



## CONTENTS

DOMESTIC POLICY.....	1
NATIONAL SECURITY AND DEFENCE....	2
ECONOMY.....	4
SOCIOLOGY.....	7
NEWS OF THE RAZUMKOV CENTRE.....	8

## INTRODUCTION

Since the last issue of the Razumkov Centre Newsletter, a lot has happened. Unfortunately, the war has become the main topic today – Russia by using regular armed forces and heavy weapons resorted to an open aggression in the mainland Ukraine.

The escalation of military action and its new scale resulted in significant casualties – both among the participants of the armed conflict on both sides and civilians. The international community is still in search of adequate responses to the question as to how the civilised world can exert influence over a country whose actions undermine the established world order, and challenge the accepted rules and regulations of international relations.

However, the war is not the only issue on the agenda. A new phase of Ukraine’s political life is marked by elections of a new parliament. Despite the fact that the flawed electoral law was never amended, this election will capture a new picture of political landscape of the country, emerging as a result of extreme conditions of life and rapid changes in the society. It seems that current economic indicators do not give grounds for optimism, however beyond them, new development opportunities are emerging, which should not be missed.

Comments and other materials by the Razumkov Centre’s experts provided in this issue of the analytical Newsletter are dedicated to these issues. We would also like to draw your attention to the selection of sociological materials that help understand approaches of the society to the development of the political system.

## A SINGLE PARTY WILL FORM THE MAJORITY IN THE NEW PARLIAMENT

### – What do you think about lists of the main political parties?

The list of *Batkivshchyna* party is not very clear to me. For example, in the list of candidates from Poroshenko’s bloc, there are many people who ran for the last election with *Batkivshchyna* party. Also, many candidates of Hrytsenko’s party “Civil Position” are now members of *Batkivshchyna* but they will run for the parliament as a separate party. Moreover, the question remains which party the Prime Minister Yatsenyuk and the Chairman of the VR Turchynov will join for the election. There are several options here. They can join Poroshenko’s political party, or they can join *Batkivshchyna*, or run as a separate political party. As far as I know, the final decision has not been made yet. So once a powerful faction of *Batkivshchyna* – the main opposition party at the time when Yanukovych was in office – will run for this election as several political parties. Moreover, there will be the representatives of UDAR in the list of Poroshenko’s party. So it will not be a bloc *de jure* but a unified list of Poroshenko’s political party and UDAR.

### – *Svoboda* might not get into the new parliament. Why have the voters decided to punish it?

The thing is that in the last election, it is likely that they decided to encourage them. Since most of the voters of *Svoboda* were not ideological voters but voters who strongly protested against Yanukovych.

The situation has changed so *Svoboda* will rely solely on ideological voters, and there are not so many of them. Will they be enough to get them into the parliament? It is hard to say now.

### – Who will enter into a coalition with Poroshenko’s bloc, and who will be in the opposition?

First of all, I think that Poroshenko’s bloc will bring a lot of their candidates to the parliament but it is unlikely they will take more than half of the VR. Then, it all depends on Yatsenyuk and Turchynov. If they are in the list of Poroshenko’s bloc, it will add more points and increase the likelihood of creating the majority by a single party. If they run separately, it is logical for their political party to enter into the coalition. I think that *Batkivshchyna* will also have to enter into the coalition. It is hard to say whether Liashko’s party will be in the coalition or the opposition. Of course, *Sylna Ukrayina* is an opposition. Most likely, the Communists will get into the parliament – they are also an opposition. However, I think that in general, the opposition will not be particularly strong.

*Full text*

Andriy BYCHENKO,  
Director of Sociological Service,  
the Razumkov Centre



## ANYTHING AIMED AT ENSURING PEACE WILL GAIN SUPPORT IN THE SOCIETY

There are two sides to the signing of the document on the implementation of the peace plan.

Peace is the most important condition of life for anyone. Anything concerning the use of opportunities for its restoration in Ukraine will gain support in the society.

However, this issue has another side as well. Peace at what cost?

To ensure peace and existence of Ukrainian state, citizens who fight for preservation of their territorial integrity sacrifice their lives daily. If the main goals are not reached, the question of the price of this peace plan may arise, and whether what has already happened has any sense – the deaths of Ukrainian soldiers in the name of this country. Meanwhile, there are doubts whether during the parliamentary race some Ukrainian parties will campaign for fighting the war until victory since

*de jure* Ukraine is not at war. Ukraine did not declare war upon anyone – it defends its territory. The mottoes and demands to ensure sovereignty and territorial integrity will be present since this is a constitutional provision. It would have been abnormal not to talk about it. As to achieving peace and guarantees of sovereignty, different parties will have different ideas. However, I do not assume that any party will depart from these basic principles.

*Full text*

Yuriy YAKYMENKO,  
Deputy Director, Director of Political  
and Legal Programmes of  
the Razumkov Centre



## MIXED VOTING SYSTEM WILL PREVENT FULL RENEWAL OF THE PARLIAMENT

The necessary condition for the renewal of the Verkhovna Rada of Ukraine is the renewal of the voters themselves.

Today, there is a huge demand for change within the society, and this demand can be met by electing the new Verkhovna Rada. However, for a change to happen in Ukraine, such a change should happen among the voters themselves.

I would also like to draw your attention to several factors that have to be considered when speaking about the upcoming election. Among them, first of all, is the fact

that this is an early election and the campaign itself will be rather an event of force majeure; and secondly, Ukraine has a mixed electoral system, or the majority rule, that will hamper opportunities for renewal.

*Full text*

Viktor MUSIYAKA,  
Legal Research Consultant,  
the Razumkov Centre



## National Security and Defence

### RUSSIA WANTS TO MAKE UKRAINE WEAK NOT TO LET IT OUT OF ITS AREA OF INFLUENCE

*On the intentions of the West to push Putin beyond the "pain threshold", on main issues and tasks of the security bloc as well as on whether Ukraine should expect large-scale invasion from Russia.*

**– German Chancellor Angela Merkel and French President Francois Hollande spoke out against the supply of weapons to Ukraine – are they afraid to ruin the relations with Russia?**

There are several aspects here. There is a purely economic aspect – when these countries are simply afraid of losing Russian markets.

However, there is also a political aspect. For example, Germany has agreed to supply weapons to the Kurds – to non-governmental forces. Now will it agree to supply weapons to Ukraine for the governmental forces? Then, a question will also arise in Russia – why, for example, cannot we supply weapons to Bashar al-Assad? Such contradictions in the international law give an excuse to do nothing. In general, I think that the commercialisation of values and bureaucratisation of the decision-making processes are the two "diseases" of the Western civilisation. Moreover, there is a general fear of Russia and the unwillingness to start a confrontation with the "monster".

Put crudely, they are acting like our officials. Speaking of Ukraine, I think that irresponsibility in the first place, and, secondly, the lack of political will have led to the current situation. You cannot live by the laws of peacetime during the wartime. Even our laws which include some procedures during the war were aimed at conventional warfare. We have a proxy war, a war started by Russia on our territory, with actions which are not provided by any of our laws. Officials are trying to hide from the hassle behind the provisions of the legal framework that we have now, and justify their inaction. However, it is not only us who happen to be unprepared. The entire international security system, including NATO, turned out to be unprepared for this clear violation of the international law. Russia has not only assumed the right to comply with international law and rights but also to interpret them as it likes and impose its own interpretation on the rest of the world.

**– The Cabinet of Ministers registered a bill to restore the policy of pursuing NATO membership. How can it help Ukraine in the current situation, or is it a way to tease Russia?**

Firstly, I do not think we will immediately become a member of NATO. Secondly, I do not think that NATO member states will support Ukraine's aspirations. Member states of NATO are also members of the European Union, and we know the attitude to the whole situation there, and the split in their attitude towards Russia.

Indeed, if we were a NATO member, we would have received security assurances but it should have been done back in 2008. We blocked our membership. I should not have started talking about it now. Not because of the fear of Russia's response. However, we should not provoke Russia. Look at the reaction to our attempt of joining – not even NATO – but the EU proved to be. This is not a military alliance but it meant Ukraine breaking away from Russia. Russia cannot agree to this.

Now, knowing all these splits in the EU regarding the conflict, I would advise not to seek NATO membership but to try to create some sort of an international coalition of allies of Ukraine. We need to clearly identify those countries that are ready to provide support to Ukraine. We should seek implementation of the US initiative to give Ukraine the status of a major ally. Croatia is now offering to supply a number of helicopters, although old – but still. This coalition should be expanded. It is much easier and quicker. Those ready to supply weapons should do so.

I would raise the question of joining NATO later. Today it can cause additional tension in eastern regions. When we say that in general, in Ukraine the support for the country's membership in NATO already exceeds 50% (not long ago it was 15%), one should understand that it does not apply to eastern regions. There, the support for NATO membership does not exceed 10%, or even less. To espouse this issue now means to increase tension in these regions instead of trying to unite them somehow and talk to the people using the language of results, not of proposals and promises.

**– Sanctions of the West against Russia and Putin's entourage do not seem to disturb Kremlin, do they? Is this a bluff?**

Russia officially pretends to be ready for sanctions. However, unofficially, it is afraid of them, and sanctions are working. However, the result of the whole conflict, among other factors, also depends on whether the West by using sanctions will be able to push Putin beyond the "pain threshold" so that he gives up aggression.

**– However, so far all we have seen is the increasing scale of hostilities in Ukraine, have not we?**

Now it is not about a large-scale war. It is about limited aggression. If Russia enters into this conflict with all its reserves, it will be difficult for it. I do not think they will do that. They have other goals, other challenges, especially in Central Asia. Russia does not have enough of the reserves, neither do we.

Large-scale aggression is aimed at the seizure of territories. However, to seize territories, it is not enough to just to bring in the troops. These territories should be retained, and it takes three times more force than just an act of aggression itself. Putin does not have such power.



Of course, he can bring in some Cossack voluntary units there but it will be even worse than in Crimea. In Crimea, there has been the Russian Black Sea Fleet – a strong military administration. These regions do not have this. To allow forces to get stuck there means to leave them there for a long time, and by the end of 2014, I predict a possible massive explosion in Central Asia. That is the withdrawal of troops from Afghanistan, the flow of extremists into Central Asian republics – their own extremist movements are perking up there, in particular Islamism of Turkmenistan. Only China can normalise the situation in this region with its economic opportunities. And if China decides to enter, then Russia would lose the Central Asia. For Putin, the only way to retain this territory is military presence. However, if the troops get stuck in Ukraine, they will not be in Central Asia.

Moreover, in the case of full-scale actions on its part, Russia will force both NATO and the entire Western world to impose not just some sanctions but a full economic blockade. Russia will not survive it under any circumstances.

**– What do you think is the global goal for Putin concerning Ukraine? Destabilisation? New Transnistria? Land corridor to Crimea? Left-bank Ukraine? All of Ukraine?**

Geopolitical planning is done on the “if not, then” principle. So his big goal is all of Ukraine. If not, then Novorosiya. If not Novorosiya, then Donbas separately. He is not able take the entire Ukraine.

Even here, Putin has reached goals which are directly opposite to those he had set for himself. He lost 45 million of “the Russian world”. He brought NATO forces closer to his borders. He will get EuroPRO aimed against Russia. Now he is facing the only task – not to let Ukraine out of his sphere of influence. Not to allow it join neither NATO nor EU. There is no need to invade it, it just needs to be destabilised and weakened.

He can make it weak through Novorosiya. It does not mean that Russia will annex Novorosiya. He barely has enough money to retain Crimea. Novorosiya will be too much for him. However, he is trying to turn Donbas into another Transnistria, a frozen conflict zone, under the patronage of Russia. Thus, to influence the policy

of Ukraine in general. Moreover, Putin will also try to destabilise the situation in other regions. The upcoming election will contribute to it. As it is approaching, our parties will start fighting with each other harder than against the external enemy. In addition – dissatisfaction with the economic policy. Rising prices, rates, and so on. Also, the supporters of separatism are coming to other regions with refugees. If this does not work – then subversive forces may have already been infiltrated there.

**– What are the primary tasks that the security bloc and the leadership of the country are facing today?**

Firstly, the border should not be transparent.

To negotiate with international organisations, with anyone, to bring observers into this area. Not just put two or three observer at checkpoints but form mobile teams of observers that will operate along the entire border. To ensure border control over Russian troops.

Secondly, the access routes to resources through the border, again, should be cut off.

Thirdly, to increase defence capability.

There were suggestions to create people’s volunteer corps back in March but we are always late and losing initiative. In this war, the loss of initiative is equivalent to defeat. The basis of guerilla movement in the occupied territories should have been laid back then. Then, the enemy would be sitting on a volcano. The society itself would have shown the initiative. Those voluntary units would form people’s volunteer corps. Such initiatives would cover not only organising these battalions but also training its volunteers. So that they would go there not as cannon fodder but trained. No dice at the state level yet. When there are suggestions to pass equipment to these battalions, the answer is there are no professionals there. The professionals there are way better than in the regular army. All those volunteers have done military service. Many of them served in Afghanistan as well as in other hot spots.

Fourth, it is necessary to work on stabilisation of the situation in the regions of the CTO area. It is necessary to localise it and prevent the infiltration of militants into other regions.

We should seek common ground on what we call decentralisation, and they – federalisation. We should simply work with local communities and encourage them to find their own representatives for negotiation with central government. Then they will feel that we talk to them and consider their opinion. Then, the situation will develop in a completely different way. They will support the idea of the terrorists leaving.

*Full text*



*Mykola SUNHUROVSKYI,  
Director of Military Programmes,  
the Razumkov Centre*

## **RUSSIAN INVASION OF UKRAINE IS GUIDED BY IMPERIAL AMBITIONS**

Consequences of the Russian invasion depend on the goals the aggressor country sets for itself, and Putin’s goals have not changed.

There are four main goals that Putin wants to achieve in the process of invasion in Ukraine.

First of all, Putin wants to announce to the entire world that Russia is being restored as an empire, that it claims not only to comply with the international law but also to interpret it. Secondly, keeping Ukraine in its sphere of influence is a precondition for the empire to succeed. The third goal of Russia is consolidation of the Russian society around the imperial idea and confrontation with external threats. Finally, Putin’s fourth point is to achieve economic interests of the main interest groups in Russia.

Among the global consequences of Russian aggression, there may be the destruction of all foundations of the international law and of international security that were laid after World War II. Also, the Western world may split over Russia.

As a result of the invasion, Ukraine will stay destabilised for many years to come and will need to continuously waste resources for strengthening its national security system.

*Mykola SUNHUROVSKYI, Director of Military Programmes,  
the Razumkov Centre*

*Full text*

## STRONG SANCTIONS OF THE WORLD AND MILITARY RESISTANCE OF UKRAINE WILL STOP RUSSIAN AGGRESSION

Joint efforts of our security forces and real, painful sanctions of the international community against Russia can end an open military aggression by Russia and Vladimir Putin against Ukraine.

It is already clear to all that open aggression by Russia has been taking place. Today Russia not only supplies the equipment and mercenaries. Russian troops have started planned joint action in our territory. Under such circumstances, the main force capable of stopping them is the Ukrainian security forces, joint actions of the army, the National Guard and volunteer battalions.

Now, there is another issue on the agenda, which has constantly emerged and has been criticised by the government – arming the people. Moreover, not only the idea of the transfer of weapons and equipment to people's volunteer corps has been disapproved but also to battalions which have been formed, gone through training, and have been legalised. Recent decisions on facilitation of the transfer of weapons is the right move but it should have been done three months ago. We are always behind time. Now it is necessary to admit that it was a mistake, and the situation should be improved. There are weapons, armament, ammunition in depots – they need to be transferred to the area of the CTO to prevent situations when unarmed people have to fight against heavily armed enemies.

We should also seek more explicit and tangible assistance from the West.

What is coming in now is nothing. It only teases Putin to take decisive steps that escalate the conflict in Ukraine. However, some countries are beginning to wake up – Canada demands security support of Ukraine, and Croatia is ready to supply helicopters. All of this is necessary but in a much broader and deliberate way. It is important to demonstrate that “the other front” is opening, Putin has to see that his actions entail certain consequences. Mere promises to impose further sanctions lead to nothing.

Putin will not give up on his goals. To change his behaviour, Putin should get out of the informational matrix which he himself created and fed the entire world. Thus, Putin should stand up and say, “Sorry guys, I have been lying to you.” Can you imagine this happening? The entire world is thinking about the way out of the situation for Putin but he should think for himself since he is the one who created this situation. He should be forced to change his behaviour. Harsh sanctions can influence him, and that is only beginning to show now. The West should push Putin beyond the “pain threshold” to stop the aggression in Ukraine.

*Mykola SUNHUROVSKYI, Director of Military Programmes,  
the Razumkov Centre*

[Full text](#)

## THE SWISS ARMY MODEL WOULD SUIT UKRAINE BUT ADAPTED TO OUR CIRCUMSTANCES

Ukraine needs its own military system which would guarantee our territorial integrity, based on our forces and capabilities.

We cannot take any existing system (no matter how good it is) and automatically apply it to our army since there are many nuances and specific features, which are not considered, for example, in the Swiss model.

The reform process should cover all the security forces – not only the army – as all of them are now involved in the counter terrorist operation. It is also necessary to consider the powerful non-governmental sector which has proved itself, and on the basis of which reforms are most likely to be implemented.

Today there are many security forces in Ukraine, including those that have recently proved themselves in the war. Therefore, it is necessary to find a reasonable balance of forces and means for the Armed Forces, the National Guard, the MIA, border guards...

We should talk about forming people's volunteer corps and professional development of the Armed Forces and all the security forces. Great attention should be paid to personnel training and retraining of officers. Also, the fleet should be significantly upgraded.

We should be prepared for the fact that reforming the army and all the security forces requires a lot of effort and resources. Therefore, the economic aspect should also be considered.

In general, the Swiss model would suit us. However, it should be properly applied to Ukrainian conditions. In Switzerland, in the case of total war, the entire country goes to the mountains and starts the defence there. In Ukraine, it is not possible.

*Mykola SUNHUROVSKYI, Director of Military Programmes,  
the Razumkov Centre*

[Full text](#)

# Economy

## UKRAINE – FROM CRISIS TO CRISIS

Ukraine is the only European country stuck between crises. After the global crisis of 2008-2009, most countries managed to return to positive economic dynamics, and Ukraine is now again suffering from crisis. The current extremely weak economic dynamics of Ukraine – in conditions of the ongoing military aggression, deepening and expansion of negative trends in the economy, low level of confidence in the public administration system, high corruption, poor fiscal discipline, poor investment attractiveness as well as the excessive debt burden – indicate the retention of “pre-default” risks for Ukraine, and the loss of the country's rightful place in the global economy. This paper focuses on performance comparison of the two

crisis periods in Ukraine as well as the consequences arising out of them for the purpose of being able to control crisis shocks in the mid-term, and also for possible recovery of sustainable economic growth.

[Full text](#)

*Vasyl YURCHYSHYN, Director of  
Economic Programmes,  
the Razumkov Centre*



## ON ONE DIRECTION OF INTEGRATION RENEWAL

Among the most difficult tasks that Ukraine has to overcome in the short- and mid-term, the creation of the new directions of integration is especially important. The utmost severance of economic relations with Russia meant significant deterioration in trade and economic relations with other members of the Customs Union – Belarus and Kazakhstan that are often forced to follow Russian restrictions on Ukraine.

A new strategic challenge. Preventing the severance of economic relations, due to the aggressive policy of Russia, is especially critical for Ukrainian-Kazakh relations as all trade and economic routes between Ukraine and Kazakhstan go through Russia, which blocks transfer of almost all the Ukrainian goods across the Russian border (including transit). Furthermore, such blockage will also mean significant restrictions for Ukraine entering the highly dynamic Central and East Asian markets.

Today a significant share of trade flows (both from Ukraine to Kazakhstan and from Kazakhstan to Ukraine) has already been blocked at the Russian border. Indeed, when in 2013, the export of Ukraine to Kazakhstan exceeded \$2.1 billion (the largest volume of export to the CIS countries excluding Russia), and import

\$0.7 billion, in the first half of 2014, the turnover between two countries dropped by half (compared to the corresponding period in 2013). It is clear that ongoing Russian escalation will only enhance these negative trends.

For Ukraine, deterioration of Ukrainian-Kazakh relations is highly undesirable. Instead, we should talk about strengthening both trade and investment ties between the two countries. Let us note only two things. Firstly, Kazakhstan is a highly dynamic country in Central Asia (a number of experts consider it a new Asian Tiger) so aggregate demand in the country will expand actively. Secondly, Kazakhstan is the most important country in the global Chinese project of the New Silk Road and formation of new transcontinental business ventures. Ukraine is not a participant of the project yet. Thus, it is extremely important to actively expand its presence and deepen Ukrainian business in Kazakhstan.

One of the foundations of economic rapprochement may be historic social and economic proximity of the two countries.

*Vasyl YURCHYSHYN, Director of Economic Programmes,  
the Razumkov Centre*

*Full text*

## DEVALUATION FOREVER?

It has already become common that Ukraine constantly suffers from monetary shocks. Since *hryvnia* was introduced in August 1996 with the rate of UAH 1.8 per \$1, only 18 years have passed, and the rate increased by almost ten times – in the middle of August 2014, *hryvnia* fluctuated around UAH 13 per \$1. Meanwhile, the central bank of the country did not see a problem in the new devaluation wave. This has not only caused substantial losses to Ukrainians but also questioned the ability of the country to implement European integration intentions.

In fact, in response to the criticism on neglecting the exchange rate dynamics of *hryvnia*, the NBU found two arguments (at first glance, even rational). Firstly, stabilisation will occur once the military aggression is over. Secondly, the NBU is about to implement the so-called inflation targeting, full transition to which will take a year or a year and a half, and then, there will be the macroeconomic stability and even growth in Ukraine.

So, in both cases, the need to strengthen the stability of *hryvnia* is practically ignored. Not in the mode of fixed rate but ensuring clear exchange rate dynamics, preventing galloping devaluation, reducing the tension of negative expectations, guaranteeing purchasing power of the national currency – all that is among the priorities of any central bank. Yes, for political and patriotic reasons, we would all want Russian aggression in Donbas to end as soon as possible. However, firstly, for now no one can tell how long the country will be in the state of an undeclared war; and, secondly, the economy cannot be based on “good intentions” or “optimistic expectations” of the leadership. Yes, the war can be an excuse for losses but is that what Ukrainians expect from the new government?

Furthermore, given the tiredness and major disappointment of people because of economic troubles, only real improvement, clear to everyone, could bring both social peace and form the basis of political and military stabilisation, and the question “why?” will not become antagonistic. Of course, exchange rate dynamics is the most significant factor and criterion for stability or improvement. Anyone can easily assess the

efficiency of the government’s actions and feasibility of the declared objectives.

At the same time, inflation targeting is impossible without monetary stability and predictability of exchange rate dynamics, and low interest rates are impossible in conditions of continual devaluation expectations. This is also fully proved by the most significant financial interrelations, in particular:

- the so-called interest rate parity and International Fisher Effect, indicating that interest rates are sensitive to the ratio of the expected, or forward, or current rate (an increase in the expected or forward rate in relation to the current rate provokes an increase in domestic rates),
- purchasing power parity or one price, when changes in the exchange rate are “balanced” by changes in the level of inflation.

Let me remind you that a number of European countries (outside the Eurozone) as well as countries intending to deepen EU integration are required to comply with the Maastricht criteria, in particular to ensure relative stability of the exchange rate when fluctuation of the national currency against the euro cannot exceed certain thresholds.

Furthermore, the exchange rate dynamics is often the key for macroeconomic balance components, which characterise the external sector of the country, and are important in assessing the solvency of the country by investors, and thus, willingness to provide additional financial resources for such country (loans, foreign direct and portfolio investment etc). Ukraine is expecting large-scale aid from international and European financial institutions, which requires “approximation” of the macroeconomic indicators to the acceptable level (indicating that some macroeconomic risks are not critical).

Let us show the impact of the rate on macroeconomic indicators. The average annual rate according to the optimistic scenario (which is unlikely since it provides for some strengthening of *hryvnia* by the end of the year) – UAH 10 per \$1; the stabilisation scenario (preventing further devaluation) – UAH 12 per \$1; and devaluation (retention of the trend towards the weakening of *hryvnia*) – UAH 14 per \$1.

GDP. According to preliminary estimates, in 2014, the nominal GDP of Ukraine will amount to approximately UAH 1.4 trillion. In US dollar equivalent, the GDP (in different scenarios) will amount to \$100–140 billion (Table *Macroeconomic Indicators*). Even in the optimistic scenario (rate UAH 10 per \$1), GDP per capita will be \$3 000, i.e. on the edge below which (according to the international classification) poor countries are.

The balance of payments. Current account deficit of the balance of payments of Ukraine in the first half of 2014 amounts to \$1.9 billion (in the first half of 2013, the corresponding deficit reached \$5.4 billion). Given seasonal effects on external balances, we can estimate the current account deficit by the end of 2014 at \$5 billion (excluding the debt for Russian gas that appeared in the first quarter of 2014), or 3–5% of the GDP (see table).

Current account deficit of 3% of the GDP is usually not considered unduly threatening as it can be funded with the resources raised. The deficit of 4–5% of the GDP is already considered quite risky in terms of its secure funding. Thus, at the average rate of UAH 14 per \$1, external investors and creditors will have great doubts as to the relevance of entering into such an economy.

External debt. The optimistic estimate of the total external debt by the end of 2014 is \$145 billion. Although during the crisis, external debt of many countries have reached a psychologically important mark of 100% of GDP, its rapid significant excess of the specified limit (as in the case of Ukraine) meant significant complications in the access to external capital markets and the unwillingness of international creditors to expand financial support.

State budget. External debt service (interest payments) is carried out directly from budgetary resources (principal repayment separately from the budget, carried out

#### MACROECONOMIC INDICATORS

Rate, UAH/\$1	10	12	14
Nominal GDP \$ equivalent, \$ billion	140	120	100
Current account deficit, % of GDP	3.6	4.2	5.0
External debt, % of GDP	103.5	120.8	145.0
Withdrawal from expenditure of the state budget, UAH billion	400	480	560

through the so-called “funding”). Since external debt is served in foreign currency, the higher rate mentioned above means greater withdrawal from the budget, and thus, fewer resources are left for the “usual” government spending (science, education, economic support etc). On one of the external loans, interest payments of Ukraine should amount to \$40 million. In this case, the difference between withdrawals from the state budget in different scenarios will reach UAH 160 million (see the table).

At the same time, fiscal devaluation losses will also increase due to the increasing gap between the US dollar value of import resources and *hryvnia* payments by Ukrainian consumers, which will require another “update” of rates with further inflation and devaluation surges.

The risk of devaluation and the loss of value of *hryvnia* remains high. It can be stated that today, the stability of exchange rate is indeed a matter of national security, and the ability of the government to deal with the problem will largely determine public trust in the government in general.

Vasyl YURCHYSHYN, Director of Economic Programmes,  
the Razumkov Centre

[Full text](#)

#### IN 2014 - 2015 THERE WILL BE NO DEFAULT IN UKRAINE

Default is a failure to meet obligations of a loan, and both this and the next year, Ukraine will have to make relatively small payments – approximately \$4.4 billion and \$5.6 billion respectively. Furthermore, external resources will be slowly coming into the country so there will be enough money, and the issue of default will be postponed.

Much greater concerns are caused by the situation inside the country. Dysfunctional economy creates a number of internal problems – increased unemployment, decreased funding in all the areas, and people growing poorer. Government programmes do not indicate the sources of growth, with the help of which they are going to implement their optimistic scenarios. It means that the purchasing power of Ukrainians will drop, followed by a drop in production – so, a vicious circle appears.

We should already stop referring to the lack of resources and war, and forget about the export-oriented sales model for cast iron products. We need to seek new areas which can enable economic growth, and this is a question for the government.

As to the IMF forecasts that for the next two years, we will need around \$19 billion, these numbers are very real. In conditions of the fall of the economy, obligations of the state still remain to ensure, at least, the payment of pensions and stipends. Since this money cannot be taken from the budget, we have to get into debt. Unfortunately, this is the usual formula – the worse situation the country is in, the more money it needs.

Vasyl YURCHYSHYN, Director of Economic Programmes,  
the Razumkov Centre

[Full text](#)

#### THE FALL OF THE UKRAINIAN ECONOMY WAS NOT AS SIGNIFICANT AS EXPECTED

Only now a real crisis has hit the Ukrainian economy. According to the State Statistics Committee, in July 2014, industrial production fell by 12.1% (compared to the same month last year). Given that, in June this indicator was only 6%, we can say that during this month, the consequences of the economic crisis deepened almost two and a half times.

In fact, combat operations have now affected the work of large enterprises in Donbas. Until recently, small businesses have suffered from military action, now the industrial giants of Donbas are facing problems.

The factor that can quickly affect the pace of industrial production in Ukraine is the assistance of the West in restoring the infrastructure of Donbas. Big infrastructure

projects always kick-start economic growth. They give an instant boost to the indicators of construction, and, furthermore, the restored infrastructure also becomes an incentive for industry growth.

Despite the ambiguous rate of decline, current crisis is much smaller than it was in 2009. Then, without any military action, Ukrainian industry fell by almost a quarter. There have been similar expectations now as well – before the CTO. Thus, despite the fall, the situation is far from the worst-case scenario.

Vasyl YURCHYSHYN, Director of Economic Programmes,  
the Razumkov Centre

[Full text](#)

# Sociology

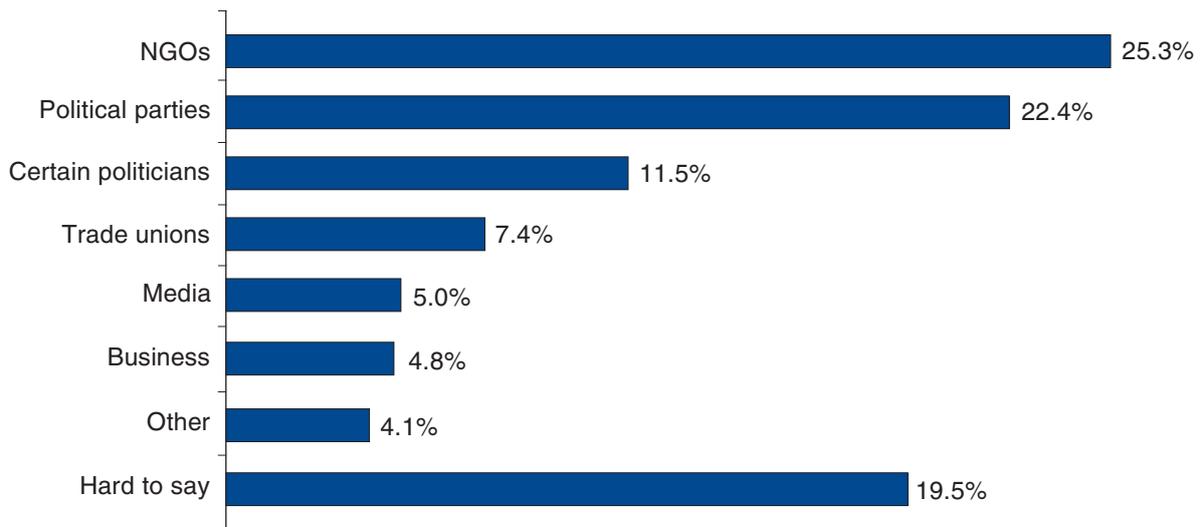
This issue of the Newsletter presents some findings of the survey conducted by the Sociological Service of the Razumkov Centre from 20 to 25 June 2014. 2 003 respondents aged over 18 were polled in all regions of Ukraine except Crimea. Sampling error (without design effect) does not exceed 2.3% with the probability of 0.95.

The survey was conducted as a part of the long-term project of the Razumkov Centre "The Party System of Ukraine: Establishment, Functioning, Development".

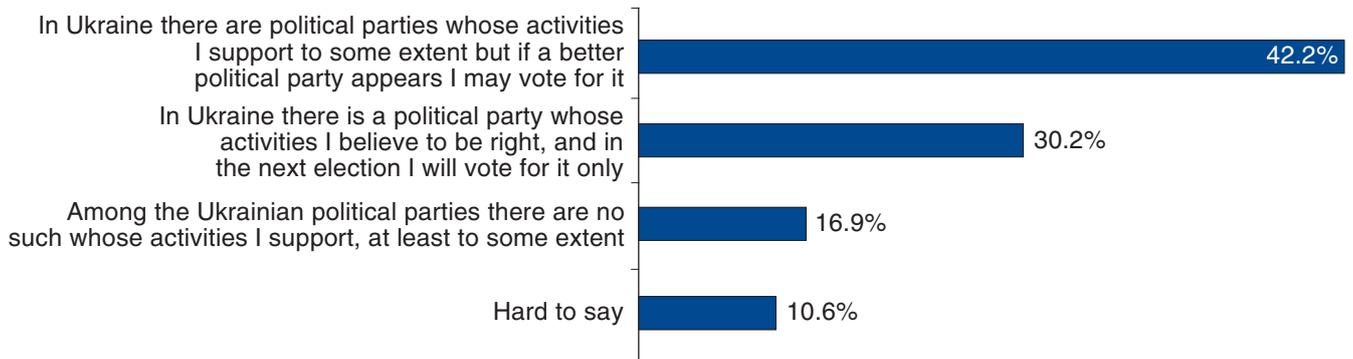
The data below outline the nature of public perceptions of political parties as compared to other public institutions, and demonstrate the electoral preferences of voters and their attitude to the process of consolidation of the political parties.

More information on the findings of the public opinion polls conducted by the Razumkov Centre is available on the Razumkov Centre website: <http://www.razumkov.org.ua>.

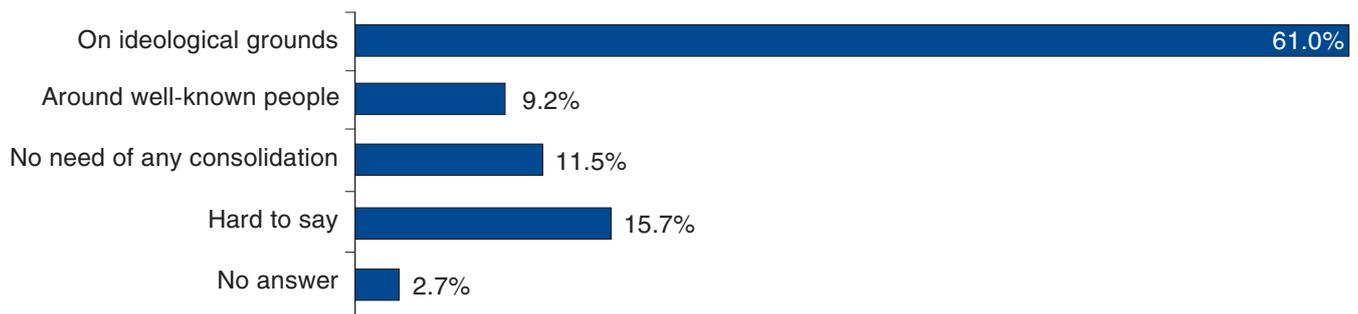
## Who should represent your interests in the social processes in the first place? % of respondents



## With which of the following statements do you agree the most? % of respondents



## How should the consolidation of political parties occur – on ideological grounds or around well-known people? % of respondents



## THE RAZUMKOV CENTRE PARTICIPATED IN THE PREPARATION OF THE GOVERNMENT ACTION PLAN RECOVERY OF UKRAINE

On 3 September 2014, at the meeting of the Cabinet of Ministers of Ukraine, the Government Action Plan *Recovery of Ukraine* was presented.

The document presented by Prime Minister of Ukraine A. Yatsenyuk is the result of the joint work of experts from non-governmental research organisations, public scientific institutions, and representatives of the Government. The action plan outlined the priority steps to be taken by the Government in 2014–2015 in order to address the most pressing problems of the country in various areas. The Razumkov Centre was represented by the experts led by Co-director of Foreign Relations and International Security Programmes O. Melnyk.

“This was an important event – the Government presented a document which content meets the current needs and challenges. They have clearly defined the most urgent problems that should be addressed by the Cabinet of Ministers, and thus, demonstrated the vision of the way out of the current situation for Ukraine,” – Yuriy Yakymenko Deputy Director of the Razumkov Centre emphasised at the briefing when commenting on the Action Plan *Recovery of Ukraine*. Yakymenko noted that it was important that the document had been prepared jointly by the representatives of the Cabinet of Ministers, experts from NGOs, and scholars from public institutions, “This was real teamwork of the representatives of the Cabinet of Ministers, Prime Minister himself, heads of government agencies, and representatives of the expert community”.

According to Yuriy Yakymenko, this is a new stage for the Cabinet of Ministers and Ukraine – when the Government and state leadership work together with the expert community, which allows to obtain a realistic and comprehensive vision of what is happening and what needs to be done. On behalf of the expert community, he expressed willingness to continue providing support to the Government, especially in such a difficult time, with such ambitious plans of creating a European country.

*Presentation of the Action Plan Recovery of Ukraine is available on:*

[http://www.uceps.org/upload/1410271966\\_file.pdf](http://www.uceps.org/upload/1410271966_file.pdf).

## RECOVERY OF UKRAINE ACTION PLAN



## UKRAINIAN-RUSSIAN CONFLICT: A VIEW FROM KYIV

This conflict has been boiling up for a long time, and its “hot phase” occurred in the most vulnerable for Ukraine period of collapse of Yanukovich’s regime. Being in the buffer zone, Ukraine, which has neither reliable guarantees of its sovereignty and territorial integrity nor reliable allies, has faced Russia on its own.

It is clear that Russian *blitzkrieg* in Crimea in March, annexation and secession of the peninsula to Russia, and incitement of the separatist movement in eastern Ukraine has become a global challenge for the European and global security systems, and no adequate response (at least for now) has been found for this challenge. Not only the philosophy of bilateral relations between Kyiv and Moscow but the system of the West-Russia relations in general is subject to rethinking. This is not so much about possible demarches and next rounds of sanctions as much as it is about the new nature of contacts with Russia today.

The fast-moving course of events makes any analysis preliminary and largely situational. However, current realities give grounds for some conclusions and forecasts as well as for seeking ways out of the crisis.

*Article written by experts of the Razumkov Centre Yuriy Yakymenko and Mykhailo Pashkov and published in the publication of the French Institute of International Relations, Politique étrangère, vol.79, n°2, etc 2014.*

*Full text [Russian](#) / [French](#)*

## 2012 PARLIAMENTARY ELECTION: THE INFLUENCE OF SOCIAL DIVISIONS ON ELECTORAL STRATEGIES AND PROSPECTS FOR DEVELOPMENT OF THE PARTY SYSTEM

The following article analyses the nature and dynamics of influence of major social divisions in Ukraine on the processes in the party environment, electoral strategies of the leading political parties, in particular in 2012 parliamentary election, and prospects for further evolution of the party system.

*Article published in the monograph the 2012 Parliamentary Election in Ukraine, Scientific Research. – K.: I.F. Kuras IPES of the NAS of Ukraine, 2013. – 364p.*

*Full text*

OLEKSANDR RAZUMKOV UKRAINIAN CENTRE  
FOR ECONOMIC AND POLITICAL STUDIES  
Address: 01015, Ukraine, Kyiv, Ukraine  
Telephone (044) 201 11 98, fax (044) 201 11 99  
Feedback: [newsletter@razumkov.org.ua](mailto:newsletter@razumkov.org.ua)