

Ukrainian politics at the end of 2015: an unstable equilibrium

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Following a lengthy dispute, on 25 December, the Verkhovna Rada (Ukrainian parliament) passed the budget law for 2016. 263 deputies voted in favour of the law (the required majority is 226), including 200 members of the government coalition, with the other votes in favour being cast by opposition groupings. The vote proves that the government has no stable majority in parliament, and a snap election is becoming ever more likely. The fact that Mikheil Saakashvili (most likely in agreement with President Petro Poroshenko) is building his own political movement can be seen as preparation for the snap election. On the other hand, the factions controlled by oligarch Ihor Kolomoyskyi, who has an uneasy relationship with the president, voted in favour of the budget. This can be seen as an offer to bury the hatchet and to form an informal coalition in parliament in an attempt to delay the snap election. Almost all the major political players in Ukraine fear this scenario. Some of them are aware of the fact that the situation may deteriorate so much that the snap election will become inevitable in autumn 2016.

Despite the increasingly worrying tension inside the coalition, the government managed to fulfil the minimum plan for reforming the Ukrainian economy, including to slow down the downward trend. The fact that the military situation in the Donbass calmed down also contributed to macroeconomic stabilisation. Although slight economic growth is expected in 2016, Ukraine's very difficult financial and social situation, including the need to implement the austerity policy imposed by the IMF, will further deepen the internal political dispute.

The optimistic economic forecast of growth

It has been possible to slow down the economic crisis which Ukraine had been plunged in since 2014 to a great extent. According to estimates, Ukraine's GDP in 2015 fell by 12%, although the trend was turned around in the second half of the year and slight economic growth is expected in 2016. One of the main reasons for the fall was shrinking industrial production – 15.4% during the first ten months of 2015 (year on year). However, the trend has slowed down since May. Falling foreign trade volume is still a problem (exports fell 31.8% during the first ten months of 2015 year on year, which is above all a consequence of the slump in trade with Russia (exports were reduced by 54.3%). The increasing level of foreign debt, which will reach 156% of GDP by the end of the year, according to the World Bank's estimates, is still a major challenge.

It will be impossible to continue financial reform in Ukraine without economic stabilisation and a successful adaptation to the new reality in trade as part of the Deep and

Comprehensive Free Trade Area with the EU. However, the continuation of the loan programme with the IMF envisages new reforms and will thus be a key factor. At the same time, implementation of the IMF's recommendations, including cuts in expenses and social privileges, will aggravate the dispute between the political parties as proven by the heated budget debate, and will be used as political fuel by the populist parties (mainly Yulia Tymoshenko's Batkivshchyna). Therefore, it is still unclear whether it will be possible to reach economic growth at the level of 2% as planned in the budget for 2016, and this will depend on the president's ability to keep the Verkhovna Rada and the government functional.

After the budget debate

The budget bill, like the fiscal law amendment, was rejected from the very beginning by two groupings from the government coalition: Self-Reliance and Batkivshchyna, and also by a group of deputies from Petro Poroshenko's Bloc linked to agricultural and food business. Finally, the amendment was passed owing to support from the Opposition Bloc, Revival (a party controlled by Kolomoyskyi) and the People's Will (a small oligarchic faction). The Opposition Bloc refused to support the budget act, but it received unexpected support from Oleh Lyashko's Radical Party. The People's Front led by Prime Minister Yatsenyuk unanimously backed both bills, while 95 of 139 deputies representing Poroshenko's Bloc voted in favour of the fiscal amendments and 112 voted in favour of the budget bill. Regardless of the methods employed to 'convince' the opposition parties to support the budget (according to the media, political corruption was behind the change of heart by the Radical Party and possibly also the People's Will), the way the deputies who are within Kolomoyskyi's orbit voted suggests that he is willing to reach a compromise with the president and is ready to continue to conditionally supporting the government without entering into a formal coalition.

The success of the budget vote does not solve the main problem the Ukrainian parliament needs to face – passing the constitutional amendments concerning the decentralisation of the country during the current parliamentary session (by the end of January). This requires a qualified majority of 300 votes, and Self-Reliance, the Radical Party and Batkivshchyna are opposed to this project. The monthly break in plenary sessions is meant to make it possible to gain the necessary support through negotiations, but this seems quite unlikely.

The Saakashvili movement

The Ukrainian government's parliamentary base is weak. In addition to this, public support for the government is record-low. The governor of Odessa, Mikheil Saakashvili, has capitalised on this. Over the past few weeks he has ruthlessly attacked Prime Minister Arseniy Yatsenyuk and his closest aides, and on 23 December he announced that a Movement for the Purification of Ukraine had been formed as a grand public anti-corruption coalition. This organisation is likely to serve as a base for the formation of a new political party whose members will include people from smaller 'post-Maidan' groupings and anti-corruption activists. If this happens, the party will be a serious player in the next parliamentary election, regardless of when it takes place.

Saakashvili is Poroshenko's close aide and a staunch critic of not only Yatsenyuk but also Kolomoyskyi. Despite his short-lived presence in Ukrainian politics, or perhaps even precisely because of this, he enjoys the highest levels of public confidence in Ukraine. Given his rousing speeches and the seriousness of the accusations he has used with regard to his political opponents, he is likely to provoke conflicts with more and more politicians (excepting Poroshenko). It seems unlikely that Saakashvili, who has been a Ukrainian citizen for half a year now, is building a political party of his own without consulting this with the president. In turn, Poroshenko may use such a grouping as a way to channel public sentiments of protest and as something he can scare Yatsenyuk and Kolomoyskyi with. Saakashvili's party may turn out to be a valuable ally in the future who will strengthen the presidential camp after the parliamentary election.

The snap election scenario

Ukrainian politics is currently determined by three major factors: the conflict in the east of the country, the disastrous economic situation, the increasing public dissatisfaction caused by the slow tempo of change (especially as regards combating corruption) and the painful social consequences of the reforms which have already been implemented (including an increase in energy prices). Reforms in the country will generate significant social costs, and no will to compensate these inconveniences with a radical curb on corruption has been seen as yet.

The period when another snap election was inadmissible, one year from the previous snap parliamentary election, passed at the end of October, so the possibility again came under consideration. On 28 December, the head of Poroshenko's Bloc, Yuriy Lutsenko, stated officially for the first time that this option was being taken into account. The following day Prime Minister Yatsenyuk said that a snap election may be necessary if the coalition fell apart. These declarations are undoubtedly linked to the lack of support for the budget act from a part of the government coalition. A thorough reconstruction of the government (including replacing the prime minister) could be an alternative to a snap election. However, it seems that, given the present composition of the Verkhovna Rada, it will be impossible to form a majority capable of electing a new head of government; it has already proven impossible to reach a sufficient majority to replace three members of the cabinet who resigned from their posts. However, neither the Poroshenko Bloc nor the People's Front are interested in a snap election at present, since the former is unlikely to garner significantly higher support, and the latter might not manage to enter parliament. The parties which may expect much higher support levels are Batkivshchyna, Self-Reliance and Freedom. Batkivshchyna could become the pivotal party in the majority coalition in a new parliament. In turn, a government led by Yulia Tymoshenko would equate to a renewal of the political war with the president.

Kolomoyskyi's stance is unclear. On the one hand, he has influence in a few political parties (including in UKROP which is currently being formed), and thus may expect to take over a great part of electorate of many parties (including the Opposition Bloc which has been unable to become the main opposition force) and to gain a strong position in the new parliament. On the other hand, he also fears the scenario where he will have to encounter a government led by Yulia Tymoshenko.

Both Poroshenko and Kolomoyskyi are satisfied with the premiership of Yatsenyuk, who is an unpopular politician, and thus not a threat and he is the target of negative social sentiment. Therefore, it may be expected that the unstable situation within the parliament-president-government triangle will continue for quite a while. Ukraine is in fact ruled by a minority government depending on the opposition's support in certain situations, which does not bode well given the huge challenges in state reforms.

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