



The country risk categories are on a scale of 0 to 7. The lower the number, the better the credit rating.



CONTACT

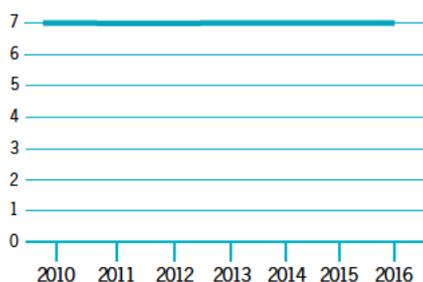
Country analyst: Martin Ingvarsson
Tel. +46 8 788 00 56
e-mail: martin.ingvarsson@ekn.se

BASIC FACTS

Population 9.5 million (2016)*
Nominal GDP 49 billion USD (2016)*
GDP/capita 5,100 USD (2016)*

*Estimate

COUNTRY CLASSIFICATION HISTORY



Source: EKN

Cause for concern in Belarus

Belarus is characterised by authoritarian political rule and an economy strongly marked by the command economy. Weak public finances, heavily indebted government enterprises, a volatile currency, a lack of hard currency, a current account deficit, growing external debt and a strong dependence on Russia make the country's situation uncertain.

During 2017, Belarus has seen the beginning of economic recovery after several years of severe recession. GDP is of course estimated to fall by 0.8 per cent during this year, but the forecast for 2018 is weak growth of 0.6 per cent. Because of the historically low price of oil, which is important for export, extensive government involvement in the economy and a diminishing and ageing population, low economic growth is also expected in the longer term. The country is facing some major challenges, both politically and economically.

EKN places Belarus in country risk classification 7 of 7. Normal risk assessment is applied for banking risks and pure sovereign rating, while restrictive risk assessment is applied for corporate transactions and other public risks. EKN's payment experience is good.

THE COUNTRY'S STRENGTHS AND WEAKNESSES

STRENGTHS

- + Relatively well functioning regulatory environment for companies
- + Relatively wide industrial base
- + Large and fertile agricultural areas

WEAKNESSES

- Current account deficit, growing external debt and volatile currency, as well as very low international reserves
- Strongly dependent on Russia in terms of loans, subsidies, direct investments and trade
- Structural problems inhibit long term growth

SWEDISH EXPORTS TO BELARUS, MSEK

Belarus	MSEK
2016	345
2015	476
2014	631
2013	983
2012	998

Source: Statistics Sweden

EKN'S EXPOSURE

	MSEK
Guarantees	24
Offers	26

EKN'S POLICY

Belarus has been placed in country risk category 7 of 7 since 2009. The classification is done in collaboration with other OECD countries. EKN applies normal risk assessment for banking risks and pure sovereign rating. For other public purchasers, a letter of credit or bank or state guarantee is required. For corporate transactions, the other party must have income in hard currency or access to external support. There are sanctions in place against the country and sanction assessment is performed in all transactions.

EKN'S COMMITMENT AND EXPERIENCE

Over the last decade EKN has been involved in an average of twelve transactions per year in Belarus, mainly in the mechanical, power and transport industries. So far this year, two transactions have been guaranteed to a combined value of SEK 33 million. EKN's payment experience is good. At present there is one small outstanding claim but no notified delays. During the last decade only two claims have been paid valued at approximately half a million kronor.

WHAT MIGHT CAUSE A CHANGE IN THE COUNTRY POLICY

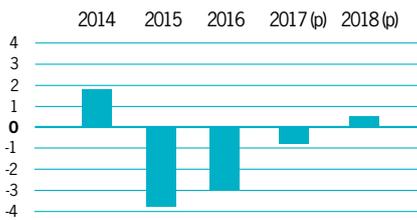
EASING

- Improved current account, lower external debt and increased international reserve, as well as less dependence on Russia
- Extensive privatisation of inefficient nationalised companies, which speeds up growth

TIGHTENING

- Rising government and external debt
- Renewed currency unrest combined with greatly increased proportion of distressed loans in the banking sector

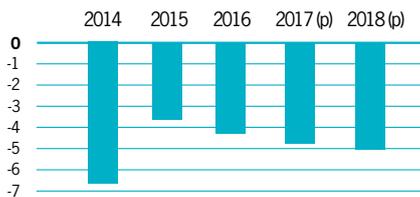
GDP GROWTH (FIXED PRICES,%)



A slow economic recovery has begun.

Source: IMF WEO 2017

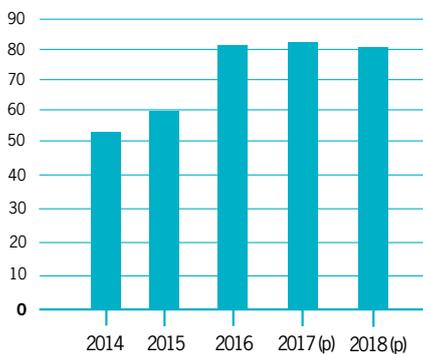
CURRENT ACCOUNT (% OF GDP)



Belarus has a considerable current account deficit.

Source: IMF WEO 2017

EXTERNAL DEBT (% OF GDP)



External debt has risen greatly in recent years.

Source: IMF 2017

COUNTRY ANALYSIS

BACKGROUND

Belarus has been governed since 1994 by President Aleksandr Lukashenko. The president is generally pro-Russia, but regularly criticises Russia in specific issues. Under Lukashenko's rule, the country has failed to undergo extensive market reforms, unlike most of its neighbours. The government dominates the economy, growth is volatile and dependent on significant political and economic support from Russia. Belarus has been affected by the Russian recession and the fall in the Russian rouble in 2015, which caused GDP to fall by 3.9 per cent. The currency also lost about 50 per cent of its value against the dollar during the year. The negative effects on foreign trade, real wages and employment have been particularly strong.

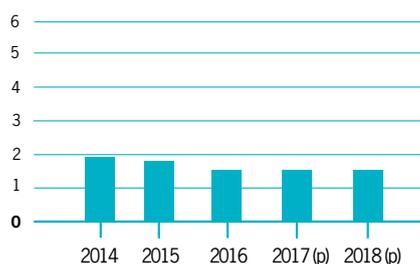
RECENT DEVELOPMENT

After several years of severe recession, slight negative growth of approximately 0.8 per cent is expected in 2017. Inflation is showing a receding trend and so far this year has fallen from ten to about six per cent. The currency has stabilised and shows a weakening trend against the US dollar. The situation for companies continues to be difficult however, with increasing losses and payment problems.

During the last year, Belarus has come into conflict with Gazprom over the price of the gas that the country imports from Russia. Russia answered by putting pressure on the country's economy by restricting Belarus' important supplies of crude oil. In April 2017 however the parties came to agreement, which means that oil supplies have resumed.

A shortage of hard currency still represents a major problem for the country and was made worse by the restricted crude oil supply. Belarus earns most of its hard currency by refining and exporting the crude oil that is bought from Russia. The country was recently forced to borrow hard currency from Russia and the Eurasian Fund for Stabilization and Development in order to manage its foreign payments. Belarus attempts to minimise its dependence on Russia and regularly expresses its unwillingness to be treated as a subordinate state to Russia, partly by criticising the annexation of Crimea. The president is attempting to strengthen political and economic relationships with the EU and China. It is hoped that China's focus on the new Silk Road will benefit the country. However Russia wishes to increase its collaboration with Belarus, not least militarily by establishing a base in the country. About ten per cent of the population is ethnically Russian and the country has long been included in Russia's sphere of interest. In September 2017, Belarus and Russia are holding a large-scale joint military exercise.

INTERNATIONAL RESERVES (MONTHS OF IMPORT)



International reserves are at a very low level
Source: IMF WEO 2017

LONG-TERM DEVELOPMENT

The recovery in the Russian economy and a higher price of refined oil compared with a few years ago will benefit Belarus. The price is still low, however, which makes the Belarus economy vulnerable. The large number of heavily indebted nationalised companies is holding down long-term growth and substantial privatisation will be needed to really get the economy going. At present such a privatisation reform is unlikely. Historically, inflation has been very high and volatile. Belarus is wrestling with many structural problems, including a declining and rapidly ageing population. Apart from peat and potash, natural assets are limited. The agricultural areas are large and fertile, but because of the Chernobyl accident in 1986 large areas are still lying fallow.

Dependence on Russia represents a considerable vulnerability, both politically and economically. More than 50 per cent of the country's imports are from Russia and mainly consist of crude oil at a heavily subsidised price. The crude oil is refined in Belarus and then re-exported, mainly to the United Kingdom and Ukraine, which provides important hard currency. In the long term this represents a very risky growth model for Belarus, since it is based on continuing Russian subsidy. About 40 per cent of Belarus' exports go to Russia, mainly in the form of vehicles and consumer goods. Belarus is a member of the Eurasian Economic Union (EAEU) customs union, together with Armenia, Kazakhstan, Kirghistan and Russia. In its foreign policy, Belarus attempts to balance relations with Russia against the EU's requirements for increased human rights and democracy. Relations with the west are generally strained.

Lukashenko's domestic policy is based on authoritarian rule with most power concentrated around the president. The opposition is weak and disorganised. Political protest is forcibly beaten down. The EU has introduced a weapons embargo on Belarus and sanctions are directed at certain persons responsible for cases of disappearance, election rigging, repressive action against opposition and the civil society and serious breaches of human rights. The sanctions also cover persons and companies who gain from or support the Lukashenko regime, through financing for example. The president is 61 and could potentially lead the country for a long time to come. There will however be great political uncertainty when Lukashenko eventually loses power in any way.

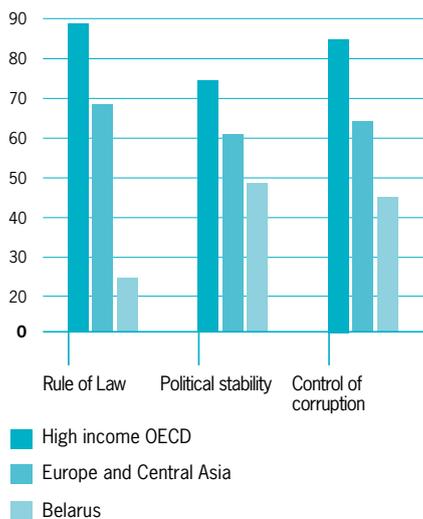
The external position is weak with a current account deficit of 4.3 per cent of GDP. Historically, the current account has been extremely unstable. The trend is positive, but a continuing current account deficit of just under five per cent may also be expected in the longer term. Foreign direct investment is about three per cent of GDP and loans are used to cover the deficit. More foreign half the foreign direct investment comes from Russia. External debt has risen greatly in recent years and corresponds to almost 80 per cent of GDP in 2017.

About half the debt is public. The Belarus rouble is volatile and probably overvalued, while international reserves are very low and falling. In 2015 Belarus went from the so-called crawling peg, which means that the currency is gradually allowed to depreciate, to a partly floating exchange rate. This made the currency potentially more volatile than previously. The assessment is that access to hard currency will be very limited for the foreseeable future. IMF estimates that international reserves will on average correspond to 1.5 months import cover during the period until 2021.

The national budget shows a moderate deficit of approximately three per cent of GDP, while the level of government debt is relatively low, but rising. Today this corresponds to around 50 per cent of GDP, but this is expected to rise to just under 70 per cent by 2020. Interest expenses are low in relation to government revenues, between five and eight per cent. A great deal of the external government debt is in the form of soft loans from Russia. Belarus also borrows from the Eurasian Development Bank (EDB), where Russia has great influence, and from the IMF, which has a standby facility in place but no extended programme.

The stability of the banking sector has decreased over the last year. The number of bad loans is almost fifteen per cent, and is probably underestimated according to the IMF. The capital adequacy of about 16 per cent is good but falling. The probability of government support is high, which reduces the risk in the banking system, but at the same time the government's ability to provide support is limited, given the strained government finances. The large exposure to inefficient nationalised companies - about 60 per cent of loans - represents a risk. A large proportion of deposits are in US dollars, which makes the banking system vulnerable to exchange rate fluctuations. Also, the banks' liquid dollar assets are low, which reduces the stability of the banking system. Low demand for bank loans means that at present liquidity is high.

BUSINESS ENVIRONMENT



Ranking from 0 (worst) to 100 (best)
Source: World Bank

BUSINESS ENVIRONMENT

Belarus occupies position 37 out of 190 in the World Bank Doing Business Index 2017, which is a great improvement on previous years and a high placing compared with other economies in the region. Increased access to electricity is the main reason for the improvement. The regulatory environment is particularly strong in terms of registration of property, electricity, maintaining contracts, building permits, international trade and company start-ups. The country ranks lower in terms of access to credit, taxes and insolvency proceedings. However a strong regulatory environment does not necessarily mean that the business climate is favourable in practice. The government dominance of the economy represents a real challenge for private business. Nationalised companies enjoy subsidised loans and monopolies, which creates an uneven competitive situation in which private companies are the losers. Corruption is high and the legal system is relatively politicised and weak. In Transparency International's Corruption Perception Index, Belarus occupies position 76 out of 176, which is more than fifty places ahead of Ukraine and Russia but considerably behind the Baltic countries.

The very limited access to hard currency represents a serious transfer risk in trade with Belarus. The country has ratified the IMF's article VIII on free currency convertibility, but in spite of this there are currency restrictions. Companies that export from Belarus are legally bound to exchange 20 per cent of their earnings in foreign currency, which increases the shortage of hard currency at the companies and thus also the transfer risk when they are buyers. Temporary prohibitions on currency exchange on the OTC markets have also occurred, which further increases the risk. Local financial reporting rules are applied, which differ in some respects from IFRS.