R&I

NEWS RELEASE

Sep 03, 2020

R&I Upgrades to B+, Stable: Ukraine

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

ISSUER: **Ukraine**

Foreign Currency Issuer Rating: B+, Previously B
Rating Outlook: Stable

RATIONALE:

In June 2020, the International Monetary Fund (IMF) approved financial support for Ukraine. This, together with loans from the World Bank and the European Union (EU), will help stabilize the government's funding, which R&I views favorably. R&I believes that the improved political and social stability under the leadership of President Volodymyr Zelensky will allow the government to focus on rebuilding the economy. When fiscal consolidation efforts to date and enhanced resilience to external shocks are also taken into account, economic and fiscal conditions are expected to recover in 2021 and beyond. Based on these considerations, R&I has upgraded the Foreign Currency Issuer Rating to B+.

Real gross domestic product (GDP) showed a double-digit contraction in the April to June 2020 period. The central bank forecasts a negative growth rate of 6.0% for 2020. This is mainly attributable to the novel coronavirus outbreak, stay-at-home orders, and the economic slump in Europe, the main export destination for Ukraine. The Ukrainian economy's growth potential remains intact. R&I believes that the president, with the majority of seats in the parliament, will be able to press ahead with rebuilding of the economy, as well as structural reforms, a conditionality of the IMF's support. After overcoming the coronavirus pandemic, the economy will likely return to stable growth, and the central bank projects a 4.0% real GDP growth for 2021.

The current account deficit for 2019 was 2.7% of GDP. In 2020, the goods and services balance has been in surplus, as imports dropped more than exports due mainly to weaker domestic demand and lower energy prices. The current account balance will most likely turn positive in the full year, and is expected to return to deficit from 2021 onwards. Foreign reserves are on the rise, standing at US$28.8 billion as of end-July 2020, which covers 4.9 months of imports. Gross external debt is declining as a percentage of GDP. As of end-March 2020, the ratio was 75.8%. With external debt maturing within one year falling to 29.3% of GDP, the short-term external debt to foreign reserves ratio declined to around 1.6x from more than 2x seen until the previous year.

The banking sector has improved profitability. Supported by growth in deposits, the sector also maintains stability on the liquidity front. The non-performing loan (NPL) ratio is high, amounting to 48.9% as of end-March 2020. Such loans are concentrated in some banks including state-owned banks, and the government and the central bank are working to reduce NPLs in the sector. R&I will follow their efforts to ensure financial stability, as the impact of the coronavirus is anticipated to emerge going forward.

With fiscal consolidation well underway, central government fiscal deficits have been hovering around 2% of GDP. For 2020, a supplementary budget was formulated in April in response to the coronavirus pandemic. A revenue decrease stemming from the economic downturn and a tax cut drive and a surge in health and social protection expenditure are likely to widen the deficit to 7.5% of GDP. In R&I's view, containing infections, reinforcing the healthcare system and rebuilding the economy are top priorities for the government's fiscal policy. Given the government's fiscal policy in recent years, budget deficits are expected to narrow from 2021 onwards in tandem with economic recovery.

The ratio of government debt to GDP is on a downward trend and stood at 44.3% as of end-2019. The ratio including government-guaranteed debt was only 50.3%. In 2020, the government debt ratio including government-guaranteed debt is projected to rise to around 65%. The IMF's financial support is provided in the form of an 18-month Stand-by Arrangement with total access of about US$5 billion, and approximately US$2.1 billion was already disbursed. In light of this, along with loans from the World Bank and the EU,

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there is little concern over the government's foreign currency liquidity.

The primary rating methodology applied to this rating is provided at "R&I's Analytical Approach to Sovereigns". The methodology is available at the web site listed below, together with other rating methodologies that are taken into consideration when assigning the rating.
https://www.r-i.co.jp/en/rating/about/rating_method.html

R&I RATINGS:

ISSUER:	**Ukraine**
	Foreign Currency Issuer Rating
RATING:	**B+, Previously B**
RATING OUTLOOK:	**Stable**

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