

UKRAINE

Challenges for Viktor Yanukovich

Crime and Punishment

Checks and Balances

Personnel Policy: First, Replace the Prime Minister

Fiscal Accounts: Budget Cuts Expected

Naftogaz Will Lose Political Protection

Monetary and Exchange Rate Policy: Conservative Approach Will Persist

Business Environment: Protectionist Resurgence

Investment Policy: Poor Respect for Property Rights, but Foreign Investment will be Secure

Integration and Harmonization policy: Favoring Continuity

Prime Minister Yulia Tymoshenko is reluctant to acknowledge Viktor Yanukovich's narrow presidential victory, but exit polls have confirmed her defeat, and international observers have dubbed the voting fair and transparent. Although disappointing for the so-called democratic forces, the Yanukovich victory seems a logical consequence of domestic political developments. After years of internal fighting within the Orange camp, and consecutive blunders in economic policy, one could hardly expect the ruling party to stay in power - even if alternative is far from pleasant.

Yanukovich will try to become an arbiter for the Ukrainian oligarchs, in the style of former president Leonid Kuchma. But we see little chances for him to consolidate his power. He is not the charismatic leader Kuchma was. And in Tymoshenko, the opposition will much stronger and more influential than before 2004. On top of that, Yanukovich will need the support of other parties to wrest control over the Cabinet -- which means political concessions are inevitable.

We expect that first steps of the Yanukovich administration [>>>](#)