Sergiy Nikolaychuk: Monetary policy in emerging markets - credit and saving behavior in monetary transmission

Opening remarks (virtual) by Mr Sergiy Nikolaychuk, First Deputy Governor of the National Bank of Ukraine, at the Sixth National Bank of Ukraine annual research workshop "Monetary policy in emerging markets: credit and saving behavior in monetary transmission", Kyiv, 14 May 2026.

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Dear colleagues and friends,

It is my great pleasure to welcome you to the Sixth Annual Research Workshop of the National Bank of Ukraine devoted to monetary policy in emerging market economies. This year the workshop focuses on the role of credit and savings behavior in monetary transmission.

I would like to sincerely thank all participants – researchers, representatives of central banks, and international institutions – for joining this discussion at a time when the global economy is undergoing profound transformations and facing exceptionally high uncertainty.

These challenges are particularly acute for emerging markets, and even more so for Ukraine, which continues to preserve macrofinancial stability amid the ongoing full-scale war.

A New Global Reality

The world has entered a new geopolitical reality. This is no longer a hypothesis, but an established fact.

What only five years ago would have been viewed as the materialization of isolated tail risks has now become part of the new normal.

Wars, energy shocks, fragmentation of trade, supply-chain disruptions, tariff confrontations, rising protectionism, geopolitical polarization, and rapidly increasing defense expenditures are reshaping the global economy and financial systems.

For central banks, these developments create increasingly complex policy challenges.

We are compelled to navigate difficult trade-offs.

On the one hand, these shocks are inflationary. They increase production costs, create shortages, disrupt logistics, and generate structural imbalances.

On the other hand, they weaken economic activity, suppress investment, increase uncertainty, reduce lending activity, and worsen business and household sentiment.

As a result, central banks increasingly face a familiar dilemma: whether to prioritize inflation control or support economic activity.

Economic history has seen similar episodes before – most notably during the shocks of the 1970s, which shaped one of the key principles of modern monetary economics: without bringing inflation under control and firmly anchoring inflation expectations, monetary stimulus cannot generate sustainable growth.

High inflation may create a short-term illusion of support for the economy, but over time it produces even larger losses. This is precisely why price stability and monetary policy credibility remain the cornerstone of modern central banking.

Today, however, the environment is even more challenging. Shocks are becoming more frequent, more persistent, and less predictable. Financial risks and market imperfections are intensifying, while monetary transmission itself is undergoing permanent transformation.

Against this backdrop, the topic of our workshop is especially relevant. The effectiveness of monetary policy increasingly depends on how the financial system functions, how households and firms save and borrow, how banks respond to liquidity and funding conditions, and ultimately how effectively monetary signals are transmitted to the broader economy.

Ukraine's Experience: Monetary Policy in Wartime

Ukraine has experienced these challenges firsthand. A full-scale war represents perhaps the most severe geopolitical shock imaginable for an economy and financial system.

As the war continues, it generates new operational, monetary, and regulatory challenges. Our task is to respond to them while preserving policy consistency and strategic coherence.

Today, I would like to focus on five principles that, in our view, are critically important for ensuring effective monetary transmission under extreme uncertainty.

First principle: System must function effectively before transmission can work

In normal times, central bankers often take basic financial infrastructure for granted. Large shocks remind us that this infrastructure is the very foundation of monetary policy transmission.

Payments must go through. ATMs must function. People must have access to their money. Banks must open in the morning.

If the financial system fails to function physically, monetary transmission no longer matters.

Accordingly, at the onset of the full-scale invasion, the NBU's first priority was to ensure uninterrupted operation of the financial system.

We rapidly provided liquidity to banks, introduced administrative restrictions, stabilized the foreign exchange market, ensured continuity of payments, and coordinated the functioning of the banking system virtually around the clock.

The financial system held firm. No systemic panic emerged. People did not lose access to their funds. The hryvnia preserved its role as the primary means of payment and, importantly, strengthened its role as a store of value.

This created the foundation for stabilizing expectations and gradually restoring monetary transmission. As a result, public confidence in the banking system today stands among the highest levels in Ukraine's history, despite the ongoing war.

Second principle: Big shocks require flexibility

In times of extreme uncertainty, textbook solutions rarely work in their pure form. Central banks must adapt their instruments, operational frameworks, and sometimes even the sequencing of policy actions.

But flexibility in instruments must not mean inconsistency in objectives.

Flexibility is not a deviation from prudent policy. It is a way to preserve focus on the central bank's mandate when large shocks occur.

Over the past four years, Ukraine has gone through several stages of policy adaptation:

- an exchange rate peg and administrative restrictions at the onset of the invasion
- adjustment of the exchange rate level and restoration of active interest rate policy
- transition to managed exchange rate flexibility and gradual return to flexible inflation targeting once conditions allowed.

At the same time, we had to ensure that monetary transmission worked effectively.

In June 2022, the NBU sharply increased its policy rate from 10% to 25%. Yet by late 2022, transmission was weaker than one would normally expect.

The reason was the rapid accumulation and concentration of liquidity in the banking system amid large-scale fiscal expenditures and international financial assistance. Competition for deposits weakened, as did incentives to hold hryvnia-denominated assets.

To reinforce transmission, we adjusted the operational design of monetary policy and relied more actively on reserve requirements.

We introduced a novel liquidity absorption instrument with a three-month maturity, while linking banks' access to this instrument to their success in attracting household term deposits.

This allowed us to raise deposit rates in a targeted manner without creating excessive pressure on lending.

Importantly, when the easing cycle later began, this mechanism also supported a faster decline in lending rates while preserving the attractiveness of hryvnia savings instruments.

These measures, together with active interest rate policy, helped reduce inflation from 26.6% in 2022 to single digits. Already in 2023, inflation returned to the NBU's 5% target despite persistent wartime shocks.

Cooperation with the government also played an important role. Together, we took measures to revive the domestic debt market. As a result, monetary financing of the budget was discontinued from the beginning of 2023, while government bonds increasingly became an attractive savings instrument.

Our experience confirms that effective monetary policy today increasingly requires coordination between the central bank, the government, and the financial sector.

Third principle: benchmarking and proper communication are a must, especially in times of crisis

When a large shock hits, expectations management becomes an increasingly more important function than ever before. But it also gets considerably more difficult. When the future is uncertain, economic agents become especially sensitive to signals: people have to understand not only what the central bank is doing now, but also where it is leading the system.

Right after the clear-cut shift in the monetary regime at the start of the war, the NBU declared its intention to eventually return to full-fledged inflation targeting with a floating exchange rate. This was a fundamental signal: crisis tools are temporary, the strategic direction is not to be changed.

Commitment to price stability allowed inflation expectations to remain under control and market transmission mechanisms to be gradually restored. It was crucial to stick to the inflation target.

A lesson is that communication is an essential tool of monetary policy, particularly during crises. The voice of the central bank rings loud and clear, even in the midst of explosions.

Fourth principle: a cutting-edge central bank operates not only with aggregates, but also with imperfections and irregularities

In the face of large shocks, the economy becomes much more heterogeneous. Different sectors, regions, households, and businesses respond to monetary policy in completely different ways.

In Ukraine, we see this very clearly: the energy sector, the defense industry, mortgage lending, and frontline regions operate in fundamentally different risk environments.

Even the inflation expectations of businesses and households differ significantly by region and sector.

Conventional macroeconomic logic works through aggregate indicators, but modern shocks destroy this aggregation.

Under such conditions, central banks cannot afford to manage the economy mechanically through aggregate metrics alone. They must carefully analyze sectoral and regional specifics in order to assess policy effects and address structural imperfections and bottlenecks.

We have been working hard to ensure an activation of banks' lending, since monetary transmission ultimately cannot function without it. Our response has been to actively remove regulatory barriers, support financing for the energy and defense sectors, and promote the development of mortgage lending, etc.

The results we have achieved in recent years are quite remarkable, including by the standards of a wartime economy. Lending has been growing at double-digit rates for the third consecutive year, driven specifically by market-based lending outside state support programs. After a prolonged period of stagnation, the corporate loan penetration has also started to increase.

Banks are returning to financing longer-term investment projects in energy, infrastructure, and industry. What is particularly important is that the share of non-performing loans remains near historic lows despite four years of full-scale war.

This dynamic reflects the underlying resilience of the country's banking system, rather than merely its ability to survive. At the same time, this is also the phase that requires particular attention. Experience shows that risks tend to accumulate quietly during periods of expansion and often materialize when everything appears to be under control.

Therefore, our task is not only to support lending, but also to closely monitor the quality of its growth so that today's successes do not become the source of tomorrow's problems.

Fifth principle: Central banks must play the long game

During extreme shocks, policymakers naturally face pressure to prioritize short-term results. This is understandable when economies are under stress and businesses seek immediate support.

Yet it is precisely at such moments that maintaining a strategic perspective becomes most important.

The most dangerous macrofinancial imbalances usually accumulate gradually. Their effects often become visible only years later.

Claudio Borio, who will deliver today's keynote lecture, has repeatedly emphasized this point in both his speeches and research. His work on financial cycles is perhaps more relevant today than ever before.

After the initial wartime shock subsided and inflation started to decline rapidly, pressure to ease policy intensified.

What helped us remain on a strategic course was a clear understanding that short-term solutions achieved at the expense of inflation ultimately undermine the foundations of sustainable recovery: confidence in the national currency, price stability, and predictable conditions for investment and business activity.

Inflationary risks remain elevated. Energy infrastructure continues to be destroyed. Logistics remain disrupted. Fiscal expenditures remain exceptionally high.

This is why the NBU remains prepared to respond swiftly to renewed inflationary pressures through sufficiently tight monetary policy, liquidity sterilization instruments, or other measures if necessary.

We are playing the long game.

This means that, when needed, we are prepared to take difficult and sometimes unpopular decisions repeatedly.

Ultimately, the task of a central bank is not to maximize short-term comfort, but to minimize long-term losses for the economy and the financial system.

Very often, the decisions required to preserve long-term resilience are painful today. Yet this is precisely the essence of responsible monetary policy and the foundation of stability tomorrow.

Opening the Discussion

Dear colleagues,

Let me conclude with one key message.

The new global reality does not invalidate the core principles of central banking – price stability, central bank independence, and policy credibility.

What it changes is the effectiveness of many standard tools and transmission channels we have long relied upon.

Shocks are becoming more severe and more frequent. Transmission mechanisms are becoming weaker and less predictable. Structural imperfections within financial systems are becoming increasingly visible.

This does not diminish the importance of monetary policy. On the contrary, it makes monetary policy intellectually and operationally more demanding.

Central banks today must identify weaknesses and bottlenecks in transmission with far greater precision. We must work on structural solutions, not merely react to aggregate indicators.

We need to understand where transmission breaks down and why.

This requires deeper analysis of saving behavior, lending activity, market segmentation, regulatory frictions, and asymmetries across sectors and regions.

Ukraine did not seek to become a testing ground for central banking under extreme uncertainty. We were forced to become one.

We hope that our experience can contribute to broader international reflection – not as a one-size-fits-all solution, but as a basis for collective reflection.

Our experience shows that even amid extreme shocks, monetary policy can remain effective when a central bank preserves confidence, deploys flexible tools, and stays firmly committed to its strategic objectives.

Let me leave you with an open question that I hope will shape today's discussion:

- *We know that monetary transmission weakens during extreme shocks. But where exactly does the breakdown occur? And can we identify these bottlenecks before they become fully visible?*

Understanding how monetary transmission changes under extreme shocks is no longer merely an academic exercise. It is becoming one of the central questions of modern central banking.

That is precisely why we have gathered here today.

I sincerely thank all participants for contributing to this discussion.

Thank you for your attention.

Glory to Ukraine!

I would like to thank Volodymyr Lepushynskyi, Oleksandr Faryna, Oksana Kotliarova and Mariana Fostyk for their input in the preparation of these remarks.