



Announcement for February 28, 2022

Russia and Belarus MSCI ESG Government Ratings downgraded

Dear Clients,

In response to Russia's recent invasion of Ukraine, MSCI ESG Research has initiated Sovereign Watch event assessments and a period of close monitoring of MSCI ESG Government Ratings for Russia, Belarus and Ukraine, and has downgraded Russia from BBB to B and Belarus from BB to B with immediate effect. These changes will be visible to clients in ESG Manager from Tuesday, March 1. Updated reports will also be made available. Further updates may be issued as the situation develops.

MSCI ESG Government Ratings reflect how a country's exposure to and management of environment, social, and governance (ESG) risk factors may affect the long-term sustainability and competitiveness of its economy. The ratings range from AAA (the highest) to CCC (the lowest). The MSCI ESG Government Ratings methodology applies a 50%, 25% and 25% weight for the Governance, Social and Environmental pillars, respectively, for all countries. The methodology is quantitatively driven and ESG Government Ratings are typically updated annually using external datasets from over 25 sources, such as the World Bank Governance indicators, World Resource Institute, and International Monetary Fund.

In extraordinary circumstances, MSCI ESG Government Ratings may be adjusted via 'Sovereign Watch' event assessments, which aim to reflect the immediate impact of major events that fall outside MSCI's annual ESG Government Ratings process. The Sovereign Watch methodology assesses exceptional events on a scale from Minor to Very Severe and allows for the direct deduction of points from a country's relevant scores within the ratings model.

Russia's ESG Government Rating

MSCI ESG Research has downgraded the ESG Government Rating of **Russia from BBB to B (the second lowest rating) with a Negative outlook** with immediate effect. We are monitoring the situation closely and believe there is still significant downside risk to Russia's ESG Government Rating. It is possible that further developments could yet drive an additional downgrade.

Prior to the invasion of Ukraine, Russia's 'Political Governance' score was already assessed as being weak under the three categories of 'Stability and Peace,' 'Political Rights and Civil Liberties' and 'Governance Effectiveness'. Using the Sovereign Watch methodology, we have reduced these scores further in response to Russia's actions in Ukraine. The Sovereign Watch event assessment for Russia's 'Political Governance' category that resulted in these score reductions and contributed to Russia's ESG Government Rating downgrade is now 'Very Severe', the most severe classification.

In addition, we initiated 'Very Severe' Sovereign Watch assessments for Russia's 'Economic Environment' and 'Financial Governance' categories of the Social and Governance pillars, respectively, reducing those scores to reflect the potentially wide-reaching domestic impact of international sanctions and financial isolation on Russia's economy.

The 'Very Severe' Sovereign Watch event categorization is reserved only for highly exceptional events that may significantly affect the risks to an economy's sustainability and competitiveness.

Belarus's ESG Government Rating

MSCI ESG Research has downgraded the ESG Government Rating of **Belarus from BB to B with a Negative outlook** with immediate effect. In 2021, a Sovereign Watch event assessment was applied to Belarus's 'Political Governance' score, reflecting elevated risks around the country's governance in light of Russian pressure on the government. At that time, the rating remained unchanged at BB. Today we also applied new Sovereign Watch assessments to the 'Economic Environment' and 'Financial Governance' scores, reducing those scores to reflect the potential impact of sanctions on the country and resulting in the downgrade to B.

Ukraine's ESG Government Rating

MSCI is monitoring the impact of the invasion on Ukraine for risks to sustainability and competitiveness. MSCI has maintained **Ukraine's** ESG Government Rating at **BB**, but with a **Negative outlook**.

MSCI ESG Government Ratings Methodology

The MSCI ESG Government Methodology document is available on MSCI ESG Manager. The Methodology contains details about the model's approach and lists the quantitative indicators used from external data sources. The objective of each pillar is as follows:



- Environment (E): We assess the extent to which a country's long-term competitiveness is affected by its ability to protect, harness, and supplement its natural resources, and to manage environmental vulnerabilities and externalities.
- Social (S): We assess the extent to which a country's long-term competitiveness is affected by its ability to develop a healthy, productive, and stable workforce, and knowledge capital and to create a supportive economic environment.
- Governance (G): We assess the extent to which a country's own long-term competitiveness is affected by its institutional capacity to support long-term stability and functioning of its financial, judicial, and political systems, and capacity to address the environmental and social risks.

Best regards,
MSCI ESG Research

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