

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 to a continued elimination of monetary financing and reinforcing 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 full-scale invasion to preserve foreign-exchange reserves, stem deposit flight, inject liquidity and adopt regulatory forbearance. It has paused rate cuts more recently as inflation has re-risen since May.

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 domestic capital markets and anchors the domestic-debt ratings of the sovereign. It does, however, deepen an existing sovereign-banking nexus.

Rating challenges: i) approval of the second restructuring of the Eurobond debt of recent years, with the Exchange Offer and Consent Solicitation successfully voted through and effective from 30 August; ii) enforcement of a moratorium on select foreign-debt payments from 1 August as external debt restructurings are negotiated and 1 August coupon payment on the February-2026 Eurobond was bypassed; iii) long-run debt-sustainability risk amid a protracted conflict; iv) continued risk to external-sector resilience and elevated dollarisation; and v) vulnerabilities for banking-system stability.

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- | | | 0 | | |
| External economic risk | 10% | b+ | | | 1/3 | | |
| Financial stability risk | 10% | bbb- | | | 2/3 | | |
| ESG risk | Environmental factors | 5% | [+0] | [-3] | - 1/3 | Final rating (local currency) | |
| | Social factors | 7.5% | | | b+ | | - 1/3 |
| | Governance factors | 12.5% | | | ccc | | - 1/3 |
| Sovereign Quantitative Model | ccc | | | 0 | CCC | | |
| Additional considerations (local currency) | | | | | | 0 | |
| Additional considerations (foreign currency)**** | | | | | | -3 | |

*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 reflects the settlement of Eurobond debt restructuring. 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

Lead Analyst

Dennis Shen

+49 30 2218239-48

d.shen@scoperatings.com

Team Leader

Alvise Lennkh-Yunus

+49 69 6677389-85

a.lennkh@scoperatings.com

Credit strengths and challenges

| Credit strengths | Credit challenges |
|--|--|
| <ul style="list-style-type: none"> • Significant international financial support • Adept central-bank response since the crisis • Resilient banking system under the exceptional circumstances • Stronger external sector compared against 2022 crisis peaks | <ul style="list-style-type: none"> • Settlement of Eurobond restructuring on 30 August 2024, and plan of restructuring of further external commercial debt of the borrower (and associated payment moratoria) • Long-run debt sustainability risk amid a protracted war • External-sector risks • Banking-system vulnerabilities |

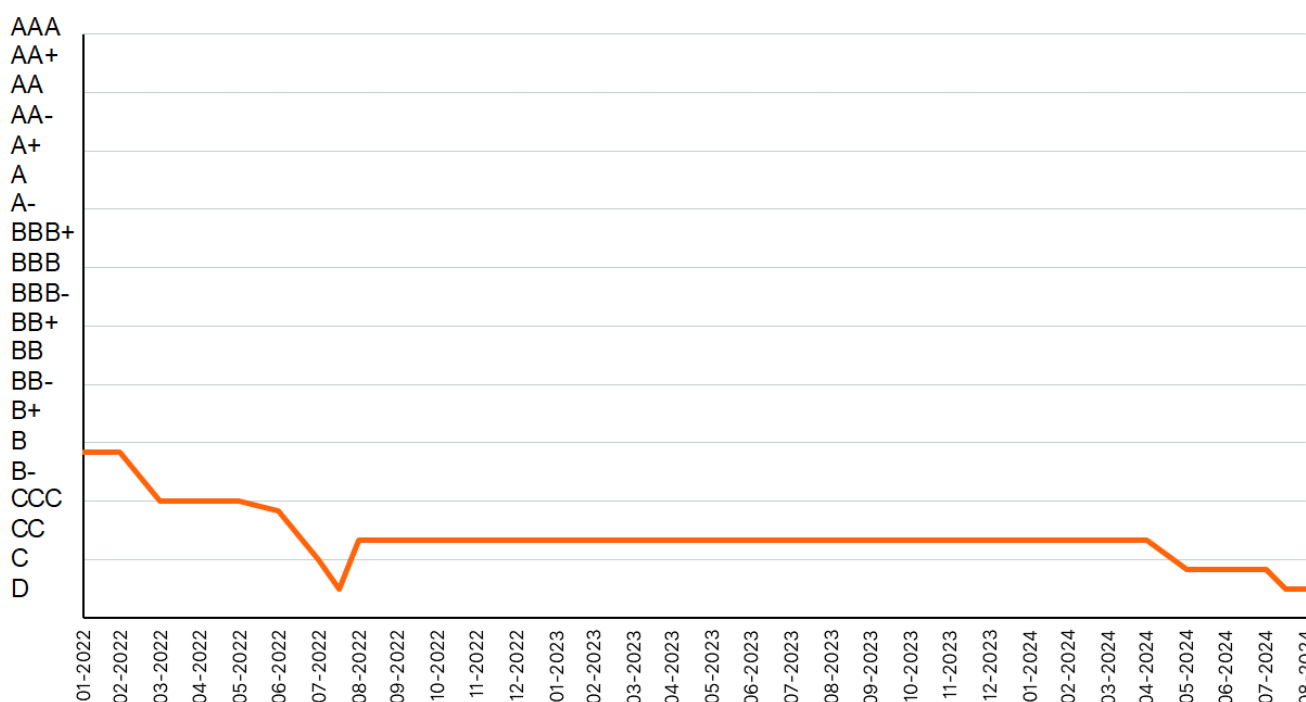
Outlook and rating triggers

No Outlook assigned on long-term issuer rating in foreign currency at a selective-default grade.

The Stable Outlook for the domestic debt ratings reflects a view that risks relevant for the domestic debt remain balanced.

| Positive rating-change drivers | Negative rating-change drivers |
|--|---|
| <p>Foreign-currency long-term issuer rating:</p> <ul style="list-style-type: none"> • External commercial debt restructurings are completed and/or debt-servicing moratoria are lifted on select external commercial claims <p>Domestic-currency long-term issuer rating:</p> <ul style="list-style-type: none"> • Reduction of security risks; significantly-improved long-run debt sustainability; and/or significant easing of banking-system risks | <p>Domestic-currency long-term issuer rating:</p> <ul style="list-style-type: none"> • Likelihood rises of restructuring of Ukrainian domestic debt instruments |

Figure 2: Rating history¹



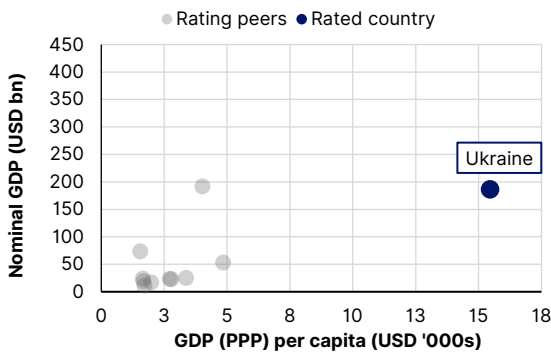
¹Foreign-currency long-term issuer rating. Positive/Negative Outlooks are treated with a +/-0.33-notch adjustment. Credit Watch positive/negative with a +/-0.67-notch adjustment. Source: Scope Ratings.

Domestic economic risk

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

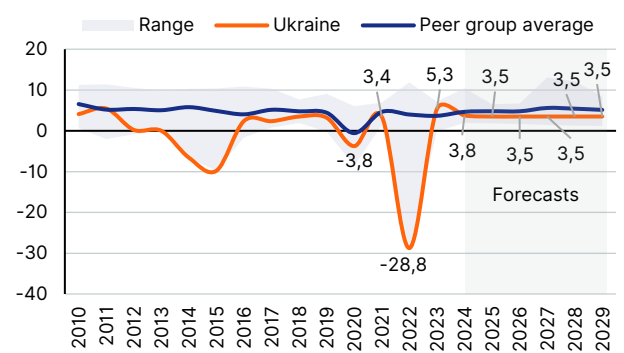
| SQM* indicative rating | Analytical component | Assessment | Notch adjustment | Rationale |
|------------------------|---|------------|------------------|---|
| bb | Growth potential and outlook | Neutral | 0 | Moderate long-run growth potential but significant uncertainty around recovery trajectory given the war; growth has been comparatively strong since 2022 lows |
| | 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-sector stability; elimination of monetary financing |
| | Macro-economic stability and sustainability | Weak | -1/3 | Average economic diversification and labour-market flexibility, protracted conflict with Russia undermines longer-run macroeconomic stability |

Figure 3: Nominal GDP and GDP per capita, 2024



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

Figure 4: Real GDP growth, %



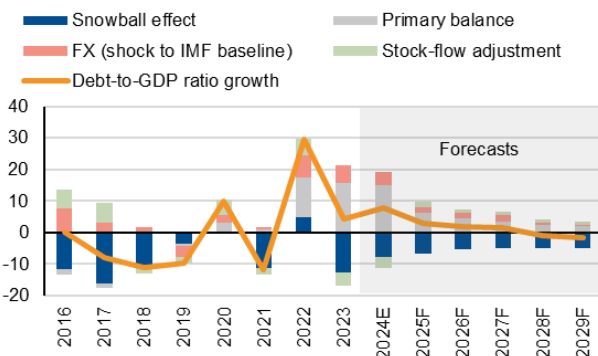
Source: IMF WEO, Scope Ratings forecasts

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 | Neutral | 0 | Record of fiscal discipline with oversight of the IMF and multilateral & bilateral creditors; reduced spending flexibility due to the war |
| | Long-term debt trajectory | Weak | -1/3 | Settlement of Eurobond restructuring; long-run debt sustainability remains challenging even following external commercial debt restructuring |
| | Debt profile and market access | Strong | +1/3 | Restricted international market access, elevated foreign-currency risk in government debt, but domestic market access and extraordinary access to global multilateral and bilateral lenders and donors |

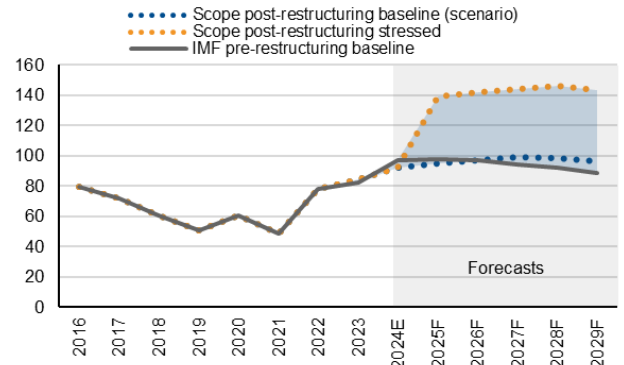
Figure 5: Contributions to change in debt levels, pps of GDP**



Source: IMF, Scope Ratings forecasts

*Sovereign Quantitative Model. **Debt-sustainability projections of Scope Ratings reflect figures post-settlement of the Exchange Offer and Consent Solicitation for Eurobond debt restructuring effective 30 August 2024; IMF forecasts reflect an IMF pre-restructuring baseline scenario as of the fourth review of the Extended Fund Facility.

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



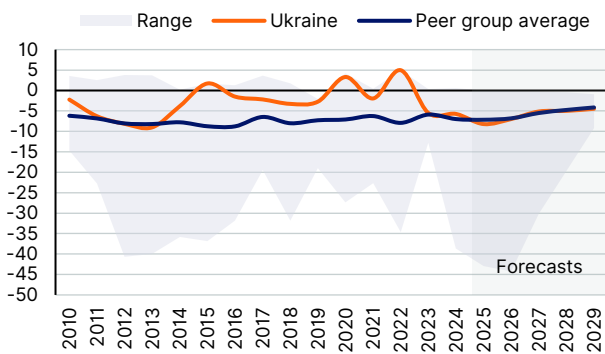
Source: IMF, Scope Ratings forecasts

External economic risk

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

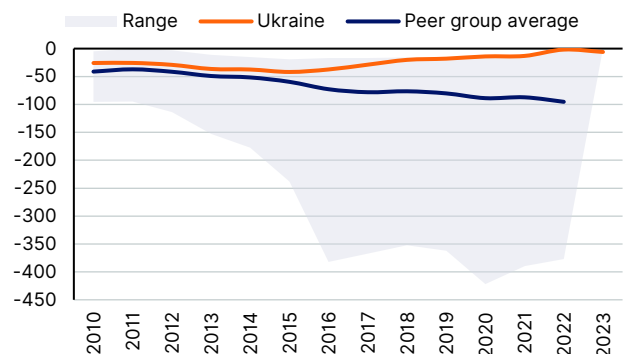
| SQM indicative rating | Analytical component | Assessment | Notch adjustment | Rationale |
|-----------------------|--|------------|------------------|--|
| CCC | Current account resilience | Strong | +1/3 | Current-account deficits largely outweighed by reliable inflows comprising grant and concessional debt funding, alongside sizeable remittances since escalation of the war |
| | External debt structure | Neutral | 0 | Reversal of an earlier declining external-debt trajectory; Eurobond restructuring improves external-debt structure; nevertheless, a high share of external debt that has a short-term maturity |
| | Resilience to short-term external shocks | Neutral | 0 | Levels of reserves have recently declined; nevertheless, improved reserves coverage of the short-term external debt compared against 2022 lows |

Figure 7: Current-account balance, % of GDP



Source: IMF WEO forecasts, Scope Ratings

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



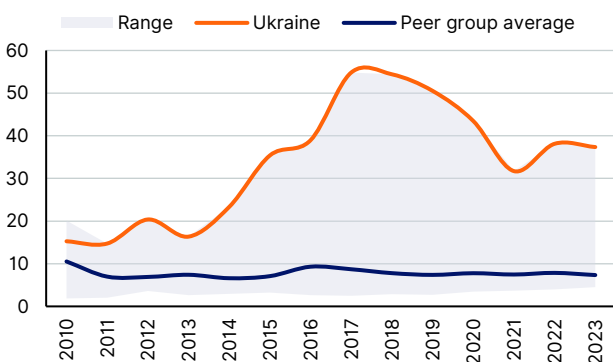
Source: IMF, Scope Ratings

Financial stability risk

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

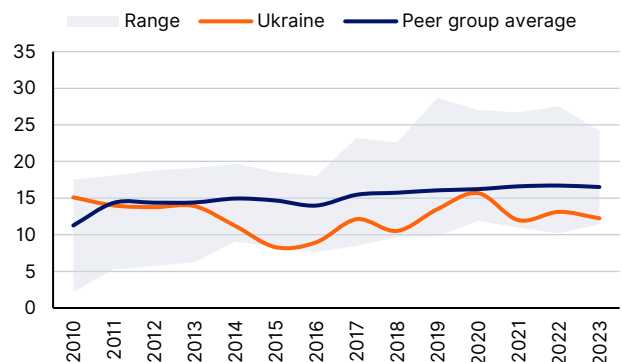
| SQM indicative rating | Analytical component | Assessment | Notch adjustment | Rationale |
|-----------------------|---|------------|------------------|---|
| bbb- | Banking sector performance | Neutral | 0 | Resilience of the banking system, but higher NPLs and declines of capital adequacy. Modest decline of dollarisation. However, especially vulnerabilities at smaller, privately-owned banks. |
| | Financial sector oversight and governance | Strong | +1/3 | History of challenges in financial supervision; however, management of financial stability since the full-scale war has been exceptional |
| | Financial imbalances | Strong | +1/3 | Low levels of private-sector debt and a lack of credit imbalances given a developing domestic capital market; improved credit growth recently |

Figure 9: Non-performing loans, % of total loans



Source: World Bank (WB), Scope Ratings

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



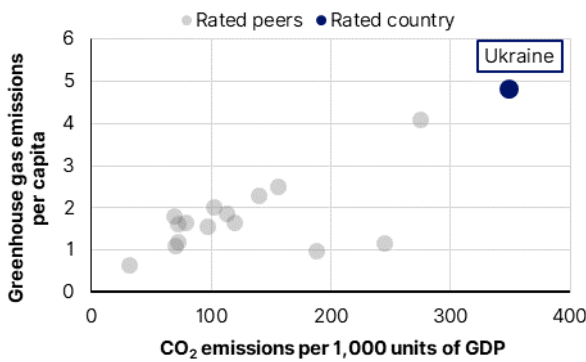
Source: IMF, Scope Ratings

Environmental, Social and Governance (ESG) risk

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

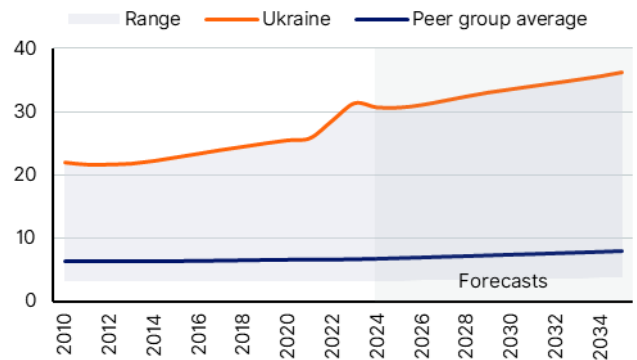
| SQM indicative rating | Analytical component | Assessment | Notch adjustment | Rationale |
|-----------------------|-----------------------|------------|------------------|--|
| b- | Environmental factors | Weak | -1/3 | Elevated transition risk for a higher carbon-intensity developing economy; the war is causing long-lasting environmental damage |
| | Social factors | Weak | -1/3 | Poverty, emigration and 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's territory and associated exceptional adverse credit implications |

Figure 11: CO₂ emissions per GDP, mtCO₂e, 2022



Source: European Commission (EC), Scope Ratings

Figure 12: Old-age dependency ratio, %



Source: United Nations (UN), Scope Ratings

Reserve-currency adjustment

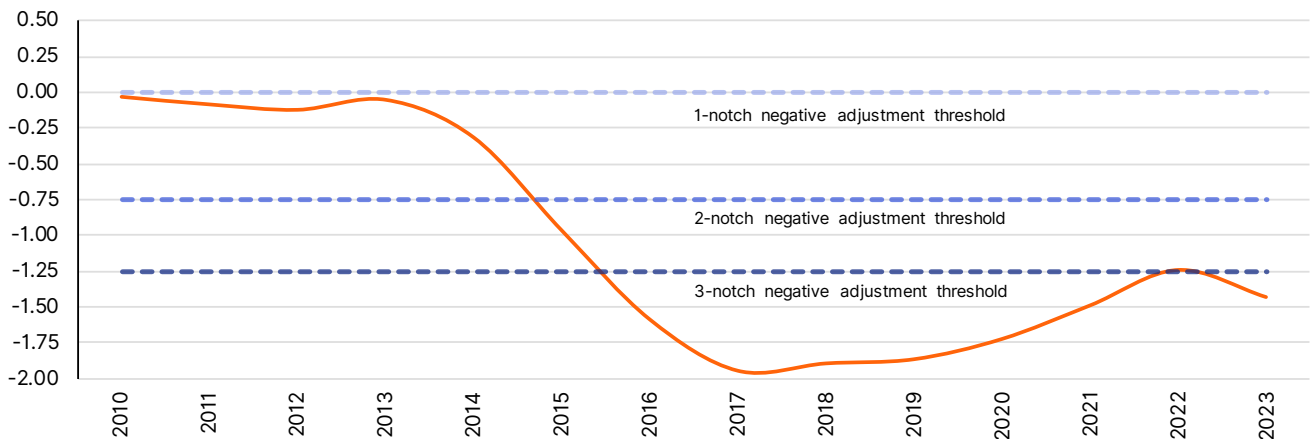
Figure 13: IMF SDR basket and Scope reserve-currency adjustment

| 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 14: WB Political Stability & Absence of Violence/Terrorism index, Ukraine, 3-year moving average



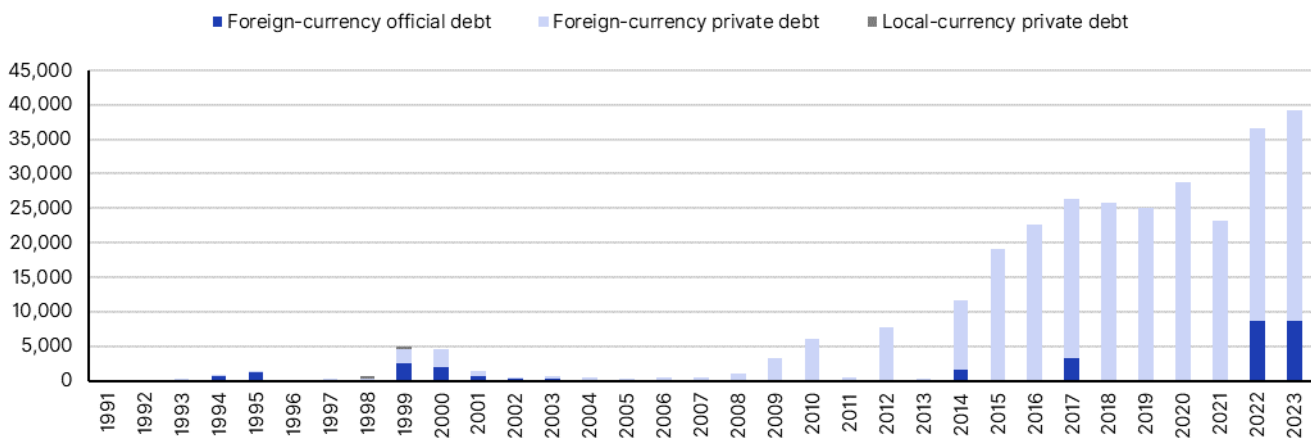
Source: WB, Scope Ratings

Additional considerations

A three-notch extraordinary downside adjustment for the long-term issuer rating in foreign currency reflects the settlement of Eurobond debt restructuring. Agreement was reached in principle on 22 July 2024 with an Ad Hoc Credit Committee representing holders of above 20% of Eurobond principal (and accrued interest) and the Exchange Offer and Consent Solicitation were launched on 9 August 2024, with the success of the restructuring announced on 28 August 2024, settling 30 August. In addition, the adjustment represents selective default on foreign-currency denominated long-term debt following the adoption of a debt moratorium from 1 August 2024 on the servicing of Eurobond debt and associated bypassed payment after 1 August 2024 on a retired February-2026 Eurobond.

Appendix I. Sovereign default history

Figure 15: Sovereign default history, USD m



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 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 sovereign quantitative model after accounting for methodological reserve-currency and political-risk adjustments.

| Peer group* |
|-------------|
| n/a |

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

Appendix III. Economic development and default indicators

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

Appendix IV. 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 |
|---------------------|---|--------|-------|-------|-------|-------|-------|-------|
| Domestic Economic | GDP per capita (PPP), USD '000s | IMF | 12.7 | 13.4 | 13.2 | 14.4 | 12.8 | 14.7 |
| | Nominal GDP, USD bn | IMF | 131 | 154 | 157 | 200 | 161 | 173 |
| | Real growth, % | IMF | 3.5 | 3.2 | -3.8 | 3.4 | -29.1 | 5.0 |
| | CPI inflation, % | IMF | 10.9 | 7.9 | 2.7 | 9.4 | 20.2 | 12.9 |
| | Unemployment rate, % | WB | 8.8 | 8.2 | 9.5 | 9.8 | - | - |
| Public Finance | Public debt, % of GDP | IMF | 60.4 | 50.6 | 60.5 | 48.9 | 78.4 | 82.9 |
| | Net interest payment, % of government revenue | IMF | 8.3 | 7.7 | 7.3 | 7.8 | 6.2 | 7.1 |
| | Primary balance, % of GDP | IMF | 1.2 | 1.0 | -3.0 | -1.1 | -12.6 | -15.8 |
| External Economic | Current-account balance, % of GDP | IMF | -3.3 | -2.7 | 3.3 | -1.9 | 5.0 | -5.5 |
| | Total reserves, months of imports | IMF | 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 | - |
| | Tier 1 ratio, % of risk-weighted assets | IMF | 12.0 | 10.9 | 13.0 | 16.2 | 11.7 | 13.4 |
| | Credit to the private sector, % of GDP | WB | 34.5 | 30.0 | 28.2 | 23.6 | 23.5 | -8.7 |
| ESG | CO ₂ per EUR 1,000 of GDP, mtCO ₂ e | EC | 409.8 | 374.5 | 370.7 | 336.9 | 348.9 | - |
| | 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 |
| | Composite governance indicators* | WB | -0.5 | -0.4 | -0.4 | -0.4 | -0.5 | - |
| | Political stability, index | WB | -1.9 | -1.4 | -1.2 | -1.1 | -2.0 | - |

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

Scope Ratings GmbH

Lennéstraße 5
D-10785 Berlin
[scoperatings.com](https://www.scoperatings.com)

Phone: +49 30 27891-0
Fax: +49 30 27891-100
info@scoperatings.com

in
Bloomberg: RESP SCOP
[Scope contacts](#)

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