

# TENDENCES ON THE GLOBAL FOREIGN EXCHANGE MARKET AND FISCAL-CURRENCY POLICY IN UKRAINE

**SNIHUR O., the 1st year FFA SUTE,  
specialty «Finance, banking and insurance»,  
educational program «Financial intermediation»**

*Метою статті є дослідження регулювання валютного ринку. Для початку ми вивчили основні методи та механізми валютного регулювання, які використовуються в різних країнах. Також ми дослідили світовий валютний ринок та визначили його основні тенденції. Далі ми проаналізували ситуацію на українському валютному ринку та його регулювання в умовах війни. В результаті ми визначили основні проблеми та окреслили загальні перспективи розвитку валютного ринку в Україні.*

*The purpose of the article is to study the regulation of the foreign exchange market. To begin with, we have studied the main methods and mechanisms of currency regulation used in different countries. We also studied the global currency market and identified its main trends. Next, we analyzed the situation on the Ukrainian currency market and its regulation in the context of the war. As a result, we identified the main problems and outlined the general prospects of the foreign exchange market in Ukraine.*

Statement of the problem in general and its connection with the most important scientific or practical tasks. Actuality of theme. The topic of currency regulation in developing countries is of particular interest given the economic situation in the world, as currency regulation is one part of the mechanism of financial stabilization, development of foreign trade and strengthening of the stability of the national currency. Exchange rate fluctuations are one of the threats to the national interests of our country, which is why an effective foreign exchange policy to ensure the stability of the financial and credit sector is a prerequisite for the NBU's main function – «ensuring the stability of the national currency». Today, the NBU's foreign exchange policy is not only an integral part of the NBU's activities, but also an important aspect of its influence on the financial security and stability of the Ukrainian currency. Given such an important role of the banking system in the country's economy and the high level of dependence of the economic and general security of the state as a whole on the state of the banking system, it can be argued that the organization of state regulation and the NBU's monetary policy instruments are becoming extremely important in this area. Therefore, the topic related to the study of the mechanism of currency regulation is relevant for research.

Analysis of recent research and publications. The topic of currency regulation has been studied by many domestic and foreign researchers, namely: O. Akimenko, A. Vertiyko [1], L. Tovkun [2], N. Maslova [3], V. Humeniuk, T. Soloduk [4]. [4], Elliot Smith [9], Jeremy Frankel [10] and many other researchers.

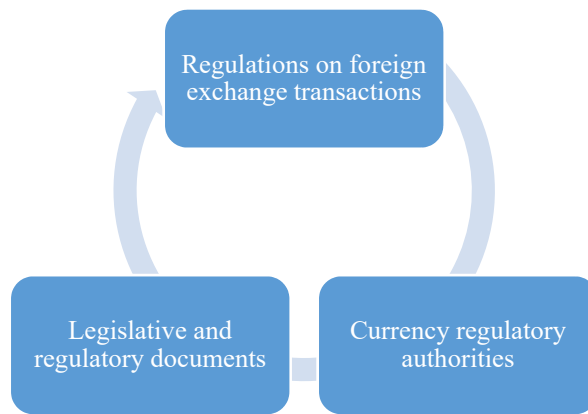
Formation of the article's objectives (statement of the task). The purpose of the study is to investigate the mechanism of currency regulation and its implementation in Ukraine during the war.

The object of the study is the foreign exchange market of Ukraine and global trends in the foreign exchange market..

The subject of the study is the economic relations formed on the foreign exchange market in Ukraine and the global foreign exchange market during the war.

Presentation of the main research material. Currency regulation means a set of forms and methods for organizing cash flows in foreign and national currencies in the course of foreign economic transactions, with the main goal of strengthening the domestic balance of payments, ensuring exchange rate stability and preventing capital outflows.

The main elements of the currency regulation system are shown in Figure 1.

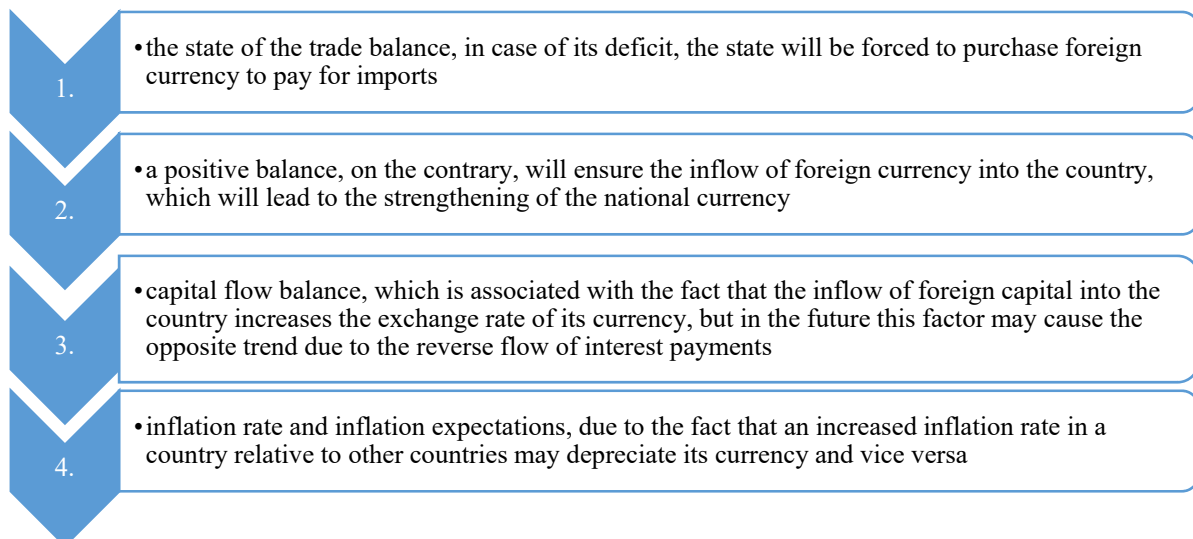


*Fig. 1. Elements of the currency regulation system*

*\*Compiled by the author based on [1]*

Foreign exchange transactions are defined as transactions, contracts between participants in the foreign exchange market for the purchase and sale, lending, and payment of foreign currency on specific terms and conditions and are conducted with reference to currency quotes and exchange rates.

The following parameters should be taken into account when regulating foreign exchange market (Figure 2).



*Fig. 2. Parameters of currency regulation*

*\*Compiled by the author based on [2]*

Next, let's define the main methods of state currency regulation, as shown in Figure 3.



Fig. 3. Methods of currency regulation

\*Compiled by the author based on [3, 4]

Let's start our study of the global foreign exchange market with the structure of its reserves (see Figure 4). Thus, based on the market analysis in Fig. 4, we can see that despite the fact that the share of dollar reserves is not decreasing, there is a possibility that long-term reserve holders will reorient their reserve portfolios away from the US dollar, which currently accounts for about 60% of total reserves, and towards a more diversified basket of currencies. Certainly, the share of the Chinese yuan at 2.7% may increase, especially given that the bulk of foreign exchange reserves are held by Asian countries that have growing economic and political ties with China.

Investors typically link commodity prices to the weakness of the US dollar, but in the short term, the notion of an inverse relationship between the two is questionable. Commodity prices have surged to impressive heights (Figure 5), and the dollar has risen at the same time. Let's analyze the overall dynamics of the consumer price index using the example of the G7 countries over the past year.

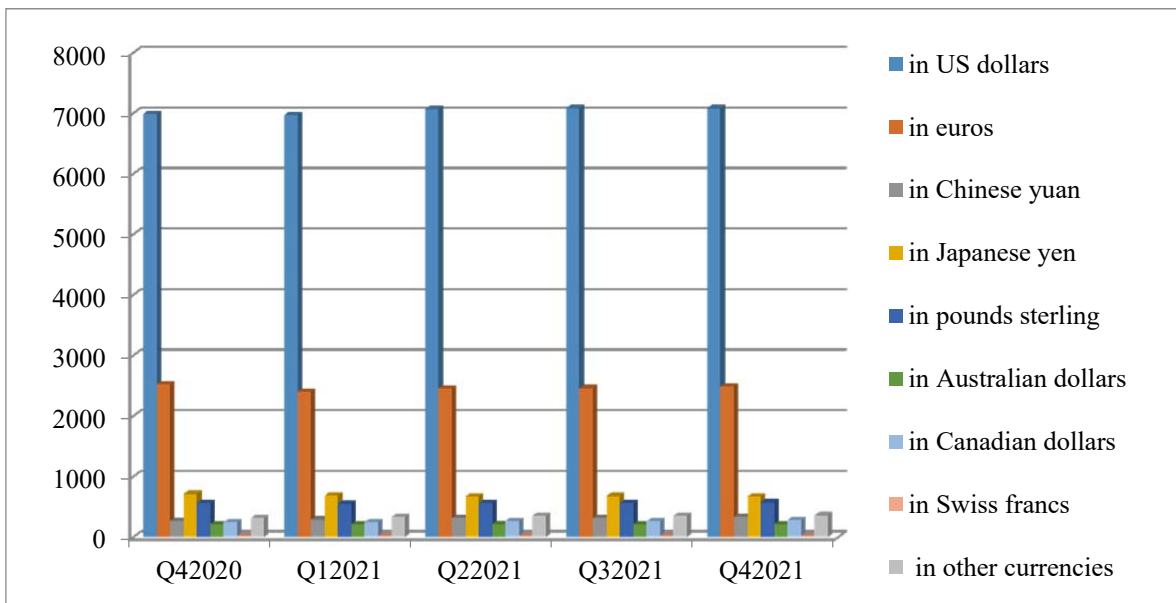


Fig. 4. Analysis of the structure of global foreign exchange reserves as of 2020-2021, USD billion

\*Compiled by the author based on [5].

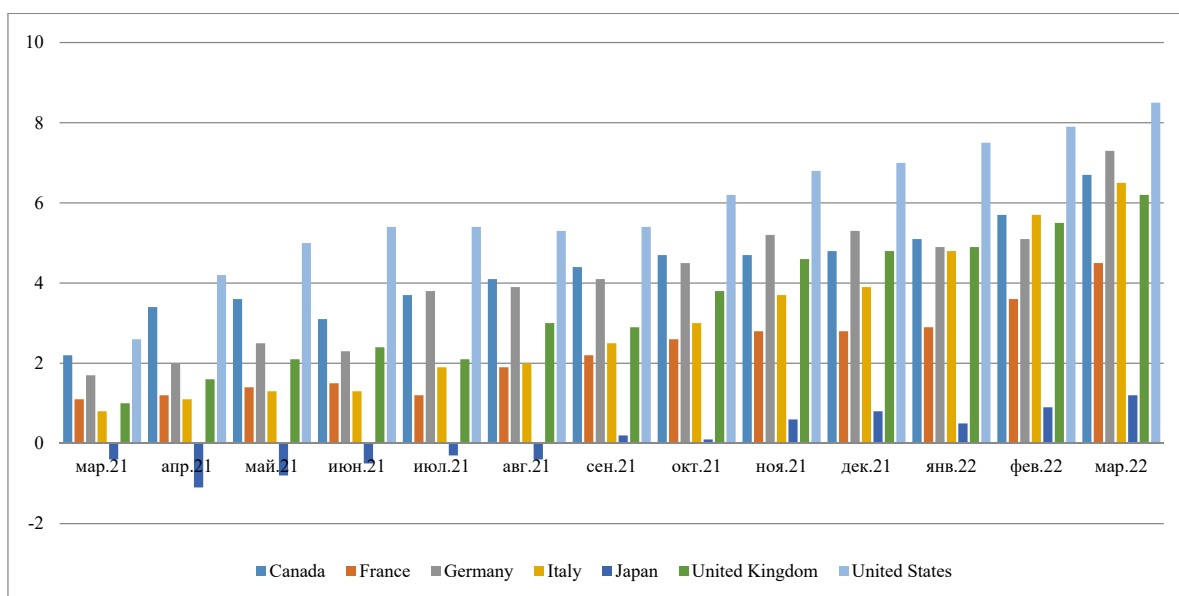


Fig. 5. Dynamics of consumer price indices in the G7 countries in 2021-2022, %  
 \*Compiled by the author based on [6]

As we can see, the price level of all goods in the G7 countries peaked in March 2022 and in most countries amounted to 6-8% by March 2021, with the largest increase in the United States and Germany, these two countries were among the first to help Ukraine and impose tough sanctions on Russia, even at the expense of their economies.

To some extent, this relationship was already in place before the war broke out in Ukraine, partly due to strong demand as the economy recovered from the pandemic and partly due to the shift to clean energy alternatives that rely heavily on certain industrial metals. But just as access to global payment systems may be cut off or foreign exchange reserves frozen, the reaction to Russia's invasion is raising fears of export bans on key industrial and technological inputs for production. China's reluctance to condemn Russia's military invasion threatens to create fault lines and additional tensions with the West, hinting at an accelerated retreat from globalization. To prevent blocking access to key industries, countries will increasingly seek to secure long-term interests in key commodities.

Despite the euro's decline in the spring of 2022 [7], it eventually rose to previous levels. The single currency's growth will be limited by concerns about high energy prices and their impact on economic growth and the trade balance. The combination of a weaker euro and higher crude oil prices pushed oil to record highs (Figure 6), which reduced household disposable income and potentially eroded the currency bloc's large and persistent current account surplus.

So we can see that the price of oil in 2022 reached its record high for the first time since 2008, when it was \$99.67 per barrel, and as of today, the price of oil is about \$70 per barrel. This record-breaking jump was caused by the world's sanctions against Russia and the restriction of oil on the market due to the refusal of most countries to stop consuming Russian oil. This statistic is extremely negative, as it has already led to higher transportation prices and, accordingly, has been passed on to end consumers in the form of higher prices for consumer goods and utility bills and, accordingly, an increase in inflation.

The high pressure on energy prices could be further exacerbated if Russia cuts off natural gas supplies to Europe in response to economic sanctions. This will become a more serious threat as major leaders of developed countries restrict Russia's access to the financial and payment system.

In general, we can say that the war in Ukraine has stirred up the global currency market and has had an ambiguous impact on the dynamics of world currencies, negatively on the euro and positively on the dollar [9,10]. However, this is not the end, the instability is only increasing, the food and energy price index is growing rapidly, which leads to an increase in inflation on a global scale and may eventually lead to instability in the global currency market.

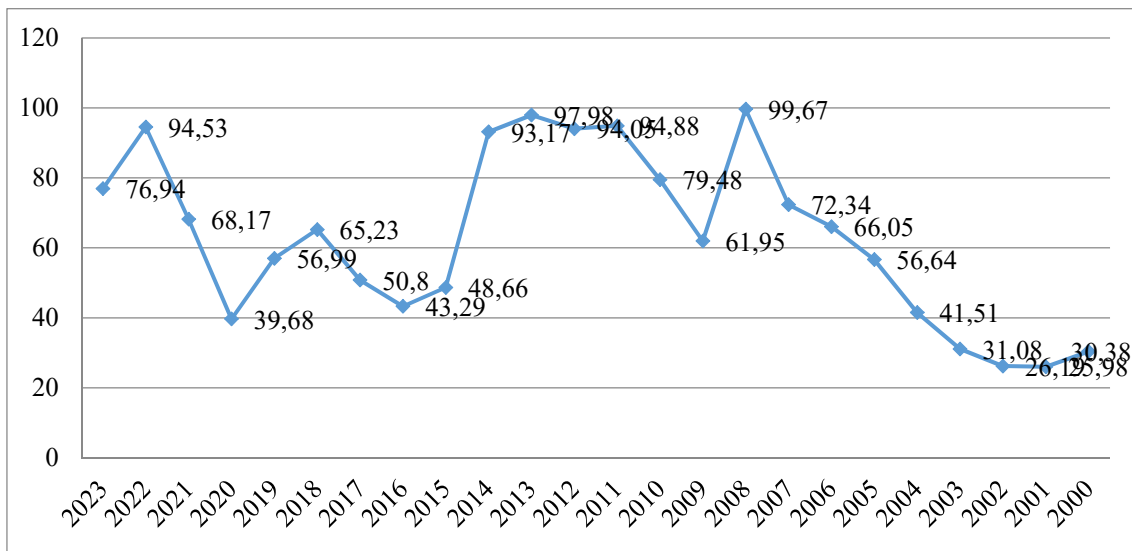


Fig. 6. West Texas Intermediate crude oil price dynamics for the period 2000-2022, USD per barrel  
\*Compiled by the author based on [8].

In response to the Russian invasion, the Ukrainian government took a number of measures aimed at overcoming the severe shock to the economy. The NBU fixed the exchange rate at the pre-war level to prevent panic and provide a nominal anchor (i.e., a nominal variable that links the price level or inflation rate). To protect domestic credit and payments, the central bank introduced capital controls and relaxed macroprudential rules. In pursuit of the same goal, the government tripled the maximum insurance limit and insured all household deposits during the war. The government suspended some taxes (or replaced existing taxes with alternative taxes; for example, small businesses were allowed to switch from VAT to sales tax) and introduced holidays for various payments (e.g., mortgages, utility bills) to provide households and businesses with liquidity to support their operations. The government's liquidity needs were met by the central bank, which directly transferred resources to the Ministry of Finance.

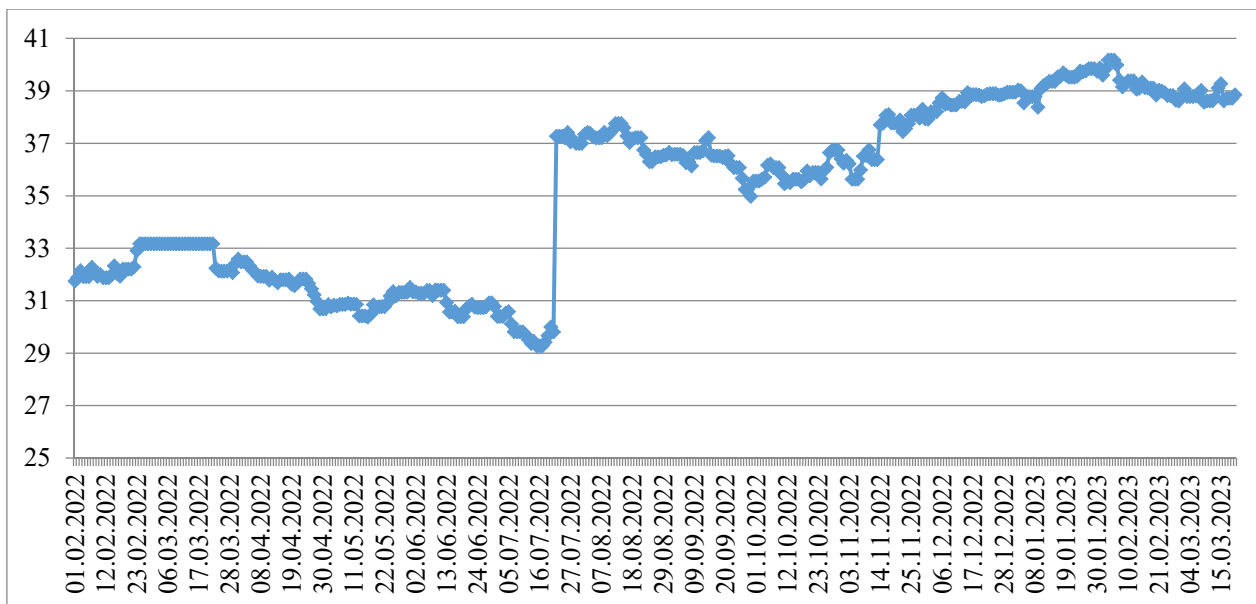
The general approach of this initial response was to use reserves to absorb the shock and to fix some prices to limit volatility. These measures were adequate in the short term, but given the limited reserves and growing imbalances, they are unlikely to provide a sustainable economic basis to support military action over the long term.

The contradictions of the current policy mix are becoming increasingly apparent. The budget deficit is about \$5 billion a month (about 30% of pre-war monthly GDP). Approximately one-third of government spending is covered by tax revenues, loans and grants from international organizations. Ukraine's allies cover another third, and the central bank prints money to cover the last third (note that the government does not borrow much on the domestic capital market) [11]. On June 1, 2022, the NBU raised the key policy rate to 25% to bring the official exchange rate in line

with the cash market rate and limit the need for further intervention on this scale. The banking system is saturated with liquidity, but government bonds offer interest rates below inflation, making them unattractive to domestic investors (on July 26, 2022, the government managed to raise only UAH 3.7 million (about USD 0.1 million) in two-year bonds (14% payment). This approach undermines the financial transmission mechanism and thus the ability of the central bank to stabilize the economy. In short, with limited reserves, the central bank cannot simultaneously print money, defend the hryvnia, and maintain macroeconomic stability. Continuation of the current policy will lead to a crisis (high inflation, currency crisis, or banking crisis).

The prospect of a protracted war implies that macroeconomic policy should be adjusted so that the domestic economy can provide a much larger share of the resources needed to finance the war.

As for the hryvnia exchange rate against foreign currencies, in December-November 2021, the euro was fixed at UAH 30 per unit. In the winter of 2022, the euro began to rise and was in the range of UAH 31-32 per unit. At the end of February and until the end of March, the euro was fixed at UAH 33 per unit. And in early April, the euro depreciated by UAH 31 per unit. As of December 31, the euro was worth 42 UAH per unit (Figure 8).



*Fig. 8. Official exchange rate of the hryvnia against the euro in 2021-2022*  
*\*Compiled by the author based on [12]*

Therefore, having analyzed the level of the euro, we can conclude that from 2021-2022, the euro has been fluctuating, with an initial increase in the euro, and in April, a decline in foreign currency and a strengthening of the national currency of Ukraine.

At the end of 2021, the US dollar exchange rate was at UAH 27 per dollar. In early 2022, the dollar appreciated, reaching UAH 28 per unit. Between February and March 2022, the dollar stabilized at UAH 27-28.

In the spring, in March and April, the exchange rate rose to UAH 29 per dollar. As of December 31, the dollar exchange rate remained at UAH 40 per dollar.

During military operations, the NBU conducts foreign exchange policy to stabilize the supply and demand of foreign currency and the process of hryvnia devaluation.

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 introducing restrictive measures against the currency. As we noted above, the total national mobilization that the war imposed on Ukraine is leading to fiscal dominance until the end of hostilities. The budget deficit becomes endogenous to the needs of the war and basic public services, and previous methods of financing fill the budget gap. Under these conditions, price stability becomes the responsibility of the fiscal authority, which can influence inflation through various methods and instruments.

### References

1. Currency regulation and currency control – a new model in Ukraine. Economics, Finance, Accounting and Law: Strategic Priorities for Development in the Context of Globalization: Collection of Abstracts of the International Scientific and Practical Conference. 2019. № 1.

2. Tovkun L. Current issues of legal regulation of currency transactions in Ukraine (on the example of lifting currency restrictions for individuals). Topical issues of legal theory and legal practice : materials (August 13-14, 2021). Odesa: Black Sea Law Foundation, 2021. 84 p.

3. Maslova N. O. World experience in the use of monetary policy instruments during the COVID-19 coronavirus pandemic. Scientific Bulletin of Uzhhorod University. Series: Economics. 2021. Issue 1. pp. 121-126.

4. Humeniuk V. V., Solodiuk T. V. Currency regulation in the system of factors of foreign trade activation. Economic theory and law. 2019. № 2. pp. 11-27.

5. Global FX reserve composition (2021) URL: <https://data.imf.org/?sk=E6A5F467-C14B-4AA8-9F6D> (accessed: 15.03.2023).

The article was written under scientific supervision S.SAVLUK, Associate Professor of the Department of Banking, Doctor of Economics