Russia Credit rating

Frankfurt am Main, June 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 **<u>April 2018</u>**:

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

INTERNATIONAL GROUP OF RATING AGENCIES

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 bond second opinion**
- **Business-conferences** and presentations in EU
- **Industry** and **socioeconomic research**

Russia
Credit Rating

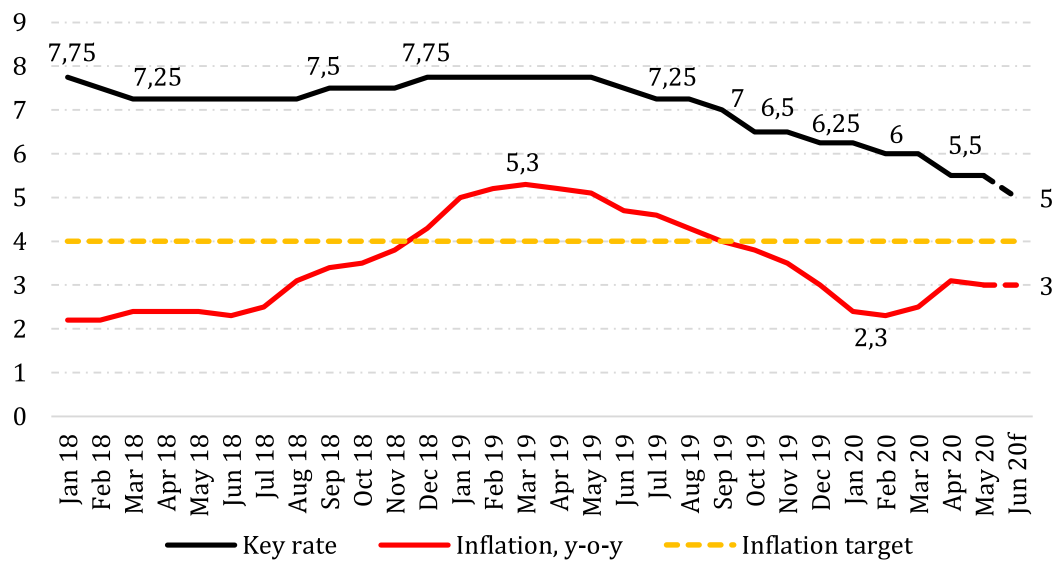
Sovereign rating list of RAEX-Europe:

Country	Sovereign government rating		Dynamics		Outlook		Date
	National currency	Foreign currency	National currency	Foreign currency	National currency	Foreign currency	
Armenia	BB-	BB-	Confirmed	Confirmed	Positive	Positive	10.01.2020
Azerbaijan	BB+	BB+	Confirmed	Confirmed	Negative	Negative	08.05.2020
Belarus	B	B	Confirmed	Confirmed	Positive	Positive	10.01.2020
Georgia	BB	BB	Confirmed	Confirmed	Stable	Stable	03.04.2020
Germany	AAA	AAA	Confirmed	Confirmed	Stable	Stable	28.02.2020
Kazakhstan	BBB-	BBB-	Confirmed	Confirmed	Stable	Stable	12.06.2020
Kyrgyzstan	B	B	Confirmed	Confirmed	Stable	Stable	27.12.2019
Russia	**BBB-**	**BBB-**	**Confirmed**	**Confirmed**	**Stable**	**Stable**	**12.06.2020**
Tajikistan	B	B-	Confirmed	Confirmed	Negative	Negative	07.02.2020
Uzbekistan	BB-	BB-	Confirmed	Confirmed	Stable	Stable	06.03.2020

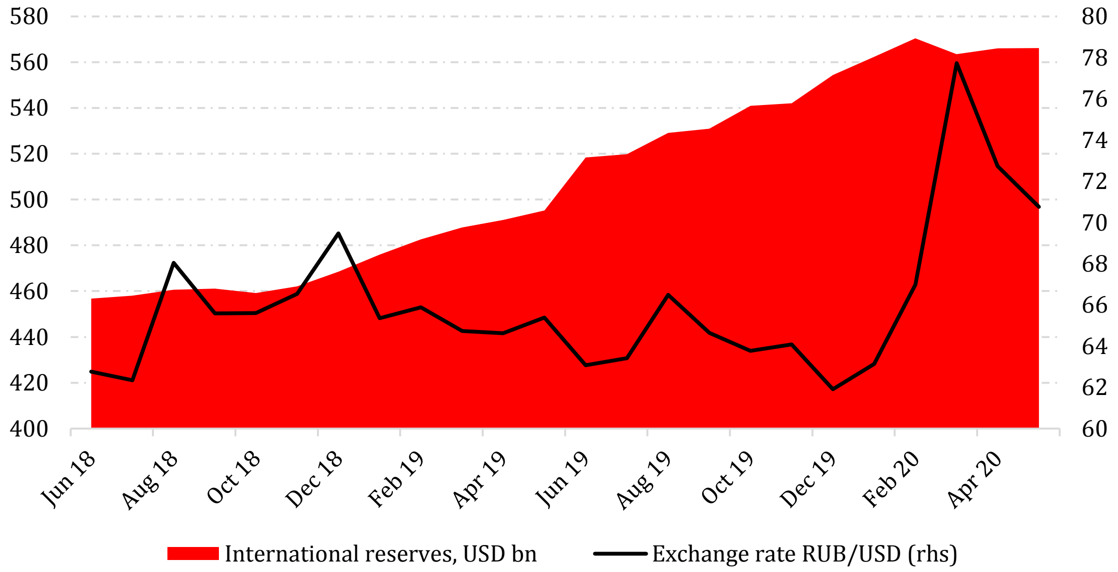
Positive factors

- **Effective and consistent monetary policy:**
  - Inflation targeting and floating exchange rate regimes
  - Annual inflation rate has dropped to 3% in December 2019 and the Central Bank is continuing the easing cycle
- **The external position is** robust with rising resistance to external shocks, supported by a free-float exchange rate regime and significant accumulation of international reserves

Monetary policy metrics, %



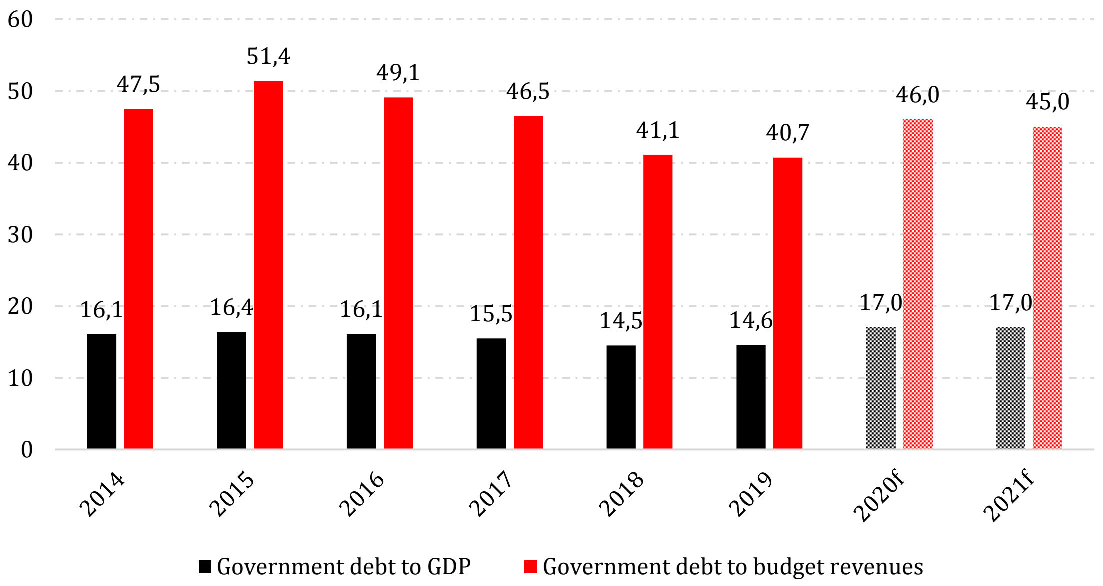
International reserves and exchange rate



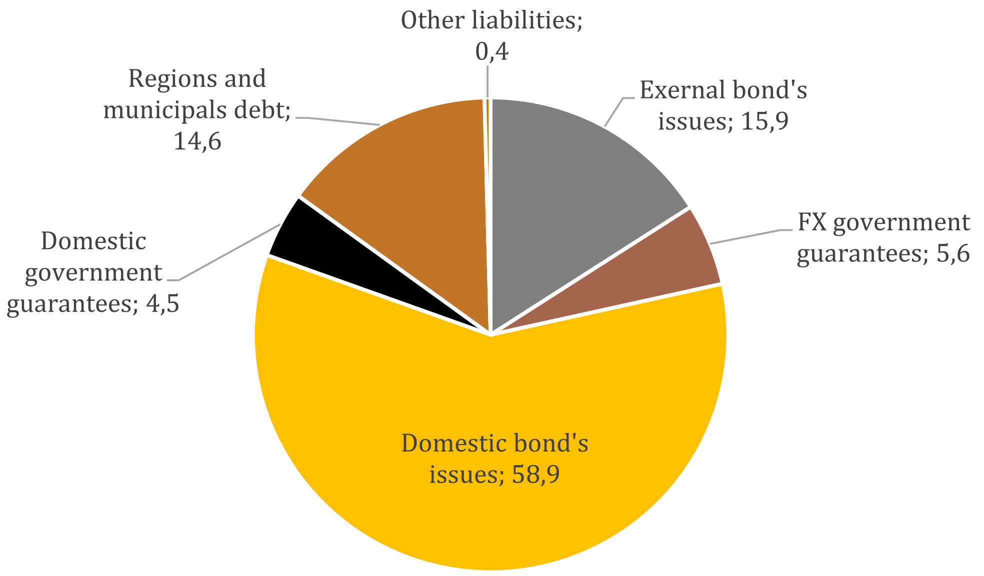
Positive factors

- **Government's low debt burden:**
  - General government debt stabilized at 14,6% of GDP and 40,7% of budget revenues as of the end of 2019
  - Low exposure to currency risk (the share of FX debt is 21% as of December 2019)
  - Favorable short-term debt level

Government debt dynamics, %



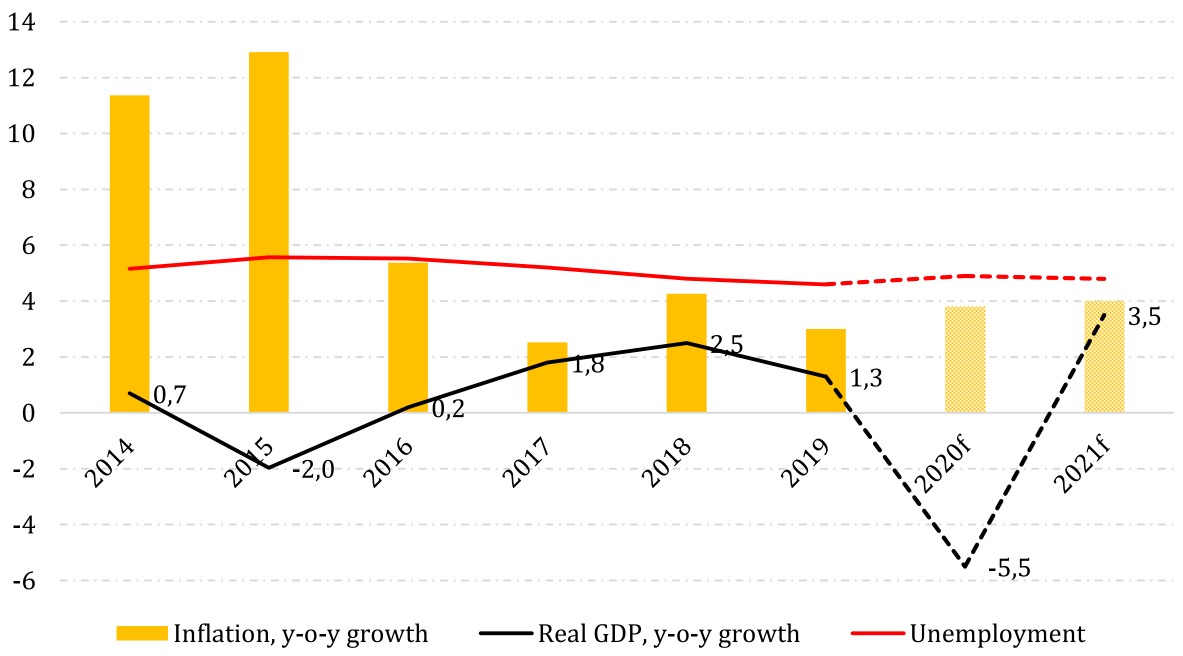
Government debt structure as of April 2020



Restricting factors

- Projected **strong decline in GDP in 2020** caused by the impact of the pandemic
  - In 2019, the economy grew at a slow pace of 1,3%
  - Sharp decline up to -6% expected in 2020 due to coronavirus crisis
  - Prospects for growth will depend largely on the scale and effectiveness of economic stimulus

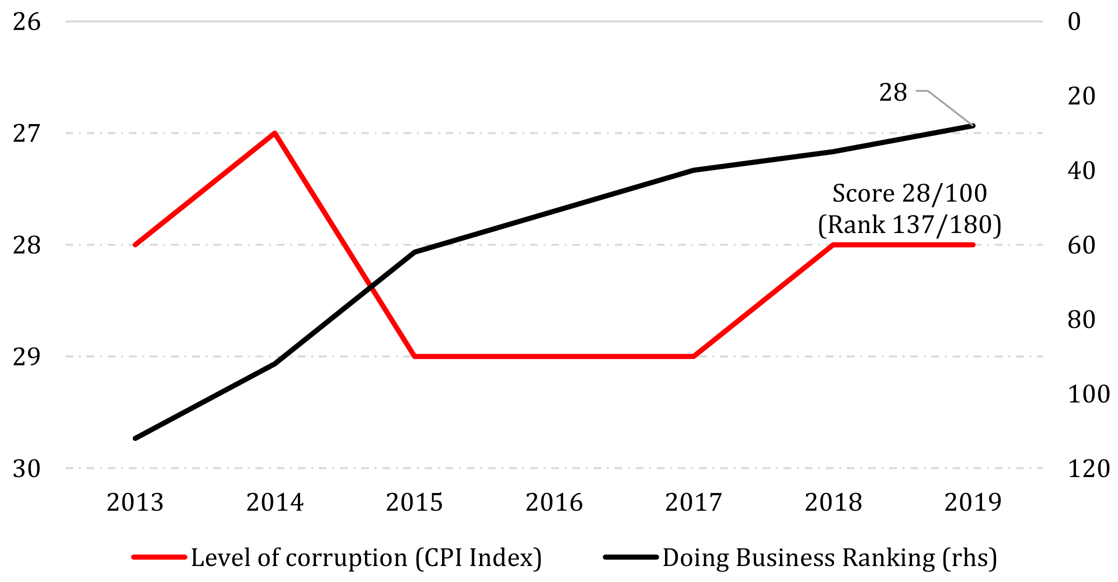
Macroeconomic indicators, %



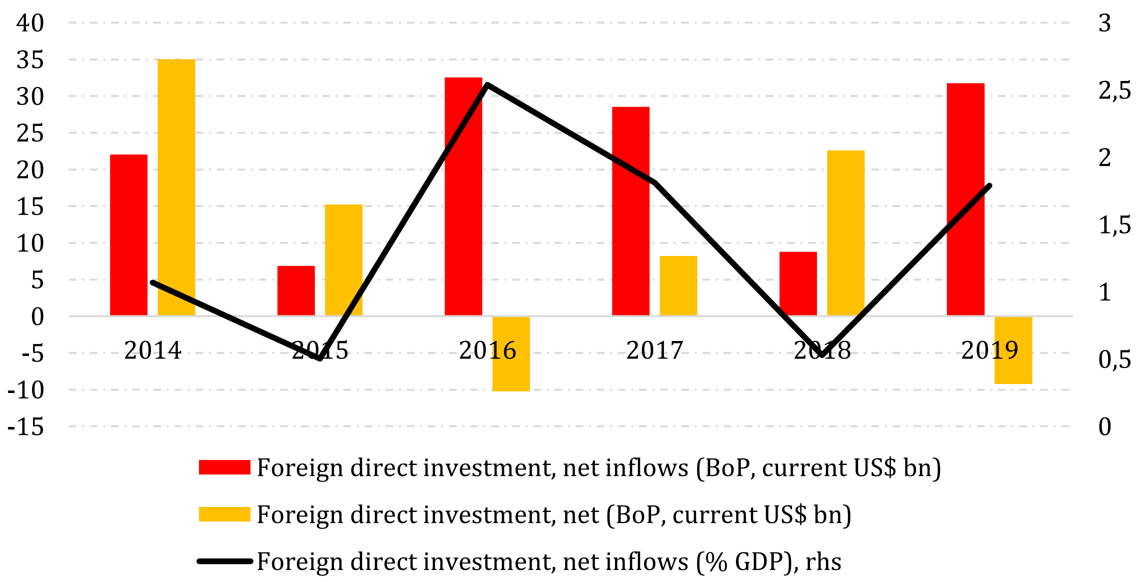
Restricting factors

- The **economic competition and business efficiency** in Russia is primarily limited by the weakness of its institutions and the significant footprint of the state
- **Net FDI inflows** in 2019 were 3x higher than in 2018, returning to a stable level, however this was primarily due to technical flows between companies and their overseas shareholders

Institutional development indicators



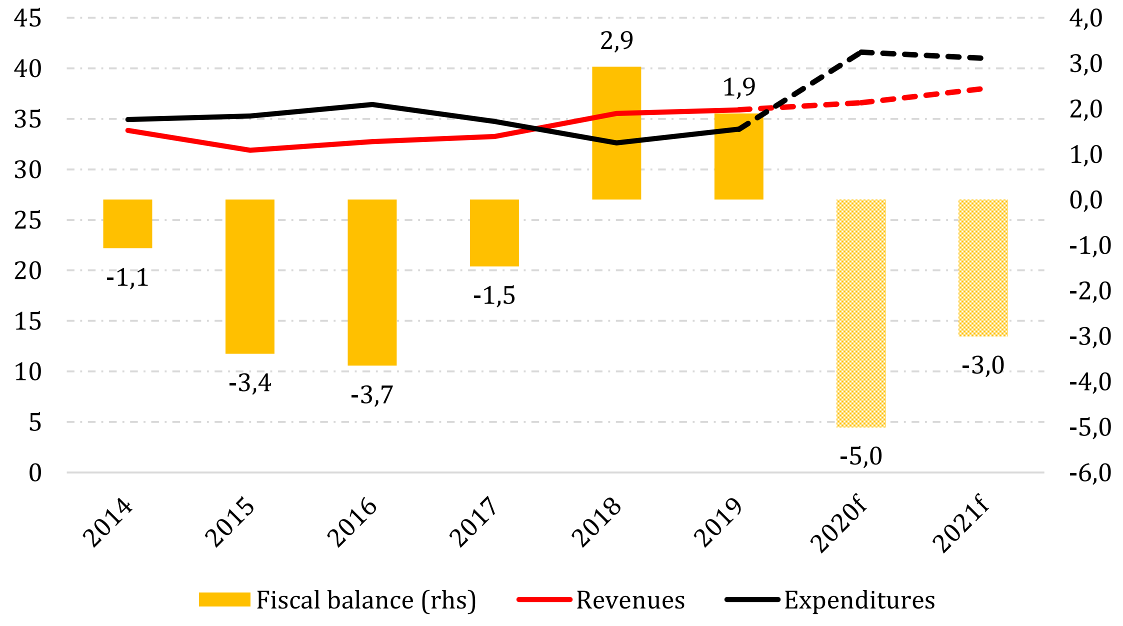
FDI dynamics, % of GDP



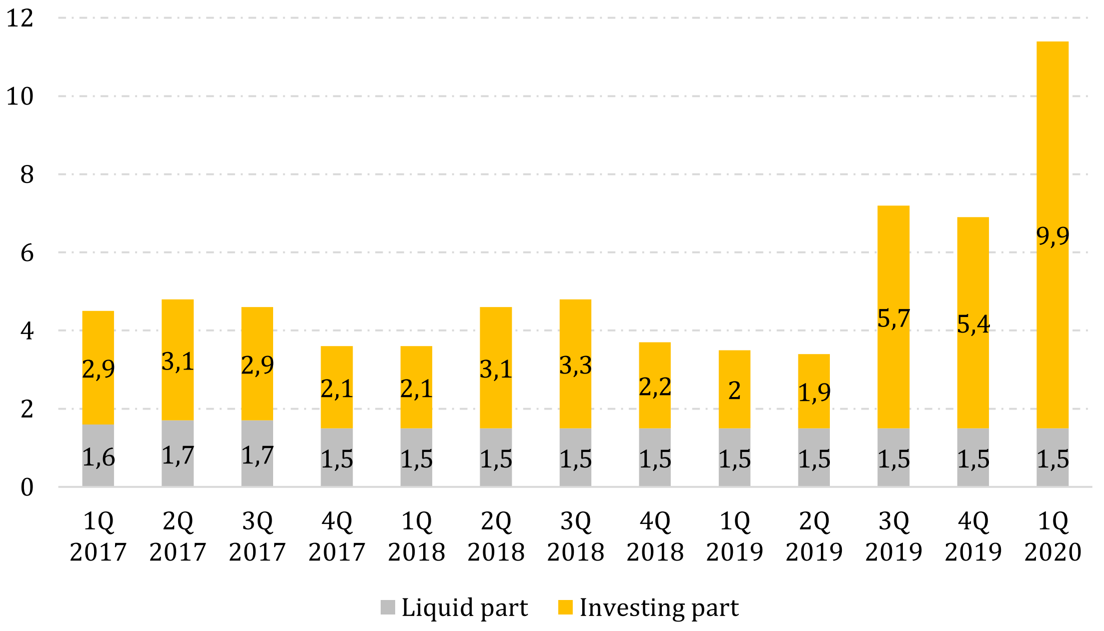
Restricting factors

- **Transition from surplus to consolidated budget deficit:**
  - The consolidated budget surplus reached 1,9% of GDP in 2019 through strong growth in non-oil revenues
  - In 2020, we anticipate a transition from a surplus to a budget deficit that may exceed 5% of GDP
  - Fiscal worsening is protected by the budget rule, under which the government can use resources of the NWF

Fiscal budget dynamics, % of GDP



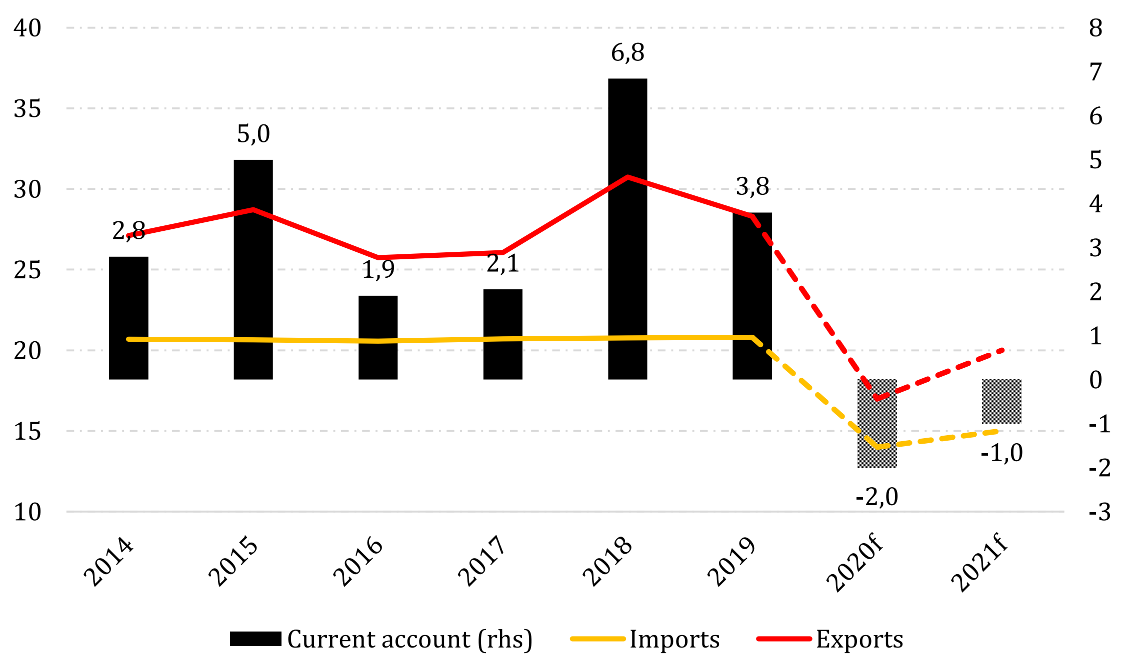
National Wealth Fund, % of GDP



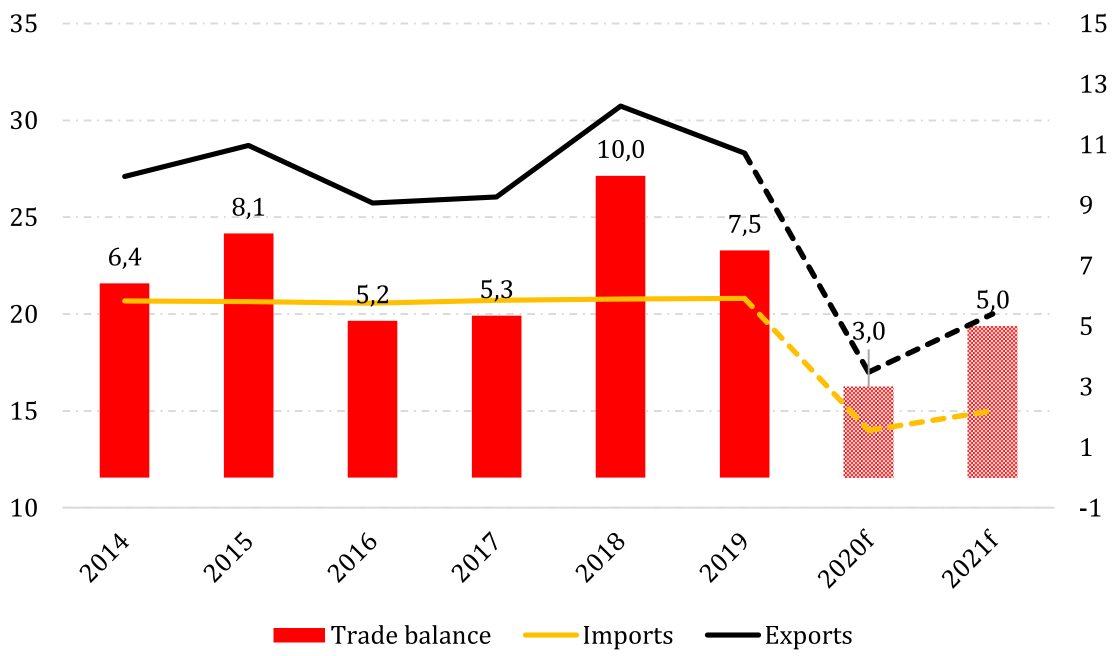
Restricting factors

- **Balance of payment deterioration**:
  - The current account surplus contracted to 3,8% of GDP in 2019
  - Sharp decline in export in 2020 due to lower hydrocarbon's prices and external demand

Current account indicators



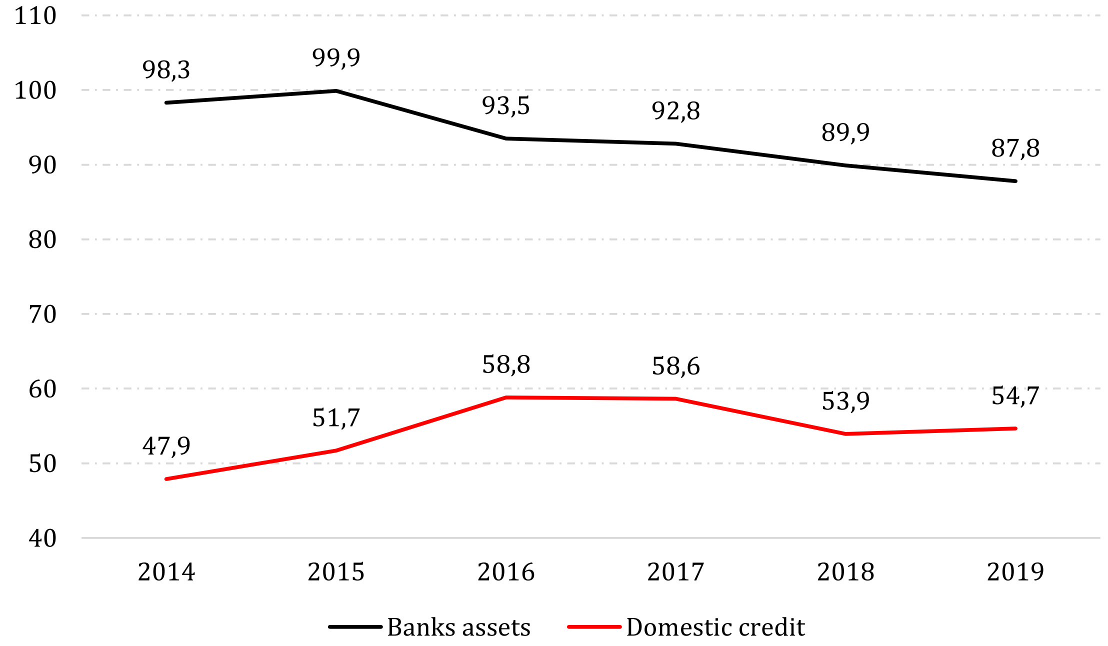
Trade balance, % of GDP



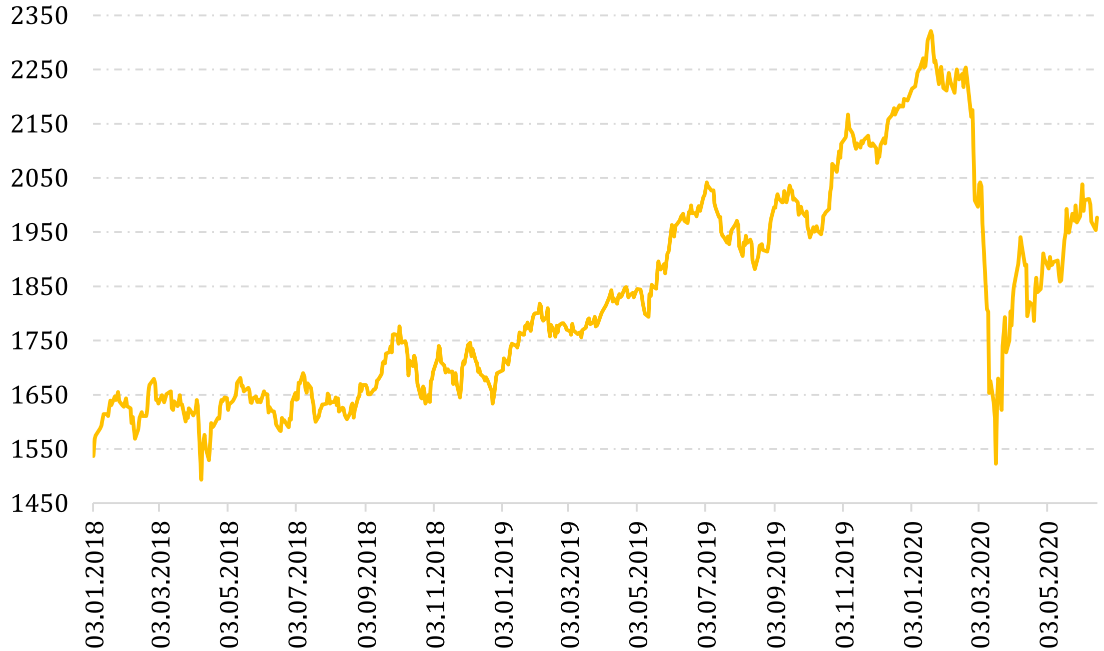
Restricting factors

- The total **capitalization of the stock market** increased to 44,2% of GDP in 2019, yet it is well below the world indicators of developed countries
- **The level of private credit to GDP is declining and stood at 54,7% in 2019**, which is significantly lower than the same metric in Russia's BRICS peers

Credit to the economy dynamics, % of GDP



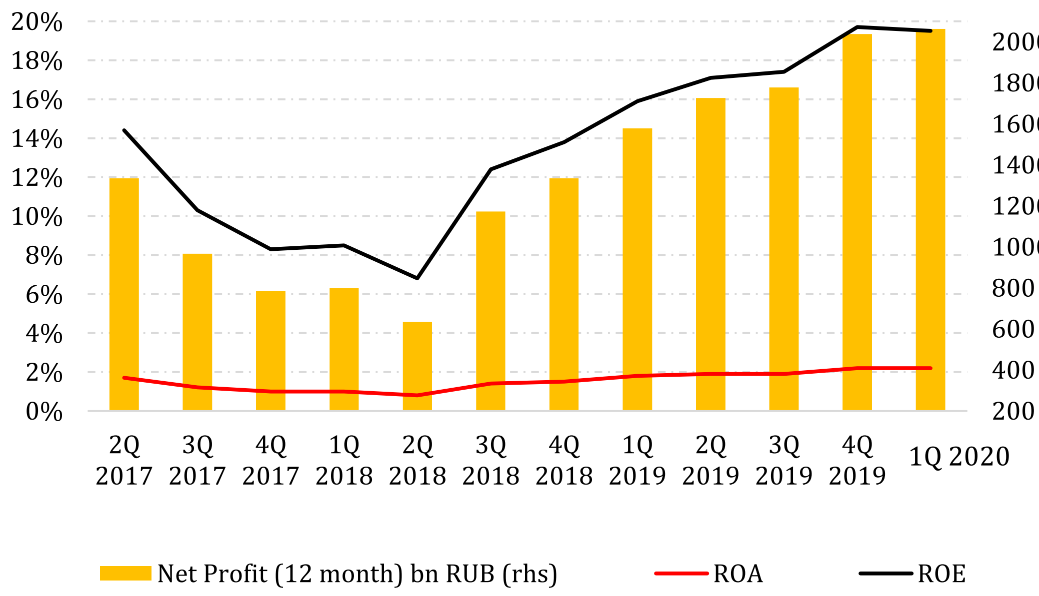
MOEXBMI index dynamic



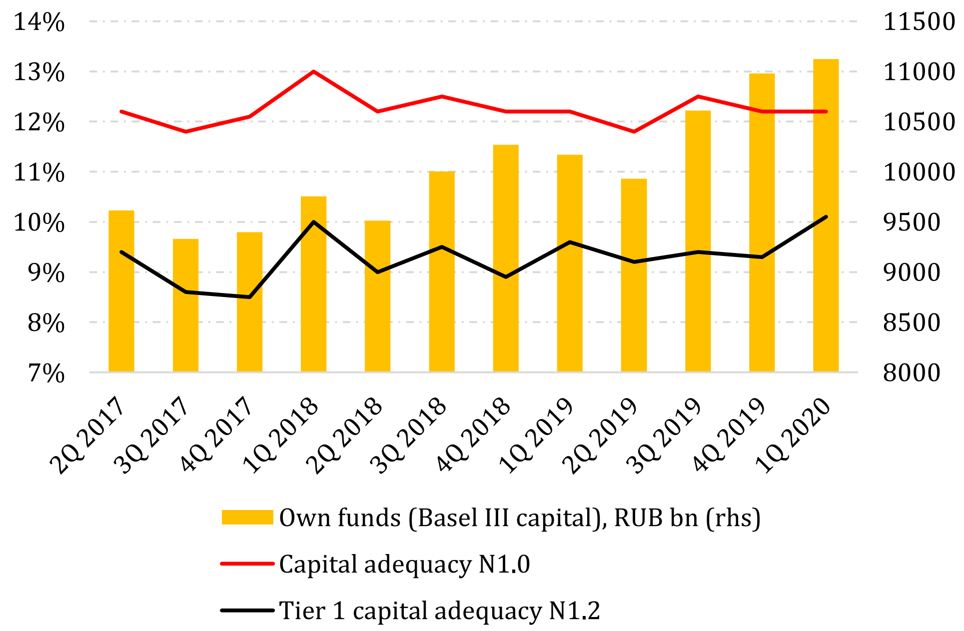
Restricting factors

- Banks increased profitability in 2019, with a significant contribution from the largest SOBs. However, in Q1 2020 the share of **loss-making banks almost doubled**
- Capital adequacy and liquidity levels remain acceptable. The accumulated capital stock could ease the pressure of expected deterioration in loan quality.

Profitability metrics



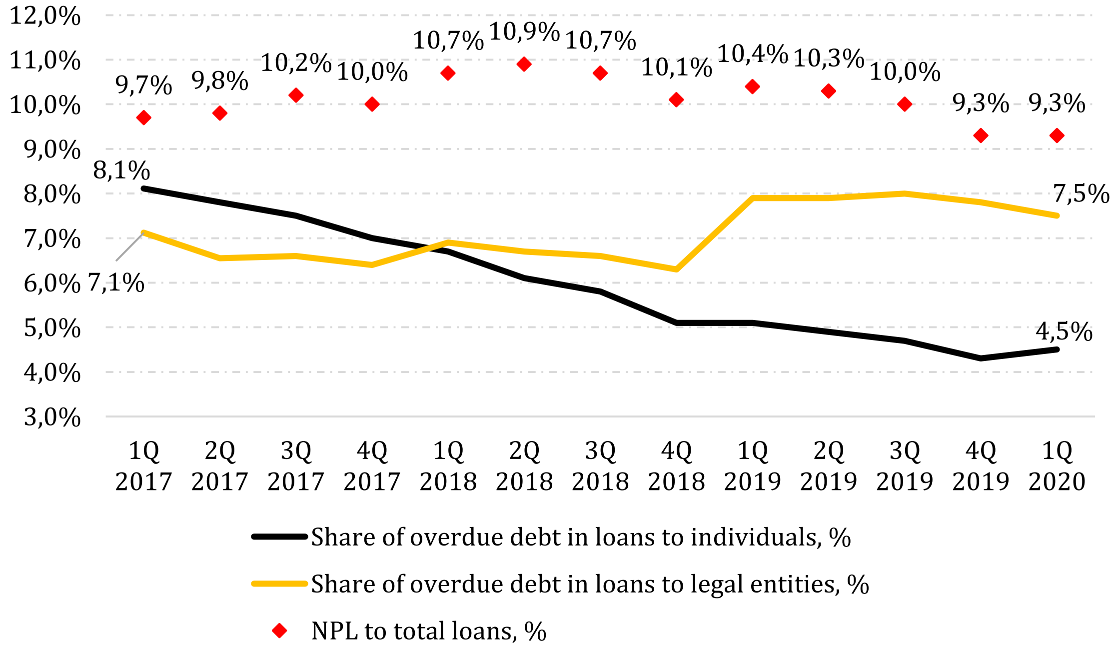
Capital adequacy metrics, %



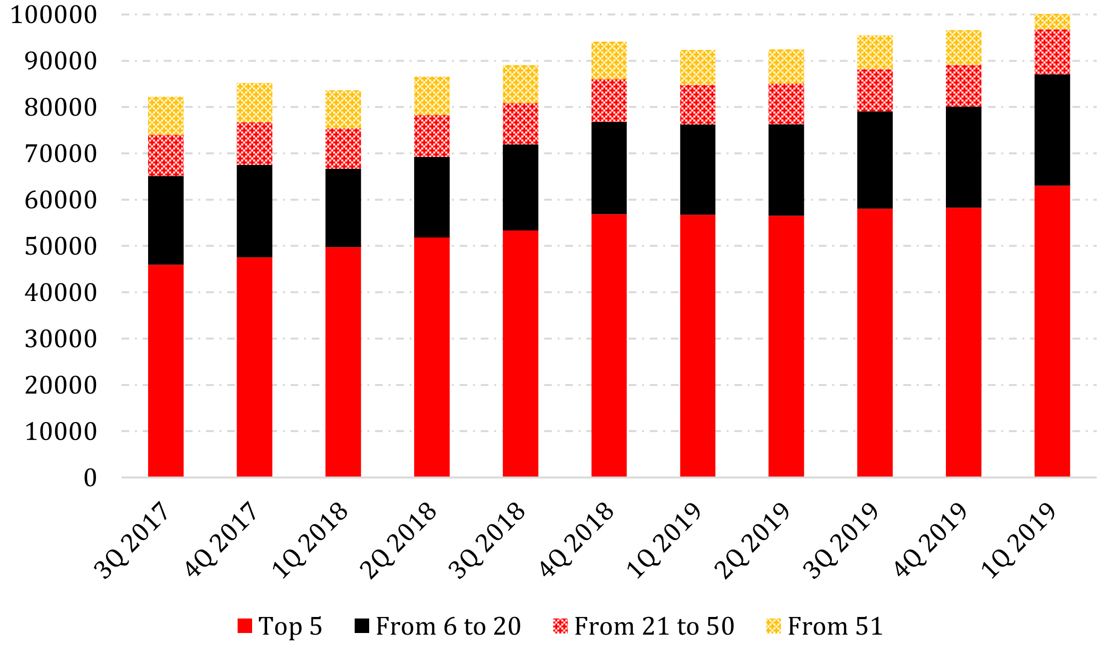
Negative factors

- Heightened risk of **loans' quality** deterioration:
  - NPLs to total loans ratio, despite decreasing by 0,8p.p. in 4Q 2019 y-o-y, remains high at 9,3%
  - In 2020 an increase in NPLs is expected caused by the worsening financial situation and customer defaults
- The **increasing influence and presence of the state**, especially in the banking and oil and gas sectors, is the main structural weakness of the economy that restrains competition and business efficiency.

Quality of loans, %



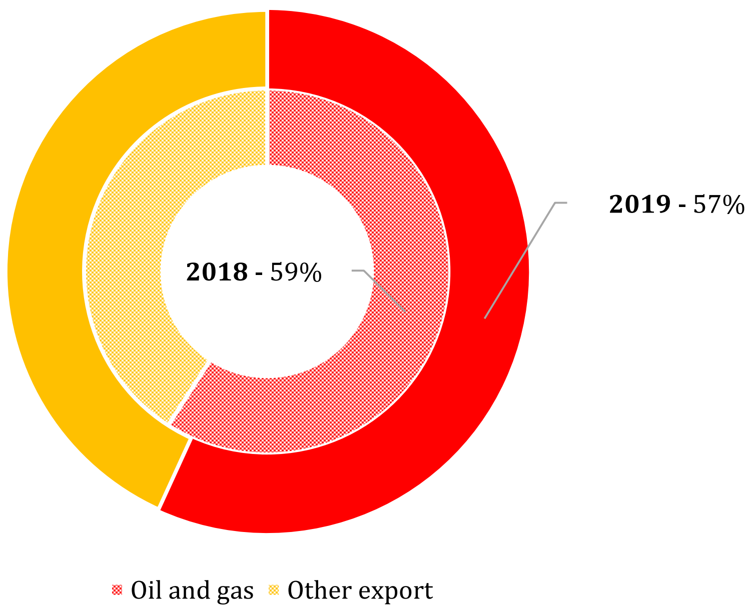
Market structure, RUB bn



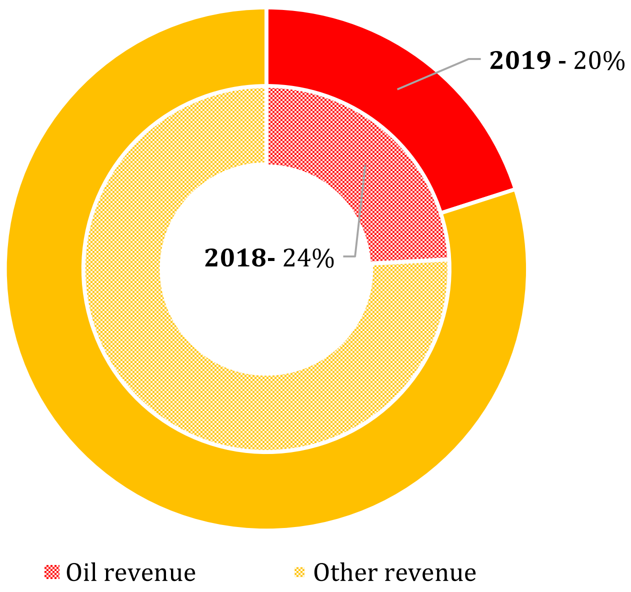
Stress factors

- **High dependence and concentration** on oil and gas industry remains high
  - Share of oil and gas in exports - up to 57% in 2019
  - Share of oil-gaz-related budget revenue – 20% in 2019
- **Sanctions risks :** the stability of the economy is threatened by **sanctions risks** associated with current and possible restrictions on business and the financial industry

Share of oil and gas in export, %



Share of oil-related budget revenues, %



Sensitivity assessment

The following developments could lead to an upgrade:

- Increase in the oil prices higher than our base scenario to support GDP growth and the external trade position;
- Faster and stronger than originally anticipated recovery from the current economic crisis with higher non-oil GDP growth and improvement of non-oil fiscal balance;
- Relaxation of sanctions regime could be an incentive for the revival of the investment climate and reverse the outflow of the foreign capital.

The following developments could lead to a downgrade:

- Significant deviation from current monetary and fiscal policies, which may lead to macroeconomic instability;
- Weakening of the banking system, which would materialize contingent liabilities of the government;
- Increasing pressure from international sanctions against large state-owned banks and the oil and gas sector, which may lead to materialization of implicit contingent liabilities;

Thank you for your attention!

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