



Monetary Globalization

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**STABILIZATION MECHANISMS
OF EU MONETARY POLICY
IN THE CONTEXT OF INTERACTION WITH
THE FINANCIAL SPHERE OF UKRAINE**

Abstract

Existing classic methods of analysing the monetary policy of the central bank, such as the aggregate response function, explain the behavior of the ECB in a rather simplified way. This is the result of the fact that classical methods do not consider the regional features of the members of the European Monetary Un-

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ion and the structure of the system of central banks. The study of monetary policy with the involvement of macroeconomic theories of organization, theories of teams and coalition behavior, which are new for a macroeconomic subject, can make a significant contribution to the research process of European monetary integration.

Since European integration is declared as a strategic direction of Ukraine's economic development, the analysis and generalization of the problem of the modern European economy in the context of the impact of Russia's war against Ukraine from 2022 is relevant. Therefore, in order to understand the problems and prospects of modernization of the functioning of the monetary and credit system in the EU, it is important to research and scientifically substantiate the stabilization mechanisms for Ukraine.

The article investigates some stabilization mechanisms that are Ukraine Facility and Multi-Agency Donor Coordination Platform. Funding by Ukraine Facility is analysed through its pillars, components and implementation of main conditions for receiving benefits on the way of Ukrainian economy recovery. Multi-Agency Donor Coordination Platform for Ukraine, as innovative instrument for coordinating activities of its members, is researched on the base of its existing funding mechanisms: the G7 Finance Track, the G7+ Coordination Group on energy infrastructure and the International Financial Institutions (IFIs) Coordination Group.

Key Words:

EU monetary policy, inflation, privatization, stabilization mechanisms, Ukraine Facility, Multi-Agency Donor Coordination Platform.

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Problem Statement and Literature Review

In response to the ongoing challenges faced by Ukraine due to the war with Russia, the world community expresses support for Ukraine by implementing various mechanisms for financial support. The initiative comes in response to the ongoing conflict in Ukraine, which has led to significant humanitarian and economic challenges. The war has caused widespread destruction, displacement, and disruption of essential services. The economy of Ukraine has faced a number of challenges: the emergence of additional budgetary needs for maintaining defense capability or covering significant quasi-fiscal deficits, in particular in the energy sector; significant damage of infrastructure, primarily energy and port infrastructure, which will limit economic activity and put pressure on prices from the supply side; continuation of partial blocking of borders by some EU countries for freight transportation, which will restrain exports and make imports more expensive; deepening of negative migration trends; aggravation of the situation in the Middle East, which, in particular, increases the risks of possible interruptions in the supply of energy resources and their price increase for the world economy.

The question of different aspects of the EU monetary policy is a scientific interest for a lot of researchers, both domestic and foreign.

Altavilla et al. (2019) map ECB policy communication into yield curve changes and study the information flow on policy dates. They find that Policy Target, Forward Guidance and Quantitative Easing factors capture about all the variation in the yield curve, with different factors appearing in the windows covering the policy decision announcement and the press conference and having time-varying variance shares.

The impact of Covid-19 pandemic and monetary policy measures adopted by the European Central Bank (ECB) on the sovereign risk for the European Monetary Union (EMU) investigated by Karaman (2022). He finds that financial stability alleviates the negative impact of Covid-19 on the sovereign risk.

Golpe et al. (2023) assess the ultimate causal flow between monetary policy indicators, fiscal sustainability and economic growth has been deeply studied in the literature. They admit that this issue is still open to discussion due to mixed results and caveats/limitations of existing studies.

Macroeconomic adjustment under non-cooperative and cooperative fiscal policy design in the European Monetary System using a dynamic games approach was analysed by Engwerda, van Aarle & Plasmans (2002). They found how fiscal stringency requirements like the Stability and Growth Pact can affect fiscal policy design under EMU.

Acharya et al. (2020) state that Central bank liquidity does not translate into lower loan spreads for high-risk banks for maturities beyond one year, even as it lowers deposit spreads for both high- and low-risk banks. This adversely affects the balance sheets of high-risk bank borrowers, leading to lower payouts, lower capital expenditures, and lower employment.

Dumych & Bashnyanyn (2017) studied national monetary policy of inflation processes regulation in transitional economies and make recommendations for improvement of the macroeconomic situation in Ukraine. They propose basic principles, directions, progress and model monetary policy trends are analysed in EU.

Ukrainian scientists Shnyrkov & Chugaiev (2023) admit that integration with the large market of the EU creates additional competitive advantages for Ukraine. They research institutional instruments of integration Ukraine into the EU on the base of analysis of the Association Agreement and the Deep and Comprehensive Free Trade Area (DCFTA). The researchers emphasize that the status of the candidate country and international assistance aim to approximate Ukraine's legislation to EU norms.

The purpose of the article is to define the conceptual regularities of the monetary and financial integration process in EU and Ukraine in the context of its entry into the EU and the Eurozone, to identify the direction of further integration processes within the EMU, taking into account the impact of crisis waves in the Eurozone, a theoretical generalization of the accumulated experience of the EU's monetary policy on at the macroeconomic level, analysis and generalization of common instruments and mechanisms of monetary policy in the EU.

The object of the study is the investigation of stabilization mechanisms of EU monetary policy in the framework of interaction with financial sphere of Ukraine.

Research methods are grounded on general scientific principles and the core tenets of economic theory. The research subject and specific tasks necessitate the use of both general and specialized methods of inquiry. These include systems analysis, induction, deduction, systematization and generalization, ab-

stract-logical methods, economic-mathematical techniques, and comparative methods, among others: historical and economic.

As for the information base of the research, there are official publications and methodological materials of the State Statistics Service, National Bank of Ukraine, Ministry of Finance, the EU, scientific works of domestic and foreign scientists.

Research Results

According to the September 2023 business survey (National Bank of Ukraine, 2023) business expectations in Ukraine have generally improved but are close to neutral. After two months of expectations being lower than neutral (50 points), the business activity expectations index (IODA) at the end of September 2023 was 50.1 points. Thanks to the recovery of production rates and the slowdown in inflation, industrial enterprises improved their expectations the most (+1.1 points). Positive assessments of trade enterprises continued to grow, remaining the most optimistic (53.3) and above neutral for the past seven months. Service sector enterprises, though improved since early 2023, remain negative since June 2022. Employment estimates are mixed, with trade enterprises showing slight recovery for the third month, construction expecting no changes, and industrial and service sectors forecasting staff reductions.

The European Bank for Reconstruction and Development maintained its forecast for Ukraine's economy growth at 1% for 2023-2024, unlike most Ukrainian and international organizations. This pessimistic estimate is due to depressed domestic demand from the displacement of over 8 million people abroad, the recent shutdown of the export grain corridor, and the destruction of grain port infrastructure. Growth in 2024 is projected at 3%, assuming the war continues at its current intensity.

During the state securities auction on October 3, 2023, the Ministry of Finance raised 11.9 billion hryvnias for the state budget for terms of 1 to 3 years at rates from 17.55% to 19.2%. The marginal yield for the shortest papers (maturing in October 2024) was reduced from 17.75% to 17.55%. Medium-term hryvnia government bonds maturing in November 2026 were also in demand, raising UAH 5.4 billion. The weighted average profitability of new hryvnia borrowings was 18.46%.

From January to September 2023, the state budget's general fund received 1,274.9 billion hryvnias, with 144.1 billion in September. Main revenues included UAH 261.0 billion from value-added tax on imported goods, UAH 146.4 billion from value-added tax on domestic goods (UAH 248.0 billion collected, UAH 101.6 billion reimbursed), UAH 125.1 billion from personal income tax and military duty,

UAH 106.1 billion from corporate income tax, UAH 79.9 billion from excise tax, UAH 46.1 billion from subsoil use rent payments, and UAH 22.4 billion from import and export duties. The State Tax Service's income statement implementation was 102.4% (+12.6 billion UAH), and the State Customs Service was 97.1% (-8.4 billion UAH).

Starting May 1, 2024, the National Bank of Ukraine will update the «Financial Markets» section on its website with new performance indicators for the domestic government loan bond market. The page will provide detailed information about operations with Domestic Bonds (OVDP) on the secondary market, according to issue currency, types of transactions, term of circulation of securities.

The expansion aims to increase the transparency of the domestic government bond market, simplify access to information for Ukrainian and foreign investors, and ease awareness of whether transactions and securities issues. These changes will also enhance compliance with international standards, specifically the Principles for Financial Market Infrastructures (PFMI). The NBU depository will thus increase transparency and users' access to information regarding securities transactions it serves.

Domestic government loan bonds are debt securities sold by the government to primary dealers and their clients on the primary market to finance the state budget. Transactions on the secondary market occur between professional stock market participants and their clients (individuals, legal entities, non-residents). The NBU is the depository for OVDP, maintaining centralized records in paperless form. To attract foreign investments in OVDP, the NBU establishes correspondent relations with foreign depositories.

Aspects of the EMU institutional policy and its role in the restoration of sustainable and long-term growth of the Ukrainian economy

Economies in transition to the EU are more sensitive not only to shocks (both internal and external), but also to government actions that try to neutralize these shocks. Uncoordinated decisions in the field of monetary and fiscal policy sometimes turned into a long and painful process of transition to the market in countries with market systems, such as in Ukraine. Examples are Poland, Bulgaria and Romania. The lack of price stability leads to costs for society, which are significant for economies with high rates of inflation, and which do not disappear when they slow down (Mishkin, 2006). These costs include:

1. Costs from reinvestment in the financial sector. These costs represent losses from the foregone benefits of investing in the real sector. Lack of price stability, as a rule, is accompanied by inflated interest on financial assets, which leads to the flow of capital from the real to the financial sector. Thus, capital works in order not to increase the growth and well-being of the economy, but to speculatively increase the prices of assets in the financial sector. The result is a drop in investment in the real sector and a further decrease in the welfare of citizens.

2. Costs of uncertainty of the general level of prices and relative prices in the economy. While these costs may be relatively small in hyperinflationary environments, in transition economies the losses from uncertainty can be significant. They are expressed in the fact that risk-averse agents will refuse profitable investment projects, which will lead to a decrease in economic activity and a drop in economic growth.

3. Costs of keeping money in nominal form, arising as a result of a fall in the real value of the national currency due to a constant rise in prices. Since in the countries of Eastern and Central Europe rather high inflation was mainly observed, the costs of storing money could be significant.

4. Inflation leads to the depreciation of citizens' monetary savings, that is, to a decrease in their well-being and purchasing power, and therefore to a fall in aggregate demand and a reduction in output.

5. Costs from slow indexation of taxes and tax deductions, which lead to underinvestment in the real sector and suboptimal allocation of resources by industry. The costs here arise due to the fact that when calculating the tax base, depreciation deductions are not indexed to the increase in the value of capital, while the taxable base grows in monetary terms.

Thus, if we assume that in the conditions of underdeveloped financial markets of the countries with market systems such as in Ukraine, firms make investments mainly at the expense of their own funds, the volume of resources for investment is reduced. Such costs are significant already at moderate rates of inflation, and therefore can create problems for the growth of the transitional economy in the second stage of integration into the Eurozone.

Consequently, costs arising from price instability led to a decrease in investment, deviation of their distribution from the optimal and, as a result, to a slowdown in output growth. In addition to the instability of prices, an important factor contributing to the development of the crisis is the instability of financial markets. Debt contracts in developing countries, unlike developed ones, are mainly short-term and denominated in foreign currency. The expectation of an increase in inflation may lead to an increase in interest rates, which will negatively affect the cash flow of firms. Firms will be unable to pay interest on debt, while the value of assets in domestic currency will plummet due to expectations of high inflation. If at the same time the financial system of the country is undergoing formation, it can lead to a strong crisis of the financial system and the economy.

When analysing alternative intermediate goals of monetary policy of countries with market systems such as in Ukraine, one can note the fact that the choice of a specific goal should be carried out considering the features of the transition economy and the stage of its development. That is why the policy of targeting exchange rates was used by the countries with market systems such as in Ukraine, while monetary targeting and inflation targeting are mainly used by

developed countries. At the beginning of the transition process, when there is a rapid dollarization of the economy, the policy of targeting the exchange rate may be the best choice for the country. It plays a significant role in reducing inflation, as the inflationary effects of the devaluation of the domestic currency are mitigated. In addition, the fixed exchange rate has a disciplining effect on the economy – if monetary and fiscal policies are not aimed at reducing inflation, then the real exchange rate of the national currency will grow, and as a result, the demand for domestically produced goods will decrease and the demand for imports will increase, which will lead to before the recession in the country. There may also be a threat of an increase in the balance of payments deficit.

Despite all the advantages of a fixed exchange rate policy at the initial stage of transition to the market, the exchange rate fixation in the countries with market systems such as in Ukraine was a temporary measure corresponding to the initial stage of integration into the euro area. To successfully achieve intermediate goals with the help of a fixed exchange rate, these countries pursued a policy of increasing the volume of foreign exchange reserves, strict fiscal discipline and monetary policy independence. The advantages of monetary targeting, like exchange rate targeting, are simplicity and transparency; signals about monetary policy positions and the authorities' intentions to keep inflation under control in the countries with market systems such as in Ukraine were sent almost instantly to the population and markets. These signals helped lower inflation expectations and lead to its reduction.

Despite the apparent success of monetary stabilization in many countries with new market systems (especially Slovenia, Slovakia, and the Czech Republic), most economists question the success of monetary targeting in countries with market systems such as in Ukraine for the following reasons.

In order to successfully achieve the primary goals, it is necessary for the economy to have a reliable relationship between the target variable (inflation) and the targeted aggregate arperatom (Loi, Rakić, Sabol, 2023). However, all economies what transition to EU of faced the problem of unstable demand for money, so the relationship between monetary aggregate and inflation is weak, and monetary targeting did not work effectively. In addition, the lack of instruments in transition economies often made monetary regulation impossible, and the disadvantage of monetary targeting is the impossibility of rapid disinflation (Mayes, 2009).

In conditions of moderate inflation, monetary targeting instantly leads to high costs associated with a decrease in economic activity and a sharp increase in interest rates. If the nominal money supply is unchanged and at the same time prices are rigid in relation to the decline, then the real money supply is reduced, which causes interest rates to rise. This, in turn, leads to a drop in output.

Therefore, the countries with market systems such as in Ukraine, which are not members of the Eurozone, switched to a policy of direct inflation targeting. Considering the architecture of monetary policy in the EU, it can be described as

a mixed system of various mechanisms of EU economic policy, which is based on the following principles: delegation; purposefulness; coordination; autonomy of national policy.

There are not only different approaches, but also many different tools used to implement these policies, ranging from hard rules of collective persuasion to soft procedures of cooperation and dialogue. Therefore, the situation can be characterized as having confusion and tension in the system. The confusion arises from the complexity of the system and the variety of roles, and the tension is caused by the «ends-means» relationship. If you depict the complexity of economic management in the EU, which is characterized by various forms of coordination and delegation of autonomy, you can get the following view of management regimes.

The ECB establishes a system of main target benchmarks, which includes inflation indicators, interest rates, employment, exchange rate, real GDP growth and changes in the money supply circulation (Heryán, Tzeremes, 2017). The uniqueness of the ECB's monetary policy lies in the fact that its financial strategy is based on two approaches.

In general, a combination of two approaches provides control over monetary processes. This practice allows interest rates to be set at a level that best creates price stability and ensures economic growth in the region.

First, price stability allows the population to better see changes in relative prices, since they do not «dissolve» against the background of fluctuations in the general price level. As a result, firms and consumers will not confuse the variables of general and relative prices and will be able to more consciously make decisions on consumption and investment. In turn, this will allow the market to ensure a more efficient allocation of resources. By helping the market to direct resources to where they will be used with the greatest return, price stability helps to increase the welfare of households and, therefore, the development of the productive potential of the entire economy.

Second, when the lender is confident that prices will remain stable, it will not demand an «inflation risk premium» from the borrower as a reward for the risk that such a lender bears as an owner of assets with nominal value over a long period of time. Due to the reduction of the share of the risk premium in the current interest rates, the monetary policy with its authority contributes to a more efficient allocation of resources in the capital markets and, thus, creates additional incentives for investment. This, in turn, contributes to the growth of the economic well-being of the population of the Eurozone countries.

Third, consistent maintenance of price stability reduces the likelihood that private individuals and firms will withdraw funds from the productive sphere to insure themselves against inflation. For example, at a high level of inflation, it makes sense to accumulate inventories, which in such conditions retain value

better than cash or some types of financial assets. However, investing money in inventories is far from the most efficient way of investing funds, which holds back economic growth.

Fourth, taxation and social security systems can create false incentives that lead to distortions in the behavior of economic entities. In most cases, under the influence of inflation or deflation, these distortions become even greater, since the fiscal system usually does not provide for the indexation of tax rates and deductions to social insurance funds to the level of inflation. Price stability allows you to avoid real losses that occur in cases where inflation strongly distorts the effect of the taxation and social insurance system.

Fifth, inflation acts as a kind of tax on cash savings. As a result, household demand for cash falls, and transaction costs rise (related, for example, to finding a bank that offers the most favourable terms).

Sixth, the maintenance of price stability excludes the possibility of arbitrary redistribution of a significant amount of material (monetary) assets and income, which takes place in conditions of inflation and deflation, when price dynamics change in an unpredictable way (for example, the consequences of redistribution of capital or assets from creditors to debtors). As a rule, inflation primarily affects the most vulnerable sections of society. Maintaining stable prices helps to prevent the stratification of society and social cataclysms. In the 20th century situations arose more than once when a high level of inflation or deflation led to social and political instability.

All of the above arguments indicate that the central bank, if it ensures price stability, thereby significantly contributes to the solution of broader economic tasks: raising the standard of living, increasing economic activity and creating new jobs. This conclusion is confirmed by the results of the economic analysis (on the example of many countries at different times and using different methods) by Professor M. Chang, that in the long term, countries with a low level of inflation are usually characterized by higher rates of real economic growth (Chang, 2006).

The main task of the EMU and the unified monetary policy for which it is responsible is defined in the Treaty as maintaining price stability. In addition, without prejudice to the performance of the task of providing EMU price stability provides support for the conduct of general economic policy in the Community in the interests of helping the Community achieve its goals, including ensuring a high level of employment and sustainable non-inflationary growth, which was mentioned in the previous paragraph. The agreement gives the main importance to the maintenance of price stability in the Eurozone and in the EU countries for completely justified reasons from an economic point of view. Since monetary policy can only influence the level of prices in the economy, its only and natural task is to maintain price stability. Trying to solve other tasks with the help of monetary policy: increasing the level of real incomes or employment is problematic, be-

cause, apart from a positive effect on price stability, monetary policy does not have the tools at its disposal to influence real economic indicators for a long time.

Other economic entities, in particular those responsible for conducting fiscal and structural policy, are called to deal with the tasks of stimulating economic growth. The clear hierarchy of EMU goals established by the Treaty, which reflect practical experience accumulated over decades and the results of a number of economic studies, indicate that the most effective monetary policy contributes to improving the prospects for economic development and raising the standard of living of the population by maintaining price stability on a long-term basis.

At the same time, the division of goals and tasks established by the Treaty assumes that in the course of practical implementation of decisions in the field of monetary policy aimed at maintaining price stability, and without prejudice to the performance of this task, the monetary system must also consider broader economic tasks member countries of the Eurozone. In particular, since monetary policy can negatively affect the level of real economic activity in the short term, the ECB, as a rule, must ensure that its actions do not cause sharp fluctuations in the volume of output and the level of employment, provided that this is consistent with its main objectives task.

Some macroeconomic indicators

The National Bank of Ukraine improved its inflation forecast to 8.2% for 2024 and expects it to stabilize in the target range of $5\% \pm 1\%$ in the following years. As before, the NBU predicts a moderate increase in inflationary pressure this year in view of the expected exhaustion of the effects of the previous year's larger harvests, the further recovery of consumption and the increase in business costs in wartime conditions. At the same time, considering the better actual inflation dynamics and the improvement of inflation expectations, the inflation forecast for the end of this year was reduced from 8.6% to 8.2%.

Inflation will return to the target range of $5\% \pm 1$ in the following years. p. and will remain within its limits. This will be facilitated by the gradual normalization of the conditions for the functioning of the economy, as well as the weakening of external inflationary pressure, as well as the consistent measures of the NBU's monetary policy. Inflation is expected to slow down to 6% at the end of 2025, and to 5% at the end of 2026 (Inflation Report by National Bank of Ukraine, 2024). The recovery of the economy will continue, although it will be restrained, primarily due to significant damage to energy facilities.

Full-scale Russian aggression continues and causes new losses to the Ukrainian economy. The NBU assumes a reduction in security risks and the normalization of conditions for the functioning of the economy over the forecast horizon. Instead, a prolonged high-intensity war threatens further destruction of cities, infrastructure and industries, the extent of which is difficult to estimate in advance.

Compared to the previous forecast, the risk of insufficient international funding this year has significantly weakened, but the risks of the rhythm of its receipt remain. The following risks also remain relevant: the emergence of additional budgetary needs for maintaining defense capability or covering significant quasi-fiscal deficits, in particular in the energy sector; significant damage to infrastructure, primarily energy and port infrastructure, which will limit economic activity and put pressure on prices from the supply side; continuation of partial blocking of borders by some EU countries for freight transportation, which will restrain exports and make imports more expensive; deepening of negative migration trends; aggravation of the situation in the Middle East, which, in particular, increases the risks of possible interruptions in the supply of energy resources and their price increase for the world economy. At the same time, there remains the possibility of the realization of a number of positive scenarios related, in particular, to the further expansion of export opportunities, the transfer to Ukraine of funds from immobilized Russian assets, the acceleration of European integration processes, and the implementation of a large-scale program for the recovery of Ukraine.

The Ministry of Economy, considering updated statistical data and new information, has revised its assumptions and forecast for Ukraine's economic and social development in 2024. According to the new estimates, the nominal GDP in 2024 is expected to reach 7,484.7 billion UAH (previously forecasted at 7,643 billion UAH), with real GDP growth projected at 3.5% (previous forecast – 4.6%).

The average annual increase in consumer prices is expected to be 5.4%, and December-to-December inflation is forecasted at 7.9% (compared to 8.5% and 9.7% in the previous forecast). The unemployment rate among the population aged 15-70 is expected to be 18.2%, lower than the previous forecast of 18.7%. (Ministry of Economy of Ukraine, 2024).

The NBU predicts that economic growth will slow to 3.5% in 2024, largely due to losses in energy infrastructure and an anticipated electricity deficit (around 5%, according to the NBU's assumptions). In the first half of 2024, Ukraine's GDP growth is estimated at 4.1%, which currently aligns with the revised government forecast of 3.5% (National Bank of Ukraine, 2024). Factors contributing to GDP growth in the first half of 2024 include high export volumes from the mining and metallurgical sector and the early start of the winter crop harvest. Positive aspects also include the stable operation of Ukraine's maritime corridor and the ability of some enterprises to ensure uninterrupted access to electricity through direct imports. In 2025-2026, GDP growth is expected to accelerate to 5.3% and 4.5%, respectively, thanks to the gradual normalization of conditions for economic activity.

Some Financial mechanisms of maintenance of Ukrainian economy

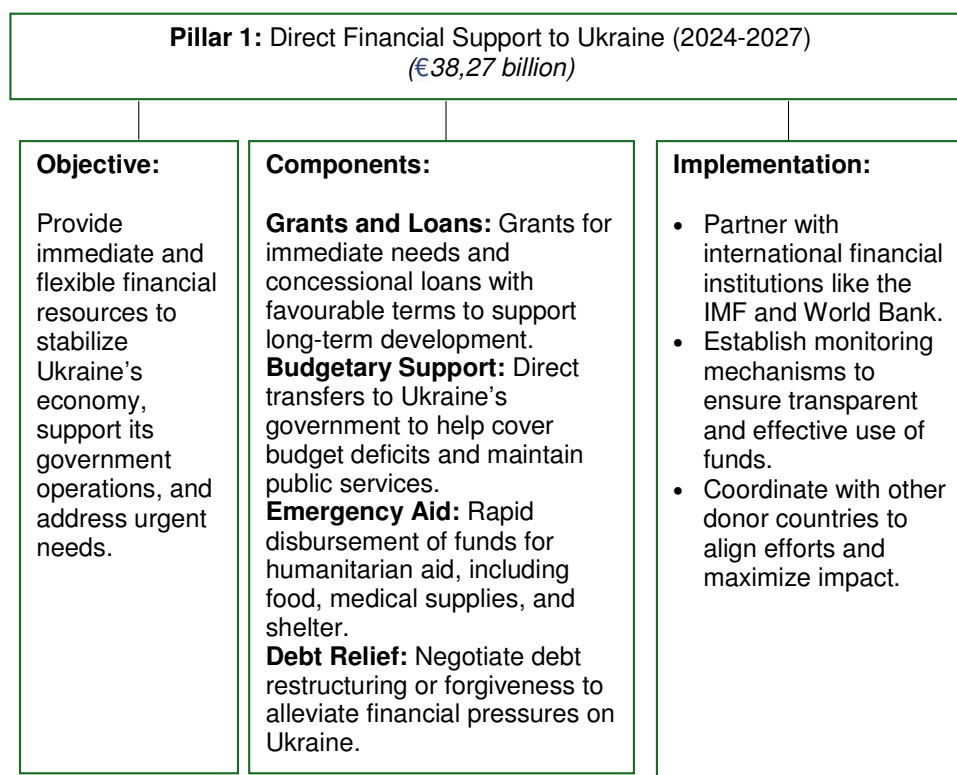
The Ukraine Facility is a new support mechanism launched by the EU for the years 2024 to 2027 to maintain Ukraine in its recovery. The Ukraine Facility reflects the European Union's strategic interest in a stable, prosperous, and democratic Ukraine, contributing to the broader stability and security of the region.

The Ukraine Facility is an instrument to provide Ukraine with up to €50 billion in stable and predictable financial support during this period.

Funding mechanism, to achieve main aims of the program, is based on 3 pillars.

Figure 1

Pillar 1 of Ukraine Facilit



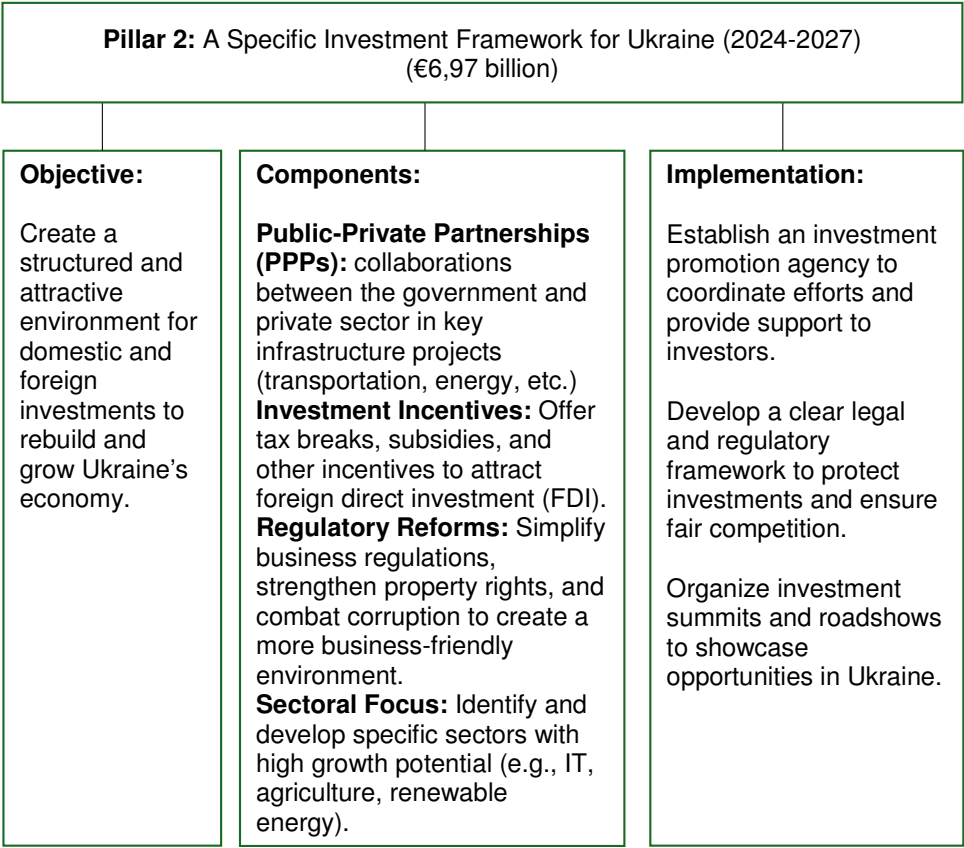
Source: created by the authors on the base of data of Ministry of finance.

Pillar 1 of the Ukraine Facility, titled «Direct Financial Support to Ukraine», focuses on providing immediate and essential financial assistance to help stabilize the Ukrainian economy amidst the ongoing conflict and rebuilding efforts.

The funding framework under 1 Pillar includes 33 billion euros in loans and 5.27 billion euros in grants for the Ukrainian budget. Grants and loans will be provided quarterly to meet the goals outlined in the Ukraine Facility Plan. These loans have a repayment period of 35 years, with principal repayments starting in 10 years. Thanks to a subsidy in the third pillar, which will cover the interest on these loans, there will be no budget expenditures for servicing the loans in the coming years (Ukraine Facility, 2024).

Figure 2

Pillar 2 of Ukraine Facility



Source: created by the authors on the base of data of Ministry of finance.

Pillar 2 of the Ukraine Facility, titled «A Specific Investment Framework for Ukraine», is designed to support the long-term reconstruction and economic development of Ukraine.

In the framework of Pillar 2, nearly €7 billion has been allocated to support investments in Ukraine, including provisions for potential payments under the EU guarantees totalling €7.8 billion. Investment funds will be accessible to investors via the EBRD, EIB, and other international institutions. Assistance is open to both Ukrainian private and state-owned enterprises. Additionally, 15% of these guarantees, or €1.17 billion, is earmarked to support small and medium-sized enterprises, including loan guarantees from Ukrainian banks. At least 20% of the guarantees, or €1.56 billion, will be allocated towards green goals such as climate change, biodiversity, and environmental initiatives.

By establishing a specific investment framework, this pillar aims to lay the foundation for Ukraine's long-term economic recovery and sustainable development, creating a resilient and prosperous future for the country.

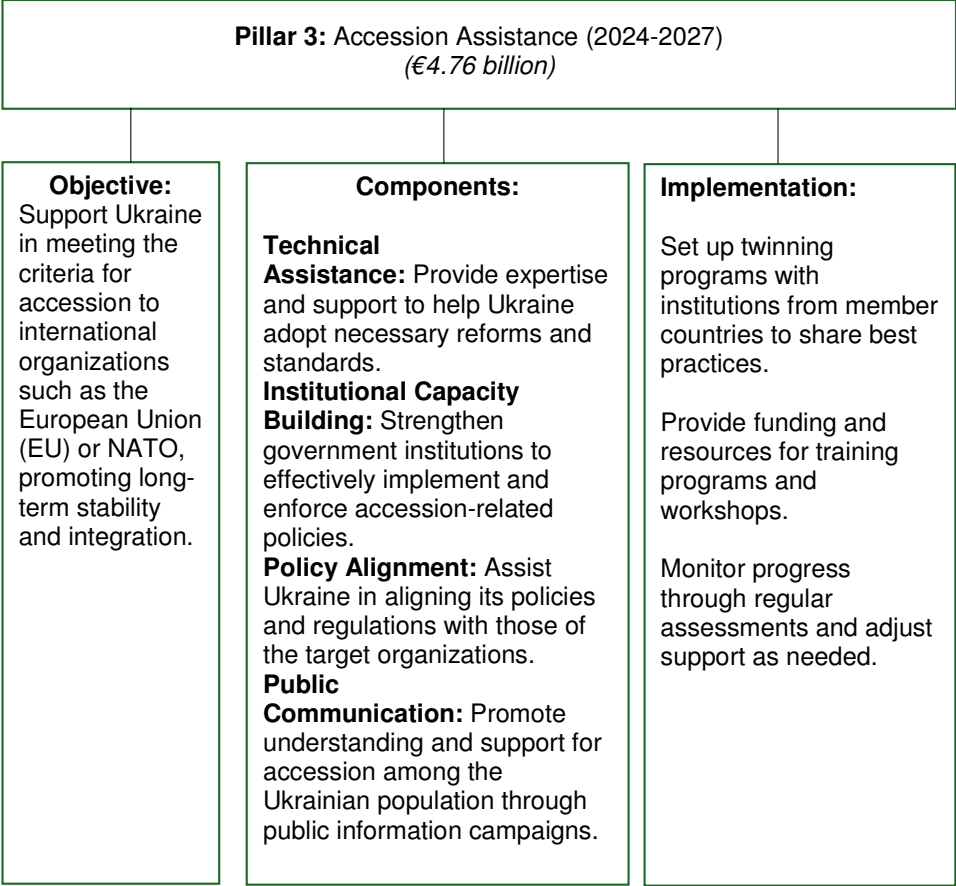
Pillar 3 of the Ukraine Facility, titled «Accession Assistance», focuses on supporting Ukraine's path toward EU membership by providing targeted aid to meet the required political, economic, and institutional standards. A total of 4.76 billion euros from the EU budget will be allocated to cover interest on loans to Ukraine, including both new loans and those issued in 2022-2023. This funding will also support technical assistance, other aid areas for Ukraine, and cover some administrative costs of the EU program itself (Ukraine Facility, 2024).

This multi-pillar approach aims to provide comprehensive support to Ukraine, addressing immediate needs while laying the groundwork for sustainable development and integration into broader international frameworks. This structured approach ensures that financial support is contingent upon Ukraine's adherence to democratic principles and effective use of funds, while providing mechanisms for ongoing oversight and review.

A Multi-Agency Donor Coordination Platform is a digital tool or system designed to facilitate cooperation and coordination among various donors, such as governments, NGOs, private sector entities, and international organizations, involved in funding and supporting projects. The platform aims to streamline communication, avoid duplication of efforts and maximize the impact of donated resources. *Objectives* of a Multi-Agency Donor Coordination Platform are improving coordination; enhancing transparency; optimizing resource allocation; strengthening accountability; fostering collaboration.

Figure 3

Pillar 3 of Ukraine Facility



Source: created by the authors on the base of data of Ministry of finance.

*Existing Funding Mechanisms of a Multi-Agency Donor Coordination Platform**1. G7 Finance Track*

The G7 Finance Track for Ukraine is a coordinated effort among the Group of Seven (Canada, France, Germany, Italy, Japan, the United Kingdom, and the United States) countries to provide financial and economic support to Ukraine, particularly in light of the challenges posed by the conflict with Russia and the associated economic disruptions. This initiative involves various forms of assistance, including direct financial aid, economic sanctions against Russia, and support for Ukraine's economic reforms and reconstruction efforts.

As of 2024, the G7 countries have collectively committed substantial amounts of direct financial aid to Ukraine.

*Table 1***Key Contributions and Commitments of G7 Finance Track**

Contributors	Sum of Funding
United States	<i>Financial Aid:</i> Over \$24 billion in direct financial assistance, including humanitarian and economic support. <i>Military Assistance:</i> Additional commitments exceeding \$30 billion for defense aid.
European Union (Including Germany, France, and Italy)	<i>Financial Aid:</i> The European Union, including its G7 members, has provided around €18 billion in macro-financial assistance. <i>Germany:</i> Approximately €6 billion in direct financial aid, including budgetary support and humanitarian assistance. <i>France:</i> Around €2 billion in financial and humanitarian aid. <i>Italy:</i> Committed approximately €1 billion in various forms of aid.
United Kingdom	<i>Financial Aid:</i> Committed over £4 billion in economic and humanitarian aid.
Canada	<i>Financial Aid:</i> Contributed about CAD \$5 billion, including budget support and humanitarian assistance.
Japan	<i>Financial Aid:</i> Around \$2 billion in emergency grants and economic support.

Source: created by the authors on the base of data of Ministry of Finance.

The total direct financial aid from the G7 countries to Ukraine exceeds \$60 billion, with significant portions allocated for immediate economic stabilization, humanitarian relief, and long-term reconstruction efforts. This figure includes various forms of assistance, such as grants, loans, and in-kind support (G7 Italia, 2024).

2. G7+ Coordination Group on Energy Infrastructure

The G7+ Coordination Group on Energy Infrastructure is an initiative within the G7 framework that addresses energy infrastructure development, particularly in conflict-affected and fragile states. Due to the severe destruction from brutal targeted shelling, Ukraine temporarily lost about 9 GW of installed power generation capacity between March and May 2024.

The G7+ Coordination Group in support of Ukraine's Energy System standing in solidarity with Ukraine for the past two years, committed to providing significant emergency assistance to repair and stabilize the energy grid and restore power generation, especially in preparation for the upcoming winter (EEAS Press Team, Ukraine Recovery Conference, Berlin 2024).

Table 2

Key Contributions and Commitments of G7+ Coordination Group on Energy Infrastructure

Contributors	Sum of Funding
United States	<i>Energy Assistance:</i> Committed approximately \$2 billion for energy infrastructure projects, including power generation, transmission lines, and grid stabilization.
European Union (Including Germany, France, and Italy)	<i>Germany:</i> Pledged about €1.5 billion for energy infrastructure, focusing on renewable energy projects and energy efficiency improvements. <i>France:</i> Committed around €500 million for energy sector support, including modernization of energy facilities and emergency repairs. <i>Italy:</i> Contributed approximately €300 million for energy infrastructure development and resilience projects.
United Kingdom	<i>Energy Sector Support:</i> Allocated around £800 million for various energy infrastructure projects, including renewable energy and energy security initiatives.
Canada	<i>Energy Infrastructure:</i> Contributed about CAD \$500 million for energy projects, including the repair and upgrade of power facilities
Japan	<i>Energy Support:</i> Committed around \$400 million for energy infrastructure, focusing on both short-term repairs and long-term modernization.

Source: by the authors on the base of data of Ministry of Finance.

The total funding committed by the G7+ Coordination Group on Energy Infrastructure for Ukraine is estimated to be around \$6 billion. This funding supports a range of initiatives designed to improve Ukraine's energy infrastructure, enhance energy security, and promote sustainable energy solutions.

3. International Financial Institutions (IFIs) Coordination Group

The IFIs Coordination Group consists of major international financial institutions that collaborate to streamline their development assistance efforts. Key IFIs include the World Bank, International Monetary Fund (IMF), and regional development banks like the African Development Bank (AfDB) and Asian Development Bank (ADB). The coordination group's activities involve harmonization of policies; joint financing; technical assistance.

The International Financial Institutions (IFIs) Coordination Group, comprising major global financial institutions like the International Monetary Fund (IMF), World Bank, European Bank for Reconstruction and Development (EBRD), and regional development banks, has mobilized significant funding to support Ukraine. This funding aims to address immediate economic stabilization needs, humanitarian assistance, infrastructure reconstruction, and long-term development goals.

Table 3

Key Contributions and Commitments of International Financial Institutions (IFIs) Coordination Group

Contributors	Sum of Funding
International Monetary Fund (IMF)	<i>Emergency Financing:</i> Approximately \$15.6 billion in emergency financing under the Rapid Financing Instrument (RFI) and Extended Fund Facility (EFF) to stabilize Ukraine's economy and support structural reforms (Ministry of Finance of Ukraine, 2024).
World Bank	<i>Financial Support:</i> As of June 2024, the World Bank has mobilized over \$42 billion in financial support for Ukraine, with nearly \$36 billion already disbursed (World Bank Group, 2024). <i>Humanitarian Assistance:</i> Funding for immediate humanitarian needs such as healthcare, food security, and housing for displaced populations.
European Bank for Reconstruction and Development (EBRD)	<i>Financial Support:</i> In 2023 it was provided a record €2.1 billion. This followed €1.7 billion in 2022, surpassing their two-year target of €3 billion set for 2022-2023. The EBRD plans to continue its support with annual allocations of around €1.5 billion from 2024 (Interfax, 2024).

Contributors	Sum of Funding
European Investment Bank (EIB)	<i>Loans and Grants:</i> Approximately €2 billion (New EU contribution for EIB's Ukraine support package, 2023) in loans and grants for infrastructure projects, particularly in transportation, energy, and urban development (EIB and Ukraine strengthen cooperation, 2023).
Regional Development Banks (such as the Asian Development Bank and African Development Bank)	<i>Support Programs:</i> Combined contributions of around \$1 billion for various projects aimed at supporting Ukraine's development and reconstruction efforts

Source: created by the authors on the base of data of Ministry of Finance.

The total funding committed by the International Financial Institutions (IFIs) Coordination Group for Ukraine is estimated to be around \$60 billion. This funding encompasses a wide range of initiatives, including economic stabilization, humanitarian relief, infrastructure rebuilding, and long-term development projects. The IFIs Coordination Group plays a crucial role in mobilizing and coordinating international financial support for Ukraine, ensuring that the funding is effectively allocated to meet both immediate and long-term needs.

Experts from the World Bank, the Government of Ukraine, the European Commission, and the UN estimated Ukraine's financial needs for recovery and reconstruction at \$486 billion at the end of 2023. Considering the above-mentioned support program, unfortunately, we have to admit a huge gap between Ukraine's economy necessity for recovery and world community supply. However, without Ukraine Facility as well as the Multi-Agency Donor Coordination Platform, Ukrainian economy would not have survived in such strict war.

Thus, Ukraine Facility as well as the Multi-Agency Donor Coordination Platform represents a coordinated and multifaceted approach to aid, aiming to address both immediate challenges and lay the groundwork for a stable and prosperous future for Ukraine.

Conclusions

One of the key monetary challenges in emerging market economies is controlling inflation, unlike in the Eurozone, where price stability is a major concern over inflation expectations. The National Bank of Ukraine has improved its inflation forecast to 8.2% for 2024 and expects inflation to stabilise within the target range of $5\% \pm 1\%$ in the following years.

Inflation will return to the target range of $5\% \pm 1$ in the following years and will remain within these limits. It will be facilitated by the gradual normalization of the conditions for the functioning of the economy, as well as the weakening of external inflationary pressure, as well as the consistent measures of the NBU's monetary policy. Inflation is expected to slow down to 6% at the end of 2025, and to 5% at the end of 2026. The recovery of the economy will continue, although it will be restrained, primarily due to the significant energy facilities damage.

In addition to the usual pressure from the side of demand and costs, five additional factors can be identified that entail problems in determining monetary policy in countries with emerging markets:

- The liberalization of prices at the beginning of the transition is expressed in the agents' search for an equilibrium level of prices and significant changes in relative prices, since the prices of goods of daily demand were understated in the planned economy.
- A change in relative prices leads to a significant redistribution of resources within the country. The inertia of inflation leads to constant moderate inflation (15–40% per year) in many transition economies of the countries with market systems such as in Ukraine. Since the inertia of price growth rates is a consequence of formed inflationary expectations, this problem can affect the formation of inflation in the conditions of a transitional economy.
- As income increases, the level of prices in the economy for "non-tradable" goods goes up (in accordance with the Balassa-Samuelson effect), and when conducting a stabilization monetary policy, it is necessary to determine to what extent inflation is a consequence of the increase in relative prices for non-tradable goods. Although for transition economies the dominant factor in price growth is money supply factors rather than the Balassa-Samuelson effect, the latter is often more significant for transition economies developing in the second stage of development, following the transformational recession.
- Privatization, creation of institutions and competitive markets takes a certain period of time, while the rate of market competition formation

and improvement of efficiency in the private sector can significantly affect the rates of inflation in transition economies.

The mechanisms of economic stabilization, such as the Ukraine Facility and the Multi-agency Donor Coordination Platform for Ukraine, only partially address the needs of Ukraine's economy. These mechanisms help keep Ukraine's war-torn economy afloat. For long-term recovery, it is necessary to develop new mechanisms aimed not only at attracting external sources of funding but also at mobilizing internal resources.

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