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THE POTENTIAL OF CENTRAL BANK DIGITAL CURRENCY IN UKRAINE

The emergence of Central Bank Digital Currency (CBDC) was driven by the reply of central banks to the rapid growth in demand for private money and cryptocurrencies, which arose as a response to the post-2008 economic crisis and distrust of traditional banking systems. The protection of such a currency by the sovereignty and economy of the state is the basis of its reliability. CBDC does not replace cashless payments, but complements them.

The devastating war has damaged the Ukrainian financial sector, requiring innovative solutions for post-war recovery. In this context, CBDC can be a perfect solution. Over the past two years, Ukraine has shown an impressive example of digitization and integration of citizens into state services, a significant increase in "Diya" users is a direct confirmation of this. The number of IT specialists in Ukraine is constantly growing too. The next logical turn in the evolution of digitalization is the introduction of a Central bank digital currency.

The e-hryvnia is an electronic form of the currency of Ukraine issued by the National Bank of Ukraine (NBU). According to the regulator, the key purpose of the e-hryvnia is to effectively perform all functions of money and supplement cash and noncash forms of hryvnia [1].

The main advantage of CBDC is its ability to optimize the payment system. Digital transactions using electronic hryvnia can significantly reduce processing times and transaction costs. This efficiency becomes even more important in a post-war scenario, when rebuilding infrastructure and reviving economic activity are paramount. In addition, CBDC can promote greater financial inclusion by reaching populations that do not use or do not have bank cards but still rely on cash. This is especially true in Ukraine, where a large part of the population may be displaced or may not have access to traditional banking services due to the consequences of war.

The NBU conducted the first e-hryvnia experiment in 2018, becoming one of the first central banks in the world to test the use of digital money. Analysts from PwC highly praised the NBU's achievements in this area, placing the e-hryvnia in 4th place

in the world (after the Bahamian sand dollar, Cambodian bakong and digital yuan) and in first place in Europe as one of the most mature digital currency projects [2]. As of now, the National Bank of Ukraine is preparing for the second experiment using the e-hryvnia by the end of 2024. It is expected that the introduction of the electronic hryvnia will accelerate the process of digitization of Ukraine. This could increase the transparency and efficiency of financial processes, potentially leading to a more reliable financial system.

Speaking about world experience, there are no truly successful CBDC implementation examples yet (as of April 2024), as most countries are still in the pilot or development phase. However, some countries are leading the way in progress. Currently, 134 countries and currency unions, representing 98% of global GDP, are exploring CBDCs. As of May 2020, that number was just 35. Now, 68 countries are in the advanced exploration phase — development, piloting, or launch [3].

In summary, the introduction of the Central Bank Digital Currency has the potential for significant economic development of Ukraine and the international economic sector. By modernizing payment systems, promoting financial inclusion and reducing transaction costs, CBDC can bring significant benefits to individuals, businesses and governments alike. In addition, a CBDC can offer enhanced monetary policy tools, promote financial stability and improve anti-money laundering compliance. In the broader context of international trade and finance, CBDC can streamline cross-border transactions and increase the efficiency of the global economy. However, the implementation of CBDCs also requires considerable attention to some issues, including privacy concerns, cybersecurity risks, and implications for monetary sovereignty.

A robust regulatory framework, technological safeguards, and public education efforts will be essential to ensure responsible and efficient deployment of CBDCs both domestically and internationally. Through careful planning and collaboration, CBDC has the potential to unlock new opportunities for economic growth, financial inclusion and innovation in the digital age.

References:

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