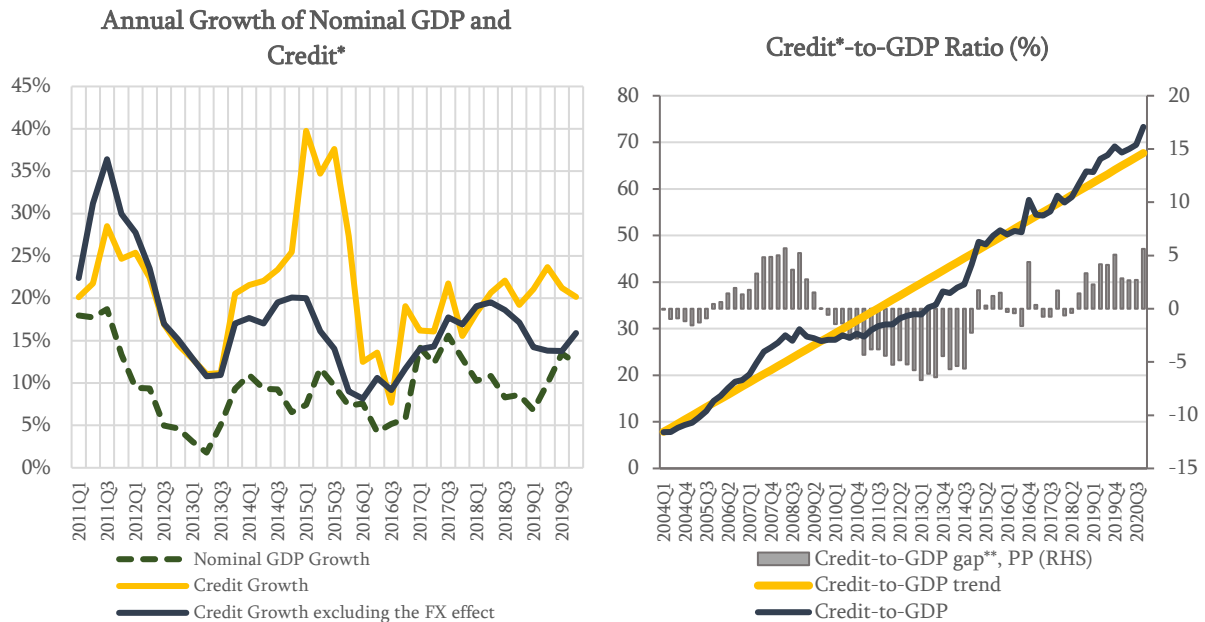




## Financial Stability Committee's Decision

6 March, 2020

**Financial Stability Committee of the National Bank of Georgia made a decision to leave the countercyclical buffer unchanged, at 0%.** The annual growth rate of credit\* portfolio in December 2019, excluding the exchange rate effect, amounted to 15.9%, which is mainly due to the growth of loans to legal entities. It should be noted that Credit-to-GDP ratio still exceeds its long run trend, which reflects the high credit growth and exchange rate effects. It is important to maintain a credit growth that is in line with economic activity and supports sustainable growth of the economy and the welfare of society, without accumulating excessive financial stability risks. Current credit growth exceeds nominal economic growth significantly, by 8 pp. Such development could lead to the accumulation of risks. According to the Committee's assessment, increasing threats from Coronavirus might slow the lending pace down that will result in convergence of Credit-to-GDP ratio to its long run trend.



Source: NBG; Geostat

\* Credit includes loans directly issued by commercial banks and microfinance institutions as well as bonds issued domestically by the non-financial sector.

\*\* Credit-to-GDP gap is the deviation of Credit-to-GDP ratio from its long-run trend. The trend is estimated using HP filter in line with the Basel recommendations

**Since the regulation of responsible lending to natural persons came into force, the credit growth has slowed down and it is now more consistent with the income growth.** In January 2020, the annual growth of bank lending to households amounted to 10.8%. Mortgage loans and loans to individual entrepreneurs contributed significantly to the annual growth of household debt. In addition, lending standards have improved since the beginning of 2019. In particular, there was a reduction in the share of mortgage loans with the payment-to-income ratio (PTI) above 50%. Moreover, funds



available for financing legal entities have increased. Annual growth of lending to legal entities rose to 22.9% in January 2020, which exceeds the previous year's corresponding number by 4.6 pp.

**The National Bank of Georgia made a decision to simplify the regulation about lending to natural persons and strengthen its principle-based approach.** The latter implies decrease in administrative burden for lenders when issuing a loan and increases their flexibility in managing risks. Among other things, the simplifications entail reducing the number of income limits determined for the payment-to-income ratio. It should be noted that the main principles of the regulation are unchanged and lending institutions shall not impose financial liability on a consumer for whom servicing the loan presents a significant financial difficulty.

The National Bank of Georgia continues monitoring the country's financial stability and assessing domestic and foreign risks. If necessary, it will use all available instruments to minimize the possible risks.

The Financial Stability Committee's next meeting will be held on May 27, 2020.