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The German vision of NATO's future
- The Alliance as a building block of Germany and Europe's security

ANALYSES

**IMF provides support to Ukraine
and Yulia Tymoshenko**

On 8 May, the IMF's Board of Directors decided to pay the second tranche of the stand-by loan (US\$2.8 billion) to Ukraine, and announced that another tranche of around US\$3 billion would be paid after 15 June. The IMF had eased its preconditions for continued co-operation with the Ukrainian government, and allowed it more freedom in using the funds. By facilitating the repayment of Ukraine's foreign debt, the IMF has also made it much easier for Yulia Tymoshenko to finance the state budget expenses. This gives the Ukrainian government more room for manoeuvre in the deep economic crisis, and may to some extent strengthen PM Tymoshenko's recently eroding position as a candidate in the upcoming presidential election.

IMF interested in resuming co-operation with Ukraine

The IMF suspended the payment of the second tranche of the stand-by loan early this year, in order to discipline the Ukrainian government which had ignored a number of conditions laid down in the memorandum. The IMF mission then resumed negotiations in April, and subsequently considerably eased the conditions that Ukraine has to meet. Among other issues, it has approved an increase in the budget deficit to 4% of GDP. In real terms, the IMF has in fact accepted an even higher deficit, because the funds allocated to provide extra capital to banks (around US\$5.5 billion, more than 4% of the GDP) have been excluded from the budget balance sheet. Other requirements have also been softened; for example, Ukraine has been permitted to gradually withdraw its protective import duties and to gradually achieve a liquid currency exchange rate. The most difficult decisions, concerning the gradual introduction of market prices on gas and the pensions reform, have been postponed until the end of this year. The IMF decided it was sufficient for Ukraine to restore the central bank's independence and formally balance the cost statements of Naftohaz and the Pensions Fund (which receive financing from the budget), and did not demand anything more than declarations from the Ukrainian government concerning other issues such as the provision of extra capital for the banking sector. At Ukraine's request, the second tranche was increased by US\$1 billion (to US\$2.8 billion). The IMF's motivation concerned not only the need to support Ukraine, but also the interests of the country's foreign creditors. According to unofficial information, half of the funding provided is to be used for the handling of foreign debt.

APPENDIX

**Economic results in the first
quarter of 2009 (State Statistics
Committee of Ukraine, SSCU)**

GDP – no data available (under pressure from the government, the SSCU has published no data on the GDP since January 2009; figures for the first quarter are expected to be published in late May); according to expert estimates, the GDP decreased by 15-20% in the first quarter

Industrial production – down by 31.9%; the deepest declines have been reported by the machine-building industry (54.6%), metallurgy (43.3%) and light industry (37.5%)

Agriculture – up by 1.7%

Construction – down by 56.7%

Transport – down by 32.9%

Retail – down by 11.5%
(compared to the same period in 2008)

Foreign trade (figures for January and February 2009):
commodities exports – down by 38.6%
commodities imports – down by 47.5%
negative balance – US\$2.76 billion

Inflation in the first quarter reached 5.9% (compared to 9.7% in the same period of the previous year)

Average wages – up by 7.4%
(in nominal terms); down by 13%
(after inflation)

The importance of the loan for the Ukrainian government

Resuming co-operation with the IMF will make it easier for the government to implement the budget. Contrary to PM Tymoshenko's official declarations, the scale of the crisis with which Ukraine is struggling (see the Appendix for data on the first quarter) does pose a serious risk to the public finance, including the so-called fixed budget spending.

It should be noted that the state budget revenue was one-third lower (in nominal terms) than in the last pre-crisis month (August 2008), and nearly 50% lower in real terms (after inflation). Expecting an improvement in the economic situation in the near future would be too risky; this implies that the government might already be unable to implement the budget within the next few months. The allocation of IMF funds, which may be used to repay Ukraine's foreign debt, will allow the government to release 18 billion hryvnia (US\$2.25 billion), which had been earmarked in the budget for handling foreign debt, to be used for other budget purposes. Resuming co-operation with the IMF also opens the possibility for Ukraine to obtain other loans, including those already negotiated with the World Bank and the EBRD, some of which is to be used to finance the budget deficit.

The political significance of co-operation with the IMF

The IMF recommendations contained in the memorandum will play a very limited role in overcoming the economic crisis in Ukraine. However, the funds provided will enable the government to soften the impact of the crisis, by making regular payments of salaries in the public sector, as well as pensions and welfare benefits, among other measures. Until now, there was a real risk that the government might run out of funds to meet these expenses. This was the scenario that Tymoshenko's political opponents were hoping for; it would have ruined the PM's chances in the presidential elections because Tymoshenko had personally guaranteed that all welfare programmes would be implemented. By signing the memorandum with the IMF, Tymoshenko has not only gained more room for manoeuvre in implementing the budget, but has also avoided (for the time being) any need to carry out unpopular reforms concerning the extension of the retirement age or the introduction of market prices for gas. In the conditions of relative stability of public finance, she has a better chance of succeeding in regaining her popularity before the presidential elections.

Anna Górska

EVENTS

Russia: Gazprom gets rid of Firtash

On 7 May, the Russian daily Vedomosti reported, quoting anonymous sources, that Hungary's Emfesz (the intermediary company trading in Russian gas) had been taken over by RosGas, a company probably associated with Gazprom. The Emfesz takeover is in line with the Russian monopoly's strategy of expanding its direct presence on the gas markets of European countries. It also demonstrates a new tendency in the company's policy – to eliminate certain intermediaries in order for their contracts to be taken over by persons or structures regarded as more loyal to Gazprom and its political patrons.

Emfesz, a company with a turnover of around US\$1.5 billion a year and a 20% share in gas imports to Hungary, had been owned by the Cyprus-based Mabofi Holding, controlled by the Ukrainian entrepreneur Dmytro Firtash (a co-owner of RosUkrEnerg, who holds a 45% stake in the company). As a gas and electricity reseller and distributor in the Hungarian market, Emfesz would have bought gas from RosUkrEnerg (around 3 billion m³ a year) under a supplies contract in force until 2015. Following the Russian-Ukrainian gas conflict, and after RosUkrEnerg was eliminated from the model of Central Asian gas supplies, Emfesz had to find a different supplier; this turned out to be RosGas AG, which was incorporated in Switzerland in December 2008. Shortly afterwards, this unknown company took over Emfesz's shares without informing Firtash (the shares were transferred by the Hungarian company's director Istvan Goczi, who had the right to buy its securities on a pre-emptive basis). Firtasz has announced that he will take legal steps to challenge the legality of the transaction, which was carried out without his knowledge or consent.

The 'Emfesz operation' has probably been devised by Gazprom. In this way, the company could try to take over RosUkrEnerg's European contracts in order to at least partly offset the decline in direct supplies to Europe while maximising its profits. <epa>

The Georgian issue in Russian-US relations

In an interview for the Japanese media given on 7 May, Russia's prime minister Vladimir Putin criticised the NATO exercise in Georgia, and said it sent a signal contrary to the USA's declarations about its willingness to change its policy towards Russia. On the same day, the Russian foreign minister Sergei Lavrov said in Washington that the Russia-USA dialogue on arms control could not be hindered by the Georgian issue. The two statements indicate that Moscow is undecided about whether or not it should make real improvement in Russian-US relations conditional on the USA significantly restricting its co-operation with Georgia.

While commenting on the prospects for an improvement in the Russian-American relations in the above-mentioned interview, PM Putin suggested that it was the United States that was more interested in better bilateral rela-

tions. He said that in this context, the NATO exercise in Georgia was a signal which contradicted Washington's declarations. At the same time, he admitted that the change in US policy trends could take time.

These statements indicate that Russia is continuing to pressure the USA to restrict its co-operation with Georgia (especially in the security field) and withdraw its support for Saakashvili. At the same time, Moscow seems to be undecided about how much significance should be attached to this issue in bilateral relations, and to what extent it should be treated as a test of the USA's readiness to recognise Russian interests in the CIS area. <MaK>

President of Moldova appointed speaker of the parliament

On 12 May, the newly elected parliament of Moldova nominated the country's current president and Communist party leader Vladimir Voronin as its speaker. The nomination of a ruling president as the parliament speaker is a violation of the separation of powers principle enshrined in the constitution, and is incompatible with Article 81 of the constitution, under which the president may not hold other functions for which he would be remunerated.

The opposition has refused to take one of the three posts of deputy speaker in protest against the alleged electoral fraud. The fate of the parliament is still uncertain; if the Communists fail to win over at least one opposition deputy and elect the president, then, in line with the constitution, the parliament will have to be disbanded and new elections held. The Communists party has 60 mandates, and the three opposition parties have 41. It takes a three-fifths majority (61 votes) to elect the president. The Communists will try to persuade at least one opposition deputy to take part in the vote.

If the parliament is not disbanded and no new elections are held, then the fact that Voronin has been elected the new parliament speaker will change little in Moldova's system of government. While the Moldovan constitution states that Moldova is a parliamentary republic, it has been governed as a presidential republic for the last eight years, thanks to Voronin's unquestionable authority in the party and the fact that the Communists had a majority in the parliament. Voronin would continue to rule Moldova from his position as parliament speaker. <wrod>

Georgia: The president talks with the opposition

On 10 May, talks were held in Tbilisi between President Mikheil Saakashvili, the non-parliamentary opposition (which has been demanding his resignation) and the opposition groups represented in the parliament (whose attitude is much more conciliatory). Saakashvili proposed a number of legislative reforms (including a constitutional amendment) and invited opposition representatives to become involved in works on this initiative. However, the non-parliamentary opposition groups have not yet responded to the president's proposals, and have announced that they will step up their protests. The opposition's unconstructive attitude is strengthening Saakashvili's standing both in Georgia and in the West.

Talks between the president and the opposition are a new element in the political crisis in Georgia, which started over one month ago. After several weeks of ineffective demonstrations, which attracted fewer and fewer protesters,

the government side has now taken over the initiative. The state leadership has adopted a conciliatory approach (the proposal to work together with the opposition on the new constitution, and for an opposition representative to chair the constitutional commission; as well as the fact that the opposition has been invited to co-operation in the preparation of the new election regulations, new rules for the operation of the public television management and other issues). This stands in sharp contrast to the unrelenting stance of some groups in the opposition (those led by Nino Burjanadze, Salome Zurbashvili and others), which have been calling on the president to resign immediately. The most radical groups within the opposition are claiming that talks with the president are futile and purposeless, and have threatened to escalate their protests. Members of the parliamentary opposition, on the other hand, have expressed a willingness to join work on reforming the constitution and the electoral regulations. There are many indications that the opposition groups which have been protesting for the last couple of weeks in the streets of Tbilisi will step up their protest actions in the coming days rather than accept Saakashvili's proposals. However, it is evident that they do not have the potential (including the potential of popular support) to oust the president, and are therefore likely to become scattered and marginalised. <bart>

Diplomatic games over Nagorno-Karabakh

On 7 May, the presidents of Armenia and Azerbaijan, Serzh Sargsyan and Ilham Aliyev, met in Prague within the framework of the OSCE Minsk Group (led by USA, Russia, France) to discuss a solution to the Karabakh conflict. The meeting did not produce any tangible results. On the same day, both politicians held talks with the Turkish president Abdullah Gul, who suggested that talks about the conflict should be initiated in a four-party format involving Armenia, Azerbaijan, Turkey and Russia. The current tough diplomatic game over Nagorno-Karabakh suggests that its outcome will largely define the positions of the USA, Russia and Turkey in the Southern Caucasus.

Despite optimistic comments by Matthew Bryza, the US co-chair of the Minsk Group, who said that the Sargsyan-Aliyev had been constructive, they failed to bring the two sides closer. Bryza's statement has been strongly criticised by the Azeri side and questioned by French representatives. The current US policy on the Karabakh conflict is causing growing frustration in Baku. The Americans are not proposing any new solution to the conflict's parties, and instead are focusing on blocking the Turkish-Russian initiative and trying to activate the Minsk Group. This was the reason why the Armenian and Azeri foreign ministers were invited to visit Washington in the first days of May. Greater US involvement in the conflict resolution would be in the interests of Azerbaijan and Armenia, as those two countries are being subjected to growing pressure from Turkey and Russia. If the Karabakh conflict is solved on the terms defined by Ankara and Moscow, Armenia and Azerbaijan will become permanently dependent on Turkey and Russia. Given the active involvement of Turkey and Russia in the Karabakh issue, and the inefficacy of US policy, the Turkish-Russian initiative may gain prominence at the expense of the current format of talks within the framework of the OSCE. This would entail a serious weakening of US influence and a strengthening of Moscow and Ankara's positions in the region. <mf>

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Ośrodek Studiów Wschodnich

Editors: Anna Łabuszewska,
Katarzyna Kazimierska

Co-operation: Jim Todd,
Marek Menkiszak

DTP: Katarzyna Kazimierska



Ośrodek Studiów Wschodnich /
Centre for Eastern Studies

ul. Koszykowa 6A
00-564 Warsaw, Poland
phone: +48 /22/ 525 80 00
fax: +48 /22/ 525 80 40