

# Ukraine

## Rating report

### Rating rationale

**Significant international financing support:** Loan and grant financing alongside prudent debt relief from a range of international multilateral, bilateral-official and private creditors and donors. Sustained international financial assistance coupled with increased sovereign borrowing in the domestic market are crucial for the continued elimination of monetary financing and for reinforcement of long-run debt sustainability. In June 2024, the EU formally opened accession negotiations with Ukraine.

**Institutional preparedness for this crisis:** The National Bank of Ukraine adopted speedy administrative measures and capital controls following the escalation of the war to preserve outstanding foreign-exchange reserves, stem deposit flight, inject liquidity and adopt regulatory forbearance. It has appropriately re-started rate rises more recently as inflation has re-risen since May 2024.

**Resilient banking system under the exceptional circumstances:** The resilience of the domestic financial system since the war supports the elimination of monetary financing, boosts sovereign financing in the domestic capital market and anchors the domestic-debt ratings of the sovereign. It does, nevertheless, deepen outstanding sovereign-bank inter-linkages.

**Rating challenges:** i) an enforcement of a moratorium on select foreign-debt payments since 3 September 2024 as additional external debt claims are re-negotiated; ii) the possibility of a third restructuring of the Eurobond securities ahead of the end of the IMF programme; iii) long-run debt-sustainability risks amid a protracted war; iv) continued risks for external-sector resilience and elevated dollarisation; and v) vulnerabilities of the banking system.

Figure 1: Ukraine's sovereign-rating drivers

Risk pillars	Quantitative		Reserve currency*	Political risk**	Qualitative***	Final rating (foreign currency)
	Weight	Indicative rating	Notches	Notches	Notches	
Domestic economic risk	35%	b	UAH	Ukraine	0	SD
Public finance risk	20%	bb-			- 1/3	
External economic risk	10%	b-			+ 2/3	
Financial stability risk	10%	bbb-			+ 2/3	
ESG risk	Environmental factors	5%	[+0]	[-3]	- 1/3	Final rating (local currency)
	Social factors	7.5%			- 1/3	
	Governance factors	12.5%	ccc			
<b>Sovereign Quantitative Model</b>	<b>ccc</b>				<b>0</b>	<b>CCC</b>
<b>Additional considerations (local currency)</b>					<b>0</b>	
<b>Additional considerations (foreign currency)****</b>					<b>-3</b>	

\*The reserve-currency quantitative adjustment applies to currencies in the IMF's Special Drawing Rights (SDR) basket.

\*\*The political-risk quantitative adjustment is based on the World Bank's Political Stability & Absence of Violence/Terrorism index.

\*\*\*The qualitative scorecard analyst adjustments, capped at one notch per rating pillar, are weighted equally with an aggregate adjustment rounded to the nearest integer.

\*\*\*\*For Ukraine, a three-notch extraordinary downside adjustment for the foreign-currency long-term issuer rating represents the ongoing restructuring of external claims on the sovereign. For details, please see Scope's [Sovereign Rating Methodology](#). Source: Scope Ratings.

### Foreign currency

Long-term issuer rating/Outlook

SD

Senior unsecured debt

SD

Short-term issuer rating/Outlook

S-4/Stable

### Local currency

Long-term issuer rating/Outlook

CCC/Stable

Senior unsecured debt

CCC/Stable

Short-term issuer rating/Outlook

S-4/Stable

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## Credit strengths and challenges

Credit strengths	Credit challenges
<ul style="list-style-type: none"> <li>Significant international financial support</li> <li>Strengthened external-sector resilience</li> <li>A resilient banking system under the exceptional circumstances</li> <li>Adept central-bank response since the full-scale war</li> </ul>	<ul style="list-style-type: none"> <li>The restructuring of additional external commercial claims of the borrower and associated payment moratoria</li> <li>The risk of the further restructuring of the Eurobond securities</li> <li>Long-run debt sustainability risks amid a protracted war</li> <li>External-sector risks</li> <li>Banking-system vulnerabilities</li> </ul>

## Outlook and rating triggers

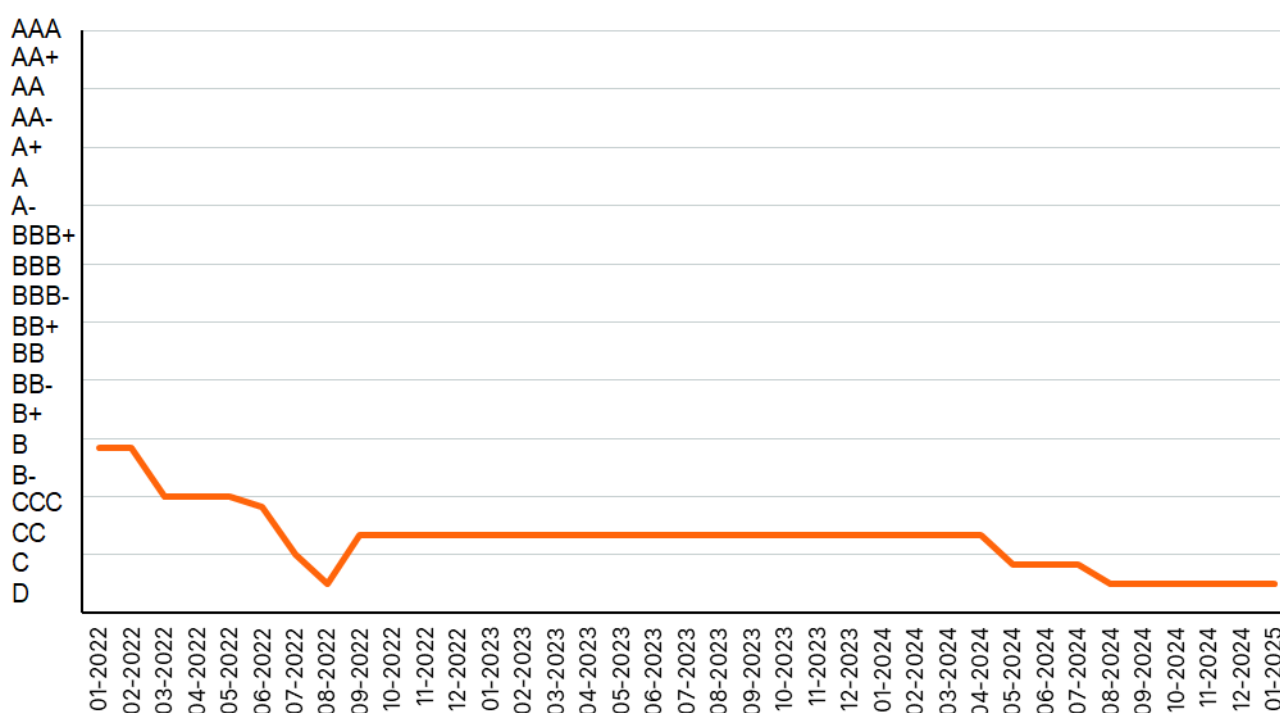
No Outlook is assigned on the long-term issuer rating in foreign currency in selective default.

The Stable Outlook on the domestic debt ratings represents the opinion that risks relevant for the domestic debt remain balanced.

The Negative Outlook on Eurobond instrument ratings considers the risk of further restructuring of the securities.

Positive rating-change drivers	Negative rating-change drivers
<p><b>Foreign-currency long-term issuer rating:</b></p> <ul style="list-style-type: none"> <li>External commercial debt restructurings are completed and/or debt-servicing moratoria are lifted on select additional external commercial claims</li> </ul> <p><b>Domestic-currency long-term issuer rating:</b></p> <ul style="list-style-type: none"> <li>The reduction of security risks; significantly improved long-run debt sustainability; and/or the significant easing of banking-system risks</li> </ul>	<p><b>Domestic-currency long-term issuer rating:</b></p> <ul style="list-style-type: none"> <li>The likelihood rises of any restructuring of Ukrainian domestic debt securities</li> </ul> <p><b>Eurobond securities:</b></p> <ul style="list-style-type: none"> <li>The restructuring of the new Eurobond instruments rises in likelihood, nears in timing and/or sees the likelihood of higher-than-assumed losses</li> </ul>

Figure 2: Rating history



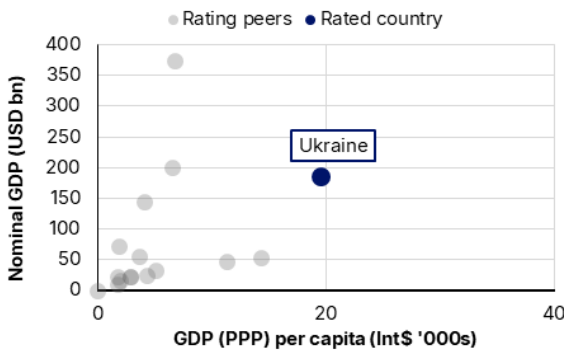
Foreign-currency long-term issuer rating. Positive/Negative Outlooks are treated with a +/-0.33-notch adjustment. Credit Watch positive/negative with a +/-0.67-notch adjustment. Source: Scope Ratings.

## Domestic economic risk

### Overview of Scope's assessments of Ukraine's Domestic Economic Risk

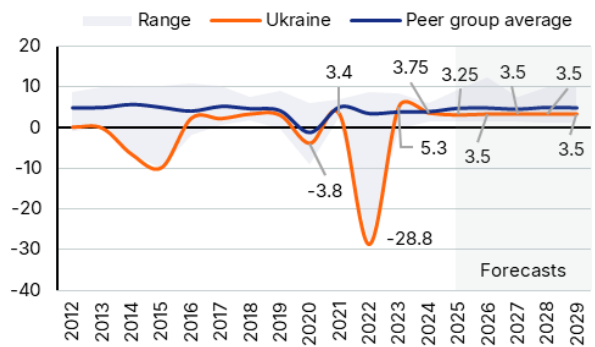
SQM* indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
bb	Growth potential and outlook	Neutral	0	Moderate long-run growth potential but significant uncertainties around the recovery trajectory given the war; growth has been comparatively strong since 2022 economic lows
	Monetary policy framework	Strong	+1/3	Significant pre-crisis improvements in monetary governance; central-bank measures since the full-scale war have been crucial in the anchoring of macroeconomic and financial stability; the elimination of monetary financing
	Macroeconomic stability and sustainability	Weak	-1/3	Average economic diversification and labour-market flexibility; the protracted war with Russia undermines longer-run macroeconomic stability

Figure 3: Nominal GDP and GDP per capita (2024)



Source: IMF World Economic Outlook (WEO), Scope Ratings

Figure 4: Real GDP growth, %



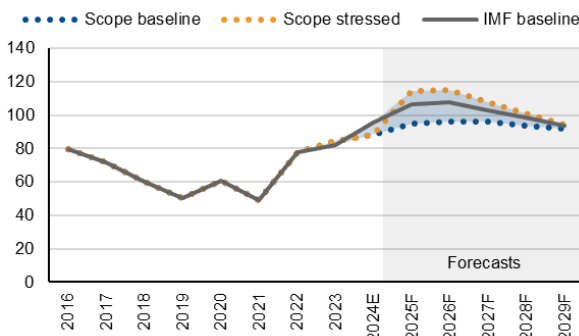
Source: IMF WEO, Scope Ratings forecasts

## Public finance risk

### Overview of Scope's assessments of Ukraine's Public Finance Risk

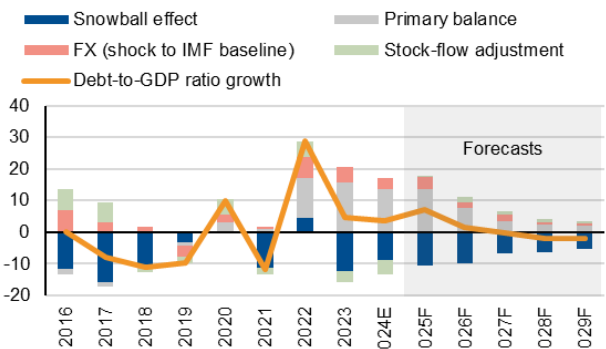
SQM indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
b-	Fiscal policy framework	Weak	-1/3	A pre-war record of fiscal discipline with the oversight of the International Monetary Fund and multilateral & bilateral creditors; reduced spending flexibility due to the war
	Long-term debt trajectory	Weak	-1/3	The settlement of the Eurobond restructuring last August; long-run debt sustainability remains challenging even following external commercial debt restructurings and an expectation of additional external commercial and bilateral-official debt restructuring before the end of the IMF programme
	Debt profile and market access	Strong	+1/3	Restricted international market access, elevated foreign-currency risks in government debt, but domestic market access and extraordinary access to global multilateral and bilateral creditors and donors

Figure 5: Contributions to change in debt levels, pps of GDP\*\*



Source: IMF WEO, Scope Ratings forecasts

Figure 6: Debt-to-GDP forecasts, % of GDP\*\*



Source: IMF WEO, Scope Ratings forecasts

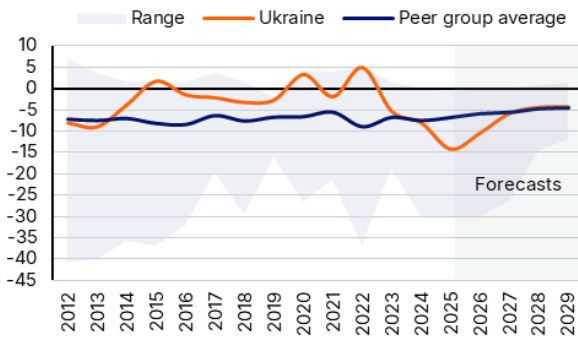
\*Sovereign Quantitative Model. \*\*Debt-sustainability projections of Scope Ratings and the IMF represent figures post-settlement of the Exchange Offer and Consent Solicitation for Eurobond debt restructuring effective 30 August 2024 but do not currently include restructuring of the additional external claims currently being negotiated nor the definitive debt restructuring planned by the end of the war or by the penultimate review of the IMF programme, whichever occurs first.

## External economic risk

### Overview of Scope's assessments of Ukraine's External Economic Risk

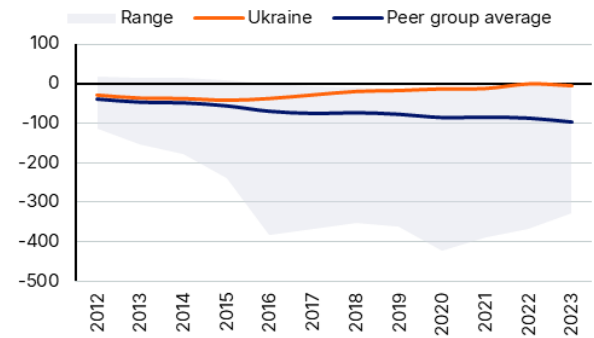
SQM indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
CCC	Current account resilience	Strong	+1/3	Out-sized current-account deficits counter-balanced by significant inflows comprising grant and concessional debt funding, alongside sizeable remittances since the escalation of the war
	External debt structure	Neutral	0	The reversal of an earlier declining trajectory of the outstanding external debt; the August-2024 Eurobond restructuring improved the external-debt structure; nevertheless, a high share of external debt that has a short maturity; the re-negotiation of additional sovereign and sovereign-guaranteed external claims is continuing
	Resilience to short-term external shocks	Strong	+1/3	The levels of reserves are at their records; significantly improved reserves coverage of short-term external debt compared against the 2022 lows

Figure 7: Current-account balance, % of GDP



Source: IMF WEO forecasts, Scope Ratings

Figure 8: Net international investment position (NIIP), % GDP



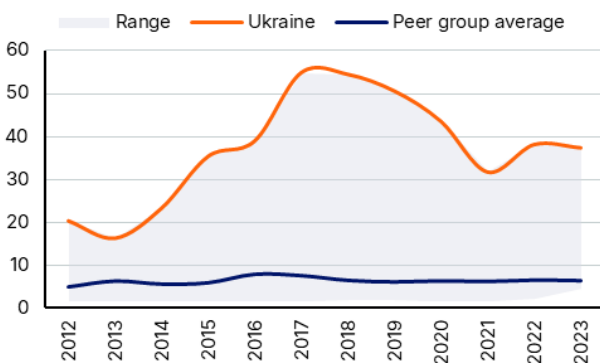
Source: IMF, Scope Ratings

## Financial stability risk

### Overview of Scope's assessments of Ukraine's Financial Stability Risk

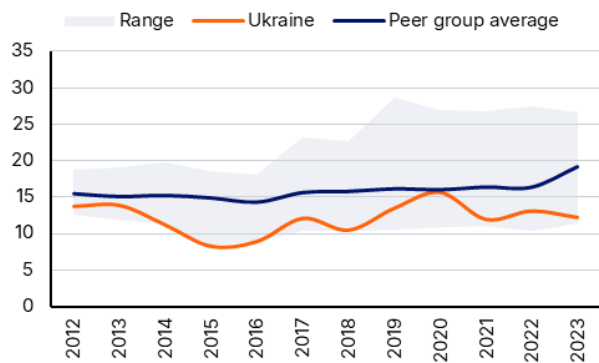
SQM indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
bb	Banking sector performance	Neutral	0	Resilience of the banking system and recent improvements in capital adequacy. High NPLs. Modest declines in dollarisation. However, especially vulnerabilities at smaller, privately-owned Ukrainian banks.
	Financial sector oversight and governance	Strong	+1/3	A history of challenges in financial supervision; nevertheless, the management of financial stability since the full-scale war has been exceptional
	Financial imbalances	Strong	+1/3	Low levels of outstanding private-sector debt and a lack of credit imbalances given a developing domestic capital market; faster credit growth more recently

Figure 9: Non-performing loans (NPLs), % of total loans



Source: World Bank (WB), Scope Ratings

Figure 10: Tier 1 capital, % of risk-weighted assets



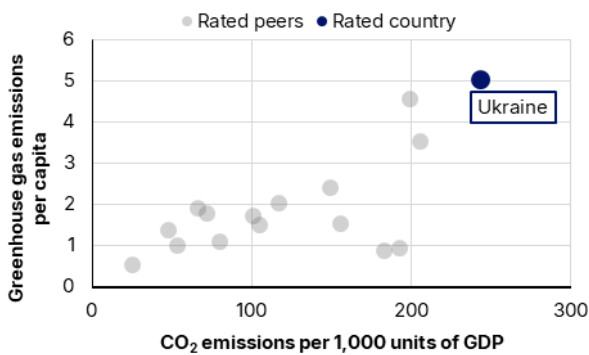
Source: IMF, Scope Ratings

## Environmental, Social and Governance (ESG) risk

### Overview of Scope's assessments of Ukraine's ESG Risk

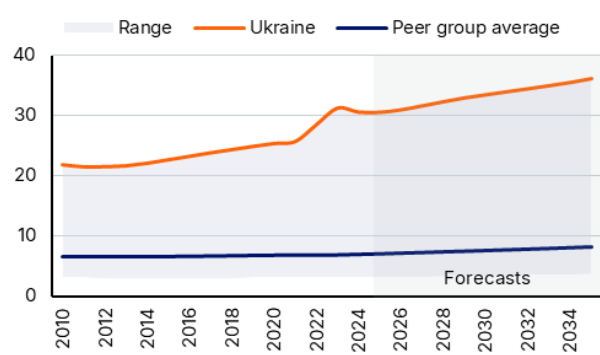
SQM indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
b	Environmental factors	Weak	-1/3	Elevated transition risks for a higher carbon-intensity developing economy; the war is causing long-lasting environmental damages
	Social factors	Weak	-1/3	Poverty, emigration and the internal displacement of persons due to the war, rising old-age costs, moderate income inequality, moderate performance on education, weaker wealth dynamics
	Governance factors	Weak	-1/3	War on sovereign territory and associated exceptional adverse credit implications

Figure 11: CO<sub>2</sub> emissions per GDP, mtCO<sub>2</sub>e (2023)



Source: European Commission (EC), Scope Ratings

Figure 12: Old-age dependency ratio, %



Source: United Nations (UN), Scope Ratings

## Reserve-currency adjustment

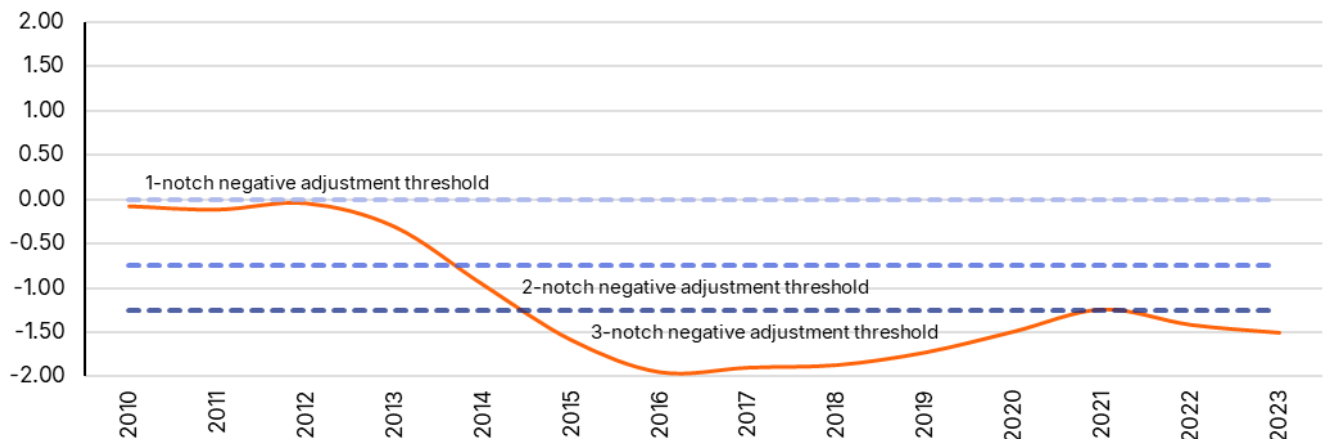
### IMF SDR basket and Scope reserve-currency adjustment

Currency	U.S. dollar	Euro	Chinese yuan	Japanese yen	Pound sterling	Other
IMF SDR basket weights, %	43.4	29.3	12.3	7.6	7.4	0.0
Positive adjustment, notches	3	1	1	1	1	0

Source: IMF, Scope Ratings

## Political-risk adjustment

Figure 13: WB Political Stability & Absence of Violence/Terrorism index, Ukraine, three-year moving average



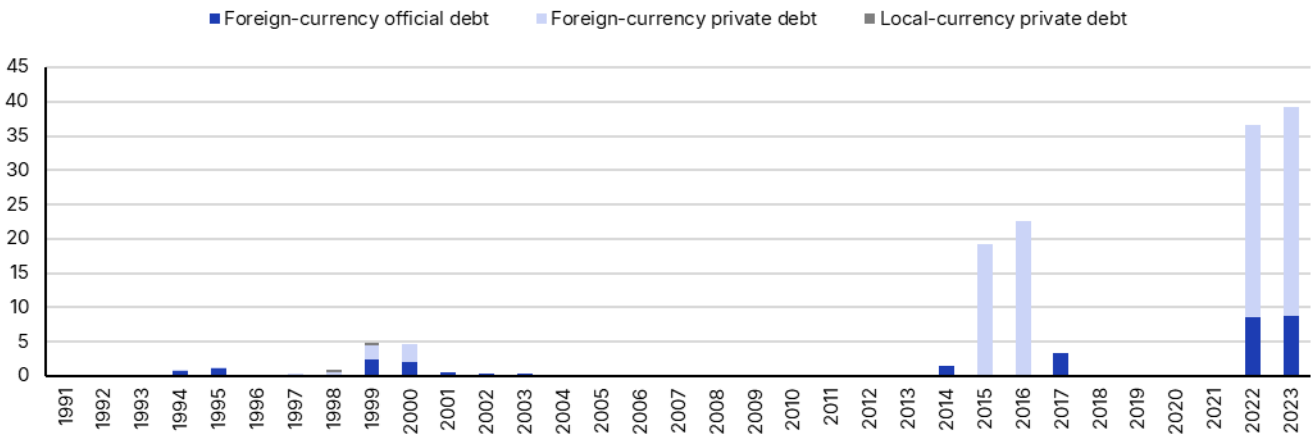
Source: WB, Scope Ratings

### Additional considerations

A three-notch extraordinary downside adjustment underlying the long-term issuer rating in foreign currency represents the ongoing restructuring of: i) external commercial loans to the sovereign from the US-corporate Cargill; ii) sovereign-guaranteed dollar-denominated sustainability-linked green notes of the state-owned electricity transmission company Ukrenergo; and iii) sovereign GDP warrants. The adjustment furthermore considers the selective default on foreign-currency denominated long-term debt after entry into force of debt moratoria on the specified additional sovereign external claims.

### Appendix I. Sovereign default history

Figure 14: Sovereign default history, USD bn



Depicted private-debt defaults may not always constitute a credit event under [Scope's credit-rating definitions](#).  
 Source: [Bank of Canada-Bank of England Sovereign Default Database](#), Scope Ratings.

### Appendix 2. Rating peers

Rating peers are related to sovereigns with an indicative rating in the same rating category or adjacent categories, as assigned by Scope's sovereign quantitative model after accounting for methodological reserve-currency and political-risk adjustments.

Peer group*
n/a

\*Select publicly-rated sovereigns only; the full sample of sovereign-rating peers may be larger.

### Appendix 3. Economic development and default indicators

IMF Development Classification	Emerging market and developing economy
5y USD CDS spread (bps)	n/a

#### Appendix 4. Statistical table for selected SQM indicators

This table presents a selection of the indicators (24 out of 30 – with the governance indicator reflecting a composite of five indicators) used in Scope's quantitative model, in line with Scope's Sovereign Rating Methodology. The metrics and sources for the data presented here ensure comparability across global country peers and may therefore differ from data from national and other select international statistical series.

Pillar	Core variable	Source	2018	2019	2020	2021	2022	2023	2024E
Domestic Economic	GDP per capita (PPP), Int\$ '000s	IMF	12.8	14.5	15.8	18.2	16.5	18.3	19.6
	Nominal GDP, USD bn	IMF	131	154	157	200	161	178	184
	Real growth, %	IMF	3.5	3.2	-3.8	3.4	-28.8	5.3	3.0
	CPI inflation, %	IMF	10.9	7.9	2.7	9.4	20.2	12.9	5.8
	Unemployment rate, %	WB	8.8	8.2	9.5	9.8	-	-	-
Public Finance	Public debt, % of GDP	IMF	60.4	50.6	60.6	48.9	77.7	82.3	95.6
	Net interest payment, % of government revenue	IMF	8.3	7.7	7.3	7.8	6.2	7.1	11.2
	Primary balance, % of GDP	IMF	1.2	1.0	-3.0	-1.1	-12.5	-15.7	-13.7
External Economic	Current-account balance, % of GDP	IMF	-3.3	-2.7	3.3	-1.9	5.0	-5.4	-8.1
	Total reserves, months of imports	WB	3.1	3.5	4.9	3.6	3.9	-	-
	NIIP, % of GDP	IMF	-20.2	-18.0	-14.0	-13.1	-1.7	-	-
Financial Stability	NPL ratio, % of total loans	IMF	54.4	50.5	43.5	31.7	38.1	37.4	-
	Tier 1 ratio, % of risk-weighted assets	IMF	12.0	10.9	13.0	16.2	11.7	13.4	12.0
	Credit to the private sector, % of GDP	WB	34.5	30.0	28.2	23.6	23.3	-	-
ESG	CO <sub>2</sub> per EUR 1,000 of GDP, mtCO <sub>2</sub> e	EC	300.6	277.2	275.3	260.0	260.1	243.2	-
	Income share of bottom 50%, %	WID	22.7	22.6	22.6	17.7	17.7	-	-
	Labour-force participation rate, %	WB	68.2	68.4	67.2	66.8	66.8	-	-
	Old-age dependency ratio, %	UN	24.5	25.0	25.5	25.8	28.6	31.3	30.7
	Composite governance indicators*	WB	-0.5	-0.4	-0.4	-0.4	-0.5	-0.5	-
	Political stability, index	WB	-1.9	-1.7	-1.5	-1.2	-1.4	-1.5	0.0

\*Average of the following five World Bank Worldwide Governance Indicators: Control of Corruption, Voice and Accountability, Rule of Law, Government Effectiveness, Regulatory Quality.

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**Applied methodologies**

[Sovereign Rating Methodology](#), January 2024

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