

коштів у НФП. Застосування запропонованого алгоритму проведення перевірок дозволить мінімізувати зауваження до НФП зі сторони НБУ під час проведення контрольно-перевірчої роботи (нагляду).

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## **BANK LOAN SUPPLY AND SUSTAINABLE ECONOMIC GROWTH**

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**Анотація.** Досліджено основні тенденції функціонування комерційних банків на кредитному ринку і особливості формування структури банківських активів. Систематизовано чинники впливу на кредитну активність банківської системи в умовах воєнного стану. Проаналізовано дії Національного банку щодо стимулювання роботи банківської системи з кредитування економіки і забезпечення стійкого економічного зростання.

**Ключові слова:** кредит, банк, депозитний сертифікат, кредитний портфель, процентна ставка, Національний банк України, банківська система.

**Abstract.** The main trends in the functioning of commercial banks on the credit market and the specific of the formation of the structure of bank assets are studied. Factors affecting the credit activity of the banking system under martial law are systematized. The actions of the National Bank in stimulating the work of the banking system in lending to the economy and ensuring sustainable economic growth are analyzed.

**Keywords:** credit, bank, certificate of deposit, loan portfolio, interest rate, National Bank of Ukraine, banking system.

**Introduction.** The difficult conditions of the economic situation in Ukraine during the period of martial law directly affected the activities of the banking system in terms of credit support for the production and consumer needs of all market participants. Large-scale military aggression had a comprehensive impact on all aspects of the economic life of society, including the credit activity of the banking sector. Therefore, the study of the main practical problems that arise in the field of bank lending to the real sector should be considered especially relevant, so that the functioning of banks under martial law is stable and maximally meets the needs of the national economy in credit resources.

**Analysis of the latest research.** The level of development of credit relations in the periods of previous crises is fundamentally different from the current one, because the scale of the impact of the war on the economy today cannot be compared and accurately assessed. Therefore, the main problems and trends in the organization of bank lending under martial law remain uncovered.

**Purpose.** The purpose of this study is to find out the main trends and problems of the organization of bank lending to the economy under martial law and to determine on this basis possible directions for optimizing credit relations between banks and customers.

**Results of the study.** The need for active credit support for businesses and households appeared long before the start of large-scale aggression, even in the context of the unfolding financial and economic crisis in Ukraine in 2014-2015. after the annexation of Crimea and the beginning of fighting in the east. And with the beginning of the war in 2022, this problem only worsened, as the internal resources of enterprises to restore production activity approached the minimum values. At the same time, even before the start of large-scale military aggression, the possibilities of obtaining a bank loan for business were characterized by a fairly high level of complexity. This was due to a number of objective factors, such as: 1) high interest rates on bank loans; 2) interest and commission payments could absorb almost all of the company's profits; 3) implementation of a restrained credit policy of commercial banks; 4) reluctance of banks to issue loans due to high risks of non-repayment.

As a result, over the past decade, the scale of credit support for the real sector of the economy has significantly decreased, which has affected the dynamics of production, gross domestic product and the well-being of society (Fig. 1).

At the same time, over the past decade, there has been a sharp increase in non-credit investments in the banking sector as part of the total portfolio of assets, in particular, investments of banking institutions in government securities, as well as certificates of deposit of the National Bank of Ukraine. The reason for this lies primarily in the implementation of the central bank's tight restrictive monetary policy to raise the discount rate, interest rates on NBU certificates of deposit, as well as yields on government securities. The NBU declares this as a means of effective control over inflation, which it sets as its priority goal [2]. However, as a result, the National Bank of Ukraine essentially negated the functions of the banking system as a financial intermediary. After all, by attracting funds from market participants, the banking sector does not issue loans to those enterprises or sectors of the economy that need them, but places the appropriate resources on NBU certificates of deposit, thereby accumulating significant amounts of excess liquidity.

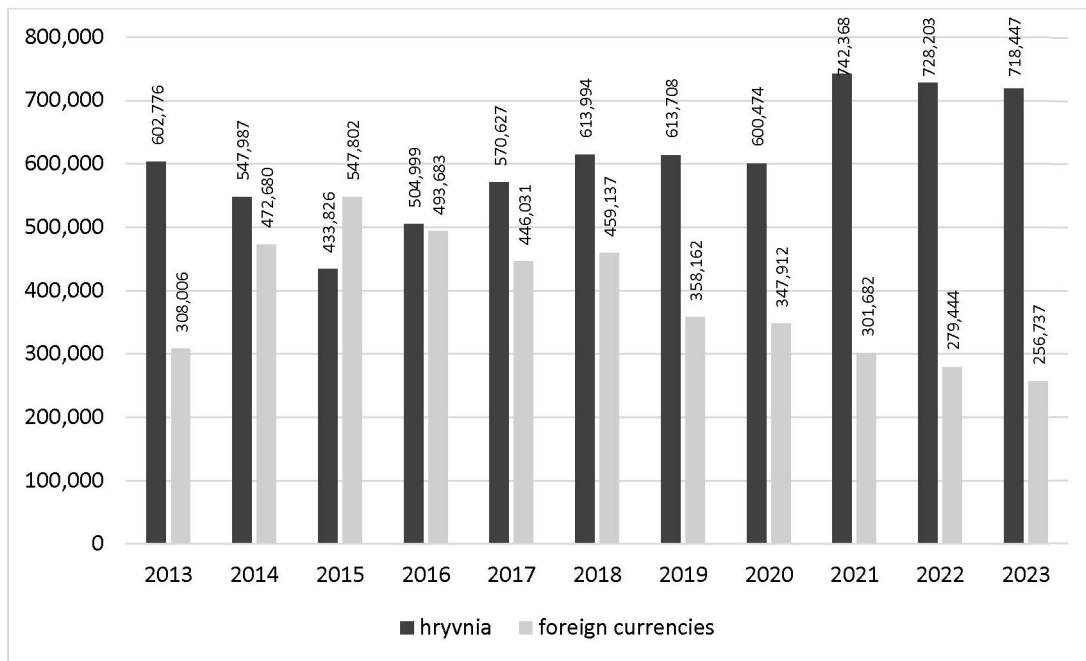


Fig.1. Loans granted by banks in national and foreign currencies, in millions of hryvnias [1]

As a result of the implementation of such monetary policy of the National Bank of Ukraine and the credit policy of commercial banks themselves, the structure of assets of the banking system has been distorted, when the share of the loan portfolio in the form of loans granted to business entities and individuals is only about a quarter of the total assets of banks. At the same time, bank funds invested in NBU certificates of deposit, placed on accounts with the NBU and other banks, as well as invested in government securities, together account for as much as 63.2% of the total portfolio of assets of the banking sector. This, in fact, may indicate the nullification of the fundamental function of banks regarding the organization of credit relations in society through financial intermediation and the transformation of savings into investments.

The National Bank of Ukraine explains this structure of assets of the banking sector by "low demand for loans during the war and continued inflow of customer funds to banks" [3]. However, it should be understood that in practice it was not only the war that influenced the formation of such a structure of banking assets. The fact is that as a result of the NBU's strict restrictive policy to raise the discount rate, interest rates on NBU certificates of deposit, as well as the yield on government securities, transactions with government securities began to dominate in the portfolio of assets of commercial banks.

The certificate of deposit of the National Bank is a tool for placing temporarily free monetary resources of commercial banks on a correspondent account with the National Bank of Ukraine. Its yield is pegged to the key policy rate and is 2 percentage points below its level. In addition, a significant increase in the risks of lending to the real sector in the context of the economic crisis during the war also became a significant factor in stimulating commercial banks to increase the volume of such "non-credit" investments. And this is not surprising in conditions when the interest rate on the NBU's certificates of deposit is tied to a high discount rate.

As a result of setting high interest rates on certificates of deposit, which guarantee banks virtually risk-free investments with a high rate of return, the National Bank of Ukraine has essentially destroyed the functions of the banking sector as a financial intermediary. After all, by attracting funds from market entities, the banking system does not issue loans to those

enterprises or sectors of the economy that need them, but places monetary resources on certificates of deposit, thereby accumulating significant amounts of excess liquidity. As a result, today commercial banks keep almost half a trillion hryvnias on correspondent accounts and in NBU certificates of deposit. In other words, despite the difficult situation in the economy provoked by the war, the volume of excess liquidity in the banking sector is only growing.

To facilitate the intensification of lending to the economy, the National Bank of Ukraine has taken some easing measures regarding the regulatory policy on credit risk assessment. In particular, some additional relaxation of the requirements for banks' assessment of credit risk was introduced, which was supposed to encourage commercial banks to restructure loans in a timely manner to support solvent debtors. In addition, in order to remedy the situation and maintain access to loans, the government has slightly expanded state support programs. They allowed small borrowers to get cheap loans, and commercial banks to reduce credit risks. The key driver of such hryvnia corporate lending is the state-launched program to support banks' lending activity "Affordable Loans 5-7-9%".

Nevertheless, high risks and the availability of alternative directions for banks to invest funds in the recent period have led to the actual redirection of cash flows from the real sector to the public administration sector. A dangerous situation arises in the economy related to the redistribution of credit resources in favor of the state or securities issued by the central bank. As a result, there is an artificial shortage of funds in the real sector, which has affected the performance of enterprises. This, in turn, has become one of the factors of a significant deterioration in the quality of banks' loan portfolios, which already account for a smaller share of the total assets of the banking system.

The growth of NPLs in the total loan portfolio is quite natural, because in the conditions of war, the destruction of assets and collateral, the fall in the incomes of almost all market participants and the deterioration of the solvency of borrowers reduce their ability to repay bank loans, reduce the quality of banks' loan portfolios and increase allocations to bank reserves. It should not be forgotten that with the outbreak of a large-scale war, most commercial banks announced "loan repayment holidays", in particular, they extended the repayment of loans and abolished penalties for late payments on loans.

It is important that in addition to the quantitative increase in the volume of lending to enterprises, it is necessary to improve the quality of such credit support by banks in the real sector. After all, the current structure of the loan portfolio of commercial banks in Ukraine is focused on areas with rapid capital movements, rather than on industries that can become the basis for creating added value and stimulating the development of the Ukrainian economy on an innovative, long-term basis.

A separate negative point among the significant problems of bank lending in Ukraine, related to the structure of the loan portfolio of the banking sector, is also the predominantly short-term nature of the loans granted. These circumstances significantly limit the investment potential of the economy, as they do not allow market participants to formulate long-term strategic goals for their development and build an effective business plan for a relatively long term, being confident in the availability of stable sources of funds to ensure the continuity of production activities. This means that the credit policy of banks today is focused on lending to those activities that have a relatively short operating cycle, or those industries in which production is characterized by a fairly low level of added value.

The NBU's monetary policy is not conducive to intensifying lending to the real sector, as price stability is one of the NBU's goals set by law, and ensuring economic growth and supporting government initiatives can only be done when it does not contradict the top

priority. Under such conditions, the anti-inflationary orientation of the NBU's monetary policy essentially acts not as a driver of economic growth, but as a brake on it, which should be regulated at the legislative level, based on the peculiarities of economic development under martial law.

As for the practical aspects of the NBU's monetary policy, given that non-monetary factors have had a major impact on the dynamics of inflationary processes in Ukraine for a long time, raising the NBU's key policy rate should be considered ineffective in terms of overcoming inflationary pressures. This also restricts credit injections into the real sector, which generally has an extremely negative impact on the recovery of the national economy.

These circumstances determine the objective need to implement economic policy measures to intensify bank lending to the real sector, the main among which are the following.

First, there should be a change in the strategic guidelines of the monetary policy of the National Bank of Ukraine, when, in order to achieve the declared inflation targets, extremely high interest rates are set on refinancing loans and on certificates of deposit, which prevents the investment of banking resources in enterprises of the real sector.

Secondly, it is necessary to develop mechanisms for targeted long-term refinancing of commercial banks, which is an important direction of optimization of monetary policy, which could allow, in conditions of low confidence in banks to place funds in them for long periods, to create a long-term resource base for lending to large-scale investment projects.

Thirdly, it is necessary to use fiscal mechanisms to stimulate lending to the real sector, which means the provision of state guarantees for loans from commercial banks, compensation of interest rates and the introduction of tax holidays, which reduces the debt burden on enterprises, especially small and medium-sized businesses, and, thus, creates appropriate conditions for their development.

Fourthly, it is necessary to take measures to deregulate the banking system of Ukraine, since the current model is not of particular interest to international banking groups as potential investors in the industry.

**Conclusions and prospects for further research.** Maintaining at least a minimum level of economic development under martial law is impossible without the banks fully performing their key function of financial intermediation, when funds are effectively redistributed to the real sector on the basis of credit, meeting the requirements of enterprises in the necessary monetary resources and creating the basic prerequisites for maintaining production activity and employment, which in the current crisis circumstances is a decisive factor in social security and stability. Intensification of bank lending to the real sector depends not only on the credit policy of commercial banks themselves, but is possible only if adequate decisions are made at the macro level, i.e. the state economic policy – through the appropriate regulatory influence of the National Bank of Ukraine and the government. Prospects for further research on ways to intensify bank lending to the real sector may relate to the macroeconomic prerequisites for the effective functioning of the credit mechanism.

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