Focus	Markets	Research team
Ukraine	**Government bonds, FX market, and macro**	**Alexander Martynenko** **Taras Kotovych**

Weekly Insight

Ukraine's public debt up 14% in 2024

Key messages of the today's comments

Ukrainian bond market

MoF raises bond yields cautiously

The MoF raised cut-off rates for UAH military bonds by 50bp, while keeping interest rates for reserve notes unchanged.

MoF in no rush to refinance FX redemptions

In January, the Ministry of Finance refinanced 79% of maturing public debt, as it did not seek to maintain a full rollover of FX debt.

Eurobond prices under uncertainty over ceasefire timing

After first 10 days of the new US President's term, the prospects for a ceasefire remain uncertain, so investors are becoming more cautious.

Foreign exchange market

NBU strengthens hryvnia further

The NBU took advantage of narrower imbalances in the FX market and lower trading activity and strengthened the hryvnia further.

Economics

Current account deficit widens, fully covered with capital in 2024

In 2024, Ukraine's current account (C/A) gap widened to US$13.4bn (about 7% of GDP) from US$9.6bn (5% of GDP) in 2023.

Ukraine's public debt up 14% in 2024

Ukraine's public debt surged 14% in US$ terms to US$166bn in 2024, just above 90% of GDP.

MONDAY, 3 FEBRUARY 2025

Banks' reserves market (31 January 2025)

	Last	Weekly chg (%)	YoY chg (%)
NBU rate (%)[1]	14.50	+0bp	-50bp
ON rate (%)	14.50	+0bp	-50bp
Reserves (UAHm)[2]	199,804	-59.9	-12.0
CDs (UAHm)[3]	517,424	+136.4	-7.6

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) (31 January 2025)

	Last	Weekly chg (%)	YoY chg (%)
NBU	677,606	+0.0	-1.4
Banks	879,285	-0.5	+32.9
Residents	197,972	-1.5	+35.1
Individuals	77,156	-3.4	+33.2
Foreigners	21,209	+2.1	-51.9
Total	**1,853,641**	**-0.5**	**+15.9**

Source: NBU, ICU.

FX market indicators (31 January 2025)

	Last	Weekly chg (%)	YoY chg (%)
USD/UAH	41.6804	-0.5	+11.0
EUR/USD	1.0362	-1.3	-4.2
DXY	108.370	+0.9	+4.9

Source: Bloomberg, ICU.

Market gov't bond quotes (3 February 2025)

Maturity	Bid (%)	Ask(%)
6 months	15.25	14.25
12 months	16.25	15.25
2 years	18.00	16.50
3 years	18.50	17.00
12 months ($)	5.00	4.50
2 years ($)	N/A	N/A

Source: ICU.

Ukrainian bond market

MoF raises bond yields cautiously

The MoF raised cut-off rates for UAH military bonds by 50bp, while keeping interest rates for reserve notes unchanged.

In the primary bond market, the MoF received bids with interest rates mostly in the same range as a week before (most of them are above December yields), but decided to increase interest rates for 1.5 and 2.5-year military bills by 50bp to 15.6% and 16.7%, respectively. The Ministry satisfied nearly 1/5 of the demand for military bonds and borrowed just UAH0.5bn. Meanwhile, demand for reserve bonds almost halved last week to UAH12bn, still above the offer cap. Due to lower competition, the cut-off rate remained unchanged at 13.99%, and the weighted average rate rose by 12bp to 13.92%. See details in the auction review.

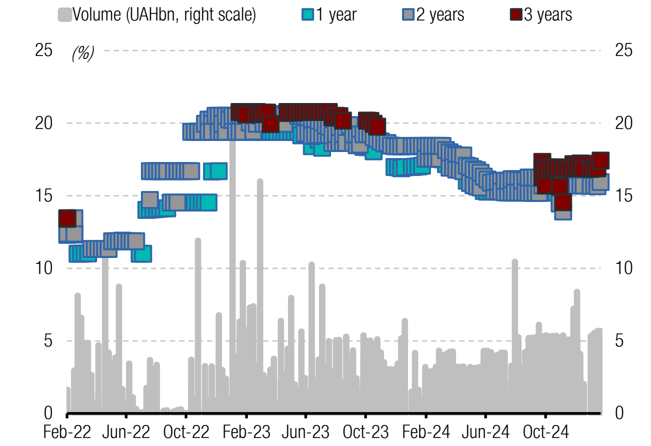
Total turnover in secondary bond market slid by 23% to UAH5.2bn, including 1/5 of bills maturing this year and 1/4 of the paper due in March next year. Reserve bonds were just 6% of total turnover.

The MoF redeemed US$353m of bonds last week and announced an offering of new USD-denominated bills for US$150m tomorrow.

ICU view: The increase in rates for military bonds by the MoF was just a third of the cumulative increase in the NBU key rate since December. Even so, the MoF's decision was not fully expected by the market. According to NBU guidance, the key rate at the end of the year may be lower than it was at the beginning of the year and many expected the MinFin could try to ignore the rate hike by the NBU. This week, domestic investors will focus on reinvesting FX funds received last week from the redemption of USD-denominated paper. We expect limited demand for UAH military bonds tomorrow and a considerable interest in USD-denominated securities. Interestingly, the Ministry of Finance has not planned for February the placement of new potential reserve bonds that is in high demand, so we can assume that the state budget currently doesn't have any urgent liquidity needs.

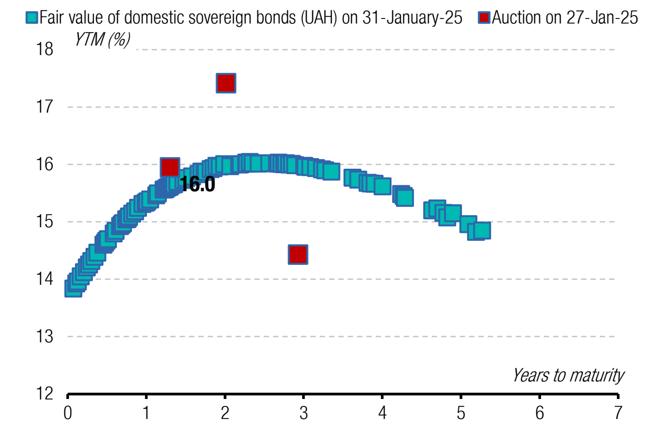
Chart 1. Local-currency bonds

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



Source: MFU, ICU.

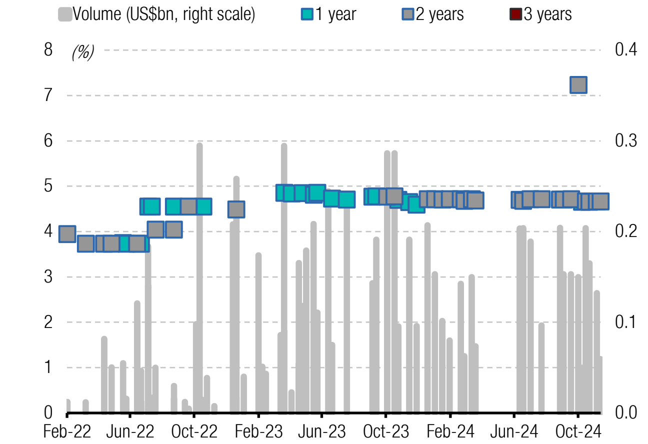
YTMs of domestic government bonds as calculated by NBU versus placements via primary market auctions



Source: NBU, MFU, ICU.

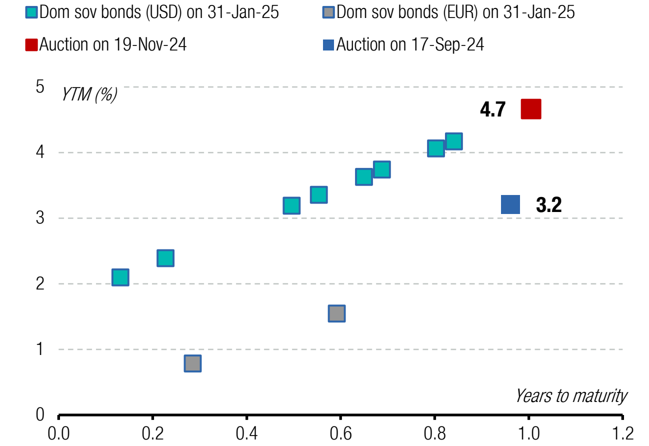
Chart 2. FX-denominated bonds

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



Source: MFU, ICU.

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



Source: NBU, MFU, ICU.

MoF in no rush to refinance FX redemptions

In January, the Ministry of Finance refinanced 79% of maturing public debt, as it did not seek to maintain a full rollover of FX debt.

In January, the Ministry of Finance repaid UAH19.4bn and US$353m, while raising only UAH27bn by placing UAH bonds. The rollover of UAH debt was nearly 140%, but the MinFin did not borrow in foreign currencies.

ICU view: According to the current 2025 budget law, the MoF should ensure domestic debt rollover of just above 100% for the full year (although the target may be raised following budget revisions later this year). January statistics are in no way representative of the full-year trends. There were relatively tiny redemptions in January, and the MoF can reduce the rollover backlog in February. The auction calendar for February includes placements of two military bills every week and only one offering of USD and EUR-denominated instruments over the month. Therefore, it looks like the MoF is in no rush to ensure a 100% rollover of FX debt in the near future.

Eurobond prices under uncertainty over ceasefire timing

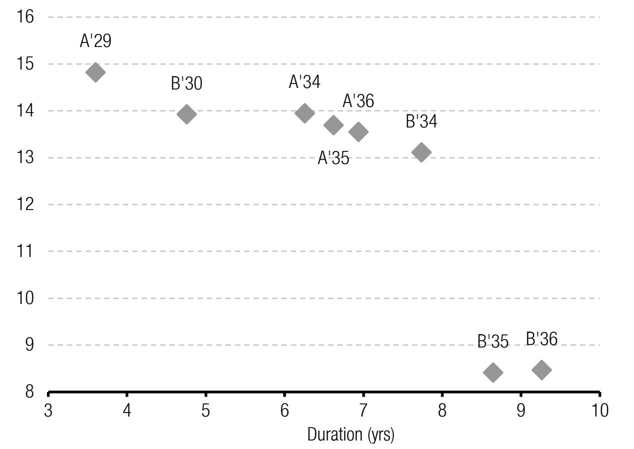
After first 10 days of the new US President's term, the prospects for a ceasefire remain uncertain, so investors are becoming more cautious.

Eurobond prices fell marginally last week, down 0.4% on average, while UKRAIN'B'35 and UKRAIN'B'36 hit a new high of above 61 cents on the dollar. UKRAIN'B'30 also hit a new high. Despite some price correction last week, Eurobond prices rose 3.3% in January. The EMBI index rose 0.6% last week (up 1.3% in January). VRI's price fell by 1% to below 84 cents on the dollar of notional value (up 7.8% in January).

ICU view: Last week, the lack of clear prospects for the start of negotiations dampened investors' enthusiasm. News about the prospects for negotiations and specific conditions for a ceasefire agreement will continue to have a decisive impact on prices of Ukrainian Eurobonds.

Chart 3. Ukrainian Eurobond YTMs and prices

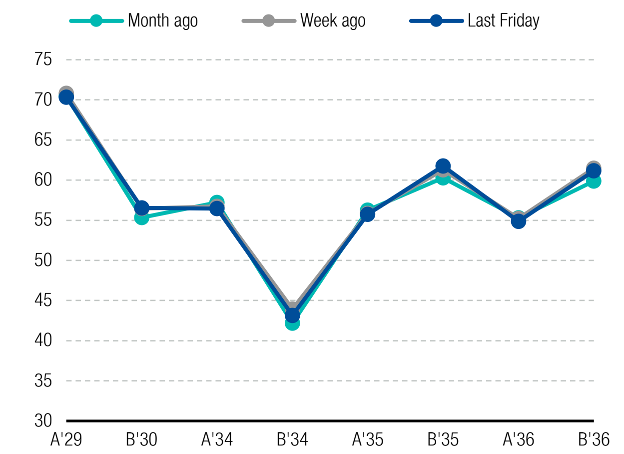
Eurobonds yield map



Note: The nominal value of Series B bonds due in 2035 and 2036 may increase in 2030

Source: Bloomberg, ICU.

Prices of Eurobonds as of last Friday, a week and a month ago



Source: Bloomberg, ICU.

Foreign exchange market

NBU strengthens hryvnia further

The NBU took advantage of narrower imbalances in the FX market and lower trading activity and strengthened the hryvnia further.

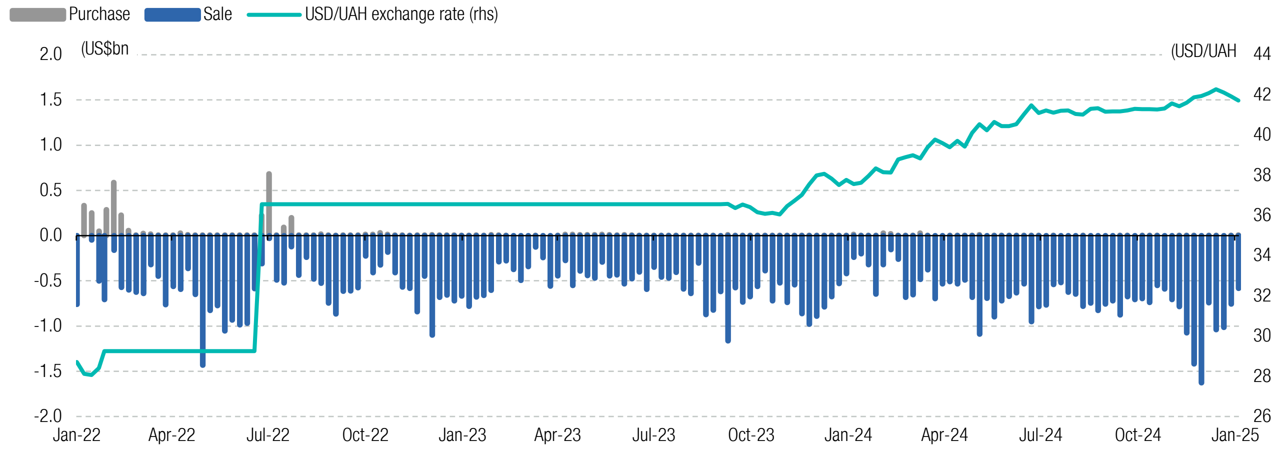
Net foreign currency purchases last week (over four business days) decreased by another 33% to US$316m thanks to both lower demand and higher supply. In particular, net purchases in the interbank FX market decreased 62% WoW to US$102m, but they were up 4% to US$214m in the retail segment.

As a result, the NBU interventions last week were down by 23% to US$582m, the smallest volume since mid-November and below last year's weekly average. The NBU net sale intervention in January were still high at US$3.8bn, a 48% increase from January 2024. The official hryvnia exchange rate strengthened by 0.5% to UAH41.73/US$, the most substantial move since mid-December.

ICU view: The NBU significantly reduced interventions on the back of a better market balance. Exporters provided some significant support by selling FX as they needed extra UAH liquidity for tax payments at the end of January. However, this support factor will diminish this week while the FX market will likely see increased demand for hard currency in the retail segment. Therefore, the NBU will have to weaken the hryvnia or increase interventions to keep hryvnia volatility limited.

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 deficit widens, fully covered with capital in 2024

In 2024, Ukraine's current account (C/A) gap widened to US$13.4bn (about 7% of GDP) from US$9.6bn (5% of GDP) in 2023.

The deficit of trade in goods was little changed at close to US$30bn while the deficit of trade in services narrowed by a third to US$5.6bn thanks to a significant decline in import of tourism services. Yet, the C/A was hurt by a contraction in the primary income surplus to less than US$1.0bn on lower migrant incomes and higher investment earnings (interest and dividends) of non-residents. Secondary income also contracted as Ukraine received less budgetary grants from foreign allies vs. 2023. Net of budgetary grants, Ukraine's C/A deficit stood at 13-14% of GDP last year, broadly the same as in 2023.

The deficit of the C/A was fully offset with net capital inflows via the financial account thanks to generous concessional loans attracted by the government. The most significant single drag on the financial account was an increase in FX cash out of banks (largely represented by purchases and withdrawal of FX cash by the population). Thanks to IMF loans (recorded below the line in the BoP statistics), the NBU managed to increase its gross international reserves by 8% YoY to US$43.8bn.

ICU view: The year of 2024 brought no major surprises in terms of BoP – both the C/A deficit and the surplus of the financial account were broadly in line with market expectations. We expect the BoP pattern to remain little changed over 2025. The deficit of trade in goods and services will remain close to 18% of GDP signalling huge imbalances of Ukraine's external accounts if foreign financial aid is excluded. The trade deficit will be to a large extent covered with budgetary grants within the G7 ERA Mechanism. We thus expect a relatively moderate C/A deficit of about 3-4% of GDP in 2024. Like in 2024, the C/A is going to be nearly fully covered with capital inflows via the financial account. Yet, 2026 is going to be much more challenging if Ukraine doesn't secure more funding than US$22bn currently envisaged by the IMF program.

Chart 5. Key balance of payment components, $m

Financial account surplus offsets C/A deficit in 2024

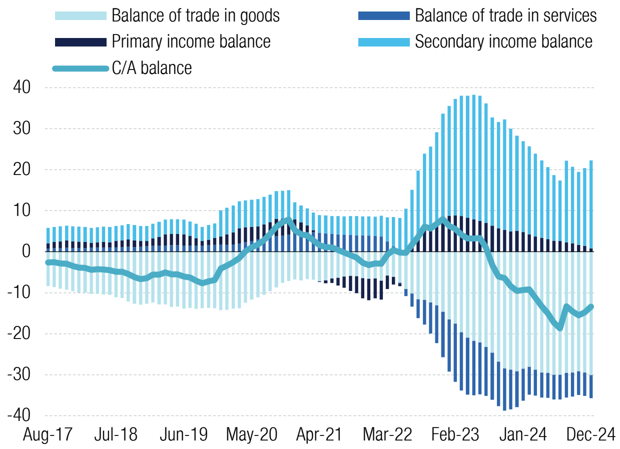
	2024	2023
Current account	**-13,421**	**-9,564**
Trade in goods	-30,127	-29,135
Trade in services	-5,574	-8,744
Primary income	773	5,070
incl. migrant income	7,999	11,108
Secondary income	21,507	23,245
incl. transfers to gov’t	12,782	14,290
Financial account*	**-13,167**	**-18,870**
Change in trade credits	-3,800	-891
Change in cash out of banks	16,489	11,717
Net loans to government	-24,529	-26,028
Other	-1,327	-3,668

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

Source: NBU, ICU.

Chart 6. Current account, 12-month trailing, $bn

12-month current account balance stabilized



Source: NBU, ICU.

Ukraine’s public debt up 14% in 2024

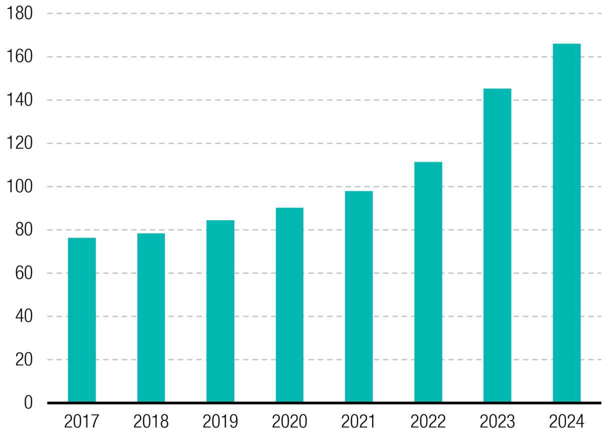
Ukraine’s public debt surged 14% in US$ terms to US$166bn in 2024, just above 90% of GDP.

The growth in debt was driven by extensive concessional borrowings of the Ukrainian government to fund the hefty deficit of the war budget. Overall, in 2024, Ukraine received about US$42bn in foreign financial aid of which 30% was grants and 70% was loans. External debt was up by 18% to US$120bn while domestic debt edged up 5% to US$46bn. The largest net lender in 2024 was the EU that disbursed several tranches of the Ukraine Facility. The share of FX debt in total debt was up by 1.9pp to 74.7% over 2024.

ICU view: The end-2024 public debt-to-GDP was fully in line with our projections. Ukraine continues to rely heavily on external concessional funding to cover record-high budget expenses. While external funding will remain sizable in 2025 – at US$38-40bn – we expect that over 50% of that will come in the form of contingent debt from the G7 ERA (extraordinary revenue acceleration) mechanism. This funding will not be treated as debt in public debt and BoP statistics as it is set to be repaid with revenues generated with russian frozen assets. We thus expect a relatively moderate increase in public debt-to-GDP ratio over 2025 to about 94%. High public debt doesn’t pose any near-term liquidity risks for the Ukrainian government as most of new funding is provided for lengthy period of at least 10 years. Yet, the Ministry of Finance will need to develop a strategy to deal with the debt after the safety risks subside.

Chart 7. Ukraine's public debt, $bn

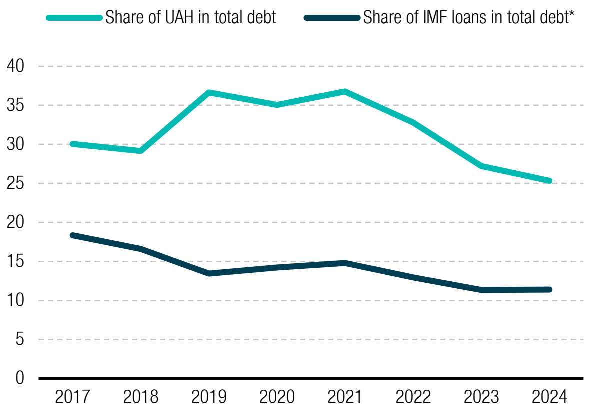
Public debt up by 14% in 2024



Source: MoF, ICU.

Chart 8. Share of UAH and IMF loans* in total public debt, %

Share of hryvnia debt continues to decline due to external borrowings



* includes IMF SDR allocation

Source: MoF, ICU.

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