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# TYPES AND INSTRUMENTS OF MONETARY POLICY

There are two types of monetary policy, depending on the nature of the impact on the main macroeconomic variables such as stimulating and deterrent.

Deterrent monetary policy or the policy of "expensive money" is a policy aimed at limiting the growth of prices in the national economy.

The Central Bank uses this policy for sale of government securities on the open market, to increase reserve requirements, and support the discount rate. These criteria reduce the reserves of commercial banks and therefore the money supply, so aggregate expenditures, which hinder the pace of pricegrowth. In this policy the supply curve of money is vertical.

Stimulating monetary policy or the policy of "cheap money" is a policy that is aimed at increasing employment and reducing economic growth.

To increase total expenditures, the Central Bank must increase the money supply in order to attract other resources. This can be achieved by buying securities on the open market and reducing interest rates [1, p. 388].

The main instruments of monetary policy are:

1. The change in the level of obligatory Bank reserves – a higher level of obligatory reserves means that the money will be "frozen" on the accounts of the Central Bank. The money can't be used by commercial banks to provide loans to individuals and legal entities. The demand for credit will remain constant. The reduction in supply will lead to higher interest rates. Credit becomes more expensive. Entrepreneurs will borrow less, and in this case they will be forced to cut production.This can cause unemployment and reduce economic growth. If you reduce the reserve requirements, the lending capacity of commercial banks the supply of loans, reduce interest rates will increase making the loan much more affordable. The increase of reserve requirements should take place when the pace of economic growth slows down to avoid overproduction.

2. The change in interest rates - is the interest rate at which the Central Bank provides loans to commercial banks. When a Central Bank resorts to changes in official interest rates, it significantly affects the potential of commercial banks and their customers relative to credit. Also it affects economic growth, money supply

and equilibrium interest rate. You should increase the rate of the discount rate when the economy is in rapid development, and reduce in times of crisis and depression.

3. Operations on the open market are the sale of the Central Bank of government bonds and other securities. If the Central Bank sells securities on the open market, commercial banks will purchase these securities, and as a result will give money to the Central Bank. Credit resources of commercial banks are reduced, which leads to a reduction of the money supply in circulation. If Central Bank buys securities from commercial banks, then it provides them with additional resources, expanding the possibilities of granting loans [2, p. 215].

So, there are two types of monetary policy, such as stimulating and deterrent.

Deterrent monetary policy or the policy of "expensive money" is a policy aimed at limiting the growth of prices in the national economy.

Stimulating monetary policy or the policy of "cheap money" is a policy that is aimed at increasing employment and reducing economic growth.

We also discussed the main instruments of monetary policy: the change in the level of obligatory Bank reserves, the change in interest rates and operations on the open market.

## LITERATURE

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