



# Gorshenin *Weekly*

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## INTERNATIONAL POLITICAL

### UKRAINE-RUSSIA

#### Ukraine decides to cut down on Russian gas purchases

The Ukrainian government has decided to purchase only 27bn cu.m. of Russian gas this year, the Lb.ua news and analysis website quoted Ukrainian Energy Minister Yuriy Boyko on 20 June 2012 as saying. Ostchem Holding Ltd, which unites chemical enterprises belonging to Ukrainian businessman Dmytro Firtash, will buy another 8bn cu.m., the minister added.

According to Boyko, the general volume of gas consumed in 2012 will be 62.9bn cu.m. Ukraine will extract 20.9bn cu.m., and is expected to take 7bn cu.m. from underground gas storage facilities.

The Ukrainian state-run oil and gas company Naftohaz Ukrayiny submitted a request for purchasing 27bn cu.m. of gas in 2013, Gazprom's CEO Aleksey Miller said on 22 June 2012.

Earlier, Gazprom's deputy head Aleksandr Medvedev said that despite Ukraine's plans to decrease the volume of gas imported from Russia, its deliveries might reach approximately 40bn cu.m. in 2012, which is envisaged by the gas contract.

Gazprom did not rule out that it might take Ukraine to court if it fails to fulfil its obligations, the Kommersant Ukraina business daily reported on 21 June 2012.

The partner of the Ilyashev & Partners legal firm, Roman Marchenko, believes that Ukraine has all the chances to defend its position in court because several European companies have already obtained a discount of the price of gas and reduction of purchase volumes from Gazprom.

At the same time, energy expert Oleksandr Narbut pointed out that under the current gas contract, Ukraine is obliged to purchase at least 41.6bn cu.m. of gas. Ukraine will be able to revise the terms of this contract only in 2013 and only if Russia agrees to it, he added.

Gazprom might file a lawsuit against Ukraine only after a corresponding violation is committed, the Dzerkalo Tyzhnya analytical weekly quoted on 22 June 2012 international lawyer Danylo Kurdelyuk and attorney Yuliy Morozova. "We will not find out until 2012 about the specific volumes of gas which Naftohaz took under the contract and whether the mentioned contract was breached in general," the experts said.

#### No negotiations on gas price reduction under way, Russia says

The Ukrainian state-run oil and gas company Naftohaz Ukrayiny and Gazprom are not holding negotiations on revising the gas price, Gazprom's deputy head Aleksandr Medvedev said on 20 June 2012. "We are not holding official negotiations on revising the price. There are only consultations," he said.

The EU has no intention to participate in the gas talks between the two countries,

the head of the EU delegation to Ukraine, Jose Manuel Pinto Teixeira, said on 18 June 2012.

At the same time, the EU diplomat added that the EU was ready to participate in a trilateral concern for managing the Ukrainian gas transport system.

Ukraine, Russia preparing for intergovernmental commission meeting

A meeting of the Ukrainian-Russian intergovernmental committee for economic cooperation will take place in Kiev on 27 June 2012, the press service of the Ukrainian government has said.

Earlier, Ukrainian Prime Minister Mykola Azarov said that the committee members would convene in order to prepare a meeting of the intergovernmental commission on the level of presidents.

UKRAINE-EU

Ukraine concerned about situation with issuing EU visas

On 18 June 2012, Ukraine's envoy to the EU Kostyantyn Yeliseyev said that he had expressed in a letter sent to the European Commission the concern of the Ukrainian government over issuing of visas by the EU countries to Ukrainian nationals. In particular, the issue has to do with an overly complicated procedure for the document submission.

The letter also said that «such an approach challenges the spirit of the visa facilitation agreement between Ukraine and the EU».

The European Commission's vice-president, Viviane Reding, who is concerned about human rights in Ukraine, is blocking the further simplification of the visa application procedure, the Ukrainian news agency UNIAN quoted its own source in the EU on 19 June as saying.

The results of a sociological survey conducted by the Gorshenin Institute in November 2010 suggest that the majority of Ukrainians (76.3 percent) believe that visa-free travel of citizens was a logical step for closer relations between Ukraine and the EU.

Ukraine appoints new envoy to Germany

Ukrainian President Viktor Yanukovich signed an order appointing Pavlo Klimkin Ukraine's extraordinary and plenipotentiary ambassador to Germany on 22 June 2012.

Before this, Klimkin worked as the deputy foreign minister of Ukraine – chief of staff. Also, Klimkin chaired the Ukrainian delegation at the negotiations with the European Union regarding the association agreement.

## DOMESTIC POLITICAL

### AUTHORITIES

#### Constitutional assembly begins work

On 20 June 2012, the constitutional assembly held its first meeting.

Just before the meeting, the opposition parties decided not to join the constitutional assembly because they believe that they would have no influence in the body.

When opening the assembly's session, President Viktor Yanukovich expressed confidence that the opposition would join the work on the constitution after the parliamentary election.

The head of the constitutional assembly, former President Leonid Kravchuk, said that a draft law with amendments to the constitution would be ready by late 2013 – early 2014.

In an interview with the Kommersant Ukraina business daily published on 21 June 2012, the secretary of the constitutional assembly, presidential adviser Maryna Stavniychuk, said that amendments to the constitution will be introduced in two stages. “The first draft could be ready this autumn,” she noted. Stavniychuk said that the document will deal with the constitutional regulation of the justice system and local government reform.

On 21 June 2012, MP Vadym Kolesnichenko of the pro-presidential Party of Regions said that his parliamentary faction intended to use the constitutional assembly as “a tool to officially make Russian a state language on a par with Ukrainian, and formalize it in the constitution”.

At the same time, in his commentary to the Lb.ua news and analysis website, legal expert and one of the authors of the constitution Viktor Musiyaka said that even if the constitutional assembly takes into account the proposed assignment of official status to the Russian language, it is unlikely that the parliament will pass it.

#### Opposition's bill on cancelling officials' immunity sent to constitutional court

On 20 June 2012, parliament sent to the constitutional court the draft law on scrapping immunity of lawmakers, judges and the president. The bill was drafted and introduced by the opposition.

In addition to the opposition's bill, which requires revision by the constitutional court before lawmakers could discuss it, parliament is debating another bill submitted by the majority, which has already passed the approval process. The document suggests the removal of immunity only for parliament members.

The Party of Regions expects to pass its bill before the parliamentary election.

On 19 June 2012, head of the Party of Regions' parliamentary faction Oleksandr Yefremov said that he has “no confidence that they will win 226 votes” to adopt the draft law on MPs' immunity during the current session. At the same time, he recalled that this autumn they will need 300 votes to approve amendments to the

constitution of Ukraine on the whole.

To cancel immunity, it is necessary to introduce amendments to the constitution by at least 300 votes. According to some experts and the media, the removal of the immunity only of lawmakers will give the authorities a tool to put pressure on the opposition.

Parliament might reorganize Internal Troops into service controlled by president

On 20 June 2012, the mass media reported that the pro-presidential Party of Regions had submitted for parliament's consideration a draft law proposing the reorganization of the Interior Ministry's Internal Troops into the State Service for Public Order, which will be under direct control by President Viktor Yanukovich.

The draft law also envisages the expansion of the authority of the Internal Troops. Hence, in addition to guarding state-owned facilities and diplomatic missions, convoy the arrested and other responsibilities, the Internal Troops will now have a new task of ensuring the protection of the state-owned property from attempts to seize it with force and other illegal actions.

The draft law's co-author, MP of the Party of Regions Vasyl Hrytsak, believes that parliament will back the initiative which he put forward. «It has all the chances to be adopted in its entirety because the danger of overthrowing the constitutional order, as it was done during the collapse of the Soviet Union in 1991 or during the Orange Revolution in 2004 exists all the time,» Hrytsak said.

In the opinion of the leader of the Yuliya Tymoshenko Bloc opposition parliamentary faction, Andriy Kozhemyakin, transferring such a military unit under the president's control and expanding its functions might be linked to the upcoming elections. «They [the authorities] are preparing for some mass events,» Kozhemyakin said.

Pro-presidential party intends to adopt language draft law in nearest future

The draft law on the principles of language policy which raises the status of regional languages and the Russian language, in particular, might be adopted in the second reading on 4 or 5 July, the head of the pro-presidential Party of Regions parliamentary faction, Oleksandr Yefremov, said on 18 June 2012.

At the same time, he stressed once again that «the given draft law does not pose any threat to the development of the Ukrainian language».

If the language policy draft law is adopted in its entirety, expenditures for its implementation will reach 1.5bn-2.1bn dollars annually, the social movement Freedom Space quoted a representative of the Finance Ministry, Valentyna Brusylova, on 21 June as saying. «Our ministry does not back the adoption of this draft law,» she stated.

At the same time, on 22 June 2012 the Finance Ministry said that it had not come up with any evaluation of the costs of the language law implementation. In the opinion of the president of the Open Politics analytical center, Ihor Zhdanov, parliament will pass the second reading of the language draft law, but it will not lead to mass protests.

## Ukraine creates land bank

On 21 June 2012, the parliament adopted on the whole a law on demarcation of lands in state and communal ownership.

One of the document's provisions stipulates for the establishment of a state land bank. According to Dzerkalo Tyzhnya weekly, this provision (amendment number 76) appeared just before the voting and was approved only at the second attempt.

The opposition said the new law was aimed against the state, and promised to appeal to the constitutional court if it is signed by the president. As first deputy head of the Yuliya Tymoshenko Bloc's parliamentary faction Serhiy Sobolev said, the absence of a state land bank was one of the safeguards against the sale of agricultural land even with the abolition of the moratorium, which expires on 1 January 2013. "If the moratorium is not extended, all the articles of this law will automatically come into effect. This means that all the channels for the sale of agricultural land will be opened," he said.

On the same day, 21 June 2012, head of the State Land Agency Serhiy Tymchenko said that his agency jointly with the Ministry of Agricultural Policy and National Bank will soon present to the government a plan for the creation of a state land bank as a separate institution that will manage state-owned lands (purchase, sale, lease, etc.) and will carry out financial functions.

The 2012 budget provides 15m dollars for the establishment of a state land bank.

Earlier Ukraine imposed a moratorium on the sale of agricultural land, which expires on 1 January 2013. One of the requirements for opening the market of Ukrainian lands is the establishment of a state land bank.

## Parliament mulls extending its session to adopt some laws

The 10<sup>th</sup> parliamentary session might be potentially extended by one week, the head of the pro-presidential Party of Regions parliamentary faction, Oleksandr Yefremov, said on 19 June 2012.

Ukrainian MPs might need an extra week to consider a number of laws, including the language bill, a draft law on taxing luxury goods and a draft law which cancels lawmakers' immunity, Yefremov added.

On 18 June 2012, parliamentary speaker Volodymyr Lytvyn dismissed the information about the possibility of extending the current parliamentary session as rumours.

The 10<sup>th</sup> session of parliament is scheduled to end on 6 July 2012.

## Pro-presidential party refuses to discuss issue of personal voting by MPs

On 22 June 2012, the opposition faction said that they would vote in the Verkhovna Rada only personally.

The same day, the head of the pro-presidential Party of Regions parliamentary



faction, Oleksandr Yefremov, evaded the question posed by journalists about the possibility of the Party of Regions making the same decision. He pointed out that an MP of the opposition faction Our Ukraine-People's Self-Defence and the head of the Front for Change party, Arseniy Yatsenyuk, was not present during the vote for the law on lawmakers' immunity although his card was used for voting.

It has been reported by the mass media multiple times that in the Ukrainian parliament, the number of cards which participate in voting frequently exceeds the number of MPs actually present in the chamber.

## Ukrainian president approves courts' rulings implementation procedure

Ukrainian President Viktor Yanukovich signed the draft law on state guarantees of implementation of courts' rulings on 22 June 2012.

The law was approved in parliament on 5 June 2012.

After the approval of the law in parliament, Ukrainian media reported that the law provided grounds for cutting privileges to Ukrainians, including Chernobyl clean-up workers and Afghan war veterans.

Representatives of the Party of Regions refuted this information; however participants in the Chernobyl accident clean-up works and Afghan war veterans said they started preparations for protest actions.

The draft law adopted in the first reading suggests abolition of a number of benefits of citizens. The pro-presidential majority emphasized that those provisions were removed from the document. At the same time, according to some experts, the new draft law will make a number of "benefit" payments possible no earlier than the end of 2013.

## Pro-presidential party calls for holding mayoral election in Kyiv in 2013

On 19 June 2012, head of the Party of Regions' parliamentary faction Oleksandr Yefremov said that his political force supports the idea of holding elections of Kyiv's mayor and councillors in the summer of 2013.

On 21 June 2012, head of the Kyiv city administration Oleksandr Popov informed that a meeting of the Kyiv city council that will approve an address to parliament on scheduling the date of the election will be held on 12 July 2012.

According to non-affiliated MP Taras Chornovil, Popov is purposefully delaying the assignment of the election date.

According to the legislation, the tenure of Kyiv mayor Leonid Chernovetskyk expired on 3 June 2012. On 1 June 2012, Chernovetskyk tendered his resignation. The tenure of Kyiv's present city council expires in June 2013. The date of the Kyiv mayor election is scheduled by the parliament. The 10<sup>th</sup> session of the Verkhovna Rada ends on 6 June 2012.

OPPOSITION

Ukrainian president says jailed ex-premier features in largest number of criminal cases among all politicians in world

Former Ukrainian Prime Minister Yuliya Tymoshenko is the only politician in the world who is involved in so many criminal cases, President Viktor Yanukovich said in an interview with the German magazine SUPERillu on 19 June 2012.

«It is important now to verify this case from the legal point,» Yanukovich said, adding that the Ukrainian government asked the US company Skadden to carry out an expert analysis of the issue.

At the same time, the Ukrainian president stated that he felt sorry for Tymoshenko and that he wished her the speediest completion of court hearings.

The Ukrainian Prosecutor-General's Office (PGO) has enough evidence of Tymoshenko's involvement in the killing of politician and businessman Yevhen Shcherban, the deputy prosecutor-general, Renat Kuzmin, said in an interview with the Kommersant Ukraina business daily on 18 June 2012. If the former prime minister remains sick for an extended period of time, the PGO might carry out a medical examination which will determine whether Tymoshenko is fit for taking part in the investigation into Shcherban's killing, Kuzmin added.

Tymoshenko's lawyer Serhiy Vlasenko told Kommersant Ukraina on 20 June 2012 that Kuzmin had warned Tymoshenko back in autumn of 2009, when a presidential campaign was in full swing, that the PGO was preparing to launch a criminal case against her over Shcherban's killing. «You know, I am forced to dig out different kinds of cases, including Shcherban's case. But I understand very well that this is absurd and that there is no and there can be no proof for this,» Vlasenko quoted Kuzmin as saying.

On 21 June 2012, the opposition Fatherland party accused Yanukovich of violating the presumption of Tymoshenko's innocence on multiple accounts.

Representatives of the opposition also recalled that Yanukovich had been convicted twice — for robbery and hooliganism — and that he «bore responsibility for actually documented and proven facts».

Jailed Ukrainian ex-premier preparing to file lawsuit against president

Former Prime Minister Yuliya Tymoshenko intends to take President Viktor Yanukovich to foreign court over his statement that she was involved in the 1996 killing of businessman and politician Yevhen Shcherban, her lawyer Serhiy Vlasenko said on 18 June 2012.

On 20 June 2012, Ukrainian Justice Minister Oleksandr Lavrynovych said that Tymoshenko's lawsuit filed with a court abroad would be fruitless because Ukraine was not obliged to implement foreign court rulings, excluding those which the country recognized in international agreements and conventions.

Jailed ex-premier to be released only after asking for pardon

It is impossible to pardon former Prime Minister Yuliya Tymoshenko if she personally does not ask for it, Justice Minister Oleksandr Lavrynovych said on 20 June 2012.

Tymoshenko's lawyer Serhiy Vlasenko recalled in an interview with the Kommersant Ukraina business daily on 20 June 2012 that the president had issued an order in November 2010, which prohibited relatives, defenders and public organizations of a convicted person to ask for his pardon. In Vlasenko's opinion, in order to free Tymoshenko, Yanukovich only needs to reinstate the pardoning procedure which was in force before 2012 and to sign a decree on pardoning the former prime minister. The Ukrainian president has the right to do this any moment, Vlasenko added.

He also stressed that Tymoshenko was ready to accept pardon. However, he added that she would never admit that she is guilty on the charges pressed against her.

In his turn, lawyer Oleksandr Plakhotnyuk said that the former prime minister's defence was certain that a court would acquit Tymoshenko in the case launched over the 2009 gas contracts with Russia. This will allow them not to resort to the issue of pardoning, he added.

Ex-premier summoned to court in case over activity of corporation she headed

On 19 June 2012, the management of Kharkiv's Kachanivska prison received a letter from a judge in which former Prime Minister Yuliya Tymoshenko was summoned to court on 25 June 2012 over the criminal case launched into the activity of the United Energy Systems of Ukraine (UESU) corporation.

On 20 June 2012, the Lb.ua news and analysis website reported that a special «orthopedic stretcher» was being prepared for the former prime minister in Kharkiv's court chamber.

The State Penitentiary Service reported on 22 June 2012 that Tymoshenko would make a decision on participating in the trial after consulting with German doctors on 25 June 2012.

In the opinion of German political scientist Alexander Rar, the European society will not accept a trial to which Tymoshenko would be carried on a stretcher.

Ex-premier might miss court's hearing of her appeal against jail term

On 26 June 2012, Kiev's Supreme specialized court will consider former Prime Minister Yuliya Tymoshenko's appeal against the verdict which sentenced her to seven years in jail for signing gas contracts with Russia in 2009.

On 21 June 2012, lawyer Oleksandr Plakhotnyuk said that the former prime minister was unlikely to attend the court hearing. He recalled that the former prime minister had already submitted a request for

holding the court hearing of her appeal without her participation. «Tymoshenko's presence is not mandatory. The Criminal Procedure Code clearly stipulates this,» Plakhotnyuk added.

He said that if the court delays the consideration of the appeal again, as it happened on 15 May 2012, the defence will consider such actions as a deliberate attempt to drag out the case.

On 22 June 2012, MPs of the opposition Yuliya Tymoshenko Bloc submitted a request to the Supreme Justice Council to assess the actions of the judges of the Supreme specialized court, who, in their opinion, were dragging out the consideration of Tymoshenko's appeal.

Tymoshenko's lawyer Serhiy Vlasenko said that the former prime minister asked the European Parliament's observers Aleksander Kwasniewski and Pat Cox to use their influence in order to prevent the dragging out of the court proceedings.

On 21 June 2012, the State Penitentiary Service reported that Kwasniewski and Cox might visit Tymoshenko on 24 June 2012.

In the opinion of the editor-in-chief of the Lb.ua news and analysis website, Sonya Koshkina, Tymoshenko will not be released from jail in the foreseeable future: «There is a zero possibility. Those who put her behind bars will not let Lady U [Tymoshenko] out, especially, before elections. No way. The same with [former Interior Minister] Yuriy Lutsenko and other political prisoners.»

Furthermore, Koshkina believes that the incumbent authorities will win the parliamentary election in October: «It is very likely that they will do it 'cleanly' — or, in other words, without too obvious rigging.»

At the same time, the editor-in-chief pointed out that Europe «had no real leverage on Ukraine».

### European court to consider Ukrainian ex-premier's case at end of summer

On 22 June 2012, the European Court of Human Rights (ECHR) said that the consideration of former Ukrainian Prime Minister Yuliya Tymoshenko's case will commence on 28 August 2012.

Tymoshenko's lawyer Serhiy Vlasenko said that the former prime minister's lawsuit filed with the ECHR dealt with allegedly illegal arrest, torture and the absence of fair trial.

Vlasenko said in an interview with the Dzerkalo Tyzhnya analytical weekly that the ECHR ruling would set Tymoshenko free. «And in certain cases, such rulings of the European court do not require additional implementation in Ukraine,» he added.

### EU envoy to Ukraine not allowed to visit ex-premier

On 17 June 2012, the European Commission's ambassador to Ukraine, Jose Manuel Pinto Teixeira, was unable to visit former Prime Minister Yuliya Tymoshenko in Kharkiv's hospital.

He stressed that he has been expecting to see Tymoshenko since August 2011. In mid May 2012, he was told that he needed an invitation from Tymoshenko to be able to visit her, which he soon received, Teixeira added. «However, they told me that I was no longer an ambassador and that Ukraine had a different envoy,» he said.

On 18 June 2012, the State Penitentiary Service reported that Teixeira had not requested a meeting with Tymoshenko recently.

In the opinion of an MP of the pro-presidential Party of Regions, Oleh Nadosha, Teixeira had no actual desire to meet with the former prime minister. He believes that Teixeira had stopped to fulfil the functions of the EU envoy and turned into a typical politician. «He is on the side of the opposition and is fulfilling its tasks,» the lawmaker explained.

#### Another party joins united opposition

On 20 June 2012, the Civil Position party lead by Anatoliy Hrytsenko said that it had merged with the united opposition comprising Yuliya Tymoshenko's opposition Fatherland party and the Front for Change party led by Arseniy Yatsenyuk.

On 21 June 2012, the first deputy head of the Yuliya Tymoshenko Bloc parliamentary faction, Serhiy Sobolyev, said that the negotiations on a merger with the united opposition were also held with the European People's Party led by Mykola Katerynychuk and with the Crimean Tatar Majlis.

On 23 April 2012, Front for Change and Fatherland created the united opposition force, which also included other four parties.

The head of the Mass Information Institute, Serhiy Taran, believes that the inclusion of Hrytsenko's party into the united opposition will hardly improve the rating of the latter. «Such a merger is a mere demonstration that the opposition is capable of reaching consensus despite interpersonal enmity,» the expert said.

A sociological survey conducted by the Gorshenin Institute in April 2010 suggested how Ukrainians perceive their opposition. When asked «What should be the role of the opposition in Ukraine?» 61.2 percent of respondents said that «the opposition should be constructive, criticize the current government objectively and jointly implement positive initiatives», 19.7 percent said that «the opposition should criticize the government and fight for its change» and 19.1 percent of Ukrainians did not answer this question.

#### Jailed ex-minister of ecology refunds losses to Ukrainian government

The Segodnya daily reported on 20 June 2012 that the former Ukrainian Minister of Ecology in Yuliya Tymoshenko's cabinet, Heorhiy Filipchuk, who earlier was sentenced to three years in prison, has paid 175,000 dollars to the government of Ukraine (the amount paid from the state budget to a law firm that supported the termination of the contract with V nco company).

On 21 June 2012 Filipchuk's defence lawyer said that the court changed the verdict from three years in prison to two years of suspended sentence.

On 5 April 2012 Filipchuk was found guilty of abuse of power (article 365 of the

Criminal Code) while terminating the contract between the Ukrainian government and Vanco International ltd. for gas drilling on the Black Sea shelf.

Court schedules date of next hearing on former interior minister's case

On 22 June 2012 the court held another hearing of the case of the former Ukrainian interior minister, Yuriy Lutsenko, who is accused of exceeding his powers when investigating the poisoning of the then presidential candidate Viktor Yushchenko in 2004.

Two witnesses were interrogated. The next hearing of the court is scheduled for 26 June 2012.

Lutsenko's defence lawyer Oleksiy Bahanets said on 22 June that he was surprised that until now the European Court for Human Rights has not yet made public its ruling on whether Lutsenko was arrested and kept under custody legally.

## HUMAN RIGHTS

Media speak of persecuting website journalist by security service

The editor-in-chief of the Ukrayinska Pravda news and analysis website, Olena Prytula, said on 22 June 2012 that the Security Service of Ukraine (SBU) has established surveillance over one of their correspondents.

According to Prytula, the correspondent was taken to the SBU's department of investigations in Dnipropetrovsk on 20 June 2012, where his personal belongings were searched with no permission from court. Prytula added that the surveillance was established over the correspondent and his telephone was tapped.

On 22 June 2012 the SBU admitted that it conducted procedural actions with the Ukrayinska Pravda's correspondent but stressed the proceedings were within the framework of the law. The SBU also said in its statement that the procedural actions were linked to the investigation in the terror attack in Dnipropetrovsk.

According to Ukrayinska Pravda, the surveillance over their correspondent could be linked to his attempt to contact relatives of the people arrested on suspicion of organizing blasts in Dnipropetrovsk in April 2012.

## ECONOMICS

Audit chamber evaluates Ukraine's debts

On 15 June 2012, the audit chamber reported that by the end of 2011 the total debt (public and publicly guaranteed) rose by 5.13bn dollars, to 59.2bn dollars. The ratio of total debt/GDP (36 percent) remained within economically safe limits, which are defined by the budget code (60 percent).

At the same time, foreign public debt per capita worsened and by almost two



times exceeded the ceiling of the debt safety level. The main reason behind such a high figure is the predominant share (63.3 percent) of external debt in the structure of total debt.

As a consequence, the total debt position, as well as debt repayment and servicing, was exposed to currency risks, which increased in 2011 due to the introduction of government loan bonds with index-tied value and government bonds denominated in foreign currency.

According to the National Bank of Ukraine, the total public debt as of 30 April 2012 increased to 60.897bn dollars.

#### NBU sets new requirements for banks

On 19 June 2012, the National Bank of Ukraine (NBU) increased its requirement on the size of commercial banks' mandatory reserves on correspondent accounts from 40 percent to 50 percent.

Also, the NBU tightened the reserve requirements on long-term deposits in foreign currency, raising the respective standard from 2 percent to 3 percent, and on short-term deposits from 8 percent to 9 percent.

The NBU explained that the move was aimed at minimizing the risks associated with instability on global commodity and financial markets.

At the same time, according to an analyst of the Troika Dialog Ukraine investment company, Yevhen Hrebenyuk, the main reason for the NBU's policy was the central bank's expectations of the hryvnya devaluation.

On 20 June 2012, during a roundtable discussion at the Gorshenin Institute, economic expert Vasyl Yurchyshyn noted that the government already started to weaken hryvnya, and a slow devaluation, in his opinion, should bring benefits to Ukraine. For more details see page

#### NBU intends to limit cash payments

As news and analysis website Lb.ua reported, on 21 June 2012, the National Bank of Ukraine (NBU) registered with the parliament a draft law which grants the regulator the right to set limits on the amounts of cash settlements for individuals and legal entities, as well as individual entrepreneurs.

According to the NBU, at the moment the amount of cash totals about 24.4bn dollars.

#### Ukraine expects to harvest 50m tonnes of grain

On 20 June 2012, Deputy Minister of Agricultural Policy Mykola Bezuhlyy reported that the grain harvest in Ukraine in 2012 could reach 45-50m tonnes.

"I personally estimate the figure at 48-49m tonnes of grain by October 2012," he said.

Economy remains stable if society gives panic no way - experts

The Gorshenin Institute hosted the round table discussion Will Ukraine Default in 2013? on 20 June 2012.

The director of the economic programmes of the Razumkov centre for political and economic studies, Vasyl Yurchyshyn, has said that Ukraine started spending reserves of the National Bank of Ukraine (NBU) and as many as 2bn dollars has been spent since the beginning of this year. "The Credit Swiss investment bank calculated that we would need 60bn dollars or about 40 per cent of GDP to improve the balance of payment. Part of this money will have to be taken from the NBU's reserves," Yurchyshyn said. He also said that to maintain the payment balance, 8bn dollars from the NBU's reserves will have to be spent while 2bn have already been spent. Yurchyshyn added that the government has already started depreciating the national currency hryvnya, but a slow depreciation of currency is good for Ukraine.

"The depreciation is already taking place. You can see soft, slow depreciation of the currency exchange rate. I support this policy as it improves our competitiveness at foreign markets," Yurchyshyn said.

Nevertheless, Yurchyshyn also said that we should not expect significant depreciation of hryvnya as Ukraine is very much dependant on import of goods which become more expensive. Yurchyshyn added that according to Credit Suisse's assessment, hryvnyas to dollar exchange rate in 2013 will be 9 to 1.

MP Serhiy Sobolyev has said that risks to economics are getting stronger – debts on loans are born by the government while financial assistance goes to private companies. "We spent a lot of money on Euro-2012 football cup increasing the debt. The NBU converted part of its reserves into euro and now we are losing money because of the euro exchange rate. Meanwhile the government helps private companies to enter foreign markets, I mean Rinat Akhmetov's DTEK which is practically a monopolist in selling electricity abroad," Sobolyev said.

Sobolyev also said that the IMF's loans are better than the loans from the [Russian bank] VTB, that is why we have to turn down the programme of receiving politically motivated loans from Russia and resume the IMF programme. "Compare the terms of the IMF loans and VTB loans. There is no alternative to the IMF – without resuming cooperation with the international financing institutions it is impossible to speak about raising trust in our economy, to speak about development," Sobolyev said.

The head of the Raiffeisen Bank Aval's research and analysis department, Anatoliy Solohub, has said that the depreciation of the national currency shall be extended in time and that the exchange rate got under way because of the inflation expectations.

"The exchange rate started drifting back in May. This is because many people



expect that hryvnya will be depreciated after the election [to parliament this autumn]... Smooth depreciation, within 10 percent, would be good to our economy. However, we already saw when depreciation of 60 percent did not save our economy in 2008. This only helped to defer finding solutions to problems but did not change the basic structure of the economy. And the key problem is that our economy is not competitive," Solohub said.

Solohub also said that the eurozone will be stronger without Greece. "The situation in Greece is a choice between a horrible end and an endless horror. The countries of the eurozone are mentally ready for Greece's expulsion but technically they are not ready yet. And if Greece keeps on delaying solving its problems, the countries of the eurozone will take this move. The consequences of this move have been calculated. If this does take place, the euro exchange rate will drop sharply for a certain period of time, but the economics of the countries of the eurozone will get stronger," Solohub said.

Erste Bank's financial analyst, Maryan Zablotskyy, has said that the default of Ukraine is nothing but a scare story and that the country's economics will remain stable unless people start hectically withdrawing their bank deposits. "All default studies are based on the credit-default swaps, so-called insurance against a default. However, no-one takes into account that such insurances are available only to about 50 countries in the world meaning that others are either quite risky or are not represented at the financial markets. If all these factors are taken into account, Ukraine would be ranked somewhere in the third dozen on the risk of default, but not on the forth place," Zablotskyy said.

Zablotskyy also advised Ukrainians not to be afraid of giving their money to banks, including bank deposits in hryvnyas. "The interest rates now are so attractive that they already cover the exchange rate risks," Zablotskyy said.

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