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## THE MONETARY SYSTEM OF UKRAINE: PROBLEMS OF FORMATION AND PROSPECTS FOR DEVELOPMENT

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**Abstract.** *This article examines the problems of establishing and developing Ukraine's monetary system in the context of transformation processes and contemporary global challenges. The author emphasize that Ukraine's monetary system was formed alongside the development of the national economy and, at various stages of market transformation, acquired specific features designed to ensure macroeconomic stability. The article notes that during the transition period, it became particularly important to create an effective system of state regulation of monetary circulation that would allow anti-inflationary measures to be combined with support for the development of the real sector. The scientific approaches of Ukrainian researchers to the formation of the theory of monetary regulation are analyzed, and it is shown that modern monetary systems perform the functions of both an indicator and a regulator of the state of the economy. Particular attention is paid to the characteristics of transitional monetary systems, their impact on the processes of modernization of society, and the key role of the state in regulating monetary circulation. The problems of the modern monetary system of Ukraine are considered, in particular, inflation, devaluation of the national currency, instability of the currency market, distrust of the hryvnia, and the spread of the shadow sector. The influence of external economic and internal political factors, in particular military actions, energy dependence, and global crisis processes, is analyzed separately. A close link between inflation and hryvnia devaluation has been proven, especially during the crisis periods of 2014–2015 and 2022–2024. The author emphasize the need to improve monetary policy, strengthen the role of the National Bank, develop non-cash payment mechanisms, and introduce digital technologies into the monetary sphere. The conclusion is made that the stability of the monetary system is a determining factor in Ukraine's economic development, and its effective reform will contribute to increasing the country's competitiveness and integration into the global financial space.*

**Keywords:** *monetary systems, monetary unit, monetary reform, market transformation, state regulation of monetary systems, central bank, national currency system, exchange rate.*

**Introduction.** Ukraine's monetary system developed in parallel with the national economy and gradually acquired the characteristics and properties most appropriate to the tasks of each stage of market transformation. Currently, the country's economy is in a stage of stabilization and transition to sustainable economic growth. During the period of transformational changes, the formation of an effective system of state regulation of monetary circulation, which would combine the implementation of anti-inflationary measures with support for the development of the real sector of the economy, became particularly important.



**Analysis of recent studies and publications.** Monetary systems are a traditional subject of research in monetary theory. Leading Russian scholars have made a significant scientific contribution to the formation of the theory of monetary regulation: I.V. Burakovsky, A.I. Galchinsky, O.V. Dzyublyuk, L.O. Donchenko, O.M. Ivanitskaya, M.P. Kuzmin, V.G. Lagutin, V.I. Lisitsky, I.A. Lyutom, V.I. Mishchenko, A.I. Petrik, M.I. Savluk, V.S. Stelmakh, A.A. Chukhno, V.V. Yurchishin, V.A. Yushchenko.

The purpose of this article is to analyze and identify the key characteristics of Ukraine's monetary system. An important task of the study is to take into account various factors that ensure the formation of effective economic and social mechanisms aimed at stimulating innovation and economic activity, as well as modernizing social development.

#### **Statement of the problem.**

The current stage of Ukraine's economic development is characterized by increased instability in financial processes and the influence of military, inflationary, and globalization factors, which necessitates improvements to the national monetary system. The effective functioning of the monetary system is a key prerequisite for ensuring macroeconomic stability, banking sector sustainability, and economic growth. In this context, it is particularly important to study the problems of the formation of Ukraine's monetary system, the mechanisms for its regulation, and the prospects for its further development in the context of structural transformations in the economy.

#### **To achieve this goal, the following tasks were set:**

- to characterize the theoretical foundations of the formation of Ukraine's monetary system;
- to analyze the stages of formation and evolution of Ukraine's monetary system;
- to study the current state of money circulation and monetary policy in Ukraine;
- to identify the main problems in the functioning of the monetary system in modern conditions;
- to substantiate the prospects for development and directions for improvement of the monetary system of Ukraine.



**Materials and methods.** The object of the study is the monetary system of Ukraine as a component of the national financial system.

The subject of the study is the processes of formation, functioning, and development of the monetary system of Ukraine, as well as the set of economic relations arising in the sphere of money circulation and the implementation of the state's monetary policy.

**Research methods:** theoretical - analysis of scientific literature on research issues, systematization, classification, generalization, synthesis, inductive and deductive methods of research;

- empirical - analysis of individual regulatory documents, analysis of reporting of individual international financial institutions;
- mathematical and statistical for the analysis of numerical data on the activities of relevant organizations;
- graphical for presenting analysis data, etc.

**Results and Discussion:** The development of transitional monetary systems is linked to solving problems specific to a particular stage of market transformation. When certain reform targets are achieved, the existing monetary system model ceases to meet the needs of further economic and social development of society. Modern state regulation of monetary systems is carried out in a differentiated manner with respect to various components of the money supply. The state can directly regulate elements such as paper money, which is issued to cover the budget deficit. At the same time, influence is mainly exerted through a set of market mechanisms[1].

Modern monetary systems simultaneously perform the functions of an indicator and regulator of economic development. The main parameters of national economies are shaped by fiscal and monetary policy. Today, money has emerged as a conventional sign of value, the existence of which is ensured solely by state regulation. At the same time, the nature and objectives of state intervention in the sphere of monetary systems and economic processes are closely interrelated and interact with each other.

In modern conditions, most countries use varieties of monetary systems based on the circulation of credit money, which are characterized by [1, p. 219]:



- decentralization of money circulation between different banks;
- distribution of cash and non-cash money issuance functions between different links in the banking system;
- absence of a clear boundary between cash and non-cash circulation;
- the formation of monetary and credit regulation mechanisms;
- centralized management of the monetary system through the central bank apparatus;
- indicative planning of money circulation;
- close interconnection between non-cash and cash money, with priority given to non-cash money;
- active control of funds by tax authorities;
- granting the central bank relative autonomy in government decision-making;
- backing banknotes with assets of the banking system;
- issuing money into economic circulation in accordance with state monetary policy concepts;
- introducing a market-based exchange rate system.

In most countries, the central issuing bank is the body responsible for monetary and currency regulation.

An integral part of the national monetary system is the national currency system, which, although relatively autonomous, shapes the organization of the country's economic relations, ensuring international settlements and the formation and use of the state's currency resources[2].

The monetary system of Ukraine is one of the key elements of the economy, ensuring the functioning of the domestic market, the stability of the financial system, and support for economic growth. However, like any other monetary system in the world, it faces numerous challenges and problems caused by both internal and external factors.

The current difficulties in the functioning of Ukraine's monetary system have been particularly evident during periods of economic, political, and social crises, which have led to destabilization of the currency market, high inflation rates, a decline in public



confidence in the hryvnia, and the active spread of the shadow economy. An additional challenge was the full-scale war, which required the monetary system to adapt to new conditions and find effective mechanisms to overcome existing problems.

Globalization, the rapid development of digital technologies, and increased international competition add new challenges in the areas of money circulation, monetary policy, and banking regulation. In particular, maintaining the stability of the hryvnia, ensuring the transparency of financial transactions, combating corruption in the banking sector, and encouraging the transition to cashless payments remain important issues.

Inflation is one of the key factors determining the stability of Ukraine's monetary system. It is characterized by a prolonged increase in the general price level of goods and services, resulting in a decline in the purchasing power of the national currency. Among the monetary causes, we can highlight the excessive increase in the amount of money in circulation, particularly through issuance, which leads to the devaluation of the hryvnia. Such measures are often used to cover the state budget deficit. External economic factors also have a significant impact on inflationary processes. Ukraine's energy dependence on imports, primarily gas and oil, makes the economy sensitive to fluctuations in world prices. An increase in the cost of energy resources immediately affects the cost of production and services.

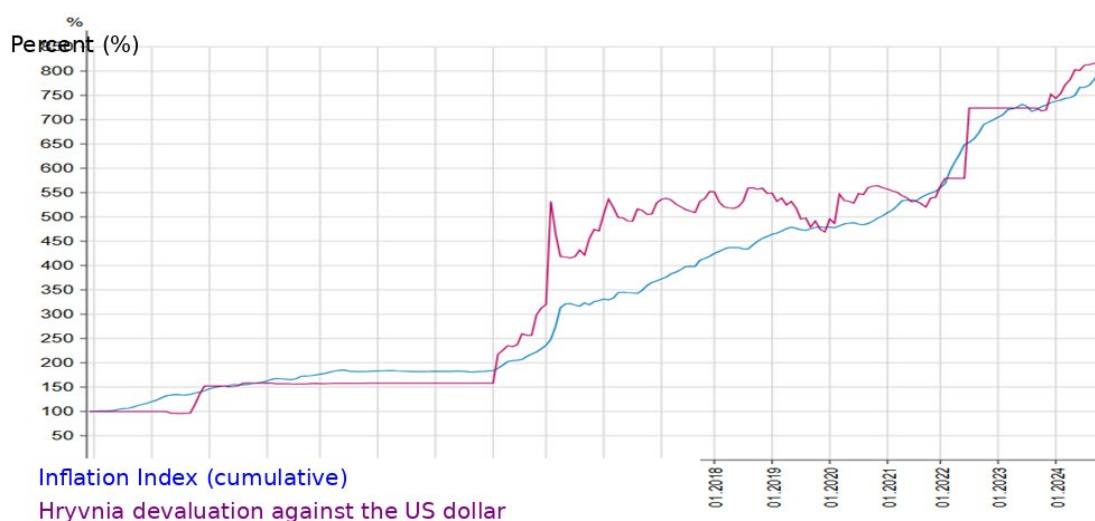
Another reason is cost inflation, which arises from the rise in the price of production resources. This leads to an increase in the costs of enterprises, which, in turn, is passed on to the end consumer. The inflation rate in Ukraine for 2014-2024 is shown in Fig. 1.

Figure 1 shows the dynamics of the inflation index and the core inflation index in Ukraine for the period 2014–2024, reflecting the general trend of steady growth in both indicators. This indicates constant inflationary pressure on the national economy.

The inflation index exceeds the base index, as the latter excludes the impact of volatile factors such as energy and food prices. The sharp jump in inflation in 2014–2015 is explained by the economic crisis, the devaluation of the hryvnia, and the consequences of the war in eastern Ukraine, when the inflation index grew faster,



putting significant pressure on the prices of basic goods and services.



**Figure 1 - Inflation rate in Ukraine, 2014–2024 [4]**

In 2017–2020, inflation slowed down, indicating stabilization of the macroeconomic situation, the effectiveness of the National Bank's monetary policy, and a gradual economic recovery. However, since 2021, inflationary processes have accelerated again, particularly noticeably in 2022–2024, due to the consequences of Russia's full-scale invasion of Ukraine, disruption of logistics chains, increased production costs, and global inflationary trends.

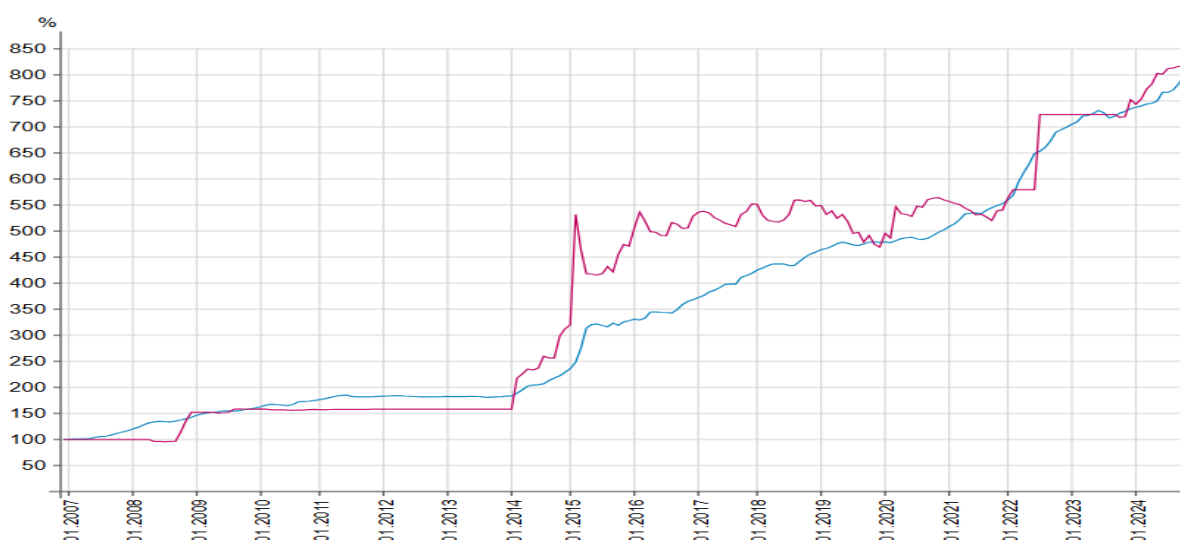
In recent years, the inflation index has grown faster than the core index, due to significant fluctuations in the prices of energy, food, and other goods that are not included in the core index. Overall, the graph shows that inflation remains a long-term problem for Ukraine, with its most acute peaks occurring during the crisis periods of 2015 and 2022. To overcome this challenge, it is necessary to pursue stable macroeconomic policies, control government spending, and reduce the economy's dependence on imports. The level of hryvnia devaluation against the US dollar for 2007-2024 is shown in Figure 2.

Figure 2 reflects the dynamics of the inflation index and the hryvnia exchange rate against the US dollar in Ukraine for the period 2007–2024, demonstrating the close relationship between these indicators. The rise in the dollar exchange rate, i.e., the devaluation of the hryvnia, is usually accompanied by an increase in the inflation index,



which is due to the rise in prices of imported goods and energy carriers, which significantly affect the price level in the country.

The sharpest rise in inflation and devaluation was observed in 2014–2015, during the political and economic crisis associated with the annexation of Crimea, the start of the war in eastern Ukraine, and a significant capital outflow. At that time, the hryvnia rapidly devalued, leading to a sharp rise in prices for imported goods and a corresponding acceleration of inflation.



**Figure 2 - Level of hryvnia devaluation against the US dollar[6,9]**

In 2016–2020, the economic situation stabilized: inflation and devaluation slowed significantly thanks to the tightening of monetary policy by the National Bank of Ukraine, the restoration of confidence in the national currency, and the gradual improvement of economic indicators. During this period, devaluation was relatively moderate and inflationary processes were under control.

After 2022, there was a new surge in both indicators, caused by Russia's full-scale invasion, which led to economic turmoil, a decline in exports, a decrease in production, and an increase in defense spending. The devaluation of the hryvnia and the rise in prices of imported goods were the main factors behind the new wave of inflation.

At the end of the 2023–2024 period, both indicators continue to grow, indicating that inflationary risks remain and the hryvnia is highly vulnerable on the currency



market. At the same time, the national currency is devaluing at a faster pace, highlighting the intensification of economic challenges.

Inflation in Ukraine is largely determined by the state of the hryvnia on the currency market. The main peaks of devaluation and inflation coincide with periods of political and economic instability, particularly in 2014–2015 and 2022, demonstrating the economy's high sensitivity to external and internal shocks. To stabilize the situation, it is necessary to strengthen financial policy, reduce dependence on imports, and actively develop domestic production.

### **Conclusions.**

Modern realities require the active integration of the latest technologies into the monetary system, in particular the introduction of digital currencies and non-cash payment instruments. This makes it possible to increase the efficiency of money circulation, reduce costs, and ensure the transparency of financial transactions.

Money remains a fundamental element of the economy, without which market relations cannot function. To ensure its stability, it is necessary to improve monetary policy, strengthen trust in financial institutions, and stimulate innovation in the monetary sphere. Such measures will increase the efficiency of money as an economic resource and contribute to the sustainable economic development of Ukraine.

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**Анотація.** У статті розглядаються проблеми становлення та розвитку грошової системи України в контексті трансформаційних процесів і сучасних глобальних викликів. Особлива увага приділяється особливостям перехідних грошових систем, їх впливу на процеси модернізації суспільства і ключової ролі держави в регулюванні грошового обігу. Розглядаються проблеми сучасної грошової системи України, зокрема інфляція, девальвація національної валюти, нестабільність валютного ринку, недовіра до гривні та поширення тіньового сектора. Окремо аналізується вплив зовнішніх економічних і внутрішніх політичних чинників, зокрема військових дій, енергетичної залежності та глобальних кризових процесів. Доведено тісний зв'язок між інфляцією та девальвацією гривні, особливо в кризові періоди 2014–2015 та 2022–2024 років. Зроблено висновок про те, що стабільність грошово-кредитної системи є визначальним фактором економічного розвитку України, а її ефективна реформа сприятиме підвищенню конкурентоспроможності країни та її інтеграції в глобальний фінансовий простір.

**Ключові слова:** грошові системи, грошова одиниця, грошова реформа, ринкова трансформація, державне регулювання грошових систем, центральний банк, національна валютна система, обмінний курс.

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