ODESA I.I. MECHNIKOV NATIONAL UNIVERSITY FACULTY OF ECONOMICS AND LAW DEPARTMENT OF MANAGEMENT AND INNOVATIONS

Qualification project (thesis)

for obtaining the degree of higher education "master"

«Monetary Policy as a Direction of National Economy Management: Peculiarities of Implementation in Ukraine and China»

«Монетарна політика як напрям управління національною економікою: особливості реалізації в Україні та Китаї»

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CONTENT

INTRODUCTION

Relevance of the topic. In the current context of transformations taking place in the economies and financial systems of countries around the world, the issue of formulating and implementing monetary policy is of particular relevance, as its effective functioning depends on creating favourable conditions for economic growth, formation and distribution of financial resources and services, accumulation of investment capital, as well as growth of other macroeconomic and monetary indicators for effective management of the national economy. Given the challenging realities of today, namely rising inflation, an increase in the state budget deficit, the war with Russia, the COVID-19 pandemic, excessive growth of the money supply, and a decrease in the gold and foreign exchange reserves, the effective use of monetary levers for economic development is of particular relevance. The study of existing and the search for new effective levers and forms of monetary policy implementation, as well as changes in the basic conditions for the functioning of the national economies of Ukraine and China, are becoming a challenge for improving the efficiency of monetary regulation of national economies.

The relevance of the topic of the thesis is due to the significant scientific contribution to theoretical and applied problems of researching the development of monetary policy concepts and its role in economic management by leading foreign and domestic scholars, in particular: Adam Smith, Alfred Marshall, John Keynes, Thorstein Veblen, Milton Friedman, Bilyk O., Barannik L.B., Bidiuk V.D., Tarangul V.I., Vdovychenko A., Goncharenko O.M., Grigorieva O.V., Nozhenko T.S., Hashchyshchyn A, Hrytsiuk I.V., Korneev O.V., Zakharchenko V.I., Koroviy V.V., Krukovets O., Pasichnyi M.D., Yao Changhui, Lu Suiqi, Xiang Gao, Li Genwei, Zhou Zichang, Wang Qingfeng, Shen Zhonghua, Yu Wenwu, Cui Dianchao and others.

The purpose and objectives of the study. The purpose of the study is to examine the theoretical and practical aspects of monetary policy as an instrument of economic management and economic development, to assess its effectiveness and to provide recommendations for its improvement.

This goal necessitated the following research objectives:

- define the essence of monetary policy;
- to present the monetary policy instruments of the central banks of Ukraine and China;
- to analyse the global experience of the effectiveness of monetary policy in managing the national economy;
- to analyse the challenges and achievements for monetary policy in Ukraine;
- to present the features and evolution of monetary policy in China;
- to conduct a comparative analysis of monetary policy frameworks in Ukraine and China;
- to present ways to improve the use of monetary instruments to stimulate economic development in China;
- to substantiate strategies for adapting monetary policy for Ukraine and identify directions for its development.

Object and subject of the study. The object of the study is the monetary policy of Ukraine and China.

The subject of the study is theoretical concepts and practical aspects of monetary policy as an instrument for managing the national economies of Ukraine and China.

Research methods. In the course of the study of fiscal and monetary levers of economic development, the following methods were used: economic analysis - to identify patterns and trends in the development of economic processes, as well as to identify and assess the main factors that positively or negatively affect performance indicators; system analysis - to study the object of research by individual components;

comparison - to establish differences and common features in the studied processes; abstraction - to form conclusions based on the conducted research.

The information base of the study includes legislative and regulatory acts of Ukraine, reporting data of the National Bank of Ukraine and the Ministry of Finance of Ukraine, the People's Bank of China, the International Monetary Fund, the World Bank, scientific publications of domestic and foreign scholars, and statistical data.

***Results approval and publication*.** The materials of the qualification project were represented at the 80th reporting student scientific conference of the ELF ONU I.I. Mechnikov (April 23-25, 2024, Odesa).

Structure and scope of the work. The thesis consists of an introduction, three chapters, conclusions, and a list of references. The total volume of the work is 58 pages. The work contains 2 tables and 5 figures. The list of references includes 51 items.

CHAPTER 1
THEORETICAL FOUNDATIONS OF MONETARY POLICY AS A TOOL OF NATIONAL ECONOMIC MANAGEMENT

1.1. Concept and Essence of Monetary Policy

The foundations of economic growth in the country are formed by such factors as the stability of the national currency, control of inflation, intensification of credit relations, ensuring the effective performance of its functions by the financial and credit system and stimulating production. In this context, monetary policy plays an important role as a component of the state's economic policy, which is designed to manage interest rates, money supply, and the exchange rate. In order to achieve the task set for monetary policy, as well as to clarify its role in ensuring the country's economic growth, a deep scientific approach to understanding the essence of the concept of "monetary policy" is required.

The article examines the scientific and methodological approaches that have developed in foreign and domestic science to the interpretation of the essence of the concept of "monetary policy". Today, in the financial and economic scientific literature, there are many definitions and approaches to interpreting the essence of the concept of "monetary policy".

Yao Changhui and Lu Suiqi believe that monetary policy is a set of forms and means of state influence on the supply of money in order to ensure a balance between the supply of money and demand for it [1, p. 554]. According to Xiang Gao , monetary policy is an important set of measures in the field of money circulation and credit aimed at performing the functions of the central bank and ensuring the solvency of the monetary system [2, p. 109].

According to foreign scholars E. J. Dolan, C. D. Campbell and R. J. Campbell, monetary policy is a government policy of influencing the amount of money in circulation [3, p. 19].

Li Gengwei considers monetary policy as a set of measures of influence of the state, represented by the central bank, on the course of economic processes in the field of money circulation and credit aimed at ensuring the efficient functioning of the economy and stability of the national monetary system [4, p. 41].

Zhou Zichang and Wang Qingfeng consider monetary policy to be a set of interrelated measures to regulate money circulation, coordinated to achieve predefined social goals, carried out by the state through the central bank [5, p. 38].

According to Shen Zhonghua , monetary policy, on the one hand, is the state regulation of the sphere of money circulation and credit relations, and on the other hand, it is a set of economic and administrative measures of the state and the National Bank aimed at using economic instruments of the monetary mechanism to influence the monetary market participants in order to stabilise the national currency, regulate the money supply, liquidity and creditworthiness of banks.

Yu Wenwu considers monetary policy as a part of the state's economic policy, a set of legislative and regulatory acts, budgetary and tax, other monetary instruments, institutions and measures of state power, which, in accordance with the law, have the authority to form and use the financial resources of the state and regulate financial and credit flows in the sectors of the economy in accordance with the strategic and tactical goals of the state economic policy [6, p. 66].

Thus, the systematisation of existing scientific and methodological approaches allowed us to conclude that there are two approaches to the definition of the concept of "monetary policy":

- the most general understanding of it, i.e. as a component of economic policy;

- Interpretation of monetary policy as a set of measures in the area of money circulation and credit.

In Ukrainian science, the state monetary policy is a set of measures to regulate the money market in order to provide the economy with money supply and maintain the stability of the national currency as a prerequisite for achieving macroeconomic equilibrium [8]. Given the variety of existing interpretations of "monetary policy" in theoretical and applied works [9; 10; 11; 12], we have summarised the following definition: monetary policy is a set of coordinated and interrelated measures aimed at regulating the money market and carried out to achieve predefined socio-economic goals. This policy is implemented through the Central Bank of Ukraine. The main measures in this area include, in particular: currency, exchange rate, emission and credit policies of the state, as well as the policy of regulating the balance of payments and managing the country's gold and foreign exchange reserves [13, p. 501]. The Law of Ukraine "On the National Bank of Ukraine" states that monetary policy is a set of measures in the field of money circulation and credit aimed at regulating economic growth, curbing inflation and ensuring the stability of the Ukrainian currency, providing employment and balancing the balance of payments " [14]. The most common interpretation of monetary policy is that it is a set of regulatory measures implemented by the National Bank of Ukraine or with its participation and carried out through the money market in all its forms. The NBU plays a decisive role in shaping the country's monetary policy, and, in accordance with Article 100 of the Constitution of Ukraine, is responsible to the public for the state of monetary policy. The main objectives of the state's economic policy include ensuring stable growth of the national economy, maintaining an effective level of employment, stabilising prices and inflation, and ensuring a balanced balance of payments in foreign trade. According to the modern interpretation of the mechanism of monetary regulation, the volume and structure of the money supply should be considered as an indicator of the economic and financial situation in the country, which characterises economic activity and economic growth [13, p. 501].

The peculiarity of the current state of monetary regulation of the economy is the choice and application of different types of monetary policy by central banks of the world depending on the state of the economy, money market and national development priorities [13, p. 502].

Slipchenko T.O. proposes a definition of the content of the concept of "mechanism of monetary regulation", which has the following interpretation - "a method and functional set of theoretical dominants of justification of the monetary regime, the system of monetary transmission processes and organisational and economic measures that form the conditions and procedure for regulating monetary processes by the central bank in order to achieve price and macroeconomic stability as the leading monetary factors of economic growth" [15, p. 37].

According to the theory of economic mechanisms, the functioning of the monetary regulation mechanism can be generally represented as follows: obtaining complete and comprehensive information about the state of the regulated object - analysing the information - making decisions - making changes based on the results of regulatory processes. It should be noted that the monetary regulation mechanism is designed to regulate monetary relations in order to achieve the strategic goals of the state, namely, economic growth, full employment and low inflation. In this regard, the regulation of monetary relations means a set of means of targeted influence of an entity on an object in order to achieve certain goals and obtain results. It should be emphasised that the monetary regulation mechanism is formed to implement the state's monetary policy. The mechanism of monetary regulation is an independent and special area of monetary relations, which has its own specifics and principles of functioning. The study of the monetary regulation mechanism requires, first of all, the construction of a theoretical and methodological framework that will allow developing general principles for optimising macroeconomic processes of the monetary regulation mechanism in a transitional economy, and will form specific conditions for increasing efficiency and avoiding erroneous decisions in the implementation of monetary

regulation of economic processes. It should be noted that the mechanism of monetary regulation is designed to ensure the regulation of monetary relations in order to achieve the strategic goals of the state, namely, economic growth, full employment and low inflation [14]. In this regard, regulation of monetary relations means a set of means of targeted influence of an entity on an object in order to achieve certain goals and obtain a result. It should be emphasised that the mechanism of monetary regulation is formed with the aim of implementing the monetary policy of the state [15, p. 32].

In practical terms, the monetary regulation mechanism is defined as a system of specific instruments used by regulators to influence the monetary sphere and through which strategic public and private interests are achieved. This methodological approach makes it possible to consider the monetary regulation mechanism at several levels: at the highest level, the monetary regulation mechanism is a system of specific economic relations that arise between their subjects at the stage of formation, distribution and redistribution of monetary resources; at the lower level, it is an organisational, legal and methodological framework that determines the functioning of monetary resources in the state economy and their practical use to achieve certain goals and objectives.

The mechanism of monetary regulation is sometimes seen as a set of specially developed and legally enshrined instruments and levers aimed at implementing the priorities of the state's monetary policy. Thus, the mechanism of monetary regulation at the practical level is a set of interrelated instruments that ensure regulation of the money market conditions and control over the dynamics of the value of national money. The theoretical understanding of the monetary regulation mechanism and its practical orientation is based on the following conceptual provisions:

- The mechanism of monetary regulation is a component of the system of public administration of economic processes in the country, occupying a special place in it;

- The content of the monetary regulation mechanism is determined by the patterns of development of monetary relations, their place and role in the process of social reproduction;

- The internal structure of the monetary regulation mechanism is characterised by a set of interconnected and interacting elements that are its driving force;

- The main purpose of the components of the monetary regulation mechanism is to regulate the supply of money and establish its value, distribution and redistribution of monetary resources to meet the needs of the state, business entities and the population (households) [14].

Monetary policy in China, as in other countries, is carried out by the national bank. The People's Bank of China (PBOC) functions as a hybrid national bank. The history of its formation and development as an institution has come a long way and is somewhat unique. In the three decades after the PBOC was established in Beijing in 1948, depository banks in China were either closed or nationalised and reorganised into PBOC units. In 1978, it assumed all the functions of both a central bank and a commercial bank, and thus a monobank financial system was formed. The State Council of China at that time stated that the People's Bank of China is the central bank of the People's Republic of China, and it is a state agency responsible for supervising the financial sector of the country to the leadership of the State Council [16]. In 1984, the functions of the central bank were nevertheless separated from its commercial component, which was transferred to the Industrial and Commercial Bank of China, which is now the largest bank in the country. However, the legal status of the People's Bank of China as a central bank was confirmed only in 1995, when the Law of the People's Republic of China on the People's Bank of China was adopted. In the early 2000s, monetary reforms in China became more important. The need for them was underscored by the financial crisis in East Asia and the wave of reforms to restructure the financial sector in China, when the peak of non-performing loans exceeded 30%. Therefore, in 2003, the law on the CBRC was updated, stating that the CBRC, under

the guidance of the State Council, develops and implements monetary policy to prevent and reduce financial risks and maintain financial stability [17]. Based on the legislation and comparing the institutional position of the central banks of developed countries, such as the EU and the NBC, it is worth noting that the latter does not have instrumental independence, which is defined as the ability of the central bank to implement monetary policy with full autonomy. For example, the People's Bank of China has to report its decisions to the State Council for approval on the annual money supply, interest rates, and other important issues determined by the State Council before they are implemented [18].

Another manifestation of China's unique institutional setup is the coherence of monetary and fiscal policies. In advanced economies, monetary policy takes fiscal decisions as given and reacts accordingly, while in China, monetary, macroprudential, fiscal and industrial policies are jointly determined by the State Council.

The central bank's functioning is based on its purpose. The main objective of the PBoC's monetary policy is set out in the fundamental legislation and ratified by the Chinese national legislature. The PBoC Law clearly states that the purpose of monetary policy is to maintain currency stability, and thus monetary policy contributes to economic growth. In general, such high-level goals are pursued by the central banks of developed countries.

In order to understand the nature and role of monetary policy in a market economy, it is important to understand the tasks and goals set by monetary authorities and achieved by monetary methods and instruments.

Cui Dianchao defines the goal of monetary policy as the achievement of predefined socio-economic goals [19, p.38].

Yao Changhui, Lu Suiqi propose that the goal of monetary policy should be defined as achieving a level of production that is capable of ensuring full employment and the absence of inflation [1, p. 23]. It should be noted, however, that maintaining a low, acceptable level of inflation, according to international practice, is an important

prerequisite for economic growth. Therefore, in fact, the central bank cannot set itself the goal of maintaining exactly zero inflation.

K. G. McConnell and S. L. Brew emphasise that the goal of monetary policy should be to ensure macroeconomic equilibrium, and also emphasise that the use of monetary policy to accelerate economic dynamics can have detrimental consequences. We consider this approach to be quite reasonable, and solving the problem of recognising economic growth as the goal of monetary policy requires clarifying its key qualitative characteristics [20].

This approach is fully justified, as the competitiveness of the economy is a key to its economic growth and to mitigating the effects of financial and economic shocks. This approach also makes it possible to combine monetary policy with financial sector stability, a goal that has become dominant in financial regulation and financial supervision since the financial crisis and the financial sector's significant impact on the economic system. It is for this reason that monetary policy theory and practice have recently emphasised the need to develop specific mechanisms for this policy in crisis and post-crisis periods.

1.2. Instruments of Monetary Policy

In order to conduct monetary policy, the NBU Council first develops the Monetary Policy Guidelines, which are based on proposals submitted by the NBU Board, and determines the instruments used to implement these guidelines. In developing the Guidelines, the NBU uses macroeconomic indicators calculated by the Cabinet of Ministers of Ukraine and the NBU, as well as other necessary information. After approving the Guidelines, the NBU publishes them in official publications and informs the Verkhovna Rada of Ukraine about the main principles of monetary policy and the state of the monetary market in the country. The NBU monitors the implementation of monetary policy [21].

Monetary policy levers are a set of measures and methods used by the NBU to regulate bank reserves, money supply, and lending to the economy in order to ensure economic growth, reduce inflation and unemployment, and balance the balance of payments. Article 25 of the Law on the National Bank of Ukraine [22] defines a list of monetary policy methods aimed at achieving certain socioeconomic goals (Figure 1.1).

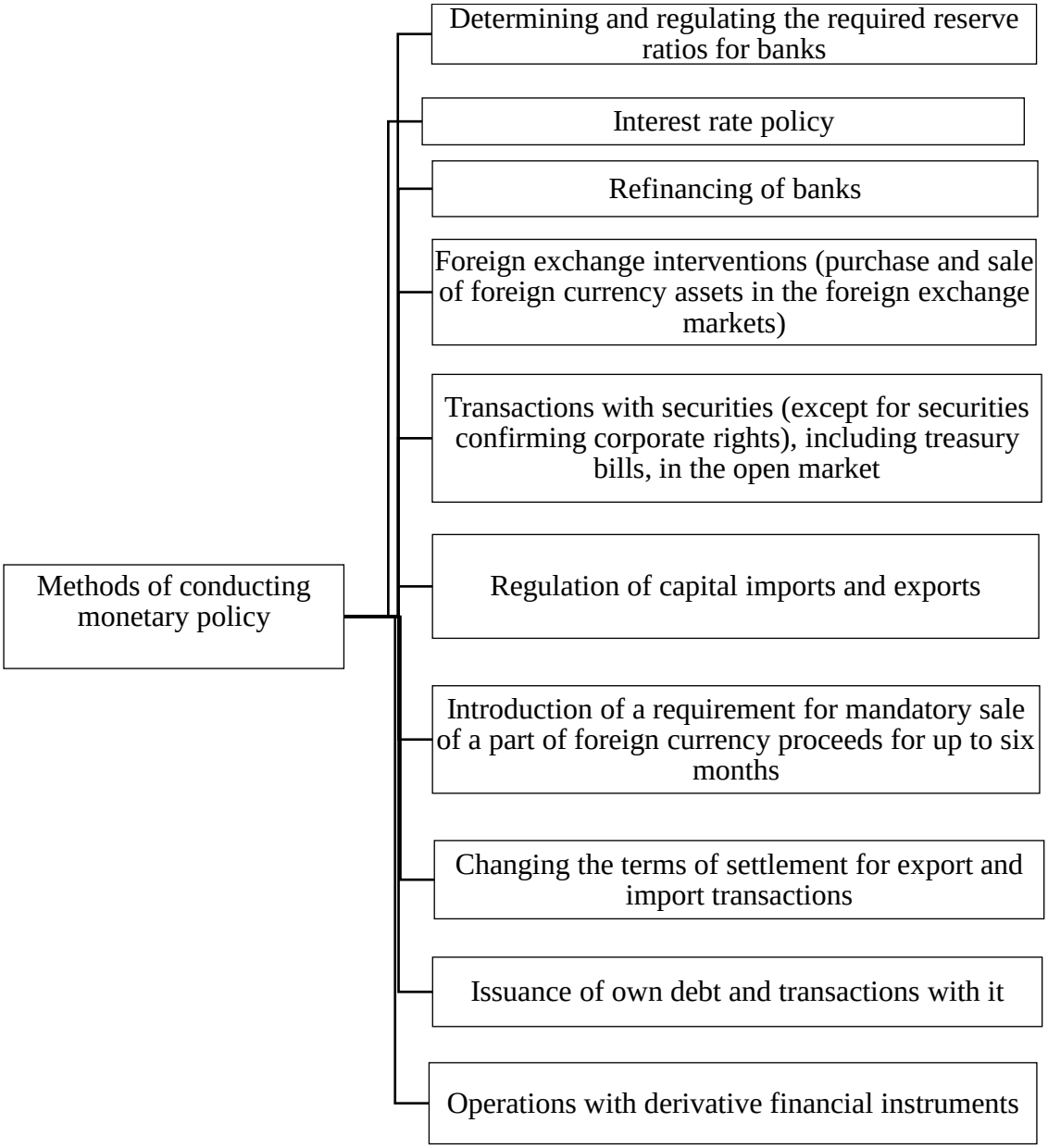

Figure 1.1. Methods of conducting monetary policy

Source: compiled by the author according to [22].

The following monetary instruments are used to implement monetary policy (Figure 1.2).

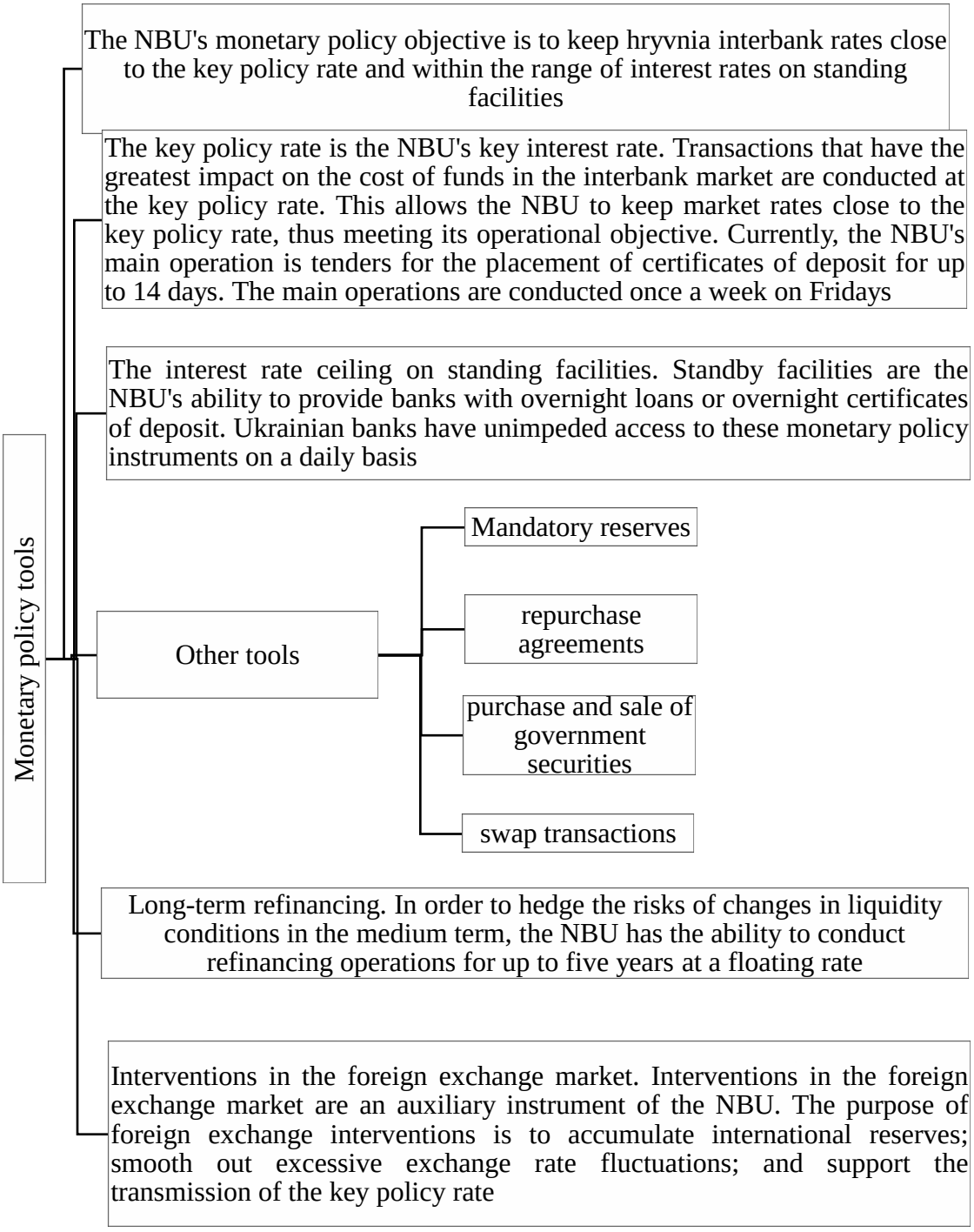

Figure 1.2. Monetary policy tools

Source: compiled by the author according to [11].

Global experience shows that the selection of effective monetary policy instruments has an impact on the economic development of the country as a whole, increasing the competitiveness of business entities, and overcoming structural imbalances in the economy.

The cheap money policy is used in the context of a cyclical decline in output and rising unemployment.

The use of credit expansion tools triggers the so-called transmission mechanism, which leads to a sequence of events:

- growth in the money supply;
- falling interest rates of commercial banks;
- Increased investment spending by companies;
- increase in real net national product.

Credit expansion also leads to transmission only at the level of a country's international relations. It happens consistently:

- reduced demand for the national currency abroad;
- depreciation of the national currency;
- increase in net exports.

Credit restriction instruments lead to a reduction in the supply of money, higher commercial bank interest rates, a reduction in corporate investment, and a decrease in price growth.

The credit crunch at the international level is leading to:

- increased demand for the national currency abroad;
- an increase in the value of the national currency;
- reduction in net exports.

Intermediate monetary policy objectives and the instruments used to achieve them are a practical expression of the high-level monetary objectives set for the central bank. Table 1.1 shows the instruments and intermediate targets used by the People's Bank of China in comparison with those of the Bank of England, the ECB, and the Fed.

Table 1.1

Monetary policy objectives and instruments of China, the Fed, the ECB and the Central Bank of Japan

	People's Bank of China	**Central banks developed countries**
Main objective	Several goals	One within the mandate
Intermediate objectives	Inflation; Loans; Exchange rate; General social financing.	Inflation (deflation)
Operational objectives	Monetary base; 7-day interbank repo rate	Target overnight interest rate
Basic tools	The NBC's repo rate in the corridor system; Open market operations; Lending/deposit rate benchmark; Credit line rates; Reserve requirements; Administrative guidance; Previous management	Open market operations; Quantitative and qualitative easing; Prior guidance; Negative interest rates; Reserve requirements;

Compiled by the author on the basis of [17; 23; 24].

As can be seen from Table 1.1, no other major central bank in the study aims to achieve as many monetary policy objectives as the NBC. The importance of developing the financial system and other monetary regulation instruments has become paramount since the 2007 financial crisis. This was reflected in the goal setting of central banks. Both the central banks of developed countries and the NBUs have emphasised the goal of financial stability in their monetary policy statements. This primarily reflects concerns about high debt levels and the growing complexity of the global financial system. And more recently, especially in the context of the pandemic,

the focus has shifted to full employment as the goal of monetary policy and public policy in general.

In order to achieve their main objectives, central banks set operational targets as an indicator and use different ceilings on the actual interest rate corridor to achieve them. Unlike the MLF and PSL, which function to provide long-term funding to support lending in the real economy, the SLF is more designed to meet unforeseen short-term liquidity shortfalls [10; 16].

To make the repo rate an operational target, the NBC introduced an interest rate band in 2015. This system is broadly similar to those used in advanced economies. The upper limit of the band is represented by the NBC's SLF interest rate, and the lower limit of the band is represented by the excess reserves interest rate (IOER), which remains at 0.72%. Within this band, the NBC borrows cash at repo rates, which are currently slightly above the midpoint of the upper and lower bands.

Administrative window - directives transmitted to the financial sector of the NBC on its own accord or as a result of the wishes of the State Council. This tool allows the NBC to maintain a significant degree of influence over lending volumes and the sectors that can receive credit financing. Although the credit quota was formally abolished in 1998 and non-banks account for an increasing share of loans, the window continues to serve macroeconomic policy objectives and helps to reinforce microeconomic sectoral policy which have recently focused on supporting micro and small enterprises [25].

1.3. Analysis of the global experience of monetary policy efficiency in managing the national economy

An important aspect of studying the mechanism of monetary regulation is the analysis of monetary regimes as its component. In the modern sense, monetary policy regimes have been part of monetary regulation since the early 1970s. In the second half of the twentieth century, anti-inflationary policy became the main priority of central banks in most countries. Monetary policy methods were developed that were based on the principles of accountability of the autonomous central bank to society, transparency of its policy and provided for the use of a clearly structured system of monetary policy targets [24, p.43].

Monetary policy is one of the most important components of the state economic policy, and the dynamics of the country's socio-economic development depends to a certain extent on the effective use of its instruments and the adequacy of monetary policy to real economic conditions. Since monetary policy is one of the areas of national economic policy, its ultimate goals are part of a global strategy determined by the legislative and executive authorities. Currently, there is no single correct view on the interpretation of the main strategic and tactical objectives of monetary policy, as a number of economists believe that the priority goal of this policy is only to achieve price stability.

C. Fischer and R. Dornbusch identify two strategic main objectives: inflation and unemployment. A number of other researchers expand the set of strategic objectives of monetary policy to include price stability, full employment, and real output growth [26]. Representatives of different economic schools recommend different ways of influencing macroeconomic parameters through monetary policy.

Currently, the Keynesian and monetarist concepts of monetary policy are the most well-known and popular theoretical platforms for developing monetary policy in both theoretical and practical contexts. The Keynesian theory describes the essence of

money from the perspective of its role in the implementation of anti-crisis policy and production stimulation in state regulation of the economy. The Keynesian concept emerged in the 1930s. Its ideas were set out in the work of J.M. Keynes "The General Theory of Employment of Interest and Money" (1936). This work, using the example of the Great Depression in the United States, presents the principles of anti-crisis policy and monetary levers of state influence on the economy. For example, J.M. Keynes argued that money, fulfilling its special purpose, is a source of entrepreneurial inspiration. Based on this, he formed the concept of "managed money", which consists in its state regulation in order to stimulate effective effective demand. According to J.M. Keynes, money is an instrument and at the same time an object of regulation by the state. J.M. Keynes noted that an inefficient monetary system is a powerful weapon that can completely destroy the economic system and social structure of a country [27].

J.M. Keynes formulated the quantitative theory of money as follows: "If there is underemployment of factors of production, the degree of their use will change in the same proportion as the quantity of money" [27]. According to the Keynesian theory, monetary policy should be implemented in accordance with certain phases of the economic cycle and respond to the state of the national economy in a mobile manner. However, it should be noted that although Keynesians trace the possibility of the interest rate affecting investment and real GDP, they also testify to the possibility of the so-called "liquidity trap", the meaning of which is that when the interest rate is reduced, in the face of an increase in the volume of money supply, investors still have no desire to increase their demand for money. Thus, the main idea of J. M. Keynes is the belief that the dynamics of production and employment are determined not by supply factors (capital and labour productivity), but by demand factors. That is why the Keynesian theory is also called the theory of efficient demand, the main idea of which is to influence the supply of goods and their production and increase the level of employment by stimulating and activating aggregate demand.

In the modern period, another direction of modern Keynesianism is distinguished - post-Keynesianism. Some researchers distinguish monetary Keynesianism in its structure, represented by S. Weintraub, R. Kauer, P. Davidson, H. Minsky, A. Lionhufwood, A. Lerner, P. Wells, etc. Post-Keynesianism advocates further improvement of the mechanism of state regulation of the market economy on the basis of not only short-term but also long-term indicative planning. The need for its application is explained by the growing shortage of basic resources (energy, raw materials, foodstuffs), transport, information and communication, and environmental protection.

Monetary Keynesians focus their research, firstly, on the problem of studying the monetary factor in the economy, and secondly, on the problem of uncertainty about the future and the expected direction of the economic process. In their view, the monetary aspect of the economy and the uncertainty factor should play a decisive role in the economy. The crisis of the Keynesian school emerged in the 1970s. The neoclassical trend became dominant in economic science, and the influence of monetarism expanded. The main theorist of monetarism is the Nobel Prize winner, the famous American economist M. Friedman.

Monetarism is a theory of economic stabilisation in which monetary factors play a major role. Its goal is to achieve economic stability by improving money circulation, creating an atmosphere in which a person finds economic freedom and an entrepreneur seeks to invest and take risks [30]. The basis of monetarism is the classical quantitative theory of money regarding the causal relationship between the amount of money in the economy and the level of commodity prices. As already mentioned, the most important representative of the monetarist trend in economic science is the American economist M. Friedman, who, together with a group of scientists from the University of Chicago, opposed the Keynesian postulates of state regulation of the economy and proposed an alternative to the Keynesian approach.

Monetarists argue that the market economy is a stable system with internal properties of equilibrium and self-regulation, so crises in the economy are always the result of erroneous governmental regulatory measures. Therefore, the scope of government intervention in the economy should be kept to a minimum. State intervention in economic development should not be aimed at stimulating aggregate demand using Keynesian methods, but at creating conditions for the intensification of competitive forces in the market, which should be done through monetary rather than fiscal policy. M. Friedman paid considerable attention to the formation of money demand. Monetarists interpreted the demand for money as a function of "permanent income", according to which the ratio of cash balances and nominal income does not decrease with the growth of the latter, as is the case in Keynesian theories, but remains unchanged, meaning that each additional amount of income received results in an adequate increase in personal consumption. In this context, it is important to determine the impact of the rate of interest on the ratio of demand for money and nominal income. Based on empirical studies, monetarists have concluded that this influence is minimal, that the demand for money is a purely exogenous factor of the economy and should be considered not as a factor in the functioning of the production process, but as one of the elements of demand for production results, as a share of demand for wealth [14].

Research on monetary policy rules intensified in the 1990s, and can be classified as an attempt to theorise and formalise the current practice of monetary policy in a generalised form. A significant contribution to the development of monetary policy rules was made by G. Thornton (1802), W. Bagehot (1873), C. Wicksell (1907), I. Fisher (1920-1926), G. Simons (1936), and M. Friedman (1960). Modern researchers of monetary policy rules include: L. Swenson, G. Rudebusch, M. King, C. Goodart, R. Harrison, D. Henderson, and others. At the beginning of the XXI century, monetary policy was reformed and acquired features and forms of manifestation typical of

developed countries, and a targeting system was formed, i.e., the selection and setting of monetary policy objectives.

To analyse the global experience of the effectiveness of monetary levers of economic development, we will take three developed economies, namely Japan, France, Sweden and the United States.

Monetary policy originated in the United States, where the Federal Reserve System (FRS) conducts an effective monetary policy. Changes in the required reserve ratio are used to manage the government's demand for credit. Thus, when the Fed's policy is aimed at reducing the volume of lending operations in the short term, an increase in the required reserve ratio can be observed, and commercial banks suspend lending and investment operations [31].

In this way, the US stabilises the pace of rapid growth and tries to prevent crises. If stabilisation policy is needed during a downturn, the Federal Reserve System decides to reduce the required reserve ratio [31].

In France, monetary policy is developed and implemented by the Central Bank of France, which was established in 1800 and is a member of the European System of Central Banks (ESCB).

The functional structure of the Banque de France is characterised by the centralisation of administrative power in the hands of the Governor. The manager, having broad powers and rights, manages the bank and determines the general directions of activity of all its divisions. The manager has the right to appoint employees to all positions in the bank, except for the director of a bank branch. He can only propose his candidacy, and the Minister of Economy and Finance of France appoints him to this position [32].

The NBU is governed by the General Council, which includes the Monetary Policy Council (established in 1993).

The Monetary Policy Council performs the following functions [32]:

- developing monetary policy directions and monitoring the dynamics of

the money supply and its aggregates;

- determining the procedure for conducting loan, accounting, pledge, currency transactions, repurchase agreements, and providing guarantees for such types of transactions;
- setting the parameters of the mandatory reserve policy.

The Monetary Policy Council is composed of the Governor of the Bank of France (the Council's Governor), his 2 deputies and 6 highly qualified specialists in monetary, financial and economic matters, who are appointed by the Council of Ministers and nominated by the heads of the chambers of parliament and the President of the Economic and Social Council.

The Bank of France is responsible for the development and implementation of monetary policy with the aim of ensuring price stability, but monetary policy decisions are taken collectively by the Monetary Policy Council.

Despite the Bank of France's relative independence in developing and implementing monetary policy, the government determines the exchange rate regime and franc parity. The Banque de France only regulates the franc/foreign currency ratio on behalf of the government and within the framework of the general directions of monetary policy. Since 1994, the main objective of the French monetary policy has been a specific inflation rate, which allows France to be classified as a country that implements an inflation targeting policy.

Inflation targeting includes several elements:

1) a medium-term declaration of achieving specific inflation targets;

2) incorporating inflation targets into the country's long-term development concept;

3) reducing the role of intermediate indicators, such as money supply growth, in the overall strategy for achieving the optimal inflation rate;

4) transparency of long-term monetary policy, publicity of current tasks and plans;

5) Increasing the accountability of the central bank to achieve inflation targets.

The main instruments used by the Bank of France to achieve its inflation target are as follows:

- regulation of interest rates, the dynamics of which directly affect the dynamics of the franc exchange rate and the amount of money in circulation;

- foreign exchange interventions. Monetary authorities may intervene in the foreign exchange market for various purposes, including to maintain the exchange rate and achieve the desired level of international reserves. Foreign currency is sold to raise the national currency's exchange rate, and foreign currency is bought to lower it;

- manoeuvring the required reserves ratio;

- open market transactions and others.

Monetary policy in Japan is developed and implemented by the Central Bank of Japan, whose main task is to ensure the balanced development of the economy by maintaining price stability,

The Bank of Japan is the monopoly banknote issuer, and the amount of banknotes issued is set by the Ministry of Finance and approved by the government. The reserves of the central bank of Japan consist of government securities, gold reserves, commercial bills and foreign currency.

The Bank of Japan also manages public funds on behalf of the government and engages in monetary and financial activities aimed at stabilising the national currency [31].

The Bank of Japan's main monetary policy levers are:

- adjusting the discount rate;

- regulating the volume of bonds and promissory notes;

- mandatory provisioning;

- regulating banking monitoring operations: identifying trends in the financial market and the settlement system, ensuring balanced management of the banking system, and identifying illiquidity risks;

- control of bank balance sheets and monthly reports with forecasts of future loans and deposits;

- making proposals to the plans of banks [31].

Thus, the monetary policies of the United States, France, and Japan are examples of effective policies that can be used to ensure national economic growth.

CHAPTER 2
PECULIARITIES OF MONETARY POLICY IN UKRAINE AND CHINA

2.1 Monetary Policy in Ukraine: Challenges and Developments

Monetary policy is aimed at maintaining stability and providing liquidity. Past reforms have strengthened the NBU's autonomy and governance, which lends credibility to both monetary and financial policies. Ensuring the NBU Board's continued operational independence will allow it to effectively implement its inflation targeting policy while maintaining a flexible exchange rate and focusing on financial stability.

Analysing key monetary policy indicators during the war seems to be a particularly relevant and important task. Let us consider the most important ones (Table 2.1).

Table 2.1

Dynamics of key monetary policy indicators in Ukraine

Indicator/year	2018	2019	2020	2021	2022
Real GDP (% of the previous year)	3.3	3.2	-3.8	3.4	-33
Inflation (%, end of year)	9.8	4.1	5.0	10	26.6
Exchange rate (UAH/$ average for the year)	27.2	25.8	27	27.3	31.8
Budget deficit (% of GDP)	-1.92	-2.1	-5.9	-3.9	-20
Current account (% of GDP)	- 4.91	-2.7	3.3	-1.6	2.7
International reserves (billion USD as at 31.12)	20.8	25.3	29.1	30.9	28.5

Source: compiled by the authors based on [32] and own calculations

As shown in Table 2.1, from the beginning of the war until June 2022, the NBU kept the key policy rate at 10%. As inflation rose, the real rate became increasingly negative, and uncertainty grew, triggering deposit outflows, putting pressure on the

exchange rate, and generally increasing the risk of financial destabilisation. On 2 June 2022, the NBU sharply raised the key policy rate to 25%, while expanding the interest rate band from +/-1% to +/-2%. The purpose of this sharp rate hike was to stem the outflow of deposits from the banking system and reduce demand for foreign currency. On the other hand, this resulted in higher credit costs for business entities, increased debt service costs, and, most importantly, for the government.

By setting the key policy rate, the NBU manages short-term rates in the interbank money market, which in turn are translated into changes in interest rates on other financial assets (including government securities) and changes in banks' lending and deposit rates. These rates have a direct impact on consumption and investment by households and businesses, and, accordingly, on inflation [33].

As of 1 January 2023, Ukraine's international reserves totalled USD 28.5 billion. As of 1 January 2023, Ukraine's international reserves amounted to USD 28.5 billion (and as of the beginning of March 2023, they were already USD 29.9 billion), mainly due to receipts from international partners. This is 88% of the IMF's composite indicator for the required level of international reserves of IMF member countries [34].

Another indicator that did not meet the threshold set by the NBU is inflation, which has been rising over the years under review. In 2021, inflation was twice as high as in the previous year, and 2.7 times higher the following year. The rapid rise in inflation has reduced the purchasing power of some people.

Figure 2.1 shows the changes in inflation and the key policy rate between 2018 and 2022.

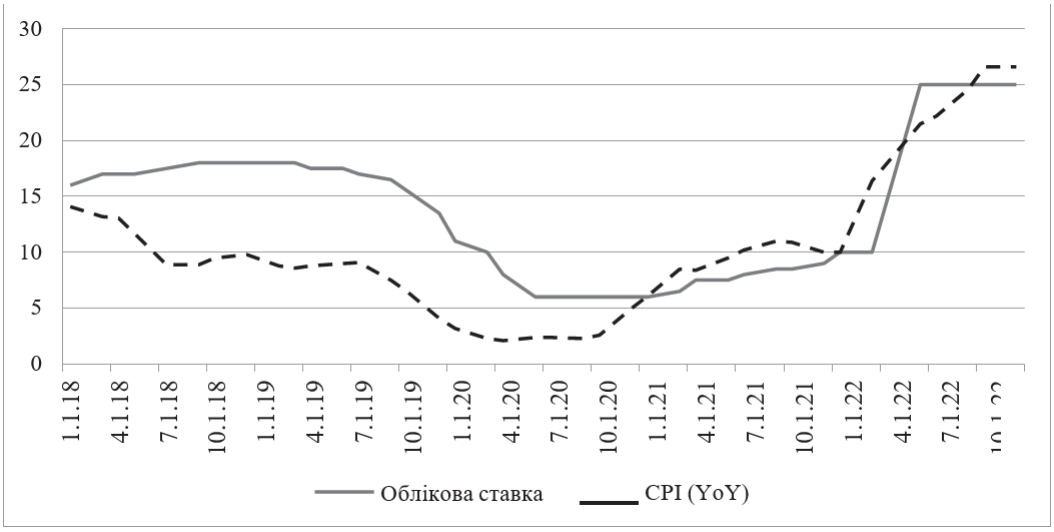

Figure 2.1. Changes in the NBU key policy rate and inflation rates in 2018-2022, %.

Source: compiled by the authors based on data from [32].

We can see that the key policy rate has indeed changed depending on inflation (in this case, the monthly consumer price index, year-on-year change, is used). First of all, it is worth noting the divergence between the inflation rate and the key policy rate, as well as the divergence in the trend of inflation and the key policy rate. This situation is explained by the fact that the effect on inflation from changes in the key policy rate occurs with a certain delay. It is also important not to start an expansionary policy too early, as the decline in inflation may be temporary or seasonal, and if the NBU cuts rates prematurely, inflation may return with a much larger increase.

The graph below (Figure 2.2) shows that the volume of foreign exchange interventions before the full-scale invasion was rather low and increased only at times of increased demand for foreign currency. For example, in March 2020, we saw a sharp increase in the NBU's foreign exchange sales to USD 2.5 billion. This was due to the outbreak of the coronavirus epidemic and quarantine restrictions in March and a sharp surge in demand for foreign currency among the population. As a result, the NBU had to intervene to balance supply and demand and avoid a sharp devaluation of

the hryvnia caused by excess demand.

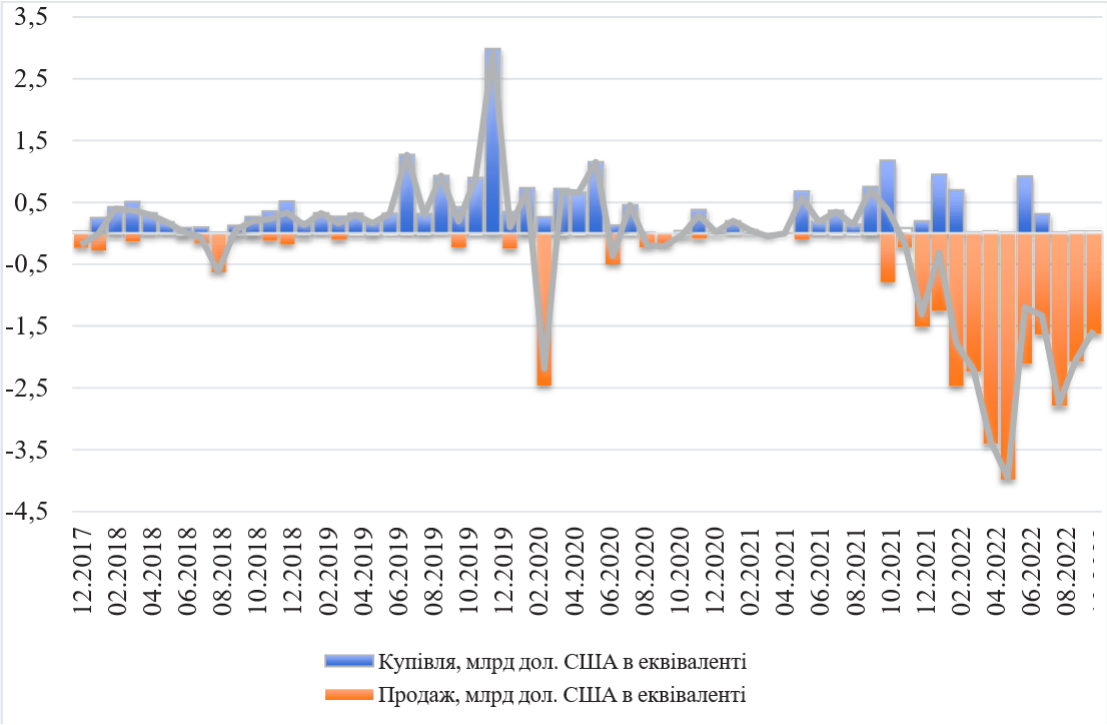

Figure 2.2. Dynamics of the NBU's foreign exchange interventions in 2018-2022, billion USD US DOLLARS

Source: built by the authors based on data from [32].

Another important monetary policy tool is foreign exchange interventions. Foreign exchange interventions are intended to smooth out exchange rate fluctuations, accumulate foreign exchange reserves, and support the transmission of the key policy rate.

Currency interventions are a good stabilisation tool that promotes public confidence in the national currency by helping to reduce exchange rate volatility. Although it is important to note that it is not always beneficial for the NBU to maintain a stable exchange rate, it is worth considering how much it costs the NBU to keep the exchange rate at the current level through interventions. It is possible that it is easier and cheaper for the NBU to devalue the national currency than to inject foreign currency into the market through interventions to maintain the current exchange rate.

All monetary policy instruments are designed to create conditions for economic

development and to ensure the stability and efficiency of the economic system in times of deteriorating market conditions. The key indicators that confirm or refute the effectiveness of monetary policy are, among others, GDP growth, inflation, budget deficit, international reserves and the national currency exchange rate.

2.2. Monetary Policy in China: Characteristics and Evolution

Embedded in a one-party state system, the institutional features of China's monetary policy are fundamentally different from those of advanced economies. Monetary regulation in the country is mainly carried out by the State Council, and the formulation of the overall policy of managing supply and demand is more closely coordinated than in other countries. Each monetary policy instrument can be adjusted by the Council to support the specific outcomes desired by the state.

The adjustment of China's monetary policy was noticeable after the global financial crisis. Changes in this area took place in three stages. In 2008, China's GDP declined significantly (see Figure 2.3), but at the same time inflation also declined (see Figure 2.4), due to changes in the global financial system and the fact that deflationary processes were manifested in developed countries.

At the beginning of 2008, the NBC adopted a moderately loose monetary policy stance and launched a set of measures to ensure economic growth and financial market stability. However, in the second half of 2008, the NBC intensified its measures, reducing deposit rates (from 4.14% in September to 2.25% in December 2008), loan rates (from 7.20% in September to 5.30% in December 2008) and required reserves, from 17.5% to 15.5% for large financial institutions and from 16.5% to 13.5% for other financial institutions [25].

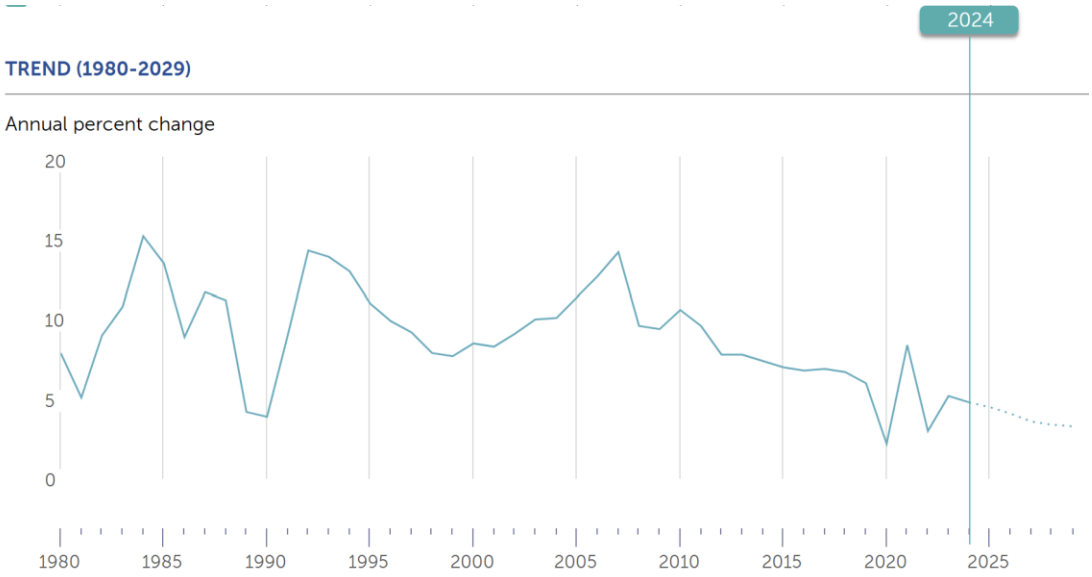

Figure 2.3. Dynamics of China's real GDP (with trend forecast to 2029)

Built by the author based on data from [35].

The second stage began in 2011, when the global economy began to recover, inflation began to rise in developed countries and commodity prices increased. All of these factors combined to cause inflation in China to rise rapidly (see Figure 2.4).

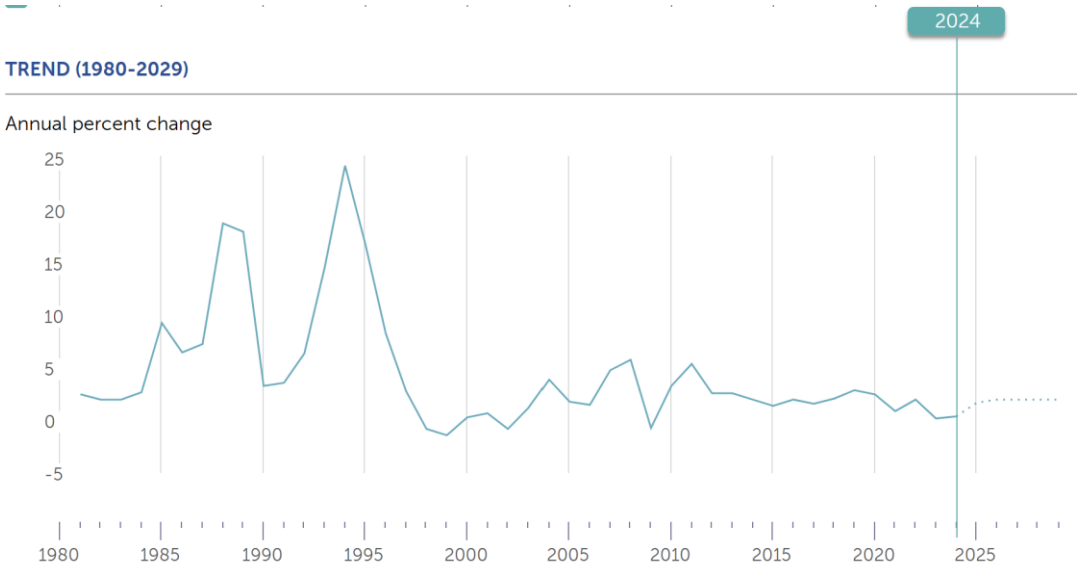

Figure 2.4. Dynamics of the inflation rate in China (with a trend forecast until 2029)

Built by the author based on data from [35].

In July 2011, China's CPI growth reached 6.5%. Faced with the threat of increased inflationary pressure, the PBOC took immediate action, and the central bank's objective changed from crisis management to inflation control. In 2010-2011, the NBC raised prime deposit rates five times (from 2.5% to 3.5%) and lending rates (from 5.56% to 6.56%) and increased the required reserve ratio 12 times to 21.5% for large financial institutions and 19.5% for other institutions. By the end of December 2011, inflation had fallen to 4.1% and GDP growth was 9.2% [25].

The Eurozone sovereign debt crisis has also affected the Chinese economy, with a slowdown in economic growth and changes in inflation. Since the beginning of 2012, inflation in China has fallen sharply to 3%. Faced with these new threats, the Chinese government has decided to balance between maintaining sustained rapid economic growth, restructuring the economy and managing inflation expectations. Stabilising economic growth has now become a priority for monetary policy. Accordingly, the NBC gradually changed its monetary policy by lowering reserve requirements, and as a result of these adjustments, the required reserve ratio decreased by 1.5 percentage points to 20%. Also in June 2012, the NBU reduced prime deposit and lending rates (to 3.25%) and used credit lines to provide the necessary liquidity. These monetary policy measures proved to be effective, and economic growth accelerated again [36].

Changes in China's monetary policy were also prompted by the crisis caused by the COVID-19 pandemic. Since the beginning of 2020, the pandemic has dealt a severe blow to China's economic and social development. The government has taken all possible measures to prevent the spread of the infection and support the economy.

The People's Bank of China has also provided all kinds of support to maintain financial market stability. The main measures used by the PBOC are:

1. Injecting liquidity into the banking system through open market operations, which included reverse repos and medium-term credit lines;
2. Expanded re-lending and re-disbursement facilities by RMB 1.8 trillion to

support: medical equipment and essential goods manufacturers; micro, small and medium-sized enterprises; and the agricultural sector. These measures expired at the end of 2020.

3. Decrease in 7-day and 14-day reverse repo rates by 30 basis points, as well as the 1-year medium-term lending rate and the target MLF rate by 30 and 20 basis points, respectively.

4. Reduced reserve requirement ratios (RRR), which are considered to be an unambiguous easing measure, as they provide long-term liquidity and reduce banks' funding costs, thereby exerting stronger downward pressure on interbank rates and bond yields than any other instrument [37].

These measures have had a positive impact on economic growth, including the central bank's balance sheet, as well as unconventional monetary policy on the size of the balance sheet of central banks in developed countries. Changes in the reserve requirement rate lead to a decrease in the PBoC's balance sheet, while an increase in lending by the central bank leads to an increase in its balance sheet, thus, the size of the PBoC's balance sheet remains largely stable compared to the growing size of the balance sheets of the central banks of major developed countries. During the period under review, the growth of the Chinese central bank's balance sheet was roughly the same as that of the central banks of the largest developed countries. From the beginning of 2000 to the end of 2020, the balance sheet of the Chinese Central Bank increased 9.6 times, which is approximately the same as that of the US Federal Reserve (9.5 times), the European Central Bank (7.1 times) and the Bank of Japan (5.2 times) over the same period [38, P.17].

As a result, in 2022, economic growth was slightly better than expected, the supply-demand balance gradually improved, and market vitality increased. The People's Bank of China complied with all the resolutions and orders issued by the State Council and responded quickly by tightening monetary policy. Monetary policy has become more flexible, appropriate, and targeted. The NBU now conducts monetary

policy to support the real economy. Through effective regulation and use of the medium-term lending facility (MLF) and open market operations (OMO), the NBU managed to maintain a balance of supply and demand for short-, medium-, and long-term liquidity by the end of 2022, and stabilised market expectations to ensure smooth changes in interest rates. The reform of the key policy rate (LPR) was also continued, and the implicit interest rate floor was removed.

2.3 Comparative Analysis of Monetary Policy Frameworks in Ukraine and China

Monetary policy plays a crucial role in ensuring macroeconomic stability, supporting economic growth, and combating crises. In 2019-2022, both Ukraine and China faced significant challenges, including the COVID-19 pandemic, geopolitical risks, and economic uncertainty. However, their approaches to monetary policy differed significantly due to the specifics of their economies, institutional features, and development goals, among other things:

1. Monetary policy objectives: stability versus growth:

- China: the main objective of monetary policy is to support sustainable economic growth, control inflation and maintain exchange rate stability; the Chinese government has actively used monetary policy as a tool to stimulate domestic demand, in particular by supporting lending and investment in strategic sectors;
- Ukraine: the main priority was to maintain macroeconomic stability, especially the stability of the hryvnia, control inflation and ensure the availability of credit resources for the economy;
- The pandemic and military actions in 2022 forced the National Bank of Ukraine (NBU) to refocus its policy on combating the economic crisis and providing liquidity;

2. Monetary policy instruments:

- China: used a wide range of tools, including lowering reserve requirements for banks, regulating lending, intervening in the foreign exchange market, and supporting targeted industries; actively implemented programmes to support small and medium-sized enterprises affected by the pandemic;

- Ukraine: the NBU's main instrument was the key policy rate, which regulated the cost of loans and influenced inflation; in 2022, the NBU temporarily resorted to fixing the exchange rate and administrative controls to stabilise the financial system;

3. Response to the COVID-19 pandemic:

- China: promptly reduced reserve requirements, allowing banks to increase lending; implemented large-scale financial support programmes for businesses and households; and provided monetary liquidity to stimulate economic recovery;

- Ukraine: At the beginning of the pandemic, the NBU cut its key policy rate from 13.5% to 6% in 2020, which helped to reduce the cost of loans; in 2021, policy became tighter due to inflationary pressures, and the key policy rate was gradually raised; the lack of significant reserves limited the scope of stimulus measures;

4. Controlling inflation:

China: inflation remained moderate, allowing the People's Bank of China to focus on supporting growth; the average inflation rate in 2019-2022 did not exceed 3%, which was in line with the targets set;

Ukraine: inflation was more volatile, especially in 2022, due to military operations and rising energy prices; the NBU maintained a tight monetary policy to reduce inflationary pressures;

5. Currency policy:

- China: uses a managed floating exchange rate, which allows it to simultaneously maintain export competitiveness and protect the economy from

external shocks; the People's Bank of China actively intervenes in the foreign exchange market to stabilise the exchange rate;

- Ukraine: In 2019-2021, the NBU followed a floating exchange rate policy, but in 2022, due to the war, a fixed exchange rate was introduced to stabilise the situation; Ukraine's foreign exchange reserves have significantly decreased due to the need to finance the balance of payments deficit;

6. Financial support for the economy

China: the financial system provided large-scale lending, especially in priority sectors such as infrastructure and technology; SME financing programmes helped reduce economic losses from the pandemic;

Ukraine: economic support programmes were limited due to insufficient financial resources; the Ukrainian government focused on international assistance to cover the budget deficit;

7. Macroeconomic results:

- China: the average economic growth rate in 2019-2022 was around 4-6%, despite the pandemic; investment remained the main driver of the economy, supported by monetary policy;
- Ukraine: The economy grew by 3.2% in 2019, but faced a recession in 2020 (-4%) and a significant drop in 2022 due to the war; high inflation and budget deficit limited the scope for recovery.

Thus, based on the analysis of China's experience in implementing monetary policy, the following recommendations can be made for Ukraine:

- Monetary policy flexibility - China demonstrates the importance of rapidly adapting monetary policy instruments to changing economic conditions;
- Development of internal reserves - the formation of significant foreign exchange reserves can provide greater stability during crises;
- Supporting the economy - stimulating lending and investment in strategic sectors is a key factor in ensuring economic growth;

- Integrating monetary policy into the overall strategy - monetary policy should be part of a long-term economic development strategy.

A comparative analysis of the monetary policies of Ukraine and China in 2019-2022 shows that China, thanks to its economic scale and financial instruments, was able to effectively support its economy in difficult conditions. Ukraine, despite its limited resources, has successfully adapted its monetary policy to the crisis, but remains dependent on external assistance. Adapting China's experience to local realities could enhance the effectiveness of Ukraine's monetary policy.

CHAPTER 3
IMPROVING MONETARY POLICY IN THE MANAGEMENT OF THE NATIONAL ECONOMY

3.1 Directions for Improving the Use of Monetary Instruments to Stimulate Economic Development in China

In 2020, the International Monetary Fund, the World Bank and almost all analytical agencies revised their expectations for the global economy. All forecasts point to a decline in performance, with the greatest expectations for developing and emerging markets, which need GDP growth to improve living standards. In this case, concerns about the

- falling stock markets;
- low commodity prices;
- risks of debt crises in developing countries;
- deflation risks [39, p. 510].

In such circumstances, many central banks have recommended that investors sell everything but "safe" (usually government) bonds. Another trend in future forecasts for the global economy is that all analysts agree that China will be the main reason for the slow growth of the global economy in 2018. After 2008, which provoked less demand for exports in developed countries affected by the crisis (primarily the United States), China has been trying to balance its economy. China tried to compensate for the decline in export revenues by investing in infrastructure and increasing domestic consumption. For several years, this strategy bore fruit, but now it has stopped working, leading to the creation of internal bubbles (especially in the real estate market). In addition, China is importing fewer materials and goods from other developing countries, and the price of these goods is declining as a result of too much supply and not enough demand to meet it. The opposite is also true: countries in the

developing world that specialise in exporting goods to China are now experiencing a decline in export revenues, which is also affecting their public finances and macroeconomic performance. As a result, many Latin American countries (including the largest, Brazil) are now either in direct recession or stagnating. The same applies to some African and Asian countries.

In other words, the growing problems of the Chinese banking system could lead to a new phase of the financial crisis, which will certainly affect other countries. The situation is further complicated by the fact that the intensive expansion of foreign currency borrowing, which contributes to the crisis in the Chinese financial system, will also be a source of risk for foreign banks. Thus, until now, the stability of the Chinese banking system has been maintained as a result of small foreign funding. The situation has now changed, and the vulnerability of the Chinese banking system to changes in the increased appetite of foreign investors is increasing. In addition, since 2009, there has been a growing danger of shadow financing in the Chinese economy, which has been growing in credit expansion in the country amid the Western financial crisis, and the accumulation of foreign borrowings, primarily in US dollars, creates opportunities for major risks.

Monetary policy regulation is, of course, a contributing factor to this rapid credit growth. It seems that the recent macro-regulatory tools used by the NBC to reduce risks (e.g. large-scale liquidity injections through reverse repos) have been very effective in promoting bank lending. The problem is that the credit bubble of insolvency risks continues to build up, even in sectors that are currently suffering from overcapacity, and the situation is compounded by low loan repayment capacity. In such circumstances, when a country has such a huge money supply, a large production base, and large volumes of exports and imports, it needs to ensure that it has a certain level of highly liquid reserves that can support the day-to-day operation of the economic system. According to the IMF's approved methodology, the required level of reserves implies that the minimum amount of highly liquid reserves should be at least 10% of

exports, supplemented by 10% of the money supply, 30% of short-term foreign currency debt, and 15% of other liabilities. Using this formula, the results of the calculation show that China's reserves should not be less than USD 2.7 trillion. THE US.

The default risk assessment used by Investors Service Moody's puts the risk of any of the four major Chinese banks - Bank of China, Industrial and Commercial Bank of China, China Construction Bank and Agricultural Bank of China - at no more than 1.5 per cent next year, and for some as low as 0.5 per cent. Even taking into account almost USD 11 trillion in assets and loans. USD of assets and loans that are invested in all sectors of China, it is unlikely that the crisis will be caused by the banks themselves. China's largest banks are controlled by the government, which has the will and resources to support them if necessary. At the same time, their ties with US financial institutions are quite narrow, so liquidity problems that can quickly spread from bank to bank, from country to country, similar in scale to the 2008 mortgage crisis, are not expected [40, p. 50].

An analysis of the possible correlation between problems in Chinese banks and the state of financial institutions in the United States was conducted based on a method called the Granger causality method, named after Nobel Prize-winning economist Clive Granger, which uses one set of data (in this case, market perceptions of Chinese bank risk) to predict another set of data (risk to US institutions) to determine the probability of default between US and Chinese banks. According to the conclusions of the modelling:

- The default risk of the largest Chinese banks has remained below the levels seen in the US before the financial crisis since its historic lows in 2013. The bank with the highest number of risk points is the Industrial and Commercial Bank of China;

- large US banks do not seem to be vulnerable to the problems of the Chinese banking system at the moment, partly due to the capital buffers that were built up for the purposes of the mega-regulation after the 2008 crisis;

- The two Chinese banks that US banks believe have the greatest impact on systemic stability are the Bank of China and the Industrial and Commercial Bank of China, because historically, changes in their risk profile have preceded changes in the condition of Western financial institutions. This is why investors should be particularly alert to signs of systemic risk in these two institutions;

- statistical indicators of the relationship between the condition of Chinese banks and risk measures in the United States increased after 2008, declined in mid-2015, but increased slightly over the past six months;

- Chinese securities firms, such as Haitong Securities Ltd. and Huatai, have higher exposures than Chinese commercial banks. However, they are much smaller: Haitong Securities Ltd. is the largest of the two, with only about USD 10 billion in assets. USD in assets. The risk of these firms has a smaller impact on other financial institutions than the Big Four banks.

Based on these conclusions, it can be said that not only the level of risk of banks is important for the emergence of a crisis, but also the level of their interconnectedness (interdependence) with other banks and financial institutions. Despite the fact that Chinese banks are not currently experiencing serious credit shortages - retail sales in China grew by 11% in December 2015 and housing sales have started to rise from the disastrous levels of the earlier period - Chinese banks are in a worse position than a year ago in many respects. There has been a rise in loan delinquencies, which have exceeded 1.59 per cent, compared to 0.95 per cent at the end of 2019. Moody's has downgraded its outlook for China's banking sector from stable to negative, pointing to problems with loan losses and an increase in total borrowing by 209 per cent of gross domestic product, compared to 193 per cent a year ago, which significantly increases systemic risk [41].

At the same time, all four of China's largest commercial banks, most of which are government-owned, continue to be rated A1-Stable, with all six notches above speculative grade and higher than all six of the largest US banks, which are rated A2 or

A3. At the same time, bigger problems lurk in smaller Chinese banks, which are less significant.

Our analysis has led us to the following conclusions on how to ensure further development of the banking system in order to increase efficiency and resilience:

1. One essential condition for an effective approach is that the Chinese government must understand the existence of a demand deficit, that the Chinese economy needs strong and coherent incentives to address the deficit .

2. A list of measures that could aggravate the situation should be identified so that these measures are not used in any way in the future, and monetary policy aimed at depreciating the exchange rate should be avoided.

3 A numerical target for the overall fiscal stimulus should be calculated so that fiscal expansion does not risk adverse financial market reactions. A percentage of total output, a timetable for implementation, and a control mechanism should be agreed upon.

4. It is necessary to carefully consider ways to resolve possible crisis situations. It seems advisable to use stress testing of systemically important financial institutions and large banks, and to define contingency plans to address the difficulties that many banks may face in order to weaken growth and capital flows. In the short term, the NBC should have the capacity and resources to provide real sector entities with adequate funding in times of crisis. A stronger system of national safety nets, with the resources to back them up, is an immediate priority if the risk of contagion from failed banks is to be minimised.

5. It is necessary to restructure the sovereign debt . In the long run, the problem of unsustainable sovereign debt has yet to be addressed. In most countries, the crisis calls for some form of debt relief, but there is no systematic framework to achieve this goal. Developing a proper and effective framework will take time, but a start should be made now to establish a permanent mechanism for sovereign debt restructuring.

6. In order to avoid a financial sector crisis and reduce the risks that banks may face, it is necessary to clearly understand the weaknesses in their financial systems and, consequently, to identify measures to address these vulnerabilities. The experience of the global crisis has shown all too clearly the dangers of ignoring such issues.

7. China should formulate principles for the use of "non-competitive" monetary stimulus policies and for taking timely action on overdue debts and problems in its domestic banking system.

3.2 Adaptation Strategies for Ukraine

In modern conditions, given the importance of increasing the efficiency of the main instruments of the state's monetary policy in Ukraine, it is necessary, first of all, to ensure the coherence of monetary policy . Therefore, the improvement of the monetary mechanism should include the implementation of the following measures [33]:

1) coordinating the timing of information exchange in the development of key forecast and policy documents of the government and the NBU;

2) development of a memorandum between the government and the NBU on the formation of the goal of a unified financial and economic policy of Ukraine, determination of target macroeconomic indicators, selection of the main areas of activity of monetary and fiscal institutions, as well as the mechanism for achieving the selected goals;

3) improving the management of the government's funds on the single treasury account (STA) opened with the NBU. Currently, the volatility of funds on the STA is accompanied by fluctuations in interest rates, which leads to instability in the interbank market and the cost of short-term refinancing for commercial banks;

4) Increasing the level of budgetary discipline to reduce the state budget deficit and reduce the costs of its financing by the government and the NBU;

5) ensuring effective cooperation between the government and the NBU to further develop the stock market in order to increase the effectiveness of such monetary policy instrument as open market operations with securities, as well as to expand sources of financing the state budget deficit;

6) intensify the activities of the government and the NBU in providing state guarantees to the real economy for commercial bank loans.

A characteristic feature of a fixed exchange rate system is that the economy may require changes in the value of the exchange rate from time to time, due to changes in the economic environment of the country and the world. Many countries, however, have significant difficulties devaluing their national currency, primarily for purely political reasons. An overvalued national currency in this case, while bringing a stabilising moment in the short term, restricts export development, discourages investment and accumulates devaluation pressure, along with expectations of inevitable and rapid devaluation. In this case, instead of improving the overall economic environment, investor uncertainty leads to capital outflows from the country to reduce investment risk and loss of profits associated with the devaluation of the national currency [42; 43]. Therefore, such uncontrolled outflows can cause much greater losses for the economy than managed devaluation, which provides clear guidelines for the expected exchange rate. Ignoring this mechanism was the cause of many financial crises in developing countries in the early 1980s.

In the context of restrictions on achieving the main goals of economic development, it is also worth recalling the "impossibility theory" or "impossible triad", according to which it is impossible to simultaneously achieve and maintain a fixed exchange rate, independent monetary policy and free cross-border capital flows.

The main conclusions of the model are summarised in the following points:

- monetary policy is more effective in a floating exchange rate system than in a fixed exchange rate system;

- The higher the capital mobility, the more effective monetary policy is in a floating exchange rate system.

- However, the higher the capital mobility, the more active monetary policy should be to balance the external sector;

- If the interest rate has not changed or has changed little in response to monetary expansion, then investment remains unchanged and national income is generated through the external sector;

- At the same time, all cases of capital mobility are characterised by the fact that the external sector accompanies and reinforces the results of monetary expansion by contributing to income growth.

One more practical "limitation" of the exchange rate regime should be pointed out. Typically, a small open economy can easily be exposed to negative external influences, while a larger economy may find it easier to mitigate them, including through larger domestic markets capable of higher absorption of consumer and investment goods. In practice, among the Central and Southern European countries that are members of the European Union or recognised candidates for accession, the four largest countries - Poland, Romania, Hungary, and the Czech Republic - did not join the euro area, retained their own currencies (albeit sufficiently pegged to the euro), and are taking into account currency dynamics to strengthen resilience and support their own country's acceleration.

An important implication for this consideration is that only a coherent combination of stimulus measures from fiscal, monetary and foreign economic policies can lead to sustainable growth. The use of restrictive measures, especially in the long term, indicates a recessionary trend in the country's economic dynamics.

In the current environment of martial law and high uncertainty in Ukraine, it is of paramount importance to ensure the reliable and stable functioning of the country's banking and financial system.

At the beginning of the war, Ukraine's economy suffered its deepest decline, but has begun a gradual recovery as businesses and households adapt to the war, although risks to all sectors of the economy remain high.

3.3. Experience of China's Monetary Policy for Ukraine

Monetary policy is a key tool for regulating the economy, determining the direction of development of the national financial system. China, which has demonstrated stable economic growth over the past decades, provides a unique experience in formulating and implementing monetary policy, which may be useful for Ukraine in the context of economic instability and social transformations. In this context, let us consider the key aspects of China's monetary policy, its peculiarities, and potential lessons for Ukraine.

1. Flexible money supply management.

The People's Republic of China (PRC) is characterised by the active use of flexible money supply management to stimulate the economy and control inflation. The People's Bank of China (PBOC) regularly regulates reserve requirements for banks, which allows it to promptly influence lending activity and money circulation.

Lessons for Ukraine: introduce a more dynamic monetary policy that takes into account current economic conditions; use differentiated reserve requirements for certain segments of the financial market, in particular to support small and medium-sized businesses;

2. Control of the exchange rate.

The Chinese economy has demonstrated effective use of the regulated RMB exchange rate. The exchange rate is maintained at a level that ensures the

competitiveness of exports, which has become an important factor in economic growth.

Lessons for Ukraine: use of exchange rate targeting tools to ensure hryvnia stability; support for the competitiveness of Ukrainian exports through a flexible approach to foreign exchange market regulation;

3. Monetary policy as part of strategic planning.

In China, monetary policy is integrated into the overall economic development strategy. Monetary policy planning is based on long-term goals, such as technological modernisation, infrastructure development, and increasing domestic demand.

Lessons for Ukraine: integrate monetary policy into the national economic strategy; focus on long-term goals, including stimulating innovation and supporting infrastructure projects;

4. Development of the domestic financial market.

China is actively developing its domestic financial market, providing access to credit and financing for businesses and individuals. This helps attract investment and stimulates economic activity.

Lesson for Ukraine: Increase the availability of financing for small and medium-sized businesses by lowering lending rates; develop the market for corporate bonds and other financial instruments to raise capital;

5. Use of state regulation.

China applies strong government regulation in the financial sector, which helps to minimise the risks of crises. At the same time, the government creates conditions for investment and economic growth.

Lessons for Ukraine: introduce macroprudential regulation tools to reduce risks in the banking system; strengthen government control over key segments of the financial market to ensure stability;

6. Focus on domestic demand.

China aims its monetary policy to stimulate domestic demand, in particular by reducing lending rates for consumers. This reduces the economy's dependence on exports and promotes sustainable development.

Lesson for Ukraine: stimulate domestic demand by reducing the cost of lending to households; develop consumer lending support programmes to increase the purchasing power of citizens;

7. Innovations and digitalisation of the financial system.

China is actively introducing digital technologies into the financial sector, including the development of the digital yuan. This helps to improve the efficiency of financial services and reduce costs.

Lessons for Ukraine: stimulate the digitalisation of the banking sector; consider the possibility of introducing a digital hryvnia as a tool to improve the efficiency of monetary policy;

8. Stabilisation of inflation and confidence in monetary policy.

China maintains low inflation through strict price controls and stable money supply. This increases confidence in monetary policy and contributes to economic stability.

Lesson for Ukraine: strengthen measures to control inflation, especially in times of crisis; increase trust in the NBU's policies through transparency and consistency of decisions;

9. Attracting foreign investment.

China's monetary policy is aimed at creating favourable conditions for attracting foreign investment, which ensures the inflow of capital into the economy.

Lesson for Ukraine: create conditions for improving the investment climate, including macroeconomic stability and transparent regulatory rules; use monetary policy to support investment projects in priority sectors;

10. Flexibility in crisis situations.

Chinese monetary policy demonstrates high flexibility in responding to economic crises. This includes lowering lending rates, stimulating bank liquidity and supporting key industries.

Lesson for Ukraine: ensure prompt response to economic challenges by adapting monetary instruments; develop anti-crisis plans to ensure financial stability.

China's experience in implementing monetary policy demonstrates how flexibility, strategic planning, and integration of economic instruments can contribute to stable development even in the face of global instability. For Ukraine, adapting Chinese approaches to local realities can help improve the effectiveness of monetary policy, strengthen the financial system, and ensure sustainable economic growth.

CONCLUSIONS

Based on the study of the theoretical foundations and practical issues of monetary policy as a direction of national economic management, the following conclusions can be drawn.

Monetary policy as an area of national economic management is a set of measures that regulate the functioning of the national monetary system in order to regulate the economic environment and achieve the strategic goals of the country's economic development. Monetary policy is the most important component of the state's economic policy. This part of the state policy plays a stabilising role in the macroeconomy and is an instrument of countercyclical regulation. It is based on accelerating the movement and restraining the growth of the money supply, as well as changes in the cost of credit. Monetary policy is also seen as a set of measures in the field of money circulation and credit aimed at regulating economic growth, curbing inflation and ensuring the stability of the Ukrainian currency, providing employment and balancing the balance of payments.

In practical terms, the monetary regulation mechanism is a set of interrelated instruments that regulate the money market and control the dynamics of the value of national money.

The definition of monetary levers has proven that it is a set of appropriate means and methods of managing the national economy using a certain set of instruments that are an integral part of the economic mechanism. In essence, monetary policy levers are a set of measures and methods used by the Central Banks of Ukraine and China to regulate bank reserves, money supply and lending to the economy in order to ensure economic growth, reduce inflation and unemployment, and balance the payment balance. The main instruments used by the NBU include the monetary policy target, the key policy rate, the interest rate band for standing facilities, required reserves,

repurchase agreements, purchase and sale of government securities, swap transactions, long-term refinancing, and interventions in the foreign exchange market.

An analysis of the global experience of the monetary mechanism of socio-economic development shows that the United States is currently the leader in introducing stimulus measures, where the expansion of lending is accompanied by fiscal reform (reducing the tax burden on large businesses along with expanding financing for large infrastructure projects. The experience of European countries, especially Poland, Romania, Hungary, and the Czech Republic, which until recently were close to Ukraine in terms of economic development, is useful. In many countries, especially those with transformational economies (including developed countries in Europe), the exchange rate has been chosen as a target indicator of macroeconomic stabilisation policy.

An analysis of the effectiveness of monetary policy in Ukraine shows that the dynamics of key monetary indicators has been mixed, in particular: since the beginning of martial law, the key policy rate has increased from 10% to 25%, with a gradual decline to 14% in 2024, which has a direct impact on consumption and investment by households and businesses, and thus on inflation; at the beginning of 2023, Ukraine's international reserves amounted to USD 28.5 billion (and at the beginning of March 2023, they were already USD 29.9 billion). As of the beginning of March 2023, the NBU's international reserves amounted to USD 28.5 billion (and USD 29.9 billion at the beginning of March 2023), mainly due to receipts from international partners. This is 88% of the IMF's composite indicator for the required level of international reserves of IMF member countries; another indicator that did not meet the threshold set by the NBU is inflation, which has been growing over the years under study. In 2021, inflation was twice as high as in the previous year, and 2.7 times higher the following year. The rapid rise in inflation has reduced the purchasing power of some people.

The analysis of the effectiveness of monetary policy in China shows that the measures implemented in 2011-2022 had a positive impact on economic growth, including the central bank's balance sheet, as well as unconventional monetary policy on the size of the balance sheet of central banks in developed countries. The change in the reserve requirement rate has led to a decrease in the PBoC's balance sheet, and the increase in lending by the central bank has led to an increase in its balance sheet, so the size of the PBoC's balance sheet remains largely stable compared to the growing size of the balance sheets of central banks in major developed countries.

A comparative analysis of the effectiveness of monetary policy implementation in Ukraine and China shows the following trends and dependencies: China focused on stimulating growth, while Ukraine focused on stability, reflecting different stages of economic development and priorities; China demonstrates a more flexible approach with a variety of instruments, while Ukraine mainly relies on the key policy rate and tight controls in crisis situations; China had more opportunities to actively support the economy during the pandemic due to large reserves and flexible monetary policy; China effectively controlled inflation, while Ukraine had much higher inflation, which limited

The following were highlighted as areas for improving the use of monetary instruments to stimulate economic development in China: coordinating incentives to address the problem of demand deficit in the domestic market; preventing the depreciation of the exchange rate; using stress testing of systemically important financial institutions and large banks, determining contingency plans to address difficulties; restructuring sovereign debt; formulating principles for using "non-competitive" monetary policy to stimulate

China's experience in implementing monetary policy demonstrates how flexibility, strategic planning, and integration of economic instruments can contribute to stable development even in the face of global instability. For Ukraine, adapting

Chinese approaches to local realities can help improve the effectiveness of monetary policy, strengthen the financial system, and ensure sustainable economic growth.

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