NEWSLETTER

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The Belarusian Banking Sector: Trends and Developments

Considering the recent sharp rise in non-performing loans in Belarus, it is worthwhile to take a closer look at the banking sector as a whole. Currently, there are 24 institutions operating, which is a drop by almost 25% since 2013. However, only very small institutions were closed, with no material effects on the asset base of the sector. Currently, banking assets stand at 75% of GDP, higher than in Ukraine, but lower than in neighbouring Poland and Russia.

The state dominates the banking system in terms of ownership (63% of assets), while banks with Russian (and often state) capital add a further 27%. This leaves little room for private banks in the market; the biggest one is Priorbank (owned by Austria's Raiffeisen Bank) on rank 7.

A worrying recent trend is the increase in non-performing loans, which peaked at about 15% in late 2016. This reflects the difficult economic circumstances, in particular in the manufacturing and agricultural sectors. A further and related problem is directed lending, which remains a widespread phenomenon. Removing problematic assets from banks' balance sheets and increasing their commercial orientation will give a much-needed boost to the sector and the economy.

Key indicators

In 2013, the Belarusian banking sector was smaller than that of regional peers like Russia, Poland and Ukraine if measured by bank assets to GDP (64%). However, the sector grew until 2015 to 75% of GDP, overtaking Ukraine (63%), where the banking sector lost drastically in size due to significant deleveraging in the course of the economic crisis and narrowing the gap to Poland (91%). The regional leader according to this metric remains Russia (103%).

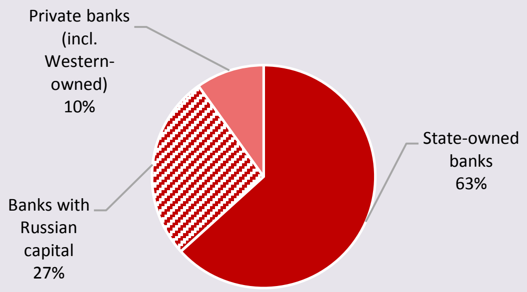
The number of banks in Belarus amounted to 31 throughout 2013 and 2014. Starting in 2015, it declined to 24 banks currently after a number of licenses were withdrawn. This is a reduction of almost one quarter. However, all closed banks were very small with less than 1% asset share.

Market overview

State-owned banks dominate in Belarus with a combined market share of 63% of total assets. They are followed by Russian banks with 27%. Thus, there remains only a minor share of 10% for private banks.

The Belarusian banking market is highly concentrated, with an increasing tendency towards further concentration. The top-5 banks hold currently 82% of the market, after 79% in 2013. The largest two banks (Belarusbank and Belagroprombank), which are both state-owned, hold a combined market share of 58%. They are followed by the Russian-owned BPS-Sberbank with 8.5% market share. The biggest bank with shareholders from the EU is Priorbank, which belongs to Austrian Raiffeisen Bank. It occupies rank 7 in the list of largest banks with a market share of 4%.

Market share by ownership



Source: National Bank of Belarus, own calculations

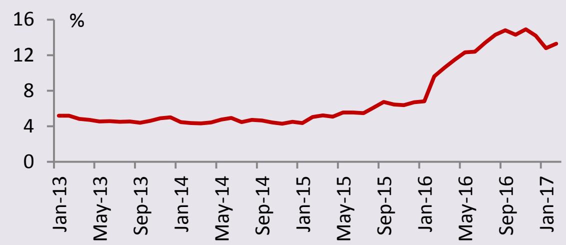
Non-performing loans are on the rise

After some years with a very 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, predominantly state-owned, companies since early 2016. After peaking at an NPL ratio of about 15% in end-2016, this development reversed slightly in early 2017. However, this trend reversal was only due to the transfer of certain NPLs to the new Asset Management Agency (AMA), which is not included in the statistics. Already in February, the NPL ratio started to rise again.

Most of the bad debt originates from companies from the manufacturing sector, which are followed by agricultural enterprises. The negative trend of asset quality is a key indicator to be observed in the future as it is closely related to other financial indicators.

The system-wide capital adequacy ratio (CAR) if measured by norms of the National Bank stood at 18.6% in the beginning of 2017 and remains thus above the regulatory norm of 10.6%. However, an asset quality review conducted in mid-2016 revealed that in a stress scenario, the capital adequacy ratio of the banking system would drop sharply (to 10.8%) compared to the level currently reported.

NPLs as a share of assets subject to credit risk

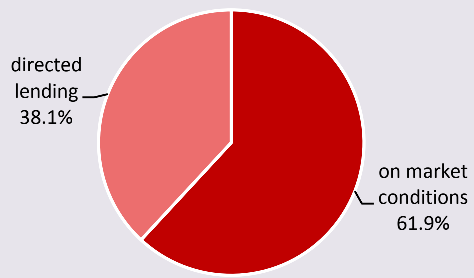


Source: National Bank of Belarus

Directed lending: Down, but not out

Directed lending by the government is a key channel of state influence on the Belarusian economy, with beneficiaries in the sectors of industry, agriculture and housing. However, this type of lending distorts the financial system as well as the real sector: In 2015, interest rates on directed loans amounted to 9%, while the non-subsidized borrowers paid 34% on average. Directed lending made up slightly less than 40% of the total loan book, with a decreasing tendency over the course of 2016.

Structure of bank loans as of 1 October 2016



Source: National Bank of Belarus

While hitherto commercial banks were used to execute this type of lending, the relatively new Development Bank became increasingly involved. Directed loans represent currently about one third of its total loan flow. In order to strengthen the market orientation of the banking sector, it would be necessary to further reduce directed lending and leave this task to the sole responsibility of the Development Bank.

Conclusion

The state-dominated structure of the Belarusian banking system, both in terms of ownership and still widespread directed lending is certainly not a new phenomenon. Such a model leaves only very limited room to private (including foreign) banks that compete with each other on a purely commercial basis.

A certainly new indictor is the steep rise in NPLs, which reflects the problems in the overall economic situation, but also points to the inefficiencies of a credit model that is based on policy interference. On the latter point, we do see some slight progress, as the share of such loans is declining only gradually, and the establishment of the Development Bank created a dedicated institution for such policy lending. However, more progress is needed on that front.

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Note: A more comprehensive analysis of the topic is provided by the Policy Briefing PB/02/2017 „Banking Sector Monitoring Belarus“
Available at: www.get-belarus.de

German Economic Team Belarus (GET Belarus)
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