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THE INFLATION-TARGETING POLICY OF THE NATIONAL BANK OF UKRAINE IN THE CONTEXT OF INTERNATIONAL EXPERIENCE

ПОЛІТИКА ІНФЛЯЦІЙНОГО ТАРГЕТУВАННЯ НАЦІОНАЛЬНОГО БАНКУ УКРАЇНИ В КОНТЕКСТІ МІЖНАРОДНОГО ДОСВІДУ

Summary. The object matter of the inflation targeting policy in the international context and the perspectives of its usage by the National bank of Ukraine to restore the growth of the Ukrainian economy are analyzed. The international experience and consequences of the inflation targeting in different countries, goals and features of a practical implementation this policy after the global financial economic crisis in 2008–2009 are shown in this article.

Key words: demand inflation, cost push inflation, anti-inflationary policy, inflation targeting, Central Bank.

Introduction and a problem statement. Ukraine is one of the countries whose economic system is mostly affected by the consequences of the global financial crisis. The effects of the crisis have not been overcome yet, and that requires finding the ways and tools to eliminate the crisis, restore an economic stability and positive economic dynamics.

The critical state of a real economy is closely connected with the situation in the monetary area through the direct and feedback connections. So, the particular variant of the monetary policy is chosen by the National Bank of Ukraine within the complex of other measures of the regulatory policy that are essential for the economic recovery. One of these options is a policy of the inflation targeting (IT), the application of which exists in many countries. However, the international practice shows that the implementation of the current versions of IT differs greatly from its classical interpretation. That is why it is necessary to study the peculiar features of the usage of the inflation targeting policy in different countries and take into account the specific economic situation in order to choose its optimal variant for Ukraine.

Analysis of the recent research and publications. Processes of functioning of the monetary sector and the regulatory role of the inflation targeting policy of the national banks have been studied by many domestic and foreign scholars. A significant contribution into the development of the theoretical, methodological and practical aspects of the inflation targeting policy was made by V. Geyets, A. Halchynsky, S. Korablin, V. Lepushinsky, F. Mishkin, D. Vavra and others. However, the issues of the content and time of an application of the inflation targeting policy by the National Bank of Ukraine (NBU) for achieving the purposes of an economic stability needs further investigations with considering the current situation in the monetary sphere of the Ukrainian economy.

The aim of this work is to deepen the theoretical and methodological approaches to the justification of the inflation targeting policy of the NBU in the Ukrainian economy.

Research results. According to an economic theory, the inflation targeting is a medium term monetary policy in which a central bank has an explicit target inflation rate (prices within a specific range) for a term less than 5 years and announces this target to the public. It is based on the assumption that the best monetary policy for supporting long-term growth of the economy, stable exchange rate and social welfare is the maintaining of the price stability. The central bank uses for achieving these goals short-term monetary policy instruments such as the interest rate regulation etc.

Initially, the inflation targeting as a radical plan was adopted by New Zealand in 1989, although other countries had evolved something close to inflation targeting considerably earlier. The term “inflation targeting” does not have a formal definition and is practiced in different ways around the world. Its core elements are an explicit inflation target; it is announced to the public; the monetary authorities aim to hit that target at a defined point in the future; the monetary authority is not explaining how to hit the target but is accountable to the public for its performance etc. Countries adopting inflation targets have tended to have lower and more stable inflation after the change than before, and the framework has proved durable [3].

Under an inflation-targeting regime central bank will raise or lower interest rates based on above-target or below-target inflation. Basic principles of monetary policy are that raising interest rates usually cools the economy to rein in inflation; lowering interest rates usually accelerates the economy, thereby boosting inflation. In the European Union, since the inception of the euro in January 1999, the objective of the European Central Bank (ECB) has been to maintain price stability within the Eurozone. The Governing Council of the ECB in October 1998 defined price stability as inflation of under 2%, a year-on-year increase in the Harmonised Index of Consumer Prices (HICP) for the euro area of below 2% and asserted that price stability was to be maintained over the medium term. Since then, the numerical target of 2% has become common for developed economies, including the United States (since January 2012) and Japan (since January 2013).

Inflation targeting allows a monetary policy to concentrate on the domestic considerations and to respond to shocks to the domestic economy, which is not possible under a fixed exchange-rate, but may be realized within a floating exchange-rate system. Also, investors uncertainty is reduced and therefore they may more easily to calculate the interest rate changes into their investment decisions. Inflation expectations that are more defined allow monetary authorities to cut policy interest rates counter cyclically.

Central banks of many developed countries that have successfully implemented inflation targeting tend to maintain the regular communication with the public. For example, the Bank of England pioneered the “Inflation Report” in 1993, which outlines the bank’s “views about the past and future performance of inflation and monetary policy”. Although it was not an inflation-targeting country until January 2012, the United States’ “Statement on Longer-Run Goals and Monetary Policy Strategy” enumerated the benefits of clear communication [4].

The Federal Open Market Committee (FOMC) of the Federal Reserve System (FRS or Fed) is firmly committed to fulfilling its statutory mandate from the Congress of promoting maximum employment, stable prices, and moderate long-term interest rates. The Committee seeks to explain its monetary policy decisions to the public as clearly as possible. Such clarity facilitates well-informed decision-making by households and businesses, reduces economic and financial uncertainty, increases the effectiveness of monetary policy, and enhances transparency and accountability, which are essential in a democratic society [5].

An explicit numerical inflation target increases a central bank’s accountability for its monetary policy, and thus it gives for general public a confidence that the central bank will not provide policy that course to the time-inconsistency trap. Such accountability is especially significant for Ukraine because even transition countries with weak government institutions can build public support for an independent central bank. An institutional commitment can also insulate the bank from political pressure to undertake an overly expansionary monetary policy.

A growing interest to the IT was pushed of the disintegration processes in the former Soviet Union. The wrecking totally state’s national economies strengthened a faith in the “invisible hand” of the market. But with the well-known “impossible trinity” a central bank can effectively keep a control for only two out of the three-purposes goals of the monetary policy: the inflation and either free movement of the capital flows or the exchange rate.

On the eve of the world economic crisis 2008–2009 an unwritten standard of the monetary policy was reduced to formula “one target (inflation) – one instrument (interest rate)”. It has become of the kind of the monetary policy of the Bank of England, which not only set himself one goal (1–4% initially, and then 2% for inflation), but even ceased to fulfill a banking supervision and exclude one from the structure its operations. This practice is often cited as an example controversy to the US Federal Reserve (Fed) policy, which had several objectives (employment, economic growth, inflation) and neither quantitative targets. Another model of monetary policy was used by countries such as Denmark, fixing the exchange rate of the domestic currency 7.5 crowns per euro with a possible deviation ± 2,25% [1].

A criticism of the US Fed’s goals was stopped with the start of the global economic crisis 2008–2009. It was found that during recession the traditional IT is useless. In addition, whereas the crisis was caused by the failure of the unregulated market, which could be rescued by loans, the low stable inflation has become a brake of production. Whiting the recession and price stability conditions, central banks began to change its objectives, refusing to fight with the inflation in behalf of the direct supporting of an economic growth and employment.

In just a few months of the crisis, all key principles of IT were leveling: start capital control (Brazil, Iceland, Cyprus), the rise in prices has turned from an undesirable to a desired target (Fed, ECB, Bank of England, Bank of Japan and others). The neutral attitude to the foreign exchange rate changed a tough fight to its competitive advantages, developed them into the open currency war in all over the world (2010). Such transformation indicated a non-standard monetary policy with a number of the key differences from the traditional IT. So, at the time of the crisis, central banks have moved away from the principle of an independence from the government and began to lend it and non-bank financial institutions directly. There was recognized that the control of inflation should be complemented by the financial stability function, which is impossible to achieve without the control of the exchange rate. It became obviously that the exchange rate free-floating in the dollarized economies (such as Ukrainian) may be equivalent to a crash not only the financial system but also of a lot economy. The IMF and other banking regulators, also have already acknowledged this fact, which meant the rejection of a traditional understanding of the inflation targeting.

Simultaneously, in the economic stabilization conditions and recovering of the economic growth a necessity of the non-standard monetary policy have been diminished. For example, the Fed turned quantitative easing (QE) program (2014) and increased by 0,25% its interest rate (2015). However, it was raised not so much due to inflation, but because the unemployment was reduction to 5%. As a result, the concept of IT was proved extremely blurred, and now do not speak about his explicit criteria, but flexible or hybrid versions, without any precise definitions.

At that, it should be born in mind, some economic researches are based on the study of 36 emerging economies from 1979 to 2009 found, that although inflation targeting results in higher economic growth, it does not guarantee an economic stability for these countries necessarily [4]. F. Mishkin concludes, that although inflation targeting may not be appropriate for many emerging market countries, it can be a highly useful monetary policy strategy in a number of them [5].

An actual pattern of the inflation-targeting in the national economy of Ukraine is offered by the NBU, and is realized on the discrepancy between the policy of limiting a demand inflation and an objective tendency of extending the potential cost-push inflation. The economic theory and practice always face the alternative of two options for the monetary policy: on the one hand, a monetary restriction and tough anti-inflation measures, and the other – the monetary expansion and control of a moderate inflation. The economic growth in Ukraine should be on the non-inflationary base. However, if a non-inflationary economic development is interpreted only as the absence of the demand inflation, then there will be a constant threat of the growth of a cost-push inflation. The consequence of the expansion of the aggregate demand and the rise of production in this case would be the transformation of the potential cost-push inflation into a real inflation. The example of the transformation of the potential cost-push inflation into a real one is the effect of the current rise of the natural gas cost and prices of the imported intermediate goods in Ukraine. An increase of the house rent and conveniences tariffs that had been introduced by the government of Ukrainian in 2015 became the consequences of such rise.

The ways of solving a contradiction between a monetary restriction and tough anti-inflation measures on the one side and the monetary expansion and control over a moderate inflation on the other may be a new monetary policy. In 2016, the NBU suggested a transition from a passive control of inflation to the inflation targeting, which is connected with the public proclamation of inflation in numerical terms and with the obligation to maintain the level of target beacons. But some Ukrainian scholars assert that the NBU does not know how to solve this dilemma. The essence of an anti-inflationary policy comes down to a one-sided contraction of the money supply, which is unacceptable under the economic crisis conditions. In 2015, the top line of an increase of the monetary base was set to 27%, but in fact it was only 0,8%. In 2015, the money growth rate was almost three times lower than the nominal GDP growth rate. As a result, instead of a monetary stimulus for an economic recovery an opposite effect – the preservation of crisis processes – was obtained [2].

So, now it is necessary to go from the course of the unconditional adherence to the real comprehension of the inflation targeting and to use the tools of monetary policy primarily for the modernization of Ukraine's economic potential and ensuring sustainable economic growth.

Conclusion. An inflation targeting policy of the NBU should take into account the international experience in solving similar problems and adapt flexibly to the specific tasks that the economy of Ukraine faces.

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Анотація. Проаналізовано зміст політики інфляційного таргетування, міжнародний контекст та перспективи її застосування Національним банком України для відновлення росту української економіки. Розглянуто світовий досвід та наслідки використання інфляційного таргетування в різних країнах, цілі та особливості практичної реалізації зазначеної політики після світової фінансово-економічної кризи 2008–2009 рр.

Ключові слова: інфляція попиту, інфляція витрат, антиінфляційна політика, інфляційне таргетування, центральний банк.

Аннотация. Проанализированы сущность политики инфляционного таргетирования, международный контекст и перспективы ее применения Национальным банком Украины для возобновления роста украинской экономики. Рассмотрены международный опыт и последствия применения инфляционного таргетирования в разных странах, цели и особенности практической реализации указанной политики после мирового финансово-экономического кризиса 2008–2009 гг.

Ключевые слова: инфляция спроса, инфляция предложения, антиинфляционная политика, инфляционное таргетирование, центральный банк.