

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) enforcement of a moratorium on foreign debt servicing from 1 August until as late as 1 October 2024 as the debt-restructuring deal awaits finalisation and 1 August coupon payment on the February-2026 Eurobond was skipped; ii) agreement in principle with an Ad Hoc Creditor Committee concerning the second restructuring of the Eurobond debt since 2022, with the Exchange Offer and Consent Solicitation launched and restructuring to be effective as soon as 30 August; 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 to foreign-currency long-term issuer ratings reflects: i) an agreement in principle around Eurobond restructuring; and ii) selective default on foreign-currency denominated long-term debt. 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"> • Significant international financial support • Adept central-bank response since the crisis • Resilient banking system under the exceptional circumstances • Improvements to external-sector stability 	<ul style="list-style-type: none"> • Suspension of foreign debt servicing from 1 August and non-payment on 1 August of February-2026 Eurobond coupon • Expectation of finalisation of Eurobond restructuring • Long-run debt sustainability risk amid a protracted war • External-sector risks • Banking-system vulnerabilities

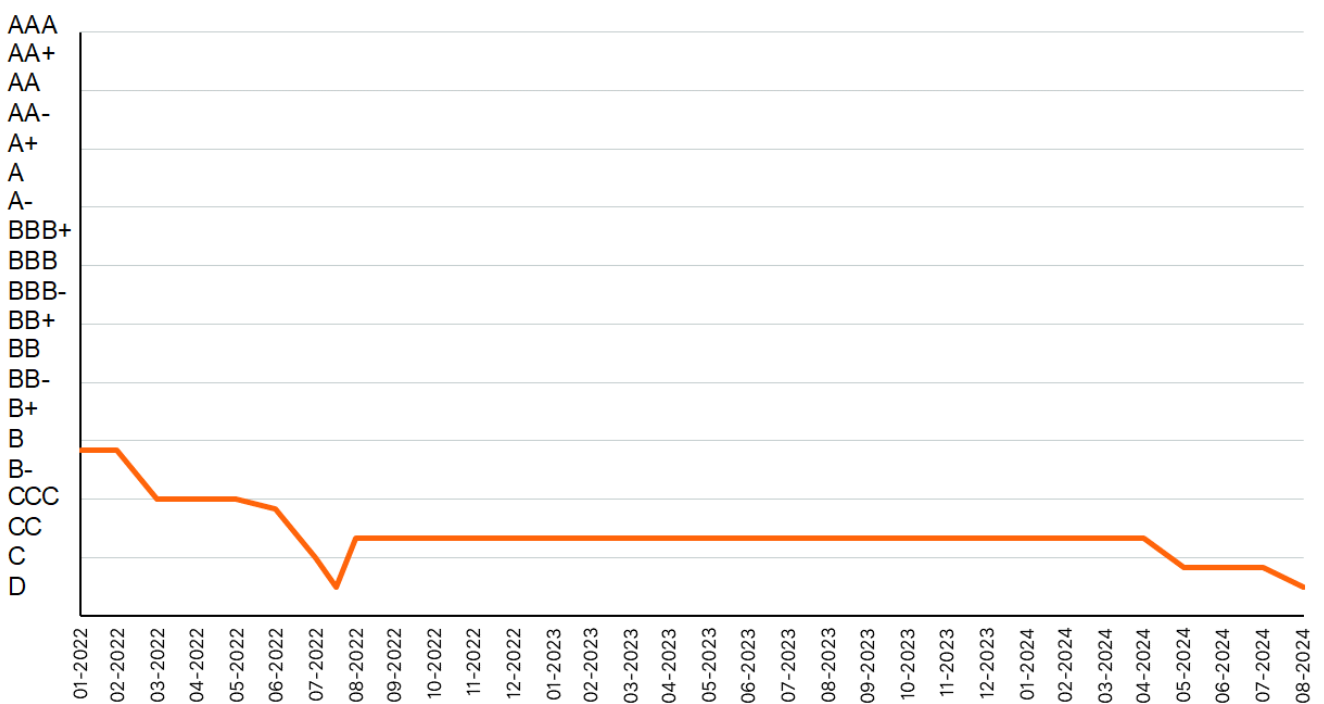
Outlook and rating triggers

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"> • Eurobond restructuring is successfully concluded and voted into force and the Eurobond-payment moratorium is lifted <p>Domestic-currency long-term issuer rating:</p> <ul style="list-style-type: none"> • Reduction in security risks; significantly-improved long-run debt sustainability; and/or significant easing of banking-system risks 	<p>Rated Eurobond securities:</p> <p>Expected to enter a rating in default near term</p> <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 history^{1,2}



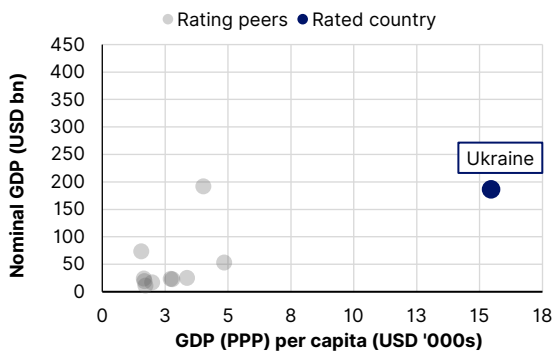
¹Foreign-currency long-term issuer rating. ²This rating graphic was amended on 29 August 2024; the copy on publication did not display the downgrade to selective default occurring in 08-2024. Positive/Negative Outlooks are treated with a +/-0.33-notch adjustment. Credit Watch positive/negative with a +/-0.67-notch adjustment. Source: Scope Ratings.

Domestic economic risk

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

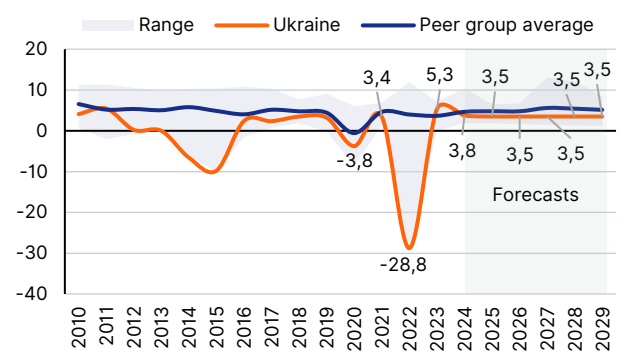
SQM* indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
bb	Growth potential and outlook	Neutral	0	Moderate long-run growth potential but significant uncertainty around recovery trajectory given the war; growth has been comparatively strong since 2022 lows
	Monetary policy framework	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, %



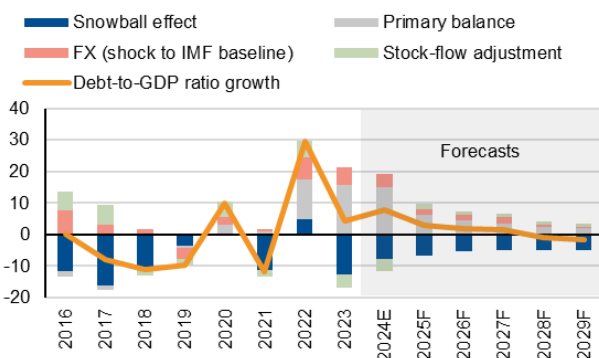
Source: IMF WEO, Scope Ratings forecasts

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	Near-term finalisation of Eurobond restructuring; long-run debt sustainability remains challenging even following external commercial 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

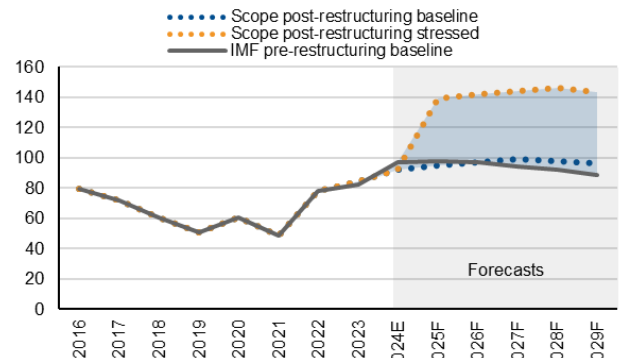
Figure 5: Contributions to change in debt levels, pps of GDP**



Source: IMF, Scope Ratings forecasts

*Sovereign Quantitative Model. **Debt-sustainability projections of Scope Ratings reflect figures if the Exchange Offer and Consent Solicitation for Eurobond debt restructuring are approved and executed; 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**



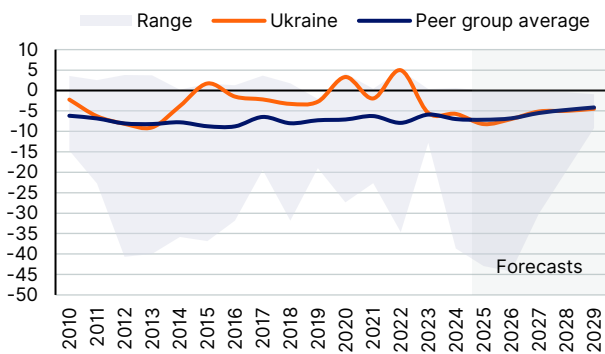
Source: IMF, Scope Ratings forecasts

External economic risk

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

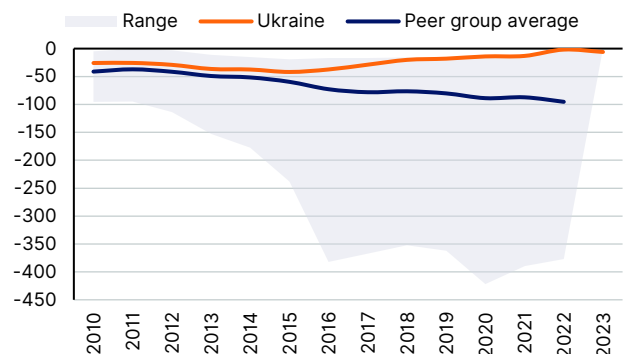
SQM indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
CCC	Current account resilience	Strong	+1/3	Current-account deficits largely outweighed by reliable inflows comprising grant and concessional debt funding, alongside sizeable remittances since escalation of the war
	External 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



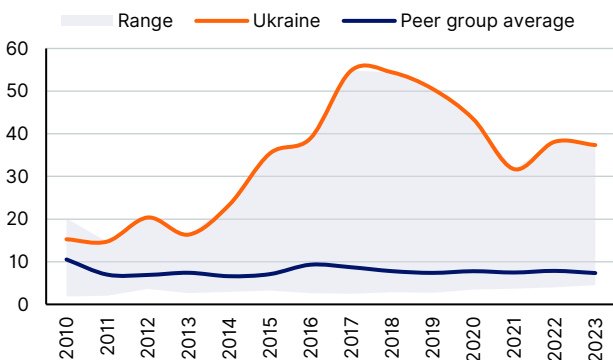
Source: IMF, Scope Ratings

Financial stability risk

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

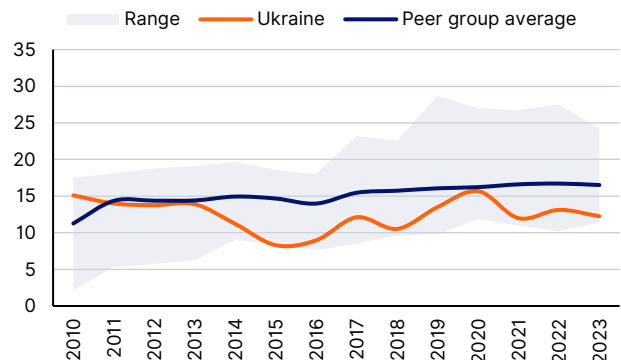
SQM indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
bbb-	Banking sector performance	Neutral	0	Resilience of the banking system, but higher NPLs and declines of capital adequacy. Modest decline of dollarisation. However, especially vulnerabilities at smaller, privately-owned 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



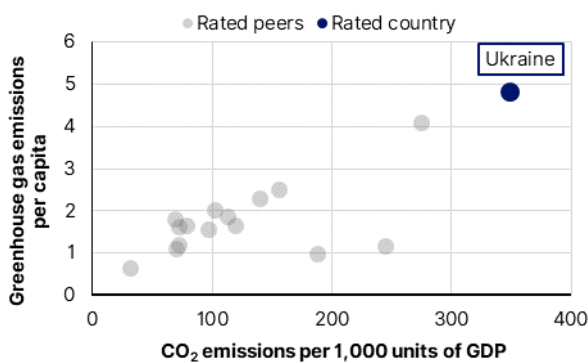
Source: IMF, Scope Ratings

Environmental, Social and Governance (ESG) risk

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

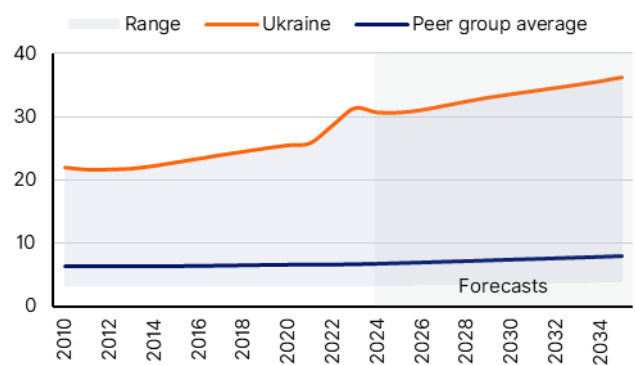
SQM indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
b-	Environmental factors	Weak	-1/3	Elevated transition risk for a higher carbon-intensity developing economy; the war is causing long-lasting environmental damage
	Social factors	Weak	-1/3	Poverty, emigration and internal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

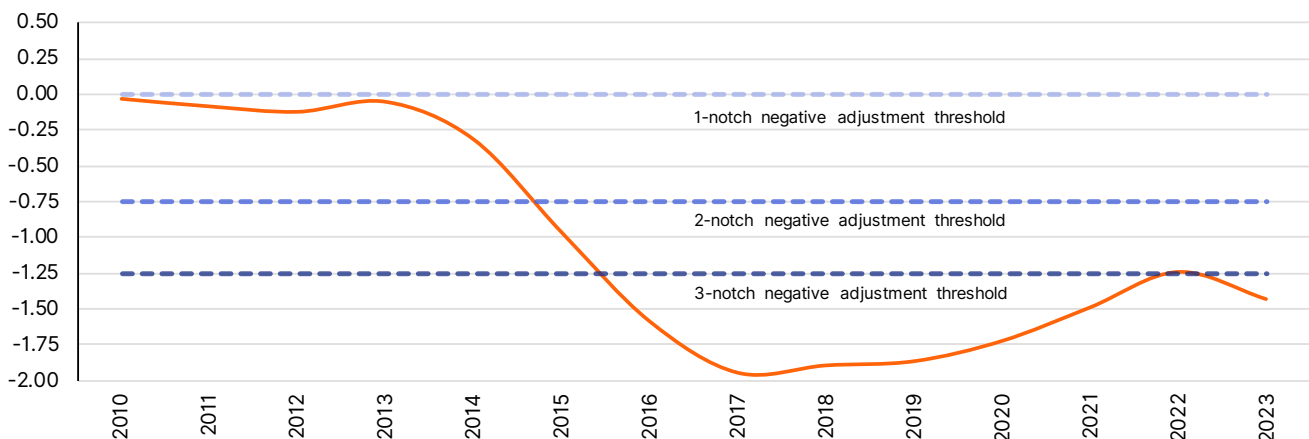
Figure 13: IMF SDR basket and Scope reserve-currency adjustment

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



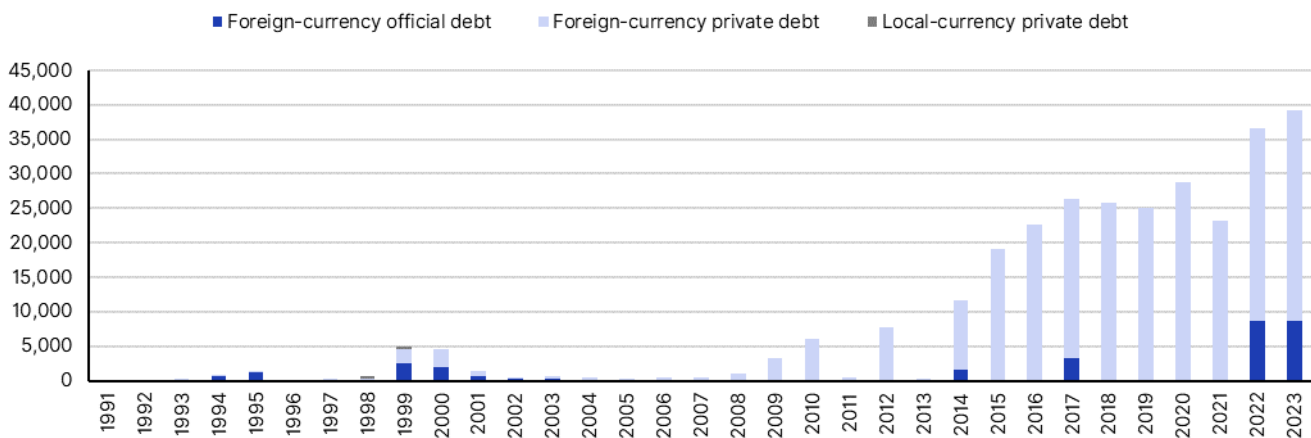
Source: WB, Scope Ratings

Additional considerations

A three-notch extraordinary downside adjustment for the long-term issuer rating in foreign currency reflects: i) two notches for expectation of finalisation of Eurobond debt restructuring over the forthcoming weeks. Agreement was reached in principle on 22 July 2024 with an Ad Hoc Credit Committee representing holders of above 20% of Eurobond principal and the Exchange Offer and Consent Solicitation were launched on 9 August 2024, with voting concluding on 27 August 2024. And ii) one rating notch for selective default on foreign-currency denominated long-term debt – specifically the adoption of a debt moratorium from 1 August 2024 on the servicing of Eurobond debt and associated missed payment since 1 August 2024 on a 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*.

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