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MONEY AND FOREIGN EXCHANGE MARKETS CONTACT GROUP

Friday, 22 July 2022, 11:00 a.m.–12:30 p.m.

The meeting took place in remote mode via Zoom

Discussion Summary

Topic 1. Recent developments in the foreign exchange policy and FX market regulation

(speaker – Volodymyr Lepushynskyi, Director, Monetary Policy and Economic Analysis Department, NBU)

The speaker presented the changes in the foreign exchange policy and FX market regulation approved by the NBU on 21 July 2022. The participants discussed the impact of said decisions on the state of the economy and financial markets.

In particular, the speaker noted that fixing the official UAH/USD exchange rate at 29.2549 hryvnias per dollar at the beginning of the war had helped to avert the panic, restrain the business outlook deterioration, and preserve the resilience of the financial system. At the same time, the economy went through certain structural changes and gradually adapted to the war. Thus, businesses started to look for ways to mitigate their FX and inflation risks, in particular by using various optimization schemes and finding loopholes in restrictions. Households that spent money mainly on staple goods at the start of the war, soon revived their consumer demand and started to look for ways to protect their savings.

The situation in external markets also changed: the U.S. dollar considerably appreciated against other currencies, which made the hryvnia strengthen against such currencies despite the change in structural characteristics of Ukraine's economy.

Due to the above, maintaining the strong hryvnia exchange rate required increasingly more spending of the limited international reserves. Moreover, considering the FX restrictions, the spread between the cash and cashless exchange rates continued to widen causing some additional distortions in behavior of market participants.

A one-off exchange rate adjustment coupled with fixing the exchange rate will maintain the nominal anchor amid the uncertainty, which will curb price growth, improve the outlook, and reduce the speculative component in the exchange rate pressure. All of the above will result in saving the international reserves. Instead, the option of switching to the floating exchange rate after the exchange rate adjustment had fewer advantages due to the absence of the nominal anchor of stability (currently inflation cannot serve the purpose), difficulties with the market self-balancing, and the need for a tighter monetary policy.

FX market supply and demand will balance out thanks to the implementation of additional measures in the market – namely, the introduction of stricter limits on the use of Ukrainian bank cards abroad and the permission for cashless purchase of foreign currency by households with its further placement on irrevocable term deposits in banks.

The participants were also presented the forecast of future developments, under which the deficit of the current account of the balance of payments would remain moderate in 2022–2023 and widen considerably only in 2024 due to growth in imports of investment goods. At the same time, in 2022–2023, the international reserves will stay at the current level thanks to foreign financing, and in 2024, they will grow to the pre-war level.

During the discussion, members of the Contact Group agreed that the decision on the one-off exchange rate adjustment was well grounded. They also noted that market participants had expected it for some time. However, they commented on certain difficulties to implement the NBU's decisions when banks are informed about them in an abrupt manner and do not have the time necessary for technical adjustments of internal processes.

In the context of the situation on the FX market, members of the Contact Group also expressed their wishes for expanding the possibilities to conduct transactions with investment metals and to hedge FX risks. Additionally, the participants discussed possible ways of dealing with russian and belarusian rubles considering that transactions with them are currently blocked despite the respective balances on customer bank accounts. Taking into account the tighter limits on transactions with Ukrainian bank cards abroad, the

participants discussed prevention of the risk of excessive widening of the spread between the cash and cashless exchange rates.

Operation of money market and stock market during the war was also discussed. In particular, it was noted that the interbank lending market almost stopped operating during the war and there are no quick solutions for its revival. The participants also underlined the need for more coordinated approaches to measures under the NBU's monetary policy and the government's debt policy. In particular, they did not understand the passive position of the Ministry of Finance regarding the adjustment of rates on domestic government debt securities in response to the NBU raising the key policy rate.

Based on the discussion it was noted that the NBU would continue to take measures to stabilize the situation on the FX market. However, whether the macrofinancial stability can be ensured over a long period will depend on the overall economic policy. To this end, narrowing the budget deficit, replacing monetary financing with borrowing from the market, and reducing imports through additional taxation are critically important.

List of participants

Chair of the Contact Group Yuriy Heletiy	– National Bank of Ukraine
Co-Chair of the Contact Group Oleksii Lupin	– National Bank of Ukraine
Members of the Contact Group:	
Anton Boldyriev	– Ukreximbank JSC
Alla Brovkova	– Oschadbank JSC
Andrii Varzar	– Pivdennyi Bank JSC
Yurii Hrynenko	– BANK CREDIT DNIPRO JSC
Oleksii Dmytriiev	– UNIVERSAL BANK JSC
Oleksandr Duda	– UKRSIBBANK JSC
Andrii Dutskyi	– BANK VOSTOK PJSC
Oleh Klimas	– Raiffeisen Bank Aval JSC
Anton Kovalenko	– CB PrivatBank JSC
Dmytro Lazariiev	– CB GLOBUS JSC
Stanislav Lysianskyi	– BANK ALLIANCE JSC
Viacheslav Ozerov	– CREDIT AGRICOLE BANK JSC
Vladyslav Pariokha	– TASCOMBANK JSC
Tetiana Popovych	– ALFA-BANK JSC
Andrii Potapov	– ING Bank Ukraine JSC
Anton Stadnyk	– FUIB JSC
Andrii Shpylevskyi	– OTP BANK JSC
Invited participants:	
Oleksandr Arseniuk	– National Bank of Ukraine
Nataliia Vagina	– National Bank of Ukraine
Iryna Zhak	– National Bank of Ukraine
Volodymyr Lepushynskyi	– National Bank of Ukraine
Andrii Patenko	– National Bank of Ukraine

Tetiana Ruzhanska

– National Bank of Ukraine

Mykola Selekman

– National Bank of Ukraine

Kateryna Semenchenko

– National Bank of Ukraine

Serhii Chechel

– National Bank of Ukraine