



Financial and Banking Services Market

Oleksandr DZYUBLYUK

**NBU'S MONEY-AND-CREDIT MECHANISM
OF REGULATORY INFLUENCE
ON THE ECONOMIC
DEVELOPMENT DYNAMICS**

Abstract

The paper examines the peculiarities of money-and-credit mechanism of the central bank's regulatory influence upon the development of economic processes. The author analyzes the inconsistencies between separate strategic goals of monetary regulation and determines the need for their prioritization in view of the challenges of economic reformation that evoke at different stages of market transformation. The author considers the strategy of money-and-credit regulation of the National Bank of Ukraine (NBU) that sets out the direction for the respective measures aimed at sustaining the stability of the national currency and stimulating the economic growth.

Key words:

Monetary policy, monetization of economy, inflation, strategy of money-and-credit regulation, money supply, monetary base, reserve requirements, interest rate, refinancing, state budget deficit, national currency, money-market.

JEL: E51.

© Oleksandr Dzyublyuk, 2007.

Dzyublyuk Oleksandr, Doctor of Economic Sciences, Professor, Head of Department of Banking Business, Ternopil National Economic University, Ukraine.

Introduction

Under the conditions of developed market relations, monetary policy is one of the most significant levers of the state's influence upon economic processes for the purpose of ensuring financial stability and stimulating industrial growth. At the time when the administrative levers of economic regulation are reduced to minimum, precisely the money-and-credit regulatory mechanism becomes of crucial importance in providing an active state's influence on the development of all economic processes.

The effectiveness of money-and-credit regulation critically depends on the adequate selection of such a strategy of monetary policy that would maximally correspond to the existing realities of the Ukrainian market transformation. This is determined by the direct influence of the pursued money-and-credit regulation on all spheres of business life and on the emerging regularities of economic development during the transition period.

Under conditions of transformational changes, the substantiation of the strategy of optimal monetary policy realization starts with establishing its goals, which in the final analysis brings to the problem of defining the role of the Central Bank in the economy. Such strategic goals are the following: stable economy growth, low inflation and, accordingly, price stability, low unemployment level and balance of the balance of payments.

As stated in the current Ukrainian legislation [2], the Central Bank's role is confined only to providing the stability of national currency, and because of this it does not fully unveil its potential, especially the potential of an institution that performs important socio-economic functions. The matters in question are primarily the problems of overcoming inflation and stimulating economic growth and high employment, which characterizes the reproductive component of the monetary policy pursued by the Central Bank.

1. The Strategy of Money-and-Credit Regulation

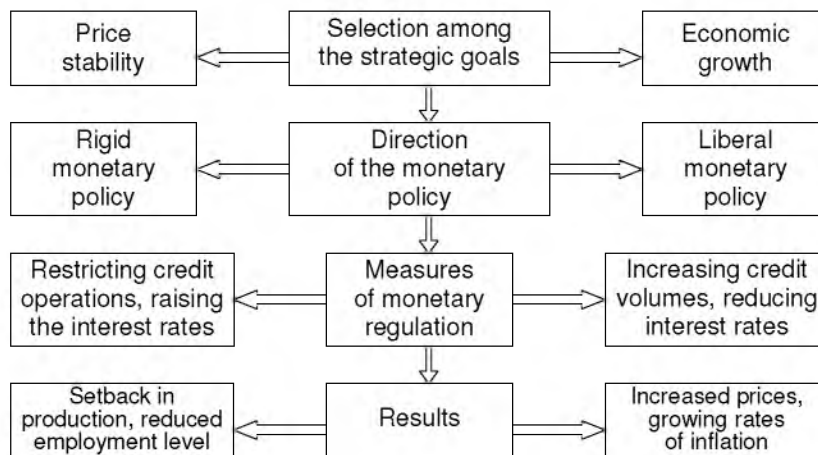
The elaboration of an effective strategy of money-and-credit regulation plays a crucially important role in the whole package of transformations that are realized, as in determining the specifics of the economy's monetary sphere, the monetary policy actively effect absolutely all market subjects in all branches and sectors of the economy.

Along with this, an important theoretical and methodological problem, which arises in the process of elaborating the strategy of money-and-credit regulation, consists in solving the question about the possibility of simultaneous achievement of the end goals of the regulatory process, especially regarding the transition economy. Its development differs substantially from the functioning of a developed market system namely by the absence of appropriate mechanisms of self-balance and regulation.

The essence of the indicated problem is determined by the incompatibility of the strategic goals of money-and-credit regulation of the market economy, which unconditionally manifests itself in the transition economy at an even larger scale. The mentioned contradictions have an effect primarily on the achievement of such goals as low rates of inflation (price stability), on the one hand, and economic growth and high employment, on the other. The production growth, growth of employment, and accordingly, the reduction of unemployment are accompanied by the upturn in the inflation rates, since the volume of unused resources in the economy decreases, whereas an increased demand for the latter leads to a price surge. The arrangements called to curtail government spending and money supply in order to lower prices and stabilize inflation (at wages documented in employment agreements) otherwise reduce profits of enterprises, which prompts them to cut back production volumes and, accordingly, employment.

Figure 1.

The incompatibility of the strategic goals of monetary policy



The antipathy between certain end goals of the state regulatory influence on the economy forces the Central Bank to maneuver in realizing the monetary policy in view of the economic conditions and changes in the phases of business cycle so that its own actions do not enhance the tendencies during neither economic 'overheating' nor decline, and consequently, do not aggravate the problems of excessive inflation and unemployment growth (Figure 1).

Under conditions of market transformation of the economy, the contradictions between the strategic goals of money-and-credit regulation show themselves at a considerably larger scale, since economic agents are forced to operate under special conditions connected with weaknesses or absence of the basic market institutions. Under such conditions, the mechanism of monetary policy realization should be based on selecting different strategic directions at different stages of transformation, which are differentiated with regard to priorities of one or another goal of market transformation in general.

2. The Priorities of Money-and-Credit Influence on the Economy

The selection of the priorities of money-and-credit influence on the economy should be directly connected with the following three main lines of transformation in the process of building a market economy: first, *liberalization*, which predetermines gradual contraction of state control in all spheres of economic activity; second, *establishment of market institutions*, which implies changes in the patterns of ownership and economic conditions, creation of market infrastructure, and conversion of the legal base that regulates behaviour of economic agents; third, *structural reformation of the economy*, which provides for the removal of enterprises that produce unpopular products and the priority development of the production of consumer products and services, as well as new market segments (capital, labour, land, etc).

It is obvious that the realization of the mentioned tasks cannot be fulfilled in a comparatively short term. Market transformation is usually realized within longer periods, the periodization of which in the final analysis is determined by those elements of reforms that dominate at a certain stage. From this standpoint, the whole transition period could be divided into two main stages, and individual strategic goals of money-and-credit regulation should be established for each of them.

Economic liberalization is the main task of the first stage of transition period, which stands out as the starting point for all further transitions, since it is impossible to create market conditions of economic activity without free price shifts, movement of goods and services, freedom of enterprise, and openness of the economic system. At that, price liberalization changes inflationary processes from being hidden into an open form; and under conditions when inflation is galloping and hyper-sized, without a stable monetary unit the economy is doomed

for a deep crisis because of the missing conditions for normal functioning of the market institutions (enterprises, for example, do not invest money in production development because they cannot guarantee adequate returns under accelerating price growth). Clearly, under such conditions, the main strategic goal of the money-and-credit regulation should be to combat the inflation, which means focusing efforts on price and financial stabilization.

After the financial stabilization is reached, begins the second stage of the transition period, the strategic task of which lies in bringing the economy to the growth phase as far as the essential institutional and structural transformations are realized. As opposed to cyclical fluctuations in the developed economic systems, which is usually connected with the dynamics of aggregate demand, the continuous and deep recession in a transition economy is often accompanied by a fall in production output due to a considerable deterioration of enterprise resources (first of all due to inflationary depreciation of assets). Therefore, on a par with corresponding institutional and structural policies for money-and-credit regulation, the goal priority shifts towards stimulating economic growth. At that, a key element of regulatory influence called to increase aggregate supply is providing the production with needed capitals – the process where the liberalization of credit relations plays one of the leading roles.

The adequate approaches to realizing money-and-credit regulation are selected at different stages of the transition period according to the indicated strategic goal priorities of the economic policy. Thus, the monetary policy should be restrictive in nature at the first stage in order to combat inflationary processes evolving in result of price liberalization. At the second stage, as far as the necessary institutional and structural transitions are realized, the monetary policy should serve for the goals of economic growth and stimulate investment processes (Figure 2).

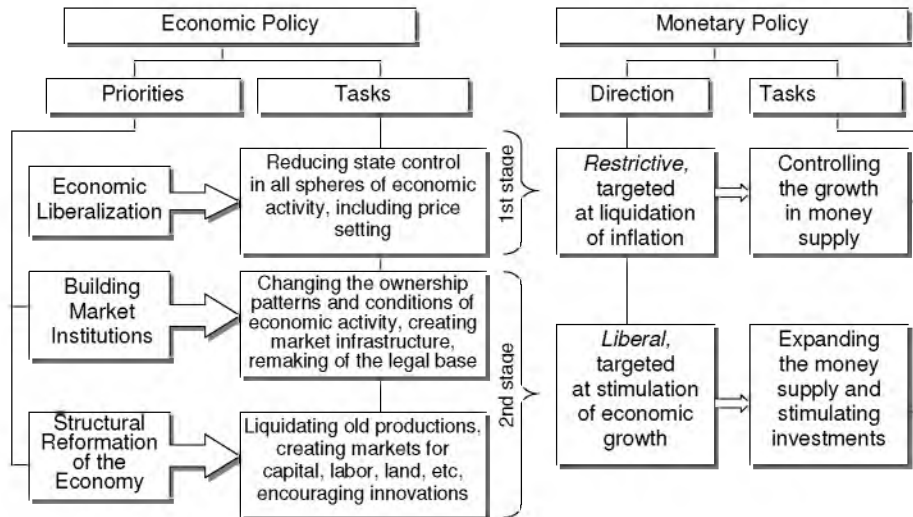
From such positions, a restrictive monetary policy seems to be the most acceptable at the first stage, since limiting inflationary processes is the first, initial condition for economic stabilization and overcoming the production decline. The fact is that during the period of high inflation, an increase in money supply cannot stimulate influx of capital into the production sphere and production growth because the most profitable investment area becomes the redistribution activity. It is natural that under such conditions, the realization of restrictive monetary policy directed at liquidation of inflationary potential requires a rather strict control over money supply growth.

In such a context, we can speak of applying a restrictive approach to organization of money-and-credit regulation, whereby the stabilization of money supply should be considered as the key strategic goal, and the decrease in inflation rate, in turn, should create conditions for the growth of investment, recovery and reinvigoration of production, and a more effective solution of the social problems. For this purpose, the Central Bank should establish target reference points for money supply growth by aggregates and monitor their maintenance by means of its own instruments of influence over the monetary base. From this

standpoint, our country's respective policy could hardly be considered as monetaristic in its classical understanding – as the targeting of money aggregates and observance of the monetary rule, although it could be called anti-inflationary (especially after 1995-1996).

Figure 2.

Selecting the priorities of monetary policy in the course of market reformation of the economy



Generally speaking, the elements of restrictive monetary policy, – such as terminating the direct crediting of state budget deficit by the Central Bank; setting the interest rates on commercial bank credits higher than the inflation level; increasing the norms of required reserves; and limiting commercial bank refinancing, – lead to restricted growth or contraction of monetary base and, accordingly, produce an impact on the status of money supply and inflation rate.

At the same time, if in the classical monetarism prevails the assertion that the end goal of monetary policy is price stability, whereas stable growth of production and full employment are reached upon this automatically because of the market system's disposition to self-balancing, – such a postulate is not acceptable for a transition economy owing to the insufficient development of its self-regulating mechanisms. Furthermore, the monetarists' assertion that inflation is always and everywhere the result of the money supply growth outperforming the

rate of real production growth cannot be considered valid in respect to the initial stages of economic reforms during the liberalization period, when structural disproportions in the economy have not yet been removed and prices have not yet become the instrument of reaching a balance either. Under such conditions, the measures directed at restricting money supply in circulation can provide only a temporary positive effect while retaining the inflationary potential.

Thus, the restrictive stabilization policy connected with limitation of solvent demand cannot remain unchanged over a long period of time, since along with positive moments (decelerated inflation) it can bear some negative consequences, which primarily contain a considerable decline in production and growth of unemployment (including hidden unemployment). The overall decline thus overgrows into a structural crisis, which is characterized by the fact that the differences in the depth of recession and production dynamics in different industries are determined by demand restrictions.

Therefore, price stabilization is the required condition for overcoming production decline and reviving economic growth, since it becomes profitable to invest free available monetary resources in the real sector. Nevertheless, this condition is by far not sufficient. In this case we can speak of the following. Even though the successful financial stabilization, along with initial formation of the new market institutions and structural readjustment of economy, allow proceeding to the second stage of transition period – the stage of economic growth, – there is also the need to reorient money-and-credit regulation towards the corresponding strategic tasks – growth of production and reduction of unemployment.

In this context, the case in point could be primarily a shift in the basic tactical goal of money-and-credit regulation from the rigid policy of maintaining money supply on a certain level to a flexible policy of interest rate regulation. A moderate expansion in pursuing monetary policy – by means of liberalizing the Central Bank's terms of commercial bank crediting – enlarges the supply of money on the market, thus lowering the price for credit resources – the interest rates, which, owing to depreciation of capital, stimulates investment processes and leads to aggregate GDP growth. At the same time, the expansionist policy should have a rather moderate nature so that not to provoke a revival of inflationary processes. In the end, as the goal of this policy should be accepted the liberalization of credit relations to the extent that would facilitate access of the enterprises of real sector to the needed money resources.

Therefore, the specifics of organizing money-and-credit regulation during the transition period should match its stages and base on applying separate elements of the two different approaches to strategic monetary policy goal-setting: overcoming inflation and stimulating production growth.

3. Practical Aspects of Money-and-Credit Regulation in Ukraine

The formation of money-and-credit regulation strategy as a valuable instrument of state economic policy is the reflection of a complex process of our country's economic transformation to principles of market economy, which inter alia stipulates for the transition from solely direct, administrative influence to mostly indirect influence on the process of public reproduction. The durability, complexity and inconsistency of this process, provoked by the lack of well-defined strategy and order of practical economic reformation measures, have directly marked the monetary policy realization as well.

It is understandable that the basis for building specific content of money-and-credit regulation is the adoption of its certain strategic goals. Accordingly, the peculiarities and order of applying various instruments of regulation largely depend on the current stage of transition period, where certain goals are set as priorities. As mentioned earlier, the optimal option in this respect seems to be the one that bears price stability control as the strategic goal of the initial stage of monetary policy realization, which encompasses the very formation of the main instruments of money-and-credit regulation. The achievement of this goal could allow shifting to the second stage, where the content of regulatory measures is now determined by the task of economic growth stimulation.

On practice, the process of realizing money-and-credit regulation by the Central Bank – from the very start of market transformations in the Ukrainian economy – followed an inverse direction. It should be stressed here that the strategic direction of money-and-credit regulation is not once and for all defined in legal acts [1, 2], but it is shaped in the form of 'Principal Foundations of Monetary Policy', which are adopted annually but often not realized as initially planned [3].

While retrospectively researching the experience of conducting monetary policy in Ukraine, one may conditionally divide the already passed way into three main stages (Figure 3) differing by the degree of rigidity and the objectives of monetary regulation.

Thus, at **the first stage (1992–1995)**, the course towards stimulating the development of national production and supporting the social sphere at the level established as far back as the command economy, was pursued. In other words, economic growth stimulation was adopted as the strategic goal of monetary policy right away, without prior financial stabilization and conquering inflation. The set of practical measures used by the Ukrainian National Bank for achieving the mentioned goal was far from being market-based, since it included direct crediting of budget expenditures, centralized distribution of credit resources, granting lax credits to priority sectors and special public enterprises. The National Bank practiced budget deficit financing, which at its core meant direct government crediting. Such a policy resulted in economic recession, as well as decreased investments and commodity turnover (Table 1).

Figure 3.

Stages of monetary policy realization

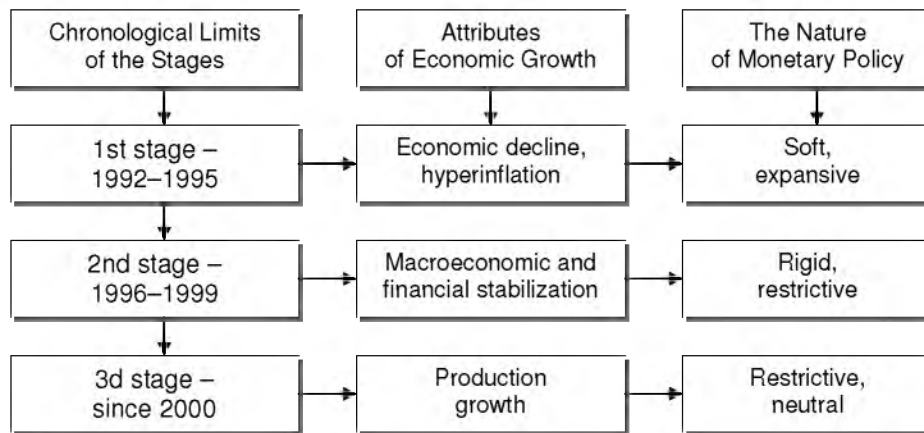


Table 1

**Economic development of Ukraine in 1992–1995:
1st stage of monetary policy realization**

Indicators	1992	1993	1994	1995
Real GDP, % to previous year	90.1	85.8	77.1	87.8
Capital investment, % to previous year	63.1	89.6	77.5	71.5
Retail turnover, % to previous year	82.0	65.0	86.4	86.1
Consumer Price Index, %	2100	10256	501	282
Industrial Products Producer Price Index, %	4235	9768	874	277
Consolidated budget deficit, % of GDP	-13.8	-5.1	-8.9	-6.6
The NBU accounting rate, %	80.0	240.0	252.0	110.0
Interest rates on bank credits in national currency, %	76.0	221.1	201.7	107.4
Money supply (M3), ml Karbovanets	2522	48146	321569	692996
Rate of money supply growth as against previous year	11 p.	19 p.	7 p.	213%
Monetization level, %	27.4	17.1	15.4	9.3
Average annual exchange rate, Karbovanets/USD	208	4539	31700	147307
Devaluation of Karbovanets against US dollar, %	-	-1870	-726	-72

Source: the NBU newsletter.

Under such conditions, the realization of the liberal monetary policy during the first stage of transition period in 1992-1995 facilitated the infusion of money emissions into the economy, which, having had no adequate commodity backing, ruined the price proportions and brought to hyperinflation.

In result of the «flee from money», which have been quickly losing their value, considerable financial flows were directed to foreign exchange market, which caused sudden appreciation of foreign currency and devaluation of national currency. Thus, price liberalization did not create a reliable foundation for structural readjustment of the economy, since employee wages in different sectors exceeded growth in labour productivity. The existing at that time «salary-prices» spiral became a powerful generator of inflationary processes. After all, the main cause of inflation is always an excess of the gross sum of all cash incomes of population over the gross value of the commodity mass and paid services produced.

The expansionist character of money-and-credit regulation revealed itself in the increasing credit injections into the economy realized by the National Bank through the budget and state sector (although it is difficult to call them «credit» when taking into account the actual irretrievability of the flow of resources and low efficiency of their utilization). Thus, during 1992 the amount of credits granted by the National Bank to the government increased 34 times, during 1993 – by 7 times, during 1994 – by 11 times. Considerable credits were also granted to the coal-mining sector, farm-factory complex, and for the replenishment of enterprises' current assets.

In general, the final results of the mentioned policy turned out opposite to the expected ones. A considerable increase in money supply (during 1992 – by 11 times, during 1993 – by 19 times, during 1994 – by 7 times) provoked a sudden increase in prices. Price indices for the respective periods amounted to 2100%, 10256%, and 501%. In the final analysis, the credit support of unprofitable enterprises along with excessive state spending have objectively exerted the inhibitive influence on the possibilities of structural adjustment of the economy and development of production. In spite of a considerable growth of money supply in circulation in 1993 (1928%), the deepest decline in production over the modern Ukrainian history – almost 23% – was observed the next year [5].

The real income of population dropped catastrophically because of the inflation which led to almost entire depreciation of the population's old savings and made it impossible for it to accumulate new savings, including deposits of natural persons in banks. The high rates of inflation caused rapid increase in the nominal GDP, although it was only a price surge along with a considerable decrease in real output. At the same time, inflation almost ruined the trust in national currency and led to a decrease in the demand for money, which preconditioned a nearly threefold drop in the level of economy monetization over this period – from 27% to 9%.

Under such conditions, enterprises were forced to replace the money with «quasi-money», which induced large-scale exploitation of the barter schemes of

payments between enterprises, cross-cancellation of debts with the budget, increased non-payments and debts. The amplification of distrust in the national monetary unit has brought the foreign currency to perform its functions of the measure of value and the store of value and increased dollarization of the economy. Subjects of economic activity gave preference to a more stable foreign currency; for these reasons the massive emissions of the Ukrainian karbovanets were infused directly into the foreign exchange market. This devaluated the national currency and combined with increasing imports led to additional price surge.

The main lessons learned from the first stage of monetary policy realization made it needed to grant independence to the National Bank of Ukraine in the questions of monetary policy development and realization with the purpose of combating hyperinflationary processes, destructive macroeconomic consequences of high budget deficit and its emissive financing by the Central Bank.

The inflation rate accelerated to the level above 50% per month was one result of the inaccurate selection of priorities among the strategic goals of money-and-credit regulation due to the non-understanding of the impossibility of achieving economic growth without ensuring the stability of the national currency.

In fact, the understanding of this truth and choosing price stability as the priority goal have initiated the second stage of monetary policy realization.

During **the second stage (1996–1999)**, the National Bank of Ukraine headed for combating hyperinflation as the strategic goal of money-and-credit regulation (Table 2). Certain measures were assumed to hold back the monetary and interest rates growth, establish credit ceilings, and introduce credit auctions.

During this period, the anti-inflationary direction of money-and-credit regulation of the National Bank became consistent in character and founded on the following principles:

- implementing the practice of reserve requirements for currency deposits, which is a prerequisite for reducing excess liquidity of commercial banks;
- establishing an order, according to which the commercial banks must adjust their interest rates to the changes in the NBU's accounting rate, which, in its turn, is adjusted to the rate of price increase, which allowed to bring the banking system's interest rates to a positive level and stimulate savings;
- using government securities as an instrument of budget deficit financing by means of mobilizing temporarily free funds of the market subjects;
- introducing pawnshop crediting of commercial banks on security of the bonds of internal state loan;

- liberalization and decentralization of the foreign exchange market, which foresaw the abolishment of the mandatory 10% sale of currency inflows of the subjects of economic activity, the recommencement of auctions on the Ukrainian Interbank Exchange Board (UIFEB) and on the inter-bank foreign exchange market, setting exchange rate under the influence of supply and demand, realizing currency interventions to support the stability of karbovanets;
- optimizing of the structure of credits issued by the National Bank of Ukraine by means of reducing the share of direct credits granted to the government for covering of the state budget deficit (from 77.2% in 1995 to 13.9% in 1996), and accordingly increasing the refinancing of commercial banks (from 8.5% in 1995 to 21.9% in 1996).

The realization of the abovementioned restrictions allowed to considerably decelerate the growth of money supply in circulation: if in 1994 money supply grew 7 times, in 1995 it grew 2.1 times, and in 1996 – 1.3 times only. Consequently, substantial improvements were reached in the inflation dynamics, the rates of which obtained stable declining tendencies during 1995, as well as during 1996 [5].

Table 2

**Economic development of Ukraine in 1996–1999:
 2nd stage of monetary policy realization**

Indicators	1996	1997	1998	1999
Real GDP, % to previous year	90.0	97.0	98.1	99.8
Capital investment, % to previous year	78.0	91.2	106.1	100.4
Retail turnover, % to previous year	94.9	100.2	93.4	92.9
Consumer Price Index, %	140	110	120	119
Industrial products Producer Price Index, %	117	105	135	116
Consolidated budget deficit, % of GDP	–4.9	–6.6	–2.2	–1.5
The NBU accounting rate, %	40.0	35.0	60.0	45.0
Interest rates on bank credits in national currency, %	77.0	49.1	54.5	53.4
Money supply (M3), million karbovanets	9364	12541	15705	22070
Monetization level, %	11.5	13.4	15.3	16.9
Average annual exchange rate, karbovanets/dollar	1.8295	1.8617	2.4495	4.1304
Devaluation of karbovanets against US dollar, %	–5	–1	–80	–52

Source: NBU newsletter.

In 1996 the rates of inflation declined 4.5 times against previous year – from 181.6% to 39.7%. The stabilization of the macroeconomic situation in Ukraine in 1996 allowed creating real preconditions for currency reform, which was realized by means of changing the standard of prices and introducing the national currency – hryvnya – instead of the temporary monetary unit – Ukrainian karbovanets.

At this time, the National Bank stiffened its requirements of the financial market participants and terminated direct emissive crediting of the government and economy. A stricter monetary policy, which showed itself in the declining growth rates of monetary base and money supply, triggered disinflation. Money deficit provoked the rise in the interest rates as a price of capital in order to balance supply and demand.

Among the positive shifts of this stage, it is worth to mention that budget deficit financing proceeded in a more market-like manner – by means of issuing government securities and their auction sales. At the same time, the indirect money emission was realized by the National Bank, which was forced to buy out government securities from the banks on the secondary market almost right after their initial public offering by the Ministry of Finance. State loans in Ukraine did not actually play the role of investment activity catalyst or aggregate demand incentive (according to the Keynesian theory), but only created the conditions for reassignment of the available debt funds in favour of the budget, which thus opened the path to speculative short-term capital of foreign investors and foreign banks, and therefore reduced their interest in crediting the real sector of the economy, by creating conditions for «earning» money at the expense of tax payers' means.

During the next two years, the National Bank has been realizing the monetary policy oriented at macroeconomic stability. Herewith, the corresponding measures of money-and-credit regulation aimed to develop the abovementioned ones included:

- providing the quantitative control over the money supply dynamics by means of determining its growth margins;
- abolishing direct crediting of state budget deficit;
- increasing the share of credit emission for refinancing of commercial banks;
- retaining the positive NBU accounting rate in relation to the rate of price growth.

The abovementioned measures promoted further disinflation – from 39.7% in 1996 to 10.1% in 1997. Even under the conditions of financial crisis in 1998, the responding efficiency of the National Bank in applying certain restrictive instrument of monetary policy (raising the norms and reserve requirements and the accounting rate, regulatory measures on the money-market directed at curtailing demand, recommendations concerning limiting credit operations) has

not allowed the inflationary process to get out of control; the annual inflation rate made 20%, which could generally testify to somewhat increased effectiveness of money-and-credit levers of economic regulation.

Therefore, the monetary policy became stricter at the second stage. Such a combination allowed gradual lowering of the inflation level, suspending deceleration of and people's incomes, even though it was impossible to resume their growth.

During **the third stage (2000–2006)**, the Ukrainian economy has stepped into the growth stage starting from 2000–2001, which to some extent could also be considered as a result of certain liberalization of the National Bank's monetary policy (Table 3). Its measures in particular foresaw: lowering and establishing differentiated norms of minimal reserve requirements, reduction in the bank rate, increasing the volumes of refinancing, etc. As a result, the amount of credits invested in the economy by the Ukrainian commercial banks grew from 19.5 million hryvnyas in 2000 to more than 24.5 million hryvnyas in 2006, that is, almost in 12 times.

The improvement of external environment conduced to stable growth of exports and GDP, as well as retail turnover; investment processes became active; hryvnya grew stronger against the dollar; the NBU's currency reserves increased. This furthered the gradual renewal of trust in the national monetary unit and the growth of demand for it. The monetary policy remained neutral or at least it was not restrictive – money supply increased according to the demand for it.

As a result, the ratio of economy's monetization increased significantly, constituting more than 48% at the beginning of 2007. In fact, this implies the process of economy's remonetization, which, in conjunction with the corresponding structural changes in the real sector, increased labour productivity, attracting investments and on the assumption of effective performance of the banking system, considerably promoted growth of real GDP [8: 5].

The process of economy's remonetization was also furthered by certain activation on the stock market, gradual increase in the share of capital-intensive sectors (metallurgy, engineering) in the structure of economic growth (which predetermined greater demand for credits along with increasing demand for means of payment per GDP unit), and also considerable price increases for certain types of investment assets (real estate and land in particular) that required more monetary means for realizing operations on the respective markets.

The rise of the monetization ratio testified that the national currency unit has been progressively strengthening its positions as an instrument of payment, standard of value, and store of value; that is to say, it successfully performed three basic functions of money. On the assumption of minor inflationary expectations, the monetary growth rate exceeding the rate of price growth would only promote stable economic advance.

Table 3

**Economic development of Ukraine in 2000–2006:
3d stage of monetary policy realization**

Indicators	2000	2001	2002	2003	2004	2005	2006
Real GDP, % to previous year	105.9	109.2	105.2	109.6	112.1	102.7	107.1
Capital investment, % to previous year	114.4	120.8	108.9	131.3	128.0	101.9	–
Retail turnover, % to previous year	108.1	113.7	115.0	120.5	121.9	123.4	125.3
Consumer Price Index, %	126	106	99	108	112	110	111.6
Industrial products Producer Price Index, %	121	101	106	111	124	109	114.1
Consolidated budget deficit, % of GDP	+0.6	–0.3	+0.7	–0.2	–3.2	–1.8	–0.7
The NBU accounting rate, %	27.0	12.5	7.0	7.0	9.0	9.5	8.5
Interest rates on bank credits in national currency, %	37.3	29.6	19.6	17.7	17.5	16.4	15.1
Credit investments of banks into the economy, ml hryvnyas	19574	28373	42035	67835	88579	143418	245226
Money supply (M3), ml hryvnyas	32252	45755	64870	95043	125801	194071	261063
Monetization level, %	18.9	22.4	28.7	35.5	36.5	43.9	48.7
Average annual exchange rate, UAH/USD	5.4402	5.3721	5.3266	5.3327	5.3192	5.1247	5.0500
Devaluation (-), revaluation (+) of hryvnya against US dollar, %	–4.18	+2.50	–0.6	+0.0169	+0.4895	+4.814	0.0
International reserves of the NBU, ml US dollars	1475.42	3089.46	4416.83	6937.25	9524.74	19390.42	22255.84

Source: NBU newsletter.

At the same time, when discussing the results of monetary policy realization in Ukraine in terms of reaching its end strategic goals during the whole transition period, worth noting is the limited capacity of money-and-credit regulatory influence on the reproduction process and the state of the real sector of the economy. This is, first of all, related to the absence or insufficiency of the basic, structural reforms in the real sector, which is manifested in the incapability of the majority of enterprises to operate under the conditions of a flexible price system, to adjust to the conditions of competitive environment and changes in the market conjuncture. The critical events on the energy market in early 2005 and in the gas supply system in early 2006 proved this, when enterprises with obsolete energy-consuming technologies discovered the inability to work under the conditions of severe challenges of the market price setting mechanisms. Under such conditions, the real sector slightly responds to the conveyed impulses of the monetary policy, even if it is realized according to the classical market principals.

It is obvious that the foundation for the ultimate overcoming of critical events in the economy should be the realization of a range of measures directed primarily at providing cardinal changes in the economic structure – priority-oriented development of small and medium businesses, closure of inefficient enterprises through sanation and bankruptcy mechanisms, carrying out the financial system's reform with the purpose of lowering fiscal pressure on the subjects of economic activity, recognizing as priority-oriented for development (and national resources allocation) only those economic sectors that have real opportunities for reaching competitive advantages at the world and internal markets.

Conclusions

Only if the structural reformation of the economy is successful, will the proper conditions for realizing the potential of money-and-credit regulation with regard to its influence on the real sector be created, not only in terms of sustaining price stability, but also in stimulating production. The modern strategy of monetary policy of the National Bank of Ukraine, besides maintaining its flexibility, should be directed at reaching real production growth and thus minimizing the unemployment level, which – within the range of available to the Central Bank instruments – assumes a correct level of liberalization of credit relations with commercial banks oriented at facilitating access of the subjects of economic activity to credit resources and, therefore, stimulating extended reproduction. This could be a factor in overcoming critical events and successfully terminating the process of market transformation in the society. When conducting its monetary policy, the Central Bank does not directly affect the state of the real sector in the economy. Its main task lies in creating objective preconditions for generation of savings by enterprises and population and their further transformation into production investment. Such objective preconditions, which are within the Central Bank's competence, include the stability of the rates of inflation and ex-

change rate, and low interest rate. The functioning of the whole money-and-credit mechanism of state's regulatory influence on the economy should be directed at achieving these tasks.

Bibliography

1. Закон України «Про банки і банківську діяльність» № 121-III від 7.12.2000 р.
2. Закон України «Про Національний банк України» № 679-XIV від 20.05.1999 р.
3. Основні засади грошово-кредитної політики на 2006 рік // Вісник НБУ. – 2005. – №10. – С. 3–20.
4. Береславская Е. И. Стабилизация гривны как фактор развития экономики // Финансовые риски. – 2002. – №3. – С. 39–42.
5. Бюлетень Національного банку України. – 2007. – №1.
6. Мишкін Ф. С. Економіка грошей, банківської справи і фінансових ринків / Пер. з англ. – К.: Основи, 1998. – 963 с.
7. Національний банк і грошово-кредитна політика: Підручник / За ред. А. М. Мороза, М. Ф. Пуховкіної. – К.: КНЕУ, 1999. – 368 с.
8. Стельмах В. С. Монетарна політика як один із ключових факторів економічного зростання // Вісник НБУ. – 2002. – №1. – С. 2–9.
9. Стельмах В., Петрик О. Обмінний курс, інфляція та конкурентоспроможність економіки // Вісник НБУ. – 2001. – №9. – С. 3–7.
10. Стельмах В. С., Єпіфанов А. О., Гребеник Н. І., Міщенко В. І. Грошово-кредитна політика в Україні. – К.: Знання, 2000. – 305 с.
11. Фетисов Г. Г. Монетарная политика и развитие денежно-кредитной системы России в условиях глобализации: национальный и региональный аспекты. – М.: Экономика, 2006. – 509 с.

The article was received on June 7, 2007.