

# **Comments on Gorodnichenko and Obstfeld**

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1<sup>st</sup> Economic Policy - PEGI Panel meeting

Paris, 4-5 Decembre 2025

# Overall

- Timely and careful
- A wealth of information on Ukraine and Eastern Europe
- Focus on physical and human capital accumulation
- Extensive survey of literature on foreign aid
- Specific theory-based proposals
- Assumptions spelled out

A must-read article

# Does foreign aid work?

- Verdict unclear
  - Lots on conditions for success
    - Causality, Vicious and virtuous circles
- Most conditions involve institutional setup
  - Not Ukraine's forte
- Emphasis on incentives from EU-NATO membership (excellent survey)
  - NATO more than EU
  - Impact precedes membership: credible commitments
    - NATO ruled out? Still meaningful?
    - EU experience not fully encouraging (Hungary, Slovakia, Romania, Czechia?)
    - EU will take a lot of time, with looming thre

# Capital accumulation

- Crucial reminder
- Emphasis on capital inflows, especially FDI
  - Public and private, with cross fertilization
  - So far Europe has sent €130b, 0.6% of annual GDP
  - Estimated needs: €40b per year
- Emphasis on domestic saving due to externalities
  - Important result, but
    - Can you avoid a postwar boom?
    - Should you? What would that do to encourage returnees?
    - Are the externalities big enough to justify raising VAT?

# Ignorant's questions

- Ukraine has been enormously successful at developing new and sophisticated weapons
  - How much physical and human capital?
  - Implications for growth and FDI?
- Corruption
  - Should we be worried about impact of large capital inflows?
- Legacy debts
  - What are possible deals to restructure?
  - Is restructuring a substitute or a complement to inflows?

# Suggestions

- The case for taxes (and subsidies) must be made more convincing
- More emphasis on Ukrainian specificities
  - Industries likely to attract FDIs
  - Financial market ability to absorb large flows
  - Expatriates not returning: what role?
  - Safety outlook for capital inflows and FDI given likely “peace plan”