Focus
Ukraine

Markets
Government bonds, FX market, and macro

Research team
Alexander Martynenko
Taras Kotovych

Weekly Insight

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Key messages of the today's comments

Ukrainian bond market

MoF continues to cut yields

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Foreign exchange market

NBU allows wider hryvnia volatility

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Economics

Growth weak but macroeconomic stability safeguarded

The economy is set to slow further as headwinds remain intense. Key points of our new macro review, published last Wednesday, are given below.

NBU reserves inch up 1% in January

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Ukraine's public debt up 28% in 2025

Ukraine's public debt surged 28.5% to US$213.3bn in 2025, an estimated 102% of GDP.

MONDAY, 9 FEBRUARY 2026

Banks' reserves market (6 February 2026)

	Last	Weekly chg (%)	YoY chg (%)
NBU rate (%)[1]	15.00	+0bp	+50bp
ON rate (%)	14.99	+0bp	+49bp
Reserves (UAHm)[2]	290,139	+47.4	+41.0
CDs (UAHm)[3]	652,879	-12.4	+24.6

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) (6 February 2026)

	Last	Weekly chg (%)	YoY chg (%)
NBU	664,522	+0.0	-1.9
Banks	938,504	-1.1	+7.0
Residents	242,926	-0.8	+21.5
Individuals	118,715	+2.1	+51.3
Foreigners	16,735	+0.6	-25.5
Total	**1,981,882**	**-0.5**	**+6.8**

Source: NBU, ICU.

FX market indicators (6 February 2026)

	Last	Weekly chg (%)	YoY chg (%)
USD/UAH	42.9000	+0.1	+3.5
EUR/USD	1.1815	-0.3	+13.8
DXY	97.633	+0.7	-9.3

Source: Bloomberg, ICU.

Market gov't bond quotes (9 February 2026)

Maturity	Bid (%)	Ask(%)
6 months	16.50	14.50
12 months	16.50	15.50
2 years	17.50	16.50
3 years	18.25	17.00
6 months ($)	4.00	3.00
1.5 years ($)	4.25	3.50

Source: ICU.

Ukrainian bond market

MoF continues to cut yields

Last week, the Ministry of Finance continued to reduce yields on UAH bonds at the primary auctions, well ahead of the NBU's key rate cut.

The MoF offered a limited amount of UAH bonds at last week's primary auction to reinforce price competition among buyers. A one-year bond was 10x oversubscribed, a three-year note 7x. The MoF reduced interest rates on the one-year instrument by 51bp, and on three-year paper by 34bp. See details in the auction review.

As of today, the cumulative decrease in yields has already reached 80bp for three-year securities, while the decline in yields for shorter securities was less significant at 67bp.

The MoF plans to hold a regular auction tomorrow to offer three UAH bonds and hold a swap auction on Wednesday. In addition to the usual three bonds, the MinFin will also offer a four-year paper. The new bonds may be designated as a reserve bond by the NBU soon.

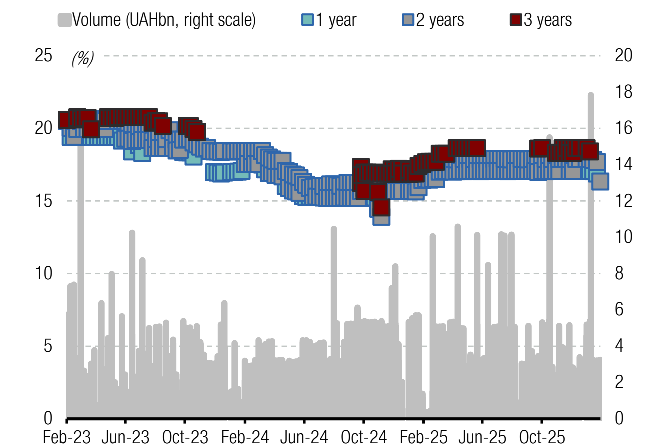
At the swap auction, the MoF will offer to exchange bonds due on March 18, 2026 for a three-year note with a UAH10bn cap.

ICU view: The NBU's signal that at least one more cut of 50bp is highly probable will likely keep price competition for new bonds intense. The MoF will likely aim to ensure at least one-to-one transmission of cuts in the key policy rate to bond yields. This contrasts with its vision during the rate hiking cycle when only half of the increase in the key rate was transmitted to bond yields.

The planned swap auction may significantly reduce bids for the three-year note at the regular auction, so we may not see a significant decrease in yields tomorrow. At the same time, the decline in yields on the one-year instrument may be much more pronounced.

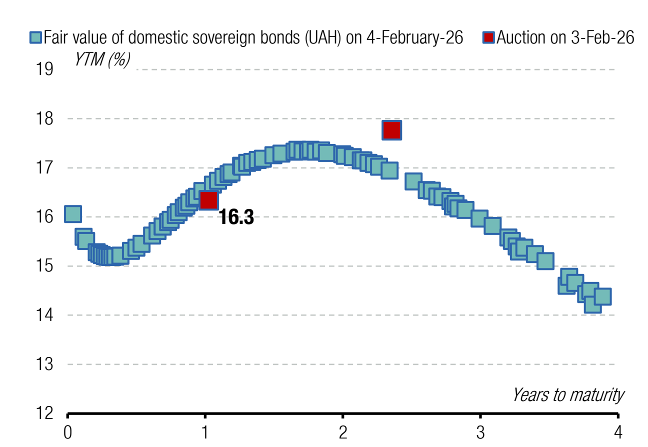
Chart 1. Local-currency bonds

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



Source: MFU, ICU.

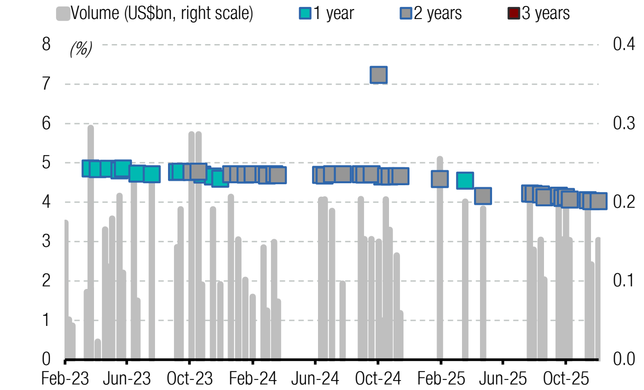
YTMs of domestic government bonds as calculated by NBU versus placements via primary market auctions



Source: NBU, MFU, ICU.

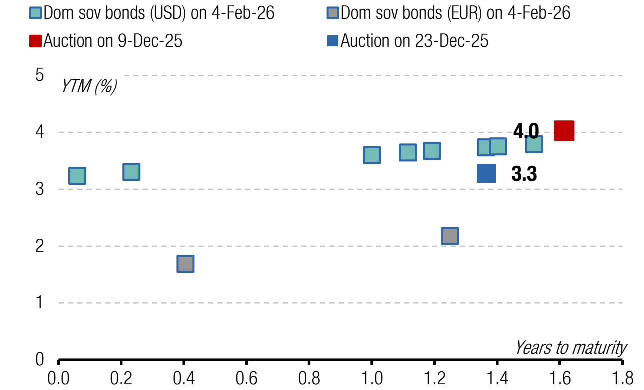
Chart 2. FX-denominated bonds

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.

Foreign exchange market

NBU allows wider hryvnia volatility

Last week, the NBU allowed the hryvnia to fluctuate in a fairly wide range while it was gradually reducing interventions.

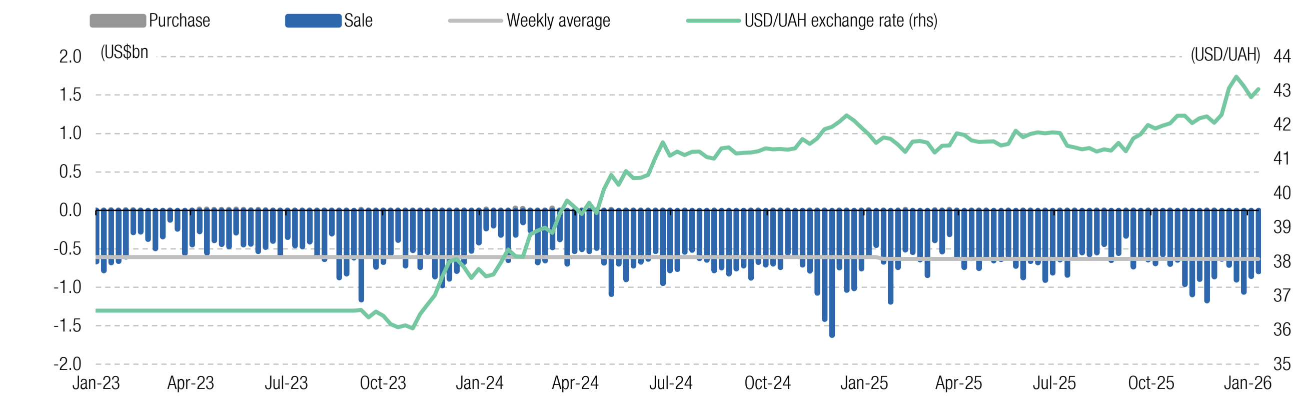
The week started with a rise in hard currency shortage across both the interbank FX market and the retail segment. However, over four business days, the currency deficit increased by only 13% WoW.

Despite rising shortages, the NBU did not try to prevent wider fluctuations, but still did not allow the exchange rate to approach January's highs. However, at the end of the trading session last Friday, the USD/UAH rate fell to UAH42.9/US$ leaving the interbank rate almost flat WoW. The official exchange rate weakened to UAH43.05/US$. NBU FX interventions were down by 8% to $794 million.

ICU view: The NBU again faced increased demand for foreign currency at the beginning of the month, but decided to allow the exchange rate to move in a fairly wide range and was in no hurry to increase interventions. We recently revised our 2026 exchange rate forecast and now expect UAH45/US$ at the end of the year. Please see our recent Macro Update for more details.

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 and weekly average starting from 24-Feb-2022



Source: NBU, Bloomberg, ICU.

Economics

Growth weak but macroeconomic stability safeguarded

The economy is set to slow further as headwinds remain intense. Key points of our new macro review, published last Friday, are given below.

The energy crisis caused by russia's terror attacks on civil infrastructure is interrupting production cycles in many sectors and damaging consumer sentiment. If safety risks don't subside dramatically in 2026 – which is our conservative baseline assumption – the economy will struggle to grow. Nonetheless, the continued inflows of foreign financial aid imply the economy will remain on a footing that is sufficiently strong and risks to a broad macroeconomic stability are reasonably low.

The EU decision to grant a EUR90bn loan to Ukraine for 2026-27 came as a huge relief, yet further clarification that only EUR30bn is going to be earmarked for budget support is somewhat disappointing. We expect foreign grants and concessional loans will remain sufficient to alleviate fiscal concerns in 2026, but a question mark remains about the adequacy of the aid size in 2027.

Rapid deceleration of inflation is one of the brightest spots of current economic realities, and we expect inflationary pressures will remain muted through 2026. NBU's recent guidance on the key policy rate path came as a big surprise to us as we expected more bold moves to ease monetary conditions. We interpret NBU key rate signals as a confirmation that it intends to further weaken the hryvnia in 2026 in an important deviation from last year's policy of, effectively, a fixed exchange rate.

Slowing inflation, pressures to devalue from the MinFin and the IMF, and an expected reduction in foreign aid in the future will likely reduce NBU's determination to maintain a strong hryvnia policy. The record-high imbalances of external accounts will remain the key vulnerability of the economy, but, likely as in previous years, the C/A deficit will remain fully covered with foreign aid. Following last year's spike, NBU reserves are set to remain at historic highs, but are unlikely to grow further.

The fiscal deficit widened last year, but we expect that will reverse in 2026. Over 98% of the gap will be covered with external financing. The IMF program will contain sensitive tax issues, as the fund will want to ensure that the country can mobilize more resources domestically should the expenses on defense increase vs the current plan.

NBU reserves inch up 1% in January

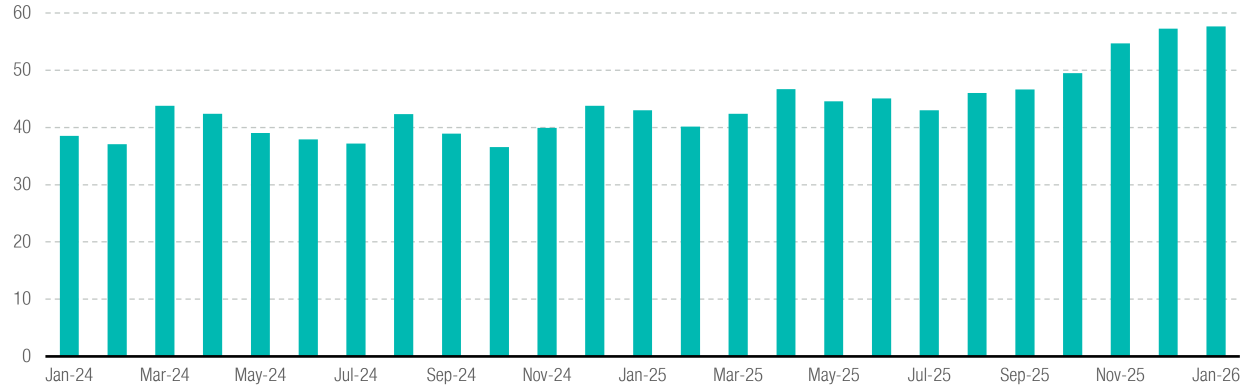
Gross international reserves of the NBU were up 0.6% in January to US$57.7bn, an equivalent of 6.0 months of future imports as per NBU estimates.

The increase in reserves came on the back of a World Bank loan for $3.1bn, likely as a part of the ERA facility. Revaluation of FX reserves yielded another US$1.4bn. NBU sale interventions in the FX market were the key drag on the reserves as they totaled US$3.7bn.

ICU view: We expect NBU reserves will remain above US$50bn through 2026, but they are very unlikely to increase considerably YoY. This level will be sufficient to ensure that the NBU remains in a comfortable position when dealing with FX market imbalances.

Chart 4. NBU gross international reserves, US$bn

NBU gross reserve marginally up in January



Source: NBU, ICU.

Ukraine's public debt up 28% in 2025

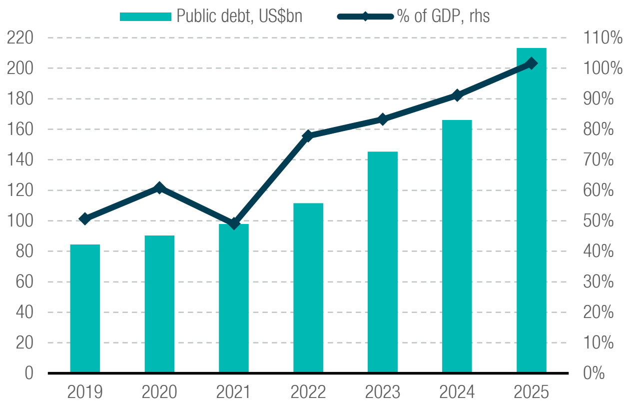
Ukraine's public debt surged 28.5% to US$213.3bn in 2025, an estimated 102% of GDP.

The growth in total debt by US$47.3bn was primarily driven by external borrowings with domestic debt contributing below 5% to the total increase. The EU was the largest provider of debt with its total exposure to Ukraine rising by $39bn on the back of the ERA and Ukraine Facility. The stock of Eurobond debt was up by US$3.5bn, as Ukraine swapped GDP warrants for Eurobonds in December. Other sources of debt increase were much less significant.

ICU view: The increase in public debt was primarily driven by concessional loans from the EU within the Ukraine Facility and ERA. ERA facilities from countries other than EU member states were treated as grants and were not added to the stock of public debt. Public debt will continue to grow this year and may reach 110% of GDP at end-2026. The EU will remain the largest lender and the remaining Ukraine Facility commitments will be complemented with Ukraine Support Loan. Importantly, the ERA and Ukraine Support Loan from the EU do not affect Ukraine's debt sustainability and Ukraine has no obligation to repay them until it receives compensation from russia. While the total stock of debt is high, it doesn't create any near-term liquidity pressures due to its concessional nature. Once the war is over, the government will need to develop a strategy to bring debt down to a sustainable path.

Chart 5. Ukraine's public debt, $bn

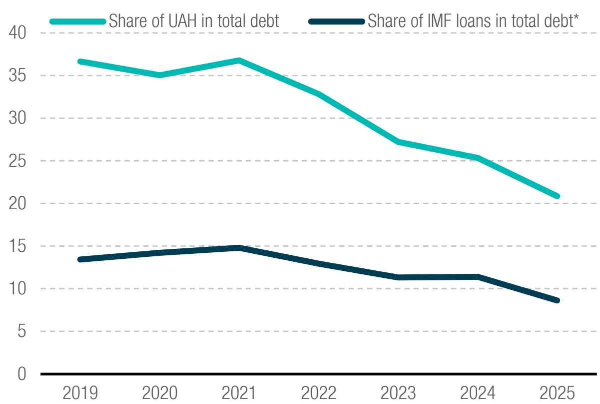
Public debt surges 28% in 2025



Source: MFU, ICU.

Chart 6. Share of UAH and IMF loans* in total debt, %

Share of hryvnia debt continues to decline due to external borrowings



* includes IMF SDR allocation

Source: MFU, ICU.

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

WEB www.icu.ua

RESEARCH

Alexander Martynenko
Head of corporate research
alexander.martynenko@icu.ua

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

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

Dmitriy Dyachenko
Financial analyst
dmitriy.dyachenko@icu.ua

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