Central bank's interest rate policy and its influence on economic processes

Zabolotna N.H.
Candidate of Economic Sciences,
Senior Lecturer at Department of Banking
Kyiv National Economical University named after Vadym Hetman

Systemic economic crisis and stagflation that developed in Ukraine in 2014-2015 require a detailed study and implementation of effective monetary policy instruments that would take into account the specificities of Ukraine's modern economic conditions and allow the policy makers to resolve current problems in an expedient manner while removing disparities in economic growth. Interest rates policy is one of the classic monetary instruments that help central bank to influence the credit markets and economic behaviours in order to achieve the stated policy objectives.

Our analysis shows that in order to overcome the consequences of 2008 financial crisis, governments and central banks of the developed countries have cut benchmark interest rates to zero and provided refinancing of term loans for 3-5 years, which actively supported both the real economy and commercial banking system despite the risk of higher inflation in the future.

Ukraine's experience has repeatedly confirmed that aggressive monetary policy, aimed at significant reduction of money supply growth, and more expensive credit not only reduce domestic demand, leading to a decline in production, but also retain high levels of inflation and inflation expectations.

To restore economic growth and revive investment processes in Ukraine, it is imperative not only to lower the interest rates levels but also to create a mechanism for directing the credit resources to priority industries that could bring the country out of crisis and give impetus to further economic development. Therefore, interest rate policy implementation should include not only certain accounting changes and adjustments to central bank short-term refinancing rates but also the mechanism for long-term financing and broader reforms on how commercial banks are credited by the central bank.