Budgeting in Ukraine

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Macro-economic context

- Severe contraction in the 1990s.
- Strong growth in the 2000-2008 (more than 7 % GDP) until the crisis hit (minus 15% in 2009).
- Ukraine has an important industry sector (32 % of GDP).
- Ukraine has a potentially productive but underdeveloped agricultural sector.
- Ukraine is dependent on Russia for oil and gas supply (90 percent).
- Reform of the energy market is essential for economic development.
## Growth of real GDP

(Percent of change on previous year)

<table>
<thead>
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<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011*</th>
<th>2012*</th>
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<td>1.8</td>
<td>3.0</td>
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<td>-4.3</td>
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<tr>
<td>EU 10/12 (accession)</td>
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<td>5.4</td>
<td>6.2</td>
<td>5.8</td>
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<td>-15.1</td>
<td>3.7</td>
<td>4.5</td>
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Fiscal policy

- Small general government deficit in the boom years, but spending hike in 2004 leading to a 4 percent deficit.
- 2008 first IMF package (16.5 billion USD) mostly aimed at restoring confidence in international capital markets.
- 2009: 6 percent GDP general government budget deficit
- In addition 2.5 percent GDP support for Naftogaz and 2.6 GDP bank recapitalization costs.
- 2010: second IMF package (14.9 billion of which 2 billion budget support).
- 2010 supplementary budget aimed at reduction of general government deficit to 3.5 percent in 2011 and 2.5 percent in 2012. The Naftogaz support to be outhphased.
Expenditures, revenues and balance of general government
(Percent of GDP)
General government public debt
(Per cent of GDP)
Recent reform of the Budget Code

- programme classification;
- medium term forecasting;
- improvement of debt management;
- public financial internal control;
- reform of local government financing.
The budget classification

- Mostly contained in annex 3 to the annual budget law.

- Based on:
  > Ministries and Central Budget Authorities (CPAs);
  > Budget holders inside ministries CPA’s;
  > Programmes and activities (sub-programmes);
  > Some detail on economic groups under each programme.

- Grants to local governments and interest are contained in other annexes of the annual budget law.

- Expenditures and revenues of the social security funds are contained in the budgets of the funds, which are authorized by the boards of the funds but added to the budget documentation and included in the overview of general government spending and revenues.

- Each programme has a 7-digit code.
The budget classification

• Each programme has a passport that specifies:
  > objectives and areas of use of the programme resources;
  > budget holders in charge of the programme;
  > performance indicators of the programme;

• The passports are established after the State budget is approved and signed by the responsible minister and the Minister of Finance.

• The passports are not part of the budget documentation.

• Line minister report on a quarterly basis and at the end of the year on results as targeted in the passports.
Progress towards multi-annual planning

• Indicative forecasts for totals of expenditures, revenues financing and borrowing are added to the budget documentation (and revised after the adoption of the budget);

• Both for general government and central government;

• For the State budget by major types of expenditures and revenues.

However:

• No multi-annual ceilings or targets;

• No base line estimates.
Arguments for multi-annual planning

• Condition of sectoral planning by line ministries and other CPA’s;

• Condition for budget discipline: base line estimates should fit in the ceilings, not only in the budget year but also in the out-years; excess of the sum of base line estimates over the ceiling should trigger savings measures;

• Important savings require structural measures: changes of laws, re-organisation of executive agencies; these measures only take full effect in years beyond the budget year.
Requirements for multi-annual fiscal planning

- Strict separation between base line estimate at line item level and ceiling for total expenditure (and sectors);
- Reliable base line estimates at line item level.

Suggestions to the government of Ukraine:

- Develop reliable multi-annual base line estimates at the line item level;
- Replace the indicative forecasts by ceilings or targets;
- Decide on them before, not after budget preparation;
- Maintain the ceilings strictly during budget preparation (top-down budgeting) and budget execution;
- Keep the ceilings as stable as possible from year to year
Does Ukraine need a fiscal rule?

- Fiscal policy is now strongly determined by the requirements of the IMF package (general government deficit reduced to 2.5 percent GDP in 2012).
- In the longer run the government needs to anchor its fiscal policy in a fiscal rule of its own choice.
- Relevant considerations:
  > volatility of international capital markets;
  > ageing as life expectancy will increase.

**Suggestion to the government of Ukraine:**

- Keep expenditure path as stable as possible (as long as revenue fluctuations can be seen as cyclical);
- Structural balance rule: 2-4 percent surplus.
- Pay-as-you go rule for tax revenues.
Strong role of Parliament

- Parliament has a strong role (quite different than in many other CESEE and OECD countries);
- This strong role is enhanced by the Parliamentary scrutiny of the Budget Declaration;
- Budget Committee is well staffed (30 analysts);
- Annually 500-1000 amendments;
- Adopted amendments lead to revision of the Government budget;
- Amendments lead to change in the budget of up to 10 percent for separate line ministries.

Important consideration for the Ukrainian government:

- How to engage Parliament if the government would move to stricter budget discipline based on ceilings for the budget year and out-years?