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in Ukraine and the Russian Federation. That lack of integrity makes implementation of various strategic Programs for innovation and investment development, existing both in Ukraine and Russia, impossible.

Thus, none of Russia's initiatives to create the Eurasian Union seem to be convincing. The reason is simple: due to lack of the state's direct control over its own monetary-credit policy for the benefit of socio-economic development, the Russian Federation itself is not quite sovereign. In addition, there must be a national idea as another non-market factor which could unite the population of not only the generator-nation, but also of the countries having common spiritual and historical background. However in that case the honesty and talent of leaders should be indisputable. This might be the reason why the EAU can not find support with the people of Ukraine.

At the same time, the process of Ukraine's integration into the EU looks more like moving in circles around some doubtful project rather than rapid motion to attain the concrete aim. In all likelihood, this situation suits both Ukraine and the European Union.

Ukraine currently finds itself at the far periphery of globalization processes. For its economy, it can mean an unfortunate fate of a raw materials supplier, technological backwardness, growing foreign liabilities, impoverishment of the population, and social decline. These are the trends observe now. The underlying factor for the said processes is "hryvnia famine" – shortage and dearness of hryvnia. While the developed countries of the world try to maintain their production volume with abundance of cheap and long-term money, Ukraine behaves in a totally different way limiting cash infusions into its economy and claiming that it helps fight inflation.

Unfortunately, the same situation is typical for Russia, too. The success of our countries in their fight for economic sovereignty, the main component of which is an overall state control over the NBU and CBR activities, can mark the starting point for creation of an attractive socio-economic development model, based on the common spiritual and moral traditions of Ukraine and Russia. Performance of such a model would be the closing argument to speed up integration of our fraternal peoples.

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and employment. Besides, the countries whose central banks use the currency board rule are characterized by longer currency and finance crises, as well as by prolonged processes of post-crisis socio-economic recovery.

One of determinants for the success of interstate competition is the so-called 'soundness of money'. A significant indication of the extent of soundness is money's being primary or secondary. The states subsidizing theirs economies with cheap primary money have an advantage. An attempt to compete against those states with secondary money would be fatuous and dangerous, as it would inflict an economic inferiority failure upon the countries attempting that action. All other things being equal, their economies (and later on the countries themselves) will become noncompetitive.

The principal measure to bring about the recovery of the Ukrainian and Russian economies should be a large-scale systemic support for priority economic industries and innovation projects with cheap long-term money, and that money has to be solely primary. The lower the prime cost of money, the higher the competitiveness of national economies and the states themselves is. When money created on the basis of the currency board regime is infused into an economy, the more money is generated, the more "render" in form of seigniorage has to be paid to competitors. In that context, a systemic support becomes pointless or even suicidal.

Ukraine is recommended to spend its gold holdings in times of financial crises as a means of crisis management. Yet, as a result, the currency would be successfully absorbed by its issuers. In case the country's anti-crisis reserves are running out, e.g. as it occurred in 2008-2009, Ukraine is advised to replenish them at the expense of its foreign liabilities. Thus the state might end up to be head over ears in debt. In the long run, the moment of truth may come when the country is declined another money "help" and is suggested to settle accounts with its real wealth. A vivid example for us is the experience of the countries such as Argentina, Greece and others. Greece was offered to satisfy its debt with its own territory (islands), public enterprises, ports, highways, attractive social-infrastructure projects.

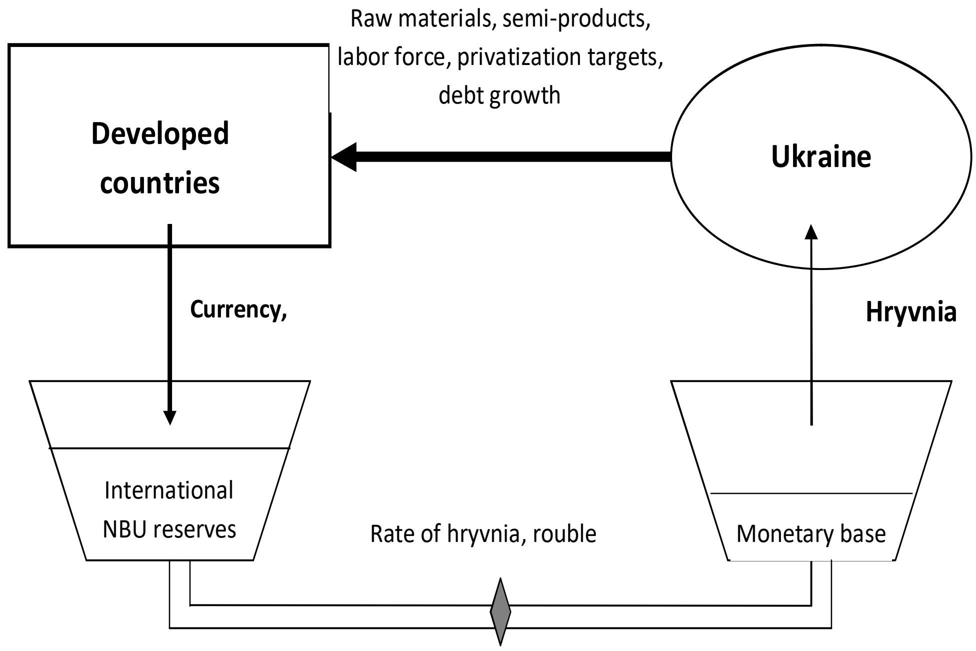
By restricting hryvnia emission, the NBU provides a basic deficit of the national currency. Consequently, the Ukrainian economy absorbs the surplus euro and dollar stock, and in this way it simply utilizes the inflation of the USA and the EU. Besides, Ukraine is in the situation when the credit cost is exorbitantly high, which leads to production "bleeding", product cost growth, and ultimately to a price surge.

Neither the NBU nor the CBR is well-integrated into the structure of public administration, which, in the end, lessens the effectiveness of the governments

2010	30727	7.9617	3859
2011	14193	7.9898	1776
Total	206102	**x**	33757

A similar situation takes place in the Russian Federation, to which testifies the Explanatory memorandum to the draft federal law «On amendments to Federal Law "**O**n Central Bank of the Russian Federation" № 130800-6, submitted for consideration to State Duma of the Russian Federation by a group of deputies in August of 2012.
Thus, the NBU, just as the CBR, uses the currency board as a type of external inflation targeting. This practice originated in the XIX-th century as a means of enhancing economic exploitation of colonial countries by Great Britain as a colonial power. According to the IMF 2009 classification of the exchange rate regimes, the currency board is the practice of fixed pegging characterized by restrictions on the national currency issue, the size of which is fully or partly pegged to gold holdings of the state. Under the regime, central banks' possibilities of pursuing an independent discretionary policy are strictly limited, as they are mostly guided by the IMF decisions. In general, the IMF does not recognize officially the use of the currency board by central banks; although in many countries they actually adhere to its rules.
In fact, the NBU and the CBR rejected their so-called discretionary rights, in particular those concerning the regulation of the amount of money in the economy. Monetary policy, in this case, becomes totally passive, ceasing to be a policy in the true sense of the word. The NBU and the CBR just change the national currency for a foreign "anchor" currency and vice versa.
With this mechanism in operation, a country technically retains its currency, its central bank as an emission center (although it actually functions as an exchange office), and the opportunity to gain seigniorage from international placement of its currency reserves (which does not happen when the national currency is changed for a foreign one). However in principle, money supply can never match the needs of an economy. For that, there does not even exist a deterring instrument. Article 8 of the IMF statute prohibits imposing restraints on the foreign balance current transactions. Under such conditions, the structure of public administration cannot exert a strong impact on the economy.
According to recent research data, the practices of a fixed exchange rate pegging, currency board including, allow to achieve but a short-term stabilization of domestic financial markets. However, in the medium view, central banks are unable to effectively influence inflation, economic growth,

The currency board operation diagram



As a result of the currency board introduction, the state has already paid a "render" in the amount of nearly 34 billion US dollars (Table 2), while the average annual duty of that kind is about 5 billion US dollars, which equals to one third of Ukraine's expenditure on defense, one fourth – on health care, and one 13th – on spiritual and physical development, or on environment protection.

Table 2

Estimation of Ukraine's direct losses due to currency board regime

Year	Absolute increase of monetary base, mln. hryvnia	Hryvnia-to-US dollar official rate	"Render", mln. US dollar
2005	48977	5.1247	9557
2006	14454	5.05	2862
2007	44687	5.05	8849
2008	44770	7.7	5814
2009	8294	7.985	1039

Dependence of the 2001-2011exchange rate on formation of the NBU gold holdings*

Year	Monetary base, bln. hryvnias	Gold holdings, bln. US dollars	Nominal rate (monetary base - gold holdings ratio)	Official rate of hryvnia to US dollar	Ratio of nominal rate - official hryvnia-to-US dollar rate
1999	11988	1094	10.9580	5.2163	2.10
2000	16760	1475	11.3627	5.0289	2.26
2001	23005	3090	7.4450	4.8136	1.55
2002	30808	4417	6.9749	5.0301	1.39
2003	40089	6937	5.7790	5.3327	1.08
2004	33783	9525	3.5468	5.3192	0.67
2005	82760	19391	4.2680	5.1247	0.83
2006	97214	22358	4.3481	5.05	0.86
2007	141901	32479	4.3690	5.05	0.87
2008	186671	31543	5.9180	7.7	0.77
2009	194965	26505	7.3558	7.985	0.92
2010	225692	34576	6.5274	7.9617	0.82
2011	239885	31795	7.5447	7.9898	0.94

* Source: the NBU official website.

Thereby, since 2005, the currency board regime functions in Ukraine. The NBU issues hryvnia only in the amount equal to an increase in its gold holdings. Therefore, it is not the home market size, but rather exports volume (i.e. sale of goods, services, and labour resources in the world market, normally for dollars) and a possible growth of the foreign debt that provide the NBU's gold holdings rise, and authorize the emission in the amount equal to a gold holdings increase. A schematic representation of the currency board functioning is shown in Figure 1.

Figure 1

to set some basic targets, which could be, for example, a “narrow” money supply, “broad” money supply, consumer price index etc. Such a choice may assume a divergence of the government and central-bank interests in setting certain inflation targets. The world experience shows that there are different approaches to regulation of inflation indices depending on who sets and controls them: the government (Brazil, Great Britain, Israel, China, Norway), the central bank (Columbia, Mexico, Thailand), the government and central bank jointly (Australia, Hungary, Canada, New Zealand, South Korea).

The least effective for a country’s socio-economic development is the form when the government is unable to actively participate in the central bank’s decision-making. The economy of such countries is doomed. Both present-day Ukraine and Russia lack bank regulation done by means of internal inflation targeting and practical beneficial government-central bank interaction.

Thus, over the period of 1999–2011, the monetary base of Ukraine increased twentyfold. For the same period, the NBU gold holdings grew 29 times bigger. Since 2005, the country has experienced a sharp increase of gold holdings, which became the main money-supply emission channel in Ukraine. The comparison of the nominal rate, calculated as the ratio of money supply to the official gold holdings of the NBU, and the official hryvnia-to-US dollar rate revealed that the former exceeded the NBU official hryvnia rate in the period of 1999-2003, which means that the NBU’s gold-holdings were not pegged to the exchange rate. After a sharp monetary base cutdown and a simultaneous rise of the gold holdings in 2004, the year of 2005 marked the start of a stable enlarging of gold holdings, aimed to increase the monetary base. In doing so, the NBU sticks to the rule of not exceeding the nominal rate of the official exchange rate (Table 1) and understating the nominal rate as regards the official hryvnia-to-US dollar rate, the average value of which in 2005–2011 was 0.84. This behavior can be explained by the NBU’s strive for a certain extent of freedom and time-lag to keep exchange rate stable at times of jumps in market demand for currency, as at the end of 2011, when the country’s international monetary reserves dropped from 38.2 to 31.8 billion US dollars over a four-month period.

Table 1

money emission (by central and commercial banks), commercial banks' power to create new credit money being regulated by the central bank through establishing mandatory earmarking and refinancing rates. However, commercial banks, depending on the economic situation and the existing risks, may refrain from using their banking power, providing credits to their most reliable and solvent clients only.

It is the non-emission factors that often cause inflation growth subsequently followed by an excessive issue of cash. In the current economic situation, the following causes of non-emission character can be pointed out: a structural misbalance in production and distribution spheres; pursuing short-term political goals by the state power structures; a demand-supply imbalance in the money market; a slowdown in movement of funds; inefficient domestic production; poor government financial and customs regulation; price fluctuation in foreign markets; and disruption of the previous economic relations.

The strategy of the European Central Bank focused on keeping the euro rate stable rather than trying to strengthen it by the region's economic growth, as well as its issuing euro without backing it up by solid assets, affect the EU's economy negatively and shake the euro stability, which in its turn aggravates and extends the economic crisis in the European Union. The fourteen-year practice of the ECB as a major supranational body, whose task was to get the economies of the member states converge in a unified economy of the European Union, proved that the mission is impossible unless a common government is created and takes an active part in the ECB work. It is due to direct and indirect participation of the ECB in the European integration processes that many member states are now ready to give up their national governments in favor of the common European Government.

On the legislative level, the ECB is supposed to perform inflation targeting up to 2.0%, though not higher than that. However to guarantee the stability of the European currency, the ECB efforts alone are not enough. The EU's long experience proves it necessary to conduct a common supranational policy – not only in the monetary-credit, but also in the fiscal (budget and tax) sphere. Thus bank regulation, applied by the ECB Europe-wide, came to a deadlock, even despite its full conformity to the up-to-date scientific concepts, and in the first place, to those advocating the Central bank's total independence from other regulating bodies. In fact, the ECB is more than independent, for the EU Government is missing as such. The ECB is completely independent of other supranational European bodies of power as well.

Obviously, choosing an inflation targeting regime, first of all, it is necessary which should help strengthen the stimulatory role of refinancing channels, and avoid budget deficit monetization. President also pointed out that the extent of monetization as well as economy's saturation with credits should be improved to meet the demand of the real sector of economy for cash. This should be accompanied by currency stability policy based on rejection of pegging hryvnia to US dollar as an anti-inflationary measure and transition to a flexible exchange-rate dynamics within the trading band. This principled position of the first person in the state calls on scientists and practitioners to do a thorough research into problems of hryvnia emission, exchange rate setting etc.

Today's activation of the world integration processes, with an array of unions, communities and other kinds of associations emerging under the leadership of a state or a group of states, Ukraine's decision on selecting an optimal state-integration project acquires a special significance. For the Ukrainian people, the right decision could be made if they find the ways to achieve concrete socio-economic goals, moral and spiritual rebirth, and to resist the growing negative globalization challenges.

Basically, of all the integration options, only two are being discussed, provided the independence is preserved to the extent possible, specifically: coming closer with the European Union (EU), and joining the project on forming the Eurasian Union (EAU). We would like to consider this issue from the perspective of solving the problems of central banks' activities, including the European Central Bank (ECB), the Central Bank of Russia (CBR), and the NBU.

The main purpose of any central bank is to maintain stability (stable purchasing power) of the money emitted by it. To achieve this purpose, there exists a proven monetary mechanism – a targeting process that allows predicting, controlling the dynamics and regulation of a target index, selected and formalized in legislation.

At present, the world knows several modes of money-and-credit arrangements, which can be classified into internal – monetary targeting, exchange-rate targeting, inflation targeting, and external ones – dollarization of economy, currency-board regime, and exchange rate pegging to one currency (or even to a currency basket). A specific feature of external targeting modes is granting a central bank of another state or a supranational body (e.g. the International Monetary Fund (IMF)) the right to set monetary targets and take action to attain them.

Inflation may be caused by both emission and non-emission factors. The emission factors comprise emission of cash (by a central bank), and bank

TRANSFORMATION OF CENTRAL BANKS ACTIVITY AS A FACTOR IN ADDRESSING INTEGRATION ISSUES

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The paper investigates the current activity issues of the National Bank of Ukraine, Central Bank of Russia, and European Central Bank. Under present-day conditions, central banks exert profound influence on the integration processes between states, being able either to accelerate or impede them. The introduction by the Central banks of Ukraine and the Russian Federation of the currency-board regime has proved to result in the loss of economic sovereignty by these states for the benefit of economically developed countries of the West. This slows down considerably the potential integration so long wished for by the Ukrainian and Russian peoples.

Key words: central bank, government, emission, monetary base, international reserves, exchange rate, currency board, socio- economic development, integration of states.

Changes in money supply and its growth rates influence important economic indices, which affects achievement of the main goals of the national economy development. High occupational level, price stability, socio-economic growth, balance-of-payments equilibrium – all these indices are related, directly or indirectly, to the variation in aggregate money supply and money supply increase rate. Thus, the optimal money supply and its growth rates are regarded as the indices which contribute to achievement of these goals. Striving to reduce inflation, the National Bank of Ukraine (NBU) underrates the targeted level of money supply increment, understating its value by one-third or by half relative to the actual demand for money. This system error causes Ukrainian economy's under-monetization, which leads to a factitious restraint of investment activity and a slowdown of Ukraine's socio-economic growth. Lack of money in the economy can trigger a new round of economic recession. Money can only be earned in sectors where it is available. And only then human, commodity and raw material flows are directed there.

In his annual address to VerkhovnaRada (Parliament of Ukraine) in 2012, President Yanukovich stressed that in order to stabilize the monetary-credit sphere a structural improvement of the emission mechanism is needed,