

The spectre of deficit: Ukraine's third war budget

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On 9 November, the Ukrainian parliament passed the state budget for 2024. It provides for expenditure of 3.35 trillion hryvnias (around \$92.6 billion), of which more than half (1.69 trillion hryvnias, \$46.7 billion) is to be allocated to the security sector, including 1.16 trillion hryvnias (\$32 billion) for the Ministry of Defence and 324 billion hryvnias (\$9 billion) for the Ministry of Internal Affairs. Planned income is expected to reach 1.77 trillion hryvnias (around \$48.9 billion), of which the largest items (594 billion hryvnias, or \$16.4 billion) are expected to be VAT and excise tax revenues on imported goods. In addition, the budget assumes that GDP will grow at 4.6 per cent, inflation will by the end of 2024 be running at 9.7 per cent (in October this year it was 5.3 per cent y-o-y), and exports of goods and services will rise by 9 per cent. The average salary should be 21,800 hryvnias (about \$600), and the average exchange rate of the hryvnia against the dollar should be 40.7 (it is currently 36.2). The bill was supported by 276 MPs (out of the required 226), including all the groups in parliament except Petro Poroshenko's European Solidarity and Yulia Tymoshenko's Batkivshchyna.

Commentary

- Next year's budget, like the previous two budgets, allocates more than half of the expenditure to the conduct of the war (the vast majority of which is for the army), while being only slightly lower than the total projected income. Compared to this year's budget, spending on infrastructure has been cut: the budget of the State Agency for Infrastructure Reconstruction and Development has been reduced by more than half (from 54.3 billion to 26.3 billion hryvnias). The Road Fund, which has so far been fed by customs and excise duties on fuel, has also been scrapped. Next year, the 95 billion hryvnias received from this will go to the general budget, although there is no guarantee that these funds will be used for road repairs and construction. In contrast, there has been a significant increase in spending (from 12 to 56 billion hryvnias) on the Ministry for Strategic Industries, which is responsible for the arms sector. This means that defence-related expenditure now outweighs reconstruction-related targets; Kyiv is hoping that funds for the latter will mainly come from its foreign partners. At the same time, it is to be expected that the budget law will be amended over the course of next year according to how the situation develops: this has already happened four times this year, with spending increased from 2.6 trillion to 3.4 trillion hryvnias.
- The budget as adopted forecasts a record deficit of 1.58 trillion hryvnias (about \$43.7 billion). According to finance minister Serhiy Marchenko, Kyiv expects to receive \$18 billion in financial support from the EU, \$8.5 billion from the US and \$5.4 billion from the

IMF next year. The rest of the necessary funds are to be raised from Japan, Canada, Norway, South Korea and the World Bank. At the same time, Marchenko ruled out the option of printing more money. Kyiv has already received \$35.4 billion in foreign support this year (as of 9 November), with the EU (\$16.2 billion) and the US (\$10.9 billion) accounting for the largest shares.

- The main challenge for Ukraine remains the fact that next year's foreign funding is not guaranteed. In the case of the United States, support for Kyiv has been held hostage to divisions within the US political arena, particularly factional fighting among Republican Party members of the House of Representatives. The budget stopgap passed by the House and Senate does not provide for any additional aid to Ukraine. Due to the Thanksgiving holiday (23 November) and the subsequent long weekend, Congress will not return to work until the end of November, and discussions on funding Ukraine's war effort can be expected to resume no earlier than then. At the same time, it is impossible to predict how quickly the two chambers will manage to pass a relevant bill – if agreement is reached at all. As for the EU, the European Commission has proposed a new instrument, the Ukraine Facility, which would provide Ukraine with €50 billion in grants and low-interest loans between 2024 and 2027. This initiative was supported by the European Parliament back in October, but it has not so far been approved by the Council due to opposition from Hungary and Slovakia. €39 billion of the Ukraine Facility funds have been earmarked to support the Ukrainian state's budget.