

Social expenditures: what and why the state finances in the first half of 2023

Key Changes in Social Protection of the Population

1. The Government of Ukraine is committed to reforming social protection for vulnerable population groups, including veterans and internally displaced persons (IDPs). In the first half of 2023, the government began implementing these intentions by adopting two important strategies:
 - 1) The [Strategy of State Policy on Internal Displacement Persons for the period until 2025](#) outlines policy priorities, focusing on employment and housing support for IDPs.
 - 2) The [Strategy for the Transition from Military Service to Civilian Life for the period until 2032](#) aims to establish a Veterans' Patronage Service for the social support of veterans after their military service. This strategy includes an individual support plan for each veteran and identifies the financing of this program as one of the key directions in social policy in the coming years.
2. Starting from [January 2023](#), the Pension Fund of Ukraine (PFU) is responsible for making payments for temporary disability benefits and other compensation under social insurance. The Compulsory State Social Insurance Fund of Ukraine (CSSIFU) has ceased its operations. This decision by the government aims to enhance the efficiency of the social insurance system and ensure the timely delivery of critical payments. Since the revenues of CSSIFU did not increase, the arrears for temporary disability benefits and maternity-related assistance [exceeded](#) UAH 2.3 billion by the end of 2022. These arrears were fully cleared at the end of the previous year through temporary [changes](#) in the distribution of revenues from SSC.
3. One-time monetary payments have been [introduced](#) for specific categories of employees who became victims of the war after February 24, 2023. This includes employees of critical infrastructure facilities, civil servants, and local government officials. The amount of these payments depends on the degree of harm suffered to life and health: individuals with disabilities of the I group receive UAH 800,000; II group - UAH 500,000; III group - UAH 200,000; and in the event of death, the family will receive UAH 1 million. These payments will be made from the reserve fund of the state budget, which will help reduce the burden on the Pension Fund of Ukraine and provide additional financial support to those who, while performing their professional duties, suffered as a result of Russia's military aggression.
4. The [eVidnovlennia \(eRestoration\)](#) programme was launched to help people whose homes were damaged as a result of Russian military aggression. In June, UAH 4.4 billion was [allocated](#) from the Fund for the Liquidation of the Consequences of Armed Aggression to support this program.
5. Starting from January 2023, the amount of assistance for childcare known as the "[municipal nanny](#)" has been increased from the living wage for children under 6 years of age (UAH 2,272 in 2023) to one minimum wage - UAH 6,700. Simultaneously, the eligibility criteria for this assistance have changed. This service is provided when caring for a child with a disability or if one of the parents/guardians is a person with a disability of the I or II group. Therefore, the government is directing its efforts to provide assistance to those in challenging circumstances, including families with children where there are individuals with disabilities.
6. An experimental [project](#) called "Child Health Monetization following the principle of 'money follows the child'" has been initiated. It is designed for children raised in low-income families who belong to categories such as children with disabilities or children from large families. Parents or guardians of these children receive UAH 14,165 (equivalent to 5 living wages for children aged 6 to 18) deposited into an account with a special mode for the use of budget funds to pay for a child's vacation. This initiative promotes transparency and efficiency in the use of funds, as the money deposited into the accounts of parents or guardians can only be used to purchase vacation packages for the child's well-being, and not for other purposes. Approximately UAH 14 million has already been [allocated](#) for this service.

Social Standards for 2023

- (1) The living wage [rates, established](#) on December 1, 2022, remain unchanged throughout 2023 (Table 1). As of February 2023, the legislatively established size of the general living wage was 2.5 times lower than its actual value.

Table 1. Living wage rates for key social and demographic groups in 2023, UAH per month

Indicator	Amount, UAH
Living wage per person	2 589
For children under 6 years of age	2 272
For children aged 6 to 18 years	2 833
For able-bodied individuals	2 684
For able-bodied individuals, used to determine the basic salary of a judge	2 102
For able-bodied individuals, used to determine the salaries of employees of other state bodies regulated by special laws, as well as employees of tax and customs authorities	2 102
For able-bodied individuals, used to determine the official salary of the district prosecutor of the prosecutor's office	1 600
For individuals who have lost their working capacity	2 093

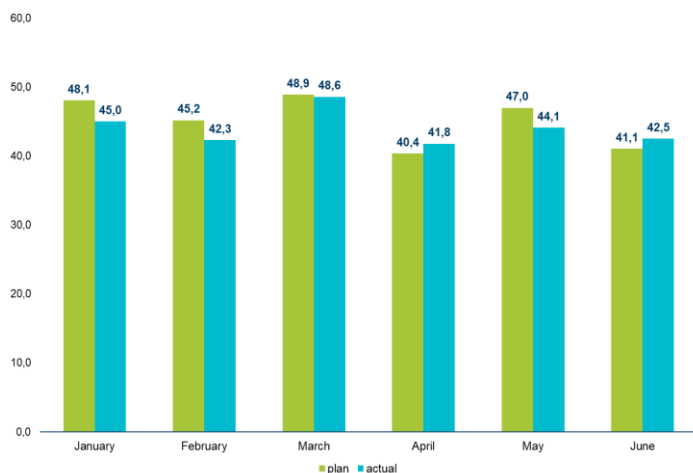
Source: "[Law on the State Budget for 2023](#)"

- (2) Since the living wage for individuals who have lost their working capacity is [2,093](#) UAH, accordingly, the minimum [retirement pension by age](#) is 2,093 UAH, and the maximum is UAH 20,930.
- (3) The [minimum wage](#) in 2023 remains at the level set on October 1, 2022, which is UAH 6,700.

Government Budget Expenditures on Social Security

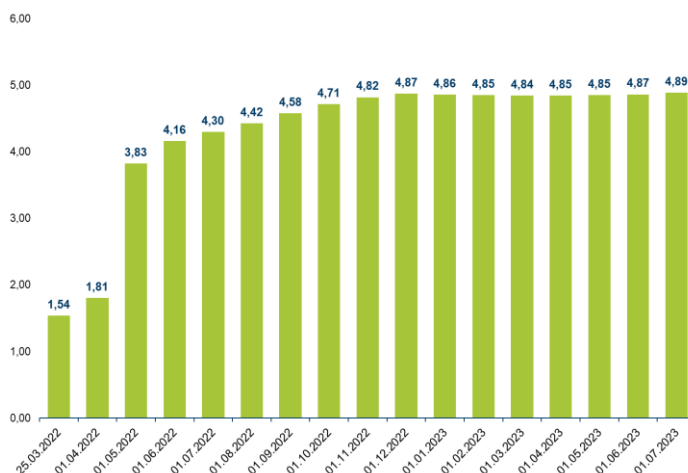
During the first half of 2023, a total of UAH 264.3 billion was **allocated** from the general state budget fund for social welfare and social protection of pensioners, individuals facing challenging life circumstances, veterans, people with disabilities, families, children, and youth. This represents 18.8% of the actual expenditure volume of the general state budget fund. These expenditures were UAH 6.4 billion, or 2.3%, lower than planned (Figure 1).

Fig. 1. Planned and actual expenditures on social welfare from the general state budget fund for the 1st half of 2023, UAH billion



Source: Ministry of Finance of Ukraine

Fig. 2. Dynamics of the number of registered IDPs for 2022-2023, million people



Source: Ministry of Social Policy of Ukraine

The largest budget programs of the Ministry of Social Policy of Ukraine include pensions and social assistance to citizens facing challenging life circumstances, low-income families (including housing subsidies and benefits), children and families (payments for childbirth, adoption, single mothers, large families, etc.), and individuals with disabilities. **The state budget for 2023 allocates UAH 442.3 billion** for these programs, while in the 1st half of 2023, UAH 230.5 billion was actually **directed**, which accounts for 52% of the annual plan (Table 2).

Table 2. Planned and actual expenditures execution from the state budget for the largest social payment programs in the 1st half of 2023 according to the annual plan for 2023

Indicator	Plan for 2023, UAH Billion	Actual for the 1st half of 2023, UAH billion	% of Annual Plan Execution
Pensions and covering the Pension Fund deficit	273,7	135,9	49,7
Social protection of citizens facing challenging life circumstances	86,1	52,0	60,4
Support for low-income families and the provision of benefits and housing subsidies	53,5	29,3	54,8
Social protection of children and families	26,9	12,2	45,4
Social protection of persons with disabilities	3,6	1,1	30,6
Total	443,8	230,5	51,9

Source: "Law on the State Budget for 2023", Ministry of Finance of Ukraine

Due to constant rocket attacks and flooding caused by the explosion of the Kakhovka Hydroelectric Power Station, the number of internally displaced persons (IDPs) in need of assistance from the state has increased by 3.4 million people, totaling **4.89 million** (as of the first half of 2023, the number of IDPs has grown by 30,600 individuals). **Of these, 56% received housing assistance payments** in the first half of 2023 (UAH 2000 per adult, UAH 3000 per child and person with disability). IDPs are entitled to receive housing assistance payments if they have moved from territories where hostilities have taken place or are temporarily occupied by the Russian Federation, in accordance with the [list](#) of territories adopted by the Ministry of Reintegration of Temporarily Occupied Territories of Ukraine. This list is regularly reviewed, resulting in changes in the percentage of IDPs receiving financial assistance from the state. The total **expenditures** on housing assistance payments to IDPs during this period amounted to **UAH 37.4 billion** (the annual plan for these expenditures was UAH 57.6 billion). The actual amount of expenditures has already reached 65% of the annual plan, indicating a significant pace of spending on this program. This is due to the fact that during budget planning, a reduction in the number of IDPs receiving assistance was anticipated.

According to the International Organization for Migration (IOM), as of June 2023, approximately 5.1 million people remain internally displaced. Approximately 5.9 million people have left the country. About 4.8 million people have returned to their usual places of residence after a certain period of displacement, with 20% of them returning from abroad.

Additional funds were allocated from the state budget to provide assistance to individuals affected by flooding resulting from the destruction of the Kakhovka Hydroelectric Power Station by the Russians on June 6, 2023. To provide one-time assistance to flood victims in the amount of UAH 5,000. It was allocated UAH 560 million from the reserve fund of the state budget for that purpose. Additionally, the Government allocated UAH 980 million from the Fund for the Elimination of Consequences of Armed Aggression for compensation payments for damaged and destroyed houses in the Kherson region due to the flooding.

Pension Fund and Fund of Compulsory State Social Unemployment Insurance of Ukraine

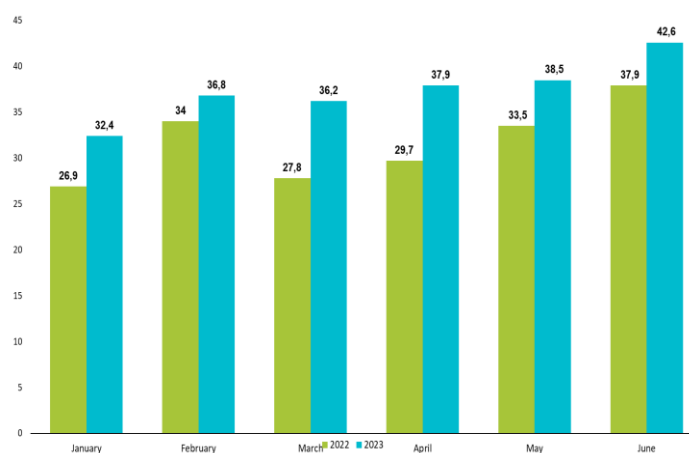
Social Security Contribution (SSC) revenues

In 2023, the revenues from the SSC are allocated between the Pension Fund of Ukraine (PFU) and the Fund of Compulsory State Social Unemployment Insurance of Ukraine. In the current year, the PFU's revenues, excluding the balance at the beginning of the year, is 59% (UAH 451.3 billion) from SSC revenues, while the Fund of Compulsory State Social Unemployment Insurance relies on SSC revenues for almost 100% of its income (UAH 16.1 billion).

The total SSC revenues for January-June 2023 increased by 18.2% or UAH 34.5 billion compared to the same period in 2022, amounting to UAH 224.3 billion (Figure 3). The growth in SSC revenues can be attributed to the following factors:

- payment of contributions for military personnel;
- higher minimum wage in the first half of 2023 compared to the corresponding period in 2022 (UAH 6,700 compared to UAH 6,500);
- gradual economic recovery.

Fig. 3. Social Security Contribution revenues for January-June 2022-2023, UAH billion



Ministry of Finance of Ukraine

The state of the Pension Fund of Ukraine in 2023

In June, the Government approved the budget of the Pension Fund of Ukraine for the year 2023. According to this budget, the total revenues of the Pension Fund in 2023 will amount to UAH 768.9 billion, which is 23.9% higher than the actual revenues of the fund in the previous year. The increase in the Pension Fund's budget was achieved through the revenues from the Social Security Contribution for social insurance and transfers from the state budget for subsidies and benefits for housing and communal services. Transfers from the state budget for pension payments will account for a significant portion of the fund's expenditures, at 32.4%, which is, however, 3.3 percentage points lower than the previous year. To balance the financial needs of the social insurance system and reduce the transfer from the state budget to support it, it is necessary to expand the SSC base – that is, increase the number of individuals contributing to the SSC.

The total expenditures of the Pension Fund of Ukraine for this year's plan will amount to UAH 768.9 billion. Of this amount, only 90.1% (compared to 97.3% last year) will be allocated to pension payments. This reflects the transfer of PFU functions for social insurance payments, as well as subsidies and benefits for housing and communal services.

The revenue plan of the Pension Fund for the first half of 2023 has been fulfilled at 49.2% (UAH 378.3 billion), and expenditures at 47.6% (UAH 365.7 billion). Out of the UAH 365.7 billion in expenditures, UAH 324.7 billion (89%) are allocated for pension provision, and this represents 46.9% of the annual plan.

The budget of the PFU for this year includes UAH 27.7 billion for payments under compulsory state social insurance, of which UAH 13.7 billion (49.5%) was received in the first half of the year. From the state budget, the PFU is expected to receive UAH 37.9 billion throughout the year for housing subsidies and benefits, of which UAH 23.1 billion (61%) has been provided in the first half of the year. During the winter period, over 2 million subsidy recipients were identified.

In March, indexing of pensions at a rate of 19.7% was carried out for 10.5 million pensioners, and the minimum pension and other pension payments were increased. Pension amounts increased by UAH 100-1500, with an average increase of UAH 579.10.

Pension payments in the first half of 2023 were made on time. As of July 1, 2023, the average pension amounted to UAH 5,311.44, which is UAH 874 higher than the previous year. The total number of pensioners decreased by 224.6 thousand people compared to the same period last year and amounted to 10.6 million. The reduction in the number of pensioners has been ongoing, with approximately 200 thousand fewer each year in the last three years (Figure 4).

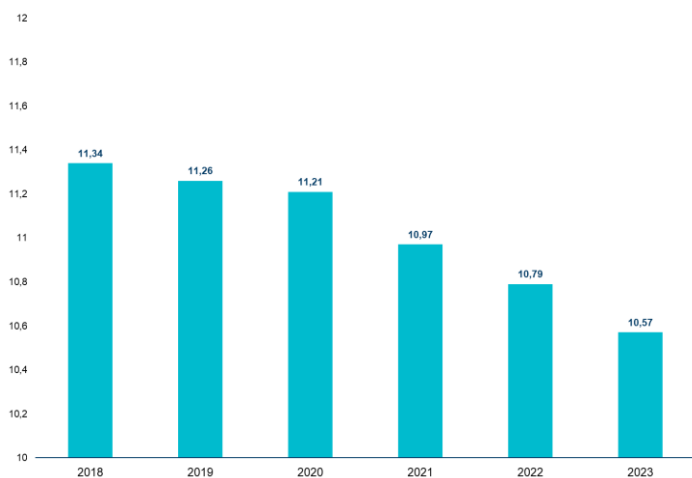
The Fund of Compulsory State Social Unemployment Insurance of Ukraine

In January 2023, the Government [approved](#) the Budget of the Unemployment Fund for 2023 with a surplus of nearly UAH 1.3 billion, thanks to the starting balance of UAH 2.1 billion. The surplus was generated because, starting in October 2022, the duration of [unemployment benefits](#) was reduced to 90 days, and unemployment benefits cannot exceed the minimum wage.

The planned revenues of the Unemployment Insurance Fund in 2023, together with the balance, amount to UAH 18.3 billion, which is 7.1% or UAH 1.4 billion less than what the Fund actually [received](#) in 2022. The decrease in SSC revenues to the Unemployment Insurance Fund is due to an increase in the number of migrants and the unemployed population. In addition, individual entrepreneurs under the simplified tax system may [not pay SSC](#) during the state of war.

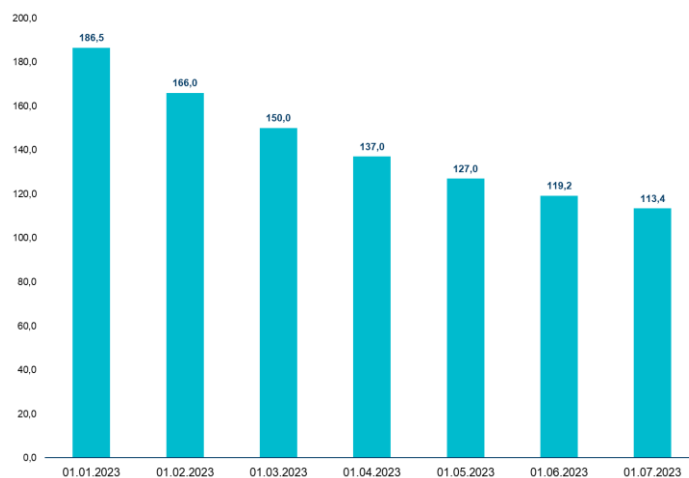
The expenditure plan of the Fund decreased by 3.6% or UAH 618 million compared to the actual expenditures of the previous year, totalling UAH 17 billion. According to the plan, **expenditures on unemployment benefits and employment promotion measures will significantly decrease** by 17.9% or UAH 2.6 billion to UAH 11.9 billion. Instead, the government will support the creation or development of individual businesses through microgrants, with UAH 1.8 billion allocated for this purpose. This change in strategy reflects the government's aim to increase self-employment, foster entrepreneurial growth, and create new job opportunities.

Fig. 4. Number of pensioners as of July 1, in 2018-2023, million people



Source: Pension Fund of Ukraine

Fig. 5. Dynamics of registered unemployed individuals in the first half of 2023, thousands of people



Source: [State Employment Service](#) of Ukraine

Conclusions and risks of further financing of social expenditures

Overall results for the first half of 2023

The government's top priorities include reforming social protection for individuals facing challenging life circumstances, including internally displaced persons, veterans, and persons with disabilities. Strategies for social protection of IDPs and veterans, aimed at improving government policies for these categories, are already being implemented.

Due to increased demand for social protection, expenditures on social welfare have grown. The government strives to ensure a proper level of support for those citizens who are in greatest need, including veterans, those affected by war, and those who have lost their homes or means of livelihood due to the war. Most, if not all, of these programs are financed through international financial assistance.

Risks for the future

The lack of funds to cover social protection expenditures due to a decrease in assistance from international partners. During times of war, [financing](#) for critical social and humanitarian expenditures is provided through grants from the United States, European Union countries, and other allies of Ukraine.

Further uncertainty regarding the funding needs for social protection due to the prolonged duration of the war, uncertainty regarding the number and speed of return of Ukrainian refugees, and their social assistance requirements. [According](#) to UNHCR Ukraine, there are currently 6.2 million Ukrainian refugees worldwide. According to [surveys](#), 12% of migrants intend to return to Ukraine within the next three months, while 65% express a desire to return in the future. According to IOM [estimates](#), more than 5.1 million people continue to be internally displaced.

The increasing complexity in supporting the solidarity pension system due to a significant portion of pension payments in the state budget and an almost equal number of [working-age](#) population and retirees. Pension legislation is intricate and cumbersome, and pensions are devalued due to inflation. The system comprises various subsystems with their own rules, making it challenging to administer. Citizens' lack of trust in the solidarity pension system diminishes their motivation to contribute.

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