

# Belarus Hopes to Increase its Sovereign Credit Rating

On 21 February 2012 Belarusian finance minister Andrei Kharkovec announced Belarus' plan to restore its positions in international ratings which suffered following the recent economic crisis. The state news agency Belta also announced that the main Chinese rating agency Dagong will give Belarus a sovereign credit rating in the near future. Authorities hope to use it in order to attract [Asian investments](#) into the Belarusian economy.

European states and companies are reluctant to invest huge sums of money into the Belarusian economy which is still on the brink of economic collapse with its B- credit rating, one that is very close to the rating of Greece. Only consistent market reforms, renewal of cooperation with the IMF and large-scale privatisation of the state property may improve the situation.

## Belarus Rating Before and After the Crisis

Since 2001 Belarus has been actively trying to obtain a sovereign credit rating from a recognised international organisation. It received its first rating only in 2007 from Standard & Poor's. The agency announced Belarus' long- and short-term rating on liabilities in foreign currency (B+/B) and local currency (BB/B) with a stable economic outlook for the country. Moody's, another international agency, assessed Belarus credibility at the level of B1 in August 2007 and confirmed S&P's "stable" forecast for the Belarusian economy.

However, Belarus [lost its stable positions in international ratings](#) after the beginning of the severe economic crisis in April-May 2011. For example, Standard & Poor's reduced rating of Belarusian obligations in foreign and local currency from

B/B to B-/C with a negative outlook. They explained this step by the increase of Belarus' dependence on foreign borrowing and moved it into a group of countries with the highest economic risks such as Greece and Vietnam. Over 2011, Moody's lowered its rating of Belarus from B1 to B3 and made a negative outlook for the economy.

Nowadays international agencies assess Belarusian obligations as highly speculative and regard the Belarusian economy as almost in default. Today the gap in economic development and stability is even more evident between Belarus and its neighbours. Just compare: Estonia's rating is higher than Belarusian one by 12 points (AA-), Lithuania, Kazakhstan and Russia have BBB rating (seven points higher) while Latvia and Azerbaijan secured BB+ rating (five points higher). It means that Belarus has the lowest sovereign rating of all post-Soviet countries that ever received it.

### **Why Sovereign Rating Is So Important?**

The sovereign credit rating evaluates the country's ability to fulfil its financial obligations to foreign investors and creditors. In order to give the country a sovereign rating, international agencies usually assess the GDP growth, GDP per capita, consumer price index, the level of gross external debt, state budget deficit, the level of foreign exchange reserves, the capital account and political situation in the state.

The rating directly influences an interest rate of external loans for the state, national banks and companies. This especially concerns the so-called 'eurobonds'. Countries generally use eurobonds as long-term liabilities in order to cover present-day expenses or refinance their external debt.

In July 2010, Deutsche Bank, BNP Paribas, The Royal Bank of Scotland and Russian Sberbank issued their first Belarusian eurobonds for \$600m with an 8.75% yield. Next month the

Belarusian Ministry of Finance asked to issue additional obligations of \$400m. On 26 January 2011 Belarus decided to issue another \$800m in eurobonds with an 8.95% yield.

However, eurobonds became not as beneficial for Belarusian authorities after the crisis as they used to be. According to Bloomberg, on 3 October 2011 the yield of eurobonds issued in 2010 has increased to 20.28%. What is more important, articles of association from foreign companies in some cases restrict investments in capital issues of countries with a credit rating that stands at less than B+.

### **Belarus Becomes Less Attractive to Foreign Investors**

At the same time, Belarus has decreased in many other international ratings. The International Finance Corporation and World Bank published the new Doing Business ranking that illustrates freedom and easiness of entrepreneurship in different countries of the world. They ranked Belarus 69 out of 183 states in 2011 whereas it was at the 58th place in 2009.

Moreover, Belarus has the poorest rule of law in Eastern Europe and South Caucasus, according to the World Bank's aggregate statistics from 1996 to 2010. It is also the worst on 'regulatory quality' which means ability of government to formulate policies that promote private sector development. Belarus is also becoming more corrupted while it was the least corrupt state in the post-Soviet space in 2000. All these tendencies show the ineffectiveness of the current Belarusian authorities on their path to a modern market economy.

Western countries do not want to invest in the Soviet conservation area and Belarusian economy does need modernization. The Ministry of Economics estimated the level of worn-out productive capacities at 86.7% in 2006 and it managed to reduce this parameter to 61.4% in 2011 only due to massive state investments. The level of foreign direct

investments in Belarus [is still lowest in the region](#) and the Belarusian government needs to improve the image of the Belarusian economy in order to deal with this issue.

### **Eurobonds as Security Cushion**

The reason why Belarusian authorities became concerned with standings of the country in international ratings lies in their wish to refinance the public external debt of \$13.4bn with the help of new eurobonds. The existing debt [may soon overstep](#) the absolute level that is stipulated in the 2012 budget and then it will be hardly possible for Belarus to pay off the IMF loan in 2012-2014.

Despite sceptical forecasts by some observers about the future of the Belarusian economy, the hopes of an increase in international standings are not illusory. The conclusion of extremely [beneficial oil and gas agreements](#) with Moscow last year, large-scale [privatisation plans](#) and tangible growth of foreign exchange reserves at the end of 2011 may have a soothing effect on international rating agencies. However, Belarus should not hope for a stable high position in their ratings before the renewal of close cooperation with the IMF and implementation of true market reforms.