Jan 23, 2024

Rating and Investment Information, Inc. (R&I) has announced the following:

Ukraine (Sec. Code: -)

[Retained on the Rating Monitor]

Foreign Currency Issuer Rating: (CCC) With View to Downgrading

RATIONALE:

Amid the ongoing military invasion by Russia, the economy of Ukraine is showing strong resilience. Prices and foreign exchange rates are relatively stable, and the stability of financial system has also been maintained. Meanwhile, the budget balance continues to show a large deficit resulting from the expenditures related to defense and national securities. The country's financing needs are mostly covered by assistance from foreign governments and international organizations, and R&I basically believes that the international community will continue to provide supports to Ukraine. However, the implementation of such assistance may be delayed due to the political issues within the supporting countries. In addition, the debt repayment suspension agreed with private creditors is expiring, and the government of Ukraine needs to take another debt operations for external debts in order to secure fiscal sustainability. Based on the recognition of said circumstances, R&I has retained it on the Rating Monitor with a view to downgrading. R&I keeps a close eye on the state of affairs such as the availability of funding sources including debt restructuring as well as the situation of Russia's military invasion to reflect them to the rating accordingly.

Following the sharp contraction recorded in 2022, the real gross domestic product (GDP) has been growing since the beginning of 2023. The recovery is attributable to fiscal stimulus, stabilized financial environment and alternative export routes the country has secured. The International Monetary Fund (IMF) projects the growth rate for 2023 at 4.5%. As for 2024, the economic recovery is expected to continue with the growth rate of 3 to 4%. That said, the country's economy is highly unpredictable due to the extremely high level of uncertainties caused by Russia's invasion.

The widening trade deficit will likely push up the country's current account deficit to nearly 5% to GDP in 2023. While the deficit will likely increase again in 2024, the country has secured a certain level of foreign exchange reserves to cover its imports thanks partly to the inflow of international assistance. The National Bank of Ukraine (central bank) relaxed the fixed-rate exchange system for Hryvnia, the national currency of Ukraine, against the U.S. dollar in October 2023, for the first time since its introduction at the start of Russia's invasion and shifted to a more flexible system of managed floating exchange rate. The central bank is striving to normalize its monetary and foreign exchange policies, as seen in the moves to lower its policy rate in a staged manner in response to the decelerating inflation, along with other measures.

The government has run a massive fiscal deficit since 2022, due to the increased expenditure related to defense and national security in response to the military invasion by Russia. The fiscal deficit is expected to reach 27% of GDP in 2023. As for 2024, the government plans to prioritize the allocation of the budget to defense and national security, assuming that Russia's war against Ukraine will continue for another year, while constraining the fiscal spending for other items. It is striving to secure sources of revenue by introducing a windfall tax on banks because of their strong business performance among other measures. The 2024 budget projects a fiscal deficit of 20.6% to GDP.

IMF estimates that the ratio of public and publicly-guaranteed debt will rise to 96.7% of GDP by the end of 2024. As the military invasion continues to cause significant budget deficits, a reduction in the debt repayment burden is necessary to meet the financing needs. The group of creditors of Ukraine from G7 countries and the members of Paris club, an informal group of creditor governments, had agreed to extend the debt payment suspension until 2027 at the longest. Meanwhile, as the private sector creditors had agreed to the 2-year suspension of debt payment in August 2022, the government is willing to proceed with discussions with them on how to handle the debts.

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NEWS RELEASE

R&I RATINGS:
ISSUER: Ukraine

[Retained on the Rating Monitor]

	Rating
Foreign Currency Issuer Rating	(CCC) With View to Downgrading

Primary rating methodologies applied:
R&I's Analytical Approach to Sovereigns [May 21, 2021]

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