) and a growth in the share of the payment for land from 11.3% to 14.4% (see Chart 4.4.4).



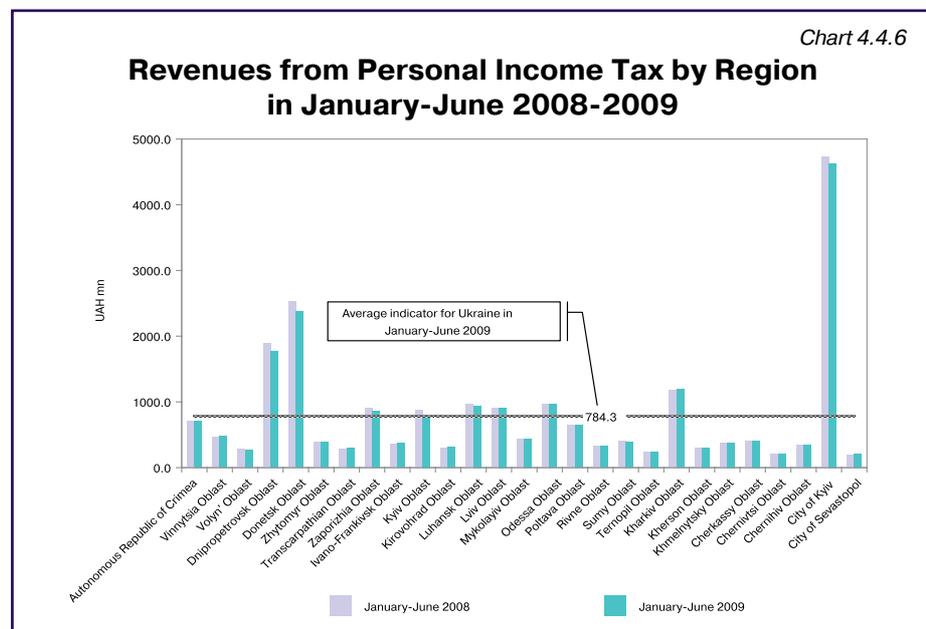
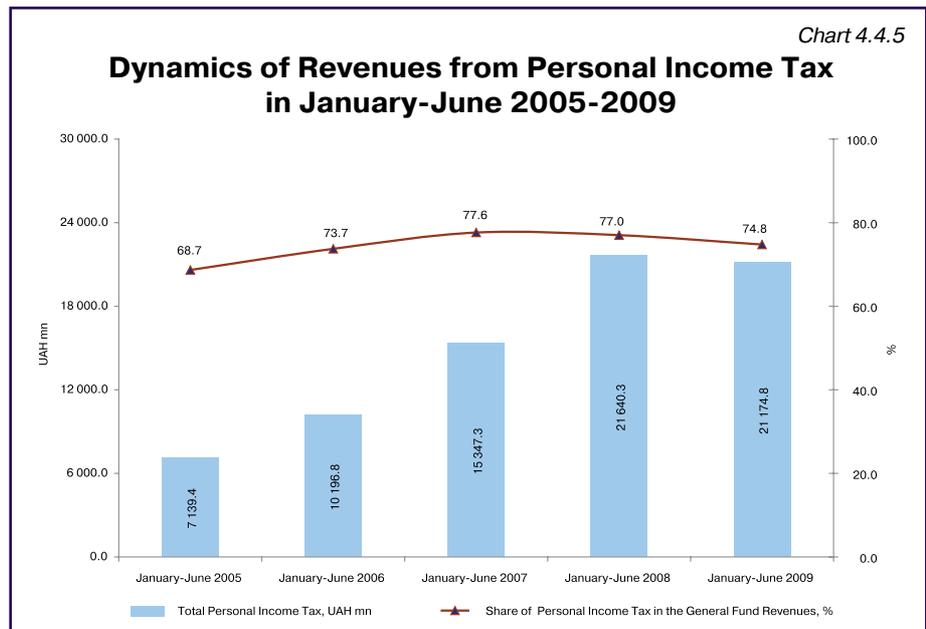
**PERSONAL INCOME TAX**

**The personal income tax** continues to retain its position as the single largest source of local budget revenues. In absolute terms, the revenues from this tax totaled Hr 21.2bn in January-June 2009, which is Hr 0.5bn less than in the first half of last year.

The dynamics of revenues from personal income tax in respective periods of previous years is shown in Chart 4.4.5.

As was the case in previous periods, the largest revenues from the personal income tax were recorded in the City of Kyiv at Hr 4.6bn (21.9% of the total revenues from this tax), Donetsk Oblast at Hr 2.4bn (11.2%), Dnipropetrovsk Oblast at Hr 1.8bn (8.4%), and Kharkiv Oblast at Hr 1.2bn (5.6%). The largest decline in nominal revenues from this tax was noted in the Donetsk Oblast at Hr 148.7mn.

The lowest revenues from the personal income tax were observed in the budgets of the City of Sevastopol at Hr 202.9mn (1.0%) and Chernivtsi Oblast at Hr 213.8mn (1.0%) (see Chart 4.4.6).



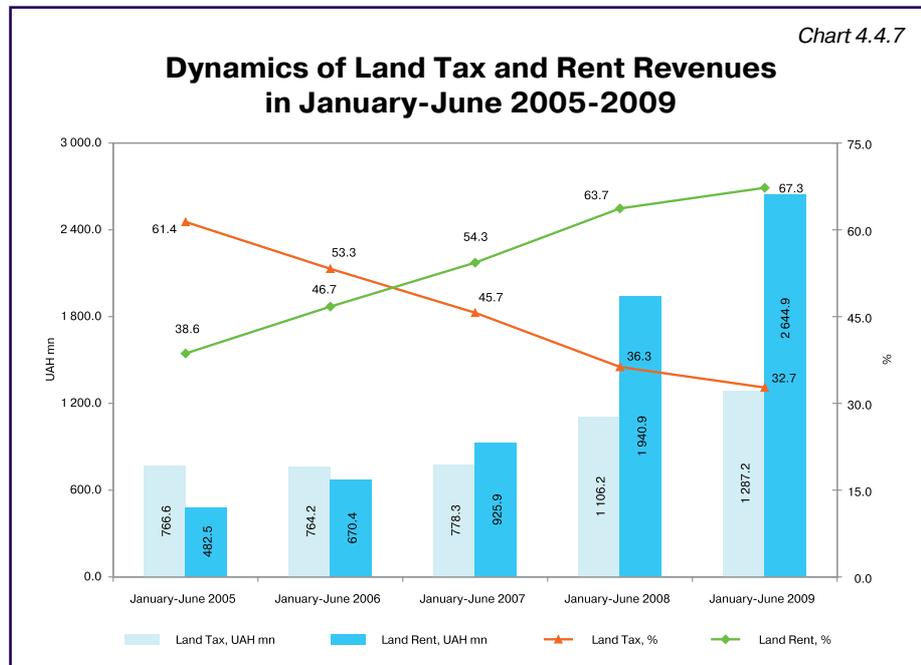
## PAYMENT FOR LAND

As usual, the **payment for land** is the second most important source of local budget revenues. The local budget received Hr 3.9bn from this tax in January-June 2009, which is 29.0% more year-on-year.

A rather substantial growth in nominal receipts from all components of the payment for land was recorded in the first half of 2008, with the highest growth (nearly double) in rent from legal entities. Such significant growth figures were linked, among other things, with the introduction of restrictions in granting preferences in payment for land, the cancellation of a number of exemptions for certain payer categories, and the raising of the land tax rate for some plots of land.

A continuation of this trend was observed in January-June 2009, as well as a further growth in the share of the payment for land in the General Fund revenues of local budgets (by 3.1ppt to 13.9%).

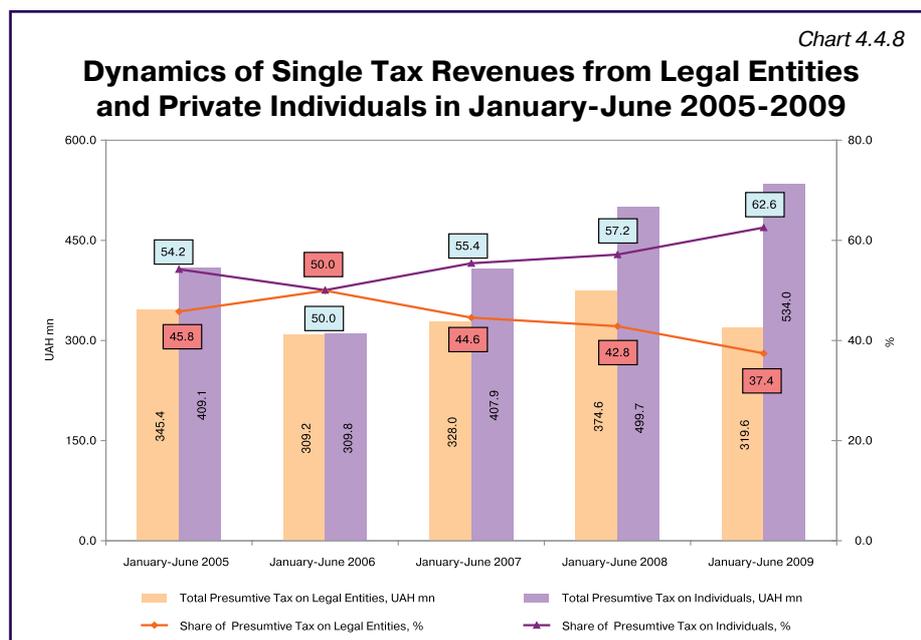
Annual changes occur in the structure of the payment for land trending towards an accelerated growth in nominal revenues from rent and a slower growth in receipts from land tax (see Chart 4.4.7). This dynamic is observed due to a gradual increase in the rent rates against a backdrop of unchanging principles of land tax administration, which are not in conformity with the present-day needs.



## SINGLE TAX ON SMALL BUSINESSES

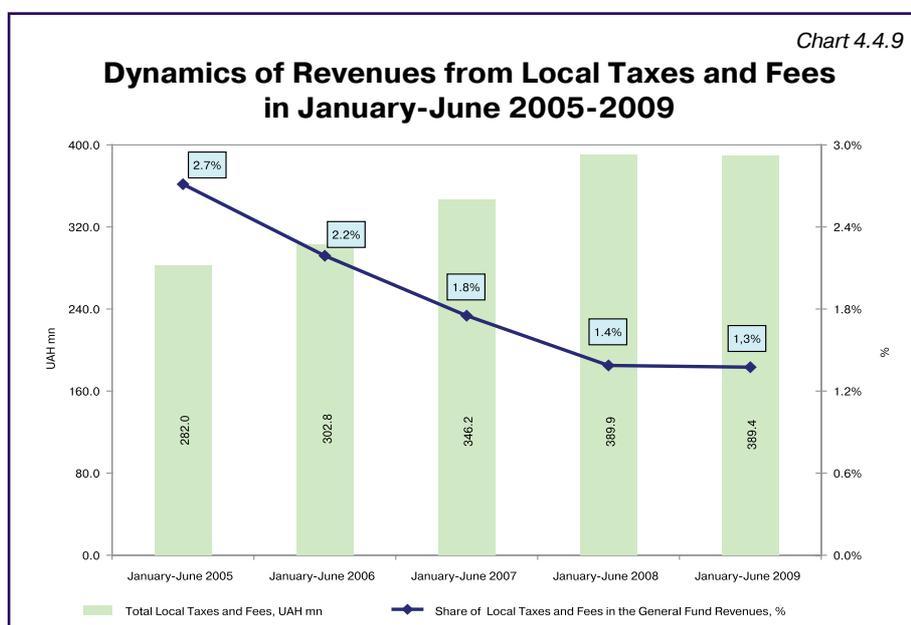
Local budgets received Hr 853.6mn from the **single tax on small businesses** in the first half of 2009, which is 2.4% less than the amount in the same period last year.

Shown in Chart 4.4.8 is the dynamics of single tax revenues from legal entities and private individuals.



## LOCAL TAXES AND FEES

The revenues from local taxes and fees totaled Hr 389.4mn in January-June 2009, which is almost the same amount as in the first half of 2008. Their share in the structure of General Fund revenues of local budgets continued to demonstrate a downward trend and only amounted to 1.3% (see Chart 4.4.9).

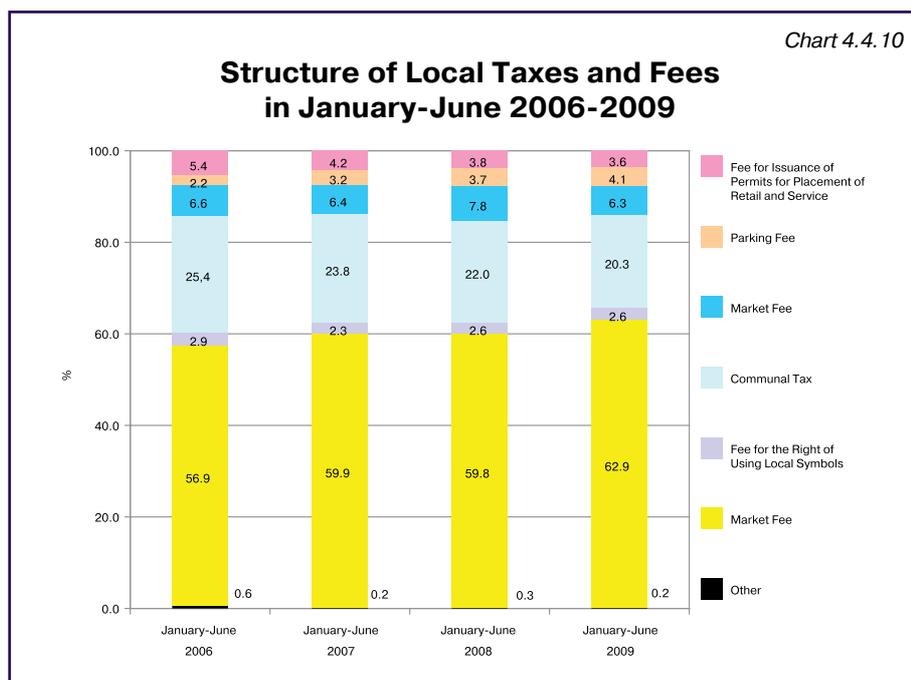


The structure of local taxes and fees did not change significantly (see chart 4.4.10). Note should be made of:

- a 3.1ppt increase to 62.9% in the share of the market fee in all local taxes and fees. Nominal receipts increased by 5.0% and reached Hr 244.8mn as of 1 July 2009;
- a 1.7 ppt decrease in the share of revenues from the second most important source, i.e., the communal tax, the nominal receipts of which amounted to Hr 79.2mn.

## INTERNATIONAL EXPERIENCE

International experience points to a general rule, according to which the formation of the revenue base of local government is determined by the general level of decentralization of government authorities in a country. As decentralization increases, usually, the emphasis is shifted towards the tax revenues of local budgets from central government transfers. Tax revenues in countries with a high level of decentralization and autonomy of local government play an increasingly greater role in terms of budget formation. For 75% of EU member-states, tax revenues account for more than one third of aggregate revenues of local communities, for 20% of countries, these revenues account for half of local budget revenues. Accordingly, the investment component decreases in the structure of centralized transfers, which testifies to communities' capacity to independently generate investment resources within the scope of the financial instruments (primarily, taxes) at their disposal.



Generally, international experience follows three main models of local government tax systems.

Model one provides for the possibility of automatic receipt by local governments of a fixed percentage (share) of the national income tax, which is remitted to budgets of all levels. This model is used in Germany, Austria, Spain, and Luxembourg.

Model two is based on local governments' independently setting additional local charges to the rates of the income tax remitted to the central budget. This mechanism is applied in Belgium, Canada, Denmark, and Norway.

Model three is special in that local government are independently setting the income tax rates and base. In this case, the central government excludes the respective income for taxes to be remitted to the central budget. This model is used in Switzerland and Quebec, Canada. Therefore, local governments in various countries have various levels of their own competence in terms of influencing the formation of local budgets with regard to local taxes and fees.

It should also be noted that both the amounts and structure of such tax differ significantly from country to country. Thus, thanks to centuries-old evolution, there emerged in the West a developed system of local taxes and fees, whose typical features include:

- number - the number of local taxes and fees varies from one (capital tax, which is considered a property tax) in UK to 100 in Belgium;
- generality - as a rule, taxes are paid by virtually the whole adult population;
- regressivity - in some countries, the share of local taxes and fees decreases with regard to the aggregate income amount

as the latter increases, while in other countries, a progressive scale is applied for key local taxes and fees;

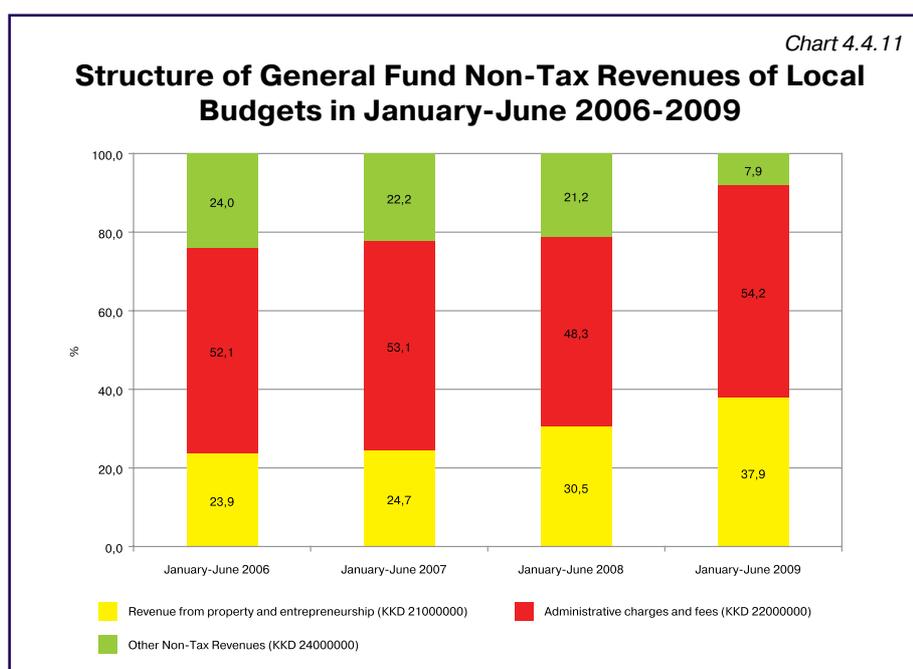
- use of the right of tax initiative - in some countries, local governments are authorized to set the rates of taxes enacted by laws, within legislatively established limits, with the simultaneous introduction of local taxes and fees stipulated by law; while in other countries, local taxes and fees are imposed by local governments, with the central government setting caps on the maximum rates.

In the majority of countries with federal systems, application of local taxes and fees is regulated by federal law.

## NON-TAX REVENUES

The nominal amount of General Fund **non-tax revenues** of local budgets totaled Hr 959.4mn in the first half of 2009, which is 4.7% less year-on-year.

Under comparable conditions<sup>10</sup>, the structure of General Fund non-tax revenues of local budgets is shown in Chart 4.4.11.



Revenue from property and business activity increased by 18.4% against the first half of 2008, and those from administrative taxes and charges, income from noncommercial and incidental sale increased by 6.8%. At the same time, other non-tax revenues decreased by 64.3%.

The largest items of non-tax revenues in the General Fund of local budgets in January-June 2009 were as follows:

- rent for the lease of integrated property complexes and other State-owned property (Hr 358.2mn);

<sup>10</sup> A change was introduced in the classification of revenues in February 2007: receipts from «Administrative fines and other sanctions» were transferred to the receipts from «Revenues from property and business activity.»

- administrative fines in the area of road traffic safety (Hr 205.7mn);
- stamp duty (Hr 158.6mn);
- income from the placement of temporarily free budget funds at banking institutions (Hr 108.8mn).

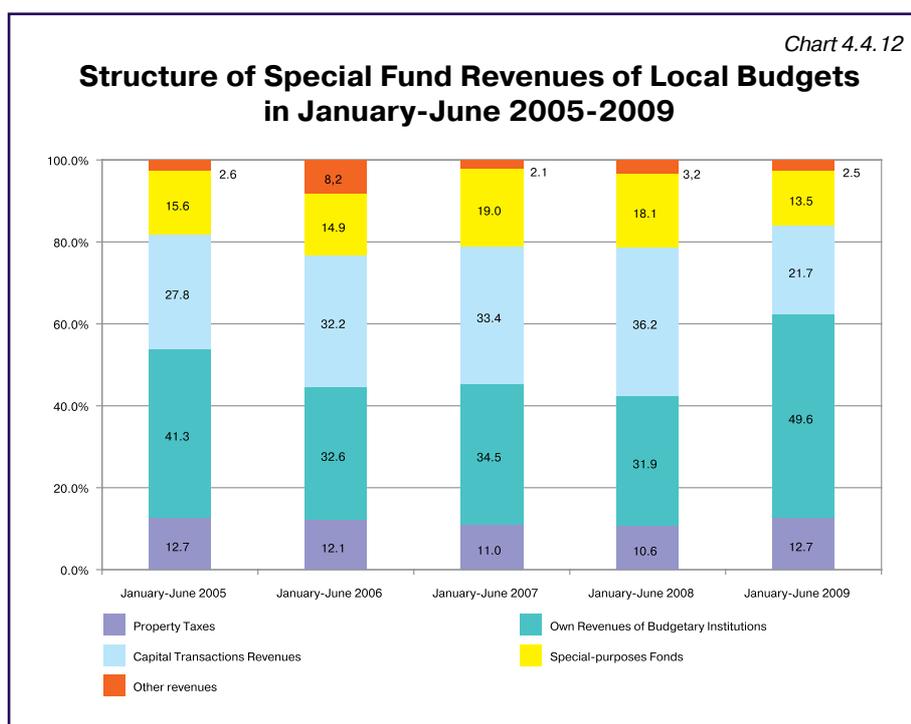
## SPECIAL FUND

**The Special Fund of local budgets (without intergovernmental transfers)** received more than Hr 5.1bn in January-June 2009, which is 25.7% less than in the same period of 2008. The plan approved by local councils for 2009 was implemented by 40.6%.

Revenue from capital transactions decreased by 55.5% within the amount of Special Fund revenues of local budgets. Also, a 44.4% decline was observed in revenues of targeted funds set up by the Verkhovna Rada of the Autonomous Republic of Crimea, local governments, and local executive authorities.

At the same time, 15.8% growth was recorded in own revenues of budgetary institutions, which amounted to Hr 2.5bn as of 1 July 2009.

Therefore, the following changes occurred in the structure of Special Fund revenues of local budgets compared to the first half of 2008 (see Chart 4.4.12).



## INTERNATIONAL EXPERIENCE IN MOBILIZING ADDITIONAL FINANCIAL RESOURCES

Attracting additional financial resources from the financial markets to satisfy the investment needs of local governments has become increasingly important of late. Important theoretical and practical achievements in the area of municipal borrowing have been developed in foreign countries. Their well-developed debt and equity markets provide a significant range in both diversification

and capacity for the municipal borrowing market as an efficient tool for redistributing monetary resources towards investments at the local level, and an effective means of financing local government's investment expenditures.

In terms of the ratio of local borrowing to the gross domestic product, its average value exceeds 5% of GDP for countries of the European Union, with 9.1% in Spain, 9.7% in Norway, 9.8% in Belgium, and 26.8% in Germany. This ratio does not exceed 1% in Ukraine.

One can see a trend toward the increased utilization of the mechanism of municipal borrowing, especially, for new EU member-states, in particular, Latvia, Poland, Hungary, Slovakia, and Lithuania. The amounts of such borrowing increased 1.7 to 35.0 times in the last five years (except for Poland, where no local borrowing was observed in this period).

As regards the so-called "old" EU member-states, the situation in general remains relatively stable, with the municipal borrowing mechanism remaining, as always, a major component of the system of local governance. The most common forms of local borrowing abroad include bonds, credits of financial and banking institutions, and intergovernmental budgetary loans. Depending in their specifics, bonds are subdivided into three main groups:

- general debt instruments, which are no-income bonds guaranteed by the budget revenues and property of local governments;
- income bonds, which are issued for the purpose of the development of municipal infrastructure, and which are repaid, as a rule, from the income generated by the operations of the municipal companies established and yield a certain income for holders of such securities;
- mixed-type bonds, which provide no income but which are repaid at the expense of the funds generated by the operation of the facilities built.

The key principle in the system of municipal borrowing in foreign countries, and primarily in European countries, is that the State acts as a guarantor of local government obligations, which allows municipalities to borrow at more favorable terms. In these countries, the rating of local borrowing securities approaches that of central government bonds. When providing guarantees on local bonds, the State takes certain steps to minimize risks. The advisability of introducing such a system in Ukraine is justified based on the main conceptual principles of the State regional policy, which proclaims the joint participation of the State and the subordinate administrative levels in ensuring the socioeconomic development of the latter. However, the existing system of municipal borrowing in Ukraine, pursuant to legislative requirements, is built in such a way that its functioning is ensured in a kind of an autonomous regime and at the own and full risk of local governments.

Based on the structure of revenue sources of development budgets of the local budgets stipulated by that same legislation, i.e., of their investment component, it can be argued that for the majority of territories, municipal borrowing is the main, relatively substantial, and efficient investment resource. However, the whole range of territories covered by village and settlement budgets is excluded from the possibility of municipal borrowing altogether, and, therefore, has no access to capital markets as a source of internal investments.

Therefore, the State must make sure it is present in the system of municipal borrowing as the guarantor, at least, with regard to implementing local investment projects that are pursued in accordance with the approved regional strategies and programs for the socioeconomic development of territories, which are formulated based on the principles of the common national strategy and programs of regional development.

Besides the provision of State guarantees for municipal loans, some countries also use a system of guaranteeing municipal bonds by regional governments and private organizations. In the USA, in particular, such a system is used with regard to guaranteed municipal bonds. The guarantors are state governments and five private insurers: Municipal Bond Insurance Association; American Municipal Bond Assurance Corp.; Bond Investors Guaranty Insurance Co.; Financial Guaranty Insurance Company; and Capital Guaranty Corporation. All these entities are able to insure any municipal bonds for their whole duration, as long as they comply with a certain rating. Another effective mechanism of insurance for municipal bonds in the US involves the use of bank letters of credit, which are used as collateral for these securities. Thanks to various guarantee provision programs for municipal bonds, their rating and liquidity improves, since they are becoming more attractive for potential investors.

Interest income tax exemptions become an additional factor for improving such attractiveness. For instance, in the US, such exemptions are granted at the state level. In addition, bonds are exempt from local and state taxes if the holder of such bonds has residence in the given state. It should be noted here that tax exemptions do not apply to all bond categories. Such a category includes the bonds used for financing so-called “non-essential” projects. This provision was instituted by the Tax Reform Act in 1986. The attractiveness of such a financial instrument for a potential investor is due to its capacity to provide a rather high yield, which is at least higher than that Treasury bonds, as well as due to a ban on early repayment, which assures the maintenance of a high yield for investors for an extended period.

#### **EXPENDITURES OF LOCAL BUDGETS**

**The aggregate expenditures of local budgets (without transfers from local budgets to the State budget) totaled Hr 59.2bn in the first half of 2009, which is 11.3% more year-on-year.**

The plan approved by local councils for 2009 was implemented by 45.2% (by 43.2% in January-June 2008), including 47.2% of General Fund expenditures and 34.1% of Special Fund expenditures.

The execution of local budget expenditures in January-June 2007-2009 is summarized in Table 4.4.2.

Table 4.4.2

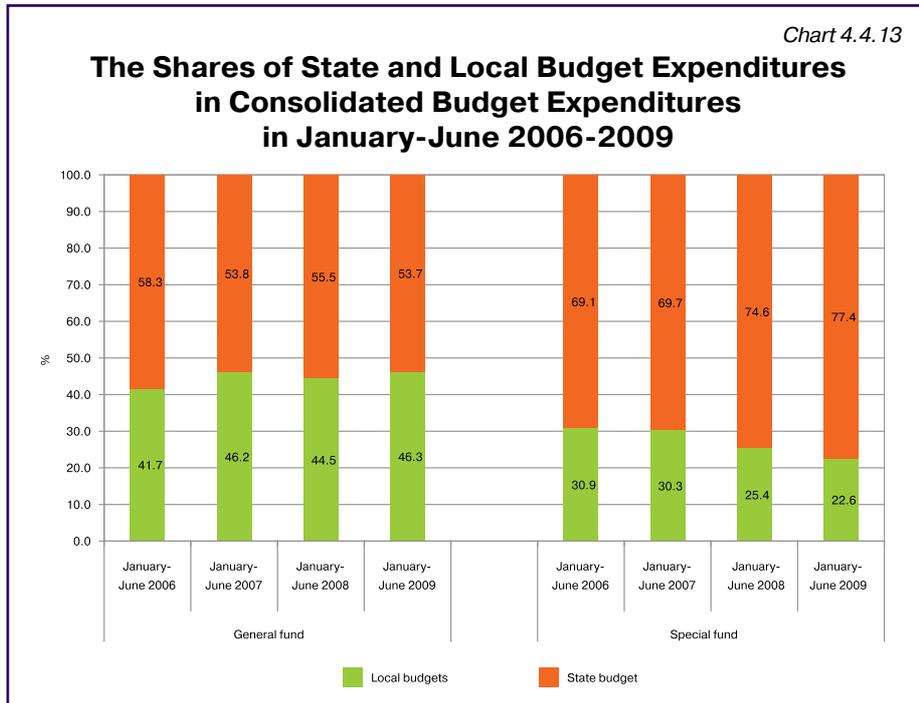
### Dynamics of Local Budget Expenditures in January-June 2007-2009

(UAH mn)

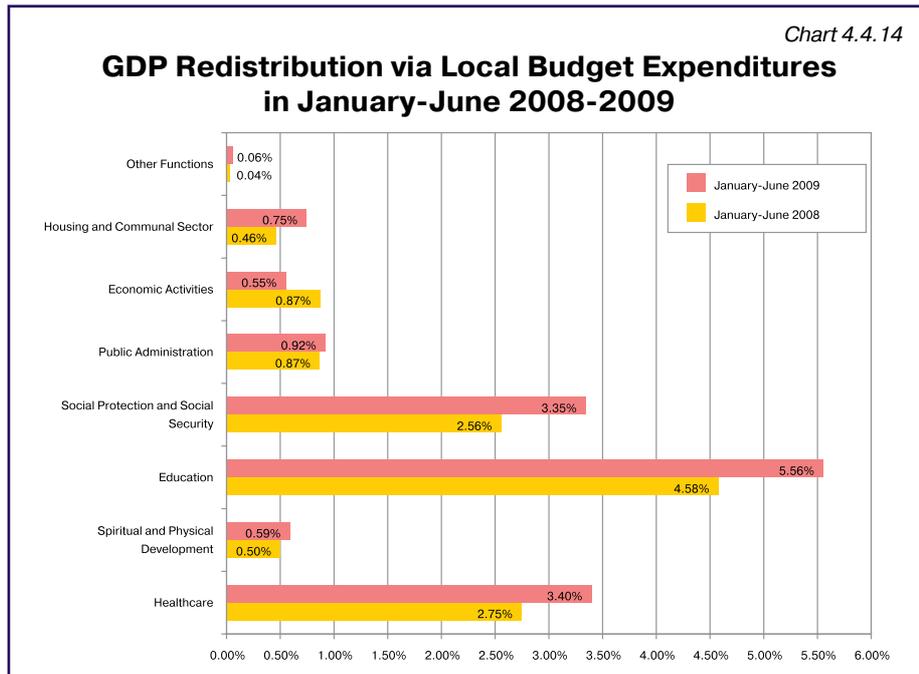
Expenditures	Actual in January-June 2007	Actual in January-June 2008	Approved by local councils for 2009	Actual in January-June 2009	Execution of plan approved by local councils, %
<b>Total</b>	<b>38 899.2</b>	<b>53 227.2</b>	<b>131 061.2</b>	<b>59 238.7</b>	<b>45.2</b>
General Fund	33 876.7	47 189.0	111 059.0	52 411.6	47.2
Special Fund	5 022.5	6 038.2	20 002.2	6 827.1	34.1

Local budget expenditures accounted for 41.3% of consolidated budget expenditures, which is 0.3ppt more year-on-year. General Fund expenditures of local budgets in the consolidated budget expenditures accounted for 46.3%, a 1.8ppt increase, while the share of Special Fund expenditures decreased by 2.8ppt and amounted to 22.6% (see Chart 4.4.13).

Chart 4.4.13

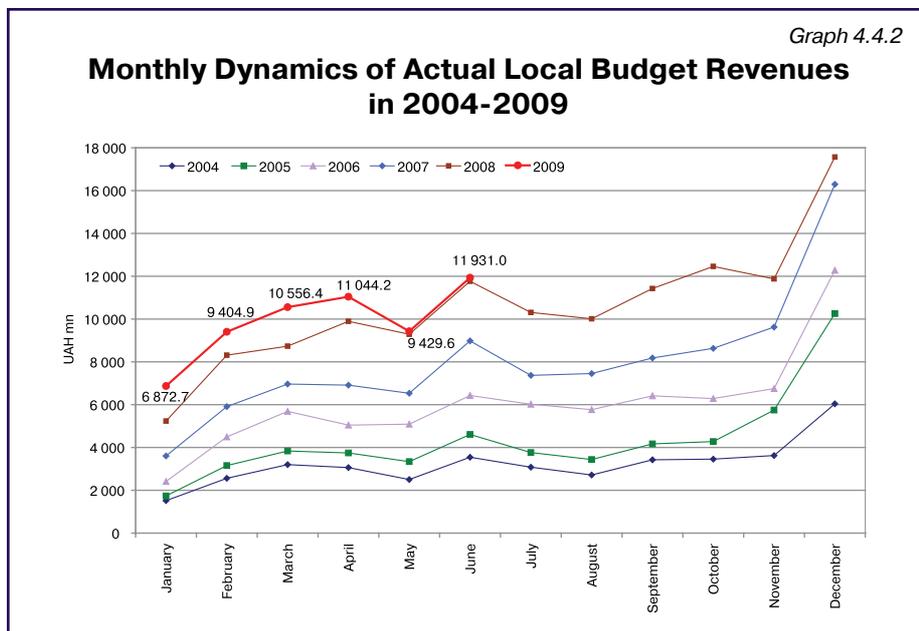


The proportion of GDP redistribution via local budgets of Ukraine amounted to 14.64% in the first half of 2009 (11.87% in the first half of 2008). It should be noted that this indicator decreased for the local budget expenditures intended for economic activity by 0.34ppt (see Chart 4.4.14). The highest growth (+0.98ppt) was noted for education expenditures. Also, significant growth figures



were noted in expenditures for healthcare and social protection and social security of +0.65ppt and +0.79ppt, respectively.

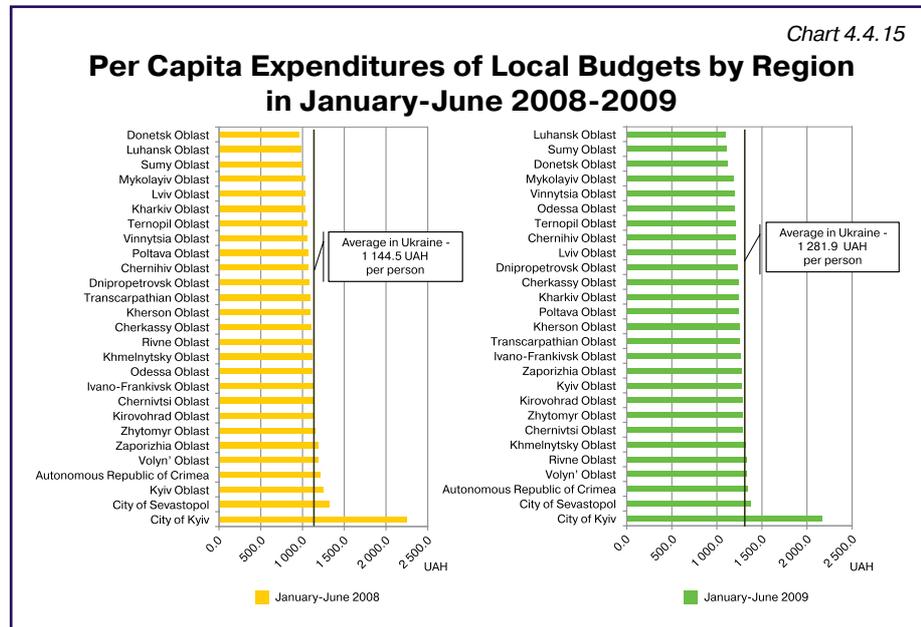
Generally, the monthly dynamics of local budget expenditures follows the trends of previous years (see Graph 4.4.2).



The average per capita local budget expenditures in Ukraine as a whole amounted to Hr 1,281.9 in the period under review, which is 11.8% more than in the first half of 2008. Taking into account the population size<sup>11</sup> by region, the uneven distribution of the said expenditures is observed. In January-June 2009, the highest local budget expenditures were observed in the City of Kyiv, with

11 According to data of the State Statistics Committee of Ukraine  
[http://www.ukrstat.gov.ua/operativ/operativ2008/ds/kn/kn\\_u/kn0608\\_u.html](http://www.ukrstat.gov.ua/operativ/operativ2008/ds/kn/kn_u/kn0608_u.html)  
[http://www.ukrstat.gov.ua/operativ/operativ2009/ds/kn/kn\\_u/kn0609\\_u.html](http://www.ukrstat.gov.ua/operativ/operativ2009/ds/kn/kn_u/kn0609_u.html)

Hr 2,171.1 per person (however, this is Hr 80.1 less than the same indicator of 2008), with the lowest noted in Luhansk, Sumy, and Donetsk oblasts, with Hr 1,098.7, Hr 1,111.6, and Hr 1,122.7 per person, accordingly (see Chart 4.4.15).



## GENERAL FUND

**The General Fund expenditures** of local budgets totaled Hr 52.4bn. Their amount increased by 11.1% compared to the same period of last year. Execution of the annual plan approved by local councils amounted to 47.2%, which is 1.0ppt more than in January-June 2008.

## STRUCTURE OF EXPENDITURES BY FUNCTIONAL CLASSIFICATION

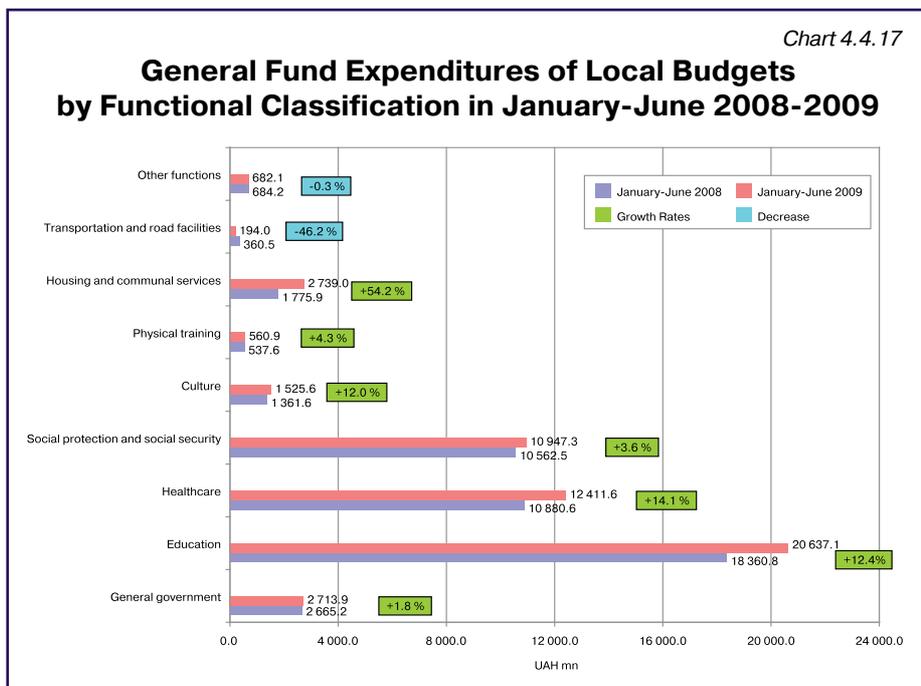
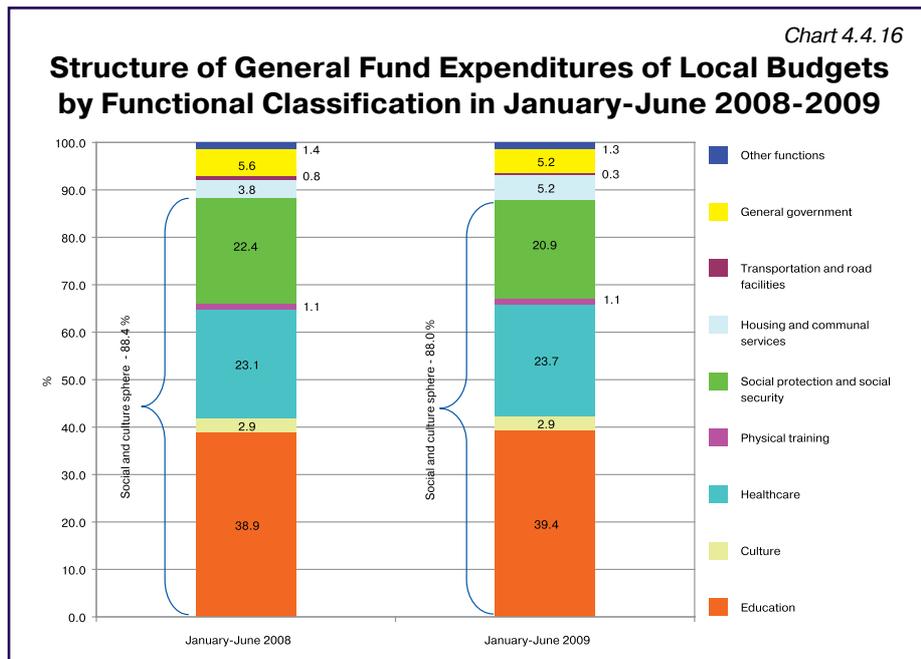
The majority of General Fund expenditures of local budgets is used for the social and cultural sphere (education, healthcare, social protection and social security, culture and arts, physical culture and sports). In the reporting period, these expenditures combined accounted for 88.0% in the General Fund structure, which is 0.4ppt less year-on-year (see Chart 4.4.16).

In the structure of General Fund expenditures of local budgets by functional classification, the greatest year-on-year changes occurred in expenditures for social protection and social security, the share of which decreased by 1.5ppt to 20.9%, and expenditures for housing and communal services, the share of which increased by 1.4ppt to 5.2%.

The remaining local budget expenditures were within 0.6ppt against the data of January-June 2008.

The actual amounts of General Fund expenditures of local budgets for the social and cultural sphere increased by 10.5% in the first half of 2009 year-on-year, and reached Hr 46.1bn.

The largest of these were expenditures for education at Hr 20.6bn, healthcare at Hr 12.5bn, and social protection and social security at Hr 10.9bn (see Chart 4.4.17).



Expenditures for public administration were funded in the amount of Hr 2.7bn, which is 1.8% more than in the first half of 2008. Their share in the structure of General Fund expenditures decreased by 0.4ppt against the previous year and amounted to 5.2%.

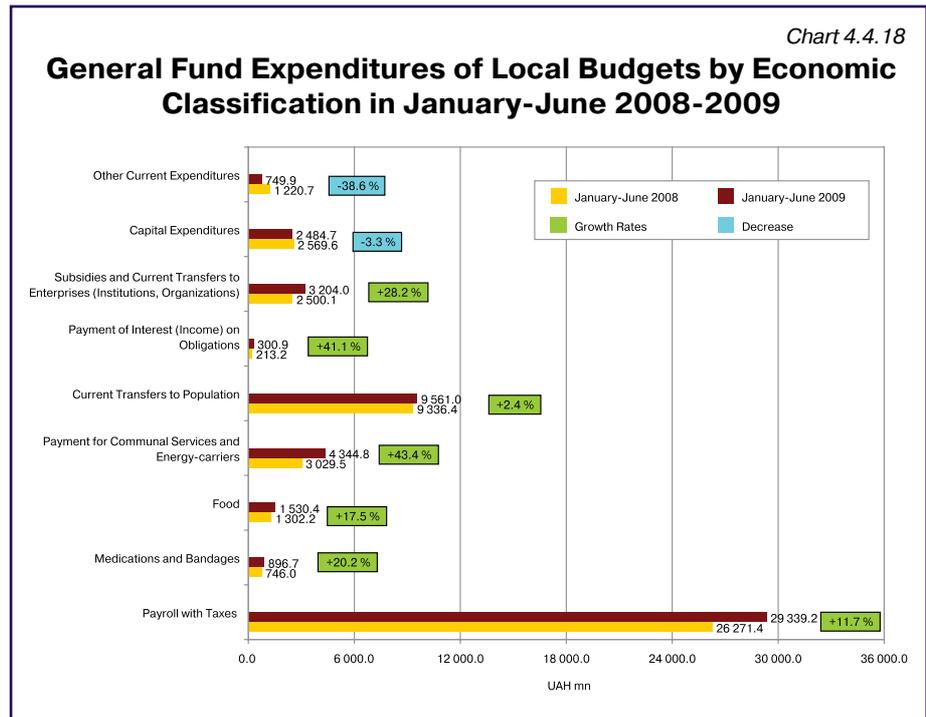
At the same time, actual expenditures of local budgets for transport and road maintenance sector decreased by 46.2%.

## STRUCTURE OF EXPENDITURES BY ECONOMIC CLASSIFICATION

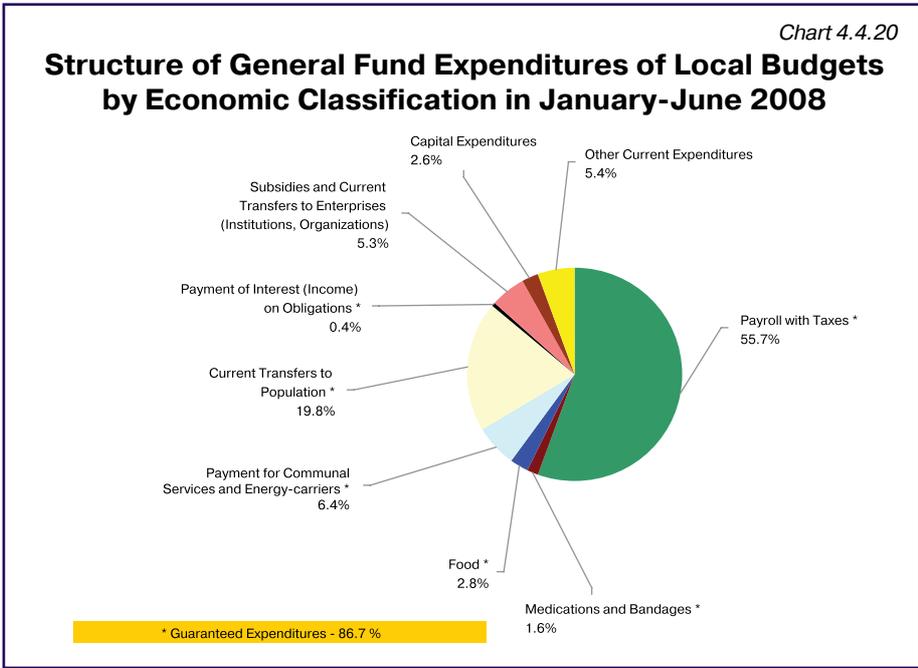
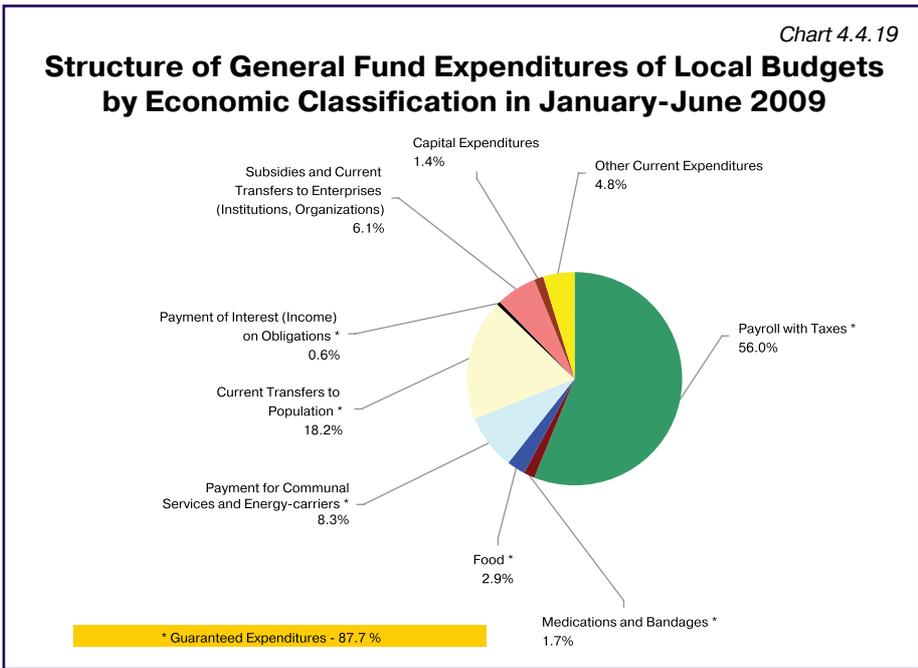
The current expenditures of local budgets (without transfers from local budgets to the State budget) were financed in the amount of Hr 51.7bn, which is 12.4% more than in January-June 2008. More than 98.6% of General Fund expenditures were used for the current maintenance of budgetary institutions.

Capital expenditures were funded in the amount of Hr 749.9mn, which is 38.6% less than the respective indicator of 2008. In the first half of 2009, capital expenditures were funded at 27.4% of the 2009 plan. Their share in the General Fund structure decreased against the first half of 2008 and amounted to about 1.4%.

A 3.3% decline was also noted in the actual financing of General Fund expenditures of local budgets with regard to other current expenditures (see Chart 4.4.18).

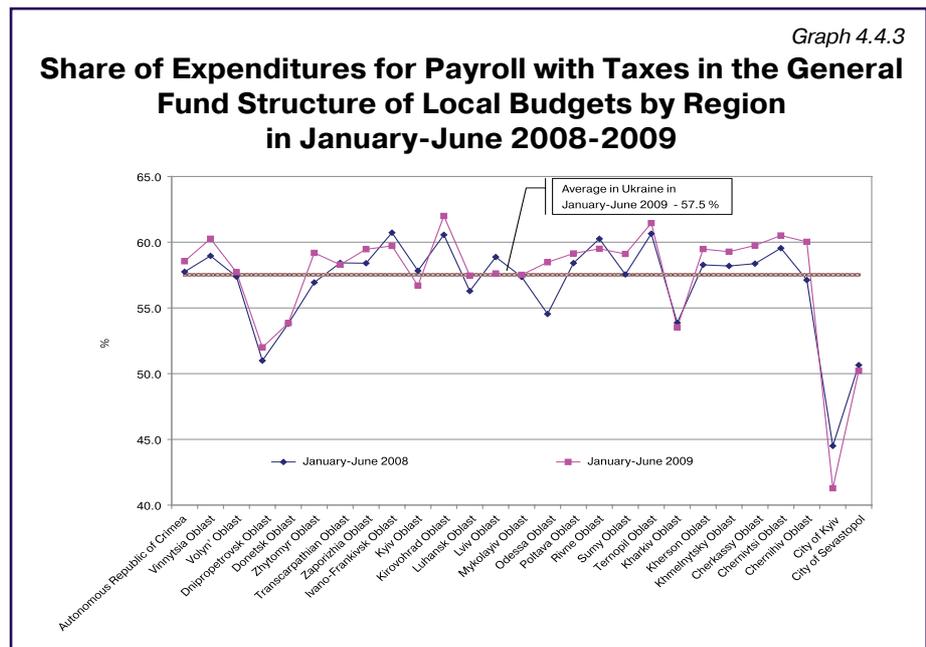


More than 87.7% of all local budget expenditures were used for financing protected expenditure items in January-June 2009, which is 1.0ppt more year-on-year. At the same time, the greatest changes in the structure of local budget expenditures by economic classification involve an increase in the share of expenditures for communal services and energy-carriers by 1.9ppt to 8.3% of all local budget expenditures (see Chart 4.4.19 and Chart 4.4.20).



Note should also be made of an 1.6ppt decline in the share of expenditures for current transfers to the population (their nominal growth amounted to +2.4%). The share of expenditures for payroll with taxes remains the largest item in the structure of local budget revenues at 56.0%, which is practically the same as in the first half of 2008.

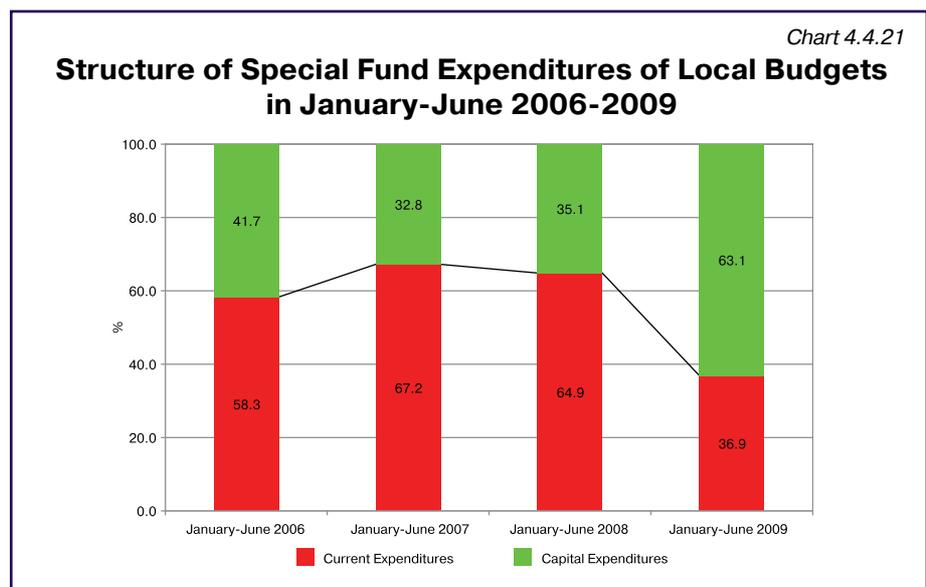
In the first half of 2009, the share of payroll with taxes in the General Fund structure of local budgets by administrative regions of Ukraine varied from 41.3% in the City of Kyiv to 62.0% in Kirovohrad Oblast (see Graph 4.4.3).



## SPECIAL FUND

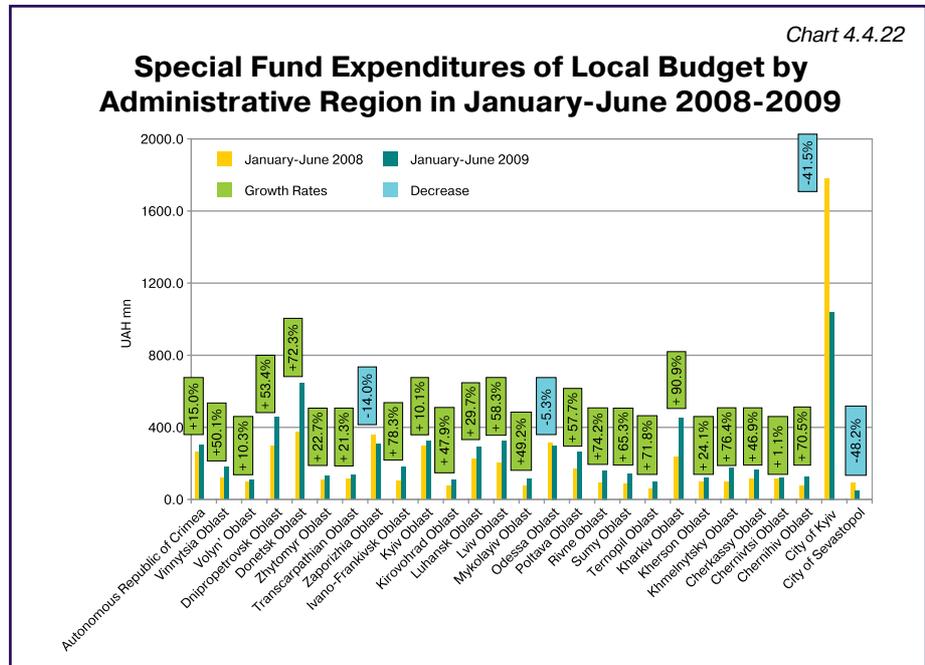
**Expenditures of the Special Fund** of local budgets were funded in the amount of Hr 6.8bn in January-June 2009, which is 13.1% more year-on-year. The annual plan approved by local councils was executed by 34.1% or by 5.4ppt more compared to the indicators of the previous year.

At the same time, the Special Fund structure changed significantly. For instance, the nominal amounts of capital expenditures of the Special Fund of local budgets decreased by 35.7% and amounted to Hr 2.5bn. The share of capital expenditures in the Special Fund structure decreased by 28.0ppt to a mere 36.9% (see Chart 4.4.21).



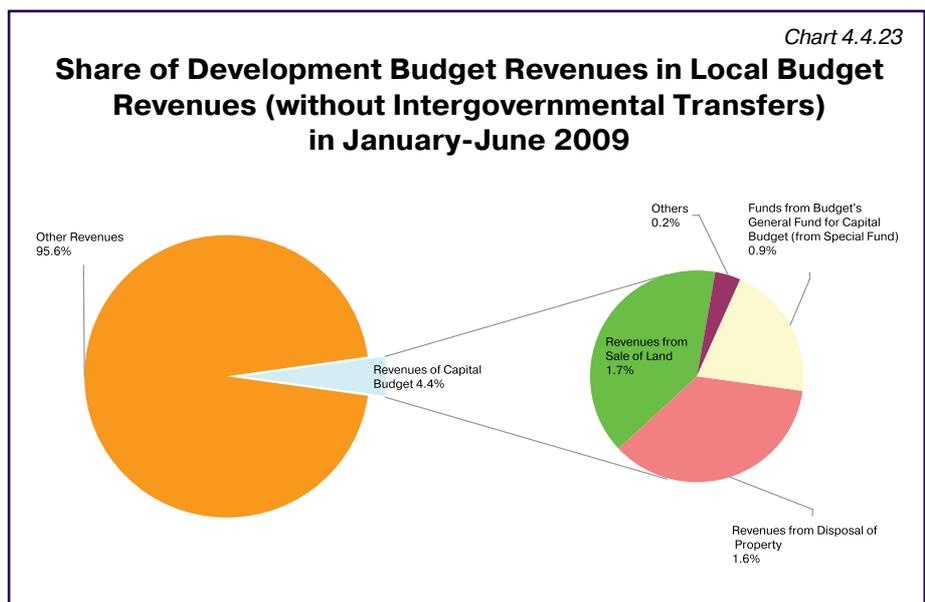
A significant differentiation was observed between the administrative regions of Ukraine in terms of the amount of growth rates

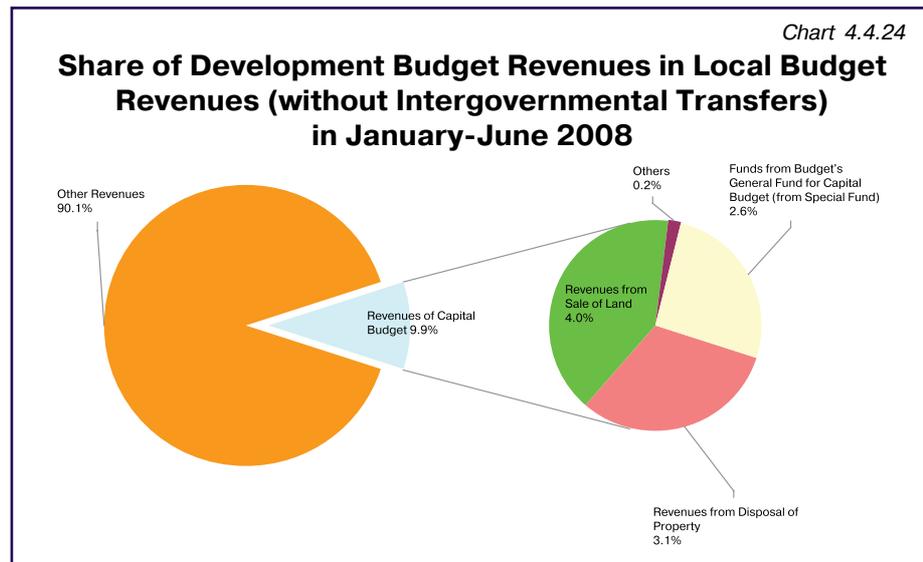
in Special Fund expenditures of local budgets. The highest growth in these expenditures against January-June 2008 amounted to +90.9% and was recorded in Kharkiv Oblast. However, declines in the nominal amounts by 5.3%, 14.0%, 41.5%, and 48.2% were noted in Zaporizhzhya and Odesa oblasts, and the cities of Kyiv and Sevastopol, respectively (see Chart 4.4.22).



## DEVELOPMENT BUDGET

**The development budget revenues** of local budgets totaled Hr 1.5bn in the first half of 2009, which is 57.7% less year-on-year. This has led to a decline in the share of such revenues in the general structure of local budget revenues to 4.4%, which is 5.5ppt less than the respective indicator of 2008 (see Chart 4.4.23 and Chart 4.4.24).

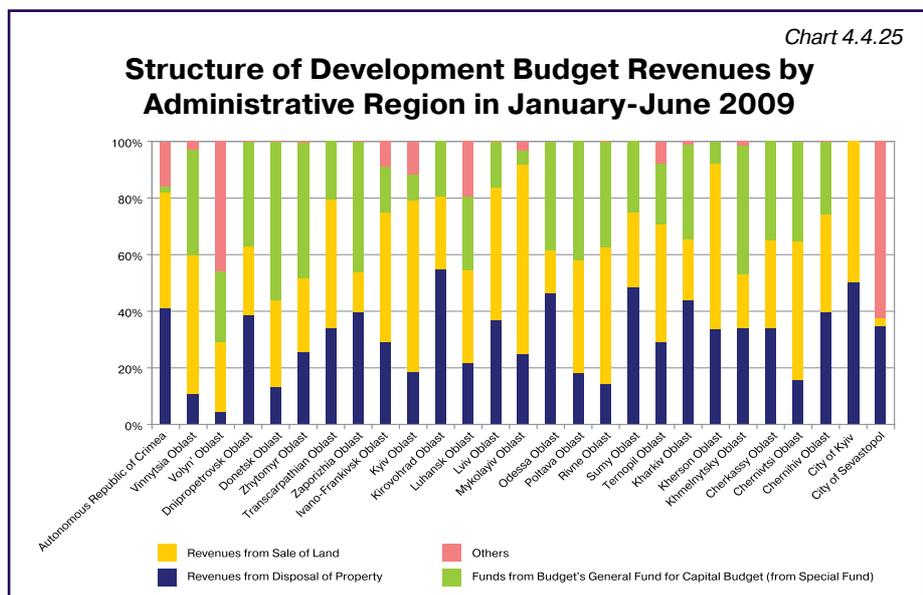




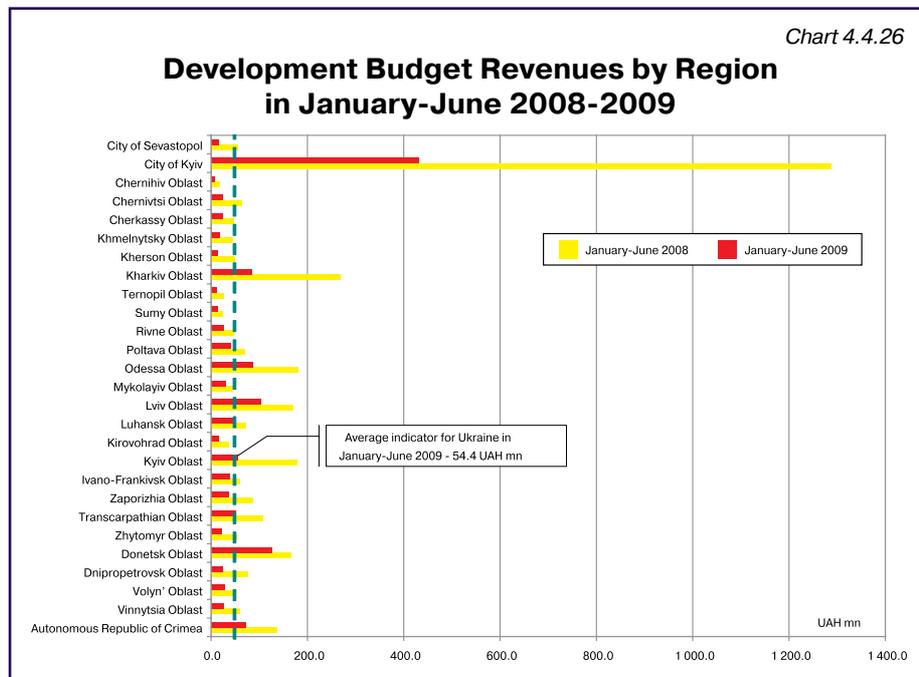
As seen from Chart 4.4.23 and Chart 4.4.24, the main sources of development budget revenues include the revenues from the sale of land (Hr 583.0mn), from the disposal of municipal property (Hr 527.5mn), and the resources received from the General Fund of the budget (Hr 301.5mn). However, their nominal amounts decreased by 41.4%, 48.6%, and 33.3%, respectively, against the first half of 2008.

In addition to the above sources of revenues, the development budget also includes other types of revenues: dividends/income on shares (stocks, interest) in companies; interest on loans granted from local budgets; and subventions from other budgets for the implementation of investment projects. Based on the results of the first half of 2009, revenues from all these sources combined in all local budgets totaled only Hr 57.1mn or 3.9% of all development budget revenues. Their amount decreased by 15.9%.

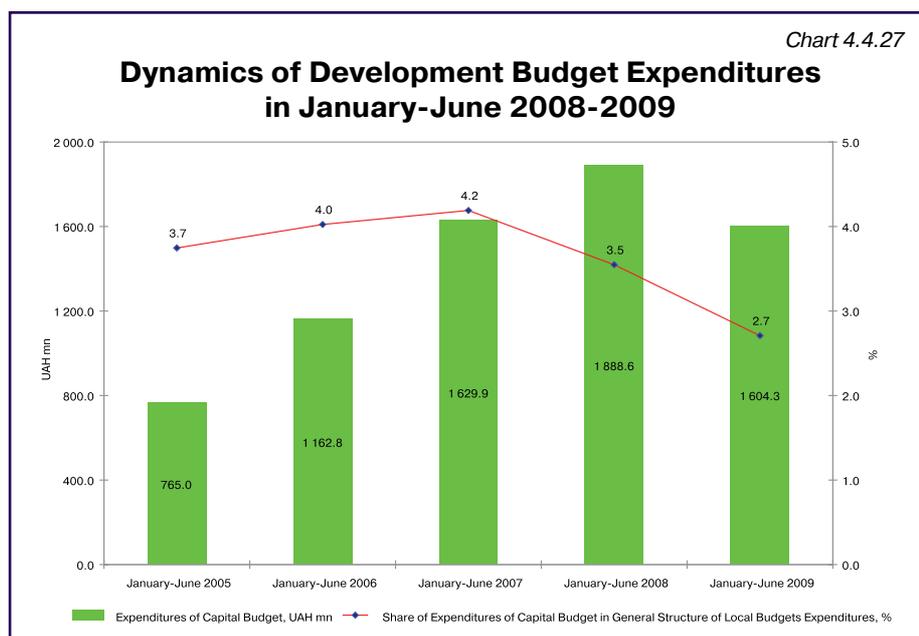
Significant differences are observed in the structure of development budget revenues by administrative region (see Chart 4.4.25).



In terms of actual development budget revenues, the City of Kyiv budget is the customary leader among these regions, with 29.3% of the national total (37.1% in January-June 2008). It should be noted that nominal amounts of development budget revenues declined across the country compared to the same indicators of 2008 (see Chart 4.4.26).

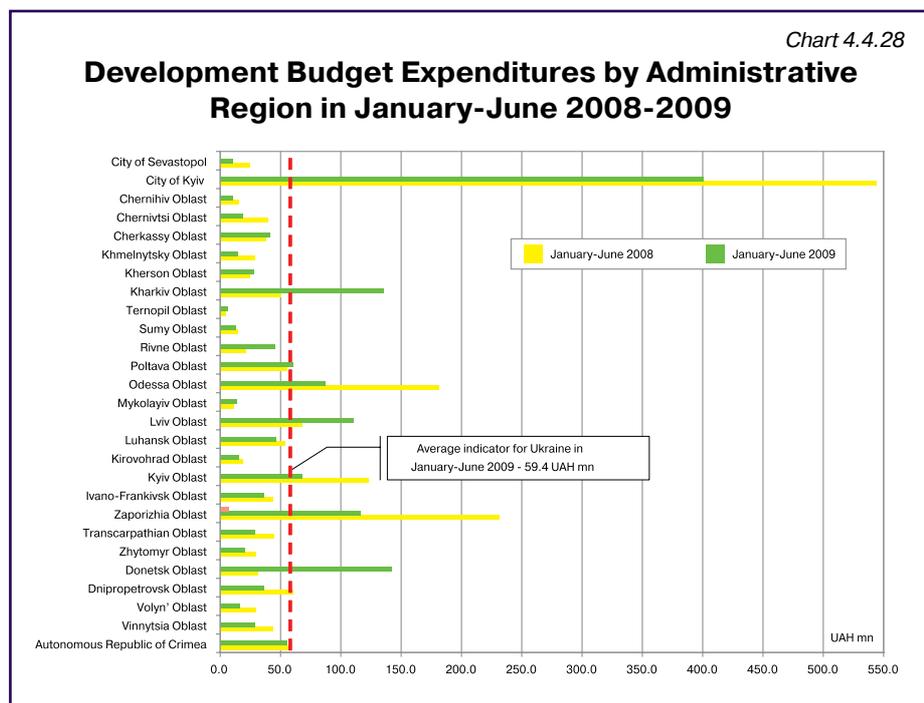


The amount of **development budget expenditures** of local budgets decreased by 15.1% in the first half of 2009 and totaled Hr 1.6bn. The share of development budget expenditures in the overall structure of local budget expenditures decreased by 0.8ppt and amounted to 2.7% (see Chart 4.4.27).



Capital investments (code 150101) at 72.3% make up the largest part of development budget expenditures. These expenditures decreased in Ukraine in general by 28.2% and amounted to Hr 1.2bn in January-June 2009.

The highest development expenditures are invested by the City of Kyiv budget, amounting to Hr 400.6mn or 25.0% of all local budget development expenditures in January-June 2009 (28.8% in January-June 2008). Significantly greater than average development expenditures in the first half of 2009 were also seen for Donetsk Oblast (Hr 142.1mn), Kharkiv Oblast (Hr 135.2mn), Zaporizhzhya Oblast (Hr 116.7mn), and L'viv Oblast (Hr 110.1mn) (see Chart 4.4.28).



## INTERGOVERNMENTAL TRANSFERS FROM STATE BUDGET TO LOCAL BUDGETS

An annual growth in the amount of transfers from the State budget to local budgets can be observed in the first half of the year in recent years (see Table 4.4.3 and Chart 4.4.29).

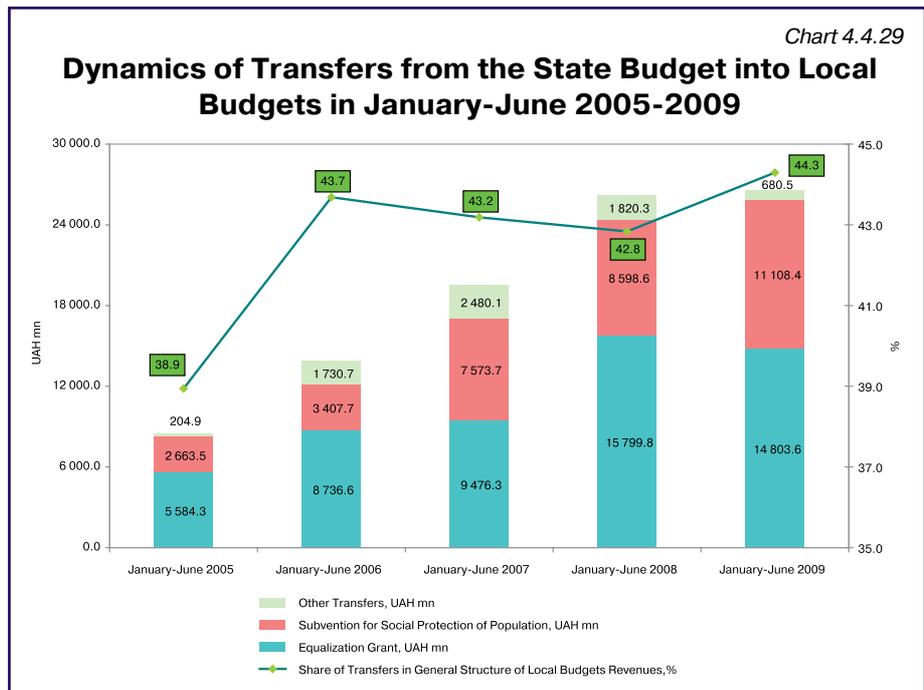
Table 4.4.3

### Dynamics of Intergovernmental Transfers from State Budget to Local Budgets in January-June 2007-2009

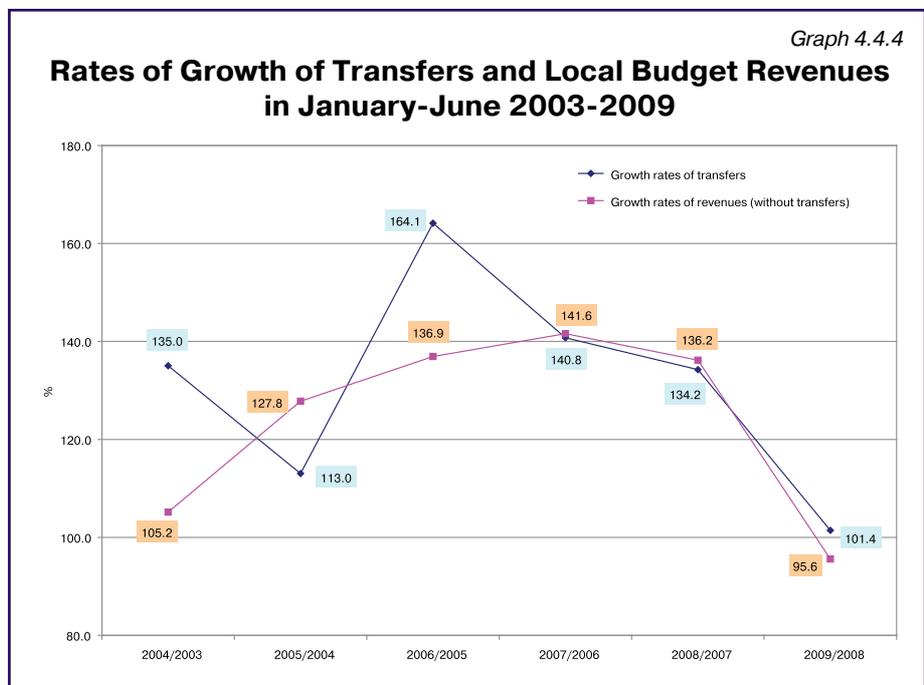
(UAH mn)

Intergovernmental transfers	Actual in January-June 2007	Actual in January-June 2008	Plan 2009	Actual in January-June 2009	Execution of indicators approved by local councils, %
<b>Total</b>	<b>19 530.1</b>	<b>26 217.7</b>	<b>60 819.7</b>	<b>26 592.5</b>	<b>43.7</b>
General Fund	19 192.4	25 981.4	55 041.6	24 527.3	44.6
Special Fund	337.8	236.3	5 778.1	2 065.2	35.7

Intergovernmental transfers accounted for 44.3% of the total structure of local budget revenues in the first half of 2009, which is 1.5ppt more than in the previous year (see Chart 4.4.29).

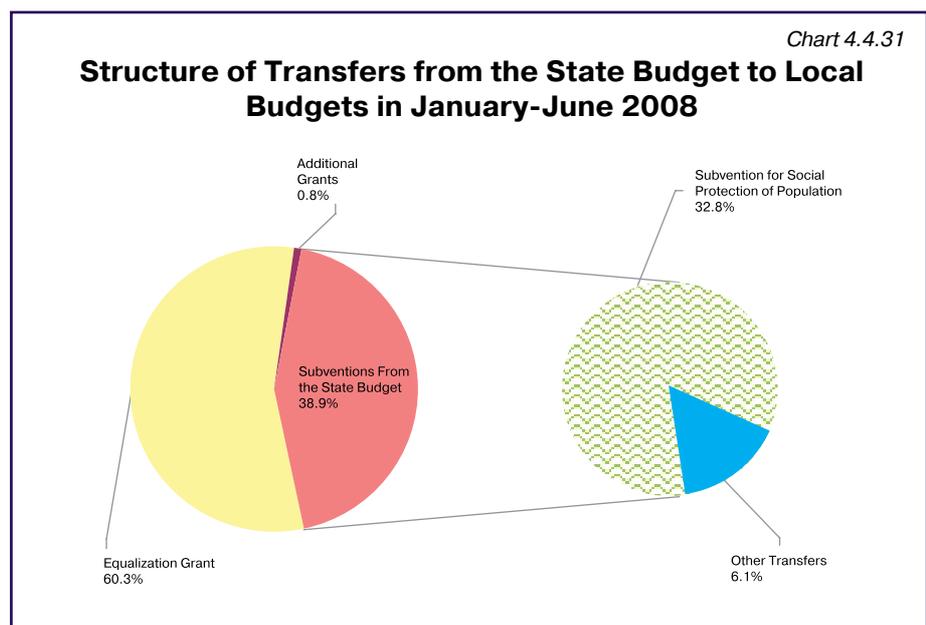
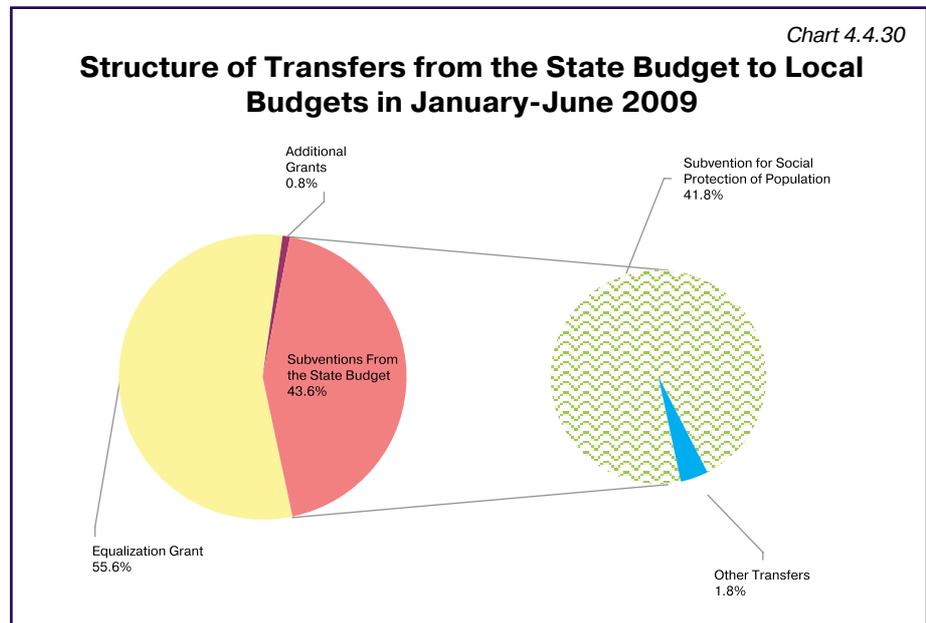


A significant reduction in the growth of transfers from the State budget was observed in the first half of 2009 (+1.4%). Also, own revenues of local budgets show a decline compared to the respective period of previous year, with a growth rate of 95.6%. It should be noted that this is the lowest figure in recent years (see Graph 4.4.4).



The equalization grant accounts for the largest share in the structure of transfers at 55.6% of the total (this share amounted to 60.3% in January-June 2008). Compared to the indicators of the first half of 2008, the proportion of receipts from the subvention

for social protection increased from 32.8% to 41.8%, and receipts of other transfers decreased from 6.1% to 1.8% (see Chart 4.4.30 and Chart 4.4.31).

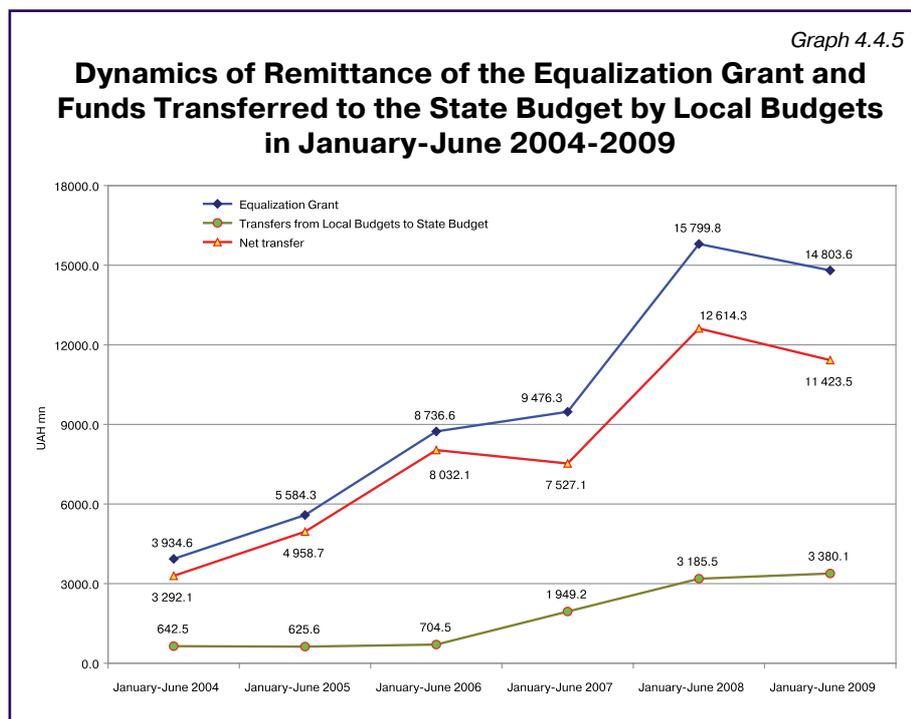


## EQUALIZATION GRANT

According to the State Treasury data, the equalization grant was remitted in the amount of Hr 14.8bn in the first half of 2009 (Hr 15.8bn in the first half of 2008) (see Graph 4.4.5), which amounts to 44.4% of the annual plan.

The data from January-June 2004-2008 previously demonstrated annual growth in the nominal amounts of the equalization grant from the State budget to local budgets, however, its decline was recorded in 2009 (see Graph 4.4.5). At the same time, the amount of funds transferred from local budgets into the State budget increased in the first half of 2009. Therefore, the “net transfer”

totalled Hr 11.4bn in January-June 2009<sup>12</sup>, which is 9.4% less than in the respective period of last year.



## OTHER GRANTS

The transfer of the following additional grants from the State budget into local budgets is envisaged in 2009: for the equalization of financial sufficiency of local budgets (Hr 667.1mn according to the annual plan); for the implementation of functions established by the Law of Ukraine “On Approving the Constitution of the Autonomous Republic of Crimea” (Hr 30.0mn); and Hr 6.0mn to the City of Slavutych for the maintenance of the city’s social infrastructure. In the first half of 2009, the above additional grants were funded at 30.0%, 37.5%, and 25.0%, respectively, of the annual plan.

## SUBVENTIONS FOR SOCIAL PROTECTION OF POPULATION

The subventions for the social protection of the population were remitted for a total of Hr 11.1bn in January-June 2009, including:

- subvention for the payment of allowances to families with children, low-income families, persons disabled since childhood, disabled children, and temporary State assistance to children totaling Hr 7.7bn or 48.5% of the annual plan;
- subvention for providing benefits and housing subsidies to the population for paying for electric power, natural gas, heat, water, and sewer services, rent, removal of solid household waste and sewerage was remitted at Hr 0.7bn or 31.1% of the annual plan from the General Fund of the budget; and at Hr 1.9bn or 53.0% of the annual plan from the Special Fund;
- subvention for the provision of preferences in telecommunications services and for compensation for

<sup>12</sup> “Net transfer” means the difference between the equalization grant and the amount of funds transferred to the State budget.

preferential fares for certain citizen categories totaling Hr 473.1mn or 34.5% of the annual plan;

- subvention for the provision of preferences and housing subsidies to the population for the procurement of solid and liquid household fuel and liquefied gas totaling Hr 274.9mn or 41.6% of the annual plan.

## **OTHER SUBVENTIONS**

In addition to social subventions, plans included the provision of ten other types of subventions to local budgets in 2009 compared to more than 40, which had been planned for 2008. Overall, they were funded at the amount of Hr 470.5mn in the first half of 2009 or at 16.4% of the annual plan.

The full annual subvention amount (Hr 100.0mn) was remitted to the Zaporizhzhya municipal budget for building a highway bridge over the Dnipro River in the city. The lowest annual plan execution levels were noted for the following subventions:

- for the repayment of debt caused by the difference in prices of thermal energy, water supply and removal services, which were produced, transported, and delivered to the population, which debt accrued due to a mismatch between the actual cost of thermal energy, water supply and removal services and the prices approved or agreed on by the relevant central government authorities or local governments (Hr 2.0bn according to the 2009 plan, with an execution of about 2.0%);
- for financing the renovation of the offices of Labor and Social Protection Directorates of executive bodies of city councils (republic-significance cities in the Autonomous Republic of Crimea and oblast-significance cities), district councils in the cities of Kyiv and Sevastopol, and city district councils for the performance of activities under the project Improving the Social Assistance System implemented jointly with the World Bank (Hr 43.9mn envisaged for 2009, with 5.5% funded);
- for financing the winning programs of the 2008 All-Ukraine Competition of Local Government Development Projects and Programs in 2009 (Hr 25mn according to the 2009 plan, with 7.0% executed).

## **TRANSFERS FROM LOCAL BUDGETS INTO STATE BUDGET**

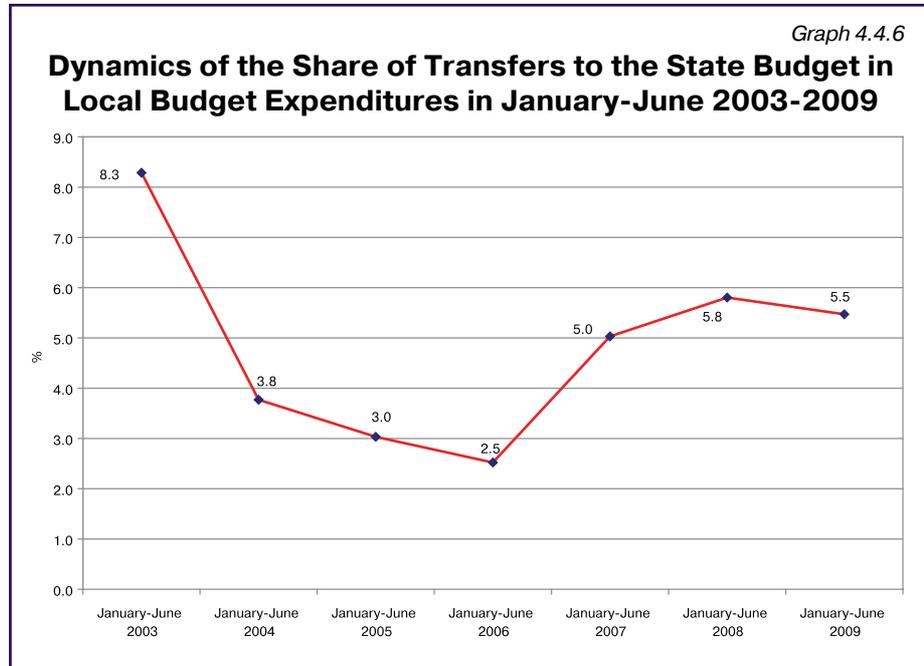
The State budget of Ukraine received Hr 3.4bn in intergovernmental transfers in the first half of 2009, which is 4.6% more than last year.

The funds transferred from local budgets into the State budget were remitted at Hr 3.4bn, which amounts to 38.7% of the annual plan. Their amount increased by 6.1% compared to the respective data of 2008.

In addition, the intergovernmental transfers remitted by local budgets also include subventions for the implementation of socio-economic and cultural development of the regions outside of the

City of Kyiv. Based on the results of the first half of 2009, such subventions were remitted at the amount of Hr 48.8mn, which is 51.9% less than in January-June 2008.

Generally, the aggregate transfers to the State budget increased by Hr 149.3mn year-on-year, and amounted to 5.5% of all local budget expenditures (see Graph 4.4.6).



Appendix 1

## Expenditures of the State Budget of Ukraine by Program Classification in January-June 2007-2009

(UAH mn)

Expenditures by program classification	January-June 2007			January-June 2008			January-June 2009		
	Plan	Actual	Annual plan execution, %	Plan	Actual	Annual plan execution, %	Plan	Actual	Annual plan execution, %
<b>Ministry of Internal Affairs of Ukraine</b>	<b>7 090.9</b>	<b>3 232.2</b>	<b>45.6</b>	<b>9 054.1</b>	<b>4 645.1</b>	<b>51.3</b>	<b>11 165.9</b>	<b>4 997.0</b>	<b>44.8</b>
<b>Ministry of Fuel and Energy of Ukraine</b>	<b>3 267.4</b>	<b>743.8</b>	<b>22.8</b>	<b>5 072.1</b>	<b>5 555.4</b>	<b>109.5</b>	<b>4 018.8</b>	<b>3 806.2</b>	<b>94.7</b>
Construction of power units, nuclear, pumped-storage, and other power stations, trunk, mountain, and rural power transmission lines, as well as provision of cheaper credits for accumulating stocks of solid fuel for thermal power stations	352.0	0.0	0.0	352.0	0.0	0.0	898.5	110.2	12.3
<b>Ministry of Economy of Ukraine</b>	<b>208.6</b>	<b>72.7</b>	<b>34.9</b>	<b>277.5</b>	<b>99.5</b>	<b>35.9</b>	<b>245.2</b>	<b>90.0</b>	<b>36.7</b>
<b>Ministry of the Coal Industry of Ukraine</b>	<b>5 864.8</b>	<b>2 530.5</b>	<b>43.1</b>	<b>7 169.7</b>	<b>2 727.1</b>	<b>38.0</b>	<b>5 760.7</b>	<b>5 204.5</b>	<b>90.3</b>
Restructuring of the coal and peat industry	903.7	312.7	34.6	803.7	313.6	39.0	643.1	390.2	60.7
Mine rescue measures at coal-mining enterprises	255.2	101.8	39.9	208.2	111.9	53.7	196.1	99.7	50.8
State support for coal-mining enterprises intended for partial coverage of production costs, including for providing guarantees towards the repayment of budget loans	2 536.8	1 280.9	50.5	3 831.2	1 790.7	46.7	750.0	2 487.2	331.6
State support for the construction and technological modernization of coal, lignite (brown coal), and peat producing enterprises	1 732.1	777.7	44.9	1 980.1	478.7	24.2		136.7	
<b>Ministry of Foreign Affairs of Ukraine</b>	<b>692.3</b>	<b>259.3</b>	<b>37.5</b>	<b>875.5</b>	<b>325.5</b>	<b>37.2</b>	<b>958.8</b>	<b>415.4</b>	<b>43.3</b>
<b>Ministry of Culture and Tourism of Ukraine</b>	<b>886.5</b>	<b>328.5</b>	<b>37.1</b>	<b>1 264.2</b>	<b>562.0</b>	<b>44.5</b>	<b>1 366.3</b>	<b>678.4</b>	<b>49.7</b>
<b>State Forestry Committee of Ukraine</b>	<b>416.8</b>	<b>170.9</b>	<b>41.0</b>	<b>551.7</b>	<b>204.2</b>	<b>37.0</b>	<b>526.5</b>	<b>231.8</b>	<b>44.0</b>
<b>Ministry of Defense</b>	<b>9 061.5</b>	<b>2 909.7</b>	<b>32.1</b>	<b>9 903.5</b>	<b>3 782.9</b>	<b>38.2</b>	<b>11 650.1</b>	<b>3 752.4</b>	<b>32.2</b>
Maintenance of the personnel of the Ukrainian Armed Forces	5 108.8	1 920.5	37.6	5 802.5	2 593.0	44.7	6 097.3	2 831.4	46.4
Training of citizens for officers positions, improving qualifications and retraining of officers' cadres, basic military training of youth	628.7	192.6	30.6	566.8	231.7	40.9	515.9	236.9	45.9
Implementing reform and development of the Ukrainian Armed Forces	651.0	112.7	17.3	707.1	148.0	20.9	587.6	11.6	2.0
Building (acquisition) of service housing for military personnel of the Ukrainian Armed Forces	240.4	66.9	27.8	509.3	194.9	38.3	755.7	28.7	3.8
<b>Ministry of Education and Science of Ukraine</b>	<b>11 263.9</b>	<b>5 067.2</b>	<b>45.0</b>	<b>15 503.5</b>	<b>7 409.6</b>	<b>47.8</b>	<b>18 612.3</b>	<b>8 842.1</b>	<b>47.5</b>

Expenditures by program classification	January-June 2007			January-June 2008			January-June 2009		
	Plan	Actual	Annual plan execution, %	Plan	Actual	Annual plan execution, %	Plan	Actual	Annual plan execution, %
Training of skilled workers at vocational schools	35.7	14.5	40.6	51.1	22.7	44.4	53.9	24.5	45.5
Training of specialists at higher educational institutions of accreditation levels I and II	1 202.5	506.4	42.1	1 760.6	799.8	45.4	2 130.6	1 021.6	47.9
Training of specialists at higher educational institutions of accreditation levels III and IV	5 539.9	2 636.7	47.6	7 835.6	3 848.4	49.1	10 135.4	4 818.0	47.5
<b>Ministry of Health of Ukraine</b>	<b>4 534.2</b>	<b>1 346.8</b>	<b>29.7</b>	<b>5 745.8</b>	<b>1 929.8</b>	<b>33.6</b>	<b>5 551.9</b>	<b>2 386.3</b>	<b>43.0</b>
Training and improving the qualifications of medical and pharmaceutical, research and academic personnel at higher educational institutions of accreditation levels III and IV	740.3	339.4	45.8	1 027.9	506.9	49.3	1 385.6	619.5	44.7
State Sanitary and Epidemiological Inspection and disinfecting measures	989.7	421.8	42.6	1 228.3	590.6	48.1	1 427.4	634.8	44.5
Providing medical measures for fighting TB, for the prevention and treatment of AIDS, and the treatment of cancer patients	457.6	23.3	5.1	573.9	60.5	10.5	539.6	142.8	26.5
<b>Ministry for the Protection of the Natural Environment of Ukraine</b>	<b>1 497.2</b>	<b>481.0</b>	<b>32.1</b>	<b>1 731.3</b>	<b>532.9</b>	<b>30.8</b>	<b>1 608.4</b>	<b>503.9</b>	<b>31.3</b>
<b>Ministry of Labor and Social Policy of Ukraine</b>	<b>3 719.7</b>	<b>1 604.6</b>	<b>43.1</b>	<b>3 951.8</b>	<b>1 692.9</b>	<b>42.8</b>	<b>3 738.0</b>	<b>1 639.5</b>	<b>43.9</b>
Fund for the Social Protection of Disabled Persons	597.4	176.6	29.6	659.8	196.3	29.8	565.2	131.9	23.3
<b>Ministry of Housing and Communal Services of Ukraine</b>	<b>2 051.5</b>	<b>6.5</b>	<b>0.3</b>	<b>965.6</b>	<b>11.9</b>	<b>1.2</b>	<b>65.3</b>	<b>13.1</b>	<b>20.1</b>
Development and reconstruction of centralized water supply and sewage systems	200.0	0.0	0.0						
National program for implementing the reform and development of the housing and communal services sector	270.0	0.0	0.0	850.0	1.5	0.2			
Reimbursing the interest rate on credits aimed at the implementation of energy-saving projects in the housing and communal services sector							25.0	0.0	0.0
Measures for implementing the comprehensive reconstruction of city blocks (microrayons) comprised of old housing stock	250.0	0.0	0.0						
Repair and reconstruction of district heating networks and boiler houses	300.0	0.0	0.0						
Capital repair and modernization of lifts in housing stock	200.0	0.0	0.0						

Expenditures by program classification	January-June 2007			January-June 2008			January-June 2009		
	Plan	Actual	Annual plan execution, %	Plan	Actual	Annual plan execution, %	Plan	Actual	Annual plan execution, %
<b>Ministry of Agrarian Policy of Ukraine</b>	<b>8 235.1</b>	<b>3 233.9</b>	<b>39.3</b>	<b>11 016.7</b>	<b>3 642.8</b>	<b>33.1</b>	<b>6 365.2</b>	<b>2 786.2</b>	<b>43.8</b>
Providing financial support to agribusiness companies through cheaper short- and medium-term credits	667.0	63.3	9.5	1 000.0	135.7	13.6	300.0	187.7	62.6
Providing compensation to the Pension Fund for losses incurred due to the application to fixed agricultural tax payers of a preferential payment rate for mandatory pensions insurance	1 381.1	682.9	49.4	1 167.1	573.9	49.2	626.2	267.5	42.7
<b>Ministry of Transport and Telecommunications of Ukraine</b>	<b>1 527.0</b>	<b>450.1</b>	<b>29.5</b>	<b>2 714.9</b>	<b>669.9</b>	<b>24.7</b>	<b>1 460.6</b>	<b>867.5</b>	<b>59.4</b>
<b>State Motor Roads Service of Ukraine</b>	<b>5 275.8</b>	<b>2 332.2</b>	<b>44.2</b>	<b>8 666.3</b>	<b>2 848.3</b>	<b>32.9</b>	<b>14 809.7</b>	<b>6 788.5</b>	<b>45.8</b>
Development and maintenance of the public motor roads network	4 204.4	1 831.0	43.5	5 851.5	2 135.9	36.5	11 847.7	1 892.5	16.0
<b>Ministry of Ukraine for Emergency Situations and for the Protection of the Population from the Consequences of the Chernobyl Disaster</b>	<b>3 156.8</b>	<b>1 053.5</b>	<b>33.4</b>	<b>3 832.3</b>	<b>1 557.8</b>	<b>40.6</b>	<b>3 452.3</b>	<b>1 646.3</b>	<b>47.7</b>
<b>Ministry of Finance</b>	<b>36 344.9</b>	<b>17 165.4</b>	<b>47.2</b>	<b>20 241.4</b>	<b>11 180.4</b>	<b>55.2</b>	<b>23 980.6</b>	<b>7 600.5</b>	<b>31.7</b>
Servicing of internal State debt	1 441.6	388.8	27.0	1 403.4	392.3	28.0	10 063.1	1 393.3	13.8
Servicing of external State debt	3 540.9	1 154.7	32.6	3 381.3	1 305.1	38.6	4 981.2	1 742.5	35.0
<b>Ministry of Finance of Ukraine (general government expenditures), including intergovernmental transfers</b>	<b>48 448.2</b>	<b>23 076.6</b>	<b>47.6</b>	<b>67 529.1</b>	<b>40 866.7</b>	<b>60.5</b>	<b>123 914.2</b>	<b>47 084.9</b>	<b>38.0</b>
Equalization grants from the State budget to local budgets and additional grants	23 256.8	10 225.4	44.0	29 566.7	16 006.2	54.1	34 059.5	15 013.6	44.1
Pension Fund of Ukraine*	23 503.4	12 551.4	53.4	33 656.6	15 940.9	47.4	44 173.8	20 903.0	47.3
<b>Security Service of Ukraine</b>	<b>1 581.8</b>	<b>739.8</b>	<b>46.8</b>	<b>2 029.5</b>	<b>851.0</b>	<b>41.9</b>	<b>2 053.6</b>	<b>978.3</b>	<b>47.6</b>
<b>Other key spending units</b>	<b>19 506.6</b>	<b>3 793.3</b>	<b>19.4</b>	<b>54 275.5</b>	<b>11 821.4</b>	<b>21.8</b>	<b>26 090.5</b>	<b>10 415.9</b>	<b>39.9</b>
<b>Total</b>	<b>174 631.5</b>	<b>70 598.5</b>	<b>40.4</b>	<b>232 372.0</b>	<b>102 917.1</b>	<b>44.3</b>	<b>267 394.9</b>	<b>110 728.7</b>	<b>41.4</b>

\*For the purpose of data comparison, expenditures of the Pension Fund for 2007 have been included in the general government expenditures of the Ministry of Finance of Ukraine.

## Data on the Status of Intergovernmental Settlements between the State Budget and Local Budgets in January-June 2009

UAH thousand

Name of oblast's consolidated budget	Equalization grant			Funds transferred from local budgets to the State budget		
	Allocated by apportionment for 2009	Actual as of 1 July 2009	2009 apportionment execution, %	Allocated by apportionment for 2009	Actual as of 1 July 2009	2009 apportionment execution, %
AR of Crimea	1 591 573.0	712 404.6	44.8%	25 047.9	11 510.5	46.0%
Vinnitsya Oblast	1 706 875.1	771 073.5	45.2%	19 977.5	9 717.2	48.6%
Volyn Oblast	1 216 614.9	512 953.0	42.2%			
Dnipropetrovsk Oblast	1 059 886.5	453 383.0	42.8%	298 213.5	117 056.3	39.3%
Donetsk Oblast	1 629 748.8	683 797.7	42.0%	390 404.5	190 779.7	48.9%
Zhytomyr Oblast	1 380 307.5	613 878.9	44.5%			
Zakarpattia Oblast	1 590 518.4	664 085.3	41.8%	9 105.3	4 101.9	45.0%
Zaporizhzhya Oblast	1 052 980.9	458 522.8	43.5%	141 159.4	69 224.8	49.0%
Ivano-Frankivsk Oblast	1 573 593.7	706 879.0	44.9%			
Kyiv Oblast	860 635.4	384 340.0	44.7%	143 282.2	61 888.0	43.2%
Kirovohrad Oblast	1 052 070.1	459 646.7	43.7%	7 098.0	3 549.0	50.0%
Luhansk Oblast	1 362 354.8	571 328.4	41.9%	21 193.9	10 597.2	50.0%
Lviv Oblast	2 347 461.0	1 069 708.7	45.6%	60 031.8	26 584.9	44.3%
Mykolaiv Oblast	1 051 033.1	530 564.3	50.5%	22 919.2	11 397.8	49.7%
Odesa Oblast	1 414 411.6	619 759.5	43.8%	84 291.0	42 145.8	50.0%
Poltava Oblast	1 096 082.6	491 973.1	44.9%	33 818.7	16 677.3	49.3%
Rivne Oblast	1 341 829.7	601 304.3	44.8%	15 821.1	7 902.8	50.0%
Sumy Oblast	1 003 320.5	446 469.1	44.5%	24 054.2	11 118.8	46.2%
Ternopil Oblast	1 337 629.9	566 472.2	42.3%			
Kharkiv Oblast	1 541 864.6	720 447.5	46.7%	13 571.4	6 764.0	49.8%
Kherson Oblast	1 173 481.0	504 874.3	43.0%			
Khmelnitskyi Oblast	1 507 414.8	698 117.1	46.3%	10 527.0	5 263.5	50.0%
Cherkasy Oblast	1 217 199.1	538 547.2	44.2%			
Chernivtsi Oblast	1 072 016.7	474 112.3	44.2%			
Chernihiv Oblast	1 099 465.8	514 793.2	46.8%			
City of Kyiv				7 420 698.9	2 773 808.0	37.4%
City of Sevastopol	75 979.6	34 191.9	45.0%			
<b>Total</b>	<b>33 356 349.1</b>	<b>14 803 627.3</b>	<b>44.4%</b>	<b>8 741 215.5</b>	<b>3 380 087.6</b>	<b>38.7%</b>

Name of oblast's consolidated budget	Subvention for providing preferences and housing subsidies to the population as payment for electric power, natural gas, heat, water supply and sewage services, rent, removal of solid and liquid waste (KD 41030800)			Subvention for providing preferences and housing subsidies to the population for purchasing solid and liquid household fuel and liquefied gas (KD 41031000)		
	Allocated by apportionment for 2009	Actual as of 1 July 2009	2009 apportionment execution, %	Allocated by apportionment for 2009	Actual as of 1 July 2009	2009 apportionment execution, %
AR of Crimea	155 597.7	67 961.2	43.7%	21 573.7	9 930.9	46.0%
Vinnysya Oblast	145 080.1	75 710.6	52.2%	79 281.9	20 904.6	26.4%
Volyn Oblast	105 774.8	47 936.1	45.3%	24 632.7	13 816.5	56.1%
Dnipropetrovsk Oblast	509 340.9	222 216.7	43.6%	11 379.7	4 216.9	37.1%
Donetsk Oblast	710 195.3	321 480.0	45.3%	31 741.9	15 296.8	48.2%
Zhytomyr Oblast	155 437.7	72 083.7	46.4%	57 195.1	27 427.6	48.0%
Zakarpattia Oblast	80 807.3	43 023.2	53.2%	9 403.1	3 533.1	37.6%
Zaporizhzhya Oblast	241 577.3	101 159.3	41.9%	18 533.3	10 308.8	55.6%
Ivano-Frankivsk Oblast	147 110.3	82 037.1	55.8%	11 260.5	4 222.6	37.5%
Kyiv Oblast	340 283.3	155 235.4	45.6%	19 022.1	3 653.1	19.2%
Kirovohrad Oblast	112 855.9	53 133.6	47.1%	38 878.5	20 901.6	53.8%
Luhansk Oblast	316 750.6	132 209.0	41.7%	14 931.0	7 557.0	50.6%
Lviv Oblast	301 054.3	143 974.3	47.8%	13 268.8	3 514.7	26.5%
Mykolaiv Oblast	110 603.0	47 373.3	42.8%	15 799.8	6 363.9	40.3%
Odesa Oblast	215 096.5	74 788.8	34.8%	31 274.9	12 394.9	39.6%
Poltava Oblast	260 697.0	121 463.6	46.6%	13 350.1	2 689.0	20.1%
Rivne Oblast	108 228.4	53 475.0	49.4%	37 079.1	11 333.3	30.6%
Sumy Oblast	180 499.9	83 007.5	46.0%	26 388.3	11 828.5	44.8%
Ternopil Oblast	131 470.3	56 354.4	42.9%	11 688.0	4 534.9	38.8%
Kharkiv Oblast	523 103.2	238 345.4	45.6%	21 391.4	8 519.0	39.8%
Kherson Oblast	93 681.9	46 405.4	49.5%	23 785.3	13 805.5	58.0%
Khmelnytskyi Oblast	180 951.7	86 705.2	47.9%	35 809.5	16 806.6	46.9%
Cherkasy Oblast	194 300.4	83 193.2	42.8%	42 806.0	16 722.3	39.1%
Chernivtsi Oblast	61 876.3	29 616.9	47.9%	17 323.3	5 930.8	34.2%
Chernihiv Oblast	164 479.3	73 539.8	44.7%	31 941.9	18 414.4	57.6%
City of Kyiv	348 358.5	108 491.6	31.1%	155.4	14.5	9.3%
City of Sevastopol	41 594.7	13 563.7	32.6%	991.5	244.8	24.7%
<b>Total</b>	<b>5 936 806.6</b>	<b>2 634 484.0</b>	<b>44.4%</b>	<b>660 886.8</b>	<b>274 886.8</b>	<b>41.6%</b>

Name of oblast's consolidated budget	Subvention for providing preferences in telecommunications services and other preferences stipulated by law (except preferences for providing medicines, prosthetic dentistry, payment for electric power, natural and liquefied gas for household purposes, solid and liquid household fuel, heat, water supply and removal services, rent, removal of solid and liquid household waste) and compensation for preferential fares for certain citizen categories (KD 41030900)			Subvention for paying allowances to families with children, low-income families, persons disabled since childhood, disabled children, and for temporary State support for children (KD 41030600)		
	Allocated by apportionment for 2009	Actual as of 1 July 2009	2009 apportionment execution, %	Allocated by apportionment for 2009	Actual as of 1 July 2009	2009 apportionment execution, %
AR of Crimea	54 165.4	12 751.9	23.5%	730 953.8	351 130.8	48.0%
Vinnitsya Oblast	53 247.1	14 652.0	27.5%	570 435.5	280 629.4	49.2%
Volyn Oblast	28 862.1	9 581.1	33.2%	512 281.3	259 298.8	50.6%
Dnipropetrovsk Oblast	104 538.0	33 715.3	32.3%	1 132 704.7	543 084.2	47.9%
Donetsk Oblast	147 643.8	62 623.5	42.4%	1 319 445.9	637 308.9	48.3%
Zhytomyr Oblast	41 597.4	19 032.4	45.8%	513 963.9	242 138.8	47.1%
Zakarpattia Oblast	29 251.9	6 555.4	22.4%	566 794.5	289 143.0	51.0%
Zaporizhzhya Oblast	55 715.8	17 470.6	31.4%	593 459.0	283 387.3	47.8%
Ivano-Frankivsk Oblast	37 881.3	9 650.9	25.5%	612 612.6	298 835.3	48.8%
Kyiv Oblast	55 832.6	14 464.7	25.9%	580 162.8	287 731.1	49.6%
Kirovohrad Oblast	32 301.2	8 373.5	25.9%	356 208.8	178 238.5	50.0%
Luhansk Oblast	77 180.2	26 022.0	33.7%	691 535.4	327 998.5	47.4%
Lviv Oblast	70 954.8	30 891.8	43.5%	954 244.7	455 601.5	47.7%
Mykolaiv Oblast	33 872.3	8 103.1	23.9%	457 282.0	213 803.0	46.8%
Odesa Oblast	63 716.1	17 392.1	27.3%	886 512.9	418 800.2	47.2%
Poltava Oblast	47 918.3	13 541.2	28.3%	450 554.0	227 195.4	50.4%
Rivne Oblast	31 360.0	7 869.8	25.1%	497 670.2	274 210.9	55.1%
Sumy Oblast	37 633.2	9 730.8	25.9%	355 484.4	173 700.1	48.9%
Ternopil Oblast	32 075.9	8 200.1	25.6%	406 457.2	201 045.2	49.5%
Kharkiv Oblast	79 880.8	38 689.3	48.4%	833 299.3	392 979.7	47.2%
Kherson Oblast	31 381.7	10 489.8	33.4%	394 346.6	198 934.0	50.4%
Khmelnitskyi Oblast	42 969.9	16 910.6	39.4%	504 322.7	246 917.7	49.0%
Cherkasy Oblast	43 439.5	10 950.8	25.2%	415 453.7	203 361.9	48.9%
Chernivtsi Oblast	24 122.0	5 736.7	23.8%	360 148.9	176 623.6	49.0%
Chernihiv Oblast	38 646.4	10 961.5	28.4%	338 673.8	167 084.7	49.3%
City of Kyiv	66 273.9	45 617.2	68.8%	769 621.5	343 430.6	44.6%
City of Sevastopol	9 978.4	3 135.0	31.4%	119 315.8	53 288.9	44.7%
<b>Total</b>	<b>1 372 440.0</b>	<b>473 113.2</b>	<b>34.5%</b>	<b>15 923 945.9</b>	<b>7 725 901.9</b>	<b>48.5%</b>

