



MEMU Supplement No.9-2006

The political crisis has been finally resolved in August

In August the political crisis followed March parliamentary elections was finally resolved by the appointment of Viktor Yanukovich as Prime Minister and the formation of new government. This appointment was preceded by a period of political uncertainty when the attempt to form an "Orange" coalition consisting of the Bloc of Yulia Tymoshenko, the Bloc 'Our Ukraine' failed, instead the so-called called 'Anti-crisis Coalition' consisting of the Socialists, the Party of Regions and the Communists was established, and block "Our Ukraine" started negotiations for terms of forming the coalition with the Party of Regions.

Protracted efforts to form a majority coalition resulted in violation of time envisaged by the new Constitution to form a new government, and the risk of dissolution of the Parliament became rather serious. To resolve the crisis, on July 27 President Victor Yushchenko initiated the Round Table with the participation of the leaders of all factions, the Speaker and then Prime Minister Yuriy Yekhanurov. On August 3, the majority of the Round Table participants signed the National Unity Pact, opening the way for forming new government.

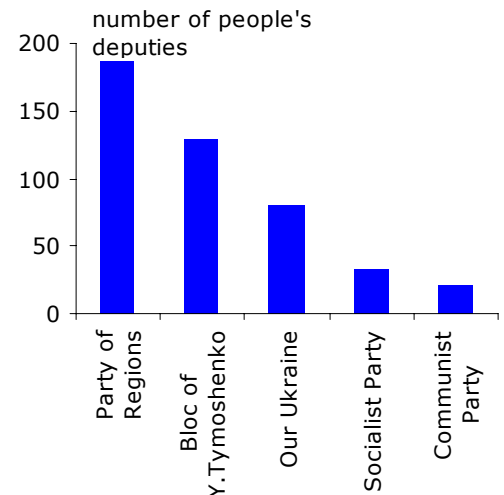
The Pact identifies fundamentals of policies to be conducted by the new Parliament and the government. According to the Pact, these policies are to be in line with political program of the President. All signatory parties agreed that Ukrainian external policy priority would be European integration. At the same time it was decided to intensify efforts aimed at establishment of the Single Economic Space (SES) – regional economic grouping consisting of Russia, Kazakhstan, Belarus, and Ukraine, but to undertake respective steps in strict compliance with the WTO rules. The signatory parties agreed that on the first stage of the SES formation Ukraine should be a member of the free trade zone within the SES. It was also agreed to amend all necessary legislation in order to complete negotiations on Ukraine's WTO accession by the end of 2006.

The issue of Ukraine's NATO membership turned out to be the most hotly debated one. Finally the parties agreed to cooperate with the NATO while the decision on NATO membership will be taken upon the results of the national referendum. The Pact inter alia confirms that the Ukrainian will remain the only state language in Ukraine. The language issue was widely debated during parliamentary election campaign, and several political parties (including Party of Regions) promised to grant the Russian the status of second state language in the country. No sanctions for the violation of the Pact are envisaged making this document a pure political statement regarding respective mutual intentions.

The adoption of the Pact and formation of the Government contributed to overcoming political crisis and allowed resuming normal policy-making process.

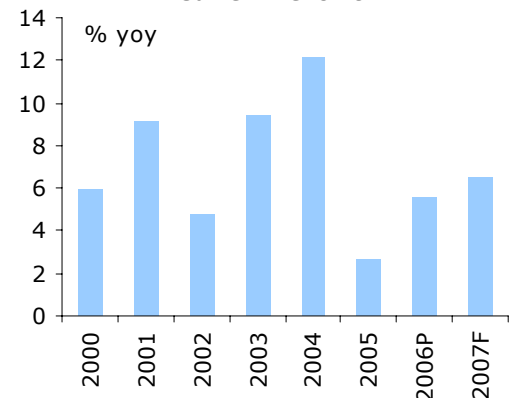
At the moment, despite numerous public statements the strategic economic priorities of the new Government as well the specific actions have yet to be defined. It is expected that the Government will present Program of Actions of the Cabinet of Ministers for 2006-2011 and State Program of Economic and Social Development for 2007. The Government activities are scheduled in two stages. On the first stage (2006-2008) the economic policy will be aimed at "achieving stable growth rates", while on the second stage (2009-2011) the Government intends to "form the conditions for transition to the stage of post-industrial economy of well-being for every person". In the meantime the Government adopted the Plan of Immediate Actions to Overcome Crisis Phenomena in Economic and Social Field. This document contains a number of routine measures aimed at securing gas supplies to Ukraine and accumulation necessary amounts of gas and mazut for the coming winter, revising certain budget expenditures and the list of companies with state participation subject to privatisation in the current year, overcoming trade tensions with Russia, etc. This document explicitly formulates the task to complete the procedures necessary for Ukraine's WTO accession including preparation and submission to the Parliament the necessary legislative acts.

Structure of the Verkhovna Rada after March-2006 elections



Source: Verkhovna Rada, www.rada.gov.ua

Real GDP Growth



Source: Derzhkomstat
P – data for January-July 2006
F – forecast of the Ministry of Economy

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Quarterly Trends

National accounts **		Q1 04	Q2 04	Q3 04	Q4 04	Q1 05	Q2 05	Q3 05	Q4 05	Q1 06	Q2 06
GDP	UAH bn	64.7	79.0	100.5	100.6	84.3	97.5	119.4	123.6	102.0	...
GDP (real)	% yoy	12.7	13.7	14.0	8.5	4.9	3.4	1.4	1.7	3.2	...
Households consumption (real)	% yoy	14.6	16.8	13.1	16.2	14.3	17.7	17.0	17.1	19.7	...
State consumption (real)	% yoy	3.3	1.0	5.0	10.1	6.1	0.0	1.0	4.0	2.0	...
Gross fixed capital formation (real)	% yoy	18.4	6.5	4.6	12.9	-2.3	-0.5	0.2	0.3	8.2	...
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	...
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	...
Agriculture, hunting, forestry (real)*	% yoy	-4.4	0.9	35.7	9.9	5.8	8.3	2.6	-7.4	4.1	...
Manufacturing industry (real)*	% yoy	23.9	16.3	12.5	9.4	7.0	1.8	-1.1	2.0	-2.9	...
Construction (real)*	% yoy	29.9	30.6	16.4	3.9	-8.4	-11.3	-8.5	-7.5	2.6	...
Trade, repair services (real)*	% yoy	23.6	35.0	2.7	13.7	-2.1	-10.7	-11.7	-11.9	4.1	...
Transport (real)*	% yoy	10.1	8.0	12.3	10.5	6.6	5.7	2.8	7.8	3.4	...
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	...
Current account balance	% of GDP	11.1	15.7	10.9	5.7	10.1	3.2	1.7	-0.4	-4.0	...
Trade balance in goods	USD m	933	1552	774	482	1020	-236	-1131	-788	-1288	...
Trade balance in services	USD m	133	198	749	157	188	392	1035	191	176	...
Current transfers	USD m	475	758	720	623	626	694	745	780	616	...
Direct investment (FDI)	USD m	333	614	420	344	247	365	477	6474	662	...
Portfolio investments	USD m	449	149	1313	156	397	923	90	1347	0	...
Gross international reserves	USD bn	7.9	9.6	12.1	9.5	12.0	13.1	14.3	19.4	17.3	...
Fiscal indicators											
Consolidated fiscal revenues	% of GDP	27.2	26.9	26.3	25.9	32.1	35.1	31.5	31.0	35.3	34.7
Personal income tax	% of GDP	4.4	4.1	3.8	3.8	4.3	4.4	3.9	4.2	4.9	5.0
Enterprise profits tax	% of GDP	3.9	4.0	4.1	6.1	4.8	5.9	5.3	6.3	3.8	5.0
Value-added tax	% of GDP	6.2	5.7	5.1	4.1	8.6	9.2	7.9	7.3	10.4	10.1
Excise tax	% of GDP	2.1	2.1	2.0	1.8	2.0	2.0	2.0	1.7	2.0	1.8
Consolidated fiscal expenditures	% of GDP	25.3	26.5	26.8	35.2	28.3	36.4	28.1	41.7	35.0	36.1
Current expenditures	% of GDP	22.4	22.7	21.7	27.2	26.5	33.6	24.0	34.2	32.8	32.6
Capital expenditures	% of GDP	2.9	3.8	5.1	8.0	1.8	2.7	4.1	7.5	2.2	3.5
Consolidated fiscal balance	% of GDP	1.9	0.4	-0.5	-9.3	3.7	1.0	-5.0	6.2	-0.4	-1.2
Privatisation receipts	% of GDP	1.5	3.7	3.5	1.0	0.2	0.6	0.6	16.0	0.1	0.1
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
Household income (real)	% yoy	11.7	16.3	11.3	16.6	24.0	28.0	19.4	18.9	22.1	...
Unemployment rate (ILO methodology)	%	9.3	8.3	8.1	8.7	8.7	7.1	5.2	7.8	7.9	...
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
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
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
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
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
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
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
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
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
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

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