NEWSLETTER
BELARUS

German Economic Team

Per Fischer

Banking sector under pressure from sanctions and recession

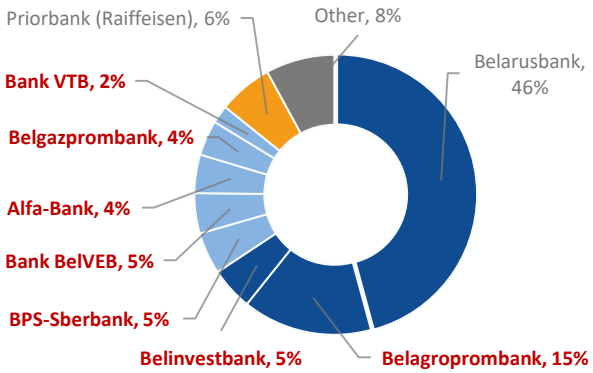
The war in Ukraine has led to significant changes in the Belarusian banking sector: while the banking sector was able to cope relatively well with the COVID-19 crisis, it has been in a negative spiral since the start of the war in Ukraine due to sanctions and the accompanying recession.

The sanctions imposed in 2022, which include the exclusion of some banks from the SWIFT system, have significantly impaired the ability of Belarusian banks to participate in international business activities. In addition, the default ratings of several banks and the sovereign have also had a negative impact on the financial situation in the banking sector – especially of the large state-owned banks. However, the Belarusian state and the National Bank have used considerable resources to keep the capitalization of the large state-owned banks stable so far.

Structure remains largely unchanged

The share of banks active in the Belarusian banking sector decreased slightly to 22 banks (2020: 24); two banks that were foreign-owned were taken over by Belarusian banks. In this context, the size of the sector (in terms of assets) grew to 66% of GDP in the first half of 2022 (2021: 56.8%) due to a contraction of GDP in the wake of sanctions, the expansion of lending to corporates, and post-pandemic catch-up effects.

Banking sector: market shares and sanctions



Sources: NBRB, own calculations; data as of 01.04.2022; In red: sanctioned banks or their subsidiaries (SWIFT/OFAC)

The Belarusian banking sector remains smaller than Russia's and Poland's (both 98% of GDP in 2021), but larger than Ukraine's (43%); however, the banking sectors of all four countries are very likely to shrink further in 2022 due to sanctions and war.

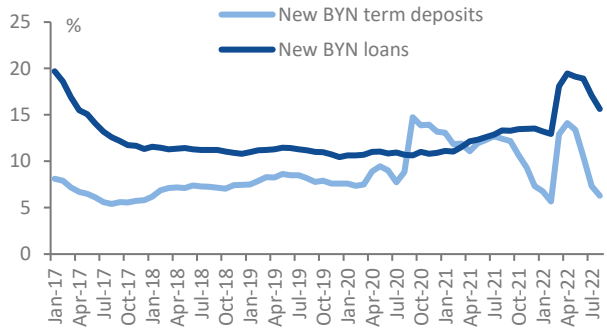
The share of state-owned banks has risen to 68% of assets (2020: 65%) and is thus system-forming. The state-owned Belarusbank remains by far the country's largest bank with a sizable 46% market share. Banks with a Russian capital share continue to play an important role with 20% of assets but are slightly losing market share (2020: 22%). All banks with a Russian capital share have been sanctioned since 2022, as have large state-owned Belarusian banks. Only Priorbank (6% market share), owned by the Austrian Raiffeisen Group, is not sanctioned; Belarusbank has not yet been excluded from the SWIFT system either but is subject to sanctions for international financing.

There are 11 banks with a market share of less than 1% each (2020: 13). In view of the sanctions and the deteriorating economic situation, the question arises about the survival chance of these small banks, which often have a niche business model.

Signs of crisis developments are increasing

Following the start of the war in Ukraine, interest rates for loans and deposits have risen sharply after a rather downward trend beforehand. This was triggered by the central bank's significant increase in the key interest rate to 12% (from 9.25%) with the aim to stabilize the rising inflation and the exchange rate. The high interest rates on loans, in turn, are affecting entrepreneurial activity, as banks are granting fewer loans; this primarily affects the private corporate sector which is already underperforming. However, the situation has currently (Aug-22) eased somewhat: interest rates for new BYN term deposits are already at their pre-crisis level, while lending rates continue to linger at a higher level.

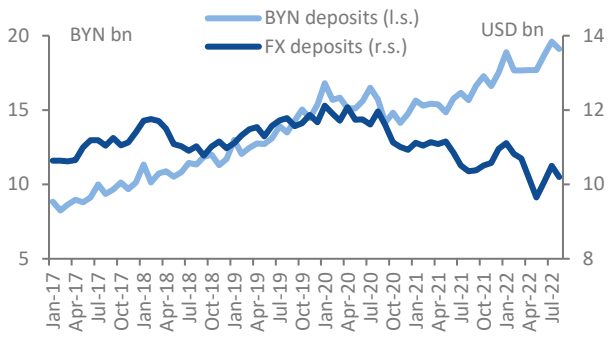
Nominal interest rates on loans and deposits



Source: NBRB; monthly average

A similarly volatile picture emerges in the development of bank deposits: a decline in deposits in foreign currencies contrasts with an increase in deposits in Belarusian roubles, favoured by high interest rates. The decline in foreign currency deposits reflects a trend in the behaviour of the population to invest in durable consumer goods at the expense of foreign currency savings in view of high inflation (Aug-22: 17.9%). In the case of deposits in Belarusian roubles, households and companies prefer short maturities, which reduces the possibilities for financing long-term investment goods; this is also not a positive finding for the development of the economy.

Bank deposits

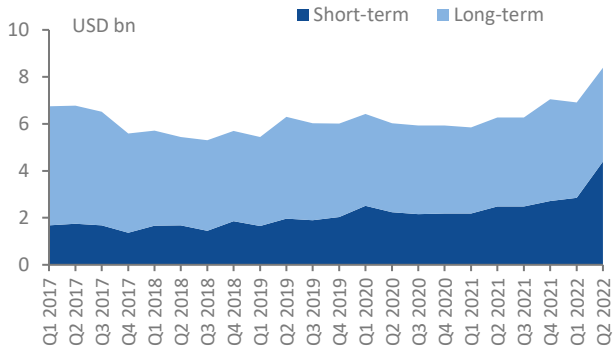


Source: NBRB; own calculations

External debt increases again

In an environment characterized by high interest rates, sanctions, and rating downgrades, the traditionally high external debt of Belarusian banks is of additional critical importance. By the end of 2021, external debt had already increased in absolute terms in both the short-term and long-term segments. Currently (Q2 2022), the dynamic is intensifying: since the beginning of the year, short-term debt, in particular, has jumped, pushing the total external sector debt of the banking sector (including the National Bank) to USD 8.4 bn or 14.3% of GDP; creditors were mainly Russian banks.

External debt of the banking sector



Source: NBRB; including central bank, end of period

The fact that refinancing options from abroad – with the exception of Russia – are almost completely closed to Belarusian banks, as well as the banks' deteriorated ratings, make the external debt a major risk for the state and its banks.

Capitalisation and profitability are not yet affected

Despite the risks described above, the Belarusian banking sector remains well capitalised and profitable. Following capital increases at state-owned banks, the relaxation of impairment requirements for operations with Russian banks and loans to Belarusian companies, the equity ratio of the Belarusian banking sector rose to a high of 21% in Apr-/May-22. With a return on equity of 9.7%, the profitability of the banking sector is currently quite satisfactory.

However, the full extent of the sanctions' impact on the banking sector's equity and profitability will not become apparent until the end of the year.

Outlook

The war in Ukraine, the sanctions against major companies and banks in the country and the subsequent deterioration of the economic situation in Belarus have had a noticeable negative impact on the Belarusian banking sector. The sector can still draw on adequate capitalisation and good profitability, but by mid-2022 it is already clear how deeply the crisis has affected the banks. Sanctions, high interest rates in a highly inflationary environment, the high external debt of the banking sector, and the significant rating downgrades of the banks have remarkably restricted the banks' leeway for action, especially in international business.

There is no doubt that the risks for banks will increase in the short- and medium-term. With an increasing state share in the banking sector and the still great significance of Russian banks for the Belarusian banking sector, it will be primarily the task of the Belarusian state, but also of the Russian state, to absorb the risks in the Belarusian banking sector and to support the banks, which will be a great challenge against the background of the war and its negative impact on the economies of both countries.

This newsletter is based on the Policy Briefing "Banking Sector Monitoring Belarus".

Financed by the Federal Ministry for Economic Affairs and Climate Action, the German Economic Team (GET) advises the governments of Ukraine, Belarus*, Moldova, Kosovo, Armenia, Georgia and Uzbekistan on economic policy matters. Berlin Economics has been commissioned with the implementation of the consultancy.
**Advisory activities in Belarus are currently suspended.*

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