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Activities of the National Bank of Ukraine under Martial Law

Abstract

The full-scale invasion of Russian troops into Ukraine has created new challenges for the National Bank of Ukraine (NBU). In the article the authors have used system analysis to study the efficiency of the direct methods of the NBU in regulating the money market. It was established that the NBU took timely measures to ensure uninterrupted functioning of the country's economy by introducing military refinancing to maintain the liquidity of the banking system, set a fixed exchange rate and low restrictions on the foreign exchange market to restrict the rapid devaluation of the national currency. The activities of the NBU to fill the economy with money to finance significant military expenditures by buying and selling military bonds of Ukrainian Government, transferring profits to the State Budget, establishing relations with international financial organizations. In order to achieve a rapid effect of preventive measures, the NBU provides direct lending to the Government through the purchase of military bonds on the primary market. In the long run, the NBU should abandon its subordination to the Government and move to market-based monetary governance.

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Działalność Narodowego Banku Ukrainy w warunkach wojny

Streszczenie

Inwazja wojsk rosyjskich na terytorium Ukrainy stworzyła nowe wyzwania dla Narodowego Banku Ukrainy (NBU). Stosując analizę systemową, autorki badają skuteczność stosowania przez NBU instrumentów sterowania bezpośredniego w polityce pieniężnej. Analiza pokazała, że NBU w odpowiednim czasie podjął niezbędne środki w celu zapewnienia sprawnego funkcjonowania gospodarki kraju, wprowadzając refinansowanie wojskowe w celu wsparcia płynności systemu bankowego, ustalając stały kurs walutowy i szereg ograniczeń na rynku walutowym. Przedstawiono działania NBU mające na celu zapewnienie gospodarce środków na finansowanie obronności poprzez emisje i kupno obligacji wojskowych rządu Ukrainy, przekazywanie zysków do budżetu państwa, nawiązywanie relacji z międzynarodowymi organizacjami finansowymi i rządami innych państw. W celu uzyskania szybkiego efektu tych działań NBU udzielił rządowi kredytu poprzez zakup obligacji wojskowych na rynku pierwotnym. Na dłuższą metę NBU musi zrezygnować z podporządkowania się rządowi i przejść do stosowania instrumentów rynkowych polityki pieniężnej.

Słowa kluczowe: stabilność finansowa, płynność systemu bankowego, regulacja rynku walutowego, przepływy pieniężne, obligacje wojskowe, refinansowanie wojskowe, międzynarodowa makroekonomiczna pomoc finansowa

Introduction

The war requires significant expenditures of resources, human capital and finances. Executive authorities have to implement a coherent economic policy of providing the country with resources to counter the enemy. In turn, the country's central bank should play a key role in the macroeconomic stabilization of the state on whose territory the hostilities are taking place.

A striking example of the restoration of the country's financial power was the Bank of England during the Napoleonic Wars. The Bank of England skillfully provided the short-term liquidity needed to overcome military crises. Without the Bank of England, these crises would jeopardize Britain's ability to wage war, which in turn would reduce long-term economic progress. By promoting a more monetized economy, the Bank also made it easier for the state to collect taxes. Indirectly, this contributed to the creation of an investment-friendly environment. However, the Bank of England did not become a systematic source of funding for the government, which would disrupt price stability in the long run (O'Brien, Palma 2022).

World War I was a turning point that put the Federal Reserve System to the test. Federal spending on military training, weapons, and ammunition increased fifteenfold between 1916 and 1918. Expenditures quickly exceeded tax revenues. The Treasury mounted a series of war bond or "liberty loan" drives to raise additional funds.

The Federal Reserve also lent at preferential rates to banks purchasing Treasury certificates – short-term borrowings issued in anticipation of tax receipts. As a result of the Fed lending at low interest rates, credit conditions eased throughout the domestic economy. Extensive borrowing by businesses and households stimulated economic growth but also increased the money supply, fueling inflation. The war for some time made the Federal Reserve System subordinate to the Treasury. However, after the war, the Fed reaffirmed its independence and took steps to reduce inflation, which threatened to halt economic growth (Davies 2013).

The full-scale Ukrainian-Russian war began on February 24, 2022. Ukraine's losses from the Russian invasion are already in the hundreds of billions of dollars. Active hostilities are taking place in 10 oblasts (provinces), which account for about half of the country's GDP. Many logistics chains have been completely broken, many businesses have been physically destroyed, some cannot operate in wartime, and many workers have simply left. The International Monetary Fund estimates that Ukraine needs about $ 4.8 billion in external financing this year, and the country's GDP will shrink by 10% if the war ends soon. However, economic contraction could be much deeper, ranging from 25% to 35%, based on real-time GDP contraction in countries such as Iraq, Lebanon, Syria and Yemen (*Ukraine's economy...* 2022).

The main purpose of this research is establishing the effectiveness of regulatory and monetary measures of the National Bank of Ukraine to stabilize the financial system of the state in the first three weeks of the war with Russia (24.02.202–17.03.2022).

To analyze the activities of the NBU during the war, we undertake a systematic scientific analysis of changes in domestic banking legislation and the direct activities of the Central Bank of Ukraine to support the liquidity of banking institutions, foreign exchange market regulation, adjustment of cash flows of macrofinancial assistance for the purpose of operative financing of military spendings. We attempt to assess the efficiency of regulatory and monetary measures of the NBU in the first three weeks of the war with Russia.

The structure of the article is as follows: 1) the NBU's activities to ensure the uninterrupted operation of the banking system with adequate liquidity and solvency, 2) the central bank's measures to regulate the foreign exchange market and support the purchasing power of national currency, 3) channels to make liquidity available both through domestic channels and by attracting international macro-financial assistance.

1. Ensuring the financial stability of the country and maintaining the liquidity of the banking system by the National Bank of Ukraine

An important task of the NBU under martial law is to ensure the stable functioning of the banking system. During the financial crises in Ukraine in 2004, 2008, and 2014, clients withdrew money from the banking system. This led to liquidity crises and, ultimately, to large-scale economic problems. The beginning of hostilities, disruptions in the banking infrastructure caused by them, and forced migration could provoke a massive outflow of clients' funds and worsen bank liquidity and increase panic among the population.

Taking into account the experience of previous financial crises, on the first day of martial law the NBU approved Resolution On Operation of Banking System under Martial Law to ensure sound and stable operation of the banking system (the Board of the National Bank of Ukraine, *On Operation of Banking System…*, *NBU* 2022). With this Resolution, the NBU introduced the following preventive measures:

- restrictions on cash withdrawals from clients' accounts in the amount of UAH 100,000 per day (excluding salaries and social benefits), with the exception of enterprises and institutions that ensure the implementation of government mobilization plans and individual permits of the National Bank without accrual and withdrawal of commissions;
- stopped carrying out expenditure operations with the accounts of Russian residents;
- obliged banks-issuers of electronic money to suspend the issuance of electronic money, replenishment of electronic wallets with electronic money, distribution of electronic money (*The National Bank of Ukraine imposed…* 2022).

Another normative act that had a significant impact on the solvency of domestic banks and the behavior of their customers in martial law is NBU Board Resolution No. 23 On Some Issues of Operation of Ukrainian Banks and Banking Groups dated 25 February 2022. First of all, the norms adopted in this Resolution allowed Ukrainian banks to introduce credit holidays for their customers. In addition, non-state-owned banks are prohibited from paying dividends to their shareholders (other than the payment of dividends on preferred shares), providing new loans and repaying deposits to related parties ahead of schedule.

No restrictions were imposed on non-cash payments. Therefore, in order to minimize the risks of using and transporting cash, banks and the NBU strongly encouraged the use of payment cards to make payments for goods and services. Banks have automatically extended the validity of payment cards. But the relief also affected the businesses that accept payment cards for payments. Some of the largest banks in Ukraine (Oschadbank, Privatbank and Raiffeisen Bank) abolished commissions for acquiring services during martial law (*Ukrainian banks cancel the* *commission…* 2022). Those citizens, who still prefer cash payments, were able to withdraw cash from their payment cards at the checkouts of large retail chains, gas stations, pharmacies (from UAH 500 to UAH 6,000). Therefore, the excitement that arose on the first day of martial law and manifested itself in long queues at ATMs, faded very quickly. In addition, banks have significantly reduced fees for their services. People and businesses can easily pay for goods and services. Most shops and gas stations accept non-cash payments.

At present, the funding base of banks remains relatively stable. Hryvnia deposits of the population have increased by about 16% since the beginning of hostilities (Dadashova 2022). Significant amounts of wage and salary payments as well as social payments went to bank accounts. At the same time, withdrawals have become more difficult in regions with the most active hostilities, where less than 15% of large bank branches operate. It is also extremely difficult to deliver cash to ATMs there. And the mobility of the population within these cities is very limited. In contrast, more than 90% of large bank branches operate in Central and Western Ukraine, but the motivation to withdraw funds in these relatively quiet regions is much lower. However, of course, the war affects the mood of investors. Now their funds are mainly accumulated in current accounts, while time deposits are reduced.

The funds of enterprises decreased significantly – by about 5% in hryvnia and in foreign currency. A significant part of them went to pay wages, salaries and taxes. As many businesses have shut down, receipts on their accounts will be moderate. Employers plan to continue to pay wages salaries to employees, which will lead to a reduction in corporate deposits in banks (Dadashova 2022).

Ukrainian refugees faced a huge problem, crossing the state border with large amounts of cash hryvnia. Very quickly, currency exchange offices, for example, in Poland were flooded with hryvnia and its exchange rate fell to almost 0[1]. To solve this problem, the NBU allowed banks to buy cash in hryvnia from foreign financial institutions for non-cash foreign currency in the amount not exceeding the equivalent of EUR 1,000,000 per day. The NBU is conducting an information campaign informing refugees that it is not necessary to take cash hryvnia abroad, but rather to replenish its card accounts in Ukraine. In this case, Ukrainians can usually pay with payment cards abroad, and if necessary, withdraw foreign currency at an ATM. Conversion in such cases will take place at the rate of the payment system, which more adequately corresponds to market realities (*The NBU recommends…* 2022; *NBU: no need…* 2022).

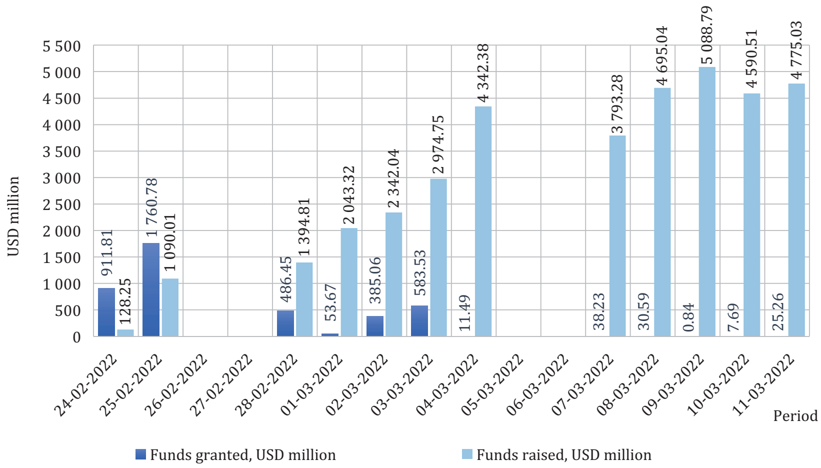
Simultaneously with the introduction of restrictions on the withdrawal of funds from banks, the NBU adopted a procedure for maintaining the liquidity of banks during the period of martial law. In addition to standard liquidity-providing instruments (refinancing loans secured by government securities, bonds of international financial organizations, domestic local government bonds, foreign currency, direct

[1] At the end of March the major Polish commercial bank began buying UAH at the rate close to the official one following the formal agreement with the NBU.

repo transactions, government securities transactions on the open market), banks are given the opportunity to obtain a blank loan from the NBU (military refinancing) for up to 1 year, the amount of which does not exceed 30% of the balances of individuals in this bank. The interest rate on standard and blank refinancing loans is 11%, which is only one point higher than the NBU discount rate.

The largest amount of refinancing loans was received by banks on February 24, 2022 – USD 911.8 million and on February 25, 2022 – USD 1,760 million. For the period from February 24 to March 11, 2022, the NBU provided refinancing loans to banks in the amount of USD 4.3 billion (Fig. 1). This is nine times more than since the beginning of 2022. However, during the same two weeks of martial law period, the NBU mobilized funds from banks by placing its certificates of deposit in the amount of USD 37.3 billion (*National Bank of Ukraine's liquidity...* 2022).

Figure 1. National Bank of Ukraine's liquidity adjustment transactions, period from February 24 to March 11, 2022



Source: *National Bank of Ukraine's liquidity adjustment transactions*. https://bank.gov.ua/en/statistic/sector-financial/data-sector-financial (access: 16.03.2022).

At the same time, in order to continue maintaining the appropriate level of bank liquidity and financial stability of the country, the NBU Board adopted the following decisions:

- to stop conducting tenders for the placement of certificates of deposit for a period of 14 days, and to apply only overnight certificates;
- to conduct tenders for refinancing banks, in particular blank (military) refinancing;

- to cancel the decision to increase the reserve requirement, adopted in early February to remove excess hryvnia liquidity (*The NBU has taken measures…* 2022);
- to cancel the implementation of the annual assessment of the banks' stability in 2022;
- not to apply to banks and responsible persons of banking groups measures of influence on violations of economic standards, limits of open currency position, deadlines for submission and publication of reports, if such violations occurred after the beginning of military aggression (Ivanov 2022). However, if the bank has these violations, the NBU will impose certain restrictions on its activities. In particular, the bank will not be able to repurchase securities issued by it, pay bonuses to its executives, buy non-government securities and increase its investments in fixed assets and intangible assets that are not involved in banking operations, enter into agreements to raise funds, providing for the advance payment of interest.

The negative temporary impact of hostilities on the performance of banks should not lead to the recognition of the most affected banks as insolvent. If necessary, such financial institutions will have time to restore financial stability after the abolition of martial law. At the same time, it is necessary to ensure fair reflection of the real financial state of banks. Whatever the consequences of the war, they cannot be hidden in financial statements. It is very important to see the real picture. Without this, it will be difficult to implement an effective recovery plan for the banking system after the war.

Thus, during the war, the banking system continues to operate stably due to the timely introduction of preventive measures to maintain liquidity. Banks have a stock of highly liquid assets to provide all non-cash payments and settlements on retail deposits, even in the current difficult conditions.

2. Regulating the foreign exchange market by the NBU

The foreign exchange market is now operating under significant restrictions imposed by martial law. Banks are in fact prohibited from trading in foreign currency. Most transactions on the interbank market take place with the participation of the National Bank. Single transactions between banks have begun to take place, but so far they are very rare.

To stabilize the foreign exchange market, the NBU was forced to introduce a fixed exchange rate (a floating exchange rate has been in force in Ukraine since 2014) and some restrictions on the purchase of foreign currency and the transfer of foreign currency abroad. In particular, the NBU:

- suspended the operation of the foreign exchange market of Ukraine, except for operations on the sale of foreign currency by customers;

- fixed the official exchange rate for February 24, 2022;
- introduced a moratorium on cross-border foreign currency payments (except for enterprises and institutions that ensure the implementation of mobilization plans);
- banned the withdrawal of cash out of clients' accounts in foreign currency, except for enterprises and institutions that ensure the implementation of mobilization plans (tasks), (in March, the NBU allowed to withdraw up to UAH 30 thousand per day equivalent (about USD 1,000) (*The NBU stopped…* 2022).

At the same time, the NBU allowed clients in territories threatened by occupation to withdraw cash in national and foreign currency from accounts without restrictions on the amount, as well as to purchase cash in foreign currency, if such assets are in the bank (*On Operation of Banking System…*, *NBU* 2022).

The National Bank of Ukraine has banned banks from conducting any foreign exchange transactions:

- using Russian rubles and Belarusian rubles;
- the participant of which is a legal entity or individual located in the Russian Federation or in the Republic of Belarus;
- to fulfill obligations to legal entities or individuals located in the Russian Federation or in the Republic of Belarus (*The NBU has banned…* 2022).

In the field of non-cash foreign exchange market, banks are allowed to:

- trade currency with other banks, foreign financial institutions, the National Bank of Ukraine, international financial organizations on a „swap" basis;
- swap transactions with resident clients, if the first part of the transaction involves the purchase of foreign currency from a resident client;
- foreign exchange transactions for the exchange of freely convertible foreign currencies between banks and banks on behalf of customers.

The purchase of non-cash foreign currency, as well as its transfer abroad (as well as hryvnia) is possible only for (*On Operation of Banking System…*, *NBU* 2022):

- banks' own operations, including settlements with international payment systems;
- import operations of residents for the purchase of critical import goods according to the list approved by the Government (certain foodstuffs, hygiene products, medicines, military goods, fertilizers, oil, coal, tires, etc.);
- foreign exchange transactions of international financial organizations;
- foreign exchange transactions conducted by residents and non-residents to ensure national security and defense;
- operations to pay for medical expenses in medical institutions of a foreign country, to pay for the transportation of patients, to pay costs connected to the deaths of citizens abroad;
- transfers in favor of Ukrainian diplomatic missions abroad.

The exchange rate at which the bank sells US dollars to the client in these cases may not deviate by more than 1% from the official exchange rate of the NBU. When selling other foreign currencies, the exchange rate may not deviate by more than 1% from the official exchange rate determined on the basis of the official exchange rate of hryvnia to the US dollar and information on current foreign exchange rates to the US dollar (or US dollar to foreign currencies) on international currency markets.

Restrictions on international settlements not related to critical imports may lead Ukrainian importers to fail to meet their obligations to foreign counterparties. In order to minimize possible penalties by domestic businesses for non-compliance with foreign economic agreements, the Chamber of Industry and Commerce has witnessed the onset of *force majeure* in Ukraine from February 24, 2022.

As the NBU fixed the exchange rate of the hryvnia against the US dollar at UAH 29.25, the maximum value of the hryvnia against the US dollar was set at UAH 29.54. Despite the existence of such a narrow corridor, representatives of the NBU believe that there is some room for use of market mechanisms of exchange rate formation. The NBU reports that after 10 days of silence, the resumption of interbank operations in the foreign exchange market has begun, although they are currently small (close to approx. USD 10 million per day) (*The interbank…* 2022).

The Ministry of Defense of Ukraine is the only institution that has not been subject to any restrictions on the purchase and transfer of foreign currency. In order to support the financial ability of refugees abroad, the National Bank of Ukraine abolished the requirement for citizens to provide supporting documents to banks during martial law, namely to withdraw cash from their own accounts and purchase precious metals when moving foreign currency outside Ukraine. Previously, the relevant documents individuals had to provide when moving currency values worth more than EUR 10,000 (equivalent). However, the requirement to declare currency values worth more than EUR 10,000 (equivalent) remains in force (*NBU canceled a certificate…* 2022).

Analyzing the actions of the NBU to regulate the foreign exchange market, it can be noted that the National Bank had a plan to respond quickly to armed aggression and implemented this plan just a few hours after the invasion. Due to the timely reaction of the NBU, the hryvnia devalued quite moderately 16–17% (devaluation against the US dollar was 16%, and 17% – against the euro). The purchasing power of the hryvnia is also provided by a sufficient amount of gold and foreign exchange reserves, which with the beginning of the war even increased by 1.15% or USD 315.6 million. This was primarily due to the National Bank's purchase of foreign currency from banks (near about USD 680 million) and the receipt of funds from the International Bank for Reconstruction and Development (USD 60 million) (*NBU Governor Kyrylo Shevchenko's Flash Interview…* 2022). In replenishing its gold and foreign exchange reserves, Ukraine is counting on financial assistance from governments and central banks of friendly countries, international financial institutions, and IMF loans.

Currently, the only central bank that has decided to help the NBU in the management of gold and foreign exchange reserves is Narodowy Bank Polski, which immediately on the day of the Russian invasion decided to provide a currency swap to NBU for a maximum of PLN 4 billion (equivalent to USD 970 million) (*Komunikat…* 2022).

In general, the exchange rate depends on many factors, which are extremely difficult to predict during the active phase of the war. It is important that the NBU resumes full operation of the foreign exchange market as soon as possible and removes currency restrictions imposed during the war. As soon as market monetary instruments become operational, the NBU will be able to return to smoothing exchange rate fluctuations and stabilizing the market situation in the event of imbalances.

3. Delivering liquidity to the economy through domestic channels

According to preliminary estimates of the Ministry of Finance of Ukraine, Ukraine's losses from the war amount to USD 565 billion. Losses from destroyed infrastructure amount to about USD 120 billion. At the same time, according to the NBU, Ukraine's economy loses 50% of "unproduced" GDP during the war, which is UAH 50 billion a day (or USD 1.7 billion), and the daily cost of war is near about USD 7–10 billion (Kemularia 2022).

The International Monetary Fund estimates that the country needs about USD 4.8 billion in external financing this year (*Ukraine's economy…* 2022). Under such conditions, the NBU should help finance the spendings of government, which is obliged to ensure the payment of wages and salaries, pensions, social assistance, public debt service and military spending. Thus, another important task facing the NBU during the war is to deliver liquidity to the economy. As of March 1, 2022, the NBU had more than USD 1.1 billion in the Government's single treasury account (*The Ministry of Finance continues…* 2022). Despite hostilities, Ukrainian companies continued to pay taxes and mandatory payments. Thus, in February 2022, the state budget received taxes and mandatory payments 29.3% more than planned (*Monthly Plan…* 2022). In addition, on the first day of the invasion, the NBU transferred part of its undistributed profit in amount of USD 650 million (*The National Bank transferred…* 2022), although it usually does so in April–May after the approval of the consolidated financial statements by the external auditor. Ukraine's largest state-owned bank, Privatbank, has met its budget commitments ahead of schedule, with dividends of USD 957 million, and an advance tax payment of USD 170 million (*Privatbank transferred…* 2022).

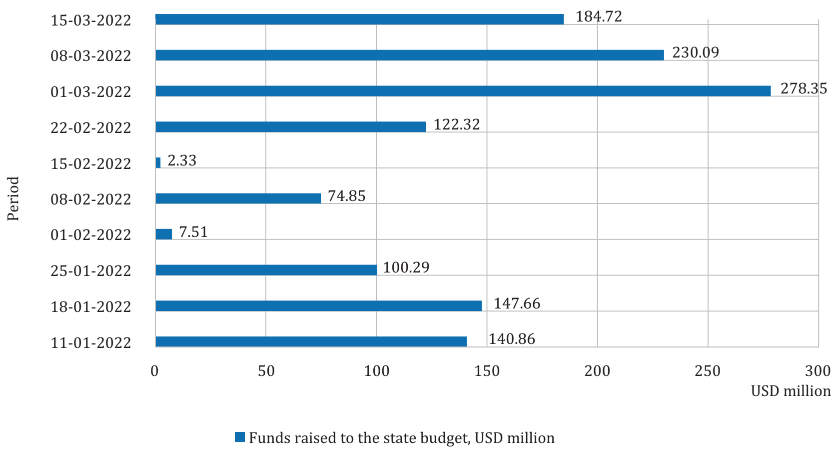
The NBU has opened special accounts for Ukrainians and foreigners who want to support the struggle of the Ukrainian people against Russian aggression. In the first two weeks, about USD 390 million was transferred to an account opened by the NBU to support the Armed Forces of Ukraine. Almost a third of these funds came from abroad (USA, UK, Poland, Germany, Sweden, Finland, Czech Republic, China, France, Canada and many other countries). More than USD 8 million was transferred to the account of the Ministry of Social Policy, which the NBU opened for humanitarian purposes. Almost half of these funds came from foreigners (*About UAH 11.6 Billion…* 2022).

The government understands that the state needs huge funds to function during the war. Therefore, on February 25, in order to fill the budget, a decision was made to issue military government bonds for the total amount of UAH 400 billion (USD 13.7 billion). The main parameters of the issue: the nominal value of one bond – UAH 1,000 (approximately USD 34), coupon period – one year, coupon rate – 11% per annum, maturity – up to 15 years. Their placement should be carried out in stages. Investors can be Ukrainian citizens and businesses, as well as foreign investors. They can purchase military bonds through primary dealer banks that are directly involved in the placement of these securities, as well as through other financial institutions.

Among the parameters of the issue, we focus on the announced interest rate. It should be noted that a few days after the start of the war, recognized international rating agencies lowered Ukraine's sovereign credit ratings. At the same time, the announced interest rate was not too high, but on the contrary – reduced. This conclusion is based on the fact that at the last auction on placement of domestic government bonds (DGBs) on February 22, 2022 (before the start of hostilities), government bonds with a maturity of 329 days were offered at an interest rate of 11.57%, and DGBs with a maturity of 1540 days – at 12.52% (*Results of placement…* 2022).

In order to determine whether the announced yield affected the demand for military bonds, we analyze the results of the first auctions held on March 1 and 8, 2022. Data on the website of the Ministry of Finance of Ukraine has shown the significant demand for these government securities. This becomes especially noticeable if we compare their volumes of placement with those DGBs that were offered before the start of hostilities and the demand for which gradually fell (Fig. 2). In total, as a result of the first two auctions, primary dealers bought military bonds worth about USD 700 million. The Government is convinced that there has been significant interest from foreign investors. Therefore, on March 15, military bonds denominated in US dollars were offered. The interest rate offered for them is 3.7%.

Figure 2. Results of placement of domestic government bonds, period from January 11 to March 15, 2022



Source: *Results of placement of domestic government bonds.* https://mof.gov.ua/uk/ogoloshennja-ta-rezultati-aukcioniv (access: 16.03.2022).

As the Government has never conducted such an extreme placement of DGBs and could not predict the demand for military bonds, the President of Ukraine V. Zelensky in his Decree recommended that the National Bank of Ukraine purchase them on the primary market. However, according to the Law of Ukraine "On the National Bank of Ukraine", direct lending to the Government by the National Bank is prohibited. Therefore, guided by the norms of the legal regime of martial law, the Verkhovna Rada of Ukraine was forced to make appropriate changes to the legislation and suspended the relevant norms. After that, on March 8, 2022, the NBU Board decided to repurchase military bonds worth almost USD 700 million. In its statement, the NBU emphasizes that: "At the moment, the NBU is not a solo or even main sponsor of the government expenses. Lending to the government is a temporary measure taken by the NBU due to martial law. After the war is over and the economy is back to operating on market-driven principles, the NBU will return to its standard inflation-targeting regime with a floating exchange rate and the ban of financing the government will be reinstated" (*NBU Buys Out War Bonds…* 2022).

4. International financial assistance

International financial organizations and a number of countries around the world responded quickly to provide financial assistance to Ukraine. Cash inflows from abroad have stabilized the situation in Ukraine. For example, the United States has allocated USD 13.6 billion in humanitarian, defense and economic assistance to Ukraine and Eastern Europe to address refugee issues. Ukraine and US allies will receive USD 6.7 billion in military aid and economic sanctions against Russia (Tarasovsky 2022).

On March 9, 2022, the IMF Executive Board greenlighted USD 1.4 billion in additional financing for Ukraine under an emergency support program known as the Rapid Financing Instrument (RFI). The funds disbursed under the RFI program will help finance priority expenditures of the state budget and shore up Ukraine's balance of payments (*IMF Grants Ukraine…* 2022).

On March 11, 2022, the European Commission provided EUR 300 million in emergency macro-financial assistance to Ukraine. The funds will be provided urgently to help strengthen Ukraine's macroeconomic stability amid Russian aggression. This is the initial part of the first tranche of EUR 600 million under the new emergency program of macro-financial assistance to Ukraine worth EUR 1.2 billion. Another EUR 300 million is expected to be allocated in the nearest future (*EU disburses…* 2022).

The European Investment Bank (EIB) has provided Ukraine with EUR 129 million under the Emergency Measures Program. In the future, the EIB is ready to provide Ukraine with 2 billion euros to strengthen critical infrastructure. In addition, according to the Ministry of Economy of Ukraine, the country has borrowed EUR 311.8 million for economic recovery from the World Bank (Kemularia 2022).

To increase the number of channels for receiving financial assistance, the Government of Ukraine has decided to establish 4 specialized funds: Destroyed Property and Infrastructure Restoration Fund, Economic Recovery and Transformation Fund, Small and Medium Business Support Fund, Debt Management and Redemption Fund. The Government calls on international partners, investors, NGOs, businesses and citizens to provide financial support to Ukraine, thereby helping to restore the stability of the Ukrainian economy and support Ukrainians in the war against Russia.

Ukraine demonstrates relative financial stability and solvency in a state of war due to rapid cash flows from foreign partners. However, with further developments, Ukraine will need a solid financial foundation to rebuild its economy. The Ukraine Solidarity Fund (USF) can be such a foundationThe initiator of such a fund is the European Council. In the short term, the funds of Ukraine Solidarity Fund can be used to finance the needs of public authorities, defense efforts and to finance basic services for the needs of citizens in housing, food and health care. In the long run the Government of Ukraine will direct grant funds to large-scale investments to rebuild the economy. The sources of the fund should be an international donors' conference.

It is extremely important for Ukraine to implement the initiative of Polish deputies to consider at a meeting of the European Council the creation of a pan-European plan for the reconstruction of Ukraine, namely the development of the "Marshall Plan 2" for Ukraine (*Premier Morawiecki…* 2022). The presence of such a document will help rebuild the economy of independent democratic Ukraine in the shortest possible time.

Conclusions

Analysing the activities of the NBU, we can conclude that in the conditions of military aggression of the Russian Federation, the NBU is taking all the necessary measures to maintain financial stability. The Ukrainian banking system remains stable and liquid even at the time of the martial law. Banks have a cushion of high-quality liquid assets that is sufficient to maintain all cashless payments and retail deposit repayments, even under current difficult conditions. The operation of Ukraine's foreign exchange market has been limited. However, all these measures aim to ensure the reliable and stable functioning of Ukraine's financial system and facilitate the fullest support for activity of the Armed Forces of Ukraine, as well as the smooth operation of critical infrastructure. The activity of the NBU of Ukraine regarding the delivery of liquidity to the economy using both internal and external monetary channels also d appreserves an approval. Although the NBU is currently subordinate to the Government in financing military expenditures, we hope that in the future the NBU, similar to the Bank of England and the Federal Reserve in wartime, will regain its full independence. We believe that after Ukraine will be freed from Russian invaders, the economy will back to operating on market-driven principles, the NBU will return to its traditional inflation-targeting mode with a floating exchange rate.

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