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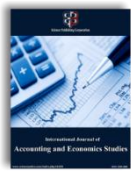

Monetary Policy of The National Bank of Ukraine Under Financial Destabilization and Its Impact on The Banking System

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Abstract

The purpose of this article is to assess the effectiveness of the monetary policy implemented by the National Bank of Ukraine amid financial destabilization caused by war. The analysis focuses on the impact of key regulatory instruments on the banking sector and explores the adaptability of monetary measures in crisis conditions. This study aims to assess the effectiveness of the monetary policy of the National Bank of Ukraine (NBU) under conditions of financial destabilization and to analyze its impact on the activities of commercial banks to identify key regulatory instruments, their consequences for the banking sector, and prospects for further adaptation. The study examines the specific features of the NBU's monetary policy in ensuring macroeconomic stability and supporting the banking sector amid financial destabilization. This study evaluates the NBU's core tools, including the key policy rate, foreign exchange interventions, and li-liquidity management mechanisms, to determine their outcomes for financial stability. Special attention is given to the sharp increase of the key policy rate to 25% in 2022, which aimed to contain inflationary pressures and currency volatility. The dynamics of foreign exchange interventions, which shifted from reserve accumulation to large-scale sales exceeding USD 35 billion in 2024, are examined to highlight vulnerabilities in the external balance. The findings demonstrate that while strict liquidity controls helped stabilize macroeconomic indicators, they simultaneously limited credit access and constrained economic recovery. The results underscore the importance of maintaining a balance between inflation control, exchange rate stability, and support for the banking system. In the long term, the effectiveness of monetary policy will depend on the NBU's capacity to adapt its instruments to evolving macroeconomic challenges without undermining financial sector resilience.

Keywords: *Banking Regulation; Financial Instability; Foreign Exchange Interventions; Key Policy Rate; Monetary Instruments; Monetary Policy.*

1. Introduction

Financial destabilization caused by war-related risks and external shocks has severely affected the effectiveness of the National Bank of Ukraine's monetary policy. The primary challenge for the central bank in this environment is to balance efforts to stabilize the foreign exchange market, control money supply, ensure banking system liquidity, and maintain inflation within target ranges. During crises, these objectives become more complex as financial markets exhibit heightened volatility and the NBU's influence on banks' credit activities becomes constrained.

Traditional monetary policy instruments such as the key policy rate, foreign exchange interventions, and reserve requirements often lose predictability in their effects under such conditions. A tight interest rate policy can suppress credit and dampen economic growth, while overly accommodative measures risk capital outflows and speculative behavior that further destabilize the macroeconomic environment. This situation raises the question of how to recalibrate monetary parameters to maintain their effectiveness during instability.

Economic disruption also increases liquidity risks, erodes depositor confidence, and reduces access to long-term financing. Under these circumstances, it is crucial to evaluate how the NBU's policy decisions affect banks' risk management and the overall stability of the financial system. One key consideration is the role of the key policy rate in determining borrowing costs: a prolonged period of elevated rates compels banks to raise lending rates, diminishing credit demand and hindering recovery prospects.

Furthermore, during a crisis, the regulatory impact on the foreign exchange market and banking reserves becomes particularly significant. Since devaluation expectations encourage businesses and households to convert assets into hard currency, thereby increasing pressure on the hryvnia, the NBU is compelled to implement administrative measures, including temporary regulatory restrictions on banking operations. However, such actions may have unintended consequences, such as the emergence of a shadow currency market and reduced credit activity.

Thus, the issue of the NBU's monetary policy effectiveness under financial destabilization encompasses a wide range of challenges that require a thorough analysis of current approaches, their adaptability, and their long-term effectiveness in maintaining the financial stability of Ukraine's banking system.

2. Literature review

Monetary policy under financial destabilization is one of the key topics in contemporary economic literature. It is considered a critical instrument for influencing macroeconomic stability, particularly through the regulation of inflationary processes, exchange rate management, and ensuring the resilience of the banking sector. The theoretical foundations of monetary policy were established in the works of M. Friedman [8], who emphasized the decisive role of money supply in regulating economic cycles. His monetarist theory remains relevant today, especially in the context of central banks' influence on inflation and economic growth.

The research of J. Taylor [18] defines the principles of monetary policy, particularly in the application of the so-called "Taylor Rule," which helps assess the adequacy of the key policy rate under various economic conditions. This is especially important for Ukraine, as the country's banking system is highly dependent on the NBU's interest rate policy. Simultaneously, the studies of B. Bernanke [3] highlight the effectiveness of monetary stimulus during crises, emphasizing the importance of flexible central bank policies in periods of economic shocks.

Ukrainian researchers have also actively analyzed the effectiveness of the NBU's monetary policy. Specifically, the works of O. Berezina [2], E. Bublyk [4], M. Dziamulych [6], and D. Caruso [5] examine the impact of NBU's instruments on the banking sector, particularly during wartime. The authors note that a tight monetary policy aimed at reducing inflation and maintaining exchange rate stability significantly affects banks' lending activity and the availability of financing for businesses.

Analyzing crisis periods, scholars emphasize that traditional monetary mechanisms may become less effective under structural economic changes. For instance, the works of M. Dzhus [7] and O. Kuzmak [9] focus on exchange rate policy and the impact of devaluation expectations on financial markets. The researchers argue that the NBU's regulatory measures in response to devaluation pressure do not always yield the expected results, as financial players can adapt to new conditions by utilizing alternative access channels to foreign currency.

Particular attention is given to studies on the long-term effects of strict monetary policy. For example, in the works of K. Rogoff [14], I. Kononova [10], M. Rudenko [15], O. Stashchuk [17], and T. Smatkovska [16], the authors highlight that high interest rates may have a counterproductive effect by reducing credit accessibility for businesses and households, which, in turn, slows down economic growth. At the same time, proponents of an orthodox monetary approach, such as O. Novak [13] and V. Korneev [11], argue that inflation control must remain a priority, even at the expense of slowing economic activity.

Summarizing the reviewed studies, it can be concluded that monetary policy under financial destabilization requires a thorough analysis that considers both internal and external factors. Most researchers agree that the NBU should combine traditional monetary instruments with adaptive regulatory mechanisms, ensuring a balance between stability and economic growth.

3. Methods

The research methodology is based on a comprehensive approach to analyzing the monetary policy of the National Bank of Ukraine (NBU) and its impact on the activities of commercial banks. Given the complexity of the processes under investigation, a combination of qualitative and quantitative methods has been applied to ensure a thorough assessment of the effectiveness of monetary measures and their consequences for the financial system.

The theoretical foundation of the study relies on key concepts of monetary policy, including the theory of money circulation, monetarism, and Keynesian economics. The research is grounded in the works of classical economists such as M. Friedman, B. Bernanke, and J. Taylor, as well as contemporary studies on macroeconomic regulation under crisis conditions. The study examines the characteristics of monetary policy instruments, their impact on banking liquidity, lending activity, and financial stability.

The data collection and analysis methods include an examination of official materials and statistical data from the NBU. Particular attention is given to analyzing key policy rate indicators, foreign exchange interventions, banking system liquidity levels, and inflation dynamics. Statistical data from 2018–2024 are utilized to assess monetary regulation trends before, during, and after financial crises.

The quantitative analysis incorporates economic analysis methods, allowing for an exploration of the relationships between the key policy rate, lending volumes, inflation levels, and exchange rate fluctuations. A comparative analysis of the impact of monetary policy on the banking sector across different periods of economic turmoil has been conducted to assess the effectiveness of the measures implemented.

The qualitative analysis involves evaluating the NBU's decisions, their alignment with macroeconomic challenges, and their long-term implications for financial stability. Regulatory changes introduced in response to crisis phenomena and their influence on the functioning of the banking system have been considered.

Thus, the methodological approach of this study integrates the analysis of theoretical aspects, statistical data, and the practical effectiveness of the NBU's monetary policy. The combination of quantitative and qualitative methods has enabled an evaluation of the impact of monetary decisions on the economy and the formulation of recommendations for improving the central bank's policy effectiveness under conditions of instability.

4. Results

The monetary policy of the National Bank of Ukraine (NBU) in times of financial destabilization is characterized by increased flexibility and the need to balance stabilization measures with supporting economic activity. A key challenge for the regulator is to control inflation, maintain exchange rate stability, and ensure adequate banking system liquidity at the same time. One of the key instruments in this regard is interest rate policy. Under crisis conditions driven by the war's severe impact, the NBU was often forced to raise the key policy rate sharply to contain inflation and stabilize the currency. However, excessively tight policy also curtailed lending and dampened business investment, further deepening the economic downturn.

Another crucial aspect is foreign exchange regulation. During periods of financial instability, the NBU employs foreign exchange interventions to prevent excessive fluctuations in the hryvnia's exchange rate. The regulator has also imposed administrative restrictions on currency transactions, reducing speculative pressure but creating risks for businesses involved in international trade. A notable feature of the regulatory framework is the flexible management of banking liquidity. In times of crisis, the NBU strengthens capital and reserve

requirements for banks to minimize financial instability risks. However, when liquidity shortages become a significant threat, the central bank has responded by refinancing the banking sector and lowering reserve requirements. Such countercyclical adjustments underscore the NBU's pragmatic approach to maintaining financial system resilience while mitigating the adverse effects of external shocks on monetary circulation and credit availability.

Thus, it can be asserted that the monetary policy of the NBU under the financial destabilization of 2022–2024 represented a complex process of forced adaptation to changing macroeconomic conditions. It was accompanied by a continuous search for equilibrium between anti-crisis stabilization and the support of economic growth. A determining factor throughout this period remained the objective necessity for the regulator to respond promptly to external shocks, particularly exchange rate volatility and inflationary surges. However, in practice, the effectiveness of such measures largely depends on the NBU's actual ability to maintain a balance between monetary tightening and the operational needs of the real sector. This task was significantly complicated by the high degree of unpredictability induced by Russia's military aggression. Therefore, it is concluded that the long-term effectiveness of the regulator's monetary strategy under dynamic conditions requires constant revision and adjustment by emerging crisis-related challenges.

When analyzing inflation dynamics and the inflation targets of the National Bank of Ukraine, it is essential to consider macroeconomic factors affecting consumer price levels and the central bank's strategy for maintaining price stability. Evaluating these data helps determine the effectiveness of the NBU's monetary policy, assess its alignment with forecasted scenarios, and identify potential economic challenges for Ukraine in the coming years (Figure 1).

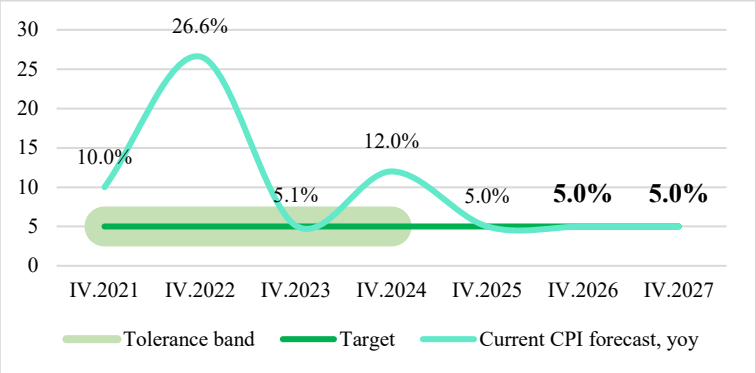

Fig. 1: Inflation and NBU's Inflation Targets.

Source: [12].

As observed during the analyzed period, there was significant inflation volatility. Specifically, in 2022, inflation reached a peak of 26.6%, which substantially exceeded both the established inflation target of 5% and the allowable range. This inflation surge was driven by financial shocks caused by war-related risks and macroeconomic instability, which impacted the monetary market. However, in 2023, there was a sharp decline in inflation to 5.1%, approaching the targeted level. This indicates the effectiveness of the NBU's measures, particularly the implementation of a tight monetary policy, an increase in the key policy rate, and strict control over the money supply. Nonetheless, the reduction in inflation was also a result of declining domestic demand and overall economic stagnation.

The forecast for 2025–2027 suggests inflation stabilization at 5%, which aligns with the NBU's long-term objectives. If this scenario materializes, it will signify the regulator's successful adaptation to crisis conditions and the restoration of confidence in monetary policy. However, potential threats related to external economic pressures and devaluation risks should be considered, as they may influence actual inflation dynamics.

Overall, the analysis suggests that while the NBU faced substantial challenges in 2022, it managed to stabilize the situation by the end of 2023. The future success of monetary policy will depend on the regulator's ability to balance the key policy rate, ensure flexibility in the foreign exchange market, and effectively respond to external risks. In this context, analyzing the dynamics of the key policy rate is a crucial indicator of monetary policy and its impact on the financial sector and the economy. Such data provide insights into the NBU's response to macroeconomic challenges, the level of economic policy rigidity, and potential consequences for lending, inflation, and the investment climate. Next, we will examine changes in the NBU's interest rate policy to assess its role in economic stabilization under financial shocks and inflationary pressures (Figure 2).

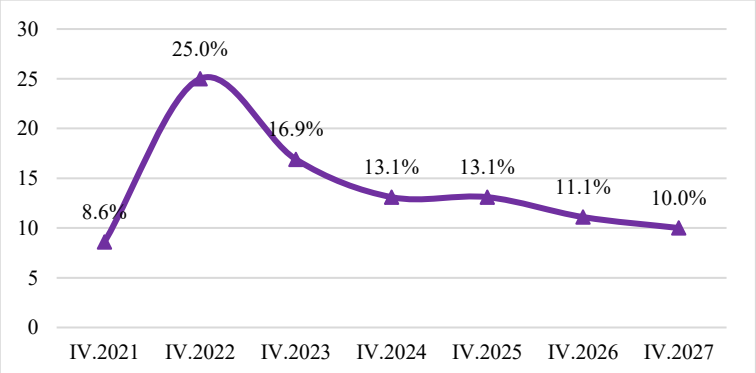

Fig. 2: NBU's Key Policy Rate Forecast.

Source: [12].

The analysis reveals a sharp increase in the key policy rate during the examined period, rising from an average level of 8.6% in 2021 to a peak of 25% in 2022. This move can be explained by heightened inflationary risks and the need to maintain stability in the foreign exchange market amid economic destabilizations. A significant rate hike is a classical instrument of tight monetary policy, employed to curb inflation and reduce speculative pressure on the hryvnia. In 2023, the rate decreased to 16.9%, indicating a gradual easing of monetary policy by the regulator following the stabilization of key macroeconomic indicators. The further reduction of the rate to an average of 13.1% in 2024 reflects the NBU's efforts to stimulate lending to businesses and households by lowering the cost of borrowed capital.

The forecast for 2025–2027 suggests a gradual decline in the rate to 10%, reflecting the NBU's expectations of inflation normalization and reduced financial instability risks. If these projections materialize, increased investment activity and accelerated economic growth can be anticipated. However, uncertainty remains regarding the potential impact of external factors, particularly the duration of the war and Ukraine's financial support from international institutions, which may necessitate adjustments to monetary policy. These exogenous variables introduce a high degree of volatility into medium-term macroeconomic planning and complicate the formulation of a stable interest rate corridor. As a result, the NBU will need to maintain strategic flexibility to adjust monetary parameters quickly in response to shifting geopolitical and financial conditions.

Overall, the interest rates on the NBU's monetary operations serve as key indicators of its liquidity regulation policy within the banking system. These parameters determine the cost of financing for banks, directly influencing lending activity, inflation, and economic dynamics. Analyzing this structure enables an assessment of the NBU's response to macroeconomic challenges and the effectiveness of its monetary policy in the context of financial system stabilization (Figure 3).

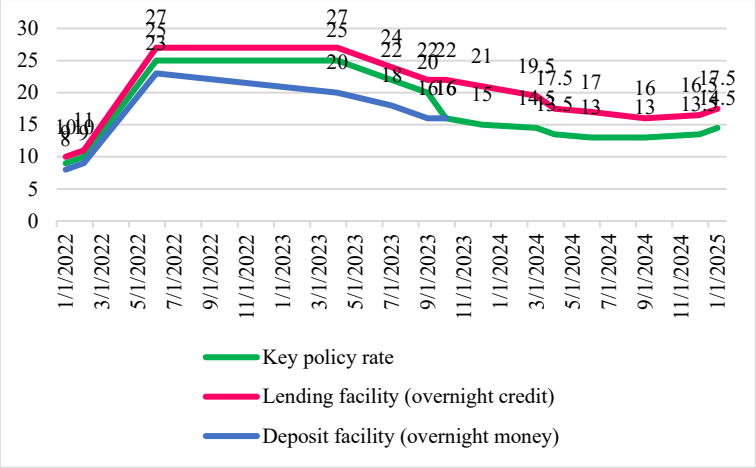

Fig. 3: Interest Rates on Monetary Operations of the NBU with Banks.

Source: [12].

From the graph, we can observe significant changes in interest rates occurring in response to macroeconomic factors. During the analyzed period, the key policy rate increased to 25%, indicating a tight monetary policy aimed at combating inflation and maintaining financial stability. Subsequently, the rate gradually declined, reflecting a transition toward a more accommodative policy amid economic stabilization. At the same time, the lending facility rate exceeded the key policy rate, highlighting the NBU's intention to restrict access to emergency financing for banks, thereby limiting excessive money supply growth. At its peak, the lending rate reached 27%, significantly increasing the cost of borrowed funds for the banking system.

It is also important to note that the deposit facility rate was traditionally lower than the key policy rate, creating an incentive for banks to place excess liquidity with the NBU. The increase in this rate to 19.5–22% during periods of tight monetary policy confirms the NBU's effort to absorb excess funds from the banking system and restrict their use for excessive lending. This instrument was employed to reduce inflationary pressures.

Thus, the dynamics of interest rates demonstrate that the NBU applied a classical liquidity management approach: increasing rates during inflationary pressure periods and gradually reducing them under conditions of macroeconomic stabilization. This strategy ensures a balance between supporting the banking sector and maintaining inflation control.

Furthermore, attention must be given to the foreign exchange interventions of the National Bank of Ukraine, which serve as a key instrument for maintaining national currency stability and managing international reserves. The net balance of these operations provides insight into the regulator's level of intervention in the foreign exchange market and its response to macroeconomic challenges.

Therefore, we will assess the dynamics of these interventions to evaluate the NBU's strategy and its impact on the country's economic stability (Table 1).

Table 1NBU Foreign Exchange Intervention Volumes by Year (Million USD)

Year	Sales	Purchases	Net Balance (Sales − Purchases)
2018	1,801.82	3,173.78	-1,371.96
2019	529.23	8,462.60	-7,933.37
2020	3,891.00	4,929.00	-1,038.00
2021	1,275.70	3,690.70	-2,415.00
2022	26,380.59	3,267.95	23,112.64
2023	28,829.73	219.85	28,609.88
2024	35,312.64	126.28	35,186.36

Source: [12].

As observed, before 2022, the NBU's foreign exchange interventions were relatively balanced, with the regulator primarily accumulating reserves by purchasing excess foreign currency from the market. During 2018–2021, the NBU's foreign currency purchases significantly exceeded sales, strengthening foreign exchange reserves. This created a macroeconomic foundation for exchange rate stability and

alleviated inflationary pressures. However, the situation changed drastically in 2022, when financial risks associated with full-scale war triggered a growing demand for foreign currency. In 2022, the NBU's foreign currency sales surged to a record-high $26,380.59 million, while purchases declined to $3,267.95 million. This resulted in a significant net intervention balance of $23,112.64 million, reflecting the regulator's active measures to support the foreign exchange market and control sharp exchange rate fluctuations. The primary drivers of this process included capital outflows, heightened uncertainty, and the necessity of financing critical imports.

In 2023, the situation worsened further: the NBU sold $28,829.73 million, while foreign currency purchases plummeted to just $219.85 million. The net intervention balance reached $28,609.88 million, indicating continued pressure on foreign exchange reserves. This reflects the persistent demand for foreign currency due to imports, capital outflows, and efforts to support the economy under prolonged wartime risks. The trend persisted in 2024, as the NBU sold $35,312.64 million while purchasing only $126.28 million—a record-low level of foreign currency acquisition. This led to the highest net intervention balance of $35,186.36 million. Such dynamics confirm the necessity of active regulatory intervention in the foreign exchange market to maintain financial stability, though they also indicate potential depletion of reserves in the future. In the long run, this level of intervention may limit the NBU's ability to sustain exchange rate stability without external financial assistance or further adjustments to foreign exchange policy.

To study trends in the dynamics of foreign currency sales by the National Bank of Ukraine, we will calculate a correlation estimate of the analytical smoothing of sales volume over recent years (Figure 4).

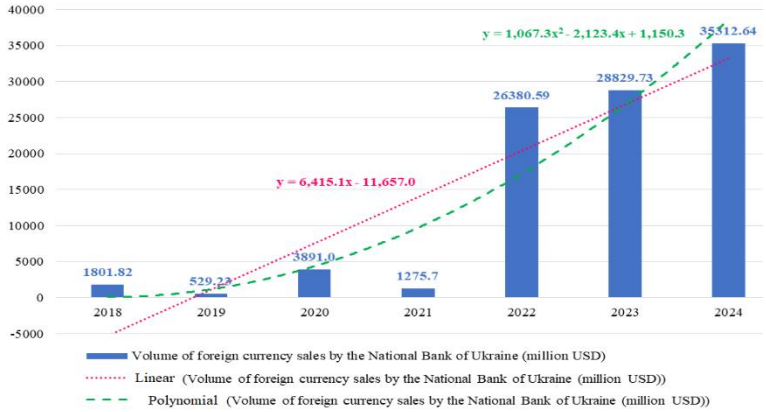

Fig. 4: Correlation Assessment of the Trend of Foreign Currency Sales by the National Bank of Ukraine for 2018-2024.

Source: built by authors.

The linear trend shows a steady increase in the volume of foreign exchange sales by approximately 6.415 million US dollars each year. The negative value of the free term (–11.657) indicates that the starting level was lower, and the rapid growth began only later. Such a trend line is an indicator of the constant and increasing intervention of the NBU in the foreign exchange market, reflecting the growing pressure on the foreign exchange balance.

Instead, the polynomial trend better reflects the nonlinear nature of interventions. It captures an initial decline (in 2019–2021) followed by an exponential increase (2022–2024). This shape of the trend demonstrates that the external shocks caused by the outbreak of the war in 2022 led to a sharp transition from moderate to extremely high NBU activity in the foreign exchange market. This emphasizes Ukraine's growing currency vulnerability and the limited resource space of the NBU for further interventions without external support.

Overall, it is evident that the monetary policy of the National Bank of Ukraine has undergone significant changes in recent years, driven by inflationary pressures and macroeconomic instability. The regulator's actions have been focused on ensuring price stability, maintaining the national currency, and preserving liquidity in the banking sector. Amid wartime conditions, the NBU has had to implement strict measures, including a substantial increase in the key policy rate, active intervention in the foreign exchange market, and restrictions on capital flows. The key regulatory instrument in this period has been the key policy rate, which reached a record 25% in 2022, triggering significant changes in the structure of banking assets. The high cost of financing forced commercial banks to revise their lending policies, resulting in a reduction in long-term lending volumes and an increase in borrowing costs for businesses and households. The subsequent gradual reduction of the key policy rate reflects the NBU's intent to stimulate economic activity; however, its pace will depend on inflation levels and exchange rate stability.

Foreign exchange interventions have become another crucial mechanism for maintaining financial system stability. The significant volume of currency sales in 2022–2024 highlights the NBU's active efforts to counteract devaluation pressure and support the hryvnia. At the same time, the record level of interventions in 2024 signals considerable depletion of international reserves, potentially limiting the NBU's future capacity to influence the foreign exchange market without external financial support.

These policies have created challenges for commercial banks. Liquidity shortages, high rates, and currency risks have led to more conservative lending, reducing credit access across the economy.

5. Discussion

In an environment shaped by severe external shocks and internal economic imbalances, evaluating the effectiveness of the National Bank of Ukraine's monetary policy takes on relevance. This analysis has shown that conventional monetary instruments underwent significant transformation as their efficiency declined amid heightened macroeconomic volatility. These circumstances underscore the need to rethink the traditional centralized approach to monetary management and adopt more dynamically adaptive frameworks.

The analysis confirms that the NBU's response to inflationary pressure-through a sharp increase in the key policy rate to 25% in 2022, was institutionally justified as a tool for immediate containment of devaluation pressure and inflationary expectations. However, such a policy induced an increase in the cost of credit resources, led to a contraction in investment activity, and established price-related barriers to entrepreneurial initiatives. This reflects a latent contradiction between the stabilizing and stimulating functions of the monetary strategy. The implementation of restrictive interest rates under such circumstances becomes a determinant of long-term structural weakness in the banking sector concerning credit expansion.

It should be noted that the consequences of monetary policy decisions related to an increase in the discount rate go beyond macroeconomic indicators and penetrate the sphere of financial reporting of commercial banks. Thus, according to International Financial Reporting Standards, particularly IFRS 9, high interest rates result in an increase in the volume of provisions for expected credit losses (ECL), which is associated with a deterioration in the quality of loans and an increase in the risks of default. This leads to a direct impact on the income statements and the level of capital adequacy of commercial banks, which limits their creditworthiness. In addition, under such conditions, the assessment of the fair value of financial instruments becomes more volatile, since high rates complicate compliance with the requirements and transparency in the disclosure of financial information. In this regard, it is worth paying attention to the research of M. Barth and W. Landsman, who argue that the interaction between monetary policy and financial reporting under stressed conditions can enhance procyclicality in bank behavior, as risk-based provisioning reinforces the tightening of credit policy [1]. Thus, the integration of accounting analytics improves the understanding of the mechanisms of transmission of shocks from an increase in the discount rate to the dynamics of bank balance sheets.

Large-scale foreign exchange interventions exceeding USD 35 billion per year helped anchor exchange rate expectations but rapidly depleted reserves, limiting the central bank's autonomy. This created a dilemma between the need to stabilize the currency and the risk of losing medium-term monetary sovereignty. Excessive regulatory intervention in the currency market proved effective in the short term but imposed significant costs on the system.

A further challenge was the partial breakdown of the monetary transmission mechanism. The credit and interest rate channels operated with reduced effectiveness as banks faced liquidity constraints, higher risk premiums, and shortened lending horizons. As a result, the key policy rate's influence on credit activity became less direct, making it necessary to develop alternative channels, such as selective refinancing, flexible liquidity tools, and incentives for financial inclusion. Moreover, the lack of close coordination between fiscal and monetary policy limited the stabilizing impact of crisis measures. Under martial law, the NBU was required to assume quasi-social roles, including preserving household purchasing power, responsibilities that extend beyond its classical mandate and call for expanded institutional capacity.

Considering the identified dysfunctions, a transformation of monetary management strategy is essential. This entails the integration of countercyclical regulatory elements, risk-oriented approaches to the formulation of banking resilience standards, and the implementation of cognitively adaptive models for forecasting the economic behavior of market actors. Emphasis should be placed on constructing an indicative monitoring system based on high-frequency macroeconomic indicators, which would enable timely responses to changes in the financial environment.

Overall, these findings highlight that while the NBU's policy achieved relative short-term success, it also created new risks for the financial system's long-term resilience. This underscores the need to revise regulatory strategy, integrate countercyclical instruments, adopt risk-oriented standards for banking stability, and apply advanced tools such as high-frequency monitoring and scenario modeling to guide policy decisions under uncertainty.

6. Conclusion

Overall, the NBU's monetary policy under financial destabilization requires a high degree of adaptability and an effective combination of regulatory instruments. A lack of flexibility in the central bank's response to crises may exacerbate negative effects, including inflationary instability, currency speculation, and credit contraction. The regulator must consider not only current macroeconomic indicators but also the structural characteristics of the banking system to avoid excessive pressure on the credit market and financial institutions. One of the key challenges for the central bank during crisis periods is balancing liquidity support for the banking system with control over the money supply. Excessively tight monetary policy can hinder economic recovery, while excessive easing may lead to an inflationary surge and a loss of confidence in the national currency. The regulatory strategy should therefore combine traditional instruments with innovative risk management approaches to strengthen long-term resilience and support the recovery of the banking sector.

To enhance the stability of monetary policy during prolonged financial destabilization, the National Bank of Ukraine should consider using international financial assistance strategically, not as direct budget support, but to strengthen foreign exchange reserves and provide targeted liquidity. Thus, international financing can be directed to sterilized foreign exchange interventions that strengthen currency stability without expanding the monetary base. In addition, the NBU should conduct selective refinancing operations using international resources structured as government securities to provide liquidity value. Such instruments allow commercial banks to access liquidity under strict risk control parameters, which will result in an overall mitigation of inflationary risks from liquidity injections into the banking system. Such a fund would help maintain monetary neutrality while simultaneously strengthening the stability of the financial sector.

The impact of monetary policy on Ukraine's banking system is evident in shifts in asset and liability structures, funding costs, and credit activity. Strict regulatory measures, including a high key policy rate and enhanced liquidity controls, have reduced banks' access to inexpensive resources, limiting their ability to lend to the real sector of the economy. Active foreign exchange interventions have also influenced deposit stability and increased dollarization, prompting banks to adjust risk management strategies. Under conditions of financial instability, banks focus on short-term operations and conservative instruments, which lowers profitability but enhances system resilience. The future efficiency of the banking sector will depend on the NBU's ability to establish predictable regulatory conditions and support a gradual recovery of credit activity without jeopardizing macroeconomic stability.

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