INTERNATIONAL GROUP OF RATING AGENCIES

EXPERT RA EUROPE

RATING AGENTUR

Russia Credit rating

Frankfurt am Main, January 2021

About RAEX-Europe

- The Agency works since 2013 in **Frankfurt am Main**
- **The CRA, registered by the European Securities and Markets Authority (ESMA)**
- **Official status** of External Credit Assessment Institution (ECAI)
- International **rating service team** with diverse academic and professional experience
- More than **20 years of experience** in the analytical researches and risks analysis

RAEX-Europe services

Sustainability products

- ✓ Corporate ESG ratings
- ✓ Regions ESG ratings
- ✓ Green Bond Second Opinions

Credit ratings

Corporates

Regions

Banks

Insurance companies

Sovereigns

Events

- ✓ International Forum
- ✓ Road-show in Germany for regions and local enterprises
- ✓ B2B meetings and round tables
- ✓ Webinars

Research products

Industry research

Regional feasibility and macroeconomic studies

Ad-hoc counterparty research

Sovereign rating list of RAEX-Europe:

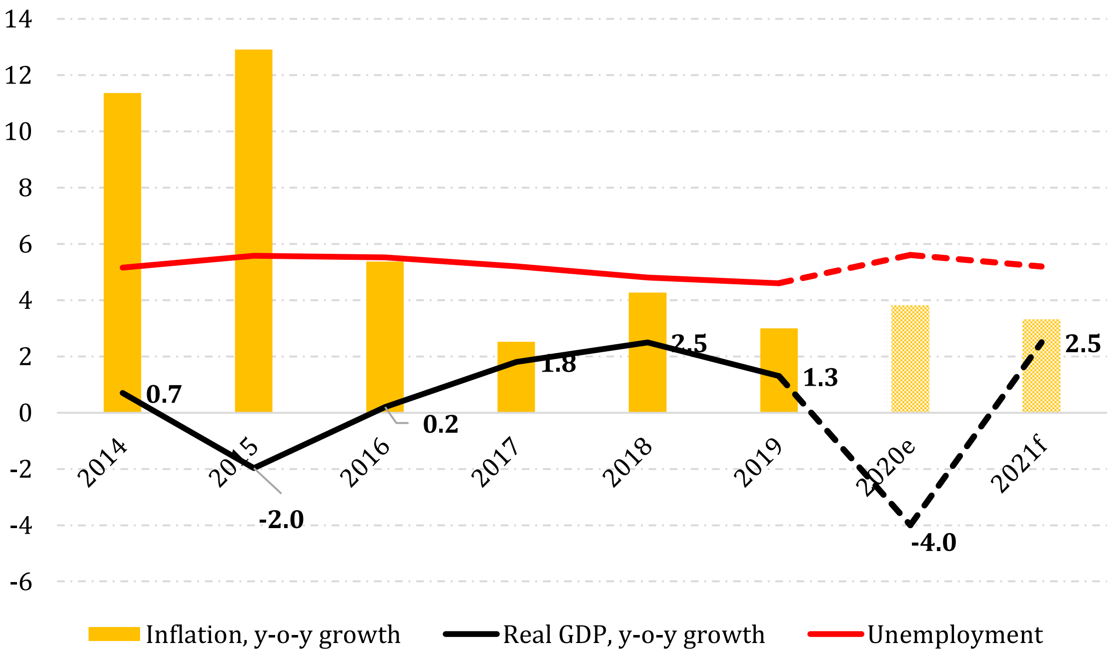
Country	Sovereign government rating		Dynamics		Outlook		Date
	National currency	Foreign currency	National currency	Foreign currency	National currency	Foreign currency	
Armenia	BB-	BB-	Confirmed	Confirmed	Negative	Negative	08.01.2021
Azerbaijan	BB+	BB+	Confirmed	Confirmed	Negative	Negative	06.11.2020
Belarus	B	B	Confirmed	Confirmed	Negative	Negative	08.012021
Georgia	BB	BB	Confirmed	Confirmed	Stable	Stable	02.10.2020
Kazakhstan	BBB-	BBB-	Confirmed	Confirmed	Stable	Stable	11.12.2020
Kyrgyzstan	B	B	Confirmed	Confirmed	Negative	Negative	18.12.2020
Russian Federation	**BBB-**	**BBB-**	**Confirmed**	**Confirmed**	**Stable**	**Stable**	**11.12.2020**
Tajikistan	B	B-	Confirmed	Confirmed	Negative	Negative	07.08.2020
Uzbekistan	BB-	BB-	Confirmed	Confirmed	Stable	Stable	04.09.2020

INTERNATIONAL GROUP OF RATING AGENCIES

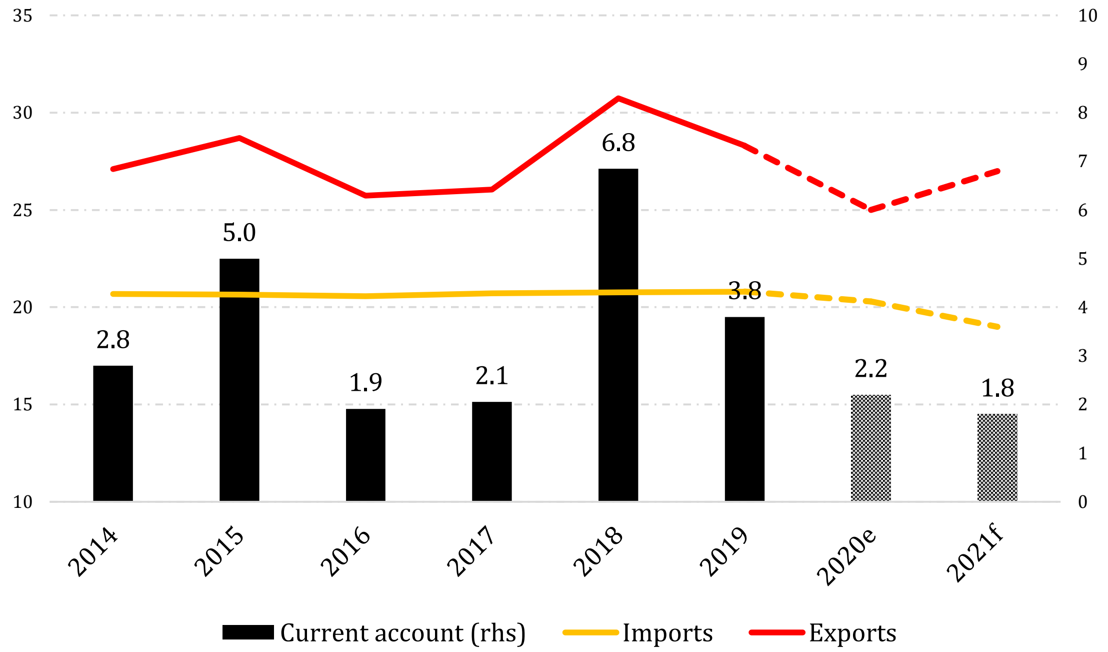
Projected strong decline in GDP in 2020 caused by the impact of COVID-19:

- The economy contracted by 3,4% in 3Q 2020 and is expected to decline by 3,5-4% by the end of 2020
- The government implemented anti-crisis measures: spending on the health care, stimulation of the job market, direct financial aid to the population, as well as support for the business
- During 2020, the current account balance weakened to 2,2% of GDP compared to 3,8% of GDP for the same period last year

Macroeconomic indicators, %



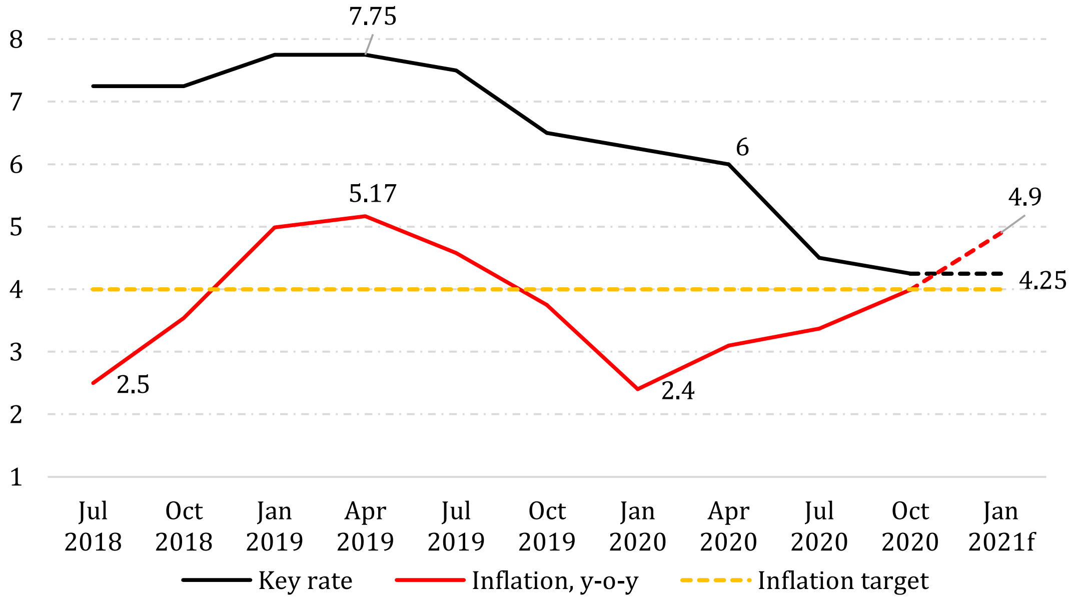
Current account indicators



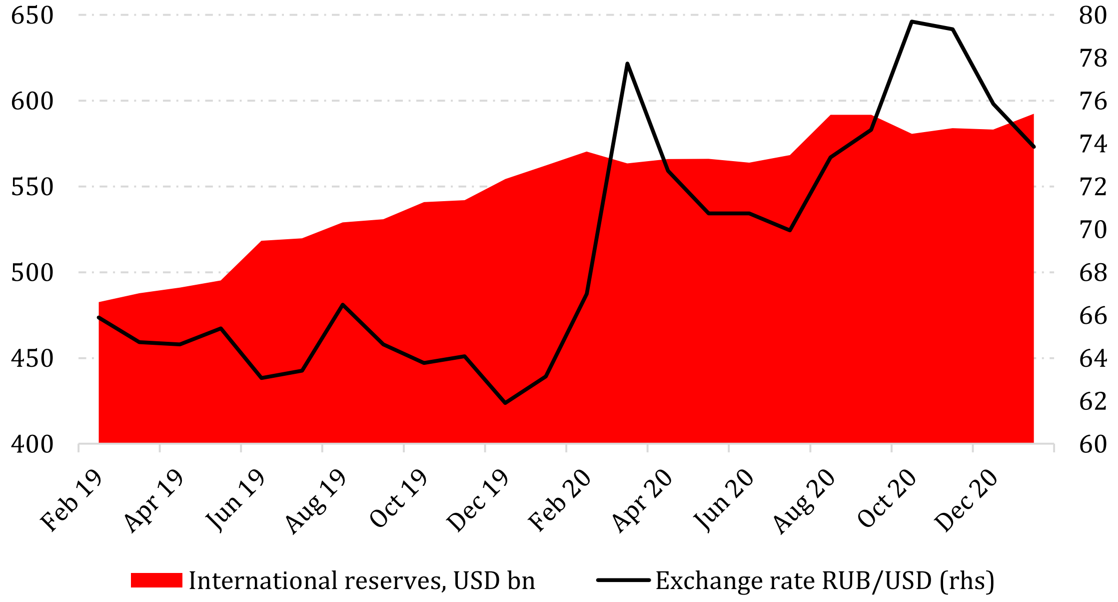
Transition from neutral to accommodative monetary policy given lower inflation and the adverse impact of the COVID-19 on the economy:

- The reduction of the key rate during the year by 175 b.p. to a record low 4,25%
- Annual inflation accelerated to 4,9% in December 2020, as consumer prices are under pressure from the weakening RUB
- The external position is robust with rising resistance to external shocks, supported by a free-float exchange rate regime and significant accumulation of international reserves

Monetary policy metrics, %



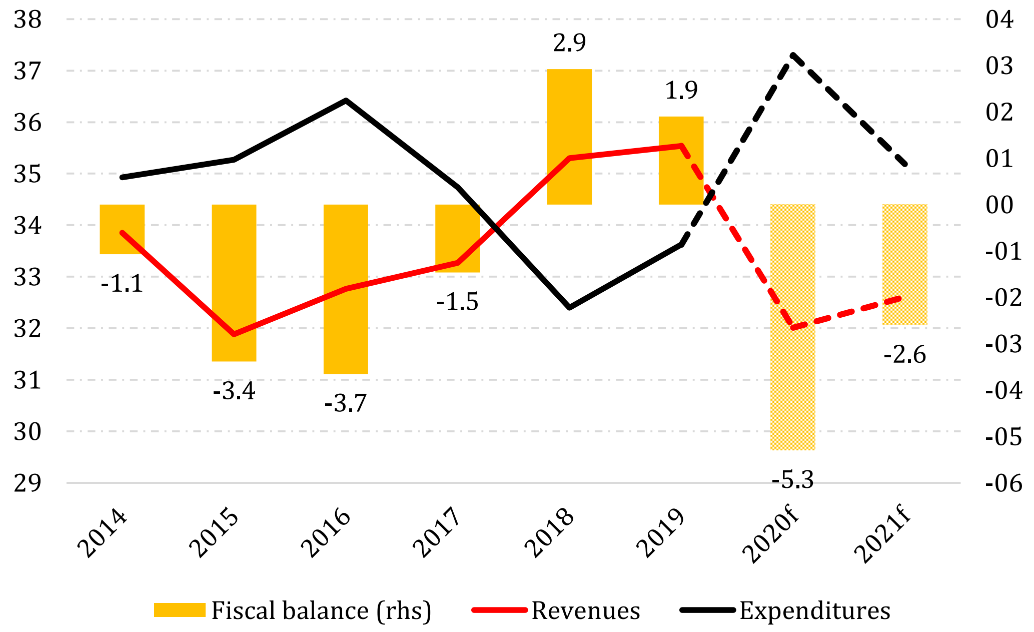
International reserves and exchange rate



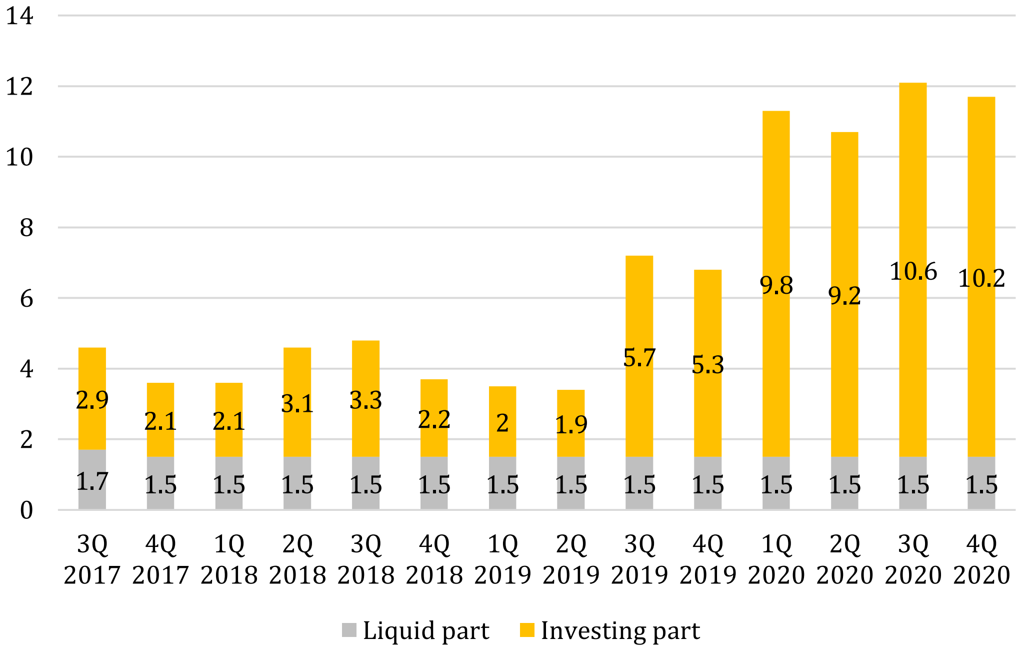
Transition from surplus to consolidated budget deficit:

- Budget financing of anti-crisis measures amounts to almost 4% of GDP
- In 2020, we anticipate a budget deficit that can reach 6% of GDP
- Temporary relaxation of the budget rule will allow redirecting additional oil and-gas revenues to cover unforeseen expenses

Fiscal budget dynamics, % of GDP



National Wealth Fund, % of GDP

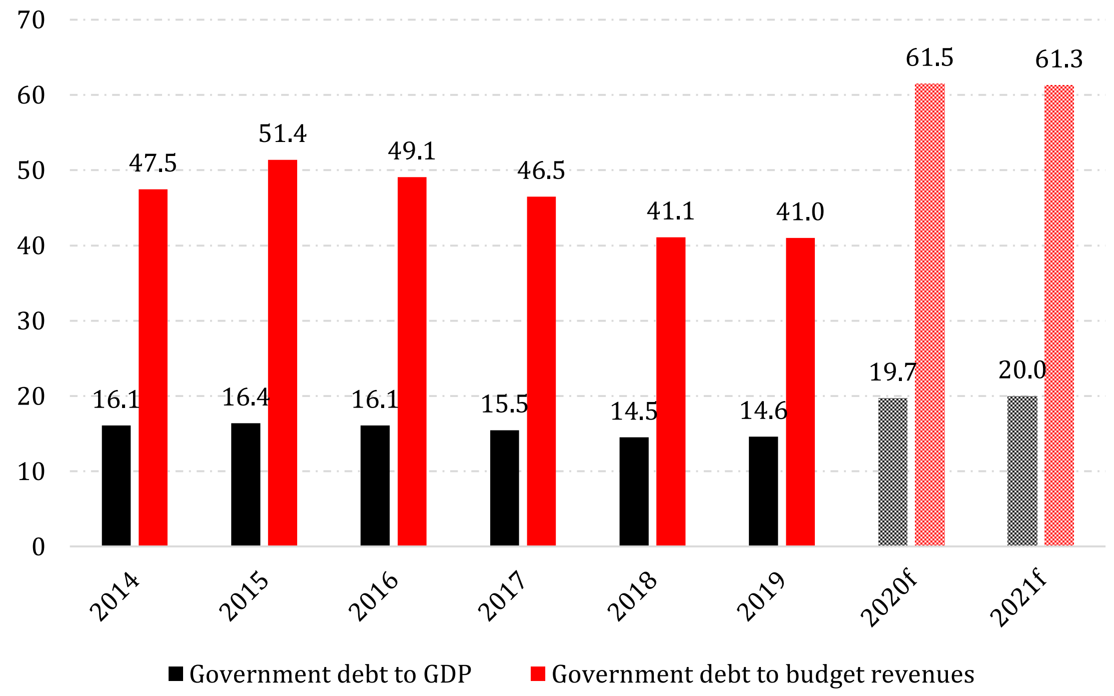


INTERNATIONAL GROUP OF RATING AGENCIES
EXPERT RA EUROPE
RATING AGENTUR

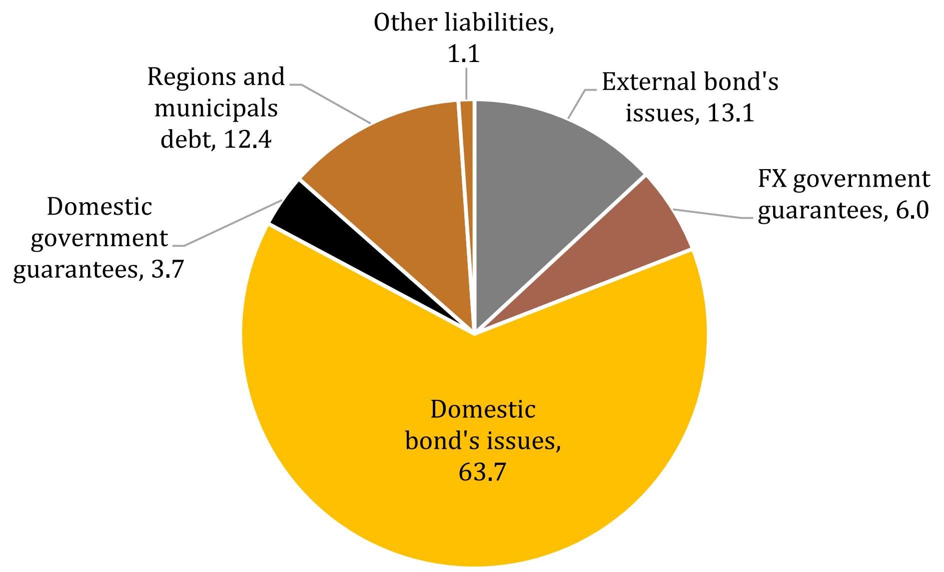
The government has space to maneuver and mobilize financial resources to cover the shortfall in budget revenues:

- The gross government debt may reach 20% of GDP by the end of 2020, due to both economic contraction and revaluation of FX liabilities
- Low exposure to currency risk (the share of FX debt is 20% as of October 2020) and favorable short-term debt level
- The main source of new borrowings remains the issue of domestic government bonds

Government debt dynamics, %

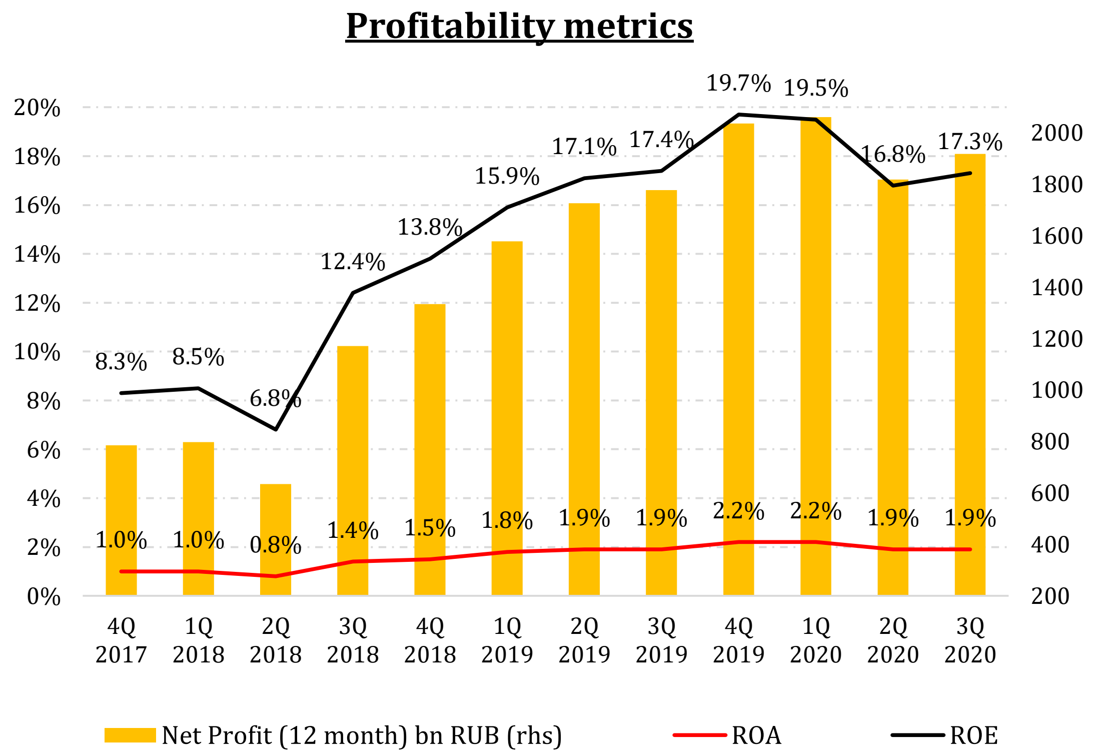


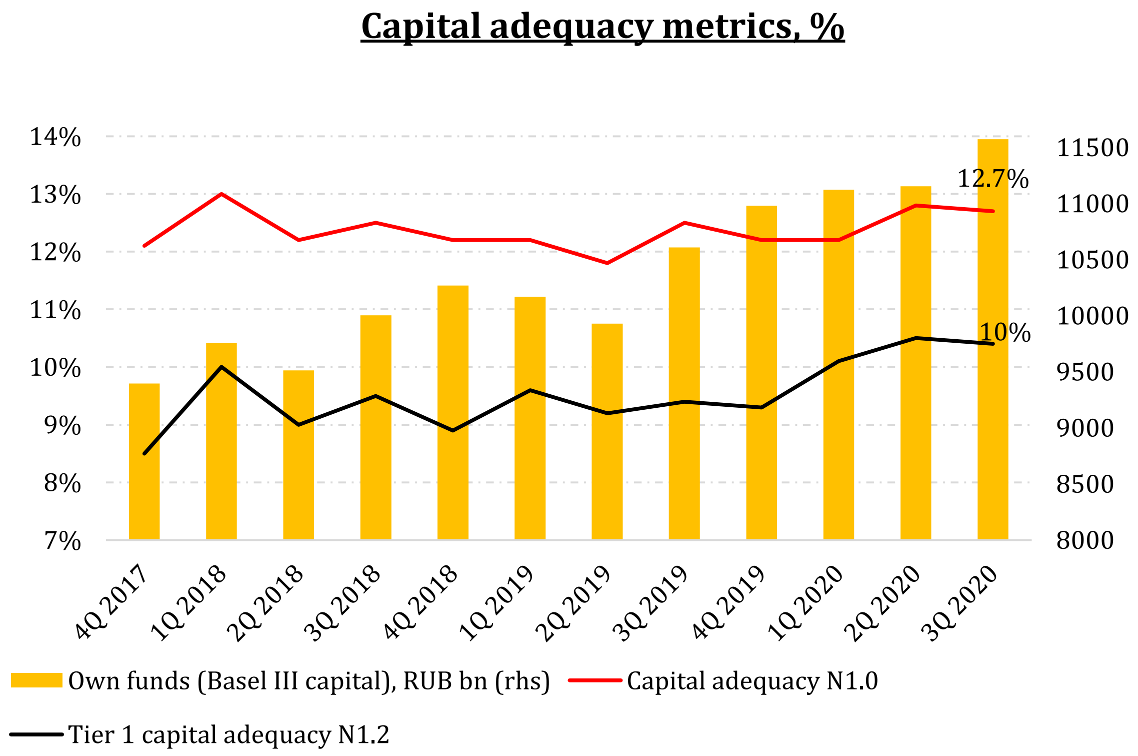
Government debt structure, % as of October 2020



Despite the negative impact of COVID-19 the banking sector is showing resilience:

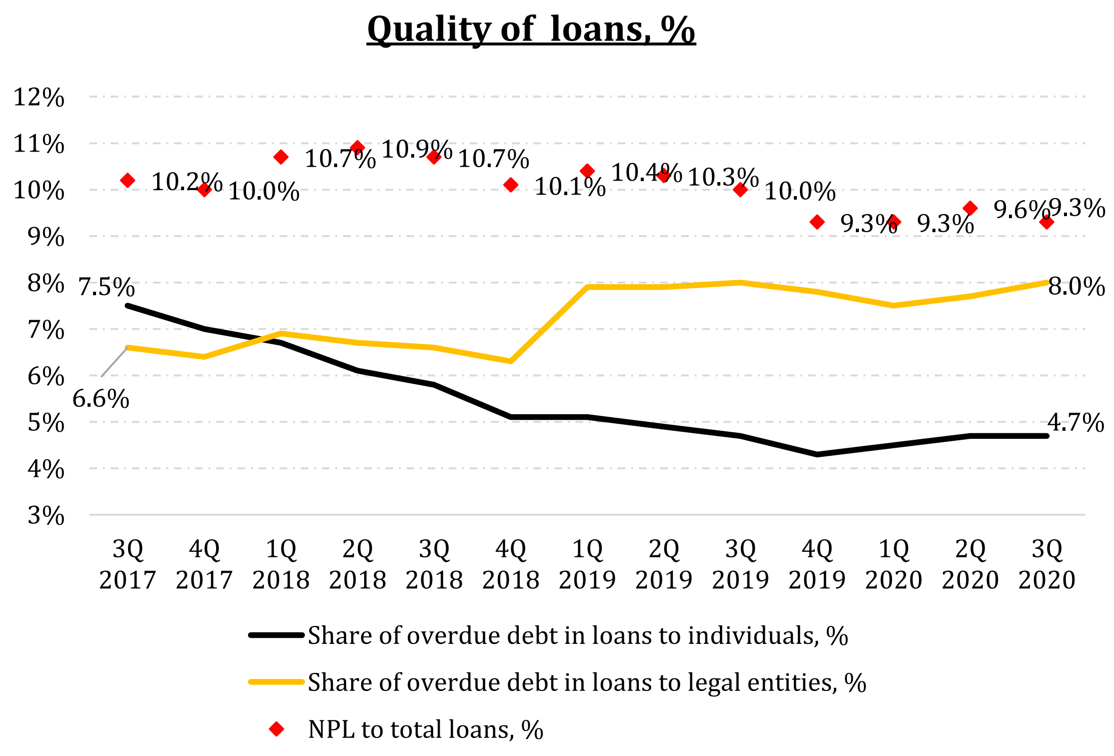
- Overall, profitability in the banking sector persists, with ROA and ROE at 1,9% and 17,3% as of 3Q 2020
- The capital adequacy strengthened to 12,7% as of 3Q 2020 and the accumulated sold capital stock can help to absorb potential losses

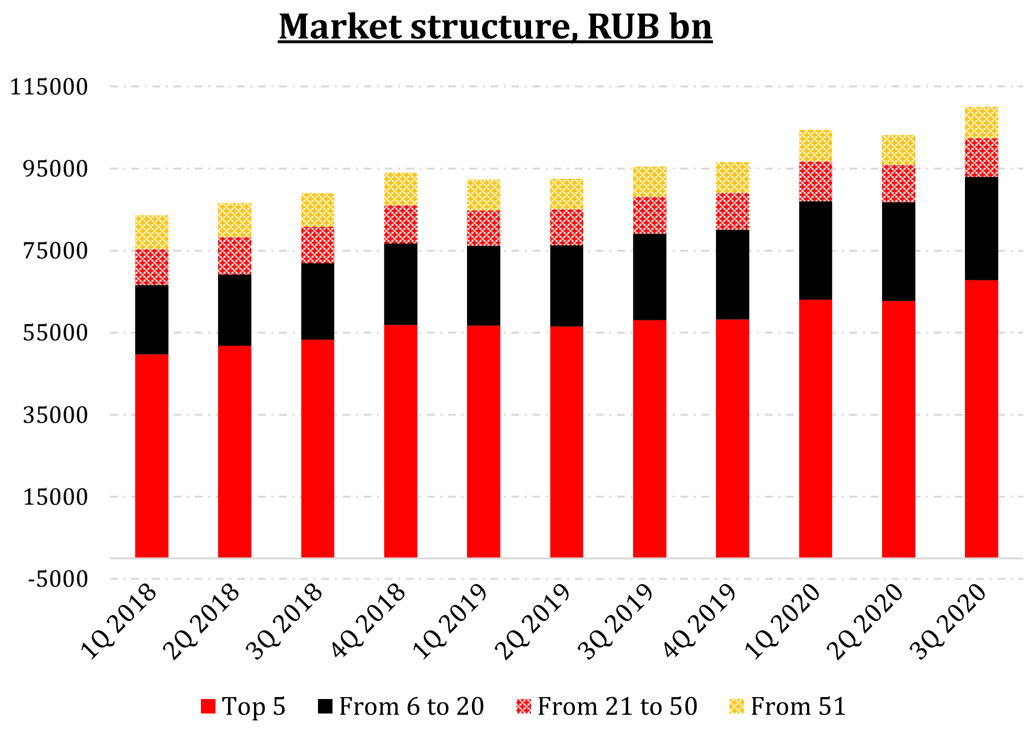




The regulatory measures supported liquidity and helped to delay the deterioration of loan quality:

- Since March 2020 banks have restructured about 10% of total loans. NPLs to total loans ratio in 3Q 2019 remains high, but stable at 9,3%;
- The **increasing influence and presence of the state**, especially in the banking and oil and gas sectors, is the main structural weakness of the economy that restrains competition and business efficiency.

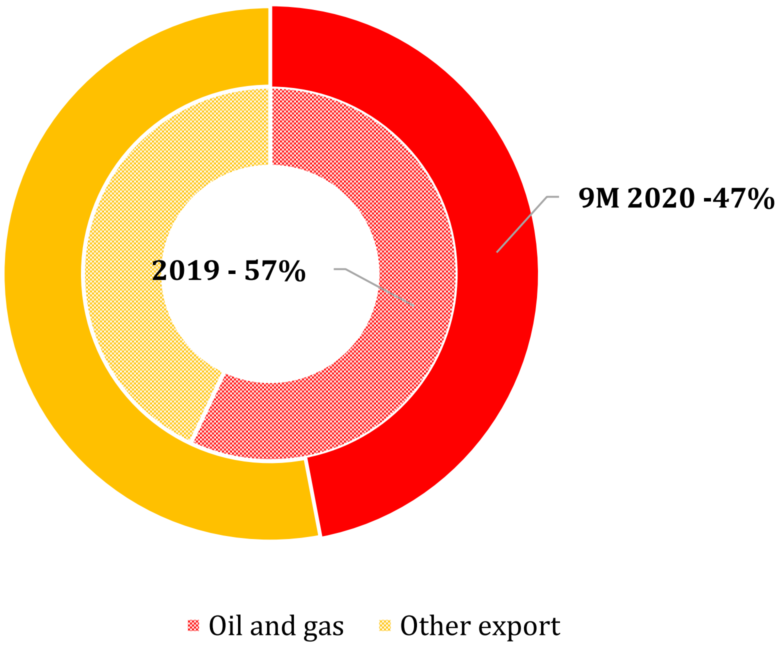




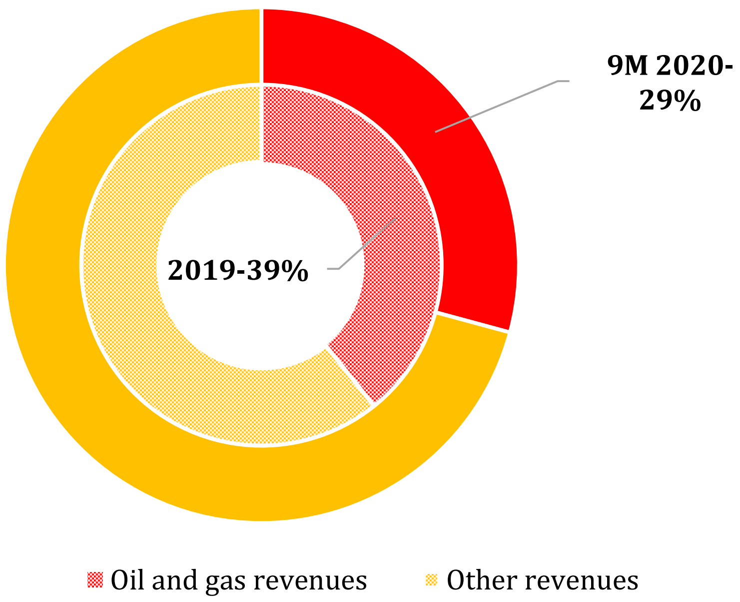
Stress factors

- **High dependence and concentration** on oil and gas industry remains high
  - Share of oil and gas in exports - up to 57% in 2019 and 47% in 9M 2020
  - Share of oil-gas related budget revenue – 39% in 2019 and 29% in 9M 2020
- **Sanctions risks :** the stability of the economy is threatened by **sanctions risks** associated with current and possible restrictions on business and the financial industry

Share of oil and gas in export, %



Share of oil-related budget revenues*, %



*Federal budget of Russia Federation

Sensitivity assessment

The following developments could lead to an upgrade	The following developments could lead to a downgrade:
• Increase in the oil prices higher than our base scenario to support GDP growth and the external trade position; • Faster and stronger than originally anticipated recovery from the current economic crisis with higher non-oil GDP growth and improvement of non-oil fiscal balance; • Relaxation of sanctions regime could be an incentive for the revival of the investment climate and reverse the outflow of the foreign capital.	• Significant deviation from current monetary and fiscal policies, which may lead to macroeconomic instability; • Weakening of the banking system, which would materialize contingent liabilities of the government; • Increasing pressure from international sanctions against large state-owned banks and the oil and gas sector, which may lead to materialization of implicit contingent liabilities.

INTERNATIONAL GROUP OF RATING AGENCIES

Thank you for your attention!

Denys Anokhov
Rating Analyst
Rating-Agentur Expert RA GmbH
Walter-Kolb-Straße 9-11, 60594 Frankfurt am Main
Тел. +49 69 3085 4500
www.raexpert.eu
anokhov@raexpert.eu