



National Bank
of Ukraine

Feasibility of introducing the institution of primary dealers in Ukraine's money market to facilitate UONIA calculation

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Kyiv, September 2025



History of the issue and related problems

The issue arose as part of a search for ways to improve the calculation of the UONIA money market indicator

At the 28 February 2024 meeting of the Money and Foreign Exchange Market Indicators Oversight Council, an external member proposed to consider improving UONIA by introducing the **institution of primary dealers that would be required to maintain a certain amount of liquidity in the market and whose transactions would form the basis for calculating UONIA**



The issue was previously considered at the meeting of the Money and Foreign Exchange Markets Contact Group on 26 September 2024 (see Annex 2)



The issue was addressed using international technical assistance facilitated by the Swiss State Secretariat for Economic Affairs (SECO)



The results of processing the issue were presented at the meeting of the Money and Foreign Exchange Market Indicators Oversight Council on 25 June 2025

The discussed interpretation of the proposal made by some Oversight Council members



- 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 UONIA.

- On the other hand, primary dealers would have exclusive access to standard NBU liquidity management tools.

Pros and cons of implementing the institution of primary dealers in Ukraine

Pros

- Revival of interbank market activity
- Incentive for banks to open credit limits on other banks.



Cons

- Ukraine's money market is quite fragmented and many market participants do not have limits on each other
- Most market participants will not have access to some of the NBU's liquidity management tools, a deficiency that will in turn reduce the effectiveness of the transmission mechanism
- Difficulty keeping UONIA within the rate corridor
- More costly for the NBU to maintain the desired level of rates
- Additional costs for banks that are going to lose access to the NBU
- Difficulties for banks in terms of compliance with regulatory ratios (LCR, reserve requirements, credit risk ratios).

Primary dealers as a money-market institution: global experience

ECB guidelines on the implementation of monetary policy

According to the ECB Guideline on the implementation of the Eurosystem monetary policy framework*, **any institution that meets designated criteria** (*satisfies reserve requirements, is financially sound, is regulated/supervised by competent authorities, meets operational requirements*) **should have access to standing facilities and open-market operations conducted through standard tender procedures.**

Experience in the rest of the world

While studying the monetary policy implementation framework used by the U.S. Federal Reserve System, the Bank of England, and the Bank of Canada, we did not see any restrictions on commercial banks' access to central-bank standing facilities or their analogues.

*GUIDELINE (EU) 2015/510 OF THE EUROPEAN CENTRAL BANK of 19 December 2014 on the implementation of the Eurosystem monetary policy framework (ECB/2014/60), Articles 55 & 56

Position articulated by an expert from a technical mission supported by the Swiss State Secretariat for Economic Affairs (SECO)

A best practice in this area is that **all banks** required to hold reserves at the central bank should **have unrestricted, equal, and predictable access** to liquidity management operations and other central-bank instruments.

Granting primary dealers exclusive privileges to participate in NBU liquidity management operations would harm the development of the market, and do nothing to improve UONIA as a benchmark:

- The basic fact is that under a floor system (which the NBU now operates) do not provide sufficient trading incentives. There is very little the NBU can do to promote the market in this regime.
- The large structural liquidity surplus reduces incentives for interbank trading.
- It will not support the market, as it is intended. The big banks will want to squeeze a margin out of the small banks who will stand little chance of becoming Primary Dealers (PDs) themselves. In other words, primary dealers will contribute further to an oligopolistic structure that already exists in the market.
- It will deprive non-PDs of direct access to NBU's liquidity instruments – a vital element for liquidity management of commercial banks.
- The PD framework may also complicate other regulatory requirements, e.g. Liquidity Coverage Ratios (LCR)s. Short-term interbank trades do not affect LCR (almost), unlike transactions with the central bank.
- It would impact the business models and profitability of non-PDs, with unpredictable consequences for bank stability and banking system structure.
- It is unnecessary, because the natural monopoly market maker is the central bank; making commercial market makers as well is both unnecessary and cumbersome, at best.

Proposals that won the support of the Money and Foreign Exchange Market Indicators Oversight Council at its 25 June 2025 meeting



- Consider it unfeasible to establish the institution of primary dealers in Ukraine's money market as a way to improve conditions for UONIA calculation



- Inform the Money and Foreign Exchange Markets Contact Group about the results of the consideration of this issue at the meeting held by the Oversight Council for Ukrainian Money Market and FX Market Indicators



Annexes

Excerpt from GUIDELINE (EU) 2015/510 OF THE EUROPEAN CENTRAL BANK of 19 December 2014 on the implementation of the Eurosystem monetary policy framework (ECB/2014/60)

Article 55

Eligibility criteria for participation in Eurosystem monetary policy operations

With regard to Eurosystem monetary policy operations, subject to Article 57, the Eurosystem shall only allow participation by institutions that fulfil the criteria laid down in this Article.

- (a) They shall be subject to the Eurosystem's minimum reserve system pursuant to Article 19.1 of the Statute of the ESCB and shall not have been granted an exemption from their obligations under the Eurosystem's minimum reserve system pursuant to Regulation (EC) No 2531/98 and Regulation (EC) No 1745/2003 (ECB/2003/9).
- (b) They must be financially sound.
- (c) They shall be one of the following:
 - (i) subject to at least one form of harmonised Union/EEA supervision by competent authorities in accordance with Directive 2013/36/EU and Regulation (EU) No 575/2013;
 - (ii) publicly-owned credit institutions, within the meaning of Article 123(2) of the Treaty, subject to supervision of a standard comparable to supervision by competent authorities under Directive 2013/36/EU and Regulation (EU) No 575/2013;
 - (iii) institutions subject to non-harmonised supervision by competent authorities of a standard comparable to harmonised Union/EEA supervision by competent authorities under Directive 2013/36/EU and Regulation (EU) No 575/2013, e.g. branches established in Member States whose currency is the euro of institutions incorporated outside the EEA;
- (d) They shall fulfil any operational requirements specified in the contractual or regulatory arrangements applied by the home NCB or ECB in respect of the specific instrument or operation.

Article 56

Access to open market operations executed by means of standard tender procedures and to standing facilities

1. Institutions fulfilling the eligibility criteria under Article 55 shall have access to any of the following Eurosystem monetary policy operations: (a) standing facilities; (b) open market operations executed by means of standard tender procedures.
2. Access to the standing facilities or open market operations executed by means of standard tender procedures shall only be granted to institutions fulfilling the eligibility criteria under Article 55 through their home NCB.

Excerpt from the **Summary of the Money and Foreign Exchange Markets Contact Group's Discussion Dated 26 September 2024**

Issue 2. Regular reviews of UONIA money market indicator

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The meeting participants were also informed that, at the meeting of the Oversight Council, some external members suggested that the **institution of PDs should be introduced to revitalize money market trading**. According to the authors of the idea, PDs 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. On the other hand, PDs would have exclusive access to certain liquidity management instruments provided by the NBU.

During the discussion, most Contact Group members noted that the potential establishment of the institution of primary dealers in the money market could indeed help 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.

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