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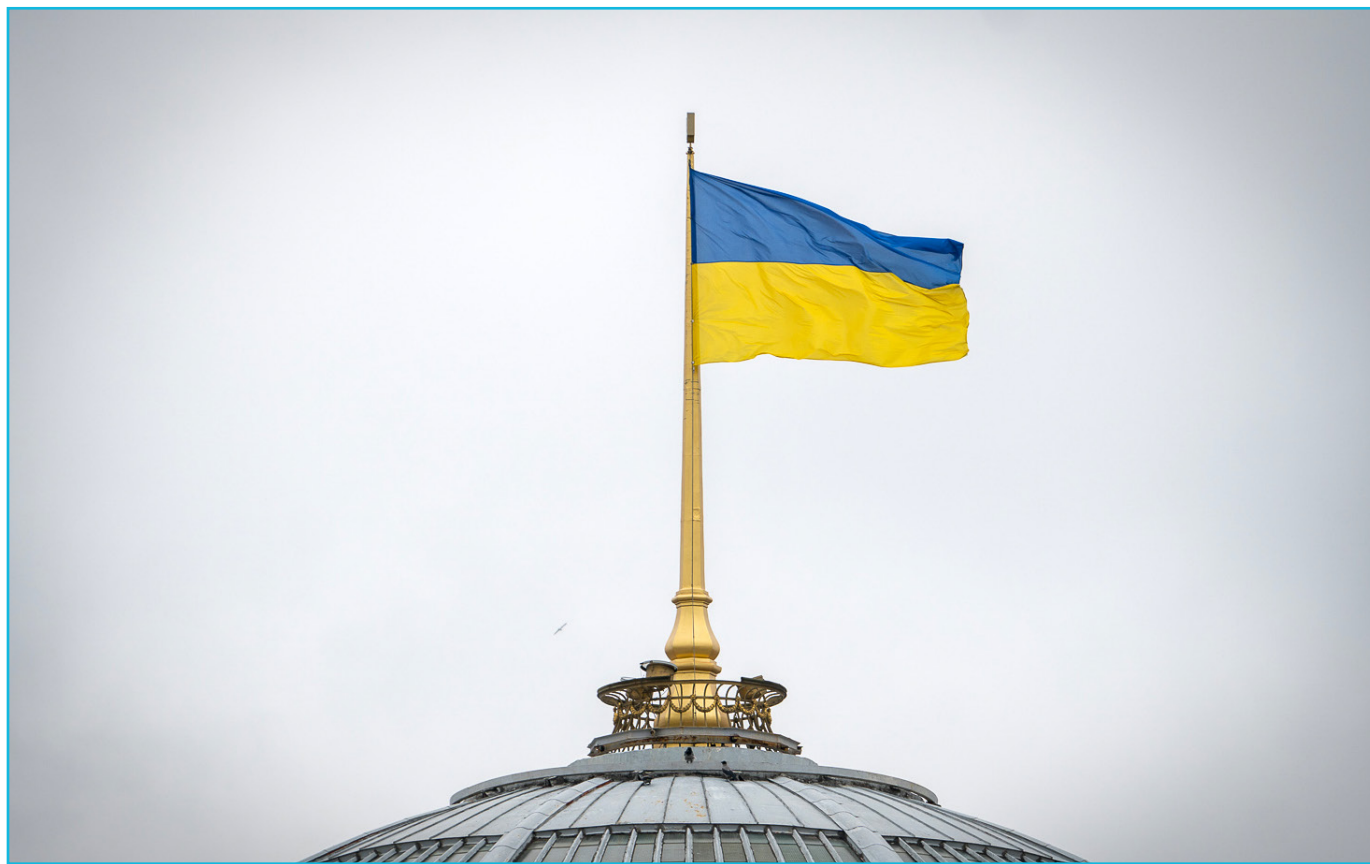
INSIDE UKRAINE

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PUBLIC POLICIES



INTERNAL POLITICAL DEVELOPMENTS IN UKRAINE: RESULTS OF 2017 AND FORECAST FOR 2018

2017 has been a turbulent year for Ukraine. Some reforms progress (first of all, pension and medical reforms) have been sidelined by a roll-back in fight against corruption and increase of antidemocratic tendencies. The current political system failed to introduce systemic reforms, “new rules of the game” as well as give credible answers to the most painful challenges for society, including conflict settlement, establishment of inclusive political and economic institutions, fight against corruption and return to sustainable economic growth and acceptable social standards. Modest GDP growth and high inflation keep Ukraine among the poorest countries in the region, which together with unfair distribution of wealth and resources and bad governance practices determine risks of possible social unrest. 2018 year might be even

more turbulent than the previous one as political contradictions and dissatisfaction in society will only increase. Preparation to 2019 presidential and parliamentary elections already started and in course of the year 2018 it will significantly destabilise political developments. However, as domestic events over last months and years proved, in the situation with high level of uncertainty any resonant events or incidents might have unpredictable and long-lasting consequences. Therefore, while expecting 2018 to be a year of “controlled turbulence” with no major political or economic changes compared to 2017, one might not exclude any of possible dramatic developments, including early elections or increase of intensity of the conflict in Eastern Ukraine. Although chances for systemic internal reforms or cessation of conflict in Donbas remain for 2018, any success will depend on combination of efforts by Ukrainian civil society, foreign partners and few accountable players (not populist but pro-reform) remaining inside of the parliament and the government.

2017: Achievements and Failures

The achievements of the Ukrainian government in 2017 include:

1. **Maintenance of relatively stable political situation.** Despite the permanent rumors about the collapse of the coalition and early elections, the BPP and NF managed to maintain the existing political architecture and ability of the parliament to function and make decisions in interests of the both parties. As BPP and NF have not enough votes to ensure efficient voting they are constantly forced to look for allies among deputy groups "Vidrodzhennya" and "Volia Narodu" as well as among non-aligned. There is a shadow partnership between the coalition and the Radical Party of Oleh Lyashko and even, if needed, with the Opposition bloc. The real opposition now consists of the Samopomich and BYuT factions. The parliament continues adopting governmental draft laws; the government works without much upheaval, and the duality of the executive branch has not lead to open conflicts between the President and the Prime Minister. Despite some open scandals and hidden conflicts, the government and the parliament generally succeeded to preserve the current architecture of power to the end of 2017 as any change would lead to worsening positions of all parliamentary players, except BYuT and minor pro-reform and anticorruption groups. Role and impact of political forces and players dissatisfied with current situation increased to the end of the year but still for the moment they are unable to enforce any significant change in the current political architecture.

Despite political conflicts, the BPP and the NF managed to maintain the existing political structure and the possibility of making decisions

2. **Reforms progress.** In 2017, the Ukrainian government launched a number of important reforms, in particular: 1) pension reform (modernization and stabilization of the solidarity (1st) level of the pension system); 2) education reform (new principles of teaching and schools' management); 3) medical reform (a modern model of financing of the health-care system); 4) electronic trust services that will be launched in November 2018 (electronic identification tools, which help to facilitate business); 5) international standards of financial reporting (transparent and comprehensive financial statements of private and state companies for the state, foreign investors, public); 6) legislative barriers for unjustified pressure from the law enforcement bodies on persons, whose rights or legitimate interests are restricted during the pre-trial investigation.

In 2017, the Ukrainian government started implementing a number of socially important reforms

The failures of the Ukrainian government in 2017 include:

1. **Worsening of democratic standards.** Over the last four years the power has been monopolized by the President Poroshenko, who turned into a number-one businessman and a number-one politician in Ukraine. Despite direct influence of the president on the executive bodies is restricted, Poroshenko controls not only the foreign and defense ministries and the SSU but also the GPO, majority in the government, largest faction in the parliament. He regained direct control over the heads of regional administrations. In addition to a unique influence on both the government and the parliament, the president controls judicial branch, which after the judicial reforms became even more under control of the president and less of the Verkhovna Rada. Majority of the Ukrainian media, first of all TV channels, has also been



taken under presidential control which resulted in almost no criticism of the president. The pressure on journalists and representatives of civil society organizations from law enforcement agencies and various "titushki", which for some reasons always choose government critics as objects for their attack, became a usual practice. The authorities are trying to take the CS sector under control, for example, by introducing an obligatory e-declaration for anticorruption organizations. In fact, there is little influence of civil society and majority of political forces in Ukraine on decision making in the country as political decisions are taken as a compromise between the two political forces – the BPP (headed by Petro Poroshenko) and the NF.

President Poroshenko turned into a №1 businessman and politician

2. **Security situation.** Today, the level of insecurity among Ukrainian citizens is the highest in the history of Ukraine's independence. The streets of the Ukrainian capital and other cities are safe no longer for politicians, businessmen, journalists or just ordinary citizens. The security situation worsened not so much because of the war in the East as due to decreasing professionalism and coordination, socio-economic situation, low effectiveness of the reformed police and unreformed Prosecutor General's Office, unregulated activities of paramilitary formations, increasing intolerance and radicalism in society etc. Security in Ukraine is approaching a threatening level, when the state in fact becomes unable to meet the basic needs of society, which in the end can lead to the undermining of the statehood.

Today, the level of insecurity among Ukrainian citizens is the largest in the history of Ukraine's independence

3. **Conflict in Donbas and Crimean issue.** As during previous years, Ukraine failed to move forward in conflict resolution in the East. The authorities take a very passive stance, leaving a "field" for maneuvers for the Russian Federation. Despite the "reinte-

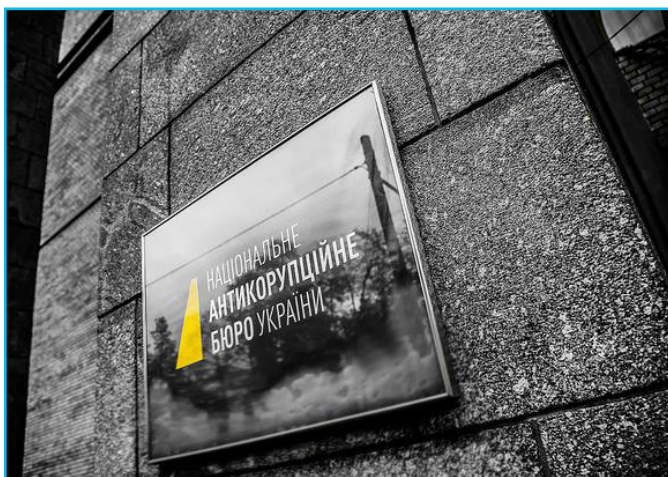


gration/de-occupation" rhetoric regarding non-controlled territories, the Ukrainian authorities do not offer specific mechanisms and measures that could really affect the situation. The question of Crimean de-occupation almost disappeared from the international agenda. Violations of human rights on the peninsula remain the only issue on the international agenda with regard to Crimea.

Ukraine failed to move forward in conflict resolution in the East

4. **Failure of anti-corruption policy.** The recent attack of the authorities on NABU became the last drop which disillusioned the society and foreign partners in a real attitude of the current political regime towards anticorruption policies and practices. NAPC has been discredited in the process of launching and verification of the e-declaration system. PGO continues its old practices and became a repressive machinery in the hands





of current rulers. Recent competitive selection of the head and deputy directors of the SIB clearly showed that any appointments to such positions in Ukraine depend on political agreements between the Presidential Administration and the NF.

Anti-corruption bodies, except NABU, are silent on top-corruption but attack anticorruption activists. Their activities have low effectiveness, and the political influence is unquestionable. NABU seems to be the only body not controlled by the Ukrainian authorities today. NAPC and GPO became involved in classical political competition and execute orders both from the Presidential Administration and the NF. Resonant corruption cases do not lead to responsibility. Old and new top corrupt officials remain unpunished. The anticorruption court has not been established yet. Public service reform, which had to remove political influence from public administration, has failed. The political will to fight corruption is absent while fight against corruption seems to become only an instrument for vendetta against personal and political enemies of authorities.

Failure of deoligarchisation and deoffshorization. The deoligarchisation in Ukraine has turned into a means of fight not with the very phenomenon, but with the specific opponents of the president in this niche. Ihor Kolomoyskyi's prosecution became demonstrative and divided the oligarch camp into two groups. Some of them hid into the shadow, taking a "wait-and-see position" and are not currently entering an open confrontation with the Presidential Administration while supporting protest feelings in the society. Others have become allies of the current government and enjoy monopoly

renting potential in different areas – from coal trade to state lottery gaming. Deoffshorization ended up without ever starting. In the summer of 2016, on the instruction of the President and at the request of the IMF, the Chairman of the Committee on Taxation and Customs Policy Nina Yuzhanina, together with the National Bank, began work on the draft law on controlled foreign companies, but it has not been done yet. Petro Poroshenko recently became a hero of another offshore "Paradise Papers" scandal but control over the media allowed to keep this issue low on the agenda.

The deoligarchisation in Ukraine has turned into a means of fight not with the very phenomenon, but with the specific opponents of the president in this niche

5. **Deterioration in relations with Western partners and neighboring states.** Developments over the last months only strengthened a "Ukraine fatigue" among European and American authorities. In addition to low efficiency in implementation of reforms, unconstructive political rhetoric and badly considered decisions lead to deterioration in Ukraine's relations with almost all the neighboring states. While having direct conflict with Russia, the Ukrainian government failed to keep Western neighbors as strong allies on international arena. Continuing accusation politics instead of compromise seeking might lead to even more complicated international standing of Ukraine, creates additional problems inside and outside of the country.

The positions of the main political players

The President of Ukraine, Petro Poroshenko and his political force (BPP), remain the main political player who has enough resources for determining influence on the political process and on other actors. Poroshenko shows a great self-confidence and takes hegemonic position towards his partners. Presidential Administration is confident of Poroshenko's participation in the second round of the presidential election, and their main task is to find a convenient sparring partner for his victory. Candidates and spoiler-parties for the presidential elections seem to

be already defined. For Poroshenko, the victory in the presidential election will guarantee success of the parliamentary race half a year later. Poroshenko's entourage is confident in the absence of alternative for the next presidential term and in support of Western partners. Presidential Administration does not believe in the need to unite with any other force. In addition, the president's team believes that currently there is no possible oligarchic coup in Ukraine that could create a powerful competitive figure for Poroshenko in the upcoming elections.

Poroshenko shows a great self-confidence and takes hegemonic position towards his partners

Thus, in 2018, the President and his team will actively engage in preparations for the next presidential election using the "divide-and-rule" tactics, which involves the active use of spoiler-candidates to blur the electorate of competitors and assist to "comfortable candidates" for the second round.

"Narodnyi Front" (NF) is actively struggling to gain parity in its relations with the Presidential Administration. Despite the low ranking, veterans are trying to revive the electoral life of their political forces (they took part in the UTC elections in 2017 – the first electoral campaign since parliamentary elections in 2014) . The rhetoric of the NF representatives towards Poroshenko is getting tighter, but so far it does not go into destructive direction. Arseniy Yatsenyuk, playing on negative cases for Poroshenko, seeks to squeeze the idea of constitutional reform, which will significantly limit the powers of the president. Relations between the president and Arsen Avakov are rather uneasy and conflicting. Avakov steadily continues increasing political influence, which causes irritation in the Presidential Administration. Despite the antipathy between BPP and NF, they continue demonstrating relative effectiveness in joint political decisions making.

Veterans are trying to revive the electoral life of their political forces

In 2018, NF, using Poroshenko's policy failures (for example, the situation around Saakashvi-



li), will actively promote constitutional reform as the only possible alternative to preserve the current power structure. Given the growing confrontation with the Presidential Administration, NF will actively seek new allies, in particular, in the person of the Prime Minister Volodymyr Groysman.

Prime Minister of Ukraine Volodymyr Groysman continues increasing political weight and relative independence. Demonstrating full loyalty to Poroshenko, Groysman tries to undermine efforts of "presidential friends" to put pressure on him or advocate government decisions behind his back.

Compared to other politicians, the current prime minister looks like a reformer, since the government, led by him, was able to partly succeed in some spot-reforms. Groysman actively works with the electorate, quickly reacts to unexpected developments, often visits regions. The Prime Minister is actively establishing communication with various political forces, in particular actively cooperating with NF.

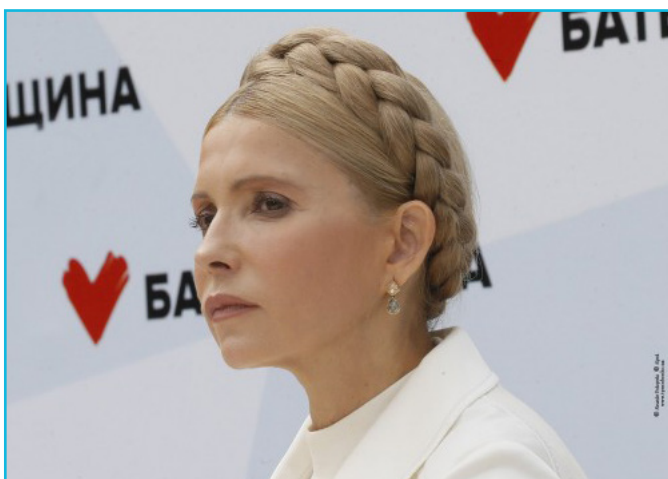




Volodymyr Groysman continues increasing political weight and seeks to gain political independence

In 2018, Volodymyr Groysman will continue receiving political dividends on social security issues and infrastructure projects. Also, Groysman will continue his attempts to gain the maximum possible independence from Poroshenko up to establishment of a joint party project with representatives of the NF.

Yulia Tymoshenko and "Batkivshchyna" political force remain the strongest competitors of the current authorities. According to a sociological survey (November 2017), Yulia Tymoshenko is gaining 10.7% of the votes, meanwhile Petro Poroshenko – 11.9%. "Batkivshchyna" (11.6%) outstrips BPP "Solidarity" (11.2%) in party counts. Other surveys give her even higher level of public support and define as a national politician with the highest level of public support. This is why Tymoshenko remains a subject of various discrediting campaigns. She tries to build a relationship with all players dissatisfied



with Poroshenko's policy, especially with the "disgraced" oligarchs (first of all, with Ihor Kolo-myoskyi). Tymoshenko is actively working in the foreign policy field, criticizing Poroshenko. She wants to present herself to the West as the only alternative candidate to Poroshenko.

Tymoshenko remains the most rating competitor of the current authorities

In 2018, Tymoshenko will continue seeking support from all dissatisfied with the current policies as well as uniting them around herself. Tymoshenko will also strive to consolidate her position as the only possible alternative candidate for Poroshenko in order to proceed to the second round of presidential election where she will most likely win.

The Opposition bloc still cannot overcome internal contradictions. Competition is increasing in their electoral field. Some members of the Opposition bloc join Vadym Rabinovich's "For Life" party which, according to the latest sociological data, gains 6.8% votes being ahead of such parliamentary political forces as the Radical party (5.7%) and the "Samopomich" party (5.6%). Oligarch Vadym Novynskyi is actively thinking about his own political project. He, as well as Rabinovych, can seize a part of pro-Yanukovych electorate.

The Opposition bloc still cannot overcome internal contradictions and continues to be segmented into different groups

In 2018, it is likely that the Opposition bloc will eventually split up into several groups. Some of them will be focused on cooperation with the current government, while others on changing the current political structure. Also, in the wreckage of the former Party of Regions, new political projects will be formed.

Mikheil Saakashvili's return to Ukraine opened a period of political turbulence and created a new and efficient anti-Poroshenko opposition platform. He seems the only one charismatic personality in current Ukrainian politics who is able to openly challenge the president, becoming a magnet to all radical forces not linked to other systemic political or oligarchic

groups. Ill-conceived actions of the authorities against Saakashvili only contribute to strengthening his positions in society.

Saakashvili remains a factor of political turbulence and destabilization due to ill-considered government actions

Current situation around Saakashvili has several important general consequences:

- declining credibility of the President, the GPO and the SSU;
- growing fatigue and mistrust in the authorities from Ukrainian society;
- increasing competition between the groups of influence in power;
- renewing the issue of the early elections;
- unifying anti-Poroshenko movement and forces around Saakashvili;
- reducing the confidence in the Ukrainian authorities from the United States and the EU (especially amid the conflict between GPO and NABU);
- increasing attention to Saakashvili and slight increase of his support in Ukrainian society.

While “Mikho-Maidan” seemed to be marginal, it should not be underestimated. In case of possible new scandals like direct accusation against the highest authorities, it can become a base for wider protests and can lead to significant political changes.

The jokers of Ukrainian politics. According to the latest sociological data, the leader of the “Okean Elzy” rock band Svyatoslav Vakarchuk is among the top three leaders of the upcoming presidential elections, along with Poroshenko and Tymoshenko, gaining 9% of the votes. With the fact that the musician does not hold an active campaign, his future participation in the elections is inflated by gossip though Vakarchuk has not indicated any presidential ambitions yet. A typical vis-à-vis for Vakarchuk may be a showman Volodymyr Zelenskyi from the “95 Kvartal”, who also has a high level of public support. Vakarchuk and Zelenskyi may



not be presidential candidates but their interest in society shows a strong demand for new faces that are not stained by political experience.

Ukrainian society are showing strong demand for new faces that are not tainted by political experience

The oligarchs in Ukraine are currently divided into two camps: 1) those who seek to change the current political elite (Kolomoyskyi, Firtash, Lyovochkin); 2) those who strive for stability and preserve the current decomposition of political forces (Pinchuk, Akhmetov). The oligarch's interest is an important point to understand further developments in Ukraine. Their positions on early elections and the best candidates for the next presidential term will strongly influence political processes in 2018.

General political forecast

If extraordinary events or “hot” issues (for example, the implementation of the political part of Minsk Agreements, mistakes in managing Miho-crisis, attacks on NABU, corruption scandals, excessive use of force etc.) that can unite a moderate part of society with right-wing activists do not happen, early presidential or parliamentary elections are unlikely to take place. Regular presidential elections will take place on March 31, 2019, parliamentary elections – on October 27, 2019. As there is a high level of dissatisfaction in society with current situation, the first three months of 2018 will present a chance to implement a scenario of early elections. Therefore, early 2018 will be a period of political turbulence.

The time for structural reforms is coming up very quickly, constructive changes are possible only before the active phase of the pre-election race

If early elections do not take place, then a usual decrease in political activity during the Easter, May and summer holidays will change for preparations for the elections in an active phase starting from the end of summer 2018. During this period, political players will be more focused on elaborating electoral strategies and tactics rather than on shattering the general political situation. Starting from the end of summer 2018, political fight will enter an active phase and the country will most likely face a new phase of political turbulence – up to March 2019. The Presidential Administration will actively support the candidates who play in the same electoral field of Poroshenko's competitors (Tymoshenko, first of all), create all possible obstacles in uniting the opposition, and support a convenient candidate (for example, Yuriy Boyko, who, coupled with the current president, is unlikely to gain an advantage as his candidacy is not supported in central and western regions).

Chances of structural reforms remain low though possible in 2018. The Presidential Administration will not undertake a risk of significant internal changes and will try to focus on visa-free regime and other success story during Poroshenko reelection campaign. The most likely scenario which is now discussed is to conduct a referendum on EU and NATO accession, by which Poroshenko will be presented as a symbol of European choice of the country, so voters will be proposed to make a choice: if you are for EU and NATO then support Poroshenko, if you do not support Poroshenko then you do not support EU and NATO accession. The fact that neither of two issues are on the table will be ignored by even stronger control over media.

Demand for "new" political players in the Ukrainian society will increase in 2018 but chances for new faces in Ukrainian politics will not be high. At the same time, more attention should be paid to Ukrainian regions, where dissatisfaction with economic and political situation will increase. People discontent with low social standards might present another risk for un-

rest, though it is unlikely to lead to wide spread protests. The closer to the end of the year, the more Ukrainians will look at 2019 elections as a chance to improve the situation in the country. However, given increasingly higher emotions and angriness in society, any of unexpected developments might lead to protests and violent actions with unpredictable consequences.

UKRAINE'S FOREIGN POLICY: 2017 RESULTS AND FORECAST FOR 2018

In 2017 Ukraine's foreign policy celebrated long awaited achievements in relations with the EU (introduction of non-visa regime and entry into force of the association agreement) and avoided significant worsening of relations with the new US administration. However, Ukraine's international positions at the end of the year were overshadowed by internal scandals, corruption, lack of reforms as well as serious complications in relations with almost all the neighbors. Despite US and Russia started direct talks on settlement of the conflict on Donbas and the issue of UN peacekeeping operation has been seriously discussed first time since its outbreak, no serious progress has been achieved by the end of the years. Ukraine's foreign policy remained reactive to the unfolding events and based on outdated foreign policy concepts, failed to advance new ideas and proposals to settle the most important problems of the country. 2018 seems to present the same – or even more – challenges for Ukraine on international arena as the previous year, however, Ukrainian diplomacy will face them with even more limited resources and arguments. Without significant internal improvements, reforms and progress in fight against corruption as well as development a new foreign policy concept Ukraine may risk stronger external pressure, on the one hand, and a crisis of its foreign policy identity, on the other hand.

In 2017, Ukraine's foreign policy was determined by ongoing domestic and external challenges. Conflict with Russia, slow economic recovery, weak state capacity, fierce political competition and outdated foreign policy vision have continued to limit Ukraine's foreign policy potential and made Kyiv vulnerable to upheavals in foreign policy.

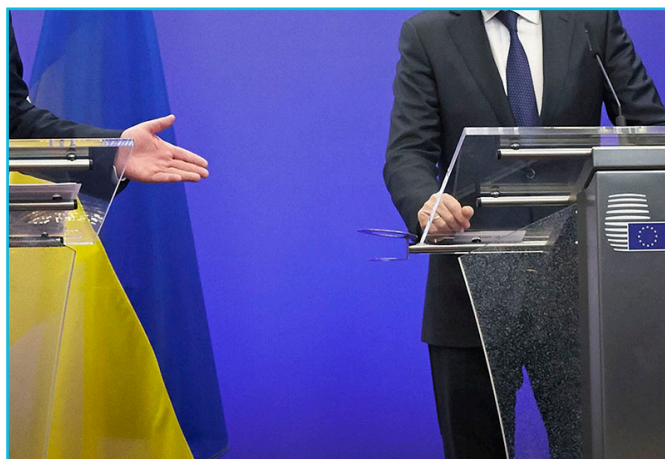
The Ministry of Foreign Affairs (MFA), a central state authority in the sphere of foreign relations, performs mainly tactical tasks, staying away from foreign policy decision making. Ukrainian diplomats are not properly involved into elaboration of policies on the most important issues. State authorities often without consultations take public decisions (educational law, national memory policy) which later harm Ukraine's international positions or bilateral relations with important partners (Poland, Hungary, Romania). As a result, Ukrainian diplomats have to react to events affecting Ukraine's interests, instead of developing policies and proposals for the settlement of the most important problems, not to speak about preventing crisis situations.

Important public decisions are not consulted with Ukrainian diplomats

Despite the changing situation in the world, Europe and neighboring countries, Ukraine's foreign policy continues being based on paradigm of 1990s. Some goals which Ukraine declared and still pursuing are hardly feasible given domestic and foreign challenges. This might lead to even more conflicts and scandals which could soon become a critical mass leading to a crisis of Ukraine's foreign policy identity and stronger internal criticism of its efficiency.

Ukrainian-US relations

Uncertainty around Donald Trump's policy was a key challenge for Ukraine's foreign policy in early 2017. However, fears of possible diminished US support for Ukraine or big deal with Russia were dispelled due to institutional resistance to Trump's policy and significant influence of political elite on shaping US foreign policy. However, despite of the overall deterioration in American-Russian relations due to Russia's meddling in the US elections, diplomatic scandals, developments in Syria and other circumstances, Russia and the US started direct contacts on settlement of the conflict in Donbas. Volker-Surkov negotiations are unlikely to present what was assumed last year as a "big deal" though might help with reaching the agreement on UN peacekeeping presence in Donbas. At the same time, there are multiple obstacles on this road as both sides are unwilling



ing to make even insignificant compromises, in particular, for political reasons.

Trump's uncertainty was a key challenge for Ukraine in early 2017

Main achievements in Ukraine-US relations

- 1. Preserving current US support for Ukraine.** Despite fears of possible big deal between Putin and Trump, the US reaffirmed the support for Ukraine's sovereignty and territorial integrity when Petro Poroshenko visited the Washington and Rex Tillerson visited Kyiv. Moreover, interference of the Republicans in foreign policy led to codification of the current sanctions against Russia and introduction of new restrictive measures against the Kremlin.
- 2. Coal deal.** In July 2017, the Tsentrenergo and the Xcoal Energy & Resources signed a deal for a 700,000 ton of anthracite coal delivery to Ukraine till the end of 2017. This step is





aimed, on the one hand, to mitigate the risk of energy crisis in Ukraine given the Donbas blockade and, on the other hand, to facilitate the interests of American businesses in cooperation with Ukraine.

3. Returning the US to negotiating process. Appointment of Kurt Volker as the US Special Representative for Ukraine resumed the US interest in conflict resolution in Donbas. In particular, Ukrainian-American vision of the UN peacekeeping mission in Donbas was a central issue of Volker's shuttle diplomacy during his meetings with Russian presidential aide Vladislav Surkov and Ukrainian leadership.

Key limitations

1. The US continue treating relations with Ukraine as one of leverages with Russia. Raising supplies of lethal weapon to Ukraine and deployment of peacekeeping mission in Donbas, the US mostly seek to gain significant political concessions from Russia.



2. Ukrainian-US relations are strongly dependent on domestic political environment in the US. As a result, a level of support for Ukraine is to a great extent determined by the balance between groups of elite as well as investigation regarding Russia's meddling in the presidential elections and other notable developments.

Ukrainian-American relations significantly depend on the balance between the US elites

3. Ukraine did not manifest itself as a "success story". Corruption and non-transparent business environment restrict the US interest in Ukraine given real "success stories" of other countries which are more important to Washington's security and economic interests.

In 2018 Ukrainian-US relations will depend on many factors. On the one hand, while declaring support to Ukraine territorial integrity and independence the US will pursue more and more a "waiting" policy towards Ukraine given growing internal turbulence and the upcoming presidential and parliamentary elections. Level of the US support for Ukraine countering Russia may depend on US internal political considerations as well as on success of the US policies in various regions (Middle East, Asia-Pacific, Europe). At the same time, more active Russian policy on Ukraine will force the US diplomacy for more active engagement in Ukraine.

Ukraine-EU relations

2017 was a turning point in Ukraine-EU relations. Favourable political situation in the Netherlands and France allowed Ukraine to finalize some of its goals in European integration which the country had been pursuing for nearly ten years. However, further relations between Kyiv and Brussels are uncertain due to the lack for prospect of closer rapprochement.

Main achievements

1. Ratifying the Association Agreement between Ukraine and the EU. The decision of the Council of the EU dated December 15,

2017 which had taken into consideration Dutch reservations and the defeat of far-right party in the parliamentary elections in this country unblocked the ratification of the Association Agreement. As a result, on September 1, 2017 all provisions of the agreement entered into force. The ratification process had lasted for three years.

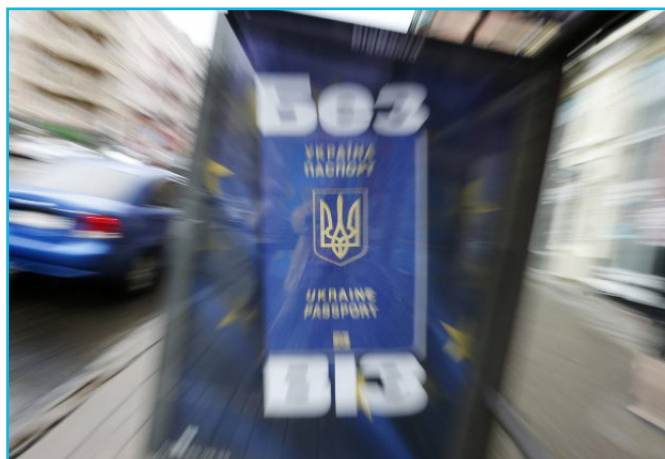
2. **Achieving the visa-free regime.** The victory of Emmanuel Macron in French presidential elections allowed the EU to approve the visa-free regime for Ukrainian citizens. According to the State Border Guard Service of Ukraine, 314,000 Ukrainian citizens entered the EU with biometric passports for the first five months of the visa-free regime. The visa-free regime has been among the greatest achievements which Ukraine gained during Poroshenko's presidency. This achievement immediately started being exploited in domestic political goals.

Visa-free regime is the most visible achievement in Ukraine's foreign policy in 2017

Key limitations

1. **Ukraine exhausted the framework of the closest possible rapprochement with the EU.** On one hand, slow reforms and implementation of the Association Agreement do not encourage the EU interest in the closer relations with Ukraine. On the other hand, governments of EU countries, pressed by Eurosceptic forces, avoid any further rapprochement with Ukraine, Georgia and Moldova which requires sufficiently larger financial resources for these countries and could cause a new wave of migration fears. The recent Eastern Partnership summit displayed that the EU is unwilling to go beyond the current forms of cooperation with Ukraine. As a result, Ukraine's increasing pro-accession rhetoric and ideas of EU accession referendum will even more keep the EU hesitant for closer cooperation.

Ukraine has no prospects for further rapprochement with the EU in the near future



2. **Refusing of the "Marshal Plan" for Ukraine.** Despite widely advertised expectations, Kyiv did not have real chances to receive a "European Plan for Ukraine" for many objective reasons: already existing financial instruments, low confidence in Ukrainian authorities, undesirable precedent for other countries, influence of Eurosceptic forces.

It is unlikely that Ukraine and the EU will dramatically intensify cooperation in 2018. On the one hand, Ukraine approaches presidential and parliamentary elections where various political forces will likely speculate on European aspirations. On the other hand, the EU will face an ongoing political turmoil due to Brexit negotiations, Italian parliamentary elections, problems with Poland's and Hungary's policies etc.

Ukrainian-Russian conflict

There were no practical changes around Russian-Ukrainian conflict in 2017. **The situation in Donbas** continued in the state of low-intensity conflict. In the second half of 2017, international talks were stirred up over the UN peace-



keeping mission in Donbas, particularly after Vladimir Putin's respective statement. However, such mission is unlikely in the near future due to substantial discrepancies between Ukrainian-American and Russian visions of its mandate and presence area.

The UN peacekeeping mission in Donbas is unlikely in the near future

Conflict dynamics for nearest years may be defined in 2018. It might be unlikely that any significant changes may happen in the first half of 2018 given presidential elections and FIFA World Cup in Russia. Meanwhile, Kremlin's flexibility on Donbas will depend on social-economic situation in Russia. As a result, several scenarios in Donbas may be launched in the second half of 2018: short-term escalation, Russia's concessions on some issues or "freezing" the conflict. In its turn, Ukraine will try to avoid any steps which may affect status quo prior to elections in 2019.

In 2017, Ukraine made several attempts to put pressure on Russia over **Crimea**. In particular, Ukraine filed a lawsuit to the International Court of Justice (ICJ) against Russia over alleged violations of the International Convention on the Elimination of All Forms of Racial Discrimination (CERD) in January 2017. The ICJ introduced provisional measures against Russia three months later over these allegations. In December 2017 the UN General Assembly is expected to adopt a resolution on the human rights situation in the annexed peninsula. However, institutional leverages are unlikely to influence Russia's occupation policy in Crimea while their effect will be limited to reputational losses by the aggressor state.

Ukraine relies on institutional leverages to raise the situation in Crimea

Petro Poroshenko's proposal to create an international group of Crimea's de-occupation friends did not gain enough support. Various countries are reluctant to clash with Russia over Crimea where they do not have direct interests.

Relations with other countries

Bilateral relations between Ukraine and the majority of international partners are either troubled or low-intensity. For instance, historical disparities continue having a negative impact on Ukrainian-Polish relations while language conflict largely determines in Ukrainian-Hungarian relations. Ukraine did not manage to establish cooperation with important regional actors beyond Europe and North America, with the exception of Saudi Arabia, Qatar and few other countries that was clearly displayed when the UN General Assembly Third Committee was voting for the above draft resolution on Crimea.

Ukraine does not pay enough attention to countries beyond Europe and North America

Summing up, Ukraine's foreign policy is continuously determined by reactivity, outdated vision of international environment and low efficiency. Without reviewing priorities and purposes, Ukraine may risk a crisis in foreign policy identity in the near future which may have unpredictable effects on country's further development.

ECONOMIC ANALYSIS



ECONOMIC DEVELOPMENT OF UKRAINE 2017: ACHIEVEMENTS, FAILURES, PROSPECTS

The year 2017 was characterized both by achievements and failures of the Ukrainian government in economic policy. Rebalancing of economic, social and resource components of the development was the main result of its activity. At the same time, Ukraine's economy continued to grow slowly in 2017 and this growth rate is not enough for the economic breakthrough in 2018. Moreover, the forthcoming year will not be easier than the current one.

Achievements of the Ukrainian economy in 2017

The following achievements were the most significant in the economic sphere:

- 1) *Obtaining the fourth tranche of the IMF amounting \$1 billion in early April 2017. Ukraine has made the necessary reforms and was able to increase its gold and foreign exchange reserves, that made it possible to postpone the default, to stabilize the macroeconomic situation and to increase the trust of partners, investors and donors in the country.*

The fourth tranche of the IMF, Eurobond placement, diversification of exports and some extent of business deregulation were the most noticeable achievements in 2017

- 2) *Eurobond placement.* Due to entering the external borrowing market in September, Ukraine for the first time since 2015 has raised \$3 billion. This operation will reduce the burden on the state budget for repayment of government debt in the coming years. This fact also indicates a partial restoration of foreign investors' confidence in Ukraine.



in shadow economy. As a result, these improvements had a positive impact on the investment climate and pushed Ukraine on the 76th place in the Doing Business-2018 rating.

The failures of Ukraine's economy in 2017

The following problems were faced by Ukraine in 2017:

3) *Steps taken by the government to diversify exports* in order to reduce the dependence of exporters on the volatility of traditional markets and to ensure a stable flow of currency into the country. This was facilitated by the adoption of the exports strategy "Road Map for Strategic Development of Trade 2017–2021" in the end of March 2017, the full entry into force of the Association Agreement between the European Union and Ukraine in the beginning of September 2017, the regional convention on pan-Euro-Mediterranean preferential rules of origin, the development of trade relations with Canada. Negotiations on free trade agreements with Israel and Turkey are being conducted.

4) *Relative business deregulation* in 2017, especially in the construction industry, and optimization of fiscal policy, along with improvement of taxpayers' service, in particular due to introduction of electronic VAT refund system, significantly increased the tax base, providing a surplus of state and local budgets, and contributed to the decrease

1) *Economic blockade of the non-government controlled areas.* As the result there was an increase in Ukraine's dependence on imports of energy resources, primarily coal, a change in the ratio of capacities of various types of power plants, which excessively exceeded the permissible loads on some of them. Also, this event significantly influenced the economic situation of enterprises that had industrial ties with the region. According to various estimates, Ukraine loses about 1% of GDP due to the economic blockade of the non-government controlled areas.

The policy of the government has resulted in negative trade balance, undeveloped banking sector, high inflation rates and economic blockade of the non-government controlled areas

2) *Negative trade balance.* Asymmetries in foreign trade, insufficient lobbying of national interests, difficulties in product certification require further reforms and capacity building to ensure Ukraine's sustainable growth.

3) *Undeveloped banking sector.* The tendency of reduction in the number of banks has continued in 2017. This has resulted in additional burden on the Deposit Guarantee Fund and in the increase of the number of non-performing loans. Also, the access to financial resources was still limited.

4) *Strengthening of inflation processes.* According to the government's forecast, the inflation rate will be 11.2% by the end of 2017. This was caused by cancellation of state regulation of food prices, by increase of minimum wages and pensions without adequate economic growth, by continu-



ation of trends in household tariff increase, which led to approximation of recipients of subsidies up to 60%, and by delayed decision of the NBU to raise the discount rate from 12.5% to 13.5%.

The questions of the future

Next year Ukraine will have to solve the following issues:

1) *Issues related to economic development:*

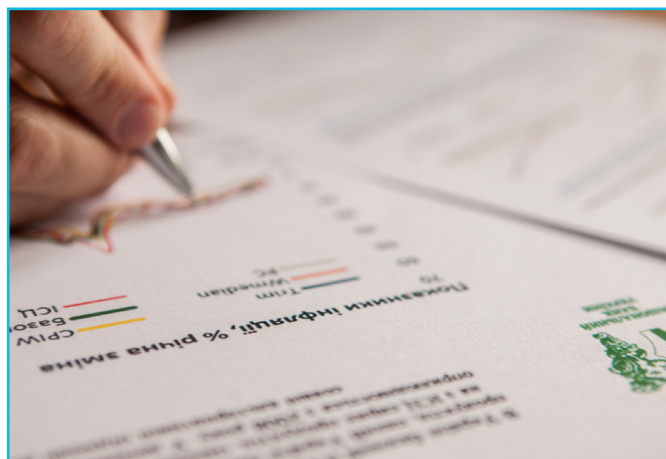
- The budget 2018 may have unbalanced character, in particular due to excessive pressure of spending on the security forces. In addition, further decentralization processes and the transition to three-year medium-term budget planning in 2018 will require a clearer development strategy from the government.

The year 2018 may be even harder for Ukraine than the current one

- Insufficient GDP growth rates and high inflation due to the lack of comprehensive government measures to address these developmental issues are also the threats in 2018.
- The price situation of the world market of raw materials, high-tech goods and energy resources can be unfavorable for Ukraine. In addition, the issue of stable supply of liquefied petroleum gas and mineral fertilizers remains unresolved.

2) *Issues related to the repayment of debts:*

- The first external debt payments amounting up to \$7 billion are foreseen in 2018. In the absence of the state's strategy of managing external and internal debt, additional challenges are encountered for the development of the country.
- The Russian Federation has announced the possibility of reassigning Yanukovich's debt in the amount of \$3 billion to another country. This event may lead to the additional debt burden on the Ukrainian economy.



- The Stockholm Arbitration Court postponed its decision on the dispute between "Gazprom" and "Naftogaz". The results on key issues of this case are expected in the next year.

3) *Issues related to the energy sector:*

- The construction and development of the North and South Stream, the reduce of the pressure in the Ukrainian gas pipeline system increases Ukraine's risk of losing the status of a transit state and reducing revenues to the budget.
- The problem of stability of Ukraine's energy supply, especially in the context of economic blockade of the non-government controlled areas, is acutely facing the Ukrainian government. In addition, the issues of efficiency and green energy, the issues of attracting investment in alternative energy and monitoring energy consumption, the issues of further synchronization of Ukrainian and foreign energy networks also require development.

4) *Issues related to reforms:*

- The proper implementation of pension and medical reform in Ukraine is important. The problem in this issue is the balance between the needs of society and the needs of the government to save.
- The proper implementation of other reforms, in particular regarding the fight against corruption, decreasing the shadow economy, maintaining key development indicators, land reform are vital for obtaining the next tranche of IMF in 2018. Moreover, Ukraine

has a chance to get macro-financial assistance from the EU after solving the issue of moratorium on the export of logs.

- The regulation of the lottery market can also contribute to additional revenue to the state budget.

Thus, Ukrainian government demonstrated both achievements and failures to ensure the economic development of the country in 2017. In its turn, the year 2018 will not be easier than the current one, and it will be necessary to minimize the mentioned risks to the economic growth. At the same time, the question of achieving the GDP growth at 3% in 2018, that is projected by the Cabinet of Ministers, remains unclear, while having almost twice lower growth at 1.8% in 2017 and while the absence of concrete steps to achieve such figures.

In future, Ukraine will have to resolve the issues of economic development, energy sector, debt repayment and implementation of reforms

The government has nothing distinctively new to offer in 2018 yet. It is vitally urgent to rethink the tasks for economic development in order to change the stagnation trends, to provide new incentives and to avoid the label of populism. Only systemic reforms and search for the drivers of economy can pave the way for more dynamic economic growth.

Until now the Ukrainian government has not offered anything radically new and this fact ruins the perspectives of higher economic growth in the forthcoming period

The aim of the publication is to provide objective information on current political events in Ukraine and thorough analysis of major tendencies in domestic politics. Such analysis will assist in setting priorities in the process of implementing reforms in Ukraine and in evaluating quality of state decisions from the viewpoint of their impact and sustainability. Special attention is paid to evaluation of political competition in Ukraine and ability of key political players to address challenges.

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