

# FINANCE AND MONEY TURNOVER

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## THE STATE OF THE FOREIGN EXCHANGE MARKET AND THE NBU'S FOREIGN EXCHANGE POLICY DURING THE WAR IN UKRAINE

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ORCID: 0000-0002-5710-9416***Key words:**foreign exchange market,  
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Continuous monitoring of the functional structure of the foreign exchange market, especially during hostilities, is very important because of its significant impact on economic processes taking place in Ukraine. The article considers the current state of the foreign exchange market and the effectiveness of monetary policy in Ukraine during the war. Today, there is uncertainty about the macroeconomic situation regarding the fluctuations of the hryvnia against major world currencies. Due to such conditions, control over the stability of the hryvnia exchange rate in the foreign exchange market of Ukraine becomes relevant. In addition, consideration of the degree of influence of gold and foreign exchange reserves, public debt, exports and imports, foreign direct investment in and out of Ukraine, as well as gross external debt will determine their contribution to the exchange rate. Therefore, the state of the foreign exchange market is an indicator that most accurately shows the presence of problems in the economy. The war changed the situation of many processes that take place in the foreign exchange market or affect its state. Therefore, monetary policy now plays an important role in creating a stable situation in the foreign exchange market of Ukraine. Rebuilding a full-fledged foreign exchange market in Ukraine and its effective monetary policy is a necessary condition for the further formation of an open market economy with all the necessary means to stimulate the work of economic entities in the foreign economic sphere.

## СТАН ВАЛЮТНОГО РИНКУ ТА ВАЛЮТНА ПОЛІТИКА НБУ ПІД ЧАС ВІЙНИ В УКРАЇНІ

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валютна політика,  
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курс національної валюти

Постійний моніторинг функціональної структури валютного ринку, особливо, під час воєнних дій має дуже важливе значення через його вагомий вплив на економічні процеси, які відбуваються в Україні. У статті розглянуто сучасний стан валютного ринку та ефективність проведення валютної політики в Україні під час війни. Сьогодні існує невизначеність макроекономічної ситуації щодо коливання курсу гривні стосовно основних світових валют. Через такі умови актуальності набуває контроль стійкості рівня курсу гривні на валютному ринку України. Окрім того, розгляд становлення ступеня впливу золотовалютних резервів, державного боргу, експорту й імпорту, прямих іноземних інвестицій, що спрямовуються як в Україну, так і з неї, а також валового зовнішнього боргу дасть змогу визначити їх внесок у формування валютного курсу. Тож, стан валютного ринку є показником, який найточніше показує наявність проблем в економіці. Війна змінила становище багатьох процесів, які відбуваються на валютному ринку або впливають на його стан. Тому зараз валютна політика відіграє важливу роль у формуванні стабільної ситуації на валютному ринку України. Відбудова повноцінного валютного ринку в Україні та його ефективна валютна політика – це необхідна умова для формування в подальшому відкритої ринкової економіки з усіма необхідними засобами стимулювання роботи господарюючих суб'єктів у зовнішньоекономічній сфері.

### Formulation of the problem

The beginning of 2022 is connected with the global sale of Ukrainian government bonds on foreign markets, the outflow of portfolio investments and the devaluation of the hryvnia.

According to the NBU, since the beginning of 2022, non-residents have reduced their IGLBs portfolio. In addition, the hryvnia received from the sale of securities was used to buy foreign currency, which led to increased demand in the foreign exchange market. In addition, the situation in the foreign exchange market was influenced by such factors as: high costs for the purchase of imported goods (gas, oil, cars). At the same time, Ukrainian exporters decided to keep foreign exchange earnings until the exchange rate reached UAH 28 per dollar.

Since the beginning of the war, the NBU and the Government of Ukraine have adopted a correct and timely monetary policy to limit foreign exchange transactions in the foreign exchange market, ie fixed the hryvnia exchange rate, introduced a list of critical imports, transferred a significant amount of foreign exchange to the National Bank. the parameters of the National Bank's operations with government securities were agreed upon.

Therefore, it can be concluded that the same financial policy was typical for the period after the Second World War in the United States, Great Britain and other countries. With its further effective implementation, Ukraine will be able to significantly reduce the debt burden without significant damage to the economy.

### Analysis of recent research and publications

Monetary policy and the state of the foreign exchange market have been the subject of research by such domestic scholars as: N.E. Bodrova, R.V. Lavrov, L.M. Crossroads, V.Ya. Rudan, I.V. Himich, M.M. King, I.V. Sadichkova and many others.

### Formulation of goals

The purpose of the article is to analyze the state of the foreign exchange market, the processes directly related to it, the NBU's policy on regulating the national unit in relation to foreign currency in accordance with the impact of Russian aggression on Ukraine's economy. Also in the article certain other purposes are formed:

- to find the natural impact of the military conflict on the main economic processes occurring in the foreign exchange market or directly related to it;
- to find the relationship between the implemented measures of the NBU on currency regulation and the economic consequences in the foreign exchange market at present;
- try to form a possible forecast for the development of economic phenomena in the future.

### Presentation of the main material of the research

Today, the question of the stability and efficiency of the foreign exchange market is becoming more acute. Ukraine's financial and economic development has a number of problems that need to be addressed in order

to function properly and establish close ties with foreign countries. By constantly conducting research on the foreign exchange market, timely changing approaches to exchange rate regulation, analyzing the impact of specific factors on the economic situation, you can stabilize the level of national currency and succeed.

According to the «Financial and Economic Dictionary», the foreign exchange market is a market that serves domestic and international payment turnover by exchanging one currency for another in the form of purchase and sale [1]. The foreign exchange market of Ukraine carries out transactions for the purchase and sale of non-cash and cash foreign currency, as well as bank metals. Participants in the foreign exchange market of Ukraine are banks and non-banking institutions, bank customers, as well as the National Bank. The regulator conducts operations in the foreign exchange market in order to smooth out excessive fluctuations and the accumulation of international reserves. The National Bank calculates the official exchange rate of hryvnia to foreign currencies and the exchange rate of bank metals [2].

Characteristic of the modern foreign exchange market is the presence of a wide range of regulatory institutions, which include: relevant government agencies; the system of international financial organizations, groups and agreements operating on an interstate basis, as well as the system of insurance against currency risk. However, in modern conditions the role of the state in currency regulation is growing, but state regulation should not imitate market self-regulators. It only needs to be adjusted and supplemented accordingly in their functioning [3].

In 2021, the supply and demand of foreign currency in the interbank market were almost balanced. The rapid improvement in external price conditions for Ukrainian exporters was offset by a dynamic increase in imports and the outflow of capital from non-residents with IGLBs. The latter was due to the deterioration of global financial conditions for developing countries, weak economic recovery in Ukraine, exacerbation of military and political threats.

During 2021, the National Bank's net purchase of foreign currency amounted to \$2.4 billion. USA. Then it allowed to increase international reserves to 31 billion dollars. US and slow down the growth of consumer prices in terms of imports of inflation. The volume of foreign exchange reserves at the end of 2020 was about 4 months of future imports with the criterion of minimum adequacy of international reserves of at least 3 months of future imports.

However, since the end of 2021, the market situation has changed significantly. Due to the threat of military invasion by Russia, the mood of market participants began to deteriorate rapidly. And already in January 2022, the portfolio of IGLBs owned by non-residents decreased by UAH 11 billion. During the same month, large exporters delayed the sale of foreign exchange earnings.

At the beginning of 2022, the daily sales of IGLBs by non-residents on the secondary market amounted to UAH 500–900 million (equivalent to USD20–30 million). The interest rate on the yield of individual IGLBs issues

on the secondary market in January 2022 reached 15% per annum (at the rates of initial IGLBs placement 12–13% per annum). From the beginning of 2022, the balance of IGLBs owned by non-residents decreased by 13% (or USD430 million) [4].

In order to avoid the negative impact of excessive exchange rate volatility and unexpected events in the foreign exchange market on the price and financial stability of the NBU since the beginning of 2021 sold \$1.5 billion. USA. and ended the positive balance of foreign exchange interventions in the amount of 2.4 billion dollars. USA. As a result, it allowed to increase international reserves to \$31 billion. USA. Such processes contributed to the strengthening of the hryvnia, which was observed for most of 2020 [2].

To balance the foreign exchange market, the NBU has sold 1.5 since the beginning of 2022 billion dollars USA (Fig. 1).

One of the important steps to improve the situation on the interbank market than, in addition to consistent implementation of the Strategy, is to maintain consistency in communications. For example, according to the Foreign Exchange Intervention Strategy, the National Bank must publish general information on foreign exchange interventions in public statements of authorized persons and press releases.

In 2020, approximately 3 separate communications were made on economic processes in the foreign exchange market, then in January 2022 there were no notifications on the situation in the foreign exchange market. Such a communication policy may not be perceived by market participants as a sequence in the implementation of communications and may have an appropriate impact on the behavior of market participants and trust in the regulator.

External shocks in the short term remained more or less stable. Starting from September 2019, the coverage of future imports remained at the level of more than four

months, compared to 2018, the coverage of short-term debt increased 1.5 times to 60%. A very horrible picture emerges when comparing Ukraine’s foreign debt with gold and foreign exchange reserves. External public debt as of March 31, 2022, it was compensated by only 47.5% (Fig. 2) [5].

Negative trends in the foreign exchange market are also caused by low investment attractiveness. The main consequence of this is that capital is not invested in the expansion of production or related industries. This is especially noticeable in the trend of rapid growth of the effective rate of property income derived by foreign investors from Ukraine. Thus, income from direct investment withdrawn from Ukraine in 2017 amounted to 4.3% of the average annual volume of foreign capital in Ukraine, in 2018–2020–7.1%, and in 2021–18.5% [4].

In 2019, the volume of foreign direct investment increased by 715 million dollars. USA. The following year, many investment projects became unprofitable, as a result of which many foreign investors lost their funds and began to withdraw investments from Ukraine. However, the coronavirus pandemic has given some projects a chance to express themselves and benefit users around the world. According to the source mind.ua, Ukrainian startups, especially IT projects, only in 2020 managed to attract investments worth 130 million dollars. – 28 public agreements were signed. As well as 14 infusions, the amount of investment for which is not disclosed [6].

In 2020, there is a trend of outflow of funds from Ukraine. In terms of investment attractiveness, Ukraine (58th place), but in 2019 our country was significantly behind the Czech Republic (25), Estonia (27), Lithuania (31), Poland (32). Ahead of us were Hungary (30), Romania (35), Russia (37) and Kazakhstan (52). In the Global Foreign Direct Investment Country Attractiveness Index, our country was between Oman (57) and Uruguay (59).

Foreign investment inflows to Ukraine remain low. In 2021, they do not play a significant role in stimulating

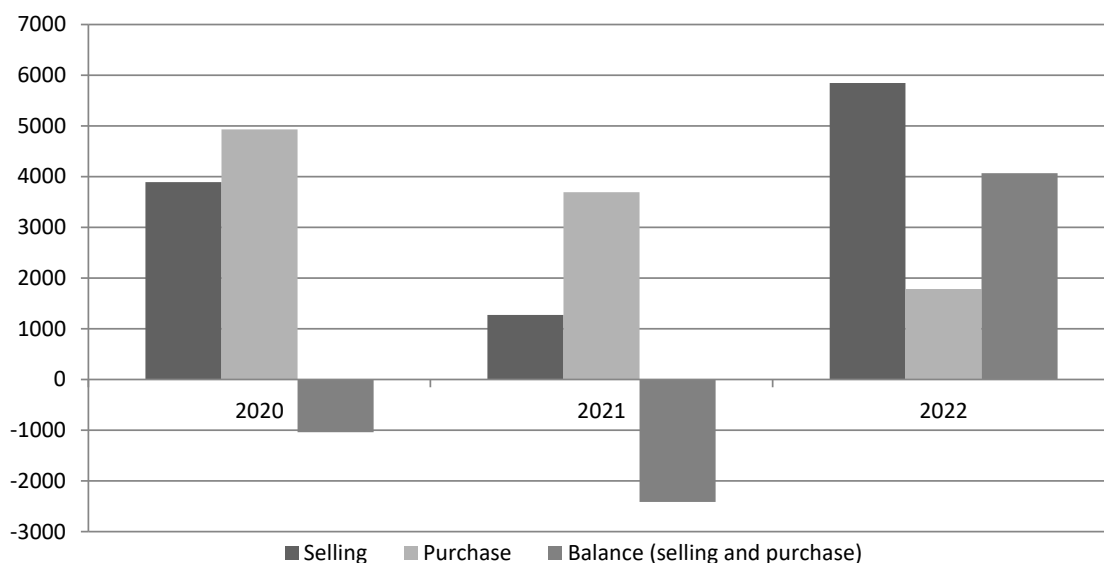


Fig. 1 – Foreign exchange interventions of the NBU, billion dollars USA

Source: [5]

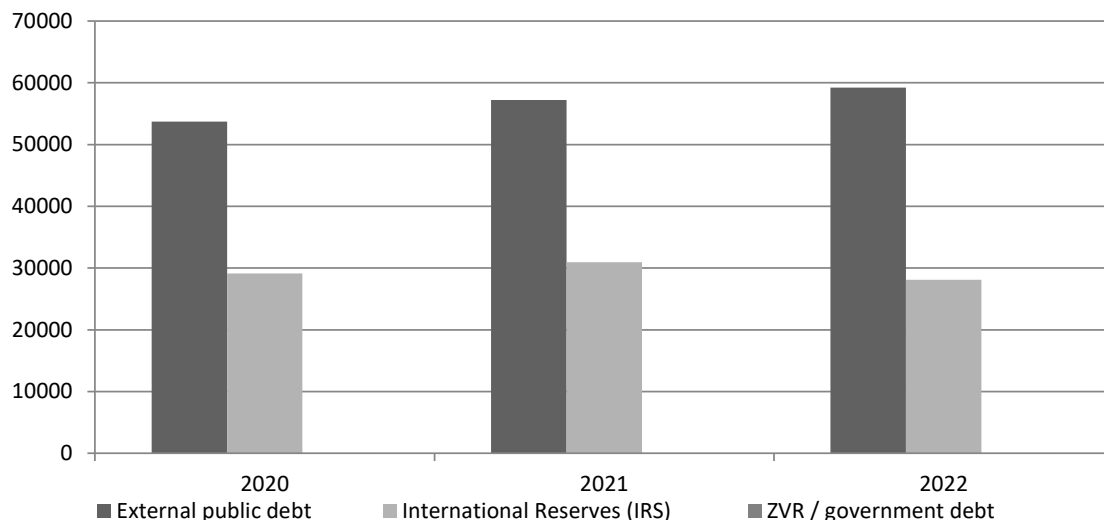


Fig. 2 – Dynamics of External Public Debt and Gold and Foreign Exchange Reserves (ZVR) of Ukraine 2020–2022 (million USD)

Source: [5]

economic activity and in shaping the supply of foreign currency in the market. In the nine months since the beginning of 2021, the payment of income from direct investment to non-residents amounted to almost \$11 billion, of which \$5.2 billion – dividends paid, \$5.2 billion – reinvested earnings, \$0.6 billion – interest payments in favor of foreign direct investment investors (Table 1).

For the first quarter of 2022, the net inflow of foreign direct investment is estimated at 10 million dollars. USA. During the same period last year, the net inflow amounted to 1.5 billion dollars. US (including reinvestment of income – 1.8 billion US dollars). The net inflow of share capital (excluding reinvestment of income) amounted to 139 million dollars. US (in January – March 2021 – 237 million US dollars). Net repayments on debt instruments amounted to 710 million dollars. US dollars, while for three months last year – 308 million dollars. USA.

Thus, the downward trend in foreign direct investment flows in Ukraine was influenced by unresolved factors such as distrust of the judiciary, high levels of corruption, exchange rate volatility, market monopolization, and the war in Ukraine.

Regarding the exchange rate of hryvnia to foreign currencies, in December-November 2021 the euro was fixed at UAH 30 per unit. In the winter of 2022, the euro exchange rate begins to rise and is in the range of 31–32 UAH per unit. At the end of February and until the end of March, the euro exchange rate is fixed at UAH 33. per unit. And in early April, the euro fell by 31 UAH by unit. As of April 13, the euro costs UAH 31. per unit (Fig. 3).

Therefore, analyzing the level of the euro, we can conclude that from the period to 2021–2022 there were fluctuations in the euro, first there was its growth, and in April there is a decline in foreign currency and strengthening of the national currency of Ukraine.

At the end of 2021, the US dollar was at UAH 27 for \$1. At the beginning of 2022, the dollar exchange rate rose to UAH 28 per unit. During February to March, the dollar consolidated at UAH 27–28.

In the spring of March-April there was an increase of UAH 29 per dollar. As of April 13, the dollar exchange rate remains at UAH 29 for a dollar. Therefore, for the period 2021–2022 there is an increase in the value of the dollar against the national currency, which indicates a precarious position of the national currency against foreign currency (Fig. 4).

During hostilities, the NBU pursues a monetary policy to stabilize the supply and demand of foreign currency and the process of devaluation of the hryvnia. First, from March 13, 2022, the National Bank of Ukraine returned the restrictions on the export of cash in foreign currency [7]. Now, in order to transport cash in foreign currency equivalent to more than 10 thousand euros, citizens need to provide appropriate supporting documents, namely: certificate of withdrawal of cash from their own (personal) accounts, currency exchange receipt, certificate of purchase of bank metals. Secondly, Ukrainians must declare currency values worth more than the equivalent of 10,000 euros when crossing the state border of Ukraine. Third, from April 30, banks will suspend the issuance of new savings certificates

Table 1 – Foreign direct investment in Ukraine 2019–2021 (million USD)\*

Years	FDI in Ukraine	FDI from Ukraine	Balance
2019	5860	648	+5212
2020	-868	82	-950
2021	6549	-198	+6747

\* since 2014 - excluding the occupied territories (Crimea, Sevastopol, parts of Donbass)

Source: [5]

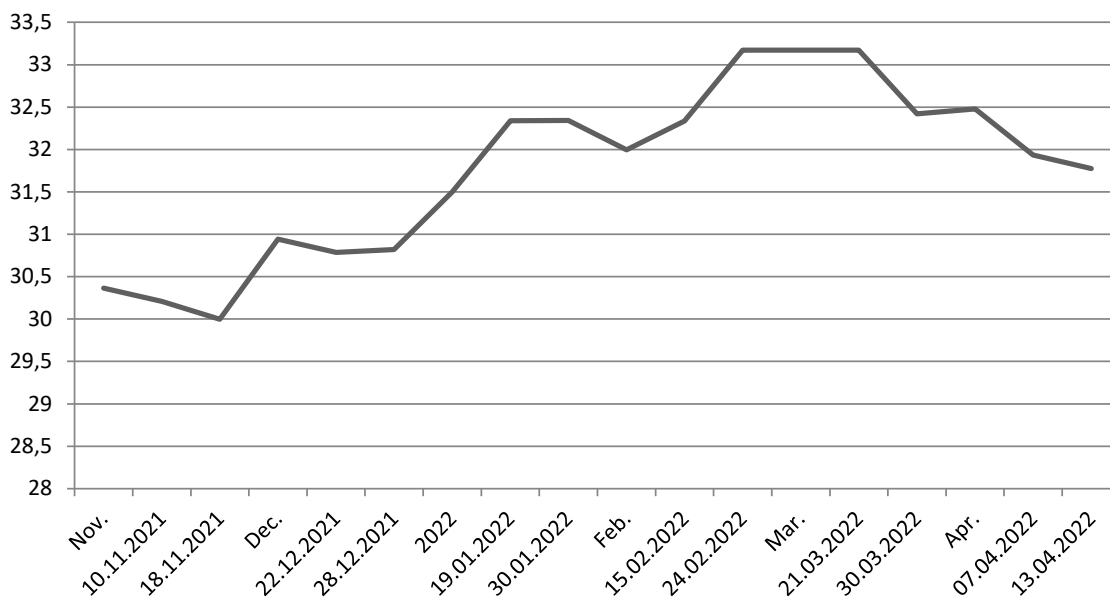


Fig. 3 – Official exchange rate of hryvnia against the euro 2021–2022

Source: [2]

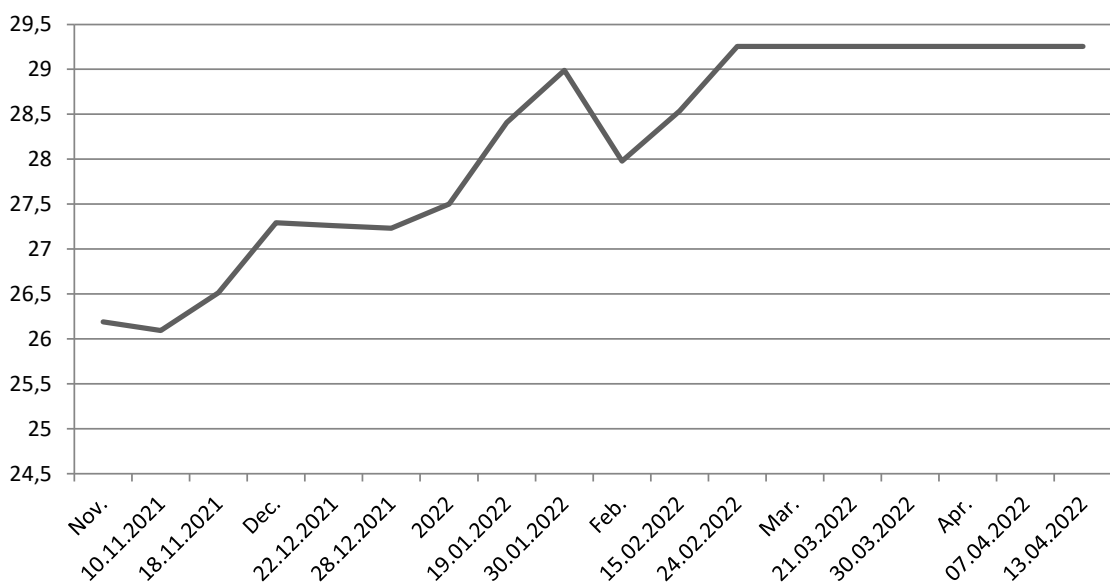


Fig. 4 – The official exchange rate of the hryvnia against the US dollar 2021–2022

Source: [2]

denominated in foreign currency [8]. Fourth, the hryvnia exchange rate against foreign currency should not exceed by more than 10% the official exchange rate of the National Bank (effective on the day of the bank’s transaction) in case of debiting hryvnia funds from the client’s account, if the interbank transfer currency. Fifth, the exchange rate of hryvnia to foreign currency must be equal to or higher than the official exchange rate of the National Bank (effective on the day of the bank’s transaction): in the case of debiting foreign currency funds, if the interbank transfer of such transactions in hryvnia; in the case of crediting funds to the client’s account in the national currency, if the interbank transfer for such an operation is made in foreign currency. Sixth, from May 4, banks will start reducing the limits of

open long and short currency positions from 15% to 5% of their regulatory capital.

It is difficult to predict the future situation in the foreign exchange market of Ukraine, especially in wartime. However, Volodymyr Lepushynskyi, director of the NBU’s Department of Monetary Policy and Economic Analysis, predicted the following: «Given the prospects for a fairly rapid integration into the EU and the peculiarities of the monetary policy of the NBU, Ukraine is likely to expect a scenario that was passed by our neighbors – Poland and the Czech Republic» [9]. In particular, he noted that monetary policy in the foreign exchange market will focus on buying foreign currency, which will come to the economy from external sources (reparations / recovery



funds) to replenish international reserves and avoid shocks of sharp revaluation, which will support domestic producers. At the same time, a moderate revaluation under conditions of currency supply dominance can become a significant disinflationary factor.

Therefore, it can be concluded that the state of the foreign exchange market is difficult, but the National Bank of Ukraine is doing everything possible to stabilize the situation by fixing the hryvnia exchange rate and imposing restrictive measures on the currency.

### Conclusions from the study

The amount of international financial support already provided to Ukraine reduces the risks of significant and

prolonged devaluation of the national currency. Certainly difficult economic conditions, broken supply chains, the risk of a significant reduction in yields and other negative factors will not allow Ukraine to completely avoid negative economic processes in the foreign exchange market. When the conflict-induced economic situation stabilizes, currency restrictions will be gradually lifted and the NBU will return to market exchange rates. Given the current circumstances (a sharp widening of the foreign trade deficit due to falling exports, falling GDP), the hryvnia is gradually devaluing, but despite the economic difficulties caused by Russia's aggression, Ukraine will overcome them and begin rebuilding its economy in the future.

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