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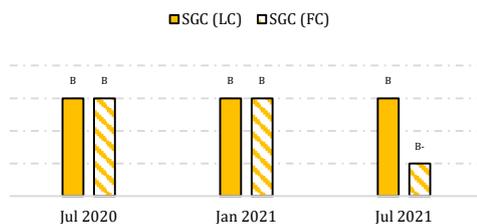
Ratings

Sovereign Government Credit (LC) **B**
Sovereign Government Credit (FC) **B-**

Outlook (LC) **Stable**
Outlook (FC) **Stable**

*These ratings are unsolicited

Ratings dynamics



Main Economic Indicators of Belarus

Macro indicators	2017	2018	2020
Gross gov. debt, BYN bn	58,2	56,3	72,2
Nominal GDP, BYN bn	122,3	132	147,0
Real GDP growth, %	3,1	1,2	-0,9
Gross gov. debt/GDP, %	47,5	42,7	49,1
Deficit (surplus)/GDP, %	1,8	0,6	-3,3
Inflation rate, %	5,6	4,7	7,3
Current Account Balance/GDP, %	0	-1,9	-0,3
External debt, USD bn	39,3	40,7	42,2
Development indicators		2020	
Inequality adj. HDI		0,77	
GDP per capita, USD th		20,2	
Default indicator		09.07.2021	
10Y Gov Bond Yield, %		8,64**	

Source: RAEX-Europe calculations based on data from WB, IMF, NBRB, MFRB, Belstat, Chonds.

* Forecast; **Data for 2019; ***Maturity in 2031.

¹ Non-oil peer-countries: Armenia, Ukraine, Georgia.

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RAEX-Europe confirmed the credit rating of Belarus in national currency at 'B' and downgraded to 'B-' the credit rating in foreign currency. The outlook on both ratings is stable.

RAEX-Europe maintained the sovereign government credit rating (SGC) of Belarus at 'B' (Moderately low level of creditworthiness of the government) in national currency and downgraded from 'B' to 'B-' (Moderately low level of creditworthiness of the government) in foreign currency. The rating outlook changed from negative to stable, which means that in the mid-term perspective there is a high probability of maintaining the rating score.

Summary

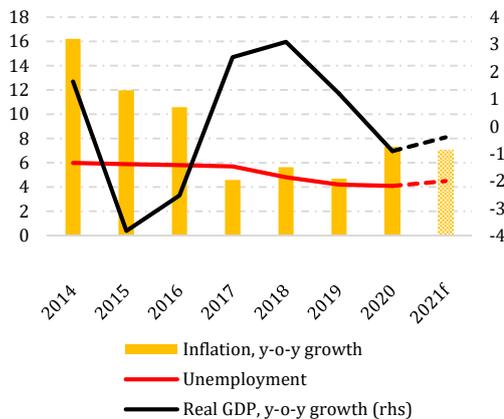
Our decision to downgrade the rating in foreign currency reflects the increased foreign currency risks for the government and banking sector, weakening of external position. Moreover, the rating is restrained by the high financial and trade dependence on Russia, and increased risks of contingent liabilities materialization for the government.

Meanwhile, the current rating in local currency is supported by a rapid ongoing economic recovery, a favorable public debt structure in terms of maturity and payment terms, manageable public debt and an adequate budget, and a relatively high level of welfare of the country's population.

Uncertainty about economic recovery due to sanctions in spite of the negative economic and political environment in 2020, the contraction in GDP was not as severe as in other regional peers¹ and amounted to 0,9%, as from Q4 2020 economic activity gradually recovered and GDP growth in January-May 2021 was 3,1% y-o-y, mainly due to industrial production growth. However, we expect a slowdown during the year caused by the constraining impact of EU economic sanctions on investment and international trade. Belarusian exports of potash fertilizers and oil products, as well as producers of tobacco, faced restrictions in response to an escalation of serious human rights violations in Belarus. In addition, the EU blocked Belarus' access to EU financial markets, prohibited insurance and re-insurance of Belarusian state-owned companies and institutions, and stopped the European Investment Bank activity in the country.

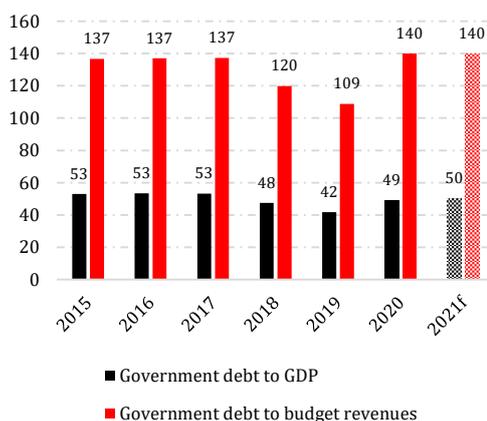
In this regard, forecasts of economic growth in the short term have high uncertainty and there is a high probability of a slump, so we expect that GDP growth by the end of 2021 will fluctuate around zero. Moreover, with the worsening of relations with the international community, the

Graph 1: Macroeconomic indicators, %



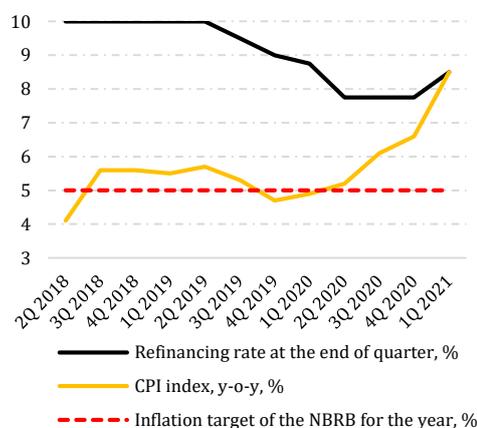
Source: RAEX-Europe calculations based on data from the IMF and Belstat

Graph 2: Government debt dynamics, %



Source: RAEX-Europe calculations based on data from the IMF, Ministry of finance of the Republic of Belarus (MFRB)

Graph 3: Base rate vs CPI, %



Source: RAEX-Europe calculations based on data from the NBRB

dependence of Belarus on Russia, which remains the main partner for economic and financial stability, is increasing.

Increased currency risks of the government's debt position. Gross government debt rose to 49% of GDP and 139% of budget revenues on January 1, 2021, up from 42% of GDP and 109%, respectively, a year earlier. The growth was due to the weakening of the BYN exchange rate and extra borrowings mainly in international capital markets. Thus, the share of FX liabilities remains high at around 90% of gross government debt. Maturity and terms of government debt are favorable, in 2021 the government needs to repay debt and make service payments totaling BYN 8 bn, which is 5.4% of GDP. Under sanctions, the government has limited access to external borrowings, but relies on financial support from Russia and continues to issue bonds on the domestic market.

Widening of the budget deficit. In 2020, the consolidated budget deficit was 3,3% (according to official data, the consolidated budget deficit was 1,8%), both due to the planned reduction of revenues from customs oil duties, and the costs of supporting businesses and population during the pandemic. As a result of the "tax maneuver" of Russia, the budget losses of the Republic of Belarus amounted to almost 0,2% of GDP. Given the lower revenues and restructuring of debts of state-owned companies, we forecast an increase in the deficit to 4% in 2021, which limits the authorities' ability to carry out an expansionary fiscal policy.

Instability and inefficiency of the current monetary policy. As a result of the weakening of the Belarusian ruble and the outflow of deposits from the banking sector, consumer prices in 2020 increased by 7,4%, while the target level was not more than 5%. In the 1H 2021, inflation continued to accelerate to 9,4% in May. The main drivers were an increase in food prices, as well as imported goods, the cancellation of the preferential VAT rate on certain goods, as well as increased inflation expectations. In response, in April 2021 the refinancing rate was tightened by 75 bps to 8,5%, moreover, the authorities suspended the process of transition to the inflation targeting regime and returned to the directive lending, which reduces the effectiveness of the monetary policy. In addition, the effectiveness of the transmission mechanism is constrained by the increased dollarization of the economy and a weak domestic capital market.

The external position is weakened by a decrease in foreign exchange reserves. Due to lower imports and recovery of exports at the end of 2020, the current account deficit was only 0,4% of GDP at year-end. However, after a dramatic decline in 2020, FX reserves have not recovered and as of June 2021, stood at USD7,4 bn, down 10% from a year ago. At the same time, reserves still cover more than 2 months of imports. Thus, the external position continues to be under pressure, we do not expect a significant improvement, as foreign exchange reserves serve as the main source of repayment of government FX liabilities and smoothing volatility in the foreign exchange market, and the prospects for increasing exports of goods

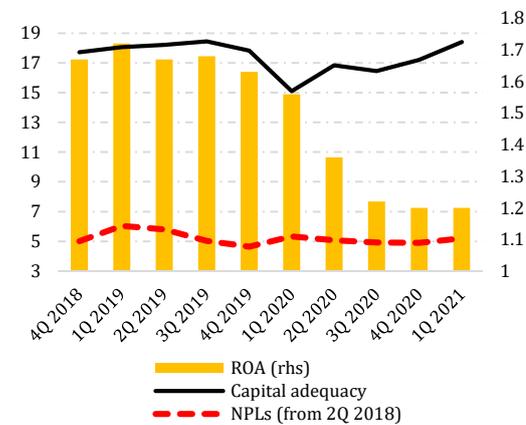
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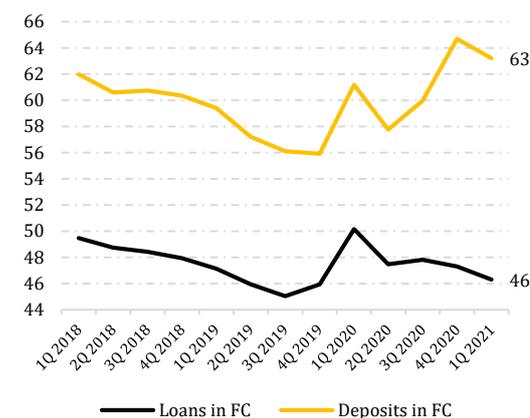
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Graph 4: Financial soundness indicators, %



Source: RAEX-Europe calculations based on data from the IMF, NBRB

Graph 5: Financial dollarization, % of total



Source: RAEX-Europe calculations based on data from the NBRB

Stress factors:

- The risks for the creditworthiness stem from the direct and indirect dependence on the relationships with Russia, as well as the economic and political situation of the major trading partner and creditor (medium weak stress-factor);
- Due to the depreciation of BYN, the increased foreign currency risks pressure the stability of the banking system and government finance. The elevated level of financial dollarization of the banking system remains one of the highest in the region at 46% and 63% of loans and deposits, respectively, as of March 2021. Moreover, the currency risk is a vulnerability that significantly limits the effectiveness of monetary policy (moderately weak stress-factor).

SENSITIVITY ASSESSMENT:

The following developments could lead to an upgrade:

- Significant reduction of the dollarization of the banking system and the share of public debt in foreign currency;

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and services are not clear.

The banking system remains highly exposed to foreign exchange and credit risks. The banking sector's assets to GDP rose to 62% in 2021, up from 56% in 2020, boosted by a 21% year-over-year increase in corporate lending. After the outflow of household deposits in 2020, banks increased deposit rates and tightened withdrawal conditions, and the National Bank of Republic of Belarus supported bank capitalization and liquidity by placing budget funds in banks. The ratio of regulatory capital to risk-weighted assets strengthened to 18,4, and the ROE and ROA were 9,6% and 1,2%, respectively, as of March 2021. NPLs rose slightly over the year to 5,2% as of March 2021. Despite meeting the financial stability key indicators, the banking system remains highly exposed to foreign exchange and credit risks. The high share of FX loans (46%) puts pressure on the asset quality of banks and in addition, there are increased risks of the realization of contingent liabilities for the government to support the public sector of the economy, as 65% of the banking system belongs to the state, and a high proportion of the loan portfolio is concentrated in the SOEs.

- Strengthening the external position by reducing pressure on banks' liquidity and building up international reserves;
- Fundamental reform of the public sector with increased efficiency of SOEs and reduced the state's footprint.

The following developments could lead to a downgrade:

- Escalation of the political conflict and further violation of human rights и civil freedoms, which may lead to increased financial and macroeconomic instability;
- Deterioration of state finances due to the realization of risks: a high share of foreign currency debt, limited access to capital markets and dependence on funding from Russia, as well as the materialization of contingent liabilities;
- Significant deviation from current monetary and fiscal policies, which may lead to macroeconomic instability.

ESG Disclosure:

Inherent factors

- Quality of fiscal policy; quality of monetary policy; natural resources; natural and climatic threats; environmental threats; level of corruption, CPI; Government Effectiveness Index; quality of the business environment; position in Doing Business Ranking; level of investment in human capital, adjusted for inequality; Rule of Law Index; transparency of government policymaking Index; level of information transparency of the government; Political Stability and Absence of Violence/Terrorism Index; natural disasters, constant exposure to difficult natural conditions.

Drivers of change factors

- Human rights violations in Belarus against the political opposition and reporters have led to the economic sanctions, which can result in the deterioration of economic indicators and state finances.

Next scheduled rating publication: TBD December 2021. The full sovereign rating calendar can be found at [Sovereign Rating Calendar 2021](#)

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RATING HISTORY:

Date	Review reason	SGC		Outlook	
		National currency	Foreign currency	National currency	Foreign currency
08.01.2021	Scheduled revision of both types of ratings for the country	B	B	Negative	Negative
10.07.2020	Scheduled revision of both types of ratings for the country	B	B	Stable	Stable
10.01.2020	Scheduled revision of both types of ratings for the country	B	B	Positive	Positive
12.07.2019	Scheduled revision of both types of ratings for the country	B	B	Positive	Positive
18.01.2019	Scheduled revision of both types of ratings for the country	B	B-	Positive	Positive
20.07.2018	Scheduled revision of both types of ratings for the country	B	B-	Positive	Positive
26.01.2018	Scheduled revision of both types of ratings for the country	B	B-	NA	NA
28.07.2017	Scheduled revision of both types of ratings for the country	B	B-	NA	NA
03.02.2017	Scheduled revision of both types of ratings for the country	B	B-	NA	NA
05.08.2016	Scheduled revision of both types of ratings for the country	B	B-	NA	NA
04.03.2016	First assignment of both types of ratings	B	B-	NA	NA

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Minute's summary

The rating committee for Belarus was held on 9 July 2021. 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 – Full Public Version](#) (from August 2020). Descriptions and definitions of all rating categories can be found 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.

The definition of default can be found on the Agency's website in the section for [Internal policies](#).

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 the Republic of Belarus, Ministry of finance of the Republic of Belarus, BCSE, Börse Frankfurt, Cbonds, CBR, Rosstat, World Federation of Exchanges.

ESG Disclosure

We consider Environmental, Social, and Governance (ESG) risks and opportunities in the creditworthiness analysis of our Sovereign entities. The disclosure document can be found on the Agency's website in the section: [ESG factors in RAEX-Europe's Credit Ratings](#)

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.

Regulatory use

SGC ratings can be used for regulatory purposes according to the ESMA definition.

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.

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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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