



## Irregular Goings On at the Central Bank

Oleksandr Savchenko, the Deputy Chairman of the National Bank of Ukraine (NBU), submitted his resignation last week in protest over political interference by President Viktor Yushchenko into the operations of the central bank. The resignation coincides with an investigation by the Interior Ministry into alleged illegal currency speculation by senior officials within the bank.



▲ Irregular goings on at the National Bank of Ukraine (NBU).

Speaking at a press conference in Kyiv, Mr Savchenko said, "I have filed my resignation. It would be dishonourable to remain silent and wait. The NBU is not independent, it is engaged in politics, and sometimes it is being involved in certain schemes and speculations."

Alarming, Mr Savchenko accused senior NBU officials of speculation on the foreign exchange market, and refinancing commercial banks in such a manner that certain banks received larger shares, which they could direct to the currency market.

In December last year, Prime Minister Yulia Tymoshenko complained about NBU officials engaging in currency speculation and staging the collapse of the national currency, the hryvnia, to benefit businessmen linked to the president's staff (see *Inform* issue 98, 5 January 2009).

In the last four months of 2008 the hryvnia lost half its value against the dollar, at one time slumping to UAH 10 to the dollar from UAH 4.9 to the dollar in September 2008.

Not long after Ms Tymoshenko revealed the scam, parliament voted for the removal of Volodymyr Stelmakh the Chairman of the NBU. However President Yushchenko, who has ultimate responsibility for the central bank, dismissed the non-binding parliamentary motion.

### Fresh currency speculation

It is hardly surprising that Mr Savchenko has opted to resign, particularly in the light of a fresh round of currency fluctuation.

Tim Ash, the respected Head of Research for CEEMA at the Royal Bank of Scotland, wrote in a research note, "In particular, it seems as though he has been unhappy that NBU support for the



Photo: hiblogger.net

▲ Oleksandr Savchenko, Deputy Chairman of the NBU who resigned last week.



banking sector has led to liquidity simply being used to short the hryvnia, further complicating the NBU's management of exchange rate policy. He also indicated that he was upset with undue political manipulation of the NBU."



Mr Savchenko advocates a trading band for non-admission of the hryvnia devaluation. He suggests a lower limit of the band should be UAH 6.05 to the dollar with an upper limit of UAH 9 to the dollar.

Last month, a British businessman based in Kyiv told *Inform*, "There is no reason behind the fluctuation of the hryvnia

other than it being down to speculation by a corrupt few."

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Interior Minister Yuriy Lutsenko would appear to agree with him and said in a statement that he suspected NBU officials of "plundering hundreds of millions of hryvnia," which caused a fall in the currency. In the past few weeks the hryvnia lost more than 5 percent against the dollar. It rallied to close on Friday at UAH 8.403 to the dollar, but only after intervention from the central bank.

Because Mr Lutsenko is a supporter of Prime Minister Tymoshenko, some commentators suggest that the whole issue has become politicised. Others, including Ceyla Pazarbasioglu, the International Monetary Fund (IMF) mission chief to Ukraine, have suggested that the political uncertainty in Ukraine is perhaps the root cause of the depreciation. "If the public don't have any certainty as to what the policies will be and the implications for inflation, then people may elect to go into foreign currency," said Ms Pazarbasioglu.

But a BYUT spokesman told *Inform*, "there is no smoke without fire." The departing Mr Savchenko would appear to concur, describing the investigation by law enforcement agencies into the activity of the NBU to be expedient.

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## **A Way to Overcome Verkhovna Rada Blockades**

**"It could only happen in Ukraine" is the often heard expression. Outsiders are baffled to see the work of parliament grind to a halt for days on end because of opposition lawmakers blockading the speaker's podium. But what makes it all the more ludicrous is that they are stopping the passage of vital legislation needed to help Ukraine steer itself out of the worst global economic recession since the 1930s. Why is this happening? Should such behaviour be tolerated?**

The actions of opposition lawmakers are putting at risk the next tranche disbursement of the £16.4 billion stand by facility agreed with the International Monetary Fund (IMF) last October. To date some \$10.6 billion has been paid out, but the next tranche of \$3.8 billion, due at the end of October or early November, is contingent on parliament passing bills to comply with the strict conditions imposed by the IMF. Measures include strengthening the independence of the National Bank of Ukraine, tax and pension reforms, regulating gas prices for households and avoiding social spending increases.

Knowing that the last thing the IMF wants to see is profligate social spending, the opposition Party of Regions – normally the party that is most opposed to big social spending plans – is demanding unaffordable rises in the minimum wage and pensions. The bill it has tabled calls for



increases in the minimum monthly wage from the UAH 630, which came into effect on 1 July, to UAH 1,500. The bill also demands a rise in the minimum monthly pension to UAH 1,300.

The Party of Regions knows only too well that the government cannot sanction spending that would destabilise the state's finances by more than doubling the agreed budget deficit of 4 percent – a measure that would effectively sink the payment of the next IMF loan instalment. Just when the country looks like it is coming out of recession the rug would be pulled out from under its feet.

### **One must ask what is the Party of Regions up to?**

The answer is simple. It is pursuing populist policies aimed at winning votes ahead of the presidential election next year on 17 January. It matters not to its leaders that it is willing to cripple the economy in the process and stop the recovery dead in its tracks.

So the blockade of parliament continues. It is a stonewalling tactic: a tried and tested means to cripple lawmaking and pressurise the government. In the summer of 2006 the Party of Regions blocked parliament to devastating effect. Its blockade prevented a vote on Yulia Tymoshenko being appointed prime minister of a new orange coalition. It was only lifted after Party of Regions negotiators had secured the defection of the Socialist Party and its leader Oleksandr Moroz, to a coalition that enabled the return of Party of Regions leader Viktor Yanukovich as premier.

While a brief blockade may perhaps be excused as the exuberance of a youthful parliamentary democracy, a systematic and prolonged blockade is regarded by many as undemocratic.



▲ Dr Taras Kuzio, a leading expert on Ukraine says the blockade of parliament reinforces Ukraine fatigue in the West.

"It must stop. The sight of political factions blockading the session hall casts a shadow over Ukraine's democratic process, undermines the ability of the government to pull Ukraine out of the economic crisis and reinforces existing Ukraine fatigue in the West," said Dr Taras Kuzio, a visiting professor at George Washington University and Editor of *Ukraine Analyst*. "It sends out the wrong signals to Brussels and Washington and in so doing undermines Ukraine's declared objectives of Euro-Atlantic integration because enlargement-sceptics, such as Germany, have long stressed the importance of political stability in Ukraine."

Dr Kuzio added, "Also, political paralysis opens up opportunities for Russia to meddle in Ukraine's internal affairs."

A US-based analyst told *Inform*, "This behaviour is highly irresponsible and dangerous for Ukraine's economic development. The Party of Regions is holding the country hostage to election games. These are the types of stunts that ended up costing Party of Regions votes in the last election, so they should be careful."

**"The Party of Regions is holding the country hostage to election games."**

### **So what should be done?**

One solution is to simply outlaw such acts. An alternative strategy is being proposed by Bloc of Yulia Tymoshenko (BYuT) lawmaker Andriy Portnov and Roman Zvarych of the Our Ukraine-People's Self-Defence bloc. They suggest a new paper-based method of voting under "special



circumstances," involving an open ballot using voting sheets submitted by the factions. Use of the sheets would be permitted after the Chairman (speaker) of the Verkhovna Rada reports on the circumstances stopping the holding of a ballot in any other way.

Accordingly, a bill amending parliament's regulations was registered in parliament last week. An explanatory note reads, "It has been proposed to use this method to vote under special circumstances, in particular, if people's deputies block the rostrum, physically hinder the work of the electronic [voting] system, or if they do other things that prevent the holding of an open ballot in another way."

Clearly, the status quo cannot continue. There needs to be a resolution to the all too frequent use of blockades. The functioning of parliament and Ukraine's international image needs this to happen sooner rather than later.

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## Clamping Down on Abuses of Power

**In the last month, Prime Minister Yulia Tymoshenko has redoubled efforts to clamp down on abuses of power and corruption.**



▲ The President's pledge during the Orange Revolution was "Bandits in Prison!" This failed to materialise.

During the last five years the head of state has ignored his solemn pledge, given repeatedly during the 2004 presidential election campaign and in the Orange Revolution, to put "Bandits in Prison!" Instead, discredited elites were given senior positions and state medals. In fact, Ukraine's elites appear beyond and above the law; only three have ever been imprisoned but these have been in Germany and the US – never in Ukraine.

The new clamp down from the Cabinet is being coordinated with the Ministries of Interior and Justice. The Cabinet of Ministers voted to take control of a hangover from the USSR – the State Directorate for Affairs (DSA) – that resides under the control of the presidential secretariat. The DSA is, according to the government, illegally under the control of the presidential secretariat whereas by law it should be under the Cabinet.

The DSA provides food and other services to the president and his inflated staff of 800 employees in the secretariat and National Security and Defence Council. The DSA possesses a large number of objects and land valued at 100 billion hryvnia (\$12 billion).

The huge scale of the DSA and its wide array of objects have long provided an avenue for corruption among employees of the presidential secretariat.

### Returning a palace

One of the first actions in this clamp down came on 26 August, when the Cabinet voted to return the state residence Mezhyhirya, located in the village of Novi Petrivtsi in Kyiv oblast, to government control. Mr Yanukovich received the residence in 2002 when he became prime minister and in 2007 he illegally privatised it. The palatial residence is on a large plot of land



totaling 137 hectares. The residence can trace its roots back to 988 with the arrival of Greek monks from Byzantium. The estate's monastery was burnt to the ground several times in its history and rebuilt. During the Soviet era it belonged to the Central Committee of the Communist Party. In 1990 the residence was transferred to the Soviet Ukrainian Cabinet of Ministers to be used as a centre to host visiting foreign delegations.

In April 2003 – still while prime minister – Mr Yanukovich began to rent a building in the Mezhyhirya and three surrounding hectares through the virtual Donetsk-based Revival of Ukraine charity. The rental agreement was made until 2051 when Mr Yanukovich turns 101. Monthly rent

was agreed at only \$2,000 per month at the hryvnia exchange rate at that time.

**“The Tymoshenko government challenged the privatisation in the courts and won an appeal two months later.”**

In March 2005, the Tymoshenko government challenged the privatisation in the courts and won an appeal two months later. After Mr Yanukovich returned to government in August 2006, his allies engineered a

successful reversal of the court decision three months later.

In July 2007 the entire Mezhyhirya residence was transferred from the Cabinet to Nadra Ukrainy – the company charged with the exploration and exploitation of the country's mineral resources. In the next few months up to 25 September, only 5 days before pre-term parliamentary elections, Mr Yanukovich ensured the final transfer of Mezhyhirya to himself. On 26 September his government held its last Cabinet session before the elections.



After Ms Tymoshenko returned as prime minister in December 2007, she again sought to return Mezhyhirya to the Cabinet. But President Yushchenko's loyal Prosecutor General Oleksandr Medvedko defended the crooked privatisation in a March 2008 response to the Cabinet. Now at last, it looks as though justice has been served.



▲ Top: A drawing from 1843 of the Mezhyhirya monastery by the famous Ukrainian poet and artist Taras Shevchenko. Below: the Mezhyhirya is hardly a normal residence.

## **A Second building seized**

The Cabinet also removed another illegally privatised building in the centre of Kyiv from Mr Yanukovich and returned it to the private Nadra Ukrainy company. The apartment had been privatised in 2007 during the period of the Yanukovich government with the intervention of the Minister for Environment Vasyl Dzharta.



As a lengthy investigative article in *Ukrayinska Pravda* (21 August) stated, President Yushchenko and his former chief of staff Viktor Baloha never once criticised the illegal privatisation of two residencies by Mr Yanukovych. The article claimed that this was because the DSA received as payment for its silence two buildings in central Kyiv.

The crooked privatisation scheme was finalised by 25 September 2007 "so that Yushchenko received the building on Parkoviy road and closed his eyes to the scheme" (*Ukrayinska Pravda*, 28 August).

Mr Yanukovych has given lame explanations claiming he legally privatised both buildings. In a response to critical journalists, who have largely taken the side of the Cabinet in the dispute, Mr Yanukovych cited the right of each Ukrainian citizen to possess a home. Ironically, this, and similar "rights" in the 1996 and 2006 constitutions, have never been enforced, especially during the robber baron capitalism and economic depression of the 1990s.

Mr Yanukovych also claimed that the Mezhyhirya residence was in fact only a "building" – not a palatial residence. Again, few believe that Mezhyhirya could qualify for the status of a mere "building," as photographs of it adequately show.

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