

**Ilchuk P. H.**

*ScD., Docent, Head of Department Management Technology,  
Lviv Polytechnic National University*

**Kots O. O.**

*PhD., Docent, Associate Professor at the Department of Finance,  
Lviv Polytechnic National University*

## UKRAINE'S ECONOMY DOLLARIZATION: CURRENT STATE AND OPPORTUNITIES TO OVERCOME

Currently in Ukraine hryvnia is partially replaced by the cash flow by more stable foreign currencies such as the US dollar, due to the Ukraine's economic instability, significant inflation level and the desires of economic entities to preserve and protect their assets impairment.

Many domestic and foreign scientists analyzed problems of economy dollarization in scientific studies. Ryabinina L. determines the effects of Ukraine's economy dollarization [6]; Reznikova N. and Vidyakina M. consider dollarization as a factor in monetary dependence [5]; Marchenko O. traces the manifestations and causes of Ukraine's economy dollarization [2]; Oleinik A. considers factors of incentives for savings in terms of dollarization [3].

The term "dollarization" means the displacement of the national currency by US dollar and other foreign currency. One of the reasons of dollarization is the higher level of rate stability and convertibility of foreign currency against the national currency.

Main indications of the Ukraine's economy dollarization are [3]: 1) dollarization of assets and liabilities of the state financial and credit system; 2) population keeps savings in foreign cash; 3) bank deposit accounts are opened in foreign currency; 4) securities emission in foreign currency.

There is a significant amount of foreign currency, especially in the cash form, in the economy of Ukraine (Fig. 1).

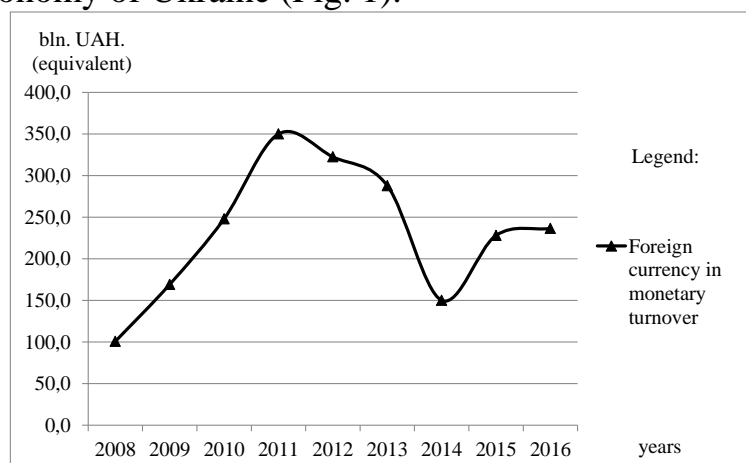


Fig. 1. Dynamics of foreign cash in monetary turnover

Source: formed by the authors on [4]

In 2014-2016 the total value of hryvnia cash was increased only by 45.4 billion UAH (or 19.12%), but the total value of foreign cash was increased by 86.4 billion UAH (at equivalent) (or 57.61%) in the same period (Fig. 1). It demonstrates the continuous replacement of cash hryvnia by foreign cash currency [4]. However, a significant part of the population retains foreign currency and it is difficult to determine precisely its share in the total monetary turnover.

Distrust of the national currency is a major cause of dollarization. It is reflected in the opening of deposits denominated in foreign currency. According to NBU the share of deposits of economic entities and individuals opened in foreign currency in 2016 is 32.16% of M2 [1], which indicated a significant dollarization of deposit accounts.

The level of dollarization in Ukraine can be determined only approximately since a significant sector of the economy is informal. However, there are several methods for definition of the dollarization indicators. It may be estimated as a ratio of foreign currency deposits to money supply; the value of foreign currency deposits to total deposits; the value of foreign currency loans to total loans; the value of bank deposits in foreign currency to M2, the value of money in foreign currency to total money supply and others [6]. The dynamics of deposits and loans dollarization, calculated by the method NBU is disclosed in Table 1.

Table 1

The level of deposits and loans dollarization, calculated by the method of NBU

Indexes	2012 p.	2013 p.	2014 p.	2015 p.	2016 p.
Dollarization of deposits, %	42,53	43,60	36,82	45,58	44,91
Dollarization of loans, %	40,74	36,98	34,04	46,54	56,62

Source: formed by the authors on [4]

Using official data of NBU we can determine the level of dollarization of the domestic economy by the criterion of the ratio of foreign currency deposits to broad money (M2). Currently, there is a constant high level of dollarization of the Ukrainian economy, which is confirmed by via calculations of dollarization indicators by different methods. According to NBU in 2016 the dollarization level of the lending in Ukrainian economy reached 51.0%, the dollarization level of consumer lending – 52.64%, and in addition, these parameters keep to increase permanently [4].

After analyzing all of the above-mentioned parameters we can state that the level of dollarization of the Ukraine's economy is critically high, especially given that the limit value for this indicator is 30% (according to the IMF method). During the economic crisis of 2008-2009 and 2013-2015 dollarization index reached its highest level, which is extremely dangerous for the economy. It demonstrates the public mistrust of the national currency. Thus there is an urgent need for the application of measures aimed at strengthening the national currency and at the increase of the monetary policy efficiency.

It is essential for the economy of Ukraine to legislatively ensure equal conditions for settlements only in national currency, for both residents and non-residents. It is also necessary to narrow the scope of using foreign currency in cash and to strive against the illegal usage of foreign currency as a means of payment in Ukraine. These measures will expand the scope of using national currency and reduce dollarization [4].

Inflation targeting can be an effective tool for implementing such tasks since the transparent and predictable monetary policy carried out by NBU will reduce inflationary expectations, maintain low inflation, reduce interest rates, stimulate attraction of investments and make the exchange rate more flexible [9]. Thus, the policy of inflation targeting will promote confidence in the national currency and will be a prerequisite for overcoming the dollarization of the Ukrainian economy.

It could be possible to overcome dollarization achieving macroeconomic stability in the country, as well as by improving the legislation, consistency of monetary and fiscal policy, by implementing reasonable policies for public debt management, via implementation of monetary policy that is aimed at controlling inflation and currency risks, by reducing budget and payments balance deficits, by implementing policy of inflation targeting, via financial market development and by increasing of domestic payment systems efficiency.

### References

1. Бюлетень НБУ. Статистичні матеріали [Електронний ресурс]. – Режим доступу: <http://www.bank.gov.ua/files/stat.pdf>
2. Марченко О.В. Проблемні аспекти реалізації грошово-кредитної політики України / О.В. Марченко // Комунальне господарство міст. – 2014. – № 115. – С. 67-73
3. Олійник, А. В. Економічні чинники стимулювання залучення заощаджень населення у банківську систему в умовах доларизації економіки/ А. В. Олійник, О. А. Романюк // Вісник Хмельницького національного університету. Економічні науки. – 2010. – № 3, т. 3. – С. 169-173.
4. Офіційний сайт НБУ [Електронний ресурс]. – Режим доступу: <http://www.bank.gov.ua>.
5. Резнікова Н. В. Доларизація як фактор монетарної залежності / Н. В. Резнікова, М. М. Відякіна // Теоретичні і практичні аспекти економіки та інтелектуальної власності: Збірник наукових праць. – 2013. – Вип.1, Т. 1. – С. 223-227.
6. Рябініна Л.М. Доларизація економіки України та її наслідки / Л.М. Рябініна // Вісник соціально-економічних досліджень. – 2012. – №4. –С. 91-97.