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AGRI-FOOD POLICY REVIEW

Agricultural State Expenditures Highlights

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The State Budget of Ukraine for 2012 turns out to be the most distorting for agricultural markets since 2008. The share of agricultural expenditures in the total state budget expenditures and in the country's GDP, though, are the lowest for the last 6 years.

Total state budget outlays for agriculture and rural territories for 2012 amount to 9.8 bn UAH, or about 2% less than in 2011. These outlays are managed by different ministries. The share of the outlays managed by the Ministry of Agricultural Policy and Food of Ukraine (MAPF) has remained almost at historical level, i.e. 84% or 8.2 bn UAH. The rest is managed by other ministries, i.e. the ministries/state agencies of finance, ecology, land, forestry, corporate rights, regional development, education, science, innovations, etc.

We arrange state budget outlays on agriculture according to their effect on production and trade, i.e. market distorting and non-distorting, or growth-hampering and growth-enhancing, correspondingly. This breakdown generally mimics the WTO classification of the state budget outlays into "amber box" (i.e. growth-hampering) and "green box" (i.e. growth-enhancing) measures.

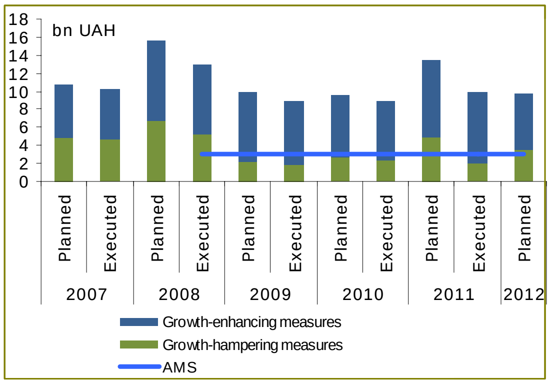
Total volume of growth-hampering outlays amounts to about 3.6 bn UAH (about 79% more than in 2011) and exceeds the Aggregate measurement of support (AMS) limits for Ukraine (i.e. 3 bn UAH). In fact, the planned budget outlays have been often exceeding the AMS in the past, while the executed expenditures complied with it (see Fig. 1). Total volume of growth-enhancing state outlays amounts to 6.2 bn UAH, respectively.

Three biggest chunks of the *market distorting measures* in 2012 are the *financial support measures to agriculture* (e.g. state subsidies to livestock and crop sectors, 48%), *support to horticulture, wine and grapes* (30%), and *Agrarian Fund* (22%).

Among the growth-enhancing (or non-distorting) measures, administrative costs made up the biggest chunk (43%), with the land market measures and education lagging somewhat behind, i.e. 13% and 12% respectively. The worrying observation, though, is that the state outlays for agricultural education decreased by 74%, i.e. by 2.1 bn UAH. On the other hand, the state outlays managed by the Ministry of Education and Science, Youth and Sports of Ukraine (MESYS) increased by 6.8 bn UAH. This probably reflects the fact that the MESYS makes efforts to take over the power over agricultural universities which belonged to the MAPF before.

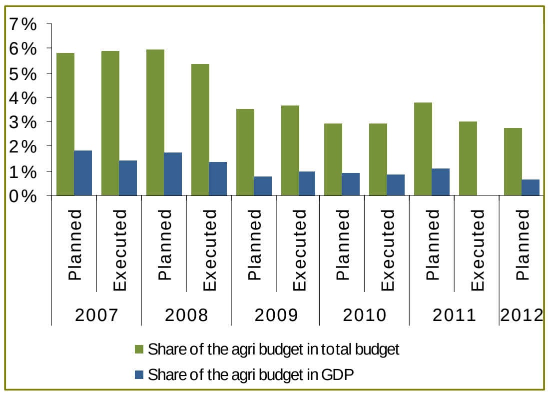
The land market reform outlays have increased 5 times, reflecting probably the preparations of the government to introducing the full-fledged farmland market in January 2013. The share of R&D expenditures made up 13%, which is 8% more than in 2011. Despite 8% decrease in the forestry expenditures, their share remains significant and grew by further 2% to 10% in 2012. Food safety and quality control as well as sanitary and phytosanitary measures are? kept at 3% and 2% shares, respectively. Other growth-enhancing measures make up to 1% and less shares.

Figure 1 State outlays on agriculture and rural development (bn UAH)



Source: Own calculations

Figure 2 State outlays on agriculture and rural development (% of state budget and % of GDP)



Source: Own calculations