

BEST'S COUNTRY RISK REPORT

Ukraine CRT-5

August 22, 2018

Region: Europe

[Country Risk Criteria Procedures](#)

[Guide to Best's Country Risk Tiers](#)

- The Country Risk Tier (CRT) reflects A.M. Best's assessment of three categories of risk; Economic, Political, and Financial System Risk.
- Ukraine, a CRT-5 country, has a high levels political risk and very high levels of economic and financial system risk.
- The Russian-backed separatist movement in Eastern Ukraine and Crimea continues to threaten stability. However, the country returned to growth in 2016. GDP growth is forecast at 3.2% in 2018 and is expected to range between 3.0% and 4.0% over the medium term, with moderating inflation.
- The majority of countries pictured are categorized as CRT-1 or CRT-2. Notable exceptions are the Eastern European countries of Bosnia and Herzegovina, Belarus, and Romania.



Economic Risk



Political Risk



Financial System Risk

- Country Risk Tier 1 (CRT-1) Very Low Level of Country Risk
- Country Risk Tier 2 (CRT-2) Low Level of Country Risk
- Country Risk Tier 3 (CRT-3) Moderate Level of Country Risk
- Country Risk Tier 4 (CRT-4) High Level of Country Risk
- Country Risk Tier 5 (CRT-5) Very High Level of Country Risk

Regional Summary: Eastern Europe

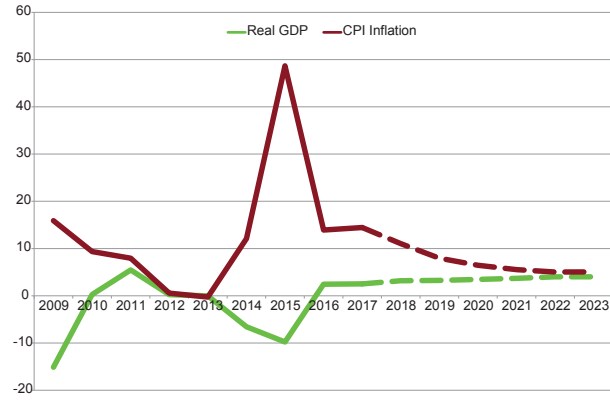
- The Eastern European countries are at various stages of bringing their legal, economic, and political frameworks to be more in line with European Union standards. The region has a great deal of economic potential, as it further integrates with the global markets of the European Union, but all of its countries would ultimately benefit from more transparent and less cumbersome regulatory environments.
- Economic growth in 2017 was robust and is expected to continue in 2018 on growing domestic consumption, fueled by rising wage and falling unemployment rates. Additionally, funds provided by the EU's Structural and Investment Funds will continue to drive public spending.
- Although many Eastern European countries are classified as emerging markets or frontier markets, reforms have enhanced economic stability and regional political power.
- Risks for the region include the potential for tightening global financial conditions and currency volatility.

Vital Statistics 2017		
Nominal GDP	USD bn	109.32
Population	mil	42.3
GDP Per Capita	USD	2,583
Real GDP Growth	%	2.5
Inflation Rate	%	14.4
United Nations Estimates		
Literacy Rate	%	99.8
Urbanization	%	70.1
Dependency Ratio	%	44.8
Life Expectancy	Years	72.1
Median Age	Years	40.6
Insurance Statistics		
Insurance Regulator	National Commission for State Regulation of Financial Services Markets	
Premiums Written (Life)	USD mil	110
Premiums Written (Non-Life)	USD mil	1,523
Premiums Growth (2016 - 2017)	%	8.6
Regional Comparison		
	Country Risk Tier	
Ukraine	CRT-5	
Belarus	CRT-5	
Kazakhstan	CRT-4	
Poland	CRT-2	
Russia	CRT-4	
Slovenia	CRT-2	

Source: IMF, UN, Swiss Re, Axco and A.M. Best



Economic Growth (%)



Source: IMF World Economic Outlook and A.M. Best

Economic Risk: Very High

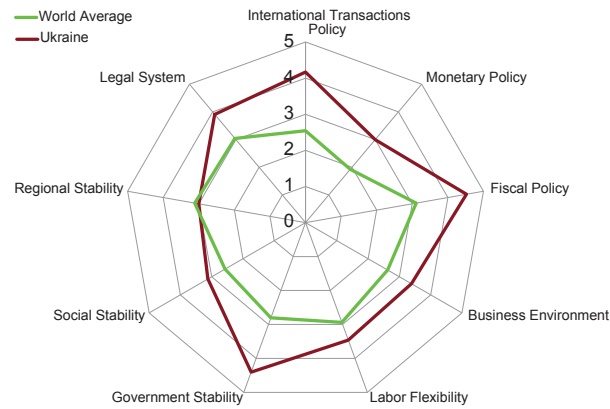
- Several industries in Ukraine are still dominated by the state. These state-owned enterprises dampen competition and increase inefficiency. Structural reforms will be needed to improve the business environment and attract foreign investment.
- Russia's occupation of Crimea, and the ongoing conflict in Eastern Ukraine, has hurt economic growth. Because of continued Russian sanctions and new trading agreements, the EU has replaced Russia as Ukraine's main trading partner, which should help the bolster economy.
- Challenges for Ukraine include the slow pace of reforms, persistent political instability, double-digit inflation, ongoing armed conflict in parts of the country, influential oligarchs, a high public debt burden, and widespread corruption.

Political Risk: High

- The current president of the Ukraine is former foreign trade minister Petro Poroshenko. He won the May 2014 elections with approximately 55% of the vote. President Poroshenko faces a challenging political environment in which he must facilitate economic reform and handle Russian interference.
- Ongoing reform measures will be difficult to enact owing to a decreasing appetite for such measures, especially ahead of the upcoming presidential and legislative elections in 2019.
- The country suffers from high levels of corruption, ranking 130 out of 180 countries in the most recent Transparency International Corruption Survey. As a result, parliament set up a High Anti-Corruption Court (HACC). Under a new law, appeals in corruption cases filed by the National Anti-Corruption Bureau cannot be considered by courts other than the HACC.
- Ukraine entered into a USD17.5 billion four-year Extended Fund Facility with the IMF in March 2015. Despite important achievements in the financial and energy sectors, the country has made limited progress privatizing state-owned enterprises.

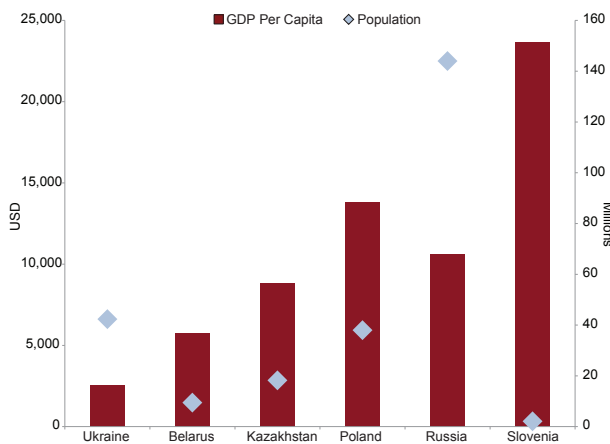
Political Risk Summary

Score 1 (best) to 5 (worst)



Source: A.M. Best

GDP Per Capita and Population



Source: IMF and A.M. Best

Financial System Risk: Very High

- The insurance industry is regulated by the Insurance Supervision Division of the State Commission for Regulation of Financial Services Markets.
- Ukraine recently raised USD3 billion in an oversubscribed bond issue, the first sovereign bond issue since the country restructured its debt in 2015.
- Efforts to strengthen the banking sector continue. According to the IMF, nearly 90 insolvent banks, accounting for more than 50% of the banking system's assets, have been resolved. However, additional measures are needed, including stronger efforts to resolve the high levels of non-performing loans and the need to address weak banking supervision.