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THE CHOICE OF EXCHANGE RATE REGIME IN THE CONTEXT OF EXCHANGE RATE POLICY IN UKRAINE

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Summary. The aim of the article is to identify and study the optimal exchange rate regime for Ukraine taking into account current trends on the global and domestic markets. The author emphasises the necessity of transition to a more flexible exchange rate regime and gives reasons for the benefits of such a step. The main factors causing devaluation pressure on the national currency have been determined and the positive effects of restraining the exchange rate at the undervalued level for domestic producers have been analyzed.

Key words: *exchange rate, exchange rate regime, exchange rate policy, monetary sphere, exchange market, national economy, undervalued exchange rate, fixed exchange rate, floating exchange rate.*

Statement of the problem. The current stage of global financial instability defines the necessity of a more rapid transition to market principles of exchange rate that will allow to avoid distortions in the monetary sphere.

In Ukraine the relevance of changes in exchange rate regime is caused by global challenges increasing for the national economy and the negative trends on the international exchange markets together with the accumulation of domestic imbalances in the national financial system that eventually leads to macroeconomic instability in Ukraine.

Justification of scientific results. The growth of potential impact of currency factors on the national economies of some countries is especially noticeable in the processes of mutual interlocking of global financial and economic links and acquires strategic importance along with the issues that can influence the real status of the world or disrupt the system of international relations. In such a case the exchange rate is the indicator measuring the degree of the influence and at the same time it is the subject of regulation and is subordinated to market laws, factors etc. However, it is obvious that the level of the exchange rate in the short run is determined not only by market and monetary factors, but also depends on the exchange rate regime of every state.

When choosing the exchange rate regime countries have to find a compromise between stability and flexibility that is between a fixed exchange rate regime and a flexible one.

The professionals of IMF have determined the following most significant disadvantages of fixed exchange rate regimes:

- restriction of the use of other macroeconomic policies and reduction of the monetary policy effectiveness;
- increase of sensitivity to deploy monetary and financial crises;
- emergence of threats of speculation attack and crashes.

Consequently, international experts recommend the countries with emerging markets the transition to a more flexible exchange rate regime, which without bias will reflect trends in the foreign exchange market and will be alert to external shocks. Many countries introduce a gradual transition to a freely flexible exchange rate where an intermediate step is to set the trading band within the specified range. As a part of this strategy, the exchange rate of the national currency is maintained at slightly undervalued level making the national product more attractive on the foreign markets.

International experts consider maintaining the exchange rate at the undervalued level as a necessary condition for a dynamic growth and employment increase in developing countries. Moreover, this level allows domestic enterprises to attract the resources of overseas companies due to the rapid increase in international trade. This fact is of great essence under global economic conditions where producers from developed countries try to find favourable terms for investment and location of production, and developing countries compete with each other in order to create the conditions for attracting foreign direct investment, including through the undervalued exchange rate, which is an important factor in the development of domestic production. It may also indirectly stimulate national technological progress, create conditions for the development of new modern high-tech industries, promote the development of new methods for streamlining the production and marketing to penetrate into the global markets.

Despite a range of advantages of undervalued exchange rate of the national currency, it also demonstrates some risks:

- devaluation may cause an increase in inflation by implementing the «transfer effect» for direct and indirect channels;
- holders of foreign currency credit face many problems because the devaluation leads to changes in the cost of a credit and its servicing, and as a result it causes an increase in foreign exchange risks;
- restraint of the exchange rate at the undervalued level does not always lead to economic growth, especially taking into account the abovementioned arguments when the country gets net borrowing from abroad.

In 2012 in Ukraine formed some negative trends, the most noticeable of them are:

- overall economic growth in the first nine months of 2012 was 1,1 %, including the third quarter of 2012, GDP fell by 1,3 % according to the State Statistics Committee;
- reduction of international reserves during January-September of 2012 to 2.5 billion U.S. dollars and as of October 1, 2012, they amounted to 29,3 billion U.S. dollars;
- negative current account balance for the first half of 2012 was 5,32 billion U.S. dollars, negative trade balance amounted to 6,2 billion U.S. dollars, financial account surplus was 4,2 billion U.S. dollars.

The restraint of fixed exchange rate against the dollar led to the situation when the products manufactured in Ukraine began to lose their competitiveness, and the export slowed down. In September 2012 compared to September 2011 exports of goods decreased by 7 %.

One should pay attention not only to purely quantitative growth of the current account deficit of balance of payments in Ukraine, but also to its «quality content», that is if the excess of goods and services import over export, considering the commodity structure of Ukrainian export with a high proportion of low-processed goods and with low value added – non-precious metals, minerals and agricultural products is a logical consequence, then the decline in national savings is an unfavourable phenomenon in order to balance the current account.

At the same time, slow growth of financial account surplus to cover the current account deficit is a kind of reflection of unfavorable economic conditions on the international financial markets and low creditworthiness of domestic economic agents and the state as a whole.

The increase of global challenges for Ukraine due to global economic slowdown, the recession in the European Union zone, the decline in the economic growth of China and the slow rates in the USA is an additional factor of pressure on the national economy, which is manifested in the formation of the unfavorable situation on the world commodity markets and reduction of the foreign demand for domestic products. Taken together, these factors create quite logical conditions for natural decrease in exchange rate of hryvnia. Therefore, moderate and controlled devaluation would help national producers «let off steam», consequently one could notice the intensification of export-oriented industries, and hence the inflow of foreign currency.

Conclusions. Thus, in Ukraine the undervalued exchange rate of hryvnia should be primarily used as a catalyst for economic processes in terms of domestic production development and stimulation of domestic producers by providing them with price advantages on the foreign markets.

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