

Publication date

17 October 2022

MONEY AND FOREIGN EXCHANGE MARKETS CONTACT GROUP

Friday, 11 February 2022, 3:00 p.m. – 5:00 p.m.

The meeting took place in remote mode via Zoom

Discussion Summary

Item 1. Development of money and foreign exchange markets in 2021 and during the escalation of geopolitical tensions in early 2022: *(speaker: **Oleksandr Arseniuk**, Head of the Office for Effective Regulation of the Money Market of the Open Market Operations Department)*

When considering the issue, the Contact Group paid particular attention to a significant growth in the banking system's liquidity in 2021 as a result of providing banks with long-term refinancing loans and issuing money into circulation through the channel of FX interventions. The banking system's liquidity reached such a level that even its slight decrease during the escalation of geopolitical tensions at the beginning of 2022 had very little impact on the condition of the money market, the interbank segment of which showed little activity.

As far as the FX market is concerned, it was noted that the surge in the global raw material prices had led to a sizeable increase in the average volumes of foreign currency purchases and sales in various market segments in 2021. In particular, forward transactions rose markedly. Shocks in the FX market resulting from the escalation of geopolitical tensions in early 2022 led to a deterioration in the FX market conditions. However, the NBU responded to the shocks with nothing but market instruments (the key policy rate, foreign exchange interventions), without tightening the FX restrictions.

During the discussion, the market participants stressed the need to improve the money market indicators (benchmarks), as the UONIA calculation against a backdrop of the reduced interbank market activity is increasingly based on banks' agreements with the NBU. In particular, the participants proposed to consider a possibility of calculating the money market indicator

taking into account the swap and repo deals. The NBU representatives expressed their readiness to study the proposals in more detail as part of the work of the money and foreign exchange markets Indicators Oversight Committee.

Some participants in the discussion also supported the NBU's continued interest rate swap transactions with banks to support banks' long-term lending to the economy. In response, the NBU representatives said that they would be ready to consider such a possibility if the banks put in more effort in the development of said market segment.

The members of the Contact Group also noted that the finalization of a local version of ISDA and further development of a local GRMA version should spur the money market activity.

The participants also raised the issue of granting the banks a regulatory permission to purchase external government debt securities of Ukraine in the external financial markets. The NBU representatives said that this issue was on the NBU's agenda, and the NBU together with the Ministry of Finance of Ukraine was working to improve the credit policy framework for the borrowing in foreign currency.

Item 2. Most recent developments and prospects of the structural regulation of the banking system's liquidity

*(speaker: **Mykhailo Rebryk**, Head of the Monetary Policy Office of the NBU Monetary Policy and Economic Analysis Department)*

The participants also considered the optimization of the structural surplus of liquidity of banking systems in the context of global and local experiences. The NBU's initiatives on possible further steps in this direction were also discussed at the meeting.

In particular, it was noted that the large structural liquidity surplus of Ukraine's banking system significantly reduces the efficiency of the interest rate channel of the monetary transmission mechanism. This, in turn, makes it more difficult for the NBU to achieve its monetary policy objectives, which requires further tightening of the monetary conditions. The meeting participants were presented the research findings that confirm the sensitivity of the interbank rate and the banks' deposit rates to the banking system's structural liquidity position. In addition, the participants were presented the calculations of the optimum and maximum levels of structural surplus of liquidity, which define the efficiency of the interest rate channel of the monetary transmission.

Taking into account the research findings and the global practices, the NBU is currently studying the feasibility of measures to structurally regulate the banking system's surplus of liquidity, which may include raising the reserve requirement ratio, reducing the maturity of standard refinancing loans provided to banks, and offering long-term certificates of deposit. It was noted that in order for the monetary transmission to be effective, the volume of the structural regulation of liquidity should be significant and include multiple of the abovementioned instruments rather than just one.

The participants confirmed during the discussion the relevance of the issues raised, as well as the point about sensitivity of the interest rate policy of commercial banks to their liquidity position. At the same time, the participants noted that whatever measures on the structural regulation of liquidity are taken by the NBU, the response of deposit rates will be lagged due to the strong inertness of banks' behavior.

Item 3. Introducing the calculation of the compounded UONIA index and compounded UONIA average rates

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

The NBU announced its intentions to introduce the compounded UONIA index and compounded UONIA average rates and publish them on its official website. In particular, it was noted that the introduction of the compounded UONIA index and compounded UONIA average rates will comply with the global best practices of reforming the money market indicators (benchmarks). This measure will foster the development of Ukrainian market of floating-rate instruments and derivatives, expand the application of UONIA as the base rate for financial products, and allow maintaining proper pricing of contracts. The roadmap for introducing and publishing the compounded UONIA index and compounded UONIA average rates was presented to the Contact Group members.

The members of the Contact Group discussed in detail the formulas for the calculation of the compounded index used by the Bank of England and the European Central Bank. The formulas are mathematically equal but the sequence of arithmetic operations is different. As a result of the discussion, the participants agreed that Ukraine should use the formula used by the European Central Bank as the calculation is precisely accurate due to the minimized rounding.

List of participants

Chair of the Contact Group Yuriy Heletiy	– National Bank of Ukraine
Co-Chair of the Contact Group Oleksii Lupin	– National Bank of Ukraine
Members of the Contact Group:	
Yurii Artemenko	– MTB BANK PJSC
Anton Boldyriev	– Ukreximbank JSC
Alla Brovkova	– Oschadbank JSC
Karl Varga	– CRYSTALBANK JSC
Andrii Varzar	– Pivdennyi Bank JSC
Yurii Hrynenko	– BANK CREDIT DNIPRO JSC
Oleksii Dmytriiev	– UNIVERSAL BANK JSC
Oleksandr Duda	– UKRSIBBANK JSC
Andrii Dutskyi	– BANK VOSTOK PJSC
Anton Kovalenko	CB PrivatBank JSC
Oleksandr Duda	– IR BANK JSC
Stanislav Lysianskyi	– BANK ALLIANCE JSC
Viacheslav Ozerov	– CREDIT AGRICOLE BANK JSC
Andrii Dutskyi	– MEGABANK PJSC
Vladyslav Pariokha	– TASCOMBANK JSC
Tetiana Popovych	– ALFA-BANK JSC
Andrii Potapov	– ING Bank Ukraine JSC
Anton Stadnyk	– FUIB JSC
Andrii Shpylevskyi	– OTP BANK JSC
Invited participants:	
Oleksandr Arseniuk	– National Bank of Ukraine
Iryna Zhak	– National Bank of Ukraine
Sergiy Nikolaychuk	– National Bank of Ukraine

Mykhailo Rebryk

– National Bank of Ukraine

Mykola Selekman

– National Bank of Ukraine

Kateryna Semenchenko

– National Bank of Ukraine