

## Global Hot Topics

## Ukraine: Decentralisation threatens future instability

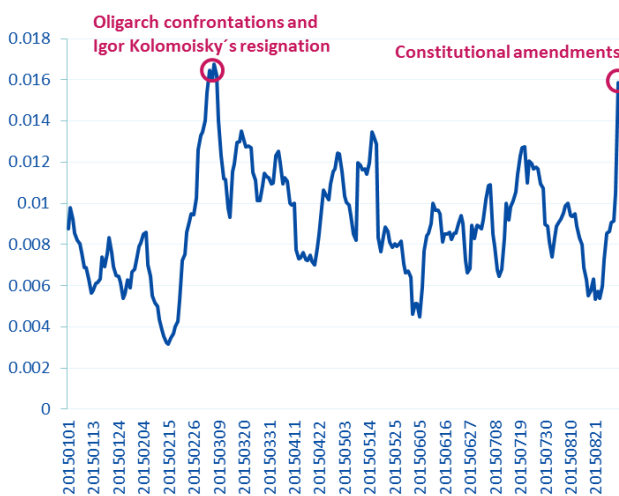
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Violent demonstrations and clashes between nationalists and the police erupted in Kiev after the approval of constitutional changes to decentralise the country and give more autonomy in the rebel-held eastern regions. The changes, that are part of the Minsk II peace process, are facing strong opposition despite pressure from the West and point to further instability between nationalists and the government. Meanwhile, the Ukrainian debt restructuring deal with private creditors might not be enough to eliminate economic concerns. Russia will try to exploit the climate of uncertainty.

### Ukrainian Protest Intensity Index (Jan - Aug 15)

Higher values indicate high intensity

Source: www.gdelt.org, BBVA Research



### Protests in Kiev signal further instability ...

Violent protests erupted in Kiev in opposition to the constitutional amendments proposed by President Poroshenko, to provide the decentralization of some powers in the country to regional governments, as promised in the Minsk II agreements. These would provide greater autonomy to Russian-backed separatists' regions in eastern Ukraine, such as Donetsk and Luhansk.

On 31 August, the parliament passed the first reading of the constitutional changes. The amendments were supported by 265 of the parliament's 450 lawmakers. From now on, **they will have to pass much tougher second and third readings before being finally adopted**. Moreover, to implement them, a separate law is required in order to define the semi-autonomous status of parts of eastern Ukraine. In that case, 300 votes will be needed at the next stage, which seems difficult to achieve given they are facing not only opposition from the extremist right sector and Svoboda parties, but also from some of Poroshenko's own partners.

The amendments will be key to keeping the Minsk II process alive, and Western powers are urging Ukraine to approve them. However, they **have woken up crowds of protesters** with more than 130 injured and the deaths of at least of two Ukrainian National Guard soldiers.

Supporters of the amendments argue that **these changes will allow Kiev to put pressure on the separatists and Russian president Putin to fulfill their part of the agreement**. Opponents said that it would lead Ukraine to lose control in the East, given that separatists could form their own courts and militia, creating special links with Russia. **It puts Poroshenko in a delicate position**. He is under intense pressure from western countries. **If parliament does not manage to pass the draft bill, Ukraine would be in danger of losing the support of the Western governments**, which see the deal as the best possible prospect for peace. Nevertheless, **if the changes go ahead, he will face increasingly fierce opposition that will bring further instability to the country**.

### ... while economic risks remain despite the debt deal

In the meantime, after five years of negotiations **Ukraine has reached a restructuring deal on its debt with its private creditors**. The creditors have agreed to a **20% write down to the value of \$18bn of its Eurobonds**, the first of which matures in the next month. **Maturities will also be pushed back by four years at interest rates of 7.75%**. However, **important worries remain**. There is a risk that Ukraine will be unable to put all the restructuring procedures in place ahead of a \$500mn Eurobond payment due on 23 September. Moreover, **Russia has refused to participate in restructuring its USD3bn of Eurobonds maturing in December 2015**, giving Kiev little room for manoeuvre and increasing concerns of default.

### Summing up

Severe opposition inside and outside the parliament about the decentralisation amendments, which are needed to continue with the Minsk Agreement, increases uncertainty over whether the government will be able to get the constitutional changes through. Confrontations between right-wing groups and political parties are likely to intensify, signaling further instability at a time when economic concerns are also rising despite the recent debt deal. Russia will try to exploit the climate of uncertainty.

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