

## **Rating-Agentur Expert RA GmbH confirmed at 'B-' the sovereign government and at 'CCC' the credit climate ratings of Belarus.**

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

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

### MAJOR FACTORS THAT INFLUENCED BOTH TYPES OF RATINGS:

#### Positive factors:

- Gross government debt remains bearable at around 48% of GDP and 115% of budget revenues in 2015. However, debt metrics have increased from a year ago mainly driven by an increase in the external debt through BYR devaluation and further issuance of bonds in the domestic market;
- Reduced short-run risks exposure as March 2016 short-term external debt stood at 9,1% and 21,6% of end-2015 GDP and budget revenues respectively. Additionally, the fact that the largest creditors are the Russian government and Russian banks, facilitates a potential restructuring or prolongation of the debt;
- Despite weak economic activity, the fiscal budget posted a surplus of 1,5% in 2015. We expect the government to keep reporting surpluses following the newly introduced export taxes, mainly on potash and crude oil, as well as to continue its track record of cost-containment measures;
- Belarus shows moderately high levels of development as GDP per capita in PPP terms and HDI were USD 17,8 tn and 0,74 in 2015 respectively.

#### Restricting factors:

- The banking sector keeps showing mixed results with still low volumes of assets and private credit at 72,5% and 47% of GDP in 2015 respectively. Banks' profitability remains positive, as yearly ROA stood at around 1% in March 2016. Fueled by lower GDP growth rates, the share of NPLs in the total loan portfolio rose to 6,8% in 2015. Capital adequacy ratio (CAR), remained high at around 18,7% in 2015, but it dropped by 2,3p.p. during 1Q 2016;
- Fiscal policy improved as the Belarus authorities introduced changes in the debt target and mid-term budget planning. The recent pension reform (increase of the retirement age from 55 to 60) is an important step that will help to preserve fiscal sustainability of the pension system in the long run;
- Monetary policy has been contradictive over the past years. The National Bank of the Republic of Belarus (NBRB) gradually lowered policy interest rates to lower the cost of credit but at the same time used quantitative controls to engineer a significant slowdown in credit growth (and, thus, to prevent a price increase). Additionally, despite inflation having reached its target in 2015, the 2016 reported inflation target at 12% does not correlate with the targeted broad money growth rate (18%) and the real GDP growth forecast for the year.

#### Negative factors:

- Inflation rate, while declining as a result of weaker economic activity, remained volatile and high at around 12% in 2015. Also, Belarus has the second largest annual inflation rate after Russia among its CIS peers<sup>1</sup>;
- Underdeveloped stock and bond markets, with 67 companies and 179 bonds listed as of the end of 2015. Additionally, traded volumes at the stock market are highly concentrated in the 10 largest issuers and market capitalization of listed companies was around 1% of GDP as of July 2016;
- Relatively high yield on long-term foreign currency government bonds at an average of 7,2% by March 2016, reflects the market's perception of Belarus's long-term risks;
- As a result of a decline in economic activity throughout the whole CIS region (especially Russia), the real GDP of Belarus declined by 4% y-o-y in 2015. This figure is close to that of Russia and lays well below the other CIS peers;
- The government of Belarus has a significant amount of contingent liabilities as state ownership is widespread over the whole economy. Additionally, 60,5% of the banking system in terms of assets is controlled by the Government and the share of loans to SOEs (mainly through directed lending) is 45% in total outstanding loans.

#### Stress factors:

- Negative spill-over effects from the economic slowdown in Russia combined with high dependence from this government as creditor (the Russian government and Russian banks provided 72% of external funds obtained by the Belarussian government in 2015). We expect this stress factor to keep affecting the rating in 2016, in view of the ongoing recession in Russia (weak stress-factor);
- Elevated and rising financial dollarization of the economy with the share of FX loans and deposits equal to 58,4% and 74,8% of total loans and deposits in June 2016 respectively (weak stress-factor).

#### Currency risks:

- Belarus has a risky and highly volatile currency which tends to follow the RUB. The BYR lost 81% of its value against the USD along 2015, resuming appreciation from February 2016;
- Meager amount of FX reserves at USD 4,3 bn by end-June 2016 which covers as low as one month of imports and 19% of the country's external debt;
- Significant dependence on imported goods with imports to GDP at 70% in 2015;
- Main restrictions to operate in foreign currency were eased, but remain in place for some internal transactions. We expect these restrictions to become even softer as the governor of the NBRB recently announced that the bank favors gradual removal of requirements for the country's exporters to sell part of their foreign currency revenues on the forex market.

#### ADDITIONAL FACTORS THAT INFLUENCED CCE RATINGS:

##### Negative factors:

- Driven by volatile inflation rates, real interest rates have fluctuated enormously over the past six years;
- Limited amount of instruments on the financial markets combined with poor performance of the bond index over the last three years.

##### Restricting factors:

---

<sup>1</sup> CIS peers are Armenia, Azerbaijan, Kazakhstan, Kyrgyzstan, Russia, Tajikistan and Uzbekistan.

- The spread between interest rates on loans and deposits remains high at around 6,7p.p. in March 2016.

Positive factors:

- Low levels of private sector debt to GDP (79% in 2015).

SENSITIVITY ASSESSMENT:

The following developments could lead to an upgrade:

- Further appreciation and stabilization of the BYR which would contribute to a better implementation of de-dollarization measures and would drive a decline of the government debt load and NPLs of FX denominated loans;
- Follow-through on the government's intentions to privatize state-owned assets and further reduce the volume of directed lending.

The following developments could lead to a downgrade:

- Deterioration of government debt metrics as a consequence of persistent weak economic activity and a renewed depreciation of BYR;
- Materialization of risks related to the current financial position of the largest creditors that can lead to a steep reduction of external financial support.

“The ratings of Belarus are positively affected by the country’s low debt metrics and improving fiscal consolidation. Even though the financial sector keeps showing structural imbalances, the recently implemented reforms could curve these risks in the long run.

External exposure remains one of the country’s major risks as imports stood at around 70% of GDP in 2015, external debt of the government is relatively high and exchange rate volatility could be triggered following a renovated depreciation of the RUB.

Even though the monetary policy is clearly outlined, its implementation could be potentially hindered as some targets are inconsistent with current monetary developments and forecasts of macro indicators.” – Clarified Gustavo Angel, Rating Associate of Rating-Agentur Expert RA GmbH.

Responsible expert: Gustavo Angel, Rating Associate of Rating-Agentur Expert RA GmbH

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

Research report on Belarus is available at:

[http://raexpert.eu/reports/Research\\_report\\_Belarus\\_05.08.2016.pdf](http://raexpert.eu/reports/Research_report_Belarus_05.08.2016.pdf)

Next scheduled rating publication: TBD in December 2016

For further information contact:

**Rating-Agentur Expert RA GmbH**  
Walter-Kolb-Strasse 9-11,  
60594 Frankfurt am Main, Germany  
+49 (69) 3085-45-00  
E-mail: [info@raexpert.eu](mailto:info@raexpert.eu)  
[www.raexpert.eu](http://www.raexpert.eu)

RATING HISTORY:

Date	Review reason	SGC		CCE	
		National currency	Foreign currency	National currency	Foreign currency
04.03.2016	First assignment of both types of ratings	B	B-	CCC+	CCC

## Minute's summary

The rating committee for Belarus was held on 2 August 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 press-release 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.

Rating-Agentur Expert RA GmbH is a credit rating agency established in Germany and therefore shall comply with all applicable regulations currently in force in the European Union.

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.