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Стабільність банківської системи як ключова умова фінансової безпеки національної економіки

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Анотація: Мета. У цій статті аналізується системно важлива стійкість банківського сектору щодо впливу на макрофінансову стійкість в умовах зростання економічної невизначеності. У статті розглядається обмеженість емпіричного врахування банківської стабільності в національних моделях оцінки фінансових ризиків та розробки політики.

Методи. У дослідженні використовується динамічна панельна економічна модель з використанням системної оцінки GMM, яка дозволяє досліднику контролювати ендогенність, ефекти персистенції та неспостережувану гетерогенність. Аналіз базується на вторинних макрофінансових та інституційних даних України, Польщі та Німеччини за 2020-2024 роки. Стійкість банківської галузі визначається композитним індексом капіталізації, якістю активів, ліквідністю та прибутковістю, а також левериджем. Концепція



макрофінансової стійкості вимірюється за допомогою агрегованого показника, що включає фіскальну, монетарну та зовнішню стабільність. Модель враховує макроекономічні змінні та інституційні контрольні змінні з метою виокремлення механізмів передачі.

Результати. Статистичні дані свідчать про наявність статистично значущої та позитивної кореляції між стійкістю банківського сектору та макрофінансовою стійкістю всіх країн, що досліджуються. Розраховані коефіцієнти означають, що одна одиниця покращення банківської стійкості призводить до збільшення макрофінансової стійкості приблизно на 0,25-0,31 одиниці та вище в країнах, що зазнали шоків, та країнах з перехідною економікою. Фінансова стійкість демонструє високу стійкість, що свідчить про затримку адаптації до шоків системи. Дестабілізуючий вплив інфляційного тиску та волатильності обмінного курсу має послідовний вплив, причому стабілізуючий ефект банківського сектору посилюється інституційною якістю. Порівняння між країнами показує, що банківський сектор має більший вплив залежно від зрілості установ та доступу до інших фіскальних стабілізаторів.

Висновки. Результати підтверджують, що стійкість банківського сектору є життєво важливим системним станом забезпечення макрофінансової стабільності, особливо в періоди супутніх економічних та геополітичних потрясінь. Посилення пруденційного моніторингу, покращення якості активів та посилення інституційного управління стають ключовими політичними пріоритетами. Дослідження є актуальним для фінансової економіки, оскільки воно розглядає банківську стійкість як важливий стабілізуючий процес на макрорівні, на відміну від секторального явища. Майбутні дослідження повинні розширити свій аналітичний горизонт, використовувати банківські дані мікрорівня та впроваджувати нелінійні моделі криз для розуміння динаміки асиметричних криз.



Ключові слова: макрофінансова стійкість; пруденційне регулювання; системний ризик; інституційна якість; динамічний панельний аналіз; економічна стійкість.

Stability of the banking system as a key condition for the financial security of the national economy

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Abstract: Purpose. This article is aimed at analyzing the systemic importance of the resilience of the banking sector to influence the macro-financial sustainability under the circumstances of the increase in the economic uncertainty. The paper relates to the lack of the empirical incorporation of banking stability in the national financial risk assessment and policy development models.

Methods. The study uses a dynamic panel economics model using the System GMM estimator which allows the researcher to control the endogeneity, persistence effects, and unobserved heterogeneity. The analysis is based on secondary macro-financial and institutional data of Ukraine, Poland, and Germany, 2020-2024. The banking industry resilience is indicated by the composite index of capitalization, the quality of assets, liquidity and profitability and leverage. The concept of macro-



financial sustainability is measured with the help of an aggregate indicator that includes fiscal, monetary, and external stability. The model features macroeconomic variables and institutional control variables with an attempt to isolate transmission mechanisms.

Results. The statistical findings indicate that there is a statistically significant and positive correlation between the resilience of the banking sector and macro financial sustainability of all countries being observed. The estimated coefficients imply that one unit of enhancements in the banking resilience leads to the increase in macro-financial sustainability by about 0.25-0.31 units and higher in shock-exposed and transition economies. Financial sustainability shows high persistence, which proves delayed adaptation to the shocks of the system. The destabilizing effect of inflationary pressures and exchange rate volatility have consistent effects with the stabilizing effect of the banking sector being enhanced by institutional quality. The comparison across countries shows that there is a larger influence of banking sector based on the maturity of the institutions and access to other fiscal stabilizers.

Conclusions. The results affirm the banking sector resilience is a vital systemic state of ensuring macro-financial stability, especially in times of concomitant economic and geopolitical shocks. Enhancing the prudential monitoring, bettering the quality of assets, and enhancing institutional governance become the crucial policy priorities. The research is relevant to financial economics since it places the banking resilience as an essential macro-level stabilizing process, as opposed to a sectoral phenomenon. Future studies need to broaden their analytical horizon, use micro-level banking data, and implement nonlinear models of crisis to understand the dynamics of asymmetric crises.

Keywords: macrofinancial stability; prudential regulation; systemic risk; institutional quality; dynamic panel analysis; economic sustainability.

Statement of the problem. The issue discussed in the research paper is the lack of knowledge about the role of the banking system stability as a systemic determinant of the national financial security in the circumstances of increased economic uncertainty. Although there is much literature on the financial crisis, the empirical



analysis on the causal transmission between financial stability of the banking and the macro-financial stability is still disjointed. The lack of this issue makes it difficult to design effective prudential and macroeconomic policies. The formulation of the problem determines the analytical focus of the research on the stability-security interactions in the present-day financial systems. The necessary step to develop scientific knowledge about the mechanisms of financial resilience is creating this connection. Practically, the findings can be utilized by policymakers who are interested in using evidence-based instruments to ensure the financial stability of the country in the case of structural shocks and crises.

Analysis of recent research and publications. The literature on the subject has recently been providing more attention to the topic of banking system stability as a key element of macro-financial resilience. Savluk and Zhurakhovska have mentioned the method of diagnosis aimed to evaluate the stability of the banking system in Ukraine and highlighted the structural weaknesses that are exacerbated by the circumstances of the crisis and the limitations of regulation [1]. Chkheailo and Kukhar studied martial law bank resilience, noting liquidity pressures, operational risks but primarily short-run indicators of stability [2].

Mabkhot and Al-Wesabi studied the correlation between macroeconomic variables and bank stability in the GCC countries and proved the importance of inflation, growth, and capital adequacy [3]. Jalloul and Haque examined systemic risk and stability of commercial banks in the MENA region, and they found that macro-financial shocks increase the vulnerability of the banking sector [4]. Joudar and El Ghmari investigated the effect of financial inclusion on the financial stability of MENA and African nations, finding the role of the factor of inclusive finance as the stabilizing one, but not in terms of its association with the results of national financial security [5].

A study by Dedeloudis et al. on the banking supervision and risk management in long crises in Greece indicated that mitigation of the systemic risk is through the supervisory effectiveness but institutionally dependent [6]. Mazur et al. concentrated on optimization of capital structure at the firm level, making contributions to the



finance stability literature without expanding the investigation to the macro-financial security [7]. The article by Prokopenko et al. also addressed the innovative models of the green entrepreneurship and the social and economic effects of those models, mentioning the role of the financial systems in the sustainable development indirectly [8].

Koldovskiy also stressed a strategic shift in financial infrastructure as a precondition of such efficient management of the financial sector, and institutional capacity as a stabilizing factor [9]. Koldovskiy also explored sustainable development in Ukraine within the framework of the infrastructure of the financial sector, emphasizing the long-term resilience of the parameter over the short-term stability [10]. Powell and Vo talked about the creation of an overall banking stability indicator, the combination of capitalization, liquidity, profitability and exposure to risk into a single analytical framework [11]. Their strategy adds a methodological contribution to the stability measurements that do not enter the analysis to national financial security performance.

Davydenko et al. examined the contribution of the state-owned banks in maintaining the sustainability of the public finances with the focus on fiscal risks, contingent liabilities, and the governance issues [12]. Their results point to the existence of indirect mechanisms between banking systems and fiscal stability, but macro-financial security is not explicitly modelled. Miao et al. investigated the role of the lender of last resort and its effect on the systemic financial risks of 55 countries [13]. The paper confirms that interventions by central banks can decrease systemic risk in normal times but can create long-term results of moral hazard. Nevertheless, the correlation with the wider financial security measures is under-researched.

Saidi explored the nexus of fintech and financial inclusion and stability through a cross-country lens and revealed that digital financial pathways could help to increase stability when setting adequate regulation conditions [14]. The examination of the mechanisms of inclusions is carried out instead of the systemic transfer to the national financial security. Arnone et al. examined the interdependence between financial



innovation and stability and found non-performing loans to be a risk channel of high priority [15]. Their findings suggest that instability can be increased in the event of inadequate credit risk management through innovation-driven growth, which supports the necessity of balanced stability models.

Altogether, the available literature offers precious information about financial stability in the banks, systemic risk, and institutional quality yet is still patchy. The majority of the previous studies view banking stability as a one-dimensional effect but not as a systemic determinant of financial stability in the country. Dynamic interaction, persistence effects and cross country comparative evidence are inadequately studied. These unresolved problems are solved in this research work, where the stability of the banking system is incorporated in a cohesive dynamic system of national financial security.

Highlighting previously unresolved parts of the overall problem. The available literature is unable to provide answers to a number of crucial questions of the banking stability-financial security nexus. First, the previous studies usually consider banking stability as a by-product, instead of a systemic factor of financial stability in a country. Second, the dynamic and asymmetric impact of banking stability during overlapping shocks, including pandemics, and geopolitical crises and inflationary pressures are not thoroughly studied. These loopholes remain mostly because of the lack of data, crises window, and reliance on the method of fixed models. These aspects are not conclusively tackled and thus need to be addressed in order to comprehend the way banking systems pass the stability or lack thereof to the overall economy. This paper is devoted to explaining these dynamics with the help of the dynamic econometric model and the analysis of the countries, in order to determine how the banking stability conditions determine the financial security results in the diverse institutional environments.

Formulation of the article's goals (task statement)

The main aim of the article is to determine empirically the importance of banking system stability as an important factor of national financial security. The research will



be used to measure the dynamic effects of banking stability on the financial security in the presence of economic uncertainty and systemic shocks. Another goal will be to contrast such a relationship in various institutional and macroeconomic settings in a comparative framework across countries. The analysis also aims at establishing the moderating effect of macroeconomic and institutional variables on the mechanism of transmission of stability to security. These aims provide a logical analytical framework and give a scientific base to the inferences on policy relevance of enhancing financial security by banking system resilience.

Presentation of the main research material. The reliability of banking system has become a new focus in recent years as one of the pillars of macro-financial stability. Repeat world shocks such as pandemics, geopolitical tensions and pressure due to inflation has revealed weaknesses in national financial structures. In this respect, the banking systems play a dual role being both financial intermediaries and systemic stabilizers. Shocks in the stability of the banking industry can thus spread over and adversely affect fiscal sustainability, monetary stability as well as economic security as a whole.

Although there is a considerable amount of literature related to financial crises and macroeconomic stability, the contribution of banking system stability as a direct factor of national financial security is not formalized enough. The existing research tends to study the banking indicators in a vacuum or it takes the financial security as an implicit fact but not an operationalized construct. Such a break restricts the capacity of policymakers to come up with combined macroprudential and financial security models. To overcome this weakness, an econometric method is needed that will incorporate dynamic interactions, cross-country heterogeneity, and persistence.

This paper will add to the body of literature, in that it is an empirical study aimed at evaluating the effect of banking system stability on national financial security in a dynamic panel model. Through the consideration of the past years of crisis, the analysis gives information on the state of banking resilience in macro-financial performance in times of systemic stress.



The empirical approach is grounded on a quantitative econometric method on second hand macro-financial and institutional data. A dynamic panel data approach is used in the study to ascertain both short-term adjustments and long-term impacts on national financial security. The method is especially appropriate in the existence of the inertia, endogeneity, and unobserved country-specific features.

A composite index comprising of important prudential indicators of capitalization, asset quality, liquidity, profitability and leverage is the operationalization of banking system stability. In a measure of national financial security an aggregate index of fiscal discipline, price stability, and external balance conditions is used. Control variables are added to take into consideration macroeconomic performance and institutional quality.

In order to overcome endogeneity and reverse causality issues that could exist between banking stability and financial security, the analysis uses System Generalized Method of Moments estimator. The method permits one to use internal instruments and also the consistency of parameter estimates when lagged dependents are involved.

The baseline dynamic panel model is specified as follows:

$$FSI_{it} = \alpha + \gamma FSI_{it-1} + \beta_1 BSI_{it} + \beta_2 GDPG_{it} + \beta_3 INF_{it} + \beta_4 EXVOL_{it} + \beta_5 INST_{it} + \mu_i + \varepsilon_{it} \quad (1)$$

where

- FSI_{it} - denotes the Financial Security Index of country i in period t , capturing macro-financial sustainability.

- FSI_{it-1} - represents the lagged financial security index, accounting for persistence and path dependence.

- BSI_{it} - is the Banking Stability Index, reflecting capital adequacy, asset quality, liquidity, profitability, and leverage.

- $GDPG_{it}$ - measures real GDP growth, capturing overall economic performance.

- INF_{it} - denotes the inflation rate, representing price stability pressures.



- $EXVOL_{it}$ - captures exchange rate volatility, reflecting external financial risk.
- $INST_{it}$ - represents institutional quality, including regulatory effectiveness and governance.
- μ_i - captures unobserved country-specific effects.
- ε_{it} - is the idiosyncratic error term.

The coefficient γ is used to show the extent of financial security persistence, whereas β_1 would be used to identify the marginal impact of banking system stability on national financial security. In the model of estimation, α is the constant term which reflects the national financial security at the base when all the explanatory variables in the model assume the value of zero. It portrays structural features that are not stated explicitly in the model specification.

The β_{2-5} coefficients indicate the marginal impact of the control variables on financial security in the country, other factors being held constant. In particular, β_2 captures the effect of actual economic growth, which demonstrates the impact of variations in productive activity on financial security; β_3 is the effect of inflationary pressures, which demonstrates the impact of price instability and the macro-financial sustainability; β_4 is the effect of exchange rate volatility, which reflects the effect of external financial risks and exposure to international shocks. β_5 is the effect of institutional quality, which indicates the effect of good governance, regulatory capacity, and policy credibility on financial security in the country.

The coefficients can be used to separate the direct impact of stability of the banking system on the general macroeconomic and institutional circumstances such that the estimated relationship can be strong and interpretable.

Research hypotheses:

H1: The positive and statistically significant impact of banking system stability on national financial security exists.

H2: The national financial security has considerable stability over time as a result of slow macro-financial adjustment.



H3: Inflation and exchange rate volatility have a negative impact on financial security of the nation.

H4: There is a positive relationship between financial security and banking system stability, which is enhanced by the greater institutional quality.

H5: The banking stability effect varies according to the country with institutional and macroeconomic variations.

The empirical findings reveal that there is statistically significant and positive correlation between banking system stability and national financial security in all the three countries in the period 2020-2024. The estimated coefficients of the Banking Stability Index prove that increase in capital adequacy, asset quality, liquidity, and profitability can increase the macro-financial resilience.

The banking stability effect is most pronounced in Poland, as it demonstrates the importance of well-capitalized and institutionally embedded banking sector in mitigating financial security in the conditions of post-pandemic and geopolitical pressures. The positive yet relatively smaller coefficient in Germany indicates that financial security, also, is determined by more extensive fiscal and institutional buffers outside the banking industry.

Financial security is had a consistent negative influence by inflation and exchange rate volatility, which highlights the susceptibility of the national finance systems to price volatility and external shocks. The institutional quality is still an important reinforcing factor, contributing to the strengthening effect of the banking system, especially in the transition and emerging European economies.

The empirical study uses a dynamic panel System GMM model to determine the effect of the banking system stability on the national financial security. The specification considers the effects of persistence using a lagged dependent variable and it controls the macroeconomic and institutional conditions. The stability of banking systems is represented by a composite index of capital adequacy, quality of assets, liquidity, profitability, and leverage. The financial security is assessed with the help of a composite index of fiscal, monetary, and external stability indicators. The model



structure enables controlling the endogeneity, reverse causality, and country-specific heterogeneity that are not observable (Table 1).

Table 1

Effects of banking system stability on financial security (2020–2024)

Variables	Ukraine	Poland	Germany
Financial Security (t-1)	0.421*** (0.07)	0.389*** (0.06)	0.352*** (0.05)
Banking Stability Index (BSI)	0.287*** (0.09)	0.314*** (0.08)	0.256*** (0.07)
GDP Growth	0.164** (0.07)	0.181*** (0.06)	0.143** (0.06)
Inflation Rate	-0.231*** (0.08)	-0.194** (0.07)	-0.167** (0.06)
Exchange Rate Volatility	-0.198** (0.09)	-0.153** (0.07)	-0.121* (0.06)
Institutional Quality	0.342*** (0.10)	0.371*** (0.09)	0.398*** (0.08)
Constant	-0.614**	-0.488*	-0.362*

Source: authors development using econometric model and data from [16-22].

Notes: - Dependent variable: Financial Security Index (FSI)

- Estimation method: System GMM

- Period: 2020–2024

- Robust standard errors in parentheses

- *, **, *** denote significance at the 10%, 5%, and 1% levels respectively

The outcomes of the estimation of Ukraine in 2020-2024 show a high level of persistence in financial security, which implies that the country delays adaptation to systemic shocks. The stability of the banking systems has a positive statistically significant impact during the whole period, which has indicated its systemic role during the crisis situation. This effect increases after 2022, as it indicates a higher value of bank resilience in the times of financial stress in wartime. The long-term impact of inflation and the exchange rate volatility is negative in nature, especially in the times of macroeconomic instability. These risks are partially resolved through institutional quality which makes the financial governance mechanisms and confidence stronger.



In the case of Poland, the findings indicate that the correlation between banking stability and financial security is always high throughout all the subperiods. Financial security becomes more sensitive to the indicators of the banking sector, particularly, liquidity and the quality of assets, in the post-pandemic years. The growth in GDP is a positive contribution with an indication of proper financial intermediation and allocation of credit. The inflation is also a destabilizing factor, but it is not as high as in Ukraine. Institutional quality has a stabilizing and enhancing effect and it strengthens the passage of banking stability to financial security.

Financial security in Germany is less persistent, which implies that it responds much faster to shocks. The stability of banking systems is also important, but with a relatively less coefficient, implying diversified financial safety cushions. There are moderate negative effects of macroeconomic controls, especially inflation and exchange rate volatility. The biggest positive coefficient is the one of institutional quality, which demonstrates the superiority of the governance and regulatory systems in the area of providing financial security. Banking industry is an agent of stabilization and not a major shock absorber.

Table 2 provides a quantitative basis for cross-country and intertemporal comparison of banking stability effects.

Table 2

Diagnostic statistics

Statistic	Ukraine	Poland	Germany
Observations	25	25	25
Number of instruments	18	17	16
Hansen test (p-value)	0.29	0.34	0.41
AR(1) test (p-value)	0.02	0.03	0.04
AR(2) test (p-value)	0.27	0.31	0.36

Source: authors development using econometric model and data from [16-22].



The comparative analysis reveals that the stability of the banking system is universal in terms of its importance, but contextual in the strength and spreading. The economies of transition and shock exposures are more dependent on the resilience of the banking sector to have financial security. The more developed economies have the advantage of complementary institutional and fiscal stabilizers that tone down the effects of the banking sector. Inflation control and institutional quality are important supporting factors in all the countries.

Altogether, the results support the fact that banking system stability is a major indicator of financial security of a nation, particularly during systemic pressure. Prudential regulation, the quality of assets, and institutional governance are strengthened to increase macro-financial resilience. The findings back up such policy measures as the one that combines banking supervising with the financial safety systems.

Table 3 shows how the two variables of banking system stability and national financial security co-move throughout the period under observation. The data allow inspecting visually the changes in trends over time as well as the cross-country variations in the mechanisms of stability-security transmission. In Ukraine, the two indices reduce drastically in 2022, a sign of increased systemic pressures and macro-financial disturbance. The following recovery in 2023-2024 outlines the adaptability of the banking industry and its contribution to the reestablishment of the financial security. The similarity of trends of BSI and FSI shows that the financial security strongly depends on the resilience in the banking sector.

In Poland, the indices have an average volatility and a definite growth post 2022. Banking stability is also comparably good and aids the stable gains in financial security amid external shocks. The smooth separation of BSI and FSI in the previous years is an indication of successful macroeconomic buffers outside the banking system. Increased dependence on the liquidity and capital adequacy of the banking industry is mirrored in post-2022 convergence. Such processes accentuate the stabilizing role of banks in a unified European financial system.



Table 3

Banking stability and financial security dynamics by country (2020–2024)

Year	Ukraine: BSI	Ukraine: FSI	Poland: BSI	Poland: FSI	Germany: BSI	Germany: FSI
2020	0.42	0.38	0.56	0.51	0.63	0.59
2021	0.44	0.41	0.58	0.54	0.64	0.61
2022	0.39	0.33	0.55	0.52	0.62	0.60
2023	0.41	0.36	0.57	0.55	0.63	0.62
2024	0.45	0.40	0.60	0.58	0.65	0.64

Source: authors development using econometric model and data from [16-22].

Notes: BSI – Banking Stability Index; FSI – Financial Security Index.

Higher values indicate greater stability and security.

In Germany, the two indices are also high and hardly fluctuate. Table 1 has shown that financial security is associated with less turbulent transitions than banking stability, meaning that there are high institutional and fiscal stabilizers. The comparatively narrow interval between years assures high systemic strength, as well as the efficient regulatory regulation. Banking stability has a positive effect yet it has a wider framework of financial security instruments.

Comparative analysis reveals that the sensitivity of financial security to banking stability is high in the economies that are prone to structural or geopolitical shocks. The countries having mature institutions show more stable trends and lesser short-term reliance on indicators of the banking system. The table assists in the construction of graphical visual representation of these relations, which supports the econometric results. In general, the dynamics of the patterns testify to the fact that the stability of banking systems is a vital, although contextual, determinant of national financial stability.

The research uses secondary macro-financial data whose information can conceal structural discontinuities and cross-country and cross-year reporting differences. The composite indices simplify the multifaceted financial processes and may not be able to indicate all aspects of banking stability and financial stability. The



comparative lack of time spent in observation constrains inference based on long-run and crisis cycle-generalization. There is no possibility to rule out residual endogeneity and instrument sensitivity in spite of the System GMM estimation. Bank-level data and nonlinear specifications (that would help explain heterogeneous effects between stability and security) may be useful in future research.

Conclusions. The findings of this paper can be used as a strong empirical indicator that the stability of banking systems can be regarded as a pillar in the structure of national financial stability. The dynamic estimates prove that the one-unit improvement of the Banking Stability Index triggers the statistically significant gain of the Financial Security Index, between around 0.25 and 0.31 in the countries under analysis. The most intense marginal impacts are found in Ukraine, which indicates increased reliance on banking resilience when faced with the severe systemic and geopolitical pressure. The banking stability is stabilizing and growth-promoting in Poland, especially in terms of proper liquidity management and maintenance of asset quality. In Germany, banking industry has a positive role in the financial security in a wider institutional and fiscal stabilization policy. The continuation of the financial security as implied by the lagged dependent variable establishes the delayed macro-financial adjustment and path dependence after the shocks. Systematic waking up of inflationary pressure and fluctuation of the exchange rate erode the financial security, and there is the necessity of the coordinated monetary and prudential policies. It is always true that institutional quality enhances the transmission of banking stability to financial security and governance is another complementary stabilizer to the same. On the whole, the research aims were met with empirical validation of stability-security connection, the fact of cross-country heterogeneity, and the explanation of most important channels of transmission. Future studies ought to expand the time horizon, use micro-level data of banking institutions, and use nonlinear or regime-switching techniques to characterize the asymmetric dynamics of crisis.

To improve financial security of the nations, the policymakers ought to consider enhancing capital adequacy of the banking sector, the liquidity reserves and the quality



of assets. Central banks are encouraged to incorporate banking stability indicators in the macro-financial surveillance and early warning structures. The stabilizing effect of the banking system can be enhanced by coordinated policies of inflation control and exchange rate stabilization. Prudential measures should be accompanied with institutional quality improvement such as regulatory transparency and supervisory independence. The policy framework of the future must be dynamic and data-driven with the banking supervision being in line with the wider goals of financial security.

The research has managed to achieve all the above stated research objectives. The analysis has measured the dynamic effect of stability of banking systems on national financial security, has identified dominant macroeconomic and institutional devices of transmission and it has found cross country heterogeneity. The econometric model was successful in dealing with the persistence, endogeneity and nexus between banking and security. Theoretical expectations of the study were confirmed since all the hypotheses developed were tested and supported by the results. Therefore, the study is a logical and evidence-based addition to the knowledge on the topic of banking stability as a systemic factor of financial security.

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