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President versus Prime Minister: defining foreign policy priorities

In September political life in Ukraine was marked by some tension between the President and the Prime Minister concerning the role that the Prime Minister should play in conducting the foreign policy.

Viktor Yanukovich made an attempt to take over some of foreign policy decisions, constitutionally being defined as the prerogative of the President. In particular, the Prime Minister tried to redefine the relations between Ukraine and the NATO, though the President announced Ukraine's intension to seek the NATO membership. During September visits to Brussels Victor Yanukovich declared that Ukraine postpones joining NATO Membership Action Plan. He explained these statements by Ukraine's public opposition to North Atlantic Alliance. At the same time the Prime Minister emphasised on the importance of mutually beneficial cooperation with the NATO, including participation in military programmes.

The position of the Prime Minister contradicts the National Unity Pact, which obliges the new government to execute all procedures needed for NATO membership as determined in the Law of Ukraine "On the fundamentals of the national security of Ukraine". Yet, Verkhovna Rada supported such position. The Parliament adopted the resolution titled "On the Prime Minister's of Ukraine position on NATO-Ukraine Committee Session", that forbids taking further steps for joining NATO before consulting with Ukrainian public. The resolution obliges the Cabinet of Ministers to facilitate spreading objective information about the NATO's role in the modern world, and requires that parliamentary committees of foreign affairs, and national security and defence prepare draft law that will determine procedure of Ukraine's accession in military-political alliances.

The President criticized Yanukovich's position on NATO membership as contradictory to Ukraine's national interests and declared that Ukraine's official position on intention to seek NATO membership has not changed.

In economic sphere, the positions of the President and the Government are much closer. During meeting with the President of the European Parliament, the Prime Minister named creating of free trade area with European Union (EU) among the priorities of the government activity. The draft State Program of Social and Economic Development for 2007 determined negotiations concerning establishment of free trade area with EU as one of the fundamentals. Viktor Yanukovich also emphasized on Ukraine's desire of seek the EU membership.

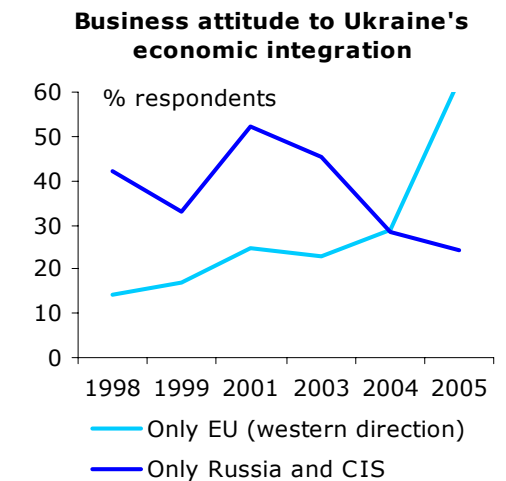
The WTO membership was also identified as one of the government's policy priorities. In the end of August the government adopted Plan of Immediate Actions to Overcome Crisis Phenomena in Economy and Social Field that includes a list of actions to speed up the process of obtaining WTO membership. While the bilateral negotiations are almost complete, Ukraine still has to harmonise a number of laws, including those concerning intellectual property protection, agriculture support, insurance, export duties, auditing, automotive industry, foodstuff quality and antidumping regulation.

Viktor Yanukovich voiced government position about the Single Economic Space (SES), regional economic group consisting of Russia, Kazakhstan, Belarus, and Ukraine. He claimed that Ukraine would not enter the SES customs union and will limit integration to free trade area. This position doesn't contradict Ukraine's intentions to create free trade area with the EU. It also follows the position stipulated in the National Unity Pact, according to which Ukraine will intensify efforts aimed at establishment of the free trade area within the SES, undertaking respective steps in strict compliance with the WTO rules.

To sum up the Prime Minister starts playing much more independent role in the formulation of the foreign policy priorities and objectives than it was done by the previous governments. That creates tensions between the President and the Prime Minister concerning the division of the spheres of influence in Ukrainian policy making.



Source: Derzhcomstat



Source: Quarterly Enterprise Survey 1998-2005

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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	122.8
GDP (real)	% yoy	12.7	13.7	14.0	8.5	4.9	3.4	1.4	1.7	3.2	7.3
Households consumption (real)	% yoy	14.6	16.8	13.1	16.2	14.3	17.7	17.0	17.1	19.7	19.9
State consumption (real)	% yoy	3.3	1.0	5.0	10.1	6.1	0.0	1.0	4.0	2.0	7.3
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
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
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
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
Manufacturing industry (real)*	% yoy	23.9	16.3	12.5	9.4	7.0	1.8	-1.1	2.0	-2.9	5.4
Construction (real)*	% yoy	29.9	30.6	16.4	3.9	-8.4	-11.3	-8.5	-7.5	2.6	5.7
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
Transport (real)*	% yoy	10.1	8.0	12.3	10.5	6.6	5.7	2.8	7.8	3.4	9.7
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	-0.4
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
Trade balance in goods	USD m	933	1552	774	482	1020	-236	-1131	-788	-1288	-876
Trade balance in services	USD m	133	198	749	157	188	392	1035	191	176	401
Current transfers	USD m	475	758	720	623	626	694	745	780	616	782
Direct investment (FDI)	USD m	333	614	420	344	247	365	477	6474	662	1410
Portfolio investments	USD m	449	149	1313	156	397	923	90	1347	0	-264
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
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	18.6
Unemployment rate (ILO methodology)	%	9.3	8.3	8.1	8.7	8.7	7.1	5.2	7.8	7.9	6.9
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