# KAPITEL 5 / *CHAPTER 5* [5]
# THE MULTIFACETED COMPLEX OF A COUNTRY’S INTERNATIONAL RELATIONS REFLECTED IN THE BALANCE OF ITS INTERNATIONAL TRANSACTIONS: THE BALANCE OF PAYMENTS

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**Introduction.**

The international relations of a country encompass a broad range of interactions, ranging from economic exchanges and political alliances to cultural exchanges and security concerns. One of the key economic indicators that reflects the health and dynamics of a country's international relations is its Balance of Payments (BoP). This financial statement serves as a comprehensive record of all economic transactions between a country and the rest of the world over a specified period. It captures the flow of goods, services, income, and capital, providing essential insights into a country's external economic relations.

The balance of payments is not just a technical economic report; it is a crucial tool for understanding the impact of international relations on a nation's economic standing. It mirrors the effects of a country's diplomatic efforts, trade policies, foreign investments, and international financial engagements. Furthermore, it helps in evaluating the sustainability of these relationships and how external factors, such as geopolitical changes or global economic shifts, influence a country’s economic stability.

**Relevance of the Topic.** The study of the balance of payments is highly relevant in today’s increasingly interconnected global economy. As countries navigate complex geopolitical landscapes, their international transactions-whether through trade, capital flows, or aid-become more intricately linked to their economic and political standing. For policymakers, economists, and analysts, the BoP is a key tool in evaluating a country’s international competitiveness, financial health, and the effectiveness of its foreign relations strategies.

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Understanding the balance of payments is crucial for countries as they assess their position within the global economy. Countries with persistent trade deficits, for example, may face pressure on their currency, while those with surpluses may encounter different economic challenges. Additionally, in an era of increasing globalization, international financial crises, and shifting trade alliances, the BoP offers valuable insights into how well a nation is adjusting to the changing dynamics of international trade, investment, and diplomacy.

In light of these considerations, this topic explores the multifaceted nature of the balance of payments and its critical role in reflecting the complex web of a country’s international relations. It is vital for understanding the broader implications of foreign policy decisions, trade relations, and global economic trends. By analyzing the BoP, countries can gain a clearer picture of the long-term sustainability of their economic strategies and foreign interactions.

**Literature review.** The Balance of Payments (BoP) is a crucial framework for understanding the economic interactions between a country and the rest of the world. It encompasses a broad spectrum of transactions, ranging from trade in goods and services to financial flows such as capital investments, loans, and remittances. The literature surrounding the balance of payments highlights its multifaceted nature and the critical role it plays in assessing the broader economic and geopolitical dynamics that shape a nation's international relations.

The theoretical underpinnings of the BoP have been extensively discussed by economists, particularly in the context of its role in macroeconomic stability and international economic relations. Hume’s Balance of Trade Theory (1752) provided early insight into how trade balances-exports versus imports-could influence a country’s economic position. His work laid the foundation for modern discussions on trade imbalances and their impact on national economies. In addition, Keynesian economics introduced a broader understanding of how fiscal and monetary policies influence BoP outcomes, suggesting that government interventions (such as changes in interest rates or currency devaluation) could help stabilize the balance and address deficits.

More recently, scholars like Rondinelli and Montgomery (1986) in their work on international economic transactions have expanded the discussion to include capital flows, foreign investment, and the role of international financial institutions in balancing payments. Their contributions highlight the complex interconnections between economic, political, and social factors that affect a country’s BoP.

The literature also emphasizes the significance of the BoP in informing economic policy decisions. Bordo and Schwartz (1999) argue that the BoP serves as an essential tool for policymakers to understand the consequences of their decisions, particularly regarding currency stabilization, fiscal policies, and trade agreements. In this context, a country experiencing a persistent BoP deficit may need to adjust domestic policies (such as austerity measures or interest rate changes) to curb excessive imports and attract foreign capital. Conversely, countries with surplus balances might employ BoP data to decide on the reinvestment of surplus funds, development aid, or increasing foreign investment.

In his seminal work, Krugman (2009) discusses the role of the BoP in shaping a country’s economic independence and its ability to engage in global trade and finance. He notes that BoP deficits, if sustained for long periods, can result in external debt accumulation, which could compromise national sovereignty in economic matters. On the other hand, trade surpluses may indicate an economically dominant position on the global stage, potentially leading to stronger diplomatic influence.

With the rise of globalization, the literature on the BoP has expanded to address the interconnectedness of national economies and the global financial system. Authors such as Eichengreen (2007) and Obstfeld and Rogoff (1995) focus on how global capital flows, multinational corporations, and international financial institutions (like the IMF and World Bank) affect the BoP of emerging economies. As nations integrate into the global economy, their BoP becomes increasingly reflective of international power relations, trade dependencies, and shifts in geopolitical alliances. For instance, the global financial crisis of 2008 prompted extensive research into the vulnerabilities of countries with large BoP deficits and the impact of foreign debt on national sovereignty and international power structures.

McKinnon (2000) further discusses how developing countries face particular challenges in managing their BoP due to limited access to international capital markets, often leading to debt crises and necessitating foreign aid or IMF intervention. This scholarship emphasizes the vulnerability of countries in the Global South and how their international relations—especially with the World Bank and IMF—are reflected in their BoP.

The BoP is also increasingly seen as a barometer of a country's foreign relations and global positioning. Baldwin (2005) and Sachs (1995) suggest that BoP imbalances can have significant implications for foreign policy. Countries with persistent BoP deficits may struggle to assert their influence globally, while those with surpluses often use their economic strength to shape international trade agreements and investment flows. The role of the BoP in diplomatic negotiations is particularly evident in trade relations, as countries with favorable BoP positions are better equipped to leverage economic power in securing trade deals, military alliances, and foreign aid arrangements.

Additionally, Oatley (2019) highlights the role of the BoP in the context of economic diplomacy. He argues that countries adjust their economic policies, including exchange rate strategies, foreign exchange reserves, and fiscal management, in response to BoP pressures. Countries with a surplus may seek to maintain favorable conditions for investment and trade, while those with deficits might work to improve trade terms, attract foreign capital, or seek financial assistance from global institutions.

As the world becomes increasingly interconnected, emerging trends in the literature are focusing on the impact of digitalization and technological innovation on international transactions and the BoP. Hein (2020) discusses the influence of digital currencies, blockchain technology, and e-commerce on global trade balances, suggesting that new forms of international transactions are likely to reshape how countries manage their BoP. Additionally, the COVID-19 pandemic has brought attention to the role of global crises in disrupting BoP equilibrium, particularly through changes in trade patterns, foreign investment, and remittances.

Eichengreen and Gupta (2015) suggest that new financial technologies and changing global trade routes may lead to greater unpredictability in the BoP, as countries adjust to new international economic realities.

The balance of payments literature illustrates its crucial role in reflecting not only the economic exchanges between countries but also the broader dynamics of international relations. As a complex mechanism, the BoP intertwines with global trade, capital flows, foreign policy, and geopolitical shifts. Understanding the BoP is therefore essential for comprehending the wider context of a country’s place in the global system, especially as international relations continue to evolve with new challenges and opportunities in the 21st century. This literature provides a foundation for understanding how a nation’s economic policies, foreign relations, and international transactions are interdependent and mutually influential.

**Results.** The balance of payments is a monetary expression of a country's entire system of global economic relations, represented as the ratio of inflows and payments.

From an economic perspective, there are two types of balance of payments: at a specific date and over a certain period. The balance of payments at a specific date cannot be fixed statistically, as it represents a continuously changing ratio of payments and inflows. The state of the balance of payments determines the demand and supply of national and foreign currencies at a given moment and is one of the key factors influencing the exchange rate.

The balance of payments over a given period (month, quarter, year) is compiled based on statistical data on external economic transactions conducted during that period. It enables an analysis of changes in a country's international economic relations, the scale and specifics of its participation in the global economy. The indicators of the balance of payments are closely linked to aggregate economic development indicators (such as Gross National Product and National Income) and are subject to government regulation. In the long run, the state of the balance of payments is closely related to the stability of the national currency and the dynamics of the exchange rate.

From an accounting perspective, the balance of payments is always in equilibrium. However, within its main sections, there can be either a surplus (when inflows exceed payments) or a deficit (when payments exceed inflows). Therefore, the balance of payments is not only an account of a country’s international transactions, where both sides balance each other, but also a reflection of the qualitative and structural characteristics of these transactions.

*Main Sections of the Balance of Payments* - trade Balance, Balance of services and non-commercial payments, capital and credit account; trade Balance – the ratio of exports to imports of goods; вalance of services and non-commercial payments (the balance of “invisible” transactions); capital and credit Account – the movement of capital and loans.

Foreign trade indicators traditionally play a crucial role in the balance of payments. The ratio of exports to imports forms the trade balance. The economic significance of a trade surplus or deficit depends on a country’s position in the global economy, its relationships with trade partners, and its overall economic policy.

For developing countries that lag behind economic leaders, a trade surplus is crucial as a source of foreign exchange to meet international obligations in other sections of the balance of payments. A trade deficit, on the other hand, is usually seen as a sign of economic weakness, particularly in countries that struggle with foreign currency inflows. However, for industrialized nations, a trade deficit may have different implications. For instance, the U.S. trade deficit results from aggressive market entry by international competitors from Western Europe, Japan, Hong Kong, Taiwan, South Korea, and other countries producing increasingly complex goods.

The balance of services includes payments and revenues from (fig.1):

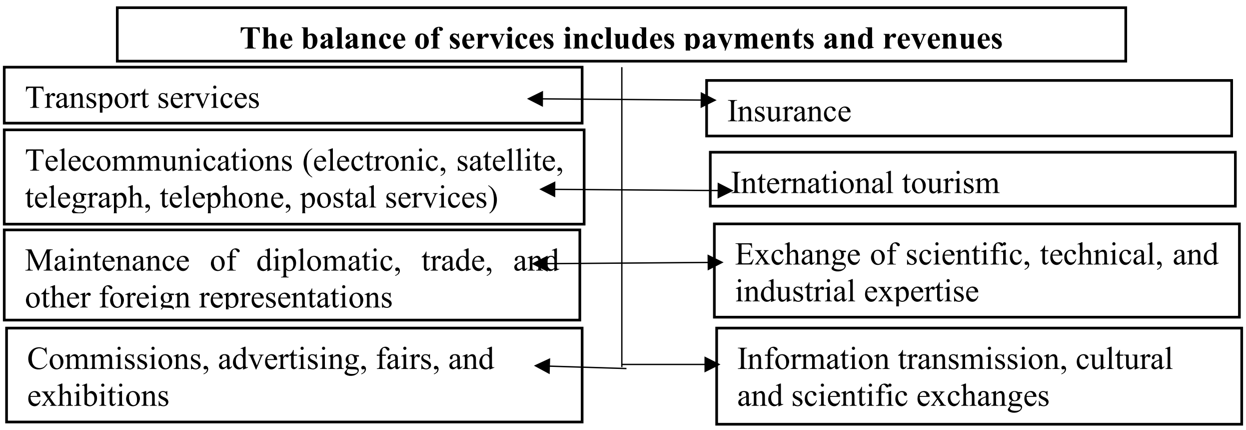


**Fig. 1. The balance of services includes payments and revenues**

The significance and impact of these services on the structure of payments and inflows are constantly growing.

According to IMF methodology, unilateral transfers are reported separately in the balance of payments. These include:

1. Government transfers – subsidies to other countries as economic aid, state pensions, and contributions to international organizations.
2. Private transfers – remittances from foreign workers, professionals, and family members back to their home countries.

This section also reflects military expenditures abroad. These transactions (services, investment income, military-related transactions, and unilateral transfers) are often referred to as "invisible" transactions, as they do not pertain to the export or import of goods.

The current account of the balance of payments consists of the trade balance and "invisible" transactions.

The capital and credit account reflects the movement of public and private capital, as well as international loans granted and received. Economically, these transactions are divided into two categories (fig.2):

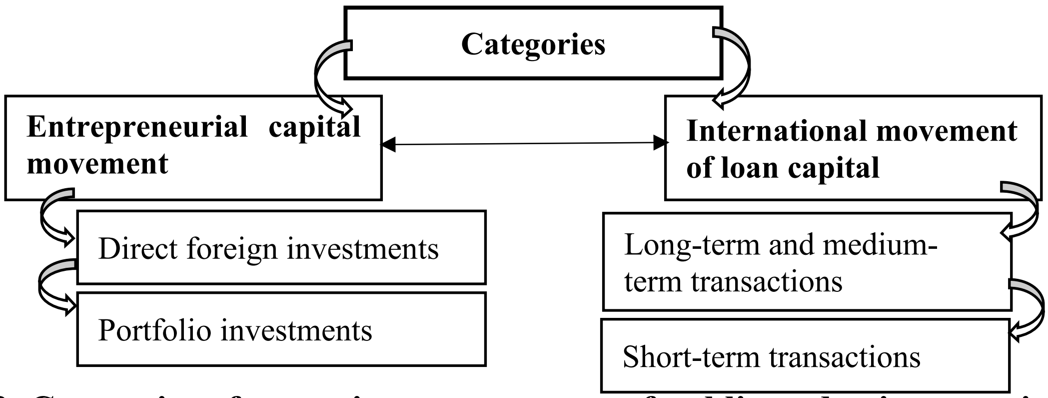


**Fig. 2. Categories of operations - movement of public and private capital, international loans granted and received**

***Entrepreneurial capital movement:*** *direct foreign investments* – acquisition and construction of enterprises abroad; portfolio investments – purchase of securities of foreign companies. Direct investments are an important form of long-term capital outflow and significantly impact the balance of payments.

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***International movement of loan capital***, classified by duration*: Long-term and medium-term transactions* – state and private loans issued for more than one year. Less developed countries are the primary recipients of such loans, while developed countries are the main creditors; *short-term transactions* – international loans with a maturity of up to one-year, current accounts of national banks in foreign banks (reserves), and capital transfers between banks.

This comprehensive structure of the balance of payments reflects the full scope of a country's international economic activities and its integration into the global financial system.

*Complexity of International Relations* - the international relations of a country are multifaceted, encompassing diplomatic, economic, cultural, and political dimensions. These interactions shape and are reflected in the country’s international transactions, which include trade, investments, foreign aid, and financial flows.

*Balance of International Transactions as an Indicator* - the balance of international transactions, such as the balance of payments, acts as a key indicator of a country’s economic health and its relationship with the global economy. It reflects how effectively a country navigates its international obligations, opportunities, and risks, and how it balances imports and exports, capital inflows and outflows, and foreign exchange reserves.

*Economic and Political Influence* - a country's international transactions often reveal the interplay between its economic policies and political relationships. Trade agreements, for instance, are not just economic decisions but are also influenced by political alliances, security concerns, and diplomatic strategies.

*Globalization and Dependency* - as globalization intensifies, countries’ international transactions become more interconnected. Countries that rely heavily on exports or foreign investments are vulnerable to changes in global markets, while those with diversified economies may have more flexibility in managing their international transactions.

*Policy Implications* - the complexity of international relations reflected in a country’s international transactions requires comprehensive policy-making. Countries need to balance economic growth with global competitiveness, manage their international debts, and strategically foster positive diplomatic ties.

The balance of payments has direct and indirect links to reproduction processes within a country. On the one hand, it is shaped by the processes occurring in reproduction, and on the other hand, by factors such as exchange rates, gold and currency reserves, the currency situation, foreign debt, the direction of economic and monetary policies, and the state of the global monetary system.

The balance of payments reflects several key factors (fig.3):

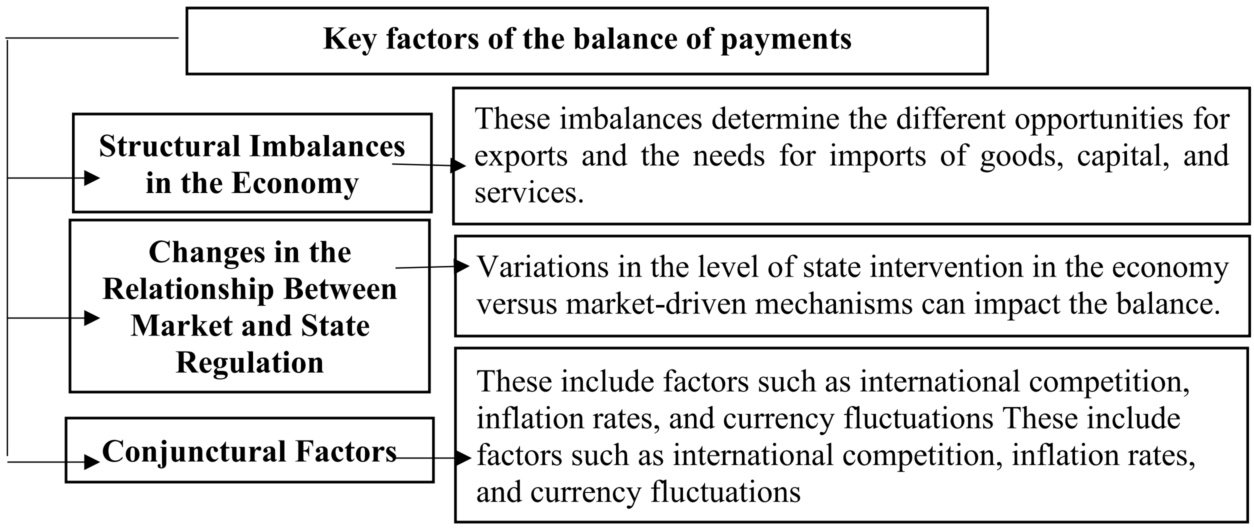


**Fig. 3. Key factors of the balance of payments**

Several factors influence the state of the balance of payments (fig.4):

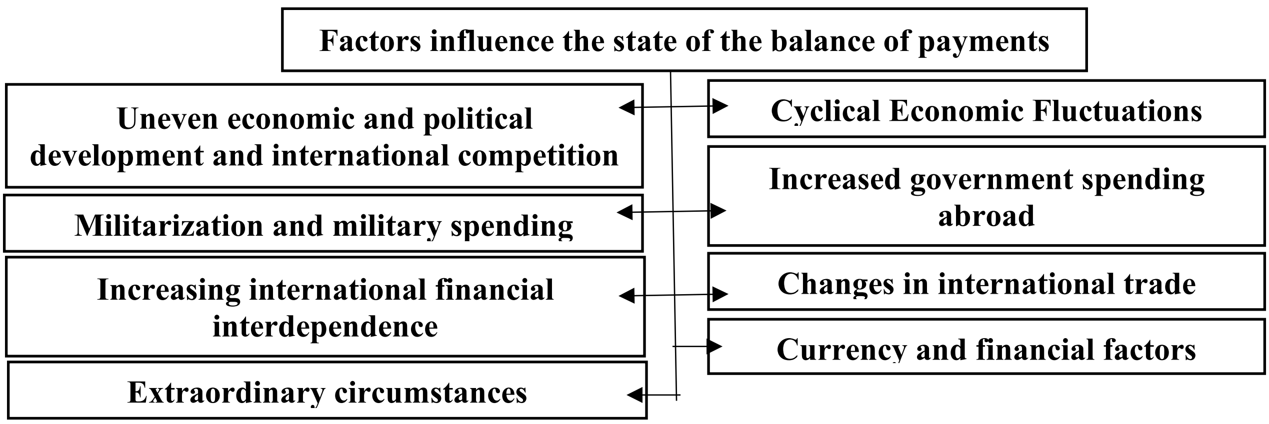


**Fig. 4. Factors influence the state of the balance of payments**

*Uneven economic and political development and international competition*. The balance of payments is affected by the varying economic growth rates and the competitive environment. For instance, the rise of Western European and Japanese economic power in the 70s and 80s led to surplus balances, while the U.S. faced significant deficits due to its declining competitiveness and the strengthening of the dollar. For Ukraine, international competition and political relationships heavily influence its economic ties, and enhancing its competitiveness in key sectors can help address these challenges.

*Cyclical economic fluctuations*. Economic cycles, such as periods of economic expansion or contraction, directly affect imports, exports, and capital flows. During economic booms, there is typically an increase in demand for imports (e.g., fuel, machinery), while slowdowns reduce these imports. Ukraine's balance of payments is heavily influenced by its domestic economic cycles, and the country needs to manage these fluctuations carefully, especially as it faces challenges with domestic production and external demands.

*Increased government spending abroad*. External government spending can place a strain on the balance of payments. For instance, military and foreign aid expenditures can drain resources from the country’s foreign exchange reserves. Ukraine, with its significant military expenditures amid ongoing conflict, must carefully manage its foreign spending to avoid exacerbating the balance of payments deficit.

*Militarization and military spending*. High military expenditures can directly impact the balance of payments by increasing foreign spending on defense and related activities. As seen in the U.S. and other countries, these costs can drain the national economy. For Ukraine, military expenditures due to ongoing conflict with Russia continue to affect its economic situation and require international financial support.

*Increasing international financial interdependence*. The global financial system’s interconnectedness has led to the movement of capital and loans between countries. The increasing need to attract foreign investment or borrow to cover deficits is a key aspect of global financial risk. Ukraine’s reliance on foreign loans and assistance, especially in the context of ongoing economic recovery and reforms, highlights the importance of managing financial interdependence carefully.

*Changes in international trade*. Technological progress, energy shifts, and structural changes in global trade affect international economic relations. For Ukraine, strengthening export markets, particularly for its agricultural products and industrial goods, is crucial to balancing the payments.

*Currency and financial factors*. Instability in the global monetary system, currency devaluation, or revaluation impacts trade and the balance of payments. Exchange rate volatility is a significant issue for Ukraine, especially given its reliance on international markets and remittances. Fluctuating exchange rates may lead to a deterioration in the balance of payments unless carefully managed.

*Extraordinary circumstances*. Natural disasters, harvest failures, or other extraordinary events can lead to sudden disruptions in the balance of payments. Ukraine, which is vulnerable to geopolitical risks and natural disasters, must be prepared for such contingencies.

*Relevance for Ukraine.* These factors are particularly relevant for Ukraine as it navigates a complex geopolitical and economic environment. The country faces challenges such as maintaining a competitive export sector, managing military expenditures, coping with external debt, and securing foreign investment. Ukraine’s ability to stabilize its balance of payments is critical for economic growth and international stability. In particular:

1) Structural reforms in various sectors, such as energy, agriculture, and manufacturing, are vital for improving Ukraine’s trade balance and reducing dependency on imports.

2) Enhancing international cooperation and competitiveness through trade agreements and improved domestic policies can help mitigate the adverse effects of global economic fluctuations.

3) Financial and currency stability should be a priority for Ukraine, especially in terms of managing exchange rates and attracting foreign investments, to ensure that the country remains resilient against external shocks.

In conclusion, addressing these factors will require Ukraine to adopt comprehensive economic policies, foster international partnerships, and continue its

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structural reforms to achieve long-term balance of payments stability.

The balance of payments is one of the objects of state regulation. This is due to the following reasons (fig.5):

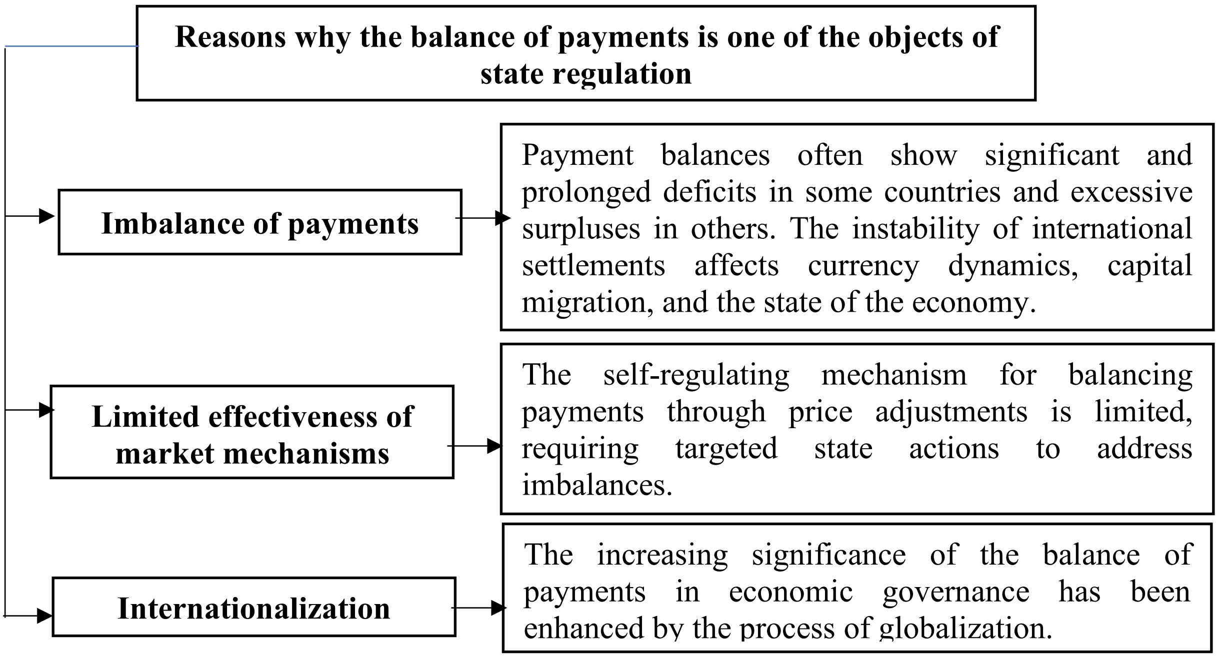


**Fig.5. Reasons why the balance of payments is one of the objects of state regulation**

The material basis for regulating the balance of payments includes:

1. State ownership - this includes official gold and foreign exchange reserves.
2. Reallocation of national income - a growing share of national income (up to 40-50%) is redistributed through the national budget.
3. Government participation in international relations - the state plays a role as an exporter of capital, creditor, guarantor, and borrower in international financial relations.
4. Regulation of external economic operations - this is done through regulatory acts and governmental control bodies.

State regulation of the balance of payments is the set of economic, monetary, financial, and credit measures taken by the state to form the main components of the balance of payments and cover any existing deficit. There are various methods of regulating the balance of payments, which are aimed either at stimulating or limiting foreign economic operations depending on the currency and economic situation of the country.

Measures for countries with a deficit in the balance of payments (tabl.1).

**Table 1 - Measures for countries with a deficit in the balance of payments**

| № | Measures | Essence of measures | Example |
|---|---|---|---|
| 1 | Deflationary Policy | Aimed at reducing internal demand and restricting government spending, particularly for civilian purposes. Financial and monetary measures include reducing budget deficits, adjusting the central bank's interest rates, imposing credit restrictions, and limiting the growth of the money supply. For countries experiencing significant unemployment and unused production capacity, this policy can lead to further declines in production and employment. | In the 1980s, countries such as the UK used deflationary measures to curb inflation, leading to higher interest rates and lower public spending. |
| 2 | Devaluation | The reduction of the national currency's exchange rate to stimulate exports and limit imports. Devaluation is effective when there is export potential of competitive goods and services and favorable conditions in the global market. Many developing countries introduce differentiated tariffs and export subsidies to support devaluation. | Argentina devalued its peso in the 1990s to improve its trade balance, making exports cheaper and imports more expensive. |
| 3 | Currency restrictions | Measures such as blocking the foreign currency earnings of exporters, licensing foreign currency sales to importers, and concentrating currency operations in authorized banks. These measures aim to eliminate balance of payments deficits by restricting capital outflows and stimulating inflows, as well as curbing imports. | In the 1970s, India implemented foreign exchange controls to prevent capital flight and balance its payments. |
| 4 | Financial and monetary policy | To reduce the balance of payments deficit, the government may provide subsidies to exporters, raise import tariffs, remove taxes on interest payments to foreign bondholders, and implement monetary policies targeting money supply growth. | Japan's export-driven policies in the 1980s included government subsidies for its high-tech industries to boost exports. |

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Continued table 1

| | | | | |
|---|---|---|---|---|
| 5 | Special measures for regulating major items of the balance of payments | Trade balance | To encourage long-term export interest, the government may offer export credits, insurance against economic and political risks, and tax incentives for exporters. | In the 1990s, countries such as South Korea regulated outward remittances to ensure capital remained within the country to support economic growth. |
| | | «Invisible» operations | Measures like limiting foreign currency outflows by tourists, developing tourism infrastructure, increasing spending on scientific research to boost income from patents and licenses, and regulating migration to reduce remittances. | |
| 6 | Regulating Capital Flows | Capital flows are regulated to balance the payments by encouraging the foreign expansion of national monopolies and promoting the inflow of foreign capital while managing capital repatriation. | | China's "Belt and Road Initiative" aims to encourage Chinese companies to invest abroad while attracting foreign investment into China, balancing capital flows and stimulating growth. |

*Active Payment Balance*. In cases of an active balance of payments, state regulation aims to prevent excessive surpluses by stimulating imports, restricting exports, increasing capital exports, and providing financial aid to developing countries (tabl.2).

*Methods for Closing the Deficit.* For industrialized countries, the deficit is often addressed through international capital markets (e.g., bank consortium loans, bond issues). In the past, countries used gold reserves to balance payments, but after the abandonment of the gold standard, foreign exchange reserves have become the primary method.

**Table 2 - Active Payment Balance**

| № | Measures | Essence of measures | Example |
|---|---|---|---|
| 1 | Compensatory regulation | This method combines two sets of opposing measures: restrictive (such as credit restrictions and import curtailment) and expansionary (such as stimulating exports and capital flows, devaluation, etc.). | The United States has applied compensatory measures to address trade imbalances with countries like China by simultaneously reducing imports and increasing domestic production. |
| 2 | Methods for closing the deficit | When there is a deficit, the state uses foreign loans and capital imports to balance payments temporarily. These measures involve borrowing from international markets or institutions like the IMF. | Greece relied on loans from the European Union and the IMF during its financial crisis to cover its balance of payments deficits. |
| 3 | Foreign aid | Foreign aid in the form of subsidies and grants is another method used to cover a deficit, often in exchange for economic and political concessions. | Many African countries rely on foreign aid from organizations like the World Bank and the IMF to manage their balance of payments deficits. |
| 4 | Intergovernmental regulation | Since the 1970s, intergovernmental regulation of the balance of payments has emerged, involving agreements on export credit conditions, bilateral government loans, and short-term mutual central bank loans under swap agreements. | The European Union facilitates financial support for member countries experiencing balance of payments issues through the European Stability Mechanism (ESM). |
| 5 | Use of active balance of payments | Countries with a positive balance of payments use the surplus to settle foreign debts, provide loans to other countries, increase official gold and foreign exchange reserves, and create foreign economies by exporting capital. | Germany's positive trade balance is used to support economic projects in other EU countries and increase the country's foreign exchange reserves. |

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These methods of balance of payments regulation are vital for ensuring a stable economy, addressing imbalances, and promoting sustainable economic development.

*Balance of Payments and Economic Situation in Ukraine: 2020–2025*. The balance of payments (BoP) is an essential economic indicator, representing the total transactions of a country with the rest of the world over a specific period. This includes imports and exports of goods and services, financial transfers, capital inflows, and outflows. The economic situation in Ukraine from 2020 to 2025 has been influenced by a variety of domestic and international factors, ranging from the global pandemic to ongoing geopolitical tensions. Let's explore the key aspects of Ukraine's economic situation and the balance of payments during this period.

***Economic Situation in Ukraine (2020-2025):*** *Impact of COVID-19 (2020–2021); Recovery and Economic Growth (2021–2023*); *Geopolitical Tensions and the War (2022–2023); Current Situation (2024–2025).*


**Fig. 6. Economic Situation in Ukraine (2020-2025)**

**Impact of COVID-19 (2020–2021)**: COVID-19 pandemic; exports and imports; government response.

COVID-19 pandemic - the pandemic severely affected Ukraine’s economy, with a contraction in GDP of around 4% in 2020. The government implemented strict lockdowns, leading to disruptions in both domestic and international trade.

Exports and imports - the pandemic caused a reduction in exports, particularly in the sectors most affected by the crisis, like transport, tourism, and manufacturing. However, Ukraine continued to rely on agricultural exports, which remained relatively stable.

Government response - Ukraine received support from international institutions, including loans from the International Monetary Fund (IMF) and the World Bank. Domestic policies aimed at supporting businesses included financial aid, tax deferrals, and targeted social programs.

**Recovery and Economic Growth (2021–2023)**: GDP growth; inflation; currency depreciation.

GDP growth - Ukraine's economy began to recover in 2021, with GDP growth rebounding to approximately 3.4%, supported by a global recovery in demand for agricultural products and metals, which are key exports for Ukraine.

Inflation - the inflation rate remained a challenge in 2021–2022, with food prices increasing due to disruptions in global supply chains. The National Bank of Ukraine (NBU) had to adjust its monetary policy to manage inflationary pressures.

Currency depreciation - the Ukrainian hryvnia (UAH) experienced depreciation against major currencies in 2022 due to uncertainties caused by the Russian military aggression.

**Geopolitical tensions and the war (2022–2023)**: russian invasion of Ukraine; impact on the balance of payments; international support.

Russian invasion of Ukraine - in February 2022, Russia launched a full-scale invasion of Ukraine, resulting in severe economic disruption. The conflict led to significant destruction of infrastructure, a sharp decline in industrial output, and a significant drop in exports, particularly in the energy and manufacturing sectors.

Impact on the balance of payments - the war disrupted Ukraine's trade flows, and the current account deficit widened due to a decline in exports and an increase in imports of military equipment, humanitarian supplies, and energy resources.

International support - despite the crisis, Ukraine continued to receive significant financial aid and loans from Western allies, including the IMF, the European Union, and bilateral lenders like the U.S. These loans were essential in stabilizing Ukraine's economy and maintaining government operations.

**Current Situation (2024–2025)**: economic stabilization; exports; inflation and currency; structural reforms.

Economic stabilization - by 2024, Ukraine had made some strides toward stabilization, largely due to continued international support, the resilience of the agricultural sector, and a recovery in exports.

Exports - Ukraine remained one of the world’s largest producers and exporters of grain, particularly wheat and corn. Despite the war, Ukraine found alternative export routes for its agricultural products through the "grain corridor," bypassing Russian-controlled ports.

Inflation and currency - the hryvnia remained under pressure in 2024 due to the ongoing conflict. However, inflation was expected to decrease as Ukraine secured more financial support and implemented economic reforms, with a focus on reducing the fiscal deficit.

Structural reforms -the Ukrainian government was focused on restructuring its economy, implementing anti-corruption reforms, and attracting foreign investments to ensure long-term economic growth.

**Balance of payments in Ukraine (2020–2025):** current account deficit (2020–2022); capital and financial account (2020–2022); reserves and external debt; 2023–2025 projections.

**Current account deficit (2020–2022)**: Ukraine’s balance of payments saw a widening current account deficit during the pandemic and early stages of the war. This was primarily due to a reduction in exports, especially in goods and services, and increased imports to cover both military needs and humanitarian assistance.

Key Drivers - energy imports (such as natural gas), military imports, and the import of essential goods became major contributors to the deficit. The country relied on international financial support to bridge the gap, particularly loans and grants from the IMF, EU, and other international organizations.

**Capital and Financial Account (2020–2022)**: capital inflows; foreign direct investment (FDI).

Capital inflows - Ukraine saw significant capital inflows from international loans, including the IMF’s extended fund facility. However, capital flight was also a concern, particularly in 2022 as the geopolitical situation worsened.

Foreign direct investment (FDI) - the ongoing conflict made Ukraine less attractive to foreign investors, resulting in a slowdown in FDI. However, Ukraine continued to receive funding from international organizations and some foreign investors, particularly in the agricultural sector and IT industries.

**Reserves and external debt**. Ukraine’s gold and foreign exchange reserves were supported by international loans and financial assistance, which allowed the country to maintain its import requirements, particularly for energy and defense. External Debt - Ukraine's external debt rose due to borrowing from international institutions to cover the deficit. These loans were essential for keeping the economy afloat but also placed pressure on future debt servicing.

**2023–2025 projections**: current account balance; financial assistance; export growth.

Current account balance - the war significantly worsened Ukraine's current account balance, and the deficit is likely to remain high until a ceasefire or resolution of the conflict. However, Ukraine’s strong agricultural sector and alternative trade routes offer some hope for recovery in the long run.

Financial assistance - Ukraine will continue to rely on external financial assistance to stabilize its economy, with a focus on post-war reconstruction, infrastructure rebuilding, and implementing long-term economic reforms.

Export growth - agricultural exports are expected to gradually recover in 2024–2025, with new trade routes and logistical improvements. This will help reduce the current account deficit and support Ukraine’s foreign exchange reserves.

*Recommendations for Ukraine’s economic stabilization and balance of payments management (2020–2025).*

1. Strengthening diplomatic and trade relations - countries should prioritize strengthening their diplomatic ties to facilitate trade agreements and economic cooperation. By aligning economic interests with political goals, countries can enhance their standing in global markets and improve the balance of their international transactions.

2. Diversification of economic ties - countries should aim to diversify their trade

partners and sources of foreign investment. Reducing dependence on a limited number of countries or sectors will help mitigate risks associated with global economic shifts and geopolitical uncertainties.

3. Improved monitoring of international transactions - it is essential for governments to continuously monitor and analyze their balance of payments and other key economic indicators to identify potential vulnerabilities and opportunities for improvement. This proactive approach will enable countries to respond effectively to economic crises and capitalize on emerging global trends.

4. Promotion of sustainable and inclusive economic policies - countries should adopt economic policies that promote sustainability and inclusivity, ensuring that international trade and investment benefit a wide spectrum of society. This will not only foster economic growth but also help maintain social stability and global cooperation.

5. Leveraging international cooperation - in an increasingly globalized world, no country can thrive in isolation. Countries should actively engage in international organizations, such as the World Trade Organization (WTO) or the International Monetary Fund (IMF), to influence global economic governance and secure their interests.

6. Diversifying exports - Ukraine should focus on diversifying its exports beyond agriculture, such as developing its IT sector and other high-value industries, to reduce its reliance on a few sectors and enhance foreign exchange inflows.

7. Debt management - Ukraine should work with international creditors to manage its debt load, possibly restructuring or extending repayment terms, to ensure long-term fiscal sustainability.

8. Promoting foreign investment - attracting foreign direct investment (FDI) is crucial for economic recovery. Ukraine can achieve this by improving the business climate, reducing corruption, and offering incentives to investors, particularly in infrastructure and manufacturing.

9. Economic reforms - implementing structural economic reforms, particularly in governance, anti-corruption measures, and energy sector reforms, will help build

investor confidence and improve economic stability in the long term.

10. Developing alternative financing sources - in addition to loans from international organizations, Ukraine should look into innovative financing methods, such as issuing government bonds or developing public-private partnerships to fund infrastructure development and post-war reconstruction.

By addressing these areas, Ukraine can work towards stabilizing its balance of payments, boosting its economic resilience, and achieving long-term sustainable growth. By focusing on these recommendations, countries can better navigate the complexity of their international relations and improve the balance of their international transactions, ultimately contributing to their long-term economic stability and growth.

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