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UDK 336.74

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UKRAINE'S MONETARY POLICY EFFICIENCY ESTIMATE

Abstract. The efficiency of the National Bank of Ukraine's monetary policy in the context of achieving strategic objectives has been analyzed. The presence of problematic issues related to non-compliance of monetary policy measures to the defined objectives and priorities, the use of inappropriate to modern realities techniques and instruments in monetary and credit relations spheres as well as the urgent need for reformatting the monetary policy to effectively influence the economic growth and ensure stability in the financial sector have been acknowledged and grounded.

Keywords: monetary policy; the National Bank of Ukraine; economic growth; price stability; inflation, banking system.

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**РЕЗУЛЬТАТИВНА ОЦІНКА ЦІЛЕВИЗНАЧЕНОЇ
ГРОШОВО-КРЕДИТНОЇ ПОЛІТИКИ УКРАЇНИ**

Анотація. Досліджено результативність грошово-кредитної політики Національного банку України у контексті досягнення стратегічних цілей. Визнано та обґрунтовано наявність проблемних питань щодо невідповідності заходів грошово-кредитної політики визначеним цілям та пріоритетам, використання неадекватних сучасним реаліям методів та інструментів у сфері грошового обігу і кредитних відносин, а також нагальну потребу у переформатуванні грошово-кредитної політики задля ефективного впливу на темпи економічного зростання та забезпечення стабільності у фінансовому секторі.

Ключові слова: грошово-кредитна політика; Національний Банк України; економічне зростання; цінова стабільність; інфляція; банківська система.

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**РЕЗУЛЬТАТИВНАЯ ОЦЕНКА ЦЕЛЕОПРЕДЕЛЕННОЙ
ДЕНЕЖНО-КРЕДИТНОЙ ПОЛИТИКИ УКРАИНЫ**

Аннотация. Исследована результативность денежно-кредитной политики Национального банка Украины в контексте достижения стратегических целей. Признано и обосновано наличие проблемных вопросов относительно несоответствия мер денежно-кредитной политики определенным целям и приоритетам, использование неадекватных современным реалиям методов и инструментов в сфере денежного обращения и кредитных отношений, а также насущной необходимости в переформатировании денежно-кредитной политики для эффективного влияния на темпы экономического роста государства и обеспечение стабильности в финансовом секторе.

Ключевые слова: денежно-кредитная политика; Национальный Банк Украины; экономический рост; ценовая стабильность; инфляция; банковская система.

Urgency of the research. Performing a balanced monetary policy is the main condition for ensuring effectiveness of general economic policy implementation aimed at providing economic growth in the toughest conditions, such as: the negative impact of military conflict inside the country, changes in world market, trade wars with Russia, deteriorating economic sentiments and expectations of the population, the vital importance of external financing for the economy. The development and implementation of a balanced and adequate to modern realities monetary policy will form a basis for overcoming the crisis in the economy.

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Target setting. At present the Ukraine has faced a critical situation regarding price stability, ensuring economic growth and the banking system operation caused by the intensification of unfavorable external conditions for the country and the lack of progress in overcoming the internal crisis as well as the improper conduct of the monetary policy.

Actual scientific researches and issues analysis. Considering the critical importance of the issue, much attention was paid to the study of the basic principles and problems of conducting an effective monetary policy by many home researchers, such as A. Halchynsky, V. Geyets, M. Moroz, M. Pukhovkina, M. Savluk, A. Somyk, V. Stelmakh, M. Tugan-Baranovsky, A. Shchetynin and others.

Defining the uninvestigated parts of general matters. Despite the considerable number of studies done, the issue of developing an effective monetary policy in a changing environment requires ongoing scientific research.

The research objective. The main objectives of this study are the identification of the characteristics of monetary policy implementation during the year of 2015, the estimate of the National Bank of Ukraine's management in monetary policy sphere and its impact on the achievement of the defined objectives and priorities.

The statement of basic materials. According to regulatory documents, the National Bank of Ukraine (the National Bank) defines and implements the monetary policy in Ukraine (known from [1]). Since there is no presently a single approach among scientists to assess the effectiveness of monetary policy, in order to achieve the objectives of this study the efficiency estimate will be carried out by comparison of the actual parameters of monetary policy and the planned (expected) by National Bank ones (grounded in [2]). The monetary policy parameters are demonstrated in the document which the National Bank develops and approves for each subsequent year that is «The basic principles of monetary policy». National Bank's objectives and corresponding measures ratio is given in Table 1.

Summary of the above data leads to the conclusion that "The basic principles of monetary policy for 2015" clearly set the National Bank's goals and objectives for the year of 2015 and offers a number of measures to achieve them. But at the same time the quantitative (expected) indicators, as guidelines for achieving the objectives, are identified only by one objective of the National Bank's monetary policy, namely "reducing inflation rate to a level which will help to restore public confidence in the national currency and to lessen inflation expectations".

Table 1

The hierarchy of National Bank's objectives and tasks in 2015

The hierarchy of National Bank's objectives	Objectives and tasks defined by "The basic principles of monetary policy for 2015"	The activities planned by "The basic principles of monetary policy for 2015"	Quantitative indicators (expected), defined by "The basic principles of monetary policy for 2015"
1	2	3	4
Objective 1 – to achieve and maintain price stability.	The main objective - reducing inflation rate to a level which will help to restore public confidence in the national currency and lessen inflation expectations	<ul style="list-style-type: none"> - measures to stabilize the situation in the currency market, - bringing all range of currency exchange operations to the legal status and ensuring a stable exchange rate fluctuation limits by means of optimizing monetary policy, bank regulation and supervision, - reducing currency restrictions, - implementation of stimulating measures to return the exporters' foreign currency earnings to Ukraine, - the use of moderate exchange rate binding modes or controlled exchange rate is possible. 	reducing inflation to 5% a year, with a tolerance of ± 1 percentage point; The quantitative efficiency criteria and indicative targets of IMF cooperation program by net international reserves, net domestic assets and the monetary base will be considered as the operational guidelines of the monetary policy. The upper limit of monetary base growth for 2015 is set at 90.8 billion UAH or 27%.

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Continuation of Table

1	2	3	4
Objective 2 - to promote the stability of the banking system.	Raising confidence in the National Bank and the banking system in general as well as recovering the interbank credit market as an effective liquidity redistribution institute	- measures on banks recapitalization, - considerate actions in the area of bank supervision, - temperance in making decisions concerning the recognition of banks insolvency, - providing banks' equal access to the National Bank resources by transparent criteria.	Quantitative indicators (expected) are not defined
Objective 3 - promoting the sustainable rate of economic growth and supporting the Government economic policy.	Supporting Government's activities concerning the recovery of economic growth.	- Development and implementation of the program of intensification of bank crediting of the real economy sector and also concerning the assistance in Government's implementation of certain obligations in the framework of the IMF cooperation program.	Quantitative indicators (expected) are not defined

Source: Generalized by the author on the basis of the Law of Ukraine "On the National Bank of Ukraine" and the document "The basic principles of monetary policy" for the year of 2015 ([3])

In order to estimate the monetary policy in the context of the effectiveness of the implementation of the National Bank's main task for 2015 - reducing inflation to a level which will help to restore public confidence in the national currency and lessen inflation expectations and, accordingly, the accomplishment of the strategic objective 1 - achieving and maintaining price stability in the country, - let's consider the peculiarities of monetary policy implementation in 2015 and analyze the dynamics of change in some major macroeconomic indicators of the monetary sphere.

So, an inflation rate is a generally recognized indicator of the monetary unit stability. It is known from the official sources ([3]) that consumer inflation in Ukraine at the end of 2015 amounted up to 43.3%, at the end of 2014 - 24.9%, at the end of 2013 - 0.5%. And the highest level during the analyzed period was reached by the consumer inflation rate in April, 2015 - 61%. Another monetary unit stability indicator - the amount of GDP - also has a downward trend of development. The fall in real GDP in 2015 was estimated at 10.5%, in 2014 - 6%, in 2013 the fall in real GDP was not registered. During the period from 2013 to the present time hryvnia's exchange rate as to foreign currencies dropped down more than three times.

The banking system of Ukraine resumed monetary base growth, but according to experts, the annual rates remained very low. In the second half of 2015 there was an increase in national currency deposits, while the rate of decline of foreign currency deposits slowed down in annual terms.

According to experts since 2014 Ukraine's economy has been undergoing a phase of stagflation, when the rapid growth of inflation processes in the country was being accompanied by the decline in production and employment. This state of economy is considered to be the most difficult one and requires government and National Bank's reasonable measures. Accordingly, during the year that has passed, the National Bank conducted the monetary policy in a monetary targeting regime which implies the presence of such a money supply volume, which allows to ensure economy functioning and at the same time not to create additional inflationary pressure.

So, to regulate the amount of money supply in circulation and inflation, the National Bank has used during 2015 a number of methods and instruments, the main of which, according to the author, are:

- 1) a raise in the discount rate (from 9.5% to 14% in 2014 and up to 22% at the end of 2015);
- 2) raise in average rates on refinancing credits (from 7.15% to 15.57% in 2014 and up to 25.22% at the end of 2015);

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3) the measures of administrative regulation in foreign currency transactions sphere have been introduced, which, according to the National Bank experts, "will help to stabilize the currency market ... and will make it possible to avoid unproductive capital withdrawal from Ukraine" (known from [3]);

4) in order to enhance crediting the National Bank in 2015 changed the approaches to calculating credit risk standards, which is ultimately expected to give the opportunity to banks to direct the released funds for crediting;

5) to stabilize the exchange rate the National Bank intervened in the interbank forex market - buying as well as selling currency depending on market conditions;

6) Auctions for sale of government bonds held by the National Bank totaling 136 million UAH. New types of deposit certificates transactions have been introduced in the secondary market.

The implementation of these measures, restrictions and instruments of monetary policy, as well as changes in foreign market conditions and better inflation expectations in the country led to the slow-down in consumer inflation and the decline in GDP, the national currency return to the banking system.

However, despite some progress in monetary sphere at the end of 2015, summing up the data from the official sources allows us to question the effectiveness of monetary policy and state the disparity between the obtained results and the priorities defined by the legislation of Ukraine. The estimate of target indicators compliance level set by "The basic principles of monetary policy for 2015", are represented in Table 2.

Table 2

Implementation dynamics of major expected indicators of the monetary sphere, set by "The basic principles of monetary policy in 2015"

Indicator	Value		divergence
	National Bank's prognosis	fact	
Real GDP, change in %	-11,6	-10,5	+1,1
Nominal GDP, billion UAH	1901	1937	36
Consumer price index, change in %, at the end of the period (December to December)	44,0	43,3	0,7
The basic consumer price index change in %, at the end of period	30,7	34,7	4
The balance of current account, billion USD	-0,7	-0,2	-0,5
Net consolidated balance, billion USD	2,0	0,8	1,2
International reserves, billion USD	18,0	13,3	4,7
Monetary Base change in %, at the end of the period	0,3	0,8	0,5
Money supply, change in %, at the end of the period	5,4	3,4	2

Source: Generalized by the author on the basis of „The basic principles of monetary policy for the year of 2015” and «Inflation report», September 2015

Note: "+" - the actual value of the index is in the range set by "The basic principles of monetary policy for 2015", "-" - the actual value of the index is beyond the range set by "The basic principles monetary policy for 2015" (investigated by the author in previous study [4])

Summing up these data allows us to conclude that the actual value of most of the indicators taken as target reference points for achieving National Bank's objectives and goals in 2015, aimed at achieving the defined objectives of the National Bank's monetary policy, have divergence from the expected values. And if the actual rate of drop in real GDP at the end 2015 was less than expected, but only for 1.1% and the consumer price index by the end of the year was within the expected limits, then all other listed parameters seem to perform a discrepancy between actual values and the expected ones leaning to negative side. This may indicate a low quality of prognoses developed by the National Bank, underestimating of the available risks, or the incompetent use of available monetary policy instruments.

Thus, we can state that defined by "The basic principles of monetary policy for the year of 2015" **objective 1 - "to reduce inflation rate to a level which will help to restore public confidence in the national currency and lessen inflation expectations"**, was achieved only partially, accordingly,

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there is no reason to talk about the positive dynamics of the implementation of such strategic goal as **"achieving and maintaining price stability in the country"**.

In the context of implementation of the National Bank's goals and objectives towards achieving the strategic goal 3 - promoting the sustainable rate of economic growth and supporting the Government economic policy, "The basic principles of monetary policy for 2015" include the support of Government's activities concerning the recovery of economic growth. In the context of achieving this objective during the 2015 the Parliament of Ukraine passed a number of legislative acts which would allow to improve the institutional and financial independence of the National Bank. It is expected that it will later provide an opportunity for the National Bank to more effectively implement its authority. Besides, the Complex program of the financial sector development in Ukraine to the year of 2020 was developed and approved in 2015. However, the program of intensification of bank crediting of the real economy sector, planned by "The basic principles of monetary policy for 2015", has not been developed and implemented. So, we can state that activities, planned to be applied by the National Bank in 2015, were actually implemented only partially.

Moreover, considering that the generally accepted measurement indicator of economic growth in the country is GDP indicator, whose value over recent years has been demonstrating a downward trend of development, we can make a conclusion about the partial achievement of specified third goal and objective of the National Bank for the year of 2015. As a result, we can state about the absence of progress in achieving the monetary policy **strategic objective 3 - "promoting the sustainable rate of economic growth and supporting the Government economic policy"**. To perform the efficiency estimate of undertaken by the National Bank measures in the context of achieving **objective 2 - "raising confidence in the National Bank and the banking system in general as well as recovering/restoring the interbank credit market as an effective liquidity redistribution institute", and accordingly National Bank's strategic objective - "to promote the stability of the banking system"** is not possible, because, as already has been mentioned, "The basic principles of monetary policy" does not provide us with expected quantitative indicators, the assessment results of which would have made it possible to come to objective conclusions.

However, according to the head of the National Bank V. Hontareva on the 12th annual investment conference Dragon Capital in Kiev in March 2016 ([5]), «the National Bank has completed the basic cleanup of the banking system, but admits the possibility of the market exit of several small banks because of their illiquidity». The result of Ukraine's banking system cleanup was the withdrawal of unfair participants (62 banks) from the market and the increase in transparency through the disclosure of banks real owners. Thus, out of 182 banks registered in the State Register of banks on the 01.01.2014, only 120 banking institutions actually operate in 2016. Quantitative changes of banking institutions and their status are visualized in Figure 1.

On the background of the cleanup policy the following trends were characteristic for the banking system of Ukraine during 2014-2015 years:

- 1) the reduction of foreign capital share in the nominal capital of banks - from 34% in 2014 to 32.5% in 2015;
- 2) the reduction of the amount of banks with foreign capital - 51 banks on 01.01.2014 and 41 on 01.01.2015;
- 3) low credit activity of banks, business and individual crediting reduction;
- 4) increase in the share of negatively classified debts in banks credit portfolio - 12.0% on 01.01.2014, 18.4% on 01.01.2015 and 28.2% on 01.01.2016;
- 5) negative financial result of banking sector activity - in 2014 the losses reached almost 53 billion UAH, in 2015 - 66 billion UAH;
- 6) increase in individuals' deposits in local currency since April 2015.

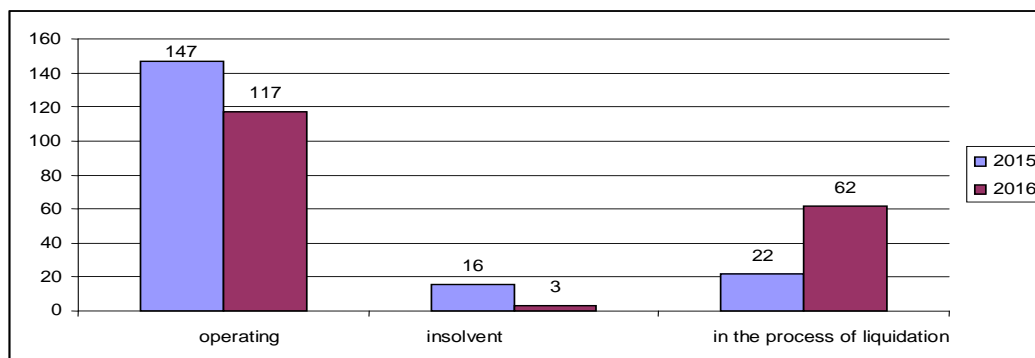
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Fig. 1. The amount and status of banking institutions in the 2015-2016 biennium

Source: visualized by author on the basis of generalization of the data presented on the official website of the National Bank

Thus, taking into account the mentioned above trends of the banking sector functioning, one can affirm that objective 2 of the National Bank's monetary policy in 2015 has been achieved only partially. The only positive results of the National Bank activity as to achieving goal 2 are the withdrawal of unfair participants out of the market, the increase in transparency, reorganization of the National Bank's institutional structure.

However, in order to perform the most objective evaluation, it is reasonable to give an expert opinion of the Moody's international rating agency, as an independent external estimate, which has changed in 2016 the outlook for Ukraine's banking system to stable from negative on the background of country's economy recovery expectations (known from [6]). The reason for such a decision of the agency was the rise in local currency deposits and banks' limited refinancing needs.

Conclusions. So, generalizing the obtained data concerning of results of regulator's activity in the monetary policy development for the year of 2015, one can conclude that, firstly despite the slowdown in the fall of macroeconomic indicators based on the results 2015, the economic growth in the country is not taking place. Secondly, some of the actual values of monetary sphere indicators are within the range set by "The basic of monetary policy for 2015", but the expected numbers due to their negative value can not be the guidelines for development. Thirdly, some of the National Bank's set for 2015 objectives, namely "Raising confidence in the National Bank and the banking system in general as well as recovering the interbank credit market as an effective liquidity redistribution institute" and "Supporting Government's activities concerning the recovery of economic growth" do not have the defined quantitative indicators which makes it impossible to carry out an objective assessment of monetary policy implementation results in this direction. Fourthly, not all activities planned by the National Bank for the year of 2015 were actually implemented.

Accordingly, the analysis of implementation dynamics of monetary sphere basic expected indicators set by "The basic principles of monetary policy" in 2015 and trends in the banking sector of Ukraine can certify quite a low level of monetary policy efficiency in Ukraine in 2015.

Subsequently there comes a necessity to develop and implement the adequate to modern realities monetary policy measures based on updating and improving the monetary sphere instruments, making economically motivated decisions that will enable the realization of monetary policy strategic goals and intensify the process of achieving the objectives of country's general economic policy.

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Received for publication 21.10.2016

Бібліографічний опис для цитування :

Rohova, O. V. Ukraine's monetary policy efficiency estimate / O. V. Rohova // Науковий вісник Полісся. – 2016. – № 4 (8). ч. 2. – С. 310-316.