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ASSESSMENT OF MONETARY POLICY EFFICIENCY: METHODOLOGICAL ASPECT

ОЦІНКА ЕФЕКТИВНОСТІ МОНЕТАРНОЇ ПОЛІТИКИ: МЕТОДИЧНИЙ АСПЕКТ

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The article considers methodological aspects of assessing the effectiveness of monetary policy and proposes a comprehensive approach to its research. Inflation targeting, as the central bank's obligation to adhere to quantitative indicators of inflation, has become a common monetary regime over the past 30 years in developed and developing economies. However, the impact of the pandemic and the war in Ukraine caused significant problems related to the low efficiency of this regime. Structural problems, the absolute openness of Ukraine's economy, significant inflation potential due to the dominance of non-monetary factors of inflation call into question the choice of the main goal of monetary policy – inflation targeting. The resulting consequences of such a policy are ambiguous. Therefore, after our victory, it is necessary to move away from the dogma of inflation targeting as soon as possible to a more flexible monetary policy with a wider set of target guidelines that will ensure economic growth for our country.
Keywords: monetary policy, central bank, monetary regime, inflation targeting, exchange rate, economic growth.

Світова фінансова криза породила неоднорідні ситуації на грошово-кредитних ринках різних країн і виявила їх різну реакцію на кризові явища. В цілому для вітчизняної фінансової системи притаманні риси проєвропейської банкоорієнтованої моделі, яка концентрує в собі засоби впливу на фінансову, інвестиційну, виробничу та інші сфери економіки. Причому суттєву роль у становленні надійної банківської системи відіграє центральний банк та ефективність його грошово-кредитної політики. В сучасних умовах одним із головних каналів реалізації заходів впливу на економіку країни з боку держави є монетарна політика, завдяки якій через фінансовий ринок передаються необхідні імпульси на реальну економіку та сімейні домогосподарства. Але це може відбуватися лише в тому випадку коли центральний банк обирає адекватні стратегічні цілі грошово-кредитної політики. У статті розглянуто методичні аспекти щодо визначення сутності ефективності монетарної політики та виявлення проблемних аспектів сучасного стану застосування режиму прямого інфляційного таргетування в нашій країні. Методологічною основою є загальнонаукові та емпіричні прийоми та інструменти наукового дослідження, у тому числі методи узагальнення, аналізу та синтезу, а також метод порівняння. Інфляційне таргетування як зобов'язання центрального банку дотримуватись кількісних показників інфляції, стало поширеним монетарним режимом за останні 30 років у розвинутих країнах і в економіках, що розвиваються. Проте вплив пандемії та війни в Україні зумовив значні проблеми, пов'язані з низькою ефективністю даного режиму. Структурні проблеми, абсолютна відкритість економіки України, значний інфляційний потенціал внаслідок домінування немонетарних чинників інфляції ставлять під сумнів вибір головної мети монетарної політики – інфляційного таргетування. Отримані наслідки такої політики є достатньо суперечливими та неоднозначними. Тому після нашої перемоги необхідно якнайшвидше відходити від догм інфляційного таргетування до більш гнучкої монетарної політики з ширшим набором цільових орієнтирів, які забезпечать економічне зростання для нашої держави.
Ключові слова: монетарна політика, центральний банк, монетарний режим, інфляційне таргетування, обмінний курс, економічне зростання.

Formulation of the problem. The global financial crisis created heterogeneous situations in the monetary and credit markets of different countries and revealed their different reactions to crisis phenomena. In general, the domestic financial system has features of a pro-European bank-oriented model, which concentrates the means of influencing the financial, investment, production and other spheres of the economy. Moreover, the central bank and the effectiveness of its monetary policy play a significant role in the formation of a reliable banking system.

Historical experience has shown that, in general, developed countries have sufficient stability of their financial and economic systems. However, due to the need to apply anti-crisis measures to stabilize the situation on financial markets and regulate financial flows, the crisis caused significant changes in the mechanisms for regulating monetary relations. To overcome the negative consequences of the crisis and achieve stability of economic growth, establish control over inflation, central banks used a wide variety of instruments and monetary measures, the impulses of which are transmitted through the channels of the transmission mechanism to macroeconomic variables. Depending on the phase of the economic cycle, the effect of monetary policy instruments can weaken or strengthen the state of financial instability. The successful use of monetary instruments allows to increase the ability of the economy to self-regulate and smooth out cyclical fluctuations, to stimulate positive trends in the dynamics of economic indicators that are sensitive to monetary factors. Although there are different views on achieving these results in theory and practice, most scientists and practitioners are united in the fact that monetary policy should be "flexible" and "harmonized" with the general mechanisms of macroeconomic regulation and take into account the development of the economic cycle of the market situation. Compliance with the requirements of "flexibility", "coherence" and "efficiency" are especially relevant in the current period of financial turbulence. It is for these reasons that we focused on the presented problem and chose it as an object of research.

Analysis of recent research and publications. Researchers and practitioners have paid considerable attention to the study of the mechanism of using monetary policy instruments by central banks in foreign and domestic practice. A notable contribution to the study of this problem was made in the scientific works of B. Danylyshyn [1–3], B. Bernanke, M. Woodford [4], G. Azarenkova, A. Vozhzhova, N. Grebenyk, O. Dzyublyuka [5], A. Drobyazko, O. Lyubich, O. Kaminska, V. Kozyuk, V. Mishchenko, S. Naumenkova, D. Strauss-Kahn, J. Stiglitz [7] and others. However, the study of the problem of the effectiveness of the central bank's monetary policy still remains understudied and controversial.

Highlighting previously unresolved parts of the overall problem. At the same time, taking into account the significant contribution of the above-mentioned researchers, the issue of studying the effectiveness of monetary policy and diagnosing its condition in order to determine further directions of development require further scientific research.

Setting objectives. The purpose of the study is the analysis of methodological aspects regarding the determination of the essence of the effectiveness of monetary policy and the identification of problematic aspects of the current state of application of the regime of direct inflation targeting in wartime conditions.

Presentation of the main research material. The importance of evaluating the effectiveness of the monetary mechanism is especially acute in periods of crisis. In these periods, there is a need to build such a monetary regime, which would correspond to the interests of sustainable economic growth in the country.

As world experience has shown, the effectiveness of monetary policy is low when the methods of strict administrative macroeconomic regulation prevail in the economy. However, too active monetary policy of the state, with an orientation towards short-term economic stabilization, reduction of unemployment and containment of inflation, is harmful to the stability of the credit-banking and financial-economic system [2].

The environment for the implementation of monetary policy is influenced by internal and external factors that shape it. Among the most important objective internal factors that affect the complexity of the environment for the implementation of the monetary policy of the NBU, we can single out [3]:

– the imperfection of the legislative field of banks' activities, which leads to the insecurity of property rights and raiding attacks against them;

– lack of coordination of the fiscal policy of the government with the monetary policy of the central bank;

– the interference of the legislative and executive authorities in the performance of the functions and powers of the National

Bank significantly reduces its operational independence and prevents the application of monetary policy instruments adequately to the situation in the money market;

– increasing consumer demand of the population, mainly for imported goods, strengthens the position of foreign manufacturers on the Ukrainian market and negatively affects the development of domestic production and the country's balance of payments, contributes to the accumulation of external debt;

– the inconsistency of budgetary and monetary policies regarding the management and movement of funds in the Government's Unified Treasury Account, located in the NBU, leads to the problem of seasonality in accumulation and unpredictability for the central bank in spending these funds.

Since our state is, by its nature, a small open economy that is highly dependent on foreign markets and external shocks. The changes that have taken place in the global trends of economic development in the post-pandemic period make us wonder what the model of the world economy will be. This factor indicates that it is necessary to critically rethink the strategic goals of monetary policy, which would provide us with sustainable economic growth, without which we as a state simply cannot survive.

Today, there are several approaches to determining the effectiveness of the central bank's monetary policy. According to the first approach, this concept is determined by the level of achieving a balanced supply and demand of money as the main condition for strengthening the national currency [2]. And according to the second approach, it is the absence of booms and busts in the economy, the presence of stable development and a predictable situation on the money markets, which is achieved by monetary policy measures [4]. The most common approach to assessing the effectiveness of the central bank's monetary policy is the compliance of the obtained results with the set monetary goals [3; 5; 7]. In our opinion, the effectiveness of monetary policy is a complex and multifaceted concept. For a comprehensive analysis of the effectiveness of monetary policy, we highlight the basic requirements in relation to the elements of the monetary and credit mechanism, which act as criteria for implementing the policy of the central bank (Table 1).

In addition, the criteria for the effectiveness of monetary policy include the main principles of the central bank's functioning, such as transparency, adequacy, policy predictability, quality communication policy, and responsibility. As for the definition of indicators of the effectiveness of monetary policy, we propose to divide them into two groups:

– indicators characterizing the operational effectiveness of the monetary regulation process, i. e. how effectively the transmission mechanism functions (channels of changes in the interest rate, prices, exchange rate, inflationary expectations);

– indicators that characterize the overall effectiveness of monetary policy (stability of the national monetary unit, stability of the banking system, achievement of high employment of the population, economic growth, stability of financial markets).

It is worth noting that when analyzing the level of realization of monetary goals, it is also necessary to pay attention to the alternative cost of their achievement, for example, how the maintenance of price stability affected the dynamics of GDP. Thus, the monetary policy of the central bank should smooth out the fluctuations of the business cycle and prevent both the overheating of the economic situation and the spinning of the inflation flywheel, on the one hand, and the decrease in the rates of economic growth, the transition to recession and the increase in unemployment, on the other hand.

Table 1

Criteria for the effectiveness of the central bank's monetary policy

Types of criteria	Requirements
legal stability	unambiguous interpretation, comprehensibility for the general public, objectivity, predictability
information reliability	reliability, timeliness, completeness
software and technical	operational reliability, efficiency, high level of information protection
methodological	clarity, unambiguity

Source: compiled by the author based on [7]

To implement these tasks, central banks choose the most optimal strategy of monetary policy, which is implemented in practice through the appropriate channels of monetary transmission, which operate on the basis of the selected targeting regime – inflationary, currency or monetary, which involves maintaining the dynamics of a certain indicator at the announced level during a certain period of time. Inflation targeting itself is a fairly common monetary regime in the last few decades in both developed and developing economies. However, today there are quite a lot of studies by the world's leading economists, which are quite contradictory and ambiguous, especially they differ for developed countries and for countries that are still at the stage of their development [5].

For highly developed countries, scientists confirm the effectiveness of the transition to inflation targeting, which is characterized by a decrease in inflation rates in the long term, an increase in the economy's resistance to external shocks, as well as an expansion of the monetary authority's ability to influence the inflationary expectations of economic agents. In addition, part of the research claims that those developed countries that did not apply this regime of monetary policy were also able to limit the rate of price growth in the long run. In this regard, it is assumed that the containment of inflation can be determined to a greater extent by the general development trends of these countries and macroeconomic conditions than by this monetary policy regime. For developing countries, the situation is even more ambiguous here, since the results of the study of many such countries indicate that even if the average level of prices decreases and their volatility decreases during the implementation of the inflation targeting regime, then such a monetary policy causes a significant damage to the real sector of the economy, greatly reducing the growth rate of aggregate production, which has an extremely negative effect on the economic situation of such countries.

It has also been proven in many works that after the transition to the inflation targeting regime, developing countries are exposed to a significant risk of short-term external shocks due to the instability of the exchange rate, which is extrapolated to the level of domestic prices, making the dynamics of inflation processes unpredictable [5].

We can confirm all these conclusions for our country. 18 months of war turned out to be a kind of natural stress test for the banking system of Ukraine. Despite the significant systemic geopolitical, demographic and macroeconomic shocks, the banking market has survived thanks to the reduction of internal vulnerability to risks as a result of 8 years of reform and timely anti-crisis measures in the course of military operations. It can be said that the banking system has generally maintained the manageability and continuity of payments. During the war, bank assets increased by 17.9% to UAH 2.7 trillion, due to the issuance of hryvnias by the NBU to cover new budget needs for military expenditures. The positive point in this is that the excess funds mostly remained in the banking system and did not fully enter the market in the form of hyperinflation.

In addition, during the year of the war in Ukraine, the amount of public funds in banks increased by 31.2%, however, they are mainly accumulated in current accounts due to the concentration of temporarily unused payments to military personnel, state employees and displaced persons in state banks [9].

However, there are also significant disadvantages: the growth of non-performing loans (NPLs) up to 38.1%, low solvent demand for loans, businesses and the population are currently not ready to pay high interest rates and take on additional obligations in wartime conditions. Lending to the agricultural sector by state banks eased only slightly, in particular through the mechanism of the budget support program "Affordable loans 5-7-9%". The volume of preferential loans from the state has already reached a third of all balances under corporate loans of banks in the national currency.

Keeping the return on capital at relatively good levels in wartime is a contradictory signal of stability. At first glance, the return on capital (ROE) at the level of 10.9% looks positive, however, if you look closely, the source of profits was the interest income of the "big four" state banks from investments in OVDP and NBU deposit certificates. If the deductions to reserves for credit risks were higher in accordance with the needs of wartime, then it is unlikely that the financial results would look so unwartimely rosy. At the same time, shocks of this scale cannot pass without a trace: a number of imbalances in the term structure of liabilities have clearly increased, disproportions between different types of interest rates, far from all problem assets are correctly reflected in the statements, the so-called "inflationary canopy" has formed from the side of liquidity surplus, and also the differences between the reliability indicators of individual banks have deepened due to the heterogeneity of business models [10].

We know that in the developed countries of the world, in the structure of the monetary transmission mechanism, the main channel is the interest rate, and the main tool for achieving price stability is the official interest rate. In reality, the role of the interest rate channel is insignificant, and official rates do not have a significant impact on rates for overnight loans on the interbank market. As a result, the NBU has limited opportunities to influence interest rate instruments on the formation of the yield curve in the financial market and on other macroeconomic variables, in particular inflation.

The analysis of the dynamics of the discount rate in recent years shows that in the growth phase the discount rate of the NBU decreased, that is, it performed a procyclical function; and vice versa, in the phase of decline – it increased. However, the effect of this monetary policy tool is reduced in our country due to the insufficient relationship between the interest rates of the National Bank of Ukraine and the rates on the interbank market. Both domestic and foreign researchers pay attention to the low efficiency of the discount rate as an instrument of monetary policy in this period [2; 5; 7]. Thus, for our country, the interest rate channel does not create clear and predictable benchmarks for money market subjects, makes the interest rate policy insufficiently predictable and weakens the influence of the central bank on the money market. Attempts to curb inflation by tying up the excess liquidity of the banking system lead to the setting of extremely high rates for NBU certificates of deposit, as a result of which a crowding-out effect occurs, under which lending to the real sector is blocked due to the availability of attractive alternatives for the banks to invest funds, which deepens disparities in the interbank market and hinders recovery economic growth. On the other hand, the increase in short-term rates of the central bank leads to an increase in the yield on government debt obligations and stimulates the inflow of foreign short-term speculative capital into the country. Taking into account the fact that such securities are denominated in hryvnias, regular inflows and outflows of these funds lead to increased volatility of the national currency exchange rate, which forces importers to transfer currency risks to the final consumer, thus intensifying inflationary processes [8].

As the NBU noted, it remains committed to the regime of inflation targeting with a floating exchange rate, and will return after the war to the traditional format of applying the discount rate as the basis of its monetary policy to keep inflationary expectations under control [9]. But unlike other highly developed countries, we have cost inflation, not demand inflation. The problem is that the nature of modern inflationary processes in Ukraine is mostly non-monetary in nature.

Thus, although the central bank recognizes the influence of various factors on the development of inflation in Ukraine, it will still stubbornly use interest instruments and increase the discount rate and continue to carry out inflation targeting. However, the result of this process is the curtailment of lending to the real sector of the economy and the reorientation of commercial banks to investing credit resources in OVDP and NBU deposit certificates. And therefore, attempts to counteract the rise in prices only through the manipulation of interest rates will always be doomed to failure.

Conclusions. During the conducted research, it was determined that the effectiveness of monetary policy is a complex concept, which is expressed in the degree of implementation of a set of monetary goals, taking into account the individual characteristics of each country. The most common approach to evaluating the effectiveness of the central bank's monetary policy is the compliance of the obtained results with the set monetary goals. The negative consequences of the implementation of the inflation targeting regime for our country since 2015 have become obvious: extremely low rates of economic growth, high real interest rates, slowing down of the credit process, suppression of domestic demand. Therefore, after our victory, it is necessary to move away from the dogma of inflation targeting as soon as possible to a more flexible monetary policy with a wider set of target guidelines that will ensure economic growth for our country. Low inflation is an important, but not sufficient, condition for sustainable economic growth and improving the well-being of the Ukrainian people. In the following years, we should develop mechanisms to increase the effectiveness of the main channels of monetary transmission and reduce the "cost" of supporting the functioning of its operational design. Currently, it is excessive and creates false incentives for the functioning of the banking system.

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