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INFLATION TARGETING AS AN EFFECTIVE METHOD OF ENSURING PRICE STABILITY

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In the period of instability of global financial markets the role of monetary policy pursued by central bank is significantly increasing. Most European countries are moving gradually to the implementation of monetary regime to achieve stability of their financial systems and to maintain low level of inflation. The introduction of inflation targeting appears to be an extremely urgent issue for Ukraine.

The aim of my paper is to characterize policy actions and identify conditions for the introduction of inflation targeting regime in Ukraine.

Inflation is defined as a sustained increase in the general level of prices for goods and services. Based on the classification of inflation (moderate, galloping, hyperinflation) most researchers stipulate that Ukraine has typical galloping inflation. Several reasons for the introduction of inflation targeting monetary regime were identified: inability to use exchange rate as nominal anchor, unstable relationships between money growth and inflation, strengthening of the central bank's independence, and elimination of fiscal dominance.

The following policy actions to reach inflation targets can be taken: pursuing interest rate policy, consistent with inflation targets ;smoothing the excessive exchange rate fluctuations; elimination of fiscal dominance - monetary policy should be aimed exclusively at price stability objectives ; prudent fiscal policy -reasonable budget deficit and planned social payments increase; bringing administered prices to fair market values.

It can be concluded that Ukraine, despite difficult economic situation , has a great chance to get good results from the use of inflation targeting. The main obstacle that interferes with Ukraine to develop its economy is political factor. However, if the government meets all the necessary requirements maximum effect of the use of inflation targeting can be expected.

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