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MONEY AND FOREIGN EXCHANGE MARKETS CONTACT GROUP

Thursday, 26 September 2024, 10 a.m.–12 p.m.

The meeting took place in remote mode via Zoom.

Discussion Summary

Question 1. Money market's and FX market's operation during full-scale war

*(Speaker: **Oleksandr Arseniuk**, Head of the Office for Effective Regulation of Money Market, Open Market Operations Department, National Bank of Ukraine)*

The speaker presented an overview of the money market's and the FX market's operation during the full-scale war. The overview covered problems in the functioning of these markets and recent changes in them.

It was noted that the **money market** is characterized by a significant structural liquidity surplus, which suppresses the interbank lending market. However, this year, the liquidity surplus has been gradually declining. At the same time, this is not enough to revive the money market. The liquidity surplus also poses a challenge to monetary policy, and the NBU has taken steps to adjust its operational design to achieve certain monetary policy objectives.

The speaker noted that in 2024, unlike in 2022–2023, more liquidity is sterilized through the FX channel than hryvnia funds are spent through the budget channel. The growth in the sterilization via the FX channel reflects the more active use of existing liquidity, thanks to increased lending and larger borrowings through domestic government debt securities by the Ministry of Finance of Ukraine.

The NBU's three-month certificates of deposit proved to be an effective catalyst for transmission and a factor in increasing the attractiveness of term deposits. Deposit rates respond to changes in the key policy rate much faster

than before. Almost all of hryvnia retail term deposits are concentrated in deposits with maturities longer than three months.

The role of the **debt market** is growing amid a decrease in international assistance and an increase in budgetary needs. To boost the banks' activity in the debt market, the NBU amended the procedure for the banks to make required reserves, raising the share of the reserves that can be covered by benchmark domestic government debt securities.

Given the developments in Ukraine's FX market, it was noted that the transition to managed exchange rate flexibility a year ago has helped to both achieve certain macroeconomic effects and significantly revive trade between the banks. However, the NBU's role in balancing the FX market is still quite significant. There is still a steady shortage of foreign currency on the market, which is fully covered by the NBU through daily FX interventions.

The speaker noted that the managed flexibility of the exchange rate has returned to market participants a sense of FX risk that needs to be managed. At the same time, it has eliminated the fear of a sudden significant exchange rate correction. The absence of restrictions on the banks' sales of cash foreign currency removes the multiplicity of exchange rates on the market.

Thanks to the inflow of international financial assistance, international reserves remain high enough to ensure the sustainability of the FX market, even despite sizeable interventions. This also enables the NBU to take steps to implement FX liberalization measures.

When discussing issues related to the functioning of the money and FX markets, some participants drew attention to the controversial nature of the conclusions of bank inspections in terms of assessing the impact of transactions with the NBU on their financial results. Representatives of the NBU said that they would further study this issue.

Question 2. Regular review of UONIA money market indicator

*(Speaker: **Kateryna Semenchko**, Head of Division for Effective Analysis and Forecasting of Money Market, Open Market Operations Department, National Bank of Ukraine)*

Results of periodic reviews of the UONIA Money Market Indicator have been presented after they were considered at the meeting of the Oversight Council for Ukrainian Money Market and FX Market Indicators (the Oversight Council).

The speaker emphasized that the rapid growth in the banking system's liquidity in recent years poses significant challenges to the UONIA indicator. None of the banks are now experiencing any liquidity shortages, even

temporarily. As a result, the number and volume of transactions in the interbank lending market are very small, so this market segment cannot serve as a basis for calculating a reliable money market indicator. The calculation of the UONIA is possible only by taking into account the transactions of the banks with the NBU, which does not fully comply with the IOSCO principles for money market indicators.

At the same time, the main forecast scenarios envisage a large liquidity surplus to be maintained, which gives no reason to expect the interbank lending market to pick up in the foreseeable future. This poses significant challenges for the UONIA and requires to consider alternative options for calculating the benchmark. The challenge of creating a reliable and practical money market indicator can be overcome by expanding the base of transactions included in the calculation of the indicator. The NBU will continue to study such a possibility with the involvement of international technical assistance.

The meeting participants were also informed that, at the meeting of the Oversight Council, some external members suggested that the institution of primary dealers should be introduced to revitalize money market trading. According to the authors of the idea, primary dealers would be required to maintain a certain amount of liquidity in the market, and transactions with them would form the basis for calculating the UONIA. Instead, primary dealers would have exclusive access to certain liquidity management instruments provided by the NBU.

During the discussion, the majority of the Contact Group members noted that the potential introduction of the institute of primary dealers in the money market could indeed help to increase its liquidity. At the same time, the participants also expressed reservations that it might be difficult to implement such an idea, especially with regard to the participation of foreign-owned banks, as there might be problems with setting limits on counterparties.

Discussing other proposals to revive the money market, the meeting participants expressed a wish that the NBU resume regular operations to place its certificates of deposit for up to 14 days. Attention was also drawn to the participants' wish that the banks be provided with more flexibility to adjust their applications for taking part in certificates-of-deposit placement operations.

Question 3. Regular review of FX market indicators

(Speaker: Iryna Zhak, Deputy Head of Office – Head of Division for Effective Analysis and Forecasting of Money Market, Open Market Operations Department, National Bank of Ukraine)

Results of periodic reviews of FX market indicators (the official hryvnia exchange rate against foreign currencies, accounting prices for investment metals, and the reference exchange rate of the hryvnia against the U.S. dollar) have been presented after they were considered at the meeting of the Oversight Council.

The speaker noted that with the transition to the managed flexibility regime, both the number and volume of transactions in the UAH/USD segment have increased significantly, which makes it possible to calculate objective indicators of the UAH/USD exchange rate. At the same time, trading in the UAH/EUR segment of the interbank FX market is recovering slowly, while trading in other currencies remains extremely low. The currency makeup of FX market transactions confirms the status of the U.S. dollar as the main exchange-rate-shaping currency, despite a gradual increase in the share of euro transactions.

That said, the market still does not have the conditions for switching the calculation of the main benchmark from a weighted average to a fixed rate, given the low market liquidity.

According to calculations and statistical data provided at the presentation, the criteria for selecting transactions for the primary sample used to calculate the official and reference UAH/USD exchange rates are still relevant.

At the end of the meeting, participants were informed that, based on the results of periodic reviews, the Oversight Council had approved certain proposals for the development of FX market indicators (see Item 4).

The Contact Group members were also informed that an expert from the BCC/SECO technical assistance mission had worked with the NBU on the issue of compliance with the IOSCO principles¹ as regards including transactions with the NBU in the calculation of the official and reference UAH/USD exchange rates. The expert concluded that the methodology for calculating the official and reference UAH/USD exchange rates should continue to include transactions between the banks and the NBU, given that they constitute a significant part of the market and accurately reflect the prevailing market rates. The IOSCO principles recognize that there can be no one-size-fits-all approach and that the application and implementation of the principles should be proportionate to the size and risks associated with each benchmark and/or the administrator and the process of benchmarking. According to the expert's conclusions, if transactions with the NBU are excluded from the calculation of FX benchmarks, any alternative option will

¹Set out in the document *IOSCO: Principles for Financial Benchmarks Final Report July 2013*.

reduce their quality. The expert also emphasized the importance for the NBU to continue to be transparent about the benchmarks.

The Contact Group members agreed with this position regarding the inclusion of the banks' transactions with the NBU in the calculation of the official and reference UAH/USD exchange rates.

Question 4. Introducing a new benchmark: reference value for UAH/EUR exchange rate. Changes to methodology of calculating the official hryvnia exchange rate and determining principles for compiling the list of currencies for setting it

*(Speaker: **Oleksandr Arseniuk**, Head of the Office for Effective Regulation of Money Market, Open Market Operations Department, National Bank of Ukraine)*

Proposals were presented to introduce a new benchmark for the FX market – the reference UAH/EUR exchange rate. Proposals were also presented to change the methodology for calculating the official hryvnia exchange rate against foreign currencies (except the U.S. dollar) and the principles of forming lists of currencies used for calculating the official exchange rate.

In particular, it was noted that setting a new benchmark – a reference value for the UAH/EUR exchange rate as of 12 p.m. – was a response to a request from market participants. The Oversight Council approved approaches to its calculation in August. As Ukraine moves toward membership of the European Union, the share of economic activity with the EU is growing, with the number of euro-denominated transactions on the FX market increasing accordingly. Therefore, it is quite likely that in the foreseeable future, the NBU may need to consider the issue of defining the euro as the main currency that shapes the exchange rate.

The meeting participants were presented with options for potential approaches to calculating the UAH/USD reference rate that were considered by the Oversight Council. Based on their consideration, it was proposed to calculate this indicator on a daily basis by multiplying the UAH/USD reference rate as of 12 p.m. by the average BFIX USD/EUR quotation calculated between 10:30 a.m. and 12 p.m.

At the same time, it was noted that using the new methodology for calculating the euro reference rate would require a revision of the methodology for calculating the official hryvnia exchange rate against all currencies except the U.S. dollar. The need to adjust the methodology for calculating the official exchange rate (except for the U.S. dollar) is intended to eliminate certain inconsistencies that would arise if the methodology remained unchanged as a result of the introduction of the calculation of the reference

UAH/EUR rate. In view of this, it is recommended that the official exchange rate of the hryvnia against the euro, as well as against other currencies (except the U.S. dollar), and accounting prices of investment metals be calculated using the same methodology as the reference UAH/EUR rate as of 12 p.m., but be calculated as of 15 p.m.

The meeting participants also discussed the principles of compiling lists of currencies for setting the official exchange rate. The two lists of currencies (daily and monthly) were created many years ago for calculating the official exchange rate, which was justified by the technical difficulties of calculating the official exchange rate for a wide range of currencies on a daily basis. Currently, the level of automation of calculations has increased significantly, which has reduced the operational limitations and risks of calculating the official exchange rate for any list of currencies on a daily basis. In view of this, and based on international experience, the NBU proposes to form a single daily basket of currencies for setting the official exchange rate. The basket will include foreign currencies of the first group of the [Foreign Currencies and Banking Metals Classifier and foreign currencies](#) issued by countries that accounted for at least 95% of trade turnover with Ukraine according to the previous year's balance of payments.

During the discussion, the Contact Group members noted that the introduction of a new indicator – the reference value of UAH/EUR exchange rate as of 12 p.m. – would simplify the communication between the banks and their clients when determining the rates for clients' requests. The new indicator will also be useful later, as FX restrictions are eased, when forward transactions to buy and sell foreign currency without delivery of the underlying asset are once again allowed in the Ukrainian FX market.

Market participants also asked the NBU to constantly remind in its communications with various categories of stakeholders that the official and reference rates are not the rates at which the banks are obliged to make transactions with their clients.

The members of the contact group unanimously supported the presented proposals to introduce the new FX market indicator, as well as to update approaches to the calculation and publication of existing FX market indicators.

List of participants

Chair of the Contact Group –
Yuriy Heletiy

– National Bank of Ukraine

Co-Chair of the Contact Group –
 Oleksandr Arseniuk – National Bank of Ukraine

Members of the Contact Group:

Anton Boldyriev – Ukreximbank JSC
 Alla Brovkova – Oschadbank JSC
 Yurii Hrynenko – BANK CREDIT DNIPRO JSC
 Oleksii Dmytriiev – UNIVERSAL BANK JSC
 Oleksandr Duda – UKRSIBBANK JSC
 Maksym Dumanskyi – BANK FOR INVESTMENTS
 AND SAVINGS PJSC

Oleh Kyrychenko UKRGASBANK JSB
 Anton Kovalenko – CB PrivatBank JSC
 Oleksandr Kutsovskyi SENSE BANK JSC
 Serhii Kucheriavyi – KREDOBANK JSC
 Stanislav Lysianskyi – BANK ALLIANCE JSC
 Viacheslav Ozerov – CREDIT AGRICOLE BANK JSC
 Vladyslav Pariokha – TASCOMBANK JSC
 Liudmyla Pylypiv – PROCREDIT BANK JSC
 Andrii Potapov – ING Bank Ukraine JSC
 Oleh Ropiak Pivdennyi JSB
 Maksym Svoboda BANK VOSTOK JSB
 Anton Stadnyk – FUIB JSC
 Rostyslav Shapoval BANK 3/4 JSC
 Andrii Shpylevskyi – OTP BANK JSC

secretary of the Contact Group –
 Oleksandr Arseniuk – National Bank of Ukraine

Invited participants:

Volodymyr Lepushynskyi – National Bank of Ukraine

Mykhailo Rebryk	– National Bank of Ukraine
Iryna Zhak	– National Bank of Ukraine
Anna Zakrenychna	– National Bank of Ukraine
Tetiana Yerlina	– National Bank of Ukraine
Maryna Matviienko	– National Bank of Ukraine
Tetiana Nurmukhametova	– National Bank of Ukraine
Mykola Selekhnman	– National Bank of Ukraine
Kateryna Semenchenko	– National Bank of Ukraine.