

INFLUENCE OF THE MONETARY POLICY OF THE NBU ON THE ACTIVITY OF BANKING INSTITUTIONS IN UKRAINE DURING THE WAR

INFLUÊNCIA DA POLÍTICA MONETÁRIA DO NBU NA ATIVIDADE DAS INSTITUIÇÕES BANCÁRIAS NA UCRÂNIA DURANTE A GUERRA

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Abstract. The article examines the influence of the monetary policy of the National Bank of Ukraine on the functioning of the banking sector during the war caused by Russian aggression. The monetary instruments used by the NBU to support financial stability, including raising the discount rate, open market operations, and maintaining bank liquidity, are considered. It analyses how the measures of the National Bank of Ukraine contributed to keeping the banking system stable, ensuring access to loans, and controlling inflationary processes in financial and market instability conditions. The dynamics of foreign reserves and monetary interventions of the National Bank of Ukraine in the foreign exchange market after the start of the war are studied. The role of international support and cooperation of the NBU with other financial institutions to ensure macroeconomic stability in the country is studied. It has been proven that despite the challenges of the war, the banking sector of Ukraine remained functional, and monetary measures contributed to the minimisation of economic risks and the stabilisation of the banking system in general.

Keywords: monetary policy; banking regulation; monetary policy; central bank; market instability.

Resumo. O artigo examina a influência da política monetária do Banco Nacional da Ucrânia no funcionamento do setor bancário durante a guerra causada pela agressão russa. Os instrumentos monetários usados pelo NBU para apoiar a estabilidade financeira, incluindo o aumento da taxa de desconto, operações de mercado aberto e manutenção da liquidez bancária, são considerados. Ele analisa como as medidas do Banco Nacional da Ucrânia contribuíram para manter o sistema bancário estável, garantindo o acesso a empréstimos e controlando os processos inflacionários em condições de instabilidade financeira e de mercado. A dinâmica das reservas estrangeiras e intervenções monetárias do Banco Nacional da Ucrânia no mercado de câmbio após o início da guerra são estudadas. O papel do apoio internacional e da cooperação do NBU com outras instituições financeiras para garantir a estabilidade macroeconômica no país é estudado. Foi provado que, apesar dos desafios da guerra, o setor bancário da Ucrânia permaneceu funcional, e as medidas monetárias contribuíram para a minimização dos riscos econômicos e a estabilização do sistema bancário em geral.

Palavras-chave: política monetária; regulamentação bancária; política monetária; banco central; instabilidade do mercado.



1. INTRODUCTION

The destructive impact of the war caused by Russian aggression against Ukraine led to the sudden formation of unprecedented risks and threats to the banking system of Ukraine. The armed conflict, destruction of infrastructure, mass migration of the population and economic instability significantly complicated the activities of banking institutions, which also resulted in the general destabilisation of the financial and banking market. In such conditions, the role of the monetary policy of the National Bank of Ukraine, aimed at supporting the stability of the financial sector and macroeconomic stability, became vital. At the same time, it is worth noting that, on the one hand, commercial banks faced the need to maintain liquidity and to lend to the economy and, on the other hand, to manage the ever-increasing risks of client insolvency in conditions of increasing rates of inflation and devaluation of the national currency. To solve these problems, the NBU was forced to take strict regulatory measures related to a sharp increase in the discount rate, intensifying operations on the open market, and introducing regulatory regulation of currency restrictions to support the country's international reserves. At the same time, there was a need to ensure banks' access to refinancing sources and stabilise the exchange rate against global economic uncertainty.

Despite the NBU's active efforts and tangible successes in ensuring macroeconomic stability, the question of the effectiveness of monetary policy in the current conditions remains open. The problem is that war causes constant shocks to the economy: physical destruction of corporate assets, disruption of supply chains, the mass exodus of the working population, and uncertainty about the aggressor's subsequent actions, which affects the planning of the financial sector. All this leads to the fact that traditional monetary policy instruments become less predictable and raises questions about the effectiveness of their impact on the stability of the banking sector in the long term.

Thus, there is an objective need to study the specifics of the impact of the NBU's monetary policy on the functioning of banking institutions in Ukraine in wartime conditions. The relevance of such a study lies in determining the effectiveness of the regulatory measures of the National Bank to support the banking system - which instruments work best in the conditions of a military conflict and which require adjustment or the search for new approaches to influence the financial sector.

2. LITERATURE REVIEW

The study of the peculiarities of banking operations in conditions of market instability mainly concerns the study of various aspects of monetary regulation in crisis conditions. In the context of the war in Ukraine, scientific works related to determining the impact of monetary policy on the financial system's stability, managing inflationary processes and ensuring the banking sector's liquidity deserve special attention.

At the same time, one of the critical research directions is the role of the NBU in maintaining the financial system's stability in military operations. In particular, in the works of such authors as N. Antoniuk (Antoniuk et al., 2023), T. Kryvoshlyk (Kryvoshlyk et al., 2024), and T. Shmatkovska (Shmatkovska et al., 2023a; Shmatkovska et al., 2023b), it is noted that the sharp increase in the discount rate was a reaction to threats to macroeconomic stability, in particular, inflationary pressure and devaluation of the hryvnia. It is also noted that such measures contributed to the slowdown of inflation but simultaneously increased the cost of credit resources for banking institutions. At the same time, it is emphasised that the measures of the National Bank had a temporary effect and required further interventions, mainly using foreign exchange reserves to stabilise the exchange rate.

N. Kunitsyna (Kunitsyna et al., 2018), and M. Rudenko (Rudenko et al., 2023), O. Stashchuk (Stashchuk et al., 2021) studies also highlighted the impact of Ukraine's



international support and cooperation with the International Monetary Fund and the European Central Bank. In particular, the importance of external financing and credit lines for maintaining the liquidity of Ukraine's banking system is noted. The authors determine that cooperation with international financial institutions plays a crucial role in ensuring the long-term stability of the banking sector. At the same time, the influence of currency restrictions on the activities of banking institutions is also noted since the strict currency policy of the NBU and measures to control capital outflow contributed to stabilising the hryvnia exchange rate. However, currency restrictions create difficulties for the foreign economic activity of banks and their clients, negatively affecting business activity.

In addition, it is worth noting that the study of the peculiarities of the influence of monetary policy in crises can be applied to the Ukrainian context. In particular, I. Britchenko (Britchenko et al., 2020; Britchenko et al., 2022; Britchenko, 2023), T. Kulinich (Kulinich et al., 2021; Kulinich et al., 2022), and M. Kuzheliev (Kuzheliev et al., 2015), examine examples of financial crises and measures central banks took to overcome them. Research findings assert the importance of ensuring functional coordination between monetary and fiscal policy in conditions of market instability. The research results indicate the need to provide the effectiveness of the NBU's monetary policy and its impact on the banking sector.

In general, the available research is focused on the analysis of both the NBU's immediate measures and their effectiveness in the long term. However, the problem of the impact of war on monetary policy remains under-researched, especially in the context of constant changes in the banking sector, which are taking place under the influence of destructive tendencies. All this requires finding ways to increase the functional effectiveness of regulating the financial system in war conditions.

3. METHODOLOGY

The methodology for researching the impact of the monetary policy of the National Bank of Ukraine on the activities of banking institutions is based on a comprehensive approach, which includes the use of unique scientific methods that allow researching both general trends and specific aspects of the impact of monetary measures on the functioning of the banking sector in wartime conditions.

In particular, the analysis method made it possible to divide the complex phenomenon of the influence of monetary policy into separate components, which include monetary instruments (the discount rate, open market operations, currency interventions), the state of the banking system (liquidity, lending, risk management), as well as macroeconomic factors (inflation and exchange rate). In the analysis process, individual elements of the NBU policy and their influence on the activity of banks were investigated, mainly through the dynamics of the discount rate and its impact on the cost of loans, liquidity and the general level of financial stability of banking institutions.

The synthesis combined the analysis results of individual aspects into a single picture to understand monetary policy's overall impact on the banking sector. This method provided a holistic view of how different regulatory instruments interact and how this affects the stability of banks during military operations. Thus, the synthesis of the results of the study of individual monetary measures helped to understand how the simultaneous use of an increase in the discount rate and currency interventions contributes to the stabilisation of the hryvnia exchange rate and the reduction of inflationary pressure while at the same time hindering access to credit resources.

The abstract method was used to highlight the general patterns of the influence of monetary policy in the conditions of war, which made it possible to abstract from individual cases or details and focus on fundamental principles. This made it possible to carry out a generalised study of the principles of the functioning of monetary policy during crises. In particular, based



on the analysis of the actions of the NBU, the main patterns of the behaviour of banking institutions in conditions of increased risk of client insolvency, limited access to foreign capital markets and growth in the cost of credit resources were highlighted. Applying the abstract method also helped identify general trends in the interaction between monetary policy and the banking sector in the context of war.

The method of logical generalisation was used to systematise the analysis results and formulate general conclusions regarding the impact of the NBU's monetary policy on the banking system. Based on the study of individual measures of the National Bank and their effects on macroeconomic indicators, general conclusions regarding the effectiveness of monetary policy were formulated. Logical generalisation also made it possible to compare the research results with existing scientific works investigating similar processes during other crises. This made it possible to assess the extent to which the Ukrainian experience corresponds to the general patterns of behaviour of the banking sector under the influence of monetary policy in conditions of instability.

Official reports of the NBU, macroeconomic indicators and statistical data, as well as scientific works investigating the impact of the war on the banking sector of Ukraine, became the primary sources for the analysis of the NBU's monetary policy. In the research process, data on macroeconomic indicators of Ukraine during the war period were also used, which made it possible to assess the dynamics of changes under the influence of the regulator's monetary measures.

Thus, the proposed research methodology made it possible to conduct a comprehensive analysis of the impact of monetary policy on banking institutions based on studying the principles of interaction of monetary instruments and the banking sector in conditions of economic instability.

4. RESULTS

Since the beginning of the war caused by Russian aggression in 2022, the banking system of Ukraine has found itself in conditions of unprecedented economic upheaval. In particular, the destruction of infrastructure, reduced business activity of enterprises, disruption of supply chains and significant military spending seriously undermined the functional stability of banking institutions. To maintain financial stability and control over the macroeconomic situation, the National Bank of Ukraine had to implement several measures within its monetary policy framework. At the same time, the monetary and credit policy of the NBU was aimed at several critical tasks: stabilising the currency market, maintaining the liquidity of the banking system, curbing inflation, and protecting the country's balance of payments. All these tasks required the active use of traditional regulatory tools, such as the discount rate and emergency measures related to introducing currency restrictions and interventions.

One of the first and most significant decisions of the NBU was a sharp increase in the discount rate to 25% in June 2022. This measure was a response to rising inflation, which had reached significant levels due to internal and external shocks caused by the war. At the same time, it is worth noting that during the same period, the regulator carried out a hidden emission of money supply, buying government bonds to ensure financing of the economy in emergency conditions. Since the discount rate is the main instrument for regulating interest rates on loans and deposits in the banking system, its increase was aimed at curbing inflationary pressure and stabilising the hryvnia exchange rate.

The rate increase led to a significant increase in the cost of credit resources, which, according to NBU analysts, initially hurt lending to the economy. Lending to businesses and households declined as the cost of borrowing increased, and banking institutions faced an increased risk of loan defaults due to worsening customer solvency. However, this step was

necessary to slow down inflationary processes threatening the country's macroeconomic stability.

Subsequently, the discount rate remained high as inflationary pressure, although weakened, remained significant. The NBU emphasised that maintaining a high rate allowed banks to maintain liquidity and stability in the difficult conditions of war but also reduced opportunities for active lending, which is a challenge for economic recovery. However, in the second half of 2023, the National Bank began a gradual rate reduction to stimulate economic activity in the country. At the same time, at the end of 2024, the discount rate decreased to 13% (Figure 1).

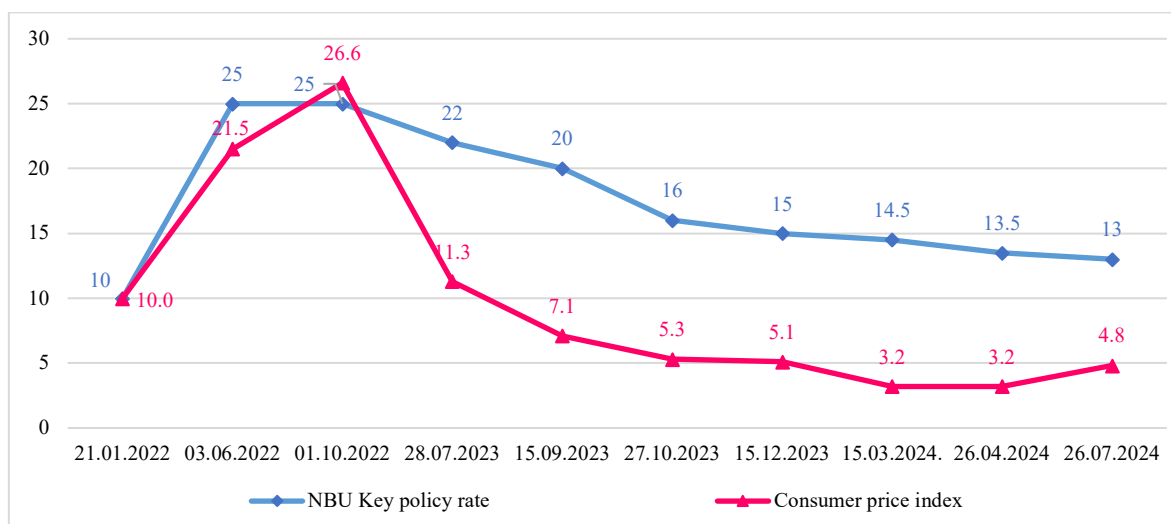


Figure 1. Change in the NBU discount rate and inflation rate during the war period, %
Source: (National Bank of Ukraine, 2024)

In general, the effect of the increase in the discount rate was positive for the banking system of Ukraine, as inflation began to gradually decrease in the second half of 2023, which indicates the stabilisation of the economic situation. Banks, in turn, could adapt their activities to new realities, focusing on short-term operations and conservative lending.

In addition, in connection with the war and a general decrease in confidence in the financial markets, Ukrainian banks faced problems with access to liquid funds. One of the main tools used by the NBU to support banks in this period was refinancing operations. During the crisis, the banking system of Ukraine received additional resources through long-term refinancing programs. At the same time, the NBU most actively used operations to provide banks with the necessary liquidity in 2022. In particular, after the start of the war, the regulator provided banking institutions with funds for UAH 362,709.3 million as part of the refinancing, which allowed them to maintain operational efficiency and maintain financial obligations to clients. At the same time, after the stabilisation of the market situation, the amount of refinancing decreased significantly. In 2023, it amounted to only 291.9 million UAH; in 2024, it amounted to 703.9 million UAH. (as of mid-October) (National Bank of Ukraine, 2024).

Such a policy allowed the banking sector to stabilise in the short term. Still, it also increased banks' dependence on the regulator, which created risks for the future stability of the entire banking system. Providing liquidity through refinancing helped to ensure the stable functioning of banks but, at the same time, encouraged the accumulation of risks on their balance sheets. In this aspect, it is essential to note that refinancing operations create particular risks for the NBU, as an increase in liquidity can lead to a rise in inflationary pressure (Dziamulych et al., 2024). In this regard, the regulator strengthened the monitoring of refinancing to avoid excessive risky lending and ensure the effective use of funds to support the real economy.

Stabilisation of the foreign exchange market in war conditions became another critical priority of the NBU. Since 2022, the hryvnia exchange rate has come under significant pressure due to a sharp reduction in foreign currency inflows, export restrictions, and rising import costs. To prevent panic devaluation, the National Bank in 2022 decided to fix the exchange rate of the hryvnia to the US dollar at the level of UAH 36.6. per dollar, which helped stabilise the foreign exchange market situation. Also, the regulator constantly carried out currency interventions to maintain a fixed exchange rate and ensure the state's solvency on international markets. The sale of foreign currency on the domestic market helped keep the hryvnia exchange rate from falling further, which was critically important for ensuring the stability of prices for imported goods, particularly energy carriers and medical devices (Figure 2).

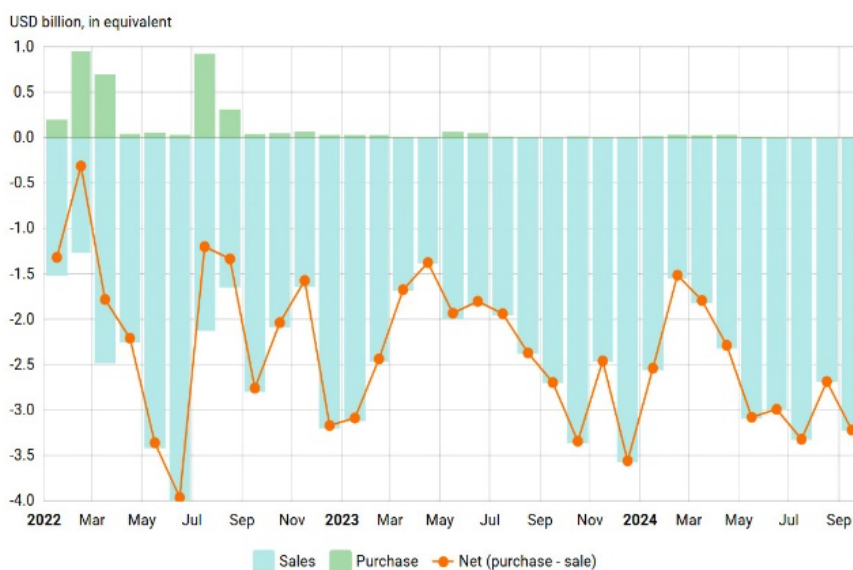


Figure 2. Volumes of currency interventions by the NBU to maintain the exchange rate of the national currency in 2022-2024. Source: (National Bank of Ukraine, 2024)

However, currency restrictions also had negative consequences for banking institutions and businesses. Exchange rate fixation and strict rules on currency exchange limited the opportunities for foreign economic activity of banks and their clients, which, in turn, reduced the volume of exports and imports. In addition, the fixed exchange rate created additional imbalances in the foreign exchange market as demand for foreign currency remained high. As a result, from the end of 2023, the NBU abandoned the fixed exchange rate, which resulted in the gradual devaluation of the hryvnia despite continued currency interventions.

During the war, the NBU actively cooperated with international financial organisations, such as the International Monetary Fund, the World Bank, and EU financial institutions. At the same time, loans and grants provided to Ukraine to support budget financing and stabilise the financial system played an essential role in maintaining macroeconomic stability. In particular, the IMF program introduced in 2023 aimed to support macroeconomic stability, finance the balance of payments, and carry out structural reforms in the financial sector (Dziamulych et al., 2023). As part of this program, Ukraine received significant financial resources, which made it possible to support the currency reserves of the NBU and ensure the stability of the banking sector (Figure 3). The IMF also provided technical assistance to improve the effectiveness of banking regulation and improve monetary policy mechanisms.

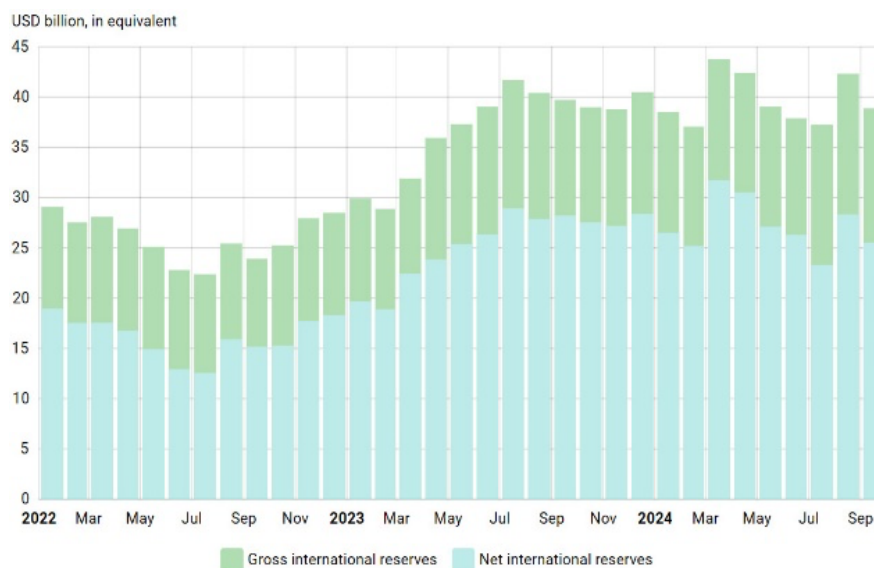


Figure 3. Dynamics of the NBU's international reserves for 2022-2024
Source: (National Bank of Ukraine, 2024)

It should be noted that cooperation with international organisations played an essential role in maintaining confidence in the Ukrainian financial system. This allowed it to reduce pressure on the banking sector and prevent an economic crisis. In addition, international partners helped provide Ukraine with the necessary resources to finance infrastructure reconstruction and support social programs. The size of the National Bank's reserves increased significantly compared to the pre-war period.

In response to the challenges caused by the war, the NBU implemented a program to reform the banking sector to increase its stability and adapt to new economic conditions. At the same time, primary attention was paid to strengthening the regulation of banks, particularly the requirements for their capitalisation and risk management. Since the war presented banks with new risks related to the growth of problem loans, a general decline in economic activity and reduced access to foreign capital markets, one of the critical steps of the NBU was to increase the capital requirements of banking institutions to ensure their stability in the conditions of growing risks (Dziamulych et al., 2024). Accordingly, commercial banks were forced to increase the size of their reserves to reduce the risks of insolvency and ensure the ability to fulfil their obligations to customers. In addition, the regulator strengthened the monitoring of banks' activities to prevent risky financial transactions and improve the management of credit portfolios.

However, it should be noted that despite the active policy of the NBU and international support, Ukraine's banking sector continues to face several challenges. The main problems are related to high credit risks since the war significantly deteriorated the solvency of the population and businesses. Problem loans remain a severe challenge for banks, which limits their ability to resume active credit activities. Inflationary pressure also remains a significant problem. Although the National Bank of Ukraine managed to contain inflation to some extent, the economic consequences of the war, particularly the increased costs for infrastructure reconstruction and social assistance, create the conditions for further price increases.

5. CONCLUSION

Thus, we conclude that the monetary policy of the National Bank of Ukraine during the war became an essential element in supporting macroeconomic stability and ensuring the functioning of the banking system in conditions of a deep crisis. Along with the challenges faced by Ukraine, the NBU demonstrated its policy's high flexibility and adaptability, focusing

on the use of classic monetary instruments in new realities. Despite this, further challenges and the instability of the external environment pose new challenges to monetary policy, which require more profound and more innovative approaches to ensure long-term economic stability.

Further, the monetary policy of the NBU should be oriented towards the gradual normalisation of monetary conditions. Since it was extremely tight during 2022-2024, in particular, due to high interest rates and increased control over the foreign exchange market, in the event of stabilisation of the macroeconomic situation, the National Bank will gradually lower the interest rate, which will allow for more active lending to the economy and support economic growth. In turn, reducing the discount rate will reduce the cost of credit resources for businesses and the population, which will be a significant incentive for the recovery of investment activity. A gradual easing of currency restrictions and a transition to a floating exchange rate are also expected in the future. The NBU will continue to use currency interventions to stabilise the hryvnia; however, in case of stabilisation of external factors, a decision may be made to liberalise the currency market gradually. This will open opportunities for the expansion of foreign economic activities of Ukrainian banks and businesses, facilitate access to foreign capital markets, and also stimulate the inflow of foreign investments.

Separately, it should be noted that given the active cooperation with international financial organisations during the war, Ukraine's integration into the global financial system is expected to increase. This involves further implementation of international standards in banking regulation and more active participation in international financial programs. Accordingly, the NBU will continue implementing the Basel III standards, which relate to strengthening requirements for bank capitalisation, risk management, and financial transparency. These standards will contribute to increasing the banking sector's stability and improving risk management in conditions of economic instability. In addition, closer cooperation with the European Central Bank and other European financial regulators can help strengthen Ukraine's position in international capital markets. This can be a crucial element for long-term post-war economic recovery, as integration with European financial institutions will open up new opportunities for investment and cooperation with international partners.

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