German Economic Team
UKRAINE

The Ukrainian budget draft 2021: An initial analysis

David Saha, Oleksandra Betliy, Robert Kirchner

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Structure

1. Introduction

Background

- Upon approval of CMU, the Draft Budget Law for 2021 was submitted to Parliament on September 14, 2020
- Approved in first reading by VRU on November 5, 2020
- The budget foresees a public deficit of 6% of GDP combined with real GDP growth assumed to be at 4.6% for 2021

Motivation

- Does the draft budget constitute a return to the fiscal consolidation path after the pandemic?
- Are there downside risks are to the deficit if GDP growth does not perform as well as in the government forecast?

Content of this Policy Briefing:

- Analysis of the budget and its components (revenues, expenditures)
- Comparison of underlying macro forecast with other forecasts
- Stress-test of budget with less optimistic underlying GDP growth
- Analysis of impact on deficit financing and IMF cooperation

2. Macroeconomic forecast underlying the state budget

	Unit	2019	2020*	2021 **
Real GDP	% yoy	3.2	-4.8	**4.6**
Inflation (eop)	% yoy	4.1	5.9	**7.3**
Nominal GDP	UAH bn	3,975	3,975	**4,506**
Exchange rate (aop)	UAH/USD,	25.8	27.0	**29.1**
Exports, growth	% yoy	7.2	-7.9	**2.9**
Imports, growth	% yoy	7.7	-16.0	**10.6**
Real wage growth	% yoy	9.8	4.3	**12.1**
Minimum wage	UAH	4173	4273 since Jan. 5000 since Sep.	**6000 from Jan.** **6500 from Jul.**
Base salary in public sector* **	UAH	1921	2143	**2782**

*Source: Explanatory note to the Draft State Budget Law for 2021; * Expected by MinEc as of July 24, 2020; ** Official forecast approved by the CabMin on July 27, 2020; *** As base salary is below the minimum wage, the minimum wage will be the lowest salary in the public sector and this is effectively a base for further calculations of the salary grid, with wage squeezing at the bottom*

- Expectation of relatively strong GDP recovery of 4.6% real growth after Corona crisis
- Main driver: Domestic demand; only weak export recovery expected
- High inflation expectation (above NBU target of 5% +/-1 pp.) raises question of NBU response to contain inflation
- Driver behind wage growth (12.1% real wage growth): 2 minimum wage hikes

Comparison with other 2021 forecasts

	Unit	Government (July)	Consensus (September)	IMF (October)	NBU (October)
Real GDP	% yoy	4.6	4.2	3.0	4.2
Inflation*	% yoy	7.3		5.8	6.5
Nominal GDP	UAH bn	4,506	4,468	4,205	4,360
Exchange rate	UAH/USD	29.1	28.2	-	-
Exports**	USD bn	60.175	-	-	62.3
	% yoy	2.9	4.3	5.5	2.7
Imports**	USD bn	70.591	-	-	73.0
	% yoy	10.6	9.1	12.4	14.6
Real wage growth	% yoy	12.1	-	-	9.5

*Source: Explanatory note to the Draft State Budget Law for 2021, IMF, NBU. Consensus forecast; *Inflation is end of period **Imports/exports of goods and services*

- Government forecast is the most optimistic of all recent macro forecasts
- Except for IMF, other forecasts are close to government forecasts and also do not yet include planned minimum wage hikes in wage growth expectations

➢ Government forecast justified as an expectation for 2021

➢ However, due to global uncertainties („second wave“), substantially weaker growth turnout is possible!

3. Headline figures of the 2021 draft budget

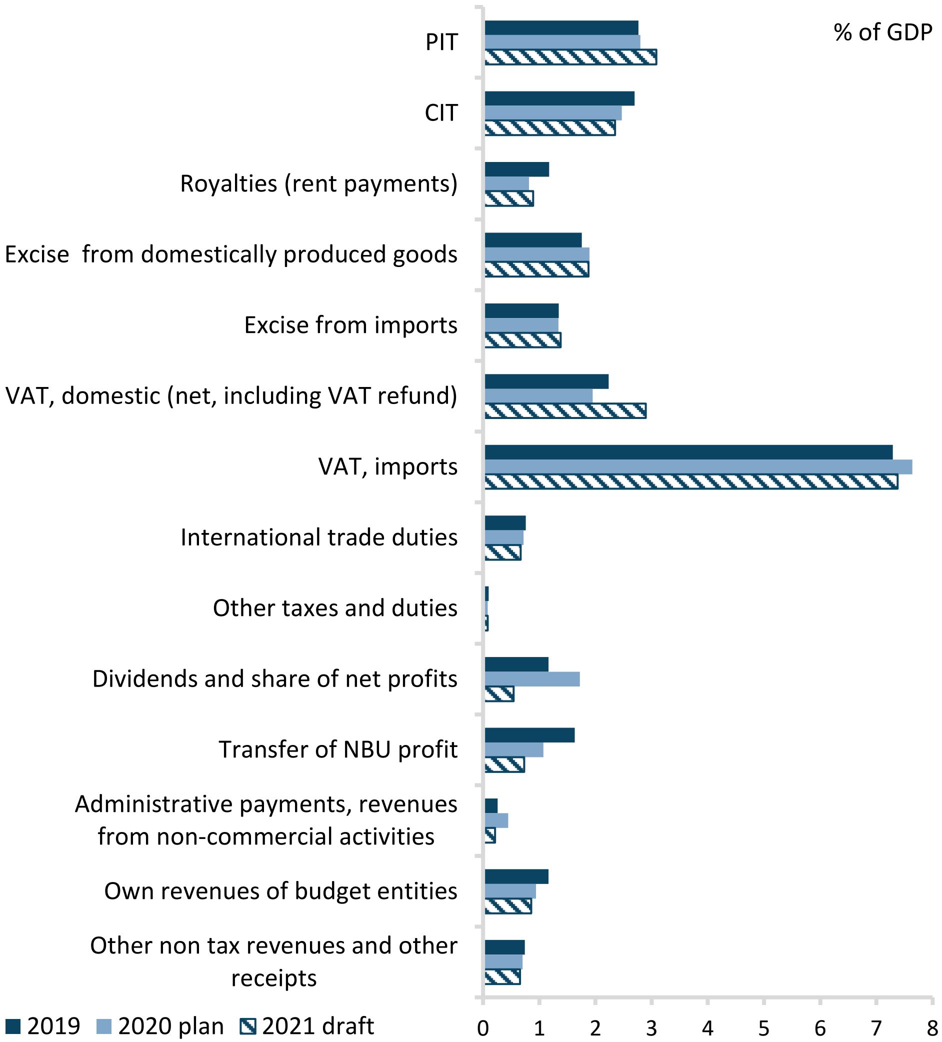
	Unit	2019	2020, plan	2021, draft
Revenues	UAH bn	998.3	978.7	**1 071.1**
	% GDP	25.1	24.6	**23.8**
Expenditures and net credits	UAH bn	1 079.0	1 278.0	**1 341.5**
	% GDP	27.1	32.1	**29.8**
From this: Debt servicing	UAH bn	*119.2*	*141.3*	*161.6*
	% GDP	*3.0*	*3.6*	*3.6*
Central fiscal balance ("-" deficit)	UAH bn	-81.0	-298.4	**-270.4**
	% GDP	*-2.0*	*-7.5*	***-6.0***
Primary fiscal balance ("-" deficit)	UAH bn	38.0	-157.1	**-108.7**
	% GDP	*1.0*	*-4.0*	***-2.4***

Source: Report on the State Budget for 2019, State Budget Law for 2020, Draft State Budget Law for 2021
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

- A fiscal deficit of 6% of GDP is foreseen for 2021
  - Expenditures to grow by 9.4% (2020-2021, nominal, 2000 as planned in the budget)
  - Revenues to only grow by 5.0%
- Government needs to suspend several fiscal rules to permit this deficit: Central fiscal deficit of maximally 3% of GDP, State and guaranteed debt maximum of 60% of GDP, Limit of new state debt guarantees to 3% of general fund revenues

➢ **Loose fiscal policy stance containing no consolidation despite assuming 4.6% growth (2020 deficit expected by experts to turn out at 6% of GDP due to lower expenditures)**

4. Development of fiscal revenues



Drivers of changes in revenues

PIT: Impact of minimum wage hikes

CIT: 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

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

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

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) not included

* In 2020, MinFin estimates net domestic VAT at UAH 110.6 bn or 2.8% of GDP (plan at UAH 77.5 bn) and VAT on imports at UAH 281.2 bn or 7.1% of GDP (plan at UAH 303.8 bn), *Source: background materials to the Draft State Budget Law for 2021*

Downside risks to revenues

- Revenues in relation to GDP are officially expected to fall from 24.6% (2020 plan) to 23.8% in 2021 due to decline in non-tax revenues in relation to GDP
- If these figures turn out to be too optimistic, the fiscal gap will widen

Downside risks to individual revenues categories

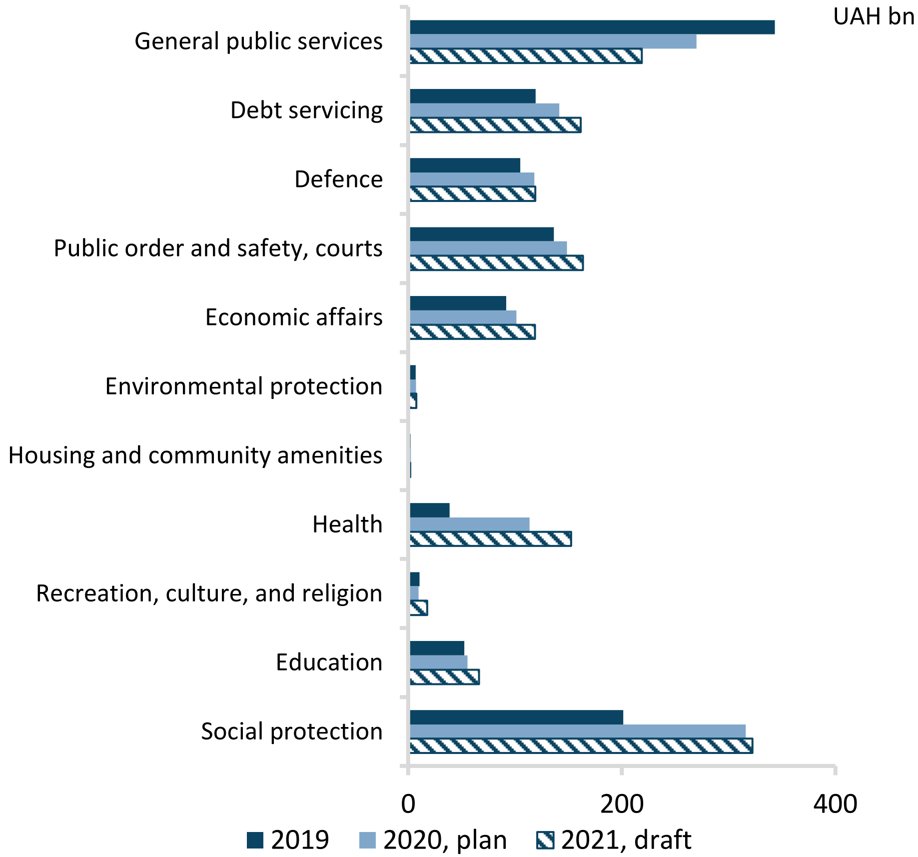
- **PIT revenues** *(+24.8% from 2020 plan)*: Rather optimistic estimate of wage bill growth resulting from minimum wage hike (12.1% real wage growth, 7.3% inflation expected)
- **Net domestic VAT revenues** *(+18.6% from MinFin estimate for 2020)***:** Assumes strong growth of nominal final consumption (by 14% yoy) and increased tax administration efficiency (possibly overestimated). VAT refunds might be underestimated. According to MinFin, net domestic VAT revenues expected to grow from 2.2% of GDP in 2019 to 2.8% in 2020 and to 2,9% in 2021
- **VAT on imports** *(+18.2% from MinFin estimate for 2020)***:** Based on assumption of strong imports growth and improved administration (requiring further changes in customs administration)
- Fiscal revenues based on **Draft Amendments to the Tax Code** (#4101, 15.09.2020), not yet approved (MinFin estimates additional UAH 2.7 bn to central revenues and UAH 0.5 bn to local revenues): Indexation of excise on alcohol, ecological tax, some royalties; changes in excise taxation of heated tobacco products

5. Development of fiscal expenditures

Main expenditure-side changes and measures foreseen in budget

- **Minimum wage increase** to UAH 6000 in January and 6500 in July (already increased from UAH 4723 to UAH 5000 in 2020) results in higher spending on healthcare and education and other public sectors
- **Pensions increases**: Statutory minimum pension will increase by officially expected inflation + 1 p.p., further increases for some pensioners in line with minimum wage increases, additional payments to some pensioners (see annex)
- **Expenditures for infrastructure investments** maintained at high level:
  - Road construction: Increased from UAH 129.3 bn planned for 2020 to UAH 150 bn (partially financed by credits with state guarantees); from this UAH 50.4 bn (+11.4% yoy) for state road agency (Ukravtodor) and UAH 21.3 bn transfers to local governments
  - Railway construction: UAH 4.5 bn for purchase of passenger railway cars and the electrification of railway lines
  - IFI loans: UAH 23.7 bn for investment projects of International Financial Institutions
- **Energy efficiency:** No financing for Energy Efficiency Fund and warm loans
- **Environmental programs:** Almost zero financing for most programs

Budgeted expenditures by individual functions



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*

Drivers of changes in expenditures

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, but zero financing for Energy Efficiency Fund and warm loans

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

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

Social protection: Stable nominal transfer to the Pension Fund, absent one-off transfers to the Unemployment Insurance Fund, decline in nominal spending on HUS

Upside risks on the expenditure side

Risks on the expenditure side

- Spending allocations in healthcare and education may be insufficient to cover salary increases due to minimum wage hikes
- Judges and prosecutors may sue for higher wage raises based on indexation to minimum wage
- Risk of a gap in the Pensions Fund’s budget due to lower than currently expected revenues from the single social contribution against the background of rather stable central fiscal transfer to the Fund
- Road construction relies substantially on the state guarantees to be provided under the loans received by Road Agency (Ukravtodor): quasi-sovereign debt as only source of its revenues is central budget
- IFIs are expected to continue financing current investment projects (some projects assumed to be in the pipeline). The delays in the implementation of the projects will result in smaller investment to stimulate economic growth in longer run

Assessment of expenditure side

- Substantial spending increases on social functions commits future budgets
- Along with maintaining high infrastructure spending and refraining from substantial consolidation on any category, this implies growing public expenditure overall
- Reduction of spending for energy efficiency/environment purposes negative and wrong signal to international partners

6. Deficit financing and IMF cooperation (I)

- **Financing of deficit is crucial to execute the budget**: Must finance new borrowing (fiscal deficit minus privatisation and other operational revenues) + roll-over existing debt
- MinFin estimates state and state-guaranteed debt by the end of 2021 at UAH 2,908.7 bn 64.6% of GDP), 6.8% of GDP of which is state-guaranteed debt
- 2020 borrowing: External lags behind domestic borrowing, indicating difficulties in external borrowing

Indicator (UAH bn)	2019	2020, plan	2021, draft
Net borrowings	80.5	296.7	263.1
Domestic borrowings	*345.9*	*377.6*	*549.1*
Domestic redemption	*261.4*	*216.3*	*341.6*
External borrowings	*79.8*	*265.1*	*153.3*
External redemption	*83.8*	*129.7*	*97.7*
Privatisation	0.5	0.5	6.0
Active operation	0.0	1.2	1.2
TOTAL central fiscal deficit	**81.0**	**298.4**	**270.4**

Source: Report on the State Budget for 2019, State Budget Law for 2020, Draft State Budget Law for 2021

- ➢ **Very large gross and net borrowing requirement for 2021**
- ➢ **Access to IFIs credit and capital markets is paramount to successfully execute budget**

Deficit financing and IMF cooperation (II)

Financing risks

- Net domestic borrowings of UAH 200 bn are a challenging task, as non-residents are not likely to return to be market, while there is no such available liquidity in the banking sector (especially taking into account official policies to stimulate bank lending to the real sector and mortgage lending under 10% interest rates)
  - Coupled with an assumed rise in inflation and a possible NBU reaction, this would put pressure on yields and contribute to "crowding out"
- IMF cooperation is a key assumption for the external borrowings. The continuation of the IMF programme will open the access of Ukraine to a WB loan, MFA of the EU and the international capital market (officially exp. Eurobond issue: ca. USD 3.0 bn)
  - IMF important for lower borrowing cost (directly and indirectly)
- Under the IMF programme, external borrowings in 2021 might be higher than currently envisaged (and, thus, domestic financing needs will be lower than) under the assumption that Ukraine remains in the IMF programme
  - Less likelihood of "crowding out" and less pressure on NBU to facilitate domestic borrowings
- High planned fiscal deficit likely to be a main obstacle for continuing IMF cooperation

7. Stress-test of budget (I)

Three macroeconomic scenarios

- Government's official macroeconomic forecast plus two less optimistic scenarios:

	Official forecast	Moderate scenario	Bad scenario
Real GDP growth, %	4.6%	3.0%	1.0%
Inflation, yoy (eop)	7.3%	6.0%	5.0%

Source: Own calculations

- „Moderate scenario" reflects IMF forecast in latest World Economic Outlook
- „Bad scenario" implies no real recovery – e.g. if lockdown needs to be renewed in winter and into 2021

Analysis of two different budgets for 2021

- Current draft budget, voted by VRU in first reading on 5 November 2020
- An alternative budget that achieves a -5.3% deficit in the "moderate" macro scenario, reflecting the IMF WEO figures, hence likely to be the IMF programme target

Analysis

- We use basic elasticities for the relation of revenues to GDP growth and inflation
- Assume expenditures unrelated to GDP and inflation results
- Calculate revenue and deficit results of two budgets under different scenarios

Stress-test of budget (II)

Results

		2021 Draft budget			2021 Alternative budget		
		Official	Moderate	Bad	Official	Moderate	Bad
Revenues	UAH bn	1,071.1	1,030.0	1,001.6	1,057.4	1,030.0	1,001.6
Expenditures*	UAH bn	1,341.6	1,341.6	1,341.6	1,257.8	1,257.8	1,257.8
Deficit/ fiscal gap	UAH bn	-270.4	-311.6	-340.0	-200.4	-227.8	-256.2
	% of GDP	**-6.0%**	**-7.2%**	**-8.1%**	**-4.5%**	**-5.3%**	**-6.1%**

*Source: Own calculations; *incl. net credits*

- **Draft budget** could substantially derail if macroeconomic situation deteriorates
  - Up to 8.1% fiscal gap in case of bad scenario (higher than 2020 planned deficit)
- **Alternative budget** based on IMF WEO foresees a deficit of 5.3% in moderate scenario,
  - Implies a **reduction of expenditures by UAH 84 bn**, planning for a 4.5% of GDP deficit given the official 2021 macro forecast
  - Would lead to a manageable -6.1% deficit gap even in the bad scenario

➢ **The alternative budget would be much more robust to adverse macro developments**

8. Conclusions and policy recommendations (I)

Main characteristics of the draft budget

- The draft budget is prepared in difficult times, and under high uncertainties
- It foresees several increases of (permanent) social expenditures and a continued commitment to high infrastructure spending
- No substantial strengthening of revenues is foreseen in order to compensate additional expenditures or to achieve fiscal consolidation after the 2020 recession
- Hence, the Government suggests to suspend several fiscal rules to pass this budget

Macroeconomic and fiscal assessment

- For 4.6% GDP growth, 6.0% of GDP deficit appears too large and highly procyclical
- Additional expenditures with binding effect on future budgets without compensation raise doubt about Ukraine’s commitment to a sustainable fiscal policy path
- The high foreseen deficit leads to two main risks:
  - **High financing requirements:** Lead to crowding-out risks on domestic market; high importance of IMF for external borrowing
  - **Fiscal risk due to economic uncertainty**: If growth turns out worse than expected in official forecast, the fiscal gap would wide substantially

Conclusions and policy recommendations (II)

Policy recommendations

- Because of this context, **the adopted budget should be more conservative**:
  - We recommend planning a 4.5% of GDP deficit under the official macro forecast
  - Would be in tune with IMF figures, will hence facilitate crucial IMF cooperation
  - It will also protect macroeconomic stability by reducing crowding-out and inflation risks from large domestic borrowing

Specific recommendations

- **Contemplating, whether planned expenditures can be reduced**: By deferring increases in social standards, stretching infrastructure investments over a longer horizon, or generating substantial and robust savings in other areas
- If expenditure cuts are not possible or sufficient: **Increasing revenues** by raising less distortive tax rates such as excises or VAT
- Taking a **cautious approach to revenue planning**, especially relying less on gains from improved administration
- Before second reading, the budget should be **updated with a new macro forecast** that is more in line with other recent forecasts and includes other relevant changes
- **Limits on state guarantees** for debt should remain in place

About the German Economic Team

The German Economic Team (GET) advises the governments of Ukraine, Belarus, Moldova, Georgia and Uzbekistan regarding the design of economic policy reform processes and a sustainable development of the economic framework. As part of the project we also work in other countries on selected topics.

In a continuous dialogue with high-level decision makers of the project countries, we identify current problems in economic policy and then provide concrete policy recommendations based on independent analysis.

In addition, GET supports German institutions in the political, administrative and business sectors with its know-how and detailed knowledge of the region's economies.

The German Economic Team is financed by the Federal Ministry of Economics and Energy (BMWi). The consulting firm Berlin Economics has been commissioned with the implementation of the project.

CONTACT

Garry Poluschkin, Project Manager Ukraine
poluschkin@berlin-economics.com

German Economic Team
c/o BE Berlin Economics GmbH
Schillerstraße 59
10627 Berlin

Tel: +49 30 / 20 61 34 64 0
info@german-economic-team.com
www.german-economic-team.com
Twitter: @BerlinEconomics
Facebook: @BE.Berlin.Economics

Implemented by

Berlin Economics

Annex 1: 2nd reading as compared to the 1st

	Unit	2019	2020, plan	2021, draft, 1st reading	2021, draft, 2nd 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**
From this: Debt servicing	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

Budget for the 2nd reading:

- Planned central fiscal deficit reduced from 6% of GDP to 5.5% of GDP for 2021
  - Revenues up by UAH 20.9 bn, while expenditures down by UAH 2.8 bn
- Minimum wage: UAH 6000 since January 1, UAH 6500 since December 1 (even though macroeconomic forecast was not revised. The impact on macrolevel will be likely limited, but could be sensitive for certain revenues items)
- State guarantees are now clearly defined at UAH 88.7 bn

Revenues: 2nd vs. 1st

PIT: - UAH 1.3 bn due to suspended MinWage increase

CIT: + UAH 1.8 bn partially due to MinWage impact (the rest unclear)

Royalties: + UAH 0.44 bn (the draft law on amendments to Tax Code not approved yet)

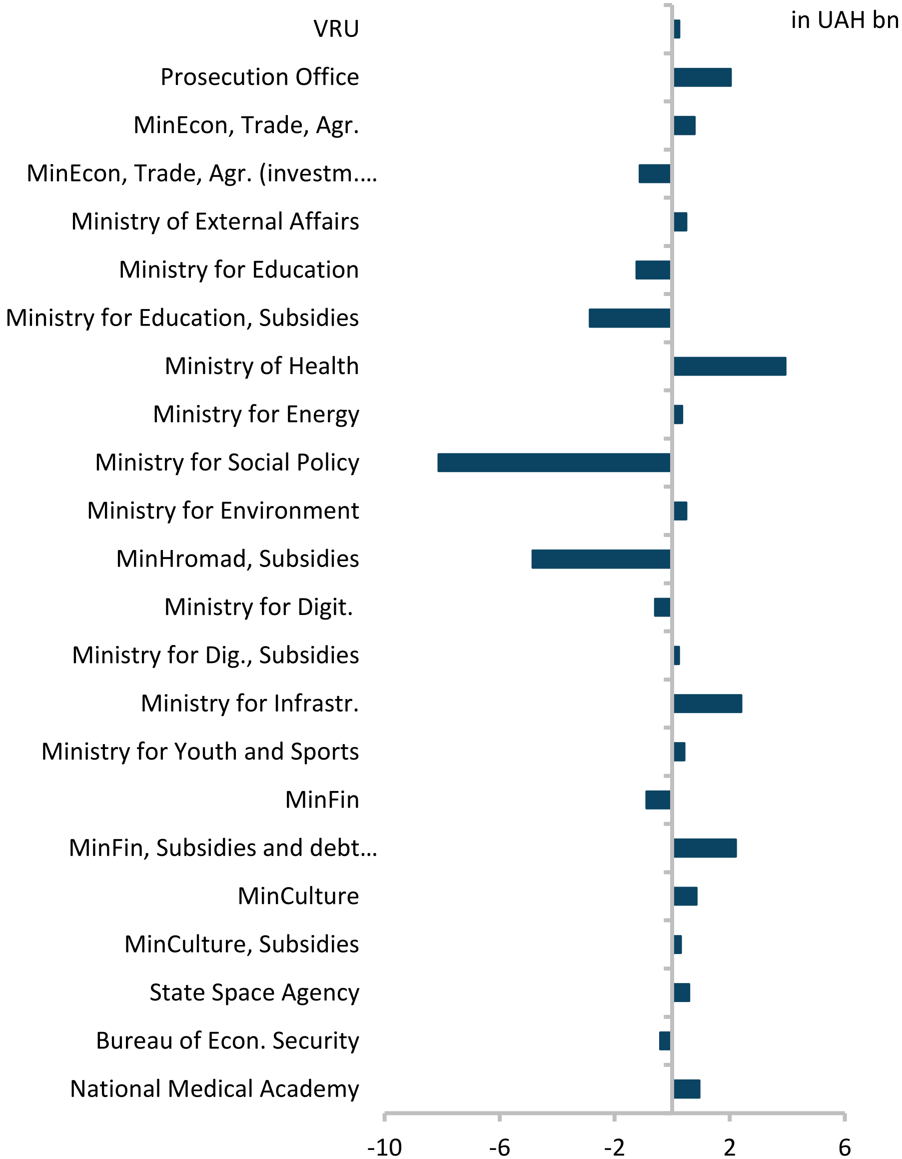
Domestic VAT: + UAH 5.5 bn due to assumed higher efficiency (3.0% vs 2.2% of GDP in 2019), even more optimistic than before

International duties (imports duties): + UAH 2.4 bn, looks rather optimistic

Dividends / share of net profits: + UAH 2.4 bn likely due to better than previously expected state bank profits

Administrative revenues: + UAH 7.4 bn of earmarked revenues from gambling licenses (previously not included as revenues)

Expenditures: 2nd vs. 1st



MinSoc: - UAH 8.5 bn reduction of central fiscal transfer to the Pension Fund likely due to delayed pension indexation. Risks: lower social contribution receipts (delayed MinWage increase), repayment of short-term treasury loans by Pensions Fund.

MinHealth: + UAH 4 bn primarily for additional capital spending on two tertiary hospitals and central procurement of medicine.

MinInfra: + UAH 2.4 bn for airport infrastructure and airport Dnipropetrovsk (difficult to justify taking into account lack of fiscal space and still likely restricted flights in 2021)

Regional development: - UAH 4.9 bn for State Regional Fund of Development but + UAH 6 bn for social and economic subsidies (shift from transparent and efficient instrument to non-transparent corruptive one)

+ More financing for Internet and new programs of creation of centers of creative economy and centers for cultural development

Impact of delayed minimum wage increase: Reduced wage costs at all state institutions

Deficit: 2nd vs. 1st

- **Central fiscal deficit reduced by UAH 23.7 bn (from 6% of GDP to 5.5% of GDP)**: local borrowings reduced by UAH 51 bn with equivalent increase in external borrowings while domestic debt redemption increased by UAH 28 bn (which might be attributed to the possible increase in short-term placements in the end of 2020)
- Privatization receipts are planned to increase to UAH 12 bn

Indicator (UAH bn)	2019	2020 plan	2021, draft, 1st reading	2021, draft, 2nd reading
Net borrowings	80.5	296.7	263.1	233.4
Domestic borrowings	*345.9*	*377.6*	*549.1*	*497.3*
Domestic redemption	*261.4*	*216.3*	*341.6*	*369.5*
External borrowings	*79.8*	*265.1*	*153.3*	*204.5*
External redemption	*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**

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

- ➢ **Very large gross and net borrowing requirement for 2021 remains**
- ➢ **Access to IFIs credit and capital markets is paramount to successfully execute budget**

Annex 2: Expenditures for individual purposes

Economic activity programmes / investments

- ***Coal mining:*** Support of coal mines to remain at UAH 4.5 bn with about UAH 3 bn allocated for coal liquidation:
  - There is a risk of traditional reallocation of funds from liquidation to wage payments
  - No specific programmes for coal regions transition are envisaged
- ***Road construction and maintenance:*** UAH 50.4 bn (+11.4% yoy) for the Ukrainian road agency (Ukravtodor) in 2021, from which UAH 13.5 bn for debt repayment and servicing; UAH 21.3 bn (close to the 2020) of transfers to local government entities for road maintenance and construction:
  - According to the CMU, financing of road construction and maintenance is to increase from UAH 129.3 bn planned for 2020 (including UAH 19.3 bn of credit to the Ukravtodor from Ukreximbank under state guarantees) to UAH 150 bn in 2021 (including UAH 70.9 of financing under state guarantees)
- ***Railway:*** UAH 4.5 bn for purchase of passenger railway cars and the electrification of railway lines. The justification and the procedure of such procurement is not clear yet, However, the budget financing of such procurement is likely to comply with the State aid law and the liabilities taking in the AA due to specifics of such regulation in the EU, but the railway cars are procured through Prozorro

Expenditures for individual purposes (II)

Economic activity programs / investments

- ***Agriculture (direct support):*** UAH 4.0 bn for financial support of agriculture. The design of programs is likely to remain close to 2020, even though some of the programs are estimated to be inefficient and require changes. The open question is on the provision of subsidized loans for land purchase.
- ***Agrarian Fund:*** UAH 359 m are envisaged for interventions and operation of the Agrarian Fund (which is rather inefficient)
- ***SME***: UAH 2.0 bn for the Fund of Entrepreneurship Development, which is responsible for SME support through the partial subsidization of interest on bank loans. The Government will provide portfolio state guarantees for loans to SMEs (the limit is not defined)
- ***IFI projects:*** UAH 23.7 bn of financing for investment projects from the IFIs. It could be higher if the projects in the pipeline are signed and launched (road maintenance and construction, SME support, healthcare infrastructure, modernization of utility companies)
- ***Regional development:*** UAH 9.4 bn for Regional Development Fund (there is no social and economic subvention; however, it is traditionally reincarnated between two readings)
- ***Capital outlays:*** UAH 1.1 bn for new program Capital outlays for elaboration and implementation of state investment projects (under the MinEc) with not details

Subsistence minimum

<u>Subsistence Minimum (SM):</u>

- SM is to be increased by inflation + 1 p.p. (but remains lower than actual size of SM)
- Base rate for setting wages to judges and some categories of employees (prosecutors, NABU, etc.): UAH 2102

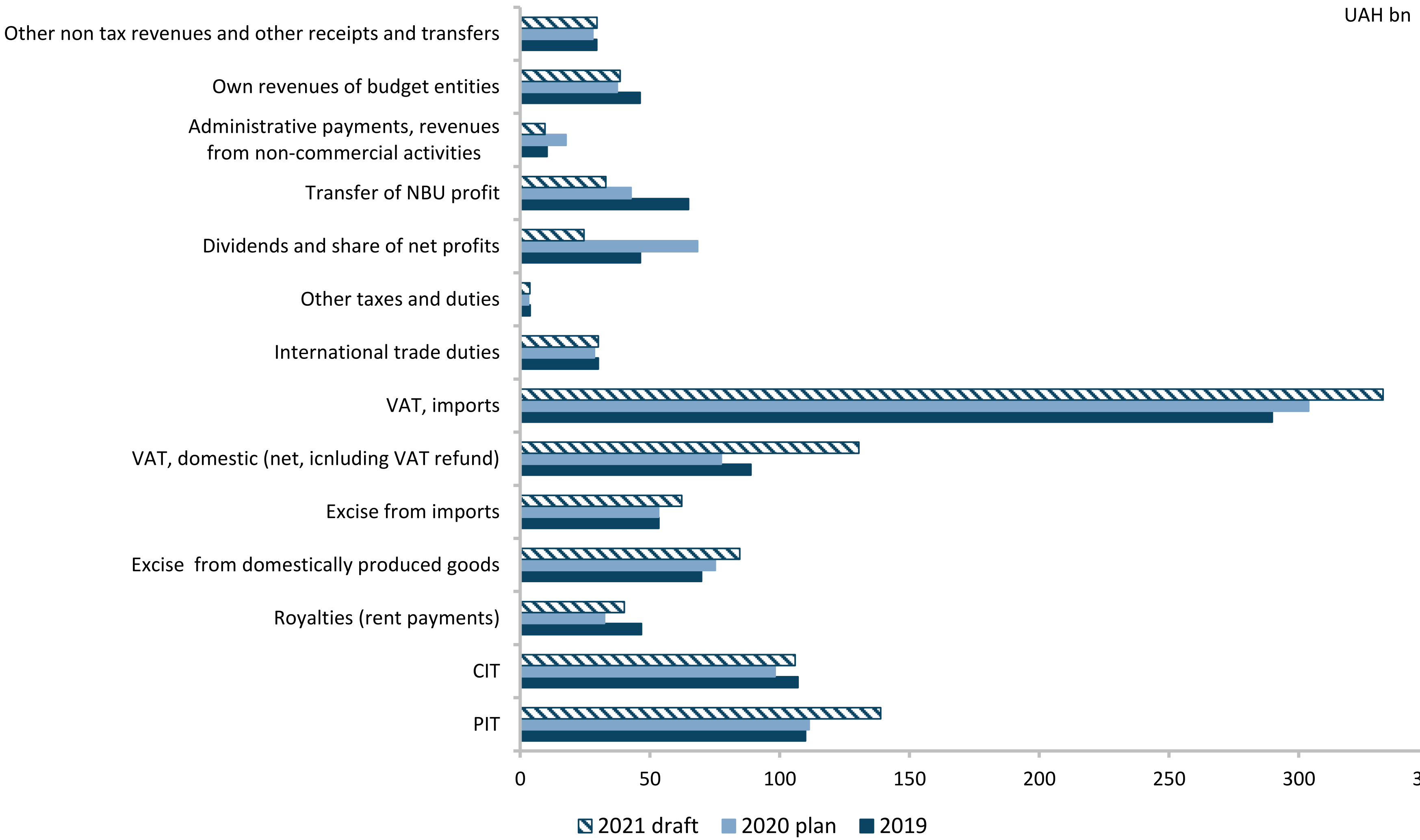
Period	General SM, UAH	Children up to 6 years old, UAH	Children of 6-18 years old, UAH	Working able individuals, UAH	Individuals that lost ability to work, UAH *(statutory minimum pension)*
01.01.2019 - 30.06.2019	1853	1626	2027	1921	1497
01.07.2019 - 30.11.2019	1936	1699	2118	2007	1564
01.12.2019 - 31.12.2019	2027	1779	2218	2102	1638
01.01.2020 - 30.06.2020	2027	1779	2218	2102	1638
01.07.2020 - 30.11.2020	2118	1859	2318	2197	1712
01.12.2020 - 30.06.2021	2189	1921	2395	2270	1769
01.07.2021 - 30.11.2021	2294	2013	2510	2379	1854
01.12.2021 - 31.12.2021	2393	2100	2618	2481	1934
For info: Actual size of SM as of August 2020	*3778 (4331*)*	*3531*	*4331*	*3933 (4886*)*	*3182*

** With all taxes // Actual SM is calculated by MinSoc*

Pensions

- Statutory minimum pension will increase by inflation + 1 p.p.
- Minimum pensions for retired individuals above 65 years old and working record of 30 years for women and 35 years for mean will increase in line with minimum wage as it equals 40% of minimum wage
- UAH 400 co-payment to pensions from July 1, 2021, to pensioners between 75 and 80 years old and whose pension is lower than average wage, while UAH 500 co-payment remains for individuals above 80 years old
  - On September 16, the CMU set minimum pension payment at UAH 2500 for pensioners of 75-80 years old, and UAH 2600 for those older than 80 years old. It’s not clear whether this is incorporated into budget figures
- Central fiscal transfer to the Pension Fund will increase by only 0.8% to UAH 203.8 bn
  - This is explained by expected rapid growth of gross wage bill, which is then estimated to result in respective increase in own revenues of the Pension Fund (coming from single social contribution)
  - Therefore, there is a risk of a gap in the PF budget (as in 2020)

Development of revenues



Nominal revenues will increase against the background of improved macroeconomic forecast. Higher nominal consumption and imports will drive VAT and excise revenues growth. Higher gross wage bill is expected to contribute to PIT revenues increase.

Development of expenditures