

Ukraine

Rating Report



CC

NEGATIVE
OUTLOOK

Credit strengths

- Significant international financial support
- Adept central-bank response to crisis
- Resilient banking system under the exceptional circumstances
- Improvements within the external sector

Credit challenges

- Negotiations on further debt restructuring
- Long-run debt sustainability risk amid protracted war
- External-sector risks
- Banking-system vulnerabilities

Ratings and Outlook

Foreign currency

Long-term issuer rating	CC/Negative
Senior unsecured debt	CC/Negative
Short-term issuer rating	S-4/Stable

Local currency

Long-term issuer rating	CCC/Stable
Senior unsecured debt	CCC/Stable
Short-term issuer rating	S-4/Stable

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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 increasing bank borrowing in the domestic market are crucial to past elimination of monetary financing and reinforcing long-run debt sustainability.

Institutional preparedness for this crisis: The National Bank of Ukraine (NBU) adopted speedy administrative and capital controls following the full-scale invasion to preserve foreign-exchange reserves, stem deposit flight, inject liquidity and adopt regulatory forbearance. It has appropriately cut its policy rate more recently as inflation has declined but nevertheless ensured hryvnia stability.

Resilient banking system under exceptional circumstances: The resilience of the domestic financial system since the war supports the recent elimination of monetary financing, boosts sovereign financing in domestic markets and anchors the domestic-debt ratings of the sovereign.

Rating challenges include: i) the negotiation around a (second) external debt restructuring, to be finalised by early 2024; ii) long-run debt sustainability risk amid a protracted conflict; iii) risks to external-sector resilience and elevated dollarisation; and iv) banking-system susceptibilities.

Ukraine's sovereign-rating drivers

Risk pillars	Quantitative		Reserve currency*	Qualitative**	Final rating (foreign currency)
	Weight	Indicative rating	Notches	Notches	
Domestic Economic Risk	35%	ccc	UAH [+0]	0	CC
Public Finance Risk	20%	b		0	
External Economic Risk	10%	bb-		0	
Financial Stability Risk	10%	bb		0	
ESG Risk	Environmental Factors	5%		a+	-1/3
	Social Factors	7.5%	bbb	-1/3	
	Governance Factors	12.5%	c	-1/3	
Indicative outcome		b-		-1	CCC
Additional considerations (local currency)				0	
Additional considerations (foreign currency)***				-1	

Note: *The reserve-currency adjustment applies to currencies in the IMF's SDR basket. **The qualitative scorecard adjustments, capped at one notch per rating pillar, are weighted equally with an aggregate adjustment rounded to the nearest integer. ***For Ukraine, a one-notch extraordinary downside adjustment to foreign-currency issuer ratings reflects an expectation of near-term external debt restructuring. For details, please see Scope's [Sovereign Rating Methodology](#). Source: Scope Ratings.

Outlook and rating triggers

The Negative Outlook for long-term foreign-currency issuer ratings reflects Scope's expectation of forthcoming external debt treatment. The Stable Outlook for local-currency issuer ratings reflects a view that risks relevant to the domestic debt are balanced.

Foreign-currency long-term issuer rating:

Negative rating-change driver:

- Execution approaches for the second external debt treatment

Positive rating-change driver:

- Restructuring plans with external commercial creditors are cancelled

Domestic debt ratings:

Negative rating-change driver:

- Likelihood rises of restructuring of Ukrainian domestic debt

Positive rating-change driver:

- Reduction in security risk; improved debt sustainability; and/or easing banking risks

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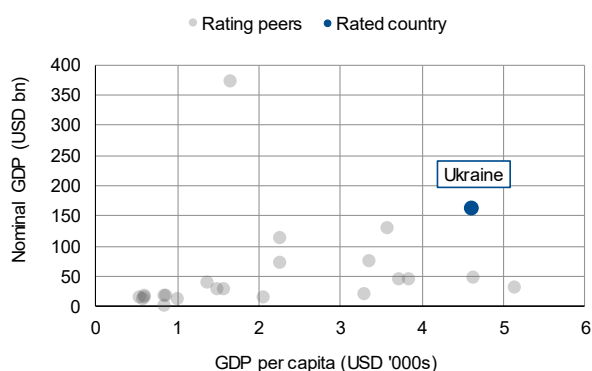
Bloomberg: RESP SCOP

Domestic Economic Risk

Overview of Scope's qualitative assessments for Ukraine's Domestic Economic Risk

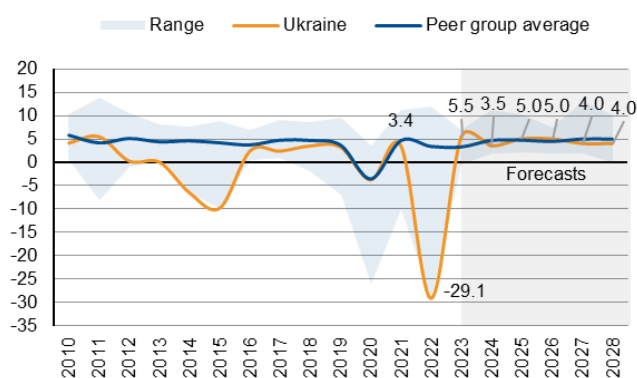
CVS indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
ccc	Growth potential of the economy	Neutral	0	Moderate long-run growth potential but significant uncertainty around recovery trajectory given the war; growth better than IMF expectations
	Monetary policy framework	Strong	+1/3	Significant pre-crisis improvement in monetary governance; central bank measures since the full-scale war have been crucial in the anchoring of macroeconomic and financial stability; elimination of monetary financing
	Macro-economic stability and sustainability	Weak	-1/3	Average economic diversification and labour-market flexibility, conflict with Russia undermines longer-run macroeconomic stability

Nominal GDP and GDP per capita, 2022 estimates



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

Real GDP growth, %



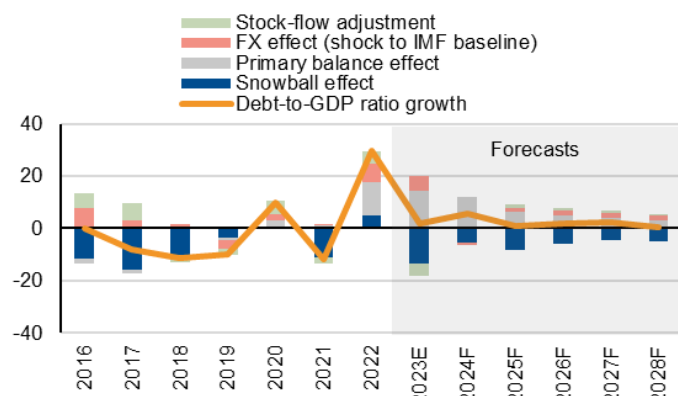
Source: IMF WEO, Scope Ratings forecasts

Public Finance Risk

Overview of Scope's qualitative assessments for Ukraine's Public Finance Risk

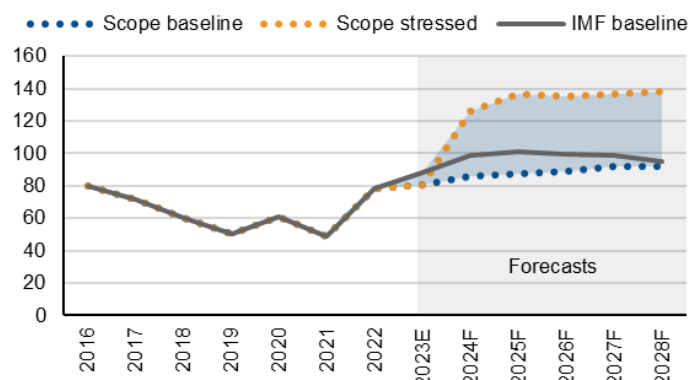
CVS indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
b	Fiscal policy framework	Neutral	0	Record of fiscal discipline with oversight of the IMF and multilateral & bilateral creditors; reduced spending flexibility due to the war
	Debt sustainability	Weak	-1/3	Significant weakening of debt sustainability amid Russian invasion; debt sustainability vulnerable under adverse economic scenarios
	Debt profile and market access	Strong	+1/3	Restricted international market access, high foreign-currency risk in government debt, but extraordinary access to global multilateral and bilateral lenders and donors

Contributions to changes in debt levels, pps of GDP



Source: IMF WEO, Scope Ratings forecasts

Debt-to-GDP forecasts, % of GDP



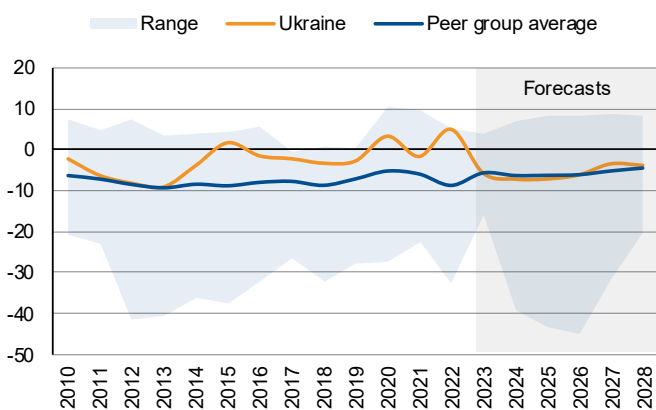
Source: IMF WEO, Scope Ratings forecasts

External Economic Risk

Overview of Scope's qualitative assessments for Ukraine's External Economic Risk

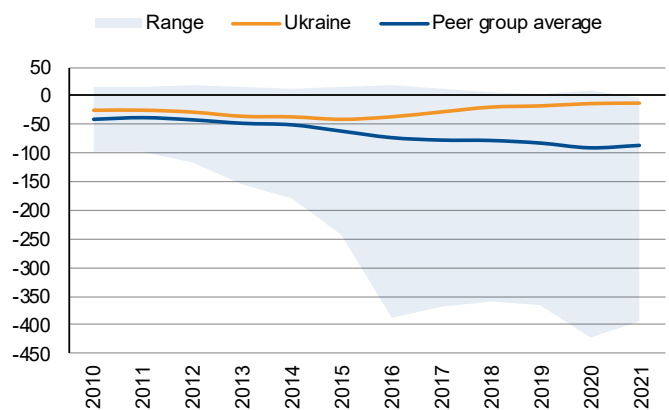
CVS indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
bb-	Current account resilience	Neutral	0	Risk from capital outflows, reliance on remittances inflows; significant international financial assistance; return to a current-account deficit
	External debt structure	Neutral	0	Reversal in the external-debt trajectory, a high share of external debt that is short-term, maturity of external debt extended after debt restructuring
	Resilience to short-term external shocks	Neutral	0	Increasing levels of reserves, reflected in improved coverage of short-term external debt

Current-account balance, % of GDP



Source: IMF WEO, Scope Ratings

Net international investment position (NIIP), % of GDP



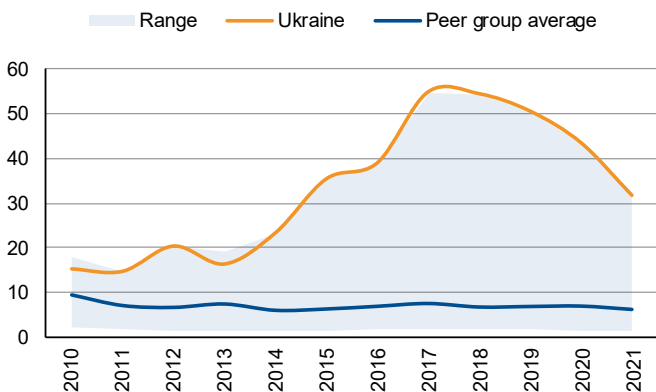
Source: IMF, Scope Ratings

Financial Stability Risk

Overview of Scope's qualitative assessments for Ukraine's Financial Stability Risk

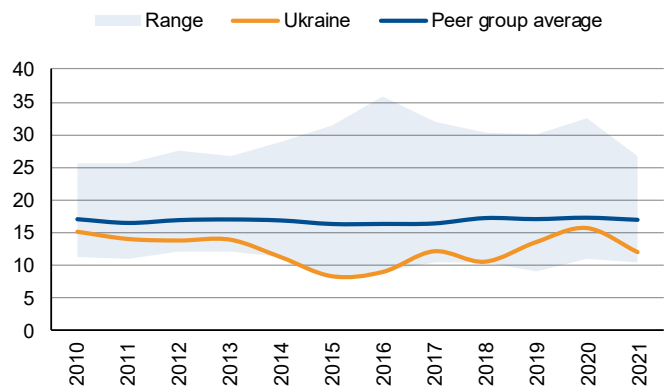
CVS indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
bb	Banking sector performance	Neutral	0	Resilience in the banking sector. Stable liquidity and rises in capital adequacy, although crystallisation of credit risks challenges bank balance sheets. Modest decline in dollarisation.
	Banking sector oversight	Neutral	0	Multiple initiatives over the years to enhance banking-sector governance; challenges still in financial supervision
	Financial imbalances	Neutral	0	Low-levels of private-sector debt given a developing domestic capital market

Non-performing loans (NPLs), % of total loans



Source: World Bank, Scope Ratings

Tier 1 capital, % of risk-weighted assets



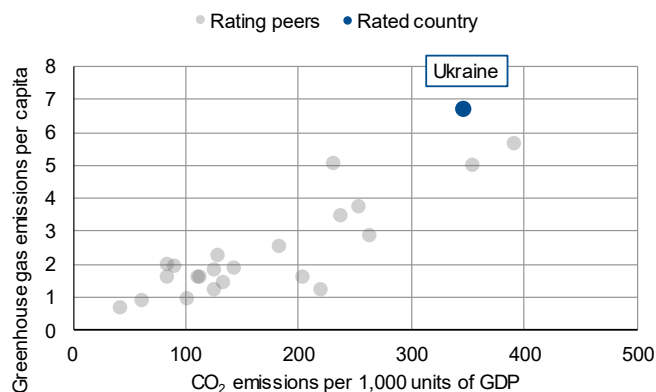
Source: IMF, Scope Ratings

Environmental, Social and Governance (ESG) Risk

Overview of Scope's qualitative assessments for Ukraine's ESG Risk

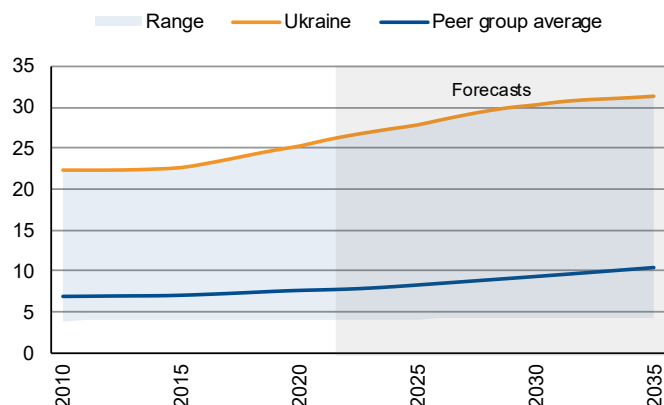
CVS indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
b-	Environmental factors	Weak	-1/3	Transition risk outstanding for higher carbon-intensity developing economy; the war is causing long-lasting environmental damage
	Social factors	Weak	-1/3	Poverty, emigration and internal displacement of people 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's territory and associated exceptional adverse credit implications

CO₂ emissions per GDP, mtCO₂e



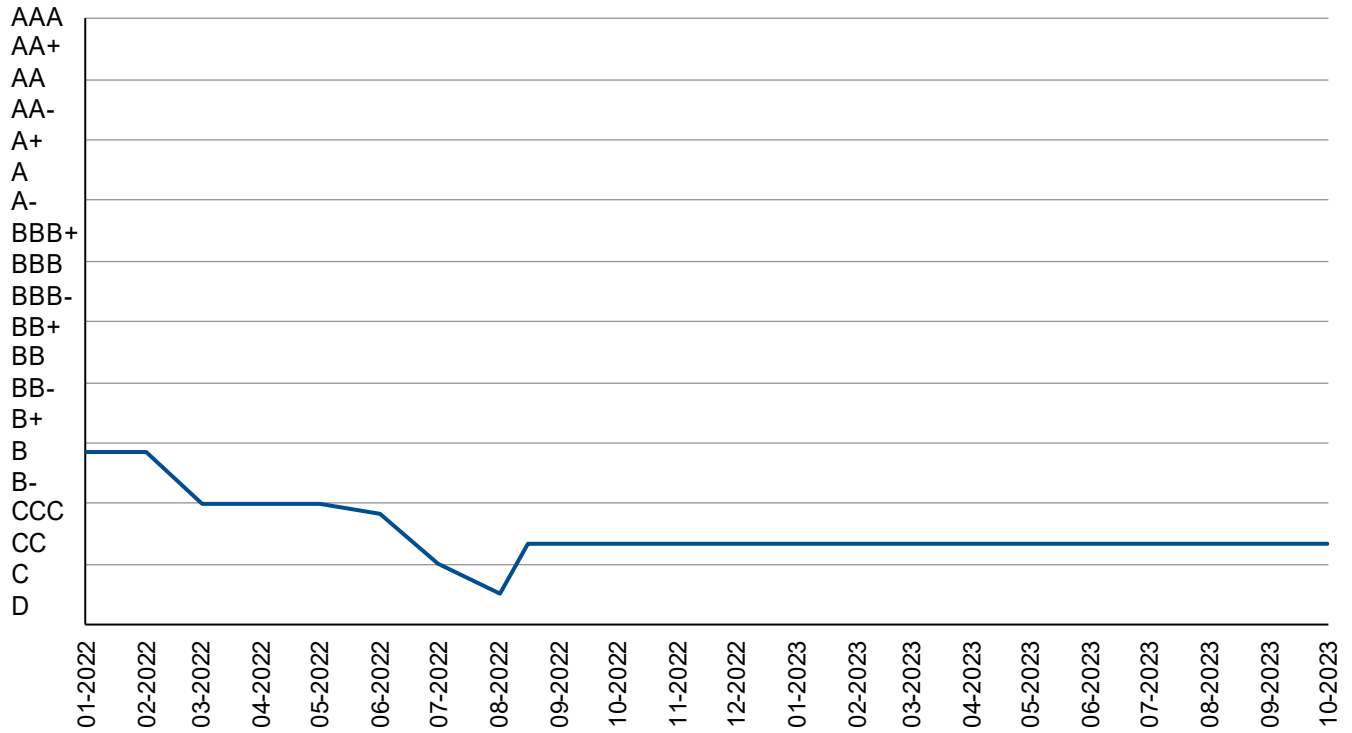
Source: European Commission, Scope Ratings

Old age dependency ratio, %



Source: United Nations, Scope Ratings

Appendix I. Rating history (foreign-currency long-term issuer rating)



NB. Positive/Negative Outlooks are treated with a +/-0.33-notch adjustment. Credit Watch positive/negative with a +/-0.67-notch adjustment.

Appendix II. 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 core variable scorecard after accounting for a methodological reserve-currency adjustment.

Peer group*
Morocco

Publicly-rated sovereigns only; the full sample of sovereign-rating peers may be larger.

Appendix III. Statistical table for selected CVS indicators

This table presents a selection of the indicators (24 out of 30 – with the governance indicator reflecting a composite of six indicators) used in Scope's quantitative model, the core variable scorecard, 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
Domestic Economic	GDP per capita, USD '000s	IMF	3.1	3.7	3.8	4.9	4.3
	Nominal GDP, USD bn	NBU	130.9	154.0	156.6	199.8	159.1
	Real growth, %	IMF	3.5	3.2	-3.8	3.4	-30.3
	CPI inflation, average year-on-year %	IMF	10.9	7.9	2.7	9.4	20.2
	Unemployment rate, %	WB	8.8	8.2	9.5	9.8	-
Public Finance	Public debt, % of GDP	IMF	60.4	50.5	60.5	48.8	81.7
	Net interest payment, % of revenue	IMF	8.3	7.7	7.3	7.8	6.2
	Primary balance, % of GDP	IMF	1.2	1.0	-3.0	-1.1	-13.4
External Economic	Current-account balance, % of GDP	NBU	-4.9	-2.7	3.4	-1.9	5.0
	Total reserves, months of imports	NBU	3.3	4.8	4.2	4.5	-
	NIIP, % of GDP	NBU	-20.2	-17.9	-14.1	-13.1	-1.8
Financial Stability	NPL ratio, % of total loans	IMF	54.4	50.5	43.5	31.7	-
	Tier 1 ratio, % of risk-weighted assets	IMF	12.0	10.9	13.0	16.2	11.7
	Credit to the private sector, % of GDP	WB	34.5	30.0	28.2	-	-
ESG	CO ₂ per EUR 1,000 of GDP, mtCO ₂ e	EC	407.2	370.9	366.3	346.3	-
	Income share of bottom 50%, %	WID	22.7	22.6	22.6	22.6	-
	Labour-force participation rate, %	WB	66.6	66.6	-	-	-
	Old-age dependency ratio, %	UN	24.3	24.8	25.3	25.9	26.5
	Composite governance indicators*	WB	-0.7	-0.6	-0.5	-0.5	-

* Average of the six World Bank Worldwide Governance Indicators.

Appendix IV. Economic development and default indicators

IMF Development Classification

Emerging market and developing economy

5y USD CDS spread (bps)

n/a



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