

# FINANCE AND MONEY TURNOVER

UDC 336.7

DOI <https://doi.org/10.26661/2414-0287-2022-3-55-16>

## FUNCTIONING OF THE FINANCIAL MARKET IN THE CONDITIONS OF WAR AND ITS FURTHER DEVELOPMENT

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**Key words:**

financial market, functioning of the financial market, development of the financial sector, budget, post-war reconstruction of the market, war.

The article determined that during the war, the financial sector of Ukraine faced difficulties in its normal functioning and there was a need to study the financial market and the need to reform it. The conditions and rules under which the financial market began to work since the beginning of the war are considered. A list of restrictions imposed on the financial sector was established, namely the withdrawal of cash from current accounts and the suspension of the currency market. Considered how the country's budget has changed. The factors that allowed the state to provide financing for all needs were identified. The dynamics of the dollar exchange rate and its impact on the environment were studied. It has been proven that with the help of coordinated work and timely adopted rules, it is possible to restore the state of the financial market. It was found that the stability of the economy can only be achieved through joint efforts, in particular with the help of partners, adjustment of logistics, technological processes and measures recommended by the National Bank of Ukraine.

## ФУНКЦІОНУВАННЯ ФІНАНСОВОГО РИНКУ В УМОВАХ ВІЙНИ ТА ПОДАЛЬШИЙ ЙОГО РОЗВИТОК

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фінансовий ринок, функціонування фінансового ринку, розвиток фінансового сектору, бюджет, післявоєнна відбудова ринку, війна

В статті визначено, що у воєнних умовах фінансовий сектор України зіткнувся з труднощами щодо його нормального функціонування та постала потреба у дослідженні фінансового ринку та необхідності його реформувати. Розглянуто умови та правила в яких почав працювати фінансовий ринок з початку війни. Встановлено перелік обмежень, які накладались на фінансовий сектор, а саме зняття готівкових коштів з розрахункових рахунків та призупинення діяльності валютного ринку. Розглянуто як змінився бюджет країни. Визначено фактори, які дозволили державі забезпечити фінансування по всім потребам. Досліджено динаміку зміни курсу долара та його вплив на середовище. Доведено, що за допомогою злагодженої роботи та вчасно прийнятих правил, можливо відновити стан фінансового ринку. З'ясовано, що дійти до стабільності економіки можна лише спільними зусиллями, зокрема за допомогою партнерів, налагодження логістики, технологічних процесів та заходів, які рекомендовані Національним банком України.

**Formulation of the problem**

The financial market is a special and necessary environment for the efficient functioning of the economy. A well-formed system of state regulation of the financial market provides favorable conditions for stable development and effective functioning of all segments of financial processes. The financial market works effectively with the successful development of the economy, low rates

of inflation, a stable legislative and regulatory framework, a favorable political situation and a certain balance of interests of the population.

In recent years, the financial market of Ukraine has undergone significant changes, initially associated with the introduction of quarantine due to the spread of the corona virus infection COVID-19, and then the most terrible thing happened – war. The very first changes since the

introduction of martial law affected the financial market, as the most important link of the economy. As a result, it is important to study the new realities of market functioning and its post-war development. The fact that this problem is the subject of general attention and determines the high relevance of the topic.

**Analysis of recent research and publications**

Due to the fact that this topic has recently become widespread, it is already being studied by many analysts and scientists and analyzed on the official websites of the National Bank of Ukraine [1; 2] and the Ministry of Finance of Ukraine [3]. This topic was also studied by Didenko Serhii [4], who made a significant contribution to the consideration of the financial sector during the war. Since the financial market is important for the economy in general, it was also monitored by various information portals: one of them is Vox Ukraine [5].

**Formation of the objectives of the article**

The purpose of the article is to study the functioning of the financial market during the war and the further post-war path of the financial sector.

**Presentation of the main material of the research**

At the beginning of the introduction of martial law in Ukraine, the National Bank of Ukraine adopted Resolution “On the operation of the banking system during the introduction of martial law” № 18 of February 24, 2022 [1]. After the approval of this document, a new order of activity of the financial system under new conditions began (Table 1).

The above-mentioned conditions were introduced in order to ensure the uninterrupted and reliable functioning of the financial system of Ukraine and critical infrastructure objects in the new realities, as well as to strengthen the protection of the financial sector and the economy, to prevent panic on the financial market.

The budget of Ukraine has also changed beyond recognition. Since the beginning of the war, the government has allowed businesses to switch to a simplified taxation

system. Under the general system, companies were able to pay a tax of 2 % of turnover instead of 20 % VAT and 18 % income tax. This significantly improved business life, but state budget revenues significantly decreased. Due to the conditions of limited resources, the state is careful about spending, and therefore all free funds are directed to defense. Budget financing is provided at the expense of the active work of the domestic economy, with the support of international organizations, state authorities and the population of Ukraine (see Fig. 1).

In addition to the fact that part of the funds go to finance the army, the funds are also spent on pensions, salaries, social benefits, the provision of critical infrastructure and the servicing of the national debt. Despite all the troubles and the lack of budget funds, the state provides assistance to everyone who needs it: a program for the relocation of Ukrainian productions has been launched, i. e. enterprises planning to move to safe places will be provided with assistance in selecting locations for their production facilities, transportation and resettlement of personnel, etc. [6]. It is also possible to receive a grant from the state for the development of one’s own business as part of the “IS a JOB” project, and financial assistance is also provided to temporarily displaced persons.

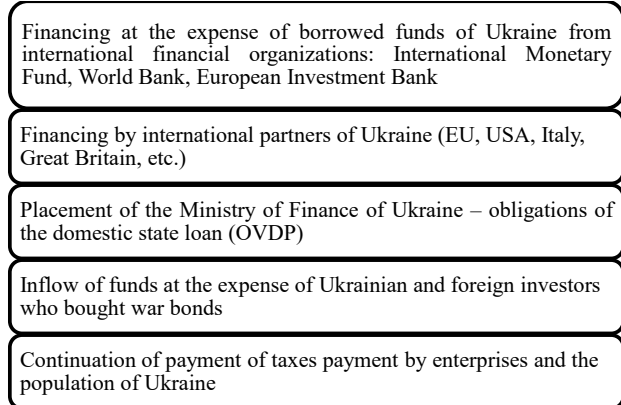


Fig. 1 – Sources of financing the budget of Ukraine  
Note: compiled by the author based on [2]

Table 1 – The activity of the banking system in the conditions of war

Activity	Work plan
Banking	<ul style="list-style-type: none"> <li>– banks continue the uninterrupted operation of all branches, provided that there is no threat to people’s lives and health;</li> <li>– make cashless payments without restrictions;</li> <li>– banks must ensure free access of customers to safe deposit boxes;</li> <li>– a mechanism for blank refinancing of banking institutions was developed to support their liquidity, its essence is to cancel restrictions on refinancing in terms of amount and term;</li> <li>– suspend the issuance of electronic money, replenishment of electronic wallets with electronic money, distribution of electronic money;</li> <li>– limit cash withdrawals from the client’s account to UAH 100.000 per day (not including salary payments and social benefits);</li> </ul>
Lending	<ul style="list-style-type: none"> <li>– banks are allowed to implement credit holidays;</li> <li>– banks are allowed to disregard loan defaults when assessing credit risk;</li> <li>– it is possible to restructure loans related to financial difficulties of debtors without recognizing default on such loans</li> </ul>
Monetary market	<ul style="list-style-type: none"> <li>– temporarily suspended his work, except for operations of selling foreign currency to customers;</li> <li>– the official exchange rate was fixed and the issuance of foreign currency from customer accounts was prohibited, except for those enterprises that were entrusted with the obligation to implement mobilization plans</li> </ul>

Note: compiled by the author based on [1]

In order to accumulate budget funds, the Ministry of Finance of Ukraine started issuing bonds of internal state loans (OVDP), the funds from which go to support the army and uninterrupted provision of the state’s financial needs in conditions of martial law. In the 5th month of the war, the total amount of all bonds amounted to UAH 49.7 billion, and according to the analysis of the NBU, the banking sector operates in stable conditions and is completely liquid. Banks have significant hryvnia and foreign currency reserves. Available funds in the current accounts of individuals increased by 16 % for the month, which is quite positive in war conditions, as it indicates the absence of significant withdrawal of funds from the banking system [7]. Restrictions imposed by the NBU on cash withdrawal operations from current accounts are gradually being lifted.

During the war, Ukrainians encountered price increases (prices rose by 19.5 % since the beginning of the year) [8] and a shortage of some goods, and there was also a 33 % drop in GDP. Inflation has reached a record high this year, the main reason being the war, which has reduced the supply of goods due to reduced production, as well as increased costs due to disruption of logistics, destruction of production assets, production chains, etc. However, at present, inflationary dynamics are gradually improving, inflation rates in Ukraine are decreasing – this is an important positive dynamic for society and entrepreneurs [9].

The main factor of inflation is the increase in the official exchange rate of the dollar, which increased by 25 % (Fig. 2).

The sharp increase in the exchange rate took place in view of the change in the fundamental characteristics of the Ukrainian economy during the war and the strengthening of the US dollar against other currencies. At the same time, in the future the course will be fixed as well. Due to high instability and uncertainty, as it is the main anchor of stabilization of expectations and the main means of fulfilling the priority goals of the NBU.

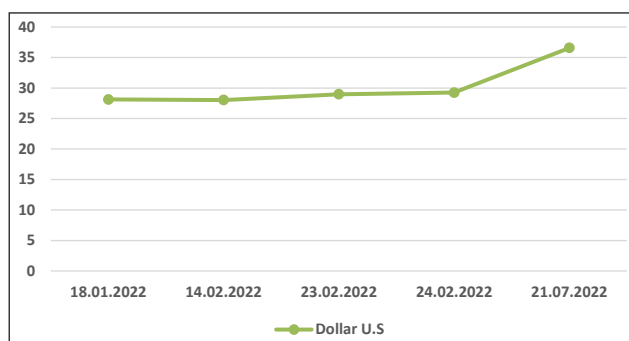


Fig. 2 – Dynamics of the US dollar exchange rate during 18.01.2022 – 21.07.2022

Note: compiled by the author based on [10]

Despite the negative factors that complicate the work of the financial market, it works, its functioning from the beginning of martial law to the present day is being restored. Only the stock market operates under limited conditions, it continued its work only in the areas of issuing and servicing military government bonds.

After the Ukrainian victory, a difficult and difficult path of post-war recovery awaits Ukraine. In particular, these are large costs for the reconstruction of cities, covering the debt, ensuring the defense of the country, etc.

On September 13, 2022, the government approved the draft Law on the State Budget of Ukraine for 2023. “The state budget of 2023 is the budget of a warring country that has been suffering colossal losses for more than six months due to the full-scale military invasion of the Russian Federation on the territory of Ukraine. That is why the Government has laid down increased financing of the security and defense sector at the level of 17.8 % of GDP, which is three times more than what was laid down in the 2022 state budget” [11].

According to the Draft State Budget for 2023, resources are directed to the most priority areas (see Table 2).

Table 2 – Priority directions for the allocation of budget funds for 2023

Direction	Amount of money
Health care	UAH 175.7 billion
Education	UAH 155 billion
National security and defense	UAH 1 141.1 billion or 17.8 % of GDP
Pension provision and social protection	UAH 835 billion
Reserve fund	UAH 17.4 billion
Support of war veterans	UAH 6.8 billions
Fund for liquidation of the consequences of armed aggression	UAH 19 billions
Entrepreneurship Development Fund	16 billions of hryvnias
Provision of business grants	1.37 billions of hryvnias

Note: compiled by the author based on [11]

Analyzing the table, we can say that most of the funds will be directed to the national security and defense of the country, which is the main thing at the moment.

The budget deficit is expected to be 20 % of GDP, which is planned to be covered by state borrowing – UAH 1.686.8 billion.

For 2023, the tax rates will remain the same, they will not be increased, and the minimum wage from January 1, 2023 will be 6.700 hryvnias per month, the subsistence minimum for one person calculated per month is 2.589 hryvnias [11]. As for the exchange rate, it may reach 50 hryvnias per dollar by the end of 2023, the average annual rate will be around 42.2 hryvnias per dollar according to the forecast, similarly, we should expect a rise in prices in the country [12].

In general, if we observe the situation in 2022, we can say that the state of the financial market has improved, so in the future it should return to growth, steadily restore the work of all its sectors.

In turn, the prosperity of the economy and the financial market is possible with the financial assistance of partner countries (the USA, Great Britain, etc.), the adjustment of logistics, technological processes, the restoration and attraction of various investments to the country, with the help of state support for business development, thus appearing free jobs, people will start returning from abroad

and develop the country together. Only with joint efforts, avoiding past mistakes and with the help of the experience of international countries, the financial market will begin to revive and function effectively.

### Conclusions

Based on the results of the analysis of the functioning of the financial market, we can say that with the help of the decisions of the National Bank of Ukraine, it was possible to soften the unexpected first blow to the financial sector, prevent panic in the market and strengthen its protection. Since the beginning of the martial law and today, the state

of the market and the economy in general has improved, which testifies to the correct decisions made by the country's leadership and to its further functioning in the conditions of war.

Despite the difficult conditions of reality, the financial market is functioning and will continue to have the margin to work stably, the government with the help and support of international states is doing everything possible to ensure that this situation continues in the future.

Despite all the troubles on Ukraine's path, it will endure and begin a new long-term development, becoming one of the most powerful European states.

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