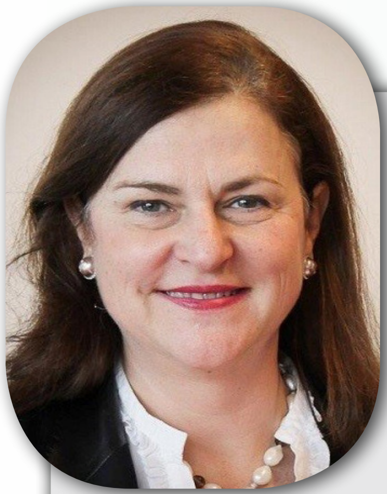

## Katarína **Mathernová**

SLOVAKIA

Katarína Mathernová is Deputy Director General of the Directorate General of Neighbourhood and Enlargement Negotiations of the European Commission. Previously she was Deputy Director General in DG Regional Policy. She has held senior posts at the World Bank and served as Chief Advisor to the Deputy Prime Minister for Economic Affairs of Slovakia, a key architect of the economy's transformation, and worked in private law practice in the US and UK.  Ms. Mathernová is Professor of Practice at Vesalius College in Brussels. She holds a Juris Doctor degree from Comenius University in Bratislava, a Masters of Law degree from the University of Michigan and is a member of the New York Bar. She was awarded Slovak Woman of the Year in 2000 by the Slovak Spectator newspaper. She has authored numerous publications on economic and constitutional affairs, reformology and Ukraine.

*The views expressed are solely those of the author and do not necessarily represent the official views of the European Commission.*



## Ivan **Mikloš**

SLOVAKIA

Ivan Mikloš is a former Deputy Prime Minister and Minister of Finance of the Slovak Republic (2002-2006, 2010-2012) and he also served as Deputy Prime Minister for Economy (1998-2002). Since April 2016, he has been Chief Economic Adviser to the Prime Minister of Ukraine. He is also Chairman of the Strategic Advisory Group for Supporting Ukrainian Reforms (SAGSUR) and President of MESA10, the Slovakian economic think-tank. He was one of the leading figures of economic transformation in the Slovak Republic. He led the government agenda on economic restructuring and fiscal consolidation. In 2004, Ivan Mikloš was awarded the title of 'Best Minister of Finance of the Year' by Euromoney, and 'Top Business Reformer' by the World Bank´s Doing Business report. He is the author of 'Book of Reforms', 'Rewriting the Rule' and dozens of studies and articles in the expert and popular press.

In 1997, during the dark days of Mečiar government, the US Secretary of State, Madeleine Albright, called Slovakia the "black hole of Europe". The country was excluded from the first round of expansion of NATO and the OECD, which brought in the remaining countries of the Visegrad group, Czechia, Hungary and Poland. Slovakia also failed to make it into the first round of accession talks with the European Union, which included the rest of the Visegrad, the three Baltic states, Slovenia, Cyprus and Malta. Less than a quarter of a century later, however, Slovakia is not only a member of these organisations, but is the only Visegrad country in the core of the Eurozone, regularly fulfilling all its membership criteria.

At the time of writing, Slovakia also elected its first female President, a liberal lawyer and environmental advocate who does not shy away from discussions on the protection of minorities, not a usual vote winner in this culturally conservative country. Her road to success was paved by a groundswell of peaceful popular demonstrations against corruption and for the rule of law or, as the young organisers called it: for a "decent" Slovakia.

While the President's powers are limited, she holds a promise of ushering in a new political culture, of instilling more civility, decency and respect into Slovakia's often toxic political discourse. Her focus on the rule of law and the need to eradicate official corruption are clearly welcome by the population that, traumatised by the murder of a journalist and his fiancé a year ago, elected a political novice into the highest official function. How did such a remarkable transformation happen in such a short period of time? How important a role has the promise and, later, reality of EU accession played?

The authors were privileged to be part of this transformation. Ivan as Deputy Prime Minister for Economic affairs and later also Minister of Finance in two successive reform governments of Mikuláš Dzurinda (1998-2006). Katarína as his advisor, while on leave from the World Bank, during Dzurinda's first term. The two authors are currently working together again; Katarina is a senior EU official in charge of the Eastern Partnership countries in the European Commission, and Ivan and his team are EU-supported strategic advisors to the Prime Minister of Ukraine. It is this mix of perspectives that allows us to address the above questions and also draw parallels and distinctions between the convergence path of Slovakia and Ukraine.

Lagging behind Western countries at the end of Communism was, arguably, a key reason why the inefficient system collapsed so quickly and unexpectedly 30 years ago. Having found new freedom, the former Eastern Block countries looked to the European Union not only for inspiration, but acceptance into its ranks. A 2012 World Bank report (The Golden Growth) called the European Union an "engine for convergence" and the former Soviet satellites wanted to partake in it.

The deep reforms that had to be undertaken in these "transition countries" and EU integration are interconnected. Former Communist countries had such profoundly different economic models, and performance, that only rebooting their system through fundamental transformation could allow the EU hopefuls to sustain the "competitive pressures" required by the accession criteria. Reforms across the economies and societies were thus necessary for EU integration, while the prospect of EU accession supported the adoption and implementation of these important reforms. Those countries that carried out deeper and wider reforms not only entered the EU (several also later joined the Eurozone), but also achieved greater economic convergence.

The impact of EU accession on the transition countries was important in at least four ways. First, the EU, by giving a very popular vision of belonging to the club, anchored policy reforms and allowed domestic reform elites to rely on the publics' patience with the hardship they had to endure. Second, by its normative power through the accession process that included "legal approximation" to the acquis communitaire (body of laws and regulation of the EU), it modernised the legal and regulatory regimes of the countries in areas covered by the acquis. Third, by offering financial assistance to equip them for membership. Fourth, and perhaps most significantly, it provided new opportunities to economic agents, by attracting an influx of investment that helped fuel convergence.

Let us demonstrate this with two examples, Slovakia and Ukraine. At the beginning of 1990s, Slovakia's GDP per capita (in PPP) was approximately 30% higher than that of Ukraine, but Poland's was only 7% higher. GDP per capita in Romania was at the same level, while in Latvia, it was slightly lower. By 2017, however, Slovakia's GDP per capita had eclipsed Ukraine's by 371%; Poland's by 339%; Latvia's by 316%; and Romania's by 281%. How did this happen? How could a country with a great potential, even considered the most promising among the former Soviet republics, fall so behind?

The authors believe it was the result of a chronic lack of reforms in Ukraine under successive governments since the collapse of the Soviet Union, combined with a lack of any clear prospect of EU membership. Compared to the European Enlargement Policy, the normative reach of the European Neighbourhood Policy (relevant for Ukraine), including its tools such as the Association Agreements, vis-a-vis its Eastern, equally ex-Communist, partners is much loser. The lack of a realistic prospect for EU accession fails to provide powerful incentives for the ruling elites to part with their oligarchic and corrupt ways.

As part of Czechoslovakia in early 1990s, Slovakia underwent a difficult but successful first stage of a comprehensive transition program, the proverbial "big bang" based on the "Washington consensus". Czechoslovakia ceased to exist at the end of 1992 and from 1 January 1993, Slovakia became an independent country. Ukraine achieved independence from the Soviet Union a year earlier. Slovakia thus reached independence after having undergone the first phase of transition, while Ukraine did not, as reflected in their different macroeconomic environment. For example, while Slovakia never experienced very high or hyperinflation (the highest level was 56,6% in 1991), Ukraine suffered from hyperinflation (10 000% in 1993); it was brought under control only in 1995 when it was still 182%.

Slovakia's first five years of independence (1993 – 1998) under prime minister Vladimir Mečiar, was marred by a lack of reforms and foreign investment, tunnelling of state assets, irresponsible fiscal policy, political and economic isolation, misuse of power against independent institutions, opposition and NGOs. In 1998, Slovak society mobilised, fragmented opposition parties unified, and nine parties created the first Dzurinda government. (Second Dzurinda government, consisting of four center right parties, continued in power after 2002 elections and even accelerated both reforms and the EU accession process.)

To overcome the legacy of Mečiar's era economic mismanagement and to join its neighbours in the integration processes, was a tall order. The divergence and conflicts among the coalition parties (ranging from ex-communists, socialists, liberals, conservatives, greens, to a Hungarian minority party) made the reform process politically extremely challenging. The ex-communists' party, the second largest in the coalition, was initially against many necessary reforms. It took tremendous effort and the skilful leadership of Dzurinda to persuade the party to support reform legislation. But there is no question that catching up with the rest of Visegrad in the prospect of EU accession was the decisive anchor that helped to overcome their recalcitrance.

While the first Dzurinda government overcame Mečiar's legacy in both political and economic terms and caught up with the EU integration path, it was the reforms under his second mandate that resulted in Slovakia's convergence jump. Thanks to a broad reform package that included fiscal decentralisation, public finance reform, tax, extrajudicial contract enforcement, pension, social system, labour market and health care reforms, Slovakia significantly improved all economic figures and the GDP per capita rose from 57% to 73% of the EU average in just four years

(2004-2008). When Czechoslovakia split up in 1993, Slovakia had only 62% of the Czech GDP per capita level. In 2004, this had risen to 73% and between 2004-2008 it jumped to 90%. In 2012 it stood at 94%. The 2005 Doing Business Report of the World Bank even ranked Slovakia as the top reformer and Forbes magazine referred to Slovakia as a "tiger" of Central Europe.

Let us look at Ukraine. After the 2014 Revolution of Dignity (Euromaidan), Ukraine was in a desperate situation. The country was in the firm grip of oligarchs who were not only siphoning state assets and corrupting the economy, but also manoeuvring the political system to their advantage. The economic system was full of accumulated misbalances. The lack of reforms over the previous 20 years resulted in a woefully underperforming economy. Moreover, as the incoming reform-oriented government came into power, Ukraine had to face a military aggression and a trade and economic war from Russia, Ukraine's then-largest trade partner. In certain areas, the economic situation in Ukraine resembled Slovakia at the end of Mečiar's era, but the problems were much bigger and deeply rooted. Ukraine also had the additional burden of having to fight a war and spending more than 5 percent per annum on defence.

Ukraine's leadership decided to undertake the only plausible strategy – speeding up its EU integration process, while reforming its economy and society. The new government signed the Association Agreement, thus honouring a key demand of Euromaidan. Also ironically, while the Russian aggression has been very costly and painful for Ukraine, both politically and economically, it solved an important reason for the previous lack of reforms: the geopolitical ambiguity and multi-vector balancing game between the EU and Russia, played by all previous leaderships. There is no longer a dilemma, Ukraine has committed to a European path, with no option to turn the clock back.

Now, five years after Euromaidan, for the first time in modern Ukrainian history, the country is being transformed from the dysfunctional and corrupt oligarchic system to a functioning market economy. While many reforms have been undertaken across a broad spectrum of areas, only the future will show if these are irreversible. The biggest progress has been achieved in macroeconomic stabilization, deregulation, improvement of the business environment, decentralisation, and trade reorientation from Russia to the EU and some Asian markets. Ukraine successfully closed a number of opportunities for corruption (Chatham House estimates related savings at 6% of GDP), through deregulation, banking sector reform, cleaning up the gas monopoly, overhauling of public procurement, tax administration reform, and introduction of a floating exchange rate. Where Ukraine has been much weaker and where one can witness already some reform reversals is in the area of the rule of law and making functional law enforcement institutions able to investigate, prosecute and punish economic crimes.

The combination of an extremely difficult legacy and the lack of greater prospects for EU integration are some of the key reasons for Ukraine's relative underperformance compared to other former communist countries that joined the EU in 2004. At the same time, it is not coincidental that since the signing of the Association Agreement and getting both pressure and support from the EU, Ukraine has carried out more reforms than in the previous two decades. Having chosen the European path, Ukraine deserves EU support. At the same time it needs to continue reforming and, importantly, avoid reform reversals.

The transformation of Ukraine into a fully modern economy and society is not a sprint but marathon. And, as our experience shows, it will require both further reforms and the prospect of a deeper integration with the EU to get there.