Baker McKenzie.

Client alert

Banking & Finance
February 2020

CONTACT US | FORWARD | WEBSITE

Ukraine's FX Market: Review of 2019 and Outlook for 2020

7 February 2020 marked the first anniversary of the new liberal model of foreign exchange regulation in Ukraine. Seen as a landmark step towards free movement of capital in the country, the new regime radically eased the carrying out of cross-border transactions with foreign currency.

Recap of 2019

Over the course of 2019, Ukraine's central bank, the National Bank of Ukraine (NBU), lifted nearly 40 foreign exchange regulations and restrictions that had been in place in Ukraine for years. In particular, the following notable relaxations were introduced by the regulator:

- cross-border loans attracted by local borrowers from non-resident creditors are no longer subject to the NBU registration and maximum interest rate cap
- Ukrainian businesses are no longer required to mandatorily convert their foreign currency proceeds into the local currency (Ukrainian hryvnia or UAH)
- restrictions on the amount of dividend repatriation and repatriation of other investment proceeds (e.g., received from the sale of corporate rights or securities) are abolished
- individual NBU license requirements for making cross-border transfers abroad are abolished – instead, certain foreign currency transactions are now subject to a cumulative annual limit
- individual licensing regime and temporary suspension of cross-border trade may no longer be imposed on businesses
- foreign investors are permitted to invest in Ukraine in foreign currencies of the "second group", such as Turkish lira or Russian rouble
- bank clients may purchase foreign currency using borrowed funds and on the day on which the respective purchase request is submitted (without applying the T+1 rule)

At the same time, the NBU has continued to limit certain foreign currency transactions to further stabilize the financial market in Ukraine. Such restrictions include:

- a 365-day maximum period for settlements under export or import contracts
- the cumulative annual limit for making investments abroad by Ukrainian residents – EUR 2 million per year for Ukrainian businesses and EUR 100,000 per year for individuals
- no foreign currency purchases by businesses for amounts exceeding the equivalent of UAH 150,000 (UAH 400,000 starting from 28 April 2020) if such purchases are not justified by the purchaser's contractual obligations
- no UAH-denominated loans from Ukrainian lenders to non-resident borrowers

Prospects for 2020

It is expected that the NBU will continue to gradually remove the remaining restrictions in 2020, provided that the situation in Ukraine's financial market remains stable.
The key factors that will contribute to the further liberalization of the foreign exchange regime in Ukraine in 2020 include:

- sustained growth of Ukraine's economy and further improvement of the macroeconomic situation
- sufficient amount of Ukraine's international reserves (which currently amount to a seven-year high of USD 26.3 billion)
- successful implementation of the Anti-BEPS laws in Ukraine[1]
- the Split Law coming into effect, making the NBU the main regulating authority for the non-banking financial sector

Owing to the rapid appreciation of Ukrainian hryvnia that started in mid-2019, this year is likely to see a rise in the use of derivative instruments by local businesses and their foreign counterparties wishing to hedge FX risks.

The NBU forecasts that Ukraine’s economy will grow 3.5% in 2020, with inflation expected to stay below the target range of 5±1 percentage points for most of this year. The central bank also expects its key policy rate to be gradually cut from the current 11% per annum to 7% per annum by the end of 2020.

According to the NBU, these projections, as well as the central bank's ability to further ease the remaining foreign exchange controls in Ukraine, will remain subject to a number of fundamental risks, such as:

- suspension of Ukraine's cooperation with the International Monetary Fund
- continued cooling of the global economy and further trade deterioration
- unfavorable weather conditions resulting in a drop in the harvest of grain and crops in Ukraine
- higher volatility of global food prices driven by global climate change
- decrease in foreign capital inflows

We recommend that our clients seek prior legal advice when making investments in Ukraine, entering into FX hedging instruments or otherwise carrying out cross-border transfers in or outside Ukraine.

[1] *For more detail, see our earlier publication on Tax Code Overhaul in Ukraine.*

Download PDF

Additional notes

Contact us

Serhiy Chorny

Managing Partner
Baker McKenzie

Bogdan Dyakovych

Associate
Baker McKenzie