CZU: 341.31:336.763:004 **https://doi.org/10.59295/daj2022.15**

IN-WAR ELECTRONIC FINANCIAL SECURITIES: MILITARY BONDS

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Abstract: War in the 21st century, in a democratic world, requires modern ways of maintaining people's livelihoods. Maintaining economic stability is an important component for this. We strive for Ukrainians to develop a culture of managing their own funds, to be able to use financial instruments for the benefit of their wallets and state interests, in particular, by buying military bonds that finance the military needs of the budget. A citizen immediately understands where and for what money is directed. After all, in the conditions of war, it is primarily the provision of the army - salaries for military personnel and medics, purchase of weapons, body armor, ammunition, etc. Military bonds are investments in the victory of Ukraine, at the same time, you get a guaranteed profit. Military bonds are securities issued by the state during martial law. They have become an effective tool for supporting the economy of Ukraine and the Armed Forces. Funds for them are returned to the eSupport card after 3, 6, 12 or more months. It depends on the payment date and the term of the bonds.

Keywords: *military bonds, securities, war, bank, broker.*

In the time of military aggression of the Russian Federation, the Ministry of Finance offers citizens, businesses and foreign investors to support the budget of Ukraine by investing in military government bonds. The proceeds from the bonds will be used to meet the needs of the Armed Forces of Ukraine and to ensure the uninterrupted provision of the state's financial needs under the war.

A bond is a fixed-income instrument that represents a loan made by an investor to a borrower (typically corporate or governmental) [1, p. 7-8].

They are called military bonds because they are placed during wartime. The funds from the bonds are used to meet the needs of the Ukrainian Armed Forces and other financial needs of the state under martial law.

When you buy a military bond, you receive a guarantee from the government to pay back the full amount of your investment and interest, and you also get your yield fixed for the entire issue period.

The main goals of the implementation of state loans are considered to be: attracting financial resources to ensure the financing of military needs in cash and creating conditions for withdrawing a share of paper money from circulation in order to support the exchange rate of the national currency. The significant advantage of state loans compared to other ways of covering military expenses is absence of coercion and voluntary participation. The state, using loans provided by the population, undertakes to return the received funds in the future with the corresponding interest for use. The loan can be considered a tool for transferring the difficult financial situation of wartime to more favorable future periods in peacetime. The main source of repayment of the state debt will be taxes, which, thanks to long-term calculations, taxes will not become unaffordable for their payers [2, p. 10].

On 12 April 2022, the NBU Board has decided to purchase UAH 20 billion in war bonds. This is the second time the central bank has bought these securities. As a result, the NBU holds a portfolio of UAH 40 billion in military domestic government debt securities as of 13 April [3].

By supporting the state budget in this way, the NBU has been ensuring that Ukraine can effectively repel russia's full-scale military aggression. However, as previously announced, the NBU will provide only limited financing, in a transparent manner, so that the government can meet its critical expenses.

This approach will allow the regulator to minimize the risk of inflation expectations getting out of control, the risk of inflation becoming high, and the risk of macrofinancial stability being disrupted. In addition, this approach will facilitate a quick return of the economy and financial markets to their market-driven mode of operation after Ukraine wins the war. At the same time, this approach will not put at risk Ukraine's European integration, nor will it interfere with the efforts by international financial donors to help Ukraine.

As before, the NBU is not the main source of funding the government relies on for making expenditures. Even as the war has raged on, Ukrainian companies have been gradually going back to business as usual and paying taxes, while the Ukrainian people have been donating large amounts to the Armed Forces. International partners have also been providing Ukraine with vital financial, military, and humanitarian aid.

Features of investments in military bonds [4]:

- No tax on income from securities for individuals
- 1000 UAH = 1 bond (minimum entry threshold)

- Simplified investor verification
- No need to prove income
- For natural and legal persons, non-residents
- Ability to enter into repurchase agreements secured by bonds
- In hryvnias and dollars
- No brokerage commissions
- Coupon and discount bounds

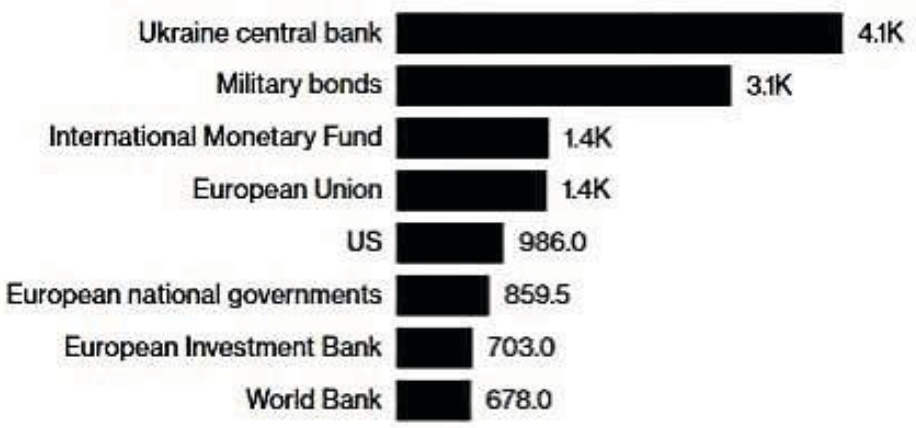
History has many examples of governments spending heavily on a rapid military buildup, then selling war bonds to reduce the amount of cash in circulation and keep inflation in check. The UK issued National War Bonds to help fund its participation in World War I. They paid a yield of 5%, and the sale was supported by a huge advertising campaign intended to inspire patriotic fervor. When they were redeemed almost a century later, they were still owned by 120,000 investors. The US sold "liberty bonds" during World War I and "defense bonds" in World War II. The latter were recast as war bonds after Japan's bombing of Pearl Harbor, which provoked the US to enter the conflict, and were bought by 85 million Americans, helping the government raise about $185 billion by the end of the war [5].

Governments have used a variety of patriotic appeals to try to sell unconventional debt instruments in difficult times. Italy sold bonds backed by revenue from the country's national lottery in 2001 when it was the European Union's most indebted nation. Greece attempted in 2012 to sell "diaspora bonds" to draw in funds from citizens living abroad during the depths of that country's debt crisis. The EU mulled a sale of what became known as "coronabonds," a controversial risk-sharing instrument to help member states combat the economic impact of the pandemic. While that idea didn't fly, the bloc's 27 members embarked on their biggest-ever splurge in joint borrowing, known as the NextGenerationEU bond program [5].

Beyond the local sale of war bonds, Ukraine raised more than $60 million in foreign cash and cryptocurrency donations thanks to social media campaigns that tapped into worldwide sympathy for the cause. By asking for Bitcoin, Ether and Tether alongside ordinary money, and by leaning on equipment suppliers to accept crypto as payment, the government was able to quickly source bulletproof vests, helmets and medicines without relying on a local banking system that was in chaos and vulnerable to Russian cyberattacks. A dedicated crowdfunding platform allowed donors to see how their money was spent to make the process more transparent. Websites were set up to sell nonfungible tokens - unique digital works of art - that chronicled the conflict, with proceeds landing in a government crypto wallet. One image of the Ukrainian flag offered by UkraineDAO, an ac-

tivist group backed by a member of the Russian feminist punk band Pussy Riot, raised more than $6.7 million [5].

Ukraine's main sources of state funding since Russia's invasion, as of May 24 2022 [6]:



War bonds allow the issuing government to quickly raise money to fund military campaigns. Governments that issue war bonds may appeal to patriotic feelings to sell the war bonds, allowing them to offer a yield that is lower than current market rates. They can also be used to reduce inflation by removing extra money from the economy.

Interest rates on war bonds have not changed and are as follows [7]:

- 9.5%, 10%, 11%, and 11.5% per annum in hryvnia (maturities of 3 months, 6 months, 12 months, and 14 months, respectively)
- 3.5%, and 3.7% per annum in U.S. dollars (maturities of 6 months and 12 months, respectively)
- 2.5% per annum in euro (maturities of 3 months, 9 months, and 12 months).

According to NBU Depository, as of 27 June 2022, the structure of the war bonds portfolio by holders has hardly changed. As before, primary dealer banks hold the largest portfolio of war bonds.

For investors, war bonds can also be a way to profit by speculating on the outcome of a war. If one side suffers from a temporary military defeat, investors can buy that country's war bonds if they expect a quick reversal. However, they also take the risk of losing their investment if the war is lost.

However, they were not always an ideal vehicle for investments. United States war bonds did not pay interest over the life of the bond, and they offered lower profits than competing bonds. Moreover, if a country borrows heavily to finance its war efforts, it will have to repay all of those bills upon the conclusion of the war [8].

Pros:

- War Bonds could be purchased for a price that was below their face value.
- War Bonds were guaranteed by the government.
- Investors experienced a sense of pride and patriotism by helping the nation in times of war.

Cons:

- Paid a lower interest rate than other securities in the market.
- War Bonds did not pay interest payments throughout the life of the bonds.
- As with any security, War Bonds carried the risk of a loss if sold before maturity for a lower price than the purchase price.

Ukrainian citizens and residents can buy war bonds through a Ukraine-licensed broker or bank. Although overseas institutional investors can also buy war bonds, it is not clear if they will be available to foreign retail investors.

The list of banks-primary dealers and licensed brokers that actively help citizens of Ukraine to invest in military bonds is given [6].

1. Primary dealer banks:

- Ukrgasbank
- Ukreximbank.
- Alfa Bank
- PUMB

2. Licensed brokers:

- ICU
- Capital University
- Dragon Capital
- BTC Broker

If you invest at least UAH 50,000, contact Oschadbank. UAH 100,000 < to Privatbank or Kredobank. If the minimum investment amount is UAH 300,000 - Taxombank, UAH 500,000 - OTP Bank or Raiffeisen Bank.

Also, the Diia app was launched in 2020, allows Ukrainian citizens to use digital documents in their smartphones instead of physical ones for identification and sharing purposes. The Diia portal allows access to over 50 governmental services. Eventually, the government plans to make all kinds of state-person interactions available through Diia. “For the past 3 years, we have been making communication between Ukrainians and the state simple, convenient and fast. Now we give people the opportunity to help the state in extremely difficult times just as easily and conveniently by purchasing military bonds in Diya. They support the Armed Forces, which destroy the enemy and de-occupy cities. This is

your contribution that works for victory," said Mykhailo Fedorov, Deputy Prime Minister - Minister of Digital Transformation of Ukraine [9].

The Diia application provides for the following types of bonds:

- Sevastopol (payment 13.03.2024)
- Donetsk (payment 27.09.2023)
- Mariupol (payment 21.06.2023)
- Kherson (payment 01.03.2023)
- Melitopol (payment 11.01.2023)
- Horlivka (payment 02.11.2022)

Each type of military bond is named after a city that is still suffering from the russian army, in the occupation. In order to purchase them, it is necessary to select the type and seller, specify the quantity, select the eSupport card for which the money and interest will be returned, and then sign the documents for opening an investment account [9].

Issuance of domestic loan bonds is an economically sound instrument for attracting financial resources to cover war expenses. It is not possible to provide such colossal expenses only through taxes. It is impossible to do without the issuance of new money, but it is necessary to make efforts to minimize this process, because a significant amount of the money supply will inevitably lead to an increase in prices and negatively affect the economy as a whole. In contrast to taxes, the purchase of a loan does not worsen a person's financial condition, but in the presence of favorable conditions for the state and the recipient, its implementation involves an increase in previously invested resources.

In the case of economically correct and fair formulation of the terms of the loan, due population support for government policies, waging war, conducting an active campaign, the state is able to attract a significant amount of financial resources without worsening the financial condition of loan consumers [2, p.19].

Therefore, we can conclude that the electronic (non-documentary) circulation of securities is increasing every year. However, in the conditions of war, they are more important than ever, because they bring us closer to victory: by improving measures of protection against invaders, stabilizing the level of the economy, providing interest for the reconstruction of destroyed infrastructure facilities. Military bonds are one of the sources of financial needs in the conditions of martial law.

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