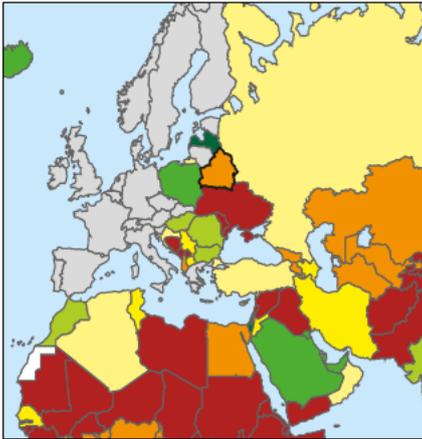




The country risk category are arranged on a scale från 0 to 7.

The lower the figure, the better the country's creditworthiness.



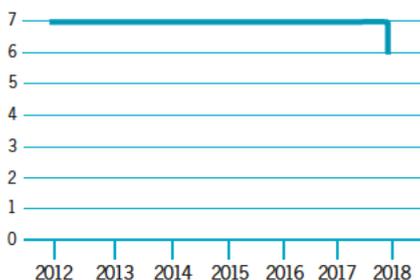
CONTACT

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BASIC FACTS

Population	9.5 million (2017)
Nominal GDP	USD 53 billion (2017)
GDP/capita	USD 5 600 (2017)

COUNTRY CLASSIFICATION HISTORY



Source: EKN

Positive development, but weaknesses remain

In 2017, Belarus emerged from numerous years of economic recession. Last year, its rate of growth was 2.4 per cent, and growth of 2.8 percent is projected for 2018. Return direct investments and domestic consumption are driving the economy, which is benefitting from rising oil prices and an upswing in the Russian economy. Belarus imports oil at subsidised prices and then refines and exports it to other countries. Its international reserves have been strengthened, its current account deficit has shrunk, and the country has succeeded in loaning money on the international capital market, which somewhat reduces its external vulnerability.

In the long term, Belarus still faces major political and economic challenges. The country 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, increased external debt and a strong dependence on Russia mean that the country's economy is vulnerable. Extensive government intervention in the economy and a shrinking and aging population are among the reasons why average economic growth is expected to remain low in the long run.

THE COUNTRY'S STRENGTHS AND WEAKNESSES

STRENGTHS

- + Political predictability.
- + Relatively well functioning regulatory environment for companies.
- + Relatively wide industrial base.

WEAKNESSES

- A current account deficit, high external debt and a volatile currency, as well as low international reserves.
- Strongly dependent on Russia in terms of loans, subsidies, direct investments, and trade.
- An authoritarian regime and major state dominance of the economy.

SWEDISH EXPORT TO BELARUS, MSEK

	MSEK
2017	551
2016	345
2015	476
2014	631
2013	983

Source: SCB

EKN:S EXPOSURE

	MSEK
Guantees	24
Offers	26

EKN:S POLICY

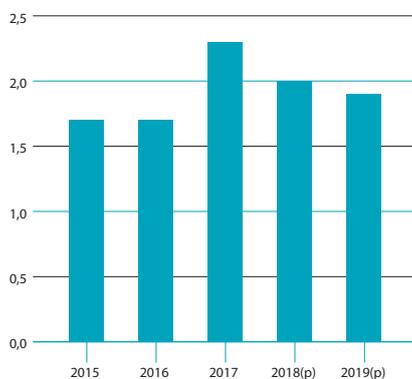
Belarus has been placed in country risk category 6 of 7 since 2018. Classification is carried out in collaboration with other OECD countries. EKN applies normal risk assessment for banking risks and pure sovereign rating. For other public purchasers, a letter of credit or bank or state guarantee is required. 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 EXPOSURE 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 38 million. On the whole, EKN's payment experience is good. At present there is one minor outstanding claim but no notified delays. During the last decade, only two claims have been paid, each valued at approximately half a million kronor.

Information on the management of environmental and social risks indicates shortcomings compared with international standards, including as regards stakeholder consultation. The lack of free speech hampers information gathering in minor transactions.

INTERNATIONAL RESERVE (MONTHS OF IMPORT)



International reserves remain low.

Source: IMF WEO 2018

WHAT MIGHT CAUSE A CHANGE IN THE COUNTRY POLICY

LESS RESTRICTIVE

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

MORE RESTRICTIVE

- Runaway national and external debt.
- Renewed currency unrest combined with greatly increased proportion of distressed loans in the banking sector.

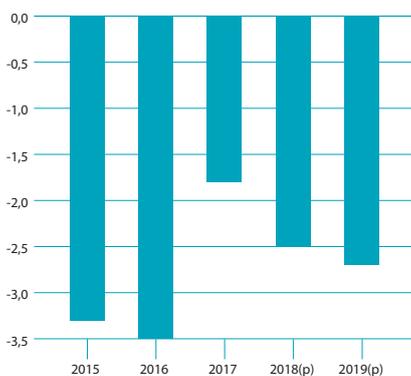
GDP-GROWTH (% PER ANNUM)



Growth has returned.

Source: IMF WEO 2018

CURRENT ACCOUNT (% OF GDP)



The current account deficit remains significant

Source: IMF WEO 2018

COUNTRY ANALYSIS

BACKGROUND

Since 1994, Belarus has been governed by President Aleksandr Lukashenko (born 1954). The president is generally pro-Russia but regularly criticises Russia in specific issues, and relations with the west are generally strained. Political opposition is essentially non-existent. This means that considerable uncertainty will prevail should Lukashenko ever lose power. Under the president's rule, the country has failed to undergo extensive market reforms, unlike most of its neighbours. The state dominates the economy, growth is volatile, and the current account crises are recurrent. 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. The negative effects on foreign trade, real wages and employment have been particularly strong.

RECENT DEVELOPMENTS

The economic crisis that began in 2015 and started with a current account crisis appears to be over. Growth has returned and inflation is at five per cent, compared with the past decade's double-digit inflation. Compared with the crisis of nearly a decade ago, the current account crisis was addressed relatively well, including by allowing the currency to float (partially) freely and by supporting the central bank in its efforts to maintain macroeconomic stability. A little change is also evident when it comes to the perception of the economy. State companies have been trimmed down through natural attrition. Politicians have recently recognised that private enterprises can play a role in job creation and that under certain conditions, entrepreneurship should be encouraged. In 2017, Belarus succeeded in selling government bonds in foreign currencies worth 1.4 billion USD. This means that the country is likely to cope with the large loan instalments that will be due for payment in 2018/19.

The relationship with Russia has improved since the spring of 2017, when the two countries agreed on a new contract regarding oil and gas deliveries, but it still has its ups and downs and can scarcely be described as good. The most recent dispute has to do with dairy products that Belarus imports from the EU, repackages and sells to Russia. They violate the Russian ban on the import of dairy products from the EU. This has led Russia to threaten to strangle imports from Belarus.

LONG-TERM TREND

The recent developments in Belarus are positive, but the underlying vulnerabilities in the economy remain. The country's external position is weak, with a current account deficit that is expected to approach three per cent of the GDP in the coming years. The fall of rouble entails

EXTERNAL DEBT (% of GDP)



The external debt has risen greatly in recent years.

Source: IMF WEO 2018

a sharp increase in the external debt, to just over 70 per cent of the GDP; approximately half of the debt is public. Government debt is approaching 60 per cent of the GDP and is almost exclusively in foreign currency. This makes it vulnerable to currency fluctuations. Although the present figures indicate a downward trend, the country's debt level may result in payment problems – for example, if the interest in investments in growth markets continues to decline at the same rate as interest rate hikes are imposed in the USA. In recent years, the international reserves have been strengthened through loans, but due to weak hard currency earnings, in the long run it will prove difficult to achieve three months of import coverage. Since 2016, the rouble has stabilised at the new, lower level. However, historically speaking the currency has been very volatile and its value may plummet if confidence in the Belarussian economy suddenly deteriorates.

The banking sector is likely to remain weak, with a high proportion of bad loans, low capital adequacy, and large loans to inefficient state companies. The banks' deposits are largely in USD, and this makes the banking system vulnerable to fluctuations in the currency exchange rate. At the same time, the proportion of liquid dollar assets is low. The probability of government support is high. This 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.

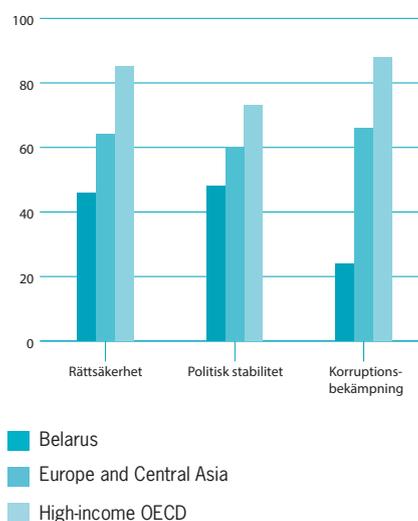
The productivity of the economy remains very low, primarily due to the high proportion of inefficient and heavily indebted state companies. As a result, GDP growth is likely to stall as soon as the effect of the increased capital investments begins to wane. Moreover, Belarus is grappling with many structural problems, including a declining and rapidly ageing population.

Even in the future, the will to reform is deemed to be low – at present, there are few signs of change in Lukashenko's authoritarian regime. The fact that the country currently has access to loans from the international capital market is not considered to increase the likelihood of reforms.

This means that it is unlikely that the government will reach an agreement with the IMF regarding a loan agreement, and that the country will remain dependent on the international capital markets, especially Russia. Russia provides large subsidised loans to Belarus, purchases approximately 40 per cent of the country's export products, accounts for more than half of the foreign direct investments (FDI), and is the country of origin of more than 50 per cent of Belarussian imports. Imports consist primarily of crude oil purchased at a subsidised price, which is refined and exported. This, in turn, provides vital hard currency revenues. The import prices have begun to approach market prices, but because the growth model is based on continued Russian subsidies, it remains risky. Its great dependence on Russia means that within a very short time frame, that country could force Belarus into a cessation of payment. However, the assessment is that Russia will continue to support Belarus, especially for reasons of military strategy and geopolitics.

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BUSINESS ENVIRONMENT



Ranking from 0 (worst) to 100 (best)

Source: The World Bank

BUSINESS ENVIRONMENT

Belarus occupies position 38 out of 190 in the World Bank Doing Business Index 2018, which is a great improvement compared to previous years and a high ranking 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. The judicial system is not independent, and corruption is also a problem. In Transparency International's Corruption Perception Index, Belarus occupies position 68 out of 180, which is more than sixty places ahead of Ukraine and Russia but considerably behind the Baltic countries.

The very limited access to hard currency represents a significant transfer risk in trade with Belarus. The country has ratified the IMF's article VIII on free currency convertibility, but in spite of this, currency restrictions exist. Companies that export from Belarus are legally bound to exchange 10 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.

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