



By: *Tomorrow's Affairs Staff*

# Belarus unable to pay off debt due to sanctions



Belarus is unable to repay its foreign debt because of economic sanctions imposed by the U.S. and the European Union over its alliance with Russia in its war in Ukraine. "The possibility of repaying debt obligations in foreign currency in the standard manner is currently limited due to the sanctions against Belarus," the country's finance ministry said Wednesday.

The World Bank on Monday said it had put loans made by its main lending unit to Belarus into "nonperforming" status, effective immediately, due to past-due amounts of \$68.4 million. The developments come after Belarus in July was declared in default by Fitch Ratings and Moody's Investors Service, which said Russia's ally had not kept up on its debt obligations to foreign investors.

Belarus First Deputy Prime Minister Nikolai Snopkov told state Belarusian media on August 23rd that the government did not consider it an urgent matter to look for a new paying agent for Belarus? Eurobonds. During a press conference, Snopkov said: "Do we have to look for it? It is not a matter of urgency for us for now." Only a day later, Belarus Finance Ministry announced that it had in fact paid its 2026 and 2031 Eurobond holders \$38.6mn in interest.

In spring, Belarus announced that it would pay off its foreign debt obligations in its national currency; however, only in July was such a payment actually registered for Belarus Eurobond payments. As a result, Fitch Ratings downgraded Belarus long-term foreign currency issuer default rating (LTFC IDR) from CCC to RD (Restricted Default) since it did not make its payments according to the original agreement, which stipulated that the payments must be made in US dollars. In June, Belarus Finance Minister Yuri Seliverstov admitted that Belarus had begun having problems with making its debt payments through international clearing and depository systems already in February.

After having first transferred its debt payments in dollars to Citibank, the Finance Ministry received numerous complaints from

creditors who had not received their payments, while Citibank claimed that all the payments had been made. When the Finance Ministry investigated the matter, they found that the problem was actually with the international clearing and depository systems refusing to let through the payments.

According to Seliverstov, the international depository and clearing systems refused to discuss the matter with the Finance Ministry. While explaining the situation to the Belarusian parliament, Seliverstov was noticeably upset, claiming that these organisations were "freeing themselves from any liability and responsibility citing the sanctions as the reason." In June, Seliverstov attempted to put the ball in Citibank's court by making it access the Eurobond payments in Belarusian rubles through an account in the sanctioned Belarusbank. However, just a week later, Citibank announced that it would no longer work as the paying agent for Belarus Eurobond payments.

Having looked for a new paying agent for two months, the Belarusian government appears to have given up, since there's likely no bank that wishes to take on this role. Minsk's response was this snap comment made by Snopkov: "We believe that if they don't want to communicate and interact with us, if all the international financial organisations have essentially taken away all the financial flows from us, why do we have to look for someone in order to make transactions? Those "who need it" should look for it." By resigning from this obligation, Belarus loses any confidence which it might have had left among foreign creditors.

## Does Belarus have the money?

Belarus holds about \$7.5bn worth of gold and foreign currency reserves. However, \$3bn is in gold and \$1.4bn are special drawing rights (SDR) issued by the IMF; these might not be easy to convert, as both the EU and the US won't allow Belarus to convert its gold or SDRs into euros or dollars. Belarus only owed \$22mn in July this year but in February 2023 it will have to pay \$800mn to foreign debtors.

Considering that it only has \$3.1bn in liquid FX assets, this could prove to be a challenge.

To make matters worse, Belarus will lose billions of US dollars in exports this year due to sanctions, which could make the \$3.1bn dwindle even further. Thus while Belarus may have the money to pay its foreign creditors this year, it might have a hard time meeting its payments due in February 2023. While Fitch Ratings were quick to issue a default statement over Belarus Eurobond payments in rubles in July, Moody's and S&P left Belarus credit rating at CCC and CC respectively, while Moody's chose to announce on the sidelines that Belarus had indeed defaulted on its payments. S&P explained its reason for keeping Belarus credit rating at CC by saying that it acknowledged that Belarus did indeed have the money but was simply temporarily unable to pay. However, on August 3, S&P lowered its LTFC IDR for Belarus to SD (Selective Default). Alexander Lukashenko, president of Belarus, let his country be used as a base for Russia's invasion of Ukraine in February. On Monday, his defense ministry said it would hold live fire exercises and anti-aircraft guided missile launches with Russia.