



Focus
Ukraine

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

Research team
Vitaliy Vavryshchuk
Alexander Martynenko
Taras Kotovych

Weekly Insight

Ukraine's public debt up 14% in 2022

Key messages of the today's comments

MONDAY, 6 FEBRUARY 2023

Ukrainian bond market

Secondary bond market activity remains high

Last week, the volume of trades in the secondary bond market set a new record, and once again, foreign investors and local banks were likely the main players.

Foreign exchange market

Cash hryvnia remains reasonably volatile

In the cash market last week, the hryvnia strengthened slightly, while activity in the interbank market increased and required larger NBU interventions.

Economics

Ukraine's external accounts nearly balanced in 2022

Ukraine's current account improved to \$8.6bn in 2022 thanks to generous budgetary transfers while net outflows via the financial account reached \$11.6bn.

Ukraine's public debt up 14% in 2022

Ukraine's public debt increased 13.7% in US\$ terms in 2022 to US\$111.3bn.

Banks' reserves market (3 February 2023)

	Last	Weekly chg (%)	YoY chg (%)
NBU rate (%) ¹	25.00	+0bp	+1,500bp
ON rate (%)	9.76	+0bp	+106bp
Reserves (UAHm) ²	134,183	+9.68	+131.85
CDs (UAHm) ³	346,054	-11.26	+148.77

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) (3 February 2023)

	Last	Weekly chg (%)	YoY chg (%)
NBU	699,470	-0.36	+125.56
Banks	511,846	+1.16	-6.75
Residents	107,638	-3.61	+30.72
Individuals	29,134	-10.17	+14.66
Foreigners ¹	63,337	-1.83	-20.84
Total	1,413,993	-0.34	+35.11

Source: NBU, ICU.

FX market indicators (3 February 2023)

	Last	Weekly chg (%)	YoY chg (%)
USD/UAH	36.9342	+0.01	+30.74
EUR/USD	1.0795	-0.67	-5.64
DXY	102.915	+0.97	+7.90
UAH TWI ¹	110.738	+0.33	-11.36

Notes: [1] UAH trade-weighted index.

Source: Bloomberg, ICU.

Market gov't bond quotes¹ (6 February 2023)

Maturity	Bid	Ask
6m	21.00	16.00
12m	24.00	19.00
2y	25.00	21.00
3y	25.00	21.00
12m (\$)	6.00	4.50
2y (\$)	N/A	N/A

Source: ICU.

Ukrainian bond market

Secondary bond market activity remains high

Last week, the volume of trades in the secondary bond market set a new record, and once again, foreign investors and local banks were likely the main players.

Last week, the Ministry of Finance sold UAH10bn (US\$273m) of bills that banks can use to partly cover required reserves (see details in the [auction review](#)). This paper, which is due in May 2025, became one of the most heavily traded in the secondary market, as primary dealers likely resold some of the bonds to other banks. In total, there were 41 deals worth UAH3.1bn (US\$85m).

Bonds, which are plentiful in foreign investors' portfolios, also traded very actively, especially securities maturing in February 2025 and May 2026. Last week, there were 175 deals with the two-year paper for UAH2bn (US\$55m), and 14 deals with the three-year instrument for UAH1.5bn (US\$41m). This category of investors will likely continue to prepare for repatriation of their investments in bonds that mature after April 1. Therefore, two relatively short issues were traded in large volumes: paper due on April 19 this year had 30 transactions for UAH2.3bn (US\$63m), and the one due in May 2023 for UAH1.5bn (US\$41m) had 135 deals.

As a result, the total volume of local-currency bond trades last week set a new record of UAH13.2bn (US\$361m), which is UAH1bn (US\$27m) more than the previous week.

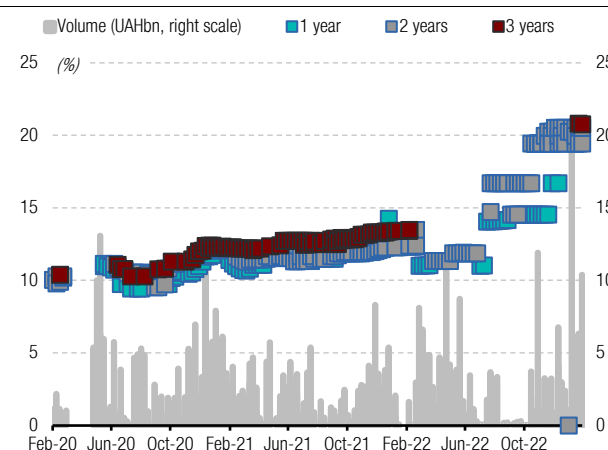
At the same time, the portfolio of UAH bonds owned by foreigners declined by UAH1.2bn (US\$33m), which is likely attributed to foreigners selling longer securities to purchase new shorter bills this week.

ICU view: The intention of foreign investors to repatriate funds shortly after the window opens in April boosted market activity and trading volume. At the same time, banks seek to cover part of the required reserves ASAP with specific "reserve" bills, so they actively participate in primary auctions and trade them on the secondary market immediately after. The Ministry of Finance plans to sell only UAH5.5bn of such "reserve" bonds tomorrow.

Taras Kotovych, Kyiv, (044) 377-7040 ext.724

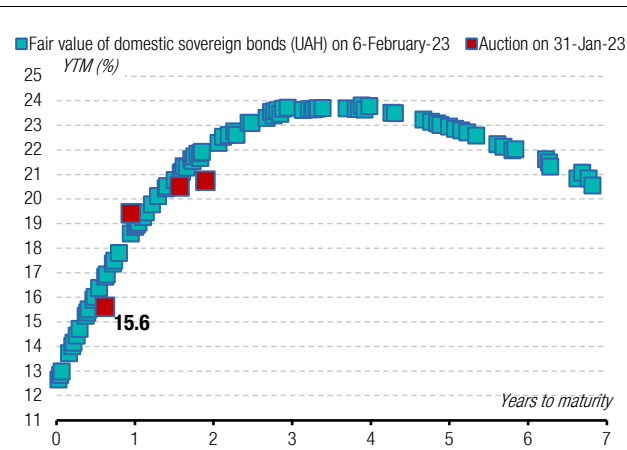
Chart 1. Local-currency bonds

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



Source: MFU, ICU.

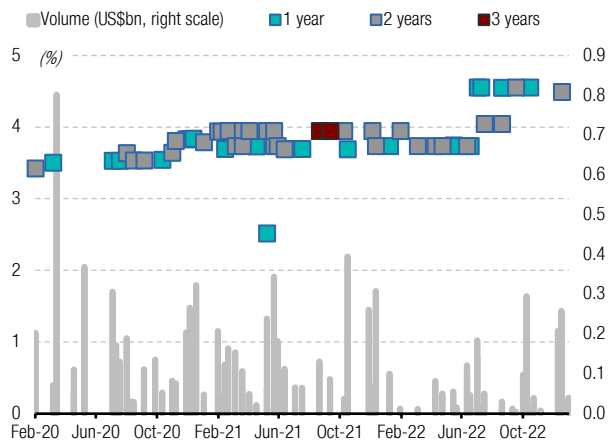
Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions



Source: NBU, MFU, ICU.

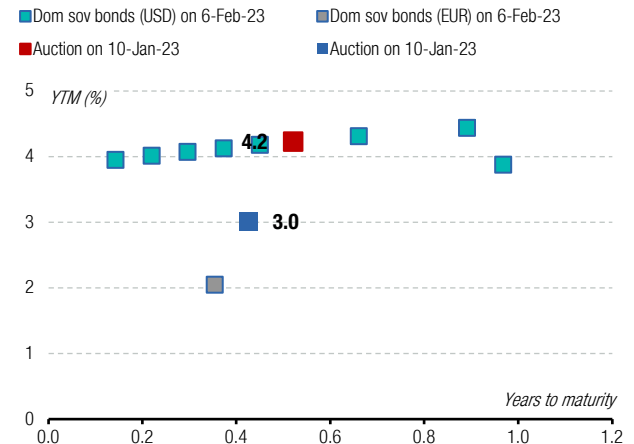
Chart 2. FX-denominated bonds

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.

Foreign exchange market

Cash hryvnia remains reasonably volatile

In the cash market last week, the hryvnia strengthened slightly, while activity in the interbank market increased and required larger NBU interventions.

Over the past week, the hryvnia exchange rate at the leading retail banks strengthened by 0.6% from UAH39.8–40.5/US\$ to UAH39.6–40.3/US\$ and remains close to UAH40/US\$.

In January, individuals increased purchases of non-cash hard currency to almost US\$524m, which is US\$73m or 16% more than in December 2022, or more than four times more compared with August 2022, the first full month after the NBU allowed the purchase of hard currency for deposits. A part of this hard currency is channeled to the cash market after the expiration of the term of such deposits.

At the same time, individuals' purchases of FX cash declined by 11% to US\$1.27bn in January, while the sale of cash slid by 10%, to US\$1.07bn. The total balance of operations, cash and non-cash together, remains in favour of purchases, which exceeded sales in January for US\$564m.

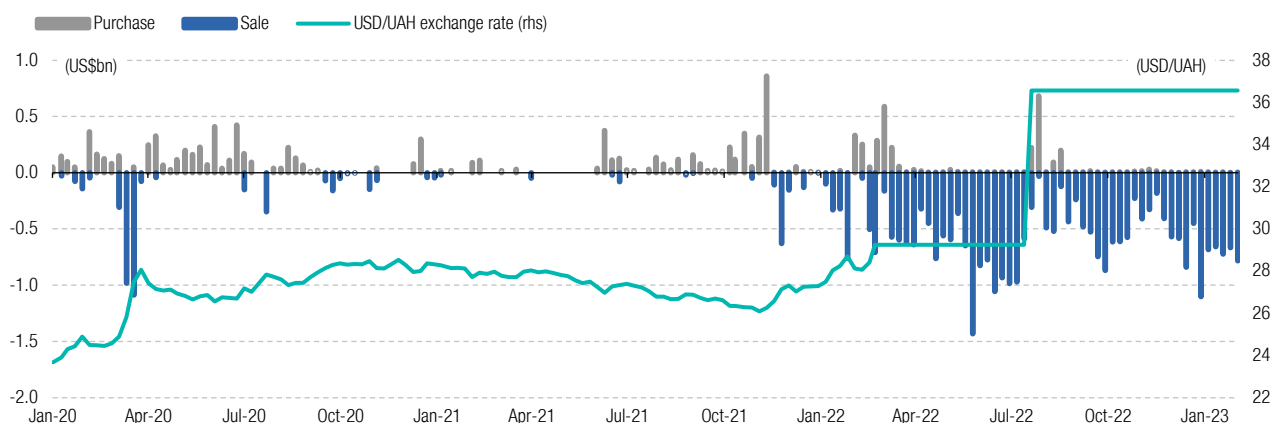
In the interbank FX market, activity increased last week for both banks and bank clients. For several days, the volume of hard currency purchases by clients exceeded their sales by more than US\$100m, while banks were also quite active in buying hard currency, especially at the end of the month. Such activity forced the NBU to increase FX sale interventions to US\$783m.

ICU view: Cash hryvnia strengthened for most of last week, most likely due to an increase in the volume of hard currency sales by individuals, while purchases remained close to their usual levels over the previous week. Since the beginning of the year, interbank market imbalances have remained little changed, and the NBU remains active in the market and supplies needed FX.

Taras Kotovych, Kyiv, (044) 377-7040 ext.724

Chart 3. 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

Ukraine's external accounts nearly balanced in 2022

Ukraine's current account improved to \$8.6bn in 2022 thanks to generous budgetary transfers while net outflows via the financial account reached \$11.6bn.

Ukraine saw a major deterioration of the trade balance last year. The deficit of trade in goods surged to \$14.6bn as exports fell 35% YoY while imports contracted only 20%. The balance of trade in services turned hugely negative because of significant spending of Ukrainian refugees abroad—they were registered as import of tourism in BoP statistics. However, the huge gap in foreign trade was more than offset with migrant remittances, humanitarian aid, and official cash transfers to Ukraine's state budget from foreign governments.

Capital outflows through the financial account surged as private capital left the country via official and shadow channels. Outflows of private capital were only partly compensated by loans that the government received from abroad. Overall, external accounts were nearly balanced, with the minor negative balance covered by NBU reserves that were down by \$2.4bn to \$28.5bn last year.

ICU view: We expect Ukraine's external accounts will remain nearly balanced in 2023 despite further deterioration of the trade balance and continued outflows of private capital. Foreign grants and loans will remain instrumental in helping Ukraine avoid a balance-of-payments crisis, supporting NBU's gross international reserves and maintaining relatively stable exchange rate. Foreign governments and IFIs may provide up to \$40bn this year, according to government estimates.

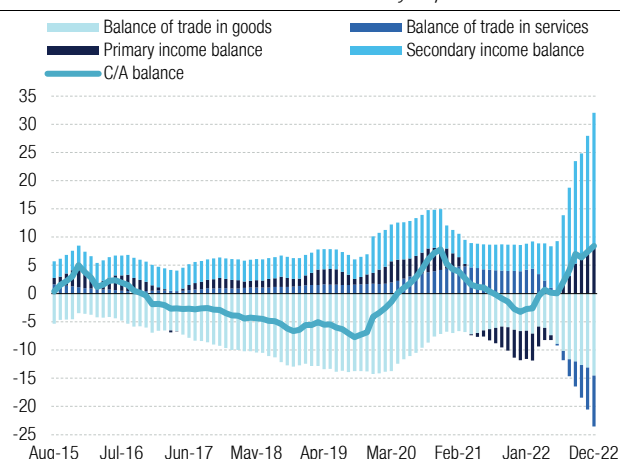
Vitaliy Vavryshchuk, Kyiv, (044) 377-7040 ext.721

Chart 4. Key balance of payment components, \$m*Current account substantially improved despite the war*

	2022	2021
Current account	8,598	-3,882
Trade in goods	-14,641	-6,642
Trade in services	-9,149	3,971
Primary income	9,030	-5,833
incl. migrant remittances	13,506	13,591
Secondary income	23,358	4,622
incl. transfers to government	15,650	898
Financial account*	11,524	-4,354
Change in trade credits	12,590	1,348
Increase in cash out of banks	11,083	5,121
Net loans to government	-14,633	-1,547

* negative numbers in financial account indicate increase in liabilities (cash inflow)

Source: MoF, ICU.

Chart 5. Current account, 12-month trailing, \$bn*12-month current account balance remains in hefty surplus*

Source: NBU, ICU.

Ukraine's public debt up 14% in 2022

Ukraine's public debt increased 13.7% in US\$ terms in 2022 to US\$111.3bn.

In UAH terms, debt grew 52% and was in the range of 80–90% of GDP at the end of 2022 depending on the nominal GDP estimate.

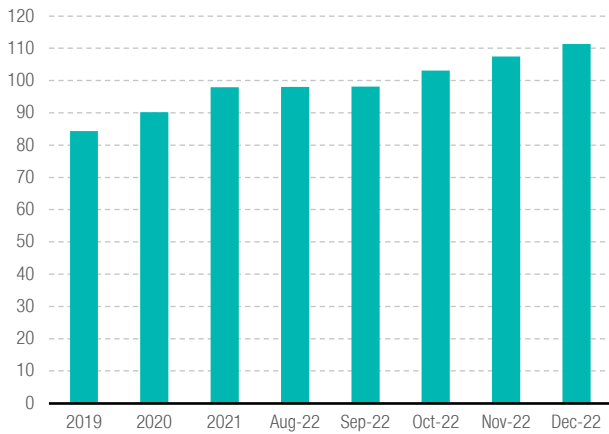
Ukraine enjoyed hefty inflows of international financial aid last year – nearly US\$32bn – with about 60% of that amount being in the form of loans to the government. The largest donors were the EU and the US.

ICU view: Ukraine's public debt increased substantially in 2022 due to new government borrowings that were used to finance surging budget expenditures. Nearly all new debt that was provided to Ukraine last year was in the form of concessional facilities with maturities that may span decades and a minimal or zero interest rate. It is unlikely to create additional external funding pressures for Ukraine in the foreseeable future. The largest risk that the current debt structure carries for the economy is the high share of FX loans—nearly 67%—whose hryvnia equivalent may surge if the hryvnia depreciates. We expect significant inflow of new FX external borrowings in 2023, but the ratio of debt to GDP should not be far from 90% at the end of 2023 against the backdrop of high growth in nominal GDP on inflation and only nominal hryvnia depreciation.

Vitaliy Vavryshchuk, Kyiv, (044) 377-7040 ext.721

Chart 6. Ukraine's public debt, \$bn

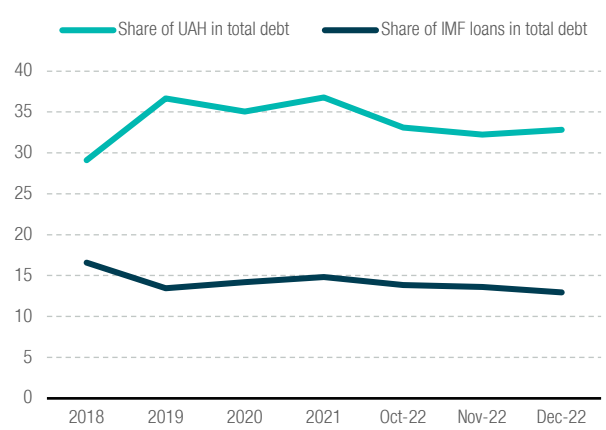
Public debt increased 14% in 2022



Source: MoF, ICU.

Chart 7. Share of UAH and IMF loans* in total debt, %

Share of hryvnia debt fell somewhat in 2022



* includes IMF SDR allocation

Source: MoF, ICU.

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11th floor, LEONARDO Business Centre
19-21 Bogdan Khmelnytsky Street
Kyiv, 01030 Ukraine
Phone/Fax +38 044 3777040

WEB www.icu.ua



RESEARCH

Vitaliy Vavryshchuk

Head of macro research
vitaliy.vavryshchuk@icu.ua

Taras Kotovych

Senior financial analyst (Sovereign debt)
taras.kotovych@icu.ua

Dmitriy Dyachenko, CFA

Financial analyst
dmitriy.dyachenko@icu.ua

Alexander Martynenko

Head of corporate research
alexander.martynenko@icu.ua

Mykhaylo Demkiv

Financial analyst (Banks)
mykhaylo.demkiv@icu.ua

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