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Newsletter for the international community providing views and analysis from the Bloc of Yulia Tymoshenko (BYuT)

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## New Government Hits Ground Running



▲ The leaders of the new government: President Viktor Yushchenko and Prime Minister Yulia Tymoshenko. The President has signed the 2008 State Budget into law.

Ukraine's new government passed its first major test when the parliament approved the 2008 Draft Budget and the president signed it into law.

Some 235 deputies, including 8 from the non-aligned Communist Party, voted in favour of a package of budgetary measures that deliver on many of the pledges made by the democratic forces during the recent election campaign.

The budget sets a deficit of UAH 18.5 billion (\$3.7 billion), which is about 2.1 percent of

the country's GDP. Overall spending was pegged at UAH 235.4 billion (\$47 billion).

The socially-minded budget contains provisions designed to improve the lives of ordinary citizens and honours electoral pledges made by the Bloc of Yulia Tymoshenko (BYuT) and the pro-presidential Our Ukraine – People's Self-Defence bloc. These include:

- The first phase of payments to clear debts owed to millions of people on failed Soviet-era bank deposits. This amounts to UAH 20 billion (nearly \$4 billion) in the first year.
- A 40 percent increase in state pensions and payments to students, amounting \$2 billion.
- Payments to encourage couples to have more children and so address falling birth rates. Parents will be paid UAH 12,000 (\$2,376) for the birth of a first baby, UAH 25,000 (\$4,950) for a second and UAH 50,000 (\$9,090) for the third and each consecutive baby.
- A 25 percent increase in the defence budget to further the goal of creating a smaller but better paid, well-equipped professional army.
- A reduction in taxes for small businesses to help stimulate business growth.
- Continuation of the land-sale moratorium until further legislation is passed to create a national land register and legal codes for regulating land sales.



- A delay on imposing VAT for agricultural businesses until Ukraine joins the World Trade Organisation.
- Subsidies that prevent the insolvency of Naftohaz Ukrainy, the state-owned gas company (see next article).

Predictably, the opposition lambasted the budget as "populist" and called for a swift balancing of the budget. It seemingly ignored that, when it was in government, it had proposed a deficit of UAH 17.7 billion (\$3.5 billion).

Prime Minister Yulia Tymoshenko stated that the country could afford the budget given firm government plans to increase state revenues.

"I am confident that within a couple of months we will have conducted a massive programme to remove the shadow economy. This will help us to improve seriously the budget revenue system," said Ms Tymoshenko, who indicated that transparent privatisations would help swell state revenues further.

### Targeting Inflation is Top Priority

The prime minister identified fighting inflation as a top priority for her administration. Inflationary pressures have been exacerbated by an unusually large amount of unsecured hryvnia recently dumped into circulation.

An insider told Inform that this was done deliberately to cause problems for the incoming government. "It's their idea of a welcome present for Yulia," he said.

"A colossal, unjustified emission of hryvnia was carried out in the country," said Ms Tymoshenko. "We have already carried out two very serious corrective actions to remove from the market the money supply

**"It's their idea of a welcome present for Yulia."**

which was dumped in the country. We are curtailing the system which we expect to take nearly a half-year."

The 2008 budget predicts GDP growth of 6.8 percent next year. This figure is likely to be revised in the New Year given a noticeable flattening in the markets for steel and chemical products and higher energy costs.

Notwithstanding the prospect of tougher economic times ahead, BYUT officials remain up-beat for 2008,

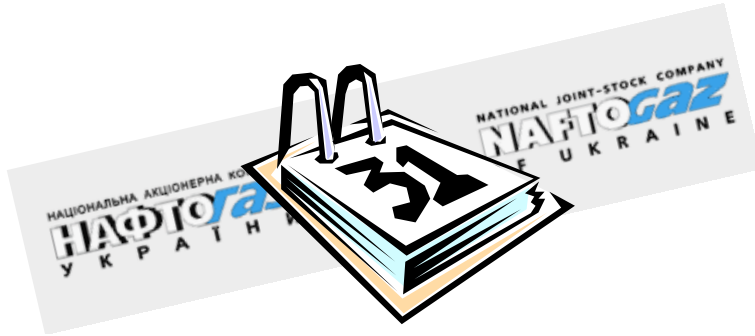
believing that economic growth levels can match those of 2007.

"Ukraine remains an attractive investment proposition," said Minister of Economy, Bohdan Danilishyn, "missing in the past was a judicial system and rule of law that investors could rely upon. Our reforms will bring about transparency in business matters and remove impediments to investment. We foresee significant scope for growth."



## Naftohaz Saved: Time Bomb Defused

Naftohaz Ukrainy, Ukraine's state-owned gas company, was on the ropes facing potential insolvency and defaulting on its loans. Following a meeting last month between some of the largest bondholders and key BYuT ministers in the new government, assurances from the state have been put in place to secure Naftohaz's debts and pave the way for restructuring the ailing gas company.



The saving of Naftohaz has ramifications that extend far beyond turning around the beleaguered gas company, for if Naftohaz defaulted it could have triggered the repayment of \$2.6 billion to bondholders and seen Ukraine

downgraded to a banana republic-rated investment risk. This would have meant a hefty increase in the cost of borrowing for both the state and Ukrainian companies on the international markets.

As reported in Inform (see Issue 55, The Naftohaz Time Bomb) the company's auditors, Ernst and Young, had failed to sign off the Naftohaz accounts on the grounds that it had reservations over it continuing as a going concern. What were needed were measures to assuage both the auditors and anxious bondholders.

Last month senior representatives of the investment bank Bear Stearns and some of the top bondholders met with outgoing government officials, hoping to head-off a technical default situation which would have arisen after midnight, 31 December unless the accounts were signed off.

BYuT officials made solving the issue a priority and a meeting was arranged with incoming government officials on 13 December. The soon to be Vice Prime Minister, Hryhoriy Nemyria, Minister of Fuel and Energy, Yuriy Prodan and Minister of Finance, Viktor Pynzenyk, met with the bank and bondholders. Recognising the need to act firmly and quickly, Prime Minister Yulia Tymoshenko joined the meeting and gave the group an assurance that would protect Naftohaz and its creditors.

This assurance was manifest in the State Budget for 2008 through the provision of a State Sovereign Guarantee. Furthermore, a UAH 2 billion (\$400 million) subsidy was earmarked to tackle the company's immediate financial situation. This provides a much needed breathing space to restructure the company and put in place measures that will place Naftohaz on a firm financial footing.

To-date Naftohaz has struggled because it has been stripped of its industrial markets for gas and saddled with unprofitable municipal and domestic supply contracts that force it to make a thumping loss. In 2007, it was forced to subsidise the heating sector at a rate of 30 percent resulting in sector losses of UAH 2.6 billion (about \$510 million). Also, its transit and storage fees are pegged to deeply discounted rates set in 2006.

According to the prime minister, "the passing of the State Budget has included systematic financial support for the company and the protection of its creditors."

At the same time, the government undertook to freeze domestic gas prices until mid-2008.



Mr Prodan announced that the Fuel and Energy Ministry will clarify its position on possible revisions to the maximum price level of natural gas for the heating sector after a thorough analysis of the financial position of Naftohaz and approval of the gas balance for 2008. He went on to say "possibly, this reconsideration will be performed in the beginning of the second part of 2008 after the heating (winter) season's end. But the dynamics will not be sharp, it will be gradual".

The details of the restructuring of Naftohaz will rest on the shoulders of its newly appointed head, Oleg Dubina, who has a reputation for turning around ailing enterprises. Mr Dubina was CEO of Dniprovskiy Steelworks and from 1999-2001 was CEO of the Kryvorizhstal steelworks (now ArcelorMittal Kryviy Rih). He combines good business sense with strong political skills, having been Deputy Prime Minister for Fuel and Energy in 2001. News of his appointment was well received by the investment community.

"Taking into consideration the current problems at Naftohaz Ukraine his appointment looks to be good news for Naftohaz Ukraine," wrote analyst Peter Keller, Millennium Capital investment bank.

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## **New NSDC Secretary Splits Regions**



Rayisa Bohatyryova, the deputy leader of the Party of Regions has been appointed Secretary of the National Security and Defence Council by President Viktor Yushchenko.

Her appointment, which astonished Ukraine-watchers around the world, is being touted as an example of "inclusive government."

"The president is trying to achieve balance in the system of power and find common ground with the east," Anna Herman of the Party of Regions told the Interfax news agency.

The appointment should help improve relations with Rinat Akhmetov, the billionaire magnate and Ukraine's richest man, who is a close ally of Ms Bohatyryova.

"This is the president's team drawing closer to the constructive, moderate wing of the Party of Regions led by Akhmetov," said Volodymyr Fesenko, Chairman of the Penta Centre for Applied Political Research (quoted in the Kyiv Post).

Others see the appointment as driving a wedge deep within the already fractured Party of Regions, resulting in the further alienation of its leader, Viktor Yanukovich.

Mr Yanukovich made his position clear on receiving confirmation of the appointment: "We decided to go into opposition and this does not stipulate our participating in the government. We cannot head state institutions, which will implement programmes that are not consistent with our vision of Ukraine's prospects."

As a consequence of her appointment, it is likely that Ms Bohatyryova will be expelled from her party.

Prime Minister Yulia Tymoshenko took the news of Ms Bohatyryova's appointment in her stride, saying that she is ready to work with all leaders appointed by the Ukrainian President. "I want to stop any resistance between different power branches," said Ms Tymoshenko.

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# New Beginnings

The following is a transcript of a speech by Yulia Tymoshenko that was aired on the Inter TV Channel on 21 December, 2007. This speech underlines both the direction and spirit of the new Tymoshenko-administration.

Dear fellow countrymen,

A new government of Ukraine was formed on Tuesday, 18 December. You witnessed the way it happened. Passions probably had never run that high in the Ukrainian parliament.

They were reluctant to relinquish power, they sabotaged the Rada's electronic voting system, they pulled MP's voting cards and vandalised PCs and microphones.

However, the never-ending conflict and stand-off scenario didn't work because there is only one political force capable of dictating its own will relentlessly and unconditionally. This force is the Ukrainian people and no other party is above it. I want politicians to get used to the fact that things are not going to be their way, but the way of the people and what they express in elections, referenda, public hearings and in their letters.

I want to thank you for your trust and turnout at the early elections, which have changed everything in the Verkhovna Rada, the Government and the State. I thank you for keeping the faith and not giving in to despair. You struggled for your chance to further build your country and did everything in your power. Now it is our turn to repay our debts to you.

I want you to mark today's date in your calendars because this is the day when the government answers to the people.

We are commencing the process of purifying the country, and I will make every effort to ensure that dirty money is no longer a defining factor in Ukrainian politics. I will see to it that MPs are no longer bought like cattle at a marketplace and politicians are no longer tempted to resort to betrayal in exchange for millions of dollars.

Moreover, those who can afford to pay thirty million dollars for such betrayals will no longer have those illegally-obtained millions.

Within a matter of days MPs will be stripped of their immunity and privileges. Corrupted MPs will be deprived of their membership in the parliament at party congresses, and heads of law enforcement agencies and controlling bodies will be replaced.

Today the situation in the country is difficult. As one of the newly-appointed ministers put it: "There is no 'Ministry of Transition' in the country." And this applies to all aspects of life. You feel it every day when you witness uncontrolled price growth, explosions at coalmines, unemployment, brazen corruption, meager pensions and salaries, and an irresponsible government.

Yes, this is true, but do not be afraid. It took other countries only a few years to put their houses in order after wars, revolutions, devastating earthquakes and tsunamis. We are no worse or weaker than them and we will also be able to set things right after 17 years of so-called "in-depth reforms."



We are beginning to act, and I'd like to first of all establish a direct contact with you. By 'you' I mean businessmen, doctors, teachers, artists, coal miners, pensioners, students, transportation workers, farm workers and representatives of all social and professional groups. I would like to hear from you directly: what problems you face and what prevents you from being happy and successful. I will teach the entire government machine to be subordinate to your interests and not to indulge in self-satisfaction.

Second, we will under no circumstances try to make our predecessors responsible for the situation in the country. We do not engage in such practices.

It has become a bad tradition in Ukraine when a new government accuses its predecessors of all faults to justify its own laziness and lack of professionalism. It is a shame for the entire country when the government blames price increases on Arab sheikhs and international trends, makes heads of communal utility services responsible for tariff hikes, and accuses hens and cows of causing increases in milk and egg prices. It is not worthy of statesmen to shift responsibility. It is like crying over spilt milk because of one's own lack of professionalism and incompetence. We are not here to complain, but to rebuild the country, accept responsibility, and face challenges. The current government must be responsible for the situation in the country.

But some corrupt bureaucrats should not be so quick to breathe a sigh of relief at this point. Because this does not mean that we will announce a general amnesty for all law violators. It is not going to be like that!

The first day we started our work, we launched a nationwide anti-corruption investigation that will look into the questionable activities of previous regimes. We must know what they have done. And I guarantee you that we will check how each penny was spent, how each tender was held, how each license was granted and how each illegal act of privatisation was conducted. And let those who are guilty have no doubts – they will have to answer for all the illegal acts they have committed.

Also, those ministers and officials who came to power today should be aware that their decision will be checked by the anti-corruption authorities. We will not allow ourselves to have untouchable politicians and officials who consider themselves to have a God-given right to violate the Constitution and our laws. We will be even more attentive and demanding to the officials to whom we gave positions today than to the old ones. I hope that, in this oversight role, we will receive a great deal of assistance from the Opposition. From our side, we will provide the Opposition with all the relevant authority necessary to assert this control.

There will be no more chaos in the country. There will be order. My ethics as Prime Minister are simple and clear: whoever wishes to work will work, whoever intends to steal will pay. That is all – there is no alternative.

I am not a naïve person, so I know that nobody wants to have true order in the country except for the true people of Ukraine. We are aware of the level of the resistance we will face from the corrupt structures, oligarch groups, middle bureaucracy class, experts-for-hire and talking-heads. If they were spending millions of dollars before to prevent the creation of a coalition of democratic forces and the formation of a new government, now they will squander billions to stop our government and ruin the democratic coalition. They plan neither to clean up nor to live with honour. Well-financed discrediting of the Prime Minister and the government will start right now, today. And I wish to call on you to not believe the dark propaganda, but to seek together the way to clean up, develop and stabilise our beautiful and successful



country. React critically to ruinous propaganda. It will be spread only by those for whom we will close the dirty ways to enrichment.

We are not rescinding any of our promises – we bear responsibility for every word we said, for every election promise we gave. Our election programme and our government action plan are the same. When I arrived at the Cabinet of Ministers on Wednesday morning, the first meeting I had was with the Head of Oshadbank of Ukraine. We discussed the possibility of returning lost savings to people within the next two years. We will find the solution. And from this moment on, every day will be devoted to the realisation of this goal.

Please note, when I say, “We will do, we will realise, we will put things in order,” I mean through the united action of the President of Ukraine, the government and the democratic coalition in the Verkhovna Rada. This is a unity that I will not let anyone destroy.

You know that we have a strategic development programme we call “a Ukrainian breakthrough: for people, not for politicians”. This programme covers all of the sectors of the national economy, all parts of life and does not discount the interest of any person.

We will do everything to raise the courage and spirituality of the nation, to renew and learn the true history of our people. We will return to teaching patriotism and love for our own land. Ukraine will no longer be a zone of cultural disaster – it will be a place of high culture and beauty.

We need to facilitate investments and entrepreneurship, adopt a new tax code with decreased and simplified tax rates, crush corruption, and finally fix decent salaries and pensions. It is time to begin to properly reform all sources of national revenue and to open free access to high quality education and medical insurance. We will adopt European standards and affordable housing, we will return lost savings and cancel the military draft. We will create a strong and professional army. We can become a WTO member, host EURO-2012, and maybe even win it. It will not be difficult to build friendly relationships with our neighbours, all of which are strong and powerful states. And we will become a strong and powerful nation ourselves.

All of the government's decisions will be based solely on national interests. All of the Cabinet of Ministers' actions must be designed to make your life better.

National development and government success should be measured not only by a GDP factor, but also by the people's happiness.

We are one nation, a single people, a single country. We have nothing to divide. We have to look together for solutions to the current problems in the country. Without unity or efforts toward consolidation, this will be very difficult to achieve.

That is why I call today to cease all political arguments, stop the blockades and fights in parliament and the wars over airing dirty laundry and mutual grievances.

We do not need great scandals, we need a great Ukraine.

One-hundred and seventy-seven years ago Lesya Ukrayinka said: “Without faith, I hope.” I hope with faith and certainty. Build your life in peace. Everything will be fine in our Ukrainian house.

We have everything we need to become successful. In a few years' time we will be proud of living in a Great Country.

May God be with us!