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PROBLEMS OF USING A DISCOUNT RATE AS MONETARY REGULATOR

Against the world financial crisis the problem of the importance of a discount rate as monetary regulator becomes more actual. The Central Banks change the refinancing rate to stabilize the rate of national currency or to grant more beneficial credit terms for the national manufacturers, however the following actions do not lead to a positive effect.

In many countries a discount rate is reduced up to zero point, as in Japan (0,1 %), Great Britain (1,5 %), the USA (0-0,25 %) (see fig. 1). According to analysts of *Alora* and *Moneyfacts*, these actions of the Central Banks of leading countries of the world do not yield the expected results, and the importance of a percentage policy thereby decreases. A discount rate, and consequently, the rates of the loan capital makes essential impact on rates of economic growth that is marked in researches of such scientists as M.Kennedy, A.S.Galchinsky, M.Porter, etc.

Dynamics of discount rates for the last 8 years is given in figure 1. Schedules show that the discount rate throughout 2001-2007 was relatively stable in Russia, Great Britain and Japan. Up to 2006 the Fed consistently lifted discount rates in series as economic growth in the country was steady. Since September, 2007 the Fed has started to reduce rates because of problems with liquidity at local banks. At present the rate is at level of 0-0,25 %. To change sharply this key economy indicator, the Fed was pushed by the world-wide share index fall and by the necessity of going out of the recession.

Following the Fed, the Bank of Japan lowered the discount rate to 0,1 % for the first time during the last seven years. The main reason was the negative effect of the fast growth of Japanese yen exchange rate on the export industries such as motor industry. The bank of England has in turn lowered a discount rate to 1 %.

At the same time the Central Bank of Russia unlike the Central Banks of the majority of the countries did not lower, but raised a discount rate to decrease the capital outflow level from Russia and to restrain the inflationary tendencies. The NBU also lifted a discount rate to 12,5 %. The NBU employees noticed that there were no economic preconditions to decrease a discount rate, as during the discount rate calculation, the high inflation influence was taken into account.

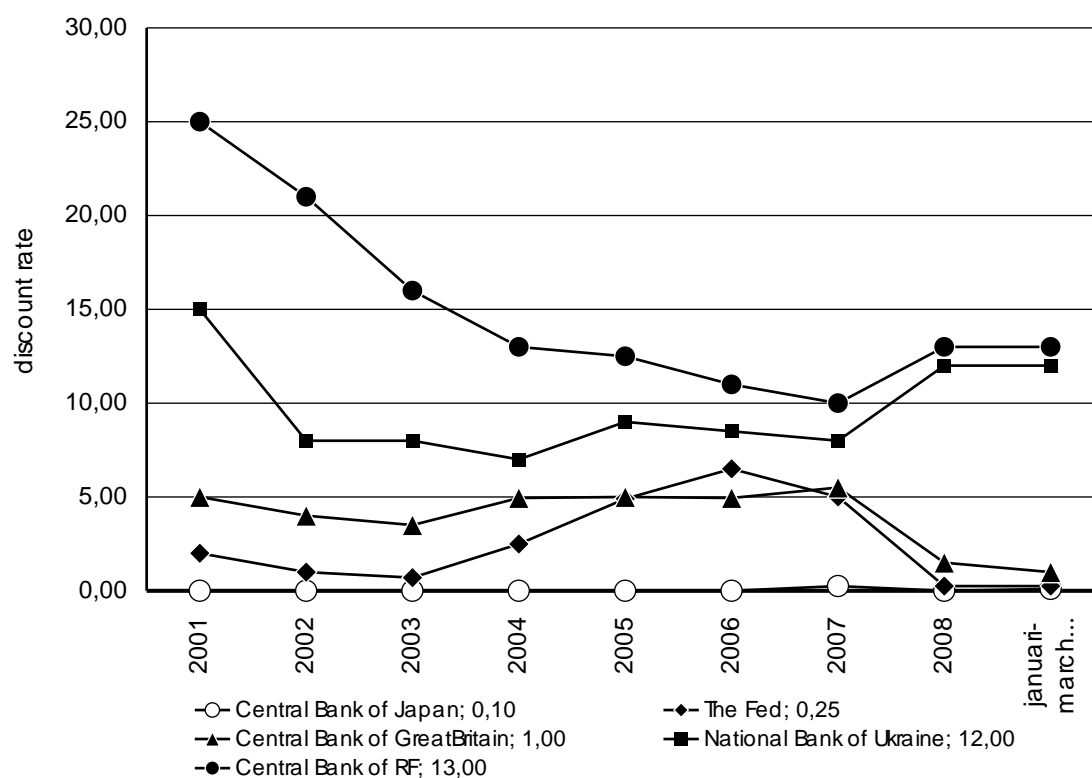


Figure 1. Dynamics of the discount rate of Russian Federation, Ukraine, Great Britain, USA, Japan during the 2001-2009

Despite the Central Banks actions of changing the discount rates, the economy of the countries listed above has entered the recession or are already close to it. So, it is possible to draw a conclusion that the use of only this monetary tool is not enough to lead the country out of the financial crisis or at least to stabilize economic conditions.

However it is possible to develop such monetary and credit policy when the most important industries of the country will develop. In other words, it is possible to develop the program of preferential crediting of privileged national programs. For example, the Central Bank will give preferential credit resources to commercial bank. This bank in turn will finance the enterprises which are letting out production which of 65 % is made in the territory of Ukraine under the low interest rate. So, it is possible to provide employment and essential growth of income for both population and small businesses.

Thus, the government should develop such monetary and credit policy when national manufacturers will be involved as much as possible and as result new workplaces and tax proceeds will be provided. That is why, the important role belongs to the National bank of Ukraine and its interaction with the government.