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Ukraine and Inflation Targeting: Establishing Initial Conditions

Monetary policy and recognition get popular in 1989 when the policy framework of inflation targeting was first adopted by New Zealand. Some countries have adopted the policy of inflation targeting on their way to the European Union.

Inflation targeting requires two things. The first is a central bank able to conduct monetary policy with some degree of independence. The second requirement for inflation targeting to work is the willingness and ability of the monetary authorities not to target other indicators, such as wages, the level of employment, or the exchange rate.

The higher the rate of inflation is, the less effective the allocation of resources occurs, distorted projections of rising prices and hence it hurts the economy as a whole. Some countries have opted for inflation targeting, because the achievement of price stability (i.e. low and constant level of inflation) is a key factor in ensuring economic growth.

The effectiveness of conducting policy of inflation targeting for Ukraine is very important because the same methods of conducting policy create a different effect in different countries. Given that, there is no consensus about inflation targeting as it is assumed that this policy allows inflation to keep low. Therefore, the policy of inflation targeting could be called particularly promising for Ukraine.

Ukrainian National Bank has to maintain stability of the national currency and the stability of prices from judicial point. Therefore, we can say that Ukraine just follows several policy aspects of inflation targeting. Investigated countries with a floating exchange rate can distinguish three types of inflation targeting regimes: fully-fledged inflation targeting, eclectic inflation targeting, and inflation targeting lite.

The main positive factors of politics of inflation targeting are: an increased level of transparency, a stable financial system, an increased level of GDP per capital, a lower amount of government debt to GDP and others. Key factors of usefulness may assume all those factors that are making a positive contribution to economy of one or another country and those that help to increase credibility of the monetary authorities. Therefore, the clarity and trust aid to the successful functioning and development of inflation targeting.

Ukraine has a chance to bring inflation down, but it is necessary to develop a management plan policy of inflation to make proper forecast considering all the features of the development of this country.

So, nowadays we can watch the rising inflation. The real situation can be confirmed by the inefficiency of forecasting inflation in Ukraine.