

## **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 sustainable around 47% of GDP and 114% of budget revenues as of 3Q 2016 respectively. However, the final debt metrics for 2016 can be reassessed upward due to the high volatility of the debt metrics, different approaches to their calculation and high level of contingent liabilities;
- Reduced short-run risks exposure with short-term external debt at 7,6% of GDP and 18,5% of budget revenues as of 3Q 2016. Additionally, the fact that the largest creditors are the Russian government and banks, facilitates a potential restructuring or prolongation of debt;
- Despite weak economic activity, the fiscal budget posted a surplus of 1,5% in 2016. We expect the government to keep reporting surpluses following the newly introduced taxes, as well as 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 17,5 th and 0,74 in 2016 respectively.

#### Restricting factors:

- The fiscal policy of the Belarusian government keeps improving, but the share of quasi-fiscal operations remains high. The fiscal authorities carried out a second round of tax increases in addition to the set of measures implemented in previous years. At the same time, discrepancies between the calculation of state budget balances between the Ministry of Finance<sup>1</sup> (MFRB) and the IMF<sup>2</sup> point towards the existence of a large scale of quasi-fiscal operations;
- The monetary policy has been contradictory over the past years. The National Bank of Republic of Belarus (NBRB) gradually lowered the policy interest rates to reduce the cost of credit but at the same time used quantitative controls to engineer a significant slowdown in credit growth (and therefore to prevent price increases). Additionally, despite inflation having reached its target in 2015 and 2016, the 2017 reported inflation target at 9% does not correlate with the targeted broad money growth rate (14%) and expected real GDP growth forecast for the year (around 0,2% by MFRB budget plans).

<sup>1</sup> State budget in the definition of the Ministry of finance of Republic of Belarus: Republican budget, local budgets, state extra-budgetary fund of social protection of Republic of Belarus, the state off-budget Universal Service Fund of the Ministry of Communications and Information, the state extra-budgetary fund of civil aviation and state extra-budgetary fund of the Department of Penitentiary.

<sup>2</sup> In accordance to the IMF definitions: general government budget – sum of republican, local and social protection fund budgets; overall fiscal balance – balance of general government budget with inclusion of off-balance sheet operations.

#### Negative factors:

- The banking sector stability deteriorated significantly: the ratios of bank's assets and volume of credit to GDP dropped to 68,3% and 38,0% respectively by the end 2016 (compared to 72,5% and 43,4% a year ago); the share of NPLs to total loans increased sharply to 11,5% from 6,8% a year before, mainly due to the reassessment of the quality of banks' assets led by the NBRB in 2016. However, banks' profitability remains positive as yearly ROA stood around 1,2% in October 2016 and the capital adequacy ratio (CAR) remained high around 18,6% in 2016;
- Inflation rate remained high around 10,6% in 2016. However, prices increased at a slower pace as a result of lower consumption, tight monetary and fiscal policies and a slight appreciation of the BYR throughout 2016;
- As a result of a decline in economic activity in the whole CIS region (especially Russia) and internal structural imbalances, the real GDP of Belarus declined by 2,6% y-o-y in 2016 and around 4% in 2015;
- Contingent liabilities remain significant. State ownership is widespread over the whole economy, 65% of the banking system in terms of assets is owned by the government and the share of claims to SOEs was equal to 55% of total banks' claims to the corporate sector;
- Underdeveloped stock market with 59 listed companies as of the end of 2016. Additionally, traded volumes at the stock market are highly concentrated in the ten largest issuers and market capitalization of the listed companies was around 1% of GDP;
- Relatively high yield on the 7Y USD-denominated government bond (with maturity in January 2018) at an average of 6,2% by February 2017, reflects the market's risk aversion over Belarus' debt.

#### Stress factors:

- Negative spill-over effects from the economic slowdown in Russia combined with the high dependence from this government as creditor (weak stress-factor);
- High financial dollarization of the economy with the share of FX loans and deposits equal to 56,0% and 69,9% of total corresponding portfolio as of the end 2016. Despite the positive dynamic over the last year, we expect this factor remaining in place within 2017 (weak stress-factor).

#### Currency risks:

- High level of FX debt equal to 46% of GDP, 111% of budget revenues and more than 80% of total government debt as of 3Q 2016;
- The BYR still remains a risky and volatile currency in spite of the slight stabilization along 2016 due to changes in the exchange rate regime and dynamics of Russian RUB;
- Despite the positive dynamic over the last year, the amount of international reserves remained low at USD 4,9 bn by end-2016 which covers 21,9% of the country's external debt;
- Significant dependence on imported goods with imports to GDP around 51% in 2016.

#### ADDITIONAL FACTORS THAT INFLUENCED CCE RATINGS:

##### Negative factors:

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

##### Restricting factors:

- The spread between interest rates on loans and deposits remain high around 6,3 p.p. as of December 2016.

Positive factors:

- Low levels of private sector debt to GDP (around 72% as of 3Q 2016).

SENSITIVITY ASSESSMENT:

The following developments could lead to an upgrade:

- Improvements of fiscal and monetary policy of the government with significant reduction of directed lending and other off-budget operations;
- Further decline of dollarization levels for loans and deposits.

The following developments could lead to a downgrade:

- Further deterioration of the quality of banks' loan portfolio due to the NBRB policy and poor creditworthiness of the borrowers;
- Increase of public debt metrics due to materialization of contingent liabilities of the government (mainly related to potential recapitalization of the banking system);
- 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 creditworthiness of the Republic of Belarus remains negatively affected by high levels of inflation and financial dollarization, widespread off-budget operations and negative dynamics of real GDP in 2016. In addition, banking system risks increased substantially over the last year. The external position of the country remains extremely vulnerable with high imports, very low level of international reserves and a high share of FX denominated debt.

On the other hand, the current level of general government debt to GDP and budget revenues supported the country's ratings. However, these indicators can be reassessed upward within next scheduled revision due to the high volatility of debt metrics and substantial levels of contingent liabilities. The structure of creditors (mainly the Russian government and banks) and maturity structure remain satisfactory.” – Clarified Vladimir Gorchakov, Rating Associate of Rating-Agentur Expert RA GmbH.

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

Reviewer: Marko Denic, Rating Analyst of Rating-Agentur Expert RA GmbH

Research report on Belarus is available at:

[http://raexpert.eu/reports/Research\\_report\\_Belarus\\_03.02.2017.pdf](http://raexpert.eu/reports/Research_report_Belarus_03.02.2017.pdf)

Next scheduled rating publication: 28 July 2017. The full sovereign rating calendar can be found at <http://raexpert.eu/sovereign/#conf-tab-5>

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**RATING HISTORY:**

Date	Review reason	SGC		CCE	
		National currency	Foreign currency	National currency	Foreign currency
05.08.2016	Scheduled revision of both types of ratings for the country	B	B-	CCC+	CCC
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 February 2017. 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.

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## 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.