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UKRAINE'S EXCHANGE POLICY: A QUARTER OF UNCERTAINTY

The article deals with the basic elements of the exchange policy during Ukraine's independence – including monetary sovereignty, the degree of currency convertibility, the exchange rate regime, the exchange control mechanism and cooperation with the international monetary fund. The author provides a detailed analysis of the problem of selecting the appropriate direction of the exchange policy and points to the continuing uncertainty about this choice, and hence the lack of efficiency of the exchange policy in general.

Ukrainian practice makes you pay attention to such a characteristic of the exchange policy as its focus on the own currency, i.e. the introduction of legal rules governing the relationship arising through use of the national currency in the currency operations (foreign exchange transactions between residents and within non-residents). Given this, the exchange policy should be formed on the basis of the principles adopted in other areas of the economic policy in order to ensure the integrity of a strategic approach to achieve the goals of a comprehensive economic policy (including exchange relations).

The exchange policy should provide coordination and reasonable relationship of different components of the economic policy, in both internal and external areas, including the distinct interaction between national and international institutions of the monetary regulation. Only the presence and the use of the above analytical framework of monetary policy – in the form of professionally prepared and politically coherent laws, concepts, strategies and action programs in various fields of economy and policies – could provide certainty, consistency and effectiveness of the state monetary policy.

Unfortunately, Ukraine was forced to implement its exchange policy in the absence of almost all previous conditions, which caused the uncertainty of the state monetary policy as regards its key elements, such as a general orientation (goal), the degree of currency convertibility, the exchange rate regime, foreign exchange market and currency control institutions. In addition, the most negative way on the foreign policy reflected the general uncertainty about the economic policy and overall strategy for economic development. Such uncertainty caused a chain reaction of uncertainty as to some important elements of the exchange policy.

Key words: exchange (monetary) policy, monetary sovereignty, convertibility, exchange rate, exchange controls, the IMF.

JEL: E52, F31

The issues of currency* regulation and currency policy in Ukraine have been a subject of constant attention of Ukrainian researchers, including such well known scholars as A.Halchynskyy, V.Heyets, A.Hrytsenko, S.Korablin, V.Mischenko, B.Sobolyev, T.Unkovska, R.Shpek, V.Yurchyshyn and others. Such attention is

* The author uses words "currency" and "[foreign] exchange" as synonyms.

not accidental, because *currency policy is one of the most difficult elements of economic policy*, as it is like a tight knot of problems whose solutions are mostly related to other areas of economic strategy, such as monetary, trade, investment, integration, social, etc., including even purely political issues.

Ukrainian practice urges for special attention to such seemingly self-understood characteristic of currency policy as its focus on its own currency, i.e. establishment of a system of legal rules governing the relations arising from the use of the national currency in transactions with currency values (foreign currencies) and with non-residents.

Given this, currency policy should be formed on the basis of principles adopted as a basis for other areas of economic policy in order to ensure the unity of the strategic approach to achieve the objectives of comprehensive economic policy in the sphere of specific exchange relations.

Currency policy should ensure the coordination and rational relationship between different components of economic policy both in domestic and external relations, including the distinct interaction between national and international institutions of currency regulation. It is exactly the availability and use of such an analytical framework of this policy – in the form of professionally prepared and politically coherent laws, concepts, strategies and programs in for action in different fields of economy and policy – that provide certainty, consistency and effectiveness of the national currency policy.

Unfortunately, *Ukraine was forced to implement its currency policy in the absence of almost all above mentioned conditions*, which caused uncertainty of the national currency policy as to its key elements, such as general orientation (goal), the degree of convertibility of the national currency, exchange rate regime, and structure of exchange market and organization of currency control.

It seems appropriate to note that, out of the three main blocks of the system of currency regulation, – the degree of convertibility, exchange rate regime and institutional structure of the currency system – we have traditionally paid the most attention to the exchange rate formation, while the decisive question is the degree of currency convertibility (because, with low convertibility, the question of exchange rate is "removed" by itself, as, at the expense of restrictions, any exchange rate can be kept), and, in terms of organization, when the currency system is created "from scratch", the most difficult is exactly the institutional structure (which we could not bring to the "standard" level during a quarter of a century).

1. Uncertainty of the general economic policy

During the "half-life" of the USSR, i.e. on the eve of the independence of Ukraine and in the first months of 1992, dominated a national patriotic confidence in the significant economic potential of Ukraine. "Romantic" vision of the future economy of independent Ukraine was based on superficial statistics, according to which the economy of the Ukrainian SSR was a key element in the overall USSR economy, which not only satisfied its own needs but also "sustained" other republics, or the so called Center. And indeed, in 1989 the production of sugar beet in Ukraine totaled 1000 kg per capita, while in Hungary – 450 kg, in France – 415 kg, in Italy – 250 kg, in England – 140 kg, and in the US – "only" 90 kg (and by the volume of sugar Ukraine was ahead of the United States four times!). As of 1990, Ukraine produced per capita 2100 kg of iron ore, while the United States – 220 kg, France – 170 kg, China – 150 kg, and Japan – 0.5 kg. By per capita extraction of coal, Ukraine was only inferior to US, Germany and Poland. The country's mineral raw material base has 20 010 explored deposits of 97 types of industrial raw materials, whose value in 1991 reached 6.8 trillion USD [1].

Emphasizing such comparisons in those years, few thought about the fact that demand for sugar (because of its harm) was decreasing (all the more so that, in Ukraine, the bulk of the demand for sugar was created by moonshining), iron ore for the needs of the industrialized countries is mostly imported from their "raw materials appendages" and Ukrainian metal items were of poor quality and low processed. As for the coal, its extraction worldwide was already declining due to low profitability (or even loss-making) and environmental hazard. Assessing the situation of that time from the "height of today", Professor O.Savchenko notes that *"there is a persistent myth that Ukraine was the most developed republic of the USSR. In fact, in cultural, educational, and economic terms, based on the objective data, Ukraine was rather a kind of outcast"* [2]. Again, this view is confirmed by the statistics that per capita national income in the Ukrainian SSR was less than 90% of the average for the Soviet Union, and by the rate of its growth Ukraine in the eighth Five-Year Plan Period (1966-1970) ranked 9th, and in the ninth Five-Year Plan Period (1971-1975) it occupied the 14th place (with the growth rate of 25%). By the year of 1980, the growth rate fell to 18%. "The economic development of Ukraine at the end of the 80s was characterized by its further deterioration. Thus, the average annual growth rate of gross social product for the period from 1986 to 1990 compared to 1981–1985 decreased from 3.4 to 1.9%, that of gross national product – from 3.4 to 2.4% respectively, and that of industrial output – from 3.4% to 3% "[3].

Such a new vision of the old statistics is due to the understanding that the Soviet statistics was rather superficial because it: a) put emphasis on physical, rather than value terms, which does not meet the principles of market economy; b) did not fully reflect the situation due to "distortions" as a result of administrative pricing, and classified the indicators related to the activities of the military-industrial complex; c) did not take into account the structural problems of the national economy, in particular, the deep rooted dependence on the administratively supplied rather than purchased on the market energy materials, components and raw materials, labor migration, etc. and d) disregarded the overall depressive dynamics of the Soviet economy[1].

[1] The fact that the Soviet economy was trapped in the extensive development, experts began a subject of professional discussion at least after the Resolution of the Central Committee of the Soviet Union Communist Party and the USSR Council of Ministers "On the improvement of planning and increasing the influence of the economic mechanism on raising the efficiency of production work quality"

It is however incorrect to argue that experts (including those in power) looked at the future of independent Ukraine through "rose-colored glasses" and did not see the existing problems. Despite the too optimistic approaches that were characteristic for some populism-oriented politicians, such attitude did not really prevail. Thus, the adopted by the Verkhovna Rada of Ukraine "Basic directions of economic policy of Ukraine in conditions of independence" [4] explicitly stated that among the most important priorities of development were a fundamental restructuring of the economy and the dramatic changes in the investment activities. And overcoming the hypertrophied forms of concentration, specialization and monopolization of the production, and correcting the distortions and inverted structural proportions were considered as priorities. Actually the main provisions of this document, which included the creation of a developed industrial consumer oriented sector; overcoming the existing structural and technical imbalances in the economy; restructuring of and increased investing in accelerated development of the production of engineering items for the agricultural sector, light industry, food processing and other industries; adjustment of structural changes by accelerating the process of economic reproduction – even today raise no principal objections.

So one could totally agree with the opinion that "[this] legal act (...) suggests that contemporary politicians had a clear and correct understanding of the strategic targets of reform. Unfortunately, without proper tactical steps to achieve specific tasks, this strategy was only a declaration of where the creators of independent Ukraine intended to arrive." And we have to admit that "not all guidelines have been fully realized, and in some of them there is even a setback from initial levels"[5]. And the government during those years lost orientation and never responded to Kuchma's sacramental question: "Tell me what kind of country should be built, and I will build it." By the way, already in "Fundamentals of national policy for 1993", Kuchma's government envisaged measures to restore the sector-based centralized management of the economy and strengthening the administrative methods of management.

But the requirement to implement tight monetary policy did not find necessary support and in practice was abandoned and replaced by massive credit "injections" to save the state enterprises from bankruptcy (despite a demarche by the National Bank, who in August 1992 made an official statement against this policy, but could not overcome the pressure of the *"inflationists"* on the deputies of the Verkhovna Rada, which in that time was enabled to take decisions on currency issue). Professor V.Pynzenyk (who then was Deputy Prime Minister for Economic Reform), remembering this, notes: "Very few conscious politicians pointed to the unacceptability of money issue and the need to take absolutely

No 695 of July 12, 1979. Of course, in those publications the real state of things was mostly covered by various euphemisms, but at the conferences and discussions the shortcomings were tackled in a rather open way. A contribution to this vision was the "transferred from hand to hand" copies of the book by Hungarian economist Ya.Kornayi on "Economics of Shortage", in which the author directly emphasized that the commodity imbalance is an immanent feature of the socialist administrative economy.

necessary, though not always pleasant measures, but their voices were drowned in the general chorus of those who banged on about the unique character of the Ukrainian situation and the opportunity to get out of the situation using *special, purely Ukrainian means*"[6].

Dr. A.Aslund (a foreign adviser to President L.Kuchma) characterizes the activities of the government in the following way: "In December 1992 and January 1993 Pynzenyk's team of reformers prepared the first in Ukraine major program of market oriented reforms, "Basic principles of the national policy." Despite the fact that it in itself was a remarkable breakthrough, it was, still, a mishmash. The first priority was the restriction of inflation within 2 to 3% per month, mainly by strengthening fiscal discipline, but also through control over prices and wages and a more progressive taxation. The program advocated speeding up the pace of privatization and the introduction of private ownership of land. It encouraged the elimination of monopolies and promotion to competition, the termination of the state monopoly on retail trade; simplified registration of new small businesses, and made the existing restrictions on foreign investment less burdensome. Nevertheless the program was protectionist, such as encouraged strict control over the export and import prices for scarce goods "[7, p. 50].

During the period when the government was headed by Acting Prime Minister Ye.Zvyahilskyi, "Conceptual Plan for Economic and Social Development and the State Budget of Ukraine for 1994" was developed, which declared a consistent advancement towards the market and identified the economic, legal and administrative regulators of the economic processes. However, in practice, continued the return to the use of administrative levers of control. (*It was exactly during his prime ministry, that, on his initiative and under his administrative pressure, fixed exchange rate was introduced, which we will discuss below*). "The only winners in this policy of setbacks were Zviahilskyi and his business partners. They made money on foreign trade speculations, for which wide opportunities were created by the huge difference between the low prices of domestic market and high prices of the world market for energy materials, metals and chemicals. Since they held in their hands the licensing of foreign trade, they could guarantee the distribution of all profits within their narrow circle" [7, p. 52].

Unfortunately, the initially set trend of uncertainty continued to function (although with varying intensity) with the consequent governments. None of them, including the "kamikaze" government of A.Yatsenyuk managed to clearly define the guidelines of an economic structure, whose creation would have provided for Ukraine a rightful place in the global economy[2]. A place in which Ukraine would not have only depended on the global situation and balance of power between competing manufacturers and markets, but would have exerted influence on the global developments itself.

[2] A specially invited reformer – "professional" A.Abromavychus as minister of economic development not only failed to prepare a comprehensive plan to reform the economy, but even announced the ultimate goal of its activities "elimination of the ministry" (instead of turning it into an intelligent reform headquarters), which he in principle eventually achieved – if not formally, then in fact.

The above mentioned general uncertainty has a negative impact on the government's currency policy, which, essentially should not be just part of the general economic policy, but should directly follow from the tasks that it sets before the authorities responsible for currency regulation and control.

2. Uncertainty in the character of currency relations

As long as in the Soviet Union, in conditions of currency and foreign trade monopoly, the management of currency relations had been concentrated in the central government, in the government circles of Ukraine there was no clear understanding of the very nature of currency relations, that is, their relationship with other sectors and areas of economic policy. Because of this, at the initial stage of state formation, the initiative of the creation of a national currency system came from among the experts on foreign trade. Even purely monetary aspects were considered only in terms of trade relations and the issues of currency regulation were turned over to former managers and employees of the Ukrainian branch of Vnesheconombank (Foreign Economic Bank). Of course, there was a certain logic in it, but in practice this led to a *"currency dichotomy", i.e. the division of currency relations into the foreign-trade and monetary parts (with priority of the former) instead of a comprehensive management and regulation of currency relations in all their fullness.*

This dichotomy found its expression in particular in an attempt to preserve the Soviet practice of trade in "scarce" goods and services in foreign currency, and the creation of national and local currency funds (*on the model as far back as from the USSR legislation*) [8]. In order to fill these funds (which were handed over to the relevant executive authorities) was introduced a tax on foreign exchange earnings in the amount of 15 to 75% – to the State Monetary Fund and 5% – to the local currency funds (Resolution of the Verkhovna Rada of Ukraine "On the Formation of the Monetary Fund of Ukraine in 1992", № 2101-XII of 05.02.1992). As might be expected, the effectiveness of this tax was very low: real revenues from the new tax in 1992 did not reach 100 million USD, because the businessmen simply began to actively use barter transactions and hide their hard currency earnings in offshore jurisdictions.

At the same time, the creation of official international reserves of the central bank not only was not welcomed by authorities of the economic block of the government (*who opposed the purchase of hard currency by the National Bank for its own reserves and even disrupted for this reason the hearing, in the Verkhovna Rada, of the draft law on currency regulation - which they anyway had to introduce in the form of a decree of the Cabinet of Ministers, but with a nearly eight-month delay*), but was actually ignored, thus the "stabilization reserve" created at the expense of the "swap" credit from Russia's Centrobank in the amount of 40 billion "Russian"[3] rubles (then the equivalent of 100 million

[3] At that time, Russia had not yet carried out a monetary reform, and the ruble was formally a common currency of the CIS countries (except for those who had introduced their own currencies).

USD) at the time of the introduction of Ukraine's own currency (Ukrainian karbovanets) in October 1992 was soon used not on the National Bank's intervention operations, but (at the request of the government) to pay for the supplies of Turkmenian gas (which was not a principal solution of the issue of the payment for gas, but deprived the central bank of the possibility of market impact on the dynamics of the exchange rate of the national currency).

Unfortunately, this uncertainty continues to this day, but now it is the "monetary component" that is preferred, which means a virtual disregard of the impact of the exchange rate's dynamics on the competitiveness of domestic producers and lack of necessary attention to the issue of crediting in foreign currency (which is considered unnecessary, apparently for the reasons of the "monetary logic", that is, to support the status of the hryvnia as the only means of payment in Ukraine) and to the issue of the creation of a "national wealth fund" (such funds very effectively operate in other countries – especially in commodities based economies, i.e. in those similar to Ukraine's).

3. Uncertainty as to the monetary sovereignty

The first prerequisite for monetary policy of any state is that it has monetary sovereignty. For example, specialists of the Russian Institute of Law and Development (Higher School of Economics, Skolkovo) define it in the following way: in the external manifestation it is the principle of a certain autonomy of the government in the organization of money circulation free from coercion and restrictions; and in the inner manifestation it is a democratic legitimation of central or local government's right to pursue its own monetary legal policy. [9]

In a little more lapidary way, *monetary (money-and-credit) sovereignty* can be defined as *the government's sovereign right to regulate money issue and conduct a monetary policy to attain the objectives envisaged in the national economic policy.* However, according to a remark by a well-known international lawyer K.Tsimmermann (in one of his Oxford researches), "it is essential not to lose sight of the fact that the concept of sovereignty can be legally defined in two ways: directly, by focusing on the superiority and integrity of the power of an independent state, or indirectly, considering the sovereign powers that all originate from the same source, namely the capacity for independent statehood "[10]. In other words, monetary sovereignty is both the right of an independent state and one of the qualitative characteristics of its ability to a complete (in this case primarily economic) sovereignty. Given this, a considerable number of countries (over 25%) have, in this or that way given up monetary sovereignty, despite the benefits that it provides. Because keeping monetary sovereignty involves an active use of certain principles that act as its components (which the newly created states cannot always afford), namely:

- the State's rightful priority as to the exclusive issue of money;
- the possibility to take various regulatory measures, including currency regulation and currency control;

- the presence of the holder of the monetary sovereignty (central bank) with discretional authorities;
- floating exchange rate and absence of foreign commitments or agreements restricting the government's monetary sovereignty.

Ukrainian economy is based on the doctrine, which stipulates the right of the state to regulate economic processes, including in the field of monetary relations. Ukrainian state' exclusive right to issue money means that the sole legal tender on its territory is determined by the relevant provisions of the Constitution of Ukraine and individual laws, and politically by the very fact of Ukraine's political independence.

But the steps made by the Ukrainian state in this direction have been neither easy nor uncontested.

This was mainly due to the lack of understanding of the nature of money relations in a market economy (resulting in the introduction of a variety of coupons, which limited the functioning of money as a general equivalent of goods, and introduction of administrative restrictions on the transfer of produce not only outside the country but even between regions and districts, which was considered by the "Soviet school" leaders as an effective measure to overcome the shortage of certain goods and rising prices). In particular, in accordance with Resolution of the Presidium of the Verkhovna Rada of Ukraine No1519-XII of 9 September 1991 "On the introduction of multi-use coupons into circulation on the Republic's territory" special multi-use coupons were introduced (at that time already in use were single-use coupons, i.e. coupons for particular goods that were paid in addition to the cash rubles), and they were used in parallel with Soviet rubles (for which you already could buy almost nothing), and, beginning with 10 January 1992, in accordance with Decree of the Cabinet of Ministers of Ukraine and the National Bank of Ukraine No378 of 28 December 1991 "On the measures to be taken in connection with the introduction of the multi-use coupons", the Soviet ruble began to be gradually replaced by Ukrainian "coupon-karbovanets".

In fact, all those *measures aimed at "feudalization" of the already extremely limited post-socialist market only disorganized the money circulation, rather than normalized it*: primarily because of the resulting division of the overall money circulation into the cash (coupon-karbovanets) and non-cash (rubles) circulation. In the cash circulation itself, another division took place, namely that of the area of money circulation: into the sub-area of the payment for limited (in short supply) goods and that of the payment for the rest of goods. This division was overcome by the market itself through the use of hard foreign currency, which initiated the "dollarization" (of which the Ukrainian economy has not completely gotten rid until now). Later this situation was legalized by the Decree of the President of Ukraine No162 of March 19, 1992 "On measures to stimulate foreign trade activities", which, in particular, allowed the business entities on the territory of Ukraine, for the period until the introduction of the national currency, to make payments in convertible currency without a special permit (including retail trade).

The National Bank of Ukraine, for its part, considered the main element of the monetary reform the printing of own bank notes, and the Executive Director of the IMF M.Camdessus (who visited Kyiv in November 1991) was seen more as a leader of "one of the many financial funds" rather than a representative of the "global Political Bureau" (which the head of the IMF began to seem to some Ukrainian politicians and officials several years later). Due to such sentiments, monetary reform was constantly postponed and it was exactly the statement by the Governor of the NBU V.Matviyenko that the introduction of own currency in 1992 was not even planned (which was made at a closed meeting of the Verkhovna Rada of Ukraine in March 1992) that caused outrage among the MPs and led to unexpected resignation of the Governor of the Central Bank and the arrival of a new team headed by V.Het'man, which was clearly focused on monetary reform.

At the same time, began the influence on the part of Russia (which was originally preparing for the Ukrainian currency the fate of the Scottish pound) [11] – in accordance with the idea of the H.Matyukhin, who was at that time the Governor of the Central Bank of Russia, that the national character of the currencies of the former Soviet republics had to be reduced to the presence of the portraits of national heroes on the banknotes, while the emission limits had to be determined by the Central Bank of Russia, as a major monetary regulator of on the whole "single currency area." However, when – after the introduction in June 1992 of its own currency (the crown) by Estonia and the confirmation of the intentions to introduce its own karbovanets by Ukraine, – the futility of hopes for such a "quasi-reform" became understood, the Central Bank of the Russian Federation, beginning with July 1, 1992, introduced a special procedure for settlements between the central banks of the "ruble zone" countries: a payments received by Russian residents denominated in rubles were transferred to special correspondent accounts within the central bank of the respective country and subsequently only used for payments in relevant geographical directions providing a positive balance in favor of Russia was kept. Thus, what actually happened was a division of the "common rubles" by "national origin" (in other words, as H.Matyukhin warned, Russia by its own virtually "introduced" national currencies in the former Soviet republics).

And the delay with Ukraine's independent introduction of own currency was to some extent caused by the position of the International Monetary Fund, which was then expressed by G.Spencer and consisted in the need to preserve "the single ruble space" [12]. As it turned out later, similar advices were given to other countries of the former Soviet Union, and those who insisted on the introduction of own currency, were threatened by the IMF with refusal to support [13]. However, as events showed, the necessary to introduce own currency as soon as possible was simply due to the fact that only countries with its own currency in principle are eligible for IMF crediting. Following the IMF recommendations could have led to a situation when IMF credit support would have been directed to us not directly but via Moscow (with all the consequences of such intermediation).

The International Monetary Fund changed its opinion to the opposite only in 1993 – after the first Baltic countries and consequently Ukraine introduced their own currencies so avoiding many of the problems that existed in the countries that delayed.

It should be noted that, in addition to legal monetary sovereignty, there is the actual level, which is due to the dependence of domestic monetary circulation on the impact of foreign currency (so called "dollarization", although it may apply not only to the dollar but also to other currencies). This dependence shows itself not only in quantitative terms of the use of foreign currency (share in the deposits, credit volumes, payments, etc.), but also in a direct peg of the exchange rate or the volume of issue of national currency to the exchange rate of a foreign currency or to its inflow to the domestic market.

The brightest example of such dependence is the use of currency board, which can be defined as a monetary institution, that binds the exchange rate of the national currency to a foreign one, so that the issue of the national currency is fully ensured with the reserves of that foreign (reserve) currency, and the national currency on request can be converted into the reserve currency at a fixed rate. Actually it is an abandonment of the principle of discretionary monetary policy and conditioning it with the inflow of the reserve currency to the country. The possibility of Ukraine's shift over a currency board scheme had some relevance during high inflation and lack of constitutional guarantees for the independent functioning of the National Bank of Ukraine. The issue was discussed in detail by international[4] and Ukrainian experts in the mid-1990s, and although the idea had serious supporters (including Professor O.Savchenko), eventually it failed to find sufficient support because, in our view, "recognizing the effectiveness of these "drugs", as in medicine, it is necessary to consider their "side effects" and "contradictions" [15].

After the stabilization of domestic and external price of the national currency and ensuring of high standards of good governance of Ukraine's central bank, such a need entirely disappeared. However, Western experts stubbornly return to the idea of the introduction of currency board in Ukraine arguing that the best solution to the problem of monetary stability of the hryvnia is its direct pegging to the exchange rate of the dollar with an appropriate limitation of emission [16].

The problem of monetary sovereignty has another dimension, whose disregard does not at all save from its presence and impact. It is, according to Professor A.Halchynskyi, the "process of non-bank self-legitimization of monetary forms, confirmation of their validity via exclusive mechanisms of money issue, i.e. a kind of money which in its circulation is not guaranteed by the authority of the state". [17] Indeed, the idea of a free issue of money ("free banking") continues to exist and, in various parts of the world, local or communal "currencies" ap-

[4] American Professor S.Hanke from John Hopkins University actively promoted the ideas set out in a special research on the establishment of the currency board in Russia, believing that similar recipes were suitable for Ukraine [14].

pear. In Ukraine too, there were attempts to introduce such currencies or tenders. First of all, we can recall the conditional unit of "odin" (a Ukrainian abbreviation of "investment unit"), which for many years was used by bank "Arcada". In 2010 in Ukraine appeared the first legal system of electronic money MoneXy, and a little later – GlobalMoney. The process of emergence and emission of "non-official money" is quite complicated and ambiguous. But still it is necessary to shape the proper attitude to it, which should be done not based on emotions or first "good impulses", but after a detailed study of the phenomenon and the consequences of both its further development and its prohibition (and especially of ignoring it).

At the same time it should be borne in mind that own currency can exist in the form of a separate national currency, and as a *collective currency*, which significantly limits monetary sovereignty (depending on the existing decision-making as to the monetary policy of the monetary union), but does not contradict it in principle (is not antagonistic to it). However, in the foundation of the process of elimination of national currencies are not only economic but also political reasons. It is not accidental that the concept of creating a "United States of Europe" is based on the concept that the core of such Europe should be the countries of the so called Euroland (i.e., "the zone of functioning of the euro"). On the contrary, the political independence of Ukraine has not fulfilled its historical tasks, including the establishment of a clear identification of the people of Ukraine as a single political nation, which is why, at this point in history, the rejection of monetary sovereign rights can hardly be seen as a strategy that meets the interests of national security.

Thus, today *the main problem regarding monetary sovereignty*, in our opinion, *consists in the lack of vision of strategic objectives of the national currency*: either replacing it with a collective currency (the euro) (which can result from the guideline of European integration and then requires a program to adapt to the conditions of the EU Monetary Union) or converting the national currency into a freely convertible currency (which requires a clear understanding of the sequence of steps aimed at improving its convertibility). And such a situation is actually related to another problem, namely that of uncertainty as to the desired level of convertibility of the Ukrainian currency.

4. Uncertainty as to the degree of convertibility of the national currency

The development of convertibility of our currency began with the "wooden" ruble. It was called "wooden" in contrast to the "golden" ruble of the times of the reform of S.Witte in 1897–1899 (as well as the semi-mythical "golden chervonets" of the period of the new economic policy of the 1920s): unlike the fully convertible into other currencies "golden ruble", for a "wooden" one, it was practically impossible to legally buy foreign currency (exchange for the tourists was very limited, let alone the complexity to arrange a tourist travel abroad). But the "collapse" of the Soviet Union suddenly made the ruble convertible, as the border between legal and illegal market virtually disappeared and the exchange of rubles (later – coupon-rubles) became quite easy. But, given the constantly falling exchange rate, it was not very profitable (unless you could buy for hard currency some item to resell it for a price that would compensate for exchange losses). In addition to the banks, some smart businessmen (for example, the company "Dandy") too started exchange activities citing the lack of licensing requirements for such transactions [18]

In fact, it was not exactly the case, as the above mentioned Decree of the President of Ukraine No162 applied only to commercial payments in foreign currency, but not to currency exchange ("trading currency"), because this issue did not relate to foreign trade, but to currency regulation. Accordingly, in the absence of Ukrainian exchange legislation, the corresponding provisions of the Soviet law had to be applied, but it was quite difficult to understand these nuances in those days. Partly because the government itself could not settle the issue of convertibility: either to allow free convertibility or prohibit it at all. Proposals of a smooth transition to convertibility (including the introduction of certain limits for individuals) were angrily condemned by the "society", aspiring for complete freedom. As to the legal entities, they were forced to buy foreign currency (including paying for imports) at the Moscow Interbank Currency Exchange, whose members were few Ukrainian banks (for some period it was APB "Ukraine" alone).

Given this, one might expect that the government would try to ensure the convertibility of the new Ukrainian currency beginning with the moment of its introduction on the market. However, this did not happen. At the time of Ukraine's accession to the IMF (September 1992) still was not ratified Article VIII, which provides for the obligation of a Member State to ensure the convertibility of its currency for current transactions, instead were used the possibilities for keeping in force existing restrictions as was allowed by Article XIV. This transition period lasted for almost four years (until May 1996), when Article VIII was ratified in the context of preparation for the introduction of the hryvnia into circulation (which took place in September 1996).

Moreover, the government of Ukraine with its Decree on Currency Regulation (February 1993) completely (despite the negative position of the National Bank of Ukraine) prohibited the use of national currency for international payments, which in two months led to a de facto suspension of trade turnover between Ukraine and some CIS countries (especially Belarus and Moldova) and forced to urgently look for ways out of this situation, which was predictable, but not realized by the government. The way out was found in a legally casuistic interpretation of the provisions of a Decree of the Cabinet of Ministers proposed by the central bank and stated in a joint briefing message on the order of settlements with the countries of the ruble zone on 26.04.93 (No10046 and No 19029/730), which explained that the restrictions established by Article 7 of the Decree did not apply to settlements with the residents of the ruble zone, which could be carried out in Ukrainian rubles, if provided by contracts.

This procedure was due to the need to preserve the regime of convertibility of the Ukrainian karbovanets against the ruble stipulated by Article 8 of the Decree of the President of Ukraine of 7 November 1992 No549/92 "On the reform of the monetary system of Ukraine." In addition, it was stated that settlements with legal entities from the countries of the ruble zone in Ukrainian karbovanets were provided in Ukrainian interstate and inter-bank agreements (whose terms were confirmed by Article 7 of the above mentioned Decree of the President). This, of course, was palliative but the Decree was prolonged almost until late 2011 (when Article 7 of the Decree was amended by the legislator in the context of the preparation of the agreement with the Central Bank of Russia on the use of national currencies in bilateral trade (which also can hardly be considered a fundamental change in the position of the Ukrainian authorities as to the prospects and needs of the convertibility of own currency).

Changes in the Ukrainian currency legislation reflected the willingness to participate in the process that began with the granting of ruble loans by local branches of Russian banks in Ukraine, and continued with the introduction of mutual payments in Russian rubles. Thus, on December 5, 2011, JSC "Gazprom" and National JSC "Naftogaz" signed an appendix to the existing contract of purchase and sale of gas, which allowed the National JSC NAC to pay for fuel supply in Russian rubles already for the November gas supplies. For that purpose, the Ukrainian holding transferred 210 million dollars and 7.2 billion rubles [19]. However, despite the advantages mentioned by the supporters of this scheme of payments, in practice, they never prevailed.

In 2010, according to the National Bank, Ukrainian companies that supply products to or purchase products from the CIS countries carried out about 56% of export and over 76% import settlements in US dollars. The share of Russian ruble accounted for 35.8% of exports and 17.2% of imports. At the same time, the declared transition to payments in rubles for the main item of bilateral trade (natural gas) really could have radically changed the situation. In this case it was worth attention that de-facto only one national currency was involved (rubles), which gave substantial unilateral benefits to Russia, as in the case of shortages of the relevant currency (rubles) on the exchange market, the Ukrainian party would have been forced to resort to its forex reserves, while the Russian party could have used the resources of their own monetary market. Given that, at that time, Russia actively promoted the ruble in the settlements not only within the Eurasian Economic Community [20], but also with other partners (China, Vietnam, etc.), we can say that the prospects of Ukraine's joining the ruble zone during the Yanukovych presidency became increasingly real, which trend was actually interrupted only by the Revolution of Dignity.

For Ukraine, among other things, the "victorious march" of the ruble could have resulted in the loss of even the present insufficient level of convertibility, and in turning the hryvnia in a "satellite currency" of the ruble with a real convertibility only to the Russian currency (similar currencies once existed in the areas of the French franc and the British pound).

At the same time the rejection of the new state leadership from following the "policy of the ruble" alone did not solve the problem with the prospects of convertibility of the national currency. First of all, this was due to the impossibility for Ukraine to comply with the obligations that demand at least abandoning the practice of limiting the convertibility on current transactions (*in any case to comply with the requirements of Article VIII, Sec. 2, paragraph a) of the Agreement on the IMF as to the approval of such temporal constraints on the part of the Fund*). However, in reality this is not enough, as the new strategy should provide more long-term goals, namely the convertibility in capital transactions. As is well known, ensuring such convertibility is not part of the IMF requirements, but it is a subject of constant attention within the overall "monetary liberal mainstream."

This trend become particularly noticeable since the time of the annual IMF meeting in Hong Kong in 1997 and, despite the Asian crisis of 1997-1998 (which was associated exactly with the movement of speculative international capital) continues its "triumphant march". After the liberalization of international trade had received the status of economic "mainstream", the IMF reoriented to support the policy of liberalization of the capital control. In particular, at the annual meeting in September 1997 in Hong Kong, the Fund's Board of Governors approved a plan under which the liberalization of capital movements was to become the main purpose of the IMF. Such attention was not due to fashion and not because other tasks set before the IMF at the time of its creation had been solved (although this factor is also present). The main reason for attention to cross-border movement of capital is the demands of the global economy.

The strong underlying factor here is a gradual formation of a single world market, which involves a free global movement of goods (trade liberalization), labor (free migration) and capital. Therefore, every country that has decided to take advantage of globalization (without cherishing illusions about the possibility of "escape" from globalization behind the "protectionist fence") should harmonize its legislation and its economic system with these requirements. It should be emphasized that what globalization requires is not just breaking the existing system of regulation, "jumping headlong into the water without learning to swim," but rather ensuring a gradual, properly prepared and coordinated adaptation of the national system of state regulation of the economy to the new global economic conditions (but without trying to stay "halfway", hoping that "this will suffice for our lifetime.")

Paying for such delays will be much more expensive. At the same time, the state has other goals of economic policy and the problem is the ability to simultaneously attain them or choose right priorities. This problem is described by the well-known Obsfeld-Taylor trilemma (or "the trilemma of impossibility"), which argues the possibility of simultaneous achievement of only two of the three goals: 1) own monetary policy, 2) fixed (adjustable) exchange rate and 3) the free movement of capital. Thus (as Ukraine has not yet abandoned its own monetary policy, whose alternative could be a currency board), the above formulated *problem of the transition to a freely floating exchange rate is actually determined by the speed of our transition to convertibility of the national currency on capital transactions* and the provision of a free cross-border movement of capital.

It should also be noted that since the early 80s of the last century there have been gradual changes in the emphasis in the international currency discourse from the concept of freely convertible currencies (the provisions of Article VIII of the IMF Agreement) to that of "*freely usable currencies"*, which (after the Second Amendment to Article VIII) have been defined by Article XXX(f) as such as "are really widely used for payments under international transactions and are the subject of active trading in major currency markets." The new approach, on the one hand, means the possibility to enter the "elite club" even for such currencies, whose use in capital transactions has certain limitations (what happened to the British pound and the Japanese yen), and on the other - does not mean automatic inclusion to "freely usable" currencies those currencies which are formally converted in capital transactions, but are not widely used in practice (in particular, the currencies of many countries with offshore legislation).

As for quantitative indicators by which specific currencies can be attributed to "freely usable", in 2011 the IMF Executive Committee set appropriate parameters of the currency's share in official forex reserves, denomination of international debt and international banking liquidity, as well as the volume of transactions in the exchange markets. (These indicators are periodically specified or supplemented, the last time – in 2015). Of course, even in a strategic plan, one can hardly set the task of the inclusion of the Ukrainian hryvnia in the "freely usable currencies" (which would almost automatically mean its inclusion in the SDR "basket", which is now composed of the US dollar, euro, Japanese yen and British pound, and on October 1, 2016, is to be complemented by the Chinese yuan). Meanwhile, apart from the currencies termed as "freely usable", there are also currencies simply "usable" in international settlements (the "settlement" currencies) or currencies of "continuous linked settlement", to which, by the way, the Chinese yuan is not currently included (though active negotiations on the issue are under way) [21, 22]. (By the way, Russia since 2010 has been trying to receive this status for its ruble, but in September 2014 preliminary talks on the issue were suspended due to the general aggravation of the geopolitical situation caused by the aggression against Ukraine and annexation of Crimea).

The status of "settlement currency" practically means a preliminary inclusion in the list of currencies, in which "continuous linked settlements" are made between national and transnational banks through CLS International Bank, a banking institution created under the US laws on so called edge corporations (i.e. having the right to serve international transactions only for non-residents), whose supervision is performed by the Federal Reserve Bank of New York. In 2002 the CLS system started with the use of 7 currencies and now the settlements are made in 17 currencies that determine the current multicurrency system. Given the existence of another list of 18 currencies (other than the above mentioned ruble and yuan, it includes the currencies of countries such as Brazil, Chile, etc.), it means the prospects of becoming a "settlement" currency for all more or less "decent" currencies of the world (all the more so as most Eastern European countries intend to ascend to the euro zone, which automatically raises the international status of the national currency). Certainly, if Ukraine is planning to expand the use of its currency in international payments, it should develop its own system of currency regulation having in mind the collaboration with CLS International Bank. And this should be clearly defined as an objective in the medium-term strategy of action of the National Bank of Ukraine. And hence, the monetary authorities should be "targeted" to meet at least the basic criteria, among which are the adequate level of convertibility of the national currency (and the rules do not require full convertibility); availability of minimal sovereign rating at BB-/Ba3 level; real law enforcement and acceptable regime in the fight against "money laundering"; stable national banking system, etc. [23].

Unfortunately, the problem of convertibility of the national currency does not attract due interest either in the monetary authorities or expert community, traditionally losing in attention to the issues of exchange rate policy.

5. Uncertainty as to the currency and exchange rate regime

Meanwhile, *the attitude to the exchange rate regime has never been harmonious*, which, in principle, quite logically reflects the difference in the approaches to the question of the nature of pricing, because the exchange rate of a currency is simply its price in other currencies, and the choice between free-market and administratively regulated prices in Ukraine have not been made during all years of independence. Regarding the exchange rate, from the very beginning we had two approaches – "free floating" and "administrative regulation" which alternatively got the upper hand, and gave in to each other, mainly because neither side could professionally implement the corresponding regime and demonstrate its benefits.

The "race" began from the fact that the exchange rate of the currency emitted by the National Bank of Ukraine and used in Ukraine as legal tender, was determined beyond Ukraine.

We deliberately avoid calling it "Ukrainian currency" because we are speaking about the ruble (which was issued not only by the National Bank of Ukraine, but also by central banks of other CIS countries and was in circulation in all CIS countries, as described above). As the constant devaluation of the common ruble (which actually took place due to objective reasons) was regarded as a "shortcoming" (or even as Moscow's "dirty trick"), appeared the idea of legislative pegging of the future Ukrainian currency to the ECU (the settlement currency of the EEC, predecessor of the euro), which was actively promoted among MPs by V.Pynzenyk and S.Tieriokhin, who were at that time experts of the Commission on the Economic Reform in the Verkhovna Rada of Ukraine (headed by Professor O.Yemelyanov). The quite acceptable idea (which, by the way was later used by some Baltic and Eastern European countries) initially was enthusiastically perceived by many MPs until they were told that the stability of such a "pegging" would be supported by limitation of the money issue to the volumes of the country's foreign exchange earnings, and therefore they would have to abandon the practice of "supporting" issues of money for agriculture, coal and other sectors that had a strong lobby in parliament.

At this point, talks of European-style stable exchange rate stopped, and in practice Ukraine shifted to the exchange rate formation based on the trade on the Ukrainian Interbank Currency Exchange (which initially, in September 1992, was established as the Currency Exchange of the National Bank). The level of mastering the exchange rate mechanism based on supply and demand on the own exchange market appeared to be barely sufficient for the introducing, on November 12, 1992, of Ukrainian currency (the Ukrainian karbovanets) in non-cash transactions. The official exchange rate of the karbovanets against the Russian ruble was established (based on the market cross rate and the real prospects of further dynamics in the short term) at 1.45 karbovanets' per 1 ruble. However, assessment of the prospects was not realistic: first, as was mentioned above, the reserve fund established at the expense of the swap credit from Russia's Central Bank was volitionally spent by the government on foreign trade purposes, and the requests for credit for the creation of own forex reserve in the amount of 1 billion USD were left without response both by the IMF and the Western partners; second, most government officials believed that the karbovanets ruble was a temporary currency, which "must absorb all the negative", while the hryvnia would be a really strong currency. It is hard to say what was the main reason for this statement – naivety or deceit – because even for a non-professional it was clear that the "negative", which the karbovanets had to absorb, was simply the desire to continue (at the expense of the rampant money creation) funding the inefficient, but "close" industries and the populist social expenditures.

This "negative", by the way, was still in place even after the introduction of the hryvnia. As for the karbovanets, this currency started to be destroyed by such economic policy from the very first day, "due to uncontrolled credit emission and output recession, the national currency rapidly depreciated: in 1992 the official rate of Ukrainian karbovanets was 638 for 1 USD, in 1993 – 12610 karbovanets, and in 1994 – 104,200 rubles (end of period) ". [24]

As evidenced by the dynamics, the government failed to stop the devaluation of the karbovanets even at the expense of a fundamental change in exchange rate policy, which found its expression in the return to administratively regulated rate (officially, so called "fixed rate"), introduced in August 1993. The mechanism of fixing such rate was constantly "improved": from November on, trading on the interbank foreign exchange market was suspended, and the "manual" distribution of the hard currency was performed by the so called "Tender Committee" created by the government and headed by Deputy Prime Minister V.Landyk. Unfortunately, the materials of the "Tender Committee" are unavailable (if any exist), so we will not delve into its activities. Let us only note that one of the "fathers" of the idea of the so called "fixed rate" Dr.V.Suslov continues to consider this method "original" (though one can hardly come up with something more original than establishment of special coefficients to foreign exchange rate, the number of which in the 80s of the last century in the Soviet Union reached 2000, so that not only each group of goods, but even several large companies had their own rates: what a scope!), and believes that "it played a positive role" to stabilize the situation. Above we mentioned the results of that measure, and the very author of the idea in the same interview confirms the "stabilizing effect" with concrete figures: "The pace of currency depreciation: in 1992 one US dollar was worth 208 coupon-rubles in 1993 – 4539, in 1994 – 31 700, and in 1995 – 147 463 ". [25]

Unfortunately, in the interview nothing was said about who, how much and under what conditions during that time managed to buy hard currency at half price (via the "Tender Committee"). Also attention should be given to the fact that, in disagreement with the decision, resigned not only the deputy Governor of the National Bank (which was actually logical), but also Deputy Prime Minister for Economic Reform (which is evidence of uncertainty on this issue in the government) and, finally, the Prime Minister himself (whose adviser V.Suslov was at the time), which raises the question of the *procedure of development and implementation of monetary policy of the government at the time* and reminds of the saying "the tail that wags the dog."

The system of so called "fixed rate", which, by the way, was not actually fixed, and was only a system of "multi-currency practice", i.e. the presence of a "special" rate for certain "selected" (for unknown principles) customers, was abolished in 1994 (at the end of the prime ministry of Ye.Zvyahylskyi, who was the main "promoter" of the above mentioned exchange system, when it became inconvenient in the face of the IMF (from which the first systemic transformation loan was expected) to use the openly corrupted mechanism of the distribution of foreign currency under the conditions of its permanent shortage. In March-April of 1994 the exchange auctions to sell the dollar, German mark and the Russian ruble were reestablished, and from October Ukrainian Interbank Currency Exchange resumed its activities in full, which allowed the return to the market rate. Everything fell back into place except for the 2.5–3.5 billion USD, which, according to expert estimates, were taken abroad during the existence of "fixed" exchange rate.

Thus, when in September 1996 a new Ukrainian currency (hryvnia) was finally introduced, there were all technical conditions precedent to ensure market standards as well as the stability of its exchange rate, which for nearly two years was kept within the informal "currency corridor" of 1.7–1,9 UAH for 1 USD. (Not too different from the rate initially set at 1.76 USD per dollar). However, the crisis of 1997–1998 significantly undermined the stability of the hryvnia, and it was devalued to 5.5 UAH per 1 USD. "The crisis storm" caused distrust in the system of floating exchange rate, and it was decided to "fix" the rate again, but this time using "market methods" – namely through the central bank's interventions on the exchange market. However, such measures as administrative pressure on commercial banks were not disdained, all the more so as transactions on the interbank market were officially temporarily canceled and non-resident banks were forbidden to buy foreign currency at all.

During the second half of 1999 the National Bank actually (and beginning from February 2000 – officially) resumed the regime of floating exchange rate (from December 1999 transactions on the interbank market resumed, whose quotations became the basis for the official exchange rate). But during 2000–2004 the National Bank, under the acclaimed regime of the floating exchange rate actually kept it on the prescribed level, allowing only minor fluctuations. Then it was decided to return to a more flexible exchange rate, and from 2005 the official exchange rate was close to market rate. Moreover, during this period, there was an excess of foreign currency supply over demand, which forced a 4.8% revaluation of the hryvnia. The next revaluation (4%) was made in May 2008, which led to the increase in the official rate of the hryvnia to UAH from 5.05 to 4.85 UAH for 1 USD.

Due to this "quasi-market" volatility, in 2008, the IMF even changed the classification of the exchange regime in Ukraine from "de facto dollar peg" to "managed float", which was, in our opinion, a somewhat hasty decision. In fact, the problem laid in the fact that it was believed that the hryvnia's exchange rate needed to be maintained at a certain level, which allowed to balance not only demand and supply, but the interests of the major industrial and financial groups ("oligarchs"), such as the exporters (especially of metal products) and importers. In addition, it was necessary to consider the interests of all groups on energy imports (oil and gas) in order to minimize their production costs and allow them to remain competitive despite the absence of measures to reduce energy intensity of production (which, in turn, was caused by their reluctance to make long-term investments in upgrading technologies). That is, *the very attitude to the exchange rate regime of the hryvnia did not change, although its implementation from time to time became more complicated, which forced the monetary authorities to formally change the rules of control over the exchange rate, which never became a market oriented one.*

This was quite clearly demonstrated by the attempts to keep the hryvnia within so called "currency corridors", whose official or slightly hidden declaration did not at all guarantee the actual retention of the exchange rate within its limits, as breaking the previously established limits simply meant a declaration of another corridor with new devaluation parameters. And the response to adverse market changes were constantly reduced to purely administrative constraints, which was evident during the financial crisis of 2008-2009, when "with the rapid growth in demand for foreign currency, the regulator introduced administrative measures aimed at reducing speculative pressure on the hryvnia and restricting its depreciation trend. Setting stringent restrictions on the selling rate of USD to individuals on the cash market and the tightening of the requirements for applications of the authorized banks to buy foreign currency, which was accompanied by the introduction of restrictions on the operation of banks with this currency, provided the decline in the volume of speculative operations of the authorized banks on the exchange market." [24, p. 29].

Certainly, the national bank as usual referred to those very "speculative" operations, although, in fact, a significant portion of such operations were due to the desire to avoid exchange rate risks by those means which were the only available ones in conditions of an actual prohibition on the use of market methods of hedging. Therefore, *the use by the NBU of administrative restrictions is to a great extent a result of a deliberate disregard of the need of the market instruments of hedging against currency risks* (currency futures and derivatives).

Actually, this was the paradigm, with which the National Bank of Ukraine approached to the moment when, under the pressure of the IMF, it was decided to shift over inflation targeting, which, according to NBU leadership, had to mean a removal of the responsibility for the dynamics of the hryvnia exchange rate [27]. However, it was somehow forgotten that the exchange rate acts (especially in an open economy dependent on energy imports) as one of the factors influencing the level of domestic prices, and hence the rate of inflation. *Ignoring such a considerable factor as the exchange rate is an unacceptable professional mistake.*

As to the very desire to give up the role of the responsible for the official exchange rate, it should be reminded that the very concept of "official exchange rate" appeared in the Ukrainian exchange legislation in 1992–1993 in the absence of a corresponding market institution: certainly, the independent Ukraine could not recognize that the rate of exchange of its national currency was determined on the exchange market in Moscow! That is why such a notion was invented, which reflected the temporary system of essentially "manual" regulation of the exchange rate. Initially it was even envisaged that at this rate (which for technical reasons was a little "behind" the fall of the ruble/coupon-karbovanets) the central bank could perform transactions of the sale of foreign currency to the government. But, given the barrage of queries from MPs regarding the opportunities of the purchase of foreign currency at that rate by the companies, whose interests they lobbied, the idea was abandoned. The official rate has essentially remained only an accounting tool, and a tool that does not comply with the existing international standards, as it does not allow representation of the volume of currency valuables and open foreign currency positions at their market value. In particular, according to standard SSAP-20, during accounting period, the results of exchange transactions must be nominated in the national currency at the exchange rate of the day when the transaction was executed [28]. Similar requirements can be found in other accounting standards.

Regarding the operational significance of the official exchange rate, it should be noted that, on the market, the National Bank carries out operations at the intervention rate, which at best becomes the "official rate" for the next period, and only providing that the market is "closed" exactly at this rate, that is the central bank with its intervention completely balances the supply and demand. The official exchange rate really made sense at a time when the operating rate of the central bank was different from the market rate (during the period of the so called "fixed rate") and with the presence of conversion restrictions. Otherwise, i.e. during normal functioning of the exchange market, the "official rate" should logically coincide with the market one. True, in Russia they too are using the term "official rate", which is published daily "without liabilities of the Bank of Russia to buy and sell the mentioned currencies on the established exchange rate" [29]. On the whole, internationally, the exchange rates that are mainly used for statistical comparisons, for settling forex liabilities in which one the sides is the government or a government agency, as well as for resolving administrative or legal conflicts, are called "reference rates".

Thus, today the official exchange rate is an outdated notion, which only reflects the uncertainty in monetary and exchange rate policies and the lack of understanding of their nuances. By the way, a few years ago, the IMF experts noted that fact, but their remarks were reduced to the requirement to set the reference rate at 12 noon every day, the measure whose sense was not clear to the national regulator, who for some time met this request, but abandoned the "novelty" once the pressure of the IMF weakened.

6. Uncertainty as to the structure of the exchange market

From the very beginning, there was no certainty on the structure of the exchange market of Ukraine as well. It should be reminded that the general wholesale commodity market in the USSR during the period of "perestroika" was created based on the primary commodity markets, i.e. simple "trading areas" where the buyers and sellers (and hence supply and demand) used to meet. These market institutions of the nineteenth century actually became the "pioneers" of the market reforms in the former USSR, including in the financial sector, because even V.Ulyanov had written that the banks are large markets. So the market rate of the ruble began to be determined on the basis of trading at the Currency Exchange of the State Bank of the USSR, and, from January 1992, at the Moscow Interbank Currency Exchange (MICEX). Ukraine's independence at first did not change anything in this situation, and the exchange rates continued to be determined in Moscow. Ukrainian businessmen too performed their transactions on the MICEX (mainly via the brokers of agro-industrial bank "Ukraina"). But in February 1992 the National Bank was assigned "to conduct, within a month, organizational work on the creation of Ukrainian currency exchange, establish the procedure of interbank foreign exchange trading" (Item 9 of the Decree of the Verkhovna Rada of Ukraine "On the formation of currency funds in Ukraine in 1992" No2101-XII of 05.02.1992).

Yet in this area nothing was done (as it turned out later, because of the virtual absence of experts on currency relations in the central bank). But as they say, "a holy place is never empty" and the leadership of the Ukrainian Stock Exchange promptly lobbied the creation of "exchange area" on its territory (which was allowed in accordance with Item 4 of the Decree of the President of Ukraine No162 of March 19, 1992 "On the measures to stimulate foreign trade activities", with a complete lack of resistance on the part of the National Bank. However, the organization of exchange trading on a non-core area did not correspond to the vision of the new leadership of the central bank on the structure of the exchange market, so they actively began to create a currency exchange of their own. Unfortunately, due to organizational problems (including the preparation of the draft law on currency exchange, streamlining the system of licensing of the exchange transactions, search of necessary professionals etc.) the currency exchange (as a "self-supporting", i.e. commercial, subdivision of the NBU) was established only in September 1992. However, by the beginning of the issuance of new national currency (the karbovanets, November 1992) it was fully prepared to support the action of the market mechanism of setting its exchange rate. From July 1993, based on that institution, was established the Ukrainian Interbank Currency Exchange (whose shareholders were commercial banks). Since then, the main actors of Ukraine's exchange market were considered the following:

- National Bank of Ukraine, which established procedures and rules of currency exchange operations in Ukraine and took steps to stabilize the national currency;
- Commercial banks and other financial institutions that were licensed by the National Bank of Ukraine (authorized banks) to carry out operations of buying and selling foreign currencies at the exchange for their customers;
- Ukrainian Interbank Currency Exchange UICE), which organized the operations on buying and selling foreign currencies performed by the authorized banks and made proposals to the National Bank of Ukraine on setting the exchange rate of the national currency against foreign currencies (in other words - trading on the UICE was of reference type).

But such a structure was not yet "full".

First of all it was necessary to gradually create the OTC (over-the-counter) interbank foreign exchange market, which would be more consistent with the requirements of the modern economy (including in terms of efficiency and compatibility with the global exchange market). The main reason for the delay in the implementation of the plan to create a new modern segment of the exchange market was the abandonment of the market principle of the distribution of currency (free buy and sale) in the period of the "Tender Committee": then it was possible to restrict or stop trading, even on the foreign exchange market, so the need for modification of the institutional framework of the exchange market did not exist. Indirectly, the process of creating such a market was slowed down by the successful activities of the Interbank, which (after the abandonment of the so called "fixed rate") deepened and expanded its activities: at the exchange appeared new sections: for securities, for banking (precious) metals etc. In 1993, the Interbank was regularly attended by 19 banks in 1994 – by 37, in 1995 – by 39. In 1995 opened the Crimean Interbank Currency Exchange. The UICE like a "star" kept on its "orbit" the commercial banks.

Finally in spring 1995 operations started on the "interbank market", which seemingly gave more freedom of action to the commercial banks. However, the regulator could not depart from its concept of the supervision over the exchange market showed no intention (including in the context of the role of the NBU as viewed by the legislative and executive authorities) to abandon the practice of interventions (which were certainly aimed at "preventing speculative operations"). In December 1998, operations on the "interbank market" auctions were suspended and were allowed only in Ukrainian and Crimean exchange markets as their mechanisms allowed for "manual control". In late 1999 trading resumed on the interbank market, but the mechanisms of "trading session" and "system of the confirmation of agreements on the interbank foreign exchange market" were introduced, which again limited the trading in currency (essentially turning the over-the-counter system into a simple "electronic exchange "). Later an increase in the time of trading on the "interbank market" (which in theory should be 24 hours) was considered as a great step towards liberalization.

Another important drawback in the institutional structure was (and still is) the virtual absence of "other financial and credit institutions". The first such license was obtained in 1993 by the "Ukrainian Financial Group", which was going to introduce in Ukraine the first system of international money transfer (the "Western Union"). But this process found no continuation: neither independent currency brokers nor insurance companies were allowed on the interbank foreign exchange market, as only the authorized banks were recognized as exchange control agents, being the interests of "control" still prevailing over the needs of "development" of the exchange market. Besides, the structure of the market for many years was never complemented with such an institution as an export credit agency. Despite numerous attempts to establishment this institution, the debates on this issue continued until recently. And while the Prime Minister stated in his speech in Parliament: "We need to create an export credit agency. So the Government takes a decision on the establishment of such agency and Ukreximbank should become its founder," the Governor of the National Bank at a meeting with Ukrainian and foreign businessmen said that she "categorically rejects the creation of export credit agency (ECA) in the next few years because of the low rating of Ukraine and the lack of funds" [30].

It should be noted that the development of "interbank" market virtually eliminated the currency trade on the Interbank Currency Exchange, while it would have been logical to use its platform for trading in foreign currency futures and derivatives in order to finally create an effective mechanism of hedging against currency risks and get rid of the bogey of "currency speculation" that allows the regulator to resort to administrative measures whenever the exchange market of the representatives of the authorized banks starts moving in the direction, which is not considered correct in the high cabinets".

All of the above leads to the conclusion that *the Ukrainian authorities have not finally decided on the institutional structure of the exchange market, as its development would objectively limit the opportunities for administrative intervention.*

7. Uncertainty as to the currency control authorities

But not everything was so easy even with the government's favorite toy, that is, with "currency control".

It should be noted that the Agreement on the IMF does not contain a definition of "currency control"; it refers only to "restrictions" but, again, "gives no answer to the question which content the authors of the Bretton Woods agreement conveyed in the concept of "restriction" [31]. And although the measures of currency control typically include prohibition of the use of foreign currency on the territory of a particular country, prohibition to own foreign currency, licensing of currency exchange transactions, fixing the exchange rate, limiting imports and exports of currency, etc. – *from a methodological point of view the problem of currency control is particularly complex*. Currency controls in one form or another has existed in almost all countries of the world (it is believed that only the United States, Canada, Germany and Switzerland have never introduced measures of currency control, but it can be questioned because of certain restrictions on capital transactions). However, the post-Soviet case has its own characteristics.

After collapse of the Soviet regime with its currency monopoly when a mere possession of foreign currency was punishable in accordance with the Criminal Code, and operations with currency could cost life (one may recall the case of Ya.Rokotov), the first impulse of the society in this matter consisted in abolishing every control, which was reflected in the provisions of the Decree of the President of Ukraine No162 of 19 March 1992 and so were the sentiments of some businessmen. It is clear that the experts had a somewhat different opinion of this question, knowing that, until the complete abolition of currency control, a certain progress should be attained in terms of financial stabilization and institutional development of the exchange market. It is exactly such approach that was used in the preparation of the draft law on currency regulation by the National Bank of Ukraine. The draft law was vetoed by the Government (Vice Prime Minister V.Lanovyi strongly opposed the rule on the "cession" (compulsory sale) of foreign exchange earnings of the exporters.

However, the provisions of the draft law were fully included in another government's decree on currency regulation and currency control (Decree of the Cabinet of Ministers of Ukraine "On Currency Regulation and Currency Control" of 19 February 1993 No15-93), and the procedure of compulsory sale was even separated in a special Decree of the Cabinet of Ministers of Ukraine "On temporary procedure of the use of foreign exchange earnings" of 19 February 1993 No16-93. The government's decree also provided other measures for additional (relative to the National Bank's version) currency control - in particular, individual currency licenses, restrictions on the right of using foreign currency in international payments and so on.

As mentioned above, the central bank had to routinely correct some of such "excessive measures". Thus, from the beginning there was an uncertainty in the approaches to currency control between the National Bank (who gave priority to the need for continuity, predictability and coordination on the liberalization of currency exchange, in the interests of development of the national economic system on modern basis) and the executive power, who, depending on the balance between "liberals" and "paternalists", now supported rapid liberalization, then the attitude of "stop and prohibit". It is no coincidence that Yu.Blaschuk analyzing the nature of the national system of currency control, focused on the persistent contradiction between the tendency to extend measures of strict government currency control and the need for its liberalization in order to revive business activities and deepen the integration into the global financial and commodity markets. In his view, "the reasons of this conflict are both political (the remnants of the communist mentality and populist tradition) and economic (low competitiveness on foreign markets, a weak banking system, underinvested economy)" [32].

Such uncertainty, however, did not lead to a real confrontation (with the exception of Ye.Zvyahilskyi's Government and the existence of the so called "Tender Committee" on the distribution of foreign currency earnings at a "fixed" rate), because in the draft law was a provision that the main body of the state currency control (*among the market institutions, the main agents of currency control are commercial banks*) will be the National Bank of Ukraine (as opposed to the corresponding Polish legislation, which served as a basis of for the draft law and where these functions belong to the Ministry of Finance). It should be noted that the functions of currency control in those days were assigned to the government agencies not only in the European [Economic] Union, as had been the case before, but also in many other countries [33] (including Japan and Russia). The Federal Service of Russia for Currency and Export Control (established in 1993) was reorganized in May 2000, with much of its functions transferred to the Ministry of Finance, which, in particular, controls the compliance by residents and non-residents of the Russian legislation and departmental acts, that regulate currency transactions, and the completion by the residents of their foreign-currency liabilities before the government; monitors the fullness of receipt in the prescribed manner of funds in foreign currency for foreign trade operations; participates in controlling the procedures of quoting and licensing of the export of goods and services; monitors the efficiency of the use of foreign currency loans granted to the Russian Federation on the basis of international treaties and agreements, and performs other functions related to currency and export control.

As mentioned before, certain rights of the Ministry of Finance in currency regulation were envisaged, in particular, by the Polish law on currency regulation of 1989 (which was taken as a basis for the preparation of Ukrainian currency legislation), and in a similar law of 1994 (Art. 17) was explicitly stated that "the body responsible for currency is the Ministry of Finance" and " Minister of Finance performs general supervision over currency matters and within such supervision ensures the uniform application of the law" [34]. The reason why in the preparation of the draft law it was decided that the main body of currency control should be the National Bank, is quite trivial: Ministry of Finance at that time had very few experts on currency relations (as mentioned above - some specialists worked in the Ministry of Foreign Trade and Vnesheconombank, but their vision of currency relations was rather one-sided) – which was confirmed by the reflection of this approach in the governmental decree.

But the problem of the uncertainty as to the bodies of currency control is not limited to the initial stages of the creation of Ukraine's own system of currency regulation. The new aggravation of the problem was caused by the National Bank's transition to inflation targeting. Inflation targeting is directly related to the choice of exchange rate regime, because in our conditions it means a change in the method of targeting – from so called "currency anchor" to determining the target rates of growth of the price index. Within the system of currency regulation, that means essentially the abandonment of currency controls and other central bank's means of regulation.

Indeed, neither the European Central Bank, nor, especially, national central banks of EU Member States are responsible for the exchange rate of euro. But it is constantly monitored by the "Ekofin", a collective body of ministers of finance and economy of the euro area countries. That is, inflation targeting does not in any case mean abandoning state currency policy and currency regulation as a whole. And much less in a country that constantly experiences problems with the balance of payments, and during the period when a dangerous game of manipulating exchange rates begins at the global area, threatening with (and sometimes already turning into) "currency wars." Under such conditions, there is an urgent need for *an organized transfer of the responsibility for currency policy (including exchange rate policy) from the central bank to the government*. Most likely (but not necessarily) this structure should be the Ministry of Finance. In practical terms, to begin with, the National Bank of Ukraine should have introduced the practice of agreeing measures that may affect the hryvnia (including size and timing of the emission, and order issue, the rules of exchange transactions, as well as tariff and non-tariff restrictions, taxation, investment climate and agreements in the stock market ...). And meanwhile it should have prepared for implementing inflation targeting (essentially for controlling the price level), rather than demonstrate loyalty to the International Monetary Fund trying to execute its recommendations *in a formal way* but as soon as possible.

8. Uncertainty in the relations with the IMF

Our attitude to the International Monetary Fund is also characterized by uncertainty and rushing from one extreme to another, rather than by the attempts *to try to raise Ukraine to a decent place, which this country could occupy given its economic potential and national geo-economic interests.*

Despite the politically motivated refusal to join the IMF at the time of its creation (when, by the way, *by analogy with the UN, it was possible to try to secure IMF membership for Ukraine*), the Soviet leaders from time to time thought about the necessity of cooperation with the IMF and the World Bank. An influential supporter of this idea was V.Alkhimov, at that time Deputy Minister of Foreign Trade of the USSR. In an interview with US magazine "Business Week" in June 1973 he said that the decision on joining the IMF refers to the authority of the Soviet Ministry of Finance. "I know that they don't like some of the IMF's procedures, such as its system of ... But I wouldn't rule it {membership} out forever" [35]. In the mid-1980s, already as head of the State Bank of the USSR, he tried to realize the idea of "restoration" of alleged past membership (never took place in reality), which, however, met a disagreement on the part of the Western partners, who proposed to start negotiations for accession in accordance with "general practice" [36] . Frankly speaking, at that time, the USSR (as China earlier) could be only attracted to a certain extent by the IBRD resources because the rules of the IMF did not at all correspond to the principles of planned administrative socialist economy. Thus, to change the attitude to the IMF, the USSR needed at least "perestroika" that came to the aid of the policy of "acceleration" only 2–3 years later.

However, even then the understanding of the need for cooperation with the IMF (as an indispensable element of global cooperation) did not immediately win a sufficient number of supporters. Certainly, at that time, joining the IMF was considered unnecessary for the USSR, because we were not yet going to move to a market economy, and impossible because, given the economic situation, we could not pretend to a status equal to that of the USA (i.e. with a real right of veto on major issues). At the same time, if Ukraine (which was an "independent" member of the UN) alone had joined the IMF, that would have given us an opportunity to get at least technical assistance and advice that would have contributed to a higher level of Ukraine's readiness to the transition to market economy in the future. (In the same way, the issue of a separate membership in the IMF was later resolved for Hong Kong.) But, unfortunately, these proposals did not meet even a theoretical support. Meanwhile, as it turned out later, new winds were already blowing in high offices: Gorbachev launched a "ground sensing" about the possibility of joining the IMF in 1988 due to the aggravation of the debt problem and therefore various individual technical and informational contacts between the USSR and the IMF took place in late 1988.

And in September 1989, at the 44th Session of the UN General Assembly, the Soviet Union for the first time officially announced its intention to establish permanent relations with the IMF and the World Bank. Already in July 1990, took place a visit to the Soviet Union of the Managing Director of the Fund M.Camdessus, and in September of that year, a Soviet delegation was invited to the annual meeting of the IMF/IBRD in Washington. In December, on the results of the joint analysis of the Soviet economy, President Bush Sr. proposed to set a "special relationship" between the Soviet Union and the World Bank/IBRD that would allow the Soviet Union to be guided by the recommendations of the Fund, and use advice and technical assistance provided by experts of those international organizations [36, pp. 117–118]. And, indeed, in July 1991, at the Gorbachev's meeting with the leaders of the "Big Seven" in London, the Soviet Union was offered an agreement on associated membership in the IMF/IBRD, which Gorbachev initially dismissed as "offensive" for such a large country. That is why Moscow shortly sent to the IMF an official application for full membership, but then this desire did not meet support of the United States [37]. Moreover, the application was effectively blocked by the American side (on the decision of the US Senate, which set out a mandatory requirement of prior implementation of radical economic reforms in the Soviet Union, which was quite logical). However, in October in Moscow M.Camdessus nevertheless signed the association agreement. But that was a time after the August coup attempt and, in fact, on the one hand, there was no one to establish the association with, and on the other – the economic and political reforms required by the US senators were already beginning and now it became possible to really prepare for a full membership.

As mentioned on another occasion, Managing Director of the IMF M.Camdessus visited Ukraine shortly after signing the Agreement, in November 1991, and within a few months serious discussions began on the cooperation with the IMF. According to Professor B.Havrylyshyn, it was one of the first issues on which he drew the attention of the President Kravchuk after his appointment as adviser in late 1991, and almost immediately the government of Ukraine sent to the headquarters of the IMF an official application for accession to the organization. After consideration of the applications of Ukraine and other former Soviet countries, the IMF Board of Governors without meeting (a routine practice provided by the procedural provisions of the IMF) *on April 27, 1992 adopted a resolution No47-5, which allowed the admission of Ukraine and 13 other former Soviet republics as members of the Fund* within six months [38]. Formally Ukraine became a member of the International Monetary Fund after the signing of the IMF Statute by the Minister of Finance H.P'yatachenko on 3 September 1992. This event was preceded by a considerable preparatory work done by the Ministry of Finance and the National Bank of Ukraine in accordance with the Law of Ukraine Number 2402-XII "On the accession of Ukraine to the International Monetary Fund, the International Bank for Reconstruction and Development, International Finance Corporation, the International Development Association and the Multilateral Investment Guarantee Agency" of 03.06.1992.

Consideration of the preparation and implementation of various programs of cooperation between Ukraine and the IMF has been the subject of many studies. Regarding the uses by Ukraine of IMF loans, it should be noted that much of this money went to the loans to the Ministry of Finance and was used to servicing the external debt, financing the deficits of the payments and trade balances, including on import purchases in many areas, including the fuel and energy complex, agriculture and others. Another use of the IMF credits is the formation of forex reserves. Assistance of the IMF gave Ukraine an opportunity to maintain stability of the national currency, to successfully carry out the monetary reform, and to introduce convertibility of the hryvnia for current operations. The increase in forex reserves and their high stability serve as proof of stability of the financial system and increase its credibility.

At the same time, it is important to note that *the cooperation was not limited to the receipt and use of the Fund's loans*. In fact, more important was the cooperation in the introduction of the national currency (exit from the single ruble zone, the introduction of the hryvnia etc.), as well as ensuring its convertibility on current operations. That is, at this stage of the development of the international monetary system, the Fund had to solve, together with the new post-socialist member countries, the same issues that were previously settled together with the countries of Western Europe.

I consider it appropriate to remind that *in the early years of our independence, the IMF's advice and technical assistance played a prominent role in the formation of the national economic thought and in the development of the principles of economic policy,* so that, instead of quotes from Marx' works, Ukrainians began to cite the recommendations of the IMF. A similar situation was observed in other countries who just gained independence. But over time, politicians and economists in these countries gained their own experience. Partners of the IMF experts at the talks were now new professionals who often studied in the same universities, and spoke the same language. This fundamentally changed the relations. Because actually the recommendations of the IMF need not be strictly complied with (not only in the new market countries but also in the West are professionals who understand that uniform rules for all economies, and especially – for the economies in transition, simply cannot exist).

As noted on this occasion by the former Ukraine's Finance Minister H.P'yatachenko, "the task of governments is to develop, in contact with the Fund, foundations of economic programs that would fully meet the national interests" [39]. By the way, he compares the IMF with "the new Politburo," which now, in the new conditions begins to define the economic policy of Ukraine. Given this approach, becomes clear the "excuse" of some officials in the sense that "we are doing everything in exact accordance with the IMF recommendations" (that is, the remarks by homegrown advisers are not at all interesting for us). In fact, such behavior is not determined by the authority of the IMF but by the inability or unwillingness of national elites to take responsibility for unpopular decisions. In this regard, you can recall the example of Portuguese communication with the "triple" creditor (which included the IMF): Portuguese political elite (both the authorities and the opposition, who, by the way, even changed places in the process) managed to produce such a program of reforms, which was based on agreed principles, that the international experts had nothing to add. They only coordinated it with the authorities, the opposition, and with the unions to make sure that in society (at least in its responsible part) there is a consensus on the basic guidelines of the reforms.

Actually you can find many examples when governments of individual countries actively debated and eventually defended their vision in discussions with experts of the Fund.

In particular, the Government of India rather rigidly regulates the actions of the Bretton Woods Institutions, even in the process of implementation of already agreed programs. Another thing is that ultimately it does not always benefit the country. For example, the currency board in Argentina, which in several years led to a collapse of the financial system, was introduces at the insistence of the Minister of Economy D.Cavallo despite more than skeptical comments of international experts. (Later, dismissed D.Cavallo was even arrested on charges of "breach of duty of a civil servant," (which meant the failure to provide for Argentina an adequate inflow of dollars), but the hearings never took place. In this context, it is difficult to understand and accept the official silence of the Fund on the violations by the National Bank of Ukraine of provisions of the eighth article of the IMF Statute (separately ratified by the Verkhovna Rada in 1997), which resulted in a direct infringement of the status of convertibility of the hryvnia as a result of administrative and arbitrary restrictions in the course of the acquisition of funds and their use for current payments. Of course, in an informal way, this issue has been discussed many times, but any official outrage over the non approved restrictions was never expressed.

Thus, *the IMF recommendations should be treated with criticism, because no one is immune from mistakes, especially in such difficult issues which the Fund experts have to deal with.* Such a conclusion is suggested, for example, by a detailed analysis of mistakes committed by the IMF as to the reforms in Poland and Russia, as well as in Georgia, made by the famous British economist, Professor at the London School of Economics S.Gomulka [40], and by former Minister of Economy of Georgia Professor V.Papava [13].

It is very important that Ukraine is not just a borrower of the IMF but also its member. The Fund's officials usually remind their members (or shareholders): "We are you." In order to more deeply understand the logic of the Fund's actions and to change the attitude of its participants to us and our problems, *we should more actively participate in the discussion and decision making on matters not directly related to Ukraine*. This is necessary not only to be able to count on someone's attention and understanding, but in order to really feel part of the global economy with its problems, preferences and priorities. It is only our active position that can provide a necessary attention on the part of the organization that every day deals with multiple problems around the world. In organizational terms, this requires an active use of Ukrainians working at the IMF – both as official representatives of Ukraine and as independent experts. Unfortunately, this "arsenal" remains virtually unused (unlike that of other countries that not only use such opportunities, but also actively support the "penetration" of their citizens to the various international organizations (including the IMF)).

To create a group, whose authority would include the IMF assistance to countries in transition, we could use the example of the experience gained by the "Group of Twenty." But this requires considerable political efforts. In the formation of such a lobbying structure of the recipient countries one cannot rely upon support on the part of donor countries or other borrowers of the Fund or the World Bank: they will not support those who wish to redirect the financial flows in their own favor. In other words, we are faced to choose between the two strategic poles: integration and participation in global economic processes or isolation and eventual fruitless efforts to obtain unilateral advantages in a kind of competition with other countries. So we just have to choose to which *world* Ukraine will belong – the *first* one or the *third* one, because there is not another choice.

Conclusions

A key element of the conceptualization of currency policy is the choice of the overall model for Ukraine's economic development. At the heart of the global economy is the intrasectoral international division of labor, in which the production of any finished product is a separate branch. In fact, the present international division of labor provides, for an individual country, only four basic options: 1) concentration of its own production on *manufacturing modern high-tech products* (with the removal abroad of the production of traditional industries, which are kept under administrative control, 2) organization of the *extraction of raw materials* and their primary processing; 3) massive production of traditional products (primarily food and consumer goods, as well as low-tech engineering, etc.) through *the use of relatively cheap labor and borrowed technologies*; and 4) attempts to ensure the production of variable products based on the policy of *"indiscriminate export" and import substitution* (examples of which may be the attempts to build a national economy based on protectionism or autarky).

Under such conditions, Ukraine's choose of one of the above mentioned guidelines of international specialization actually means its efforts to join the appropriate "club" (regional integration and membership in specialized international organizations) or an attempt at self-development through "multi-vector" policy and non-alignment. With the latest version, a hope of success could be given by the presence of significant amounts of domestic capital and a roomy domestic market, but in reality these conditions do not exist. Thus, most of the available financial resources should be aimed at reforming and developing education and research that is the basis for the preparation of a transition to "knowledge based economy".

Concentration of financial resources in this area, in turn, will require a substantial reduction of various paternalistic social programs, which can be allowed only providing a radical increase in the wages through changing the proportions between wages and entrepreneurial income (for example, by legislative restriction of the minimum share of wages in the cost of production). A corresponding increase in the level of monetization of the economy could create an inflationary threat, which will be mitigated by free trade with neighboring countries, and additional curative measures (such as "popular" privatization of major state-owned enterprises by selling small stakes in the stock market – as was done by the Margaret Thatcher's government in the UK). Against this background, a "deoffshorization" of private property will be carried out (based on the prohibition, on Ukraine's territory, of economic activities of all companies that do not provide transparency of information on their final beneficiaries (owners)). This, among other things, would stop the outflow of capital and force the large companies to focus on the development of competitive production in Ukraine.

Achieving a consensus on a general model of economic development will make it possible *to build a system of currency relations on a comprehensive basis, that is, taking into account monetary, foreign-trade and investment interests of the economy.*

The monetary goal of this policy would be strengthening monetary sovereignty based on a high level of convertibility of the national currency, which should enter the list of CLS "settlement currencies", for which purpose it is necessary to ensure the implementation of international payments in the national currencies with such countries as China (the corresponding agreement already exists but virtually with no effect), Turkey, Poland and other EU countries not belonging to the euro area. This would create a basis for the creation of the third regional financial center of the Baltic-Black Sea Region in Kyiv (together with Warsaw and Istanbul). This, in turn, would greatly strengthen Ukraine's membership position in the International Monetary Fund, creating a real opportunity to participate in building and improving the global economic system.

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The Editorial Office received the article 10.05.2016