04 | NOV 2024

POLICY BRIEFING BELARUS

Banking Sector Monitoring Belarus

By Robert Kirchner, Alessio Fotia

Summary (1/2)

- The **size of the banking sector has remained rather stable** over the last years, and is smaller than in Russia and Poland, but larger than in Ukraine
- **State-owned banks** control now 66% of the market (65% in 2020). Russian-owned banks have lost market share but play with 19% still an important role
- Two **private banks** have left the market. Austrian-owned Priorbank holds with 9.1% market share still a strong position in the market and might further increase its activities, but was recently sold to a new owner from UAE
- **One third of the banks have a market share of less than 1%**; against the background of challenges caused by financial sanctions and the political uncertainties following the war in Ukraine, this poses questions about their long-term future
- Bank lending boosted its growth since mid-2023, supported by a large investment government programme. **However, lack of long-term resources, closed external markets (except for expensive Russian banks loans) and increased domestic interest rates might slow down lending activities in 2024-2025**
- Lending to the private sector has been gradually declining, the role of **lending to the private sector is structurally underdeveloped and could even further decline as banks tend to focus more on SOEs in time of crisis**

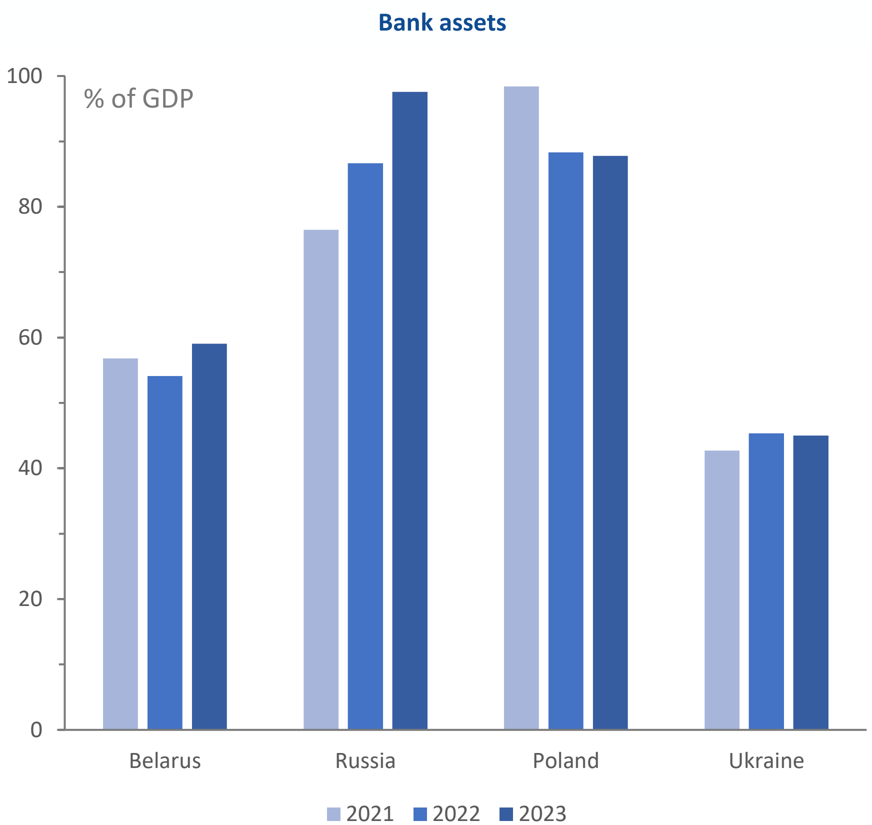
Summary (2/2)

- NPLs have declined to historically low level with a temporary right for banks to use some relief for NPL criteria; **this trend might turn around in the nearest future due to a return to normal NPL accounting and worsening balance sheets of corporates**
- The system has an **adequate capital basis and is profitable** so far
- Newly imposed sanctions on Belarus, on its banks and its SOEs as well as the loss of export markets after the start of the war in Ukraine cloud the outlook of the sector: **high pressure on interest rates** and a possible **deterioration of solvency indicators** (i.e., increasing NPLs) pose a credible threat
- **Exchange rate volatility** coupled with **limited FX reserves** pose a danger to the banking system, especially as **dollarization – despite progress – remains high**
- External debt exposure has decreased recently, **refinancing options are almost closed with Russia remaining the only available source for refinancing**
- **Rating agencies have withdrawal banks and the sovereign ratings.** According to rating agencies, BYN payment of FX-denominated coupon in Jun-22 constitutes a **sovereign default**

Content

Key indicators

1. Bank assets in a regional context



Source: National Banks, own calculations; end of period
Note: Data for Belarus is based on the audited bank balance sheets, aggregated by the National Bank

Bank assets

- » 2023: growth to 59.1% of GDP after 54.1% of GDP in 2022
  - – Mainly due to faster GDP growth in 2023 (+3.9%) after a fall in 2022 (-4.7%)
- » In the first half of 2024 indicator decreased again to 56.7% of GDP
  - – Reason: economic recovery faster than expansion of bank assets

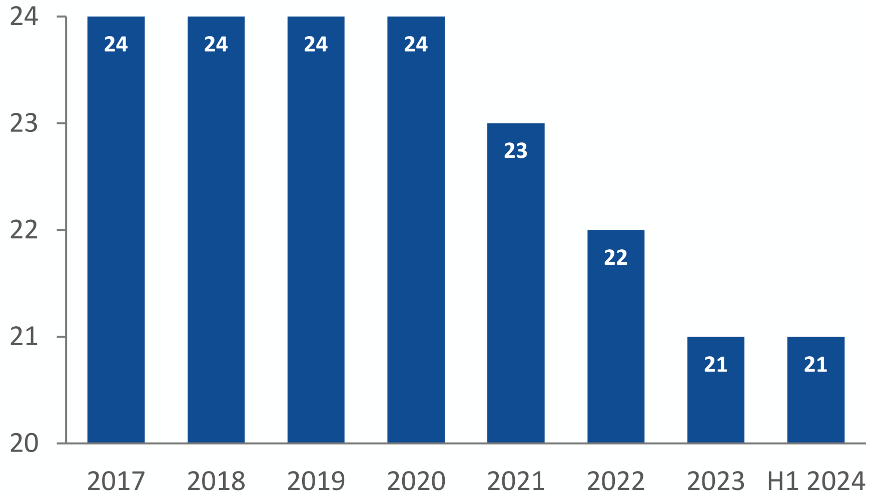
Regional comparison

- » BLR banking system much smaller than RUS and POL, but bigger than war-affected UKR
- » Similar trends of asset growth in RUS and BLR in 2023
- » Banking systems in RUS and BLR demonstrate growth against the backdrop of outpacing dynamics of bank assets over GDP

➢ **After a decline in 2022, bank assets are growing again as share of GDP in Belarus**

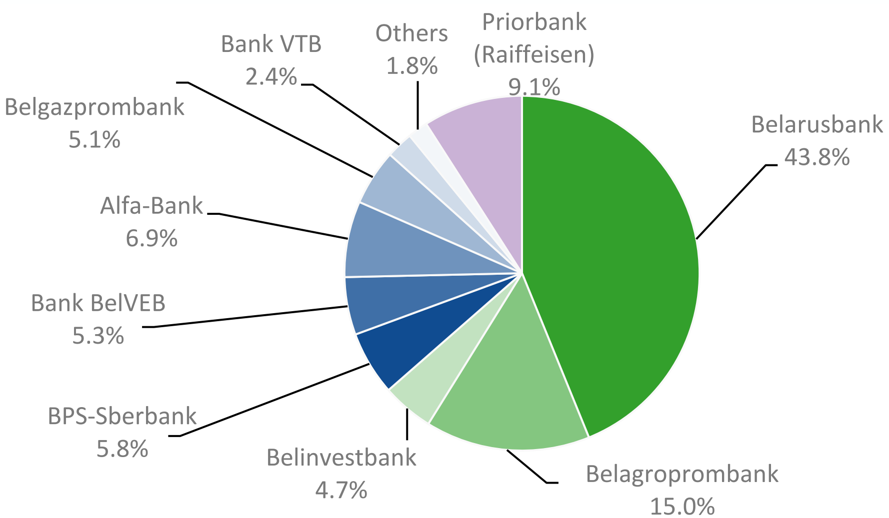
2. Number of banks and market shares

Number of banks



Source: NBRB, own calculations; end of period

Banks' market share (assets)



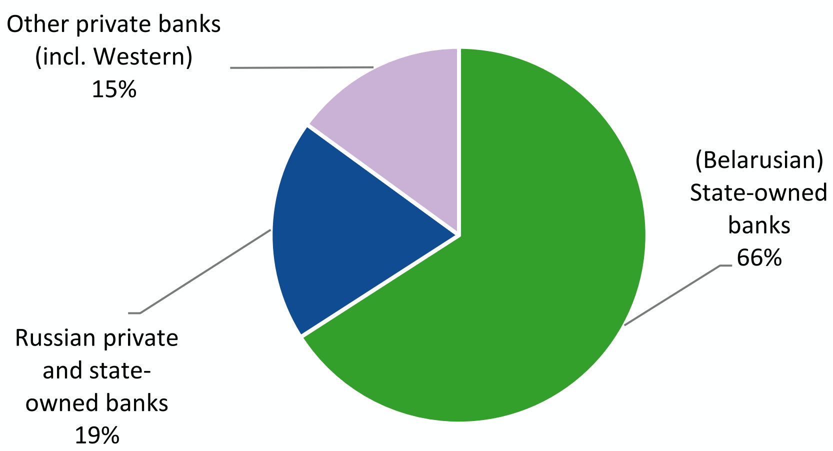
Source: NBRB, own calculations and estimations; data as of 01.07.2024, green: Belarusian banks, blue: Russian Banks.

Market structure

- Number of banks decreased in 2022-2023 to 21 banks
  - Fransabank acquired by Alfa-Bank
  - Absolutbank transformed into a non-profit financial organization
  - Currently, 7 banks with a share of assets below 1%
- Since 2022 State-owned Banks (SOBs) stopped publication of their financial reports
- State-owned Belarusbank (44% share) remains the market leader and kept its asset share in 2023 and 2024
- Largest foreign banks remain Priorbank (9.1%, owned by Austrian Raiffeisen Holding till the end of 2024), followed by Russian-owned Alfabank (6.9%) and Russian-owned BPS-Sberbank (5.8%)
- All SOBs except of Belarusbank have been sanctioned (SWIFT exclusion); main daughters of RUS banks in BLR are also under sanctions
- **Further sanctions against Belarusian banks possible; further change in market share structure to be expected**

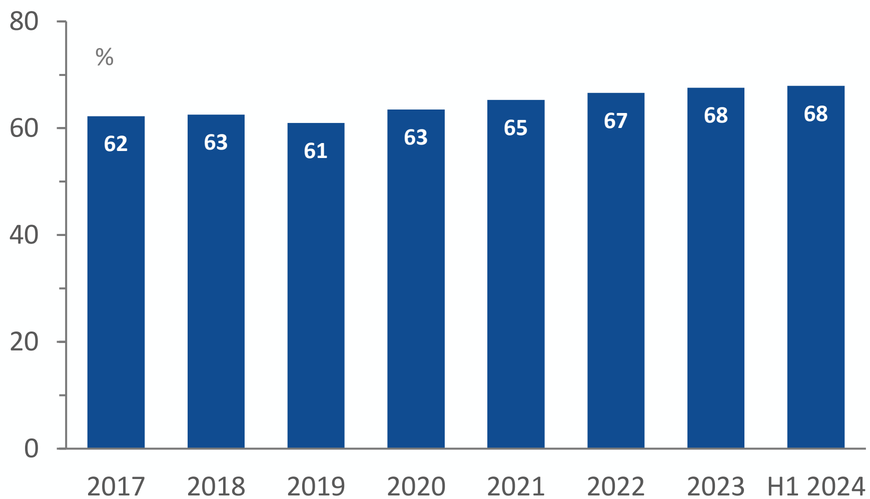
3. Ownership and concentration

Market share by ownership



Source: NBRB, own calculations; data as of 01.07.2024

Market share of top 3 banks



Source: NBRB, own calculations; end of period

Share of banks by ownership

- » Strong domination of state-owned banks (66%) but below 2021 level
- » Directly or indirectly state-owned Russian banks hold 19% of bank assets
  - – Still strong but slightly reduced position of Russian banks
- » Private banks (incl. Western banks) hold 15% of assets; demonstrate growth in 2022-2024
  - – Priorbank might further increase business activities as Raiffeisen sold its 87.74% stake to UAE investment company

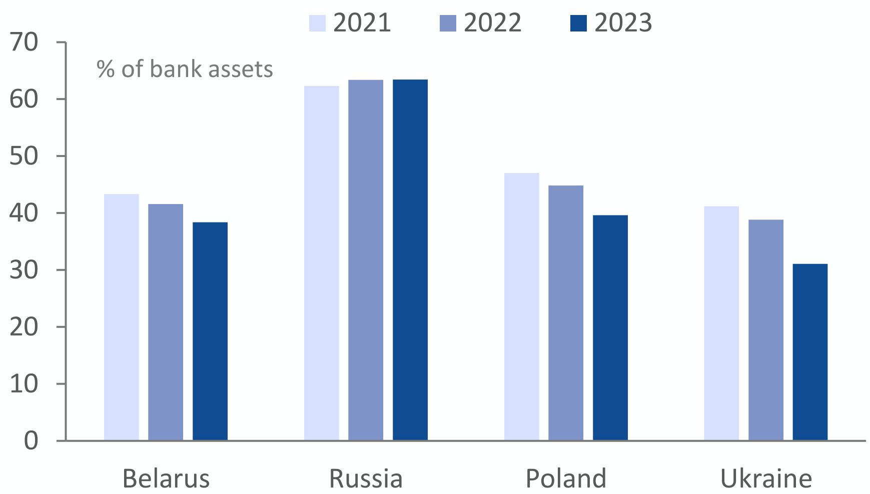
Concentration

- » Strong concentration of bank assets among top 3 banks (68%)
- » Many small banks with very little market shares

- ➢ **State ownership and concentration in the bank sector might further increase due to sanctions**
- ➢ **Market share of RUS and foreign banks are likely to remain at the same level**

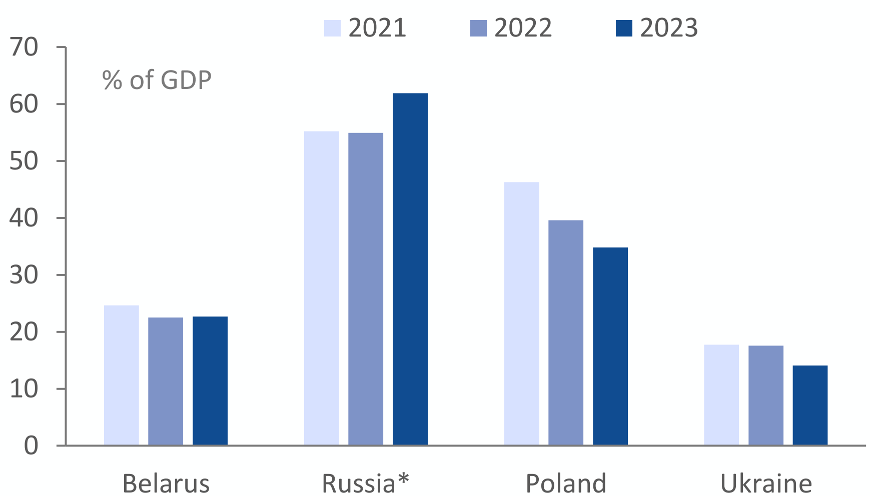
4. Lending to the private sector

Loans to private sector as share of bank assets



Source: National Banks, own calculations; end of period

Loans to private sector as share of GDP



*Source: National Banks, own calculations; end of period. *figure includes loans to all enterprises, including SOEs*

Private sector lending

- Gradual decline over the last years to 38.4% of bank assets in 2023 (down from 41.6% in 2022 and 43.3% in 2021)
- 1H2024: lending to the private sector increased by 10.1% while total loans – by 17.3%
  - Higher demand of the population for durable consumer goods, especially cars

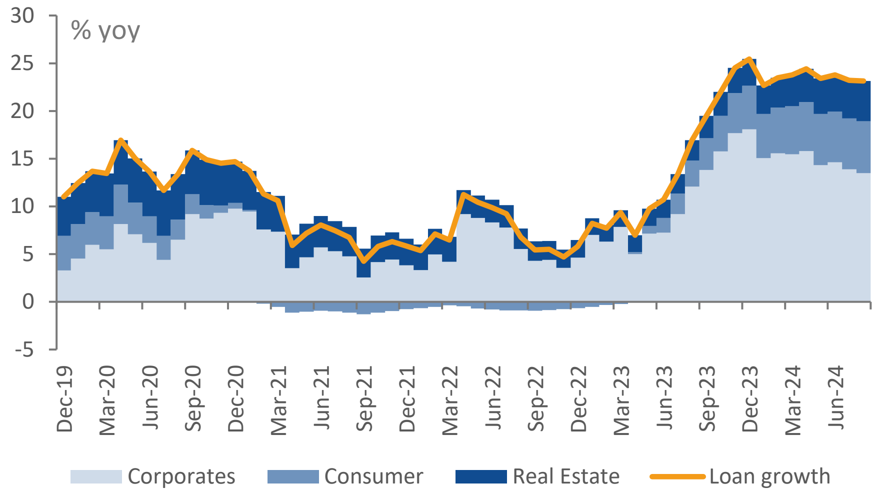
Regional comparison

- Share of private sector loans to GDP lower than in Russia* and Poland, but higher than in Ukraine

- Current economic conditions (e.g. rising interest rates) and the policy mix (e.g. a high focus on SOEs) are likely to keep lending to the private sector at the current level

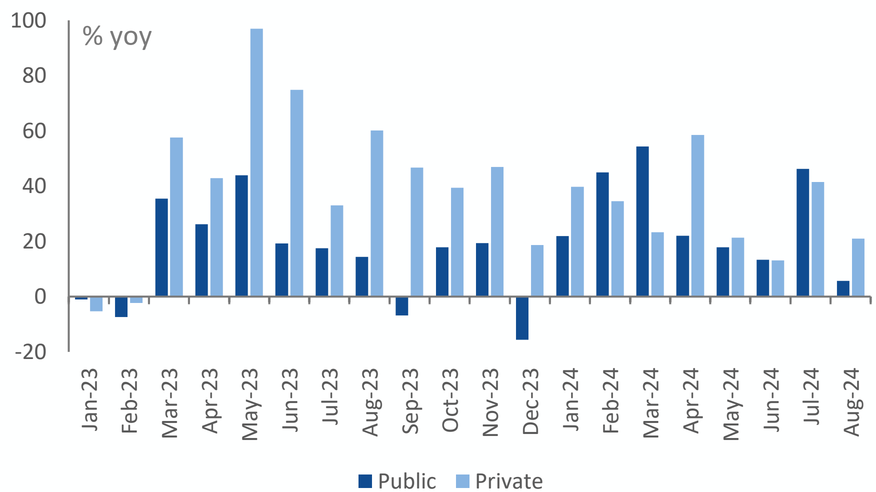
5. Loan growth

Contribution to loan growth (% change in outstanding amounts)



*Source: NBRB, own calculations; *incl. NBFI, **excl. mortgages; constant exchange rates*

Dynamics of new loans by sector



Source: NBRB, own calculations

Change in outstanding amounts

- Bank lending has decreased since mid of 2020; some stabilization during Mar-22 – May-23 and enhanced growth since June-23 (Aug-24: 23.2%)
- All sectors are affected:
  - Consumer loans have turned positive since 2Q2023
  - Growth in other sectors has also substantially go up in 2023; stabilized in 2024
  - Increasing population income and realization of a large investment programme are the main reasons for the spike in 2023-2024

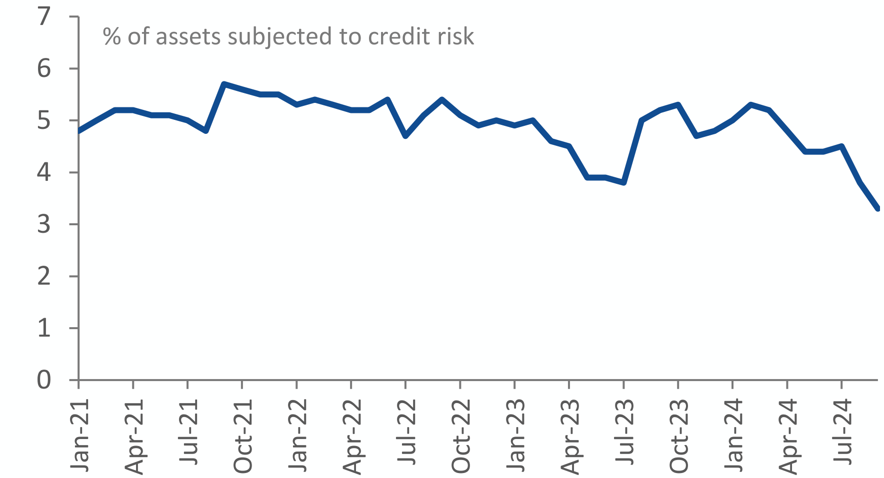
New loans

- New lending to the private sector has increased sharply since the beginning of 2023
- Similar but less pronounced: new loans to the public sector also increased since Mar-23

➢ **Active investment government programme with the purpose of import substitution and export support likely to save loan growth in 2024**

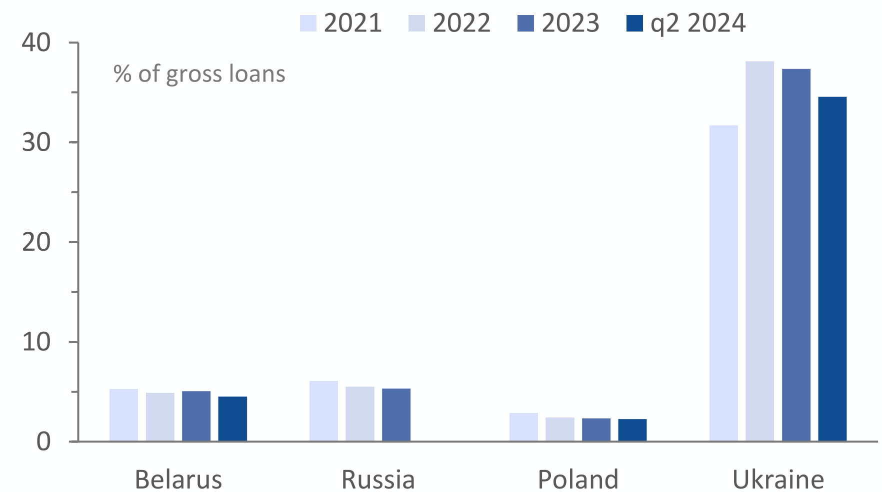
6. Non-performing loans (NPL)

NPLs as a share of assets subject to credit risk



Source: NBRB

NPLs to total gross loans

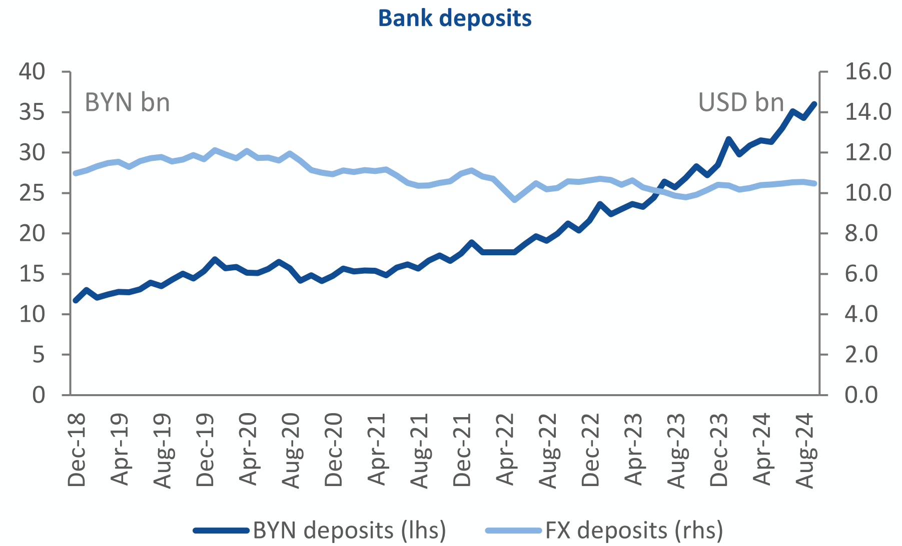


Source: IMF FSI Notes: for Russia the last available data for 2Q2023; for Poland 1Q2024

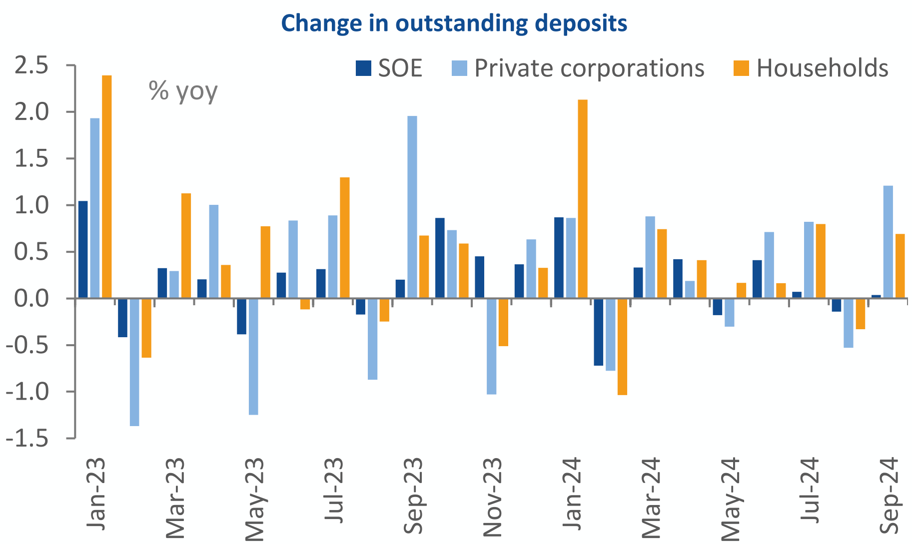
- NPL as a share of assets subject to credit risk in Aug-24: 3.3% - minimum level since NBRB introduced a new statistical approach in May-18
  - Reasons: a temporary right for banks to use some relief for NPL criteria under acting sanctions on enterprises and difficulties with export/import payments
- NPL ratio is lower than in Russia and Ukraine, but higher than in Poland
- But: deficiencies in official NPL-definition, as shown by IMF's Technical assistance report
- Forbearance measures undertaken by the NBRB since the COVID-19 crisis understate the true situation

- **NPLs could increase in the short/medium run as a result of worsening balance sheets of corporates due to sanctions and loss of export markets**

7. Deposits



Source: NBRB, own calculations



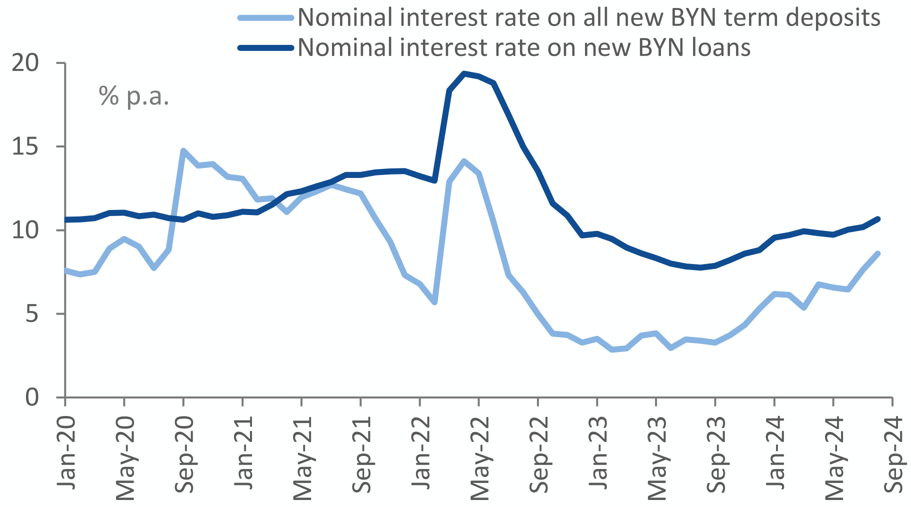
Source: NBRB, own calculations, as of first day of the month

- Since the beginning of 2022: steadily increasing amount of BYN deposits
  - Increased interest rates (see next slide) due to NBRB policy explains the growth of BYN deposits
- FX deposits volatile but mostly decreasing; significant decrease since the end of 2020
- Since Mar-/Apr-22: strong withdrawals of deposits in FX by households: in the wake of the war in Ukraine, inflation, and devaluation expectations, households tend to purchase in durable consumer goods
- Corporate (private) and households' deposits increased significantly in Aug-24 due to attractive interest rates

- **With continuing long period of negative interest rate (in real terms) for USD and EUR deposits and a booming real estate market, further withdrawals of FX deposits by the population likely**
- **BYN deposits rising**

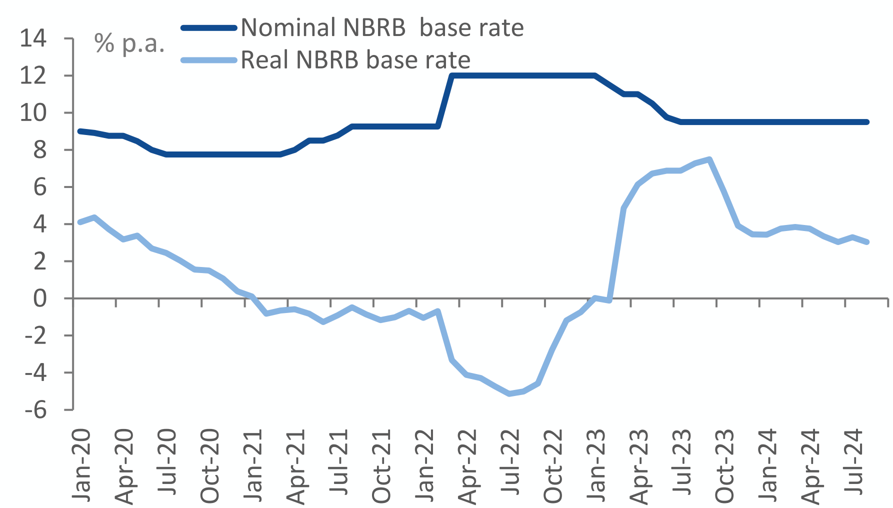
8. Interest rates

Interest rates on loans and deposits



Source: NBRB; monthly averages

NBRB policy rate



Source: NBRB; monthly averages

Interest rates on loans and deposits

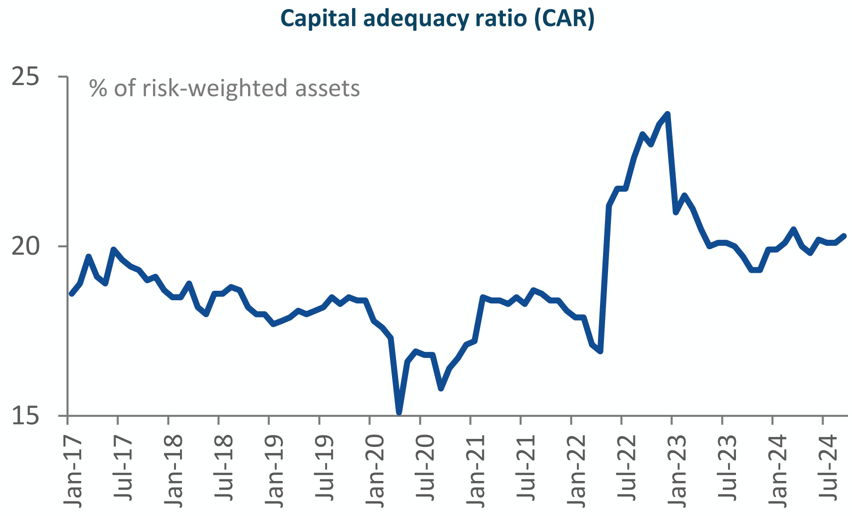
- » Since mid of 2021: decline of the interest rate for BYN deposits, and smooth increase of interest rate for loans
- » Mar-22: interest rates for new BYN loans and term deposits increased considerably
- » Since May-22: declining trend
- » Since Sep-23: resuming growth

Policy rate

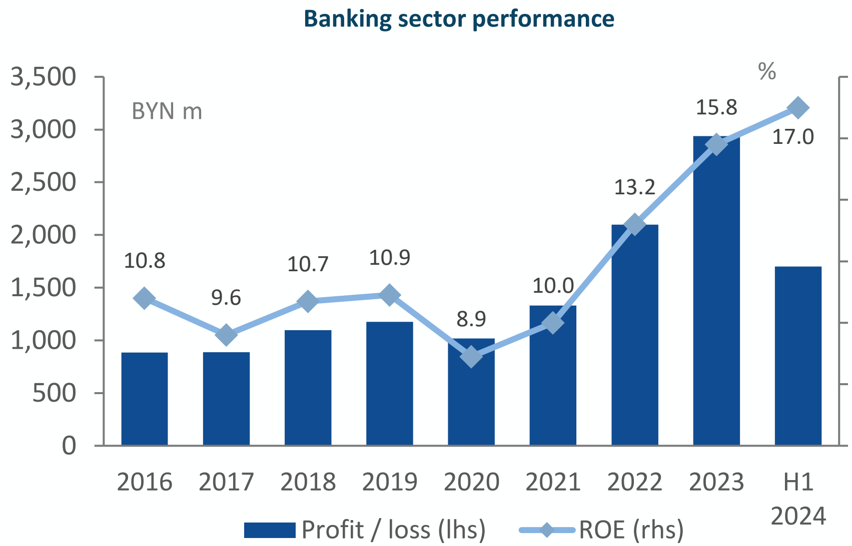
- » NBRB policy rate gradually increased in 2021 from 7.75 to 9.25 due to inflationary pressure
- » Mar-22: hike to 12% after the outbreak of the war in Ukraine kept till Feb-23
- » Gradual reduction to 9.5% by Jul-23
- » Real NBRB policy rate turned positive from the beginning 2023, reflecting curbed inflation; in 2024 it has decreased as inflation rose again

- ➢ **Pressure on interest rates remains high as inflation is rising and NBRB tried to stabilize the currency by higher interest rates**
- ➢ **Banking sector indicators might worsen if the tendency continues**

9. Capital adequacy and bank profits



Source: NBRB



Source: NBRB; after taxes, end of period

Capital adequacy ratio (CAR)

- » Since the end of 2021: declining trend as a result of asset growth in the banking sector
- » Apr-/May-22: CAR significantly increased to above 21%
  - – NBRB eased risk provisions on loans as anti-crisis measures in Mar-22
  - – Since Jan-23 CAR has declined and stabilized since mid-2024 at the 20% level

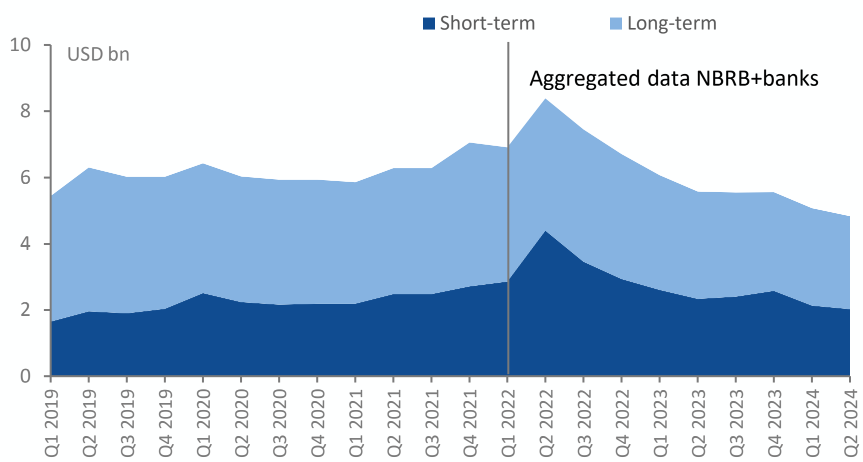
Banking sector profit

- » With 15.8% in 2023 and 17% in the first half 2024, sector profitability (ROE) is on quite a good level
- » 2024: declining NPLs, growing lending and moderate inflation have a supportive impact on CAR and ROE

- ➢ Pressure on banks' capital may resume with increasing NPLs and deterioration of the financial situation
- ➢ Decrease of CAR and shrinking profitability in banking sector likely if the financial situation keeps deteriorating

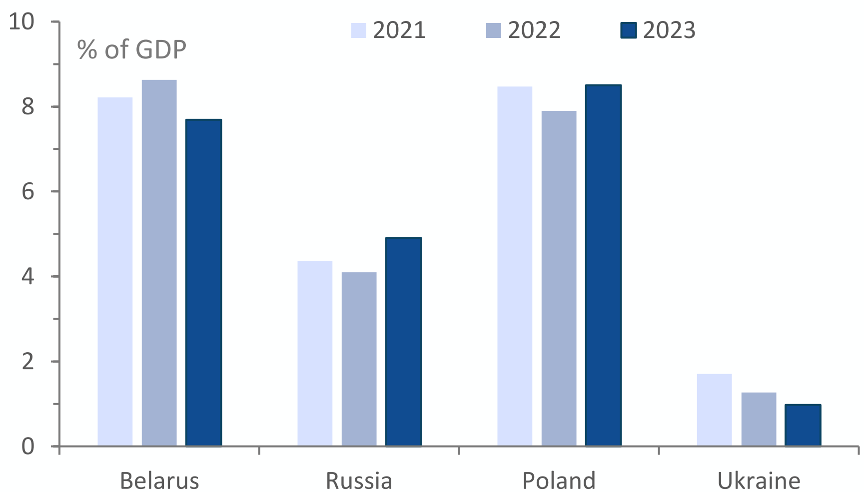
10. External debt

External debt of the banking sector



Source: NBRB; end of period

External debt of banking sector to GDP



Source: National Banks, own calculations; end of period. Notes: for Belarus and Russia aggregated figures for 2022 and 2023: central bank + commercial banks

External debt

» External debt increased at the beginning of 2022, as NBRB started to report the aggregated debt of the central bank and commercial banks

» Short-term debt increased more dynamically, likely due to long-term refinancing from abroad practically impossible (except from Russia)

» Despite a continued gradual decline, external debt (USD 4.7 bn, or around 6.6% of GDP at the end of 2H2024) still represents a source of risk in the event of exchange rate volatility and restricted market access abroad

International comparison

» As % of GDP, external debt has slightly decreased; still higher than in RUS and in UKR

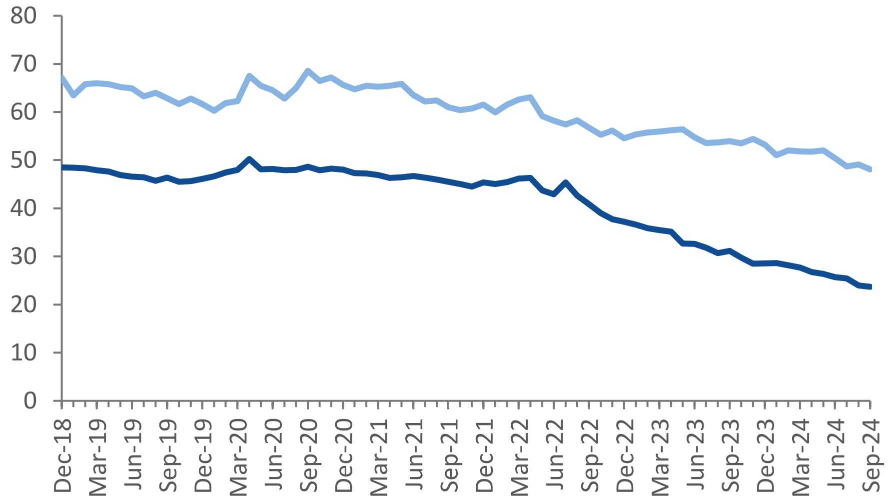
» After the outbreak of the war in UKR, rating agencies downgraded ratings for BLR banks to the lowest possible level with subsequent withdrawal of ratings along with the sovereign

➢ **With high external debt, BLR banks face considerable refinancing risks**

➢ **Russia remains the only available source for new debt**

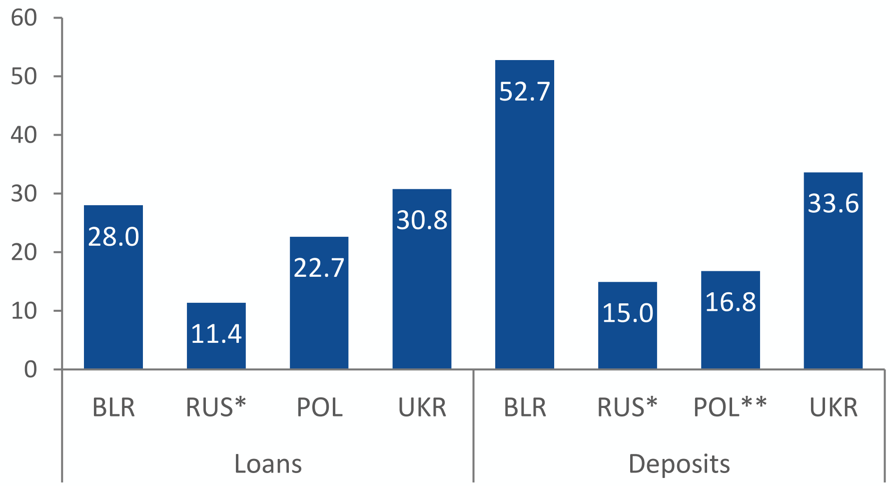
11. Dollarization

Dollarization of loans and deposits



Source: NBRB; end of period

Dollarization in international comparison



*Source: IMF FSI; data for 2023; *2022; **2019*

Dollarization

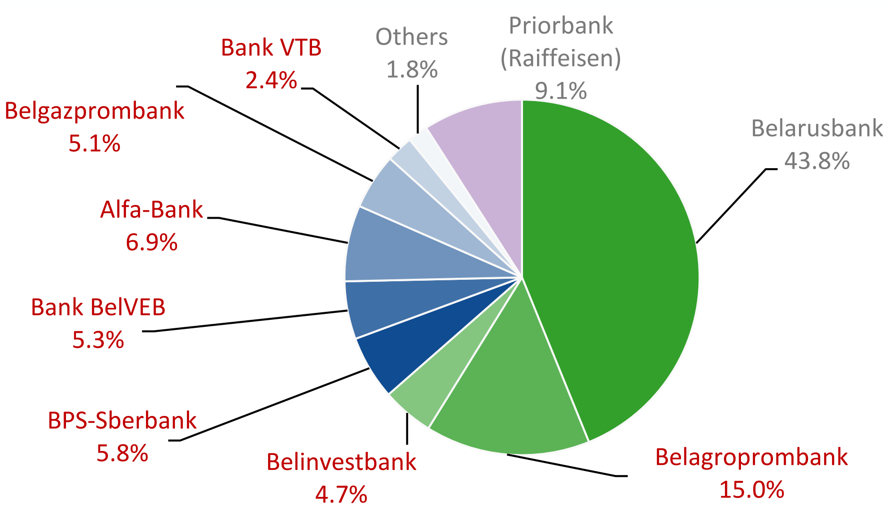
- Since 2021 dollarization of loans and deposits decreased to historically low levels thanks to a successful NBRB policy and lack of demand for USD and EUR by banks due to sanctions
  - Higher reserve ratios for FX deposits and loans to curb dollarization
- 2024: significant decline of dollarization is continuing (especially for loans)
  - Likely a reaction to increased interest rates on BYN deposits and reorientation of FX deposits towards other investment opportunities (e.g. real estate)

International comparison

- Dollarization in Belarus is still quite high in comparison to neighbouring countries
  - In particular on the deposit side: 53% (end of 2023)
  - But also for loans: 28% (but lower than in e.g. Ukraine)

➢ **While dollarization remains still high, the combination of sanctions and high domestic interest rates may lead to a further decline**

12. Sanctions on the banking sector



Source: NBRB, own calculations; data as of 01.07.2024, in red: affected or subsidiaries of banks affected by SWIFT/OFAC sanctions
Green: Belarusian Banks, Blue: Russian banks

Sanctions against banks

- Major sanctions from EU/US in 2022 related to the war in Ukraine
- Nearly all large Belarusian banks have been affected by OFAC/SWIFT sanctions
  - But Belarusbank (44% of total assets) not excluded from SWIFT yet
  - However, strict application of compliance rules by foreign banks made business already difficult after the 2021 sanctions
- All subsidiaries of RUS banks in BLR (26% of assets) affected by OFAC/SWIFT sanctions
- Priorbank remains the only (Western-owned) bank not directly affected by sanctions
  - But: Raiffeisen sold 87.74% stake to UAE investment company in Sep-24; regulatory approval and closing of the transaction is expected in Q4 2024
- Certain activities of the NBRB also sanctioned

- **Sanctions and strict compliance rules make doing financial business increasingly difficult (even for non-sanctioned entities)**

13. Credit rating and default

Sovereign credit ratings

Agency	Rating	Outlook	Last update
ACRA	B+		Apr-24
S&P	CCC	Negative	May-22
Moody's	Ca	Negative	Mar-22
Fitch	RD	-	Jul-22

Source: Ministry of finance, respective institutions

Eurobond payments in 2024

Name	Date	Interest
Belarus 26 / Belarus 31	24.02.2024	USD 39 m
Belarus 30	28.02.2024	USD 19 m
Belarus 27	29.06.2024	USD 23 m
Belarus 26 / Belarus 31	24.08.2024	USD 39 m
Belarus 30	28.08.2024	USD 37 m
Belarus 27	29.12.2024	USD 23 m
Total		**USD 160 m**

Source: Ministry of finance, own research

Credit ratings

- » All rating agencies have massively cut Belarus' ratings since Feb-22, placing it just above default
- » Due to the sanctions, the three main international agencies withdrew ratings in 2022, and Russian ACRA in 2023

Eurobonds payments

- » In Sep-22, Government and NBB introduced 3 payment mechanisms:
  - exchange for domestic gov't bonds
  - sale of Eurobonds to the issuer at a discount (30% of the nominal value and accrued but unpaid interest);
  - receiving funds in BYN
- » On 28th February 2023 principal payment of USD 800 m was fully credited in BYN to a separate bank account in Belarusbank
- » Interest payments in 2024 amount to only USD 160 m
- » BYN payment of FX debt constitutes a default (rated RD by Fitch)

➢ **Sovereign default negatively affected the mostly state-owned banks in Belarus**

Annex. Bank sector statistics

Balance sheet data	2020	2021	2022	2023	H1 2024
Total assets (BYN m)	90,569.2	98,369.2	104,879.0	127,638.3	131,497.4
growth in % yoy	15.6	8.6	6.6	21.7	16.8
in % of GDP	60.5	56.8	54.1	59.1	56.7
Total loans (BYN m)	58,746.5	60,471.4	62,175.8	72,980.5	77,151.7
growth in % yoy	21.0	2.9	2.8	17.4	17.3
in % of GDP	39.2	34.9	32.1	33.8	33.3
Loans to private enterprises (BYN m)	18,617.9	20,906.1	21,541.0	25,087.0	25,146.3
growth in % yoy	24.3	12.3	3.0	16.5	10.1
in % of GDP	12.4	12.1	11.1	11.6	10.8
Loans to households (BYN m)	15,702.5	16,469.6	16,975.5	20,501.9	22,812.6
growth in % yoy	10.9	4.9	3.1	20.8	25.2
in % of GDP	10.5	9.5	8.8	9.5	9.8
Loans in foreign currency (BYN m)	27,784.7	27,226.5	22,767.6	20,868.2	19,584.9
growth in % yoy	23.0	-2.0	-16.4	-8.3	-6.3
in % of GDP	18.6	15.7	11.8	9.7	8.4
Loans in foreign currency (% of total loans)	47.3	45.0	36.6	28.6	25.4
Total deposits	44,304.7	47,207.3	52,966.9	64,653.6	68,445.5
growth in % yoy	4.7	6.6	12.2	22.1	20.3
in % of GDP	29.6	27.3	27.3	29.9	29.5
Deposits from households (BYN m)	22,464.1	21,731.8	23,829.1	29,597.5	30,844.8
growth in % yoy	-6.5	-3.3	9.7	24.2	15.8
in % of GDP	15.0	12.6	12.3	13.7	13.3
Total loans (% of total deposits)	132.6	128.1	117.4	112.9	112.7
Structural information					
Number of banks	24	23	22	21	21
Market share of state-owned banks (% of total assets)	65.3	67.5	66.1	66.4	65.9
Market share of foreign-owned banks (% of total assets)	34.7	32.5	33.9	33.6	34.1
Profitability and efficiency					
Return on Assets (%) after taxes (RoA)	1.1	1.4	2.0	2.5	2.4
Return on Equity (%) after taxes (RoE)	8.9	10.0	13.2	15.8	17.0
Capital adequacy (% of risk weighted assets)	17.2	17.9	21.0	19.9	20.1
NPLs (% of assets subject to credit risk)	4.8	5.3	4.9	5.0	4.5

Source: NBRB monthly bulletin, Belstat, own calculations; end of period

About the German Economic Team

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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