Managing and Administering the Integration of Ukraine's Financial System into the Global Economy: Emerging Challenges

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Abstract: - The article presents EU, IMF, and World Bank recommendations regarding financial transaction transparency, banking regulation, and anti-money laundering measures. The issue of public governance facing one of the biggest problems – corruption and the shadow economy – is discussed, emphasizing the importance of combating corruption. High levels of corruption undermine trust in financial institutions and government bodies, reducing the interest of foreign investors in Ukraine. The article explores the effectiveness of anti-corruption efforts, strengthening the rule of law, and ensuring transparency in public finances, all prerequisites for integration into global markets. Risks to financial stability are described as integration into the global economy involving greater openness and capital mobility, which could lead to financial crises without proper regulation. Ukraine requires a robust financial monitoring and control system to avoid sudden capital outflows or currency fluctuations. The article emphasizes the importance of enhancing the export potential of Ukrainian companies. As a regulator of public relations and the economic environment, the state establishes a foundation by creating incentives for state support that drive technological breakthroughs and foster a favorable environment for foreign trade. In the strategic development of any country, foreign economic activity and integration into the global economy play a crucial role. Given the current military realities, the export sector is susceptible to various external influences, making it difficult to forecast for the sake of ensuring economic security. Against this backdrop, the current focus on developing an economy based solely on raw materials is one of the challenges that must be addressed in the long-term development plan.

Key-Words: - Competition, International Competitiveness, International Economy, Integration, Investment, Public Administration, External Markets, Global Economy.

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1 Introduction

State influence is critical to any country's economy's rapid and effective growth. The economic development over the past 60 years globally demonstrates that state support plays an important role, [1]. For instance, the government established critical sectors of South Korea, and all economic development projects were directly financed through state banks. A similar approach was applied in Japan and Taiwan, where many financial resources were directed toward economic development. Another example is the government measures to stimulate the national economies of the United Kingdom and the United States, which, through these interventions, formed a group of corporate giants in the 18th and 19th centuries, thereby creating effective and robust economies that led the world.

One of the most general trends in financial development, which has become particularly evident in recent decades, is the transformation of the financial system into an independent sector, exerting an increasingly significant impact on the economic situation in individual countries and globally, [2]. The scale of this sector is reflected in the fact that half of the world’s 10 largest companies belong to the financial sector. These include well-known companies such as Citigroup and Bank of America (USA), HSBC Group (UK), ING Group (Netherlands), and UBS (Switzerland). The assets of each of these and at least ten other companies exceed one trillion dollars. A critical factor in forming an independent financial sector has been the separation of capital ownership from capital function. This capital could not have been formed without the financial system, which helped gather small and large capital from various sources, such as shareholders’ money, bank loans, and tax payments.

As mentioned, rapid economic development occurs due to state measures and support. Thus, it becomes clear that only state support can form a high level of capital in Ukraine, raise labor productivity to a new level, and increase the number of new economic development projects. Exports must also generate the highest margin level for producers and the whole market. Modern trends in global finance and the financial systems of individual countries objectively point to further deepening financial globalization and strengthening interconnections between countries, particularly evident during the global financial crisis and Russia's military aggression. Based on the facts above, the main objective of this work is to thoroughly study and analyze the most effective integration of Ukraine's financial system into the global economy, [3].

2 Literature Review

The idea that natural resources are necessary for a country’s economic growth has generated conflicting views among economists, [4]. Until the 1980s, economists considered natural resources essential for developing the national economy. According to research [5], the availability of rich natural resources is the cause of increased production, meaning that the diversity of natural resources positively influences economic growth. In the 1980s, several legislative acts were passed to deregulate and liberalize banking activities. This trend was also clearly observed in Europe. European banks became more active players in securities markets, increasing their penetration into the non-banking financial sector. However, from the 1980s onwards, scholars began to adopt a more skeptical view of this opinion. For instance, suggested that natural resources lead to the Dutch Disease syndrome, [6]. Studies by [7], [8] demonstrated that resource-rich countries increasingly depend on imports, leading to domestic production and export instability.

In their academic works [9], based on an analysis of the trade turnover between the Republic of Kazakhstan and the People’s Republic of China, explain that the stability of the export basket is due to consistent demand for goods such as hydrocarbon raw materials, non-ferrous and ferrous metals, and their products, which significantly impacts the financial systems of these countries. According to the [10], countries that do not diversify production towards high-tech industries will remain at the same level. At the same time, those who overcome these barriers will be able to increase production by responding to the demand for high-end products, [11], [12].

Several notable academic works reveal the principles, approaches, and specifics of implementing modern financial policies in European Union countries, authored by [13], [14], [15], [16]. In their research [3], have substantiated relevant aspects of social quality policy, which should be implemented in Ukraine during its post-war development. Linking the recovery process to the prospect of EU membership gives both domestic and international efforts a clear direction, especially in light of the European Commission's opinion, adopted in June 2022, regarding Ukraine's application for EU membership, reaffirming the Copenhagen criteria for admitting new members [17].

The analysis of the integration of Ukraine’s financial system into the global economy, the study of the challenges of management, administration, and optimization of Ukraine’s financial system, using the experience of various countries.

3 Materials and Methods

To solve the tasks set, a complex of theoretical and empirical methods was used, which include: theoretical: analysis, synthesis, theoretical modeling, generalization of materials presented in the scientific literature and specialized archives on the problem under study; empirical: statistical (comparative and correlation analysis), interpretative (analysis, synthesis, systematization of the obtained data).

Empirical methods such as observation and forecasting were used to carefully examine and present the characteristics of integrating Ukraine’s financial system into the global economy. In addition, analytical methods, such as synthesis, induction, and deduction, were employed to illustrate the use of informational tools in establishing the financial system visually. Each method was used to address specific research goals at various stages of the study.

4 Results

The invasion of Ukraine by the Russian Federation has caused enormous economic losses, which continue to escalate daily as the war persists. This has led to a deep recession and destructive macroeconomic imbalances across almost all sectors of the domestic economy. The decline in Ukraine's economy is mainly due to the destruction of industrial enterprises and public utility infrastructure, disrupted logistics for supplying raw materials and intermediate goods for production, unstable water and energy supplies, migration of the workforce, a significant reduction in cultivated areas and loss of crops, the destruction of transport infrastructure, the inability of many retail establishments to operate due to logistical challenges, a sharp drop in investment activity, rapid inflation, rising debts, currency devaluation, reduced consumer demand, limited financial resources, and the reallocation of state expenditures towards defense and military provisions. There are also psychological and demotivational consequences, leading to a decrease in the quality of human capital. The depth of the recession in Ukraine's economy will depend primarily on the duration of military actions and the extent of Ukrainian territory affected by the war. The high likelihood of a prolonged conflict poses the most significant risk to the worsening socio-economic situation in Ukraine and globally.

The reintegration of Ukraine's financial system has been an ongoing challenge since Russia's defeat near Kyiv in the early months of the war, and it became even more critical following the successful Ukrainian counteroffensive in the fall of 2022 and the offensive in the Kursk region. It is worth noting that foreign economic challenges (factors) play a significant role in Ukraine's economic and strategic development. The export sector is under significant pressure from various external military factors, complicating its development. Consequently, the current focus on a raw-material-based economy is a significant issue for Ukraine. One of the main challenges is the sharp decline in demand for fuel and raw materials, which are critical to the global economy and represent a dominant position in global markets.

Since February 2022, Ukraine's European integration processes have gained increased importance and intensity. This period is marked by Ukraine being granted candidate status for membership in the European Union, as announced on June 23, 2022. From this point on, Ukraine must pay special attention to the rapid adaptation of all areas of its policies and legislation to the standards, norms, and rules established in the EU. At the same time, to successfully realize the set goals in the country’s economic development, Ukraine must enhance the effectiveness of its state policy in foreign economic activities. Overall, any decisions related to state policy should be based on evidence-based management, leading to implementing the “Data-driven government” concept. Therefore, the following strategic directions should be formulated for integrating Ukraine's financial system into the global economy:

Strengthening Institutional Capacity: The institutional capacity of government bodies responsible for regulating financial markets must be enhanced to achieve effective integration. This involves Staffing, modernizing digital technologies, and developing internal control mechanisms.

Cooperation with International Organisations: Close cooperation with international organizations such as the IMF, World Bank, and the European Union is a crucial integration element. This provides access to credit resources and helps transfer public administration and financial regulation best practices.

Attracting Foreign Investment: State policy should focus on improving the country's investment climate. This requires ensuring legislative stability, protecting investor rights, and creating favorable conditions for foreign companies to operate.

Transparency and Accountability: Enhancing transparency in public administration is a crucial task for integration. This includes open access to information on state expenditures, conducting fair tenders and public procurement, and ensuring independent audits of public finances.

Financial Literacy: Improving the population's financial literacy is one of the tasks of public administration. This will help improve citizens' interaction with financial institutions and expand access to financial services, strengthening Ukraine's integration into the global economy.

The development level of the international payments system determines the country's effectiveness in globalization processes. According to experts from the Boston Consulting Group [18], [19], there is a trend towards concentrating investments to build a global payment system. Ukrainian banks are closely and mutually beneficially cooperating with international banks and, therefore, are also involved in the changes occurring in the global banking market, particularly in the global payment system. Ukrainian banks must meet the requirements announced by their international counterparts (Figure 1, Appendix). To do this, Ukraine must create an international payment system that includes a technically equipped architecture, a legislative framework, and the accumulation of practical experience, [20].

The major banks worldwide are focused on maintaining and adhering to new European and global requirements for executing payment orders with maximum efficiency. This includes increasing payment processing speed, ensuring accuracy and professionalism, and maintaining accountability in customer service. Table 1 (Appendix) outlines two leading technologies that help reduce costs across the entire payment chain in Ukraine's financial system banks.

Currently, amid the war, Ukrainian banks face the pressing issue of high commission charges on payments made by Ukrainian residents. This issue primarily affects payments made in euros. In practice, correspondent banks often charge over 100 euros in commission for payments exceeding 50,000 euros. Since Ukraine is not a member of the European Union, Ukrainian payments are considered "external" rather than "internal," which results in significantly higher commission fees. There are a few practical solutions to this problem. One solution specified in field 71A (indicating who bears the commission charges) – OUR – commissions covered by the sender. Another solution is subscribing to additional services offered by the correspondent bank, which often helps avoid double deductions of large commissions.

Along with meeting the technological requirements accepted by the global banking community, Ukrainian banks must also comply with stricter currency control regulations. Banks must know their clients and complete Know Your Customer (KYC) forms, which include questions about the origin of funds for both banks and their clients, as a mandatory requirement from the correspondent banks. Beyond regulatory compliance, banks must also address the risks of executing payment orders. The fight against fraudulent payment orders is a pressing issue, driven by technological advancements and Ukraine's integration into the international banking community.

In the post-war period, the Ukrainian government, in cooperation with the National Bank of Ukraine (NBU), will need to implement a balanced policy to ensure macroeconomic stability. This policy should focus on maintaining a balance between enhancing social support for the population, stimulating the development of economic sectors, and sustaining an acceptable level of inflation and a stable exchange rate for the hryvnia. Maintaining this balance involves several macroeconomic policy priorities.

Over the past 5 years, Ukraine's total public debt has increased 2.8 times, from UAH 1998,295.9 million in 2019 to UAH 5,519,505.7 million as of February 29, 2024. The largest increase in debt occurred in 2022 when it increased by 52.1% compared to 2021. During this period, the value of public debt in dollar terms increased by 70.7%. This increase in public debt has external and internal reasons, including military operations in the east of the country, the COVID-19 pandemic, low economic growth, insufficient tax revenues, and high dependence on imports. The consequences of this increase include increased debt service costs, reduced sovereign creditworthiness, and tighter fiscal policy. As of 29.02.2024, there is a small reduction in nominal government debt in hryvnias, but the cost of debt in dollar terms remains high, and the ratio to GDP remains high.

A gradual reduction of the inflation rate is planned. By 2025, inflation should decrease to 10 %, and by 2030 (or 2035), it is expected to drop to 7.5 % (or 4.5 %), through a series of measures (Figure 2, Appendix). These measures include curbing the rise in prices, especially for food products, increasing the production of goods (primarily food), reducing costs for producers, improving labor productivity, stimulating competition, expanding the competitive environment, enhancing antitrust controls, and adopting a restrained monetary policy that ensures sufficient liquidity in the economy; building trust in the hryvnia as a savings tool; and making credit more affordable for businesses and citizens.

Implementing measures to form long-term domestic investment resources by achieving a high gross fixed capital formation (GFCF) rate will ensure accelerated economic recovery, considering the historical experience of European and global countries after World War II. In 2023–2025, the main components of gross capital expenditures will be external borrowings and an increase in stocks of material current assets, primarily in unfinished construction. However, in 2026–2035, when construction projects are put into operation, the GFCF level should gradually increase to 30–35 %. Such a policy will help to enhance the confidence of domestic and foreign investors, allowing for the restoration of capital inflows and ensuring post-war economic growth.

Ukraine is undergoing large-scale transformations to modernizemodernize the economy, increase public administration efficiency, and improve citizens' living conditions. One of the most successful reforms in Ukraine is the decentralization reform, which began in 2014. This reform aimed to transfer most of the powers and resources from the central government to the local level, ensure local communities' financial autonomy, and increase local government's efficiency. Among its results, it is worth highlighting, [25], [26], [27]:

– financial autonomy of communities. According to the Ministry of Finance of Ukraine, from 2014 to 2023, local budget revenues increased almost threefold, reaching UAH 320 billion in 2023;

– infrastructure improvement. Thanks to increased financial resources, local communities could implement numerous infrastructure improvement projects. For example, from 2014 to 2023, more than 10,000 km of local roads were built or repaired;

– attracting investments. Decentralization has created favorable conditions for attracting investments to the regions. According to the State Statistics Service of Ukraine, foreign direct investments in local communities increased by 25% in 2022 compared to 2014.

5 Discussion

According to World Bank estimates, Ukraine has lost more than 4.8 million jobs since the start of the war, with the International Labour Organization (ILO) predicting this number could rise to 7 million if hostilities continue. Following the onset of the war, international credit rating agencies significantly downgraded Ukraine’s sovereign ratings, the export of goods and services decreased by 2–3 times, and the ratio of public debt to GDP increased to 90.7 %, [28].

In times of war, the pricing of consumer goods is determined not by their production cost but by the logistics of their delivery and the availability of a trading network. With the start of the war, the occupation of significant Ukrainian territories disrupted existing trade logistics, leading to a shortage of almost all short-term consumer goods, during which the population was willing to pay any price for essential items (especially food), which primarily triggered an inflation spike in March–April 2022. The pricing of foodstuffs was greatly affected by the logistical shortages caused by the temporary occupation of parts of the territory, the destruction of transport infrastructure, the disruption of production processes, the continued devaluation of the hryvnia exchange rate, and the high cost of energy globally, increasing the cost of goods in terms of imported energy components, [29].

Internal and domestic economic instability, such as high inflation, budget deficits, and rising public debt, create obstacles to full integration into international financial markets. These factors lower the country’s creditworthiness, making it harder to attract foreign investors. The ongoing military conflict and security challenges posed by Russia’s prolonged aggression against Ukraine further complicate integration processes. Security risks undermine investor confidence and complicate macroeconomic planning. The government must find mechanisms to mitigate the war's impact on the financial system and boost international support. The main principles for integrating Ukraine's financial system into the global economy are:

Business-Oriented Approach: Business is the driving force behind economic growth and prosperity, so the strategy must be updated based on interaction with a wide range of Ukrainian entrepreneurs and business circles. It is essential to ensure that government support is geared toward business needs and to continue working with businesses, using available data on market barriers as projects under the strategy are implemented and trade policy is developed for Ukraine's financial system, [30].

Doing What Only the Government Can Do: The government plays a vital role in Ukraine's financial system, using its unique assets such as intergovernmental connections, the ability to conclude international trade agreements, and membership in various international organizations. With these tools, the government can open markets and create opportunities for Ukrainian businesses, provide trade and export financing for viable Ukrainian exports where the private sector lacks resources through administrative channels, and promote Ukraine's strengths and opportunities worldwide. In the era of globalized economic relations, developing trade relations also means opportunities for localization and attracting innovative industrial projects.

Combining Government and Business Efforts: There is a wide range of organizations from both the public and private sectors, such as regional business associations, entrepreneur support centers, associations, and consulting organizations, that provide services to businesses on export matters. Under the government's financial support concept, working in partnership with the private sector and stakeholders is essential to complement and improve support. To achieve this goal, it is proposed that a project group on export strategy, led by the Minister of Trade and Integration, be established, comprising leaders from the financial sector. This will enable the government to leverage the experience and practices of each state body, improve government services, and provide entrepreneurs with an optimized mind map of public services.

Digital Tools: Maximising the potential of digital services and data science is crucial to providing effective and scalable support for Ukraine's integration into the global economy. Continuously improving digital services is necessary, making it easier for businesses to search and navigate through all export consultations, government support measures, and other information the state provides. At the same time, it is important to regularly analyse and use data, improve the services and products provided, and ensure they meet business needs.

Cost and Quality Control of Implemented Projects: To achieve the most significant effect and expand coverage, it is essential to consistently seek to improve the cost-efficiency of projects promoting domestic enterprises in foreign markets. To achieve this goal, feedback from exporting companies should be used to ensure resources are allocated in areas where the most significant results can be achieved. The successful implementation of public projects in governance and financial regulation should be assessed by the qualitative effect of increasing tax revenues to the budget, which will allow for "reinvestment" in new projects to support the integration of Ukraine's financial system into the global economy, [31].

Innovation is the foundation for developing national economies in the global market. However, Ukraine has not yet developed a new path based on innovation and the effective use of intellectual property. Ukraine's integration into the global economy and the expansion of cooperation with international economic and financial institutions objectively contribute to maintaining common interests with other countries on many financial security issues, including effectively addressing internal and external financial challenges, neutralizing the negative impact of globalization, and preventing military threats, [21].

6 Conclusion

Despite integration processes, each state strives to preserve its sovereignty and the unique features of its financial system development. In this regard, ensuring national and global financial security remains one of the most pressing issues for the functioning of the global financial system. An effective system for safeguarding a country's national interests in the financial sector requires consideration of current trends in changing threats to the national interests of the state, society, and each individual.

The study has shown that the financial system, as an integral element of the national economy, must contribute to economic development by providing the necessary financial resources and guaranteeing the stability of the national currency, especially in the face of external negative factors, one of which in today's conditions is war. It has been proven that the state must be a guarantor of the financial system's functioning during periods of instability. It is appropriate to examine Ukraine's financial system based on critical structural elements that ensure its formation and determine its operation parameters. These components include the sphere of public finance, particularly the state budget, the banking system, the securities market, and the currency system.

Based on the results of the analysis, it was established that trends in the budgetary sphere are characterized by a significant deficit in the state budget due to reduced tax revenues caused by the destructive effects of the war and the substantial strengthening of the country's defense capabilities. It was revealed that the primary sources of this deficit are state debt instruments, such as DGBs, Eurobonds, and loans from the international community. Additionally, non-repayable financial assistance from the European Union, the USA, and other partners plays a significant role in financing the deficit, greatly assisting the integration of Ukraine's financial system into the global economy.

Declaration of Generative AI and AI-assisted Technologies in the Writing Process

The authors wrote, reviewed and edited the content as needed and they have not utilised artificial intelligence (AI) tools. The authors take full responsibility for the content of the publication

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Contribution of Individual Authors to the Creation of a Scientific Article (Ghostwriting Policy)

- Inna Zhuk carried out the ideas, research, formulation, simulation, optimization, and writing the initial draft.
- Tetiana Shterma prepared the conceptualization, data curation, formal analysis, research, methodology, writing, proofreading, and editing of the initial draft.
- Dmytro Sushko prepared the data collection, project management, and resources and wrote the original draft.
- Tamila Bilousko has prepared data curation, software, supervision, writing, proofreading, and draft editing.
- Oleksii Muravskyi has prepared the methodology, validation, display and writing, proofreading, and editing of the draft.

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Conflict of Interest

The authors have no conflicts of interest.

APPENDIX

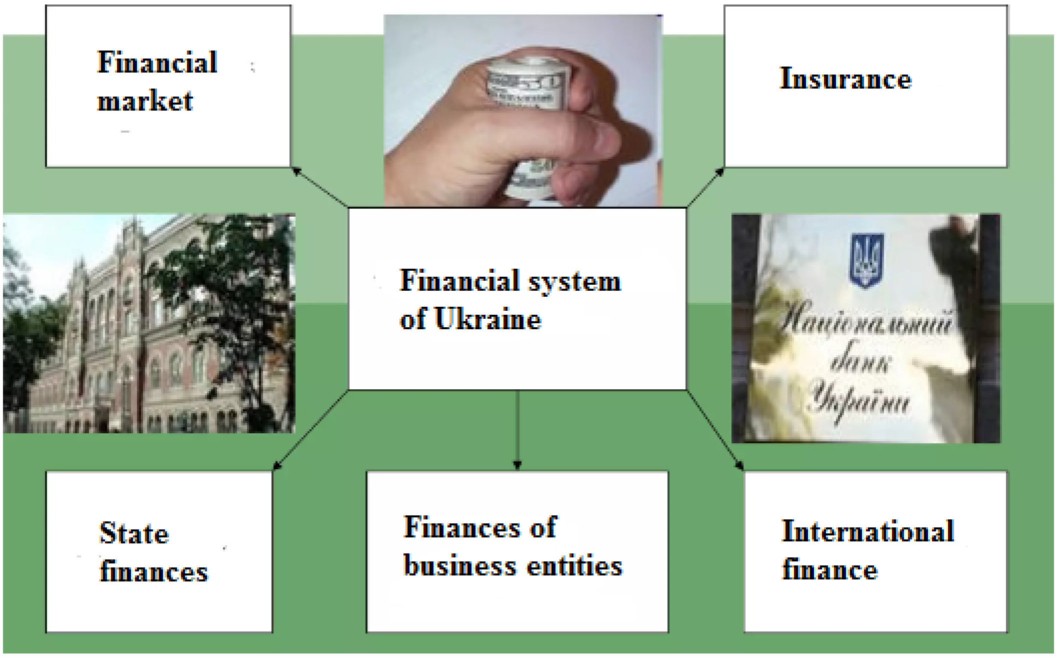

Fig. 1: Functional Structure of the Financial System of Ukraine
Source: [21]

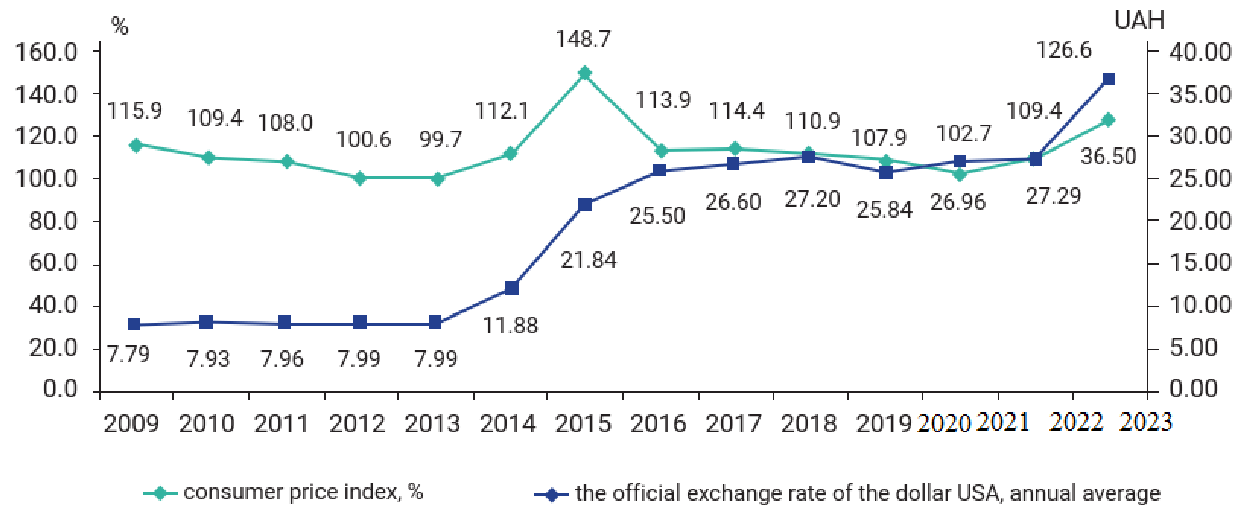

Fig. 2: Dynamics of Inflationary Processes and Average Annual Exchange Rate of the Hryvnia and the US Dollar in Ukraine
Source: compiled by the author according to the [23], [24]

Table 1. Payment Systems Characteristics

Technology	Requirements	Disadvantages
STP	Option A is mandatory, i.e. specifying the bank's BIC code. Without this option, the payment order will be processed manually.	So far, there are no known cases where correspondent banks supplement correspondent service agreements with a clause stating that the foreign bank is not responsible for the timeliness of payments that do not pass STP, and, therefore, there are options for allocating costs associated with the failure of a transaction to the foreign correspondent. In the Ukrainian version of this problem, instead of reimbursing fines, banks demand adjustment of the value date (back value), which also involves certain costs.
MT103, MT103+, MT202	Each party in the payment chain must be identified in a standardized manner. The IBAN identification number is mandatory	for customers of banks in the Eurozone. One major drawback is the conflict of requirements for STP in the European and American clearing systems.

Source: [22]