

ROLE OF MONETARY TRANSMISSION MECHANISM IN THE PROCESS OF FIGHTING AGAINST THE WORLD FINANCIAL CRISIS

Catherine Zhulynska, postgraduate student,
State Higher Educational Institution "Ukrainian Academy of Banking of
the National Bank of Ukraine"

Key words: monetary policy, monetary transmission mechanism, transmission channels, expectations.

The goal of research: to analyze monetary transmission mechanism, formulated by Keynesians and to evaluate this mechanism role in the system of antirecession economic regulation in Ukraine and abroad.

The methods used: methods of monographic and economic analysis (comparison, graphic method).

Key results. Economy is a complex dynamic system, in which from time to time crises erupt. R. Harrod, the representative of neo-Keynesian theory, considered that economy was characterized with internal instability and it balanced on a "knife-blade". His like-minded person, A. N. Hansen also underlined that a cyclic development of economy was not pathology. That was a peculiarity of dynamic system. Therefore, the analysis of antirecession regulation becomes a very important and urgent problem. In the period of Great Depression, J. M. Keynes proposed to apply monetary measures in the system of antirecession policy. However, the economist paid much attention to fiscal instruments for fighting against crises.

Nowadays monetary policy is a significant instrument for achieving macroeconomic stabilization in advanced and many emerging countries. This fact causes a considerable interest to research the transmission of monetary impulses to the real economy. The first conception of monetary transmission mechanism is formulated by J. M. Keynes. He explained that mechanism as the system of variables, through which money supply influenced on an economic activity. The fundamental contribution to research the theoretical basis of monetary transmission mechanism is made by Keynesians.

A number of researches by F. Mishkin, B. Bernanke, M. Gerlter and Nobel laureates (F. Modigliani, J. Tobin, J. Stiglitz) have tried to shed light on the complex interactions underlying monetary transmission mechanism.

According to Keynesian theory about the essence of monetary transmission mechanism, we marked out the main channels in its structure. So, the mechanism consists of the interest rate channel (substitution-effect-in consumption channel, income channel), equity price channel (wealth channel, stock price channel, house price channel), lending channel (narrow lending channel, balance-sheet channel or broad lending channel, cash flow channel), exchange rate channel and expectations channel.

It is worth pointing out that imaginary splitting the channels in the structure of transmission mechanism is used for analysis and economic simulation. All channels are interrelated. For instance, the interest rate channel influences on the equity price and lending channels. Two previous ones are deeply interlaced in countries with high developed financial market. This point can be considered using US data. In the USA after the period of securitization's expansion and issue of derivatives, slump of securities' prices caused the world crisis in 2007.

The expectations channel, related to the predictions of householders and firms, is also substantial in monetary transmission mechanism. J. M. Keynes noticed that people expectations and predictions could affect the current economic situation.

In emerging countries the interest rate channel, narrow lending channel, exchange rate and expectations channels are more powerful than others. Undeveloped financial market weakens monetary policy impulses and, sometimes, blocks their transmission to the real sector of economy. The situation in 1996-1998 years in the countries-members of the CIS

(Commonwealth of Independent States) is the graphic example of the monetary signals' ineffectiveness. That was the period of wide gap of interest rates in financial market and real sector of economy, where non-payments and barter prevailed. During the world crisis, erupted in the USA in summer 2007, the governments of many countries returned to applying Keynes' principles of economic regulation.

The frequency of discount rate changes shows the topical character of monetary policy. Since July 2007 the Fed has changed the discount rate 12 times. It was reduced by 5.75 p.p. to 0.75%.

Since August 2007 the discount rates in Europe have been changed often too. In this aspect it is necessary to research their impact on the dynamic of inflation, which has been kept at low levels, and growth rate of GDP. Since the end of 2007 GDP has been increasing in the USA. Since the last quarter of 2009 GDP has increased in the euro area and Great Britain. That connected with the "long-term unsteady" lag of monetary influence on the real economy. As M. Friedman and A. Schwartz noticed, that lag was equal to 16 months, in average.

The discount rate of the National Bank of Ukraine was reduced on 1 p. p. only in a half-year after the beginning of the crisis in our country. Nowadays it amounts to 10,25%.

To analyze the effectiveness of the interest rate channel action in the process of regulation economic fluctuations in Ukraine the VAR-model was constructed. We investigated the transmission of the NBU's monetary impulses to the credit rates for the real sector of economy via the refinancing rates, overnight credit rates of the interbank market and deposit rates. These series were tested for stationarity and some lags of interest rates transmission were identified. That helped to estimate their impact force in the process of fighting against the financial crisis in Ukraine. This model's results show a weak action of monetary impulses of the NBU through the interest rate channel.

The similar conclusion we can make about credit channel action. Despite the monetary policy expansion, the credit rates in Ukrainian real economy are so high. This is caused with risk of borrowers' insolvency and economic recession, in general.

According to the action principle of the narrow lending channel, monetary expansion should lead to increase of banks resources, including deposits. The real deposit situation in banking system of Ukraine is characterized with unstable dynamics of slow growth. It may be caused by the UCB administrative impact on maintenance of deposit volumes. As M. Rothbard said that compulsion in monetary or other fields of human activity provoked conflicts and chaos. Besides, monetary impulses action is neutralized and deformed with expectations of firms and householders, especially in Ukraine.

Conclusions. During the world crisis, Keynesian conception of active government regulation of economy becomes very important. Monetary instruments make smooth impact on the real economy though transmission mechanism, developed by Keynesians. The research of its mechanism is clearly needed, because it influences on the effectiveness of monetary regulation.

The constructed VAR-model of the interest rate transmission shows a mild impact of the NBU official rates on the credit rates for the real economy. The effectiveness of monetary policy in Ukraine is limited to underdeveloped financial market, which affects the action of the lending channel, interest rate and equity price channels of monetary transmission mechanism.

Ukrainian executive power should find the ways to form favorable expectations in our society. It is absolutely necessary to stabilize and develop financial sector of economy, which determines the transmission path of monetary impulses. These measures will raise the efficiency of monetary transmission mechanism and the state policy, in general.

Zhulynska, C.M. Role of monetary transmission mechanism in the process of fighting against the world financial crisis [Text] / C.M. Zhulynska // Modern Problems of International Relations: Scientific Journal : Part II. – Kyiv : Kyiv Taras Shevchenko National University Institute of International Relations, 2010. – Vol. 91. – P. 48-49.



**Державний вищий навчальний заклад
"УКРАЇНЬКА АКАДЕМІЯ БАНКІВСЬКОЇ СПРАВИ
НАЦІОНАЛЬНОГО БАНКУ УКРАЇНИ"**

**State Higher Educational Institution
"UKRAINIAN ACADEMY OF BANKING
OF THE NATIONAL BANK OF UKRAINE"**