

# Republic of Belarus Credit rating

Frankfurt am Main, 21 July 2020

# About RAEX

# Rating-Agentur Expert RA (RAEX-Europe)

- RAEX Group has more than **20 years of experience** in the rating industry
- The Agency is active since 2013 in **Frankfurt am Main**
- **In 2015, the CRA was registered by the European Securities and Markets Authority (ESMA)**
- **Official status** of External Credit Assessment Institution (ECAI)

# RAEX-Europe ECAI mapping

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
  - ✓ Non-financial corporates
- Assigning **non-credit ratings: ESG ratings** (environmental, social and governance)
- Additional **services for stock-exchanges**: green/social / sustainable bond second opinion
- **Business-conferences** and presentations in EU
- **Industry** and **socioeconomic research**

# Republic of Belarus Credit Rating

# Sovereign credit ratings of CIS countries



Country	Sovereign government rating		
	National currency	Foreign currency	Outlook
Kazakhstan	BBB-	BBB-	Stable
Russia	BBB-	BBB-	Stable
Azerbaijan	BB+	BB+	Negative
Georgia*	BB	BB	Stable
Armenia	BB-	BB-	Stable
Uzbekistan	BB-	BB-	Stable
<b>Belarus</b>	<b>B</b>	<b>B</b>	<b>Stable</b>
Kyrgyzstan	B	B	Negative
Tajikistan	B	B-	Negative

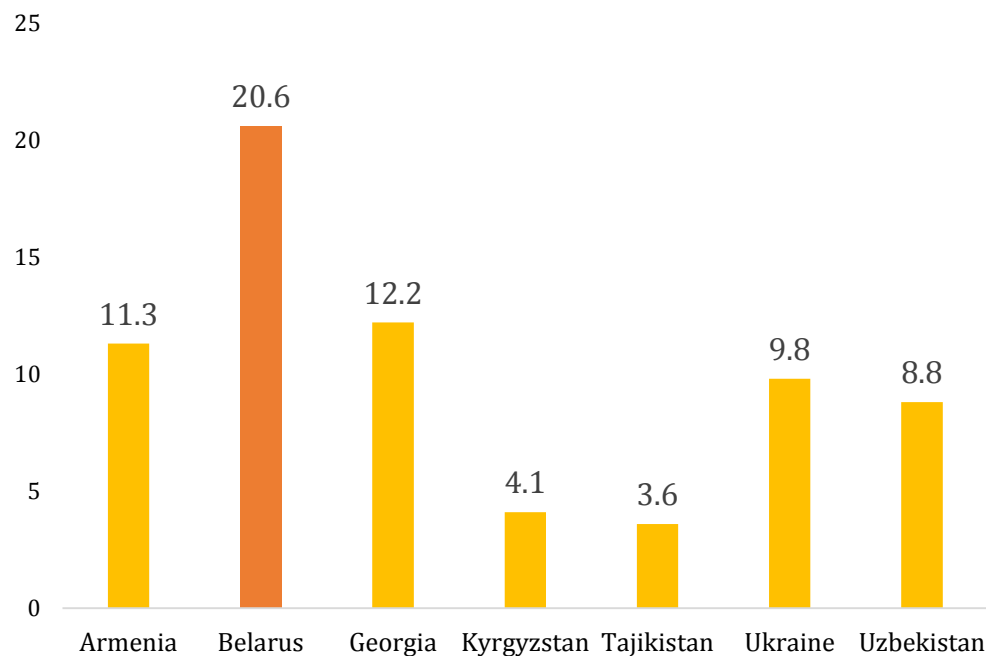
\* Not CIS member

Source: RAEX-Europe

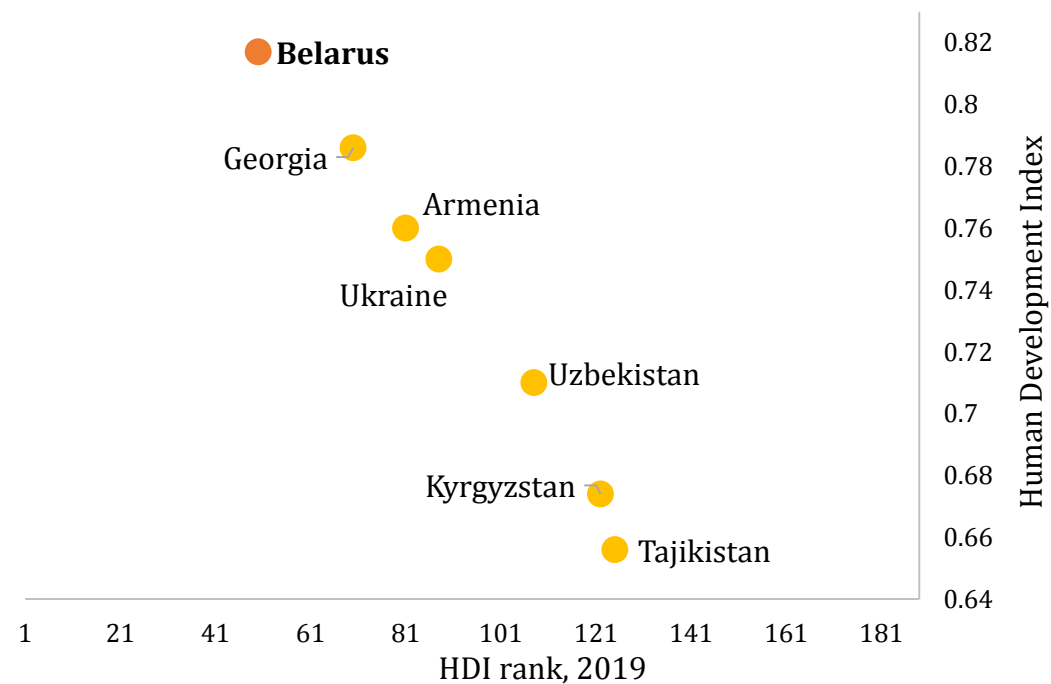
# Positive factors

- Moderately high level of economic development: **GDP per capita in PPP terms USD 20,6 th**
- Belarus occupies the **50<sup>th</sup> position** out of 189 countries in the **Human Development Index rank**

GDP per capita in PPP terms, 2019, USD th



HDI indicators, 2018



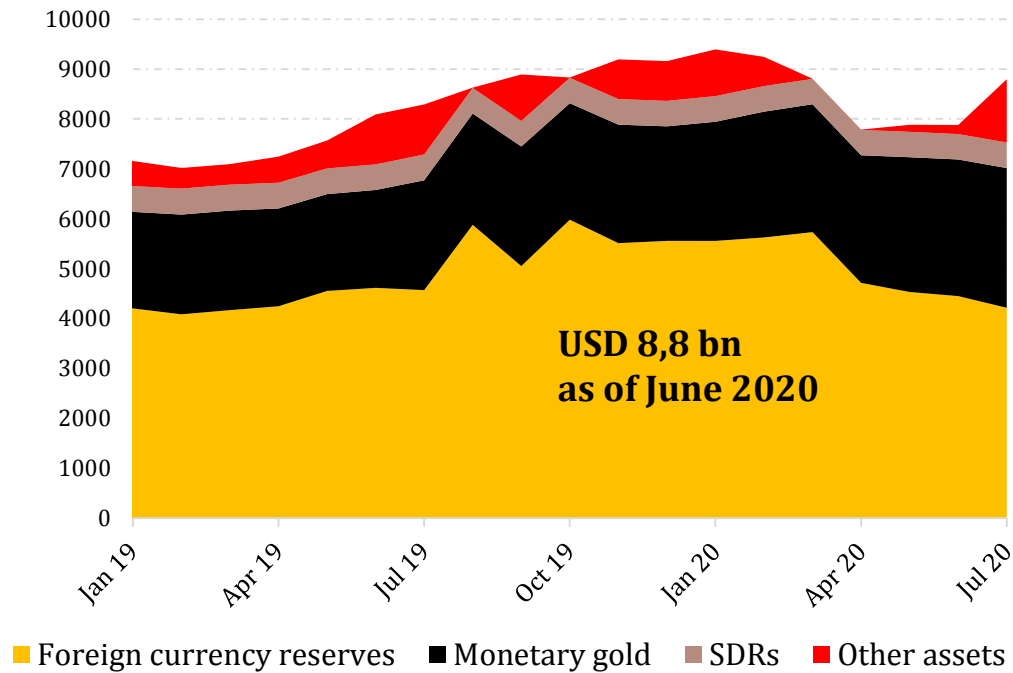
Source: RAEX-Europe calculations based on data from the IMF, WB



# Positive factors

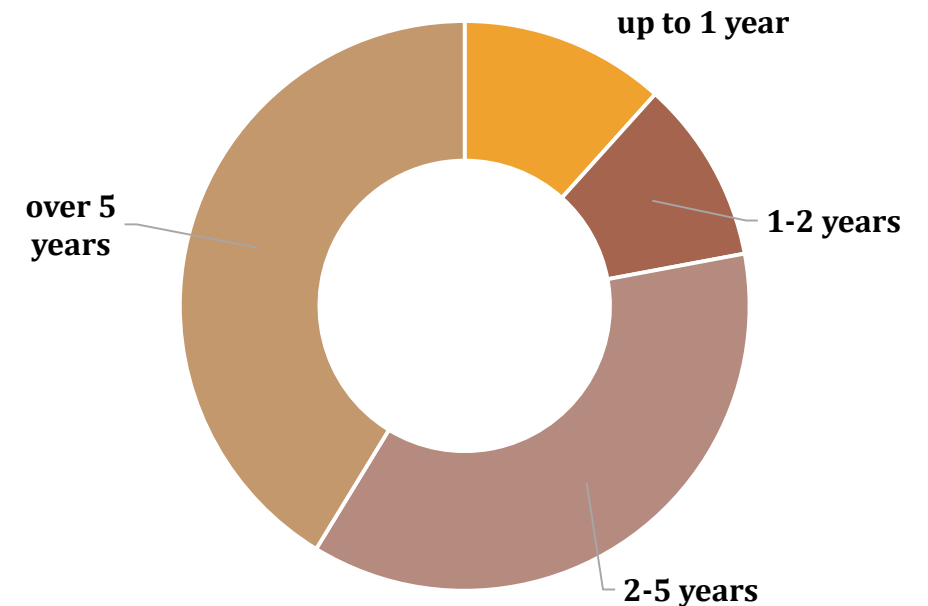
- **Active build-up of international reserves supports the external position of the country:**
  - Reserves cover 2,5 months of import and consist predominantly of foreign currency (48%) and monetary gold (32%) as of June 2020
- **Favorable government debt servicing:**
  - Short-term debt is estimated at a favorable level of **USD 3,4 bn in 2020**

International reserves, USD m



Source: RAEX-Europe calculations based on data from the NBRB

Government debt maturity structure, % as of March 2020, %

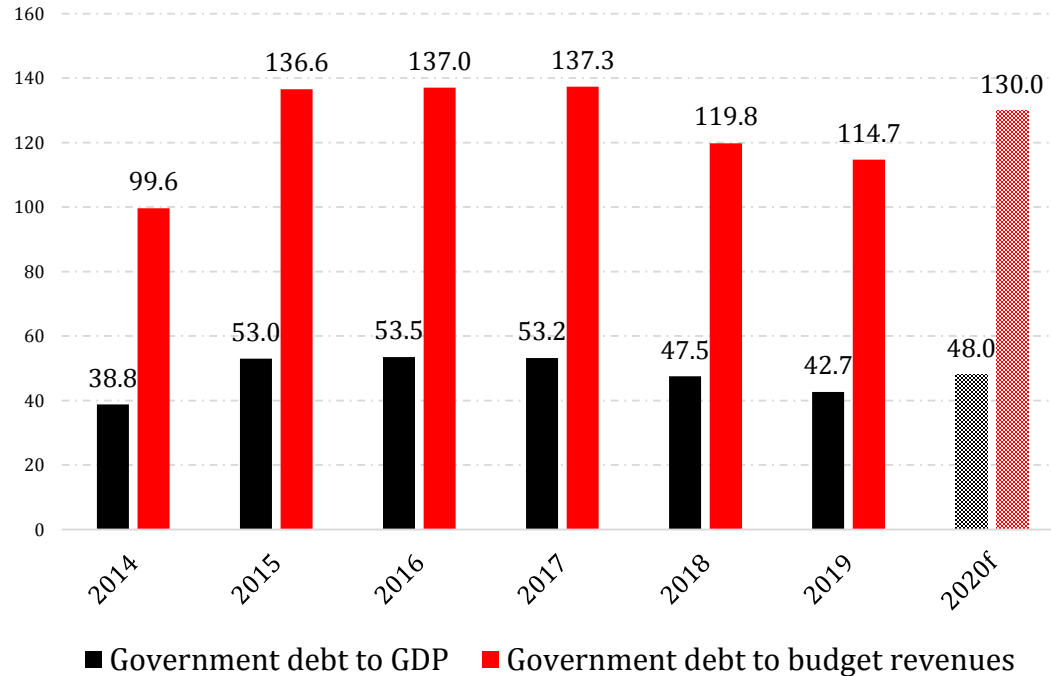


Source: RAEX-Europe calculations based on data from the MFRB

# Restricting factors

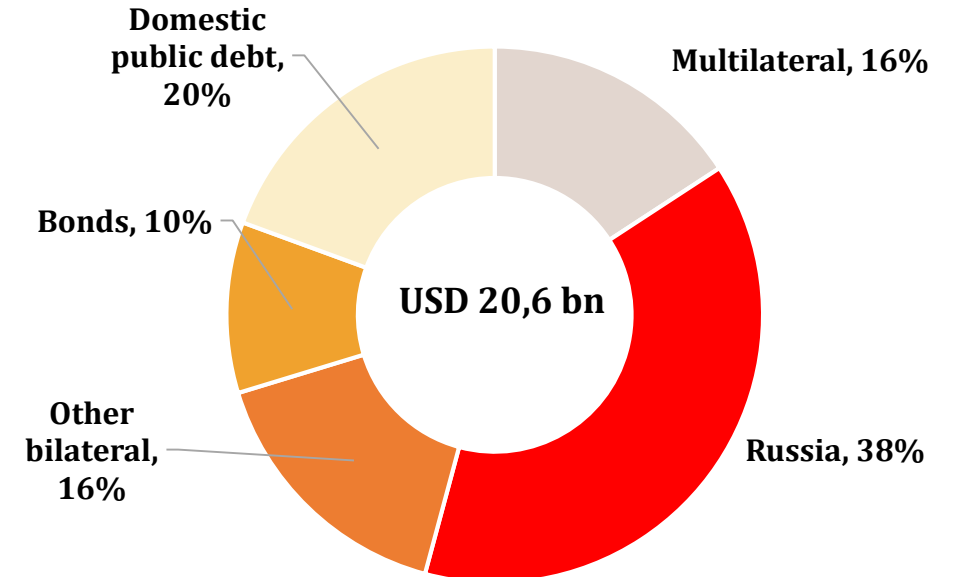
- The government debt level was reduced to **43% of GDP as of the end of 2019**
- **However, debt remains highly concentrated:** Russia is the main creditor (almost half of the external debt)

Government debt dynamic, % GDP



Source: RAEX-Europe calculations based on data from the MFRB

Structure of direct government debt as of March 2020, %

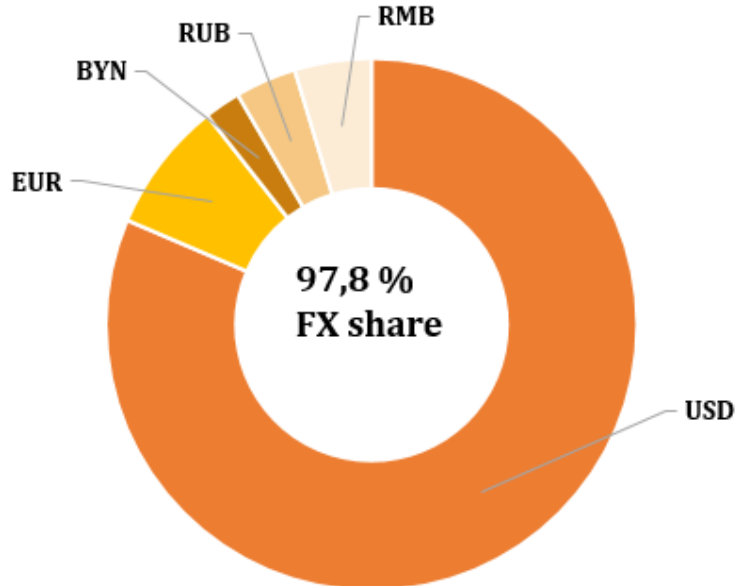


Source: RAEX-Europe calculations based on data from the MFRB

# Restricting factors

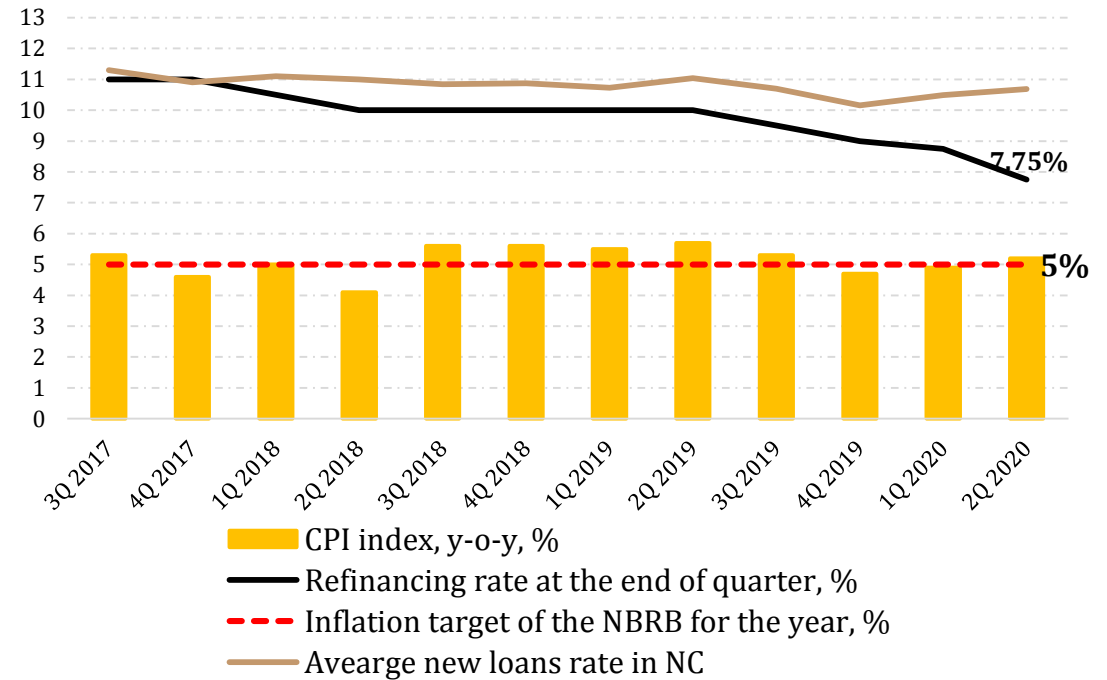
- **High share of foreign currency debt:** almost 98% of direct government debt
- **Adequate monetary policy, however the efficiency of the transmission mechanism is still weak:**
  - Inflation targeting and free-float exchange regime
  - The easing cycle continues in 2020
  - High financial dollarization and subdued domestic financial market
- **Institutional development constrained** by the president's strong centralized political influence

Currency structure of the direct public debt as of March 2020, %



Source: RAEX-Europe calculations based on data from the MFRB

Monetary policy effectiveness

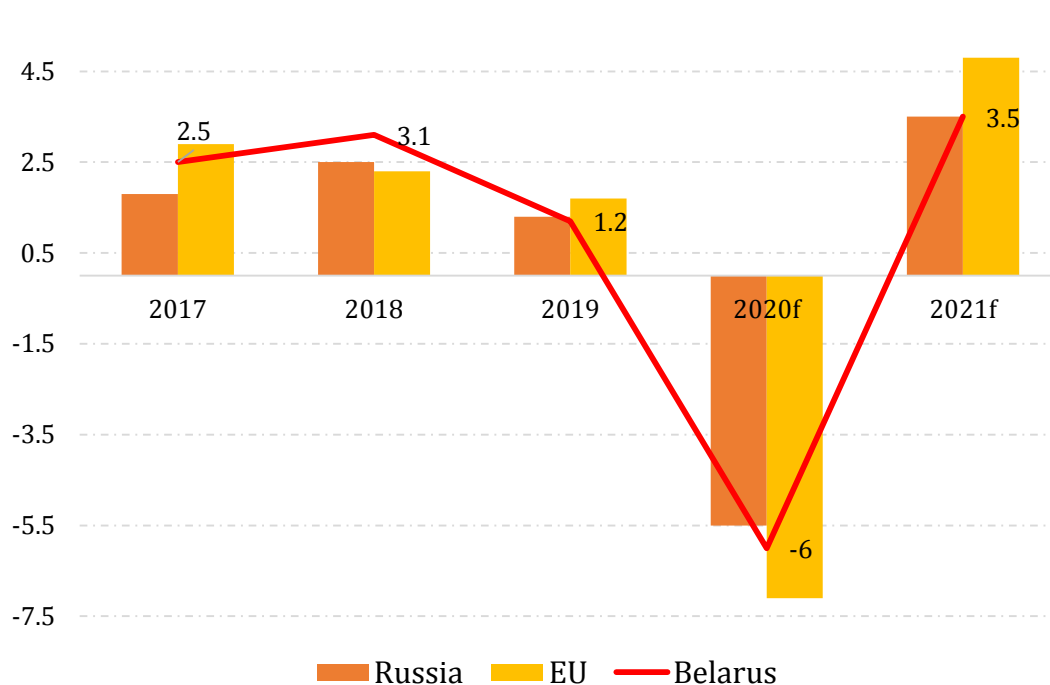


Source: RAEX-Europe calculations based on data from the MFRB

# Restricting factors

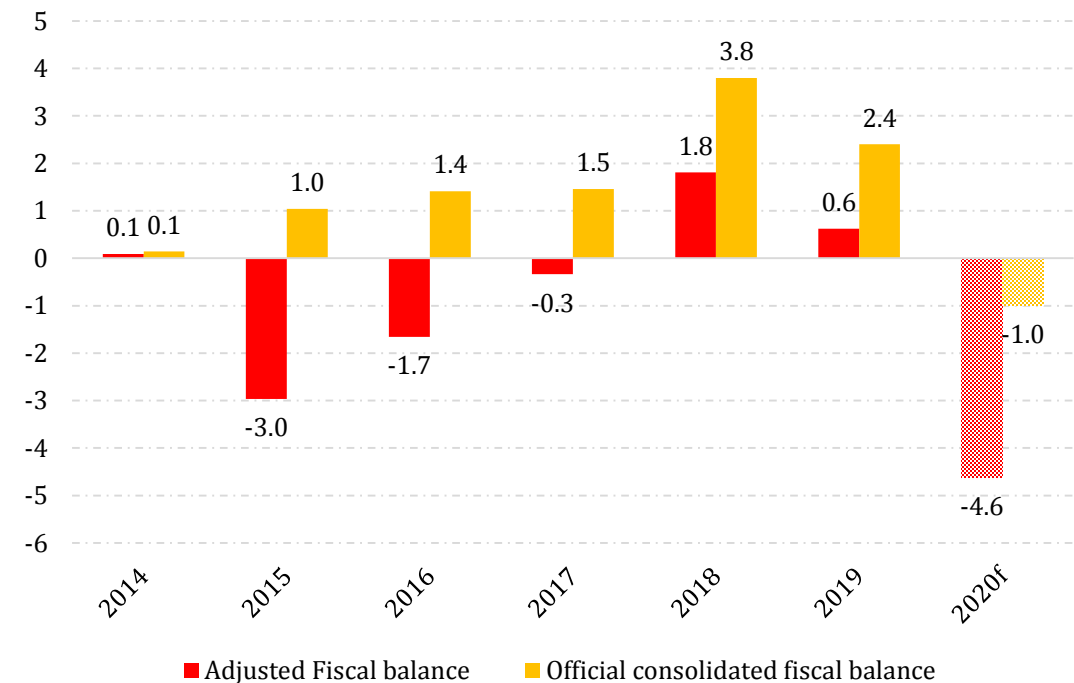
- **Coronavirus and oil shocks significantly worsen economic forecasts:**
  - We expect that the Belarusian economy will contract **by 6% this year**
- **Transition from surplus to consolidated budget deficit:**
  - The consolidated fiscal balance is estimated at **2,4% of GDP by end-2019 (0,6% adjusted for off-budget costs);**
  - In 2020 we expect we expect the **adjusted for off-budget costs deficit may reach 4-5% of GDP.**

Real GDP growth, % y-o-y



Source: RAEX-Europe calculations based on data from the IMF

The fiscal balance dynamics, %

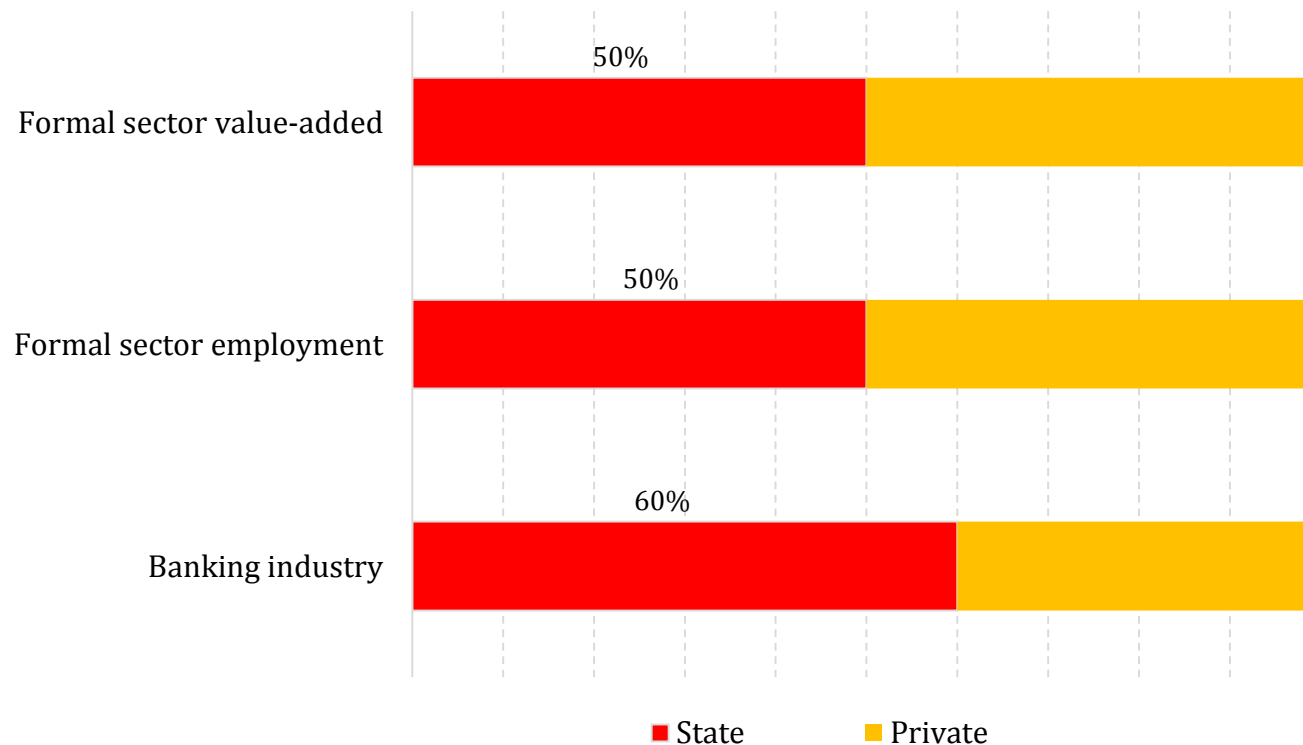


Source: RAEX-Europe calculations based on data from Belstat

# Negative factors

- **Excessive footprint of the state** in the economy
- The local capital market remains weak with **low market capitalization** of companies (7% of GDP) and **high concentration on the largest public issuers**

Footprint of the state in the economy, %

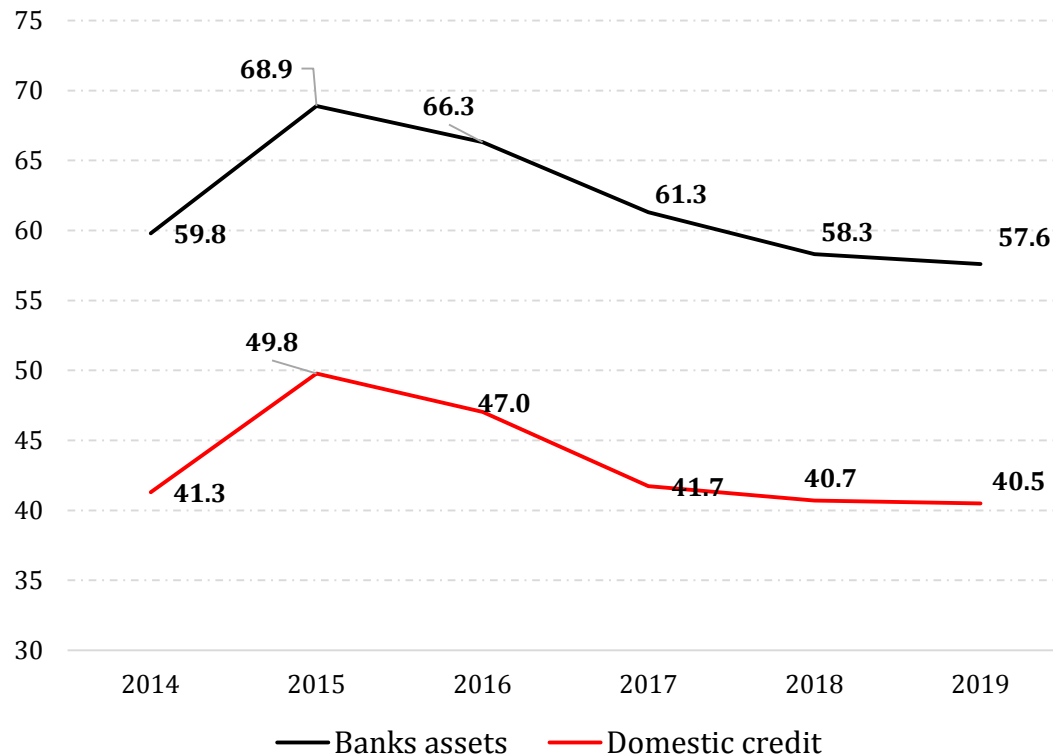


Source: RAEX-Europe calculations based on data from the IMF, NBRB

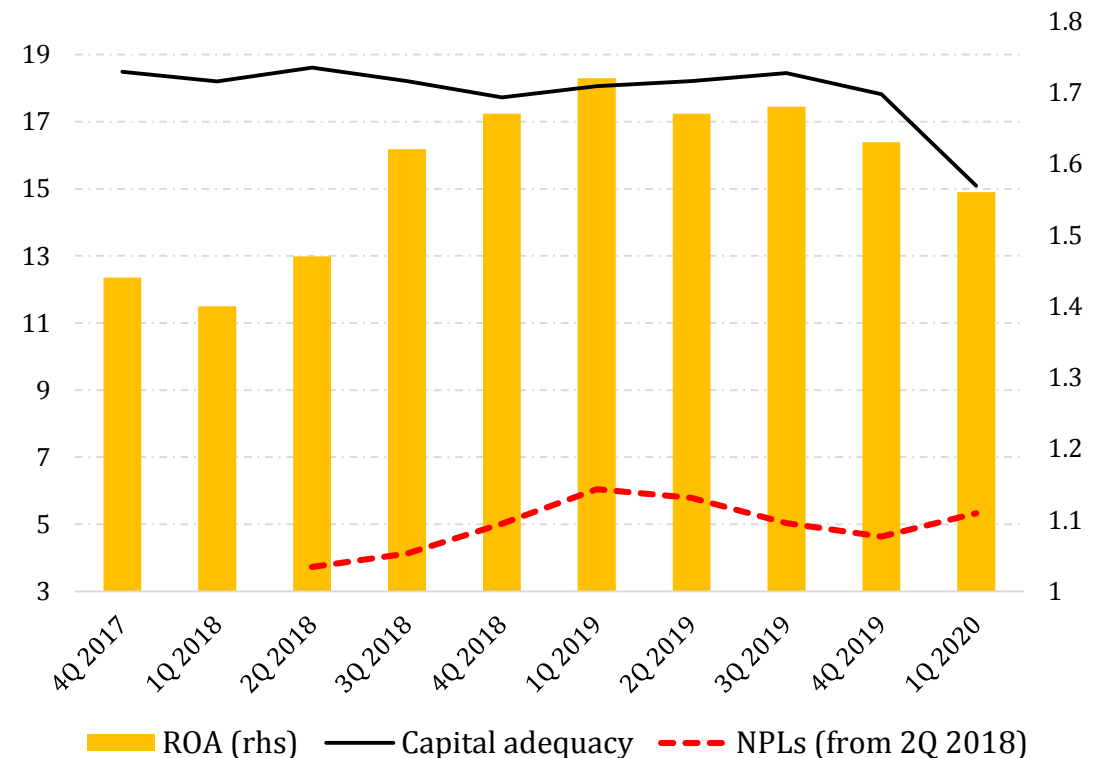
# Negative factors

- The banking sector is still weak with total assets estimated at around **57,6% of GDP** and **domestic credit at 40,5% of GDP** in 2019
- **Financial soundness indicators are stable, however are expected to worsen in the mid-run**

Total assets and credit to economy dynamics, % of GDP



Financial soundness indicators, %

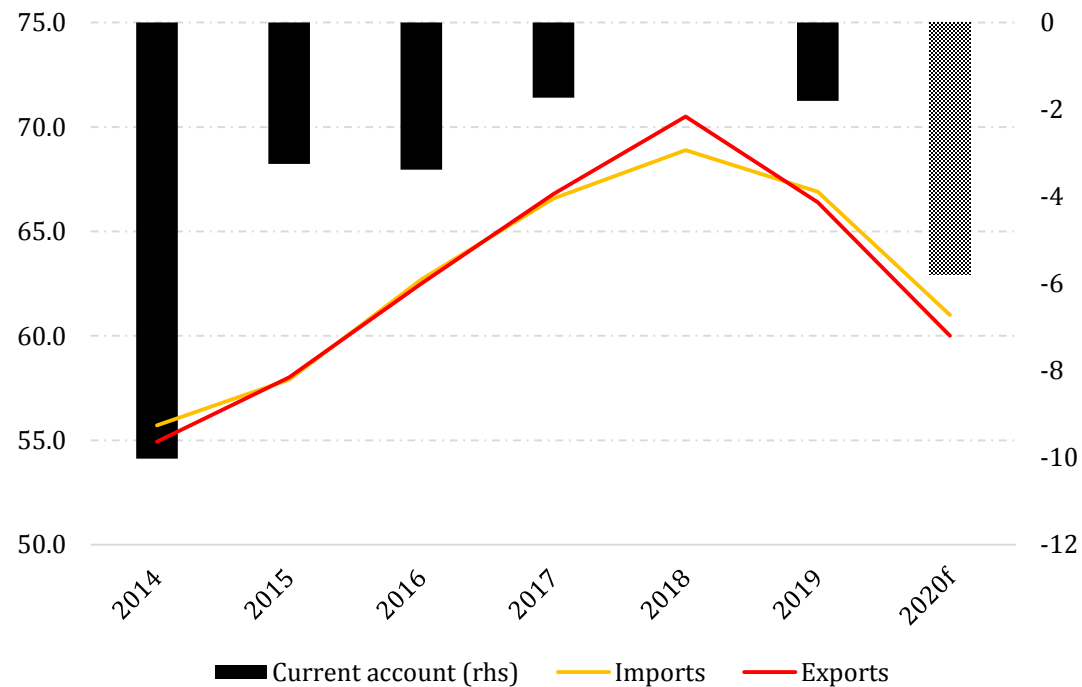


Source: RAEX-Europe calculations based on data from the IMF, NBRB

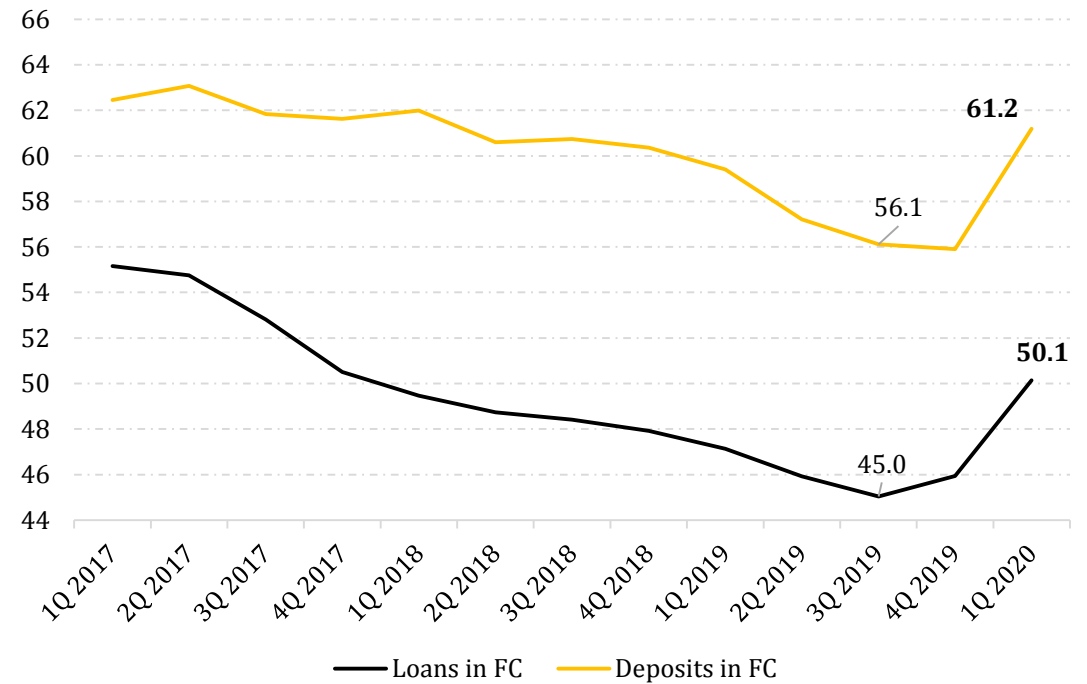
# Stress-factors

- Strong dependence on Russia creates risks for the external position
- Levels of financial dollarization remains one of the highest in the region

**External sector indicators, % GDP**



**Financial dollarization levels, %**



# Sensitivity assessment

**The following developments could lead to an upgrade:**

- Faster and stronger than anticipated **recovery of the global economy**, as well as the main trade partners, including Russia and EU, which can lead to an improvement of the external position of Belarus as well as faster to a recovery from the current crisis;
- Outstanding and gradual **improvement of financial dollarization levels**;
- Expansion and strengthening of the role of the **domestic financial market and the banking system**, which will enhance the efficiency of the transmission mechanism of monetary policy;
- Fundamental **reform of the public sector** with increased efficiency of SOEs, reduced the state's footprint and improved competitiveness of the economy.



# Sensitivity assessment

The following developments could lead to a downgrade:

- **Continued lock-down measures in the country and longer period of turbulence in the global economy**, including a second wave of COVID-19 pandemic, which would lead to further deterioration of the external position, as well as a deeper contraction of local economy;
- Changes in the format of **bilateral relations and agreements on a range of economic and financial issues with Russia**, which may lead to a worsening of the budgetary and external position;
- Significant **deviation from current monetary and fiscal policies**, which may lead to macroeconomic instability.

# Thank you for your attention!

Denys Anokhov  
Rating Analyst

**Rating-Agentur Expert RA GmbH**

Walter-Kolb-Straße 9-11, 60594 Frankfurt am Main

Tel. +49 69 3085 4500 ext. 1212

[www.raexpert.eu](http://www.raexpert.eu)

[anokhov@raexpert.eu](mailto:anokhov@raexpert.eu)