Victoria Kovalenko
D.Sc. (Economics), Professor, Professor of the Department of Banking,
Odesa National Economic University,
8 Preobrazhenskaya Str., Odesa, 65082, Ukraine
kovalenko-6868@ukr.net

Arina Plotnikova
Specialty D2 «Finance, Banking, Insurance and Stock Market», educational degree "Master".
Odesa National Economic University,
8 Preobrazhenskaya Str., Odesa, 65082, Ukraine
arinaplotnikova23@gmail.com

MONETARY POLICY AND ITS IMPACT ON ENSURING THE FINANCIAL STABILITY OF BANKS

Abstract. The article establishes that the primary prerequisite for sustainable economic growth in each country is the assurance of financial stability among participants in the financial market. At the current stage of dynamic development of global banking systems, a crucial issue is the improvement of mechanisms for ensuring their financial stability, which serves as a key factor in developing strategies for the sustainable financial development of the banking system. The crises of recent decades have triggered a significant response in global and national financial markets regarding the implementation of effective tools for maintaining financial stability in banks. This underscores the need to identify approaches for creating a functional system to support financial stability. This study explores the relationship between monetary policy and the financial stability of the banking sector, as well as the specific actions taken by the National Bank of Ukraine that influence the achievement of its strategic objectives. The research aims to substantiate the actions of regulatory authorities in applying monetary policy instruments to fulfill the goal of financial stability. The logical structure of the research includes an evolutionary review of monetary policy objectives and the identification of financial stability as a critical factor influencing the strategic directions of sustainable national economic development. The article presents an overview of international practices in using monetary policy tools to support the financial sector in the context of cyclical crises, specifically the 2008 financial crisis and the COVID-19 pandemic. Further, an analysis was conducted using the example of Ukraine, demonstrating how decision-making trajectories regarding the operation of the monetary transmission mechanism have evolved to ensure the financial stability of the banking sector as a

foundation for national economic growth. For this purpose, a comparative characteristic of the effectiveness of the monetary transmission mechanism was proposed before the introduction of martial law in Ukraine and during its continuation.

Key words: bank; banking system; monetary policy; central bank; monetary policy instruments; crisis; financial stability.
JEL classification: E52, E58, G21

Introduction

The key condition for sustainable economic growth in Ukraine is ensuring financial stability of the financial and economic system. During the high risks of the crisis and post-crisis period, the efforts of the government and economic entities are focused on addressing immediate challenges. Stable conditions for the functioning of the main parameters of the financial system enable the transition to the implementation of strategic development goals for both individual economic entities and the country as a whole. The stability of the financial system is largely determined by the development of the banking sector, a component of which is the stable functioning of individual banks. This is due to the fact that it is banks that occupy a leading place in the development of the domestic economy in its reproductive structure, the development of its individual industries. Recently, the lack of stability in ensuring the fulfillment of obligations to depositors by banks and the supply of credit resources has been hampering the overcoming of crisis phenomena and the rise of economic development.

It is necessary to pay attention to how the monetary regulator, through the use of monetary policy instruments, can influence the provision of financial stability of banks. Thus, one of the important tasks is to monitor the functioning of banks in terms of sustainable. Ultimately, this highlights the importance of considering the theoretical and practical foundations of financial stability and the impact of monetary policy on its provision.

The scientific basis for the formation of the theory of financial stability is the works of I. Fisher (Fisher, 1933) and J. Keynes (Keynes, 2018).

Based on these studies, two types of concepts were distinguished: "financial instability" and "financial fragility".

The concept of "financial instability" has an endogenous nature, which was developed by G. Minsky (Minsky, 1992), who interprets this concept "…as a phenomenon endogenously inherent in the financial system. Financial fragility is understood as the integral property of the financial system to cyclically experience instability in the process of financing by banks of investments of business entities" (Minsky, 1992).

Another approach is based on exogenous nature. This concept was formulated in the work of J. Stiglitz and E. Weiss (Stiglitz, Weiss, 1981), where financial instability is defined "…as a phenomenon that is exogenous in nature and occurs as a result of the formed effects of asymmetric information" (Stiglitz, Weiss, 1981). That is, scientists associate financial instability with the imperfection of financial markets.

In the scientific work of B. Bernanke and M. Gertler, the thesis is put forward that financial fragility is related to economic activity (Bernanke, Gertler, 1990). Among world scientists, it is worth noting the works of W. Allen (Allen, 2004), A. Demiguc-Kunt (Demiguc-Kunt, 1998), V. Order (Order, 2006), who define the content of financial stability through the factors of financial instability, namely: "... as an exogenous phenomenon that arises as a result of imperfect (asymmetric) information, exogenous shocks and price instability. Financial fragility is considered as a state of the financial system in which minor shocks can lead to significant macroeconomic instability."

In contemporary academic literature, there are various approaches to identifying financial stability, which are based on the types of objects under study, namely: financial stability of the economic system (Belinska, 2010), financial stability of the financial system (Karcheva, 2012), financial stability of subsystems of the financial system (Kovalenko, 2013), financial stability of deposit-taking corporations (Khutorna, 2017).

However, the role of monetary policy in ensuring banks' financial stability remains underexplored, despite the fact that a bank's capacity to comply with regulatory requirements directly impacts its financial stability and its ability to mitigate operational risks.

1. Monetary policy and monetary regulation in ensuring the financial stability of banks.

The aftermath of the 2008 global financial crisis led to profound transformations in the international financial landscape, particularly within the banking sector. One of the most notable consequences was the surge in excess liquidity, driven by expansive fiscal stimulus packages and aggressive monetary policies implemented by central banks around the world (Kuznetsova, 2020; Cukierman, 2013). This extraordinary and prolonged liquidity raised serious concerns about its influence on risk-taking behavior among banks (Whalley, 2013; Acharya, 2019).

The recent COVID-19 pandemic has further exacerbated this problem, as governments around the world have responded with additional liquidity injections and applied unconventional monetary policy tools, heightening concerns about the potential risks associated with excess liquidity and maintaining financial stability.

The evolution of approaches to monetary policy formulation and regulation has spanned a considerable period and several approaches and trends have been formed over the history of its existence. Basically, these trends include the main components of regulation, namely: the amount of money in circulation, prices and inflation, exchange rate, production and employment.

It is important to note that modern theories began to gain prominence in the 1930s, particularly the Keynesian theory of liquidity preference and monetarism. Over time, several other influential frameworks emerged, including Neoclassical real business cycles, Neo-Keynesian model and New Consensus Model, which has been the focus of attention in the formation of monetary policy over the past two decades (Arestis,2008; Walsh, 2003).

Classical monetarist theory is the first known theory of monetary policy proposed by I. Fischer, who laid the foundation for establishing the connection between monetary policy and economic growth. In this theory, the velocity of money and the volume of production act as constant variables, therefore, an increase in the quantity of money leads to an in-

crease in prices. Long-term growth is influenced only by real factors, and the money supply is neutral in both the short and long term (Gali, 2008; Mankiw, 2007).

Monetarist theory gained prominence in the 1950s, based on the assumption that the velocity of the quantity theory of money is generally stable, that is, nominal income is largely a function of the money supply (Friedman and Schwartz, 1963). Monetarists endorsed the principle of a trade-off between inflation and the money supply, but reformulated the Phillips Curve to reflect real wages rather than nominal ones (Gottschalk, 2005). It has been proven that the money supply is inflationary in the long run, so the theory assumes long-term monetary neutrality.

Post-monetarism has also been dominated by real business cycle models, the Neoclassical model, the Neo-Keynesian models, and the New Consensus Model. The difference between these theories is insignificant and relate to views on nominal wage and price level rigidity, as well as on the interpretation of demand (Goodfriend, 1997; Palley, 2007).

In neo-Keynesian models, prices or wages are temporarily rigid, so in response to external shocks, with changes in fiscal or monetary policy, the quantity of money is adjusted. Firms operating under monopolistic competition act as price setters in the goods market, while households supply labor and influence wage setting in the labor market. The theory supports the neutrality of money in the long run and asserts that monetary policy can influence outcomes only in the short run (Arestis, 2008).

The new consensus model emerged as a synthesis of the neoclassical and Neo-Keynesian models — embracing the rational expectations of the former while preserving the short-run wage and price rigidities of the latter. It also became the foundation for inflation targeting, where price stability was established as the primary objective. Interest rates are likewise considered the sole instrument of monetary policy (Fontana, 2007).

The new consensus model faces substantial criticism. This is due to the absence of a clearly defined role for money and the exchange rate, its inadequate treatment of markets (financial, labor, and capital markets), its reliance on a single monetary policy instrument, and the independence of

central banks — all of which reduce its practical applicability, particularly for developing countries and open economies (Allen, 2004).

In Ukraine, the development and implementation of monetary policy strategy, as well as the achievement of its objectives, is carried out by the National Bank of Ukraine. According to the Law of Ukraine "On the National Bank of Ukraine," monetary policy is defined as: "…a set of measures in the field of money circulation and credit aimed at ensuring price stability through the use of monetary policy instruments" (VRU, 1999).

When considering the goals and objectives of monetary policy, it is important to note that, in addition to price stability — the primary objective —there is also the goal of promoting financial stability, which ranks second in terms of priority.

Attention should be paid to the document titled "Fundamental Principles of Monetary Policy for the Medium Term," particularly section 3, "Promoting Financial Stability," which states that: "…maintaining financial stability will aim to reduce the level of economic uncertainty and enhance the resilience of the financial system to systemic risks, thereby enabling effective support for economic growth processes by ensuring the efficient redistribution of financial resources. This will be achieved, among other things, through balanced, consistent, and predictable monetary policy" (NBU, 2024). This position is also emphasized in the "Monetary Policy Strategy of the National Bank of Ukraine" (NBU, 2020). Thus, it can be argued that the objective of financial stability in the banking sector of the economy is achieved through the strategic use of monetary policy instruments.

To ensure the financial stability of the banking system, the Financial Stability Department was established within the organizational structure of the National Bank of Ukraine. Among its priority tasks are the analysis of financial stability, including the assessment of systemic risks threatening the resilience of the financial system; the development of modeling tools and the regular conduct of stress testing of the financial sector; the development of macroprudential policy instruments to prevent systemic crises and minimize the negative consequences of macroeconomic shocks; analytical and administrative support for the activities of the Fi-

nancial Stability Council, the NBU Financial Stability Committee, and coordination of work on financial stability issues; the analysis of recommendations provided by international financial institutions, leading central banks of other countries, and non-governmental organizations regarding the maintenance of financial stability (NBU, 2025).

Also in 2015, the Financial Stability Council was established at the NBU, whose powers include the identification and assessment of systemic risks and threats to financial stability; preparation of recommendations for minimizing these risks; coordination of measures to prevent crises and respond quickly to their manifestations; coordination of cooperation between state bodies that affect financial stability (NBU, 2025). Regarding the latter, the coordination of monetary and fiscal policies, which also affect financial stability, is currently quite controversial.

For 2024, the Financial Stability Council of the NBU agreed on the Concept for creating a war risk insurance system in Ukraine, the Strategy for the Development of Lending, setting a target indicator for the deposit guarantee system for individuals at 3.5% and the deadline for its achievement by 2028.

Attention should also be paid to the Strategy of the National Bank of Ukraine “Financial Fortress of Ukraine” (NBU, 2023), where initiative 1 “Stable hryvnia” and initiative 2 “Financial Stability” have an intersection in terms of the instruments for their achievement (Table 1).

Table 1: **The main goals of achieving the effect of the implementation of initiative 1 "Stable hryvnia" and initiative 2 "Financial Stability"**

"Stable hryvnia"	"Financial Stability"
Developing a strategy for returning to inflation targeting, currency liberalization, and transition	Balanced regulation and supervision aimed at development
Gradual easing and removal of currency restrictions.	A stable and capable banking system
Gradual transition to exchange rate flexibility	Non-bank financial and payment market – transparent and technological
Returning monetary policy focus to inflation	Reliable and sustainable financial market infrastructure

Source: Compiled by the authors based on (NBU, 2023)

In the context of the discussed issue, attention should be paid to the emergence of another approach that integrates monetary policy and financial stability — macroprudential policy. To implement this approach, the National Bank of Ukraine developed the Strategy of Macroprudential Policy, the primary objective of which is to ensure financial stability — that is, a state of the financial system in which it is capable of properly performing its core functions, such as financial intermediation and payment execution, while effectively withstanding crisis phenomena.

Macroprudential policy occupies an intermediate position between monetary policy and the macroprudential regulation carried out by the central bank. Therefore, it can be argued that macroprudential policy is closely aligned with monetary policy, particularly in terms of the instruments through which policy objectives can be achieved. As noted by V. Kovalenko, "…under conditions of a balanced macroeconomic environment, the implementation of macroprudential policy tasks will contribute to the achievement of monetary policy goals and vice versa—that is, macroprudential policy should substitute for monetary policy in cases where the latter proves ineffective" (Kovalenko, 2012).

2. Assessing the impact of monetary policy instruments on the process of ensuring the financial stability of banks.

Central banks around the world are concerned about the causes of financial instability and ways to ways to solve it.

The global financial crisis (2007–2008) highlighted the importance of maintaining financial stability and the need to monitor the emergence of systemic risk. Claudio Borio and Matthias Dreman note that the severity of the global financial crisis (2007–2008) and the Asian financial crisis (1997–1998) showed that the negative impact of global financial integration dominates the emergence of spillover effects from this process (Borio, 2011).

A stable financial system ensures the efficient transfer of financial resources from lenders to borrowers. This allows for the mobilization of

capital through financial intermediation processes, providing adequate capital to enterprises to finance innovative and productive projects.

Large-scale financial crises have catastrophic consequences for national economies. Over the past two decades, many countries have experienced significant periods of financial instability. Today, such circumstances are increasingly uncommon for countries that had never previously faced financial instability, particularly in the banking sector. It is a well-established fact that financial instability poses a serious challenge for developing economies. However, it also affects industrialized nations. Given the critical importance of financial stability, regulators — particularly central bank officials — are increasingly concerned with identifying the causes of financial instability and exploring effective ways to address and eliminate it.

Financial instability can take several forms, such as bank failures, asset price volatility, and stock market crashes (liquidity crises). Such disruptive events can severely impair a country's payment and settlement systems, thereby destabilizing the economy as a whole. Financial instability affects the real sector of the economy due to its strong interconnection with the financial sector. Thus, financial instability has the potential to cause significant macroeconomic losses, as it can lead to reductions in investment, production, and consumption within the economy.

During financial crises, monetary regulators adopt various regulatory policies aimed at reducing the risk of future financial crises and instability. Let us consider the anti-crisis measures undertaken by monetary regulators using the examples of the 2008 financial crisis and the COVID-19 pandemic crisis (Table 2).

Table 2: **Anti-crisis measures of the world's central banks during the crisis to maintain financial stability**

Financial crisis 2008	COVID-19 pandemic
United States of America (Federal Reserve System, Fed)	
Reduction of Interest Rates: Reduction of the federal funds rate from 5.25% (2007) to a range of 0–0.25% (December 2008). Objective: To stimulate business and	*Federal Funds Rate:* Reduced to 0–0.25% in March 2020. *Quantitative Easing:* Asset purchases exceeding $2 tril-

consumer lending. *Quantitative Easing (QE):* Purchase of government bonds and mortgage-backed securities (MBS) worth hundreds of billions of dollars. Objective: To lower long-term interest rates and increase market liquidity. TARP (Troubled Asset Relief Program): A government program in cooperation with the Federal Reserve to recapitalize banks. Allocated amount: $700 billion to rescue financial institutions. *Emergency Credit Facilities:* Creation of instruments such as the Commercial Paper Funding Facility (CPFF) and the Primary Dealer Credit Facility (PDCF). Objective: To provide liquidity to short-term financial markets.	lion, including corporate bonds. Main Street Lending Program: $600 billion in loans allocated to support small and medium-sized businesses. *Special Facilities:* Municipal Liquidity Facility aimed at supporting the financial needs of local governments.
European Central Bank (ECB)	
Key interest rate cuts: The main interest rate was reduced from 4.25% (2008) to 1.0% (2009). *LTRO (Long-Term Refinancing Operations):* Three-year loans were provided to banks at low interest rates. Objective: To support lending to businesses and households. *Sovereign Bond Purchases:* Securities Markets Programme (SMP) implemented to purchase bonds of distressed countries (Greece, Italy, Spain).	*Pandemic Emergency Purchase Programme (PEPP):* €1.85 trillion allocated for the purchase of assets, including government and corporate bonds. *Easing of Bank Capital Requirements:* Regulatory standards were relaxed to enhance lending capacity. *TLTRO III Programmes:* Preferential loans provided to banks that support lending to small and medium-sized enterprises.
United Kingdom (Bank of England)	
Interest Rate cuts: The base rate was reduced from 5.5% (2007) to 0.5% (2009). *Quantitative Easing:* Over £200 billion in government bond purchases. *Bank Support Programme:* Refinancing of distressed financial institutions, including the Royal Bank of Scotland.	*Base Rate Reduction:* Reduced to 0.1% in March 2020. *Business Credit Support:* Covid Corporate Financing Facility (CCFF) launched to provide short-term liquidity to businesses. *Expansion of QE:* Asset purchases totaling £895 billion.
Japan (Bank of Japan, BoJ)	
Interest Rate cuts: Reduced to 0.1% in December 2008. *Asset Purchases:*	*Negative Interest Rates:* Maintained at -0.1% to stimulate lending.

Purchase of corporate bonds and equities to support financial markets.	*Purchase of ETFs and Corporate Bonds:* ¥12 trillion allocated to support the stock market.
China (People's Bank of China, PBoC)	
Interest Rate cuts: Repeated reductions in discount rates. *Relief of reserve requirements:* Reduction of reserve requirements for banks.	*Reduction of LPR (Loan Prime Rate):* Aimed at reducing the cost of borrowing. *Small Business Financing:* Preferential loans provided through state-owned banks. *Capital Recycling Program:* Centralized funding for infrastructure projects.
Canada (Bank of Canada)	
Interest Rate cuts: The base rate was reduced to 0.25% in April 2009. *Liquidity support:* Providing short-term financing to banks through the Term Purchase and Resale Agreements (PRA). *Bond market interventions:* Government bond purchases aimed at lowering long-term interest rates.	*Interest Rate cuts:* The base rate was quickly reduced from 1.75% to 0.5%. *Quantitative Easing (QE):* Redemption of government bonds, municipal and corporate securities. *Credit Programs:* Business Credit Availability Program for small and medium-sized businesses.
Australia (Reserve Bank of Australia)	
Interest Rate cuts: Key rate reduced from 7.25% to 3.0% between 2008 and 2009. *Banking Sector Support:* Government guarantees on bank deposits. *Foreign Exchange Market Interventions:* Direct foreign currency sales to stabilize the Australian dollar.	*Interest Rate Cuts:* Base rate reduced to 0.1%. *Bond Purchases:* Government and corporate bond purchases to support liquidity. *Credit Support:* Provision of long-term funding access to banks.
Switzerland (Swiss National Bank)	
Interest Rate cuts: Key policy rate set near 0%. *Banking Support:* Capital injection into UBS (the largest Swiss bank) along with the purchase of toxic assets. *Foreign Exchange Interventions:* Stabilization of the Swiss franc exchange rate.	*Business Support:* Low-interest loan program for small businesses. *Market Interventions:* Active measures to prevent excessive appreciation of the franc.
Ukraine (National Bank of Ukraine, NBU)	

Foreign Exchange Market interventions: Currency sales to support the hryvnia. *Banking System support:* Refinancing of commercial banks. Temporary nationalization of systemically important banks (e.g., Rodovid Bank). *Monetary Policy:* High interest rates to stabilize the hryvnia (key rate raised to 12%).	*Key Policy Rate Reduction:* Reduced from 13.5% (2019) to 6.0% (July 2020). *Lending Programs:* "Affordable Loans 5-7-9%" program for small and medium-sized businesses. *Currency Interventions:* Direct currency sales to support the hryvnia during the economic downturn.
2022–2024 (Martial Law Period): *Fixed Exchange Rate:* Establishment of a fixed hryvnia exchange rate to stabilize the economy. *Foreign Exchange Restrictions:* Capital outflow controls. *Budget Deficit Financing:* Purchase of government bonds.	

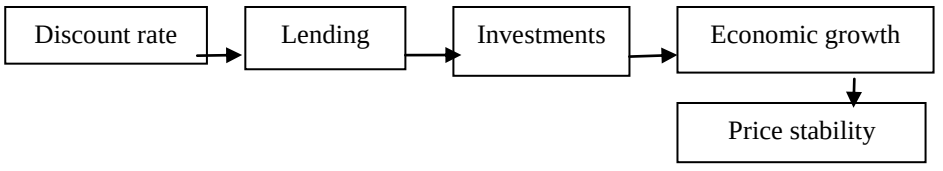
Source: Compiled by the authors

Thus, it can be concluded that during crisis situations, all central banks resort to interest rate cuts, foreign exchange market interventions, and asset purchases to support liquidity

Ukraine stands out due to its greater focus on stabilizing the national currency and supporting the banking system, driven by its complex macroeconomic conditions.

Based on the above, it can be stated that the impact of monetary policy on ensuring the financial stability of banks is realized through the implementation of a concept involving the use of its instruments, which can be classified as both administrative and indicative in nature.

Monetary policy is implemented through the monetary transmission mechanism of the National Bank of Ukraine. However, it should be noted that the structure and priorities of this transmission mechanism differ before and during martial law (Fig. 1).



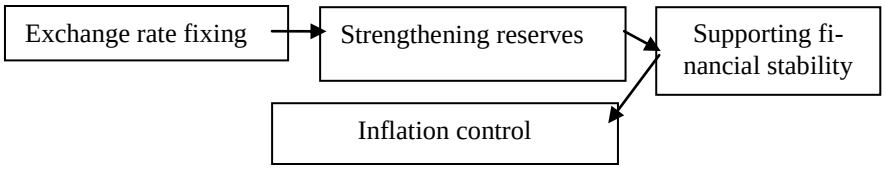


Fig. 1: Objectives of the monetary transmission mechanism before and during martial law

Source: Compiled by the authors

The transmission mechanism of the National Bank of Ukraine differs between the period before martial law and during it, namely: before martial law: the key policy rate was the main instrument of monetary policy. NBU adjusted the level of the key rate to influence the cost of money in the credit system; lending – by changing the key rate, the availability of loans for businesses and households was regulated. Lower rates encouraged more lending, while higher rates restrained it; investment – access to cheaper credit stimulated business investment activity, increased production volumes and innovation; economic growth – growth in investment and consumption led to improved economic indicators; price stability – the primary objective. Inflation was controlled through demand and supply regulation in the economy.

The main focus before martial law was on the use of traditional monetary policy instruments: adjusting the key rate, influencing inflation, and stimulating economic growth.

During martial law, the transmission mechanism is characterized by the following: fixed exchange rate – during wartime, the NBU fixed the official exchange rate of the hryvnia against the US dollar to prevent currency panic and maintain stability; reserve strengthening – the NBU actively manages its foreign exchange reserves to ensure the capacity for market interventions and to support the state's solvency; government debt support – through the purchase of domestic government bonds (OVDP), the NBU helps the government finance budgetary needs during wartime; financial stability – measures are aimed at preventing a banking crisis, maintaining liquidity in the banking system, and preserving monetary circulation stability; inflation control – under wartime conditions, the fo-

cus is placed on curbing inflationary pressures through foreign exchange market regulation and maintaining trust in the hryvnia.

In general, the key differences can be described as follows: before martial law, the mechanism was aimed at economic development through the regulation of market instruments. During wartime, monetary policy became predominantly crisis-oriented, focusing on currency stability, support for the banking system, and minimizing inflationary risks.

Conclusions

Banks play a key role in ensuring the sustainable development of the economy.Banks hold a leading position in mobilizing temporarily free funds from non-financial corporations and households, which are subsequently directed towards the development of capital markets and the support of the real sector of the economy.

The issue of the formation of financial stability theory has been examined, and two types of conceptual approaches have been identified: “financial instability” and “financial fragility.”

An analysis of academic literature on the definition of financial stability in banking has been conducted, establishing that the concept of “financial stability” is interconnected with other economic categories, such as price stability, financial crisis, systemic risk, financial resilience, and fragility of the financial system.

Financial stability refers to ensuring the viability of the banking system and individual banks, allowing them to function continuously and effectively under conditions of economic cyclicality and financial market turbulence.

The evolution of approaches to the establishment of monetary policy and monetary regulation has taken place over an extended period, during which several schools of thought and theoretical approaches have emerged. These approaches generally encompass the core components of regulation, namely: the money supply, price levels and inflation, exchange rates, production, and employment.

The combination of monetary and macroprudential policy instruments provides monetary authorities with the ability to achieve the objective of ensuring financial stability.

This article examined the anti-crisis measures adopted by monetary regulators, using the examples of the 2008 financial crisis and the COVID-19 pandemic crisis. It was established that during crisis periods, all central banks resort to interest rate cuts, foreign exchange market interventions, and asset purchases to support liquidity. Ukraine stands out by placing greater emphasis on stabilizing the national currency and supporting the banking system, which is largely due to its complex macroeconomic conditions.

It has been demonstrated that the impact of monetary policy on ensuring the financial stability of banks is realized through the implementation of a concept based on the use of its instruments, which can be categorized as both administrative and indicative.

The transmission mechanism of the monetary policy of the National Bank of Ukraine, both before and during martial law, reflects different priorities and emphases.

Before martial law: traditional monetary policy instruments were used, such as adjusting the key policy rate, inflation targeting, and influencing the credit market. The primary goal was to ensure price stability and promote economic growth.

During martial law: emergency instruments were employed, such as fixing the exchange rate, strengthening foreign exchange reserves, and supporting government debt through the purchase of domestic government bonds (OVDPs). The main objective shifted to stabilizing the financial system, controlling inflation, and supporting the economy.

It has been demonstrated that, overall, the key differences can be characterized as follows: before martial law, the transmission mechanism was oriented toward economic development through the regulation of market instruments. During wartime, monetary policy became primarily crisis-driven, focusing on currency stability, support for the banking system, and minimizing inflationary risks.

In general, the effectiveness of monetary policy implementation is reflected in such important macroeconomic indicators as price and exchange rate stability, investment activity, and economic growth. Under conditions of political instability, these components determine the economy's readiness to withstand external aggression and, consequently, influence the financial stability of the banking sector within the national economy.

Despite the progress achieved, the continuation of martial law in Ukraine and other economic challenges create uncertain prospects. Risks of increasing inflationary pressure, the need to maintain financial stability, and ongoing adaptation to wartime conditions remain critical issues that require attention and action from monetary authorities. It is essential to continue developing and improving monetary instruments, ensuring their flexibility and responsiveness to changing economic circumstances, including those caused by armed conflict.

Bibliography

ALLEN, F., GALE, D. (2004). Financial fragility, liquidity, and asset prices. *Journal of the European Economic Association*, 2, 6, 1015–1048.

ARESTIS, P., M., SAWYER, M. A. (2008). Critical Reconsideration of the Foundations of Monetary Policy in the New Consensus Macroeconomic Framework. *Cambridge Journal of Economics*, 32, 5, 761-79.

ACHARYA, V. V., & RICHARDSON, M. (2009). Causes of the financial crisis. *Critical Review*, 21(2–3), 195–210. https://doi.org/10.1080/08913810902952903.

BELINSKA, Ya. V., BYKHOVCHENKO, V. P. (2010)/ Financial stability: essence and directions of provision. *Strategic priorities*, 4 (17), 57–67.

BERANRKE, B., GERTLER, M. (1990). Financial fragility and economic performance. *The Quarterly Journal of Economics*, 105, 87–114.

CUKIERMAN, A. (2013). Monetary policy and institutions before, during, and after the global financial crisis. *Journal of Financial Stability*, 9(3), 373–384. https://doi.org/10.1016/j.jfs.2013.02.002.

DEMIGUC-KUNT, A., DEDTRAGILACHE, E. (1998). Financial liberalization and financial fragility. *IMF Working Paper*, 98/83, 36.

FISHER, I. (1933). The Debt-Deflation Theory of Great Depressions. *Econometrica*, 4., 337–357.

FONTANA, G., PALACIO-VERA, A. (2007). Are long-run price stability and short-run output stabilization all that monetary policy can aim for? *Metroeconomica*, 58, 2, 269-298.

FRIEDMAN, M., SCHWARTS, A. (1963) Money and business cycles. *Review of Economics and Statistics*, 45, 32-64.

GALI, J. (2008). Monetary policy, inflation and business cycle: An introduction to the New Keynesian Framework. Oxfordshire: Princeton University Press,

GOODFRIEND, M., KING, R.G. (1997). The new neoclassical synthesis and the role of monetary policy. *NBER Macroeconomics Annual*, 12, 231-283.

GOTTSHALK, J. (2005). Monetary Policy and German Unemployment Problem in Macroeconomic Models: Theory and Evidence. Berlin German, Springer-Verlag Berlin Heidelberg.

KARCHEVA, G. T. (2012). Effectiveness of functioning and prospects for the development of the banking system of Ukraine. Kyiv: Institute of Economics and Forecasting of the NAS of Ukraine.

KEYNES, J. M. (2018). The General Theory of Employment, Interest and Money. London: Palgrave Macmillan.

KHUTORNA, M. (2017). E. Principles of ensuring the financial stability of credit institutions. *Financial Space*, 3, 55–61. https://fp.cibs.ubs.edu.ua/index.php/fp/article/view/528/526.

KOVALENKO, V., GARKUSHA, Yu. {2013). Theoretical and methodological approaches to assessing the financial stability of the banking system. *Bulletin of the National Bank of Ukraine*, 9, 35–40.

KUZNETSOVA, A. Ya., POGORELENKO, N. P. (2020). Mechanism for ensuring financial stability of the banking system of Ukraine. *Financial and credit activity: problems of theory and practice*, 2 (33), 37–47. https://doi.org/10.18371/fcaptp.v2i33.206396

MANKIW, G.N., TAYLOR, M.P. (2007). Macroeconomics. (European Edition ed.). Basingstoke: Palgrave Macmillan.

MINSKY, H. P. (1992). The Financial Instability Hypothesis. *The Jerome Levy Economics Institute Working Paper*, 74, 10.

NATIONAL BANK OF UKRAINE (2020). Monetary Policy Strategy of the National Bank of Ukraine. https://bank.gov.ua/ua/monetary.

NATIONAL BANK OF UKRAINE (2023). Strategy of the National Bank of Ukraine "Financial Fortress of Ukraine".https://bank.gov.ua/admin_uploads/article/ Strategy_NBU.pdf?v=9.

NATIONAL BANK OF UKRAINE (2024). Basic principles of monetary policy for the medium term. https://bank.gov.ua/ua/monetary.

NATIONAL BANK OF UKRAINE (2025). Official website. https://bank.gov.ua.

PALLEY, T.I. (2007). Macroeconomics and monetary policy: Competing theoretical frameworks. *Journal of Post Keynesian Economics*, 30, 1, 61-78.

STIGLITZ, J., WEISS, A. (1981). Credit Rationing in Markets with Imperfect Information, *American Economic Review*, 71, 3, 393–410.

VERKHOVNA RADA OF UKRAINE (1999). About the National Bank of Ukraine: Law of Ukraine. https://zakon.rada.gov.ua/laws/show/679-14#Text.

WALSH, C. E. (2003). Monetary theory and policy. The MIT Press, Second Edition.

WHALLEY, J., ZHAO, X. (2013). The relative importance of the Chinese stimulus package and tax stabilization during the 2008 financial crisis. Applied Economics Letters, 20(7), 682–686. https://doi.org/10.1080/13504851.2012.730128.