**Oleksandr Dziubliuk**
Dr. Sc. (Economics), Prof.,
Professor of the Department of Finance named after S. I. Yuriy,
West Ukrainian National University

# COORDINATION OF MONETARY AND FISCAL POLICIES IN UKRAINE IN THE CONDITIONS OF MARTIAL LAW

The practice of implementing anti-crisis measures of the state economic policy to eliminate the consequences of shocks, overcome the recession and ease the condition of businesses and households covers the two most important areas of influence – fiscal and monetary policy. The fiscal anti-crisis policy provides for an increase in budget expenditures, including guarantees, direct payments under various aid packages, a reduction or postponement of the tax collections, fees and other mandatory payments. As for the monetary policy, it includes the implementation of such measures of economic support, which are aimed at providing additional liquidity to financial market institutions, easing regulatory requirements for banking system, as well as helping to increase the volume of lending to the real sector.

Monetary and fiscal regulation as key levers for transmitting impulses of state influence on the real sector are the most important directions of stabilization of the economic situation, stimulation of economic activity and market demand, as well as effective delivery of relevant government aid packages to their recipients – enterprises and households. The fact of a significant increase in the importance of monetary and fiscal policies as the main levers of the state's influence on the economy is indisputable in conditions where a flexible and prompt response to situations related to the unfolding of crisis phenomena as a result of internal or external shocks is required. Such an external shock was the large-scale military aggression launched against our country, which had a comprehensive impact on all aspects of the economic life of society, including the possibility of normal economic development and the implementation of appropriate regulatory measures of the state, covering the instruments of monetary and fiscal policy.

The process of implementation of the state economic policy assumes that the measures of fiscal and monetary policy as its integral components are determined by the goal of combating inflation, smoothing cyclical fluctuations of the economy, reducing unemployment, stimulating economic growth, generating state budget revenues and implementing effective expenditures for the state to perform its public functions. In this process, the state regulates aggregate demand and real national income through the amount of money supply, banks' lending, government spending, transfer payments, and taxation.

When an economy faces a slowdown or recession, the government can pursue expansionary fiscal policies to stimulate growth. This approach involves increasing spending on public projects and services, such as infrastructure, education, and health care. In addition, tax cuts are used to provide households and businesses with more income by encouraging consumption and investment. In this way, by injecting funds into the economy, the government seeks to create a multiplier effect, when an increase in spending leads to an increase in income and further economic activity. On the other hand, when the economy experiences high inflation or overheating, governments can opt for restrictive fiscal policies, which include cuts in government spending and tax increases to curb aggregate demand and control inflation. By withdrawing funds from the economy, the government seeks to slow down spending and prevent excessive price increases. However, the implementation of restrictive measures requires prudence and careful consideration, as they can lead to a slowdown in economic growth and potential job losses.

As for the monetary policy, its expansionary implementation involves an increase in the money supply, a decrease in interest rates, an expansion of bank credit operations with the aim of stimulating aggregate demand in the market and revitalizing the economic situation, increasing jobs and stimulating business activity. Restrictive monetary policy, on the contrary, involves a reduction in the money supply, an increase in interest rates, restrictions on credit operations of banks in order to restrain the flow of new money into the economy and prevent the development of inflationary processes, as well as restrictions on business activity in order to prevent the economy from overheating.

Since the beginning of martial law, the problems of mutual coordination of monetary and fiscal policy have been associated with certain inconsistencies in the tasks of regulating the financial sector. The following factors were a concrete manifestation of this. Firstly, the NBU financed most of the budget deficit through emission, which immediately created a huge devaluation and inflationary pressure on the national currency. Secondly, the low level of profitability of financial instruments, which could not serve as a compensator for the inflationary depreciation of the funds invested in them, and therefore contributed to the flow of monetary resources to the consumer market, stimulating price dynamics, as well as to foreign currency, increasing the devaluation pressure on the hryvnia. Thirdly, the efforts of the National Bank, despite the emission pressure, to keep the dynamics of the hryvnia exchange rate from a sharp devaluation based on the strengthening of currency restrictions with the aim of curbing the inflationary pressure on the market as well. On the other hand, the sharp decrease in tax revenues to the budget and covering of this shortfall by the emission mechanism of financing the budget deficit meant an automatic increase in the inflation tax on everyone who uses the hryvnia, as well as loss of confidence in the national currency and inability to maintain its exchange rate at constant level.

The effectiveness of fiscal regulation of economic development largely depends on the full implementation of the tax potential of the state [1, c. 81]. However, the war imposes a huge financial burden on the state, and therefore it is quite natural that the budget deficit expands significantly during this period. Defence expenditures of the budget are now a priority, and all other public expenditures related to socio-economic programmes are forced to be financed at the minimum necessary level. It is the monetization of the budget deficit by the central bank that makes it possible to quickly finance the lack of funds for the state, which at some points is extremely important, including for the country's defense capability. However, this only partially solves the problem, as large-scale financing of the budget deficit, which lasts for years, can deal a devastating blow to macrofinancial stability and the monetary system. Therefore, at the beginning of the war, the National Bank of Ukraine undertook to limit government funding to cover only critical expenditures and maintain maximum transparency in the coverage of such transactions. At the same time, during martial law, the NBU was granted a temporary opportunity to purchase government bonds, and from 8 March to 31 December 2022, the NBU purchased UAH 400 billion worth of government war bonds. As a result, the monetization of war bonds made it possible to support the country's defense capability, ensure the smooth functioning of critical infrastructure and the public finance system as a whole.

At the same time, the policy of "expensive money" pursued by the National Bank and which is a reaction to the consequences of monetary financing of the budget deficit will also have negative consequences for the economy [2, c. 14]. The implementation of a restrictive monetary policy by the National Bank, based on an increase in the discount rate and the establishment of a high yield on certificates of deposit, created objective prerequisites for limiting the credit activity of commercial banks in the real sector in view of the possibility of investing their own resources in risk-free assets such as the NBU's securities. The result of the implementation of such monetary policy of the National Bank of Ukraine and the credit policy of the commercial banks themselves was a distorted structure of the banking system assets, when the share of the credit portfolio in the form of loans granted to business entities and individuals is only about a fifth of the total volume of bank assets. Therefore, the National Bank of Ukraine essentially leveled the functions of the banking sector as a financial intermediary. After all, attracting funds from economic agents, the banking system does not issue loans to those enterprises or sectors of the economy that need them, but places its resources on certificates of deposit, thereby accumulating significant amounts of excess liquidity.

The main strategic goals of the state economic policy should be moderate and sustainable economic growth, a high level of employment, price and currency stability, and an active balance of payments. These goals represent a subordinate system, the elements of which are interconnected and mutually determined in the sense that any of them can contribute to or hinder the achievement of another. And therefore, in order to achieve the specified goals, as well as maintain macro-financial stability and create conditions for a gradual transition to ensuring sustainable growth of the economy, the state needs a clear system of coordination of fiscal and monetary policy, which will be aimed at ensuring the achievement of strategic goals of economic development and creating appropriate prerequisites for effective functioning market and post-war recovery of the country.

However, in the current conditions of martial law, the need for effective interaction of fiscal and monetary policy is felt especially acutely in view of the direct influence of monetary instruments of interest rate management on the fiscal capabilities of the government to accumulate the necessary revenues for the budget through the public debt, its maintenance, as well as the implementation of budget expenditures. At the same time, it is important that the implementation of a strict and independent monetary policy by the central bank does not contradict the goals of the fiscal policy to fill the budget and does not predetermine the operation of monetary resources exclusively within the closed boundaries of the financial sector.

**References:**

1. Desiatniuk O., Tkachyk F. The Role of Tax Potential in the Development of Local Government in Ukraine. *World of Finance*. 2021. №1(66). pp.77-88.
2. Krysovatyy A. Military Realities of the Fiscal Space of Public Finances in Ukraine. *World of Finance*. 2023. №1 (74). pp. 8-30.