Features of the monetary policy of central banks to combat high inflation

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Abstract
The article describes the measures taken by the central banks of the world's largest economies to combat high inflation. The authors give a definition of what exactly is considered high inflation, analyze the timeliness and effectiveness of taking anti-inflationary measures, and also answer the question of the need for the monetary authorities to react to inflation, which does not have an obvious monetary nature.

In the article the particular attention is paid to the difference between the anti-inflationary policy of central banks in developed and emerging markets, as well as to the issues of coordination between the actions of the central bank and the government in the field of anti-inflationary policy. The authors point out the importance of increasing the efficiency of the transmission mechanism through the development of various segments of the financial market, including the derivatives market.

As a result of the study, a hypothesis is put forward that there is a direct relationship between the development of the financial market, especially the capital market, and the costs of fighting inflation. Countries with less developed capital markets and smaller gold and foreign exchange reserves are forced to use the key rate of central banks to fight inflation, paying with their economic growth potential for the opportunity to have low inflation.

The article also makes a fundamental conclusion that the risk of inflation has acquired global features, however has not yet affected all countries, bypassing those markets that traditionally struggled with the deflation factor, and their central banks had negative rates. As well, the article pays attention to the dependence of the foreign exchange rate on the difference between the levels of interest rates, and makes assumptions about the possibility of manipulating the foreign exchange rate through delaying anti-inflationary measures in order to stimulate exports.

Keywords: inflation, inflation target, monetary policy, development markets, monetary transmission, prime rates, credit markets, monetary regime.

Introduction
The 2022 year will pass under the sign of the fight against global inflation. One by one, the world’s largest economies report inflation records. Inflation in May 2022 in the USA reached 8.6% on an annualized basis, surpassing the previous record in December 1981. In the Eurozone, inflation also hit an all-time high in May 2022, reaching 8.1% on an annualized basis, which remains the highest record in the history of the European currency. The April inflation indicators in the UK (9%) and Canada (6.8%) completely put an end to the debate about whether the risk of global inflation has been realized on a global scale.
Active monetary support for the economies of the USA, the Eurozone, the UK, Canada and other countries during the COVID-19 pandemic amid rising energy prices has led to the fact that in 2022 the risk of global inflation has already been realized. Now the question of the need to combat high inflation at the global level has become acute. Until December 2021, the world’s largest central banks reacted sluggishly to the inflationary risks of their economies, believing that inflation rates should fall without their monetary intervention. However, the season for raising interest rates was opened by the Bank of England on December 16, 2021 by raising the rate from 0.1% to 0.25%. On March 2, 2022, the Bank of Canada raised the rate to 0.50%, on March 16, the decision to raise the rate to the range of 0.25-0.50% was made by the Federal Reserve System (the Fed). In total, out of 84 central banks in the world, whose work was monitored, 53 banks raised the rate at least once in 2022. Objectively, we can conclude that most of the world’s central banks around from December 2021 began to more or less actively use the interest rate to fight inflation. The peak of the rate increase occurred in March-June 2022. On June 15, 2022, the Fed announced the end of the era of cheap money by publishing a forecast for the movement of interest rates for 2023 as well.

Material and methods

In our study, we relied primarily on the official statistics of central banks, as well as on the reports of Reuters and Bloomberg news agencies, and on the summary comparative statistics of such resources as: tradingeconomics.com, centralbanknews.info and cbrates.com. Also, in the study, we used such methods as: analysis, synthesis, historical comparison, comparison of various series of dynamics with a time lag. One of the central methods of analysis was the comparison of data on the dynamics of interest rates of central banks with inflation statistics over the past 10-12 months. It is believed that the anti-inflationary policy of central banks comes down to raising the discount rate and reducing asset (securities) buyout programs. Therefore, the analysis of the central banks work to reduce inflation was carried out on the basis of studying the dynamics of their key rates and changes in asset buyout programs, if there are any. Not all G20 and EU countries have an officially recognized inflation targeting monetary regime, but the absence of such recognition from the IMF does not prohibit anti-inflationary policy with the help of monetary instruments. Comparative analysis made it possible to draw conclusions that refute the hypothesis that links the size of the interest rate with inflation expectations or with future inflation.

Results and discussion

Heterogeneity of the inflationary crisis

When analyzing data on global inflation, we noticed that the problem of high inflation did not hit all the important economies of the world. Countries such as Japan, Switzerland and China found themselves outside the inflationary crisis.

In Japan, there are practically no signs of an inflationary crisis. Over the past 11 months, the monthly inflation rate in annual terms in Japan changed from -0.5% to +2.0%. The Bank of Japan did not even change the discount rate: over the past 12 months it remained negative and amounted to -0.10%. It can be said that due to the global inflationary crisis, Japan finally overcame deflation, and in May 2022, the inflation target set by the country’s central bank was finally reached (table 1).

Table 1. Annual inflation and interest rate of the central banks in G7 countries, %

| Countries (Infl. target) | Indicator / Month | 06.21 | 07.21 | 08.21 | 09.21 | 10.21 | 11.21 | 12.21 | 01.22 | 02.22 | 03.22 | 04.22 | 05.22 | 06.22 |
|-------------------------|------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| USA (2.0%)              | Inflation        | 5.40  | 5.40  | 5.30  | 5.40  | 6.20  | 6.80  | 7.00  | 7.50  | 7.90  | 8.50  | 8.30  | 8.60  | -     |
|                         | Interest rate    | 0.25  | 0.25  | 0.25  | 0.25  | 0.25  | 0.25  | 0.25  | 0.25  | 0.50  | 0.50  | 1.00  | 1.75  |       |
| UK (2.0%)               | Inflation        | 2.50  | 2.00  | 2.20  | 3.10  | 4.20  | 5.10  | 5.40  | 5.50  | 5.80  | 7.00  | 9.00  | 9.10  | -     |
|                         | Interest rate    | 0.10  | 0.10  | 0.10  | 0.10  | 0.10  | 0.10  | 0.25  | 0.25  | 0.50  | 0.75  | 1.00  | 1.25  |       |
The situation in Switzerland was very similar to Japan. Due to the inflationary pressure of COVID-19, the Swiss economy pulled itself out of deflation in 2021, but by May 2022 already had inflation at 2.9% on an annualized basis. With an inflation target of less than 2%, the Swiss National Bank (SNB) had to take measures, but it only did so in June by raising the discount rate from minus 0.75% to minus 0.25%. Comparing the situation in Switzerland and Japan, it should be noted that inflationary processes in Switzerland developed faster. We assume that this is due to the greater involvement of Switzerland in trade with the EU. And although Switzerland is not included in either the G7 or the G20, but according to the IMF classification the SNB remains the issuer of the world reserve currency, so the situation with inflation in this country remains very important for understanding trends in the global economy.

China has avoided serious amounts of monetary stimulus to the economy. In China, the focus in the emphasis against COVID-19 has been placed on strict quarantine measures, which has enabled to partially contain the impact of the epidemic on the economy in 2020 and 2021, even despite the emergence of new strains of the virus. Paradoxically, China has become the only major economy that over the past 12 months did not need to fight inflation, but instead lowered the key rate of the People’s Bank of China from 3.8% to 3.7% per annum to continue stimulating economic growth. It is important that, at the same time, May inflation in the country remained at the level of 2.1% (with a target of about 3%). On June 20, the People’s Bank of China left the key rate unchanged at 3.7%, believing that global inflationary trends could eventually affect the Chinese economy (Table 2).

### Table 2. Annual inflation and interest rate of the central banks of G20 members except for G7 countries, %

| Countries (Infl. Target) | Indicator / Month | 06.21 | 07.21 | 08.21 | 09.21 | 10.21 | 11.21 | 12.21 | 01.22 | 02.22 | 03.22 | 04.22 | 05.22 | 06.22 |
|--------------------------|-------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Argentina (0%)           | Inflation         | 50.20 | 51.80 | 51.40 | 52.50 | 52.10 | 51.20 | 50.90 | 50.70 | 52.30 | 55.10 | 58.00 | 60.70 | -     |
|                          | Interest rate     | 38.00 | 38.00 | 38.00 | 38.00 | 38.00 | 38.00 | 38.00 | 40.00 | 42.50 | 44.50 | 47.00 | 49.00 | 52.00 |
| Australia (2-3%)         | Inflation         | 3.50  | 3.50  | 3.50  | 3.50  | 3.50  | 3.50  | 3.50  | 3.50  | 5.10  | 5.10  | 5.10  | 5.10  | 5.10  |
|                          | Interest rate     | 0.10  | 0.10  | 0.10  | 0.10  | 0.10  | 0.10  | 0.10  | 0.10  | 0.10  | 0.10  | 0.10  | 0.10  | 0.10  |
| Brazil (1.75% +/- 1.5 p.p.) | Inflation      | 6.35  | 6.99  | 9.08  | 10.25 | 10.67 | 10.74 | 10.06 | 10.38 | 10.94 | 11.30 | 12.13 | 11.73 | -     |
|                          | Interest rate     | 4.20  | 4.20  | 5.25  | 6.25  | 7.75  | 7.75  | 9.25  | 9.26  | 10.75 | 11.75 | 11.75 | 12.75 | 13.25 |
| India (4% +/- 2.0 p.p.)  | Inflation         | 6.26  | 5.59  | 5.30  | 4.35  | 4.48  | 4.91  | 5.66  | 6.01  | 6.07  | 6.08  | 7.70  | 7.04  | -     |
|                          | Interest rate     | 4.00  | 4.00  | 4.00  | 4.00  | 4.00  | 4.00  | 4.00  | 4.00  | 4.00  | 4.00  | 4.00  | 4.00  | 4.90  |
| Indonesia (3% +/-1.0 p.p.) | Inflation   | 1.33  | 1.52  | 1.59  | 1.60  | 1.66  | 1.75  | 1.87  | 2.18  | 2.06  | 2.64  | 3.47  | 3.55  | -     |
|                          | Interest rate     | 3.50  | 3.50  | 3.50  | 3.50  | 3.50  | 3.50  | 3.50  | 3.50  | 3.50  | 3.50  | 3.50  | 3.50  | 3.50  |
| China (around, 3.0%)     | Inflation         | 1.10  | 1.00  | 0.80  | 0.70  | 1.50  | 2.30  | 1.50  | 0.90  | 0.90  | 1.50  | 2.10  | 2.10  | -     |
|                          | Interest rate     | 3.85  | 3.85  | 3.85  | 3.85  | 3.85  | 3.80  | 3.80  | 3.70  | 3.70  | 3.70  | 3.70  | 3.70  | 3.70  |
| Mexico (3% +/-.1 p.p.)   | Inflation         | 5.68  | 5.81  | 5.59  | 6.00  | 6.24  | 7.37  | 7.36  | 7.07  | 7.28  | 7.45  | 7.68  | 7.65  | -     |
|                          | Interest rate     | 4.25  | 4.25  | 4.50  | 4.50  | 4.75  | 5.00  | 5.50  | 5.50  | 6.00  | 6.50  | 7.00  | 7.20  | -     |
| Russia (4.0%)            | Inflation         | 6.50  | 6.50  | 6.68  | 7.40  | 8.13  | 8.40  | 8.39  | 8.73  | 9.20  | 16.70 | 17.80 | 17.10 | -     |
|                          | Interest rate     | 6.50  | 6.50  | 6.50  | 6.50  | 7.50  | 7.50  | 8.50  | 8.50  | 9.50  | 20.00 | 17.00 | 11.00 | 9.50  |
| Turkey (5.0% +/- 2.0 p.p.) | Inflation     | 17.51 | 18.95 | 19.50 | 19.58 | 21.31 | 23.08 | 48.69 | 54.44 | 61.64 | 69.97 | 73.50 | -     |
|                          | Interest rate     | 19.00 | 19.00 | 19.00 | 18.00 | 16.00 | 14.00 | 14.00 | 14.00 | 14.00 | 14.00 | 14.00 | 14.00 | 14.00 |
| South Korea (2.0%)       | Inflation         | 2.30  | 2.60  | 2.60  | 2.40  | 3.20  | 3.80  | 3.70  | 3.60  | 3.70  | 4.10  | 4.80  | 5.40  | -     |
|                          | Interest rate     | 0.70  | 0.75  | 0.75  | 0.75  | 0.75  | 0.75  | 1.00  | 1.00  | 1.25  | 1.25  | 1.25  | 1.25  | 1.25  |
| South Africa (3.0-6.0%)  | Inflation         | 4.90  | 4.70  | 4.90  | 5.00  | 5.00  | 5.40  | 5.90  | 5.70  | 5.70  | 5.90  | 5.90  | 6.50  | -     |
|                          | Interest rate     | 3.50  | 3.50  | 3.50  | 3.50  | 3.50  | 3.75  | 3.75  | 4.00  | 4.25  | 4.25  | 4.75  | 4.75  | 4.75  |
| Saudi Arabia (-)         | Inflation         | 6.20  | 0.40  | 0.30  | 0.60  | 0.80  | 1.10  | 1.20  | 1.20  | 1.60  | 2.00  | 2.30  | 2.20  | -     |

Sources: tradingeconomics.com, information agencies
Anti-inflationary policy in the G7 countries

In the G7 countries, the inflationary crisis forced central banks to raise interest rates in a sluggish manner. The Bank of England was the first to respond to high inflation (more than 5%) by raising the rate from 0.1% to 0.25%. The US Federal Reserve System began to act only in March 2022, raising the rate from 0.25% to 0.5%. The Bank of Canada took similar steps. The European Central Bank (ECB) avoided changing the key rate, even despite the fact that inflation in May reached 8.1% on an annualized basis.

If you look at the inflationary trends of the G7 countries, one cannot fail to note the similarity of trends in the USA, the UK, the Eurozone and Canada. In all of these countries, the inflation level was significantly above the target since August 2021. The central banks of these countries, except for the Bank of England, did not make any significant decisions on the key rate for almost 8 months. The Fed pointed to the temporary nature of inflation. At the same time, only the Bank of England began to react to high inflation since December 2021, but as we can see, this reaction was not enough to overcome record inflation in April 2021 at 9.0%, which already in June 2022 caused protests of population. After raising the rate in June to a 13-year maximum (to 1.25%), the Bank of England predicted that inflation would rise to 11% by October 2022. Nevertheless, the rate of the Bank of England in June was in 7.2 times less than inflation.

The Eurozone had its own specifics. The monetary policy of the European Central Bank (ECB) concerned 19 countries with quite different levels of development and different inflationary potential. The ECB announced an increase of rates in July 2022, but for now, the ECB base rate remains at 0%, the margin loan rate at 0.25%, and for deposits at -0.5%. The ECB also announced the termination of the Asset Purchase Program, which should also tighten the monetary policy. Despite the external sluggishness of the ECB in reacting to inflation records, due to the difference in interest rates between the Eurozone and the United States, over the past 12 months, the euro against the US dollar has weakened from about 1.19 to 1.04 euro per dollar, which should have had a positive effect on exports from the Eurozone. Of course, the ECB can be accused of pursuing a policy in the interests of the export economies of the Eurozone, but it is upon them that the level of employment in the Eurozone depends now. By slowing down the decision to raise the rate, the ECB, as it were, exchanged high inflation in the Eurozone for incentives to support export economies.

In June 2022, the US Fed raised the base rate by 0.75 percentage points to 1.5-1.75%. This is the first time such a sharp increase has occurred since 1994. The Fed traditionally publishes its forecast on rates and expects the rate to reach 3.4% by the end of 2022 and 3.8% by the end of 2023, i.e. the main peak of the rate increase is in the second half of 2022. However, the rate is still expected to be well below the current May inflation record of 8.6% on an annualized basis.

Anti-inflationary policy in the «G20 – G7» countries

An analysis of anti-inflationary policies in countries that entered the G20, but did not enter the G7 (G20 - G7), showed that the central banks of most countries imitated their colleagues from the G7 and reacted with monetary instruments to a surge in inflation with a very long delay.

In May 2022, the highest inflation on an annualized basis was recorded in Turkey at 73.5%. Turkey’s Central Bank stopped responding to high inflation in November 2021 by cutting its rate from 16% to 14%. The policy of a constant rate against the backdrop of rising prices for energy and food products has led to an increase in inflation. Since January 2022, the monthly inflation rate in Turkey has not fallen below 45% on an annualized basis with a target of 5% +/-2.0 p.p. In Argentina, inflation over the past 12 months has fluctuated between 50.2% and 60.7%, but the country’s central bank began to respond to high inflation only since January 2021, by gradually raising the rate.
Analyzing all the countries of the «G20 - G7», one can point to the same trend that was revealed in the G7 countries: the absolute majority of central banks do not try to suppress inflation with rates that exceed the current inflation rate, and we did not identify at all a situation when the bank had a base rate exceeding the level of «future inflation» with a time lag of 3-9 months.

In the «G20 – G7» group, only the Brazilian central bank demonstrated the use of the classic inflation targeting recipe, when they tried to suppress inflation with a rate above the current and (or) expected inflation rates. By raising the rate, the Central Bank of Brazil announced that it expects inflation at 8.8% in 2022 and will raise the rate until expectations consolidate around the established target, the upper limit of which is 5.25% now. However, the behavior of the Central Bank of Brazil has been the exception rather than the rule in the G20.

The central banks of the largest «G20 – G7» economies, such as Australia, Argentina, Turkey, India and South Korea, reacted weakly with the rate to the increase in monthly inflation in annual terms. Of the entire group, we found only 2 exceptions – Brazil and Russia. However, Russia in this case cannot be considered a good example, since the country was under the destructive effect of sanctions, which gave rise to anomalies in the country’s monetary environment. In our opinion, these anomalies are unlikely to be repeated in the near future in any of the G20 or EU countries.

**Anti-inflationary policy in EU countries with their own currencies**

The most interesting situation was in the EU countries that were not included in the Eurozone. Countries such as Bulgaria, Denmark and Croatia maintained a de facto fixed-rate monetary regime. In Croatia, the introduction of the euro is expected from January 1, 2023, and Denmark has maintained a fixed krone rate against the euro for quite long time. It should be understood that not only the three named countries were very dependent on trade with the Eurozone. In fact, the entire group of countries from table 3 depended on the economic activity of the Eurozone.

### Table 3. Annual inflation and interest rate of the central banks in EU-countries with own local currencies, %

| Countries                        | Indicator / Month | 06.21 | 07.21 | 08.21 | 09.21 | 10.21 | 11.21 | 12.21 | 01.22 | 02.22 | 03.22 | 04.22 | 05.22 | 06.22 |
|----------------------------------|-------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Bulgaria (1)                     | Inflation         | 2.70  | 3.00  | 3.70  | 4.80  | 6.00  | 7.30  | 7.80  | 9.10  | 10.00 | 12.40 | 14.40 | 15.60 | -     |
|                                 | Interest rate     | 0.00  | 0.00  | 0.00  | 0.00  | 0.00  | 0.00  | 0.00  | 0.00  | 0.00  | 0.00  | 0.00  | 0.00  | 0.00  |
| Hungary (3.0% +/-1.0 p.p.)       | Inflation         | 5.30  | 4.60  | 3.90  | 5.50  | 6.50  | 7.40  | 7.20  | 7.90  | 8.30  | 8.50  | 9.50  | 10.70 | -     |
|                                 | Interest rate     | 0.90  | 1.20  | 1.50  | 1.05  | 1.80  | 2.10  | 2.40  | 2.90  | 3.40  | 4.40  | 5.40  | 5.30  | 5.90  |
| Denmark (1)                      | Inflation         | 1.70  | 1.60  | 1.80  | 2.20  | 3.00  | 3.40  | 3.10  | 4.30  | 4.80  | 5.00  | 6.70  | 7.40  | -     |
|                                 | Interest rate     | -0.50 | -0.50 | -0.50 | -0.50 | -0.60 | -0.60 | -0.60 | -0.60 | -0.60 | -0.60 | -0.60 | -0.60 | -0.60 |
| Poland (2.5% +/-1.0 p.p.)        | Inflation         | 4.40  | 5.00  | 5.50  | 5.90  | 6.80  | 7.80  | 8.60  | 9.40  | 8.60  | 11.00 | 12.40 | 13.90 | -     |
|                                 | Interest rate     | 1.00  | 0.10  | 0.10  | 0.10  | 0.50  | 1.25  | 1.75  | 2.25  | 2.75  | 3.50  | 4.90  | 5.25  | 6.00  |
| Romania (2.5% +/-1.0 p.p.)       | Inflation         | 3.94  | 4.95  | 5.25  | 6.20  | 7.94  | 7.80  | 8.19  | 8.35  | 8.53  | 10.15 | 13.76 | 14.49 | -     |
|                                 | Interest rate     | 1.25  | 1.25  | 1.25  | 1.25  | 1.50  | 1.75  | 1.75  | 2.00  | 2.50  | 2.50  | 3.00  | 3.75  | 3.75  |
| Croatia (1)                      | Inflation         | 2.00  | 2.80  | 3.10  | 3.30  | 3.80  | 4.80  | 5.50  | 5.70  | 6.30  | 7.30  | 9.40  | 10.80 | -     |
|                                 | Interest rate     | 2.50  | 2.50  | 2.50  | 2.50  | 2.50  | 2.50  | 2.50  | 2.50  | 2.50  | 2.50  | 2.50  | 2.50  | 2.50  |
| Czech Republic (2.0% +/-1.0 p.p.)| Inflation         | 2.80  | 3.40  | 4.10  | 4.90  | 5.80  | 6.00  | 6.80  | 9.30  | 11.10 | 12.70 | 14.20 | 16.00 | -     |
|                                 | Interest rate     | 0.50  | 0.50  | 0.75  | 1.50  | 1.50  | 2.75  | 3.75  | 4.50  | 4.50  | 5.00  | 5.00  | 5.75  | 5.75  |
| Sweden (2.0%)                    | Inflation         | 1.30  | 1.40  | 2.10  | 2.50  | 2.60  | 3.30  | 3.90  | 3.70  | 4.30  | 6.00  | 6.40  | 7.30  | -     |
|                                 | Interest rate     | 0.00  | 0.00  | 0.00  | 0.00  | 0.00  | 0.00  | 0.00  | 0.00  | 0.00  | 0.25  | 0.25  | 0.25  | 0.25  |

Sources: tradingeconomics.com, information agencies

And although not everyone supported the fixed rate regime, the correlation between the currencies of these countries and the euro was very large. You can find a lot of controversy around the optimality of the inflation targeting regime or a fixed exchange rate for the development of national economies. However, we believe that in the case of European countries, there is no single recipe for which monetary regime would be more optimal for economic development. If the economic environment gravitates towards the
exchange rate stability, the dependence of prices on the exchange rate is very high and the gold and foreign exchange reserves of the country’s central bank are significant, then the fixed exchange rate regime cannot be an obstacle to the development of the country, especially if the country relies on foreign investors.

Nevertheless, as the analysis showed, even those countries of the region that support the inflation targeting regime, officially recognized by the IMF, have reacted very poorly to high inflation over the past 12 months. The Hungarian Central Bank began to actively raise the rate only after the monthly inflation on an annualized basis exceeded 8%. The Central Bank of Poland moved to a noticeable rate increase only at the beginning of 2022, when the monthly inflation rate on an annualized basis already approached 9.4% with the upper target limit of 3.5%. A similar situation was in Romania, the Czech Republic and even in Sweden. The Central Bank of Sweden (Sveriges riksbank) responded to May inflation of 7.3% by raising the discount rate to 0.25% (table 3).

About the ratio between interest rate and inflation

What is a high inflation? Why do Central banks set a target, and then observe how it is systematically violated for 6-12 months and begin to change monetary policy only in 3-9 months after inflation goes beyond the upper limit of the target? Today, these questions remain central to all monetary institutions that use inflation targeting as their main monetary regime. Theoretically, already with inflation forecasts above the established inflation target, the central bank should have raised the rates even before such inflation is reached. However, on the example of the data for the last 12 months, we see that in the absolute majority of cases this does not happen, central banks not only do not follow forecasts or expectations, they ignore signals of high actual inflation. Even more rarely, they resort to raising the rate to a level above inflation. There may be several reasons for such behavior:

1. When central banks set an inflation target, they are based on inflation in trading partner countries. Target not only plays the role of an anchor for low inflation, but this level of inflation must be balanced taking into consideration the impact of this factor on foreign trade. If, in the long run, inflation is significantly lower or significantly higher than the inflation level in trading partner countries, then in an open economy this will be reflected in the stability of foreign exchange rates. Therefore, when elevated inflation rate affects the economies of countries whose central banks are issuers of reserve currencies and they also have a large share of world trade, it postpones the reaction of other central banks to the fact of inflation above the target.

2. If the central bank sets the goal of making rates higher than inflation, this means that the monetary authorities are set to achieve the fastest possible result, possibly being achieved by shocking borrowers. The liquidity, which is directed to consumption, can be absorbed by banks, and this will eliminate the influence of monetary factors on inflation. However, it should be remembered that the volume of the monetary base can have a direct impact on the level of inflation. Even at a very low rate, for example, at the level of 0.25%, with its one-time increase by 3 times, the central bank almost indirectly influences the interest payments of borrowers, which also unscheduled increase by 2-3 times. That is, even raising the rate to a level that is below the level of inflation may reduce activity in the loan market due to unplanned growth in debt service payments, which may affect the money supply in the economy.

3. Each market is unique in itself, and here we are not talking about the monetary regime, but exactly about the structure and development of the financial market. The market accepts the decision of the central bank to raise the rate as an external factor and gives the result in the form of a movement in lending and deposit rates. For example, according to our observations, in the USA the discount rate is clearly hold up at a low level of 0.25%. High inflation in the USA made it possible to increase
rates in various segments of the loan market, for example, for car loans, or loans to small businesses in the risky segment. Therefore, when the Fed began to raise the rate, certain segments of the market did not react to such an increase, since their participants were guided by market conditions and saw that customers could pay more, so they raised rates even before the decision of the Fed. The movement of rates described on the example of the United States is called the individual characteristics of the national market. Such features need to be studied and the reaction of different segments of the market (the market of loans, deposits, government bonds, corporate bonds, etc.) to the actions of the monetary authorities needs to be analyzed.

4. Behind the decision to change the rate there is always the question of the exchange rate. The fundamental factor influencing the exchange rate is the movement of capital, and it may depend on the level of rates. The Central Bank may pursue the goal of either weakening the national currency, or strengthening it, or replenishing its own reserves. The influence of the exchange rate on inflation in different countries is carried out in different ways. And devaluation can be considered by the central bank as a measure to stimulate exports. An example of the connection between the dynamics of the euro against the dollar and the delay in the ECB’s decision to raise rates in recent years is very typical for the monetary environment. By delaying the rate increase, the central bank not only stimulates economic growth through the lending channel, but also stimulates exports through the foreign exchange channel. You also need to pay attention to the fact that central banks that maintain a fixed exchange rate as a monetary regime can respond to an inflationary surge by raising rates.

5. If we divide our results of the analysis into developed and developing countries, then it should be noted that there is a certain dependence between the development of the market and the confidence in the behavior of the central bank in the field of changing the key rate. The secret of this dependence seems to lie in the fact that the monetary transmission in developed markets is more sensitive. The impulse from a change in the discount rate in developed markets may reach national financial markets within 1-2 months. In some situations, markets may show an increase in rates only on expectations of the central bank’s actions. The impulse from changes in expectations in emerging markets can reach core markets within 9-12 months.

6. And finally, the last thing: inflation in the market of a particular country can be of non-monetary nature. For example, prices may rise due to higher prices for food or energy products with a high share of imports. No matter how you raise the rates, the factors that affect the market from the outside cannot be eliminated. The peculiar export of inflation, as a rule, is temporary. But whether it is necessary to change monetary policy in such conditions is a big question. If inflation is of non-monetary nature, and the central bank begins to raise the rates, then there is a risk of a serious and not always favorable effect of monetary policy on the structure of industry markets. Fundamental changes in the structure of industry markets are not always beneficial for the national economy.

Conclusions

1. The absolute majority of central banks were in no hurry to respond to the inflationary surge of 2021-2022 by raising interest rates above the level of actual inflation. The reaction to the global inflation trend from central banks began in December 2021 and reached its peak in March-June 2022. However, the inflation rate in 2022 in most G20 countries will still be record-breaking.

2. The slow reaction of central banks to inflation in 2021-2022 is partly explained by the non-monetary nature of inflation. The rise in energy and food prices had other reasons than the monetary policy of the largest central banks.
and was associated with COVID-19, and then with the start of the war in Ukraine. However, both of these systematic risks could not be offset by the only monetary policy. An attempt to wait out the manifestation of inflationary risks did not lead to success, so interest rates began to rise.

3. Even the growth of rates of large central banks will not be able to stop inflation at the global level. However, countries that previously struggled with deflation, such as Japan and Switzerland, are now in an advantageous position: they have not been affected by the crisis. Particular attention is drawn to the situation in the People’s Republic of China, where the rate level turned out to be quite acceptable for the post-virus economy. The situation in China is unique and in many ways the result of a combination of circumstances.

4. Even the central banks from emerging markets were in no hurry to respond to rising inflation by an active increase of rates. Of more than 20 countries, only Brazil has used classic targeting recipes. For emerging markets, copying the «delayed reaction strategy» of the Fed or the ECB can result in significant inflation, as the underdevelopment of the financial markets of these countries will slow down the monetary transmission.

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