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INFLUENCE OF MONETARY POLICY ON DEVELOPMENT OF THE BANKING SYSTEM OF UKRAINE

ВПЛИВ МОНЕТАРНОЇ ПОЛІТИКИ НА РОЗВИТОК БАНКІВСЬКОЇ СИСТЕМИ УКРАЇНИ

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The article is dedicated to the current issues of the impact of monetary policy on the development of the banking system of Ukraine in times of war. The main trends in the use of monetary policy instruments, such as changes in the discount rate, are considered, and the dynamics of capital adequacy ratios of domestic banks during wartime are analyzed. The activities and role of the National Bank of Ukraine in stabilizing the banking system during wartime are investigated. In practice, the National Bank of Ukraine has implemented a series of proactive measures to ensure the stability of the banking system. It is determined that there is an acute need to implement additional financing channels or expand credit programs through the use of preferential interest rates, compensatory instruments, guarantee resources to support veterans, relocation, land demining, energy efficiency, exports, and the processing industry.

Keywords: monetary policy, banking system, discount rate, stability of the banking system, banking regulations.

Стаття містить інформацію про практичні наслідки монетарної політики для української банківської системи в умовах війни. Метою статті є дослідження стану банківської системи та монетарної політики в Україні та їх вплив в умовах війни, що триває. Українська банківська система зіткнулася з величезними викликами через початок російської агресії та руйнівної війни проти нашої країни. Банки поступово адаптуються до нових умов. Україна вже другий рік веде активну боротьбу не лише з агресивним російським сусідом, який безпідставно вторгся на територію нашої світової держави. На цей час фінансова система працює стабільно та прогнозовано завдяки активній роботі Національного банку України. Метою є вивчення якісних змін у здійсненні грошово-кредитної політики та їх впливу на українську економіку та банківську систему. Досліджуючи використання інструментів грошово-кредитної політики та аналізуючи динаміку показників достатності капіталу, пропонуються практичні рекомендації. Крім того, дослідження діяльності Національного банку України у воєнний час свідчить про ефективну стратегію стабілізації банківського сектора в кризових ситуаціях. Виявлена гостра потреба в додаткових каналах фінансування та розширенні кредитних програм, що свідчить про дієві кроки для вирішення викликів, з якими стикається банківська система України. Більшість банків зберегли високу операційну ефективність. Процентні доходи продовжили зростати, атаки на енергетичну інфраструктуру мали помірний вплив на динаміку комісійних доходів, доходи від валютних операцій підтримали зростання операційних доходів. Загалом практична актуальність статті полягає в оцінці та пропозиціях щодо впровадження ефективних заходів підтримки та зміцнення банківської системи України у часи турбулентності. Тому виважена та професійна політика регулятора була важливим фактором, який дозволив зберегти фінансову стабільність у 2022 та 2023 роках. За результатами дослідження запропоновано низку заходів для зміцнення банківської системи України.

Ключові слова: монетарна політика, банківська система, облікова ставка, стійкість банківської системи, банківське регулювання.

Formulation of the problem. The Ukrainian banking system has faced enormous challenges due to the onset of Russian aggression and the destructive war against our country. Despite potential problems, banks are gradually adapting to the new conditions. For the second year now, Ukraine has been actively fighting not just against an aggressive Russian neighbor who unjustifiably invaded the territory of our sovereign country. During this time, the financial system operates stably and predictably thanks to the active work of the national banking system.

Fortunately, the country's financial system was able to withstand this challenging time. The National Bank set the official exchange rate of the hryvnia, introducing a series of restrictions on foreign currency transactions and raising the discount rate to stimulate inflationary processes.

Analysis of the latest studies, in which the solution to the problem was initiated. The engagement of financial instability and the rule of central banks in its stabilization and particular relevance in the works of Halimon T. [1], Sytnyk N. S., Stasyshyn A. V., Blaschuk-Devyatkina N. Z., Petyk L. O. [2], Doroshenko N. O., Doroshenko O. G. [3], Slutsky B. [4]. The mentioned authors have contributed to the development of practical aspects of improving monetary policy. Despite publications on this issue, there is insufficient research among scholars regarding Ukraine's experience in wartime conditions and its impact on the Ukrainian banking system..

The purpose and objectives of the research. The aim of the article is to examine the state of the banking system and monetary policy in Ukraine and their impact of the war. The task is to investigate qualitative changes in monetary policy implementation and their effects on the economy of Ukraine and the banking system.

Highlighting previously unresolved parts of the overall problem.

In the current conditions of war in Ukraine, the chosen topic becomes complex and very relevant for research, generating significant interest among scholars. Since the beginning of the full-scale war, topics related to this issue have been actively discussed at scientific conferences, but due to limited time, few in-depth theoretical studies have been conducted. In practice, the National Bank of Ukraine has implemented a series of proactive measures to ensure the stability of the banking system. However, despite this, the demand for banking services has deteriorated, banks have limited currency operations, and public trust in banks has decreased.

Presentation of the main material. Monetary policy, which is in accordance with the economic strategy, aims to achieve stability in employment levels and prices, economic growth, and balance of payments. This is achieved through control of the monetary system and efforts to influence expenditure flows. The primary monetary policy objective is to strengthen the purchasing power of the national currency, prevent inflation, and maintain a stable exchange rate, while controlling sustainable economic growth and achieving other strategic goals. The central bank, as the national financial institution, monitors the risks and vulnerabilities of the country's financial system. The central bank pursues strategic goals of monetary policy such as reducing the inflation rate, ensuring a stable currency exchange rate, achieving balance of payments equilibrium, and increasing employment levels. To achieve these goals, the bank selects and develops a monetary strategy.

As a potential economic regulator, the Central Bank employs various instruments to conduct monetary policy and achieve its strategic objectives. Among these instruments, it is worth noting the discount rate, refinancing, open market operations, currency interventions, and reserve requirements. The discount rate alters the cost of borrowing for banks and is a key tool for regulating the money supply. Refinancing allows banks to obtain funding from the central bank, thus supporting their own liquidity. Open market operations involve the central bank adjusting the money supply by buying and selling securities in the open market.

The reduction of the National Bank's discount rate from 25% to 15% is one of the key moments that influenced the stability of the banking system over the past year. The positive outcomes of this step include stimulating economic growth by increasing the accessibility of credit for businesses and citizens, slowing down inflation, and improving inflation expectations, which contributes to maintaining the attractiveness of hryvnia instruments for savings. Another important factor is ongoing currency liberalization, particularly the easing of currency restrictions and a return to flexible exchange rate formation.

This strengthens the National Bank's ability to ensure price and financial stability, as well as long-term economic growth. The success of this policy contributes to reducing pressure on the exchange rate and avoiding new emissions.

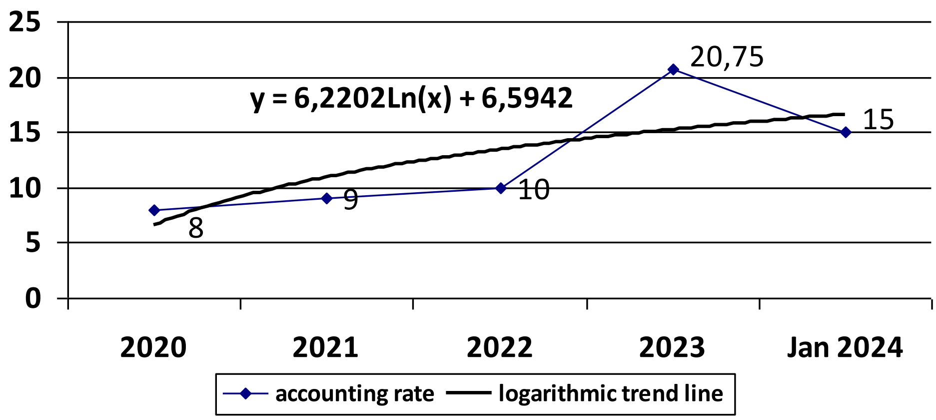

Figure 1. Dynamics of the NBU accounting rate, 2020–2024., %

Source: compiled by the authors based on NBU data [5]

The regulator's balanced and professional policy was a significant factor in maintaining financial stability in 2023. The National Bank was clear and predictable, which helped avoid panic sentiments that could have arisen against the backdrop of the mental "swings" often occurring during wartime.

In 2022, despite Russia's energy terrorism, the banking sector operated steadily. Banks continued to restore their branch networks in liberated regions and maintained depositor confidence. Client funds increased, particularly seeing a sustained growth in long-term deposits by the population and at a faster pace in foreign currency. The net loan portfolio decreased due to suppressed demand and increasing losses from credit risk. The proportion of non-performing loans continued to rise [6]. Despite significant provisions made, the sector achieved quarterly and annual profits. This was facilitated by further growth in interest and commission income. The banking system endured, swiftly adapting to operate in conditions of prolonged full-scale war, demonstrating operational resilience, liquidity, and profitability [7]. This was achieved thanks to reforms carried out in previous years, efforts by the banks themselves, timely actions, and support from the National Bank. "POWER BANKING" – the name of the joint project with banks on the continuity of financial services – is a fitting definition of the resilience of the banking system, its ability to cope with all challenges and risks, readiness, and availability of financial resources for the country's recovery [5]. The National Bank eased a number of regulations for commercial banks. These measures, with the exception of a few market participants, allowed stabilizing the operations of banks, encouraging them to change their business models, and also focus available resources on lending to sectors crucial for the Ukrainian economy with state support.

The onset of the destructive war forced Ukrainians to change priorities in banking services and seek the most convenient options for accessing banking services, particularly concerning internally displaced persons and those citizens who were forced to leave abroad. Banks are interested in creating more user-friendly websites and mobile applications for citizens, investing in the digitization of banking operations. In fact, the process significantly accelerated during the COVID-19 crisis, but the onset of full-scale war also stimulated this work to ensure the safety of both employees and clients.

Another task that the NBU faced at the beginning of the war was ensuring the continuous operation of the banking system and its further approach. Therefore, on February 24, 2022, the National Bank adopted a resolution stating that banks continued to provide services to clients, ATMs were stocked without any restrictions, trading on the Ukrainian currency market was suspended for sales, for foreign currency transactions for clients, and an official exchange rate was approved as of February 24, 2022 [3]. This resolution ensured the uninterrupted operation of the banking system and reduced panic among the population, which contributed to increasing trust in the NBU. With the improvement of the economic situation in Ukraine, the NBU began to lift restrictions and introduce new changes to ensure the functioning of the banking system.

The Cost-to-Income Ratio (CIR) in the fourth quarter of 2022 was 39.8%, compared to 53.8% in the corresponding period of the previous

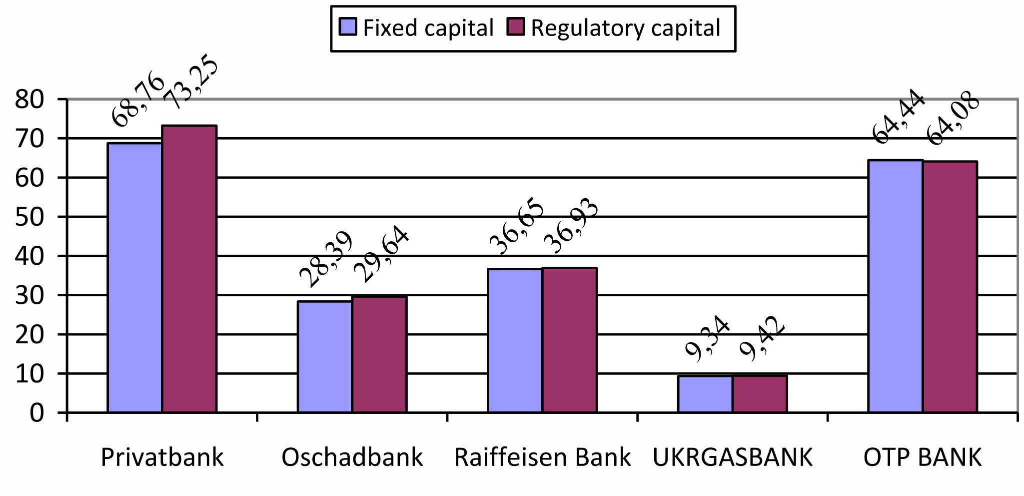

Figure 2. Norms of adequacy of core capital (H2) and regulatory capital (H3) as of April 1, 2023, %

Source: formed on the basis of [5]

year. In 2023, the National Bank conducted an assessment of the stability of Ukraine's largest banks after a year-long hiatus caused by a full-scale invasion [5]. Despite significant provisions, the banking sector reported a profit of UAH 24.7 billion for the year 2022. Most banks maintained high operational efficiency. Interest income continued to grow, while attacks on energy infrastructure moderately affected commission income dynamics. Profit from foreign currency operations supported the increase in operating income [5,8].

Based on the assessment of bank stability, only five banks have been found to exceed the minimum level of capital adequacy ratios, and only three of them have risks of fully losing capital within a three-year horizon. The stability assessment has indicated sufficient capital reserves and a high level of overall system resilience. Twenty banks, collectively holding over 90% of the sector's net assets, have passed the assessment. Next year, banks and the National Bank of Ukraine will focus on conducting an independent assessment of asset quality if security conditions permit, as stipulated in the IMF Memorandum. The methodology for this assessment will also be developed with the assistance of external experts. It will include both baseline and adverse macroeconomic scenarios [9].

Comfortable remote servicing for many Ukrainians who are forcibly abroad is not a luxury but a necessity in wartime conditions. This is because currently there are no representations of Ukrainian banks in EU countries for citizens to approach. Therefore, the only option left is remote cooperation.

Conclusions. However, despite stabilizing operations, there are still numerous risks and challenges that banks find difficult to manage in times of war. They are compelled to take radical steps to adapt to the new complex realities. This includes reducing the number of branches, increasing requirements for debtor clients, and moving away from long-term and medium-term strategies in favor of short-term planning. Those banks that will continue to improve their connection with Ukrainians despite thousands of kilometers of distance will be able to expand their client base and increase profits from credit and deposit operations by attracting market participants who cannot quickly digitize and will lose their competitive advantage. Significant attention should be paid to the restructuring of loans for clients affected by military aggression from Russia, which should be one of the priorities for banks in 2024. There is an acute need to implement additional financing channels or expand credit programs through the use of preferential interest rates, compensatory instruments, guarantee resources to support veterans, relocation, land demining, energy efficiency, exports, and the processing industry.

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