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25.04.2014

### Government presents its vision of key 2015 budget policy trends

On 19 April 2014, according to Article 33 of the Budget Code of Ukraine, Prime Minister Yatseniuk's government submitted to the Verkhovna Rada of Ukraine the Draft Resolution "On the Guidelines of the 2015 Budget Policy"<sup>1</sup>, developed in accordance to the Programme of the Cabinet of Ministers of Ukraine and with regard to the fulfilment of the programme of cooperation with the IMF. This document lays down foundations for the budget process in Ukraine, defining its key principles (see Appendix for the algorithm of passing the national budget), although its nature is primarily declarative.

For 2015 Ukraine's government envisages economic growth and the laying of foundations for a cardinal, innovation-oriented restructure of the economy achievable through the creation an attractive investment climate, proper environment for the development of small and medium entrepreneurship, stimulation of national businesses to produce competitive goods and services making them available through international markets, and the implementation of a consistent humanitarian governmental policy.

#### 1. Main prognostic macro indicators for economic and social development:

- Real gross domestic product growth rate – 101.7%<sup>2</sup>;
- Consumer price index (in December 2015, change on December 2014) – 105.4%;
- Unemployment rate – 7.8%;
- UAH/USD official exchange rate – no specific value or fluctuation corridor established<sup>3</sup>.

From the very start, Ukraine's Cabinet of Ministers declared adjustments of macro indicators possible due to the presence of a number of threats, in particular, those related to hostilities on the part of the Russian Federation, a possible slow-down of global economic growth, an aggravation of global commodity markets, a decline in the prices of traditional Ukrainian exports, the volatility of the domestic financial and banking systems due to low consumer confidence, and political instability in Ukraine.

Ukraine's businesses expect a deterioration of macroeconomic conditions and a reduction in in Ukrainian output over the next 12 months. The number of enterprises bearish on the reduction of GDP has grown by 15%, which is 34.5% more than the number of their bullish counterparts.<sup>4</sup> It means that in

<sup>1</sup> [http://w1.c1.rada.gov.ua/pls/zweb2/webproc4\\_1?pf3511=50732](http://w1.c1.rada.gov.ua/pls/zweb2/webproc4_1?pf3511=50732)

<sup>2</sup> Nominal gross domestic product expected at 1,686.5 bn UAH (€108.2 bn);

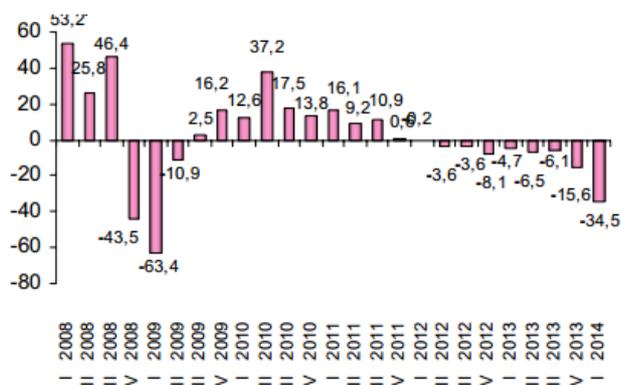
<sup>3</sup> It is stated that the rate is established as the average annual, based on the exchange-rate flexibility policy, when the rate is defined by the interbank foreign exchange market to promote the preservation of the state's international reserves. This virtually means that the National Bank of Ukraine shall not influence the hryvnia exchange rate, in line with the IMF requirements.

It should be also mentioned that since 2011 the NBU has not published specific values for the hryvnia exchange rate in its annual *Fundamental Principles of Fiscal Policy*.

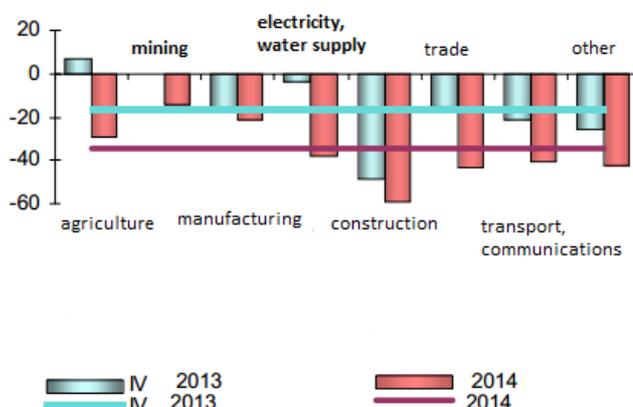
<sup>4</sup> Top managers of businesses were interviewed between 14 February and 7 March 2014. All in all, 1,142 enterprises from all regions of Ukraine took part in the survey. The participants are representative of national economy in terms of major

the process of drafting the 2015 National Budget of Ukraine (in July–September 2014) the macroeconomic indicators will be revised and downscaled.

**Expectations concerning changes in production volumes over the next 12 months. Balance of responses**



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Source: <http://www.bank.gov.ua/doccatalog/document?id=6774058>

## 2. Key tasks of the budget policy anticipate:

- National budget deficit of up to 3% of GDP;
- Public debt of up to 55% of GDP;
- Maximum 30% GDP redistribution via the consolidated budget;
- Financing of the general fund deficit of the national budget primarily through domestic borrowing;
- Financing of the special fund deficit of the national budget at the expense of government loans from foreign nations, banks, and international financial organisations for implementing investment programmes (projects);
- Establishing the volume of sovereign guarantee in the budget period at a maximum 5% of the revenue of the national budget's general fund, at the Government's decision, to credit investment projects for properties of national significance;
- Establishing the minimum wage, salary (base wage rate) and living wage on the basis of the real sector indicators and consumer price index growth; consistent increase of monetary allowances for the military.

## 3. Priority undertakings with regard to tax and customs policy in 2015:

- Adoption of a new Tax Code of Ukraine, which will bring about a reduction in the number of taxes and duties and simplify their administration, development of domestic production via the reduction of tax burden (social) and the minimisation of tax avoidance risks;
- Modification of tax rates, defined in absolute terms, adjusted for rates of certain taxes and duties;

operations, the form of ownership, and their number of employees.

<http://www.bank.gov.ua/doccatalog/document?id=6774058>

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- Revision of tax and customs benefits and exemptions and establishment of objective criteria of their extension;
  - Adaptation of Ukrainian tax and customs legislation to that of the EU;
  - Increase of taxation through customs duties.

#### **4. Other issues**

To draft the Law of Ukraine “On the National Budget of Ukraine for 2015,” the following issues should be settled:

- Creation of a public motorway fund;
- Activation of investment capital involvement for the development of transport infrastructure on conditions of public-private partnership (in particular, concession);
- Implementation of system reforms in the agricultural sector through comprehensive approaches to the development of various methods of management, in particular, small and medium-scale commodity production;
- Harmonisation of water-supply costs with the economically substantiated norm;
- Use of international experience for the improvement of the state support mechanism for state-owned coal-mining enterprises;
- Adoption of the national energy efficiency action plan up to 2020 and the national action plan for renewable energy up to 2020;
- Provision of affordable loans for implementation of investment/ innovation projects through partial reimbursement of interest rates on credit in the priority sectors of the national economy (based on international experience), new mechanisms for broadening access to, and reducing the costs of, loans for domestic producers (in particular, small and medium-size businesses).

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