

## Budget Barometer - October 2023

### What was achieved?

1. In October, the revenues of the state budget general fund, excluding international assistance, amounted to UAH 97.4 billion, representing a 2.6% increase compared to the planned figures<sup>1</sup>.
2. Additionally, in October, the budget received a grant from the United States in the amount of UAH 42 billion, resulting in a cumulative revenue of UAH 139.4 billion for the general fund of the budget.
3. In October 2023, the revenues of the Pension Fund increased by 11.4% compared to the same period in the previous year, reaching UAH 63.6 billion. This increase was driven, in part, by higher contributions from the social security contributions.
4. Furthermore, the government has [adopted](#) the "Medium-Term Strategy for Managing the State Debt for 2024-2026," which lays the foundations for more effective management of the state debt. The share of the state debt relative to the GDP is on the rise.

### What wasn't achieved?

- The tax revenues administered by the State Customs Service once again fell short of their planned targets in October, with an execution rate of 98.4%. One of the contributing factors to this shortfall is the stronger Ukrainian hryvnia compared to what was assumed in the state budget projections. It is likely that significant devaluation is not expected by the end of the year.

### What's next?

1. The Ukrainian government has [submitted](#) the draft Law "On the State Budget of Ukraine for 2024" to Parliament for the second reading. This budget is based on a refined macroeconomic forecast and anticipates an increase in state budget revenues of 1.3%, equivalent to UAH 22.2 billion, compared to the initially proposed budget.
2. The relevant committee of the Verkhovna Rada (Parliament) has approved a bill on tax audits ([#10016-d](#)) for the second reading. According to this bill, the resumption of planned documentary tax audits is scheduled for December 1 of this year (for self-employed individuals of the first and second groups, except in cases of business termination, the moratorium on audits will remain in effect until December 1, 2024). This bill remains crucial for adhering to agreements with the International Monetary Fund (IMF) to secure future tranches.
3. The Parliament has passed a bill ([#10037](#)) stipulating that the "military" Personal Income Tax (PIT) should be directed to the state budget rather than local budgets starting from October 1. This change is expected to [contribute](#) approximately UAH 26 billion to the budget for October to December of this year and approximately UAH 96 billion in 2024.
4. A presidential request was sent to the U.S. Congress on October 20, 2023, seeking financial [assistance](#) for Ukraine and Israel. As per the request, direct budget support for Ukraine in 2024 was envisaged at USD 825 million per month, which is less than in 2023 when it was USD 1.1 billion

per month. The House of Representatives approved assistance for Israel but blocked the bill for Ukraine. However the Senate [blocked](#) the bill, as the Democratic majority in the Senate refused to vote on it and demanded the approval of a document presented by the President.

5. Ukraine plans to secure [USD 1.2 billion](#) in financial assistance from the International Bank for Reconstruction and Development (IBRD) under Japan's guarantees to meet social needs.

### Key risks:

- Underfunding of defense expenditures. The October [amendments](#) to the state budget project entail an increase in defense spending by over UAH 300 billion in the final quarter of the year, primarily for the monetary support of the military. This is to be financed through an increase in the state debt in 2023 by over UAH 290 billion, with over UAH 200 billion to be in the form of domestic government bonds. Achieving this goal may prove challenging since it exceeds the amounts borrowed during equivalent periods in this year (*high risk*).
- Continued reliance on financial support from partners while facing the risk of a reduction in the regularity of U.S. support (*high risk*).
- Reduced customs revenues inflows due to [complications](#) in customs clearance of goods following the loss of the ability to clear goods with the customs without presenting them from November 7, 2023 (*low risk*).
- Decreased domestic financing due to the diminishing attractiveness of domestic government bonds because of gradually decreasing placement rates. However, restricted access to 3-month NBU deposit certificates with a 20% yield as an alternative to domestic government bonds investments will sustain demand for government securities, anticipating further decreases in placement rates in 2024. The reduction of the NBU accounting rate from 20% to 16% on October 27, 2023, will lead to a reduction in the payment volume to the Ministry of Finance for part of the floating-rate military domestic government bonds acquired by the NBU in 2022 (the rate for domestic government bonds, UAH 280 billion out of UAH 400 billion, is calculated based on the average accounting rate over the year prior to payments) (*medium risk*).

### Details:

(1) In October, revenues to the general fund of the state budget amounted to UAH 139.4 billion. Due to a grant from the United States amounting to UAH 42 billion, the revenue side of the budget was exceeded by 46.9%. The plan for tax revenues was also successfully executed: it was projected to collect UAH 91.3 billion, and in reality, there was an additional UAH 0.5 billion in revenues from the main budget-forming taxes (see Figure 1).

Actual corporate income tax (CIT) revenues once again exceeded expectations, by 85.7%, reaching UAH 2.6 billion. Despite challenging conditions, some companies and banks are reporting higher profits. For example, the SFE Forests of Ukraine, as a result of industry reform, managed to [increase](#) its profit by tenfold, reaching 2.6 billion UAH in the first 9 months of 2023. Banks also [achieved](#) record profits during the same period, totalling UAH 109.9 billion, compared to UAH 7.4 billion in the same period last year.

<sup>1</sup> All planned indicators in the budget barometer are taken into account in accordance with the monthly plan of the State Budget 2023 as of 1 November 2023 (the plan was obtained from the Ministry of Finance upon request).

Exceeding the plan for revenues to the general fund of the state budget from excise tax reached 10.8%, or UAH 0.8 billion. Revenues reached UAH 8.2 billion, even though they were UAH 2.7 billion less than in September. Additionally, UAH 2.9 billion was received in the general fund from international trade taxes, primarily import duties, which were 7.4% higher than the plan. This is likely due to higher volumes of taxable goods in the import structure for October.

In October, there was no significant underperformance of the planned tax targets. The most relative underperformance related to the rent for the use of subsoil (-4%). It could have been more pronounced had it not been for the revision of the state budget estimates. As of October 1, 2023, revenues were projected to be UAH 8.5 billion, but as of November 1, 2023, they were reduced to UAH 2.5 billion. This revision is due to the systematic underperformance of revenues from this tax due to lower-than-expected global commodity prices.

Revenues from PIT in October did not meet the planned target and amounted to UAH 14.8 billion, which is 2.6% less than the plan. This may be attributed to most employers not increasing wages and [worsening](#) their employment forecasts, which could negatively impact future PIT revenues.

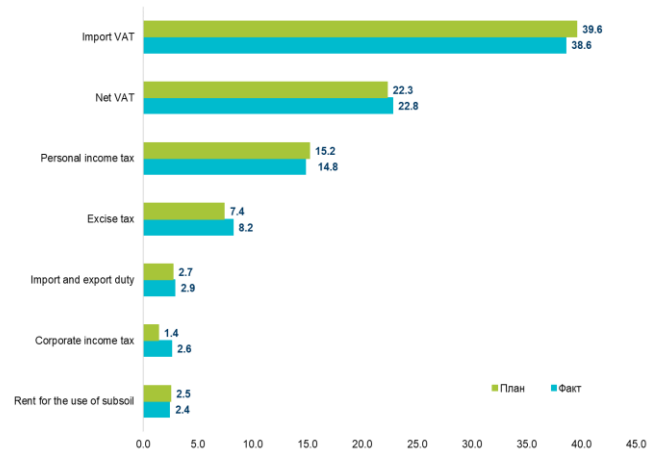
Net domestic value-added tax (VAT) revenues amounted to UAH 22.8 billion, which is 2.2% higher than the plan. The slight overperformance of planned revenues may be associated with lower VAT refund amounts compared to the same period last year, as well as the reinstatement of penalty sanctions for violations related to the use of cash registers (excluding temporarily occupied territories) and improved fiscal discipline among taxpayers. In [October](#), taxpayers received VAT refunds of UAH 9.9 billion, with tobacco companies being the largest recipients, receiving UAH 250 million for PHILIP MORRIS SALES AND DISTRIBUTION LLC and UAH 165 million for JT International Company Ukraine CJSC. This amount is lower than in August 2023 and October 2022. "Import" VAT contributed UAH 38.6 billion to the general fund of the state budget, which, while being significantly higher than the previous month, was 2.5% less than the budgeted amount. The lower-than-planned revenues are likely due to a stronger hryvnia than anticipated when the 2023 state budget was developed.

(2) In October, the state budget received a grant of [USD 1.15 billion](#), equivalent to UAH 42 billion, from the United States. These funds are utilized by the government to finance various social payments, including those for veterans, individuals with disabilities, low-income families, housing and utility subsidies, as well as salaries for employees of the State Emergency Service, civil servants, and educational staff.

(3) During October, expenditures from the state budget general fund amounted to UAH 228.1 billion, which is equivalent to 103.5% of the budget estimates for the reporting period. This figure roughly aligns with an average monthly expenditure of UAH 220 billion for the year. The expenditure plan for October maintains its priorities for the current year. Approximately 58.3% of all expenditures were allocated to the defense and security sector, 16.3% to social security, and an additional 2% for servicing the state debt. In line with the Ministry of Defense's program plan, UAH 87.3 billion was allocated, with 71.9% designated for monetary support, amounting to UAH 62.7 billion. The Ministry of Internal Affairs was expected to receive UAH 37.5 billion, primarily for its subordinate structures, including:

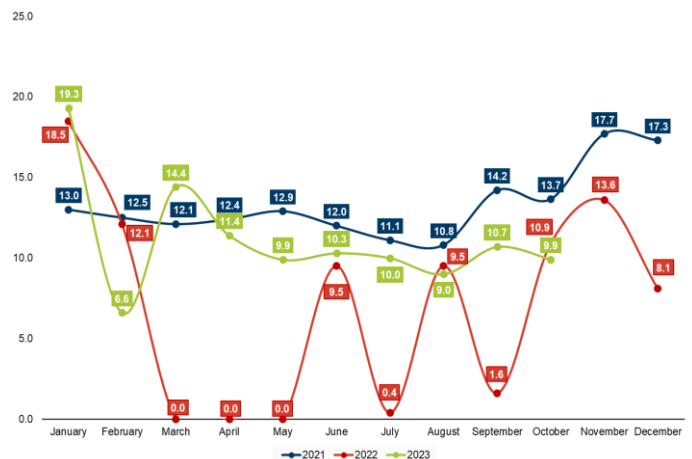
- National Guard – UAH 15.4 billion
- National Police – UAH 9.1 billion
- State Border Guard Service – UAH 9.4 billion
- State Emergency Service – UAH 2.3 billion

**Figure 1. Main tax revenues to the general fund of the state budget in October 2023, UAH billion**



Source: Ministry of Finance of Ukraine

**Figure 2. VAT refunds in 2021-2023, UAH billion**



Source: Ministry of Finance of Ukraine

Expenditures by the Ministry of Social Policy in October were planned to reach UAH 35.9 billion, with UAH 22.7 billion allocated to the Pension Fund. A total of UAH 4.5 billion was earmarked for servicing the state debt. The Ministry of Healthcare's programs were expected to receive UAH 14 billion, including UAH 11.9 billion for the state guarantees program for medical services.

(4) The actual budget deficit of the state budget in October amounted to UAH 98.4 billion, with UAH 87.7 billion pertaining to the general fund. This figure is 1.4 times lower than the planned amount of UAH 124.2 billion. In total, over the first 10 months of 2023, the state budget incurred a deficit of UAH 900 billion, with UAH 923.1 billion coming from the general fund. This is 1.6 times less than the amount originally budgeted. Achieving this figure throughout 2023 was largely due to the receipt of financial assistance in the form of grants, amounting to UAH 404.3 billion, whereas the plan for the year had all international funding categorized as loans.

(5) In October, the state budget received the ninth tranche of macro-financial assistance from the [EU](#), totalling EUR 1.5 billion, which is approximately UAH 58.2 billion. These funds were primarily allocated for social and humanitarian expenses.

(6) In addition to external financing, the Ministry of Finance [attracted](#) UAH 63.8 billion from the placement of domestic government bonds in October, of which UAH 20.2 billion, or 31.1%, were benchmark

bonds. The maximum placement rate in October was 19.2%, which was lower than in September when it reached 19.9% for one of the hryvnia-denominated bonds (UA4000228381). In October, UAH 20.9 billion (USD 572.6 million) was also raised from foreign currency-denominated bonds, constituting 32.2% of the total amount of bonds issued in that month. The Ministry of Finance [noted](#) that the funds raised through bonds placements during the first ten months of 2023 were sufficient to cover the bonds repayments. Borrowings in the domestic debt market exceeded bonds payments by [UAH 140.5 billion](#) during this period, with an excess of UAH 34.8 billion in October. Nevertheless, over the first ten months, the total costs for servicing and repaying the domestic debt exceeded the funds raised from domestic government bonds placements by UAH 27.2 billion.

On the other hand, the rollover rate of bonds placements during the first ten months of 2023 stood at 142%, indicating positive government performance in the domestic debt market and business expectations regarding a reduction in the policy rate, which contributed to the demand.

(7) In total, internal and external borrowings in October exceeded the funds [spent](#) on servicing and repaying the state debt by UAH 74 billion, with UAH 48 billion allocated for this purpose. In the fourth quarter of this year, the government plans to raise over UAH 200 billion from bonds, making it unlikely for the government to reduce bond yields in line with the rate cut. Due to the risks associated with external funding shortfalls, the government should continue increasing domestic borrowings to finance the state budget. Over the first ten months of 2023, a significant portion of expenses for debt servicing and repayment, specifically UAH 479.2 billion, or 84%, was directed towards servicing and repaying the domestic debt.

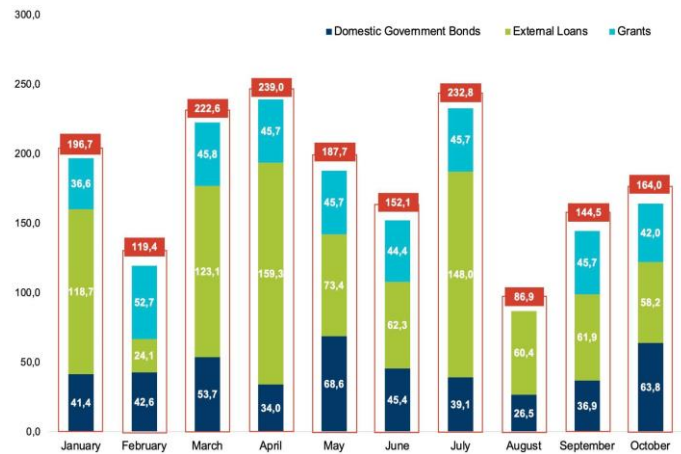
(8) Local budget revenues from payments administered by the State Tax Service in October [amounted to](#) UAH 41 billion, marking a 13.4% increase compared to October 2022. Over the first ten months of 2023, local budgets' general fund (excluding intergovernmental transfers) [received](#) UAH 381 billion, which is a 21% increase compared to the same period last year. These revenues included:

- UAH 254.5 billion from PIT (of which UAH 87.4 billion came from military personnel's earnings).
- UAH 47.3 billion from the single tax.
- UAH 28.6 billion from land fees.
- UAH 18.5 billion from excise tax.
- UAH 8.3 billion from property tax.
- UAH 11 billion from CIT of the private sector.

(9) Aggregate revenues from the SSC in October 2023 increased by 8.4% or UAH 3.2 billion compared to the same period in 2022, [reaching](#) UAH 41.1 billion. This growth is attributed to the gradual economic recovery and higher contributions from military personnel's earnings.

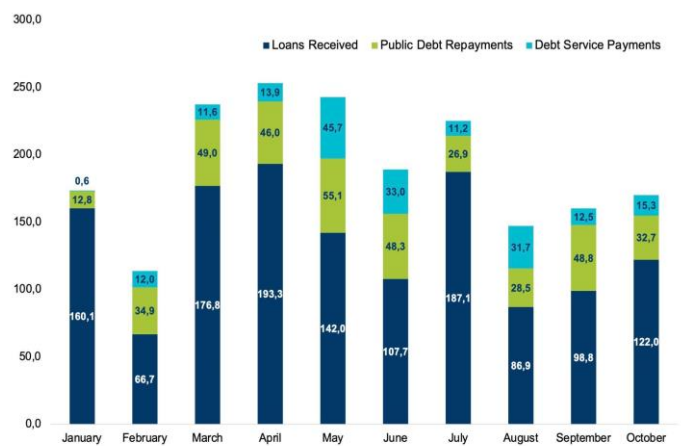
(10) Revenues of the Pension Fund in October 2023 [increased](#) by 11.4%, or UAH 6.5 billion, compared to the same period in the [previous](#) year, reaching UAH 63.6 billion. This increase is due to higher revenues from SSC and the new powers of the Fund. From the state budget, UAH 20.7 billion was allocated to the Fund for financing pension and related payments in October 2023, which is only 3% more than the previous year. The Pension Fund received approximately UAH 900 million from the state budget for subsidies and payment of utility services benefits, and UAH 2.1 billion from SSC revenues for social insurance payments. In October, UAH 58 billion was [allocated](#) for pension financing, an increase of UAH 7.4 billion, or 14.6%, compared to the same period [last](#) year. The total expenditures of the Pension Fund in October 2023 [amounted to](#) UAH 62.1 billion, which is UAH 10.8 billion more than the previous year, representing a 21.2% increase.

**Figure 3. Budget financing for January-October 2023, UAH billion**



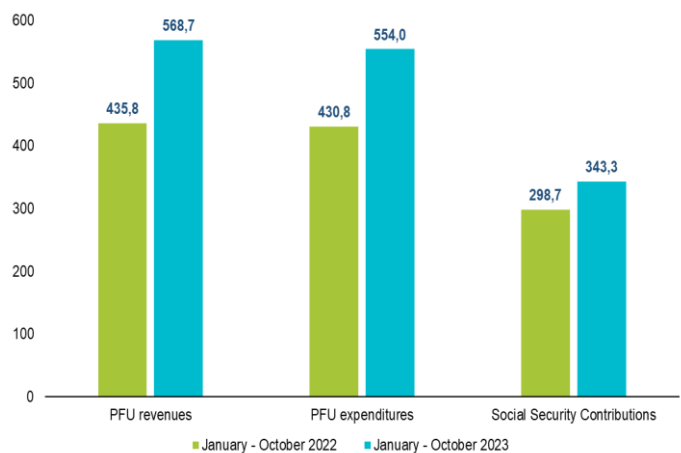
Source: Ministry of Finance of Ukraine

**Figure 4. Volume of borrowings, repayments and servicing of public debt of Ukraine for January-October 2023, UAH billion**



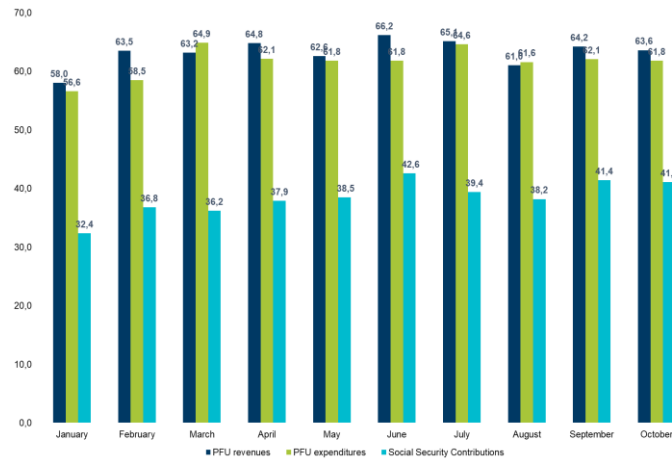
Source: Ministry of Finance of Ukraine

**Figure 5. Revenues and expenditures of the Pension Fund of Ukraine, revenues of the Social Security Contributions in January - October 2022-2023, UAH billion**



Source: Pension Fund of Ukraine, Ministry of Finance of Ukraine

**Figure 6. Monthly dynamics of revenues and expenditures of the Pension Fund, revenues of the Social Security Contributions in January - October 2023, UAH billion**



Source: Pension Fund of Ukraine, Ministry of Finance of Ukraine

**Table 1. External financial resources\* attracted in January-October 2023**

Resources	Amount, UAH billion (EUR million; USD million; CAD million)
Programs of macro-financial assistance from the EU for 2023	€594,1(€15000)
Loans from the Government of Canada	€64,2 (CAD\$2400)
IMF funds under the four-year Extended Fund Facility program	€131,4 (\$3590)
Loan from the IBRD within the framework of the Fourth additional financing of the project "Supporting public expenditures to ensure sustainable public administration in Ukraine"	€18,3 (\$499,3)
IBRD Loan for Development and Recovery Policy	€54,9 (\$1500)
IDA loans within the framework of the project "Supporting public expenditures to ensure sustainable public administration in Ukraine"	€16,1 (€404,3)
Loan from the IBRD within the project "Strengthening the Healthcare System and Saving Lives"	€1,7 (€42,3)
Loan from the IBRD within the project "Accelerating Investments in Ukraine's Agriculture"	€4,8 (\$132)
Loan from the IBRD within the project "Additional Financing for the Health System Improvement Project"	€0,2 (\$6)
IBRD Loan under the Fifth Additional Funding for the Project "Support for State Expenditure to Ensure Sustainable Public Governance in Ukraine"	€3,7 (\$100)

\*excluding grants

Source: Ministry of Finance of Ukraine, Center's calculations

**Table 2. Monthly dynamics of state budget financing**

Indicators	January	February	March	April	May	June	July	August	September	October
Total borrowing, UAH billion	160,1	66,7	176,8	193,3	142,0	107,7	187,1	86,9	98,8	122
Total borrowed, % for January-October	11,9	5,0	13,2	14,4	10,6	8,0	13,9	6,5	7,4	9,1
From the placement of domestic government bonds, % for January-October	9,2	9,4	11,9	7,5	15,2	10,0	8,7	5,9	8,2	14,1
Borrowed from external sources, % for January- October	13,3	2,7	13,8	17,9	8,3	7,0	16,6	6,8	7,0	6,5
Debt repayment payments, % for January-October	3,3	9,1	12,8	12,0	14,4	12,6	7,0	7,4	12,7	8,5
Servicing payments, % for January-October	0,3	6,4	6,2	7,4	24,4	17,6	6,0	16,9	6,7	8,2
Difference between borrowed financial resources and expenses for debt repayment and servicing, UAH billion	146,7	19,8	116,2	133,4	41,2	26,4	149,0	26,7	37,5	74,0

Source: Ministry of Finance of Ukraine, Center's calculations

**Table 3. Plan and fact of the state budget (general fund) in 2023, UAH billion**

Indicators	January		February		March		April		May		June		July		August		September		October		Jan-Oct	
	Plan	Fact	Plan	Fact	Plan	Fact	Plan	Fact	Plan	Fact	Plan	Fact	Plan	Fact	Plan	Fact	Plan	Fact	Plan	Fact	Plan	Fact
<b>Revenue, including</b>	<b>69,6</b>	<b>104,4</b>	<b>77,0</b>	<b>132,2</b>	<b>101,8</b>	<b>152,2</b>	<b>112,4</b>	<b>162,8</b>	<b>125,3</b>	<b>184,0</b>	<b>84,1</b>	<b>133,7</b>	<b>89,4</b>	<b>136,7</b>	<b>124,7</b>	<b>124,7</b>	<b>99,7</b>	<b>144,1</b>	<b>94,9</b>	<b>139,4</b>	<b>978,9</b>	<b>1414,2</b>
Personal income tax	10,6	11,3	11,6	13,0	11,9	13,3	11,8	13,4	12,0	14,1	17,2	15,0	14,8	15,2	16,3	14,6	16,9	15,2	15,2	14,8	138,3	139,9
Corporate income tax	1,4	1,2	4,1	7,4	22,1	26,2	1,5	2,3	24,7	28,5	2,9	2,3	1,3	3,2	24,1	30,9	1,3	4,2	1,4	2,6	84,8	108,8
Rent for the use of subsoil	5,2	5,6	7,0	2,7	6,7	7,7	7,1	4,9	8,3	4,5	7,1	4,5	7,0	5,4	8,7	4,2	7,7	6,7	2,5	2,4	67,3	48,6
Excise tax	4,7	5,3	6,1	7,0	7,1	9,8	7,4	9,9	7,7	9,5	8,3	8,8	8,6	8,7	8,4	10,1	8,6	10,9	7,4	8,2	74,3	88,2
Net VAT	20,0	11,8	14,8	15,1	16,7	10,0	16,1	16,6	14,8	17,3	15,6	17,5	19,1	18,7	24,0	20,0	20,7	19,4	22,3	22,8	184,1	169,2
Import VAT	22,6	24,4	26,8	27,1	31,0	29,3	27,1	25,1	27,1	27,0	27,3	28,7	30,0	30,8	36,1	34,0	38,0	34,5	39,6	38,6	305,6	299,5
Import and export duty	1,7	2,0	2,2	2,3	2,4	2,7	2,0	2,2	2,1	2,5	2,0	2,6	2,3	2,4	2,5	2,8	2,5	2,8	2,7	2,9	22,4	25,2
<b>Expenditures</b>	<b>227,7</b>	<b>183,6</b>	<b>245,6</b>	<b>226,7</b>	<b>246,1</b>	<b>225,2</b>	<b>220,2</b>	<b>229,7</b>	<b>282,7</b>	<b>277,7</b>	<b>303,9</b>	<b>264,7</b>	<b>251,0</b>	<b>231,9</b>	<b>279,8</b>	<b>248,2</b>	<b>255,2</b>	<b>230,2</b>	<b>220,3</b>	<b>228,1</b>	<b>2532,5</b>	<b>2346,0</b>
<b>Deficit (-) / surplus (+)*</b>	<b>-156,6</b>	<b>-78,9</b>	<b>-165,7</b>	<b>-93,2</b>	<b>-130,5</b>	<b>-72,6</b>	<b>-102,7</b>	<b>-65,6</b>	<b>-152,6</b>	<b>-91,6</b>	<b>-215,2</b>	<b>-130,8</b>	<b>-152,8</b>	<b>-94,9</b>	<b>-150,7</b>	<b>-122,2</b>	<b>-127</b>	<b>-85,6</b>	<b>-124,2</b>	<b>-87,7</b>	<b>-1478</b>	<b>-923,1</b>
<i>Sources of deficit financing</i>																						
Net borrowings	279,4	147,3	55,6	31,8	37,8	127,8	195,1	147,3	67,9	86,9	169,3	59,4	82,4	160,2	67,3	58,4	50,3	50,0	155,9	89,3	1161,0	958,4
Loans	292,5	160,1	93,3	66,7	96,3	176,8	233,2	193,3	125,0	142	219,7	107,7	112,9	187,1	97,1	86,9	100,6	98,8	183,4	122,0	1554,0	1341,4
Repayments	13,1	12,8	37,7	34,9	58,5	49,0	38,1	46,0	57,1	55,1	50,4	48,3	30,5	26,9	29,8	28,5	50,3	48,8	27,5	32,7	393,0	383,0

\* The size of the deficit is not equal to the arithmetic difference between revenues and expenditures since the size of the deficit is additionally affected by the volume of loans from the state budget and their repayment

Source: Ministry of Finance of Ukraine, Center's calculations

**Table 4. Main indicators of budget financing, UAH billion**

Indicators	January	February	March	April	May	June	July	August	September	October	Jan-Oct
Financing, including:	160,1	66,7	176,8	193,3	142,0	107,7	187,1	86,9	98,8	122,0	1341,4
<i>in % to the plan (for the entire period)</i>	54,7	71,5	183,5	82,9	113,6	49,0	165,7	89,5	98,2	66,5	86,3
From the placement of domestic government bonds (total), including:	41,4	42,6	53,7	34,0	68,6	45,4	39,1	26,5	36,9	63,8	452,0
<i>in UAH billion</i>	38,8	30,5	36,3	25,1	29,3	28,3	30,8	25,7	22,8	42,9	310,5
<i>in foreign currency in UAH billion</i>	€2,6	€12,1	€17,4	€8,9	€39,3	€17,1	€8,3	€0,8	€14,1	€20,9	€141,5
<i>(USD million + EUR million)</i>	(\$40,2+€29,4)	(\$268,5+€57,5)	(\$476,4)	(\$242,6)	(\$616,4+€418)	(\$319,7+€136)	(\$227,3)	(€20)	(\$334,6+€48,4)	(\$572,6)	(\$3098,3+€709,3)
From external sources, UAH billion	118,7	24,1	123,1	159,3	73,4	62,3	148	60,4	61,9	58,2	889,4
Public debt repayments, UAH billion	12,8	34,9	49,0	4,06	55,1	48,3	26,9	28,5	48,8	32,7	383,0
<i>In % to the plan for the full period</i>	97,7	92,6	83,8	120,7	96,5	95,8	88,2	95,6	97,0	118,9	97,5
Debt service payments	0,6	12,0	11,6	13,9	45,7	33,0	11,2	31,7	12,5	15,3	187,5
<i>In % to the plan for the full period</i>	28,6	114,3	78,4	101,5	90,3	84,0	151,4	101,9	91,9	340,0	100,0

Source: Ministry of Finance of Ukraine, Center's calculations

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