MINISTRY OF EDUCATION AND SCIENCE OF UKRAINE
SUMY STATE UNIVERSITY
Educational and Research Institute of Business, Economics and Management
Department of International Economic Relations

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QUALIFICATION PAPER

on the topic " DEVELOPMENT OF THE FOREIGN EXCHANGE MARKET OF UKRAINE "

Specialty 292 "International Economic Relations"

Student 4 Course ______________ Dryhola Yuliia Sergiivna

group ME-82a

It is submitted for the Bachelor's degree requirements fulfillment.

Qualifying Bachelor's paper contains the results of own research. The use of the ideas, results and texts of other authors has a link to the corresponding source ______________ Dryhola Yuliia

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Sumy, 2022

MINISTRY OF EDUCATION AND SCIENCE OF UKRAINE

ABSTRACT

on bachelor's degree qualification paper on the topic

“DEVELOPMENT OF THE FOREIGN EXCHANGE MARKET OF UKRAINE ”

Dryhola Yuliia Sergiivna

The main content of the bachelor's degree qualification paper is presented on 42 pages, including references consisted of 40 used sources, which is placed on 4 pages. The paper contains 1 tables, 2 figures.

Key words: CURRENCY, CURRENCY MARKET, CURRENCY MARKET OF UKRAINE; DEVELOPMENT PROSPECTS; INFLATION, REGULATION OF FOREIGN EXCHANGE TRANSACTIONS.

The purpose of the bachelor's qualification work is to study the features of the foreign exchange market in Ukraine, to define the concept and structure of the foreign exchange market; to determine the prospects of the foreign exchange market of Ukraine.

The object of study is the foreign exchange market. The subject of the study is the problems of formation and prospects of the foreign exchange market in Ukraine.

In the process of research, depending on the goals and objectives, we used appropriate methods of research of economic processes, including the method of scientific abstraction, dialectical method, methods of analysis and synthesis, comparative method (for comparison with world and Ukrainian experience). , methods of induction and deduction, etc.

The information base of the work is legislative and regulatory documents on regulatory acts of Ukraine in the sphere of the development of foreign exchange

market, scientific publications of domestic and foreign scientists in specialized journals, information-analytical and statistical materials and resources of the Internet.

According to the results of the study the following conclusions are formulated:

1. The foreign exchange market is a market in which the money of one country is used to buy the currency of another country. The foreign exchange market is an integral part of the international monetary system.

2. The modern foreign exchange market is a system of stable economic and organizational relations between participants in international settlements not only for foreign exchange transactions, but also for foreign trade, services, investments and other activities that require the exchange and use of various foreign currencies.

3. The foreign exchange market operates according to its own principles and laws. At the same time, the challenges of the external environment and internal problems of national economies necessitate its regulation. Instruments of currency regulation are divided into administrative-market, direct and indirect effects on participants in currency relations. However, whatever classification is taken into account, the key task of currency regulation is to ensure stable and orderly functioning of the foreign exchange market.

4. The mechanism of functioning of the foreign exchange market in connection with the constant challenges of the external environment and internal financial and economic problems needs to be improved.

5. The key instruments of currency regulation are foreign exchange interventions, foreign exchange policy, balance of payments regulation. Gold and foreign exchange reserves management are effective tools. The NBU should focus on increasing their volume and rational use. In addition, the functioning of the

foreign exchange market requires constant monitoring to identify strengths and weaknesses in the functioning.

Results of approbation of the basic provisions of the qualification bachelor work was considered at the III International Scientific and Practical Conference "International Economic Relations and Sustainable Development" on May 20, 2022 SSU with the abstracts of the report «Operations in the foreign exchange market»;

The year of qualifying paper fulfillment is 2022.

The year of paper defense is 2022.

SUMY STATE UNIVERSITY

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“__” ____________2022.

TASKS FOR BACHELOR'S DEGREE QUALIFICATION PAPER

(specialty 292 “International Economic Relations”)

student of 4 course, group ME-82a

Dryhola Yuliia Sergiivna

1. The theme of the paper is “Development of the foreign exchange market of Ukraine” was approved by the order of the university from “05“May 2022
2. The term of completed paper submission by the student is “03“June 2022
3. The purpose of the qualification paper is to study the features of the foreign exchange market in Ukraine, to define the concept and structure of the foreign exchange market; to determine the prospects of the foreign exchange market of Ukraine.
4. The object of the research is is the foreign exchange market.
5. The subject of research is the problems of formation and prospects of the foreign exchange market in Ukraine.

6. The qualification paper is carried out on legislative and regulatory documents on regulatory acts of Ukraine in the sphere of the development of foreign exchange market, scientific publications of domestic and foreign scientists in specialized journals, information-analytical and statistical materials and resources of the Internet.

7. Approximate bachelor's level degree qualification paper plan, terms for submitting chapters to the research advisor and the content of tasks for the accomplished purpose is as follows:

Chapter 1 “Theoretical foundations of foreign exchange market research” – “15” May 2022

Chapter 1 deals with the theoretical and legal foundations of the foreign exchange market. In the first section it is necessary to analyze the concept of the foreign exchange market and tools for regulating foreign exchange transactions. It is also necessary to take into account the factors influencing the formation of the country's monetary policy.

Chapter 2 “Current state and prospects of the foreign exchange market of Ukraine” – “15“ May 2022

Chapter 2 deals with is devoted to the current state and prospects of the foreign exchange market of Ukraine. It is necessary to analyze the main trends and tools of inflation and currency regulation of Ukraine. It is necessary to consider the main problems facing the development of the foreign exchange market and identify ways to solve them.

8. Supervision on work:

Chapter	Full name and position of the advisor	Date, signature	
		task issued by	task accepted by
1	Tetiana Shcherbyna, PhD, associate professor		
2	Tetiana Shcherbyna, PhD, associate professor		

9. Date of issue of the task: “ __ “__________2022

Research advisor PhD, associate professor________ Tetiana Shcherbyna

The tasks has been received: _________ Dryhola Yuliia Sergiivna
(signature)

CONTENT

INTRODUCTION

Actuality of theme. Modern economic development is characterized by financial and economic globalization. The movement of international capital has intensified around the world, and many countries are removing national financial and trade restrictions, allowing financial structures, markets and instruments to influence their economies. Ukraine's integration into the modern world community raises a number of external threats and dangers to the national economy, so the need to improve the functioning of the domestic foreign exchange market is becoming increasingly important.

The foreign exchange market is a system of economic relations between its subjects for the purchase and sale of currency and currency values using modern means of financial communication, where exchange rates are set by prices under the influence of supply and demand. In addition, the foreign exchange market is a set of certain institutions and devices that, with their own help, provide the opportunity to conduct foreign exchange transactions taking into account the current market situation.

The foreign exchange market and its regulation occupy a leading place in the economic policy of the state. Currency regulation can stimulate the economic development of the country and, accordingly, affect the state of individual industries and enterprises, as well as the place of the state in the world market. Changes in the country's economy and its international position, in turn, affect the development of monetary relations and, accordingly, make adjustments to the monetary policy pursued in the country.

The foreign exchange market ensures the timely implementation of international settlements, insurance of currency risks, diversification of foreign exchange reserves, foreign exchange interventions and profits by its participants due to exchange rate differences.

Ukrainian scientists Alisov VA, Ivasiv BS, Borynets SY, Yushchenko VA, Shelutko VM, Kozyk VF, Malchynsky A. and others deal with the issues of the foreign exchange market.

The purpose of the work is to study the peculiarities of the foreign exchange market in Ukraine.

According to the purpose of work it is necessary to solve the following tasks:

- Define the concept and structure of the foreign exchange market;
- To consider the peculiarities of the development and functioning of the foreign exchange market in Ukraine;
- Consider operations in the foreign exchange market;
- Analyze the exchange rate policy of the National Bank of Ukraine;
- Identify the features of foreign exchange market regulation;
- Identify the prospects of the foreign exchange market of Ukraine.

The object of study is the foreign exchange market.

The subject of the study is the problems of formation and prospects of the foreign exchange market in Ukraine.

Research methods - method of scientific abstraction, dialectical method, methods of analysis and synthesis.

Structure and scope of work. The work consists of an introduction, three chapters, six subsections, conclusions and a list of sources used. Total workload 32 pages.

1. THEORETICAL FOUNDATIONS OF FOREIGN EXCHANGE MARKET RESEARCH

1.1. The concept and structure of the foreign exchange market

In today's economy, the market is the basis for building both the national economy - at the national level and the world economy - at the global level. The foreign exchange market is no exception.

The foreign exchange market is a system of economic relations between its subjects for the purchase and sale of currency and currency values using modern means of financial communication, where exchange rates are set by prices under the influence of supply and demand [1].

In modern Ukrainian and foreign literature there are different definitions of the foreign exchange market. Thus, some economists view the foreign exchange market from an institutional point of view as a set of authorized banks, investment companies, stock exchanges, brokerage companies, foreign banks that conduct foreign exchange transactions based on supply and demand of traders.

In addition, the concept of foreign exchange market can be considered in a broad and narrow sense. The foreign exchange market in a broad sense (in economic terms) is considered as a set of economic relations arising from operations for the alienation of foreign currency, as well as operations related to the movement of foreign exchange capital. This definition most clearly and concisely reveals the economic essence of the foreign exchange market, not limiting it only to conversion operations and successfully characterizing those economic relations that determine the existence of the foreign exchange market.

In a narrow sense (from an organizational point of view) foreign exchange markets are considered as a set of certain institutions and mechanisms that provide in their interaction the possibility of foreign exchange transactions, taking into account the current market situation. That is, the network of these institutions should provide free market access for all businesses (in the absence of restrictions) and enable them to conduct the full range of foreign exchange transactions on a competitive basis [2].

Thus, the foreign exchange market is defined as a system of economic and legal relations that regulate supply and demand for the exchange of foreign currency and payment documents in foreign currency, as well as foreign exchange capital investment transactions.

When describing foreign exchange markets, it is not enough to consider them as separate sets of banks, companies, brokerage firms that conduct foreign exchange transactions at the national, regional, international and global levels. Currency relations between countries are formed and developed in financial centers, where transactions for the purchase and sale of currency and currency values are concentrated on the basis of supply and demand. The need for a single means of payment that can be used for settlements in foreign trade for services, loans, investments, interstate settlements, etc., is realized in this particular market, where different currencies collide at the equilibrium price point. Expanding ties between national foreign exchange markets, establishing regular correspondent relations between banks of different countries, increasing the concentration of bank capital in financial centers have only become prerequisites for the formation of a single global foreign exchange market.

Currency market structure:

1. By subjects: interbank (direct and brokerage).

2. Urgency of operations: spot market; forward market; swap market; client; exchange: trading through a currency exchange; derivatives trading.

3. By functions: international trade services; purely financial transfers (speculation, hedging, investments).

4. Regarding currency restrictions: free; limited.

5. On the application of exchange rates: with one mode; with multiple modes.

6. Depending on the volume and nature of foreign exchange transactions: global; regional; internal.

The foreign exchange market is an area of economic relations for the purchase and sale of foreign currency and securities in foreign currency, as well as foreign exchange capital investment operations.

1.2. Features of development and functioning of the foreign exchange market in Ukraine

The formation of the foreign exchange market in Ukraine is directly related to the processes of building the Ukrainian state and reforming its economy.

Under the conditions of the former USSR, the foreign exchange market in Ukraine was represented by the State Bank and the Foreign Economic Bank (SEB) of the USSR [3].

A sign of the foreign exchange market in transition was also the lack of a national currency regulation system in Ukraine.

The next step towards monetary reform in Ukraine, made on November 16, 1992, according to the Decree of the President of Ukraine, was partially forced by the state of settlements with the CIS countries.

Back in 1992, at the suggestion of the NBU, the creation of reserves and the development of a mechanism to support the national currency began. A characteristic feature of this period of formation of the foreign exchange market of an independent state will be the adoption of the Resolution of the Verkhovna Rada of Ukraine "On the formation of foreign exchange funds of Ukraine in 1992" on February 5, 1992 and the establishment in October 1992 currency exchange at the NBU. The first trading on the stock exchange, founded by more than 40 commercial banks, began in November 1992 [4].

The procedure for forming foreign exchange funds provided that business entities located in Ukraine, regardless of place of registration and form of ownership, pay tax on foreign exchange earnings from exports of products (works, services) for all types of foreign currency [5].

The introduction of a tax on foreign exchange earnings was accompanied by certain additional conditions.

1. Transport, insurance and overhead costs in foreign currency were not included in the amount of taxable income.

2. The following were exempt from the tax on foreign exchange earnings:

a) enterprises with foreign capital, the share of which in the authorized capital was not less than 30%;

b) funds for charitable purposes, provided that they are used for these purposes in full;

c) part of foreign exchange earnings, which was used to repay debt on foreign loans;

d) funds from the sale of agricultural products (grain, legumes).

3. The tax rate within the state order was reduced by 5% under the condition of fulfillment of the state order for export in full

4. In order to prevent double taxation, it was established that the income of enterprises decreased by the amount of foreign exchange earnings from which the tax on foreign exchange earnings was paid.

5. Foreign exchange earnings from exports of products, works and services were subject to mandatory crediting to their accounts in authorized banks. Thus, the transfer and assignment of debt between residents and non-residents was prohibited [6].

This procedure lasted until the adoption of national legislation on currency regulation.

The main feature of the development of the foreign exchange market in Ukraine in 1993 was the introduction of elements of its regulatory system. The adoption of a number of resolutions of the Cabinet of Ministers on currency regulation in Ukraine created a legal basis for further development of the foreign exchange market.

At the same time, inflationary processes in the economy of Ukraine due to uncontrolled credit issuance, further decline in production, rising energy prices, lack of both external and internal balance of money, problems associated with the use of "temporary" currency. - ruble, led to a sharp decline in the ruble against foreign currencies [7].

As a result, public policy from August 12, 1993 to August 1994 was refocused on trying to restore foreign trade and currency monopolies. This policy is reflected in:

- first, in the introduction of the regime of so-called "special exporters";
- secondly, in the introduction of a fixed exchange rate at 5970 rubles. for 1 US dollar (later - 12610 rubles for 1 US dollar).
- thirdly, in a sharp decrease in the volume of transactions on the currency exchange, and subsequently in general administrative termination of its activities;
- fourth, in the introduction of the so-called auction sale of foreign currency at the administratively established exchange rate against foreign currencies through the "tender committee".

It should be emphasized that as a result of these measures, exports from Ukraine were slowed down and imports were stimulated, which, in turn, led to a decrease in foreign exchange earnings to the country along with a sharp increase in demand for foreign currency.

The understanding of the futility of the policy of administrative regulation of foreign economic and monetary relations was reflected in the return to market methods. The Presidential Decree of August 22, 1994 "On Improving Currency Regulation", which provided for a number of measures to liberalize the foreign exchange market in Ukraine, primarily provided for the resumption of the NBU

[8]. Currency Exchange from October 1, 1994 to develop a system of measures for convergence and unification of official and market. exchange rates, setting the ruble exchange rate based on the results of trading on the currency exchange. These measures focused on decentralizing the money market, stabilizing the ruble, and creating the preconditions for monetary reform.

1.3. Operations in the foreign exchange market

The activity of the foreign exchange market is directly related to the implementation of foreign exchange transactions. It accounts for about 90% of foreign exchange turnover.

Most foreign exchange transactions are interbank transactions. Exchange rates published in newspapers are interbank exchange rates, ie exchange rates that banks request from each other. Interbank "wholesale" rates are lower than "retail" rates for customers. The difference is the bank's income for the service provided [9].

Any two currencies can be involved in foreign exchange transactions, but most interbank transactions are currency exchange transactions for the US dollar, which is considered a key currency. The euro, the British pound sterling, the Swiss franc, and the Japanese yen also play an important role in the foreign exchange market.

Currency transactions are an objective possibility of the existence of foreign exchange markets, affect their size and structure, as well as experience the opposite effect of the situation and dynamics of these markets.

Thus, foreign exchange transactions are transactions related to the transfer of ownership of foreign exchange values, the use of foreign exchange values as a means of payment in international circulation; import, export, transfer and relocation to the territory of the country and beyond currency values.

In a narrow sense, foreign exchange transactions are considered as a type of banking activity for the purchase and sale of foreign currency.

Personally, we have our own interpretation of foreign exchange transactions, which are considered to be any trade, credit or settlement transactions related to the use of currency and payment and credit instruments denominated in foreign currency[10].

Given the different approaches to the classification of foreign exchange transactions and their wide range that exists today, we propose the following classification of foreign exchange transactions:

1) according to the term of payment for the purchase and sale of currencies are:

cash transactions or transactions with immediate delivery, which consist in the purchase and sale of currency on the terms of its delivery no later than the second working day from the date of the contract at the rate agreed at the time of signing. Such transactions may involve the delivery of currency on the same day, the next business day, but most often on the second business day. This last operation is called "spot", and cash transactions under this condition - "spot transactions". They allow their participants to quickly meet their needs in foreign currency on favorable terms [11].

Participants in cash transactions have the opportunity to:

- urgently receive foreign currency to repay its own foreign economic obligations;
- avoid exchange rate losses: the importer insures himself against possible losses due to the increase in his exchange rate by buying foreign currency immediately, and the exporter insures himself against losses due to the fall of its exchange rate by selling foreign currency immediately. currency;
- timely diversify their foreign exchange reserves, and banks also promptly adjust the currency position;

- urgent currency transactions consist in the purchase and sale of currency values with a delay in their delivery for more than two working days. These transactions, in turn, are divided into several types depending on the mechanism of their execution: forward, futures, options and their derivatives [12].

A characteristic feature of futures transactions is that they are executed by standardized documents (contracts), which have legal force for a certain period of time (from signing to payment) and themselves become the object of purchase and sale in foreign exchange markets. These documents are called currency derivatives. These include, first of all, forward and futures contracts, options.

Operations with derivatives in foreign exchange markets appeared relatively recently (in the 70-80s of the twentieth century) and are developing very rapidly. This is primarily due to frequent and significant fluctuations in exchange rates and the associated significant currency risks. Urgent transactions allow, on the one hand, to insure against currency risks, and on the other - to obtain additional income from speculative activities [13].

2) according to the mechanism of operations are divided into:

- spot transactions, which provide for the immediate establishment of currency at the rate fixed in the agreement. These are currency agreements that are implemented on a short-term basis - the delivery of currency is carried out within 48 hours. Accordingly, the "spot" exchange rate is determined - the rate at the time of the transaction;

- forward transactions are a type of forward transactions, which consists in the purchase and sale of currency between two entities with the subsequent transfer of it within a specified period and at the rate determined at the time of the contract. In forward contracts, the terms of currency transfer are usually set at 1, 2, 3, 6 and 12 months. When signing them, no advances, deposits, etc. are allowed [14].

The most difficult part of such a contract is determining the rate of future payment, ie the forward rate. This rate consists of the spot rate, ie the rate actually in force at the time of the contract, and the allowances or discounts related to the difference in bank interest rates in the countries whose currencies are exchanged. This difference is called the forward margin and is due to the fact that if the parties to the contract put the appropriate amounts of currency in their banks, they would receive different amounts of income until they are used to pay for the contract. To equalize the terms for each forward party, the currency of the country with the highest interest rate will be sold at the forward rate below the spot rate (selling at a discount) and the currency with the lower interest rate at the highest spot rate (selling at a premium).

Cancellation of forward contracts is not allowed. These operations are widely used primarily to insure currency risks. Characteristic features of these operations are that they are carried out on the interbank (over-the-counter) market, the terms of the forward contract are not strictly formalized and are determined by the parties quite arbitrarily. Therefore, these conditions and especially the prices of such contracts are not "transparent" for other market participants [15].

Futures transactions are also types of futures transactions in which two counterparties undertake to buy or sell a certain amount of currency at a given time at the rate set at the time of the transaction (purchase and sale of a futures contract). Their differences from forward transactions are that they are carried out only on exchanges, under their control, and the form and terms of contracts are clearly unified (the exchange strictly determines the type of currency sold, the amount of the transaction, payment). period, exchange rate). Settlements for the purchase and sale of futures contracts are made through the clearing house of the exchange, which guarantees the timeliness and completeness of settlements. Until the final payment of the futures contract, it can be resold on the stock exchange, ie it is itself the object of foreign exchange transactions. With each subsequent sale, its price will be adjusted and closer to the real price at which the currency will be sold at the time of maturity of the futures. Due to these features, the price and other terms of futures contracts are transparent to all market participants [16]. Each exchange establishes its own list of sold and purchased currencies and standard amounts of contracts, which are determined by tens and hundreds of thousands or even millions of units of the currency. Therefore, large banks and other large financial institutions are usually involved in currency futures trading.

The price of currency futures is determined in the same way as the price of a forward contract, ie taking into account the difference in interest rates between two currencies exchanged. Futures are widely used to hedge against currency risks, ie for hedging, as well as to generate additional income, ie for speculation [17].

Option transactions are types of forward transactions in which a special agreement is entered into between the participants, which gives one of them the right (but not the obligation) to buy or sell to another a certain amount of currency at a certain time (or within a certain period). certain period) and at the rate agreed between the parties. Such an agreement is called an option.

In this operation, it is important to distinguish between an option trader and a buyer (owner), as the latter has the right to exercise the option. If after the expiration of the option the owner will be profitable to exercise it, he will require the seller of the option to buy or sell the appropriate amount of currency, and the latter is obliged to do so. If it is unprofitable for the holder of the option to exercise it (for example, the current spot rate on the market is higher than that provided by the put option), he will refuse to exercise the option, which he must notify. the seller is about, and the latter must agree to this decision [18].

When buying an option, the buyer (owner) pays the seller a premium (the value of the option), determined by agreement of the parties as a percentage of the transaction amount or in absolute terms. This premium is a guaranteed income for the seller of the option, which he receives regardless of whether the option is exercised or not. For the buyer, the premium is the net cost that he can reimburse if he later uses the option with a profit. If he refuses to exercise the option, the premium paid becomes a net loss for him.

Option transactions are widely used to hedge risks and generate speculative income;

3) by purpose:

- operations to obtain currency for payments by international settlements;
- operations for the purpose of insurance against currency risks (hedging operations);
- for-profit or speculative transactions.

4) by form of implementation:

- non-cash;
- cash.

5) on the scale of operations:

- wholesale (carried out between banks);
- retail (carried out between banks and their customers).

In addition to these transactions, in practice a number of foreign exchange transactions derived from them are used. These transactions include swaps, arbitrage and others [19].

Currency swap is a combination of two spot and forward currency conversion transactions that are performed simultaneously and calculated for one currency. For example, on a spot basis, US dollars are sold immediately, and on a forward basis, dollars are bought from the same counterparty for delivery over a period of time and at an agreed rate. Currency swap provides a reverse movement of currency flow, which allows you to effectively use it for speculative purposes, to hedge currency risks and manage the currency position of the bank.

Currency arbitrage is a combination of several transactions of purchase and sale of two or more currencies at different rates in order to obtain additional income. This is a typical speculative operation, calculated on profit due to the difference in rates in one market, but at different times (temporary arbitrage), or at the same time, but in different markets (spatial arbitrage). With the development of modern telecommunications systems, the preconditions are created for the equalization of exchange rates in various international markets, which reduces the possibilities of spatial arbitration. On the other hand, the transition of most countries to floating exchange rates, which often change over time, creates favorable conditions for the development of temporary arbitration [20].

So, after analyzing these types of foreign exchange transactions and their purpose, we came to the conclusion that foreign exchange transactions are carried out for the purpose of: selling foreign currency or, conversely, buying the necessary foreign currency to pay for imports, repaying foreign currency. foreign currency loan and interest on it, etc .; prevention of possible losses associated with adverse changes in exchange rates (hedging transactions); make speculative profits on exchange rate differences.

A wide range of foreign exchange transactions, high technological and organizational support for their implementation create favorable conditions for all participants in the foreign exchange market to achieve such goals - ensuring liquidity, profitability and manageable currency risks. Therefore, the accelerated development of the foreign exchange market is one of the urgent tasks of countries with economies in transition, including Ukraine. However, in Ukraine the foreign exchange market is forming too slowly, the range of foreign exchange transactions on it is limited mainly to cash transactions [21].

2. CURRENT STATE AND PROSPECTS OF THE FOREIGN EXCHANGE MARKET OF UKRAINE

2.1. Analysis of the main indicators of the foreign exchange market of Ukraine

The current state of the foreign exchange market is characterized by official exchange rates set within the country. The dynamics of the official exchange rate of the hryvnia against the US dollar and the euro 2019-2021 is clearly shown in Figure 2.1.

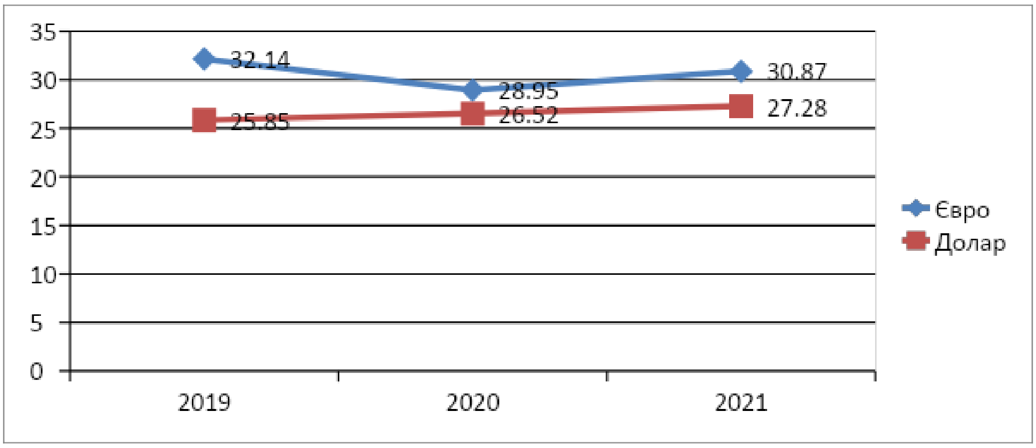

Fig. 2.1 - Dynamics of the official exchange rate of the hryvnia against the US dollar and the euro 2019-2021

The dynamics show that the Euro exchange rate declined in 2020 and gradually rose in 2021. The US dollar has been rising over the years under study.

The NBU Board should annually develop the basic principles of monetary policy and have the opportunity to give recommendations to the NBU Board on exchange rate policy. The decision of the NBU Board determines the mechanisms for establishing official exchange rates in Ukraine [22].

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. The subjects of 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 foreign exchange market is one of the key positions that ensure the financial stability of the country, so the National Bank of Ukraine monitors it to identify potential systemic risks.

It should be noted that the Ukrainian foreign exchange market consists of the interbank market, retail market, the National Bank's operations with the government and foreign exchange interventions. As the pandemic spreads, the country faces new challenges, and its ability to respond quickly to change becomes critical to its viability. As a result, the total turnover of the Ukrainian market (purchase and sale of foreign currency) in 2020 exceeded $ 559.4 billion. USA (equivalent). In the first ten months of 2020, exports of goods decreased by only 5.2%. Domestic exporters quickly shifted from European markets, where the fall in GDP was significant, to the Chinese market, whose economy recovered to pre-quarantine levels in the second quarter of 2020. Government payments and repayment of IMF loans amounted to 7.8 billion dollars. In 2020, the NBU bought $ 4.9 billion and sold $ 3.8 billion. Thus, about 89.9% of foreign exchange transactions were interbank transactions [23].

The official hryvnia exchange rate against foreign currencies, which it calculates, plays a key role in the National Bank's monetary policy. The dollar and the euro are rising due to the impact of a new negative external shock in 2020 - the coronavirus pandemic (COVID-19), which is accompanied by another drop in oil prices. In this regard, in some developed markets there is a decrease in liquidity. In addition, the role of high-frequency trade in world markets is growing, which leads to a reassessment of the position and probability of bankruptcy of large participants. The sharp weakening of the national currency has a number of negative consequences: increased speculative demand for foreign currency, increased dollarization of deposits, increased inflationary pressures and others.

In the context of the COVID-19 pandemic, a factor hindering the development of the foreign exchange market is also the insufficient use of hedging instruments for currency risks and imperfect mechanisms for dealing with them.

Today, banks can enter into foreign exchange forward contracts only with residents in the presence of a foreign trade contract for which a forward operation is carried out [24].

2.2. The role of the exchange rate in inflation

Manipulating the exchange rate to correct the country's export position is an important tool in the use of political levers. Undoubtedly, in a situation where the country has a high unemployment rate or a policy of export-oriented growth, its desire to weaken its own currency is justified, because when the latter depreciates, the value of imports increases, the value of imports increases. exported to the international market are declining, which means that demand for them is growing. The growth of state production and GDP, the creation of new jobs are considered as possible consequences of such a policy.

Each of the causal chains "exchange rate - inflation" is characterized by specific features of the mechanism of interaction between the elements of the macroeconomic system. The most important of these characteristics is the length of the period between exchange rate changes and its impact on inflation, as well as the nature of the interaction. According to the criterion of urgency, these interactions can be divided into two groups with clearly defined individual characteristics - short-term and long-term [25].

The first group includes the ratio between the exchange rate and purchasing power parity. Indeed, the empirical literature has recently suggested that there is no correlation between exchange rate fluctuations and key macroeconomic indicators in a short period of time. A change in the exchange rate of the national currency leads to a change in the current price structure.

As a result, the level of prices in the national market changes and changes in different directions with the national currency: an increase in the rate leads to lower inflation and vice versa. The nature of macroeconomic interactions of purchasing power parity depends on the pricing mechanism for imported goods, which dominates in a particular country [26].

Thus, in the modern Ukrainian economy there are many causes of inflation. However, the complexity and versatility of the problem prevents the creation of a unified and consistent concept of the causes of inflation, despite numerous studies on this problem, and the focus of these studies is very different. Depending on different economic and political processes, inflation changes and deforms, so it is necessary to carefully analyze these changes and formulate the root causes of inflation.

Consider inflation in Ukraine in the long run. Let's analyze inflation in Ukraine from 2015 to 2021.

Table 2.1 - Inflation rate in Ukraine for 2015–2020,%

Period	Inflation rate,%	Inflation,%
2014	124,9	24,9
2015	143,3	43,3
2016	112,4	12,4
2017	113,7	13,7
2018	109,8	9,8
2019	104,1	4,1
2020	105	5
2021	110	10

Consider the data in table 2.1. in the diagram (Fig. 2.2).

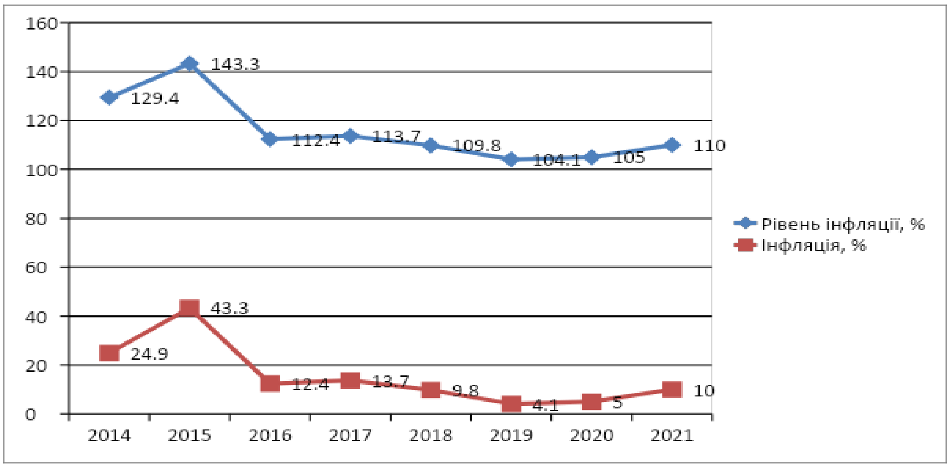

Figure 2.2- Inflation rate in Ukraine for 2015–2021,%

It is established that during the studied period there is no steady trend of changes in inflation in Ukraine. The maximum value of inflation for the last 20 years was in 2015 (43.3%). In 2016, the inflation rate was 12.4%. In 2017, the inflation rate rose slightly to 13.7%, which is 1.3 inches higher than the previous year. In 2018, inflation slowed to 9.8%, which is 4.2 inches below the actual rate of price growth in 2017. In 2019, we can see that the inflation rate fell to 4.1%. Inflation was 5% in 2020 and 10% in 2021. Thus, over the past six years, our economy as a whole and society have experienced significant price increases from 2014 to 2015, and then gradually restored the financial and balance of payments over the next four years [27].

Consequences of inflation in the study period (2015-2021): falling production, declining investment, devaluation of the hryvnia, rising unemployment, declining real incomes, devaluation of savings, exacerbation of social conflicts in society, declining effective demand and rising food prices.

Thus, in a macroeconomic system with a relatively stable price level and an extensive centralized trade infrastructure, there is a tendency of large trading enterprises to centrally set retail prices. Moreover, these prices, in accordance with marketing policy, are kept constant. In such cases, exchange rate fluctuations that do not exceed the limit are not reflected in the current level of consumption. In this context, infrastructure centralization can be not only public but also private, based on large corporate retail systems [28].

In the case of an unstable economic system with unregulated trade infrastructure, retail prices are set based on actual costs and respond to all changes in exchange rates.

The practice of pricing affects not only the mechanism of purchasing power parity, but also the duration of the lag between the change in the exchange rate and its reflection at the price level. With a centralized pricing mechanism, this lag is much larger.

An important element of the purchasing power parity mechanism is the degree of competition in the consumer market. Its aspects are important, such as the elasticity of mutual substitution of imported and domestic goods and the saturation of the consumer market. In markets with a high level of competition, the change in the price structure associated with the dynamics of the exchange rate leads to changes in commodity cash flows in the market as a whole and changes in world prices [29].

It should be noted two aspects of the manifestation of this pattern, which can occur both in isolation and simultaneously. The first is the elasticity of replacing domestic goods with imported ones. The higher this value, the more actively the market will respond to the growth of the national currency, increasing demand for imported goods and leading to lower overall price levels. The second is the elasticity of substitution of imported goods by domestic ones. The higher this level of elasticity, the less the impact of the exchange rate on the price level. Due to rising prices for imported goods, the consumer market increases the demand for domestically produced goods, thereby weakening the inflationary potential for rising prices for imported goods.

Thus, the inflation process in Ukraine is unstable and has quite serious consequences. And to overcome the effects of inflation, in our opinion, it is necessary to ensure its downward dynamics by reforming the economy, structural reforms, increasing productivity and the role of interest rates as a tool of monetary policy [30].

2.3. Features of foreign exchange market regulation

On February 7, 2019, the Law of Ukraine “On Currency and Currency Activity” came into force, as well as new regulations of the National Bank of Ukraine (NBU). They are aimed at significant liberalization of foreign currency circulation in Ukraine and are aimed at attracting more investment in Ukraine and accelerating further economic growth.

One of the most anticipated changes was the abolition of mandatory registration of foreign loans with the NBU. Previously, no loan agreement with foreign creditors could take place without registration with the NBU, which usually took a long time and required Ukrainian borrowers to provide the NBU with a significant number of supporting documents. From February 7, 2019, registration of foreign loans is not required to obtain debt financing outside Ukraine. In this case, banking institutions that service such loans are simply obliged to notify the NBU of the loan agreement, learning about it (either on the basis of the borrower's notice, or when making payments on this loan to the first bank). Information on foreign loans is stored in a special database of the NBU [31].

At the same time, according to the new regulations of the NBU, payments on the loan can be made by the servicing bank only in the presence of all credit documentation and conditions that are already reflected in the NBU database. Therefore, in practice, borrowers are still required to notify the servicing bank of the future loan before making any transactions, as well as any changes in the material terms of the loan documentation.

Under the new procedure, a resident of Ukraine wishing to obtain foreign financing must apply to his banking institution and notify the bank of his intention to use the bank account as a current account under a loan agreement with a non-resident creditor, as well as provide relevant information and documents. Once the bank has received all the necessary information, it has five working days to report to the new database [32].

However, unlike the repealed rules, the new provisions do not specify the documents / information to be submitted to the bank. It lists the information to be included in the notice, which includes, inter alia, the terms of funding and references to the main financial documents, as well as any other documents related to the implementation of the project and foreign exchange transactions in it. . Thus, as before, the existing registration of foreign loans, the new notification procedure requires Ukrainian borrowers to work closely with the bank long before the scheduled payments to clarify the package of documents to be submitted and any other requirements of the bank.

As the maximum loan repayment interest rate, which has been in force for more than ten years, has been abolished, the parties to the loan agreements expect more flexibility in applying a financing structure that is in line with their commercial intentions [33].

In its letters, the NBU recommends assessing the compliance of the interest rate with market conditions according to two main criteria: the base rate, determining the cost of financing in the relevant currency in international / local markets (eg LIBOR or discount). the exchange rate of the relevant central bank of the country and an additional margin that reflects the risks associated with the Ukrainian market and specific borrowers).

Interest rates are another issue that Ukrainian borrowers need to agree with their bank before implementing a new financing project. The parties to the loan agreement should provide for appropriate safeguards in their agreements to avoid breach of their obligations in the event of delays caused by additional due diligence of the bank [34].

From February 7, 2019, resident borrowers can also accumulate foreign currency in their current accounts, provided that these funds are used exclusively to repay foreign loans. Such funds may be accumulated during the loan period and not used for their intended purpose, but automatically sold to the servicing bank. This approach will help protect borrowers from the risk of currency fluctuations, which previously could significantly reduce the attractiveness of foreign loans.

The new currency rules give businesses much more freedom to pay for import and export transactions. Therefore, one of the most important innovations, which affected almost everyone, was to increase the term of settlements for export-import transactions from 180 days to 365 [35].

The list of grounds for exemption from penalties has also been expanded to include: force majeure, approval of the claim by international commercial arbitration or acceptance by the competent authorities of the relevant state of a document on recovery of debt in favor of a resident. in pre-trial proceedings.

Previously, only decisions of Ukrainian courts, the International Commercial Arbitration Court or the Maritime Arbitration Commission at the Chamber of Commerce and Industry of Ukraine could be considered grounds for release from liability.

In addition, the NBU regulations introduced the concept of "insignificant amount of foreign exchange transactions" (up to UAH 150,000). Therefore, banks do not monitor export-import transactions, the volume of which does not exceed the limit, respectively, banks do not require the submission of documents confirming the settlement of such transactions [36].

Regulations of the National Bank of Ukraine do not release from liability for any violation of delay in delivery for a period of 180 calendar days from the date of customs clearance of goods (in the case of export of goods), signing the act. act of acceptance-transfer (in case of export of works, transport services) or payment in advance (at import of goods, works or services). In case of violation of this term there is a penalty of 0.3% of the transaction for each day of delay.

Despite the fact that many restrictions have been imposed on foreign exchange transactions, the new rules still require Ukrainian banks to further verify most foreign exchange transactions. This rule applies to most payments made abroad by citizens of Ukraine. In particular, banks are required to conduct additional verification of any transfer in foreign currency:

- under the cross-border loan agreement;
- for repatriation of dividends to a non-resident;
- repatriation of funds received from the sale of corporate rights to a non-resident;
- for investments outside Ukraine;
- in any other case that the bank deems necessary.

The process of such verification includes: - verification of the financial statements of the parties to the agreement; analysis of funding sources; assessment of the conformity of operations to the normal economic activities of the parties; identification of the ultimate beneficial owners of the parties.

Given the significant fines that can be imposed on banks for violating the monitoring procedure, they usually carefully check all supporting documents for non-minor transactions [37].

Among the main priorities of the National Bank is the removal of a number of restrictions that create additional difficulties for foreign economic activity and discourage new foreign investment in Ukraine. This is primarily:

- gradual reduction and abolition of requirements for the mandatory sale of foreign exchange earnings;
- abolition of the requirement for prior reservation of funds for the purchase of foreign currency (purchase on T + 1 terms);
- reduction and / or abolition of the limit on repatriation of dividends;
- abolition of terms of settlements for residents' operations on export and import of goods, but not before the adoption of the draft law on counteracting BEPS;
- lifting the ban on the purchase of foreign currency on credit;
- abolition of additional supervision over the crediting of foreign currency liabilities; - increase and cancellation of the limit on the purchase of cash foreign currency by individuals within UAH 150,000 / day.

The business environment particularly noted the abolition of the strictest sanction for violating currency requirements - the cessation of foreign economic activity. However, according to the Law of Ukraine "On Currency and Currency Transactions", the State Fiscal Service is authorized to apply to legal entities penalties of up to 100% of transactions committed in violation of currency legislation.

Despite the fact that the NBU has announced its intention to reduce pressure on the foreign exchange market, a number of restrictions remain in place, including:

- repatriation of dividends may not exceed 7 million euros per calendar month;
- -repatriation of funds received by foreign investors from the sale of securities, corporate rights in Ukrainian companies or reduction of the authorized capital of a subsidiary, may not exceed 5 million euros per calendar month;
- mandatory sale of revenue in foreign currency in the amount of 30%;
- foreign currency cannot be purchased at the expense of borrowed funds in hryvnia.

According to the NBU, such restrictions will end only after the stability of the Ukrainian financial market is restored.

Despite other limitations, the business community has certainly been able to take advantage of liberal monetary controls and use them to stimulate further economic growth [38].

3. PROSPECTS OF THE FOREIGN EXCHANGE MARKET OF UKRAINE

Unfortunately, currency problems in Ukraine are being solved extremely slowly and are facing great difficulties. Weak export potential does not provide sufficient foreign exchange earnings for the country, and the lack of a normal economic situation forces exporters to hide their currency abroad, as they have no guarantees of free disposal of their money and the necessary incentives to invest in the national economy. Only the first steps have been taken to organize the system of currency purchase by national and commercial banks, currency trading with the participation of the state and its structures, and the functioning of the Ukrainian Currency Exchange.

Imbalance in the mechanism of foreign exchange transactions does not reduce the currency and balance of payments of Ukraine. Thus, inefficient monetary policy is a destabilizing factor for the economy and one of the most powerful sources of inflation.

The inclusion of currency stabilizers in the foreign economic mechanism would largely create conditions for lowering the freely convertible currency against the Ukrainian hryvnia, creating preconditions for its full convertibility, re-emigration of foreign currency funds in Ukraine, attracting foreign currency and more [39].

Thus, for the successful functioning of the monetary system of Ukraine there are a number of key conditions, the implementation of which will strengthen the monetary system and the economy as a whole. They include:

1. Ensuring adequate liquidity. This condition presupposes the existence of official foreign exchange reserves of Ukraine, which participate in international trade. It also requires incentives for commercial banks acting as foreign exchange dealers to have sufficient reserves to meet the needs of the private sector;

2. Action of the equalization mechanism (regulation). This condition requires that: Ukraine pursue an economic and financial policy that helps maintain a balanced payment system; financial mechanisms provided for the regulation of the balance of payments; the state helped maintain balance in the foreign exchange market of Ukraine.

3. Confidence in the national monetary system. If private sector firms and investors are confident that the government is pursuing a policy that leads to a balanced payment system, they will have confidence in the system. International organizations such as the IMF are trying to promote such a policy in Ukraine. In addition, Ukraine must make all necessary efforts to strengthen confidence in the national monetary system [40].

CONCLUSIONS

The foreign exchange market is a market in which the money of one country is used to buy the currency of another country. The foreign exchange market is an integral part of the international monetary system.

The modern foreign exchange market is a system of stable economic and organizational relations between participants in international settlements not only for foreign exchange transactions, but also for foreign trade, services, investments and other activities that require the exchange and use of various foreign currencies.

The foreign exchange market operates according to its own principles and laws. At the same time, the challenges of the external environment and internal problems of national economies necessitate its regulation. Instruments of currency regulation are divided into administrative-market, direct and indirect effects on participants in currency relations. However, whatever classification is taken into account, the key task of currency regulation is to ensure stable and orderly functioning of the foreign exchange market.

The foreign exchange market provides the movement of money between the economies of different countries. Countries with strong economic systems, as a rule, have reliable currencies that can meet the needs of participants in international relations without additional conversion operations. At the same time, countries with weak economic systems are forced to carry out currency conversion operations to meet the needs of various subjects of foreign economic activity.

The foreign exchange market in Ukraine is developing quite dynamically. A key component of the development of the foreign exchange market is currency regulation, which is based on monetary legislation. The main regulator of the foreign exchange market in Ukraine is the National Bank of Ukraine, which is authorized to take measures for its orderly and coordinated promotion. Foreign exchange interventions are an important lever of the NBU's influence on exchange rate stability.

The mechanism of functioning of the foreign exchange market in connection with the constant challenges of the external environment and internal financial and economic problems needs to be improved.

It is proved that the main emphasis in this process should be on the stabilization of the financial and banking system, the introduction of effective instruments of currency regulation, the development of regulatory framework for the regulation of currency relations.

The key instruments of currency regulation are foreign exchange interventions, foreign exchange policy, balance of payments regulation. Gold and foreign exchange reserves management are effective tools. The NBU should focus on increasing their volume and rational use. In addition, the functioning of the foreign exchange market requires constant monitoring to identify strengths and weaknesses in the functioning.

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APPENDICES

APPENDIX A
SUMMARY

Dryhola Y.S. Development of the foreign exchange market of Ukraine. - Qualifying bachelor's thesis. Sumy State University, Sumy, 2022.

Qualifying bachelor's thesis is devoted to the study of the foreign exchange market of Ukraine and further prospects for its development. The historical aspects of currency formation are analyzed, as well as the peculiarities of this market in Ukraine are considered. The exchange rate policy of the National Bank of Ukraine has been studied. The prospects of the foreign exchange market are assessed. The object of study is the foreign exchange market. The subject of the study is the problems of formation and prospects of the foreign exchange market in Ukraine. It is proved that the main emphasis in this process should be on the stabilization of the financial and banking system, the introduction of effective instruments of currency regulation, the development of regulatory framework for the regulation of currency relations.

Key words: CURRENCY, CURRENCY MARKET, CURRENCY MARKET OF UKRAINE; DEVELOPMENT PROSPECTS; INFLATION, REGULATION OF FOREIGN EXCHANGE TRANSACTIONS.

АНОТАЦІЯ

Дригола Ю.С. Розвиток валютного ринку України. – Кваліфікаційна бакалаврська робота. Сумський державний університет, Суми, 2022.

Кваліфікаційна бакалаврська робота присвячена дослідженню валютного ринку України та подальших перспектив його розвитку. Проаналізовано історичні аспекти формування валюти, а також розглянуто особливості цього ринку в Україні. Досліджено валютно-курсову політику Національного банку України. Оцінено перспективи валютного ринку. Об'єктом дослідження є є валютний ринок. Предметом дослідження є проблеми становлення та перспективи розвитку валютного ринку в Україні. Доведено, що основний акцент у цьому процесі слід зробити на стабілізації фінансово-банківської системи, запровадженні ефективних інструментів валютного регулювання, розвитку нормативно-правової бази регулювання валютних відносин.

Ключові слова: ВАЛЮТА, ВАЛЮТНИЙ РИНОК, ВАЛЮТНИЙ РИНОК УКРАЇНИ; ПЕРСПЕКТИВИ РОЗВИТКУ; ІНФЛЯЦІЯ, РЕГУЛЮВАННЯ ВАЛЮТНИХ ОПЕРАЦІЙ.