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THE IMPACT OF CURRENCY LIBERALIZATION ON THE ECONOMY OF UKRAINE

Examining the transformation of financial relations in Ukraine, in the previous article the authors analyzed the impact of foreign capital on the economic development of this country's economy and found that its concentration in certain economic activities contributed to consolidating its raw material orientation. The authors conclude that due to the distorted model of Ukraine's economic development, successful practices of developed countries to attract foreign investment and reform the financial sector are ineffective in this country's economy. Continuing the study of the transformations of financial relations in Ukraine, which are taking place under the influence of the approximation of domestic legislation to European standards, the authors could not leave aside the question of impact of the liberalization of currency legislation on the economy. Given that currency liberalization significantly affects the behavior of foreign investors, the authors conducted an in-depth analysis of legislative changes in the financial sector, and described the main results of their implementation. The positive and negative consequences of currency liberalization in Ukraine for business entities and the economy in general are analyzed. Particular attention is paid to the risks associated with the liberalization of operations related to the movement of capital and the behavior of non-residents in the financial market of Ukraine. It is concluded that Ukraine's economy with its distorted development model belongs to the financially and institutionally weak ones, hence is not presently ready to liberalize its monetary relations, which could only deepen the deformations and reduce resilience to macroeconomic imbalances[3].

Keywords: *currency liberalization, capital market, currency legislation, policy of the National Bank of Ukraine*

The world economy is undergoing serious and rapid transformations, which are largely caused by financial globalization, liberalization of foreign economic relations, and increased capital mobility. Under the influence of these factors, many countries experience a

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transformation of monetary policy, designed to increase its efficiency and ability to support economic development. No exception is Ukraine, where in recent years the National Bank has pursued a policy of liberalizing the currency regulations.

The issue of foreign exchange regulation and feasibility of currency liberalization has long been under attention for Ukrainian and foreign scholars. In particular, scientists pay much attention to the study of the concept of "currency regulation" and its definition [1-3]. A significant contribution to the development of theories on currency regulation and its impact on the economy was made in the works by T.P. Bogdan, O.I. Bereslavska, M.I. Savluk, A.S. Halchynskyi, V.A. Yushchenko, Yu.M. Bezditko, P.M. Fedosov and many others.

At the same time since the end of the twentieth century - the beginning of the XXI century, scientists have paid special attention to currency liberalization. The measure's positive aspects associated with currency liberalization include increased efficiency of financial resources allocation within the global economy; and more successful and faster integration between partner countries. Some researchers note that removal of restrictions on the movement of capital causes an inflow of foreign investment, which, in a decade can raise GDP per capita by about 6% [4, 5].

However, some scholars point out the risks that currency liberalization may provoke for developing countries that pursue inconsistent macroeconomic policies [6]. For example, a premature liberalization of monetary relations, in particular the removal of restrictions on capital movements, makes the country's economy quite vulnerable to international political and economic fluctuations, while a rapid change in the direction of capital movements (including the outflow of "hot" capital) caused by the reaction to these fluctuations can provoke a currency and financial crisis.

Also important is the risk of financial resources outflow to offshore jurisdictions, which reduces tax revenues, thereby destabilizing public finances, and increases the country's dependence on international donors and capital markets [6].

Ultimately, scholars agree that currency liberalization is an effective tool for the country's financial development, but its implementation should be preceded by effective institutional and economic strengthening.

Since 2014, when the first steps were taken to ease currency regulations in Ukraine, the opinions of domestic scholars and practitioners on the advisability of currency liberalization have diverged. Some of them are positive about the current transformations, seeing in the liberalization of currency legislation a chance to speed up the reforms and bring the country's economy closer to European countries [7]. Others are very cautious about the news of monetary policy liberalization, and they call for a more balanced approach to its implementation and consider it premature to liberalize capital transactions [8].

Scholars point out that Ukraine is currently missing most (six out of eight)of the preconditions recommended by the IMF for the removal of restrictions on capital movements developed with due consideration of the experience of member countries [9], namely: sustainable economic growth; sufficient level of forex reserves; a significant share of FDI and share capital in the inflow of capital; sufficient development level of the financial sector; high standards of prudential supervision and regulation; and positive perception by the investors of the quality of public administration and institutions in the country.

Moreover, there appear doubts about the effectiveness of currency liberalization without ensuring an adequate level of independence of the NBU from political influences, as well as reasonable fears that it may become a tool for redistribution of capital, rather than a driver to promote reforms [10].

Global experience has many bright examples when currency liberalization became a catalyst for a country's financial destabilization[4] and, in the negative development scenario, Ukraine can follow the fate of these countries.

A positive effect of currency liberalization is more probable in institutionally and economically developed countries [14]. In Ukraine, where the lack of capital for development and reform is largely due to the capital's distrust of the state authorities [14], the effect of currency liberalization could be extremely negative.

The article's objective. Given the significant impact of monetary policy on the country's economic development, it seems advisable to analyze the consequences of currency liberalization in Ukraine, and to determine its positive and negative sides.

Presentation of main material. Within the Association Agreement signed between Ukraine and the European Union, Ukraine undertook to approximate its legislation to European standards, in particular, in terms of ensuring the free movement of capital [15]. To comply with these requirements, the National Bank of Ukraine developed a roadmap for lifting the currency restrictions [16], which is being gradually implemented.

In 2018, in fulfilling its commitments to the European Union, Ukraine, despite its experience of the devastating economic effects of the premature liberalization of foreign exchange transactions and the practice of applying certain restrictions on capital account transactions in developed countries, adopted a new currency legislation. The key innovations were: freedom to perform foreign exchange transactions; granting non-residents all the rights provided to Ukraine's residents in the field of foreign exchange transactions; unlimited rights of the NBU in regulating foreign exchange transactions and actual liberation of the NBU from responsibility for monetary policy in the country [17].

Undoubtedly, the previous currency legislation, which was the Decree of the Cabinet of Ministers of Ukraine "On the system of currency regulation and currency control" [18] (hereinafter - the Decree) needed to be updated, as some of its rules lost relevance. Besides, the Decree's uncertainty as to the general orientation (purpose) and other key components of monetary policy (principles, exchange rate regime) had a negative impact on Ukraine's monetary policy.

Nevertheless, in our opinion, the Decree's main provisions on the restrictions in the form of a list of foreign exchange transactions related to capital movement, which are aimed at curbing the outflow of capital, still remain relevant.

The study of legal changes introduced by the Law of Ukraine "On Currency and Cur-

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[4]1. Under pressure from American capital, Great Britain, as payment for a loan received from the United States in 1946 ($ 3.7 billion), in July 1947 *resumed the free exchange of the pound sterling for dollars, which led to a local currency crisis*. 35 days later, the country imposed even tighter currency restrictions [11].

2. *The abolition of currency restrictions in September 1968 led to the "flight" from France of 15 billion French francs, but after the restoration of these restrictions, the outflow of capital fell sharply and the balance of short-term capital became positive* [11].

3. There are indications that the liberalization of the financial account in the Czech Republic was premature and played a significant role in the 2008 currency crisis [12].

4. In Iceland, the liberalization of capital movements in the absence of proper prudential regulation and restrictions on capital inflows exceeded the capacity of the economy, leading to a deep crisis triggered by the global crisis of 2008. Returning to the practice of restricting capital movements in Iceland was a necessary step taken by the authorities to manage the process of macro-financial stabilization [9].

5. For Hungary, whose banking sector has a significant share of foreign capital, the consequences of the global financial crisis of 2007-2008 became one of the most dramatic among the countries of the region [13].

rency Transactions" [17] allows to identify some positive and negative consequences for the economy and for the activities of economic entities.

In particular, the following provisions were positive for doing business:

a) *the abolition of*: sanctions in the form of termination of foreign economic activities for violation of payment deadlines; requirements for preliminary reservation of funds in hryvnia for the purchase of foreign currency; ban on the purchase of foreign currency for borrowed funds; restrictions on the transfer/purchase of foreign currency as guarantee fees for the participation in tenders, which provide for the supply of goods;

b) *granting permission for*: the accumulation of purchased foreign currency for payments on external borrowings before the next payment dates established by the agreement - under any loan agreement, and not only on loans obtained under interstate and intergovernmental agreements and agreements under state guarantees; banks carry out operations on purchase and sale of foreign currency for hryvnia with resident clients to hedge the clients' risk of changes in foreign exchange rates on a "forward" basis and on the terms of margin trading on the transactions of goods export and import, as well as credits and loans from nonresidents.

At the same time, it should be noted that the introduction of such changes was possible even under the "old" currency legislation, because these rules were introduced by the relevant regulations of the National Bank of Ukraine.

Business entities also welcomed the measures to liberalize current account operations, in particular, *the abolition of the mandatory sale of foreign currency from exports* of goods and services, the increase from 185 to 365 days of the *deadline for settlements* under export-import contracts and the abolition of the deadline for settlements on export-import operations with the amount of less than 150 thousand UAH [19].

However, the introduced novelties give exporters the opportunity to take steps that can negatively affect the country's economy and macroeconomic stability. Thus, exporters have the opportunity to hold foreign currency pending a change in the exchange rate, which threatens with reduction of foreign currency sales in the exchange market, delayed return of foreign currency earnings and shortage of foreign currency due to importers' transactions abroad. As a result, such changes may negatively affect the Ukrainian foreign exchange market and hence the exchange rate[5].

Moreover, the National Bank of Ukraine from May 16, 2019 [20] guided by the new law and at the request of the Cabinet of Ministers of Ukraine [21], abolished the rules on the deadlines on payment for imports of goods and services provided under agreements of the Ministry of Health of Ukraine with specialized organizations. In our opinion, this may lead to a diversion of budget funds for free lending to nonresidents.

As we can see, some of the currency novelties, which are positively perceived by business, carry hidden threats to the stability of Ukraine's economy, which can appear any time, significantly affecting this country's macroeconomic stability.

At the same time, *the liberalization of capital transactions* is of particular attention and concern. The most noticeable among the novelties here are the following:

[5]The experience of the 26-year period of validity of the "old" currency legislation, in particular, the periodic waiver of the mandatory sale of foreign currency by residents, as well as increased deadlines for settlements on export-import transactions (given the condition of this country's economic development) - confirms the significant impact of such steps on the foreign exchange market. and their prematurity for the domestic economy.

1. Liberalization of non-residents' operations with IGLBs

Non-residents are encouraged to conduct IGLBs transactions and *their access to purchase and sale of IGLBs is simplified* through Ukraine's connection to the Clearstream International Depository.

In particular, Ukrainian banks are allowed to:

– grant purpose-oriented hryvnia loans to non-residents for up to 14 days for the purchase of IGLBs;

– carry out transactions with non-residents on "swap" terms if they spend their funds for the purchase of IGLBs, on "forward" terms if they purchase of foreign currency for hryvnia and on marginal trade if they purchase and sell foreign currency for hryvnia (while it is prohibited for the banks to carry out such transactions with residents).

In addition, restrictions on the settlements on IGLBs transactions in foreign currency were lifted in the secondary stock market.

This liberalization of capital movements led to a rapid increase in non-residents' investments in government securities in 2019 - January-February 2020. At the same time, in our opinion, the main reason for the IGLBs' attractiveness for non-residents was the inflated yields on the hryvnia IGLBs compared to both bank deposits and foreign financial instruments. In particular, the weighted average yield on the hryvnia IGLBs in 2019 was 16.93%, and on those having a maturity of up to 1 year (the issue of such IGLBs was almost 104 billion UAH, or 45.6% of the total issue in 2019) it was even 18.4% [22]. The yield on government securities in the group of comparable countries was 4-5 times lower. Moreover, during 2019, the level of profitability in global markets showed a declining trend.

The volume of hryvnia *IGLBs owned by non-residents* increased from 6 billion UAH in early 2019 to 125 billion UAH at the end of February 2020, i.e. by 119 billion UAH, or 20.4 times, and their *share in the total hryvnia IGLBs - from 1% to 17.5% [23, 24]*.

The record (for all years) amount of the placement of hryvnia IGLBs (227 billion UAH) in 2019 became possible thanks to non-residents, who purchased almost half of their issue, and in January-February 2020 - almost 40%. Without the recapitalized IGLBs, the portfolio of hryvnia IGLBs of resident banks is 3.6 times smaller (at the end of February 2020) than non-residents'. In the liquid (market) amount of hryvnia IGLBs, which does not include illiquid IGLBs owned by resident banks and IGLBs owned by the NBU[6], non-residents own 67.6% (Fig. 1). The huge share of foreign capital in Ukrainian bonds increases the speculators' sensitivity to events in Ukraine, which increase this country's exchange-rate and financial vulnerability.

The study shows that the inflow of speculative foreign capital through the IGLBs channel (2019 - 4.3 billion USD) was the main factor in the increase in the interbank foreign exchange market (its volume in 2019 exceeded 93 billion USD; while the average daily volume of transactions between banks amounted to 375 million US dollars, which is 1.5 times more than in 2018). As a result, the hryvnia exchange rate consolidated significantly and international reserves increased.

In 2019, one could observe a direct relationship between the strengthening of the exchange rate (increase in sales of currency by customers) and the purchase of non-residents' hryvnia IGLBs. An argument in favor of this statement is the fact that the increase in IGLBs owned by non-residents occurred within 1–3 days after the dates of the increase in currency sales by customers and consolidation of the exchange rate. At the same time, the growth of the foreign exchange market was influenced by other factors, primarily by the

[6] IGLBs maturing in 2047, whose yield is either fixed or tied to inflation, as well as IGLBs issued to capitalize the DGF.

sale of foreign currency by Naftogaz in November-December 2019[7].

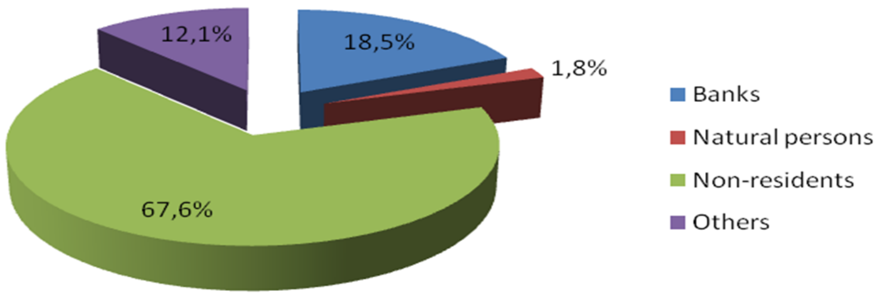

Fig. 1. The structure of the market portfolio of hryvnia IGLBs by owner as of the end of February 2020, %

Source: calculated according to the National Bank of Ukraine (https://bank.gov.ua/ua/statistic/sector-financial/data-sector-financial#2fs) and the Ministry of Finance of Ukraine (https://mof.gov.ua/ uk / ovdp-shho-perebuvajut-v-obigu)

The exchange rate of the hryvnia against the US dollar in 2019 strengthened by 14.4% compared to 2018, while its average daily value was by 5% higher than in 2018. In January-February 2020, there was a slight devaluation of the national currency, but it did not compensate for the revaluation of 2019.

Ukraine's forex reserves increased from 20.8 billion USD in yearly 2019 to 27 billion USD at the end of February 2020[8], i.e. by 6.2 billion dollars. USA. It is noteworthy that forex reserves could have increased more if the NBU had repurchased the entire amount of foreign currency intended for the non-residents' investments in hryvnia IGLBs in 2019. However, the NBU deliberately refused to use this opportunity, because, judging by the Report on Monetary Policy in 2019 to the Council of the National Bank of Ukraine [25], a more active purchase of foreign currency by the NBU to limit the strengthening of the hryvnia would have meant: *"Refusal from the declared floating exchange rate; de facto transition to the establishment of a certain "protection level" of the exchange rate."*

On December 5, 2019 [26], the Governing Board of the National Bank gave a general negative assessment of the National Bank Board's activities as to the formulation and implementation of exchange rate policy in 2019. The Board of the National Bank of Ukraine was of a different opinion that positively valued the impact of the hryvnia's consolidation of this country's economy [27]. The arguments of such an assessment are that "the decreased

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[7] In November 2019 – about 300 million USD received from the placement of 500 million USD worth of Eurobonds; in December: December 26, 2019, according to the NBU, at a currency auction - 730 million USD; December 28, 2019 - 500 million USD of the 2.9 billion that Naftogaz received from Gazprom according to court decision, redeemed by the NBU on a closed interbank auction.

[8] In 2019, the excess of currency sales over purchases amounted to 8.37 billion USD, and the NBU's net purchase of currency - 7.9 billion USD, increase in forex reserves - 4.5 billion USD, because planned servicing on debt obligations to the IMF was made. For January-February 2020 - excess of currency sales over purchases - $ 0.64 billion USD, NBU's net purchase of currency - 0.8 billion USD, and increase in forex reserves - 1.7 billion USD, because, in addition to revenues from the foreign exchange market, the other sources were the purchase, from the Ministry of Finance,of the currency received from the placement of foreign currency T-bills (due to significant non-execution of the revenue side of the state budget), Naftogaz (funds received from Gazprom), and the revaluation of assets.

debt-to-GDP ratio and the long-term macrofinancial stability affected the perception of investors, which was reflected in higher ratings and lower cost of borrowing" [25]. At the same time, the Board of the National Bank acknowledges that the strengthening of the hryvnia: "strengthened the effect of the worsened external prices on the reduction of metallurgical output, but was not its main cause; the revaluation of the hryvnia reduced budget revenues from import taxes. However, this factor can only explain just over half of the tax revenue shortfall."

In our opinion, the assessment of the impact of consolidated national currency on Ukraine's economy cannot be positive, because:

– consolidated hryvnia exchange rate and currency liberalization did not become important factors for the inflow of capital into Ukraine in the form of foreign direct investment, although, when drafting the new legislation, the National Bank emphasized that "the current currency legislation has lost its effectiveness and has turned into one of the obstacles to the capital inflow to Ukraine" [28].

In 2019, foreign direct investment in the form of share capital in Ukraine amounted to 2.12 billion USD, which is only by 150 million USD more than in 2018. And this was to be expected, because in the absence of any legal barriers to foreign direct investment in Ukraine and before the adoption of new currency legislation, the main motivation for foreign investors was and is the access to the most profitable market segments and the possibility of quick payback on invested funds [29];

– due to the consolidation of the hryvnia exchange rate, the shortfall of the State Budget of Ukraine, according to the NBU, from import taxes alone, exceeded 20 billion UAH in 2019[9], and in January 2020, according to the Accounting Chamber, - 2.3 billion UAH [30];

– the consolidated exchange rate suppressed exports and stimulated imports. The exporters' losses due to this factor in 2019 can be estimated at 86 billion UAH (in terms of the actual volume of exports of goods and services, and provided that the average daily exchange rate in 2019 remained at the level of 2018), and the importers' gain – at 102 billion UAH.

The situation on the foreign exchange market in March-April 2020 showed the economic unfoundedness of the consolidation of the hryvnia in 2019. At the same time, it confirmed the prematureness of large-scale currency liberalization. Due to the threat of default in Ukraine and the beginning of the global financial crisis associated with high uncertainty about the further spread of coronavirus, *in March 2020 the inflow of* non-residents' *foreign currency to IGLBs instantly turned into its outflow*. The amount of hryvnia IGLBs owned by non-residents in March 2020 decreased (not only due to repayment, but also due to sales on secondary market) by 7% in just one month. *The situation in the foreign exchange market changed dramatically: the demand for foreign currency exceeded its supply.*

Increased demand for foreign currency, primarily due to the flight of non-residents from the IGLBs market, was further aggravated by the residents' negative expectations about devaluation of the national currency and by the intensified speculative operations by the banks', whose excessive hryvnia mass in February 2020 began to flow from the NBU deposit certificates (NBU certificates concentrate on average about 150 billion UAH, or more than 6 billion USD), to the foreign exchange market (due to the significant reduction in the discount rate and a corresponding reduction in interest rates on deposit certificates).

Although the National Bank of Ukraine spent 2.4 billion USD to support the exchange

[9]Tax revenues for 2019 amounted to 799.8 billion UAH compared to 840.6 billion UAH approved by the Law of Ukraine "On the State Budget for 2019", i.e. the shortfall amounted to 40.8 billion UAH, out of which, due to depreciation - more than 50%, i.e. at least 20 billion UAH.

rate, increased demand for foreign currency in March 2020 led to a rapid devaluation of the hryvnia (14.2%, as compared to early 2020 - 18.5%).

The flight of non-residents from the IGLBs market was also observed in April – May 2020. Thus, during April and 22 days in May 2020, the amount of hryvnia IGLBs owned by non-residents decreased by another 12 billion UAH, which however did not depreciate the national currency. Moreover, during this period the hryvnia strengthened by almost 5% and forex reserves increased. The excess of the foreign currency's supply over its demand in the foreign exchange market was due to a significant decrease in the purchase of foreign currency by importers (due to quarantine caused by the coronavirus pandemic) and a decrease in speculative transactions (due to uncertainty about further hryvnia exchange rate dynamics).

The trends that emerged in the spring may be repeated, and a significant share of foreign capital in Ukrainian IGLBs (over 60% of their market volume) still remains one of the main risks of the hryvnia devaluation. Therefore, it is advisable to prevent the scenario of mass sale of hryvnia IGLBs by non-residents to the National Bank of Ukraine for further repatriation of capital. Currently, such a possibility exists due to the lifting of the ban on the purchase of IGLBs by the National Bank of Ukraine on the secondary market [31].

Along with this, the risks of speculation and destabilization of the situation on foreign exchange market, associated with the NBU's removal, during 2019-2020, of other restrictions that used to prevent speculative transactions in the foreign exchange market. Among such risks are the following:

– in 2019, banks were given the right to independently, based on their internal documents, decide on the requirement, for the clients to submit, together with the application, documents related to purchase / sale / exchange of foreign currency. Prior to that, the procedure for purchase of foreign currency by market participants and the grounds and necessary documents for its purchase for residents and non-residents were clearly formulated by type of transaction in the NBU regulations;

– in January 2020, the limits of banks' foreign exchange position were doubled, which expanded their ability to conduct their own operations on the interbank foreign exchange market;

– in February 2020, foreign banks were given the right to carry out transactions on purchase and sale of foreign currency for the hryvnia among themselves, by making payments through correspondent accounts in Ukrainian banks [32].

It is worth noting that other countries in order to protect the national currency severely restrict currency speculation. Thus, the day after the record fall of the Turkish lira (May 7, 2020), the Agency for Regulation and Supervision of Banking in Turkey banned Citigroup, BNP Paribas and UBS from conducting lira transactions [33].

2. Liberalization of transactions on the receipt of foreign loans and credits by residents

Abolition of the requirement for resident borrowers to comply with the *maximum interest rates* set by the NBU (which depended on the type of loan currency, type of interest rate, and the period of the use of credited funds under the agreement) when attracting foreign loans (and, accordingly, abolition of the provision that requires the NBU to set this rate, and the authorized bank - to control the amount of payments for the use of credit with the application of the maximum interest rate, as well as sanctions against the authorized bank for failure to perform control functions) *led to increased cost of external borrowing*.

Under the "old" legislation, interest rates on loans from non-residents with a fixed interest rate in the currency of the 1st group of the Classifier of Foreign Currencies were limited: with borrowings of up to 1 year - no more than 9.8% per annum; from 1 to 3 years - no more than 10% per annum; and over 3 years - no more than 11% per annum. After the abolition of this provision, in 2019 the cost of external borrowing of up to one year in USD reached 10%, and in euros - 11.6%, for more than one year - in USD12.5%, and in euros 13.5%.

This tendency is quite expected, given that the vast majority of external borrowings are residents' funds previously withdrawn from Ukraine [28]. *Banks*, as agents of foreign exchange supervision, which are responsible for analyzing, in particular, foreign exchange transactions under credit agreements with non-residents, *cannot ensure the outflow of capital from Ukraine caused by overstated interest rates*, because:

– recommendations for assessing the compliance of the cost of external borrowing to market conditions, set out in the letter of the NBU of 17.01.2019 № R / 25-0006 / 2831 [34], are just recommendations and do not allow for high quality of such assessment. Practical application of the proposed assessment criteria raises a range of questions (lack of requirements for comparable data for comparative analysis, for clear definition of related parties, for reliability and completeness of information base, etc.), can be interpreted differently, and allows to choose different indicative interest rates;

– the activities of Ukraine's banking sector, especially in 2014-2015, testified not only to the banks' inability to ensure effective control over the prevention of their clients' risky operations, but also demonstrated absolute ineffectiveness of the risk management system in the vast majority of banks, *construction of schemes for withdrawal of funds abroad by banks themselves, and banks' participation in money laundering*, which led to the emergence of many troubled banks in 2014-2016 [35].

For residents of Ukraine, additional opportunities opened up for capital withdrawal by overestimating the cost of external borrowing, such as:

– under contracts with non-residents to obtain loans without the use of accounts opened with banks in Ukraine, because after liberalization, information on such contracts is not even submitted to the NBU;

– and granting residents the right to receive loans from non-residents in hryvnias.

Thus, a legal possibility to "withdraw" funds under loan contracts appeared for Ukraine's residents even without obtaining a loan, as the requirement to prohibit resident borrowers from paying interest on loans until the actual receipt of credit funds from non-residents in Ukraine was abolished.

3. *Liberalization of operations related to investments from and to Ukraine*

Due to the abolition of electronic licenses and the introduction of automatic e-limits for investing abroad, for placing funds on own accounts outside Ukraine, and for granting loans to non-residents in foreign currency, individuals transferred more than 85 million euros abroad in just 10 months of 2019 [36]. In December 2019, the National Bank doubled (up to 100 thousand euros / year) the e-limit for such foreign exchange transactions.

Granting permission to make foreign investments in Ukraine in the currency of the 2nd group of the Classifier of Foreign Currencies, in our opinion, opens the possibility for non-residents to exchange funds in limited-conversion currency for those in fully convertible currency, i.e. can potentially help the outflow of funds in freely convertible currency from Ukraine.

Presently, the safeguards against the risk of intentional company bankruptcy via investing abroad have been abolished, as the ban is imposed only when investing in an aggressor / occupier country, offshore zones and countries that do not comply with FATF recommendations. While before liberalization, the NBU had the right to refuse licenses to resident applicants on clearly stated grounds, in particular, in the case of: initiation of bankruptcy proceedings against the applicant or the applicant's being in the process of bankruptcy termination; insufficient justification of the economic feasibility of the investment transaction and / or insufficient financial capacity to carry out this transaction.

Ukrainian experience shows that the liberalization of relations in this country's economic sphere and the use of exclusively market regulatory instruments led to withdrawal of national capital abroad, became root cause of currency and, consequently, financial crises, and contributed to the emergence of ***speculative model of financial system*** and ***distorted development model***, re-orientation of government policy towards the use of own financial resources for external financing and as a result - external dependence of this country's financial system and gradual transition of its economy under the control of foreign creditors and investors, a dictate of the monopolists in the energy market etc.

Only foreign countries and representatives of Ukrainian politically influential capital, whose business is registered in offshore zones, have benefited from such a policy, as ***for the period 2000-2019 alone*** non-residents ***received 106 billion USD*** in the form of income from investments (direct, portfolio and others) in Ukraine.

Conclusions

The study suggests that the liberalization of foreign exchange transactions in Ukraine in the absence of a proper strategy to improve this country's balance of payments and reduce external debt has led to an influx of speculative capital and intensified the residents' speculative transactions, and sharp fluctuations in the exchange rate of the national currency.

Along with this, the currency liberalization implemented in 2019-2020:

– *confirmed* that the inflow of speculative capital into the country can instantly reverse into an outflow and nullify the exchange rate stability;

– once again *demonstrated* that Ukraine's economy serves as a platform for speculative profits for foreign investors and money laundering via offshore jurisdictions;

–significantly aggravated the risks of destabilization of the situation in the foreign exchange market and rapid devaluation of the national currency, and increased the current account deficit and this country's debt dependence.

Free movement of capital and free-floating exchange rate, against the background of high external vulnerability of Ukraine's economy caused by significant public debt and the cost of its servicing, high level of trade openness, negative current account balance and a budget deficit are among the main factors of sharp fluctuations in the national currency exchange rate and of inefficient use of forex reserves. They provoke speculative actions of individual residents and non-residents aimed at generating additional profits, periodic shocks in the foreign exchange market, and lead to the flight of funds from Ukraine, support the development of other economies and enrich a limited number of residents who are owners of offshore companies. .

Further liberalization of foreign exchange transactions in Ukraine, which is already one of the "leaders" in the global ranking of economic vulnerability, could lead to complete destruction of this country's financial system and real sector, and in the worst-case scenario would threaten with the loss of sovereignty.

It is obvious that in order to reduce the risks of deteriorating balance of payments and destabilizing financial system, Ukraine needs to develop and legislate a comprehensive set of measures aimed at designing protective and stabilizing mechanisms of the foreign exchange market and sustainable development of this country's economy.

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ВПЛИВ ВАЛЮТНОЇ ЛІБЕРАЛІЗАЦІЇ НА ЕКОНОМІКУ УКРАЇНИ

Досліджуючи питання трансформації фінансових відносин в Україні, у попередній статті[12] *автори здійснили аналіз впливу іноземного капіталу на економічний розвиток вітчизняної економіки та виявили, що його концентрація в окремих видах економічної діяльності призвела до закріплення сировинної спрямованості вітчизняної економіки, загострення внутрішньоекономічних проблем. Було зроблено висновок, що, зважаючи на деформовану модель економічного розвитку України, успішні практики розвинених країн щодо залучення іноземних інвестицій та реформування фінансового сектора малоефективні в умовах вітчизняної економіки. Продовжуючи дослідження трансформацій фінансових відносин в Україні, які відбуваються під впливом зближення вітчизняного законодавства із європейськими нормами, автори не могли залишити осторонь питання впливу лібералізації валютного законодавства на економіку. Зважаючи на те, що валютна лібералізація істотно впливає на поведінку іноземних інвес-*

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торів, у статті проведено глибокий аналіз законодавчих змін у фінансовому секторі та охарактеризовано основні результати їх впровадження. Проаналізовано позитивні та негативні наслідки валютної лібералізації в Україні для суб'єктів господарювання та економіки загалом. Особливу увагу приділено ризикам лібералізації операцій, пов'язаних із рухом капіталу та поведінці нерезидентів на фінансовому ринку України. Зроблено висновок, що вітчизняна економіка, що має деформовану модель економічного розвитку, належить до фінансово та інституційно слабких держав, не готова до лібералізації валютних відносин, яка, в свою чергу, лише сприяє поглибленню деформацій в економіці та знижує її стійкість до макроекономічних дисбалансів[13].

Ключові слова: *валютна лібералізація, ринок капіталу, валютне законодавство, політика Національного банку України*

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