

Very low foreign exchange reserves

General Information



GDP	USD55.1bn (World ranking 74, World Bank 2011)
Population	9.47 millions (World ranking 87, World Bank 2011)
Form of state	Republic in name, although in fact a Dictatorship
Head of government	Aleksandr LUKASHENKO
Next elections	2016, legislative (Chamber of Representatives)



Strengths

- Fiscal balance has been in moderate deficit or surplus over the last few years and the public debt level is still adequate (even though it has increased steadily due to currency devaluations).
- Highly skilled industrial workforce.

Weaknesses

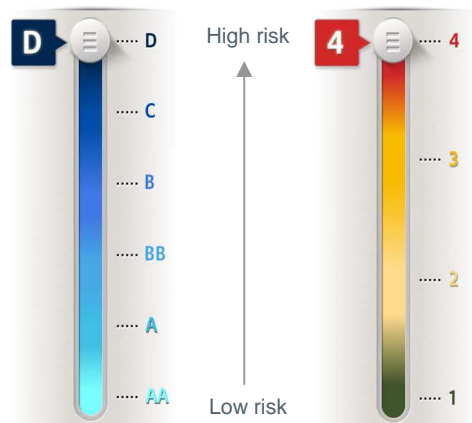
- Business-unfriendly, Soviet-style political and economic system. Hardly reform progress.
- International isolation. US and EU sanctions.
- High economic dependence on Russia, especially on Russian energy.
- High inflation and ongoing exchange rate risk.
- Large current account deficits.
- Very low foreign exchange reserves (one month import cover).
- High external debt.
- Generally weak business environment.

Country Rating

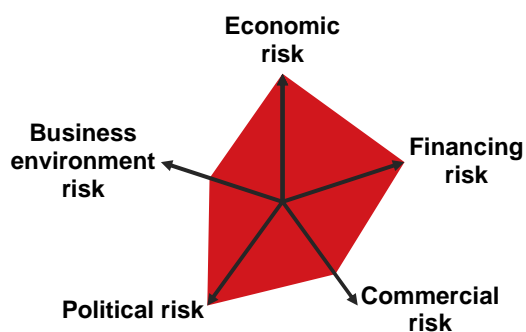
D4

Country Grade

Country Risk Level

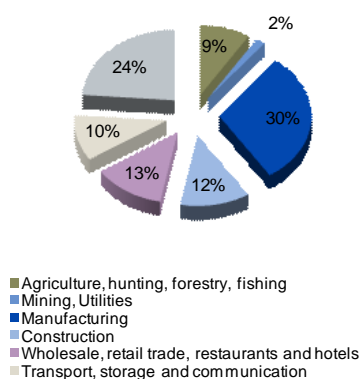


Risk Dimensions



Economic Structure

GDP breakdown (% of total, 2010)



Sources: Chelem, UnctadStat, IHS Global Insight, Euler Hermes

Trade structure (% of total, 2010)

By destination/origin

Exports	Rank	Imports
Russian Federation	34%	18%
Netherlands	15%	11%
Ukraine	10%	11%
Latvia	8%	9%
Germany	5%	9%

By product

Exports (% of total)	Rank	Imports (% of total)
Petroleum, petroleum products and related	36%	30%
Fertilizers other than group 272	10%	13%
Road vehicles	7%	6%
Dairy products and birds' eggs	4%	4%
Dyeing, tanning and colouring materials	4%	3%

Economic Forecasts

	Average 2000-08	2009	2010	2011	2012f	2013f	2014f
GDP growth (% change)	7.8	0.2	7.7	7.0	1.5	1.8	2.0
Inflation (% end-year)	29.8	10.1	9.9	108.7	21.8	18.9	11.7
Fiscal balance (% of GDP)	0.9	-0.4	-1.8	3.3	-2.4	-2.2	-2.8
Public debt (% of GDP)	n.a.	34.9	42.0	49.8	38.3	36.1	37.0
Current account (% of GDP)	-3.8	-12.6	-15.0	-10.5	-3.6	-5.8	-5.6
External debt (% of GDP)	22.7	44.8	51.4	61.7	68.6	64.5	64.6

Sources: IHS Global Insight, National sources, Euler Hermes

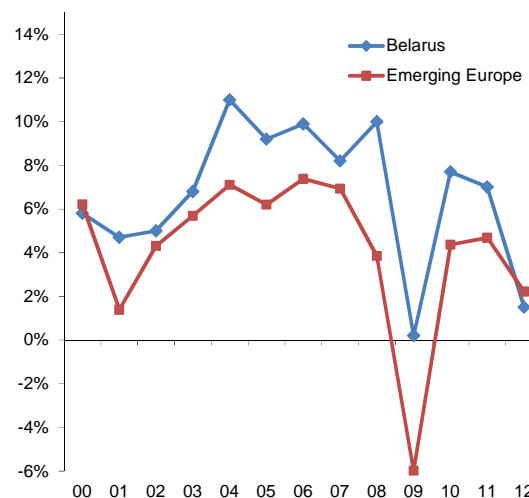
Economic Overview

Deep macroeconomic imbalances stemming from economic overheating under ultra-loose monetary and fiscal policy in 2010 pushed the economy into a severe currency and external liquidity crisis in 2011 from which it has yet to recover.

Real GDP growth has been above the average of Emerging Europe for many years until 2011, but fell to just +1.5% in 2012 as the impact of the deep financial crisis of 2011 took full effect. Full details are not available, but a sharp -13.8% drop in fixed investment was apparently the main drag on 2012 growth, while a +14% increase of retail turnover suggests that private consumption gained robustly. We expect GDP growth to recover only gradually to +1.8% in 2013 and +2% in 2014.

The official BYR/USD exchange rate was devalued in several steps by a total 178% in 2011 and was unified with the market exchange rate into one floating rate in October 2011. Inflation was driven up by the devaluation and reached 108.7% y/y at end-2011. In 2012 the exchange rate stabilised, depreciating by just 2.6%. Inflation has moderated but was still relatively high at 21.8% at end-2012 and is forecast to remain close to 20% throughout 2013.

GDP growth (%)



Sources: IHS Global Insight, Euler Hermes

Economic Overview (continued)

The fiscal balance has been in moderate deficit or surplus over the last few years and the public debt level is still adequate, but this mainly reflects the government's lack of access to external funding.

The current account deficit narrowed from 10.5% of GDP in 2011 to an estimated 3.6% in 2012 but is forecast to widen again to 5-6% in 2013-14. The currency devaluation in 2011 pushed up external debt to a critical level of almost 70% of GDP in 2012 from an average 23% in 2000-08.

Foreign exchange reserves are low, covering just one month of imports or, in other terms, 35% of all external debt payments falling due in 2013. External liquidity and T&C risk will remain very high in the medium term, especially as IMF funding is unlikely in the next year or two.

DISCLAIMER

These assessments are, as always, subject to the disclaimer provided below.

Cautionary Note Regarding Forward-Looking Statements: Certain of the statements contained herein may be statements of future expectations and other forward-looking statements that are based on management's current views and assumptions and involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied in such statements. In addition to statements which are forward-looking by reason of context, the words 'may, will, should, expects, plans, intends, anticipates, believes, estimates, predicts, potential, or continue' and similar expressions identify forward-looking statements. Actual results, performance or events may differ materially from those in such statements due to, without limitation, (i) general economic conditions, including in particular economic conditions in the Allianz SE's core business and core markets, (ii) performance of financial markets, including emerging markets, (iii) the frequency and severity of insured loss events, (iv) mortality and morbidity levels and trends, (v) persistency levels, (vi) the extent of credit defaults (vii) interest rate levels, (viii) currency exchange rates including the Euro-U.S. Dollar exchange rate, (ix) changing levels of competition, (x) changes in laws and regulations, including monetary convergence and the European Monetary Union, (xi) changes in the policies of central banks and/or foreign governments, (xii) the impact of acquisitions, including related integration issues, (xiii) reorganization measures and (xiv) general competitive factors, in each case on a local, regional, national and/or global basis. Many of these factors may be more likely to occur, or more pronounced, as a result of terrorist activities and their consequences. The matters discussed herein may also involve risks and uncertainties described from time to time in Allianz SE's filings with the U.S. Securities and Exchange Commission. The Group assumes no obligation to update any forward-looking information contained herein.

View all Euler Hermes Economic Research online

<http://www.eulerhermes.com>

Contact Euler Hermes Economic Research Team

✉ research@eulerhermes.com

Latest review: 2013-03-08

Country Risk Analyst:

Manfred Stamer

✉ manfred.stamer@eulerhermes.com