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**Natalia Dumych<sup>3</sup>**

Postgraduate Student

Department of Theoretical and Practical Economics

Lviv University of Trade and Economics

Lviv, Ukraine

**E-mail:** natdumich@meta.ua

**Hryhoriy Bashnyanyn**

Doctor of Economics, Professor

Department of Theoretical and Practical Economics

Lviv University of Trade and Economics

Lviv, Ukraine

**E-mail:** natdumich@meta.ua

## ANALYSIS OF MONETARY POLICY OF UKRAINE IN THE CONDITIONS OF DEVELOPMENT OF MARKET RELATIONS

### **Abstract**

**Introduction.** In this article an analysis of national monetary policy of inflation processes regulation in transitional economies is investigated, and, based on research, make recommendations for improvement of the macroeconomic situation in Ukraine. Basic principles, directions, progress and model monetary policy trends are analyzed in EU. Priorities of monetary policy of Ukraine are considered and certainly, that adaptation of monetary policy of Ukraine to the standards of EU. Directions of adaptation of European models of monetary policy to the economy of Ukraine are investigated.

**Methods.** The theoretical and methodological base of scientific research made of national and foreign scholars on the analysis of inflation in transition economies, official statistical data of the State Statistics Committee of Ukraine, reports the NBU. To ensure the authenticity and validity of the research results to the goal, the following methods have been used: induction and deduction – during theoretical generalizations and conclusions; analogy method – when comparing foreign experience of monetary policy; economics and statistics as methods of macroeconomic policy of Ukraine analyzing; retrospective analysis, which determines monetary policy; methods of system analysis and synthesis.

**Results.** In the article the inflationary process in transition economies on the case is investigated. Reasonable steps further using of the European experience for Ukraine are founded. Particular attention to the normative acts improvement for the introduction of inflation targeting regime is given. Further research should relate to the construction of an own monetary policy model. In the process of its implementation it is necessary to use the experience of foreign countries.

**Discussion.** The results of this study can be used by professionally regulating prices public authorities, such as the Ministry of Finance, the state statistical agencies.

**Keywords:** inflation targeting, exchange rate, fiscal policy, inflationary expectations, interest rate, monetary policy, money supply, consumer price index, price support.

### **Introduction.**

Inflation timing is one of the most significant problems of the transition economies. Although the inflation process has many common features in countries with a transition economy, but in each of them, it proceeded in different ways. This process largely depended on market reforms that were carried out in a certain state with a transition economy.

The choice of the right effective macroeconomic policy at the initial stage of market transformation is an important basis for further transformations in this direction. The election and change (in line with changes in the economy) of a rigid or soft fiscal and monetary policy depended on the decisions of a certain country with a transition economy.

<sup>3</sup> Scientific supervisor Bashnyanyn H.I. – Doctor of Economics, Professor

### **Analysis of recent research and publications.**

Various aspects of social policy are the subject of scientific research by A. Galchinsky, V. Heyets, O. Melnyk, M. Savluk. Under conditions of market transformation, inflation was analyzed by Y. Kornai, O. Timchenko, S. Fischer.

However, in most scientific studies, little attention has been paid to the practical recommendations for this study. All this testifies to the relevance of this research in scientific and practical aspects.

### **Purpose.**

The purpose of the article is to analyze the state monetary policy of regulation of inflation processes in transformational economies with the possibility of its adaptation in the sphere of monetary policy of Ukraine.

### **Research methodology.**

The methodological basis of the theoretical and methodological base of scientific research made of national and foreign scholars on the analysis of social policy, official statistical data of the State Statistics Committee of Ukraine, reports the NBU and European Central Bank. To assess the situation of the social policy in Ukraine and EU used the following methods: to ensure the authenticity and validity of the research results to the goal, the following methods have been used: induction and deduction – during theoretical generalizations and conclusions; analogy method – when comparing foreign experience of social policy; economics and statistics as methods of macroeconomic policy of Ukraine analyzing; retrospective analysis, which determines social policy; methods of system analysis and synthesis.

### **Results.**

The change in the monetary and credit policy priority of the National Bank of Ukraine, which is based on the implementation of the inflation targeting regime, causes the transition to a flexible exchange rate of hryvnia, which involves its formation on the basis of supply and demand on the currency market. At the same time, one of the main conditions for the transition to the flexibility of the hryvnia exchange rate and the key to success is the liberalization of the currency regulation mechanism.

Beginning in 2015, the NBU changed the monetary regime by switching to inflation targeting and flexible exchange rate formation. Today, macroeconomic stability in Ukraine requires a guided float, which will respond adequately to changes in the trade balance and the free movement of capital.

The process of transition from strictly regulated to flexible exchange rate hryvnia should be ensured by the NBU and the government jointly, for their full understanding and coordination of actions in case of observance and implementation of the established exchange rate regime

In the transition process, the central bank still has the opportunity to intervene to keep the course within certain limits. These limits can be expanded cautiously and gradually in order to get the subjects of currency relations accustomed to changes in the course in time and thus make it almost painless

The gradual liberalization of the currency regulation mechanism will take place under conditions of sustainable economic growth and a qualitative strengthening of the competitiveness of domestic products as the dollar is reduced and the financial stability of the national economy is strengthened, including its ability to autonomously alleviate unexpected currency fluctuations with the use of stock market instruments

According to Bereslavskaya O.I. the following trends should be observed in the monetary sphere: growth of the share of cashless settlements in the total amount of settlements; high-quality increase in the effectiveness of interest-rate policy; gradual decrease of dependence on active motto policy.

At the same time, the National Bank of Ukraine will continue to use international reserves to ensure domestic and foreign stability of the hryvnia, improve the creditworthiness of Ukraine, guarantee fulfillment by the country of obligations to international financial institutions, and regulating the balance of payments [2].

According to Oliynyk A.A. the intensification of cooperation between Ukraine and the IMF on the reforming of the national economy, including the monetary system, in general, is intensifying in the crisis and post-crisis period of the monetary and financial situation of the country. The frequent non-fulfillment of the Fund's requirements in the reform of the economy led to the restriction of cooperation only through technical assistance. Currently, the reform of the currency system of Ukraine in cooperation with the IMF is connected with the liberalization of currency relations at the expense of a more flexible exchange rate regime, the introduction of inflationary monetary policy targeting, the improvement of management of foreign exchange reserves, the reduction of currency restrictions, which has already demonstrated its effectiveness, and, as a result, formed short-term prerequisites for the further development of the currency system.

However, today's stabilization, according to Oliynyk A.A., must be fixed by deep reforms in the currency system, consisting of:

- ◆ the gradual liberalization of the movement of capital and current operations with the national currency;
- ◆ rational use of monetary policy to ensure the independence of the NBU. Taking into account the analyzed period, currency policy should be based on devaluation calls;
- ◆ formation of medium and long-term dynamics of the exchange rate in order to increase the confidence of foreign investors in the currency environment of the Ukrainian economy;
- ◆ formation of an integrated monetary policy target that, in addition to inflation targeting, will take into account the need for exchange rate guidance to ensure the stability of the monetary and financial system in the medium-term [8].

After a long period of transformation of the national economic systems of the CEE countries, Latvia, Lithuania, Poland, Slovakia, Slovenia, Hungary, the Czech Republic, Estonia since January 1, 2004, have become members of the EU. To the single currency – euro has been transferred: Slovenia – since January 1, 2007, Slovakia – from January 1, 2009, Estonia – from January 1, 2011, and Latvia – from January 1, 2014.

The currency policy is closely related to the transformational and monetary processes taking place in the economies of different countries. Mutual conditionality of processes in the monetary sphere and the economy as a whole makes foreign exchange relations an essential element of the economic mechanism. Macroeconomic conditions for monetary policy in countries with a transformational economy are: the achievement of the internal and external equilibrium of the economic system; predictability and stability of monetary policy, which provides a targeted rate of price change; balance of the budget. Under such conditions, currency policy is able to solve its specific tasks.

According to G.V. Myronenko the main tasks of monetary policy in transition economies are:

- ◆ balance of payments regulation;
- ◆ providing a real market valuation of the national currency;
- ◆ use of the most effective tools for managing the exchange rate;
- ◆ the choice of an appropriate currency regime for a particular country;
- ◆ maximum reduction in the pressure on the national currency on the part of the money supply, provided by the coordination of monetary and monetary policy measures;
- ◆ the accumulation of the necessary international gold and foreign exchange reserves, their availability is an indispensable condition for achieving macroeconomic stability.

Most Eastern European countries were in stagflation at the transformation stage, so central banks were forced to introduce a fixed exchange rate regime to curb inflation. Further gradual recovery and development of financial markets contributes to the liberalization of the exchange rate and the implementation of transactions in the foreign exchange market as a full-fledged instrument of monetary regulation.

Often, currency regimes have changed in Hungary and Poland. In general, the experience of these countries suggests that, for the most part, monetary policy was used to achieve long-term goals, in

particular, integration into the EU economic system.

At the preparatory stage (since 2001), the change of currency regimes is directed at fulfilling all the requirements for joining the European Monetary Union (EMU). For this, countries need to be members of the ERM II program, the essence of which is the smooth transition to a common currency due to the greater stability of the national currencies for the euro, namely: the fluctuations of the exchange rate of the national currency of the country should occur in the range  $\pm 15$  Reforming the monetary policies of these countries in order to harmonize the main macroeconomic indicators with the criteria of the program "Exchange Rate Mechanism" II (ERM II). At the preparatory stage, there is a radical change in the principles of the formation and implementation of monetary policy, which are more approximate and favorable for integration into the currency zone.

Thus, after joining the EU, the CEE countries faced the challenge of adapting the national currency policy to the conditions for the transition to a single European currency. During this period, as shown by the analysis of a number of publications of periodicals and analytical materials, the key steps of monetary policy were to determine the term of accession to the ERM II (European Exchange Rate Mechanism – II) and the term of the final accession to the European Monetary Union.

Also, the transformation of the currency systems of the countries studied was based on changes in the principles of functioning of the currency systems of the CEE countries, namely: monetary policy orientation on exchange rate targeting, monetary targeting on inflation targeting (Czech Republic, Poland, Hungary, Slovakia), introduction of the currency office regime (Estonia, Lithuania), which contributed to price stabilization, currency policy liberalization and harmonization of currency legislation of the countries of the CEE to the standards of the European Economic and Monetary Union .

Consequently, if we isolate the monetary component of the transformational changes towards the regional monetary system of the countries of the CEE, then this analysis proves the existence in practice of three successive trends (levels) of the transformation of currency systems of the countries of the CEE.

The first direction of the transformational transformation of the currency system is the longest and most complex, taking place on the basis of changes in its individual elements, namely:

- ◆ creation of national currencies (Estonia, Latvia, Lithuania, Slovakia, Slovenia);
- ◆ an increase in the volume of the foreign exchange market (from 2004 to 2010 by 24% in Poland);
- ◆ the introduction of convertibility of national currencies as for current operations (Czech Republic, Poland, Hungary, Slovakia, Slovenia) and capital (Estonia, Latvia);
- ◆ changing exchange rate regimes (Czech Republic, Poland and Slovakia constantly changed exchange rate regimes, initially increasing the fluctuation limits, and then using the mode of controlled or even free voyage) [7].

According to Malakhova O.L. and Marusyn M.V. since in Ukraine there is no definitive liquidation of one economic system and the further construction of another, new in its place, but there is only a change in foundations, principles and restructuring, such a process in the economic theory was called the transformational one. That is why, considering the type of economic system in the country, in order to ensure macroeconomic stabilization, it is necessary to apply the regime of currency targeting, which, on the basis of our research, has significant advantages over inflation targeting [6].

The growth of money supply in circulation against the backdrop of a decline in the level of production of commodity mass is one of the most characteristic signs of the inflationary process, and a decrease in the volumes of commodity production contributes to the further increase in prices and the depreciation of monetary signs, which requires additional emissions, which further intensify destructive inflation processes [3].

The foreign exchange market of Ukraine is developing in difficult socio-economic conditions. There are a number of problems that need to be addressed, including: devaluation of the national currency against foreign currencies, which leads to an increase in inflation; a loss of confidence in the national currency and, as a result, an increase in the level of dollarization.

These problems create an imbalance in the currency market and negatively affect the economy of the country. The effective implementation of the monetary and exchange rate policy should consist in the implementation of currency regulation in accordance with the state of economic development of the country, which will minimize the negative impact of internal and external negative factors and promote its sustainable economic development [5].

According to Batrakova T.I. and Rohachenko O.S. treatment for inflation is easy to prescribe, but difficult to apply. Just as excessive growth in the amount of money is the only important cause of inflation, and declining money supply growth is the only cure for inflation. The government should reduce the pace of increase in the amount of money. The problem is the presence of political will to take the necessary measures. If the inflammatory disease is in acute form, treatment requires a long time and is accompanied by painful side effects [1].

The mechanisms of currency regulation are – a set of forms, methods and tools of influence on the currency market with the aim: to support the macroeconomic equilibrium in the country, exchange rate stability, to ensure the stability of the national monetary unit, sustainable economic growth, balance of payments balance, guarantee of currency security of economic entities.

The mechanisms of regulation of the foreign exchange market of Ukraine are presented in four main components: the mechanism of currency exchange regulation, the mechanism for regulating the stability of the foreign exchange market, the mechanism of state regulation of the foreign exchange market, the mechanism of self-regulation of the foreign exchange market [4].

### Conclusions and discussion.

Consequently, the inflation process in the studied countries with a transformational economy took place in different ways, depending on the macroeconomic situation of each of the countries. So, at the present stage of development of a market economy of our state, it is possible to use the experience of these countries not only in Ukraine but also in other states with a transformational economy.

Today, the NBU does not have a systemic communication strategy, it announces short-term monetary policy objectives and measures, but does not explicitly announce medium- and long-term goals, but only annually publishes a report on its activities in the Fundamental Principles of Monetary Policy, and the prospects for long-term monetary strategies are not discussed with representatives of the general public. To increase transparency, different channels of communication need to be used, as only a successful influence on expectations and the use of appropriate measures can make the central bank change its credibility and maintain its real independence. The NBU should provide the public with simple, concise and clear explanations of monetary policy, as well as prioritize goals. The goal of communication strategy is to achieve better public understanding of monetary and exchange rate policy. This contributes to the improvement of confidence in the NBU policy and its efficiency. The government should widely use market instruments, and limit the use of administrative levers. Only under such conditions can long-term price stability be ensured.

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