



## Privatisation Tug-of-War

President Viktor Yushchenko has taken the extraordinary decision to step up security at the State Property Fund (SPF). It comes in the wake of his long-running dispute with the government over the dismissal of the SPF head and his refusal to back the government's privatisation plans.



▲ President Viktor Yushchenko appears to have done a U-turn. In 2004 he publicly supported the repayment of lost savings to investors. Now he is backing Valentyna Semeniuk who is against the privatisations that would provide funds to repay millions of citizens.

The dispute arose on 6 February when the Cabinet of Ministers fired Valentyna Semeniuk, the Head of the SPF, charged with officiating the government's privatisation programme. The sacked Ms Semeniuk, whose department has been dogged by allegations of corruption and cronyism, failed persistently to ratify the government's plans, but was reinstated by a presidential decree a day later.

The government's privatisation plan is laid out in the 2008 State Budget and aimed at generating budget receipts of \$1.7 billion. Top of the list of companies to be sold is the Odessa Portside (chemical) Plant and UkrTelecom, the state's fixed-line telephony company. Six regional energy companies are also slated for sale. Experts believe the privatisations will net considerably more than the conservative figure contained within the budget.

Ms Semeniuk objected to the privatisations on the grounds of their "monopolistic position." Perplexed by this decision, Millennium Capital analyst, Bogdan Kochubey opined, "Odessa Portside Plant is not even the largest nitrogen fertilizer producer in the country, let alone a monopolist. The fact that the plant sits on the Togliatti-Odessa ammonia pipeline is not a reason to declare it a monopolist."

The reason for Ms Semeniuk's reluctance to press ahead with the government's policies – and backing by the president – is seen widely as a ploy to deprive the government of funds for its popular bank deposits repayment programme.

In January this year, Prime Minister Yulia Tymoshenko began a programme to repay savings lost by millions of investors during the hyper-inflation that followed the disintegration of the Soviet Union. The 2008 budget, which goes some way to delivering on a pledge made by the prime minister during the recent parliamentary election campaign, has earmarked UAH 20 billion (nearly \$4 billion), comprising 60 percent of the payments the government wants to pay this year.



With the Bloc of Yulia Tymoshenko (BYuT) riding high in the opinion polls, and mindful of the 2010 presidential election, an irked presidential office has done its best to put the skids under the repayment programme by starving it of much needed privatisation receipts. Analysts believe that any failure of the repayment programme may dent Ms Tymoshenko's popularity and so strengthen the president's hand.

"It is all so unnecessary," said the frustrated premier, "I have sworn two dozen times not to go into the election, but wasn't believed two hundred times."

What makes the president's decision all the more unpalatable is the fact that in 2004 he supported publicly the call to repay lost savings. His 2004 election programme was emphatic on the issue: "I am against a re-division of property, but oligarchs will be made to pay a real price for enterprises that they grabbed practically for nothing and the billions of hryvnia will go towards repaying the stolen savings of citizens."

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## **Tug-of-War**

The dispute reached boiling point when the president issued a decree that overturned the Cabinet of Ministers dismissal of Ms Semeniuk and the ruling that called for the sale of the Odessa Portside Plant. Ms Semeniuk was then reinstated.

On 17 April the Constitutional Court of Ukraine declared the president's actions unconstitutional. Then on 24 April, the Okruzhny Administrative Court, taking into account the ruling of the Constitutional Court, suspended the presidential decree reinstating Ms Semeniuk and declared the SPF's decisions not to privatise the Odessa Portside Plant as illegal.

On 25 April the government appointed Andriy Portnov as Acting Head of the SPF. A BYuT deputy and lawyer, Mr Portnov took up his role on Friday with a remit to put an end to the corruption that has plagued the department during the past decade.

Prime Minister Tymoshenko joined Mr Portnov at the SPF building and addressed the assembled employees using a megaphone. She said "Mr Portnov must do everything to finally end the wide-scale corruption in the Fund and organise honest privatisations with transparent procedures."

The same day the president issued a decree (No. 404) to overturn the government's decisions on the dismissal of Ms Semeniuk and the appointment of Mr Portnov.

Prime Minister Tymoshenko, backed by the Cabinet of Ministers, has ordered Mr Portnov to ignore the decree. With the Prosecutor General's office now entering the fray in support of the president, a tug-of-war has broken out between the two branches of government.

If the dispute is not resolved, the big losers will be ordinary Ukrainian citizens deprived of the bank repayment and social welfare programmes that the privatisation programme was designed to underpin. What is galling is that the blueprint for funding these programmes was agreed by the president when he signed off the 2008 State Budget.

Yet the ramifications of the dispute have deeper implications. "I believe such division will hasten the move to a parliamentary republic," remarked an American businessman living in Kyiv, "it's crazy but Yushchenko's fear of losing the presidential election has brought this on himself."

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## BYuT Commits to Change Constitution

A working group is being established by BYuT that is expected to propose draft amendments to the Constitution and recommend a parliamentary form of government for Ukraine.



▲ Oleksandr Turchynov, Ukraine's First Deputy Prime Minister.

First Deputy Prime Minister, Oleksandr Turchynov, said, "We cannot expect that somebody will work out these constitutional amendments for us, so that is why we created this working group."

Mr Turchynov indicated that the proposals may not necessarily warrant the end of the role of president. "Our objective is not to disrupt the organs of state but to ensure that the imbalance between the two branches of power is removed so that the government can do its job – otherwise successive administrations are faced with political stalemate, irrespective of what colour of coalition."

Mr Turchynov, who is also running for mayor of Kyiv, said that BYuT may be ready to present its draft

constitution to the public when the Verkhovna Rada next sits. After the three-week recess it is expected that a commission will be established to review and recommend detailed amendments.

"We do not want this to signal the collapse of the Orange Coalition," said Mr Turchynov, "that is not our intention."

Ms Tymoshenko's long-standing ally dismissed the suggestion that BYuT was holding talks with the Party of Regions. "It would be both inappropriate and inexpedient to hold talks with other political forces until we have arrived at the draft legislation and it is officially proposed to parliament," he said.

Any changes to Ukraine's constitution would require the agreement of 300 lawmakers out of the 450 that comprise the body of the Verkhovna Rada.



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## Focused on Tackling Inflation

The government's top priority is to manage the rate of inflation, which year-on-year in March topped 26.2 percent. Corrective measures being implemented were received warmly by the IMF and the managing director of the World Bank, who met Prime Minister Yulia Tymoshenko on a recent fact finding visit to Kyiv.

Ukraine's inflation problem is largely attributable to rising global food prices, the higher cost of imported natural gas, and gains made by the euro over the beleaguered US dollar. In addition, a



huge unauthorised dumping of hryvnia into the money supply in the late autumn of 2007 worsened the economic scenario inherited from the previous administration.



Increased social spending has aggravated the situation but not to the extent that opposition forces make out. Many analysts point to a rigid exchange rate policy as magnifying the macro-economic trends.

As Anders Aslund, Senior Fellow of the Peterson Institute for International Economics, Washington D.C., pointed out: "Unlike in the 1990s, the problem is not the budget, which is close to balance.

Instead, the main culprit is the inept exchange rate policy."

The inflexibility of the exchange rate has proved problematic. With the hryvnia pegged at a fixed rate of 5.05 hryvnia to the dollar since 2005, inflationary pressures were exacerbated by the steady decline of the dollar against the euro. This was compounded by rising prices. The cost of bread has risen by more than 20 percent year-on-year in each of the last three months.

The government vows to curb inflation and has embarked on a series of measures designed to shrink it below double digits by the year's end. Acknowledging the situation inherited from the previous government, Prime Minister Yulia Tymoshenko said, "it will take at least six months for our policies to begin to have an impact."



▲ Ngozi Okonjo-Iweala, Managing Director of the World Bank, meets Ukraine's Prime Minister, Yulia Tymoshenko.

Balazs Horvath, the IMF representative in Ukraine, appeared upbeat, saying, "I would point out that both the government and the central bank have been taking steps and many of those steps are, in our view, quite positive." He went on to say that Ms Tymoshenko was correct to assume the rate could decline from mid-2008, provided the government and central bank worked together. "If the central bank and the government cooperate in an effective manner, then certainly it is possible to attain inflation that is significantly lower on a 12-month basis than it is at present," said Mr Horvath.

The recent flexibility shown by the National Bank of Ukraine (NBU) to manage the band at which the hryvnia is pegged bodes well and has been applauded by western institutions. Since 2005 this was set at 5.0 to 5.06 hryvnia to the dollar. But in the past few weeks the currency has been allowed to float to 4.8-4.9 hryvnia to the dollar – so venting the pressure caused by the declining dollar which, as of February 2008, has dropped 12 percent against the euro.

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A move to a floating hryvnia would be welcomed by many western institutions but is likely to be frowned upon domestically by businesses used to stable exchange rates.



Given the generally liquid state of the domestic banking sector, the NBU has a relatively limited armoury with which to rein in inflation – therefore a tightening of credit would serve to help dampen the trend.

Dora Lakova, a senior IMF official, agreed, saying that tighter control over the money supply and more costly credits would enable Ukrainian banks to improve efficiency. "A slowdown in credit growth is really desirable for Ukraine," she said.

"Wherever possible we are working in harmony with the central bank to check inflation," said Viktor Pynzenyk, Minister of Finance, "it is our number one priority."

The managing director of the World Bank, Ngozi Okonjo-Iweala, who met with Prime Minister Tymoshenko and Mr Pynzenyk, positively assessed the job of the government. According to a UNIAN report, "she congratulated the Ukrainian Prime Minister on her successful work and wished her success in further activities."

Ms Tymoshenko told her that the government was "applying maximum pressure to combat inflation."

The next six months will be crucial.

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