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## The state budget of Ukraine: mechanisms for its balancing

### Part 2. Reducing the State budget expenditures (sequester)

On 27 September, 2014, on the motion of the government, the Verkhovna Rada of Ukraine adopted amendments to the State Budget of Ukraine for 2014.<sup>1</sup> The main aim of the introduction of amendments to the state budget is to ensure its feasibility (bringing macroeconomic indicators into line with the current economic situation), reducing inefficient and secondary expenditures, as well as revision of the sources of supplementing the budget (in January and February, arrears on taxes and fees paid into the state budget after the supplementation amounted to 5 bn UAH (0.330 billion euros)).<sup>2</sup>

At the meeting with representatives of European business, organised by the European Business Association on March 3, 2014, Ukraine's Prime Minister Yatsenyuk stated that it is **expected that** the state budget **will be reduced by 60-85 billion UAH** (4-4.6 billion euros).<sup>3</sup>

Based on the results of the works of the Government (Ministry of Finance) on the revision of the expenditures of the state budget for 2014, expenditures **have been reduced** in the general fund of the state budget by **30.5 billion UAH** (2.0 billion euros) and increased in the special fund of the state budget by 4.2 billion UAH (0.28 billion euros).<sup>4</sup>

Thus, the reduction of the state budget can be divided into several main groups:

1. Reduction of expenditures for the state apparatus (the President, the Government, the ministries and government departments, regional administrations);
2. Reduction in capital expenditure and support of individual sectors of the economy;
3. Reduction of centralised social spending (cancellation of the raise of the minimum wage, the minimum subsistence level and others);
- 4 . Optimisation of intergovernmental transfers and partial cancellation of additional state budget subsidies.

#### Reduction of expenditures for the state apparatus - 1.5 bn UAH (0.1 bn euros):

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1 228 deputies voted at the second attempt for changes to the state budget. Namely, from the fraction of 'Batkivshchina' ['Fatherland'] - 82 of 88 MPs voted in favour; from the party 'UDAR' ['The Blow'] - 20 of 42 MPs voted in favour; from the group 'Suverennaya Evropeyskaya Ukraina' ['Sovereign European Ukraine'] - 29 of 36 MPs voted in favour; from the group 'Ekonomicheskoye razvitiye' ['Economic development'] - 31 of 36 MPs voted in favour; from the faction 'Svoboda' ['Freedom'] - 34 of 35 MPs voted in favour; and among non-partisan MPs- 32 of 59 MPs voted in favour. The Party of Regions (120) and the Communist Party of Ukraine (32 persons) did not support the changes to the state budget.

2 The information can be found in the Government's submission to the to the Verkhovna Rada of Ukraine of the draft Law of Ukraine 'On Amendments to the Law of Ukraine 'On the State Budget of Ukraine for 2014'.

3 [http://www.kmu.gov.ua/control/uk/publish/article?art\\_id=247070154&cat\\_id=244276429](http://www.kmu.gov.ua/control/uk/publish/article?art_id=247070154&cat_id=244276429)

4 Due to the introduction of a new levy on purchases of foreign currency in the interbank market at a rate of 0.5%, The increase in revenues in a special Pension Fund is expected in the amount of 9.1 billion UAH (0.606 billion euros).

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1. Reducing expenditure for **salaries** of employees of the Verkhovna Rada, the Presidential Administration, the National Security and Defence Council, the State Administration, the Cabinet Office, the central executive authorities and other bodies as a result of reducing the number of their employees and the level of premiums - 0.48 billion UAH (0.032 billion euros);<sup>5</sup>

2. Reducing the **expenditure for the maintenance of passenger cars** of the Verkhovna Rada apparatus, the State Administration and the Cabinet Office in connection with a reduction of the number of passenger cars by 50 per cent<sup>6</sup> - 19.5 m UAH (1.3m) euros;

3. **Other expenditures** of the state apparatus (including the reduction of expenses for presidential elections) - 1.0 billion UAH (0.07 billion euros);

**Reduction in capital expenditure and support of individual branches of the economy - 12.5 bn UAH (0.833 billion euros):**

It should be noted that the sequester of the expenditures of the state budget, proposed by the Government of Arseniy Yatsenyuk, is systemic, which provides for a reduction of almost all inefficient and secondary expenditures of the State budget. The expenditures of 17 central executive bodies were reduced. It is necessary to distinguish the following groups of expenditure:

1. Reduction of **centralised capital expenditures** of the state budget by 3.7 billion UAH (0.25 billion euros).

Other capital expenditures will be used in the following spheres:

- centralised capital investments - 3.7 billion UAH (0.16 billion euros);

- through the Regional Development Fund - 1.0 billion UAH (0.06 billion euros);

- subsidies for the socio-economic development of local budgets - 0.5 billion UAH (0.03 billion euros).

The distribution of the aforementioned funds will be based on transparent competition for contracts based on their attractiveness, economic effects and social impact on the development of a particular branch of industry or territory.

2. Reduction of **expenditures for the support of individual sectors**, regions, and individual projects - 11.7 bn UAH (0.78 billion euros). The most significant measures include:

– reduction in state **support for the construction of coal and peat extraction** companies and their technical re-equipment - 2.3 billion UAH (0.157 billion euros);

– **cancellation of the increase of the share capital** of the state enterprise ‘National Nuclear Energy Generating Company Energoatom’ - 1.6 billion UAH (0.107 billion euros);

– reduction in state **support for coal mining enterprises** to partially cover the cost of the self-cost of finished marketable coal production - 1.1 billion UAH (0.075 billion euros);

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5 Number of employees of public authorities bodies (excluding law enforcement agencies) is 193 400 people (since 2001 it has increased by 54,700 people). In order to reform public authorities bodies, the reduction of government employees by 51,500 people is planned. At the same time, the reduction of the number of employees will not directly affect public sector employees - teachers, doctors, cultural workers. In Ukraine, per 1000 people there are 6 public officials; while in the United States and Kazakhstan - 5, in Azerbaijan - 3.

6 Ukraine has the largest car fleet in Europe. In order to reduce costs, by the Decree of 1 March, 2014, No. 65 ‘On saving state money and preventing losses in the budget’, the government prohibited the use of more than 1 car. 1500 cars that serve the central and local executive authorities, will be auctioned off (the carpool of the State Administration comprises 202 cars, the Cabinet Office – 141, and the Parliament - 175).

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- implementation of measures for socio-economic development of territories through the Regional Development Fund - 0.9 billion UAH (0.06 billion euros);
  - **other activities** related to the financing of individual projects and programmes - 5.8 billion UAH (0.2 billion euros).

**Reduction in social spending – 7.72 bn. UAH (0,514 bn euros):**

1. **Minimum subsistence level** – cancellation of the increase in the minimum subsistence level for the main social and demographic groups, savings in funds for the payment of social benefits - 0.42 bn. UAH (0.028 billion euros);
2. **Child birth benefit**- a single rate of child birth benefit is established, regardless of which child in the family it relates to - 41 280<sup>7</sup> UAH and it's consolidation with the assistance for childcare up to the age of three benefit – it shall result in savings in the amount of 3.8 billion UAH (0.253 billion euros);
3. **Pension Fund** - the budget of the Pension Fund is expected to be reduced by 3.5 billion UAH (0.237 billion euros).<sup>8</sup> The change of indicators of the Pension Fund budget increase is connected with the cancellation of the increase in salaries, the minimum subsistence level for the unemployed and the revision of the inflation index.

**Optimisation of intergovernmental transfers and partial cancellation of additional state budget subsidies - 5,9 bn UAH (0,395 bn. euros):**

Given the tough regime of cuts to the funds, the list of intergovernmental transfers, provided from the state budget to local budgets, has been optimised, and their volume has been reduced to 124.3 bn UAH (8.3 billion euros). At the same time, the following subsidies have been reduced:

1. The subsidy for **reimbursement from the state budget** to local budgets in the case of excessive expenditure in local budgets over their income, in the amount of 0.291 bn UAH (0.01 billion euros). The amount of subsidy is calculated in accordance with the procedure defined by the Government according to the formula;
2. **Additional subsidies** - 0.47 bn UAH (0.031 billion euros). Almost all of the additional subsidies, which had been allocated to finance individual projects pertaining to infrastructure, have been cancelled (the Government of Nikolay Azarov appointed Dnepropetrovsk, Donetsk and Lugansk regions as main recipients of these subsidies);
3. **Subsidies from the general fund** - by 2.7 billion UAH (0.179 billion euros). Primarily, social measures, which were financed from the state budget through local budgets. Reducing subsidies is a consequence of the revision of the basic social standards and the cancellation of certain social programmes which should be funded from internal funds of ministries, departments or local authorities.
4. Expenditures of the State Regional Development Fund by 2.5 billion UAH (0.165 billion euros).

**For more detailed information, please contact:**

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<sup>7</sup> By March 2014, the child birth benefit was graded and established in an amount 30 times the minimum subsistence level – for the first child; 60 times the size of the minimum subsistence level - for the second child; 120 times the size of the minimum subsistence level - for a third or each subsequent child, on the basis of the minimum subsistence level for children aged up to six years, as on the day of birth. In addition, state assistance will be granted for care provision for children under the age of three.

<sup>8</sup> The index of the Pension Fund budget is 83.8 billion UAH (5.6 billion euros).