ENSURING FINANCIAL SECURITY THROUGH MONETARY POLICY

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Abstract: The paper studies the place and degree of the monetary component's influence on the level of financial security of the state in the conditions of political and socio-economic imbalances in the development of Ukraine. The aim of the research is to investigate the effectiveness of monetary policy instruments, to determine the level of the monetary component's impact on the financial security of the state, as well as to form perspectives for balancing the symbiosis of "monetary policy and national financial security". Based on the conducted research, it is established that in recent years the role of the financial security system formation at all levels has significantly increased, whether it is macroeconomic security, the security of economical subjects, or the financial security of a household.

Keywords: monetary policy, financial security, threats, monetary instruments and methods, Financial Stress Index, policies coordination

- Monetary policy is a set of actions to control a nation's overall money supply and achieve economic growth.
- Monetary policy strategies include revising interest rates and changing bank reserve requirements.
- Monetary policy is commonly classified as either expansionary or contractionary.
- The Federal Reserve commonly uses three strategies for monetary policy including reserve requirements, the discount rate, and open market operations.

- Authorities can manipulate the reserve requirements, the funds that banks must retain as a proportion of the deposits made by their customers to ensure that they can meet their liabilities.
- Lowering this reserve requirement releases more capital for the banks to offer loans or buy other assets. Increasing the requirement curtails bank lending and slows growth.
- Monetary Policy vs. Fiscal Policy
- Monetary policy is enacted by a central bank to sustain a level economy and keep unemployment low, protect the value of the currency, and maintain economic growth. By manipulating interest rates or reserve requirements, or through open market operations, a central bank affects borrowing, spending, and savings rates.
- Fiscal policy is an additional tool used by governments and not central banks. While the Federal Reserve can influence the supply of money in the economy, The U.S. Treasury Department can create new money and implement new tax policies. It sends money, directly or indirectly, into the economy to increase spending and spur growth.
- Both monetary and fiscal tools were coordinated efforts in a series of government and Federal Reserve programs launched in response to the COVID-19 pandemic.

Financial security is the main indicator of socioeconomic development and wealth in any country. Currently, in the conditions of martial law in Ukraine, this direction is becoming more and more relevant for research. In recent years, the role of the formation of the financial security system at all levels has significantly increased, whether it is macroeconomic security, the security of economic subjects, or the financial security of an individual household. The specified problem remains one of the main and, accordingly, the most urgent in the modern conditions of the socioeconomic and political development of Ukraine. On the one hand, it is obviously important and necessary to ensure the financial security of the state, and on the other hand, many of its aspects are beyond the bounds of comprehensive systemic understanding and even more effective

implementation practice. In this aspect, it is worth noting that the monetary component plays a significant role in ensuring the financial security of the state, namely, it affects macroeconomic processes in the country (inflation level and rates, economic dynamics, financial market conditions). Therefore, in order to ensure macroeconomic stabilization, effective economic growth in the context of ensuring the financial security of Ukraine in the conditions of martial law, it is necessary to improve the mechanisms of monetary policy. The analysis of relevant literature on the impact of monetary policy on the level of financial security of a country gives grounds to claim that the concept of financial security of a country is not considered in the publications of foreign economists. It is associated with uncertainty and risks inherent in one or another cycle of the socio-economic development of the state. At the same time, monetary factors of macroeconomic development are studied as the main paradigm. Thus, Yang Hu investigated the relationship and influence of monetary and other economic policies uncertainties on US materials from 1986 to 2022 (Hu Yang et al., 2022). The significant influence of monetary policy uncertainty on the emergence of six factors of uncertainty related to politics, namely taxes, public expenditures, health care, national security, social programs and law enforcement agencies, has been proven. It was established that considering the medium- and long-term impact of monetary policy during the formation of an economic strategy allows to significantly minimize the transfer of risks from the monetary sphere to other branches. The authors of the paper (Bianchi, J., Bigio, S., 2022), using the example of the GFC of 2008, built a balancing model of non-systematic transfer of deposits between banks using refinancing operations. The authors proved the importance of considering the problems with banks' liquidity and the peculiarities of interbank lending in order to prevent full-scale bankruptcies. Scholars Yifei Wang, Toni M. Whited, Yufeng Wu and Kairong Xiao conducted an assessment of the impact of bank regulatory bodies on the effectiveness of monetary transmission (Wang, Y. et al., 2022) [3]. They proved that the actions of supervision authorities in the banking sector in many cases explain the transfer of monetary policy impulses to borrowers, which can be

compared with the effectiveness of bank capital regulation. At the same time, it is emphasized that at lowinterest rates bank regulatory bodies will transform bank capital supervision, which is ultimately ineffective. Dario Caldara and Edward Herbst considered the impact of monetary shocks on economic activity (Caldara, D., Herbst, E., 2019). The authors prove that monetary policy shocks significantly suppress real economic activity and financial climate. The main component of this influence is corporate lending spreads, which must be considered an endogenous variable in the formation of monetary policy. José-Luis Peydróa, Andrea Polob and Enrico Settec using the example of Italy considered the breach of monetary transmission as a result of the banks' imbalance of their own portfolios in favour of securities (Peydróa, José-Luis et al., 2021). Researchers argue that during a crisis, central bank liquidity is higher, so banks respond by increasing the supply of securities instead of lending. At the same time, the transition from lending to investing in securities allows banks to renew full-fledged lending already a year after the end of the crisis. The analysis of scientific publications on the issues under this study has proven the clearly defined nature of the influence of monetary policy on the financial security of a state. This is because, for Ukraine, financial security plays a key role in maintaining its external competitiveness, which is ensured by regulation and balancing of monetary policy decisions, especially during martial law. Thus, among the scientific developments on this issue, the works of O. Sharov (Sharov, O., The analysis of relevant literature on the impact of monetary policy on the level of financial security of a country gives grounds to claim that the concept of financial security of a country is not considered in the publications of foreign economists. It is associated with uncertainty and risks inherent in one or another cycle of the socio-economic development of the state. At the same time, monetary factors of macroeconomic development are studied as the main paradigm. Thus, Yang Hu investigated the relationship and influence of monetary and other economic policies uncertainties on US materials from 1986 to 2022 (Hu Yang et al., 2022) . The significant influence of monetary policy uncertainty on the emergence of six factors of uncertainty related to politics, namely taxes, public expenditures, health care, national

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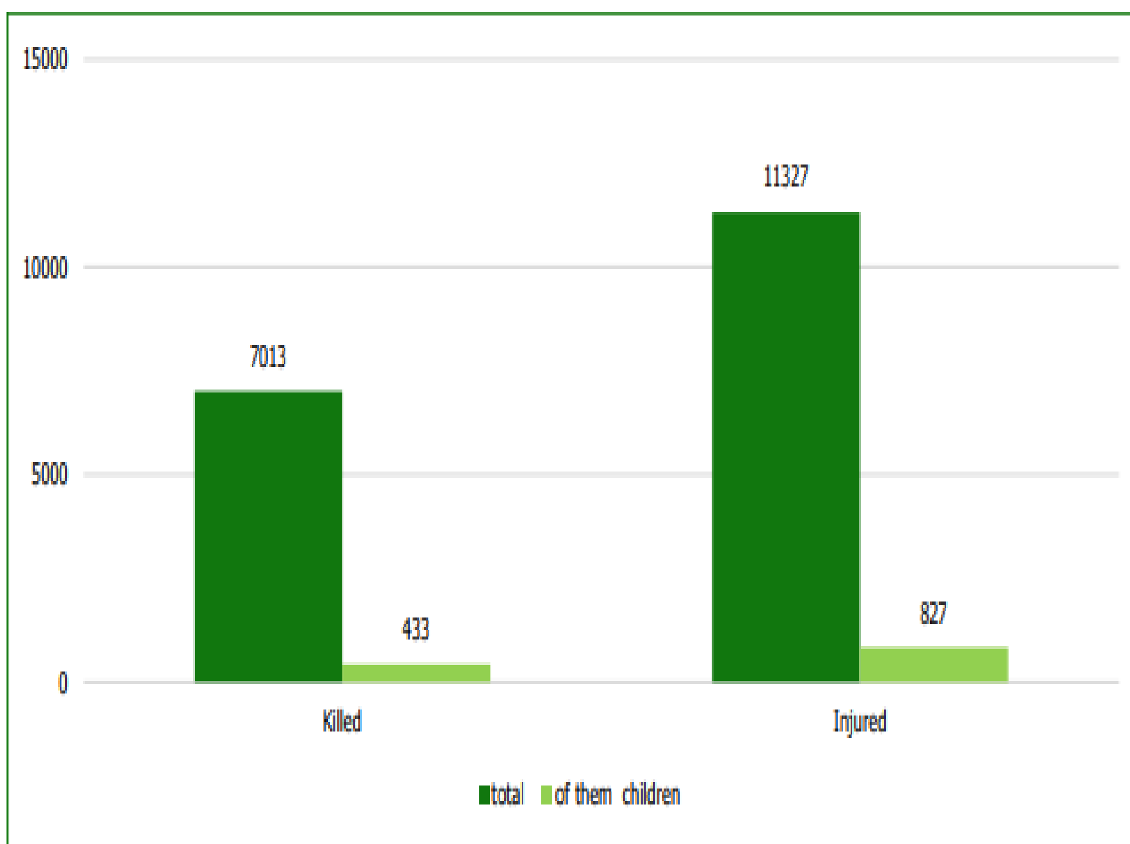

Figure 1. The number of victims among the civilian population in Ukraine during russian invasion, as of January 15, 2023. *(Source: [13])*

One of the newest threats is precisely the consequences of the russian military aggression on the development of Ukraine's economy. Attention should be paid to the number of dead in Ukraine, who were potentially involved in the creation of added value; their death or injuries create additional state costs for their burial and treatment (Figure 1).

The financial security of the state reflects a key role in overall national security. In turn, it includes the following sub-levels of security, namely: budget security, debt security, insurance and stock market security, and monetary security as well. Among the

subspecies of financial security, monetary security has the greatest impact, the provision of which is aimed at ensuring the stability of the domestic currency, availability of loans, low inflation, the level of growth of the population's income and economic growth of the country. The monetary component of financial security is an important instrument for ensuring it and exerts a powerful influence on economic processes in the state and contributes to effective money circulation, stable functioning of the banking and foreign currency systems, credit and investment market, and reproduction of added value in production. However, an unbalanced monetary policy disrupts the flow of income and expenses, and causes sharp fluctuations in production volumes, unemployment growth, and price instability. Inefficient monetary policy is the main indicator of the emergence of financial and economic crises, and therefore is a threat to the financial security of the state. Today, there are new threats that lead to a negative impact of the monetary component on the financial security of the state.

These include the consequences of the russian military aggression on the development of the economy of Ukraine, continuing outbreaks of COVID-19, the introduction of administrative restrictions on the use of monetary policy instruments by NBU, violations of the economic security of financial institutions, and an insufficient level of financial inclusion. Most importantly, it is the continuing contradictory nature of monetary and fiscal policy coordination. To justify which indicators of the monetary component of the state's financial security have the most significant influence, an econometric model was built, which is based on the definition of those indicators of the monetary component that prove the amplitude dynamics of the How Often Does Monetary Policy Change?

The Federal Open Market Committee of the Federal Reserve meets eight times a year to determine changes to the nation's monetary policies. The Federal Reserve may also act in an emergency as was evident during the 2007-2008 economic crisis and the COVID-19 pandemic.

How Has Monetary Policy Been Used to Curb Inflation In the United States?

A contractionary policy can slow economic growth and even increase unemployment but is often seen as necessary to level the economy and keep prices in check. During double-digit inflation in the 1980s, the Federal Reserve raised its benchmark interest rate to 20%. Though the effect of high rates spurred a recession, inflation was reduced to a range of 3% to 4% over the following years.3

Why Is the Federal Reserve Called a Lender of Last Resort?

The Fed also serves the role of lender of last resort, providing banks with liquidity and regulatory scrutiny to prevent them from failing and creating financial panic in the economy.4

The Bottom Line

Monetary policy employs tools used by central bankers to keep a nation's economy stable while limiting inflation and unemployment. Expansionary monetary policy stimulates a receding economy and contractionary monetary policy slows down an inflationary economy. A nation's monetary policy is often coordinated with its fiscal policy.

Financial Stress Index. Based on the results of the research, it was established that such indicators include producer prices, NBU key policy rate and the share of NPL, the cash-to-GDP ratio and the share of the currency component in M3. Therefore, when choosing the measures and methods of modern monetary policy, their dynamism should be taken into account in order to ensure the financial security of the state according to such vectors as a gradual decrease in the rate and level of inflation, the achievement of a high level of employment, maintaining the stability of the domestic currency, interest rates and the stability of the functioning of the financial market.

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