

The country risk classifications are on a scale of 0 to 7. The lower the number, the better the credit rating.



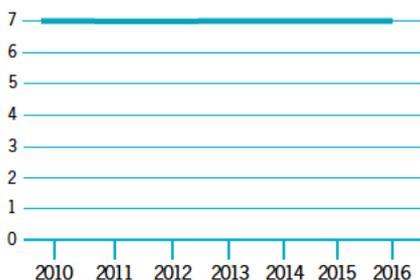
CONTACT

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BASIC FACTS

Population	42 million
Nominal GDP	USD 93 billion
GDP/capita	USD 2,200

COUNTRY CLASSIFICATION HISTORY



Source: EKN

Growth in a hard hit economy

During the last decade, Ukraine has been wrestling with domestic political turbulence, conflict with Russia, an economic recession, a falling currency, very weak government finances and the constant risk of a balance of payments crisis.

Ukraine is now recovering from the economic crisis that broke out in 2014. After a number of difficult years, the economy is once again growing, but is still sensitive to disturbances. In the longer term, the country faces some very great challenges, mainly relating to the need for structural reforms, extensive corruption, political instability, the situation in Crimea and the war in eastern Ukraine. Ukraine has great potential for growth, but it remains to be seen whether this can be realised in the near future.

EKN places Ukraine in country risk classification 7 of 7. Normal risk assessment applies with the exception of sovereign risks. With the exception of a small number of guarantees, EKN's payment experience is good.

THE COUNTRY'S STRENGTHS AND WEAKNESSES

STRENGTHS

- + Strong international economic and political support
- + Extensive natural assets and strategic geographical position
- + Diversified economy and developed industrial sector

WEAKNESSES

- War in Donetsk and Luhansk (eastern Ukraine)
- Political turbulence and difficulty in pushing reforms through
- Very high levels of debt and relatively small international reserves

SWEDISH EXPORTS TO UKRAINE, MSEK

Ukraine	MSEK
2016	3,458
2015	2,161
2014	1,802
2013	2,228
2012	2,905

Source: Statistics Sweden

EKN'S EXPOSURE

	MSEK
Guarantees	271
Offers	125

EKN'S POLICY

Ukraine has been placed in country risk category 7 of 7 since 2009. The classification is done in collaboration with other OECD countries. EKN applies raised premiums for sovereign risks, while for other public purchasers, a letter of credit or bank or sovereign guarantee is required. Normal risk assessment is applied for bank and corporate risks. There are sanctions in place against the country and sanction assessment is performed in all transactions. EKN does not issue guarantees for transactions relating to Crimea and the conflict area in eastern Ukraine.

EKN'S COMMITMENT AND EXPERIENCE

On average EKN is involved in approximately 16 transactions per year in Ukraine, mainly with large companies in mechanical industry. During the first half of 2017, 13 transactions have been guaranteed to a combined value of SEK 210 million. In spite of the recurring economic crises of the last ten years, EKN's payment experience has been relatively good. Outstanding claims amount to SEK 135 million and are attributable to indemnifications in eight transactions between 2008 and 2016. There is a notified delay of approximately SEK 2 million for one transaction. However the weak legal system, bureaucracy and corruption make the recovery process more difficult in the event of a claim. Legal proceedings are non-transparent and generally very slow.

WHAT MIGHT CAUSE A CHANGE IN THE COUNTRY POLICY

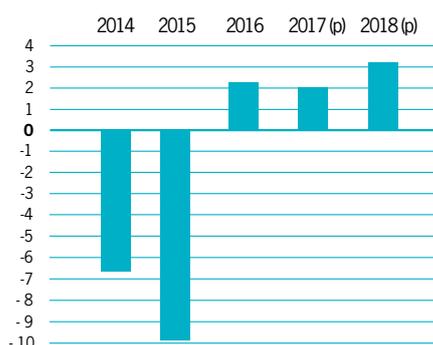
EASING

- Comprehensive reforms that lead to economic growth
- Reduced debt
- Solution of the conflict in the eastern part of the country.

TIGHTENING

- Failed IMF programme and reduced international support
- Escalating conflict with Russia

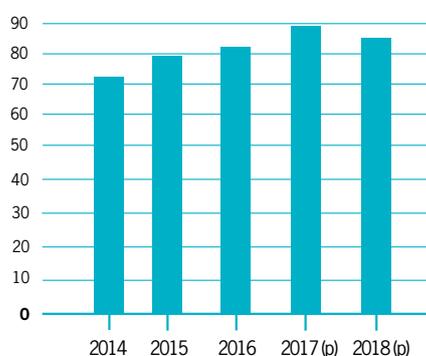
GDP-GROWTH (% PER ANNUM)



The economy is growing again - albeit slowly.

Source: IMF WEO 2017

PUBLIC DEBT (% OF GDP)



The public debt is high in relation to GDP.

Source: IMF WEO 2017

COUNTRY ANALYSIS

BACKGROUND

The global financial crisis of 2008 hit Ukraine hard and the country's economy has seen negative GDP growth in most of the years since. In 2014 Ukraine once again suffered a major recession when GDP fell by 6.6 per cent. The country's currency, the Hryvnia, lost half its value when a floating exchange rate was introduced. The heavily indebted Ukrainian government was thus forced to seek support from the IMF. Since 2014 the Crimean Peninsula has been annexed by Russia and a war has been in progress against pro-Russian rebels in eastern Ukraine. In the same year, the EU-friendly Petro Poroshenko took over as president and began to steer the country towards the west. The next presidential and parliamentary elections will probably be held in the first half of 2019.

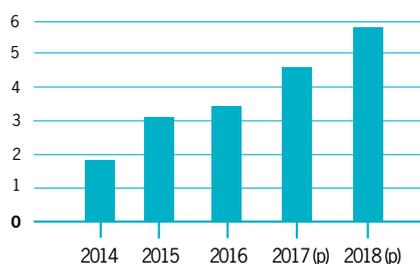
RECENT DEVELOPMENTS

After a number of difficult years the economic crisis appears to be at least temporarily over. The World Bank is predicting GDP growth of two per cent in 2017 and approximately three per cent in 2018. Over the last year the hryvnia has stabilised against the US dollar and international reserves are once again at an acceptable level. At present these correspond to 3.4 months import cover and are rising slowly. The current account shows a deficit of approximately 3.5 per cent of GDP, but this deficit is expected to reduce between now and 2021. Foreign direct investment, primarily from Russia, is essential to cover the deficit.

The banking sector has stabilised somewhat since a banking crisis broke out in autumn 2016. At the time of the crisis the country's largest bank, Privatbank, was nationalised. This largely gave loans to closely related companies and attracted distressed loans. This means that the banking sector is dominated by the government, which owns more than 50 per cent of the banks' assets. During her mandate period, the head of the central bank, Gontaryeva, strengthened the central bank's management and implemented a necessary reform of the banking sector in which 88 of the country's approximately 200 banks were closed. Gontaryeva's important reforms were very unpopular in certain circles and in May 2017 she resigned. Her successor has not yet been appointed. The percentage of distressed loans in the Ukrainian banking sector is still very high, about 25 to 30 per cent on average. In the nationalised Ukrainian banks and the Russian banks that operate in the country the percentage is even higher, about 40 to 50 per cent on average. This is not a threat to the stability of the banking sector at present, however. Capital adequacy is about 10 per cent on average, which is acceptable but hardly high, given the high proportion of distressed loans in the banks.

The domestic political situation is still challenging. A hard pressed coalition government is being challenged partly by pro-Russian forces and partly by forces that wish to move the country closer to the EU, but so far it has been possible to avoid a government crisis. There has long been opposition between the Ukrainian speaking and Russian speaking parts of the population.

INTERNATIONAL RESERVES (MONTHS OF IMPORT)



International reserves have recovered.

Source: IMF WEO 2017

The war in eastern Ukraine is extremely active. This region has vital industries, which means lost production and sales. The war also puts the Ukrainian national budget under pressure, reduces foreign direct investment and has a weakening effect on the hryvnia. In 2014, the EU and the USA introduced sanctions against Russia, due to the annexation of Crimea and the conflict in eastern Ukraine. At present the EU sanctions apply until January 2018. Ukraine and Russia have signed a peace agreement, Minsk 2.0, which was intended to give Donetsk and Luhansk special status within Ukraine. However neither party has as yet fulfilled its undertakings. Since 2014 there have also been sanctions against persons who were held to be responsible for misappropriation of Ukrainian government funds during the regime of overthrown president Viktor Yanukovich.

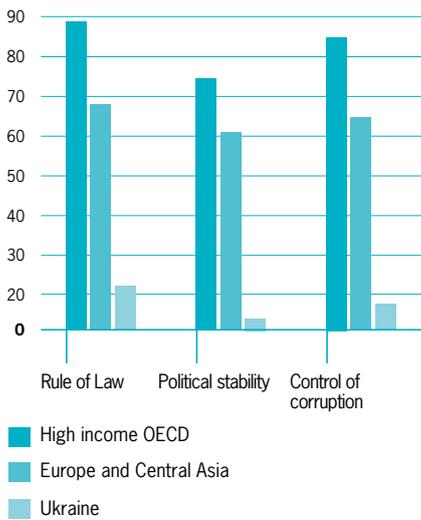
LONG-TERM DEVELOPMENT

Ukraine has extensive natural assets (coal, iron ore and gas), a well educated population, a favourable climate, fertile land, a strategic position between several significant markets and a potentially large domestic market. The Ukrainian economy - which is dominated by heavy industry, agriculture and mining natural resources - is diversified. The country has an advanced vehicle and aircraft industry. Exports are dominated by iron and steel products, iron ore, maize, wheat and vegetable oils. The largest import product is Russian natural gas, which is essential for supplying the energy-intensive heavy industries.

However extensive structural reforms of the legal system and land rights, for example, will be necessary in order to realise the growth potential that these assets represent. However implementing such reforms challenges some powerful interests, with the risk that they will be delayed, diluted or stalled. Opportunities for substantial reforms are also limited by weak, top controlled ministries with very low competence at administrative level. There is also a constant risk of social unrest in connection with reforms. In the short term, long drawn out reforms risk delaying loan payments from the IMF, which could threaten macro-economic stability. In the long term, they represent a threat to the growth that the country's economy needs. Calculated in fixed prices, GDP is almost 30 per cent lower today than it was at the time of the dissolution of the Soviet Union in 1992. This may be compared with Poland, whose GDP has more than doubled over the same period.

Overall, the economy is still very vulnerable. In line with economic growth, inflation has also begun to rise and once again exceeds 15 per cent. In terms of government finances, Ukraine has an external financing requirement of approximately three per cent of GDP and has long been dependent on loans from the IMF. The fourth review of the latest IMF programme has just been concluded. Previous aid packages, in 2008 and 2010, were unsuccessful however and there is still a high risk of deferred or adjusted loan payments. Government debt of 81 per cent of GDP and external debt of 124 per cent of GDP are very high, but are expected to be reduced between now and 2021.

BUSINESS ENVIRONMENT



Ranking from 0 (worst) to 100 (best)
Source: World Bank

After restructuring, public debt mainly consists of funds for long term loans. Interest expenses, which represent about ten per cent of government revenues, are kept low thanks to the large proportion of subsidised loans. Two thirds of government debt is in foreign currency, which is a source of vulnerability. EKN currently accepts sovereign rating in Ukraine, but requires a higher premium than normal.

In addition to the lack of reforms, development in eastern Ukraine is uncertain. At present it appears that the war and sanction situation will remain unchanged. One possible scenario is the cementing of the present situation in which Luhansk and Donetsk neither return to Ukraine nor are annexed by Russia but are instead developed into semi-autonomous regions supported by Russia. In terms of foreign policy, relations with Russia are very tense and since 2014 Ukraine has done all it can to reduce its trading dependency on its eastern neighbour. At present the country does not buy gas directly from Russia but via Slovakia. Foreign policy is moving rapidly towards the west. In May 2017, Ukrainian citizens were given the right to enter the EU without a visa. This decision, which was made by the European Council, has a symbolic value and president Poroshenko has described it as Ukraine's final divorce from the Russian empire. Whether the divorce will go through is uncertain, however.

Russia is currently building gas pipelines around Ukrainian territory, which will affect Ukraine's ability to stand on its own two feet. Once the EU is no longer dependent on gas being transported through Ukrainian pipelines, there is a risk that support for the country will decline. With reduced traffic through the pipelines, but an undiminished need for maintenance, there is also a risk that gas from Slovakia will become too expensive. This could mean that the country is once again forced to turn to Russia.

BUSINESS ENVIRONMENT

The business environment in Ukraine is difficult from the perspective of a credit provider. The World Bank Doing Business Index classifies the country as one of the worst in the region, at 23 out of 25. Globally the country is classified as number 80 out of 190. Corruption is widespread and the informal sector is large. The legal system and regulatory environment are difficult to predict, since laws and regulations are often changed and do not always align with each other. A weak legal system, bureaucracy and corruption also mean that the possibility of recovery is very small. Currency restrictions were introduced during the crisis years of 2014-2015, but these have since largely been eased. Currency transfers do not therefore represent any serious obstacle at present. Since 2011, IFRS has been the standard for public enterprises, banks, insurance companies and listed companies. Otherwise Ukrainian financial reporting principles are used, which may differ from IFRS.