

Monetary policy in developed countries

Кілт сөздер: Ақша – несие саясаты, Орталық банк, сандық жұмсарту, инфляция, пайыздық мөлшерлеме.

Keywords: Monetary policy, Central Bank, quantitative easing, inflation and interest rate.

Ключевые слова: Денежно-кредитная политика, Центральный банк, количественное смягчение, инфляция, процентная ставка.

Introduction

The global financial crisis of 2008-2010 years, which has affected all markets without exceptions, made adjustments to the money-credit policy of many developed countries. The prevailing crisis situation did not allow continuing to apply measures only of the traditional money-credit policy. Since 2008 the US Federal Reserve (hereinafter – the FED), the European Central Bank (hereinafter – the ECB) and the Bank of England, which is the central bank of the largest and economically developed state of the European Union, switched to using of non-traditional methods of monetary policy, known as "quantitative easing" (hereinafter – QE) almost at the same time.

The fact of the invention of the QE method was entangled in contradictions. Some people think that the first was Keynes, others say that the Bank of Japan was the first institution that used such a policy, and others quoted an economist Richard Werner, who invented the term. The effectiveness of the QE and its impact on emerging markets are topics of much debate, but a theory about how the policy of the QE works still not fully learned.

Since the QE program, which is carried out in different countries, works unpredictably and not in the way the financial authorities would prefer they work. Thus, Sweden was the first country in the world that has faced with a phenomenal situation, when the QE program led to the opposite effect, namely a marked increase in government bond yields, indicating failure.

The QE theory is represented in works of researchers such as B. Bernanke, Jh.M. Keynes, R. Verner, P. Krugman, N. Pochtareva etc., as well as information and analytical materials of the FED, the ECB and the Bank of England and Sweden.

Experimental part

Nowadays the main instrument of monetary policy of the central banks of developed countries (the FRS, the ECB and the Bank of England) are traditionally buying and selling transactions of securities on the open market. With their help the size of the monetary base, which includes cash in circulation and bank reserves, is

regulated. That bank reserves consist of funds to the accounts of commercial banks with the central bank and cash balances. As a general rule, the operation of buying and selling securities are repurchase agreement (hereinafter – repo) transactions, i.e. operation involving the re-sale (purchase) of securities at a price equal to the original purchase price (sale), plus an amount equal to a specified percentage of the original purchase price (sale).

Repo is an analogue of lending against securities. Through this mechanism the central bank "smoothes" fluctuations of bank reserves in order to achieve the objectives of money-credit policy, but it does not finance corporate or government debt.

In conditions of a relatively "mild" recession, the central bank achieves the fall in interest rates in the economy through the traditional instruments, i.e. the value of previously issued bonds with higher coupon increases, and the yield to maturity of previously issued bonds, on the contrary, decreases. Thus, the profitability of investment in production is estimated by the entity as higher relative to other options. When a large set of economic agents takes such decision and invests in production, it stimulates an economic growth.

Discussions and results

In conditions of the strong recession due to falling demand the economic agent estimates the nominal rate of return on investment in the production of the very low (close to zero, equal to zero or even negative) and usually prefers not to invest in production taking into account existing risks.

At the same time, the fall of interest rates in the economy to zero or close to zero as a result of stimulating money-credit policy of the central bank leads to an increase in the value of bonds and a drop in the nominal yield to maturity to the lowest level close to zero.

In addition, a strong recession, despite of the fall of interest rates to zero, due to lower economic activity is usually accompanied by low inflation and low inflation expectations, i.e. the process of depreciation of money, that are "in hands" of the population slows down.

In such conditions in terms of real yield it becomes immaterial for economic agents whether the money stored in the form of cash "in hands", or to put them in bonds.

However, considering the high liquidity of cash economic agents make a choice in favor of keeping the money, rather than investing in bonds, and even more in the production, which prevents the overcoming of the economic downturn.

In 2008-2011 American economist Paul Krugman has repeatedly claimed that most of the developed countries, including the US, Japan and the EU, were in a "liquidity trap." He noted that tripling of the monetary base between 2008 and 2011 has not produced a significant effect on the economy in the form of changes in the domestic index and commodity prices.

To exit the "liquidity trap" the central bank has to influence the level of prices in the economy. An increase of the inflation and inflation expectations will accelerate the depreciation of cash, i.e. it will reduce the real rate of return of holding money.

The economic agent cannot independently increase the nominal rate of return of holding money and the nominal yield to maturity of the bonds, which is a minimum

of zero interest rates in the economy. In order not to lose their savings because of the development of inflationary processes, it will have to change the attitude to risk, to invest in production and to try to achieve a nominal rate of return of investment in production, which will exceed the inflation rate.

Under these circumstances, the central bank may hold QE, that is the monetary policy when the central bank begins the redemption of bonds in the amount declared to reduce their yields and increase the amount of money in the financial system. That is, when economic growth is weak, unemployment is high and the price is extremely low, the central bank starts printing money in order to somehow stimulate the economy. The purpose of this policy is to increase the money supply, the achievement of inflation targets, stimulating the real economy and regulation of an external debt. This policy is often seen as the final phase of the stimulus.

The central bank buys securities from commercial banks to increase their excess reserves, even though the volume of purchases is already redundant with respect to the level that ensures the preservation of zero or near-zero interest rates in the economy. At the same time the central bank conducts not the short-term repo to temporarily change the volume of bank reserves but carries out the final purchase of assets. To make these purchases, the central bank creates an electronic money, not the physical paper money.

During the QE, accent can also be done not only on the increase in bank reserves, but also on the structure of the repo, i.e. the ransom firstly "bad" assets of commercial banks.

QE stimulates the economy as following:

- It creates new money that used to buy financial assets of institutions.
 - These institutions receive a fresh infusion of cash that they can use for investments and costs.
 - The extra money infused into all of these firms in the economy, increase the overall money supply.
 - The value of financial assets is growing under the influence of the new demand, and return on assets (interest rate paid to customers) is falling.
 - Institutions are starting to buy assets of other institutions, further increasing the cost and reducing the yield on payments.
 - With a decrease in the interest rate paid by these institutions are now have more money they can spend, borrow or invest.
 - Banks will set interest rates to the competition with other financial institutions.
- In theory, this reduction in interest rates, perhaps the most obvious benefit that felt by customers from QE.
- When the cost of borrowing falls, consumers and businesses will take more money and buy more products that stimulates the economy, then prices begin to rise, leading to inflation. This can be both good and bad, depending on the size of the inflation.

It is generally accepted that low inflation is favorable for the economy, since it stimulates spending and investment. If prices rise, investors would rather buy or invest in assets since they are convinced that they will get a profit for them in the future. If prices do not rise, or even fall, investors will be more likely to keep the

money to themselves, because they do not want to invest in something that will become cheaper over time.

Thus, the direct result of QE is the inflation and the central bank runs the program, if it is sure of the threat of deflation. QE has the same effect as lowering the interest rate, but can be used when the interest rate cannot be lowered below.

The main mechanism of QE in theory should lead to lower bond yields, as investors should be interested in buying riskier assets such as stocks. And it really works well as long as volumes are small, but as soon as the QE beyond certain limits, any amount of additional bond purchases leads to a constant increase in yield.

Sweden was the first in the world who was faced with a phenomenal situation, when the program of QE led to the significant increase in government bond yields, as investors fixated on the capacity of the market, the purchase of the Bank of Sweden undermines the liquidity and leads to increased profitability.

Any effort to expand the asset purchase will deplete the given limited supply of market sovereign debt. To all the problems with QE the crown dynamics is added. Since the beginning of the purchase program it is began to strengthen against other currencies. Import prices are falling, and the central bank can do a little to prevent deflation. Thus, QE which was to cause inflation and reduce the rate of return has led to completely opposite results.

Conclusion

Quantitative easing is one of the non-standard tools of the government monetary policy. The central bank carries out an additional issue of bank money, which finances the state, state structural subdivisions, commercial banks, or buys their long-term debt securities, which should ultimately stimulate the economy.

But experience shows that the result of applying this policy does not always correspond to the original objectives. For example, during the crisis in 2008 it was widely discussed that QE is really not led to stimulate investment, but rather to allow more banks lose money on speculation in the mortgage market, to recapitalize their financial statements. The rewards of borrowing in the economy, banks absorb readily available capital to strengthen their own positions during the financial crisis.

Moreover, the departure from classical economics and the use of unconventional methods of the economy regulation could have a negative impact on the modern world currency system. Monetary authorities have to manage the economy in the first place with the help of interest rate, making money is expensive or cheap. However, in conditions when the monetary mass is measured by billions and even trillions of national units, money becomes so much that interest rates fall below 1 per cent per annum and the interest rate tool does not work. In the USA the FED rate (discount rate credit) is at the level of 0.5-0.25%. In Japan the interest rate is 0.1%, in the EU is 0%. There is a lot of money, but they do not "work" on the development of production and the satisfaction of human needs. Under the QE it is created the administrative-command system of production and distribution of money.

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Resume. The article considers the main features of the monetary policy in developed countries, where traditional monetary controls do not give the desired effect. The quantitative easing is carried out by the Central Bank purchases a certain number of long-term financial assets from the commercial banks and other private financial institutions in exchange for the issue of new electronic money. This policy is relevant in the presence of the following factors. First of all, the annual Gross Domestic Product (GDP) growth is close to zero or negative; secondly, an account of the Central Bank rate is close to zero; thirdly, a presence of the deflation in the country. The article shows the reasons, goals and objectives of central banks use measures of "the quantitative easing." Also the mechanism of realization of the policy of "quantitative easing" by the central banks of developed countries (e.g. USA, Sweden). The effect of the quantitative easing policy in the country carried out this policy and other countries is described by the author. There are positive and negative consequences of "quantitative easing" policy in the world monetary system. Moreover, the departure from classical economics and the use of unconventional methods of the economy regulation could have a negative impact on the modern world currency system.

Шет мемлекеттердегі монетарлық саясат

Резюме. Көрсетілген жұмыста шет мемлекеттердің ақша-несие саясатының ерекшеліктері қарастырылған. Бұл саясатқа орталық банктер дәстүрлі ақша-несие реттегіштік құралдары қажетті тиімділікке жекізбеген кезде көшеді. Сандық жұмсарту арқылы Орталық банк жаңа электрондық ақша шығарып, оны коммерциялық банктер мен басқа да жеке қаржы институттарының ұзақ мерзімді қаржы активтерінің белгілі бір санына айырбастайды. Бұл саясат келесідей факторлар болған жағдайда өзекті: ЖІӨ - ің өсімі нөл, болмаса кері; Орталық банктің мөлшерлемесі нөлге жақын; елде дефляция байқалады. Мақалада Орталық банктің «сандық жұмсарту» саясатының себептері,

мүдделері және міндеттері анықталған. Мысалы, АҚШ, Швеция орталық банктерінің тәжірибесінде «сандық жұмсарту» саясатын іске асыру механизмі талданған. «Сандық жұмсарту» саясатының осы саясат жүргізуші ел мен басқа елдерге тигізетін әсерлері қаралған. «Сандық жұмсарту» саясатының әлемдік валюта жүйесіне тигізетін оң және кері әсерлері анықталған.

Сонымен қатар экономиканы реттеудің дәстүрлі емес әдістерін қолдану және экономиканың классикалық үлгісінен бас тарту әлемдік валюта жүйесіне жағымсыз әсерлерін тигізеді. Біріншіден ақшаның сатып алу қасиетінің ұлғаю немесе кемуіне әсер ететін пайыздық мөлшерлеменің көмегімен монетарлық саясат экономиканы басқару қажет. Дегенмен ақша массасы ұлттық бірліктің миллиардтарымен, тіпті триллиондармен өлшеніп отырған кезде, пайыздық өлшем бірлік жылдық 1 пайызға төмендейді, ал пайыздық мөлшерлеме құрал ретінде жұмыс жасай алмайды.

Монетарная политика в развитых странах

Резюме. В работе рассмотрены особенности денежно-кредитной политики развитых стран, когда традиционные денежно-кредитные регуляторы не дают нужного эффекта. Количественное смягчение проводится путем покупки центральным банком определенного количества долгосрочных финансовых активов у коммерческих банков и других частных финансовых институтов в обмен на новую электронную эмиссию денег. Данная политика актуальна при наличии следующих факторов. Во-первых, годовой прирост ВВП близок к нулю или отрицательный; во-вторых, учетная ставка Центрального банка близка к нулю; в-третьих, в стране наблюдается дефляция. Определены причины, цели и задачи использования Центральными банками мер «количественного смягчения». Проанализирован механизм реализации политики «количественного смягчения» центральными банками развитых стран (США, Швеции). Рассмотрено влияние проведения политики количественного смягчения на страну, проводящую данную политику и другие страны. В ходе исследования при написании статьи выявлены положительные и отрицательные последствия политики «количественного смягчения» на мировую валютную систему. Кроме того, отход от классической экономики и использование нетрадиционных методов регулирования экономики может оказать негативное влияние на современную мировую валютную систему. Монетарная политика должна управлять экономикой, в первую очередь, с помощью процентной ставки, которая способствует увеличению или уменьшению покупательской способности денег. Тем не менее, в условиях, когда денежная масса измеряется миллиардами и даже триллионами национальных единиц, денег становится настолько много, что процентные ставки падают ниже 1 процента годовых, а процентная ставка перестает работать как инструмент.

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Ученое звание	
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Официальное название места работы на англ. языке (нужно для того чтобы кроме индексации автора, индексировалась и организация)	Kazakh National University named after Alfarabi The Republic of Kazakhstan, Almaty, 050040 Index Alfarabi ave., 71. 8 (727) 377-33-31 ext 12-52