

## Interest Rate Channel

In developed market economies, the interest rate channel represents the most significant channel of the monetary policy transmission mechanism. **In our country, its significance is still limited. It operates in the following manner:**

- Changes in central bank's interest rates result in changes in short-term interest rates in the money market and financial market;
- In the context of inflationary expectations, nominal short-term interest rate affects the *real* short-term interest rate;
- Current and expected real short-term interest rates affect *longer-term* real interest rates;
- Longer-term real interest rates affect spending volume and structure, and in particular economic entities' willingness to save and invest.

The above monetary policy transmission channel can be illustrated as follows:

