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## **Information message on the results of the periodic review of the UONIA money market indicator**

The Money and Foreign Exchange Market Indicators Oversight Council (the Oversight Council) at its meeting on 28 February 2024 conducted the first periodic review of the [UONIA Money Market Indicator](#).

The review noted that the rapid growth of the banking system's liquidity in recent years poses significant challenges to the UONIA indicator. The number and volume of unsecured transactions in the interbank money 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 banks with the NBU, which does not fully comply with the IOSCO principles for money market indicators.](#)

The current main forecast scenarios foresee further growth in banks' liquidity, which gives no reason to expect the interbank money market to pick up. This makes it important to consider alternative options for calculating the UONIA. The same reason hinders the calculation of other money market indicators based on overnight agreements between banks: The [reference swap index](#) is calculated sporadically, and the calculation of the KIEIBOR index has been suspended since the introduction of martial law. [The algorithm of actions approved in 2021, which will be followed by the National Bank of Ukraine \(the NBU\) when considering the transition to the calculation of the UONIA without taking into account agreements between banks and the NBU,](#) is also no longer relevant in this regard.

The UONIA is not currently used by banks to structure floating rate loan and/or deposit products (except for one bank and to a limited extent). Instead, the [UIRD indicator](#) is most often used for this purpose.

At the same time, the NBU received proposals from the Independent Association of Ukrainian Banks to create a new indicator that would be calculated on the basis of bank interest rates on corporate deposits. This

proposal was considered at a [meeting of the Money and FX Market Contact Group](#), but did not find wide support.

In considering possible ways to improve the calculation of the UONIA, the Oversight Council noted the experience of certain European central banks (the ECB, Riksbank), which, in addition to transactions between banks, also include some transactions on raising funds by banks from non-banks in the calculation of their indices (€STR, SWESTR). It was deemed worthwhile to study this experience in more detail. Some external members of the Oversight Council suggested considering the possibility of introducing the institution of primary dealers in the Ukrainian money market (who would be obliged to maintain certain liquidity in the market, which would form the basis for calculating the UONIA). They also suggested studying other relevant experience of some countries where banks have certain obligations to participate in the calculation of the money market indicator.

When considering some more technical aspects of the UONIA's calculation, it was noted that due to mathematical casuistry related to the cutoff ratio for banks' transactions with the NBU when calculating the indicator, cases of calculating the UONIA using the methodology for special conditions have become more frequent. These and some other issues could be resolved through one-off changes to the UONIA calculation methodology. At the same time, given global challenges for the UONIA that require fundamental solutions, making one-off changes is not relevant.

**Based on the results of the review, the following conclusions were made:**

the narrowness of the money market significantly affects the quality of the UONIA indicator and, given the current and forecast market conditions, it is unlikely that the impact of this factor on the quality of the indicator will be overcome;

the UONIA indicator seems conceptually better superior to the UIRD, as it is calculated on the basis of actual transactions. But its main drawback is that Ukraine's interbank money market is currently extremely narrow and has no prospects for revival in the foreseeable future.

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, and/or developing mechanisms for banks to be more active in the money market.

These issues will be studied by the NBU's structural units (with the possible involvement of international technical assistance). The proposals made for the improvement of the UONIA will be submitted to the Oversight Council for consideration.

The next regular review of the UONIA Ukrainian money market indicator is tentatively scheduled to be conducted in August this year.

**Background.** The periodic review of the UONIA money market indicator is a special procedure aimed at determining whether or not there have been any structural changes in the market and/or other grounds that may indicate the need to replace the existing indicator, adjust its methodology, or address other important aspects of its calculation and publication (calculation time, publication procedure, and so on).

Periodic reviews are carried out by the [Oversight Council for Money Market and FX Market Indicators](#). The first review was done in February 2024. In future, such reviews are planned to be conducted every six months – no later than February and August respectively.

Money and FX market indicators are periodically reviewed to ensure that they comply with the principles set forth in the following [IOSCO document: Principles for Financial Benchmarks Final Report July 2013](#). Principle 10 “Periodic Review” of this document states the following:

*“The Administrator should **periodically review the conditions in the underlying Interest** that the Benchmark measures to determine whether the Interest has undergone structural changes that might require changes to the design of the Methodology. The Administrator also should **periodically review whether the Interest has diminished or is non-functioning** such that it can no longer function as the basis for a credible Benchmark.*

*The Administrator should **Publish** or Make Available a **summary of such reviews** where material revisions have been made to a Benchmark, including the rationale for the revisions”.*