

Rating-Agentur Expert RA GmbH assigned 'B-' sovereign government and 'CCC' credit climate ratings to Belarus

Rating-Agentur Expert RA GmbH assigned 'B' sovereign government credit rating (SGC) to Belarus in national currency (Moderately low level of creditworthiness of the government) and 'B-' in foreign currency (Moderately low level of creditworthiness of the government).

Rating-Agentur Expert RA GmbH assigned 'CCC+' country credit environment rating (CCE) to Belarus in national currency (Low quality of credit environment of the country) and 'CCC' in foreign currency (Low quality of credit environment of the country).

MAJOR FACTORS THAT INFLUENCED BOTH TYPES OF RATINGS:

Positive factors:

- Gross government debt remains tolerable at 40,4% of GDP and 97,5% of budget revenues according to IMF's estimates for 2015;
- Satisfactory structure of the public debt. External short-term debt as of September 2015 was equal to 7,5% of GDP and 18,1% of budget revenues for 2015. In case of financial distress, the probability of debt restructuring from the largest creditors (Russian government and banks) is high;
- The fiscal budget in IMF's definitions is set to post a moderately low deficit in 2015 (2,4% of GDP according to estimates);
- Moderately high levels of GDP per capita in PPP terms and HDI: USD 17,9 th (IMF estimates for 2015) and 0,74 (2015).

Restricting factors:

- Mixed results in the banking system in 2015. Positive indicators such as ROA (1%) and capital adequacy ratio (12,2%), contrasted with an increasing share of NPLs (from 3,5% in 2010 to 5,1% in 2015), moderately low and declining levels of banks' assets/GDP at 66%, high share of government owned banks (more than 60% of assets as of the end of 2015) and widespread directed lending (4% of GDP for 2014 according to IMF's estimations);
- Real GDP declined by 3,9% in 2015 (according to preliminary data of Belstat) and is estimated to continue this trend in 2016 (-2,2% according to IMF);
- Low level of competitiveness of the economy shown by the negative trade balance for the past two years (-0,9% and -4,5% of GDP for 2014 and 2015 respectively);
- Inconsistency of the monetary policy evidenced by the stable refinancing rate and low standing facilities rates (SWAP overnight, deposits overnight) in 2015. Monetary policy transmission mechanisms remain limited due to current levels of financial dollarization and directed lending;
- Fiscal policy is not fully adequate to the current conditions of the economy. On the positive side, the government has been constantly curbing increases in the nominal wage (in fact, real wages declined in 2015), has reduced expenditures in real terms and the amounts of directed lending, and partly increased taxes. However, the levels of estimated directed lending remain high (around 4% of GDP in 2014 according to IMF's estimations) and significant contingent liabilities related to the government-owned banks recapitalization

remain in place;

- Low level of credibility on the government's plans of privatization.

Negative factors:

- Inflation is projected to be as high as 16,9% in 2015 (according to IMF's estimates) and even though it was very volatile in the period between 2010 and 2013, it has been less volatile since then;
- The 7,4% yield on the 7Y sovereign Eurobonds demonstrates a general perception of moderately high risk on Belarus debt. Nonetheless, the bond has been trading at a premium since October of 2015, which reflects an improvement on the market's risk sentiment;
- Underdeveloped stock and bond markets, with as low as 67 companies and 179 bonds listed as of the end of 2014.

Stress factors:

- Negative spill-over effects from the economic slowdown in Russia combined with high dependence from this government as a creditor (the Russian government and Russian banks provided 72% of external funds obtained by the Belarussian government in 2015) (weak stress-factor);
- Elevated and rising financial dollarization of the economy with the share of FX loans and deposits equal to 57,1% and 74,3% of total loans and deposits respectively (weak stress-factor).

Currency risks:

- Risky and volatile local currency: BYR depreciated against USD by almost 100% over the past year following the RUB;
- Foreign exchange reserves have been declining over the last two years and reached a level of USD 4,2 bn as of December 2015, that is equal to 20,2% of the total government debt (IMF forecast) and 18% of external public and publicly guaranteed private sector debt for 2015;
- Significant dependence on imported goods with imports/GDP at 63,7% in 2015;
- Main restrictions to operate in foreign currency were eased, but remain in place for some internal transactions.

ADDITIONAL FACTORS THAT INFLUENCED CCE RATINGS:

Negative factors:

- High and volatile real interest rates over the past six years: figures have been affected by inflation;
- Limited amount of financial instruments on the financial market combined with poor performance of the bond index over the last three years.

Restricting factors:

- Moderately high spread between rates on credits and deposits (11,3 p.p. for 2015).

Positive factors:

- Low levels of private sector debt/GDP (56,2% in 2014).

SENSITIVITY ASSESSMENT:

The following developments could lead to an upgrade:

- Successful implementation and results of de-dollarization policies;
- Continuous and sustainable decline of inflation levels;

- Follow through of the government's intentions to privatize state-owned assets and reduce the volume of directed lending;

The following developments could lead to a downgrade:

- Materialization of risks related to the current financial position of the largest creditors that can lead to the lack of external financial support;
- Deterioration of the fiscal and debt position of the government due to continuous slowdown in the economy and materialization of contingent risks from the banking system;
- Deterioration of the main banking metrics caused by further slowdown of real GDP and economic spillovers.

“The ratings of Belarus are constrained by the current macroeconomic stance, which was deteriorated by the negative spill-over effects from the slowdown in the Russian economy. Furthermore, the structural problems of the Belarussian economy, substantial levels of financial dollarization and high and volatile inflation, also contributed negatively to the country's creditworthiness.

Lower ratings in foreign currency were motivated by marginal and declining foreign exchange reserves, dynamic of national currency, significant dependence on imported goods and remaining restrictions on FX transactions.

The assigned ratings reflected tolerable debt levels, moderately low fiscal deficit, high levels of GDP per capita and HDI. In addition, the maturity structure of public debt as well as the structure of main creditors affected the ratings in a positive way.” – clarified Vladimir Gorchakov, Lead expert of Rating-Agentur Expert RA GmbH.

Responsible expert: Vladimir Gorchakov, Lead expert of Rating-Agentur Expert RA GmbH

Reviewer: Hector Alvarez, Expert of Rating-Agentur Expert RA GmbH

Research report on Belarus is available at:

[http://raexpert.eu/reports/Research report Belarus 04.03.2016.pdf](http://raexpert.eu/reports/Research%20report%20Belarus%2004.03.2016.pdf)

Next scheduled rating publication: 5 August 2016. The full sovereign rating calendar can be found at <http://raexpert.eu/sovereign.php#conf-tab-5>.

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Minute's summary

The rating committee for Belarus was held on 2 March 2016. The quorum for the rating committee was present. After the responsible expert presented the factors, which influenced the rating assessment, the members of the committee expressed their opinions and suggestions within the framework of the Sovereign methodology. The chairman of the rating committee ensured that every member of the committee expressed his/her opinion before proceeding to the voting.

The following methodology was used for the rating assessment: Methodology for Assigning Sovereign Government Credit Ratings and Country Credit Environment Ratings. Short Public Version (from April 2015) can be found under the following link: <http://raexpert.eu/files/methodology/Methodology-Short-Sovereign.pdf>. Descriptions and definitions of all rating categories can be found under the following link: <http://raexpert.eu/sovereign.php> under the "Rating scale" section. The user of the rating shall read the methodology in order to have a full understanding of the rating procedure.

These ratings are unsolicited. The rated entity did not participate in the rating process.

Main sources of information: World Bank, International Monetary Fund, Belstat, National Bank of Republic of Belarus, Ministry of finance of Republic of Belarus, BCSE, Börse Frankfurt.

Limits of the Credit Rating

During the rating assignment process, Rating-Agentur Expert RA GmbH (the Agency) used publicly available information that was considered to be reliable, complete and non-biased. The responsible expert performed the rating assessment of the country with information considered as the most reliable and up to date in accordance to the overall position of the country and the Agency's internal criteria for selecting data providers. The information and data used for this specific assessment can be considered as of sufficient quality.

Despite similar methodologies, credit ratings of Belarus from RAEX (Moscow) (both SGC and CCE) may be different from those assigned by Rating-Agentur Expert RA GmbH due to:

- Possible differences in expert assessments of individual factors;
- Some differences in methodologies (methodologies are similar but not identical);
- Differences in the date/period of assessment for individual factors.

Conflict of interest

The responsible expert was neither influenced nor biased by third parties during the rating assessment. All employees involved in the rating assessment and revision of the rated entity have reported absence of conflicts of interests before initiation of the rating process.

Rating-Agentur Expert RA GmbH is completely independent from the activities of other agencies of the RAEX group.

Risk warning

The Agency disclaims all liability in connection with any consequences, interpretations, conclusions, recommendations and other actions directly or indirectly related to the conclusions and opinions contained in the Agency's Research Reports.

This Report represents the opinion of Rating-Agentur Expert RA GmbH and is not a recommendation to buy, hold or sell any securities or assets, or to make investment decisions.

Office responsible for preparing the rating

The office responsible for the preparation and issuance of this credit rating is the office of Rating-Agentur Expert RA GmbH in Frankfurt am Main, Germany.

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The European Securities and Markets Authority (ESMA), the EU's direct supervisor of credit rating agencies (CRAs), has registered Rating-Agentur Expert RA GmbH as a CRA under Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009 on credit rating agencies, with effect from 1 December 2015.

Rating-Agentur Expert RA GmbH applies the Code of Conduct Fundamentals for credit rating agencies issued by the International Organization of Securities Commissions (IOSCO Code) and includes the basic principles of IOSCO Code in its Code of Conduct.