FINANCIAL POTENTIAL OF UKRAINE UNDER MARTIAL LAW: THE CURRENT STATE AND PROSPECTS OF DEVELOPMENT

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Recently, considerable attention has been paid to the issues of post-war reconstruction of Ukraine, including sources of resources that can be involved in this process. According to national and international expert institutes, the losses of GDP of Ukraine in 2022 because of military aggression of the Russian Federation can range from 30% to 50%. In the absolute figures in the prices of 2021, it will correspond to 1,6-2,7 trillion hryvnias ($ 56-92 billion) of «unprocessed» products during the year. In addition, material losses due to large -scale destruction of infrastructure and civilian objects are estimated from $ 500 to $ 1000 billion. The restoration of Ukraine’s GDP in pre -crisis level will require the involvement of international financing of funds for reconstruction of the Ukrainian economy and activation of fiscal and monetary tools in order to restore investment processes in Ukraine [4; 5; 9]. According to different experts, the total financial potential that will be needed to restore the Ukrainian economy will be about $ 1 trillion.

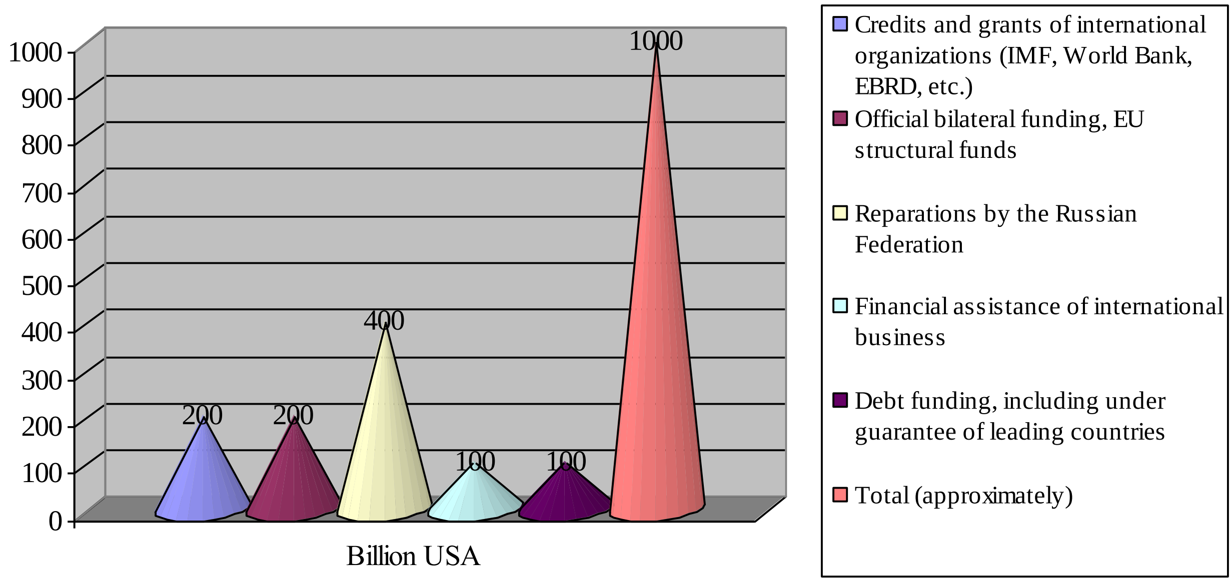

Fig. 1. Indicative structure of sources of financing of economic reconstruction of Ukraine [1-6; 9]

Recently, the liquidity of the banking system (deposit certificates and correspondent accounts) has reached record values since the beginning of military aggression of the Russian Federation and amounted to UAH 227 billion, including: in NBU certificates - UAH 170,1 billion; in the NBU correspondent accounts - UAH 56,7 billion. Another 50 billion UAH of bank liquidity is in the form of cash at banks [9-11].

The growth of bank liquidity of the last week is almost completely explained by increasing government expenditures by debt financing, which led to an increase in money supply in the economy by UAH 23 billion, of which about UAH 10 billion was replenished monetary operations (repayment of long -term refinancing loans, etc.).

Current liquidity figures are record for the banking system throughout the economic history of Ukraine. Total liquidity exceeds liquidity standards (UAH 55 billion) by four times. The ratio of banks «liquidity to banks» liquid liabilities in April returned to the pre-crisis level - 15%. The high liquidity of the banking system is observed against the background of low levels of economy monetization (less than 40% of GDP) [8-10].

Along with the overall liquidity, structural liquidity surplus (deposit certificates minus refinancing loans), which reached UAH 45 billion (record value since the war), is also increasing. The presence of structural surplus means that the banking system as a whole does not require additional funding. Excessive liquidity generates passive net income of banks (interest income on NBU deposit certificates interest expenses on NBU refinancing loans) [12; 14; 15].

Prolonged structural surplus interferes with an adequate interest rate transmission, as it leads to deposit rates of deposit rates, an expansion of the banking system margin. The structural surplus of liquidity of the banking system of Ukraine has been observed for the fourth consecutive year. Last year, it averaged 65 billion UAH, in the last year - UAH 110 billion. In April this year, average interest rates on term deposits of the population decreased by another 75 b.p., which is almost twice the inflation. Because of the interest rates between new loans and deposits increased to a record 8 b.p. [9-11]

In addition, the profit of the banking system for the flowing year is at the historically highest level (over UAH 90 billion as of February 2022). Therefore, the national banking system, which is part of the country’s overall financial potential, even in the current conditions of martial law, has a sufficient strength resource to strengthen its intermediary functions and expand credit, financial support for the economy - a critically important source of coating business financing problems [1-3].

Financing / lending will also increase banks’ demand for funding resources that will reduce bank interest margins and reduce excess liquidity surplus. Of course, military risks are critically exacerbated by guarantees and collateral on loans.

The government has already intensified and expanded state credit support programs for business entities, which has been positively reflected in the dynamics of lending. However, budget resources are limited. The Central Bank, for its part, can stimulate the credit process by implementing preferential targeted refinancing of bank loans and/or softening the requirements of financial regulation of credit activities, including the requirements for collateral. Such tools and options are used in the world practice of central banks. Practical cases can be borrowed from the experience of EU, UK, USA, Hungary, Georgia. Supporting monetary economic relations will strengthen the links between the financial and real sectors of the economy, which will have a positive impact on the process of transformation of national savings into potential investments [6-11].

The new monetary policy of the National Bank of Ukraine will also contribute to this process. Recently, the NBU Council approved «Basic Principles of Monetary Policy for the Martial Status». It is a fundamentally important document that opens not only the new opportunities for the implementation of appropriate NBU measures, but also creates the conditions for the formation of appropriate conditions for post-war reconstruction.

The Council stressed that in the conditions of war it is extremely important to ensure the reliable and stable functioning of the country's banking and financial system, as well as to maximize the needs of Ukraine's defense, the uninterrupted functioning of the public finance system and critical infrastructure [2-8].

Reducing the effectiveness of market tools makes it impossible to carry out monetary policy in inflation targeting with a floating exchange rate. The effectiveness of monetary transmission channels is further weakened by administrative restrictions on the foreign exchange market and restrictions on capital movement. In such circumstances, the National Bank may not temporarily use market monetary tools, including a key (accounting) rate as a major tool for monetary (monetary) policy.

The high uncertainty caused by war also complicates the forecasting of economic processes with an acceptable probability. Therefore, the National Bank can temporarily refrain from publishing its own macroeconomic forecasts. The National Bank is already flexible adaptation of the operational design of monetary (monetary) policy and takes the necessary anti-crisis measures to maintain the proper liquidity of the banking system (including, if necessary, partly through mechanisms of form refinancing) and increased flexibility of banks in management [9-15].

The Council noted that in order to ensure the proper repelling armed aggression of Russia and the uninterrupted functioning of the public finance system in martial law; the National Bank may support the state budget through the purchase. The expediency and volume of operations for financing the state budget will be determined by separate decisions of the National Bank, given the situation in the financial markets and in public finances, in particular, taking into account the possibility of filling the state budget from other sources. Aware of the potential risks of monetization of the state budget deficit, the National Bank will only finance the government's critical expenditures in limited volumes and only through the purchase of government securities in the primary market.

The National Bank will also maintain the maximum transparency in the coverage of such operations. The set of such measures, namely limiting the volume of budget deficit monetization and transparent communication, will protect from the threat of increased fiscal dominance, retain confidence in monetary policy and will not complicate cooperation with international financial organizations [4-7].

At the same time, the National Bank will strive for the fastest complete refusal of financing the state budget deficit, taking into account the need to ensure the optimal balance between, on the one hand, the maintenance under the control and critical infrastructure. The Council stressed that the National Bank will continue to proceed from the need to preserve its own institutional, financial and operational independence for the proper performance of its functions [9-11].

The National Bank will avoid measures and tools as possible, the use of which will reduce confidence in monetary (monetary) policy, unbalance of expectations and strengthening fiscal dominance. The National Bank will maintain close cooperation with the government to promote the necessary external funding from international organizations and partner countries. The National Bank, together with the Government, will make every effort to fulfill the goals, criteria and measures to reform the economy and the financial system provided for in cooperation with the IMF, other international financial institutions and EU institutions [6-8].

The basic principles will be temporarily applied during the legal regime of martial law, and, if necessary, sometime after its completion until the normalization of the functioning of the economy and the financial system. Thus, all this reaffirms the readiness of all state structures of Ukraine for both effective financial defense and offensive actions to restore our country's economy.

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