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## **FEATURES OF REGULATION OF THE FOREIGN CURRENCY MARKET OF UKRAINE IN THE PERIOD OF FINANCIAL CRISIS**

Integration of Ukraine into the European community requires the reform of the approaches to the regulation of the currency market, the search for effective mechanisms and instruments for its implementation. For choosing an effective mechanism of currency regulation, it is necessary firstly to analyze all the “advantages” and “disadvantages” of currency regulation in times of crisis. Further development of currency regulation in Ukraine can be based on it. This made the choice of the topic of research and its relevance.

In modern economic literature, the problems of monetary policy and currency regulation are the subject of active scientific research by such renowned scientists as: O. Bereslavskaya, Y. Belinskaya, V. Heyets, V. Kozyuk, V. Kostyuchenko, S. Moiseev, etc. However, in existing studies, analyze of features of currency regulation in Ukraine during the financial crisis were not considered well. They are required the generalization and development of existing theoretical and practical approaches to currency regulation.

Currency regulation plays a significant role in implementation of the state strategic goals of development of the national economy, and also provides the behavior of participants in the currency market and the order of foreign exchange operations. There are contradictory interpretations regarding the definition of the concept of “currency regulation” among domestic and foreign scholars. Decree of the Cabinet of Ministers of Ukraine “About the System of Currency Regulation and Currency Control” of 19.02.93 No. 15–93 misses definition of this concept. We can note that currency regulation is one of the forms of state influence on subjects of foreign exchange relations with the purpose of realization of corresponding goals of the economic policy of the state, which is ensured by the proper currency legislation. Therefore, currency regulation can be considered as a certain process, which includes a set of targeted state measures to stabilize or change the existing foreign exchange relations.

The choice of methods and forms of currency regulation depends not only on the level of development of the country, but also on the existing internal economic problems. If the currency is weak and non-convertible or has a partial convertibility and does not participate in servicing foreign-economic operations in international markets, for the most part, direct impact instruments are used. An example is different types of restrictions. If the currency performs most of the functions of money in international trade (international currency), it regulates the instruments of indirect influence with the advantage of using interest rate changes [1, p. 173].

The analysis of the impact of currency regulation measures will be carried out in the following areas: regulation of the exchange rate regime, devaluation and currency revaluation, diversification of foreign exchange reserves, administrative measures for currency regulation.

The regulation of the foreign exchange market in Ukraine shows that the National Bank of Ukraine (NBU) has changed exchange rate regime several times. To analyze the features of currency regulation, we will use the data for the period of three currency and financial crises: 1998–99, 2008–09 and 2014–15. In 1998, Ukraine set the regime of a managed “floating” currency course, so “currency corridor” was defined. The use of the floating exchange rate regime allowed the National Bank of Ukraine to respond flexibly to the dynamics of the current account of the balance of payments and the related changes in currency supply on the domestic market.

In the crisis period of 2008, the NBU adhered to the policy of a fixed exchange rate, and then, according to the requirements of the IMF, the transition to a flexible exchange rate policy was approved. This was a compulsory step, as the country did not have enough resources and opportunities to implement the fixed-exchange rate hryvnia regime. However, the flexible course was applied only documentally, and in fact the fixed-rate regime was used. A fixed exchange rate regime existed till the beginning of 2015. New regime was applied because of significant deficit of the current calculation of the country’s balance of payments, a decrease in foreign exchange reserves and IMF requirements for reforming the economy.

The currency and financial crises have become a permanent challenge for the stability of the national currency. The depreciation of the hryvnia during the crisis of 1998 and 2008 was mainly due to the influence of investments. The local monetary and financial crisis in 2014 was accompanied by the influence of capital caused by the counterterrorist operation and the currency deficit in the domestic market, in particular, due to the reduction of foreign exchange earnings from exports and the decrease of NBU foreign exchange reserves [2, p. 44–45].

It can be noted that the current monetary regime, based on the fixed exchange rate, and the mechanism of currency regulation are not able to protect the national currency from depreciation in the context of crisis deployment. Since 2015, the NBU has changed the monetary regime by switching to inflation targeting and flexible exchange rates.

The evaluation of the effectiveness of currency regulation tools by comparing the indicators of the declared NBU with their actual values is given in Table.

**Effectiveness of currency regulation tools**

Indicators	1-st crisis		2-nd crisis		3-rd crisis	
	1998	1999	2008	2009	2014	2015
Planned indicators, determined by the state						
The official exchange rate of Hryvnia to US dollar	1,8–2,25	3,3–3,6	4,95–5,25	4,61–5,09	8,1	21,7
Actual indicators						
The official exchange rate of Hryvnia to US dollar	2,6	4,32	5,27	7,79	11,62	21,84
Deviation from the set level, %	+ 15,5	+ 20	+0,3	+ 53	+ 43,5	+ 0,6

Source: created by the author

Indicators show that the actual exchange rate was outside the limits of the new values. During October-December 2008, the hryvnia against the US dollar devalued by 58,4%, however, the appreciation of the national currency during the first three quarters levels the devaluation of the fourth quarter. According to the results of 2009, the deviation of the actual average annual value from the upper boundary of the planned corridor was 53% [3, p. 142]. In 2014 we see a similar situation, the deviation of the actual average annual value from the upper boundary of the planned corridor was 43,5%.

The Ukrainian national currency does not react to the dynamics of the central bank's discount rate, especially in the face of the financial crisis. The low efficiency of interest rate policy in Ukraine is explained by the partial convertibility of the national currency, the backwardness of the developed currency and the stock market.

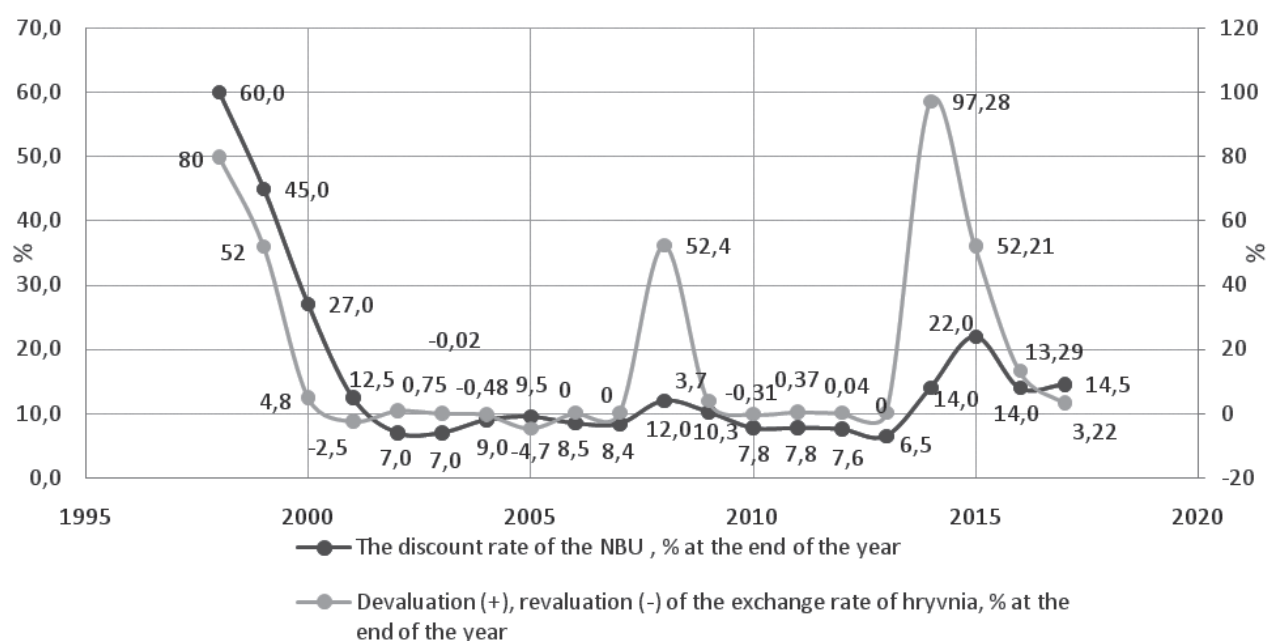


Fig. 1. The dynamics of the discount rate of the NBU and exchange rate of the hryvnia in 1998–2017 [4]

Source: created by the author

Fig. 1 shows that there is no direct link between interest rate changes and the dynamics of the hryvnia exchange rate. Therefore, to support the necessary exchange rate dynamics, the NBU used other instruments.

Diversification of foreign exchange reserves is a tool of currency policy of NBU and used as protection against currency risk of official reserves of the state. These reserves are required for international settlements and foreign exchange interventions. Thus, this instrument plays a passive role, and is mainly used as an auxiliary instrument that provides the effectiveness of other instruments of currency regulation (primarily currency interventions).

From Fig. 2, we can see that in 1999 and 2014, foreign exchange reserves were significantly lower, so the NBU could not keep the hryvnia exchange rate by conducting foreign exchange interventions. In 2008–2009 the stock of reserves was sufficient for currency interventions, so we can observe the stability of the exchange rate after the crisis.

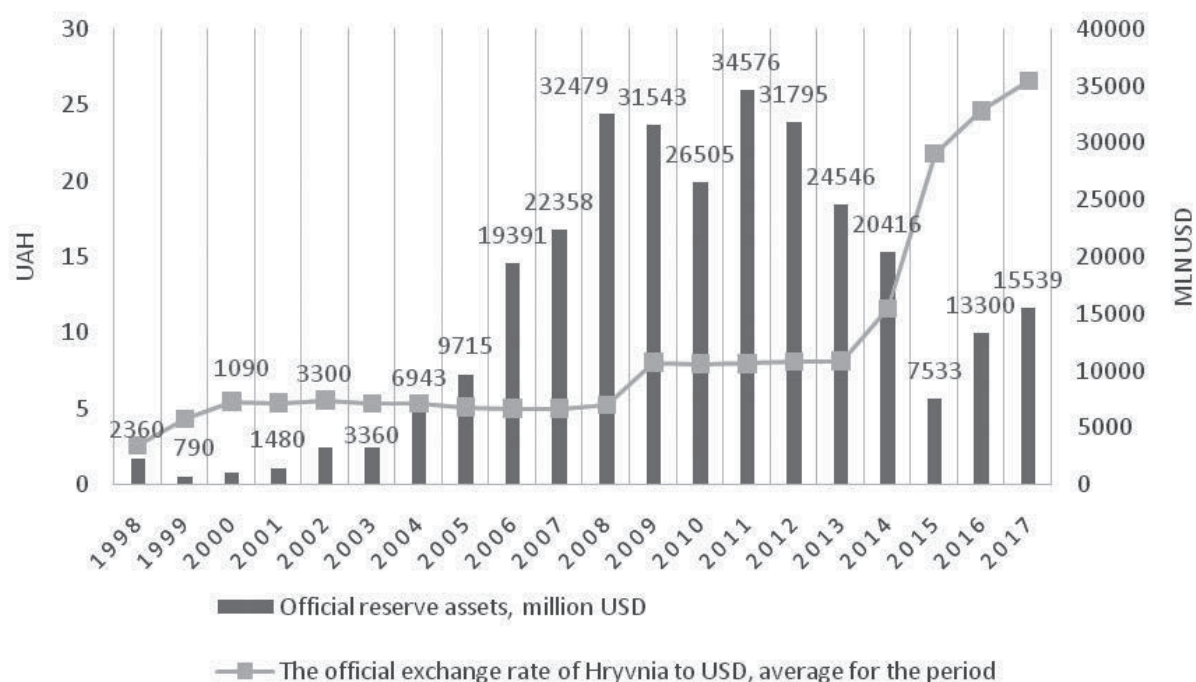


Fig. 2. The dynamics of change in foreign exchange reserves and exchange rates during 1998–2017

Source: created by the author

The structure of official reserves can be considered in terms of their currency structure. At the beginning of 2008, the bulk of the reserves consisted of assets denominated in US dollars (about 64 %), the part of assets in euro was about 27 %, while other currencies (British pound sterling, Swiss franc) accounted for about 9 % [5, p. 49]. The NBU responded adequately to changes in the rates of freely convertible currencies and risks of certain financial assets, ensuring the preservation and growth of gold and foreign currency reserves.

The current monetary regime requires the liberalization of the currency regulation mechanism, which involves the gradual replacement of instruments of administrative restrictions with economic instruments that are market-oriented, more flexible and liberal.

Ukraine's macroeconomic stability requires a managed currency floating, which will respond adequately to changes in the trade balance and the free movement of capital. The gradual abolition of currency restrictions should be accompanied by measures aimed at simplifying the flow of capital, which will mitigate the consequences of its rapid "escape" during local, regional and world monetary and financial crises. Among the economic instruments, NBU interventions in the interbank foreign exchange market of Ukraine are most effective. Under stable economic conditions, this tool provides smoothing of the volatility of exchange rates. However, in times of crisis, the effectiveness of this instrument is limited to the amount of official reserves of the NBU, which can be used for foreign exchange interventions.

Currently, the National Bank of Ukraine faces the task of increasing international reserves, as their growth suggests the recovery of the economy and the emergence of positive developments in it. At the same time, it is necessary to focus on the qualitative and progressive structure of foreign exchange reserves, in which the value of its individual elements does not decrease, but is constantly increasing.

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