

Mechanisms of Currency Regulation of the National Economy in the Conditions of European Integration of Ukraine

Tetiana Kosova ¹ [0000-0002-1859-0542], Olha Tereshchenko ² [0000-0003-3167-8407],
Larysa Tiesheva ^{*} ³ [0000-0003-2007-9150]

¹*National Aviation University Kyiv, Kyiv, Ukraine*

²*Attorney, Kyiv, Ukraine*

³*V.N. Karazin Kharkiv National University, Kharkiv, Ukraine*

^{*}*Larisakhneu@gmail.com*

ABSTRACT

The principles and directions of development of currency regulation in the conditions of its liberalization are determined. It is shown that the basis of the currency policy of the state is the regime of exchange rate formation. The positive consequences of Ukraine's transition to flexible exchange rate formation in terms of promoting automatic balance of payments, replacing its double deficit with a double surplus have been identified. The negative feature is a significant lead of the cumulative inflation index over the rate of depreciation of the national currency over the past five years, which reduces the price competitiveness of consumer goods of domestic production. During this period, there was an increase in international reserves against the background of the waiver of the mandatory sale of foreign exchange earnings of exporters and a significant excess of supply over demand in the foreign exchange market. The auxiliary role of foreign exchange interventions as instruments of monetary policy at the priority of the discount rate is revealed. The strengthening of the institutional capacity of currency regulation in Ukraine in the conditions of accession to the EU through the development of legal support, a positive impact on the balance of payments, the implementation of the BEPS agreement is proved.

Keywords: *mechanisms, currency regulation, the national economy, European integration of Ukraine.*

1. INTRODUCTION

Ukraine's signing of an association agreement with the EU has led to a reform of approaches to the regulation of the foreign exchange market, which according to article 125 refers to the markets subject to liberalization. According to Article 144, the parties undertake not to restrict or permit any payments and transfers in freely convertible currency on current account balances. In the framework of macroeconomic cooperation, the parties agreed to exchange information on the principles and functioning of the European Economic and Monetary Union (Article 344). Increasing the openness of the national economy leads to an increasing role of monetary policy as a tool for its regulation.

2. RESEARCH METHODOLOGY

The study is based on the thesis that currency regulation is a dynamic institution that is developing

rapidly with the emergence of new objects. One of the most difficult objects of currency regulation is virtual currencies, which pose a threat to the stability of the money market. [1, 2]. The introduction of digital [3] currencies changes the choice of consumers in payment instruments and their demand for money [4]. The main risks are associated with extreme price volatility, despite the exogenous nature of the supply of virtual currencies [5]. Lack of regulation by central banks can contribute to their use for money laundering, financing illegal activities, etc. [6, 7, 8].

European and Latin American experience convinces of the advantages of administrative macroprudential mechanisms of currency market [9] regulation over price ones in order to achieve the global goal of dedollarization of national economies [10]. The choice of regulatory instruments is significantly influenced by the degree of liberalization of foreign exchange markets, which causes

the effects after the opening of local markets, the effects of major markets and market closures [11]. These effects are related to the transfer of volatility between currencies, which clearly demonstrates the situation with Brexit [12].

The objects of currency regulation in this study are: balance of payments, exchange rate, foreign exchange reserves, foreign exchange auctions. The quality of currency regulation mechanisms as an institution of the national economy significantly affects the rate of economic growth.

Therefore, the aim of the study is to improve the mechanisms of currency regulation of the national economy in the context of Ukraine's European integration.

3. RESULTS OF THE RESEARCH

For a long time, the quality of the institution of currency regulation in Ukraine was low due to the lack of relevant legislation, as the Decree of the Cabinet of Ministers of Ukraine from 19.02.1993 № 15-93 "On the system of currency regulation and currency control". Only seventeen years after independence, the Law of Ukraine "On Currency and Currency Transactions" was adopted [13]. Article 2 defines the principles of currency regulation: freedom of foreign exchange transactions, risk orientation, transparency, sufficiency, efficiency, independence, marketability. The priority of less discriminatory instruments of currency regulation over more discriminatory, and market instruments - over administrative. The general formula is as follows: you can do anything that is not prohibited by the NBU, increasing independence of banks, their great responsibility for the results of financial monitoring, increasing the efficiency of the NBU in terms of introducing currency restrictions, abolition of mandatory registration of loans from nonresidents to the NBU, lack of strict requirements for payment deadlines for import and export contracts, expanding the range of financial instruments in terms of currency swaps and forwards, legalization of Ukrainians' ability to own foreign companies without a license from the NBU, increasing the investment attractiveness of the national economy by providing the opportunity to return investments in the classical ways - by paying interest on loans, dividends.

The basis of the monetary policy of the state is the regime of exchange rate formation, which is decisive for the macroeconomic situation in the country, which is influenced through the transmission mechanism of monetary policy [14]. The Law of Ukraine "On Currency and Currency Transactions" provides for exchange rate flexibility and independence of the National Bank of Ukraine in the formation and implementation of monetary and monetary policy.

Ukraine's transition to a flexible exchange rate mechanism took place at the end of 2014 in response to the sharp devaluation of the hryvnia and the depletion of

official foreign exchange reserves, which have long been used to artificially keep the exchange rate at UAH 8.0 / USD. USA. In 2014, Ukraine had a record balance of payments deficit (USD 13,307 million), including due to a negative current account balance, starting in 2010 (Table 1). A positive result was obtained in 2015, when balancing the supply and demand of foreign currency contributed to the formation of a current account surplus in the amount of 5035 million dollars. US due to reduced imports due to domestic price non-competitiveness of imported goods. During 2015-2020, the consolidated balance of payments is positive. Moreover, in 2020 it was provided as a positive value of the current account in the amount of 5207 million dollars. US and financial (3214 million US dollars). Thus, the positive consequences of using flexible exchange rates in terms of promoting automatic balance of payments are obvious, as Ukraine has moved from a double deficit to a double surplus.

In accordance with the provisions of Article 30 of the Law of Ukraine "On the National Bank of Ukraine" the NBU in accordance with the currency legislation regulates the import and export of capital [15]. The negative account balance of capital and financial transactions indicates the outflow of capital from the country and its low investment attractiveness, which is a powerful external (exogenous) devaluation factor [16]. The current account refers to endogenous items and is elastic to the value of the national currency. During the analyzed eleven-year period in 2020, the lowest positive share of the financial account in the consolidated balance sheet was observed. (161,51%), whereas in 2014 it was (-919,48%). Thus, the negative pressure of exogenous factors on the exchange rate, the value of which is formed under the influence of market factors that determine the supply and demand for foreign currencies in the domestic market, has decreased. During 2017-2018, the hryvnia exchange rate floated in the range of UAH 25.64-28.43 / USD. USA (Figure 1).

In 2019, a steady process of strengthening it to UAH 23.61 / USD. USA. In 2020 year there was a reversal of the devaluation trend to 28.32 UAH / USD. USA. The main reason for the turbulence was the spread of COVID-19 in the spring of 2020, the hectic demand for cash foreign currency due to its temporary deficit in the cash desks of banks due to disruptions to international flights due to restrictive measures. The hryvnia exchange rate in May 2021 (UAH 27.60 / USD) almost corresponded to the level of January 2017 (UAH 27.15 / USD). The rate of depreciation was only 1,017. Despite the alternation of the devaluation-revaluation of the hryvnia, the inflationary spiral in Ukraine has been steadily unfolding, and the cumulative consumer price index for 2017 - 5 months. In 2021 it amounted to 144.78% (Figure 2). That is, with the equality of the hryvnia exchange rate at the border points, prices for the analyzed period increased almost 1.5 times.

Table 1. Analytical assessment of the dynamics of Ukraine's balance of payments

Balance of payments items	Unit	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
A. Current account	million dollars USA	-3016	-10233	-14335	-16518	-4596	5035	-1866	-3473	-6432	-4124	5207
	%	-59,95	416,82	343,35	-816,51	34,54	593,05	-138,63	-135,35	-223,57	-68,96	261,66
B. Capital account	million dollars USA	188	101	40	-60	400	456	92	-4	37	38	-3
	%	3,74	-4,11	-0,96	-2,97	-3,01	53,71	6,84	-0,16	1,29	0,64	-0,15
Net lending (+) / net borrowing (-) (=A+B)	million dollars USA	-2828	-10132	-14295	-16578	-4196	5491	-1774	-3477	-6395	-4086	5204
	%	-56,21	412,71	342,40	-819,48	31,53	646,76	-131,80	-135,50	-222,28	-68,33	261,51
C. Financial account	million dollars USA	-7859	-7677	-10120	-18601	9111	4642	-3120	-6043	-9272	-10066	3214
	%	-156,21	312,71	242,40	-919,48	-68,47	546,76	-231,80	-235,50	-322,28	-168,33	161,51
D. Consolidated balance (= A + B - C=E)	million dollars USA	5031	-2455	-4175	2023	-13307	849	1346	2566	2877	5980	1990
	%	100,00	100,00	100,00	100,00	100,00	100,00	100,00	100,00	100,00	100,00	100,00

Source: built on data [17]

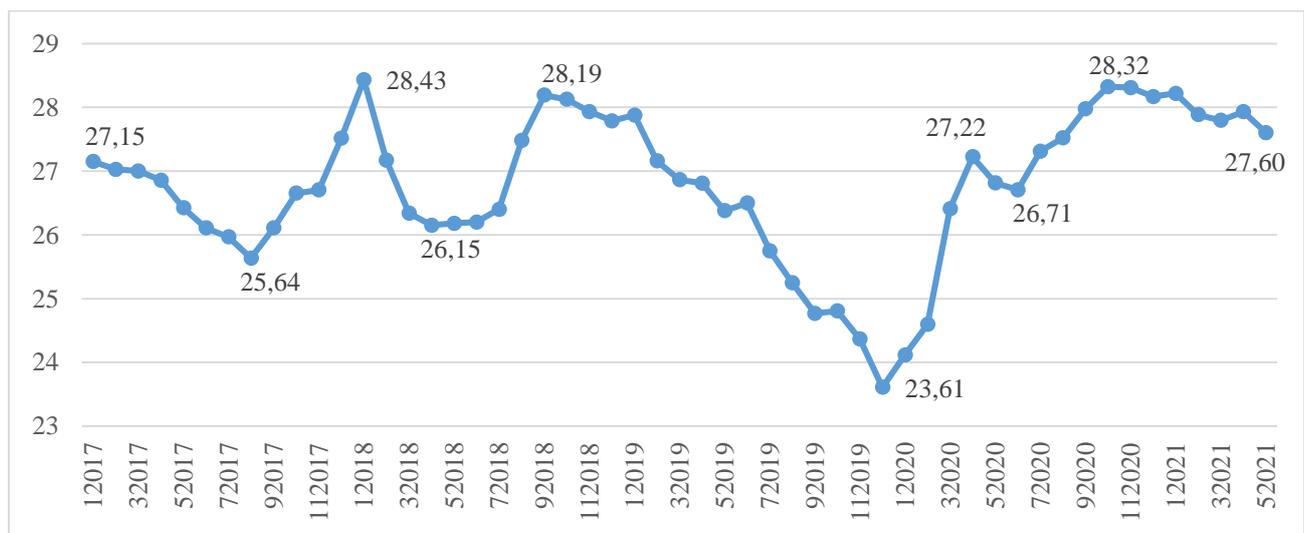


Figure 1. Dynamics of the official exchange rate of hryvnia against the US dollar, units

Source: built on data [17]

The dynamics of the cumulative index is formalized by a linear trend with a high value of the coefficient of multiple determination (0.9514), and the value of the coefficient with a free member indicates an average increase in inflation for the month of 0.7076%. A significant lead in the cumulative inflation index over the rate of depreciation of the national currency is rather a negative sign, as it reduces the price competitiveness of domestic consumer goods.

According to Article 28 of the Law of Ukraine "On the National Bank of Ukraine", the National Bank manages

the gold and foreign exchange reserves of the state, carrying out foreign exchange interventions by buying and selling currency values in foreign exchange markets to influence the national currency exchange rate and the general demand and supply of money Ukraine.

During 2017-2020, the size of Ukraine's international reserves increased from \$ 15.4 billion. US up to 29.1 billion dollars. US, or 1.9 times, by the end of May 2021, their value fell to 27.8 billion dollars. USA (Figure 3).

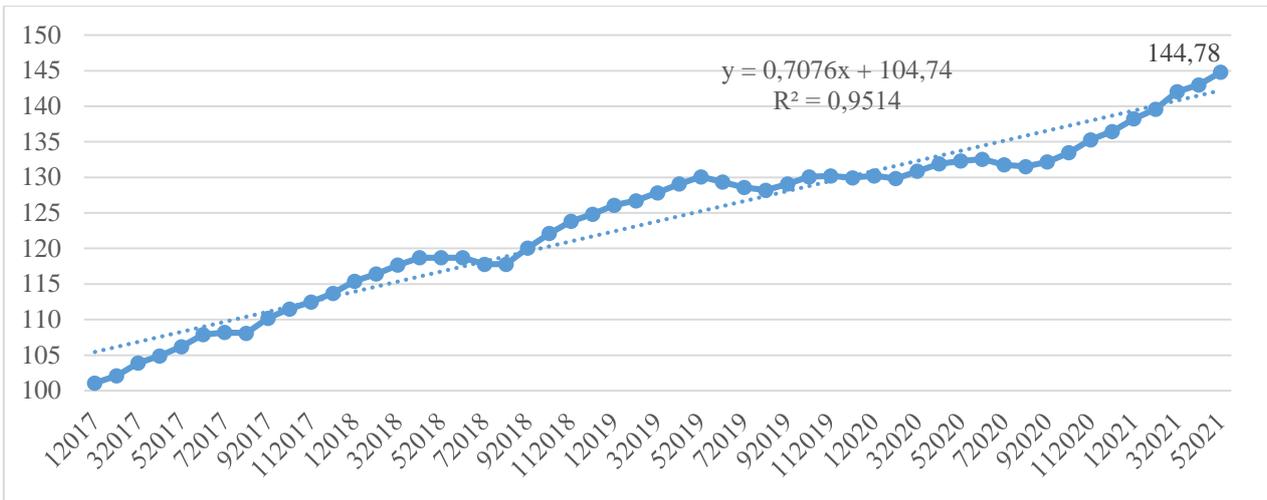


Figure 2. Dynamics of the cumulative consumer price index, %

Source: built on data [18]

The increase in international reserves took place against the background of the waiver of the mandatory sale of foreign exchange earnings of exporters and a significant excess of supply over demand in the foreign exchange market. In order to smooth fluctuations in the functioning of the foreign exchange market and the accumulation of international reserves, the NBU conducts foreign exchange interventions.

Their forms are: currency auction, intervention at a single rate, intervention at the best rate, targeted intervention. Currency interventions can be carried out on the terms of "tod", "volume", "spot", as well as through transactions with derivative (derivative) financial instruments. Derivative (derivative) financial instruments are used for foreign exchange interventions

only if it does not lead to an imbalance in the markets of these derivative instruments [19].

The volume of foreign currency purchases during foreign exchange interventions of the NBU in June 2020-May 2021 amounted to 2.4896 billion dollars. US equivalent, more than double the sales of \$ 1.1679 billion. USA in equivalent (Table 2). The surplus is 1.3217 billion dollars. The US equivalent and convinces that the purpose of foreign exchange interventions of the NBU is not to eliminate any fundamental trends in the foreign exchange market or artificial support of the hryvnia exchange rate, but only to smooth its excessive volatility.

Among the instruments of monetary policy, foreign exchange interventions play a supporting role, while the discount rate has priority.

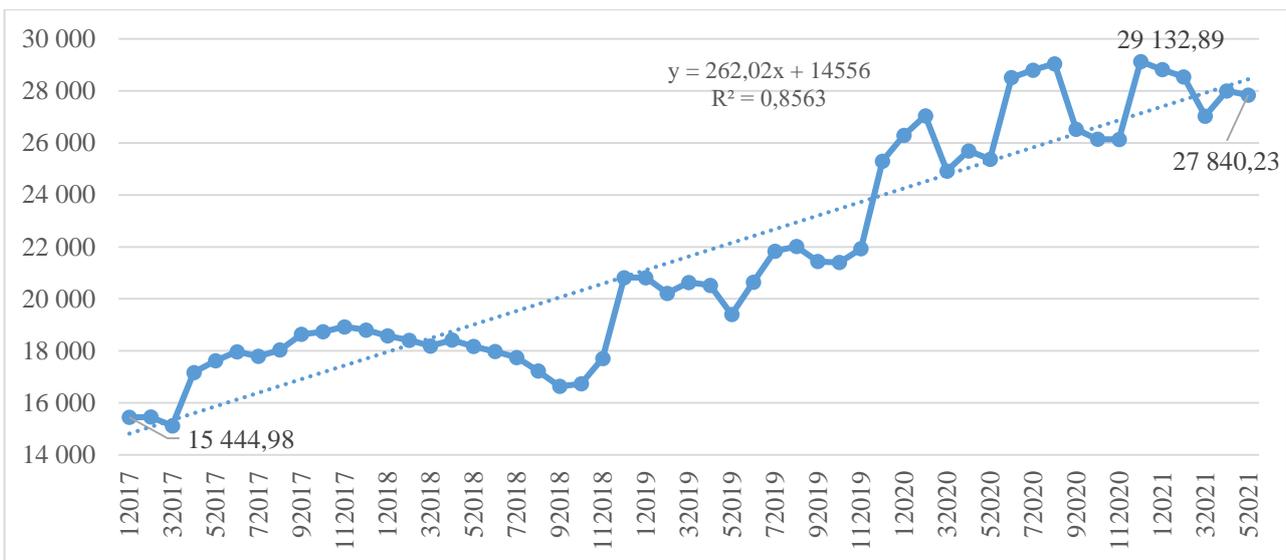


Figure 3. Dynamics of Ukraine's international reserves (as of the end of the period, million USD)

Source: built on data [17]

Table 2. Dynamics of foreign exchange interventions of the NBU, billion dollars US equivalent

Date	Purchase	Selling	Balance (purchase "-" sale)
06.2020	1,155	0	1,155
07.2020	0,13	-0,4987	-0,3687
08.2020	0,4605	0	0,4605
09.2020	0,034	-0,2315	-0,1975
10.2020	0	-0,2083	-0,2083
11.2020	0,041	-0,07	-0,029
12.2020	0,3786	-0,0894	0,2892
01.2021	0,04	-0,02	0,02
02.2021	0,2	0	0,2
03.2021	0,0505	0	0,0505
04.2021	0	-0,05	-0,05
05.2021	0	0	0
Разом	2,4896	-1,1679	1,3217

Source: built on data [17]

4. DISCUSSION OF RESULTS

The obtained conclusions testify to the positive results of the impact of changes in the mechanisms of currency regulation on the state of the balance of payments and the national economy as a whole. However, the reserves for improving monetary policy are linked to the implementation of measures *BEPS (Base Erosion and Profit Shifting)*. Their global goal is to create legal and operational barriers to the application of tax evasion schemes in foreign economic activity. These include: tax benefits, verification of the reality of business operations of permanent establishments, establishing criteria for the duration of projects in Ukraine to recognize their business as nonresident, payment of interest or royalties to nonresidents, taxation of controlled foreign companies, reduction of taxable financial results on domestic services. loans raised from non-residents, control of transfer pricing, the principle of "outstretched hand" in terms of repatriation tax. The draft amendments to the Tax Code of Ukraine provide for the impossibility of concluding tax agreements with a non-resident to receive tax benefits, defining requirements for "non-transitors" who must be not agents, intermediaries, nominal, but actual owners of such payment . From the point of view of the national economy, it is positive to transfer the responsibility for obtaining the status of "transit" of non-residents from the tax authorities to the owners of payment [20]. Ukraine has acceded to the multilateral convention of the Organization for Economic Cooperation and Development (*MLI – Multilateral Instrument*). It focuses on the implementation of the BEPS Plan in terms of amending international agreements to avoid double taxation.

5. CONCLUSION

The principles and directions of development of currency regulation in the conditions of its liberalization are determined. It is shown that the basis of the currency policy of the state is the regime of exchange rate formation. The positive consequences of Ukraine's transition to flexible exchange rate formation in terms of promoting automatic balance of payments, replacing its double deficit with a double surplus have been identified. The negative feature is a significant lead of the cumulative inflation index over the rate of depreciation of the national currency over the past five years, which reduces the price competitiveness of consumer goods of domestic production. During this period, there was an increase in international reserves against the background of the waiver of the mandatory sale of foreign exchange earnings of exporters and a significant excess of supply over demand in the foreign exchange market. The supporting role of foreign exchange interventions as instruments of monetary policy at the priority of the discount rate is revealed. Strengthening the institutional capacity of currency regulation in Ukraine in the context of accession to the EU through the development of legal security, a positive impact on the balance of payments, the implementation of the agreement *BEPS*.

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