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MONETARY POLICY OF THE NATIONAL BANK OF UKRAINE IN THE PERIOD OF WAR CHALLENGES AND POST-WAR RECOVERY

***Abstract.** The article analyzes the monetary policy of the National Bank of Ukraine introduced during martial law and the use of its main instruments. The dynamics of the exchange rate and regulatory instruments, the state of the discount rate were evaluated. The prospects for changes in monetary policy during the post-war reconstruction of Ukraine have been determined.*

The monetary policy of the Central Banks is a powerful tool to ensure the stable development of national economies. The Central banks have an arsenal of monetary instruments at their disposal that are used to achieve certain goals in accordance with the conditions under which the country's economy exists. In the pre-war period, the National Bank of Ukraine singled out the goal of ensuring price stability among its priorities by targeting inflation in Ukraine.

Price stability in Ukraine before 2022 was ensured with the help of traditional tools: the discount rate, the floating exchange rate regime, the gradual abolition of currency restrictions in order to open and liberalize the foreign exchange market, smoothing out exchange rate fluctuations with the help of currency interventions carried out by the NBU.

The large-scale start of military actions in February 2022 became a serious challenge not only for the banking system, but also for the entire economy of Ukraine. The National Bank of Ukraine, as the main regulator of monetary policy, faced the choice of changing regulatory measures in order to preserve the stability of the entire banking system and the national economy as a whole.

The NBU responded immediately to military challenges and events. To ensure macro-financial stability just in the morning of February 24, 2022. the Resolution "On the operation of the banking system during the introduction of martial law from February 24, 2022" [1] was adopted. The adopted Resolution was aimed at ensuring macro-financial stability of the economy of Ukraine. With this document, the NBU defined the main mechanisms that should work under war time conditions and ensure the operation of the country's banking system and currency market.

According to the Resolution, the National Bank of Ukraine implemented the following main instruments of monetary policy: fixed exchange rate, restrictions on currency transactions and capital movements, restrictions on cash withdrawals up to UAH 100,000 per day, ban on issuing cash from customer accounts in foreign

currency, introduction of a moratorium on conducting international currency payments, currency interventions, monetary financing of the budget, postponement of decisions on the discount rate (February-May).

The exchange rate plays a particularly important role in maintaining stability under martial law. In recent years, from 2020 to 2022, the National Bank pursued a policy of forming a floating exchange rate regime, which is shown in Fig. 1.



Figure 1. Dynamics of official exchange rates of the hryvnia to the US dollar (January 1, 2020 - May 10, 2023) [2]

In Fig.1. it can be seen that with the start of hostilities, the NBU fixed the exchange rate as a nominal anchor on February 24 at the level of UAH 29.25 per US dollar. This was due to the need to slow down the negative trends of currency outflow. Taking into account the fundamental characteristics of the functioning of the economy during the war and the strengthening of the dollar against other currencies, on July 21, 2022, the fixation was adjusted by 25% and the fixed exchange rate of the hryvnia was increased by the NBU to UAH 36.6 per dollar [3]. At the same time, the National Bank began to enter the currency market with currency interventions, which played the role of the main monetary operation and became an anchor for stabilizing expectations and anti-inflationary policy.

The next instrument of monetary policy is the discount rate. During hostilities, it ceased to play a key role in macro-financial stability. The first priority was to preserve the liquidity of the banking system. Therefore, the NBU postponed the decision to change it. During January-May 2022, it did not change and was at the

level of 10%. In June 2022, the accounting rate was increased to 25% by the decision of the NBU.

Operational design plays an important role in its monetary policy. Before the start of hostilities, the operational design of monetary policy was classical and ensured the effectiveness of the discount rate. It changed under the condition of martial law. To ensure a sufficient level of liquidity and flexibility of banks in liquidity management, the operational design of market-maker's of last instance was introduced.

After securing the hryvnia exchange rate as a point of stability in the economy and saturating the foreign exchange market with offers in the perspective of post-war recovery, the NBU will gradually return to a floating exchange rate and abolish its fixation. Already in May 2023, the National Bank began applying the policy of calibrating currency restrictions. It began to cancel currency restrictions for some sectors. This trend will continue.

The measures of monetary regulation adopted by the National Bank of Ukraine during the martial law demonstrated high efficiency and stress resistance of the banking system to military challenges, ensured its uninterrupted operation.

To summarize, monetary policy in the period of post-war recovery will be eclectic and will be aimed at achieving several goals. There will remain a need to ensure the financial resources of the state budget, but gradually currency restrictions will be removed, the currency market will begin to return to liberalization.

Today, the economy continues to operate under conditions of high uncertainty, and maintaining the stability of the exchange rate continues to be the main task of the NBU's monetary policy.

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ROLE OF INNOVATION IN RECONSTRUCTING THE ECONOMY OF UKRAINE POST-WAR