



NEWS RELEASE

Sep 27, 2021

R&I Affirms B+, Stable: Ukraine

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

ISSUER: Ukraine
Foreign Currency Issuer Rating: B+, Affirmed
Rating Outlook: Stable

RATIONALE:

Ukraine's economy is heading for recovery after the coronavirus-induced contraction. The fiscal deficit has widened due mainly to economic measures, but is expected to narrow in 2021 from a year earlier. Furthermore, a rise in the government debt ratio will most likely be modest. Since the government plans to move ahead with fiscal consolidation from 2022 onward, its fiscal position would basically improve, in R&I's view. Despite a delay in disbursements under the financial support program of the International Monetary Fund (IMF), the government has ensured stable funding. As the government commits to continue a talk with the IMF, progress in structural reforms and loan disbursements can be envisaged to a certain extent. Based on these considerations, R&I has affirmed the Foreign Currency Issuer Rating at B+.

Hit by the coronavirus pandemic, real gross domestic product (GDP) contracted 4% in 2020. The economy will likely start to recover in the second half of 2021 on the back of accelerating public investments and other factors. The government and the central bank project real GDP to grow 4.1% and 3.8%, respectively, in 2021. Given slow progress in vaccination compared to other European countries, a resurgence of the coronavirus may hinder an economic recovery, which warrants attention. In the medium to long term, the key to stable, high growth lies in the reinforcement of institutional frameworks for reducing corruption and ensuring compliance, for instance.

The current account balance, which had been in deficit, moved into surplus in 2020, reflecting a drop in imports. The balance is expected to return to a small deficit due partly to a rebound in domestic demand. In August 2021, the IMF allocated Special Drawing Rights (SDRs) to its member countries, and Ukraine received SDRs equivalent to slightly more than US\$2.7 billion. This boosted the country's foreign reserves to approximately US\$31.6 billion at end-August, the largest in the past nine years. The foreign reserves cover 4.4 months of imports.

The fiscal deficit for 2020 widened to 5.2% of GDP owing to the economic downturn and the measures to tackle it. In its 2021 budget, the government allocated more funds to social and healthcare areas, as it did in the previous year. While revenue is exceeding its budget expectation, expenditure is below the budget level. The government plans to accelerate public investments and other spending, but the fiscal deficit will highly likely be narrower than the government's projection of 5.5% of GDP. A three-year fiscal outlook the government started to announce as its medium-term fiscal plan, the Budget Declaration, helps increase the transparency of fiscal management, which is a positive factor. The plan aims to reduce the fiscal deficit to 2.7% of GDP in 2024. R&I will keep an eye on whether the government is able to ensure fiscal policy that is in line with the medium-term plan.

Outstanding government debt rose to 53.9% of GDP in 2020. The ratio including government-guaranteed debt was 60.8%. This is an increase of about 10 percentage points of GDP from a year earlier, but still lower than the peak recorded in 2016. R&I expects the ratio to rise only slightly in 2021 year on year. Under the Stand-by Arrangement agreed with the IMF, loans have not been disbursed since the US\$2.1 billion payment in the first tranche. Thanks in part to the SDR allocation, there is less concern about the government's foreign currency liquidity. For creditworthiness evaluation, however, it is important that the financial support conditional on advancement of structural reforms should be implemented. R&I will closely follow the government's reform efforts and developments in the negotiations with the IMF.

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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

RATING:

Foreign Currency Issuer Rating

B+, Affirmed

RATING OUTLOOK:

Stable

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