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## **MONEY AND FOREIGN EXCHANGE MARKETS CONTACT GROUP**

Monday, 2 August 2021, 3 p.m. – 5 p.m.

The meeting took place in remote mode via Zoom

### ***Discussion Summary***

**Issue 1. Recent changes in money market regulation** (Speaker: **Mykhailo Rebryk**, Head of the Monetary Policy Office of the NBU Monetary Policy and Economic Analysis Department)

The speaker informed the Contact Group members about the nature and motives of recent NBU decisions on money market regulation.

Last year changes to the operational design and anticrisis incentives provided additional support to the banking system and lending during the most difficult period of coronavirus crisis and at the early stage of economic recovery.

At the same time, prolonged use of anticrisis measures during relatively “calm” times generate a number of risks. These include discouraging banks from working with depositors, negatively influencing the market mechanisms and maturity structure of bank deposits, weakening the monetary transmission, increasing the risks of fiscal dominance, and intensifying the conflict between the goals of price and financial stability.

Being aware of that, halfway through 2020, the NBU made a commitment in [Monetary Policy Guidelines for 2020](#) to phase out its emergency measures to support banks as the economy gradually recovers and the financial system stabilizes. The economy is currently rebounding, while the banking system remains stable and liquid. The NBU has thus launched the previously declared process of rolling back its emergency measures.

Moreover, inflation is currently speeding up both in Ukraine and across the globe. An increasing number of central banks are moving toward monetary policy normalization by raising their key policy rates and gradually rolling back their quantitative easing programs. Emerging markets react more ac-

tively than developed markets, particularly through less anchored inflation expectations. The NBU was one of the first to start the cycle of monetary policy tightening. To bring inflation back to its target and prevent an imbalance of inflation expectations, the NBU raised its key policy rate and started to phase out the long-term liquidity support and interest rate swaps.

To minimize risks to the economy and the financial system, the phase out is being carried out gradually. In the absence of significant shocks in financial markets, long-term refinancing and interest rate swaps will be fully phased out on 1 October 2021. At the same time, the NBU will closely monitor the pandemic and the economic situation. The central bank will be prepared to take decisive steps to support bank liquidity.

**Issue 2. Proposals on changing the methodology for calculating the Ukrainian Overnight Index Average (UONIA)** (Speaker: **Oleksandr Arseniuk**, Head of the Office for Operative Regulation of Money Market of the Open Market Operations Department)

Participants of the session discussed the problematic issues related to current methodology for UONIA calculation and the ways of addressing them.

In particular, in view of the low activity of banks in the money market, the indicator, which is calculated as an arithmetic average, can in some periods be highly sensitive to activities of certain market participants, the discussants said. This makes the UONIA potentially vulnerable to manipulations. In view of this, it was proposed to change the UONIA methodology by moving from the arithmetic average to a weighted average. To neutralize the effect of high-value transactions on the UONIA calculation, it was suggested to calculate the UONIA only for transactions with the most relevant value in the Ukrainian market. Currently, these transactions range from UAH 10 million to UAH 200 million, accounting for 94% of all unsecured transactions in Ukraine's interbank market. In the future, this range can be adjusted according to the relevant developments in the structure of transactions in the money market. A similar approach is used by other central banks that administer money market indicators (e.g. Bank of England).

Considerable attention was paid to the feasibility of continuing the practice of including some banks' transactions with the NBU into the UONIA calculation. The experts of the IMF technical support mission concluded that this approach does not comply with the principles set out in the document of the International Organization of Securities Commissions (IOSCO): [Principles for Financial Benchmarks Final Report July 2013](#) (hereinafter referred to as IOSCO principles). At the same time, the NBU has previously declared a goal of achieving a maximum alignment of the money market and

FX market indicators with IOSCO principles. On the other hand, not including banks' transactions with the NBU will quite often result in a failure to apply the main methodology for calculating the indicator due to an insufficient number of market transactions between banks.

To find the best solution in this situation, the NBU engaged specialized technical assistance under the Bilateral Assistance and Capacity Development for Central Banks Program, which is being implemented with the support of the Swiss State Secretariat for Economic Affairs (SECO). Having studied the state of the Ukrainian money market, the mission expert concluded that under current conditions, it is appropriate to include some of the banks' transactions with the NBU in the UONIA calculation. However, to stop the use of these transactions, the NBU should develop a strategy that would identify clear triggers for abandoning this practice.

Considering the above, the discussants supported a proposal to consider the practice of including some banks' transactions with the NBU when calculating the UONIA as justified under current conditions of Ukrainian money market development, even if this approach contradicts the IOSCO principles. The discussants also supported the said proposals on adjustments to the methodology for calculating the UONIA.

**Issue 3. Proposals on changing the methodology for calculating the Official/Reference UAH/USD Exchange Rate** (Speaker: **Oleksandr Arseniuk**, Head of the Office for Operative Regulation of Money Market of the Open Market Operations Department)

When considering the issue, the discussants focused on recommendations from international experts (invited by the NBU to assess the quality of the FX market indicators) on simplifying the mechanism of excluding transactions with extreme parameters from calculating the official/reference UAH/USD exchange rate. The current mechanism leads to substantial data losses (25%).

To address the issue, it was proposed to adjust the part of the mechanism of excluding the transactions with extreme parameters where the transactions are discarded based on their volume. In particular, instead of using double standard deviation when excluding the transactions based on the volume, it was proposed to include in calculation only the transactions with the volume that is most typical for the Ukrainian market. Currently, these transactions range from USD 100,000 to USD 5 million, accounting for 97,5% of all interbank FX transactions, including banks' transactions with the NBU. In the future, this range can be adjusted according to the relevant

developments in the structure of transactions in the FX market. The discussants supported this approach.

In addition, the participants discussed the expedience of shifting the time of calculating and publishing the official hryvnia exchange rate by half an hour in order to make it easier for market participants to replicate the official exchange rates calculated using the official UAH/USD exchange rate and BFIX quotes<sup>1</sup> of foreign currencies against the U.S. dollar. The participants agreed on the feasibility of shifting the data collection time for calculating the official UAH/USD exchange rate (both according to UAH / USD transactions and BFIX indicators) from 3:30 p.m. to 3 p.m. Kyiv time. Under these conditions, the official hryvnia exchange rate against foreign currencies will be published by 3:30 p.m. (current publication time is 4 p.m.).

Finally, the Money Market and FX Market Contact Group members discussed the procedure for calculating the reference UAH / USD exchange rate under special conditions. The participants supported the proposal to adopt for these purposes the same approach that is currently used for calculating the official UAH/USD exchange rate under special conditions.

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<sup>1</sup> BGN's (Bloomberg Generic Price) weighted average spot-market exchange rate/price quotes of foreign currencies/investment metals against the U.S. dollar (or those of the U.S. dollar against foreign currencies/investment metals), which are calculated daily by ETP BLOOMBERG.

## List of participants

Chair of the Contact Group	
Yuriy Heletiy	– National Bank of Ukraine
Deputy Chairman of the Contact Group	
Oleksii Lupin	– National Bank of Ukraine
Members of the Contact Group	
Andrii Varzar	– Pivdennyi Bank JSC
Andrii Potapov	– ING Bank Ukraine JSC
Anton Boldyriev	– Ukreximbank JSC
Vladyslav Yendrzhiievskiyi	– CB PrivatBank JSC
Viacheslav Ozerov	– CREDIT AGRICOLE BANK JSC
Karl Varga	– CRYSTALBANK JSC
Oleksandr Borshchuk	– BANK FOR INVESTMENTS AND SAVINGS PJSC
Oleksandr Duda	– UKRSIBBANK JSC
Oleksandr Kozachok	– SBERBANK JSC
Oleksandr Kalashnikov	– BANK VOSTOK PJSC
Oleksii Dmytriiev	– UNIVERSAL BANK JSC
Rostyslav Shapoval	– BANK 3/4 JSC
Stanislav Lysianskyi	– BANK ALLIANCE JSC
Invited participants:	
Mykola Selekman	– National Bank of Ukraine
Mykhailo Rebryk	– National Bank of Ukraine
Nataliia Vahina	– National Bank of Ukraine
Oksana Kotliarova	– National Bank of Ukraine
Oleksandr Arseniuk	– National Bank of Ukraine
Oleksandr Moskalenko	– ALFA-BANK JSC
Ruslan Reuchenko	– Oschadbank JSC