

# Sovereign Risks in CIS countries

Budapest, 7 May 2019

# Agenda

- About RAEX
- Overview of sovereign risks in CIS countries
- Russia, Belarus and Moldova
- Caucasus Region
- Central Asia Region
- Belt and Road Report 2018

# About RAEX

# Rating-Agentur Expert RA (RAEX-Europe)

- The Agency is active since 2013 in **Frankfurt am Main**
- **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
- RAEX Group has more than **20 years of experience** in the rating industry

# 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
  - ✓ Companies from non-financial sectors
- 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

# Overview of sovereign risks in CIS countries

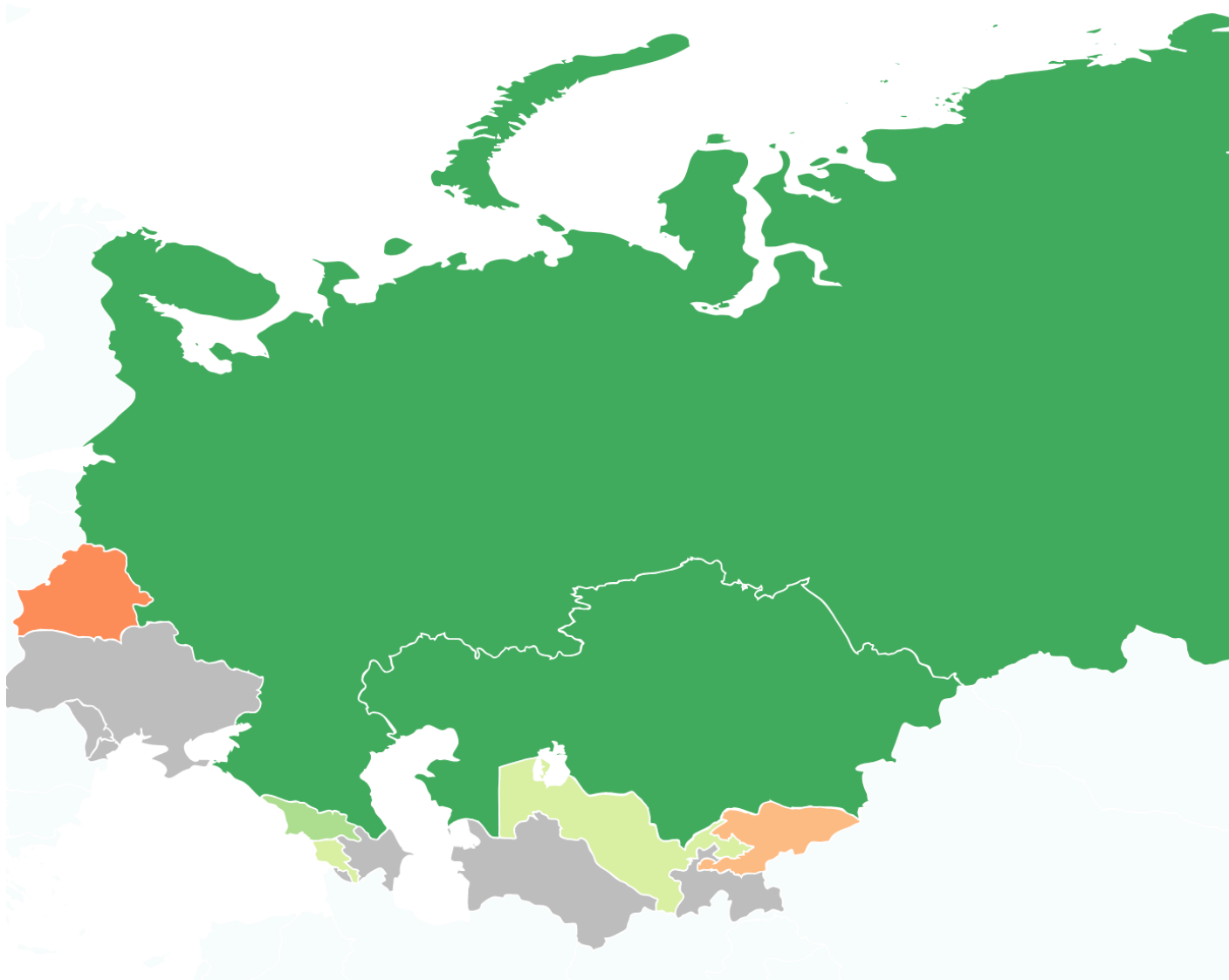
# Sovereign rating list of RAEX-Europe:

Country	Sovereign government rating		Dynamics		Outlook		Latest review date / Planned publication
	National currency	Foreign currency	National currency	Foreign currency	National currency	Foreign currency	
Armenia	BB-	BB-	Confirmed	Confirmed	Stable	Stable	18.01.2019
Azerbaijan	Not public		Not public		-	-	10.05.2019
Belarus	B	B-	Confirmed	Confirmed	Positive	Positive	18.01.2019
Georgia*	BB	BB	Initial assignment	Initial assignment	Stable	Stable	05.04.2019
Germany*	AAA	AAA	Confirmed	Confirmed	Stable	Stable	01.03.2019
Kazakhstan	BBB-	BBB-	Confirmed	Confirmed	Stable	Stable	21.12.2018
Kyrgyzstan	B	B	Confirmed	Confirmed	Stable	Stable	04.01.2019
Russia	BBB-	BBB-	Confirmed	Confirmed	Stable	Stable	21.12.2018
Tajikistan	Not public		Not public		-	-	10.05.2019
Uzbekistan	BB-	BB-	Upgraded	Upgraded	Stable	Stable	08.03.2019

\* Not CIS members



# Sovereign credit ratings of CIS countries

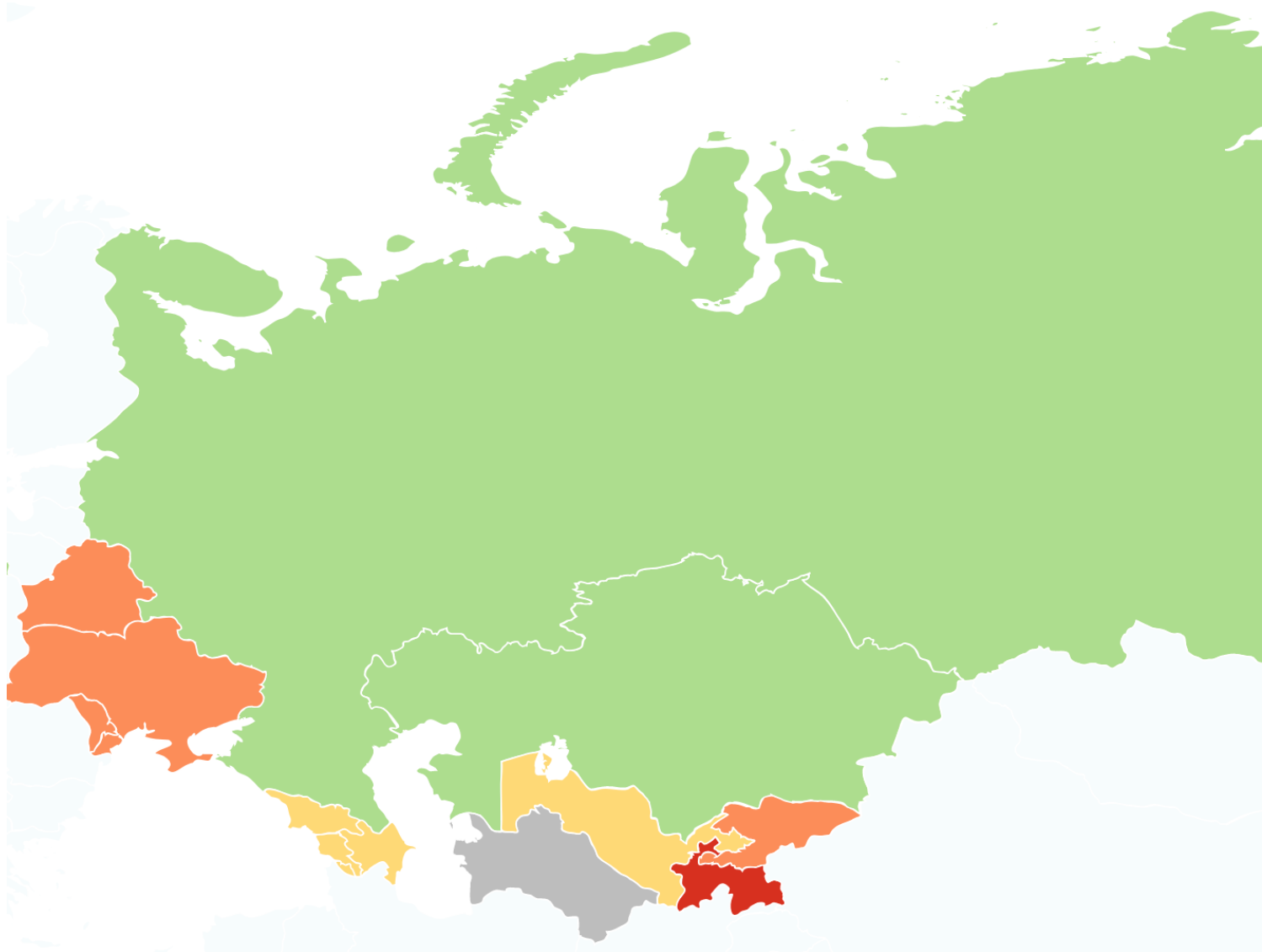


Country	Sovereign government rating	
	National currency	Foreign currency
Russia	BBB-	BBB-
Kazakhstan	BBB-	BBB-
Georgia*	BB	BB
Armenia	BB-	BB-
Uzbekistan	BB-	BB-
Kyrgyzstan	B	B
Belarus	B	B-

\* Not CIS member

Source: RAEX-Europe

# Sovereign risks of CIS countries



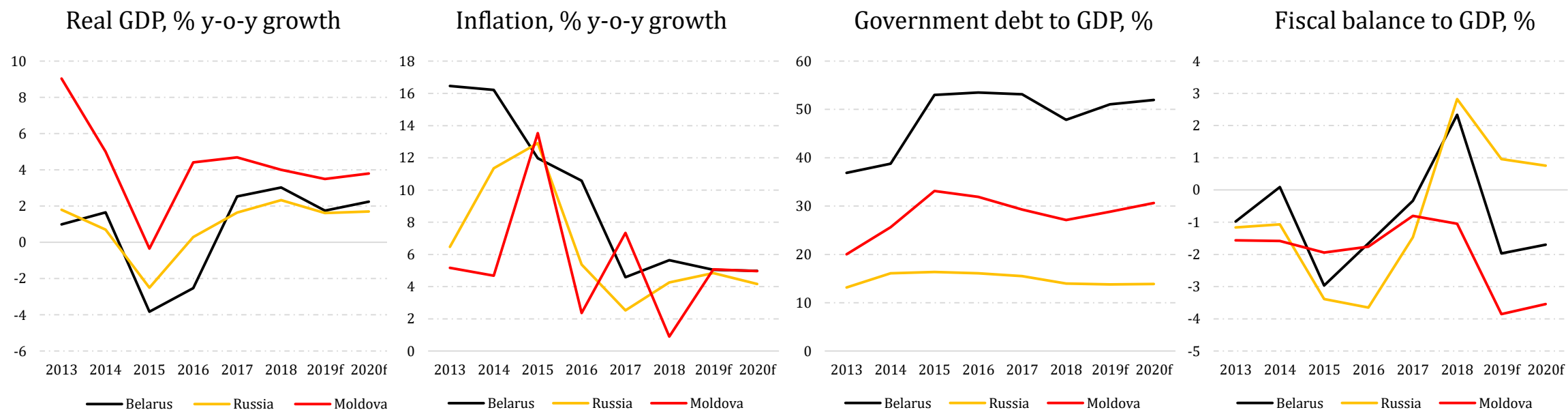
Risk levels	
	Moderately low level of risks
	Moderate level of risks
	Moderately high level of risks
	High level of risks

Source: RAEX-Europe

# Russia, Belarus and Moldova

# Dynamics: Russia, Belarus and Moldova

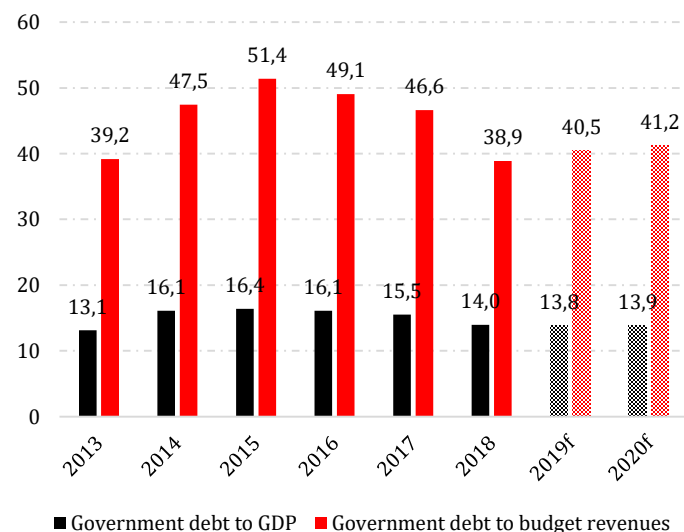
- **Russia:** better fiscal and debt position, but slower economic growth
- **Belarus:** declining inflation vs elevated debt load
- **Moldova:** very volatile inflation combined with wider deficit



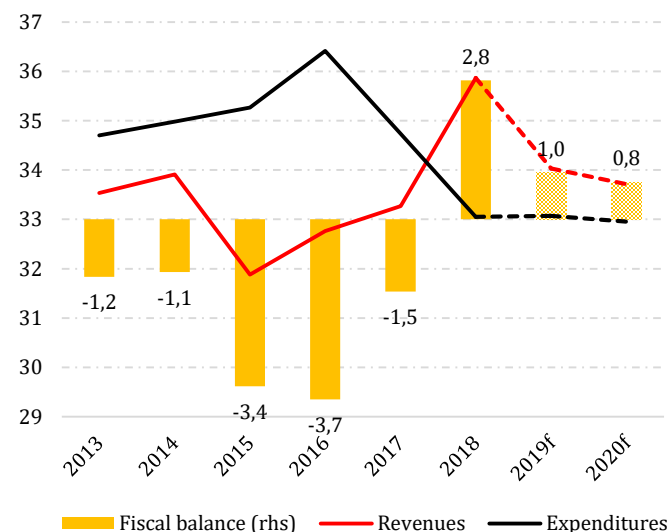
# Russia

- Material negative effects from existing and potential **international sanctions...**
- ...balanced by **solid fiscal, debt and macroeconomic position.**
- While **oil and gas dependency** remains long-term risk factor

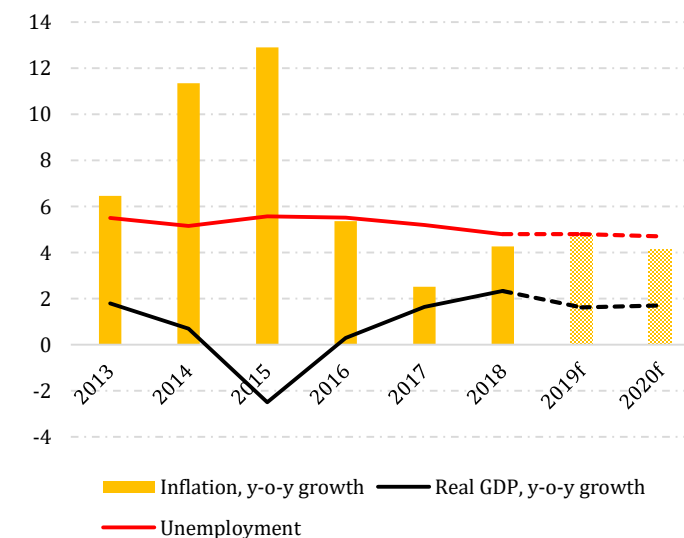
Government debt dynamics, %



Fiscal budget dynamics, % of GDP



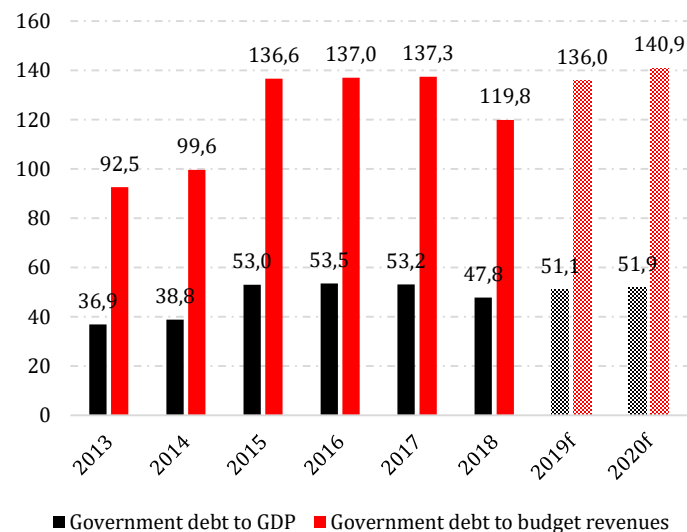
Macroeconomic indicators, %



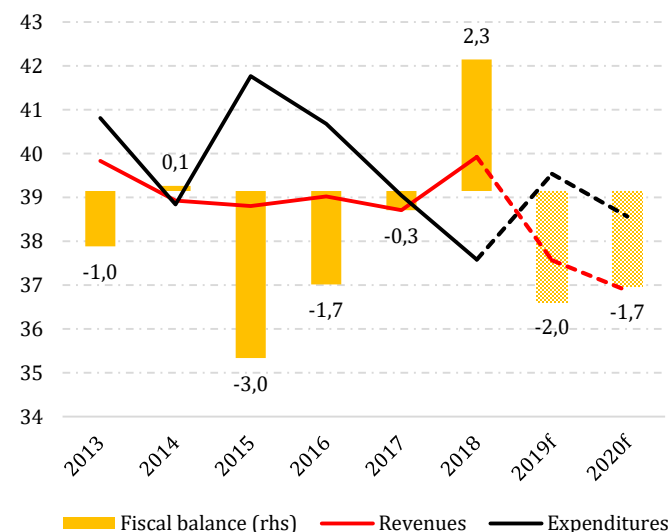
# Belarus

- Ongoing **economic recovery**, improvement of the **banking system metrics**, **acceptable fiscal deficit** and positive structure of debt in terms of **creditors**
- High overall **debt levels** and **unfavorable currency structure**, **volatile inflation**, persistent **contingent liabilities** of the government
- **Dollarization** and **dependency** on Russia remain risk-factors

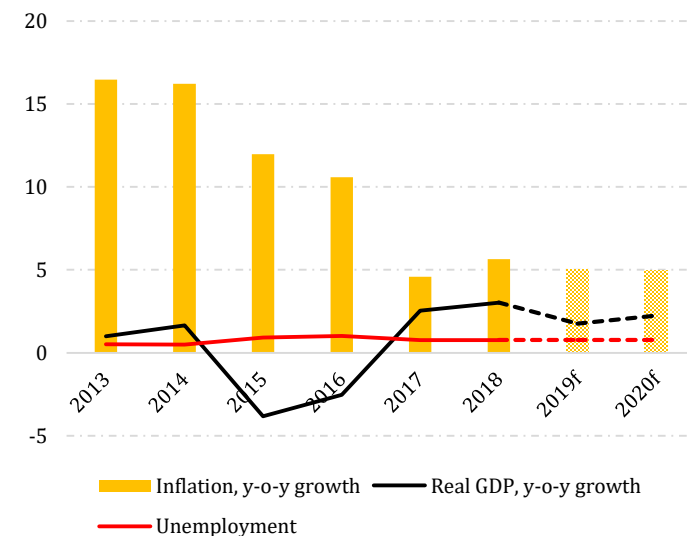
Government debt dynamics, %



Fiscal budget dynamics, % of GDP



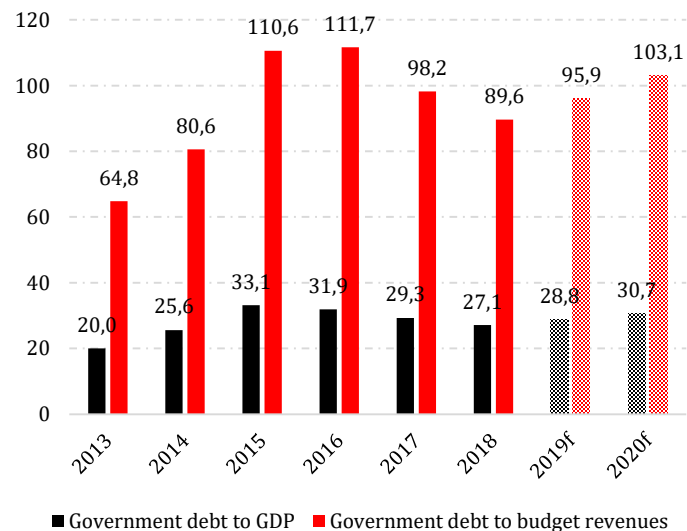
Macroeconomic indicators, %



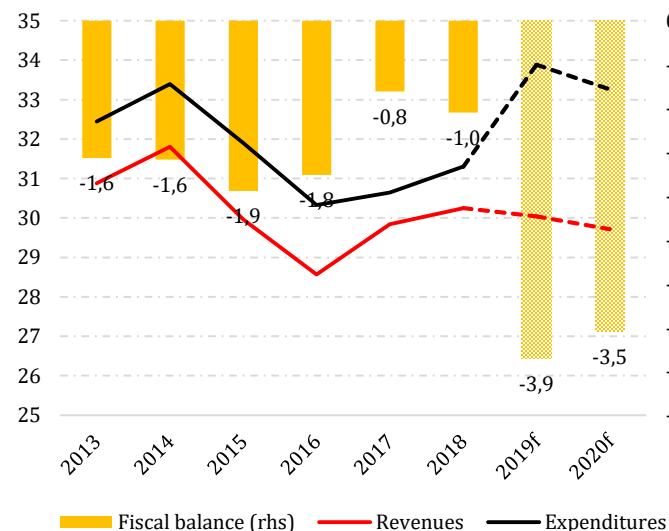
# Moldova

- Sufficient **real GDP growth**, moderate levels of government **debt and deficit**, as well as **improving institutional development**
- Low level of **economic development** combined with strong exposure to **external shocks**, as well as **elevated banking system** and **political risks** despite improvement over the last years

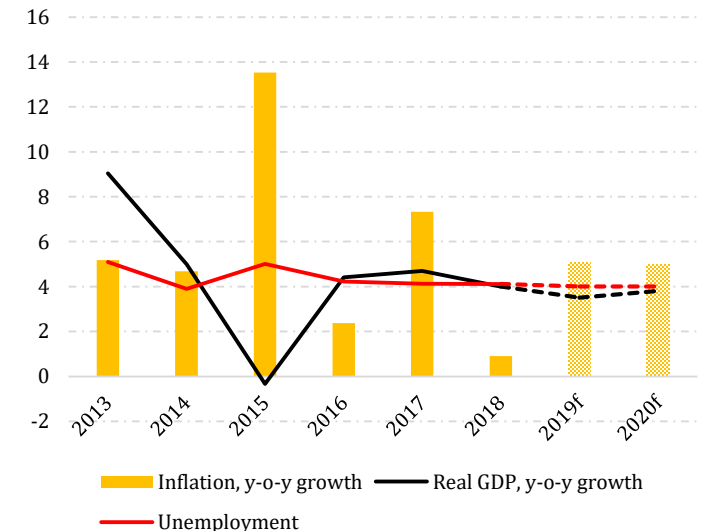
Government debt dynamics, %



Fiscal budget dynamics, % of GDP



Macroeconomic indicators, %

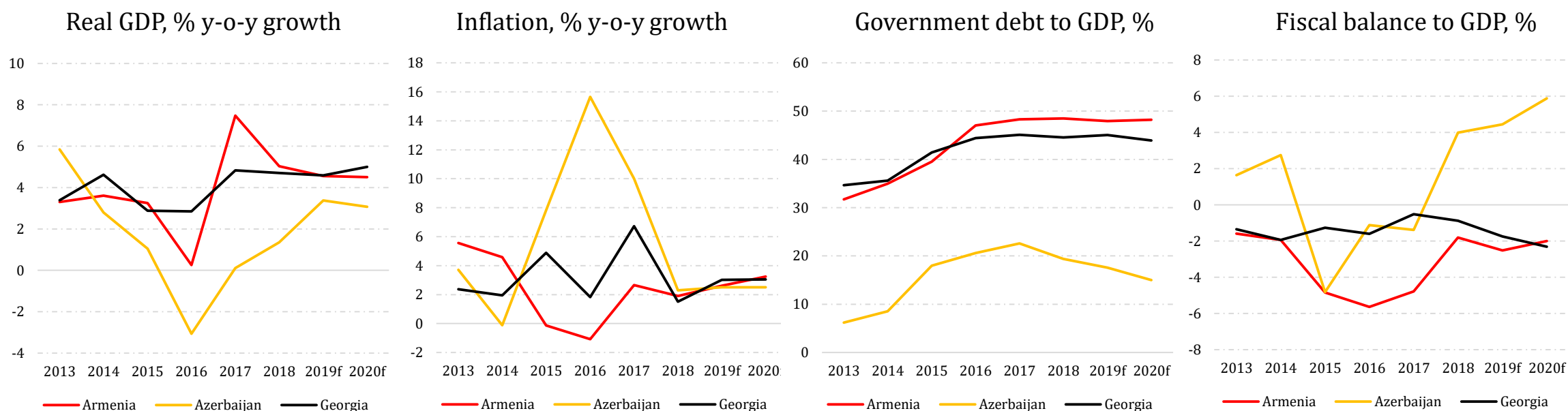


# Caucasus Region



# Dynamics: Armenia, Azerbaijan and Georgia

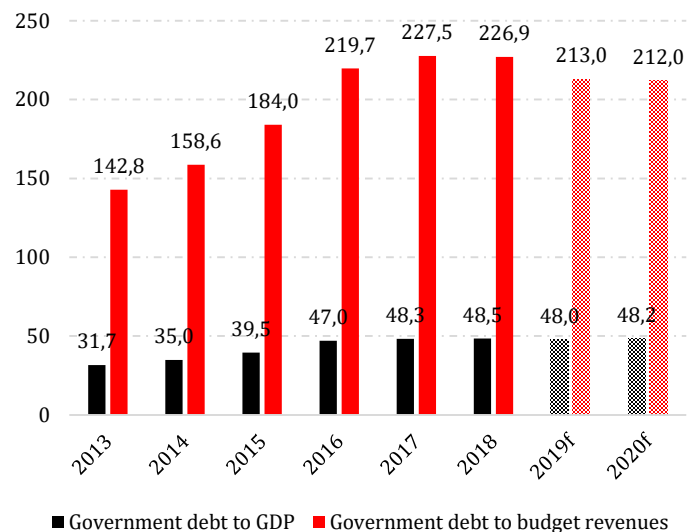
- **Azerbaijan:** strongest fiscal and debt position, but slower economic growth
- **Armenia:** higher debt load and deficit
- **Georgia:** more stable economic growth with expected higher deficit



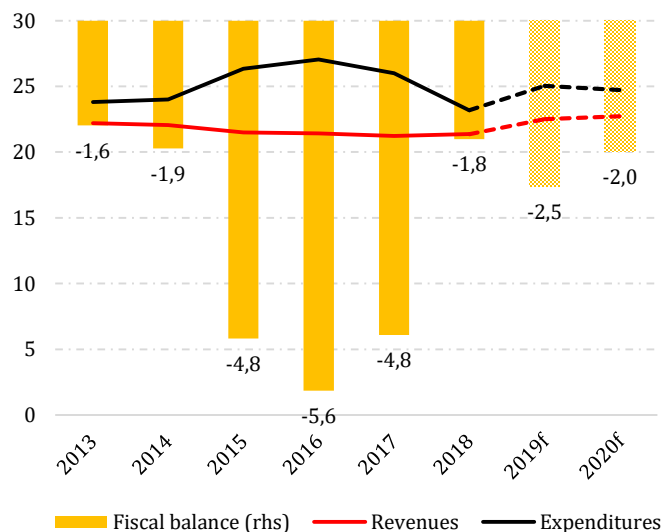
# Armenia

- Stable **economic growth**, effective **monetary and fiscal policy**, positive structure of government debt in terms of **creditors**, and **reduced political risk** after December 2018 elections
- High **dollarization** and **debt levels** with exposure to **external shocks**

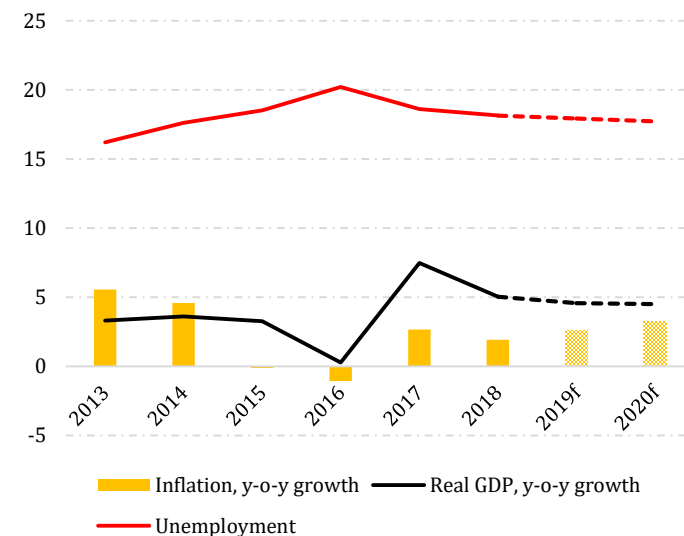
Government debt dynamics, %



Fiscal budget dynamics, % of GDP



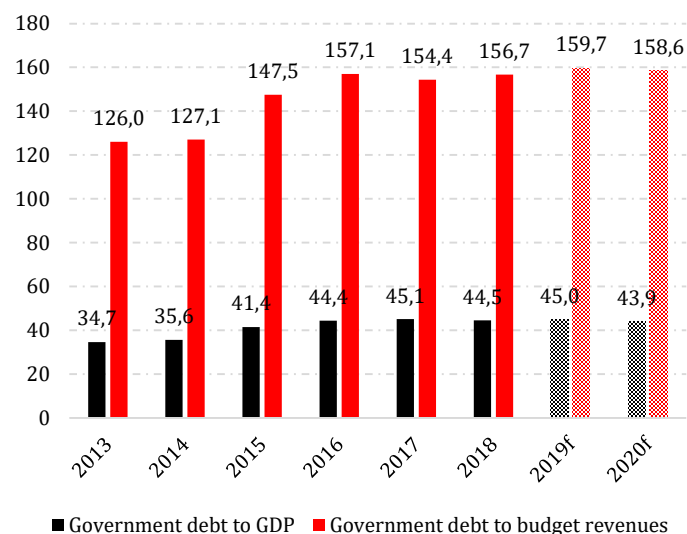
Macroeconomic indicators, %



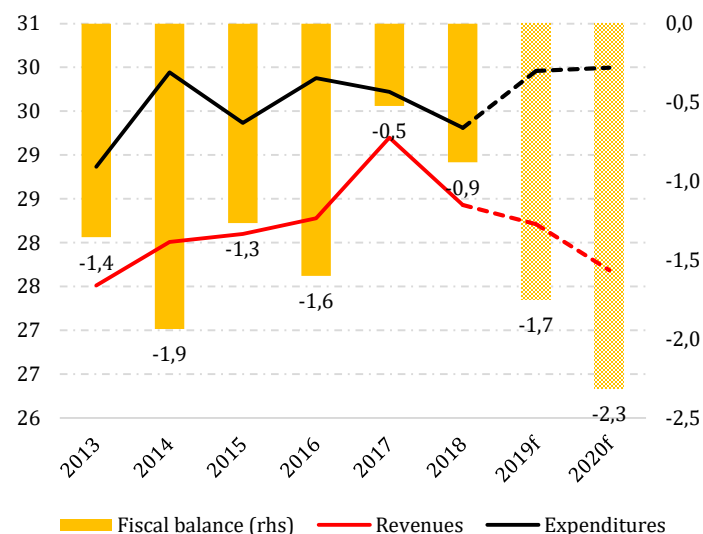
# Georgia

- Solid **public finances position**, **efficient monetary policy**, sound **banking system metrics** and solid **economic growth**
- **External vulnerabilities** as a result of wide open economy, with high levels of **dollarization**, substantial **dependence on imports**, **FDI** and **remittances**

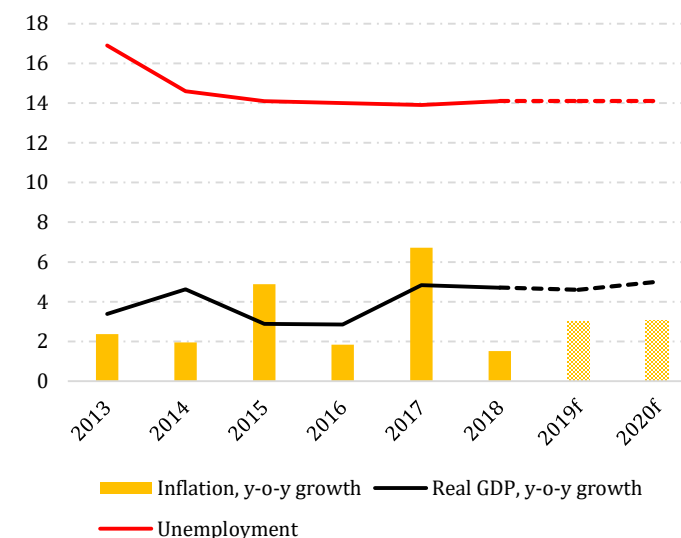
Government debt dynamics, %



Fiscal budget dynamics, % of GDP



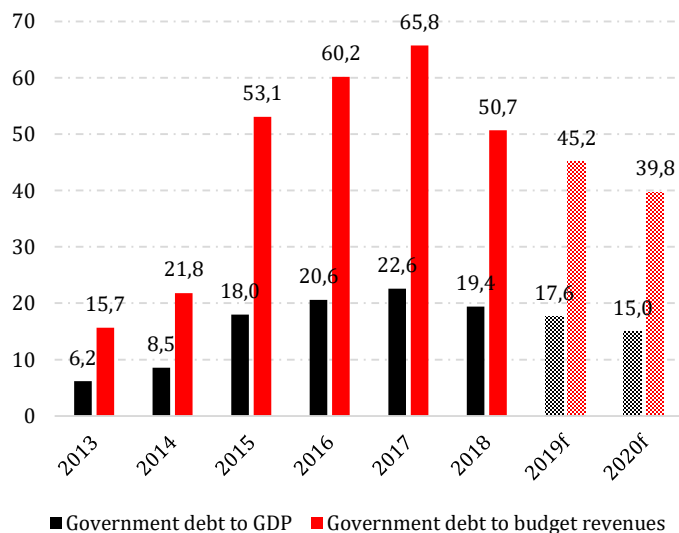
Macroeconomic indicators, %



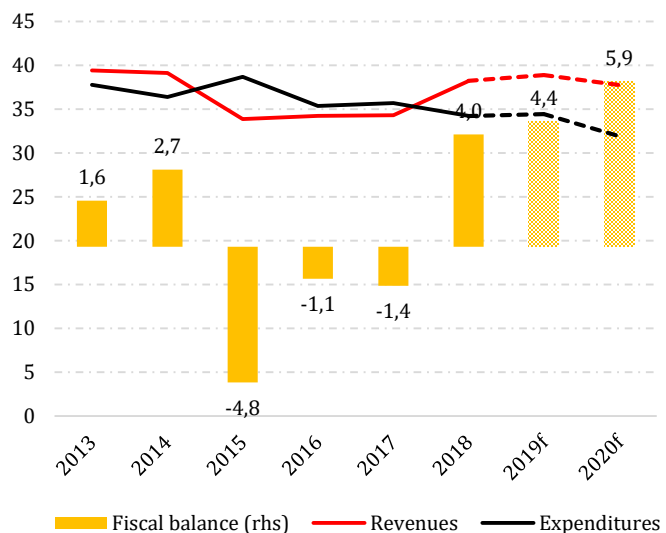
# Azerbaijan

- Strong **fiscal and debt position** of the government, with gradually improving **policy effectiveness** and **solid reserve** buffers
- High levels of financial **dollarization** and **dependency on oil sector**, as well as elevated **banking system risks** and significant **contingent liabilities** of the government despite improvement over the last years

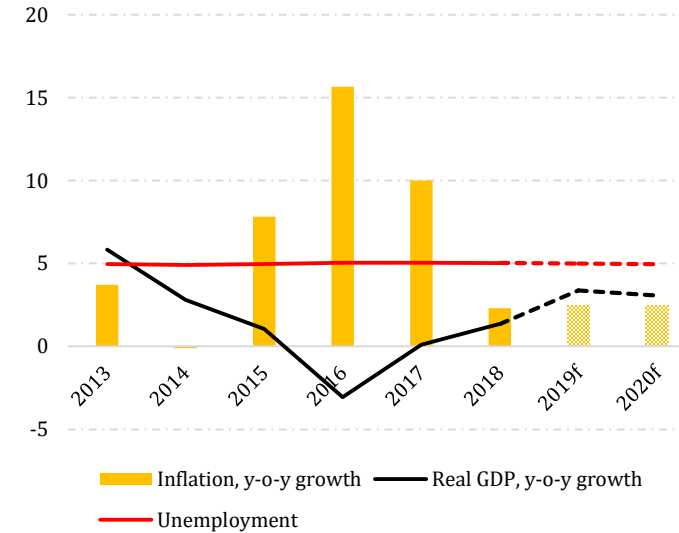
Government debt dynamics, %



Fiscal budget dynamics, % of GDP



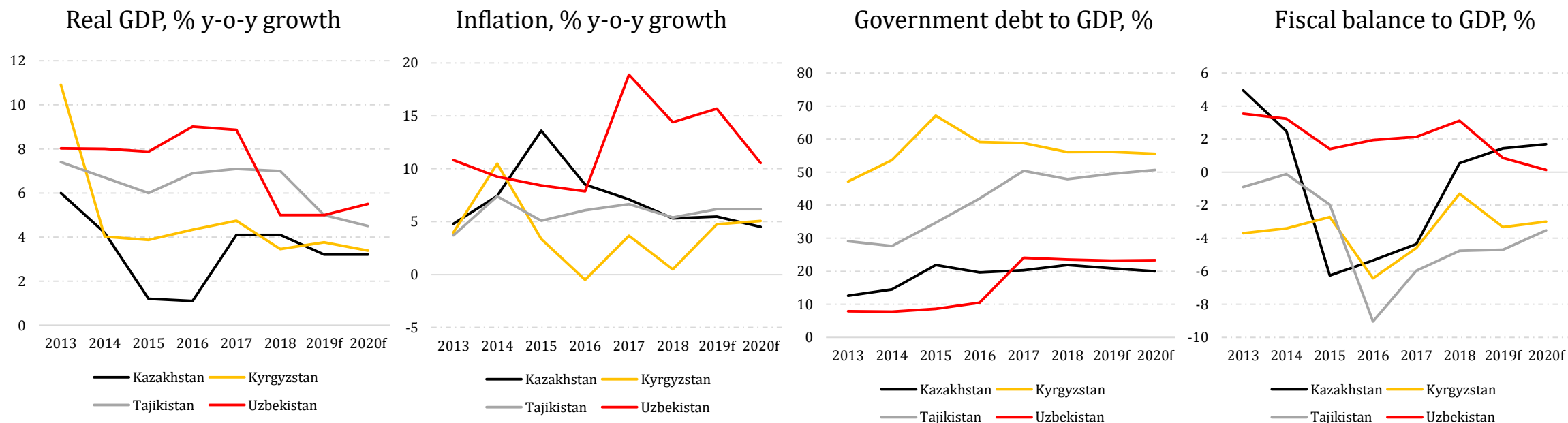
Macroeconomic indicators, %



# Central Asia Region

# Dynamics: Central Asia Region

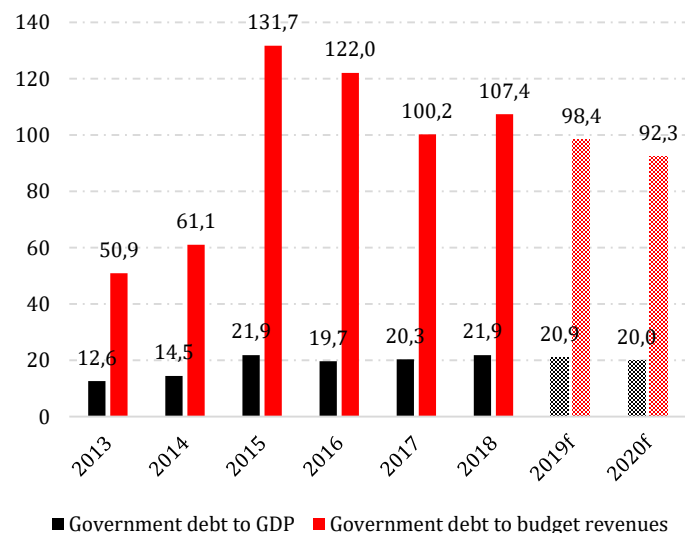
- **Kazakhstan:** better fiscal and debt position with stabilized inflation
- **Uzbekistan:** higher economic growth with volatile inflation, moderate debt and fiscal position
- **Kyrgyzstan:** low inflation level with declining GDP growth
- **Tajikistan:** rising debt vs narrowing deficit levels with more stable inflation



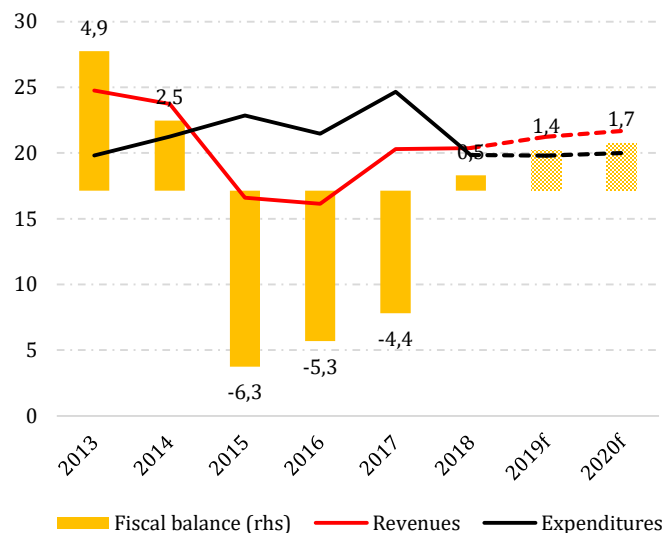
# Kazakhstan

- Favorable **GDP growth** and **inflation levels** as well as a **solid external** and **debt position**, together with **improving fiscal metrics**
- **Fragile banking system** with high levels of **financial dollarization**, and **oil and gas dependency** of the economy and fiscal budget

Government debt dynamics, %



Fiscal budget dynamics, % of GDP



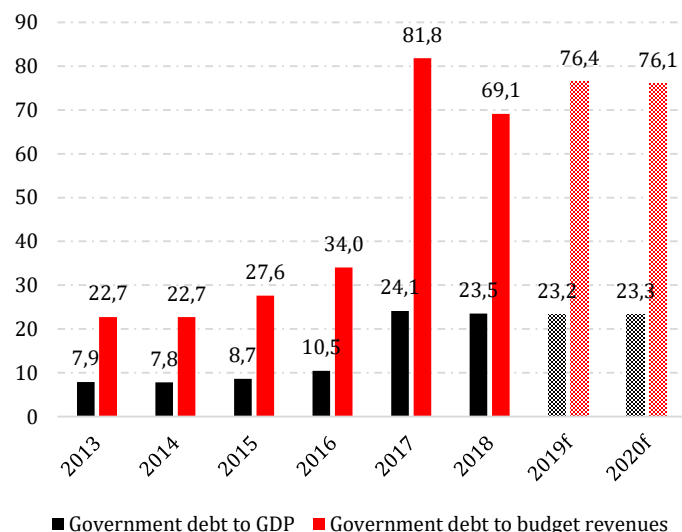
Macroeconomic indicators, %



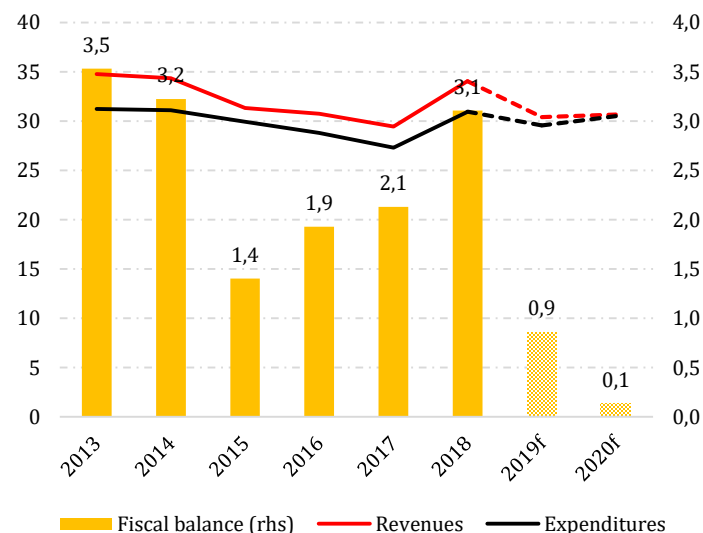
# Uzbekistan

- Still low **government debt** and **positive fiscal balance**, robust **economic growth**, **profitable** and **well-capitalized** banking system
- **Elevated and volatile inflation**, moderately low level of **economic and institutional development**, as well as high **dollarization** and **concentration of the banking system**, led by state-owned banks

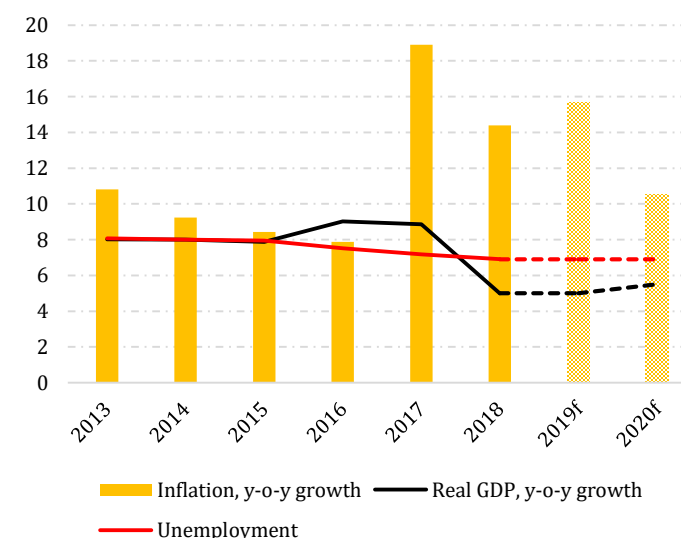
Government debt dynamics, %



Fiscal budget dynamics, % of GDP



Macroeconomic indicators, %

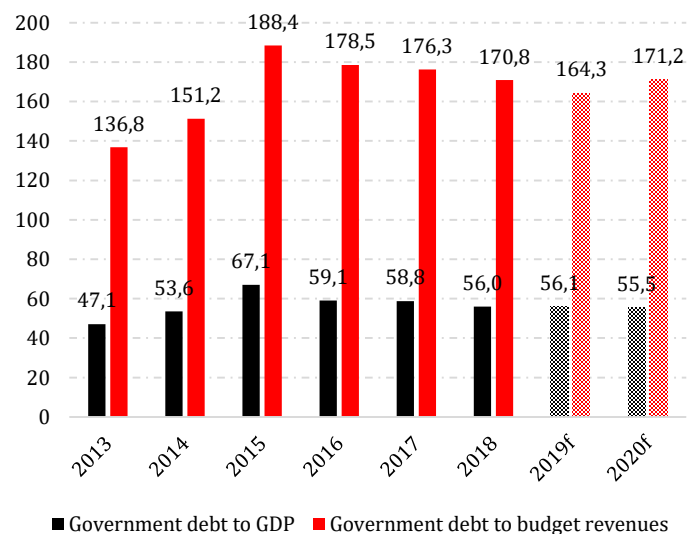




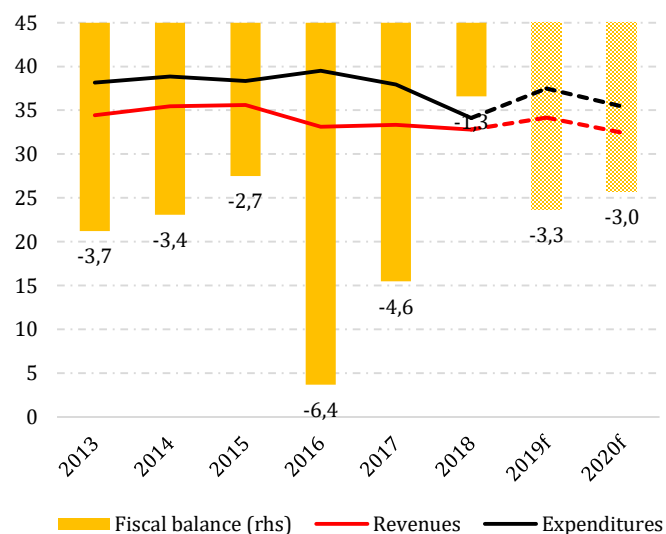
# Kyrgyzstan

- Moderately high **GDP growth** together with **positive debt structure**
- Heavy dependence of **external position** on the CIS economic partners and extracting industries, high level of **government indebtedness** combined with **low level of economic development** and high **dollarization**

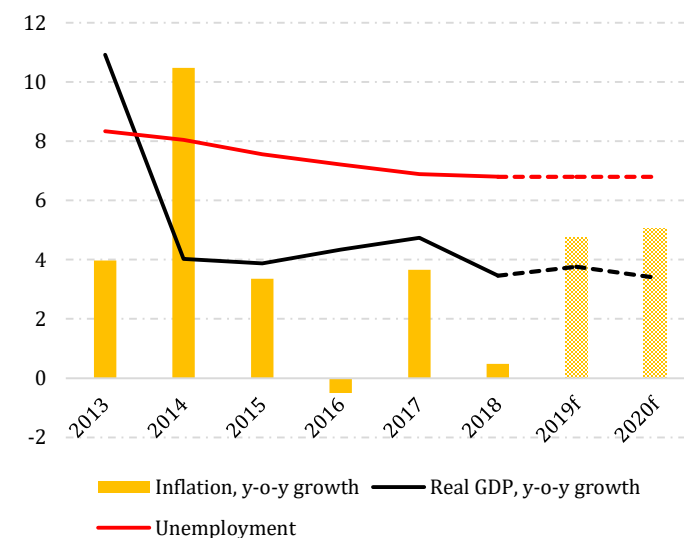
Government debt dynamics, %



Fiscal budget dynamics, % of GDP



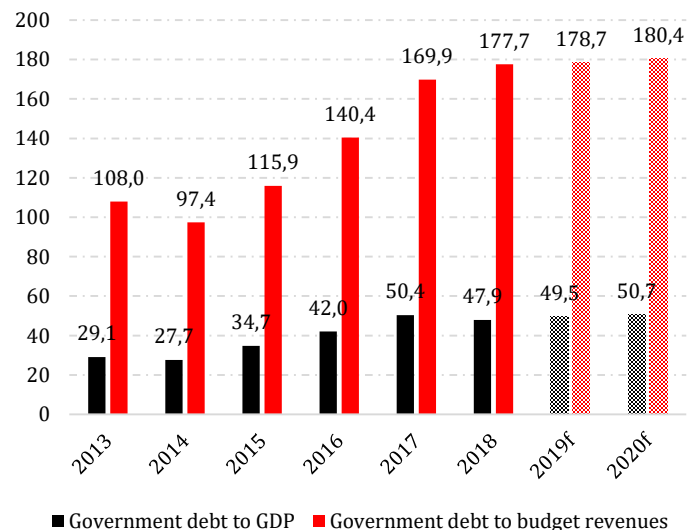
Macroeconomic indicators, %



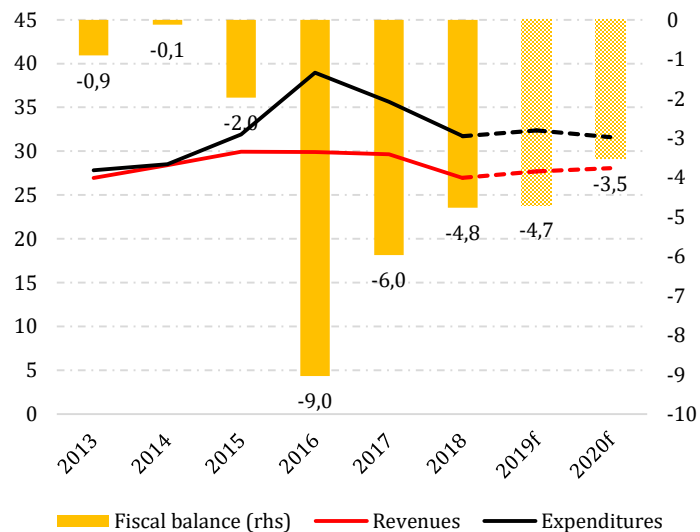
# Tajikistan

- Robust **growth of economy** together with high share of **concessional liabilities** in government debt structure
- Fragile and deteriorating **external position**, large volume of government **contingent liabilities** related to local banks and SOEs, combined with very **low level of institutional and economic development**

Government debt dynamics, %



Fiscal budget dynamics, % of GDP



Macroeconomic indicators, %



# Belt and Road Report 2018

# Silk Road alliance of credit rating agencies

**RAEX-Europe (Germany)**



**CCXI (China)**



**VIS Group (Pakistan)**



**IIRA (Bahrain)**



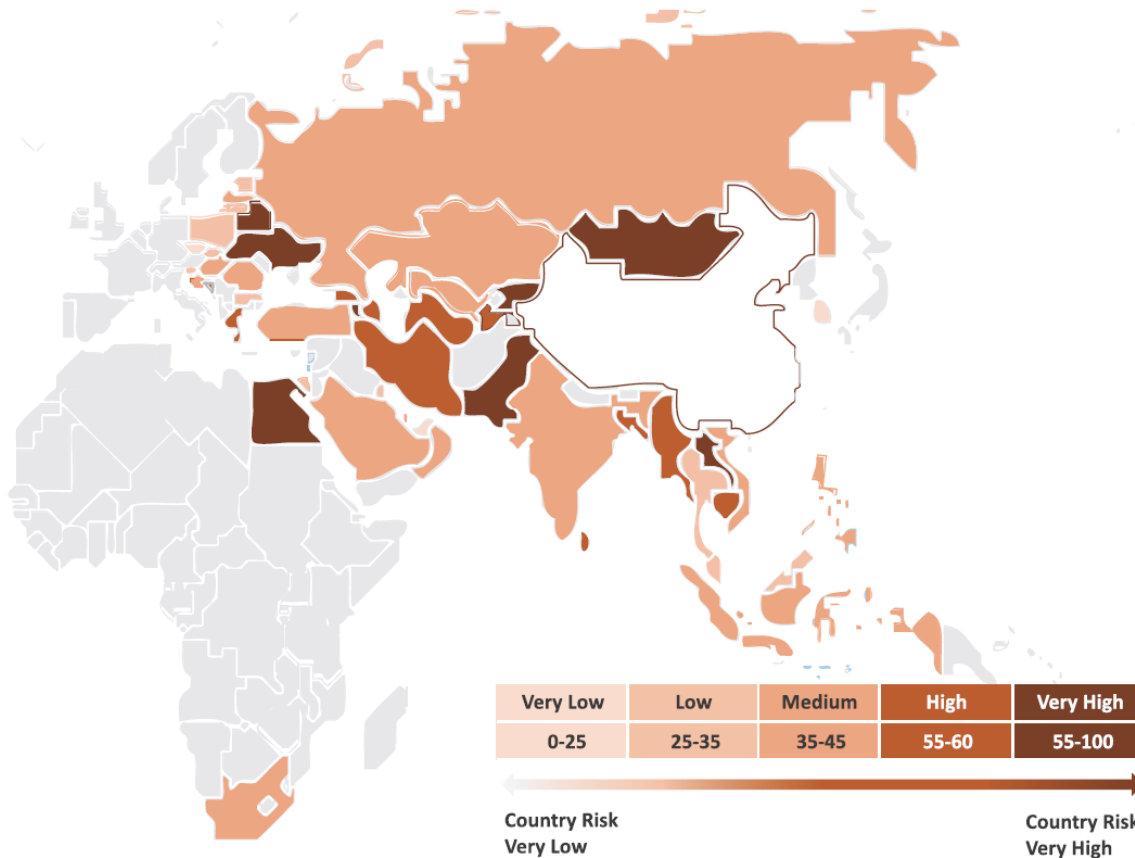
On **17th of December 2018** in Beijing a cooperation memorandum was signed by four credit rating agencies representing the Silk Road countries: **CCXI, RAEX-Europe, JCR-VIS Credit Rating Co. and IIRA.**



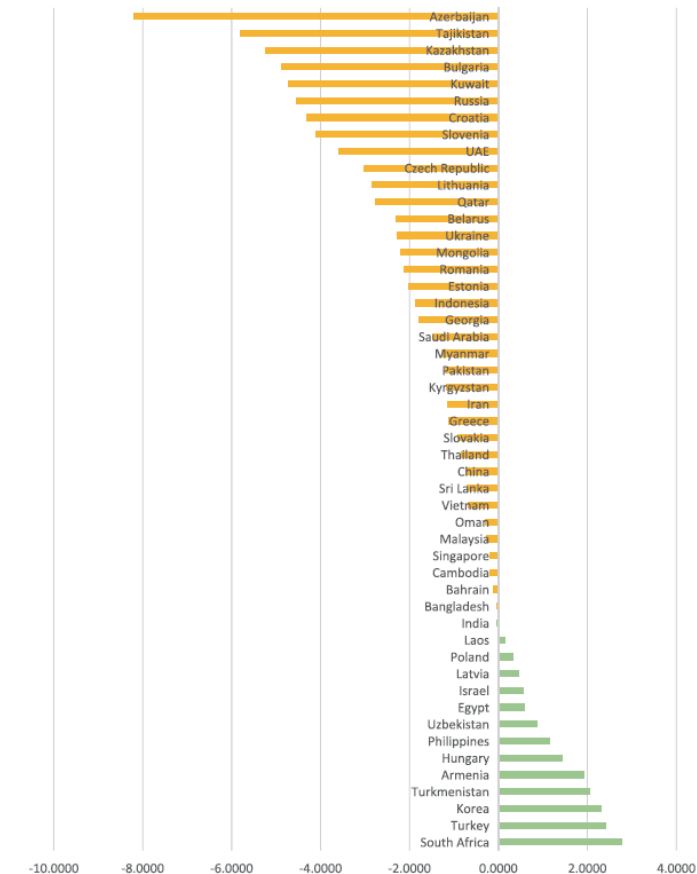
# Country Risk Report Along the Belt and Road 2018

Country Risk Report along the Belt and Road (2018), jointly released by **CCXI**, **VIS Group** and **RAEX-Europe**

Country risk map of the B&R countries



2017 VS 2016 Risk score of countries along the B&R



# Thank you for your attention!

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