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INTERNATIONAL AND DOMESTIC POLICY RESPONSES TO THE FINANCIAL CRISIS IN CENTRAL AND EASTERN EUROPE[1]: LESSONS FOR UKRAINE

Abstract *The paper studies main successes and failures in policy responses to the financial crisis in Central and Eastern Europe on the global, regional and domestic levels. It is argued in the paper that despite the failure to prevent the crisis at all levels, coordination of global actions on global and EU levels and high discipline of the CEE countries on domestic level helped them to go ahead in successful dealing with the crisis. The paper identifies key lessons for Ukraine, the main of which is that coherent and consistent economic reforms are the only key to success.*

Key words: financial crisis, Central and Eastern Europe, policy responses, crisis prevention and resolution

Аннотация *Рассмотрены основные меры по урегулированию финансового кризиса в странах Центральной и Восточной Европы на международном, европейском и национальном уровнях. Доказано, что несмотря на неспособность предотвратить кризис на всех уровнях, координация усилий на глобальном и европейском уровнях и внедрение всех необходимых мер странами ЦВЕ на национальном уровне помогли им относительно быстро преодолеть негативные последствия кризиса. Выделено главные уроки для Украины, основной из которых заключается в том, что ключ к успеху лежит только в проведении четких и последовательных экономических реформ.*

Ключевые слова: финансовый кризис, страны Центральной и Восточной Европы, меры по урегулированию кризиса, предотвращение кризисна

Анотація *Розглянуті основні заходи по врегулюванню фінансової кризи в країнах Центральної та Східної Європи на міжнародному, регіональному та національному рівнях. Доведено, що незважаючи на неспроможність попередити кризу на всіх рівнях, координація зусиль на глобальному та європейському рівнях та впровадження усіх необхідних заходів країнами ЦСЄ на національному рівні допомогли їм відносно швидко подолати негативні наслідки кризи. Визначено головні уроки для України, основний з яких полягає в тому, що ключ до успіху лежить лише у проведенні чітких та послідовних економічних реформ.*

Ключові слова: фінансова криза, країни Центральної та Східної Європи, заходи по врегулюванню кризи, попередження кризи

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[1] Central and Eastern Europe here includes Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovak Republic, and Slovenia.

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Introduction

The ongoing financial and economic crisis raised a number of new questions and challenges to be addressed by academics and state officials both on the global and national levels. What are the primary causes of the crisis? What lessons should be learnt? How to adjust the global financial system and prevent such negative consequences in future? Those questions become a subject for political discussions at the highest levels, G20 Summits and World Economic Forums in Davos.

The global crisis has many specifics. One of them is unequal extent of the crisis impact across the regions. Central and Eastern Europe (CEE) is believed to be among the regions most harshly hit by the crisis. According to the IMF assessments the overall GDP decline in the region in 2009 was around 8,4%. At the same time the region is anticipated to recover quite soon. The IMF forecasts the region to have a positive output starting already in mid 2010 and reaching 4,0% GDP growth in 2012 [1].

Meanwhile, individual countries in the region were also unequally hit by the crisis. Estonia, Latvia, Lithuania were the most harshly damaged with GDP decline in 2009 reaching -14,0%, -18,0%, and -18,5% respectively. At the same time Czech Republic (-4,3%), Slovak Republic (-4,6%) and Slovenia(-4,7%) were hit the least and Polish economy had even grown by 0,97% in 2009 [1].The reasons staying behind such differences in crisis impact across the countries vary. Diverse macroeconomic and financial vulnerabilities and policy responses to the crisis are among them.

The Central and Eastern European countries in times of the crisis became a subject of a number of academic and policy studies and debates. The key issues addressed are main causes of the crisis (Anders Aslund [2]), lessons to be learnt (Agnes Benassy-Quere, Benoit Coeure, Pierre Jacquet, Jean Pisani-Ferry [3]), the role of the EU in dealing with the crisis (Zsolt Darvas, Béla Galgóczi [4; 5]). Ukrainian authors are mostly focused on theoretical approaches to explain root causes of the crisis, its global imperatives and impact on the Ukrainian economy (Umantsiv Y., Shevchenko V, Shelud'ko N, Shklyar A. [6-8]).

At the same time this paper aims at identifying main successes and failures in policy responses to the crisis in Central and Eastern Europe on the global, regional and domestic levels and revealing relevant lessons for Ukraine.

Major tasks the paper seeks to achieve are: to study main policy responses to the crises in the CEE countries on global, EU and domestic levels; to define key obstacles for successful resolution of the crisis in Ukraine and to draw principal lessons for Ukraine.

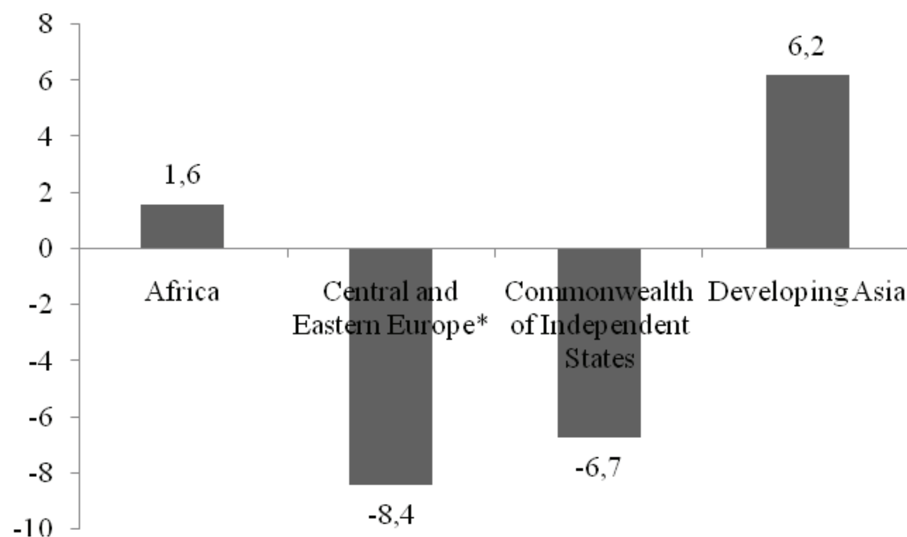
The paper argues that despite the failure to prevent the crisis at all levels, coordination of global actions on global and EU levels and high discipline of the CEE countries on domestic level helped them to go ahead in successful dealing with the crisis.

The paper is structured as follows. First of all, it presents key data on the extent to which the CEE countries had suffered in times of the crisis. Later on, it introduces main findings on successes and failures in policy responses to the financial crisis in CEE countries on global, EU and domestic levels. Finally, it reveals key obstacles to successful resolution of the crisis in Ukraine and draws main lessons and conclusions for Ukraine.

CEE countries in crisis: heavy damages but fast recovery

Central and Eastern Europe was among the regions that were the most harshly hit by the financial crisis. In 2009 the regional GDP decline was 8,4%, what was the lowest among other emerging and developing regions (Figure 1) [1]. This was to a large extent influenced by the growth in trade and financial links of the region with the rest of the world and especially with the EU after accession of the ten new member states in 2004 and two more in 2007. As the Di-

rector of the IMF's European Department Marek Belka said “because Europe is very open in terms of trade, and because its financial sector is so closely integrated with the rest of the world, the region cannot avoid being significantly impacted by the financial crisis” [9].



* According to the IMF CEE region does not include Czech Republic, Slovak Republic and Slovenia, which are considered as an advanced economy and eurozone members respectively. However, for the purposes of the research GDP growth was recalculated by taking into account the data on these countries.

Figure 1 GDP growth in emerging and developing regions in 2009, %

Indeed, market reforms in times of transition, liberalization of trade and financial markets and fast-growing economies of the region spurred international trade, attracted new investments and foreign capital. At the same time these growing links became also major channels of transmission of external shocks to the economies. Financial crisis originated in advanced economies spilled over to the emerging European countries including those from CEE. Liquidity markets were frozen. Short-term foreign debt capital was withdrawn. Global demand fell bringing to stagnation in commodity markets. Consequently, international trade volumes also declined. In the whole, all this had a very negative impact on the regional economic growth.

At the same time, the extent to which the countries had suffered was different. The most harshly hit were the Baltic states with 2009 GDP decline reaching 18,5% in Lithuania, 18,0% in Latvia, and 14,0% in Estonia. Hungary, Bulgaria and Romania also suffered significantly with fall of GDP by 6,7%, 6,5%, and 8,4% respectively. Meanwhile, Czech Republic, Slovak Republic and Slovenia had their GDP dropped by less than 5%, while Polish economy even grew by 0,9% in 2009 (Figure 2) [1].

Key explanations on that are in different macroeconomic and financial vulnerabilities in the economies. The countries that suffered the most had very weak macroeconomic fundamentals, such as excessive current account and budget deficits, fixed exchange rate regimes, and huge credit expansion before the crisis. In all the six countries with the largest GDP decline current account deficits throughout 2002-2007 were far larger than 5% (Hungary: -6,9%, Bulgaria: -11,1%, Romania: -8,3%, Estonia: -12,3%. Latvia: -14,4%, Lithuania: -8,6%) [2, p.11]. Estonia, Latvia, Lithuania and Bulgaria have also fixed exchange rates. As a result much of the current account deficit was supported by increasingly accumulated foreign debt that exceeded 100% of GDP in those states.

Hungary had also a very large budget deficit throughout 2005-2007 (5-10% of GDP) and thus had accumulated a large amount of public debt (more than 70% in 2008) [2]. Consequently,

when the global liquidity and commodity markets froze and economic activity and export volumes fell, these countries had very few tools to support their economies and their creditworthiness was undermined. All this brought to a very sharp decline in output growth and challenged macroeconomic stability of the economies.

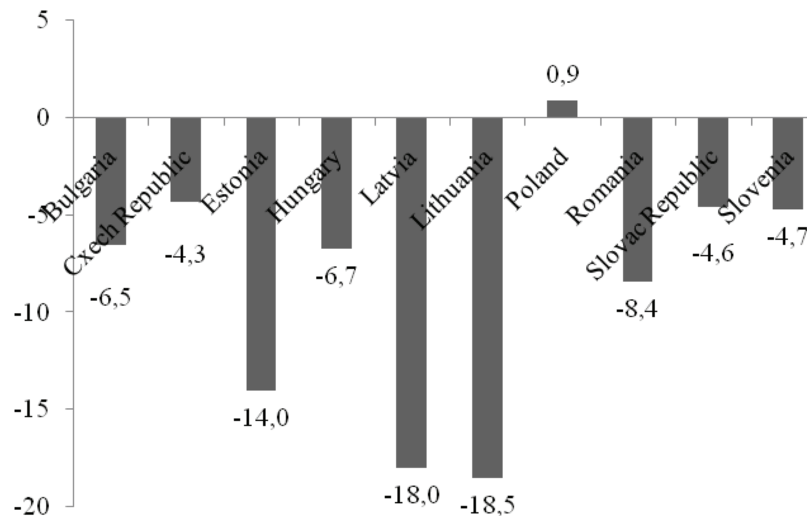


Figure 2 GDP growth in CEE by countries in 2009, %

At the same time, the region is also expected to overcome the crisis successfully and relatively fast. The IMF forecasts the region to have a positive output starting already in mid 2010 and reaching 4% output growth in 2012 (Figure 3) [1].

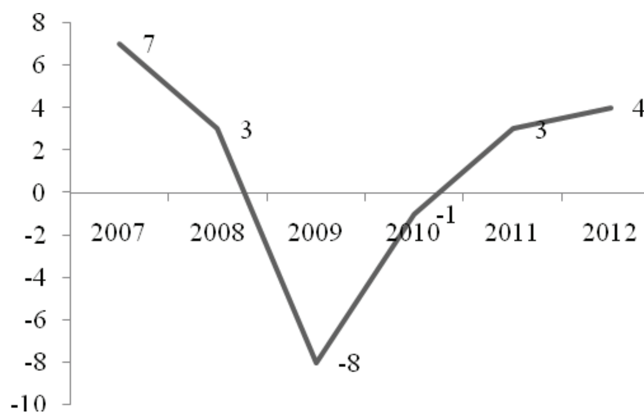


Figure 3 IMF forecast for GDP growth rate in CEE countries, %

The reasons for that are numerous. Among the mitigating factors at the region are foreign bank ownership in the CEE countries by West European member states, membership of some of them (Slovenia and Slovak Republic) in eurozone, and political and economic integration with the EU.

In this paper it is argued that successful international and domestic policy responses, supported by EU membership inter alia, had helped the CEE countries to deal with the crisis effectively and relatively fast.

Policy responses to the crisis: successes and failures

Global level

One of the main failures of policy-makers at all levels is their inability to prevent the crisis. On the global level it is the IMF that is responsible for maintaining global financial system stability. Quite frequently it is argued that in the beginning of this century "the IMF was itself in a crisis, because it had almost no clients left for its emergency lending facilities after the crises of the 1990s" [10, p.32]. There were plenty of debates on whether it was the responsibility of the IMF for the crisis to become global or not. However, the role of the IMF is not indeed ade-

quate to the current developments in the global financial system. As a result the issues regarding reforming of the IMF and global financial architecture at large have been vividly discussed at the highest political levels, namely G20 Summits.

Nevertheless, crisis control and resolution policies were quite successful at the global level. Coordination of efforts of the most powerful economies can be assessed as strong enough. Starting from November 2008 a new global institution was created – G20 - with the purpose to increase the voice of the developing countries in resolution of global problems. So far three G20 Summits have been held: in Washington, London and Pittsburgh. The main outcomes of the Summits are presented in Table 1.

Table 1 Main outcomes of the G20 Summits [11-13]

Summit	Date	Main outcomes
Washington	November 14-15, 2008	Reached a common understanding of the root causes of the global crisis. Reviewed actions countries have taken and will take to address the immediate crisis and strengthen growth. Agreed on common principles for reforming national financial markets: *strengthening transparency and accountability, enhancing sound regulation, promoting integrity in financial markets, reinforcing international cooperation and reforming international financial institutions*. Launched an action plan to implement those principles
London	April 2, 2009	Launched a Global plan for recovery and reform, where five main priorities were defined: restoring growth and jobs, strengthening financial supervision and regulation, strengthening global financial institutions, resisting protectionism and promoting global trade and investment, ensuring a fair and sustainable recovery for all. It was agreed to provide US$1,1 trillion for recovery programmes.
Pittsburgh	September 24-25, 2009	Agreed to develop a framework for strong, sustainable and balanced growth, to strengthen the international financial regulation system, to modernize global institutions to reflect today's global economy.

One of the most effective outcomes of the Summits was the decision to provide US$1,1 trillion for recovery programmes. Great deal of the money was used to provide financial support to the most suffered economies, including those from CEE, through international financial institutions, mainly the IMF. As a result, the IMF had allowed around US $50 billion under standby arrangements (SBAs) to 14 countries in crisis [10, p.32]. Under the SBAs the country gets loans in exchange for reforms in monetary, financial and fiscal policies. Emerging European countries have obtained the largest part of the IMF loans.

In the CEE region main recipients of the IMF loans were Hungary, Latvia and Romania. Along with the IMF support those countries received financial resources from other international financial institutions: the World Bank, European Commission, European Investment Bank, European Bank for Reconstruction and Development. However, the share of the IMF financial support was the largest, while resources granted by other institutions, especially European ones, were limited (Table 2).

Table 2 Financial support to the CEE countries during the crisis, US $ billion

Country	Date	Overall sum	Allowed by the IMF	Allowed by the EU	IMF loan type
Hungary	October 2008	25,5	15,7	8,4	17- month SBA
Latvia	December 2008	17,75*	2,35	4,3	27- month SBA
Romania	May2009	26,4	17,1	6,6	24- month SBA
Poland	May 2009		20,58	-	12- month FCL **

* the lion's share of the funds were allowed by Scandinavian countries – Denmark, Estonia, Norway, Sweden.

** flexible credit line

Consequently, coordination of international efforts on the global level to overcome crisis (in CEE countries inter alia) may be assessed as effective so far, even though a number of planned actions for global economy recovery are still to be done.

EU level

Policy responses to the crisis in the CEE countries at the EU level gained different assessments by EU economic policy researchers and experts. Some argue "policy responses from Europe were neither timely nor adequate and the initiative was left to a large extent to the International Monetary Fund" [5, p.5], while others say both the IMF and EC showed an excellent ad hoc cooperation: "the IMF had the staff, rules, and procedures for handling a financial crisis, while the EC had neither, so it conceded and assisted instead" [14]. The crisis thus pointed on necessity to rethink EU level financial supervision and regulatory framework with aim to enhance ability to prevent and successfully deal with union-wide financial difficulties in future. So far the EU had made a number of steps aimed at developing efficient regulatory framework for economic recovery of the EU region (Box 1).

Box 1 Main policy actions of the EU during the crisis [15]

- Refi (interest rate on main refinancing operation) was cut from more than 4% in September 2008 to 1% in May 2009;
- A European Economic Recovery Plan developed by the de Larosière Group was adopted in November 2008. The plan was built on two key pillars: a major injection of purchasing power into the economy (to boost demand and stimulate confidence) and the need to direct short-term action to reinforce Europe's competitiveness in the long term ("smart investments");
- Large public interventions in the banking sector were approved (around 44% of total EU budget);
- An increase from € 12 to € 50 billion of the lending ceiling was approved for the EU support facility for non-euro area Member States in financial difficulty.
- An ambitious reform on European supervision system was launched in parallel to what was agreed during the G20 Summits. According to this reform the EU member states financial stability will be secured based on two main principles: creation of a European System of Financial Supervision through establishment of the network of financial supervisor at the EU level and formation of a European Systemic Risk Council responsible for macro-prudential surveillance, mitigation of systemic risks and prevention of large-scaled financial crises.

Moreover, EU membership itself had a mitigation impact on financial stability in CEE countries. It helped making policy institutions stronger and more credible in the new member states and EU membership perspective at large was a strong motivation for them to provide institutional and market reforms, what enabled them to overcome the crisis quite efficiently.

Thus, despite the failure of the EU to provide sufficient financial support to the CEE countries in crisis it proved to be successful enough in learning financial crisis lessons. EU actions went in line with the agreements reached at the global level and were aimed at development of effective crisis prevention policies through establishment of supranational European financial supervision institutions.

Domestic level

To study successes and failures in domestic policy responses four case studies will be examined: Hungary, Latvia, Romania and Poland. The first three are the cases of the most harshly hit economies in the CEE region and Poland is a successful case of the country that managed to overcome the crisis relatively easy.

Hungary

Despite the fact that Hungary was always among the most economically developed countries that joined the EU in 2004 it was one of the first countries that were the most harshly hit in the region in times of the crisis. The reasons for Hungary to become the region's weakest link include: risky financial solutions to improve the popular feel good by successive governments that accumulated excessive public debt, large amount of foreign exchange-based domestic lending and lack of effective cooperation among two main political parties [16]. As a result GDP fell in mid 2009 by 7,2%, manufacturing by 21,3%, unemployment rate was 10% [17, p.3].

Main policy measures in the country included a number of immediate and long-term measures [18]. Large foreign and domestic currency liquidity provisions were given, social transfers shortened and taxes increased. In November 2008 Hungary received US $15,7 billion from the IMF under 17- month SBA. The IMF programme in the country was targeted at sustainable fiscal adjustment of 2,5% of GDP and bank capital enhancement through additional resources provided to finance a guarantee fund for interbank lending [19].

Implementation of the reforms proved to be successful so far even though the country has the next parliamentary elections scheduled for April 2010. According to the IMF executive board third review dated as of September 25, 2009, "macroeconomic and financial policies in Hungary are on track" [20]. Fiscal sustainability has been further strengthening through implementation of structural spending reforms. Financial stability is being maintained by providing institutional reforms, improving supervisory agency's independence, enhancing the central bank's authority in macro prudential supervision and monitoring of the banks that received the state's financial support.

Latvia

Latvia is the second CEE country that met with harsh economic challenges during the crisis. Major preconditions for that were large foreign capital inflows and pre-crisis credit boom, especially after its accession to the EU. Consequently, the country accumulated large external imbalances that were at the core of severe financial difficulties in times of the crisis. In December 2008 Latvia got large financial support from the IMF, EU, and Scandinavian countries. The Latvian case is special in that the country opted for not to let its currency float with aim to enter Eurozone as soon as possible. This had an impact on the reforms package approved for the country by the IMF.

Main objectives of the IMF 27- month SBA for Latvia were aimed at restoring confidence in the Latvian banking system, providing fiscal measures to limit budget deficit and prepare the country for fulfilling Maastricht criteria, and implementing structural reforms to rebuild competitiveness under fixed exchange rates [21]. The decision of the Latvian government to preserve fixed exchange rate was assessed as a policy failure by many researchers. Indeed, according to some estimations loss of output from peak to bottom of the crisis will be around 30% and "the depth of the recession and the difficulty of recovery are attributable in large part to the decision to maintain the country's overvalued fixed exchange rate" [22, p.3]. Nevertheless, the reasons staying behind this decision were quite clear: eurozone memebership, small estimated affect on export growth and possible negative impact on the pegs of Estonia and Lithuania [9].

Overall, the IMF second review under SBA as of February 17, 2010, assessed the program implementation process as quite successful. Economic and GDP growth recovery is expected to take place in the end of 2010-beginning of 2011[23].

Romania

Main problems the country encountered with during the crisis were external imbalances, credit expansion, and high budget deficit. However, the Romanian government had at once launched a comprehensive program to respond to the crisis challenges. The programme was twofold. It contained institutional component aimed at creation of ministerial working groups in charge of implementing the anti-crisis measures adopted by the government and strategic component focused on adoption of anti-crisis programme for which € 13 billion was allocated. The anti-crisis programme consisted of 23 policy measures in three categories: economic (stimulation of economic recovery and growth), financial (increase of liquidity) and social. The lion's share of the total budget was allocated for economic measures (81%) [24].

Along with these measures the IMF has approved US$17,1 billion to Romania under 24-month SBA in May 2009. The IMF programme objectives required to reduce budget deficit to 3% of GDP by 2011, maintain adequate capitalization of bank and liquidity, target inflation and bring it within the range of the National Bank of Romania by end 2009, and secure adequate external financing [25].

The case of Romania reminds that of Ukraine. The country was also embarked in political infightings before Presidential elections scheduled for November 22, 2009. The IMF delayed its next tranche to Romania in November 2009 until the new government was formed [26]. Nevertheless, the latest reviews under SBA with Romania held in February 19, 2010, approved disbursement of the next tranche. Policy implementation process was assessed as strong "despite a difficult political and economic environment" [27].

Poland

Poland can doubtlessly be called the most successful case. It is the strongest economy in the CEE region and the only European country that achieved a positive GDP growth in 2009.

Such success is explained by nothing else but timely and proper market reforms and efficient and well-thought macroeconomic policy. The statement of Mr. John Lipsky, First Deputy Managing Director and Acting Chair of the IMF, quoted in the IMF press-release on approving US$20.58 billion to the country under flexible credit line arrangement, gives a comprehensive explanation for economic soundness of the Polish economy:

"Poland's economic growth has been very strong and well-balanced in recent years. Private consumption growth has been robust, the external position is sustainable, and the banking sector is well-capitalized. The avoidance of acute imbalances during the boom years reflects a very strong and timely policy implementation. A long-standing and effective inflation-targeting regime and a freely-floating exchange rate have helped build confidence in monetary institutions and anchor inflation expectations. The authorities' EU commitments and their euro adoption target have provided a strong fiscal anchor. Banking supervision has been fully compliant with EU laws and directives. Its institutional framework has been buttressed by the unification of financial supervision and the creation of the Financial Stability Committee" [28].

Moreover, a large domestic market, a diversified economic space, strong human capital, a number of economically significant regional clusters, and residual effects of Poland's shock therapy program in 1990s are considered as mitigation factors that helped the country to manage economic downturn better than others in the region [29].

Thus, assessment of the four case studies had shown that all the three countries that suffered the most – Hungary, Latvia, and Romania- failed to eliminate major risk factors before the crisis, mostly large external imbalances. The Hungarian case has proved how dangerous may be excessive populism followed by accumulation of large public debt. Latvia proved that delay in letting the national currency to float may have very negative consequences. Political instability in Romania demonstrated how lack of internal cooperation may prolong the crisis in time. Finally, the Polish case proved that only coherent and consistent reforms bring to economic prosperity and stability in times of crisis.

Crisis in Ukraine: causes, consequences and responses

Ukraine may doubtlessly be called the economy that suffered the most among emerging European countries in times of the crisis. Ukrainian economy has grown very fast since 2000 (more than 7% annually) but appeared to be greatly overheated by mid 2008: credit growth exceeded 70%, inflation increased to almost 30%, nominal wages accelerated by around 30-40%, consumption boom led to surge in imports at an annual rate of 50–60% increasing thus current account deficit to almost 7% of GDP, leaving the rigidly managed currency substantially overvalued [30, p3].

The Ukrainian economy was exposed to external shocks through two main channels of transmission:

• Trade links. Terms-of-trade for Ukraine, in which steel represents around 40% of exports and 15% of GDP and gas imports around 6% of GDP, deteriorated substantially with the fall in commodity prices due to sharp drop in global demand and raise of prices for gas imported from Russia from around $180/tcm in 2008 to approximately $330/tcm in 2009 [30, p.3].

• Financial links. Growing economy and opening of the financial sector led to significant increase in foreign capital inflows, especially external short-term debt, which was covered by international reserves only at 75% in September 2008 [30, p.3]. Large capital supply resulted in credit expansion especially in foreign currency due to overvalued domestic currency and low interest rates.

As a result, Ukrainian economy experienced significant losses in 2009: real GDP fell by 14%, inflation reached 16,3%, unemployment rate was almost 11%, and real monthly wages fell by 11% [31]. (Table 3)

As an immediate policy response to the crisis Ukraine had no choice but to request for the IMF financial support. In December 2008 the IMF approved US$16.5 billion two-year stand-by-arrangement for Ukraine, which was 802 percent of Ukraine's quota and was granted under the Emergency Financing Mechanism [31].

The SBA programme for Ukraine has two key objectives: 1) "to restore financial and macroeconomic stability and thereby facilitate better confidence"; 2) "to facilitate adjustment to potentially large external shocks and allow a gradual reduction of inflation" [30, p. 10]. To achieve those objectives the following measures were defined:

Objective 1: To restore financial and macroeconomic stability

Measures: a) appropriate liquidity support and expansion of deposit guarantees; b) a stronger bank resolution framework, including availability of public funds for recapitalization; c) a stronger framework for resolution of household and enterprise sector debts.

Objective 2: To facilitate adjustment to potentially large external shocks and allow a gradual reduction of inflation

Measures: a) a flexible exchange rate policy, supported by base money targets and an appropriate intervention strategy; b) transition to inflation targeting (as a new nominal anchor); c)

resetting incomes policy in line with targeted inflation, while protecting the most vulnerable; d) maintaining a prudent fiscal stance; and e) bringing energy sector prices more in line with costs.

Table 3 Ukraine: Selected economic and social indicators, 2006-2010 [31]

	2006	2007	2008	2009	2010
Real economy					
Real GDP	7,3	7,9	2,1	-14	2,7
Unemployment rate	6,8	6,4	6,4	10,7	10
Consumer prices (period average)	9,1	12,8	25,2	16,3	10,3
Real monthly wages (average)	18,4	15	6,8	-11	-1,2
Public finance					
General government balance	-1,4	-2	-3,2	-6	-3
Public debt (end of period)	15,7	12,9	19,9	35,4	38,6
Of which: external debt(foreign currency denominated)	12,5	10,1	15	25	23,8
Balance of payments (percent of GDP)					
Current account balance	-1,5	-3,7	-7,2	0,6	0,1
Foreign direct investment (end of period, billions of U.S. dollars)	5,3	6,4	5,5	3,4	3,8
Share of metals in merchandise exports (percent)	42,2	41,7	40,8	35,3	34,5
Net imports of energy (billions of U.S. dollars)	8,1	11,5	16,7	11,5	16,1
Goods terms of trade (percent change)	-0,3	9	8	-13,6	-2,1
Goods and services terms of trade (percent change)	1,5	7,4	8,8	-9,1	2,2
Exchange rate					
Exchange rate regime	de facto peg		managed float		
Hryvnia per U.S. dollar, end of period	5,1	5,1	7,7	…	…

Along with the IMF SBA, the Cabinet of Ministers of Ukraine launched a domestic anti-crisis Action plan **"Overcoming the global financial and economic crisis impact and consistent development"** on December 25, 2008. The main objective of the Action plan was defined as "to lessen negative impact of the global financial crisis on the Ukrainian economy, contain further spread of the crisis, hindering of economic development, and worsening of the people's quality of life, and overcome negative consequences of the crisis" [32, p.5]. Major priorities of the Programme include: 1) to achieve macroeconomic stability; 2) not to allow for worsening of the people's quality of life; 3) to facilitate entrepreneurship development; 4) to promote investment activity; 5) to support real sector of the economy [32, p.5-7].

Despite a number of commitments Ukraine had taken, far from all of them were realized. The National Bank of Ukraine let hryvna to float in the end of 2008, what had a stabilizing effect on current account deficit but decreased real wages substantially (Table 3). A large bank stabilization programme was launched. Many banks were recapitalized (Rodovidbank, Ukrgazbank, bank "Kyiv", Prominvestbank,) and deposit insurance coverage was increased from UAH 50,000 to UAH 150,000, which had to cover 99% of individual accounts [31].

At the same time, many structural reforms Ukraine was supposed to do are still put on hold mostly because they are very unpopular among people. First of all, it is necessity to increase gas and heating tariffs for households, what is the priority measure for rebalancing NAK Naftogaz financial structure. The tariffs were supposed to be gradually increased and reach the level of gas import price by mid 2011. However, the National Electricity Regulatory Commission of Ukraine had so far increased the tariffs only by 35% in October 2008 [33]. Further gas price increases for households were cancelled [34] mostly due to upcoming Presidential elections in Ukraine scheduled for January-February 2010.

Additionally, commitments to provide tax and pension reforms with aim to cut budget deficit, were also not fulfilled. The Law on social standards signed by former President of Ukraine Victor Yuschenko in October 2009 and intention to approve an expansionary budget were harshly criticized by the IMF. Consequently, in October 2009 the IMF delayed the next tranche to Ukraine. As IMF Mission Chief to Ukraine Ceyla Pazarbasioglu said at that time:

"For any economic program to be successful, there must be a minimum level of consensus… When the economic program was designed a year ago, there was a broad consensus in Ukraine… but the pressure of events and political developments means that consensus is now much harder to achieve" [35].

Now the new President and the new Government are showing their readiness and intention to resume cooperation with the IMF. This is quite understandable since without the IMF funds it will be very hard for the Ukrainian economy to recover soon. Negotiations are being held at the moment and the IMF seems to be inclined to provide the next tranche under condition of further reforms implementation. So, now everything depends on whether new Ukrainian officials stop continuing doing populist promises and improve their discipline in terms of commitments fulfillment or not. As there is no much choice the first option seems more feasible.

Lessons for Ukraine: the only key to success is coherent and consistent reforms

While the financial crisis is global in its nature and very few countries in the world managed to avoid dramatic economic losses, the range in severity of the crisis impact on national economies points out on the presence of much deeper economic problems in the economies that suffered the most. This is especially relevant for Ukraine, which economy has been staying virtually unreformed for more than a decade.

It is often said that crisis may be regarded as both a loss and an opportunity as it gives new impetus for rethinking of the current state of affairs and drawing lessons for the future.

The analysis of successes and failures in policy responses to the financial crisis in the CEE countries at global, EU and domestic levels allows drawing the following lessons for Ukraine:

Lesson 1: Key causes of the crisis are deeply rooted in structurally unreformed Ukrainian economy and lack of timely and proper policy responses to major economic challenges.

There have been a plenty of papers written on key priorities for reforming the Ukrainian economy. The most recent is the World Bank staff paper "Making Ukraine Stronger Post- Crisis" [36]. The policy paper summary identifies three main challenges that stand out as high priority for Ukraine:

- stabilization of public financing through fiscal reforms;
- stimulation of private investment by upgrading technologically, rebalancing the excessively commodity-driven sources for growth, and deregulating Ukraine's economy and fostering competition;
- restructuring of the financial sector through reconsidering of the past legislation and strengthening regulation and transparency to regain trust.

The main problem here is whether the new Government will finally find the political will for those reforms or it will limit itself only to extinguishing the fire and solving the short-term problems.

Lesson 2: EU membership proved to be both a good benchmark for successful reforms implementation and a source of an added value in terms of efforts coordination in times of the crisis.

Economic and political integration with the EU is seen as one of the mitigating factors in the CEE region during the crisis. First of all, as the Polish case has shown, using EU practices and implementing EU standards on timely and proper manner can help avoiding significant

losses. Second, EU financial support, although not too large, still presents an additional source for fostering the post-crisis recovery. Therefore, it is crucially important for Ukraine to go on with its European course, use EU best practices to the maximum, implement EU standards and thus speed up its EU integration perspectives.

Lesson 3: The IMF assistance is very important for fostering economic recovery in emerging countries during the crisis.

All CEE countries, which suffered the most during the crisis, have requested the IMF support to deal with the crisis. The IMF's support is crucially important not only in terms of finances but also in getting assistance of its experienced staff and using its well-developed rules and procedures. The SBAs, which are being developed together with the national authorities and take into account national economic situation, enable to set a clear anti-crisis programme with identification of major priorities and policy actions. Therefore, it is vitally important for Ukraine to resume cooperation with the IMF, which will not only bring to the benefits outlined above but will also send a positive message to the international investors implying for restoration of political stability in the country and direct course on reforming process acceleration.

This list of course is not exhaustive, but all in all, there is one principle lesson to be learnt by Ukraine: **only coherent and consistent reforms lead to sustainable economic development and help to maintain macroeconomic and financial stability in the long-run**

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