

Bond Market Insight

Borrowings to support Ukrainian army

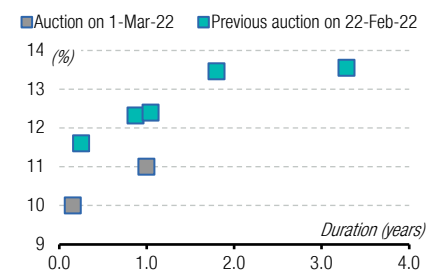
Comment on government bond placement

WEDNESDAY, 2 MARCH 2022

Yesterday, the Ministry of Finance held the first auction since the Russian Federation started full-scale aggression by invading Ukraine. They offered two bills. One was a regular offering with maturity in two months. The other was a special issue of a 12-month bill dedicated to use by the military. The funds will be used to meet the needs of the armed forces and for uninterrupted provision of financial needs of the state during martial law.

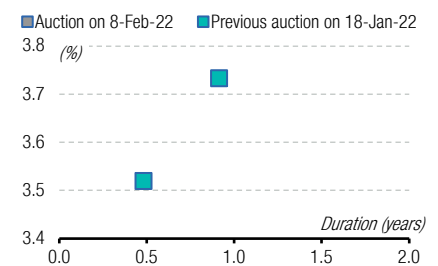
The last time Ukraine placed military bonds was 2014–2015, when it needed additional funds for the army due to the annexation of Crimea by the Russian Federation and the actual capture by Russia of part of Luhansk and Donetsk regions and the organization of self-proclaimed republics there. With yesterday's auction, the issue of such bonds was resumed.

UAH-denominated domestic gov't bonds: yield curve in past two auctions



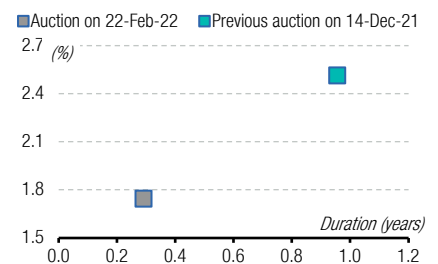
Source: Ministry of Finance of Ukraine, ICU.

USD-denominated domestic gov't bonds: yield curve in past two auctions



Source: Ministry of Finance of Ukraine, ICU.

EUR-denominated domestic gov't bonds: yield curve in past two auctions



Source: Ministry of Finance of Ukraine, ICU.

Table 1. Details of domestic government bonds placed at the auction (UAHbn)

ISIN	Coupon rate (%)	Payment frequency	Maturity	Qty of bonds sold	Price (UAH)	Proceeds ² (UAHm)	Volume ² (UAHm)	YTM ³ (%)	Outstanding (m) ⁴
UA4000221436	0.00	@Mty	27-Apr-22	21,067	984.89	20.75	21.07	10.00	14,901.87
UA4000225668	0.00	@Mty	1-Mar-23	9,013,430	901.15	8,122.45	9,013.43	11.00	9,013.43
Total UAH				9,034,497	8,143.20	9,034.50			23,915.30

Note: [1] payment frequency abbreviations: M - monthly, Qtly - quarterly, SA - semi-annually, @Mty - at maturity date; [2] proceeds and volumes for the USD-denominated bonds are calculated based on the previous day's exchange rate 27.92/USD, 33.81/EUR; [3] yields on coupon-bearing bonds are effective yields to maturity. Sources: Ministry of Finance of Ukraine, Bloomberg, ICU.

Demand was only UAH20m for the two-month paper and was satisfied at a rate of 10%, which was set by the Ministry of Finance.

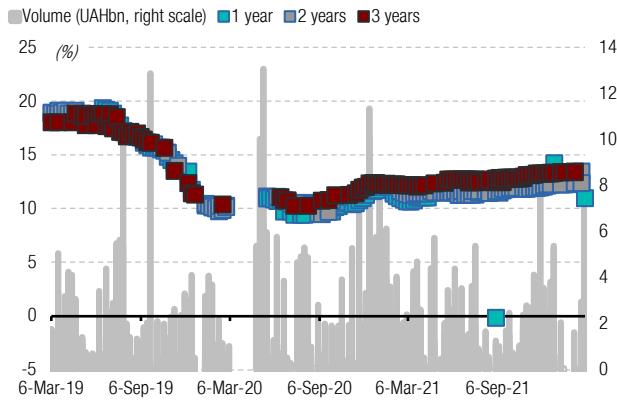
However, banks were more willing to provide funds to support the Armed Forces. Demand exceeded UAH9bn face value and was at a unanimous rate of 11%. The Ministry of Finance accepted all 10 bids it received and borrowed UAH8.1bn for urgent needs.

In general, this rate is even lower than the 12-month bills that were sold before the invasion, and reflects the willingness of Ukrainian banks to support the state at a difficult time. We hope that the investors will expand their range soon and increase borrowings.

Appendix: Yields-to-maturity, repayments

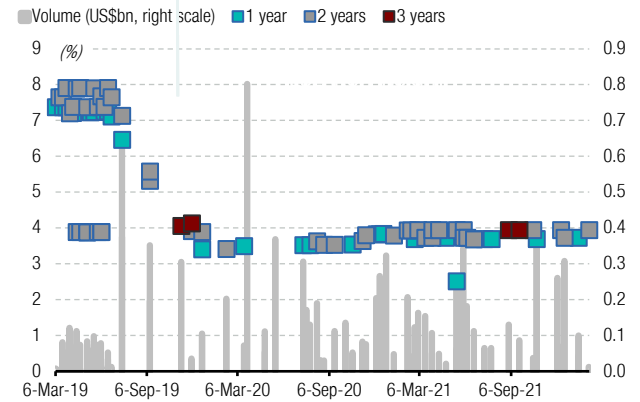
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

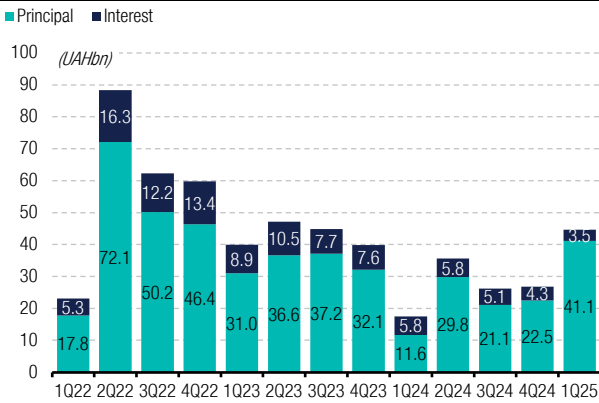
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

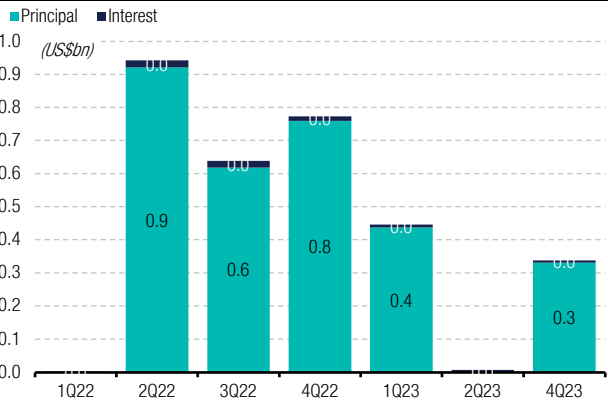
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

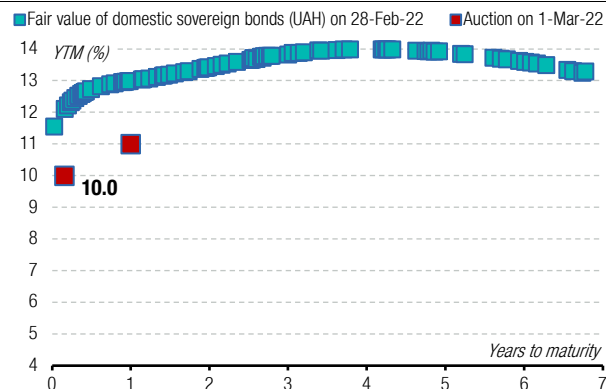
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

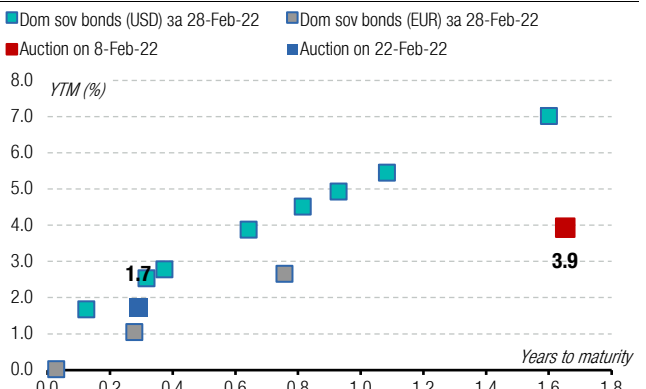
Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions

UAH-denominated domestic government bonds



Source: National Bank of Ukraine, Ministry of Finance of Ukraine, ICU.

USD- and EUR-denominated domestic government bonds



Source: National Bank of Ukraine, Ministry of Finance of Ukraine, ICU.

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