СЕКЦІЯ 1.
ФІНАНСОВІ ІНСТРУМЕНТИ РОЗВИТКУ ЕКОНОМІКИ В ПЕРІОД ВОЄННОГО СТАНУ

Mantsurov Igor,
Doctor of Sciences in Economics, Professor
Corresponding Member of the National Academy of Science of Ukraine,
Director of the Research Institute for System Statistical Studies,
Extraordinary Professor of the Department of Statistics
and Demographic Studies at the University
of the Western Cape in the Republic of South Africa;
Barvinok Alina,
PhD in Economics,
Kyiv National Economic University named after V. Hetman,
Researcher of the Department of Statistics
and Demographic Studies at the University of the Western
Cape in the Republic of South Africa;
Stolietova Iryna,
Candidate of Economic Sciences
Associate professor Department of Digital Economy and System Analysis
State University of Trade and Economics

EVALUATION OF THE NATIONAL BANK OF UKRAINE MONETARY POLICY EFFECTIVENESS

In this paper the authors would like to present their scientific point of view in regard to the essence of the regulatory and monetary policy of the National Bank of Ukraine (NBU) and its effectiveness.

Particularly it is noted that the crisis in the country's economy, provoked by the war, has become a challenging task for the NBU to improve the current monetary policy and to find innovative mechanisms for its realization. In this situation NBU should take care not only to achieve a general level of stability of the financial system, but in its monetary policy accents should be shifted from unilateral consideration of the value of money to a comprehensive assessment of the money’s functions in general [3, p. 9-12].

That is why the question of monetary regulatory policy is constantly at the center of attention of scientists and representatives of central government. Today, in the scientific literature, a number of issues of functioning and interaction of monetary policy in Ukraine remain unresolved, in particular: development and implementation of the monetary policy of the National Bank of Ukraine in the context of reforming the Ukrainian banking system; adjustment of the effectiveness of mechanisms of interaction of individual areas of monetary policy; peculiarities of the introduction of monetary policy in the context of inflation targeting; the impact of monetary policy on economic growth and ensuring price stability.

In this regard, our study of the current state and the implementation of monetary policy in Ukraine is relevant. In its activity, the National Bank of Ukraine should proceed from the priority of achieving and maintaining price stability in the state, while price stability is defined as preserving the purchasing power of the national currency by maintaining in the medium term (from 3 to 5 years), low, stable rates of inflation measured consumer price index. In order to achieve and maintain price stability, the National Bank of Ukraine uses existing monetary instruments, the main of which is: the interest rate and the discount rate of the National Bank of Ukraine [6, p. 111-146].

In this case, the operational objective of the monetary policy of the National Bank of Ukraine is the maintenance of interbank rates in the national currency unit at a level close to the key rate level, within the limits of the interest rate corridor for permanent access instruments. An indicator of the level of interbank interest rates in the national currency unit for the purpose of interest rate policy is defined by the Ukrainian index of interbank rates for loans and overnight deposits in the national currency (UIIR).

Today, in the banking system of Ukraine, there is a liquidity surplus. At the same time, in the future, the transition of the banking system to a state of liquidity shortage is expected due to a number of objective factors. For a more flexible response to changes in the liquidity of the Ukrainian banking system, from 2019, changes were introduced to the operational design of monetary policy. Such modernization will facilitate the effective implementation by the National Bank of Ukraine of its operational purpose, even under unstable liquidity conditions.

The literature review, conducted by the authors finds that the activities of central banks in developing countries are often overlooked by economic models, but recent studies have shown that there are many factors that can affect the effectiveness of monetary policy in these countries. These factors include the profitability of central banks and monetary unions, the independence of central banks in their operations, and lags, rigidities, and disequilibrium analysis. While bank rates are set at low level for inflationary and economic growth reasons, they may lead banks to take more risk, jeopardizing the financial system and impeding the recovery [6, p. 44-76].

Despite monetary and prudential policies pursue different objectives, they inevitably interact, raising challenges that face policymakers. Albeit it is argued that monetary policy alone is not sufficient to maintain macroeconomic and financial stability, and that it should be coordinated with prudential policy, the form of this coordination is not clear-cut.

According to the authors' scientific point of view, the monetary policy is a set of tools used by a nation's central bank to control the overall money supply and promote economic growth and employ strategies such as revising interest rates and changing bank reserve requirements. Following its mandate, the National bank of Ukraine (NBU) ensures price stability by targeting inflation and by using the floating exchange rate of the hryvnia. The NBU's monetary policy relies on the key policy rate as its main instrument. The primary goal of the NBU's monetary policy is to maintain price stability, meaning low and stable inflation.

There are certain rules and regulations that are issued primarily for monetary and/or credit control. From conceptual point of view, when we are talking about regulation, we are meaning regulation and supervision is what is thought of as so-called prudential rules, rules involved with the safety and soundness and stability of supervised institutions.

The basic purpose of these rules is to make sure that institutions are strong enough to carry out their functions in the economy, while remaining solvent and adequately liquid. This area is enforced by two different kinds of approach. A major part of regulation is done through examinations, on-site examinations of the supervised institutions, where teams of examiners from the authority go out and inspect the banks, more or less every year. The inspection is quite thorough and very detailed reports are written. Out of those reports come judgments and sometimes orders to those institutions to change their practices.

The bank (discount) rate is the NBU's key policy rate, which is the main indicator of changes in monetary policy and a benchmark for the cost of attracted and placed funds for the state as well as commercial banks and other monetary market participants in the country. The key policy rate is set based on a comprehensive analysis and forecast of macroeconomic, monetary, and financial developments prepared by the NBU. The decision on the key policy rate is approved by the NBU Board at a monetary policy meeting based on proposals from the Monetary Policy and Economic Analysis Department after discussion at a meeting of the Monetary Policy Committee and international partners. The NBU publishes the key policy rate on the NBU's official website [4, p. 23].

The National Bank of Ukraine's priority is to ensure price stability, i.e., low and stable inflation. The key interest rate, also known as the discount rate, is the main instrument for this purpose. By setting it at a certain level, the central bank provides commercial banks with a benchmark for the cost of short-term resources. Based on this benchmark, banks then set the cost of deposits and loans for their customers.

The changes of NBU discount rate for the period of 1992-2023 are presented in the Table 1.

Table 1

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: National Bank of Ukraine.

As evidenced by the data in Table 1, for 30 years the NBU, focusing on the global situation on 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%) [9, p. 1].

Special attention should be given not so much to the isolated change in the discount rate but rather to the results of a qualitative analysis of these changes in relation to other indicators of bank activities and the overall economic performance. Last year, the National Bank of Ukraine (NBU) sharply increased the discount rate from 10% to 25%. Consequently, interest rates on deposit certificates also increased. In 2022, commercial banks started receiving an interest rate of 23% on them (NBU's discount rate minus 2%). In 2023, the NBU changed this model. Specifically, deposit certificates are now issued in two types.

The first type is overnight deposit certificates with a maturity of one day at the discount rate minus 5%. This means that banks receive 20%. The fact that these funds are "overnight" (deposited overnight at the NBU) should not mislead you regarding their short-term nature: banks can reinvest in these financial instruments daily, effectively turning "overnight" deposit certificates into "annual." This is why the volume of bank investments in NBU deposit certificates increased in 2022 from 95 billion UAH at the beginning of the year to 456 billion UAH at the end, or nearly 5 times.

In other word, the authors make a decision that due to the high profitability of NBU deposit certificates, the NBU operates as a "vacuum cleaner," withdrawing "excess" money from the economy.

At the same time, by increasing the costs of servicing deposit certificates, the National Bank effectively reduces the amount of profit it has to transfer to the Government in the form of interest on these certificates. ***In other words, the "seigniorage," namely the profit from printing money, is distributed not in favor of the society but in favor of a group of banks*** [6, p. 22-26]**.**

Starting from April 2023, for the convenience of banks, the NBU introduced another type of the mentioned securities: issuing deposit certificates for 90 days through tenders at the discount rate, which is 25%. This is the second type of deposit certificates. This financial "iceberg" is only available to banks that accumulate certain amounts of individual deposits in their portfolios.

At present, the authors would like to draw the readers' attention to a very interesting and important circumstance. According to our calculations, an average of 320 billion UAH is held in "overnight" deposit certificates, bringing banks 175 million UAH in profit per day. In three-month certificates, the average is 160 billion UAH, which means an additional 110 million UAH in banks' daily profit.

Thus, in total, through deposit certificates using the excessively high NBU discount rate, 480 billion UAH of banking liquidity, which has been withdrawn from the economy, is "locked." This process costs the state 270 million UAH per day.

Attempting to justify their actions in a non-scientific manner, as mentioned above, the NBU explains this withdrawal of liquidity from the national economy as a measure to combat inflation. This "scientific" basis requires a deeper analysis.

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

In other words, during the 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 least, the analysis shows that during the 20th 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 the government [3, p. 30].

Additionally, if we have mentioned government bonds, let's consider the scheme involving deposit certificates more broadly. So, the National Bank of Ukraine purchases government bonds from the Ministry of Finance, and it does so conceptually correctly because during a war, it's necessary to finance the country's budget deficit. It's better to do this from one's own resources without resorting to external borrowing.

However, the yield rate on these bonds, according to NBU procedures, should be tied to the discount rate (25% in 2022 and 20% in the current year) that the National Bank of Ukraine unilaterally determines. In other words, bondholders set the yield level for the issuer, not the other way around. Therefore, the Ministry of Finance accrues a yield of 25% on the portfolio of government bonds owned by the NBU (UAH 400 billion), and the National Bank accrues 20-25% on the portfolio of deposit certificates of commercial banks (UAH 480 billion). The value of these portfolios in NBU's assets (bonds) and liabilities (deposit certificates) does not differ significantly (400 billion versus 480 billion UAH). This balanced approach results in the yield on assets/liabilities of the NBU: 25% is accrued on bonds in assets, and an average of 22% is accrued on deposit certificates in liabilities.

Thus, the authors draw an important conceptual conclusion that during a war, the National Bank becomes a transit node for transferring profits from the budget, which has a significant deficit, to the banking system. The high yield on government bonds means that the Ministry of Finance accrues an annual yield of UAH 100 billion on them, which is a quarter of the principal, further increasing the already high government debt.

Under such conditions, lending to the real sector of the economy has completely collapsed because there are virtually no business entities in the country (except for trade) that can take out loans at interest rates of 30% and above. Thus, actual lending to enterprises has now been reduced to the volume of programs for state compensation of interest rates on loans at 5-7-9%. ***In this way, the state pays twice—first for government bonds and then by compensating business loan interest rates. The center of gravity of monetary policy is thus shifted from the financial system to the state budget and taxpayers.***

Furthermore, with inflation at 16%, we currently have a real positive interest rate (base rate minus inflation) of 9%, which is evidence of an overly tight monetary policy (in most countries, negative real interest rates are applied to overcome crises).

At the same time, businesses in Ukraine cannot thrive without credit support. For instance, a survey of business expectations in the first quarter of 2023 conducted by the NBU revealed that the proportion of companies planning to take bank loans stands at 35.4% (compared to 35.0% in the fourth quarter of 2022). As before, companies planning to attract loans prefer loans in the national currency – 79.7% (compared to 84.9% in the fourth quarter of 2022). The most significant obstacle to obtaining new loans remains high interest rates on loans (48.1% of responses). There is an increasing impact of the "too complicated document processing procedure" factor (an increase of 3.0 percentage points to 23.4%).

Among the areas of lending are state orders, including in the defense industry, business relocation and recovery after de-occupation, adaptation to wartime conditions, and the energy crisis. As a result, the current monetary transmission has introduced significant market distortions into the determination of loan rates.

It is quite understandable that the current policy of the NBU essentially indulges commercial banks, which receive 85 billion UAH in income during the war practically out of thin air, at the expense of the targeted emission of the central bank (which, by the way, directly impacts inflation dynamics) [10, p. 1].

In such conditions, banks are not interested in lending or building quality loan portfolios (especially government institutions), as any losses on their balance sheets will be covered by the NBU. The profit from the emission, or seigniorage, is not transferred to the government in the interest of the wartime economy, but to a group of commercial banks, concurrently forming a positive balance for themselves in liquidity market operations, which is unacceptable during such a deep economic crisis.

Resuming all mentioned above, the authors came to conclusion that the National Bank of Ukraine's priority is to ensure price stability, i.e. low and stable inflation. The key interest rate, also known as the discount rate, is the main instrument for this purpose. By setting it at a certain level, the central bank provides commercial banks with a benchmark for the cost of short-term resources. Based on this benchmark, banks then set the cost of deposits and loans for their customers.

According to authors' point of view, there are no fundamental obstacles to further reduction in loan rates right now. At the same time, it is important to understand that it will take time for better macroeconomic conditions and changes in the key policy rate to finally affect the cost of loans for end users, whether businesses or individuals. For example, the key policy rate cut to 6% has not yet been fully reflected in bank rates.

The material presented allows for the following conceptual conclusions:

1. Interest rate policy is an effective tool for regulating the banking system, particularly a bank's credit potential.

2. The decision to apply an expansionary or restrictive policy depends on the conjuncture of the financial market and the socio-economic situation in the country.

3. The optimal discount rate should ensure the efficient resolution of tasks such as providing an adequate level of liquidity for banking institutions, balancing money supply and demand, stimulating bank credit issuance to the real sector of the economy, and enhancing the competitiveness of the domestic banking system.

4. Historical experience shows that in modern conditions, changing interest rates, whether in the direction of reduction or increase, does not always lead to the desired effect.

5. The advantages of using interest rate policy include simplicity of implementation, predictability of results, speed and ease of correcting results, and the control the NBU has over it.

References

1. Afonso A., Toffano P. Fiscal regimes in the EU. European Central Bank Working Paper. 2013. №. 1529.
2. Altavilla C. Assessing monetary rules performance across EMU countries. International Journal of Finance and Economics. 2003. 8(2), PP. 131– 151.
3. Bianchi F., Ilut C. Monetary/fiscal policy mix and agent's beliefs. Review of Economic Dynamics. 2017. 26, PP. 113–139.
4. Corsetti G., Pesenti P. International dimensions of optimal monetary policy. Journal of Monetary Economics. 2005. 52(2), PP. 281–305.
5. Gerlach S., Schnabel G. The Taylor rule and interest rates in the EMU area. Economics Letters. 2000. 67, PP. 165–171.
6. Mantsurov I. G. State Institutions for Regulating Social Development in Ukraine: monograph / I.G. Mantsurov, Kyiv : NDEI, 2013. P. 315.
7. Monacelli T. Monetary policy in a low pass-through environment. Journal of Money, Credit and Banking. 2005. 37(6), PP. 1047–1066.
8. National Bank of Ukraine. URL: https://bank.gov.ua/
9. State Statistics Service of Ukraine. URL: https://ukrstat.gov.ua
10. International Monetary Fund. URL: https://www.imf.org/en/Publications/WEO/Issues/2023/04/11/world-economic-outlook-april-2023
11. The Federal Reserve. URL: https://www.frbservices.org