Foreign Exchange Intervention Strategy of the National Bank of Ukraine (discontinued in 2025)

I. General Provisions

1. This Strategy sets out the guidelines by which the National Bank of Ukraine ("the NBU") carries out transactions for the purchase, sale, and exchange of foreign currency in the foreign exchange market ("foreign exchange interventions") on the basis of the powers set forth in Articles 28 and 46 of the Law of Ukraine *On the National Bank of Ukraine*.

2. The Strategy details the provisions of the NBU's strategic documents on monetary policy.

II. Goal, Tasks and Principles of Foreign Exchange Interventions

3. The legally set goal of foreign exchange interventions – to influence the exchange rate of the national currency against foreign currencies, and general demand and supply of the money in Ukraine – shall be subordinated to the goals of the NBU, the priority of which is to achieve and maintain price stability.

4. When deciding on its policy of foreign exchange interventions, the NBU shall take the following factors into consideration:

1) the need to accumulate international reserves and maintain them at the level of generally accepted adequacy criteria to increase the resilience of the financial system and the Ukrainian economy to adverse events, and improve foreign and domestic investors' perceptions of risk

2) the insignificant depth and liquidity of the foreign exchange market, which necessitates the situational participation of the NBU in leveling demand and supply imbalances and preventing the occurrence of market dysfunction

3) the conduct of monetary policy according to the inflation targeting regime in conditions of a significant exchange rate pass-through effect to inflation.

5. The aforementioned factors determine the following tasks for the NBU when conducting foreign exchange interventions:

1) smoothing out foreign exchange market functioning. This is necessary to avoid any negative impacts from excessive exchange rate volatility and extraordinary events in the foreign exchange market on price and financial stability, as well as on sustainable economic growth

2) accumulating international reserves and maintaining them at the level of generally accepted adequacy criteria. Holding a sufficient amount of international

reserves is a mechanism to protect Ukraine's financial system and economy against external and domestic shocks, and it also promotes confidence in their sustainability among both domestic and foreign investors

3) supporting the transmission of the key policy rate as the primary tool for conducting monetary policy. This may be required in order to achieve the goals and tasks of monetary policy in a more efficient manner, in cases where key policy rate transmission is not effective enough.

6. Regardless of the particular tasks the NBU aims to achieve through foreign exchange interventions, the general principles for conducting them shall be as follows:

1) consistency of the foreign exchange interventions strategy with the inflation targeting regime. The goal of foreign exchange interventions shall be subordinated to the NBU goals, the priority of which is to achieve and maintain price stability. Foreign exchange interventions shall play a supporting role in relation to the key policy rate as the main monetary policy tool

2) consistency of the foreign exchange interventions strategy with the floating exchange rate regime. Foreign exchange interventions shall not be aimed at achieving a certain level or range of the exchange rate, but affect only its speed of adjustment. Accordingly, when conducting foreign exchange interventions, the NBU, as a rule, neither counteracts the fundamental trends on the FX market, nor strengthens them, but rather smooths their effects. This shall allow to prevent the accumulation of external and financial imbalances while performing the tasks of conducting foreign exchange interventions

3) minimum adequacy of foreign exchange interventions. The scale and frequency of foreign exchange interventions shall correspond to the minimum level sufficient for the effective performance of the abovementioned tasks. This shall allow the NBU to minimize its influence on exchange rate formation, while also promoting the development of the foreign exchange market. The NBU shall endeavor to minimize the frequency of foreign exchange interventions as the financial markets develop, their capacity for self-regulation increase, the FX market liberalize further, and international reserves increase to an adequate level

4) constructive uncertainty of the parameters and tactics of the foreign exchange interventions for foreign exchange market participants. To achieve the above goals and tasks in the most effective manner, the NBU shall define the size, frequency and moment of foreign exchange interventions based on ad hoc assessments of the prevailing market conditions. Given the high sensitivity of such information, some parameters, as well as the rationale and tactics for performing foreign exchange

interventions, shall remain out of the public view, and shall be difficult to predict by market participants. This ensures a level playing field for all market participants and the effectiveness of foreign exchange interventions. At the same time, the NBU shall remain reasonably transparent when disclosing information about its intention to conduct foreign exchange interventions, and about their outcomes. The NBU may decide to provide more detailed information about the rationale behind, and outcomes of foreign exchange interventions, provided that this will allow it to achieve the above goals and tasks in a more effective way

5) equal opportunities for all market players. The criteria for the participation of all market players in foreign exchange interventions shall be open and transparent– they shall be defined in the NBU's regulations.

III. Types and Conditions of Foreign Exchange Interventions

7. The types of foreign exchange interventions are as follows:

1) FX auction

2) single-rate intervention

3) best rate intervention

4) targeted intervention.

8. Foreign exchange interventions can be conducted on tod, tom and spot terms, as well as through transactions with derivative financial instruments. Derivative financial instruments shall be used as foreign exchange intervention tools only if their use does not lead to imbalances on the derivatives market.

9. The operational aspects and procedures for conducting foreign exchange interventions shall be determined by the respective regulatory legal and administrative acts of the the NBU.

IV. The Peculiarities of Conducting Foreign Exchange Interventions

10. Foreign exchange interventions intended to smooth out foreign exchange market functioning shall be conducted in the following cases:

1) excessive volatility of the exchange rate, which poses substantial risks to economic agents, a considerable deterioration of their expectations and, consequently, has an adverse effect on price and financial stability, as well as on sustainable economic

growth. The NBU shall decide whether or not volatility is excessive, based on its ad hoc assessment of prevailing market conditions.

2) limited ability of the foreign exchange market to self-balance as a result of existing foreign exchange restrictions and/or the substantial impact of situational factors (mismatches between days-off in Ukraine and those on the international foreign exchange markets, periods of large payments to and from the state budget, considerable one-off receipts/transfers of foreign currencyand others). In this case, the NBU may purchase, sell or exchange the amount of foreign currency required to ensure the proper functioning of the foreign exchange market.

The volumes of possible foreign exchange interventions shall be determined on the basis of an analysis of, and forecast for demand and supply of foreign currency, as well as an assessment of potential (existing) mismatches between them. The NBU may decide to conduct any of the above types of foreign exchange interventions.

The easing/lifting of foreign exchange restrictions and the development of the financial markets (including an increase of the depth and liquidity of the foreign exchange market) may gradually obviate the need for such foreign exchange interventions.

An important feature of such foreign exchange interventions is that they do not affect the fundamental trend of exchange rate changes.

3) there is malfunction of the foreign exchange market and/or temporary loss of its pricing benchmarks: if the foreign exchange market is not functioning effectively due to considerable internal or external shocks, the NBU may decide to conduct foreign exchange interventions to restore the proper functioning of the foreign exchange market. Under such conditions, the NBU can be both a buyer and a seller of foreign currency. The goal of the NBU shall be to restore the liquidity of the foreign exchange market.

Such foreign exchange interventions may not be conducted for a long period of time in one direction, and shall be stopped once the desired effect has been achieved, or shall be replaced by more effective methods for addressing shocks (including foreign exchange regulations).

Under such conditions, the scale and type of foreign exchange interventions shall be determined according to the nature of a shock and the specific circumstances that accompany it. Single-rate interventions shall primarily be applied to provide market participants with a benchmark for setting market prices.

11. Foreign exchange interventions intended for the accumulation of international reserves shall be conducted in order to gradually increase reserves to their target level. Targets for international reserves are determined in Ukraine's cooperation programs with the International Monetary Fund, or by a decision of the NBU Board in accordance with generally accepted adequacy criteria.

Such interventions shall be conducted when the supply of foreign currency exceeds the demand for it. Foreign exchange interventions should not reverse the fundamental trend of the exchange rate. Neither should they fix the exchange rate at a given level, nor strengthen the devaluation trend of the domestic currency.

Once international reserves reach their target level, the NBU will stop conducting foreign exchange interventions intended for the accumulation of international reserves. If the target level of international reserves is changed, the NBU may resume conducting such foreign exchange interventions.

Foreign exchange interventions intended for the accumulation of international reserves shal be conducted, as a rule, without setting any exchange rate targets.

12. Foreign exchange interventions intended to support the transmission of the key policy rate as the primary tool of monetary policy may be conducted in order to influence both the exchange rate and the interest rate channels of the monetary transmission mechanism, provided there are analytically justified assessments proving that simultaneously:

1) the key policy rate as the main monetary instrument is not effective enough to achieve monetary policy goals within a reasonable time horizon without deploying other monetary instruments more actively

2) the use of foreign exchange interventions is the optimal solution – supporting the key policy rate transmission with foreign exchange interventions specifically will allow the NBU to meet the goals and objectives of monetary policy in the most effective manner compared to the use of alternative monetary instruments

3) the use of foreign exchange interventions is an effective solution – the positive effect of foreign exchange interventions on the NBU’s ability to achieve its monetary policy goals and objectives outweighs the negative impact of the central bank's intervening in the market, in particular, it will not undermine confidence in the NBU’s monetary policy, will not result in a misperception of FX risks by economic agents, and will not lead to the accumulation of external and financial imbalances.

In this case, foreign exchange interventions will match the direction of the key policy rate change (easing or tightening monetary conditions). The extent of possible support for the meeting of inflation targets through foreign exchange interventions is determined by the NBU Board and is not disclosed to the general public.

V. Communications Policy

13. The NBU shall announce its intention to conduct a foreign exchange auctions on its official website as of the day the auctions shall be conducted. The NBU shall not not publish an announcement of its intention to conduct any other types of foreign exchange interventions to ensure their effectiveness.

14. The NBU shall outline its rationale for conducting foreign exchange interventions through public statements, such as press releases, made by its authorized staff, as well as in its regular publications. In view of the high sensitivity of such information, the NBU may decide not to provide details of its rationale for conducting each particular foreign exchange intervention.

15. The NBU shall publish the outcomes of foreign exchange auctions on its official website the day the auctions are held.

The NBU may publish the outcomes of other foreign exchange interventions on its official website, if required.

The general outcomes of all types of foreign exchange interventions can be provided in public statements by the central bank’s authorized persons, if required.

16. The NBU publishes on its official website generalized information about all types of foreign exchange interventions it has conducted. Such information is published once a month, no later than the fifth business day after the reporting month has ended.