



Focus  
**Ukraine**

Markets  
**Domestic liquidity,  
government bonds, FX  
market, and macro**

Research team  
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# Weekly Insight

## Public debt up on loans from EU, IFIs

### Key messages of the today's comments

MONDAY, 5 DECEMBER 2022

#### Ukrainian bond market

##### Domestic borrowings fell short of redemptions in November

In November, the Ministry of Finance borrowed UAH21.7bn from the domestic bond market in local currency. But this was insufficient to refinance all UAH redemptions last month.

##### Ukrainian Eurobonds see price correction

Eurobond prices declined during the past week, mostly by 3-4%.

#### Foreign exchange market

##### Hryvnia remains broadly stable

The hryvnia cash exchange rate remains stable with minor fluctuations. But the interbank FX market needs significant injections by the NBU.

#### Economics

##### Current account deteriorates significantly in October due to lack of grants

Ukraine's current account (C/A) turned negative at US\$0.7bn in October, as the regular inflow of grants was interrupted. The 12-month C/A balance was positive at US\$7.8bn.

##### Ukraine's public debt up in October on loans from EU, IFIs

Ukraine's public debt increased 5.1% in October to US\$103.1bn.

#### Banks' reserves market (2 December 2022)

	Last	Weekly chg (%)	YoY chg (%)
NBU rate (%) <sup>1</sup>	25.00	+0bp	+1,650bp
ON rate (%)	9.76	+0bp	+203bp
Reserves (UAHm) <sup>2</sup>	62,501	-38.62	+44.71
CDs (UAHm) <sup>3</sup>	368,259	+2.75	+150.92

Notes: [1] NBU's key policy rate; [2] stock of banks' reserves held at NBU; [3] stock of NBU's certificates of deposit.

Source: NBU, Bloomberg, ICU.

#### Breakdown of govt bond holders (UAHm) (2 December 2022)

	Last	Weekly chg (%)	YoY chg (%)
NBU	674,570	+0.00	+115.79
Banks	486,909	-0.03	-3.72
Residents	71,864	+5.35	-6.94
Individuals	30,743	-0.05	+27.37
Foreigners <sup>1</sup>	57,528	-1.12	-37.03
<b>Total</b>	<b>1,322,634</b>	<b>+0.22</b>	<b>+30.82</b>

Source: NBU, ICU.

#### FX market indicators (2 December 2022)

	Last	Weekly chg (%)	YoY chg (%)
USD/UAH	36.8485	-0.32	+35.29
EUR/USD	1.0535	+1.35	-6.78
DX	104.545	-1.33	+8.72
UAH TWI <sup>1</sup>	112.609	-0.47	-13.14

Notes: [1] UAH trade-weighted index.

Source: Bloomberg, ICU.

#### Market gov't bond quotes<sup>1</sup> (5 December 2022)

Maturity	Bid	Ask
6m	23.00	18.00
12m	24.00	19.00
2y	28.00	20.00
3y	25.50	21.00
12m (\$)	6.00	4.50
2y (\$)	N/A	N/A

Source: ICU.

## Ukrainian bond market

### Domestic borrowings fell short of redemptions in November

In November, the Ministry of Finance borrowed UAH21.7bn (US\$593m) from the domestic bond market in local currency. But this was insufficient to refinance all UAH redemptions last month.

Last week, the volume of local-currency borrowing was up to UAH3.8bn (US\$105m), which brought the total volume of UAH borrowing in November to UAH21.7bn (US\$593m). However, it amounted to only 65% of the last month's redemptions. Despite the increase in borrowing, the volume raised in November is still lower than what the government raised in March and May, when volumes were the largest at UAH29bn (US\$999m) and UAH27bn (US\$924m), respectively. After the MoF raised only UAH29.9bn (US\$903m) in the five months from June to October, the MinFin managed to increase borrowings in November by offering ordinary (non-military) bonds in the primary market and gradually increasing interest rates for all offered bonds, including military bills. See details in the [auction review](#).

Since the beginning of the year, the Ministry of Finance has borrowed UAH139bn (US\$4.5bn), US\$1.6bn, and EUR0.9bn from the domestic market. At the same time, it redeemed bonds worth UAH247bn (US\$7.8), US\$2.6bn, and EUR0.5bn. Therefore, the MoF did not refinance UAH108bn (US\$3.3bn) and US\$1bn, and borrowings exceeded redemptions only in euros by EUR0.4bn.

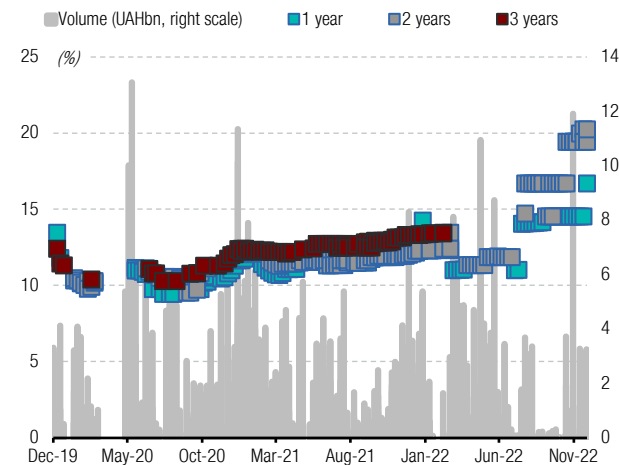
This means the Ministry refinanced UAH redemptions by borrowings from the NBU, which have amounted to UAH370bn (US\$11.7bn) YTD. By the end of the year, this amount will rise at least to UAH400bn (US\$12.5bn).

***ICU view: The Ministry of Finance's gradual increase in interest rates at the primary auctions contributed to higher demand and borrowings. But interest rates for local-currency bonds, especially military bills with maturities of up to one year, remain significantly lower than the NBU key policy rate and YTM's available to investors in the secondary bond market. Therefore, without a further increase in rates in the primary market, the level of refinancing will remain below 100%.***

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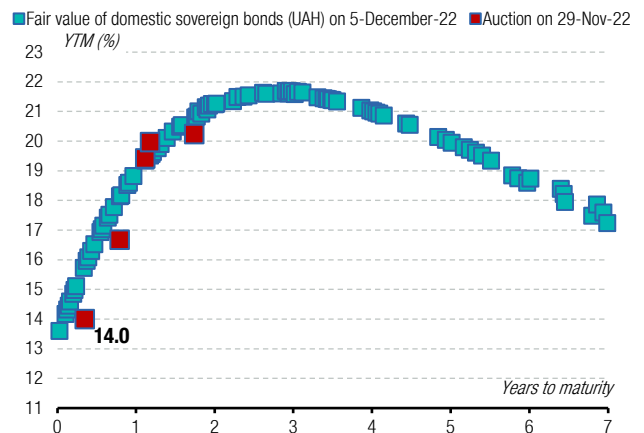
### Chart 1. Local-currency bonds

Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)



Source: MFU, ICU.

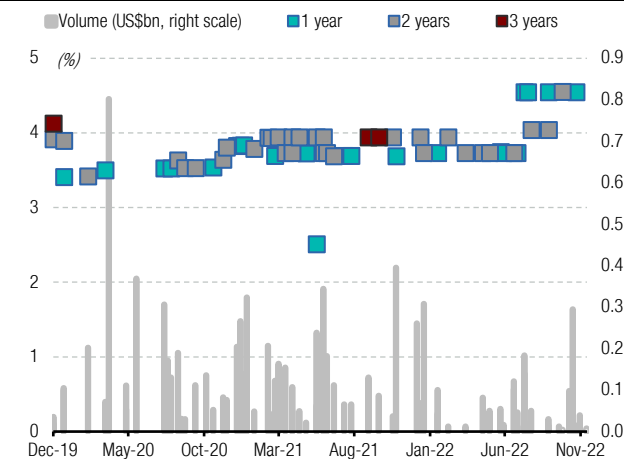
Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions



Source: NBU, MFU, ICU.

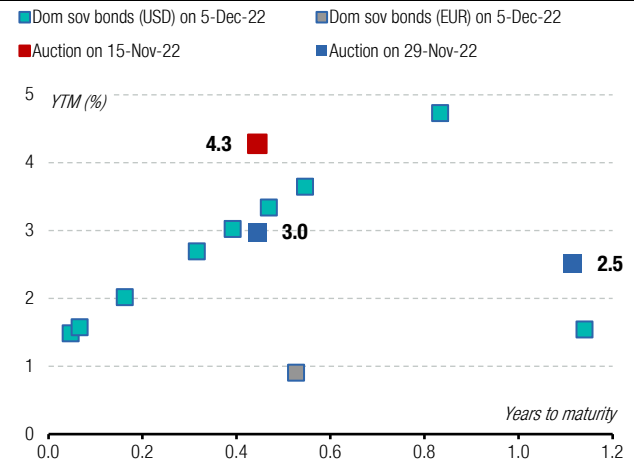
### Chart 2. FX-denominated bonds

Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)



Source: MFU, ICU.

Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions



Source: NBU, MFU, ICU.

## Ukrainian Eurobonds see price correction

Eurobond prices declined during the past week, mostly by 3-4%.

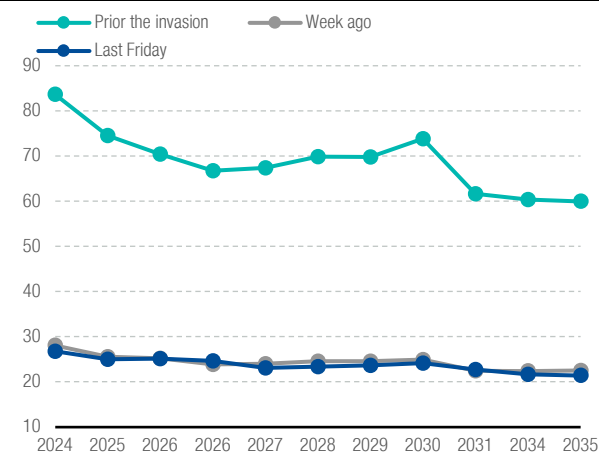
Eurobond spreads to the benchmark widened, and YTM rose again, so prices fell mostly by 1 cent to 21-27. VRIs price rose by 1% to almost 32 cents per dollar of notional value.

**ICU view:** Global sentiment in debt markets has been positive, supporting emerging market Eurobond prices. But that did not have an impact on Ukrainian Eurobonds. After three weeks of increase, their prices saw correction due to the lack of important news regarding Ukraine.

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**Chart 3. Ukrainian Eurobonds prices**

Prices of USD-denominated Eurobonds as of last Friday, prior the russian invasion and a week before



Source: Bloomberg, ICU.

Last eight-month historical data



Source: Bloomberg, ICU.

## Foreign exchange market

### Hryvnia remains broadly stable

The hryvnia cash exchange rate remains stable with minor fluctuations. But the interbank FX market needs significant injections by the NBU.

The cash FX market maintains a balance close to UAH40/US\$. Over the past week, the hryvnia exchange rate to the US dollar in the leading retail banks weakened by a slight 0.2% from UAH39.5–40.2/US\$ to UAH39.6–40.3/US\$.

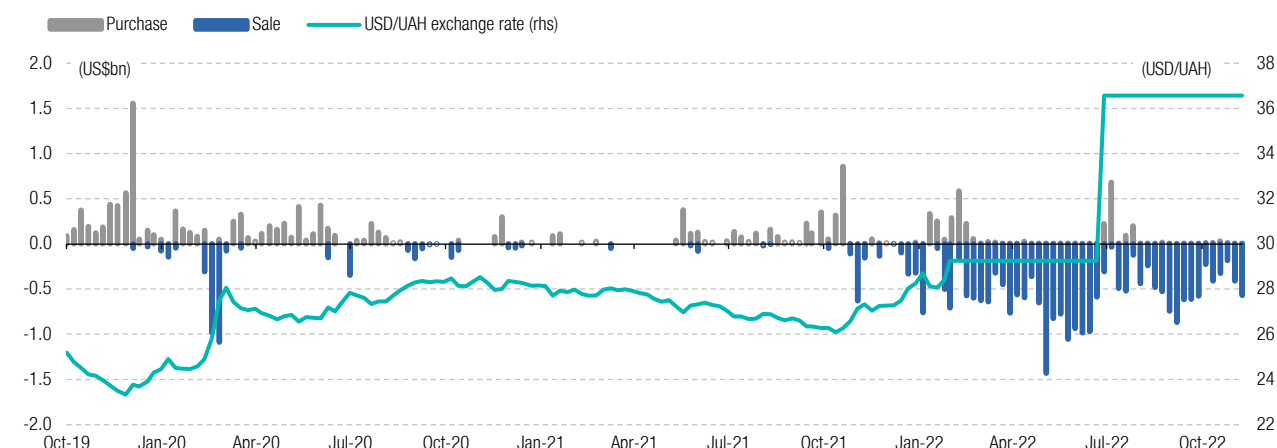
Demand prevailed again on the interbank FX market, which significantly exceeded supply from bank clients. MinFin likely did not sell any meaningful volumes from its accounts at banks. Therefore, the NBU had to increase interventions to US\$569m, the most since mid-October.

**ICU view:** *The FX market continues to drift close to the usual levels of UAH40/US\$. The cash market remains balanced, and the fluctuations of the UAH/US\$ rate remain marginal. In the absence of hard currency sales by the Ministry of Finance, the interbank market needed the usual US\$400–600m of interventions by the National Bank. But with large amounts of aid from partners, such interventions do not create excessive pressure on international reserves.*

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**Chart 4. FX market indicators, 3-year history**

Ukraine hryvnia UAH exchange rate per US dollar at the interbank market and NBU interventions (weekly data)



Source: NBU, Bloomberg, ICU.

## Economics

### Current account deteriorates significantly in October due to lack of grants

Ukraine's current account (C/A) turned negative at US\$0.7bn in October, as the regular inflow of grants was interrupted. The 12-month C/A balance was positive at US\$7.8bn.

The deficit of trade in goods widened to US\$1.4bn in October from US\$0.9bn in September as the shipments of grains via Black Sea ports lost momentum somewhat. The deficit of trade in services and the net inflow of migrant remittances were little changed from September. Meanwhile, unlike in previous months, in October, inflows of budgetary grants from Ukraine's allies were minimal, which took the C/A balance noticeably negative.

The financial account saw net positive inflows of capital in October (US\$0.7bn), which was highly atypical for 2022. The outflows via the build-up of trade credits and FX cash withdrawal from banks remained strong, but they were more than offset with hefty inflow of concessional loans from the EU and IFIs to the government.

While the surplus of the financial account was nearly equal to the deficit of the C/A, NBU reserves were still up 5.5% to US\$25.2bn thanks to a US\$1.3bn loan from the IMF (reported below the line in balance-of-payments statistics).

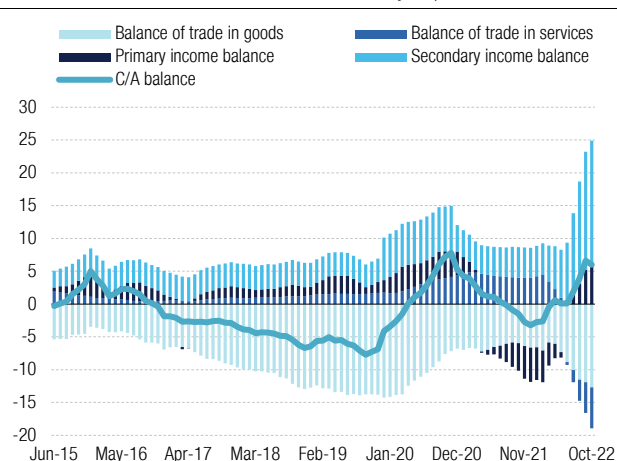
**ICU view: October statistics did not bring any noteworthy surprises. The negative balance of the current account is also not a concern since large concentrated inflows of grants are expected in December that will take the total C/A balance into the positive area in 4Q22. We expect the C/A balance may reach 7% of GDP for the full year thanks to external budgetary grants. The financial account is likely to be negative in 4Q22 due to flight of private capital and despite significant loans from the EU and IFIs.**

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**Chart 5. Key balance of payment components, \$m***Current account turned negative due to lack of grants*

	Oct.22	Sep.22	Oct.21
<b>Current account balance</b>	<b>-693</b>	<b>1,879</b>	<b>-70</b>
Trade in goods balance	-1,416	-869	-623
Trade in services balance	-1,178	-1,209	366
Primary income	975	1,036	-196
incl. migrant remittances	1,237	1,256	1,116
Secondary income	926	2,921	383
incl. transfers to government	102	2,100	75
<b>Financial account</b>	<b>738</b>	<b>-2,628</b>	<b>1,138</b>
Change in trade credits	585	1,223	63
Increase in cash out of banks	998	1,234	536
Net loans to government	2,875	460	625

Source: MoF, ICU.

**Chart 6. Current account, 12-month trailing, \$bn***12-month current account balance remains in hefty surplus*

Source: NBU, ICU.

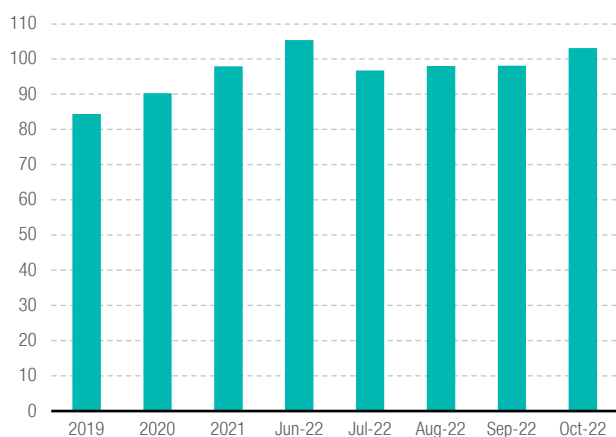
## Ukraine's public debt up in October on loans from EU, IFIs

Ukraine's public debt increased 5.1% in October to US\$103.1bn.

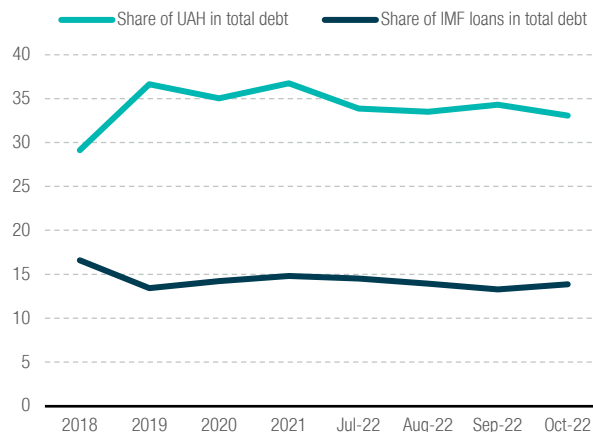
The increase was largely due to borrowings from the EU (EUR2.0bn) and several IFIs, including a US\$1.3bn loan from the IMF and US\$0.5bn loan from the WB.

**ICU view: Ukraine remains well on track to end the current year with a public debt-to-GDP ratio in the range of 85–90%.**

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**Chart 7. Ukraine's public debt, \$bn***Public debt increased 5.1% in October*

Source: MoF, ICU.

**Chart 8. Share of UAH and IMF loans\* in total debt, %***Share of hryvnia down in October due to significant FX borrowings from IFIs*

\* includes IMF SDR allocation

Source: MoF, ICU.

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