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Overview of political crisis in November-early December

The second round of the presidential elections in Ukraine, held on November 21, fulfilled most experts' forecasts. The Central Election Committee (CEC) declared the present Prime Minister and candidate chosen by the powers-that-be, Viktor Yanukovich, as the winner over the leader of the 'Our Ukraine' faction, Viktor Yushenko. The opposition did not recognize this decision of the CEC and appealed to the Supreme Court of Ukraine to cancel the results of the second round of elections, while holding mass protests in the city of Kyiv and throughout the country. The Supreme Court agreed that significant irregularities had occurred during the elections, making it impossible to determine the will of the voters. Hence they ordered a repeat of the second round of the elections on December 26. Earlier on the Parliament of Ukraine had voted to dismiss the Cabinet of Ministers, also voicing no confidence in the CEC's declared second round results. The President of Ukraine had stalled the process of preparing for the election rerun by not approving the government's resignation and by not changing the membership of the CEC, some of whose members appear to have participated in the vote manipulations.

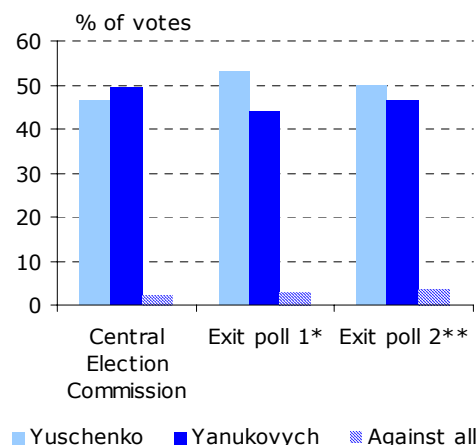
The pro-presidential forces, headed by President Leonid Kuchma, insisted that parliament adopt constitutional reforms, which aim at curtailing the powers of the President and transferring them to the Prime Minister, appointed by Parliament. The opposition agrees with adopting constitutional reforms provided they are not implemented before January 1, 2006.

An important dimension of the political development in Ukraine lies in the sphere of international relations. The EU and the USA face difficulties with opposing the strong Russian position in Ukraine. While Russia officially strongly opposes external interference in the Ukrainian crisis, it had itself repeatedly interfered during the course of the Ukrainian presidential campaign, e.g. through President Vladimir Putin's open support for Mr. Yanukovich. It should also be noted that Mr. Putin congratulated Mr. Yanukovich twice on his election, once even before the CEC had published its decision. The US and the EU have not recognized the election results in Ukraine; however, they are looking for ways to compromise with Russia on the issue of Ukraine. The representatives of the EU are sitting at a "round table" with all political forces, including forces that by the decision of the Supreme Court are guilty of having falsified the elections.

Leonid Kuchma and other top officials including the Prime Minister and official winner of the election, Viktor Yanukovich (who while on vacation cannot be deposed) made numerous remarks about an imminent economic crisis in Ukraine. This provoked withdrawals of bank deposits and induced people to buy foreign currency. The NBU limited the ability to withdraw money from time deposits and introduced other temporary restraints to prevent a panic. The limited scope of the "bank run" and of the increased foreign currency demand do not seem to have destabilized the Ukrainian economy and are likely to pass once the political crisis is over.

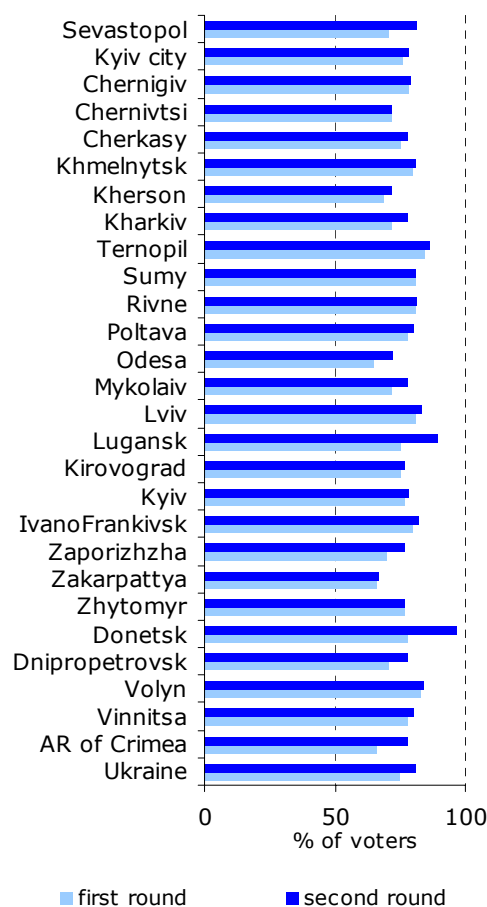
A number of the heads of the oblast administrations in eastern Ukraine made separatist threats. The oblasts Kharkivsk, Donetsk and Luhansk (as well as some other neighbouring oblasts, whose officials were more moderate in their comments) threatened to form a South-Eastern Autonomous Republic within Ukraine if Viktor Yanukovich was not made President. Their initial stance had been to demand outright separation. However, after the Prosecutor's General office and Security Service of Ukraine opened cases for threatening state unity, the 'rebel' governors reversed their positions calling for unity in the country. However, Donetsk oblast still hosts a number of politicians, who insist on conducting a local poll on becoming autonomous within the region.

Results of the second round of elections



Sources: Central Election Commission, sites of firms conducting exit polls
 * Exit poll conducted by Kyiv International Institute of Sociology and Ukrainian Centre for Economic and Political Studies named after O. Razumkov (National Exit Poll)
 ** Exit poll conducted by Centers SOCIS and Social Monitoring

Participation of voters in presidential elections



Source: Central Election Commission

Author:
 Ivan Poltavets
 Institute for Economic Research and
 Policy Consulting



Quarterly Trends

National accounts		Q2 02	Q3 02	Q4 02	Q1 03	Q2 03	Q3 03	Q4 03	Q1 04	Q2 04
GDP	UAH bn	49.9*	64.1*	63.3*	51.5*	60.0*	75.6*	77.1*	64.1*	78.6*
GDP (real)	% yoy	4.7*	4.3*	6.1*	8.4*	10.0*	6.8*	12.1*	12.3*	13.2*
Households consumption (real)	% yoy	2.0*	8.9*	11.2*	10.2*	14.4*	11.2*	13.6*	15.5*	16.0*
State consumption (real)	% yoy	5.4*	-18.8*	2.9*	15.0*	17.8*	19.2*	9.0*	-3.6*	-2.0*
Gross fixed capital formation (real)	% yoy	7.8*	3.8*	5.7*	9.0*	20.4*	24.3*	9.0*	23.3*	4.3*
Exports of goods and services (real)	% yoy	2.5*	15.3*	17.0*	9.9*	9.8*	9.8*	11.6*	16.5*	15.2*
Imports of goods and services (real)	% yoy	1.4*	10.4*	6.7*	13.8*	16.2*	17.4*	17.7*	14.5*	7.0*
Agriculture, hunting, forestry (real)*	% yoy	12.1*	2.1*	1.3*	4.0*	-13.7*	-22.5*	6.7*	-4.2*	1.2*
Manufacturing industry (real)*	% yoy	10.6*	8.0*	11.5*	12.0*	15.4*	23.0*	20.1*	22.7*	15.5*
Construction (real)*	% yoy	-7.9*	-1.2*	2.7*	18.2*	24.8*	30.9*	16.9*	29.8*	30.6*
Trade, repair services (real)*	% yoy	5.3*	8.8*	3.5*	7.2*	15.1*	22.6*	29.6*	23.5*	35.1*
Transport (real)*	% yoy	0.5*	7.9*	11.0*	10.0*	11.5*	15.9*	11.7*	11.0*	8.9*
Balance of payments										
Current account balance	USD bn	0.6	0.8	1.0	1.1	0.7	0.7	0.4	1.7	2.3
Current account balance	% of GDP	6.7	6.4	7.9	11.2	7.0	5.0	3.0	14.3	16.5
Trade balance in goods	USD m	87	155	225	309	-42	-155	-381	767	1460
Trade balance in services	USD m	244	247	382	387	399	362	409	542	307
Current transfers	USD m	441	517	520	500	526	574	584	465	746
Direct investment (FDI)	USD m	119	156	300	238	454	390	329	310	574
Portfolio investments	USD m	-311	-592	-520	-825	640	-444	-293	60	-409
Gross international reserves	USD bn	3.4	4.1	4.4	4.6	6.2	6.7	6.9	7.9	9.6
Fiscal indicators										
Consolidated fiscal revenues	% of GDP	29.9	28.2	28.1	31.6	31.7	30.1	28.6	28.1	27.9
Personal income tax	% of GDP	5.2	4.9	4.9	5.7	5.7	5.3	5.1	4.5	4.3
Enterprise profits tax	% of GDP	4.3	4.1	4.3	5.7	5.1	4.8	5.0	4.0	4.1
Value-added tax	% of GDP	6.6	6.4	6.1	6.2	6.3	5.8	4.8	6.4	5.9
Excise tax	% of GDP	1.9	1.9	1.9	2.1	2.2	2.1	2.0	2.2	2.2
Consolidated fiscal expenditures	% of GDP	28.4	26.4	27.3	27.7	29.2	27.9	28.8	26.1	27.5
Current expenditures	% of GDP	na	na	na	na	26.3	24.2	24.3	23.1	23.6
Capital expenditures	% of GDP	na	na	na	na	3.0	3.7	4.4	3.0	3.9
Consolidated fiscal balance	% of GDP	1.5	1.7	0.7	3.8	2.5	2.2	-0.2	2.0	0.4
Privatization receipts	% of GDP	0.4	0.3	0.3	0.6	1.0	1.0	0.8	1.5	3.9
Labour market										
Average wage (real)	% yoy	20.0	21.2	17.7	12.3	19.1	19.9	14.9	23.0	17.8
Household income (real)	% yoy	61.3	100.8	65.6	-1.18	8.57	9.96	8.66	15.7	13.0
Unemployment rate (ILO methodology)	%	9.7	9.2	11.1	9.4	8.8	9.2	9.0	9.0	9.6
Banking system										
Monetary aggregate M0	% yoy	48.0	46.0	35.8	32.4	37.0	30.5	25.3	29.1	25.6
Monetary aggregate M2	% yoy	39.5	46.5	42.2	47.8	54.6	49.9	47.6	45.4	44.8
Household deposits in national currency	% yoy	90.1	103.6	72.5	73.4	74.7	65.0	66.1	69.4	67.3
Household deposits in foreign currency	% yoy	47.4	55.1	59.3	71.2	70.2	70.4	77.5	67.0	61.7
Com. bank credits in national currency	% yoy	34.5	42.3	54.4	63.7	71.2	73.0	61.7	56.8	52.1
Com. bank credits in foreign currency	% yoy	32.1	37.3	40.3	44.1	48.4	57.7	60.9	63.6	56.2
Long-term com. bank credits	% yoy	70.6	85.8	92.5	110.6	156.4	164.0	157.9	141.7	102.7
Long-term com. bank credits	% of total	23.5	25.3	28.2	31.3	37.4	40.1	45.0	47.4	49.3
Average lending rate on national cur. credits	% p.a.	25.0	23.5	21.8	18.0	17.2	17.2	17.7	17.2	16.6
Average lending rate on foreign cur. credits	% p.a.	12.9	11.9	11.3	12.5	12.6	11.7	10.9	12.2	12.1

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

* change in value added

* preliminary

Notes:

yoy year on year change

p.a. per annum