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A turnaround in the political crisis occurred

A two-month constitutional crisis related to pre-term elections of the Parliament has reached a turning point at the end of May. On May 27, the President, Prime Minister and Speaker of the Verkhovna Rada agreed to conduct pre-term elections scheduling the event for September 30, 2007. This agreement completed the first phase of the conflict.

In this conflict the Security Service of Ukraine, the State Guard and Protection Service and the National Council on Security and Defence supported the President and the opposition. The Prime Minister and the coalition controlled the Cabinet of Ministers and the Ministry of Interior, and eventually managed to gain *de-facto* control over the Constitutional Court. The Ministry of Defence remained neutral in the conflict.

Both the coalition and the President attempted to gain control over the Prosecutor General's Office. This resulted in multiple dismissals and re-appointments of the Prosecutor General. After repeated dismissal of one of the Prosecutor Generals, the office was attacked by the police headed by the Interior Minister Vasyl Tsushko. Criminal charges were filed against him due to this order. At the same time, the President decided to move the internal troops from the Interior Minister's to the Presidential authority and ordered their partial redeployment to the capital. Significant pressure on the Constitutional Court led to its inability to decide on the case. By the end of May the deepening crisis led to a possible use of force and conflict escalation.

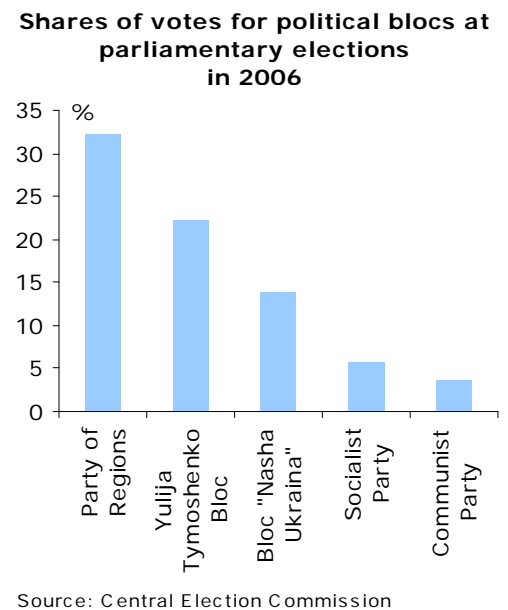
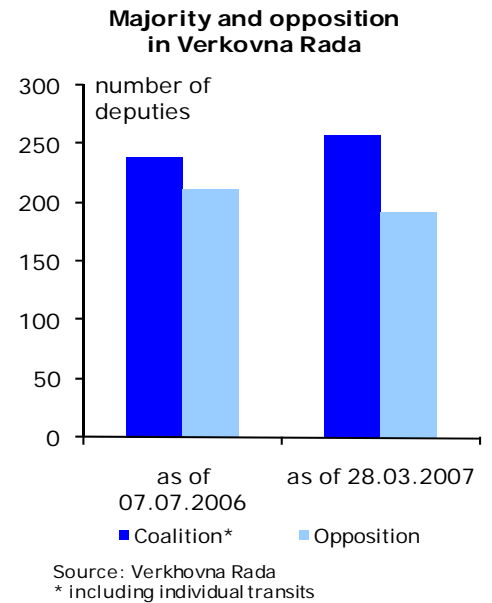
This grim prospect finally motivated all parties to find a compromise. As a result, more than 150 parliamentary members from oppositional factions were expected to voluntarily exit the 450-member Parliament providing a legitimate reason for early elections. The President suspended his Decree on dissolution enabling the Verkhovna Rada to approve necessary amendments and laws for the pre-term parliamentary elections. It was expected that the Parliament would work only several days until the voluntary exit of deputies would stop its operation.

The agreement was partially fulfilled. Despite severe opposition from the coalition members, the Verkhovna Rada managed to approve amendments to the Law on Parliamentary Elections and some other legal acts, including the allocation of UAH 365 m for the September early elections. One of the most important regulations was to consider pre-term elections as invalid if less than half of registered voters will turn out to vote. The decision toughens the election legislation as no participation thresholds existed in the past.

At the same time, some previously agreed procedures were not strictly followed. The Parliament refused to acknowledge the voluntary exit of deputies on newly invented technical grounds. The Speaker stated that the Verkhovna Rada would continue its activity until all formalities would be completed. In addition, the issue of "imperative mandate" that fuelled the conflict remained unresolved. The Verkhovna Rada rejected a draft amendment on the introduction of imperative mandate.

The crisis demonstrated that, while the political elite is capable of finding some compromises under pressure, it is not ready to fulfil all of its decisions. The crisis brought into spotlight inconsistencies that exist in the Ukrainian law and demonstrated disrespect of main political and public individuals to the law. It also showed that there is a lack of independence of the court system.

Currently it is not completely clear if a sufficient number of deputies would properly follow the exit procedure and whether the elections would take place on September 30. Thus, the crisis continues and new confrontation is possible.



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Quarterly trends

National accounts**		Q2 04	Q3 04	Q4 04	Q1 05	Q2 05	Q3 05	Q4 05	Q1 06	Q2 06	Q3 06	Q4 06	Q1 07
GDP	UAH bn	78.6	99.4	100.1	84.3	97.5	119.4	123.6	105.4	124.1	150.4	157.7	...
GDP (real)	% yoy	12.7	14.3	9.1	4.9	3.4	1.4	1.7	4.1	6.8	6.9	9.5	...
Households consumption (real)	% yoy	18.0	9.7	12.5	14.3	17.7	17.0	17.1	20.2	18.2	11.8	9.9	...
State consumption (real)	% yoy	1.3	3.9	0.9	6.1	0.0	1.0	4.0	9.6	5.8	5.8	1.0	...
Gross fixed capital formation (real)	% yoy	22.6	23.8	16.8	-2.3	-0.5	0.2	0.3	19.9	19.3	17.9	18.3	...
Exports of goods and services (real)	% yoy	21.1	14.3	11.7	-0.6	-14.0	-12.7	-15.5	-14.9	-9.6	3.2	1.0	...
Imports of goods and services (real)	% yoy	10.9	7.2	8.7	2.8	3.2	3.9	-0.9	10.7	0.9	8.3	6.4	...
Agriculture, hunting, forestry (real)*	% yoy	0.2	35.6	11.3	5.8	8.3	2.6	-7.2	3.8	2.8	-5.6	8.1	...
Manufacturing industry (real)*	% yoy	15.0	9.9	6.9	7.0	1.8	-1.1	2.0	-1.5	6.1	7.3	7.2	...
Construction (real)*	% yoy	23.3	11.9	23.3	-8.4	-11.3	-8.5	-7.5	0.1	0.8	1.4	4.2	...
Trade, repair services (real)*	% yoy	17.4	13.9	2.5	-2.1	-10.7	-11.7	-11.9	6.2	16.4	20.0	21.9	...
Transport (real)*	% yoy	14.9	12.5	6.4	6.6	5.7	2.8	7.8	4.9	7.7	9.4	5.3	...
Balance of payments													
Current account balance	USD bn	2.3	2.1	1.1	1.6	0.6	0.4	-0.1	-0.8	0.0	0.5	-1.4	-1.2 ^e
Current account balance	% of GDP	15.8	11.0	5.7	10.1	3.2	1.7	-0.4	-3.7	0.0	1.7	-4.3	-4.6 ^e
Trade balance in goods	USD m	1552	774	482	1020	-236	-1131	-788	-1353	-935	-884	-2022	-1800 ^e
Trade balance in services	USD m	198	749	157	188	392	1035	191	219	506	1054	347	154 ^e
Current transfers	USD m	758	720	623	626	694	745	780	622	790	851	910	...
Direct investment (FDI)	USD m	614	420	344	247	365	477	6474	1053	1389	1636	1258	969 ^e
Portfolio investments	USD m	149	1313	156	397	923	90	1347	4	-141	370	3350	...
Gross international reserves	USD bn	9.6	12.1	9.5	12.0	13.1	14.3	19.4	17.3	17.6	19.1	22.3	23.5
Exchange rate, UAH/USD	aop	5.33	5.31	5.31	5.30	5.10	5.05	5.05	5.05	5.05	5.05	5.05	5.05
Fiscal indicators													
Consolidated fiscal revenues	% of GDP	26.9	26.3	25.9	32.1	35.1	31.5	31.0	31.2	31.7	31.9	32.8	33.3
Personal income tax	% of GDP	4.1	3.8	3.8	4.3	4.4	3.9	4.2	4.4	4.6	4.1	4.1	5.1
Enterprise profits tax	% of GDP	4.0	4.1	6.1	4.8	5.9	5.3	6.3	3.4	4.6	4.3	6.7	3.8
Value-added tax	% of GDP	5.7	5.1	4.1	8.6	9.2	7.9	7.3	9.2	9.2	9.7	9.3	10.4
Excise tax	% of GDP	2.1	2.0	1.8	2.0	2.0	2.0	1.7	1.8	1.7	1.5	1.5	1.8
Consolidated fiscal expenditures	% of GDP	26.5	26.8	35.2	28.3	36.4	28.1	41.7	30.9	32.8	29.4	36.6	28.4
Current expenditures	% of GDP	22.7	21.7	27.2	26.5	33.6	24.0	34.2	28.9	29.7	24.9	29.2	26.9
Capital expenditures	% of GDP	3.8	5.1	8.0	1.8	2.7	4.1	7.5	1.9	3.2	4.5	7.4	1.6
Consolidated fiscal balance	% of GDP	0.4	-0.5	-9.3	3.7	1.0	-5.0	6.2	-0.4	1.1	-2.4	4.0	-4.8
Privatisation receipts	% of GDP	3.7	3.5	1.0	0.2	0.6	0.6	16.0	0.1	0.1	0.1	0.1	0.5
Labour market													
Average wage (real)	% yoy	18.6	14.7	15.4	15.0	19.0	19.6	26.4	23.8	22.6	18.8	11.3	11.5
Household income (real)	% yoy	16.3	11.3	16.6	24.0	28.0	19.4	18.9	22.1	18.6	20.3	16.3	11.1
Unemployment rate (ILO methodology)	% cum	8.3	8.1	8.7	8.7	7.1	5.2	7.8	7.9	6.8	6.4	6.8	...
Banking system													
Monetary aggregate M0	% yoy cum	25.6	37.1	27.9	28.2	39.1	31.1	42.2	36.2	25.3	23.7	24.5	22.9
Monetary aggregate M2	% yoy cum	44.8	51.5	32.3	38.9	37.4	31.3	53.9	39.2	36.6	36.7	34.3	38.6
Household deposits in national currency	% yoy cum	67.3	67.9	26.2	28.3	31.6	30.4	90.8	54.6	41.1	39.7	37.3	50.7
Household deposits in foreign currency	% yoy cum	61.7	55.2	54.3	51.8	45.4	46.4	59.1	54.5	66.2	64.3	57.5	52.3
Com. bank credits in national currency	% yoy cum	52.1	44.3	29.4	28.3	32.6	43.4	58.7	59.8	53.7	49.0	52.3	52.4
Com. bank credits in foreign currency	% yoy cum	56.2	43.5	32.2	33.1	36.8	47.1	66.3	72.0	82.1	90.4	95.4	98.9
Long-term com. bank credits	% yoy cum	102.7	82.7	57.1	49.5	53.0	70.1	84.6	87.6	86.7	76.6	79.5	84.1
Long-term com. bank credits	% of total	49.3	50.9	54.2	54.4	56.1	59.7	61.8	63.1	63.4	63.5	64.9	65.8
Average lending rate on national cur. credits	% p.a.	16.6	17.0	17.6	17.0	15.4	15.4	16.4	15.8	15.5	14.6	15.1	14.0
Average lending rate on foreign cur. credits	% p.a.	12.1	12.6	12.2	12.1	11.0	11.3	11.7	11.5	11.3	11.3	11.5	11.5

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

* change in value added

** 2006 figures are preliminary

^e preliminary

Notes:
yoy year on year change

p.a. per annum