FINANCIAL SECURITY OF UKRAINE IN THE CONDITIONS OF EXISTENTIAL CHALLENGES AND THREATS

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Abstract

In the conditions of the war, the level of financial security of Ukraine became critical. Risks and threats manifest in the following main components of security: banking, debt, monetary, insurance, currency, and budget. The author's approach presents the identification of risks, threats and dangers, which require appropriate detection and minimization tools. Emphasis is placed on internal and external sources of financing post-war reconstruction of Ukraine.

Keywords: financial security, risks, threats, dangers

Introduction

The war with Russia is accompanied by significant destruction, mining of the temporarily occupied territories, a drop in the main indicators of activity in all branches of the Ukrainian economy, an increase in the number of injured and temporarily displaced persons, an imbalance of budgets at all hierarchical levels of management. Such conditions actualize the need to study existential threats and dangers and to find ways of financial support not only for military expenses, but also for financing the post-war reconstruction of Ukraine. Despite a significant number of studies of the problems of ensuring security at the national and regional levels, as well as in terms of its main components, the issues of assessing the level of the financial component of economic security and developing measures to identify risks, threats and dangers in conditions of martial law remain insufficiently developed.

Results obtained and discussions

The financial component of security takes a priority place in the economic security of the country and characterizes the state of the financial system, existing disparities in the formation of budgets of all hierarchical levels of management, and the influence of banking, debt, currency, monetary credit, budget security, and existential risks and threats.

According to T. S. Aksyonova's research, the financial security of the state is the state of the financial system of the state and its components, which characterizes by the presence of the necessary conditions to ensure the socio-economic development of the country [1, P. 132]. We consider this approach legitimate from the point of view of assessing the state of financial security, but the author does not define its components.
From the point of view of ensuring equilibrium, the financial security of the state interprets as the state of its financial, monetary, currency, banking, budgetary, insurance and fund systems. It is characterized by balance, resistance to internal and external negative influences, the ability to prevent external financial expansion, ensure the effective functioning of the national economic system and economic growth [2, P. 117].

The financial security of the state is the state of the financial system, which characterizes by the totality of accumulated financial and monetary resources and their sufficiency for innovative, and investment development of the country, taking into account existential risks, threats and dangers.

In our opinion, a number of components characterizes the country's financial security, namely: banking, budget, debt, monetary, currency and insurance security. In terms of these components, the deterioration of the level of the main indicators reflecting the level of financial security of Ukraine was noted.

According to our research, loans granted to legal entities and individuals accounted for the largest share of the assets of Ukrainian banks. Bank loans for 2017-2021. Increased by 5.4% from UAH 1,090,914 million in 2017 up to 1149567 million hryvnias in 2021 A large share of non-performing loans in Ukrainian banks remains a threat to banking security, which decreased by 41.9% or UAH 249,868 million and amounted to 01.01.2022. UAH 345,131 million. The share of non-performing loans in the pre-war period decreased from 54.5% to 30.0%.

A significant volume of non-performing loans is concentrated in JSC CB "Privatbank", that is, half of their total value, namely 39.7% or UAH 2,362,111 million in 2017 and 50.6% or UAH 176,533 million in 2021. Therefore, a significant amount of non-performing loans and the need for their restructuring, minimization or liquidation at the expense of reserves remains a threat to the activity of state banks.

The influence of monetary policy on the level of bank security manifests through the following criteria:

1) the ability of the monetary sphere to perform its tasks and functions in the conditions of the existence and influence of external and internal threats;
2) stability of the monetary sphere;
3) independence of the state monetary policy;
4) the ability to independently determine and ensure the achievement of strategic and tactical goals of monetary regulation;
5) the ability of the monetary system to stimulate economic growth.

Since the beginning of the war in Ukraine, there has been a significant increase in interest rates on loans for corporate and retail clients, which is primarily due to an increase in the level of inflation and an increase in the NBU discount rate. The NBU discount rate is a monetary instrument by which the NBU sets a benchmark for the subjects of the money market regarding the cost of attracted and placed monetary resources. In 2021 The National Bank of Ukraine increased the discount rate 5 times, which was 10% before the war, and has increased to 25% in 2022.

Insurance penetration rate as a share of insurance premiums in GDP during 2017-2022 was in the range of 1.5-2%, which negatively characterized the non-banking financial market.
from the standpoint of assessing the level of security. The optimal value should be at least 8%. The actual values confirm the insufficient development of the market of insurance services in Ukraine.

To date, various concepts are considering, involving both the involvement of international insurers and the creation of a military insurance pool in Ukraine. Creation of an effective insurance system for military and political risks is one of the priorities of the NBU. Recently, almost all players of the insurance market have created products that allow the insurance of individuals and their property against various military risks. Along with that, there are exceptions to insurance against war risks. The regions where active hostilities are ongoing. Insurance companies tries to help customers and are ready to take on part of the coverage of war risks. However, the amount of compensation remains insignificant and this does not contribute to the general development of insurance services under martial law. In particular, in the case of hull insurance, many companies cover only 10% of the value of war risks, and such coverage does not compensate for losses and does not ensure the spread of insurance protection in war conditions.

Unfortunately, it is almost impossible to obtain war risk reinsurance due to the restrictions of the National Bank of Ukraine for contracts concluded after May 31, 2022. During the war, it is also impossible to re-insure military risks abroad.

The level of debt security of Ukraine is at a critical level. A complex economic, political and military situation, structural disparities in the national economy, aggravation of problems in the foreign economic sphere, war and related losses, social tension - all this requires additional financial resources, which the state really does not have. Against the background of the growing budget deficit, which today covers mainly at the expense of external borrowings, the effective use of the resources involved, as well as the constant and effective monitoring of the state of debt security, are extremely important.

The level of budgetary security makes it possible to assess the degree of manifestation of relevant threats. In particular, there is a low level of balance and stability of the state budget in relation to the influence of adverse external factors and improper establishment of effective management of the country's cash flows. The ratio of the state budget deficit to GDP in war conditions has a negative value, which indicates the presence of a permanent state budget deficit

The ratio of the volume of aggregate payments for servicing and repayment of the state debt to state budget revenues significantly exceeds its critical value of 16%. This situation is the result of a significant increase in the share of service payments and debt repayment, which are associated with the need to repay loans from the International Monetary Fund. In particular, at the end of March 2023, another extended financing program signs between Ukraine and the IMF, which provides for the allocation of $15.6 billion. This is already the 13th program in 30 years of cooperation between Ukraine and the IMF. The first tranche received on April 3, 2023 and amounted to 2.7 billion dollars. At the first stage of the program, planned for 2023-2024, attention focuses on:

- ensuring a sustainable budget in 2023, increasing revenue mobilization, including by avoiding new measures that could reduce tax revenues;
- maintaining a stable decrease in inflation and a stable exchange rate, including by
maintaining the relevant currency reserves;

promoting long-term financial stability, including by preparing a deeper assessment of the state of the banking sector and further promoting central bank independence. Implementation of the program is associated with a number of obligations. Among the priority ones - until the end of 2023 carrying out detailed diagnostics of banks, and by the middle of 2023 preparation of the NBU action plan for the settlement of problem assets. In addition, the government should coordinate the nationalization of banks with the IMF [3].

Along with the dynamics of the exchange rate of the hryvnia in relation to foreign currencies, the financial dollarization of the country's economy also significantly affects the state of the country's currency security. The level of dollarization of the money supply in wartime conditions increased from 24 to 26% and was higher than its critical value. The higher the level of dollarization, the worse the national currency performs the functions of money in the domestic market. At the same time, the high level of dollarization causes:

- the increase in the sensitivity of the exchange rate to changes in the money supply;
- additional pressure on the country's gold and currency reserves as a result of the need for NBU interventions;
- decrease in the effectiveness of the discount rate as a tool for regulating the money supply;
- increased sensitivity of the structure and volumes of the money supply to fluctuations in the exchange rate of the national currency and devaluation expectations.

A significant threat to the currency security of Ukraine in modern conditions is a high level of dollarization of the economy; growth of gross foreign debt; negative balance of payments; reduction of the country's international reserves. To a certain extent, the level of currency security of the state characterizes the presence or absence of a deficit in its trade balance, which allows assessing the movement of currency funds. To date, the situation that has developed in the foreign exchange market of Ukraine is not stable and needs changes.

The conducted studies of financial security allow us to state the decrease in its level, unstable trends in the development of the domestic financial system and the need to develop measures for the post-war reconstruction of Ukraine's economy.

**Conclusions**

The war with Russia and the search for sources of financial support for military expenditures, the post-war reconstruction of Ukraine's economy, taking into account the shortage of internal resources in the war-weary economy, require a study of the level of financial security and its main components. It is worth noting that the external aid, which is extremely necessary for the modernization of the financial system and the economy, will enter the economy through the following main channels:

1) increasing Ukraine's own budget capacity to finance the reconstruction program, when foreign funds go directly to the budget;

2) supplementing the national programs of Ukraine with certain projects or programs that will be financed and controlled by external donors;
3) provision of guarantees and risk insurance for private investments.

When overcoming the devastating consequences of the war and creating conditions for the sustainable development of Ukraine, it is worth relying on a balanced and well-founded policy of public spending. The state budget and foreign aid should play an important role in restoring and modernizing the public sector and supporting the reconstruction of the private sector.

References