

Introductory Speech of Deputy Governor of the NBU Serhiy Nikolaychuk at the VII Annual Research Conference

Dear colleagues,

On behalf of the National Bank of Ukraine, it is my honor to extend a warm welcome to all participants of the [VII Annual Research Conference of the National Bank of Ukraine and Narodowy Bank Polski](#). This year, our joint conference is being held with the support of the International Monetary Fund. Today we have this truly significant and flagship event at a time that is challenging and turbulent for Ukraine and the world in general due to Russia's military aggression. Russia's unprovoked and unjustified full-scale invasion has caused widespread fatalities, destruction, and environmental catastrophe, the likes of which Europe has not experienced since the conclusion of World War II.

We are currently navigating through extraordinary humanitarian and economic crisis that affects all corners of Ukraine and have global implications. The magnitude of the world's challenges has reached extreme levels. The Russian full-scale invasion has significantly amplified global economic difficulties. A resurgence of recession, an energy crisis, the deceleration of the 'green agenda', escalating food security issues in Southern countries, social unrest, and a rise in populism are some of the most visible global outcomes of this war. The war that Russia is waging against Ukraine is a struggle against the entirety of the civilized world, further exacerbating these issues.

Meanwhile, this existential threat has galvanized our internal capabilities and fostered considerable aid from our allies, including in the military and financial spheres. Regrettably, there are no pre-existing textbooks or theories outlining the optimal economic strategy in conditions of external military aggression of such scale. However, it is evident that under such conditions, we cannot afford any missteps. Prior to shaping our economic policies and formulating our responses, it is crucial that we undertake comprehensive analyses, solid research, and engage in profound discussions.

Especially taking into account that Russian narratives, fakes, populist rhetoric, and propaganda advocating for 'simple solutions' have been spreading around the globe like a virus.

This makes this year's research conference, themed '*Economic Policies during Wartime and Post-War Recovery*', an event of pivotal importance. It serves to bring us a step closer to addressing a crucial question: What actions can we, as central bankers, government officials, academic representatives, experts, and members of international organizations, undertake to triumph over our shared enemy, mitigate the fallout of this war, and assure prosperity following victory? This subject is multifaceted, and all aspects warrant consideration. The program of this conference is tailored to encompass every aspect of this issue.

First, we need to clearly understand where we stand today and what effects the war has both for Ukraine and the world. This is far from a straightforward task. Determining the full impact of the war at the local, regional, and especially global levels presents a formidable challenge, as many of these effects have yet to fully materialize.

In Ukraine, even estimating the short-term economic consequences of the war is difficult, given limited access to official data. Consequently, my colleagues at the NBU have deployed the full range of options that new technologies and scientific progress provide us today to conduct analysis and inform policy recommendations. Those methods include

google search data, nighttime satellite images, and other high-frequency alternative data, as evidenced by recent papers of my colleagues ([Constantinescu, 2023](#); [Constantinescu et al, 2022](#); [Inflation Report NBU, July 2022](#)). They have enabled us to keep track of the economy's state in real-time since the onset of the Russian invasion. We will have the opportunity to dive deeper into this topic through presentations by my colleagues today.

Moreover, the impact of the war has not stopped in Ukraine. These repercussions have rippled out to affect other countries. Supply chain disruptions, migration, energy and food prices volatility, a reset of trade relations, geopolitical fragmentation, and escalating uncertainty are some of the issues in the primary focus of this event's research sessions and panel discussions.

Second, we need to continue and expand the thorough discussion of why aid to Ukraine today is irreplaceable and more important than ever. According to various estimates, losses to the Ukrainian economy due to destruction and the economic downturn, as well as the amount of financing needed for reconstruction, are measured in hundreds of billions of dollars. The continuation of humanitarian, financial, and military aid programs to Ukraine today is critical to ensuring the operation of our economy and, ultimately, our victory. Furthermore, as NBU's Governor Andrii Pyshnyy argues in his chapter in the recent CEPR e-book: "Ukraine's victory will be a victory for the entire world" ([CEPR, 2022](#)). Throughout this conference, we are fortunate to have the opportunity to hear from multiple contributors to this CEPR volume, including Yurii Gorodnichenko who was not only the principal editor of this e-book but has also consistently led the academic committee of this conference since its establishment in 2016.

Another significant aspect of international support to Ukraine warrants discussion. As part of hybrid warfare, the enemy continues to disseminate narratives globally, suggesting Western fatigue and a misuse of taxpayer funds in supporting Ukraine, especially as donor economies grapple with high inflation and subdued growth. As economists, we understand that military aggression and arms races have never resulted in long-term prosperity for nations. Moreover, the principal impetus for the global efforts to aid Ukraine lies not in economic gain, but in the aspiration to mitigate human suffering and ensure enduring peace in the region.

Nevertheless, we do have a counterpoint for those challenging the momentum to support Ukraine. In providing our answers, we rely on empirical data and a pragmatic approach, rather than resorting to manipulation. Recently, my colleagues published preliminary results from their study, demonstrating that aid to Ukraine, inclusive of military support, not only bolsters the potential for global security order and the free world to prevail, but also incurs a significantly lower cost than suggested by the opponents ([Chebanova et al, 2023](#)).

Specifically, military spending by donor countries to assist Ukraine and replenish depleted stocks generates additional fiscal stimulus within these countries, potentially vital during periods of economic stagnation. Concurrently, the restocking of armaments by these nations results in the mobilization of further productive investments. The opportunity to share military experiences enables these countries to enhance resource allocation within their military sectors and generate incentives for major arms exporters. Thus, the actual short-term cost of military aid to Ukraine is considerably less than critics would suggest. The world will never tire of supporting Ukraine, no matter how long the enemy waits.

And in order to support this statement, let me provide you with the symbolic example and quote the words of the NBP President Adam Glapinski from his recent interview: 'While standing ready to further assist the NBU as long as the war continues, NBP is already looking forward to cooperating with it as a real partner and ally in shaping a future

European economic order and in promoting financial stability in this part of the continent'. Such support is priceless for us. The resilience and the preparedness of the NBU to the current challenges of a full-scale war can be significantly attributed to the support of our friends, among which the NBP and the IMF play the prominent role.

We maintain our hope that our counterparts from other central banks and international financial organisations will extend their expertise to us, and persist as genuine allies in combating the financing of terrorism and military aggression, money laundering, and the evasion of sanctions. Safeguarding the international financial system from these illicit activities will contribute to creating a more secure and prosperous world.

That leads us to the third issue that I see as important for discussion at this conference, namely the tightening of economic and financial sanctions against Russia, as well as the identification of vulnerabilities in the sanctions already imposed. Do sanctions yield results? How can we enhance their effectiveness? The war may seem to have pushed the world further towards fragmentation and strategic autonomy. However, the common purpose in fighting evil has become ever more visible. Moreover, companies and governments are showing an increased ability to make difficult decisions. The EU's decision to reduce their reliance on Russian gas was one of them. The search for alternative energy sources was mostly an urgent, painful, and costly process, yet it helped Europe return to the path towards energy independence, laying the foundation for a sustainable model of energy security. Eventually, Europe has gained a critical victory, bringing a strategic advantage in the fight against a common enemy rather than just a protection from energy blackmail.

The fourth and final point of our discussion at this conference is potential post-war reconstruction models. These should consider Ukraine's advancement towards EU accession and the principle of 'building back better,' as well as the new normal created by global fragmentation. A swift and sustainable economic recovery after the war calls for far-sighted economic policies. There are numerous challenges awaiting us, and our policymakers must brace themselves for substantial asymmetric shocks in the future. This applies to monetary, fiscal, and financial policies, as well as their coordination.

I eagerly anticipate hearing from our keynote speakers, Professor Eichengreen from the University of California, Berkeley, and Governor Vujčić from the Croatian National Bank. Both will undoubtedly offer valuable insights into the practical and conceptual aspects of effective post-war economic and financial recovery.

For my part, I want to underscore the NBU's commitment to maintaining price and financial stability. However, amidst a full-scale war, our policy toolkit has had to adapt substantially. In particular, in response to the full-scale invasion, we had to implement stabilization policy measures that encompassed fixing the exchange rate and providing outright monetary financing to the government. Our priorities shifted to include new tasks, such as guaranteeing Ukraine's defense capabilities and the smooth operation of our financial system.

Our efforts proved successful. Today we have a full-fledged program with the IMF which is unique in its nature. It helps to navigate the economy and the financial sector in the conditions of extreme uncertainty. It stipulates the absence of direct financing of the budget, as well as the gradual FX liberalization, and a return to the policy of flexible exchange rate and inflation targeting when relevant prerequisites are met.

Underpinned by the program, a low and stable inflation rate and a functioning, well-capitalized, and liquid banking system should provide the fundamental conditions necessary for swift and sustainable economic development post-war. However, we acknowledge that these preconditions are not sufficient in themselves, and there is a greater task at hand. Primarily, we must execute the objectives outlined in the recently updated NBU Strategy and more broadly in the Financial Sector Strategy, the update of which we are going to finalize in coming weeks

I am confident that the coming two days will yield highly productive discussions. Regrettably, we are unable to hold these discussions in Kyiv as has been our tradition for many years. Since the start of May alone, Kyiv has endured over 20 attacks involving more than 100 missiles and 200 drones.

Fortunately, our allies and true friends have once again extended their support since the onset of the full-scale war, providing us with the wonderful opportunity to host the conference in the scenic city of Krakow. I extend my gratitude to the representatives of Narodowy Bank Polski and the International Monetary Fund for making this possible.

Simultaneously, I hold onto the earnest hope that next year, post our collective victory in the war, we will have the opportunity to extend an invitation to all of you to Kyiv for our annual research conference.