Ukraine
CRT-5
August 22, 2019
Region: Europe

Country Risk Criteria Procedures
Guide to Best’s Country Risk Tiers

- The Country Risk Tier (CRT) reflects AM Best’s assessment of three categories of risk; Economic, Political, and Financial System Risk.
- Ukraine, a CRT-5 country, has high levels of economic and political risk, and a very high level of financial system risk.
- Ukraine came out of a three-year recession in 2016, when it returned to growth. In 2018, GDP growth was 3.3%, and is expected at 2.7% in 2019. Medium term growth is forecast to range between 3.0% and 3.5%.
- AM Best categorizes the majority of countries in Eastern Europe as CRT-1 and CRT-2. Notable exceptions include Bosnia and Herzegovina, Belarus, and Romania.

Regional Summary: Eastern Europe

- Economic growth in Eastern Europe is likely to expand in 2019 driven by strong domestic demand supported by higher wages and low unemployment. However, the region will be challenged by labor shortages, lower global growth, and high levels of corruption. Additional risks include currency volatility, an increase in government influence on state-run institutions (potentially undermining their independence), and unfavorable demographic trends.
- The Eastern European countries are at different stages of bringing their legal, economic, and political frameworks to be in more line with EU standards. Eastern Europe 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.
- Although many Eastern European countries are classified as emerging or frontier markets, reforms have enhanced economic stability and regional political power.
**Economic Risk: 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.
- The ongoing conflict in eastern Ukraine has hurt economic growth. Because of ongoing Russian sanctions and new trading agreements, the EU has replaced Russia as Ukraine’s main trading partner, which should help the country’s bolster economy.
- Challenges for Ukraine include the slow pace of reforms, cumbersome bureaucracy, ongoing armed conflict in parts of the country, influential oligarchs, a high public debt burden, and widespread corruption.
- Domestic demand is expected to remain the engine of economic growth over the near term. However, the removal of gas subsidies and ongoing pension reforms are likely to be headwinds to consumer spending.
- GDP per capita is low by regional standards, at approximately USD 3,000. This has led to a migration of skilled labor to neighboring countries.

**Political Risk: High**

- In April 2019, Ukraine elected Volodymyr Zelensky as president, replacing incumbent Petro Poroshenko. Zelensky won with 73% of the vote.
- Parliamentary elections held in July 2019, saw Zelensky’s Servant of the People party (SN) win a majority of seats, which will eliminate the need for the president to form a coalition and give Zelensky a clear mandate to implement his agenda. Economic reform and the implementation of further anti-corruption measures are expected to be the government’s priority.
- Ukraine has made several improvements in its business operating environment. However, further structural measures need to be undertaken. The country scores 71 out of a 190 countries in the most recent World Bank’s Ease of Doing Business Survey.
- The country suffers from high levels of corruption, ranking 120 out of 180 countries in the most recent Transparency International Corruption Survey.

**Financial System Risk: Very High**

- The insurance industry is regulated by the National Commission for State Regulation of Financial Services Markets.
- Efforts to strengthen the banking sector continue. While the country has made improvements in reducing non-performing loans, existing legacy issues limit the banking’s sector ability to lend and support growth.
- In December 2018, the country entered into a 14-month, USD 1.3 billion agreement with the IMF. The main priorities include ongoing fiscal consolidation and strengthening of the financial sector.