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The National Bank of Ukraine has changed the official exchange rate of the hryvnia against U.S. dollar by 25%, to UAH/USD 36.5686, effective 9 a.m. 21 July 2022. The reasoning behind the decision was the shift in the fundamental parameters of the Ukrainian during the war and the strengthening of the dollar. This step will improve competitiveness of Ukrainian producers,

converge exchange rate conditions for different groups of businesses and households, and support the resilience of the economy during the war.

The official UAH/USD exchange rate remains fixed. Under conditions of great uncertainty caused by the war, the fixed UAH/USD exchange rate is the main anchor for stabilizing expectations and the key tool for attaining the NBU's priority goals. These goals are maintaining price and financial stability, which are a prerequisite for economic recovery.

"Fixing the hryvnia exchange rate at UAH/USD 29.25 at the onset of the war helped ensure stable functioning of the financial system. The fixed exchange rate mechanism is the stabilizer of the economy under current conditions. The war has lasted for almost five months, which brought significant changes to the Ukrainian and global economies. Therefore, the official exchange rate of

the hryvnia fixed as of 24 February lost its relevance and has gradually stopped being the expectations anchor.

With this in mind, the NBU has made a one-time change in the official exchange rate of hryvnia against U.S. dollar and fixed it at UAH/USD 36.5686. The new level of the exchange rate will become the anchor for the economy and make it more resilient at the times of uncertainty. Keeping the exchange rate fixed will enable the NBU to maintain control over inflation dynamics and support uninterrupted functioning of the financial system. This is the key condition for the stable operation of the economy, which is vital during the war," emphasized NBU Governor Kyrylo Shevchenko.

The NBU estimates changing the exchange rate will raise inflows – and thus sales – of foreign currency revenues by exporters, minimize the speculative behavior of market participants, and allow stabilizing exchange rate expectations.

The adjustment of the official hryvnia exchange rate will have only a limited impact on the acceleration of price growth, which has been caused primarily by the consequences of the war for the supply of goods and services and cost of logistics, as well as price developments on world commodity markets in recent months. Instead, fixing the official rate at a new, more stable level will allow the NBU to keep price developments in Ukraine under control.

No changes will be introduced in setting the bid and ask rates for foreign currencies in the cash and cashless segments of the market.

As before, sale and purchase of foreign currencies by banks to fulfil clients' orders in the cashless segment of the FX market will be performed at a rate that may not deviate by more than 1% from the official rate.

As before, the ask price in the cash segment of the FX market will be determined by the market supply and demand.

In order to balance supply and demand in the FX market, the NBU is taking some additional measures.

First, effective 21 July 2022, the NBU will allow the banks selling cashless currency to individuals for the purpose of depositing it for three calendar months or more, without the right for early termination, within the monthly limit of UAH 50 thousands (in equivalent). This will create an alternative to investing in cash currency, which will reduce demand for it and pressure on the exchange rate in the cash segment of the FX market.

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Second, the NBU takes specific measures to minimize allocating international reserves to nonpriority spendings in the wartime.

Specifically, as of 21 July:

- Individuals will be able to withdraw abroad an equivalent of UAH 50,000 from hryvnia payment cards per month, as they did before. However, the monthly limit on withdrawals abroad of cash FX from hryvnia cards has been replaced with a weekly one, in particular, an equivalent of up to UAH 12,500 per seven calendar days.
- The monthly limit on card-based P2P transfers from Ukraine abroad using hryvnia cards issued by Ukrainian banks has been reduced to the equivalent of UAH 30,000 from UAH 100,000.
- The monthly limit of UAH 100,000 (in equivalent) has been set for hryvnia card-based payments outside of Ukraine from all customer's hryvnia accounts opened with a bank. Most Ukrainians staying abroad will not be affected by this restriction.
- NBU Board can introduce a special procedure for banks' purchasing foreign currency for their own needs.

Also, as of 25 July 2022, the NBU revokes a permit for commercial banks to purchase cash hryvnias from foreign financial institutions for cashless foreign currency.

Third, the NBU has changed the algorithm for calculating the banks' open FX position limits regarding non-inclusion of the increase in provisions for FX assets of banks. This will prevent possible artificial overstatement of FX loan loss allowances by banks in order to increase the FX purchases. The new requirement will come into force on 1 August 2022.

"The NBU is keeping a close eye on the exchange rate stability and taking the required measures to balance the FX market. All the restrictions imposed at the beginning of the war are temporary. At the same time, they allow the economy to sustain the war. They will also facilitate the rapid recovery after our Victory," said NBU Governor Kyrylo Shevchenko.

Ukraine's international reserves are sufficient to ensure the exchange rate stability, taking into account the prospect of receiving the international financial aid, a gradual setting up of export logistics, an increase in sales by exporters, and the expected decline in demand for foreign currencies after the exchange rate adjustment.

Whether the exchange rate and macrofinancial stability can be ensured over a long period will depend on the overall economic policy of Ukraine. The NBU maintains an active dialogue with the government, parliament, and other authorities regarding the impact of economic policy instruments on the monetary area. Narrowing the budget deficit, replacing monetary financing with borrowing from the market, and reducing imports, including through additional taxation to enhance competitiveness of Ukrainian producers, are important steps in ensuring the exchange rate and macrofinancial stability.

The respective changes were made by [NBU Board Resolution No. 154 On Amendments to NBU Board Resolution No. 18 dated 24 February 2022 dated 21 July 2022](#) which comes into force on 21 July 2022.

TAGS

financial markets

