



UKRAINE-2014: NEW PERSPECTIVES AND NEW THREATS

(Analytical Report)

Outcomes and Lessons of 2013

Prospects for 2014

Public Opinion: • *the results of 2013*
• *the country's integrity*
• *the new authorities*



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* This publication presents the results (summed up in tables and diagrams) of polls held by the Razumkov Centre's Sociological Service from April 2004 till March 2014.

The latest poll was conducted by the Razumkov Centre and the Rating Sociological Service on 28 March - 2 April 2014, in all regions of Ukraine (except the Crimea) and in Kyiv. 3011 respondents aged over 18 were polled; the sampling error does not exceed 1.9%.

Most of the data rests on the results of the public opinion poll held by the Razumkov Centre on 2024 December 2013. 2010 respondents aged over 18 were polled in all regions of Ukraine. The sampling error does not exceed 2.3%.

With the exception of the latest poll, the regional division is as follows: the **West** – Volyn, Transcarpathian, Ivano-Frankivsk, Lviv, Rivne, Ternopil, Chernivtsi regions; the **South**: the Autonomous Republic of Crimea, Mykolayiv, Odesa, Kherson regions; the **Centre**: Kyiv city, Vinnytsya, Zhytomyr, Kyiv, Kirovohrad, Poltava, Sumy, Khmelnytskyi, Cherkasy, Chernihiv regions; the **East**: Dnipropetrovsk, Donetsk, Zaporizhya, Luhansk, Kharkiv regions.

For more detail on the results of all polls held by the Razumkov Centre's Sociological Service visit our web site: <http://www.razumkov.org.ua>.

I. OUTCOMES AND LESSONS OF 2013

For many Ukrainians the year of 2013 was associated with signing of the Association Agreement with the EU, and hence – with a chance to gradually bring about positive changes in their everyday life even under the current government.

Public statements by state officials of their intention to sign the Agreement at the Vilnius Summit on 28 November 2013 spurred growing public expectations from Ukraine's European integration. That is why Mykola Azarov Government's official refusal to prepare for signing of the Agreement, announced on 21 November 2013, generated a feeling of treachery and despair among the pro-European segment of society, first of all – among the youths who gathered for peaceful protests.

The demonstrative, unreasonably violent oppression of peaceful protesters by the authorities at night on 30 November 2013 caused an immediate and stormy reaction from citizens, which subsequently evolved into a social phenomenon – the Euromaidan. Having started in Kyiv, the protests spread across the country and by December 2013 - January 2014 covered all major regions of Ukraine, eventually resulting in the fall of Viktor Yanukovich's regime on 22 February 2014, and him and many of his cronies (including statesmen) leaving the country.

Therefore, Euromaidan appeared to be a major event of 2013, which brought to an end the developments happening in Ukraine after Viktor Yanukovich took the presidency and the Party of Regions and its allies formed the majority in Ukrainian Parliament. Those processes were thoroughly analysed by the Razumkov Centre's experts and many national and international think tanks. However, it makes sense to briefly remind of actions of Viktor Yanukovich's ruling team in 2013, which resulted in the events that fundamentally changed the internal situation in Ukraine, its international image and situation in the world in general.

DOMESTIC POLICY AND LEGAL SECTOR

Just as the Razumkov Centre's experts predicted, the main objective of the authorities at the beginning of 2013 was to create and consolidate the renewed (following the 2012 parliamentary elections) hierarchy of power.

Actions of Viktor Yanukovich's team show that in order to achieve this main objective they pursued **an utmost centralisation of power, total control of the judiciary, local authorities and concentration of all powers in the hands of one man – the President.**

This is demonstrated by the appointments made in 2013 in particular, since their main criteria were personal loyalty to the President and ties to groups close to his entourage. Changes in other central executive bodies and

local administrations followed the same logic.¹ Executive positions in bodies of state power were mainly occupied by natives of Donetsk region or persons connected with them. This especially refers to law-enforcement agencies. In particular, at the start of 2014, the President appointed Oleksandr Yakymenko as the Head of the Security Service of Ukraine, who served a great deal of his career in Donetsk region. By and large, analysis of appointments to three law-enforcement agencies (the Ministry of Internal Affairs, the Security Service of Ukraine, the General Prosecutor's Office) in 2013, in which the President of Ukraine played a key role, shows that more natives of the Donetsk and, to a smaller extent, Luhansk regions were appointed to senior management positions, as compared to the natives of other regions of Ukraine.

Regarding courts. Just as the Razumkov Centre's experts predicted, having exhausted the potential of "basic" laws in implementing the so-called "judicial reform", the authorities tried to tighten political control over courts by amending the Constitution. In October 2013, the Verkhovna Rada had preliminarily approved the presidential bill "On Introduction of Amendments to the Constitution of Ukraine on the Enhancement of the Guarantees of the Independence of Judges", in fact aimed at increasing the dependence of the judiciary on the President.² The activity of the Constitutional Assembly

Appointments to central law-enforcement agencies in 2013

	Ministry of Internal Affairs		General Prosecutor's Office		Security Service of Ukraine	
	CS*	RU*	CS*	RU*	CS*	RU*
Total new appointments	5	9	3	13	3	16
In that, natives of Donbas	5	8	2	13	3	4
% of natives of Donbas	100	89	67	100	100	25

* CS – central staff; RU – regional units.

¹ At the end of 2012, the President approved the new members of the Cabinet of Ministers (except the ministers of culture and industrial policy). In February, 2013, Leonid Novokhatko and Mykhailo Korolenko, respectively, were appointed to those posts. In February, the Ministry of Education and Science, Youth and Sports of Ukraine was divided into the Ministry of Education and Science and the Ministry of Youth and Sports. Dmytro Tabachnyk retained the post of the Minister of Education and Science, while Ravil Safiullin was appointed the Minister of Youth and Sports. In July, 2013, Olena Lukash was appointed the Minister of Justice instead of Oleksandr Lavrynovych. At the regional level, the heads of Ivano-Frankivsk, Kirovohrad, Lviv, Odesa and Sumy regional state administrations were replaced.

² For more detail see: Judicial reform in Ukraine: current results, prospects and risks of the constitutional stage. Razumkov Centre analytical report. – *National Security & Defence*, No. 23, 2013, p.261.

also demonstrated its complete subordination to the President (which prompted some of its members to abdicate their membership in the Assembly).³ Selective justice was applied to opposition-minded persons. In particular, despite all efforts by the international community, Yuliya Tymoshenko was not freed from prison. On the contrary, the General Prosecutor's Office continued the investigation of new criminal cases instituted against her, using these materials to further discredit the BYuT leader.⁴

At the same time, the authorities tried to prevent the strengthening of the parliamentary opposition, not only by stimulating the internal contradictions among them but also using judicial bodies⁵ and electoral technologies.⁶ Relations between the governing majority and the opposition were largely non-constructive, often confrontational, and following the above-mentioned crackdown on student protests and further aggravation of the situation, the Verkhovna Rada had lost its role of a platform for reaching a political compromise.

Freedom of assembly, speech and mass media were under threat. In addition to previous methods used to restrict the right to peaceful assembly,⁷ the authorities **widely employed organised criminal groupings and associated structures** (e.g., "sports clubs") **to counter protesters.** Representatives of those groupings committed provocations (provoking fighting, property damage, etc.) and acts of physical violence against demonstrators, public activists, media representatives, and the responsibility for these actions was later ascribed to the protest leaders.⁸ Such practices especially prevailed during the events at Euromaidan.

Meanwhile, despite the authorities' pressure, the influence of public organisations and movements on social and political processes substantially increased. Activation of civil society institutions was mainly prompted by Ukraine's preparation for signing the Association Agreement with the EU. On the other hand, alongside with pro-European organisations, structures promoting pro-Russian policy and the Eurasian development vector also emerged.

According to the Institute of Mass Information (IMI), 101 cases of physical violence against journalists were recorded in 2013 (in 2012 – 65 cases). 48 of them occurred in December, during journalist coverage of the events at Kyiv's Maidan (at least in 11 of them, the victims represented foreign media). 64 journalists suffered from militia officers (8 in 2012). The most publicised incident took place at night on 25 December, when unknown persons inflicted serious injuries on the prominent journalist Tetyana Chornovol.

IMI recorded 129 cases of interference with journalist activity, 63 cases of censorship, 46 cases of economic and political pressure.

During the year, Ukraine's media space was monopolised by structures connected with the authorities. For instance, the sale of one of the biggest national media holdings UMH Group and change of owners of media holding Evolution Media that, according to media reports, involved VETEK group of companies (of Serhiy Kurchenko) arose much interest. On 1 February 2013, Inter TV channel officially changed owners: the new owners were controlled by businessman Dmytro Firtash and Serhiy Lyovochkin, at that time – the Head of the Presidential Administration. In November 2013, 112 TV channel associated with then Minister of Internal Affairs Vitaliy Zakharchenko began broadcasting.⁹

During the protests triggered by the authorities' refusal to sign the Association Agreement, several new public initiatives and organisations were set up (All-Ukrainian Public Organisation "Maidan", "Automaidan", "Maidan Self-Defence", etc.), some rather radical structures have also consolidated (e.g., the Right Sector, now transformed into a political party).

At the same time, the institutionalisation of movements supporting the regime of Viktor Yanukovich and Ukraine's integration into the Eurasian space also took place.¹⁰ The emergence of public organisations opposing the Euromaidan became a serious factor in aggravating regional differences, which today have developed into a separatist movement.

³ See: Statement of withdrawal from the Constitutional Assembly. – Razumkov Centre web site, http://www.razumkov.org.ukr/article.php?news_id=1087 (in Ukrainian).

⁴ See: "Lawyer: Report of Tymoshenko trial in Switzerland - PR and speculations". – *Ukrayinska Pravda*, November 4, 2013, <http://www.pravda.com.ua> (in Ukrainian).

⁵ During the year, politically motivated court judgements deprived a few MPs, including Serhiy Vlasenko (the defender of Yuliya Tymoshenko), of their mandates.

⁶ On December 15, 2013, repeated elections of national deputies of Ukraine were held in five single-member constituencies where the Central Election Commission could not establish the results (Nos. 94, 132, 194, 197, 223). However, in only one constituency (No. 197) the opposition candidate won. The elections saw technologies of influence on the results formally not violating the legislation (e.g., "legalisation" of vote-buying through employment of canvassers). The conduct of elections was also influenced by the replacement of the CEC Head: relatively politically unbiased Volodymyr Shapoval was replaced by a representative of the Party of Regions Mykhailo Okhondovskiy.

⁷ See: Ukraine's European integration: internal factors and external influences. Razumkov Centre analytical report. – *National Security & Defence*, No. 45, 2013, p.2122.

⁸ One of the most demonstrative examples of this took place on May 18 in Kyiv, when representatives of one grouping attacked and injured journalists. Thanks to a strong public echo, including international, the immediate offender Vadym Titushko was detained and convicted. The term "titushkas" became widely used to denominate such groupings and their members.

⁹ Sources of the cited data: Barometer of freedom of speech 2013. – IMI web site, <http://imi.org.ua/barametr>; VETEK owner Kurchenko buys big Russo-Ukrainian media holding UMH group, <http://interfax.com.ua/news/economic/158041.html>; Presidential Administration Head Liyovochkin will become a minority shareholder of Inter Media Group, <http://ua.interfax.com.ua/news/general/139568.html>; Labirynth of Zakharchenko. – *Nashi Hroshi* web site, <http://nashigroshi.org/2014/01/27/labiryntzaharchenka/> (in Ukrainian).

¹⁰ For instance, at the beginning of 2014, "Oplot" organisation was set up in Kharkiv, and later – the "Ukrainian Front" union that set the task of opposing Maidan; now, both are known for their activity in the separatist movement.

ECONOMY

For Ukraine's economy, given the refusal to sign the Association Agreement with the EU, the year of 2013 will go down in history as a year of vane expectations and lost opportunities. That step caused Ukraine's **most serious systemic loss** on the road to deep institutional transformations necessary for a civilised access to the European and world markets, growth of competitiveness, creation of a favourable business and investment climate for innovative development of the country.

The "Moscow agreements" between Ukraine and the Russian Federation of 17 December 2013, led to a **temporary mitigation** of the most acute problems related with Ukraine's access to Russian markets, discriminatory prices for Russian energy resources, budget disparity and lack of funds for foreign debt servicing. However, in strategic terms, these factors **could not be deemed consistent with national interests** of Ukraine.

Systemic drawbacks in the government's economic policy in 2013 brought poor economic results and resulted in **deepening stagnation**. According to the official data, the real GDP growth was 0%. The nominal GDP forming the basis of the country's budget was more than UAH 100 billion lower than the Government predicted.¹¹

Despite the official claims of economic revival, **the production substantially dropped** in all sectors¹² except the agriculture (by 13.7%, mainly thanks to good weather conditions and a good harvest); a 9.5% growth was recorded in retail trade – however mainly due to the high level of consumer imports. The financial performance of enterprises had substantially deteriorated: in the first three quarters, their profits fell to UAH 22.8 billion, which is 2.5 times lower than in 2012.¹³

In the absence of structural reforms, **the business and investment climate worsened**. The investment share of GDP dropped to 16%, which substantially undermined the potential for economic recovery. The structure of capital investment funding was highly unsatisfactory: almost two-thirds (61.2%) were the companies' own funds and bank loans made only 15.7%. This significantly reduced the working capital of enterprises, complicated their economic activity, and limited opportunities to make large-scale, long-term investments, implement innovative projects and raise competitiveness in general.

Deteriorating economic dynamics and large debt repayments resulted in further **deterioration of the public finance**. The state budget deficit equalled UAH 55 billion, which is 22% higher than in 2012. With account of all obligations of the Government,¹⁴

Some effects of "Moscow agreements"

1. The Russian promise to give Ukraine \$15 billion by buying Ukrainian Eurobonds posed **extremely high risks** for Ukraine.

Concentration of a significant quantity of Eurobonds in the hands of **one** creditor makes a country **very dependent on it financially**. The holder of such bonds **may demand early** (at any time) payment, which is very burdensome for a country with a poor financial standing (low credit rating). This only **raises the risks of a default**, as it may prompt other investors to demand early repayment of their receivables.

The position of Russia as Ukraine's only creditor significantly simplified the fulfilment of its political and economic demands on Ukraine. In case of "dissatisfaction" with Ukraine's policy, Russia could demand a serious compensation – in the form of simplified access of Russian corporations to privatisation of Ukrainian facilities or direct participation in ownership (or at least control) of its attractive enterprises (application of the mechanism of conversion of debts into ownership). As a result, Ukraine could lose critical strategic assets, such as *Turboatom*, *Pivdenmash*, *Motor Sich*, the gas transportation system, the Odesa Port Plant, seaports, etc.

2. Ukraine's geopolitical retargeting at the end of 2013 and its growing subordination to Russia envisaged **suspension of Ukraine's cooperation with international financial institutions**, first of all, the IMF. This meant **effective international financial isolation of Ukraine**, since the absence of cooperation with the IMF created a situation where projects of the World Bank, IFC, the EU, and other large private investors could not be funded properly.

Refusal to cooperate with the IMF also meant actual **refusal to conduct structural reforms in the country**, especially in the public finance sector; and transition to so-called "cheap" gas would mean **refusal to modernise and restructure the industry based on energy efficiency**, resulting in a further decrease of competitiveness of the Ukrainian economy locked up within the limits of weak CIS markets.

the deficit of public finance in 2013 was estimated at UAH 7580 billion (5.5% of the GDP).

The main internal source for deficit financing was the internal governmental bonds, issued in the amount of UAH 109 billion.¹⁵ Rather high yield bonds (13-14%) pose significant risks for their servicing in the next two years. By contrast, such an important source as privatisation was not used – the proceeds from it did not exceed 10% of the targets.

Foreign trade deficit remained high. In the conditions of weak structural changes, export levels, primarily to the EU markets, did not increase. In such conditions, Russian trade restrictions were very painful and caused considerable export losses. As a result, the current account deficit hit \$16.1 billion (12% more than in 2012).

¹¹ According to governmental plans for 2013, under the real GDP growth of 3.4%, the nominal GDP was to make UAH 1.58 billion, but it was estimated at only UAH 1.45 billion.

¹² The decline made: in industry – 4.7% (in that, chemical industry – 17.5%, machine building – 13.8%); construction – 14.5%, freight traffic – 3.9%.

¹³ At that, profits of profit-making enterprises went down, while losses of loss-making ones (whose share exceeded 40% of the total) substantially increased.

¹⁴ Including the financial needs of the state monopolists, first of all, *Naftohaz Ukrayiny* NJSC and the Pension Fund.

¹⁵ At that, bonds of the previous years to the amount of UAH 64 billion were repaid.

The situation regarding the inflow of foreign direct investments substantially deteriorated. In 2013, foreign investors invested \$5.7 billion worth of stock capital in Ukraine and repatriated \$2.8 billion from the country. So, the net inflow of FDI totalled nearly \$2.9 billion, which is twice lower than in 2012 (\$6 billion).

Financing large foreign trade deficit and foreign debt payments required **an increase in foreign borrowings**: at the end of 2013, the total foreign debt hit \$142.5 billion (nearly 80% of the GDP). Meanwhile, short debts totalled \$69 billion, which is almost three times higher than **the national currency reserves** (\$20.1 billion, as of the year end after the receipt of the Russian \$3 billion loan).

The overall deterioration of the external debt situation was further complicated by the growing debts of Ukrainian enterprises to Russian national banks. In particular, Ukrainian enterprises borrowed nearly \$30 billion from the Russian *Sberbank*, *VEB*, *VTB*, *Gazprombank*,¹⁶ raising risks of losing the key national assets in future in case of Ukraine's inability to repay loans.

Foreign exchange markets saw strong disparities. The demand for foreign currency remained high, despite the employment of administrative tools and encouragement of the population and business to sell it. Although the NBU continued to support the *hryvnia* for political reasons, doubts grew about its ability to ensure the stability of the national currency. They came true at the end of 2013, when the political situation aggravated in the country. A rapid depletion of reserves triggered expectations of a devaluation, which in itself was a powerful destabilising factor.

ENERGY SECTOR

The key events of 2013 in Ukraine's energy sector included the signing of production sharing agreements (PSAs) with leading international energy companies, increased cooperation with the EU in reverse gas deliveries and the adoption of the Law "On Principles of Functioning of Ukraine's Electricity Market".

Implementation of gas extraction projects to ensure gas self-sufficiency required \$70 billion of investments by 2030. PSAs signed in 2013 with Shell and Chevron (exploration and development of unconventional gas deposits), ENI and EDF (development of deposits on the Black Sea shelf) were important for solving investment problems of the country. However, **Russia's annexation of the Crimea has effectively ruled out any options for implementation of the agreements on the Black Sea shelf.**

The Law "On Principles of Functioning of Ukraine's Electricity Market" is rather controversial. Along with forward-looking provisions on market liberalisation in accordance with the

EU legal principles, the Law also establishes mechanisms for preserving the cross-subsidies that can be used in the interest of individual business groups.¹⁷ But the Government's refusal to sign the Association Agreement have largely nullified prior results from adapting the Ukrainian legislation to EU norms and efforts to diversify energy supplies.

The above-mentioned **"Moscow agreements" of 17 December 2013 had a clause on providing Ukraine with a temporary discount on Russian gas.** Implementing these agreements would have the following negative effects:

- under the guise of a gas transportation consortium Ukraine, following the Belarusian scenario, would be forced to give up its GTS with four gas storages to Russia;
- *Gazprom* OJSC acting via subsidiary companies might obtain a tool for gradual establishment of a monopoly control over the national gas market;
- Ukraine would lose an opportunity to implement diversification projects on reverse gas deliveries from the EU and construction of an LNG terminal;
- due to employment of a non-transparent mechanism of price reduction, investment risks arose for implementation of domestic gas extraction projects.

In the end result, being drawn back under the Kremlin's influence, Ukraine would face huge difficulties getting funds from international financial organisations for implementation of projects in the fields of energy conservation, diversification of energy supplies, and development of renewable energy sources.

SOCIAL SECTOR

In the sector of wage formation, the government continued a cheap labour policy, combined with the practice of non-payment of wage. As in previous years, the minimum consumer basket was never revisited; the minimum salary was equal to the understated subsistence level for an able-bodied person. At the end of 2013, an average wage actually did not differ from what it was at the start of the year (UAH 3268 and UAH 3212, respectively; only UAH 56 (or \$7) difference according to then effective exchange rate).¹⁸ Meanwhile, prices for the most common foodstuffs kept on rising during the year: for instance, in September 2013, the so-called "borshch set" was almost 55% more expensive than in September 2012.¹⁹ Non-payment of wages as of 1 January 2014 totalled UAH 808.2 million (only 9.6% less than at the beginning of 2013).

In social security, an inefficient system persisted, unable to ensure protection of those who needed it. As Viktor Yanukovich confessed as far back as in May 2012, there was a system

¹⁶ In particular, on December 27, 2013, Ukraine repaid a syndicated loan of \$750 million granted in September 2013 by the Russian *Sberbank* and *VTB Capital*.
¹⁷ Fund of distribution of value disparities – a mechanism subsidising thermal generation and renewable sources of power generation at the expense of nuclear and hydroelectric power plants.

¹⁸ Only in December, 2013, the average wages totalled UAH 3619 thanks to traditional supplements, awards, bonuses, etc.

¹⁹ Data of APK-Inform: vegetables and fruit. – www.fruitinform.com (in Ukrainian).

in the country whereby 77% of social allowances went to “quite well off, sometimes – even rich people”, while only 23% was spent to help the poor.²⁰ However, nothing was done in 2013 to bring order to the social security system. Instead, arrears in various social allowances were accumulated throughout the year: the sick leave arrears alone totalled UAH 500 million at the end of the year.

With this level of labour remuneration and efficiency of social allowances, the overwhelming majority of citizens could not afford not only modern dwelling, high-quality education, medical services and quality vacations, but also paying housing and utility bills. As of the end of 2013, arrears in payment for those services reached UAH 12.5 billion.

Education and healthcare saw a continuous practice of inefficient use of public funds because of the corruption schemes employed in the procurement of goods and services. In 2013, no funding was allocated to treat hepatitis patients; funding for treatment of tuberculosis and AIDS patients (an epidemic state) made only 40% of the need. The building of the *Okhmatdyt* child anti-cancer centre (the only one in Ukraine planned to be commissioned in 2012) was not completed.

Social initiatives of President Viktor Yanukovich remained on paper. In August 2013, it was reported that “tensions were rising in the budget sector”, along with concerns that a failure to meet the planned budget revenues endangered the implementation of the President’s social initiatives and priority tasks of modernisation of the social sector.²¹ Funds for achieving those tasks were never found.

This “progress” in fulfilling social commitments by the state has been illustrated by the State Budget for 2014 prepared by the Government of Mykola Azarov and adopted on 16 January 2014. Despite statements that the social component was the budget priority, the budget was clearly anti-social. When submitting the draft budget for 2014, instead of promising yet another “improvement”, so much spoken about during the two previous years, the Government referred to the global crisis and the experience of foreign countries, most of which had “to pursue a tough fiscal policy to reduce budget spending, including on social needs”.

For the first time in recent years, the budget did not plan any growth of the subsistence level, minimum wages and pensions till the summer 2014: the subsistence level was to increase only from UAH 1176 to 1207 from July (by UAH 31, or, according to January 2014 exchange rate, slightly over \$3) and up to 1256 (by UAH 80, or \$9) from 1 October; minimum salary was to grow from UAH 1218 to 1250 (by UAH 32, or some \$4) from 1 July and up to UAH 1301 (by 51 UAH, or \$6) from 1 October. Apparently, this increase would

not have compensated for inflation rate and in reality it would have merely meant a deterioration of living standards of an overwhelming majority of the population, especially of the low-income groups.

The 2014 budget also planned to “freeze” some social benefits including for Chornobyl victims. The Pension Fund budget was to increase by 4 billion UAH (in 2013 it rose by UAH 22 billion, compared with 2012). At the same time, the Fund was allowed to take bank loans to pay pensions.

In fact, these provisions of the 2014 State Budget alone attested to an actual failure of Government’s social policy.

HUMANITARIAN SECTOR

Just as the Razumkov Centre’s experts predicted, in 2013, the humanitarian sector remained vulnerable to the pro-Russian policy effectively pursued by the authorities, and to Russia’s external influence, continuously reinforced using new conceptual and programme forms. The content of some Russian documents and statements by Russian leadership witnessed the growing significance of the humanitarian component of the Russian foreign policy and its application to Ukraine to prevent its integration into the EU.

In February 2013, Russia adopted the new Foreign Policy Concept, setting a separate task of “engaging Ukraine in deep integration processes in the CIS”. First of all, the Concept presents “the reverse side of globalisation processes” – “the increased emphasis on civilisational identity” as one of the main trends of the modern world. Second, the emphasis is made on growing importance of “soft power” in international relations (“Soft power, a comprehensive toolkit for achieving foreign policy objectives building on civil society potential, information, cultural and other methods and technologies alternative to traditional diplomacy, is becoming an indispensable component of modern international relations”). Third, it reiterates such a line of the Russian foreign policy as “protecting rights and legitimate interests of compatriots living abroad [...], while considering the numerous Russian Diaspora as a partner, including in expanding and strengthening the space of the Russian language and culture”. Fourth, the main regional priority of the Russian Federation is formulated as “the task of establishing the Eurasian Economic Union”. The goal of building relations with Ukraine is formulated in a special item: to build relations with Ukraine as a priority partner in the CIS, to encourage its involvement in deep integration processes.²²

In September 2013, the Russian President Vladimir Putin revealed some points on changing the substance, sense, goals and objectives of the Eurasian Union. If before the Russian spokesmen stressed that the Eurasian Union (as a successor to the Customs Union) was a purely economic entity, in his speech, Putin clearly said: “The future Eurasian Economic Union, which we pronounced, of which we have spoken a lot recently, is not just a set of mutually advantageous agreements. **The Eurasian Union is a project of preserving the identity of peoples, the historic Eurasian space in the new century and in the new world. Eurasian integration is a chance for the entire post-Soviet space to become an independent centre of global development rather than being a periphery of Europe or Asia.**”²³

²⁰ The President used the data of a survey performed with the World Bank assistance.

²¹ Yanukovich was warned that his social initiatives were under threat – mass media. – *Ukrayinska Pravda*, August 31, 2013, <http://www.pravda.com.ua> (in Ukrainian).

²² Concept of the Foreign Policy of the Russian Federation. Approved by the President of the Russian Federation Vladimir Putin on February 12, 2013. – web site of Russian MFA, http://www.mid.ru/brp_4.nsf/0/6D84DDEDEDBF7DA644257B160051BF7F.

²³ Speech by Vladimir Putin and a meeting of the Valdai club on September 19, 2013. – <http://eng.kremlin.ru/news/6007>.

By contrast to the Russian leaders, the Ukrainian leadership did not succeed in formulating a clear national humanitarian policy. The draft Concept for humanitarian development of Ukraine till 2020 has never been submitted for consideration to the Verkhovna Rada. Without clear conceptual principles, the humanitarian policy remained fragmented, if not entirely neglected by the authorities.

However, pro-Russian symbols and historic memory, etc. continued to dominate the Ukrainian cultural space with the connivance of officials. For instance, the use of the Russian language was increasingly encouraged not only in the media and cultural space but also by official communication at the national level.

The Russian version of history was also further promoted in the Ukrainian educational space (the practice of “rewriting” school textbooks; development of common with Russia methodological guides and textbooks – in particular, a textbooks on the history of the Great Patriotic War; removal of some prominent figures of Ukraine’s history unacceptable for the current official Russian historiography from history examination for secondary school graduates).

The specifics of developments in the humanitarian sector in 2013 was a large-scale activation of the “anti-fascist” project, closely connected with official presentation of the Great Patriotic War in the Russian Federation (while previously, the Ukrainian audience was mainly influenced through the “Russian World” project).²⁴ Exactly the “anti-fascist” project, with active support from PR representatives, rallied pro-Russian forces, produced mass events, including those aimed against the opposition and its actions. For instance, on 18 May 2013, Kyiv hosted the final event of the “Arise, Ukraine!” campaign that was opposed by a strong “anti-fascist meeting” involving recruited employees of budget-sustained institutions, mainly from the southern and eastern regions of Ukraine. The “anti-fascist” activities widely used symbols of the Great Patriotic War, such as ribbons of the Order of St. George. Their mass distribution by representatives of “Young Eurasia” organisation effectively turned the celebrations of 9 May 2013 into a “parade” of pro-Russian forces in the South and East of Ukraine.

“Anti-fascist” events and “anti-fascist” rhetoric reached their climax during protests in Maidan, setting residents of Ukraine’s South and East against its participants. “Anti-fascist” movements now oppose the “Kyiv authorities” and have acquired separatist traits. By the way, separatism is strongly supported by the above-mentioned “Young Eurasia”. It supplied Russian flags and ribbons of the Order of St. George to the “Donetsk People’s Republic”.²⁵

NATIONAL SECURITY AND DEFENCE

Summing up the results of 2013, one may see that most of prior pessimistic forecasts for the security sector functioning and development made by the Razumkov Centre’s experts came true made.

Internal dimension

1. Degrading defence capabilities: the non-reformed Armed Forces (the relevant State Comprehensive Programme was approved only on 2 September 2013, there was neither time nor money to implement it; optimisation of the Armed Forces structure, proceeds from sales of redundant property, facilities and land made 0.015% of the plan; a relative improvement of some indices of combat readiness, procurement and modernisation of arms had little impact on improvement of defence capabilities).

Reduction in the number of conscripts (from 27.5 thousand in 2012 to 12.5 thousand) and termination of draft to the Armed Forces from 2014 within the framework of the reform were performed in violation of the effective legislation. Bills on the Armed Forces strength in 2013 and 2014, simultaneously submitted by the President for consideration to Parliament only on 21 November 2013, were not approved by the end of the year. It seemed that the planned reduction in the Armed Forces strength and their restructuring was aimed at releasing and acquiring for nothing the redundant assets by persons connected with authorities.

2. Strengthening of structures tasked to perform policing and repressive functions (increased funding, paternalism, impunity, personal loyalty to the President and his cronies – the “family”) **in absence of reforms and effective civilian democratic control, first of all, parliamentary.** The number of the Ministry of Internal Affairs officers made 261 thousand personnel, including 33 thousand personnel in the Internal Troops that is twice the size of the Armed Forces.

3. Reduction of defence industry output for the Armed Forces of Ukraine – along with some general improvements in the defence industry: growth of defence exports (by 47% in course of nine months of 2013) and increase in *Ukroboronprom* profit (by 53%). Ukrainian exports saw a number of scandals that will have long-term negative effects on Ukraine’s image of an exporter of arms. The most recent of them dealt with Iraq rejecting 42 BTR-4 APCs delivered under a contract with Ukraine.

4. Regular underfunding of redundant ammunition disposal programmes. The funding for recycling from the general fund of the Ministry of Defence (MOD) budget in 2013 equalled 79.2%, from the special fund – 20.8%. In 2014, it was planned to reduce spending by 40%, compared to 2013.

External dimension

1. The level of practical cooperation with NATO and the EU (within the framework of CFSP) remained stable, which helped maintain

²⁴ The “anti-fascist card” was used for the first time in political processes of 2003-2004, witnessing tough confrontation of then pro-presidential and opposition political forces. Later on, the contraposition of “fascism – anti-fascism” was used during parliamentary and presidential election campaigns, especially in 2012, when the All-Ukrainian Association Svoboda got real chances to come to Parliament.

²⁵ Young Eurasia will send flags and ribbons to Donetsk. – http://yeurasia.org/2014/04/23/ruspring_report.

combat readiness of the Armed Forces, partner relations, but did not contribute to strengthening of the national security guarantees. Ukraine took an active part in peacekeeping operations and joint initiatives to support peace and stability, fighting terrorism, maritime piracy, illegal proliferation of weapons of mass destruction, and in joint international exercises. NATO and EU member countries continued to assist Ukraine in the disposal of surplus weapons and ammunitions; an implementing agreement with NATO was signed concerning safe reburial of radioactive waste, formed as a result of the military programmes of the former Soviet Union.

2. Relations with Russia remained tense, mainly in connection with issues of the Russian Black Sea Fleet stationing in Ukraine. Russian MOD's refusal to use the *Nitka* range in the Crimea was another proof of Russia's intention to downgrade military cooperation with Ukraine. Plans for building cooperation and developing joint projects were largely declarative.

3. The decision not to signing the Association Agreement with the EU passed in 2013 – after the suspension of accession to NATO (2006) and adoption of a non-bloc status (2010) – had only aggravated the problem of national security “deficit”. Such a decision, the circumstances of its adoption and subsequent actions of the authorities in response to mass events (including unmotivated violence against protesters) completely undermined trust of Western partners in then Ukrainian authorities, seriously weakened the ability to deter external encroachments on sovereignty, independence and territorial integrity of the state.

4. Prevalence of pro-Russian personnel and agents of Russian special services in the command and control bodies of the Armed Forces and other power structures led to disruption in the security sector governance.

FOREIGN POLICY

In 2013, Ukraine's international position steadily deteriorated. The government's actions showed that Ukrainian foreign policy (first of all, in the European and Eurasian domains) was, **first of all**, non-transparent, and manually pursued by President and his inner circle beyond civil and parliamentary control. That policy did not rest on the country's national interests and was used to pursue interests of the ruling clan (“family”) that shaped the nature and substance of actions of the state leadership in relations with foreign partners. **Second**, the foreign policy was not based on tested strategic approaches or clear tactics, and therefore, was inconsistent and unpredictable, unclear for Ukrainian citizens and partner countries. At the end of 2013, this became a pretext and one of the reasons for a deep internal policy crisis with unpredictable consequences for the Ukrainian state.

It should be noted that in 2013, **Ukraine failed to reinforce its foreign policy stance, improve relations with key partners or achieve the proclaimed foreign policy objectives. On the contrary – negative trends were on the rise.** In fact, this situation prevented the realisation of the main objective – to ensure favourable external conditions

for internal socio-political and socio-economic development.

1. Despite numerous statements of the country's leadership, the European integration policy was purely declarative. However, the unexpected move – concealed from the public and the Parliament and based on covert agreements with Russia to turn “East” – which resulted in the government's refusal to sign an Association Agreement with the EU, manifested a complete failure of Ukraine's foreign policy. Conflict with the EU therefore deepened due to negative internal processes marked by curtailment of democracy, persecution of the opposition, slow pace of reforms, and growing authoritarian trends (in particular, a number of “repressive” laws passed by Parliament on 16 January 2014 saw a strong negative reaction from the EU leaders).

2. Russia engaged Ukraine in the process of political and economic reintegration in the post-Soviet space. Relations with the Russian Federation took non-transparent, asymmetric forms of a “politico-economic barter” – concession of national interests in exchange for economic (e.g., gas) preferences. This was proven by the “Moscow agreements” of 17 December 2013, which *de facto* meant Kyiv's refusal to sign the Association Agreement with the EU in exchange for discount on Russian gas and loans for Ukraine. As soon as on 15 January 2014, the Government approved the Programme of Ukraine's cooperation with the Customs Union countries till 2020. By and large, such a policy of the country's leadership: (a) weakened the country's position in dialogue with Russia; (b) encouraged Russia to establish a protectorate over Ukraine, further pushing it towards the Eurasian integration. Later, Kremlin began implementing its plans by forcible means – armed aggression, occupation and annexation of the Crimea.

3. Relations with the USA saw a sharp “chill” and a crisis of trust due to internal developments in Ukraine. Washington's active support for Ukraine's European integration proved vane. Discontent of the US leaders with then Ukrainian authorities increased. On 18 November 2013, the US Senate passed a Resolution that condemned the politically motivated judiciary and demanded to free Yuliya Tymoshenko. Forcible actions of the Ukrainian authorities against peaceful demonstrators were also criticised in the US Senate Resolution of 8 January 2014, stressing, in particular, the possibility to impose relevant sanctions. The US imposed visa restrictions on Ukrainian officials involved in forcible actions in Maidan, and the State Department statement of 22 January 2014, demanded cancellation of the above-mentioned “anti-democratic legislation”.

4. No feasible results were achieved in other critical foreign policy domains. Maintenance of contacts with China, other countries of Asia and Pacific, Latin America, Turkey, India, Canada had a “delayed affect” and did not lead to a qualitative change in relations and, more importantly – to diversification of foreign links, trade and economic contacts of Ukraine in the world.

II. PROSPECTS FOR 2014

The events that took place at the beginning of 2014 fundamentally changed the internal situation in Ukraine and its external environment.

The first event was the victory of Euromaidan as a form of civic resistance. It fundamentally changed the internal political situation: the fall of Viktor Yanukovich's regime, with him and many of his cronies (including statesmen) leaving the country; restoration of the Constitution of 2004; formation of a new parliamentary majority and a new Government; appointment of early presidential elections.

The second event was the Russian armed aggression against Ukraine. Under the pretext of non-recognition of the new Ukrainian authorities and "defence of compatriots", just in three weeks Russia had occupied and annexed the Autonomous Republic of Crimea. Only on 17 April, Russian President Vladimir Putin admitted that "our military servants stood behind the Crimean self-defence forces".¹ There is no doubt that the Russian military now "stands behind" the pro-Russian self-defence forces in the East and South of Ukraine, where separatist sentiments grow and talks of joining the Russian Federation continue.

Most of the world's countries and leading international organisations condemned Russian aggression. In particular, the world community showed solidarity with Ukraine at the UN General Assembly session on 20 March 2014: 100 countries supported "sovereignty, political independence, unity and territorial integrity of Ukraine within its internationally recognised borders".² Some states (the USA, the EU countries, Canada, Japan, Australia, etc.) imposed sanctions on the Russian Federation and/or separate Russian officials.³

However, on the other hand, the developments leading to the annexation of the Crimea revealed the failure of international security systems (UN, OSCE) to adequately respond to Russia's actions. It appeared that Ukraine, with no real international guarantees of state sovereignty and territorial integrity as well as reliable allies, cannot count on foreign military assistance; while sanctions against Russia do not correspond to the actual situation and will not have a decisive influence on its intentions, including a full-scale invasion into Ukrainian mainland.⁴

Given the realities outlined, it may be argued that the year of 2014 will be decisive for Ukrainian statehood. There are two basic scenarios of developments.

The first one involves Russian military invasion of Ukraine and, respectively, full-scale combat operations of the Ukrainian Armed Forces to repel the aggressor. This option rules out any realistic forecasts.

The second one envisages the preservation of the current situation: the Crimea remains temporarily occupied, but the Russian Federation abstains from invading Ukraine. Meanwhile, Russia continues its efforts aimed at destabilisation of the internal situation in Ukraine by using trade and economic sanctions, subversive activities via media channels and agents of influence across the Ukrainian territory as well as supporting separatist movements in the South and East of Ukraine.

The second option has a greater chance of being implemented. This enables to predict what the outcome will be but requires a certain degree of precaution, given the destabilising factors, which might affect the reliability of forecasts.

DOMESTIC POLICY

The key problem of 2014 in the home policy will be presented by the situation in the current institutions of governance, the key events – early presidential and, possibly, parliamentary elections,⁵ and the process of amending the Constitution. Those events will have a decisive influence on

composition and activity of senior institutions of governance and on the nature of social and political developments. Civil society institutions will be an important factor of influence – given their activation prompted by Maidan. The situation in the Crimea and in the South and East of Ukraine will continue on being a separate internal policy issue.

¹ Direct line with Vladimir Putin, April 17, 2014. – <http://www.kremlin.ru/transcripts/20796>.

Noteworthy, on March 4, Vladimir Putin answering a direct question whether Russian military servants blocked Ukrainian military units in the Crimea said "They were local self-defence forces". See: Vladimir Putin answered journalist questions about the situation in Ukraine. – *Ibid.*, <http://www.kremlin.ru/transcripts/20366>.

² Russia was supported by only 10 countries: Belarus, Bolivia, Venezuela, Armenia, Zimbabwe, Cuba, Nicaragua, North Korea, Syria, Sudan.

³ Entry ban for some Russian officials, suspension of military-technological cooperation, conclusion of bilateral agreements, suspension of Russian membership (the right to vote) in some international unions, etc.

⁴ Such intentions are revealed, first of all, by the concentration of Russian troops on Ukraine's eastern borders. Also noteworthy are Vladimir Putin's appeals to the historic affiliation of Ukraine's South-Eastern regions to Russia ("New Russia", "certainly bound by its roots with the Russian state"), and his vague and at the same time potentially threatening answer to the question whether "deployment of a limited contingent in the South-Eastern part of Ukraine to defend the Russian-speaking population" was planned – "...We know for sure that we should do everything to help those people to defend their rights and to decide their fate on their own. We will fight for that. I remind you that the Russian Federation Council gave the President the right to employ the Armed Forces in Ukraine. I strongly hope that I will not have to use this right and that we will manage to solve all acute, not to say acutest, problems of the day in Ukraine through political and diplomatic means". – Direct line with Vladimir Putin, April 17, 2014 (*in Russian*).

⁵ It is expected that early parliamentary elections may be held in the 4th quarter of 2014.

1. Situation in government institutions

Current government institutions formed after the fall of Viktor Yanukovich's regime **bear elements of instability**.

Now, **the Verkhovna Rada** is the only legitimate body of state power. Its composition remained generally unchanged, while the overall situation in the country has undergone dramatic changes – as a result, the current Parliament does not reflect public spirits.

Reinstating the Constitution in the wording of 2004 gave the Verkhovna Rada new powers, in particular, to form the Government. After 22 February 2014, a new majority was formed from factions of the All-Ukrainian Association *Batkivshchyna* (88 MPs), UDAR (41), All-Ukrainian Association *Svoboda* (35), and newly established parliamentary groups “Economic development” (38 MPs), “Sovereign European Ukraine” (36) and independent MPs (58). New parliamentary groups were made up mainly from among the MPs who resigned from the Party of Regions (PR) faction in February-March 2014. This majority has no common ideological basis and is unstable, which will complicate further decision-making. Meanwhile, the opposition – PR and CPU factions – in fact withdrew from the law-making process. Early parliamentary elections may potentially solve this problem.

The Government acts according with an approved Programme, which together with the parliamentary coalition ensure its relative stability. The Government will face two difficult periods: after the presidential elections (when it will have to appoint “presidential” ministers, and the newly-elected President will appoint heads of city state administrations proposed by the Government), and the period during the parliamentary election campaign. Unpopular actions, which the Government will have to make in order to stabilise the economic situation will run contrary to electoral goals of the parliamentary parties, that will be speculated on by the opposition. Composition of the Government is likely to change following early parliamentary elections.

One important task of the current authorities is **to complete the process of their formation from top to bottom and restore controllability**. That will be a difficult task to achieve, especially in the South and East of Ukraine, given the loyalty of the local ruling elites to opposition forces, their ties with relevant business groups, as well as due to the activity of separatist movements and Russia's influence. In addition, local authorities also lack the stability due to the forthcoming presidential elections and the prospects of fundamental changes in the local government system (decentralisation) declared by current authorities.

The judiciary will see mass replacements. The Law “On Restoring Confidence in the Judiciary in Ukraine” of 8 April 2014 created a legal basis for lustration and replacement of the senior judiciary personnel. At the same time, it provided some mechanisms that can lead to real violations of human and civil rights, especially on motives not envisaged by the Law. So, at the initial stage, application of the Law will strongly depend on the composition of the body implementing measures provided by it.

2. Early presidential elections

On 22 February, the Verkhovna Rada set 25 May 2014 to hold early presidential elections in Ukraine.⁶ Their conduct in accordance with international standards is crucial, since it will complete the process of creating and legitimising the new system of governance. Meanwhile, given the lack of Russia's interest in this scenario (due to the absence of a viable pro-Russian candidate), one may expect further attempts to destabilise the situation (first of all, in the South and East of Ukraine), disrupt the elections, and not recognise the results, if elections do take place.⁷ Meanwhile, it should be noted that the amendments to the Law “On Elections of the President of Ukraine” made in February-March 2014, enhance guarantees of recognition of the election results, irrespective of the number of regions where the elections take place.

Politically, the 2014 presidential campaign may be the first where the main rivalry will take place between representatives of the same part of the political spectrum largely sharing the same electorate. Among the 23 registered candidates, the real contenders are Yuliya Tymoshenko (All-Ukrainian Association *Batkivshchyna*) and Petro Poroshenko (self-nominated, supported by the UDAR party). UDAR's leader Vitaliy Klitschko withdrew his candidacy in favour of Petro Poroshenko to stand for the Kyiv City Mayor. Other candidates claiming affiliation with that political camp (Anatoliy Grytsenko, Oleh Lyashko, Oleh Tyahnybok, etc.) have no real chances of winning.

The opposite political camp failed to nominate one candidate with strong chances to make it to the second round. The highest rated candidate on that flank – Serhiy Tihipko – is self-nominated. Instead, PR officially nominated Mykhailo Dobkin, former head of the Kharkiv Regional State Administration.⁸ Both of them will be unacceptable for voters in the Centre and West of Ukraine, since most of them seek systemic changes in the country.

So, Petro Poroshenko and Yuliya Tymoshenko may well compete in the second round of elections. **The campaign held within very tight time limits**

⁶ Elections to local self-government bodies in some Ukrainian cities – Kyiv, Cherkasy, Chernivtsi, Odesa, etc. – are also appointed for May 25.

⁷ Such an option was already articulated by Vladimir Putin: “...You know how the presidential race goes on in Ukraine. It takes place absolutely inadmissibly, in absolutely inadmissible forms. If everything continues like that, we, of course, cannot recognise all that happens after May 25 legitimate”. – Direct line with Vladimir Putin, April 17, 2014.

⁸ In addition to them, votes in the South and East will be sought by Petro Symonenko (CPU leader), former PR members Yuriy Boiko, Valeriy Konovaliuk, Renat Kuzmin (former First Deputy Prosecutor General of Ukraine).

will be rather tough. Proceeding from the current ratings and probable cross-flow of votes among the best-rated candidates in the second round, one may predict higher chances of victory of Petro Poroshenko.

In terms of substance, the policies of the main presidential contenders will not differ substantially – given the really difficult financial and economic situation that will require unpopular measures and the limits set by Maidan.

Given the probability of early parliamentary elections at the end of 2014, one may expect **amendment of the election legislation** (including the adoption of the Election Code) in summer or early autumn. Since Yuliya Tymoshenko disagrees with the idea of open regional lists, one may expect conservation of elections rules (with closed party lists).

Impact of presidential elections on policy processes. The presidential campaign will be accompanied with emergence of political alliances and arrangements that may include, first of all, an alliance of the UDAR party with Petro Poroshenko and *Solidarnist* party.

Further developments will depend on the election results.

If Petro Poroshenko wins, he can well come to terms with the Government of Arseniy Yatseniuk. As a result, the influence of the part of the All-Ukrainian Association *Batkivshchyna* associated personally with Yuliya Tymoshenko will go down (although the parliamentary coalition, most probably, will survive). Yuliya Tymoshenko may be expected to concentrate on soonest conduct of early parliamentary elections – to secure the victory of the All-Ukrainian Association *Batkivshchyna*. The achievement of that goal automatically makes her top candidate for the post of Ukraine's Prime Minister, while the political future of Arseniy Yatseniuk becomes less certain.

If Yuliya Tymoshenko wins the presidential elections, the present Government will work till next parliamentary elections. Still, Yuliya Tymoshenko will have to come to terms with Petro Poroshenko, Vitaliy Klitschko, Oleh Tyahnybok and the political forces led by them (UDAR, *Solidarnist*, *Svoboda*) in order to create a coalition in the new Parliament.

Partial changes in the Government may take place after the victory of any of these two candidates.

Following the presidential elections, changes will take place within parliamentary parties.

In the **UDAR party**, some active members disappointed with Vitaliy Klitschko's withdrawal from the elections may ally with other centres of influence. On the other hand, if Petro Poroshenko wins, one

may expect strengthening of his position in the party (and even a formal merger of UDAR with *Solidarnist* parties), transformation of the party into a "centre of gravity" for some former PR functionaries and associated attempts to win support among voters in the South and Centre of Ukraine.

All-Ukrainian Association Svoboda may suffer some electoral losses due to the drift of part of its voters to the Right Sector party. Apparently, in such conditions *Svoboda* will have to move closer to the "centre" to make up for those losses.

Furthermore, those parties may have to compete with "new" political forces that took active part in Maidan and seek to incorporate public movements and individual popular politicians of Maidan (the "Democratic Alliance" party, the "Third Republic" movement, etc.).

The Party of Regions, given its split during the nomination of presidential candidates, may limit its influence only to the eastern regions of Ukraine (Donetsk, Luhansk, Kharkiv), while Serhiy Tihipko may unite PR figures dissatisfied with Donetsk monopoly established in the party.⁹ This is the evidence of struggle for influence in the Party between different financial-industrial groups (traditionally associated with Rinat Akhmetov and Dmytro Firtash). As a result, "A Strong Ukraine" party may arise on the same electoral basis.

CPU is unlikely to strongly influence political processes but is likely to preserve a sufficient level of support to cross the threshold of the parliamentary elections. Meanwhile, the Party may well be prohibited to take part in elections following the investigation of its involvement in separatist activity.

Given Russian support for separatist spirits in some Ukrainian regions, one cannot rule out chances that a **new political force** in Ukraine could be created before the end of the year, controlled by Moscow and pursuing an openly pro-Russian policy.

Local elections in Kyiv

The main feature of the elections to the Kyiv City Council and of the city mayor is that the main contender for the post of the city mayor will be Vitaliy Klitschko – until recently, the public opinion leader in opposition to Viktor Yanukovich. His main rival is expected to be Volodymyr Bondarenko, representing All-Ukrainian Association *Batkivshchyna*. At the beginning of April, Vitaliy Klitschko was the undisputable leader among the Kyivites, but his somewhat unclear position resulted in electoral losses. The question how his alliance with Petro Poroshenko will influence the support of the Kyivites remains open. Probably, there will be few new faces in the new Kyiv City Council, but representation of civil society (from among the Maidan leaders) will be more prominent. Its political structure will differ from the former one: the council members representing the factions of *Batkivshchyna*, UDAR and *Svoboda* parties may form the core of majority.

⁹ On April 7, 12 MPs associated with Dmytro Firtash and Serhiy Lyovochkin quit the PR faction, Yuriy Boiko, Serhiy Tihipko, Oleh Tsariov were expelled from PR.

3. Constitutional reform

Implementation of the constitutional reform in September 2014 was envisaged by the Agreement of 21 February 2014 on settlement of the crisis in Ukraine. Although Yanukovich's refusal to sign the Law on return to the Constitution in the wording of 2004 and his subsequent flight to Russia effectively disowned the Agreement, the Verkhovna Rada on 4 March 2014, set up a Temporary Ad Hoc Commission for Drafting the Bill on Introduction of Amendments to the Constitution of Ukraine (hereinafter – Ad Hoc Commission). **A number of factors give grounds to term the amendment to the Constitution in present circumstances inexpedient or at least ill-timed.** On the other hand, they can serve as a stabilising factor in relations among political elites and people from different regions of Ukraine as well as may meet expectations of the West for such stabilisation actions.

Pursuant to the Verkhovna Rada decision of 8 April 2014, the Ad Hoc Commission is to submit the Bill on introduction of amendments to the Constitution by May 15. The commission employed a group of experts in the constitutional law, including from non-governmental organisations. The group proposed drafting changes to such sections of the Constitution as “The Verkhovna Rada of Ukraine”, “The President of Ukraine”, “The Cabinet of Ministers of Ukraine; Other Executive Authorities”, “Public Prosecution”, “Justice”, “Local Self-Government”, “The Constitutional Court of Ukraine”, “Transitional Provisions”. The key changes are proposed in the following domains: relations in the “President-Parliament-Government” triangle, judicial bodies, and territorial organisation of power (implementation of decentralisation).

There are several problems that may prevent implementation of the constitutional reform. *First*, since at the time the Ad Hoc Commission was formed no draft amendments to the Constitution had been submitted to Parliament, so after drafting, the Bill will have to collect at least 150 signatures from MPs. Given the mixed nature of the coalition and the upcoming presidential elections, this number is not guaranteed. *Second*, the bill most probably will pass the first reading, in June – after the presidential elections, which will require a simple majority. However, there is a possibility that in case the bill limits his powers the new President will block its passage (through controlled MPs). This is even more true for the final stage of voting that will require a constitutional majority. *Third*, after the presidential elections, the degree of unity in the parliamentary coalition could decline. Therefore, chances of adopting amendments to the Constitution within the set terms are far from certain.

4. Civil society organisations (CSO)

In 2014, civil society organisations will be important actors of social and political developments in the country. Protests, first of

all – Euromaidan, resulted in: (a) activation of the existing public organisations and movements; (b) emergence of new organisations and movements, some of them – institutionalised (All-Ukrainian Public Organisation *Maidan*, the Right Sector) and rather radical; (c) emergence of anti-Maidan organisations and movements (first of all, in the South and East), with support from previous authorities and partly involving criminal structures.

Given the concurrence of the three above-mentioned election campaigns in 2014, one may predict active involvement of all segments of civil society. It will take forms of direct nomination of CSO representatives as candidates; participation in election campaigns as auxiliary, technical elements; participation in election campaign monitoring. CSO candidates (including those recently transformed into parties) will take part, opposing “old” parties and their candidates.

The problem with legalisation of paramilitary formations formed in Maidan, especially the most radical ones, will remain acute throughout the year. As the events of March 2014 involving representatives of the Right Sector showed, there is a real threat of foreign actors using separate radical groups or their representatives to destabilise the situation in Ukraine. This is even more true for “anti-Maidan” organisations and movements in the South and East of Ukraine actively engaged in separatist activities inspired by the Russian Federation. There exists a problem of physical “collapse” of the Maidan in Kyiv, which may cause spontaneous or planned protests. Possible ways for transforming Maidan’s paramilitary and radical formations involve the recruitment of their members to serve in the official law-enforcement bodies; creating legal formations for protection of public order, and in presence of relevant legislative framework – the municipal militia; retargeting to control the authorities and anti-corruption monitoring.

5. Situation in the Crimea, South and East of Ukraine

Ukraine, relying on international guarantees of its territorial integrity, will not recognise the new status of the Crimea following its annexation by Russia. The status and relations with the Crimea will be determined by the Law “On Legal Regime of Guarantee of Civil Rights and Freedoms on Temporarily Occupied Territory of Ukraine” of 15 April 2014.¹⁰

The Crimea will remain an area of instability. The situation will be conflictual: internal conflicts in the Crimean society among different groups (Crimean Tatars and other ethnic groups; the citizens of Ukraine and of Russia), as well as between the society and the new Crimean establishment, between

¹⁰ The Law does not deal with the specificity of economic activity in the Crimea, to be regulated by another law. The issue of creation of a separate governmental structure to deal with the Crimean issues will be considered separately.

the latter and central Russian authorities. One may expect gradual growth of public discontent in the Crimea with actions of the occupation forces and demands of the new authorities. In particular, reports of possible deployment of Crimean military and law-enforcement officers to “hot spots” of the Russian Caucasus are unlikely to be welcomed, along with the Russian business encroachments on the recreational infrastructure and actual privatisation of the coastal strip.

Situation in the country’s South and East will largely depend on the following factors: the stance of the dominant business groups; the degree of integration of local political and administrative elites into the national political system; the policy of central authorities in issues “sensitive” for those regions (foreign policy, language, symbols, public holidays) and outward manifestations of their perceptions (rhetoric); the central authorities’ ability to use the available tools to control the situation in regions (including “hard power”) and to enforce procedures at the border with Russia. The socio-economic situation (employment, regular payment of wages, pensions and social allowances, the level of prices and tariffs) will play a decisive role here.

Meanwhile, it may be predicted that pro-Russian public and political structures (including parliamentary parties) will remain **active**, given the internal factors (especially elections) and ongoing support provided to them by the Russian Federation. Donetsk and Luhansk regions will remain the main sources of tension. The issues of “federalisation” and of Russian as a second official language, along with “countering of neo-fascism in Ukraine”, will make the main issues for political and public structures in those regions. Given that members of relevant political forces (PR and CPU) will remain in the opposition and will not be considered responsible for socio-economic situation, the conditions will be favourable for speculations on those subjects.

ECONOMY

Serious economic deformations inherited from the regime of Viktor Yanukovich, the need of rapid implementation of reforms, growing political, economic and military confrontation with Russia substantially enhance **risks of economic destabilisation in Ukraine**.

Basic (relatively optimistic) forecasts:

- **Ukraine manages to avoid military conflict with Russia**, human toll, destruction of economic and infrastructural facilities, preserve peaceful production;
- **Ukraine enjoys support of the world community**: full-scale restoration of cooperation

with international financial institutions (first of all, the IMF); economic and financial support from North American countries and the EU;

- **the Government purposefully works towards** establishing clear and transparent rules for all economic agents, finding new markets for competitive Ukrainian goods and services, raising energy efficiency;
- **the Government pursues a firm policy of modernisation** and well-considered (probably, unpopular for oligarchic business and vulnerable groups of the population) structural changes in the economy that will result in a decrease in the deficit of public finance and foreign trade;
- **the Government** (in case of failure of economic mechanisms) will have to **step up the use of administrative tools of economy regulation**, including limitation of foreign exchange transactions, wage freeze, state budget cuts, directive **regulation of prices and conditions of deliveries at some commodity markets**.

Real sector. In 2014, GDP will drop by 4.5-5%.

Factors shaping this decline will involve: deteriorating conditions for business activity within the country and breach of many foreign economic ties; introduction of additional limitations for Ukrainian manufacturers’ access to the majority of CIS markets (their decline will reach 20-25%) causing a substantial decrease in total exports; preservation or reduction of social spending, which will constrain aggregate demand; substantial devaluation of *hryvnia*, which will boost the inflation;¹¹ actual removal of the Crimean economy from Ukraine’s economic space and direct losses associated with it (seized facilities, investments and other assets, control of which has been lost).

Despite these bottlenecks, **Ukraine can use some opportunities** to save the economy from collapse. For instance, the resumption of cooperation with the IMF will help to replenish national currency reserves, while mitigation of export conditions (unilateral opening of the EU market for Ukraine), combined with devaluation of *hryvnia*, will help Ukraine boost exports to European markets (according to the EU experts, by up to €0.5 billion).

For the real sector, restructuring and introduction of innovative approaches, search of new markets and new sources of production support will be of key importance – this can be done only on the condition of an active and strategic structural policy of the Government.

Investments. In 2014, investors will take a **wait-and-see approach**: the share of investments in the GDP structure may drop down to 14-15%. Meanwhile, in case of resumption of privatisation on the conditions

¹¹ However, despite the low living standards of the population and restriction of social standards, the inflation will be lower than the level of devaluation of the national currency.

of transparency and competitiveness and arrival of new owners and managers at enterprises previously controlled by the “family”, economic efficiency and budget proceeds may grow.¹²

State budget. The 2014 budget, although adjusted not long ago to cut both revenues and expenditures, remains tough. One should be aware that growing inflation and the need to raise defence expenditures will result in deterioration of social standards, spending cuts on education, science, public health. Infrastructure projects and projects with a long repayment period will not be funded properly.

The sources for funding the deficit of Budget-2014 remain undecided. Ukraine may hope for additional funds from the EU, the World Bank, EBRD, the key developed countries – this year, total proceeds can make \$8-10 billion. However, Ukraine’s access to financial markets will be strongly complicated due to high political risks.

Access to domestic borrowed funds will also be limited – domestic bonds (internal governmental bonds) cannot be a reliable source of deficit funding, as it was in 2013.¹³

Meanwhile, it should be noted that even with such budget limitations, the funding for critical programmes may grow in case of substantial progress in fighting corruption, removal of the “kickback” system, etc. The fundamental revision of public procurement system and its harmonisation with EU regulations – in line with the new Law on public procurements – will only reinforce these changes. Such steps as introduction of a “cheaper” government by cancelling various preferences and privileges, unjustified operational costs that in the recent years have become a budget “black hole” are likely to produce similar results.

Balance of payments. Since the structure of foreign trade remained unchanged (dominated by a small group of low-tech semi-finished products and goods with low added value), limitation of access

to traditional (first of all, Russian) markets will not be offset by the access of Ukrainian manufacturers to markets of “third” countries. Even on the condition of better access to the EU markets, the aggregate demand for Ukrainian exports there may grow only insignificantly (by 5-7%).

Meanwhile, one should expect a more significant commodity imports decline due to economic stagnation caused by consumption of Russian gas and imported parts, as well as reduction in consumer goods imports that will lose their competitiveness due to a real decline of income and devaluation of *hryvnia*. However, against the background of the above-mentioned drop of exports to the CIS, the deficit of the balance of current payments will remain high – close to \$10 billion.

Foreign debt. Funding for the high foreign trade deficit and debt payments will require further growth of foreign debts. In the conditions of limited access to international financial markets and a drop of exports to the CIS markets, **Ukraine will have to repay foreign debts mainly at the expense of international reserves.** At that, their drop below \$15 billion is inadmissible, since it can cause strong deterioration in investor assessments of macroeconomic and financial situation in the country.

Meanwhile, the beginning of macroeconomic stabilisation can improve the attitude of international institutions and private investors to Ukraine, which will give the necessary cheap and long resources and therefore, help the country prevent the depletion of currency reserves.

Key macroeconomic forecasts. Significant economic risks substantially deteriorate macroeconomic prospects for 2014. The **main risks** for Ukraine’s economy include:

- extremely weak structural factors to restore economic growth, badly aggravated by growing political and economic confrontation with Russia;
- loss of investment potential due to significant political risks, disruption of ties and limited financial resources;
- budget deficit growth and limited sources for its funding;
- substantial deterioration of access to foreign commodity markets, the need to raise borrowed funds, the sources of which become ever more limited;
- growing devaluation pressure and depletion of currency reserves.

Macroeconomic forecast for Ukraine
(optimistic scenario)*

	2012	2013	2014 (forecast)
GDP, % <i>real growth</i>	0.2	0	-4.5-5.0
Inflation (<i>Dec.-Dec.</i>)	-0.2	0.5	12.5
Exchange rate: UAH/\$1 (interbank) (year end)	8.05	8.15	11.0-11.5
Balance of current accounts, \$ <i>billion</i>	-14.3	-16.1	-10.0
Foreign deb, \$ <i>billion</i> (year end)	135.1	142.5	145-147
International reserves, \$ <i>billion</i> (year end)	24.5	20.1	17-19

* Obviously, politically motivated force majeure events and/or failure of fundamental socio-economic reforms leave space for other scenarios for Ukraine’s economy, but they stay beyond macroeconomic predictions.

¹² Budget-2014 planned proceeds from privatisation at a level of UAH 17 billion. While previously, that figure seemed doubtful, since in the recent years the country practiced the mechanism of “**target**” **denationalisation** (i.e., sale of attractive enterprises to specific predetermined investors at a specified price), in the conditions of transparency and competition it seems quite realistic.

¹³ The market of internal governmental bonds has actually petered out. In 2013, the Ministry of Finance placed state securities worth over UAH 104 billion with the yield of 1314%. Such loans are very costly, and the value of their servicing will be high as soon as in 2014.

ENERGY

Socio-political and economic crises will complicate solving urgent problems in the energy sector. However, there are grounds to expect that the new Government will begin long-awaited reforms, including implementation of the EU *acquis* in accordance with commitments assumed by Ukraine when joining the Treaty Establishing the Energy Community. The Government's efforts are expected to focus on adjusting the pricing policy in the gas and electricity sectors, reducing cross-subsidies, reforming *Naftohaz Ukrayiny* PJSC, financial recovery of *NNEGC Energoatom* and improving the investment climate for the energy infrastructure development.

Gas sector. Illegitimate expropriation of the state oil and gas company *Chornomornaftohaz* PJSC and the Ukrainian part of the Black Sea shelf by Russia will cause large losses to the Ukrainian economy. In recent years, the government has invested over \$1.2 billion in the development of the offshore fields, which allowed *Chornomornaftohaz* PJSC to increase the production by 40% in 2013, compared to 2012. However, due to the loss of the shelf, the lost profit from gas extraction alone is estimated at \$40 billion;¹⁴ losses from the onshore energy infrastructure in the Crimea may total \$10 billion.

This obliges the Ukrainian Government to promptly (in the 2nd quarter of 2014) prepare documented claims to international courts for reimbursement of those losses by the Russian side.

Due to exhaustion of old fields and insufficient growth of reserves, gas extraction by *Ukrhazvydobuvannia* PJSC may slightly decline. Gas transit across the territory of Ukraine in 2014 will make 80-85 billion m³, due to the high demand for it in Europe. So, despite the commissioning of the new "North Stream" gas pipeline, Ukraine will remain the largest gas transit country on the continent.

The growth of the Russian gas price from the 2nd quarter of 2014 by more than \$200 for 1000 m³, compared to the 1st quarter, planned by *Gazprom* OJSC, prompted resumption of gas deliveries by the German *RWE* via Poland and Hungary and creation of new routes via Slovakia.

The EU decision to freeze cooperation on the "North Stream" gas pipeline construction project was especially sensitive for Russia. Such a decision should be viewed as an important practical step of the EU, since it will substantially mitigate the threat of Russia using its energy weapon ("gas wars") for political blackmailing.

Given the difficulties with natural gas supply to Ukraine, **the project of an LNG terminal construction will actualise**, and commercial attractiveness

of projects on exploration and development of unconventional gas fields will grow.

Electricity sector. The key provisions of the basic sectoral Law "On Principles of Functioning of Ukraine's Electricity Market" dealing with promotion of competition will enter into effect from 2017. So, in 2014 that Law will not influence market actors, but for its timely implementation, NERC and other state actors will have to do much work drafting numerous bylaws this year.

Depreciation of fixed assets at Ukrainian power generating facilities exceeds 70% – their upgrade will require over UAH 300 billion by 2030. To effectively solve this problem, the Government will try to eliminate a populist pricing policy and the system of cross subsidies and to introduce a model of competitive market development. Given the critical complication of relations with the Russian Federation, in 2014 one should expect revision of programmes of implementation of big investment projects, including planned construction of a nuclear fuel fabrication plant and completion of units 3 and 4 of the *Khmelnyskyi* NPP.

Ukraine's dependence on nuclear fuel deliveries from Russia requires expansion of cooperation with Westinghouse company, which will diversify its deliveries and give NNEGC Energoatom weighty arguments to reduce contractual prices with Posatom company. However, one should keep in mind that in the middle run, Westinghouse can supply nuclear fuel only for three out of 15 operational nuclear power units. Meanwhile, **Ukraine's critical dependence on removal of spent nuclear fuel to Russia requires immediate construction of a centralised storage for spent nuclear fuel.**

SOCIAL SECTOR

In present conditions, the fulfilment of social commitments by the state will present an extremely difficult task. On the one hand, the socio-economic standing of the population (employment, regular payment of wages, pensions and social allowances, the level of prices and tariffs) will play a central role in solving the key problem of the present day – stabilisation of the economic, social and political situation in the country (including the defeat of separatism in Ukraine's Southern and Eastern regions).

On the other hand, **the Government will have to resort to socially unpopular steps, and in extremely unfavourable conditions** of a generally small level of public trust in the new authorities, permanent pressure (up to the threat of hostilities) from Russia, possible conduct of two election campaigns, fulfilment of socially problematic

¹⁴ Ukraine evaluated the Black Sea shelf seized by Russia at \$40 billion – *Finance.ua*, 11 April 2014, <http://news.finance.ua> (in Russian).

requirements of international financial institutions (first of all, IMF), a harmful legacy of the previous government in the form of huge arrears in wages and social benefits, and sharp devaluation of *hryvnia* observed since February 2014 (according to NBU, from 7 February till 24 April 2012 *hryvnia* has lost 42.4% of its value).

There is also a number of risks that can affect the social sector. For instance, there is a real risk of destabilisation of the labour market, in particular, due to restrictions on trade, economic and cooperative ties with Russia and other countries of the Customs Union and the CIS; possible job losses by Ukrainian labour migrants in Russia following production and trade decline caused by decreasing market demand in conditions of inflation and restrictions on wage and pension rise. One should not rule out the risks of public discontent with deteriorating standards of living and possible protests on the part of recipients of dollar loans (which account for almost half of all borrowers in the country).

The authorities have already passed a number of legislative acts and made practical steps that will affect virtually all social layers of Ukrainian society, but first of all – the poor and lower middle class.

E.g., the Laws “On Introduction of Amendments to the Law of Ukraine ‘On the State Budget of Ukraine for 2014’” and “On Prevention of a Financial Disaster and Creation of Preconditions for Economic Growth in Ukraine”¹⁵ adopted on 27 March 2014, and other documents envisage, in particular:

- freezing of the subsistence level and minimum wages during the year at the level of December 2013 – UAH 1176 and UAH 1218, respectively (they will only be adjusted in line with the inflation rate);
- introduction of new taxes and duties (growth of the excise tax on alcoholic beverages and tobacco products, petroleum products, liquefied gas, motor fuel components, cars and other vehicles; imposition of VAT on medicines and medicinal products; expansion of the real estate taxation base; imposition of taxes on interests on deposits, etc.);
- reduction of grants in connection with the birth of the second, third and subsequent children (those grants were unified and will make UAH 41 280);
- restriction of privileges for some professional and social groups (military servants, officers of law-enforcement agencies, labour veterans, etc.) by the level of income per family member “not exceeding the amount of income entitling to social preferences”.

One should add to that the increase in rates for gas, housing and utility services (from 1 May, the gas price for households will rise by 56% on the

average; from 1 July, heating rates will grow by 40% on the average), consequences of the devaluation of *hryvnia* described above (actual loss of part of savings, decline of the purchasing power of fixed revenues of citizens – wages, pensions, social allowances), as well as the growth of prices for foodstuffs, energy resources and all fuels, etc.

All this taken together will result in reduction of the living standard of many Ukrainian families. The share of family budgets remaining after payment for foodstuffs, housing and utility services will decrease, which will limit citizens’ access to education, medical care, cultural services, quality rest, and their ability to make savings and therefore – their confidence in the future.

The unpopular steps of the Government described above are not only forced but necessary for long-term economic development, since they will cure striking disparities and distortions in the market environment. The society reaction to those steps will depend on the Government’s ability to wage an active PR and information campaign and to timely introduce compensations – social, psychological and material (expansion of programmes for housing and other subsidies, indexation of wages, pensions and social allowances, target assistance, etc.).

That said, one may argue that in the current situation, social and psychological compensators will be even more important than material ones. Society is generally aware of the critical situation and ready for limitations. But it should see that the austerity policy also touches (first of all) the government officials and those in power, as well as see the real fight against corruption, real cancellation of privileges for big businesses, and real termination of inefficient spending of budget funds. And most importantly – the society should clearly see and understand the future their country wishes for.

HUMANITARIAN SECTOR

The current events (first of all, growth of separatist spirits in the South and East of Ukraine) revealed the whole range of negative effects of the long process of politicisation of humanitarian issues, social and cultural regional differences, and absence of a consistent and balanced state policy – humanitarian and information alike. **However, there are no weighty reasons to predict a dramatic improvement of the situation in those sectors now. Such an assumption is prompted by a number of reasons.**

First, in the conditions of an “undeclared war”, the Russian humanitarian expansion will grow and already acquired traits of political blackmailing with threats of use of military force:

¹⁵ The official title of the Law is “On Prevention of a Financial Disaster and Creation of Preconditions for Economic Growth in Ukraine”. See: web site of the Verkhovna Rada of Ukraine, <http://zakon1.rada.gov.ua/laws/show/116618>. The Law amended the Tax Code, the Laws “On Obligatory State Pension Insurance Fee”, “On Banks and Banking”, “On State Assistance to Families with Children”, etc.

the Russian Federation openly demands an official status for the Russian language and constitutional recognition of the right of Ukraine's regions to their own humanitarian policy. In case of non-fulfilment of those demands the Russian Federation reserves the right to defend "compatriots" by all possible means, including those tested in the Crimea.

Second – political forces are not united when it comes to humanitarian issues, now of priority importance for residents of some regions of the country. Among the ruling parties, the most definite stand is demonstrated by the All-Ukrainian Association *Svoboda*, but it is rather radical, not fully supported in the West and Centre of the country and will not be shared by regional communities of the South and East in the foreseeable future.

By contrast, the parties that appeared in the opposition (PR, CPU) retain some electoral support (especially in the East of the country) and a clear pro-Russian orientation. Making demands similar to those of the Russian Federation, they naturally contribute to instigation of separatist spirits.¹⁶

Third, an additional factor of aggravation of the situation will be presented by early presidential and, possibly, parliamentary elections, during which, political forces may return to the tradition of using regional socio-cultural differences in their fight for votes. Even brief analysis of election programmes of the presidential candidates gives grounds to assume that **the subjects of language, history, national symbols and holidays, "fascism vs. anti-fascism" will be central in election campaigns of some candidates and parties** taking part in parliamentary elections.¹⁷ Given that there will be much more radical candidates (parties), one may expect sharp civic confrontation (in particular, under the slogans of "fascism vs. anti-fascism" as soon as on 9 May).

Despite those facts, the critical need to remove the threat of the Russian military invasion into Ukraine, mitigation of separatist spirits, settlement of the conflict between the capital and southern and eastern regions of the country will make the ruling and opposition parties seek some compromise and accord.

At that, the room for manoeuvre and time limits for reaching the compromise will be limited. There will be no time to develop any state conceptual documents on humanitarian policy issues (although this does not mean that such documents should not be developed). Decisions will be taken immediately, in a "real-time" mode. Their nature and, respectively, the developments in the humanitarian sector will strongly depend on the readiness and ability of parliamentary political parties, the authorities in general, and participants of the presidential race to take into account the following facts:

- **first, that the humanitarian (language, cultural) policy, historic memory are shaped not by laws, circular letters and directives but by means of conviction;**
- **second, that the argument "we should not look at Russia", popular among the adherents of the rightist parties, may prove counterproductive.** Separatist movements

in regions are backed exactly by Russia, and the fight for regions is the fight against Russia with all its informational and humanitarian power.

The search for a compromise, in our opinion, could be facilitated by:

- **active cooperation of the candidates with the people and mass media; support and promotion of initiatives intended to unite the Ukrainian society** (like "Lviv speaks Russian, Donetsk and Odesa – Ukrainian" on 26 February 2014);
- **ending the use of "harsh" language in political and social discourse**, the us-against-them rhetoric that presents political opponents and moreover regional Ukrainian communities as "enemies".

NATIONAL SECURITY AND DEFENCE

Some trends observed in the recent years, the results of 2013, the current internal political crisis, annexation of the Crimea and a threat of Russian invasion into Ukrainian mainland led to **a strong deterioration of Ukraine's security situation in 2014.**

1. Inability of the authorities to take prompt and efficient decisions for stabilisation of the internal political and economic situation increases risks of losing control of the situation in some regions, outbursts of uncontrolled violence and resultant human toll and significant economic losses. Such an option of developments may give a pretext for Russia's direct military intervention (to rescue "compatriots", to "protect" the strategic facilities of gas transportation system, NPPs, HPPs, etc.).

2. Reduction or complete suspension of defence-industrial cooperation with Russia will lead to financial losses for defence industry enterprises and create additional problems with deliveries of component elements and spare parts. However, the remaining dependence of national defence on Russian "partners" will pose much greater risks. Ukraine's Government should implement a set of measures (consultations with Western partners, cooperation on markets of third countries, organisation of domestic production, etc.) aimed at quick and complete suspension of trade in military and dual-use goods with Russia. Furthermore, Ukraine's refusal to supply military goods and services presents an efficient element of sanctions against Russia, also demonstrating the resolve of the Ukrainian authorities.

3. There remains a threat of overt or covert activities of the pro-Russian "fifth column", which, in absence of efficient counteractions of special services and law-enforcement agencies, may have disastrous consequences for the national sovereignty and territorial integrity. Meanwhile, hasty appointments are fraught with loss of specialists and, as a result, further decline of the security sector controllability. Personnel reserves of the Armed Forces and special services, civic initiatives intended to help the authorities to maintain law and order and to create regular local self-defence forces should be used more efficiently.

4. There remains a high level of man-made threats related with depreciation of the infrastructure,

¹⁶ For instance, the Extraordinary Congress of MPs from PR of all levels elected in Donetsk region, held on April 16, also demanded an official status for the Russian language and the right of regions to their own humanitarian policy. See: Resolution of the Extraordinary Congress of Deputies of Donetsk Region of All Levels of April 16, 2014. – PR web site, <http://partyofregions.ua/news/534eac69f620d2f70b00016f>.

¹⁷ See, e.g., election programmes of candidates for the post of the President of Ukraine Oleh Tyahnybok, Oleh Tsariov.

regular underfunding of measures aimed at improving the safety of hazardous facilities and programmes for disposal of obsolete ammunition. Additional assistance should be sought from Western partners (first of all, NATO, the EU and its member states) for protection of strategic infrastructure, prevention and removal of possible aftermaths of emergency situations.

5. Kremlin's propaganda and the lack of assertive, reasoned, coordinated information policy in Ukraine when addressing the internal and external audience may lead to decline in support for the new authorities, weakening of Ukraine's international position in negotiations process.

6. An immediate large-scale security sector reform looks unrealistic not only due to financial constraints but also because of the absence of a reform strategy. Meanwhile, if there is the political will, the existing circumstances can be used to start building a new national security and defence system based not on hypothetical but real risks and threats, using international financial, technical, and advisory assistance.

FOREIGN POLICY

Developments of 2014 in the key foreign policy domains are likely to unroll as follows.

Relations with Russia. Russia will pose the main threat to Ukraine's sovereignty and independence. **Ukraine-Russia relations will indefinitely remain in the state of an "undeclared war"**, with frozen senior level political contacts – given Russia's refusal to recognise the current government in Ukraine.¹⁸ The dialogue will continue via international mediators.

The Crimea will remain the largest "frozen" conflict in Europe that cannot be resolved bilaterally – only with assistance of the international community. Meanwhile, there are grounds to predict that Russia's military-political, economic, and media expansion will not confine itself to the Crimea only. Russia will continue efforts either to take Ukraine under its complete protectorate by all means, or to dismember it.

Therefore, the Kremlin has two options – to continue the Crimean *Blitzkrieg* (military invasion in other regions of Ukraine under the pretext of "protection of Russian and Russian-speaking population"), or to create permanent "tension spots" in Ukraine (for instance, creation of and support for self-proclaimed "republics") in order to gradually breakdown Ukraine as an independent country.

On 17 March 2014 Russian MFA released the plan of gradual ruination of Ukraine. It was in fact an ultimatum to Ukraine, envisaging: (a) implementation of the Agreement of 21 February 2014 between former President Viktor Yanukovich and the opposition leaders; (b) the federal structure and a neutral status of Ukraine, and the official status of the Russian language in the new Constitution; (c) after the adoption of the new Constitution, to conduct the elections to the supreme bodies of power and in subjects of the would-be federation (at that, the subjects should have the right to establish "external interregional ties"); (d) recognition of the referendum results in the Crimea on 16 March 2014.

To achieve that, the Russian Federation will: (a) build up its military presence in the Crimea as a bridgehead for further aggression; (b) organise large-scale provocations and instigate separatist spirits in south-eastern regions of Ukraine; (c) not recognise and by all means compromise the new country leadership (including the new President of Ukraine); (d) revise (denounce) the regulatory-legal framework of Ukraine-Russian relations (not ruling out Russia's withdrawal from the "Big Treaty"); (e) impose an economic blockade on the Ukraine-Russian land border; introduce financial sanctions; (f) unleash another "gas war"; (g) stir up anti-Ukrainian PR campaign; (h) exert pressure on the Western countries by covertly buying-up its high-rank officials to secure support for its stance on Ukraine.

Relations with the EU, the USA, other countries of the world. Given the ongoing confrontation with Russia, intensification and deepening of relations with the EU, the USA, other Western countries will be decisive for Ukraine.

The process of conclusion and implementation of the Association Agreement with the EU will be accelerated. On 21 March 2014, the political part of the Agreement was signed in Brussels; the signing of its economic part (on a deep and comprehensive free trade area) is planned for 2014.¹⁹

In relations with the EU, one can predicted that:

- top level dialogue will intensify, the support for Ukraine will grow;
- Brussels will carry out political, diplomatic, financial, economic, humanitarian assistance to Ukraine;
- defence-industrial cooperation between Ukraine, the EU and NATO countries will grow;
- implementation of the Association Agreement will start; Ukraine's participation in the EU institutions and relevant programmes will increase;
- visa procedures between Ukraine and the EU countries will be further liberalised.

However, despite the intensification of relations between Kyiv and Brussels, it should be noted that, **first**, the EU (as well as the USA and other countries of the world), not recognising annexation of the Crimea to the Russian Federation, will not risk having a large-scale confrontation with Russia and will confine its actions to some separate "target" sanctions against Russia. **Second**, implementation of the Association Agreement provisions will not produce a noticeable socio-economic effect as early as in 2014, but in the long term.

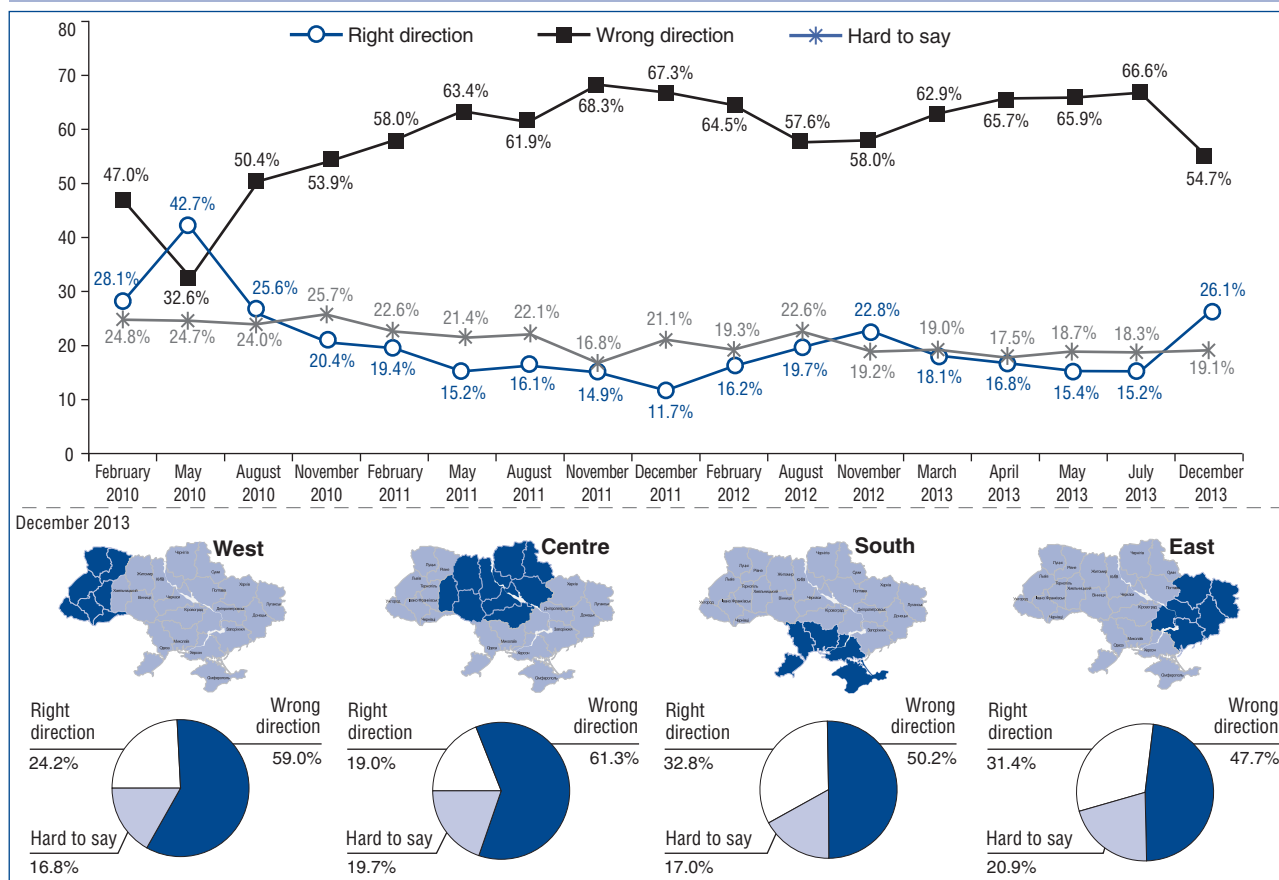
Other countries of the world (the USA, Canada, Japan, Turkey, etc.) and international institutions will step up political and economic support for Ukraine. In particular, one should expect the resumption of activity of the Commission for Strategic Partnership with the USA, provision of loans, technological and humanitarian assistance. Such a global solidarity with Ukraine gives the country a real chance to fundamentally diversify its trade and economic contacts in order to minimise its economic (including gas) dependence on Russian Federation.

¹⁸ For instance, on April 24, President Vladimir Putin spoke at a media forum in St. Petersburg about the antiterrorist operation in the East of Ukraine: "If the present regime in Kyiv really began using the army against population within the country, beyond doubt, it is a very grave crime against its own people... This time, it is a junta... First, they do not have... a national mandate. They in the best case have only some elements of legitimacy, and only in parliament. All other legitimate authorities are illegitimate, for one or another reason". – Media Forum of Independent Regional and Local Media on April 24, 2014, <http://president.kremlin.ru/news/20858> (in Russian)

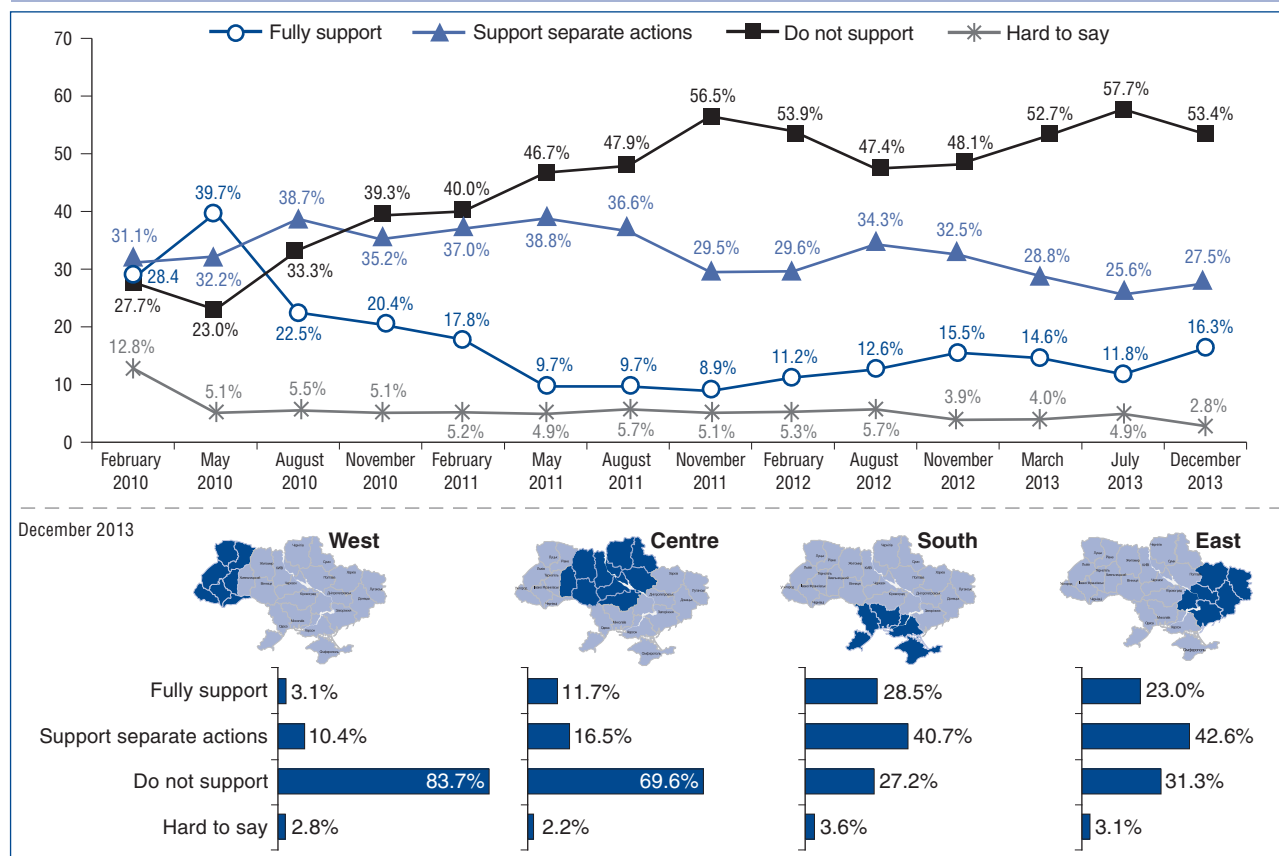
¹⁹ In pursuance of a decision of the European Commission, the EU countries opened borders for Ukrainian goods from April 23. A package of financial assistance for Ukraine is pending.

PUBLIC OPINION ON THE RESULTS OF 2013

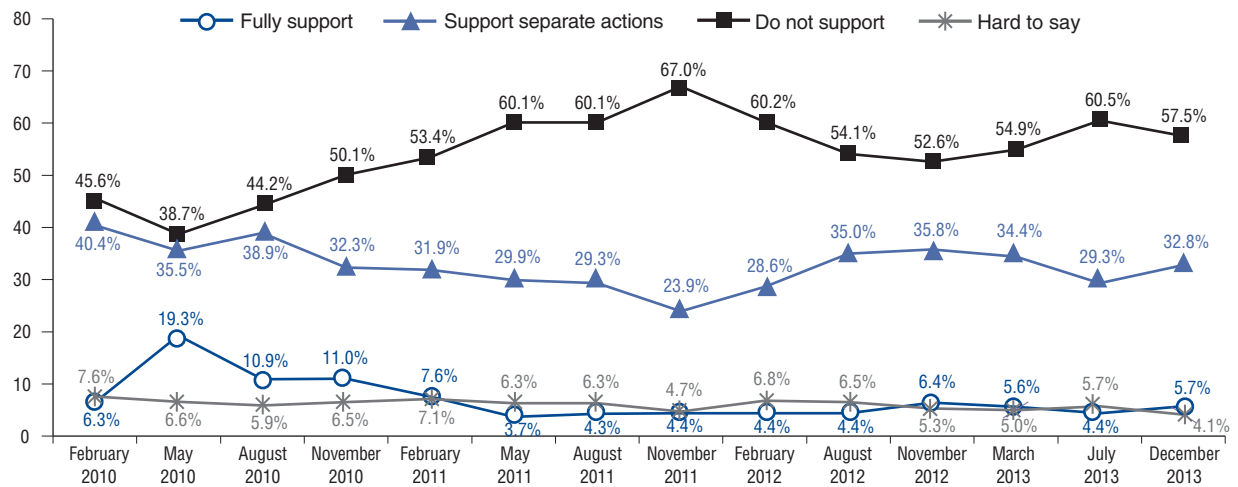
Are things in Ukraine developing in the right or wrong direction?
% of those polled



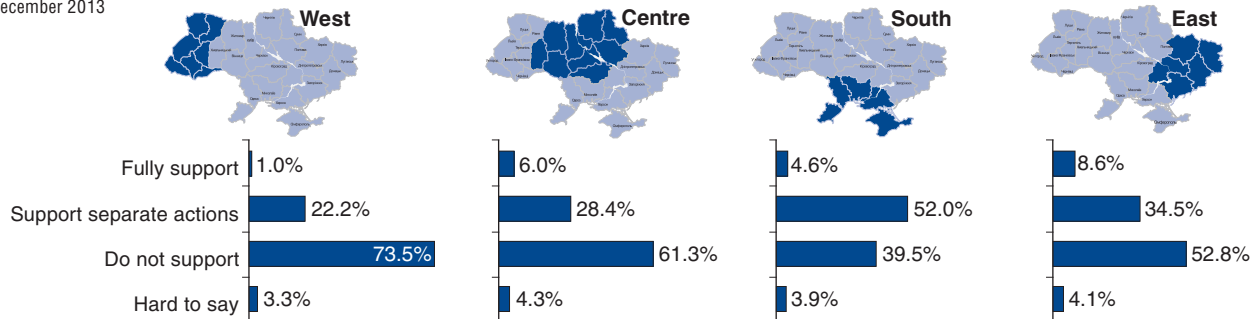
Do you support the activity of the President of Ukraine?
% of those polled



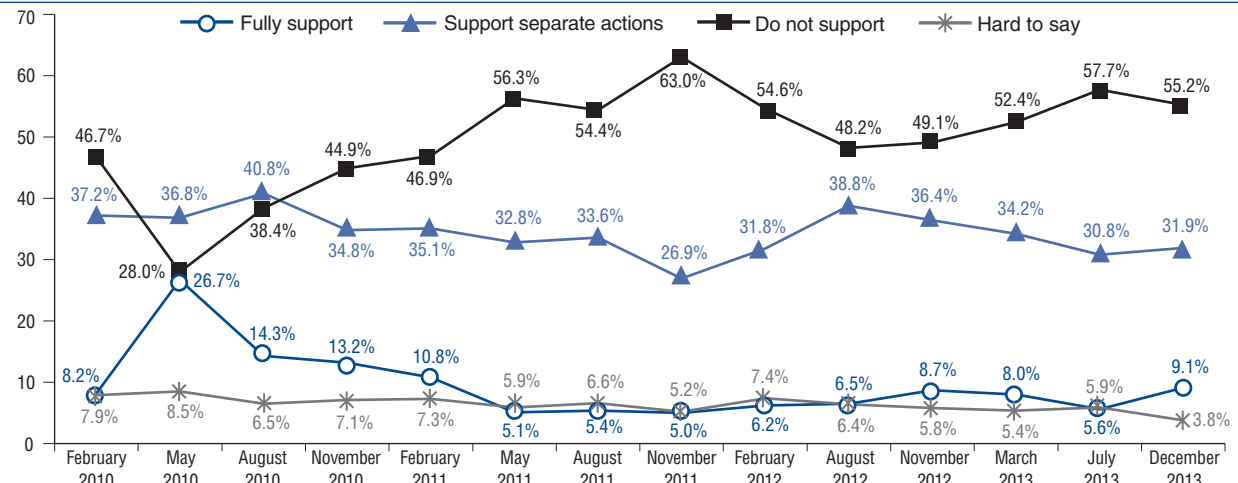
Do you support the activity of the Verkhovna Rada of Ukraine? % of those polled



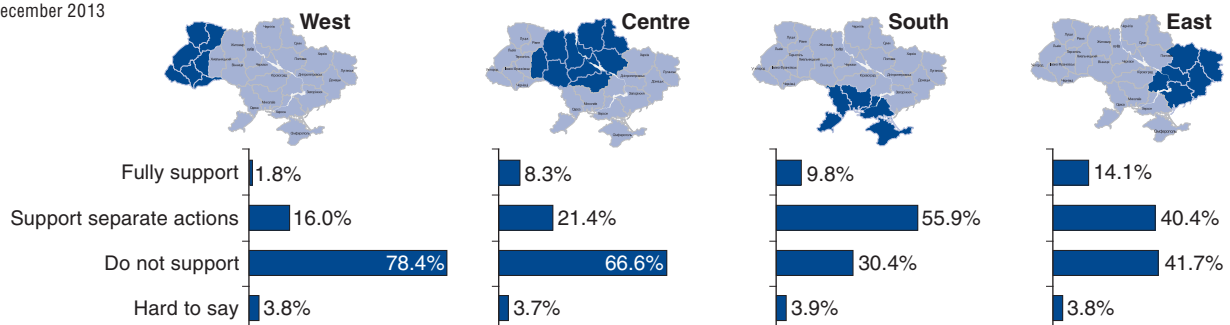
December 2013



Do you support the activity of the Government of Ukraine? % of those polled



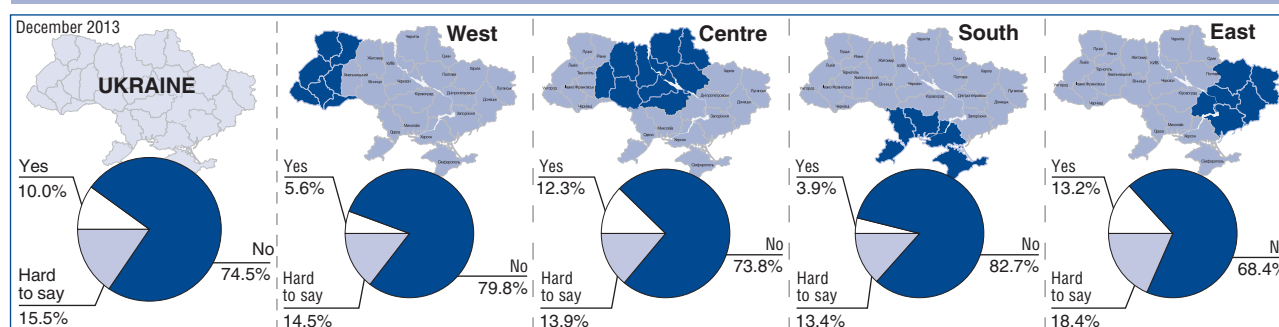
December 2013



Do you support the activity of the ...?
% of those polled

	Fully support		Support separate actions		Do not support		Hard to say	
	December 2012	December 2013	December 2012	December 2013	December 2012	December 2013	December 2012	December 2013
Armed Forces of Ukraine	17.1	14.6	39.4	31.9	26.2	36.6	17.3	16.9
Security Service of Ukraine	12.3	11.9	38.9	26.9	30.2	47.2	18.5	14.0
Local self-government bodies	12.7	11.1	47.2	45.2	29.2	33.8	10.9	9.9
District state administrations	9.0	8.5	45.5	43.6	31.7	36.9	13.8	11.0
Regional state administrations	8.4	7.7	44.9	40.4	33.1	39.6	13.6	12.3
Bodies of internal affairs (militia)	7.0	6.4	35.1	24.3	49.4	61.0	8.6	8.3
Public prosecution services	7.1	6.2	34.9	23.7	43.5	58.1	14.5	12.1
Ukrainian courts	4.2	4.9	27.6	22.0	57.1	63.0	11.0	10.0

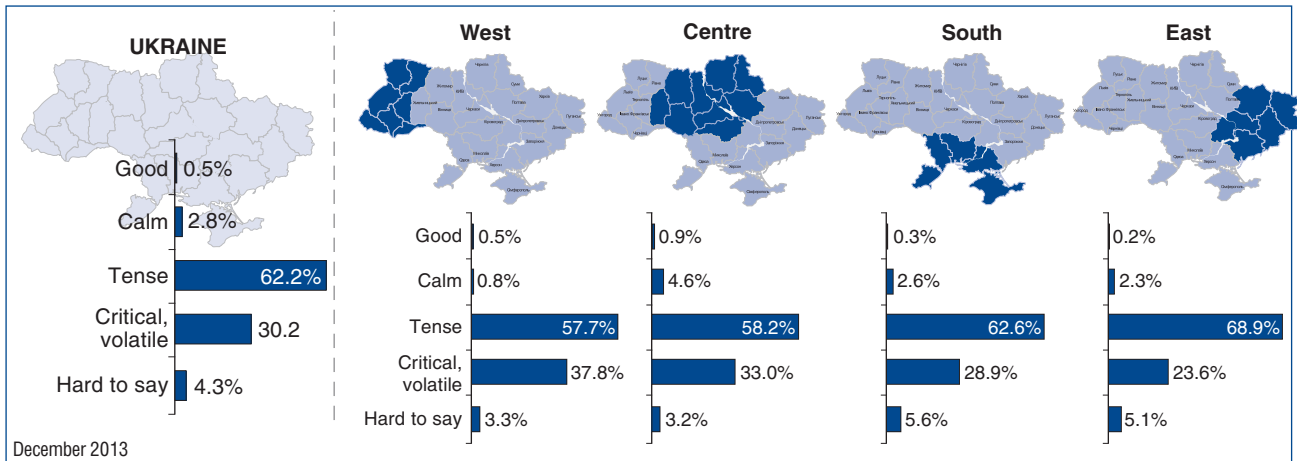
Are Ukrainian courts autonomous, and judges are independent today?
% of those polled



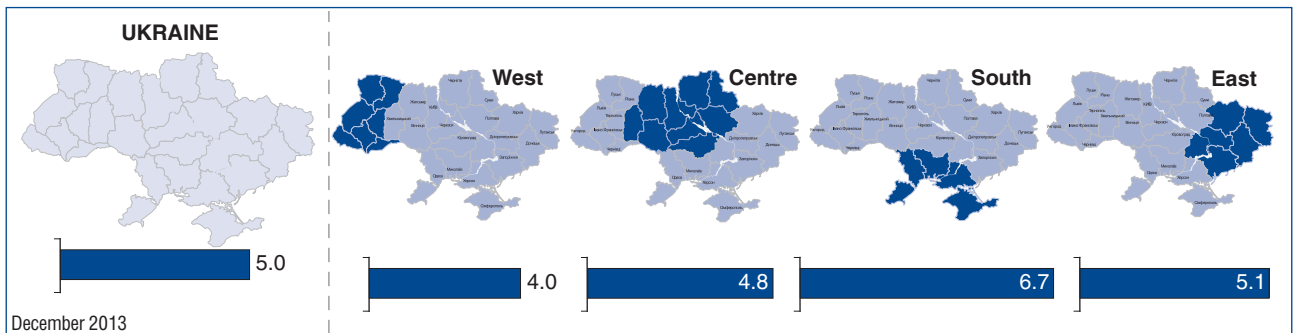
How did the situation in Ukraine change last year in the following sectors?
% of those polled

	Changed for better		Changed for worse		Did not change		Hard to say	
	December 2012	December 2013	December 2012	December 2013	December 2012	December 2013	December 2012	December 2013
Prices and tariffs	2.4	2.0	74.9	73.4	19.8	22.2	2.9	2.5
Stability	7.0	5.3	51.5	71.8	36.1	18.8	5.4	4.0
Overall situation in the country	6.9	6.6	50.1	71.0	37.6	17.2	5.4	5.1
Attitude of the people to the authorities	4.7	4.6	51.2	68.4	37.8	22.4	6.3	4.7
Economic situation in the country	9.9	5.6	51.9	66.5	35.1	25.7	3.0	2.2
Confidence of citizens in the future	5.1	5.3	53.7	65.9	33.9	23.1	7.3	5.8
Attitude of the authorities to the people	5.0	6.2	45.8	60.7	42.8	28.0	6.5	5.1
International image of Ukraine	11.5	12.7	41.0	53.1	35.6	24.3	12.0	9.8
Observance of civil rights and freedoms	4.6	6.8	39.3	51.7	45.8	33.6	10.3	7.9
Criminal situation	5.3	3.4	44.0	51.1	40.6	36.9	10.1	8.6
Observance of the law by state servants	5.3	6.6	42.5	50.7	41.2	32.8	11.1	9.9
Wellbeing of a respondent's family	8.5	5.6	39.1	50.6	50.4	42.6	2.1	1.1
Healthcare	5.0	4.3	49.7	50.4	39.9	40.8	5.4	4.5
Remuneration of labour	5.3	5.0	49.6	49.4	39.4	38.9	5.7	6.7
Level of democracy	5.9	10.1	37.3	48.7	48.0	34.2	8.8	7.1
Freedom of speech	6.1	12.9	35.2	45.3	50.3	35.4	8.3	6.4
Inter-ethnic relations	8.7	7.3	30.0	41.9	48.1	39.6	13.2	11.2
Education	8.0	4.9	36.4	41.6	46.6	46.7	9.0	6.7
Social protection (social allowances, benefits, subsidies, etc.)	13.1	13.9	39.2	40.1	39.5	39.2	8.2	6.7
Pensions	12.4	14.2	34.4	32.7	44.5	43.2	8.8	9.9
Status of the Ukrainian-speaking population	3.9	4.2	24.2	27.1	62.0	62.4	9.9	6.2
Status of ethnic and religious minorities	5.2	3.6	16.7	22.7	60.7	60.4	17.4	13.4
Status of the Russian-speaking population	13.4	6.9	16.8	21.3	57.5	63.4	12.2	8.4

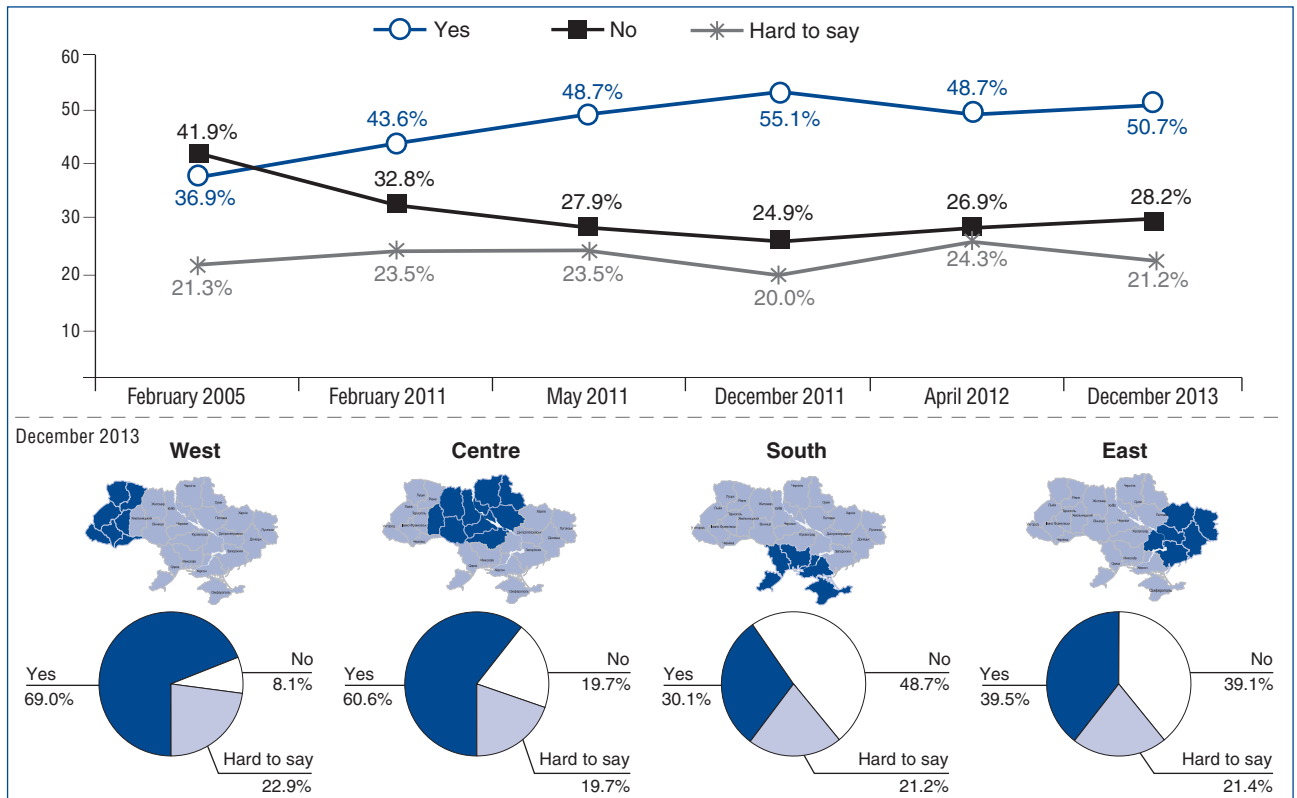
How would you assess the overall political situation in Ukraine? % of those polled



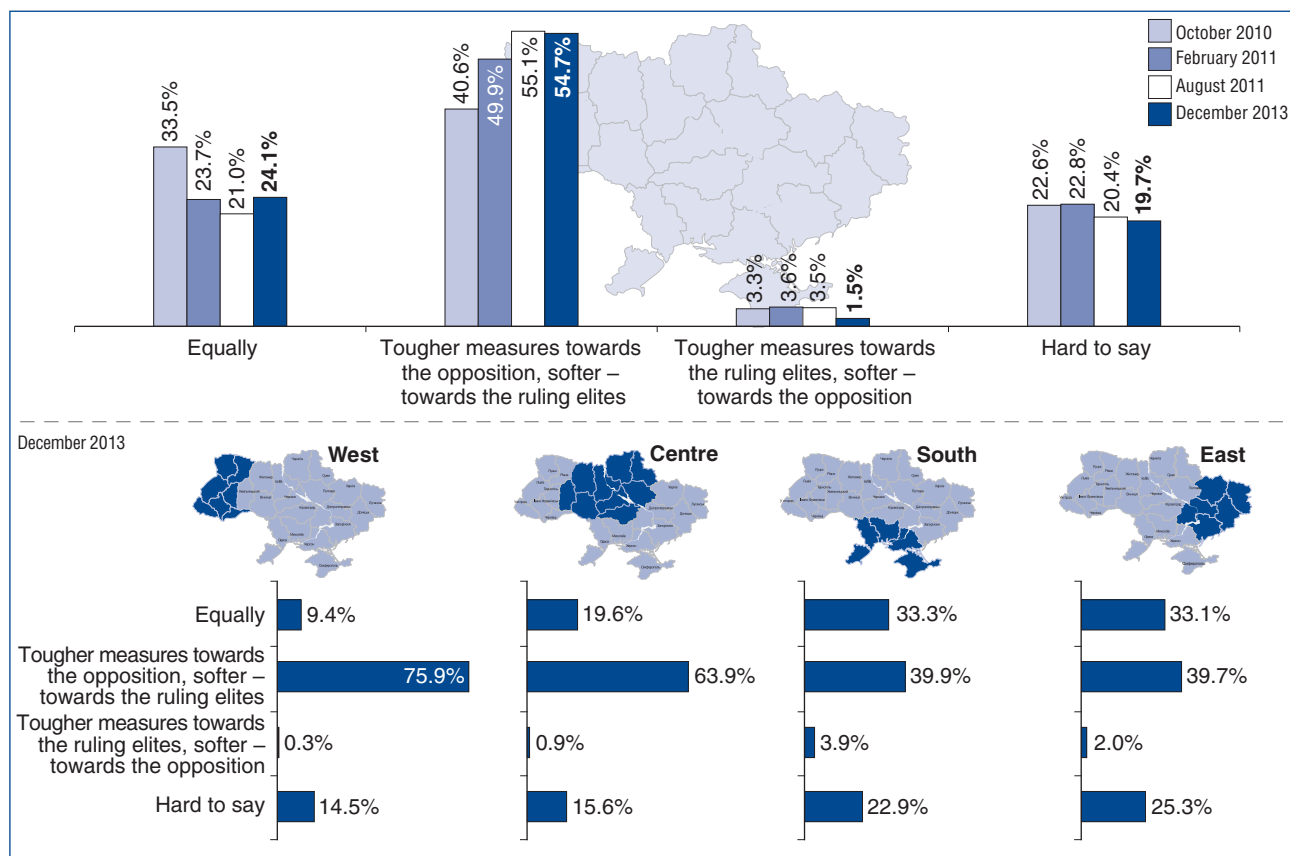
On a scale from "1" to "10" (where "1" means an entirely dictatorial regime, "10" – an entirely democratic regime) where would you place Ukraine? average score



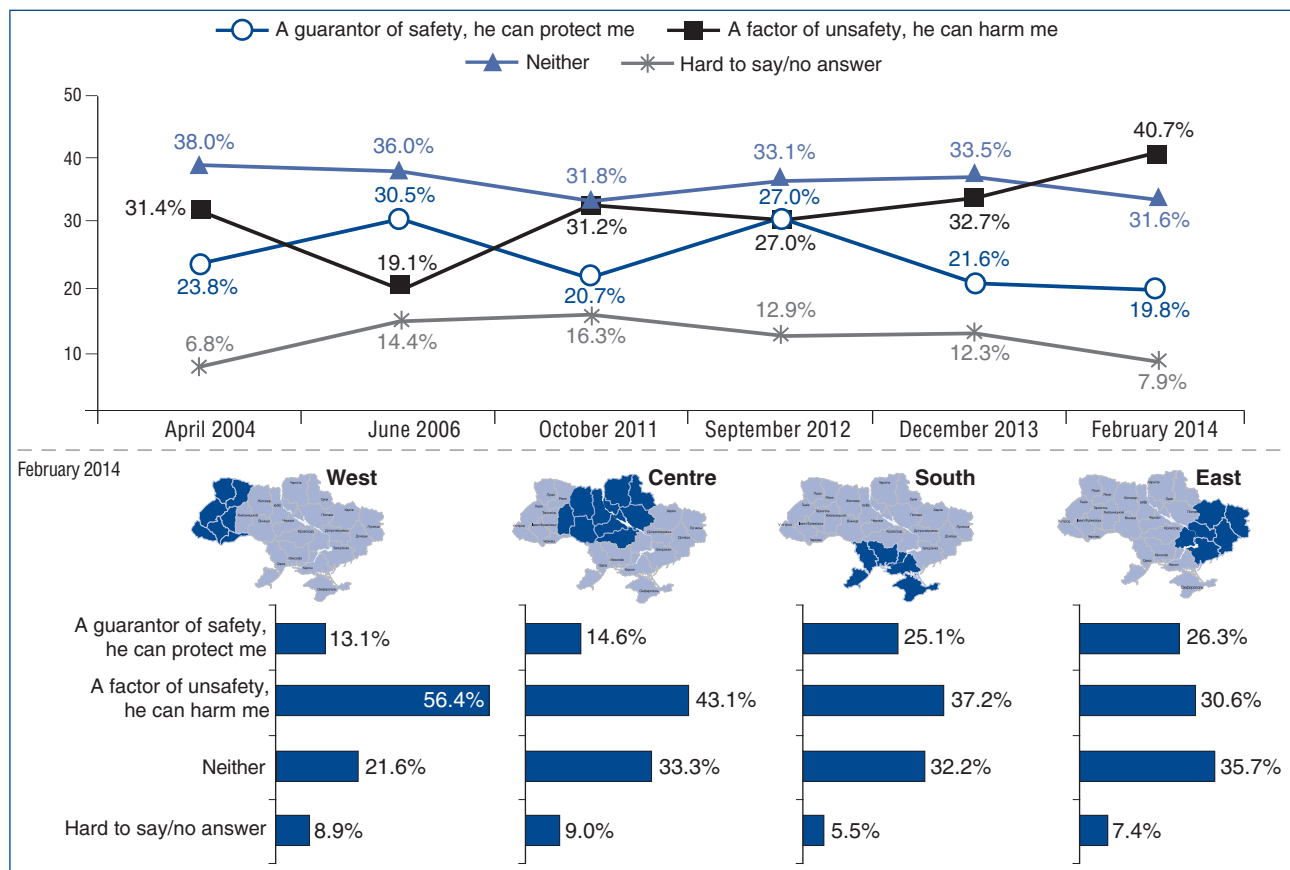
Do the current authorities resort to political repression? % of those polled



Do the law-enforcement bodies equally treat representatives of the ruling and opposition forces?
% of those polled

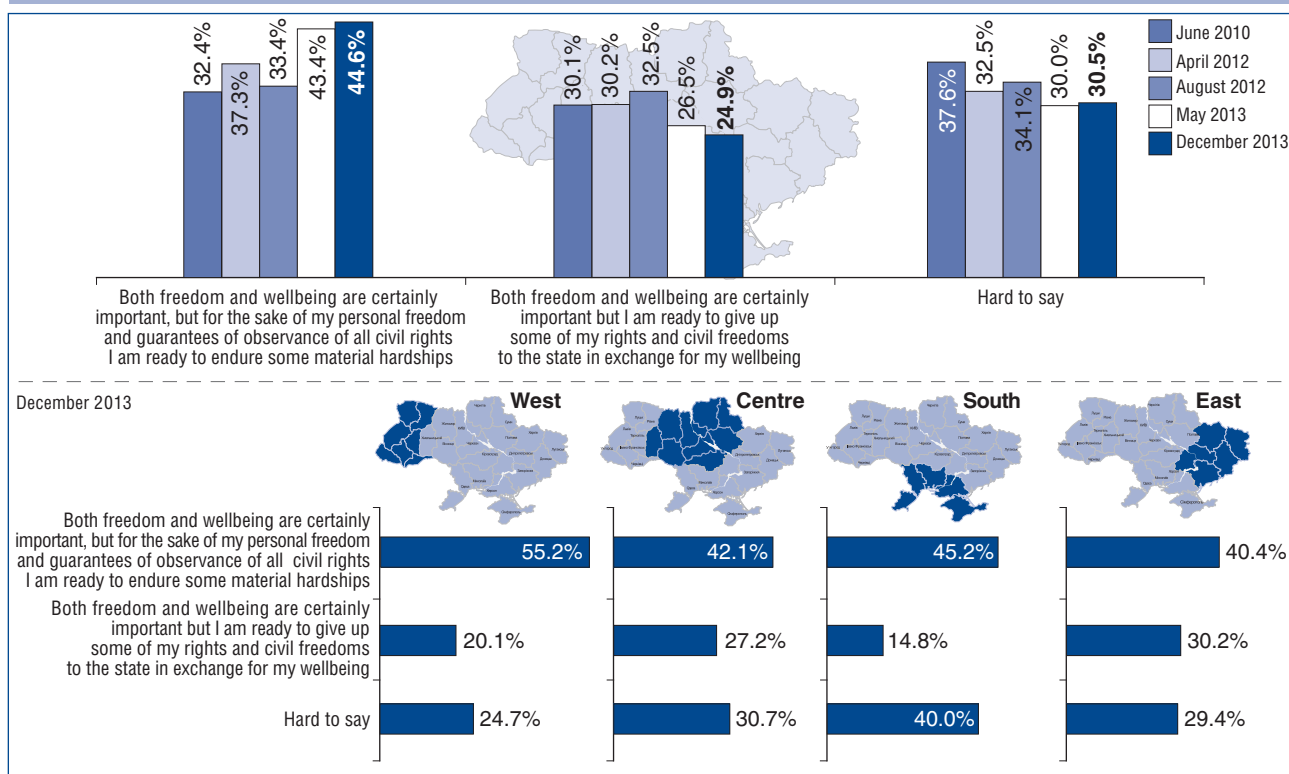


Imagine the situation: you see a militiaman at night, in an empty street. You will see him as ...?
% of those polled



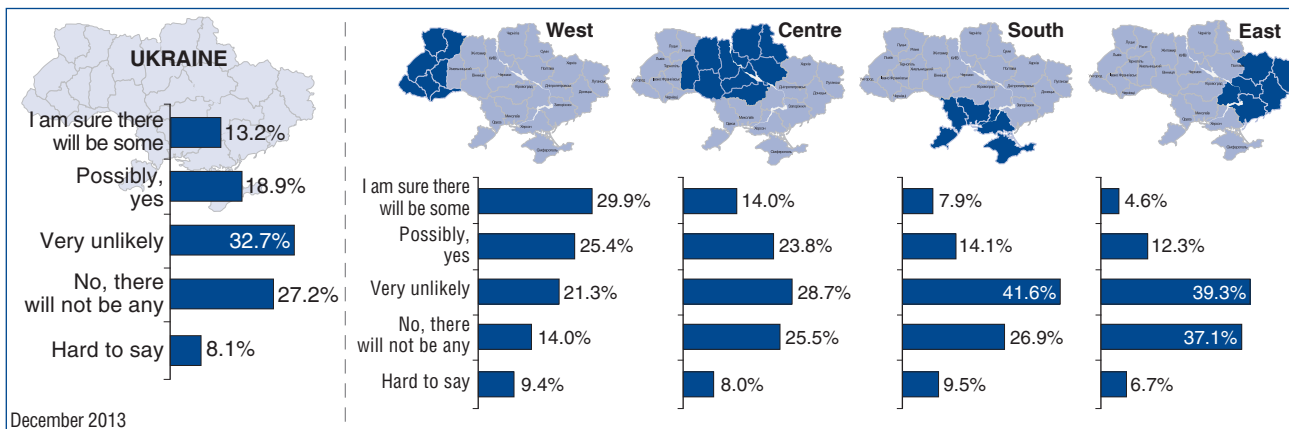
Which of the following judgments do you share?

% of those polled



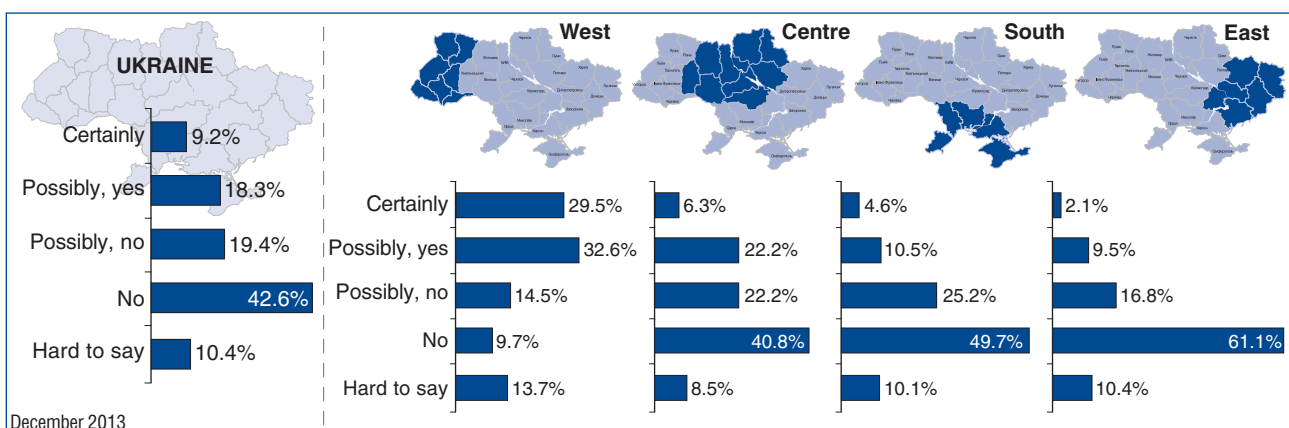
Do you think there might be mass protests in your city (village) in the near future?

% of those polled

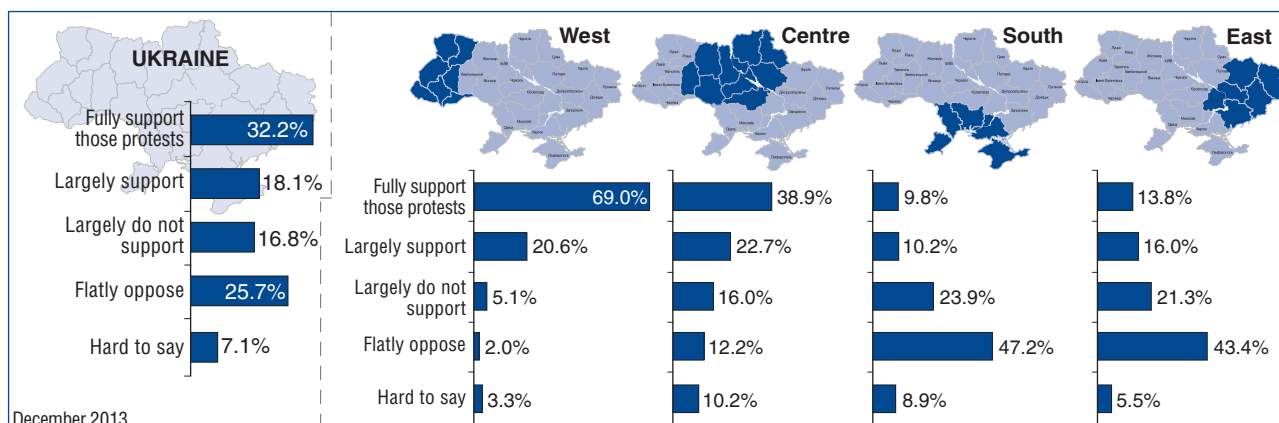


If such meetings and demonstrations take place, would you take part?

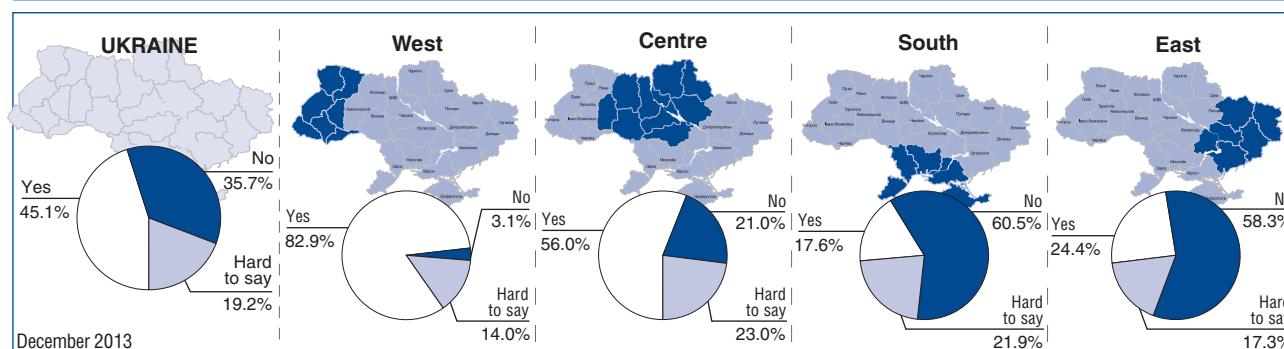
% of those polled



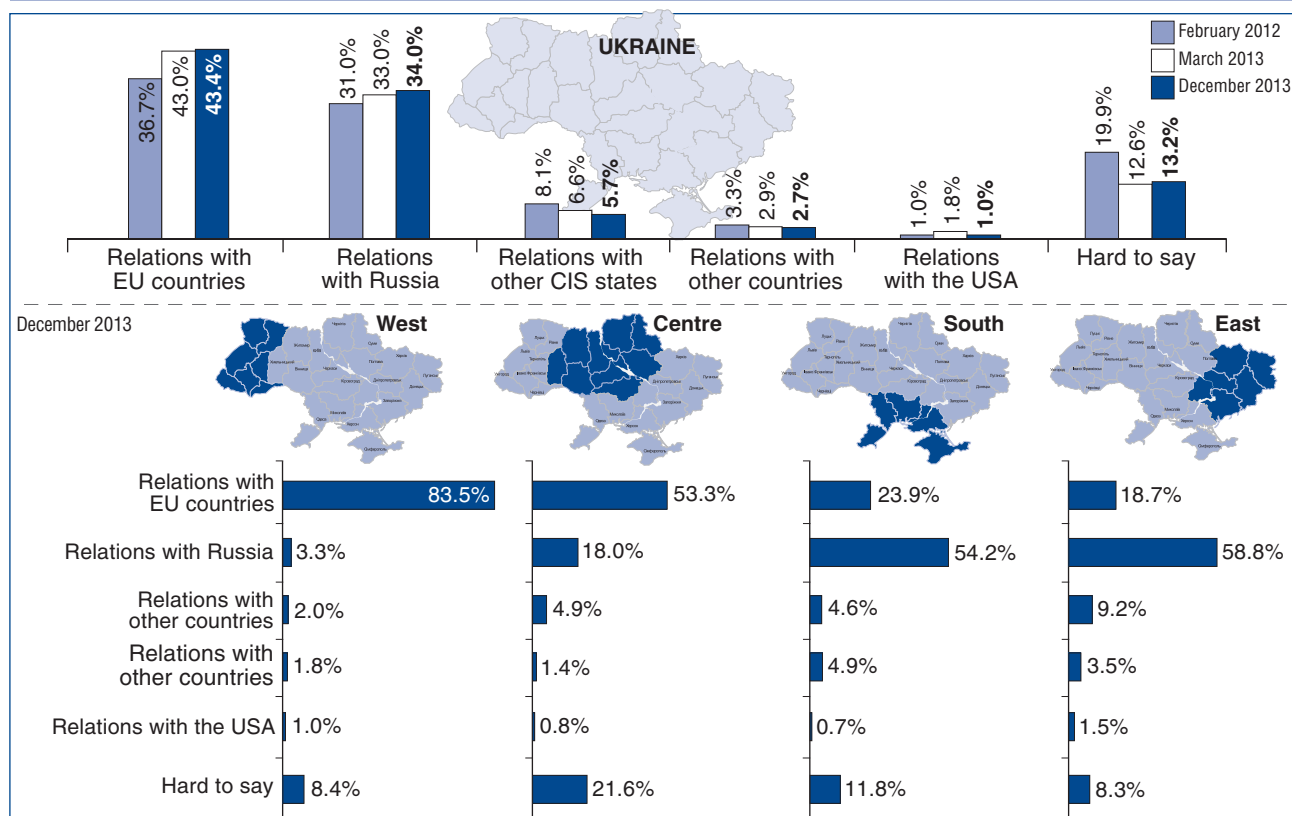
What is your attitude to Euromaidan – the protests on Independence Square in Kyiv and similar events in other Ukrainian cities in November-December 2013?
% of those polled



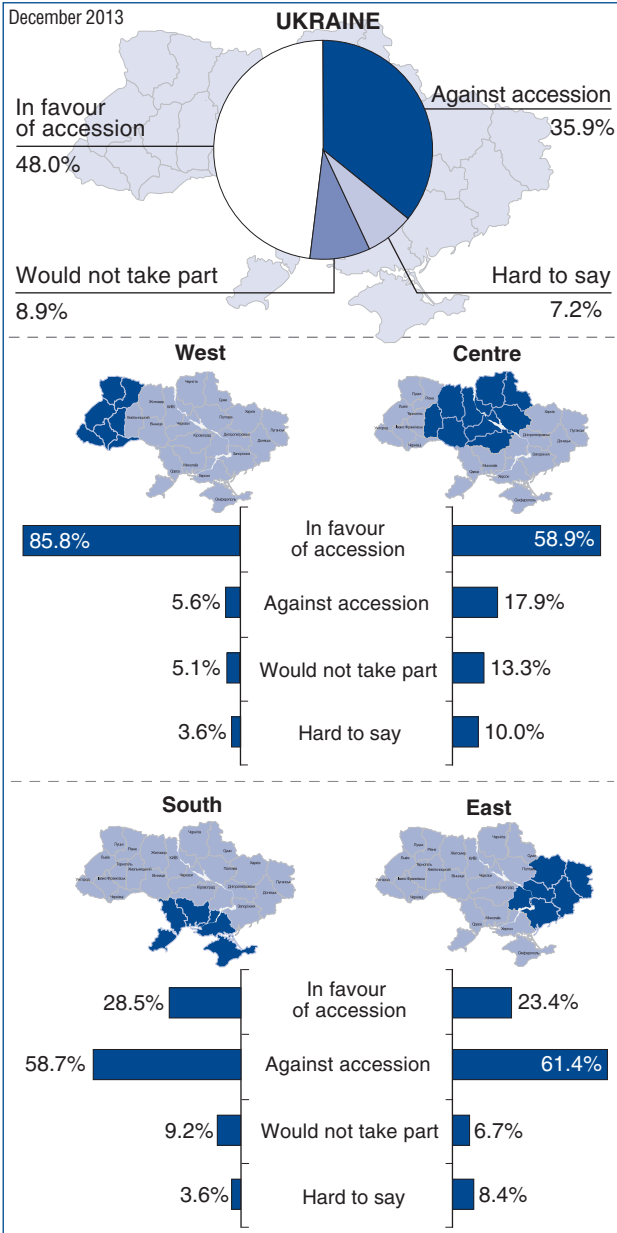
Do you generally support demands of protesters on Euromaidans?
% of those polled



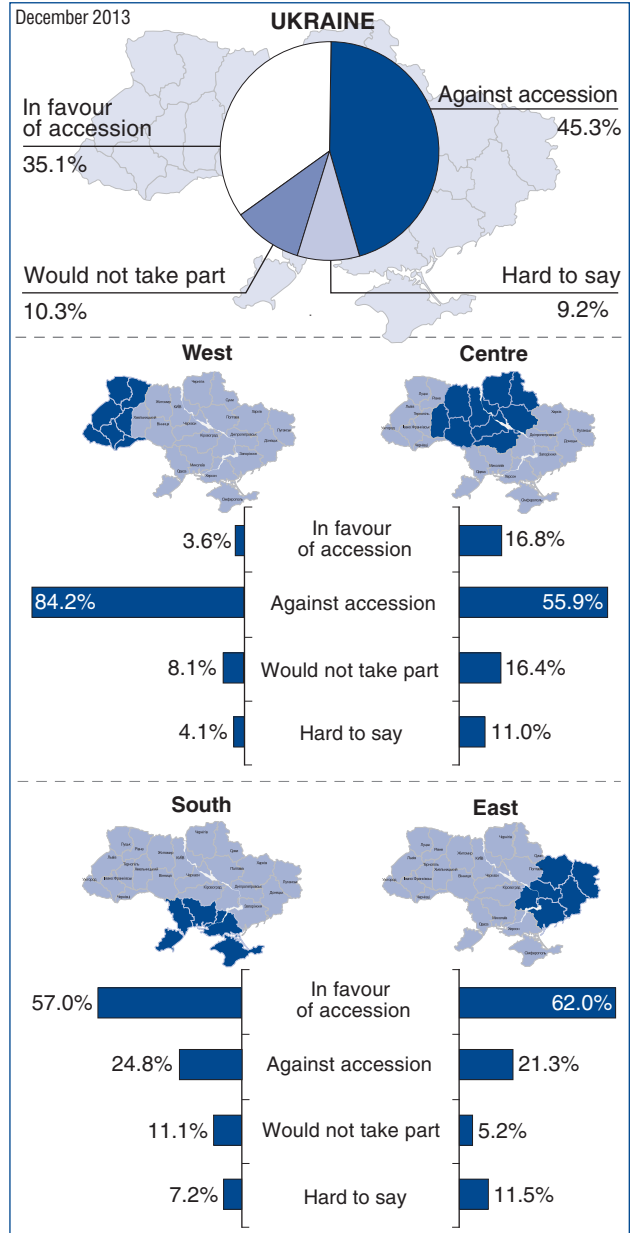
Which foreign policy direction should Ukraine choose?
% of those polled



If there were a referendum on accession to the European Union in Ukraine, how would you vote?
% of those polled

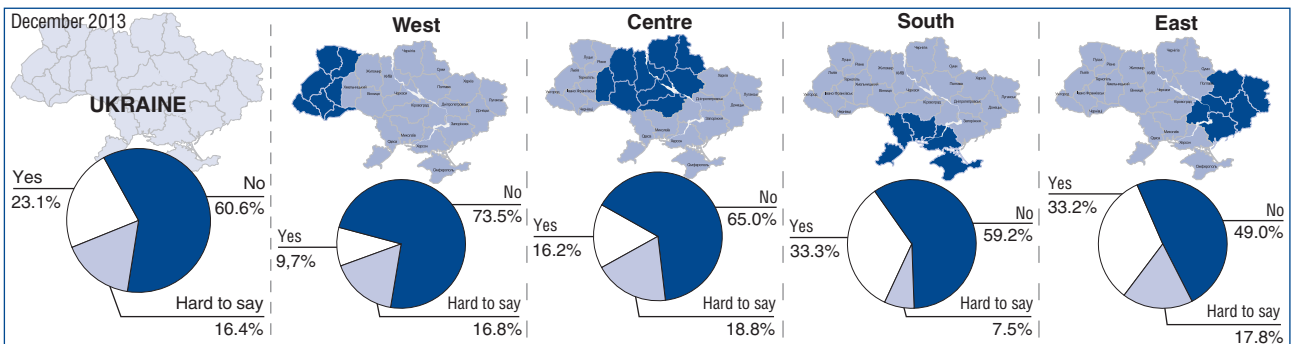


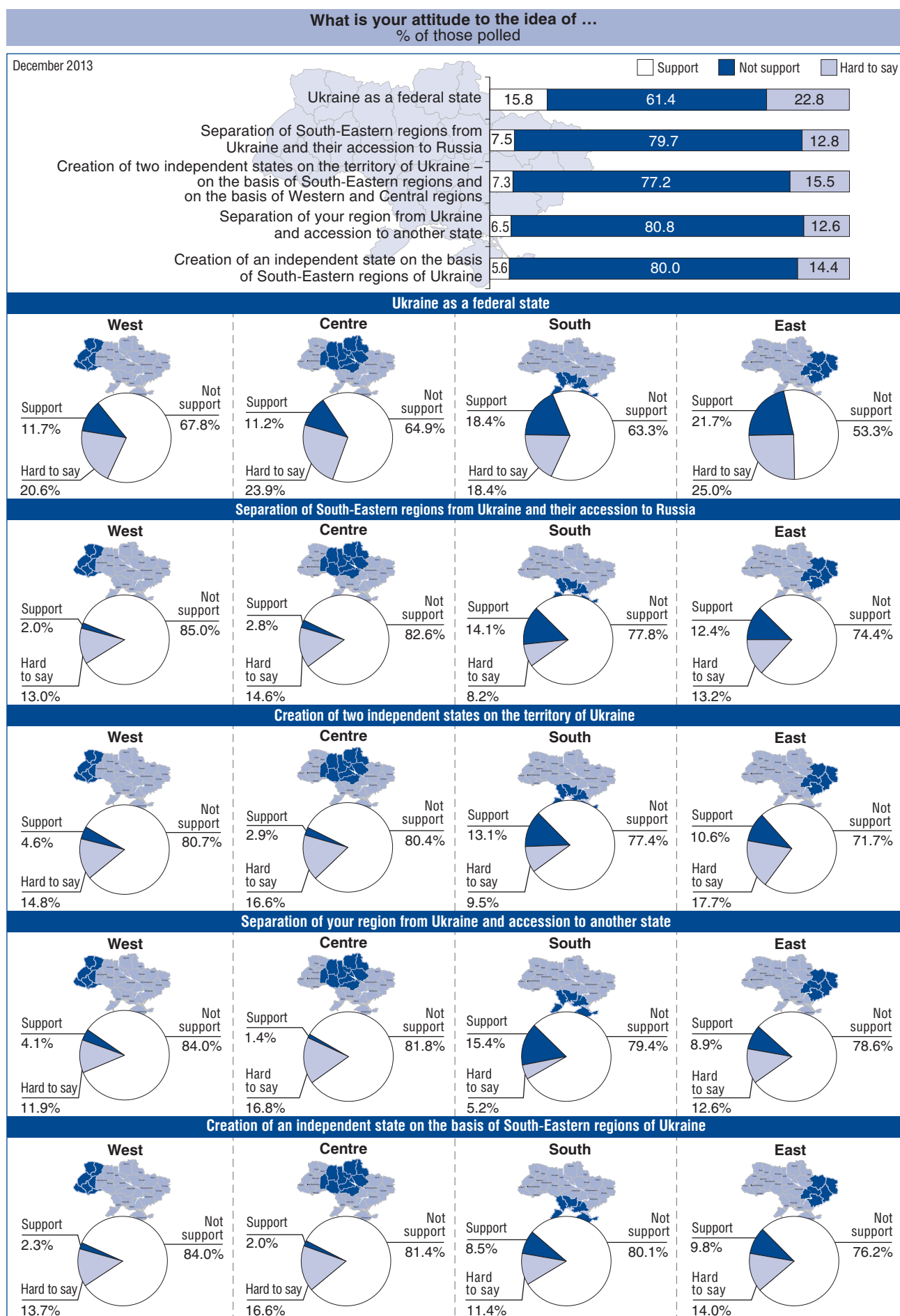
If there were a referendum on accession to the Customs Union of Russia, Belarus and Kazakhstan in Ukraine, how would you vote?
% of those polled



ON THE COUNTRY'S INTEGRITY

Are there deep political contradictions, language and cultural differences, economic disparities between Western and Eastern parts of Ukraine, so that in the future these regions may break away and/or claim independence, or unite with other states?
% of those polled



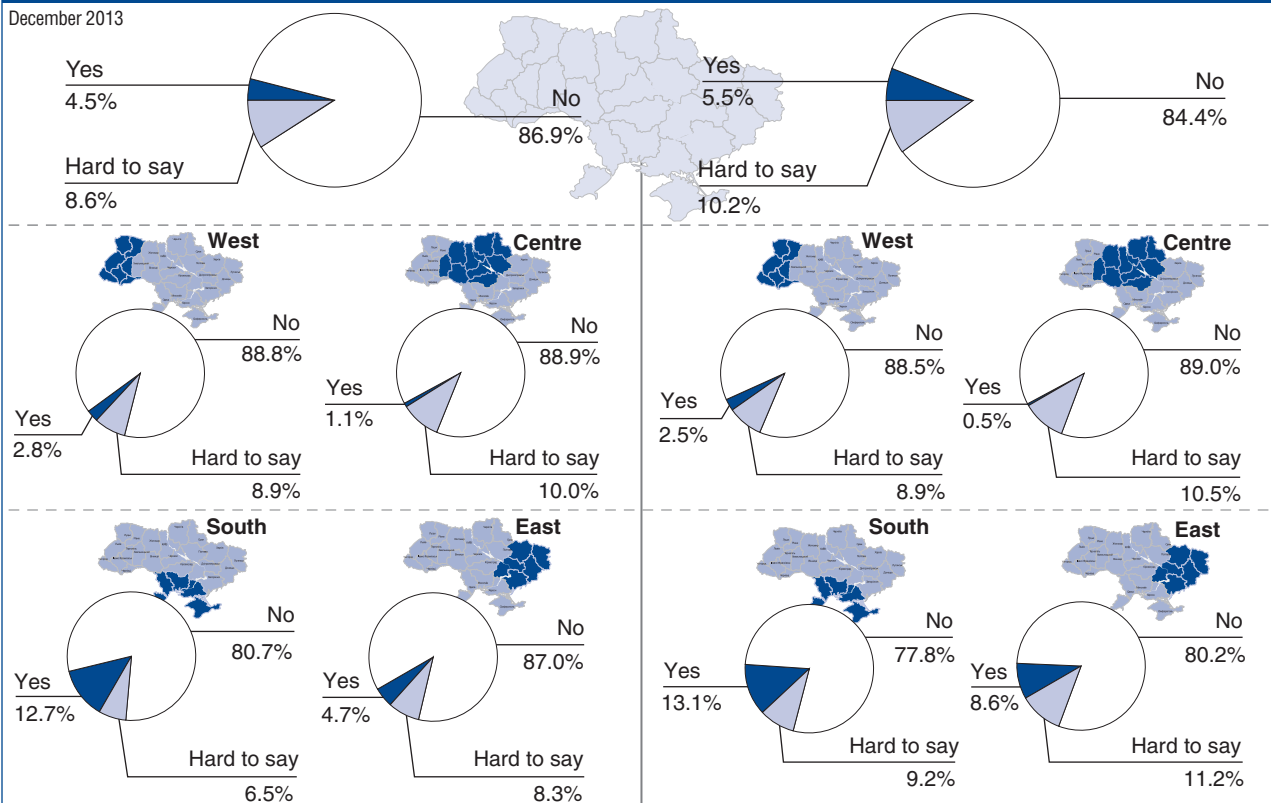


Would you like your region to secede from Ukraine ...?*
% of those polled

... and create an independent state

... and join another state

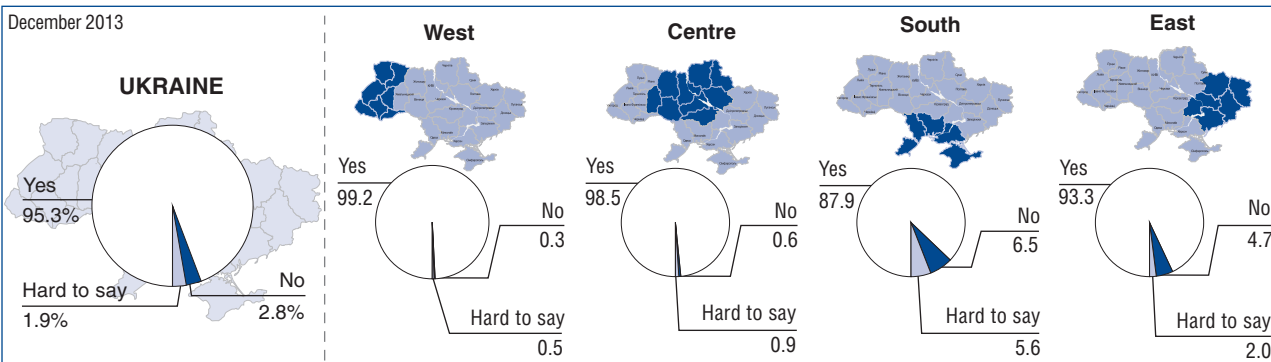
December 2013



* In the Crimea, respondents were asked about the Crimea, in Kyiv – about Kyiv.

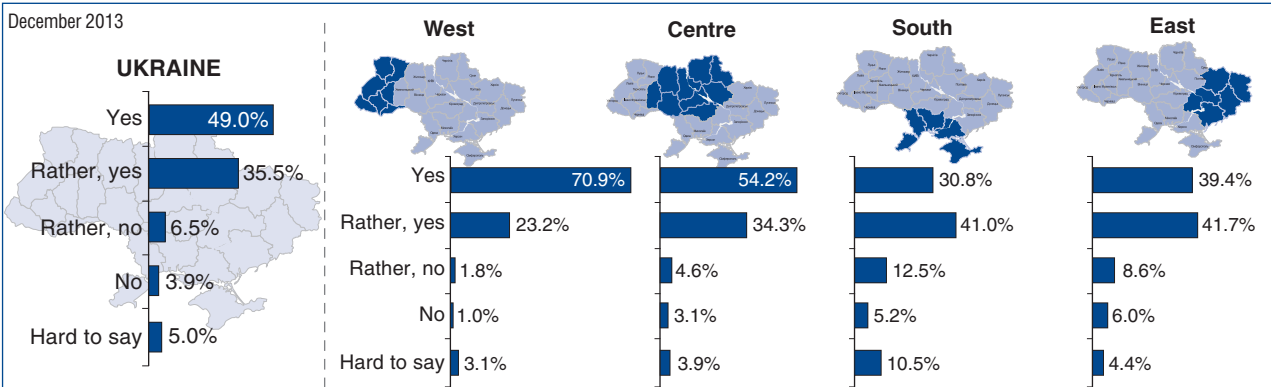
Do you consider Ukraine your Motherland?
% of those polled

December 2013



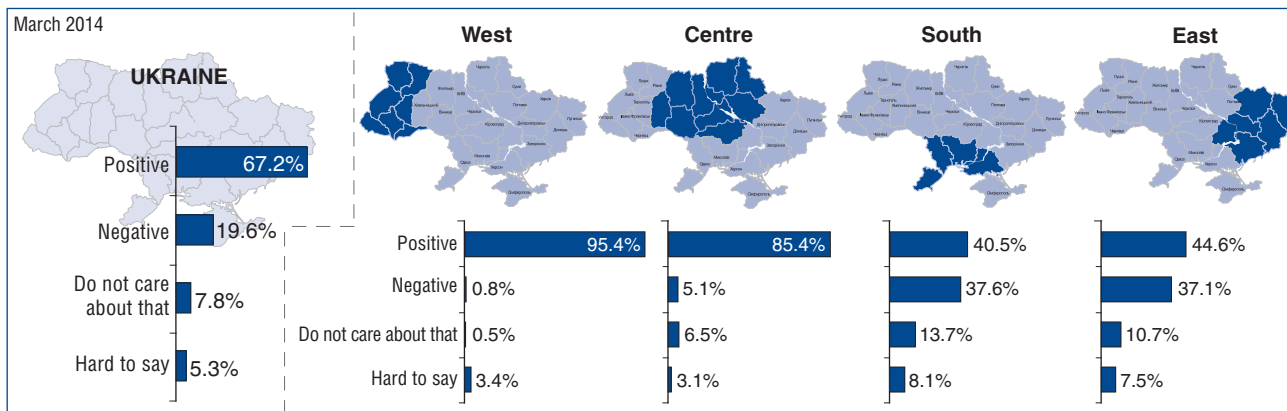
Do you consider yourself a patriot of Ukraine?
% of those polled

December 2013

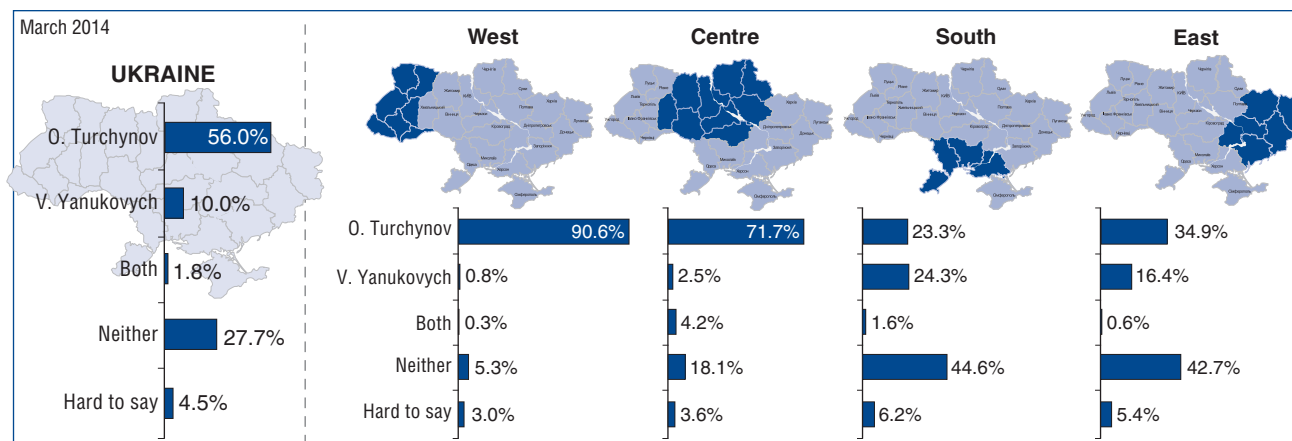


ON THE PROSPECTS OF THE NEW AUTHORITIES

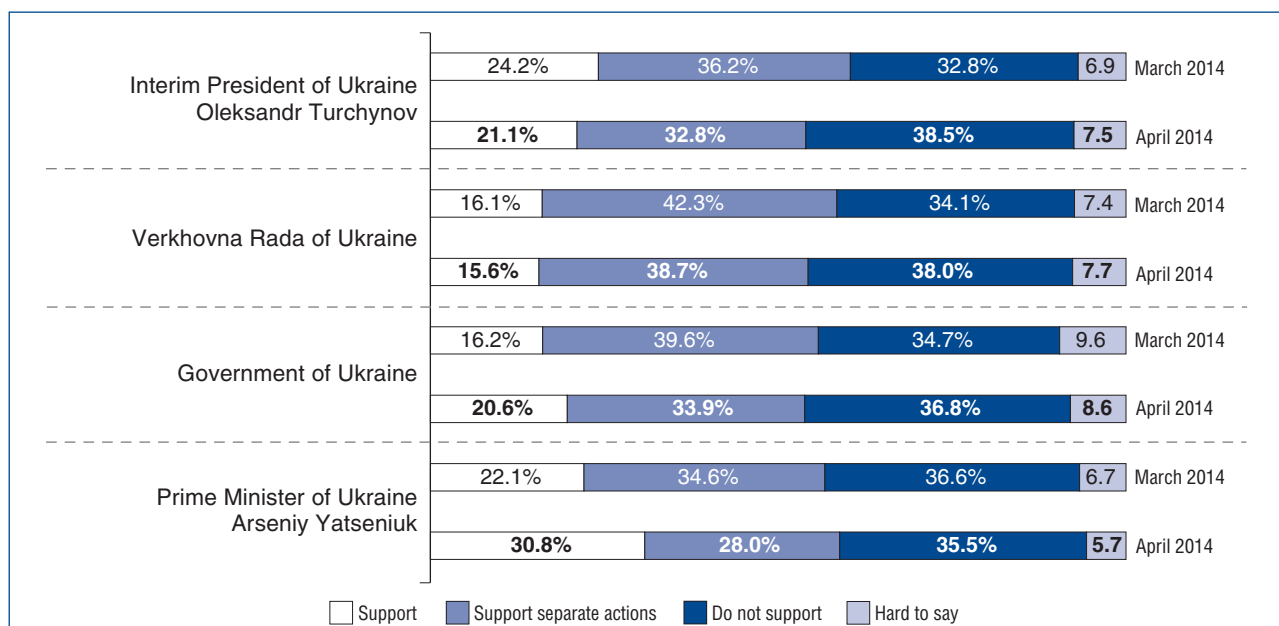
What is your attitude to termination of powers of Ukraine's President Viktor Yanukovich by the Verkhovna Rada of Ukraine?
% of those polled



The Verkhovna Rada of Ukraine vested Oleksandr Turchynov with powers of Ukraine's interim president till the presidential elections scheduled in May. Whom do you personally consider a legitimate head of state – Oleksandr Turchynov or Viktor Yanukovich?
% of those polled

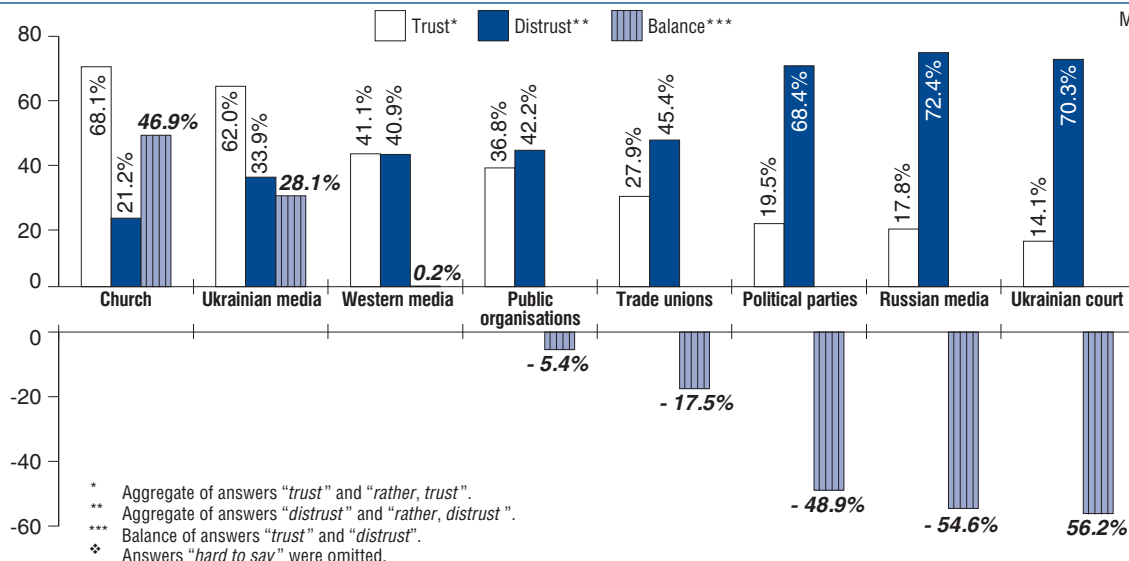


Do you support the activity of the following bodies of power and state institutions?
% of those polled

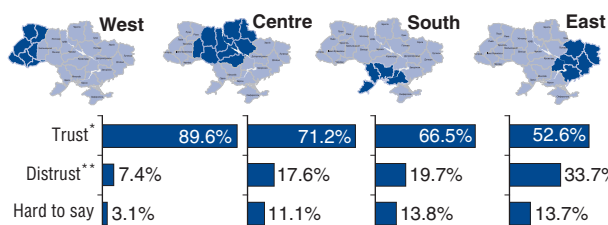


Do you trust the following social and political institutions? % of those polled

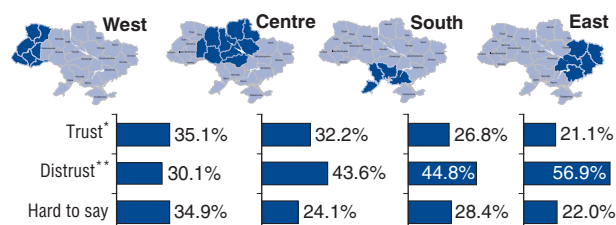
March 2014



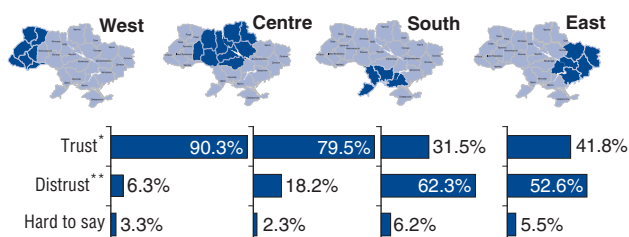
Church



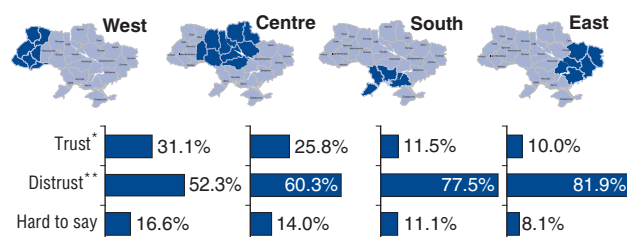
Trade unions



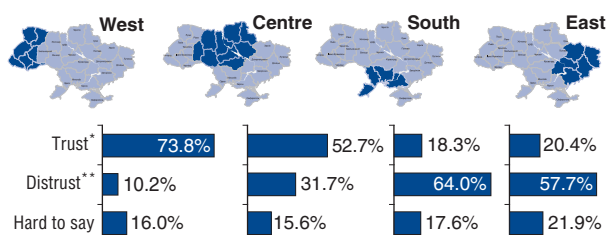
Western media



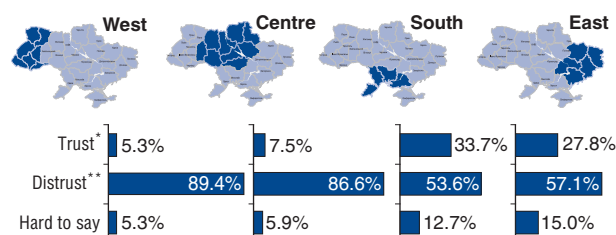
Political parties



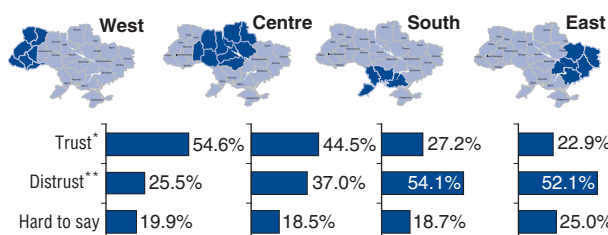
Ukrainian media



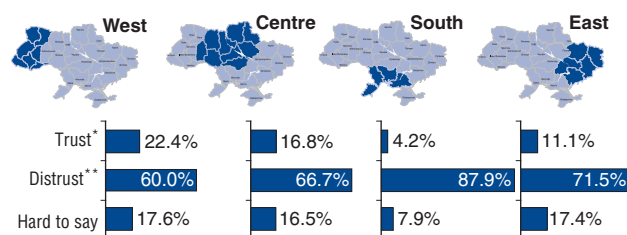
Russian media



Public organisations



Ukrainian courts

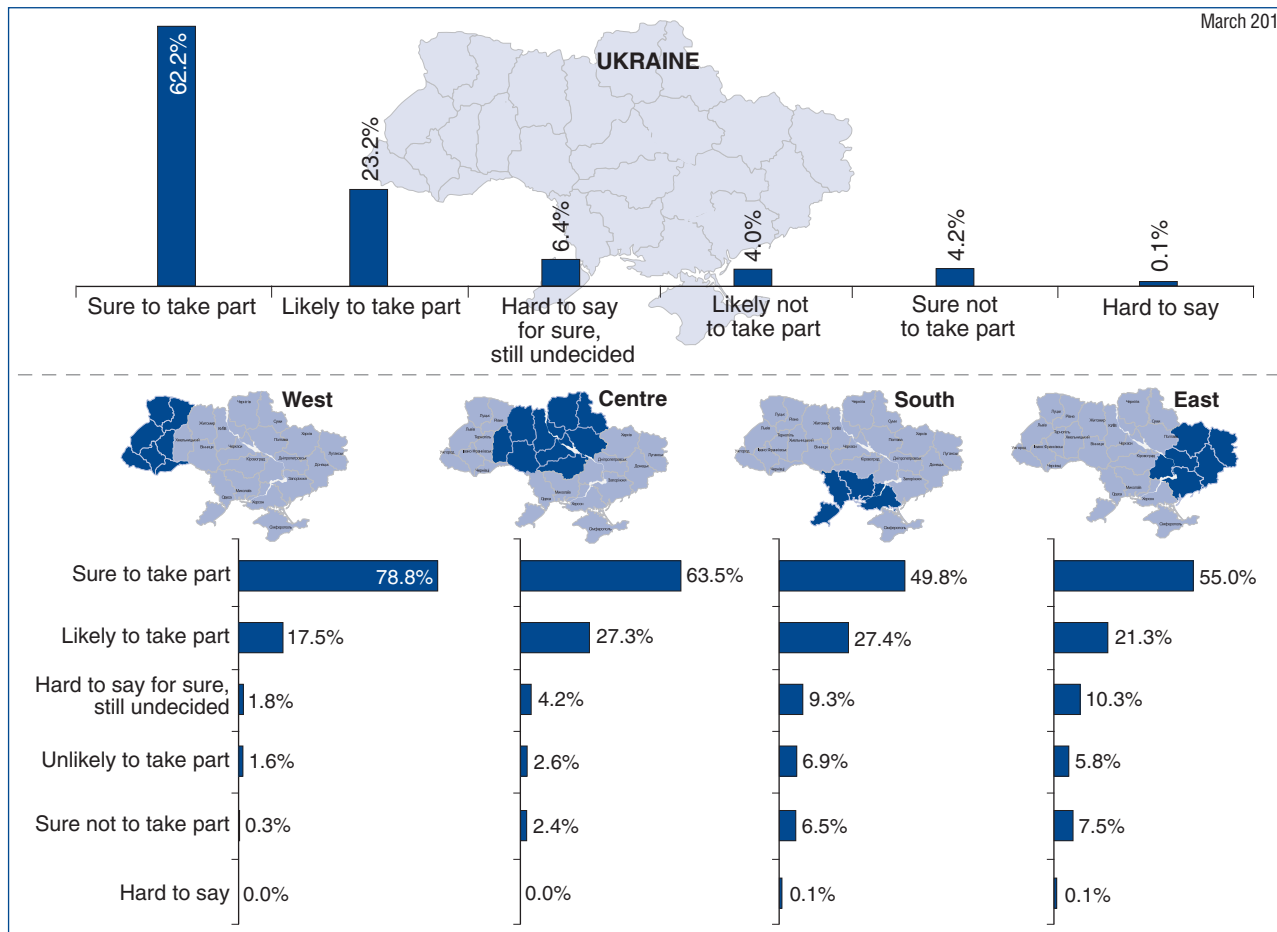


* Aggregate of answers "trust" and "rather, trust".

** Aggregate of answers "distrust" and "rather, distrust".

**If early elections of the President of Ukraine were to take place,
would you take part?**
% of those polled

March 2014



If the ballot looked like this, who would you vote for?

	% of all those polled	% of those who plan to go to the polls and decided for whom to vote	West	Centre	South	East
			% of all those polled			
Petro Poroshenko	28.2	42.3	46.6	31.8	21.6	15.6
Yuliya Tymoshenko	13.0	19.1	17.9	18.6	7.8	6.0
Serhiy Tihipko	6.1	8.8	1.0	2.6	7.8	12.2
Olha Bohomolets	3.7	5.5	5.4	3.1	5.9	2.6
Oleh Lyashko	3.7	5.5	5.0	6.0	1.9	1.4
Mykhailo Dobkin	3.6	5.2	0.0	1.1	5.6	7.6
Petro Symonenko	3.2	4.6	0.5	1.9	4.7	5.6
Anatoliy Grytsenko	3.0	4.3	4.6	4.1	2.2	1.1
Oleh Tyahnybok	1.6	2.3	1.1	2.6	2.2	0.5
Dmytro Yarosh	1.2	1.9	1.6	1.7	1.3	0.6
Renat Kuzmin	0.2	0.3	0.0	0.0	0.3	0.5
Vadym Rabynovych	0.1	0.2	0.0	0.3	0.0	0.0
Another candidate	3.3	-	1.9	3.2	4.1	3.9
Will not support any candidate	8.4	-	3.0	5.0	12.8	13.6
Will not go to the polls	6.3	-	1.3	3.4	11.6	10.5
Hard to say	14.5	-	10.1	14.7	10.3	18.5

March 2014