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MONEY AND FOREIGN EXCHANGE MARKETS CONTACT GROUP

Thursday, 4 September 2025, 11 a.m. – 12:30 p.m.

The meeting took place in remote mode via Zoom.

Discussion Summary

Item 1. Money Market Diagnostic Framework : Results Overview

(Speaker: **David Vavra**, Managing Partner, OGRResearch).

Results were presented of Ukraine's Money Market Diagnostic Framework (MMDF) project implemented by the OGRResearch team in cooperation with the NBU and Ukrainian banks on the initiative of the EBRD.

The speaker said the NBU had received a report on the MMDF project that highlighted both the progress achieved and the current challenges to the country's financial system. The MMDF is designed as a numerical tool to assess the state of money market development across countries, allowing for peer comparison, tracking over time, and identification of areas in need of technical assistance.

The results of the analysis demonstrate that the market for unsecured interbank loans remains limited as banks continue to avoid increased risks. In this environment, repos carried out via the central counterparty are becoming more common. Meanwhile, the lack of a standard framework such as the Global Master Repurchase Agreement (GMRA) makes over-the-counter repo transactions less attractive, keeping costs higher and activity subdued. As the overnight interest rate (UONIA) is based on unsecured transactions, this situation reduces the depth of this benchmark. A broader use of repo agreements could both lower trading costs and, over time, provide a stronger foundation for UONIA.

Due to the significant liquidity surplus of banks, the overnight rate is close to the lower bound of the NBU's rate corridor. While this setup has helped

provide stability, it leaves little incentive for banks to trade actively in the money market. A corridor-style framework where liquidity is absorbed at the policy rate could encourage more trading, make monetary policy signals clearer, and facilitate market development.

Another point raised in the review is the continued provision of long-term liquidity by the NBU despite the system already having abundant funds. While these facilities serve as a safeguard, they are not ideally suited to conditions of persistent surplus. Over time, phasing them out and relying more on operations that absorb excess liquidity would help monetary policy work more smoothly.

Overall, the project's conclusions indicate that the Ukrainian money market has made progress, in particular in developing infrastructure, establishing benchmarks for the money and FX markets, and shaping repo markets. Further steps, such as ramping up repo transactions by improving the regulatory framework and adjusting the operating regime and liquidity instruments, can strengthen the banking system and contribute to the NBU's efforts to maintain stability and stimulate financial development.

Item 2. Feasibility of Introducing the Institution of Primary Dealers in Ukraine's Money Market to Facilitate UONIA Calculation

*(Speaker: **Mykola Selekhman**, Deputy Director of the Department, Head of the Office of Open Market Operations and Government Securities Placement of the Open Market Operations Department)*

Results were presented of the international technical assistance project assessing the feasibility of improving the definition of UONIA by introducing the institution of primary dealers that would be required to maintain a certain level of liquidity in the money market and whose transactions could form the basis for calculating UONIA.

The issue of improving the UONIA calculation was repeatedly raised during meetings of the Oversight Council for Money and FX Market Indicators (hereinafter referred to as the "Oversight Council") and the Money and Foreign Exchange Markets Contact Group. Some members of the Oversight Council proposed introducing the institution of primary dealers in order to revive activity in the money market.

The issue of introducing the institution of primary dealers was looked into from the perspective of the possibility to obligate primary dealers to maintain a certain amount of liquidity in the market. Instead, they will have exclusive access to the NBU's standard liquidity management tools.

Based on the results of the study, the advantages and disadvantages of such an initiative were analyzed. While there will be an incentive for banks to

open credit limits for other banks, there is a risk that setting limits for some of the banks will be problematic. Restricting the non-primary-dealer banks' access to the NBU's liquidity regulation tools may defeat the purpose of the initiative to revive interbank market activity, potentially reducing the efficiency of the monetary policy transmission mechanism. Furthermore, banks that lose access to NBU instruments may incur additional costs and complications in meeting regulatory standards (LCR, reserve requirements, credit risk ratios). The NBU will also bear the additional cost of maintaining the desired rate level and keeping UONIA within the rate corridor.

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.

Nor did a study of the monetary policy implementation framework used by the Federal Reserve, the Bank of England, and the Bank of Canada reveal any instances of restrictions being imposed on commercial banks' access to central-bank standing facilities or their analogues.

An expert from a SECO-supported technical assistance mission said that according to international best practices in this area, 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. Which is why granting primary dealers exclusive privileges to participate in NBU liquidity management operations will impede market development and contribute nothing to the improvement of UONIA as a benchmark:

Based on the study's findings, introducing the institution of primary dealers in Ukraine's money market was deemed unfeasible.

Item 3. Development of Markets for FX Risk Hedging Instruments

(Speaker: **Oleksandr Arseniuk**, Director, Open Market Operations Department).

The Concept Note *On Defining Approaches, Conditions, and Timelines for Restoring the Functionality of the Foreign Exchange Derivatives Market* (hereinafter the "Concept Note") was presented. The Concept Note was prepared in order to meet the structural benchmark identified in the Memorandum of Economic and Financial Policies (MEFP) under the Extended Fund Facility (EFF) with the IMF.

The speaker described the situation around the functioning of the FX derivatives market, both before Russia started the war and during its full-scale invasion of Ukraine.

In 2019, when the Law of Ukraine *On Currency and Currency Operations* took effect, the FX derivatives market began to actually develop through the gradual liberalization of forward and swap transactions. Prior to the large-scale invasion, the volume and share of FX derivatives transactions remained marginal compared to developed markets, despite having grown.

When the all-out invasion broke out, restrictions were imposed on FX transactions, including on deals with FX derivatives. The only transactions that were still allowed were those to wrap up agreements concluded before the full-scale war.

In 2023, the NBU adopted the Strategy for Easing FX Restrictions, Transitioning to Greater Flexibility of the Exchange Rate, and Returning to Inflation Targeting (hereinafter referred to as the “Strategy”). Within its framework, the Roadmap for Gradual Easing of FX Restrictions (hereinafter referred to as the “Roadmap”) was developed. Roadmap Stage III provides for the resumption of derivatives transactions. Moreover, the developed and IMF-approved Concept Note made it possible to start easing the restrictions as soon as Stage II of the Roadmap.

Specifically, the Concept Note says that during Roadmap Stage II, restrictions that do not affect the FX market’s balance of supply and demand or that help generate an additional supply of foreign exchange may be relaxed. By contrast, any restrictions that have the potential to create more FX demand are to be relaxed at Stage III of the Roadmap.

Core principles behind the effort to ease the restrictions on transactions with FX derivatives:

(1) As for homogeneous transactions, restrictions are first relaxed on transactions with delivery of the underlying asset, then on those without delivery.

(2) Restrictions are eased first on transactions to hedge the FX risk of goods import operations, then on transactions to draw funds from non-residents or banks.

(3) Restrictions on transactions that generate additional demand in the FX market are initially relaxed up to a certain limit, and only after that can banks be allowed to make such transactions without their volume being capped.

In line with these principles, forward transactions by clients to sell foreign exchange to banks were permitted in May and August 2025, both with and without delivery of the underlying asset. Any and all bank-to-bank forwards were also allowed.

On top of that, resident clients are allowed to buy foreign exchange on forward terms with delivery of the underlying asset in order to hedge the risk of exchange rate changes in transactions to import goods, but banks that carry out such transactions must follow certain rules.

At the same time, market participants barely entered in any forward contracts. Between 10 May and 31 August 2025, only five forward transactions were made by clients to sell a total of about USD 1 million with the underlying asset's delivery.

As for swap transactions, the liberalization measures outlined in the Concept Note have yet to be implemented. While under martial law, banks are allowed to make swap transactions (i) with other banks, IFIs, or the central counterparty without restrictions, and (ii) with other resident clients and foreign depository banks that hold securities accounts with the NBU, subject to certain conditions.

The speaker noted that for the market's controlled recovery, further steps within the Strategy and the Roadmap have been identified in order to ease the restrictions on transactions with FX derivatives.

Specifically, for forwards at Roadmap stage three, resident clients will be allowed to purchase foreign exchange from banks, with and without underlying assets' delivery, to hedge the exchange rate risk, first for transactions to import goods, then for loan agreements. Such operations may initially be permitted within limits, which can later be expanded and eventually removed.

As for swap transactions by resident legal persons, the same regime is in effect today that applied before the full-scale invasion. Regarding retail transactions, it would be viable to ease the restrictions on swap transactions only after allowing individuals to purchase cashless foreign exchange without requiring them to provide any grounds or make any commitments.

In general, the unveiled approach ensures a gradual and controlled liberalization of transactions with FX derivatives and paves the way to restore their functioning without creating threats to the sustainability of the FX market.

As the discussion on the issue progressed, market participants expressed their wish for the regulator to set certain limits (e.g., as a percentage of the bank's capital) for conducting forward transactions to sell foreign exchange to clients.

List of discussion participants

Chair of the Money and Foreign Exchange Markets Contact Group –
 Yuriy Heletiy – National Bank of Ukraine

Deputy Chair of the Money and Foreign Exchange Markets Contact
 Group –
 Oleksandr Arseniuk – National Bank of Ukraine

Members of the Money and Foreign Exchange Markets Contact Group:

Anton Boldyriev	– Ukreximbank JSC
Alla Brovkova	– Oschadbank JSC
Yurii Hrynenko	– BANK CREDIT DNIPRO JSC
Igor Dashkovskiy	– BANK VOSTOK PJSC
Oleksii Dmytriiev	– UNIVERSAL BANK JSC
Oleksandr Duda	– UKRSIBBANK JSC
Hanna Zolotko	– UNEX BANK JSC
Oleh Kyrychenko	– UKRGASBANK JSB
Oleksandr Kutsovskiy	– SENSE BANK JSC
Serhii Kucheriavyi	– KREDOBANK JSC
Stanislav Lysianskyi	– BANK ALLIANCE JSC
Taras Liesovyi	– CB GLOBUS JSC
Vladyslav Parokha	– TASCOMBANK JSC
Liudmyla Pylypiv	– PROCREDIT BANK JSC
Anton Stadnyk	– FUIB JSC
Andrii Shpylevskiy	– OTP BANK JSC

Secretary of the Money and Foreign Exchange Markets Contact Group:
 Iryna Zhak – National Bank of Ukraine

Invited participants:

Sergiy Nikolaychuk	– National Bank of Ukraine
Volodymyr Lepushynskiy	– National Bank of Ukraine

Pervin Dadashova	– National Bank of Ukraine
Mykhailo Rebryk	– National Bank of Ukraine
Tetiana Nurmukhametova	– National Bank of Ukraine
Mykola Selekhan	– National Bank of Ukraine
Nataliia Vahina	– National Bank of Ukraine
Andrii Patenko	– National Bank of Ukraine
Yuliia Lysenko	– National Bank of Ukraine
Andrii Kozlovets	– National Bank of Ukraine
Tetiana Yerlina	– National Bank of Ukraine
Anna Zakrenychna	– National Bank of Ukraine
Viktoriia Kostyuk	– National Bank of Ukraine
Oleksandr Varenysia	– CB PRIVATBANK PJSC
David Vavra	– OGRsearch
Karel Bauer	– OGRsearch
Reka Doma	– OGRsearch
Zuzana Valsova	– OGRsearch
Eldor Zakirov	– EBRD
Keles Gursu	– EBRD.