Banking Sector Monitoring

Belarus

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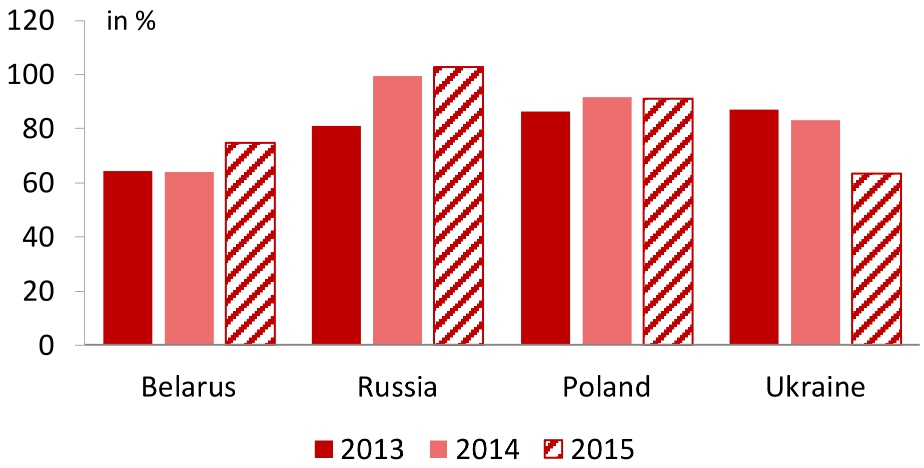
Content

1. Regional comparison

Bank assets to GDP

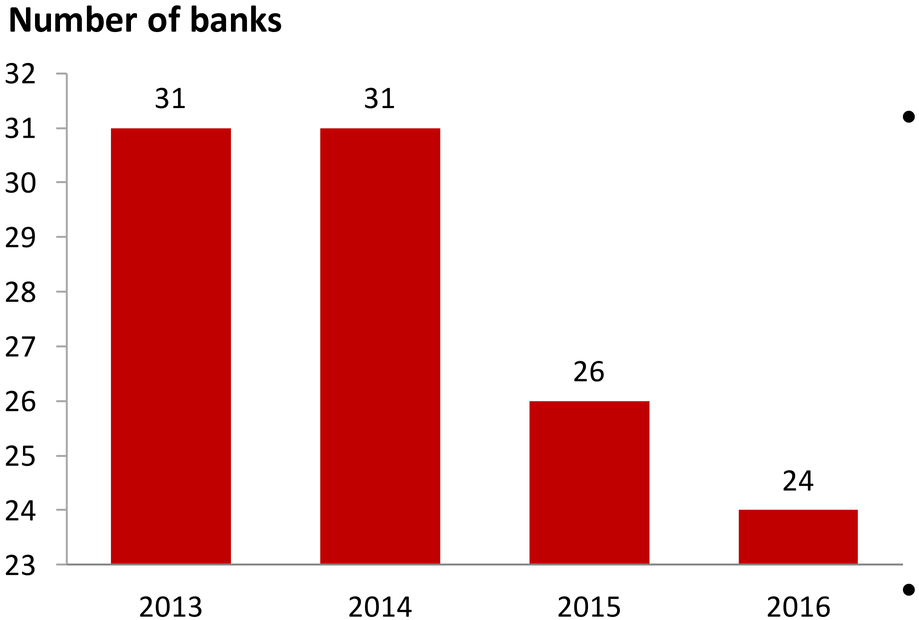


Source: National Banks of different countries

- Size of banking sector of Belarus in 2013 was smaller than in neighbouring Russia, Poland and Ukraine if measured by bank assets to GDP
- Until 2015, the gap to Poland shrank, while in Ukraine a significant deleveraging in the banking sector took place due to its economic crisis

⇒ **Despite the regional economic problems, the banking sector grew until 2015, overtaking Ukraine and narrowing the gap to Poland. Russia remains in the lead in banking penetration**

2. Number of banks



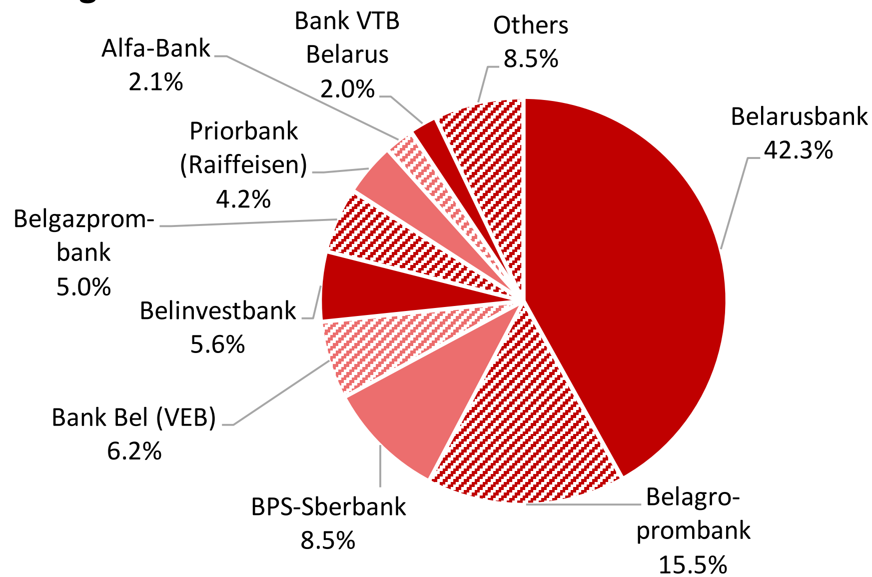
Source: NBB; excluding the Development Bank

- In both 2013 and 2014, the number of operating banks did not change and amounted to 31
- This number dropped in 2015 and 2016 to currently 24, as licenses were withdrawn
  - Delta BANK (2015)
  - InterPayBank (2015)
  - Eurobank (2015)
  - North European Bank (2016)
  - Bank of Investment Technologies (2015)
- All banks very small (less than 1% asset share)
- One bank was reorganized into a non-bank entity and another one was merged

⇒ The number of operating banks reduced by almost a quarter over the last years, as some banks were put under liquidation

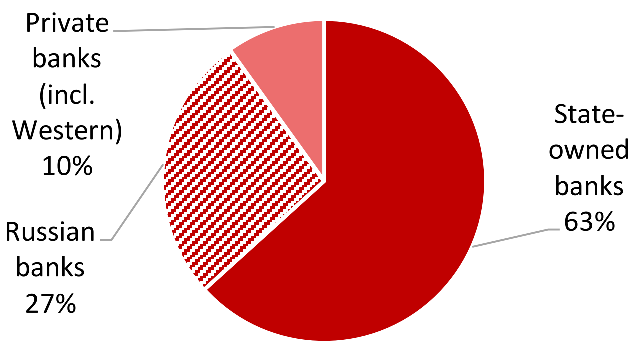
3. Market shares

Banking sector assets



Source: NBB, own calculations, data as of 1 October 2016

Market share by ownership



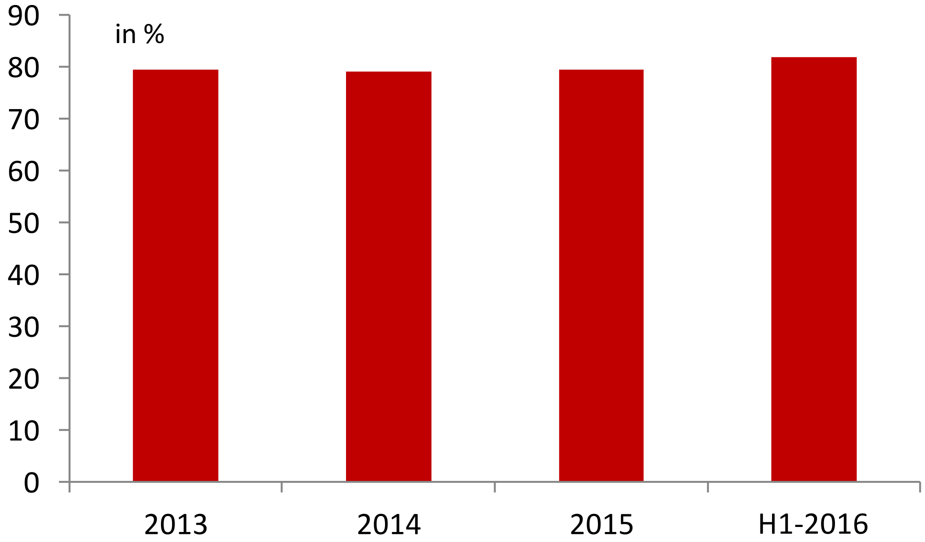
Source: NBB, own calculations, data as of 1 October 2016

- The largest two banks are state-owned: Belarusbank, with 42% market share, followed by Belagroprom (16%)
- Russian-owned BPS-Sberbank is the largest foreign bank with 8.5% of market share on third position
- State-owned banks dominate the sector in terms of market share (63%), followed by banks with Russian capital (27%) and private banks (10%). In the latter group also banks with non-Russian foreign capital are included
- The biggest EU-owned bank is Priorbank (Raiffeisen from Austria) with 4% market share (rank 7)

⇒ State-owned banks dominate with almost two-thirds of market share

4. Concentration

Share of Top-5 banks



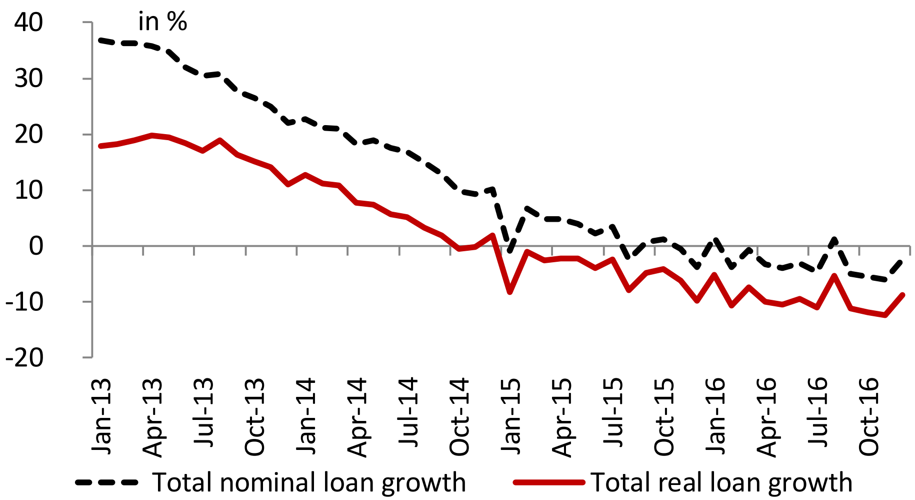
Source: NBB, own calculations based on total assets

- Three largest state-owned banks (Belarusbank, Belagroprombank, Belinvest) and two banks with Russian capital (BPS-Sberbank, BelVEB) have been the Top-5 banks over the last four years
- The aggregated market share of these 5 banks was already quite high at 79% in 2013 and increased gradually to 82% in 2016

⇒ **High and slightly increasing concentration**

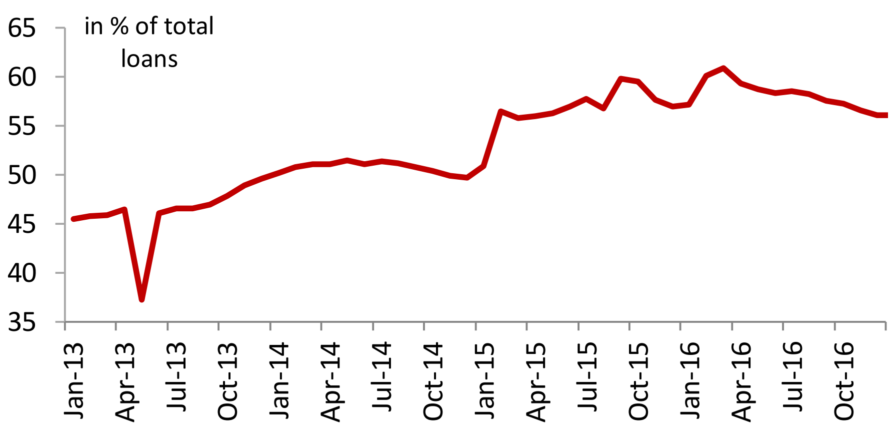
5. Loan growth

Loan growth



Source: NBB, Note: FX adjusted

Share of foreign currency loans



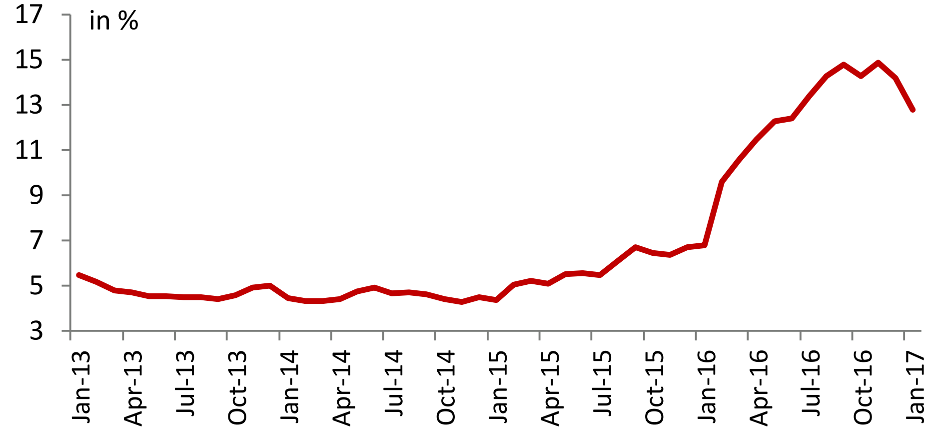
Source: NBB

- In early 2013, (corporate and household) loan growth was at 36% yoy in nominal terms; this gradually decreased and entered negative territory in summer 2015. Currently it is -2.4%
  - Similar developments in real terms
  - Reflection of both supply and demand-side factors
- The loan dollarization ratio increased over the period considered and amounts to 56% in end-2016, after 46% in early 2013
  - In the first quarter of 2015 there was a sharp increase in the share of foreign currency loans due to the depreciation of the Belarusian ruble in early 2015

⇒ Loan growth declined significantly over the last years; the loan book is now shrinking

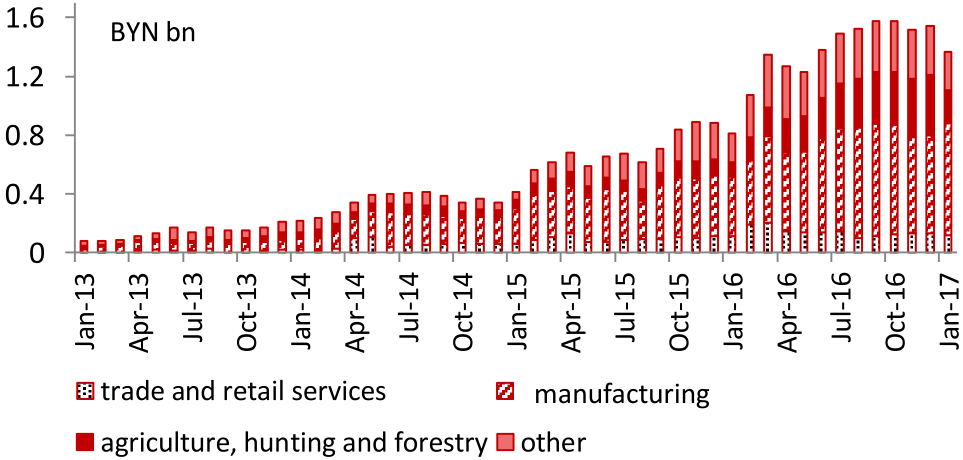
6. Non-performing loans (NPL)

NPLs as a share of assets subject to credit risk



Source: NBB

NPLs by economic sectors



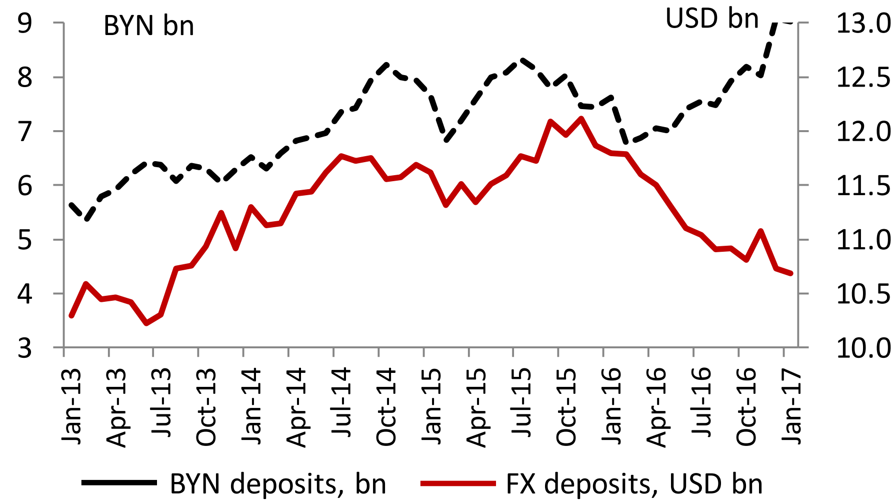
Source: Own calculations based on NBB data

- After some years with a rather low level of non-performing loans, there was a sharp increase in bad loans due to a serious slowdown of economic dynamics and the unstable financial position of many (state-owned) companies since early 2016
- Since the end of 2016, this development reversed slightly; NPLs currently 12.8% of assets subject to credit risk
  - Transfer of (agricultural) NPLs to new Asset Management Agency (AMA) main factor
- In terms of sectoral breakdown, manufacturing enterprises are the most troubled borrowers; also agricultural enterprises struggle to service their debt in time

⇒ Worsening of asset quality key indicator to observe

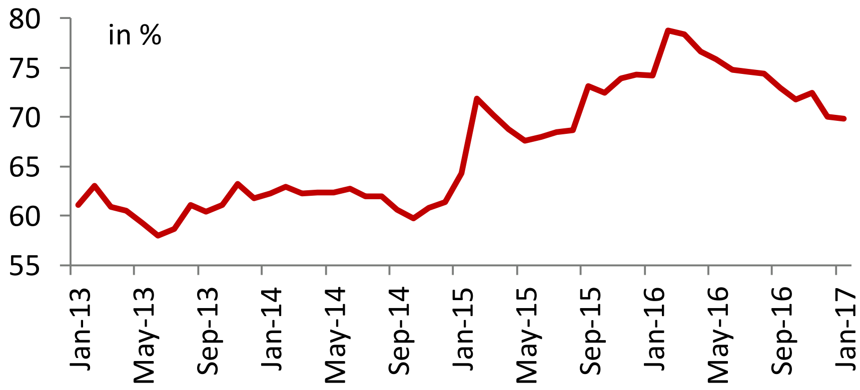
7. Deposits

Bank deposits



Source: NBB, own calculations

Deposit dollarization ratio



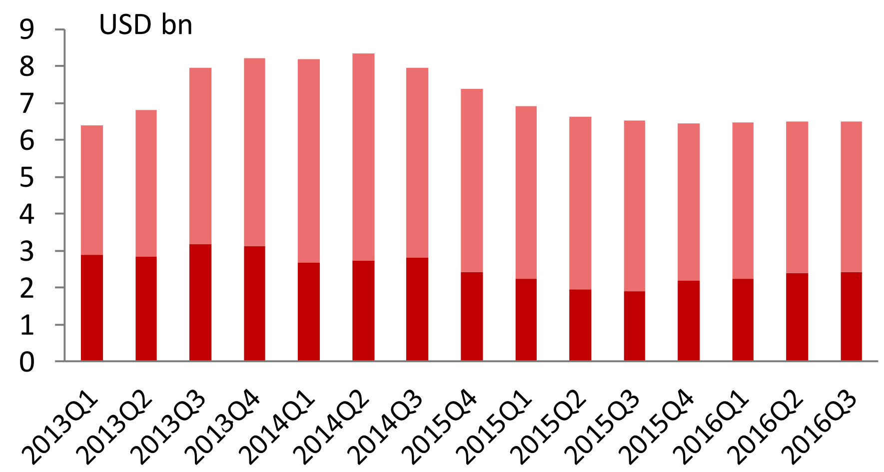
Source: NBB, own calculations

- After increasing until end-2015, FX deposits started to fall and decreased by USD 1.3 bn until early 2017
- This was caused by low returns on FX deposits, a decline in the dollar and a drop in real and nominal household income
- Deposits in national currency also fell during 2H2015, but started to rise thereafter
- In line with developments on the loan side, the dollarization ratio on the deposit side jumped and remains with 70% very high, above historical norms

⇒ Corporate and household bank deposits fell in 2H2015 (national currency) and 1H2016 (FX); deposit dollarization is very high

8. External debt

External debt of banking sector



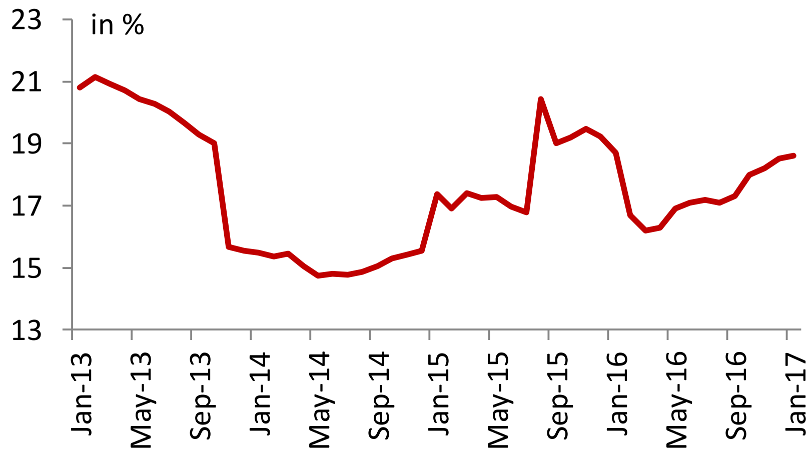
Source: NBB

- External debt of the banking sector grew strongly during 2013-2014, when it peaked at USD 8.4 bn (Q22014)
- Significant part of that debt was long-term (USD 5.6 bn), while short-term external debt amounted to USD 2.7 bn (at original maturities)
- Since then, a process of gradual deleveraging took place, which brought the debt stock down to USD 6.5 bn in Q3 2016 (decline by 22%)
- Reflection of high FX liquidity in the banking system

⇒ External deleveraging during the economic crisis observable

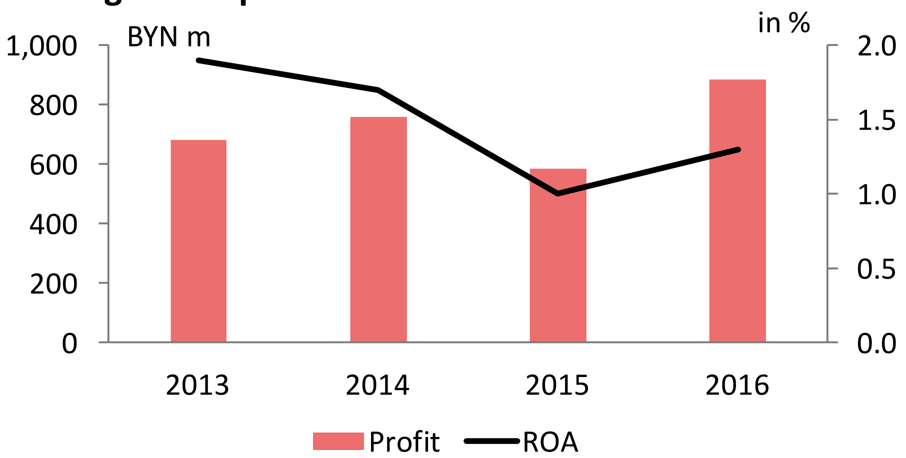
9. Capital

Capital adequacy ratio



Source: NBB

Banking sector profit



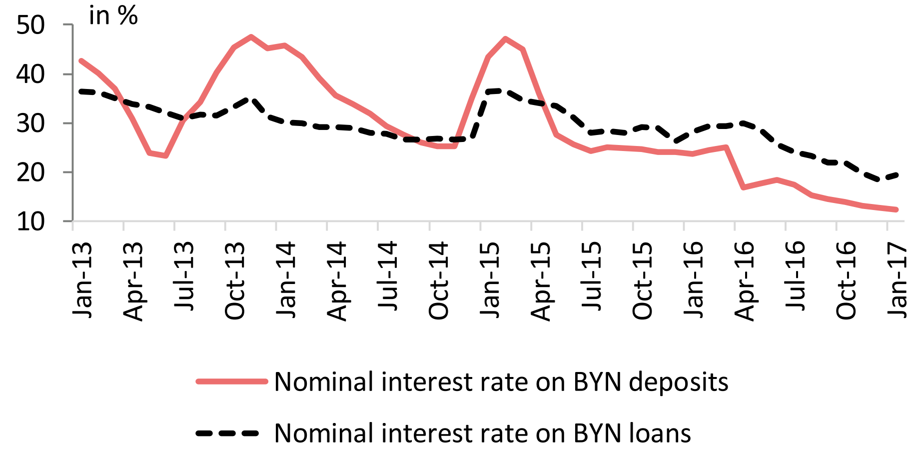
Source: NBB, own calculations based on NBB data

- The system-wide capital adequacy ratio (CAR) stands currently at 18.6% (according to NBB norms) and remains above regulatory norms (10.6%)
- However, an asset-quality-review in mid-2016 that covered 92% of the sector revealed that in a stress-scenario, CAR would drop to 10.8%
- The main reason are the problem loans in the corporate sector (slide 8)
- Due to the sharp increase of NPLs, aggregate banks’ profits and their return on assets declined in 2015, but recovered to some extent in 2016, which is also due to the NPL-transfer to the AMA

$\Rightarrow$ **Pressure on capitalisation requires measures to boost CAR at certain institutions**

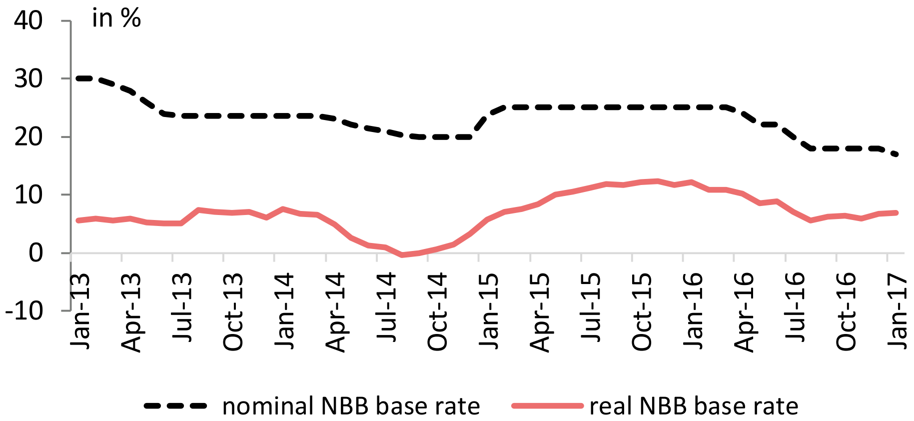
10. Interest rates

Interest rates on loans and deposits



Source: NBB, own calculations based on NBB data, Note: corporate and household loans and deposits

NBB base rate



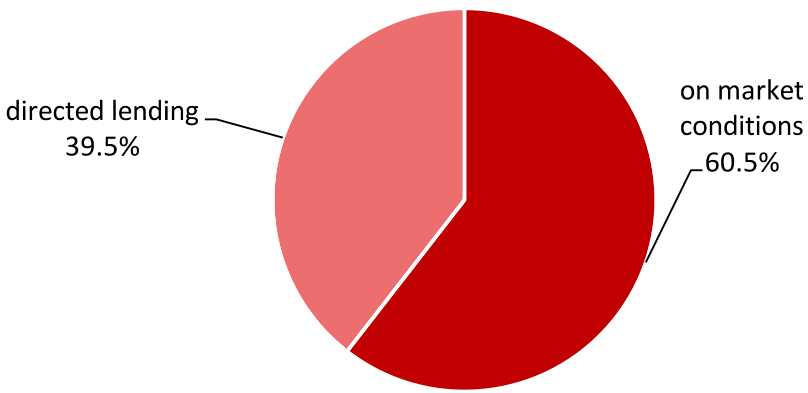
Source: NBB, own calculations based on NBB data

- During 2013-2016, interest rates on BYN loans decreased from 36% to 19% but still remain rather high
- A negative interest margin existed in national currency in different periods between 2013 and 2015
  - Mainly driven by the need to increase deposit rates during periods of stress
- The National Bank reduced policy rates during 2013-2014, but had to hike in early 2015, when pressure on the BYN was building up. It resumed its interest-rate-cutting cycle in 2016
- Policy rates are in real terms positive

⇒ **Declining policy and loan interest rates**

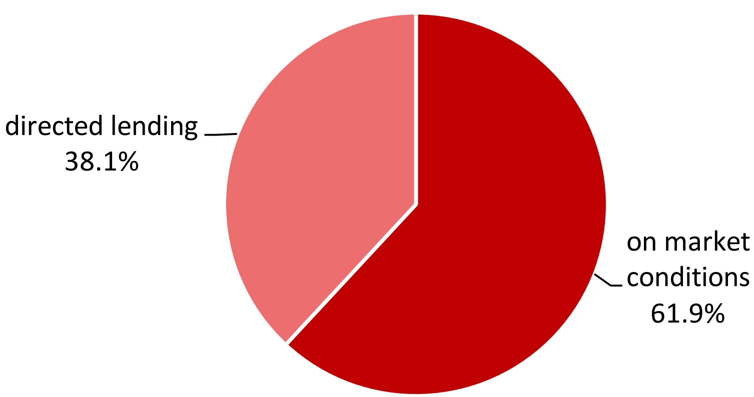
11. Directed Lending

Structure of bank loans as of 1 January 2016



Source: NBB

Structure of bank loans as of 1 October 2016



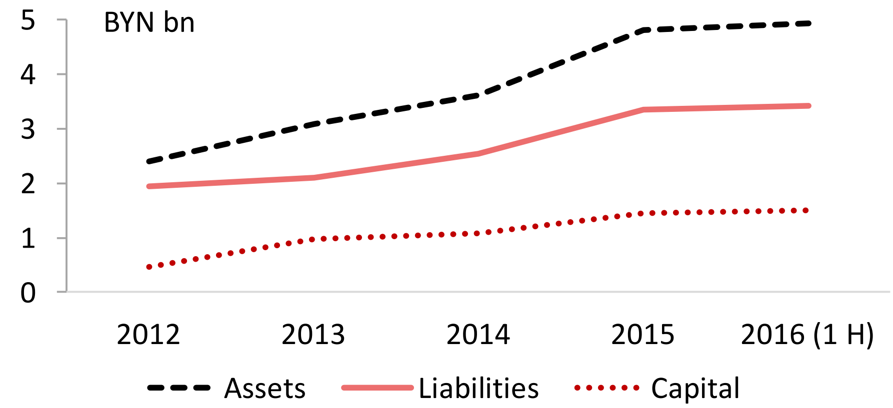
Source: NBB

- Directed lending by the government is a key channel of state influence on Belarus' economy
  - Key beneficiaries are industry, agriculture and housing
- This type of lending distorts the financial system as well as the real sector
  - In 2015, interest rates on such loans amounted to 9%, while the non-subsidized borrowers paid 34% on average
- The respective share of the loan book is slightly less than 40%; it declined during 2016
- While traditionally commercial banks executed this type of lending, the Development Bank (see next slide) became increasingly involved

⇒ **Reducing directed lending further is an important step towards a more market-oriented model**

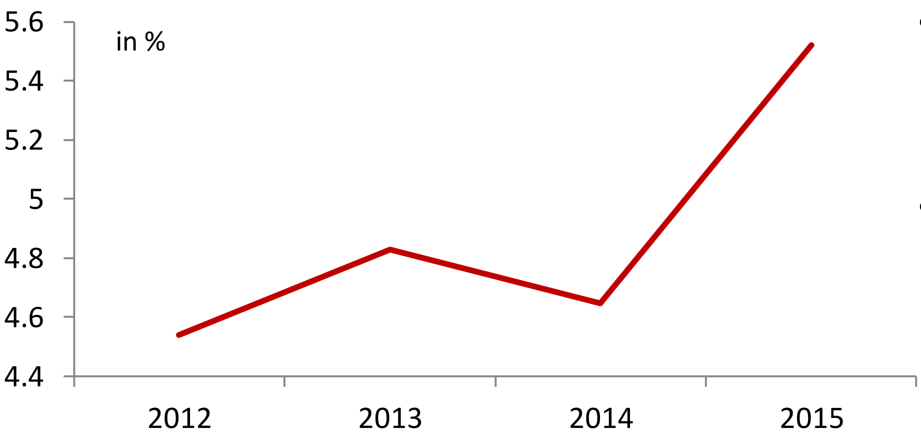
12. Development Bank

Balance sheet development



Source: Development Bank

Share of assets to GDP



Source: Development Bank, own calculations based on DB data

- Established in 2011 as a development institution owned by the state, the bank grew quickly over the following years
  - No attraction of private deposits, financed mainly by equity and domestic and external debt (government-guaranteed in case of local bonds)
- The bank is involved in directed lending activities (about one-third of the total flow), as well as commercially-oriented business
- Near-term goal should be to concentrate new directed lending at the DB and relieve commercial banks from this burden
- Medium term: DB focus on development finance in areas where markets fail like a "standard" promotional bank

⇒ Significant new player in the banking landscape

Annex: Bank sector statistics (excluding Development Bank)

Balance sheet data	2013	2014	2015	2016
Total assets, BYN m	39 516.35	48 153.08	63 046.33	64 467.00
growth in % yoy	23.00	21.90	30.90	2.30
in % of GDP	62.06	61.86	72.49	68.35
Total loan, BYN m	25 939.09	31 398.86	37 777.12	35 851.00
growth in % yoy	28.40	21.05	20.30	-5.10
in % of GDP	40.70	40.30	43.40	38.01
Loans to private enterprises, BYN m	7 944.55	10 334.20	13 198.06	11 860.20
growth in % yoy	19.20	30.08	27.70	-10.10
in % of GDP	12.50	12.30	15.20	12.57
Loans to households, BYN m	5 397.12	6 293.61	6 878.84	7 155.40
growth in % yoy	34.30	16.60	9.30	4.02
in % of GDP	8.50	8.09	7.90	7.59
Loans in foreign currency, BYN m	13 027.58	15 969.46	21 593.86	20 089.10
growth in % yoy	41.80	22.60	35.20	-6.97
in % of GDP	20.50	20.50	24.80	21.30
Loans in foreign currency (% of total loans)	50.22	50.86	57.16	56.03
Total deposits, BYN m	17 267.66	21 427.28	29 520.66	29 946.00
growth in % yoy	19.50	24.10	37.80	1.44
in % of GDP	27.10	27.50	33.90	31.75
Deposits from households, BYN m	10 233.85	13 433.30	19 272.04	19 074.20
growth in % yoy	31.10	31.30	43.50	-1.03
in % of GDP	16.10	17.30	22.20	20.22
Total loans (% of total deposits)	150.20	146.50	127.97	119.72
Structural information				
Number of banks	31	31	26	24
Market share of state-owned banks (% of total assets)	63.70	63.40	63.80	-
Market share of foreign-owned banks (% of total assets)	33.18	33.23	33.75	-
Profitability and efficiency				
Return on Assets (RoA)	1.9	1.7	1.0	1.3
Return on Equity (RoE)	13.8	13.1	8.4	10.8
Capital adequacy (% of risk weighted assets)	15.5	17.4	18.7	18.6
Non-performing loans (% of total loans, eop)	4.45	4.37	6.80	12.80

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