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DOI: https://doi.org/10.36059/978-966-397-335-7-28

INSTRUMENTS OF UKRAINE'S FINANCIAL STABILITY IN WARTIME CONDITIONS

During periods of war, maintaining financial stability becomes crucial for the economy of an engaged country. Currently, the economy of Ukraine, along with its financial system, is undergoing a process of transformation and adjustment in response to the conditions of war. This study examines the financial stability instruments available in Ukraine as of autumn 2023, including monetary and credit policy, tax policy, budget policy, and public debt. It aims to identify the main obstacles and prospects for maintaining economic stability during war, as Ukraine's economy and financial system are undergoing transformation and adjustment.

1. Monetary-credit policy. The National Bank of Ukraine (NBU) is implementing measures to maintain financial stability and regulate the financial sector, even during wartime. In September 2023, inflation dropped significantly to 7.1%, compared to 8.6% in August [1]. Consumer inflation remains below the «pre-war» level for 9 consecutive months, and core inflation also slows down to 8.4% [1]. Inflation is decreasing due to increased agricultural yields, stable exchange rates, and a decrease in wartime infrastructure devastation. However, inflation may increase due to slowed price rise in non-food categories. The NBU predicts inflation to slow down with a forecast to 5.8% for the end of 2023 instead of 10.6%. But at the same time the NBU raised its inflation forecast for 2024 – from 8.5% to 9.8% [1].

In September the NBU ***lowered the discount rate from 22% to 20%*** [2]. Additionally, the NBU lowered overnight deposit certificates to 16%

and refinancing loans to 22%. The share of term deposit balances of individuals was also reduced. This step encourages banks to compete for deposits and boost economic recovery. Assuming inflation dynamics, the NBU lowers the discount rate to support economic recovery without threatening macro-financial stability. Reduced deposit rates and NBU inflation control are projected to boost the hryvnia's appeal and help move to a flexible rate.

International reserves of Ukraine for September 2023 amounted to 39.7 billion USD. [3], mainly through NBU interventions and reimbursement of public debt. The net sale of the NBU currency amounted to USD 2,691 million, while revenues from international partners increased. The total level of international reserves is enough to finance 5.3 months of future imports. The new ***financial sector development strategy*** [4] adopted by regulators focuses on macroeconomic and financial stability, financial services modernization and institutional efficiency. The ***easing of restrictions on the foreign exchange*** market continues [5], aimed at reducing the difference between cash and the official rate, supporting non-cash operations of the population. The work of the educational site «Harazd (url. «well»)» has begun [6]. Ukrainian construction and investment bank declared insolvent, information about which has a limited impact on the stability of the banking sector.

2. Tax and customs policy. Citizens and businesses continue to pay taxes, contributing to Ukraine's economy. State budget general fund received UAH 1130.8 billion in three quarters of 2023. The primary sources of revenue are VAT (336.4 billion UAH), PIT and military tax (109.9 billion), Income tax (101.9 billion), excise tax (69.0 billion), rent (39.4 billion), and customs (19.6 billion). The State Tax Service generated 102.4% revenue and the State Customs Service 97.9%. The state budget received UAH 1655.5 billion in 8 months of 2023, CSC totaled 301.8 billion UAH.

The Ukrainian Verkhovna Rada passed several legislative measures to ***simplify military equipment customs declaration*** and ***minimise double taxation***. In particular, the Armed Forces of Ukraine, EU, and NATO militaries must now declare military equipment during cross-border movements. After suspending intergovernmental agreements on double taxation with Iran and Syria, Ukraine can avoid replenishing their budgets and maintain tax stability. The ruling also considers the reluctance of Iran and Syria residents operating in Ukraine to pay preferential taxes. Such measures promote financial transparency and fiscal stability.

Among other improvements, the Ministry of Finance and the State Tax Service of Ukraine confirmed technological preparation for the ***first international automatic tax information exchanges*** using CRS and CbCR standards. The software was created under the EU Programme for the Support of Public Finance Management in Ukraine (EU4PFM), with the first data exchange expected for 2024. This will boost tax control efficiency and Ukraine's international tax credibility.

3. Budget policy. For October 2023, the state budget received UAH 2206.2 billion and spent UAH 3115.9 billion. This state budget deficit was 9027.0 billion UAH [7]. Budget funds were primarily allocated to social benefits, including pensions, protection of citizens who fell into difficult life circumstances due to military actions (including subventions for IDPs under the Emergency Credit Programme), support for low-income families, benefits and housing subsidies, and support for combatant and disabled families [8]. Health care received 93% of the plan, including 90.2 billion UAH (95% of the plan) for medical guarantees [9]. Work continues to strengthen transparency in the budget process, in particular in terms of the publication of budget requests for 2024–2026.

The government has submitted a draft law for changes to the state budget in 2023, aiming to finance the security and defense sector. The increase in revenues and expenditures amounts to UAH 328.51 billion, with UAH 302.64 billion allocated to national security and defense. The changes aim to optimize expenditure implementation under martial law and improve budget program formation methods. Measures are launched to support restoration, infrastructure, emergency events, regional projects, military engineering structures, electricity support, volunteer assistance, and drinking water transportation.

4. Public debt. The Ukrainian Ministry of Finance received over $30 billion in 2023. The main donors are the European Union, the United States, the IMF, Canada and Japan. Despite russian aggression, Ukraine maintains debt sustainability by attracting external grants and loans: 1) the 7th tranche of 1.5 billion EUR as part of a large-scale EU macro-financial assistance program; 2) 4.3 billion USD within the World Bank Project «PEACE in Ukraine» for reimbursement of priority expenses; 3) new government bonds issued by the Ministry of Finance in the amount of UAH 3.5 billion at a yield rate of 18.31%, which contributes to the financing of de-occupied territories through the Diia application.

Considerable attention was also paid to the search for ***external sources of investment in the post-war restoration*** of Ukraine. To this end, the Ministry of Finance signed a number of agreements: Agreement with the BRCE for joint projects in social sectors (healthcare, utilities and education), agreement on the Ukraine Facility program with the Italian government, amendments to the Loan Agreement with the EBRD, Agreement with the World Bank on the Housing Repair for People's Empowerment project (HOPE), «as well as with the European Investment Bank, are focused on the restoration and development of the country.

Conclusions. The Ukrainian economy faces significant challenges due to russia's military aggression, posing financial security concerns. To ensure stability, a methodical approach is being adopted, aligning financial instruments with contemporary standards. This enhances the financial sector's resilience and promotes efficient economy operation amidst domestic and international issues.

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