

Rating-Agentur Expert RA confirmed at 'B' the rating of Belarus. The rating outlook changed from positive to stable.

Rating-Agentur Expert RA 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. The rating outlook changed from positive to stable which means that in the mid-term perspective there is a high probability of maintaining the rating score.

MAJOR FACTORS THAT INFLUENCED BOTH TYPES OF RATINGS:

Positive factors:

- Ongoing public debt servicing is at a favorable level. In 2020, taking into account currency revaluation, short-term liabilities are estimated at 6,7% of GDP or 15% of total debt. In June 2020, the Ministry of Finance successfully placed two issues of Eurobonds in the amount USD 1,25 bn with a four-fold oversubscription, which indicates high demand for Belarus' sovereign bonds. However, the rising spread between the USD-denominated Belarusian bonds with maturity in 2030 and U.S. government bonds shows the elevated international investors' perceptions regarding the country's risks;
- The active build-up of international reserves in 2019 is the result of a proactive policy of the authorities aimed at increasing resilience to external shocks. As of June 2020, international reserves amounted to USD 8,8 bn, with a predominance of foreign currency assets (48%) and monetary gold (32%). According to our estimates, international reserves cover around 2,5 months of imports of goods and services;
- Higher than in other non-oil CIS countries the level of economic development in Belarus is evidenced by GDP per capita in PPP terms USD 20,6 th in 2019 and the HDI at 0,77 in 2018.

Restricting factors:

- After a weak GDP growth of 1,2% in 2019, mainly caused by disruption of oil refining and a slowdown of external and internal demand, in the 1Q 2020 the economy was in turbulence due to restrictions on Russian oil supplies. In this regard, the industrial production decreased by 3,9% y-o-y in January-May 2020, though partially compensated by the surge in IT and construction. Accordingly, the real GDP decreased by 1,8% y-o-y as compared with the corresponding period of 2019. The COVID-19 economic shock together with the drop of oil prices affected the core of the Belarusian economy - exports, which significantly worsens the already weak economic performance. We can expect that the Belarusian economy will contract by 6% this year, with subsequent recovery of 3,5% in 2021;
- In 2019, the estimated total public debt to GDP ratio decreased to 42,7% compared to 47,5% in 2018. Conservative debt policy (net inflow of USD 0,2 bn in 2019) contributed to the reduction of debt burden supported by the strengthening of BYN. Public debt has favorable contractual terms, including maturity, and more than half of the debt is subject to multilateral and bilateral agreements. However, currency risk prevails, as almost 98% of direct public debt is denominated in foreign currency. Under the influence of the weak BYN in 2020, we consider that the total government debt can rise up to 47% of GDP. Besides, Russia and the associated EFSD¹, account for over 60% of external debt, making

¹ Eurasian Fund for Stabilization and Development.

further refinancing strongly dependent on the state of political relations between the two countries;

- Since 2016, due to the balanced fiscal policy, the government has been steadily reducing expenditures while strengthening the revenue component. Although, in 2019, the budget execution was carried out in conditions of decreased export customs duties on oil products, according to official data the consolidated budget surplus was 2,4% of GDP (an adjusted² estimated budget surplus of 0,6%). The budget was supported by other tax revenues and moderate expenses, as well as the cut-off of capital investments related to the Belarusian NPP. Considering the losses from the Russian tax maneuver, a budget deficit of 1% of GDP is expected in 2020, but the adjusted budget deficit may reach 4-5%. The scale of the expansion will largely depend on the government's plans to allocate funds for infrastructural projects and support to state enterprises. Given the current economic situation, we anticipate that the government will carry out a conservative fiscal policy, primarily financing social sphere and healthcare;
- The monetary policy aimed at achieving price stability, combined with a slowdown in inflation in Russia and weaker demand, contributed to a decline of inflation to 4,7% in 2019, within the NBRB target of 5%. In the 2H 2019 the regulator launched a relaxation, reducing the refinancing rate by 1 p.p. Already in the 1H 2020, the refinancing rate was further reduced by 1,25 p.p. to 7,75% against a weak influence of inflationary factors. We expect the inflation slightly above to the target in the range between 5%-6% in 2020 given the disinflationary effect of weakening demand. However, high dollarization of the banking system and underdevelopment of the domestic capital market are constraining factors for the efficiency of the transmission mechanism. Moreover, monetary authorities are limited in their ability to make key decisions and are subject to political influence;
- Despite improvements in such indicator as the Corruption Perception Index in 2019 - 45 (66th position out of 198 countries in 2019) and acceptable 49th position out of 190 in Doing Business 2020, institutional development is constrained by the president's strong centralized political influence on government and business. This is also reflected in the low World Bank's Government Effectiveness and Rule of Law Indexes of -0,83 and -0,3 respectively as of 2018.

Negative factors:

- The high share of state-owned enterprises in the economy that generate up to half of the gross value added increases the risk of materialization of contingent liabilities for the government. State-owned banks account for 62% of banking system assets, which may require diversion of significant government funds for support in case of a deterioration of loans. Moreover, SOEs remain inefficient and need of reform and privatization, which is constrained by lack of political will;
- The domestic capital market is underdeveloped and characterized by a low capitalization of companies, not exceeding 7% of GDP in 2019, with negligible traded volumes and high concentration on a small number of participants. In addition, the share of the corporate bond traded volumes in the market remains at 18% of the total market in 2019;
- In 2019, the decline in cost of borrowings contributed to the growth of lending, resulting in 10,4% growth of banks' loans to clients. However, the role of the banking sector is not expanding: in 2019, the banks' assets-to-GDP was 57,6% and domestic lending to GDP was 40,4%. The sector is concentrated on three largest banks with a 60,5% share in total assets as of April 2020. Financial soundness indicators remained robust: as of 1Q 2020, the capital adequacy ratio remained high at 15,1% and the ROE and ROA indicators were 10,4% and 1,6% respectively for the same period. The NPL dropped to 4,6% as of December 2019, however, taking into account the current economic downturn we consider that the high share of FX's assets and concentration on the SOEs creates heightened risks of deterioration of loan's quality, which was already partially reflected

² Consolidated budget net of off-balance expenditures.

by NPL growth up to 5,3% as of 1Q 2020.

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 this major trading partner and creditor (weak stress-factor);
- Due to the sharp depreciation of the RUB, the BYN has also weakened and the level of financial dollarization of the banking system has increased, which remains one of the highest among the countries in the region at 50% and 61% of loans and deposits, respectively, as of 1Q 2020. The currency risk is a vulnerability that significantly limits the effectiveness of monetary policy and increases the economy's sensitivity to currency fluctuations (moderately weak stress-factor).

SENSITIVITY ASSESSMENT:

The following developments could lead to an upgrade:

- Faster and stronger than anticipated recovery of the global economy, as well as the main trade partners, including Russia and EU, which can lead to an improvement of the external position of Belarus as well as faster to a recovery from the current crisis;
- Fundamental reform of the public sector with increased efficiency of SOEs, reduced the state's footprint and improved competitiveness of the economy;
- Outstanding and gradual improvement of financial dollarization levels;
- Expansion and strengthening of the role of the domestic financial market and the banking system, which will enhance the efficiency of the transmission mechanism of monetary policy.

The following developments could lead to a downgrade:

- Continued lock-down measures in the country and longer period of turbulence in the global economy, including a second wave of COVID-19 pandemic, which would lead to further deterioration of the external position, as well as a deeper contraction of local economy;
- Changes in the format of bilateral relations and agreements on a range of economic and financial issues with Russia, which may lead to a worsening of the budgetary and external position;
- 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

- None.

“The Agency confirmed the sovereign credit ratings of Belarus at ‘B’ with a change in outlook from positive to stable. The adjustment in the outlook mostly reflects the impact of the coronavirus crisis on the economy, external position and government finance. We expect the contraction of the Belarussian economy in 2020, whereas the fiscal balance will be in deficit, and the current account will deteriorate. Meanwhile, the rating is still restrained by the inefficient state sector, high economic and financial dependence on Russia, and elevated levels of financial dollarization in the economy.

The ratings are supported by improvements in macroeconomic policy-making and government finance’s management, as evidenced by successes in curbing inflation, strengthening international reserves, and reducing the public debt burden, coupled with the manageable debt refinancing.” – Clarified Denys Anokhov, Rating Analyst of Rating-Agentur Expert RA.

Research report on Belarus is available at:

https://raexpert.eu/reports/Research_report_Belarus_10.07.2020.pdf

Next scheduled rating publication: TBD in December 2020. The full sovereign rating calendar can be found at [Sovereign Rating Calendar 2020](#)

For further information contact:

Responsible expert:

Denys Anokhov, Rating Analyst of Rating-Agentur Expert RA

+49 (69) 3085-45-00, ext. 1210

anokhov@raexpert.eu

Reviewer:

Vladimir Gorchakov, Associate Director of Rating-Agentur Expert RA

+49 (69) 3085-45-00, ext. 1211

gorchakov@raexpert.eu

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

www.raexpert.eu

RATING HISTORY:

Date	Review reason	SGC		Outlook	
		National currency	Foreign currency	National currency	Foreign currency
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

Minute's summary

The rating committee for Belarus was held on 9 July 2020. 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 April 2019). 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.

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 press-release and research report.

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.