

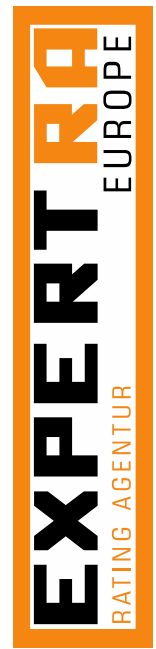


Credit risks in the Republic of Uzbekistan

Tashkent, 7 November 2018

Agenda

- About RAEX
- Sovereign government credit risks of Uzbekistan
- Banking system credit risks of Uzbekistan



About RAEX

Rating-Agentur Expert RA (RAEX-Europe)

- The Agency works since 2013 in **Frankfurt am Main**
- **The CRA, registered by the European Securities and Markets Authority (ESMA)**
- **Official status** of External Credit Assessment Institution (ECAI)
- International **rating service team** with diverse academic and professional experience
- More than **20 years of experience** in the rating industry

ECAI mapping RAEX- Europe

Mapping, approved by the European Commission in April 2018:

Credit quality step	RAEX- Europe	Fitch	Moody's	S&P
1	AAA, AA	AAA, AA	Aaa, Aa	AAA, AA
2	A	A	A	A
3	BBB	BBB	Baa	BBB
4	BB	BB	Ba	BB
5	B	B	B	B
6	CCC, CC, C, D, E	CCC, CC, C, RD, D	Caa, Ca, C	CCC, CC, R, SD/D

RAEX- Europe activities

- Assigning **credit ratings** to:
 - ✓ Sovereign issuers
 - ✓ Sub-sovereign issuers (regions)
 - ✓ Banks
 - ✓ Insurance companies
 - ✓ Companies from non-financial sectors
- Assigning **non-credit ratings: ESG ratings** (environmental, social and governance)
- Additional **services for stock-exchanges**: second opinion
- **Business-conferences** and presentations in Frankfurt am Main

Sovereign government credit risks of Uzbekistan

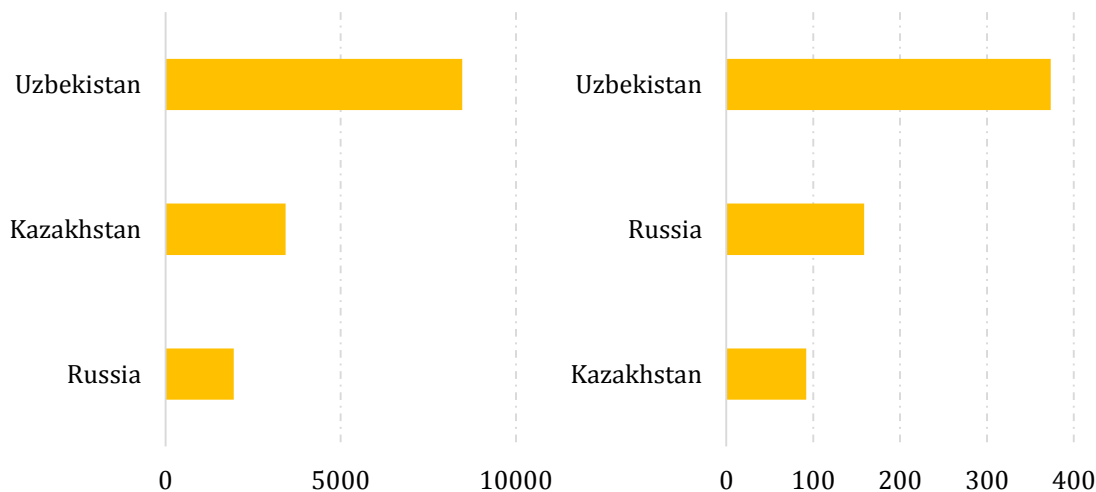
Sovereign rating list of RAEX-Europe:

Country	Sovereign government rating		Dynamics		Outlook		Date
	National currency	Foreign currency	National currency	Foreign currency	National currency	Foreign currency	
Armenia	BB-	BB-	Confirmed	Confirmed	Stable	Stable	20.07.2018
Belarus	B	B-	Confirmed	Confirmed	Positive	Positive	20.07.2018
China	A+	A+	Confirmed	Confirmed	-	-	11.05.2018
Cyprus	BBB-	BBB-	Upgraded	Upgraded	Stable	Stable	05.10.2018
Germany	AAA	AAA	Confirmed	Confirmed	Stable	Stable	07.09.2018
Kazakhstan	BBB-	BBB-	Confirmed	Confirmed	Stable	Stable	06.07.2018
Kyrgyzstan	B	B	Confirmed	Confirmed	Stable	Stable	13.07.2018
Russian Federation	BBB-	BBB-	Confirmed	Confirmed	Stable	Stable	06.07.2018
USA	AAA	AAA	Confirmed	Confirmed	-	-	11.05.2018
Uzbekistan	B+	B+	Confirmed	Upgraded	Positive	Positive	14.09.2018

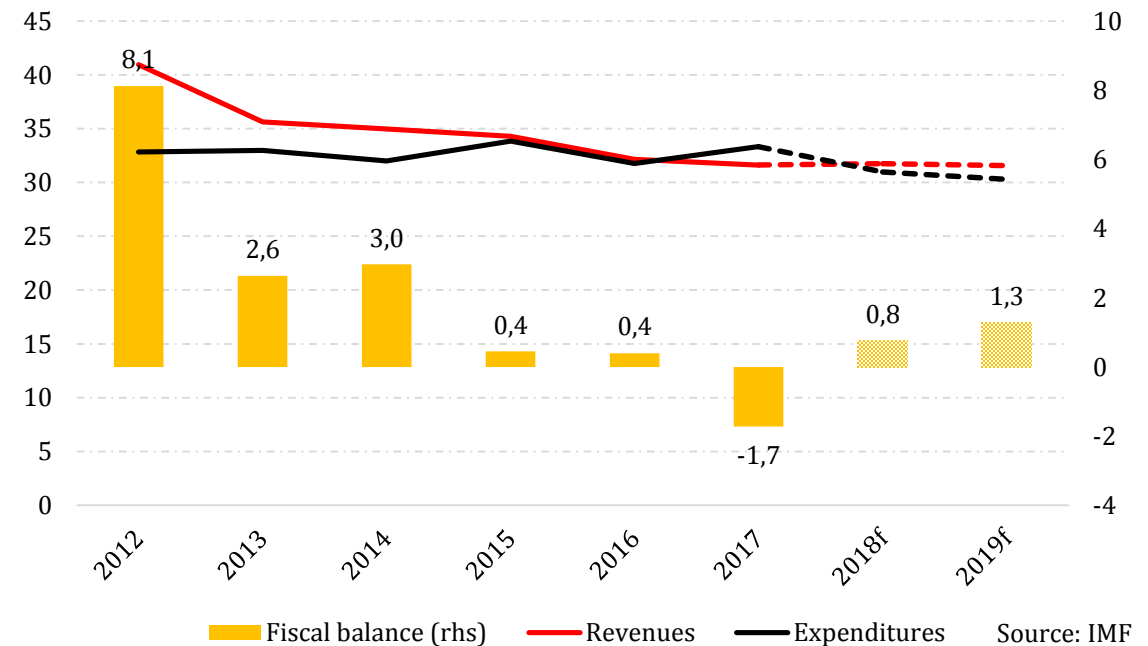
Positive factors

- **Low amounts of gross government and short-term government debt** solidly covered by FX reserves
- **Tighter fiscal policy and new fiscal strategy**

Foreign exchange reserves /
 Short-term debt (l) and Gross government debt (r), %

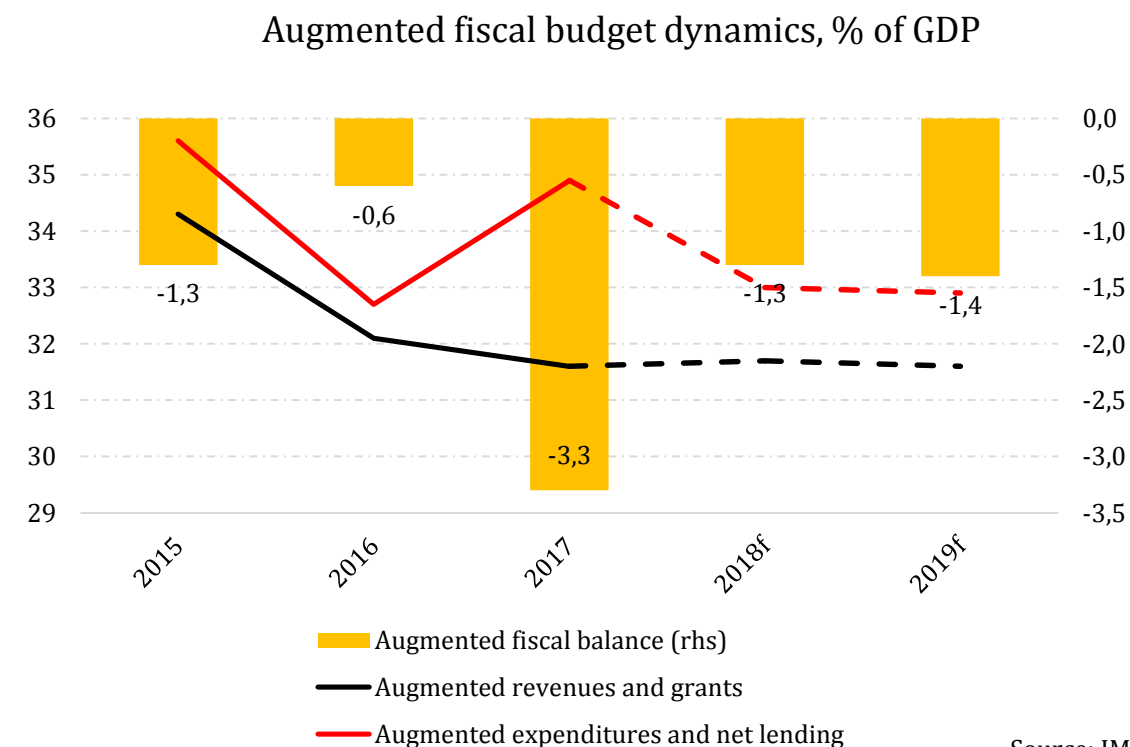
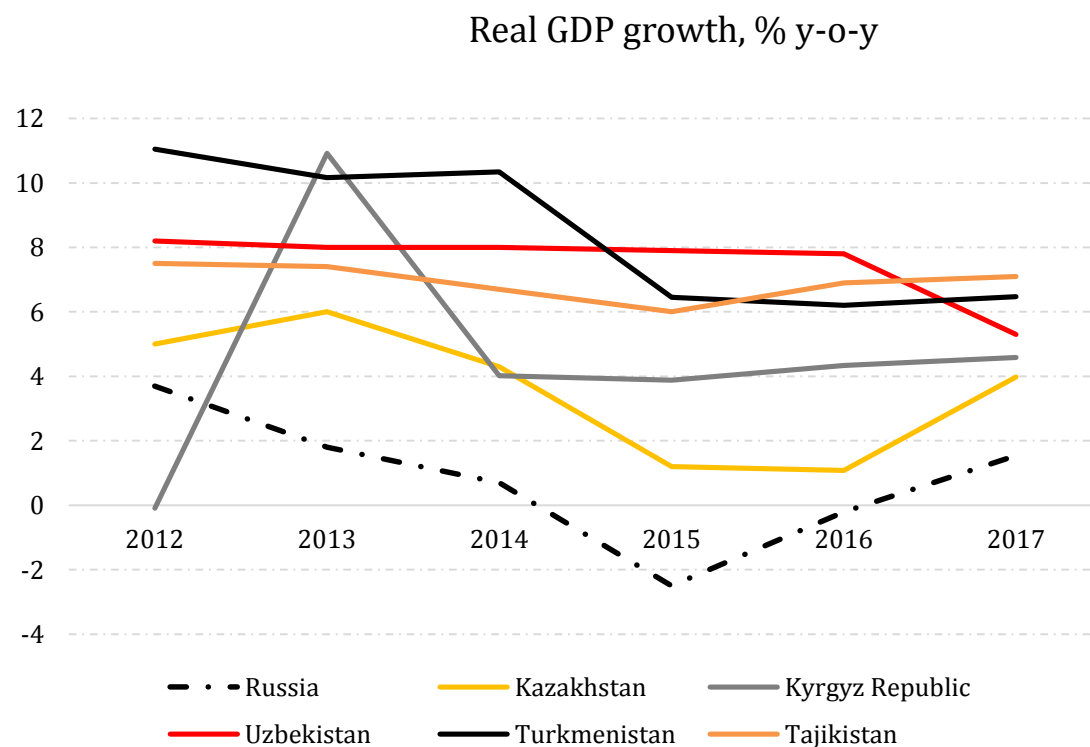


Fiscal budget dynamics, % of GDP



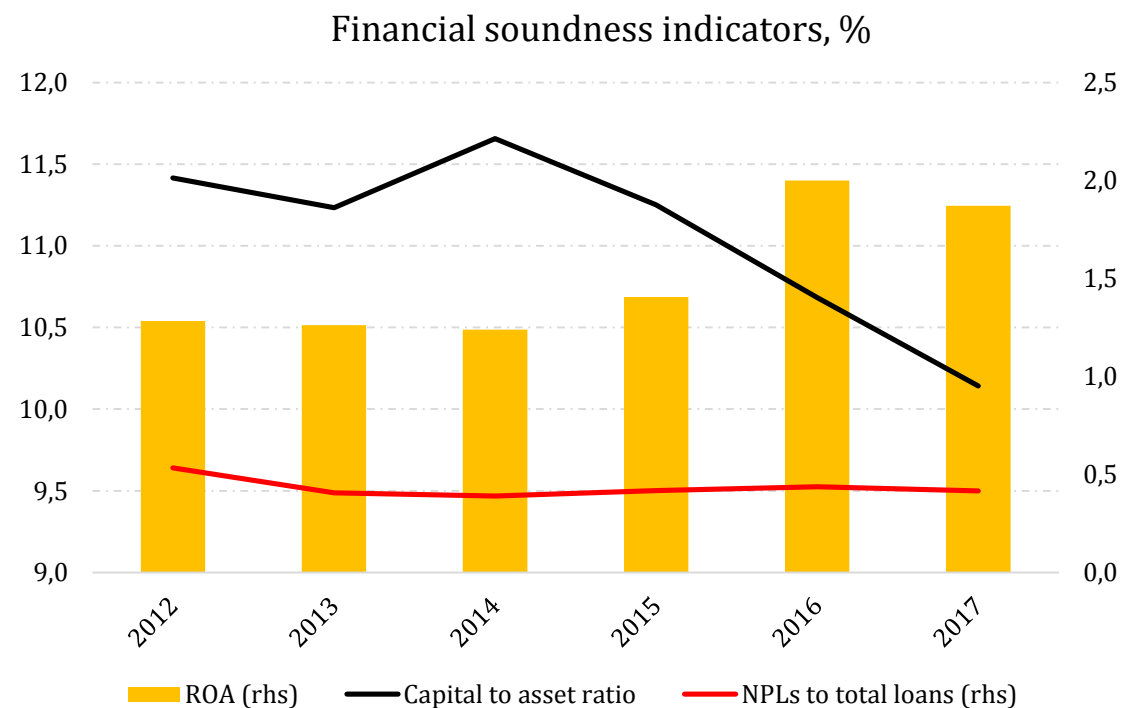
Positive factors

- The **real GDP growth** of the country declined down to around 5,3% in 2017; however, it remains one of the largest among the CCA peers
- The **augmented fiscal deficit** widened by 2,7p.p. to 3,3% of GDP in 2017. However, it is expected to narrow down to 1,3% of GDP in 2018



Positive factors

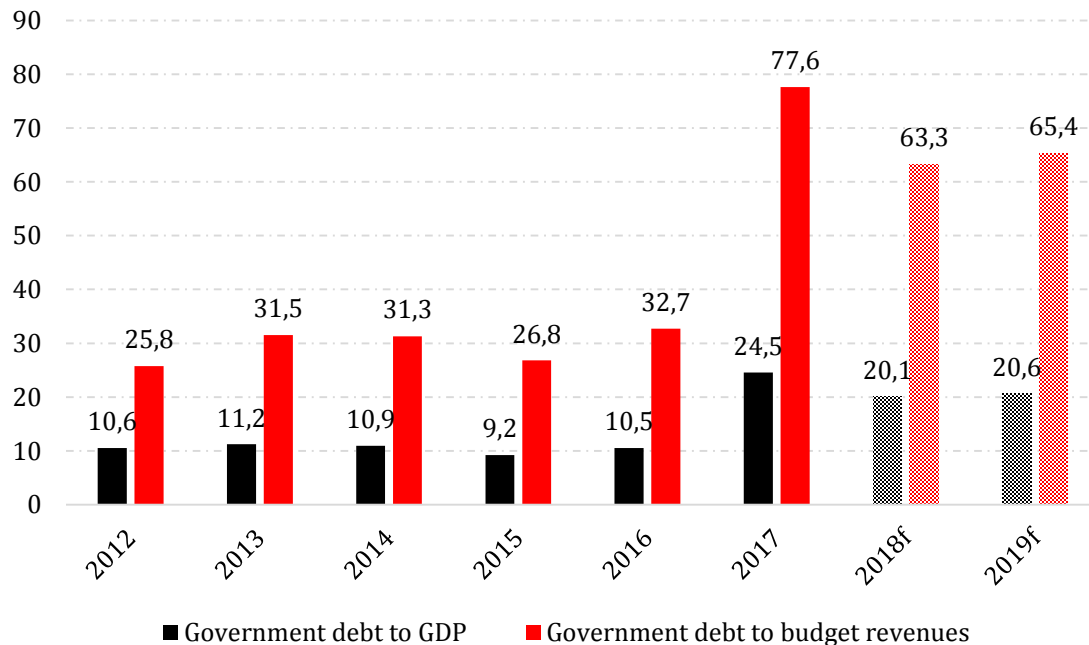
- **Uzbekistan's banking sector** remains profitable and sound with ROA at 1,9%, NPLs at 0,42% of total loans and capital-to-assets ratio at 10,14% in 2017



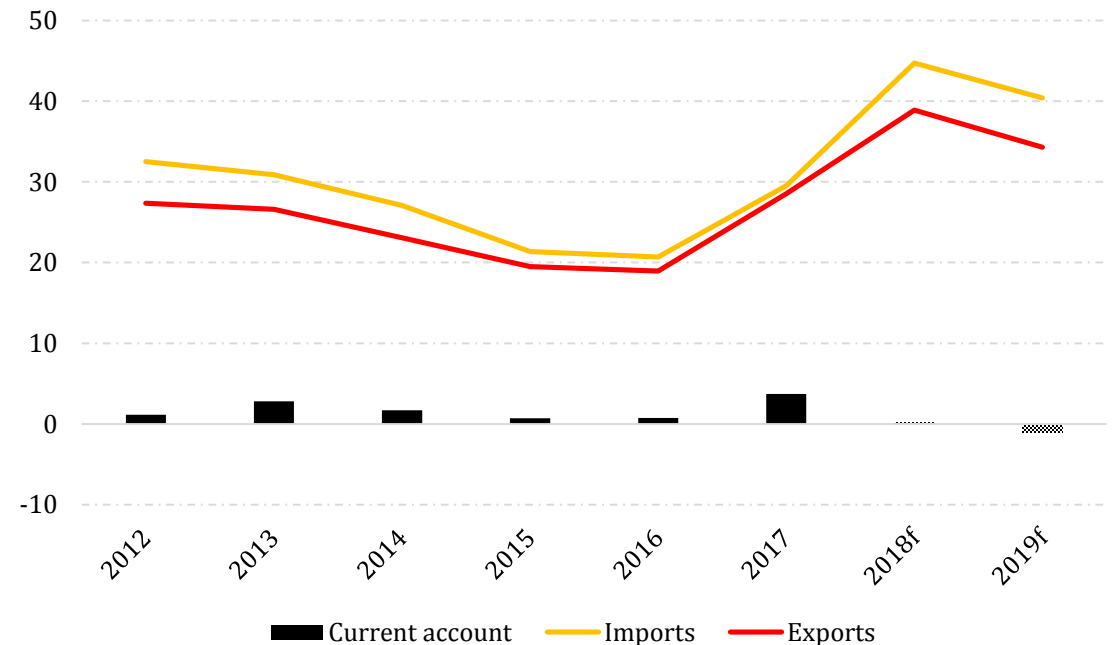
Restricting factors

- As a result of UZS devaluation in 2017 an **unfavorable government debt accumulation** dynamic was recorded
- The **economy's competitiveness** remains limited

Government debt dynamics, %



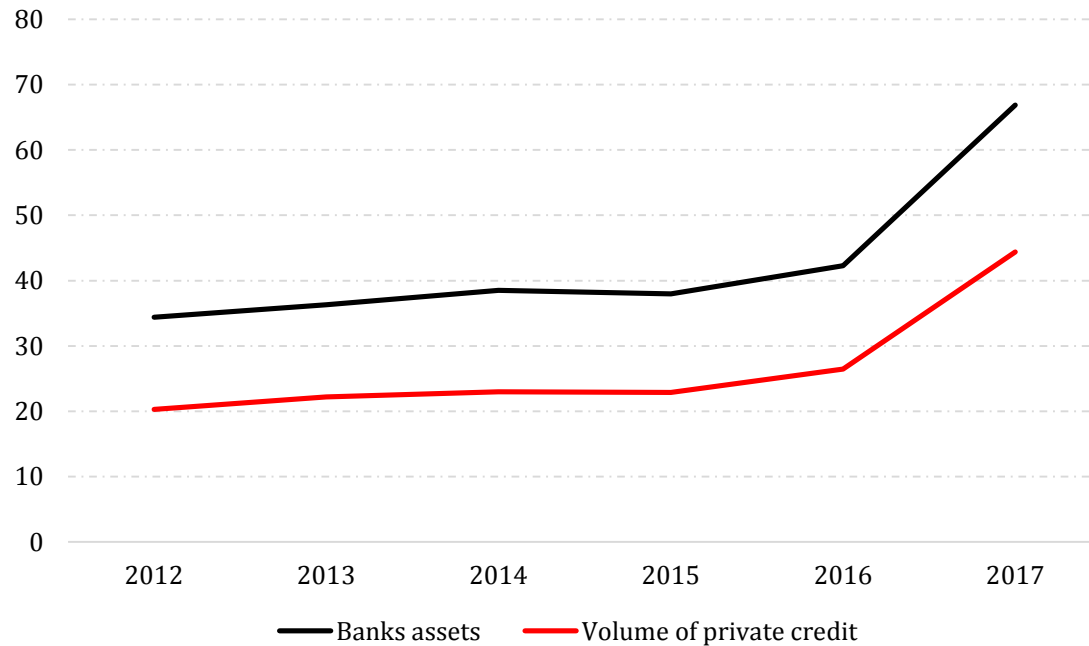
External sector indicators, % of GDP



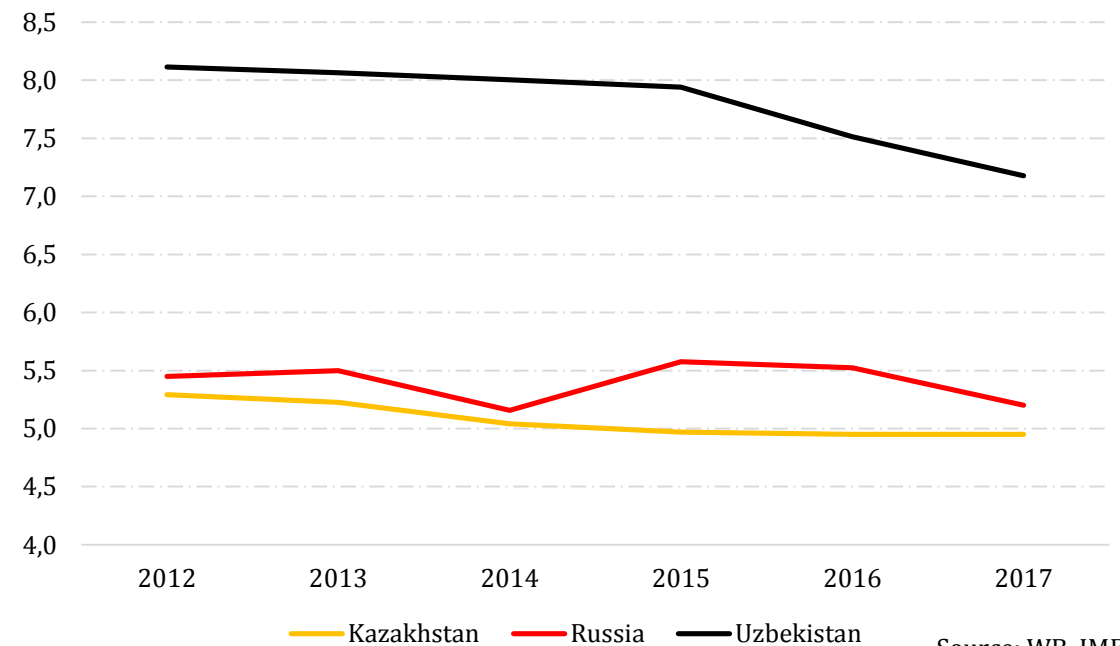
Restricting factors

- The depreciation of the UZS mainly benefited the banking sector, which is characterized by a high level of credit dollarization, as **banks' assets and private credit volumes** relative to GDP increased in 2017
- The **unemployment rate** improved slightly but remained high at 7,18% in 2017

Credit to the economy dynamics, % of GDP

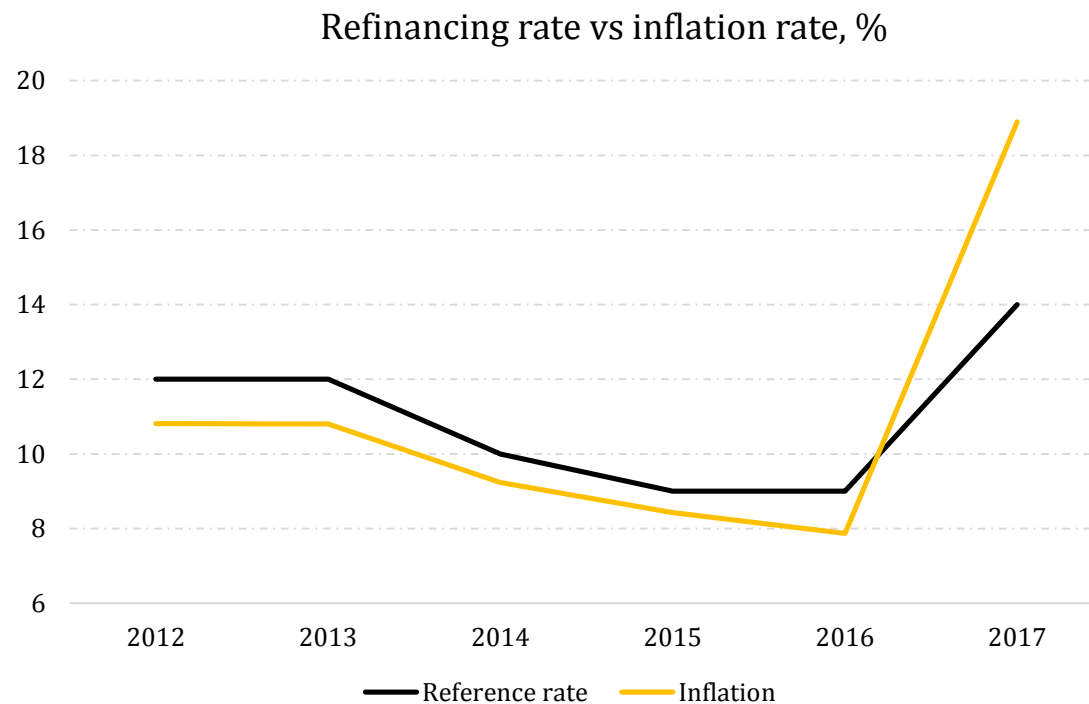


Unemployment rate, %



Restricting factors

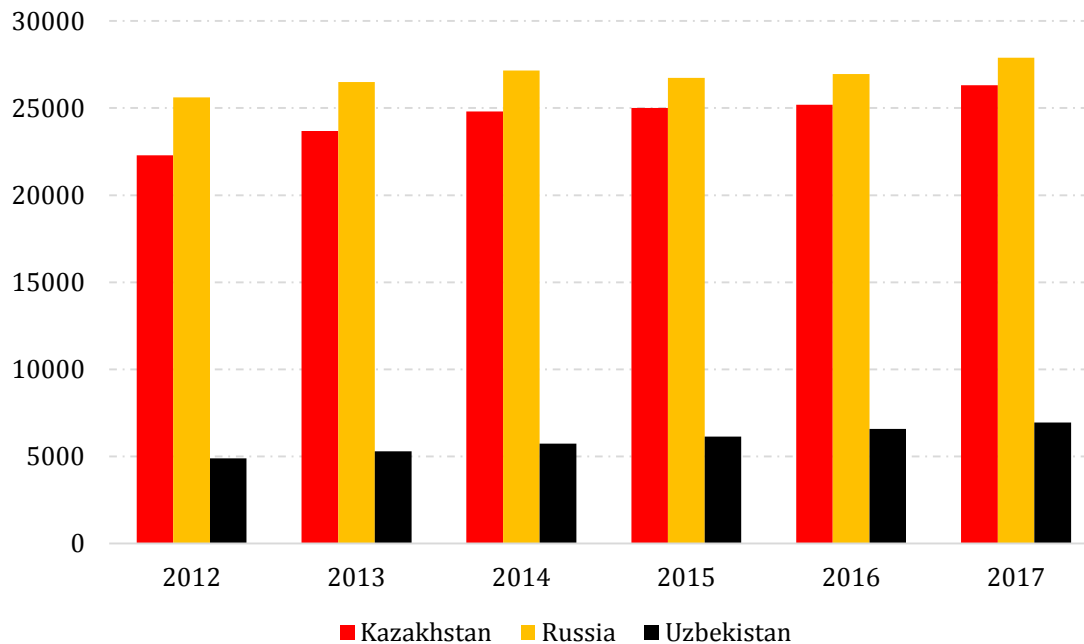
- The CBU is likely to hold **monetary policy tight** in order to keep inflation under control
- Uzbekistan's long-term growth perspectives remain favorable driven by a **significant amount of natural resources**



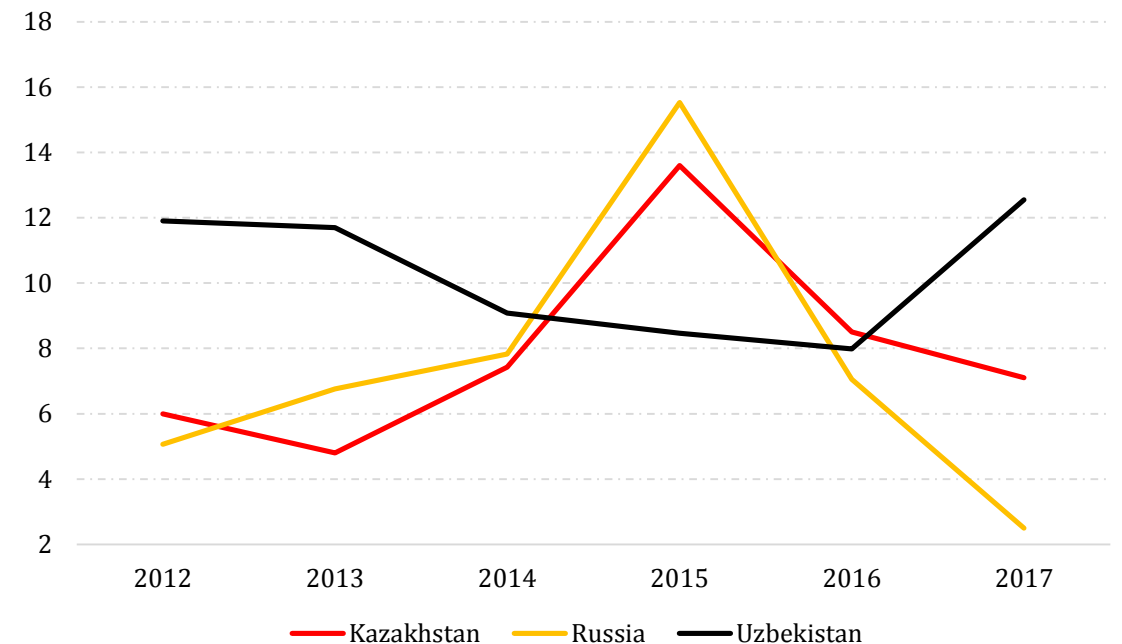
Negative factors

- The country remains one of the least developed amongst its CCA peers as shown by the low level of **GDP per capita**
- The **inflation rate** reached 18,9% in 2017 and is expected to remain around 16,9% in 2018

GDP per capita at PPP, USD

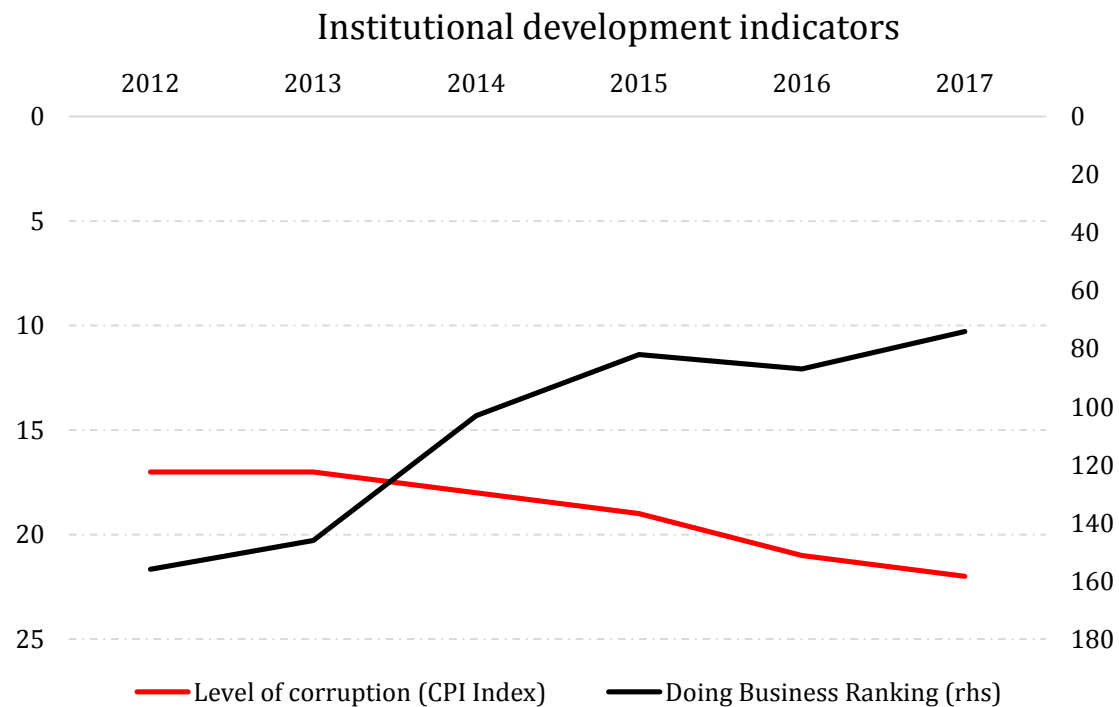


Annual inflation rate, % y-o-y



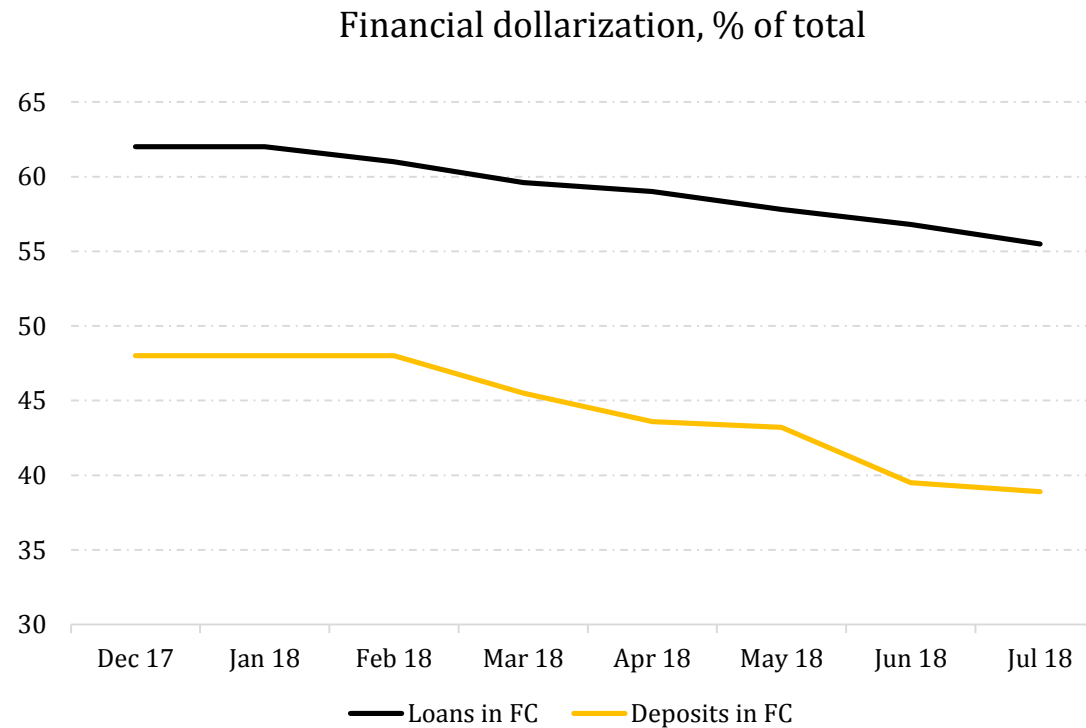
Negative factors

- Despite the recent steps to improve the quality and transparency of official statistics, the **institutional development** remains subdued
- The country's **capital market** remains underdeveloped, evidenced by a low market capitalization of companies listed on the national stock exchange of 20,3% of GDP in 2017



Stress-factor

- Despite positive dynamics, **financial dollarization** remains a problem for the economy representing 48% of total deposits and 62% of total loans in January 2018



Positive outlook

The **positive outlook** on ratings reflects our expectations about:

- gradual **recovery of the economy** after liberalization, leading to a continued strong output growth
- stabilizing **inflation and fiscal budget figures**
- **authorities' commitment** to further increase fiscal and monetary policy coordination

Positive outlook means that in the mid-term perspective there is a high probability of upgrading the rating

Banking system credit risks of Uzbekistan

Banking Sector Risk (BSR)

- Assessment of BSR is an integral part of the process of assigning a credit rating according to the **international scale**. The Banking Sector Risk is assessed for the country where a bank's operations are concentrated (if the bank has a diversified structure of operations - in proportion to the distribution of assets)
- Group of **quantitative** and **qualitative factors** is assessed for each country:

Quantitative Factors	Qualitative factors
Credit Conditions	Bank regulatory capital to risk-weighted assets
Market Conditions	Level of government involvement in the banking sector
Funding Conditions	Presence of an active capital market in the economy
Institutional Framework	Political risk assessment
Economic Conditions	State of the real estate market in the economy
Additional stress-factor (<i>presence of a major crisis in the economy</i>)	Banking sector stability

- The risk assessment of the banking system is based on the final BSR score: from **15 (minimum risk level)** to **0 (maximum risk level)**

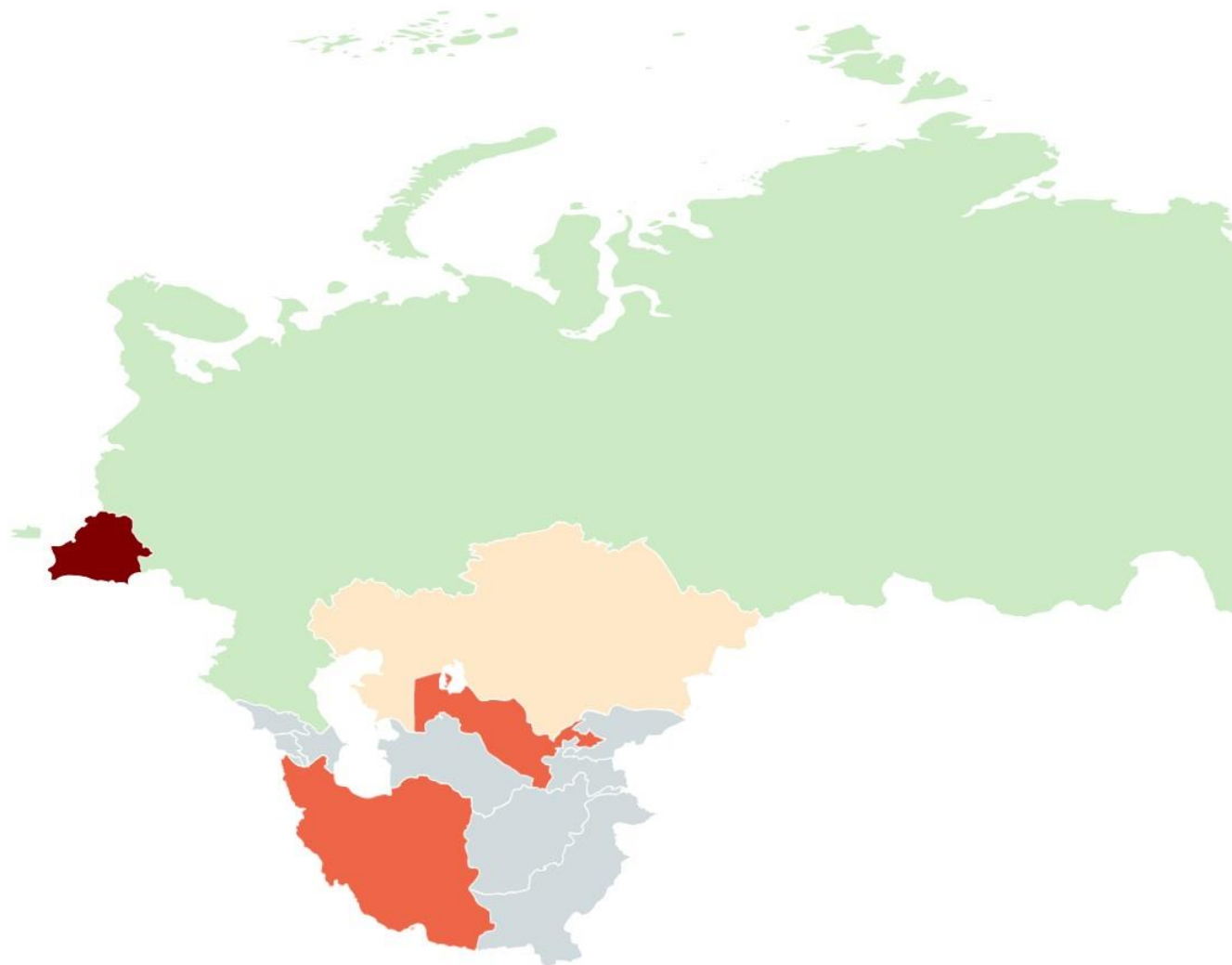
Banking Sector Risk (BSR)

- The final credit rating of a bank according to the **international scale** is assigned based on preliminary credit rating of the bank and an assessment of the Banking Sector Risk:

		BSR														
		15	14	13	12	11	10	9	8	7	6	5	4	3	2	1
Preliminary credit rating	1	AAA / AA+	AAA / AA	AA+ / AA-	AA / AA-	AA- / A+	AA- / A	A+ / A	A / A-	A- / BBB+	BBB+ / BBB-	BBB / BB+	BBB- / BB	BB+ / BB-	BB- / B+	B+ / B
	2	AA+ / AA	AA / AA-	AA- / A+	AA- / A	A+ / A	A / A-	A- / BBB+	A- / BBB	BBB+ / BBB-	BBB- / BB+	BB+ / BB	BB / B+	BB- / B+	B+ / B	B / B-
	3	AA / A+	AA- / A+	A+ / A	A / A-	A / BBB+	A- / BBB+	BBB+ / BBB	BBB / BBB-	BBB- / BB+	BB+ / BB	BB / BB-	B+ / B	B+ / B	B / B-	B- / B-
	4	A+ / A	A+ / A-	A / BBB+	A- / BBB+	BBB+ / BBB	BBB+ / BBB-	BBB / BBB-	BBB- / BB+	BB+ / BB	BB / BB-	BB- / B+	B / B	B / B-	B- / B-	B- / CCC+
	5	A / BBB+	A- / BBB+	BBB+ / BBB	BBB+ / BBB-	BBB / BBB-	BBB- / BB+	BBB- / BB	BB+ / BB-	BB / BB-	BB- / B+	B+ / B	B / B-	B- / B-	B- / CCC+	CCC+ / CCC+
	6	BBB+ / BBB-	BBB+ / BBB-	BBB / BB+	BBB- / BB+	BBB- / BB	BB+ / BB	BB / BB-	BB- / B+	BB- / B+	B+ / B	B / B-	B- / CCC+	B- / CCC+	CCC+ / CCC+	CCC+ / CCC+
	7	BBB- / BB+	BBB- / BB	BB+ / BB	BB+ / BB-	BB / BB-	BB / B+	BB- / B+	B+ / B	B+ / B	B / B-	B- / B-	CCC+ / CCC+	CCC+ / CCC+	CCC+ / CCC	CCC+ / CCC
	8	BB / BB-	BB / BB-	BB / B+	BB- / B+	BB- / B	B+ / B	B+ / B	B / B-	B / B-	B- / CCC+	B- / CCC+	CCC+ / CCC	CCC+ / CCC	CCC / CCC	CCC / CCC
	9	BB- / B	BB- / B	B+ / B	B+ / B-	B / B-	B / B-	B / CCC+	B- / CCC+	B- / CCC+	CCC+ / CCC	CCC+ / CCC	CCC / CCC	CCC / CCC	CCC / CCC	CCC / CCC
	10	B / CCC+	B / CCC+	B- / CCC+	B- / CCC	B- / CCC	B- / CCC	CCC+ / CCC	CCC+ / CCC	CCC+ / CCC	CCC / CCC	CCC / CCC	CCC / CCC	CCC / CCC	CCC / CCC	CCC / CCC
	11	CCC+ / D	CCC+ / D	CCC / D	CCC / D	CCC / D	CCC / D	CCC / D	CCC / D	CCC / D	CCC / D	CCC / D	CCC / D	CCC / D	CCC / D	CCC / D

* Schematic representation

Banking Sector Risk (BSR) of the Republic of Uzbekistan



Country	BSR score	Risk level
Russia	6	Moderate
Kazakhstan	4	High
Uzbekistan	2	Very high
Iran	2	Very high
Belarus	1	Very high

BSR score reflects the state of banking sector macro environment in each country rated and is scaled from 1 to 15, ranging from very high risk to very low risk levels of the banking sector respectively.

Key negative factors

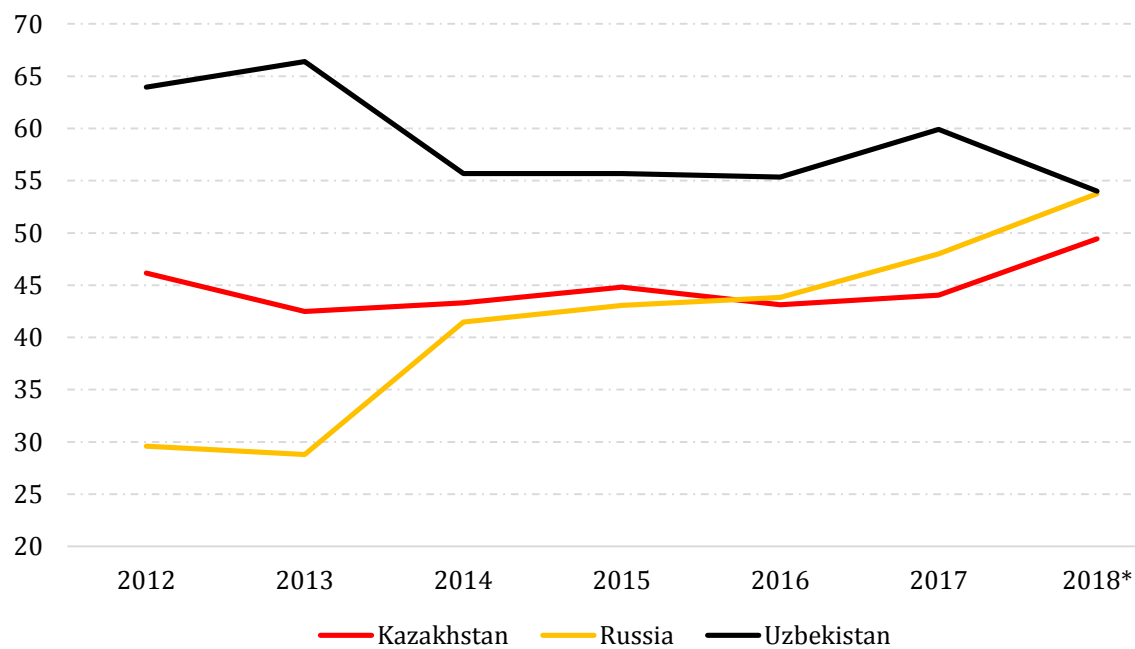
- Moderately **small economy** (the second largest economy of Central Asia, but more than three times smaller as compared to Kazakhstan)
- Very low **level GDP per capita**
- Double-digit **inflation** in one of the highest in region
- **Institutional environment** for the credit institutions remains subdued

	Kazakhstan	Russia	Uzbekistan
Nominal GDP, USD bn	159	1 578	49
Real GDP growth, %	4	1,5	5,3
GDP per capita at PPP, USD	26 305	27 892	6 943
Inflation rate, %	7,1	2,5	12,5
Total assets of the banking system, USD bn	75	1 479	21
The ratio of bank assets to GDP, %	46,1	92,5	66,9

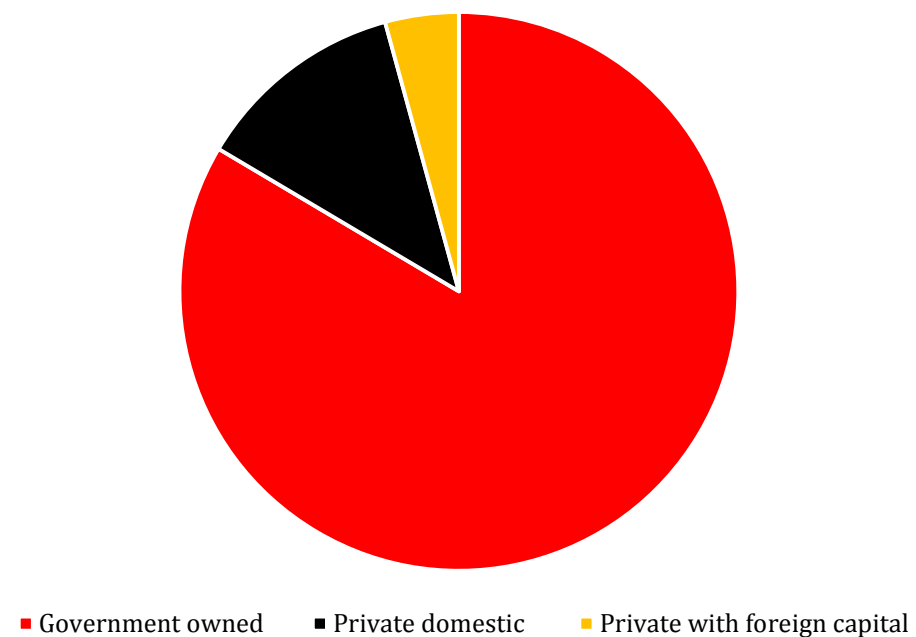
Key negative factors

- Among the three largest economies in the CIS the Republic of Uzbekistan at the end of 2017 had **the most concentrated banking system**
- **State ownership** dominates the banking system

Dynamics of the banking system concentration (share of three largest banks assets in total banking assets), %



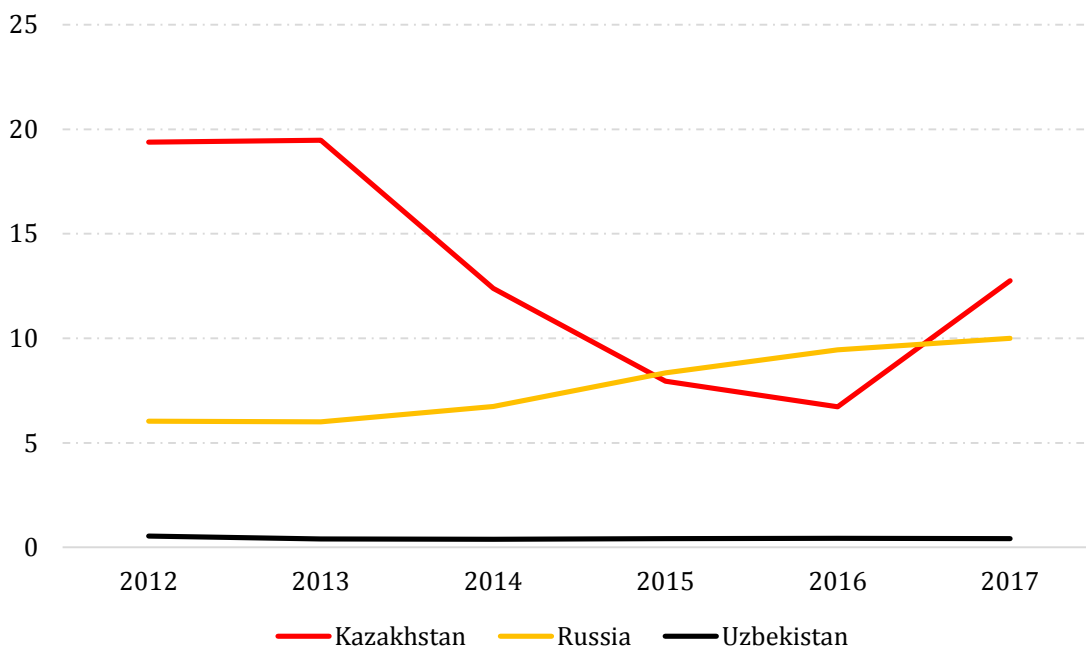
Structure of the banking system assets by type of banks, %



Key positive factors

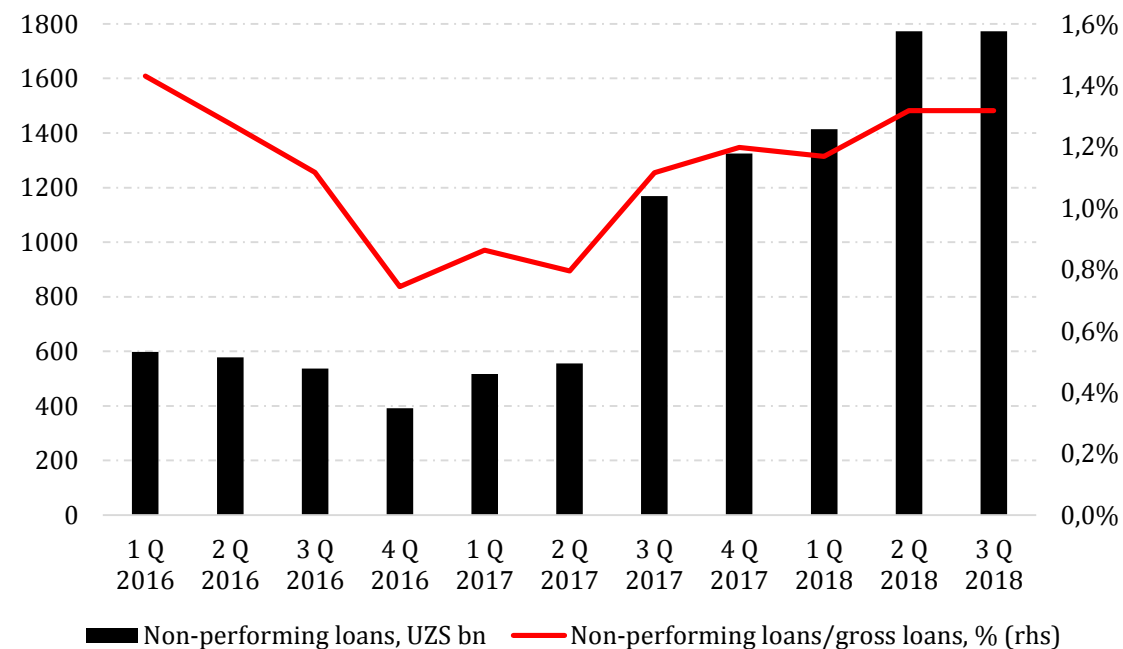
- The ratio of **bank nonperforming loans to gross loans** in Uzbekistan is at a minimum level among the countries of the region

Bank non-performing loans to gross loans ratio, %



Source: WB

Non-performing loans of the banking system of Uzbekistan according to the national standards

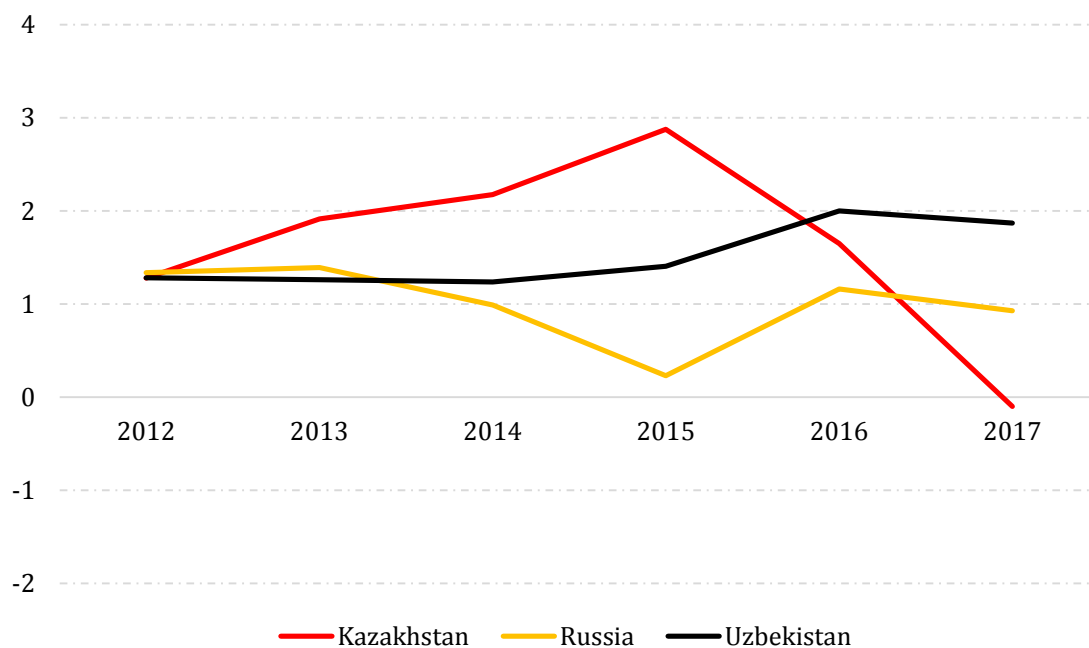


Source: CBU

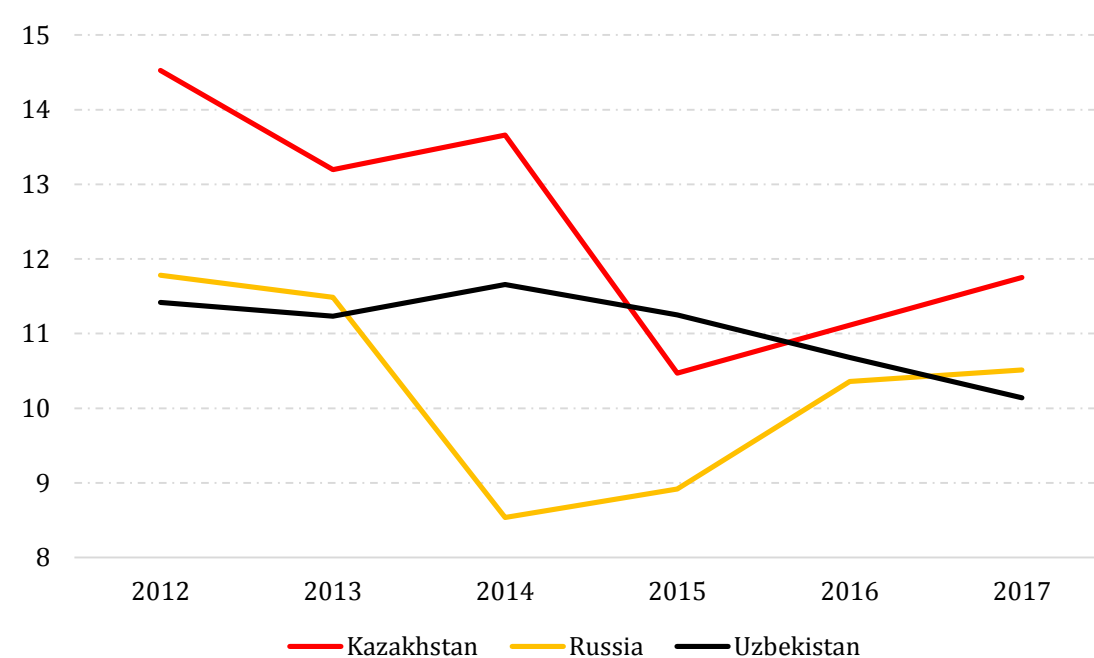
Additional positive factors

- The banking system of Uzbekistan demonstrated a **positive financial result** over the past 5 years, and remained profitable even during the devaluation of UZS
- In Uzbekistan the ratio of **bank capital to assets** remains high according to global standards but close to the levels typical for emerging markets

Return on assets ratio (ROA), %



Capital to assets ratio, %



Outlook

- The key risks of the banking system in the medium term are associated with a **possible deterioration of the asset quality**
- Probability of **financial support of the banking system by the government** in case of a crisis is assessed as extremely high
- In the long run, the main constrain factor of the banking system risk assessment score is the **level of economic development**



Thank you for your attention!

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