

MEMU Supplement No.4-2007

New political crisis in Ukraine

April 2, 2007 became the culmination of a severe political crisis that preceded several months of unceasing conflict between the President on the one hand and the Verkhovna Rada and the Cabinet of Ministers on the other. This day the President signed the Decree dissolving the Parliament and scheduling re-elections for May 27.

The basis for a conflict was created by the amendments to the Constitution on December 8, 2004 that shifted the power from the President to the Parliament establishing a parliamentary-presidential republic. In the framework of political reform proportional electoral system was introduced, according to which people vote for a party and its political agenda, and not for individuals.

The crisis deepened with the appointment of Anatoly Kinakh, the leader of the Party of Entrepreneurs and Industrialists and the member of oppositional "Our Ukraine" block, as new Minister of Economy on March 21, 2007 against the will of his block. During the following few days 5 deputies joined the coalition from Yulia Tymoshenko's Bloc and 8 more from the Party of Entrepreneurs and Industrialists, members of oppositional "Our Ukraine" block. The coalition's leaders claimed that due to individual transits the coalition would soon reach a constitutional majority at the Verkhovna Rada, which is 300 out of 450 members of the parliament.

In turn, the President issued a Decree to dissolve Verkhovna Rada claiming that the current coalition is unconstitutional. The President stated that the formation of the current coalition was violating the Constitution as it neglects people's will, constitutional rights to vote and ignores constitutional principle of people's sovereignty. According to the President, this situation is a pre-condition for usurpation of power.

The parliamentary coalition and the Cabinet of Ministers refused to comply. The Coalition filed the claim to the Constitutional Court to consider the constitutionality of the Presidential Decree.

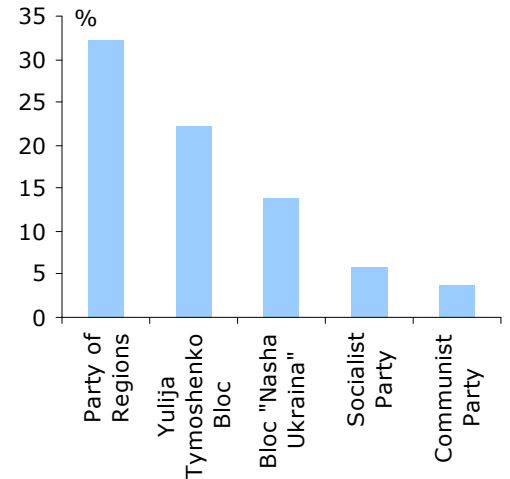
Two questions arise. The first one is whether individual entrances to a coalition are permitted. The Constitution remains vague on the possibility of individual transits from opposition to coalition while simultaneously keeping factional membership. Officially, members of the parliament that joined the coalition remain at their political factions. However, they vote in accordance with the coalition's will. The position of both the President and the opposition is that the constitution implies that a coalition can be formed only based on the decision of a faction as a whole and no individual entrances are permitted. The coalition states that the constitution doesn't prohibit individual entrances.

The legitimacy of a so-called imperative mandate is important to resolve the issue. There is some form of an imperative mandate already introduced in the Constitution. A deputy loses a mandate only if he or she voluntarily leaves a faction. This indicates a disagreement of a deputy with a faction's policy. Similarly, one may argue if a deputy regularly votes contrary to the position of his or her faction, this also shows a disagreement. Therefore, if a deputy loses a mandate in the first case, he should lose it in the second case as well. The Constitutional Court would have to make its final decision.

The second one is whether these individual transits can be interpreted as a coalition formation. If so, individual transits in March violate the Constitution, as it indicates that the coalition should be formed during the period of one month after elections and not longer.

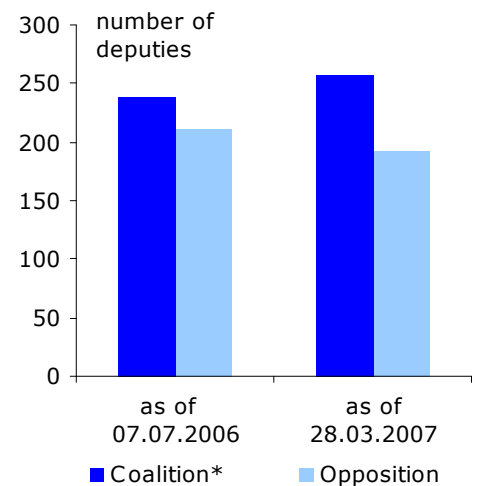
So far the political crisis did not result in any major disruptions in the economy. However, prolonged period of political uncertainty and non-performing executive and legislative branches of power could hamper further economic development this year.

Shares of votes for political blocs at parliamentary elections in 2006



Source: Central Election Commission

Majority and opposition in Verkhovna Rada



Source: Verkhovna Rada

* including individual transits

Authors:
Andriy Prokhorov
Volodymyr Konovalchuk
Veronika Movchan
Institute for Economic
Research and Policy Consulting


Quarterly trends

National accounts **		Q1 04	Q2 04	Q3 04	Q4 04	Q1 05	Q2 05	Q3 05	Q4 05	Q1 06	Q2 06	Q3 06	Q4 06
GDP	UAH bn	64.7	79.0	100.5	100.6	84.3	97.5	119.4	123.6	102.0	122.8	149.6	...
GDP (real)	% yoy	12.7	13.7	14.0	8.5	4.9	3.4	1.4	1.7	3.2	7.3	8.0	...
Households consumption (real)	% yoy	14.6	16.8	13.1	16.2	14.3	17.7	17.0	17.1	19.7	19.9	17.3	...
State consumption (real)	% yoy	3.3	1.0	5.0	10.1	6.1	0.0	1.0	4.0	2.0	7.3	-4.4	...
Gross fixed capital formation (real)	% yoy	18.4	6.5	4.6	12.9	-2.3	-0.5	0.2	0.3	8.2	10.4	15.7	...
Exports of goods and services (real)	% yoy	18.1	19.9	10.5	8.6	-0.6	-14.0	-12.7	-15.5	-19.9	-11.2	1.3	...
Imports of goods and services (real)	% yoy	13.8	7.3	6.7	7.8	2.8	3.2	3.9	-0.9	5.6	1.0	7.1	...
Agriculture, hunting, forestry (real)*	% yoy	-4.4	0.9	35.7	9.9	5.8	8.3	2.6	-7.4	4.1	2.9	-5.0	...
Manufacturing industry (real)*	% yoy	23.9	16.3	12.5	9.4	7.0	1.8	-1.1	2.0	-2.9	5.4	8.9	...
Construction (real)*	% yoy	29.9	30.6	16.4	3.9	-8.4	-11.3	-8.5	-7.5	2.6	5.7	8.8	...
Trade, repair services (real)*	% yoy	23.6	35.0	2.7	13.7	-2.1	-10.7	-11.7	-11.9	4.1	14.7	19.4	...
Transport (real)*	% yoy	10.1	8.0	12.3	10.5	6.6	5.7	2.8	7.8	3.4	9.7	12.6	...
Balance of payments													
Current account balance	USD bn	1.4	2.3	2.1	1.1	1.6	0.6	0.4	-0.1	-0.7	0.0	0.5	...
Current account balance	% of GDP	11.1	15.7	10.9	5.7	10.1	3.2	1.7	-0.4	-4.0	-0.2	1.6	...
Trade balance in goods	USD m	933	1552	774	482	1020	-236	-1131	-788	-1288	-876	-769	...
Trade balance in services	USD m	133	198	749	157	188	392	1035	191	176	401	885	...
Current transfers	USD m	475	758	720	623	626	694	745	780	616	782	846	...
Direct investment (FDI)	USD m	333	614	420	344	247	365	477	6474	662	1410	1602	...
Portfolio investments	USD m	449	149	1313	156	397	923	90	1347	0	-264	364	...
Gross international reserves	USD bn	7.9	9.6	12.1	9.5	12.0	13.1	14.3	19.4	17.3	17.6	19.1	...
Fiscal indicators													
Consolidated fiscal revenues	% of GDP	27.2	26.9	26.3	25.9	32.1	35.1	31.5	31.0	32.2	32.0	32.1	25.6 ^e
Personal income tax	% of GDP	4.4	4.1	3.8	3.8	4.3	4.4	3.9	4.2	4.5	4.6	4.1	4.3 ^e
Enterprise profits tax	% of GDP	3.9	4.0	4.1	6.1	4.8	5.9	5.3	6.3	3.5	4.6	4.3	6.9 ^e
Value-added tax	% of GDP	6.2	5.7	5.1	4.1	8.6	9.2	7.9	7.3	9.5	9.3	9.8	9.6 ^e
Excise tax	% of GDP	2.1	2.1	2.0	1.8	2.0	2.0	2.0	1.7	2.0	1.8	1.5	1.6 ^e
Consolidated fiscal expenditures	% of GDP	25.3	26.5	26.8	35.2	28.3	36.4	28.1	41.7	31.9	33.2	29.5	37.8 ^e
Current expenditures	% of GDP	22.4	22.7	21.7	27.2	26.5	33.6	24.0	34.2	29.9	30.0	25.0	30.1 ^e
Capital expenditures	% of GDP	2.9	3.8	5.1	8.0	1.8	2.7	4.1	7.5	2.0	3.2	4.5	7.7 ^e
Consolidated fiscal balance	% of GDP	1.9	0.4	-0.5	-9.3	3.7	1.0	-5.0	6.2	-0.4	1.1	2.4	-4.0 ^e
Privatisation receipts	% of GDP	1.5	3.7	3.5	1.0	0.2	0.6	0.6	16.0	0.1	0.1	0.1	0.1 ^e
Labour market													
Average wage (real)	% yoy	19.9	18.6	14.7	15.4	15.0	19.0	19.6	26.4	23.8	22.6	18.8	11.3
Household income (real)	% yoy	11.7	16.3	11.3	16.6	24.0	28.0	19.4	18.9	22.1	18.6	20.3	16.3
Unemployment rate (ILO methodology)	%	9.3	8.3	8.1	8.7	8.7	7.1	5.2	7.8	7.9	6.8	6.4	...
Banking system													
Monetary aggregate M0	% yoy cum	29.1	25.6	37.1	27.9	28.2	39.1	31.1	42.2	36.2	25.3	23.7	24.5
Monetary aggregate M2	% yoy cum	45.4	44.8	51.5	32.3	38.9	37.4	31.3	53.9	39.2	36.6	36.7	34.3
Household deposits in national currency	% yoy cum	69.4	67.3	67.9	26.2	28.3	31.6	30.4	90.8	54.6	41.1	39.7	37.3
Household deposits in foreign currency	% yoy cum	67.0	61.7	55.2	54.3	51.8	45.4	46.4	59.1	54.5	66.2	64.3	57.5
Com. bank credits in national currency	% yoy cum	56.8	52.1	44.3	29.4	28.3	32.6	43.4	58.7	59.8	53.7	49	52.3
Com. bank credits in foreign currency	% yoy cum	63.6	56.2	43.5	32.2	33.1	36.8	47.1	66.3	72.0	82.1	90.4	95.4
Long-term com. bank credits	% yoy cum	141.7	102.7	82.7	57.1	49.5	53.0	70.1	84.6	87.6	86.7	76.6	79.5
Long-term com. bank credits	% of total	47.4	49.3	50.9	54.2	54.4	56.1	59.7	61.8	63.1	63.4	63.5	64.9
Average lending rate on national cur. credits	% p.a.	17.2	16.6	17.0	17.6	17.0	15.4	15.4	16.4	15.8	15.5	14.6	15.1
Average lending rate on foreign cur. credits	% p.a.	12.2	12.1	12.6	12.2	12.1	11.0	11.3	11.7	11.5	11.3	11.3	11.5

SOURCES: National Bank of Ukraine, State Committee of Statistics, State Treasury, Ministry of Finance, IER estimates

* change in value added

** preliminary

^e preliminary estimate

Notes:
yoy year on year change

p.a. per annum