Place of Bulgaria and Ukraine in global circulation of financial resources:

- similarities
- benefits / cautions
- resistance

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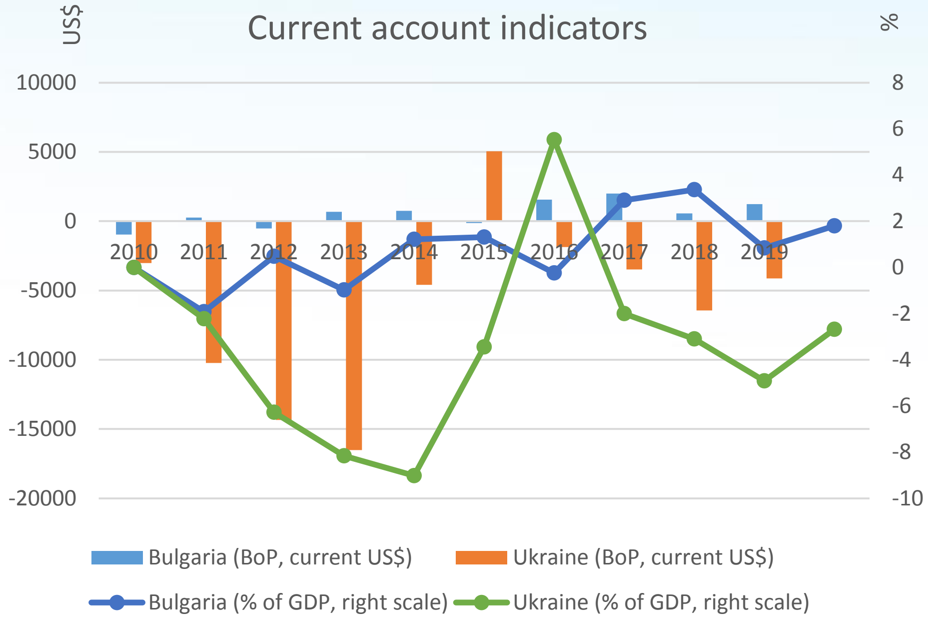
Market trends and policies for emerging economies after GFC 2007-2008

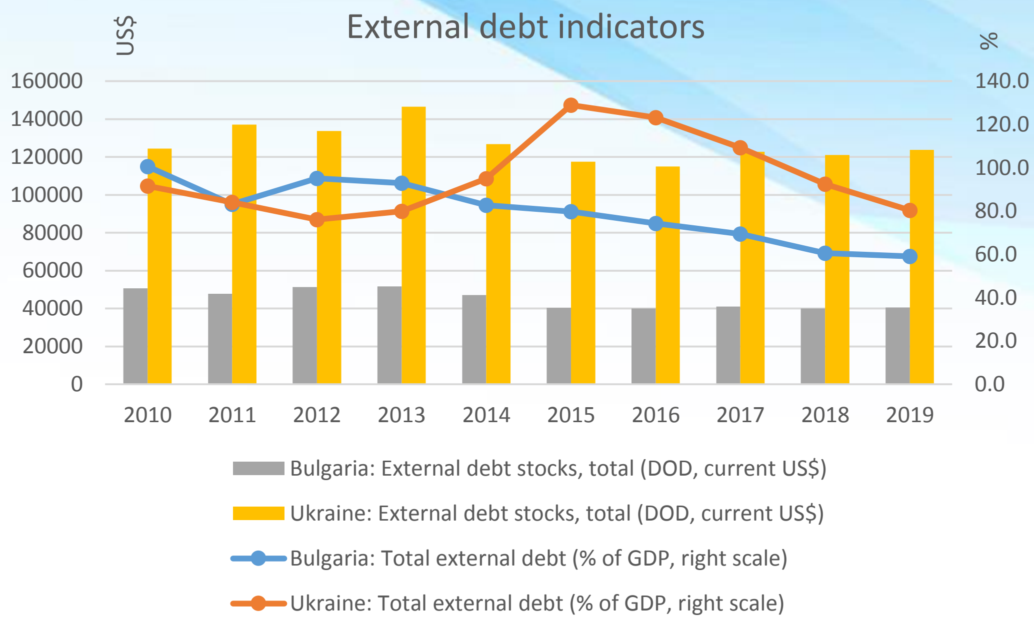
Foreign inflows to local bond markets:
- increased foreign participation in the local stock exchange markets,
- diversified currency and instrument composition,
- reduced government borrowing costs and private capital costs, but higher asset prices
- financial liberalization

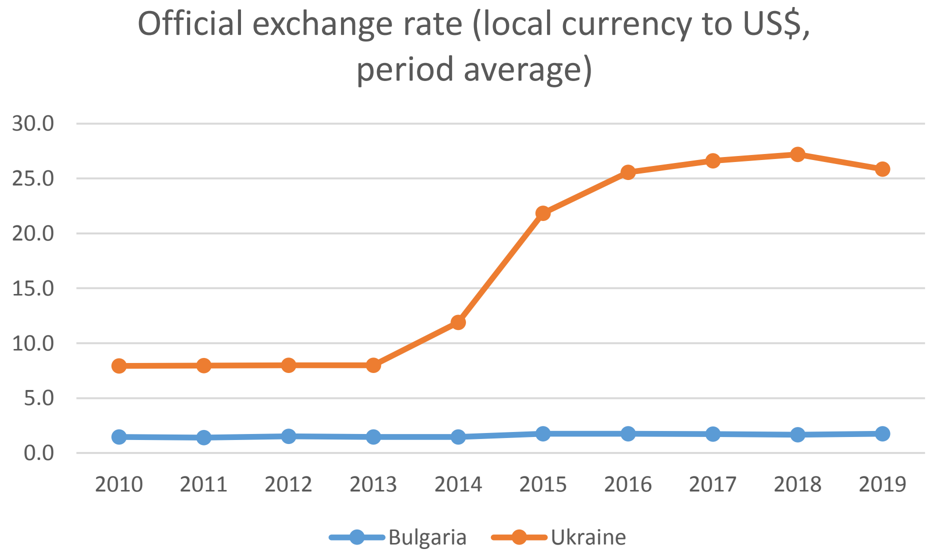
Policy challenges:
- exchange rate volatility, need for refinancing
- liberalisation is contingent on country development level
- offshore settlements,
- risks of outflows from ST instruments and portfolio investments,
- speculative activity in FX markets,
- capital controls versus commitment to free mobility of capital and floating exchange rate, risk of higher LT cost of foreign financing, CA deficit

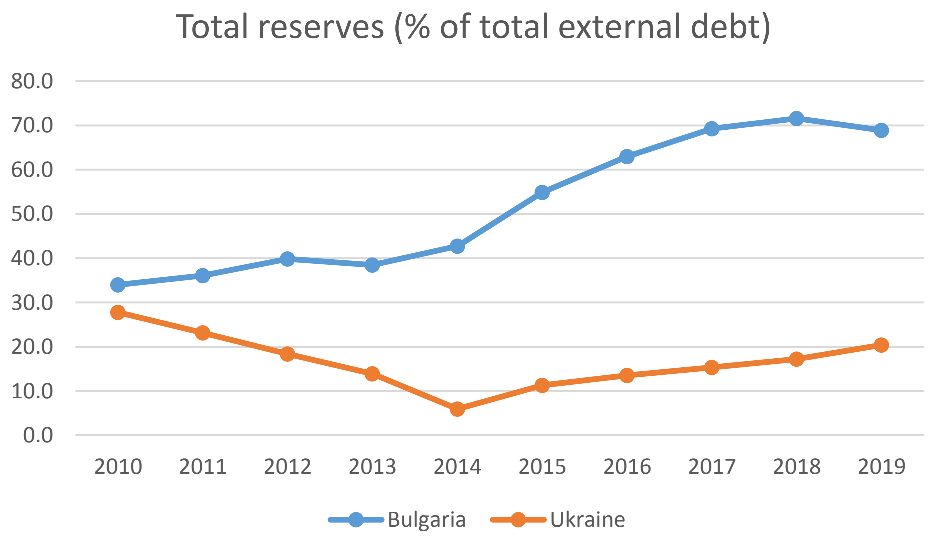
Response:
- enhance domestic saving and trust to financial institutions,
- limit foreign leverage of banking system and/or increase maturity of banks' funding,
- prudent debt management, appropriate reserves

Both economies open to financial flows and related effects









World Bank Data

Similarities, differences and common resistance recommendations

Status quo:

- **Monetary policy dependence** caused by different factors: UKR dependent on foreign financing and IMF, BGR joined ERM II and the banking union in July 2020, has access to the Next Generation EU funds
- **Other similar issues:** problem of NPL - recognition and resolution, dependence on raw materials, weak financial inclusion, dependence on remittances

Response:

- substantial international reserves
- international cooperation of central banks (for example, information exchange, provision of swap facilities)
- prudent debt management and investment plan for foreign resources
- accumulating internal funds
- trust to financial institutions

International financial sanctions and their impact on the small open economies

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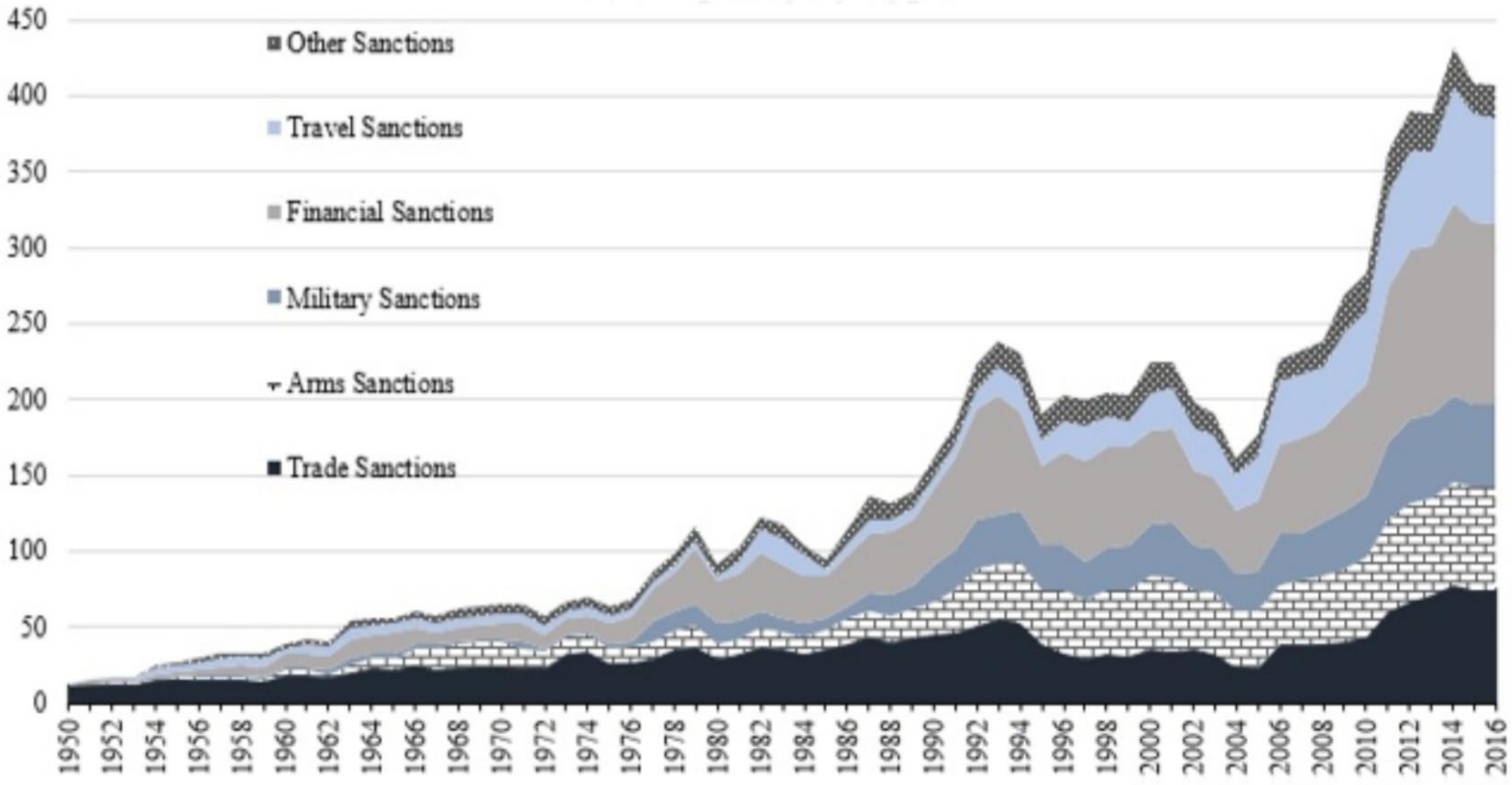
Nature of sanctions

Definition:

- actions initiated by one or more international actors (the "senders") against one or more others (the "receivers") with either or both of two purposes: to punish the receivers by depriving them of some value and/or to make receivers comply with certain norms the senders deem important **(Galtung)**
- restrictions "to achieve a specific foreign policy or national security objective", to "limit provision of certain financial services, restrict access to financial markets, funds and economic resources" for the persons, firms, organizations or governments committing […] harmful activities **(HM Treasury)**
- (financial sanctions) restrictions to access to financial markets, funds and economic resources, imposed to coerce a regime, or individuals within a regime into changing their behaviour by increasing the cost on them, deny access to key resources needed to continue offending behaviour, isolate a regime or individual, protect value of assets misappropriated from a country **(UK OFSI)**
- tool of foreign public policy aimed at preventing behaviour condemned by the international community, or encouraging a change of behaviour in a targeted regime **(expert view)**
- non-military foreign policy instrument of the competing countries to denote their spheres of influence and to resolve international disputes on trade, investment and other cooperation on the global arena, which rose due to globalization, competition for natural resources and leading to regionalization, workaround settlement schemes, reallocation of free resources **(author's)**

Types and efficiency of sanctions

Frequency of sanctions by type



Source: Global Sanctions Database, Hufbauer *et al* (2008)

Key characteristics of sanctions before and after 1990

	1946–1989		After 1990	
	yes	no	yes	no
Annual average number of sanctions	2.6	2.3	4.5	3.8
Share of successes	32%	34%	39%	40%
Success of effect on the economy				
Share of target's trade	22%	23%	45%	45%
Percentage of target's GDP	6%	6%	11%	10%
Period (years)	8.9	7.8	4.2	4.1

% is percentage of impact
Yes: successful, No: unsuccessful

Sanctions in numbers and facts

Sanctions' outcome:

- until the mid-1960s, almost 50% of all sanctions classified as failed, between 20% and 30% of sanctions classified as totally successful;
- from mid-1960s until 1995, the success rate of sanctions went up;
- after 1995, a drop in the success rate, but no sanction regime assessed as unsuccessful in recent years; over the most recent 20 years, a large share of sanctions is still ongoing and not finally classified;
- **impact on GDP:** success rate of sanctions is 50% if bilateral trade in per cent of the target's GDP is 10% or more; if bilateral trade amounts to less than 2% of the target's GDP then the failure rate is 80%

EU-Russia sanctions (impact on Ukraine):

- value of trade lost due to Western sanctions over 2014-2016 amounts to $1.3 billion, while trade lost due to the Russian counter-sanctions amounts to $10.5 billion of mutual trade loss; reduction of export wares' prices, weakening of the Russian rouble, which in turn declined imports
- reputational risks and worse terms of trade for Ukraine

Preceding factors, impacts and response

Issues to predetermine financial sanctions

- globalization and international trade: target counties can be hit much harder by economic sanctions, or alternatively can divert exports to other markets (Iranian exporters diverted their trade from US and EU to Asian, African, and Latin American destinations)
- political disputes and confrontation among largest countries/regions and military conflicts
- earning incentive of countries which initiate sanctions to gain from imposed penalties, or from arms transfer
- social and economic inequality, human rights abuse
- information disclosure

Impacts for small economies:

- cost-bearing
- limited cooperation opportunities, derisking of world leading banks (cut relationships with local banks)
- international trade settlements slowdown, worsening of terms of foreign trade (e.g. declining export prices)
- intransparent transaction channels
- limited inflow of new capital

Response:

- going off-shore
- diversifying settlement currencies