

Tymosheko Government Passes Stern Test

The government of Prime Minister Yulia Tymoshenko passed its sternest test on Friday by surviving a vote of no-confidence in the Verkhovna Rada (Ukraine's parliament).



▲ Thumbs up. Reforming Prime Minister Yulia Tymoshenko's government easily survived a vote of no-confidence.

The opposition Party of Regions was crest-fallen after it failed to secure the 226 votes needed to trigger the government's dismissal. Out of the 256 lawmakers registered, 174 voted for the motion. The Party of Regions mustered only two votes outside its 172-strong ranks. These were Viktor Topolov and Yuriy But of the pro-presidential Our Ukraine – People's Self-Defence (OU-PSD) bloc, who had flouted their party whip. Lawmakers from the Bloc of Yulia Tymoshenko (BYuT), centrist Lytvyn bloc and Communist Party did not vote.

The result was a bitter failure for Viktor Yanukovich, leader of the Party of Regions, who had boasted of having sufficient support to topple the government. Its leaders had been plotting for months to bring down the Tymoshenko government, long before the defection of two lawmakers – Ihor Rybakov from BYuT and Yury But from OU-PSD – who robbed the democratic coalition of its majority.

The pre-text for the vote of no-confidence was the government's alleged mismanagement of the economy and spiralling inflation. This is despite official statistics, announced last week, that reveal that the government's anti-inflationary measures are dampening inflation, which at one point topped 30 percent (see article on page three). Furthermore, GDP remains remarkably buoyant at 6.4 percent in the first six months, with foreign direct investment increasing four-fold to UAH 4 billion. Also, the government's de-shadowing of the economy has increased revenues despite the blockage of privatisations by the State Property Fund.

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The plot to unseat the government and form a grand coalition unravelled when it became apparent that the Lytvyn bloc and Communists were unwilling to back Mr Yanukovich's plans, and that OU-PSD had stayed more or less intact.

Many commentators speculated that some OU-PSD lawmakers would side with the Party of Regions. Although the friction between the premier and president is well publicised, it is believed that Mr Yushchenko realised that throwing his hand in with Mr Yanukovych would alienate orange voters and scupper his bid to win the 2010 presidential election.

Standing Ovation

Following the vote, Chairman of the Verkhovna Rada, Arseniy Yatsenyuk, called for a half-hour break and Ms Tymoshenko received a rousing standing ovation from the chamber.

The premier called upon parliament to unite and back her reform agenda, top of which is tackling inflation. She also called for a strengthening of the democratic coalition. "This is an important victory and complete vindication for the government and the direction in which we need to take the nation," said Ms Tymoshenko, "there is much work left to do."



There was a wide-spread sense of relief in the chamber. "It is important today that the Cabinet of Ministers has confirmed there is confidence in it," said Mr Yatsenyuk.

Volodymyr Fesenko, head of the Penta think-tank, was reported by Reuters as saying, "This is a big psychological and moral victory for Tymoshenko. She has parried the first serious attack on her and will now try to extend her influence."

"The failure of the no-confidence vote confirms that the orange coalition exists and that parliament is not interested in either a change of government or another pre-term election," said Dr Taras Kuzio, a Research Associate at the Institute for European, Russian and Eurasian Studies, George Washington University and a Senior Research Fellow at the University of Toronto. "The bluff of the Party of Regions was called and it failed to win support beyond itself, showing that its proposal for a vote was not in the national interest but greed to return to the profits of being in power," added Dr Kuzio.



2008 State Budget Issues Unresolved

Prior to the vote, BYuT lawmakers had blocked the Chairman's (Speaker's) podium for several days. The Party of Regions claimed that this was because BYuT feared an unsuccessful outcome to a vote of no-confidence. BYuT officials denied this, saying the blockade was purely to force a vote on vital legislation regarding changes to the 2008 state budget.

For months the government and president have locked horns over the budget. The president has persistently blocked the socially-minded package which calls for a modest increase in revenues but slightly reduced deficit.

On Thursday, the president surprised many by proposing his own amendments, in addition to those submitted by the government. His proposals include building more affordable housing, providing additional funds to the armed services and support for Naftohaz Ukrainy, the country's state-run gas company.



“Yushchenko has confused his prerogatives with those of the prime minister. The Budget Code says that the Cabinet of Ministers is the only authority, entitled to table any proposals concerning the budget in force or the budget of the current year,” said BYuT lawmaker Sergei Terekhin.

On Friday, as parliament broke for its summer recess, the legislation was still not passed. Instead, a resolution was approved to forward both the government amendments, and those of the president, to the budget committee for review. This means it is unlikely the budget amendments will be approved until September.

The budget was not adopted primarily because of the president's position,” said Ms Tymoshenko at the weekend.

Inflation Slows for Fourth Month in a Row

The rate of inflation in Ukraine slowed to 0.8 percent in June, as the government and National Bank of Ukraine's (NBU) anti-inflationary measures bore fruit. This was the fourth month in a row that inflation has slowed and the second month that Ukraine's inflation rate was lower than Russia's – which recorded 1 percent in June.



▲ Making significant progress against inflation. Minister for Finance, Viktor Pynzenyk.

According to Valeriy Lytvyskiy, a chief economist at the National Bank of Ukraine, “We worked on the demand side of the equation. Demand has been cut allowing inflation to slow down.”

Figures released last week by the State Statistics Committee revealed that inflation was 29.3 percent for the 12 months from June, compared to the 31.1 percent for the 12 months from May. Although the 0.8 percent rise falls short of the government's goal of deflation, it is indicative that this will be achieved soon. Inflation has steadily declined with 3.8 percent recorded in March, 3.1 percent in April and 1.8 percent in May.

“This is a positive downward trend that needs to continue,” remarked an emerging markets analyst based in London.

Critics of the government have suggested the inflationary slowdown is due to the government's decision to temporarily curtail repayments of lost Soviet-era bank deposits to millions of citizens. But Prime Minister Yulia Tymoshenko dismissed the allegation saying, “There are far larger economic influences in play compared to the relatively small amount of payments we have made to-date.”

In the first six months of the year about 6 million citizens received approximately UAH 6 billion (\$1.2 billion).

Whilst the government has increased social payments, such as pensions, it is erroneous to blame these for the rise in the consumer price index. Inflationary pressure has resulted from a combination of largely inherited factors: several years of rising wages, a credit boom, spiralling food prices and energy bills, coupled with an inflexible currency pegged to the falling US dollar.

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Measures by the government to control food prices and tighter fiscal management have helped curb inflation. Recently, the NBU allowed the hryvnia to float within a broader band and appreciate sharply against the dollar, which helped to reduce the money supply.

"We are making steady progress," said Minister for Finance Viktor Pynzenyk, "all along we said we would put the brakes on inflation although it would take time to see the effects of our actions – it is a bit like turning a super tanker. But the measures are having a noticeable impact."

The cumulative rate of inflation for the first six months of the year was 15.5 percent which is below the government's latest inflation forecast of 15.9 percent for the end of the year.

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