



INSTITUTE
FOR ECONOMIC RESEARCH
AND POLICY CONSULTING

Few words about State Budget 2021

9 December, 2020



What about 2020?

- 2020: the year of uncertainty and vulnerabilities: substantial budget revision in April 2020 due to COVID-19
- Budget envisaged central fiscal deficit at 7,5% of GDP: High dependence on concessional lending
- Delays in the implementation of the reforms envisaged in the IMF Program and problematic Constitutional Court decisions led to the suspended access to the donor funding

	Initial State Budget Law for 2020 14.11.2019	State budget Law as of 13.04.2020	State Budget Law, current version
Central fiscal revenues	1 095,6	975,8	979,5
Central fiscal expenditures	1 182,0	1 266,4	1 270,1
Net crediting	7,8	7,8	7,8
Central fiscal deficit	94,3	298,4	298,4

- Now, key points for the negotiations: renewed legal mandate for the NABU head and the approval of the State Budget for 2021
- Under optimistic scenario of approved NABU law and State Budget for 2021 compatible with the IMF program on week of Dec. 15-18, the Government might:
 - Receive MFA from the EU at EUR 600 m
 - Place USD 1 bn Eurobonds
- Central fiscal deficit is likely to be at 5-5.5% of GDP

Macroeconomic forecasts

	Unit	Government (July)	Consensus (December)	IMF (October)	NBU (October)
Real GDP	% yoy	4.6	3.9	3.0	4.2
Inflation*	% yoy	7.3	5.4	5.8	6.5
Nominal GDP	UAH bn	4,506	4,357	4,205	4,360
Exchange rate	UAH/USD	29.1	28.77	-	-
Exports**	USD bn	60.175	-	-	62.3
	% yoy	2.9	4.7	5.5	2.7
Imports**	USD bn	70.591	-	-	73.0
	% yoy	10.6	9.0	12.4	14.6
Real wage growth	% yoy	12.1	13.3	-	9.5

Source: Explanatory note to the Draft State Budget Law for 2021, IMF, NBU. Consensus forecast – Focus Economics, December 2020;

*Inflation is end of period **Imports/exports of goods and services

More details in: **GET policy briefing No.8/2020**

- Key assumption for all forecasts: continued support by the IMF and the other donors
- Risks include: possible lockdowns in Ukraine and in other countries, termination of the cooperation with the IMF, political crisis in Ukraine

Key parameters of State Budget

	Unit	2019	2020, plan*	2021, draft, 1 st reading	2021, draft, 2 nd reading
Revenues	UAH bn	998.3	978.7	1 071.1	1 092.1
	% GDP	25.1	24.6	23.8	24.2
Expenditures and net credits	UAH bn	1 079.0	1 278.0	1 341.5	1 338.7
	% GDP	27.1	32.1	29.8	29.7
<i>From this: Debt servicing</i>	UAH bn	119.2	141.3	161.6	158.7
	% GDP	3.0	3.6	3.6	3.5
Central fiscal balance ("-") deficit)	UAH bn	-81.0	-298.4	-270.4	-246.6
	% GDP	-2.0	-7.5	-6.0	-5.5
Primary fiscal balance ("-") deficit)	UAH bn	38.0	-157.1	-108.7	-88.0
	% GDP	1.0	-4.0	-2.4	-2.0

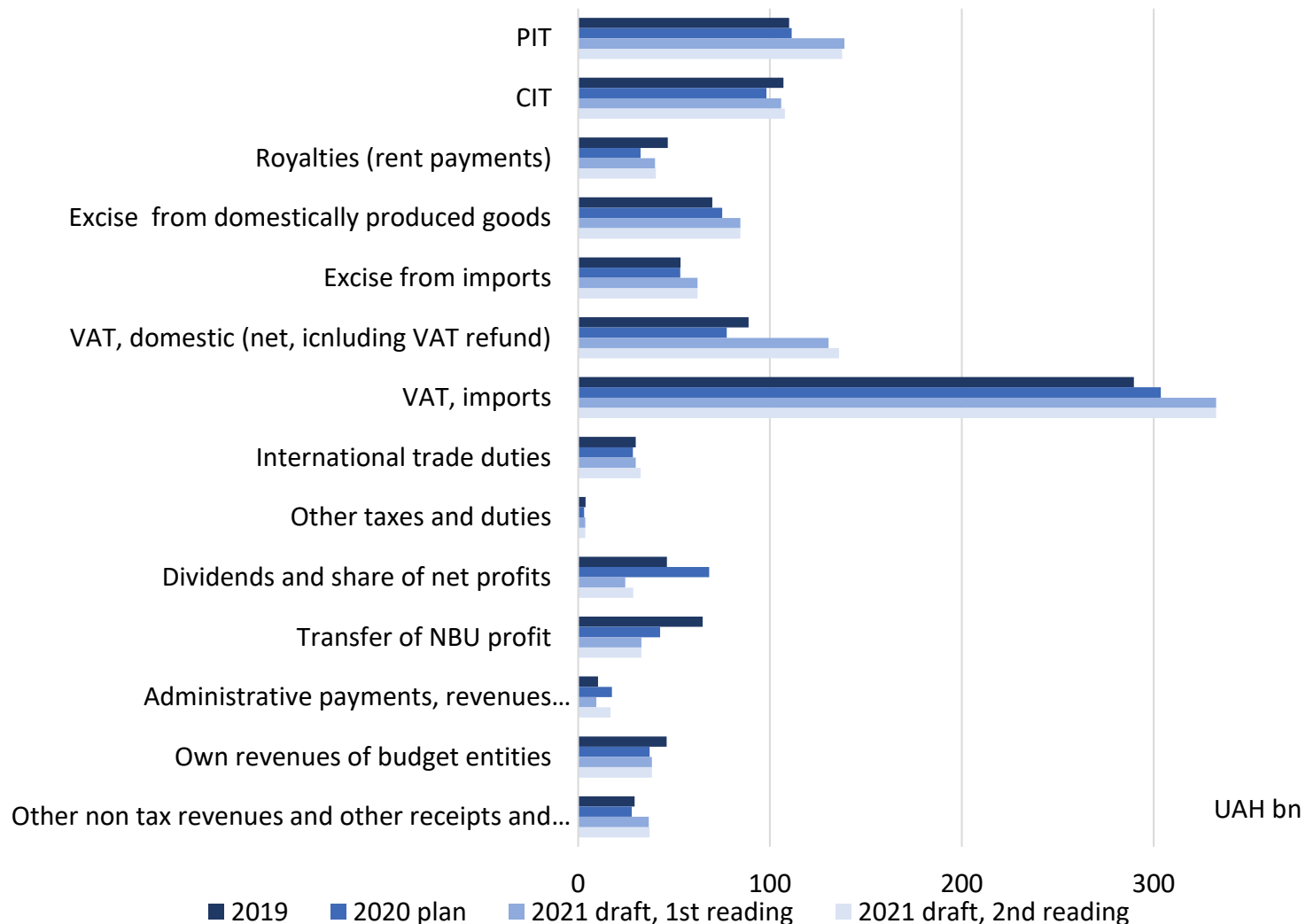
Source: Report on the State Budget for 2019, State Budget Law for 2020, Draft State Budget Law for 2021 as of 14.09.2020 and 26.11.2020

Note: Central government only. General government revenues and expenditures are higher due to sub-central government entities and extra-budgetary state social insurance funds, including the Pension Fund

* Indicators for 2020 as officially planned according to the State Budget Law with amendments. Revenues are expected to be higher than planned , while expenditures will be lower than planned due to restricted deficit financing

- Absence of fiscal consolidation in 2021: fiscal deficit is planned at 5,5% of GDP, which would be similar in 2020
- Minimum wage: up to UAH 6000 in Jan. and to UAH 6500 in Dec. (from UAH 5000 effective since Sept. 2020)
- Fiscal rules are suspended (on fiscal deficit, state guarantees and state debt)

Central fiscal revenues in 2021



PIT: Impact of minimum wage increase

CPT: Worse financial results and absent one-off payment by the Naftogaz

Royalties: Indexation of some rates, increase in natural gas price, higher prices of crude oil

Excise: Indexation of excise on alcohol and tobacco products (Draft Law No.4101-д)

Domestic VAT*: Larger consumption and assumed higher efficiency (in 2020, domestic VAT revenues will be over-executed) - **RISK**

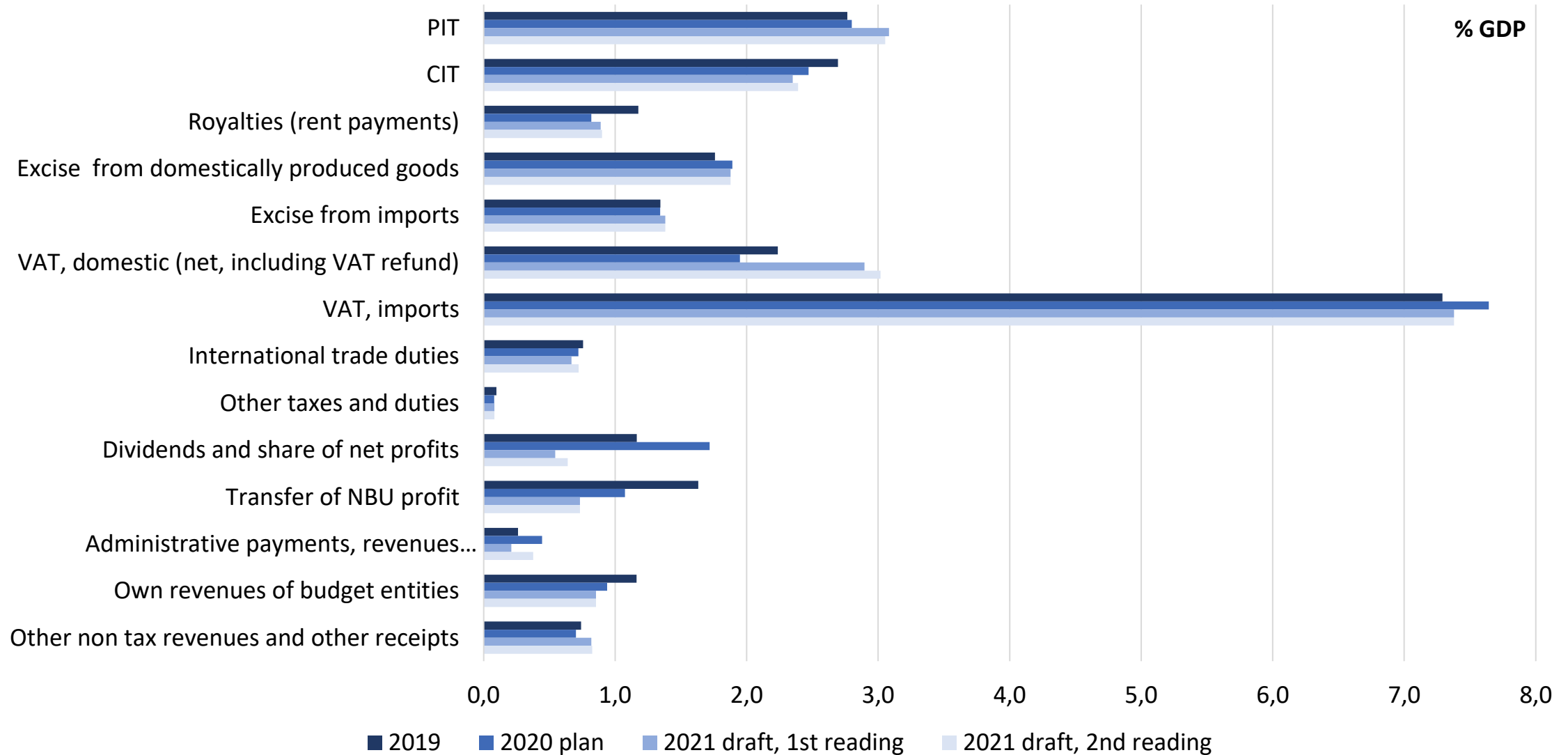
VAT on imports*: Imports growth and Hryvnia depreciation (in 2020, VAT on imports will be under-executed) - **RISK**

Dividends / share of net profits: Absence of one-off dividends from Naftogaz, worse financial results of companies

Administrative revenues: Receipts from licensing on gambling (due to special funds) includes in the 2nd reading: likely **RISK**

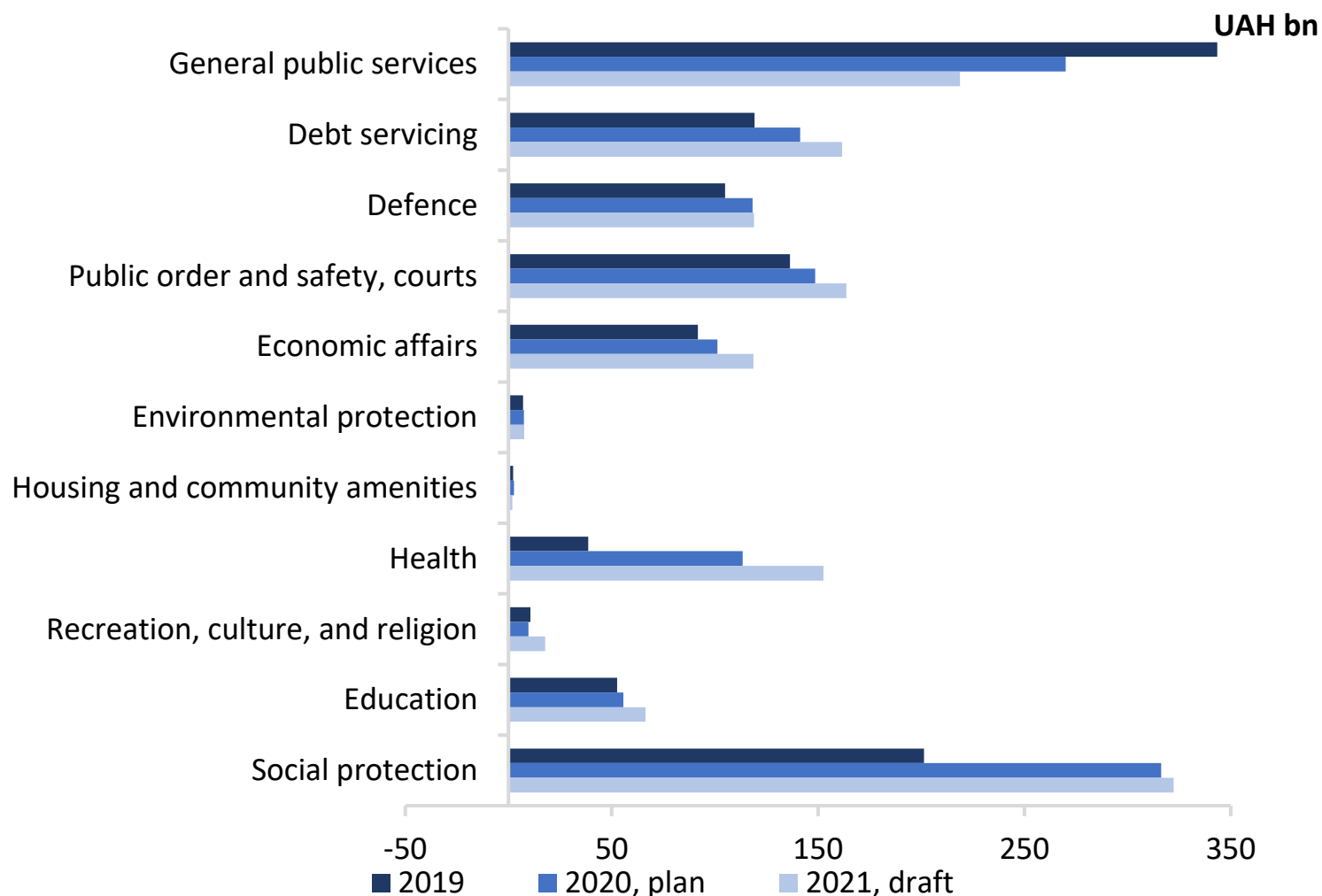
Source: **GET policy briefing No.8/2020**

Central fiscal revenues in 2021



Source: **GET policy briefing No.8/2020**

Central fiscal expenditures in 2021



Debt service: Increasing debt stock, Hryvnia depreciation, possible increase in interest rates

Public order and defence: 5.9% of GDP in total, increases mainly for domestic security

Economic affairs: Increased financing of road construction (figures for 2020 do not contain financing from COVID-19 Fund), continuation of coal mining restructuring and liquidation program, purchase of passenger railcars - **RISK**

Education: Impact of MinWage increase, COVID-related spending, hostels financing - **RISK**

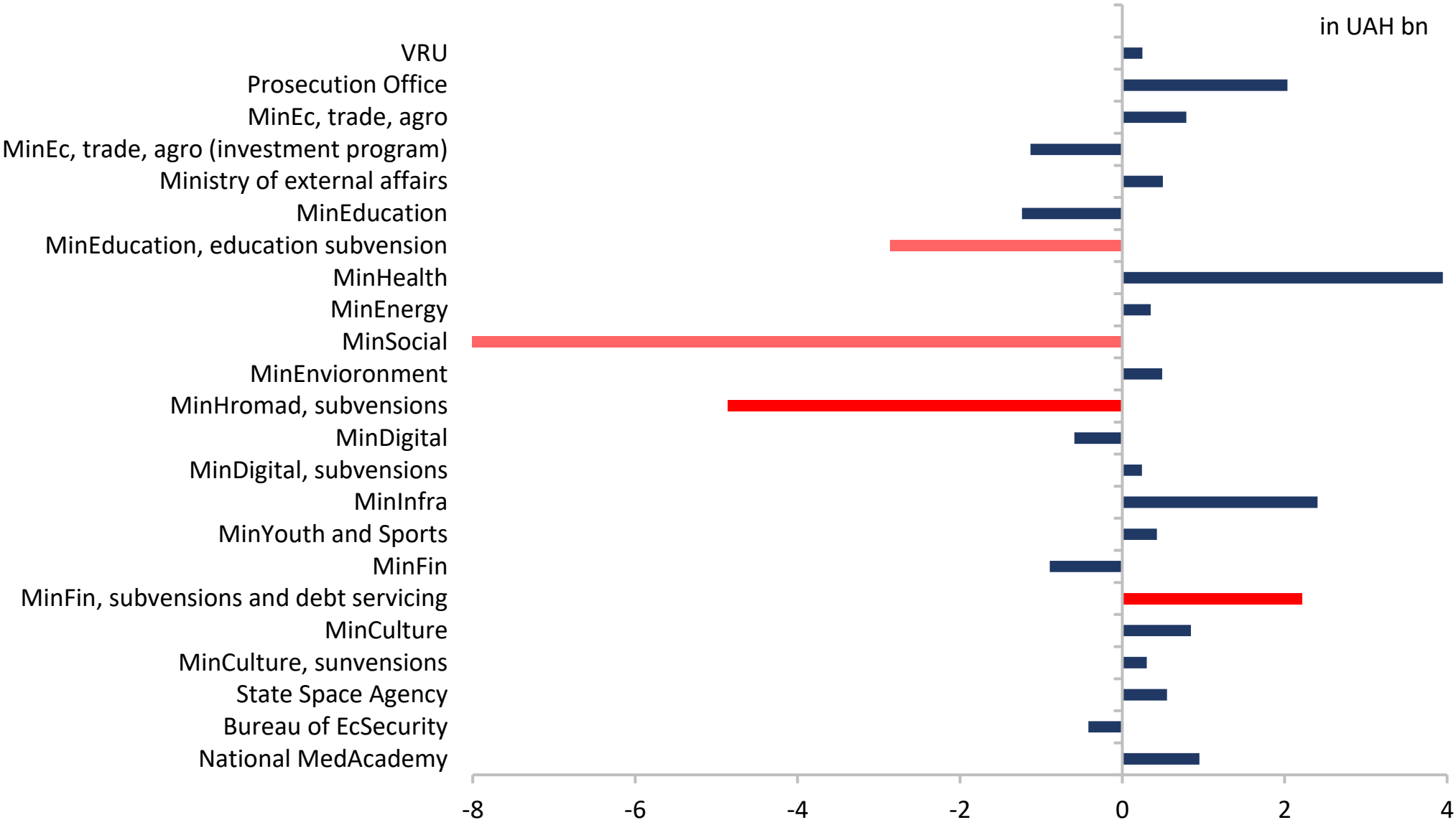
Healthcare: Impact of MinWage increase, financing of healthcare by the NHSU for whole year - **RISK**

Social protection: In the 1st draft: stable nominal transfer to the Pension Fund, but in the 2nd reduced transfer - **RISK**; absent one-off transfers to the Unemployment Insurance Fund - **RISK**, decline in nominal spending on HUS

Notes:

- **General public services:** Include transfers to local budgets, exclude debt servicing. COVID-19 Fund included in 2020 planned expenditures.
- **Health:** Funding of secondary healthcare directly through health budget (previously general public services subvention) explain most of the changes in "health" and general public services 2019-2021

Central fiscal expenditures in 2021: 2nd reading



Central fiscal deficit

- **Deficit financing is critical for budget performance:** new borrowings and privatization should cover debt redemption and deficit financing

Indicator (UAH bn)	2019	2020 plan	2021, draft, 1st reading	2021, draft, 2nd reading
Net borrowings	80.5	296.7	263.1	233.4
<i>Domestic borrowings</i>	345.9	377.6	549.1	497.3
<i>Domestic redemption</i>	261.4	216.3	341.6	369.5
<i>External borrowings</i>	79.8	265.1	153.3	204.5
<i>External redemption</i>	83.8	129.7	97.7	98.9
Privatisation	0.5	0.5	6.0	12.0
Active operation	0.0	1.2	1.2	1.2
TOTAL central fiscal deficit	81.0	298.4	270.4	246.6

- Large gross and borrowings financing needs in 2021
- Access to IFIs loans is critical for financing the budget
- The cooperation with the IMF is critical for the access to capital markets and return of non-residents to domestic market