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MODERN RESEARCH IN SCIENCE AND EDUCATION

PROCEEDINGS OF II INTERNATIONAL SCIENTIFIC AND PRACTICAL CONFERENCE
OCTOBER 12-14, 2023

CHICAGO
2023

MODERN RESEARCH IN SCIENCE AND EDUCATION

Proceedings of II International Scientific and Practical Conference

Chicago, USA

12-14 October 2023

Chicago, USA

2023

UDC 001.1

The 2nd International scientific and practical conference “Modern research in science and education” (October 12-14, 2023) BoScience Publisher, Chicago, USA. 2023. 498 p.

ISBN 978-1-73981-123-5

The recommended citation for this publication is:

Ivanov I. Analysis of the phaunistic composition of Ukraine // Modern research in science and education. Proceedings of the 2nd International scientific and practical conference. BoScience Publisher. Chicago, USA. 2023. Pp. 21-27. URL: https://sci-conf.com.ua/ii-mizhnarodna-naukovo-praktichna-konferentsiya-modern-research-in-science-and-education-12-14-10-2023-chikago-ssha-arhiv/.

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ECONOMIC SCIENCES

UDC 338.1

FINANCIAL AND ECONOMIC DISSONANCES OF THE CONSEQUENCES OF THE WAR IN UKRAINE

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Summary: The article presents the financial and economic dissonances of the consequences of the war for Ukraine, which consist in the fact that despite the acceleration of inflation, the increase in the value of money, the deterioration of credit quality and the reduction of incentives for long-term storage of money in government accounts, the stability of the economy is maintained. Radical changes in the structure of the national budget due to a significant increase in defense spending and the planned deficit affected the financial system, but the correct application of macroeconomic tools quickly overcame the negative reaction.

Key words: economy, financial system, budget, inflation, exchange rate.

The reaction of the Ukrainian state to the existential challenges of 2022-2023 required a sharp increase in state expenditures and a change in their structure. That is why in 2022 the absolute amount of defense expenditures increased 9 times, and the real amount - 7 times compared to 2021. Under such conditions, the budget deficit inevitably increased: in 2022, the State budget deficit amounted to UAH 914.7 billion or 17.6% of GDP, and in January-May 2023 UAH 341.9 billion or 14.6% of GDP [1].

Budgetary needs form the toolset of the financial system, because the state budget prioritizes spending on the army, social support and reliance on Western partners, and the issue of introducing innovations and making investments in the field of financial infrastructure is postponed until better times. Of course, war requires huge financial resources and planning a “budget for victory” is a priority. Monetary financing of the budget deficit in 2022 did not significantly affect the acceleration of inflation rates, since the expansion of the hryvnia supply was sterilized by the NBU's currency interventions at the expense of international reserves. In 2023, monetary financing was not used.

The key source of financing budgetary needs is international aid, which comes in the form of both grants and loans: more than USA 32 billion were received in 2022 and USA 18.5 billion in the current year [2].

At the beginning of the war, the NBU was forced to fix the official exchange rate and implement strict currency restrictions due to objective reasons. Such decisions helped to prevent panic and ensure the stable operation of the financial system, and also contributed to the adaptation of business and the population to the conditions of a full-scale war. But such conditions were temporary due to the influx of foreign currency, in particular, in the form of international aid, and at the same time, the opposite of the situation with the restriction of export operations and the decrease of foreign investments made it impossible to further fix the exchange rate. Therefore, in July 2023, the NBU decided to gradually move to a floating exchange rate, published the Strategy for easing currency restrictions, transitioning to greater exchange rate flexibility, and returning to inflation targeting [3]. The strategy envisages achieving the goal in three stages: stabilization measures today, proving the pre-war indicators of the currency market and creating conditions for the implementation of new projects and investment for residents and non-residents.

The imbalance of the financial market began in June 2022 due to the increase of the discount rate (25%), which is the minimum price of money in the economy. It began to exceed the interest rates on the government bond market and on the deposit market of Ukraine many times over. In January-May 2023, the discount rate was still twice the rate for hryvnia deposits of individuals. Thus, the discount rate of the central bank in Ukraine has been several times higher than the market rate for deposits for more than a year. This situation is anomalous and indicates both the extremely high level of the NBU discount rate and the weakness of the transmission mechanism of monetary policy and the segmentation of various segments of the financial market.

However, in the future, the NBU discount rate will continue to play the role of an auxiliary tool used to maintain the sufficient attractiveness of hryvnia assets as a guarantee of exchange rate stability. This is important for limiting demand on the foreign exchange market, which in turn will make it possible to maintain exchange rate stability and ensure a further decrease in inflation.

Inflation as a negative phenomenon has always been the most acute problem, it is a serious factor that affects the business sector and investments. When the inflation rate increases, the cost of goods and services also increases, which can lead to a decrease in demand, which further leads to a decrease in the profits of companies, their market value, etc. That is, it is a chain of reactions that can have very negative consequences if the methods of its containment are not applied in time. Inflation in 2022 has become the main economic problem not only of Ukraine, but also of the whole world. Due to disruption of raw material supply channels from Ukraine to other countries, consumer inflation reached its peak in autumn 2022. In Ukraine, the government made maximum efforts to stabilize inflation in 2023, forecast indicators have acceptable values, measures to achieve them have solid grounds, including slowing down due to a gradual decrease in world inflation and tight monetary conditions in the country.

In conditions of insufficient tax revenues to finance the budget, the government provides additional funds by placing government bonds. For January-May 2023, UAH 246.5 billion was raised to the state budget from the sale of government bonds. Of this amount, UAH 166.2 billion provided income from the placement of hryvnia state bonds, and UAH 80.3 billion – foreign currency state bonds. Such indicators indicate a certain stabilization of the market in terms of investor demand. But behind the facade of favorable trends in the dynamics of government borrowing and the volume of government bond placements, negative processes took place: 1) a significant increase in the nominal and real yield rates of government bonds under the influence of the NBU's high discount rate, which rapidly increased debt service expenses from the warring country's budget; 2) a decrease in the demand for government bonds from banks as a result of the functioning of the competitive market of deposit certificates of the NBU, which offered banks a more attractive level of profitability [1].

The banking sector, despite significant systemic geopolitical, demographic and macroeconomic shocks, survived thanks to the reduction of internal vulnerability to risks and timely anti-crisis measures during the military operations. But there was a reduction in the network of bank branches, an increase in bank assets due to the forced emission of hryvnias by the NBU to ensure coverage of new budgetary needs for military and social expenditures, problems of financial inclusion due to the relaxation of requirements for submitting financial statements. The heart of the banking sector's existence is money, which shows the absence of a financial incentive for long-term storage of funds on deposits. Despite the general stabilization and adjustment to new conditions of existence and business, there is an excess of demand deposits over time deposits. This, in turn, limits the creation of new credit resources by banks, despite the fact that due to the deterioration of payment discipline, the funds raised by banks cannot be directed to lending. The conditions of the war reduced the demand of businesses and the population for loans, which are not ready to pay high interest rates. Credit activity is observed only in lending to the agricultural sector by state banks, in particular through the mechanism of the budget support program “Affordable loans 5-7-9%” and preferential loans from the state (a third of all balances under corporate loans of banks in national currency).

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