Andriy Pyshnyy: How do we get investors back to emerging markets?

Speech by Mr Andriy Pyshnyy, Governor of the National Bank of Ukraine, at the panel "Resilience of the Financial System in Emerging Markets" at the conference "Rise Strong: Building Resilience in a Changing World" in AlUla, Saudi Arabia, 16 February 2025.

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Dear colleagues,

First of all, I would like to thank the organizers for the invitation to participate in the conference. I am grateful to the Kingdom of Saudi Arabia, its Ministry of Finance headed by Mohammed Aljadaan, and the International Monetary Fund led by Managing Director Kristalina Georgieva.

I am delighted to represent the National Bank of Ukraine at such a prestigious international event.

When talking about capital flows, we should definitely keep in mind that global markets have generally been trending toward fragmentation. This currently applies primarily to commodity markets, but the time lag between now and when things descend into financial protectionism and financial markets disintegrate may be very short.

And we should never forget that the key reason for these changes is the war against Ukraine.

I will not pretend that the NBU operates under the same conditions as most central banks whose representatives are here today.

No.

All of our actions and policies, as well as the logic behind our decisions, are, one way or another, shaped by Russia's war against Ukraine, which has been going on for almost three years now.

What does a war mean?

I will give you a few numbers to illustrate our macroeconomic context. Ukraine is currently spending over 25% of its GDP on defense and security. Total spending on these items makes up a staggering 61% of all budget expenditures.

We strive to be effective in pursuing our mandate nonetheless. As a central bank, our performance over the past three years demonstrates that we have in fact been succeeding. We are ensuring macroeconomic stability and laying the groundwork for further consolidation of our partners' efforts to assist Ukraine.

On this track, the International Monetary Fund has been providing us with a lifeline through its Extended Fund Facility (EFF) program. I would like to take this opportunity, in the presence of such a distinguished audience, to thank the IMF for its brave and consistent support and top-level expertise, and for the fruitful discussions we have had over more than 2.5 years as we jointly implement the program.

The IMF opened it for Ukraine even as the country was already being hit hard by extreme exogenous factors. For its part, Ukraine has proved worthy of the Fund's trust by managing to operate efficiently in the face of tremendous uncertainty. We have successfully passed six EFF reviews and are prepared for a seventh review by an IMF mission that will start working in a few days.

Our understanding is that the world is at a fork in the road right now. The Munich Security Conference showed this vividly. I am super confident that this year's event was of historic proportions. Everything that happened there indicates that the manner in which Russia's war against Ukraine concludes will be a turning point that shapes future global economic developments.

Depending on how events play out, there are two scenarios with different impacts on capital flows.

The first scenario is a just and lasting peace in Ukraine that reaffirms the existence of a sustainable, rules-based global order.

"It is important that Ukraine be compensated for the losses it has suffered from the war. Restitution is a complex and sensitive issue. However, it is worth underlining that any decision regarding the use of frozen sovereign assets must be grounded in a robust legal framework and guided by clear and transparent criteria. In this context, the potential role of such measures in supporting global financial and geopolitical stability merits serious consideration."

From our perspective, it is a baseline scenario. The positive effects for the world are obvious: it will retain its ability to take advantage of globalization, though in somewhat modified form. The free movement of capital will allow developing countries not only to raise it more cheaply, but also to benefit from the exchange of technology and experience. This will make the world richer and the global order more stable. This is a scenario of synergy, a non-zero-sum game where each participant gains more from such interaction than they would without it.

The second scenario is where the global community infers from Ukraine's example that in practice, rules no longer exist.

This is a zero-sum game whereby your winnings are limited by what you can take away from other players. In such a world, emerging markets would have no way of enjoying the free movement of capital. This would mean higher neutral interest rates for their economies, more expensive investments, and much slimmer chances of these markets ever converging to advanced countries' levels. And this is not just about money. It is also about openness to innovation and about the risk appetite of investors.

Which of the scenarios will take place depends on our joint efforts. Will we follow the path of progress and create conditions for economic development? Or will we deprive emerging markets of every opportunity to generate investment?