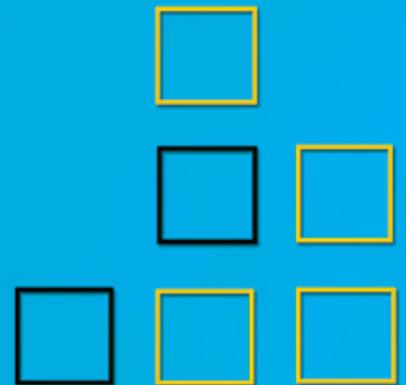




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**MUNICIPAL FINANCE STRENGTHENING
INITIATIVE (MFSI-II) ROLL-OUT**

BUDGET MONITORING: **ANALYSIS OF BUDGET EXECUTION IN 2013**



BUDGET MONITORING:

Analysis of Budget Execution in 2013

Budget Monitoring

This publication is prepared by the Institute for Budgetary and Socio-Economic Research (IBSER) as part of the Municipal Finance Strengthening Initiative Project Roll-out (MFSI-II) implemented with support of the American People provided through the United States Agency for International Development (USAID).

BUDGET MONITORING: ANALYSIS OF BUDGET EXECUTION BOOK SERIES

The series is published by the Institute for Budgetary and Socio-Economic Research (IBSER) as part of the Municipal Finance Strengthening Initiative Project Roll-out (MFSI-II) implemented with support of the American People provided through the United States Agency for International Development (USAID).

The main goal of the project is improving the effectiveness and transparency of using the budget funds via implementation of the Performance Program Budgeting method of formation and execution of local budgets, as well as assisting the cities in implementing an efficient system for monitoring their energy expenditures.

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Budget Monitoring: Analysis of Budget Execution in 2013

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EXECUTIVE SUMMARY

Presented herein is *Budget Monitoring: Analysis of Budget Execution*, a periodical publication prepared by the Institute for Budgetary and Socio-Economic Research (IBSER) as part of the implementation of the Municipal Finance Strengthening Initiative Project Roll-out (MFSI-II)(USAID).

The Monitoring materials are based on official reports from the State Treasury Service of Ukraine, information from the State Statistics Service of Ukraine, and data from the Ministry of Finance of Ukraine, Ministry of Economic Development and Trade of Ukraine, and the Committee on Budget of the Verkhovna Rada of Ukraine, as well as on data from other official sources.

As usual, the publication provides a brief review of changes in the legislative framework and an overview of the key macroeconomic indicators. A detailed analysis is provided of the results of executing the consolidated, State and local budgets, which enables the impact of the fiscal decisions taken on their status to be determined. Special focus is made on evaluating the performance of local budgets as the key financial mechanism for providing social services and guarantees to the populace.

The real GDP growth rate against the respective 2012 figure (in constant 2007 prices) was zero¹ compared to 0.3% growth in 2012. This indicator is higher than the European Union average (EU 28), where the real GDP decreased by 0.4%. However, it is lower than the real GDP in the Eurozone countries², where it increased by 0.1%.

The nominal GDP totaled UAH 1.454.9bn, which is UAH 43.7bn or 3.1% more than in 2012.

The foreign markets situation remained unfavorable in 2013, though the economic dynamic was positive in the fourth quarter. Industrial output continued to decline. As a result, the industrial production index amounted to 95.7% against 99.5% in 2012. The consumer price index amounted to 100.5% against 99.8% in 2012, and the producer price index increased by 1.4ppt to 101.7%.

The foreign trade balance of Ukraine improved. However, it had a negative value of \$6.8bn compared to \$9.0bn in 2012.

The average nominal monthly wage per full-time employee amounted to UAH 3.265.0 at the end of 2013, which is a 7.9% year-on-year growth. This is 2.7 times higher than the State social standards (minimum wage level and subsistence level of an able-bodied person, which equal UAH 1.218). The situation was similar at the end of 2012.

Real wages increased by 8.2% (up 14.4% in 2012). Retail trade turnover increased by 5.6% in comparable prices in 2013, which points to a recovery of domestic consumer demand.

In general, significant drawbacks in **revenue** planning were revealed in 2013, which resulted in revenue shortfalls in budgets of all levels. In particular, the revenue gap of the State budget of Ukraine totaled UAH 11.9bn or 3.5% of the annual plan. The plan was not fulfilled for nearly all key tax sources of revenue. For example, the enterprise profit tax had a shortfall of UAH 3.6bn or 6.2%, value-added tax – UAH 7.4bn or 5.5%, excise tax on goods made in Ukraine – UAH 4.4bn or 14.2%, and import duty – UAH 1.8bn or 12.0%.

¹ <http://www.ukrstat.gov.ua/>

² The Eurozone group comprises 18 countries, viz.: Austria, Belgium, Ireland, Spain, Italy, Luxembourg, the Netherlands, Germany, Portugal, Finland, France, Greece, Slovenia, Cyprus, Malta, Slovakia, Estonia, Latvia.

The only significant type of State budget revenue to generate a surplus, involved the funds remitted by the National Bank of Ukraine according to the Law of Ukraine "On the National Bank of Ukraine". The funds received from this source totaled UAH 5.2bn or 22.7% more than the plan.

Local budget revenues also missed the target. For example, local councils collected 93.5% of the planned annual. The lower collection of personal income tax was the main factor of non-execution, with the total shortfall from this source for local budgets amounting to UAH 5.4bn or 7.7% of the plan. However, the situation was somewhat alleviated by single tax revenues of UAH 0.9bn more than the plan.

The abovementioned features of the budget process regarding revenues changed the revenue structure of both the consolidated and State budgets. The most significant change involved a decline in the proportion of tax revenues (by 1.0ppt and 1.9ppt, respectively) with simultaneous growth in the share of non-tax revenues (by 1.0ppt and 1.8ppt, accordingly).

The proportion of local budget tax revenues grew thanks to a steep rise in local taxes and fees, the share of which increased by 1.6ppt to 7.0%. An increase in revenue from the single tax was the main driver of growth for this share.

The level of execution of the expenditure plan of the consolidated budget decreased by 1.2ppt against 2012 and amounted to 91.2% with a 2.7% actual growth of expenditures (by UAH 13.4bn).

The growth rate of consolidated budget expenditures slowed down by 15.5ppt and amounted to 102.7%. In 2013, it was lower than the GDP growth rate, which decreased against 2012. The share of consolidated budget expenditures in GDP increased slightly, to 34.9% or by 0.1ppt.

The share of local budget expenditures in consolidated budget expenditures decreased by 1.8ppt against 2012 and amounted to 43.1%.

Actual State budget expenditures totaled UAH 403.5bn, which amounts to 93.2% of the annual plan.

The best-funded expenditures included those for social protection and social security (99.1% of the annual plan, which is 1.9ppt more year-on-year), general government functions (95.4%), intergovernmental transfers (95.0%), and public order, security, and judiciary (94.9%). The lowest levels of funding were for environmental protection expenditures, with UAH 4.6bn spent for this purpose or 55.5% of the annual plan.

The main national policy priorities in the context of increased State budget expenditures compared to 2012 (52.1% of the total increase amount) included expenditures for social protection and social security (they accounted for 52.9% of all expenditure increases); general government functions (24.2%, including 63.2% for debt servicing); public order, security, and judiciary (10.8%); healthcare (6.1%); and others (defense, environmental protection, education – 6.0%).

Expenditures of local budgets decreased by 1.2% and totaled UAH 219.8bn. Actual expenditures amounted to 89.6% of the annual plan approved by local councils. As usual, the majority of local budget expenditures are channeled into society and culture (85.5%, which is 6.2ppt more than 2012). At the same time, there was an increase in expenditures for social protection and social security (by 12.9%) and a decrease of expenditures for housing and communal services, and for economic activity (by 61.3% and 27.1%, respectively) in the period under review.

In general, the monthly trend of local budget expenditures follows the trends of previous years, except for August, when expenditures decreased by 18.9% against July.

The amount of local budget expenditures increased by 17.1% in September vs. August and nearly reached the 2012 figure. The annual year-end growth in expenditures was observed in December. However, the amount fell 20.9% year-on-year.

In the structure of local budget expenditures, the share of expenditures for current transfers to the populace for social security grew 3.1ppt (up to 23.2%) as did the share of expenditures for payroll with taxes, which are typically the largest of all local budget expenditures and which amounted to 47.0% in 2013. Also, the share of expenditures for subsidies and current transfers to enterprises (institutions, organizations) fell 5.6ppt, and the share of expenditures for communal services and energy dropped 0.4ppt (down to 5.9%). Overall, current expenditures of local budgets totaled more than UAH 205.6bn, which is nearly 0.4% less than in 2012. Capital expenditures were funded at UAH 14.2bn, with their amount down nearly UAH 2.0bn or 12.2%.

The State budget deficit totaled to UAH 64.7bn or 92.5% of the ceiling set by the Law on the State budget of Ukraine for 2013. The State budget deficit increased by UAH 11.2bn or by 21.0% against 2012.

State budget borrowing was incurred at the amount of UAH 160.8bn (103.8% of the annual plan), including internal borrowing of UAH 109.0bn or 101.2% of the annual plan, and external borrowing of UAH 41.9bn or 109.7%. **The State debt repayment** totaled UAH 79.8bn or 98.5% of the annual plan, including internal debt repayments of UAH 41.9bn or 92.1% of the annual plan, and external debt repayments of UAH 38.0bn or 106.7%. The excess of borrowing over repayments nearly doubled compared to 2012.

According to the State Treasury Service, **the amount of loans for covering temporary cash gaps of local budgets** using Single Treasury Account funds totaled UAH 43.1bn, which is 3.3% more than in 2012. Repayment of these loans totaled UAH 42.9bn compared to UAH 41.5bn in 2012.

The actual intake of proceeds from the privatization of State property totaled UAH 1.5bn or 13.6% of the annual plan. These proceeds totaled UAH 6.8bn or 67.6% of the annual plan in 2012.

The balance of budget funds totaled UAH 30.8bn at the end of 2013, having increased by UAH 3.7bn year-to-date. To compare, the balance decreased by UAH 11.9bn year-to-date in 2012.

SECTION 1. REVIEW OF NORMATIVE-LEGAL FRAMEWORK ON BUDGET IN JANUARY-APRIL 2014

1.1. STATE BUDGET REVENUES

THE LAW OF UKRAINE OF 27 MARCH 2014, NO. 1166

The Law of Ukraine dated 27 March 2014, No. 1166 “On the Prevention of Financial Catastrophe and the Creation of Preconditions for Economic Growth in Ukraine” introduced a number of changes to the Tax Code of Ukraine.

Personal Income Tax

A tax on deposit interest income in excess of 17 annual minimum subsistence levels shall be imposed as of 1 July 2014. Tax-exempt interest income on insurance deposits will amount to UAH 19,992 in 2014. The taxpayer will have to reassess the tax based on annual results. If the interest received exceeds 204 minimum subsistence levels, the tax rate of 20% shall apply; if 396 minimum subsistence levels are exceeded, the rate of 25% shall be used. A bank acting as a tax agent in this case shall be responsible for tax withholding. However, the bank shall not withhold and remit the tax on the amount of interest income, and the tax shall be payable by the physical person independently based on the annual tax declaration. Therefore, all persons with bank deposits, the annual amount of interest income on which exceeds UAH 19,992, shall be required to submit annual declarations.

Dividends shall be taxed at the rate of 15% and shall not be reassessed based on the annual results.

Pensions in excess of UAH 10,000 per month shall also be subject to taxation.

Value-Added Tax

The lowering of the VAT rate from 20% to 17%, which had been earlier postponed until 2015, was abolished. In addition, the tax-exempt level for international postal deliveries is reduced from €300 to €150. The amendments introduced a new VAT rate for medications at 7%. Also, preferences were extended until 1 October 2014 on transactions for the delivery of grain and industrial crops to agricultural enterprises (except for the producers of such products and enterprises that purchased these products from their producers). At the same time, a zero rate is to be used for the export of grains and industrial crops for agricultural producers of these crops, which are grown on

agricultural land which these producers either owned or held in permanent tenure as of the date of such export.

Immovable Property Tax

The main development with regard to the immovable property tax involves the definition of the tax base proceeding from the total rather than the inhabitable floor area of a property. Therefore, as with all the prior amendments to this tax, whose introduction had been postponed for four successive years due to its imperfection, the present amendments also fail to address systemic drawbacks of the immovable property tax such as:

1. the failure to generate significant revenues for local budgets;
2. the failure to ensure the progressive nature of the tax, in which the rich will have to pay more;
3. the failure to establish a link between the tax paid and the quality of services provided by a local government, since only a small proportion of community members will be paying this tax.

Enterprise Profit Tax

As in the case of VAT, a provision for lowering the tax rate from 18% to 16% as of 2015 was cancelled.

Excise Tax

Excise tax rates for beer will be raised by 42.5% as of 1 May 2014, those for tobacco products by 31.5% as of 1 July 2014, and for pure alcohol and alcoholic beverages by 25% in general as of 1 September 2014.

The excise tax rates for new automobiles and motorcycles with engine capacity of over 0.5l are doubled; excise tax rates for motorcycles with engines smaller than 0.5l are set at €0.06 per 1cu cm, and the excise tax rates for automobile bodies are doubled.

A single excise tax rate for diesel fuel is set (€98 per 1000kg) instead of differentiated rates depending on sulfur content (from €46 to €98 per 1000kg).

Fee for the Special Use of Natural Resources

The rates of taxes and fees, except for the fee for the special use of forestry resources and the ecological tax for the disposal of decommissioned vehicles, set in absolute values (except for the euro) shall be adjusted by the consumer price index and industrial goods producer price index.

The rate of the fee for extraction of gas condensate has been raised from 39% to 42%.

1.2. STATE BUDGET EXPENDITURES AND THE BUDGET PROCESS

DECREE OF THE CABINET OF MINISTERS OF UKRAINE OF 1 MARCH 2014, NO. 65

The Decree of the Cabinet of Ministers “On Economy of State Funds and Prevention of Budget Losses” dated 1 March 2014, No.65 approved the activities for the economical and rational use of public funds intended for the upkeep of government bodies and other public agencies, State-owned enterprises, institutions, and organizations that use State budget funds.

The number of deputy ministers and heads of local State administrations has been standardized.

The activities provide for the following:

- imposing a ban on the purchase of cars, notebook computers, mobile phones, household appliances, uniforms, and the renovation of offices;
- reducing the number of cars serving all the institutions and organizations using the State budget funds, as well as a ban on expenditures for mobile telecommunications and charter flights;
- prohibiting the establishment of new budgetary institutions and increasing the number of employees;
- drafting and approving annual action plans for:
 - energy conservation to ensure the reduction of expenditures for communal services and energy;
 - repaying accounts payable at the expense of resources of the General and Special funds of the State budget, as well as reducing the amount of accounts receivable.

In addition, an emphasis is placed on the importance of assuring the efficient, effective, targeted, and economical use of budget funds, the proper organization and coordination of operation of lower-level spending units and recipients of budget funds, as well as providing internal controls over the completeness of revenues, the undertaking of budgetary commitments by lower-level spending units of budget funds and recipients of budget funds, and over their spending of budget funds.

It is recommended to cut the amounts of financial support to off-budgetary organizations at the expense of budget funds.

A special procedure of incurring expenditures is also established: if funds are available both in the General Fund and Special Fund of the State budget for individual expenditures, the Special Fund shall have the priority in financing the expenditures.

DECREE OF THE CABINET OF MINISTERS OF UKRAINE OF 5 MARCH 2014, NO. 71

The Decree of the Cabinet of Ministers dated 5 March 2014, No. 71 “Certain Issues of the Optimization of State Targeted Programs and National Projects, Economy of Budget Funds, and Recognizing Certain Acts of the Cabinet of Ministers of Ukraine as Invalid” brought about the early termination of 14 State targeted programs.

In addition, 65 ordinances of the Cabinet of Ministers, which regulated the establishment of the respective State targeted programs and the implementation of national actions, were recognized as invalid.

**DECREE
OF THE CABINET
OF MINISTERS
OF UKRAINE
OF 25 MARCH 2014,
NO. 81**

The Decree of the Cabinet of Ministers dated 25 March 2014, No. 81 “On Improving the State Policy of Natural Gas Prices and Heat Energy Tariff Regulation and Ensuring a Stronger Social Protection of the Populace in Paying for Housing and Communal Services” (with amendments introduced by the Cabinet Decree of 17 April 2014) amended the Cabinet of Ministers decrees that regulate the rules of providing gas supply services to the populace and the procedure of setting retail prices for natural gas.

The ceiling (maximum) retail prices of natural gas used by the populace were set as of 1 May 2014, and differed depending on the annual volume and type of consumption.

Also, a phased increase is envisaged of the cap (maximum) price of the natural gas sold to economic agents that produce heat energy.

The Decree provides for the adoption of a normative act with regard to ensuring a safety net for the most vulnerable strata of society in terms of paying for housing and communal services in while also improving the State policy for regulating natural gas prices and heat energy tariffs.

**DECREE
OF THE CABINET
OF MINISTERS
OF UKRAINE
OF 5 APRIL 2014,
NO. 83**

The Decree of the Cabinet of Ministers dated 5 April 2014, No. 83 “On Strengthening the Social Protection of the Populace in an Environment of Raising Prices and Tariffs of Communal Services” approved a Procedure for assigning and granting compensation to the populace for additional costs of communal services against a background of raising prices and tariffs of these services. The financing of the expenditures related to the provision of compensation for these additional costs to the populace shall be carried out at the expense of a State budget subvention to local budgets for granting benefits and housing subsidies to the populace for electric power, natural gas, heat and water supply services, and sewerage, rent, removal of municipal solid waste and liquid waste.

The Procedure sets out the mechanism of assigning and granting compensation to the populace for additional costs of payment for the services of gas supply, district heating, and centralized hot water supply in the conditions of raising prices and tariffs for said services. Among other things, a group of compensation recipients is defined, as well as the mechanism

for calculating the compensation amount and the procedure of its disbursement.

**DECREE
OF THE CABINET
OF MINISTERS
OF UKRAINE
OF 5 APRIL 2014,
NO. 85**

The Decree of the Cabinet of Ministers dated 5 April 2014, No. 85 approved a ceiling for the staffing of the head offices and territorial offices of central executive bodies, as well as a ceiling for the staffing of State collegiate bodies and other State bodies.

1.3. LOCAL BUDGET AND INTERBUDGETARY RELATIONS

**DECREE
OF THE CABINET
OF MINISTERS
OF UKRAINE OF
29 JANUARY 2014,
NO. 30**

The Decree of the Cabinet of Ministers dated 29 January 2014, No. 30 approved a 2014 Procedure and conditions of providing State budget subventions to local budgets for repayment of debt from the difference in tariffs for heat energy, centralized water supply and removal, which were produced, transported, and supplied to the population, and which accrued due to a mismatch between the actual cost of heat energy and services of centralized water supply and removal, and the tariffs approved by and/or agreed to by central or local government bodies.

The Procedure stipulates that the subvention shall be remitted within the amount of the debt accrued at the beginning of the settlement month, and which debt remains outstanding as of the date of issue of the debt amount statement.

An agreement on arrangement of mutual settlements concluded between the enterprises, which produce, transport, and supply heat energy to the population, or provide services of centralized water supply and water removal, and other parties in debt repayment settlements shall be used as a ground for conducting debt repayment settlements.

The list of documents to be used for determining the debt amount is standardized, as well as the procedure of settlements in repaying such debt.

A Schedule to the Procedure approved the Allocation of the State budget subvention to local budgets.

**DECREES
OF THE CABINET
OF MINISTERS
OF UKRAINE OF
5 FEBRUARY 2014,
NO. 62 AND OF
25 MARCH 2014,
NO. 91**

The Decree of the Cabinet of Ministers dated 5 February 2014, No. 62 suspended until 1 January 2016 the Cabinet of Ministers Decree of 13 May 2013, No. 361 "On Approving the Methodology of Determining the Staffing Limits for Local State Administrations".

The Decree of the Cabinet of Ministers dated 25 March 2014, No. 91 approved the staffing ceilings for oblast, Kyiv and Sevastopol city, district, Kyiv and Sevastopol city district State administrations.

**ORDER OF THE
MINISTRY OF
FINANCE OF
UKRAINE OF
7 FEBRUARY 2014,
NO. 44**

The Order of the Ministry of Finance dated 7 February 2014, No. 44 approved changes to the budget classification approved by Order of the Ministry of Finance dated 14 January 2011, No. 11 “On Budget Classification”.

Among others, changes were made to the Classification of Budget Revenues, Classification of Budget Financing, and the Provisional Classification of Expenditures and Crediting of Local Budgets (with a transitional table to the Functional Classification of Budget Expenditures and Crediting).

The changes made bring the Budget Classification to the Law of Ukraine “On the State Budget of Ukraine for the Year 2014”.

**ORDINANCE OF
THE CABINET OF
MINISTERS OF
UKRAINE OF
1 MARCH 2014,
NO. 156-P**

The Ordinance of the Cabinet of Ministers dated 1 March 2014, No. 156-p sets out the steps for balancing out the local budgets in the process of their execution in 2014.

Among other things, the Council of Ministers of the Autonomous Republic of Crimea and local State administrations are ordered to:

- develop, approve, and implement activities to increase revenue generation of local budgets, find extra sources of budget revenues, keep a strict regime of economy of budget funds (not less than 1% of expenditures for the budget sphere), and strengthen the financial and budget discipline;
- ensure the planning and performance of timely and full payment of salaries to the staff of budgetary institutions, and payments for the energy and communal services used by budgetary institutions, while preventing any overdue debts in such payments;
- ensure the negotiation of agreements by each type of energy carrier used, within the scope of justified consumption limits established by the respective key spending unit of budget funds, with due account for the need of a strict economy of funds;
- ensure that in case of the emergence of arrears in wages, student allowances, pensions, other social allowances, and payments for energy and communal services, that such arrears are paid out by using at least 90% of available funds in the General Fund of local budgets;
- streamline the structure of staffing within the approved payroll appropriations, prevent from increasing such staffing numbers, except when opening/expanding institutions and the growth in the number of recipients of the respective services for the purpose of satisfaction of public needs;

- address the issues of the advisability of granting preferences in taxes and fees, as well as revising rental rates for land and municipal property in accordance with market conditions;
- ensure observance of strict fiscal discipline, strengthen educational activities with spending units/recipients of budget funds, and prevent any violations leading to losses of financial resources and property.

The State Treasury Service is also instructed to make payments to spending units of local budgets on unprotected expenditures of the General Fund of local budgets (except for the programs/projects funded at the expense of international technical assistance and the funds transferred to the State budget from budgets of other countries) in the situations, where there are no overdue arrears in wages to the staff of budgetary institutions and payments for energy used.

In addition, central executive bodies are also given respective instructions to ensure the implementation of such activities and supervisory functions.

**ORDINANCE OF
THE CABINET OF
MINISTERS OF
UKRAINE OF
1 APRIL 2014,
NO. 333-P**

The Ordinance of the Cabinet of Ministers dated 1 April 2014, No. 333-p approved a Concept of local government and territorial government organization in Ukraine.

The Concept sets out the directions, mechanisms, and timeline for the formation of effective local government and territorial organization of power.

The reform envisages the following:

- ensure availability and quality of public services;
- achieve an optimal division of powers between local governments and executive power bodies;
- determine a justified territorial basis for the operation of local governments and executive power bodies in order to achieve availability and the appropriate quality of the public services provided by such bodies;
- create appropriate logistical, financial, and organizational conditions to ensure the performance by local governments of both their own and delegated functions.

A three-level administrative and territorial system is proposed:

- basic level (communities as administrative-territorial units);
- district level (districts as administrative-territorial units); and
- regional level (Autonomous Republic of Crimea, oblasts, cities of Kyiv and Sevastopol as administrative-territorial units).

The division of key powers between the different levels of the administrative-territorial system is proposed.

The Concept provides for its implementation in two phases.

Phase I – year 2014: Provide for a legislative settlement of the local government and territorial government organization reform; complete the formation of a legislative framework on operation of local governments and executive power bodies on a new territorial basis with a

definition of their powers and resource allocation in accordance with the Concept requirements.

Phase II – years 2015–2017: Unification and standardization of the public services provided to the population by local governments and executive power bodies; implementation of an institutional reorganization of local governments and local executive power bodies; conducting local elections taking into account the reformed system of local government.

Implementation of the Concept will contribute to:

- strengthening the legal, organizational, and financial capacity of territorial communities and local governments;
- accessibility of public services, introduction of their quality standards/norms;
- the formation of an effective territorial system of local governments, which will provide for sustainable socioeconomic development of respective administrative-territorial units;
- stimulating the economic development of territories as the result of improving the mechanism of influence of local governments on setting the priorities of local economic development;
- setting up of executive bodies of oblast and district councils;
- a change of status of local State administrations from general competence bodies into control and supervisory bodies in the system of executive power with the function of coordination of activities of territorial bodies of central executive power in the respective territory;
- ensuring a division of powers between the basic and regional level local governments, local State administrations, and territorial bodies of central executive authorities.

**MINISTRY OF
FINANCE OF
UKRAINE OF
11 APRIL 2014,
NO. 397**

The Order of the Ministry of Finance dated 11 April 2014, No. 397 approved amendments to the budget classification and components of development costs/expenditures and consumption costs/expenditures as approved by the Order of Ministry of Finance of January 14 2011, No. 11 “On Budget Classification”.

The amendments were made to bring the budget classification in conformity with the Law of Ukraine of 27 March 2014, No. 1165 “On Amending the Law of Ukraine ‘On the State Budget of Ukraine for the Year 2014’” and for improving the budget classification.

Among other things, amendments were made to the Classification of Budget Revenues; Classification of Budget Financing by Creditor Type; Classification of Debt by Creditor Type; Classification of Debt by Debt Obligation; Provisional Classification of Expenditures and Crediting of Local Budgets (with a transition table to the Functional Classification of Budget Expenditures and Crediting).

In addition, the concept of “development costs” was expanded to include (besides development expenditures and provision of credits from the budget) also the transactions of placement of budget funds on deposits and purchase of securities.

SECTION 2. ANALYSIS OF MACROECONOMIC INDICATORS IN 2013

GDP

The real GDP growth rate was zero (in constant 2007 prices) against the respective 2012 figure³ compared to 0.3% growth in 2012. While, this is better than the average of the European Union Member-States (EU-28), where the real GDP decreased by 0.4%; however, it is lower than the real GDP indicator in the Eurozone countries⁴, which showed a 0.1% growth.

When comparing Q4 2013 with the respective period of 2012, it should be noted that this indicator increased by 3.7% in Ukraine, compared to Romania (by 5.1%), Latvia (by 3.6%), Lithuania (by 3.3%), Hungary and the United Kingdom (by 2.8% each), as well as in the United States (by 2.5%), and in Norway (by 1.3%). It should be noted that real GDP declined in such countries as Cyprus (by 5.3%), Greece (by 2.6%), Finland (by 1.4%), Italy (by 0.8%), and Spain (by 0.1%)⁵, which was due to crises in those countries.

The nominal GDP of Ukraine totaled UAH 1,454.9bn, which is UAH 43.7bn or 3.1% more than in 2012. The situation on foreign markets remained unfavorable in 2013, though record grain crops led a positive economic dynamic in Q4. Other factors that affected the economic dynamic included: stable growth in real consumer income, which stimulated domestic consumer demand; continued low foreign demand, which restrained the development of export oriented industries.⁶ The latter was one of the reasons for the continued trend of declining industrial output. Thus, the industrial production index amounted to 95.7% against 99.5% in 2012. Also, the production of coke and petroleum products decreased by 6.7%; metals and finished metal products except for machines and equipment fell by 5.0%. In addition, the production of motor vehicles, trailers, and semi-trailers and other transport vehicles decreased by 4.2%; indicators of the extractive industry and open-pit works in general by 2.7%; production of chemicals and products by 1.3%. However, agricultural production grew 13.7%, and the production of food, beverages, and tobacco products rose by 4.0%.

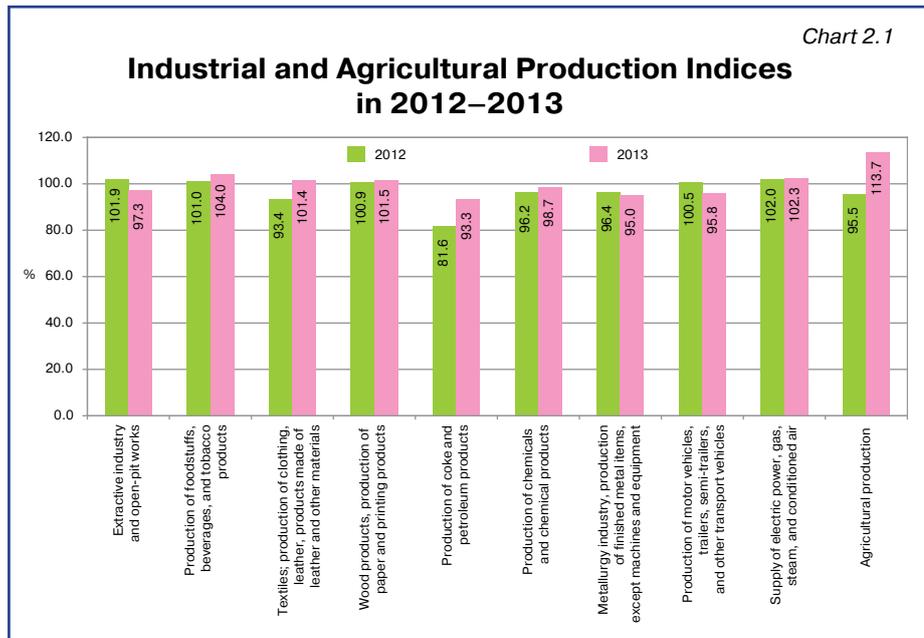
The dynamics of industrial and agricultural production indices is shown in Chart 2.1.

³ <http://www.ukrstat.gov.ua/>

⁴ The Eurozone comprises 18 countries, viz.: Austria, Belgium, Ireland, Spain, Italy, Luxembourg, the Netherlands, Germany, Portugal, Finland, France, Greece, Slovenia, Cyprus, Malta, Slovakia, Estonia, and Latvia.

⁵ <http://ec.europa.eu/eurostat>

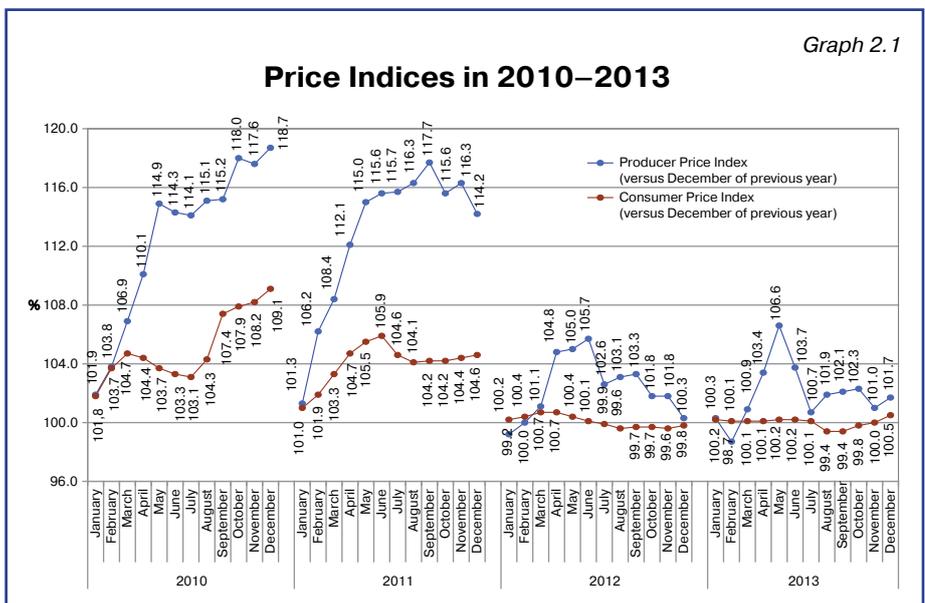
⁶ <http://http://www.bank.gov.ua>



This indicator increased in the following industries: deliveries of electric power, gas, steam, and conditioned air (by 2.3%); wood products, production of paper, and printing industry (by 1.5%); as well as production of textiles, production of clothing, leather, products made of leather and other materials (by 1.4%).

CONSUMER PRICE INDEX

The Consumer Price Index (CPI) amounted to 100.5% vs. 99.8% in 2012 (see Graph 2.1). In the period under review, the price of sugar increased by 18.0%, railway tickets by 12.8%, alcoholic beverages and tobacco products by 10.1%, butter and eggs by 9.5% and 7.6%, respectively. There was a decrease in prices of fruits by 17.4%, sunflower seed oil by 8.5%, audio, photographic, and information processing equipment by 4.1%, fuel and lubricants by 3.6%, clothing and footwear, and fish and products by 3.5%.



PRODUCER PRICE INDEX

The **Producer Price Index (PPI)** grew by 1.4ppt and reached 101.7%. In general, prices rose for the production of sugar by 17.0%, production of dairy products by 15.3%, extraction of metal ores by 13.6%, production of key pharmaceutical products and preparations by 7.7%, extraction of crude oil and natural gas by 7.0%, as well as supplies of electric power, gas, steam, and conditioned air by 5.2%⁷.

PPI declined significant decline in December of 2013 in the production of chemicals and products (by 5.3%), production of motor vehicles, trailers, semi-trailers, and other transport vehicles (by 6.4%), in chemical industry (by 5.1%), and metallurgy industry, production of finished metal products, except the production of machinery and equipment (by 2.7%), production of coke and products (by 2.2%), and production of meat and products (by 1.2%).

CONSUMER INCOME AND SPENDING

The average nominal monthly wage per full-time employee amounted to UAH 3,265.0 at the end of 2013, up 7.9% year-on-year (see Table 2.1). This is 2.7 times more than the State social standards (minimum wage level and able-bodied person's subsistence level of UAH 1,218).

Table 2.1

Nominal and Real Wages by Region of Ukraine in 2011-2013

Name of administrative-territorial unit	Average monthly wage (per one full-time employee), UAH			Nominal wages growth rate, %		Index of real wages (against respective period of last year), %		
	2011	2012	2013	2012 / 2011	2013 / 2012	2011	2012	2013
Autonomous Republic of Crimea	2 295.0	2 654.0	2 850.0	115.6	107.4	105.2	116.1	110.0
Vynnytsya Oblast	2 074.0	2 432.0	2 651.0	117.3	109.0	110.2	118.0	110.0
Volynska Oblast	1 994.0	2 339.0	2 580.0	117.3	110.3	110.2	117.9	111.0
Dnipropetrovsk Oblast	2 790.0	3 138.0	3 336.0	112.5	106.3	108.7	112.0	106.7
Donetsk Oblast	3 063.0	3 495.0	3 755.0	114.1	107.4	110.9	112.2	106.3
Zhytomyr Oblast	2 071.0	2 369.0	2 561.0	114.4	108.1	107.4	115.1	109.6
Zakarpatska Oblast	2 069.0	2 351.0	2 553.0	113.6	108.6	105.7	114.2	109.4
Zaporizhzhya Oblast	2 607.0	2 927.0	3 142.0	112.3	107.3	110.0	112.0	108.1
Ivano-Frankivsk Oblast	2 213.0	2 540.0	2 679.0	114.8	105.5	108.0	114.9	106.6
Kyiv Oblast	2 761.0	3 157.0	3 351.0	114.3	106.1	113.3	114.4	107.2
Kirovohrad Oblast	2 114.0	2 428.0	2 608.0	114.9	107.4	108.1	115.3	109.0
Luhansk Oblast	2 742.0	3 090.0	3 337.0	112.7	108.0	110.1	111.7	107.6
Lviv Oblast	2 244.0	2 578.0	2 789.0	114.9	108.2	106.7	114.4	109.2
Mykolaiv Oblast	2 448.0	2 822.0	3 094.0	115.3	109.6	105.7	116.1	109.8
Odesa Oblast	2 387.0	2 700.0	2 947.0	113.1	109.1	106.5	113.0	109.3
Poltava Oblast	2 481.0	2 850.0	2 988.0	114.9	104.8	109.1	115.5	106.1
Rivne Oblast	2 211.0	2 575.0	2 844.0	116.5	110.4	105.0	117.6	111.5
Sumy Oblast	2 177.0	2 503.0	2 702.0	115.0	108.0	108.8	115.1	109.5
Ternopil Oblast	1 871.0	2 185.0	2 359.0	116.8	108.0	104.5	117.3	109.3
Kharkiv Oblast	2 407.0	2 752.0	2 975.0	114.3	108.1	108.7	114.2	109.3
Kherson Oblast	1 970.0	2 268.0	2 464.0	115.1	108.6	104.3	115.3	109.4
Khmelnitskiy Oblast	2 075.0	2 425.0	2 641.0	116.9	108.9	107.6	116.6	109.6
Cherkasy Oblast	2 155.0	2 508.0	2 682.0	116.4	106.9	109.5	116.0	107.9
Chernivtsi Oblast	1 985.0	2 329.0	2 484.0	117.3	106.7	105.9	118.0	108.0
Chernihiv Oblast	1 974.0	2 308.0	2 504.0	116.9	108.5	105.7	118.4	110.0
City of Kyiv	4 012.0	4 607.0	5 007.0	114.8	108.7	106.3	112.5	107.8
City of Sevastopol	2 476.0	2 890.0	3 114.0	116.7	107.8	102.8	114.9	108.0
Ukraine	2 633.0	3 025.0	3 265.0	114.9	107.9	108.7	114.4	108.2

As usual, the highest average monthly wage was in the city of Kyiv (UAH 5,007.0). The regions with the highest average monthly

wages include the Donetsk (UAH 3,755.0), Kyiv (UAH 3,351.0), Luhansk (UAH 3,333.7), Dnipropetrovsk (UAH 3,336.0), and Zaporizhzhya (UAH 3,142.0) oblasts.

The lowest average monthly wages were in Ternopil (UAH 2,359.0), Kherson (UAH 2,464.0), and Chernivtsi (UAH 2,484.0) oblasts.

From among the economic activities with the highest nominal wages over 2013, note could be made of the airline industry (UAH 10,341.0), financial and insurance sector (UAH 6,275.0), information and telecommunications (UAH 4,599.0), as well as professional, scientific, and technological activities (UAH 4,465.0).

Real wages grew by 8.2% (up 14.4% in 2012). Growth was noted in all regions, with Rivne and Volyn' oblasts having the highest indicators at 11.5ppt and 11.0ppt, respectively.

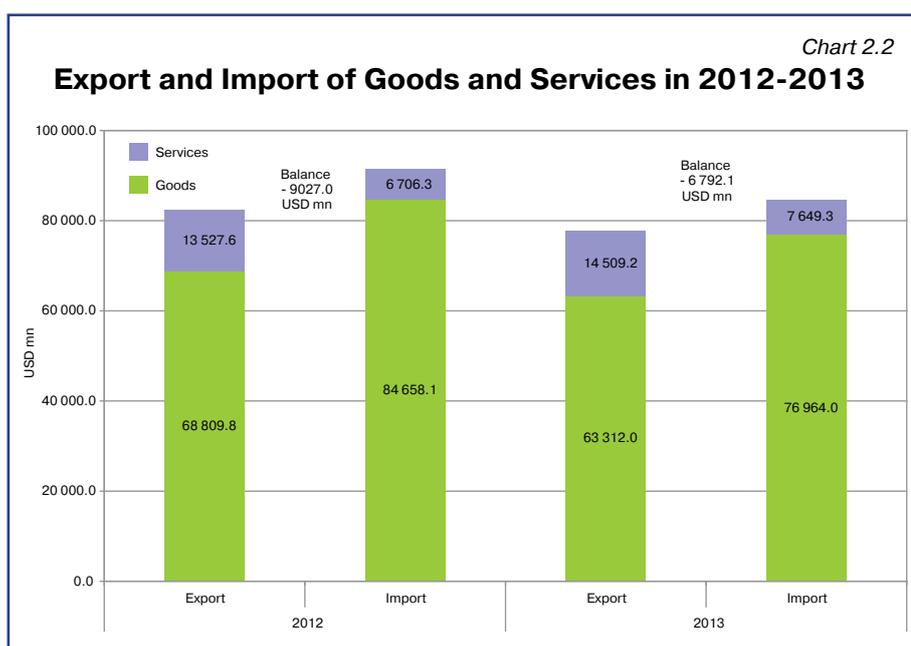
At the same time, the turnover of retailers and the restaurant business totaled UAH 429.2bn, which is 5.6% more year-on-year in comparable prices. This is indicative of a continued recovery of domestic consumer demand.

FOREIGN TRADE

The foreign trade balance of Ukraine improved; however, it had a negative value of \$6.8bn vs. \$9.0bn in 2012 (see Chart 2.2).

According to the State Statistics Service of Ukraine, the **export of Ukrainian goods** shrank by 8.0% year-on-year and amounted to \$63.3bn.

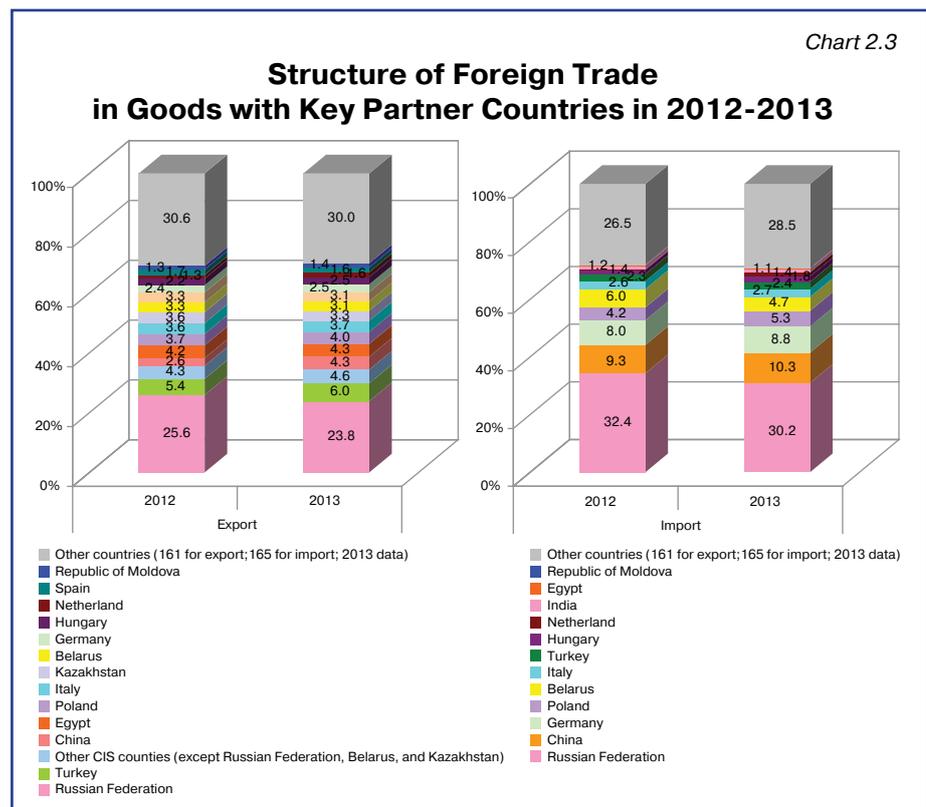
The core of commodity structure of Ukrainian exports was comprised of base metals and products at 27.8% of total exports, which is 0.3ppt more than in 2012. The share of plant products amounted to 14.0% (or 0.6ppt more), mineral products 11.8% (0.7ppt more year-on-year), machines, equipment, and mechanisms 10.1% (or 0.1ppt less), and chemical products 6.8% (or 0.6ppt less).



By geography, export deliveries of goods to CIS countries amounted to 35.0% of total exports, compared to 27.0% delivered to European countries, 26.5% to Asia, 8.1% to Africa, and 3.4% to the Americas.

As before, the main consumers of Ukrainian products included the Russian Federation (23.8%), Turkey (6.0%), other CIS countries (4.6%), China and Egypt (4.3% each), Poland (4.0%), and Italy (3.7%)(see Chart 2.3).

In general, the ratio of the coverage of imports by exports amounted to 0.82 (0.81 in 2012). In this case, foreign trade was conducted with partners from 165 countries worldwide.



The import of goods in Ukraine totaled \$77.0bn, which is 9.1% less than in 2012 (see Chart 2.2).

Mineral products accounted for 29.1% of the total import of goods, which is 3.4ppt less than in 2012. The import of machines, equipment, and mechanisms accounted for 16.2% (up 0.7ppt against 2012), chemical products 11.0% (or 0.9ppt more), transport vehicles 7.7% (or 1.8ppt less), polymers, plastics and products 6.0% (or 0.7ppt more) of the total value of imports.

SECTION 3. ANALYSIS OF BUDGET INDICATORS IN 2013

3.1. INTAKE OF REVENUES OF CONSOLIDATED AND STATE BUDGETS IN 2013

CONSOLIDATED AND STATE BUDGET REVENUES

The intake of consolidated budget revenues totaled UAH 442.8bn in 2013, which is UAH 2.7bn or 0.6% less year-on-year (see Table 3.1.1). The annual plan was implemented by 94.1%.

Table 3.1.1

Consolidated, State, and Local Budget Revenues and 2010-2013

Indicators	2010	2011	2012	2013	2013 vs. 2012	
					Absolute growth, UAH bn	Growth rate, %
Consolidated budget, UAH bn, including:	314.4	398.3	445.5	442.8	-2.7	-0.6
– General Fund	268.7	334.7	369.7	375.0	5.3	1.4
– Special Fund	45.7	63.6	75.8	67.8	-8.0	-10.6
State budget (without intergovernmental transfers), UAH bn, including:	233.9	311.8	344.7	337.6	-7.1	-2.1
<i>share in consolidated budget revenues, %</i>	<i>74.4</i>	<i>78.3</i>	<i>77.4</i>	<i>76.2</i>	<i>x</i>	<i>x</i>
– General Fund	201.1	263.3	288.5	290.1	1.6	-0.6
– Special Fund	32.8	48.5	56.2	47.5	-8.7	-15.5
Local budgets (without intergovernmental transfers), UAH bn, including:	80.5	86.5	100.8	105.2	4.4	-4.4
<i>share in consolidated budget revenues, %</i>	<i>25.6</i>	<i>21.7</i>	<i>22.6</i>	<i>23.8</i>	<i>x</i>	<i>x</i>
– General Fund	67.6	71.4	81.2	84.9	3.7	-4.6
– Special Fund	12.9	15.1	19.6	20.3	0.7	-3.6

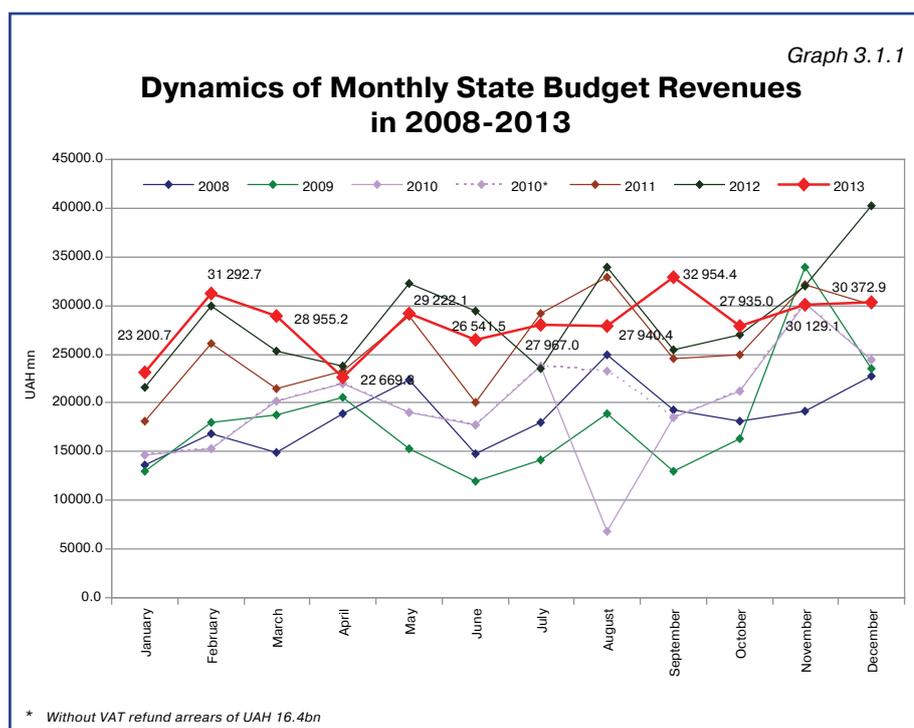
State budget revenues with intergovernmental transfers totaled UAH 339.2bn, which is UAH 6.8bn or 2.0% less than in 2012.

The actual intake of **State budget revenues without intergovernmental transfers** totaled UAH 337.6bn, which is UAH 7.1bn or 2.1% less year-on-year.

There was a shortfall of UAH 11.9bn or 3.5% against the adjusted annual plan. The plan was not fulfilled for nearly all key sources of revenues. In particular, the enterprise profit tax had a shortfall of UAH 3.6bn or 6.2%, value-added tax UAH 7.4bn or 5.5%, excise tax on goods made in Ukraine UAH 4.4bn or 14.2%, and import duty UAH 1.8bn or 12.0%.

The only major source of State budget revenue with a surplus involved the funds remitted by the National Bank of Ukraine according to the Law of Ukraine “On the National Bank of Ukraine” at the amount of UAH 5.2bn or 22.7% more than the plan.

The dynamics of monthly State budget revenues in the reporting period is presented in Graph 3.1.1.



STRUCTURE OF THE CONSOLIDATED AND STATE BUDGET REVENUES

The share of tax revenues in the overall structure of *consolidated budget* revenues decreased by 1.0ppt year-on-year due to a 2.2ppt decline in the share of the value-added tax and 2.6ppt drop in the rent and fees for fuel and energy resources. At the same time, the proportions of the personal income tax and fees for use of natural resources increased by 1.0ppt and 2.6ppt, respectively. The shares of the remaining tax sources changed only marginally.

The share of non-tax revenues of the *consolidated budget* increased by 1.0ppt to 19.2%. Crediting the budget with a UAH 28.3bn surplus of gross income over costs of the National Bank of Ukraine was the key driver behind this higher proportion of non-tax revenues.

The share of tax revenues in the general structure of *State budget* revenues decreased by 1.9ppt. In general, changes in the structure of State budget revenues are similar to those in the structure of consolidated budget revenues.

The structure of consolidated and State budget revenues is detailed in Table 3.1.2.

Table 3.1.2

Structure of Consolidated and State Budget Revenues in 2011-2013

(%)

Revenues	Consolidated budget			State budget		
	2011	2012	2013	2011	2012	2013
Tax revenues, including:	84.0	80.9	79.9	83.9	79.7	77.8
– personal income tax	15.2	15.3	16.3	2.0	2.0	2.2
– enterprise profit tax	13.8	12.5	12.4	17.5	16.1	16.1
– fee for special use of natural resources, including:	3.7	3.9	6.5	0.6	0.7	4.1
– <i>payment for land</i>	2.7	2.8	2.9			
– value-added tax	32.7	31.2	29.0	41.7	40.3	38.0
– excise tax	8.5	8.6	8.3	10.6	10.8	10.5

Revenues	Consolidated budget			State budget		
	2011	2012	2013	2011	2012	2013
– taxes on foreign trade and external transactions	2.9	3.0	3.0	3.8	3.8	3.9
– rent, fee for fuel and energy resources	5.3	3.9	1.3	6.8	5.1	1.7
– other tax revenues	1.9	2.5	3.1	0.9	0.9	1.3
Non-tax revenues, including:	15.0	18.2	19.2	15.6	19.8	21.6
– income from property and business activity	4.4	7.4	7.6	5.5	9.3	9.9
– administrative charges and fees, income from noncommercial and incidental sales	1.2	1.6	1.6	0.8	1.6	1.5
– own-source revenues of budgetary institutions	7.8	7.7	8.6	7.4	7.2	8.6
– other non-tax revenues	1.6	1.5	1.4	1.9	1.7	1.6
Income from capital transactions	0.6	0.7	0.4	0.2	0.4	0.1
Targeted funds	0.3	0.2	0.2	0.1	0.1	0.1
Other revenues	0.1	0.0	0.3	0.2	0.0	0.4

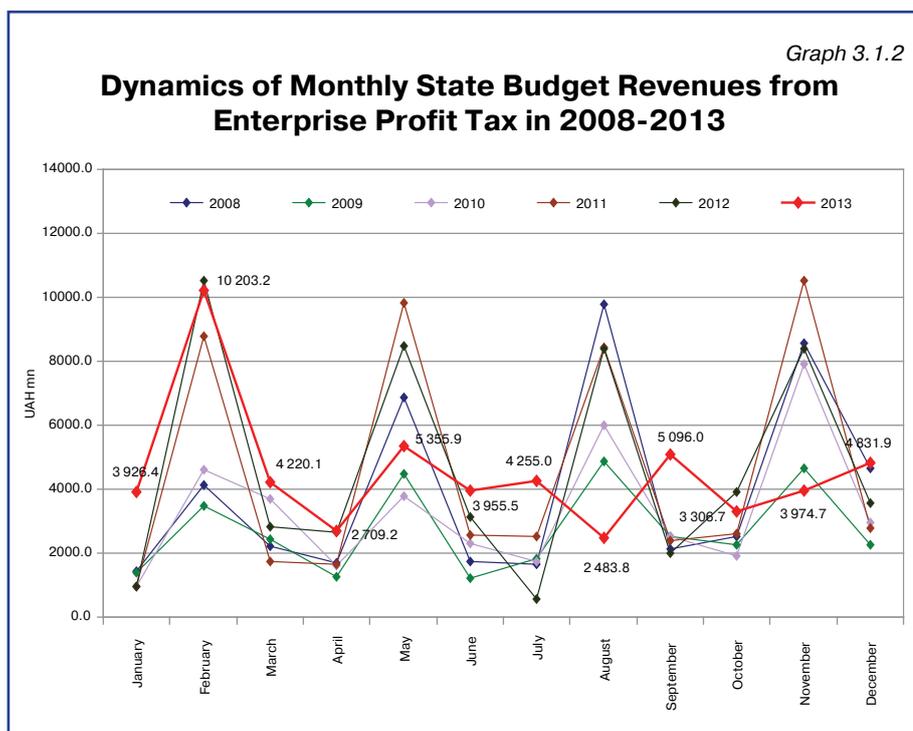
TAX REVENUES OF STATE BUDGET

The State budget received UAH 262.8bn in **tax revenues**, which is UAH 11.9bn or 4.4% less year-on-year. Also, the budget received UAH 19.7bn or 7.0% less than the plan. A shortfall in the value-added tax was the main factor behind this non-execution. The plan was also unfulfilled for such types of payments as excise tax on goods made in Ukraine, import duty, and enterprise profit tax.

ENTERPRISE PROFIT TAX

In the reporting period, the State budget received UAH 1.0bn or 1.9% less year-on-year from the **enterprise profit tax**. The total revenues from this tax amounted to UAH 54.3bn. The annual plan was fulfilled by only 93.8%.

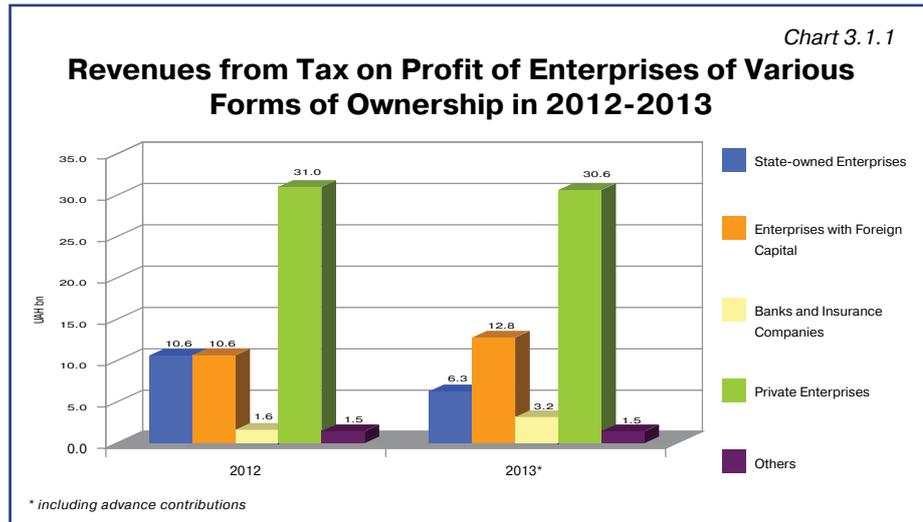
In general, the monthly dynamics of revenues from this tax shows a certain “smoothing” of monthly revenues, starting in March 2013⁸, which reflects a transition to advance payment of this tax (see Graph 3.1.2).



⁸ In January-February, the budget was receiving the tax amounts assessed based on the 2012 results, which explains the peak in revenues in this period.

A decline in the amount of enterprise profit tax occurred due to a reduction in the tax collection from State-owned enterprises and organizations by UAH 4.3bn. At the same time, the tax receipts from companies with foreign capital increased by UAH 2.2bn or 20.2%. Also, remittances of financial institutions (banks and insurance companies) increased by UAH 1.6bn or 2 times. This, among other things, is explained by the fact that the Ukrainian banking system resumed profitable operations, having declared UAH 1.4bn in profits in 2013⁹.

This is summarized in Chart 3.1.1.

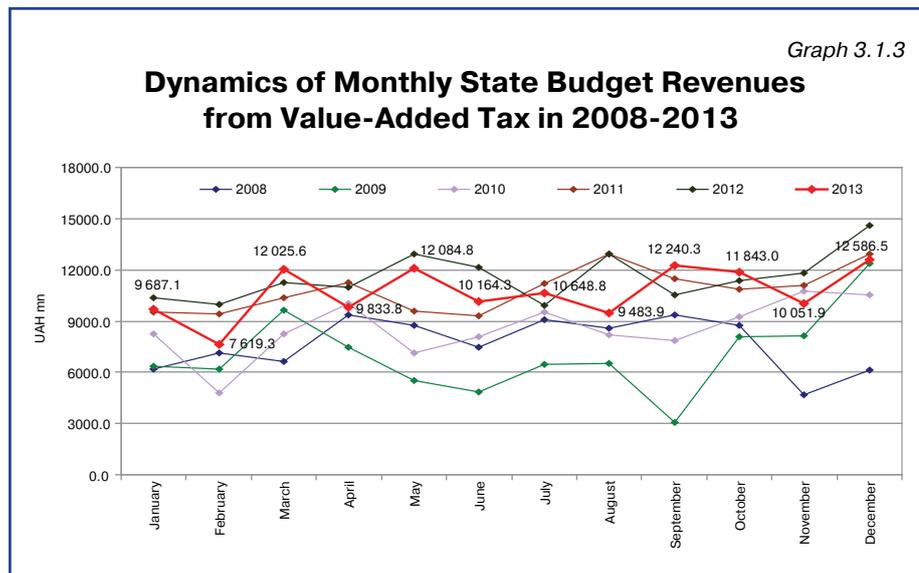


VALUE-ADDED TAX

The State budget received UAH 128.3bn from **value-added tax**, which is UAH 10.6bn or 7.6% less year-on-year.

The annual plan shortfall amounted to 5.5% or UAH 7.4bn in absolute terms.

The monthly dynamics of value-added tax revenues is summarized in Graph 3.1.3.



9 http://www.bank.gov.ua/control/uk/publish/article?art_id=36807

In terms of VAT individual components, the plan for value-added tax on goods made in Ukraine was fulfilled by 92.7% (minus UAH 6.6bn), and the plan for value-added tax on goods imported in Ukraine by 93.4% (minus UAH 6.8bn). VAT refunds from the budget were also behind schedule, with UAH 6.1bn refunded, which is 10.2% below the plan.

Despite the non-execution of the annual plan, the amount of tax refund from the budgets increased by UAH 7.5bn or 16.3% in 2013.

TAXES ON FOREIGN TRADE AND EXTERNAL TRANSACTIONS

In 2013, the State budget received UAH 13.3bn from **taxes on foreign trade and external transactions**. The revenues from this source increased only marginally – by UAH 0.2bn or 1.2% year-on-year. In fact, a significant slowing down in the growth of revenues from this source occurred in 2013, as the rate of growth in taxes on foreign trade amounted to more than 30.0% last year.

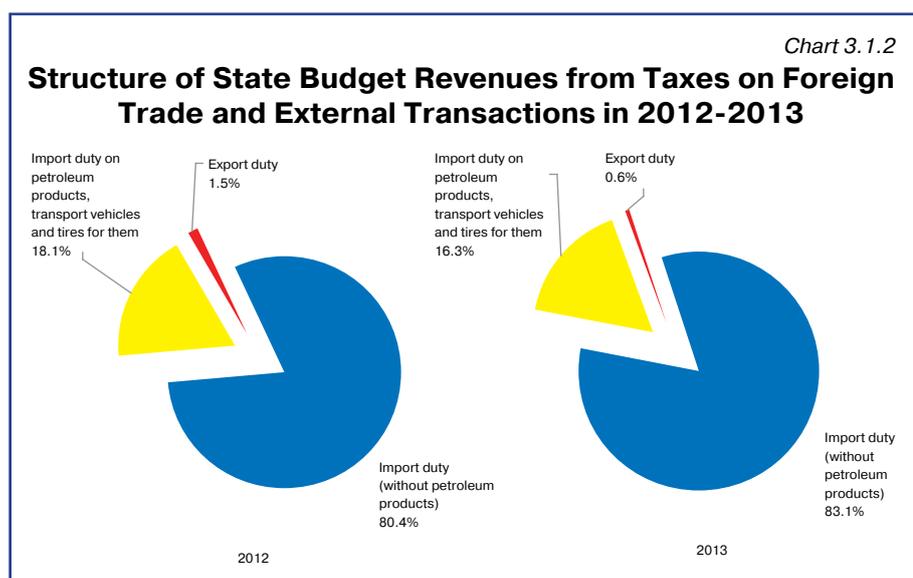
A slower growth of revenues, first of all, of import duty, is explained by the reduced volume of imports, which decreased by 9.1% year-on-year in 2013¹⁰.

The revenues from taxes on foreign trade and external transactions amounted to 87.1% of the annual plan. The shortfall totaled UAH 2.0bn.

The structure of taxes on foreign trade underwent some changes compared to the same period of last year, namely:

- the share of export duty revenues decreased by 0.9ppt;
- the share of import duty revenues (without petroleum products) increased by 2.7ppt;
- the share of duty on petroleum products, transport vehicles and tires for them decreased by 1.8ppt.

This information is summarized in Chart 3.1.2.



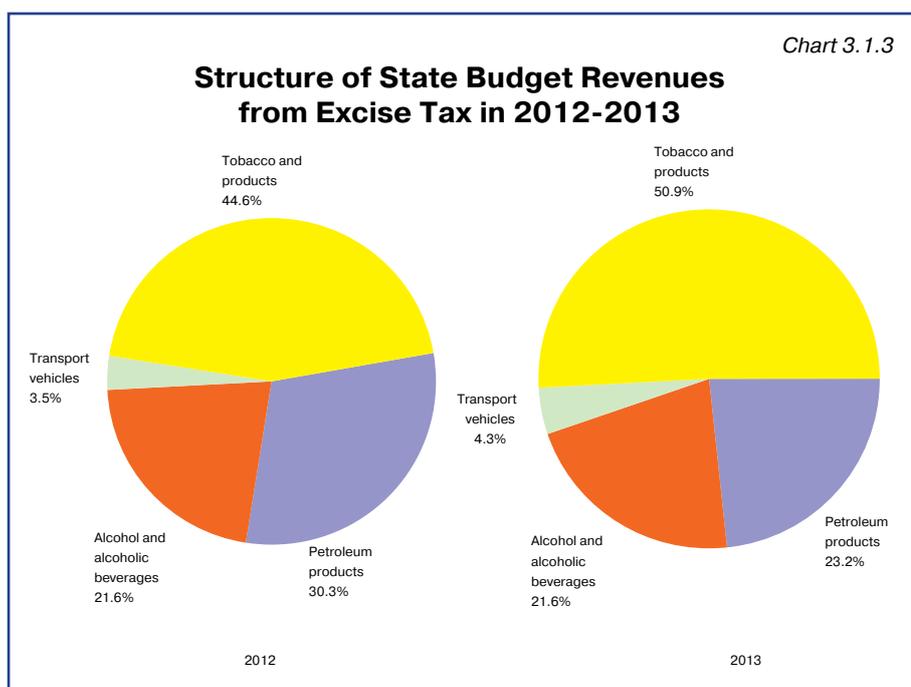
¹⁰ <http://www.ukrstat.gov.ua/>

EXCISE TAX

The State budget revenues from the **excise tax** totaled UAH 35.3bn, which is UAH 1.9bn or 5.0% less year-on-year. The level of execution of the annual plan amounted to 86.6% or UAH 5.4bn in absolute terms.

The share of revenues from the excise tax on goods made in Ukraine amounted to 74.7% of the total “excise” revenues, which is 1.0ppt more than in 2012.

The structure of excise taxes is summarized in Chart 3.1.3.



A drop in revenues from the excise tax on petroleum products, which decreased by UAH 3.1bn or 27.5% in 2013 compared to 2012 was the main factor behind the revenue decline. This decline could be explained both by falling volumes of oil refining, and by lower volumes of imports of mineral fuels in the above period. By volume, oil imports amounted to 74.8% of the 2012 volume¹¹.

In addition, revenues from the excise tax on pure alcohol and alcoholic beverages dropped UAH 0.5bn or 5.7% in this period, which could be explained by a 10.9% year-on-year decline of their production in 2013¹².

At the same time, revenues increased in 2013 from the excise tax on transport vehicles by UAH 0.2bn or 17.5%, and on tobacco and products by UAH 1.3bn or 8.1%, which could be explained by changes in the rules of administration of the excise tax on tobacco and products introduced by the Law of Ukraine dated 20 November 2012, No. 5503 “On Amending the Tax Code with Regard to Revision of Rates of Certain Taxes and Fees”. Among other things, this law

¹¹ <http://www.ukrstat.gov.ua/>

¹² <http://www.ukrstat.gov.ua/>

calls for the advance payment of the excise tax at the time of purchasing excise tax stamps, and it also raises the level of minimum excise tax obligations and specific excise tax rate, with a simultaneous lowering of its *ad valorem* component.

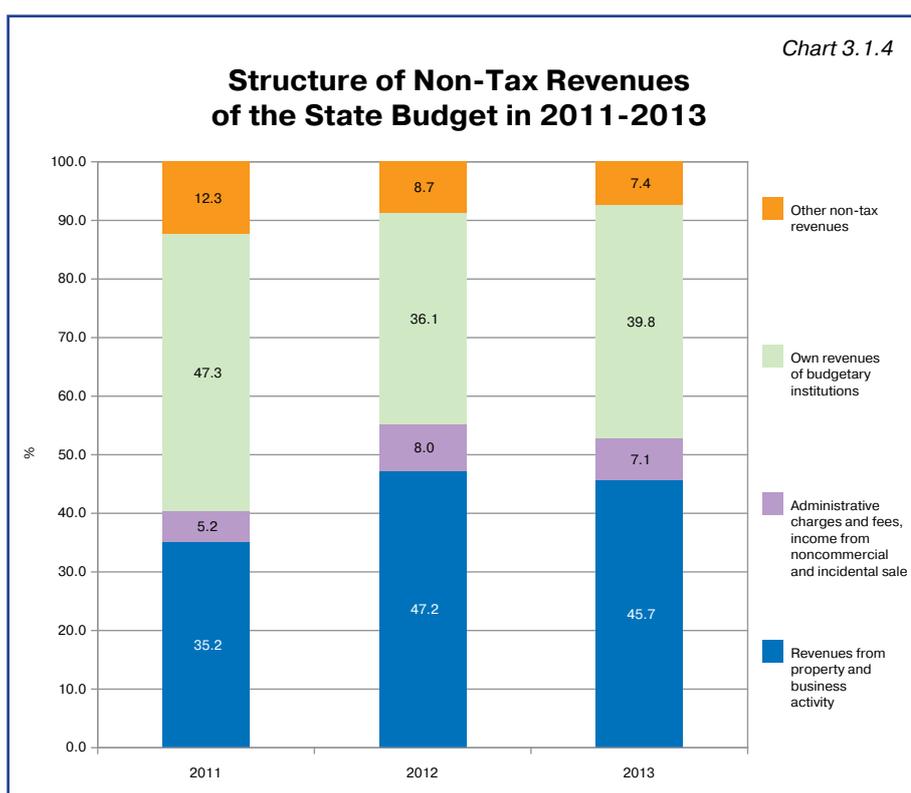
NON-TAX REVENUES

The amount of **non-tax revenues** reached UAH 72.9bn, which is UAH 4.6bn or 6.7% more year-on-year.

The annual plan was exceeded by 12.3% or UAH 8.0bn in absolute terms. The increase of the funds remitted by the National Bank of Ukraine according to the Law of Ukraine “On the National Bank of Ukraine” was the main reason behind this surplus.

The structure of non-tax State budget revenues changed somewhat. Only the items of own-source revenues of budgetary institutions increased against 2012 (by 3.7ppt), while the proportions of other items decreased: by 1.5ppt for income from property and business activity; by 0.9ppt for administrative charges and fees; and by 1.3ppt for other non-tax revenues.

The structure of non-tax revenues is summarized in Chart 3.1.4.



INCOME FROM PROPERTY AND BUSINESS ACTIVITY

The State budget received UAH 33.3bn as **income from property and business activity**, which is UAH 1.1bn or 3.4% more than in 2012.

The revenue from this source amounted to 104.7% of the annual plan. The surplus amounted to UAH 1.5bn.

As in 2012, the key factor behind the increase of income from property and business activity involved a payment by the National

Bank of Ukraine of part of its profits, which the NBU has to remit to the State budget of Ukraine pursuant to provisions of Article 5.1 of the Law of Ukraine "On the National Bank of Ukraine"¹³. The budget received UAH 28.3 under this item in 2013 compared to UAH 23.6bn in 2012.

OWN REVENUES OF BUDGETARY INSTITUTIONS

The **own revenues of budgetary institutions** totaled UAH 29.0bn, which is UAH 4.4bn or 17.7% more than in 2012.

The annual plan for this item was exceeded by 36.6%.

OTHER NON-TAX REVENUES

The State budget received UAH 5.4bn in **other non-tax revenues**, which is UAH 0.6bn or 9.8% less than in 2012.

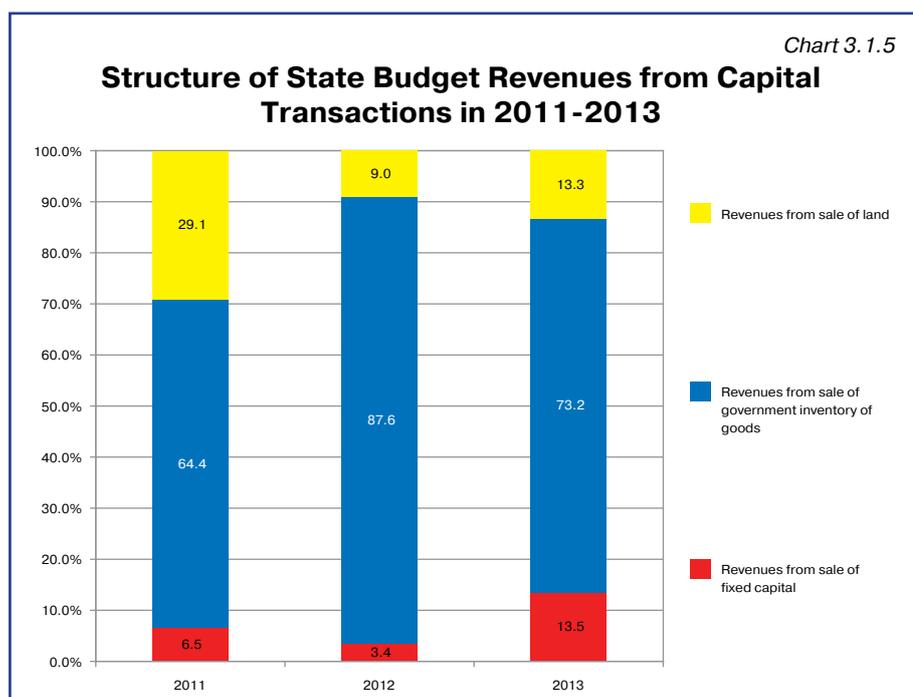
Revenues from this source amounted to 74.3% of the annual plan, with the shortfall totaling UAH 1.9bn, including a nearly UAH 0.7bn shortfall from charges for mandatory State pension insurance on certain types of economic transactions.

REVENUES FROM CAPITAL TRANSACTIONS

In 2013, the State budget received UAH 255.4mn in revenue from capital transactions, which is nearly 5 times less than in 2012.

This, primarily, is due to lower earnings from the sale of State stocks of goods, which dropped from UAH 1.1bn to 0.2bn. However, other items of revenues from capital transactions also decreased: by 18.2% from the sale of fixed capital; and by 69.4% from the sale of land.

Information on the structure of revenues from capital transactions is summarized in Chart 3.1.5.

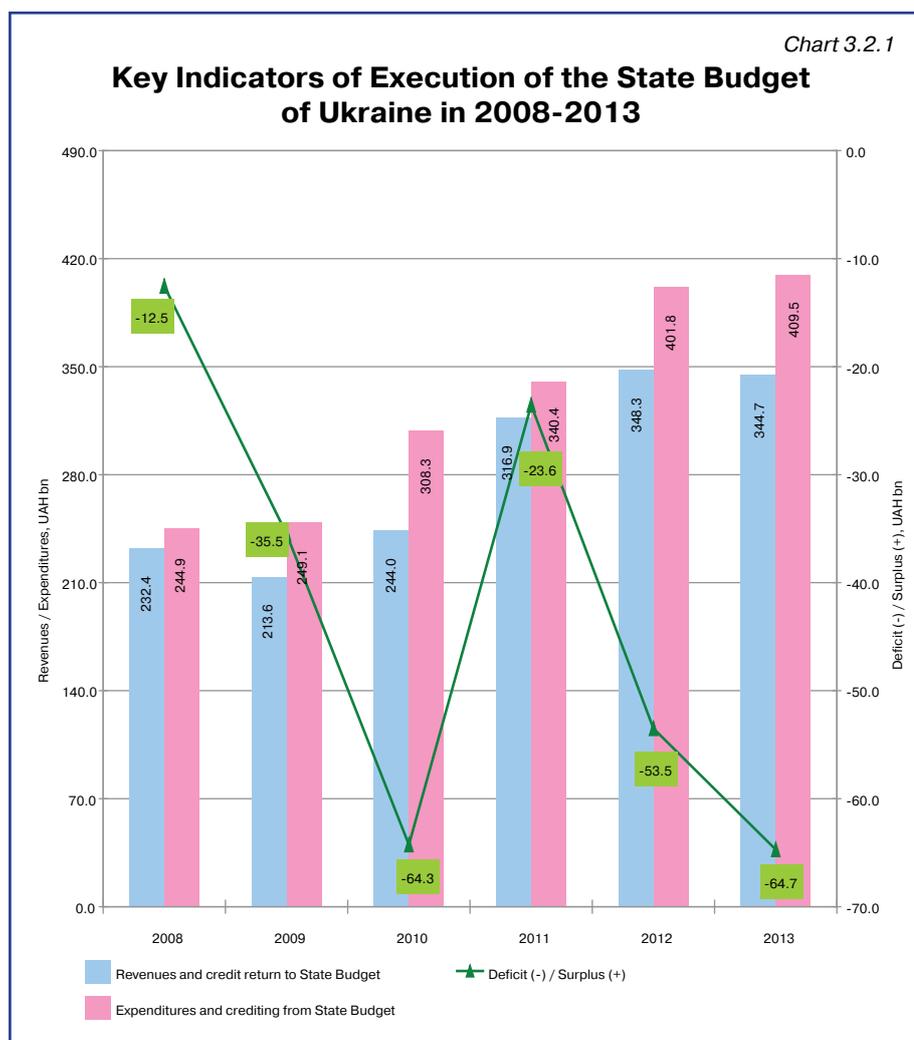


¹³ 50% of pre-tax profit is remitted to the State budget of Ukraine in the year following the reporting year.

3.2. FINANCING OF STATE BUDGET DEFICIT AND STATE DEBT IN 2013

FINANCING OF BUDGET DEFICIT

In the period under review, **the State budget was executed with a deficit** of UAH 64.7bn or 92.5% of the ceiling set by the Law of the State Budget of Ukraine for the Year 2013 (see Chart 3.2.1).



The deficit totaled UAH 65.2bn for General Fund of the budget or 102.0% of the planned deficit of UAH 6.1bn annual plan. The Special Fund had a surplus of UAH 0.5bn.

Financing of the State budget under debt transactions totaled UAH 81.0bn, which amounts to 109.6% of the annual plan (see Table 3.2.1). Compared to 2012, this indicator increased by UAH 39.3bn or nearly doubled. Borrowing was incurred at the amount of UAH 160.9bn or 103.8% of the annual plan, including internal borrowing at 101.2% of the plan, and external borrowing at 109.7% of the plan. Internal borrowing accounts for 67.7% of the borrowing.

Table 3.2.1

State Budget Deficit Financing Indicators in 2009-2013

Indicators	Years				2013		
	2009	2010	2011	2012	Annual plan	Actual	Execution, %
General financial, UAH bn, including:	35.5	64.3	23.6	53.5	70.0	64.7	92.5
– General Fund	16.1	30.7	20.9	53.3	63.9	65.2	102.0
– Special Fund	3.8	33.6	2.6	0.2	6.1	-0.5	x
Financing under debt transactions, UAH bn	89.7	97.6	35.0	41.7	73.9	81.0	109.6
Borrowing, UAH bn, including:	121.0	124.3	80.7	109.8	155.0	160.9	103.8
– internal borrowing	62.8	70.0	53.4	66.8	107.7	109.0	101.2
share, %	51.9	56.4	66.2	60.8	69.5	67.7	97.4
– external borrowing	58.2	54.2	27.3	43.0	47.3	51.9	109.7
share, %	48.1	43.6	33.8	39.2	30.5	32.3	105.9
Repayment, UAH bn, including:	-31.3	-26.7	-45.6	-68.1	-81.1	-79.8	98.5
– internal obligations	-17.9	-19.7	-32.1	-38.0	-45.5	-41.8	91.9
share, %	57.2	73.8	70.3	55.8	56.1	52.4	93.4
– external obligations	-13.4	-7.0	-13.5	-30.1	-35.6	-38.0	106.7
share, %	42.8	26.2	29.7	44.2	43.9	47.6	108.4
Proceeds from privatization of State property, UAH bn	0.8	1.1	11.5	6.8	10.9	1.5	13.6
Financing under active transactions, UAH bn	-54.9	-34.4	-23.0	5.0	-14.8	-17.8	120.1

The amount of State budget borrowing increased by 46.5% against 2012.

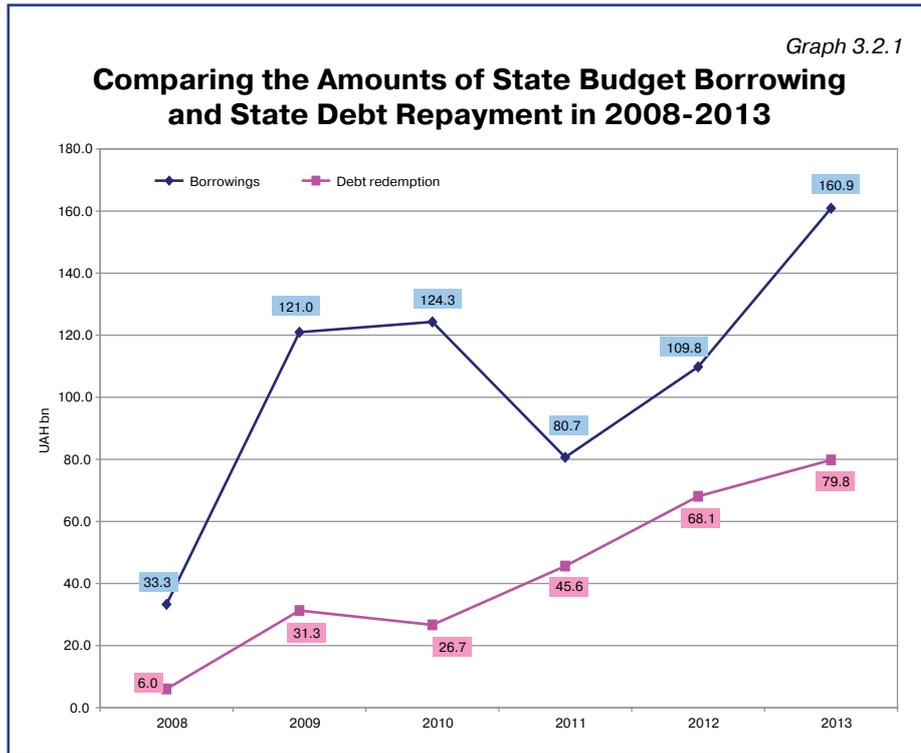
Of the total UAH 160.9bn borrowed, UAH 109.0bn came from the internal market, and UAH 51.9bn from the external market. The amount remitted to the General Fund of the State budget totaled UAH 156.9bn, including the issuance of domestic government bonds for replenishing the statutory capitals of the companies Naftogaz of Ukraine for a total amount of UAH 8.0bn at a 14.3% yield, Agrarian Fund for UAH 5.0bn at a 14.3% yield, Ukrainian Danube Shipping Company for UAH 0.3bn at a 9.5% yield, and Oshchadbank for UAH 1.4bn at a 9.5% yield¹⁴.

The funds borrowed from international economic development organizations for financing joint projects totaled UAH 3.9bn or 63.7% of the planned annual amount. The said proceeds were UAH 0.3bn or 6.3% lower than in 2012. The level of their execution decreased by 18.1ppt.

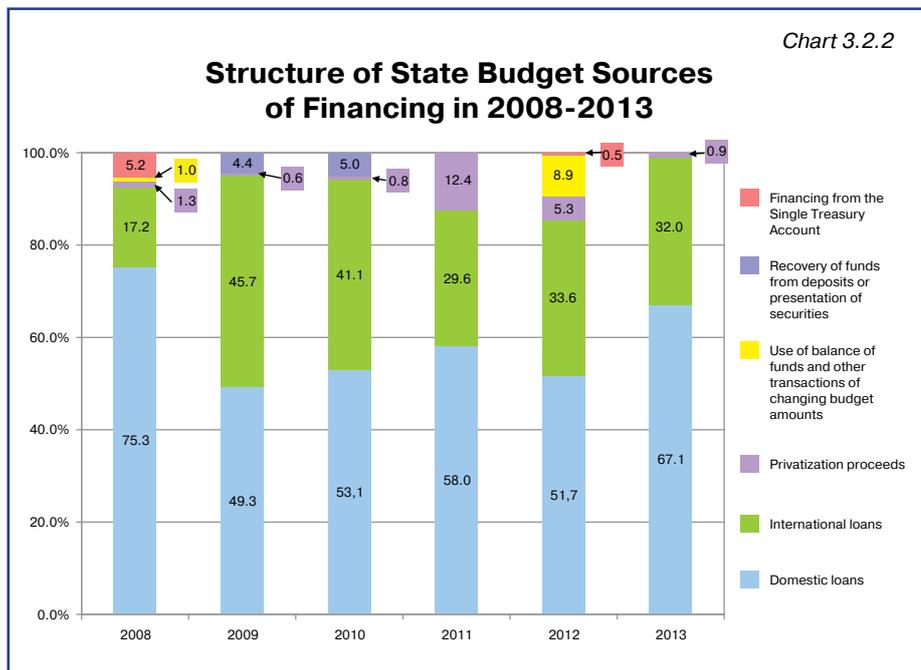
Debt repayment totaled UAH 79.8bn, which is 18.3% more than in 2012 (see Table 3.2.1). Execution of the annual plan amounted to 98.5%, which is 4.8ppt less than in 2012. Repayment of internal debt totaled UAH 41.8bn or 91.9% of the annual plan, and external debt repayment totaled UAH 38.0bn or 106.7%.

A further widening is observed of the gap between the amounts of borrowing and debt repayment (see Graph 3.2.1), which could lead to a worsening of the budget debt load in the future.

14 <http://www.epravda.com.ua/news/2014/01/17/415471/>



The structure of the sources of financing changed somewhat in 2013 compared to previous years (see Chart 3.2.2).

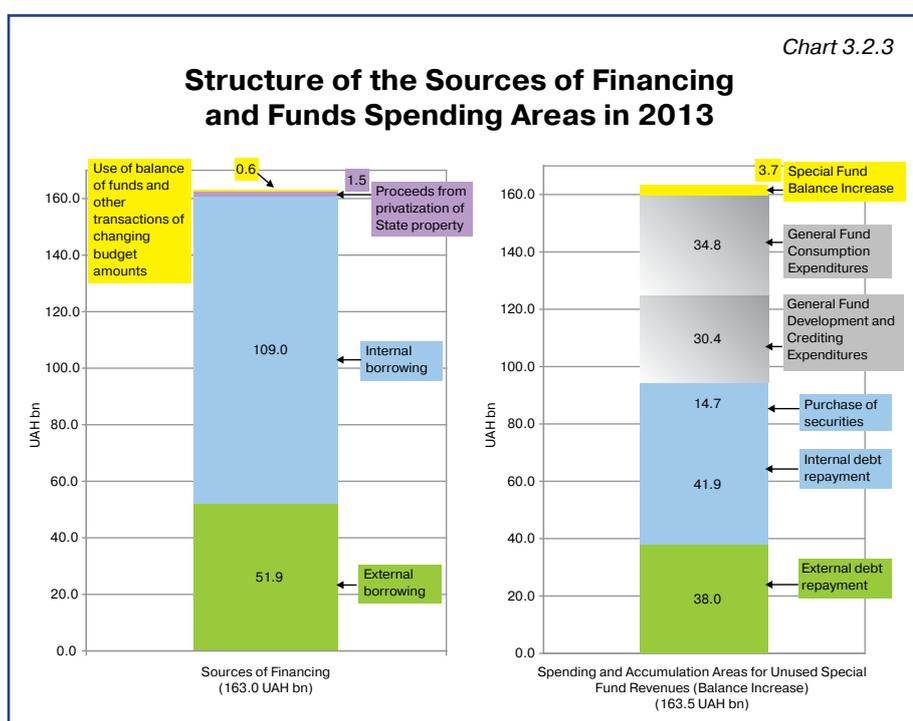


For instance, two thirds of the total financing amount was derived from internal borrowing. The share of financing from external borrowing amounted to 32.0% or almost at the 2012 level. As nearly all of the balance of the General Fund had been used for the purposes of budget financing in 2012 (UAH 17.6bn down to UAH 0.1bn or 0.03% of General Fund expenditures at the

end of 2012), this source of financing was unavailable in 2013. At the same time, 2012's attempts to increase the balance of the General Fund in order to create a circulating balance of budget funds proved unsuccessful¹⁵. Therefore, the balance at the General Fund amounted to 0.01% of this Fund's expenditures as of the year end.

At the same time, the Special Fund balance accrued to a rather substantial UAH 30.8bn. To compare, this amounts to 6.5% of all State budget expenditures and over 70.0% Special Fund expenditures. This points to some unresolved issues in Special Fund management.

Chart 3.2.3 illustrates the comparison between the sources of financing and spending of funds at the expense of these sources, and the accumulation of unused Special Fund revenues in 2013.



As is seen from Chart 3.2.3, a significant proportion of the proceeds from financing were used for budget expenditures. Notably, significantly more was spent for consumption expenditures of the General Fund than for capital expenditures and individual development activities and credit provision, viz., UAH 34.8bn or 18.7% of all sources of financing.

EXPENDITURES FOR STATE DEBT REPAYMENT AND SERVICING

The expenditures for State debt servicing totaled UAH 34.4bn or 97.7% of the annual plan, which is 1.1ppt less than in 2012 (see Table 3.2.2).

The expenditures for State debt repayment and servicing combined totaled UAH 114.2bn or 23.3% of all State budget expenditures.

¹⁵ According to Part Three, Article 14 of the Budget Code of Ukraine, the circulating balance of budget funds means the portion of the balance of the General Fund of the respective budget, which is set up for covering temporary cash gaps. Such a balance is set at a level of not more than 2% of the planned General Fund expenditures and is to be approved by the Law on the State budget of Ukraine (local budget resolution).

Table 3.2.2

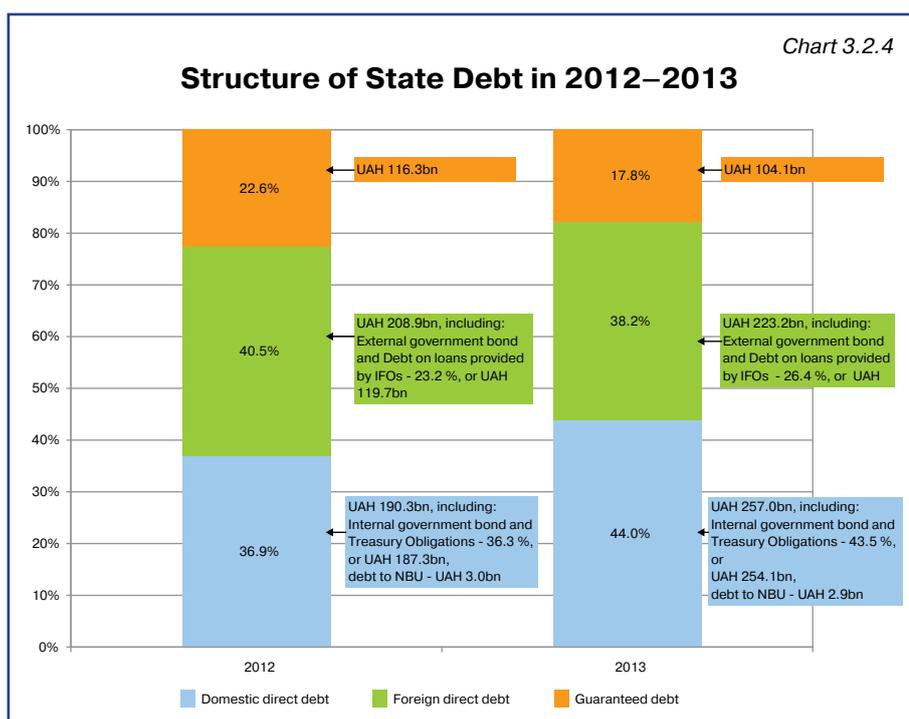
Budget Expenditures for State Debt Repayment and Servicing in 2011-2013

Indicators	2011			2012			2013		
	Annual plan, UAH bn	Actual, UAH bn	Execution, %	Annual plan, UAH bn	Actual, UAH bn	Execution, %	Annual plan, UAH bn	Actual, UAH bn	Execution, %
STATE DEBT PAYMENTS, total, including:	90.5	68.8	76.0	93.4	92.3	98.8	116.2	114.2	98.3
– internal debt	58.0	47.6	82.0	x	x	x	67.3	65.7	97.6
– external debt	32.5	21.2	65.2	x	x	x	48.9	48.5	99.0
State debt repayment expenditures, including:	67.3	45.6	67.8	68.9	68.1	98.8	81.1	79.8	98.5
– internal debt	42.5	32.1	75.4	38.0	38.0	100.0	43.0	41.8	97.2
– external debt	24.8	13.5	54.4	30.9	30.1	97.4	38.1	38.0	99.7
State debt servicing expenditures, including:	23.2	23.1	99.8	24.5	24.2	98.8	35.2	34.4	97.7
– internal debt	15.5	15.5	100.0	x	x	x	24.3	23.9	98.4
– external debt	7.7	7.6	99.2	x	x	x	10.9	10.5	96.6
BUDGET EXPENDITURES, total (expenditures, credit provision, State debt repayment)	368.8	340.4	92.3	508.0	469.9	92.5	528.7	489.2	92.5
Percentage of State debt payment in budget expenditures, %	24.5	20.2	x	18.4	19.6	x	22.0	23.3	x

STATE AND STATE-GUARANTEED DEBT

The State and State-guaranteed debt of Ukraine reached UAH 584.4bn by the end of 2013, including 51.4% (UAH 300.3bn) of State and State-guaranteed external debt, and 48.6% (UAH 284.1bn) of internal debt.

The State debt of Ukraine totaled UAH 480.2bn or 82.2% of the State and State-guaranteed debt combined, including 44.0% of internal debt and 38.2% of external debt (see Chart 3.2.4).



The internal State debt accounted for the largest share in the **State debt** structure at 53.5% or UAH 257.0bn. The external State debt amounted to 46.5% or UAH 223.2bn.

The State-guaranteed debt amounted to UAH 104.1bn or 17.8% of the total State and State-guaranteed debt by the end of 2013. As before, the guaranteed external debt accounted for the largest proportion at 13.2% or UAH 77.0bn. The guaranteed internal debt amounted to UAH 27.1bn or 4.6% of the State and State-guaranteed debt combined.

3.3. ANALYSIS OF EXPENDITURES AND CREDITING OF THE CONSOLIDATED AND STATE BUDGETS IN 2013

CONSOLIDATED BUDGET

The actual expenditures of the consolidated budget of Ukraine totaled UAH 505.8bn, which amounts to 91.2% of the annual plan, including General Fund expenditures of UAH 442.6bn or 96.3%, and Special Fund expenditures of UAH 63.2bn or 66.5% (see Table 3.3.1).

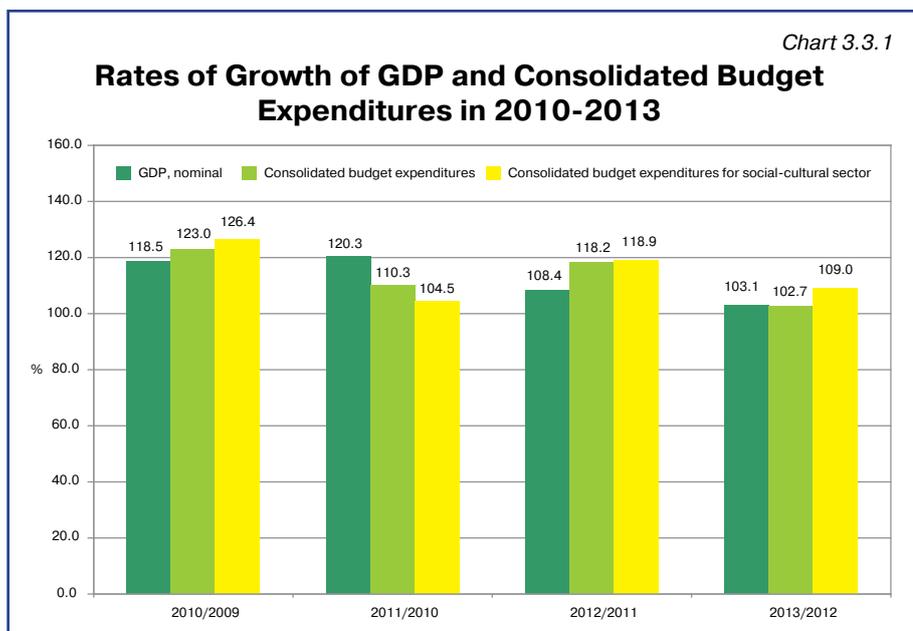
As seen from the Table below, the level of execution of consolidated budget expenditures was 1.2ppt down year-on-year. Thus, expenditures of the General Fund were executed at a level 1.0ppt higher than in 2012, and Special Fund expenditures at 12.3ppt lower.

Table 3.3.1

Expenditures of the Consolidated, State, and Local Budgets in 2011-2013

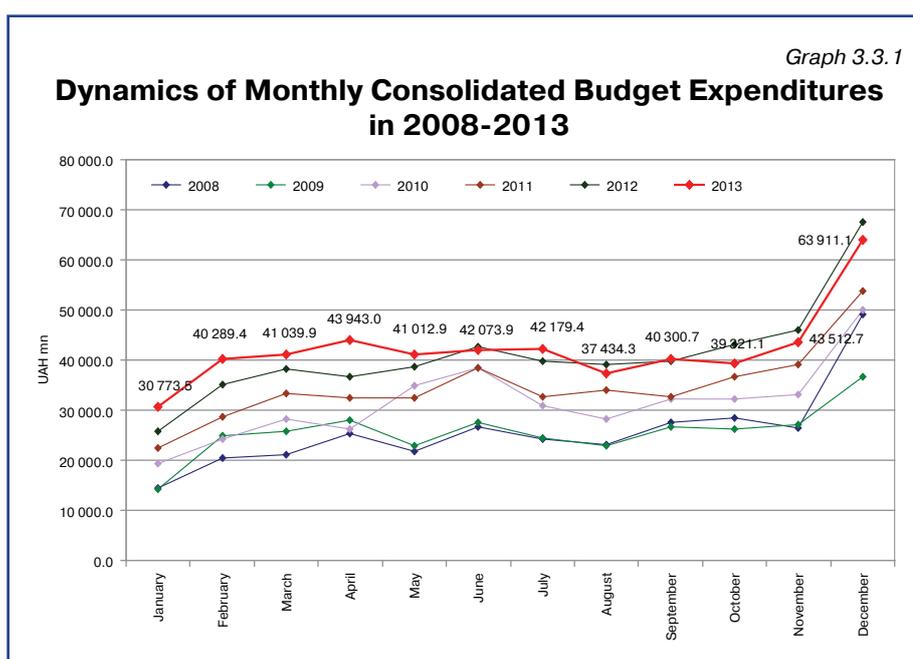
Years Expenditures	2011			2012			2013		
	Annual plan, UAH mn	Actual, UAH mn	Execution, %	Annual plan, UAH mn	Actual, UAH mn	Execution, %	Annual plan, UAH mn	Actual, UAH mn	Execution, %
Consolidated budget, including:	445 613.5	416 610.2	93.5	533 124.3	492 454.7	92.4	554 504.4	505 843.8	91.2
– General Fund	359 440.6	347 377.8	96.6	438 081.7	417 599.8	95.3	459 473.0	442 636.6	96.3
– Special Fund	86 172.9	69 232.4	80.3	95 042.6	74 854.9	78.8	95 031.4	63 207.2	66.5
State budget (without intergovernmental transfers), including:	259 000.3	238 539.6	92.1	298 615.4	271 221.9	90.8	310 965.3	287 607.7	92.5
– General Fund	205 326.9	197 544.6	96.2	243 084.1	228 961.2	94.2	256 808.8	247 735.7	96.5
– Special Fund	53 673.4	40 995.0	76.4	55 531.3	42 260.7	76.1	54 156.5	39 872.0	73.6
Local budgets (without intergovernmental transfers), including:	186 613.2	178 070.6	95.4	234 508.9	221 232.8	94.3	243 539.0	218 236.1	89.6
– General Fund	154 113.8	149 833.2	97.2	194 997.6	188 638.6	96.7	202 664.2	194 900.9	96.2
– Special Fund	32 499.4	28 237.4	86.9	39 511.3	32 594.2	82.5	40 874.8	23 335.2	57.1
State budget (with intergovernmental transfers), including:	355 516.6	333 414.6	93.8	427 040.7	395 681.5	92.7	432 930.9	403 456.1	93.2
– General Fund	295 965.9	287 288.4	97.1	360 737.2	343 586.6	95.2	372 230.0	360 851.8	96.9
– Special Fund	59 550.7	46 126.2	77.5	66 303.5	52 094.9	78.6	60 700.9	42 604.3	70.2
Intergovernmental transfers total	96 516.3	94 875.0	98.3	128 425.3	124 459.6	96.9	121 965.6	115 848.4	95.0

The rate of growth of consolidated budget expenditures dropped sharply to 102.7% from 118.2% in 2012, and 110.3% in 2011 (see Chart 3.3.1). The rate of growth of consolidated budget expenditures is slightly below the nominal GDP growth rate. The share of consolidated budget expenditures in GDP decreased (to 34.8%); as before, it remains lower than in the crisis year 2008 (38.4%).

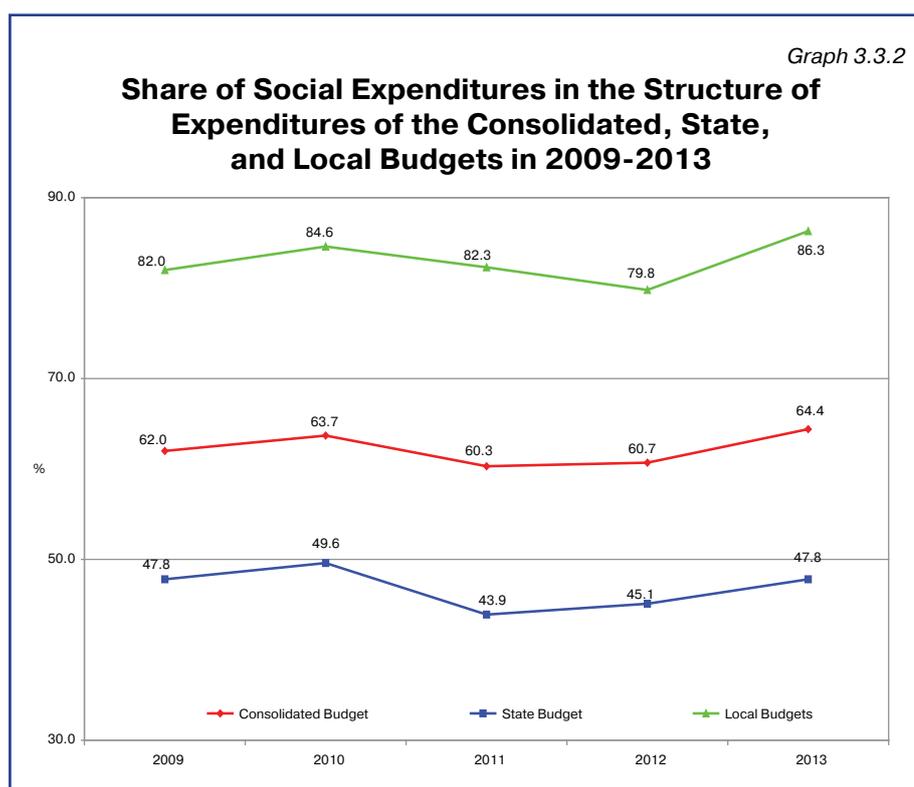


The monthly dynamics of actual consolidated budget expenditures in the period under review is presented in Graph 3.3.1.

As usual, the December expenditures were the highest compared to other months.



Social expenditures¹⁶ of the consolidated budget totaled UAH 325.8bn in 2013, which is UAH 26.9bn or nearly 9.0% more year-on-year. Their share increased compared to 2012 and amounted to 64.4%, which is 2.4ppt more than in 2009, which followed the unfolding of the crisis (see Graph 3.3.2). The shares of consolidated budget expenditures for education, healthcare, social protection and social security, and spiritual and physical development amounted to 20.6%, 11.9%, 25.4%, and 2.8%, respectively, in 2012, against 20.9%, 12.2%, 28.6%, and 2.7%, respectively, in 2013.



As is seen from Graph 3.3.2, local budgets are spending a significantly greater proportion of expenditures on society and culture compared to the State budget. This is explained by the spending structure of local budgets according to the Budget Code of Ukraine. As a negative development, it should be noted that this share of local budget expenditures increased by 6.5ppt against the 2012 figure and reached 86.3%, which is the highest proportion in recent years.

Such a growth in this share of expenditures resulted from a significant decline in expenditures for the housing and communal services sector (see Table 3.3.2). In 2013, their amount in the consolidated budget reached UAH 7.7bn, which is even below the level of the crisis year 2008, and the share of these

¹⁶ Social expenditures include expenditures for healthcare, education, spiritual and physical development, social protection and social security (Decree of the Cabinet of Ministers of Ukraine of 13 May 2011, No. 3358).

local budget expenditures in the consolidated budget decreased by 2.5ppt to 1.5%.

The shares of other local budget expenditures used for the performance of local governments' own functions decreased by 3.2ppt and amounted to 5.9%. In particular, expenditures for transport (including motor roads), which are directly linked to citizens' life and activities, amounted to 0.7% (or 0.1ppt less than in 2012).

Table 3.3.2

Growth Rates of Certain Expenditures of the Consolidated, State, and Local Budgets in 2011-2013 Compared to Previous Period

(%)

Expenditures by functional classification	2011			2012			2013		
	Consolidated budget	State budget	Local budgets	Consolidated budget	State budget	Local budgets	Consolidated budget	State budget	Local budgets
Expenditures total (without intergovernmental transfers), including expenditures for:	110.3	105.7	117.3	118.1	113.7	124.1	102.7	106.0	98.6
– housing and communal services	159.8	38.4	182.2	231.1	117.1	235.5	38.4	25.5	38.7
– healthcare	109.4	116.7	107.6	119.4	111.1	121.6	105.3	113.4	103.4
– spiritual and physical development	93.3	74.2	108.9	126.8	143.3	117.7	100.2	93.1	104.9
– education	108.1	94.5	115.7	117.7	111.1	120.8	103.9	102.3	104.6
– social protection and social security	100.9	91.7	118.9	118.8	118.4	119.5	115.8	117.7	112.9

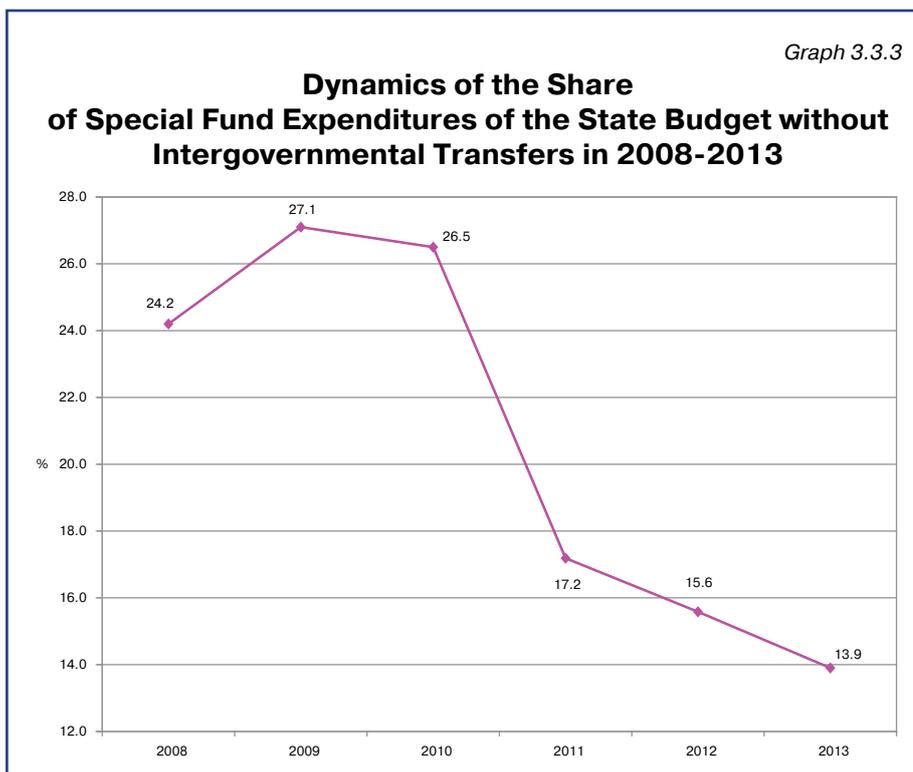
STATE BUDGET

The level of execution of the annual plan for **expenditures of the State budget of Ukraine with intergovernmental transfers** increased by 0.5ppt year-on-year and amounted to 93.2%. The amount of these expenditures increased by 2.0% compared to 2012 and totaled UAH 403.5bn (see Table 3.3.1).

Expenditures of the State budget of Ukraine without intergovernmental transfers totaled UAH 287.6bn, which is UAH 16.4bn or 6.0% more than in 2012. The level of execution of the annual plan amounted to 92.5%, which is 1.7ppt more year-on-year.

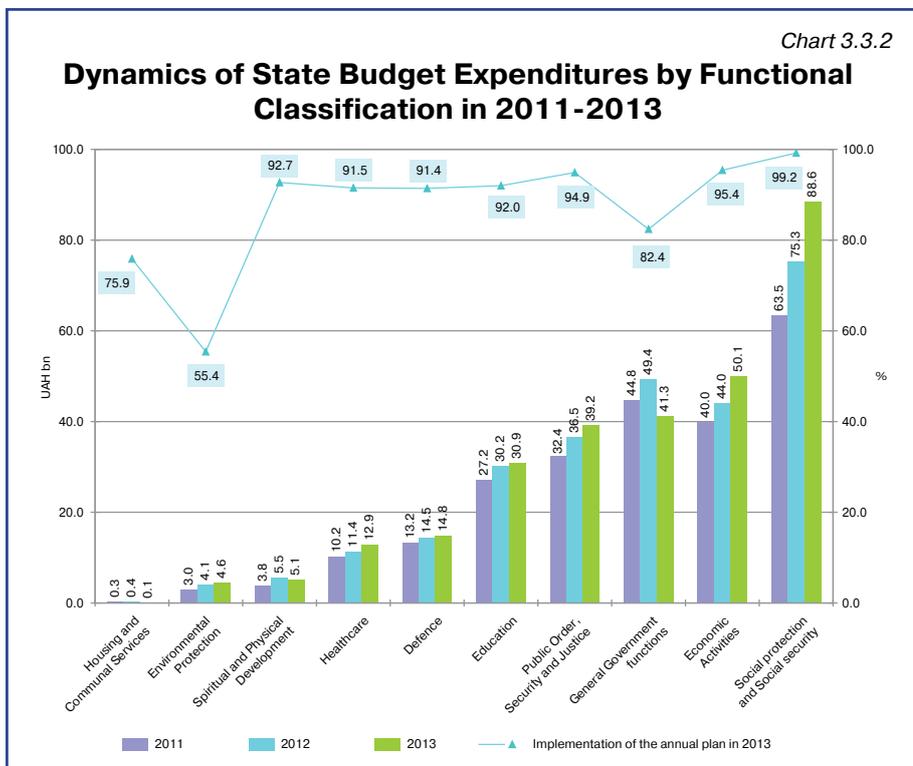
General Fund financing totaled UAH 247.7bn, which is 8.2% more than the respective 2012 figure and amounts to 96.5% of the annual planned appropriations. Special Fund financing totaled UAH 39.9bn, which is 5.7% less than in 2012. The level of execution of the annual plan for the Special Fund amounts to 73.6% (76.1% in 2012).

The shrinking of the share of Special Fund expenditures of the State budget without intergovernmental transfers in 2013 is a negative factor. In the total expenditures, this indicator was 1.7ppt down against 2012 and amounted to 13.9%, which is its lowest value in the period under review (see Graph 3.3.3).



EXPENDITURES BY FUNCTIONAL CLASSIFICATIONS

State budget expenditures grew in general compared to 2012 (see Chart 3.3.2).



Expenditures grew the most in absolute terms in the following areas:

- social protection and social security – by UAH 13.3bn or 17.7%;

- general government functions – by UAH 6.1bn or 13.8%, including expenditures for debt servicing by UAH 7.5bn or 30.9%;
- public order, security, and judiciary – by UAH 2.7bn or 7.5%; and
- healthcare – by UAH 1.5bn or 13.4%.

The highest percentages of annual plan execution were in expenditures for social protection and social security (99.2%), general government functions (95.4%), and public order, security, and the judiciary (94.9%) (see Chart 3.3.2).

As in 2012, execution levels were low for environmental protection expenditures (level of execution 55.4%) and housing and communal services expenditures (75.9%).

Despite a low execution level of expenditures for environmental protection, the UAH 0.5bn growth in nominal terms should be noted as a positive development. At the same time, expenditures for housing and communal services decreased by UAH 0.3bn.

In the structure of expenditures, the shares of intergovernmental transfers, expenditures for economic activity, spiritual and physical development, and growth in the share of other expenditures of the State budget all declined (see Table 3.3.3). In general, the rate of growth of intergovernmental transfers decreased by 6.9%, with the rates of growth of all expenditures up to 2.0%.

Table 3.3.3

Expenditures of the State Budget by Functional Classification of Expenditures and Crediting in 2011-2013

Expenditures by functional classification	2011			2012			2013		
	Plan, UAH mn	Actual, UAH mn	Actual share, %	Plan, UAH mn	Actual, UAH mn	Actual share, %	Plan, UAH mn	Actual, UAH mn	Actual share, %
General government functions, including:	41 184.3	39 991.1	12.0	46 148.4	44 010.7	11.1	52 527.5	50 101.1	12.4
• <i>debt servicing</i>	23 226.5	23 134.4	6.9	24 492.1	24 196.6	6.1	32 558.0	31 677.1	7.9
Defense	14 488.9	13 240.9	4.0	17 374.1	14 485.7	3.7	16 160.7	14 843.0	3.7
Public order, security, and judiciary	33 336.7	32 414.2	9.7	38 160.8	36 469.8	9.2	41 282.2	39 190.9	9.7
Environmental protection	4 631.3	3 008.2	0.9	7 781.6	4 135.4	1.0	8 285.1	4 595.0	1.1
Housing and communal services	1 200.7	324.2	0.1	785.8	379.6	0.1	127.7	96.9	0.0
Healthcare	10 903.3	10 193.7	3.1	12 520.6	11 358.5	2.9	14 052.6	12 879.3	3.2
Spiritual and physical development	4 145.3	3 830.2	1.1	6 441.6	5 488.5	1.4	5 531.3	5 111.9	1.3
Education	29 212.3	27 231.9	8.2	32 494.1	30 243.2	7.6	33 580.7	30 943.1	7.7
Social protection and social security, including:	64 359.9	63 533.4	19.1	77 446.5	75 254.4	19.0	89 328.7	88 547.3	21.9
• <i>social protection of pensioners</i>	58 317.2	58 317.2	17.5	64 494.1	64 494.1	16.3	83 233.6	83 233.6	20.6
Economic activity, including:	55 537.7	44 771.5	13.4	59 461.9	49 396.0	12.5	50 088.8	41 299.2	10.2
• <i>agriculture, forestry and game preserves, and fisheries</i>	10 804.4	7 487.0	2.2	10 626.4	7 365.3	1.9	9 550.3	7 560.7	1.9
• <i>fuel and energy complex</i>	12 406.7	10 915.2	3.3	19 529.5	17 270.1	4.4	16 241.9	15 389.2	3.8
• <i>transport</i>	17 945.5	14 735.4	4.4	14 499.7	12 847.9	3.2	17 930.0	14 202.6	3.5

Expenditures by functional classification	2011			2012			2013		
	Plan, UAH mn	Actual, UAH mn	Actual share, %	Plan, UAH mn	Actual, UAH mn	Actual share, %	Plan, UAH mn	Actual, UAH mn	Actual share, %
• other expenditures for economic activity	14 381.1	11 633.9	3.5	14 806.2	11 912.8	3.0	6 366.6	4 146.7	1.0
Intergovernmental transfers	96 516.3	94 875.0	28.4	128 425.3	124 459.6	31.5	121 965.6	115 848.3	28.7
Total	355 516.6	333 414.5	100.0	427 040.7	395 681.5	100.0	432 930.9	403 456.0	100.0

When expenditure categories are considered in more detail, some changes in their structure become apparent (see Table 3.3.4).

Table 3.3.4

Comparison of State Budget Expenditures by Functional Classification of Expenditures and Crediting in 2012-2013

Description of indicators according to the Functional Classification of Expenditures and Crediting	Executed in 2012, UAH mn	Executed in 2013, UAH mn	Change of indicator (+/-) of 2013 vs. 2012, UAH mn	Structure of growth of expenditures in 2013 vs. 2012, %	Growth rate of expenditures in 2013 vs. 2012, %
EXPENDITURES TOTAL, including:	395 681.5	403 456.1	7 774.6	x	102.0
Reduction of expenditures, total, including:	175 461.9	147 294.8	-28 167.1	x	83.9
Holding of elections and referenda	2 028.1	110.9	-1 917.2	x	5.5
Fuel and energy complex	17 270.1	15 389.2	-1 880.9	x	89.1
Other sectors of economy	6 419.9	956.4	-5 463.5	x	14.9
Other economic activity	2 173.5	884.3	-1 289.2	x	40.7
Social protection of other categories of the population	7 178.1	2 659.6	-4 518.5	x	37.1
Intergovernmental transfers	124 459.6	115 848.3	-8 611.3	x	93.1
Basic and applied research and development in economy sectors and spheres of spiritual and physical development, education, social protection, public order, and judiciary	2 382.9	1 837.6	-545.3	x	77.1
Communal services sector	376.7	82.8	-293.9	x	22.0
Sanitary-prophylaxis and epidemics control activities and institutions	1 907.0	1 069.3	-837.7	x	56.1
Physical culture and sport	1 979.9	1 874.6	-105.3	x	94.7
Mass media outlets	1 387.1	1 016.0	-371.1	x	73.2
Extramural education and extracurricular activities with children, programs for logistics provision of educational institutions	849.1	703.7	-145.4	x	82.9
Other economy sectors (as part of expenditures for economic activity)	1 340.1	558.1	-782.0	x	41.6
Social protection of unemployed persons, disability allowances, assistance in resolving housing problems, other activities in the area of social protection	2 690.1	1 699.9	-990.2	x	63.2
Other reduction of expenditures	3 019.5	2 604.1	-415.4	x	86.2
Growth of expenditures, total, including:	220 219.6	256 161.2	35 941.6	100.0	116.3
Debt servicing	24 196.6	31 677.1	7 480.5	20.8	130.9
Military defense, education, other activities in defense sector	13 874.7	14 325.7	451.0	1.3	103.3
Public order, security, and judiciary	36 135.5	39 041.3	2 905.8	8.1	108.0
Other economy sectors (as part of expenditures for economic activity)	8 055.4	8 346.2	290.8	0.8	103.6
Transport	12 847.9	14 202.6	1 354.7	3.8	110.5
Polyclinics and outpatient clinics, first aid and emergency medical aid	663.0	1 639.4	976.4	2.7	247.3
Other activities in healthcare	2 423.6	3 217.7	794.1	2.2	132.8
Preschool, general secondary, vocational, higher, and postgraduate education; other educational institutions and activities	28 698.2	29 573.4	875.2	2.4	103.0
Social protection of pensioners	64 494.1	83 233.6	18 739.5	52.1	129.1
Other growth of expenditures	28 830.6	30 904.4	2 073.8	5.8	107.2

EXPENDITURES BY ECONOMIC CLASSIFICATION

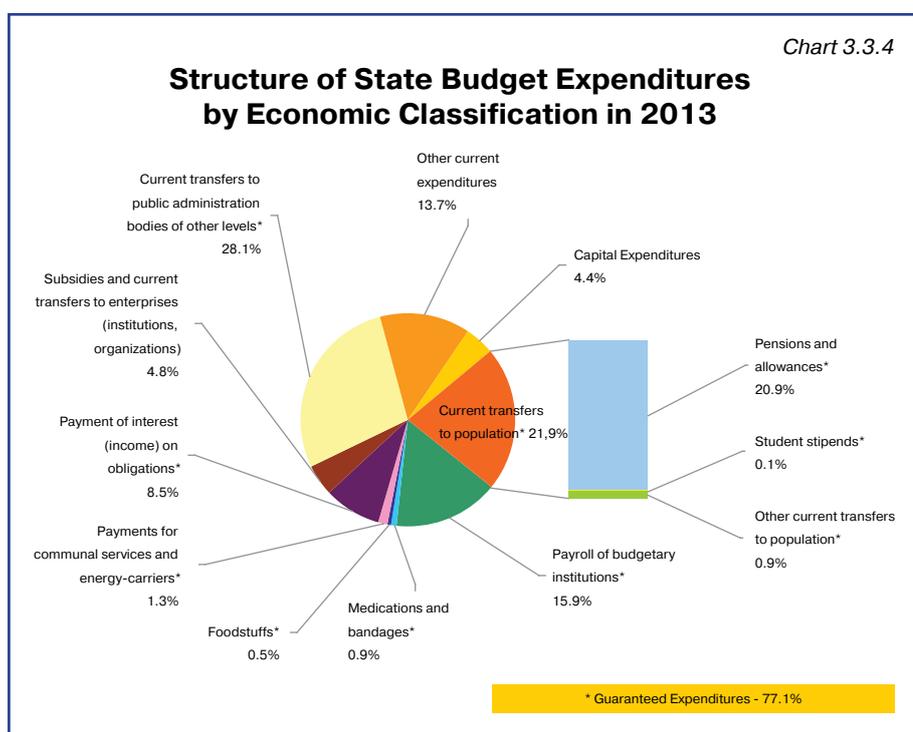
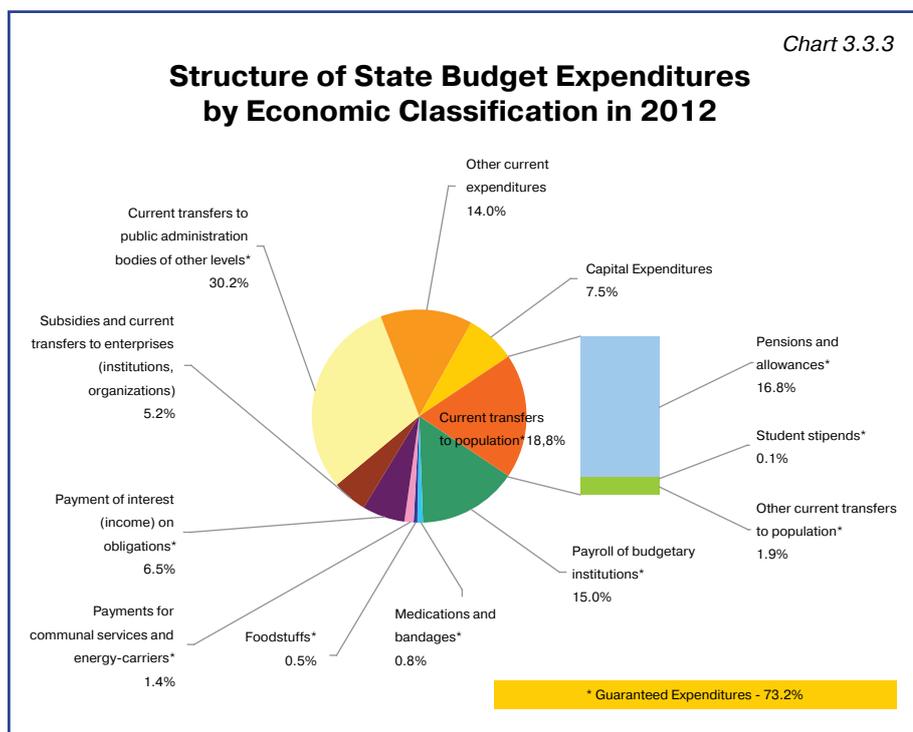
As seen from the data of Table 3.3.5, expenditures grew for individual items of the economic classification only. As in 2012, there was a decline in capital expenditures (down 39.5%). As the result, the share of capital expenditures in the total expenditures decreased by 3.1ppt to 4.4%.

Table 3.3.5

State Budget Expenditures (with Intergovernmental Transfers) by Economic Classification in 2011-2013

Expenditures by economic classification	2011			2012			2013		
	Plan, UAH mn	Actual, UAH mn	Execution, %	Plan, UAH mn	Actual, UAH mn	Execution, %	Plan, UAH mn	Actual, UAH mn	Execution, %
Current expenditures	311 548.5	302 173.1	97.0	381 756.5	366 180.3	95.9	403 147.4	385 611.8	95.7
Payroll of budgetary institutions	41 712.3	41 517.9	99.5	45 769.2	45 272.4	98.9	48 790.7	48 632.7	99.7
Taxes on payroll	13 080.9	12 945.8	99.0	14 794.1	14 501.9	98.0	15 817.8	15 681.0	99.1
Medicines and bandaging materials	2 655.5	2 603.9	98.1	3 250.3	3 197.4	98.4	3 730.8	3 625.1	97.2
Foodstuffs	2 182.6	2 138.9	98.0	2 129.2	2 081.3	97.7	1 965.5	1 923.9	97.9
Payment for communal services and energy carriers	4 336.4	4 187.4	96.6	5 634.8	5 391.8	95.7	5 629.4	5 330.3	94.7
Servicing of debt obligations	24 655.9	24 591.2	99.7	25 989.1	25 753.3	99.1	35 226.9	34 409.3	97.7
Subsidies and current transfers to enterprises (institutions, organizations)	15 486.5	14 468.2	93.4	22 277.6	20 528.7	92.1	20 576.9	19 268.8	93.6
Current transfers to government bodies of other levels	89 607.6	88 311.2	98.6	121 817.3	119 610.4	98.2	117 513.6	113 227.7	96.4
Social security, including:	63 241.7	63 175.5	99.9	75 969.0	74 283.5	97.8	88 535.5	88 404.2	99.9
• <i>payment of pensions and allowance</i>	<i>60 371.2</i>	<i>60 367.0</i>	<i>100.0</i>	<i>66 560.3</i>	<i>66 557.2</i>	<i>100.0</i>	<i>84 508.9</i>	<i>84 505.8</i>	<i>100.0</i>
• <i>student grants</i>	<i>259.2</i>	<i>258.6</i>	<i>99.8</i>	<i>285.9</i>	<i>282.5</i>	<i>98.8</i>	<i>294.9</i>	<i>294.2</i>	<i>99.8</i>
• <i>other current transfers to the population</i>	<i>2 611.3</i>	<i>2 550.0</i>	<i>97.7</i>	<i>9 122.8</i>	<i>7 443.8</i>	<i>81.6</i>	<i>3 731.7</i>	<i>3 604.2</i>	<i>96.6</i>
Other current expenditures	54 589.1	48 233.1	88.4	64 125.9	55 559.5	86.6	65 360.3	55 108.8	84.3
Capital expenditures, including:	43 727.7	31 241.4	71.4	45 038.2	29 501.2	65.5	29 584.1	17 844.2	60.3
Capital construction/acquisition	2 951.2	1 701.7	57.7	3 599.9	2 609.9	72.5	2 225.3	1 105.2	49.7
Capital repairs, reconstruction, and restoration	1 990.2	814.9	40.9	5 017.8	2 855.0	56.9	3 745.3	1 941.3	51.8
Capital transfers	32 067.3	23 457.3	73.2	30 191.5	19 973.2	66.2	18 453.8	10 719.7	58.1
Unallocated expenditures	240.4	0.0	0.0	246.0	0.0	0.0	199.4	0.0	0.0
Expenditures total (with intergovernmental transfers)	355 516.6	333 414.5	93.8	427 040.7	395 681.5	92.7	432 930.9	403 456.0	93.2

The structure of State budget expenditures by economic classification changed somewhat compared to 2012 (see Chart 3.3.3 and Chart 3.3.4).



The change in the structure of expenditures by economic classification is due to certain structural changes. In particular, the budget capacity to implement capital investments worsened significantly.

Thus, the share of current expenditures increased to 95.6%, which occurred due to higher expenditures for social security,

the proportion of which increased by 3.1ppt, including by 4.1ppt for the payment of pensions and allowances, and they accounted for approximately one fifth of all State budget expenditures. Current transfers to government bodies of other levels accounted for 28.1% of all budget expenditures. However, their share dropped by 2.1ppt against last year; payroll with taxes accounted for 15.9%; and servicing of debt obligations accounted for 8.5%.

Both the amount and level of execution of capital expenditures declined. They totaled UAH 17.8bn, which is UAH 11.7bn or 39.5% less than in 2012. The level of their execution decreased by 5.2ppt to 60.3%.

A negative factor is an increase in the share of protected items of State budget expenditures by economic classification of up to 77.1%, which is 3.9ppt more than the respective 2012 figure.

EXPENDITURES BY PROGRAM CLASSIFICATION

The status of execution of expenditures of the State budget of Ukraine by program classification in 2011-2013 is summarized in Appendix A.

There were 651 State budget programs implemented in 2013 or 28 budget programs less than in 2012. Some 35 budget programs approved in the State budget for the total amount of UAH 2.6bn were not funded at all.

Those best-funded against the annual plan were the programs of the following key spending units:

- Prosecutor General's Office – 100.0%;
- National TV and Radio Broadcasting Board of Ukraine – 99.9%;
- State Protection Service of Ukraine – 99.7%;
- Ministry of Social Policy of Ukraine – 99.6%;
- Security Service of Ukraine, External Intelligence Service of Ukraine – 99.6%;
- Principal Intelligence Directorate at the Ukrainian Ministry of Defense, Supreme Judicial Council – 99.5%.

The lowest levels of funding were noted for the following spending units:

- Ukrgazleasing National Joint-Stock Company – 48.2%;
- Ministry of Regional Development, Construction, and Housing and Communal Services of Ukraine – 48.5%;
- National Space Agency of Ukraine – 49.0%;
- National Environmental Investments Agency of Ukraine – 50.7%;
- High Commercial Court of Ukraine – 53.9%.

BUDGET CREDIT PROVISION / BUDGET CREDIT REPAYMENT

The credits provided by the State budget totaled UAH 6.0bn or 40.9% of the annual plan, and **repaid credits** totaled UAH 5.5bn or 45.6%. The level of execution of the annual plan for credit provision dropped by 9.7ppt, and that for credit repayment increased by 27.9ppt.

The indicators of credit provision from and credit repayment to the State budget of Ukraine in the last three years are summarized in Table 3.3.6.

Table 3.3.6

Indicators of Credit Provision and Repayment from/to the Budget in 2011-2013

Indicators \ Years	2011			2012			2013		
	Annual plan, UAH mn	Actual, UAH mn	Execution, %	Annual plan, UAH mn	Actual, UAH mn	Execution, %	Annual plan, UAH mn	Actual, UAH mn	Execution, %
Crediting, including:	-1 946.4	4 712.0	x	-983.2	3 856.3	x	2 548.7	477.5	x
- credit provision	13 254.8	7 000.6	52.8	12 219.1	6 188.4	50.6	14 655.1	6 000.0	40.9
- credit repayment	-15 201.2	-2 288.6	15.1	-13 202.3	-2 332.1	17.7	-12 106.4	-5 522.5	45.6

The most **credits** from the State budget were granted in agriculture and public motor roads, and the energy and coal industry, namely:

- UAH 2.7bn to the State Agency of Motor Roads of Ukraine for the Development of Highways and Road Sector Reform budget program;
- UAH 0.95bn to the Ministry of Energy and Coal Industry of Ukraine for the budget program Construction, Reconstruction, and Technical Re-equipment of Fuel and Energy Complex Facilities (at the Expense of the Funds Attracted under State Guarantees on a Repayable Basis); and
- UAH 0.6bn to the Ministry of Agrarian Policy and Food of Ukraine under the Formation by the Agrarian Fund of the State Intervention Fund budget program, as well as for the procurement of materials and equipment for agricultural producers.

Credit repayment primarily took place under the item of other economic activities.

- Ministry of Finance of Ukraine under the following programs:
 - Repayment of Budget Funds Provided on a Repayable Basis for Implementation of Individual Activities – UAH 3.7bn;
 - Repayment of Loans Provided for Financing Development Projects at the Expense of Funds Attracted by the State – UAH 0.7bn;
- Ministry of Agrarian Policy and Food of Ukraine under the program Repayment of Funds Provided for the Formation by the Agrarian Fund of the State Intervention Fund, as well as for the Procurement of Materials and Equipment for Agricultural Producers – UAH 0.95bn.

3.4. EXECUTION OF LOCAL BUDGETS IN 2013

LOCAL BUDGET REVENUES

According to the State Treasury of Ukraine, the **General Fund and Special Fund of local budgets (with intergovernmental transfers)** received UAH 221.0bn in 2013, which is 1.9% or UAH 4.4bn less than in 2012.

The receipts without intergovernmental transfers totaled UAH 105.2bn, which is 4.4% more than in 2012.

The level of execution of the annual revenue plan approved by local councils amounted to 93.5% vs. 103.4% according to 2012 data.

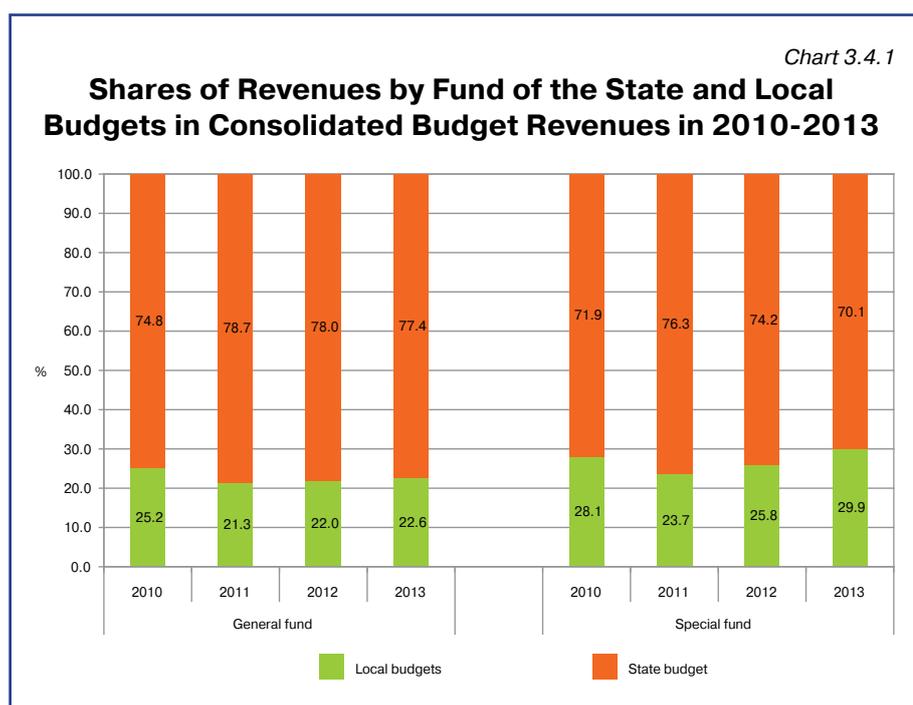
The actual intake of local budget revenues is summarized in Table 3.4.1.

Table 3.4.1

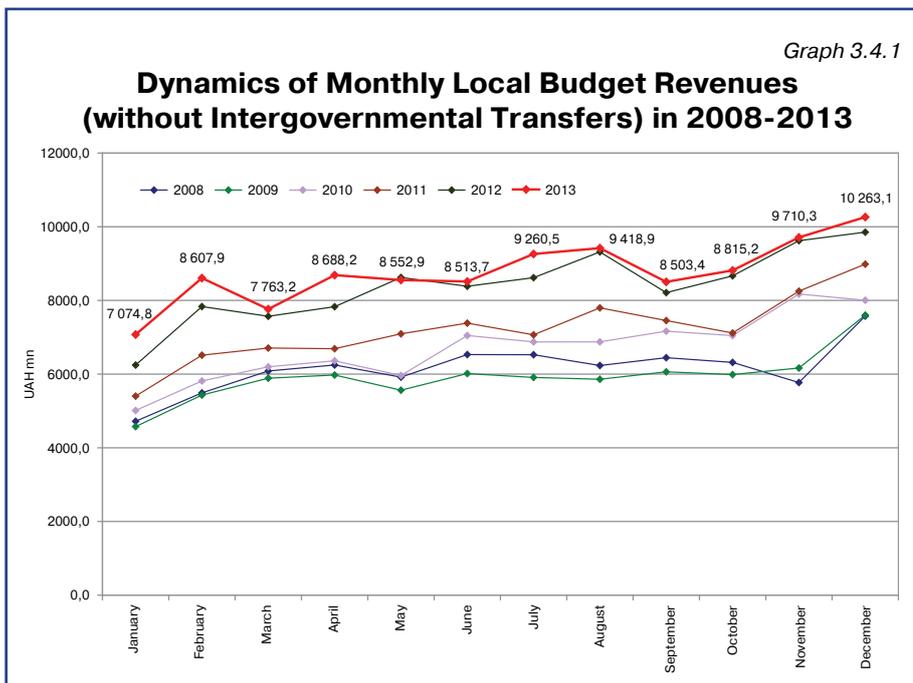
Local Budget Revenues (without Intergovernmental Transfers) in 2011-2013

Revenues	Actual in 2011	Actual in 2012	MOF 2013 estimates	2013 plan with revisions	Actual in 2013	Execution of MOF estimates, %	Execution of plans approved by local councils, %
Total, UAH mn, including:	86 456.6	100 813.8	103 141.4	112 483.5	105 171.1	102.0	93.5
– General Fund	71 391.2	81 207.9	89 553.1	91 689.5	84 892.1	94.8	92.6
– Special Fund	15 065.4	19 605.9	13 588.3	20 794.0	20 279.0	149.2	97.5

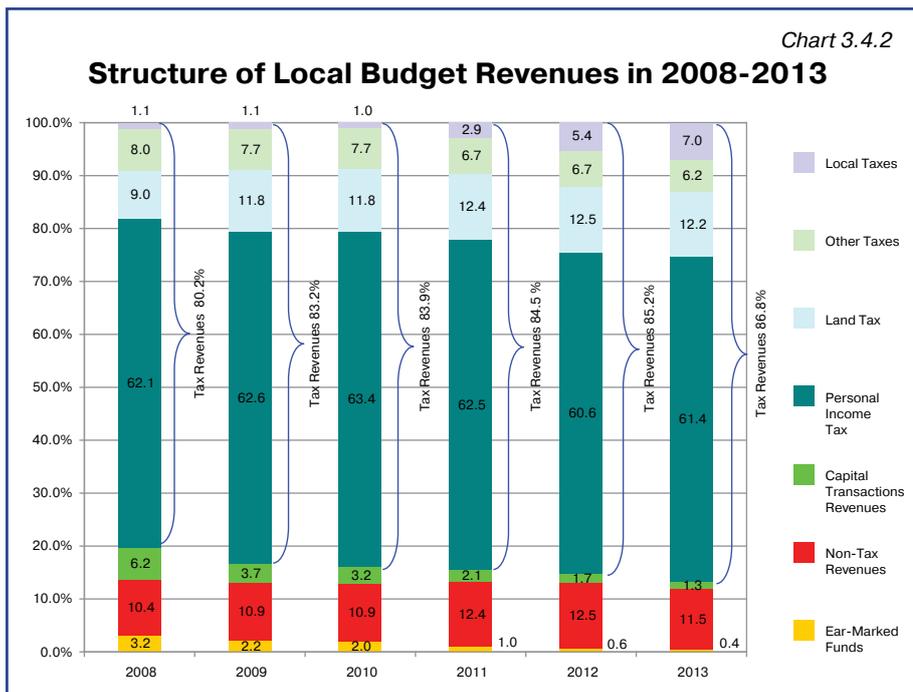
The share of local budget revenues in the consolidated budget amounted to 23.8%, with a 1.1ppt year-on-year growth. Both the Special Fund (+4.1ppt) and General Fund (+0.6ppt) increased (see Chart 3.4.1).



Compared 2012, the growth rate for monthly reserves slowed down in 2013, which reflects the worsening macroeconomic situation in the country (see Graph 3.4.1).



The share of tax revenues grew in the structure of local budget revenues for the fifth successive year. This growth occurred primarily at the expense of local taxes and fees, the proportion of which increased by 1.6ppt to 7.0%. The growth of revenues from the single tax is the single largest contributor to this increase (see Chart 3.4.2).



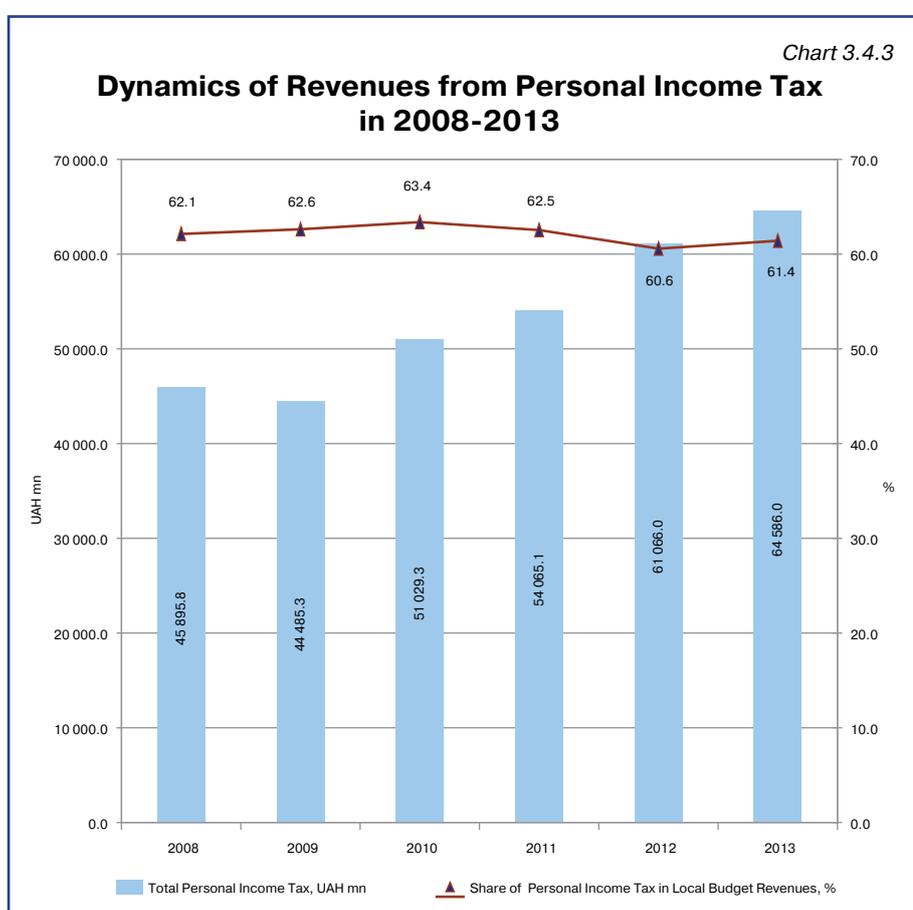
TAX REVENUES

Tax revenues account for 86.8% of all local budget revenues (without intergovernmental transfers). They totaled UAH 91.2bn, which is 6.2% more than in 2012.

PERSONAL INCOME TAX

The personal income tax continues to be the single most important source of local budget revenues at 61.4% of total local budget revenues. This tax also accounts for 76.1% of the General Fund of local budgets. The revenues from this tax totaled UAH 64.6bn, which is 6.9% more year-on-year. The annual revenue plan for this tax was executed by 92.3% vs. 97.0% in 2012.

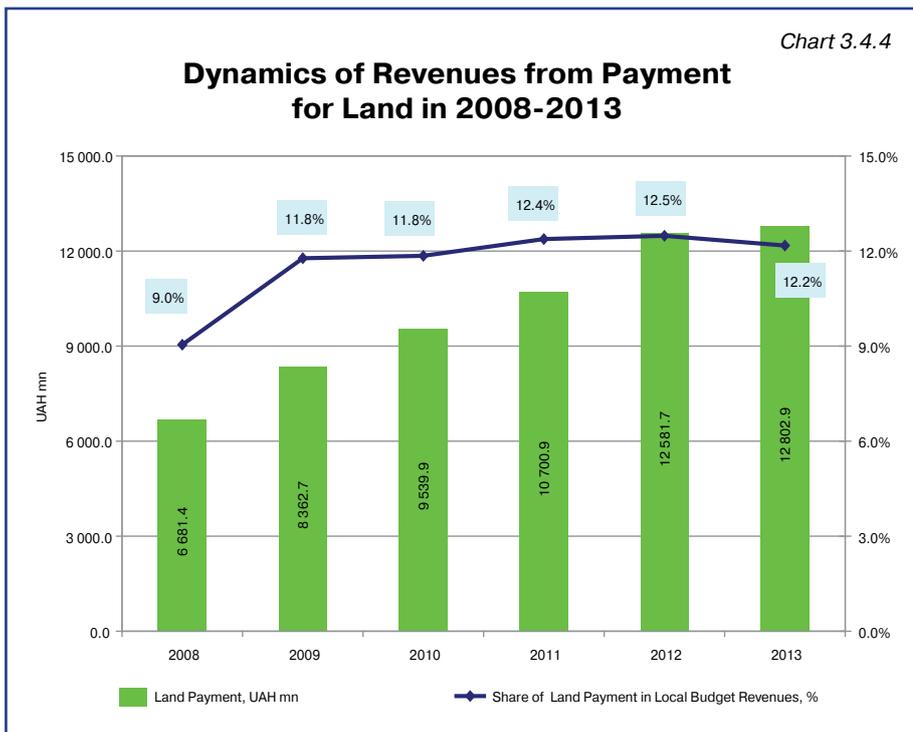
The dynamics of revenues from the personal income tax is summarized in Chart 3.4.3.



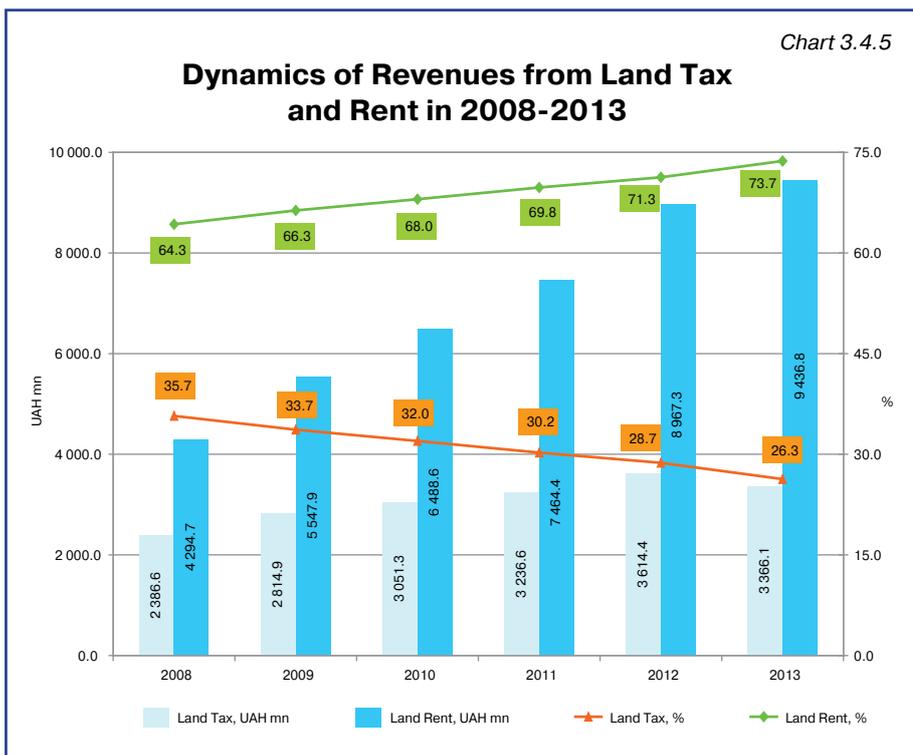
PAYMENT FOR LAND

As usual, **payment for land** is the second most important source of local budget revenues. This source generated over UAH 12.8bn, which is 1.8% more than in 2012 (see Chart 3.4.4).

The annual revenue plan for this tax was only fulfilled by 87.3%. The absence of a positive dynamic in the growth rate of revenues from this source is indicative of the need to revise the approaches to determining the land tax base of taxation.

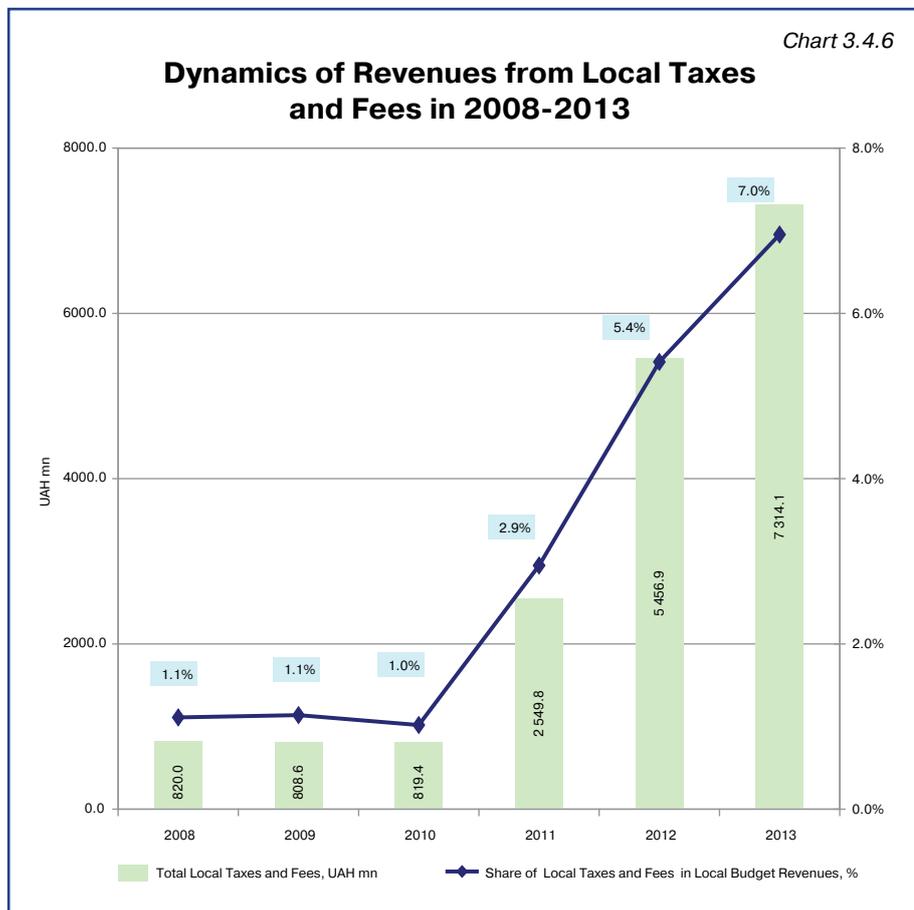


A trend continued in 2013 of the increasing proportion of rent for plots of land with a simultaneous decrease of the land tax. This is explained by rent rates not rising, while the land tax rates are fixed. Therefore, under this arrangement of land taxation, a further increase in the amounts of land rent against a significantly slower increase in the land tax proper could be projected, with the concurrent absence of any noticeable rates of growth of revenues from this source (see Chart 3.4.5).



LOCAL TAXES AND FEES

Local budgets received UAH 7.3bn from local taxes and fees in 2013, which is 34.0% more than in 2012. Their share in the structure of local budget revenues increased to 7.0% (see Chart 3.4.6), and that in the structure of General Fund revenues of local budgets increased to 8.6%.



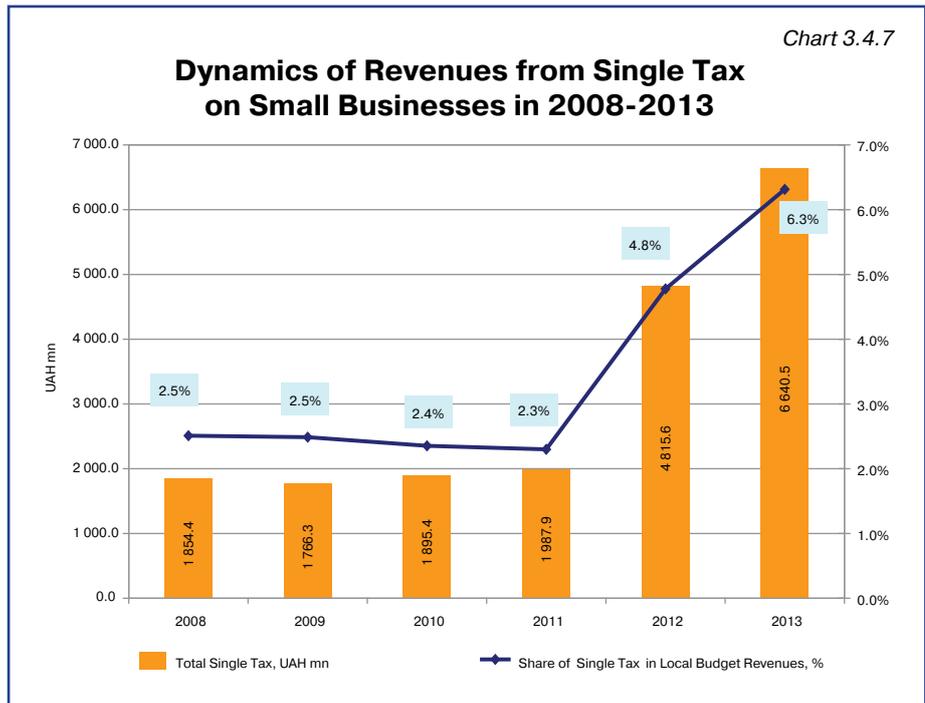
It is worth keeping in mind that after the adoption of the Tax Code of Ukraine in 2011, the structure of local taxes and fees was significantly changed. Thus, the number of local taxes and fees was reduced from 14 to just five. However, inclusion of the single tax in their number has increased the share of local taxes and fees in the structure of local budget revenues.

SINGLE TAX ON SMALL BUSINESSES

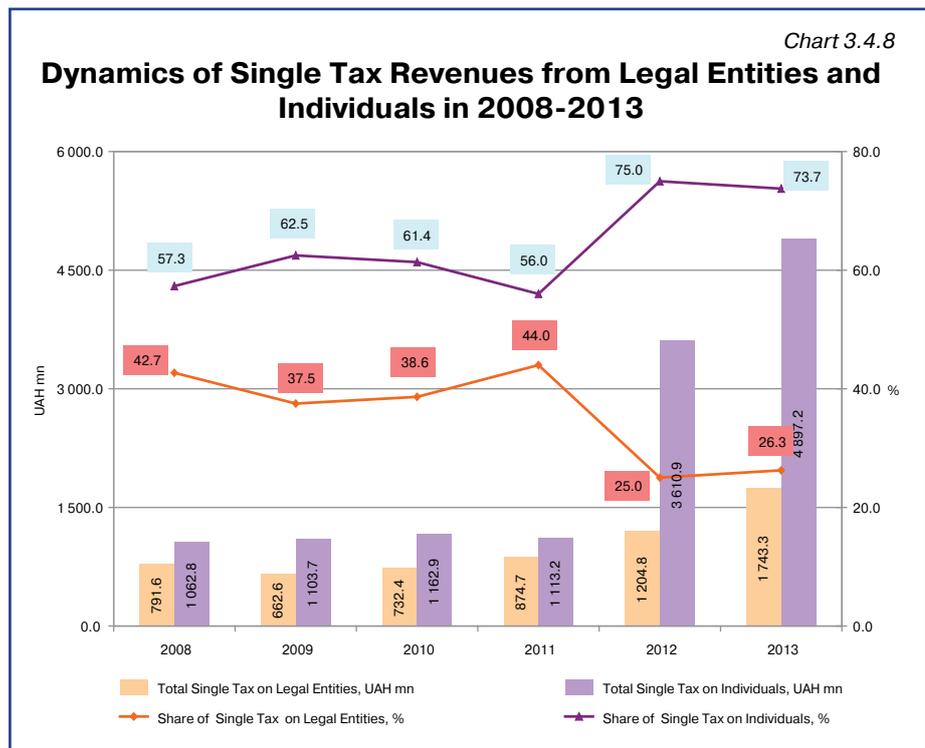
Therefore, the **single tax** is the largest source of all local taxes and fees, generating UAH 6.6bn or 1.4 times more than in 2012 (see Chart 3.4.7).

The annual plan was exceeded by 15.6% or by UAH 0.9bn, which is in line with the estimates made by IBSER in the publication *Budget Monitoring: Analysis of Budget Execution in January-September 2013*.

It should be noted that this growth was mainly due to an increase in the number of individual entrepreneurs and small businesses.



Shown in Chart 3.4.8 is the dynamics of revenues from the single tax on legal entities and individuals.



ENVIRONMENTAL TAX

The introduction of a national **environmental tax** to replace the former environmental pollution charge is one of the developments in the Tax Code of Ukraine. This source generated UAH 1.5bn for local budgets and its share in the structure of local budget revenues amounted to 1.5%.

It should be noted that the environmental tax has been paid as of 1 January 2011 by all those using motor fuel, including economic agents, citizens of Ukraine, foreigners, and persons without citizenship who use motor vehicles. The Tax Code calls for the administration of the environmental tax on emission of pollutants in the atmospheric air by mobile sources of pollution via tax agents engaged in wholesale and retail fuel trade.

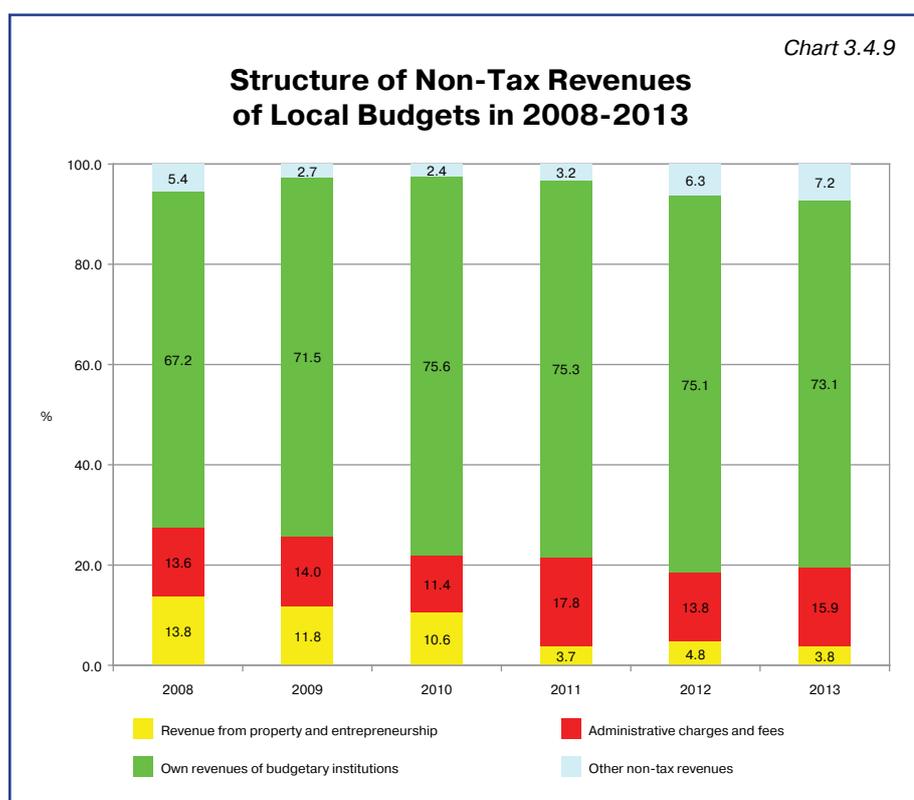
Therefore, the environmental tax is paid by taxpayers at the time of fuel purchase and the tax agents selling the fuel withhold the tax and then remit it to the budget.

By the end of 2012, the tax had been charged at 50% of the rate set by the Tax Code. The charge of 75% of the rate is used in 2013, and 100% of the rate will be used as of 1 January 2014.

NON-TAX REVENUES

The non-tax revenues of local budgets totaled UAH 12.1bn, which is 4.0% less than in 2012.

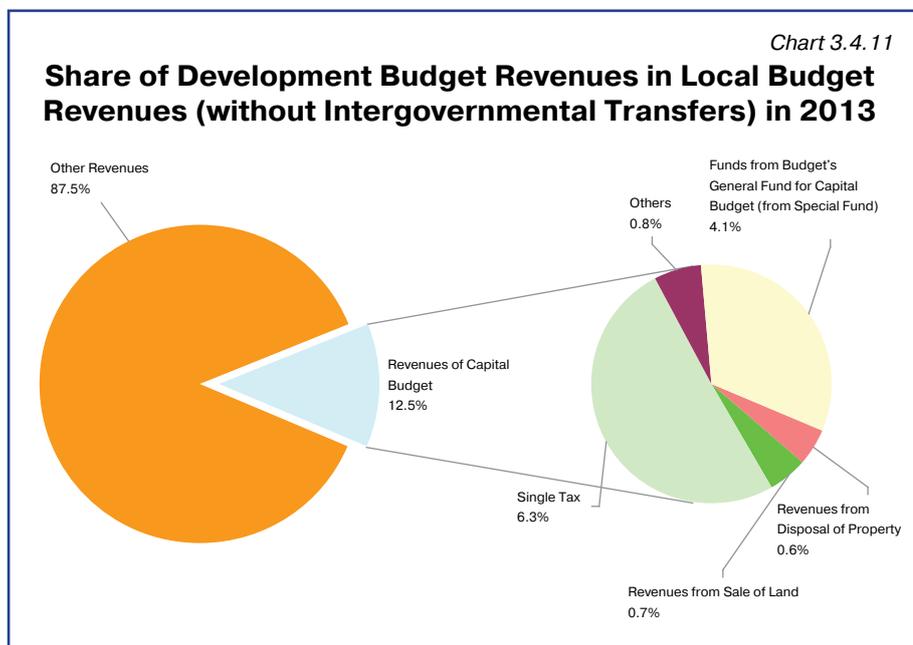
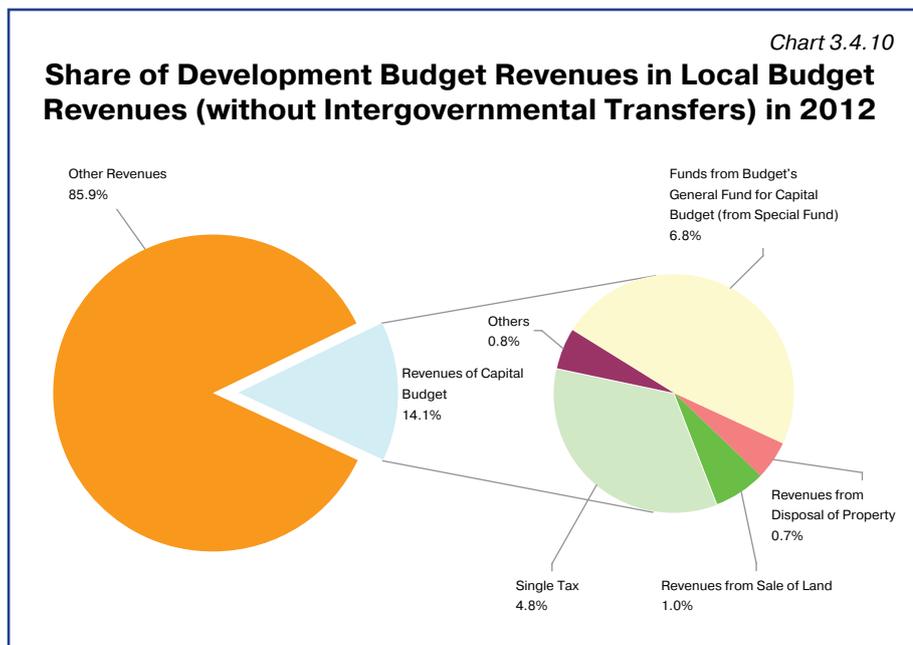
A 2.1ppt increase to 15.9% is noted in the structure of non-tax revenues for administrative charges and fees, with other non-tax revenues increasing by 0.9ppt; the shares of own revenues of budgetary institutions and the income from property and business activity decreasing by 2.0ppt and 1.0ppt, accordingly (see Chart 3.4.9).



As usual, **the own revenues of budgetary institutions** remain the largest item of non-tax local budget revenues. They totaled UAH 8.9bn, which is 6.6% less than in 2012.

DEVELOPMENT BUDGET

The development budget revenues of local budgets (with the funds received from the budget's General Fund going into the development budget) totaled UAH 13.2bn in 2013, which is 7.6% down year-on-year. Accordingly, the share of these revenues in the general structure of local budget revenues declined to 12.5%, which is 1.6ppt less than in 2012 (see Chart 3.4.10 and Chart 3.4.11).



According to the new version of the Budget Code of Ukraine, all revenues from the administration of the single tax are credited to the development budget as of 1 January 2011. Based on the 2013 results, these revenues serve as the key source for the development budget at 50.4% of all its revenues.

The second most important source of revenues involved the funds received from the budget's General Fund of UAH 4.3bn or 32.8%.

The receipts from other types of revenues amounted to 6.4% of all development budget revenues of local budgets, including:

- dividend/income due on shares (stocks, interests) in commercial companies – UAH 23.6mn or 0.2%;
- subventions from other budgets for implementation of investment projects – UAH 249.3mn or 1.9%;
- funds from shared-cost participation in the development of infrastructure of localities (introduced as of 1 January 2012) – UAH 571.2mn or 4.3%.

In addition, the development budget also includes the proceeds from the sale of land (UAH 728.8mn or 5.5%) and the disposal of municipal property (UAH 641.5mn or 4.9%).

LOCAL BUDGET EXPENDITURES

Local budget expenditures (including the funds transferred from local budgets to the State budget) totaled UAH 219.8bn, which is 1.2% less than in 2012.

The amount of local budget expenditures (excluding the funds transferred from local budgets to the State budget) totaled UAH 218.2bn, which is 1.4% less than in 2012.

The Ministry of Finance 2013 estimate was fulfilled by 99.7%, including by 98.7% for General Fund expenditures, and by 109.1% for Special Fund expenditures. The level of execution of the plan approved by local councils for the year 2013 amounts to 89.6%.

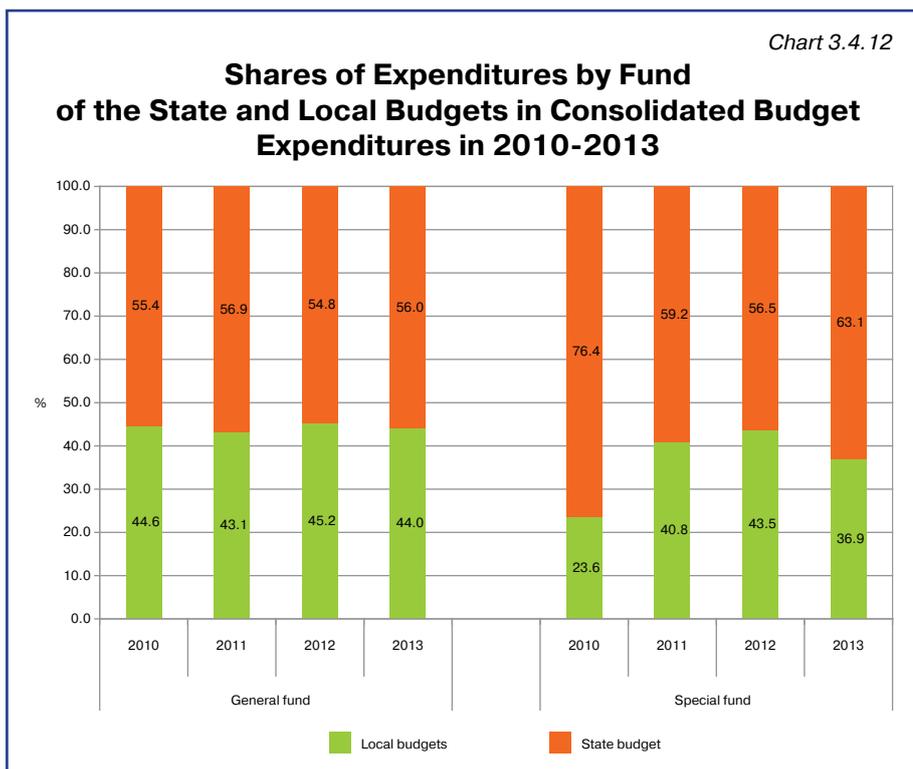
The actual expenditures of local budgets are summarized in Table 3.4.2.

Table 3.4.2

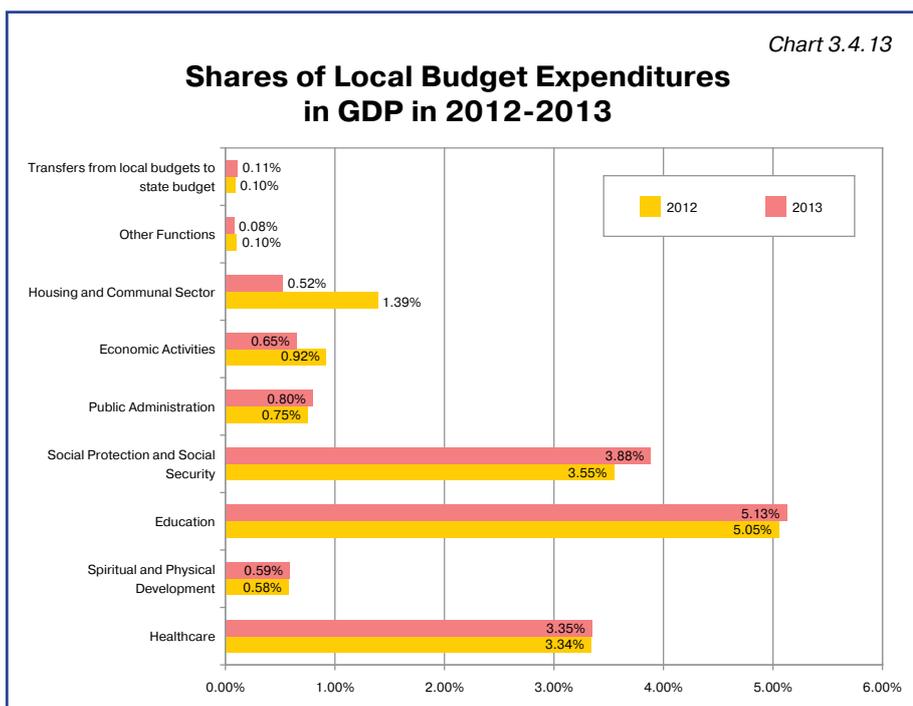
Local Budget Expenditures (without the Funds Transferred from Local Budgets to the State Budget) in 2011-2013

Expenditures	Actual in 2011	Actual in 2012	MOF 2013 estimates	Plan for 2013 with amendments	Actual in 2013	Execution of MOF estimates, %	Execution of plans approved by local councils, %
Total, UAH mn, including:	178 070.5	221 232.8	218 852.9	243 539.0	218 236.1	99.7	89.6
– General Fund	149 833.2	188 638.6	197 470.7	202 664.2	194 900.9	98.7	96.2
– Special Fund	28 237.3	32 594.2	21 382.2	40 874.8	23 335.2	109.1	57.1

The share of local budget revenues in the consolidated budget amounted to 43.1%, which is 1.8ppt less than in 2012. Also, the share of General Fund expenditures was 1.2ppt down year-on-year and amounted to 44.0%; the share of Special Fund expenditures decreased by 6.6ppt to 36.9% (see Chart 3.4.12).

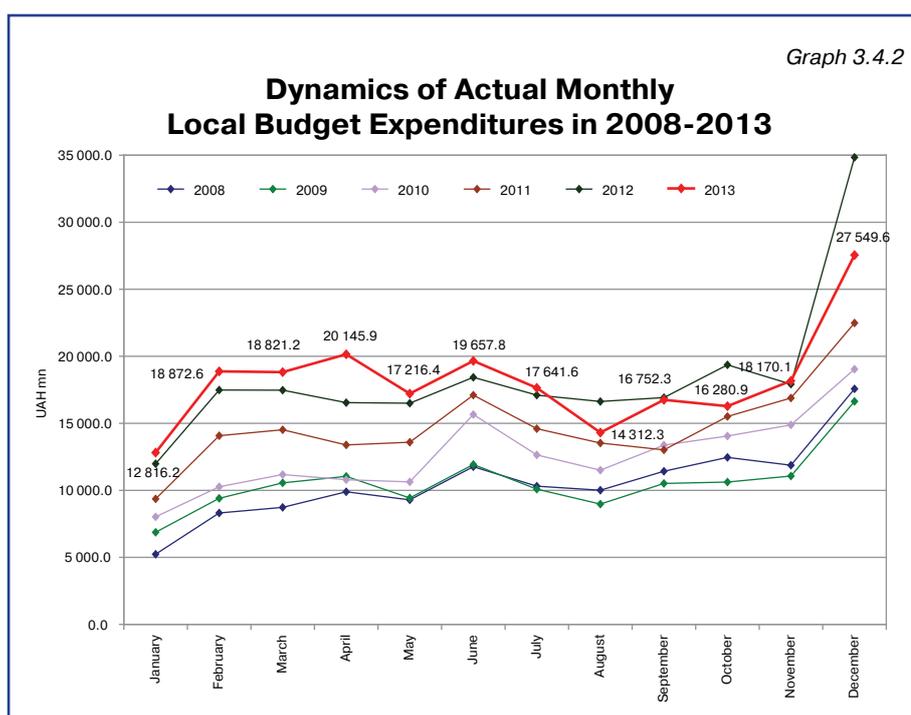


According to the 2013 data, the level of GDP redistribution via local budgets of Ukraine¹⁷ amounts to 15.1%, which is 0.7ppt less year-on-year. The most significant decreases of this indicator are in expenditures for housing and communal services (by 0.9ppt) and expenditures for economic activity (by 0.3ppt) (see Chart 3.4.13). The greatest increase of this share occurred in expenditures for social protection and social security (+0.3ppt).



17 The share of local budgets in GDP

In general, the dynamics of local budget expenditures follows the trends of recent years (see Graph 3.4.2) except for August, when expenditures dropped by 18.9% against July, which is the highest such figure in the last seven years (down 11.0% in the post-crisis year 2009). The customary annual growth of local budget expenditures was observed in June against May due to disbursement of vacation pay to education workers. In September, local budget expenditures increased by 17.1% against August and all but reached the 2012 figure. An annual year-end increase in expenditures was observed in December; however, they were 20.9% lower year-on-year.



GENERAL AND SPECIAL FUNDS

The General Fund expenditures of local budgets totaled UAH 194.9bn. Their amount increased by 3.3% year-on-year. Execution of the annual plan approved by local councils amounts to 96.2%.

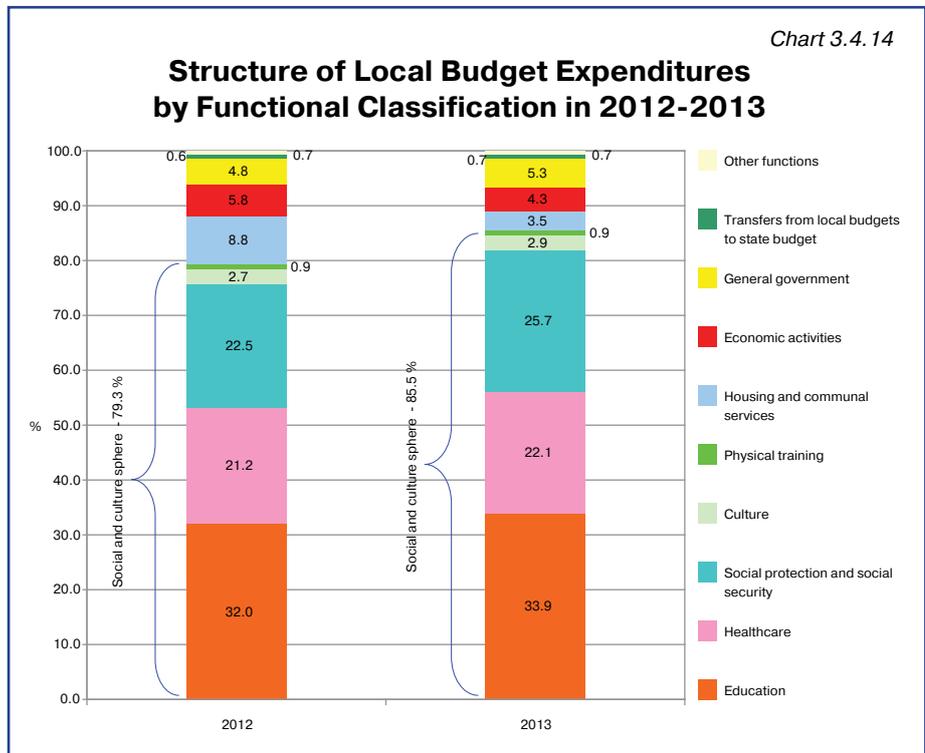
The Special Fund expenditures of local budgets were funded at UAH 23.3bn, which is 28.4% less than in 2012. Execution of the annual plan indicators approved by local councils amounted to 57.1%, which is 25.4ppt less than the 2012 level.

STRUCTURE OF EXPENDITURES BY FUNCTIONAL CLASSIFICATION

The majority of local budget expenditures is typically channeled to society and culture (education, healthcare, social protection and social security, culture and arts, physical culture and sports). In the reporting periods, the aggregate of these expenditures amounted to 85.5% in the overall structure of local budget expenditures, which is 6.2ppt more than the 2012 level (see Chart 3.4.14).

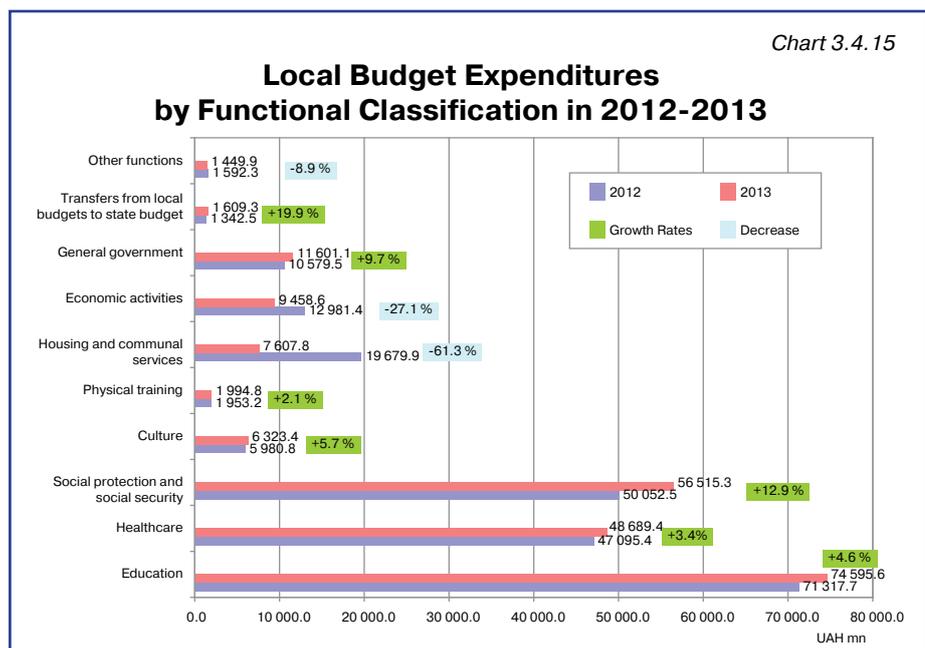
Certain changes occurred in the structure of local budget expenditures by functional classification. Thus, note can be made of a 3.2ppt growth in the share of expenditures for social protection

and social security, and a 5.3ppt and 1.5ppt declines in the shares of expenditures for housing and communal services and economic activity, respectively.



The total expenditures for the social and cultural sphere increased by 6.6% and reached UAH 188.1bn.

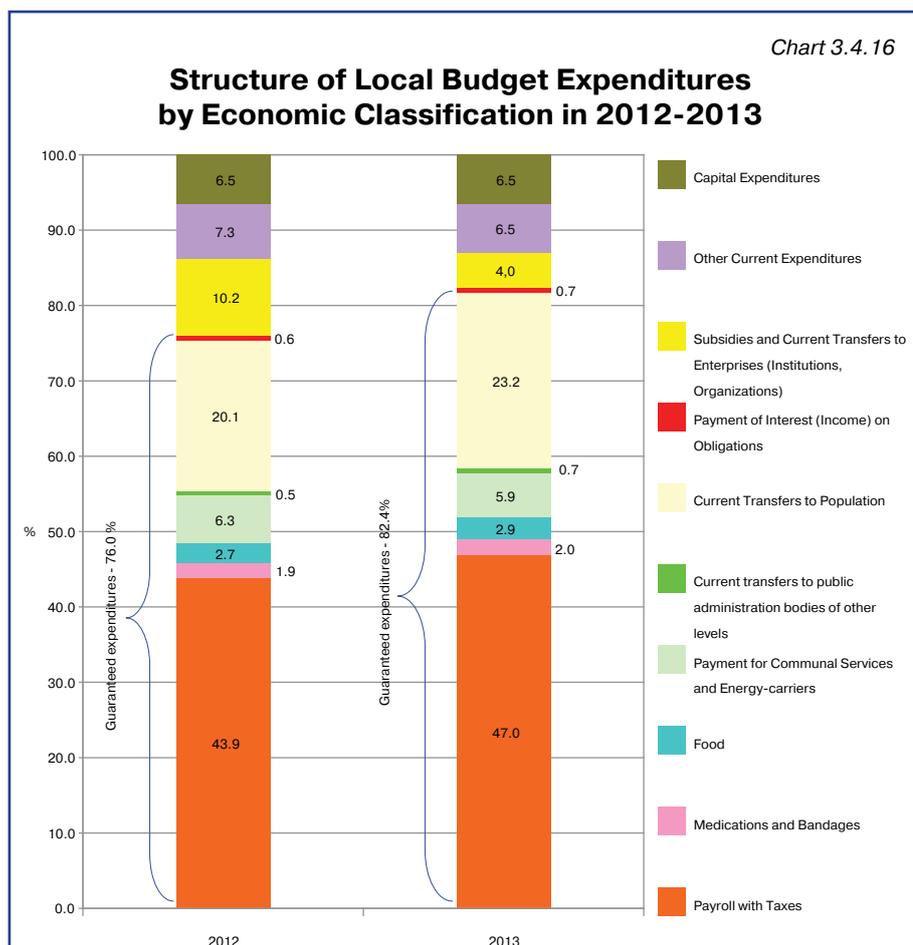
The largest among these include expenditures for education (UAH 74.6bn or 33.9% of all local budget expenditures), for social protection and social security (UAH 56.5bn or 25.7%), and for healthcare of (UAH 48.7bn or 22.1%) (see Chart 3.4.14 and Chart 3.4.15).



Expenditures for public administration were funded at UAH 11.6bn or 9.7% more than in 2012. Also, their share in the structure of local budget expenditures increased by 0.5ppt to 5.3%.

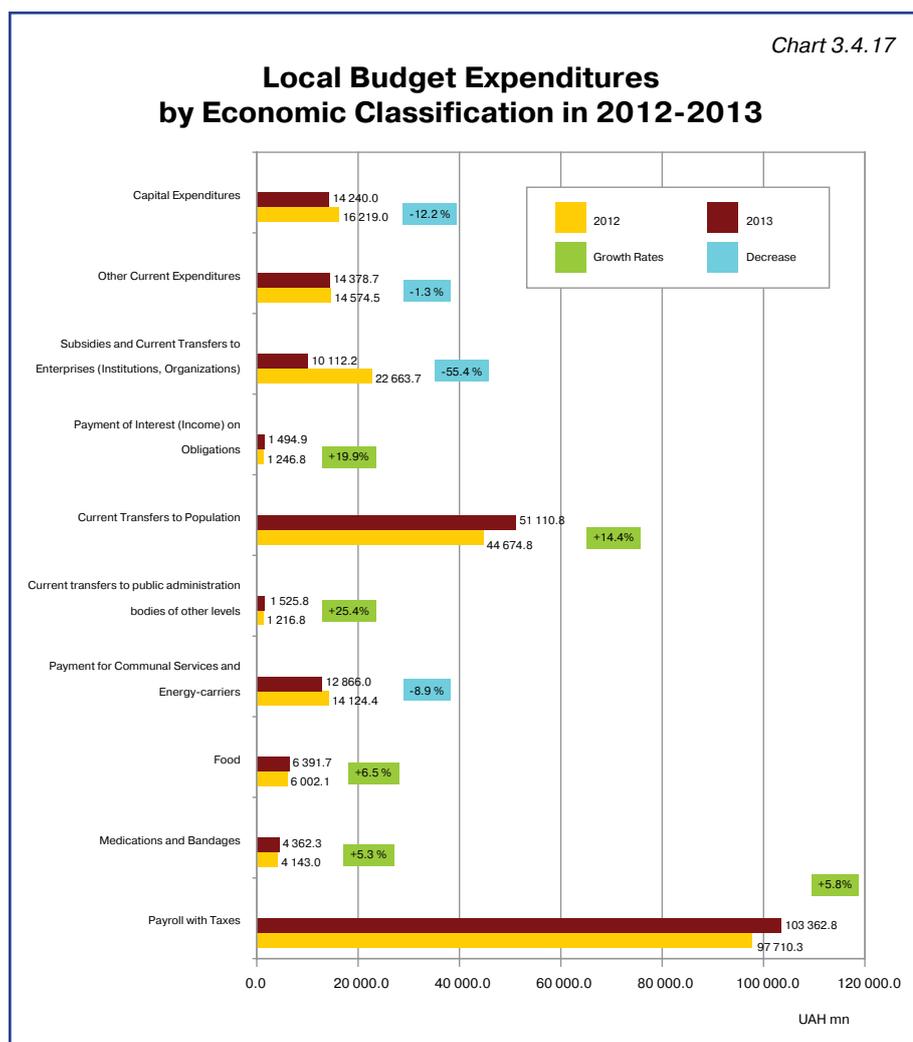
STRUCTURE OF EXPENDITURES BY ECONOMIC CLASSIFICATION

In terms of economic classification, 82.4% of all local budget expenditures are protected items, which is 6.4ppt more than in 2012. (see Chart 3.4.16).



Expenditures for current transfers to the populace and social security rose 3.1ppt to 23.2% of local budget expenditures. Expenditures for payroll with taxes, which is customarily the largest item of all local budget expenditures, also rose 3.1ppt and amounted to 47.0% of local budget expenditures in 2013. The share of expenditures for subsidies and current transfers to enterprises (institutions, organizations) fell 5.6ppt, and the share of expenditures for communal services and energy carriers dropped 0.4ppt to 5.9%.

Overall, the current expenditures of local budgets totaled in excess of UAH 205.6bn, which is nearly 0.4% less than in 2012. Capital expenditures were funded at UAH 14.2bn and their amount decreased by nearly UAH 2.0bn or by 12.2% (see Chart 3.4.17).



INTER- GOVERNMENTAL TRANSFERS FROM STATE BUDGET INTO LOCAL BUDGETS

According to the State Treasury of Ukraine, the amount of UAH 115.8bn in **intergovernmental transfers from the State budget into local budgets** was remitted in 2013, which equals 95.0% of the annual plan. Of this, the General Fund of local budgets received 98.0% of the annual plan. The Special Fund received 41.7% of the planned annual amount.

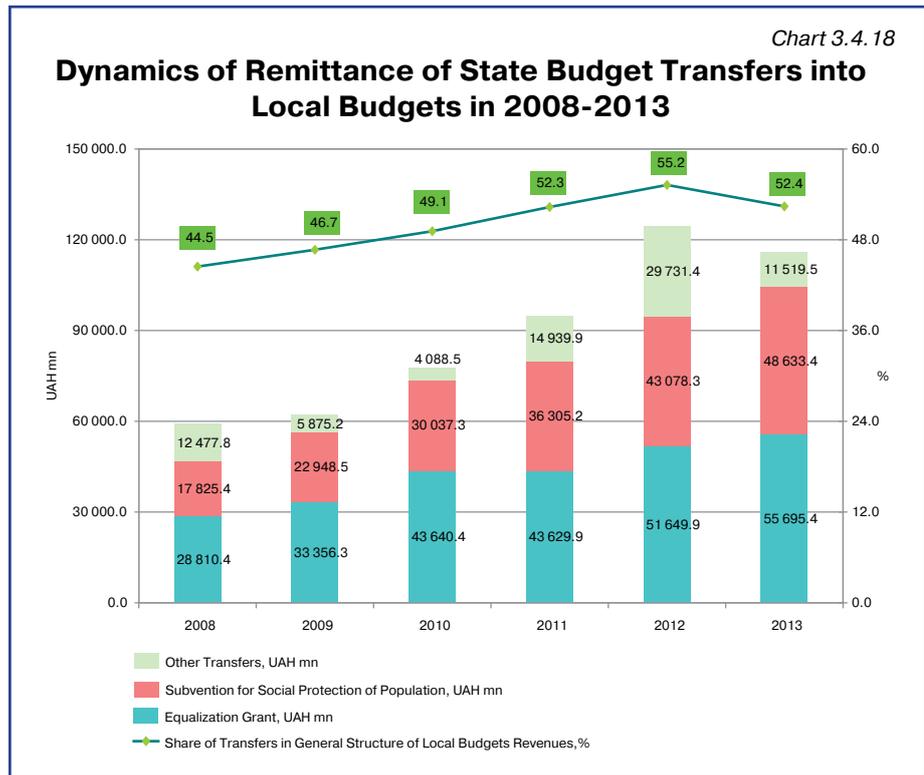
The status of remittance of State budget transfers into local budgets is characterized by the data presented in Table 3.4.3.

Table 3.4.3

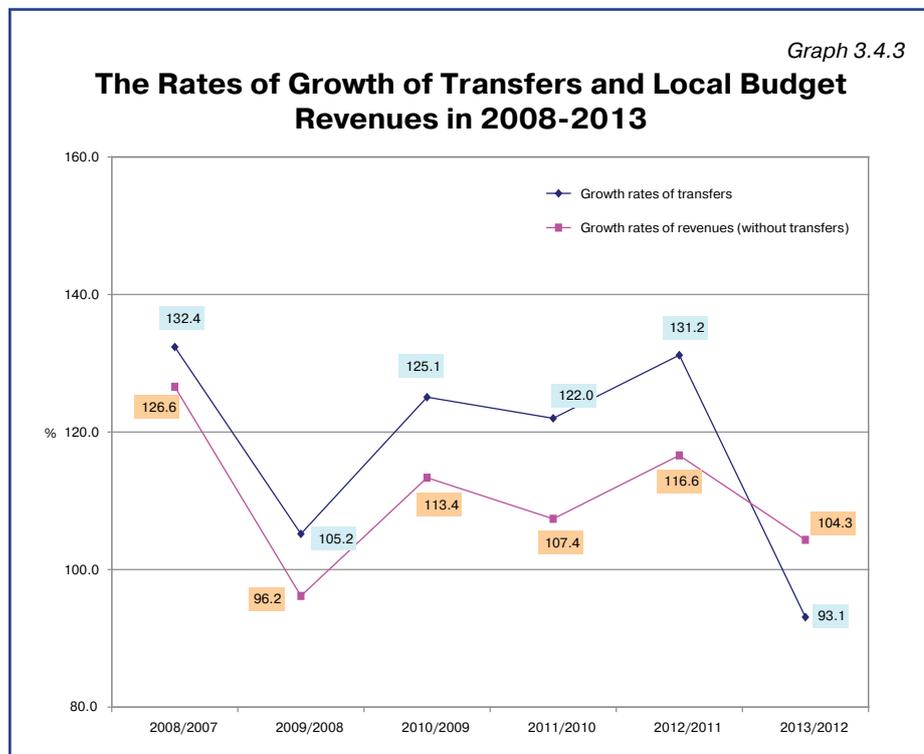
Intergovernmental Transfers from the State Budget into Local Budgets in 2011-2013

Intergovernmental transfers	Actual in 2011	Actual in 2012	Plan for 2013	Actual in 2013	Plan execution, %
Total, UAH mn, including:	94 875.0	124 459.6	121 965.6	115 848.3	95.0
– General Fund	89 743.8	114 625.4	115 421.2	113 116.1	98.0
– Special Fund	5 131.2	9 834.2	6 544.4	2 732.2	41.7

The share of intergovernmental transfers in the revenue structure of local budgets amounted to 52.4%, which is 2.8ppt less than in 2012 (see Chart 3.4.18).

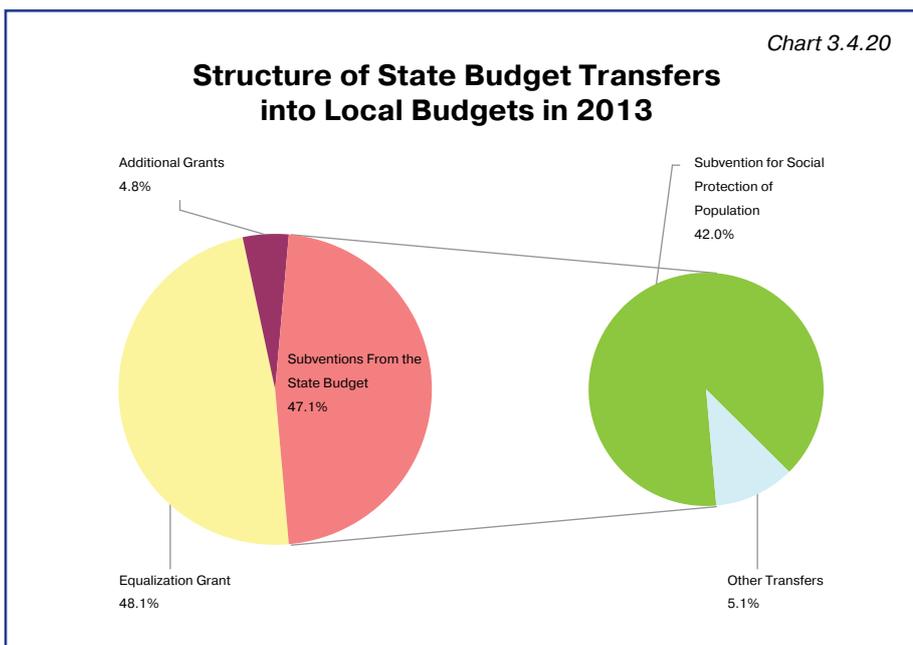
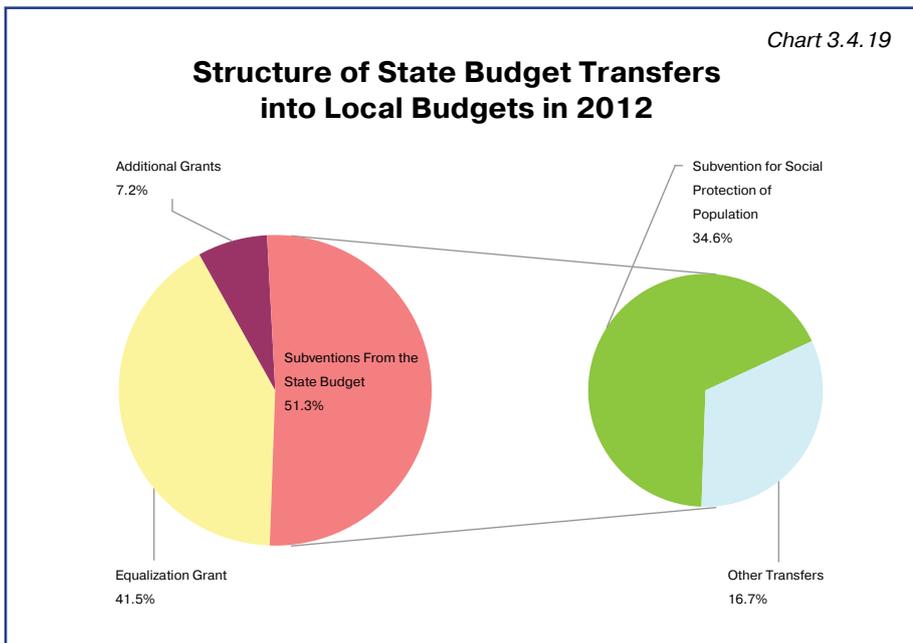


Unlike recent years, the amount of intergovernmental transfers decreased by 6.9% year-on-year. It should be noted that the rate of growth of transfers was lower than that of local budget revenues for the first time in the monitoring period (see Graph 3.4.3).



As usual, the equalization grant has the largest share in the structure of transfers at 48.1% (41.5% in 2012). Also, the share

of social subventions increased by 7.4ppt and amounted to 42.0% (see Chart 3.4.19 and Chart 3.4.20).

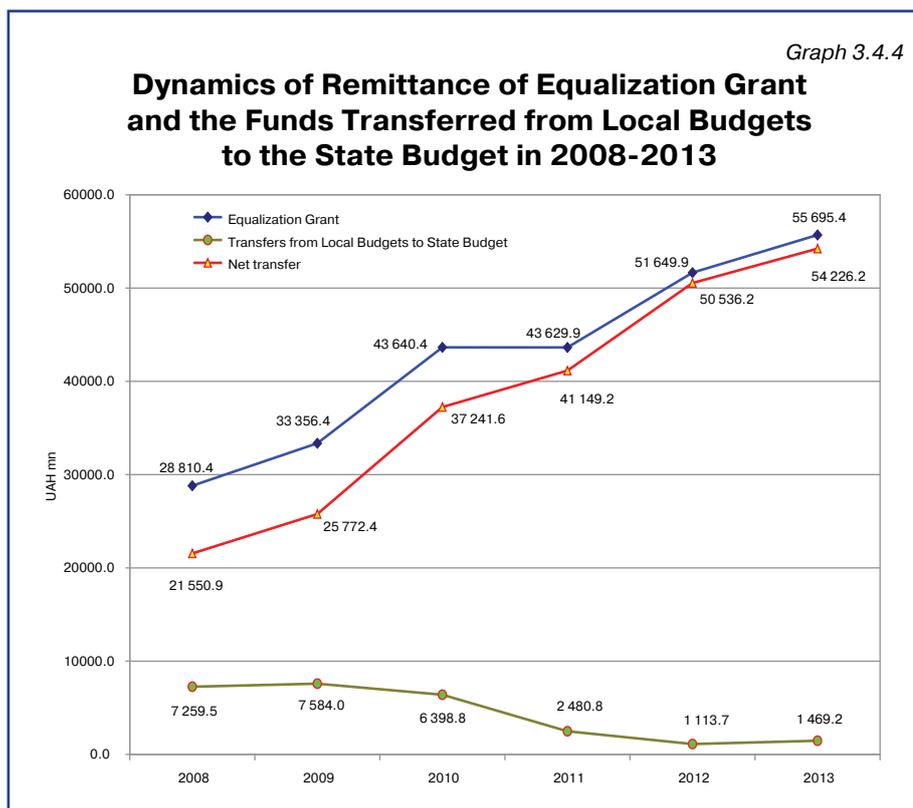


The equalization grant was remitted at the amount of UAH 55.7bn, which equals 100.0% of the annual plan, with the respective 2012 figure at UAH 51.6bn (see Graph 3.4.4).

EQUALIZATION GRANT

At the same time, the amount of funds transferred from local budgets to the State budget increased by 31.9%. Thus, the net equalization transfer¹⁸ totaled more than UAH 54.2bn (see Graph 3.4.4), which is 7.3% more year-on-year.

¹⁸ The net equalization transfer is a difference between the equalization grant and the amount of funds transferred to the State budget.



OTHER GRANTS

In 2013, the following additional State budget grants were remitted to local budgets:

- for equalizing the financial sufficiency of local budgets (nearly UAH 5.0bn);
- for raising the level of financial support to disabled persons of categories I or II due to mental disorders (UAH 241.4mn);
- for compensation of the loss of income by local budgets due to the tax benefits in land tax granted by the State to space research and aircraft building entities (UAH 147.9mn);
- for compensation of the loss of income caused by stationing of Russian Federation's Black Sea Fleet in the cities of Sevastopol, Feodosiya, and urban-type settlement Hvardiyske, Simferopol district (UAH 119.4mn);
- for implementing the functions established by the Law of Ukraine "On Approving the Constitution of the Autonomous Republic of Crimea" (UAH 34.1mn);
- to the Slavutych municipal budget for ensuring the maintenance of the city's social infrastructure (UAH 10.0mn).

As in 2012, all additional grants were funded in full according to annual allocations.

SUBVENTIONS FOR SOCIAL PROTECTION OF POPULATION

Social subvention remittances totaled UAH 48.6bn in 2013, including:

- subvention for the payment of allowances to families with children, low-income households, persons disabled from birth, disabled children, and temporary State allowances

to children – UAH 39.6bn, which amounts to 99.6% of the annual plan;

- subvention for granting benefits and housing subsidies to the populace to pay for electric power, natural gas, heat supply, water supply, and water removal services, housing rent, removal of solid household waste and liquid waste – UAH 6.0bn or 93.6% of the annual plan;
- subvention for granting telecommunications benefits, for the compensation of the loss of part of the income related to the cancellation of the tax on owners of motor vehicles, and compensation for preferential transport fare for certain categories of citizens – UAH 1.8bn or 86.4% of the annual plan;
- subvention for granting benefits and housing subsidies to the population for purchasing solid and liquid household furnace fuel and liquefied gas – UAH 733.0mn or 95.3% of the annual plan;
- State budget subvention to local budgets for paying up State social allowances for orphaned children and children left without parental care, cash allowances to parent caregivers and foster parents for the provision of social services in family-type children's homes and foster families based on the "money follows the child" principle – UAH 460.5mn or 94.6% of the annual plan.

OTHER SUBVENTIONS

In addition to the social subventions, it was envisaged to provide 25 types of other subventions to local budgets in 2013 (see Appendix B). In general, they were funded at nearly UAH 6.0bn or 53.5% of the annual plan.

The subventions funded at their full annual amount were granted:

- for financing the activities of socioeconomic compensation of risks to the population living within the surveillance area (UAH 178.5mn);
- to the Ternopil Oblast budget for the continued construction of residential buildings in the city of Pochayiv, Kremenets' district, for the resettlement of unauthorized persons from the territory of the Holy Dormition Pochayiv Lavra (UAH 15.6mn);
- to the Shats'k district budget, Volyn' Oblast for continued construction and capital repairs of the roads Shats'k – Svityaz' – Zalissyia – Pulmo – Shats'k, including for payment for the work completed in 2012 (UAH 10.4mn).

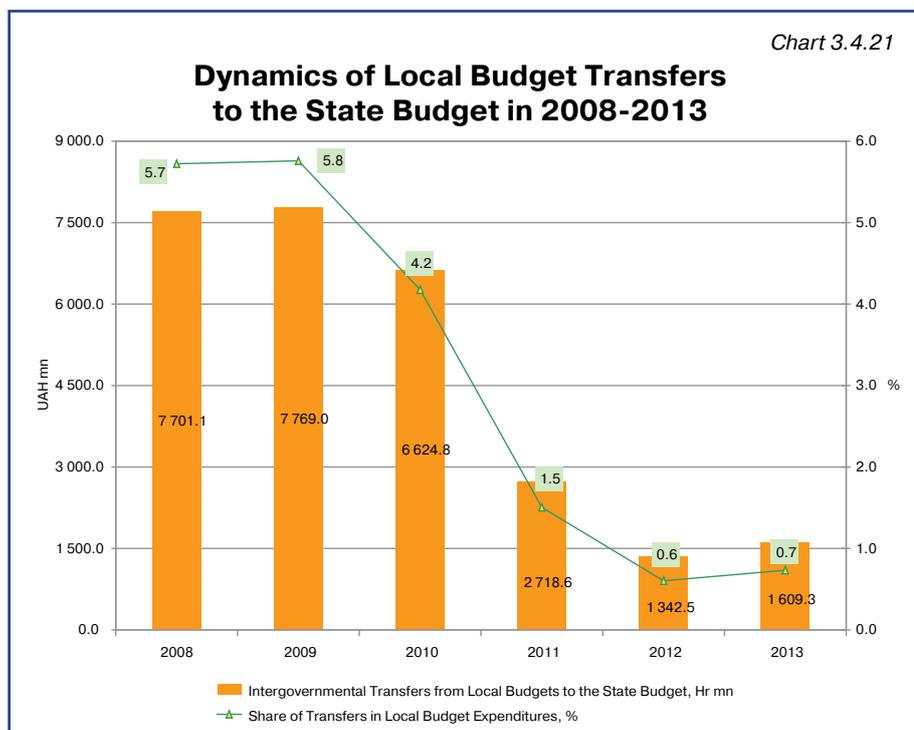
TRANSFERS FROM LOCAL BUDGETS TO THE STATE BUDGET

The State budget of Ukraine received from local budgets a total of UAH 1.6bn in **intergovernmental transfers**, which is 19.9% more than in 2012.

The funds remitted from local budgets to the State budget totaled UAH 1.4bn or 92.5% of the annual plan.

In addition, the intergovernmental transfers provided from local budgets include subventions for implementing socioeconomic and cultural development programs in the regions. Such subventions were remitted at UAH 140.0mn, which is 38.8% less than in 2012.

In general, the total amount of transfers to the State budget increased by UAH 266.8mn in 2012 and amounted to 0.7% of all local budget expenditures (see Chart 3.4.21).



Expenditures of the State Budget of Ukraine by Program Classification in 2011-2013

Expenditures by program classification	2011			2012			2013		
	Annual plan, UAH mn	Actual, UAH mn	Annual plan execution, %	Annual plan, UAH mn	Actual, UAH mn	Annual plan execution, %	Annual plan, UAH mn	Actual, UAH mn	Annual plan execution, %
Ministry of Internal Affairs of Ukraine	14 368.0	14 061.8	97.9	15 598.9	15 089.3	96.7	16 426.1	15 837.2	96.4
Ensuring the protection of the rights and freedoms of citizens, society, and the state from unlawful encroachments, protection of public order, and counteracting illegal migration	11 362.8	11 199.0	98.6	12 108.0	11 850.6	97.9	12 301.6	12 157.8	98.8
Participation of the Interior Troops in the enforcement of public order and fighting crime, guarding of arrested and convicted persons, and protection of especially important sites	914.5	905.1	99.0	1 305.0	1 262.0	96.7	1 420.9	1 367.9	96.3
Ministry of Energy and Coal Industry of Ukraine	12 005.9	11 251.9	93.7	19 212.6	17 409.2	90.6	16 113.6	15 741.3	97.7
State support to coalmining enterprises for partial coverage of production costs of finished marketable coal products	6 710.2	6 710.2	100.0	10 171.8	10 171.8	100.0	13 301.8	13 301.8	100.0
Support for implementing the Energy Strategy of Ukraine for the period up to the year 2030	484.0	479.6	99.1	5.0	0.0	0.0	307.2	202.8	66.0
Ministry of Economic Development and Trade of Ukraine	426.9	328.7	77.0	3 042.5	1 382.5	45.4	2 173.0	1 346.2	62.0
Implementing the State targeted economic program of energy efficiency for 2010-2015	600.0	282.0	47.0	372.7	57.0	15.3	324.8	0.0	0.0
State statistics reform	42.4	41.1	96.9	16.1	8.3	51.4	82.3	61.6	74.9
Ministry of Foreign Affairs of Ukraine	1 168.7	1 107.1	94.7	1 366.6	1 220.6	89.3	1 191.6	1 103.8	92.6
Ministry of Culture of Ukraine	2 142.6	1 978.9	92.4	2 568.1	2 401.1	93.5	2 799.9	2 548.0	91.0
Financial support to national theaters	396.0	390.6	98.7	497.4	486.7	97.8	558.9	558.3	99.9
Financial support to national and State art collectives, concert and circus organizations	258.1	257.2	99.6	315.4	313.4	99.3	379.3	348.2	91.8
Library and museum services, exhibition activity, culturally oriented information and educational activities	281.6	269.4	95.7	339.8	322.1	94.8	328.1	316.4	96.4
Preserving the historical and architectural heritage in reserves, protecting cultural heritage, certification, inventory, and conservation of architectural monuments and cultural heritage monuments	250.8	199.3	79.4	285.1	254.6	89.3	323.8	257.8	79.6
Ministry of Defense	13 942.2	12 302.4	88.2	16 511.8	14 048.1	85.1	15 228.0	13 935.4	91.5
Provision for activities of the Armed Forces of Ukraine and training of troops	8 947.0	8 842.5	98.8	11 960.7	10 508.5	87.9	11 816.1	10 951.3	92.7

Expenditures by program classification	2011			2012			2013		
	Annual plan, UAH mn	Actual, UAH mn	Annual plan execution, %	Annual plan, UAH mn	Actual, UAH mn	Annual plan execution, %	Annual plan, UAH mn	Actual, UAH mn	Annual plan execution, %
Training of military specialists at higher educational institutions of accreditation levels I-IV, qualifications upgrade and re-training of military specialists and public servants, initial military training of youth	810.1	794.1	98.0	879.1	856.1	97.4	957.7	925.1	96.6
Development of weapons and military equipment of the Armed Forces of Ukraine	921.2	491.0	53.3	1 406.7	890.7	63.3	919.5	686.4	74.6
Ministry of Education	21 513.7	20 118.9	93.5	25 403.4	23 670.3	93.2	25 823.2	23 847.2	92.3
Research, scientific and technological developments, implementing works under State targeted programs and State contracts, implementing international research and scientific and technological programs and projects by higher educational institutions and research institutions, training scientific cadre, financial support of scientific infrastructure and research facilities of national importance	494.8	465.3	94.0	625.8	587.5	93.9	599.1	552.7	92.3
Training of worker cadre at vocational schools, vocational schools of social rehabilitation and adaptation, other educational institutions, training of junior specialists at higher vocational schools, centers for vocational education, and their methodological support	1 028.7	1 013.7	98.5	1 211.6	1 177.4	97.2	1 415.9	1 377.4	97.3
Training of cadre at higher educational institutions of accreditation levels I and II and supporting the operation of their practical training bases	2 879.7	2 777.5	96.5	3 553.2	3 430.5	96.5	3 961.1	3 768.1	95.1
Training of cadre at higher educational institutions of accreditation levels III and IV and supporting the operation of their practical training bases	12 726.3	11 907.6	93.6	16 295.9	15 127.1	92.8	17 316.7	15 845.4	91.5
Ministry of Health of Ukraine	9 071.0	8 279.9	91.3	10 664.0	9 487.2	89.0	11 585.7	10 508.7	90.7
Training and improving the qualifications of medical and pharmaceutical, research and academic personnel at higher educational institutions of accreditation levels III and IV	1 944.0	1 623.9	83.5	2 333.6	1 952.2	83.7	2 521.9	2 057.1	81.6
Specialized and highly specialized medical aid provided by national healthcare institutions	728.7	683.4	93.8	1 005.6	969.3	96.4	1 138.7	1 087.2	95.5
Diagnostics and treatment of diseases with the introduction of experimental and new medical technology at healthcare establishments of research institutions and higher medical educational institutions of the Ministry of Health of Ukraine	455.9	432.6	94.9	451.7	437.0	96.8	546.9	520.5	95.2

Expenditures by program classification	2011			2012			2013		
	Annual plan, UAH mn	Actual, UAH mn	Annual plan execution, %	Annual plan, UAH mn	Actual, UAH mn	Annual plan execution, %	Annual plan, UAH mn	Actual, UAH mn	Annual plan execution, %
Sanatorium therapy of TB infected children and adolescents with somatic diseases	392.8	379.5	96.6	482.3	451.1	93.5	593.0	561.3	94.7
Provision of medical activities of individual State programs and comprehensive activities of a program-like nature	574.8	511.5	89.0	1 912.4	1 864.3	97.5	2 292.1	2 161.6	94.3
Ministry of Ecology and Natural Resources of Ukraine	3 503.8	3 064.4	87.5	4 992.3	3 815.0	76.4	6 018.9	4 326.8	71.9
Environmental protection activities	622.0	421.6	67.8	876.0	534.3	61.0	1 123.3	388.9	34.6
Operation of the State water economy complex and management of water resources	1 640.7	1 602.9	97.7	1 908.4	1 841.1	96.5	2 067.3	1 942.1	93.9
Maintaining the power units and Shelter structure in a safe condition, and preparatory activities of decommissioning the Chornobyl NPP	629.5	629.5	100.0	732.9	727.9	99.3	728.3	721.8	99.1
Ministry of Social Policy of Ukraine	63 550.7	63 338.0	99.7	70 603.8	70 307.9	99.6	89 250.1	88 833.2	99.5
Social protection of citizens affected by the Chornobyl disaster	2 570.9	2 546.5	99.1	2 594.5	2 588.5	99.8	2 623.2	2 617.0	99.8
Grant for the payment of pensions, bonuses, and raises to the pensions awarded under various pension programs	40 562.1	40 562.1	100.0	49 170.2	49 170.2	100.0	61 469.8	61 469.8	100.0
Covering the deficit of the Pension Fund of Ukraine for the payment of pensions	17 755.1	17 755.1	100.0	15 323.9	15 323.9	100.0	21 763.8	21 763.8	100.0
Fund for the Social Protection of Disabled Persons	856.4	734.2	85.7	1 147.8	1 034.4	90.1	1 009.6	862.0	85.4
Ministry of Regional Development, Construction, Housing and Communal Services of Ukraine	6 119.6	4 484.5	73.3	19 204.7	16 611.0	86.5	7 617.8	3 693.6	48.5
Organization and regulation of activities of institutions within the system of State Veterinary and Phytosanitary Service of Ukraine	100.0	99.4	99.4	200.0	160.0	80.0	198.1	91.1	46.0
Financial support to the State fund for facilitating housing construction for youth	6.7	6.7	100.0	6.9	6.9	100.0	11.7	11.1	94.2
Construction, reconstruction, conducting design and repair works at the priority sites of national and regional importance in unsatisfactory condition and in need of urgent implementation of said works, and procurement of equipment, as well as at resorts of national importance	314.0	312.5	99.5	845.2	801.6	94.8	199.0	176.6	88.7
State budget subvention to local budgets for repaying the debt from the difference in tariffs for heat energy, services of centralized water supply and water removal, which were produced, transported, and delivered to the populace, which debt emerged due to a mismatch between the actual cost of heat energy and services of centralized water supply and water removal and the tariffs approved by and/or agreed to by State power bodies or local governments	3 600.0	2 856.5	79.3	15 914.1	14 442.8	90.8	5 138.5	2 052.5	39.9

Expenditures by program classification	2011			2012			2013		
	Annual plan, UAH mn	Actual, UAH mn	Annual plan execution, %	Annual plan, UAH mn	Actual, UAH mn	Annual plan execution, %	Annual plan, UAH mn	Actual, UAH mn	Annual plan execution, %
Ministry of Agrarian Policy and Food of Ukraine	11 308.2	8 011.8	70.8	11 356.5	8 005.5	70.5	9 063.0	7 193.5	79.4
Training personnel for the agribusiness sector by higher educational institutions of accreditation levels I- IV	2 210.9	2 114.1	95.6	2 986.3	2 858.7	95.7	2 255.5	2 128.8	94.4
Activities of pest and disease control of agricultural plants, prevention of the spread of pathogenic agents of infectious disease in animals	20.9	20.4	97.5	34.0	33.6	98.7	25.5	24.7	96.9
State support for the development of hops-growing, planting new fruit orchards, vineyards, and berry beds and their cultivation	655.0	327.1	49.9	1 075.0	309.2	28.8	500.0	94.8	19.0
Budgetary animal husbandry grant and State support for crop production	2 030.0	107.5	5.3	732.0	238.9	32.6	1 239.8	721.0	58.2
Organization and regulation of operation of institutions in the system of State Veterinary and Phytosanitary Service of Ukraine	1 797.5	1 648.4	91.7	1 945.1	1 776.8	91.3	2 034.7	1 777.8	87.4
Implementation of land reform	15.5	8.9	57.0	115.9	37.3	32.2	491.8	210.7	42.9
Ministry of Infrastructure of Ukraine	2 397.2	2 172.0	90.6	1 722.4	1 573.3	91.3	1 676.1	1 597.1	95.3
State Service for Emergency Situations of Ukraine/Ministry of Emergency Situations of Ukraine	4 947.4	4 818.6	97.4	5 881.6	5 648.3	96.0	4 672.5	4 440.4	95.0
Providing for operation of civil defense forces	3 013.3	2 980.6	98.9	2 989.5	2 957.5	98.9	3 344.6	3 298.2	98.6
Ministry of Revenues of Ukraine							6 101.0	5 976.1	98.0
Ministry of Youth and Sport of Ukraine (including general government expenditures)	866.8	825.6	95.3	1 181.5	1 045.4	88.5	1 007.1	981.3	97.4
Preparation for and participation of national teams in Paralympic and Deaflympic Games	0.6	0.6	99.0	106.6	105.6	99.1	158.7	158.0	99.6
Development of physical culture, high performance sports, and reserve sports	410.3	383.8	93.5	742.0	641.9	86.5	521.7	513.0	98.3
Preparation for and participation of national teams in the Olympic and Youth Olympic Games	13.5	11.4	84.7	72.2	70.6	97.7	20.7	20.3	98.1
Ministry of Finance of Ukraine (general government expenditures), including intergovernmental transfers	124 662.8	122 075.1	97.9	151 629.7	145 483.1	95.9	148 907.2	144 655.7	97.1
Equalization grants from the State budget to local budgets and additional grants	23 226.5	23 134.4	99.6	24 492.1	24 196.6	98.8	32 558.0	31 677.1	97.3
State Regional Development Fund				1 642.4	1 005.4	61.2	827.1	419.9	50.8
Grants	48 113.6	48 113.6	100.0	60 626.3	60 626.3	100.0	61 220.4	61 220.4	100.0
Subventions	41 217.0	41 217.0	100.0	47 442.0	47 442.0	100.0	50 815.7	50 815.7	100.0
Ministry of Justice of Ukraine	1 668.9	1 449.0	86.8	5 401.1	5 185.8	96.0	5 878.0	5 332.3	90.7
Execution of sentences by institutions and bodies of Penitentiary Service	1 825.6	1 764.0		2 757.4	2 720.9	98.7	2 862.3	2 820.1	98.5
State Agency of Forest Resources of Ukraine	818.1	771.4	94.3	668.5	649.9	97.2	719.2	644.5	89.6

Expenditures by program classification	2011			2012			2013		
	Annual plan, UAH mn	Actual, UAH mn	Annual plan execution, %	Annual plan, UAH mn	Actual, UAH mn	Annual plan execution, %	Annual plan, UAH mn	Actual, UAH mn	Annual plan execution, %
Forestry and game-preserves, conservation and protection of forests in the Forest Fund	519.2	488.7	94.1	613.5	595.5	97.1	660.6	586.7	88.8
State Agency of Automobile Roads of Ukraine	13 129.2	12 259.3	93.4	10 850.4	10 138.8	93.4	17 432.2	13 705.0	78.6
Development and maintenance of the public motor roads network	8 878.8	8 074.7	90.9	7 272.5	6 975.5	95.9	9 907.9	7 457.7	75.3
Performance of debt obligations under credits received under the guarantee of the Cabinet of Ministers of Ukraine for developing the public motor road network	4 227.7	4 162.0	98.4	3 567.7	3 153.4	88.4	7 435.0	6 199.9	83.4
Ministry of Emergency Situations of Ukraine	947.2	51.9	5.5	3 539.7	1 012.6	28.6	3 638.7	1 843.1	50.7
Ministry of Finance of Ukraine (general government expenditures)	941.3	46.3	4.9	3 531.6	1 004.8	28.5	3 628.6	1 834.0	50.5
Other key spending units	45 631.9	40 708.4	89.2	45 640.7	41 496.6	90.9	39 608.2	35 365.5	89.3
Total	354 190.6	333 459.5	94.1	427 040.7	395 681.5	92.7	432 930.9	403 456.1	93.2

Appendix B

The Status of Transfer of State Budget Subventions to Local Budgets

UAH thousand

Description	General Fund		Special Fund		Total	
	Annual plan	Actual	Annual plan	Actual	Annual plan	Actual
Subvention for paying allowances to families with children, low-income families, persons disabled since childhood, disabled children, and for temporary State support for children	39 713 062.9	39 565 197.8	0.0	0.0	39 713 062.9	39 565 197.8
Subvention for providing preferences and housing subsidies to the populace as payment for electric power, natural gas, heat, water supply and sewage services, rent, removal of solid and liquid waste	6 458 075.8	6 046 012.8	0.0	0.0	6 458 075.8	6 046 012.8
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	2 116 250.0	1 828 676.1	0.0	0.0	2 116 250.0	1 828 676.1
Subvention for providing preferences and housing subsidies to the populace for purchasing solid and liquid household fuel and liquefied gas	769 324.0	733 014.9	0.0	0.0	769 324.0	733 014.9
State budget subventions to local budgets for financing comprehensive pilot projects of implementing the reform of administrative service provision	21 020.7	7 420.7	0.0	0.0	21 020.7	7 420.7
State budget subvention to the Zhovti Vody city budget for implementing actions intended for the radiation and social protection of the population of Zhovti Vody	14 337.0	6 866.4	0.0	0.0	14 337.0	6 866.4
State budget subvention to the Donetsk Oblast budget for building a PET-CT center, capital repair and reconstruction of hospital buildings, and procurement of high-value medical equipment for the Donets'ka Oblast Clinical Territorial Medical Association	60 000.0	59 432.2	0.0	0.0	60 000.0	59 432.2
State budget subvention to the Kyiv city budget for operation of the Kyiv Municipal Heart Center Clinical Hospital	37 000.0	35 917.9	0.0	0.0	37 000.0	35 917.9
State budget subvention to the Slavutych city budget for implementing actions intended for preventing accidents and manmade catastrophes in the housing and communal services sector of the city of Slavutych	7 400.0	5 124.7	0.0	0.0	7 400.0	5 124.7
State budget subvention to local budgets for refunding part of interest rates on the credits obtained for renewal of the bus and trolleybus fleets of the host cities as part of preparations for hosting the 2012 European Football Championship Finals in Ukraine	42 000.0	38 787.0	0.0	0.0	42 000.0	38 787.0
State budget subvention to local budgets of Donetsk oblast for preparing sports facilities to host the World Track-and-Fields Championship in 2013	35 780.1	35 764.0	0.0	0.0	35 780.1	35 764.0
State budget subvention to local budgets for purchasing medicines for emergency medical aid	323 115.1	268 313.3	0.0	0.0	323 115.1	268 313.3
State budget subvention to local budgets for repaying the debt for Ukrainian-made medical equipment supplied in 2012	30 000.0	0.0	0.0	0.0	30 000.0	0.0

Description	General Fund		Special Fund		Total	
	Annual plan	Actual	Annual plan	Actual	Annual plan	Actual
State budget subvention to the Dnipropetrovsk city budget for continued construction of a motor road in the city of Dnipropetrovsk at the section from the Kaydatskyi Way to the Kyiv-Luhansk-Izvaryne motor road, including for payment for the works completed in 2012	150 000.0	0.0	0.0	0.0	150 000.0	0.0
State budget subvention to local budgets for purchasing consumables for healthcare institutions and medicines for inhalation anesthesia	200 000.0	197 898.8	0.0	0.0	200 000.0	197 898.8
State budget subvention to the Ternopil Oblast budget for continued construction of residential houses in the city of Pochayiv, Kremenets District, for the purpose of resettling unauthorized persons from the territory of the Holy Dormition Pochayiv Lavra	15 600.0	15 600.0	0.0	0.0	15 600.0	15 600.0
State budget subvention to local budgets for construction, reconstruction, repair, and maintenance of streets and municipal roads within localities	0.0	0.0	2 390 850.0	1 766 431.3	2 390 850.0	1 766 431.3
State budget subvention to local budgets for implementing the activities of socioeconomic development of individual territories	1 522 494.8	912 486.7	0.0	0.0	1 522 494.8	912 486.7
State budget subvention to local budgets for developing the socioeconomic realm of the city of Sevastopol and other localities where the military units of the Russian Federation's Black Sea Fleet are stationed on the territory of Ukraine	43 653.5	13 410.1	37 477.5	27 975.6	81 131.0	41 385.7
State budget subvention to the Shatsk District budget, Volyn Oblast, for continued construction and capital repairs of the roads Shats'k-Svityaz'-Zalissya-Pulmo-Shats'k, including for payment for the work completed in 2012	10 377.0	10 377.0	0.0	0.0	10 377.0	10 377.0
State budget subvention to local budgets for partial compensation of the cost of medicines for treatment of hypertension patients	191 636.3	164 726.6	0.0	0.0	191 636.3	164 726.6
State budget subvention to local budgets for financing the activities of socioeconomic compensation of the risks to the populations living in the monitored areas	0.0	0.0	178 506.0	178 506.0	178 506.0	178 506.0
State budget subvention to local budgets for holding events to celebrate the 200th Anniversary of Taras Shevchenko's birthday, 120th Anniversary of Oleksandr Dovzhenko's birthday, and events to commemorate the 70th Anniversary of the Koryukivka tragedy.	134 500.0	75 032.2	0.0	0.0	134 500.0	75 032.2
State budget subvention to local budgets for paying out State social allowances for orphaned children and children left without parental care, cash support to caregiver parents and foster parents for the provision of social services in family-type children's homes and foster families based on the "money follows the child" principle	486 820.8	460 537.9	0.0	0.0	486 820.8	460 537.9
State budget subvention to local budgets for financing the winning programs of the Pan-Ukrainian Competition of Local Government Development Projects and Programs	49 381.1	2 733.7	0.0	0.0	49 381.1	2 733.7
State budget subvention to local budgets for capital repairs of centralized water supply and sewerage systems	440 000.0	97 471.3	0.0	0.0	440 000.0	97 471.3



Description	General Fund		Special Fund		Total	
	Annual plan	Actual	Annual plan	Actual	Annual plan	Actual
State budget subvention to local budgets for repaying the debt in the difference in tariffs for the heat energy, which was produced, transmitted, and supplied to the populace, which debt emerged due to a mismatch between the actual value of the heat energy and the tariffs, which were approved or agreed by the relevant bodies of central or local government	1 300 000.0	1 293 114.8	3 838 519.5	759 343.4	5 138 519.5	2 052 458.2
State budget subvention to local budgets for holding elections of deputies to the Verkhovna Rada of the Autonomous Republic of Crimea, local councils, and village, settlement, and city mayors	19 000.0	13 837.5	0.0	0.0	19 000.0	13 837.5
State budget subvention to the Kyiv city budget for operation of the Nuclear Medicine Center at the Kyiv City Clinical Oncology Center	10 000.0	7 941.0	0.0	0.0	10 000.0	7 941.0
State budget subvention to the Dnipropetrovsk city budget for completing construction of the metro underground railway in Dnipropetrovsk	0.0	0.0	99 000.0	0.0	99 000.0	0.0
Subventions total	54 200 829.1	51 895 695.7	6 544 353.0	2 732 256.3	60 745 182.1	54 627 952.0