NATIONAL BANK OF THE REPUBLIC OF BELARUS

FINANCIAL STABILITY IN THE REPUBLIC OF BELARUS

2008

MINSK, 2009

This publication has been prepared by the Banking Supervision Directorate
in concert with the Monetary Policy and Economic Analysis Directorate, Banking Operations Regulation Directorate, Monetary Operations Directorate, Balance of Payments and Banking Statistics Directorate, and Payment System Directorate
of the National Bank of the Republic of Belarus

CONTENTS

EXECUTIVE SUMMARY 4

CHAPTER 1. EXTERNAL AND INTERNAL MACROECONOMIC RISKS 6

CHAPTER 2. NON-FINANCIAL SECTOR 13

CHAPTER 3. FINANCIAL SECTOR 18

CHAPTER 4. FINANCIAL MARKETS 32

APPENDICES 41

EXECUTIVE SUMMARY

In 2008, economic development and financial stability of the Republic of Belarus was largely determined by the external economic factors. Favorable external market conditions in the first half of 2008 were conducive to sustaining high rates of domestic economic development and providing conditions for maintaining financial stability at year-end.

At the same time, falling consumption and prices for raw materials in the world economy, slowing economic development in the countries of the region, above all, in the Russian Federation, in the second half of the year brought about a decline in the demand for Belarusian exports in foreign markets and intensive growth of payment-balance deficit against the background of worsening access to its financing. Along with credit expansion, this created conditions for deepening imbalances in the domestic foreign exchange market and for intensifying pressure on the exchange rate of the Belarusian ruble and international reserves of the Republic of Belarus.

The financial condition of the enterprises of the non-financial sector of the economy in 2008 was characterized, on the whole, by growing sales, profit, and profitability and a declining number of loss-making and low-revenue-producing organizations. However, like in the preceding years, current and investment activities of non-financial organizations were largely financed at the expense of borrowed funds, mainly bank credit. As a result, debt burden on the enterprises of the non-financial sector continued mounting. At the same time, foreign investments inflow, above all, foreign direct investments, was insignificant.

Deteriorating economic conditions in foreign markets in 2008 Q4 had an adverse impact on the financial situation of export-oriented enterprises. Shrinking sales volumes and growing external accounts receivable, with the volume of output remaining the same as in the first half of the year, contributed to an increase in 2008 Q3 and Q4 in the finished-goods inventories, erosion of working capital, and a decline in the profitability of the enterprises of the non-financial sector.

Against the background of continued high rates of income growth in 2008, households were actively borrowing from banks, including in foreign exchange, while their propensity to save was declining. Elevated devaluation and inflation expectations changed households' preferences with respect to the currency of saving–in 2008 Q4, they began converting ruble deposits into foreign exchange ones and making more net purchases of foreign exchange.

Given shortage of resources whose maturities match granted credits as well as deteriorating terms of borrowing from non-residents of the Republic of Belarus, banks' intensive lending activity in 2008 increased the banking system's exposure to credit and liquidity risks and accelerated the growth of banks' nonperforming assets. As a result, the likelihood of disturbing stability of the banking sector's functioning increased, with the trends that existed in the non-financial sector of the Belarusian economy at end-2008 continuing.

Conclusions about growing vulnerability of the banking system to major risks, above all, credit and liquidity risks, are also supported by the updated results of Belarusian financial sector assessment made under the Financial Sector Assessment Program by a joint IMF/World Bank mission.

In 2008, major risks associated with the operations in the domestic financial markets were, on the whole, not big. Rising inflation in the country at a time when interest rates on credits and deposits remained virtually unchanged posed a major threat to the credit and deposit market. High concentration of borrowers had an adverse effect on the functioning of the inter-bank credit market. The securities market was exposed mainly to liquidity risk.

2008 saw smooth functioning of the payment system of the Republic of Belarus which ensured continuity of payments for all economic agents.

CHAPTER 1. EXTERNAL AND INTERNAL MACROECONOMIC RISKS

Beginning in the second half of 2008, slowing growth and declining consumption in the world economy as well as increasing instability in the global financial system adversely affected economic development of the countries-main trading partners of the Republic of Belarus, above all, the Russian Federation, creating prerequisites for the deterioration of external trade conditions.

In 2008, the world economy encountered one of the most serious economic and financial crises since the Great Depression of the early 1930s whose eruption was due, according to experts, to increasing instability and structural disproportions in the world economy and financial sphere. The financial crisis triggered by the problems in the US mortgage markets in 2006 continued unfolding in 2007 and 2008 and acquired a global nature adversely affecting financial systems of virtually all industrialized countries and the bulk of emerging economies.

The manifestation of financial instability was not limited to the losses sustained by financial organizations and disruptions of financial markets. Falling stock indices, declining world financial markets' liquidity, and appreciating bank credits contributed to the problems of financing not only investment projects but also current activity of enterprises, to the loss of credibility in the financial system, and to the emergence of uncertainty as to the global economic development outlook.

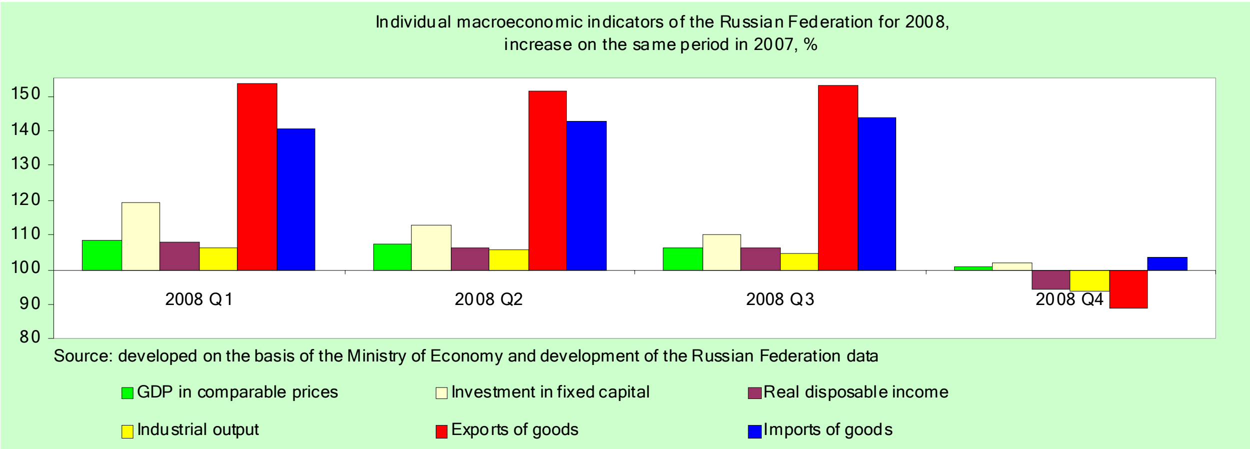
Emerging problems were exacerbated by declining consumption and output due to an excessive rise in prices for raw materials, energy, and food. The 2000-06 consumption boom that gave an impetus to the production of goods and services in major industrialized economies of the world created conditions for high rates of growth of demand and global prices for energy and raw materials. By mid-2008, prices for many commodities crucial to the global economy, especially oil and refined products, steel and raw materials used to produce it, reached the level adversely affecting total consumption and output. A subsequent fall in demand caused by slowing global consumption and shrinking export flows caused in the second half of 2008 a fall in prices for goods sensitive to fluctuations in output, in particular, oil and refined products, ferrous metals and products thereof.

Although the global community undertook stabilization measures–such as cutting central banks' benchmark interest rates, injecting liquidity, and recapitalizing systemically important credit and financial organizations, as well as restructuring the national financial systems and using additional deposit guarantees–declining volumes and rising cost of external financing of the global economy's real sector led to a slower rate of world economic growth, lower investment activity, and employment.

By the end of 2008, the world economy was facing a full-blown economic crisis which manifests itself in slower growth rates against the backdrop of increasing inflation, climbing unemployment, and worsening financial condition of enterprises of the real and financial sectors of the economy and households. The world's gross domestic product calculated on the basis of the methodology of the IMF's world economic development report grew in 2008 by 3.4% compared with 5.2% in 2007, including by 1% in the industrialized countries and 6.3% in the developing countries. The world's trade in goods and services increased in 2008 by 4.1% compared with 7.2% in 2007. Consumer prices rose by 3.5% in the industrialized countries and by 9.2% in the developing countries compared with 2.1% and 6.4% in 2007 respectively.

By virtue of structural peculiarities of the Belarusian economy that make it export-oriented and substantially dependent on technology and raw materials imports, the dynamics of the main macroeconomic indicators and the situation in the economy and monetary sphere have traditionally been under the influence of the developments in the regional economy, above all, in the Russian economy.

As a result of a combination of crisis phenomena in the world economy and domestic factors of vulnerability to external shocks, in the second half of 2008 the rates of GDP growth, industrial output, and investment in fixed capital in the Russian Federation slowed; financial condition of enterprises deteriorated; household income growth slowed down; actual and latent unemployment as well as inflation increased; and inflationary and devaluation expectations intensified.



The balance of payments of the Russian Federation showed a sharp change in the trends observed in recent years. The overall net outflow of private capital exceeded its inflow in 2005-07, which, even against the background of record-high current account surplus, gave rise to a decline in international reserves–a development not seen since 1998.

In the Republic of Belarus, favorable trends in economic development in the first half of 2008 were conducive to maintaining positive, on the whole, dynamics of the main macroeconomic indicators at year-end and sustaining relative financial stability in 2008.

In the first half of 2008, thanks to rising prices for raw materials, foreign trade conditions were improving, rates of goods and services export growth were consistent with those of import growth, and foreign trade was growing both in physical quantities and value terms. Owing to favorable foreign economic conditions and increasing domestic demand which was largely due to growing real monetary incomes of households, bank lending, and budgetary financing, the bulk of the industries saw their real sales volumes, trading and net profit increasing.

Profitability was rising, the number of loss-making enterprises and organizations continued to decline, and mutual non-payments diminished. Current paying capacity of enterprises was improving as a result of an increase in monetary funds in banks accounts and a decrease in overdue payables.

The main indicators of bank's performance were growing positive, and the key targets of monetary and foreign exchange policies were met. Increasing volumes of idle money available to economic entities contributed to the growth of bank deposits and attracted credits which, in turn, caused an increase in investment and demand for investment commodities both in the domestic and foreign markets. Despite an insignificant decline in propensity to save, continued growth of households' real monetary income was responsible for positive dynamics of natural persons' bank deposit growth. The share of deposits in the national currency was rising, and the sale of foreign exchange was exceeding its purchase which indicated, on the whole, that households maintained their confidence in the banking system and the Belarusian ruble.

2008 saw continued growth of GDP, industrial output, investment in fixed capital, real monetary incomes, and employment. Also, key targets of socio-economic development were met, the country ran a consolidated budget surplus with inflation rising slightly due to increasing prices for energy and other imports as well as growing budget expenditure and lending to the economy.

This, in turn, created conditions for maintaining relative financial stability in 2008 characterized by sustained functioning of financial markets, lack of sharp movement of prices for financial assets, relatively stable financial condition of banks, smooth settlements in the economy, and the functioning of the system of savings and lending to the economy.

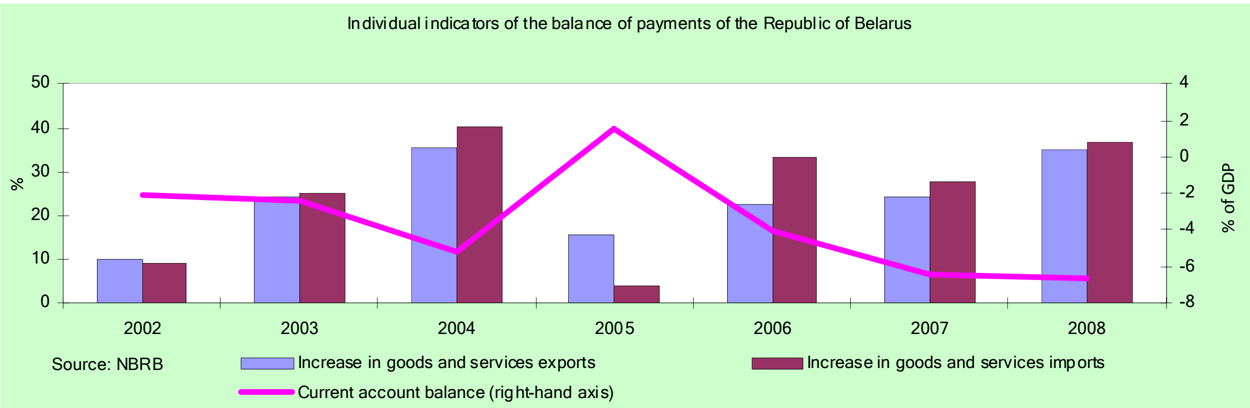
According to preliminary estimates, GDP in 2008 grew by 10% in comparable prices which was mainly the result of expanded domestic consumption and investment demand. The index of physical volumes of industrial output rose by 10.8% in 2008 compared with a year earlier. Investment in fixed capital increased by 23.1% in comparable prices from a year ago, up by 6.9 percentage points.

In spite of growing demand for external financing in the second half of 2008, external debt of the Republic of Belarus did not undergo significant changes. According to preliminary data, as at January 1, 2009, the economy's debt obligations increased by 18.6% compared with the beginning of the year amounting to USD14.8 billion. Thus, total external debt was growing at a slower rate–in 2007 it increased by 82.5%.

As at January 1, 2009, the ratio of external debt to GDP was 24.6%, down from 28.2% at the beginning of 2008. The share of short-term obligations in the structure of external debt fell from 62.9% at the beginning of 2008 to 53.6% as at January 1, 2009. Overall, despite growing volumes of external debt, its relative level shows a moderate, for the economy, increase in external obligations.[1]

In the second half of 2008, declining consumption and slower economic growth in the global economy and economies of the region as well as falling prices for raw materials created an environment for a drop in the demand for Belarusian exports in the foreign markets, the widening of the balance of payments deficit, and the worsening of conditions for its financing.

The benign foreign trade environment in the first half of 2008 was followed by a sharp decline in foreign demand in 2008 Q3 and deterioration in foreign trade conditions in 2008 Q4. In spite of the fact that foreign trade climate[2] in 2008 as a whole was benign, the trade conditions index in 2008 was 111%, or 110.5% excluding energy. A fall in export prices in Q4 at a rate surpassing that of import price decline resulted in their gradual deterioration.



1 The main factors that contributed to the stabilization of the external debt structure were continued high rates of economic growth and attraction of long-term credit from the Government of the Russian Federation.
2 As measured by the ratio of the export and import price indices to the same period a year earlier.

The balance of foreign trade in goods in 2008 was unfavorable amounting to USD6.1 billion, a rise of 50.1% over the past year, with an adverse balance growth by 96.9%, or by USD2 billion, coming from non-energy operations. The balance of foreign trade in energy remained virtually unchanged compared with 2007, amounting to minus USD1.8 billion, or 103.8% of the 2007 level.

Physical volumes of commodity exports in 2008, which exceeded those in 2007 by USD8.7 billion, or by 35.8%, in terms of value, grew at year-end by a mere 2.5% for non-energy and by 0.6% for energy commodities. While at the end of the first half of 2008 physical volumes of non-energy commodities amounted to 110.7% of the level in the same period of 2007, in Q3 they increased by only 2.5% in volume terms, falling in Q4 by 21.6% due to a sharp decrease in foreign demand triggered by the deepening financial crisis.

Commodity imports increased in 2008 by USD10.7 billion, or by 37.9%, exceeding the 2007 level, with energy commodities purchases increasing by nearly 36.5% of the entire imports, intermediate non-energy commodities by 40%, investment commodities by 9.6%, and consumer commodities by 13.9%. Physical volumes of energy imports grew 9.4%, while those of non-energy imports rose by 17%.

At year-end, rates of import growth in natural values fell amounting at the end of Q4 to 109.5%. The biggest decline was in the intermediate and investment commodities, while consumer goods imports increased. Where in January-September 2008 physical volumes of consumer goods imports amounted to 108.4% compared with the same period in 2007, in the whole of 2008 they were 110.9%, with intermediate and investment goods imports declining by 5.1 and 3 percentage points respectively.

Traditionally positive services balance stood at USD1.7 billion, a 32.9% increase on 2007 resulting from the outstripping growth of services provided to non-residents–exports of services rose by 29.9%, imports by 28.1%, with 27.2% of the trade balance deficit being offset by the services balance.

According to preliminary data, the balance of payments’ current account deficit in 2008 was USD5 billion, up by 66.2% on a previous year. This deficit was financed at the expense of inflowing capital and financial resources in the amount of USD3.9 billion, down by 26.1% on a previous year due to a decrease in capital inflows of financial account. Capital account–capital transfers, purchase/sale of unmanufactured non-financial assets–was positive ensuring the inflow of capital totaling USD143.2 million, up by 55.3% compared with 2007.

Shrinking capital inflows of financial account were caused by declining inflows under items of other investment–commercial credit, credit and loans, cash money, accounts, deposits, etc–by 53.1%, to USD1.6 billion, while capital inflows under the direct investment item grew by

21.1%, to USD2.1 billion. Over 40% of capital attracted under the direct investment item was assured through the sale of shares of JSC Beltransgaz and CJSC BeST.

The main contributors to shrinking net inflows of other investment were net outflows under the commercial (trade) credit item in the amount of USD49.6 million in 2008 against net attraction in the amount of USD690.2 million in 2007, as well as under credit and loans a 41.1% decrease of inflow, or nearly USD1.5 billion. Said attraction of capital was hampered by declining liquidity in the external markets due to the widening global financial and economic crisis.

In the whole of 2008, the balance of payments deficit was USD1,002.8 million which caused a decrease in the gross reserve assets compared with the beginning of the year.

Slowing rates of exports growth (with the rates of imports growth unchanged) and widening balance of payments deficit were conducive to the emergence of unbalanced demand for and supply of foreign exchange in the domestic market in 2008 Q3 and Q4 and an increase in the pressure on the exchange rate of the Belarusian ruble and international reserves.

Beginning in August 2008, demand for foreign exchange in the domestic foreign exchange market was accumulating. The balance of foreign exchange purchase by the market participants was positive in the amount of USD4.3 billion[3], whilst in 2007 demand exceeded supply by USD310.3 million.

Resident economic entities purchased USD3.8 billion more than sold (in 2007, net sale was USD146.4 million). An increase in net demand for foreign exchange in September-December 2008 on the part of economic entities was due to the foreign trade deficit, contracting volumes of net inflows of external capital into the non-financial sector (with growing demand therefor), as well as increasing receivables and regulatory arbitrage associated with the ban on the purchase of foreign exchange for making advance payments for imports.

In October-December 2008, households purchased on a net basis, using cash and non-cash transfers, USD1.3 billion, while in January-September they sold, on a net basis, USD764.8 million. Growing purchases of foreign exchange were largely due to the conversion of deposits denominated in the national currency into foreign exchange in cash: between October 22, 2008 and January 1, 2009 total deposits withdrawn from banks amounted to 16.5%, or 1.5 trillion Belarusian rubles, the equivalent of USD712.4 million.

[3] Save the Ministry of Finance’s and the National Bank’s operations.

Declining demand for domestic products in the external markets, shrinking inflows of foreign exchange proceeds, with demand for foreign exchange to pay for technological imports in October-December 2008 being invariably high, and growing imbalance in the domestic foreign exchange market exerted pressure on the exchange rate of the Belarusian ruble and international reserves of the Republic of Belarus. Following a gradual decline in January-October 2008 from 2,150 Belarusian rubles to 2,111 Belarusian rubles per US dollar, the BYR/USD exchange rate in November-December 2008 increased to 2,200 Belarusian rubles per US dollar as at January 1, 2009.

As a result of the monetary authorities’ operations designed to keep the exchange rate of the Belarusian ruble within the forecast range, international reserve assets of the Republic of Belarus on the international definition fell in 2008 by 36.6%, declining in January-October by 3.2% and tumbling by 32.4% in November-December 2008.

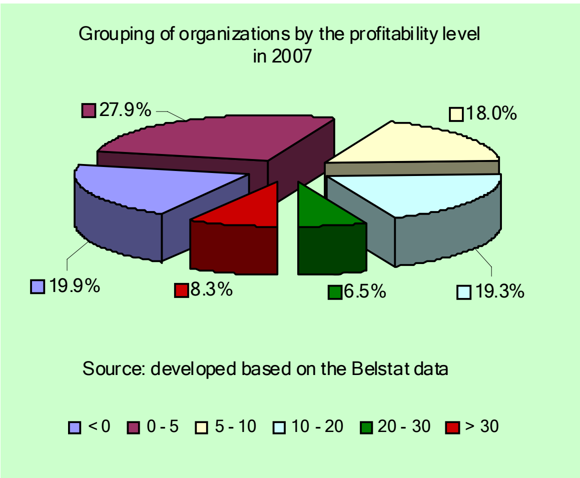
CHAPTER 2. NON-FINANCIAL SECTOR

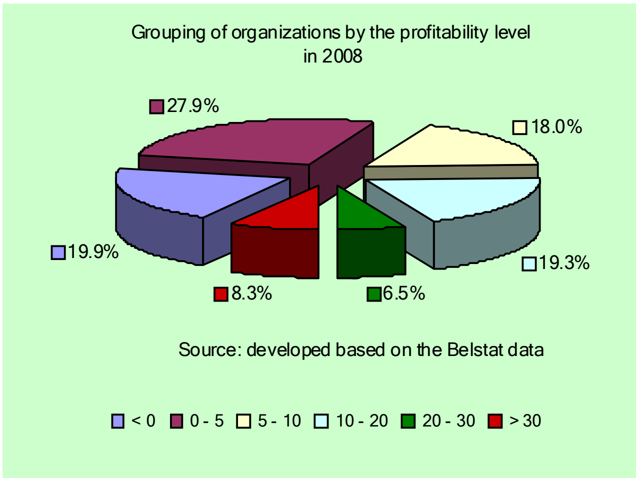
In the whole of 2008, the financial condition of the enterprises of the non-financial sector was characterized by increasing real volumes of sale, growing profit and profitability, and declining numbers of loss-making organizations.

In the year under review, non-financial organizations sold products, goods, works, and services worth 271.5 trillion Belarusian rubles, up by 33% on a year earlier, assuring significant growth of real (adjusted for the GDP deflator) volumes of all profit indicators: profit from the sale of products, goods, works, and services in the economy as a whole increased by 29.2%; profit before tax by 34%; and net profit by 41.4%.

In 2008, the share of loss-making organizations[4] continued to decline (their share in the total number of organizations amounted to 4.8% compared with 6.3% in 2007), but the sum of net loss of loss-making organizations increased by 15% to 568.7 billion Belarusian rubles.

As a result of the rate of growth of profit from the sale of products (155.7%) outstripping that of the production cost of the sold products (129.2%), profitability of sold products, works, and services grew from 11.8% in 2007 to 14.2% in 2008. At the same time, the share of non-profitable and low-revenue-producing enterprises (whose profitability ranged from 0% to 5%) remained high in the economy as a whole–42.2%. It was the highest in agriculture (59.1%) and the lowest in construction (31.9%).

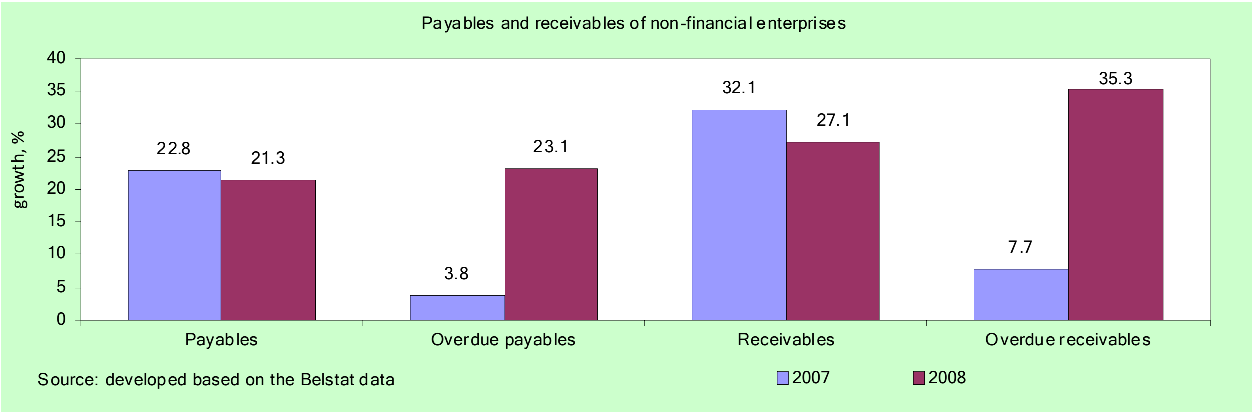




Of the total amount of economic entities' proceeds in 2008 the unpaid proceeds constituted 4% and the settlements in the non-monetary form 4.2% (22.3 trillion Belarusian

[4] In terms of net loss.

rubles of the proceeds in the monetary form not received in full). This was one of the factors restricting the transfer of monetary funds to economic entities' accounts and adversely affecting current settlements in the economy.



Due to a faster growth of enterprises' overdue receivables and payables, overdue debt in total debt was increasing and the proportion of enterprises with overdue debt remained high. As of end 2008, payables amounted to 38.6 trillion Belarusian rubles, increasing over the year by 21.3%, with receivables increasing by 27.1% to 31.2 trillion Belarusian rubles. At year-end, 55% of organizations had overdue payables and 65.5% overdue receivables (of which 83% and 88.3% of organizations, respectively, had overdue payables and receivables exceeding three months).

The trend towards expanding the financing of current and investment activities of the organizations of the non-financial sector at the expense of borrowed funds that had previously emerged continued into 2008, resulting in the continued increase in debt burden in the sector of non-financial enterprises.

In 2008, total payables[5] increased by 29.1%, amounting at the end of the year to 76.8 trillion Belarusian rubles, or 59.6% of GDP. Banks' credits which grew by 41.7% accounted for its major share (over 40%).

Vigorous borrowing from banks caused further increase in debt burden on non-financial organizations. The ratio between the average annual credit amounts owed to banks and enterprises' proceeds of goods sales over the year increased from 8.5% to 9.6%. Such trend (typical of the economy as a whole as well as of the main industries) which has been continuing for the last few years contributes to the permanent growth of risks to financial stability, especially in view of the signs of deteriorating financial condition of the enterprises of the non-financial sector observed in late 2008.

[5] Payables and credit and loan amounts owed.

Worsening economic situation which manifested itself, above all, in a significant decrease in the demand and prices for products, works, and services of Belarusian enterprises in the foreign markets in 2008 Q4 had an adverse effect on the financial standing of the organizations of the non-financial sector.

Falling sales of export-oriented enterprises' products, shrinking foreign exchange proceeds, and growing non-residents' receivables (with the forecasted rates of production growth remaining unchanged) were conducive to an increase in the finished-goods inventories, erosion of working capital, creation of preconditions for the deterioration of the financial standing of enterprises, and the reduction of balances of their accounts with banks in 2008 H2.

As at January 1, 2009, the finished-goods inventories of industrial enterprises amounted to 4.9 trillion Belarusian rubles, increasing in 2008 by 55.5% (against a 25.6% increase in 2007). With respect to the average monthly output they amounted to 61.1% compared with 53% as at January 1, 2008.

Difficulties related to the sale of industrial products in October-December 2008 led to a significant impairment of enterprises' financial indicators. Where in September 2008 the profitability of the sold products amounted to 14.6%, in the subsequent months it tumbled to 11.5% in October, 8.7% in November, and 6.6% in December 2008. Overdue payables grew mainly at the end of 2008. Where in January-September they grew by 7.4%, in Q4 they increased by 14.6%.

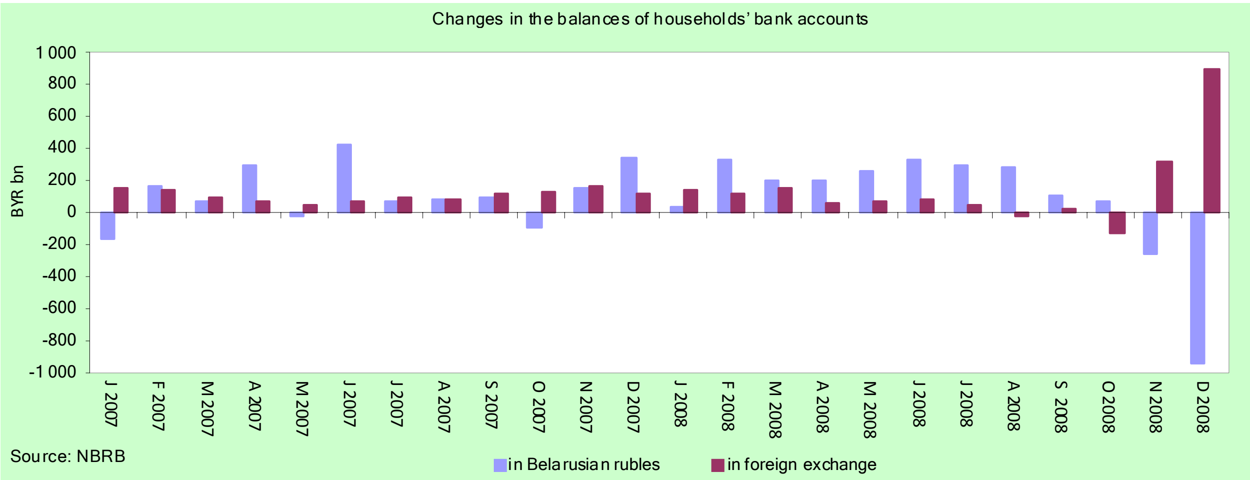
Enterprises monitoring data evidence that since July 2008 (especially, in September-December 2008) the economic conditions tended to deteriorate, which became apparent, above all, in a significant decrease in the demand and prices for products (works, and services) of the enterprises subjected to monitoring in the foreign markets. The enterprises noted that their economic standing was getting worse due to a decline in the working capital, as well as balances of their accounts and net profit. Moreover, overdue receivables and payables and demand for skilled personnel were growing, while access to bank credit was made more difficult.

If the trends that were taking shape in late 2008 persist they might cause not only a significant deterioration in the financial condition of the enterprises of the non-financial sector, but affect sustainability of other sectors of the economy. In such case, the risk of financial instability in the Republic of Belarus may substantially increase.

With propensity to consume still high in 2008, households' credit amounts owed were growing faster than income, which, in turn, gave rise to a further increase in households' debt burden.

Continued growth of household incomes–by 29.4% in nominal terms and by 12.7% in real terms[6]–provided greater opportunities for natural persons to save. But rising inflation and related increase in inflationary expectations, attractive lending conditions, relatively lenient bank requirements to the borrowers (in 2008 Q1-Q3), and worsening situation in the foreign exchange market of the country (in 2008 Q4) stimulated the growth of current consumption.

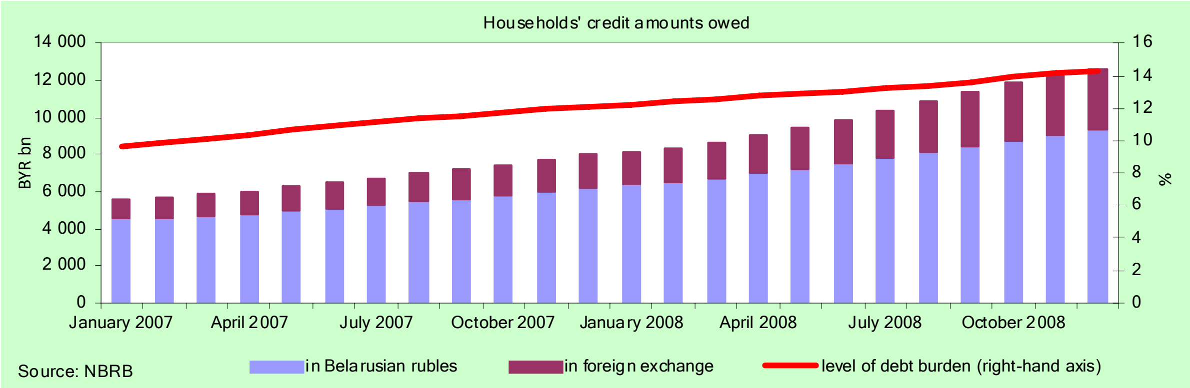
Propensity to save, i.e. the ratio of growth of all monetary savings to monetary income, decreased from 7.9% to 7.2%. 2008 was peculiar, especially at year-end, in that households changed their preferences as to the currency of savings. The balances of households' bank accounts in the national currency increased by a mere 13.9%, while foreign currency deposits grew by 42.9%. As a result, the share of the deposits denominated in Belarusian rubles in the total households' funds with banks dropped in 2008 from 64.2% to 58.3%.



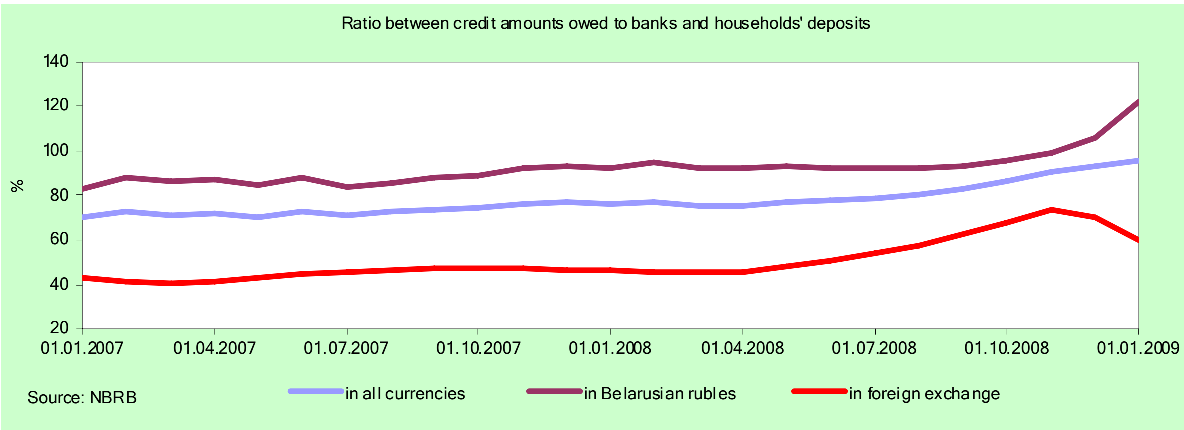
In 2008, households continued to actively borrow from banks, including in foreign exchange, in order to meet the increasing demand for consumer goods, to finance construction,

[6] Adjusted for the CPI.

and to purchase real estate. Natural persons' credit amounts owed to banks increased by 58%, including in Belarusian rubles by 50% and in foreign exchange by 86.4%. As a result, households' debt burden[7] rose in 2008 from 12.1% to 14.3%, remaining, however, at a relatively low level.



Dynamic expansion of lending in foreign exchange due to the strained position in the foreign exchange market which occurred in 2008 Q4 implies higher risks for the banking sector, since, should devaluation accelerate, borrowers with no foreign exchange income may face the problem of repaying accrued credit amounts owed.



Notwithstanding the fact that in 2008 the pace of credit growth continued to outstrip that of deposit growth, the level of household savings was still covering their debt to the banking sector in full. As at end of 2008, the ratio between households' credit amounts owed to banks and bank deposits was 95.8%, increasing over the year by 19.8 percentage points.

---

[7] Ratio of the average annual credit amounts owed to the disposable income of households earned over the year.

CHAPTER 3. FINANCIAL SECTOR

In 2008, banks continued to play a dominant role in financial intermediation and the share of non-residents in the capital of the Belarusian banking system increased.

In 2008, the financial sector of the Republic of Belarus did not experience any material institutional changes. As at January 1, 2009, the ratio of the broad money supply to GDP, which characterizes the general level of development of the financial sector and the economy as a whole, was 24%, remaining virtually unchanged compared with January 1, 2008. In 2008, aggregate assets of the financial sector[8] accounted for 42.57% of GDP[9], with more than 97% belonging to banks and less than 3% to insurance companies.

As at January 1, 2009, the Republic of Belarus had 31 operating bank. The share of Government agencies and state entities in banks' aggregate authorized capital was 80.5%, the share of foreign investment 17%, and the share of other investment 2.5%. As at January 1, 2009, nine banks had individual international ratings, of which seven had Fitch's ratings, six Moody's Investors Service's ratings, and one Standard & Poor's rating.

The increasing interest of foreign investors to the financial sector of the Republic of Belarus in 2008 resulted in the growth of non-residents' share in banks' aggregate authorized capital by 5.2 percentage points and an increase in the number of banks controlled by foreign investors from 17 percentage points to 20 percentage points, with the simultaneous decrease in the share of Government agencies and state entities by 5.7 percentage points and in the share of non-state residents by 1.4 percentage points (the number of private banks[10] increased over the year from five to six).

The level of concentration in the banking sector in 2008 changed insignificantly. As at January 1, 2009, five largest banks accounted for 85.1% of the assets and 82.2% of the banking sector's capital (as at the beginning of 2008, 86% and 84.2% respectively).

---

[8] Banks' and insurance companies' assets.
[9] The chronological mean of banks' and insurance companies' assets in percentage of nominal GDP.
[10] Here and hereinafter:

State-owned banks (SOB) - a group of banks with the predominant share of Government agencies and state entities in the authorized capital.

Foreign banks (FB) - a group of banks with the predominant share of foreign capital in their authorized capital.

Private banks (PB) - a group of banks not included in SOB and FB groups.

Large banks (LB) - a group of banks whose share of assets exceeds 5% of total assets of the banking sector.

Medium banks (MB) - a group of banks whose share of assets exceeds 5% of assets of banks not included in LB group.

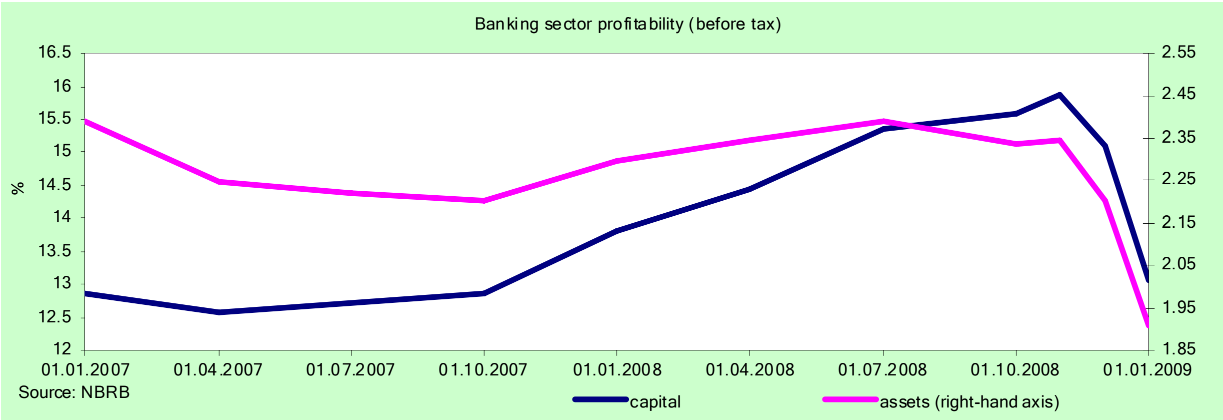
Small banks (SB) - a group of other banks not included in LB and MB groups.

As at January 1, 2009, the Herfindahl-Hirschman[11] index calculated on the basis of data about assets was 0.2363 (0.2265 as at January 1, 2008), while the Gini index was 0.821 (0.796).

As at January 1, 2009, 24 insurance companies, whose capital amounted to 1,423.7 billion Belarusian rubles (or 1.1% of GDP) and assets to 2,150.1 billion Belarusian rubles (or 1.7% of GDP), operated in the insurance market of the Republic of Belarus. The Herfindahl-Hirschman index for the insurance sector calculated based on the indicator of insurance premiums received, including re-insurance, stood at 0.353 in 2008, while the Gini index[12] calculated based on the same indicator was 0.782, which suggests that concentration of the insurance market in the Republic of Belarus is still high.

In 2008, dynamics of the banking sector's efficiency indicators showed, on the whole, an upward trend, but in November-December 2008 the profit of banks started to decline and their profitability worsened.

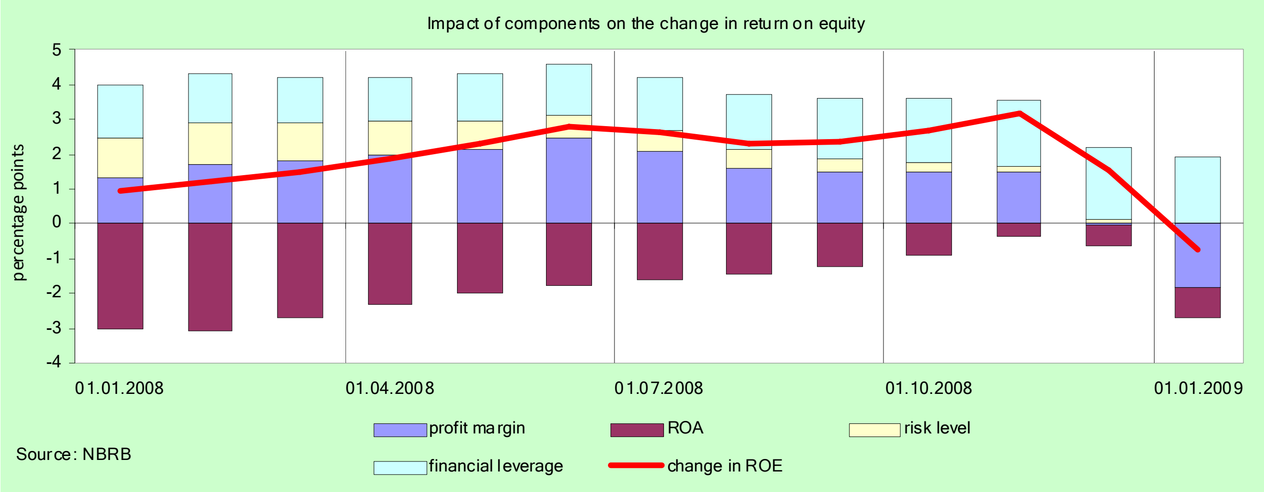
Total profit of the banking sector in 2008 amounted to 732.8 billion Belarusian rubles, up by 21.7% on a year earlier. Over the period between January 1 and November 1, 2008, return on assets (before tax) increased from 2.30% to 2.35% and return on equity (before tax) from 13.8% to 15.9%. In November 2008, return on equity dropped by 0.8 percentage points and return on assets by 0.14 percentage points. In December 2008, the above-mentioned indicators tumbled due to shrinking bank profit and significant growth of the banking sector's capital and assets, including the increase in the state contributions to the authorized capital of four state-owned banks.



[11] The Herfindahl-Hirschman index reflects the degree of concentration of the indicator. Its value ranges from 0 to 1. Value 0 corresponds to minimum concentration, less than 0.10 to a low level of concentration, from 0.10 to 0.18 to an average level of concentration, and over 0.18 to a high level of concentration.

[12] The Gini index makes it possible to estimate how equally one variable or another is distributed among the participants. The Gini index of zero is an indication of the participants' equality and a Gini index of 1 is an indication of total concentration, i.e. one participant is endowed, in this case, with all values of a variable.

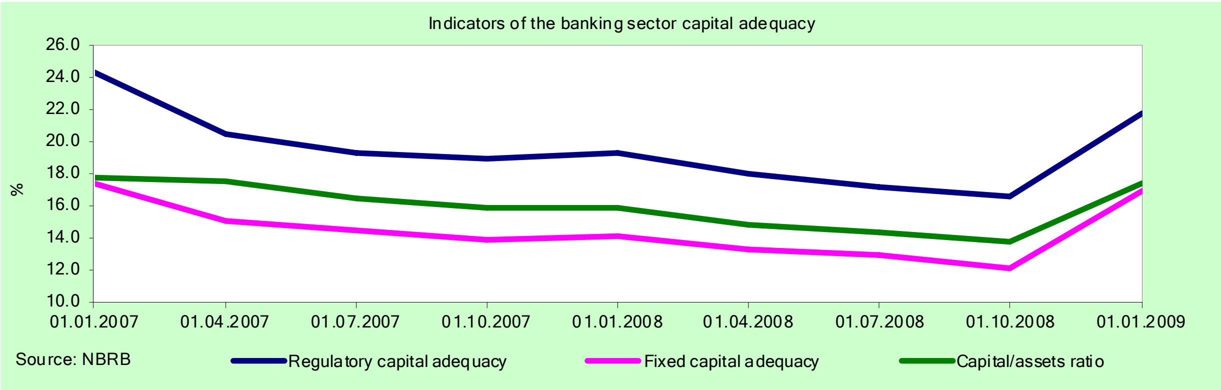
Identification of component parts in the structure[13] of return on equity shows that decreasing profit margin was the main factor responsible for the decline in this indicator.



Faster growth of assets operations compared with bank's regulatory capital growth made the banking sector more vulnerable to major bank risks.

Over 2008, the rates of growth of risk-weighted assets and off-balance sheet liabilities were significantly outstripping the rates of own capital increase by banks, amounting to 53.6% (in 2007, to 60%). The outstripping growth of asset operations, mainly due to banks' lending activities, made it possible to reduce the regulatory capital ratio from 19.3% at the beginning of 2008 to 16.4% by December 2008, the requirement for individual banks being 8%.

The decline in the capital adequacy indicators was most evident in the five largest state-owned banks of the country. Given this, a decision on the additional capitalization of the largest state-owned banks for the purpose of preventing systemic instability in the banking sector was taken in December 2008. Total state investments in the authorized capital of these banks amounted to 3.1 trillion Belarusian rubles (or around USD1.4 billion, in the equivalent).



---

[13] Four components can be identified in the structure of return on equity: profit margin, return on risk-weighted assets, risk level, and financial leverage. Profit margin is the ratio of profit (before tax) to net income from banking activity; return on risk-weighted assets is the ratio of net incomes from banking activity to risk-weighted assets; risk level is the ratio of risk-weighted assets to total assets; and financial leverage is the ratio of assets to capital.

State investments together with the expanded participation of foreign capital in the banking sector resulted in the material growth of regulatory capital in the whole of 2008–by 73.3% (by 26.7% in 2007), as well as in the improvement of its quality. The ratio of additional capital to core capital dropped from 25.1% as at the beginning of 2008 to 17.9% as at January 1, 2009. At the beginning of 2009, the banking sector's capital adequacy ratio was 21.8%.

High level of banks' lending in 2008 against the background of worsening financial condition of the enterprises of the non-financial sector and households in 2008 H2 was conducive to the growing exposure of the banking sector to credit risk. Banks' nonperforming assets grew as well.[14]

In 2008, banks' lending was considerable: credits granted to households grew by 58.6%; and to the enterprises of the non-financial sector by 57.4%. During virtually the whole of 2008 the rates of banks' credit operations growth were constantly accelerating, and only in the last months of the year they were slightly slowing. For example, where on January 1, 2008, the growth (during 12 months) of the banking sector's assets exposed to credit risk was 47.5%, by November 1, 2008 it amounted to 62.2%, decreasing by the end of 2008 to 53.7%.

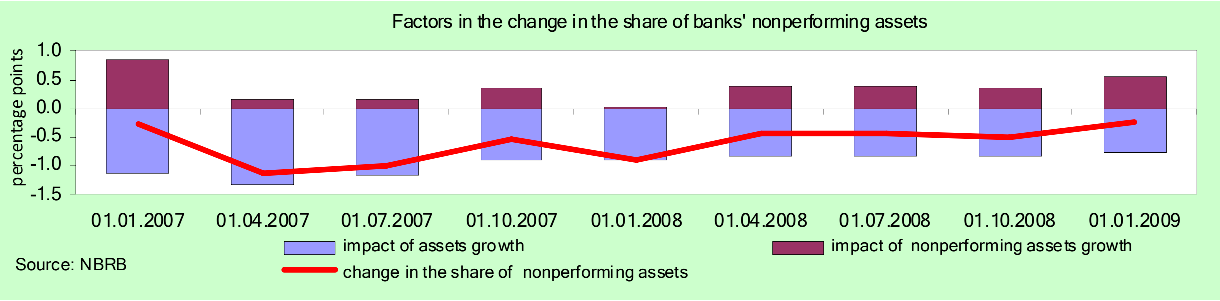
The structure of assets exposed to credit risk saw an increase in the share of debt of the enterprises operating in the construction and agricultural sectors. Lending to these industries was significantly outstripping the growth of credit amounts owed by enterprises of other types of activities, the growth rates being 92.9% and 66.0% respectively.

However, while the concentration of banks' credit portfolio in the construction industry is still insignificant (as at January 1, 2009, its share accounted for 4.4%), the debt of agricultural enterprises accounted for 19.7% (nearly one-fifth of the credit portfolio).

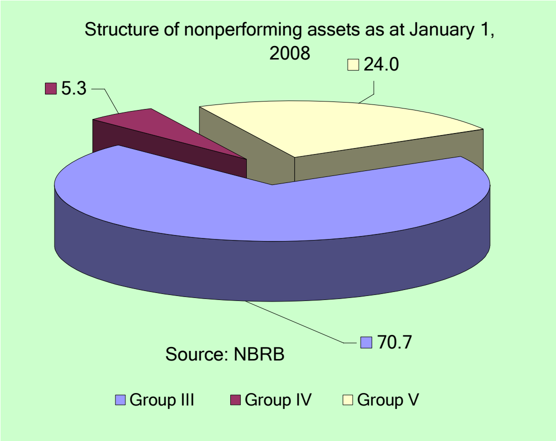
[14] Since the approaches to the classification of nonperforming assets used in the Republic of Belarus differ from the internationally accepted practice, their actual level is likely to be undervalued.

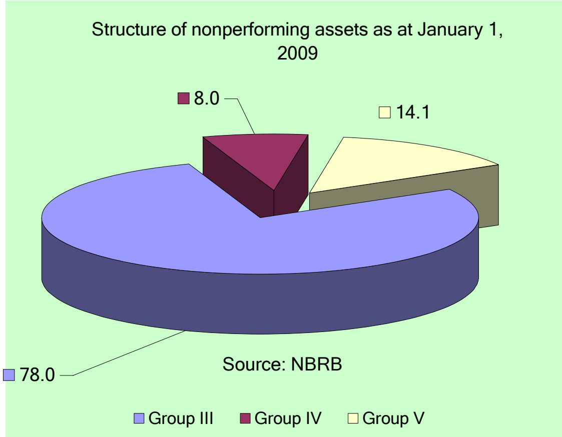
In 2008, growth of banks' assets exposed to credit risk was accompanied by an increase in legal (excluding banks) and natural persons' bad debt by 180.0 billion Belarusian rubles, or by 29.4%, and by 48.6 billion Belarusian rubles, or a 2.6 times increase, respectively, including bad debt on credits extended to industrial enterprises by 121 billion Belarusian rubles and to the agricultural sector by 45 billion Belarusian rubles. The most drastic deterioration in the quality of the banking sector's assets occurred in late 2008: in November-December 2008, nonperforming assets grew by 125 billion Belarusian rubles, exceeding their increase in the three preceding quarters.

As at the beginning of 2009, nonperforming assets[15] amounted to 873 billion Belarusian rubles, increasing in 2008 by 34.5%, while in 2007 their growth was close to zero (0.3%). Despite the increase in the nominal volume of bad debt, high rates of growth of the assets exposed to credit risk resulted in further decline in the share of nonperforming assets from 1.92% as at January 1, 2008, to 1.68% as at January 1, 2009.



In 2008, the indicator characterizing the general level of the banking sector's exposure to credit risk[16] remained high, ranging between 69.3% and 72.0% (59.7% as at the beginning of 2007).





In late 2008, the assets classified under Group III were still dominant in the structure of nonperforming assets. At the same time, their share increased from 70.7% to 78.0% compared

15 Assets classified under Groups III, IV, and V for the purpose of creating a special reserve.
16 The ratio of credit risk-weighted assets to calculate regulatory capital adequacy to assets.

with early 2008. The structure of nonperforming assets changed mainly due to mounting problems related to the repayment of credit amounts owed by the borrowers at the end of 2008 and their corresponding classification by banks under Group III.

As at January 1, 2009, the analysis of banks' sensitivity to the potential worsening of their credit portfolio quality showed that the banking sector was still highly vulnerable to credit risk.

The increase in the share of banks' nonperforming assets by 5, 10, and 15 percentage points (under the assumption that the structure of nonperforming assets would remain in the proportions close to the actual stakes) as well as a corresponding increase in the share of Group II assets were used as an initial shock.

If the worst-case scenario materializes, only in three banks (which account for 11.1% of the banking sector's assets) the capital adequacy ratio would be lower than the prescribed 8%, while in the banking sector as a whole it would be rather high.

At the same time, banks' losses would exceed their annual profit 5.5 times (in case of the weakest shock 1.8 times). It should be noted that in 2008 this ratio increased.

Stress testing results (the worst-case scenario)

Indicators	01.01.2008	01.10.2008	01.01.2009	Change	
				over the quarter	over 12 months
Capital adequacy ratio, %					
Actual	19.3	16.5	21.8	5.3	2.5
Calculated	11.7	8.9	15.3	6.4	3.6
Change	-7.7	-7.6	-6.5	-1.1	-1.2
Losses versus profit over 12 months, times					
Ratio	4.86	4.85	5.46	0.61	0.60

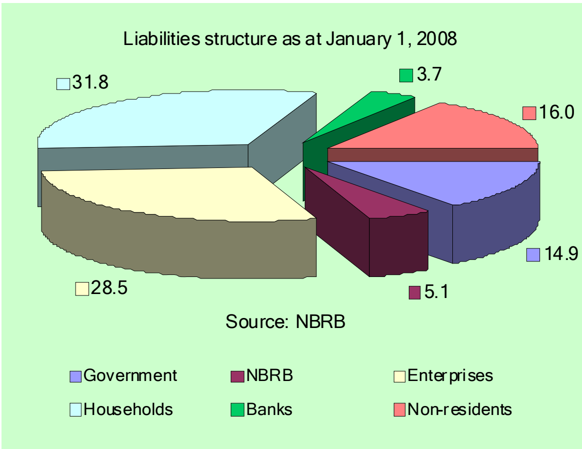
Detailed results of stress testing are shown in the Appendix.

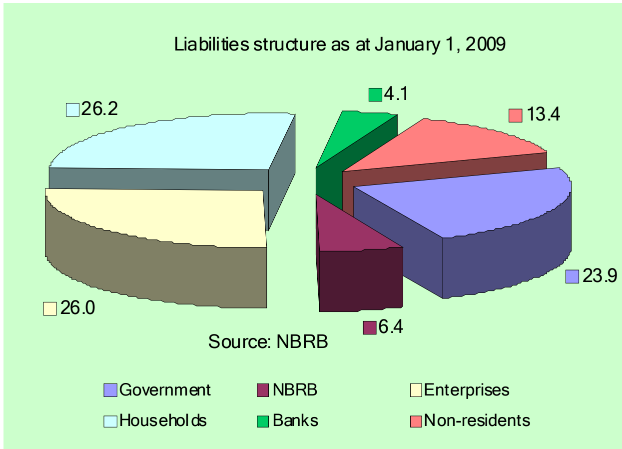
As the quality of assets deteriorated, banks were making provisions designed to cover potential losses on assets exposed to credit risk. As at January 1, 2009, they grew up to 528.6 billion Belarusian rubles, amounting to 97.9% of the minimum calculated amount. According to the National Bank's decision, in December 2008 banks started to make provisions for Group I assets classified to make special provision in the amount of 0.5% of their value. As at January 1, 2009, said provisions amounted to 82.4 billion Belarusian rubles. The ratio of nonperforming assets (less the actual reserve) to regulatory capital remained virtually unchanged in the whole of 2008. As a result of the expansion of nonperforming assets this indicator ceased growing in 2008 Q4 due to increasing capitalization of the banking sector.

Given shortage of liabilities matching granted credits by maturities, banks' credit expansion, including under Government programs financing, gave rise to the growth of liquidity risks in the banking sector in 2008.

Banks' intensive lending to the economy in 2008 resulted in a further, and rather drastic, increase in maturity mismatch of banks' claims and liabilities. In 2008, the share of banks' long-term (over one year) liabilities fell to 30.1% by December 1, 2008, with the simultaneous growth in the share of the long-term component of the assets which amounted to 53% as at January 1, 2009.

As a result, the gap between long-term assets and liabilities widened, as at December 1, 2008, to 14.3 trillion Belarusian rubles (23.1% of assets). The mismatch between short-term assets and liabilities amounted to 4.9 trillion Belarusian rubles by December 2008, increasing 6.2 times compared with the beginning of the year.





In contrast to 2007, banks' borrowing from non-residents of the Republic of Belarus which was an important source of expanding internal lending and maintaining liquidity of the banking sector declined in 2008.

The increase in January-June 2008 in the obligations to non-residents by USD870 million was followed in the subsequent months by their decrease by USD280 million. On the whole, resources attracted from non-residents increased in 2008 by 26.8% only, a three times drop compared with their growth in 2007.

Additional difficulties for and increased risks to banks in 2008 were caused by the fact that the bulk of the resources attracted from non-residents was borrowed short. In 2008, the share of liabilities with up to a 12-month maturity amounted to between 60% and 65%. In this connection, banks faced the need to refinance earlier credits.

The analysis of banks' sensitivity to the outflow of non-residents' funds based on the data as at January 1, 2009, revealed a further increase in the banking sector's vulnerability to liquidity risk.

The sensitivity was assessed based on the assumption that non-residents' funds would flow out in the amount of 10%, 25%, and 50%.

If funds attracted from non-residents in foreign exchange outflow in the amount of 50%, a lot of individual banks (19) and the banking sector as a whole would face foreign exchange liquidity squeeze. All ratios (excluding the instant liquidity ratio) calculated on the basis of data about the banking sector's assets and liabilities in foreign exchange would be lower than the corresponding requirements.

At the same time, 14 banks (whose assets account for 49.5% of total assets) would be lacking adequate liquid assets in foreign exchange to repay their liabilities upon request.

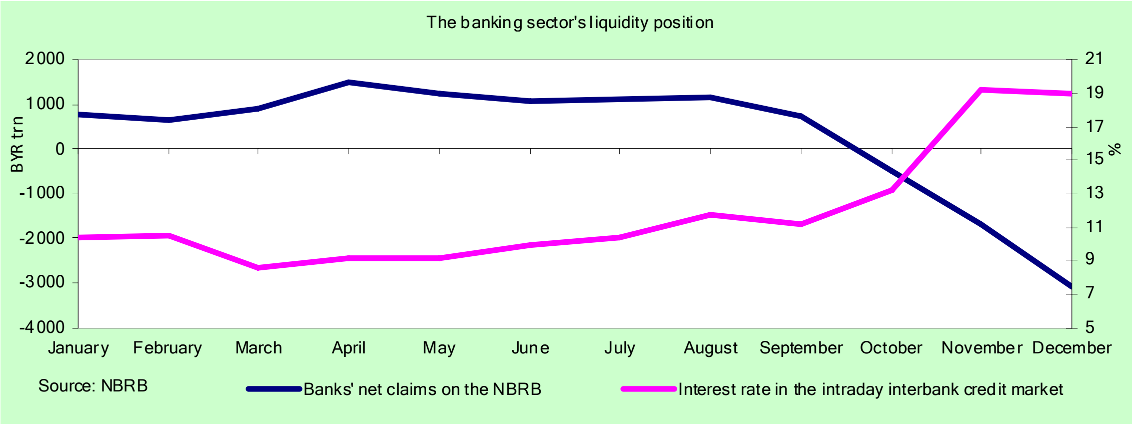
Stress testing results (the worst-case scenario)

Indicators	01.01.2008	01.10.2008	01.01.2009	Change	
				over a quarter	over 12 months
Instant liquidity ratio in foreign exchange, %					
Actual value	136.69	111.90	153.11	41.21	16.42
Calculated value	55.63	56.31	28.32	-27.99	-27.31
Current liquidity ratio in foreign exchange, %					
Actual value	115.46	87.82	120.63	32.81	5.17
Calculated value	54.54	48.21	24.44	-30.10	23.77
Short-term liquidity ratio in foreign exchange					
Actual value	1.95	1.03	0.80	-0.23	-1.15
Calculated value	0.24	0.45	0.16	-0.29	-0.08
Total-to-liquid assets ratio in foreign exchange, %					
Actual value	26.03	26.59	27.55	0.96	1.52
Calculated value	13.87	17.10	12.26	-4.84	-1.61

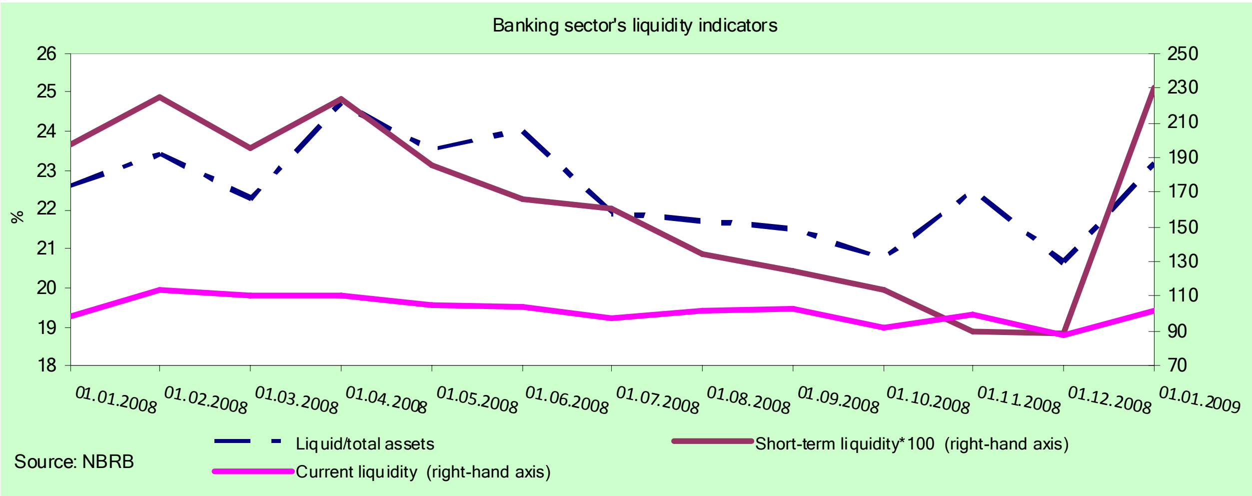
Detailed results of stress testing are shown in the Appendix

The banking sector's liquidity position deteriorated sharply in 2008 Q4 as a result of shrinking balances of households' accounts in Belarusian rubles. As devaluation gathered more pace in 2008 Q4 and inflation and devaluation expectations elevated, households rushed to convert their deposits denominated in Belarusian rubles into foreign exchange savings. Notwithstanding this tendency, the total decline in natural persons' funds in the current and deposit accounts was insignificant–131 billion Belarusian rubles (slightly less than 1%). The outflow of deposits in Belarusian rubles amounted in October-December 2008 to some 1.1 trillion Belarusian rubles, with the simultaneous growth of foreign exchange deposits by the same amount.[17]

[17] With a view to preventing the outflow of households' deposits and, on the whole, decline in households' confidence in banks, the President of the Republic of Belarus issued Decree No. 22 "On Guaranteeing the Safekeeping of Natural Persons' Funds in Accounts and/or on Deposits with Banks" dated November 4, 2008, whereby the state guarantees absolute safety and full repayment of natural persons' funds both in Belarusian rubles and in foreign exchange placed with banks of the Republic of Belarus.



Liquidity problems that hit the largest state-owned banks hardest occurred despite a considerable financial support of the Government of the Republic of Belarus. The volume of funds placed by the Government agencies with banks increased in 2008 by 7.1 trillion Belarusian rubles, or over 40% of the total growth of the banking sector's liabilities.



Experiencing a shortage of ruble resources which was followed by a sharp interest rates growth in the interbank credit market, banks had to expand their borrowing from the National Bank.

It was only in the last days of 2008 that the negative trend towards constant decline in 2008 H2 in the key indicators of the banking sector's liquidity to their minimum permissible values (with the short-term liquidity indicator falling below the requirement prescribed for individual banks) was overcome. As at January 1, 2009, the banking sector's liquidity indicators were higher than their corresponding values a year before.

The analysis of banks' sensitivity to the withdrawal by their clients of funds placed therewith showed, according to data as at January 1, 2009, that the degree of the banking sector's vulnerability to this shock remained virtually unchanged over the year and continued to be one of the highest.

The outflow of households' and enterprises' deposits in the amount of 5%, 10%, and 20% was used as an initial shock.

Under the worst-case scenario, the banking sector would find it difficult to meet the established prudential liquidity ratios (only the instant liquidity indicator would remain above the required level). At the same time, ten banks (whose share of assets in the total amount of assets accounts for 88.9%) would be confronted with liquidity shortage. In particular, four banks (77.5%) would not be able to meet the instant liquidity ratio, three banks (70.7%) the current liquidity ratio, eight banks (81.8%) the short-term liquidity ratio, and four banks (71.1%) the liquid-to-total assets ratio.

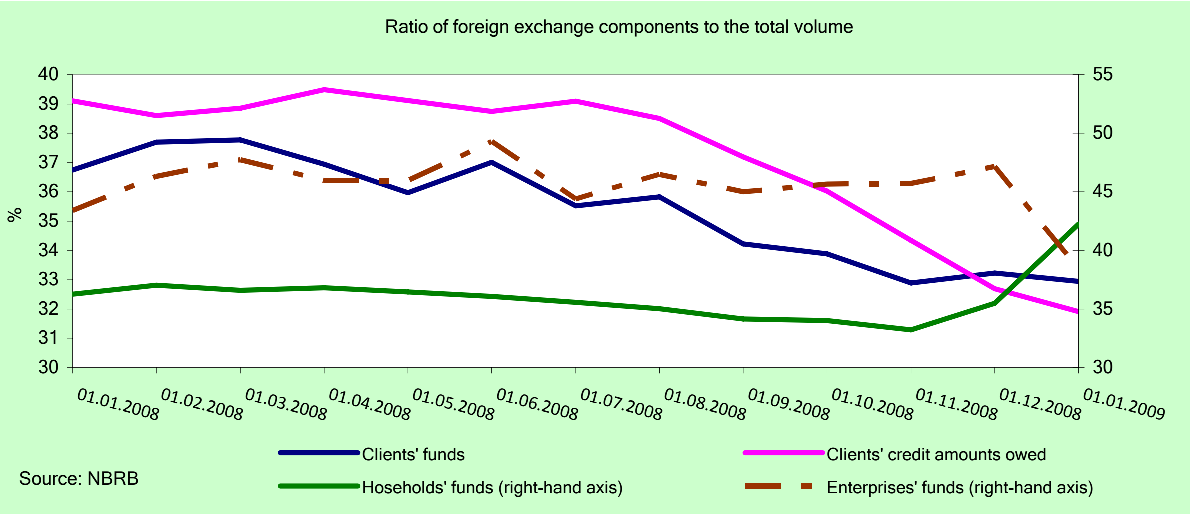
Findings of stress testing (the worst-case scenario)

Indicators	01.01.2008	01.10.2008	01.01.2009	Change	
				over the quarter	over 12 months
Instant liquidity ratio, %					
Actual value	104.05	113.87	108.81	-5.06	4.76
Calculated value	59.91	49.14	33.48	-15.66	-26.43
Current liquidity ratio, %					
Actual value	98.78	91.78	102.01	10.23	3.23
Calculated value	56.52	42.38	51.85	9.47	-4.67
Short-term liquidity ratio					
Actual value	1.97	1.14	2.30	1.16	0.33
Calculated value	0.71	0.50	0.88	0.38	0.17
Liquid-to-total assets ratio, %					
Actual value	22.60	20.74	23.20	2.46	0.60
Calculated value	12.73	11.61	13.45	1.84	0.72

Detailed results of stress testing are presented in the Appendix

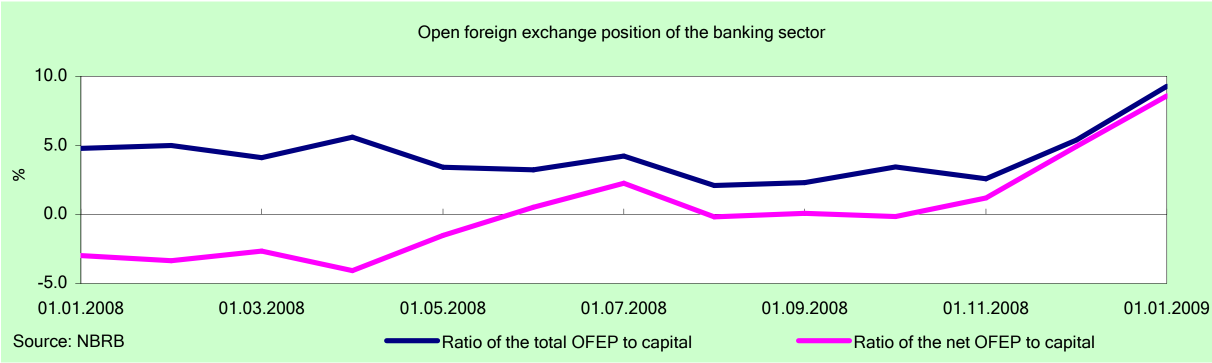
In 2008, the banking sector's exposure to foreign exchange risk did not undergo major changes; however, the transformation of households' preferences as to the currency of savings and growth of households' foreign exchange credit indebtedness created certain preconditions for mounting foreign exchange risks in the future.

In 2008 Q1-Q3, the share of the foreign exchange component in the banking sector's liabilities was consistently declining owing to the positive dynamics of households' deposits in Belarusian rubles and growth of Government authorities' deposits in the national currency, with the share of enterprises' funds in foreign exchange accounts remaining actually unchanged. Its value stayed unchanged in Q4, close to 33%. Households' conversion of ruble deposits into foreign exchange ones in Q4 was an indication of intensifying foreign exchange replacement processes in the Belarusian economy.



In 2008, the predominance of funds in Belarusian rubles in the sources of resource base replenishment had, on the whole, a restraining effect on the build-up of banks' credit portfolio in foreign currency. Growth rates of foreign exchange assets exposed to credit risk declined, compared with 2007, more than threefold–from 64.8% to 20.7%[18].

However, risks associated with foreign exchange replacement were simultaneously redistributed towards the retail lending segment. Where in 2008 the growth of foreign exchange debt of the enterprises of the non-financial sector slowed significantly (from 60.2% to 16.8%), households' credit amounts owed in foreign exchange soared from 59.1% in 2007 to 83.2%.



In 2008, the value of the total open foreign exchange position relative to banks' regulatory capital was insignificant ranging between 2.1% and 5.6%. December 2008 proved to be an exception when this ratio grew to 9.3% reflecting banks' response to the acceleration of devaluation processes. Most of the banks preferred to form a "long" foreign exchange position, thereby hedging the risks of national currency depreciation.

[18] Calculated based on data in the US dollar equivalent.

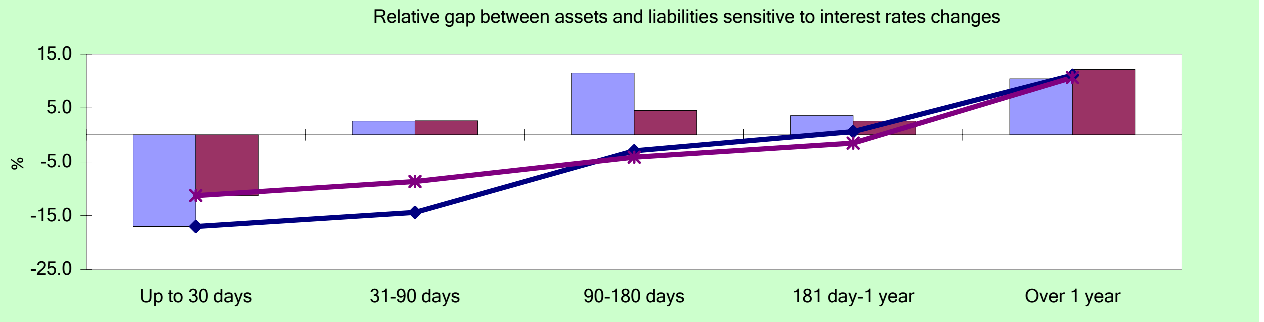
Testing banks' sensitivity to Belarusian ruble depreciation vis-à-vis the US dollar (by 5%, 10%, and 20%) also proved, according to data as at January 1, 2009, that the banking sector would be ready to resist a similar shock.

Under such scenario, the banking sector would not only avoid incurring losses but would also earn profit in addition to that made during 12 months (16.6% under the worst-case scenario). As a result, most of the banks (27 banks whose share in the banking sector's assets accounts for 95.8%) would see an increase in the capital adequacy ratio.

In considering a one-off 20% devaluation of the Belarusian ruble against the major currencies (the US dollar, the euro, and the Russian ruble) the results would not change significantly.

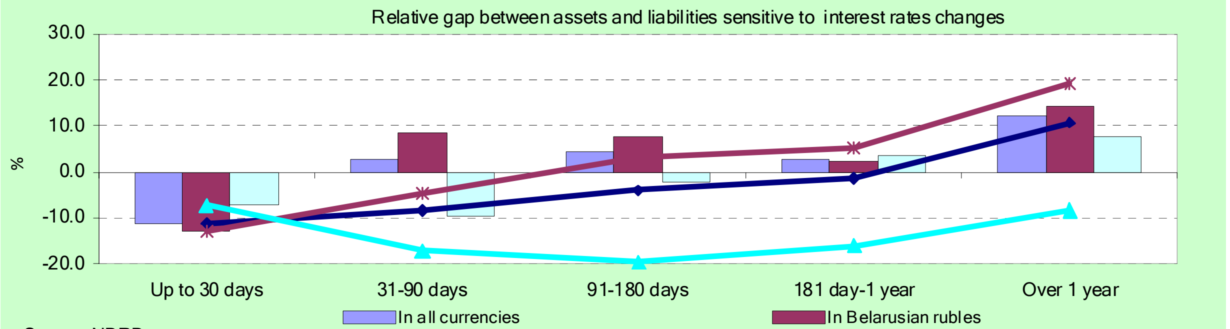
Although the banking sector's exposure to the risk of increasing interest rates declined by the end of 2008, interest rate risk to banks was quite big during the year.

In 2008, the main source of interest rate risk to the banking sector was the negative gap between assets and liabilities with maturities of up to 30 days sensitive to interest rates changes. In spite of the fact that its relative amount[19] dropped during the year from 17% to 11.3%, the values of the cumulative gap become positive only if assets and liabilities with maturities of over 12 months are included in the calculation.



Source: NBRB

Along with the shortening of duration of assets and liabilities sensitive to interest rates changes, the end of 2008 saw also a slight drop in the level of the normalized imbalance in durations–from 0.29 to 0.27. In 2008, the banking sector, as a whole, remained sensitive to interest rates changes and, should they increase, its economic value would show a downward trend.



Source: NBRB

[19] With respect to the total amount of assets sensitive to changes in interest rates.

A negative gap between assets and liabilities sensitive to interest rates changes was formed, to a large extent, owing to foreign currency instruments. In 2008, the dynamics of the change in the banking sector's exposure to interest rate risk moved in the opposite directions depending on the instruments' currency. Where, by the end of 2008, in respect of assets/liabilities denominated in Belarusian rubles the risk of incurring loss in case of an increase in interest rates lowered, in respect of assets/liabilities denominated in foreign currency it increased.

In 2008, the normalized imbalance in durations calculated on the basis of assets/liabilities denominated in Belarusian rubles fell from 0.41 to 0.30, and in foreign exchange it grew from 0.08 to 0.21.

The analysis of banks' sensitivity to an increase in the yield curve showed, according to data as at January 1, 2009, that the degree of the banking sector's vulnerability to interest rate risk declined, however insignificantly.

The sensitivity was tested under the assumption that the yield curve in Belarusian rubles and in foreign currency would increase by 500, 1,000, and 2,000 basis points respectively.

In case of an increase in the yield curve by 2,000 basis points the capital adequacy ratio of the banking sector as a whole and all banks individually would remain above the prescribed ratio.

At the same time, even a moderate shock would result in the banking sector's losses exceeding profit earned by banks over 12 months while under the worst-case scenario this excess would be 2.5 times bigger.

Findings of stress testing (the worst-case scenario)

Indicators	01.01.2008	01.10.2008	01.01.2009	Change	
				over the quarter	over 12 months
Capital adequacy ratio, %					
Actual value	19.3	16.5	21.8	5.3	2.5
Calculated value	16.2	13.1	18.9	5.8	2.7
Change	-3.1	-3.4	-2.9	-0.5	-0.2
Losses versus profit over 12 months, times					
Ratio	2.09	2.31	2.51	0.61	0.60

Detailed results of stress testing are shown in the Appendix

Updated results of Belarus' financial sector assessment made under the Financial Sector Assessment Program also support conclusions about the increase in the banking sector's vulnerability with respect to the major risks.

In 2008, a joint IMF/WB mission updated the results of Belarus' financial sector assessment made under the Financial Sesctor Assessment Program. The report of the mission

(IMF Country Report No. 09/30) was posted on the IMF's[20] website in January 2009. It contains the findings of the analysis of Belarus' financial system as at the end of 2008, including the assessments of compliance with the standards and codes in the sphere of banking supervision.

The main conclusions of the report state that Belarus' financial sector has so far been successful in resisting external shocks thanks to its relatively closed nature and the dominance of state-owned banks. However, because of adverse changes in the external environment and a decline in the macroeconomic situation, financial intermediaries are confronted with mounting risks, above all, credit and liquidity risks.

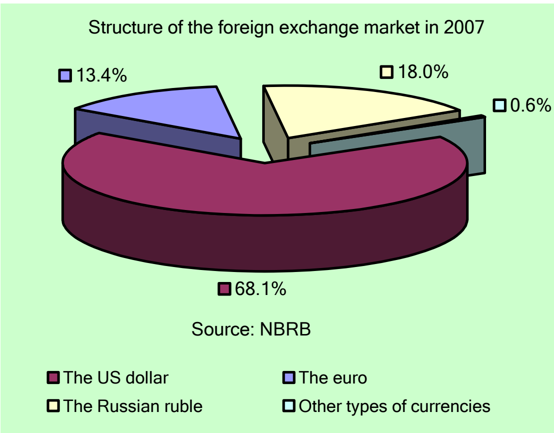
Growing probability of the deterioration in the financial standing of the enterprises of the non-financial sector of the Belarusian economy, banks' broad involvement in lending under Government programs, and a high degree of concentration of the banking and financial sectors as well as of the Belarusian economy as a whole are listed in the report among the major factors contributing to mounting banking risks.

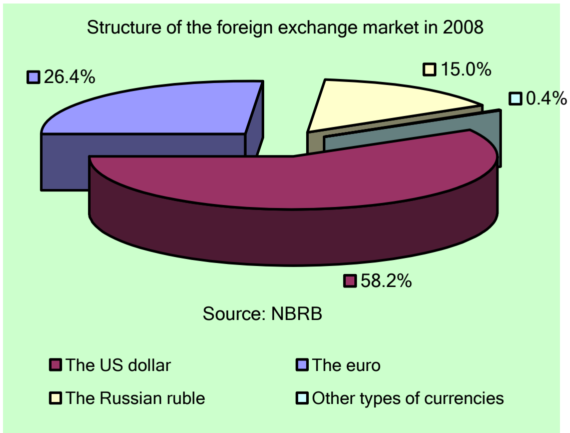
[20] http://www.imf.org/external/country/BLR/index.htm

CHAPTER 4. FINANCIAL MARKETS

In 2008, the US dollar was still a highly sought-after currency in the Belarusian foreign exchange market. At the same time, this currency, along with the Russian ruble as a major traded currency, was giving way to the euro.

In 2008, the capacity of the foreign exchange market increased to USD81.5 billion, growing both in the non-cash segment of the market (from USD36.5 billion in 2007 to USD68 billion) and in the cash market (from USD9.8 billion to USD13.5 billion). The US dollar transactions prevailed in the total foreign currency turnover in the foreign exchange market, with their share accounting for about 58% (68% in the previous year). The euro operations intensified appreciably–from 13.4% in 2007 to 26.4%.

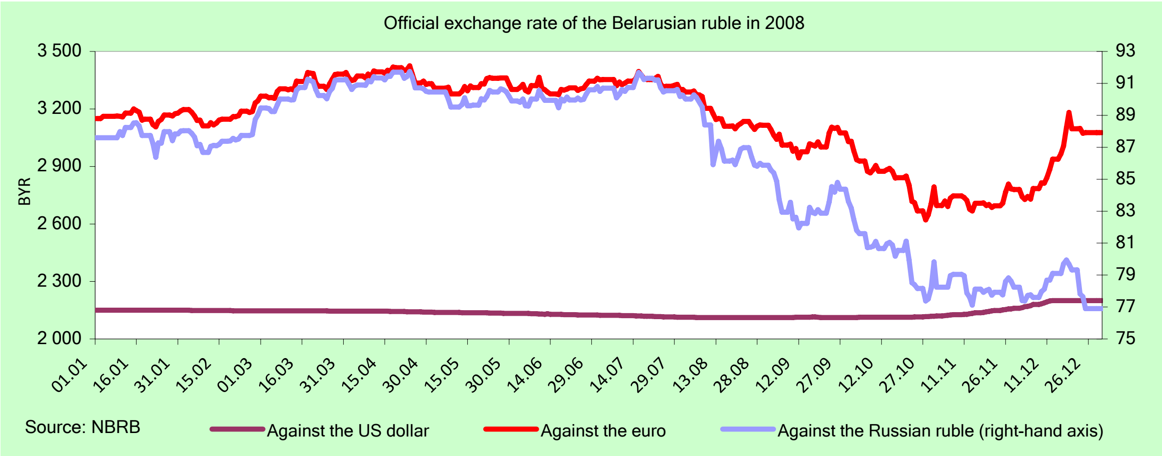




Despite the above-mentioned changes in the structure of the foreign exchange market, the risk of failure to carry out a US dollar, euro, or Russian ruble purchase/sale transaction on reasonable terms and at an appropriate time continued to be low virtually throughout 2008. It grew slightly only at the end of 2008 as a result of the deterioration in the general situation in the foreign exchange market. This risk was significantly higher for other currencies because of their very low share in the volume of trading.

The National Bank's exchange rate policy which consisted, *de facto*, in pegging the Belarusian ruble to the US dollar significantly mitigated the risks associated with the exchange rate fluctuations. The uncertainty in the dynamics of other currencies' quotations in the global markets relative to each other determined, to a great extent, their exchange rate risks.

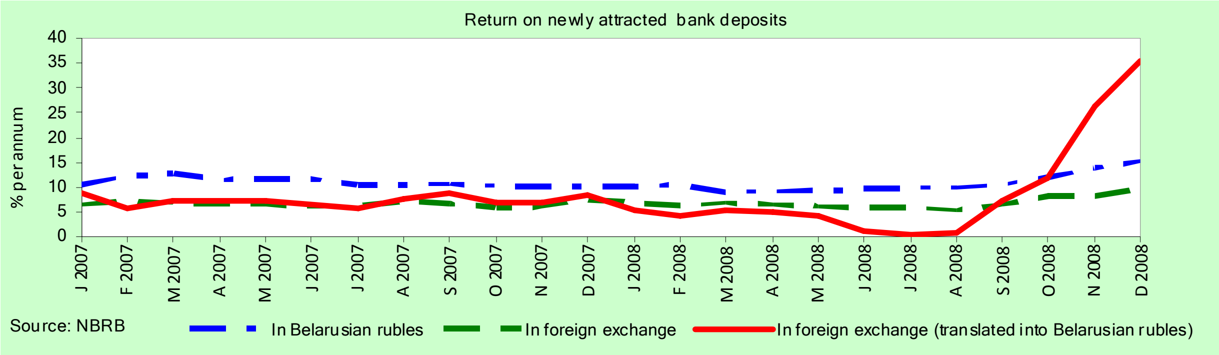
In 2008, the average daily movement of the Belarusian ruble/the US dollar exchange rate was less than 0.01%, its fluctuations ranging from minus 0.09% to 0.28%. It is to be noted that the fluctuations of this exchange rate increased in November-December 2008 following the rise in the imbalance between demand and supply in the foreign exchange market, whilst heretofore the maximum value of the daily variation did not exceed 0.09%. In 2008, the range of the daily fluctuations of the Belarusian ruble/the euro and the Belarusian ruble/the Russian ruble exchange rates was much wider–from minus 3.4% to 3.3% and from minus 2.8% to 2.1% respectively.



Currencies’ exchange rates in different segments of the foreign exchange market showed insignificant deviations from the official exchange rates. In particular, the weighted average exchange rate of the Belarusian ruble vis-à-vis the US dollar in the OTC market deviated in 2008 from the exchange rate set by the National Bank from minus 0.2% to 1.5% and in the cash market from minus 2.9% to 1.4% (the purchase exchange rate) and from minus 2.0% to 2.1% (the sale exchange rate).

Deteriorating situation in the country’s foreign exchange market in 2008 H2 had a negative impact on the credit and deposit market. Growing devaluation expectations caused its participants to convert ruble deposits to foreign exchange ones and banks to tighten their credit policies.

Following quite a lengthy period of the Belarusian ruble/the US dollar exchange rate stability, the return on foreign exchange deposits (translated into Belarusian rubles) increased sharply as a result of the Belarusian ruble depreciation which began in 2008 Q4. Where during nine months of 2008 the value of the return did not exceed 7.2% per annum, by the end of the year it grew to 35.6% per annum. Against the background of the decline in the financial relations entities’ confidence in the ability of the state to ensure the Belarusian ruble stability in the short term, this led to the conversion of ruble deposits to foreign exchange ones which was conducive to exerting additional pressure on the foreign exchange market and tightening banks' credit polices with a view to limiting corresponding risks.

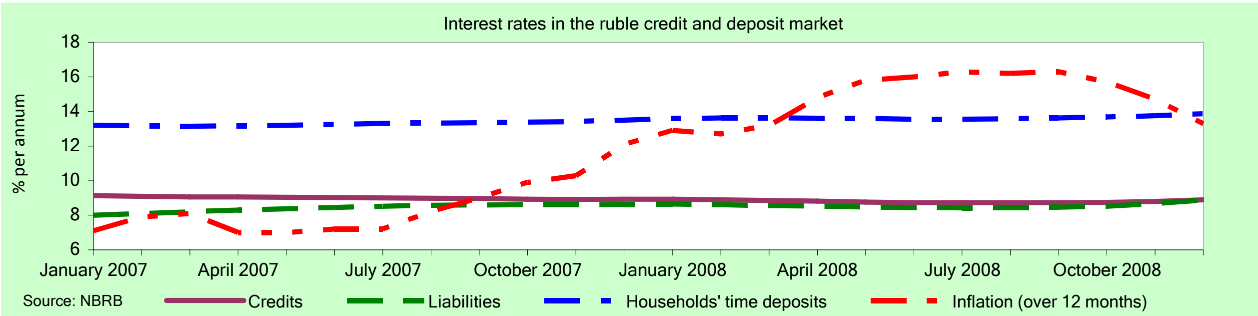


Growth of interest rates on natural persons' new time deposits denominated in foreign exchange from 7.8-8.1% per annum in the first nine months of 2008 to 11.6% per annum in December 2008 was also conducive to the intensification of foreign exchange replacement processes.

The acceleration of inflation in the country at a time when the level of interest rates on credits and deposits was virtually unchanged made sustainable functioning of the credit and deposit market in 2008 highly vulnerable.

In 2008, the average interest rate on all bank credits in the national currency (having regard to credits extended with the use of funds of the National Bank and Government agencies as well as soft credits for which banks are to be compensated from the republican budget) was, as in the previous year, 8.6% per annum. The average interest rate on banks' liabilities in Belarusian rubles was at the same level, with inflation in the whole of 2008 amounting to 13.3%.

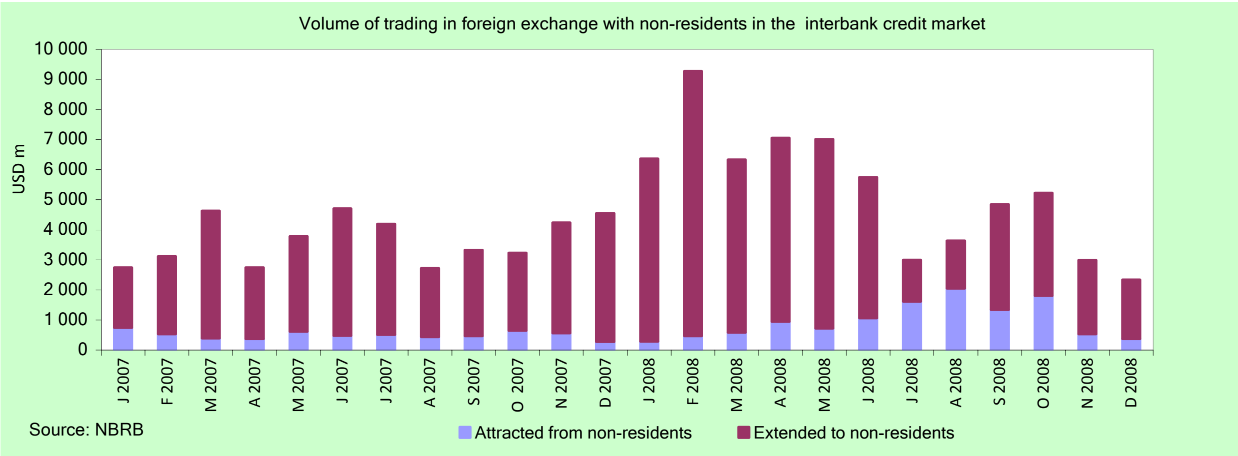
Households' time deposits which are most sensitive to such changes also yielded negative return. As a result, the increase in natural persons' time deposits and deposits in escrow slowed significantly. In 2008, they grew only by 697 billion Belarusian rubles, or by 13.7%, compared with 1.1 trillion Belarusian rubles in 2007 (by 26.3%).



Despite gradual growth of interest rates on new deposits and newly extended credits in 2008, high inflationary expectations of market participants stimulated, to a greater extent, their consumption rather than propensity to save, thereby spurring processes which have a negative effect on financial stability in the Republic of Belarus. Once real interest rates on credits and deposits reached negative values, savings in Belarusian rubles became less attractive and market participants were encouraged, at the same time, to borrow.

The major risks to which interbank credit market participants were exposed in 2008 remained at a low level. At the same time, a high degree of concentration among the borrowers was the key factor which adversely affected market functioning.

In 2008, the interbank credit market was still clearly divided into the internal and external segments. Transactions with non-resident banks of the Republic of Belarus accounted for 70% of the total volume of trading (65.8% in 2007). Practically all of them (99.7%) were effected in foreign exchange and in most cases Belarusian banks were providing resources to their foreign partners.



Prevailing in the internal segment of the market, in contrast, were operations in the national currency–about 66% of the total volume of trading (76% in 2007). The decline in the share of ruble operations was due to the fact that the volume of trading in Belarusian rubles remained virtually the same (39.0 trillion Belarusian rubles in 2008, compared with 37.3 trillion Belarusian rubles in the previous year) while in foreign exchange it grew from USD5.5 billion to USD9.2 billion.

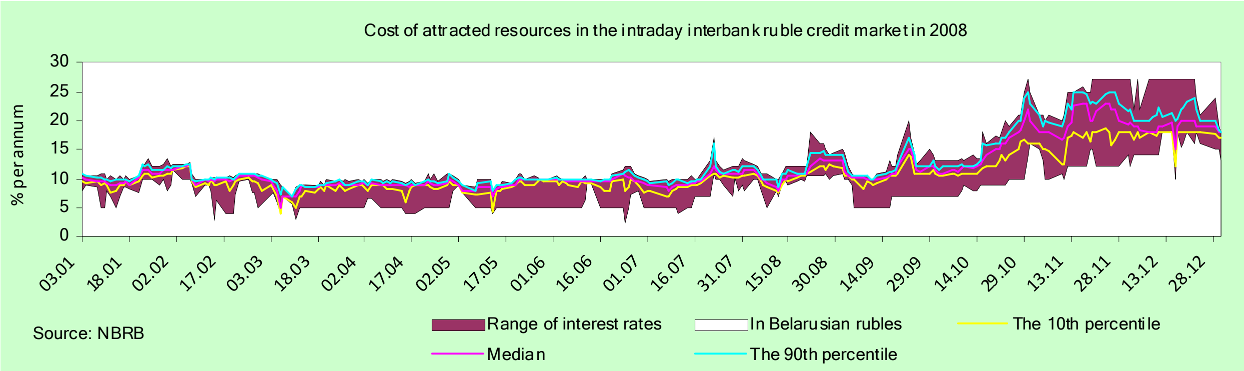
In spite of the significant volumes of trading in the interbank credit market, banks primarily used credits to bridge their current short-term liquidity gaps and the majority of transactions (86%) were concluded for one day. The average daily volume of banks' borrowing in Belarusian rubles in the overnight interbank credit market practically did not change, amounting to 131 billion Belarusian rubles compared to 127 billion Belarusian rubles in 2007. On some days, the capacity of the overnight interbank market amounted to 350 billion Belarusian rubles, and the maximum amount of funds attracted by individual banks exceeded its average daily value 1.4-7.0 times. On the whole, this segment of the market enabled its participants to successfully address the issues of liquidity redistribution.

In 2008 Q4, money markets experienced, under the impact of a number of unfavorable external economic factors, a considerable deficit of liquidity. During this period, the National Bank was supporting banks by providing substantial resources for the purpose of ensuring normal payment process. Because of banks' shortage of highly liquid assets which could be used as collateral, at the end of October 2008 the National Bank decided to grant banks, in addition to standard operations designed to maintain liquidity, unsecured credits in the national currency with maturities of up to three months.

On December 1, 2008, banks' and non-bank financial institutions' reserve requirements were lowered in order to ease the strain on ruble liquidity. Along with this, their fixed portion was reduced, from current 70% to 60%, for the purpose of providing banks with wider opportunities to regulate their liquidity during the period of their compliance with the reserve requirements.

These measures, along with the placement by Government agencies of new deposits with banks and the extension of previous agreements, made it possible to ensure in late 2008 the liquidity level in the banking sector sufficient for its smooth functioning.

From the viewpoint of the spread between the maximum and minimum interest rates, the overnight interbank ruble credit market was characterized by insufficient density. Over the year, the spread between the maximum and minimum interest rates exceeded the interquartile range (between quartiles I and III) 8.3 times, on average. At the same time, this range extended, virtually throughout the year (excluding November-December 2008), owing to the conclusion by banks of transactions with interest rates lower than those in the market, on average. In 2008, the share of transactions with the interest rate much higher than the average market cost of resources was insignificant–3.6%.

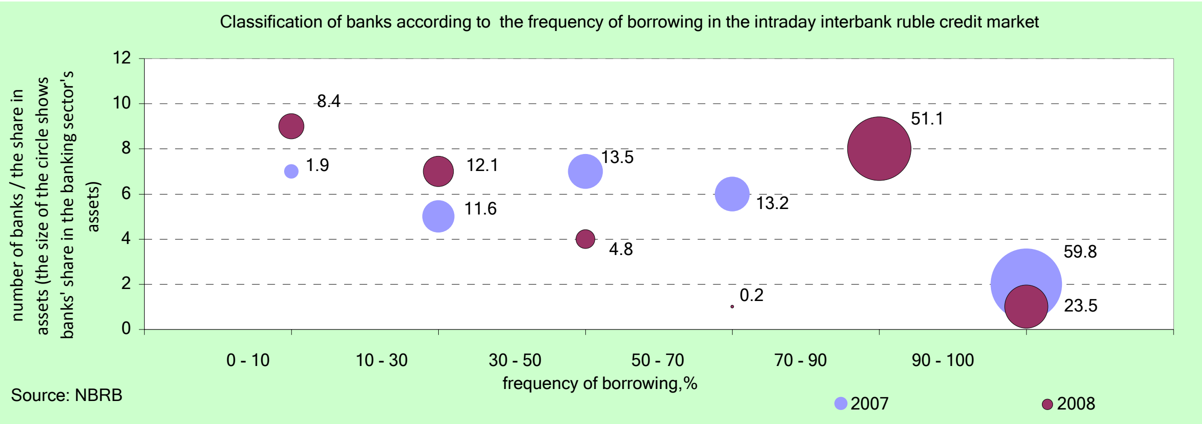


In 2008, the National Bank's instruments and operations were one of the factors constraining interest rate risk in the interbank ruble market. Standing facilities regulating liquidity were setting the range of exchange rate fluctuations in the market, while auction operations of the National Bank in the open market were smoothing them out. Also, the National Bank normally made sure that the entry into force of new interest rates levels is synchronized with the period of compliance with the reserve requirements and the schedule of the major operations of the National Bank. This was an additional factor contributing to the reduction in the volatility of short-term interest rates in the interbank market and the improvement in liquidity forecasting by banks.

In the first three quarters of 2008, the situation in the interbank ruble market was developing against the background of excess liquidity in the banking sector. The National Bank's operations sterilizing this liquidity maintained interest rate on overnight credit at the level close to the refinance rate.

In 2008 Q4, the situation in the interbank ruble market changed under the impact of adverse external economic factors and was developing in the environment of a significant shortage of banks' liquidity. As monetary policy was being tightened (in October-December, interest rates on lombard auctions were gradually increased from 12% to 18% per annum; in November, interest rates on overnight credit and SWAP overnight were raised from 17% to 20% per annum), interest rates in the overnight interbank ruble market edged up and approached the upper limit of the range set by the National Banks' instruments.

Banks' demand for resources was still uneven: half of the bidders borrowed resources very rarely and a third of them were virtually regular buyers (as opposed to 2007 when two banks were consistent borrowers).



This segment of the market was characterized by quite a high level of concentration (on the demand side). In 2008, the Herfindahl-Hirschman index calculated on the basis of the volume of attracted funds was 0.2487 (0.3021 in 2007). Such strong asymmetry had a negative impact on the functioning of the interbank credit market and increased risks to its participants, including those involving the possibility of attracting required amounts of monetary funds at an acceptable cost.

At the same time, the risk of late repayment by the borrower of the credits received in 2008 in the interbank ruble credit market continued to be insignificant – banks had no nonperforming loans denominated in Belarusian rubles.

In 2008, the interbank ruble credit market was substantially supplemented by its secured segment–the attraction/placement of resources on repo deals. The average daily balance of debt on this type of deals grew to 287 billion Belarusian rubles from 95 billion Belarusian rubles in 2007.

In 2008, the securities market was still characterized by a low level of development, which manifested itself, above all, in an uneven formation of its individual segments and in a few instruments circulating therein. Liquidity risk was the main type of risk to which the participants of the most developed segment–the Government securities market–were exposed.

Despite a significant increase in the capitalization of the stock market (as at January 1, 2009, the volume of listed stock amounted to 31.2 trillion Belarusian rubles, or 24.2% of GDP, of which 14.7 trillion Belarusian rubles were issued[21] in 2008), the activity in this segment of the securities market in 2008 remained low. The total volume of trading in shares in the secondary market amounted to 549.6 billion Belarusian rubles which is an indication that the activity in the stock market was still low.

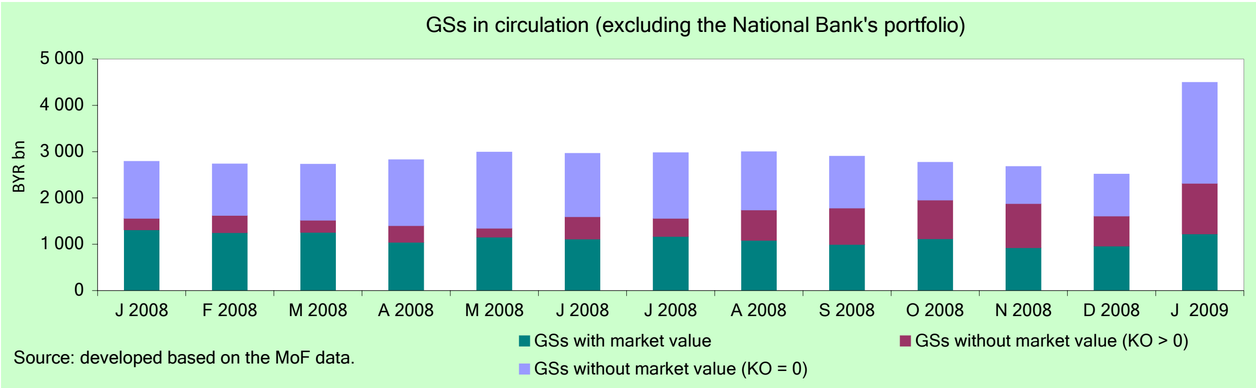
In spite of quite rapid growth, the bond market still did not play a significant role in the mechanism designed to redistribute idle monetary funds between their owners and users. In 2008, the value of bonds in circulation denominated in Belarusian rubles grew from 0.5 trillion Belarusian rubles to 2.2 trillion Belarusian rubles and in foreign exchange from USD34.5 million to USD136 million and from EUR19.4 million to EUR49.9 million. Also, bonds denominated in Russian rubles worth 25 million Russian rubles were issued in 2008. The volume of the secondary market grew four times to 1.1 trillion Belarusian rubles.

The National Bank issued short-term bonds with a view to sterilizing banks' excess liquidity. Short maturities of these bonds (with weighted average maturity of 9 days) did not make it possible, despite significant volumes of placement (26.4 trillion Belarusian rubles), to trade them actively in the secondary market. The volume of trading in the National Bank's short-term bonds on the stock exchange amounted to 81.3 billion Belarusian rubles, risks for its participants in this market being minimal.

---

[21] Taking into account additional issues of shares and an increase in their face value.

In 2008, the Government securities (hereinafter–"GSs") market continued to be, like in previous years, the most functional segment of the securities market. The volume of GSs transactions in the secondary market exceeded 17 trillion Belarusian rubles which is much more than in other segments of the securities market. The volume of GSs in circulation ranged, virtually throughout 2008, from 3.5 trillion Belarusian rubles to 4.0 trillion Belarusian rubles[22].



Source: developed based on the MoF data.

High activity of the GSs market participants was due, among other things, to low credit risk (by virtue of low probability of the issuer's, i.e. the Government of the Republic of Belarus, default) and low interest rate risk which are characteristic of this segment of the market. Traditional orientation of the GSs issuer to the level of the National Bank's refinance rate as well as insignificant changes in the return on the transactions in the secondary market were, to a large extent, responsible for the low level of interest rate risk.

At the same time, liquidity risk in this segment of the securities market was still significant. In the course of 2008, from 27% to 46% of GSs in circulation (excluding the National Bank's portfolio) were actively traded in the secondary market and had a market value, while the turnover ratio of the majority of other GSs was zero.

In the National Bank's portfolio, only 63% of "until redemption" Government bonds were traded in the secondary market, with as few as 14% of GSs of the total portfolio producing market yields. This prevents the National Bank from using, in full, GSs operations in the secondary market for the purpose of regulating current liquidity of the banking sector.

Despite the aggravating economic situation and difficulties with banks' liquidity in 2008 Q4, the level of the major risks of the payment system was within the range that did not infringe the conditions for maintaining financial stability.

---

[22] The significant volume of Government long-term bonds placement was due to Government investments in the banking sector resulting in the increase in the volume of GSs in circulation, as at the end of 2008, to 5.6 trillion Belarusian rubles.

In ensuring financial stability in 2008, the National Bank maintained sustainable functioning of the Belarusian payment system. The monitoring and analysis of the major risks of the payment system conducted by the National Bank as part of overseeing its functioning revealed that the level of operational and legal risks was traditionally low.

This is proved by high operational reliability of the infrastructure as well as by compliance of the payment system, on the whole, with the key principles of the systemically important payment systems of the Bank for International Settlements. As at January 1, 2009, the average annual parameter of customers’ accessibility to the ASIS was 99.95% of the daily production time while unauthorized access to the payment system in 2008 as well as failures to effect payments were prevented from happening.

Appendix 1

PAYMENT SYSTEM OF THE REPUBLIC OF BELARUS

In 2008 the payment system's functioning was sustainable, ensuring regular payments by all economic entities.

The core component of the payment system is the automated system of interbank settlements (hereinafter–the "ASIS"). The basic functional elements of the ASIS are the system of interbank settlements operating on a gross basis, in which interbank settlements are carried out on a real-time basis (BISS), and the clearing system, in which settlements of small and non-urgent money transfers are performed on a net multilateral basis.

In the year under review, 57.8 million payments (0.2 million payments a day, on average) worth 767.6 trillion Belarusian rubles were effected in the ASIS (3.0 trillion Belarusian rubles a day, on average). Compared with 2007, the number and value of payments in the ASIS increased in 2008 by 9.8% and 50.5% respectively.

The parameter of banks' accessibility to the ASIS in 2008 was 99.95% of the daily production time.

The major risks in the payment system–credit risk, liquidity risk, and operational risk–were minimized by the National Bank's consistent efforts aimed at improving risk management procedures and ensuring banks' liquidity.

In managing risks in the payment system, the National Bank was endeavoring to achieve full compliance with the Core Principles for Systemically Important Payment Systems developed by the Committee on Payment and Settlement Systems of the Bank for International Settlements.

In order to minimize credit risk (risk associated with potential losses of monetary funds involved in transactions) and liquidity risk (risk relating to the impossibility of settling obligations in full and in a timely manner), the National Bank was continually monitoring the interbank settlements on a real-time basis and controlled the state of banks' accounts and the funds waiting queue.

In addition, price regulation measures for interbank settlements by means of tariff differentiation depending on the time of transmission by banks of electronic payment documents into the system were used. Differential factors applied to the tariffs encouraged banks to input the payments to the ASIS as early as possible and more evenly in the course of the business day, to reduce the number of banks' applications for quick changes in the ASIS work schedule, and to enhance the reliability of banks' computer-based terminals and communication channels ensuring interaction with the ASIS.

As a result of setting higher service cost towards the end of the business day in 2008, the number of documents received by the BISS in the first half of business day increased, compared with 2007, by 3.2 percentage points, which helped streamline the workload of the ASIS central computing system.

At the same time, at the beginning of each business day the National Bank posted on its official website information about actual and planned liquidity regulation operations in the banking sector and promptly updated information about the results of auctions, rates, and limits on transactions. The disclosure of information on monetary instruments and factors of the banking sector's liquidity, as well as gradual expansion of the list of published information facilitated the improvement of forecasting by banks of their liquidity and the enhancement of transparency and predictability of the financial market.

At the same time, the procedures for providing banks with liquidity were being improved. In 2008, the National Bank influenced the banking sector's liquidity by means of carrying out transactions of three types: standing facilities, bilateral transactions, and open market transactions.[1]

Banks had an opportunity to replenish their intraday liquidity for free at the expense of overnight credits repaid on the day of their provision, as well as borrowings from the required reserves. Given declining liquidity in the banking sector in 2008 Q4, the National Bank scrapped the limits on banks' SWAP and overnight transactions, and reduced the reserve requirements' fixed portion from 70% to 60%.

In 2008, for the purpose of minimizing operational risk, much attention was paid to the modernization of the ASIS hardware and software infrastructure, as well as prevention, timely detection, localization, and correction of failures and malfunctions therein in the shortest time possible. A security analysis of the telecommunication network of the distributed ASIS computer-based terminal was carried out, and the recommendations concerning the elimination of network vulnerabilities were worked out. The protection profiles which include requirements to the security of communication services were developed.

The Central Archive of Interbank Settlements was modernized with a view to ensuring a reliable and secure storage of electronic documents pertaining to interbank settlements and expediting data processing in the course of preparation and release of information. The second stage of the ASIS computer-based terminal allowing analysis and monitoring of the ASIS state was put into industrial operation. A project for modernizing the distributed data center of the ASIS computer-based terminal designed to eliminate one-point failures was developed.

[1] A detailed description of instruments is provided in the "Regulations on the Principles of Banks' Current Liquidity Regulation by the National Bank" posted on the official website of the National Bank at: http://www.nbrb.by/mp/principles.asp.

In 2008, the National Bank continued the development and improvement of the existing system of standardization and certification of computer-based tools in the sphere of banking services and technologies as one of the ways of reducing operational risk, as well as the development of technical codes of established practice that set the requirements to the procedures for the creation and processing of electronic payment documents within the ASIS.

With a view to minimizing operational risk, the procedures for ensuring business continuity of the system and behavior in emergency situations that are described in the Contingency Plan for Business Continuity and Recovery Procedures for the ASIS (hereinafter– the “CP”) were developed. The CP updated in 2008 is based on a complex approach to the operation of the payment system in force-majeure circumstances, and, where possible, takes into account the recommendations of the European Central Bank and the Bank for International Settlements regarding smooth functioning of systemically significant payment systems. In the course of CP testing, a failure initiation scenario at the main computer site and a change-over to the back-up computer site were simulated.

A model CP document and recommendations for its preparation were developed for the participants in the ASIS in order to ensure further smooth functioning of the payment system in force-majeure circumstances.

Appendix 2

MACROECONOMIC INDICATORS

Table 2.1

MAIN MACROECONOMIC INDICATORS
of financial instability emergence and development as of January 1, 2009.

Indicators, whose dynamics is evidencing	
the downturn (maintenance at the same level)	the upsurge
in the potential emergence of financial instability	
Real GDP growth was 110% (in 2007, 108.6%).	Exports, imports, and current account deficit (in 2008 the rates of export growth were 135.1%, those of imports - 137.2%; the negative balance of foreign trade was USD6111.2 million compared with USD4070.0 million in 2007).
Real industrial output growth was 110.8% (in 2007, 108.5%).	The decline in production over the past four months in 2008 was about 20%. The stocks of unsold output in warehouses of enterprises have increased.
Consolidated budget balance in 2008 was positive (1.4% of GDP).	As of January 1, 2009, domestic government debt was 6.8% of GDP, compared with 6.4% of GDP as of January 1, 2008.
Level of profitability of sold industrial products increased from 11.8% in 2007 to 14.2% in 2008.	As of January 1, 2009, external government debt was 6.4% of GDP, compared with 5.2% of GDP as of January 1, 2008.
Share of loss-making enterprises in their total number was 4.8% in 2008, compared with 6.3% in 2007.	Rate of inflation (in 2008, the CPI was 13.3%, compared with 12.1% in 2007). The PPI grew by 14.2% in 2008 (in 2007, 17.1%).
Share of the time component in M2 (share of time deposits in the ruble money supply) as of January 1, 2009 was 44.4%, increasing year to date by 2.7 percentage points.	Relative level of gold and foreign exchange reserves in months of imports declined from 1.7 months as of January 1, 2008 to 0.9 months as of January 1, 2009.
	Dollarization of the economy (the share of foreign exchange in the broad money supply) year to date increased by 1.7 percentage points, amounting to 33.0% as of January 1, 2009.

Table 2.2

MAIN INDICATORS
of international operations of the Republic of Belarus, million USD

Indicators	2006	2007	2008
Foreign trade balance	-1 531.5	-2822.4	-4 451.4
% of GDP	-4.1	-6.2	-7.4
Current account balance	-1 448.4	-3037.6	-5 048.8
% of GDP	-3.9	-6.7	-8.4
Net foreign borrowing (financial account balance)	1 674.7	2 463.0	4 799.4
% of GDP	4.5	5.4	8.0
of which			
net inflow of direct investment	351.0	1 777.0	2 143.4
% of GDP	0.9	3.9	3.6
Balance of payments (increase in reserve assets)	-1.4	2 778.1	-1 002.8
% of GDP	0.0	6.2	-1.7
Foreign debt (as of the end of the year)	6844.1	12493.5	14 817.9
% of GDP	18.5	27.6	24.6
of which			
short-term foreign debt	4 778.2	7864	7940
% of GDP	12.9	17.4	13.2
Macroeconomic ratios			
Export of goods and services to GDP, %	60.2	61.0	61.8
Import of goods and services to GDP, %	64.3	67.2	69.2
International reserve assets (as of the end of the year)			
to GDP, %	3.7	9.2	5.1
in months of import of goods and services	0.7	1.6	0.9

Table 2.3

DYNAMICS
of financial performance of enterprises, billion Belarusian rubles

Indicators	2007	2008	Rate of growth, %	For information: 2007 to 2006
Sales proceeds of goods, products, works, and services	204 138	271 517	133.0	128.0
Taxes and fees paid from sales proceeds of products, works, and services	27 244	35 843	131.6	137.9
% of sales proceeds	13.3	13.2		
Acquisition value of goods	44 015	59 466	135.1	129.7
% of sales proceeds	21.6	21.9		
Cost of sold products, works, and services	118 836	154 340	129.9	127.0
% of sales proceeds	58.2	56.8		
Profits and losses (-) from sales of products, works, and services	14 043	21 869	155.7	115.1
% of sales proceeds	6.9	8.1		
Profits and losses (-) before tax	13 676	22 083	161.5	115.6
% of sales proceeds	6.7	8.1		
Taxes, fees, and payments paid from profits	4 528	6 570	145.1	116.7
% of profit before tax	33.1	29.7		
Net profits and losses (-)	9 054	15 427	170.4	115.2
Profitability of sales, %	6.9	8.1		
Profitability of sold products, %	11.8	14.2		
Share of loss-making enterprises in their total number, %	6.3	4.8		
Donations from the budget for the provision of losses and price differences	3 515	4 901	139.4	149.5

Table 2.4

RATES OF GROWTH
of profits by industry to 2007, %

Indicators	Profits and losses (-) from sales of goods, products, works, and services		Profits and losses (-) before tax		Net profits and losses (-)	
	nominal	real	nominal	real	nominal	real
Republic of Belarus	155.7	129.2	161.5	134.0	170.4	141.4
of which:						
Industry	152.8	126.8	161.0	133.6	167.1	138.7
Power industry	95.1	78.9	113.1	93.9	108.7	90.2
Fuel industry	224.0	185.9	260.8	216.4	281.0	233.2
Petroleum industry	*394.9*	*327.7*	*480.1*	*398.4*	*499.2*	*414.3*
Ferrous industry	138.0	114.5	140.9	116.9	149.6	124.1
Chemical and petrochemical industry	246.4	204.5	257.8	213.9	264.2	219.3
Machinery building and metal processing	106.5	88.4	103.4	85.8	103.1	85.6
Timber, woodworking, and pulp and paper industry	110.8	92.0	114.3	94.9	118.9	98.7
Construction materials	198.4	164.6	208.3	172.9	225.0	186.7
Light industry	149.2	123.8	146.8	121.8	179.4	148.9
Food industry	77.4	64.2	77.3	64.1	66.6	55.3
Flour-and-cereals and combined fodder industry	158.9	131.9	157.5	130.7	172.1	142.8
Agriculture	13 times	10.8 times	190.9	158.4	195.1	161.9
Transport	128.3	106.5	136.8	113.5	145.4	120.7
Communication	114.0	94.6	166.2	137.9	190.2	157.8
Construction	162.6	134.9	161.2	133.8	164.0	136.1
Trade and public catering	187.2	155.4	184.9	153.4	198.4	164.6
Logistics and sales	186.5	154.8	162.0	134.4	153.6	127.5
Housing and utilities	109.4	90.8	113.5	94.2	112.3	93.2

Table 2.5

DYNAMICS
of profitability of sold products and sales, %

Indicators	Profitability of sold products, works, and services			Profitability of sales		
	2007	2008	Change, percentage points	2007	2008	Change, percentage points
Republic of Belarus	11.8	14.2	2.4	6.9	8.1	1.2
of which: Industry	12.9	15.3	2.4	9.4	10.8	1.4
Power industry	8.5	6.7	-1.8	6.6	5.3	-1.3
Fuel industry	7.3	13.0	5.7	4.9	8.0	3.1
Ferrous industry	22.2	20.7	-1.5	16.7	15.8	-0.9
Chemical and petrochemical industry	26.1	50.3	24.2	18.6	29.0	10.4
Machinery building and metal processing	14.3	12.1	-2.2	10.7	9.2	-1.5
Timber, woodworking and pulp and paper industry	11.1	9.7	-1.4	8.2	7.0	-1.2
Construction materials	12.5	18.0	5.5	9.1	12.7	3.6
Light industry	7.9	9.6	1.7	6.4	7.7	1.3
Food industry	10.3	5.9	-4.4	7.2	4.3	-2.9
Flour-and-cereals and combined fodder industry	4.8	5.1	0.3	3.6	3.9	0.3
Agriculture	0.8	8.4	7.6	0.7	6.4	5.7
Transport	15.9	16.0	0.1	7.8	7.9	0.1
Communication	40.2	37.8	-2.4	24.5	23.6	-0.9
Construction	9.9	11.7	1.8	7.4	8.7	1.3
Trade and public catering	17.1	20.8	3.7	2.5	3.1	0.6
Logistics and sales	30.9	40.6	9.7	3.1	3.6	0.5
Housing and utilities	4.0	3.4	-0.6	3.3	2.9	-0.4

Table 2.6

DYNAMICS
of payables and receivables, billion Belarusian rubles

Indicators	01.01.2008	01.01.2009	Increase (+), decline (-)	Rate of growth, %	For information: 01.01.2008 to 01.01.2007
Payables	31 860.5	38 647.5	6 787.0	121.3	122.8
of which: in arrears	4 245.7	5 225.2	979.6	123.1	103.8
% of total	13.3	13.5			
Receivables	24 560.1	31 217.6	6 657.5	127.1	132.1
of which: in arrears	3 883.3	5 255.9	1 372.6	135.3	107.7
% of total	15.8	16.8			
Net payables	7 300.4	7 429.9	129.5	101.8	99.1
% of receivables	29.7	23.8			
Net payables in arrears	362.4	-30.7	-393.0		74.5
% of receivables	9.3	-0.6			
Share of organizations having arrears (% of total number)					
payables	55.5	55.0			
receivables	65.7	65.5			
Credit amounts owed to banks	22 029.1	31 223.8	9 194.7	141.7	154.0
of which: in arrears	118.4	136.2	17.8	115.0	89.7
% of credit amounts owed to banks	0.5	0.4			
Total payables	59 518.5	76 813.0	17 294.4	129.1	134.2
of which: in arrears	4 677.8	5 704.4	1 026.6	121.9	104.4
% of total arrears	7.9	7.4			

Table 2.7

DYNAMICS
of external payables and receivables, billion Belarusian rubles

Indicators	01.01.2008	01.01.2009	Increase (+), decline (-)	Rate of growth, %	For information: 01.01.2008 to 01.01.2007
External payables	6 996.8	6 683.6	-313.2	95.5	147.9
of which: in arrears	674.0	840.6	166.7	124.7	118.7
% of total external payables	9.6	12.6			
External receivables	4 651.2	5 210.4	559.2	112.0	169.0
of which: in arrears	341.8	606.0	264.2	177.3	130.0
% of total external receivables	7.3	11.6			
Net external payables	2 345.6	1 473.2	-872.3	62.8	118.5
% of external receivables	50.4	28.3			
Net external payables in arrears	332.2	234.7	-97.5	70.6	108.9
% of external receivables in arrears	97.2	38.7			

Table 2.8

DYNAMICS
of monetary funds on enterprises' accounts, billion Belarusian rubles

Indicators	01.01.2008	01.01.2009	Increase	Share in increase, %	Rate of growth, %
Republic of Belarus	6 659.9	9 156.7	2 496.7	100.0	137.5
Industry	3 285.7	3 820.3	534.5	21.4	116.3
Agriculture	154.1	279.0	124.9	5.0	181.0
Transport	583.7	954.3	370.6	14.8	163.5
Communication	393.6	514.1	120.5	4.8	130.6
Construction	522.2	856.1	333.9	13.4	163.9
Trade and public catering	622.1	789.2	167.1	6.7	126.9
Logistics and sales	51.6	78.7	27.1	1.1	152.6
Housing and utilities	157.0	166.1	9.1	0.4	105.8

Table 2.9

DYNAMICS
of credit amounts owed to banks, billion Belarusian rubles

Indicators	01.01.2008	01.01.2009	Increase	Share in increase, %	Rate of growth, %
Republic of Belarus	22 029.1	31 223.8	9 194.7	100.0	141.7
Industry	10 285.8	14 953.3	4 667.5	50.8	145.4
Agriculture	4 643.2	7 502.5	2 859.3	31.1	161.6
Transport	1 156.0	1 111.3	-44.7	-0.5	96.1
Communication	432.3	138.3	-294.0	-3.2	32.0
Construction	690.7	1 324.2	633.5	6.9	191.7
Trade and public catering	2 105.7	2 664.9	559.2	6.1	126.6
Logistics and sales	1 219.7	2 109.9	890.2	9.7	173.0
Housing and utilities	298.4	315.2	16.8	0.2	105.6

Table 2.10

DYNAMICS
of current solvency, %

	01.01.2008	01.04.2008	01.07.2008	01.10.2008	01.01.2009
Republic of Belarus	156.9	165.6	176.6	169.4	175.2
Industry	193.8	218.7	232.5	212.3	166.0
Agriculture	13.4	17.9	16.9	18.9	19.7
Transport	288.4	351.0	299.4	246.3	416.3
Communication	2 447.0	1 459.1	3 760.1	3 445.2	5 729.6
Construction	191.5	119.4	169.9	148.6	259.8
Trade and public catering	146.6	178.7	166.8	185.4	173.2
Logistics and sales	87.0	226.5	299.0	285.2	128.3
Housing and utilities	71.5	61.1	75.7	80.7	85.2

Appendix 3

INDICATORS OF PERFORMANCE OF THE BANKING SECTOR OF THE REPUBLIC OF BELARUS

Table 3.1

MAIN INDICATORS
of performance of the banking sector of the Republic of Belarus

Date	All banks*	Large banks			Medium banks			Small banks		
	ALL	SOB	FB	PB	SOB	FB	PB	SOB	FB	PB
Number of banks, units										
01.01.2008	27	4	1	0	0	7	0	1	9	5
01.01.2009	31	4	1	0	0	5	0	1	14	6
Assets, trillion Belarusian rubles										
01.01.2008	41.94	31.86	4.19	0	0	4.55	0	0.21	0.54	0.59
01.01.2009	65.53	50.78	5.02	0	0	6.67	0	0.31	1.75	1.00
Liabilities, trillion Belarusian rubles										
01.01.2008	35.26	26.66	3.77	0	0	3.96	0	0.10	0.35	0.42
01.01.2009	54.13	42.04	4.39	0	0	5.57	0	0.21	1.16	0.75
Capital, trillion Belarusian rubles										
01.01.2008	6.68	5.20	0.42	0	0	0.59	0	0.11	0.19	0.17
01.01.2009	11.39	8.74	0.62	0	0	1.10	0	0.11	0.58	0.25
Profits, billion Belarusian rubles										
01.01.2008	602.1	393.4	76.6	0	0	88.1	0	7.1	19.0	18.2
01.01.2009	732.8	434.8	92.6	0	0	125.3	0	4.1	52.8	23.1
Share of bank groups in assets, %										
01.01.2008	100.0	76.0	10.0	0	0	10.8	0	0.5	1.3	1.4
01.01.2009	100.0	77.5	7.7	0	0	10.2	0	0.5	2.7	1.5
Share of bank groups in liabilities, %										
01.01.2008	100.0	75.6	10.7	0	0	11.2	0	0.3	1.0	1.2
01.01.2009	100.0	77.7	8.1	0	0	10.3	0	0.4	2.1	1.4
Share of bank groups in capital, %										
01.01.2008	100.0	77.9	6.3	0	0	8.8	0	1.6	2.8	2.6
01.01.2009	100.0	76.7	5.5	0	0	9.6	0	0.9	5.1	2.2

* As of January 1, 2008 the balance sheet and statistical reports were submitted to the National Bank by 27 banks, as of January 1, 2009 – by 31 banks.

INDIVIDUAL INTERNATIONAL RATINGS of the Banks of the Republic of Belarus

Table 3.2

Name of rating agency	**JSC "Belagroprombank"**		**JSC "JSSB Belarusbank"**		**"Belinvestbank" JSC**		**JSC "BPS-Bank"**	
	Rating as of 01.01.2009	**Latest changes**	**Rating as of 01.01.2009**	**Latest changes**	**Rating as of 01.01.2009**	**Latest changes**	**Rating as of 01.01.2009**	**Latest changes**
Fitch Ratings								
Issuer default long-term rating (IDR)	**B-**	10.02.2006 (**CCC+**)	**B-**	10.02.2006 (**CCC+**)	**B-**	13.11.2006 (**a.f.**)	**B-**	10.02.2006 (**CCC+**)
Short-term IDR	**B**	10.02.2006 (**C**)	**B**	10.02.2006 (**C**)	**B**	13.11.2006 (**a.f.**)	**B**	10.02.2006 (**C**)
Outlook for long-term rating	Stable	10.02.2006	Stable	10.02.2006	Stable	13.11.2006	Stable	10.02.2006
Individual rating	**D/E**	15.12.2004 (**a.f.***)	**D/E**	04.02.2005 (**E**)	**D/E**	09.10.2007 (**E**)	**D/E**	10.10.2006 (**E**)
Support rating	**5**	15.12.2004 (**a.f.**)	**5**	22.07.2003 (**4T**)	**5**	13.11.2006 (**a.f.**)	**5**	19.02.2004 (**a.f.**)
Moody's Investors Service								
Foreign currency long-term deposit rating	**B2**	18.02.2008 (**a.f.**)	**B2**	25.10.2007 (**a.f.**)	**B2**	22.05.2008 (**a.f.**)	**B2**	19.10.2007 (**a.f.**)
Foreign currency short-term deposit rating	**Not Prime**	18.02.2008 (**a.f.**)	**Not Prime**	25.10.2007 (**a.f.**)	**Not Prime**	22.05.2008 (**a.f.**)	**Not Prime**	19.10.2007 (**a.f.**)
National currency long-term deposit rating	**Ba1**	18.02.2008 (**a.f.**)	**Ba1**	25.10.2007 (**a.f.**)	**Ba2**	22.05.2008 (**a.f.**)	**Ba1**	16.07.2007 (**a.f.**)
National currency short-term deposit rating	**Not Prime**	18.02.2008 (**a.f.**)	**Not Prime**	25.10.2007 (**a.f.**)	**Not Prime**	22.05.2008 (**a.f.**)	**Not Prime**	16.07.2007 (**a.f.**)
Bank financial soundness rating	**E+**	18.02.2008 (**a.f.**)	**E+**	25.10.2007 (**a.f.**)	**E+**	22.05.2008 (**a.f.**)	**E+**	16.07.2007 (**a.f.**)
Standard & Poor's								
Long-term foreign currency deposit rating	**Not assigned**		**Not assigned**		**Not assigned**		**B+**	20.06.2008 (**a.f.**)
Outlook for foreign currency long-term rating							Negative	03.11.2008 (Stable)
Foreign currency short-term credit rating							**B**	20.06.2008 (**a.f.**)
National currency long-term credit rating							**B+**	20.06.2008 (**a.f.**)
National currency short-term credit rating							**B**	20.06.2008 (**a.f.**)
Outlook for national currency long-term rating							Negative	03.11.2008 (Stable)

Table 3.2 cont'd

INDIVIDUAL INTERNATIONAL RATINGS of the Banks of the Republic of Belarus

Name of rating agency	JSC "Belgazprombank""		CJSC VTB Bank (Belarus)		CJSC "BTA Bank"	
	Rating as of 01.01.2009	Latest changes	Rating as of 01.01.2009	Latest changes	Rating as of 01.01.2009	Latest changes
Fitch Ratings						
Issuer default long-term rating (IDR)	**B**	09.10.2007 (**B-**)	**B**	09.10.2007 (**a.f.**[*])	**B**	11.12.2008 (**a.f.**)
Short-term IDR	**B**	09.03.2005 (**a.f.**)	**B**	09.10.2007 (**a.f.**)	**B**	11.12.2008 (**a.f.**)
Outlook for long-term rating	Stable	09.10.2007	Negative	12.12.2008 (Stable)	Negative	11.12.2008 (**a.f.**)
Individual rating	**E**	09.03.2005 (**a.f.**)	**E**	09.10.2007 (**a.f.**)	**E**	11.12.2008 (**a.f.**)
Support rating	**4**	09.10.2007 (**5**)	**4**	09.10.2007 (**a.f.**)	**4**	11.12.2008 (**a.f.**)

Name of rating agency	JSC "Belgazprombank "		CJSC VTB Bank (Belarus)	
	Rating as of 01.01.2009	Latest changes	Rating as of 01.01.2009	Latest changes
Moody's Investors Service				
Foreign currency long-term deposit rating	**B2**	15.07.2008 (**a.f.**)	**B2**	27.11.2008 (**a.f.**)
Foreign currency short-term deposit rating	**Not Prime**	15.07.2008 (**a.f.**)	**Not Prime**	27.11.2008 (**a.f.**)
National currency long-term deposit rating	**Ba2**	15.07.2008 (**a.f.**)	**B2**	27.11.2008 (**a.f.**)
National currency short-term deposit rating	**Not Prime**	15.07.2008 (**a.f.**)	**Not Prime**	27.11.2008 (**a.f.**)
Bank financial soundness rating	**E+**	15.07.2008 (**a.f.**)	**E+**	27.11.2008 (**a.f.**)

[*] a.f. - assigned for the first time

Table 3.3

INDICATORS
of financial stability of the banking sector of the Republic of Belarus

Indicators	01.01.2007	01.01. 2008	Change	01.01.2009	Change
Capital adequacy					
Regulatory capital adequacy ratio	24.39	19.31	-5.08	21.79	2.48
Fixed capital adequacy ratio (Tier I)	17.37	14.03	-3.34	16.94	2.91
Capital to assets	17.79	15.92	-1.87	17.39	1.47
Credit risk					
Growth of credit to the economy	32.52	36.19	3.67	25.80	-10.39
Large exposures to regulatory capital	65.99	101.43	35.44	111.22	9.79
Share of nonperforming assets in total assets exposed to credit risk	2.83	1.92	-0.91	1.68	-0.24
Share of nonperforming loans in total credit to the economy	1.16	0.65	-0.51	0.59	-0.06
Nonperforming assets less provisions actually created against them to capital	6.12	5.21	-0.91	4.52	-0.69
Distribution of loans by branch					
Industry	36.56	35.51	-1.05	35.99	0.48
Agriculture	18.64	18.66	0.02	19.69	1.03
Construction	2.90	3.59	0.69	4.40	0.81
Trade and public catering	10.22	10.83	0.61	9.13	-1.7
Housing and utilities	2.12	1.42	-0.70	0.77	-0.65
Other	29.56	30.00	0.44	30.02	0.02
Incomes/returns					
Return on assets	2.39	2.30	-0.09	1.91	-0.39
Return on capital	12.87	13.80	0.93	13.07	-0.73
Interest margin to gross income	38.88	40.66	1.78	35.67	-4.99
Non-interest expenses to gross income	75.64	73.92	-1.72	77.79	3.87
Personnel expenses to non-interest expenses	32.91	31.50	-1.41	28.06	-3.44

Table 3.3 cont'd

INDICATORS
of financial stability of the banking sector of the Republic of Belarus

Indicators	01.01.2007	01.01. 2008	Change	01.01.2009	Change
Interest rates spread					
for all loans and deposits in Belarusian rubles	3.70	5.30	1.60	4.90	-0.4
for new loans and deposits in Belarusian rubles	3.20	3.00	-0.20	2.30	-0.7
for all foreign exchange loans and deposits	4.40	4.50	0.10	4.20	-0.3
for new foreign exchange loans and deposits	3.40	3.60	0.20	3.80	0.2
Liquidity					
Liquid assets to total assets	24.11	22.60	-1.51	23.20	0.6
Short-term liquidity	1.81	1.97	0.16	2.30	0.33
Instant liquidity	128.85	104.05	-24.80	108.81	4.76
Current liquidity	96.69	98.78	2.09	102.01	3.23
For information:					
Maturity mismatch between assets and liabilities over 12 months, trillion Belarusian rubles	-6.155	-6.158	0.00	-10.382	-4.224
Foreign exchange risk					
Total open foreign exchange position to regulatory capital	9.53	4.79	-4.74	9.27	4.48
Share of clients' debt on loans and other asset operations in foreign exchange in clients' total debt on loans and other asset operations	35.50	39.11	3.61	31.91	-7.2
Share of clients' resources in foreign exchange in total resources attracted from clients	34.68	36.75	2.07	32.95	-3.8

Table 3.3 cont'd

INDICATORS
of financial stability of non-financial corporations' sector of the Republic of Belarus

Indicators	2006	2007	Change	January-September 2009	Change
Ratio of aggregate debt to own capital %	31.35	34.86	3.51	39.61	4.75
Rate of return on own capital (return on own capital), %	9.15	8.76	-0.39	10.27	1.51
Ratio of profit to expenditures relating to the repayment of the principle of the loan and interest, %	56.6	46.2	-10.4	52.2*	6.0
Ratio of net open foreign exchange position to own capital, %	-6.04	-7.94	-1.90	-8.19	-0.25
Number of applications for protection against creditors				1 386	

INDICATORS
of financial stability of households sector of the Republic of Belarus

Indicators	01.01.2007	01.01. 2008	Change	01.01.2009	Change
Ratio of households' debt to GDP, %	6.9	8.2	1.3	9.8	1.6
Ratio of households' expenditure relating to the repayment of the principle of the loan and interest to profit, %	4.2	5.5	1.3	6.1	0.6

* - in the whole of 2008

Table 3.4

DISTRIBUTION OF BANKS
by regulatory capital adequacy ratio

Bank group	Number of banks/share in the banking sector's assets													
01.01.2008	CAR* <= 0		0 < CAR <= 8		8 < CAR <= 16		16 < CAR <= 24		24 < CAR <= 30		30 < CAR		Total	
Banking sector	0	0	0	0	5	30.8	7	46.8	2	19.5	13	2.9	27	100.0
State-owned banks	0	0	0	0	2	16.2	1	40.5	1	19.3	1	0.5	5	76.5
Foreign banks	0	0	0	0	3	14.6	5	5.9	1	0.2	8	1.4	17	22.1
Private banks	0	0	0	0	0	0	1	0.4	0	0	4	1.0	5	1.4
Large banks	0	0	0	0	3	26.2	1	40.5	1	19.3	0	0	5	86.0
Medium banks	0	0	0	0	2	4.7	4	5.4	0	0	1	0.8	7	10.8
Small banks	0	0	0	0	0	0	2	0.9	1	0.2	12	2.1	15	3.2
01.01.2009	CAR <= 0		0 < CAR <= 8		8 < CAR <= 16		16 < CAR <= 24		24 < CAR <= 30		30 < CAR		Total	
Banking sector	0	0	0	0	4	17.8	7	51.1	3	2.7	17	28.4	31	100.0
State-owned banks	0	0	0	0	1	6.7	2	47.3	0	0	2	24.0	5	78.0
Foreign banks	0	0	0	0	3	11.1	3	3.0	2	2.4	12	3.9	20	20.5
Private banks	0	0	0	0	0	0	2	0.9	1	0.2	3	0.4	6	1.5
Large banks	0	0	0	0	2	14.4	2	47.3	0	0	1	23.5	5	85.1
Medium banks	0	0	0	0	2	3.5	1	2.0	1	2.3	1	2.4	5	10.2
Small banks	0	0	0	0	0	0	4	1.8	2	0.4	15	2.5	21	4.7

* Regulatory capital adequacy ratio

Table 3.5

DISTRIBUTION OF BANKS
by share of nonperforming assets

Bank group	Number of banks/Share in the banking sector's assets													
01.01.2008	share = 0		0 < share <= 1		1 < share <= 2		2 < share <= 4		4 < share <= 8		8 < share		Total	
Banking sector	4	0.2	10	54.1	6	21.5	4	4.3	2	19.5	1	0.3	27	100.0
State-owned banks	0	0	2	49.0	2	8.2	0	0	1	19.3	0	0	5	76.5
Foreign banks	4	0.2	5	4.2	4	13.3	4	4.3	0	0	0	0	17	22.1
Private banks	0	0	3	0.9	0	0	0	0	1	0.3	1	0.3	5	1.4
Large banks	0	0	2	49.0	2	17.7	0	0	1	19.3	0	0	5	86.0
Medium banks	0	0	2	3.5	2	3.1	3	4.2	0	0	0	0	7	10.8
Small banks	4	0.2	6	1.6	2	0.7	1	0.1	1	0.3	1	0.3	15	3.2
01.01.2009	share = 0		0 < share <= 1		1 < share <= 2		2 < share <= 4		4 < share <= 8		8 < share		Total	
Banking sector	5	0.2	9	46.4	9	26.6	3	24.2	4	2.5	1	0.1	31	100.0
State-owned banks	0	0	2	40.9	2	13.5	1	23.5	0	0	0	0	5	78.0
Foreign banks	4	0.1	5	5.1	7	13.1	1	0.2	2	1.9	1	0.1	20	20.5
Private banks	1	0	2	0.4	0	0	1	0.6	2	0.6	0	0	6	1.5
Large banks	0	0	1	40.5	3	21.2	1	23.5	0	0.0	0	0	5	85.1
Medium banks	0	0	2	4.4	2	4.0	0	0	1	1.8	0	0	5	10.2
Small banks	5	0.2	6	1.5	4	1.5	2	0.7	3	0.7	1	0.1	21	4.7

Table 3.6

DISTRIBUTION OF BANKS
by liquidity indicator value

Banking group	Number of banks/Share in the banking sector's assets											
ILR*	0 < ILR <= 20		20 < ILR <= 40		40 < ILR <= 70		70 < ILR <= 100		100 < ILR		Total	
Banking sector	0	0	0	0	0	0	4	70.9	26	29.1	30	100.0
State-owned banks	0	0	0	0	0	0	3	70.7	2	7.3	5	78.0
Foreign banks	0	0	0	0	0	0	1	0.2	18	20.3	19	20.5
Private banks	0	0	0	0	0	0	0	0	6	1.5	6	1.5
Large banks	0	0	0	0	0	0	3	70.7	2	14.4	5	85.2
Medium banks	0	0	0	0	0	0	0	0	5	10.2	5	10.2
Small banks	0	0	0	0	0	0	1	0.2	19	4.5	20	4.7
CLR*	0 < CLR <= 70		70 < CLR <= 80		80 < CLR <= 90		90 < CLR <= 100		100 < CLR		Total	
Banking sector	0	0	0	0	4	70.9	1	0.5	26	28.6	31	100.0
State-owned banks	0	0	0	0	3	70.7	0	0	2	7.3	5	78.0
Foreign banks	0	0	0	0	1	0.2	1	0.5	18	19.8	20	20.5
Private banks	0	0	0	0	0	0	0	0	6	1.5	6	1.5
Large banks	0	0	0	0	3	70.7	0	0	2	14.4	5	85.1
Medium banks	0	0	0	0	0	0	0	0	5	10.2	5	10.2
Small banks	0	0	0	0	1	0.2	1	0.5	19	4.0	21	4.7

* ILR – instant liquidity ratio
CLR – current liquidity ratio

Table 3.6 cont'd

DISTRIBUTION OF BANKS
by liquidity indicator value

Banking group	Number of banks/Share in the banking sector's assets											
SLR*	0 < SLR <= 1		1 < SLR <= 1,5		1,5 < SLR <= 2,0		2,0 < SLR <= 2,5		2,5 < SLR		Total	
Banking sector	0	0	4	5.1	8	59.3	2	30.3	15	5.3	29	100.0
State-owned banks	0	0	1	0.5	2	47.2	2	30.3	0	0	5	78.0
Foreign banks	0	0	3	4.7	5	11.7	0	0	10	4.1	18	20.4
Private banks	0	0	0	0	1	0.3	0	0	5	1.2	6	1.5
Large banks	0	0	0	0	3	54.9	2	30.3	0	0	5	85.2
Medium banks	0	0	2	4.1	2	3.7	0	0	1	2.4	5	10.2
Small banks	0	0	2	1.0	3	0.7	0	0	14	2.9	19	4.6
LATA*	0 < LATA <= 20		20 < LATA <= 30		30 < LATA <= 40		40 < LATA <= 50		50 < LATA		Total	
Banking sector	1	23.5	9	56.0	10	18.8	6	1.2	5	0.4	31	100.0
State-owned banks	1	23.5	2	47.2	2	7.3	0	0	0	0	5	78.0
Foreign banks	0	0	7	8.8	5	10.8	3	0.4	5	0.4	20	20.5
Private banks	0	0	0	0	3	0.7	3	0.8	0	0	6	1.5
Large banks	1	23.5	2	47.2	2	14.4	0	0	0	0	5	85.1
Medium banks	0	0	4	8.1	1	2.0	0	0	0	0	5	10.2
Small banks	0	0	3	0.7	7	2.3	6	1.2	5	0.4	21	4.7

* SLR – short-term liquidity ratio
LATA – ratio of liquid assets to total assets

Table 3.7

DISTRIBUTION OF BANKS
by ratio of total foreign exchange position to regulatory capital

Banking group	Number of banks/Share in the banking sector's assets													
01.01.2008	TFEP= 0		0 < TFEP <= 5		5 < TFEP <= 10		10 < TFEP <= 15		15 < TFEP <= 20		20 < TFEP		Total	
Banking sector	0	0	8	34.2	11	61.7	7	4.1	0	0	1	0.1	27	100.0
State-owned banks	0	0	1	19.3	4	57.2	0	0	0	0	0	0	5	76.5
Foreign banks	0	0	4	14.1	5	3.9	7	4.0	0	0	1	0.1	17	22.1
Private banks	0	0	3	0.7	2	0.7	0	0	0	0	0	0	5	1.4
Large banks	0	0	2	29.3	3	56.7	0	0	0	0	0	0	5	86.0
Medium banks	0	0	2	4.0	2	3.2	3	3.6	0	0	0	0	7	10.8
Small banks	0	0	4	0.9	6	1.8	4	0.4	0	0	1	0.1	15	3.2
01.01.2009	TFEP = 0		0 < TFEP <= 5		5 < TFEP <= 10		10 < TFEP <= 15		15 < TFEP <= 20		20 < TFEP		Total	
Banking group	0	0	8	26.7	12	55.7	6	9.7	2	0.1	3	7.8	31	100.0
State-owned banks	0	0	1	23.5	2	47.3	2	7.2	0	0	0	0	5	78.0
Foreign banks	0	0	4	2.6	8	7.7	3	2.3	2	0.1	3	7.8	20	20.5
Private banks	0	0	3	0.6	2	0.7	1	0.2	0	0	0	0	6	1.5
Large banks	0	0	1	23.5	2	47.3	1	6.7	0	0	1	7.6	5	85.1
Medium banks	0	0	1	2.3	3	5.9	1	2.0	0	0	0	0	5	10.2
Small banks	0	0	6	0.9	7	2.6	4	0.9	2	0.1	2	0.2	21	4.7

Table 3.8

DISTRIBUTION OF BANKS
by return on equity (before tax)

Banking group	Number of banks/Share in the banking sector's assets													
01.01.2008	ROE <= 0		0 < ROE<= 5		5 < ROE <= 10		10 < ROE <= 15		15 < ROE <= 20		20 < ROE		Total	
Banking sector	1	0	1	0.3	4	20.3	3	40.7	6	2.0	12	36.7	27	100.0
State-owned banks	0	0	0	0	2	19.8	1	40.5	0	0	2	16.2	5	76.5
Foreign banks	1	0	0	0	1	0.1	2	0.2	4	1.6	9	20.2	17	22.1
Private banks	0	0	1	0.3	1	0.4	0	0	2	0.4	1	0.3	5	1.4
Large banks	0	0	0	0	1	19.3	1	40.5	0	0	3	26.2	5	86.0
Medium banks	0	0	0	0	0	0	0	0	1	0.9	6	10.0	7	10.9
Small banks	1	0	1	0.3	3	1.0	2	0.2	5	1.2	3	0.5	15	3.2
01.01.2009														
Banking sector	0	0	4	0.9	4	24.4	3	43.0	5	9.6	11	22.0	27	100.0
State-owned banks	0	0	1	0.5	1	23.5	1	40.5	1	6.7	1	6.8	5	78.0
Foreign banks	0	0	3	0.4	1	0.4	2	2.5	2	2.1	9	15.0	17	20.4
Private banks	0	0	0	0	2	0.5	0	0	2	0.8	1	0.2	5	1.5
Large banks	0	0	0	0	1	23.5	1	40.5	1	6.7	2	14.4	5	85.1
Medium banks	0	0	0	0	0	0	1	2.4	1	2.0	3	5.8	5	10.2
Small banks	0	0	4	0.9	3	0.9	1	0.1	3	0.9	6	1.8	17	4.6

Table 3.9

DISTRIBUTION OF BANKS
by return on assets (before tax)

Banking group	Number of banks/Share in the banking sector's assets													
01.01.2008	ROA <= 0		0 < ROA <= 0,5		0,5 < ROA <= 1		1 < ROA <= 2		2 < ROA <= 3		3 < ROA		Total	
Banking sector	1	0	0	0	0	0	3	60,1	5	22,8	18	17,1	27	100,0
State-owned banks	0	0	0	0	0	0	2	59,8	1	7,7	2	9,0	5	76,5
Foreign banks	1	0	0	0	0	0	0	0	3	14,7	13	7,4	17	22,1
Private banks	0	0	0	0	0	0	1	0,3	1	0,4	3	0,7	5	1,4
Large banks	0	0	0	0	0	0	2	59,8	2	17,7	1	8,5	5	86,0
Medium banks	0	0	0	0	0	0	0	0	2	4,7	5	6,2	7	10,9
Small banks	1	0	0	0	0	0	1	0,3	1	0,4	12	2,4	15	3,1
01.01.2009														
Banking sector	0	0	0	0	1	0,2	10	76,2	3	16,5	13	7,0	27	100,0
State-owned banks	0	0	0	0	0	0	4	71,2	1	6,8	0	0	5	78,0
Foreign banks	0	0	0	0	1	0,2	2	4,7	5	9,7	9	5,8	17	20,4
Private banks	0	0	0	0	0	0	1	0,3	0	0	4	1,2	5	1,5
Large banks	0	0	0	0	0	0	3	70,7	2	14,5	0	0	5	85,2
Medium banks	0	0	0	0	0	0	2	4,0	1	2,1	2	4,1	5	10,2
Small banks	0	0	0	0	1	0,2	5	1,4	0	0	11	2,9	17	4,5

FINDINGS OF STRESS- TESTING
of the banking sector (credit risk, foreign exchange risk, and interest rate risk)

Table 3.10

Indicators	ALL	SOB	FB	PB	LB	MB	SB
Actual values as at January 1, 2009							
Capital adequacy ratio (CAR), %	21.8	21.5	22.2	32.9	20.6	23.2	40.1
Profit during 12 months, billion Belarusian rubles	732.8	438.9	270.8	23.1	527.4	125.3	80.0
Values after shock							
Scenario. Deterioration of the quality of assets							
by 5 percentage points							
CAR, %	19.7	19.4	20.2	31.3	18.5	21.2	38.7
losses to profit during 12 months	1.82	2.37	1.02	0.78	2.16	1.09	0.71
by 10 percentage points							
CAR, %	17.6	17.2	18.1	29.6	16.3	19.1	37.1
losses to profit during 12 months	3.64	4.74	2.04	1.57	4.33	2.18	1.42
by 15 percentage points							
CAR, %	15.3	14.9	15.8	27.8	14.0	16.9	35.5
losses to profit during 12 months	5.46	7.12	3.05	2.35	6.49	3.27	2.14
Scenario. Devaluation of the national currency to US dollar							
by 5 %							
CAR, %	21.8	21.5	22.3	32.9	20.7	23.2	40.2
losses to profit during 12 months	-0.04	-0.04	-0.05	-0.02	-0.05	-0.02	-0.04
by 10 %							
CAR, %	21.9	21.5	22.4	33.0	20.7	23.3	40.3
losses to profit during 12 months	-0.08	-0.07	-0.10	-0.04	-0.09	-0.03	-0.09
by 20 %							
CAR, %	22.0	21.6	22.6	33.1	20.8	23.3	40.5
losses to profit during 12 months	-0.17	-0.15	-0.20	-0.09	-0.19	-0.07	-0.18
Scenario. Increase in the Belarusian ruble and foreign currency yield curve							
by 500 basis points							
CAR, %	21.0	20.6	21.5	32.4	19.8	22.5	39.8
losses to profit during 12 months	0.74	1.00	0.37	0.23	0.92	0.36	0.19
by 1000 basis points							
CAR, %	20.22	19.82	20.83	32.03	18.96	21.96	39.42
losses to profit during 12 months	1.4	1.9	0.7	0.4	1.7	0.7	0.4
by 2000 basis points							
CAR, %	18.92	18.45	19.74	31.33	17.58	20.95	38.82
losses to profit during 12 months	2.51	3.39	1.23	0.77	3.10	1.22	0.65

Table 3.10 cont'd

FINDINGS OF STRESS- TESTING
of the banking sector (credit risk, foreign exchange risk, and interest rate risk)

Indicators	Number of banks					
	CAR <= 0	0 < CAR <= 8	8 < CAR <= 16	16 < CAR <= 24	24 < CAR <= 30	30 < CAR
Actual values as at January 1, 2009						
Capital adequacy ratio (CAR), %	0	0	4	7	3	17
share in assets, %	0	0	17.8	51.1	2.7	28.4
Values after shock						
Scenario. Deterioration of the quality of assets						
by 5 percentage points	0	0	6	6	3	16
share in assets, %	0	0	65.1	6.2	23.9	4.8
by 10 percentage points	0	0	7	6	3	15
share in assets, %	0	0	65.5	6.0	26.0	2.5
by 15 percentage points	0	3	6	4	3	15
share in assets, %	0	11.1	55.3	5.1	26.0	2.5
Scenario. Devaluation of the national currency to US dollar						
by 5%	0	0	4	7	3	17
share in assets, %	0	0	17.8	51.1	2.7	28.4
by 10%	0	0	4	7	3	17
share in assets, %	0	0	17.8	51.1	2.7	28.4
by 20%	0	0	4	7	3	17
share in assets, %	0	0	17.8	51.1	2.7	28.4
Scenario. Increase in the Belarusian ruble and foreign currency yield curve						
by 500 basis points	0	0	4	8	3	16
share in assets, %	0	0	17.8	53.4	23.9	4.8
by 1000 basis points	0	0	5	7	3	16
share in assets, %	0	0	24.6	46.6	23.9	4.8
by 2000 basis points	0	0	5	7	3	16
share in assets, %	0	0	63.4	7.8	23.9	4.8

Table 3.11

FINDINGS OF STRESS-TESTING
of the banking sector (liquidity risk)

Indicators	ALL	SOB	FB	PB	LB	MB	SB
Actual values as at January 1, 2009							
Liquidity indicators in all types of currencies							
the ratio of liquid assets and total assets	23.2	20.5	31.7	39.9	21.6	29.1	39.6
instant liquidity ratio	108.8	80.4	255.1	183.3	93.9	202.1	222.9
current liquidity ratio	102.0	84.6	156.5	201.6	92.4	139.5	186.6
short-term liquidity ratio	2.3	2.2	2.6	3.5	2.1	2.6	4.5
Values after shock							
Scenario. The outflow of household's and enterprises' deposits							
The outflow of 5%							
the ratio of liquid assets and total assets	20.8	17.9	30.3	38.1	19.1	27.6	38.2
instant liquidity ratio	86.7	55.0	252.5	175.0	69.7	188.2	219.9
current liquidity ratio	92.0	72.1	154.0	201.8	81.0	134.5	185.4
short-term liquidity ratio	1.94	1.74	2.39	3.09	1.72	2.44	4.19
The outflow of 10%							
the ratio of liquid assets and total assets	18.7	15.5	28.8	36.2	16.8	26.0	36.7
instant liquidity ratio	61.1	26.6	249.2	155.0	42.0	172.2	212.1
current liquidity ratio	80.0	57.5	151.2	196.3	67.6	129.2	182.5
short-term liquidity ratio	1.60	1.37	2.19	1.37	1.36	2.26	3.85
The outflow of 20%							
the ratio of liquid assets and total assets	13.5	9.5	25.7	31.9	11.2	22.7	33.6
instant liquidity ratio	33.5	1.5	211.4	103.2	15.7	125.9	189.8
current liquidity ratio	51.9	23.7	139.6	183.1	36.1	115.1	175.0
short-term liquidity ratio	0.88	0.71	1.74	1.76	0.71	1.86	3.12

Table 3.11 cont'd

FINDINGS OF STRESS-TESTING
of the banking sector (liquidity risk)

Indicators	ALL	SOB	FB	PB	LB	MB	SB
Actual values as at January 1, 2009							
Liquidity indicators in foreign currency							
the ratio of liquid assets and total assets	27.6	23.6	32.0	54.9	27.1	23.9	44.5
instant liquidity ratio	153.1	114.0	254.8	259.8	144.7	156.7	274.2
current liquidity ratio	120.6	92.2	174.2	243.4	115.6	119.8	188.4
short-term liquidity ratio	0.8	0.6	1.5	2.5	0.7	1.3	1.5
Values after shock							
Scenario. The outflow of non-residents' funds in foreign currency							
The outflow of 10%							
the ratio of liquid assets and total assets	12.3	11.3	12.4	44.0	13.1	0.5	36.8
instant liquidity ratio	28.3	29.0	17.3	233.6	26.3	0	175.3
current liquidity ratio	24.4	33.5	7.0	194.1	28.1	0	101.7
short-term liquidity ratio	0.16	0.17	0.05	1.71	0.17	0	1.13
The outflow of 25%							
the ratio of liquid assets and total assets	18.8	16.2	21.6	49.6	20.3	5.3	39.2
instant liquidity ratio	52.1	57.5	27.9	230.4	52.9	4.0	205.8
current liquidity ratio	60.8	57.8	59.9	225.2	65.4	16.8	148.2
short-term liquidity ratio	0.39	0.34	0.25	2.31	0.38	0.03	1.40
The outflow of 50%							
the ratio of liquid assets and total assets	12.3	11.3	12.4	44.0	13.1	0.5	36.8
instant liquidity ratio	28.3	29.0	17.3	233.6	26.3	0	175.3
current liquidity ratio	24.4	33.5	7.0	194.1	28.1	0	101.7
short-term liquidity ratio	0.16	0.17	0.05	1.71	0.17	0	1.13

Table 3.11 cont'd

FINDINGS OF STRESS-TESTING
of the banking sector (liquidity risk)

Показатели	0 < ILR <= 20	20 < ILR <= 40	40 < ILR <= 70	70 < ILR <= 100	100 < ILR
Actual values as at January 1, 2009					
Liquidity indicators in all types of currencies					
instant liquidity ratio*	0	0	0	4	26
share in assets, %	0	0	0	70.9	29.1
Liquidity indicators in foreign currency					
instant liquidity ratio**	0	0	0	4	25
share in assets, %	0	0	0	43.2	56.8
Value after shock					
Scenario. The outflow of household's and enterprises' deposits					
The outflow of 5%	0	1	2	3	24
share in assets, %	0	23.5	47.2	0.7	28.6
The outflow of 10%	1	2	0	7	20
share in assets, %	23.5	47.2	0	10.5	18.8
The outflow of 20%	4	1	3	4	18
share in assets, %	77.5	2.3	1.0	2.6	16.6
Scenario. The outflow of non-residents' funds in foreign currency					
The outflow of 10%	2	1	3	4	19
share in assets, %	2.7	1.8	27.3	41.4	26.8
The outflow of 25%	12	0	2	3	12
share in assets, %	47.4	0	42.9	7.4	2.3
The outflow of 50%	15	1	1	3	9
share in assets, %	56.5	40.6	0.2	1.4	1.4

* 1 bank was excluded from the calculations due to the impossibility to calculate the instant liquidity ratio because of the lack of corresponding assets.
** 2 banks were excluded from the calculations due to the impossibility to calculate the instant liquidity ratio because of the lack of corresponding assets.

Table 3.11 cont'd

FINDINGS OF STRESS-TESTING
of the banking sector (liquidity risk)

Indicators	0 < CLR <= 70	70 < CLR <= 80	80 < CLR <= 90	90 < CLR <= 100	100 < CLR
Actual values as at January 1, 2009					
Liquidity indicators in all types of currencies					
current liquidity ratio	0	0	4	1	26
share in assets, %	0	0	70,9	0,5	28,6
Liquidity indicators in foreign currency					
current liquidity ratio	0	1	1	7	22
share in assets, %	0	0,2	6,8	73,9	19,1
Values after shock					
Scenario. The outflow of household's and enterprises' deposits					
The outflow of 5%	3	0	2	0	26
share in assets, %	70,7	0	0,7	0	28,6
The outflow of 10%	3	1	1	2	24
share in assets, %	70,7	0,2	0,5	8,5	20,1
The outflow of 20%	3	3	0	1	24
share in assets, %	70,7	7,5	0	1,7	20,1
Scenario. The outflow of non-residents' funds in foreign currency					
The outflow of 10%	6	2	4	2	17
share in assets, %	34,3	4,3	47,5	1,0	12,8
The outflow of 25%	12	2	1	1	15
share in assets, %	48,5	40,6	0,5	0,5	9,9
The outflow of 50%	18	0	1	1	11
share in assets, %	97,0	0,0	0,5	0,5	2,0

Table 3.11 cont'd

FINDINGS OF STRESS-TESTING
of the banking sector (liquidity risk)

Indicators	0 < SLR <= 1	1 < SLR <= 1.5	1.5 < SLR <= 2.0	2.0 < SLR <= 2.5	2.5 < SLR
Actual values as at January 1, 2009					
Liquidity indicators in all types of currencies					
short-term liquidity ratio*	0	4	8	2	15
share in assets, %	0	5.1	59.3	30.3	5.3
Liquidity indicators in foreign currency					
short-term liquidity ratio*	11	6	1	2	9
share in assets, %	81.1	7.3	0.2	10.0	1.4
Values after shocks					
Scenario. The outflow of household's and enterprises' deposits					
The outflow of 5%	0	7	6	2	14
share in assets, %	0	45.9	42.0	7.2	4.9
The outflow of 10%	1	11	1	2	14
share in assets, %	0.2	64.0	23.5	7.2	5.2
The outflow of 20%	8	7	1	4	9
share in assets, %	81.8	13.3	0.6	3.0	1.3
Scenario. The outflow of non-residents' funds in foreign currency					
The outflow of 10%	16	2	2	1	8
share in assets, %	95.5	0.9	2.6	0.2	0.8
The outflow of 25%	20	1	0	1	7
share in assets, %	98.6	0.6	0	0.2	0.7
The outflow of 50%	20	1	0	0	8
share in assets, %	98.6	0.6	0	0	0.9

* 2 banks were excluded from the calculations due to the impossibility to calculate the instant liquidity ratio because of the lack of corresponding assets.

Table 3.11 cont’d

FINDINGS OF STRESS-TESTING
of the banking sector (liquidity risk)

Indicators	0 < LATA <= 20	20 < LATA <= 30	30 < LATA <= 40	40 < LATA <= 50	50 < LATA
Actual values					
Liquidity indicators in all types of currencies					
ratio of liquid assets to total assets	1	9	10	6	5
share in assets, %	23.5	56.0	18.8	1.2	0.4
Liquidity indicators in foreign currency					
ratio of liquid assets to total assets	6	6	5	3	11
share in assets, %	39.7	47.2	10.7	0.6	1.8
Values after shock					
Scenario. The outflow of household’s and enterprises’ deposits					
The outflow of 5 %	2	9	10	5	5
share in assets, %	64.0	22.3	12.2	1.1	0.4
The outflow of 10%	4	10	10	2	5
share in assets, %	71.1	25.1	3.3	0.1	0.4
The outflow of 20%	4	13	7	2	5
share in assets, %	71.1	26.5	1.9	0.1	0.4
Scenario. The outflow of non-residents’ funds in foreign currency					
The outflow of 10%	10	3	4	4	10
share in assets, %	46.3	42.7	8.7	0.8	1.6
The outflow of 25%	11	3	5	2	10
share in assets, %	48.3	40.8	8.9	0.4	1.6
The outflow of 50%	14	2	3	2	10
share in assets, %	89.2	7.8	1.1	0.4	1.6