

Finance, banking and insurance

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DYNAMICS OF UKRAINIAN BANKS’ REFINANCING DURING INFLATION TARGETING

Summary. *Inflation targeting as a mode of monetary policy requires new approaches to the implementation of traditional monetary instruments, and to a profound analysis of the results of their implementation. One of the modern and necessary monetary instruments is the banks’ refinancing, because by its help the NBU regulates the liquidity of the banking system in general and of banks in particular, the cost of credit resources, contributes to the stability of money turnover.*

The essence, features and mechanism of refinancing are the subject of research of many scientists, but insufficient attention has been paid to the current conditions (during inflation targeting) of its implementation. The main purpose of the article was to analyze the volumes, cost and structure of the NBU's refinancing operations. In particular, during the research were planned solution of such tasks: detailed review of the regulatory framework and the separation of operations that the NBU assigns to refinancing operations; analysis of the dynamics of interest rates on refinancing operations in the period of inflation targeting; analysis of the dynamics and structure of the NBU's refinancing operations in the period of inflation targeting revealing historical patterns.

For the analyzed period there is the tendency to decrease interest rates on the NBU's refinancing operations. This is due to reduction of the NBU's interest rate to which interest rates on refinancing operations are «tied». For the inflation targeting period the largest volume of refinancing was granted to Ukrainian banks in 2018, although, if current dynamics are maintained in 2020, there will be the likelihood of exceeding refinancing at the end of the year. The structure of the NBU's refinancing operations has changed in the direction of dominance of overnight loans in 2018 and 2020. The existing changes in the structure of the NBU's refinancing operations are the sign of the development of this monetary instrument, the change of its priority goals due to changes in the state of the banking system of Ukraine in particular and the economic situation in the country in general.

In perspective the main directions of the NBU's refinancing operations perfecting are improvement of the regulatory framework and the mechanism of refinancing for each separate operation; improvement of the monitoring system for the use of credit resource obtained in accordance with refinancing operations for the sake of inhibiting speculative actions in general and on the interbank foreign exchange market in particular.

Key words: *bank, refinancing, National Bank of Ukraine, inflation targeting, monetary policy*

Statement of the problem. Monetary policy as an element of nationwide policy promotes to ensure the stability of the national currency by using various monetary instruments. One of the most modern and necessary monetary instruments is the banks' refinancing by the National Bank of Ukraine (NBU). Using refinancing loans banks can maintain the adequate level of their liquidity and the liquidity of the banking system in general, multiply lending, promote stability providing calculations between business entities, etc. For central banks, refinancing is non-cash issue channel and a means for preventing bank panic. Due to this monetary instrument the NBU as the central bank discloses the function of a lender of last instance.

That is why in the current conditions of socio-economic instability the research of such monetary instrument as refinancing is particularly relevant.

Analysis of recent researches and publications. In many aspects the state, problems and mechanisms of refinancing have been highlighted in the works of many scientists. Ye. V. Shepel [10, p. 772-775], S. S. Poliakh [9, p. 24-33], N. P. Shulha [12, p. 78-87] are investigating refinancing. O. M. Kuzmak [7, p. 193-195] investigates refinancing as an effective instrument of money market. V. Shevchuk [11, p. 12-16] reveals the essence and tendencies of development of the refinancing system of Ukrainian banks. The real state of refinancing of the Ukrainian banking system is considered by H. I. Bashnianyn, V. A. Sydorenko and M. B. Liulyk [1, p. 173-177], they assume that refinancing is an effective method of fast-moving support for banks' liquidity, but still not the only source of cheap loans. Similar in its essence is research of L. O. Vdovenko [15, p. 7-17], in which the main problem of the Ukrainian banking system were identified and recommendations for ensuring its stability were proposed. Prospects for modernization of refinancing operations are analyzed by O. V. Metlushko [8, p.

131-135], who offered new refinancing scheme without attraction funds from the NBU. The refinancing experience of the world's leading countries is reviewed by M. Ya. Boldin [2, p. 84-94]. S. B. Yehorycheva, S. P. Prasolova [16, p. 249-259] and L. Ya. Bublyk [3, p. 76-81] offer ways to improve the refinancing process after the banking crisis. Own researches [4, 5, 6] are based on analysing the impact of refinancing on Ukrainian macroeconomic indicators, however, no detailed attention has been given to refinancing operations in terms of inflation targeting. So, such research is actual because neither in the scientific literature nor in own researches it hasn't enough attention.

Formulation purposes of article (problem). The main purpose of the article is to analyze the volumes, cost and structure of the NBU's refinancing operations. In particular, during the research are planned solutions of such tasks: detailed review of the regulatory framework and the separation of operations that the NBU assigns to refinancing operations; analysis of the dynamics of interest rates on refinancing operations; analysis of the dynamics and structure of the NBU's refinancing operations with revealing historical patterns.

The main material. Refinancing is the process of replenishing banks with additional reserves by the NBU on a credit basis secured by certain assets in order to regulate banks' liquidity. The banks are the initiators for implementing this monetary instrument. They address to the central bank in case it is impossible to renew their reserves from other sources [4].

The NBU's refinancing operations have undergone significant changes during inflation targeting. According to the Resolution of the NBU "On approval of the Regulations on application National Bank of Ukraine standard instruments regulation of banking system liquidity" dated September 17, 2015 No. 615, refinancing operations include [13]:

- 1) regulating and permanent:

- overnight loans – refinancing operations, which are carried out by granting loans to banks until the next business day in order to regulate current banks' liquidity;
 - weekly tenders – refinancing operations, which are carried out by the results of tenders for maintaining liquidity for up to 14 days and for up to 90 days in order to regulate short- and medium-term banks' liquidity;
- 2) regulating and fine-tuning (in addition to regulating and permanent):
- REPO operations – the NBU's irregular operations, which are aimed at balancing unexpected fluctuations of banks' liquidity in order to regulate short- and medium-term banks' liquidity;
 - extraordinary tenders – refinancing operations, which are carried out depending on the market situation (if necessary) in order to regulate short- and medium-term banks' liquidity;
 - long-term refinancing – refinancing operations, which are aimed at regulation the long-term banks' liquidity (from 1 to 5 years);
- 3) specific:
- emergency support of banks' liquidity (if other tools are already exhausted) – refinancing operations, which are used in order to payment temporary shortage of banks' liquidity that have an impact on the stability of the financial system;
 - support of the Deposit Guarantee Fund's liquidity – refinancing operations, which are used in order to payment temporary shortage of funds of the Deposit Guarantee Fund.

From March 19, 2020 in connection with the COVID-19 pandemic, the NBU began to apply long-term refinancing through stabilization loans by the term of 1 to 5 years, which haven't been used in practice before, although such monetary instrument was provided. However, interest rate dynamics for long-term refinancing is characterized by considerable volatility. The dynamics of interest rates on NBU's refinancing operations are shown in Table 1.

Table 1

Dynamics of interest rates on NBU's refinancing operations for 2016-2020

Period	NBU interest rate, %	Weighted average rate on all loans, %	Including		
			Loans by tender, %	Overnight loans, %	Other mechanisms, %
2016	14.0	17.36	17.73	18.55	16.0
2017	14.5	15.92	15.72	16.03	-
2018	18.0	19.22	19.65	19.12	-
2019	13.5	18.35	17.50	19.71	-
2020 January	11.0	12.91	12.64	13.00	-
2020 February	11.0	11.96	11.00	13.00	-
2020 March	10.0	11.00	10.00	12.00	-

Source: compiled by authors according to [14]

During the analyzed period, which directly reflects the period of inflation targeting practical implementation in Ukraine, there is the tendency to decrease interest rates on NBU's refinancing operations. This is due to reduction of the NBU's interest rate to which interest rates on refinancing operations are «tied». The reduction of the interest rate stimulates the banking business and the economic growth of the country, because there is the direct correlation between the cost of credit resources offered by the NBU for banks and credit resources offered by banks for economic entities. Despite the expansion COVID-19 on the territory of Ukraine from March 2020 the NBU henceforth expects to reduce the interest rate to 7% by the end of 2020 [14].

The dynamics and structure of NBU's refinancing operations are shown in Table 2.

Table 2

Dynamics and structure of NBU's refinancing operations for 2016-2020

Period	Total loans, million UAH	Loans by tender, million UAH	Share of loans by tender, %	Overnight loans, million UAH	Share of overnight loans, %
2016	51,265.3	32,377.7	63.2	18,393.7	35.9
2017	41,258.9	12,799.3	31.02	22,933.2	55.6
2018	181,172.8	36,568.5	20.2	144,604.3	79.8
2019	102,037.5	62,731.1	61.5	39,274.8	38.5
31.03.2020	52,944.9	18,286.8	34.5	34,658.1	65.5

Source: compiled by authors according to [14]

As we can see, during inflation targeting the largest volume of refinancing was granted to Ukrainian banks in 2018, although, if current dynamics are maintained in 2020, there will be the likelihood of exceeding refinancing at the end of the year. The structure of refinancing operations in 2018 and 2020 is also similar (unlike the other analyzed years). Considering that 2018 is characterized by restrictive monetary policy and effective banking, we can expect the similar situation in 2020.

According to the NBU's data in 2018 five banks received refinancing loans by the term more than 30 days, namely: JSB «UKRGASBANK» – 6,000 million UAH, JSC «Ukreximbank» – 2,900 million UAH, PJSC CB «PRIVATBANK» – 2,300 million UAH, JSC «ALFA-BANK» – 835 million UAH, Joint-stock bank «Pivdennyi» – 480 million UAH. The total amount of refinancing received by the five banks amounted to 12,515 million UAH (6.91%) [14].

During 2016-2018 the NBU increased interest rate and realized restrictive monetary policy. At the same time the overall amount of credit resources was decreasing, as lending was much more risky. In 2019 the NBU's interest rate began to decline, as the tempo of inflation slowed and the macroeconomic situation in Ukraine became better. Even in COVID-19 spread (that most likely will lead to a new economic crisis not only in Ukraine but in the world too) the NBU continues to make monetary policy more expansive, although it is not excluded that macroeconomic forecasts will change soon and the NBU's monetary policy will also change.

It should be noted that banks don't always use refinancing loans effectively and by appointment, and involve them in speculative transactions in the interbank foreign exchange market, that increases the hryvnia devaluation [6, p. 819-822].

The dynamics of the share of loans by tender and overnight loans is interesting. In particular, if in 2016 the share of loans by tender was 63.2% and overnight loans – 35.9%, then in 2018 the shares were respectively 20.2% and 79/8%. This is explained by the fact that banks needed additional funds to ensure

current liquidity and comply with the NBU's standards. The existing changes in the structure of the NBU's refinancing operations are the sign of this monetary instrument development, of changes in its priority goals due to changes in the state of the Ukrainian banking system in particular and the economic situation in the country in general.

Conclusions. According to the research results we can conclude that the NBU has the powerful toolkit for refinancing operations, but its practical implementation has some disadvantages. In perspective the main directions of the NBU's refinancing operations perfecting are improvement of the regulatory framework and the mechanism of refinancing for each separate operation; improvement of the monitoring system for the use of credit resource obtained in accordance with refinancing operations for the sake of inhibiting speculative actions in general and on the interbank foreign exchange market in particular. After all, in the conditions of floating exchange rate and unstable economic situation, there are all opportunities for additional incomes through currency speculation.

Insights from this study and perspectives for further research in this direction. In future researches it is advisable to focus on alternative methods of banks' financing, in particular, without the NBU's participation, and on developing a model of effective refinancing that considers both the benefits for banks and the economy in general.

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