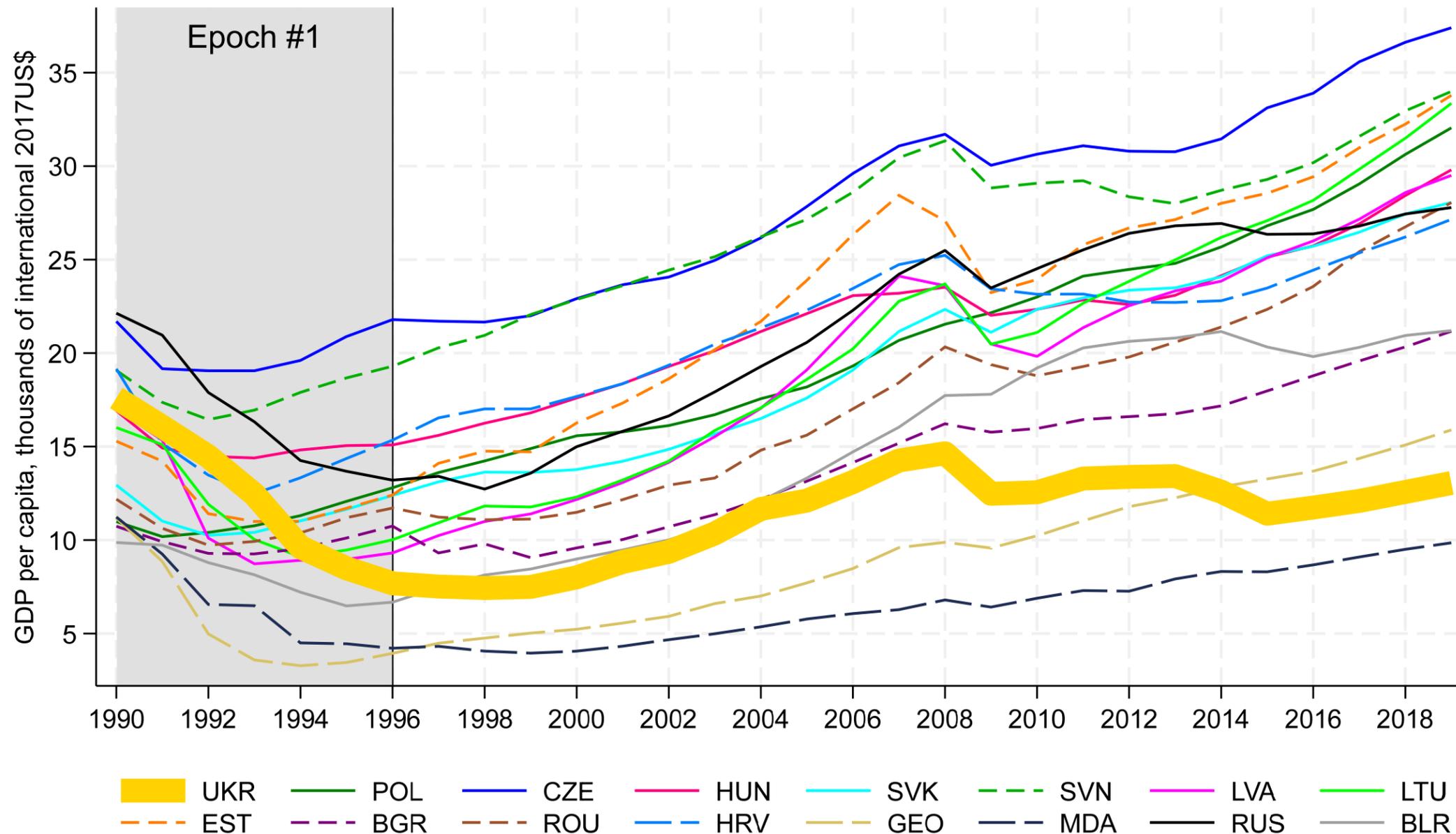


**YOU ONLY LIVE TWICE:
FINANCIAL INFLOWS AND GROWTH IN A
WESTWARD-FACING UKRAINE**

Yuriy Gorodnichenko
UC Berkeley & 

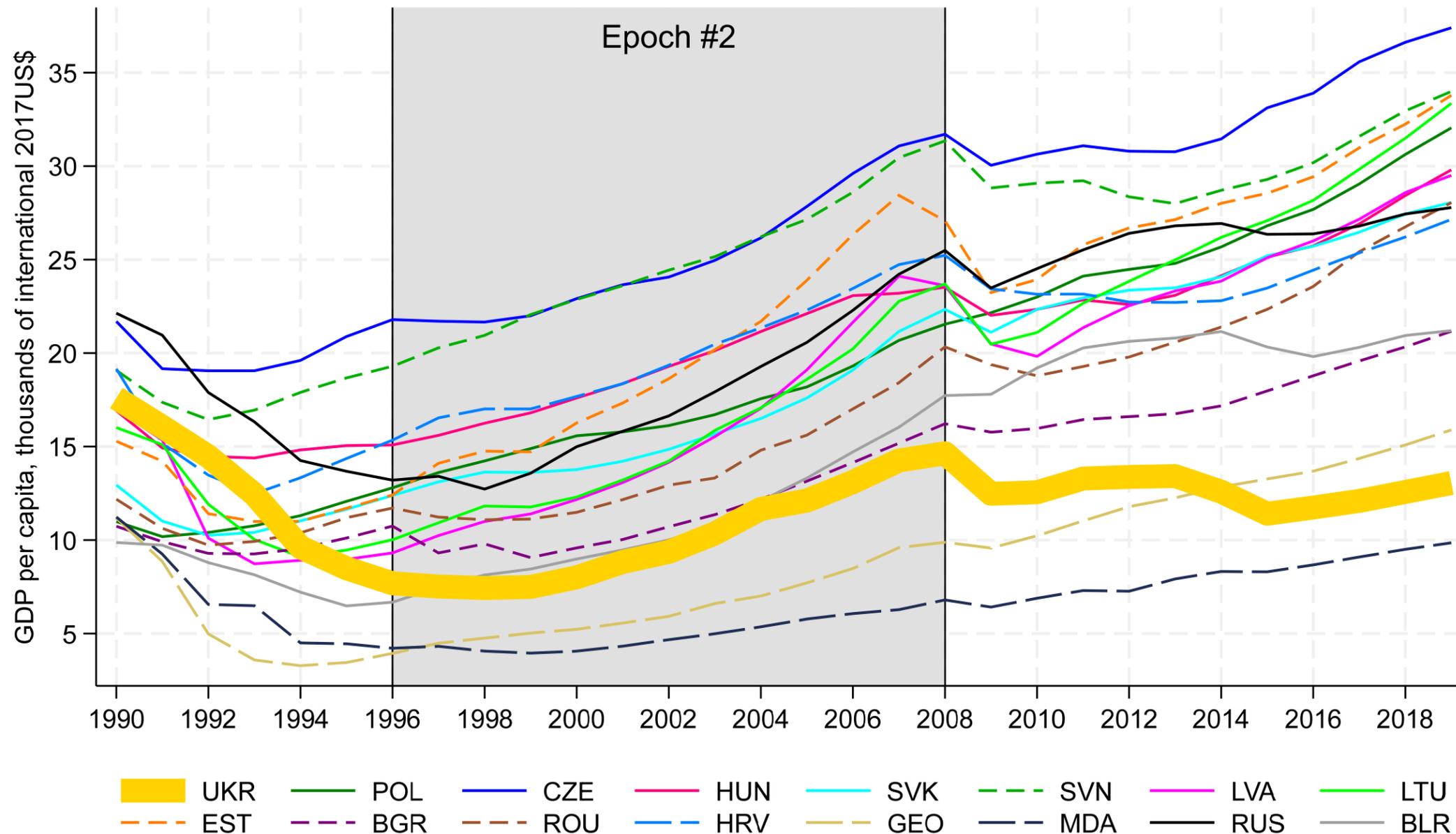
Maurice Obstfeld
Peterson Institute for
International Economics
& UC Berkeley

FOUR EPOCHS OF MODERN UKRAINE



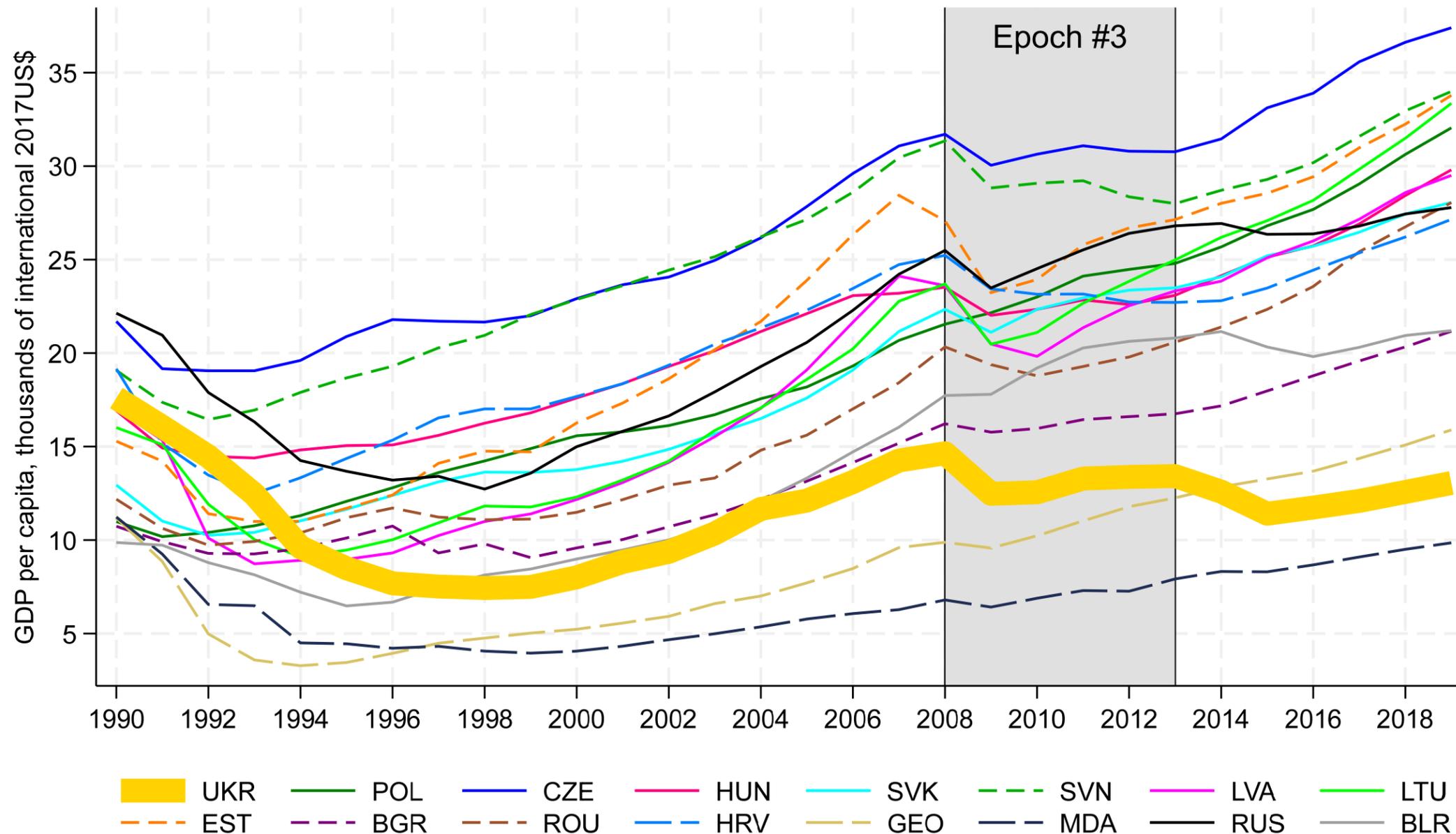
“Collapse”: the economy collapsed during a bumpy and distorted transition to the market. GDP per capita fell by more than half, hyperinflation of 10,000% in 1993.

FOUR EPOCHS OF MODERN UKRAINE



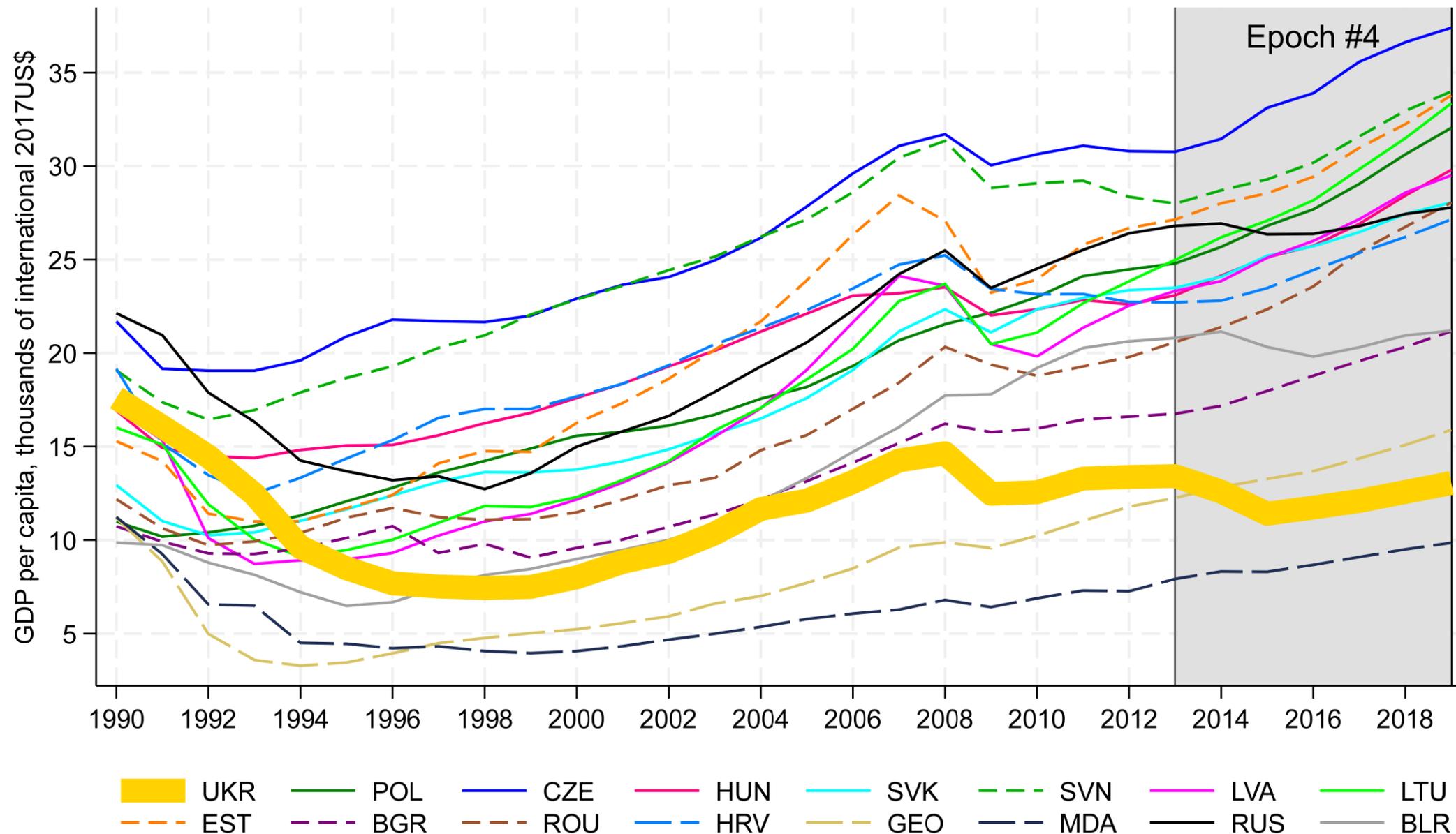
“Recovery”: 1996 currency reform, but inflation remained in a wide range of about 5 to 25 per cent per year; GDP per capita nearly doubled, powered (as in many other emerging markets) by buoyant commodity exports and plentiful global liquidity.

FOUR EPOCHS OF MODERN UKRAINE



“Post-GFC stagnation”: stagnant incomes, beginning with the global financial crisis of 2008-2009; constrained foreign credit, weak foreign demand, continuing corruption, and domestic political infighting all held back growth.

FOUR EPOCHS OF MODERN UKRAINE



“Russian aggression”: Russia’s illegal annexation of Crimea and incursion into the Donbas in the first half of 2014. Post-2014 economy was dominated by overt military conflict with Russia and its proxies, has seen incomes continue to stagnate before dropping sharply with the full-scale Russian invasion of February 2022 and the ongoing war.

RUSSIAN AGGRESSION

Ukraine's GDP: ↓ 30%, Unemployment rate: ↑ to 35%, Ukrainian refugees ≈ 9 million



EPOCH 5: POST-WAR CHALLENGE AND OPPORTUNITY

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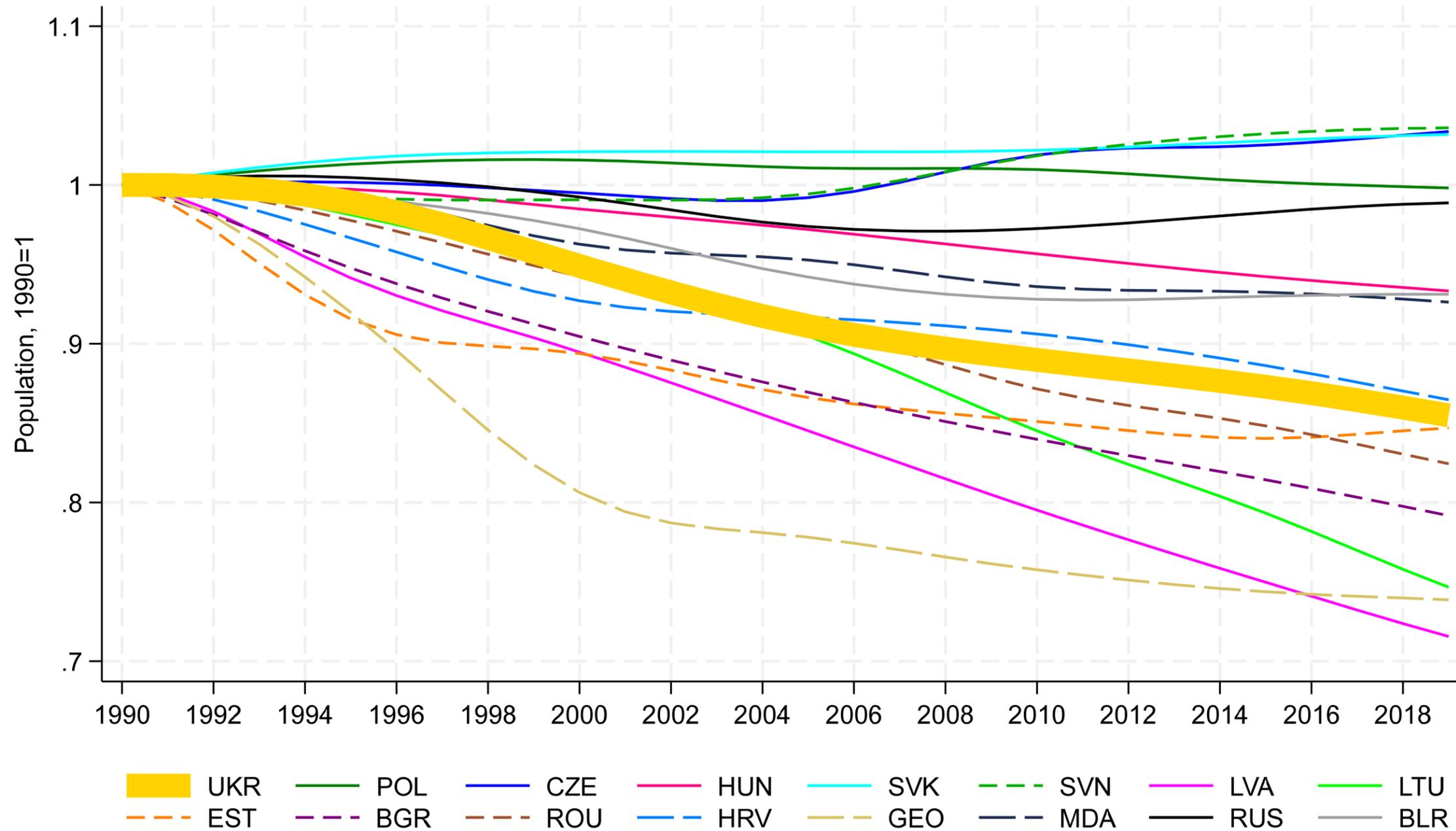
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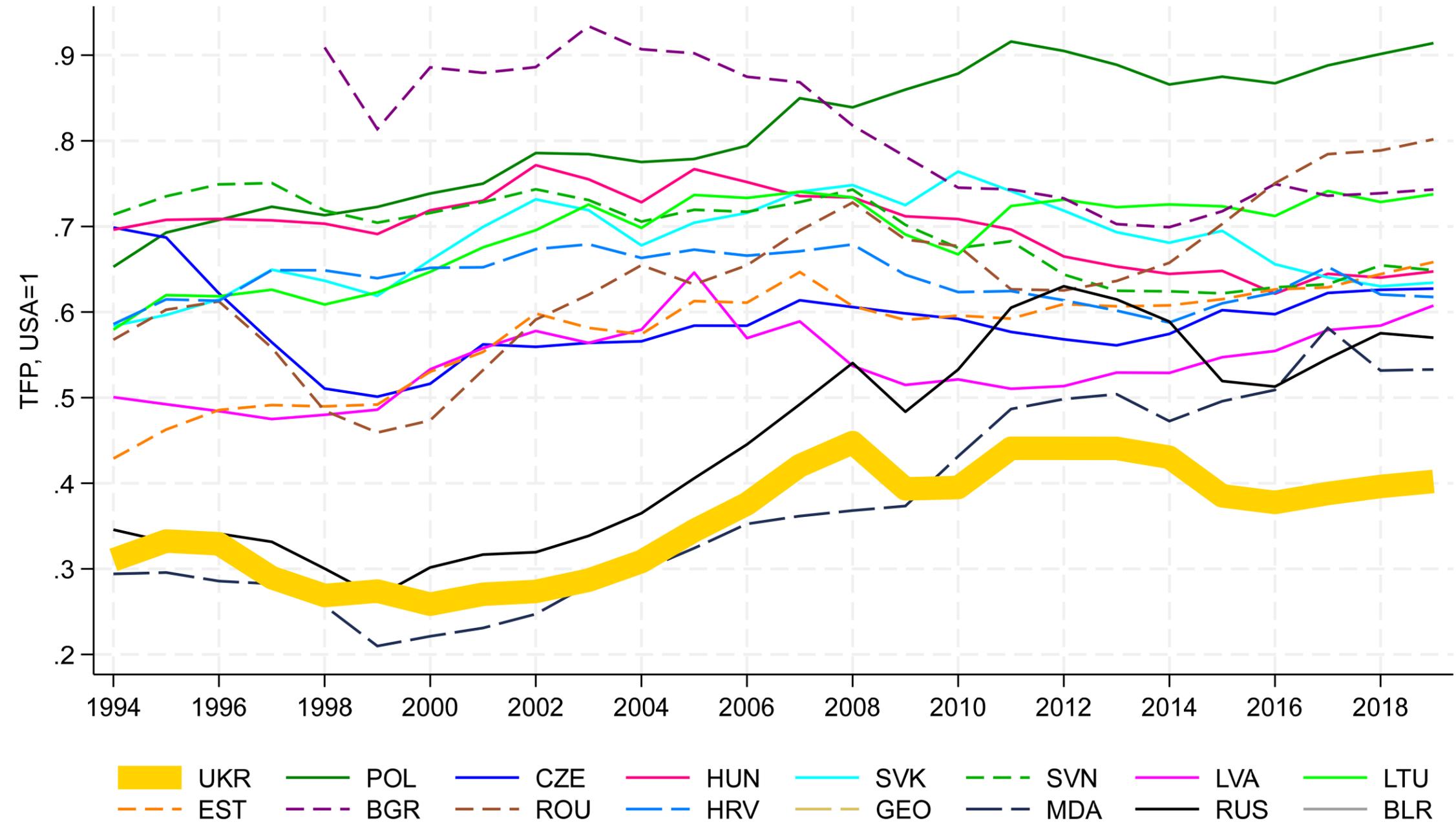
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- **Our main message: Ukraine needs massive investment**

POPULATION



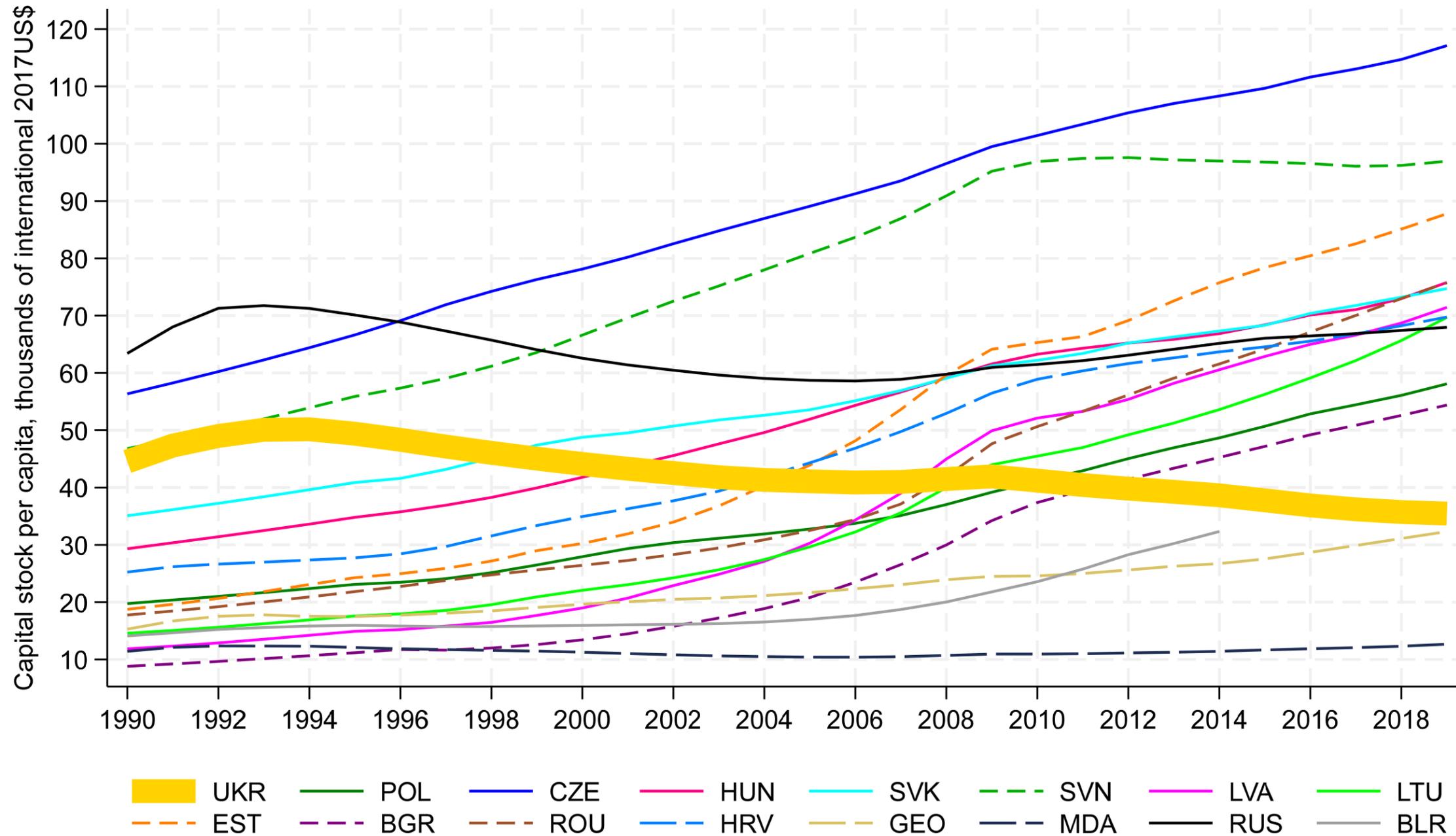
Broad-based depopulation in Eastern Europe but particularly in poor and war-affected countries.

PRODUCTIVITY



Productivity catch-up everywhere but stagnation in Ukraine since 2008.

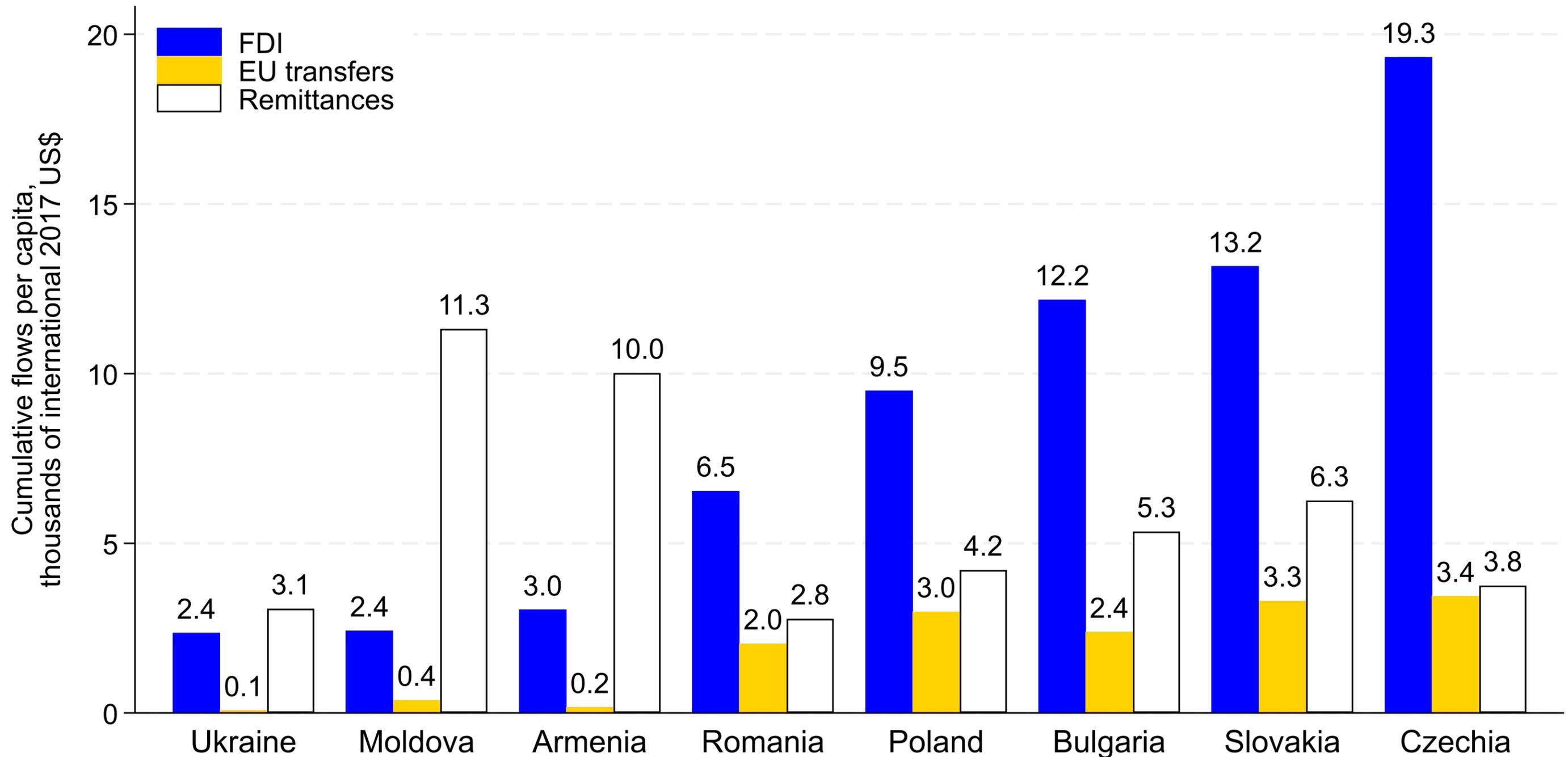
CAPITAL STOCK



- Ukraine moved from being relatively capital abundant to relatively capital scarce
- **Growth accounting shows that dramatic capital deepening has played the key role in growth miracles in former transition economies**

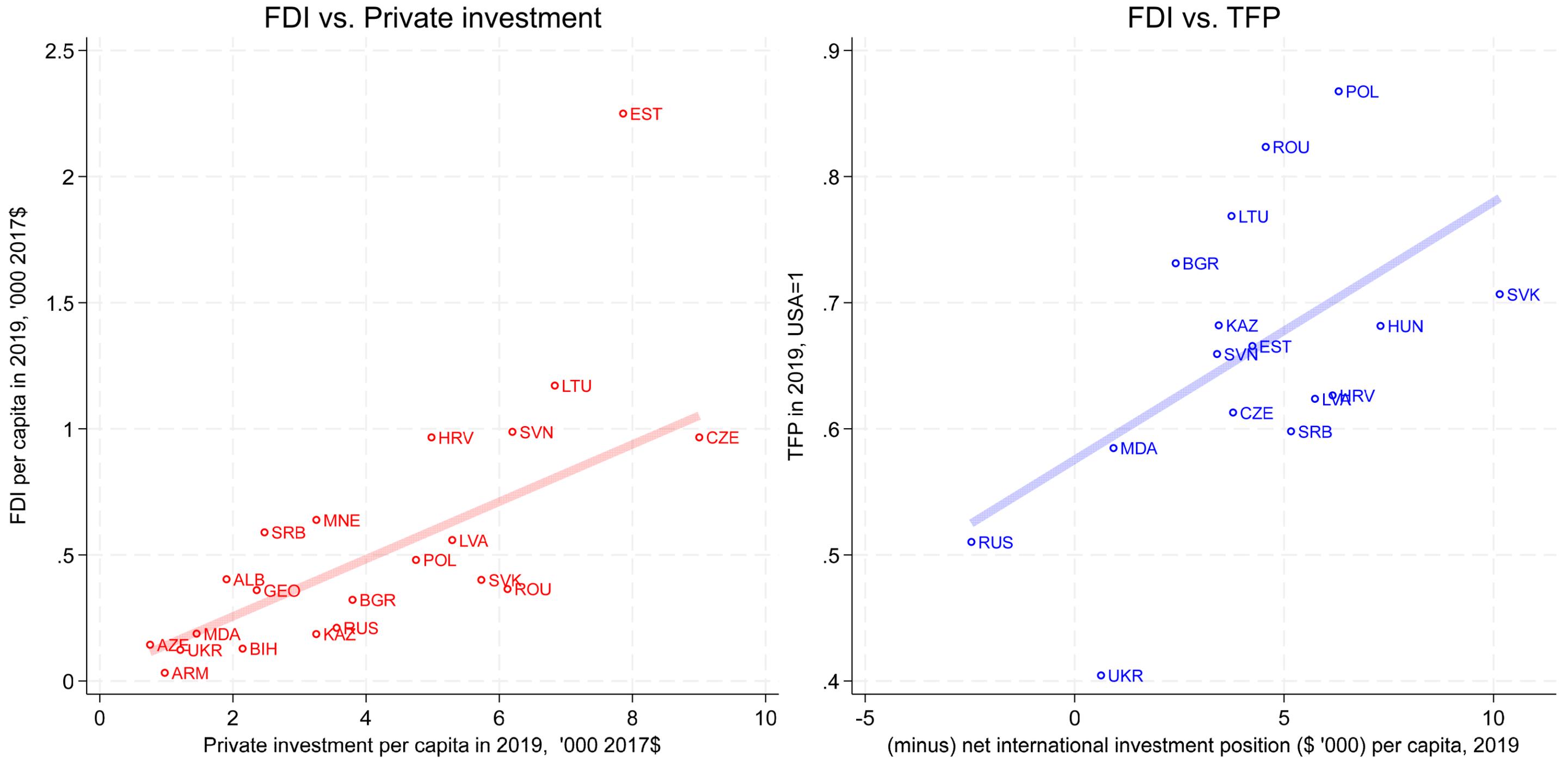
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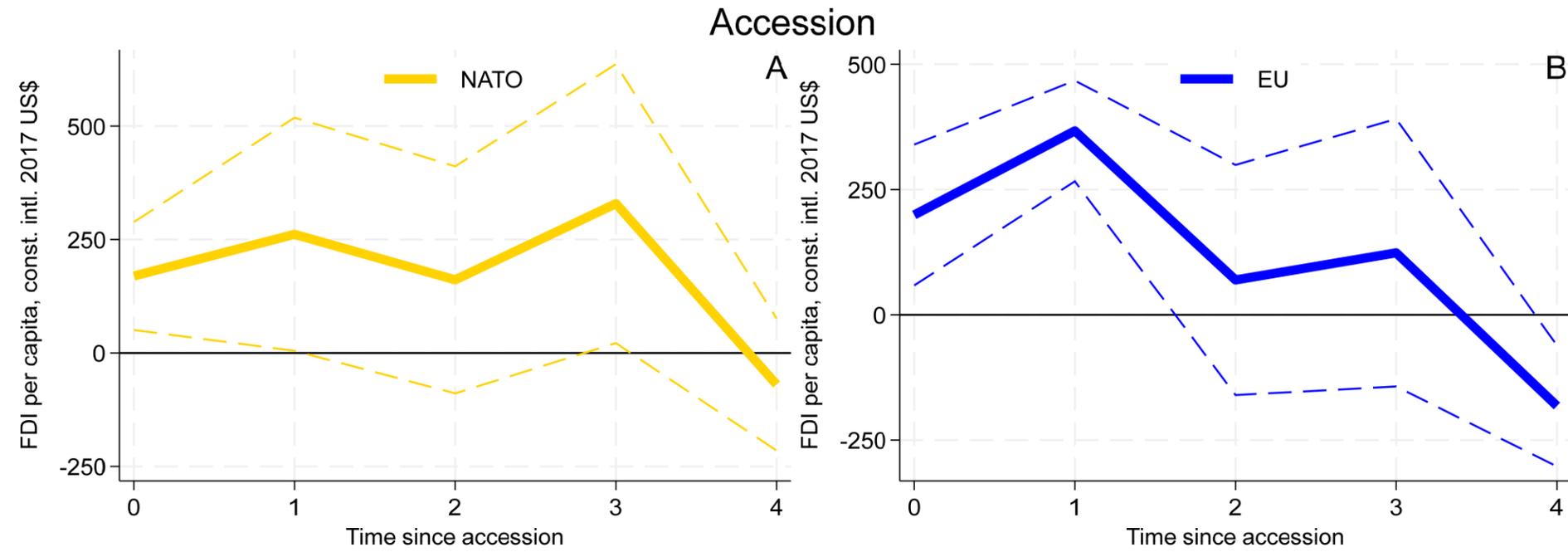
- Ukraine: remittances > FDI >> EU transfers
- EU peers: FDI >> remittances > EU transfers

VIRTUOUS CIRCLE WITH FDI



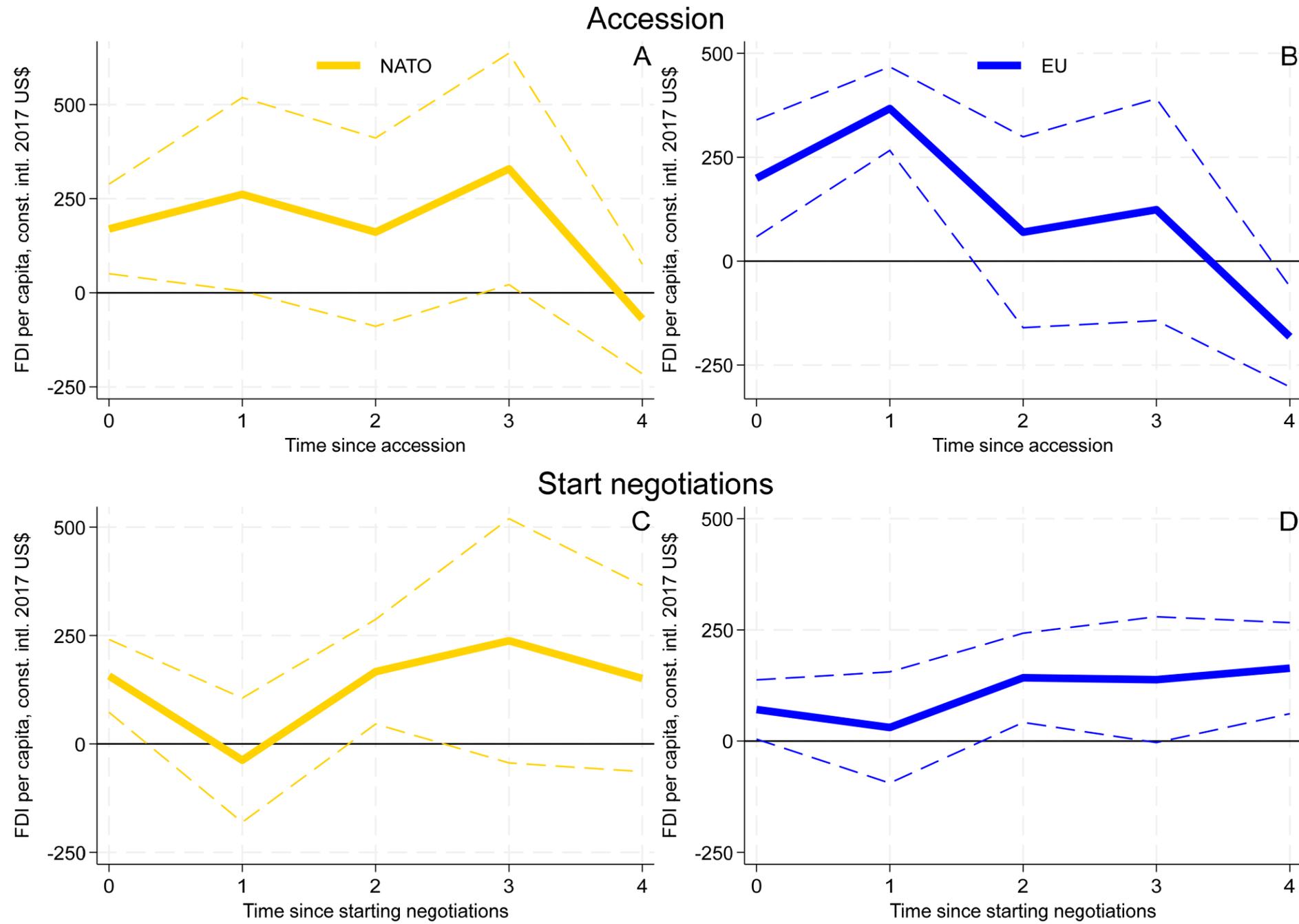
FDI, TFP growth, and private investment reinforce each other

FDI AND THE EU/NATO



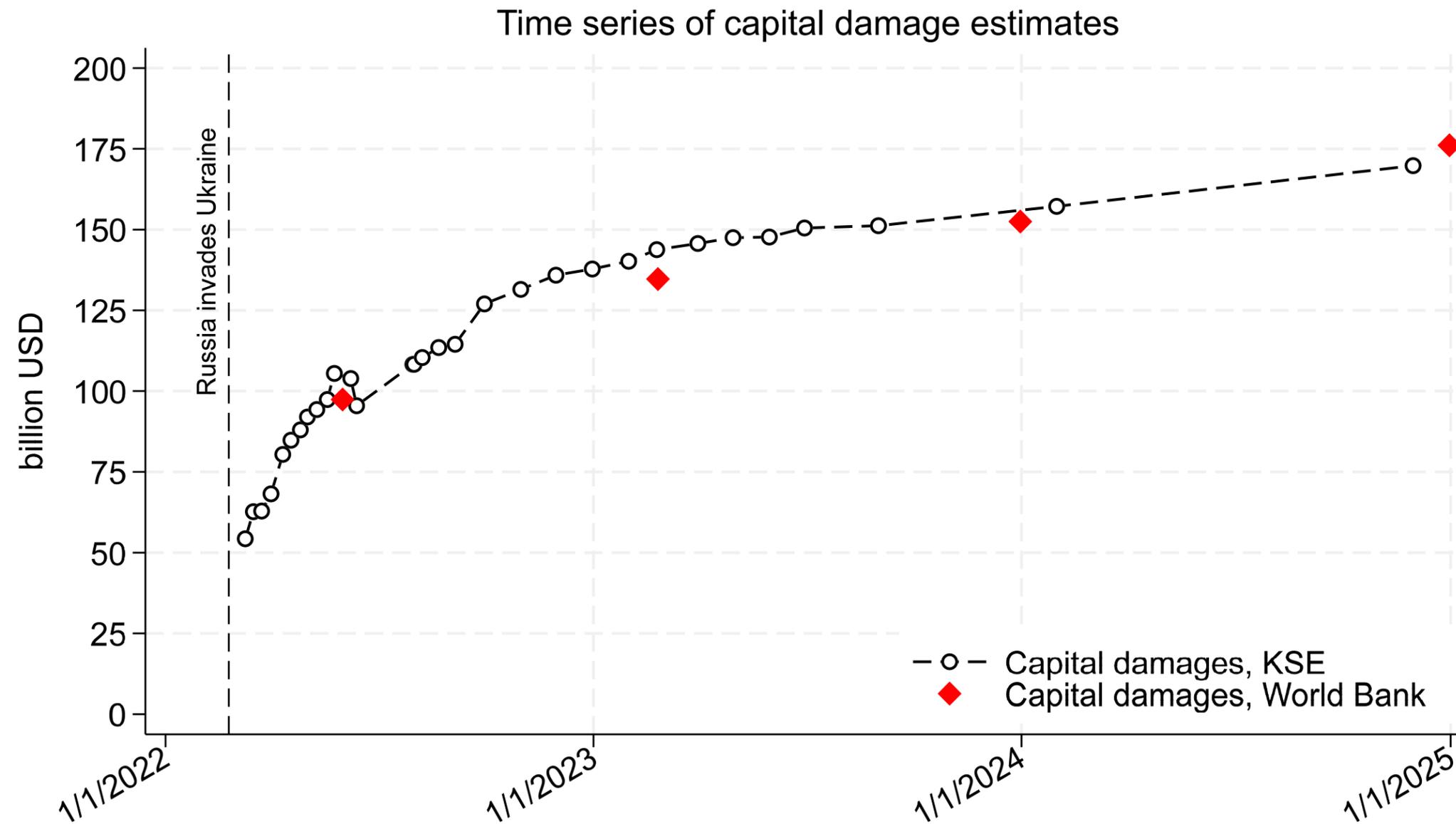
FDI follows joining the EU and NATO

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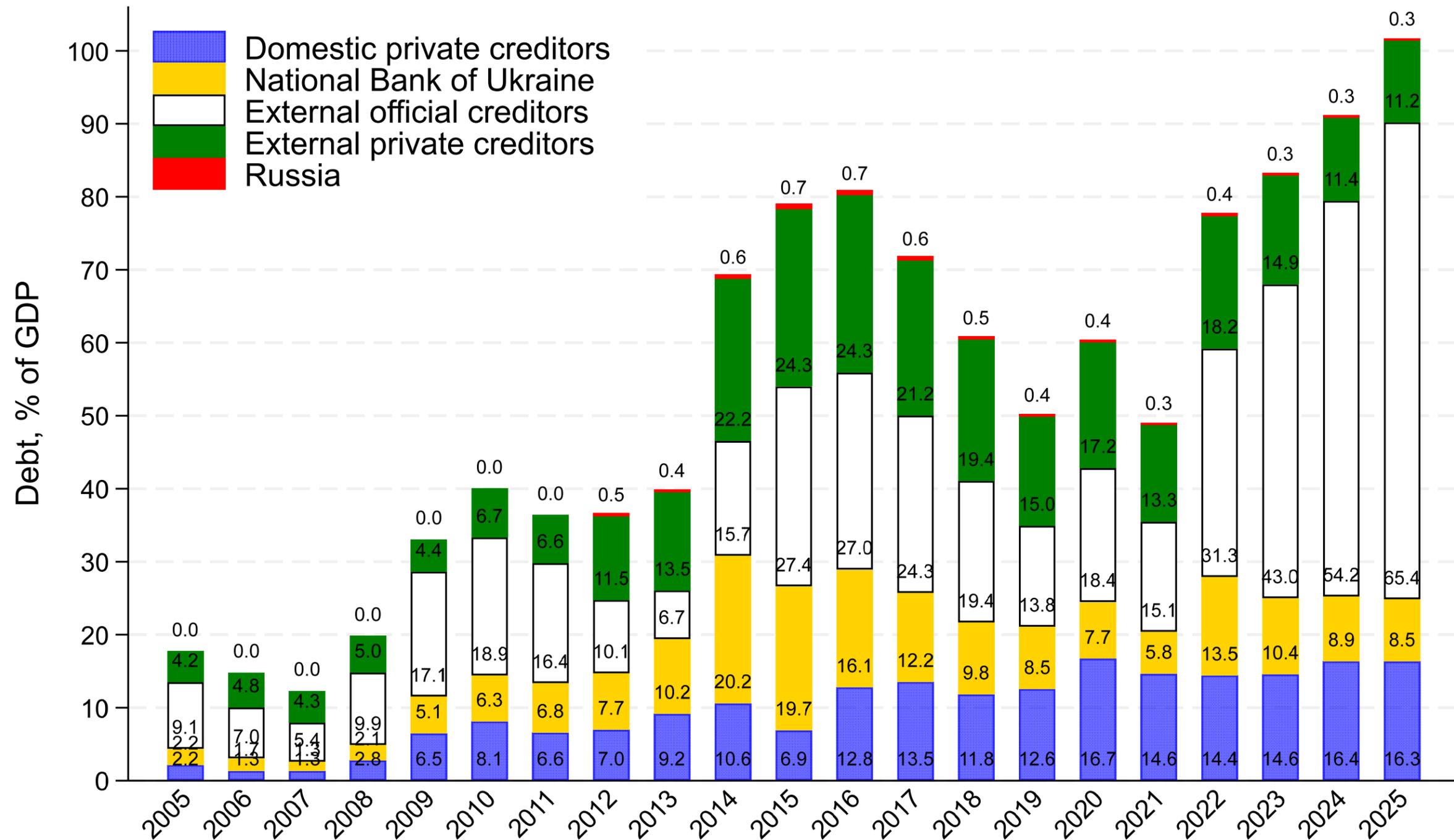
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- Total: \$40 billion per year**

This is doable:

- Ukraine received \approx \$40 billion per year in budgetary support during the full-scale war.
- Poland's net FDI was \approx \$20 billion in 2024.
- For the 2021-2027 period, the EU budget for cohesion policy is €392 billion, which translates to roughly €56 billion per year and suggests some room for EU funds earmarked for Ukraine.
- Utilize frozen Russian assets.

DEBT OVERHANG



Deep debt relief is needed after the war; use grants rather than loans to support now

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- *Natural resources*: unlikely a major source of growth in the short run due to long gestation lags, political/security risks, and underdeveloped capital markets

CONCLUDING REMARKS

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*You only live twice:
Once when you are born,
And once when you look death in the face*

*Haiku by James Bond in *You Only Live Twice* (1964)*