

ACRA AFFIRMS LT B+ TO BELARUS, OUTLOOK DEVELOPING

MIKHAIL NIKOLAEV

Director, Sovereign and Regional Ratings Group

+7 (495) 139 04 80, ext. 179
mikhail.nikolaev@acra-ratings.ru

DMITRY KULIKOV

Director, Sovereign and Regional Ratings Group

+7 (495) 139 04 80, ext. 122
dmitry.kulikov@acra-ratings.ru

ACRA has affirmed the following ratings to the Government of the [Republic of Belarus](#) (hereinafter, Belarus, or the country) under the international scale:

- Long-term foreign currency credit rating at B+ and local currency credit rating at B+;
- Short-term foreign currency rating at B and local currency credit rating at B.

The outlooks on the long-term foreign currency credit rating and the local currency credit rating are Developing. The Developing outlook indicates a variety of trends: the rating may stay unchanged, be upgraded or downgraded within the 12 to 18-month horizon.

Positive rating assessment factors

- Relatively high level of economic wealth.
- Moderate public debt.
- Deeper integration with Russia.

Negative rating assessment factors

- Slowdown of economic growth.
- Reduction of reserves accumulated in previous years.
- Risks of materialization of contingent liabilities.
- Weak external position.
- Limited domestic capital market capacity.

CREDIT RATING RATIONALE

The Developing outlook reflects increased economic uncertainty in the country and a strengthening of negative trends in the economy. Belarus's GDP declined over the first seven months of this year by 5.2% compared to the same period in 2021, with production of industrial goods shrinking by 6.2%, and investments falling by 18.4%. Inflation is still heightened. Long-term trends include a decline of employment — in Q2 2022 it continued to fall (by 52,600, or 1.1%) — and declining real wages of the population, which fell by 2.7% as of six months of this year after having grown by 2–4% in previous years. A fall in imports and growth of foreign investments act as mitigating factors. The state is actively using previously accumulated liquidity buffers to support the economy and in view of limited access to external markets. The government's decision to make external public debt payments denominated in hard currency using the national currency reduces external risks. Public debt remains at a moderate level. At the same time, risks remain that are related to the materialization of contingent liabilities in

both the financial and non-financial sectors. In addition, the suspension of the publication of some monthly macroeconomic data reduces the transparency of the economy, leads to higher risk premiums, and, consequently, to larger costs of economic agents.

International sanctions imposed by the EU and the US will have a negative impact on economic potential in the long term. In the short term, falling exports to EU countries are offset by the simultaneous decline of imports. The negative impact of the sanctions will be mitigated by the expansion of economic cooperation between Belarus, Russia and China, and the transition to settlements in national currencies.

Macroeconomics

ACRA expects Belarus's GDP to decline by 5–6% this year. According to the expert assessment of the Ministry of Economy of the Republic of Belarus, a gradual recovery of economic growth is expected in the third and fourth quarters of 2022, which will allow the level of 2021 to be reached by the end of 2022. The current negative GDP dynamics are driven by lower economic activity in almost all sectors of the economy. Mining and IT remain the only sectors that are supporting the economy, however, their influence is falling. An upward revision of Russia's GDP will help limit the slowdown of the Belarusian economy.

ACRA expects inflation to average 16–17% this year. Inflation in Belarus accelerated to 18.1% in July 2022. Pro-inflationary factors related to growing food, medicine and fuel prices and the depreciation of the national currency still prevail. The inflationary expectations of the population have steadily exceeded 10% and amounted to 15.7% this June. In ACRA's opinion, these factors will support increased price growth rates. Amid the crisis in 2020, the NBRB decided to postpone the transition to inflation targeting and canceled the schedule of its Board meetings. In order to curb inflation, the NBRB raised the refinancing rate to 12% on March 1, 2022.

Public finances

In ACRA's opinion, the consolidated budget deficit this year may range from 2% to 3% of GDP. The main factors in its growth compared to the official target of 1.3% of GDP are declining tax revenues, primarily from foreign economic activity, higher social expenditures and expenditures for providing additional support to economic agents. Heightened inflation will partially offset the growth of expenditures.

Revenues of the central government (budget of the republic and the Belarus Social Protection Fund) grew by 8.3% year-on-year over the first five months of 2022. Expenditures grew by 7.1% over the same period. The main sources for covering the deficit were reserves accumulated in previous periods (receivables from the NBRB) — over 5M 2022 they declined by 20.8%, and funds raised in the domestic market. In addition, the government's liabilities to the NBRB increased by BYN 1.3 bln.

At the same time, public debt refinancing risks are low. This is mainly because an agreement has been implemented with Russia to delay the terms of payments on loans due within 12 months to a later period (around 43% of public debt payments in 2022 are to be made to Russia), and also the decision of the Council of Ministers of the Republic of Belarus and the NBRB on the fulfillment of obligations to certain international financial institutions and for Eurobonds denominated in hard currencies using the national currency. The volume of balances accumulated as of July 2022 stood at around BYN 12.1 bln. In addition, officials have stated that Belarus and Russia are expected to enter into a new agreement on financing import substitution projects worth USD 1.5 bln. An insignificant amount of borrowings in the national currency is a structural risk for public debt, as it increases the budget's dependence on external funding sources.

The public debt of Belarus remains moderate for peer countries. As of the start of 2022, its volume (including the debt of the regions and state guarantees) amounted to BYN 71.1 bln (41.2% of GDP), of which BYN 67.1 bln (38.8% of GDP) accounted for the debt and state guarantees of the central government. As of the end of May 2022, public debt of the central government and state guarantees had increased to BYN 71.5 bln (39.5% of GDP). It is noteworthy that the volume of internal state guarantees increased by 33% (0.8% of GDP) over 5M 2022 to BYN 5.6 bln. Therefore, state guarantees are an important instrument for supporting the economy, although they drive the growth of contingent liabilities.

A long-term problem for Belarus is rising expenditures associated with its ageing population. According to the IMF, these expenditures will increase by 5.0 p.p. of GDP by 2030 compared to 2020. The risks of contingent liabilities remain high, despite a slight improvement in the financial standing of the non-financial sector.

Amid the exacerbation of geopolitical tensions, the outflow of retail and corporate foreign currency deposits from the banking system this year amounted to about USD 3.0 bln, which exceeds the 2020 figure of USD 1.7 bln. In order to stabilize the banking system, the NBRB carried out a number of countercyclical measures aimed at preserving banks' capabilities to provide financial support to the real sector of the economy and ensure the sustainable functioning of the banking sector, while the share capital of two of the country's largest banks grew by BYN 2.4 bln (around 1.4% of GDP). Risks also remain that corporate debt load will negatively affect the country's banking system, although the current financial indicators of the banking sector look favorable. Over 6M 2022, the share of non-performing assets in assets exposed to credit risk declined from 5.3% to 4.7% of total loan debt. The real asset quality is difficult to assess as the NBRB has extended some macroprudential support measures into 2022. In ACRA's opinion, the risks of realization of contingent liabilities in the banking sector remain and are related to the quality of bank assets and the risk of further deposit outflows. The foreign currency component of the country's banking system remains relatively high: at the end of July 2022, deposits in foreign currency accounted for 58.3% of the total volume of deposits, and loans in foreign currency amounted to 44.7% of the total loan portfolio.

External position

Belarus's external position remains weak. Over 7M 2022, the country's international reserves declined by 10.2% to USD 7.6 bln. A significant portion of reserves consists of foreign currency account balances of the Ministry of Finance of the Republic of Belarus. Therefore, the amount of reserves available for the NBRB to conduct foreign exchange policy is limited. Another constraint is the sanctions imposed by the EU on transactions with the NBRB.

Exports of goods and services in value terms for six months decreased by 4.2% compared to the same period in 2021. Services exports traditionally supported a positive foreign economic trade balance. However, the risks of declining exports have grown due to the fall in activity of the IT sector and reduced transport links between Russia and Europe. The 6.7% reduction of imports of goods and services over the specified period allows external risks to be balanced. ACRA expects a current account deficit this year of 2% of GDP. A possible decline of foreign direct investments due to the introduction of sanctions is a risk for the balance of payments, as these investments provided for a positive inflow of capital into the economy in recent years. Amid broadening economic cooperation with Russia, the relative overvaluation of the Russian ruble due to the sanctions imposed against Russia led to the value of the Belarusian ruble against the Russian ruble falling by 11% (average value in 2022 compared to average value in 2021), which should promote the export of Belarusian goods to Russia when using national currency settlements.

Although the country's external debt is moderately declining, its coverage remains low. As of the end of Q1 2022, debt amounted to USD 40.5 bln vs. USD 42.0 bln as of the end of 2020.

External debt has declined largely due to corporate external debt falling. In Q1, coverage of total external debt by reserves was 20.4%, while coverage of short-term external debt (excluding trade finance) repayable over the next 12 months stood at 85%. The rather low external debt coverage metrics are aggravated by Belarusian issuers' limited access to foreign markets and the shrinking base of international creditors. Russia is increasingly becoming the main creditor to the Belarusian economy.

Institutions

World Governance Indicators calculated for 2020 by the World Bank and published last year showed negative dynamics for Belarus, reflecting political unrest in the country after the August 2020 elections. The referendum on the country's constitution in February 2022 was not accompanied by an increase in political activity. In the Agency's opinion, the risks of increased political activity will persist in Belarus until the start of structural social and economic reforms in the country. The sovereign credit ratings are supported by the high quality of Belarus's human capital, which is based on high life expectancy and education levels. The UN-calculated index of education quality puts Belarus significantly higher than comparable countries. According to the UN, public spending on education amounted to 4.8% of GDP in 2017, exceeding the world average of 4.1% of GDP.

SOVEREIGN MODEL APPLICATION RESULTS

Belarus has been assigned a BB+ Indicative Credit Rating in accordance with the core part of ACRA's sovereign model. A number of modifiers in the modifier part of the model downgrade the Indicative Credit Rating. These include the following, which are determined by the [Methodology for Credit Rating Assignment to Sovereign Entities under the International Scale](#):

- Potential economic growth;
- Quality and sustainability of economic growth;
- Effectiveness of monetary policy;
- Contingent liabilities and the risk of their materialization;
- Debt sustainability and access to markets and sources of funding;
- External debt sustainability.

Positive adjustments were made due to the following modifier:

- Currency regime stability (compensation of increased historic volatility).

ACRA has lowered the country's Indicative Credit Rating in view of the abovementioned modifiers. A Final Credit Rating of B+ has been assigned. There are no analytical adjustments or limitations that could adjust the Final Credit Rating. As such, the long-term foreign currency Final Credit Rating remains at B+.

POSSIBLE OUTLOOK OR RATING CHANGE FACTORS

A positive rating action may be prompted by:

- Stable recovery of economic growth while maintaining macroeconomic stability.
- Lower risk of contingent liabilities.
- Improved public debt structure including reduced currency risk.
- Strengthened external position via accumulation of international reserves.
- Structural reforms aimed at increasing potential economic growth rates.

A negative rating action may be prompted by:

- A significant decrease of the foreign trade balance.
- Further deterioration of the fiscal position.
- Stronger pressure on international reserves.
- Lower-than-expected economic growth rates.
- Worse asset quality in the banking sector.
- Continued significant outflow of deposits from the banking system.

REGULATORY DISCLOSURE

The sovereign credit ratings have been assigned to the Republic of Belarus under the international scale based on the [Methodology for Credit Rating Assignment to Sovereign Entities under the International Scale](#) and the [Key Concepts Used by the Analytical Credit Rating Agency Within the Scope of Its Rating Activities](#).

The sovereign credit ratings of the Republic of Belarus were published by ACRA for the first time on February 20, 2020. The sovereign credit ratings of the Republic of Belarus have been revised and published prior to the dates specified in the [Calendar of sovereign credit rating revisions and publications](#) due to prompt performance of revision procedures. The planned revision date was September 8, 2022, the new revision date is September 7, 2022. The planned publication date was September 13, 2022, the new publication date is September 12, 2022. The sovereign credit ratings and their outlook are expected to be revised within 182 days following the publication date of this press release as per the [Calendar of sovereign credit rating revisions and publications](#).

The sovereign credit ratings are based on information from publicly available sources and ACRA's own databases. The sovereign credit ratings are unsolicited. The Government of the Republic of Belarus participated in the credit rating assignment.

Disclosure of deviations from approved methodologies. ACRA deviated from the [Methodology for Credit Rating Assignment to Sovereign Entities under the International Scale](#) when assigning the credit ratings. The compelled change of currency for payments on USD-denominated Eurobonds (ISIN: XS1634369067, XS1634369224, XS1760804184, XS2120091991, XS2120882183) is due to technical reasons driven by sanctions (foreign infrastructure organizations' failure to transfer to bondholders the funds sent by the Republic of Belarus) and is not related to the creditworthiness of the Republic of Belarus. Therefore, ACRA does not view this as a default event.

In assigning the sovereign credit ratings, ACRA used only information, the quality and reliability of which were, in ACRA's opinion, appropriate and sufficient to apply the methodologies.

ACRA provided no additional services to the Government of the Republic of Belarus. No conflicts of interest were discovered in the course of the sovereign credit rating assignment.

(C) 2022

Analytical Credit Rating Agency (Joint-Stock Company), ACRA (JSC)
75, Sadovnicheskaya embankment, Moscow, Russia
www.acra-ratings.com

The Analytical Credit Rating Agency (ACRA) was founded in 2015, with its 27 shareholders representing major Russian corporate and financial institutions and its authorized capital exceeding RUB 3 bln. ACRA's main objective is to provide the Russian financial market with high-quality rating products. Methodologies and internal documents of ACRA are developed in compliance with Russian legislation and with regard to global rating industry best practices.

The provided information, including, without limitation, credit and non-credit ratings, rating assessment factors, detailed credit analysis results, methodologies, models, forecasts, analytical reviews and materials, as well as other information placed on the ACRA website (further referred to as Information), coupled with the ACRA website software and other applications, are intended for information purposes only. Information must not be modified, reproduced or distributed by any means, in any way or form, either in whole, or in part, in marketing materials, as part of public relations events, in news bulletins, in commercial materials or reports without prior written consent from, and reference to, ACRA. Any use of Information in violation of these requirements or the law is prohibited.

ACRA credit ratings reflect ACRA's opinion about the ability of a rated entity to meet its financial obligations or about the credit risk of individual financial obligations and instruments of a rated entity at the time of publication of the relevant Information.

Non-credit ratings reflect ACRA's opinion about certain non-credit risks assumed by interested parties interacting with a rated entity.

The assigned credit and non-credit ratings reflect all material information pertaining to a rated entity and known by ACRA (including the information received from third parties), the quality and reliability of which ACRA considers appropriate. ACRA shall not be responsible for the accuracy of information provided by clients or relevant third parties. ACRA does not audit or otherwise verify the provided data and shall not be held responsible for their accuracy and completeness. ACRA conducts rating analysis of information provided by customers using its own methodologies, with the texts thereof available on ACRA's website — www.acra-ratings.com/criteria.

The only source that reflects the latest Information, including the one about credit and non-credit ratings assigned by ACRA, is ACRA's official website — www.acra-ratings.com. Information is provided on an "as is" basis.

Information shall be considered by users exclusively as ACRA's statement of opinion and must not be regarded as advice, recommendation or suggestion to buy, hold or sell securities or other financial instruments of any kind, nor shall it be viewed as an offer or advertisement.

Neither ACRA, nor its employees and persons affiliated with ACRA (further referred to as the ACRA Parties) provide any direct or implied guarantee expressed in any form or by any means regarding the accuracy, timeliness, completeness or applicability of Information for making investment and other decisions. ACRA does not act as a fiduciary, auditor, investment or financial advisor. Information must be regarded solely as one of the factors affecting an investment decision or any other business decision made by any person who uses ACRA's information. It is essential that each of such persons conduct their own research and evaluation of a financial market participant, as well as an issuer and its debt obligations that may be regarded as an object of purchase, sale or possession. Users of Information shall make decisions on their own, involving their own independent advisors, if they deem it necessary.

ACRA Parties shall not be responsible for any action taken by users based on Information provided by ACRA. ACRA Parties shall under no circumstances be responsible for any direct, indirect or consequential damages or losses resulting from interpretations, conclusions, recommendations and other actions taken by third parties and directly or indirectly connected with such information.

Information provided by ACRA is valid only as of the date of preparation and publication of materials and may be amended by ACRA in the future. ACRA shall not be obliged to update, modify or supplement Information or inform anyone about such actions, unless the latter was recorded separately in a written agreement or is required by legislation of the Russian Federation.

ACRA does not provide advisory services. ACRA may provide additional services, if this does not create a conflict of interest with rating activities.

ACRA and its employees take all reasonable measures to protect all confidential and/or material non-public information in their possession from fraud, theft, unlawful use or inadvertent disclosure. ACRA provides protection of confidential information obtained in the course of its business activities as required by legislation of the Russian Federation.