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Abstract

The current state and problems of the foreign exchange market of Ukraine are considered. The essence of the currency market and the basics of its functioning are considered. In the process of payments in foreign trade, for loans, for investments and interstate payments, there is a need to exchange one currency for another due to the lack of a single means of payment. Such exchange takes place in the foreign exchange market. The foreign exchange market is a leader among all other markets and is an integral part of the economic processes taking place in the country. At the present stage of economic development, the currency market is a complex and dynamic economic system that operates throughout the world economy. Structural and environmental factors that influence the functioning of the foreign exchange market and the dynamics of the exchange rate are highlighted. The structure of the foreign exchange market is presented. Weaknesses of its functioning in Ukraine are revealed. The main causes of influence, their effects on the dynamics and development of this market are investigated. The main tendencies of the national currency market of Ukraine are considered. The dynamics of the exchange rate for 2015-2019 is analyzed, the reasons of changes in the hryvnia exchange rate for the specified period are indicated. The basic tendencies of development of the national currency market of Ukraine are considered. The main problems of the foreign exchange market of Ukraine are revealed.

Keywords: currency market, currency transactions, monetary policy, currency regulation.

Introduction. The rapid development of integration processes in the context of strengthening the interconnection between national financial institutions and Ukraine's rapid entry into the world economic community requires optimization and improvement of the functioning of the domestic currency market as an important mechanism for ensuring interaction between the national and world economy. However, on the other hand, the foreign exchange market and its regulation occupy a significant place in the macroeconomic policy of the state, since it contributes to the sustainable development of the country and has a significant impact on the status of individual sectors, industries and entities. Structural changes in the economy of the country and its external environment, in turn, affect the development and organization of monetary and financial relations and to some extent adjust the monetary policy of the state. Thus, in the context of increasing influence of globalization processes on the economy of Ukraine, which still have post-crisis manifestations of destabilization of the main macroeconomic indicators, as well as internal economic and political instability, the problems of functioning of the domestic foreign exchange market become especially relevant.

Among the scientists and scientists who have conducted research in the field of development and functioning of the foreign exchange market, as well as conducted an assessment of the current situation in Ukraine, it should be noted: Bereslavskaya O., Bodrov N.E., Vdovichenko N.E., Vladimir O.M., Dublyuk O.V., King M.M., Pasichnyk A.G., Crossing L.M. and many others.

The purpose of the article is to analyze the current state of the Ukrainian foreign exchange market, to outline its major problem areas and to find new ways of

regulating them. Describe monetary policy and currency regulation.

Presenting main material. The foreign exchange market is an integral part of the functioning of the country's overall financial market, and its effective functioning is the key to a successful and competitive economy of the country and its financial processes as a whole.

In today's globalization environment, no state is able to function effectively only on the basis of its own financial resources, in particular, a developing country. Attraction of financial resources, based on foreign direct investment, and other revenues is commonplace to operate in international financial markets.

The formation of the world economic system, internationalization and globalization of economic ties have led to the development of international monetary relations, which are endowed with signs of chaos, which determine the aspirations of individual economic entities, taking into account the diversity of their interests and motivation. In this sense, it is precisely the currency market that acts as the objective organizer of monetary relations, which segments and streamlines the aspirations of various economic agents. Recent developments in the world demonstrate the importance of the impact of the foreign exchange market on the economy.

Ukraine's currency market, like the currency markets of most countries in the world, largely reflects the state of the country's economy. Its short (worldwide) history is represented by several periods when different approaches to its regulation were applied. The formation of the foreign exchange market in Ukraine is directly related to the processes of development of the Ukrainian state and reformation of its economy [1].

Participants in the foreign exchange market are different groups of economic entities, each of which

seeks to maximize profits. The current currency market is characterized by the presence of a wide range of regulatory institutions, which include: relevant state bodies; the system of international financial institutions, groups and agreements operating on an intergovernmental basis, as well as the system of currency risk insurance. Although the role of the state in currency regulation is increasing in the current context, state regulation should not replace market regulators, but should only supplement and adjust their action accordingly.

Therefore, the currency market of Ukraine is characterized by a high level of regulation of all major segments.

Today, the system of currency regulation and control is too regulated, complex and overly bureaucratic, and currency legislation contains contradictions, which are objectively conditioned by the fact that it is still at the stage of formation and does not have a clear system of currency norms. Remedy of the deficiencies of the current currency legislation is possible only in the case of a block of laws of Ukraine specified by the relevant subordinate legal acts of bodies of special competence.

It is worth noting that perhaps the most important purpose of the foreign exchange market is to ensure the implementation of the monetary policy of the state, aimed at regulating the national economy and expanding foreign economic relations. After all, monetary policy, as a component of monetary policy, helps to stabilize prices, high employment, economic growth, increase the balance of payments and ensure the stability of the national currency.

Monetary policy - a set of economic, legal and organizational measures undertaken by the government, government bodies, central banking and financial institutions, international monetary and monetary organizations in the field of monetary relations within the country and abroad [2].

Monetary policy is an important instrument of the mechanism of state regulation of the economy, expansion of foreign economic activity.

In Ukraine, the main law governing monetary policy is the law that came into force on February 7, 2019 "On Currency and Currency Transactions" [8]. The new system consists of eight major resolutions of the Board of the National Bank, which replaced the previous base of 56 regulations in the field of currency regulation. The new regulation provides for a number of eases in the foreign exchange market, which will simplify business operations and increase the investment attractiveness of Ukraine. The main purpose of the NBU policy is to ensure price stability. Another priority is to promote the stability of the banking system as a key condition for ensuring the financial security of the state. The latter provides for the functioning of the financial system in equilibrium, creating incentives for full employment and economic growth. The necessary

conditions for this are adequate risk assessment and management, maintaining a certain margin of safety to counteract internal and external shocks.

Also, one of the objectives of monetary policy that contributes to the achievement of national economic goals is the regulation of exchange rates and diversification of foreign exchange reserves in accordance with national interests and conditions and objectives of economic development of both the individual country and the world as a whole.

The monetary policy strategy for 2016-2020 presented by the NBU describes in detail not only the main stages of monetary regime evolution in Ukraine since 2014, but also describes the use, during one or another period, of the required type of exchange rate.

So, in particular, during 2014, in the midst of the crisis, the so-called "eclectic policy", whose main objective of monetary policy, concerned the stabilization of the financial system, acted.

During 2015-2016, monetary targeting took place in the country and a floating exchange rate was present, the main condition of which was also the stabilization of the financial system, as in the previous one. The main objectives for ensuring the condition of this course were: disinflation, replenishment of international reserves and stabilization of the foreign exchange market.

For the years 2017-2018, "inflation targeting" and a floating exchange rate were introduced, the purpose of which was to ensure economic growth. The main objectives of this regime were: the inflation target; replenishment of international reserves; interest rate as an operating objective.

This course is planned to be further developed (from 2020), with a sufficient level of international reserves already being the main requirement, with the main goals being the inflation target and the interest rate as an operating objective.

The conducted analysis of the state of equilibrium in the foreign exchange market of Ukraine over the last three years shows the existence of a certain disproportion between the demand for the currency and its supply, which is reflected in the difference between the volume of foreign currency buying and selling operations for 2017-2019.

Overall, the negative balance of the foreign currency balance, which totaled \$ 598 million over the last three years, is traced over this period. US equivalent. At the same time, the level of disproportionality is rather insignificant, since the overall balance of the foreign exchange market was 0.95% over a certain period. The correlation between the volume of transactions for sale and purchase of foreign currency in the foreign exchange market of Ukraine in 2017-2019 is presented in Fig.1

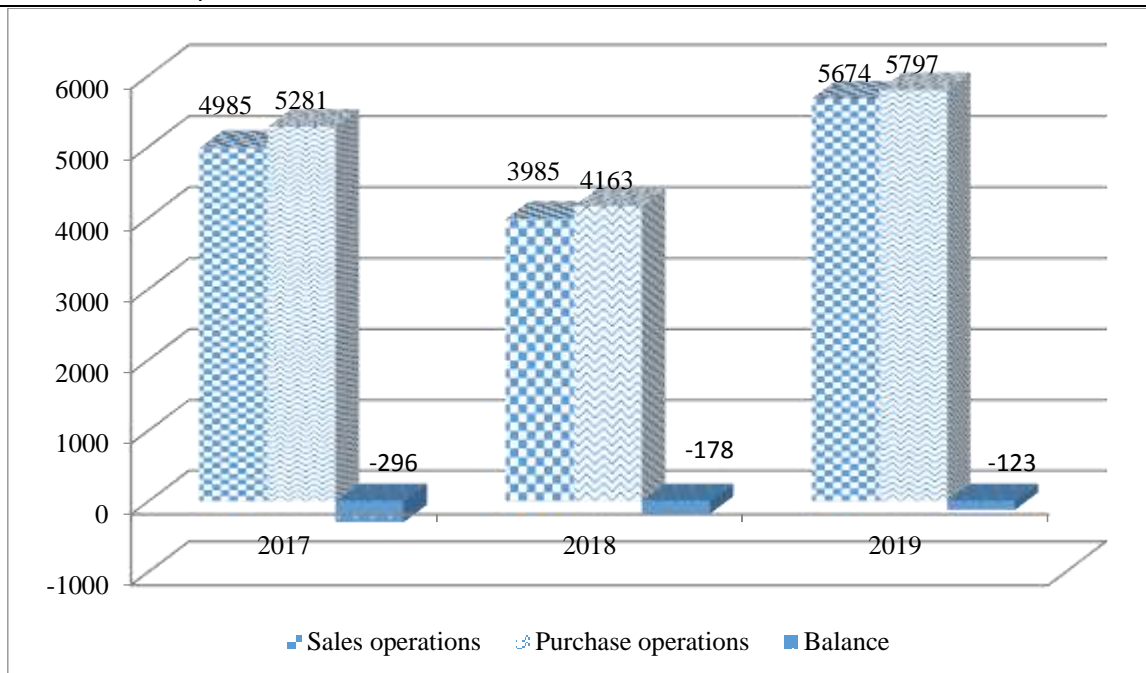


Fig. 1. Volume of transactions in the foreign exchange market of Ukraine, 2017–2019 (USD million in equivalent) [4]

The main reason for the existence of a negative balance of foreign exchange transactions in 2017-2019 was the excess demand for supply in the cash foreign exchange market in the corresponding period, which compared to the total balance of foreign exchange transactions equaled 60%.

The floating exchange rate will facilitate the development of a transparent and liquid internal currency market, based on: the gradual weakening of administrative measures that limit the flexibility of the exchange rate and the promulgation and clarification of NBU regulations to market participants; and the use of foreign exchange interventions to: smooth the functioning of

the foreign exchange market; accumulation of international reserves; maintaining the key interest rate transmission as a major monetary policy tool [8].

The total volume of foreign currency cash transactions in the interbank foreign exchange market of Ukraine in the end of 2017 amounted to USD 20664.9 million. USA.

The trend of 2019 is a significant predominance of the NBU currency purchase volume over the population's currency sales volume. This tendency is largely due to the depletion of the population's financial resources and the seizure of foreign exchange savings to finance current expenses (Fig.2).

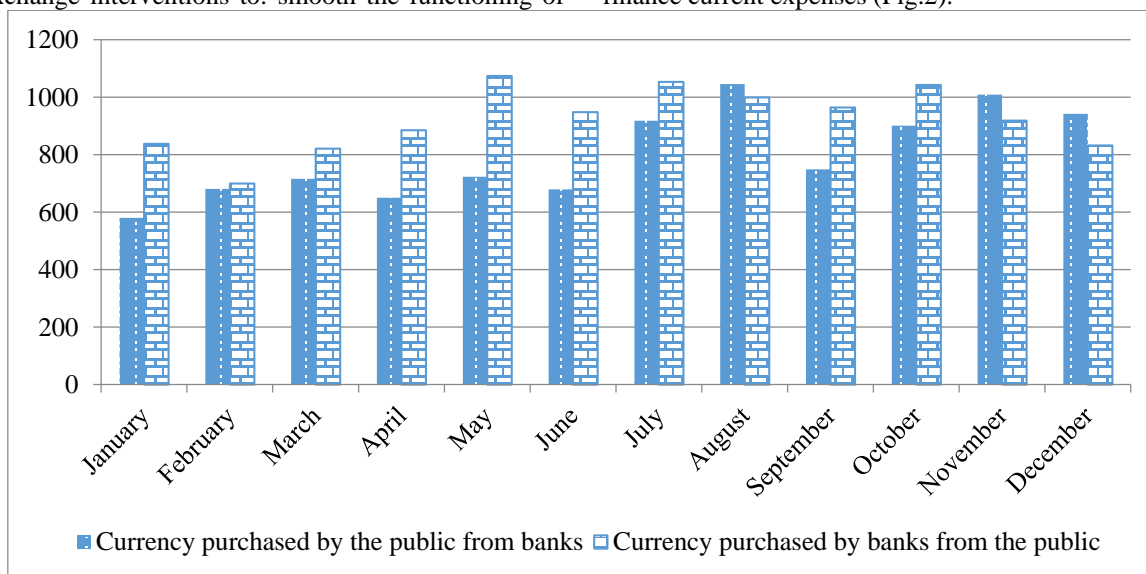


Fig. 2. Dynamics of currency sales and purchases in 2019 [4]

Currency exchange operations have existed since ancient times, but in the current international economic environment, the definition of the exchange rate is of particular importance, since any currency transaction is impossible without valuation of currencies of different countries, expressed through currencies of other countries. Therefore, today the determining element of international economic and monetary relations is the determination of the exchange rate. The exchange rate has a profound effect on currency exchange operations, international trade and investment - all that links the national economy to the world market.

The exchange rate is a powerful instrument of public policy. The exchange rate regulation should help

increase production and increase net exports, which is a determining factor in Ukraine's economic development.

As a result of successful monetary reform, the National Currency of Ukraine - UAH was introduced into circulation on September 2, 1996. As a result, we managed to overcome the hyperinflationary processes that were taking place at that time and to achieve some monetary stabilization. However, during the entire period of existence, there is a depreciation of the currency, which is interrupted by separate periods of stability. Inflationary bursts during the recent history of the hryvnia up to 2014 occurred during the periods of the greatest global crises of 1998 and 2008 (Fig. 3).

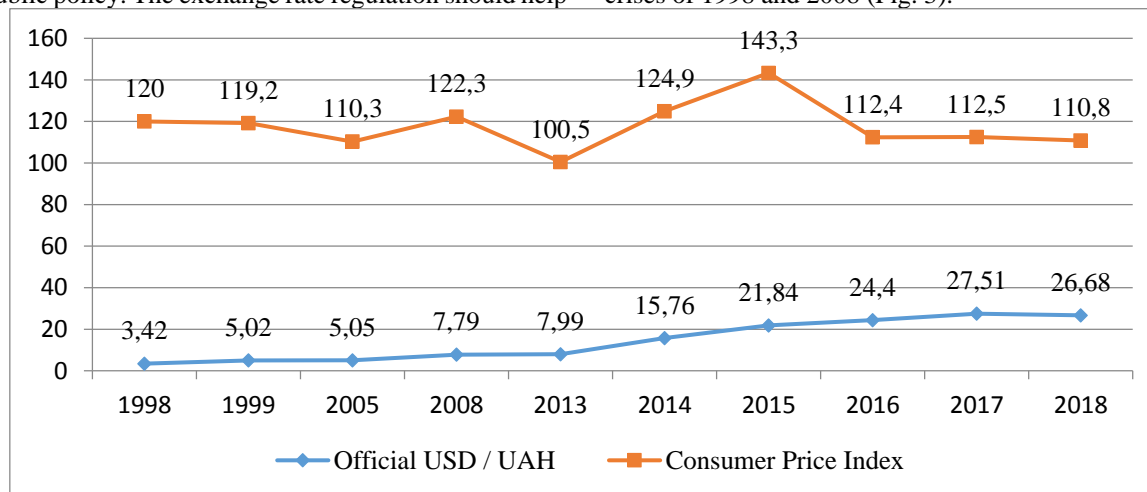


Fig. 3. Dynamics of the exchange rate and inflation [4]

Increase in inflation. Although inflation is a monetary phenomenon that involves an excessive amount of money in circulation, it may be due to both monetary and non-monetary factors. That is why it is advisable to supplement the short definition of inflation as a depreciation of money under the influence of monetary and non-monetary factors by such interrelated elements as [7]:

- the main reasons are imbalances in the production process, as well as state and corporate economic policy;

- Consequence - excess money supply in circulation in comparison with the real needs of economic turnover in money;

- essence (the main form of manifestation) - a stable general level of prices and depreciation of money;
- negative socio-economic consequences.

The dynamics of the exchange rate directly affects the overall market conditions, because on the basis of the value of the interbank exchange rate now forms the official NBU rate, which depends on many economic indicators, monetary and monetary policy of the regulator, gives an idea of trends in the banking system, and further on the economic development of the country as a whole.

Table 1 shows the dynamics of the official hryvnia to US dollar and euro exchange rate.

Table 1.
The official exchange rate of hryvnia to foreign currencies from 01/01/2016 to 31/12/2019, UAH / 100 units [4]

Period	2016 pik											
	01	02	03	04	05	06	07	08	09	10	11	12
U.S. dollar	2515,2	2705,4	2621,8	2518,7	2516,6	2485,4	2479,8	2565,2	2591,2	2549,6	2559,9	2719,1
Euro	2742,3	2977,6	2968,9	2860,7	2803,2	2756,3	2750,1	2864,8	2907,6	2784,7	2707,4	2842,3
Period	2017 pik											
	01	02	03	04	05	06	07	08	09	10	11	12
U.S. dollar	2711,9	2705,4	2697,6	2655,2	2635,3	2609,9	2591,6	2557,9	2652,1	2682,9	2701,4	2806,7
Euro	2882,8	2864,2	2896,4	2889,1	2944,4	2978,7	3039,6	3048,1	3123,6	3115,4	3194,9	3349,5
Period	2018 pik											
	01	02	03	04	05	06	07	08	09	10	11	12
U.S. dollar	2800,9	2694,8	2654,3	2623,0	2613,6	2618,9	2675,5	2827,9	2829,8	2816,4	2839,1	2768,8
Euro	3479,0	3314,9	3270,4	3191,7	3040,1	3056,8	3126,1	3306,4	3312,9	3202,9	3232,9	3171,4
Period	2019 pik											
	01	02	03	04	05	06	07	08	09	10	11	12
U.S. dollar	2775,5	2699,2	2724,8	2661,9	2687,2	2616,6	2508,5	2523,2	2408,2	2499,5	2403,5	2368,6
Euro	3172,1	3073,4	3056,7	2960,8	2991,9	2973,0	2798,0	2793,7	2633,4	2775,9	2645,1	2642,2

Thus, by analyzing the dynamics of the national currency (hryvnia) against the US dollar for 2018, it is noticeable its relatively stable exchange rate, which fluctuated from 2613.6 UAH / 100 USD. US \$ 2839.1 / \$ 100 US during the study period. As for the trend of changes in the results of the hryvnia to the euro, the situation is different: during 2018, the official exchange rate of the national currency declined in the first half of the year from 3476.0 UAH / 100 EUR in January to 3056.8 UAH / 100 EUR. and increased in the second half of the year.

In 2017, trends in the currency market of Ukraine changed. Thus, at the beginning of the year, the foreign exchange market was in a state of high turbulence due to increased demand for foreign currency against the backdrop of a number of temporary factors. This led to increased devaluation pressure on the hryvnia.

Analyzing the main reasons for the depreciation of the national currency against the foreign currency, we should first note the following. Ukraine is a commodity economy, so its GDP depends, first of all, on the level of external prices in relation to the main export destinations (metal, ore, grain). And even with the fact that the agrarian sector of the economy is still profitable, hostilities in the east, where a large proportion of mining and machine-building industries are located, have led to a significant reduction in foreign exchange earnings, which in turn has led to a shortage of foreign exchange currency in the currency market of Ukraine.

The list of factors that contributed to the hryvnia devaluation should include such as: negative business expectations, reduced FDI inflows, significant increase in public debt service costs, devaluation of currencies of trading partner countries, etc. [6].

In addition to these factors, it is worth mentioning the seasonal and psychological factors that also contribute to the depreciation of the national currency of the country.

However, the devaluation of the national currency has both negative and positive points, which include:

1) a significant increase in prices for imported goods, which leads to their displacement from the Ukrainian market, instead, they are replaced by analogues (or substitutes) of domestic production (export goods), which will contribute to the profitability of both their own enterprises and gradual strengthening the economy of the state;

2) increase of competition between domestic enterprises for the consumer, quality goods, pricing policy, retention of positions in the market segment, etc., which will be manifested in the production of necessary

products (services);

3) looking for new opportunities, such as reducing production costs by replacing gas equipment with electrical equipment, or other types of energy that are expensive to buy and install but will pay off in a short period of time.

An important component of the study of the balance of the foreign exchange market is not only the identification of factors that determine the imbalance between demand and supply of currency, but also determining the degree of their influence on the state of the balance of the foreign exchange market, which is of practical importance, because it allows the NBU to justify the directions and measures of its stabilization [5].

Characterizing the state of balance of the foreign exchange market, it should be noted that its manifestation has some specificity depending on the type of market in which it operates: cash or cash. This specificity arises from the different subjectivity of these markets. Thus, the main entities in the non-cash market are legal entities - national manufacturing and trading enterprises, service companies, financial institutions, foreign investors and the National Bank of Ukraine.

The analysis of the dynamics of the balance of the foreign exchange market of Ukraine for 2017-2019 indicates a tendency to reduce the imbalance between the demand and supply of foreign currency. Yes, the foreign exchange negative balance halved in the corresponding period. Mainly, the reduction of imbalances in the foreign exchange market of Ukraine was influenced by the reduction of foreign currency sales and purchases, the volume of which decreased by 36% over the last three years.

The main role in reducing the imbalance between supply and demand is played by the reduction in the volume of foreign exchange transactions performed on the non-cash foreign exchange market of Ukraine. Compared to 2017, foreign currency sales and purchases decreased by 43% and 45%, respectively, in 2019, resulting in a negative foreign exchange balance on the non-cash foreign exchange market from \$ 90 million. US equivalent in 2017 to 0 at the end of 2019

A similar situation is also observed in the cash foreign exchange market before the negative balance between supply and demand is reduced. Thus, in 2017-2019, the gap between sales and purchases from - \$ 207 million. In 2017 equivalent to -123 million USD. US equivalent in 2019

The dynamics of the balance between demand and supply of currency on the foreign exchange market of Ukraine for 2017-2019 is presented in Fig. 4.

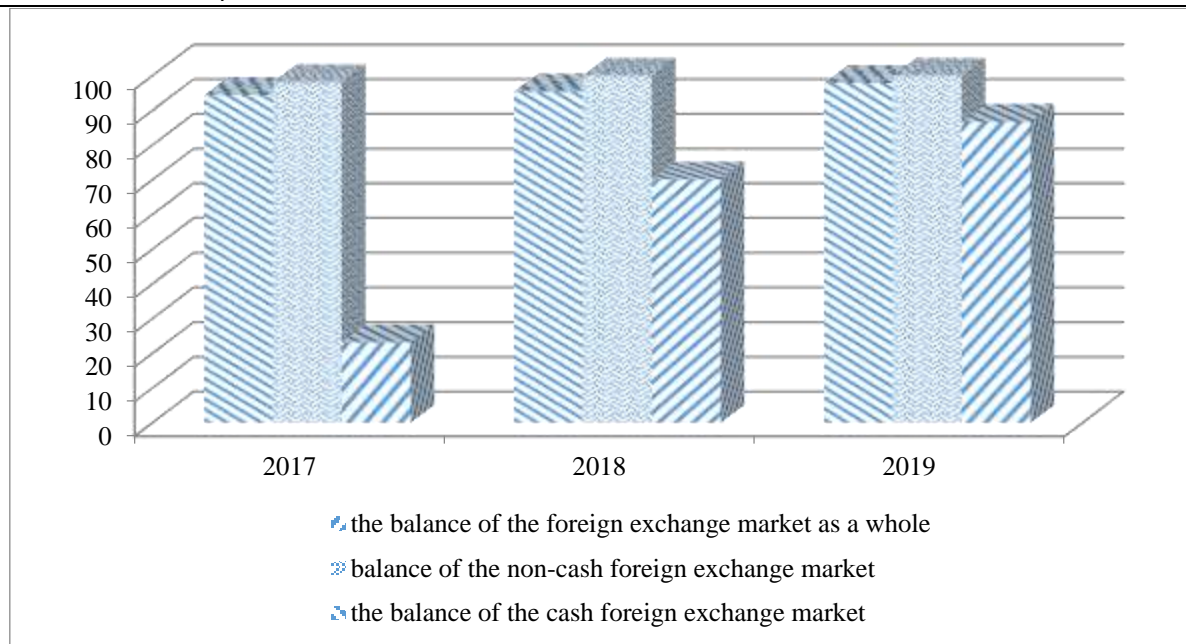


Fig. 4. Balance of transactions in the foreign exchange market of Ukraine in 2017-2019 [4]

The results of the analysis of the balance of the foreign exchange market of Ukraine over the last three years indicate an increase in its stability both in general and in its individual segments - cash and cash. The highest level of balance between supply and demand of foreign currency can be observed in the non-cash foreign exchange market - 100%. The increase in the balance between the operations of sale and purchase of foreign currency is also observed in the cash foreign exchange market, which at the end of 2019 was 87%. At the same time, it is justified that the specificity of the subjectivity of individual segments of the foreign exchange market determines the peculiarity of equilibrium on them.

Conclusions. Summarizing the above data, it can be noted that Ukraine's monetary policy has its weaknesses and is strongly dependent on political and economic actions. All political and economic crises have a severe collapse of all financial indicators, which indicates the lack of independence and security of our monetary system.

The practice of currency regulation in Ukraine in recent years has shown that today the National Bank of Ukraine is unable to use monetary means to implement currency regulation in times of crisis. Exchange rate fluctuations are one of the threats to national interests. Therefore, a prerequisite and foundation for the NBU's main function of "ensuring the stability of the national currency" is the pursuit of an effective policy for achieving stability of the financial and credit sector: choice of exchange rate policies, maintaining an appropriate level of inflation, increasing foreign exchange reserves. The whole complex of forms and methods of state regulation of the currency market of the national economy is divided depending on the specifics and peculiarities of their application to market, administrative, economic, monetary, as well as the main and additional instruments of temporary or permanent action.

Simplifying the legal framework in the field of

currency regulation is a step towards improving monetary policy. The next step should be measures that will make our monetary system more resilient and independent from the negative effects. These steps should be an increase in gold and foreign exchange reserves, stimulating monetary and fiscal policy measures for the development of our country's industry and economy, and a reduction in external public debt, which also have a negative impact on the stability of Ukraine's monetary system.

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