

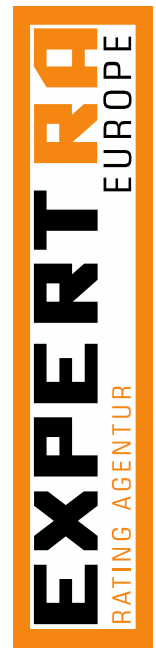


Republic of Uzbekistan Credit rating

Frankfurt am Main, 8 May 2019

Agenda

- About RAEX
- Republic of Uzbekistan credit rating
- Overview of RAEX methodologies



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

Silk Road alliance of credit rating agencies

RAEX-Europe (Germany)



CCXI (China)



VIS Group (Pakistan)



IIRA (Bahrain)



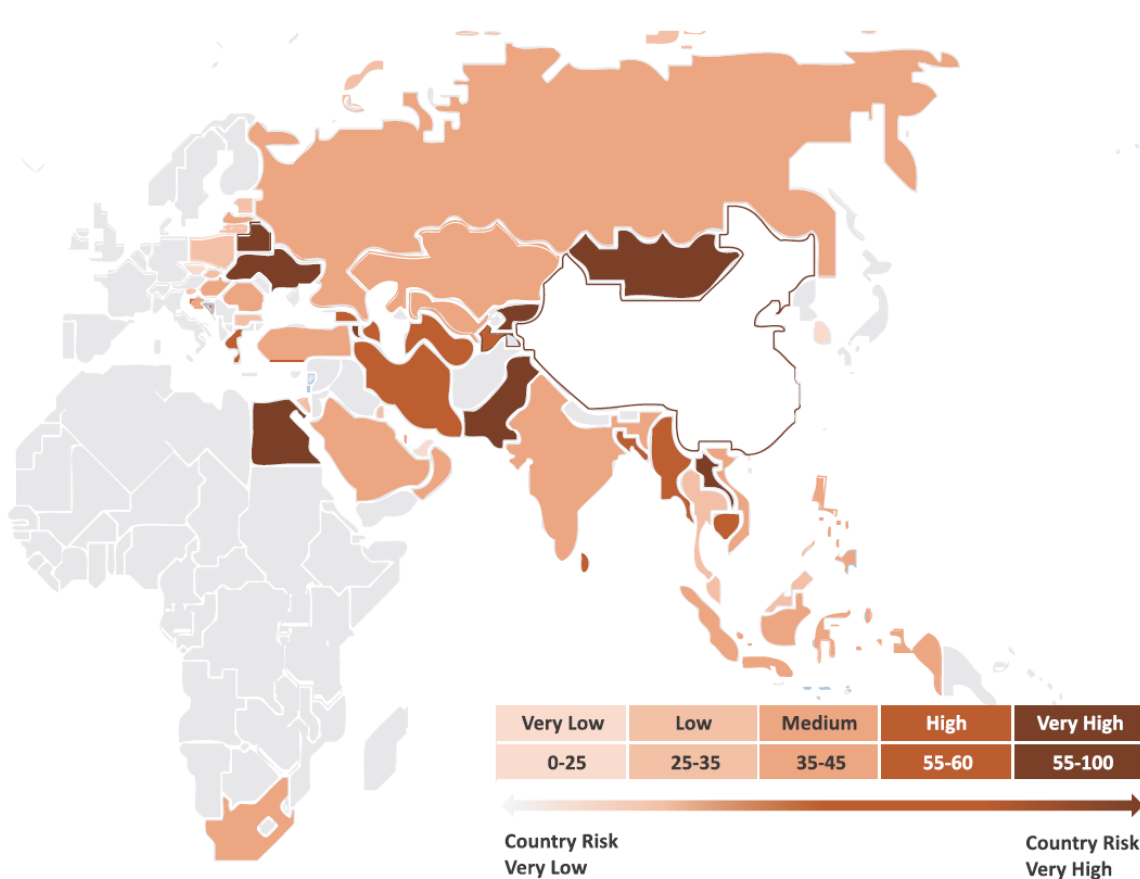
On 17th of December 2018 in Beijing a cooperation memorandum was signed by four credit rating agencies representing the Silk Road countries: **CCXI, RAEX-Europe, JCR-VIS Credit Rating Co. and IIRA.**



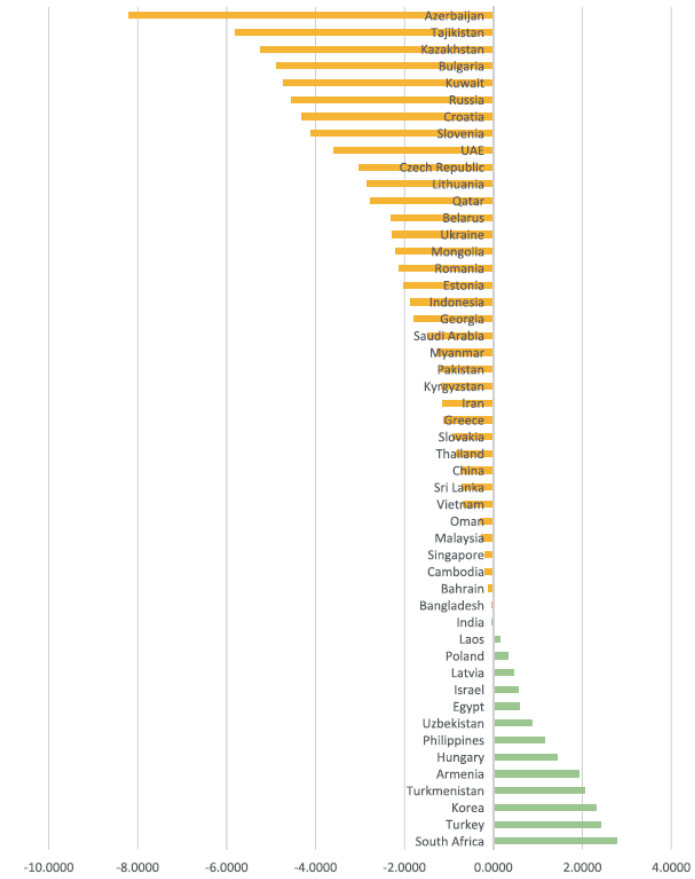
Country Risk Report Along the Belt and Road 2018

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

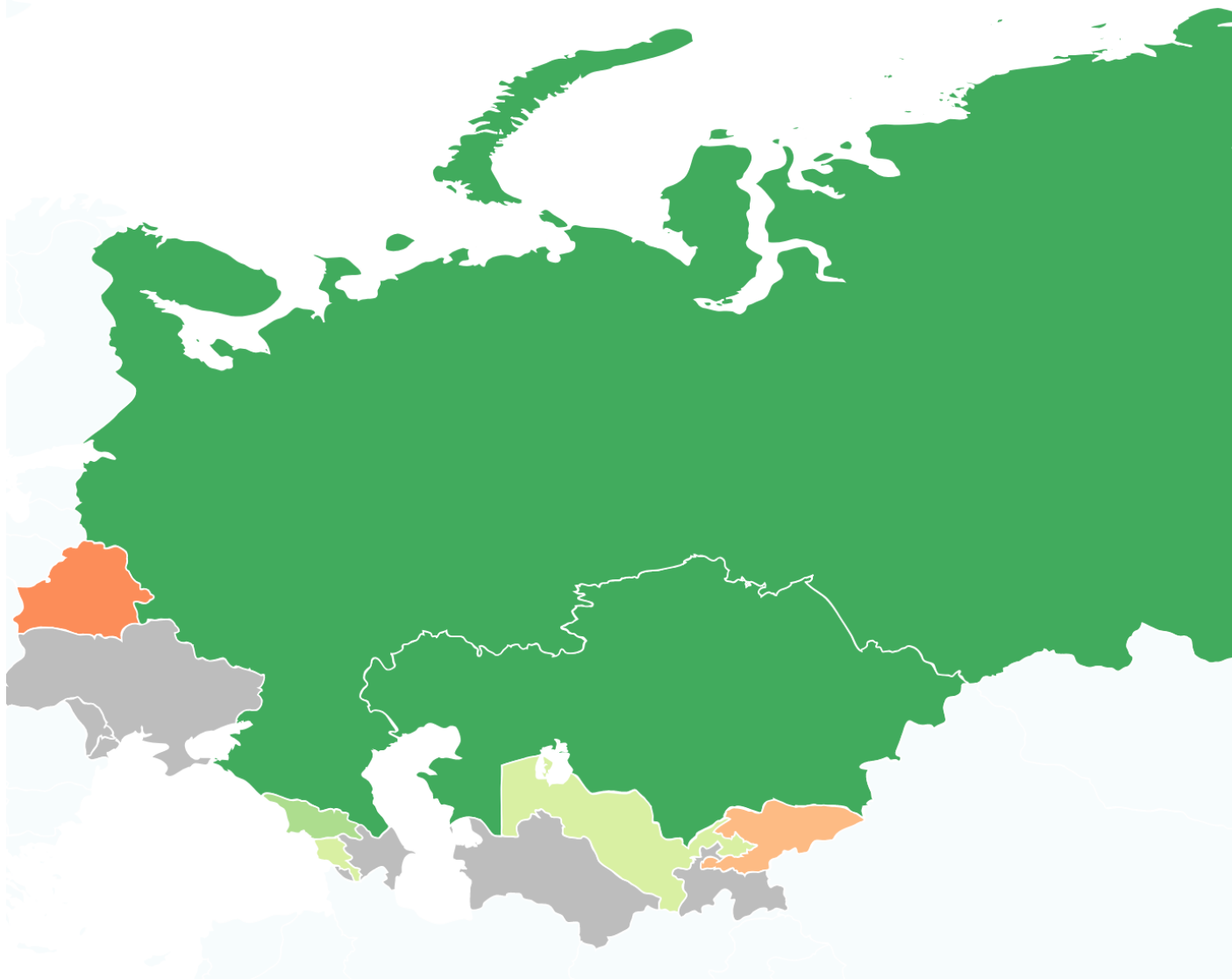


Republic of Uzbekistan Credit Rating

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	<i>Not public</i>		<i>Not public</i>		-	-	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	<i>Not public</i>		<i>Not public</i>		-	-	10.05.2019
Uzbekistan	BB-	BB-	Upgraded	Upgraded	Stable	Stable	08.03.2019

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

Comparison of RAEX-Europe credit rating with Big 3

	Fitch and S&P assigned the BB- rating of Uzbekistan	Moody's assigned the B1 rating of Uzbekistan	RAEX-Europe upgraded from B+ to BB- the ratings of Uzbekistan
RAEX-Europe upgraded from B to B+ the FC rating of Uzbekistan with a positive outlook	21.12.2018	13.02.2019	08.03.2019
RAEX-Europe assigned B /B+ FC/LC ratings of Uzbekistan	14.09.2018		
15.04.2016			

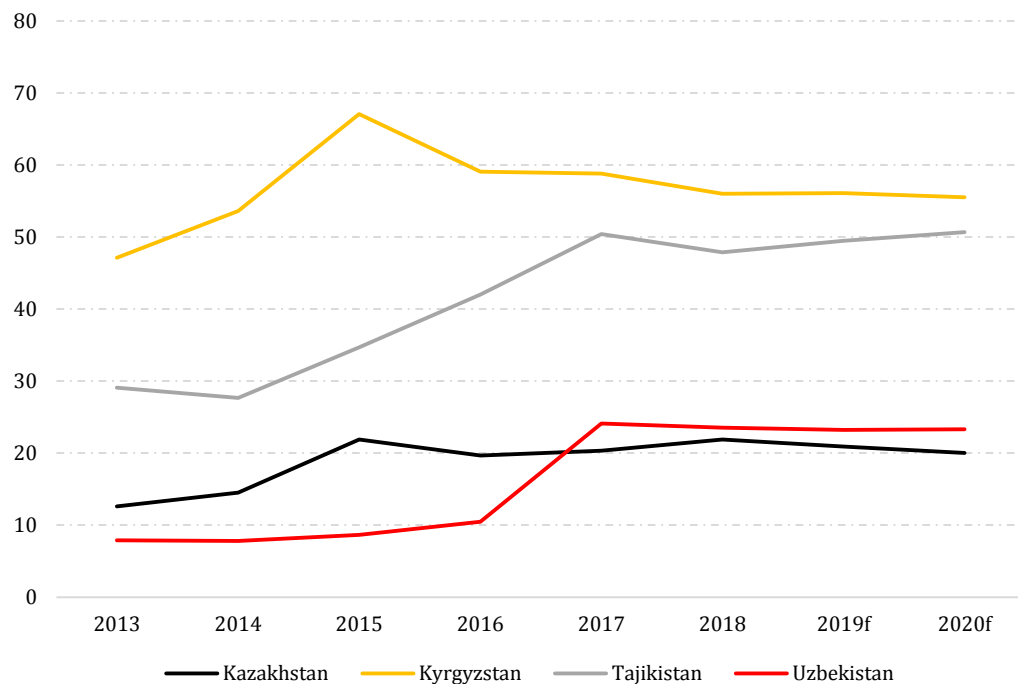
Drivers of credit rating upgrade

- Smooth **economic policy transition** process leading to the **stabilization** of the key macroeconomic indicators
- Continuous stabilization of the **fiscal budget** figures
- **Reduction of off-balance sheet operations**
- **Increase of transparency** and predictability of the fiscal policy
- Significant improvement of the CBU's **monetary and currency policy**, confirmed by sustainable levels of **deposit dollarization** below 30% over the long period as well as single-digit **inflation**.

Positive factors

- Moderately low level of **gross government debt** with a positive maturity and creditors' structure
- Uzbekistan's banking sector remains profitable and sound with **ROA** at 2% and officially recorded **NPLs** at 1,3% of total loans in 2018

Government debt to GDP, %

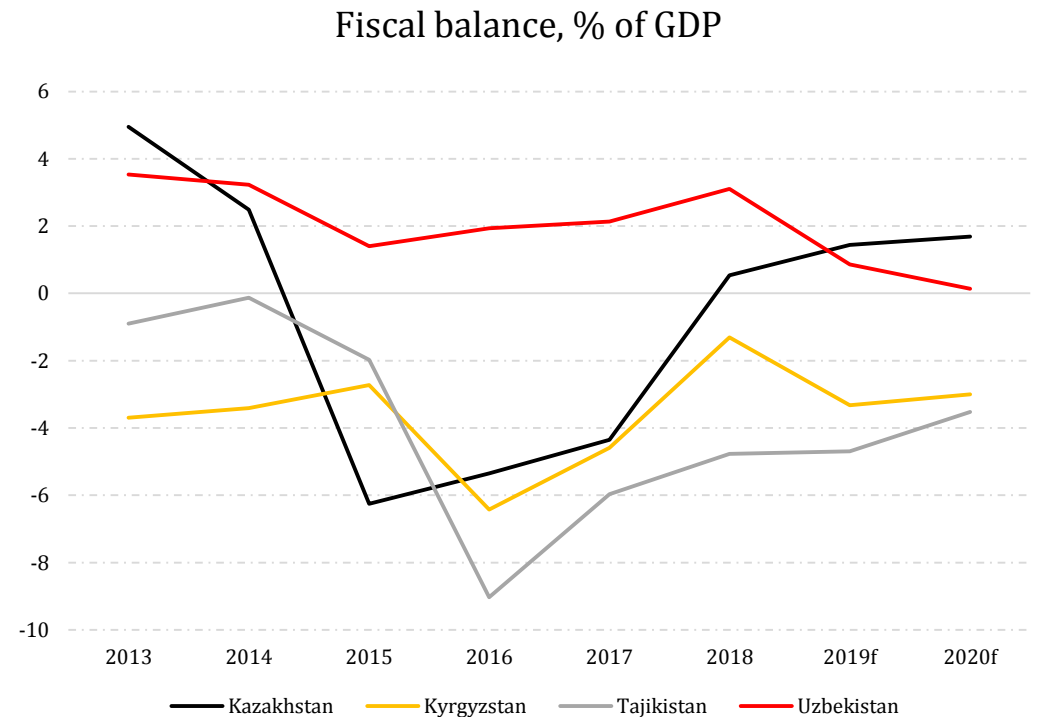
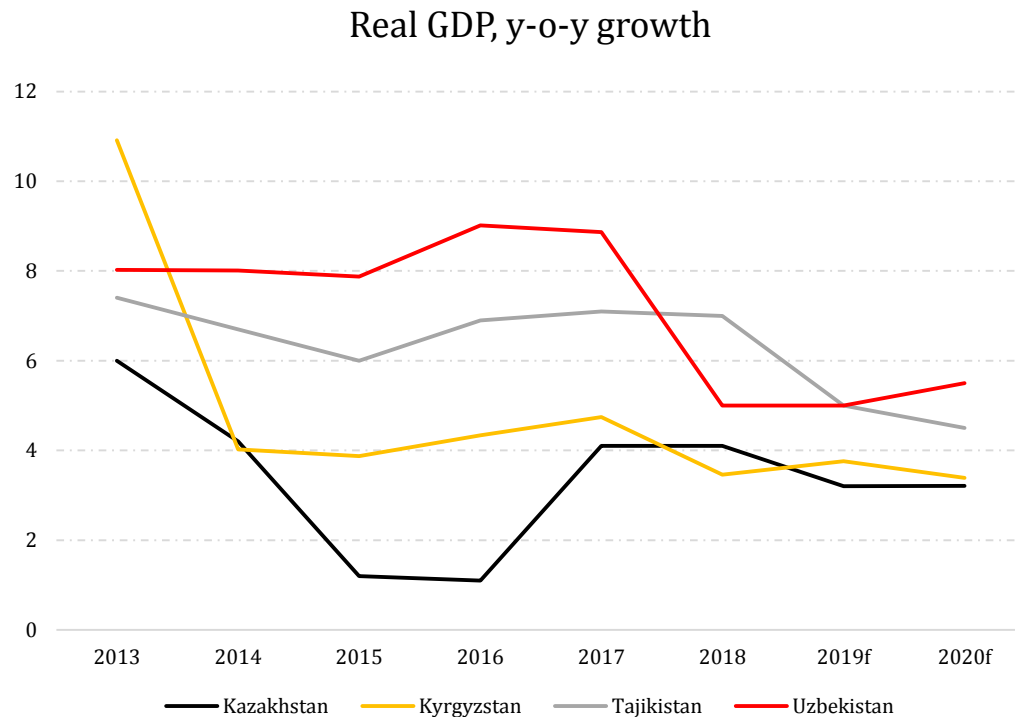


Financial soundness indicators, %



Positive factors

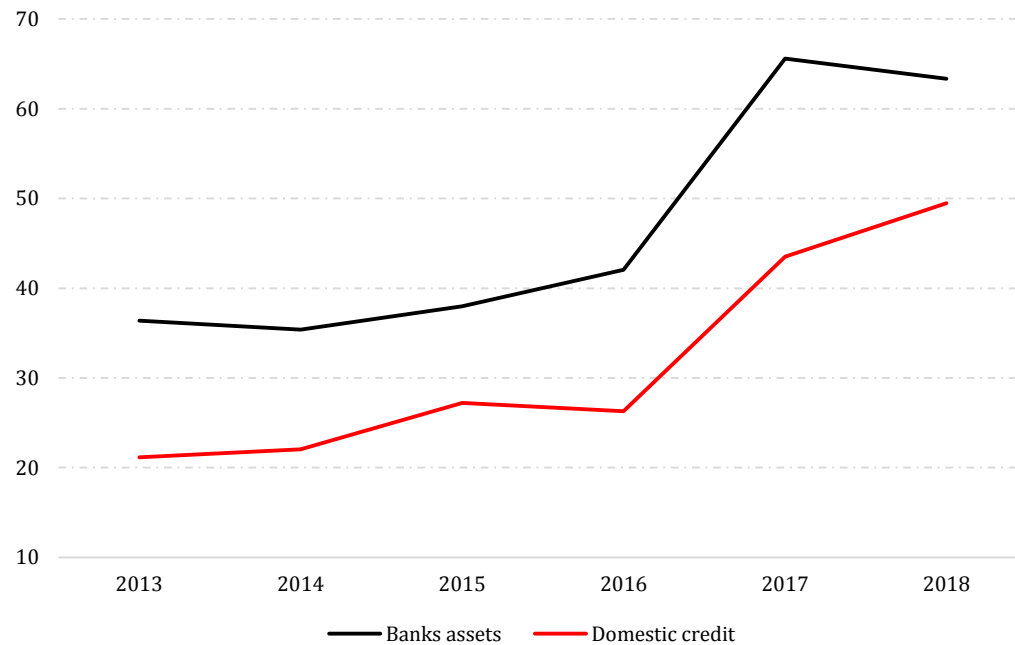
- The consolidated **fiscal balance** is expected to be around 2,7% of GDP by end-2018, close to the 2017 metric of 2,1%
- The 2018 **real GDP growth** at 5,1% remains one of the highest among CCA peers



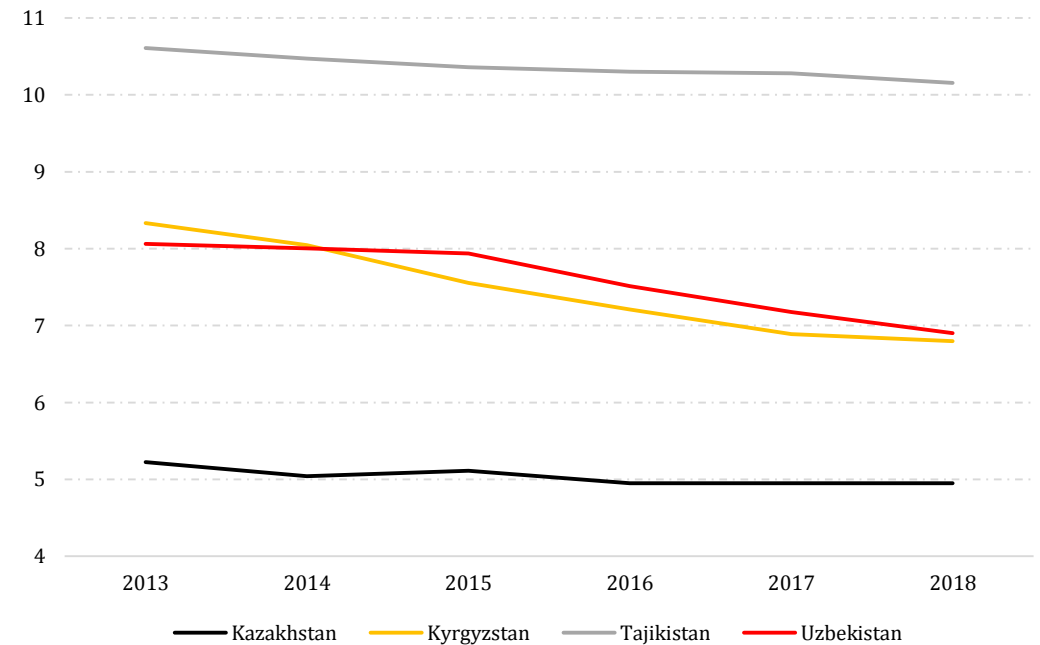
Restricting factors

- The ratio of banks' **assets and gross loans to GDP** remains moderate at 63,4% and 49,5% by end-2018 despite the rapid growth of both components over the last two years
- The **unemployment rate** improved slightly but remained high at 6,9% in 2018

Credit to the economy dynamics, % of GDP

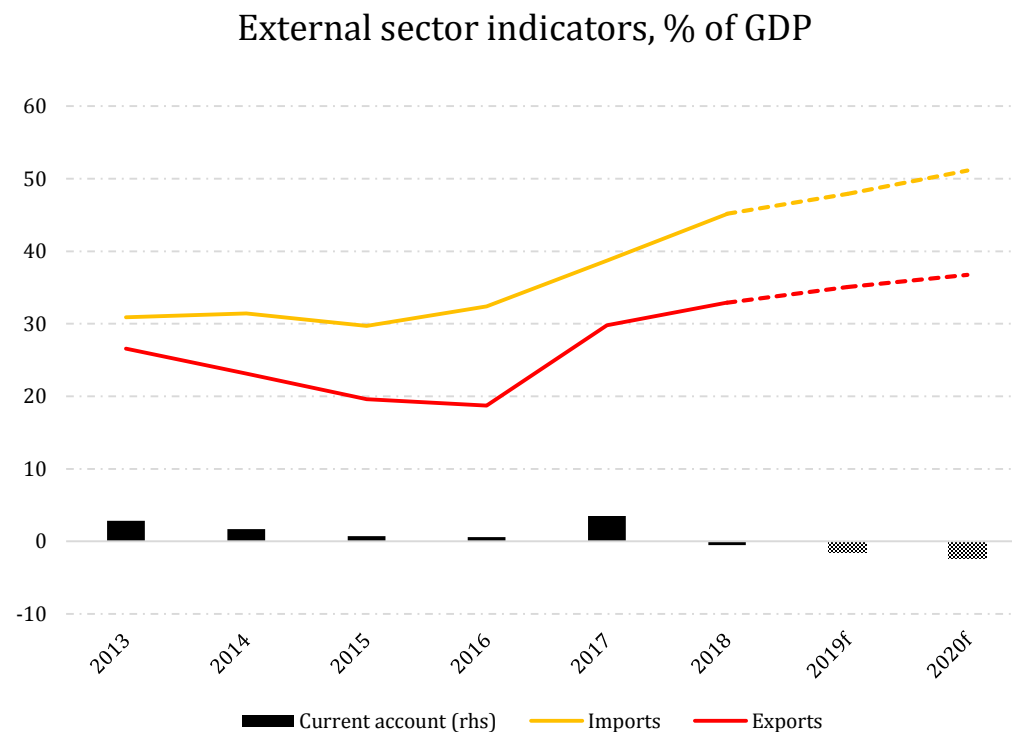


Unemployment, %



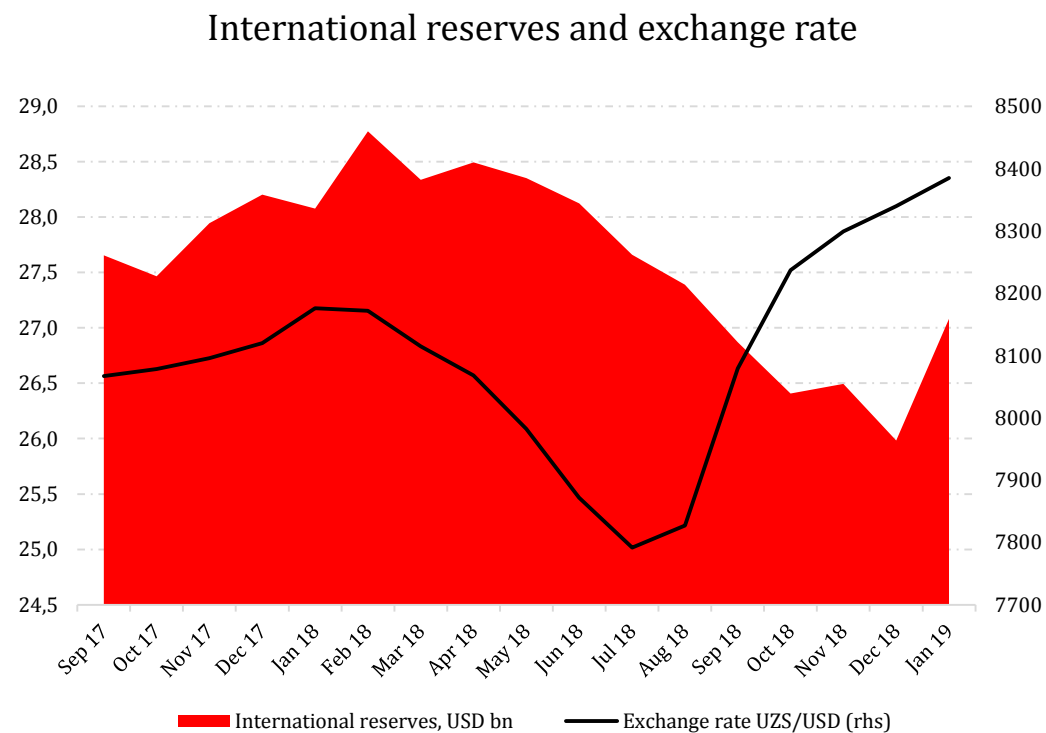
Restricting factors

- The currency structure of the **public debt** remains worrisome as almost 100% is FX-denominated
- The economy's competitiveness remains subdued as evidenced by estimated **trade deficit** of 12% of GDP in 2018 as compared to 8,9% in 2017



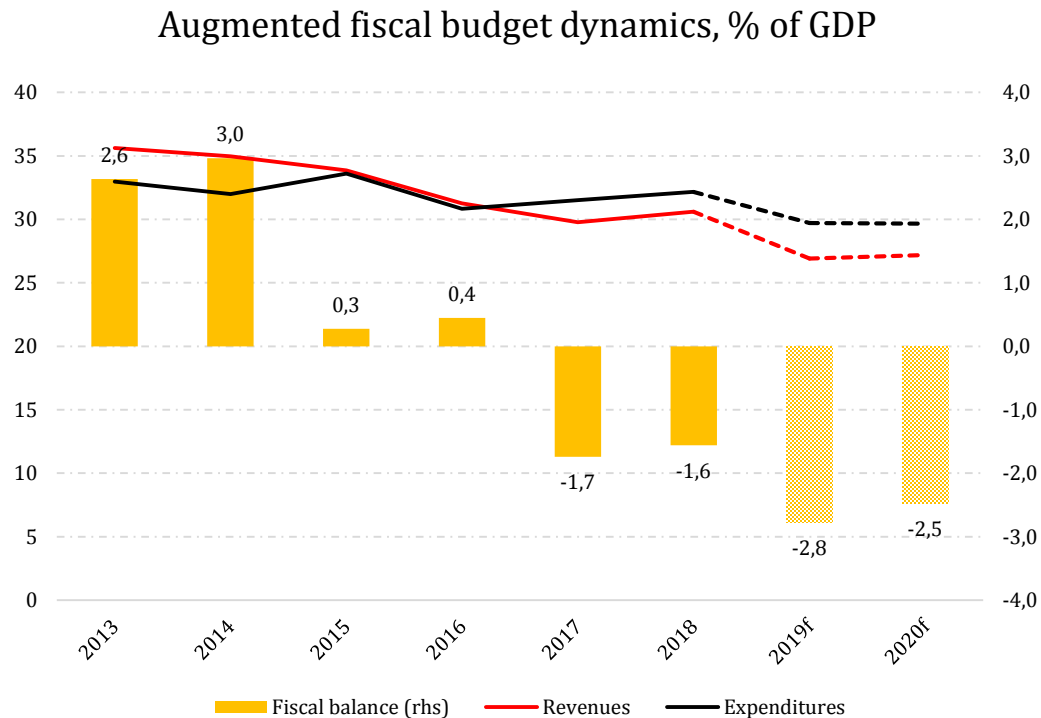
Restricting factors

- CBU increased the **refinancing rate** from 14% to 16% in September 2018. In addition, the CBU confirmed its commitment to free float exchange rate regime
- The effectiveness of the **monetary policy transmission mechanism** remains limited due to heavy segmentation of the credit market

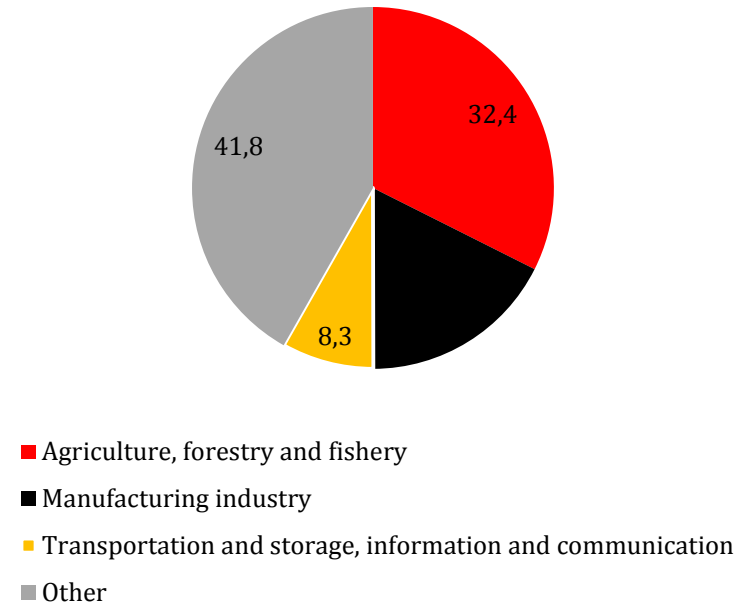


Restricting factors

- The quality of the **fiscal policy** is improving at a slower pace than expected
- Uzbekistan's **long-term growth** perspectives remain favorable driven by a significant amount of natural resources. However the lack of water resources makes the **agricultural sector** vulnerable to environmental and weather risks



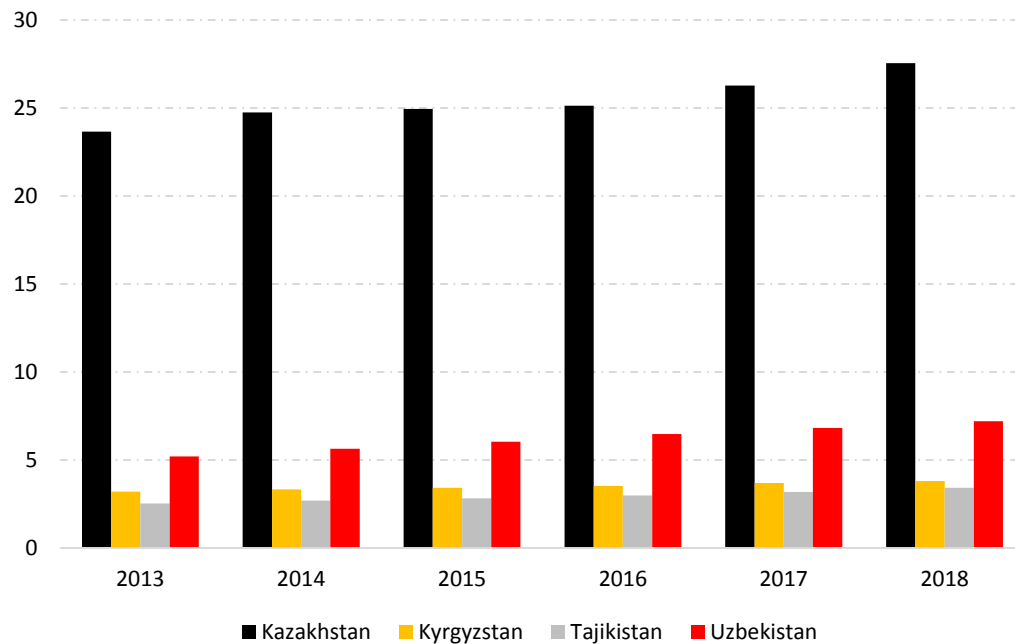
Concentration of the economy, %



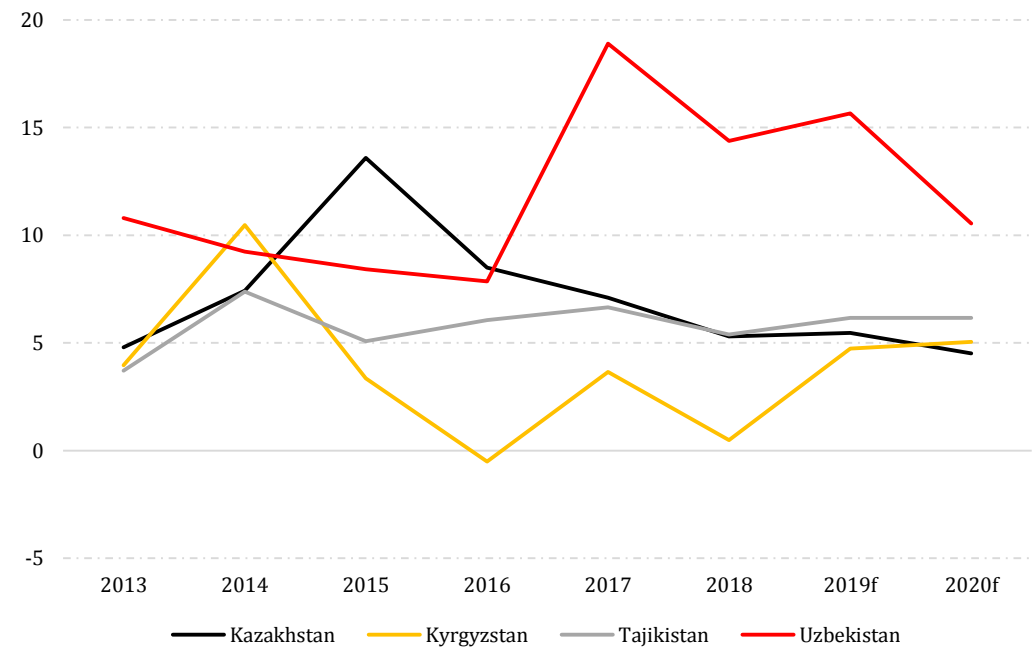
Negative factors

- Uzbekistan remains one of the least developed amongst its CCA peers with the level of **GDP per capita in PPP** terms of USD 7 338 in 2018 and non-adjusted **HDI index** of 0,71
- **CPI** growth slowed during 2018 and reached 14,3% by the end of 2018, still showing the highest and the most volatile metric amongst CCA peers

GDP per capita in PPP, thousands of USD



Inflation, y-o-y growth



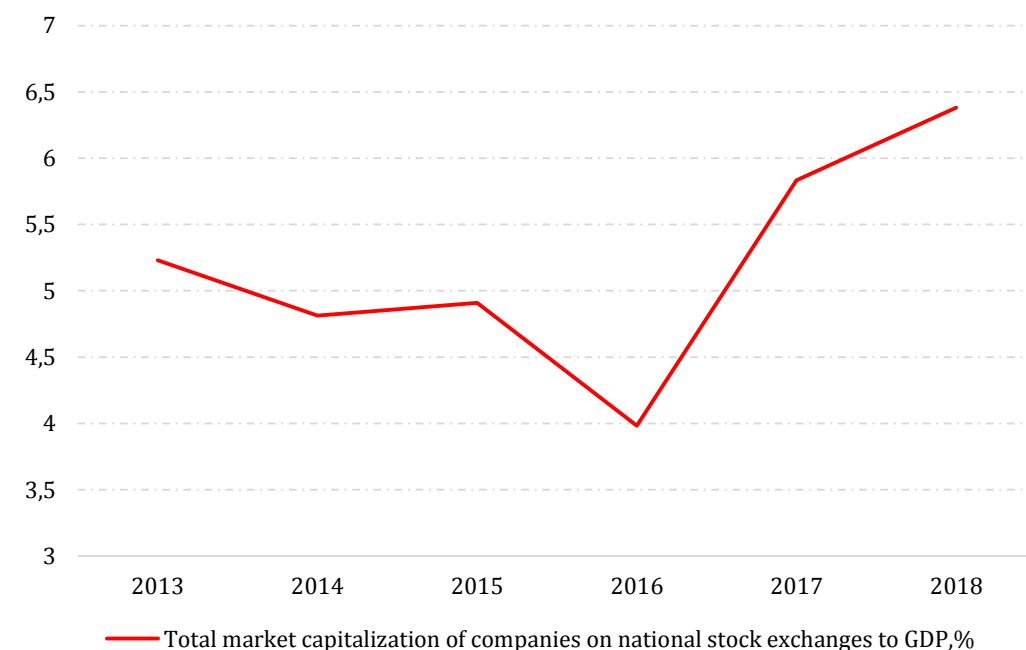
Negative factors

- The **institutional development** is restrained by high levels of corruption and a diminished rule of law in the country, according to the international organizations
- The country's **capital market** remains underdeveloped, with market **capitalization** of 6,4% of GDP in 2018 and high concentration of trading

Institutional development of the country

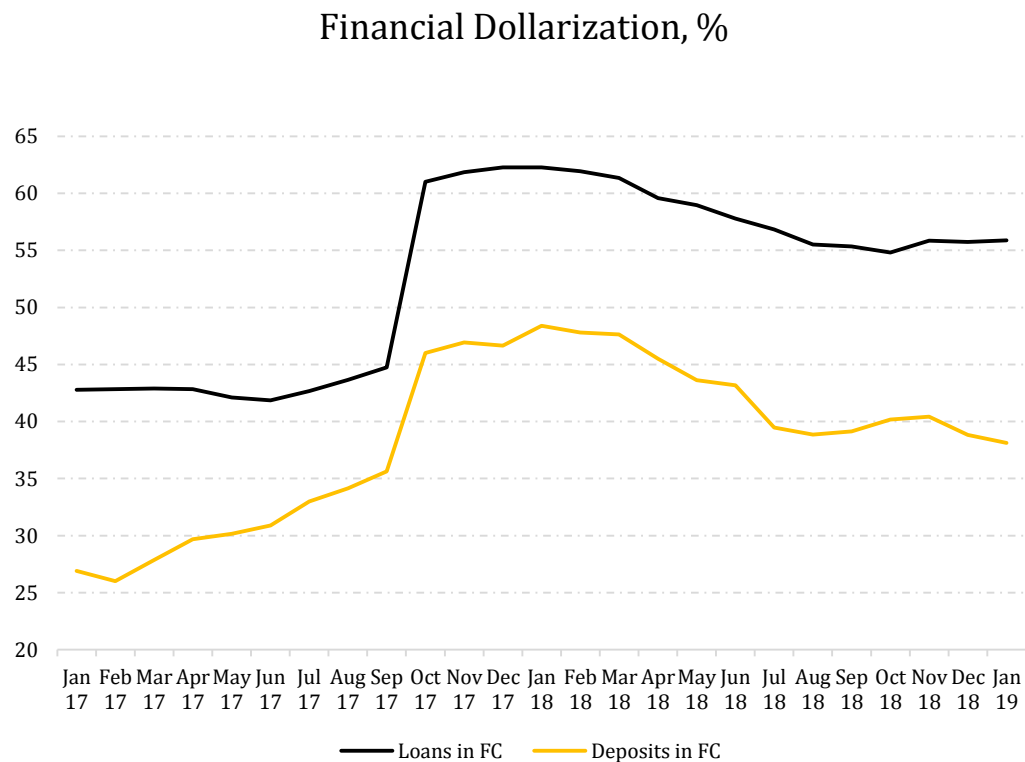
Indicator	2018	2017	2016	2015	2014	2013
Level of corruption, CPI	23	22	21	19	18	17
Government Effectiveness Index	-0.56	-0.56	-0.58	-0.67	-0.63	-0.91
Quality of the business environment, position in the Doing Business ranking	76	74	87	82	103	146
Level of investment in human capital, adjusted for inequality	0.71					
Rule of Law Index	-1.11	-1.11	-1.11	-1.11	-1.13	-1.23
Government ensuring policy stability	0.5					
Political Stability and Absence of Violence/Terrorism Index	-0.28	-0.28	-0.27	-0.37	-0.27	-0.54

Total market capitalization of companies on national stock exchange



Stress-factors

- Despite positive dynamics, **financial dollarization** remains a problem to the economy representing 38% of total deposits and 56% of total loans in December 2018 (very weak stress factor)



Stable outlook

The **upgrade of Uzbekistan's credit ratings reflects our expectations about:**

- The solid **fiscal stance**, including low government debt and narrow budget deficit, robust **economic growth**, profitable and **well-capitalized banking system** remain the credit strength of the country
- Sustained **reduction of the financial dollarization** as well as the successful **entry to the international capital market**

Stable outlook means that in the mid-term perspective there is a high probability of maintaining the rating score.

Sensitivity assessment

The following developments could lead to an upgrade:

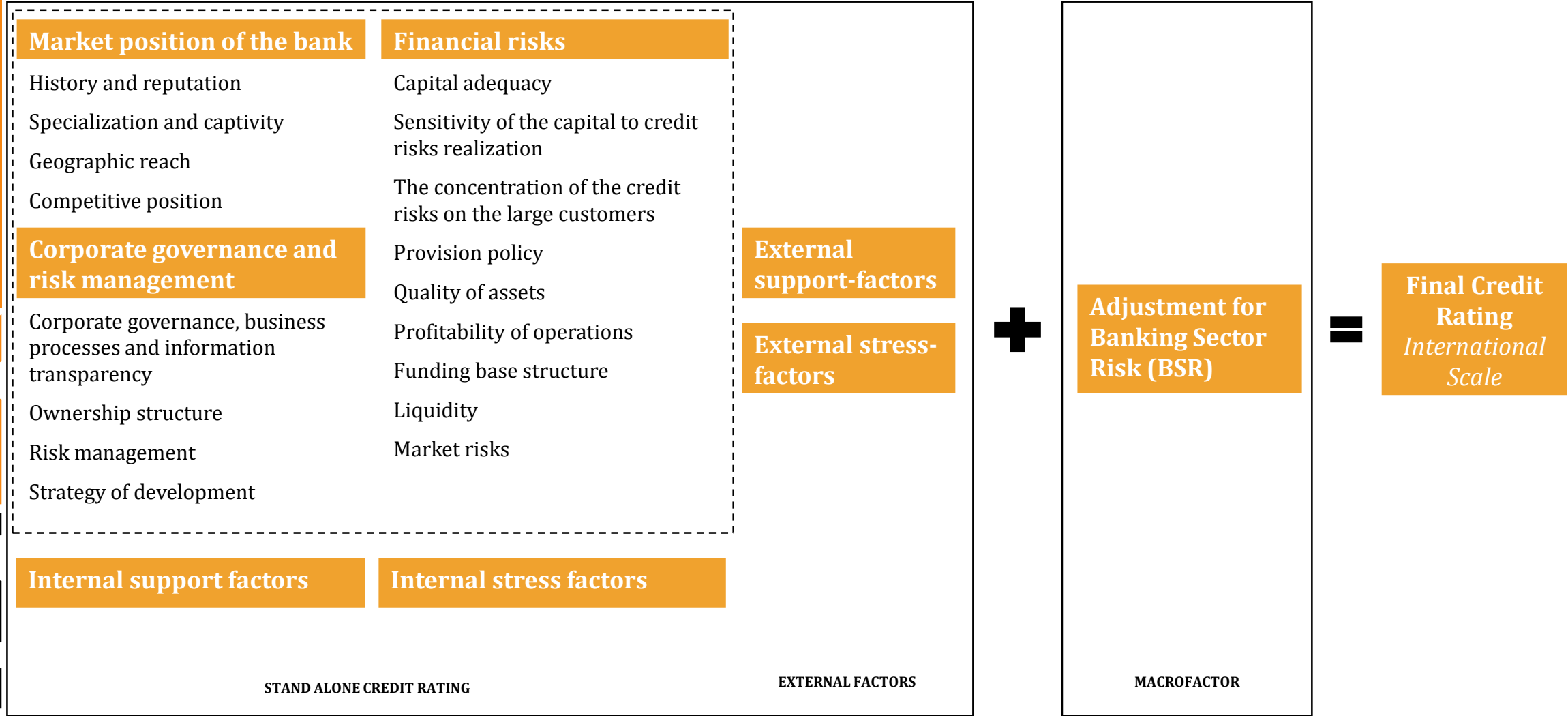
- Smooth economic policy transition process;
- Continuous stabilization of the fiscal budget figures;
- Significant improvement of the CBU's monetary and currency policy.

The following developments could lead to a downgrade:

- Gradual deterioration of the banks' assets quality and emergence of funding and capital gaps in the banking sector;
- Sharp increase of dollarization levels;
- Elevation of the government debt load due to devaluation of UZS.

Overview of RAEX methodologies

Bank methodology

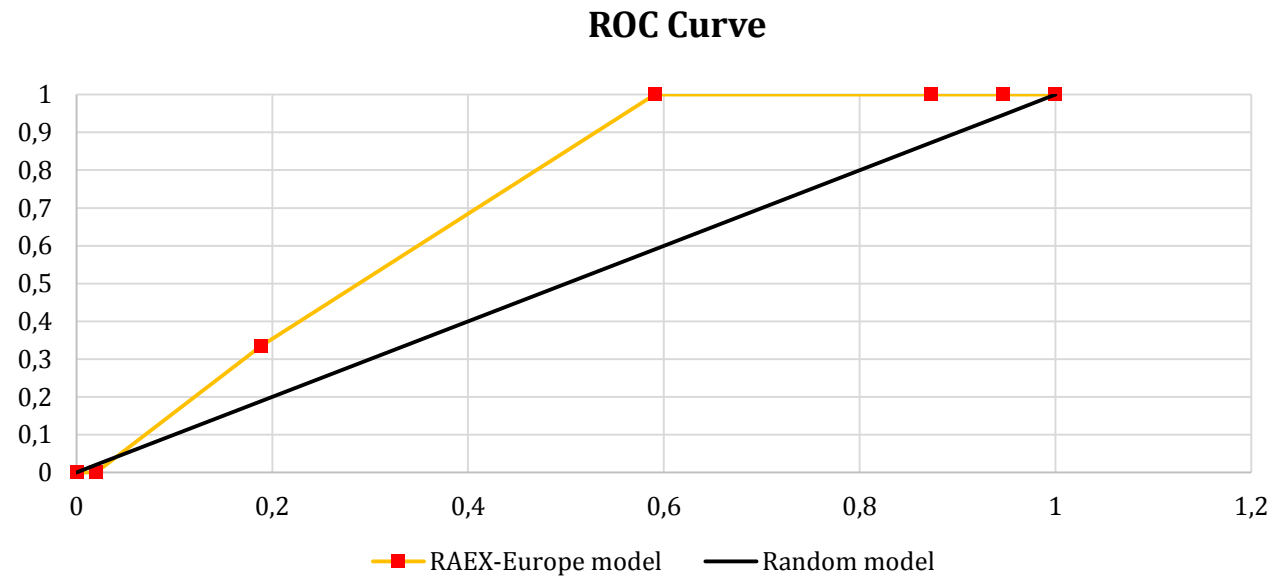


PRELIMINARY CREDIT RATING

Accuracy of our banks methodology

- Sample of 155 Russian banks for 3 different time periods using our banks methodology

	70,6%	(AUC)
	0	0
B-	0,020134	0
B	0,187919	0,33
B+	0,590604	1
BB-	0,872483	1
BB	0,946309	1
BB+	1	1



- The area under the ROC curve coefficient at 70,6% shows that the model is accurate
- Results are even better when considering the relatively small sample

Stability of our banks methodology

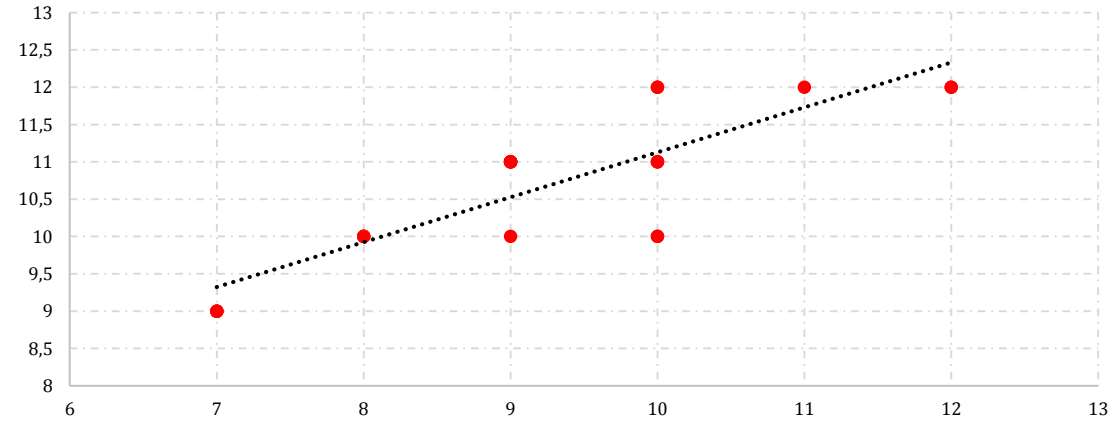
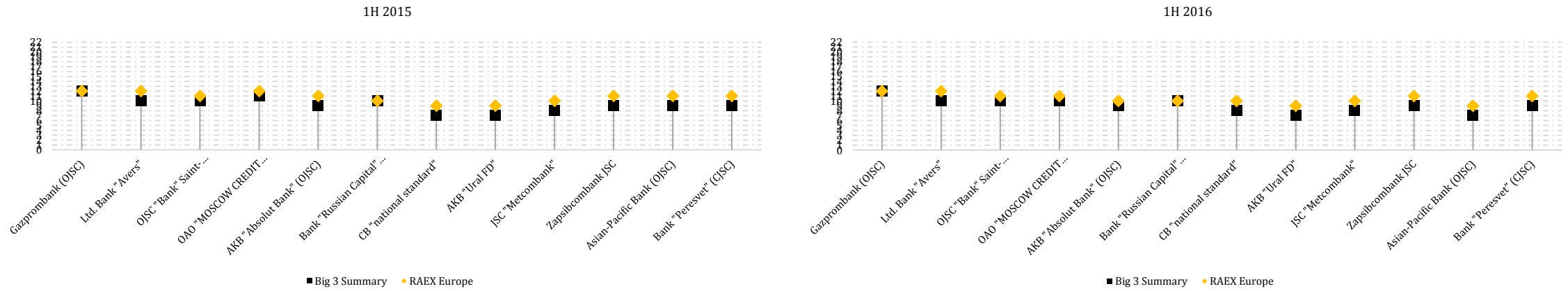
- Sample of 250 Russian banks for 5 different time periods using our banks methodology

	AAA	AA	A	BBB	BB	B	CCC-C	D	NR
AAA	0%	0%	0%	0%	0%	0%	0%	0%	0%
AA	0%	0%	0%	0%	0%	0%	0%	0%	0%
A	0%	0%	0%	0%	0%	0%	0%	0%	0%
BBB	0%	0%	0%	0%	0%	0%	0%	0%	0%
BB	0%	0%	0%	0%	75%	17%	0%	0%	7%
B	0%	0%	0%	0%	7%	70%	2%	9%	13%
CCC-C	0%	0%	0%	0%	0%	20%	0%	60%	20%

- The transition matrix reflects that the model is quite stable. It also shows that the rate of default is higher for riskier banks.

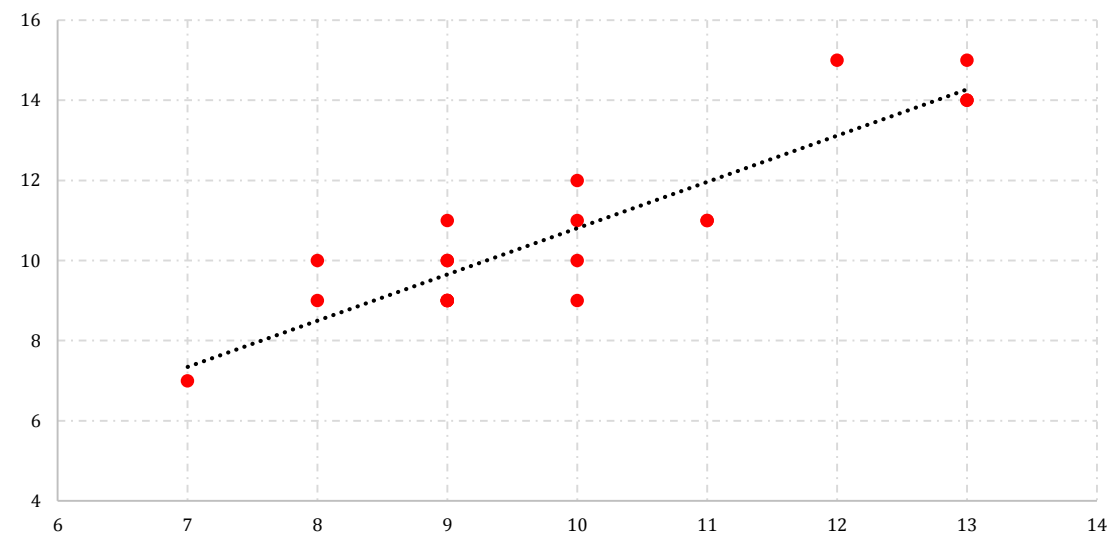
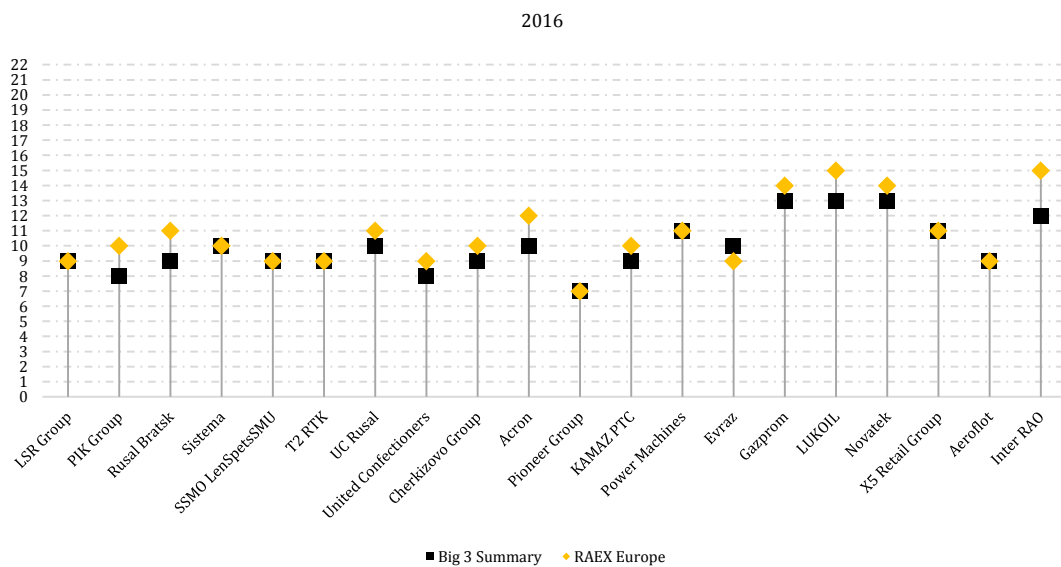
Benchmarking with other CRAs

- Our ratings are consistent with the distribution of Big 3. Discrepancies naturally exist as our methodologies differ, but the biggest discrepancy is 2 notches.



Consistency of our corporate methodology

- Sample of 20 companies with one time period using our corporate methodology
- The benchmarking with other CRAs shows the consistency of our methodology with the Big 3 with the exceptional discrepancies in Oil & Gas sector companies
- Correlation was also favourable for our analysis with a **coefficient of 90%**





Thank you for your attention!

Vladimir Gorchakov
Associate Director
Rating-Agentur Expert RA GmbH
Walter-Kolb-Straße 9-11, 60594 Frankfurt am Main
Tel. +49 69 3085 4500 ext. 1211
www.raexpert.eu
gorchakov@raexpert.eu