The National Bank has launched deposit auctions with a return period of 7 days

Vladislav Turkin — February 20, 2019

On February 18, 2019, the National Bank starts holding deposit auctions with a return period of 7 days and terminates holding auctions on short-term 7-day notes. Also, with the launch of the deposit auction, 7-day deposits will be discontinued as part of the permanent access operations. A deposit auction will be the main instrument of open market monetary policy for liquidity withdrawals. According to the press release of the NBRK, these changes are aimed at increasing the efficiency of the interest rate channel of the transmission mechanism of monetary policy.

Our opinion. These changes will not have a significant impact on the change in the volume of excess liquidity withdrawn from the banking system by the National Bank and are more aimed at changing its structure and methods of it linking. Currently, liquidity withdrawals in the banking system are T4.8 trillion, of which T3.9 trillion (81%) falls on short-term notes. The share of 7-day notes is 40% of the total volume of issued notes.

These measures will affect the reduction of repo transactions as collateral for which short-term 7-day notes of the NBK and the secondary market for trading with short-term 7-day notes served. Thus, the result of the implementation of these measures will be an increase in the degree of binding of excess liquidity of the banking system without the possibility of converting it into cash before the expiration of the deposit and obtaining additional short-term liquidity in the money market using repo operation with short-term notes as collateral. However, due to the absence of 7-day notes in the secondary market (not a single deal in 2018) and small volumes in the repo market (less than 1% of the total trading), we do not predict significant consequences for financial institutions as a result of the rejection of 7-day notes.

As a result of the cessation of 7-day deposits in the framework of permanent access operations and their replacement by deposit auctions, the NBRK will be able to more effectively regulate withdrawn liquidity by expanding or reducing auction volumes. These measures can lead to both linking excess liquidity for longer periods or affect its movement to other short-term banking operations.

Also, this decision will have an impact on the reduction of banks' incomes as a result of taking into account interest on deposits as a taxable base and the interest rate determined by a market auction, which in conditions of excess liquidity will take values close to the lower limit of the base rate.

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