

## Transforming Economies: Eastern and Central Europe 25 Years

### After the Berlin Wall

THE CONTINUING ECONOMIC TRANSFORMATION OF EASTERN AND CENTRAL EUROPE 25 YEARS AFTER THE FALL OF THE BERLIN WALL AND THE ROLE OF THE INTERNATIONAL MONETARY FUND (IMF)

**This event, held at the German Marshall Fund's (GMF) headquarters in Washington D.C, focused on the economic ties between Eastern and Western Europe and related the fall of the Berlin Wall to the current political situation in Europe. Furthermore, it attended to the case studies, contrasting and, lastly relating the two nations of Poland and the Ukraine. The event at GMF reflected this attitude while providing a platform for discussion surrounding the Ukraine Crisis and the connecting role of key actors such as the United States, the European Union (EU) and Russia.**

The keynote and following Q & A on June 9, 2015 included Karen Donfried, President of the German Marshall Fund, who moderated the event, and David Lipton, Deputy Managing Director of the International Monetary Fund (IMF), the events keynote speaker. In his speech Lipton addressed the historical and current economic situation of Poland and the Ukraine, the fall of the Berlin Wall, its direct impact on the economic hemisphere and how the International Monetary Fund is seeking to assist the Ukraine to reach economic stability.

Lipton spoke highly of Poland's recent economic development. Starting in the year 2015, Poland's GDP per capita based on purchasing power parity exceeded \$24,000, impressively reaching 65 percent of the Western European (Eurozone) level of income. While many Eastern European countries came to an economic standstill follow-

ing the fall of the Berlin Wall and the breakup of the Soviet Union, Poland's economy grew tirelessly. Using the fall of the Berlin Wall to establish vital communication and trade channels towards Western European nations and mirroring the economic systems of West Germany and the Scandinavian nations, Poland experienced heightened levels of uninterrupted economic prosperity. With 23 years of growth—including during the 2008-09 global financial crisis, when Poland was the only EU economy not to sink into a recession—it is presently close to reaching historic growth records. Remarkably, unlike numerous nations to its eastern border, Poland is not experiencing debt of any kind—neither on public nor private levels—and its growth levels were not accompanied by financial and social inequality.

In contrast to Poland's exemplary growth, Lipton named the Ukraine as a nation that experienced economic hardship as a result of heightened levels of corruption, plummeting exports and growing stagnation since the fall of the Berlin Wall in 1989.

Though Lipton discussed the cost of warfare, decreased trade with Russia and crumbling infrastructure as a result of the Russian-Ukraine Crisis, his focal point addressed the positive initiatives taken by the newly formed Ukrainian Government under the leadership of President Poroschenko. Unlike former Administrations, Poroschenko's gov-

Konrad-Adenauer-Stiftung e.V.

## USA

JONATHAN LAETSCH

Edited by:

DR. LARS HÄNSEL

June 2015

[www.kas.de/usa](http://www.kas.de/usa)

ernment is "highly committed to ambitious reform". They have adopted a flexible exchange rate regime and, in a historically unparalleled move, have begun to strengthen the country's anti-corruption and anti-money laundering network.

In an attempt to support the visible effort by the Ukrainian government, the IMF has coordinated a new four-year economic reform program with the Ukrainian government that will be supported by an Extended Fund Facility from the IMF, if given reforms are implemented and adhered to by the Ukraine. Coined by Lipton as the "Second Marshall Plan", this program "supports immediate economic stabilization in the Ukraine as well as a set of bold policy reforms aimed at restoring robust growth over the medium term while improving living standards for the Ukrainian people".

This economic reform program addresses three pillars: Restoring competitiveness among Ukrainian businesses, strengthening banking system, and the privatization of its enterprises.

The competitiveness among Ukrainian businesses has been challenged greatly in recent times with conflict in the Ukraine resulting in a decline of their economic competitiveness. The Institute for Management Development (IMD) released a ranking which saw Ukraine nosedive 11 spots, landing on the 60<sup>th</sup> place, one spot ahead of Venezuela. According to the IMD, this result "highlights the negative impact that armed conflict and the accompanying higher market volatility have on competitiveness in an increasingly interconnected international economy."

Ukraine's banking system also experienced a stark decline since the arrival of Russian separatists on Ukrainian soil, sparking the collapse of its national currency and a deep recession. Ukrainian banks have long been in the hand of an elite number of Oligarchs who have misused their position of power for their own financial benefits. As a result of the present IMF efforts

and international pressure to halt this harmful behavior, twelve Ukrainian banks have lost their licenses and fourteen have been placed under temporary administration this year alone. Through this and future efforts, encompassed by IMF's proposed economic reform program, Lipton stated, the IMF hopes to strengthen Ukraine's banking system. If implemented successfully, the economic impact of the program would spark a ripple effect that would further re-stabilize its national currency, the Grivna, which recently plummeted to an unprecedented low.

Lastly, Lipton mentioned the effort of IMF's billion-dollar program to increase privatization of Ukrainian enterprises. Ukraine's state-owned businesses are plagued with high levels of corruption and political interference. This shift of privatization would improve Ukraine's efficiency, provide fiscal relief, encourage wider ownership, and increase the availability of credit for the private sector ultimately leading to a decrease in national debt.

In his speech at the German Marshall Fund, Lipton addressed the historical and current economic situation of Poland and Ukraine, the fall of the Berlin Wall and its direct impact on the economic hemisphere and how the International Monetary Fund is assisting the Ukraine in its efforts to reach economic stability. Lipton presented the goals IMF hopes to achieve through their economic program underway with the Ukrainian government, which included restoring competitiveness among Ukrainian businesses, strengthening banking system, and the privatization of enterprises.

While Proshenko's government appears committed to the reforms and interested in fostering its positive cooperation with the IMF, the state of conflict on Ukrainian soil and its present economic situation will prove a rigorous challenge to overcome. And with regard to both, concerning exter-

**Konrad-Adenauer-Stiftung e.V.**

nal funding from the IMF and the  
Ukrainian Government.

**USA**

JONATHAN LAETSCH

Edited by:

DR. LARS HÄNSEL

**June 2015**

[www.kas.de/usa](http://www.kas.de/usa)