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Crisis within the parliamentary coalition

In June a new round of political crisis halted the work of Verkhovna Rada. On June 6, two Members of Parliament – Ihor Rybakov (Bloc of Yulia Tymoshenko - BYUT) and Yuri But (Our Ukraine – People’s Self-defense) officially left the ruling coalition that beforehand included 227 members of the parliament (MPs) with no less than 226 MPs needed for its functioning. Both MPs are allegedly connected to and influenced by the Presidential Secretariat.

Arseniy Yatseniuk, the Speaker of Verkhovna Rada, called the MP’s withdrawal treason, but underlined that it wouldn’t lead to the collapse of the coalition. Both the President and the Prime-Minister shared this opinion in their official statements. However, the fact levered intense political discussions and even speculations on the possible ways to restore the coalition that de-facto stopped functioning since then. Among alternative solutions proposed by the opposition were reformatting of the coalition with further participation of the Party of Regions, adopting decision on the dismissal of Yulia Tymoshenko’s Cabinet or even repeating the scenario of pre-term parliamentary elections. However, following the Constitution, the President will obtain the right to dissolve Verkhovna Rada only after September 30, one year after the latest pre-term elections.

Along with wide parliamentary discussions on those issues, MPs from the Party of Regions have submitted to the Constitutional Court of Ukraine (CCU) a request to clarify the current situation on the functioning of the parliamentary coalition. Contrary to the MPs’ expectations, the Head of the Constitutional Court explained that the CCU would not be able to consider that issue before August 2008 even in accordance with urgent procedure.

The Ministry of Justice emphasized that an individual withdrawal of MPs will not lead to the cessation of coalition’s functioning as it is formed by parliamentary factions. Therefore only a faction may take decision on its withdrawal from the parliamentary coalition, which, in turn, should be approved by 50% of its composition plus 1 vote. Meanwhile the Party of Regions continued insisting on the official recognition of the coalition’s collapse as it failed to adopt any decisions that were on the agenda, thus proving its inability to function.

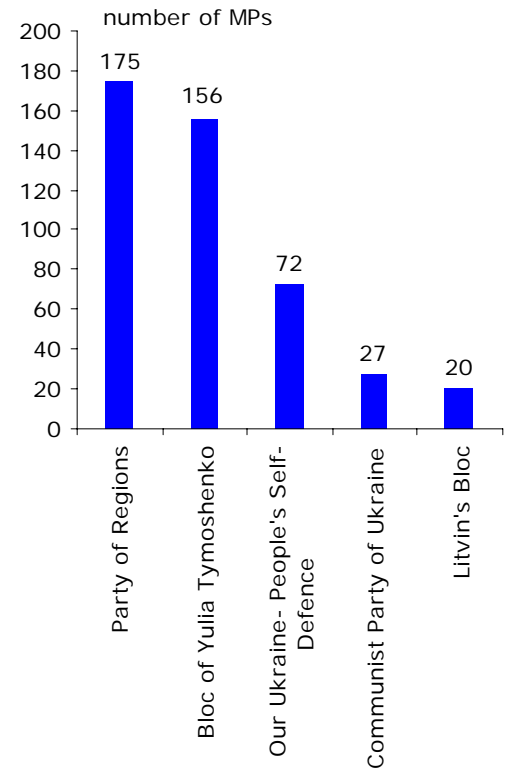
On June 27, the long-awaited decision of the Constitutional Court regarding MPs’ membership in the parliamentary factions was announced to the public. It recognized that legal provisions of the Law on status of the people’s deputy of Ukraine permitting free withdrawal of MPs from the parliamentary faction of his political party as well as non-membership in any registered parliamentary faction contradict the Constitution.

Following the CCU ruling, on June 30 the Inter-Party Congress of BYUT terminated the deputy’s authority of Ihor Rybakov, one of the two MPs who left the coalition. The Congress was closed to the public, and the decision was not officially commented. It was obviously taken with the purpose of recovering the coalition’s 226th missing vote and thus restoring its functioning by forwarding deputy’s mandate to another member of BYT, next in its election list.

However, the very next day Deputy Head of the Presidential Secretariat Maryna Stavniychuk made a statement pointing out the lack of legal ground for the termination of MP Rybakov’s authority. According to Mrs.Stavniychuk, a deputy loses his mandate only if he isn’t a member of any parliamentary faction or leaves the faction, which is not the case with MP Rybakov who left parliamentary coalition and not the faction of BYT. This official statement by the representative of the Presidential Secretariat is in line with the assumptions concerning its Head Victor Baloha willingness to reformat the ruling coalition.

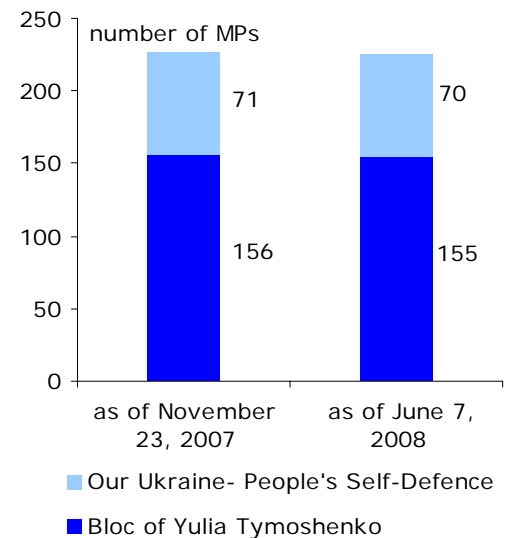
So far the situation with the parliamentary coalition remains unclear, and the discussions among MPs and political experts regarding the appropriateness of pre-term parliamentary elections gradually intensify.

Composition of the Verkhovna Rada of the VI Convocation



Source: Verkhovna Rada of Ukraine

Changes in the Composition of the Parliamentary Coalition



Source: Verkhovna Rada of Ukraine

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Quarterly trends

| National accounts | | Q1 05 | Q2 05 | Q3 05 | Q4 05 | Q1 06 | Q2 06 | Q3 06 | Q4 06 | Q1 07 | Q2 07 | Q3 07 | Q4 07 | Q1 08 |
|---|------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| GDP | UAH bn | 84.3 | 97.5 | 119.4 | 123.6 | 105.4 | 124.1 | 150.4 | 157.7 | 137.6 | 165.1 | 197.4 | 212.8 | ... |
| GDP (real) | % yoy | 4.9 | 3.4 | 1.4 | 1.7 | 4.1 | 6.8 | 6.9 | 9.5 | 8.9 | 8.6 | 6.2 | 7.4 | ... |
| Households consumption (real) | % yoy | 14.3 | 17.7 | 17.0 | 17.1 | 20.2 | 18.2 | 11.8 | 9.9 | 14.7 | 15.5 | 15.2 | 19.0 | ... |
| State consumption (real) | % yoy | 6.1 | 0.0 | 1.0 | 4.0 | 9.6 | 5.8 | 5.8 | 1.0 | 0.8 | 6.2 | 4.4 | 2.4 | ... |
| Gross fixed capital formation (real) | % yoy | -2.3 | -0.5 | 0.2 | 0.3 | 19.9 | 19.3 | 17.9 | 18.3 | 24.4 | 23.5 | 18.9 | 23.8 | ... |
| Exports of goods and services (real) | % yoy | -0.6 | -14.0 | -12.7 | -15.5 | -14.9 | -9.6 | 3.2 | 1.0 | 4.9 | 5.2 | 0.1 | 5.6 | ... |
| Imports of goods and services (real) | % yoy | 2.8 | 3.2 | 3.9 | -0.9 | 10.7 | 0.9 | 8.3 | 6.4 | 12.9 | 19.6 | 13.7 | 27.2 | ... |
| Agriculture, hunting, forestry (real)* | % yoy | 5.8 | 8.3 | 2.6 | -7.2 | 3.8 | 2.8 | -5.6 | 8.1 | 4.8 | 6.8 | -9.3 | 7.1 | ... |
| Manufacturing industry (real)* | % yoy | 7.0 | 1.8 | -1.1 | 2.0 | -1.5 | 6.1 | 7.3 | 7.2 | 15.0 | 13.2 | 13.1 | 4.4 | ... |
| Construction (real)* | % yoy | -8.4 | -11.3 | -8.5 | -7.5 | 0.1 | 0.8 | 1.4 | 4.2 | 13.3 | 8.2 | 12.7 | 5.8 | ... |
| Trade, repair services (real)* | % yoy | -2.1 | -10.7 | -11.7 | -11.9 | 6.2 | 16.4 | 20.0 | 21.9 | 14.3 | 17.5 | 25.3 | 15.0 | ... |
| Transport (real)* | % yoy | 6.6 | 5.7 | 2.8 | 7.8 | 4.9 | 7.7 | 9.4 | 5.3 | 7.0 | 5.6 | 8.0 | 10.2 | ... |
| Balance of payments | | | | | | | | | | | | | | |
| Current account balance | USD bn | 1.6 | 0.6 | 0.4 | -0.1 | -0.8 | 0.0 | 0.5 | -1.4 | 1.2 | -0.8 | -0.5 | -3.5 | -3.6 |
| Current account balance | % of GDP | 10.1 | 3.2 | 1.7 | -0.4 | -3.7 | 0.0 | 1.7 | -4.3 | 4.4 | -2.4 | -1.2 | -8.1 | -9.6 |
| Trade balance in goods | USD m | 1020 | -236 | -1131 | -788 | -1353 | -935 | -884 | -2022 | -1735 | -1701 | -2684 | -4452 | -4321 |
| Trade balance in services | USD m | 188 | 392 | 1035 | 191 | 219 | 506 | 1054 | 347 | 103 | 512 | 1689 | 392 | 261 |
| Current transfers | USD m | 626 | 694 | 745 | 780 | 622 | 790 | 851 | 910 | 825 | 968 | 1099 | 1183 | 966 |
| Direct investment (FDI) | USD m | 247 | 365 | 477 | 6474 | 1053 | 1389 | 1636 | 1258 | 1709 | 1934 | 3927 | 1648 | 2387 |
| Portfolio investments | USD m | 397 | 923 | 90 | 1347 | 4 | -141 | 370 | 3350 | 1816 | 1477 | 517 | 1844 | 225 |
| Gross international reserves | USD bn | 12.0 | 13.1 | 14.3 | 19.4 | 17.3 | 17.6 | 19.1 | 22.3 | 23.5 | 25.6 | 30.6 | 32.5 | 33.2 |
| Exchange rate, UAH/USD | aop | 5.30 | 5.10 | 5.05 | 5.05 | 5.05 | 5.05 | 5.05 | 5.05 | 5.05 | 5.05 | 5.05 | 5.05 | 5.05 |
| Fiscal indicators | | | | | | | | | | | | | | |
| Consolidated fiscal revenues | % of GDP | 32.1 | 35.1 | 31.5 | 31.0 | 31.2 | 31.7 | 31.9 | 32.8 | 33.3 | 32.8 | 30.8 | 31.1 | 32.5 |
| Personal income tax | % of GDP | 4.3 | 4.4 | 3.9 | 4.2 | 4.4 | 4.6 | 4.1 | 4.1 | 5.1 | 5.3 | 4.9 | 4.8 | 5.1 |
| Enterprise profits tax | % of GDP | 4.8 | 5.9 | 5.3 | 6.3 | 3.4 | 4.6 | 4.3 | 6.7 | 3.8 | 4.1 | 4.1 | 6.4 | 4.1 |
| Value-added tax | % of GDP | 8.6 | 9.2 | 7.9 | 7.3 | 9.2 | 9.2 | 9.7 | 9.3 | 10.4 | 9.8 | 8.7 | 7.6 | 10.5 |
| Excise tax | % of GDP | 2.0 | 2.0 | 2.0 | 1.7 | 1.8 | 1.7 | 1.5 | 1.5 | 1.8 | 1.7 | 1.6 | 1.3 | 1.5 |
| Consolidated fiscal expenditures | % of GDP | 28.3 | 36.4 | 28.1 | 41.7 | 30.9 | 32.8 | 29.4 | 36.6 | 28.4 | 31.0 | 29.6 | 36.7 | 29.5 |
| Current expenditures | % of GDP | 26.5 | 33.6 | 24.0 | 34.2 | 28.9 | 29.7 | 24.9 | 29.2 | 26.9 | 28.4 | 25.9 | 27.3 | 28.6 |
| Capital expenditures | % of GDP | 1.8 | 2.7 | 4.1 | 7.5 | 1.9 | 3.2 | 4.5 | 7.4 | 1.6 | 2.6 | 3.7 | 9.4 | 0.9 |
| Consolidated fiscal balance | % of GDP | 3.7 | 1.0 | -5.0 | 6.2 | -0.4 | 1.1 | -2.4 | 4.0 | 4.7 | 1.7 | 1.2 | -6.2 | 3.0 |
| Privatisation receipts | % of GDP | 0.2 | 0.6 | 0.6 | 16.0 | 0.1 | 0.1 | 0.1 | 0.1 | 0.5 | 0.5 | 0.3 | 0.4 | 0.1 |
| Labour market | | | | | | | | | | | | | | |
| Average wage (real) | % yoy | 15.0 | 19.0 | 19.6 | 26.4 | 23.8 | 22.6 | 18.8 | 11.3 | 14.7 | 13.9 | 14.9 | 15.7 | 13.8 |
| Household income (real) | % yoy | 24.0 | 28.0 | 19.4 | 18.9 | 22.1 | 18.6 | 20.3 | 16.3 | 17.5 | 17.4 | 14.9 | 16.4 | 19.0 |
| Unemployment rate (ILO methodology) | % cum | 8.7 | 7.1 | 5.2 | 7.8 | 7.9 | 6.8 | 6.4 | 6.8 | 7.4 | 6.6 | 6.2 | 6.4 | 7.1 |
| Banking system | | | | | | | | | | | | | | |
| Monetary aggregate M0 | % yoy cum | 28.2 | 39.1 | 31.1 | 42.2 | 36.2 | 25.3 | 23.7 | 24.5 | 22.9 | 30.4 | 36.4 | 48.2 | 48.4 |
| Monetary aggregate M2 | % yoy cum | 38.9 | 37.4 | 31.3 | 53.9 | 39.2 | 36.6 | 36.7 | 34.3 | 38.6 | 40.7 | 47.8 | 50.8 | 52.7 |
| Household deposits in national currency | % yoy cum | 28.3 | 31.6 | 30.4 | 90.8 | 54.6 | 41.1 | 39.7 | 37.3 | 50.7 | 56.3 | 64.8 | 71.9 | 68.8 |
| Household deposits in foreign currency | % yoy cum | 51.8 | 45.4 | 46.4 | 59.1 | 54.5 | 66.2 | 64.3 | 57.5 | 52.3 | 43.8 | 38.4 | 32.5 | 35.2 |
| Com. bank credits in national currency | % yoy cum | 28.3 | 32.6 | 43.4 | 58.7 | 59.8 | 53.7 | 49.0 | 52.3 | 52.4 | 57.2 | 60.7 | 72.7 | 81.2 |
| Com. bank credits in foreign currency | % yoy cum | 33.1 | 36.8 | 47.1 | 66.3 | 72.0 | 82.1 | 90.4 | 95.4 | 98.9 | 97.4 | 91.0 | 75.4 | 71.3 |
| Long-term com. bank credits | % yoy cum | 49.5 | 53.0 | 70.1 | 84.6 | 87.6 | 86.7 | 76.6 | 79.5 | 84.1 | 86.5 | 87.9 | 85.7 | 84.8 |
| Long-term com. bank credits | % of total | 54.4 | 56.1 | 59.7 | 61.8 | 63.1 | 63.4 | 63.5 | 64.9 | 65.8 | 67.3 | 68.2 | 69.2 | 69.1 |
| Average lending rate on national cur. credits | % p.a. | 17.0 | 15.4 | 15.4 | 16.4 | 15.8 | 15.5 | 14.6 | 15.1 | 14.0 | 13.9 | 13.7 | 14.0 | 14.6 |
| Average lending rate on foreign cur. credits | % p.a. | 12.1 | 11.0 | 11.3 | 11.7 | 11.5 | 11.3 | 11.3 | 11.5 | 11.5 | 11.4 | 11.3 | 11.1 | 10.8 |

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

* change in value added

° preliminary