

## **Minutes of the XIV meeting of the Working Group on Money Market Indices (MMWG)**

*March 7, 2024, Almaty*

The XIV meeting of the Working Group on Money Market Indices (hereinafter – Working Group) was held in Almaty on March 7, 2024 with participating representatives of the National Bank of Kazakhstan (NBK), Agency of the Republic of Kazakhstan for Regulation and Development of Financial Market (ARDFM), European Bank for Reconstruction and Development (EBRD), JSC Kazakhstan Stock Exchange (KASE), Association of Legal Entities Financial Institutions' Association of Kazakhstan (AFK), second-tier banks (banks) and OGR Holding a.s.

According to the Agenda, the following issues were discussed during the meeting.

### **I. NBK informed about changes in the system of monetary policy instruments**

1. According to the new format of NBK operations, liquidity absorption operations at the KASE floor were excluded and overnight deposit became the main instrument of permanent access to liquidity withdrawal.
2. Swap and reverse repo on KASE remained as liquidity provision instruments. At the same time, the rate on swaps increased by 1%, and the reverse repo window was reduced and is held between 15:00 and 17:30.
3. The volume of notes has been gradually declining since the beginning of Q3 2023 due to caps on issuance volume. By the end of Q1 2024, the volume of notes in circulation will not exceed KZT 500 billion.
4. As of July 1, 2024, access to deposit and note auctions will be restricted to banks only. Non-banking entities will be disconnected from the NBK open market operations. Settlement of deposit auctions will be switched from T+2 to T+0.

### **II. OGR Holding a.s. (consultant on Money Market Diagnostic Framework - MMDF) presented the MMDF preliminary results**

The consultant briefed the meeting participants on the preliminary conclusions of MMDF, presented current state and environment of the foreign exchange and money market, as well as recommendations on further development of the country's money market and bolstering participants' activity. A rather high level of human and IT resources development at the NBK and second-tier banks was noted.

### **III. KASE presented Kazakhstan repo market analysis**

1. In 2022, a noticeable growth in money market indicators was recorded due to inflation and base rate increases. Since the second half of 2023, there has been a decline in money market rates due to a slowdown in inflation.

2. Since 2020, more than two-fold increase in the trading volume of the repo market has been recorded. Transactions with government securities constitute the major share in the structure of repo market transactions. In 2 months of 2024, the share of repo transactions with a basket of government securities reached 89% (USD 91.6 billion), autorepo transactions with quasi-government sector securities - 5% (USD 4.9 billion).
3. The growth in this segment of the securities market is also explained by the increase in the volume of transactions of non-banking institutions. According to the 2023 year-end results, there is a 26-fold growth in the volume of repo transactions with non-banking institutions compared to 2020 (based on 2 months data of 2024, their volume amounted to about 44% of the total transactions volume), the volume of repo transactions conducted by non-banking institutions with the NBK increased 11 times.
4. At the beginning of 2020, the share of banks in the volume of repo transactions accounted for 80%, thereafter there has been a decline in the share of banks' participation.
5. The correlation coefficient of TONIA with the base rate and inflation was 0.98% and 0.82%, respectively.
6. TONIA adequately reflects the money market situation. The cutoff of 7% and 10% of the maximum and minimum of all transactions had little effect on its presentation.

**IV. The EBRD emphasized the importance of harmonization of market conventions in Kazakh tenge derivatives markets, more specifically for such derivate financial instruments as Overnight Index Swap and Float-for-float cross-currency swaps**

The EBRD offered to the Working Group an example of the formula and wording for calculating the interest payment on the floating leg of a derivate instrument - KZT-TONIA-OIS-COMPOUND (rounded to 2 decimal places) that could be used in derivative contracts/agreements:

$$\left( \frac{Tonia\ Index_{end}}{Tonia\ Index_{start}} - 1 \right) * \left( \frac{365}{d_e} \right)$$

In particular, the EBRD suggested to have 1 business day payment date delay for the KZT OIS and float-for-float cross-currency swaps instruments as well as "actual/365" day count convention on KZT legs of any interest rate derivative instrument's settlement period. Also, the need to define Almaty Business Day (Almaty Banking Day) calendar for KZT legs of derivative transactions was suggested too.

EBRD also emphasized the importance of extending these conventions to cash market (i.e. overnight index linked bonds) and banking products (loans) in order to mitigate the introduction of basis risk into balance sheets of economic agents.