

Interest-bearing Instruments of Investment Activity's Intensification in Ukraine

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The current stage of development of the Ukrainian economy during the political and financial crisis actualizes the issue of investment activity's intensification for economic growth and macroeconomic stabilization. The theoretical background of applying of central bank interest-bearing instruments for investment's stimulation is explored in the article. Graphical interpretation of mechanism of its impact on the real economy is proposed. There was studied the transmission mechanism of the financial policy and performed its structural decomposition. A comparative analysis of monetary transmission channels with the substantiation of the role of interest rate channel as the most effective channel in the current economic conditions was held. The dynamics of the basic interest instruments and their interconnection were analyzed. The correlation between fluctuations of the discount rate and the consumer price index was investigated. Special attention was paid to the issue of currency stability as a determining factor of investment activity's increasing in the country. There was analyzed the main leverages of exchange policy of the National Bank and defined its priorities.

Keywords: interest rate, investment, monetary policy, monetary transmission channels, monetary transmission mechanism, real sector of economy.

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JEL Codes: E27, E52

Introduction. World experience of the financial systems in different countries shows that effective leverage of providing the increase of business and investment activity, achieving the economic growth, improving the quality of life belong to the implementation of interest rate policy of the central banks.

Development of the effective system of existing interest-bearing instruments in the financial system is a key point for the economy of any country, as the adequacy of relation between monetary and feasible macroeconomic variables defines the boundaries of the impact of monetary policy on economic growth and business activity. Today the urgent issue is an increase of effectiveness of the monetary transmission, identification of factors that can appear for indicators of its work, determination of characteristics and specific channels that are the most developed ones in the national economy in order to improve their performance and to develop appropriate monetary instruments.

Articulation of issue. Among the works of scientists and practitioners related to the issue of development and implementation of monetary policy and its components, including the interest rate policy, the most significant ones may be noticed works by V. Heyets, V. Zymovets, A. Lavrushin, V. Mischenko [6], V. Stelmakh [9] and others. Despite detailed

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study of some theoretical and practical aspects of the use of interest-bearing instruments of monetary policy the study of the impact of monetary instruments on the investment activity of the real sector of economy is still not enough.

The objective is an analysis of the dynamics and correlation of the basic interest-bearing instruments of National Bank of Ukraine and macroeconomic financial indicators in the context of developing favorable conditions for increasing investment activity in Ukraine.

Research results. Today monetary policy pursued by the National Bank of Ukraine in the sphere of interest rates (interest rate policy) has no clear scientifically grounded methodological principles and is based on quite contradictory theoretical concepts of the Western economics. There is no possibility to avoid a number of financial and economic problems concerning with the need to find compromise in simultaneous implementation of tasks opposing in the economic nature: achieving the desired (from the perspective of investment processes) interest rate and the acceptable (from the perspective of maintaining the actual value of savings) inflation [8].

Interest rate policy of the National Bank lies in the regulation of supply and demand on monetary resources by the National Bank through changes of interest rates in its operations to influence the interest rates of agents of the monetary market and profitability of financial transactions [1]. From this perspective the interest rate policy adjusts the level of business activity, impacts on investment activity, savings and inflation. Overview of the mechanism of interest rates impact on the economy of the country is shown in Fig. 1.

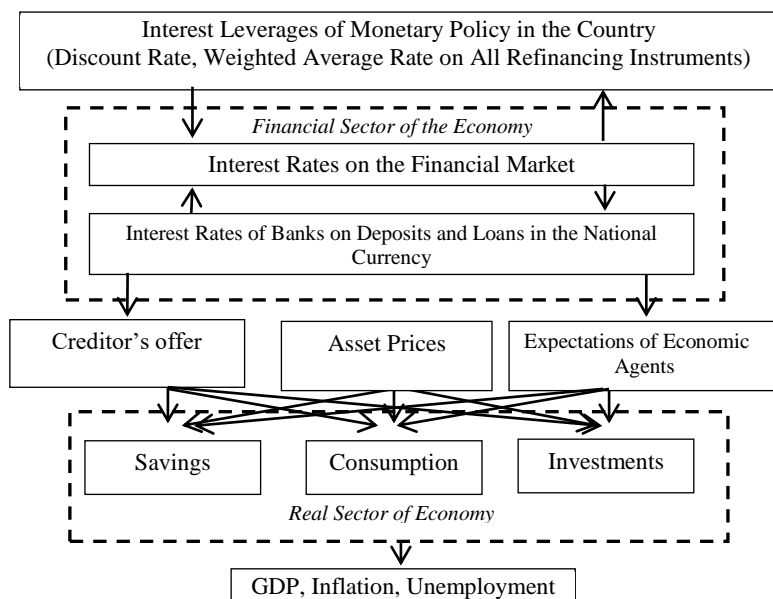


Figure 1. Mechanism of Impact the Central Bank's Interest Rate Policy on the Real Sector of Economy [8]

The object of study of many researchers and scientific schools was the mechanism through which the monetary policy of the central bank influences the real sector of economy.

Monetary transmission mechanism was the subject of debate in economics, especially between monetarist and Keynesian schools. For the first time the concept of transmission mechanism was formulated by J. M. Keynes. J. M. Keynes called transmission mechanism a system of variables through which the money supply affects economic activity. The modern interpretation of the economic essence of the transmission mechanism differs significantly from the traditional Keynesian definition [6].

Transmission mechanism can be considered as relations for the changes transfer of the use of instruments of the central bank monetary policy to the financial market condition and later, to macroeconomic variables that reflect the state of the real sector of economy through a complex set of channels and links of direct and back action [9]. In this chain mechanism a monetary policy instrument is always a primary source of change impulse (financial leverage), power adjustment of which causes a reaction in the parameters of impact on macroeconomic factors of other financial instruments.

Attempts to synthesize various approaches to the implementation of monetary policy led to the determination of several channels of the policy impact on economic activity: interest rate channel, exchange rate channel, credit channel, asset prices channel.

Direct channel connected with interest rates changes is based on the classical model IS-LM: reducing the interest rate by the central bank leads to lower borrowing costs and, consequently, to investment and consumption increase. Channel connected with exchange rate reflects the interest rate changes impact on the exchange rate (through income and capital flight) and eventually, on total output due to export and import changes. The credit channel occurs when banks react to the measures of monetary policy not with primarily interest rates changes, but with lending volumes. In turn, the channel connected with the asset prices shows how investment and consumption level changes as a result of share price change after interest rate policy measures assumed by the central bank.

Analysis of channels variety of monetary transmission shows that the interest rate channel is the main impulse-creating element in the transmission mechanism of corrective impact by the state financial policy on the economy. Taking into account changes of other financial instruments changes in market interest rates formed with discount rate influence the efficiency of the transmission mechanism channels. At the same time it is worth noting that in terms of financial globalization certain disturbances in the transmission mechanism may occur in countries with underdeveloped financial market, where the effect of interest rate channel and its role as a fundamental link of target impulses transmission from state regulators to changing in financial market conditions and the economy is weakened [3].

Mechanism of interest rate policy of the NBU involves establishing adequate and operational changes in official interest rates. For the effective implementation of the financial policy the NBU interest uses the following tools: setting the discount rate, rates on overnight loans, refinancing, interest rates on overnight deposits. The dynamics of certain interest-bearing instruments during 2011–2016 is shown in Fig. 2.

Fig. 2 shows that changes of the discount rate, interest rates on overnight loans and weighted average rate on all refinancing instruments have similar dynamics.

The discount rate is a basic tool of interest rate policy of the NBU and an indicator of monetary policy serving is. It is the lowest interest rates of the National Bank and is a basic indicator for assessing the monetary assets value.



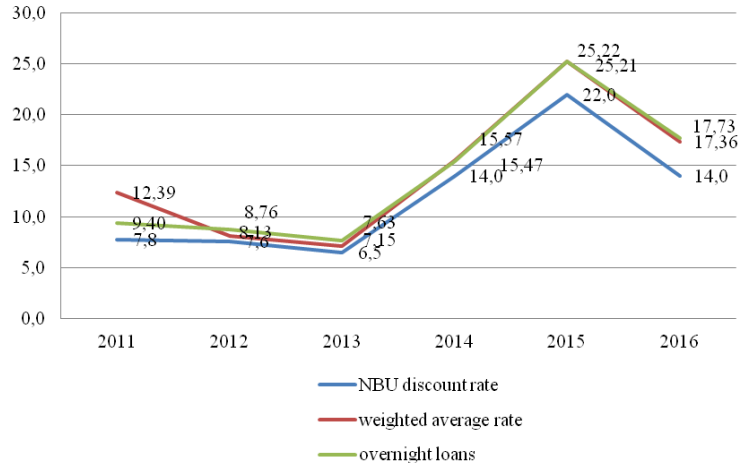


Figure 2. Interest-bearing instruments of impact of financial policy on Ukrainian economic system in 2011–2016
Made according to the data [7]

The NBU discount rate is a key interest rate of the National Bank, which is the main indicator of changes in monetary policy and a benchmark of raised and allocated funds value for banks and other agents of the monetary market [1]. The dynamics of the discount rate provides a description for the main areas of monetary control changes (Fig. 3, Fig. 4).

Changes in the discount rate depend on economic development, macroeconomic and budgetary processes, monetary market state, as well as it should be comparable with the inflation level [8].

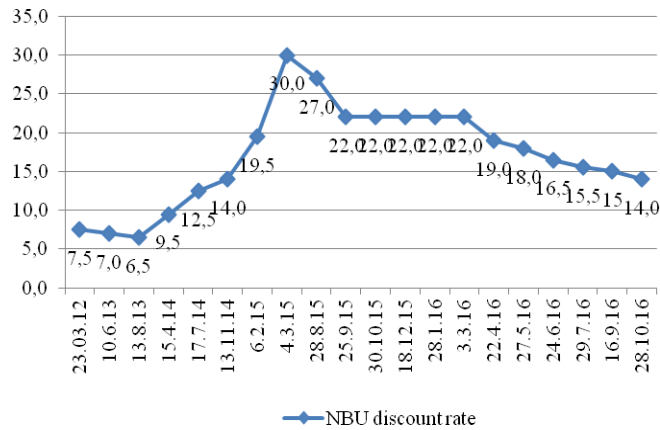


Figure 3. Dynamics of NBU discount rate in 2012–2016
Made according to the data [7]

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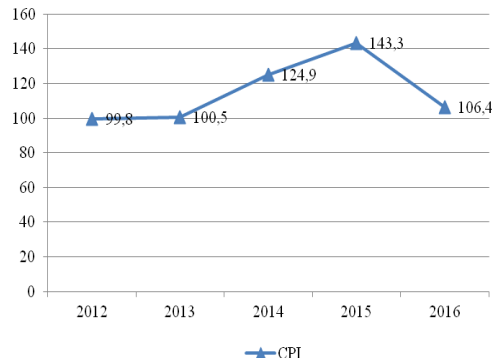


Figure 4. Dynamics of consumer price index (CPI) in % till the previous month in 2012–2016
Made according to the data [5]

There is a growing connection between discount rate dynamics during the 2013–2015 and inflation level (consumer price index) (Fig. 3, Fig. 4). But during the end of 2015 and beginning of 2016 there is a decrease of the discount rate and the consumer price index, as a result. National Bank of Ukraine decided to lower the discount rate to 14 % from 28 October 2016. The dynamics of the consumer price index was corresponded to the National Bank assumptions. Inflation pressure caused by fundamental factors continued to weaken. This was caused by low aggregate demand, high food products supply and restrained monetary policy.

Currency and price stability refers to the basic factors for providing high investment and business activity and currently is one of the main priorities of national monetary policy.

Monetary policy is a set of economic, organizational and legal actions of the central bank and other regulatory agencies concerning monetary relations between state authorities, business agents and households.

The main purpose of monetary policy is to provide the balance of payments, to restrain the growth of inflation and unemployment, and therefore to maintain economic growth.

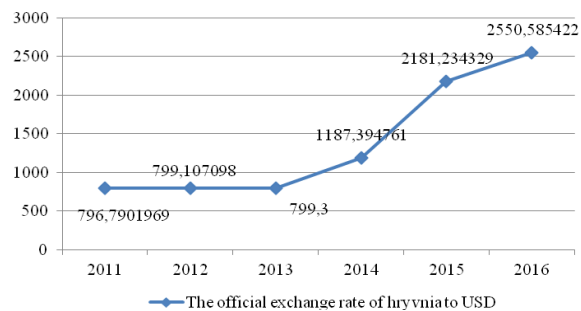


Figure 5. The official exchange rate of hryvnia to USD
Made according to the data [7]

Fig. 5 shows a sharp drop in the national currency to the US dollar and the opportunity to strengthen realizes through higher prices, higher interest rates, increasing the monetary component of inflation, reduction of reserve assets.

The main tools of exchange rate policy traditionally include:



1. Management of the national currency, as it determines the value of import and external sources of financing;
2. Implementation of discount policy which has an impact on interest rates, and thus on internal finance and investment;
3. Management of foreign exchange reserves, which are sufficient guarantee for foreign investors;
4. Implementation of control of capital flow, which comes in the form of direct foreign investment;
5. Development of the foreign exchange market, which influences the possibility of control of exchange rate and currency risk insurance, which can affect investment in Ukraine by foreign investors. [2]

The high-priority tasks of monetary policy in the context of promoting investment include:

1. Establishment of stable exchange rate of hryvnia;
2. Encouragement of deposits in the national currency, which will help de-dollarization of the Ukrainian economy;
3. Maintenance of the national currency by increasing international reserves;
4. Guarantee of balance of payments to ensure the effective functioning of the national monetary system.
5. Development of favorable conditions for residents and non-residents to invest in the economy [4].

Conclusions. Thus, the current problems in the economy and the need to overcome the effects of financial instability require strengthening the importance of interest-bearing instruments within the implementation of monetary policy that with the regulatory support of the process and the use of other instruments of general policy can help to achieve the higher level of investment and, as a result, positive changes in macroeconomic factors of the country functioning.

National Bank of Ukraine should use every element of systemic and structural control, including interest-bearing rate instruments in order to prevent the deepening of the financial crisis, further currency devaluation, rising unemployment and to increase confidence in the banking system. Keeping high rate policy in a deep recession in Ukraine and closing a number of enterprises can lead to loss of the economic prospects for the business for years, freezing of business initiatives and fazing down those industries that continue to operate against the backdrop of general economic instability.

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Процентний інструментарій активізації інвестиційних процесів в Україні

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Сучасний етап розвитку економіки України в період політично-фінансової кризи актуалізує питання активізації інвестиційної діяльності для забезпечення економічного зростання та макроекономічної стабілізації. У статті вивчені теоретичні засади використання процентного інструментарію центрального банку для стимулювання інвестиційних процесів та запропоновано графічну інтерпретацію механізму його впливу на реальний сектор економіки. Досліджено трансмісійний механізм фінансової політики та проведено його структурну декомпозицію. Проведено порівняльний аналіз каналів монетарної трансмісії із обґрунтуванням ролі процентного каналу як найбільш дієвого в сучасних економічних умовах. Проаналізовано динаміку основних процентних інструментів та їх взаємозв'язок. Досліджено кореляцію між коливаннями облікової ставки та індексу споживчих цін. Особливу увагу приділено питанню валютної стабільності як визначального фактора підвищення інвестиційної активності в державі. Проаналізовані основні важелі валютно-курсової політики національного банку, сформульовані першочергові завдання валютної політики.

Ключові слова: інвестування, реальний сектор економіки, фінансова політика, монетарний трансмісійний механізм, канали монетарної трансмісії, облікова ставка, валютна політика.

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Процентный инструментари́й активизации инвестиционных процессов в Украине

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Современный этап развития экономики Украины в период политически-финансового кризиса актуализирует вопросы активизации инвестиционной деятельности для обеспечения экономического роста и макроэкономической стабилизации. В статье изучены теоретические основы использования процентного инструментария центрального банка для стимулирования инвестиционных процессов и предложена графическая интерпретация механизма его влияния на реальный сектор экономики. Исследован трансмиссионный механизм финансовой политики и проведено его структурную декомпозицию. Проведен сравнительный анализ каналов монетарной трансмиссии с обоснованием роли процентного канала как наиболее действенного в современных экономических условиях. Проанализирована динамика основных процентных инструментов и их взаимосвязь. Исследована корреляция между колебаниями учетной ставки и индекса потребительских цен. Отдельное внимание уделено вопросу валютной стабильности как определяющего фактора повышения инвестиционной активности в государстве. Проанализированы основные рычаги валютно-курсовой политики национального банка, сформулированы первоочередные задачи валютной политики.

Ключевые слова: инвестирования, реальный сектор экономики, финансовая политика, монетарный трансмиссионный механизм, каналы монетарной трансмиссии, учетная ставка, валютная политика.

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Figures: 5, *References:* 9

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