Credit Conditions Survey

II Quarter

საქართველოს ეროვნული ბანკი
National Bank of Georgia

The National Bank of Georgia has been conducting a quarterly credit conditions survey since 2013. The survey is conducted through an online platform, and the respondents are senior managers of the banking sector. The purpose of the survey is to obtain information from respondents on current and future trends in lending. In particular, the survey includes questions about demand on loans and changes in interest and non-interest terms of lending to individuals and legal entities, as well as questions about the factors causing these changes.

The questionnaire consists of only qualitative questions and does not require quantitative evaluation by respondents. In order to convert information into quantitative units, the methodology of balance sheet statistics is used. The index ranges from -100 to 100. 100 indicates that 100% of respondents perceive a significant improvement in the trend, while the Index -100 indicates that 100% of respondents perceive a significant deterioration. 0 means that the trend has not changed compared to the previous quarter. When calculating the index, the answers of the respondents are given equal weight, regardless of the size of the bank.

Based on the analysis of the survey results, a report is prepared, which will be published quarterly. In addition to the final results of the survey, this report includes official statistical information on lending trends.

The expectations presented in this report reflect only the assessment of the respondents of the credit conditions survey on the future trend of lending and not the expectations of the representatives of the National Bank of Georgia.

Credit Conditions Survey

Summary

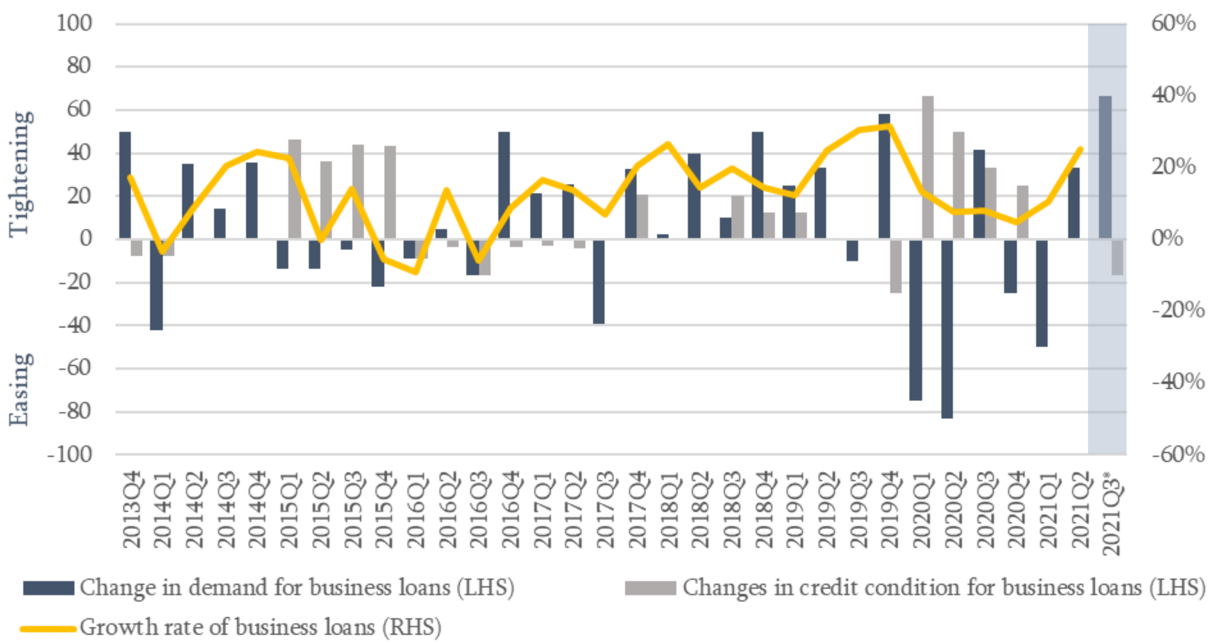
According to the credit conditions survey, in the second quarter of 2021, compared to the previous quarter, the demand for business loans for financing both, the inventories and working capital increased. Representatives of the banking sector expect an increase in demand for business loans in the next quarter. In the second quarter, non-interest rate conditions for business loans eased slightly, which was mainly driven by changes in the competition on the market and economic trends. While interest rate conditions have slightly tightened. In particular, according to the survey, margins for fixed and variable interest rate loans issued in domestic currency increased slightly. In the next quarter, representatives of the banking sector expect a slight tightening of interest rate conditions for business loans, while no significant changes for non-interest rate conditions are expected.

According to the credit conditions survey, in the second quarter of 2021, compared to the previous quarter, the demand for retail loans increased. Representatives of the banking sector expect an increase in demand for retail loans in the next quarter. In the second quarter of 2021, non-interest rate conditions for mortgage loans have eased slightly, which was mainly driven by changes in economic trends. Interest rate conditions for retail loans issued in domestic currency have tightened slightly, which was mainly driven by an increase in the monetary policy rate. While interest rate conditions for loans issued in foreign currency have eased. Representatives of the banking sector, do not expect significant changes in non-interest and interest rate conditions for retail loans in the next quarter.

Credit conditions and trends for business loans

According to the credit conditions survey, in the second quarter of 2021, compared to the previous quarter, the demand for business loans increased. It is expected that demand for business loans will continue to increase in the next quarter. According to the data available to the National Bank, in June 2021, compared to March, the annualized growth rate[1] of corporate loans increased and amounted to 25%, while loans to SMEs also increased and equaled to 26%. In terms of currencies, the growth of the corporate loan portfolio was mainly driven by domestic currency loans. It is important to emphasize that the growth of business loans was primarily driven by an increase in loans issued to the construction, agriculture, and energy sectors. According to representatives of the banking sector, in the second quarter, financing both, the inventories and working capital increased. Moreover, in the next quarter, an increase in demand for business loans is expected (see Figure 1).

Figure 1. Changes in demand for business loans and credit conditions [2]



Source: Credit conditions Survey, NBG.

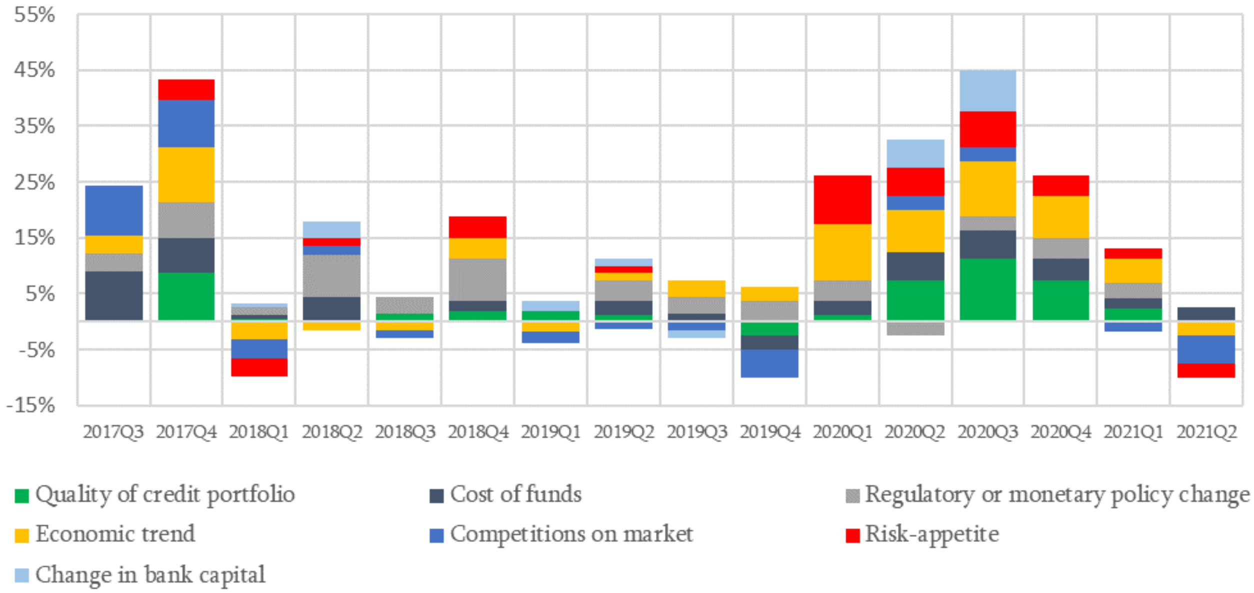
According to the same survey, in the second quarter, non-interest rate conditions for business loans eased slightly. Slight easing in non-interest conditions was mainly driven by competition in the market and changes in economic trends (see Figure 2). According to the data available to the National Bank, the remaining maturity of business loans increased slightly for foreign currency loans and did not change

[1] The data reflects the annualized growth of seasonally adjusted loans, excluding the exchange rate effect.

[2] The index of change in credit conditions and demand, ranges from -100 to 100. 100 indicates that 100% of respondents perceive a significant improvement in the trend, while the Index -100 indicates that 100% of respondents perceive a significant deterioration. 0 means that the trend has not changed compared to the previous quarter. 2021Q3* indicates the expectations over the third quarter of 2021 of representatives of the banking sector.

significantly for national currency loans (see Figure 3). Representatives of the banking sector do not expect significant changes in non-interest rate conditions in the next quarter.

Figure 2. Factors affecting changes in the credit conditions for business loans[3]

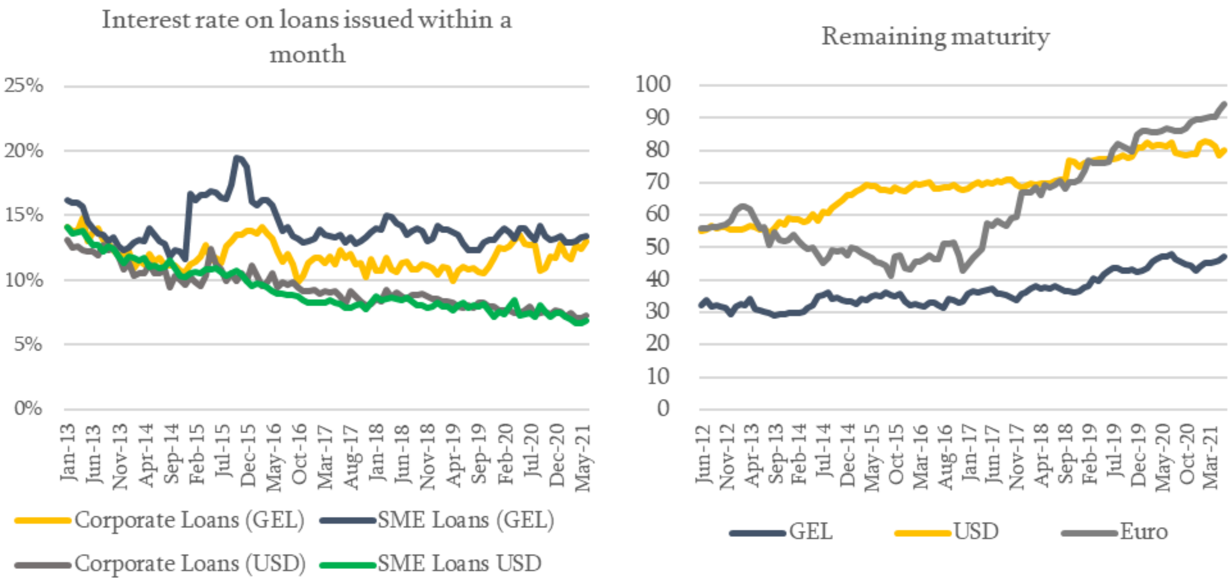


Source: Credit conditions survey

In the second quarter of 2021, interest rate conditions for business loans increased slightly. In particular, according to the data available to the National Bank, in June compared to March, the interest rate on large business loans issued in national currency within the month increased slightly and equaled to 13.0%. As for foreign currency loans, in June compared to March, the interest rate for euro-denominated corporate loans increased by 1.5 pp to 8%, while the interest rates on corporate loans issued in USD did not change significantly and stood at 7.3%. For SME loans, the interest rates on national currency loans increased slightly and amounted to 13.4%. As for foreign currency loans, the interest rate on euro-denominated SME loans decreased slightly to 5.2%. While for the SME loans issued in USD interest rates did not change significantly and stood at 6.8% (see Figure 3). According to the credit conditions survey, margins for fixed and variable interest rate loans issued in domestic currency increased slightly. Representatives of the banking sector expect a slight tightening of interest rate conditions for business loans in the next quarter.

[3] The figure shows the share of each factor in the change in credit conditions. The positive share indicates the share of the factor in tightening, while a negative one indicates a share in easing.

Figure 3. Interest rates and remaining maturity for business loans [4]



Source: NBG.

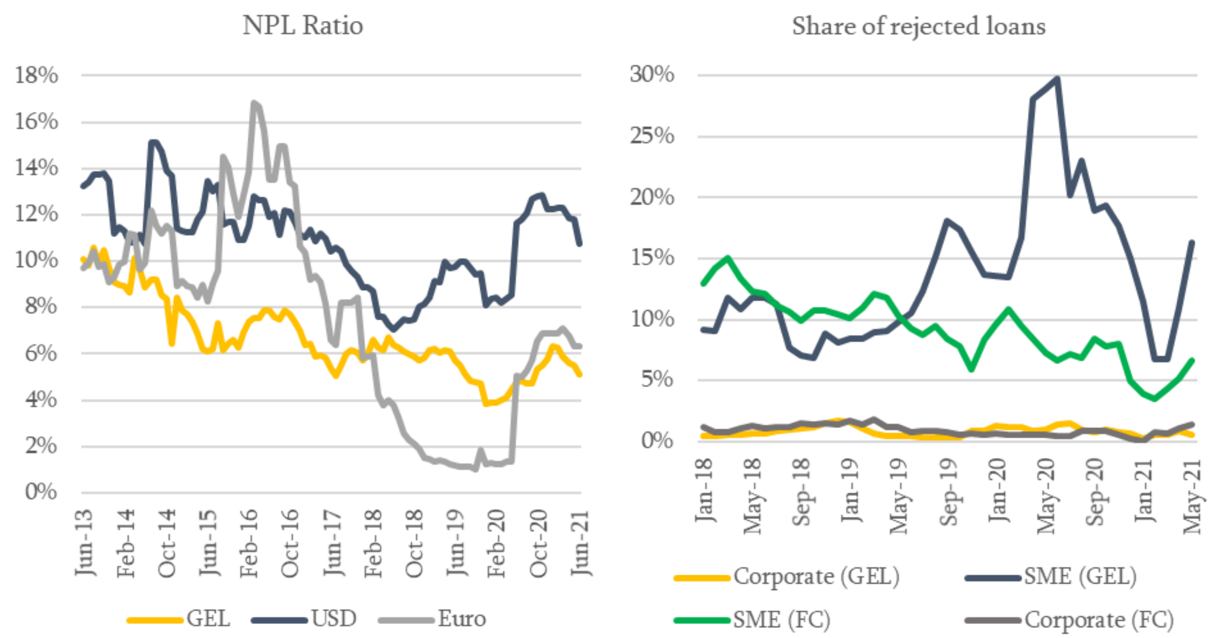
In the second quarter of 2021, the share of non-performing loans (NPL) in business loans decreased slightly. In the second quarter, compared to the previous quarter, the overall share of NPLs in business loans decreased and equaled 7%, which was caused by portfolio growth and improvement of the financial conditions of some companies. In terms of currencies, it is important to indicate that the share of NPLs in business loans issued in domestic currency decreased slightly to 5%. While the share of NPLs for euro-denominated business also decreased slightly and equaled to 6%, as well as the share of NPLs in business loans issued in USD decreased by 2 pp and equaled to 11% (see Figure 4). According to the credit conditions survey, representatives of the banking sector expect a slight decrease in the share of NPLs in business loans, in the next quarter. It is noteworthy, that due to the grace period imposed on the loan service, the outcome of the pandemic in the given period has not yet fully reflected on the quality of the loans. At this point, according to the data available to National Bank, 14% of the corporate loan portfolio and 8% of the SME loan portfolio benefits from a grace period on loan servicing. Furthermore, it is important to note a slight reduction in the share of restructured loans. In particular, according to the data available to the National Bank, in the second quarter of 2021, compared to the previous quarter, the share of restructured loans in business loans decreased slightly and stood at 21%, while compared to June of 2020, the share of restructured loans in business loans is significantly higher.

In the second quarter of 2021, compared to the first quarter, the share of rejected loans in large business loans did not change significantly, while in case of SME loans it has increased. In the second quarter, compared to the first quarter, the share of rejected loans in large business loans increased slightly and equaled 1%. Whereas the share of rejected loans in SME portfolio, increased for loans issued in domestic

[4] Interest rate on SME and large business loan flows issued within a month.

currency, and on average equaled 14%, while for loans issued in foreign currency increased slightly and stood at 6% (see Figure 4).

Figure 4. Share of NPL and Rejected loans in business loans

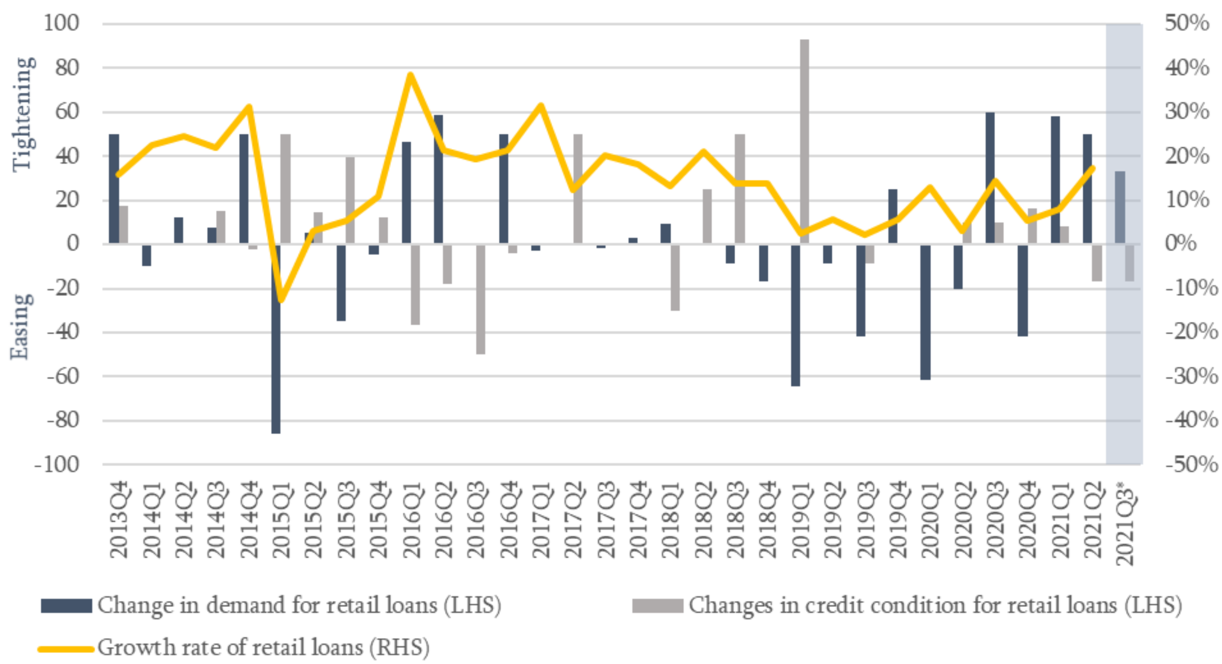


Source: NBG.

Credit conditions and trends for retail loans

According to the credit conditions survey, in the second quarter of 2021, compared to the previous quarter, demand for retail loans increased. It is expected that demand will continue to increase in the next quarter. In particular, according to the data available to National Bank, in June, compared to March, the annualized growth rate[5] of retail loans increased by 8 pp and equaled 17.3% (see Figure 5). In terms of currencies, the growth of retail loan portfolio was mainly driven by domestic currency loans. Representatives of the banking sector expect an increase in demand for retail loans will continue in the next quarter.

Figure 5. Changes in demand for retail loans and credit conditions [6]



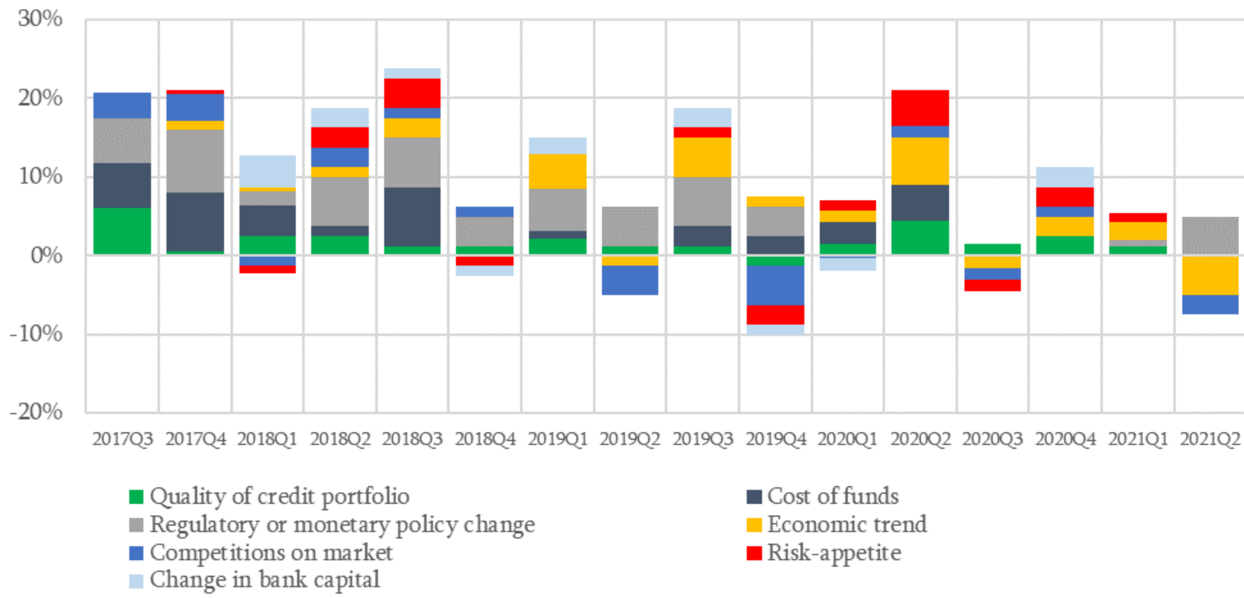
Source: Credit conditions Survey, NBG.

In the second quarter of 2021, overall non-interest rate conditions for retail loans eased slightly. According to respondents, non-interest rate conditions eased mainly due to economic trends (see Figure 6). According to data available to the National Bank, in the second quarter of 2021, compared to the previous quarter, loan maturity for the loans denominated in domestic currency did not change significantly, while it has slightly decreased for the loans issued in euro.. Additionally, loan-to-value ratio (LTV) did not change significantly, while payment-to-income ratio (PTI) increased slightly, which indicates that credit conditions eased slightly (see Figure 7-8). Representatives of the banking sector do not expect significant changes in the credit conditions for retail loans in the next quarter.

[5] This data reflects the annualized growth of seasonally adjusted loans, excluding the exchange rate effect.

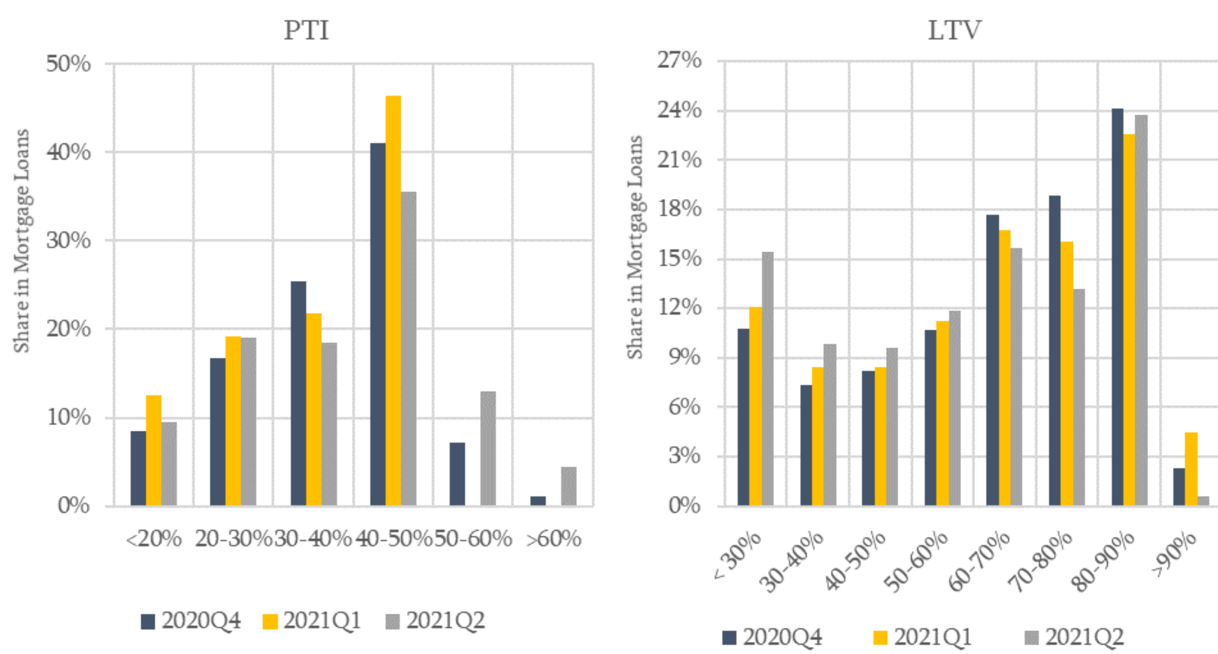
[6] See the second note of Figure 1.

Figure 6. Factors affecting changes in the credit conditions for retail loans[7]



Source: Credit conditions Survey

Figure 7. Distribution of payment-to-income (PTI) and loan-to-value (LTV) ratios

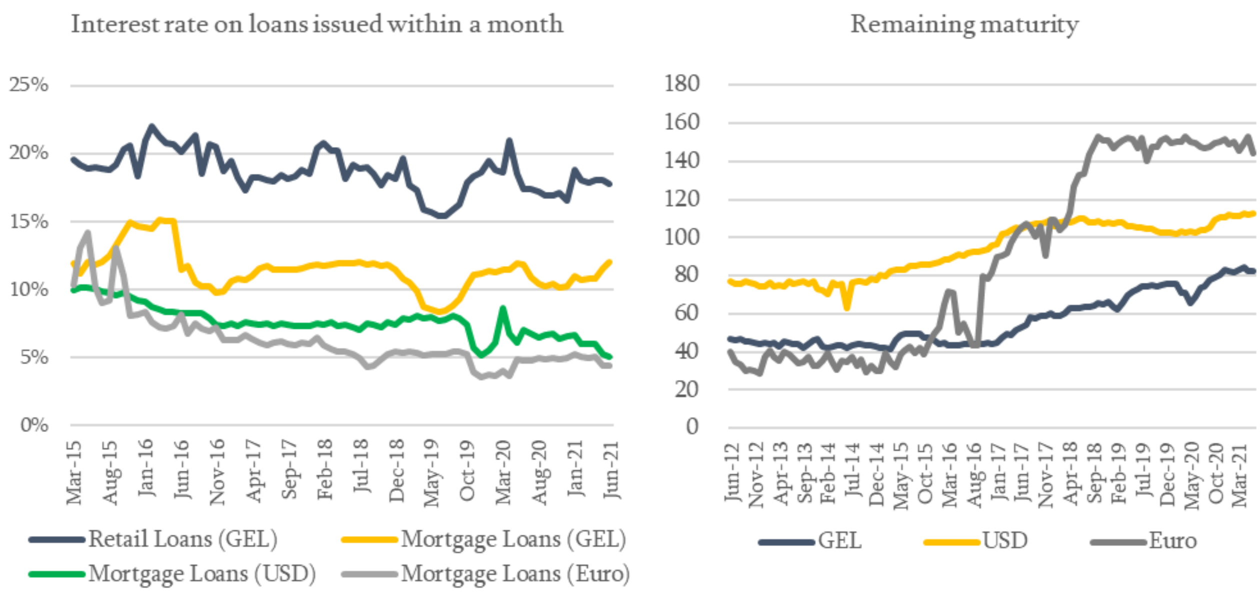


Source: NBG

[7] See notes of Figure 2

Interest rates for retail loans issued in domestic currency increased, while for the loans issued in foreign currency decreased. In particular, in June relative to March, interest rates for mortgage loans denominated in domestic currency, increased by 1.2 pp and equaled 12%, while for consumer loans interest rates slightly decreased and stood at 17.8%. Interest rates for mortgage loans issued in USD decreased by 0.8 pp and equaled to 5.0%, while for the loans issued in euro decreased slightly to 4.4% (see Figure 8). Respondents of the survey, do not expect significant changes in the interest rates for retail loans in the next quarter.

Figure 8. Interest rates and remaining maturity for retail loans

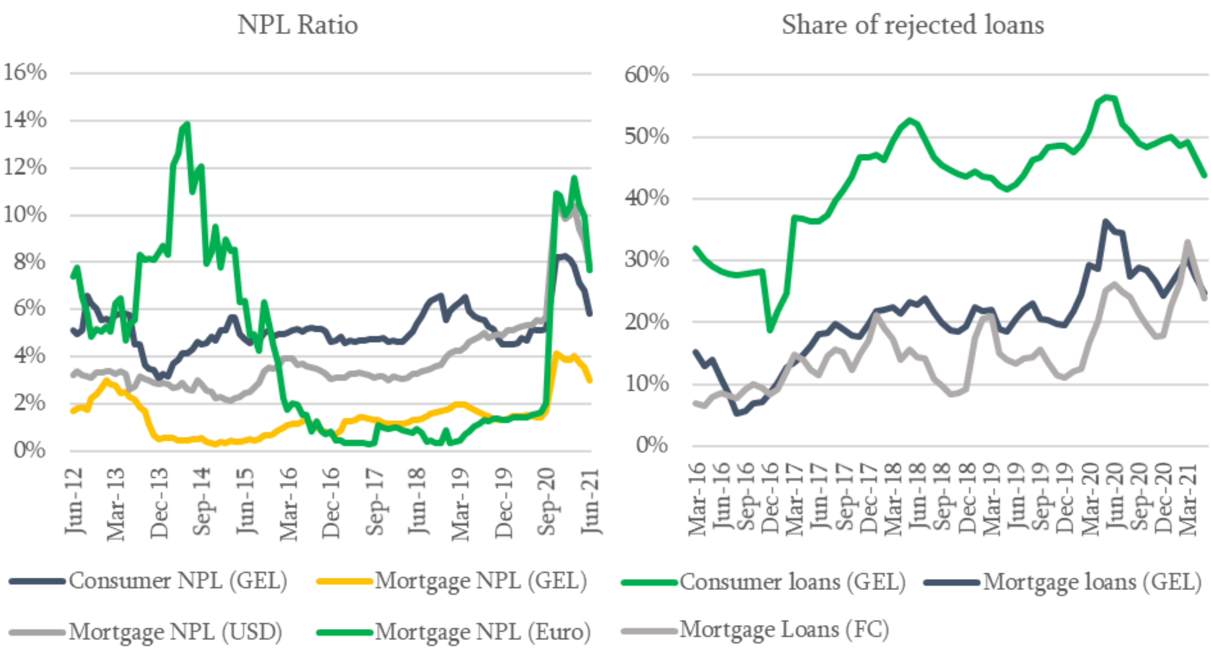


Source: NBG

In the second quarter of 2021, compared to the previous quarter, the share of non-performing loans (NPL) in retail loans decreased slightly. In particular, according to the data available to the National Bank, the share of NPLs in mortgage and consumer loans decreased slightly and equaled 6%-6%, which is largely a result of portfolio growth and improvement of households' economic conditions. In terms of currencies, it is important to indicate that the share of NPLs decreased in euro-denominated mortgage loans. In particular, in the second quarter of 2021, compared to the previous quarter, the share of NPLs in euro-denominated loans decreased by 4 pp and equaled 8%, however, compared to the second quarter of 2020, increased by 6 pp. As for mortgages issued in domestic currency, in the second quarter, compared to the first quarter of 2021, the share of NPL decreased slightly to 3% (see Figure 9). Representatives of the banking sector do not expect significant changes in the share of NPLs in mortgages, as well as in consumer loans. Moreover, as mentioned above, due to the grace period on servicing loans, the result of the pandemic in the given period has not yet fully reflected on the quality of loans. At this point, according to the data available to National Bank, 5% of the retail loan portfolio benefits from a grace period on loan servicing. Besides, it is important to note the increase in restructured loans to retail loans. In particular, according to the data available to the National Bank, in the second quarter of 2021, compared to the first quarter, the share of restructured loans in retail loans decreased by 1.9 pp, to 21%, however, it increased by 9.8 pp compared to the second quarter of 2020.

In the second quarter of 2021, the share of rejected loans in retail loans decreased, which indicates a slight easing of credit conditions. In particular, in the second quarter of 2021, compared to the corresponding period of the previous year, the share of rejected loans in mortgage loans issued in domestic and foreign currency decreased and equaled on average to 24% and 25%, respectively. As for consumer loans, the share of rejected loans decreased and on average equaled 44% (see Figure 9).

Figure 9. Share of NPL and Rejected loans in retail loans



Source: NBG

Disclaimer

The report was prepared by the Financial Stability Policy Analysis Division of the Financial Stability Department of the National Bank of Georgia. The expectations presented in this report reflect only the assessment of the respondents of the credit conditions survey on the future trends of lending and not the expectations of the representatives of the National Bank. The statistics presented in the report on the current trends of lending are intended for current analytical purposes only, as some of the data presented here may be subject to periodic review and, consequently, they may contain measurement errors. Although every effort is made to ensure their timeliness, correctness, and completeness, the full accuracy of the data is not guaranteed by the National Bank of Georgia. Some data published in the report may differ from those published on the official website of the National Bank website because supervisory data is used in the calculations.

Data are presented as of 30/06/2021.

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