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Analyst's Notebook

Ukraine/Politics
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****Editor's Note:** In order to keep our coverage of the Ukrainian market as up to date as possible Concorde Capital is launching a new product – Analyst's Notebook. Unlike our more in-depth desk notes and reports, Analyst's Notebook provides rapid feedback on breaking news in the Ukrainian market. Analyst's Notebook gives you our analysts' first impressions of a situation and may set the table for further investigation. Our analysts will use their experience in their sectors to take a look at the situation and provide insight or speculate on possible scenarios. We want to emphasize however, this product consists mostly of the analyst's intuition and may require further analysis.

Ukraine's Government Sacked: What's Next?

In a nutshell: Last Tuesday the Verkhovna Rada used its new constitutional powers (see our report on Ukraine's Constitutional reform for details) to disband the Yurii Yekhanurov government.

However, several lawmakers and the President have called the Rada's move legally questionable and moreover, have challenged the constitutional reforms that made the sacking possible, leading to Ukraine's first political crisis of 2006.

Compounding the problem the Rada has refused to appoint its allotted number of new judges for the constitutional court, effectively freezing the body that would solve constitutional questions of this nature. In an effort to rein in the Rada President Yushchenko has threatened to call a referendum on the new constitutional reforms. The Rada has since fired several cabinet ministers, but the legality of this move is extremely questionable.

All the turbulence in the Rada has caused investors to panic, putting the brakes on the PFTS. However, is the government really on its way out or is this just a bit of political theater?

What's next: The opposition flexed its muscles by firing the government, however since then they have been hinting at their willingness for a compromise. Here are a few possible outcomes.

Compromise: (Probability: 45%) After flatly refusing the President's request to reinstate the government on Friday, Rada speaker Volodymyr Lytvyn has softened his stance and said that compromise was possible. Though the talks came to nothing, it's a good bet a compromise will be reached, the question is when. The opposition certainly does not want Yushchenko using the court to take away their powers, so they probably would be willing to reinstate the government if the President promised to stand aside, but would he do that?

Stalemate: (Probability: 40%) What if nothing happened? Negotiations broke down yesterday, and the Rada adjourned for its winter recess all in all it appears an agreement is a long way off. If all the parties involved think they are strong enough to win the PM seat in March, they could do nothing and put Ukraine in political hibernation. For someone like Yanykovich this scenario is ideal, his ratings have grown higher than ever with him doing nothing, and a stalemate might help him push for an early election, something his party has said it wants. The only catch is if the constitutional court then finds the new political reforms unconstitutional his party could lose everything and their PM would probably be fired.

Referendum: (Probability: 15%) Though Yushchenko has said he wants to hold a referendum on the constitutional reforms, now looks like a bad time for this, as the President and his party's ratings have never been worse. In addition, Party of Regions leader, Viktor Yanykovich has said his party will only agree to a referendum if the NATO and Russian language questions are put on the list – two issues Yushchenko is not presently willing to risk on a referendum

New Government: (Probability: 5%) Forming a new government would be a real, real long shot, in the best of circumstances forming a new government can take a month and there are only about two months until the March elections. The President's party has been calling for him to put Ukraine under direct Presidential rule until the elections, however, this would probably be the death of his popularity in the west, not mention stir up the secessionist feelings in the east.

What effect will this have on the elections: A wildlife biologist would compare what's happening in the Rada to the mating rituals of large mammals. There is no party that is going to be able to form the government by itself, making the coalition process more important than the election itself. Therefore, a lot of parties are trying to size each other up. The stronger or more influential a party looks, effects its bargain power. Look for the parties to start teaming up, and expect a few to switch sides several times (Tymoshenko, Lytvyn).

Buckle your seatbelt it's campaign season.

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