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Igor MANTSUROV, Dr. Sci. (Econ.), Prof.,

Corresponding Member of the NAS of Ukraine, Director

Institute for System Statistical Studies, 20, Antonovycha St., Kyiv, 01004, Ukraine

Extraordinary Professor of the Department of Statistics and Population Studies

University of the Western Cape in the Republic of South Africa

Robert Sobukwe Rd, Bellville, Cape Town, 7535, South Africa

e-mail: imantsurov@gmail.com

ORCID: <https://orcid.org/0000-0003-1753-0422>

Alina BARVINOK, PhD (Econ.), Senior Researcher

Institute for System Statistical Studies, 20, Antonovycha St., Kyiv, 01004, Ukraine

Researcher of the Department of Statistics and Population Studies

University of the Western Cape in the Republic of South Africa

Robert Sobukwe Rd, Bellville, Cape Town, 7535, South Africa

e-mail: alinabarvinok1990@gmail.com

ORCID: <https://orcid.org/0000-0002-8047-3478>

Iryna STOLIETOVA, PhD (Econ.), Associate Professor,

Associate Professor Department of Digital Economy and System Analysis

State University of Trade and Economics, 19, Kyoto St., 02156, Kyiv, Ukraine

e-mail: i.stolietova@knute.edu.ua

ORCID: <https://orcid.org/0000-0002-6594-4569>

REGULATORY POLICY OF THE NATIONAL BANK OF UKRAINE: PROBLEMS AND WAYS TO IMPROVE

The qualitative and quantitative characteristics of the monetary and regulatory policy of the National Bank of Ukraine have been analyzed. As a result, it was proved that this policy is a set of managerial measures in the area of money's circulation. In order to implement this policy successfully, the NBU should increase the national banking system's stability level, primarily by maintaining the real value of money.

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Keywords: *methodological approach; National Bank of Ukraine; bank management; banking system of Ukraine; monetary policy; stability of prices and the banking system; economic development; credit monitoring mechanism.*

The policy of monetary regulation of Ukraine, as an integral part of the economic policy of any state, is designed, in accordance with its main functions, to ensure a high level of price stability, creating on this basis the conditions necessary for the formation of an economic model with a high and stable level of development and optimal employment. Taking this into account, the policy of regulating the money supply and monetary relations should constantly be the focus of attention not only of academic economists, but also of functionaries of central banks.

It should be emphasized that in the economic literature there are a number of unresolved problems regarding the interaction of various components of monetary and monetary policy in Ukraine, among which a special place is occupied by inflation targeting procedures and determining the impact of monetary and monetary policy on economic growth and maintaining the unemployment rate at a level close to optimal.

In this regard, scientific research into the current situation in the development and implementation of monetary and credit policy in Ukraine should be considered very relevant.

The authors believe that the National Bank of Ukraine (NBU) in its activities should proceed from the priority of achieving and maintaining price stability in society. In turn, the authors propose to define price stability as maintaining the purchasing power of the national currency by maintaining low and stable inflation rates.

According to the authors, in order to achieve and maintain price stability, the National Bank of Ukraine should apply a special inflation targeting regime. The essence of this regime is the public announcement of the maximum level of growth in the value of the consumer price index and the obligations of the National Bank to achieve these goals in the planning horizon under consideration.

As strategic tools for maintaining price stability, the National Bank of Ukraine proposes to use existing monetary instruments, the main of which, as is known, are the interest rate and the discount rate. At the same time, the operational goal of the monetary policy of the National Bank is to maintain interbank rates in the national monetary unit at a level close to the key rate. As is known, an indicator of the level of interbank interest rates in national currency is the Ukrainian Index of Interbank Interest Rates on Loans and Deposits in National Currency (MIS).

Having carried out the appropriate analysis, the authors dare to assert that today the banking system of Ukraine has excess liquidity. In such a situation, in order to more flexibly respond to changes in the liquidity of the Ukrainian banking system, it is proposed to introduce changes to regulate the flexibility of the monetary policy structure. Such modernization, according to the authors, will contribute to the effective implementation of the operational goals of the National Bank even in conditions of unstable liquidity.

The purpose of this article is to provide a comprehensive understanding of the current state of economic research in this area, reflect the results of scientific research conducted by the authors in this specific area, draw appropriate conclusions and identify directions for future scientific research.

The scientific goals of the study are to analyze the patterns of formation of the components of the NBU regulatory policy, trends in its changes and the consequences to which these changes lead. First of all, in terms of the dynamics of the general economic indicators in Ukraine. Based on the general purpose of the article and its more detailed and specific scientific goals, the article's object and subject are determined. *The object of study* is the regulatory policy of the National Bank of Ukraine. *The subject of the article* is the various components of this regulatory policy, namely, monetary, fiscal and credit instruments in their conditionality and interaction. *The scientific novelty of the article and its practical significance* lie in the quantitative and qualitative assessment of trends in the parameters of the NBU's regulatory policy changes and the analysis of the corresponding socio-economic consequences that these changes result in.

The article provides an in-depth analysis of modern economic literature devoted to the development and implementation of monetary policy in developing countries, in particular in Ukraine. One of the key issues that the authors paid attention to was assessing the effectiveness of monetary policy. Since the end of the last century, there has been a serious theoretical discussion in the scientific literature about the interaction of central banks and governments, as well as about the coordination between monetary and fiscal authorities. It is noted that central banks are more focused on limiting inflation, while governments are primarily concerned with the problems of economic growth, the level of public debt and its share in GDP. At the same time, the effectiveness of control over both variables depends on the level and effectiveness of coordination of actions of governments and central banks (Smaghi, Casini, 2000).

Unfortunately, this coordination does not always lead to the desired results. The reason for this should be sought in the relationship between different government bodies in relation to each other. For example, K.G. Silva and F.V. Vieira (2017) argued that when monetary policy dominates fiscal policy, the dominant role is played by those authorities whose responsibilities include controlling inflation and, accordingly, the volume of money emission. However, if fiscal policy dominates monetary policy, then the relevant authorities responsible for implementing this policy lose some of their influence in terms of regulating the level of inflation.

Developing this conceptual approach, scientists S. Aiyagari and M. Gertler (1985) introduced a distinction between Ricardian and non-Ricardian economic models that determine the economic policies of governments. In the first conceptual model, the authority responsible for monetary policy determines the volume of the money supply and, accordingly, the price level. Thus, the government as a whole must achieve a budget surplus that can guarantee repayment of the original debt amount and, as a result, financial solvency.

American macroeconomists E. Leeper and T. Davig (2009) assess the effectiveness of the financial policies of the United States based on the use of Markov models. The results of their paper highlight the fact that assessing the impact of fiscal stimulus is impossible without an aggregate study of monetary and fiscal policy. Following the scientific position of E. Leeper and T. Davig, the government fiscal policy can be either “active” or “passive”. The level of activity of this policy depends on how intensely it influences the dynamics of the volume of public debt. The “active body” of power avoids large amounts of this debt by defectively setting its maximum volume. The policy of the “passive body” depends on the current state of public debt. And it is aimed at eliminating negative consequences if this volume is extremely large and, as a result, puts the economy into a state of shock.

Economists F.M. Taylor and M. Haga assess the policy response to the so-called “Taylor rule,” which was in place to control inflation in the United States in the early 1990s. These scientists are joined by representatives of another school — S. Ghatak and T. Moore (2016), which describe changes in the instruments that regulate inflation growth and its relationship with the dynamics of real GDP. The main purpose of these changes is to enable governments to succeed in limiting the price level and the gap with GDP dynamics.

Analyzing the results of studies in the field of fiscal policy and its sustainability, the authors conclude that they mainly analyzed two main indicators, namely, the size of the debt and the primary balance. For example, the economist H. Bona (1998) proved that the US primary budget surplus is an increasing function that positively describes the ratio of public debt to GDP.

Researchers J. Gali and R. Perotti (2003) analyzed how the Maastricht Treaty and the SGP changed fiscal policy in the EMU countries. Moreover, it was proven that EU governments increased their primary budget surpluses after increasing the outstanding amount of public debt. For this purpose, apparently, primary budget surpluses are used.

Polish economists M. Brzozowski and J. Siwiska-Gorzela (2010) assess the impact of the government’s fiscal behavior on the level of volatility of the state’s tax and budget policy. In particular, these authors find that fiscal balance and debt constraints have different effects on fiscal volatility. Thus, fiscal balance restrictions help increase volatility, while debt restrictions help reduce it.

All these results prove that a balanced tax and budget model is a factor in stabilizing monetary policy. Analyzing monetary policy, authors note that the result of its activities is, first of all, interest rates of central banks. This conclusion can be drawn, in particular, by analyzing the scientific position of K. Altavilla (2003), who assesses how the European Central Bank (ECB) controls the dynamics of interest rates when changing the volume of GDP, inflation and the exchange rate. The scientist concluded that the ECB’s reaction is more reasonable and effective if it begins to use a “lagged interest rate” and projected changes in the inflation rate.

Finance macroeconomists K. Reinhart and K. Rogoff (2008) developed a panel reaction estimation model based on the already mentioned Taylor rule to

analyze the quality and effectiveness of European monetary policy. As a result of applying this model, the authors find a significant change in interest rates only in cases of regional, that is, European inflation.

Financiers W. Clausen, B. Hayo (2002) also examine the short- and medium-term implications of asymmetric European monetary policy for Germany, Italy and France. Moreover, their research results lead to the conclusion that an uncoordinated change in monetary policy applied to the eight major EMU countries could lead to an asymmetric response due to differences in national economic structures.

Latin American economists J.P. Andrade and M. Pires (2011) study the effectiveness of Brazilian monetary policy during the *Real Plan*. The results of their study provide new insights into how monetary policy might operate in the case of indexed bonds. The authors argue that the wealth spillover effect acts as an important transmission channel for monetary policy, although a high proportion of indexed bonds may offset this role.

In order to study the interaction between monetary and fiscal policy, K. Beetsma and H. Jensen (2005) analyze the interaction between the components of these blocks, proving that a monetary union, using the concept of “sticky prices”, simultaneously received the cumulative effect of several fiscal rules.

Financiers K. Leith and von L. Thadden (2008) study the interaction between different components of the financial policies of central banks within the framework of the already mentioned non-Ricardian model. As a result, the authors conclude that the volume of public debt plays an important role in the policy-making process. Moreover, without limiting the maximum level of this variable, it is impossible to determine the effectiveness of both fiscal and monetary policy rules in ensuring the dynamic level of economic equilibrium.

Portuguese professor-economist from University of Lisbon S. Lagoa (2016) assesses the reasons for differences in inflation rates between eurozone countries in the period 1998—2008 and shows that it is the levels of exchange rates, and not real indicators of labor costs, that are the main factor determining the dynamics of the inflation rate. In addition, based on the results of his research, the author also offers an interesting discussion regarding the interaction of monetary and fiscal policies and their level of effectiveness during the financial crisis and subsequent periods.

American forecasters from the John Hopkins University F. Bianchi and K. Ilut (2017) also applied Markov models to the study of the US economy as a means of assessing changes in the interaction of monetary and fiscal policies. A “passive” monetary policy was proven during the 1960—1970s of the last century and a transition to a more “active” policy was demonstrated starting from the mid-1980s.

A similar approach was proposed by Portuguese professors A. Afonso and P. Toffano (2013), University of Lisbon, who found that the UK had a more “active” fiscal model, while Germany’s fiscal regimes were generally less active. As a result, a higher level of financial stability has been achieved in Germany.

The same result was obtained in Italy, where, on the eve of the creation of the EMU, more passive fiscal behavior was observed.

Providing new insight into the highly relevant topic of the interaction of monetary and fiscal policies, Finish macroeconomist M. Haga (2015), professor from the Helsinki University, finds an inverse relationship between the level of dependence of central banks and the dynamics of budget cycles. In other words, more dependent central banks simultaneously play a more passive monetary role in the face of fiscal policies pursued by national governments.

Summarizing the review of modern economic literature devoted to the problem under consideration, the authors would like to formulate a consolidated point of view regarding the strengths and weaknesses of those publications that became the theoretical basis of this article. The authors do not fully agree with the scientific position of E. Leeper and T. Davig (2009), who proposed dividing government fiscal policy into “active” and “passive”. **According to the authors’ scientific point of view, any government policy, including fiscal, should be: A. balanced and, as a result, B. flexible.** Depending on the current economic situation inside and outside the country, the ratio between “active” and “passive” instruments can and should change.

Economists F.M. Taylor and M. Haga assess the policy response to the so-called “Taylor rule,” which was in place to control inflation in the United States in the early 1990s. These scholars are joined by representatives of another school, Ghatak and Moore (2016), who describe changes in the instruments for regulating inflation growth and its relationship with the dynamics of real GDP. The main purpose of these changes is to enable governments to succeed in limiting price levels and the gap with GDP dynamics.

Thus, the authors to a certain extent, although not completely, share the scientific position of two American economic schools’ representatives, namely, — F.M. Taylor and M. Haga, on the one hand, and M. Ghatak and J.H. Moore, on the other. **This position provides for a balanced combination of actions by state regulation of the economy instruments, providing for the solution of a dual task — namely, limiting the level of inflation and stimulating economic growth.**

This strategy is very close to the position of H. Bon (1998), who analyzed the relationship between the dynamics of public debt and GDP in the US economy. **The authors fully share the position of these famous economists.**

The authors argue that Polish economists M. Brzozowski and J. Siwiska-Gorzela (2010) essentially extend this same view by demonstrating how fiscal balance constraints help increase the volatility of government tax and budget policy, while debt limits help reduce it. One cannot but agree with this.

The authors made an attempt, following the methodology of the prominent Italian economist C. Altavilla (2003), to develop approaches to statistical modeling of the “lagged interest rate” and predict on this basis changes in the level of inflation in Ukraine. The results of the analysis demonstrate a fairly high level of adequacy of this model.

The authors allow themselves to disagree with economists C. Reinhart and K. Rogoff (2008), who, based on the developed group reaction assessment model, prove that a significant change in interest rates can affect the dynamics of economic development only in certain regions. The authors believe that in addition to regional peculiarities in terms of the consequences of changes in interest rates, they can and do exist. **However, according to the authors, this does not exclude the presence of a fundamental component, the influence of which seems to be much more significant.**

At the same time, it should be noted that the distinction between the fundamental and regional components is highly theoretical and practical, but is the goal of another study.

Research performed by Portuguese professor-economist S. Lagoa (2016), as well as financiers K. Leith and von L. Thadden, who assess the reasons for differences in inflation rates between eurozone countries in the period 1998—2008 studies the interaction between various components of the financial policies of central banks of different countries. The results of these scientific studies only confirm the idea of the authors of this article.

The authors are in absolute agreement with financiers K. Beetsma and H. Jensen (2005), who analyze the interaction between the components of the monetary and monetary policy blocks, arguing that using the concept of “sticky prices”, **it is possible to simultaneously obtain the cumulative effect of several fiscal rules, which leads to significant revival of economic dynamics.**

Moreover, the authors believe and have repeatedly expressed the idea that in conditions of crisis, and even more so, war, state regulation of prices should become one of the priorities of the government’s economic policy.

The authors cannot agree with macroeconomist M. Haga, who believes that in most countries central banks simultaneously play a more passive monetary role in the face of fiscal policies pursued by national governments. According to the authors, one example of a country where the opposite trend is observed is Ukraine.

Concluding this section, the authors would like to strongly recommend that the National Bank of Ukraine Ukrainian considers a possibility to use scientific recommendations formulated by the statistician I. Mantsurov. These conceptual recommendations introduce the following system of measures that the National Bank of Ukraine should follow during the war:

1. All areas of the NBU’s work should be aimed at maintaining the stability of the national economy.
2. The regulatory policy system of the National Bank of Ukraine, including monetary policy, should be aimed at restoring lending to the economy, primarily its real sector.
3. Contribute to the further development of the financial services market.
4. Increase the level of cyber protection of the financial sector.
5. Improve partnership and interaction with stakeholders of the National Bank and commercial banks (Mantsurov, 2015; Mantsurov, 2013).

METHODOLOGY AND DATA USED

The study uses the annual time series data of annual bank rate of the National Bank of Ukraine and Consumer Price Index, 1992—2023. The variables used in the analysis were obtained from several official sources of information, particularly from Ministry of Economy of Ukraine¹, State Statistical Service Ukraine², National Bank of Ukraine (NBU), World Bank³, European Central Bank (ECB)⁴, Eurostat⁵, as well. Common types of research methodology include quantitative and qualitative research methods, mixed-method research, experimental and case study research have been used.

RESULTS AND DISCUSSION

According to the basic principles of scientific research, they must begin with the formation of a terminological apparatus. Following this requirement, the authors define the financial, monetary and tax policies of the state, which, in their opinion, is a system of regulatory instruments and procedures that are used by the country's central bank to control the volume of money supply, interest rates and stimulate economic growth.

In accordance with its powers, the National Bank of Ukraine, based on strategic decisions, ensures price stability both through the use of an inflation targeting regime and through the use of a floating exchange rate of the hryvnia.

Thus, the NBU's monetary policy is based on the key rate as the main regulatory instrument in order to maintain price stability. There are certain rules and procedures that are designed primarily to implement monetary control. From a conceptual point of view, when we talk about banking control, we must mean regulation and supervision. This is precisely what is required by the so-called prudential rules that regulate the safety, reliability and stability of the functioning of supervised institutions. The main purpose of these rules is to ensure that the banking sector and its institutions fulfill their functions in the economy. At the same time, all these institutions must remain solvent and sufficiently liquid.

The bank (discount) rate is the key rate of the NBU, which is the main indicator of the effectiveness of monetary policy and a benchmark for the cost of attracted and placed funds for the state, commercial banks and other participants in the country's money market. The key rate is set on the basis of a comprehensive analysis and forecast of macroeconomic, monetary and financial events prepared by the NBU.

By setting the level of the key rate, the central bank provides commercial banks with a reference point for the cost of short-term resources. Based on this indicator, banks then set the cost of deposits and loans to their customers.

¹ *Ministry of Economy of Ukraine*. URL: <https://www.me.gov.ua/?lang=en-GB>

² *State Statistics Service of Ukraine*. URL: <https://ukrstat.gov.ua>

³ *World Bank Group*. URL: <https://databank.worldbank.org/>

⁴ *European Central Bank*. URL: <https://www.ecb.europa.eu/stats/html/index.en.html>

⁵ *Eurostat*. URL: <https://ec.europa.eu/eurostat>

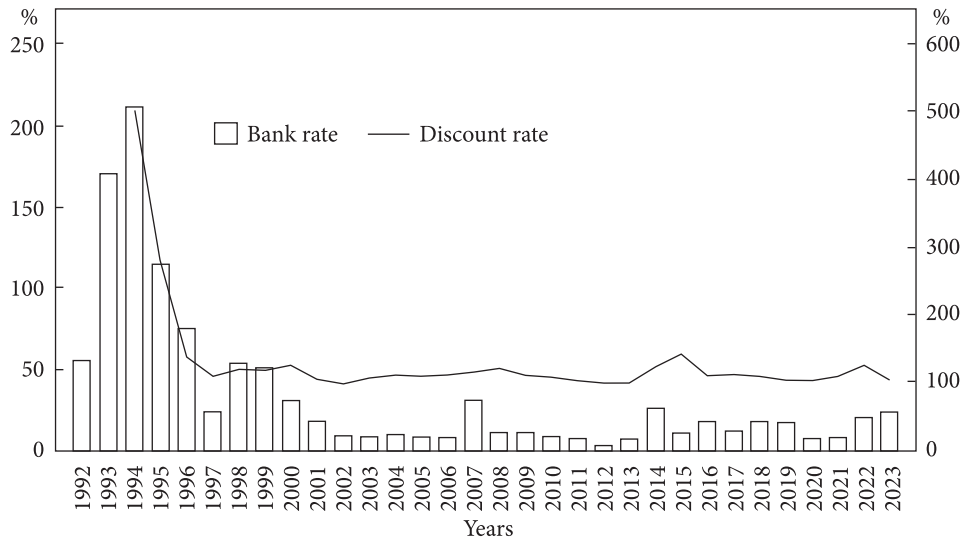


Fig. 1. Dynamics of the annual bank and discount rates of the National Bank of Ukraine, 1992—2023. The left scale characterizes the annual change in the bank rate, %, while the right one, — also the annual dynamics of the discount rate, %
 Source: developed by the authors based on: *Ministry of Finance of Ukraine data*. URL: <https://index.minfin.com.ua/economy/index/inflation/>

Average annual discount rate of the National Bank of Ukraine, 1992—2023, %

Year	Bank rate	Year	Bank rate	Year	Bank rate	Year	Bank rate
1992	55.0	2000	30.8	2008	11.0	2016	17.3
1993	170.0	2001	18.3	2009	10.6	2017	11.8
1994	211.4	2002	9.1	2010	8.6	2018	17.3
1995	114.4	2003	8.2	2011	7.5	2019	16.7
1996	75.1	2004	9.5	2012	3.3	2020	7.4
1997	24.0	2005	8.5	2013	7.3	2021	7.7
1998	53.8	2006	8.0	2014	26.6	2022	20.7
1999	50.7	2007	30.8	2015	11.0	2023	23.7

Source: developed by the authors based on: *National Bank of Ukraine*. URL: <https://bank.gov.ua/ua/monetary/archive-rish>

Changes in the NBU discount rate for the period 1992—2023 are presented in Table. As evidenced by the data in Table, over 30 years the NBU, focusing on the global situation in the world economy and the state of the national economy, has significantly changed the value of the discount rate. The minimum annual average was recorded in 2013 (3.3%), and the maximum in 1994 (221.4%). Last year, the National Bank of Ukraine (NBU) sharply increased the discount rate from 10 to 25%. Accordingly, interest rates on certificates of deposit increased. In 2022, commercial banks began to receive an interest rate on them of 23% (NBU discount rate minus 2%).

More visible the corresponding data are presented in the Figure 1.

The authors believe and strongly recommend that the NBU pays special attention not only to an isolated change in the discount rate, but to the results of a qualitative analysis of these changes in relation to other indicators of the bank's activities and general economic indicators. It is this approach that makes it possible to systematically ensure the NBU's function of determining the level of the discount rate depending on the state of the world financial markets and the macroeconomic situation in the country.

The authors convincingly prove that the volume of bank investments in NBU certificates of deposit increased in 2022 from UAH 95 billion at the beginning of the year to UAH 456 billion at the end, or almost 5 times. According to the authors, this huge amount of almost half a trillion hryvnia (more than 10 billion dollars) is liquidity withdrawn from the economy. At the same time, the interest accrued on them (more than UAH 40 billion last year) represents a net emission of the Central Bank, carried out in the interests of a group of commercial banks. In other words, to pay interest on certificates of deposit, the NBU actually "printed" 40 billion UAH.

Thus, the NBU acts as a "vacuum cleaner", pulling money from the economy that it so crucial needs for defense.

According to official NBU statistics, in 2022 it purchased war bonds worth more than UAH 400 billion from the Ministry of Finance (as part of the so-called quasi-fiscal dominance). These funds entered the economy through budget financing and partially settled in banks. However, with the help of certificates of deposit, 480 billion UAH were withdrawn from monetary circulation, which is 80 billion UAH more.

In other words, during a war and an unprecedented economic crisis, the NBU has a positive balance of operations in the liquidity market. Undoubtedly, this phenomenon is "unique" in modern, and not only modern, economic theory and historical practice. At the very least, the analysis shows that throughout the twentieth century, in all countries that participated in wars in one way or another, the central bank became the lender of last resort for the market and government.

Thus, the authors make an important conceptual conclusion that in conditions of war, the National Bank becomes a transit hub for pumping profits from the budget, which has a significant deficit, into the banking system. It is quite clear that the current policy of the NBU essentially condones commercial banks, which during the war receive 85 billion UAH of income practically out of thin air, due to the targeted emissions of the Central Bank (which, by the way, directly affects inflation dynamics).

Since May 2019, due to moderate inflation risks, the NBU has been gradually reducing the key rate, and today it is set at 6%. Accordingly, banks began to reduce rates on deposits and loans. If in July 2022 the average interest rate on business loans was 18%, then in July 2023 the cost of borrowing for them fell to less than 10%.

In addition to the cost of resources for the bank, the level of risk on loans affects interest rates. Basically, credit risk is taken into account — the risk of

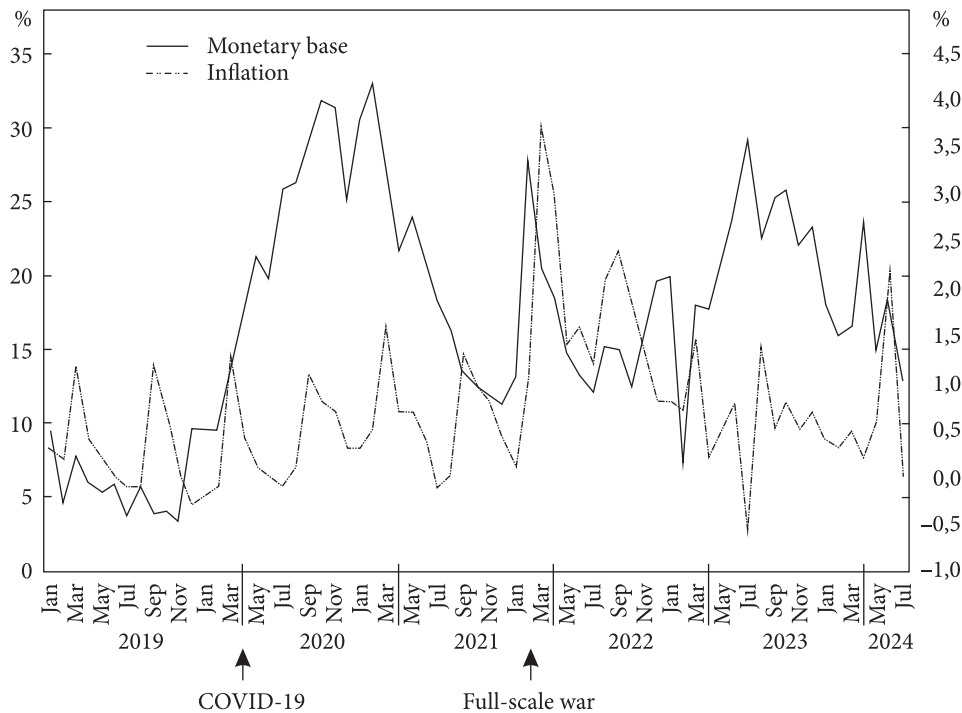


Fig. 2. The influence of the monetary base on inflation rate. The left scale characterizes the quarterly change in the monetary base, %, while the right one, — also the quarterly dynamics of the inflation rate, %

Source: developed by the authors based on: *Ministry of Finance of Ukraine data*. URL: <https://index.minfin.com.ua/economy/index/inflation/>

non-repayment of funds. Therefore, the cost of the loan will be different for different groups of borrowers depending on their likelihood of repayment.

For example, interest rates on loans to subsidiaries of international corporations, which, in addition to a strong financial position, also have the support of parent companies, decreased the most — to 7% in August 2020. The term of the loan is also important because by providing funds for a longer period, banks take on higher risks and therefore include compensation for these risks in the cost of the loan. Higher long-term borrowing costs reflect banks' uncertainty about macroeconomic developments and future borrowing costs. The high cost of short-term loans for current needs and its low correlation with the central bank rate is characteristic not only of Ukraine. For example, in the US, the average effective interest rate on card loans currently exceeds 15%, despite the fact that the Federal Reserve rate (equivalent to the NBU rate in the US) is close to zero.

According to the authors, there are currently no fundamental obstacles to further reducing loan rates. At the same time, it is important to understand that it will take time for improved macroeconomic conditions and key interest rate changes to finally impact the cost of credit for end users, be they businesses or individuals.

Simultaneously with the introduction of a key rate of 25% (2022) or even 20% (2023), bank lending moved from growth to decline. Its level decreased by a tenth, and the latest monthly data showed a further decrease due to an increase in the cost of loans by another UAH 10 billion. The NBU justifies itself by arguing that such a cooling of the economy is a necessary sacrifice to overcome inflation, and that this course is in line with the global trend of unprecedented rate hikes to combat global inflation. And with this policy, despite the NBU's arguments against lowering the rate, inflation does not increase in other countries. And in Ukraine, the key rate is still close to inflation.

Many other factors distort the inflation curve. For instance, the noticeable inflation rate distortion was caused by COVID-19 lockdown measures (2020) and declining of a consumer demand in 2022 as a result of a full-scale Russian invasion. Both of these decreases are consequences of an atypical weakening of inflation due to the slowing of the velocity of money. At the same time, the overall picture remains the same, and the dominant influence of monetary base on rate of inflation is still clearly visible (Fig. 2).

As for the key rate, it remained in a supporting role. This is evident from the fact that the relay of rate surplus began a little bit later than the monetary base unwinds, i.e., when monetary easing was followed by tightening.

Taking this into consideration, the authors draw two very serious conceptual conclusions:

A. That the inflation curve reveals (both increasing and decreasing) were dictated only by a contraction in the money supply;

B. That the standard rule of keeping the key rate above or at the inflation level no longer applies in unstable force majeure situations.

As a result, the key rate plays a minimal role throughout the 2019-2024 years until the period when inflation approaches the target under the influence of more powerful factors/instruments. As Figure 2 shows, the current stabilization of inflation is largely due to the previous temporary stabilization of the monetary base, although the NBU hastened to attribute this to the very dubious "success" of the 25% rate.

At the same time, the NBU with the same persistence exaggerates the influence of the key rate. The authors are absolutely sure that "tight" monetary policy was mistakenly equated only with a high key rate. This has led to the NBU using a high key rate in a futile attempt to block the more powerful offsetting effect of money, and inflation, which is actually caused by money, is used as an excuse to keep the rate high. And this vicious circle has been going on for many years.

In addition, the presence in Ukraine of the aforementioned force majeure, leveling the impact of the key rate on prices, is doubly obvious: along with a change in the money supply, we also have a reduction in the commodity supply due to destruction caused by a full-scale war.

Moreover, despite the declared goal of fighting inflation, the key rate actually **contributes to an increase in inflation**. First, hypothermia leads to a reduction in marketable mass in addition to the reductions associated with the war.

Secondly, the issuance of certificates worth 40 billion hryvnia increased the money supply and increased inflation by about 5%.

Thus, both theory and practice have confirmed that in extreme force majeure situations, the principle of “rates above or at the level of inflation” (a positive rate in real terms) loses its force, since inflation is dictated by the money supply and other powerful factors.

However, for obvious reasons, the IMF cannot yet indicate exactly what these extreme situations are that neutralize the impact of the rate on inflation. Obviously, the experience will be generalized and recommendations will be developed later. The NBU considered that we do not have an extreme situation; the key rate may remain the main tool for fighting inflation, and the rule “the lower the rate, the higher the inflation” also remains unshakable.

And if this hypothesis is confirmed, then soon all other countries will also discover the opportunity to move even more boldly to ultra-low rates and low economic cooling. And Ukraine can take advantage of this like no other, since the reduction in the supply of goods as a result of full-scale aggression has further paralyzed the impact of the discount rate on inflation and more. And now the speed can be determined solely on the basis of minimizing its destructive cooling effect.

CONCLUSIONS

As conclusions and recommendations from this article, it is worth noting that the use of interest rate policy as a tool for regulating the banking system gives the National Bank and the Government a number of advantages, including:

A. *Ease of implementation:* to change the course of monetary policy, the National Bank of Ukraine resorts to raising or lowering the discount rate.

B. *Predictability of results:* a decrease in the discount rate leads to an increase in the level of liquidity of the banking system, and vice versa.

C. *Speed and ease of correction of results:* corrections can be made quickly and easily by taking the opposite action.

The results of the analysis carried out in the article allow us to draw the following conceptual conclusions.

1. *Interest rate policy is an effective tool for regulating the banking system, in particular the credit potential of the bank.* Rising interest rates change the attractiveness of some government investment strategies. The analysis suggests that this leads investors to sell off their most liquid assets, reducing the liquidity of their portfolios.

In a wartime environment, high interest rates coupled with uncertain growth prospects could trigger a revaluation of asset prices and create the risk of further tightening of financial conditions for other investors, including foreign investors. This could pose risks to Ukraine's financial stability due to tightening financial conditions, sharp fluctuations in asset prices and reduced confidence in the global banking system, as well as trade and financial spillovers.

The analysis shows that the measures taken by the NBU to hedge risks associated with rising interest rates are based on assumptions about the future path and volatility of interest rates and do not fully protect investors from the risks associated with higher and more volatile interest rates. **Losses caused by high interest rates have already weakened the balance sheets of some large corporations and may continue to do so.**

2. The decision to apply expansionary or restrictive policies depends on the financial market conditions and the socio-economic situation in the country. As is known, the main goal of expansionary policy is to increase aggregate demand to compensate for the deficit in private demand. Expansionary policies aim to increase business investment and consumer spending by injecting money into the economy, either through direct spending on government deficits or by increasing lending to businesses and consumers.

Based on the results of the analysis carried out by the authors of this article, it is necessary to conclude that the Government of Ukraine does not use the instrument of this policy. If only because the government is not pursuing policies that provide people with more money. This can be achieved through reductions in, for example, public utility costs and direct taxes, which is provided for by expansionary fiscal policy. This could help increase the money supply and stimulate global public demand.

Additionally, for example, the Ukrainian government could increase discretionary government spending by pumping more money into the economy through government contracts, such as for weapons production. Plus, it can lower taxes and leave more money in the hands of people, who will then continue to spend and invest.

After the war ends, as Ukraine enters a phase of economic growth, the government may increase spending on infrastructure projects, social programs and other initiatives to increase demand and stimulate economic growth.

3. The optimal discount rate should provide an effective solution to such problems as ensuring an adequate level of bank liquidity, banking institutions, balancing the demand and supply of money, stimulating the issuance loans to the real sector of the economy, and increasing the competitiveness of the domestic banking system. The authors stress that it is necessary to develop a strategy for managing the country's liquidity, including its foreign exchange reserves, and it is necessary to formulate specific policies on aspects of liquidity management, such as the size of assets, their structure, approach to managing liquidity in various currencies, etc.

A strategy must also be agreed with international creditors to restructure the debt and address potential liquidity threats for both parties.

4. Given the negative side effects of interest rate caps, it is worth considering alternative ways to lower interest rates. The optimal solution always depends on the political goals that the country's top leadership sets for the NBU and the Government.

If the intended policy goal is to reduce the overall cost of credit in the economy or its individual sectors (types of economic activity), alternative solutions should be based on the reasons for the excessively high rates, for example, lack of competition, the presence of excessive risk, a number of macroeconomic considerations.

To this end, the authors propose to create an effective credit monitoring mechanism, the activities of which will be aimed at analyzing data on the reasons for setting excessively high rates, as well as on trends occurring in other countries.

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Ігор Манцуров, д-р екон. наук, проф., член-кореспондент НАН України, директор Інститут системних статистичних досліджень
вул. Антоновича, 20, 01004, Київ, Україна

позаштатний професор кафедри статистики та демографічних досліджень
Університет Західно-Капської провінції (Південно-Африканська Республіка)
шосе Роберт Собукве, 7535, Белвілл, Кейптаун, Південна Африка

Аліна Барвінок, д-р філософії з економіки, старший науковий співробітник
Інститут системних статистичних досліджень
вул. Антоновича, 20, 01004, Київ, Україна

науковий співробітник кафедри статистики та демографічних досліджень
Університет Західно-Капської провінції (Південно-Африканська Республіка)
шосе Роберт Собукве, 7535, Белвілл, Кейптаун, Південна Африка

Ірина Столетова, канд. екон. наук, доц.,
доцент кафедри цифрової економіки та системного аналізу
Державний торговельно-економічний університет
вул. Кіото, 19, 02156, Київ, Україна

РЕГУЛЯТОРНА ПОЛІТИКА НАЦІОНАЛЬНОГО БАНКУ УКРАЇНИ: ПРОБЛЕМИ ТА ШЛЯХИ ВДОСКОНАЛЕННЯ

Національний банк України має забезпечити цінову стабільність, високий і стабільний рівень економічного розвитку й оптимальну зайнятість. Концептуально погоджуючись з таким підходом, автори доводять, що механізм його реалізації не забезпечує виконання місії НБУ.

Аналізуючи зміни в банківському секторі України за останні 2,5 року, автори наголошують, що внаслідок проведення недостатньо виваженої регуляторної політики НБУ обсяг вкладень банків у депозитні сертифікати НБУ зріс майже в п'ятеро — з 95 млрд грн на початок до 456 млрд грн на кінець 2022 р. Унаслідок такої невдалої політики й усупереч економічній логіці, НБУ сформував величезне додатне сальдо ліквідності банківського сектору, тоді як реальний сектор економіки страждає від нестачі коштів.

Безумовно, такі «унікальні» в сучасній економічній теорії та історичній практиці регулятивні дії не витримують критики і потребують переосмислення і суттєвого перегляду. Проаналізовано причини й наслідки такої неефективної регуляторної політики НБУ і запропоновано важливі концептуальні ідеї, спрямовані на вдосконалення управління банками. Відповідно до сформульованих висновків, в Україні необхідно створити ефективний механізм кредитного моніторингу, діяльність якого має бути присвячена оцінюванню економічно обґрунтованих рівнів різних банківських ставок і аналізу інновацій у ідеології банківського менеджменту, що використовуються в інших країнах, де центральні банки працюють дуже успішно.

Ключові слова: методологічний підхід; Національний банк України; банківський менеджмент; банківська система України; монетарна політика; стабільність цін і банківської системи; економічний розвиток; механізм кредитного моніторингу.