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# BUILDING OF LONG-RUN PHILLIPS CURVE IN THE TRANSITIVE UKRAINIAN ECONOMY

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**Abstract:** *It has been built long-run Phillips curve in transitive Ukrainian economy in 2013-2020 that showed it acted only in severe years (2014-2015) but when Ukrainian economy experienced stagflation processes both indicators considerably increased (2013, 2016, 2020). In the article it has been also recommended the possible measures that could be taken to reach long-run macroeconomic equilibrium: increase in interest rate for credits in foreign currencies and decrease in interest rate for credits in national currency; increase in money supply by carrying out of exchange interventions from National bank of Ukraine and development of export-oriented industries of the national economy; regulation of exchange rate by setting of impossible deviation of nominal exchange rate from real exchange rate by only 1%.*

**Key words:** *inflation, unemployment, Phillips curve, economic recession, monetary expansion, inflation targeting, transitive economy.*

Inflation and unemployment are key macroeconomic problems that upset general economic equilibrium and lead to the structural imbalance at the national level. In particular, increase in prices, or inflation, always induces decline in real incomes of individuals that, in turn, decreases their motivation to labor and generates labor shortage. On the other hand, increase in unemployed leads to dropping in effective aggregate demand and gradually generate long economic recession. It shows that investigation of the relationship between inflation and unemployment is an actual scientific issue. Most of modern economists hold a point of view concerning negative quantitative relationship between unemployment dynamic and wage changes. In macroeconomics, it is known as Phillips curve showing quantitative relationship between inflation and unemployment.

The aim of this writing is to determine the features of long-run Phillips curve in the transitive economies, in particular in Ukrainian economy, and, on its basis, to recommend the possible measures that could be taken to reach long-run macroeconomic equilibrium fighting simultaneously inflation and unemployment.

As we know, in the short run Phillips curve shows negative relationship between inflation and unemployment: when inflation rate increases, then unemployment rate decreases, and when inflation rate decreases, then unemployment rate increases. But in the long run Phillips curve is described as vertical line that means inflation rate constantly increases but unemployment unemployment rate is stable. Nevertheless long-run Phillips curve has many difficulties in different types of economic systems (developed, developing and post-socialist economies). For example, building of long-run Phillips curve in Ukrainian economy in 2013-2020 allow us to establish that long-run Phillips curve in the transitive Ukrainian economy acted only in severe years (2014-2015) when it observed strong negative relationship between inflation and unemployment (Table 1, Graph 1).

Table 1

**Dynamic of inflation and unemployment in Ukraine** [3]

| Indicator | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
|---|---|---|---|---|---|---|---|---|
| Inflation rate, % | 0,5 | 24,9 | 43,3 | 12,4 | 13,7 | 9,8 | 4,1 | 5 |
| Unemployment rate, % | 7,7 | 9,7 | 9,5 | 9,7 | 9,9 | 9,1 | 8,6 | 9,9 |
| Poverty index | 8,2 | 34,6 | 52,8 | 22,1 | 23,6 | 18,9 | 12,7 | 14,9 |

But Ukrainian economy also experienced stagflation processes when both indicators considerably increased (2013, 2016, 2020). Moreover, actual inflation rate was higher than actual unemployment rate (by 15,2% in 2014, by 33,8% in 2015, by 2,7% in 2016, by 3,8% in 2017, by 0,7% in 2018, by 4,9% in 2020) [3]. For this reason, it is necessarily to propose strong recommendations on how to fight inflation in

Ukrainian economy. On the author's view, it must include the following measures.


Graph 1. **Long-run Phillips curve in Ukrainian economy**

The first measure should be increase in interest rate for credits in foreign currencies (euro, US dollar, pound sterling, swiss franc, yen, yuan, zloty, etc.) and decrease in interest rate for credits in national currency (hryvnia) because now interest rate in hryvnia varies from 12% to 14% that is sometimes higher than average profitability of Ukrainian enterprises. As a result, it is almost impossible for small and medium enterprises to attract additional financial resources in order to increase in output and renew technological base. On our view, change in interest rate will provide significant decline in dollarization level of the national economy and increase in tenacity of banking system to external shocks and global imbalances [1, p. 34-41].

The second measure should be increase in money supply (so called "monetary expansion") by carrying out of exchange interventions from National bank of Ukraine and development of export-oriented industries of the national economy. To meet this goal, National bank of Ukraine must increase the size of exchange interventions on the financial market that, in turn, will lead to emergence of excess reserves in the commercial banks and other financial institutions. Constant increase in excess reserves in the national banking system will provide increase in money supply, increase in size of lending of small and medium enterprises as well as inflow both national and foreign investment in the country. From the other hand, it will decrease the risks of default and allow to eliminate negative impact of external factors that upset equilibrium on the internal goods market. In such conditions National bank of Ukraine should continue to buy government securities and other debentures from the commercial banks because it helps to replinishing their excess reserves. Accelerated monetary expansion, low level of inflation and unemployment will lead to the filling of national banking system of Ukraine of non-inflation resources and increase in its monetization level. In the future, it will positively impact not only on key macroeconomic indicators (gross domestic product (GDP), consumption, saving, investment, balance of payments, public debt) but also on the expectations of main macroeconomic subjects (households, enterprises, government, rest of the world) about their access to credit resources [2, p. 12-13].

The third measure should be regulation of exchange rate by setting of impossible deviation of nominal exchange rate from real exchange rate by only 1%. On the authors view, it will help to decrease the level of the fallowness of Ukrainian economy from external financial institutions, in particular International Monetary Fund (IMF), and increase the level of confidence of citizens to national commercial banks. In the end, National bank of Ukraine will use all possibilities of low exchange rate and implement the measures of inflation targeting that is one of the most effective direction of the policy of strengthen of national currency.

Totally, all the above measures will help to provide significant decline in dollarization level of the national economy, increase the tenacity of banking system to external shocks and global imbalances as well as fight inflation in Ukraine.

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