

## **IN THE FAST LANE? THE TYMOSHENKO PHENOMENON: HIGH INFLATION AND ECONOMIC PROBLEMS HAVE HARDLY DAMAGED HER POPULARITY SO FAR**

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When Yulia Tymoshenko was elected Ukrainian prime minister for the second time in December 2007, she must have been aware of the fact that the tasks she would be facing in the future would be anything but easy. Even in the run-up to the polls, diverse MPs of her own alliance, Our Ukraine, had spoken out against her. If we look back on the first one hundred days of 'Ukraine's breakthrough', we see that no such thing has taken place yet. Due to disputes within the coalition, power struggles with President Yushchenko, political instability, and a lack of concepts, conditions for tackling an ambitious reform programme are bad. However, the prime minister is popular, and even experts give her good marks. Positive aspects are that repayment of frozen savings has begun, that budget revenues have increased, that the country has acceded to the WTO, and that the fight against illegal imports as well as negotiations with the EU about a free trade area have begun. And all in all, the contracts negotiated with Gazprom met with a good response – despite all critical comments. On the downside, there are only few negative aspects. These include the rate of inflation which rose to 9.7 percent in the first quarter of the year. However, this has not harmed Mrs Tymoshenko's popularity. On the contrary: In February of this year, the head of government even passed Viktor Yanukovich, the long-term number one on the popularity scale.

One of the enduring problems is the repayment of savings deposits with the Soviet Sberbank, which left millions of people sitting on their frozen savings accounts. Kiev is trying to refund these savings, and Mrs Tymoshenko herself explicitly promised a repayment period of two years in the election campaign. Nobody knows exactly how much money is in the game, but the previous government of Mr Yanukovich assumed it to be about 15.4 billion Euros, which is equivalent to half the country's annual budget.

To be sure, the promise of a two-year deadline was hardly realistic, but even small payments can make the elderly happy. The budget for 2008 is planned to amount to six billion hryvnia, which Mrs Tymoshenko intends to raise mainly through privatization. By April 10, five million depositors had registered, and 4.3 billion hryvnia have already been paid out.

Another issue is the Ukrainian-Russian gas deals, where burgeoning corruption gives rise to concern. Ever since the dispute about gas with Moscow, natural gas from Russia and Turkmenistan has been delivered by an

intermediary, Rusokrenergo AG. Mrs Tymoshenko plans to negotiate direct contracts between Gazprom and Naftogas to eliminate intermediaries. Mr Yushchenko's agreement with Russia's President, Mr Putin, provided for two joint ventures – one for the delivery of Russian gas and another for selling Russian and Ukrainian gas in the Ukraine, a move by which Gazprom secured access to the Ukrainian market. Although Mr Yushchenko emphasized that he had negotiated the best price possible, he could not avoid making political and economic concessions. Mrs Tymoshenko did at least win a partial victory: The way for intermediaries has been blocked, and in return, Gazprom will sell 7.5 billion m<sup>3</sup> of gas directly to Ukrainian customers in the current year.

It is clear that it is Moscow that has more leverage in the end. Thus, the Prime Minister knows that it is her duty to search for alternatives which reduce the country's dependence on Russian supplies. She favours the White Stream project, but it is not certain whether it can be implemented soon. On the other hand, it is beyond question that prices will go up. Politicians and the industry in Kiev expect that the price of gas at the Russian-Ukrainian border will amount to 290 US dollars per 1,000 m<sup>3</sup> in January – a scenario that was depicted as the ruin of Ukraine's economy only a few years ago.

Even if the increase in gas prices no longer constitutes a substantial threat to the country's economy, it could still encourage inflation. Even today, the inflation rate on a year-on-year basis is considerably higher than 20 percent, a circumstance which causes two in three Ukrainians to feel deeply concerned. According to experts, the reasons for this price development are high commodity prices, growing food prices throughout the world, and the inflation expectations themselves. Another reason is the election campaign, in which all political parties used money from sludge funds for election gifts and advertising as well as for paying election workers. Furthermore, there are the expenses for social programmes initiated by previous governments. The swift increase in prices does not yet threaten economic growth, but the situation is critical, and experts warn against too much turmoil on the exchange market. Cutting back on the social programmes to solve the problem is categorically ruled out. After all, no party, especially not the government itself, is willing to risk its popularity in the run-up to the presidential and, possibly, early parliamentary elections.

However, Mrs Tymoshenko's needs to grapple not only with inflation but also with her own allies. Now that the conflict between the head of government and the President has become an open war, the era in which a common course was pursued by the former 'Orange camp' has irreversibly ended. Fearing for both his present power and his chances for a second term of office, Viktor Yushchenko feels threatened by the growing popularity of Yulia Tymoshenko. The latter, on the other hand, who had spared the President

any personal attacks for a long time, sharply accused him of blockading all government projects a short while ago. In fact, Mr Yushchenko is standing with his back to the wall: It is unlikely that he will be re-elected, because the people no longer believe in the values he represented at the time of the new 'orange' start. In his own camp, his chances are very slim. And he probably has not much of a chance of beating Mr Yanukovich, either. Despite all this, his camp relies on criticizing the leadership head-on and blockading the work of the ministers, one example being Mr Yushchenko's criticism of the privatization programme and the government's measures against inflation.

Mr Yushchenko could certainly dismiss his opponent from office, especially as even MPs of Our Ukraine would vote against Mrs Tymoshenko. Yet after the dismissal of the head of government, attempts to form a coalition between the Party of Regions and Our Ukraine would fail due to the resistance of most MPs of the latter party. There are only two options: to maintain the status quo or to seek refuge in new elections. Due to the fierce conflict between the parliamentary party and the presidium, the risk of Our Ukraine breaking apart is growing. Many members of the alliance openly criticize the course of the president who, however, does not seem to be bothered but encouraged in his obstructionist attitude towards the government. It is probably hoped that time will work against the Prime Minister, and that her popularity will decline as long as the spectre of inflation remains present. Mrs Tymoshenko also knows this, and her tone towards Mr Yushchenko has become more caustic.

The power struggle in Kiev is real, and there is much to indicate that it will not be decided in the near future. In this context, five aspects should be mentioned: First, compared to other countries of the post-Soviet area, Ukraine shows many democratic tendencies which, however, are to be found mainly in politics, in the party system, in societal discussions, and in the country's media landscape. Second, the separation of powers and functioning institutions on the one hand and willingness to form a consensus on the other are basic elements of democracy which have not yet struck roots in Ukraine. Thus, the President interferes with the competences of the government, and laws are often adopted according to political expediency. Third, in political competition it is difficult to shift power in favour of a certain party or institution, even if a party or institution endeavours to do so. Its political opponents will do everything to keep the power of the other side from growing. Fourth, with the constitutional reform that came into force early in 2006, the former system based on the central power of the president was replaced by one that features two centres of power and provides for a large number of competences, some of which are not clearly delineated. This being the case, all parties are once again calling for a revision of the constitution; the concepts for this, however, differ widely. And finally, there is a certain equilibrium, albeit unstable because of divergent interests, within

the triangle of power consisting of the parliamentary majority/government, the opposition, and the president. But, on the other hand, this slows down the development of the country. It would be necessary to correct the constitution once again. However, as such a correction requires a broad consensus, which is unlikely to be reached, a reform will certainly be long in the coming.