

## **The budget process: playing a game of political tetris**

### RESEARCH UPDATE

No. 47/295, December 30, 2002

Ukrainian MPs managed to leave for a New Year break with a feeling of a fulfilled task. On December 26 the parliament voted 336 to 46 in favor of adoption of the 2003 budget in the third reading, and approved the main financial document as a whole immediately by 348 votes. None of the votes was given by the Communist faction.

The 2003 budget income is expected to be UAH 50,020.876 billion; the spending is expected to be UAH 52,055.801 billion. The budget deficit is expected to total UAH 2,034.925 billion. The 2002 budget was slightly smaller: the income of UAH 45.39 billion, expenditures of UAH 49.50 billion, and the budget deficit of UAH 4.11 billion. According to official statistics provided by the Ministry of Finance, the 2002 budget was not fulfilled: by the beginning of December 2002 the annual budget income had been at 87.1% of the planned figure, and the annual spending had been only at 70.8% of the planned amount. According to the Ministry of Finance, the direct internal debt (as of November 30) had been at UAH 13,138.2 million and US\$ 1,317.121 million – a reduction by UAH 901.5 million from January 2002. The direct foreign debt (as of November 30) was decreased by US\$ 42.2 million to US\$ 7,936.3 million. The official exchange rate of Ukrainian national currency, hryvnya, was UAH 5.3315 to US\$ 1.

According to the newly-adopted 2003 budget, the internal state debt is supposed to be at UAH 14,931.091 million and US\$ 1,317.121 million, and the foreign debt is not supposed to exceed the equivalent of US\$ 8,588.475 million.

By the end of 2002 the President of Ukraine had not signed the new budget. Before the voting date he had said he would not sign an unrealistic budget. “Our future is an absolutely firm, but also absolutely true budget. The air must not be included in the budget,” he argued. Actually, according to the Budget Code, the parliament had to approve the budget for the next year by December 1. However, the crisis in the parliament made it impossible to meet the deadline, as the very approval of the budget was at risk.

### **Chronology of Compromise**

At the beginning of the week when the budget was approved, a positive voting result had been seen almost as unrealistic. From mid-December the parliament had suffered a protracted crisis that accompanied the formation of a so-called parliamentary majority that currently numbers 237.

One of the steps towards the parliamentary crisis was an effort of consolidation through the creation of the so-called “coalition government” by representatives of the nine factions of the majority. The process of formation of a “majority-based coalition” was formalized at the end of November by an agreement between then candidate for premiership Viktor Yanukovich and leaders of the nine parliamentary factions of the majority: Trudova Ukraina and PPPU (42 MPs), SDPU(o) (39 MPs), Rehiony Ukrainy (37 MPs), PDP (17 MPs), Agrarians of Ukraine (16 MPs), Evropeisky Vybir (20 MPs), Narodovladdya (16 MPs), Demokratychni Initsiatyvy (22 MPs), and the Narodnyi Vybir (15 MPs). According to the document, the support for Yanukovich as a candidate for the premiership was supposed to be exchanged for guarantees to form the government of representatives of the parliamentary majority. The division of seats in the Cabinet was supposed to be done based on proportional representation of factions and groups of the majority. The would-be prime minister and the MPs also agreed to sign a political agreement on cooperation and solidarity in responsibility between the majority and the Cabinet – which was actually done later.

In addition to ministerial offices, the “coalition package” included the position of the governor of the National Bank of Ukraine (NBU). The lack of agreement between the majority and the opposition about the appointment of leader of Trudova Ukraina Serhiy Tihipko as the NBU Governor and the re-distribution of leadership of parliamentary committees undertaken by the majority on December 17 made the parliament practically unable to work. Shortly the opposition lost all 19 seats of leaders and deputy chairmen of parliamentary committees, including the committees for regiment, parliamentary ethics and administration of the parliament’s performance, the committee for freedom of speech and information, and the budget committee – which, logically, should be led by members of the political opposition.

On December 24, however, representatives of the majority and the opposition reached a compromise that allowed unblocking of the parliament. The voting results of December 17 that had led to the change of leadership of the committees were cancelled. According to Speaker Lytvyn, the idea to let the opposition keep its committees was introduced by the PDP faction and was supported by leaders of 12 factions. The decision to keep the committees as they were was supported by 246 MPs out of 364 MPs registered in the assembly.

As the division of votes for the option designed to unblock the work of the parliament has shown, the voting, in fact, gave birth to a kind of “neo-majority” in the parliament. The idea to cancel the re-division of the parliamentary committees and removing members of the opposition and non-majority factions from the leadership was supported by the *Evropeisky Vybir* and part of the *Rehiony Ukrainy*. The bargain seemed to be a good one – the opposition and *Nasha Ukraina* kept “their” committees, and the government got the new budget approved before the new year. The solution suggests that there may be reasons to say that negotiations between *Nasha Ukraina* and the Donetsk group have brought some result.

### **Political Tetris or a Majority of Many Faces**

It is interesting to see not as much the factions that supported the deal to unblock the work of the parliament and adopt the budget, but those that opposed it. The 40-strong SDPU(o) faction, the “golden chip” of the majority, took a special stance. Given the total number of MPs in the majority (237) the SDPU(o) can have a critical impact on the processes in the parliament. However, the formation of the “neo-majority” and the involvement of *Nasha Ukraina* and some of the opposition MPs reduces dramatically the exclusivity of influence of the SDPU(o) – a fact that the faction’s and the party’s leaders understand too well.

The history of difficult relations between *Nasha Ukraina* and the SDPU(o) – or rather, the history of relations between their leaders, Victor Yushchenko and Viktor Medvedchuk, respectively, has been the one of a lasting confrontation, multiplied by political competition and prospects for the 2004 presidential race. The tension surfaced during Yushchenko’s premiership and Medvedchuk’s service as the First Vice Speaker. Yushchenko’s dismissal from the position of the Prime Minister was to a large extent caused by the attitude of then First Vice Speaker Medvedchuk. Similarly, Medvedchuk’s own dismissal was to a large extent a result of an agreement between Yushchenko and the *Yednist* faction of the mayor of Kyiv, Oleksandr Omelchenko. Yushchenko has been quoted a lot of times as saying that he did not wish to be in the same majority with the SDPU(o). The appointment of Viktor Medvedchuk to the position of the presidential chief of staff with all new opportunities the position could bring in Ukrainian political environment added to the confrontation that affected, among other things, the work of the parliament. The majority and the “coalition government” were formed practically without *Nasha Ukraina* which had won the elections and remained the largest of the parliamentary factions (102 MPs). *Nasha Ukraina*, though, has failed to convert the electoral success into political results. Both because of processes within the parliament and the lack of a clear strategy of action *Nasha Ukraina* has come close to the opposition – a status that is relatively easy to get but not so easy to leave. In a sense, the developments of December 24 – the unblocking of the work of the parliament through the revision of the vote of December 17 – was one of the initial steps made by *Nasha Ukraina* out of its near-opposition status.

The political environment of today has been created by the crisis of the majority, destructive trends in the parliament and the need of the new government of Viktor Yanukovich to have the 2003 budget adopted as soon as possible. The situation opened the way for negotiations between the “majority” and the “minority” and the solution was found. The formation of a situational “neo-majority” with the involvement of a part of the “minority” has reduced the strategic role of the SDPU(o) in the majority of nine factions and groups. If the opposition joins the process, the majority will have more than 300 votes – i.e., will become a constitutional majority that can override the president’s veto. The impressive result of the budget vote showed it was not impossible.

Meanwhile, some members of the majority believed that votes of the majority in favor of a moratorium on re-distribution of parliamentary committees was a “decision of tired people”. Leader of the Agrarian party faction Kateryna Vashchuk, for instance, told journalists that “the voting of yesterday is fatigue of constant clashes and contradictions” and stated that “the majority exists, it works, and the adoption of the budget is a proof of that.”

Representatives of the SDPU(o) strongly objected the voting to abolish the re-distribution of parliamentary

committees in the format that had been used. After the voting, the faction's leader Leonid Kravchuk said he believed that the voting was the beginning of a split-up of the parliamentary majority. He announced that his faction had not supported the draft resolution "neither in the office [of Speaker Volodymyr Lytvyn, where negotiations between leaders of factions on that matter had taken place] nor in the assembly hall" (UNIAN, December 25, 2002). According to Kravchuk, some of the SDPU(o) faction suggested they would suspend their membership in the majority and reserved the right to vote as they wished. "There will be no discipline anymore," he said, and added he could not force the MPs after they had "been ducked". When asked how the SDPU(o) faction would vote in the future, Kravchuk said they would "vote depending on the situation". He refused, though, to specify who had "ducked" the SDPU(o) faction and said he did not have official proof to name any names.

Later, though, some suggestions were made by members of the SDPU(o) as to the identity of those who had "ducked them". On December 27 member of the SDPU(o) Nestor Shufrych told in an interview disseminated by *Ukrainska Pravda* that there were "traitors" in the majority. "The SDPU(o) firmly believed that we unquestionably had to review the issue of distribution of the committees. But that needed to be done openly, when representatives of the minority were in front of us. Unfortunately, representatives of the *Evropeisky Vybir* faction did that under the carpet. That is overt betrayal," Shufrych said. Given that the *Evropeisky Vybir* is close to First Vice Prime Minister Mykola Azarov, it looks as if contradictions between the Donetsk group and the SDPU(o) are entering a new, semi-public phase. The recent tension is just the top of the iceberg – perhaps the one waiting for its "Titanic". Who will be that "Titanic" remains to be seen – for instance, an indicator may be how fast the new budget is signed by the president.

At a recent press conference President Kuchma announced he was satisfied that the work of the parliament was unblocked: "I am glad that war ended yesterday, if that is true". Meanwhile, he sounded skeptical about prospects for inclusion of *Nasha Ukraina* into the majority: "eight months have passed from the beginning of the work of the parliament – [but they] could not agree. I saw Viktor Andriyovych [Yushchenko] a dozen of times and proposed ... But when the talk is in the language of ultimatums..." Kuchma said, "let's see if what they have declared is true and not a yet another move. Let's see how they vote when the point is about concrete things." Hence, it appears that the results of the budget vote did not make the top decision-makers euphoric.

## **Budget Paths**

The agreement on the state's "financial constitution" was done really in a hurry. Ministers and members of the Budget Committee worked virtually all night long and as a result produced a draft budget – 2003 – signed by the Prime Minister and the chairman of the Budget Committee. In fact, that was a common product – something that had not happened to the budget before. The MPs received the draft budget about an hour before they were supposed to vote on it – which sent a sense of resentment around the assembly. Chairman of the Budget Committee Petro Poroshenko and First Vice Prime Minister of Ukraine Mykola Azarov announced that in general they managed to keep all positive features of the second draft in the final version. The voting, though, was marked by what Mykola Tomenko from *Nasha Ukraina* described as efforts of the SDPU(o) and the *Narodovladdya* to "deliberately continue to disrupt the discussion of the budget process in Ukraine". According to Tomenko, "absolute majority" of members of those two factions continued to refrain from participation in the voting – like they had refrained from voting on other economic bills before if the voting was not the one in which every personal vote was recorder (Forum, December 26, 2002). Finally, 18 members of the SDPU(o) faction did not vote for the state budget. Commenting on the fact, Nestor Shufrych, MP, noted: "we had two serious objections. First, about salaries, [and] second, about the budget deficit <...> most of members of the politbureau of the SDPU(o) voted against the draft. Majoritarian candidates who are planning to deal with the Minister of Finance in future expect that the government's pledges will be met. The Communists refused to support the bill because, in their opinion, it was "anti-social" and represented "ruination of the country".

However, in general the "tired" MPs were positive about the results of the budget work. Speaker of the parliament Volodymyr Lytvyn announced that the budget was adopted in accordance with the Budget Code for the first time, that it was better socially balanced, and gave more opportunities to local self-governance bodies to carry out their authority. Petro Poroshenko described the new budget as innovative and realistic, stating that it had reduced tax evasion opportunities and barter chances. The government also seemed satisfied. According to Minister of Economy and European Integration Valery Khoroshkovsky, the 2003 budget is a compromise but realistic: "we have made certain compromise with the budget committee, but I may assure you that it [i.e., the budget] is far more realistic

than the one proposed before” (UNIAN, December 26, 2002).

### **Instead of Conclusions**

The voting results showed that the parliament returned to the point from which it started. The majority that formed the “coalition government” has also changed both in terms of quality and quantity. After the recent developments, the parliament may be facing a new wave of changes and situational alliances. The example was set by the adoption of a budget and a number of measures proposed by the government and aiming at fulfilling the budget in 2003. The development signified a compromise between the government and the Budget Committee. However, signing any sort of a relatively long-term agreement between them is not on the agenda now. While de facto the opposition factions, except Communists, joined the majority when voting on the budget, de jure the unification has not taken place. Possibly, the shaky peace will be broken, and then the parliament may return to the re-division of committees. The situation is not very likely, though, as neither the majority nor Nasha Ukraina, unlike Yulia Tymoshenko, the Socialists and the Communists, are ready for a new “revolution”. Therefore, the parliament will continue to search for a “golden medium part” and refrain from abrupt movements – for now. As the time for the presidential campaign draws nearer, the decision is likely to be revisited, and the confrontation will become stronger and more dynamic.

The situation remains critical: if rapprochement between the Donetsk elite at Nasha Ukraina continues, and the role of SDPU(o) continues to decrease, it is possible that some changes may occur in the “coalition government” of the nine factions and groups that had subscribed to bear collective liability for the government’s performance. The new year, therefore, may bring new interesting set-ups.